

Special points of interest:

- Business Process Improvement
- General Business Process Improvement Methodology
- ACL Tops 2003 Internal Auditor Software Survey
- Audit Those Vendors

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BPI — Business Process Improvement

BPI — Business Process Improvement — has been defined as “the critical analysis and radical redesign of existing processes to achieve breakthrough improvements in performance measures (such as cost reduction, time reduction or quality improvement).”

- BPI is not Total Quality Management (TQM), which refers to programs and initiatives that emphasise incremental improvement in work processes and outputs over an open-ended period of time. BPI, by contrast, refers to discrete initiatives which are intended to achieve radically redesigned and improved work process in a bounded time frame.
- BPI is not Organisational Transformation (OT), which refers to the broad issues of an organisation’s strategic, structural and business change. BPI can, however, facilitate and contribute to organisational transformation.
- BPI is not Change Management, which refers to planned, managed and systematic situational change—often in response to external changes over which the organisation exercises little or no control. BPI draws on various Change Management strategies and techniques in order to implement its results.

BPI required taking a broad view of both information technology and business activity, and of the

relationships between them. Information technology should be viewed as more than an automating or mechanising force: it can fundamentally reshape the way business is done. Business activities should be seen as more than a collection of individual or even functional tasks: by taking a process view to maximise effectiveness. Information technology and BPI have a recursive relationship. Information technology capabilities should support business processes, and business processes should be developed in terms of the capabilities which the enabling technology can provide.

Although BPI has its roots in information technology management, it is primarily a business initiative that has broad consequences in terms of satisfying the needs of customers and an organisation’s other constituents. The information systems group may need to play a behind-the-scenes advocacy role, convincing senior management of the power offered by information technology and process redesign. It would also need to incorporate the skills of process measurement, analysis, and redesign. The specific business divisions lead the BPI initiatives; information systems groups serve as partners in enabling the radical changes.

General Business Process Improvement Methodology

A general model of Business Process Improvement (BPI) involves the following steps:

- **Developing the Business Vision and Process Objectives:** BPI is driven by a business vision which implies specific business objectives such as Cost Reduction, Time Reduction, Output Quality Improvement, Quality of Work Life/ Learning/ Empowerment. These are or might be enumerated in a Strategic Plan.
- **Identify the Processes to be Improved:** Most organisations use the High-Impact approach which focuses on the most important processes or those that conflict most with the business vision. A lesser number of organisations use the Exhaustive approach that attempts to identify all the processes within an organisation and then prioritise them in order of improvement urgency.
- **Understand and Measure the Existing Processes:** For avoiding the repeating of old mistakes and for providing a baseline for future improvements.
- **Identify Information Technology Levers:** Awareness of information technology capabilities can and should influence process design.
- **Design and Build a Prototype of the New Process:** The actual design should not be viewed as the end of the BPI process. Rather, it should be viewed as a prototype, with successive iterations. The metaphor of prototype aligns the BPI approach with quick delivery of results, and the involvement and satisfaction of customers.



ACL Useful Tips

Do you know that you can better manage your analysis trails or improve your productivity during scripting with the session feature in ACL Version 8?

You can create a session on the command line using the SET SESSION command. E.g. SET SESSION Session_Name

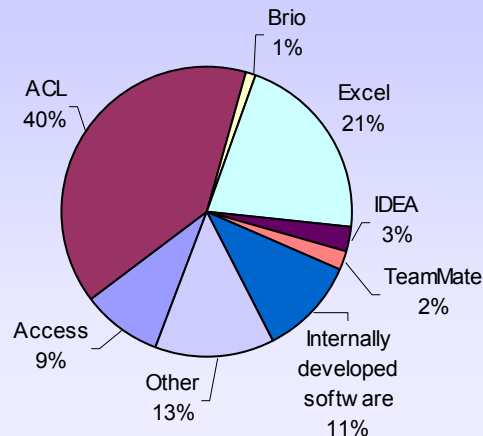
Or alternatively, you can Select **Tools » Add New Session**.

Once you have created a separate session, you can isolate the commands executed during this session and review them later with ease or export them to a script. Now, you will have better control on the execution trails within the session hierarchies represented in the new command log.

ACL Tops 2003 Internal Auditor Software Survey

Internal Auditors worldwide value ACL software for its unique and powerful combination of data access, analysis and integrated reporting. ACL enables them to access all data, automate data analyses and processes, and implement continuous monitoring to test and validate data integrity and controls effectiveness. In the ninth annual survey conducted by The Institute of Internal Auditor (The IIA), ACL software was selected by a nine-to-one margin over other specialised audit software tools for data analysis and extraction, fraud detection, and continuous monitoring.

Continuous Monitoring Software



Continuous monitoring is an ongoing systematic process for acquiring, analysing, and reporting on business information to identify and respond to financial and operational risks. By incorporating the powerful data analytics of ACL into a continuous monitoring framework, auditors and finance professionals can automatically test transactional data against defined control parameters and business rules. The result—comprehensive and instant visibility into key business processes to identify control weaknesses and potential business risks.

“The next step for HCA’s audit group is maximizing ACL as a value-added tool in continuous monitoring, using data from company sub-systems and third-party vendors. We are starting to make that happen at HCA with amazing results. ACL enables us to institute auditing procedures that are driving best practices throughout the company.”

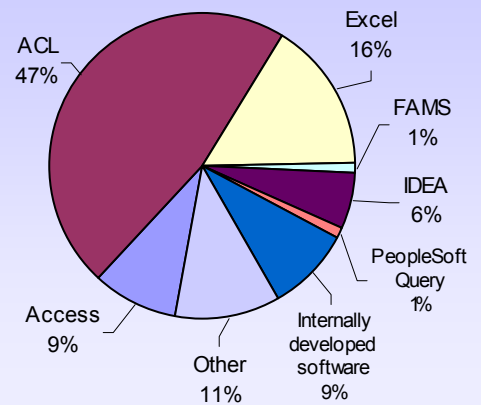
Kevin McMahon, VP Internal Audit
Chase Whitaker, Director Internal Audit
HCA

Fraud is a dominant form of white-collar crime that continues to exact a tremendous toll not only on the organisation that fall prey to it, but also on investors, financial institutions, and the economy in general. ACL enables organisations to address the challenges—such as high volume of data, disparate systems, applications, and processes, and the continuous development of schemes to bypass existing detection methods—in developing effective fraud detection and prevention programs.

“Using ACL we were able to uncover and identify fraudulent transactions quickly and start to get the problems resolved. Without ACL and its powerful data analysis and verification capabilities, it could have taken years to get to the bottom of all the client’s problems.”

Ralph Summerford, Senior Partner
Dixon Odom Forensic Accounting and Fraud Services

Fraud Detection/Prevention Software



ACL Specialised Training: Fraud Detection Techniques Using ACL

In this 2-day session, participants will gain further insight on the most efficient and effective techniques of using ACL to detect fraud. ACL users will leave the course with the skills to combat against abuse and fraud.

The professionals for whom this course has been developed need to have a knowledge of standard Windows operations and a fundamental understanding of ACL foundation training.

You will learn...

- ⇒ Basic Concepts of Fraud
- ⇒ Fraud Schemes
- ⇒ Fraud Detection Techniques

For more information or training dates, please contact us at +65 6221-2810 or info@prodigy.com.sg

Audit Those Vendors

Craig Greene, CFE, CPA is the partner in charge of financial investigative services for McGovern & Greene LLP

Entities often implicitly vendors. But just as good fences make good neighbours, vendor audits produce good relationships.

Routine vendor audits send the message that the entity is always monitoring the vendor to ensure that it is complying with ethics or business standards and contractual agreements.

When the entity exercises the right to audit, the fraud examiner may be looking for such vendor fraud and violations of company ethics policies as:

- **Shell Entity Scheme** — fictitious “shell entities” set up by employees or others that may or may not provide goods or services;
- **Vendor Overcharges and Material Substitution Schemes** — substitution-of-material schemes that supply faulty or inferior goods; short shipments or goods not delivered; services allegedly performed that were not needed in the first place, such as equipment repairs or services never performed;
- **Employee Corruption Scheme** — high prices when goods can be bought directly or less expensively from the same or another vendor; and corruption schemes including improper payments and kick-backs, conflicts of interest, gifts and gratuities to company employees, and commissions to brokers and others.

Examination Approach

Regardless of the scheme, some basic techniques are useful in uncovering the nature and extent of the corrupt activities. Routine vendor audits should reduce fraud in any entity. Following are some general audit and some recommended techniques.

Background Examination

Use online public records found on Web-based tools and retain fraud examiners or private investigators to examine the backgrounds of the vendor, suspected employee, and corrupt payer, as well as the fictitious company and its principals. Concentrate on locating the shell that the employee may have set up to facilitate the fraud. Prepare a personal and financial profile and a net worth analysis of the employee.

To obtain the personal banking information of a suspected shell, you must either obtain it voluntarily from the suspected shell or file legal action against the vendor. However, you may need to find other evidence prior to the initiation of the legal action because courts are not adverse to imposing sanctions on lawyers for filing frivolous suits.

Examine the suspected shell's address. You can use data analysis software - ACL - to examine a list of postal box addresses or residential addresses. Compare vendor addresses to employee addresses to discover shell companies in accounts payable systems. Also use data analysis software to match vendor addresses to mailbox-drop companies. The fraudster may also use addresses of relatives, friends or accomplices.

Thoroughly examine the suspected shell entity's invoices. Many are sequentially numbered and lack of telephone numbers, descriptive language, and

other common items found on legitimate invoices. Examine shipping documents, such as bills of lading, to determine the source of goods purchased. Obtain fair market values for the goods and services being purchased from the suspected shell by calling the identified supplier and by calling other competitors of the suspected shell.

During the background investigation phase, perform a detailed litigation search to determine if other customers have sued the vendor for overcharges or other shenanigans. In performing the forensic accounting analyses, evaluate the individual transactions and the actual receipt of the goods or services. If the goods and services are subject to a contract, thoroughly understand the billing terms and specifications.

Accounting Analyses

After completing a work-up of the suspected shell's background, perform forensic accounting analyses of financial documents. While obtaining these documents, remember that the employee may have been tipped off to the audit so present the vendor or purchasing review as routine and obtain other records of other vendors so you do not draw suspicion.

Obtain the following internal documents for the suspected shell:

History of payments, including invoice number, invoice date, invoice amount, check number for payment and accounting classification, preferably in an electronic form;

- contracts between the entity and the suspected shell;
- purchase orders sent to the suspected shell;
- purchase orders requisitions;
- Receiving documents; and
- other internal files, including bid files, purchasing correspondence files, and operations correspondence files.

Perform the following analyses:

- determine total payments to the suspected shell for each year.
- sort the invoices by amount to find duplicate payments and unusual amounts.
- sort the invoices by invoice number to determine if a sequential numbering pattern exists and also to identify duplicate payments.
- compare total payments to the vendor's sales reported to determine the percentage of the vendor's business your company represents.

Perform these audit procedures:

- compare quantities received and pricing to the applicable purchase order(s).
- recalculate the billing amounts shown on the invoices
- determine the individuals who requisitioned the items and completed the purchase orders.
- examine other files to determine any relevant information to the examination.

Using the fair market value established in the background phase of the examination, compare that amount to the amount paid to determine an

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PRODIGY DATA SOLUTION

79B PAGODA STREET
SINGAPORE 059238

TEL: (65) 6221 2810

FAX: (65) 6221 2813

INFO@PRODIGY.COM.SG

PRODIGY DATA SOLUTION

79B PAGODA STREET
SINGAPORE 059238
TEL: (65) 6221 2810
FAX: (65) 6221 2813
INFO@PRODIGY.COM.SG

Coming Up in the Next Issue of Prodigy Newsbyte

- ◆ More Useful ACL Tips
- ◆ More Articles on Fraud Prevention and Anti Money Laundering
- ◆ ACL User Feature
- ◆ And many other useful industries information

Feel free to write us any questions, comments or feedbacks on Prodigy Newsbyte via email at info@prodigy.com.sg

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estimate of potential damages. Also, determine the need for the items purchased.

Audit the activities that took place prior to the purchase. Determine if the employee used a valid method of determining the employer's need for the item and why he chose this particular supplier.

Decide if contract specifications were met and evaluate solicitations for bids, proposals, and quotations. Also, determine if the employee searched the widest range of competition available and if he used the vendor as his sole source.

- maintain security bids before and after opening by looking for:
 - acceptance of late bids;
 - allowance for vendors to make corrections to their bids after bid openings;
 - pre-releasing purchasing information;
 - surreptitious opening of sealed bids to make changes for favoured vendors; and
 - poor security for sealed and/or unsealed bids

Ensure that vendor is qualified to receive the award by looking for adequate financial resources or the ability to obtain such resources and follow the required or proposed delivery or proposed delivery or performance schedule.

In addition, look for a satisfactory record of performance and integrity, and the qualifications and eligibility under applicable laws and regulations. The vendor should have the necessary experience, operational controls, and technical skills, production, constructions and technical equipment or facilities or the ability to obtain them.

Also, ensure integrity of award procedures, monitor the vendor's production process and quality assurance, search for waivers granted and collusion in the bidding, and be alert to "buying in".

Vendor On-Site Audit

Of course, the most effective means of concluding a successful investigation of any suspected fraud scheme is an on-site audit of the vendors' books and records. The audit's focus will be determined by the scheme employed.

The buyer usually obtains the right to examine records of a vendor to determine if a fraud or a violation of company policy has occurred

right-to-audit agreement or a right-to-audit clause in the contract.

The agreement can be printed on the back of a purchase order or other procurement form. If a buyer inserts a right-to-audit clause in a contract, he has a much greater chance to expand definitions and include other compliance provisions for the vendor.

If such a clause does not exist, you should still request the vendor to submit to an audit. The vendor often will volunteer to an audit, but, of course, his refusal is a bright red flag.

When examining the vendor's records, focus on:

- reviewing the cash disbursements of the vendors, identifying: (1) any payments to employees and to employee-controlled entities; (2) excessive owner distributions; and (3) other unusual transactions
- providing delivery of goods and services by examining shipping or proof of receipt documents, time cards, time and billing sheets, and the likes;
- ascertaining the gross profit of the company on sales made to the employer;
- examining tax reporting forms issued by the vendor for any payments to employees, family members, or employee-controlled entities;
- examining expense reports to identify excessive expenditures for your employees;
- determining the "true" ownership of he suspected shell by examining tax returns, equity accounts, loan documents, or other documents; and
- performing a detailed investigative interview to ascertain: (1) history and background of the suspected shell and who specifically introduced the company to the employer; (2) previous experience and knowledge of the suspected shell's principals in the industry it serves; (3) list of employees that the suspected shell's principals deal with; (4) explanations for charges to the employer above fair market value; and (5) admission of the ownership by the employee.

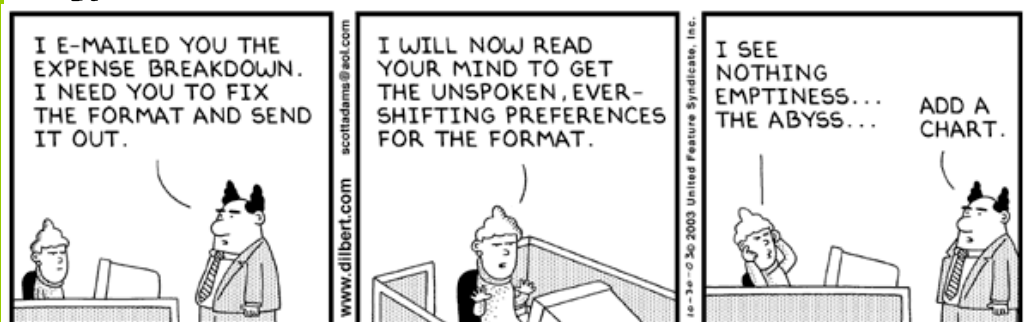
The focus of the audit will be to find the payments to the employee or the employee's shell. Though it is rare, some corruption payments are paid in cash.

Determine that all checks paid by the employer have been deposited into the suspected corrupt payer's account and have not been cashed or laundered through an offshore account to provide

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On A Lighter Side



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a cash payment. Also, examine closely any cash distributions to the suspected corrupt payer's principals, other cash withdrawals, or wire transfers that may be the source of the corruption payment.

Wrapping It Up

Following the vendor audit, you may find it



necessary to prepare additional analyses and damage estimates. If there is sufficient predication, review the findings with management and legal counsel for possible criminal or civil prosecutions. Always write an examination report to document your work.

A vendor can be an entity's best colleague or worst nemesis. Keep the relationship pleasant and successful by conducting proactive vendor audits.

PRODIGY NEWS & EVENTS

Prodigy Data Solution Pte Ltd is presenting workshops on:

ENTERPRISE RISK MANAGEMENT

This workshop is a step-by-step lesson on the fundamentals of risk management to implementing an enterprise-wide risk management in your organisation and has been categorised into Three Levels.

Level One: Fundamentals of Risk Management

This course introduces delegates to fundamental issues that concern the risk environment in which businesses and other organisations operate. The overall objective is for delegates to become familiar with the importance of risk management to manage a business. In addition, delegates should develop an understanding of the functions of the risk management and the forces that shape it. They will also learn the essential concepts of risk from identification through to control. The emphasis is on being able to apply the appropriate methods and tools.

Level Two: Analytic Competency on Risk Management

This course is expected to simultaneously increase the analytic competency of the delegates on risk management. The aim of this course is to increase understanding of how companies identify an opportunity, converts it into a project and in a concise manner follows the entire risk management by emphasizing on the detailed risk profiling.

Level Three: Implementation of Enterprise-wide Risk Management

The course is intended for: heads of department or organisation; those delegated to advise the management on the implementation of risk management; people responsible for activities within institutions. During the course delegates will work on various scenarios to explore the nature of the risk related to the organisation (its severity and likelihood), discuss a range of possible responses, identify indicators of the onset or growth of particular threats, and plan to monitor them. Current industry practices and challenges information will be circulated to the participants.

Schedule

Level 1	4-5 December 2003 and 5-6 February 2004
Level 2	9-10 December 2003 and 10-11 February 2004
Level 3	11-12 December 2003 and 12-13 February 2004

For more information on the workshops, please contact (65) 6221-2810 or info@prodigy.com.sg

Open Enrolment ACL Training Schedule — Jan to Feb 2004

VENUE	COURSE NAME	JANUARY	FEBRUARY
Singapore	ACL 105 - Foundations of ACL: Concepts and Practice	5-7; 28-30	3-5; 11-13
	ACL 201 - Data Analysis Techniques An ACL Workshop	15-16	16-17
	ACL 301 - Advanced ACL Concepts and Techniques: Functions	19	6
	ACL 302 - Advanced ACL Concepts and Techniques: Scripts	8-9	9-10
	ACL 303 - Advanced ACL Concepts and Techniques: Functions and Scripts	12-14	18-20
	Fraud Detection Techniques using ACL	NA	26-27
	ACL v8 - Data Access	26	24
Kuala Lumpur, Malaysia	ACL v8 - Refresher	27	NA
	ACL 105 - Foundations of ACL: Concepts and Practice	12-15; 28-30	11-13; 25-27
	ACL 201 - Data Analysis Techniques An ACL Workshop	8-9	16-17
	ACL 301 - Advanced ACL Concepts and Techniques: Functions	19	9
	ACL 302 - Advanced ACL Concepts and Techniques: Scripts	15-16	3-4
	ACL 303 - Advanced ACL Concepts and Techniques: Functions and Scripts	5-7	18-20
	Fraud Detection Techniques using ACL	NA	5-6
Manila, Philippines	ACL v8 - Data Access	26	24
	ACL v8 - Refresher	27	10
	ACL 105 - Foundations of ACL: Concepts and Practice	5-7	NA
Bangkok, Thailand	ACL 201 - Data Analysis Techniques An ACL Workshop	8-9	NA
	ACL 303 - Advanced ACL Concepts and Techniques: Functions and Scripts	12-14	NA
	ACL 105 - Foundations of ACL: Concepts and Practice	NA	9-11
	ACL 201 - Data Analysis Techniques An ACL Workshop	NA	12-13
	ACL 303 - Advanced ACL Concepts and Techniques: Functions and Scripts	NA	16-18

For more training dates, please contact us at info@prodigy.com.sg or tel: (65) 6221-2810

visit us at
www.prodigy.com.sg

ACL ASIA USER CONFERENCE is BACK!

Prodigy is pleased to bring back the ACL Asia User Conference — to be held in Phuket, Thailand in March 2004. More details to be released by mid Dec 2003

For more information, please contact info@prodigy.com.sg or tel: (65) 6221-2810