



Business integrity, insight
and beyond



How well are you managing your fraud risk?

There is no denying the fact that fraud is a growing problem. In a 2009 Global Economic Crime Survey **South Africa** was found to have the **second worst** white-collar crime rate in the world.

A similar study conducted by the Association of Certified Fraud Examiners (ACFE) in 2010 found that the typical organisation loses **5% of its annual revenue** to fraud. The study also found that once victimised, an organization was unlikely to ever recover the losses.

Prevention is better than cure and fraud prevention isn't difficult; a number of once prominent companies failed to follow even the basics and faced the terrible consequences. Enron, WorldCom, and, here in South Africa, Leisurenet, MacMed, and Beige are but a few of many highly publicised corporate frauds of the last few years. The financial and reputational risks from fraud are significant.

An Appropriate Response

Fraud prevention is 80% of the solution. According to Toby Bishop, the past president of the ACFE, *"a major change is taking place in the strategy for fighting fraud. The emphasis is shifting from 20% prevention/deterrence and 80% detection/investigation to the opposite ratio. The high returns on investment* being achieved by companies that fight fraud vigorously suggest that an ounce of prevention is worth at least a pound of cure."*

* As an example, a fortune 500 company (one that is consistently in the top-10) spent US\$4 million on their fraud prevention program in year-1 and achieved a ROI of 27%. The following year they were allocated US\$10 million and achieved a ROI of 29%. This 12% increase in fraud prevention and recoveries in year-2 added US\$40 million to their bottom line!



So what should organisations be doing to manage their Fraud Risks?

A major step forward is when boards of Directors acknowledge that fraud control is one of the key building blocks of good governance. This places the issue where it should be: not simply as a compliance requirement, but as a key feature of good governance for all organisations.

Prevention seems to be the most misunderstood and yet can provide the most value, so let's see what the best practice elements of a fraud prevention program are.

Fraud Prevention Building Blocks

Fraud prevention should be looked at holistically and, based on the ACFE's fraud prevention check-up, is presented here as sequential building blocks making up the program:



No single building block by itself is sufficient to effectively fight fraud, but in combination the nine elements provide optimum protection.

As a CQS client you have implemented the **'Data Analytics'** block above but could still be lacking in the other 8 building blocks. Best practice dictates that organisations implementing each building block is only the start. They should then be evaluating each element in terms of employees being aware of each block's existence and their relevant responsibilities, and then whether each building block is achieving its goal.

CQS have therefore formed an associated with Exactech Fraud Prevention Solutions in order to ensure that our clients have a strong defence against fraud in terms of all nine building blocks.

Exactech are able to assist with developing, implementing, & maintaining dynamic and sustainable fraud prevention programs and will be contacting you in the near future to discuss your unique circumstances and whether you could benefit from their expertise.

As the FAP (Fraud Advisory Panel) in the UK states, ***"Our guiding principle for effective fraud deterrence is one of multi-disciplinary collaboration at every level"*** and we agree that fighting fraud requires a combination of unique skills coming together with a common purpose in each organisation.

CQS is a BBBEE Level 4 contributor