

NACM-Canada's 14th Annual Credit Conference & Expo

How to Protect Yourself from Business Fraud

October 26, 2012

Agenda

1. Introduction & Objectives
2. What is Fraud
3. Impact of Fraud
4. PwC 2011 Global Economic Crime Survey
5. Occurrence of Fraud
6. Fraud Prevention & Detection
 - a. Theft of Cash / Other Assets
 - b. Employee Expense Fraud
 - c. Procurement Fraud
 - d. Corruption of Foreign Public Officials Act (“CFPOA”) Overview
 - e. Common Compliance Sensitive Areas for Bribery and Corruption
 - f. The Anti-Fraud Regime Framework
7. Conclusion

Objectives of this Session

- ✓ Improve **awareness** of fraud.
- ✓ Improve ability to **detect** fraud.
- ✓ Reduce risk of **occurrence** of fraud.
- ✓ Improve ability to **deal** with fraud.

****Overall Goal: To increase awareness, detection and prevention of fraud.***

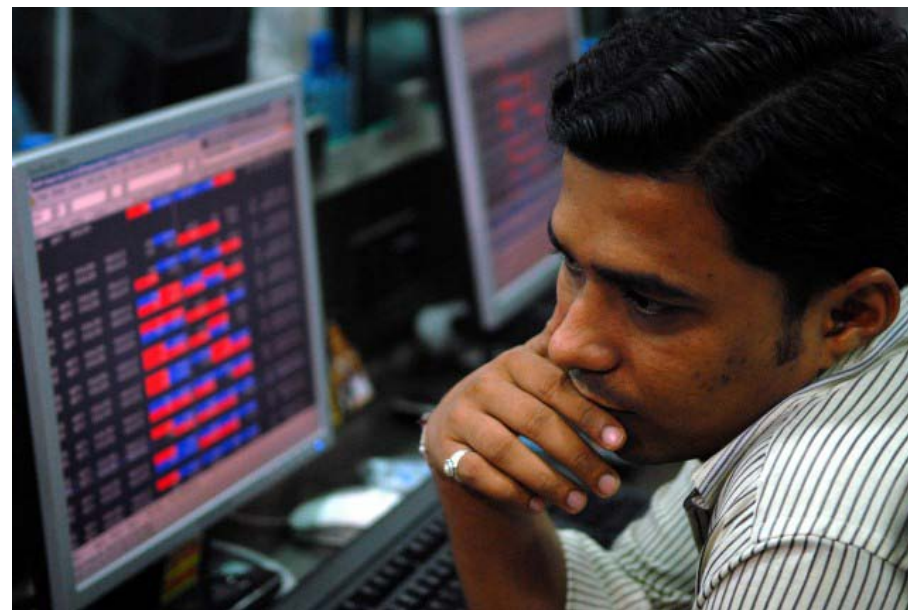
General Definition

- Generally, fraud represents **non-violent financial crime** perpetrated against **business, government** or **individuals**.
- Involves personal gain at the expense of the organization.
- The primary factor that distinguishes fraud from error is whether the underlying action is **intentional** or **unintentional**.

Cost of Economic Fraud

Fallout from fraud is not simply the direct costs. Can also impact:

- Staff morale/motivation.
- Reputation/brand image.
- Business relationships with customers, suppliers, stakeholders, etc.
- Negative impact on resources.
- Reallocation of staff time.
- Negative impact on salary increases and bonuses.



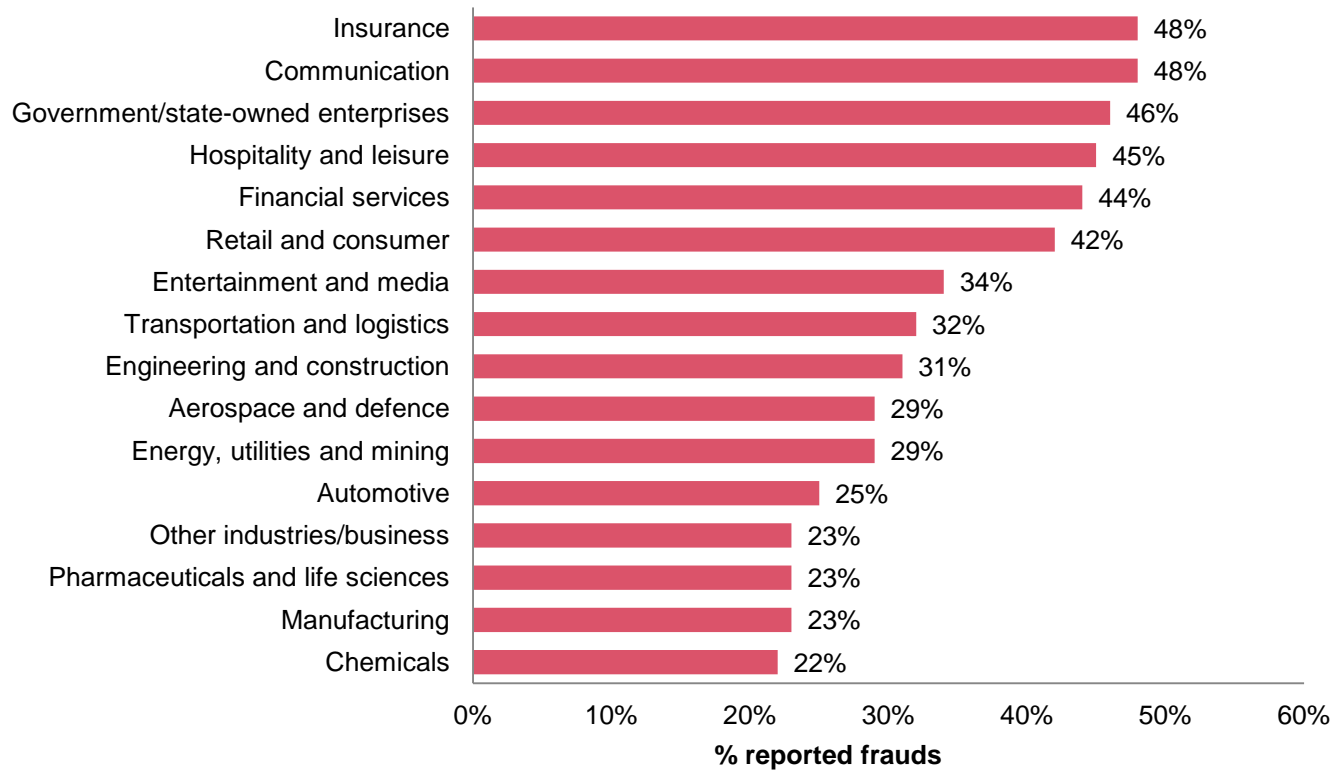
Fraud – A Significant and Growing Threat



- Survey of nearly **4,000 organizations** in **78 countries**.
- **Globally 34%** of respondents were victims of economic crime in the previous 12 months – an increase from 30% reported in 2009.
- **32% of Canadian** organizations surveyed reported being victims of economic crime in the previous 12 months.

No Industry is Immune

But some report more fraud than others...



Types and Detection of Economic Fraud

Types of Economic Fraud Globally

- Asset misappropriation (72%)
- Accounting fraud (24%)
- Bribery and corruption (24%)
- Cybercrime (23%)

Detection of Economic Fraud Globally

- Chance or internal/external tip off (41%)
- Suspicious transaction reporting (18%)
- Internal audit (14%)
- Preventative fraud risk management activities (10%)

The Typical Fraudster Profile

- 40% of organizations that were victims of economic crime in the previous 12 months said **external** fraudsters perpetrated the fraud:
 - Customers, agents/intermediaries
- 56% of companies surveyed reported that the perpetrators of fraud were from their own **employees**, mainly junior and middle management.
 - However, senior management fraud was more sophisticated and in larger in dollar amounts
- The typical profile of a perpetrator:
 - Male (77%)
 - Age 31-40 (43%)
 - First degree graduate (37%)
 - With the company between three and five years (30%)



General Types of White Collar Crime / Fraud

- **Misappropriation of assets**
 - Theft of cash (skimming / lapping)
 - Theft of inventory
 - Theft of intellectual property
 - Vendor fraud
 - Payroll fraud
- **Fraudulent financial reporting**
 - Usually perpetrated by top management
 - Intent is to make company's financial performance/position look better than it really is
- **Corruption**
 - Bribes and kickbacks
 - Conflicts of interest

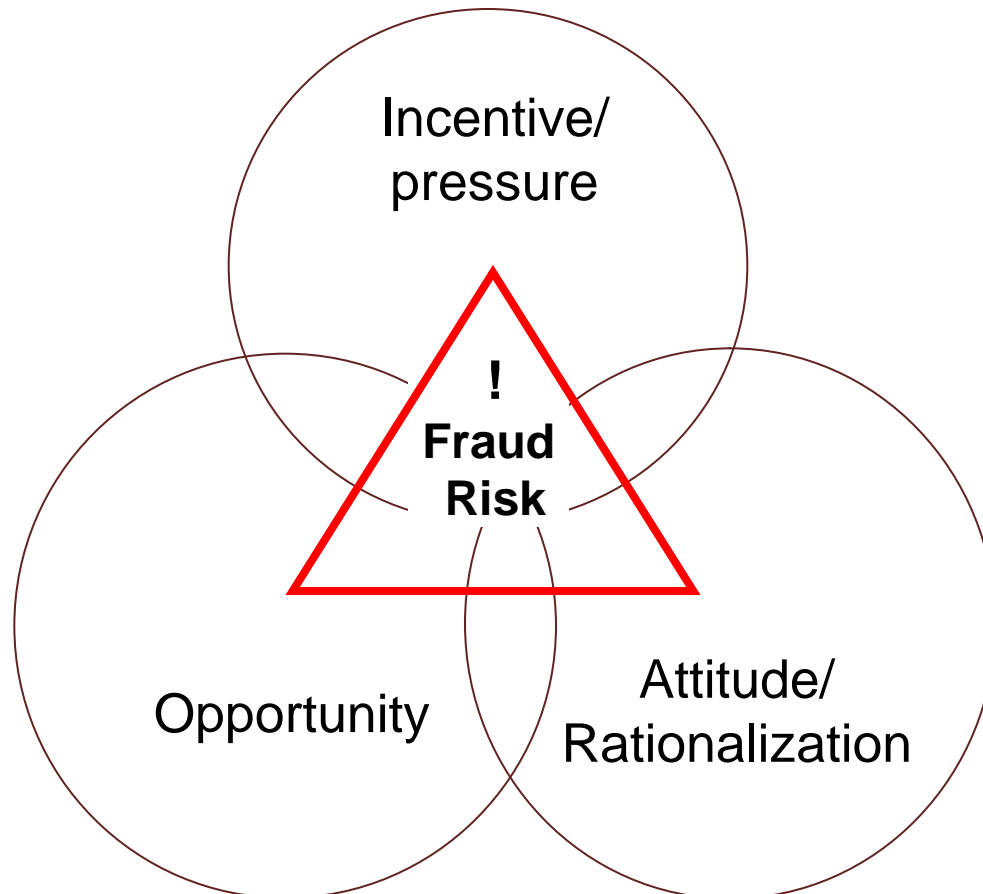


Rule of Thumb



The Perfect Storm

Three conditions commonly found when a fraud occurs:



Typical Environment in Which Fraud Occurs

- Poor tone from the top.
- Trust is placed in employees.
- Employees have detailed knowledge of the accounting systems and its weaknesses.
- Management domination subverts normal internal controls.
- Expected moral behaviour is not communicated to employees.
- Unduly liberal accounting practices.
- Ineffective or nonexistent internal auditing staff.
- Lack of or ineffective internal controls combined with liquid assets.
- Poor accounting records.
- Incomplete and out of date procedural documentation.

Theft of Cash / Other Assets

- Asset misappropriation is the most common type of fraud reported by companies.
- Probably since it is the most attainable.
- This could include theft of cash or any other company assets.
- Theft of inventory (e.g., supplies).
- Theft of confidential information (e.g., employee).
- Theft of cheque stock or cheque tampering to obtain money.



Employee Expense Fraud

- There is a significant amount of abuse in this area.
- Some red flags:
 - falsified receipts and invoices.
 - expenses without supporting receipts.
 - re-use of receipts.
 - lack of approval or inappropriate level of approval on expenses being claimed.

Procurement Fraud

- Be alert for purchases that violate procurement policies.
- Remember these questions and considerations:
 - Were proper procurement processes followed?
 - Competitive tendering when appropriate.
 - Were proper approvals obtained?
 - Do invoices have appropriate signatures before being paid?
 - Remember value-for-money / quality of goods and services.
 - Disclosure of conflicts of interest.
 - Be alert for fictitious vendors and/or invoices.

Corruption of Foreign Public Officials Act ("CFPOA") Overview

- Corruption of Foreign Public Officials Act enacted in 1999.
- Increased enforcement in recent years.
- Prohibits the promise, payment or giving of money (or anything of value) to a foreign public official for improper advantage in obtaining or retaining business.
- Applies to Canadian and foreign nationals and corporations.
- Must be a real and established link to Canada.
- Includes employees, contractors, agents, sub-contractors and other parties representing or seen to be representing your organization.

Common Compliance Sensitive Areas for Bribery and Corruption

- All points of contact with public or government officials.
- Payments, gifts, gratuities.
- Contractors and their sub-contractors, agents.
- Inadequate or no record-keeping relating to payments, benefits, gratuities.
- Inadequate policies and processes to define payments, gifts, gratuities, facilitation payments.
- Inadequate or no processes for approval (pre and post) for payments, benefits, gifts, gratuities.
- Inadequate or no reporting and monitoring by appropriate levels of management and the Board.

The Anti-Fraud Regime Framework

Eight Components of an Anti-Fraud Regime

- **Governance – Oversight by the Audit Committee and the Board**
- **Fraud Risk Assessment**
- **Code of Business Conduct and Ethics**
- **Incident Reporting Mechanisms – internal and external**
- **Investigative Protocol**
- **Remediation Protocol**
- **Hiring and Promotion Policies and Procedures**
- **Management Evaluation and Testing**

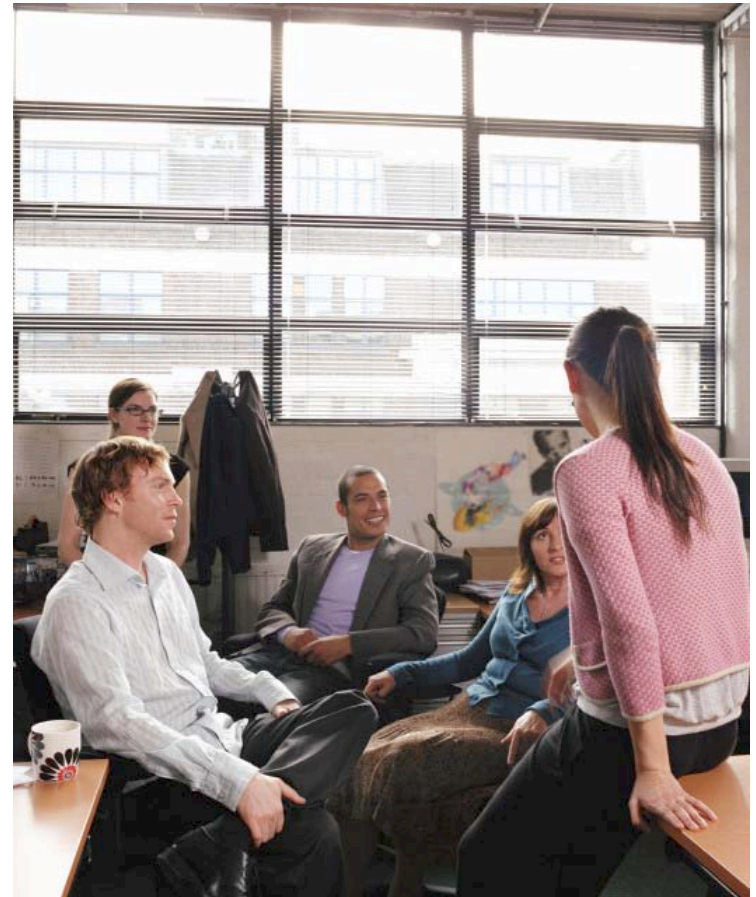
Key Points to Remember



- Fraud is prevalent in Canada.
- Increasing requirements and public pressure on all organizations.
- Deterrence, detection and prevention of fraud is an ongoing process.
- The key to success is transparency and consultation.

Key Points to Remember (continued)

- Impact of economic crime on **reputation** and **staff morale** can be more important than the direct financial loss.
- It is not a matter of **IF** an organization will be the victim of an act of fraud, but **WHEN**.
- **Be alert for red flags and communicate your concerns.**



Thank you

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