

BUILDING A STRONG CULTURE BEGINS WITH MANAGING FRAUD RISK

Florida Audit Forum

January 31, 2020

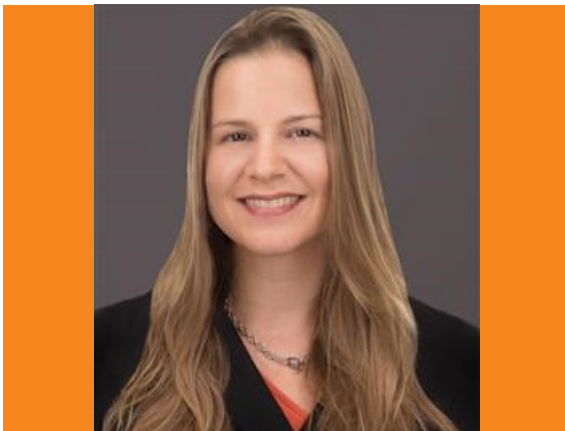
TODAY'S PROTIVITI SPEAKER



Emily Picard

Email : emily.picard@protiviti.com

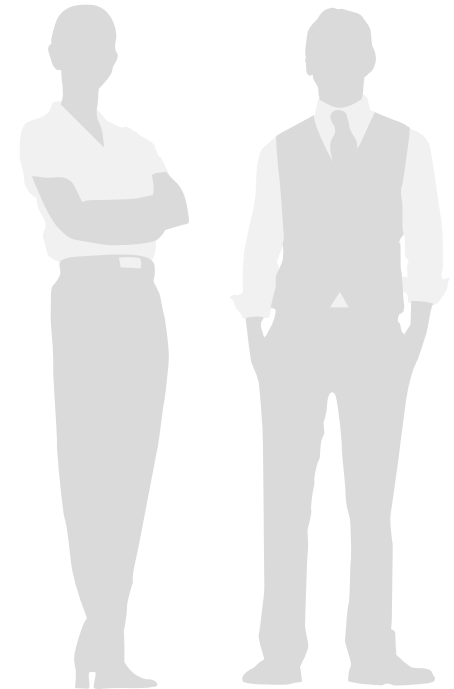
Phone: +1 407-849-3928



Katie Powell

Email : katie.powell@protiviti.com

Phone :+1 813-348-3512



TODAY'S LEARNING OBJECTIVES



- 1. Understand how ethics, culture and conduct is defined.**
- 2. See connectivity between ethics, organizational culture, conduct and fraud risk management.**
- 3. Distinguish between ethics, compliance and fraud risk management for internal control purposes.**
- 4. Hear perspectives about cultural risk factors that can lead to fraud.**
- 5. Increase awareness of techniques to audit organizational culture.**

FRAUD BY THE NUMBERS

REPORT TO THE NATIONS (ACFE) 1/3

Excerpted from the 2018 Global Study on Occupational Fraud and Abuse

TIPS are by far the most common initial detection method



INTERNAL CONTROL WEAKNESSES
WERE RESPONSIBLE FOR NEARLY
HALF OF FRAUDS



2,690
real cases of occupational fraud

from

125 countries

in

23 industry categories

\$7 BILLION+
IN TOTAL LOSSES

\$130,000
MEDIAN LOSS PER CASE

22%
OF CASES CAUSED
LOSSES OF
\$1 MILLION+



Median duration
of a fraud scheme

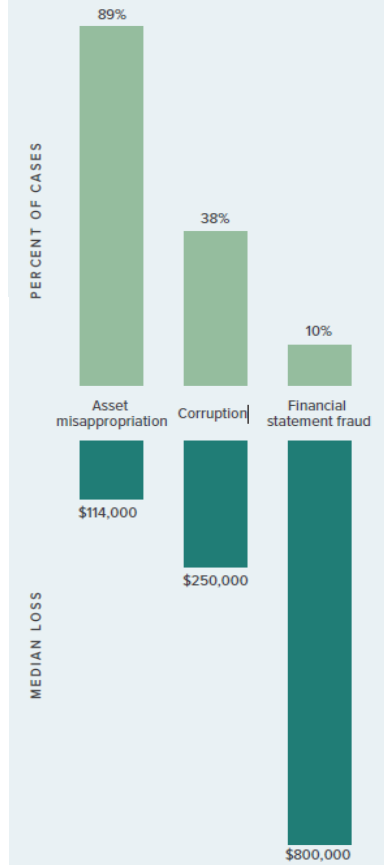
16

MONTHS

CORRUPTION

was the most common scheme
in every global region

FIG. 3 How is occupational fraud committed?



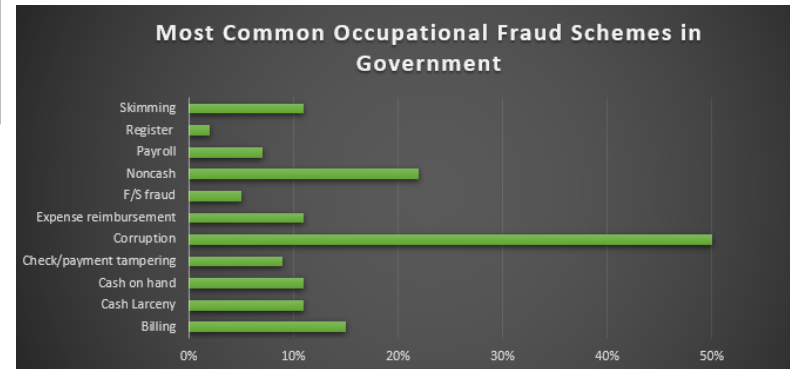
REPORT TO THE NATIONS (ACFE) 2/3

Excerpted from the 2018 Global Study on Occupational Fraud and Abuse

Types of Organizations Victimized by Occupational Fraud



Most Common Occupational Fraud Schemes in Government

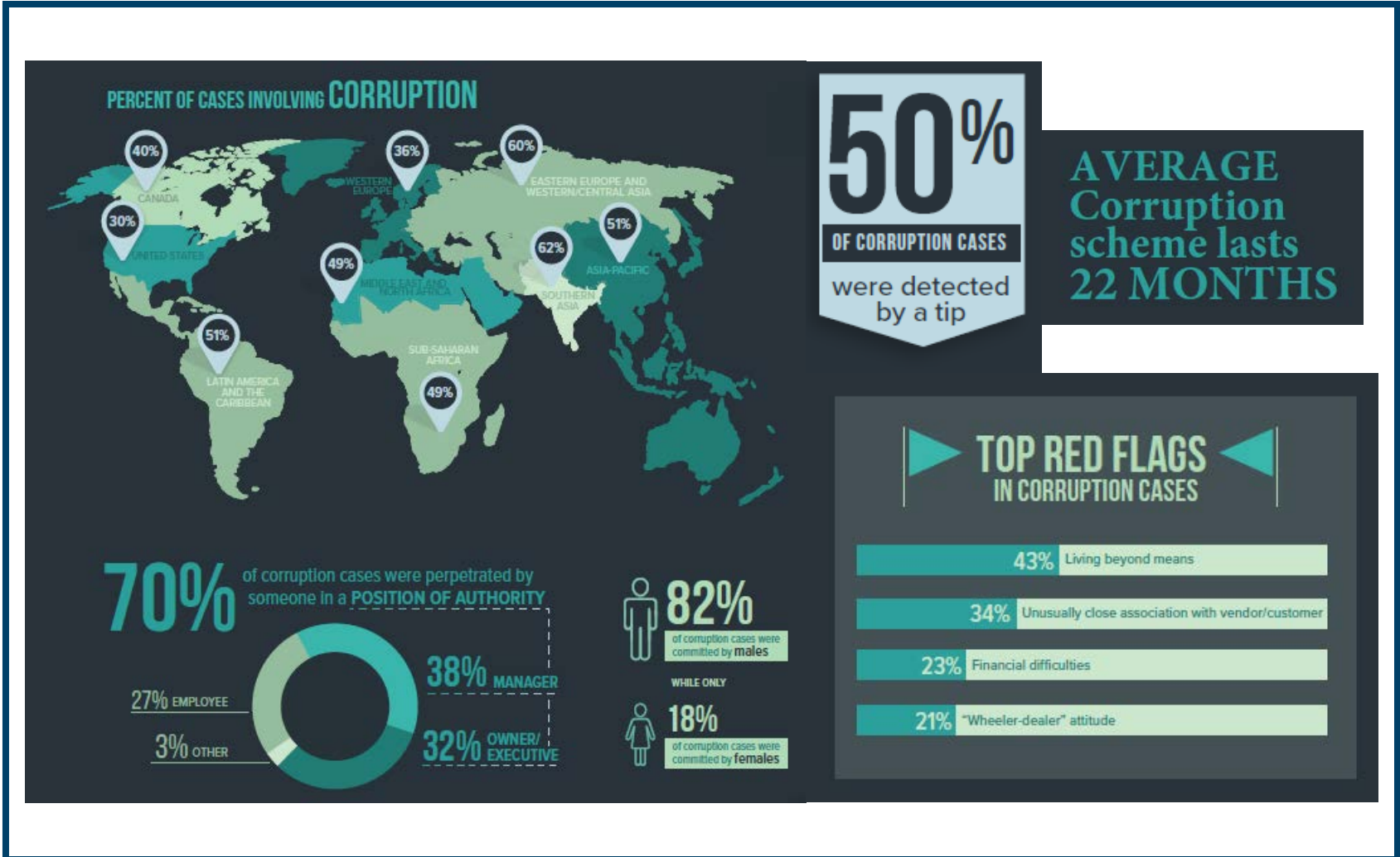


Levels of Government Victimized by Occupational Fraud



REPORT TO THE NATIONS (ACFE) 3/3

Excerpted from the 2018 Global Study on Occupational Fraud and Abuse



MANAGING THE RISK OF FRAUD, WASTE, AND ABUSE IN THE GOVERNMENT ENVIRONMENT (1/2)

Excerpted from the COSO/ACFE Fraud Risk Management Guide

- Lines between fraud, waste, and abuse are **often blurred** and what initially appears to be “just” waste or abuse, ultimately turns out to be fraud.
- **Failure** to comply with or establish **adequate policies/processes** amplify the **fraud risk** management issues in the government environment.
- All the elements – fraud, waste, abuse, mismanagement – need to be **considered together** and attacked no matter the causes of risk.
- Example of **wasteful and abusive spending**:
 - In 2010, the Government executive who famously partied in Las Vegas spending \$823K of federal funds was pled guilty of fraud and sentenced to 3 months in prison.

MANAGING THE RISK OF FRAUD, WASTE, AND ABUSE IN THE GOVERNMENT ENVIRONMENT (2/2)

Excerpted from the COSO/ACFE Fraud Risk Management Guide

- Link between COSO and Government Internal control Frameworks.
 - The government fraud risk differs from the private sector but the concepts of **COSO framework** apply.
 - Additional areas where government **goes beyond** COSO:
 - Open public reporting
 - Establishment of independent IGs with full power to investigate.
- The U.S. Government Accountability Office (**GAO Green Book**) was established for government in 1983 and most recently updated in Sept. **2014** to adapt COSO's Integrated framework.
- Implementing **Fraud Risk Management** Programs, in tandem with **ERM** concepts, represents significant **operational** change and **cultural** transformation.

BUILDING A STRONG ORGANIZATIONAL CULTURE

WHEN IT COMES TO BUILDING A STRONG ORGANIZATIONAL CULTURE, “FRAUD RISK MANAGEMENT” REMAINS A BIT OF A MISNOMER



Our Key Findings



Organizations continue to lag in employing leading practices to build a strong culture — From the frequency of performing fraud risk assessments to a lack of understanding about the drivers of fraud, organizations must seek to move away from the continuous loop of responding to one fire after another with insufficient resources and time to a more proactive, thoughtful and methodical approach to mitigating organizational fraud and culture breaches.



Resources represent a significant challenge in building a strong organizational culture with a clear fraud risk strategy — More than a third of organizations consider their fraud risk strategy to be weakly defined, with many citing the limited availability of internal resources as a significant challenge in addressing fraud proactively.



Many organizations lack a fraud risk management program, including policies to mitigate fraud — Given the prevalence of actual and potential fraud issues in organizations and those involving vendor relationships, as well as the long-term effect on organizational culture, this finding is surprising – and likely disappointing to shareholders and other key stakeholders. Increasingly, external auditors are paying attention to fraud risk and internal investigations. In some cases, they withhold their sign-off pending improvements to the fraud risk management infrastructure or more thorough investigations, or give qualified opinions when they are underwhelmed with a company’s approach to fraud and investigations.



Third parties represent a significant gap in fraud risk management — Overall, one in three organizations lacks a high level of confidence as to whether it has effective oversight of third parties. However, third parties account for a disproportionate amount of violations an organization commits, including those related to the Foreign Corrupt Practices Act and other anti-corruption statutes, cybercrime, vendor fraud, kickbacks, human trafficking and data privacy breaches. Most organizations do not allocate sufficient time, energy and resources to understand and seek to mitigate the myriad issues third parties represent.

CONNECTING THE DOTS BETWEEN ETHICS, CULTURE, COMPLIANCE AND CONDUCT

WHAT WORDS DO YOU USE TO DESCRIBE YOUR CULTURE?

Competitive

Innovative

Supportive

Team-oriented

Ethical

Collaborative

Client Centric

Short Term
Results focused

Adaptable

People Centric

Siloed

Risk Averse

Results Oriented

Inclusive

Fun

Work Life
Balance

Competence

Service

Family

Matrix

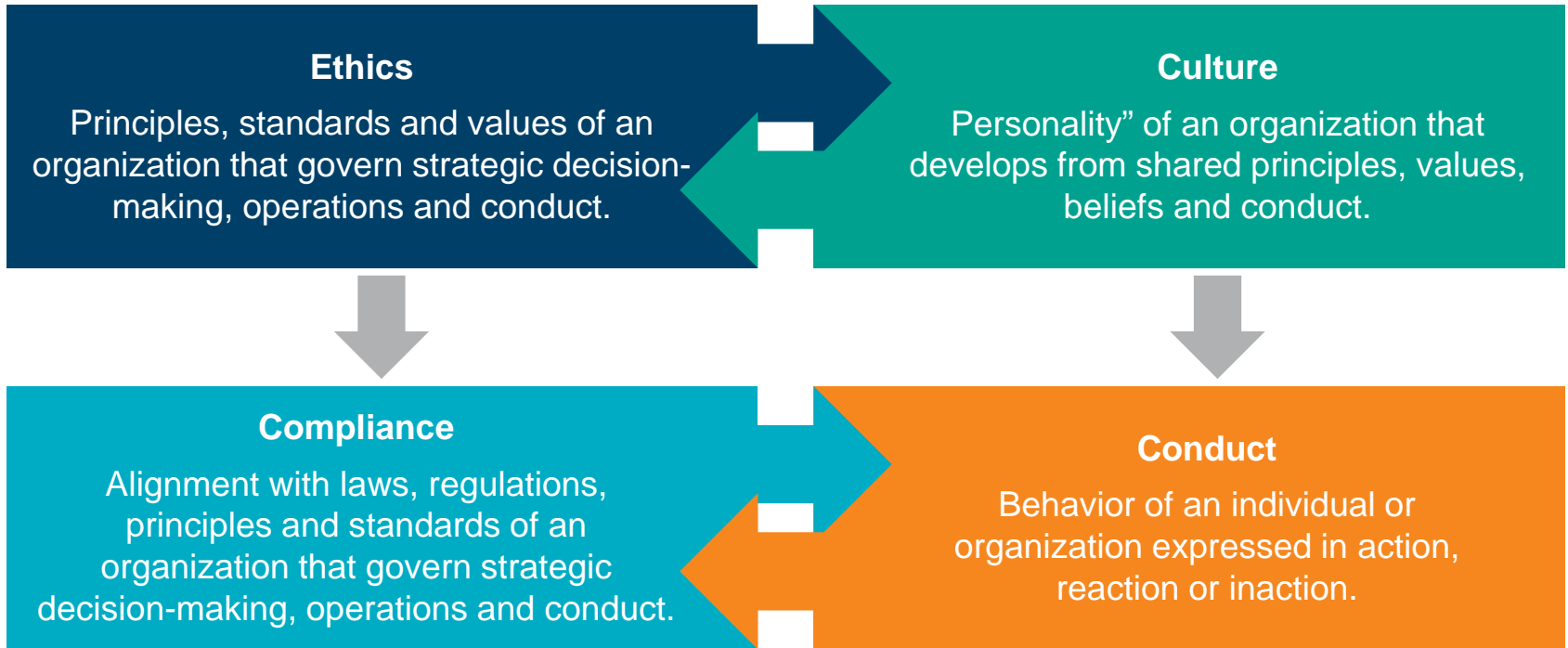
WHAT IS CULTURE?

Culture represents the invisible belief systems, values, norms, and preferences of the individuals that form an organization. Conduct represents the tangible manifestation of culture through the actions, behaviors, and decisions of these individuals.”

Primary Source: “Auditing Culture,” IPPF Supplemental Guidance Practice Guide (2019)

Secondary Source: “Measuring Conduct and Culture: A How-To Guide for Executives,” Elizabeth St-Onge, Ege Gurdeniz, and Elena Belov (New York: Oliver Wyman, 2018)

RELATIONSHIP BETWEEN “E” AND “C(s)” STRATEGIES



Establish **desired organizational culture**, and assess **current state against desired state** to reinforce adoption of ethical behaviors, practices, internal controls/compliance mechanisms that are conducive to **limiting opportunities for misconduct and non-compliance**

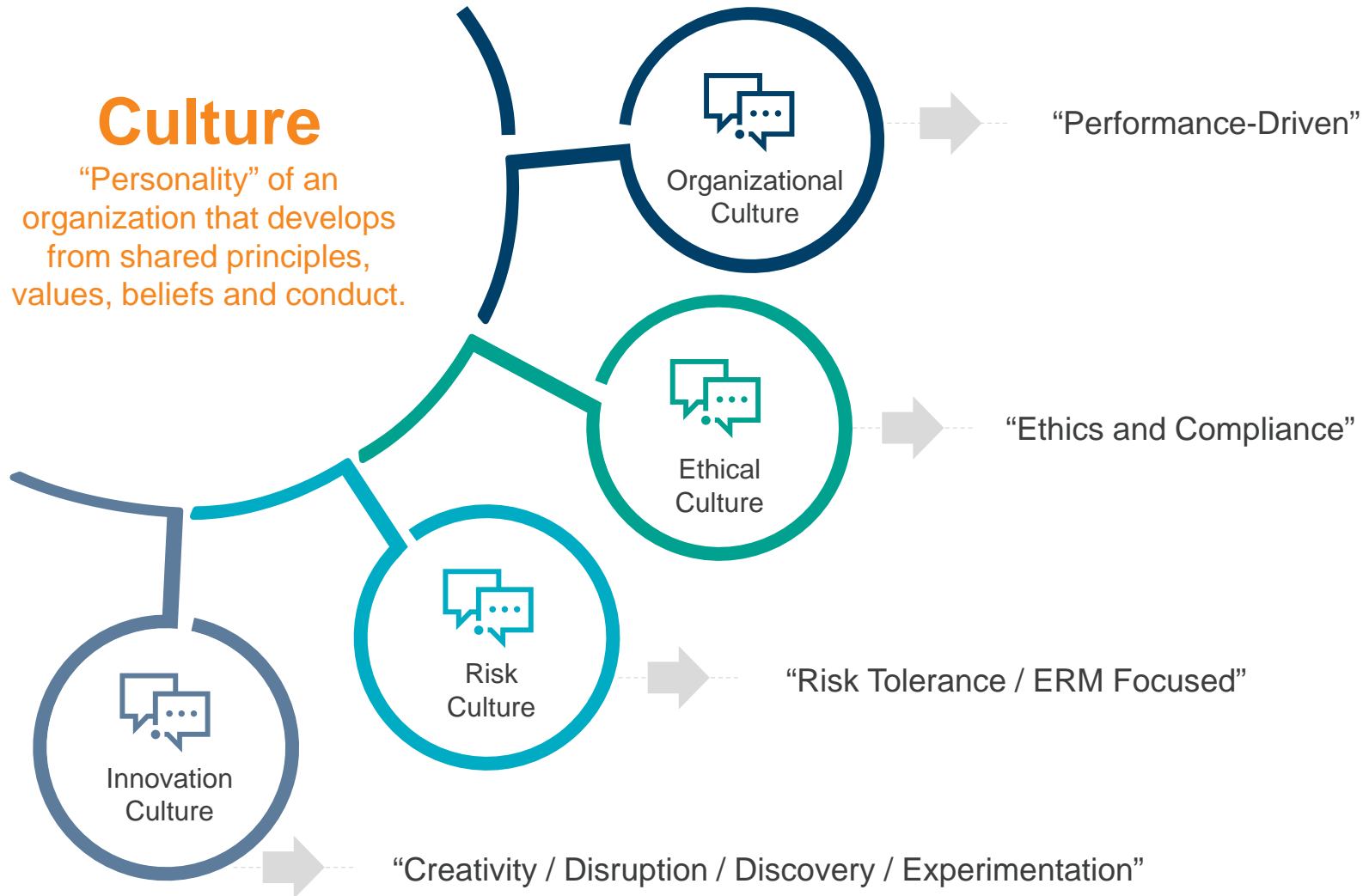


Implement **key controls** across first and second line functions and **monitoring mechanisms with actionable metrics** and reporting to identify and address conduct risk



Strong mechanisms and desired behaviors for a robust ethical culture with proactive identification of potential for culture, conduct and compliance risks

WHICH “LENS” DO YOU APPLY TO CULTURE?



RED FLAGS

CULTURAL RED FLAGS



High Turnover



Employees are constantly on edge over fear of being fired



Low morale and lack of productivity



Employees execute projects without clear vision or leadership direction



Complex and unclear legal and reporting structures



Lack of knowledge sharing among employees



Poorly executed takeovers that allow “pockets” of bad behavior to thrive



Focusing on “blame” or “covering for each other” rather than solutions



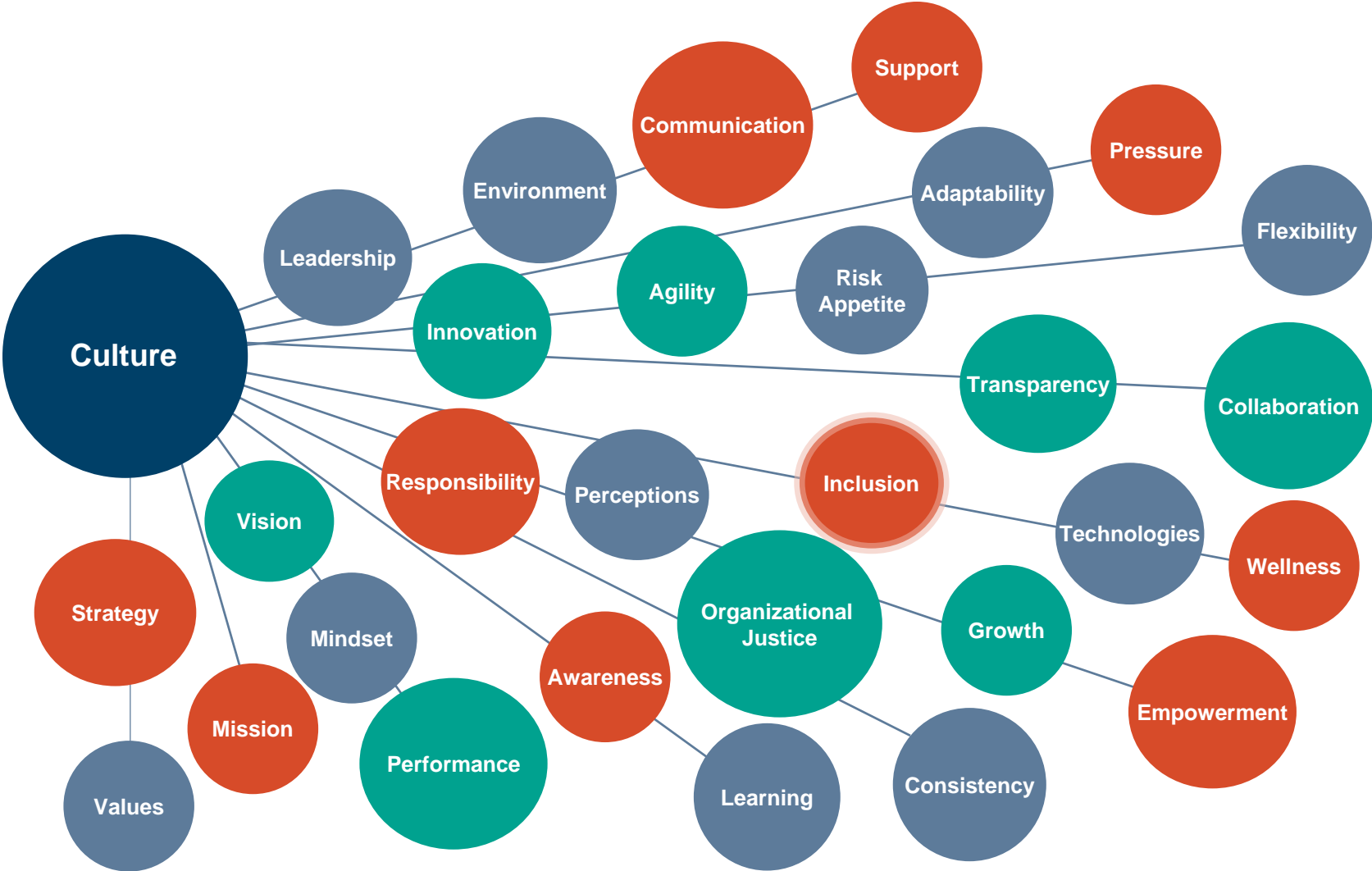
Lack of financial discipline



Controversial pay deals that encourage risk-taking to hit short-term targets

HOW DO YOU AUDIT CULTURE?

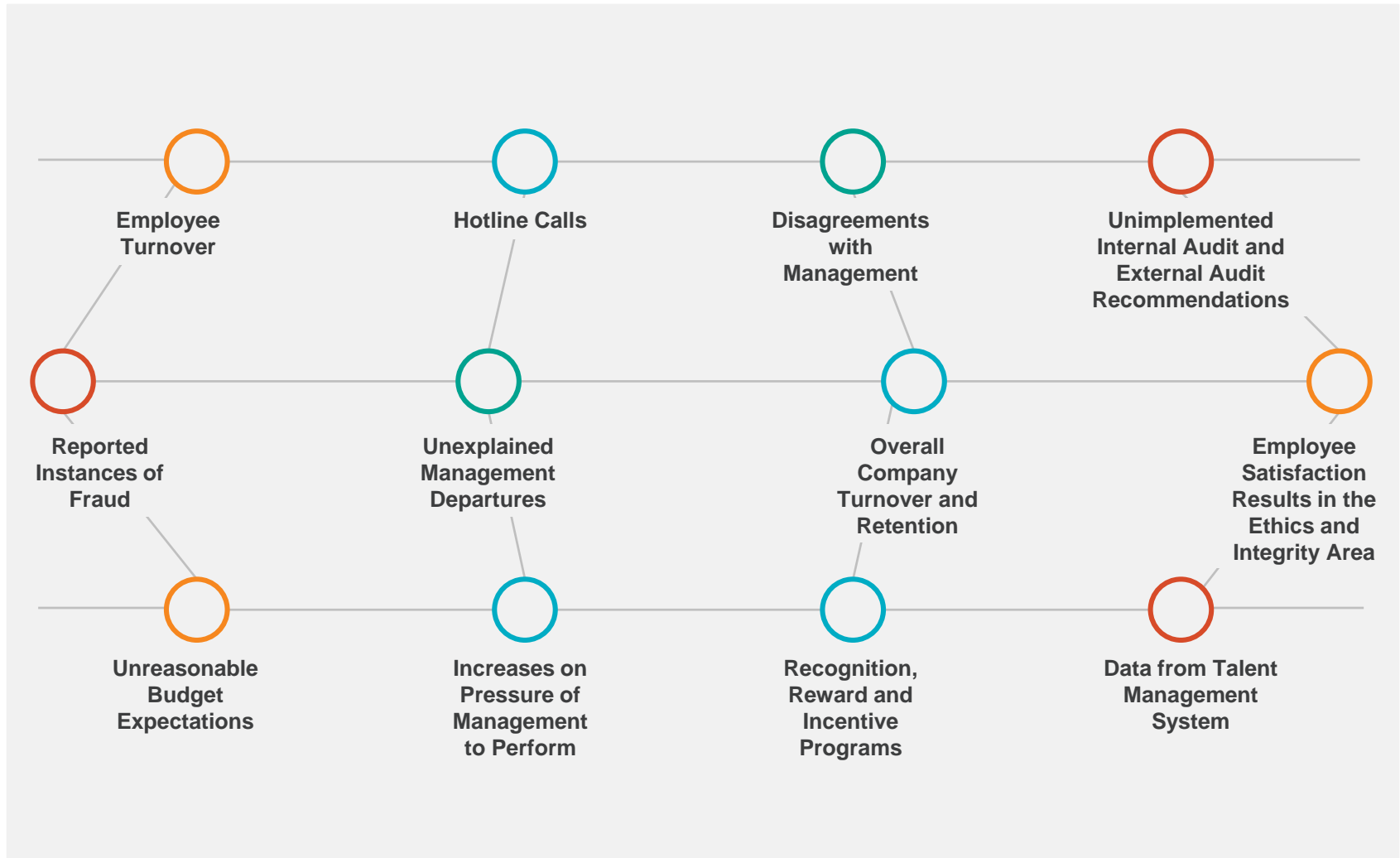
ATTRIBUTES OF CULTURE VARY



ENABLERS FOR AUDITING CULTURE



CONNECTING THE DOTS AND LOOKING FOR DATA TRENDS



CULTURE AUDIT: KEY PLANNING CONSIDERATIONS

Scope

- Identify Project Sponsor
- Determine Objective
- Identify Geographies, Subsidiaries, BUs or Departments
- **Helpful Hint: Think about subcultures!**



Analyze

- Determine methodology model
- Understand data needs – where, what, why and how
- Determine “Perception Collection” – interview, survey or focus group
- **Helpful Hint: Think about your audience!**



Report

- Consider advisory report format
- Consider visual aspects of reporting (i.e., pictorials)
- Consider outcomes
- **Helpful Hint: Think about how the information will be used and by whom!**



LEVERAGE EXISTING AUDIT ACTIVITIES

Consider audits or reviews already on the Internal Audit Plan that may address certain cultural risk factors and contribute to an overall perspective:



Entity-Level Controls Evaluation

- Human Resources - Employee Experience and Satisfaction Surveys
- Exit Interviews
- Whistleblower Program
- Fraud Risk Assessments
- Travel and Expense Reviews
- Compliance with Policies and Procedures
- Incentive Compensation and Recognition Programs
- Board Governance
- Enterprise Risk Management
- Customer Complaints / 3rd Party Feedback

“BUILD UP” TO AN ENTERPRISE-WIDE ASSESSMENT OF CULTURE



Execute enterprise-wide assessment of culture



Issue capstone or “common theme” reports based on multiple inputs



Conduct culture audits within business units, functions, departments, geographies, etc.



In organizational cultural considerations into planning, fieldwork and reporting phases of internal audits; perform “root cause” analysis for observations and findings

QUESTION & ANSWERS



Face the Future with Confidence

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