Fraud Risk Management
Prevent corporate criminal behavior
All companies are potentially subject to fraud. Fraud is an \textit{intentional act} or \textit{omission} that is designed \textit{to deceive} others. It harms reputation, brand image and stakeholders’ trust. In addition, there can be significant financial losses incurred from the perpetrator’s gain or resulting from \textit{fines, penalties} and \textit{litigation costs}.

This is why it is key for companies to manage fraud risks through the implementation of an effective Fraud Risk Management Program. It mitigates fraud risks through prevention, detection and response, and provides a strong deterrence effect.

\textbf{Prevent corporate criminal behavior}

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{fraud_triangle.png}
\caption{FRAUD TRIANGLE}
\end{figure}
Global Profiles of a Fraudster

- Weak controls are a factor in 61% of frauds.
- 27% of fraudsters who exploited weak controls.
- 38% of fraudsters are working alone.
- 62% of fraudsters work in groups.
- 36-55 years of age: 69% are 36-55 years of age.
- Well respected: 38% nearly 4x more likely than someone with a low reputation.
- 44% of fraudsters have unlimited authority.
- 27% are 36-55 years of age.
- 69% have unlimited authority.
- 61% are 36-55 years of age.
- 38% nearly 4x more likely than someone with a low reputation.

Companies rely heavily on tip-offs to catch fraudsters: 43%
- Whistleblowers and other tips: 43%
- Management Review: 22%
- Accidental: 14%

Technology is not a major means of detection yet:
- 3% of fraudsters detected through proactive data analytics.
- 38% of fraudsters need to collude to circumvent controls.
- 24% Technology enabled the fraud.
- 62% of fraudsters work in groups.
- Cyber fraud is a growing threat, but many companies are not defending themselves.

KPMG Global profiles of the fraudster
 Fraud Risk Management
Prevent corporate criminal behavior

**Senior Management**
- Tone at the top
- Fraud Risk Management Framework

**Communication of commitment to deter fraud**
- Policies
- Roles and responsibilities
- Documented and updated Fraud Risk Management Framework
- Zero tolerance
- Reporting mechanisms
- Potential types of fraud

**Business Lines**
- First line of defense
- Confirm understanding of policies and potential fraud risks
- Permanent education

**Accountability of everyone**

**Prevention**
- Ethics & integrity
- Training, development & evaluation
- Fraud risk assessment
- Fraud controls (preventive)

**Detection**
- Hotlines and whistleblowing
- Fraud controls (detective)

**Response**
- Issue management and investigations
- Reporting & communication
- Remediation
**Fraud Risk Management Quick Scan**

Assess the maturity of your organization’s fraud risk management

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<th>Main objectives</th>
<th>Potential fraud risks</th>
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<td>- Maturity assessment&lt;br&gt;- Directions for improvements&lt;br&gt;- Margin of progression</td>
<td>- Weak internal controls&lt;br&gt;- Unidentified fraud schemes</td>
<td>- Interviews&lt;br&gt;- Document review&lt;br&gt;- Questionnaires&lt;br&gt;- Workshops</td>
<td>- Overview of risk areas&lt;br&gt;- Risk scoring&lt;br&gt;- Fraud risk awareness</td>
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**PREVENTION**

1. Ethics & integrity
2. Training, development & evaluation
3. Fraud risk assessment
4. Fraud controls (preventive)

**DETECTION**

5. Hotlines & whistle blowing
6. Fraud controls (detective)

**RESPONSE**

7. Issue management & investigations
8. Reporting & communication
9. Remediation

* Sufficiently developed, no significant risks and little to no improvement opportunities (> 7.5/10)
* Sufficiently developed, some improvement opportunities (5-7.5/10)
* Unsufficiently developed, significant risks identified (< 5/10)
Fraud Risk Assessment
Identify your key fraud risk areas

1. Definition of fraud risk assessment team
   - Appropriate management levels
   - All organizational components

2. Identification of potential fraud risks
   - Internal factors
   - External factors
   - Risk of management override

3. Rating of likelihood and significance of identified fraud risks

4. Assessment of related internal controls
   - Effectiveness of existing controls

5. Define action for residual risks
   - Strengthen existing controls
   - Avoid activity
   - Insurance

6. Documentation of the fraud risk assessment
   - Fraud risk register
   - Types of fraud identified

7. Iterative fraud risk assessment
   - External changes
   - Operational changes
   - Leadership changes

SOME TAKEWAYS
Main objectives
- Fraud schemes
  Identification
- Internal fraud risks
- External fraud risks

Potential fraud risks
- Financial reporting
- Asset misappropriation
- Other illegal acts & corruption

Main tools
- Interviews
- Document review/testing
- Data analytics
- Data visualization

Potential benefits
- Anticipation
- Proactive detection of collusion schemes
- Transparency in risks
Fraud Data Analytics

Highlight hidden patterns in your data

1. Analytics Design
   - Financial Misstatement
     - Performance measures
     - Timing of revenues
     - Timing of expenses
     - ...
   - Misappropriation of Assets
     - Unauthorized access to sensitive data
     - Data leakages to third parties
     - False or inflated invoices
     - Ghost employees
     - Fictitious vendors
     - ...
   - Bribery and Corruption
     - Employee/vendor conflicts of interest
     - Travel & Expenses
     - Unusual payments to third parties
     - Payments to unauthorized vendors
     - ...

2. Data Collection
   - Structured and unstructured data
   - Internal and external sources
   - Data accuracy
   - Dataset completeness and quality
   - Duplicates
   - Fictitious transactions
   - Gap analysis
   - One time vendor
   - Amounts below approval
   - Unusual dates and time
   - Manual journal posting/adjustments
   - Period comparisons
   - ...

3. Data Analysis
   - Data visualization
   - Trends
   - Patterns
   - Observations and remediation
   - ...

4. Findings

SOME TAKEWAYS

Main objectives
- Proactive detection
- Iterative approach

Potential fraud risks
- Financial misstatement
- Misappropriation of assets
- Bribery and corruption

Main tools
- Data analytics
- Data visualization

Potential benefits
- Cost-effective detection
- Start for a remediation and investigation plan
Contact us

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