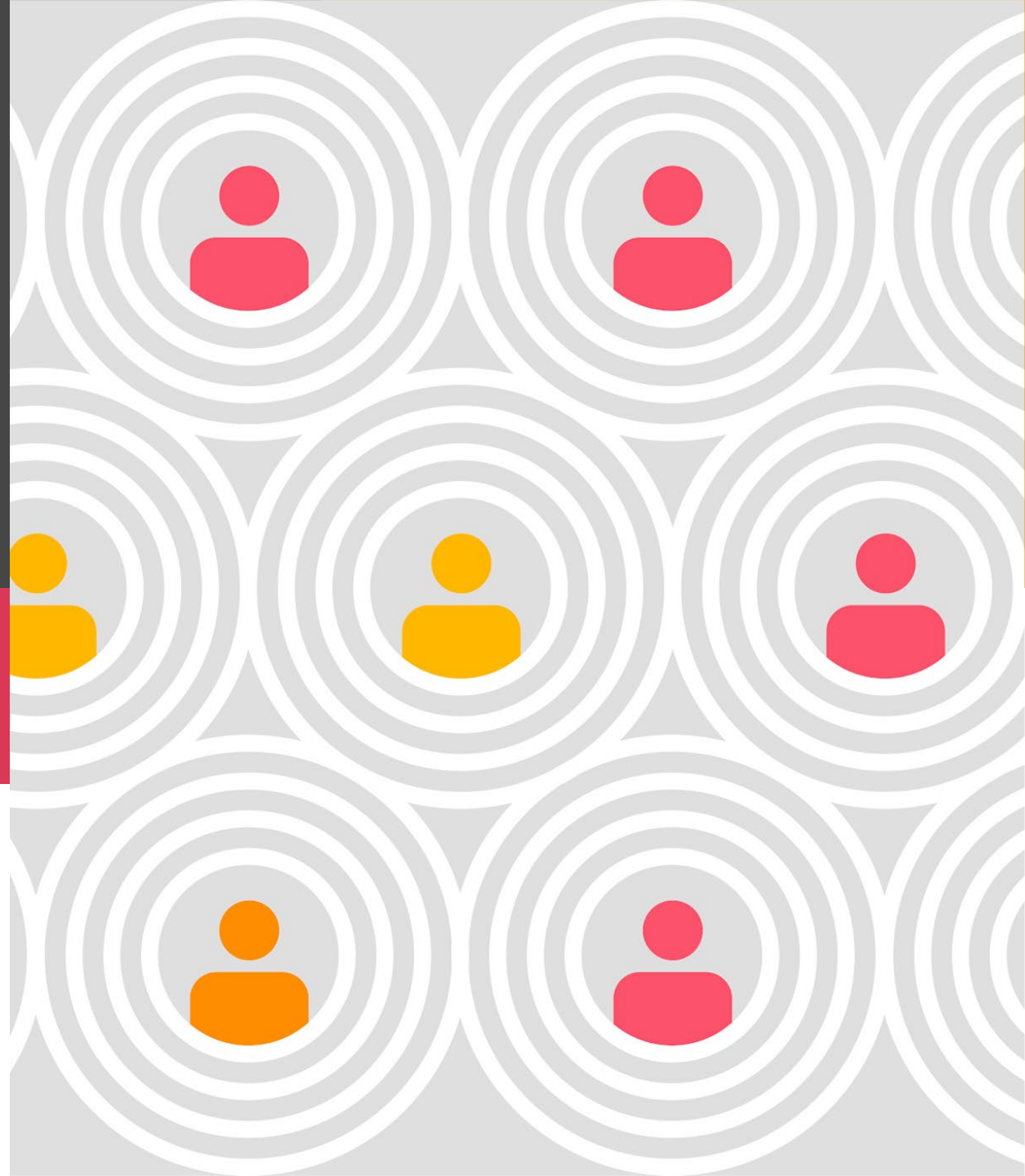


PwC Forensic Services

Fraud risk management playbook

March 2021



Introduction

Fraud is a constant and continually evolving threat. According to our **2020 Global Fraud and Economic Crime Survey**, 56% of UK businesses experienced at least one fraud event during the previous two years.

While fraud is as old as business itself, technological transformation has offered new opportunities. Fraudsters are natural innovators and enthusiastic early adopters of technology. In recent years, digital communication has triggered a boom in fraud and scams, notably phishing – and accelerated digitisation and mass remote working during the pandemic has created even more opportunity for determined criminals.

In such an environment, a robust and adaptable fraud risk management framework has become essential – and this was at the centre of recent recommendations from the Department of Business, Energy and Industrial Services for corporate governance and audit reform in the UK, in response to the CMA, Brydon and Kingman reports. The proposed recommendations,

which are subject to a consultation period that ends on 8 July 2021, include:

- a requirement for '**directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud**'.
- all directors of PIEs to be held accountable for their reporting responsibilities and subject to increased regulatory scrutiny and enforcement powers
- expansion of the definition of PIE to cover large AIM and large private companies

These recommendations, among others, will increase the emphasis on directors' responsibilities to ensure that appropriate and effective procedures are in place to manage the risks of fraud. We are seeing a clear direction of travel that suggests that, in the future, directors could face more stringent penalties, and possibly legal action, if they fail to take adequate steps to prevent fraud in their organisation.

What is the purpose of this document?

This document illustrates how PwC Forensic Services can help support our clients across the fraud risk management programme, providing the insight, guidance, resource and technology to ensure that by the time any proposed legislation become enforceable, directors are aware of the actions being taken to prevent and detect fraud, and have the confidence to sign any necessary attestation, as proposed.

1

What is fraud
risk management?

What are fraud risks?

Organisations are vulnerable to many types of fraud – originating from perpetrators inside and outside the business, and in some cases acting in collusion. The financial and reputational impact can be severe – companies taking part in our Global Fraud and Economic Survey say that fraud cost them at least \$42bn between 2018 and 2020.

Our 'Fraud and Economic Crime' risks taxonomy details some of the more common categories of risks that represent a threat to most organisations. Within each category, there are many different types of frauds that can occur and which need to be managed.

The best defence to the growing threat of fraud is strong and proactive risk management. But while our survey found that while almost two thirds of companies have policies and procedures in place to mitigate fraud risk, barely half are dedicating resources to risk assessment, governance and third party management.

Fraud Insights – Global Economic Crime Survey 2020

56%

UK respondents experienced fraud in the past 24 months

Top 4 types of fraud

- Cybercrime
- Customer fraud
- Accounting fraud
- Bribery and corruption

78%

of frauds committed by internal perpetrators were committed by **senior or middle management**

<https://www.pwc.com/gx/en/services/forensics/economic-crime-survey.html>



What is fraud risk management?

Our survey found that companies with a dedicated fraud programme spend up to 42% less on fraud response and 17% less on remediation than their peers. There is a direct correlation between investment in fraud prevention upfront, and reduced cost when a fraud strikes.

PwC's Fraud Risk Management solution is designed to help you assess and strengthen your organisation's risk management programme and fraud defences.

The fraud risk management framework

Based on the COSO principles, which are designed to help organisations understand the key elements needed for an effective control environment, our fraud risk management framework helps our clients improve the processes and controls they have in place to prevent and detect fraud.

The framework has five components:

- **Fraud governance** Corporate governance failures are behind many high profile corporate frauds. Protected organisations have a strong governance and reporting structure, with clearly defined roles and responsibilities around fraud risk.
- **Fraud risk assessment** A comprehensive risk assessment is fundamental to capturing key fraud risks, assessing the impact they have on the organisation, and key controls in place to prevent and detect instances of fraud.
- **Fraud prevention** Well designed and operationally efficient controls that protect an organisation from internal and external fraud.
- **Fraud detection** The processes and systems that actively look for fraud in key risk areas, enabled by innovative technology.
- **Fraud response** The organisation's ability to rapidly and effectively investigate fraud and trace assets, individuals and networked relationships.



2

How are we
supporting our clients?

Fraud risk management: How our Forensic Services can help



| Questions to consider | How we can help? | | | | |
|--|---|--------------------------------|--|---|--|
| How mature is our fraud risk management programme? | Fraud risk management: Maturity assessment and implementation | | | | |
| Are our governance policies clear, and responsibilities understood? | Governance and fraud risk policies review | | | | |
| Are we making full use of available data and analysis to assess fraud risk? | | Intelligence-led risk analysis | | | |
| Are we confident that we have identified and understood the key risks we face? | | Fraud risk assessment | | | |
| Are we making full use of available data and analysis to assess fraud risk? | | | | Digital fraud detection | |
| Do we have specific risks that call for a bespoke solution? | | | | Digital fraud detection: Custom build solutions | |
| Does our investigation team need any extra support? | | | | | Investigation & remediation: Maturity review |
| Does our training reflect the latest developments in fraud risk management? | Fraud risk management: Training and workshops | | | | |

Fraud risk management: Maturity assessment and implementation

In order to effectively manage your organisation’s exposure to fraud risk, you need to understand the current state of your fraud risk management programme, and the target level of maturity you are aiming for.

| Activity | Programme maturity and benchmarking assessments | Gap analysis, roadmap and implementation |
|--------------------------------|--|--|
| Description | Using a combination of facilitated workshop sessions and an established maturity framework, PwC can give you insight into the maturity of your existing fraud risk management programme in five critical areas: Governance, risk assessment, monitoring and prevention, detection, and response. | Using this maturity assessment, we will facilitate discussions with relevant stakeholders to identify the desired level of maturity, including identification of minimum standards where defined by regulation. We will work with you to identify the steps needed to close any gaps and develop a roadmap to reach this desired state, within your organisation’s available resources and risk appetite. |
| Value | Clarity on the current maturity of your fraud risk management programme, benchmarked against a standardised framework. | A detailed roadmap tailored to your organisation’s current and desired state. Access to the resources, technical knowledge and experience needed to implement processes effectively. |
| Key factors to consider | Does your organisation have a defined fraud risk management programme? | |

- Fraud Risk Management: Maturity assessment and implementation**
- Governance and fraud risk policies review
- Intelligence led risk analysis
- Fraud risk assessment
- Digital fraud detection
- Digital fraud detection: Custom build solutions
- Investigation and remediation: Maturity review
- Fraud risk management: Training and workshops

Governance and fraud risk policies review

Corporate governance failures lie at the heart of many high profile public corporate frauds. In an effective fraud risk management programme, an organisation has an effective governance and reporting structure, and policies that clearly set out the company's approach to fraud and broader financial crime.

Activity Governance and fraud risk policies reviews

| | |
|--------------------------------|---|
| Description | <p>PwC will help you review your fraud risk governance policies and processes, including:</p> <ul style="list-style-type: none"> • Identification of any potential gaps in current fraud risk policies, or topics that need clarification • An assessment of existing roles and responsibilities around fraud risk, at both individual and organisational level, to ensure they are fit for purpose • Attending relevant management team and/or board meetings, and reviewing historic meeting minutes, to provide insight into the 'tone at the top', and • An assessment of information flows and reporting lines, to check that relevant information about fraud and fraud risks is seen and reviewed by the right people. |
| Value | <p>Insight into good governance practice and fraud risk policies from across your industry. Insight into the effectiveness of existing information flows and reporting lines in place regarding fraud and fraud risk.</p> |
| Key factors to consider | <p>Are Directors sufficiently aware of the actions taken to prevent and detect internal and external fraud throughout the organisation?</p> <p>Are the roles and responsibilities around fraud risk management in your organisation clearly defined and understood?</p> |

Fraud Risk Management: Maturity assessment and implementation

Governance and fraud risk policies review

Intelligence led risk analysis

Fraud risk assessment

Digital fraud detection

Digital fraud detection: Custom build solutions

Investigation and remediation: Maturity review

Fraud risk management: Training and workshops

Intelligence-led risk analysis

Throughout the fraud risk management process, it's essential that the right information about external and internal risk factors – information that might trigger changes to your organisation's risk profile – is captured, documented and assessed, and that any necessary changes to the fraud risk management programme are made on a timely basis.

Activity Risk analysis: Corporate intelligence and information gathering

Description PwC's Corporate Intelligence team can help limit your exposure to potential fraud, and protect your business integrity and reputation, in a variety of ways, including:

- Enhanced due diligence on high risk business partners, focusing on risks including fraud, bribery, corruption, modern slavery, and source of wealth
- Profiling suspected fraudsters to support an investigation, including their network of associates and accomplices, commercial connections and investments, and global footprint
- Asset tracing on individuals and companies suspected of fraud and/or misappropriation of assets, including property, equity and lifestyle assets
- Continuous monitoring of companies or individuals using our RADAR technology, which scans electronic data (including media, sanctions data, social media and litigation records) across multiple languages.

Value Insight into potential fraud risks (as well as other social, ethical and environmental risks) in your business relationships

Insight into the network, track record, footprint and assets held by suspected fraudsters

Key factors to consider Do you have control measures in place that detect fraudulent activity from your high risk business partners?
Do you need help to trace assets held by an individual or company or to assess connections between potential related parties suspected of fraud?

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Fraud risk assessment

A fraud risk assessment ensures that the controls and processes used by an organisation to prevent and detect fraud are fit for purpose and reduce key fraud risks to acceptable levels.

Activity **Facilitation of the fraud risk assessment**

| | |
|--------------------------------|--|
| Description | <p>We can support you as you update your organisation’s fraud risk assessment, including:</p> <ul style="list-style-type: none"> • Helping you define the scope of the assessment • Providing market insight and challenge throughout the scoping, risk identification and assessment process • Providing insight and challenge throughout the fraud risk control identification and design effectiveness assessment, as well as the resulting consideration of the residual risk assessment • Provision of templates, with assessment criteria tailored to the nature and complexity of the organisation. |
| Value | <p>Insights and challenge from an independent third party built into your fraud risk assessment process.</p> <p>A comprehensive register of fraud risks and controls, which reflects the structure and complexity of your organisation.</p> |
| Key factors to consider | <p>Do you have a fraud risk assessment in place? If so, has it been updated to reflect the current risk environment?</p> <p>Does your fraud risk assessment include a comprehensive list of internal and external fraud risks across your organisation?</p> |

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Digital fraud detection

Digital solutions, including those powered by artificial intelligence and machine learning, are increasingly important in the monitoring of large datasets to identify transactions which may indicate fraud.

| Activity | Procurement protect | Anomaly detection |
|--------------------------------|---|---|
| Description | <p>PwC's 'Procurement Protect' identifies signs of fraud, error and non-compliance in procurement data.</p> <p>The solution analyses data from existing finance and procurement systems to identify potential fraud and other anomalies. It also provides a rich user interface for the collaborative review of results.</p> <p>It can be offered as a one-off retrospective analysis or in a 'continuous' mode with periodic data refreshes.</p> | <p>PwC's 'Anomaly Detection' tool analyses data using unsupervised machine learning to find unusual transactions.</p> <p>Anomaly Detection is particularly powerful in identifying instances of fraud where systems are processing large data sets.</p> |
| Value | <p>Replaces sample-based testing with full-data screening, providing greater coverage than standard detection methods.</p> | <p>Identifies unusual transactions that wouldn't be identified using standard rule-based detection tools.</p> |
| Key factors to consider | <p>What fraud detection processes does your organisation currently have in place to manage key fraud risks?</p> <p>Could digital solutions improve the efficiency and quality of existing processes?</p> | |

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Digital fraud detection: Custom build solutions

Just as every organisation is unique, so are the fraud risks that they face. When an off-the-shelf solution isn't enough, we can design, build and implement a custom-built digital solution.

Activity Custom build fraud detection and analysis solutions

Description While off-the-shelf digital fraud detection solutions will address most of the risks that organisations face, there are occasions when a specific risk or set of circumstances demands a custom-built solution. We will work with you to create a solution that works, by:

- Taking the time to understand the relevant risk criteria, key systems and data sources
- Using our in-house technical knowledge, experience and relationships with third parties to identify potential digital solutions
- Developing a custom-build solution and supporting you throughout the build, test and implementation phases of the project.

Value Gain access to a range of technical knowledge and expertise in digital and data driven solutions.
Benefit from PwC's existing relationships with established vendors and technology providers.

Key factors to consider Are there are risk areas that are consistent causes of concern for your organisation?
Do you feel that existing off-the-shelf solutions leave the organisation exposed in some areas?

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Investigation and remediation: Maturity review

An effective investigations function is central to success when responding to instances of potential fraud. We will review your Investigation function's operations and identify ways in which efficiency could be improved through technology or changes to existing processes.

Activity **Investigation function: Benchmarking review**

Description We can support a review of your organisation's Investigation function, providing insights around current capabilities in areas such as:

- The processes used to secure, collect, preserve and store relevant data
- Stakeholder management
- Regulator and law enforcement reporting
- Investigation mobilisation and remediation

We can also work with you to identify the potential for efficiency improvements, either through the use of technology or changes in underlying processes, and develop and implement a roadmap which reflects your organisation's available budget and resources.

Value Insights into best practice methodologies and technology.

Identify areas where there is potential to achieve improved investigations quality and/or increased efficiency in investigation turnaround and cost.

Key factors to consider Does your investigation team face any challenges?

Could technology help you to improve the effectiveness of your investigation processes?

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Fraud risk management: Training and workshops

Fraud risk management: Training and workshops

PwC can provide training and workshops across the entire fraud risk management programme, designed to provide up to date insights on industry trends, technology and fraud risk management skills.

| Activity | Fraud training and workshops |
|--------------------------------|--|
| Description | <p>We can provide training on a range of topics in relation to fraud risk and fraud risk management, including:</p> <ul style="list-style-type: none"> • Recent trends in fraud and fraud risks • Impact of the pandemic/crisis events on fraud • Fraud risk management principles • Investigation functions and methodology <p>Our Investigate training platform provides an interactive training experience, allowing staff to put into practice a range of investigation methodologies focused around key risk areas.</p> |
| Value | <p>Insights into current fraud trends and areas of heightened risk for your industry.</p> <p>Training on key aspects of fraud risk management tailored to the needs of your organisation and fraud risk management teams.</p> |
| Key factors to consider | <p>Does my current training plan take into account current fraud trends and investigation methodology?</p> |
| Website | <p>https://www.pwc.com/gx/en/services/forensics/investigate.html</p> |

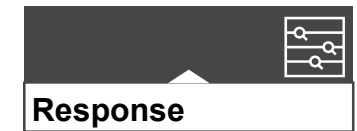
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Broader economic
crime and controls
assurance

Broader economic crime and controls assurance

In addition to fraud risk management services, PwC can support your organisation with a range of other issues relating to broader economic crime, governance risk management and controls assurance services.



CCOs: Failure to Prevent the Criminal Facilitation of Tax Evasion

Our teams of tax, financial crime and legal experts, working under legal privilege if needed, can help you embed a proportionate and sustainable approach to compliance.

Anti-bribery and corruption

We have extensive experience of working on large scale and high profile investigations and remediation projects, as well as preventative projects across all sectors, and can help protect you and your business from bribery and corruption risk.

Regulatory and ethical compliance

We can help you navigate the risk and compliance landscape (including local and global regulatory standards), target your resources effectively, and create a strong culture of ethics and compliance throughout your organisation.

Environmental, social and corporate governance

We perform detailed reviews on the identity and ESG performance of your third parties. We can help you investigate regulatory breaches such as greenwashing or unethical board behaviour and can support you in managing and mitigating those risks.

Fraud controls: Operational effectiveness

Our controls assurance specialists can provide support to your internal audit functions to test the operating effectiveness of existing fraud controls, identifying any that are not operating as intended.

4

Case studies

Some examples of our expertise in fraud risk management

We have worked with a wide range of organisations, helping them review and/or implement processes that improve the effectiveness of their existing fraud risk management programmes. We have set out some recent relevant examples of our work below:

Fraud risk management: maturity benchmarking review

The Head of Internal Audit at a listed technology company asked us to undertake a review of elements of its fraud risk management programme, with the objective of identifying areas below 'good practice'.

Over a two week period, our team undertook a number of procedures including interviews with key stakeholders (such as General Counsel and Head of Finance) and a review of key fraud risk management documents.

The team's observations were recorded and documented against an established fraud risk management framework to determine the current maturity level.

Discussions were then held with management to prepare a roadmap to achieve the desired state and prepare a report to summarise these findings to the Board.

Risk assessment: corporate intelligence

Our client wanted to investigate how its former Chairman had misappropriated the bank's funds through a series of suspicious loans, trade finance agreements and associated transactions.

As a major investigation, our work centred on providing background research on the entities that were beneficiaries or intermediaries of the loans. We undertook extensive public records research on a global basis to profile the fraudsters' corporate and personal connections and assets, across a range of on-shore and off-shore jurisdictions.

This led to the identification of significant property assets and corporate wealth in Kazakhstan, Russia, UK, Ukraine, Cyprus and a number of offshore jurisdictions, including investments within the energy, property and banking sectors.

Fraud risk assessment

A listed consumer retail organisation asked us to help coordinate and facilitate a group-wide fraud risk assessment process.

Working with the group, we helped them to:

- Structure the risk assessment process to ensure it reflected the organisation of the business
- Prepare the necessary materials and updates to ensure that relevant staff were trained to understand and identify fraud risks and controls
- Define assessment criteria for fraud risks and controls
- Determine the residual risk remaining
- Consolidate the findings from multiple workshops into a single template and report for communication to the Board.

Procurement protect

One of the supermajor oil and gas companies wished to improve its ability to detect fraud, error and non-compliance in the procure to pay process. Following a competitive bidding process, we were selected to deploy our Procurement Protect platform.

The first phase involved onboarding three of the highest risk countries to the platform. From this, our client had access to:

- Activity mirroring fraud scenarios such as vendor hijacks and fake invoices
- Activity flagged by our anomaly detection algorithm
- Online, collaborative review functionality for their global team to use.

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