

Financial
Misconduct
Acting
swiftly
and
effectively

Management Briefing



Protect your reputation with a zero tolerance policy

At a time when the market is sensitive to any sign of bad news, the discovery of fraud or financial misconduct can have a significant and disproportionate impact on the reputation of a company. Organisations, large and small, need to ensure that they are tackling this risk proactively, and they must react swiftly and effectively to deal with any suspicion of wrongdoing.

The impact of an incident can be both immediate and lasting. As well as the damaging media coverage which arises when an issue comes to light, the investigation and remediation of the problem can be a time consuming distraction for management.

Organisations must also be aware of the heightened regulatory demands which are expected by governments and stakeholders. We are entering a period of 'zero tolerance' for corporate misconduct which means that proactive risk reduction needs to be at the top of the agenda.

In this issue of Management Briefing, we examine some effective approaches which can be taken by an organisation to demonstrate its commitment to identifying and reducing the risk of fraud or misconduct. Whilst it may be unrealistic to believe that any organisation can eliminate the risk of a potentially damaging incident, it is vital to take active steps to tackle it and to implement systems designed to prevent or discourage such activity in the first instance.

“It takes 20 years to build a reputation and five minutes to ruin it.”
Warren Buffett

There are three key areas where an organisation should focus to reduce this risk.

1. Implement proactive risk management

Active investigation of potential misconduct undoubtedly raises the chances of finding problems, but it also helps to demonstrate the seriousness with which the matter is viewed by the organisation. Three elements of a successful risk management strategy are:

Risk reviews

Risk reviews should be undertaken regularly, taking account of changes internally and in the wider economy. For example, the present climate will increase financial pressures on employees which, in turn, raises the risk of theft of cash or assets. Internal control procedures need to be reviewed and improved to reflect this risk.

Data analysis

Data should be reviewed using analytical tools to systematically identify anomalies in transactions which would not be highlighted by normal control procedures.

Data analytics can be used to look for unusual patterns, for example:

- Splitting the payment of invoices so they are below specified authorisation levels
- Duplicate payments to suppliers for the same invoice
- Identifying a supplier with the same bank account details as an employee which could be indicative of a false invoicing fraud

Integrity checks

At a time when credit control is key and credit insurance is becoming more difficult and expensive to source, it is important to be aware of the track record of new suppliers or customers. For example, have they been involved in previous failed ventures, litigation or even illegal activity?

Additionally, where you have extended supply chains involving entities in jurisdictions where business standards may not be as high as at home, you need to be sure that their activities are not going to damage your own standing.

In an economic downturn, as retaining and winning business becomes increasingly vital, increased pressure on managers to deliver can create even greater incentives and temptation to resort to inappropriate practices, even resorting to bribery and corruption to 'seal the deal'.

First Steps:

Make sure everyone knows who has responsibility for managing the risk of misconduct. Too often this is an issue which can fall between the cracks.

Undertake an immediate review of the pressure points in your organisation and take steps to improve the controls over any weaknesses identified.

Follow with a longer term programme of fraud risk reviews ensuring that all areas are covered over the medium term.

2. Establish the right culture

Tackling misconduct begins with setting and enforcing the right corporate culture. This involves:

- Leadership and setting a clear tone at the top
- Establishing unambiguous policies on misconduct
- Providing education and training
- Encouraging an open culture where concerns can be raised by anyone in the organisation

Measure the culture

While most people would agree that establishing the right corporate culture is vital, it can be difficult for organisations to assess how effectively they are doing this and how deep the culture actually runs. An ethics survey can play a vital role in providing an organisation with measurable performance indicators on its culture by:

- Verifying that the proper tone is being communicated
- Establishing employee attitudes to fraud, misconduct or other ethical issues
- Raising employee awareness of the policies in place
- Gathering information on how well controls are working in practice
- Highlighting the areas of perceived high risk

Implement a supplement to formal whistle-blowing procedures

Confidential surveys can also provide employees with an informal mechanism to raise concerns, which they might be reluctant to submit through a more formal whistle-blowing channel.

Employees on the ground are well placed to observe misconduct, but too often formal whistle-blowing mechanisms fail to deliver the expected outcomes. This may be for many reasons but one key difficulty is that people do not like to be identified as specifically naming co-workers or more senior personnel. A confidential survey can be used by employees to raise concerns and help you to identify risk areas and optimise the allocation of anti-fraud resources.

First steps:

Use the fact that governance is a topical concern to issue a clear statement of your organisation's commitment to good governance and your intolerance to misconduct in all forms.

Ensure you have a working mechanism for people to raise concerns. If employees are not raising issues through your current mechanisms it may be that it isn't working, rather than that they don't have concerns.

These immediate steps can be followed up with a longer term programme of training to ensure that all staff are alert to the risks of misconduct and know how to react.

3. Investigate and enforce

All suspicions need to be investigated quickly, quietly and efficiently. This includes addressing even the smallest transgressions as this can be instrumental in preventing future scandals. If there is evidence of misconduct, the best approach is to establish all the facts and take appropriate action as quickly as possible.

The relevant regulatory authorities need to be brought up to speed as soon as possible and you need to give them the full picture once your investigation is complete. An inadequate or incomplete response will generally lead to further investigation.

First steps:

Check how you would respond to an incident happening today. Would you be able to react immediately to protect your reputation and investigate the matter thoroughly, swiftly and effectively?

Act today to prevent problems

A zero tolerance approach to fraud and misconduct makes sound financial sense, since it helps to enhance general cost control by focusing attention on all expenditure. But, more importantly, it reduces the risk of a major, catastrophic incident, which could bring financial ruin to your organisation and irrevocably damage your corporate reputation.

How we can help

Our team of consultants has over 20 years experience helping organisations, in the public and private sectors, to identify the fraud risk profile of their business and the highest risks. We have worked with them to design, develop and implement fraud prevention policies, procedures and strategies and to investigate suspicions of fraud or misconduct quickly, efficiently and discreetly.

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Tackling risk proactively

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