



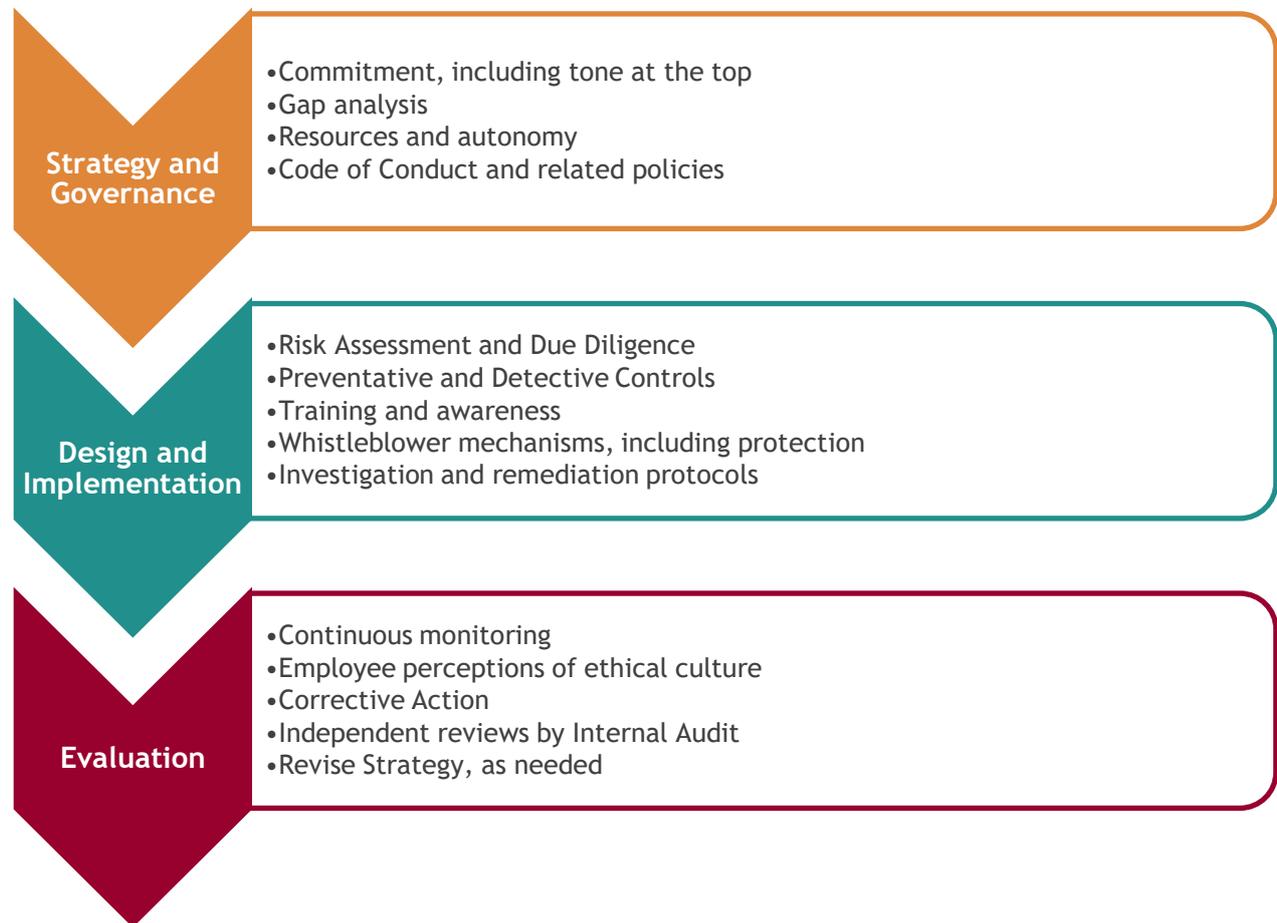
**FRAUD PREVENTION PROGRAM:**  
Enhancing integrity across your organization

## INTRODUCTION

Fraud, misconduct and integrity breakdowns remain a constant and an ever-growing threat to public trust and confidence in the capital markets. In the wake of uncertain economic environment, ever-changing laws and regulations, and decreasing tolerance of - fraud and corruption, organizations should be aware of the need to design and implement programs and controls to manage the risk of fraud and misconduct. It is pertinent that organizations can enhance the overall governance and responsible business conduct by designing, implementing and evaluating policies, programs and controls to prevent, detect and respond to integrity breakdowns.

These policies, programs and controls are also commonly known as Fraud Prevention Program. While a universally accepted or recognized criteria for such a program/framework does not exist, organizations of all types and sizes can adopt a set of leading practices to help build and enhance the overall culture of ethics and integrity within the organization.

## FRAUD RISK MANAGEMENT PROGRAM (KEY COMPONENTS)



*On the following pages, we provide a detailed overview of some of key aspects of the Program.*

## GOVERNANCE AND OVERSIGHT

It all starts with the right governance structure. The Board of any organization is the key custodian of overall risk mitigation and should act as guardian of the governance and oversight of an enterprise. Often the most overlooked of all, is the anti-fraud and compliance program of a company and related ethical culture. The Board should set the agenda for the overall fraud prevention program, including the related roles and responsibilities at the senior management level, and provide necessary authority and autonomy across the three lines of defence as it relates to fraud prevention, detection and response.

While several functions such as finance, compliance, risk, and internal audit will work in close collaboration, it is essential that a particular business function (ideally should be a second line function, and not internal audit) has the overall responsibility for the organization's anti-fraud efforts.

## ASSESS THE RISK

There cannot be a fraud prevention program without a fraud risk assessment. All organizations have a finite number of resources, and a thorough risk assessment can help identify the areas that need to be prioritized from an anti-fraud perspective. This coupled with an absence of a one size fits all approach to risk assessment makes it critical to carry out risk assessment proactively and in the right way.

This includes identifying the key areas/operations of an organization susceptible to integrity breakdowns and assessing the control environment in place (at an entity and process level) to prevent This includes identifying the key areas/operations of an organization susceptible to integrity breakdowns and assessing the control environment in place (at an entity and process level) to prevent and detect such integrity breakdowns. It is important to note that integrity breakdowns largely occur at the point of decision, and it is critical to understand and assess controls at such decision points. Remember, the more responsibility a person has at an organization- the greater is the associated risk of fraud and misconduct.

Additionally, the fraud risk assessment process should be documented and forward looking, and for organization operating in heavily regulated industries such as financial services, life sciences, energy and natural resources, among others, the process should be carried out in

collaboration with the compliance function, as many fraud risk areas will likely have an overlap with compliance risks.

Further, leveraging tools such as surveys and focus groups is greatly beneficial, as they help understand structures and environmental factors that influence rank-and-file employees and disclose the disconnect, if any, between what senior management thinks about tone at the top and controls, and what is perceived within the organization.

Lastly, consider carrying out employee and third-party due diligence to understand ethical capacity of employees and third parties, and identify related integrity risks.

## DEVELOP AND IMPLEMENT ANTI-FRAUD CONTROLS

Internal anti-fraud controls are an important aspect of an organization's fight against fraud. The results of the risk assessment and related internal control testing should inform the controls that would need to be developed, implemented, and enhanced.

Some of these would-be key entity level controls such as Code of Conduct, specific policies, SOPs for high-risk transactions, among others; however, for some process areas, an organization would need to implement specific financial controls. For example, all political and charitable contributions should be pre-approved by legal and finance.

Lastly, while designing and implementing controls, the inherent limitations to controls should be taken into account, including key controls that can be overridden by senior management at decision points.

## TRAIN AND COMMUNICATE

The importance of training employees and third parties cannot be underscored; however, the key to an effective anti-fraud training program is understanding the risk profile, and accordingly pushing out specific trainings catered to that risk environment. For example, employees interacting with government officials in an organization might require an enhanced level of anti-bribery and corruption training. In case of employees working in procurement/vendor management function, additional training around conflict of interest, price fixing and bid rigging by third parties may be needed.

On the communication front, there can never be enough communication from an organization to its employees around doing the right thing. Companies should consider leveraging technology and internal social media to create an outreach plan that is effective yet does not create training and communication fatigue. For example, organizations could consider having dedicated ethics awareness week, with a particular risk area(s) being the focus for training and communication during that week.

### DETECT, RESPOND AND REMEDIATE

Organizations should proactively monitor transactions and operations for red flags (correlations, patterns, trends and relationships) that are indicative of potential misconduct. Remember, a red flag does not mean that fraud and misconduct has occurred, but rather it needs to be reviewed in detail to identify and root out misconduct. It is pertinent to note that the indicia of fraud exist ahead of time, and this is where use of data analytics can help uncover some of the trends and patterns sooner rather than later.

According to ACFE's fraud survey report 2020, almost 43 percent of all frauds are detected through tips, and half of those tips come from employees, including 33 percent of whistleblowers using channels available to report misconduct.

An organization needs to implement the right kind of reporting mechanisms to let employees know they have an affirmative obligation to report on anything they believe to be inappropriate or untoward. An organization-wide obligation to report misconduct is key to detecting potential integrity breakdowns in a timely manner before such issues become legal and regulatory problems. The simplest way to achieve this would be to create a whistleblower mechanism that allows for employees to anonymously raise concerns (if allowed as per local law), and without the fear of retaliation. After all, what you do not know is what gets you in trouble.

All organizations should deploy resources to carry out an effective investigation into potential misconduct. Further, getting the right professionals to perform the investigation, including appropriate protocols is the key to effective investigation. Many organizations do not have the appropriate in-house investigative capabilities, and yet embark on investigation to only realize the need for an outside expert half-way into the process, leading to potential

compromise of data and evidence. A poorly conducted investigation can be far more damaging than if the organization did nothing at all. Seeking assistance from outside subject matter experts, including privilege considerations is critical in responding to and remediating misconduct.

Lastly, augmenting policies, programs and controls to plug control gaps and weaknesses is a key step in preventing similar misconduct from occurring in future, which is eventually germane to the ongoing effectiveness of a fraud prevention program.

### EVALUATE/FEEDBACK LOOP

Organizations need to use technology to augment such analysis and identify KPIs it needs to track and monitor towards an effective fraud prevention program. Such practices would help identify gaps in policies, programs and controls that need to be augmented going forward.

Lastly, Organizations should also consider evaluating the effectiveness of their fraud prevention programs on a periodic basis with revisions to risk assessments based on change in risk profile. This can be done by independent evaluation by Internal Audit, hiring subject matter experts from outside to carry out a gap assessment that periodically help organizations across Industry sectors with their fraud prevention frameworks.

*To conclude, while current economic environment in light of COVID-19 can easily foster fraudulent behaviour, organizations can deter it by developing and implementing a fraud prevention program tailored to its risk profile. This coupled with senior executives promoting an ethical culture and the right tone at the top, an expectation is set for employees and third parties to do the right thing in the right way.*

*We look forward to having a conversation with you about your needs and challenges, and to see how our team could help in enhancing the overall fraud prevention program and related ethical culture at your organization.*

## THE BDO DIFFERENCE:

- ▶ Partner and senior level involvement throughout all phases of the engagement
- ▶ Collaborative approach with a team built to service client's needs, including from across BDO's international network
- ▶ Deep understanding of regulatory and enforcement landscape and cultural norms
- ▶ Extensive experience across Industry sectors and geographies in helping clients address specific challenges in a holistic way
- ▶ Rapid deployment of resources to help navigate multitude of situations and related complexity, thereby providing speed and clarity, when you need it most.

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The value of our experience is evident in the questions we ask, the analysis we provide, and the credibility we bring in support of complex, high-stake matters in jurisdictions around the World. We provide a full and comprehensive range of forensic services. Our key service offerings include:

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| ▶ Financial Reporting & Fraud Investigations | ▶ Fraud Prevention Program Assistance                             |
| ▶ Forensic Audits/Inspections                | ▶ Fraud Risk Assessments  |
| ▶ Investigative/Reputational Due Diligence   | ▶ Anti-Money Laundering and Anti-Corruption Compliance Assistance |
| ▶ Forensic Technology Services               | ▶ Dispute Resolution and Litigation Support                       |

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