

Fraud and corruption survival Guide and the Investigator “virtual” toolbox

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Case Exercise 2

DEVELOPING THE FRAUD AND CORRUPTION PROFILE

Introduction

The objective of the Fraud and Corruption Risk Profile is to identify and assign a priority ranking to those methods of fraud and corruption which threaten us due to either a high possibility of occurrence, a severe impact on the group or, most importantly a combination of these two factors. The assessment is both subjective and qualitative. The Fraud and Corruption Profile will then be used to target those areas where significant frauds and losses could be occurring. The Fraud and Corruption Profile will then be used in order to prioritise effort in respect of a) Management Awareness Training, b) monitoring and risk follow-up activities, c) internal controls work, and d) any investigative work to be performed.

Similarly to other kind of risks, the impact of fraud and corruption risks are assessed according to their probability and consequence. Consequence is assessed as Severe, High, Medium or Low for each of the three major factors: 1) Reputation, 2) Internal Ethical Culture and 3) Impact on profitability. Probability is assessed as High, Medium or Low. The overall risk ranking is calculated by multiplying the Probability factor with the sum of the Consequence factors. The impact of fraud and corruption risks can also be assessed according to their vulnerability and consequence. Whereas probability reflects a more realistic risk profile, vulnerability reflects a worst case scenario.

Before identifying methods of fraud and corruption it is useful to identify “assets” and possible “opponents”.

Definitions:

Assets: What does the company have, that is worth protecting?

Possible opponents: Who/what could erode the company’s culture, reputation or profitability (e.g. by cooperating with the “thief”)?

Method of fraud and corruption: Unethical action for personal gains

Assets and Opponents

Assets / Value

Possible Opponents

CONDUCTING A FRAUD AND CORRUPTION RISK ASSESSMENT
: FRAUD AND CORRUPTION RISK PROFILING
:
:
:

Methods of fraud and corruption

Method / Threat	Likelihood*	Impact**

CONDUCTING A FRAUD AND CORRUPTION RISK ASSESSMENT



FRAUD AND CORRUPTION RISK PROFILING

Method / Threat	Likelihood*	Impact**

CONDUCTING A FRAUD AND CORRUPTION RISK ASSESSMENT

FRAUD AND CORRUPTION RISK PROFILING

Method / Threat	Likelihood*	Impact**

* Likelihood and impact should be assessed as High, Medium or Low

** Impact should be assessed according to impact on reputation, internal culture, profitability etc

CONDUCTING A FRAUD AND CORRUPTION RISK ASSESSMENT
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FRAUD AND CORRUPTION RISK PROFILING
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TOLERANCE LEVELS

Risk Factors	Likelihood		Consequences		
	Vulnerability	Probability	Profit	Reputation	Culture
Severe	Existing controls offer no protection	Almost certainly happening	>Euro 10 million	Consistent negative press, attacks by shareholders on standing &reputation	Employees strongly question motives of management and company's ethics. Employees depart in large numbers.
High	Controls are weak and can be exploited	Likely to occur at some point in time	Between €1 million and € 10 million	Lack of trust in the company, key managers and strategy	Strong internal dissatisfaction with the company and demoralization of workforce
Medium	Controls generally are strong but vulnerable to professional attack	Might occur at some point in time	Between € 100.000 and € 1 million	Severe doubts about the company, its business and staff	Demoralization localized to individual department
Low	Controls offer balanced protection	Unlikely to occur	> € 100.000	Uncomfortable with this incident, but otherwise negligible impact on reputation	Impact on company culture is negligible