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## Executive Summary

Vonya Global surveyed Executives and Internal Auditors from private, public, and not-for-profit organizations, spanning many industries to gather opinions on strategic planning for fraud prevention, detection, and deterrence. This is the second study Vonya Global has conducted on this topic; the first was released in 2009.

The timing of this study is appropriate due to the heightened sensitivity to fraud due to the economic conditions. It seems more groups, including regulatory bodies, investors, clients, and suppliers are increasingly concerned about the ability to demonstrate effective fraud prevention and detection strategies.

In the results, we have contrasted opinions of Internal Auditors with those of Executive Management. This report includes the results of the study plus selected comments from the study participants. These comments are the opinions of the respondents, are included to provide insight, and in no way reflect the opinion of Vonya Global.

Vonya Global is an international consulting firm specializing in assessing risk, evaluating internal controls and enhancing corporate governance with a specialized practice which provides fraud prevention and investigative services to its clients. The results of this survey are intended to provide benchmarking information to companies interested in fraud prevention, detection, and deterrence strategies.

## Evaluating Fraud Risk

According to the [ACFE 2010 Report to the Nations](#), the risk of fraud is present in almost every business regardless of size, shape, and complexity. The risk could materialize itself in an employee, a vendor, a client, or in the boardroom. It could be “detrimental” by bleeding company assets or “beneficial” by artificially inflating company financial statements. These frauds could play out in scenarios that are quite varied, and be concealed by strategies that are sophisticated and complex. While certain frauds might not be material from an overall financial perspective, others can create significant financial statement errors.

Even though it is undeniable that fraud risk exists in business, it doesn’t mean that fraud occurs in every business nor does it imply that the risk is significant in every business. Just simply that the risk is present, should not be ignored and strategies need to be employed to enhance prevention, detection, and deterrence.

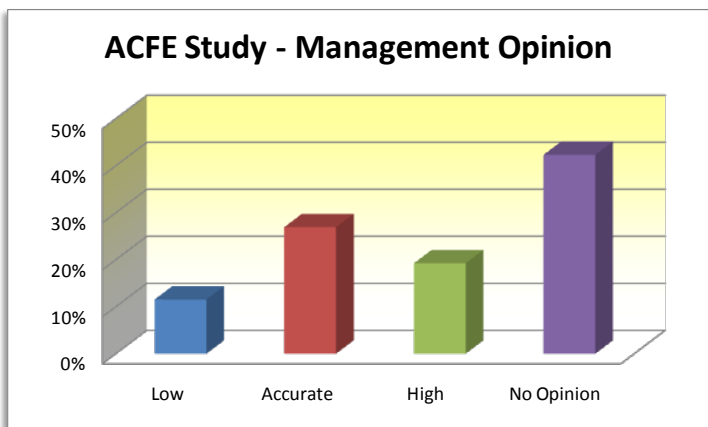
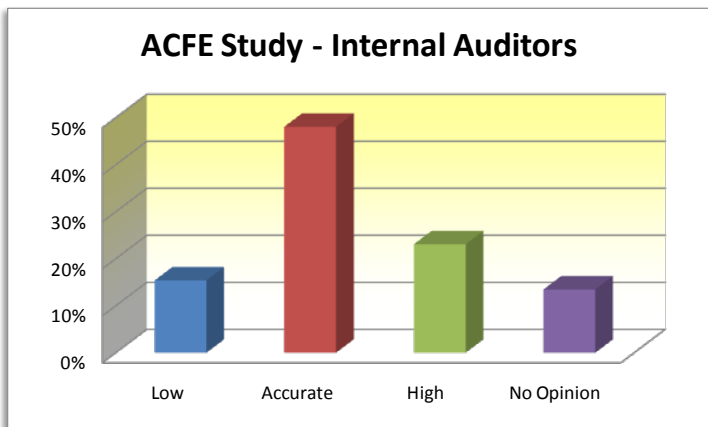
One of the goals of this report is to have you, the reader, begin to evaluate your investment in fraud prevention, detection, and deterrence to determine if there are more effective ways to manage the risk. Ask yourself the questions, “How do I evaluate fraud risk?” and “Are my current procedures finding fraud?”

**Question 1: The Association of Certified Fraud Examiners (ACFE) estimates that roughly 5% of Global Revenue is lost due to fraud. Do you agree with the ACFE findings?**

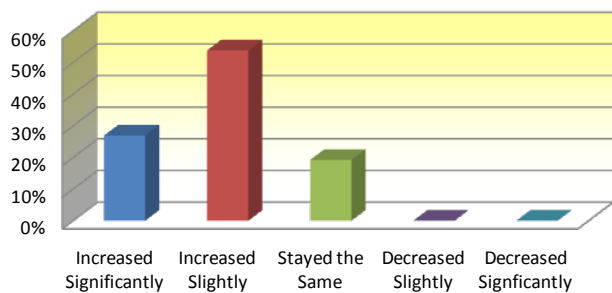
Between the two groups, Internal Auditors are more likely to believe the statistic is accurate. Roughly 40% of Executive Management didn’t offer an opinion, while about 10% of each group thinks the ACFE stats are low. Comments from the respondents follow:

*“I think their methodology is flawed. It appears to be based on anecdotal stories provided by ACFE members”*  
- Internal Auditor

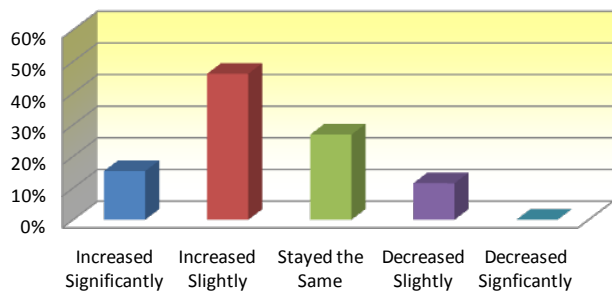
*“I think there are a lot of little frauds that go unnoticed so 5% as a cumulative number seems appropriate.”*  
- Internal Auditor



**Fraud Risk Past 24 Months**  
Internal Auditors



**Fraud Risk Past 24 Months**  
Management



*“No matter what controls are in place or how many controls - fraud will always be a factor, whether acting individually or collusion.”*  
- Internal Auditor

*“The ACFE estimate is based on a long-term study covering a large number of organizations and a large number of fraud professionals. The methodology is valid and the results have been consistent year-over-year.”*  
- Internal Auditor

*“I have no background to express an opinion, but I would not be surprised the ACFE statistics were low.”*  
- Executive Management

*“Our company has not had significant fraud losses.”*  
- Executive Management

*“We have had little or no experience with fraud.”*  
- Executive Management

**Question 2: I believe the risk of fraud over the previous 24 months has:**

The main difference between Internal Auditors and Executive Management was that well over 30% of Executives thought fraud risk has either stayed the same or decreased over the past 24 months. There were many comments stating a loss of “Segregation of Duties” due to organizational downsizing was a major influence to an increased fraud risk.

*“As economic and performance pressures increase, the risk of fraud also increases.”*  
- Internal Auditor

*“Based on the global recession, the “External Pressure” side of the fraud triangle has increased. Where staff has been laid off, there is a high potential for a decrease in internal controls (such as segregation of duties or management reviews) and this can increase the “Opportunity” side of the fraud triangle.”*  
- Internal Auditor

*“Due to all the economic pressures on companies and individuals I believe those who have never been tempted to commit fraud might be tempted to do so now.”*  
- Internal Auditor

*“The economic environment has put additional pressures on companies, managers and workers to achieve better financial results and/or just improve their own personal monetary situation.”*

- Internal Auditor

*“The last 24 months would have included the economic crisis. During this period, there was probably more rationalization that committing a fraud was okay because so many benefits had been taken away from employees.”*

- Internal Auditor

*“With the economic downturn, it may drive desperate individuals to do something they would not have ordinarily done. To combat that, I think we have consistently re-examined our processes to minimize opportunities to commit fraud by improving our controls.”*

- Internal Auditor

*“As it relates to financial statement fraud, I think it is less prevalent due to the scrutiny by auditors and the board of directors in each company. Loss due to theft may have increased slightly because of the economic downturn in the past couple of years - less people to monitor due to cost cutting.”*

- Executive Management

*“Hiring budgets mean everyone is doing more with less. Fraud can take time to detect.”*

- Executive Management

*“I believe the increasing globalization and digitalization of commerce has continually made it more susceptible to fraud.”*

- Executive Management

*“The economy is such that people are finding ways to steal.”*

- Executive Management

*“The Global Economic Crisis (GEC) has led to heightened unemployment which always increases demand and interest in fraudulent activities.”*

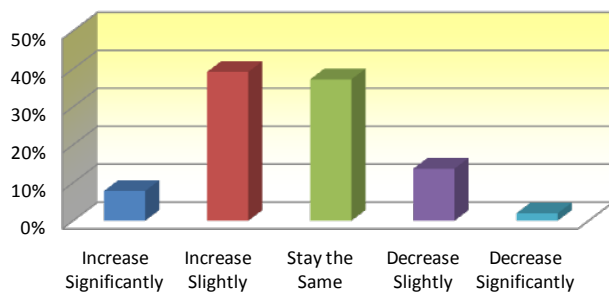
- Executive Management

*“The recession will exacerbate the potential for fraud.”*

- Executive Management

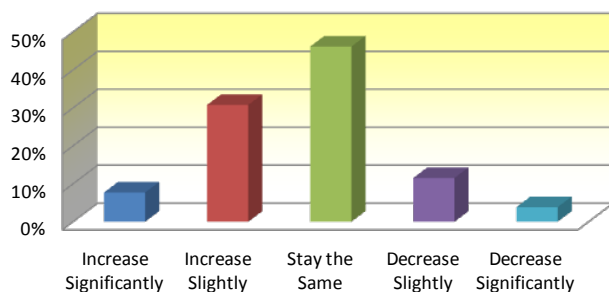
### Fraud Risk Next 24 Months

Internal Auditors



### Fraud Risk Next 24 Months

Management



### Question 3: I believe the risk of fraud over the next 24 months will:

Very few participants in the study were willing to state that fraud risk will be decreasing over the next 24 months. However, Internal Auditors were 25% more likely to state that fraud risk was going to rise.

*“As the number of foreclosures increase, I think there will be more people with desperate needs.”*  
- Internal Auditor

*“Economy, technology, and human nature that will continue to have an impact on fraud.”*  
- Internal Auditor

*“I believe that if IFRS is adopted here in the US, it will change Accounting rules to become more judgment based as opposed to conservative based. As a result, if the auditors are not prepared to perform more risk based and financial analysis type auditing, the risk associated with the fraud of financial statements could become huge and companies might see that as an opportunity for fraud.”*  
- Internal Auditor

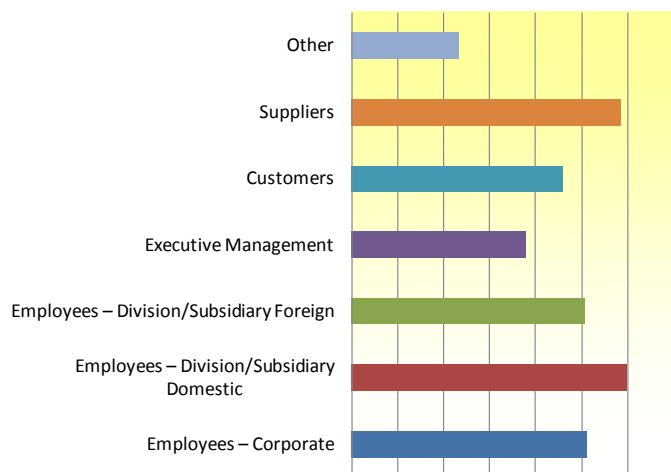
*“Over the next 24 months, the global economy should recover to some extent, although it is doubtful that employment will increase to pre-recession levels. This will help restore the fraud triangle, but only slightly.”*  
- Internal Auditor

*“People may be very hesitant to really trust the “system” for awhile. But, I hope that the honest will remain honest because they live by a strong moral code -- one thing that may combat this is if companies are “expecting” to be stolen from; if that's the case, this increased diligence may balance out the threat.”*  
- Internal Auditor

*“The continued tough economy will continue to create pressure for many to commit fraud. Reduced budgets and staffing cutbacks may also hinder some companies from fully detecting and investigating possible frauds.”*  
- Internal Auditor

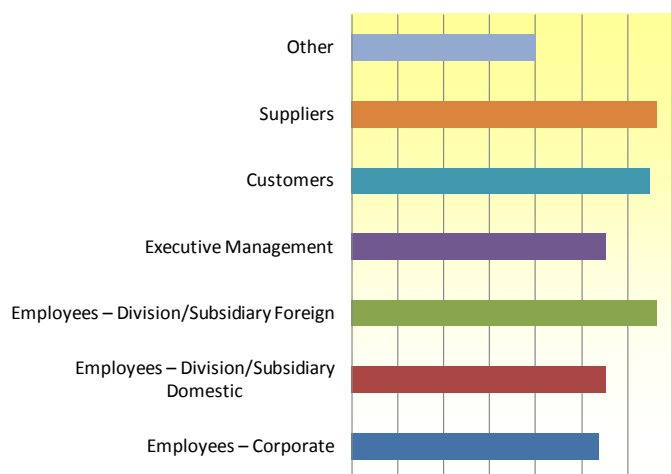
### Greatest Fraud Risk - People

Internal Auditors



### Greatest Fraud Risk - People

Management



*“Economy is showing some signs of improvement, there is generally less theft etc when the economy is doing well.”*  
- Executive Management

*“High profile trials and improved economic environment will have a slight positive impact.”*  
- Executive Management

*“I believe Company control structures will continue to be effective.”*  
- Executive Management

**Question 4: In my opinion, our company's biggest fraud risk is with our: (Employees – Corporate, Employees – Division Domestic, Employees – Division Foreign, Executive Management, Customers, Suppliers, Other)**

This question allowed participants to check all that apply. Comparing the two graphics it appears as though Executive Management generally rates fraud risk higher than Internal Auditors. It is true for each category except for “Employees – Division/Subsidiary Domestic.” This graphic reveals areas which may require enhanced internal control or routine investigation.

*“I believe that our foreign operations and suppliers are in countries where fraud is common day practice.”*  
- Internal Auditor

*“Management, both at the executive level and facility level, has been most motivation (incentives) to commit fraud.”*  
- Internal Auditor

*“The different laws and cultures in Asia and the Middle East increase many risks. Also, domestic sales staff and management also pose risk with their ability to change pricing and rebate amounts.”*  
- Internal Auditor

*“Tone at the top is regular and consistent, however the tone in the middle is melted with the need for operational performance and as such there is a higher likelihood of issues below executive mgmt.”*  
- Internal Auditor



*“As an insurance company our primary source of fraudulent acts perpetrated against the company come first from those filing claims, secondly from those providing vendor services on those claims and thirdly from the policyholders themselves.”*

- Executive Management

*“More risk in international areas including China, South America and Asia Pacific countries due to country culture.”*

- Executive Management

*“While a certain level of risk exists for each category, currently there is no basis for conclusion. In general, the Company maintains good relationship with its customers, supplier and employees.”*

- Executive Management

**Question 5: In my opinion, my greatest concerns relative to fraud risk are:**

As with the previous question, this question also allowed participants to check all that apply. The most obvious distinction between the two groups is in the rating of Expense Reimbursement Schemes. It was rated highest by Internal Auditors and didn't receive a single rating by the Executive Management group. The other obvious differences were in the rating of False Billing Schemes and Conflicts of Interest. Executive Management's high rating of False Billing Schemes is consistent with the "Supplier" rating in the previous graphic.



*“Business Model fosters expense reimbursement and potential vendor - employee conflicts of interest.”*

- Internal Auditor

*“Given the nature of our organization there is little/no risk of financial statement fraud. There is always the risk of asset misappropriation and some form of corruption.”*

- Internal Auditor

*“Our field workers handle a large amount of precious metal material. Not all of that material is installed at a job site. The "scrap" is easily misappropriated and turned into cash.”*

- Internal Auditor

*“We have a number of foreign facilities and the customs in some parts of the world include making small payments to customers, suppliers, etc.”* - Internal Auditor

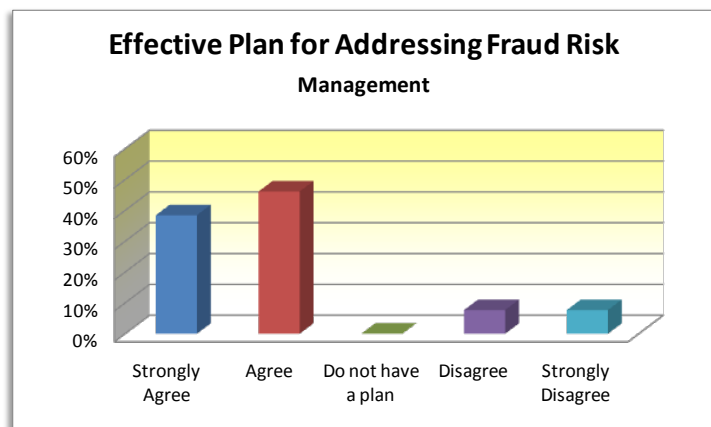
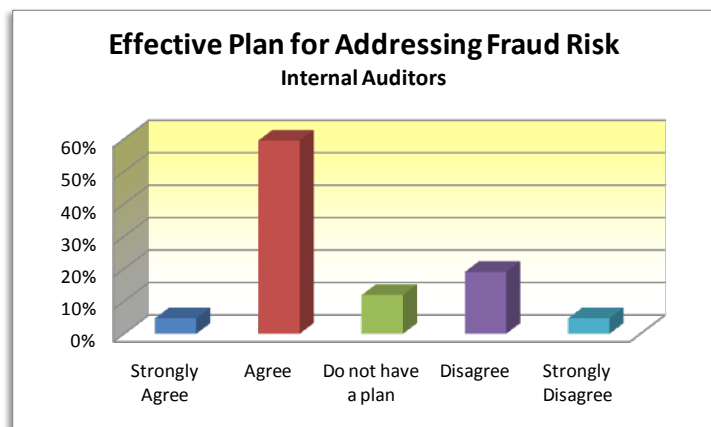
*“Phony claims against policies of insurance and false/inflated billings against those claims.”* - Executive Management

*“Corruption--Difficult to control third parties.”* - Executive Management

### Strategic Plan for Preventing, Detecting, and Deterring Fraud

**Question 6: I am confident that our organization has an effective plan to address the risk of fraud.**

The charts on the right reveal that Executive Management is far more confident their company’s anti-fraud plan than Internal Auditors. The confidence expressed by Executive Management is consistent with the results from 2 years ago. Internal Auditors confidence has increased by 10% from the previous study.



*“[Opinion is] Based on the internal audit plan, reviews of specific high risks areas and overall control environment.”* - Internal Auditor

*“Strong employee training program in ethics and business conduct.”* - Internal Auditor

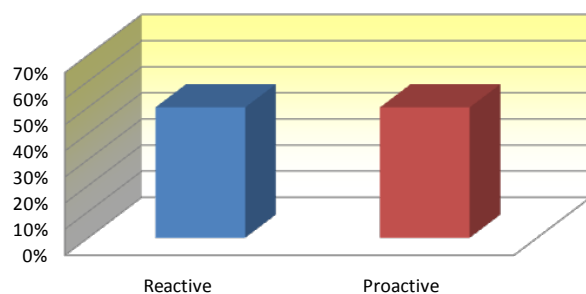
*“We have an effective plan to address fraud risks but even the best plan cannot prevent some levels of fraud from occurring in a large organization such as ours.”* - Internal Auditor

*“We have an ethics policy and hot line, controls covering misappropriation of assets and accurate financial reporting, however we do not have a specific plan to address the risk of fraud”* - Internal Auditor

*“We need to have a formal and regular approach to fraud risk management”* - Internal Auditor

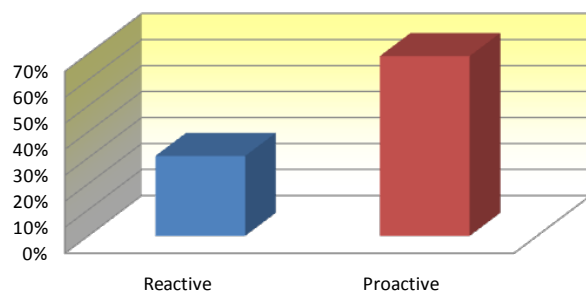
### Approach to Fraud Risk

Internal Auditors



### Approach to Fraud Risk

Management



*“Totally coordinated through Legal, Internal Audit, Fraud Investigations and the numerous operations of the company. Must comply with numerous individual state anti-fraud regulatory mandates.”*

- Executive Management

#### Question 7: In my opinion, I would describe my organizations strategic approach to fraud as: (Proactive or Reactive)

A good anti-fraud plan will incorporate elements of each; however, most companies typically classify themselves in one of the two. In the study completed 2 years ago, 90% of Executive Management believed they employed a Proactive approach but less than 40% of Internal Auditors agreed. While the results have normalized a little since our last study, Executive Management participants still believe they are far more proactive than do Internal Auditors.

*“First comes fraud, and then comes reaction. To be fair, some pro-active steps are taken (employee videos, annual email reminder) though actual incidents are what are driving the bus here.”*

- Internal Auditor

*“I believe it is a mix of both approaches but it is typically more reactive. Whether it is through whistleblower reports or actual fraud indicators, these actions are what typically trigger my organization's reaction.”*

- Internal Auditor

*“Our strategic approach includes both proactive and reactive components. We maintain a comprehensive fraud incident database to dissect frauds as they are identified to understand where existing fraud controls failed and to identify where new controls may be needed. We also try to communicate fraud awareness to our employees to help them understand their responsibility to report fraud when they see it.”*

- Internal Auditor

*“Tone at the Top is key. Internal Audit is an active participant in fraud detection and prevention by continual use of data analytics and monitoring of controls. Once identified, message to ex-employee is clear: Termination, restitution and prosecution.”*

- Internal Auditor

*“Triggers include Hotline calls that identify a potential fraud or audits that uncover potential fraud. There is an increased emphasis on including more fraud detection procedures in audits, but not to an extent where the company can rely on that as an anti-fraud strategy.”*

- Internal Auditor

*“We periodically reassess policies and procedures, including the existing internal controls. Tone at the top is communicated via quarterly conference calls and/or quarterly newsletters. That being said, when a complaint is raised via hotline or management, we investigate. If it's assessed that mistakes were made (or fraud occurred), we try to understand the how and make process or control improvements to minimize the risk of repeated occurrences.”*

- Internal Auditor

*“Certain risk mitigating controls are in place (e.g., segregation of duties).”*

- Executive Management

*“Fraud prevention training and periodic audits of high-risk areas.”*

- Executive Management

*“More focused on office environment to follow ethics, values & moral. Flat organizational style.”*

- Executive Management

*“Numerous early detection anti-fraud programs and initiatives to refer all types of potential fraud perpetrated against the company and its policyholders to our Fraud Investigations Department.”*

- Executive Management

*“Separation of duties, internal audits, and metrics are carefully watched.”*

- Executive Management

*“The Company has a business controls group that reviews processes on an ongoing basis.”*

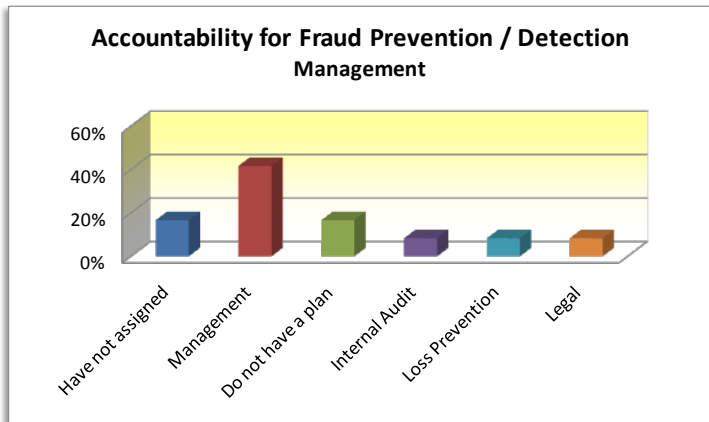
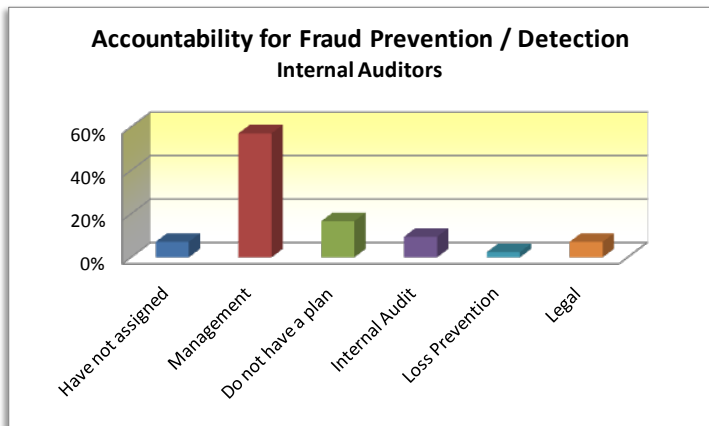
- Executive Management

*“We have all employees sign an ethics pledge”*

- Executive Management

**Question 8: If your organization has a plan to address the risk of fraud, who do you hold most accountable for the plan?**

This multiple choice question limited the respondent to only one answer. As the graphic shows responses were similar in both groups, as both groups rated Management as the most accountable for the anti-fraud program. The glaring difference is in comparing the Management Graph to the Management Graph from Question 6. Roughly 17% of the respondents in this question stated they “Do Not” have a Fraud Prevention / Detection Plan, compared to 0% of the responses in Question 6. Further, roughly 17% of Management respondents to Question 8 stated they “Have not assigned” responsibility for the Fraud Prevention / Detection Plan. Yet in Question 6, roughly 84% believed their Fraud Prevention / Detection Plan was effective. The inconsistency creates a reason for continued discussion on the risk of fraud.



*“Management is to come up with the controls concerning risk and work with Internal Audit to assure the risk is properly addressed.”* - Internal Auditor

*“My internal Audit group has developed the plan and administers it on a daily basis but ultimately, executive management and the Audit Committee and the full Board are accountable as well to ensure that risk of fraud is managed effectively and within the risk appetite levels established by Management and the Board.”* - Internal Auditor

*“The current activities that are in place are managed by various departments and are not coordinated or specifically accountable to one department.”* - Internal Auditor

*“Management is ultimately accountable. While others can help guide practices, the success is in the hands of management.”* - Executive Management



**Question 9: If a fraud were to be uncovered in our organization, the most likely way it would be uncovered is:**

Both groups rated employee tip as the most likely method for identifying fraud in the organization. Not unexpectedly, Executive Management showed more confidence in Management and Internal Audit showed more confidence in Internal Audit. However, if employee tip is the #1 way fraud is uncovered maybe organizations need to rethink their anti-fraud strategies relative the responsibilities listed in the previous questions.

*“Internal Audit, Employee Tips, and Management education of fraud.”* - Internal Auditor

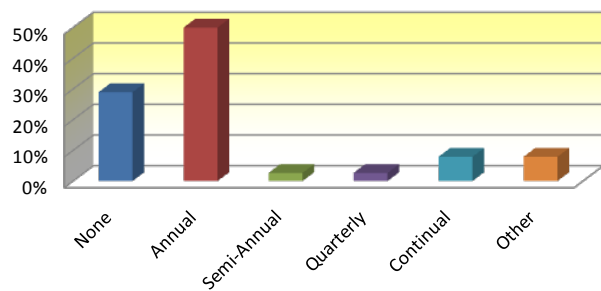
*“Likely to be detected through account analysis.”* - Internal Auditor

*“Purely by accident.”* - Internal Auditor

*“Claim examiners, underwriters, premium auditors, policyholders, medical providers and brokers and agents ALL detect and refer potential cases of fraud to our Fraud Investigations Department.”* - Executive Management

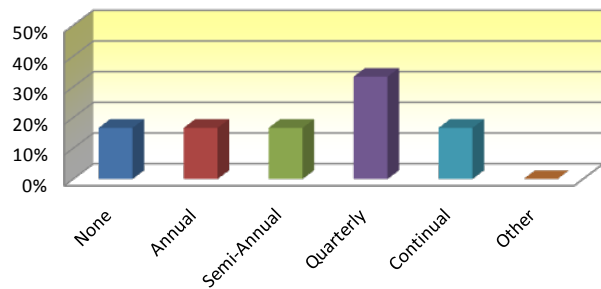
### Fraud Risk Assessment Frequency

Internal Auditors



### Fraud Risk Assessment Frequency

Management



#### Question 10: How frequently does your company conduct a Fraud Risk Assessment?

This multiple choice question limited respondents to a single answer. There is a very visible difference in the way the two groups answered this question. Most of the Executive Management group believed that the Fraud Risk Assessment takes place more than once per year.

*“A formal fraud risk assessment is performed annually and presented to the Audit Committee. we also have fraud risk meetings each quarter with members of Internal Audit, the SOX group, and members of the Security, Fraud and Ethics teams to discuss recently identified frauds and the their current status relating to required remediation necessary to prevent similar frauds from occurring in the future.”* - Internal Auditor

*“As a company we do not do a Fraud Risk Assessment outside of the assessment done by internal audit. The assessment is used to determine the annual audit plan and is limited to financial statement risk of fraud.”* - Internal Auditor

*“Developed continuous risk monitoring.”* - Internal Auditor

*“Last one was done 3 years ago.”* - Internal Auditor

*“No formal fraud risk assessment. Fraud is assessed at the functional level with each audit.”* - Internal Auditor

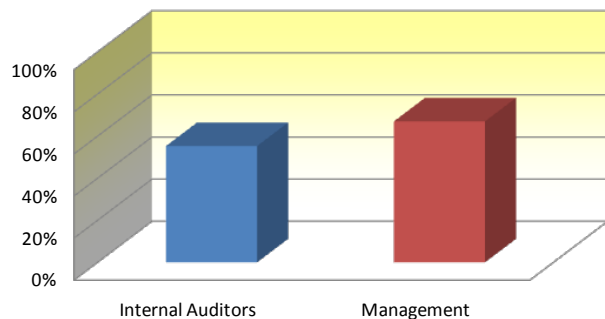
*“We did one two years ago.”* - Internal Auditor

*“We plan to conduct one within the next year. I am currently working on developing one.”* - Internal Auditor

*“We have yearly training courses.”* - Executive Management

*“We don't have a formal process for conducting fraud risk. However, the Company has very strong controls over cash receipts and disbursements.”* - Executive Management

### Fraud Controls Designed Effectively



**Question 11: I am confident that our company has designed an appropriate system of internal controls to detect fraud in business operations.**

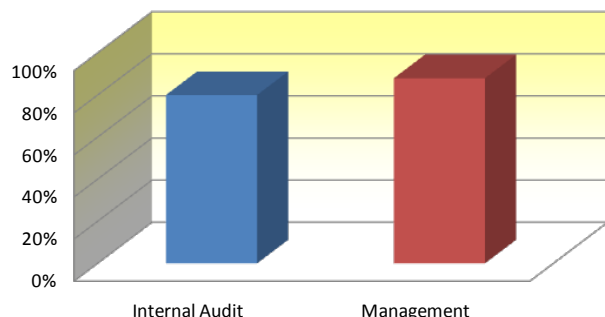
A good system of internal controls will have both preventative and detective controls. When designed effectively, internal controls can be a good starting point for fraud prevention and detection.

*“I’m an auditor. I have to agree with that statement.”* - Internal Auditor

*“I’m sure we can do better but in the areas where controls are in place fraud should be able to be indentified within the business operations.”* - Internal Auditor

*“Our business and related systems are changing very rapidly and therefore our system of internal controls is constantly changing.”* - Internal Auditor

### Fraud Controls Operating Effectively



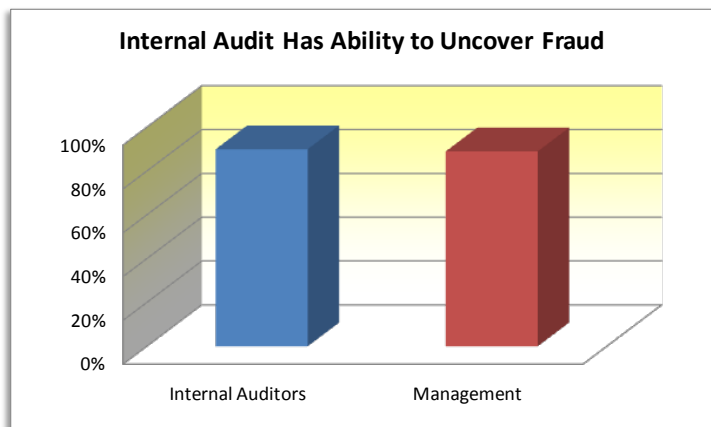
**Question 12: We have tested our system of internal controls relative to fraud and I am confident that the controls are working effectively.**

It is not enough to design a system of internal controls. Internal controls must be tested to provide assurance that they are working as designed. It is interesting to note that in both groups the confidence in the operational effectiveness is greater than the confidence in the design effectiveness. Two years ago the charts were reversed. Maybe this signifies that it is time to further evaluation and potentially redesign the system of internal controls.

*“We don’t test specifically for fraud, unless it would be material.”* - Internal Auditor

*“We have begun inclusion of fraud scheme testing within all audits. This does not (and cannot) address all fraud schemes, so there will be gaps relative to testing fraud controls.”* - Internal Auditor

*“Our auditors test our system.”* - Executive Management



**Question 13: I am confident that Internal Audit has the skills and process to uncover fraud.**

The results to this question were almost identical to the results from the study 2 years ago.

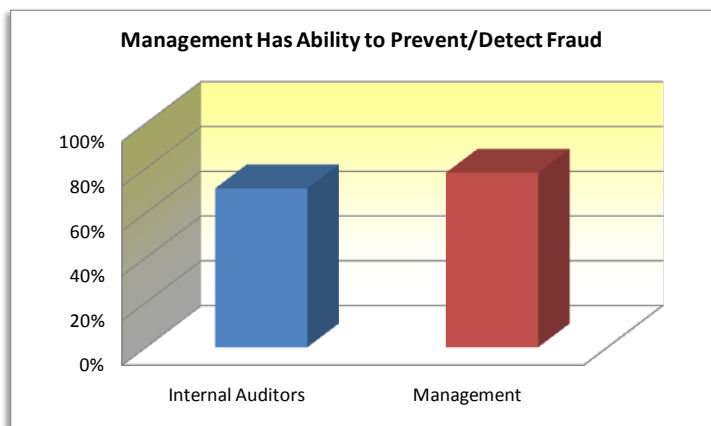
*“Internal Audit has several auditors with CFE certifications and others with investigative skills.”* - Internal Auditor

*“Only if it were significant.”* - Internal Auditor

*“We don't currently have the skills, but I am studying for my CFE so we will have them within the next six months.”* - Internal Auditor

*“We have the skills, but not the time or resources.”* - Internal Auditor

*“While the skills exist, the audit plan and projects aren't necessarily the type to uncover fraud.”* - Internal Auditor



**Question 14: I am confident that Management has the required knowledge to either prevent and detect fraud or identify fraud red flags.**

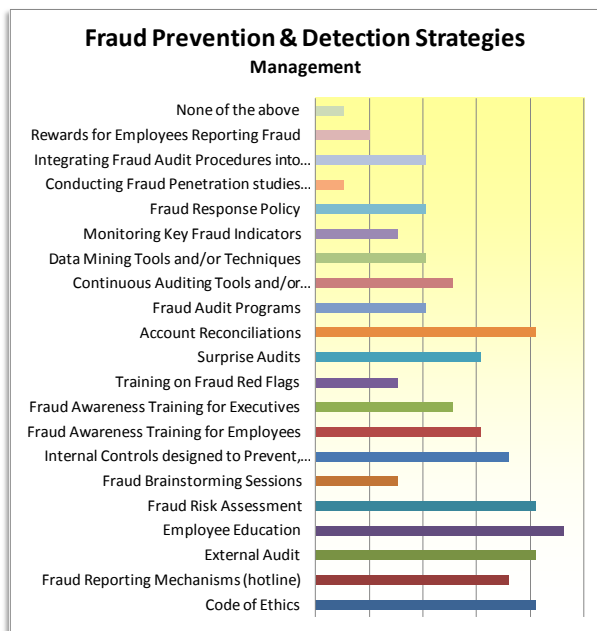
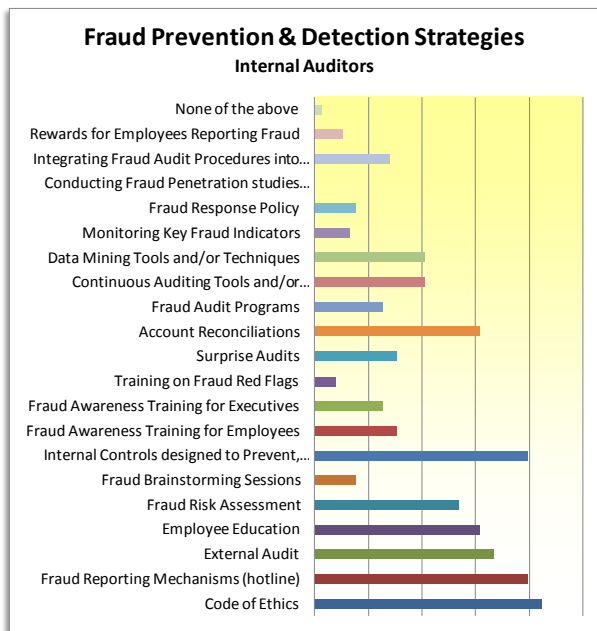
What is interesting here is that compared to 2 years ago, Internal Auditor's confidence in Management has increased while Management's confidence in Management has decreased.

*“I don't know that management takes the time to consider fraud.”* - Internal Auditor

*“Some members of executive and line management, especially in the financial areas of the company have much more fraud awareness than their counterparts in the sales, marketing and engineering areas of the company.”* - Internal Auditor

*“The mentality here is still one of “it won't happen to us”* - Internal Auditor

*“We plan to educate management within the next year.”* - Internal Auditor



*“While I believe it is in their realm of responsibility, I'm uncertain as to each manager's capabilities. Certainly, some of them I'm quite confident in.”*  
- Internal Auditor

**Question 15: The other components of our strategic plan to prevent and detect fraud include:** Executives are higher in almost every category. Based on the answers to Question 9 one would think “Hotline” would be far and away the top strategy, yet neither group rated it as such.

*“Even though we have a reporting hotline it goes to a voice mail & is answered by the legal admin. To return calls later so this cannot be done anonymously. The same goes for the email that others can use. We have not distributed the hotline phone or email to suppliers or customers which leaves a huge gap.”*  
- Internal Auditor

## Conclusion/Summary

We would like to thank all of those who took the time to participate in this study. Without their time and careful consideration this report would not be possible. We would also like to thank all of you who have taken the time to read this report in its entirety. We hope that within these pages you read something that triggered an idea of how to improve your fraud prevention and detection capabilities.

If you read the headlines it is quite obvious that fraud continues to happen and the risk of fraud will never go away. It is also apparent that sometimes Executive Management and Internal Auditors don't agree with each other severity of the risks and the methods to mitigate the risk. But including fraud as a topic on the risk management agenda and thinking creatively and critically about how to minimize the risk will help bridge any gaps and will go a long way to deterring fraud in your company.

For more information about this report or about Vonya Global, please visit our website:

<http://www.vonyaglobal.com>

The 2010 ACFE Report to the Nations on Occupational Fraud and Abuse is a bi-annual report produced by the Association of Fraud Examiners. The ACFE estimates that organizations lose 5% of annual revenues on a yearly basis to Occupational Fraud and Abuse. More information can be found by [downloading the report](#). The ACFE and Vonya Global are in no way affiliated with each other.