

The
Management
University
of Africa



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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

ACC 424 : FRAUD PREVENTION AND INVESTIGATION

DATE: 5TH AUGUST 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the discussion below carefully and answer the questions that follow:

BUSINESS CRIMES: EXTENT TO WHICH CORPORATE GOVERNANCE MAY COMBAT THE MENACE

In simple terms, corporate governance refers to the manner in which the affairs of a corporation or company are directed and controlled. Corporate governance has gained great importance in modern times. Foreign investors rely to a great extent on corporate governance issues of prospective companies they contemplate to invest in. Corporate scandals led to the need to embrace corporate governance principles. In the global arena, corporate scandals and fraud with devastating consequences were committed by companies like Enron that was referred to as 'the darling of Wall Street' and Parmalat, a dairy company that was based in Italy and that was widespread in Europe. Though to differing magnitudes, many corporate scandals have been committed in different parts of the world.

Pyramid schemes and other forms of Ponzi schemes swept away lifelong savings of many people around the globe. Bernard Madoff was the proprietor of one such magnificent Ponzi scheme in the U.S.A. which eventually earned him a jail term of 150 years. In Kenya around the years 2006 - 2008, a pyramid scheme named DECI and others caused heavy losses and damages including loss of lives to people who could not withstand the losses suffered. Some people had 'invested' their entire pension income and retrenchment benefits into the pyramid schemes. In an attempt to counter corporate fraud and restore investor confidence, various approaches have been used in varying jurisdictions. In the U.S.A. the Oxley - Sabanes Act of 2002 enacted as a legislation to deal with corporate crimes. The United Kingdom went the regulation way rather than the legislation way, the details of which are contained in the Cadbury's Report of 1992. The Cadbury's Report developed 22 principles of corporate governance which revolve around the responsibilities of the Board of Directors towards the corporate stakeholders. The corporate governance principles are presumed to among other things, enhance the prevention and/or mitigation of corporate fraud.

QUESTION THREE

- a) Prevention of organizational fraud can be enhanced through employment screening prior to appointment of employees to fill vacant positions. Compose three such employment screening mechanisms showing how each can help in fraud prevention. **(6 Marks)**
- b) Organizational executives must lead the way to zero tolerance on fraud. Evaluate six approaches that executives must use to display seriousness on this matter. **(9 Marks)**

QUESTION FOUR

- a) Describe four attributes of a whistleblower protection policy in a corporation that would encourage employees to report fraud cases to management. **(6 Marks)**
- b) Propose six minimum requirements of an effective fraud and corruption control framework for a company listed on the Nairobi Securities Exchange. **(9 Marks)**

QUESTION FIVE

- a) Identify and apply five procedural steps of fraud risk assessment in a business organization of your choice. **(5 Marks)**
- b) Economic and business crime is not confined to any isolated jurisdiction. Assess five globally recognized categories of economic and business crime that virtually affect all jurisdictions. **(10 Marks)**

QUESTION SIX

- a) Justify the necessity of computer forensics in contemporary fraud investigations. **(3 Marks)**
- b) Illustrate through an appropriate diagram, the three elements of the fraud triangle. **(3 Marks)**
- c) Demonstrate with examples how the elements of the fraud triangle are operated by organizational employees in the escalation of fraud. **(9 Marks)**

Fraud can have a magnificent devastating long-lasting impact on a business, no matter its size. The two most basic types of fraud are misappropriation of assets by employees and fraudulent financial reporting by management, whereby misleading or inaccurate financial information is released to investors, stakeholders and the public. The first type of fraud often happens without management knowledge, and the second type is often unknown to employees.

Fraud damages organizations' reputation. Reputation built over a period of many years may be destroyed abruptly by corporate scandals when they come to the public domain. Adherence to good corporate governance preserves the present and secures the future of business firms. What are the driving forces towards the commission of business crimes by employees and managers? What really are the effects of corporate fraud? Are corporate governance principles sufficient in preventing corporate fraud?

Required:

Based on issues raised in the foregoing case study and your insight into business crimes, corporate fraud and corporate governance;

- a) Analyse four driving forces towards the commission of business crimes by employees and managers. **(8 Marks)**
- b) Examine four devastating effects of fraud on corporate reputation citing examples of specific 21st Century companies. **(8 Marks)**
- c) Describe six main principles of corporate governance as per the Cadbury's Report, arguing out the extent of their sufficiency and/or insufficiency in combating fraud and business crimes. **(9 Marks)**

QUESTION TWO

- a) Based on practical working experience in companies, appraise five attributes that are possible indicators that an employee engages in fraudulent activities. **(5 Marks)**
- b) Corporate fraud by management often involves manipulation of financial statements. Evaluate five ways through which such manipulation may be carried out on elements of income statement and balance sheet. **(10 Marks)**