

# Fraud Risk Management

**Prevent corporate criminal behavior** 



## Fraud Risk Management

#### **Prevent corporate criminal behavior**

All companies are potentially subject to fraud. Fraud is an **intentional act** or **omission** that is designed **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 **fines**, **penalties** and **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.



### Global Profiles of a Fraudster

Weak controls are a factor in

of frauds

Fraudsters who exploited weak controls:

27%

38%

of fraudsters are working alone

Fraudsters need to collude to circumvent controls

62%

of fraudsters work in groups.

Well respected

(38%)

nearly 4x more likely than someone with a low reputation.

69%

are 36-55 years of age 44%

of fraudsters have unlimited authority

Technology is not a major means of detection yet.

○○/ of fraudsters detected through○/○ proactive data analytics

Technology enabled the fraud

Cyber fraud is a growing threat, but many companies are not defending themselves.

Companies rely heavily on tip-offs to catch fraudsters. Whistleblowers and other tips Other forms of detection Management 22% Review Accidental

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

**PREVENTION DETECTION RESPONSE** 1. Ethics & integrity 5. Hotlines & whistle blowing 7. Issue management & investigations 6. Fraud controls (detective) 2. Training, development & evaluation 8. Reporting & communication 3. Fraud risk assessment 9. Remediation 4. Fraud controls (preventive) Sufficiently developed, no significant risks and Sufficiently developed, some improvement Unsufficiently developed, significant risks identified little to no improvement opportunities (> 7,5/10) (< 5/10)opportunities (5-7,5/10) Main tools

#### **SOME TAKEWAYS**

#### **Main objectives**

- Maturity assessment
- Directions for improvements
- Margin of progression

#### Potential fraud risks

- Weak internal controls
- Unidentified fraud schemes

- Interviews
- Document review
- Questionnaires
- Workshops

#### **Potential benefits**

- Overview of risk areas
- Risk scoring
- Fraud risk awareness

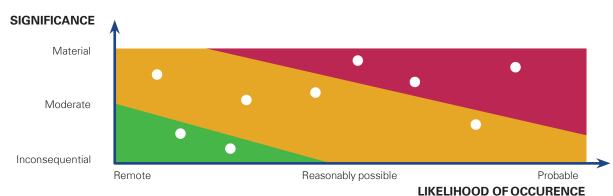
### Fraud Risk Assessment

Identify your key fraud risk area's



- 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
- Strenghten 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

### **Bribery** and

#### 2. Data Collection 3. Data analysis

#### 4. Findings

#### **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

- ...

### Corruption

- Employee/vendor conflicts of interest
- Travel & Expenses
- Unusual payments to third parties
- Payments to unauthorized vendors

- 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

- Data visualization
- Trends
- Patterns
- Observations and remediation

#### **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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