



FORENSIC

Unfinished Business: Is Fraud Risk Management used to its full potential?

ADVISORY

Foreword

Fraud risk management is practised at many firms throughout Europe, the Middle East and Africa, yet we've found that its underlying principles are implemented to varying degrees. Some firms focus on individual measures at the expense of comprehensive and coordinated strategies. The resulting gaps leave firms, and fraud risk teams themselves, vulnerable to shock and loss.

Other firms are finding that programmes are most effective when the holistic basis of the discipline is clearly understood. It follows that governance – how to direct, integrate, embed and oversee fraud risk management – is a fundamental part of the process. Critical to its effectiveness is the assembly of performance indicators which gauge both risk and progress in reducing it.

Motivation counts too. Appreciation of the positive benefits (not least a special insight into the relationship between culture and process) offers a far sounder start than simply responding to crisis and regulation. The latter approach leads all too often to expensive yet superficial change coated with extra bureaucracy.

'Fraud risk management' (FRM) refers to activities aimed at identifying and developing actions for the organisation to reduce risks arising from the actual and potential cases of corporate fraud. It includes prevention, detection and response.

Introduction and Methodology

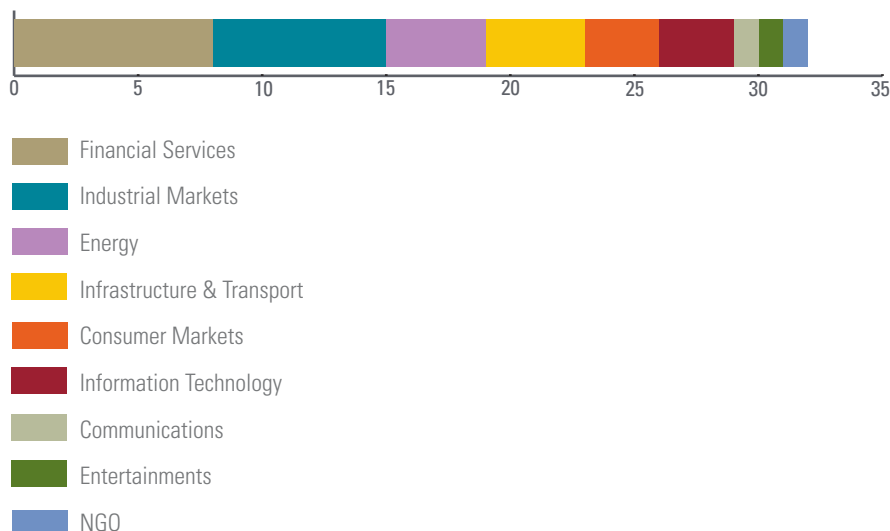


The findings of this paper are based on the views of those responsible for fraud risk management (FRM) in 32 major international companies, from 8 business sectors in 10 countries across Europe, the Middle East and Africa (EMA). The result is a revealing inventory of current activities, as well as an insight into the tangible and conceptual gaps in corporate practice.

Our goal was to gain a depth of understanding seldom found in surveys alone. We therefore followed-up our questionnaires with a series of interviews where issues could be explored in more detail. We've interwoven the findings with commentary from KPMG specialists throughout EMA.

We look at the added value FRM is providing together with what's being done and what isn't. We ask what elements contribute most to effectiveness, as well as considering how success is assessed. We consequently consider the often neglected problems of fragmentation and embedding, and conclude with thoughts on how things could develop. We hope you'll find it as thought provoking to read as we did to prepare.

Participating Companies by Sector



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“FRM leads to more efficient processes. By looking at errors we end up understanding the business as a whole, not just individual weaknesses.”

General Manager, European Compliance Division – major commercial bank

What Sort of Added Value?

Respondents were unanimous that FRM adds value. With many reporting financial benefits: “it stops you losing money in the first place.”

Two-fifths saw reputational advantages. A company in the financial services field was emphatic that “reputation is as important as loss prevention. It’s a vital aspect of brand value and fraud is more intimately linked to this than any other risk.” Others stressed that FRM helped keep investors on side: “it shows that the company is a professional organisation taking action to protect investor finances.”

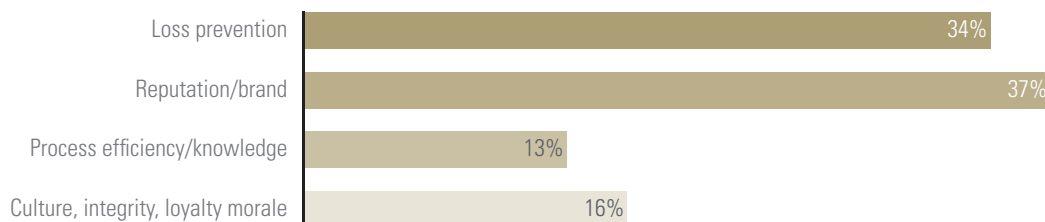
A further quarter found positive benefits in terms of culture, staff morale and loyalty. “It builds trust and assurance in internal controls because it’s a transparent statement that integrity is one of senior management’s top priorities.” This in turn nurtured trust between employees, management and customers.

Some argued that the discipline had a highly beneficial impact on internal operations, such as by increasing awareness and efficiency.

- “FRM heightens awareness of the need to conform to systems and processes. It demands accountability.”

- “FRM leads to more efficient processes. By looking at errors we end up understanding them more fully and this helps us identify what is really happening. It helps people understand the business as a whole, not just individual weaknesses.”
- “FRM serves as a kind of ad hoc review process. It provokes discussion, questions, requests for information and helps Internal Audit define its priorities. We pick up errors before they become issues. For instance, a review of billing system access rights revealed that call centre employees had an unrestricted ability to add or delete customer names; there was no segregation of duties and no audit trail.”

How does FRM add value?



Crisis Driven

Crisis is a powerful advocate for fraud risk management programmes. “Malfeasance by top managers always creates a big shock” says one KPMG adviser “not least because it quantifies costs which may have previously seemed theoretical, or even implausible. That often drives business leaders into action”. He recalled one case “which involved a firm making 27,000 individual legal settlements. Breaking the cost of this down into compensation, legal fees, executive time etc. helped directors grasp the price of inaction.”

Laws and regulations are the other, arguably greater, dynamic behind the adoption of FRM. In addition to IAS 240, EU and national laws, US legislation such as the Sarbanes-Oxley and Foreign and Corrupt Practises (FCPA) acts have had a tremendous impact, particularly as the Securities and Exchange Commission (SEC) treats erring companies more leniently if they demonstrate a serious commitment to fighting fraud. Similarly, the UK’s Bribery Act (2010) makes similar provisions. Thus, many fraud risk management activities are also relevant for anti-bribery arrangements. Given the regulatory requirements such as the FCPA and the Bribery Act in the UK, the directors and senior management at many firms will have or need to consider appropriate risk management strategies.

With regards regulatory factors relevant to fraud risk management, one interviewee observed that “FRM is not yet seen as a natural buy like admin services or purchasing. A call from the SEC gets a Board’s attention.”

There’s a downside to this: “A lot of firms aren’t introducing FRM on a calculated basis. They fail to take close account of real operational risks with a view to actually saving money.”

Though the forces driving the introduction and consolidation of the

discipline are global in nature, national and regional variations are common. Some countries have been more reluctant than others to swap their traditional reliance on trust for a greater emphasis on controls. The examples of big corporates, as well as national scandals, have however, helped erode resistance. In Central Europe FRM is still seen largely in terms of physical controls rather than training and education, although, “there are signs of a change with growing interest in so-called ‘soft’ methods” says a KPMG adviser in the region.

Whistleblowing plays a significant role in fraud detection but remains controversial for some firms. “An oppressive system bred fears that linger, especially since half the workforce grew up under communism. Executives often advise against whistleblowing lines because they don’t think people will use them, partly because it’s seen as shameful to report colleagues to the authorities, partly because of doubts about whether people are really guaranteed anonymity.” Concerns exist elsewhere too, albeit not to the same degree. In some parts of Western Europe whistleblowing is often seen as simple disloyalty to colleagues. Yet attitudes change over time: strong Dutch objections have declined significantly during the last decade.

“An FRM programme hardens the firm’s approach to ethics and leads to more careful treatment of integrity related issues.”

Manager Integrity, Prevention & Safety – major insurance company

What’s Happening, What’s Working?

Two-thirds of firms surveyed had an FRM programme. Most respondents took a proactive approach to FRM. They divided 50/50 between concentrating on ‘soft controls’ (such as awareness training and codes of conduct) and ‘hard’ measures (such as segregation of duties). There was a similar spread of focus between internal and external fraud, and between frauds by management, employees, customers and suppliers.

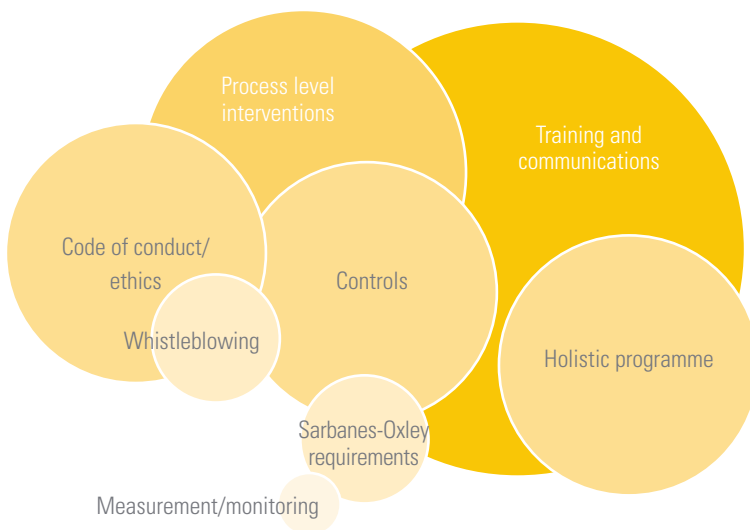
Prevention

Most firms we surveyed conducted fraud risk assessments and usually updated them annually (often at the level of specific processes); had a code of conduct with a section on fraud; had dedicated IT security measures; used e-Learning for both managers and staff (although we note that only half ran traditional classroom training sessions).

Background checks on prospective managers were conducted by a clear majority, with a slightly smaller group running them on employees and business partners. Over half had leaders who communicated with employees about anti-fraud issues. 50% undertook surprise audits.

A clear majority rated a code of conduct with a fraud section, internal controls (especially in accounting/purchasing) and background checks on prospective employees and managers as effective preventive measures.

Effective FRM initiatives



“FRM stops you losing money in the first place.”

***Head of Investments Compliance –
Hedge Fund Manager***

Detection

This can be one of the more challenging aspects of a FRM programme.

Detection includes those activities designed to pickup potential fraud at the time of occurrence, an alert, the raising of a red flag, or a subsequent review such as through the use of data analytic techniques.

Internal control mechanisms won the highest effectiveness ranking of respondents, followed by reporting to line management, internal audits and internal whistle-blowing hotlines. Most also regarded general control/risk reviews and data analytics as effective detection tools.

Response

The vast majority of firms had incident assessment and escalation procedures (almost all reported fraud cases to their Boards). Incidents were assessed in terms of monetary value, reputational impact, and degree of divergence from compliance and ethics programmes. Little more than half of firms surveyed possessed a dedicated fraud response team.

Adaptation

There was little consistency in the way firms adapted to new threats and changing conditions. Many engaged in essentially reactive learning from internal incidents, industry publications and contact with peers and advisers. Some monitored external fraud trends, while others took account of control reviews, risk assessments, cross-functional discussions, or feedback from training sessions. Firms were far more strongly influenced by their own positive experiences of FRM than by what was happening elsewhere in their sector.

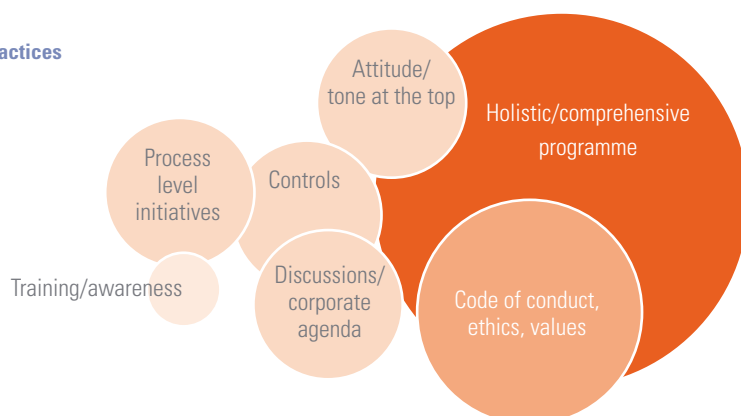
“You’ve got to be crystal clear about what’s expected of people... Things change when management buy into FRM personally, not when it’s seen as hip.”

Head of Group Audit and Risk – premium drinks manufacturer

Elements of Effectiveness

The main factors most strongly influencing the effectiveness of an FRM programme were the firms culture (“there needs to be a hatred of fraud”) and commitment by senior management (“things change when management buy into it personally, not when it’s seen as hip”). When it came to detection and reporting, two-thirds of respondents gave measures focussing on people, culture, communications and tone the highest rating (training being scored as the most effective single measure). A quarter awarded their highest rating to controls and processes.

Best FRM practices



People, Culture and Tone

There was a strong belief that employees “need to feel secure within a culture of openness and transparency.” Good communications, of which clear, simple language was a key part, were essential: “you’ve got to be crystal clear about what’s expected of people.” This entailed explicit encouragement for people to speak up, and giving them confidence that they would get practical support when they did so. One manager observed that his junior colleagues paid uneasy attention to media reports about how badly some prominent whistleblowers had been treated.

One business in the consumer sector described the essence of its anti-fraud strategy as a determination to shape culture and values.

“That means thinking about how all of us make decisions at every level. It means training people to use good moral judgement and do the right thing. It has to be both expected and accepted to report misconduct. All this requires a code rather than a detailed rule book because rules can’t cover everything. We survey adherence to those values annually in order to assess compliance.”

Some interviewees expressed concern that developments in training were fostering a formulaic approach.

“Ethics is often treated as just another module instead of being consistently drummed into people. Classroom teaching has an advantage over e-learning in that respect because it creates room for discussion.”

E-learning can indeed marginalise the exchange of experiences if it is not part of a programme requiring personal engagement with trainers, and other trainees. The respondent also noted that “it’s important to teach about real-life dilemmas; focussing minds on what can actually happen is the best way to get them thinking for themselves rather than just ticking boxes.”

“FRM heightens awareness of the need to conform to systems and processes. It demands accountability.”

Executive Vice President, Head of Internal Audit – diversified conglomerate

Controls and Process

One of the more striking observations was that “different managers implement different levels of prevention but those who do more tend to get better results.” A number of firms thought success flowed most surely from ‘hard’ methods. One executive was “less interested in dealing with bad apples than with bad trees – the systems and processes that breed bad behaviour.”

In the same spirit a financial services business has developed 26 fraud scenarios to improve its use of controls, mostly reflecting Sarbanes-Oxley guidelines. Another company took an annual ‘fraud photo’ of each business unit. “This does more than show the extent of known fraud. It also looks at how well informed staff are; asks whether FRM is a separate work flow; investigates whether people are asking the right sort of questions. It’s an X-ray showing what we didn’t previously know. And we’ve saved €40 million per annum.”

Governance

One company pointed out that “a key factor affecting fraud prevention and reporting is governance – where to integrate and embed FRM.” After all, only Boards and senior managers can sign-off the policies, resources, procedures and machinery required to implement an FRM strategy.

“Governance touches on most aspects of the discipline: who’s going to take responsibility? How much are we going to invest? What function should lead? When our Board shifted FRM out of internal audit into a new ethics and integrity unit it was because internal audit focuses on individual problems, when the real need was to recognise that those problems add up to more than the sum of their parts.”

At first glance it was surprising that few respondents listed governance as a major factor in FRM. Yet on closer examination the subject came up many times, albeit under different names e.g. creation of a control matrix; developing an ethical culture; designating a lead function. A company spelt out the issues: “Our system of governance is designed to implement systems and processes in order to mitigate risk. We reinforce that approach by making managers responsible for ensuring implementation of systems and processes, irrespective of whether any fraud has taken place.”

Linking Culture and Process

An implied theme was that no clear line could be drawn between culture and process: they are best seen as two sides of the same coin. “Consistent application of controls is a part of corporate culture. For instance, doesn’t openness rely partly on procedures?” One FRM team said that “people have to know they will be scrutinised rather than just having to report things.”

Reference was made to a CEO’s quarterly presentations to staff. “His first slide is always about the firm’s achievements. The second is always about how things have been achieved, and looks at the ethical dimension. He’s also shifting priorities in FRM by looking at whether incentives are encouraging the right sort of behaviour. So staff are assessed (including for bonuses) on two axes: (i) have you attained the goals we’ve set you? (ii) have you attained them in the right way? Moreover the two standards are combined into a single measurement.”

Culture is reflected in attitudes and these are a real, if often hidden, influence on process design. “The best programmes are vulnerable to failure unless a consistent effort is made to take account of the users’ point of view. Our fraud incident registration tool is designed from their perspective. Instead of reports having to be slotted into bureaucratic categories (such as by department) they’re filed under obvious headings like theft, misuse of passwords etc. This simple and ground up approach allows us to collect more data because reporting is made easier. That in turn helps build a solid business case for what we do. Clear road signs are always essential.”

“We devised a grading system that runs from simple queries up to actual or attempted frauds.”

General Manager, European Compliance Division – major commercial bank

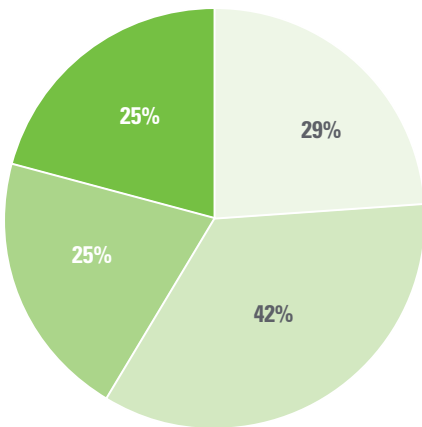
Evaluating, Quantifying, Probing

Overall measurement of the effectiveness of FRM programmes appeared to be embryonic, with few well-defined and structured approaches.

A third of companies took no steps to assess effectiveness. The remainder used an internal program audit or assessment, but only one in three of all respondents employed specific indicators. These were mostly non-financial KPIs such as risk management reports, compliance reviews, integrity committee reports and internal interviews.

indicators will simply not be aware of what’s going on.” It saw these as the best way to fight “the fraud write-off mindset”. Another interviewee said that “reliable measurement needs a structured assessment of risks, prioritisation and target setting for both outputs and outcome. If you don’t know the relevant risks you won’t know the value of your investment.” That in turn makes FRM programmes vulnerable to criticism and cuts.

Indicators used for evaluation



Non-financial KPIs drawn from management surveys

29%

Non-financial KPIs drawn from other sources

42%

Financial KPIs

25%

Financial KPIs from employee sources

25%

Only about a third of companies set themselves quantitative targets. Those who did mainly used measures such as attendance at training sessions, program implementation quotas, fraud awareness surveys, detection goals and spending on investigations. A much smaller number (mostly in the financial sector) set financial targets e.g reductions in fraud-write-offs or known losses. Reasons for not establishing financial indicators included “zero fraud is the only acceptable goal”, doubts about cost-effectiveness, and difficulties in defining losses.

Information shapes actions. One firm was mystified that others lacked specific KPIs: “A business that doesn’t have fraud-related performance

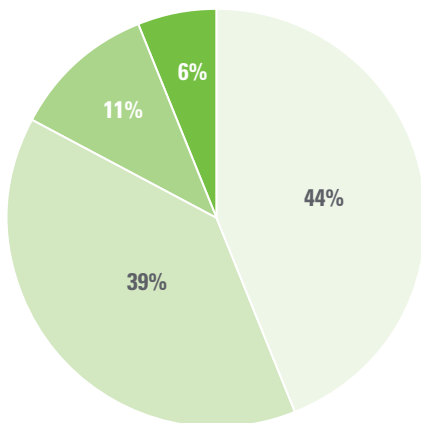
There are of course inherent difficulties in devising performance indicators. A KPMG adviser affirmed that some types of fraud aren’t susceptible to the setting of quantitative goals. “It’s easier when you’re dealing with credit cards – you just lose money and can value this in dollars, euros or sterling. But in some sectors, such as finance or pharmaceuticals, fraud does its worst damage in terms of reputation and trust. How do you measure a blow to corporate culture? Or assess the impact of a scandal on prospective employees? You have to identify and evaluate those risks that are important to you and your shareholders.”

Figures do not add up to 100% as some firms use more than one type of indicator.

“You can measure progress in FRM once you’ve got a system up and running. We’ve earned back our running costs several times over.”

Manager Integrity, Prevention and Safety – major insurance company

How difficult is FRM evaluation compared to other corporate initiatives?



Less difficult

6%

Equally difficult

44%

More difficult

39%

Much more difficult

11%

Yet such problems, important though they are, were clearly not the main deterrent. 50% of companies found it no harder, or even easier, to evaluate FRM than other programmes. Some respondents suggested that a lack of top-level management attention, and a widespread reluctance to see fraud as a problem were the real barriers to effective assessment.

A respondent from one of the surveyed firms observed that “you can measure progress in FRM once you’ve got a system up and running. We’ve earned back our running costs several times over.” Another interviewee took the firm view that “while KPIs may not exist at the outset the job is to build them up; you can develop more indicators as your programme matures.”

One bank had identified little material fraud but was still determined to find a way to rank the problems that it knew existed. “We devised a one-to-five grading system that allows us to develop ‘heat maps’ of different parts of the business. It runs from simple queries up to actual or attempted frauds.”

Some assessments may be less soundly based than others. Fraud risk executives can even come under pressure to make a profit. One in insurance reported that “we can make huge savings if our investigators discover that a client has committed arson or has otherwise breached the terms of a contract. But we can hardly factor that into our budgeting!”

“There’s often just a single person with little knowledge of the subject. Even if they know their stuff they can’t be totally effective on their own.”

Fraud and Crime Prevention Manager – insurance, asset management and banking company

Fragmentation

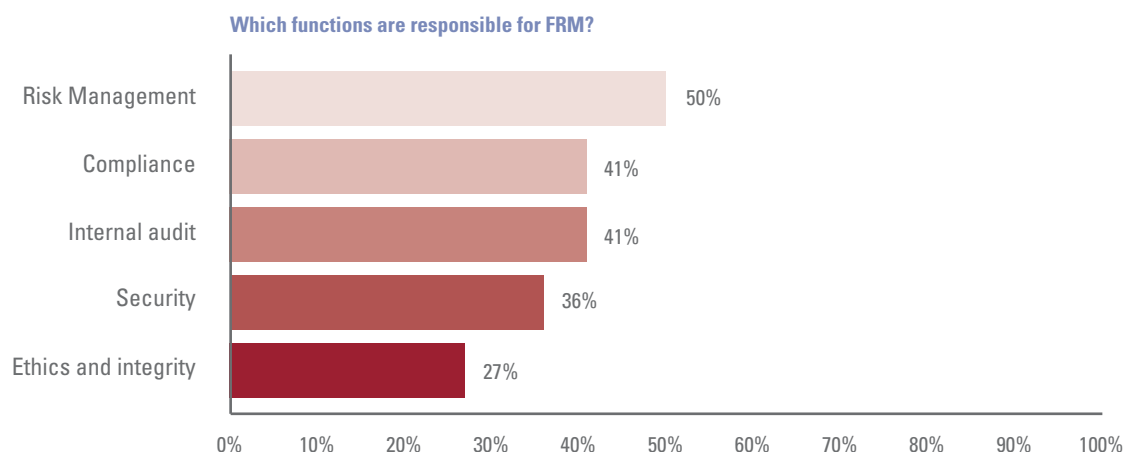
FRM activities were generally divided between a number of different functions, described by one manager as “isolated islands.” Risk management, compliance and internal audit functions are clustered closely together in the top three, followed closely by security and ethics/integrity. A few firms cited finance, HR and legal.

One firm admitted that its various units often failed to communicate with one another, let alone senior executives, on fraud issues. The survey revealed that monitoring also tends to be a fragmented function, undertaken by compliance officers and internal (or sometimes external) auditors.

A KPMG adviser points out that “there’s no hard and fast rule on which function should lead. FRM should go to whoever will provide direction, leadership and the right skills. Although individual elements are designed and managed well, fragmentation still prevents a coherent approach. Focussing managerial minds on specific sub-sets of fraud risk begs the question of who is taking a view of the business as a whole.”

Three firms told the survey that they did not have an FRM programme despite having several elements already in place. These were not regarded as being part of a programme because no one had been given overall responsibility.

Though a considerable number of organisations have not grasped the benefits of a holistic and coordinated view, internal politics is a factor too. “There’s a dispersal of responsibility because few people want to take on what they see as a risky task.” Much depends on which departmental head has an appetite for the job. A British executive notes wryly that before he joined the business “FRM was doing the rounds and ownership was a bit of a problem!”



Figures do not add up to 100% as some firms divide responsibility between two or more functions.



An FRM manager argued that responsibility for fraud within business units is often underresourced, isolated and delegated to too low a level. “There’s often just a single person with little knowledge of the subject. Even if they know their stuff they can’t be totally effective on their own. These are the hallmarks of what I call ‘hobbyism’ – an amateur approach to fraud risk management.”

The dispersal of activities across different functions may explain some of the difficulty firms find in setting quantitative targets, as well as a lack of coherent assessment methodologies. Fragmentation means that different departments tend to see the same issues rather differently. “Each function sees fraud as merely one of its activities which means it’s seldom the subject of a separate assessment. It’s vital to ensure a common approach to data collection and measurement.”

Some also detect a connection between the lack of performance indicators and the fragmentation of responsibility for FRM. “Better quantitative measures could lead to more coordination and coherence. The clearer the problems become, the more pressure will build up to put someone in overall charge.”

It is worth noting that only a third of respondents thought of FRM as primarily the duty of a firm’s directors. The rest regarded every member of staff, or managers, as having the main responsibility. While an effective programme demands the engagement of every employee, an over-emphasis on the role of ordinary employees may obscure the more direct responsibilities of those at the top. Only Boards can ultimately ensure that their firms run cohesive and coordinated anti-fraud programmes.

“Trust is vital so selling the programme to managers has to be done face-to-face. We can’t afford to be the anonymous department on the 7th floor.”

***General Manager, European Compliance Division
– major commercial bank***

Embedding

One FRM manager spoke for many of his fellow professionals when he said that “you always have to convince people that what we do is worth while.” Other departments often found it “demoralizing to think about fraud.” Another remarked that “our Board isn’t always supportive. If time goes by without a fraud a director will say we aren’t needed. Of course, if there’s a fraud they can’t run down to us quickly enough.”

Inconsistent high-level commitment leaves FRM vulnerable to changes in Board membership, fashion and economic circumstances. It reduces effectiveness as FRM requires a sustained and consistent long-term effort. One manager had opted to set up a very small team precisely because it made the unit a hard target for cuts.

A recurring message was that effective programmes are the fruit of close engagement with each business function. Whatever the command from on high, policies work better when they are negotiated rather than imposed. A respondent from the banking sector explained how successful implementation was founded on a carefully constructed internal consensus, involving workshops with senior managers that were repeated in the subsequent year. Individual conversations were also held with general managers to overcome reservations about their staff reporting issues directly to the FRM team. “Trust is vital so selling the programme to managers has to be done face-to-face. We can’t afford to be the anonymous department on the 7th floor.”

An energy company placed a high value on the need to “show colleagues what fraud risk looks like.” Workshops were

valuable because they allowed people to be more open and honest and admit vulnerabilities in their own units. “Once that happens people come to trust you when real fraud problems come along. But we can’t afford to be an internal police force; engagement evaporates if people are scared of you.”

Several FRM executives said they faced a moment of danger when fraud report volumes began to rise, despite this being an inevitable and foreseeable consequence of a new programme. “We now find about 30 frauds a year as opposed to only 5 or so before. Of course that means we’re getting a truer picture. But CEO’s have to be assured that this is healthy as well as normal – the more you probe for fraud the more you uncover. They have to be reminded that discovery allows you to prevent fraud losses more effectively.”

Embedding, as opposed to introducing, FRM is also linked to the development of reliable figures via proper benchmarking and performance indicators. “You have to get into risk versus reward in order to justify the investment.”

“FRM is at a similar stage to anti-money laundering in the 1990s: attention will rise in line with the number of new cases.”

Head of Investments Compliance – Hedge Fund Manager

Expectations

Interviewees expressed strong views on what’s likely to drive the development of FRM during the coming decade.

• It is likely that more fraud will surface and this will lead to an increasing onus on prevention. “FRM is at a similar stage to anti-money laundering in the 1990s: attention will rise in line with the number of new cases.” Some suspect the growth of fraud will be fueled in part by recession-induced cuts in FRM programmes. “This should become apparent in two or three years as fewer staff are left to work internal controls.”

• High growth markets could be a major source of new fraud shocks. “Exposure to more challenging environments hasn’t really changed attitudes yet. Companies say they are deploying serious FRM expertise but usually end up with two or three different people doing the job in a short period. Real change usually arises only after an incident has actually occurred.”

• The effect on fraud incentives, plus high pressure to attain corporate goals, will become a hot topic. The banking crisis revealed how traders’ risks were not always aligned with those of their employers. “We may see the development of common norms on bonuses, together with a debate about the conflict between what is ‘legally correct’ and what is ‘ethically correct.’”

• Regulators and law enforcement will take a tougher line as a result of these developments and the increased media coverage that comes with them. It will no longer be sufficient for firms to simply describe their FRM measures; they will also have to demonstrate that these are both integrated and effective. Regulators are also likely to insist on firms demonstrating that FRM programmes take account of the needs of customers and the wider community as well as shareholders.

• All these factors will lead to a more consistent application of fraud risk models. “CEOs will start thinking about improved central control in order to ensure that models are properly embedded. That will naturally provoke fresh thinking about how to apply them more effectively.”

Food for Thought

The survey findings outline a set of core issues for FRM practitioners. We present them here as questions to help stimulate fresh thinking.



- Why do some companies concentrate on individual FRM measures instead of adopting a holistic approach? Should fraud risk managers rely on colleagues becoming more familiar with their key operating principles over time, or should they press for reconsideration on how to get best value from the discipline?
- Could less fragmentation and better coordination help firms increase the effectiveness of their FRM efforts without major additional investment?
- Firms divided evenly between concentrating their efforts on 'soft' measures, such as awareness training and 'hard' controls, such as segregation of duties. Do they need to define risks more systematically in order to strike the right balance?
- Do practitioners draw overly-rigid lines between culture and process? How can the two sides of FRM be more effectively combined?
- Training and awareness programmes are increasingly concerned with engaging the interest of rank-and-file employees. But is enough attention being paid to making FRM mechanisms clear and easy to use? And is a stress on e-learning leading us to overlook the benefits of classroom teaching and discussion?
- Why are some companies not assessing the effectiveness of their FRM programmes? Why do so few set quantitative targets? Is there a tendency to dwell on intangibles such as reputation rather than identifying areas where tangible KPIs can be developed?
- Why is there so little explicit interest in how FRM is underpinned by good governance? Is this so obvious that it scarcely needs to be talked about? Or does the situation reflect a lack of high-level interest and involvement?

Summary

Core fraud risk management (FRM) is now widely practised but underlying ideas are unevenly implemented. Many firms still focus on individual measures at the expense of comprehensive and coordinated strategy underpinned by governance and performance indicators.

Benefits

Firms believe that FRM adds value. A third report financial benefits. Another four tenths see reputational advantages, with a further quarter finding positive benefits in terms of corporate culture, staff morale and loyalty. "It hardens the firm's approach to ethics and leads to more careful treatment of integrity related issues."

Some argue that the discipline has tangible impacts on operations too: "FRM heightens awareness of the need to conform to systems and processes. It demands accountability." "FRM leads to more efficient processes." By looking at errors we end up understanding the business as a whole, not just individual weaknesses."

Methods and Issues

Respondents split evenly between concentrating their efforts on 'soft controls' (such as awareness training and codes of conduct) versus 'hard' measures (such as segregation of duties, restriction or control and process design).

There's little consistency in the way firms adapt to new threats and changing conditions. Many engage in essentially reactive learning while others take account of control reviews, risk assessments or feedback from training sessions.

A firm's culture and commitment by senior management are the strongest influences on the effectiveness of FRM programmes. A number of firms saw success flowing most surely from well-developed 'process' methods. "Different managers implement different levels of prevention but those who do more tend to get better results."

Developments in training may be fostering a formulaic approach. "Ethics is too often treated as just another module rather than being integrated into the way people think." E-learning needs to be part of a programme requiring personal engagement with trainers and other trainees.

Effective programmes are the fruit of close engagement with each business function. Whatever the command from on high, policies work better at business unit level when they are negotiated rather than imposed.

Though few respondents specifically rated governance as a major factor many of them raised aspects of it under different names e.g., creation of a control matrix; developing an ethical culture; designating a lead function. Some argue that governance – where to integrate and embed FRM – is the most important factor affecting fraud prevention and reporting.

No firm line can be drawn between culture and process and they are best seen as two sides of the same coin. "Consistent application of controls is a part of a company's culture. As for openness doesn't it rely partly on procedure?"

Gauging Effect

Overall measurement of the effectiveness of FRM programmes is embryonic, with few well-defined and structured approaches. About a third of companies take no steps to assess the effectiveness of their program, and the majority of those who do so use only an internal audit or assessment.

Only about a third of companies set quantitative targets. Those who do refer mainly to measures such as attendance at training sessions and fraud awareness surveys.

Fragmentation

While some have taken steps to develop and embed integrated FRM arrangements, most activities are generally divided between 'isolated islands' – several different departments or functions. Directing managerial minds to specific sub-sets of fraud risk begs the question of who is taking a view of the business as a whole. Monitoring also tends to be a fragmented function.

Fragmentation of FRM efforts can prove expensive as well as less effective. Better coordination helps firms to increase the effectiveness of their FRM efforts without major additional investment.

***Crisis is a powerful
advocate for fraud
risk management
programmes.***

Contact us:

KPMG in Austria

Gert Weidinger
Tel +43 732 6938 2107

KPMG in Belgium

Els Hostyn
Tel +32 (0) 2708 4362

KPMG firms in Central and Eastern Europe

Jimmy Helm*
Tel +420 222123 430

KPMG in Denmark

Torben Lange
Tel +45 3818 3184

KPMG in East Africa

Zahir Sheikh
Tel +254 (20) 2806205

KPMG in France

Jean-Luc Guitera
Tel +33 (0) 1 5568 6962

KPMG in Germany

Frank Weller
Tel +49 89 9282 1050

KPMG in India

Deepankar Sanwalka
Tel +91 124 3074302

KPMG in Ireland

Laura Burge
Tel +353 (1) 410 2768

KPMG in Italy

Gabriella Chersicla
Tel +39 02 6763 2440

KPMG in Luxembourg

Eric Collard
Tel +352 22 51 51 7240

KPMG in the Netherlands

Jack de Raad
Tel +31 10 453 4162

KPMG in Nigeria

Linus Okeke
Tel +234 (1) 463 0291-3

KPMG in Russia/CIS

Ian Colebourne
Tel: +7 (495) 937 2524

KPMG in South Africa

Herman de Beer
Tel +27 11 647 7342

KPMG in Spain

Pablo Bernad
Tel +34 91 456 3400

KPMG in Sweden

Martin Kruger
Tel +46 (8) 723 9199

KPMG in Switzerland

Anne van Heerden
Tel +41 44 249 3178

KPMG United Arab Emirates

Roy Muller
Tel +971 (4) 424 8900

KPMG in the UK

David Luijterink
Tel +44 (0) 20 7694 5008

* Home firm: KPMG in the Czech Republic

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