

**THE INAUGURAL BRANCH ANNUAL
SUMMIT**
FRAUD RISK MANAGEMENT
MOMBASA

Faith Basiye
Head Forensic Services, KCB Bank

22 August 2018

Presentation agenda



**Definition of
Fraud**

**Fraud Risk
Management**

**Fraud Health
Check**

WHAT IS FRAUD?



Adopted the Association of Fraud Examiners (ACFE) definition of fraud as being all those activities involving dishonesty and deception that can drain value from a business, directly or indirectly, whether or not there is personal benefit



Manipulation of Records
and computer systems

Corrupt Act

Falsification
of Records

Omission

Cheating

Kickbacks
and Gifts

Fraudulent Act

Dishonesty

Profiteering
on insider
knowledge

Abuse of Office

Forgery
or Alteration

Disclosure
of confidential info

***Fraud may include
but is not limited to***

Misrepresentation

Benefiting
from fraud

Fraudulent
Financial
Reporting

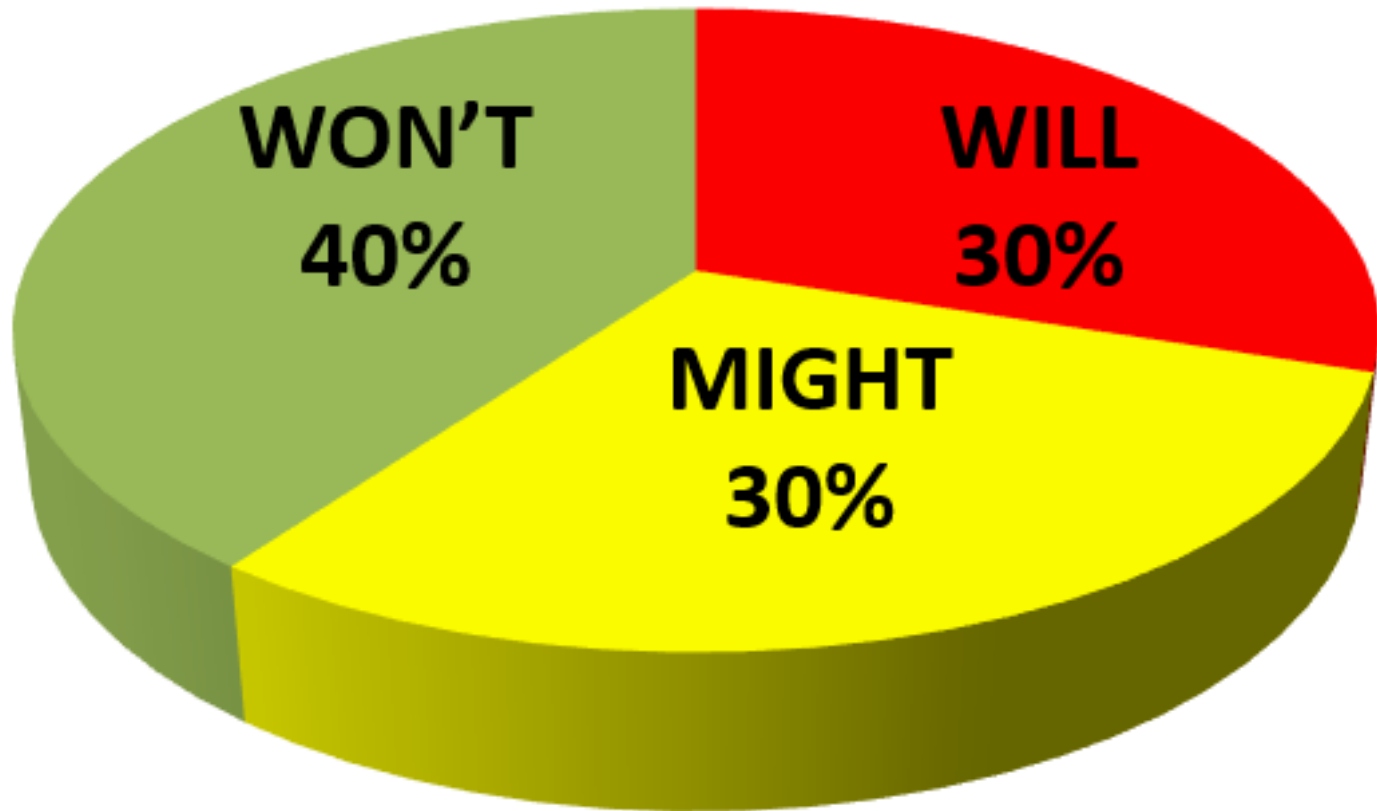
Misappropriation

Maladministration
or Financial misconduct

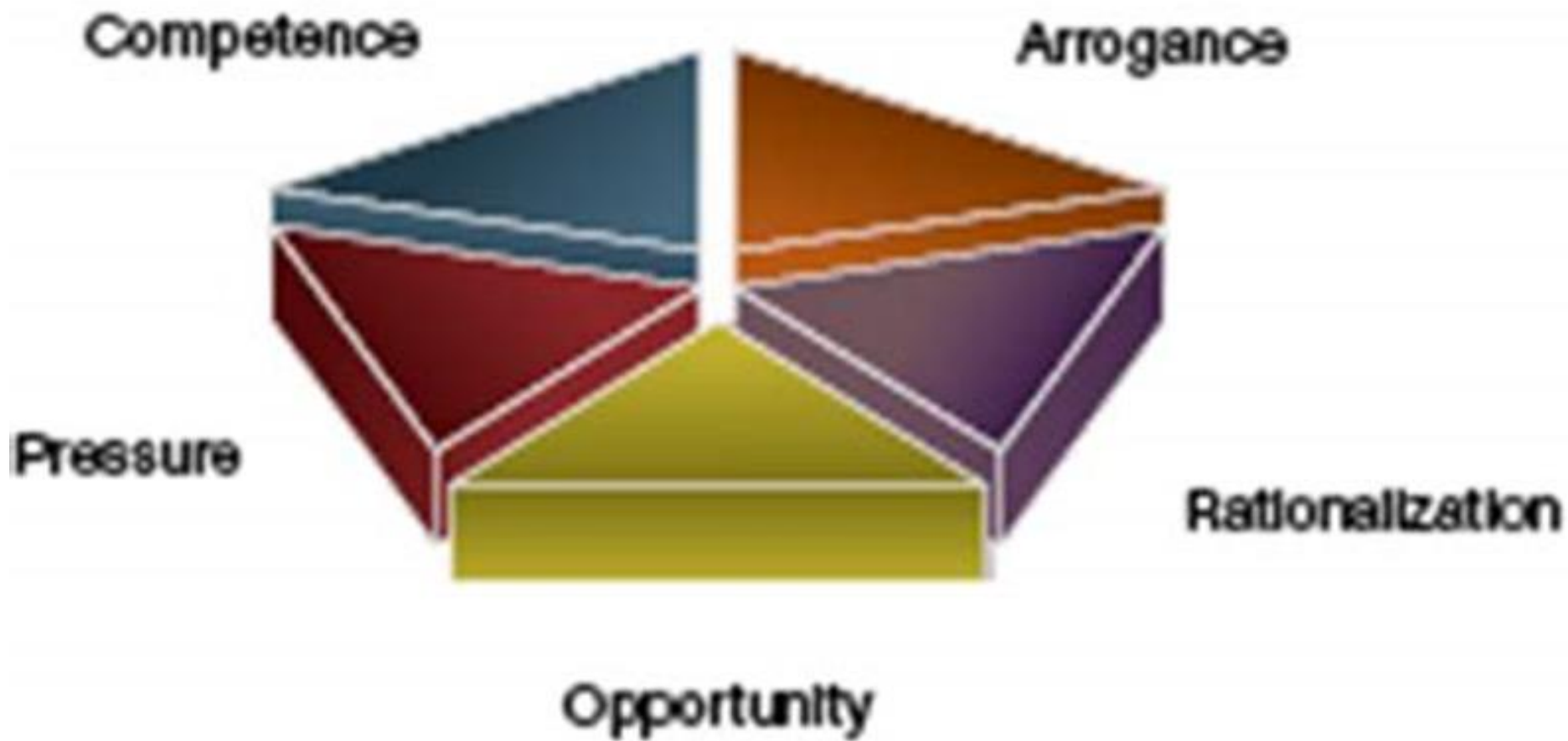
Impropriety
in handling & reporting
of financial transactions

Theft

Who Commits Frauds



Fraud Pentagon



RED FLAGS



IN
85%
OF CASES

FRAUDSTERS DISPLAYED AT LEAST
ONE BEHAVIORAL RED FLAG

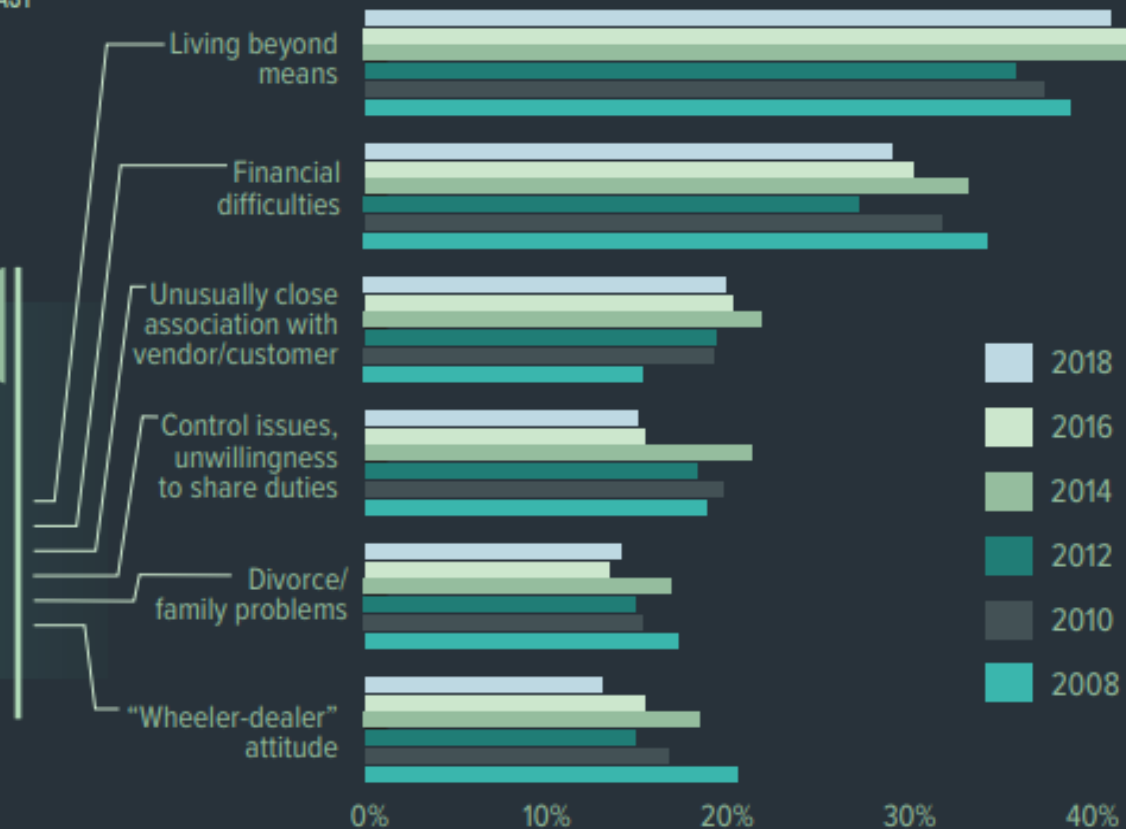
AND IN

50%
OF CASES

THEY EXHIBITED
MULTIPLE RED FLAGS

These **6 BEHAVIORAL RED FLAGS**

have been the most common in every one of our studies dating back to 2008, with a remarkably consistent distribution



Governance

- Strategy
- Tone at the Top
- Clear role definitions
- Relevant elements
- Commitment
- Charters & frameworks
- Centralised FRM function

Fraud Risk Assessment

- On-going assessment
- Methodology
- Coverage
- Resources utilised
- Validation of fraud risks
- Use of historic information

Prevention

- Due diligence
- Code of Conduct
- Authority levels
- Communication and training
- Automated Controls
- Policies and procedures
- Segregation of duties

Detection

- Reporting incidents
- Whistle blowing
- Internal Audit
- IT systems and controls
- Ad hoc fraud checks
- Data analytics

Response

- Fraud response plan
- Independent Investigations
- Administrative & prosecutorial Action
- Staffing & skills sets
- Additional fraud detection techniques
- Recoveries

CULTURE

Phases of a Fraud Risk Assessment

1. Record and define the different frauds that impact the organization

2. Analyze the different fraud schemes

3. Perform fraud health check



4. Input information obtained into fraud risk matrix

5. Select areas where fraud risk review will be conducted

6. Conduct initial meeting with relevant parties



7. Link fraud risks with control

8. Control assessments

9. Implementing mitigation action plans and report on findings

10. Update risk register and monitor

FRM is Everybody's business



FRAUD HEALTH CHECK



How do you check?

- Fraud risk oversight- to what extent has your organization established a process for oversight of fraud risks by the board of directors or others charged with governance
- Fraud risk ownership- to what extent has your organization created “ownership” of fraud risk by identifying a member of senior management as owner
- Fraud risk assessment- to what extent has organization implemented an ongoing process for regular identification of significant fraud risks to which it is exposed
- Fraud risk tolerance and risk management policy- to what extent has the organization identified and had approved by the board of directors its tolerance for different types of fraud risks

FRAUD HEALTH CHECK



- Process level anti-fraud controls/ reengineering- to what extent has the organization implemented measures to eliminate or reduce through process reengineering each of the identified fraud risks and at process level
- Environment level anti-fraud controls- to what extent has the organization implemented a process to promote ethical behaviour, deter wrongdoing and facilitate two-way communication on difficult issues
- Proactive fraud detection- to what extent has your organization established a process to detect, investigate and resolve potentially significant fraud

IN CONCLUSION....



- Changes in the environment spawn new capabilities that drive different behavior
- Organizations must constantly adapt their strategies for managing fraud risk to the changing relationship between the drivers (motivation, opportunity and rationale) and behaviors and capabilities.
- The dynamic opportunity of the day, relationships on an organizational and global scale, the latest technologies, and socio-political and economic issues will shape the fraudster's profile timelessly.
- One must also not forget the typical fraudster may likely remain the tenured, trusted employee. The one you may never have suspected...because we do not look

