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Your Partner for Growth in Asia

Preventing Fraud Risk in a Time of Crisis

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August 11th, 2020

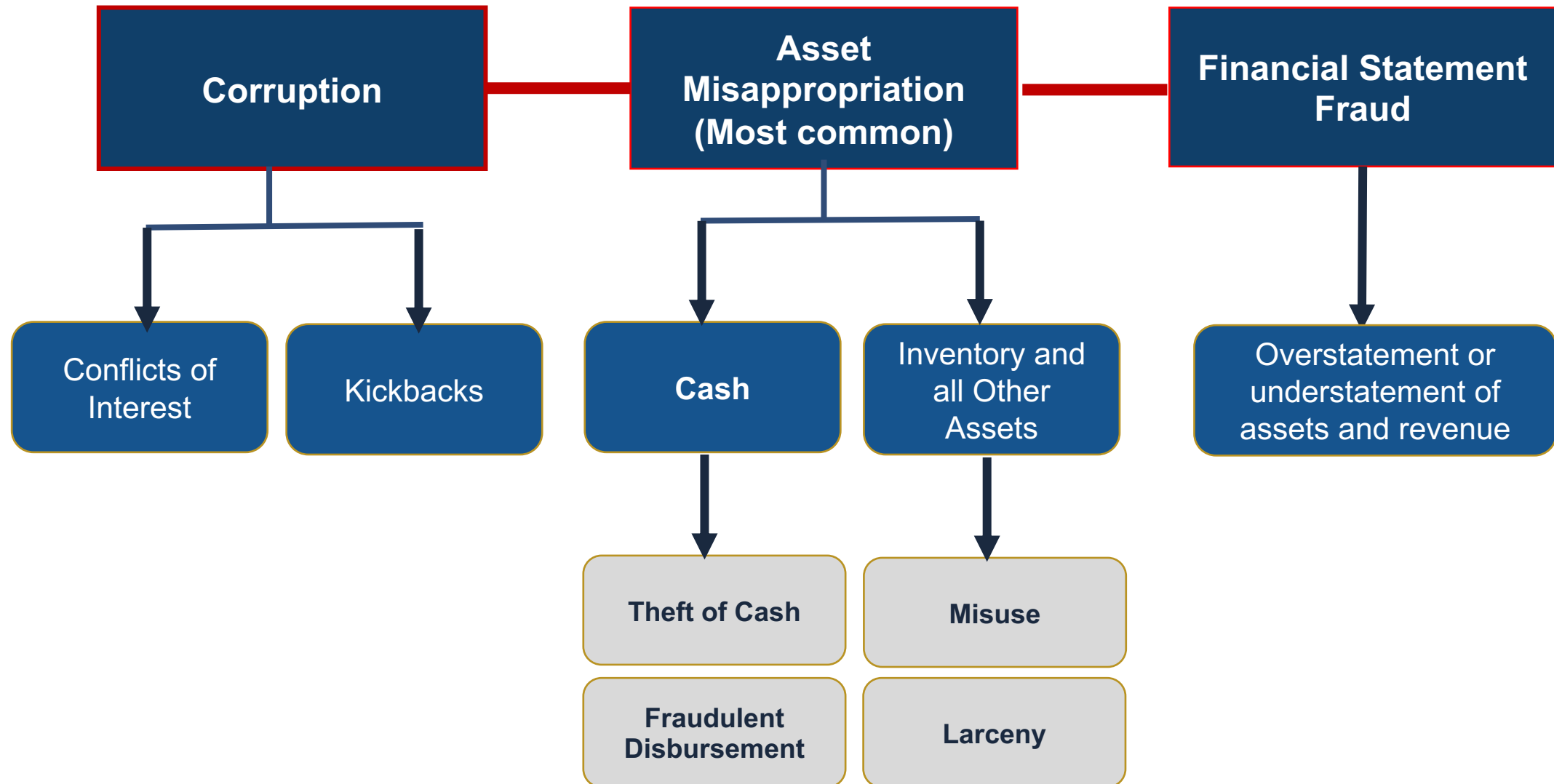


What Fraud is..



- **Defined:**
 - Occupational Fraud (internal fraud): A fraud committed by an employee, against his or her employer.
 - Inside Threat
 - Not attack from outside/not destructive actions per se
- **A Key finding from Association of Certified Fraud Examiners (ACFE):**
 - Losses: *“organizations worldwide lose 5% of their annual revenues to fraud. Based on the global GDP, this translates to a potential total global fraud loss of nearly USD 4.5 trillion”*

How Occupational Fraud is Committed (main types)



The Fraud Triangle Assumption

- *perceived financial need, opportunity and rationalization all help promote fraud.*

Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are **aware this problem can be secretly resolved** by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them **to adjust their conceptions of themselves as trusted persons** with their conceptions of themselves as users of the entrusted funds or property.

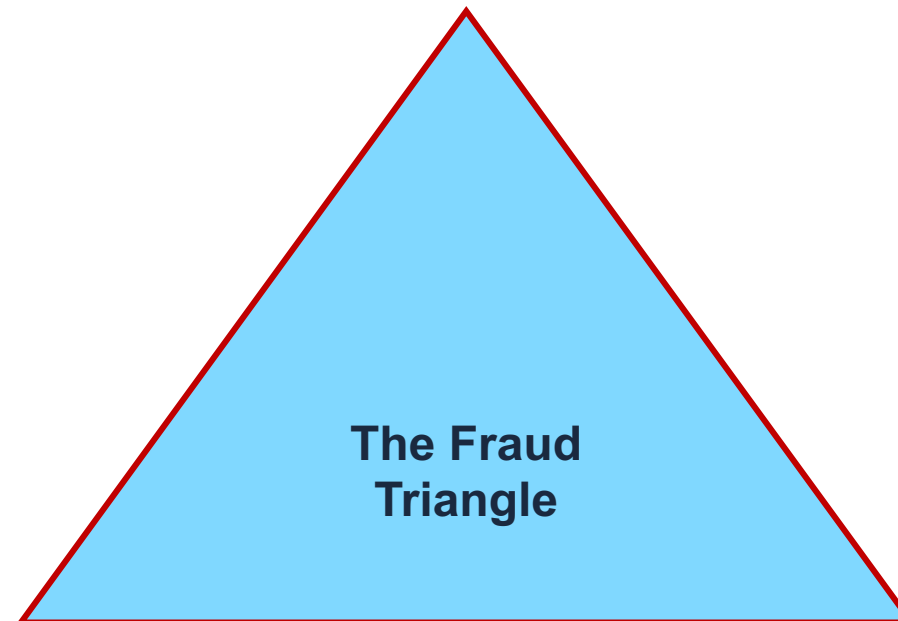
- Donald R. Cressey, *Other People's Money* (Montclair: Patterson Smith, 1973) p. 30.

Pressure (Incentive):

- Pressure to perform
- Greedy
- Lifestyle Needs
- Gambling, drugs

Opportunity:

- No internal control;
- No segregation of duties;
- Too much trust
- Tone at the TOP



Rationalization:

- I don't get paid what I am worth
- Other people are doing it
- I will pay it back for sure

The levels of Fraud Risk Heightening in a Crisis

➤ History:

- **Financial Crisis 2007 – 2009:** More than half (55.4 percent) of respondents said that the level of fraud has slightly or significantly increased in the previous 12 months compared to the level of fraud they investigated or observed in years prior. Additionally, about half (49.1 percent) of respondents cited increased financial pressure as the biggest factor contributing to the increase in fraud, compared to increased opportunity (27.1 percent) and increased rationalization (23.7 percent)

-- conducted by the Association of Certified Fraud Examiners (ACFE).

➤ Recent Surveys:

- A new survey conducted by the **Association of Certified Fraud Examiners (ACFE)**: 90% of anti-fraud professionals have seen an increase in scams due to the coronavirus pandemic;
- The latest **PwC Global Economic Crime and Fraud Survey 2020** told us that 47% of respondents experienced fraud in the last 24 months.
- **PwC's 2020 Global Economic Crime and Fraud Survey** nearly half (43%) of reported incidents resulting in losses of US\$100 million or more were committed by insiders
- **PwC's 2020 Global Economic Crime and Fraud Survey** found that one in five (19%) respondents cited vendors/ suppliers as the source of their most disruptive external fraud.

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- **Key observations on fraud schemes (Case Studies)**
- **Suggestions for Mitigating Exposure to Fraud Risk**



Section 1
**The Fraud Triangle in a
Crisis**

Fraud Prevention: A new normal?

Could a pandemic be making your organization vulnerable to internal fraud?

- *Positive*
- *Nearly every industry sector*



Pressures

- *Lower income, savings, and spending*
- *Fear*
- *To “save” businesses, cost-cutting measures:*
 - Pay cut,
 - Lay off or furlough employees
 - Sub-contractors

↳ *Increased financial difficulties/economic pressure will create an environment where potential for fraud increase.*



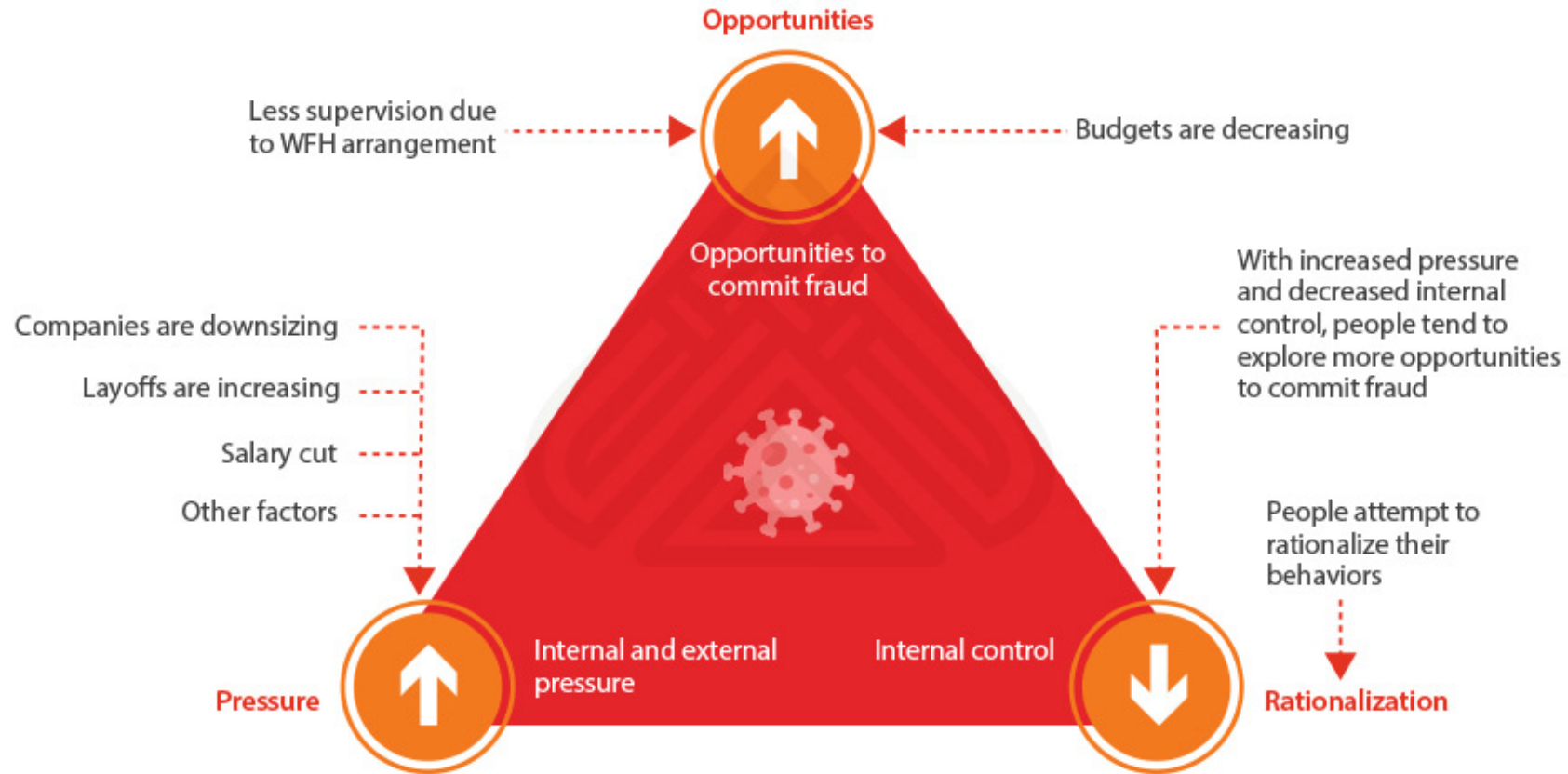
Opportunity

- **Changes:**
 - Remote working (WFH)
 - Work-shifts
 - Workforce disruption: no longer be segregated
 - Internal control may no longer be functioning as effectively as before or even uncontrolled
 - Global Travel bans
 - China's travel ban
 - Commercial Interactions
 - Cut-back back office departments




Causal Factors - Simultaneously Increase

Fraud Triangle in the Context of COVID-19



Graphic © Asia Briefing Ltd.



Section 2
Key observations on fraud schemes
(Case Studies)

Case 1: Shifting Profit

Background:

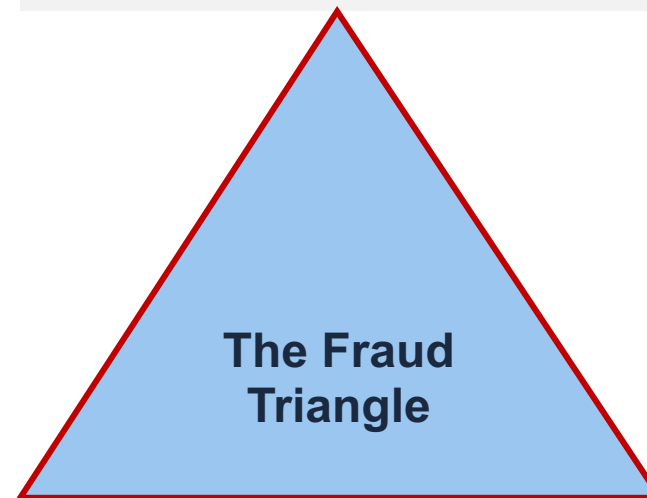
- a WFOE with its HQ in the UK
- The GM has stuck in the UK since February.

Signals:

- The WFOE has a new client in 2020
- The new client is the head of sales' own company (co-mingled)
- Selling price=cost price??

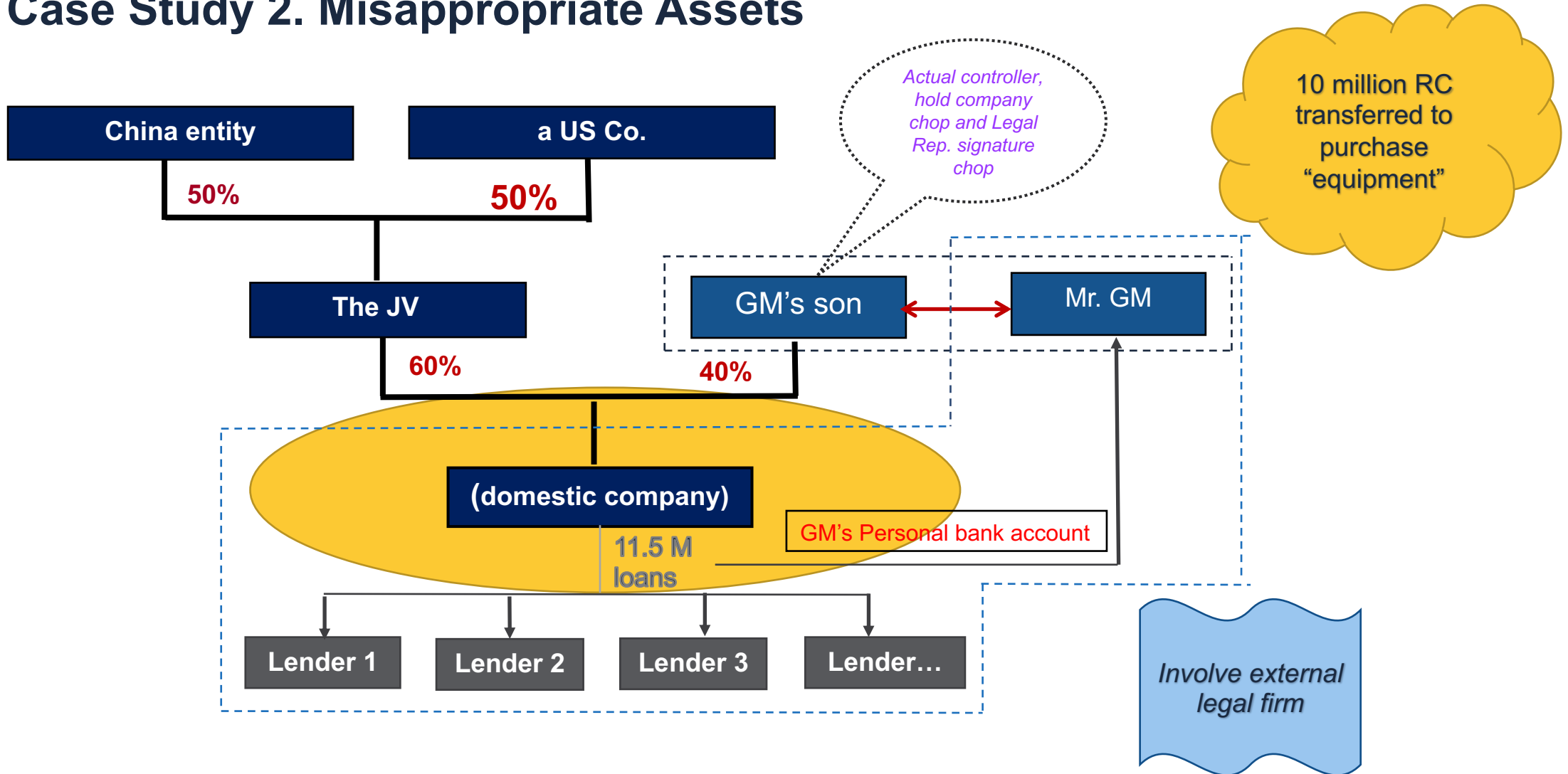
Expanding his own “territory” and “influence” to the HQ (Motive)

The HQ has no review and no control, especially after the GM left (Opportunity)

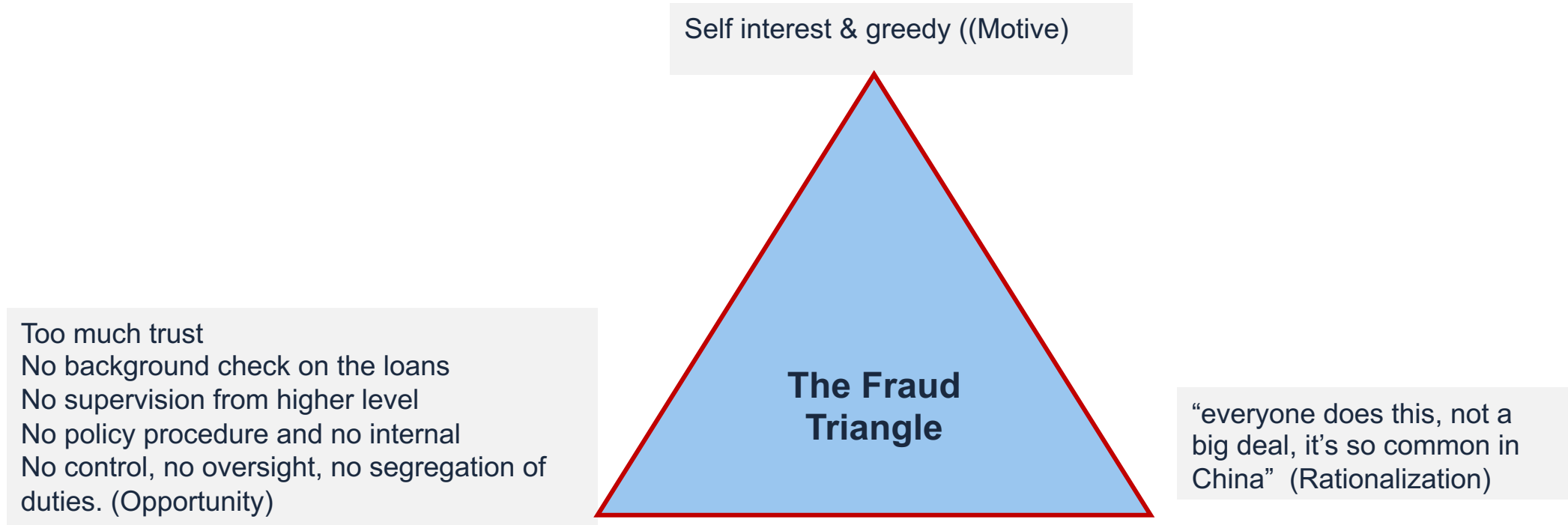


“I m the head of sales – I built up the client relationship. It’s my resources and it’s my money” (Rationalization)

Case Study 2. Misappropriate Assets



Case 2 Misappropriate Assets (Cont'd)





Section 3

Suggestions for Mitigating Exposure to Fraud Risk

What's the goal of preventing fraud:

To help minimize fraud losses and associated reputational damage

High Risk Situation 1: Changes in workplace & Shifts in the Control Environment

- Management stuck outside of the country
- Employees working remotely
- Employee furloughed or laid off
- Cutting off the Back-office Operation

**Segregation of
duties**

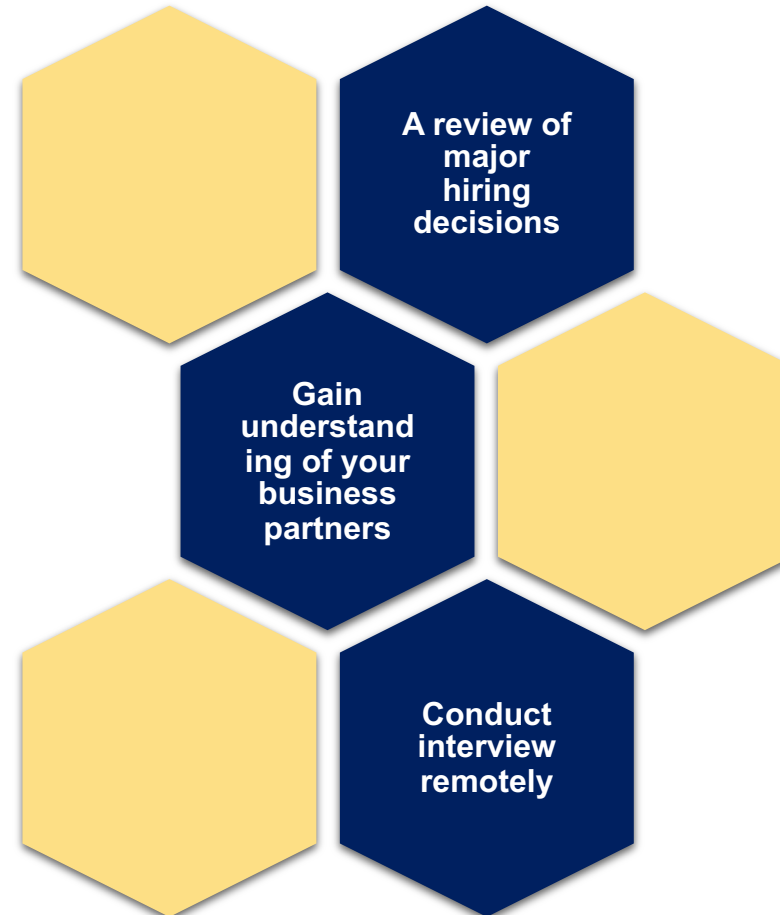
Reporting lines

Financial Review

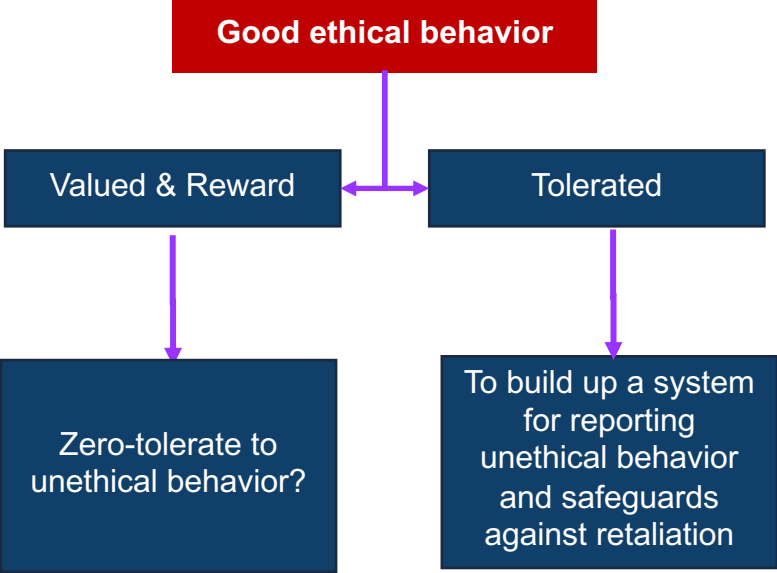
**Back-up plan:
Interim management**

High Risk Situation 2: Selecting your Extended Business Partners

- Vendors, third parties and other business partners can be a stress point for fraud
- The Ability to perform due diligence. If impeded, fraudulent records or documentations may go undetected



High Risk Situation 3: No fraud prevention self-checks or code of conduct reviewed



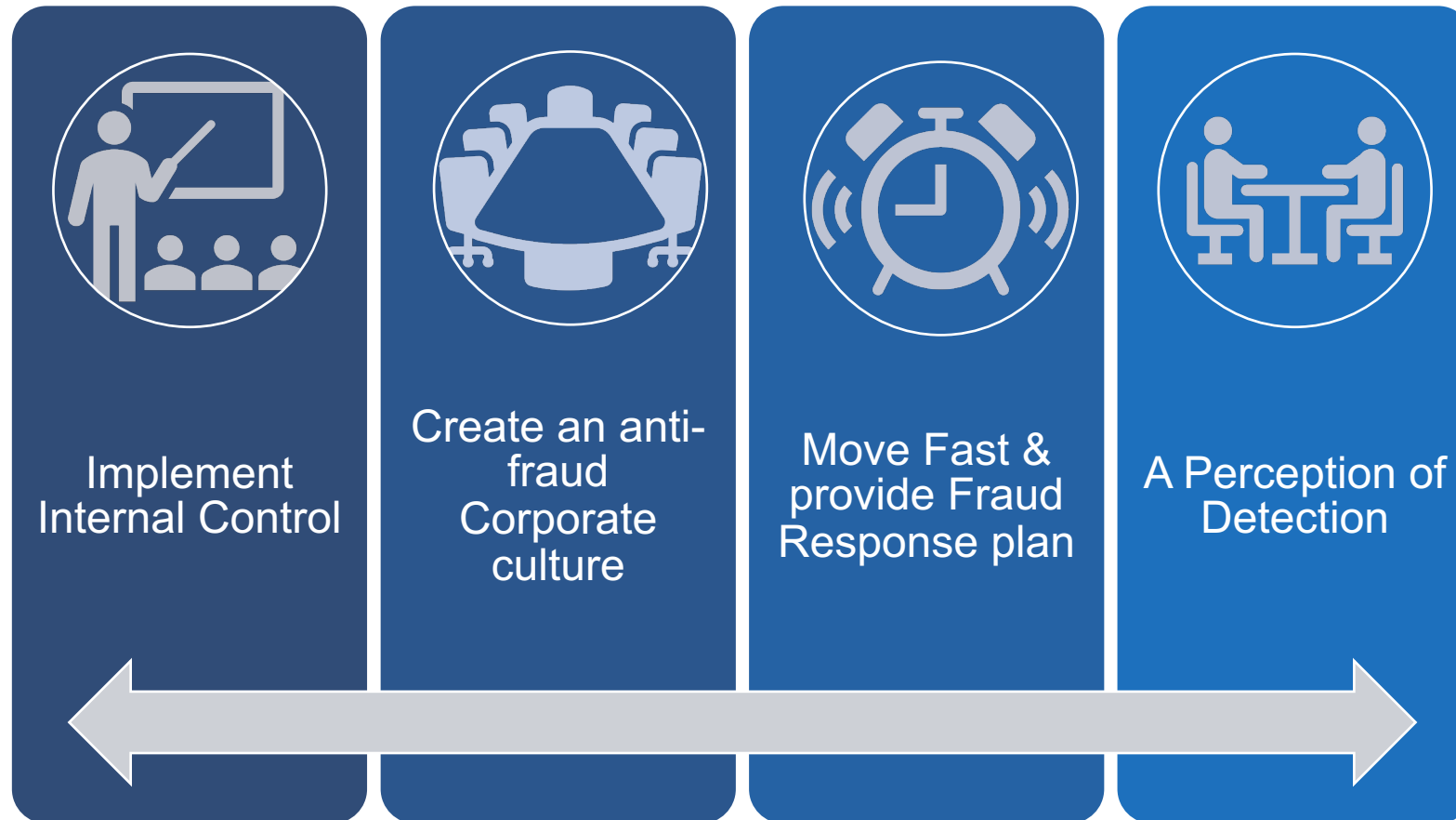
- Adopt clear principle-based policies
- Set strong tone from the top and the middle:
A Role Model
- Reinforce a correction mechanism
- Conduct trainings to fight fraud
- Provide a Hotline

Fraud Prevention: A new normal?

Could a pandemic be making your organization vulnerable to internal fraud?



Fighting Fraud: A New Normal!





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Beyond Checking the Boxes:

High Risk Situations	Recommended Immediate Actions	Solutions
Management stuck outside of the country.	Secure all company chops and key legal and financial documents with appropriate trusted internal or external custodians to ensure no illicit use.	Identify important issues with approver and document controls of your local entities as soon as possible through conducting preliminary financial reviews.
No fraud prevention self-checks or code of conduct reviews conducted within the past 6-12 months.	Update anti-fraud policy and corporate practices and publish to all staff. Schedule an anti-fraud training workshop/session to support and enhance policy implementation.	Conduct self-check and code of conduct review to determine if adequate fraud prevention systems are in place. Regularly evaluate review process with key stakeholders and update prevention systems to address trouble spots.
No vendor risk management review conducted in the past 6-12 months.	Identify third party agents involved in obtaining key assets, operating licenses, or sales contracts and understand their role.	Schedule regular reviews of key third party agents and identify high risk partnerships.
Employees working remotely	Update IT security measures and utilize a digital expense management platform.	Implement proper segregation of duties and ensure supervision by building effective and clear reporting lines.
Employees furloughed or laid off	Ensure proper segregation of duties are still in place and sensitive company data is returned.	Consider interim management services for key roles that will not be filled quickly to provide sufficient oversight and keep operations running smoothly.



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