



Frank, Rimerman + Co. LLP
 certified public accountants

International Fraud, Ethics and Culture Seen Through the Lens of a Fraud Examiner

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Presentation Overview

- Introduction
- Understanding your fraud profile
- Establishing your Ethical Baseline
- Conducting a Fraud Risk Assessment
- Linking the FRA to your strategy
- Wrap-up / Q&A






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Introduction

Learning objectives for this session include:

- Identify the red flags of a ruinous corporate culture
- Establish your ethical baseline
- Assess weaknesses in an internal control framework
- Perform a fraud risk assessment using internal and external information
- Present your results during and after the fraud risk assessment



Lesson 1: Honesty is the best policy!



About Me



- 20+ years in fraud / internal audit
- Worked on dozens of various fraud investigations throughout Europe and the United States



About Me



- My introduction to fraud began as a Marketing Manager for Central Eastern Europe for an American HVRAC manufacturer
- Bribes were the status quo (Romania, Uzbekistan, Ukraine, everywhere!)
- Managing Director of the Russian subsidiary set up own dealer network and defaulted on millions of dollars of payments
- After he was dismissed he was rehired as a consultant due to his excellent relationship with top decision makers
- Approximately five years after I left the company, the entire office was closed when reviewed by the new owners – Johnson Controls



Fraud & Bribery Bootcamp 101





PART I: How To Recognize Ruinous Culture



Microsoft Compliance Consulting

Why are you here ?

Why should we care about understanding ethical behavior?



Monroville Compliance Consulting



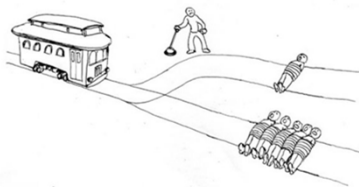
Big Frauds:

- Wells Fargo
- Volkswagen
- Toshiba
- Theranos
- ABB Korea
- Pharma Bro
- Uber
- BT Italy
- Fyre Festival

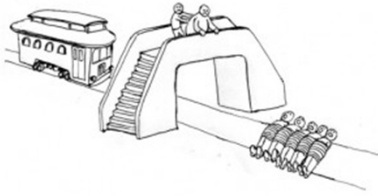


Monroville Compliance Consulting

The Trolley Car Dilemma



The Trolley Car Dilemma



The Top of the Slope



Finding your Ethical Baseline

How can we measure your organizations ethical pulse?

How do you know if your sliding in the next reputational disaster ?

What tools and techniques can help us get a snapshot that others can understand?



Finding your Ethical Baseline

What kind of question would you ask ?



PART I: Activity

- Divide into your groups and spend 5 minutes putting together your team's list of 5-10 questions that you would like to ask your organization with regard to Ethical Baseline
- Additionally, spend an additional 5 minutes and list 4-5 examples that your group has identified as being examples of how a weak ethical culture has led to potentially unethical behaviors. These can be both real life and hypothetical examples.



Finding your Ethical Baseline

What kind of question would you ask ?

- Use a tool like Survey Monkey
- Use a five point scale ((5)strongly agree to (1) strongly disagree)



Finding your Ethical Baseline (Examples)

- Our organizational culture is trust based.
- Missing approvals are not a big deal here.
- Strong personalities dominate most departments
- Pressure to perform outweighs ethical behavior
- I share my passwords with my co-workers
- Retaliation will not be accepted here
- The saying - "Don't rock the boat!" fits to this organization



Finding your Ethical Baseline

- I am encouraged to speak out whenever needed!
- It's the result that matters, not how I got there.
- As long as the customer is happy, I will be ok.
- I'm new here. I will just do as I am told.
- I don't feel comfortable questioning my boss's decisions.
- Popularity is the key to success at "my organization".
- Ethical behavior is a top priority of management
- I know where I can go if I need to report a potential issue.
- My job duties and responsibilities are clearly defined.



Finding your Ethical Baseline

Interpreting the results –

What do we do with the results?

How does this influence the way we conduct the FRA?

With whom should we share the results of the Ethical Baseline?

How does my organization benchmark to others?

What about candy and batteries?



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Finding your Ethical Baseline

Bending the rules is acceptable behavior as

answered: 38 skipped: 0

ANSWER CHOICES	RESPONSES
Strongly Agree	2.63%
Agree	15.79%
Neutral	22.63%
Disagree	47.37%
Strongly Disagree	11.84%
TOTAL	38

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Finding your Ethical Baseline

My big fat Greek Investigation -

- A true story of how an organization was built upon an unethical business model, and how it infected all parts of the organization.

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Finding your Ethical Baseline

Finding your Ethical Baseline



Finding your Ethical Baseline



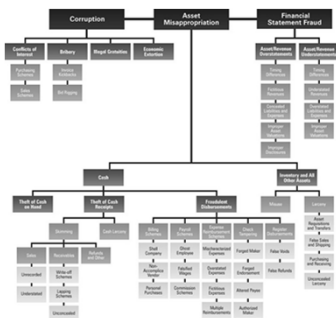
Finding your Ethical Baseline



Fraud Risk Assessment



ACFE Fraud Tree



Fraud Risk Assessment (FRA)

Introduction to FRA

- Specifically focused on fraud risk
- Best conducted in small brain-storming sessions to facilitate the discovery of previously “unknown” fraud risks
- Facilitated by a fraud professional with the inclusion of operational management
- Develop potential fraud schemes
- Evaluate the effectiveness of internal controls



Fraud Risk Assessment (FRA)

FRA analysis will look at:

- Internal controls
- Internal control environment
- Resources available to prevent, detect and deter fraud



Fraud Risk Assessment (FRA)

Tools used during the FRA:

- **ACFE Fraud Risk Assessment Tool**
- Structured approach to evaluate key fraud schemes
- Tie back to risk appetite and risk tolerance specifically for:
 - ✓ Financial Statement Fraud
 - ✓ Asset Misappropriation
 - ✓ Corruption



Fraud Risk Assessment (FRA)

Drill down to detailed fraud schemes - Example

Purchasing and Billing Schemes	Shell company schemes occur when an employee submits invoices for payment from a fictitious company controlled by the employee.
	Pay-and-return schemes occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company.
	Personal purchase schemes occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases.



Fraud Risk Assessment (FRA)

Important differences between FRA and ERM Risk Assessment

- FRA places emphasis on collusion and/or management overrides
- Consider the robustness of a control to adverse situations
- Consider the entity level controls , reporting structures, culture



Fraud Risk Assessment (FRA)

Best Practices in conducting an FRA

- Be creative
- Put on your “Fraud Goggles”!
- Have a good cross functional mix of persons included in the brainstorming
- Consider the advantages of using anonymous balloting technology



Fraud Risk Assessment (FRA)

Best Practices in conducting an FRA

- Fraud entails intentional misconduct designed to avoid detection
- Risk assessments identify where fraud might occur and who the potential perpetrators might be
- Consideration should be given to persons inside and outside of the organization who could be the perpetrators of such schemes



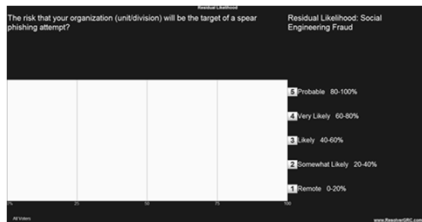
Fraud Risk Assessment (FRA)

Ask the right questions

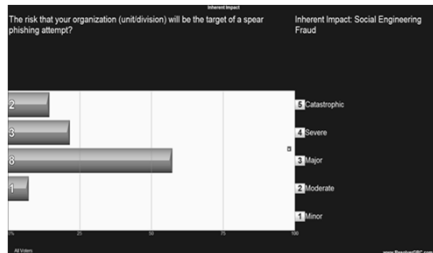
- How might a fraud perpetrator exploit weaknesses in the system of controls?
- How could a perpetrator override or circumvent controls?
- What are the possibilities that can be used to hide the fraud from detection?



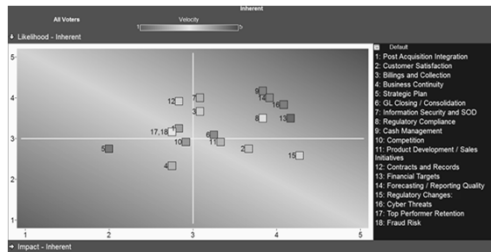
Fraud Risk Assessment (FRA)



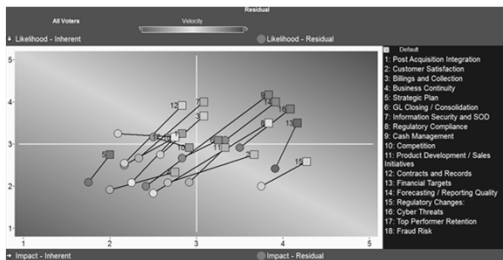
Fraud Risk Assessment (FRA)



Fraud Risk Assessment (FRA)



Fraud Risk Assessment (FRA)



Fraud Risk Assessment (FRA)

The Story of Mr. Oh!



Fraud Risk Assessment (FRA)

The Story of Mr. Oh!

To keep his crimes hidden from both management and EY (the company's auditors) for almost two years, Oh had to be extensively doctoring the accounting books to conceal his fraud.

According to a March 31 article in The Asset, ABB claimed in a prepared statement that Oh, because of his position in the firm, might have had "Omnipotent Super User" rights within ABB's enterprise resource planning (ERP) system:



Fraud Risk Assessment (FRA)

The Story of Mr. Oh!

" 'Inappropriate access levels to the local ERP (enterprise resource planning) system' and a lack of 'adequate segregation of duties' allowed the treasurer to embezzle millions. " (See ABB fraud scandal highlights industry-wide vulnerabilities, by Sven Leichhardt, The Asset, March 31.)

This would allow Oh not only to have unlimited access to make journal entries but also the ability to completely erase or reverse transactions. He could've also granted and restricted his personal access rights during audits to avoid raising red flags.



Linking the FRA and the ERM Program



Linking FRA and ERM

Linking your FRA and ERM to one another has multiple advantages:

1. Raises the level of fraud risk awareness at the Board level and across the organization
2. Gives the Board and Management a better insight into how their strategic decisions can change the fraud risk profile of the organization
3. Ties strategic drivers directly to fraud risks, which allows a pro-active review of risk mitigating controls



Linking FRA and ERM

Step 1:

- Review and assess the strategic objectives of the organization
- Define the strategic drivers behind each objective
- Gain an understanding of the risks associated with each strategic objective and the associated drivers



Linking FRA and ERM

Step 2:

- Next we need to map each of the identified strategic drivers down to our FRA risk
- Use a **strategy fraud matrix (SFM)** to incorporate the various key elements
- Consider the Fraud Triangle, potential fraud schemes and any other contributing factors



Linking FRA and ERM

Strategy Fraud Matrix (SFM)

Strategy	Strategic Driver	Fraud Triangle	Risk	Potential Scheme	Contributing Factor
Growth	International Expansion	Pressure	Corruption –FCPA Violations	Bribery / Kick-backs	Bonus pay based on successful expansion
		Opportunity	Asset Misappropriation	Fraudulent disbursements	Lack of oversight leads to opportunities
Increase profitability	Reduction in overhead costs	Pressure	Financial Statement Fraud	Timing differences	Systems not fully integrated
		Opportunity	Asset Misappropriation	Inventory fraud	Segregation of duties issues



Linking FRA and ERM

Information Flows

- Ensure that protocols exist for information to flow in both directions
- Tailor outputs to meet stakeholder expectations and facilitate the cooperation
- Gain an understanding of the various touch-points between the ERM Risk Assessment and the FRA.
- Use the five phase ERM framework as a guide
- Rank the touch-points based on importance



Linking FRA and ERM

Touch-point Matrix – 1. Establish context

ERM Step	ERM Task	FRA Touch-Point
1. Establish context	Set risk -appetite	Consider the risk appetite and risk tolerance for the organization with regard to Fraud. Does this align to the overall "tone" and culture of the organization?
	Stakeholder interviews	When conducting the interviews with stakeholders, determine the importance of addressing fraud, waste and abuse at the ERM level.



Linking FRA and ERM

Touch-point Matrix – 2. Communicate and consult

ERM Step	ERM Task	FRA Touch-Point
2. Communicate and consult	Allocate resources	When considering the amount of resources needed to properly implement and manage the ERM program, understanding the complexity of the control environment from a fraud, waste and abuse perspective will be important.
	Risk owners	When determining the risk owners for the ERM process, consider the Conflict of Interest inputs in the decision making process, to ensure that fraud incidents are not "kept quiet".



Linking FRA and ERM

Touch-point Matrix – 3. Risk Assessment

ERM Step	ERM Task	FRA Touch-Point
3. Risk assessment	Determination of inherent vs. residual risk	The knowledge gained from the FRA will directly impact the evaluation of the residual risk associated with fraud, waste and abuse.
	Possible scenarios	When assessing the scenarios for fraud, waste or abuse, these can be pulled directly from the FRA.



Wrap-up / Q & A

Final Thoughts / Key take-aways

- Changes in strategic goals can lead to large increases in fraud risk to the organization. Being aware of these risks and assessing them timely is of great benefit to the organization.
- The ERM program covers risks to the organization that go well beyond the FRA, however leveraging the FRA can lead to multiple benefits to both programs.



Wrap-up / Q & A

Final Thoughts / Key take-aways

- Ethics needs to be Number 1 priority – period.
- Auditors should make organization aware of the tools and techniques that are available to establish the “Ethical Temperature” of the organization
- Link strategy to your fraud risks
- Be proactive before being hit by a life threatening crises



Wrap-up / Q & A

Questions ?



Thank you!

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