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CSR – Corporate

Governance in Asia 2006

26 September 2006

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Fraud Prevention Overview

The world is changing....

- Increased regulatory requirements
- Increased community, stakeholder and media scrutiny
- Increased technology, complexity and competition
- Greater need to allocate scarce resources
- Tighter timeframes and deadlines
- Reputation & image
- Leaking money
- Rotting morale and culture if fraud allowed to prosper

Stakeholder concerns

- Sarbanes Oxley
- Board concern as to culture and/or processes
- Requirements from fraud risk investigation/internal audits
- Enhanced management control
- Concerned regulators or police

To appease shareholders/stakeholders of all shapes and sizes!

Fraud Prevention - the Benefits

- Unethical behaviour can cause public embarrassment – the reputation and image of the client should not be put at risk
- Demonstrates “due care and diligence”
- Assists the client in achieving its business objectives
- Organisations with effective Fraud Prevention management can better pursue opportunities if risks are understood
- In Australia, AUS 210 revised – directors and management responsibility for prevention and detection of fraud and misstatement
- Sign-off to auditors in relation to fraud and error

Successful Fraud Prevention

- Tone at the top - attitude of the Executive and Senior Management team towards the overall risk and control environment in relation to managing unethical behavior
- Analysis of external and internal fraud risks which could potentially affect the achievement of objectives
- Controls established throughout the client's operations to assist to mitigate the risk of fraud and unethical behavior
- Information and communication about Fraud Prevention activities
- Monitoring process both in respect of controls and fraud prevention initiatives, ensures that the system remains effective and dynamic.

Fraud Risk Register



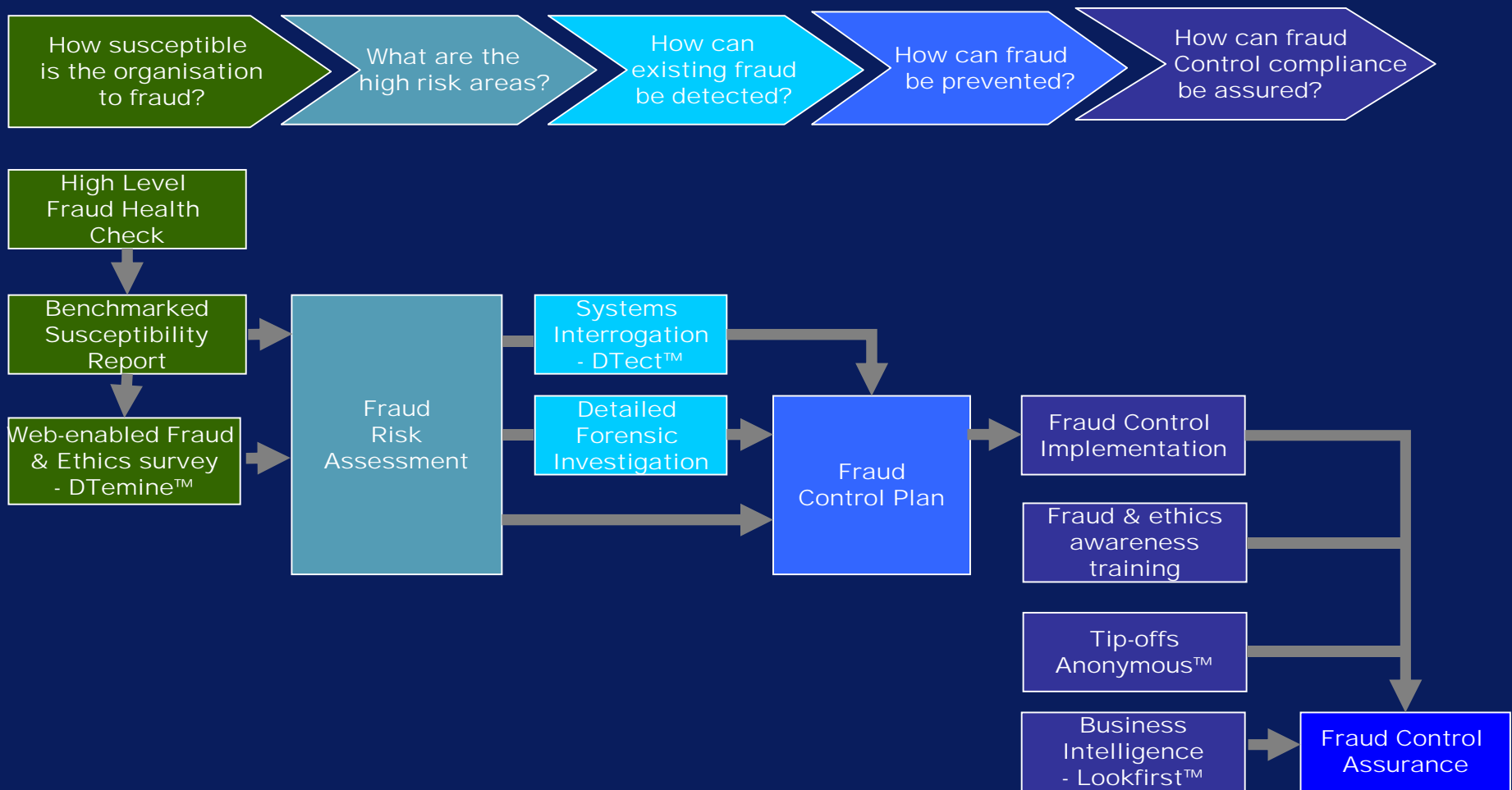
What is Fraudscan™?

Comprehensive Deloitte Fraud Control methodology that helps organisations to:

- Understand their susceptibility to fraud
- Identify high-risk areas
- Develop action plans to control fraud
- Implement fraud control measures
- Comply with governance requirements
- Provide comfort that things are OK
- Protect the bottom-line

FraudScan™ – detection, prevention, control, assurance

FraudScan™ - Deloitte Forensic's proven fraud control methodology helps organisations to understand their susceptibility to fraud, identify high-risk areas, develop an integrated fraud control plan and implement fraud control measures that comply with corporate governance requirements. *FraudScan™* provides you with the level of assurance demanded in today's business environment.



Anti-corruption compliance tips – 1

Legal

- Centralized legal approval of all agents
- Ensure all agent relationships are captured by legal
- Have due diligence signoff sheet for annual review of agents
- Perform adequate due diligence of agents
- Use of consistent contracts
 - Imbed anticorruption clauses in all agents contracts and agreements
 - Imbed anticorruption clauses in all distributor contracts and agreements
- Annual attestation of compliance obtained from each agent for FCPA and anticorruption clauses

Anti-corruption compliance tips – 2

Accounting/audit

- Risk assessment
 - Evaluate FCPA risk by country
 - Red flags are known and posted as part of audit program
 - FCPA controls imbedded into 404 control infrastructure
 - Teams knowledgeable in common vehicles for risk (promotional programs, donations etc)
- General
 - Pressure to achieve results tempered by ethical decision-making
 - FCPA response audit/legal team in place together with legal
- Programs
 - Internal audit has specific FCPA risk assessments in place
 - Perform agent, distributor audits on a rotating basis
 - Regular review of commission/finders fee etc payments
 - FCPA review an integral part of acquisition checklist
- Interview agents
- Periodic audit of entertainment expenses
- Audit Committee discussion

Anti-corruption compliance tips – 3

Finance/Systems

- Track entertainment expenses for government employees
- Set up a separate “facilitation payments account and use it
- Government contracts can be segregated, identified and tracked
- Contacts are competitive and processes not circumvented
- Allowable exceptions communicated
- Charitable and political contributions monitored
- Commissions and bonus are in expected and reasonable ranges
- Contrast and billings scrutinized to ensure expected value is being received
- One person charged with responsibility to monitor (i.e. Chief ethics Officer)
- Unusual payments, such as to off shore holding companies are flagged
- Favorable or abnormal credit terms closely evaluated by competent and independent personnel

Anti-corruption compliance tips – 4

HR compliance and training

- Anticorruption built into global ethics framework
- Local FCPA training and messaging at appropriate levels
- FCPA specific education packages available focused on areas and countries of largest risk
- Specific sales force, controllership/finance and senior management training completed
- Prohibition of slush account or off-book transactions
- Annual compliance attestations from employees
- Cascaded to sales, legal, accounting and country management
- Effective whistleblower lines in place

Case Study
"XYZ" Bank

“XYZ” Bank

- Delegates are invited to split up into groups by table
- Delegates should choose a spokesperson per group
- Delegates are asked to consider the fraud/corruption risks inherent in the given scenario
- Delegates are invited to guess what fraud/corruption has occurred

Fraud/Corruption Risks

- No opportunity to whistle-blow
 - Lack of an established structure to report suspicions
- Ineffective internal audit function
 - No skills or experience appropriate to an overseas branch
- Lack of vetting procedures
 - No established procedures to properly vet background of employee
- Lack of segregation of duties

Fraud/Corruption Risks

- Resignation of key staff
- Weak management
 - Easy to get away with non-compliance
- Legal actions
- Unusual business performance
 - Not the market norm, extremely good/bad performance over short period of time
- One-off operation
- Inappropriate computer systems

Summary

- Change of mindset required
- Proactive rather than reactive
- Culture of awareness of fraud/corruption
- Fraud/corruption awareness training
- Fraud/corruption risk reviews
- Whistle-blowing policy

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