

# An inoculation against Fraud and Corruption?

Is this possible?

Nigel Iyer

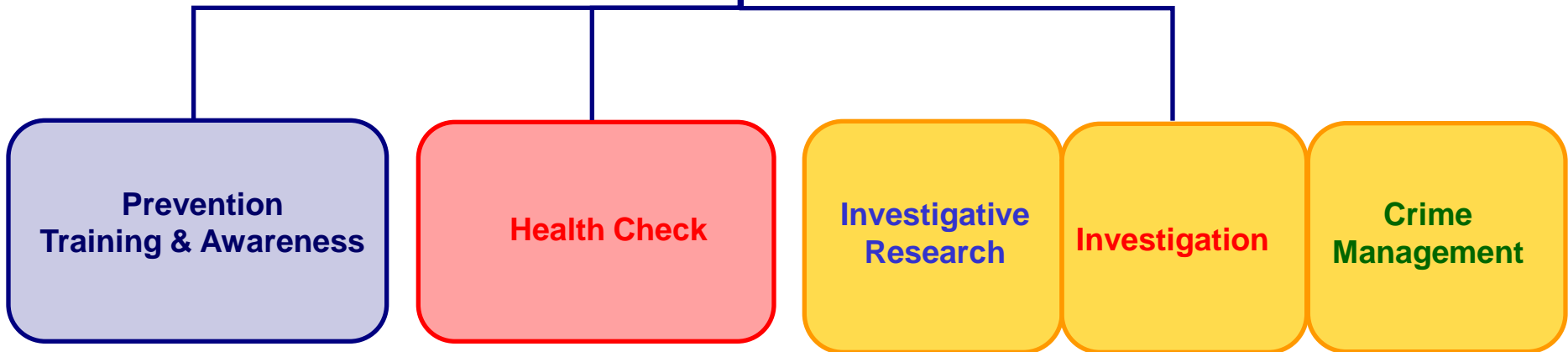
The Hibis Group

19th June 2008



# To cover

- ❖ Fraud and Corruption demystified
- ❖ Proactive Prevention (case experiences) and future trends?
- ❖ Measurement of resistance



Fraud 



# Relying solely on legislation and regulation

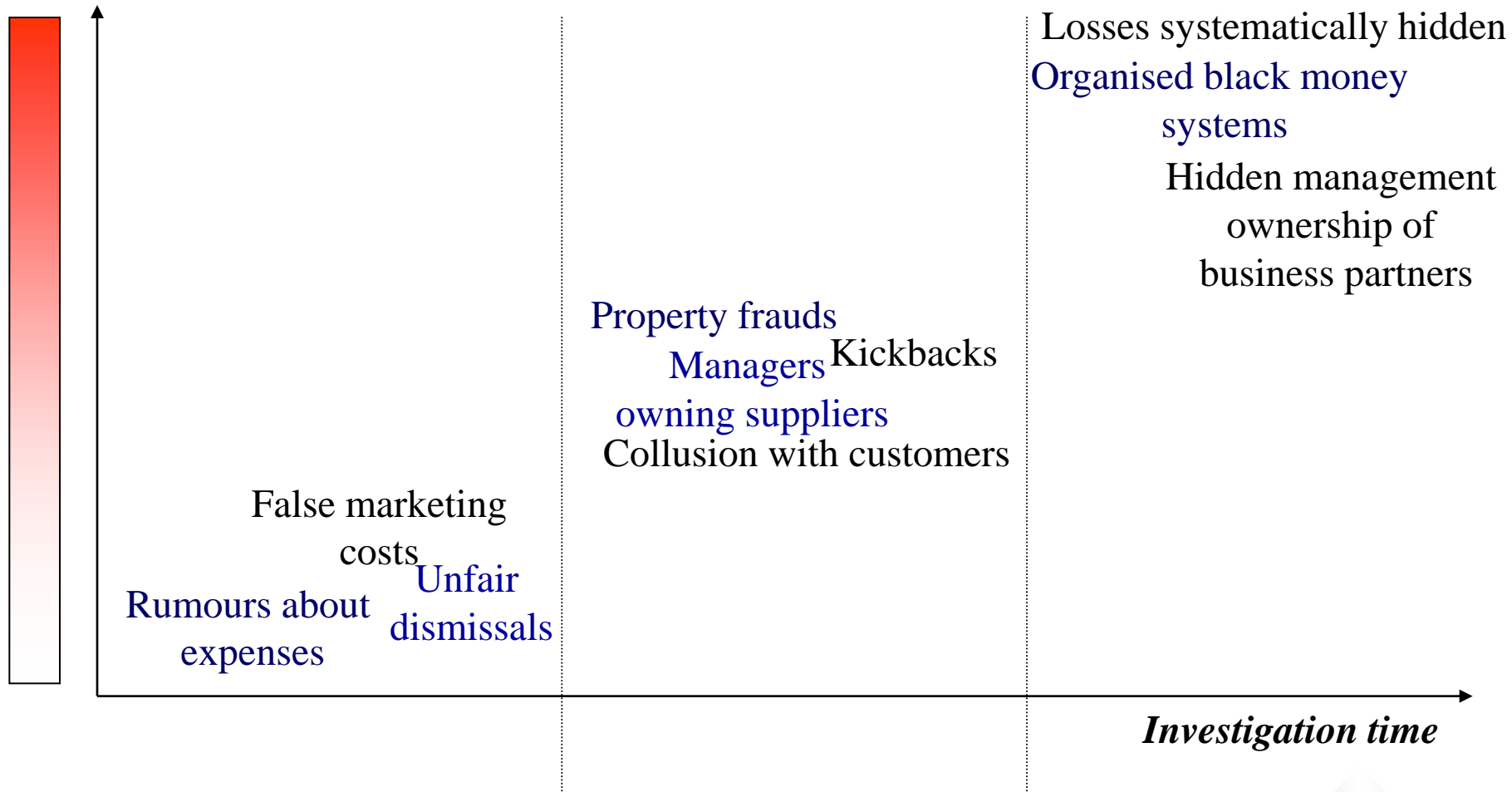
- ☠ 76 Lockheed Bribery Scandal
- ☠ 80s Savings & Loan Frauds in the US
- ☠ 91 BCCI Crash
- ☠ Corruption recognized as major obstacle to global / social development
- ☠ 02 Enron, Worldcom
- ☠ 02 – 04 constant flow of new public bribery cases
- ✓ 77 Foreign Corrupt Practices Act
- ✓ 87 Treadway Commission
- ✓ 92 COSO Report
- ✓ 92 Cadbury Commission
- ✓ 95 Code of Conduct
- ✓ 97 OECD anti-bribery convention
- ✓ 02 Sarbanes-Oxley Act
- ✓ 04 **UN Global Compact (10<sup>th</sup> Principle)**

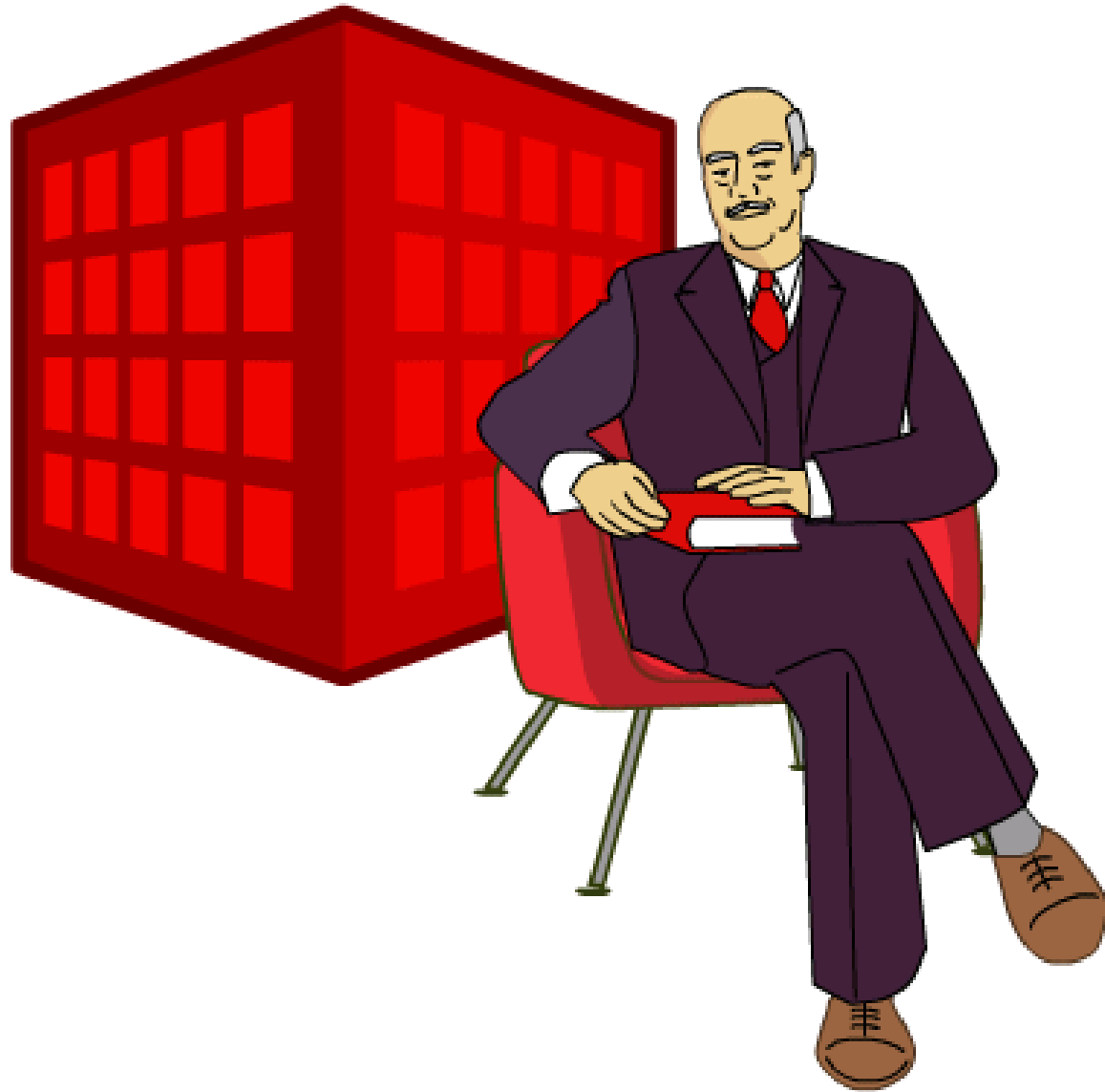
# Two sides



**Take a walk on the dark side!**

# When a cough becomes pneumonia





[REDACTED]  
[REDACTED] GmbH & Co.  
- Spezialhaus Nr. 1 in der Herrenmode -  
[REDACTED]straße  
Telefon 089/[REDACTED]

Beleg-Nr. 50100673

6359740002107

MANTEL 150,00 EUR

Alter Preis 255,00

PKT: 445670

6342290101521

MANTEL 450,00 EUR

Alter Preis 519,00

PKT: 572632

0324 FRAU HOFMANN

-----  
TOTAL 2 600,00 EUR

Visa Card 600,00 EUR

-----  
MwSt. 16,00% = 82,76 EUR

von 600,00 EUR

Vielen Dank für Ihren Einkauf.

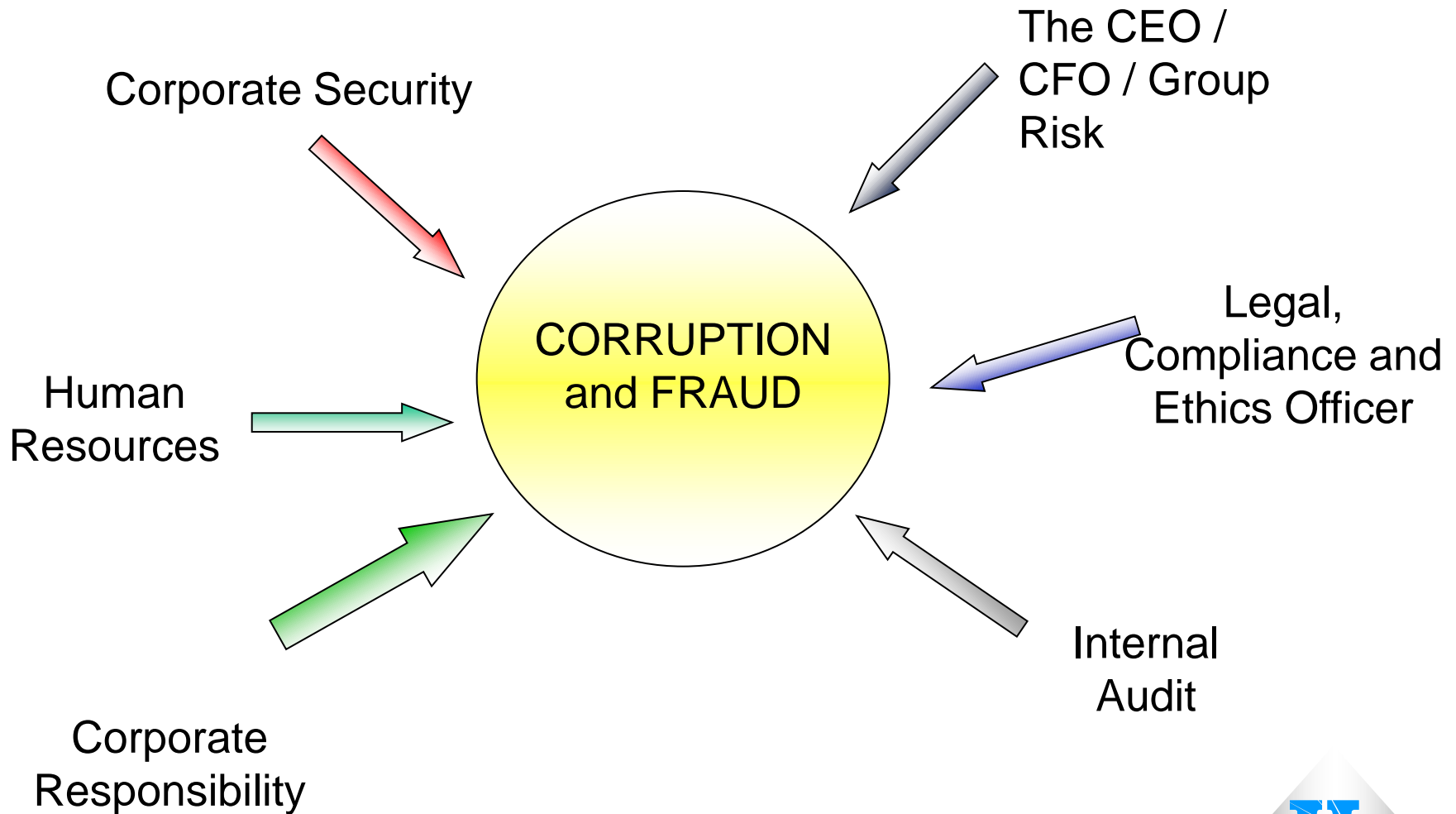
Bei Austausch bitte Kassenbon vorlegen.

14.02.02 16.24 50103102 100 6113021024

What we are up against...



# Joining forces!



# How much is lost each year?

❖ A “typical” company with a turnover of £ 100 million. How much do you estimate is (on average) lost because of fraud and corruption each year?

📄 £0 to £ 100 Thousand

📄 £ 100 Thousand to £ 1 million

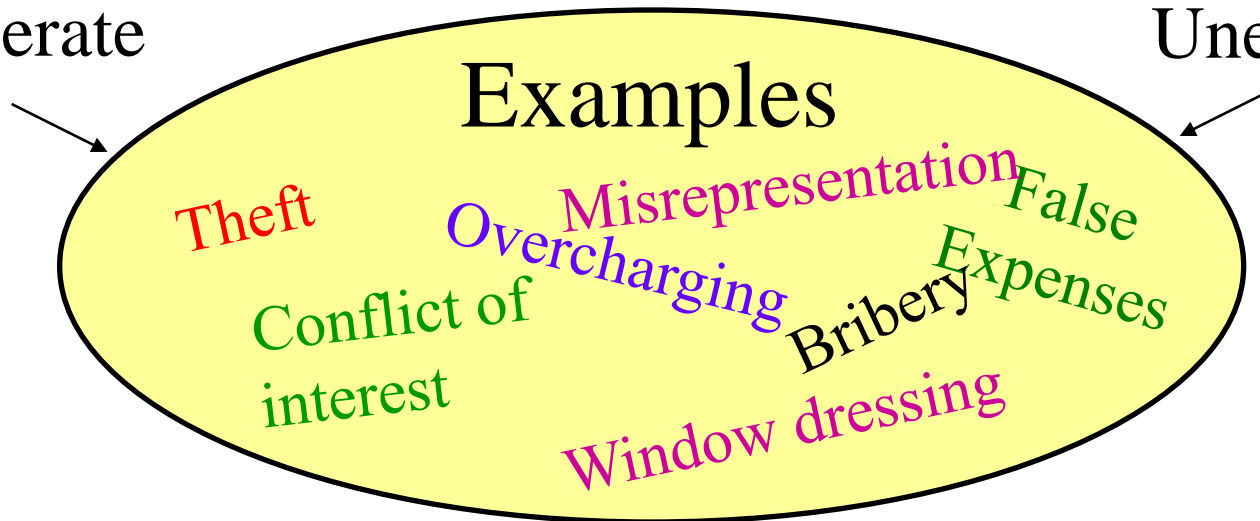
📄 £ 1 million to £ 5 million

📄 Over £5 million

# The true cost

Deliberate

Unethical



Direct Costs + Indirect Costs

# Who's involved?



# The commercial reality

Sales	1000
Costs	<del>950</del>
Operating Profit	<del>50</del>
<b>Profit M</b>	<b>5%</b>

**Greatest unmanaged risk?**

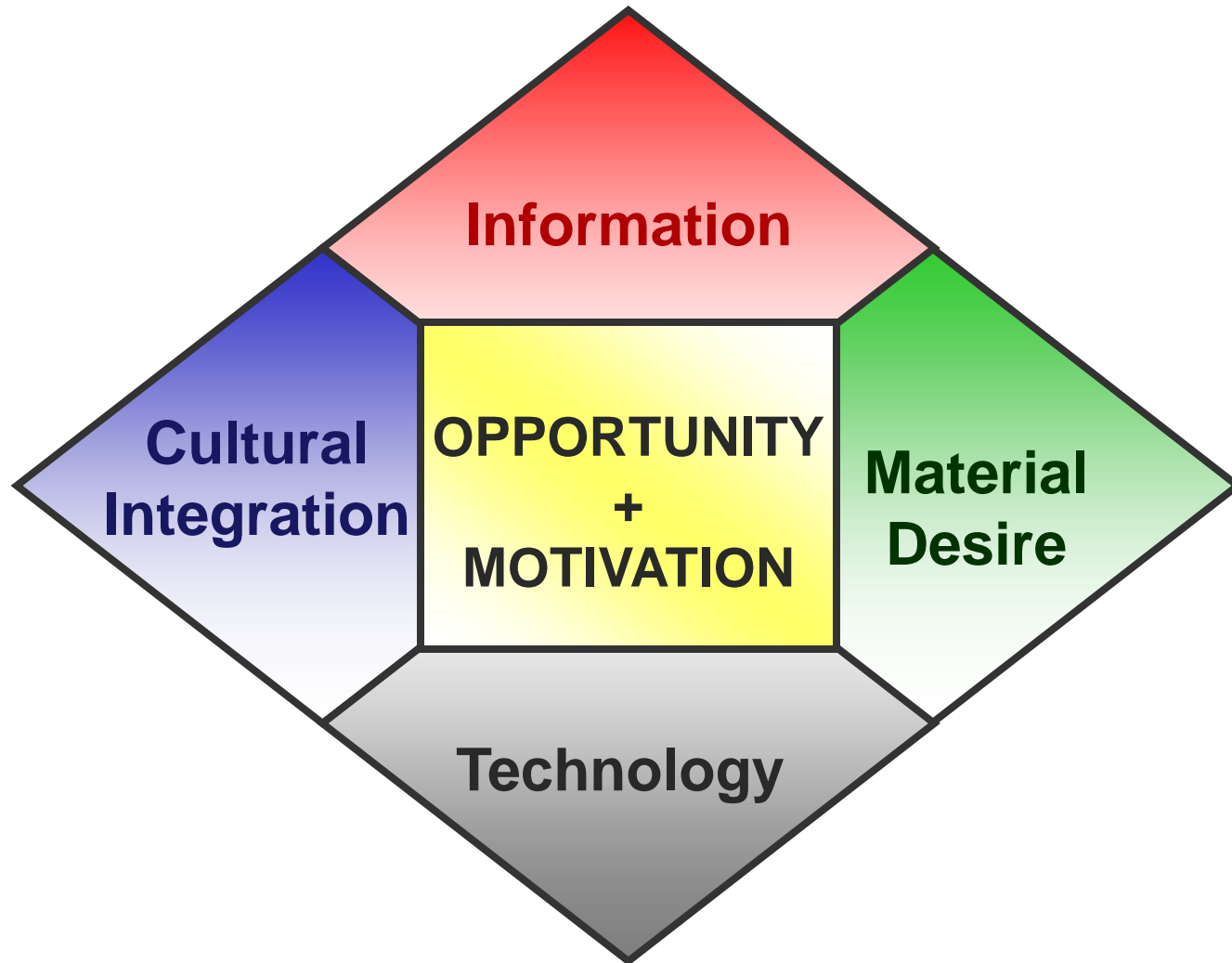
920\*  
80\*

→ 8%\* !!!

\* If fraud and corruption = say 3% of sales

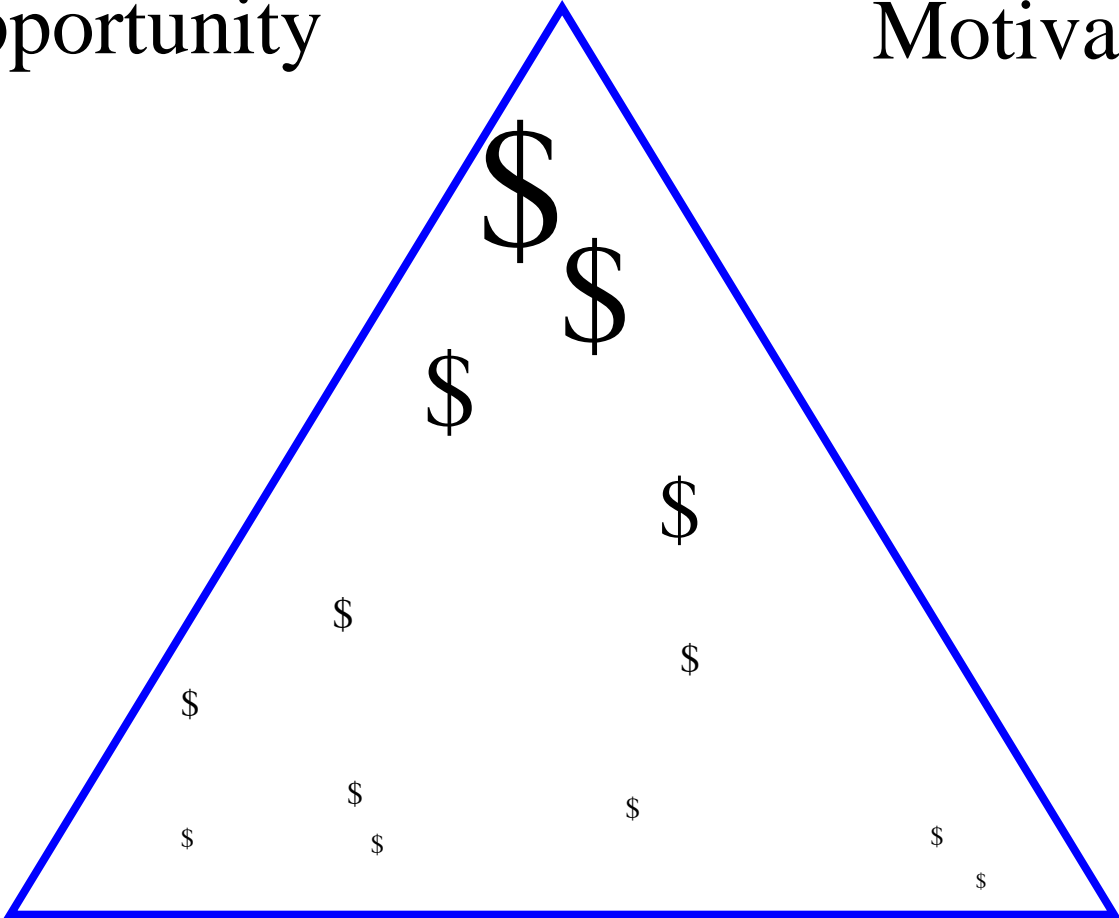


# Some influential factors

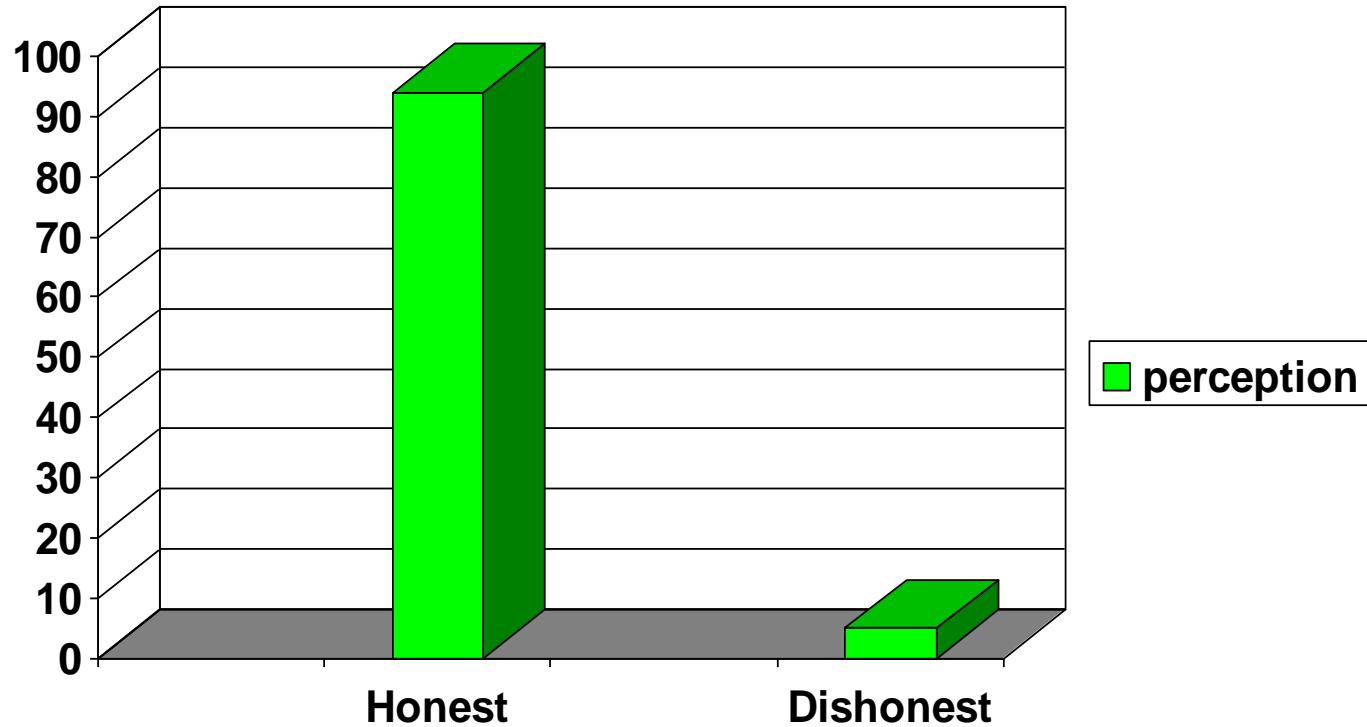


Opportunity

Motivation



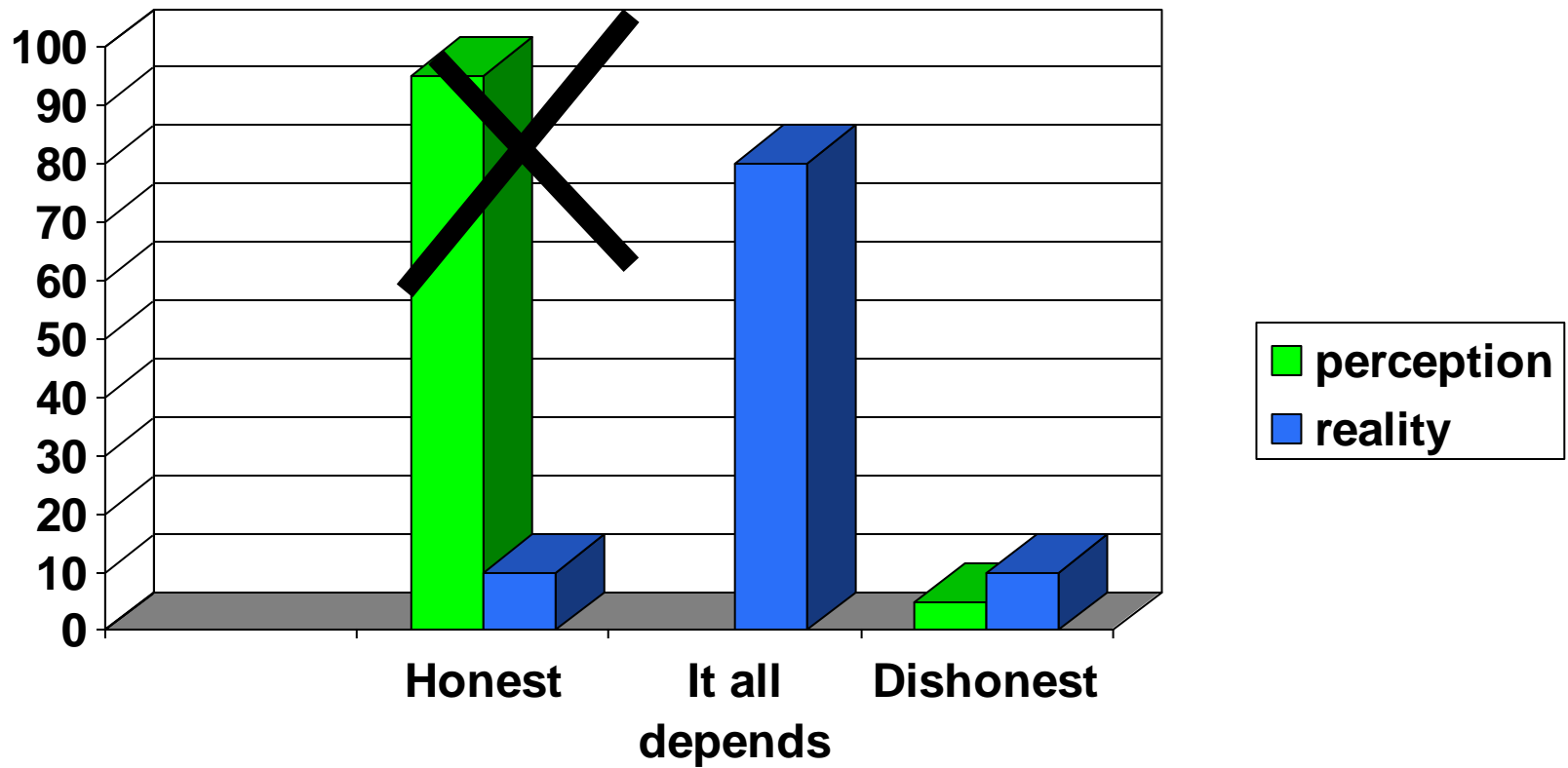
# More perceptions vs reality







# Reality



# A slippery slope



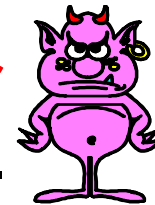
'Steal' office supplies

Fiddle travel expenses

Entertainment, free holidays

Receive gifts

Active Corruption



# Real Prevention

VS

“what we have always done...”

## Ringling success: Nokia's anti-fraud and corruption strategy

Mobile telephone giant Nokia has launched a successful appropriate business behaviour programme called the Code of Conduct. By December 2006, more than 81% of its employees had completed the e-learning course. The campaign was awarded first prize in the Federation of European Business Communicators Association's Grand Prix 2006 in the category of Business



The window of opportunity presented by Nokia's involvement in the UN Global Compact was used to spearhead efforts against potential fraud and corruption. As a result, the programme was led by the corporate responsibility function.

Several other functions, such as

# Case 2 - The POWER of Risk Management and CR

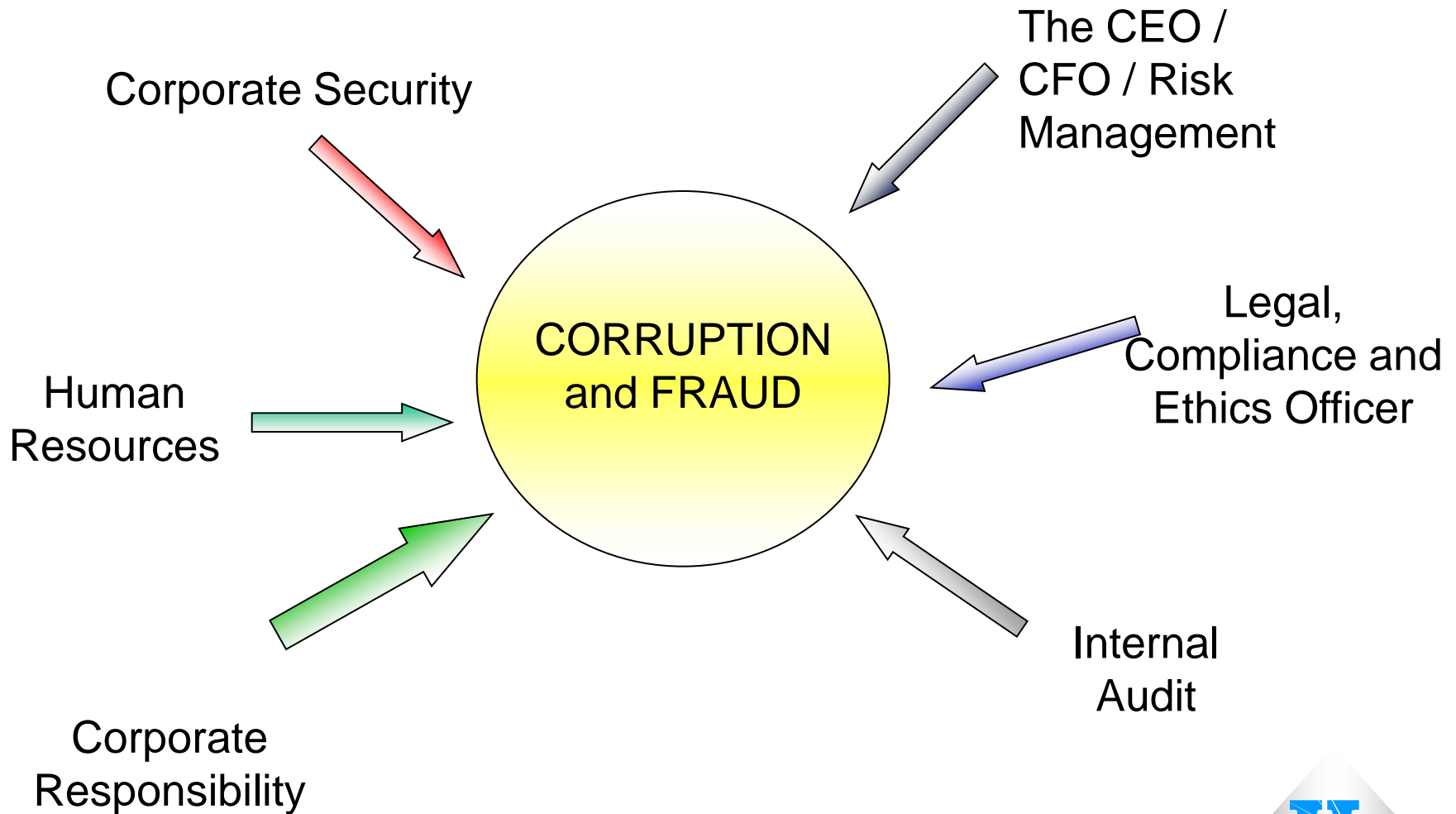
and encouraged to make the Code of Conduct work in their professional and personal lives

The overall message was: 'we take our responsibilities seriously, and we support each other in achieving our ethical goals through our Code of Conduct.' The Code of Conduct is something that all employees and partners of Nokia, in the widest sense, should focus on.

ensuring that all aspects of fraud, corruption and other inappropriate business behaviour were addressed. This avoided the danger of each department giving partial messages that could easily be perceived as inconsistent with each other.

Nokia paid attention to cultural issues with Code of Conduct training delivered in over 30 languages.

# Joining forces!



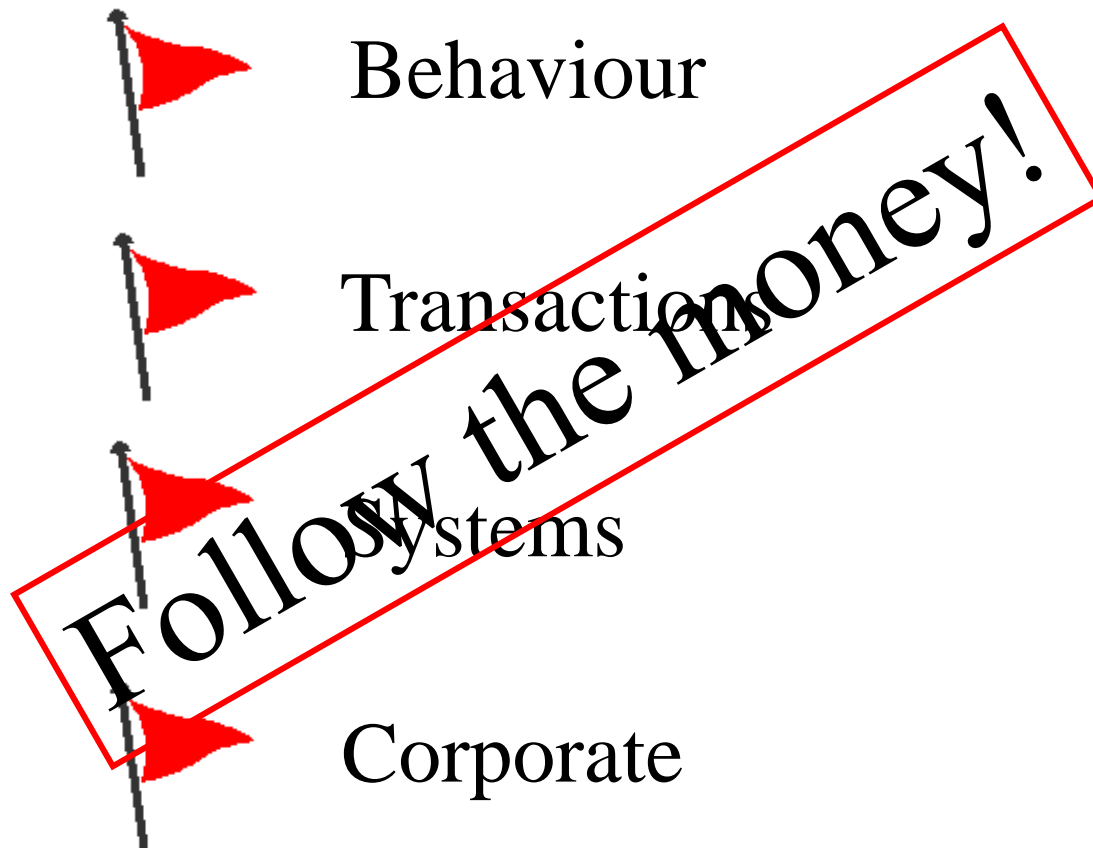
Case 3 – One step  
beyond...



Health Check



# The Corporate Health Check

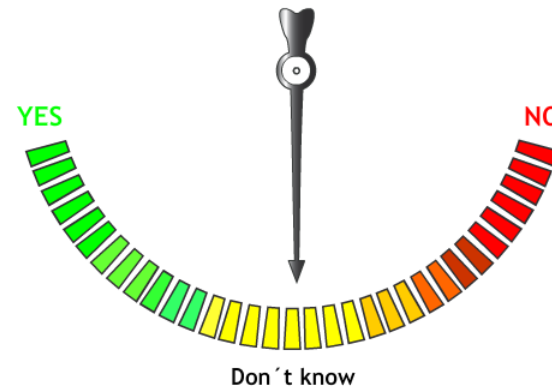




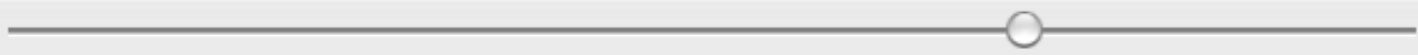
Could this be an indicator of possible fraud or corruption?

You discover that the wife of a long time senior employee is the majority shareholder of a company that provides temporary labor services to your company . You are also aware that the wife has a full time job in the accounting department of a local real estate company

The employee can drag the indicator and drop it where he or she think the most appropriate answer is. Feedback is left depending on where the indicator is left and if necessary the indicator shows a more correct answer.

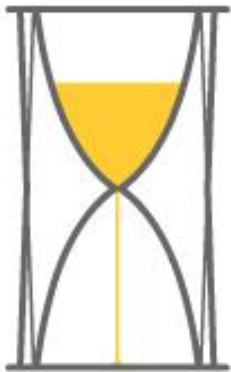


Next ►



Can you spot some of the red flags (4 in total) which make this invoice worthy of closer inspection?

Click on the areas where you may see a red flag.



# WWU HOLDING GROUP

Vaduz  
Fürstentum Liechtenstein

Zurich April, 200X

Attn: Messrs Geiger / Lestranger  
YZW Corporation  
135 Avenue Molière  
1190 Bruzelles  
Belgium

## INVOICE 0010

In accordance with our contract,  
we invoice you the initial marketing fee  
for New Development #2  
with the sum of

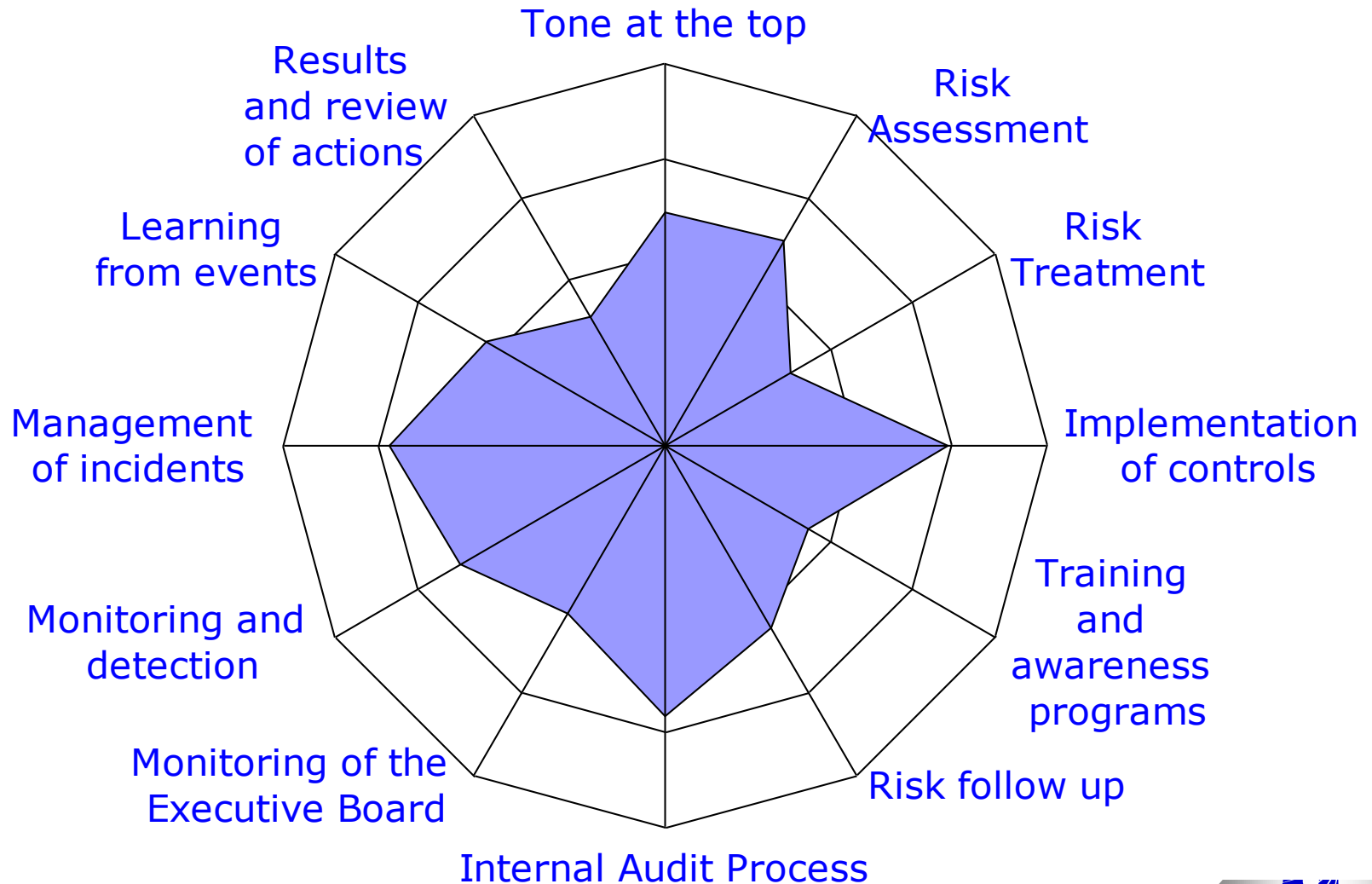
**USD 100 000**

Please transfer to the following bank account:

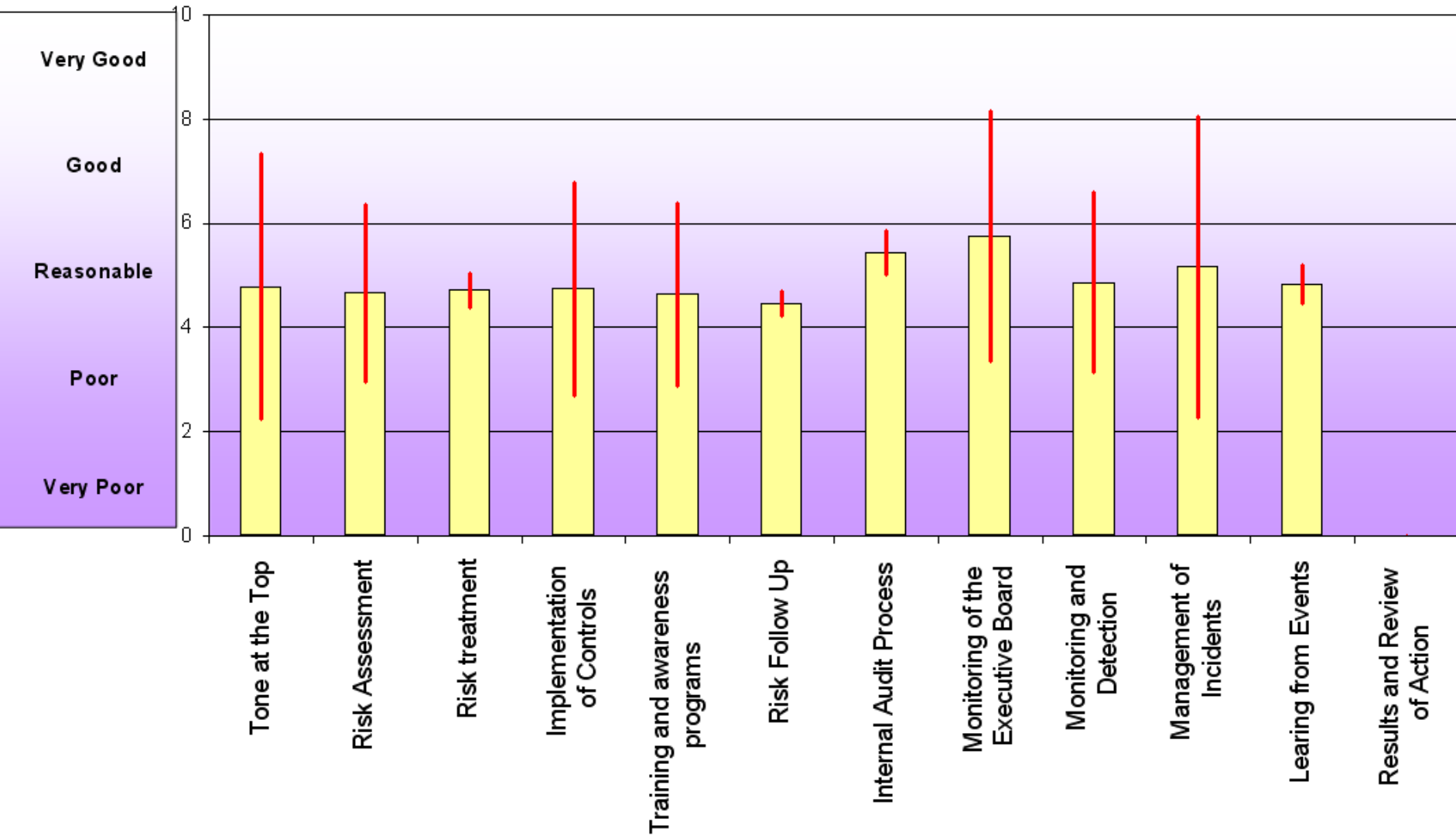
Soginvest Banca  
6600 Locarno - Mursito  
Via Stazione 9  
Konto Nr: 55 000 71



# Resistance – the ultimate goal



# Perception of Resistance to Fraud and Corruption



# What we should see...

- ❖ Focus on real prevention (not just compliance)
  - Active training and awareness programs
  - Looking for the red flags
- ❖ One clear anti fraud and corruption message
- ❖ Resistance to fraud and corruption is measured and built into performance assessment

## Erosion of value: what should you be looking for?

Major examples of fraud and corruption include:

- misrepresentation by third parties and insiders with regard to a corporate merger, acquisition or divestment
- diversion of expenditure on either major capital expenditure projects or otherwise procurement operations
- deliberate overcharging by suppliers
- payments paid to agents, third parties and officials that would normally be called 'bribes'
- preferential treatment of customers in exchange for a kickback
- false accounting, including material and deliberate misstatement of financial information.

## Tracking fraud and corruption

<b>How to subtract value</b>	<b>How to add value</b>
Argue about definitions of fraud and corruption, wasting valuable time and fragmenting management focus.	Achieve maximum management focus by grouping fraud and corruption together and making your definitions as wide as possible.
Be lulled into a false sense of security by assuming that once policies are distributed they are automatically read.	Identify and work with the many allied departments to create mandates and implied mandates.
Be afraid to let employees tell you which methods of fraud would work best.	Foster a culture of openness when talking about fraud and corruption. Understand the methods and then apply the controls.
Get bogged down in checklists and satisfying regulations for the sake of it.	Identify people in the organisation who can become official or unofficial ambassadors against fraud and corruption.
Feel that you have to make a change alone, allowing others to comfortably sit on the fence.	Plan for the long term. Countering fraud and corruption works like a vaccination programme rather than a one-time cure: regular boosters are required.