

# Fraud Risk Management



## Protecting Reputation and Value

The rapid expansion and development of the Czech economy in the last ten years has been clearly reflected in the management of the various business risks. The arrival of foreign capital brought new strategies and methods to the Czech market. Ambitious goals of shareholders require a distinctive approach suitable exclusively to Czech conditions. The risks, especially fraud risk, the Czech market contains are unique in nature and more challenging than those in stabilised western countries. As a result, fraud risk management is one of the key business success factors in virtually every industry.

In terms of risk, fraud is among the most challenging and highest risks for controlled management. The significance of a systematic approach to fraud detection underscores the importance of having controls in place to decrease, or at least control, the fraud risk exposure. Controls have mostly a preventative function, but they can also detect fraud that has already occurred. Fraud detection and fraud risk management is difficult and requires an approach on par with the other aspects of business management. Fraud risk management is all the more challenging in that it also requires knowledge of other activities, namely the activities in which fraud occurs. The knowledge of these activities has to be at such a high level as to make

sure they can run more efficiently and securely. Their efficiency can only be ensured by generally-functioning and high-quality risk management. The impacts of fraud on a company are clear to everyone, and they do not only include the loss directly ensuing from fraud. Secondary risks include reputational risk and impact on the company's value and its relations with customers and partners. There are five areas that the company management can evaluate to help mitigate fraud risks and corruption.

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### **Fraud Risk Identification**

Has the company identified the fraud risks it faces? Does the company management know where and what kinds of fraud are likely to happen? Most companies face fraud and corruption every day; however, they start to deal with it when it is too big or influencing management's interests. Identification of frauds typical for the industry and setting up proper anti-fraud controls is one of the first steps in fraud risk management.

### **Fraud Risk Review**

A fraud risk review of all or selected processes performed by independent advisors can help mitigate the risk.

A company that understands how a fraud risk review can effectively work together with other anti-fraud controls has a significant advantage. Does your company review processes in terms of fraud? Does your company detect and respond to fraud at the earliest opportunity, minimising the damage caused?

### **Computer Forensics – Data Analytics**

Nearly all of a company's information is created and managed electronically, yet typically, only a third of that information is committed to paper. Fraud prevention and investigation, therefore, requires a careful approach and searching for electronic information rather than following a paper trail. Computer forensics allows companies to uncover more of the facts, support otherwise unsubstantiated information, confirm or refute allegations, and analyse competing theories in relation to those facts.

### **Fraud Risk Assessment**

Fraud Risk Assessments provide companies with a cost-effective way to measure their Counter-Fraud programme against industry best practice. A Fraud Risk Assessment (FRA) identifies the strengths and weaknesses of their current Counter-Fraud program, enabling them and other stakeholders to make informed decisions about where best to target the scarce Counter-Fraud resources. The FRA quantifies the most-exposed areas while incorporating the existing anti-fraud controls.

#### **Automated Fraud Detection and Monitoring**

Automated fraud detection and monitoring are areas of anti-fraud solutions that help organisations to automate and streamline their efforts in enforcing the internal controls environment, and thus saving costs over the system of manual internal controls and minimising losses from fraudulent or erroneous actions. Does your company detect access conflicts, suspicious transactions, changes in master data and SoD controls?

### **Conclusion**

The fraud risk management department or external advisors can be valuable in proposing controls and countermeasures to the company management in order to mitigate fraud risk. Asking questions related to fraud as mentioned above may help decrease fraud when it occurs or in a better case prevent it.

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