FRAUD RISK MANAGEMENT
A Corporate Awakening:
Lessons from the Frontline

Singapore October 2011

Paul Hurrell
QBE Group
Year of the Cat
Global GI market (US$1,667bn)

- USA: 39%
- Other: 28%
- Germany: 7%
- Netherlands: 6%
- France: 5%
- Japan: 2%
- Australia: 2%
- China: 2%

## General Insurance Terms

<table>
<thead>
<tr>
<th>Personal Lines</th>
<th>Commercial Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Compulsory Third Party</td>
<td>• Workers Compensation</td>
</tr>
<tr>
<td>• Home Liability</td>
<td>• Public Liability</td>
</tr>
<tr>
<td></td>
<td>• Product Liability</td>
</tr>
<tr>
<td></td>
<td>• Product Recall</td>
</tr>
<tr>
<td></td>
<td>• Professional Liability</td>
</tr>
<tr>
<td></td>
<td>• D and O Liability</td>
</tr>
<tr>
<td></td>
<td>• Defamation</td>
</tr>
<tr>
<td></td>
<td>• Environmental</td>
</tr>
</tbody>
</table>

Long Tail
Trust as a preventative

Sometimes trust is just not enough
Who are you protecting the company from?

Figure 19 – Income of major fraudsters (employees only)

- More than $1 million: 1%
- $500K - $1 million: 1%
- $200K - $500K: 3%
- $100K - $200K: 12%
- Less than $100K: 83%

Source: KPMG Australia 2010
Factors contributing to fraud

Figure 15 – Most important factor contributing to the largest fraud incident

- Poor ethical culture: 1% (2008), 5% (2010)
- Poor hiring practices: 2% (2008), 3% (2010)
- Collusion between internal parties: 3% (2008), 5% (2010)
- Poor physical security: 0% (2008), 4% (2010)
- Lack of accountability: 0% (2008), 5% (2010)
- Risks peculiar to the industry: 8% (2008), 11% (2010)
- Collusion between employees and third parties: 9% (2008), 11% (2010)
- Other: 9% (2008), 12% (2010)
- Override of internal controls: 22% (2008), 22% (2010)
- Poor internal controls: 26% (2008), 32% (2010)

Source: KPMG Australia 2010
Fraud Prevention Reading

- Sovereign and foreign legislation and regulation
- Corporate Governance Series
  - 8000 – Good Governance Principles
  - 8001 – Fraud and Corruption Control
  - 8002 – Organizational Codes of Conduct
  - 8003 – Corporate Social Responsibility
  - 8004 – Whistleblower protection programmes for entities
- ACFE—Managing the Business Risk of Fraud
- Fraud Risk Management—A Guide to Good Practice—CIMA
- Fraud Examiners Manual
- Principles of Fraud Examination
- Surveys, reports, whitepapers
Organisation Specific

• Country culture
• Governance maturity
• Industry Culture
• Market demands
• Integrated or disjointed structure
## Fraud Risk Management Programme

<table>
<thead>
<tr>
<th>Prevention</th>
<th>Detection</th>
<th>Response</th>
<th>Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Fraud Risk Framework</td>
<td>- Whistleblower Hotline—Internal and External</td>
<td>- Fraud Response Plan</td>
<td>- Accountabilities</td>
</tr>
<tr>
<td>- Code of Conduct</td>
<td>- Auditing and Monitoring</td>
<td>- Disclosure</td>
<td>- Authorities</td>
</tr>
<tr>
<td>- Tone at the Top</td>
<td>- Specific Fraud Data Analysis</td>
<td>- Risk Identification</td>
<td>- Review of Protocols and Fraud Risk</td>
</tr>
<tr>
<td>- Fraud Awareness Programme</td>
<td></td>
<td>- Enforcement</td>
<td>- Assessments</td>
</tr>
<tr>
<td>- Fraud Risk Assessment</td>
<td></td>
<td>- Recovery Actions</td>
<td>- Strategy Review</td>
</tr>
<tr>
<td>- Employee Assistance Programmes</td>
<td></td>
<td></td>
<td>- Corporate Change Review</td>
</tr>
<tr>
<td>- Employee/Supplier Due Diligence</td>
<td></td>
<td></td>
<td>- Benchmarking</td>
</tr>
<tr>
<td>- Communication/Marketing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### DETERRENCE
Maturity Cost Curve

$1$ spend = $4$ saving

Source: Anatomy of Corruption and Fraud 2011
## Do preventatives work?

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Cases Implemented</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotline</td>
<td>48.6%</td>
<td>$100,000</td>
<td>$245,000</td>
<td>59.2%</td>
</tr>
<tr>
<td>Employee Support Programs</td>
<td>44.8%</td>
<td>$100,000</td>
<td>$244,000</td>
<td>59.0%</td>
</tr>
<tr>
<td>Surprise Audits</td>
<td>28.9%</td>
<td>$97,000</td>
<td>$200,000</td>
<td>51.5%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>39.6%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Execs</td>
<td>41.5%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>14.6%</td>
<td>$100,000</td>
<td>$188,000</td>
<td>46.8%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>69.9%</td>
<td>$140,000</td>
<td>$262,000</td>
<td>46.6%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>39.0%</td>
<td>$120,000</td>
<td>$200,000</td>
<td>40.0%</td>
</tr>
<tr>
<td>Management Review</td>
<td>53.3%</td>
<td>$120,000</td>
<td>$200,000</td>
<td>40.0%</td>
</tr>
<tr>
<td>External Audit of ICOFR</td>
<td>59.3%</td>
<td>$140,000</td>
<td>$215,000</td>
<td>34.9%</td>
</tr>
<tr>
<td>Internal Audit/FE Department</td>
<td>66.4%</td>
<td>$145,000</td>
<td>$209,000</td>
<td>30.6%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>53.2%</td>
<td>$140,000</td>
<td>$200,000</td>
<td>30.0%</td>
</tr>
<tr>
<td>Management Certification of F/S</td>
<td>58.9%</td>
<td>$150,000</td>
<td>$200,000</td>
<td>25.0%</td>
</tr>
<tr>
<td>External Audit of F/S</td>
<td>76.1%</td>
<td>$150,000</td>
<td>$200,000</td>
<td>25.0%</td>
</tr>
<tr>
<td>Rewards for Whistleblowers</td>
<td>7.4%</td>
<td>$119,000</td>
<td>$155,000</td>
<td>23.2%</td>
</tr>
</tbody>
</table>
Information Gathering

- Company policies and guidelines
- Your direct reports—if any
- Previous investigations
- Internet search on company and frauds
- Previous incumbent
- Professional services firms
- Staff surveys which measure engagement
- Regulatory body reports and audit findings
Key Stakeholders

• Managements List

• Your List
  • Direct Manager—Present to Own Group
  • Heads of Business
  • HR Business Partners
  • Recruitment
  • Risk and Compliance
  • Internal Auditors
  • External Auditors/Regulatory Body Reports

• Methods
  • E-mail
  • Cold Calling
  • LinkedIn
  • Introductions via Peers
Fraud Response Plan

- Key part of the framework
- Investigation office
- Take back control from others
- Be independent
- Make process easy to understand
- Create guide for managers
- Ensured approved by exec/board
Benchmarking

- Ongoing process
- Questionnaires—Fraud Health Check
- Process mapping
- Discussions with peers
- Comparisons with other organisations—same industry
- Locate fraud risk champions
Code of Conduct

- Fraud and corruption relevant sections
- Organisational identity
- Is it intended to be global code
- Language—striking a balance
- Protection against retaliation
- Takes account of legislative change
Employee Assistance Programmes

- Can reduce incidents and size of frauds
- Provides a face saving release for employees
- Lessens or removes the motivation
- Promotes caring employer
Fraud Awareness

Car dealership manager steals 1.3 million

EY employee in $2.2M fraud

‘Real’ life examples

CEO jailed for 4 million dollar fraud

Head of property steals 16.7m

Be flexible and resilient

Twenty year fraud by bank manager

Identify the “stickiness factor”
Fraud Risk Assessments

- Identify key fraud tree risks for YOUR business
- Look at behaviours as well as systems
- Workshops with SME’s and managers
- Reputational and monetary risk
- Utilise technology
- Question answers – create debate
- Think outside the square
- Promote awareness

Top 10 Corporate Fraud Risks
Top 10 Australian Division Fraud Risks
Top 10 Fraud Risks ABC Company
Top 10 Fraud Risks 123 Company
Top 10 Asian Division Fraud Risks
Top 10 European Division Fraud Risks
Top 10 Fraud Risks UK Business
Top 10 Fraud Risks Sales Division
Top 10 Subsidiary Companies Fraud Risks
Fraud Risk Assessments

• Senior manager sign off
• Completed FRA to executive
• Ensure actual frauds captured
• Look ahead to what may happen
• Fraud risks lead to specific data analysis
• Given your role, how would you steal $10,000 or more in the next month?
How to use the Keypads

1. Simply choose your response from the keypad buttons.

2. The light will go **GREEN** to confirm your response has been received.

3. You can **change your answer** by simply keying in your new choice.

(The system will only count the last vote.)
Claims staff creating false payments on existing claim and sending to own account via EFT—No controls

1. Rare
2. Unlikely
3. Possible
4. Likely
5. Almost Certain
Claims staff creating false payments on existing claim and sending to own account via EFT—Controls in place

1. Rare
2. Unlikely
3. Possible
4. Likely
5. Almost Certain
Whistleblower Hotlines

ACTiONLINE

Report dishonest or inappropriate behavior in complete confidence.

Call now on: 0800 407 627

Email: iagactionline@deloitte.com.au
Website: www.iagactionline.deoitte.com.au
At IAG NZ protecting our people, customers and our company is a top priority. An important part of this is making sure we are proactive in preventing inappropriate activity.

You can contact ActionLine if you think you may have observed:
- Fraud and corruption
- Harassment and violence
- Unsafe work-practices
- Risk and compliance breaches
- IT&T security breaches
- Other illegal acts
- Other conduct that may cause financial or non-financial loss or be otherwise detrimental to our company
- Any attempt to conceal information relating to any of the above

This is a confidential service managed by Deloitte in Australia.
Protecting our people and our company.

Will I, Won’t I?
## Benchmarking Survey 2011

<table>
<thead>
<tr>
<th>Means of Caller Awareness</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brochure</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Employee</td>
<td>15%</td>
<td>16%</td>
<td>14%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>HR</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Handbook</td>
<td>10%</td>
<td>9%</td>
<td>10%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Intranet</td>
<td>5%</td>
<td>7%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Manager</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Poster</td>
<td>37%</td>
<td>35%</td>
<td>31%</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>Sign</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Video</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Wallet Card</td>
<td>5%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
<td>13%</td>
<td>15%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Unknown</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>19%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: 2011 Corporate Governance and Compliance Hotline Benchmarking Report
Interesting Perspective on Non-reporting

• “I'm afraid I'll get fired.”
• “I don't want to feel isolated from my friends at work.”
• “Management will never listen to me anyway.”
• “The person I'd be reporting to is the person committing the fraud.”
• “I'll be branded a trouble-maker and miss that next promotion.”
• Suggested by author—especially where foreign owned entity

I don’t care!
Anonymous Reporters

Source: 2011 Corporate Governance and Compliance Hotline Benchmarking Report
Whistleblower Process

• Whistleblower Policy
  • Who does it cover
  • What does it cover
  • Pathways available
  • Anonymity offered, confidentiality assured

• Supporting investigation guidelines

• Reporting back
Communications

• Brand and reputation resistance
• Fraud awareness through education
• Work with the Comms/marketing professionals
• Create external and internal fraud brand
• Newsletters and posters
• Promote whistleblower and EAP
Plant an Alternative Fraud Tree

Fraud Risk Framework
Create Tone from Top
Realistic Policies and Codes
Communications
Fraud Data Analytics
Fraud Awareness Programme

Fraud Response Plan
Whistleblower Hotline
Employee Due Diligence
Fraud Risk Assessments
Fraud Health Checks
Benchmark and Review
Closing Remarks

$1 Trillion
The absence of evidence of fraud is not evidence of the absence of fraud.
Further Reading/References

Gower Publishing Limited

Wiley and Sons Inc

Chartered Institute of Management Accountants

Wells, J. (2005) Principals of Fraud Examination
Wiley and Sons Inc

2011 Corporate Governance and compliance Hotline Benchmarking Report
Retrieved from The Network website August 2011

AS 8001-2008 – Fraud and Corruption Control
Purchased from Standards Australia Website 2009
Standards Australia

Purchased from Standards Australia Website 2009
Standards Australia

Managing the Business Risk of Fraud: A Practical Guide.
Retrieved from the ACFE Website 2009

Millennials, Gen X and baby boomers: Who’s working at your company and What do they think about ethics?

Report to the Nation 2010 – Retrieved from ACFE Website

Matt Kelly - Frustrations rise on Whistleblower hotlines – Compliance Weekly – via email 19 Sept 2011

Whistling while they work
Retrieved from Griffiths University Websites 2011