Corporate Resiliency
Managing the Growing Risk of Fraud and Corruption

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Why corporate resiliency?

A convergence of factors...

Globalization
Risk surprises
Risk management process issues
Greater enforcement
…suggest a different risk management strategy may be desirable

Recognize the prevailing risks of fraud and corruption

Plan to survive and succeed despite them

“Corporate Resiliency”

What can we do differently?
Some steps toward corporate resiliency

1. Fraud risk ownership and oversight
2. Proactive risk management strategies
3. Advance preparation of responses to fraud
4. Focus on antifraud performance, not just compliance

A COSO-consistent approach to fraud risk management
A COSO-consistent approach to fraud risk management

• Tone at the top
• Code of conduct/ethics
• Whistleblower hotline
• Investigation process

Creating a Control Environment

Performing Fraud Risk Assessments

Designing and Implementing Antifraud Control Activities

Sharing Information and Communication

Monitoring Activities

Monitoring effectiveness of antifraud programs and controls

Identify fraud risk factors, fraud risks and fraud schemes

Link or map identified fraud risks to control activities

• Effective communication of antifraud programs and controls throughout

(AFPC = Antifraud Programs & Controls)

Fraud risk management improvement opportunities
The Antifraud Roadmap

**Evaluate**
- Evaluate current status and effectiveness of an organization’s approach to implementing antifraud programs and controls
  - Culture/Attitude Survey

**Identify**
- Assess, define, and document fraud risks and control effectiveness.
  - Fraud Risk Assessment

**Action Plan**
- Develop a fraud action plan based on findings and identify activities that defines next steps to address an organization’s antifraud program activities.
  - Fraud Risk Action Plan

**Mitigate**
- Enhance, implement, and maintain preventative and detective control activities, which mitigate fraud risks identified during assessment.
  - Fraud Awareness Training

**Monitor**
- Enable continuous monitoring activities through technology and ongoing review activities to alert management of potential fraud.
  - Continuous Monitoring Tools

**Respond**
- Assist in responding to potential occurrences of fraud.
  - Fraud Case Management Tools

Management’s fraud risk assessment – sample detailed documentation

<table>
<thead>
<tr>
<th>Fraud Risk Factor</th>
<th>Fraud Risk</th>
<th>Fraud Behaviors/Scenarios</th>
<th>Account/Financial Affected</th>
<th>Potential Controls Involved</th>
<th>Var</th>
<th>Control Activities</th>
<th>Residual Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Company/U</td>
<td>Unrealistic Expectations</td>
<td>Overstatement of Sales – “Roundtrip” Transactions</td>
<td>Revenue/Accounts Receivable</td>
<td>Sales, Accounting, Finance</td>
<td>Medium</td>
<td>Review, Verification</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transactions may include sales between companies for the same amount within a short time period, or they may involve a third party or an individual who is not associated with the organization.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Liberal exchange or return policies, improper accounting for liberal or unconditional right of return</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Other sham transactions on products shipped for trial or evaluation purposes</td>
<td></td>
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</tr>
</tbody>
</table>
Management’s fraud risk assessment – sample “heat map” summary

Whistleblowing and the new ‘race to report’

The Dodd-Frank Wall Street Reform and Consumer Protection Act Section 922

• Created awards of 10 - 30 percent of monetary sanctions
  • For whistleblowers who report to the SEC
  • Original information
  • Leading to securities law enforcement actions that recover more than $1 million
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Potential strategic use of technology to deter and detect fraud

<table>
<thead>
<tr>
<th>Significance</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused use to test transactions and timely detect unexpected high-risk violations</td>
<td>Data mining and continuous auditing to detect expected violations</td>
</tr>
<tr>
<td>Generally reactive use to assess the extent of violations identified</td>
<td>Selective use to test and enhance processes and controls and to deter fraud</td>
</tr>
</tbody>
</table>

• Treating basic CAATS skills as a core competency for all internal auditors could enhance fraud deterrence and detection
• Sampling 100% and publicizing it enhances deterrence and detection
• Reconciling data provided to G/L helps ensure data is complete
Evaluating your organization’s fraud risk management capability

Evaluating your organization’s fraud risk management performance

Managing the Business Risk of Fraud – A Practical Guide
• Produced by IIA, AICPA and ACFE
• Free download at www.theiia.org/guidance/additional-resources/managing-the-business-risk-of-fraud/

Corporate Resiliency Self-Assessment Tool

Deloitte Anti-fraud Programs & Controls Diagnostic
• Ask your Deloitte partner for more information
Anti-fraud Programs and Controls Diagnostic – Sample Results

Survey Results
• The radar chart is comprised of 5 key components of Antifraud Program and Controls derived from COSO’s Internal Control Integrated Framework. The chart provides a graphical representation of review results.
• Evaluation helps identify opportunities for performance improvement, not just the minimum standards for compliance with SOX 404

Deloitte Forensic Center resources

Book: Corporate Resiliency: Managing the Growing Risk of Fraud and Corruption (Wiley, 2009)

Article: Mapping Your Fraud Risks, in Harvard Business Review (October 2009)

More information at: www.deloitte.com/forensiccenter
What questions do you have?

Conclusion

1) Discoveries of fraud are expected to increase
2) Companies would be wise to prepare
3) Understand, prioritize and manage your company's fraud risks
4) Have a robust program to prevent, deter, detect, and respond to fraud
5) Proactive tools and data analytics may help you identify frauds earlier

Corporate resiliency doesn't guarantee survival and success, but a lack of resiliency …
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