

Fraud Intelligence

Self-defence

Hardly a day goes by without news of fraud or corruption. Whether it is employees defrauding companies, firms paying bribes to 'win' business, public servants misusing government resources, or con artists sending invoices for imaginary services, the reports all raise the question, why can't organisations learn to protect themselves? **Veronica Morino** and **Richard Minogue** of Hibis Scandinavia argue that effective defence should be built on distributed awareness training.

Companies are under increasing pressure to manage the risks of fraud and corruption. Following scandals like Enron and Parmalat, governments and stock exchanges have been tightening their requirements, forcing companies to put more effort into internal control. The OECD Anti-Bribery Convention significantly increased risks and consequences for companies that pay bribes, ensuring that such payments could no longer be treated as a tax-deductible expense. Tax auditors now have a much greater incentive to question unusual payments, and they are doing so. But the most compelling reason for organisations to manage these risks is the potential profit improvement that can be achieved by minimising fraud and corruption incidents.

So what is missing? At a recent seminar we asked a group of financial executives to describe the fraud and corruption prevention training they had received, either from their university or MBA programmes, or from their employers. Unsurprisingly, no one had received any kind of practical training.

It is common to find that managers have had no training in prevention techniques despite the fact that their organisations are vulnerable to the potentially devastating effects of fraud and corruption. Perhaps one reason for the lack of training is the misconception that fraud and corruption risks are managed by security departments, internal auditors, or other specialists who react to the incidents that inevitably occur. Experts clearly have an

important role to play, but there is a growing understanding that effective protection against the risks of fraud and corruption requires the participation of a wide range of managers and employees, and they need to be trained. Increasingly, fraud and corruption are seen as preventable, and within the remit of corporate responsibility (CR).

A common approach is best

The increased emphasis on CR has led to more communication between executives working with human rights, ethics, supply chain monitoring, discrimination, environmental protection, and fraud and corruption. In the exchange, they have discovered an unexpected similarity between the risks they need to manage, namely, the main problem lies with normal people who tend to break rules when:

- they perceive an opportunity to gain an advantage;
- they are able to rationalise or justify the cheating to themselves (or are ignorant of the rules);
- they do not expect to get caught or be punished.

Whether the subject is factory emissions, child labour, export controls, fraud or corruption, there are opportunities for gain through breaking the rules. Ordinary people are able to rationalise or minimise the importance of rules. Consider, have you ever deliberately exceeded the speed limit, purchased goods or services on the black market, used software without a licence or failed to declare

income? How do you rationalise such actions?

Another reason to put fraud and corruption on the CR agenda is that bad decisions caused by the fraudster's deception often affect other risk areas.

CR officers understand that communication, education and training are vital. Employees who know the rules, how to apply them, and understand the potential consequences to the organisation when violations occur cannot easily rationalise cheating. They are less likely to break rules, and are more likely to report violations which they discover.

The same communications approach that organisations use to spread awareness of rules intended to protect human rights, equal opportunities, the environment and other CR areas can be applied to fraud and corruption risks. Through internal education and training, employees can learn to understand the nature of the risk, the potential negative consequences, and how to address problems. Increasing employee awareness unlocks employees' ability to identify risks, recognise danger signs, and react appropriately. When the employees are aware and alert, the organisation as a whole becomes resistant to inappropriate behaviour. A few people will break the rules in spite of the best prevention efforts, but they will find it much more difficult when there is a high level of awareness in the organisation at large.

Awareness training: adopting a coordinated approach

Most would agree that fraud and corruption awareness training is worthwhile, but organisations are faced with all kinds of training needs. Employees are overloaded with programmes on internal control, codes of conduct, ethics, computer access, confidentiality, anti-discrimination rules, quality management, not to mention functional job training and manager training.

The multitude of training programmes can be confusing. In one company we discovered that three different responsibility areas prepared training programmes related to the company Code of Conduct, fraud awareness, and anti-corruption policy, respectively. The three programmes had similar content, but each department used a different training approach, and, in many details, the programmes were inconsistent with each other.

Including fraud and corruption awareness training within a general code of conduct training programme brings it into the mainstream where it belongs. A coordinated approach will help avoid training overload, and eliminate the risk of confusing inconsistencies for employees.

“The plant manager being a fraudster and dealing only with those suppliers willing to pay bribes, ordered parts for machines that were more expensive and not suitable, causing long term damage to the main equipment, and malfunctioning that led to a release of pollutants into the nearby river. Major fines and reputational damage resulted.”

Organisations can quickly provide high-level training for employees through the internet or their own intranet. Managers, and future managers, benefit from a deeper level of prevention training. Future university level courses and management training programmes will most likely address the problems of fraud and corruption as a distinct subject.

In depth training for managers and future managers

So what are the tools? What should universities teach in the future, to help future managers manage the risks of fraud and corruption? The first step is to overcome common misperceptions, and to understand the nature of the risk of fraud and corruption.

Once managers have a healthy respect and understanding for the risk of fraud and corruption, they can learn to apply appropriate techniques, including:

- credible and visible top management support;
- building the framework of policy, guidelines, and common sense;
- building awareness in the organisation;
- monitoring and measuring how effective an organisation is at managing the risk of fraud and corruption;
- motivating employees to identify specific threats;
- addressing specific high priority risks;
- background checking of applicants, suppliers or prospective business partners;
- identification of red flags (tell-tale signs of fraud and corruption);
- transaction analysis to identify unusual patterns;
- investigation guidelines and interview techniques;
- using incidents as an opportunity for education and deterrence.

There is a considerable gap between what most managers know about fraud and corruption prevention and what they need to know. There is a huge potential performance improvement to be gained by filling that gap.

Multimedia awareness training for wider audiences

In organisations with thousands of employees spread over many countries, classroom training for everybody might be prohibitively expensive and/or time consuming. As an alternative, organisations can use their IT infrastructure to make multimedia self-training programmes available to all employees. Whether the subject is fraud and corruption or a wider “Code of Conduct” theme, self-training programmes intended for all employees do not require the same depth as classroom training provided for managers.

Rolling out a multimedia training programme is not

Myth 1: Fraud and corruption are unusual, not significant in most organisations

Fraud and corruptions are almost always present to some extent. Fraudulent transactions are designed to appear innocent. Fraud is invisible, and honest managers do not suspect they have a problem. While in other risk areas incidents are obvious, fraud or corruption can continue for years undetected.

Myth 2: Most people are honest

Normal people will break the rules if they perceive an advantage, can overcome their conscience, and do not expect to be punished.

Myth 3: Incidents of fraud or corruption are not likely to inflict major costs

When fraud and corruption occur, those involved neglect their primary responsibilities. The consequences of their negligence might be many times greater than the fraud itself.

complicated. The hard part is the pre-rollout preparation required to ensure the training is suitable and will meet its objectives.

As a starting point, the current level of knowledge and awareness among employees should be analysed. One major multinational company president was surprised to learn that fewer than 10% of employees had even heard about the company Code of Conduct. The characteristics of employees to be trained must also be considered. Should the training be designed for factory workers, for sales engineers or for both? After understanding who needs to be trained and what is their current level, the next step is to set specific learning objectives, and to decide how to measure results. Existing product alternatives must be identified and/or new development carried out. Considerations include specific content, length of training, multimedia options, local languages, recording of results, privacy and other legal concerns, server and bandwidth load, variations for different groups – to name a few! A good training programme will hold employees' attention long enough to deliver its key messages. The training should be both interesting and entertaining. Equally important, the key messages must be put into a context that is relevant to the employees' daily work. Practical examples that challenge employees to apply the knowledge to realistic situations are helpful. A truly great training programme will inspire employees to talk about the messages to other employees. To reduce the risk of deploying an inadequate training package, companies might first perform a pilot training for a few employees, and use the resulting feedback to refine the final version.

One advantage of multimedia training is the opportunity to accumulate results. Participants can be tested both in terms of their understanding of the key messages, and of their perception of risk levels. Management is thus able to determine whether training objectives are met, and also obtain employees' feedback regarding potential problem areas, or even specific problems. Hot links to other resources, communications channels and helplines can be embedded and further encourage employee participation. Such grass roots information regarding previously undetected problems is extremely valuable. After all, the whole point of fraud and corruption awareness training is to

eliminate and prevent incidents. It is also motivating for employees to contribute their ideas.

Awareness is the key to prevention

Filling the gap between what employees know about fraud and corruption, and what they should know, requires a concerted effort and support from CR, Human Resources, Legal and Compliance, Internal Communications, Security, Internal Audit and Line Management. Attitude and credibility is vital. A patronising and self-righteous message is not likely to be taken seriously, for example, if the chairman of the Board is in the habit of borrowing the company jet for private vacations. More convincing and instructive is a realistic approach that includes examples of the difficult choices we face. Asking employees for their input motivates them to participate and take part-ownership, to be part of the solution.

Effective fraud awareness training does help organisations become more resistant to fraud and corruption and to avoid these unnecessary costs. There is another benefit worth mentioning – employee retention. Employees who believe management is sincere and that high ethical standards are a reality are more likely to develop strong company loyalty, to remain as employees for the long term, and to apply the high standards through their own decisions when the time comes.

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