

Fraud Issues in Corporate Security

***How Fraud Might Impact Your
Organisation***

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Paul J. Bonny – MA, MSc, CPP, CFE

Traditional Fraud Prevention Strategies

- Typically outward focus – internal fraud is considered 'unlikely';
- Compliance is practiced to the minimum requirement;
- Fraud occurs when controls fail – yet failures are seldom followed up;
- Detection is expected from audit – yet it is well established that auditors don't detect fraud;
- Culture of trust is outdated and misplaced;

Traditional Fraud Prevention Strategies (2)

- Fail to address common issues – lack of segregation of duties; ignoring warning signs;
- Built on potentially flawed theories – ‘fraud triangle’ and ‘loyalty’;
- Often fail to contemplate group deviance

Fraud Trends

- Increasingly sophisticated methods of offending;
- Still many cases where simple methods used;
- Using positions of influence or lack of governance to support offending;
- Often leveraging technology skills and knowledge gained in-house;
- Evidence of organised crime involvement – eg. Call centre associates; planted employees;
- Multi-party collusion;
- ‘Social engineering’ on top of knowledge of processes;

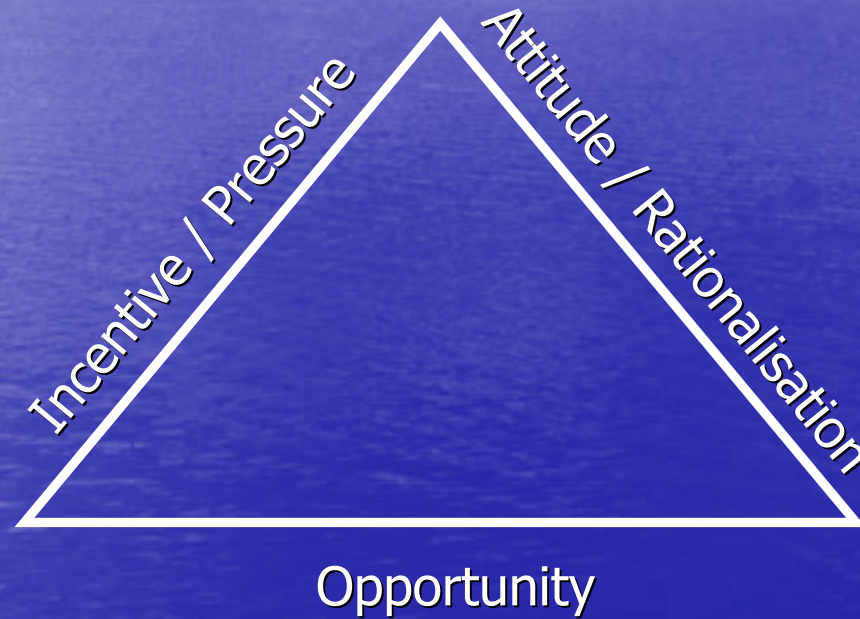
Criminology Theory

'Rational Choice' theory

- holds that all individuals have a **rational choice** in most things and that those who commit crime do so by choice.
- This theory suggests that the choice whether to commit crime is determined largely by factors such as **opportunity, personal motivation** and the presence or absence of **controls**.

Criminology Theory

'Fraud Triangle'



The Workplace Setting

- ***The 'Loyalty Contract' is dead*** – but many employers don't realise that yet;
- This means employee loyalty and honesty can no longer be assumed or taken for granted;
- Numbers are increasingly thinly spread at all levels, including supervisors;
- Controls continue to be inconsistently applied;
- Apathy and poor awareness prevail in organisations

2004 Study Conclusions

- Research found known offending at approx. **1% – 1.5% of workforce**
- It is likely that true offending rates are much higher – note 2003 NZ Retail Security survey (15% / 48%);
- A practice approach focused on *reducing opportunity* is unlikely to be effective in preventing workplace dishonesty;
- Motives are only part of the issue; *potential offenders still have choices*;
- Organisations should get better at *recognising and managing 'at risk' employees*;
- Organisations should *manage culture and attitudes*, especially if they hope to encourage reporting by honest staff;
- Strategies such as *pre-employment screening, reporting hotlines* and *publicising outcomes* are likely to have most effect on prevention

Prevention

Changing the perception of risk for offenders -

- Surveillance & Controls – remember the 'Capable Guardian';
- Establish and demonstrate ability to detect and respond;
- Policies – state your position on honesty and what will happen to those who breach it;
- Actions – act positively in responding to instances – report to Law Enforcement and pursue prosecution;
- Demonstrate fairness and consistency;
- Put the mechanisms in place for 'no risk' good faith reporting;
- Apply pre-employment screening as broadly as practical

Prevention

Building a Culture of Honesty -

- Don't just talk integrity – enshrine it in corporate policies
- Demand standards of personal and professional ethics
- Celebrate and reward honesty – you also do this by dealing firmly with any who act dishonestly
- Build a 'family' of policies – Fraud & Corruption Control; Code of Conduct; Corporate Vision & Mission Statements; Corporate Social Responsibility; Whistleblower
- Apply them consistently and drive compliance
- Provide for 'no risk' good faith reporting
- Ensure supervisors possess the knowledge and skills to recognise and manage 'at risk' employees

QUESTIONS ?

THANK YOU

paul.bonny@wachovia.com

Ph. +852 9183 6160