

# Implementing a World Class Fraud Risk Management Program with Limited Resources

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# Instructor Introduction



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*Global Anticorruption and Fraud Manager*

*CFE, CIA, CCEP, PHR, CCSA*



22 years corporate audit and investigation experience, primarily in the energy sector. 13 years commissioned peace officer.



Former Chairman of the Board of Regents for the Association of Certified Fraud Examiners (ACFE). Currently a committee member on the ACFE Board of Review.



Recipient of the ACFE's Baker and Hubbard awards. Spent over 10 years as a faculty member of the ACFE, providing training to the FBI, DOJ and numerous Fortune 500 companies and institutions.



Currently the Global Anticorruption and Fraud Manager, fraud SME for SLB, reporting to the Chief Audit Executive.



# Agenda

- Why do we need or want a Fraud Risk Management Program (FRMP)?
- Limitations to implementing a FRMP?
- Designing your FRMP strategy
- Building a fraud risk universe
- Conducting a global fraud risk assessment
- Tracking & Reporting Risks – Observations vs. Perceptions
- Enhancing Internal Audit Antifraud Activities
- Building and documenting a Fraud Risk Management Framework (FRMF)
- Moving from a framework to a program

Implementing  
fraud risk  
management  
ideas,  
improvements  
and processes is  
a bit of a  
challenge!



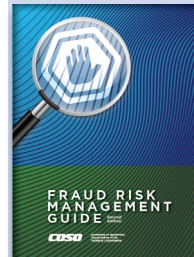
# Making Your Case:

## Why do we need or want a Fraud Risk Management Program (FRMP)?



### IIA Professional Standards

- 2060 – “Reporting must also include significant risk and control issues, including **fraud risks**, governance issues, and other matters that require the attention of senior management and/or the board.”
- 2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.
- 2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.



### COSO ERM – Principle 8 – Fraud Risk Management Guidelines (2016 & 2023)

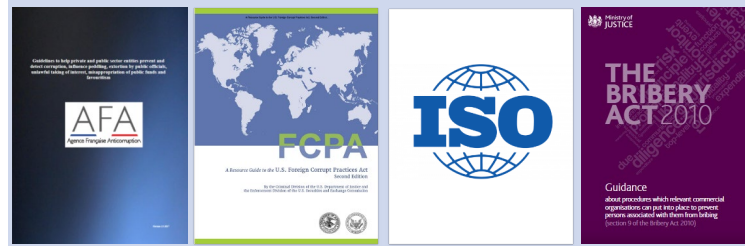
- Fraud Risk Governance
- Fraud Risk Assessment ←
- Fraud Control Activities ←
- Fraud Investigation and Corrective Action
- Fraud Risk Management Monitoring Activities ←



Evaluation of Corporate Compliance Programs

Controls (16)  
Procedures (30)  
Policies (48)  
Audit (25)

**Fiduciary Responsibilities:** Shareholder Lawsuits, Impacts to Bottom Line, Reputational Damage



**For International Companies**  
Several other guidelines, standards and best practices expect organizations to have several elements of a FRMP.





# Limitations to implementing a FRMP

## Perception/Philosophical

Fraud isn't real until its an issue (reactive vs. proactive)

Fraud happens at other companies, not here

We have internal controls to prevent fraud

Fraud risk management has to come from the top down

What law or regulation requires us to have a FRMP?

External Auditor is fine with our current controls

## Structural

More than one department is responsible for elements of FRM

Organization has distributed fraud controls, by dept., geography, business unit

No owner, or desire to formalize a Program

Weak or low buy in from management or the board

Limited resources or access to technology

Limited or no fraud expertise within audit



# Designing your FRMP Strategy (Control what you control)

## What do you control?

- Audit charter
- Audit programs
- Experience assessing risks and controls
- ERM/Risk Management
- Hotline/Investigations
- Understanding of company processes & procedures
- Internal communication and awareness capabilities
- Drive accountability for control failures
- Ability to communicate with senior management and the board
- Ability to promote training and awareness to the company

## Your IIA Mandate

1. Must evaluate the potential for the occurrence of fraud
2. How does the organization manage fraud risks?
3. Report on significant fraud risk and control failures
4. Internal auditors must consider the probability of significant errors, fraud, noncompliance.

*“If you don’t know what you are looking for...how will you know when you’ve found it?”*

## FRMP Strategy

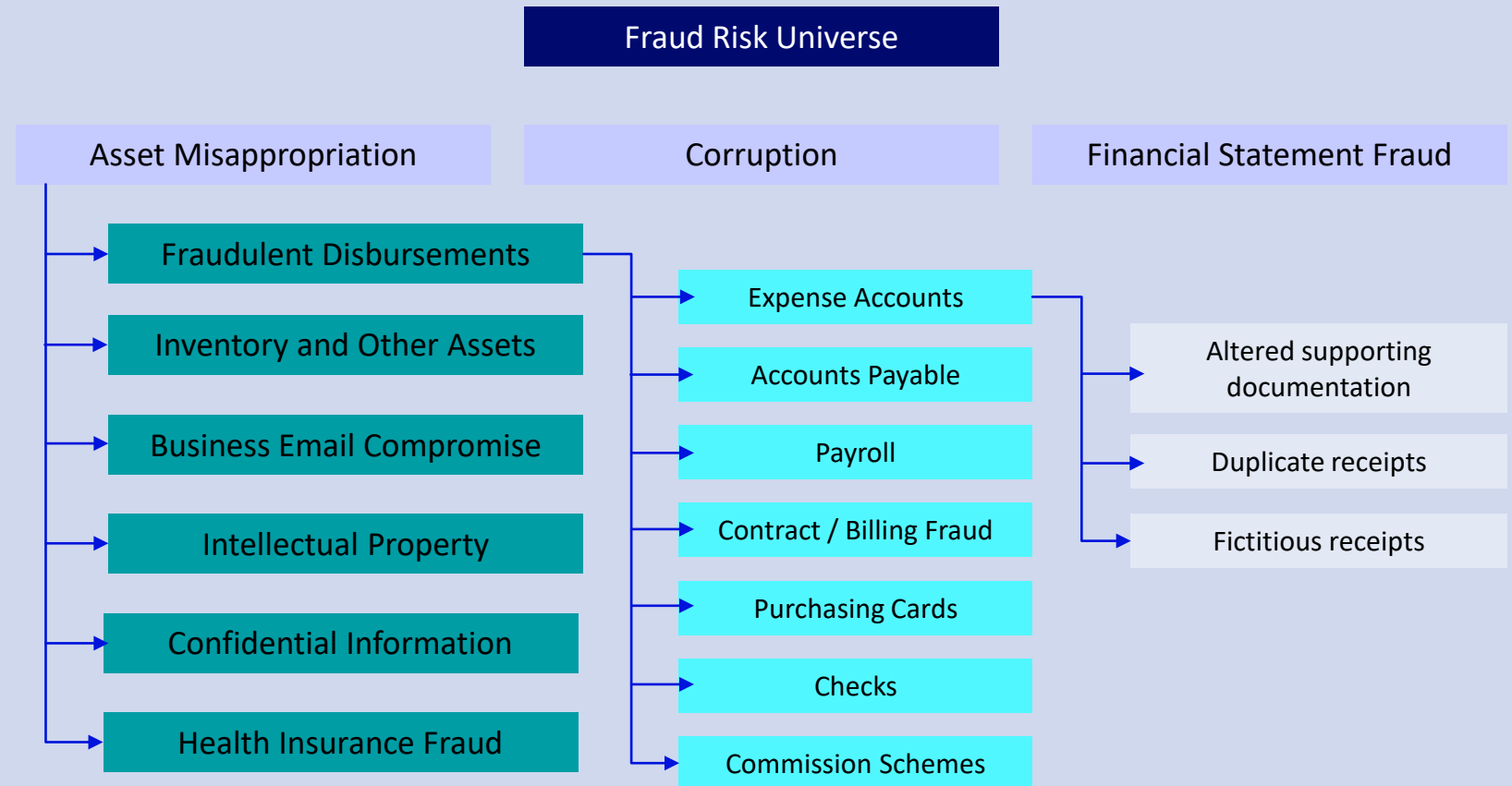
1. What are our fraud risks?
2. How can we evaluate the potential occurrence of fraud?
3. How do we report, use and share these potential risks?
4. How do we identify and assess fraud controls?
5. How do we identify and report on disconnects between fraud controls and risks?
6. How do we improve the audit program?
7. How can we help promote fraud awareness and thereby mitigate fraud risk?

# What are our fraud risks?

## Phase 1: Developing your fraud risk universe

Use internal and external resources to build your first fraud risk universe. ***What fraud risks could affect my organization.***

- ACFE/IIA, other external sources
- Internal investigation data
- Internal audit data





# Phase 2: Conducting a Global Fraud Risk Assessment

## FRA Attributes

- Utilize your fraud risk universe as the basis for your FRA
- Survey based (simple Microsoft forms can help allow for analytics)
- Twice a year
- Representative sample of population (by geography and department/function)
- Employees over a certain responsibility level
- Respondents can only be selected once every 3 years.
- Not anonymous
- Not a reporting mechanism

## FRA Focus Areas

1. Choose 1 type of fraud risk from each of the three main fraud categories (drop down)
2. Ask for a brief description, rank Likelihood/Impact
3. Have 1 additional free form for a 4<sup>th</sup> risk not listed.
4. Ask about concealment (use dropdown)
5. Ask about pressure (use a dropdown)
6. Ask if policies and procedures adequately address the risks, and if not, where are improvements needed.

## FRA Assessment

1. What are the most reported by region, business line, etc.?
2. What risk is reported by only one or two people?
3. What risks are reported by different functions?
4. Who didn't respond?
5. Who claimed they were unaware of risks?
6. What are your highest risks based on employee reported severity?
7. What do employees say about concealment & pressure? Where are these occurring?
8. What improvements need to be made?



# Phase 2-4: Reporting, Remediation & Integration

## FRA Remaining Phases

### Reporting

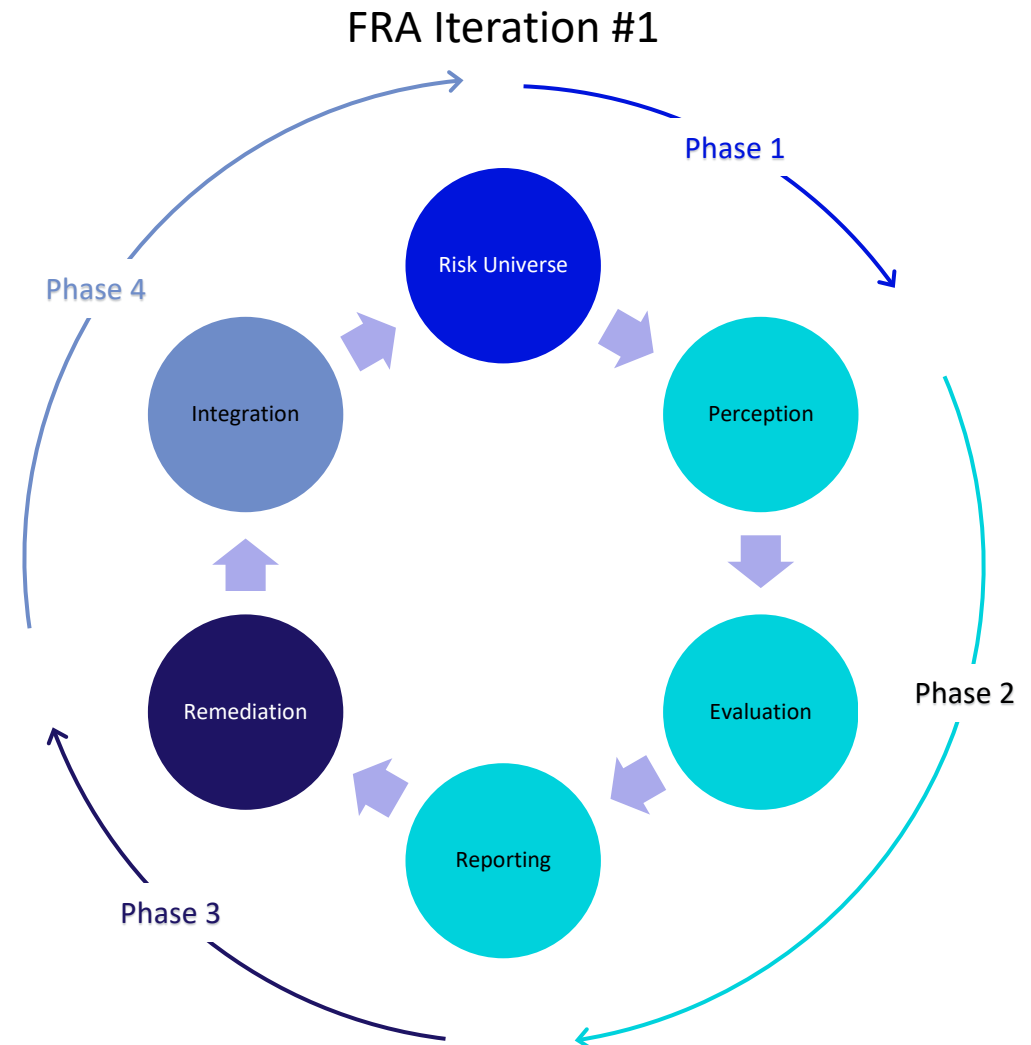
- Summarized information shared with employees, management, finance, compliance.
- Trend reporting can occur after the 2<sup>nd</sup> FRA. Where are risks increasing/decreasing, or newly emerging risks.

### Remediation

- Any risks reported as high are followed up with employees to get clarification. Are immediate changes to controls required, or a formal investigation?

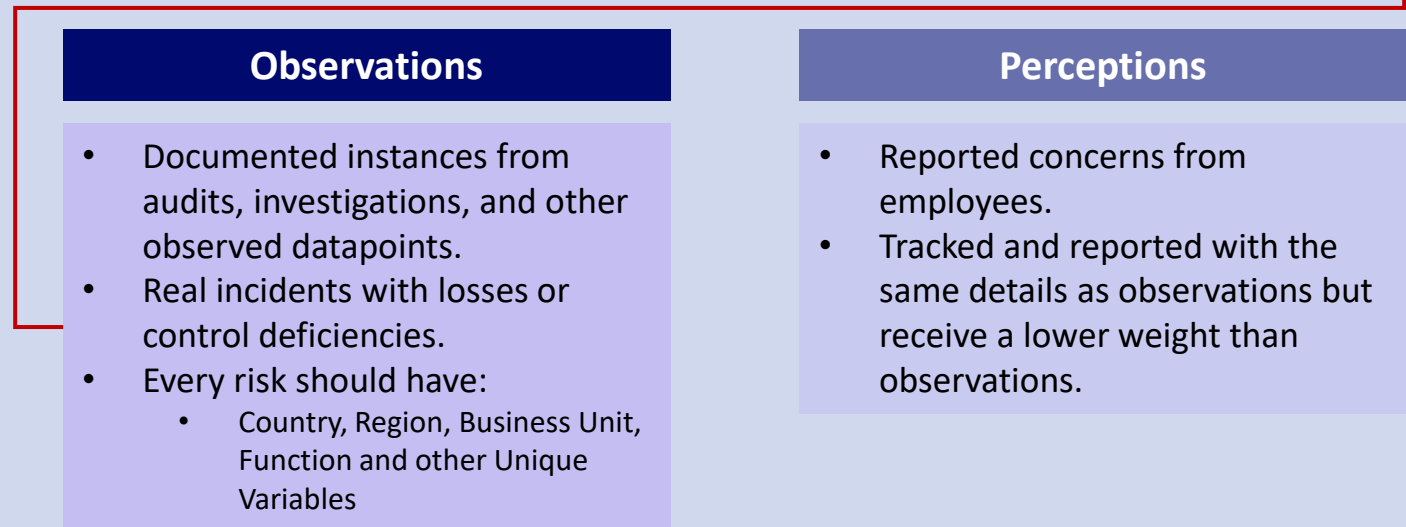
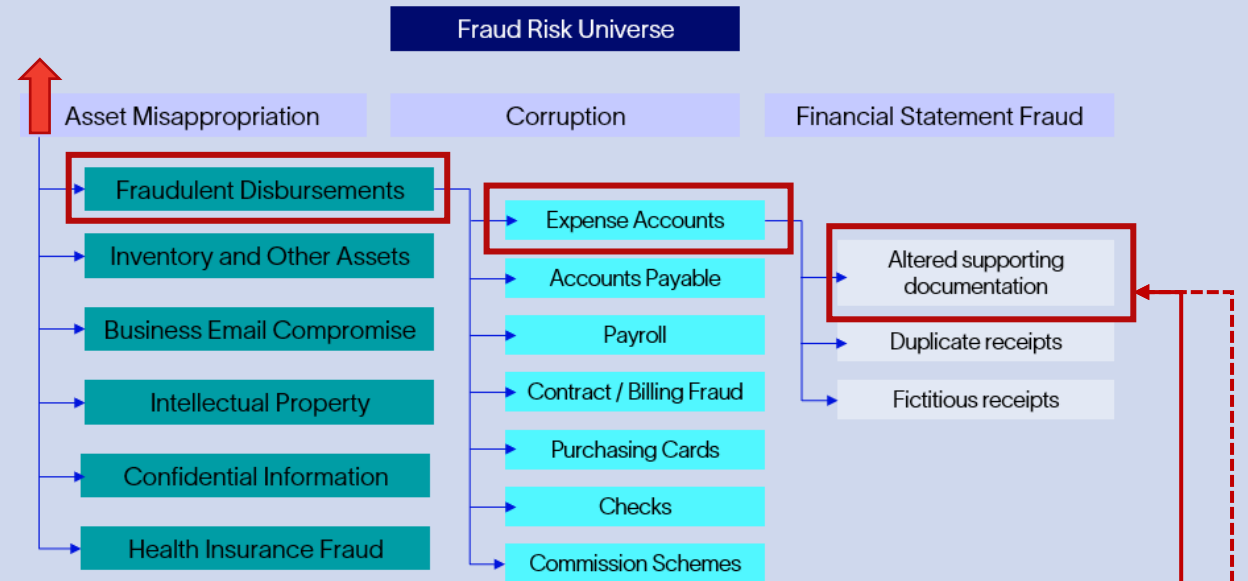
### Integration

- Internal Audit now has data, on specific risks, in specific areas, processes, geographies. Review/update audit tests and programs, add to continuous monitoring & forensic audits. Share with other functions such as Legal, Finance and Compliance



# Tracking and Reporting Fraud Risks

## Observations vs. Perceptions



# Enhancing internal audit antifraud / anticorruption activities



## Enhancements to Audit

- Use in annual risk assessment
- Use in audit planning
- Training & Awareness
  - Employees & Management
  - Auditors
  - Bi-annual fraud awareness article on intranet
- Issue global or targeted audit alerts
- Review / update audit programs
- Consider fraud risk data in each audit
- Use to perform targeted or specific forensic audits
- Serve as core component of a forensic audit program (antifraud / anticorruption audits)
- Develop and deploy fraud and audit analytics
- Update audit charter to include antifraud activities and responsibilities, and Knowledge/Skills/Abilities

Pre-Audit Surveys

Audit Observations

Convert your CFEs into Corporate Alliance Membership with the ACFE.

- Marginal increase in cost compared to free training, corporate member events.

Sponsor International Fraud Awareness Week, coincide with internal awareness article on fraud.





November 13-19, 2022

WHAT YOU CAN DO SUPPORTING ORGANIZATIONS EVENTS RESOURCES FAQ

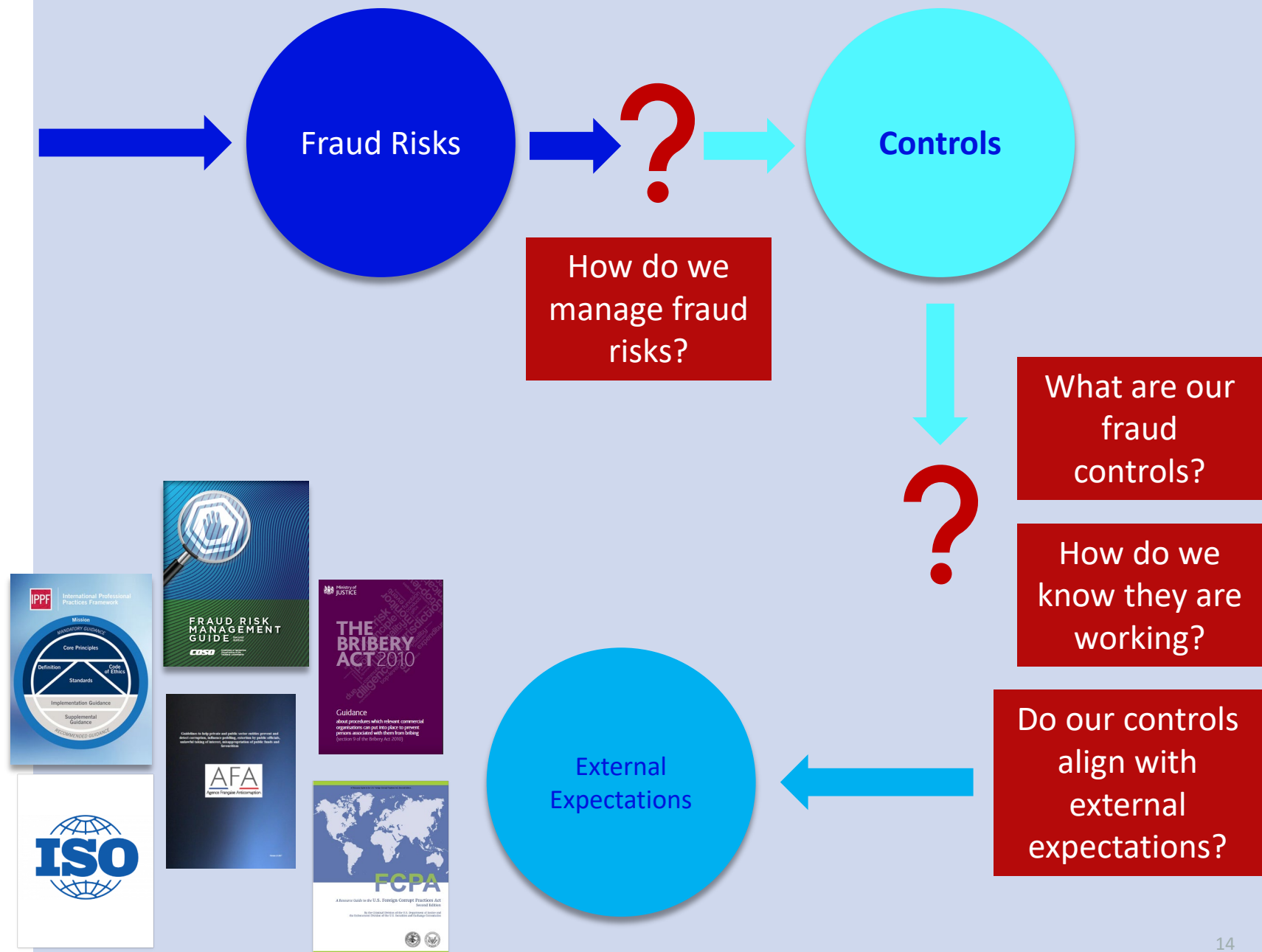
## Supporting Organizations

The following businesses, government entities and agencies are present and past supporters of International Fraud Awareness Week. The ACFE would like to thank all the supporters of Fraud Week.



# Building and documenting a Fraud Risk Management Framework (FRMF)

**IIA Standard**  
**\*How does the organization manage fraud risk?\***





# Building and documenting a Fraud Risk Management Framework (FRMF)

## Internal Audit Expectations

- **IIA Standards:** 1220.A1, 2060, 2120.A2, 2210.A2
- Identify fraud risks, evaluate the potential for the occurrence of fraud, evaluate how the organization manages fraud risk

## Current State of our Fraud Risk Management

How do we manage fraud risk today?

???

What are we doing to manage fraud risk?

???

Who performs or owns our fraud controls and activities?

???

Are we providing our employees with the right amount of training and awareness on fraud risk?

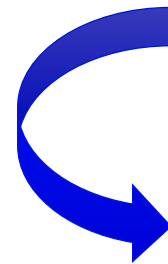
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Are we meeting our external expectations?

???

## Underlying Guidance & Expectations

- COSO ERM Fraud Risk Management Guidelines (09/2016)
- Foreign Corruption Practices Act (FCPA) of 1977 – 2<sup>nd</sup> Edition (07/2020)
- U.S. Department of Justice (DOJ) Compliance Program Elements (2021)
- UK Bribery Act Guidance (03/2011)
- French Anticorruption Agency Guidelines (12/4/2020)
- ISO37001 – Antibribery Management System (10/15/2016)



## 5 Pillars

Fraud Governance

Risk Assessments

Fraud Control Activities

Fraud Investigation & Corrective Action

Fraud Risk Management Monitoring

## Purpose

Our Fraud Risk Management Framework (FRMF) is a **comprehensive approach** to assessing our Company's fraud risk management activities. The FRMF encompasses the primary internal actions that our Company takes to prevent, detect, mitigate and remediate fraud risks.

# Building and documenting a Fraud Risk Management Framework (FRMF)

Partially Documented

Fraud Risk Management Framework

Internal Audit's Contributions to the FRMF

**Fraud Governance**

Updated our antifraud / corruption policy

Became a Fraud Week Ambassador

**Risk Assessments**

Fraud Risk Assessments

Risk Universe

**Fraud Control Activities**

Updated Antifraud Program

Documented FRA Procedure

Designed Additional Fraud Analytics

2022 Fraud Awareness Campaign

**Fraud Investigation & Corrective Action**

Implemented Investigator Acknowledgement

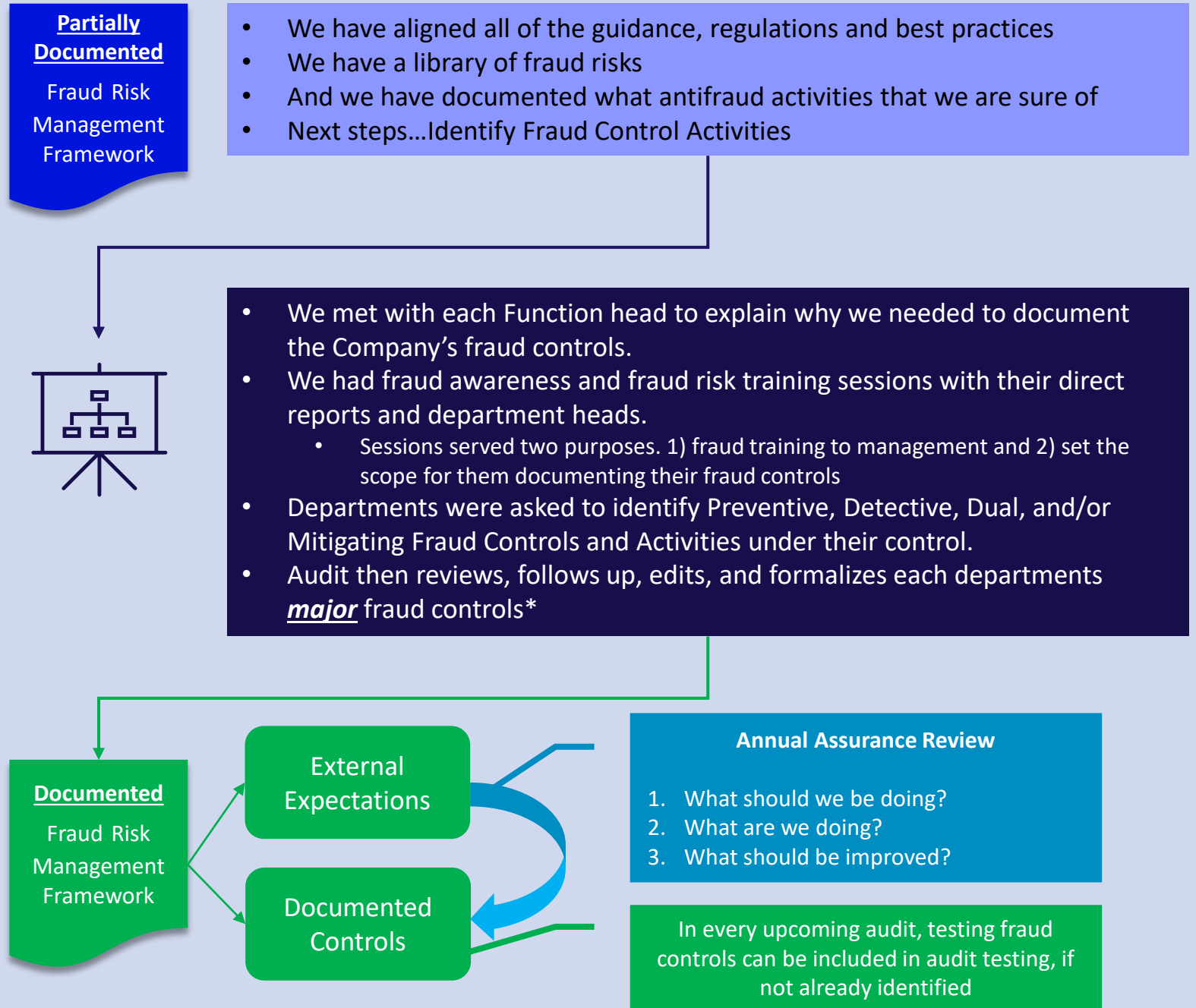
**Fraud Risk Management Monitoring**

Development of Annual Assurance Review

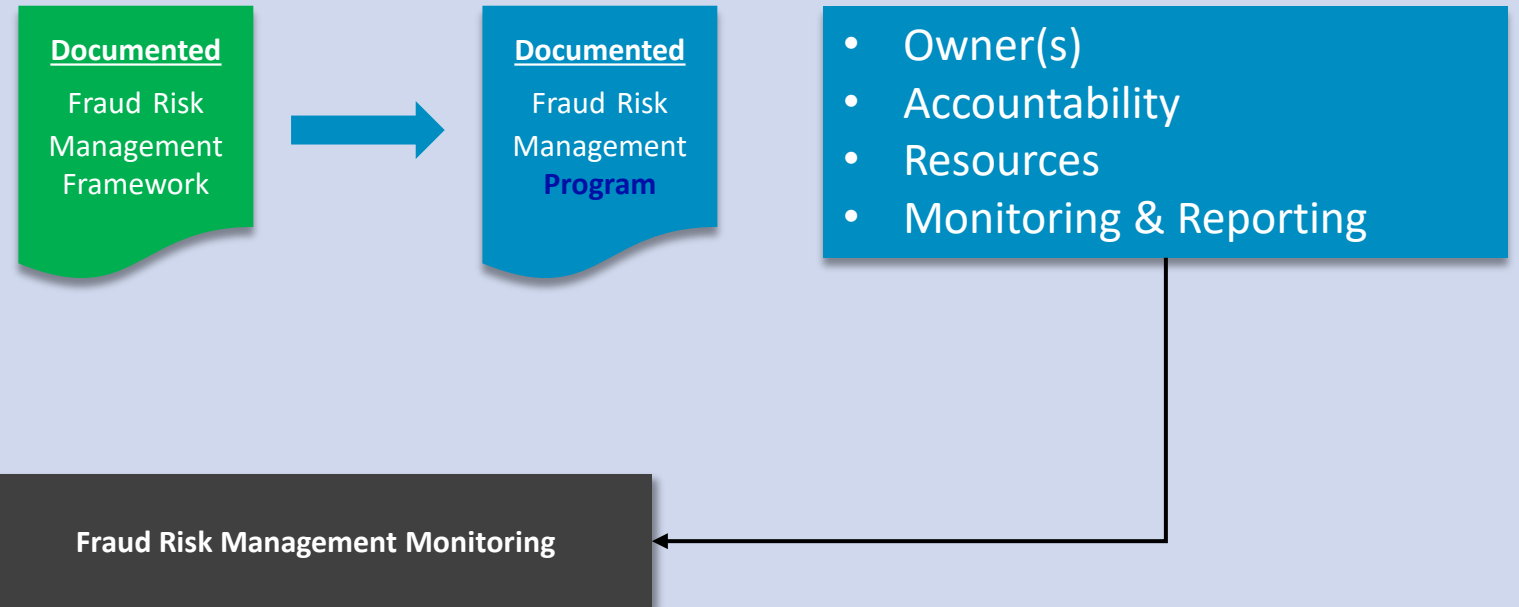
# Documenting Your Global Preventive / Detective Fraud Controls

&

# Conducting Your First Assurance Review



# Converting FRMF to FRMP



- Annual FRMP Monitoring
  - Assess your expectations
  - Update your catalogue of controls
  - Evaluate your universe of risks with controls
  - Identify your opportunities for improvement
  - Incorporate risks into audit activities
  - Remediate deficiencies
  - Report risks to management
  - Train employees on fraud risks and promote prevention

## Recap & Questions

- **Fraud stories and fraud risks are interesting. Employees and Management want to know about this stuff.**
- **Your Fraud Risk Management Journey should be 3-5 years.**
- **Build your program slowly, learning from mistakes, and helping to institutionalize your fraud risk info and activities.**
- **Look for activities that can be easy wins, small gains to your program, that are not resource and time intensive.**
- **Incorporate your findings back into your program, continuously improving.**

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