



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF CRIMINOLOGY
COURSE CODE: FINANCIAL FRAUD AND INVESTIGATIONS
COURSE TITLE: SCR 415

DATE: 19th MAY, 2022

TIME: 2.00PM - 4.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20** marks each.

TIME: 2 Hours

QUESTION ONE

a) Case Study: Construction Fraud

HT Ltd remains a competitive bidding process for construction contracts often makes profit margins razor thin, contractors may be tempted to increase their profits through fraud. A developer negotiated a Ksh. 550 million guaranteed maximum price contract with a prime contractor and subcontractors to erect a 32-story building. To the developer's surprise, the allowances and contingency holds for unexpected costs and emergencies were exhausted before even the core and shell had been completed. This left the interior work unfunded. Puzzled and suspicious, the developer hired private *investigators who discovered the prime contractor had bribed the architect and they were now colluding to defraud the developer.* The contractor was purchasing goods and services beyond those required for the developer's building, diverting the excess to other jobs on which he and the architect were working and submitting the invoices to the developer. The excess expenses were approved and explained away by the architect. The contractor and the architect had convinced themselves that the developer's cost controls were shortsighted and would make the job unprofitable for them. When the architect and contractor were confronted with the evidence of the private investigation, they agreed to pay for the remaining construction from their own funds rather than be prosecuted. The developer did not press charges against either the architect or the contractor, but he did report the architect to the licensing board. At the hearing, the investigators produced the evidence they had discovered for the developer and the architect received a written reprimand. This effectively put the architect on an industry blacklist, which made it difficult for him to find well-paying jobs. As with other fraudsters, the consequences of the dishonest architect's fraud affected his family. He was no longer able to keep his children in private school, and he had to drop a club membership he had enjoyed with his wife. Life went on, but not at the carefree level the family had enjoyed before.

- i) Identify the type of fraud scheme that is referred here (2 marks)
 - ii) Outline the various ways to prevent this Fraudulent billing scheme (3 marks)
- b) Explain the following terms as applied in fraud and financial investigations
- i) Fraud triangle (2 marks)
 - ii) Fraudsters (2 marks)
 - iii) Fraud schemes (2 marks)
 - iv) Fraudulent financial statements (2 marks)
- c) Frauds against the company are intended to benefit only the perpetrator, as in the case of theft of corporate assets or embezzlement. The latter specific category of fraud is often referred to as misappropriations of assets. Frauds against the company may also include vendors, suppliers, contractors, and competitors bribing employees. Explain the reason as to why most cases of employee bribery are difficult to discern or discover by our financial investigation knowledge (6 marks)
- d) Describe the meaning of criminal mind and how its generalizations about people can influence fraud perpetrators to an organization (6 marks)
- e) Financial statement analysis techniques enable us to demonstrate the existence of fraud and identify potential fraudsters. Discuss (5 marks)

(Total 30 marks)

QUESTION TWO

- a) The argument for mind-set does not quite hold for many of the financial frauds around the turn of the millennium. Of those, most were caught by whistleblowers or the financial collapse of the entity. In some cases, too many people, including auditors, regulators, and company employees knew someone eventually had the ethics and courage to report the fraud. Describe how both forensic accountants and auditors can detect and discover fraud committed by fraudulent financial statements (10 marks)
- b) In terms of organizational fraud, the objective is to determine whether a fraud has occurred or is occurring and to determine who the fraudster is. Define fraud investigation and outline the major steps involved in fraud investigation exercise in this relations (6 marks)
- c) What is 'Evidence' and explain its role in material misstatement (4 marks)

(Total 20marks)

QUESTION THREE

- a) Despite the general rule, there are ways to get a non-expert witness's opinion into the record. For example, an employee at a securities firm blows the whistle on his superiors for a high level stock fraud. Discuss the importance of expert opinion under this statement (10 marks)
- b) Explain 'fraudtheoryapproach' and describe the sources of information available to the forensic accountant (10 marks)

(Total 20marks)

QUESTION FOUR

- a) Outline the major differences between deception and elicit admission (4 marks)
- b) Discuss how trend analysis of financial statements can uncover certain types of fraud and play a role of internal audit assessments (8 marks)
- c) Bribery is often defined as the offering, giving; receiving, or soliciting anything of value to influence an official act. Discuss the reasons as to why corruption and bribe occurs in many organization (8 marks)

(Total 20marks)