

Fraud Risk Management –  
providing insight into fraud  
prevention, detection and response

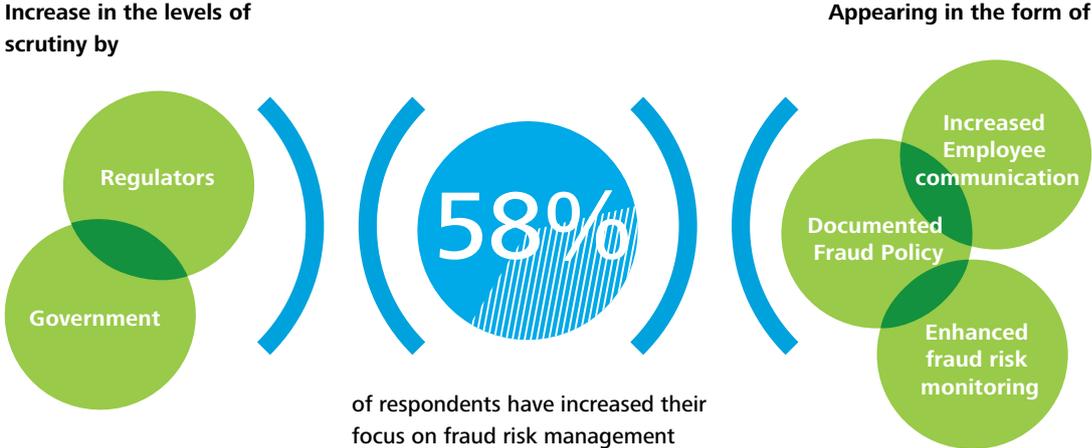


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Fraud follows opportunity  
and attacks weakness. Know  
where you are vulnerable and  
how to take control.



# Introduction



Having a reputation for integrity is crucial to safeguarding market confidence and public trust. Unfortunately, fraud and misconduct can seriously undermine such efforts, exposing an organisation to legal, regulatory, or reputational damage. That is why experienced business leaders work to ensure that they have an effective approach to mitigating these risks. This is especially important in an environment marked by intense scrutiny and rising enforcement.

The area of fraud risk management is increasingly attracting mainstream attention as various stakeholders

have begun to comprehend the negative effects of uncontained risk. With 58 percent of respondents to Deloitte’s (UK/ LLP) 2012 report on ‘The Internal Audit Fraud Challenge’ having said that the new regulatory environment has led them to an increased focus on fraud risk management - is definitely a positive sign.

A strong anti-fraud stance and proactive, comprehensive approach to combating fraud is now gradually becoming a pre-requisite and any organisation that fails to protect itself appropriately, faces increased vulnerability to fraud.

# Deloitte's Fraud Risk Management Services



We are accustomed to working with clients in a variety of situations, particularly when the level of scrutiny is high and the margin for error is low. Examples include when:

- Your **company experiences a problem** and you want to take steps to reduce the likelihood of recurrence
- Your **industry is under scrutiny** and you need to assess that your programs and controls can meet stakeholder expectations
- Your board needs to **demonstrate performance of its fiduciary duty** to evaluate periodically whether your compliance program is designed and operating effectively
- Your internal audit or compliance functions would benefit from **heightened levels of objectivity** or specialization in assessing your program
- Your employees and third-party agents are operating in environments with **added pressures and opportunities** to commit fraud or other illegal acts to meet targets
- Your budget owners need to **identify and cut unnecessary costs** associated with occupational theft, waste, and abuse
- Your management team needs to identify fraud and misconduct risks when performing **due diligence on acquisition targets or business partners**
- Your company needs to adopt more formalized governance mechanisms and antifraud controls as part of an **initial public offering**

A robust fraud risk management thus, requires more than just ensuring an effective system of internal controls. It also requires clearly defined and implemented actions designed to reduce fraud risk and an ongoing assessment of the effectiveness of the organisation's approach to managing the business risk of fraud.

A 360° approach to fraud risk management: The anti-fraud controls roadmap

“Continuous Improvement: Diagnose, Detect and Respond” Steps Generally Include –



“To think, we know and understand all risks around us is misleading, to think we can manage all of them, if they hit us, is an illusion, and to turn a blind eye to them is sheer foolishness.”

### I. Comprehensive evaluation of anti-fraud programs and controls, ethics and compliance program

Organisations need to realize the growing importance of addressing / controlling the risk of fraud in a comprehensive and integrated manner, which would in turn benefit them in a number of ways.

Evaluating anti-fraud programs, controls, ethical conduct and compliance with policies and procedures in the business process by assessing its vulnerability to fraud is the foundation on which effective anti-fraud processes are built.

- Does the management conduct, document and update fraud vulnerability assessment periodically (typically annually)?
- Can the management explain key fraud risks that may affect the company's brand, reputation and assets?

Deloitte assists organisations in conducting a comprehensive periodic evaluation of anti-fraud controls with the help of fraud risk management tools that are tailored to an organisation's processes and specific industry that help check the adequacy of your existing anti-fraud programs and controls.



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**Lack of effective corporate governance seriously undermines any fraud risk management programme. Only meticulous and ongoing effort by an organisation can protect itself against significant acts of fraud.**

## II. Fraud vulnerability diagnostic tool: A web-enabled employee ethics and fraud awareness survey tool

Deloitte's web-enabled fraud and ethics survey tool assesses an organisation's ethical culture, the attitude of its employees towards fraud, the awareness of fraud-related policies and procedures, and an employees' willingness to report fraud and other serious misconduct. The web-enabled survey can also provide employees a chance to offer their suggestions to improve the control environment. This survey gathers anonymous feedback from employees and management by guiding them through a series of questions covering key areas such as:

- Awareness of policies and communication
- Organizational culture and code of conduct
- Raising a concern about fraud and misconduct
- Fraud risk management assessment
- Conflicts of interest
- Areas of improvement

The process also includes the analysis and production of an interpreted report of findings that includes identification of key issues, practical recommendations, and suggested steps.

## III. Employee fraud awareness training(s): Essential element of fraud control

Making employees aware of their obligations concerning fraud and misconduct controls begins with practical communication and training. Like any other compliance effort, effective fraud control means educating your employees to understand the critical role they play in preventing, detecting and deterring fraud.

Your organisation's philosophy and expectations in relation to fraud control and ethical behavior should be planned, prioritized and clearly communicated. Employees at all levels need to be aware of antifraud activities, have a clear understanding of what is expected of them, know that the organisation takes the threat of fraud seriously, and knows where to seek assistance and advice.

In formulating a training and communications plan, management should consider developing fraud and misconduct awareness initiatives that are:

- Comprehensive and based upon job functions and risk areas
- Integrated with other training efforts, whenever possible
- Effective in a variety of settings, using multiple methods and techniques
- Regular and frequent, covering the relevant employee population

Deloitte has experienced fraud training facilitators who can assist you by designing and delivering fraud awareness training tailored to the specific needs of your organisation. The issues generally covered are:

- Organizational expectations and obligations
- Relevant codes and policies
- Understanding the concept of fraud and the "fraud triangle"
- How to and the benefits of preventing fraud
- Unearthing typical fraud indicators or "red flags"
- Recognizing conflicts of interest and taking steps to resolve them
- Reporting fraud and seeking assistance

#### IV. Tip-offs Anonymous: Deloitte's whistle blowing service

An important aspect to encourage accountability and transparency within an organisation is a mechanism to enable all individuals to voice concerns internally in a responsible and effective manner when they discover information which they believe shows serious malpractice.

Implementing an employee whistleblowing hotline gives your employees a voice to confidentially report workplace concerns and enables you to identify and rectify problems before they damage your business, reputation and employee morale. Companies are also slowly beginning to realize the importance of integrating a whistleblower service/ independent helpline as part of the fraud risk management strategy. Additionally, it has been proved to be one of the most effective ways to detect fraud (as per the ACFE 2014 Global Fraud Study)<sup>1</sup>.

**Deloitte's Tip-offs Anonymous** is a whistleblowing facility that provides callers the opportunity to raise a concern regarding an incident of wrongdoing, fraud or unethical behaviour within the workplace, and report it to an independent party.

##### What does it entail?

- 24/7 operation
- Telephone, email, web, fax, text
- Over 16 languages supported
- Support with Ethics, Whistle-blowing, Fraud or Governance Policies
- Effective communication and awareness campaigns
- Privacy compliant
- Compliance with whistle-blower legislation
- Complete information security

#### V. Forensic data analytics tool: Leveraging technology to proactively detect, prevent and control fraud

##### Data assessment and continuous analysis

Deloitte's DTect™, a forensic data analytics proprietary tool, can profile and analyse financial and non-financial data across various areas and disparate systems to find anomalous relationships, transactions or unusual patterns, such as, duplicate supplier invoicing, ghost employees, altered payees, etc. This rigorous analysis can help organisations identify fraudulent activity; prioritize case management and investigation; and improve the false positive rate of a detection and prevention strategy.

Deloitte's forensic data analytics tool enables us to analyze data to help answer some of the following:

- What happened?
- Where did it happen?
- How many times did it happen?
- What is the volume / value involved?
- What rules or thresholds have been breached?
- Are there any non-compliance issues with contracts and anti-fraud control gaps in processes?

This analytical tool can be used to detect various fraudulent issues and raise red flags by performing tests that can identify and isolate suspicious transactions within the vast data fields that hum away in the course of everyday business. Deloitte makes use of DTect, to interrogate data across the business, based on which electronic data analysis is conducted and specific fraud risk management issues are investigated. This therefore acts as a comprehensive 'Health Check' for your business or for detecting anomalies and potential fraud in your business processes or functions.

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**An effective fraud risk management framework will enable organisations to have controls that first prevent the fraud from occurring, detect as soon as a fraud happens and respond effectively to fraud incidents when they occur.**

<sup>1</sup> The Association of Certified Fraud Examiners ('ACFE') report is based on data compiled from a study of 1,483 cases of occupational fraud that occurred that were reported by the Certified Fraud Examiners (CFEs) who investigated them. These offenses occurred in nearly 100 countries across six continents, thus providing a view into the global nature of occupational fraud.

#### VI. Develop a Fraud Response Management Plan

- Has the company developed a fraud response management plan to react to the allegations of major fraud or corruption?
- Does that plan include assigned responsibilities for management and advisers to help drive actions and communications that will sustain confidence?

It is critical for an organisation to develop fraud response strategies, which would help in minimizing the impact of frauds that occur, or are discovered, and come to the attention of the company, authorities and other interested parties. Deloitte assists organisations in setting up an effective Fraud Response Management program / plan that is designed to allow the organisation to react to various types of fraud and misconduct allegations in a measured and consistent manner. These plans can be valuable in implementing a robust response to allegations under severe time pressure and intense scrutiny from the media, regulators, investors, and law enforcement. The overarching goal of a fraud response program is to protect the organisation from the economic, reputational and legal risks associated with the fraud allegation.

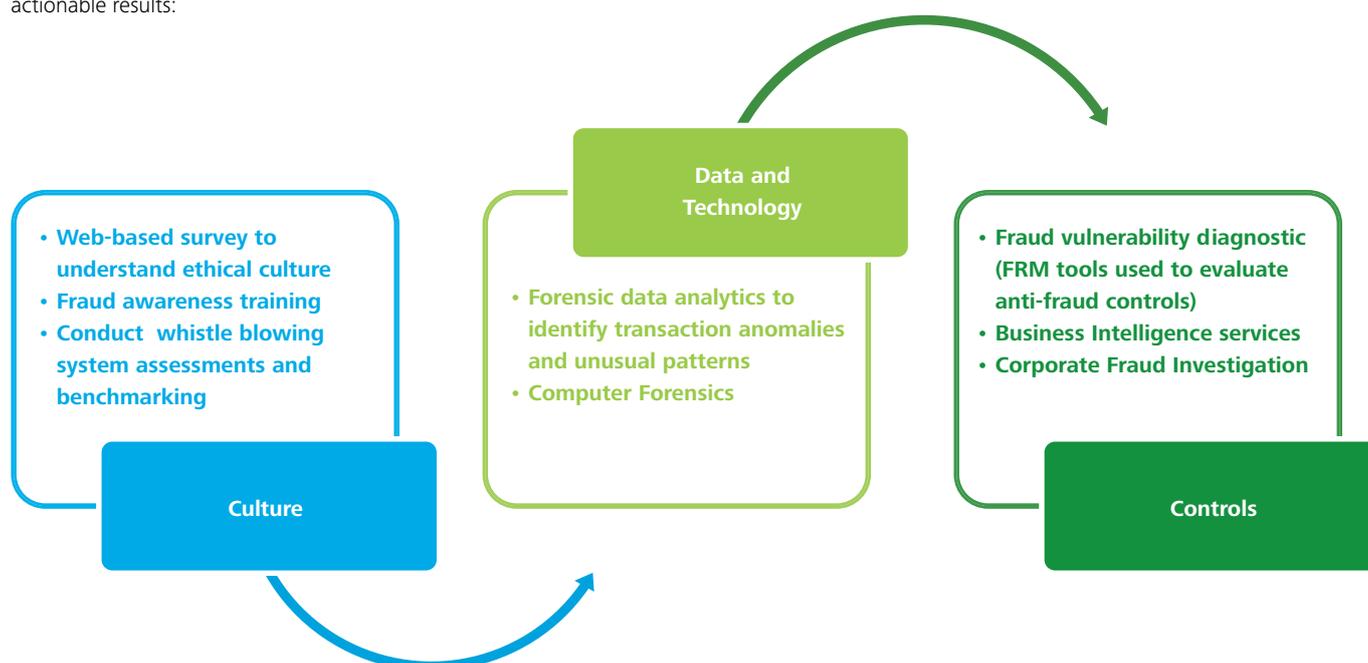
One of the elements also included in a substantive fraud response strategy is the capability to conduct sound investigations. Additionally, pre-determining investigative resources and protocols can accelerate the pace of an investigation and also help reduce the risk of ineffective investigations. We believe that most organisations could benefit from incorporating leading practices into their investigative response plans, including:

- Establishing and documenting fraud investigation protocols
- Identifying fraud investigation resources, especially global response teams, before the occurrence of a crisis
- Implementing a case management system to track and log the resolution of fraud allegations
- Implementing processes and control improvements enterprise-wide to gain efficiencies and prevent recurrences



# Conclusion: Responding to the business risk of fraud

Given below is a pragmatic approach of the top focus areas of fraud prevention and detection strategies within a fraud risk management programme that can help provide the board of directors and the senior management with actionable results:



## Make fraud risk management strategy a priority.

Have a discussion about the organisation's fraud risk management strategy that involves senior management, the board of directors and audit committee to garner top-level support. Build a cross-departmental fraud risk management committee. Talk about fraud risks and how organisations can benefit by enhancing their fraud risk management capabilities and share examples of fraud schemes in the news or from the organisation's past experiences — effective risk management comes with openness and awareness.

## Plan and execute a fraud risk management programme.

Establish clear roles, responsibilities and accountability for fraud risk management. Set goals and timelines and measure the progress in implementing improvements. Put an annual process in place to update the fraud risk management plan and re-evaluate the fraud risk management strategy based on changes in the business and risk environment.

**Perform an anti-fraud control gap analysis.** Compare the organisation's fraud risk management practices with leading global practices using appropriate fraud risk

management tools. This will help make the organisation's anti-fraud controls robust as well as stay one step ahead of the fraudster. Identify the missing elements and determine priorities for how anti-fraud control gaps, if any should be addressed. For those practices, which the organisation already has in place, use the recommended leading practices to help uncover further performance improvement opportunities. Using the fraud risk management tool, which also provides a risk rating system (based on evaluation of business processes vis-à-vis their fraud vulnerability and its impact) proves to be an efficient and effective way to periodically evaluate the robustness of anti-fraud control measures.

Fraud risk management is not a one-time exercise but a continuous process. As businesses change and grow, so do their fraud risks. We therefore recommend a continuous improvement approach to the fraud risk management strategy that requires regular measurement of where the business is and where it wants to be in terms of effectively preventing, detecting, and deterring fraud. We call this approach the **Diagnose, Detect and Respond Strategy**.