

# Corporate Fraud and Using IT to Stop It, Detect It, and Mitigate It

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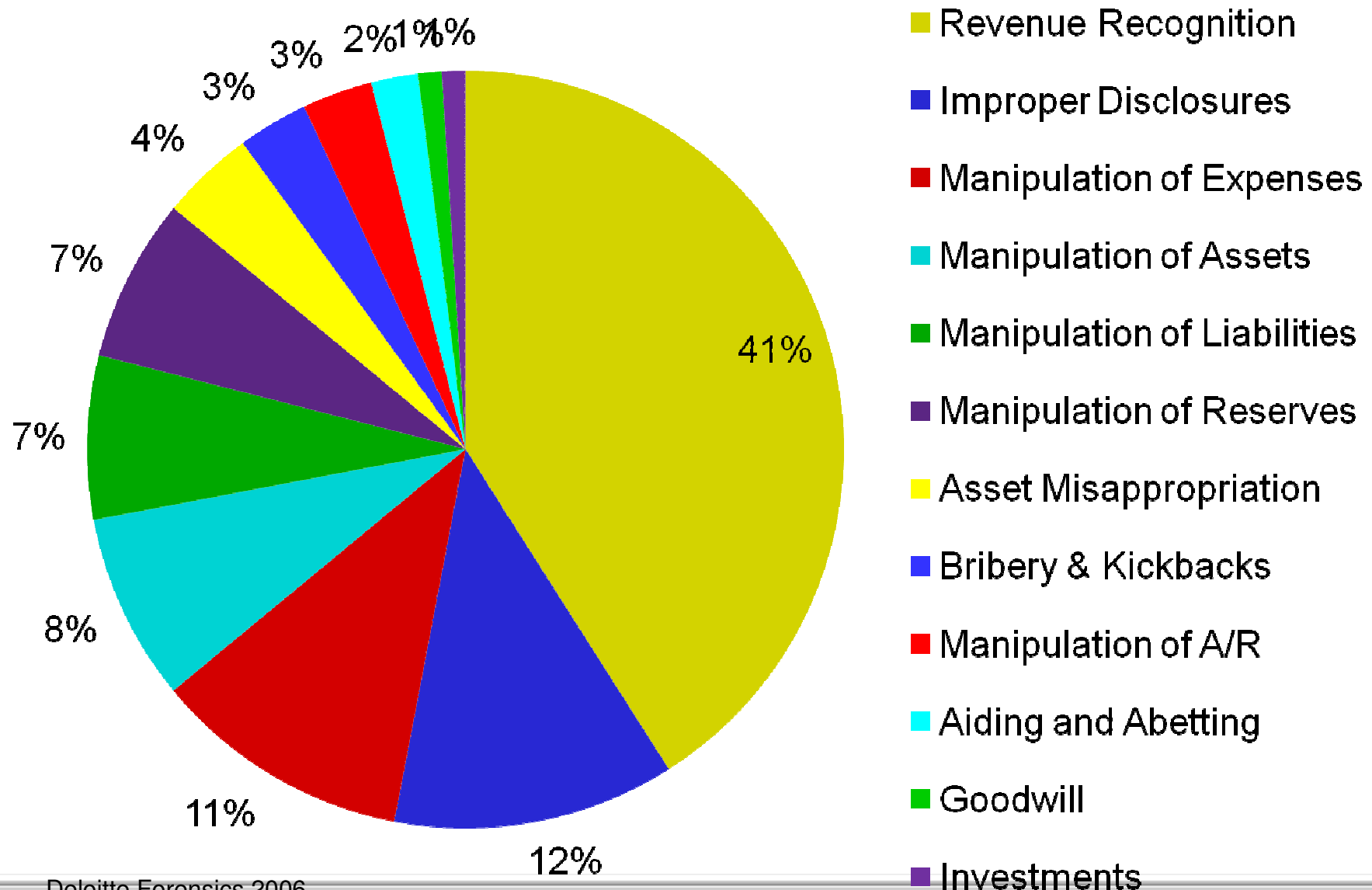
- Definitions
  - The Facts
  - What to do?
    - Managing the Business Risk of Fraud: A Practical Guide
    - How can we leverage IT in process
  - Closing
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- **Fraudulent financial reporting**
  - **Misappropriation of assets**
  - **Revenue or assets gained by fraudulent or illegal acts**
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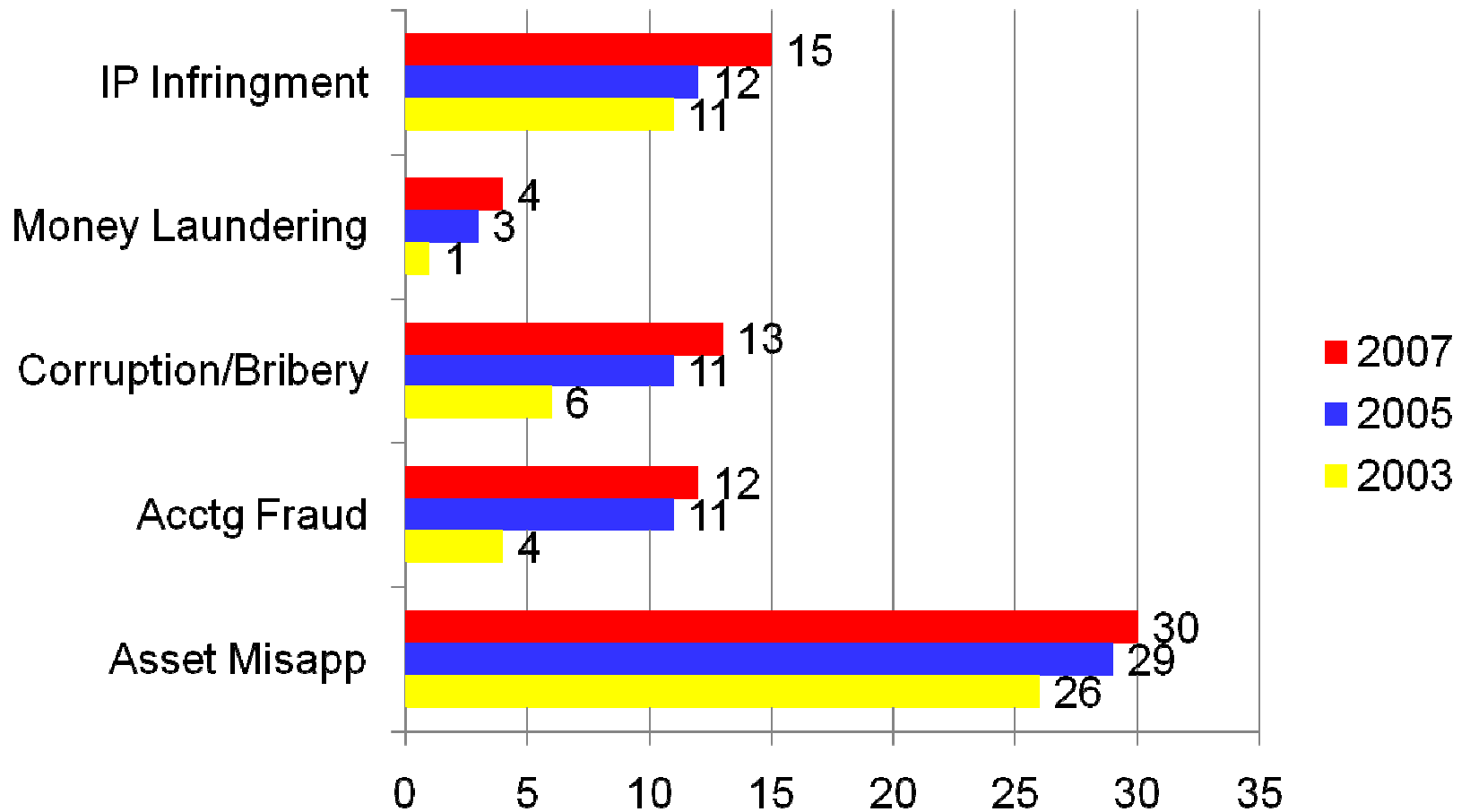
- **Avoiding expenses or liabilities by fraudulent or illegal means**
  - **Incurring expenses or liabilities by fraudulent or illegal acts**
  - **Other illegal acts**
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- **United States: Sarbanes Oxley, US Patriot Act, Foreign Corrupt Practices Act, NYSE & NSADAQ listing rules**
  - **Australia: Corporate Law Economic Reform Program Act 2004**
  - **Canada: Canadian Criminal Code**
  - **European Union: Financial Services Action Plan**
  - **United Kingdom: The companies Act of 2004**
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## The Facts – Fraud Frequency, By Type



## The Facts - Companies Reporting Fraud



- **Average loss from fraud over two years, per company in 2005: \$1,732,253**
- **Average loss from fraud over two years, per company in 2007: \$2,420,700**
- **Management costs over two year period: \$550,356**
- **80% who had suffered fraud stated it had caused “damage or significant damage” to the business**

## The Facts – Who Perpetrates the Fraud?

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- **25% are “figureheads”**
  - **25% have been with company an average of 7.5 years**
  - **85% are male**
  - **50% are between the ages of 31 and 50**
  - **50% have college degrees**
  
  - **49% of US employees said they would be rewarded based on results, not the means used to achieve them – KPMG Forensic Survey 2005-2006**
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- **Fraud risk governance**
- **Fraud risk assessment**
- **Fraud prevention**
- **Fraud detection**
- **Investigation and response**

- **Organization should have a written fraud risk policy detailing the expectations of the Board and Executive Management in regards to managing fraud risk.**
  - **“40% of respondents are without a formal or documented anti-fraud policy, which is unchanged from last survey (2 years prior)”**  
– Ernst & Young, 2006
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- **Define fraud**
  - **Define roles and responsibilities**
  - **Clearly state commitment to prevent, detect, and deter**
  - **Clearly spell out consequences**
  - **Provide training to all employees**
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# Who is a law abiding citizen?

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## Who is a law abiding citizen?

- Taking office supplies or services
- Evading taxes
- Gambling illegally
- Committing computer crimes
- Serving alcohol to minors
- Drinking in public
- Possessing marijuana
- Possessing cocaine
- Committing adultery
- Patronizing a prostitute
- Appearing nude in public (skinnydipping)
- Shoplifting
- Driving while intoxicated
- Speeding
- Parking illegally
- Fishing or hunting illegally
- Smoking in public
- Failing to recycle
- Lying to customs agent
- Importing prohibited products
- Lying on an application
- Disregarding a jury summons
- Buying stolen goods
- Unauthorized sale of tickets

\* Taken from the Wall Street Journal

- **KPMG Forensic Integrity Survey, 2005-2006**
    - **55% of US employees reported they lacked the understanding of the standards of conduct that apply to their jobs**
    - **52% of US employees reported their codes of conduct were not taken seriously.**
  
  - **Ernst & Young Survey, 2006**
    - **72% of all companies surveyed do not provide their employees with training to understand & implement the organization's anti-fraud policy**
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- **Identify inherent fraud risk**
  - **Assess the likelihood and significance of inherent fraud risk**
  - **Developing a response to reasonably likely and significant inherent and residual fraud risk**
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- **Identify inherent fraud risk**
    - **Where could things go wrong**
    - **Industry, geo-political risks**
    - **Company risks**
      - **Incentive plans**
      - **Growth rate**
      - **Consolidation**
    - **Risk of management override**
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- **Assess the likelihood and significance of inherent fraud risk**
    - **Likelihood – remote, possible, probably**
    - **Significance – not just dollars; reputation, management time**
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- **Set up an early warning system**
    - **Key Performance Indices – monitor on periodic basis: trends & anomalies**
      - **Branch banks, retail stores**
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- **Control activities**
- **Monitoring activities**
- **Adequate hiring and training policies and procedures**
- **Background checks for types of behavior**
- **Exit interviews**
- **Evaluating performance and compensation programs**

- **Leverage Application/OS Controls**
  - **Menu options, SOD**
  - **Read, write authorities**
  - **Set up parameters**
  - **Dollar limits**
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- **Process controls**
- **Anonymous reporting**
- **Internal audit**
- **Benchmark**
- **Measurements**

- **PricewaterhouseCoopers, 2007**
    - **41% of frauds were detected by chance, an increase of seven percentage points in the past two years**
    - **33% of frauds were reported by tip offs or whistleblowers**
  
  - **Deloitte Survey, 2007**
    - **35% of effective companies, compared to 12% of less effective companies said they used technology “substantially” in detecting fraud**
    - **34% of effective companies, compared to 24% of less effective companies said increased use of technology in fraud detection was extremely or very likely**
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- **Changes in behavior**
    - **Credit card artificial intelligence**
  - **Numbers outside of a range**
  - **Manual overrides**
  - **Behavior with one different than with others**
  - **Odd numbers – under limits, no cents, etc.**
  - **After hours, lunch break activity**
  - **Activity by person**
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- **Who handles what aspects**
    - **IT provides immense help in analyzing data**
  - **Response if internal**
  - **How public will it be?**
  - **Civil or criminal action?**
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- **Treat the prevention and detection of fraud like other business initiatives**
  - **Who champions**
  - **Who plays what role**
  - **Does the organization know the rules**
  - **Is there follow up?**
  - **How do we leverage systems and technology?**

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