Organizations cannot afford to be unconcerned about the risk of fraud. Directors and management have a fiduciary obligation and a corporate responsibility to take steps to deter, detect and prevent it. While high profile incidences of fraud have involved gross misstatements of company financial statements, in reality, corporate fraud manifests itself in many different – and often inconspicuous – ways that eat away at the value within a business. And when it does occur, those who have not made the effort to detect and prevent fraud potentially open themselves up to personal liability, significant losses to the bottom line, regulatory censure, reputational damage and a loss of shareholder value.

While the board and senior management have ultimate responsibility for taking steps to deter fraud, everyone within the business has a significant part to play. With the support and contribution of an organization’s employees and the skill and experience of anti-fraud specialists, fraud may never be completely eliminated, but much can be done to reduce the risk.

How Expensive Is Fraud?
The Association of Certified Fraud Examiners’ 2012 Report to the Nations on Occupational Fraud and Abuse analyzed data from 94 countries:

- A typical organization loses 5% of its revenues to fraud each year.
- The median loss caused by occupational fraud cases in the study was $140,000.
- The frauds reported lasted a median of 18 months before being detected.
- Asset misappropriation schemes (schemes involving the theft or misuse of an organization’s assets, such as fraudulent invoicing, payroll fraud or skimming revenues) were by far the most common type of occupational fraud, comprising 87% of the cases and a median loss of $120,000.
- Financial statement fraud schemes made up just 8% of the cases in the study, but caused the greatest median loss at $1 million.
- Corruption schemes fall in the middle, occurring in just over one-third of reported cases and causing a median loss of $250,000.
- The presence of anti-fraud controls is notably correlated with significant decreases in the cost and duration of occupational fraud schemes. Victim organizations that had implemented any of 16 common anti-fraud controls experienced considerably lower losses and time-to-detection than organizations lacking these controls.
- Nearly half of victim organizations do not recover any losses that they suffer due to fraud.
Many organizations have taken proactive steps to detecting fraud. Establishing whistleblower hotlines and creating special investigation units to address fraud allegations can demonstrate management’s commitment to fighting fraud and supporting a culture of ethics and integrity. Such programs have also come about as a result of the Sarbanes-Oxley Act, United States Sentencing Guidelines provisions, and insurance regulations.

As economies continue to stagnate and incidences of large frauds become known, organizations may consider assessing their own fraud detection efforts. Instead of asking “What are we doing to respond to fraud?” organizations may consider asking, “Are we doing it well? Are our fraud response efforts effective and efficient? Are we as prepared as we should be?” The answers to these questions could be important on several levels:

- From a compliance standpoint, the SEC has indicated that a critical consideration in its evaluation of a company’s response to an alleged fraud is whether the company thoroughly reviewed the allegation’s scope, origins, and consequences. Further, the United States Sentencing Guidelines provide specific criteria regarding effective organizational mechanisms for reporting and responding to allegations of fraud.
- From an efficiency standpoint, prudent organizations may seek to understand the performance effectiveness of their internal investigation resources, not only to comply with regulatory requirements, but also to improve their function. Performance improvement can often translate into higher recoveries, significant savings, and reduced reputational risk.

Anti-fraud programs and controls are measures taken by companies to prevent, detect and respond to fraud and misconduct:
- Prevent: Reduce the risk of fraud and misconduct from occurring.
- Detect: Discover fraud and misconduct when it occurs.
- Respond: Take corrective action and remedy the harm caused by fraud or misconduct.

### Anti-Fraud Programs and Controls

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<th>Prevention</th>
<th>Detection</th>
<th>Response</th>
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<td>- Board and Audit Committee Functions</td>
<td>- Hotlines and Whistleblower Reporting Mechanisms</td>
<td>- Internal Investigation Protocols</td>
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<tr>
<td>- Internal Audit and Compliance Functions</td>
<td>- Substantive Testing</td>
<td>- Remedial Action Protocols</td>
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<tr>
<td>- Fraud and Misconduct Risk Assessment</td>
<td>- Proactive Forensic Data Analysis (Retrospective Review)</td>
<td>- Enforcement and Accountability Protocols</td>
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<td>- Codes of Conduct</td>
<td>- Process-Specific Fraud Risk Controls</td>
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<td>- Employee Communication and Training</td>
<td>- Proactive Forensic Data Analysis (Continued Monitoring)</td>
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<tr>
<td>- Employee and Third-Party Due Diligence</td>
<td>- Ongoing Self-Monitoring and Separate Evaluations</td>
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Issues
What Are Anti-Fraud Programs and Controls?

**An Ongoing Process**
Organizations should address the risk of fraud in a comprehensive and integrated manner. Our integrated approach to fraud control helps organizations understand their susceptibility to fraud risk, identify high-risk fraud areas, develop a fraud control plan to address areas of critical fraud risk, monitor the ongoing effectiveness of fraud risk mitigation, and respond to actual instances of fraud.

Effective fraud risk management provides an organization with tools to manage risk in a manner consistent with regulatory requirements as well as the entity’s business needs and marketplace expectations. Our approach has six phases:

<table>
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<th>Evaluate</th>
<th>Identify Risk</th>
<th>Action Plan</th>
<th>Mitigate</th>
<th>Monitor</th>
<th>Respond</th>
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<td>Evaluate the current status and effectiveness of the approach to implementing and maintaining anti-fraud programs and controls within the business.</td>
<td>Assess, define and document fraud risks and control effectiveness; establish fraud risk profile by analysis of risk against controls.</td>
<td>Help prepare an action plan to address areas of fraud risk identified for control improvement or new control implementation during the fraud risk assessment.</td>
<td>Enhance, implement and maintain preventative and detective control activities which help mitigate fraud risks identified during the fraud risk assessment.</td>
<td>Help establish continuous monitoring activities through technology and ongoing review activities to alert management of potential fraud; incorporate findings into annual fraud risk assessment process.</td>
<td>Assist in responding to potential occurrences of fraud within the business.</td>
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**Measure, Improve and Move:**
This program is a continuous improvement process that requires annual measurements of where a business is in terms of effectively deterring, detecting and responding to fraud. This enables comparisons of where the business was, where it is now and where it needs to be. It is important for management to consider the increasing expectations associated with key business, regulatory compliance, and marketplace drivers in developing anti-fraud programs and controls.
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