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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

WEDNESDAY: 23 April 2025. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

Read the case study below and answer the questions that follow.

GIANT 'HAZINA UNGANISHI' SINKS SAVERS' BILLIONS THROUGH FRAUD

The cooperative movement has been a vital support system for individual Kenyans, helping them secure loans to construct homes and offer a stable future for their families. It also plays a significant role in the economy, with over 4,000 Mwananchi Saving Schemes (MSS) facilitating the circulation of huge sums of money representing the savings of 6.4 million members. However, the savings scheme is facing a growing threat. Recent developments in the sector suggest that its future is at risk because in the past 11 years, approximately Sh.13 billion in hard-earned savings has been misappropriated by the directors entrusted with the funds.

Hazina Unganishi is the umbrella organisation that unites 4,000 MSS in Kenya. Recognising the transformative potential of pooled resources, its founders had a visionary idea in 1973: to strengthen MSS by providing loans and insurance products. These financial services were designed to help members improve their quality of life and make long-term investments for their families' future.

The concerns about financial mismanagement and misappropriation at Hazina Unganishi were raised by its members who reported the matter to the ministry of Hazina ya Mwananchi. However, there is no evidence of either the internal or external auditors ever raising any concerns about the financial misconducts.

A recent audit report by a leading audit firm in the country, submitted to the national criminal investigation agency, revealed that approximately Sh.13 billion of MSS savers' funds had been lost through misappropriation by directors and management of *Hazina Unganishi* through irregular and unauthorised withdrawals and fraudulent disbursements. The fraud was deliberately concealed through fraudulent financial statements. A weak or incompetent internal audit, reporting to a compromised board did not help matters either. External audits had over several years not flagged any malpractices. The auditor's report revealed that Hazina executives and management had engaged in misappropriation of funds and fraudulent financial reporting alongside other fraudulent and corrupt activities.

The main suspects of the alleged fraud were *Morris Gatoto*, the Chief Executive Officer (CEO), who was implicated with diversion of funds through dubious and unauthorised cash withdrawals; *Daniel Ortega*, the outgoing Board Chairman who had joined *Hazina* from a sacco which he had also run down; and *Richard Matemo*, former Chaiman of *Mazao MSS*, where he was implicated in a controversial retirement payout. Gladwell Ochieng, Finance Director was also implicated as the 'facilitator-in-chief' of the fraudulent activities. Instead of helping safeguard members' savings, she helped the CEO and the Board to conceal the fraudulent activities, through fraudulent financial reporting, leaving already distressed investors even more devastated. The government's attempt to manage the situation came in too late. The government directed MSS to cut down on dividend payments and reduce the amounts of loans given out to members. This, in addition to the uncertainty of ever recovering their funds, only led to more desperation for members, who were no longer able to address their short-term and medium-term financial needs.

The Hazina scandal unveiled a series of fraudulent activities perpetrated by top executives, leading to significant financial losses. Hazina's top management, led by their CEO Mr. Gatoto, deliberately misstated financial records by overstating assets and understating expenses, distorting the organisation's true financial position and performance by approximately Sh.9.3 billion. This involved concealing internal loans and inflating profits to present a misleadingly healthy financial status. There were also cases of unauthorised withdrawals and direct embezzlement of funds. It was further reported that between 2018 and 2023, approximately Sh.206 million was illicitly withdrawn from Hazina's savings bank account under the guise of replenishing cash reserves at various branches. These transactions lacked proper documentation, suggesting outright embezzlement. Irregular commission payments and kickbacks were also reported. Close to Sh.2.7 billion was disbursed as unauthorised commission payments without clear justification. Contracts were also awarded to preferred service providers in exchange for kickbacks, leading to inflated costs and substantial financial losses for the organisation. Further, forgeries and falsification of documents were also reported. In one instance, top executives had forged the signature of a deceased auditor to sign off falsified financial statements. Conflict of interest in contracts facilitated siphoning of funds under the pretext of consultancy services and other service charges was also reported.

All these fraudulent activities collectively led to Hazina's insolvency, with liabilities exceeding assets by Sh.12.5 billion, jeopardising the deposits of 247 MSS members. Board members were themselves beneficiaries of unauthorised loans. One occasion is recorded in the audit report of the board facilitating the illegal extension of credit to senior staff and directors, including a Sh.50 million loan to the CEO, Sh.4.5 million to the company secretary and Sh.7 million to the head of one of the independent units under Hazina. The board was also implicated in the falsifying financial records, including forging the signature of a deceased external auditor, to approve fraudulent financial statements.

While the implicated board had been fired in its entirety by the Minister, this gave little relief to already frustrated members. Some of the interim board members appointed were tainted, dimming any hope of getting Hazina back on its feet any time soon.

Required:
Assume as a Certified Forensic Fraud Examiner, you are commissioned as the lead forensic auditor/fraud investigator to conduct an investigation on the alleged misappropriation of funds at Hazina Unganishi.

QUESTION ONE

(a) Using a fraud prevention check list, identify **FIVE** major prevention gaps that defines the culture of Hazina Unganishi. (10 marks)

(b) Propose **FIVE** recommendations to Hazina Unganishi on how to create a culture of integrity and ethics in the organisation. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Identify **FIVE** components of fraud risk index assessment that could be used to assess and evaluate Hazina Unganishi fraud risk index. (5 marks)

(b) Evaluate **THREE** components of culture fraud risk index of Hazina Unganishi. (6 marks)

(c) Indicate **THREE** criteria used to assess each component identified in 2 (b) above. (3 marks)

(d) Indicate the fraud index for each of the components identified in 2 (b) above. (3 marks)

(e) Assess and evaluate the prevent and detect fraud risk index of Hazina Unganishi and indicate the three criteria used to assess the prevent and detect risk index (3 marks)

(Total: 20 marks)

QUESTION THREE

(a) Identify **FIVE** laws related to fraud that were violated in the Hazina Unganishi scandal. (5 marks)

(b) Identify **FIVE** offences as defined by the laws and legal elements of the offences. (5 marks)

(c) Identify **FOUR** types of evidence available to prove the alleged misappropriation of funds at Hazina Unganishi. (4 marks)

(d) Explain **SIX** offences that the CEO, management and the board would be charged for. (6 marks)

(Total: 20 marks)

QUESTION FOUR

Assume that you conducted a forensic audit of Hazina Unganishi. Write a brief investigation report that focuses on:

(a) Introduction/Background. (4 marks)

(b) Scope. (4 marks)

(c) Findings. (4 marks)

(d) Conclusions. (4 marks)

(e) Recommendations (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Assume that you have been appointed to testify in court as an expert witness in the alleged offence. Write an expert witness statement and focus on **FIVE** contents that must be included in the expert witness statement. (10 marks)

(b) Explain **FIVE** techniques that the defense counsel is likely to use during cross examination and how you would respond to the counsel's techniques for the success of your expert testimony. (10 marks)

(Total: 20 marks)

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

TUESDAY: 3 December 2024. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

Read the case study below and answer the questions that follow.

THE KENYA TECHNOLOGICAL & AGRICULTURAL CORPORATION (KenTac) EDIBLE OILS SCANDAL

The Kenya Technological & Agricultural Corporation (KenTac) is a state agency that was set up by the government in the early 1970s. Its main role was to coordinate the purchase of household products and foodstuffs from manufacturers and farmers and sell to consumers at affordablee prices.

To ensure that it would be able to carry out its mandate effectively, in 2022, the government allowed KenTac to import edible oils worth Sh.17 billion, facilitated through tax exemptions and access to a banking facility. Consequently, KenTac Management was authorised by its board to open a bank account with a local commercial bank to facilitate the operationalisation of an edible oils programme.

KenTac was tasked with importing and distributing essential commodities, including cooking oil, in order to stabilise prices amid rising living costs. However, the audit revealed that only 2.8 million (37.3%) out of the 7.5 million 20-litre jerrycans approved for importation were delivered. The bulk of the order, 4.7 million 20-litre jerrycans (62.7%) was neither delivered nor accounted for, resulting in a loss of Sh.10.66 billion of tax payers' money. The investigation was prompted by revelations that companies linked to government officials were single-sourced to supply the edible oil, raising suspicions of corruption and mismanagement. KenTac had single-sourced companies and contracted them to import 125,000 metric tonnes of edible oils.

Four companies linked to a high-ranking public official got a contract to import edible vegetable oils worth Sh.17.32 billion. One well-connected company, Mulatia Commercial Agencies, got a contract worth Sh.7.12 billion to import edible vegetable oils. Another company, Stanlake Petroleum Products, ironically a supplier of petroleum products, got a contract worth Sh.5.5 to supply edible oils, using the same flawed procurement process. Yet another well-connected company, Machar Enterprises, got a contract worth Sh.2 billion to supply edible vegetable oil, while Malala Agro Agencies got a contract worth Sh.2.7 billion.

A probe by the parliamentary team heard that a total of 73 consignments of cooking oil was imported into the country by KenTac in 2023, out of which 44 were inspected by the quality assurance agency and condemned as unsuitable for human consumption. The 44 consignments were found to contain a total of 293,800 20-litre jerrycans (5.88 million litres) of edible vegetable oil worth Sh.13.34 billion of sub-standard cooking oil. It is this cooking oil that the parliamentary committee was concerned about that it could already have made its way into the market.

A recent report from the Auditor General revealed significant irregularities in the edible vegetable oil importation scandal involving KenTac and a local commercial bank. The Auditor General's report disclosed that KenTac had been authorised by its board on 5 October 2022, to open a bank account with a local commercial bank to facilitate the operationalisation of an edible oils programme. KenTac, backed by bank guarantees and exemptions from treasury and the revenue authority was immediately in business. One of its first orders was the importation of edible oil. Unfortunately, this was the genesis of a scandal: the edible oils scandal.

A number of state agencies started investigating KenTac officials for thousands of tonnes of edible oil stock, which had remained unsold for months in the agency's warehouses. Further, the unsold oil had already been condemned by the national quality assurance agency as it found to be of inferior quality and adulterated. KenTac had been ordered to either destroy the stock or return it to its country of origin. As of the time of the investigations by the state agencies, KenTac had still not complied with the 'destroy or return' order. The goods were still locked up in KenTac's warehouse. This should perhaps explain why they refused to open their warehouse for the parliamentary committee investigating the scandal.

KenTac is not new to scandals that benefit a few well-connected individuals at the expense of taxpayers and the Kenyan public. In the recent edible oils scandal, the tender for importing edible oil was not subjected to a competitive procurement process. Instead, a few suppliers were chosen to import the items and supply them to KenTac at an inflated cost. While KenTac had been allowed by the government to import the food items directly and enjoy tax exemptions so that it can pass the benefit of doing so to consumers, it opted to directly award contracts to preferred external suppliers without competitive bidding, effectively locking out local manufacturers.

The scandal has drawn public outrage and raised critical questions about governance and financial oversight in state agencies in Kenya. The scandal has also led to significant political fallout. The seriousness of the investigations and the scandal were confirmed in that some KenTac staff had already been dismissed as a consequence. However, there still was concern which was also raised by the parliamentary committee that tampering with evidence and the process of investigation could be going on at the agency since some staff who were directly involved in the fraudulent loss of more than Sh.6.5 billion at KenTac had been retained and were not affected by the lay-offs.

Former KenTac Managing Director, Pauline Muema resigned amid the ongoing investigation which has seen several senior officials arrested for their alleged roles in the scandal. While the Managing Director resigned and several procurement staff were dismissed, Lydia Achiaya, the General Manager, Finance, Eliud Waithaka, Senior Accountant and Lorraine Kajuju, the Finance Officer, are still in office. The parliamentary committee wants all the KenTac staff mentioned in the loss of the taxpayers' funds to step aside to allow for investigations. The committee had last year raised questions on whether there was enough edible oil imported into the country after the management of KenTac failed to open its warehouse for the committee which was on a fact-finding mission to verify.

You have been commissioned to conduct a forensic audit on the loss of Sh.17 billion through the procurement of edible vegetable oils.

Required:

QUESTION ONE
Assume you have requested to assist KenTac in developing a Fraud Prevention Policy:

(a) Outline the **TEN** components of a Fraud Prevention Policy. (10 marks)

(b) Explain the element of each component. (10 marks)
(Total: 20 marks)

QUESTION TWO
Conduct an overall fraud index assessment of KenTac:

(a) Identify **FIVE** fraud risk indexes for evaluation of the overall index. (5 marks)

(b) Explain the criteria for assessing each index. (10 marks)

(c) Evaluate each risk index assessed. (5 marks)
(Total: 20 marks)

QUESTION THREE
(a) Identify **FIVE** fraud-related laws violated by KenTac scandal. (5 marks)

(b) Describe the specific legal offences under each law violated. (5 marks)

(c) Explain the legal elements required to prove each offence. (10 marks)
(Total: 20 marks)

QUESTION FOUR

(a) Identify the exhibits available to prove the loss of Sh.17 billion through fraudulent disbursements. (5 marks)

(b) Describe the circumstantial evidence to prove fraudulent disbursements. (5 marks)

(c) Identify an eye witness to provide oral direct evidence. (5 marks)

(d) State the individuals responsible for the misappropriation of Sh.17 billion. (5 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Assume that you are writing the forensic audit report, provide the brief highlights on the following:

(i) The introduction/background section of the report. (5 marks)

(ii) The conclusion. (5 marks)

(iii) The recommendation report. (5 marks)

(b) As the forensic auditor, write an expert witness statement, assuming the forensic audit ends up in prosecution. (5 marks)

(Total: 20 marks)

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

TUESDAY: 20 August 2024. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

Read the case study below and answer the questions that follow.

THE STATE HEALTH AGENCY (TSHA) SCANDAL

Citizens of Kwetu State are up in arms against their government because of poor and unreliable health services despite making mandatory monthly contributions towards The State Health Agency (TSHA). Genuine hospitals are complaining of non-payment for medical services provided therefore threatening to suspend medical services to members of the scheme.

A recent audit revealed that approximately Sh.7 billion was lost through fraudulent claims by health care providers. The government paid the fraudulent insurance claims. Alteration of claims and falsification of information by unscrupulous health care providers had cost TSHA Sh.7 billion in a period of one and half years. This loss is also attributed to dishonesty of the TSHA's staff who colluded with health facilities. The agency staff deliberately failed to exercise due diligence in the execution of contracts as well as in the settlement of claims.

The biggest culprits were hospitals, clinics, health centres and pharmacies. One such rogue facility was *Fanaka Hospital*, which had made a total of 6,707 claims amounting to Sh.368,868,453 between July 2021 and May 2023. *Majani Hospital* on the other hand defrauded TSHA of Sh.33,473,542 over the same period. However, the biggest fraud was accomplished by *Zachariah Mwema Speciality Centre*, one of the top 10 'highest paid' facilities, which took off with KSh.1,632,461,500. This facility belongs to the husband of Janet Kusema, the general manager Claims at the TSHA. She approved all claims with substantial payments. She approved payments for claims with queries for her husband's medical health center.

All these fraudulent and corrupt activities did not come to light until when the government's external auditor conducted an audit. The auditor found that there were several other irregularities committed by the TSHA, including awarding of a contract for inpatient and surgical services to the national doctors' union without assessment and gazettement of the contract as required by the law. In the process, TSHA lost another Sh.153,439,360. The Senate Committee ordered an audit into all health facilities that had done business with the TSHA over the period under review.

The first audit was done on *Levite Medical Centre and Pharmacy*. The audit found that the facility had engaged in fraudulent practices by altering and falsifying information in collusion with members. Out of claims worth Sh.17,850,000 presented to the Agency, claims worth Sh.16,307,000 were found to have been fraudulent. This translated to 91.4% fraudulent claims that the Agency paid out to unscrupulous businesses.

According to the audit report, between 1 January 2022 and 30 June 2023, the health facility had submitted a total of 1,706 claims. Out of these, 1,592 claims amounting to Sh.153,439,360 had already been paid, while another 114 claims totalling Sh.13,198,580 were being processed for payment. Out of the claims already paid, 858 claims amounting to Sh.59,461,360 (38.2%) related to extended schemes. Another 731 claims amounting to Sh.93,888,000 (61.2%) related to major surgery and three (3) claims amounting to Sh.90,000 (0.06%) related to minor surgery. The audit report indicated that the audit had involved data modelling and mining techniques on paid claims patterns, review of system records such as surgical pre-authorisation forms, radiology reports, e-claim documents, healthcare providers and medical records. It also included review of employer records, telephone outreach and face-to-face interviews with beneficiaries.

The audit revealed similar fraudulent activities at *Fanaka Hospital.* Investigators found that between July 2021 and May 2023, the facility had submitted a total of 6,707 claims worth Sh.368,868,453 of which 2,698 claims worth Sh.3,835,164 were for outpatient services while 4,009 claims worth Sh.365,033,289 were for inpatient services. A further review of the facility revealed that 2,397 claims worth Sh.297,807,999 were for major surgeries, 832 claims worth Sh.59,285,090 for managed schemes and 77 claims worth Sh.2,335,000 for minor surgeries.

Hospitals also falsified bed capacity records in order to inflate claims. In one such case, a visit to a health facility revealed that an actual count found only 19 beds (including three in the maternity ward) against a bed capacity of 40 that had been reported to the Agency to justify award of the contract. TSHA staff did not conduct due diligence to justify these claims by the health facilities. On the contrary, the facility has had licences since 2018 which indicated that it had 51 beds. The facility, a Level-4 hospital should have a minimum of 30 male and 30 female beds as per requirements. However, despite only having 19 beds, this particular facility had on certain dates between March and May 2022 and again in February 2023 admitted up to 41 patients resulting in excess capacity of Sh.7,764,450 in paid claims.

Auditors sampled records of 448 patients worth Sh.56,602,480 for audit and clinical verification. Out of these, the facility had only utilised 69 medical records worth Sh.8,410,000 by the time of the visit of the auditors. Out of these 69 patient files, 64 files worth Sh.7,790,000 were unpayable due to different medical procedures as per medical records. In response to the hospital's audit, the hospital's director, *Dr. Patrick Kisoi*, replied by email two months later, that 269 files that were not available during the first audit were now available for review. While 269 files were availed for this second review, only 178 files, valued at Sh.22,587,460 were reviewed. The auditors said that they had noticed from the nursing schedule that all files contained similar handwriting pattern for different nurses on duty indicating that all these files had been falsified and were prepared specifically for the audit and did not reflect the true situation on the ground.

In the year ended 30 June 2021, the Auditor General expressed a qualified opinion and an adverse opinion in the year ended 30 June 2023. The Auditor General also detected payments for projects, that are yet to be commenced and irregularities on investments. The Auditor General further pointed out possible abuse of payroll and inflated cost of project contracts.

Required:
Assume you have been appointed as the lead investigator to conduct a forensic audit on the alleged fraudulent claims:

QUESTION ONE
Conduct a Fraud Prevention Health Check-up on the control environment of TSHA government health fund and address the following:

(a) Evaluate the control environment and award points out of total 30 points. (5 marks)

(b) Make recommendations on how to improve the control environment. (5 marks)

(c) Explain the role of control environment in fraud/corruption in any organisation. (5 marks)

(d) Indicate parties in the organisation that have responsibility for control environment and state each party's responsibility. (5 marks)

(Total: 20 marks)

QUESTION TWO
(a) Identify **TEN** universal fraud risks in TSHA organisation. (5 marks)

(b) Outline **FIVE** major risks associated with fraudulent claims. (5 marks)

(c) Explain **FIVE** fraud related controls that might mitigate the universal and fraudulent fraud risks. (5 marks)

(d) Explain how the control environment of TSHA facilitated the fraudulent activities as well as motivating employees to engage in the fraudulent and corrupt activities. (5 marks)

(Total: 20 marks)

QUESTION THREE
(a) Conduct a macro fraud risk index assessment of TSHA and make necessary recommendations based on **THREE** components of fraud risk index assessment. (6 marks)

(b) Indicate the criteria used to assess each risk index and evaluate the risks. (6 marks)

(c) Make recommendations on how to mitigate each of the risks. (8 marks)

(Total: 20 marks

QUESTION FOUR

(a) (i) Indicate the real evidence to prove the fraudulent claims. (2 marks)

(ii) Indicate the circumstantial evidence to prove the fraudulent claims. (2 marks)

(iii) Identify an eye witness to prove the fraudulent claims. (2 marks)

(b) Indicate the legal offences committed by the following parties in relation to the fraudulent claim:

(i) Board of Directors. (2 marks)

(ii) Chief Executive Officer. (2 marks)

(iii) Head of Claims. (2 marks)

(c) Assume you have conducted an investigation at *TSHA*, explain the contents of the following sections of the investigation report:

(i) Introduction. (2 marks)

(ii) Scope of the investigation. (2 marks)

(iii) Conclusion. (2 marks)

(iv) Recommendation. (2 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Identify **FIVE** laws in Kenya violated by the fraudulent activities at TSHA. (5 marks)

(b) Explain **THREE** differences between an investigation report and an expert witness report. (6 marks)

(c) Assume you are required to testify as an expert witness in a court of law, summarise the contents of your expert witness report or statement. (9 marks)

(Total: 20 marks)

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

TUESDAY: 23 April 2024. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

Read the case study below and answer the questions that follow.

ANGAZA SCANDAL

Angaza Company Limited (ACL) is a public liability company with headquarters in Nairobi and branches around the country. It transmits, distributes and retails electricity to customers throughout the country. It enjoys monopoly status. Angaza has been in the news frequently, not just for what the public considers inefficiency in service provision, but more so for how it uses public funds in its operations. The latest scandal places Angaza in the public limelight for electrical appliances' procurement that is said to have cost the public nearly Sh.20 billion, through corrupt and fraudulent procurement activities.

The procurement schemes involved collusion between company's employees and vendors and also collusion among vendors to beat the competitive bidding. Members of the company's Inspection and Acceptance Committee had issued certificates of goods received, where either none had been received or goods received were not supplied in full with some being sub-standard or defective.

Angaza, through its Head of Procurement, Sarah Mwisukha, admitted that it had locked out local bidders, with the excuse that they manufacture substandard meters. Local manufacturers disputed this allegation by Mwisukha, saying that they had supplied Angaza similar meters for over 15 years, without any complaints. They also said that meter manufacturers and assemblers were all accredited by the national standards body. The meters are also always inspected and approved by the same standards body and Angaza quality inspectors before being supplied to Angaza.

A review of the tender specification documents revealed that some specifications were too narrow, while others were too broad. It was also apparent that there were excessive tender change orders, even after the tender had been awarded. Some bids that were supposed to be one component were split and therefore increased the total cost of the bids.

That the tenders awarded fraudulently, only came to light after a tip-off from a competent supplier, who had deliberately been disqualified during the award of the tenders. The tip-off revealed that four bidders who had won the tenders were companies owned by senior government officials in partnership with management staff of Angaza. Efforts had been made to conceal real identities of the owners of these companies. The companies were owned by proxies, and names of the senior government officials and senior members of Angaza management were missing from the list of registered directors of these companies. Although they had on several occasions won tenders from the company, these turned out to be shell companies without any legitimate business operations. They somehow only appeared when there was a tendering process, especially for lucrative tenders advertised by Angaza.

Despite all these anomalies, Mwisukha confirmed that they had gone ahead and issued the tenders, and that goods had already been received and approval for payment of fraudulent invoices submitted by suppliers. With such confirmation from Mwisukha, the CEO, Alex Madzayo, in turn also authorised payment of the fraudulent invoices, occasioning the loss of Sh.20 billion of taxpayers' and investors' money.

Payment of the fraudulent invoices was processed through the organisation's official payment system and payment transferred to bank accounts of various vendors and contractors.

The breakdown of transfers to the bank accounts of various vendors were as follows:

Bidder 1:	Afrimeter Company Limited	-	Sh.5 billion
Bidder 2:	MetroSmart Technologies Ltd.	-	Sh.4 billion
Bidder 3:	Oceania Meters Limited	-	Sh.5 billion
Bidder 4:	Venturi Agencies Limited	-	Sh.6 billion

Total: Sh.20 billion

Even though the company had all the necessary procurement committees, such as tender evaluation and the inspection and acceptance committee committees in place, malpractices continued because of the undue influence on the committees. In addition to the deliberately distorted tendering process in favour of the select shell companies, the company had also been deliberately procuring expired and sub-standard goods, and making payments for the same. They would later write them off as obsolete inventory. The tender requirements, of approximately Sh.6 billion was in excess of what was needed. The Head of stores and warehouses, Peace Mali, signed the goods received notes, for goods not received and the substandard goods, as instructed by the procurement manager. He also entered the goods into one system. The company already had an enterprise risk management framework, where fraud and corruption had been identified as one risk each.

The company has integrity assurance officers and corruption prevention committee in place. These officers' responsibilities, include; assisting in fighting fraud and corruption within the company. The officers have limited knowledge in fraud and corruption risk management, acquired from a one-week awareness training by the EACC. The board has an audit committee. The committee does not have anti-fraud and corruption professional member, neither has it co-opted one to assist the committee in providing oversight over fraud and corruption risk management. The board of the company had not developed any policies and strategies for fraud, bribery and corruption risk management.

The company does not have a formal structured fraud and corruption risk assessment framework. While the company has a code of ethics, it has not developed a comprehensive ethics and compliance programme. Employees were issued with copies of corruption policy for public officers, but no formal training was conducted on the same. The fraud and corruption risk officers have not been trained. The internal auditors and risk officers have not had any formal specialised training in fraud and corruption risk management, to enable them accomplish their responsibilities effectively. The company has also failed to put in place a bribery and corruption prevention policy, which is an obligation under the Bribery Act, 2016.

After a preliminary review of the alleged procurement misconduct, it was noted that Angaza was losing a lot of resources through payment of goods that were either not supplied, not fully supplied and substandard or expired goods. Angaza's management seems to have admitted wrong-doing when four of its senior directors; Elisha Kazungu, Robert Ochieng, Abdulaziz Mohamed and Lucy Mwachai all resigned. Their resignation followed just a few days after the company appointed a new acting CEO, Gerald Muzuri to replace Madzayo, who had been CEO for the past two years and was in charge when the fraudulent procurement took place. Madzayo had already been sent on compulsory leave and the Board dissolved, to pave way for investigations. The Minister in charge of the company had dissolved the board and sent all the remaining senior management, including the CEO on compulsory leave to pave way for investigations. The Minister then commissioned a forensic audit on the alleged fraudulent payments that had caused a loss of Sh.20 billion through corrupt and fraudulent activities.

Required:
Assume, that you were appointed as a forensic auditor to conduct an investigation on the alleged fraudulent payments by Angaza and that the investigation will end up in court for prosecution.

QUESTION ONE
Evaluate the fraud prevention health of Angaza Company Limited generally.

Evaluate and score the **SEVEN** criteria of fraud prevention health check-up and make recommendations for improvement of the fraud prevention health of Angaza.

(Total: 21 marks)

QUESTION TWO
Conduct a macro fraud risk index assessment and evaluate the fraud index and make necessary recommendation(s) based on three elements of a fraud risk index.

Indicate the criteria used to assess each risk index.

(Total: 15 marks)

QUESTION THREE
Under the Bribery Act, 2016, both private and public entities are required to develop a bribery and corruption prevention policy.

Identify **TWENTY** main components of an effective bribery and corruption prevention policy that you would recommend to Angaza Company to include in their bribery and corruption prevention policy.

(Total: 20 marks)

QUESTION FOUR
Identify **FIVE** Kenya laws violated in relation to the fraudulent payments made by Angaza Company Limited. Indicate the section of the law and at least two legal elements for each section of the law.

(Total: 10 marks)

QUESTION FIVE
Identify the evidence available to prove the alleged fraudulent payments:

(a) Exhibits. (1 mark)

(b) Circumstantial evidence. (1 mark)

(c) Identify an eye witness to give oral direct evidence. (1 mark)

(d) An accomplice who can be a prosecution witness. (1 mark)

(Total: 4 marks)

QUESTION SIX
Indicate the legal offences committed by the following parties in relation to the fraudulent payments:

(a) Chief Executive Officer/ Accounting officer. (2 marks)

(b) The Head of Procurement. (2 marks)

(c) Inspection and Acceptance Committee members. (2 marks)

(d) The tender evaluation committee. (2 marks)

(e) Board of directors. (2 marks)

(Total: 10 marks)

QUESTION SEVEN
Assume you have conducted an investigation on the alleged fraudulent payments at Angaza Company Limited and collected evidence.

Briefly indicate contents of the following sections of forensic report:

(a) Introduction. (2 marks)

(b) Conclusion. (2 marks)

(c) Scope of the forensic audit. (2 marks)

(d) Findings. (2 marks)

(Total: 8 marks)

QUESTION EIGHT
Write a brief recommendation report with **FOUR** main recommendations for the board and management of Angaza Company Limited.

(Total: 4 marks)

QUESTION NINE
Assume you are required to go to court to testify as an expert witness, as a forensic auditor who conducted the forensic audit.

Write a brief expert witness report/statement.

(Total: 8 marks)

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

TUESDAY: 5 December 2023. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

Read the case study below and answer the questions that follow.

FANAKA YETU SCANDAL

Fanaka Yetu is a Kenyan state corporation that is involved in various activities, including the training of youth, as well as production of various items of machinery and equipment. The corporation handles major procurement of items of high value that are needed by various departments within the organisation.

In the year 2020, the corporation lost approximately Kenya Shillings 10 billion to corrupt procurement deals. The procurement schemes involved collusion between the corporation's employees and the suppliers. Members of the 'Inspection and Acceptance Committee' of the corporation issued certificates of goods received, where none had been received or where goods received were mostly under-supplied, sub-standard or defective.

Ms. Susan Wakesho, Fanaka Yetu's Head of Procurement confirmed that the goods were actually received and approved for payment of the fictitious invoices submitted by the suppliers. With confirmation from the Head of Procurement, the CEO of Fanaka Yetu, Mr. Alex Kijana, in turn also authorised payment of the fraudulent invoices.

Payment of the fraudulent invoices was processed through the organisation's official payment system and money transferred to the bank accounts of the various vendors and contractors. A total of KShs 10 billion was paid out fraudulently.

The breakdown of the transfers to the bank accounts of the various vendors and contractors was as follows:
Supplier A: KShs 1.5 billion was transferred to Jasho Commercial Bank Limited.
Supplier B: KShs 1.5 billion was transferred to Mkopo Credit Bank Limited.
Supplier C: KShs 3.0 billion was transferred to Wekeza Bank Limited.
Supplier D: KShs 2.0 billion was transferred to Commercial Bank of Kenya Limited.
Supplier E: KShs 2.0 billion was transferred to Mwangaza Commercial Bank Limited.

That the tenders were awarded fraudulently only came to light after a tip-off from competent suppliers and contractors, who had deliberately been disqualified during the award of the tenders. The tip-off revealed that five of the vendors and contractors were companies owned by senior members of the management staff of the corporation. To conceal the real identities of the owners of the vendor companies, the names of the senior members of management of the corporation were not on the list of directors of the vendor companies. Most of these were shell companies without any legitimate business operations, appearing only when bidding for lucrative tenders advertised by the corporation.

The corporation has put in place all the necessary separation of duties for procurement.

The external auditor, Mr. Mkaguzi Mkuu, had on several occasions reported that there were major inventory variances between the physical inventory, the perpetual (systems) balance and numerous adjustment journals.

It was further reported that the corporation had been deliberately procuring expired and sub-standard goods and making payments for the same and later writing off the obsolete inventory.

The corporation has an enterprise risk management framework which was developed by a consultant, but with minimal involvement of the staff. Fraud and corruption were identified as a major risk.

The board of directors of the corporation had not developed any policies and strategies for fraud, bribery and corruption prevention, detection and response to fraudulent and corrupt activities. The corporation does not have a formal and structured fraud risk assessment framework.

A review of the tender specification documents revealed that some specifications were too narrow while others were too broad. It was also apparent that there were excessive tender change orders, even after the tenders had been awarded. Some bids that were supposed to be one component were split therefore increasing the total cost of the bids.

The review also showed that several competent contractors had failed to bid, but were later contracted by the winning bidders. A pattern of winning bidders was also noted.

Further, while the corporation had a code of ethics, it was not well designed and implemented.

The corporation had not put in place anti-bribery and corruption policies.

After a preliminary review of the alleged procurement misconduct, it was noted that the corporation was losing a lot of resources through payment for goods that were not supplied, not fully supplied, substandard or expired. This misconduct did not only result in loss of funds, but also affected operations and achievement of project goals.

The minister in charge of the corporation dissolved the board and sent all the senior management, including the CEO on compulsory leave, to pave way for investigations.

A forensic audit was commissioned on the alleged fraudulent payments that had caused the organisation to lose KShs 10 billion.

NB: Assume that you have been appointed as the forensic auditor.

QUESTION ONE

Recommend **TEN** components of a fraud prevention checklist for testing the effectiveness of fraud prevention of Fanaka Yetu. Indicate if each component of the fraud prevention checklist of the corporation is effective.

(Total: 10 marks)

QUESTION TWO

Conduct a macro fraud risk index assessment and evaluate the fraud index and make the necessary recommendation(s) based on three elements of a fraud risk index. Indicate the criteria used to assess the risk index. **(Total: 30 marks)**

QUESTION THREE

(a) Identify **THREE** laws that have been violated in relation to the fraudulent disbursements made by Fanaka Yetu. (3 marks)

(b) Indicate the available evidence to prove fraudulent disbursements. (7 marks)

(Total: 10 marks)

QUESTION FOUR

Explain the legal offences committed by the following parties in relation to the fraudulent payments:

(a) Chief Executive Officer. (2 marks)

(b) The Head of Procurement. (2 marks)

(c) Inspection and Acceptance Committee members. (2 marks)

(Total: 6 marks)

QUESTION FIVE

Assume that you have conducted an investigation at Fanaka Yetu, briefly explain the contents of the following sections of the investigation report:

(a) Introduction/background. (2 marks)

(b) Methodology/approach. (2 marks)

(c) Scope of the investigation. (2 marks)

(d) Findings. (2 marks)

(e) Conclusion. (2 marks)

(Total: 10 marks)

QUESTION SIX

Assume that you have conducted an investigation into the alleged fraudulent payments and collected evidence. After writing the investigation report, write a brief recommendation report for the board and the management based on your findings during the investigation. **(Total: 9 marks)**

QUESTION SEVEN

Explain the difference between an "investigation report" and an "expert witness report". **(Total: 6 marks)**

QUESTION EIGHT

Assume that you are required to appear in court to testify as an expert witness. Write a brief expert witness report/statement. **(Total: 9 marks)**

QUESTION NINE

Conduct an overview fraud prevention health check on the environmental level control at Fanaka Yetu using five criteria related to the control environment. **(Total: 10 marks)**

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

TUESDAY: 22 August 2023. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

Read the case study below and answer the questions that follow.

Huduma Ya Uzima (HUZI) is a Kenyan state corporation that is mandated to manage government medical insurance programmes. HUZI has a Board of Directors and an Audit and Risk Committee. It also has a branch network, with each branch led by a senior manager, who is accountable to the HUZI head office in Nairobi. The Fund also employs medical personnel in the claims department to scrutinise medical claims to verify their validity before settlement by the Fund. HUZI has a big team of internal auditors who are expected to identify and assess fraud risks and conduct a risk based audit. The internal audit report stated that there were no identified fraud risks.

The organisation has issued all employees with an anti-corruption policy, but does not have an anti-fraud policy. The organisation has never conducted a formal and structured fraud risk assessment. Whereas the organisation has a fraud hotline, employees do not come forward to report fraudulent or corrupt activities. However, the organisation received information from disgruntled service providers about the misconduct of some of their employees and some service providers.

To enhance service delivery, HUZI has established a network of branch offices, satellite offices and service desks distributed around the country. HUZI operates 70 branch offices, 33 satellite offices and 53 service desks across the country. This makes a total of 156 service points nationally. HUZI has 7,766 accredited healthcare providers, which include 5,833 government facilities which make up 75% of the healthcare providers, 1,619 private facilities (representing 21% of the healthcare providers) and 314 faith-based facilities representing 4% of healthcare providers. Currently, HUZI covers more than 23 million Kenyans, with 10.1 million being principal contributors and the rest being dependants including spouses and children.

HUZI works with healthcare service providers who provide medical services to Kenyan citizens, of which the state corporation pays a portion of the medical cost. HUZI runs a fund, the HUZI Fund, which gets its funds from the monthly contributions of members both in formal and informal employment.

HUZI is expected to carry out due diligence and to follow laid-down tendering procedures and processes in identifying and contracting competent healthcare service providers with high integrity. All the healthcare service providers are expected to be members of the Medicare Providers Professional Board and other medical associations, all of which have a Code of Conduct. It was discovered that a cartel of healthcare service providers was colluding with some branch managers and the claims department to defraud the Fund of billions of Kenya Shillings.

A recent audit has raised an alarm over the financial state of the national health insurer amid revelations of loss-making schemes, fictitious claims, overcharging for medical procedures by for example, charging one procedure as two separate components, impersonation among other malpractices. This, therefore, would increase the overall cost of the claims. The fraudulent and corrupt activities cost the government medical fund billions of Kenya shillings, which affected service delivery. During a session with the Parliamentary Health Committee, HUZI's Chief Executive Officer (CEO) revealed that, by investigating some claims, they had discovered fraud, resulting in a substantial loss of funds. A former CEO is reported to have said that the fund was losing Sh.10 billion annually due to fraudulent claims by both public and private healthcare providers. Health facilities without capacity to handle massive and complex operations, were making claims of up to 100 million Kenya shillings per month and the fund paid without questioning the unusual claims. The CEO acknowledged that approximately 90% of the funds collected from members were paid out in claims, some of which were fraudulent. The CEO further revealed that approximately 20% of members' contributions were lost to fraudulent claims by healthcare providers and individual members.

QUESTION ONE
Evaluate the fraud prevention health of HUZI based on the **SEVEN** components of the fraud prevention health check. Indicate the score points for each component. **(Total: 14 marks)**

QUESTION TWO
Identify **FIFTEEN** fraud risks in HUZI and develop a simple fraud risk assessment framework. **(Total: 30 marks)**

QUESTION THREE
Assess the **THREE** Culture Quotient risk index of HUZI and briefly explain the assessment results of each risk index. **(Total: 9 marks)**

QUESTION FOUR
(a) Identify **THREE** Kenya laws and the relevant sections that were violated by the officials of HUZI. (9 marks)

(b) Identify **THREE** Kenya laws and the relevant sections that were violated by the service providers of HUZI and indicate the legal elements of the offences. (9 marks)
(Total: 18 marks)

QUESTION FIVE
Identify the different types of evidence available in this case as follows:

(a) Exhibits. (2 marks)

(b) Testimonial evidence. (2 marks)

(c) Demonstrative evidence. (2 marks)

(d) Circumstantial evidence. (2 marks)
(Total: 8 marks)

QUESTION SIX
Identify the Kenya laws that were violated by the parties listed below, and the appropriate sections of the law that each of them would be charged under:

(a) The Board of Directors. (2 marks)

(b) The Chief Executive Officer. (2 marks)

(c) The Branch Managers. (2 marks)

(d) The Head of Claims. (2 marks)
(Total: 8 marks)

QUESTION SEVEN
Assume that you have been commissioned by the HUZI's new Board of Directors to conduct a forensic audit, write brief contents of the following sections:

(a) The "introduction" of the forensic audit report. (2 marks)

(b) The "scope" of the forensic audit report. (2 marks)

(c) The "conclusion" of the forensic audit report. (2 marks)
(Total: 6 marks)

QUESTION EIGHT
As the investigator of the alleged fraudulent disbursements, you are required to testify in court as an expert witness in this case.

Write an expert witness report. **(Total: 7 marks)**

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY

TUESDAY: 25 April 2023. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

Read the case study below and answer the questions that follow.

THE PAWA SCANDAL

Pawa PLC is a publicly quoted Kenyan company. The company operates in the electric power supply sector and has its headquarters in Nairobi. The company attracted negative public attention in 2020 when one of its senior managers reported to the regulator, his concerns about the senior management's behaviour. The manager reported that senior management had been manipulating the books of account and concealing billions of Kenya Shillings in bad debts, while at the same time overstating the company's revenue. Pawa PLC had managed to hide massive trading losses, ultimately leading to one of the largest accounting scandals in the country's recent corporate history. Over time, this fraudulent practice resulted in shareholders losing over KShs 200 billion, as the firm's share price fell from around KShs 45.0 to KShs 1.50 within one year. This sent shock waves throughout the industry.

A review of the company's business and management operations revealed the following:

1. Senior management were paid performance bonus based on the reported net profit.
2. The company had developed an enterprise risk management framework. Fraud and corruption were identified as part of the risks.
3. The audit committee was more of a sitting committee than a working committee and only used to meet when the full board met. The audit committee did not develop a strategy or an anti-fraud policy.
4. Senior management designed and implemented basic hard controls but did not enforce the controls.
5. Senior management overvalued some of the company's non-current assets and recognised the profits on valuation as income instead of reserves.
6. Senior management also concealed expenditure by capitalising expenses.
7. Senior management also concealed expenditure by omitting some expenses from the statement of profit or loss.

A special audit revealed that the firm's current CEO, Jonathan Okwaro, and a former CEO, Henry Boswago, had kept billions of shillings in debt, off the company's statement of financial position. James Muragiri, the Finance Manager, assisted senior management in manipulating the books. Further, he also colluded with the company's auditing firm, Jones Smith to overlook the issues that they had detected in the course of auditing the financial statements. In addition, the senior executives, for a long time ignored the advice of the company's Head of Internal Audit, concerning the accounting malpractices. The Head of Internal Audit also alerted the chair of the Audit Committee, but he did not take any action. The company went ahead and published the misrepresented financial statements and also filed the financial statements with the regulator.

In February 2021, Jonathan Okwaro stepped down as Chief Executive Officer and was replaced by Henry Boswago. After about six months, Boswago stepped down as CEO in August 2021 and Okwaro came back, taking over his old role once again.

Around this time, Kawi Connect, Pawa PLC's internet subsidiary reported massive losses. In the company's 2nd Quarter 2021 earnings report, Okwaro revealed that "in contrast to our extremely strong electric energy results, this was a difficult quarter in our internet businesses." In this quarter, the Broadband Services department reported a financial loss of KShs1.2 billion.

Also, at around the same time, Okwaro sold 93,000 shares of Pawa PLC for roughly KShs 25 million, while still telling employees via e-mail to continue buying the shares and predicting significantly higher share prices. In total, Okwaro was eventually found to have sold over 300,000 Pawa PLC shares for a total of KShs 200 million.

During the same period, Sheila Wathome, a Certified Forensic Fraud Examiner working for the company, had already expressed concerns regarding Pawa PLC's accounting malpractices. She wrote an anonymous letter to the CEO expressing her concerns. Wathome and CEO Okwaro eventually met to discuss the matters. Wathome furnished the CEO with a six-page report detailing her concerns. To appear concerned, Okwaro presented Wathome's concerns to an external law firm as well as to Pawa PLC's external auditors. Both firms reported that there were no issues of concern found. Pawa PLC, therefore, continued with its accounting malpractices, this time backed by the external law firm and the firm's auditors.

Pawa PLC went to great lengths to inflate its financial performance and position, and also concealed its fraudulent activities.

Pawa PLC had a complex organisational structure with related entities. Pawa PLC also used related entities, through related transactions to hide losses and to recognise the entities' revenue as Pawa PLC's income. These entities would "transact" with Pawa PLC allowing Pawa PLC to borrow money without recognising the funds as liabilities on the statement of financial position.

Jones Smith, the accounting firm engaged by Pawa PLC, was handsomely compensated for its service.

External stakeholders, such as investors, shareholders and creditors, used the company's financial statements to make financial decisions. Other external organisations like the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) also relied on the financial statements to evaluate legal and compliance aspects of Pawa PLC.

QUESTION ONE

Using the ACFE fraud prevention health check-up tool, conduct an overview of the fraud prevention health of Pawa PLC, based on the seven (7) components of fraud prevention health check-up by identifying at least **TWO** main areas of focus in every component. Score each component out of the total points allocated for every component.

Indicate the total points scored by the seven components.

(Total: 14 marks)

QUESTION TWO

Identify **FIFTEEN** fraud risks in this case study and develop a simple fraud risk assessment framework.

(Total: 30 marks)

QUESTION THREE

Assuming that the Pawa PLC did not have an Anti-Fraud Policy, make recommendations to help the company develop one, by outlining the eleven (11) components of an Anti-Fraud Policy.

(Total: 11 marks)

QUESTION FOUR

Identify **FIVE** Kenyan laws and sections that were violated in this case study. Indicate the legal elements for the offences.

(Total: 15 marks)

QUESTION FIVE

Identify the different types of evidence available in this case as follows:

(a) Real evidence.

(b) Testimonial evidence.

(c) Demonstrative evidence.

(d) Circumstantial evidence.

(Total: 8 marks)

QUESTION SIX

Identify the Kenyan laws that were violated by the parties listed below, and the appropriate sections of the law that each of them would be charged under:

(a) The Directors of the company.

(b) The CEO and Senior Management.

(c) The External Auditor.

(d) The Accountant.

(Total: 8 marks)

QUESTION SEVEN

Assuming that you have been commissioned by the Capital Markets Authority (CMA) to conduct an investigation into this scandal, write:

(a) The 'introduction' of the investigation report.

(b) The 'scope' of the investigation report.

(c) The 'conclusion' of the investigation report.

(Total: 6 marks)

QUESTION EIGHT

Assuming that you are appointed to testify in court as an expert witness in this case, write an expert witness report based on the case study.

(Total: 8 marks)

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CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)

MODULE THREE

INTEGRATED CASE STUDY AND WORKSHOP

TUESDAY: 6 December 2022. Morning Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

Read the case study below and answer the questions that follow:

Case Study

PROCUREMENT FRAUD SCENARIO

Tenda Kazi Medical Agency (TEKAMA) is a national government medical supplies agency. It is charged with the sole responsibility for the procurement of medical, dental, laboratory, and pharmaceutical supplies for hospitals, pharmacies, and laboratories for all government institutions in the country. To ensure the smooth operations of the agency, the government has not only provided the agency with large warehouses within the commercial district of the capital city, but also equipped it fully with modern warehousing equipment vehicles, as well as loading and off-loading facilities.

TEKAMA's Board of Directors is led by its Chairman, Anthony Kiongozi. The current board is already in its seventh year, having completed its first five-year term, and is now on its second term. This is an experienced board, during whose term, several policies have been developed, including an anti-corruption policy. However, despite the length of service of the board, and the existence of policies developed, the agency has been flagged on a number of occasions for poor compliance or non-compliance with the policies. While an anti-corruption policy exists, no training has ever been conducted to help staff understand it; nor has any action been taken over non-compliance with this policy. Further, while the policy provides for whistleblowing and anonymous tips on corrupt practices, the staff have never been trained on how they ought to anonymously report corrupt practices they witness.

TEKAMA has a labour force of 350 staff, led by their Chief Executive Officer, Zebedeo Chunga Mali. The CEO operates with a lot of pressure from senior government officials and politicians. He occasionally gets calls outside normal working hours, to issue commitment letters to suppliers. Acting under such pressure, he recently issued a commitment letter to Kalogi Suppliers for the supply of gloves, without reference to procurement.

All the TEKAMA staff sign an 'Ethics and Anti-corruption Policy' and 'Code of Ethics' during onboarding, but unfortunately, that is the last time they see the document. The agency has qualified accountants with audit experience, but with no formal training in fraud and corruption. It does not have any other measures to proactively detect fraud and corruption. It has been observed that there are inconsistencies in disciplining of staff, as well as failure to comply with the Code of Ethics. There is an ethics and a fraud hotline which is not used by staff to report violations. Some board members have also shown interest in the procurement and sale of drugs.

A recent review by an external consultant also pointed out violations of the Public Procurement and Asset Disposal (PPAD) provisions in the agency's procurement processes. During an annual audit, the auditors found that there was material variance between the system's inventory records and the physical inventory. Although the agency has an Enterprise Risk Management Framework, it does not have a formal structured risk assessment framework. However, despite the existence of very good policies and controls, the agency does not have any senior member of staff identified or assigned the role of Risk Manager. A Fraud Risk Management Policy does not exist also.

Zack Mpokonyi is the Procurement Director at TEKAMA. He recently set up his own supplies business in town, known as Changia Uchumi Enterprises. Just like his employer, his business is involved in the supply of medical, dental, laboratory, and pharmaceutical products to hospitals, pharmacies, and laboratories around the country. TEKAMA recently floated a tender for the supply of drugs, medical, dental, laboratory, and pharmaceutical equipment, all worth Sh.2,000,000,000. Among the companies that put in bids was Zack Mpokonyi's own Changia Uchumi Enterprises. Using his office as procurement director, Zack instructs Sammy Kazibwe, a procurement officer at TEKAMA who reports to him, and who knows where keys to the tender box are kept, to open the tender box at night and tell him what the other suppliers had quoted. Sammy Kazibwe for assisting in opening the tender box, was given a wad of notes of an undisclosed amount by Zack Mpokonyi. Once the tender box was opened, Zack realised that compared to its competitors, his company, Changia Uchumi Enterprises had quoted the highest prices, and was therefore unlikely to win the tender. He immediately removed Changia Uchumi Enterprises' bid and replaced it with another, this time quoting the lowest price. Later, during a meeting to discuss the tender, Zack Mpokonyi deliberately failed to disclose that he had an interest in Changia Uchumi Enterprises. He participates in the discussions of the Tender Review Committee, and in its decision to award the tender to Changia Uchumi Enterprises. Despite Zack's company having won the tender to supply the medical items, the quantities delivered were way below what had been ordered. Zack Mpokonyi, who was good friends with the Oscar Funiko, the head of stores, was able to have the items received and signed for as complete orders. He was also able to push for payment quickly through the Finance Department.

Zack Mpokonyi was not the only senior employee of TEKAMA who was involved in fraudulent transactions. Judy Furushi, the Public Relations Manager, and Joseph Kikapu, the Marketing Manager also had their own schemes. Although TEKAMA was very strategically placed to benefit from donor funds to help address the global pandemic currently hitting the country, this was not fully realised. As insiders, these senior staff knew that the organisation would soon be floating quotations for distributing medical supplies to various government medical facilities countrywide. They both moved quickly to form fictitious shell companies that would be contracted to distribute medical supplies. They both agreed on what items they would bid to distribute, and to what areas of the country, without having to compete against each other. TEKAMA officials contracted with shell companies to supply protective equipment. No equipment was supplied, but the companies got paid anyway.

Before too long, TEKAMA's management mandated the Procurement Director to float quotations for the distribution of medical supplies to each of the country's eight regions. Promptly, six logistics companies sent quotations for the distribution of medical supplies to the eight regions. Three of the six companies were Sukuma Bogi Traders, Jaza Kikapu Enterprises, and Kwetu Brothers Enterprises. While registered under different directors to conceal ownership, all these companies belonged to Joseph Kikapu. The other three companies that sent in quotations were Sawazisha Express Couriers, Daisy & Partners Transporters, and Reliable Deliveries Limited, all of which belonged to Judy Furushi.

When the quotations were opened, it turned out that the companies that had quoted the lowest for delivery to the Eastern, Western, Southern, and Northern Regions were Sukuma Bogi Traders, Jaza Kikapu Enterprises, and Kwetu Brothers Enterprises. On the other hand, the companies that had quoted the lowest for distribution to the South-Eastern, North-Eastern, South-Western, and North-Western Regions were Sawazisha Express Couriers, Daisy & Partners Transporters, and Reliable Deliveries Limited. The distribution contracts were subsequently awarded to the respective companies for the regions they had quoted the lowest. Unfortunately for TEKAMA, even the lowest quotes had been pre-determined by the two senior officers whose companies quoted and won the contracts.

While the shell companies formed by Judy Furushi and Joseph Kikapu won the distribution contracts, no medical supplies were delivered to the various government medical facilities. Where they were delivered, the quantities delivered were much lower than what left the warehouses of TEKAMA at headquarters. Unknown to the agency, TEKAMA ended up losing money to its own staff, who were already on the agency's payroll. That massive fraud had occurred through these particular contracts, only became apparent after an audit by the Office of the Auditor General (OAG). Making its presentation to Parliament's Public Investments Committee (PIC), the Auditor General noted that the contract sum was originally Sh.4,444,000. However, in the final contract letters issued to the shell companies, this figure had already been changed to Sh.48 million. No evidence was available of due procurement processes having been followed in altering the original contract amount. The Public Investments Committee ordered a forensic audit into that procurement to be carried out immediately.

Required:

QUESTION ONE

Evaluate the fraud prevention health of the organisation at the time the fraud occurred. Evaluate and score the **SEVEN** criteria of the fraud prevention health check-up. **(Total: 21 marks)**

QUESTION TWO

Identify **FOURTEEN** inherent fraud risks in this case study. **(Total: 14 marks)**

QUESTION THREE

Develop a Risk Assessment Framework for the fourteen fraud risks. **(Total: 28 marks)**

QUESTION FOUR

Explain whether a comprehensive anti-fraud policy was in place at the time this fraud and others occurred. Highlight **TEN** components of a comprehensive Fraud Prevention Policy that you would recommend. **(Total: 8 marks)**

QUESTION FIVE

Examine **THREE** Kenyan laws related to fraud/corruption and the legal elements related to each of these laws, that were violated in this case study. **(Total: 9 marks)**

QUESTION SIX

Identify the evidence available in this case study with respect to:

(a) Real evidence (exhibit). (1 mark)

(b) Direct testimonial evidence (eye witness). (1 mark)

(c) Expert witness. (1 mark)

(d) Demonstrative evidence. (1 mark)

(Total: 4 marks)

QUESTION SEVEN

Discuss **EIGHT** sections of an investigation report for this case study. **(Total: 16 marks)**

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