FRAUD RISK MANAGEMENT

Fraud and Corruption

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28 March 2014
Objectives

- Developing an effective Fraud Risk Management Framework
- The Context of fraud
- Determining the health of your Framework for Effective Fraud Prevention.
FRAUD RISK MANAGEMENT

References
References

• Financial Administration and Audit Act 1977 (Qld)
• Financial Management Standard 1997 (Qld);
• Crime and Misconduct Act 2001 (Qld)
• Crime and Misconduct Commission – Fraud and Corruption Control – Guidelines for best practice
• AS/NZ ISO 31000:2009 Risk management – Principles and guidelines
• AS/NZ 4360:2004 – Australian New Zealand Standard on risk management
• AS 8001 (2008) - Australian Standards on Fraud and Corruption Control (part of the 8000 series on Corporate Governance);
References continued:

- Information Privacy Act 2009 (Qld)
- Privacy Act 1988;
- Evidence Act 1977;
- Right to Information Act 2009;
- AS/ISO15489 - Australian Standard on Record Management
- AS/NZ/ISO/IEC17799 - Information Technology – Code of Practice for information security management (2001);
- CFCG – Commonwealth Fraud Control Guidelines;
- Australian Government Investigation Standards 2011 (AGIS);
Risk Framework and Fraud Risk Framework

Risk Inter-Relationships

- Strategic Planning
- KPI’s and KRA’s
- Statement of intent
- Executive Performance

Business Risk Assessment/Planning

- Business Needs Analysis
- Business Improvement Projects
- Internal control environment
- Risk Appetite & Tolerance

Business Continuity Planning

- Business Continuity Planning
- Crisis Management
- Emergency Management
- Response, Recovery

Fraud Control Assessment and Planning

- Financial management
- Codes of Conduct
- Ethics
- Culture

Safety
- Environment
- Security and Emergency
- Project

Compliance

Monitor, Review and Change Management

Communication and Capability Development

Assurance
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Definitions
Australian Fraud and Corruption Control Standard (AS 8001)

- A dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity and whether or not deception is used at the time, immediately before or immediately following the activity.
…and ‘is normally characterised by some form of deliberate deception to facilitate or conceal the misappropriation of assets, whereas corruption involves a breach of trust in the performance of official duties.’

Fraudulent and corrupt conduct by public officials may fall within the category of ‘official misconduct’ under the Crime and Misconduct Act 2001.
Commonwealth Fraud Control Guidelines 2011, define *fraud* as

- ‘dishonestly obtaining a benefit, or causing a loss, by *deception* or other means’
Risk Standards definitions of Risk and Risk Management

• **AS/NZ ISO 31000:2009**
  - Risk is ‘the effect of uncertainty on objectives’
  - Risk Management as ‘the coordinated activities to direct and control an organisation with regard to risk.’

• **AS/NZS 4360:2004 defines Risk and Risk Management**
  - Risk is defined as; ‘the chance of something happening that will have an impact on objectives.’
  - Risk management is defined as ‘the culture, processes and structures that are directed towards realizing potential opportunities whist managing adverse effects.’
Fraud risk management could be defined as

‘an organisation’s complementary processes to enterprise risk management that identifies potential fraud risks and provides the impetus to detect and/or deter the likelihood and prevent the consequences of fraud’
Corruption defined:

Corruption involves a breach of trust in the performance of official duties.
What characterises fraud and corruption?

- Fraud – characterised by:
  - Some form of deliberate *deception* to facilitate or conceal the misappropriation of assets. (CMC)

- Corruption – characterised by:
  - A breach of trust in the performance of official duties.

- Official misconduct
  - is defined as conduct by a public official, related to the official’s duties, that is dishonest or lacks impartiality, involves a breach of trust, or is a misuse of officially obtained information. The conduct must amount to a criminal offence or be serious enough to justify dismissal.
Corruption confused:

- Crime Commissions include fraud as a type of corruption.
- NSW ICAC includes fraud (all types) in defining corrupt conduct.
- The Commonwealth Fraud Control Guidelines (CFCG) contain bribery, corruption and abuse of office as a type of fraud,
- The CMC simply states that fraud and corruption may be official misconduct.
Consolidation

• For the purposes of today and for ease of reference, Fraud is inclusive of corruption.
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Models and Frameworks
Cressey Albrecht  Fraud Triangle
Availability of Suitable Targets

INTERNAL FACTORS
- Personality
- Financial Pressure/
  Situational Pressure

EXTERNAL FACTORS
- Environment or
  Situation
- e.g. Cost
  Effective Internal
  Controls

AIC General
Crime Model

Cressey
Albrecht

Rationalisation/
Personal Integrity

Supply of Motivated Offenders

e.g. Improving
  corporate culture

Absence of Suitable
Guardians

Management
Boards
Auditors
Regulators
Core areas that a fraud risk assessment must consider include:

- information technology and information security;
- electronic commerce, electronic service delivery and the Internet;
- outsourced functions;
- grants and other payments or benefits programs;
- tendering processes, purchasing and contract management;
- services provided to the community;
- revenue collection;
- use of Government credit cards;
- travel allowance and other common allowances;
- salaries; and
- property and other physical assets including physical security.
The ideal framework will help prevent, detect and deter fraud

This can be achieved through:

• instituting a hotline;
• setting the principled “tone at the top”;
• developing a code of conduct and a confirmation process;
• creating a positive environment;
• hiring and promoting appropriate employees;
• instituting continuous training;
• having fair and balanced discipline processes and procedures;
• identifying and assessing fraud risks;
• assessing and monitoring internal controls;
• constructing a Fraud Investigation/Financial Integrity Unit;
• using case management and technology tools; and
• emphasizing cross-group collaboration.
Fraud Risk Framework
The Fraud Risk Management Cycle (FRMC)

- Fraud Risk Assessment
- Policy Development
- Staff Training
- Audit & Detection
- Investigation
- Enforcement of Policy
Questions (for you not me)

- What is the quality of your fraud policy?
- Do you have one?
- Is it easily available to staff?
- Is it an agency wide integrated policy?
Fraud Policy

• Does your fraud policy identify:
  • Statement of purpose and objectives;
  • Introduction;
  • Policy statements;
  • Applicability;
  • Definitions;
  • Procedures;
  • Reference or authority; and
  • Administrative details.
More questions

• Do you have fraud-detection systems in place?
• Is responsibility for fraud management well defined?
• How do you identify the main fraud risks, their likelihood and impact?
• How clear are the channels for reporting suspicions of fraud and misconduct?
  • External reporting
  • Internal reporting
  • Public interest disclosures
Yet more questions

• Are staff aware that they will be protected if they report fraud?
  • Whistle blower program; and
  • Code of conduct.

• How effective is your fraud awareness program?

• How effective are your recruitment screening processes?

• Have you assessed whether your culture and organizational structure increases the risk of fraud, and its concealment?
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Organisation Healthcheck
Instructions

• Each of the questions carry with it an indicative score of either 5, 10, 20 or 30 (provided to you as each question is shown)
• The maximum achievable score is 100.
• Some sections have 2 questions which are scored separately.
• This is a subjective test only so err on the side of caution.
Question 1 – *Fraud risk oversight process*

To what extent has your organisation established a process for the oversight of your organisation’s fraud management program/s?
Question 2 – *Fraud risk ownership*

To what extent has your organisation assigned responsibility or divested ‘ownership’ of fraud risks by identifying a member of senior management as having overall responsibility for managing all fraud risks within the organisation?

Has your organisation explicitly communicated to business unit managers that they are responsible for managing fraud risks within their part of the organisation?
Question 3 – *Fraud risk assessment*

To what extent has your organisation implemented an ongoing process for the regular identification of significant fraud risks to which your organisation is exposed?

To what extent is the fraud risk assessment processes linked to your organisations business risk processes?
Question 4 – *Fraud risk tolerance and risk management strategy*

To what extent has your organisation identified and had approved by the CEO or board of directors its tolerance for different types of fraud risks?

To what extent has your organisation implemented a policy on how your organisation will manage its fraud risks?
Question 5 – *Process level fraud prevention controls/re-engineering*

To what extent has your organisation implemented measures, where possible, to eliminate or reduce through process re-engineering each of your significant fraud risks identified in your fraud risk assessment process? (Basis controls include segregation of duties relating to authorisation; asset management including stock takes; leave approvals etc)

To what extent has your organisation implemented measures to prevent, detect and deter each of the significant fraud risks identified in your fraud risk assessment?
Question 6 – *Environment level – fraud prevention controls*

To what extent has your organisation implemented a process to promote ethical behaviour, deter wrongdoing and facilitate two-way communication on difficult issues relating to these processes?
Question 7 – *Proactive fraud detection*

To what extent has your organisation established a process to detect, investigate and resolve potentially significant fraud?
Wrap-up

• This process we have just completed is only an indication of where your organisation may require attention in order to bolster its overall fraud management systems.

• Most organisations should expect to fall short of a perfect score, albeit the score is a broad judgement and more extensive evaluations may be required, the information should be used to assess potential weaknesses.
Fraud Prevention Framework - Gvmt

Inputs to FC&IA
- Business units
- IAS
- IMU
- IT Security
- Protective Security
And others
- Business planning
- Risk Management
- Risk owners
- Risk co-ordinators
- Policy areas

Secretary's Office

Committees

Internal Audit

Fraud Control and Investigations Administration

Internal Investigation

External Investigation

Fraud Control Planning

Branches

Branches

Branches

FCP

FRA

Trgn

Reporting
Any Questions