



# Why do so many Audit and Security Departments never find Corporate Fraud

ASIS International European Security Conference 2010 - Sydney

Presented by

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# *The Hibis Group*



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**Hibis Europe Ltd - London/Manchester**

**Hibis Australia - Sydney**

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## **THE TEAM**

- ▶ **Allan McDonagh**
- ▶ **Caroline Waddicor**
- ▶ **Martin Samociuk**
- ▶ **John Logan**
- ▶ **David Raynes**

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## The Team's Skills

- ▶ **Fraud Management.**
- ▶ **Seminars and Workshops.**
- ▶ **e-learning.**
- ▶ **Security / Loss Prevention.**
- ▶ **Mentor Audit Departments.**
- ▶ **Data Mining.**
- ▶ **Data Recovery.**

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## **Why do so many audit departments never find fraud?**

- ▶ **Are all their employees honest?**
- ▶ **Is it a fraud free company?**
- ▶ **Do they really what to find fraud?**

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## **Headlines**

**Frauds are committed by:**

- ▶ **Policemen.**
- ▶ **Politicians.**
- ▶ **Judges and lawyers.**
- ▶ **Doctors.**
- ▶ **Religious orders**

**Why do so many organisations believe they are immune from fraud.**

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**Is there a 20/80 rule for auditors?**

- ▶ **20% of auditors find 80% of the frauds.**

**There are still many audit departments who fail to find fraud. Why?**

**Example of Customs drug officers.**

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**An example of an industry that often ignores  
Corporate fraud:**

- ▶ **The Retail Industry**

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## RETAIL FRAUD – WHERE IS THE RISK



**Hoodie**



**Granny**



**Shop  
Assistant**

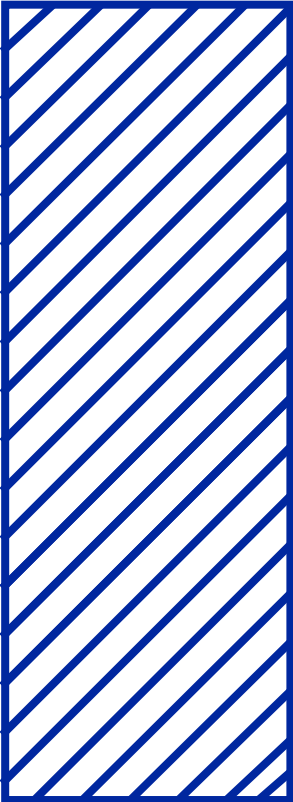


**Head Office  
Manager**

# *Freshco Stores*



**Sales**



**€1,000 million**

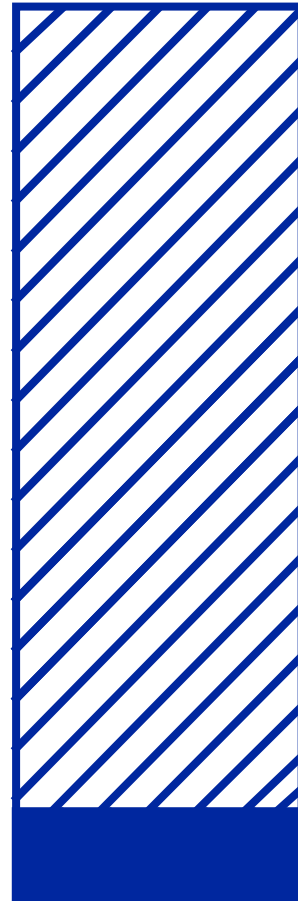
**2% loss €20 million**

# *Freshco Stores*



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**Sales €1,000 million**



## **Security Measures**

- Guards**
- Store Detectives**
- CCTV**
- Epos linked CCTV**
- Tagging**
- Stock Taking**
- Test Shoppers**
- Training**
- Policies & procedures**
- Management controls**

**Cost say €4 million a year**

**Shrinkage/loss 2% = €20 million**

# *Freshco Stores*



€90 million profit

€60 million taxes

€75 million property  
& maintenance

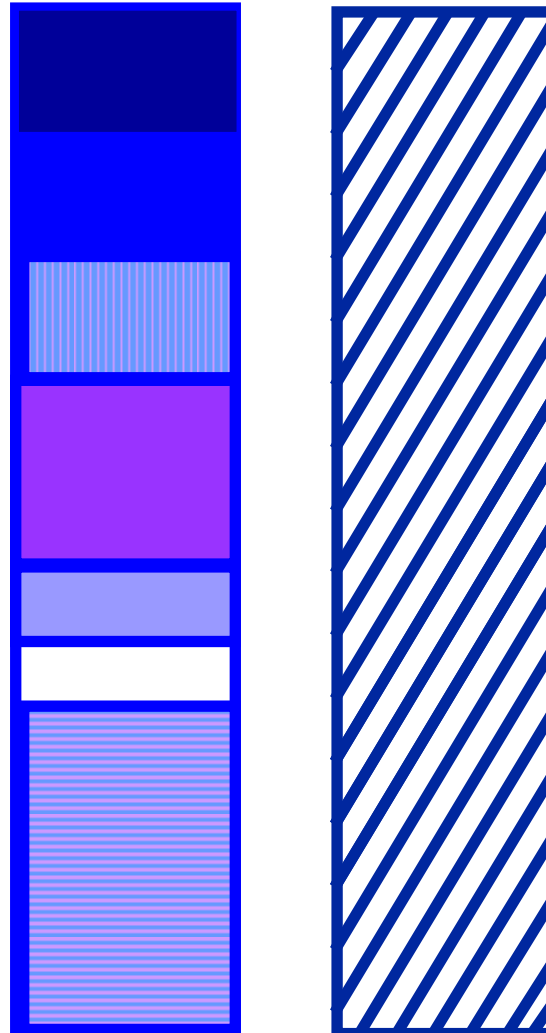
€150 million wages

€20 million advertising

€20 million warehouse  
& distribution

€585 million purchasing  
stock

**€1,000 million**



**Sales €1,000  
million**

# *Freshco Stores*



€90 million profit

€60 million taxes

€75 million property  
& maintenance

€150 million wages

€20 million advertising

€20 million warehouse  
& distribution

€585 million purchasing  
stock

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€1,000 million



What security measures are in place to control this €1,000 million?



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**How would a Fraud Whisperer look  
at a Retailer?**

## Step 1

- ▶ **Create a Fraud Risk Matrix**
- ▶ **Fraud Profile**



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## The 3 key stages in Fraud Management

- 1. Fraud Risk Matrix**
- 2. Red flags in people**
- 3. Red flags in transactions**

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**RED FLAGS IN PEOPLE**



# *Red Flags in People*



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## Corruption

- ▶ **High Achiever.**
- ▶ **Domineering.**
- ▶ **Resents supervision.**
- ▶ **“You don’t understand”.**
- ▶ **High turnover of subordinates.**
- ▶ **Extravagant lifestyles.**
- ▶ **“Mr Fixit”.**
- ▶ **Black holes.**
- ▶ **Ignore policies.**



*Alpha Male*

# *Red Flags in People - Female*



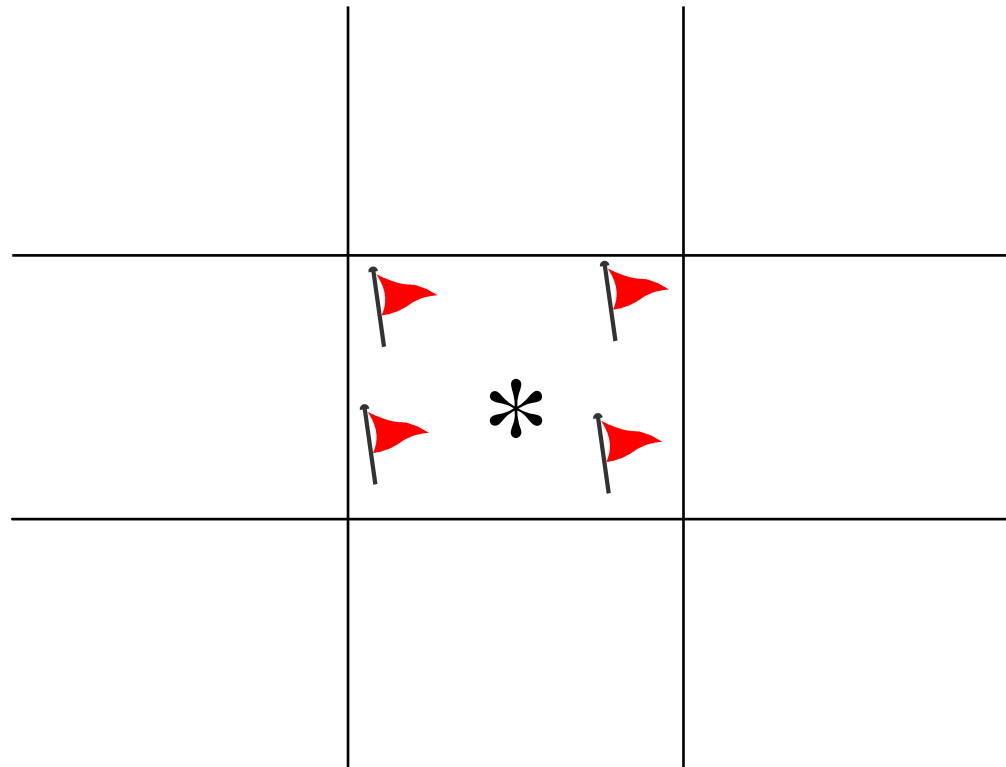
- ▶ **Quiet / Unassuming.**
- ▶ **Bad health record.**
- ▶ **Exploits break down in segregation of duties.**
- ▶ **Cash/cheques/changes in standing data.**
- ▶ **Benefit of partner or family.**
- ▶ **External financial problems.**
- ▶ **Devious/"snakes"/good liars.**





# *Then Compare with Fraud Risk Matrix*

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# *How to Focus Audit in the risk area*

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- ▶ **Do not alert suspect of concerns.**
- ▶ **Take your time (softly, softly).**
- ▶ **Speak to employees about fraud risk.**
- ▶ **Hand out your business card.**
- ▶ **Create fraud champions.**
- ▶ **Exit interview for staff who leave.**
- ▶ **Make employees in that area aware of whistleblowing/speaking up policy.**
- ▶ **Then Step 3 – Focus on Transactions.**

# *Red Flag Transactions*

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- ▶ **Tendering.**
- ▶ **Accounts Payable.**
- ▶ **Accounts Receivable.**
- ▶ **Stock Discrepancies.**
- ▶ **Bank Reconciliations.**
- ▶ **Expenses/overtime**

# *Conclusion*

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**The most important factor in identifying fraud is the character/personality of the Head of Audit or Head of Security.**

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**WHAT TYPE OF AUDITOR /  
SECURITY DIRECTOR ARE YOU?**



**Poodle**



**Clint  
Eastwood**



**Columbo**

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**WHAT TYPE OF AUDITOR /  
SECURITY DIRECTOR ARE YOU?**



**Polite, Perceptive, Patient & Persistent**

## Initiatives

- ▶ **Fraud Awareness Training.**
- ▶ **E-learning.**
- ▶ **Fraud Champions.**
- ▶ **Fraud Team.**
- ▶ **Fraud Exercise.**

## Initiatives cont.

- ▶ **Create Fraud Risk Matrix.**
- ▶ **Health Checks.**
- ▶ **Focus Audits on risk areas.**
- ▶ **Investigate all allegations.**