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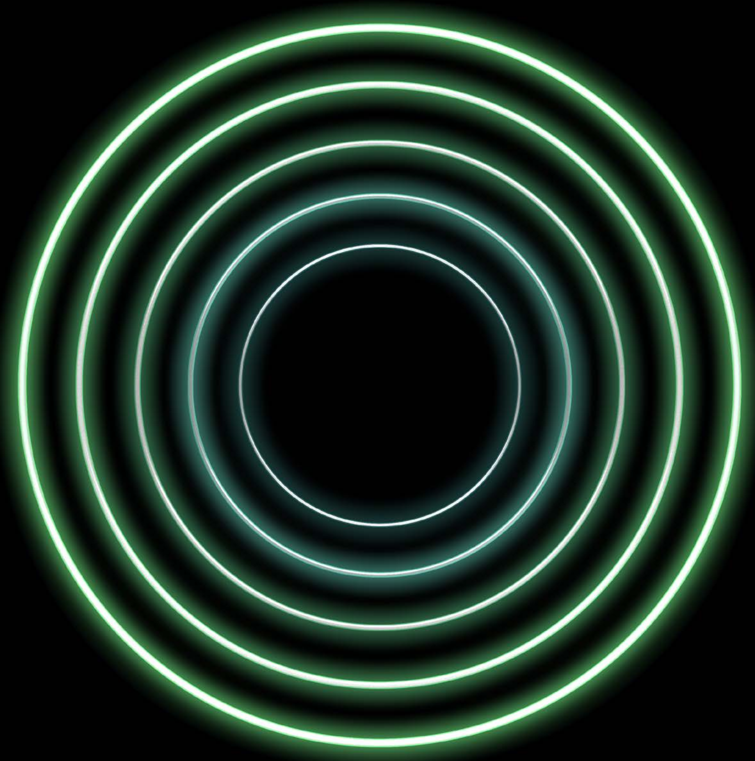

Protecting family offices and ultra-high net worth families from fraud

Recognize, assess, and address fraud risk

Although family office fraud rarely makes headlines given the private nature of the industry, fraud happens. Most family offices oversee some aspect of the family's finances and investments, giving family office employees proximity to cash and assets. Also, a family office can often be a small organization where a single employee has significant control over financial activity and be the sole person handling communications to family members. These factors can make family offices "opportunity rich" targets for fraud.

The overarching goal of family office fraud prevention is for the family office, and the family it serves, to establish a culture that values integrity and transparency and encourages employees to report suspicious activity. The first step is to accept and acknowledge that fraud is a real threat. Then it becomes a matter of family offices and family members becoming "fraud aware," performing periodic risk assessments within the family office, and structuring and training the staff to prevent, deter, and detect fraud.

Getting educated

Employees who commit fraud often display a clear pattern of behavior that family members and other employees can learn to detect. For example, hallmarks of embezzlers include a tendency to work long hours, often arriving before and leaving after other employees. Embezzlers also tend to work weekends and generally do not take long vacations. These can be signs of employees working hard to "cover their tracks." The challenge is that these traits can also be characteristics of dedicated employees and may not be evidence of fraud. They are merely red flags and can be a prompt for additional review. Educating family office employees and family members about fraud serves a dual purpose. It makes everyone involved more knowledgeable about how fraud may be perpetrated and what signs to look for. It also serves as notice that the family office, family, and other key stakeholders are serious about fraud prevention, which hopefully could discourage future attempts at fraud.

A structured fraud risk assessment should be conducted periodically to assess the presence and characteristics of fraud risks and related control activities.

Performing a periodic fraud risk assessment

Another effective practice is to perform a periodic test, not just of internal fraud-prevention controls, but also of the entire family office operating environment. It is prudent for the family to perform a risk assessment periodically. Even if no fraud is uncovered, the clean bill of health can give the family a level of comfort and peace of mind, as well as build an important track record should fraud ever be detected and an investigation undertaken.

Some important steps family offices can take to address fraud risks include:

- Acknowledging the risk of fraud
- Training family members to detect fraudulent behaviors
- Instituting policies and procedures that are known to thwart fraud
- Performing periodic fraud risk assessments
- Establishing segregation of duties as a form of checks and balances

Structuring and training staff

Many family offices have long-standing employees, which is often a sign of loyalty. While such loyalty can contribute to a productive work environment, it can also lead to an overreliance on trust and integrity. For example, a family office with trusted employees might not have the proper checks and balances in place for financial transactions. It can be challenging for a family to impose checks and balances when most employees have a history of honesty and integrity. However, the absence of such controls is an invitation for fraud as the family, family office, and employee dynamics change over time.

Deloitte's family office antifraud program and controls offering

Deloitte offers a portfolio of antifraud services to help family offices put in place effectively designed and operating controls, including:

- **Control environments.** Creating and maintaining a culture of honesty and high ethical standards sets an appropriate tone for the family office's attitude toward fraud and fraud prevention, and emphasizes the controls designed to prevent, deter, and detect fraud.
- **Antifraud control activities**. Control activities should be designed to prevent fraud from occurring and detect it if it does occur. They should mitigate the risk of management's override and other schemes.
- **Communications.** Management should communicate timely, current, accurate, and accessible information to provide employees a clear understanding of expectations regarding ethical behavior.
- **Activity monitoring.** An effective monitoring program should include independent evaluations of antifraud programs and controls.

Why Deloitte?

It's business, and it's personal.

Deloitte has discreetly served high net worth individuals, families, and their enterprises for more than 100 years. As a trusted adviser to many of the world's most affluent families, family offices, and private trust companies, we offer significant experience and integrated service capabilities. You gain access to our world-class level of knowledge and experience tailored to the unique and personal circumstances of your family office and the family it serves.

One step at a time.

While discussing fraud risk is vital, it can also be an uncomfortable conversation. Our deep experience in risk, regulation, and technology in a wide range of environments equips us to discern the nuances of your environment and recommend actions that align with your family office mission, goals, and culture.

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