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 News

April 1, 2011

 eNewsletter

## Boards struggle with fraud risk management

One of the common features of many recent frauds appears to be that senior management had a poor understanding of their organisation's fraud risks, according to an expert in the area.

"One would have thought that with all the focus on risk management, by now executive board members of such organisations would be fully apprised of their fraud risks and be managing them in a consistent and efficient manner," said Martin Samociuk, founder of consulting firm Hibis Group, which specialises in fraud risk management.

"Unfortunately experience has shown that it is all too common to find that there is a poor understanding of fraud risks at the board level."

Samociuk said most organisations assign the responsibility for fraud risk management to business line managers who assess the risks together with all other operational risks.

However these managers are usually so overburdened with operational risk and audit requirements, which focus on systems and processes and evaluating the effectiveness of controls, that they lose sight of the fact that people commit fraud.

"This can usually be seen in the fraud risk assessment which contains a list of what managers assess as fraud risks, when in fact, they are just describing methods of fraud," he said.

"The confusion arises because the organisation has not defined the term 'fraud risk' so managers flounder trying to figure out what it is they are supposed to be assessing."

Samociuk, who has written a number of books on fraud risk management, said it is unfair and impractical to ask managers to assess fraud risks when they don't know what a fraud risk is and have no knowledge of the methods that a fraudster might use.

"It is like asking a doctor to diagnose a patient without any training," he said.

"Given the different nature of fraud risks compared with other risks, such as credit and market risks or risks resulting from accidental occurrences, fraud risks should be assessed independently of the general risk assessment process."

Samociuk said a vital element prior to conducting an assessment is to provide adequate resources and training to business line managers so that they understand how fraudsters work and how they seek to bypass controls.

That way, he said the managers will have a reasonable chance of assessing fraud risks and whether or not existing controls are effective.

"An increasing number of financial institutions have realised such resources training has to be provided by fraud prevention professionals rather than by operational risk personnel," he said.

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