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Effective Fraud Risk Management
Providing an executable response

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Regulatory compliance

- The Companies Act, 2013 (the Act) mandates listed companies and unlisted companies (as prescribed by the Rules) to implement a whistleblowing/vigil mechanism.
- The Act also requires companies to implement a robust set of internal financial controls for safeguarding the assets of the company and to prevent and detect frauds or other irregularities, which necessitates organisations to establish a holistic fraud risk management framework.
- The Act further mandates auditors to report individual instances of fraud involving INR 1 crore and above to the Central Government (if identified by the auditor during the course of performing the audit).

Where does the challenge lie?

Value of proactive measures

- For most companies, the costs, resources and time required to implement a whistleblowing mechanism, and additionally develop investigation capabilities, far exceeds what they can or want to commit.
- As the volume of data held by companies continues to grow, understanding the fraud risk characteristics within that data becomes increasingly complex. Data is usually held in disparate systems across multiple business units that can make understanding the data as a whole, and what lies beneath it, a huge challenge for companies. Forensic data analytics is one of the fraud risk management tools used for uncovering fraud vulnerabilities and identifying potential 'red flags'.
- Established client processes and controls, over a period of time, can overlook fraud vulnerabilities existing within the processes and fraud indicators present in the data, which can only be recognised and interpreted by the targeted forensic data analytics.
- Many companies today have begun to recognise the value of proactive measures that need to be undertaken to prevent, deter and detect frauds, sooner rather than later.

Some of the key elements to be considered by companies to prevent, deter and detect frauds:

- 01 Audit committee's oversight of fraud risk management programme
- 02 Frame an anti-fraud policy and impart required training
- 03 Perform Fraud Risk Assessment of all functional areas on an annual basis and conduct counter-party due diligence/background checks on business partners
- 04 Develop an effective whistleblowing/vigil mechanism
- 05 Gather insights on awareness, understanding and attitude of employees towards ethics and fraud by conducting a Cultural Assessment Survey or Ethics and Fraud Survey
- 06 Response to fraud allegations by investigating the same promptly and effectively

Specific areas of assistance

In an era of intense scrutiny related to regulatory compliance, it becomes imperative for companies to assess their anti-fraud controls environment by periodically (leading practice is annually) performing a Fraud Risk Assessment or understanding their fraud risk exposure/vulnerabilities by conducting Forensic Diagnostics of high risk-areas, and promptly investigating any suspected or known cases of fraudulence.

PROACTIVE MEASURES

Establish an effective
Whistleblowing Mechanism



Develop a **Fraud Risk Management Policy**



Develop a **Fraud Response Plan** to effectively conduct investigations on matters of suspected fraud or irregularity or in response to a failure of internal control systems of a material nature



Conduct **Employee Fraud Awareness Trainings or Ethical Dilemma Workshop**



Conduct **Ethics and Fraud Survey/Cultural Assessment Survey**



Perform **Fraud Risk Assessment** of all functions/ processes annually; also, periodically (preferably, once in a period of two years) conduct an independent Forensic Diagnostics of high-risk functions/ processes



Establish **Anti-corruption Compliance Programme and Trainings** to comply with the requirements of U.S. FCPA and UK Bribery Act



Conduct **Counter-party Due Diligence/Background Checks** to protect the company from risks of bribery/ corruption



Fraud Remediation Action Review of frauds investigated by the company to evaluate whether the mitigation plans as approved by the audit committee, if implemented, are operating effectively



REACTIVE MEASURES

Investigation of suspected frauds to gather facts and evidence in order for the Board to make an informed decision to report or not to report fraud to the Central Government and that which is tenable in the court of law



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