



INTERNATIONAL FRAUD AWARENESS WEEK

Advisory

Business Risk Services (BRS) Department

NOVEMBER 17TH to 23rd 2024

The multifaceted threat of fraud



Introduction

In today's modern world, businesses face various challenges from financial risks, regulatory risks and climate risks. While these risks can set them on an economic downturn in the event they materialize, there still looms the threat of fraud. Fraud is a word that is dreaded by business owners everywhere. In the event it occurs, it is often discussed in hushed tones as most businesses are unwilling to openly admit to the public that they have been victims of fraud.

From phishing schemes to financial fraud, the threat of deceit can have devastating consequences for businesses of all sizes. As businesses navigate the digital landscape, the risk of fraud looms more than ever before.

In this fraud awareness week, we delve into the world of deception and dishonesty, shedding light on the tactics used by fraudsters, and equipping businesses with the tools they need to safeguard their enterprises.

The multifaceted threat of fraud

In the course of our work advising clients on responding to fraud incidents, we have noted the following as some of the most common fraud schemes businesses encounter, or are concerned with:

1. **Billing Fraud** : This involves employees or external parties submitting false or inflated invoices for payment for personal gain.
2. **Asset misappropriation** : This involves all forms of theft involving company assets such as inventory or cash for personal gain.
3. **Procurement Fraud** : This involves schemes of collusion among contractors and employees, defective pricing schemes in negotiated contracts and post award schemes. Examples of such schemes include; suppliers submitting false invoices, change order fraud and unjustified sole source awards.
4. **Expense Reimbursement Fraud** : This involves employees submitting false or inflated expense claims not related to business activities.
5. **Data Breaches** : A data breach occurs when cybercriminals gain unauthorized access to sensitive company data compromising customer information, financial records, intellectual property etc.



How organizations can protect themselves to safeguard against fraud;

Employee Training and Awareness

Organizations should have a policy for creating awareness to managers, executives and employees about fraud. This can be accomplished through email communication, short educational videos, posters and formal training programs (online and physical). These training and awareness programs should be delivered in a positive and non-accusatory manner. Fraud trainings should be conducted regularly to help build a culture of awareness and vigilance within the organization.

Implementation of effective reporting channels

An anonymous reporting channel such as ethics hotline is an integral part of an anti-fraud control system. Employees must be made aware of the existence of reporting mechanisms, taught how to use them and be able to trust that they can report suspicious activity anonymously. Just like increasing the perception of detection, an effective reporting line can play a huge role in the deterrence of fraud.

Employees and other third parties e.g. customers should be made aware of the reporting channels. This awareness specifically emphasize that:

- Fraud, waste and abuse occurs in nearly all companies
- Such conduct causes revenue loss to the business, leading to job cuts and in extreme cases, business closure
- The top management actively encourages any employee with information relating to a misconduct to disclose it
- The employee can provide information anonymously and without fear of retaliation for good faith reporting
- The presence of various methods for reporting an incident e.g. a telephone number or online channels
- The report need not be made to one's immediate supervisors
- The matters reported are acted upon and disciplinary measures imposed where misconduct is confirmed

Implementation of an effective organizational structure

A well-designed organizational structure with key areas of authority and clear and proper lines of reporting can be an effective fraud prevention measure. The lack of clearly defined roles, overlapping roles or excess mandates issued to an individual can make it easier for a fraudster to conceal their misdeeds. Establishing and communicating the proper flow of information to everyone in the organization is an essential component of a well-designed organizational structure.

Implementation of effective detection and prevention mechanisms

Internal controls are the mechanisms, policies and procedures put in place by organizations to safeguard their assets and resources. These controls serve as a crucial line of defense against fraudulent activities within a business. Key aspects of internal controls include segregation of duties, which involves dividing responsibilities among different individuals to prevent any single person from having complete control over a process. Other measures include proactive audits, management oversight and employee background checks. Overall, internal controls play by creating a system of checks and balances within an organization.

Increasing the perception of detection

Increasing the perception of detection is one of the most effective ways to prevent fraud. “Perception of detection” is the employee’s belief that if they commit fraud it will be quickly discovered. A business that actively enforces organizational policies against fraud amongst its employees and customers is at better position to deter fraud than an organization that does not. Increasing the perception of detection can be done in several ways including implementing and enforcing segregation of duties in around job roles, strong management oversight, employee anti-fraud education and effective reporting channels. Technology can also aid in increasing the perception of detection; this can be done through the implementation of strong access controls around job roles and implementing robust monitoring systems that flag potential fraudulent activities.

Conclusion

In the ever evolving landscape of fraud schemes, knowledge of prevention is power. By understanding the common fraud schemes and staying vigilant against deceptive tactics, business owners can fortify their defences and protect their enterprises from the devastating impact of fraud.

In this awareness week, let us remember that awareness is not just a onetime effort but a continuous commitment to staying informed and proactive in the fight against fraud.

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