How to Stop Fraud: The Auditor’s Role in Deterrence and Prevention

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Simple steps, extraordinary results – in business, in life!™
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John Hall is the founder and President of Hall Consulting, Inc. and the author of the award-winning book “Do What You Can! Simple Steps–Extraordinary Results”. He is also the developer and author of The Anti-Fraud Toolkit – a self-paced system for leading a Anti-Fraud Campaign in any size organization.

Through live and recorded programs, performance coaching, and business consulting engagements, John helps program participants and client team members:

- Improve organizational and personal performance
- Enhance the effectiveness of business processes and individual behavior
- Improve interpersonal and communications skills
- Identify and improve areas of exposure to business risk, wrongdoing, and fraud

Speaking, training, coaching and consulting areas include:

- Personal and work group effectiveness, team building and motivation
- Communication and interpersonal behavior skills enhancement, including:
  - Establishing rapport and trust
  - Interviewing and listening
  - Speaking and presenting
  - Selling ideas and influencing others to take action
  - Audit and management leadership
  - Collaboration and consulting skills for professionals
- Fraud prevention, early detection and incident response

In January 2014, John published The Anti-Fraud Toolkit – a self-guided system for business fraud prevention and prompt detection. In 9 learning modules and 5 hours of video-recorded lectures, users can strengthen anti-fraud defenses and learn exactly ‘how-to’ reduce losses, find incidents more quickly, and handle them efficiently. The Anti-Fraud Toolkit uses the action steps John developed over 20 years in his client consulting and training engagements.

In total, Mr. Hall has 35 years of experience as a professional speaker, consultant, corporate executive, and business owner. In addition to operating his own businesses since 1990, he has worked in senior leadership positions in large corporations and international public accounting firms. John is a Certified Board Advisor, and a member of the National Speakers Association, the American Institute of CPAs, and the Institute of Internal Auditors.

Meet John at www.JohnHallSpeaker.com

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In most organizations, Internal Auditors know more about Fraud Risk Management than anyone else.

Risk Management

A continuous process to identify, analyze and manage risks

4 Strategies
1. Avoid / Prevent
2. Minimize / Reduce
3. Transfer
4. Consciously Accept

Fraud Risk Management

A continuous process to identify, analyze and manage fraud risks

4 Strategies
1. Avoid / Prevent
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4. Consciously Accept
What Holds Us Back
1. Uncertainty about how to start
2. Uncertainty about what is involved
3. Lost momentum
4. Inadequate leadership support
5. Flawed beliefs
6. Flawed perception about the cost / benefit of anti-fraud initiatives

THERE ARE NO GUARANTEES About Preventing and Quickly Detecting Fraud

Really Getting Probabilities

But...
Purpose: Provide the Missing Structure

What is the Most Important Anti-Fraud Control

HUMAN BEHAVIOR (SOFT CONTROLS)

LOW

INFRASTRUCTURE (HARD CONTROLS)

III

IV

I

II

HI

HI
The Anti-Fraud Moment

When in Doubt… *Doubt!*
(Not when in Doubt…Believe!)
Lessons from Psychology

- We self-correct for information that does not fit our assumptions
- Our perceptions about others are incomplete
- "Categories" allow us to quickly analyze data – sometimes incorrectly
  - Past history
  - Personal experience
  - Training
  - Culture

Four Critical Actions

ACTION 1

Recruit The CEO
The CEO Must:
1. Lead the charge – Visibly and Vocally
2. Appoint a trusted leader for the anti-fraud campaign and insist on results
3. Invest in being actively involved in employee awareness and training
4. Talk about it – explicitly
5. Make people feel safe to report
6. Provide the infrastructure needed to sustain the effort

Clarify Expectations
1. Never assume that others know what you expect
2. Put it on the agenda at a meeting
3. Say, “We’ve never talked about fraud prevention and detection before – Here’s what I expect”
4. Include your thoughts on risks, awareness, prevention, early detection and proper response

ACTION 2
Help the CEO Recruit Everyone Else
Policy on
Fraud
Responsibilities

POLICY ON FRAUD RESPONSIBILITIES

Introduction
Like all organizations, ours is faced with risks from wrongdoing, misconduct, dishonesty and fraud.
As with all business exposures, we must be prepared to manage these risks and their potential impact in a professional manner.

The impact of misconduct and dishonesty may include:
• the actual financial loss incurred
• damage to the reputation of our organization and our employees
• negative publicity
• the cost of investigation
• loss of employees
• loss of customers
• damaged relationships with our contractors and suppliers
• litigation
• damaged employee morale

Our goal is to establish and maintain a business environment of fairness, ethics and honesty for our employees, our customers, our suppliers and anyone with whom we have a relationship.
To maintain such an environment requires the active assistance of every employee and manager every day.
Our organization is committed to the deterrence, detection and correction of misconduct and dishonesty.
The discovery, reporting and documentation of such acts provides a sound foundation for the protection of innocent parties, the taking of disciplinary action against offenders up to and including dismissal where appropriate, the referral to law enforcement agencies when warranted by the facts, and the recovery of assets.

Purpose
The purpose of this document is to communicate company policy regarding the deterrence and investigation of suspected misconduct and dishonesty by employees and others, and to provide specific instructions regarding appropriate action in case of suspected violations.

ISSUE
Brainstorming Fraud Risks:
Think Like A Thief

Fraud Risk Assessment:
Key Elements
1. How might a fraud perpetrator exploit weaknesses in the system of controls?
2. How could a perpetrator override or circumvent controls?
3. What could a perpetrator do to conceal the fraud?
…begin (plan) with the PRESUMPTION that a fraud incident has occurred

Managing the Business Risk of Fraud: A Practical Guide

Make it Easy to Report
1. Make it as positive as possible
2. Fraud ‘Hotline’ in place and trusted
3. Consider retaining a third-party service to administer your hotline
4. Tell your people exactly how the hotline works
Why People Don’t Speak Up

1. It’s none of my business
2. It’s not my job!
3. Schoolyard mindset
4. Fear
5. There’s no upside – only problems
6. I won’t fit in anymore
7. They have never been asked to do so

Balance is Important

1. Not a police state mentality
2. Not fear and distrust
3. Not ‘gloom and doom’
4. Just good ‘quality’ management to state ‘expectations’

ACTION 3

Meaningful Anti-Fraud Controls
Status of Internal Controls 2014

Lots of Fuss

Lots of Misdirected Action

COSO
Internal Control
Integrated Framework
May 2013

Critical Control Concepts
1. Competency, time and interest
2. Limited access
3. Transaction initiation and recording
4. Transaction support
5. Useful activity summary
6. Competent review and approval
7. Competent after-the-fact analysis
8. Competent monitoring
Suggestion for Auditors

Novice Questions
Journeyman Questions
Master Auditor Questions

Critical Control Concepts
Ownership
Responsibility
Accountability

ACTION 4
Teach Everyone Exactly How To Prevent Fraud
Which of the four options below would make the most significant impact on helping your organization be more effective in fighting fraud, misconduct, and wrongdoing?

- Implementing a Fraud Policy: 14%
- Conducting an organization-wide Comprehensive Fraud Exposure Analysis: 14%
- Providing awareness, prevention and early Detection Skills Training for managers and staff: 62%
- Catching and Prosecuting Wrongdoers: 10%

Question from Live Seminars

Lack of specific anti-fraud skills is a major weakness in our organization. How can we efficiently and effectively teach everyone what they need to know?

Anti Fraud Skills

What fraud skills are needed:
- General knowledge of fraud risks
- Why soft controls are as important as hard controls
- What can happen in their areas
- What it will look like when it happens
- Suggestions on preventing
- Suggestions on prompt detection when prevention fails
### Fraud Prevention Skills Training

1. Group live  
2. Technology-based  
   - Webinars  
   - Video  
3. Written  
4. 1 on 1 coaching

#### Target Audience

1. Board Audit Committee – 15 to 30 minutes  
2. Senior level executives – 30 to 90 minutes  
3. Mid-level managers in accounting, finance, technology and operations – 2 to 4 hours  
4. First level managers and supervisors – 2 to 4 hours  
5. Mixed group – 1 to 4 hours, depending on desired topic coverage  
6. Internal auditors – 1 to 2 days

#### Four Critical Actions

1. **Recruit the CEO**  
2. **Recruit Everyone Else**  
3. **Meaningful Anti-Fraud Controls**  
4. **Meaningful Skills Training**
The Goal is...BETTER!

1. There is a need
2. You are the expert
3. You have the solution
4. You must take action
5. You must lead

The Tipping Point
Malcolm Gladwell
“When people are overwhelmed with information and develop immunity to traditional forms of communication, they turn instead for advice and information to the people in their lives who they respect, admire and trust.”

Feedback, Ideas, Comments
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