

More data, more vulnerabilities

Addressing fraud management challenges through automation



Overview

Fraud management in today's business environment

Organizations can't afford to ignore the risk of corporate fraud. Based on recent studies by the Association of Certified Fraud Examiners (ACFE)¹, survey participants estimate that the typical organization loses 5% of its revenues to fraud each year with more than one-fifth of fraud causing at least \$1 million dollars in losses. Applied to the 2011 Gross World Product, this figure translates to a potential projected annual fraud loss of more than \$3.5 trillion.

The scope of fraud drivers is universal, impacting all businesses regardless of size or industry. These factors vary from recent global economic concerns to more personal challenges such as divorce or financial difficulties. However, the expanding IT landscape of organizations and an increasingly complex business environment have generated a growing number of opportunities for perpetrators while also generating more avenues for organizations to monitor for operational error and fraud.

The presence of anti-fraud controls has shown to have a noted impact on decreasing the associated cost and duration of reported occupational fraud schemes. However, the increasing volume of data to assess has made it exponentially more difficult to identify the potential fraud occurrence needle in the haystack of changing business transactions. Furthermore, in spite of a growing number of regulations to assist with the mounting fraud risk, organizations are still susceptible to error and fraud as they struggle to balance workload with operational and regulatory control mechanisms.

The problem

The growing importance of fraud management

According to Deloitte UK's Internal Audit Fraud Survey, 63% of respondents stated that their vulnerability to fraud had increased in the past eighteen months. However, over 50% did not consider their internal audit staffing levels to be adequate to cover such risk. Furthermore, this survey highlighted the disparity between approach and levels of appropriate engagement and delivery, with 77% saying that economic uncertainty had not stopped board level discussions on introducing or enhancing fraud risk monitoring.

Enterprise Fraud Management (EFM) solutions have been growing in popularity due to the technology's capability to increase the speed at which fraud analysis is performed by focusing resources on higher risk transactions and events. Based on recent studies, frauds that were reported took a median of 18 months before they were detected¹. EFM solutions help to increase the efficiency of fraud analysis by assimilating data across multiple data sources to provide near real-time analytics for the detection and even prevention of fraud.

However, the market for EFM solutions is currently fragmented with several key players. These applications often support a limited set of use cases for a particular industry or product requiring multiple solutions to fully meet the requirements of an organization. Furthermore, due to challenges with integrating various data sources, these solutions often take years to implement. This issue results in a long duration to realize return on investment for the organization or, at times, a stalled implementation.

“A typical organization loses 5% of its revenue to fraud each year.”

ACFE 2012 Report to the Nations

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A fresh approach

Addressing the risk of fraud and error with technology

Deloitte & SAP are working together to help clients address the challenges of fraud management. SAP Fraud Management can provide a cross-industry, cross-regulatory solution for fraud identification and investigation in virtually any type of business environment. The solution includes the following core capabilities:

- **Preventative analysis** of business data in real-time for earlier detection of potential fraud and the ability to hold suspicious transactions before they are processed
- **Predictive analyses** based on historical trends to optimize fraud strategies and adapt measures to changing fraud patterns
- **Fraud investigation** of alerts generated by detection runs, centralizing all relevant information and potential collusions in suspected fraud cases, until a decision is reached. It also provides advanced simulation features to aid in calibrating fraud investigations and to help reduce false positives.

Deciding how to proceed most effectively with a new solution can be a complex and confusing process. This is where Deloitte can help — by assisting with the planning and execution steps:

- Assess existing fraud management processes and design with the goal of providing actionable recommendations that align with leading fraud management principles
- Establishing a prioritized implementation roadmap that focuses on providing real business value and recognizable return on investment
- Implementation of the SAP Fraud Management solution and supporting governance program.

Leveraging Deloitte experience to target high risk data

Leveraging Deloitte's broad fraud management and deep audit experience, we have developed an extensive database of known fraud schemes and indicators focused on a number of areas including financial statement fraud. While this type of fraud is less frequent than other methods, it is generally the most costly form of fraud with median impact from reported cases of \$1 million¹. Integrating this depth of experience with fraud management technology allows organizations to rapidly implement a series of methods or "red flags" such as the following:

- *Analysis of accounts* — Entries to seldom used accounts, in unusual amounts, and to generally unrelated accounts
- *Analysis of users* — Identifying users with abnormal postings
- *Analysis of journal entry characteristics* — entries posted in the off-hours, near a period end, or in round or recurring figures.

Furthermore, these monitoring methods can be customized and combined into a single strategy where flags are aggregated, weighed and prioritized to minimize false alerts and highlight the most likely and critical areas of potential fraud or human error.

¹ Association of Certified Fraud Examiners (ACFE) 2012 Report to the Nations

An integrated value offering — benefits of Deloitte and SAP

Fraud Management

1. *Enhance and focus existing efforts* — Through integration of SAP technology and Deloitte subject matter leadership, organizations can focus monitoring by applying analytics to large volumes of data using a proven knowledgebase of fraud indicators.
2. *Integrate fraud prevention into operations* — By using Deloitte proprietary tools, such as business process repository, IndustryPrint™, fraud analysis can be merged with SAP-enabled processes, shifting controls from detective to preventative by stopping suspicious activities at time of entry.
3. *Improve operational and control performance* — Leveraging Deloitte's extensive audit and regulatory experience, control gaps identified in fraud investigations can be addressed through the design and implementation of additional mitigations to minimize the opportunity of future occurrences.

The Deloitte difference

Deloitte and Fraud Management in action

- **Recognized Risk Management & Analytics Practice**
Deloitte has one of the largest risk and analytics practices. Our professionals can provide assistance and recommend leading practices for fraud management processes and establish a proven roadmap and governance model for technology-based monitoring.
- **Global Cross-Industry Reach and Multi-Regulatory Experience**
With access to more than 193,000 professionals in the Deloitte Touche Tohmatsu Limited network of member firms worldwide, Deloitte can provide industry and compliance specialists with working knowledge of key issues and risks by industry and regulation to assist with identification of key fraud concerns.
- **Experienced Governance, Risk & Compliance (GRC) Practice and SAP Alliance**
Deloitte's experienced SAP GRC practitioners can help you to design and implement the hardware, configuration, and supporting master data to enable SAP Fraud Management.

Contact us

To discuss your business challenges and solutions, contact any of the Deloitte professionals below or visit us online at www.deloitte.com/us/securityandprivacysolutions.

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