



Reopening for business

Navigating COVID era fraud and corruption risks

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Today's agenda



Overview of KPMG's research into fraud and corruption risks during COVID19

Why are we seeing such a spike in the threat profile?

Discussion on the findings and how organisations can reduce the risks

Employees and suppliers in focus: why is the risk so high and how can we respond?

Questions and discussions

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KPMG Forensic Research

23 April 2020

Fraud and corruption risk during
COVID19 era working conditions

- Research conducted between 15 and 18 April 2020
- Included ASX200 organisations, government departments and large private companies
- Respondents primarily Chief Risk Officers, General Counsel and Chief Audit Executives
- Respondents from each state and a range of industries



COVID era conditions

COVID-19 is delivering an increased fraud and corruption risk:



of executives believed their organisation was vulnerable to fraud taking place in this new working environment.

of executives believe that cyber-enabled fraud and corruption will rise during COVID-19.



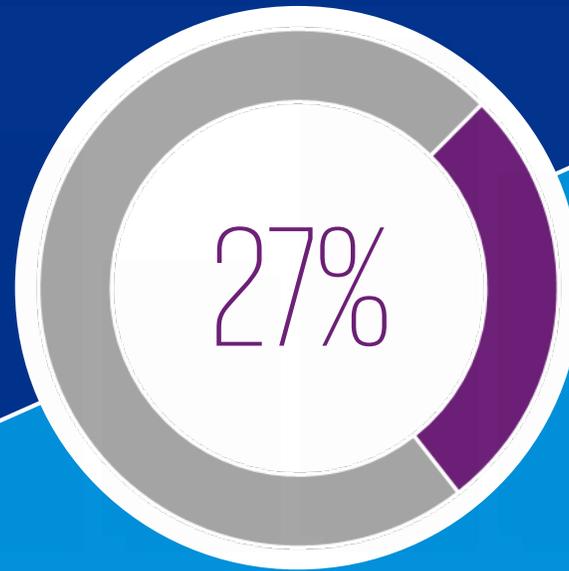
When three factors co-exist: **opportunity**, **motive** and **rationalisation** then the likelihood of fraud or corruption is high.

COVID-19 has delivered significant spikes in all three resulting in one of the most critical fraud and corruption challenges the market has witnessed.



Fraud and corruption threat

Fraud and corruption risk is increasing dramatically but controls are decreasing:



of executives said that their organisations have had to delay their fraud and corruption prevention programs due to the impacts of COVID-19.

Fraud and corruption threat

The KPMG Forensic research somewhat surprisingly found that 27% of organisations were deferring key fraud or corruption prevention programs or winding back controls.

This brings us to our first polling question, **if your organisation was one of those deferring programs or easing controls, what were they?**

- Internal audit programs
- Supplier due diligence
- Payment controls
- Segregations of duties
- Delegations of Authority
- Deferring whistleblowing or other investigations

Fraud and corruption threat

Fraud and corruption risk is increasing dramatically but investigations are inhibited:



of executives said that their ability to conduct investigations into fraud and corruption was inhibited by COVID-19.

Fraud and corruption threat

Issues driving a rise in fraud and corruption risk during the COVID-19 era:



Distracted business not focusing on controls

75%



IT systems limitations

40%



Remote working

69%



Inability to physically verify goods or services delivered

32%

Fraud and corruption threat

Biggest threat for organisations:

Suppliers



Agents



Employees



Customers



Contractors



Fraud and corruption threat

During the recent COVID19 working conditions, did your organisations on-board suppliers without following their normal due diligence process?

- **Yes**
- **No**
- **Unsure**

Fraud and corruption threat

Defending against supply chain fraud and corruption



01

GATHER CRITICAL INFORMATION

- Examine all **links in your supply chain** including your manufacturers, sub-manufacturers, distributors, and logistics agents
- Ensure you know who your suppliers' suppliers are. Indirect exposure to supply chain fraud is often overlooked. Pay particular attention to the **use of sub-contractors**, adding sub-contractors into the system that haven't been properly vetted can expose you to a critical risk, ensure you have complete visibility over the extended supply chain
- Consider fraud risk in your **contingency plans** for any critical components of your supply chain.
- Examine the **global reach of your supply chain** and map this to the current levels of impact, border restrictions etc.
- Review **vendor on-boarding** controls, and contractual clauses relating to exiting supplier relationships.

Fraud and corruption threat

Defending against supply chain fraud and corruption



02 IDENTIFY RISKS

- Review your vendor risk management fraud controls in light of **remote working operations** to consider any changes which may be required
- Run a **data analytics** exercise to identify any cost outliers within your general ledger or unexplained gradual increases in funds distributed to your suppliers which may have fallen under the radar
- Examine the current effectiveness of your **conflicts of interest** and whistleblowing controls
- Identify and monitor any critical suppliers in **countries which have been worst** hit by COVID-19
- Identify any **materials which are critical** within your supply chain and could become scarce within the short or medium-term

Fraud and corruption threat

Defending against supply chain fraud and corruption



03 PLAN YOUR APPROACH

- Based on the results of an interim fraud risk assessment, consider any **opportunities to enhance your supply chain control framework** to meet the heightened risk in the short and medium term
- Set the '**tone from the top**' and remind employees how they can report supply chain fraud or misconduct in your organisation. Remind employees of their fraud prevention obligations, particularly those in high risk roles
- Perform a 'pulse-check' on employee wellbeing. Supply chain fraud often **fails without a complicit internal aide**. Take measures to foster a cooperative and compliant culture and manage the risk of low morale and increased motivation and rationalisation to commit fraud
- Review all **suppliers on-boarded during the COVID era** working conditions, ensure that the supply chain impact has been fully considered (freight forwarders, third party logistic providers, new ports etc) and where necessary undertake enhanced due diligence and increased early stage transaction monitoring.

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Questions and discussion





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