Anti-fraud strategies in multinationals

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Abstract: Nowadays, globalisation and business internalisation have led to an increased number of frauds in organisations worldwide. The most affected are the multinational corporations because of the geographical distance, different fiscal systems and local factors that consist in tremendous opportunities for employees and/or managers to involve in fraud schemes. Starting from recent studies and prior efforts of international organisations or countries to stop fraud by imposing regulations to be respected for the economic environment, the purpose of the paper is finding the key factors for detecting and preventing fraud in the organisations. In our approach we use several proposals for a conceptual framework developed by two companies of "The big four", KPMG and Deloitte. The results indicate that for the number of fraud to decrease, any organisation needs to develop and implement a strong anti-fraud plan, by covering all logical steps to be made in this matter. For the anti-fraud plan to work, the organisation has to have or should develop an ethical environment, an anti-fraud organisational culture, starting from the top. Thus, the attitude of managers is highly important for the plan to work and the employees to acknowledge the importance of detecting and preventing fraud in their company.

Keywords: anti-fraud plan, risk management, anti-fraud organisational culture

JEL Classification: M14

1 Introduction

In a perfect world there would be no reason for managers or other persons within companies to engage in fraudulent accounting practices. So, the losses suffered by the organisation, by its employees or its managers may be pressure points in the fraud triangle. Regardless of the economic environment, good or bad, fraudsters will always be tempted to steal, to lie or try to obtain personal gain on company's expense. As a result, the persons responsible for corporate governance should develop and integrate strategies in order to lower the level of fraud risk.

This can be done by (Albrecht, et all. 2011): having good internal controls, discouraging collusion between employees and customers or vendors and clearly informing vendors and other outside contacts of the company's policies against fraud, monitoring employees and providing a hotline (whistle-blowing system) for anonymous tips, creating an expectation of punishment, and conducting proactive auditing. Each of these methods should reduce the actual or the perceived opportunity to commit fraud.

When well executed, fraud risk assessments can help management identify the pressure points and incentives that give rise to some of the most salient integrity-related risks for both organizations and their stakeholders (Girgenti & Hedley, 2011).

In order to develop an efficient anti-fraud strategy, several organisations have provided professional guidance, releasing Managing the Business Risk of Fraud: A Practical Guide (IIA, AICPA, ACFE, 2008)[3]. In fact, many laws and regulations have been adopted worldwide, providing organisation important criteria for their antifraud efforts. In this respect, we mention:

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[3] *Managing the Business Risk of Fraud: A Practical Guide*, published in June 2008 by IIA - the Institute of Internal Auditors, AICPA - the American Institute of Certified Public Accountants, ACFE - the Association of Certified Fraud Examiners, shares leading practices and recommended steps to improve fraud risk management processes.

- United States: The USA PATRIOT Act, the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act of 2002, SAS 99, NYSE & NASDAQ listing standards, Public Company Accounting Oversight Board (PCAOB) Standards No. 2 and 5, amendments to the Federal Sentencing Guidelines, and the Dodd-Frank Act.

- European Union: Financial Services Action Plan (FSAP), the Third Directive on the Prevention of the Use of the Financial System for Money Laundering or Terrorist Financing.

- United Kingdom: Proceeds of Crime Act of 2002, Companies (Audit, Investigations, and Community Enterprise) Act of 2004, the Fraud Act of 2006, and Bribery Act of 2010.

- Canada: The Canadian Criminal Code.

- China: Eighth Amendment of the PRC Criminal Law.

- Australia: The Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Act 2004, the Criminal Code Amendment (Bribery of Foreign Public Officials) Act, the Public Interest Disclosure Bill and the Anti-Money Laundering and Counter Terrorism Act.

But, as we discuss further, detecting fraud is still an important issue on managers' agenda that reports a high degree of interest in current global studies.

2. A framework for fraud risk management

Methods of fraud detection belong usually to three main categories: corporate controls, corporate culture and those beyond corporate control. In this respect, we mention their evolution based on KPMG's 2014 Global Economic Crime Survey (Table 1). The results of KPMG's survey, conducted between August 2013 and February 2014, are more important giving the number of respondents participating, 5,128 respondents from 99 countries worldwide. In Table 1 are displayed the major methods used by organisation in order to detect fraud.

Table 1 Methods for detecting fraud within organisation (%)

Years	2005	2007	2009	2011	2014
Control	36	34	46	50	55
Culture	31	43	34	23	23
Accident	33	23	20	27	21

Source: based on KPMG's 2014 Global Economic Crime Survey

As we can see from the table above, control and culture have gained, all together, in a 9 years period (since 2005 to 2014) 78% from 100% of methods used to detect fraud. The high percentage indicates that management of companies worldwide has increased efforts towards improving control techniques and develop an ethic organisational culture. These are used for detecting, as well for preventing fraud being part of the fraud risk management approach.

Table 2 A 360^0 approach to fraud risk management

Diagnose vulnerability to fraud	Detect gaps in anti-fraud controls	Recommend mitigating antifraud controls	Continuous or periodic monitoring	Develop fraud response plan	Investigate cases of alleged fraud
Evaluate the current status and effectiveness of the organisation's anti-fraud control environment	Evaluate management's existing fraud risk management framework to detect potential gaps of antifraud controls in the processes	Recommend enhancement of existing controls or mitigating antifraud controls for implementation	Enable continuous monitoring of controls using technology	Develop a fraud response plan to address cases of alleged or confirmed fraud	Assist in the investigation of cases of alleged or confirmed fraud within the organisation
Tools					
Employees' Ethics Survey (Diagnose)	Fraud Risk Management Tool (Detect)	Recommend mitigating anti-fraud Controls (Respond)	Forensic data analytics (Detect)	Develop Fraud Response Plan (Respond)	Investigate cases of alleged fraud (Respond)

Source: based on Deloitte (2013)

Diagnosing vulnerability to fraud involves assessing the culture, attitude, and awareness amongst employees about their knowledge of and response to any issues of fraud or misconduct. The proper instrument used in this case is an Employees' Ethics Survey which can provide useful answers to management.

Detecting gaps in anti-fraud controls implies establishing fraud risk profiles by analysis and ranking of fraud risks (as high/ medium/ low) against existing anti-fraud controls, while, based on 'antifraud control' gaps detected, recommendation can be made in order to enhance the existing control forms. An enormous attention should be given to anti-fraud plan, since it's the main instrument in detecting and preventing further possible frauds.

3. Developing anti-fraud plan

When developing anti-fraud plan, the responsible for corporate governance should take into consideration and incorporate the following aspects (Kovacich, 2007): reasons for the anti-fraud strategy, including its drivers such as laws and regulations; vision, mission, and quality statements of the organisation; legal, ethical, and best business practices; strategic, tactical, and annual business plans; protection program related to organisation's strategic, tactical, and annual security plans, policies, and procedures, including current anti-fraud related policies or procedures (Figure 1).
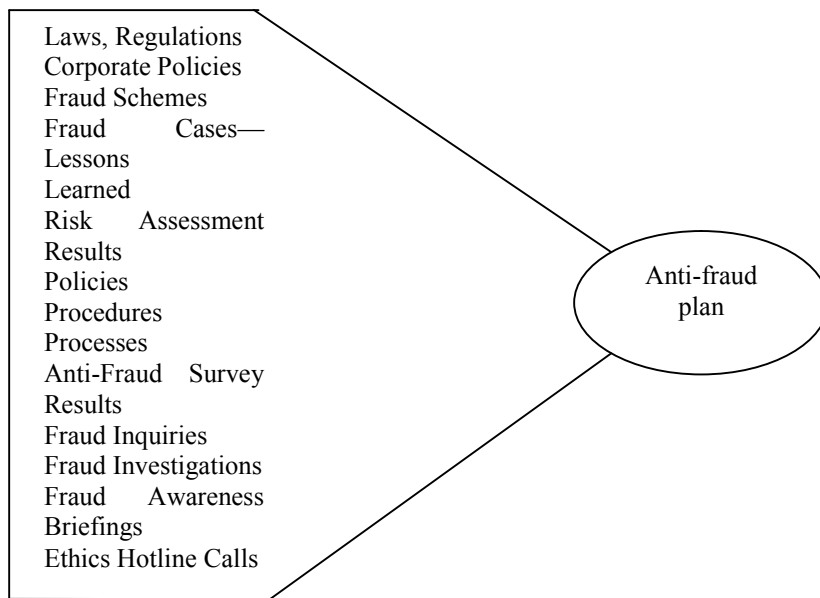
Laws, Regulations
Corporate Policies
Fraud Schemes
Fraud Cases—
Lessons
Learned
Risk Assessment
Results
Policies
Procedures
Processes
Anti-Fraud Survey
Results
Fraud Inquiries
Fraud Investigations
Fraud Awareness
Briefings
Ethics Hotline Calls

Anti-fraud plan

Figure 1 Aspects to include in an anti-fraud plan

Source: adaptation Kovacich (2007)

Besides these aspects, the person responsible with the anti-fraud plan should take into consideration the corporate culture of organisation as well as current policies, procedures and practices if exists.

After setting all the requirements of the anti-fraud plan, anti-fraud policies, procedures and processes are driven as part of the overall anti-fraud plan for a corporation. An example is presented in Figure 2.
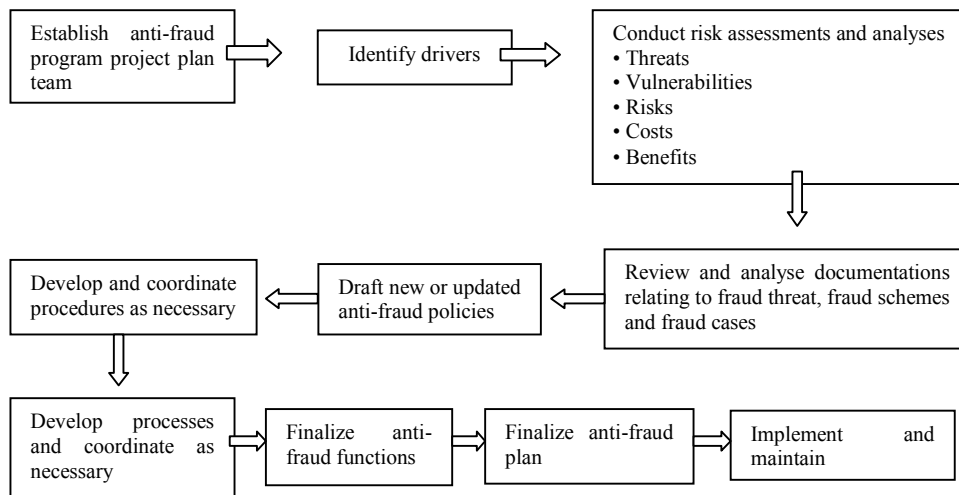
Establish anti-fraud program project plan team → Identify drivers → Conduct risk assessments and analyses
• Threats
• Vulnerabilities
• Risks
• Costs
• Benefits

Develop and coordinate procedures as necessary ← Draft new or updated anti-fraud policies ← Review and analyse documentations relating to fraud threat, fraud schemes and fraud cases

Develop processes and coordinate as necessary → Finalize anti-fraud functions → Finalize anti-fraud plan → Implement and maintain

Figure 2 A possible flow tasks for developing an anti-fraud plan

Source: adaptation Girgenti & Hedley (2011)

The best approach when developing an anti-fraud plan is that all activities be linked and follow a logical flow that could be easily followed and conducted by the responsible in the organisation. The first step consists in establishing the program and the team that will work together in finding the best drivers of fraud inside the company. This implies risk assessments and analyses of threats,

vulnerabilities, costs or benefits. In order to maximize their efforts in conceiving a viable anti-fraud plan, the team should review and analyse the available documentation regarding previous fraud schemes, cases or threats that took place inside the organisation.

After this step, the team has enough information to draft or to update the current anti-fraud policy and to develop and coordinate all necessary procedures to implement it. After procedures are set, processes are being established and anti-fraud functions are complete. These are final stages before finalising the anti-fraud plan, which needs only to be maintained and respected by all employees and managers. For the anti-fraud plan to work the company should develop a strong ethic environment and have a strong anti-fraud organisational culture.

4. Anti-fraud organisational culture

Known under the expression tone at the top, the phrase refers to attitude and managerial implication in detecting and preventing fraud in organisation. Developing an anti-fraud culture is a continuous and difficult process that requires managers to set the tone by promoting a proper attitude, communicating company's antifraud policy to employees and encouraging them to detect or prevent acts of fraud inside the firm. Summarizing, in order to create a culture of honesty, openness and assistance, the main steps are:

Table 3 Steps in creating a anti-fraud organisational culture

Main ways	Further steps
Hire honest people and provide fraud awareness training.	• Verify all information on the applicant's résumé and application.
	• Require all applicants to affirm the truth of the matters set forth in their application and résumé.
	• Train management to conduct through and skilful interviews.
Create a positive work environment.	• Create expectations about honesty by having a good corporate code of conduct and conveying those expectations throughout the organization.
	• Have open-door or easy access policies.
	• Have positive personnel and operating procedures.
Provide an employee assistance program.	Implement an employee assistance program that helps employees deal with personal and non-sharable pressures in their lives.

Source: Albrecht et all. (2011)

Developing an anti-fraud organisational culture requires several framework documents: anti-fraud policy, anti-fraud decision matrix, conflict of interest policy and code of ethical conduct (Sabău, 2012).

Anti-fraud policy contains objectives, principles and procedures, being the main support document for developing an ethic environment in the organisation. In fact, it's the main source from which derive all measures of fraud detection and prevention.

Conflict of interest policy is essential for assuring quality and transparency of decisional process in order to prevent possible acts of corruption in the organisation. Its main purpose is to establish a general framework for identifying and managing the conflict of interest in all relation established between employees or managers with the company, business partners (clients, suppliers), financial organisations and financial institutions.

In general, the code of ethical conduct is a document that reflects the principles, rules or laws for individuals or groups behaviour, accepted and respected by all members of an organisation.

Through this code, the company shares its official opinion on certain behaviour, stating: fundamental principles of ethics, general rule for the employee (relationship with partners, general behaviour inside the organisation), regulations concerning legal framework for preventing and fighting money laundering, financing of terrorism, relationship with legal authorities (national/international), competition, publicity, chance equality, protection of assets, protection of information, ways that code applies, reporting irregularities and possible disciplinary.

5. Conclusion

Globalisation, current business trends and the growing reliance on information technology, coupled with economic instability, have increased the opportunities for fraud to occur within multinationals. Developing an ethical culture and a work environment with a high level of integrity can become an important advantage in detecting and preventing frauds and is also a quality indicator for investors when assessing further investments.

As the results of recent studies show, control and culture within organisation have gained an enormous importance in detecting and preventing fraud. These two should work together in implementing anti-fraud behaviour in the organisations, starting from the top level, the equivalent for "tone at the top."

Developing a viable anti-fraud plan implies using several strategies, following a logical work flow that, if respected, would succeed accomplishing the initial objectives in fighting fraud within the company.

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