

“Forensic Audit” vs “Independent Organisation Audit or Review”

You are a board member or shareholder of an organization. You receive certain information on possible revenue leakages or poor governance that you did not expect. How do you react?

Do you suspend or terminate the incumbent managers immediately or you first undertake a thorough independent review to obtain all facts to inform your next course of action?

Great leaders first obtain all facts to inform their decisions. That is called facts and data-driven decision making. You must avoid making decisions on hearsay or opinions at all costs. You need to undertake either a forensic audit or an independent organisation audit/ review.

Which approach?

Now that you have decided to get all the facts, which approach to use? *A forensic audit or an independent organizational audit or review?*

A forensic audit also is known as forensic investigation, is the use of scientific methods to determine the smallest thing that was the main cause of the problem so as to determine who did what, when, where, how and why. The objective is to affix blame. Because of this, we approach the work with assumption that

matters will end up in courts of law which has the power to decide on the guilty or innocence of the suspects based on the evidence presented as a result of the forensic audit.

According to Investpodia.com,

*"A **forensic audit** is an examination and evaluation of a firm's or individual's financial records to derive evidence that can be used in a court of law or legal proceeding."*

Forensic audit work is usually done in anticipation of litigation. The objectives is collect water-tight evidence so as to determine what exactly happened, how it happened, when it happened, who did it and why they did it, if any. Forensic audit or investigation is preferred if fraud is suspected and the shareholder or the person requesting for the investigation would want to find someone to hold accountable for disciplinary hearing or prosecution.

According to Wikipedia.org, an independent organizational audit or review, is like an internal audit, which is:

"is an independent, objective assurance and consulting activity designed to add value to and improve an organization's operations. It aims to provide reasonable assurance regarding the achievement of the following core objectives for which all businesses strive:

- a. Effectiveness and efficiency of operations.
- b. Reliability of financial and management reporting.
- c. Compliance with laws and regulations.

d. Safeguarding of Assets."

Under independent organizational audit or review, the entire organisation is reviewed so as to gain 360 degrees understanding of the business –from strategy, to operations, finance to procurement and everything in between so that possible governance failures are identified, and recommended fixes made.

Whereas forensic audit is reactive, adversarial as it involves affixing blame and pointing fingers, an independent business review is proactive and growth focused as it helps identify areas of business risks, supported with evidence so as to improve the organisation. Business review process focuses on use of internally available data and therefore does not involve possible legal risks.

If you are a leader, have a business and want to know how problems arose so that they could be fixed; you are not interested in prosecuting anyone in courts of law even if you determined they could have stolen from you, we recommend you undertake an independent organizational audit (IOA) or review.

Forensic audits are adversarial. Awfully expensive. Involves legal battles and usually leave everyone bruised even the innocent parties. They could also attract a risks of media coverage and possible reputation risks which in the long run could prove costly.

At Summit Consulting Ltd, we help you do the right thing, and protect your money and brand always. You are safe with the right partners.



The Association of Certified Fraud Examiners (ACFE), www.acfe.com, an International Association of Fraud Examiners, in which I am a proud member, states the differences between auditing and fraud examination in the fraud manual handbook.

In Table 1, is a reproduced table with slight modifications to help the reader appreciate the difference between forensic audit (fraud examination) and auditing (independent organizational audit or review).

Table 1: Differences between Forensic Audit and Organisation Review

	Issue	Independent Organisational Audit / Review	Forensic Audit / Fraud Examination.
1	Timing	Recurring. An organizational review can be done annually with objectives of improving the business as well as to inform strategy. Helps to determine areas of the business with high risks.	Non-Recurring - Fraud examinations are non-recurring. They are conducted only with sufficient predication or cause for alarm.
2	Scope	General -- The scope of organizational review is enterprise-wide and involves general examination of financial data, organizational processes and helps identify possible causes of business or organizational challenges like increasing debt, high staff turnover, so as to fix the weak areas for business transformation and growth.	Specific -- The fraud examination is conducted to resolve specific allegations - to determine whether fraud has occurred or not, supported with evidence.



	Issue	Independent Organisational Audit / Review	Forensic Audit / Fraud Examination.
3	Objective	Identify problem areas and make recommendations – a review helps identify areas of the organisation which are problematic so that they may be improved on. The reviewer focuses on examining the entire organisation from operations, to strategy, to governance and board level, to finance and budgeting and procurement and provides a report of weak areas, with justification and makes clear recommended improvements to transform the business.	To affix blame – whether or not fraud is occurring. The report must identify who did what, where, when, why and how. In addition to identifying the suspects and evidence to pin them, possible motive is also ascertained, and this could involve obtaining court orders to access personal or private data like lifestyles and bank statements.
4	Relationship	Non-Adversarial -- The review process is non-adversarial in nature as it aims at reviewing the business so as to identify gaps and make recommendations to transform. If the organisation has high costs, the review helps examine the causes and how to stop further problems.	Adversarial – Forensic investigations are bad because they involve efforts to affix blame, are adversarial in nature. We obtain evidence such that we are able to determine fraud suspects.
5	Methodology	Audit/ review techniques—Review are conducted primarily by examining financial data, process reviews, discussing with people and data analytics.	Forensic Audit Techniques - - Fraud examinations are conducted by (1) document examination; (2) review of outside, (3) interviews; (4) forensic imaging and analysis of company computers and or phones.



	Issue	Independent Organisational Audit / Review	Forensic Audit / Fraud Examination.
6	Presumption	Professional Skepticism -- Reviews are required to approach audits with professional skepticism.	Proof --Fraud examiners approach the resolution of a fraud by attempting to establish sufficient proof to support or refute an allegation of fraud.
7	Fees	Usually cheaper since the process is about improving the organisation and not affixing blame. So, management is not put on attention or worried about possible court prosecution and imprisonment. The process is done to identify gaps, and work with management to improve the gaps.	Usually expensive due to the risks involved. Sometimes suspects could be deadly to the investigators and for that reason, we usually have private security detail among the team for protection, as well as legal support. This increases the cost. Depending on the organisation size, costs could go up to US \$120,000 for a single case. This is because, sometimes court cases could take more than 5 years to conclude due to case backlog in courts. So, the investigator must always keep alert about the case!!

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