Identifying red flags
Make your data speak
Conduct a complete analysis of your business and financial data using Deloitte’s RedFlag audit analytics service. It consists of approximately 300 tests covering common business processes to identify irregularities, process failures and unknown risks.

Common red flags identified in procurement processes

**Duplicated payments**
Human errors in processing the invoices and lack of attention in the payment approval process are the main causes.

<table>
<thead>
<tr>
<th>Invoice Number</th>
<th>Vendor Name</th>
<th>Amount Paid</th>
<th>Processor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010020</td>
<td>Vendor A</td>
<td>$2,194.50</td>
<td>User 1</td>
</tr>
<tr>
<td>2010020</td>
<td>Vendor A</td>
<td>$2,194.50</td>
<td>User 1</td>
</tr>
<tr>
<td>3313407</td>
<td>Vendor B</td>
<td>$2,224.00</td>
<td>User 2</td>
</tr>
<tr>
<td>3313407</td>
<td>Vendor B</td>
<td>$2,224.00</td>
<td>User 2</td>
</tr>
<tr>
<td>3314158</td>
<td>Vendor B</td>
<td>$2,224.00</td>
<td>User 2</td>
</tr>
<tr>
<td>3314158</td>
<td>Vendor B</td>
<td>$2,224.00</td>
<td>User 2</td>
</tr>
<tr>
<td>2528001</td>
<td>Vendor D</td>
<td>$12,600.00</td>
<td>User 3</td>
</tr>
<tr>
<td>2528001</td>
<td>Vendor D</td>
<td>$12,600.00</td>
<td>User 3</td>
</tr>
</tbody>
</table>

**Inaccurate vendor master data**
The organization should carry out vendor master file cleanup and staff training. Officer D has processed 50 incomplete or inaccurate sets of vendor data and may not be trained sufficiently.

![Image of vendor master data accuracy issue]

**Split purchase orders**
In this example, Purchase Organization 3 has 260 Purchase Orders (POs) split into smaller value POs to avoid additional approval checks. The company’s procurement controls are circumvented.

**Lack of Segregation of Duty (SoD)**
The segregation of duties is a fundamental technique used to manage personnel risk. An organization should recognize SoD risk and enforce SoD controls across their IT systems.

<table>
<thead>
<tr>
<th>Top 5 SoD risks in procurement processes</th>
<th>Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process payment &amp; maintain vendor master data</td>
<td>Critical</td>
</tr>
<tr>
<td>Manual check processing &amp; bank reconciliation</td>
<td>Critical</td>
</tr>
<tr>
<td>Maintain purchase order &amp; approve purchase order</td>
<td>Critical</td>
</tr>
<tr>
<td>Perform goods receipt &amp; process vendor invoice</td>
<td>High</td>
</tr>
<tr>
<td>Inventory counts, clear difference &amp; goods movements</td>
<td>High</td>
</tr>
</tbody>
</table>

Control breakdown

- **Process failures**
- **Unknown risk**
- **Phantom employees**
- **Exceptions, breakdowns**
- **Fraud and discrepancies**
- **Unhealthy trends**
- **Irregularities**
- **Dishonest suppliers**
- **Missing inventory**
- **Split purchase orders**
- **Double payment**
**Sample list of tests from Deloitte’s RedFlag solution**

### Order to Cash
- Incomplete or duplicated customer data
- Unusual sales discount
- Credit memo is issued without goods receipt/return
- Goods Issue has been processed, but billing was cancelled
- Sales order payment terms are different from customer master payment terms
- Sales orders are booked and subsequently cancelled by the same sales person
- Sales orders and customer credit are managed by the same person

### Procure to Pay
- Duplicated invoices, payments and POs
- Invoices without a PO
- Exceptions in 2-way and 3-way matching
- Vendors with missing data
- Split purchases
- Unusual payment terms
- Purchase orders created on/after the date invoice was received
- Goods received after invoice date
- Goods are scrapped from the inventory
- Same person performing multiple tasks

### Finance and Controlling
- General Ledger (GL) accounts are incomplete, duplicated or inaccurate
- Vendors / customers are paid through cash journal
- Bank reconciliation statements are not cleared
- Asset master records have missing or incomplete information
- Fixed asset depreciation is manually written-up
- Maintenance of GL master and posting of transactions are performed by the same person

### Segregation Of Duty violation and Sensitive Access exposure across business processes

**How it works**

1. **Planning & Scoping**
2. **Data extraction**
3. **Red flag analysis**
4. **Exception report**

**Continuous auditing & monitoring**

**RedFlag at a glance**
## Contacts

To find out more about how Deloitte’s RedFlag Solution can help your business, contact one of our Deloitte specialists.

<table>
<thead>
<tr>
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<th>Phone Number</th>
<th>Email</th>
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</thead>
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