

The Complete Compliance and Ethics Manual 2023

Fraud Awareness Training: Enhancing a Low Cost, High Impact Control in Challenging Economic Times

By Heidi Schubert, Lisa Zaharia, and Bruce McKenzie^[1]

Economic downturn puts more pressure on executives, employees, and vendors, increasing the potential for good people to do bad things. Fraud awareness training is an effective way to equip employees with the tools and knowledge to recognize and report suspicious activity.

Three factors are generally accepted as being necessary for a fraud to occur: pressure (or motivation), opportunity, and the ability to rationalize bad behavior. The presence of each of these factors rises during periods of economic hardship impacting organizations and individuals alike, both experiencing the pressure of increased financial strain. With the added job responsibilities left behind by departed colleagues, reduced resources, and decreased morale, remaining employees often experience an increased pressure to perform. In this environment, opportunities for fraud proliferate. Cuts to the workforce, as well as programs and controls, can lead to internal control gaps and fewer proactive fraud prevention measures.^[2]

Fraud is an event that few people and organizations like to acknowledge. Unfortunately, it happens in every organization and is committed at all levels. Current estimates suggest that fraud accounts for value leakage of up to 5% of revenues.^[3] This excludes intangible costs associated with fraud such as reputational damage, investigation expenses, and damage to the company culture. Employees are a valuable source of information for discovering potential fraud. According to the 2014 Report to the Nations on Occupational Fraud and Abuse, more than 40% of the reported fraud cases studied were discovered through tips. Employees were the source of almost half of all tips.^[4] Economic downturns offer a unique opportunity for fraud detection, and employees play a key role.

Company restructuring and resulting staff role changes offer a renewed perspective on current business processes. Budgets are tighter and under much closer scrutiny—potentially uncovering discrepancies and inconsistencies that could be red flags requiring further inquiry. Also, because expenditures and operations are more closely scrutinized and employees are uncertain about their positions, they might be more inclined to speak up to help the company and preserve their job. So the opportunity to uncover inappropriate activity increases, but only if employees have the awareness around what to look for and how to report.

Employees trained in fraud awareness can help to identify suspicious activity. In a resource constrained environment, fraud awareness training is a low cost, high impact means to enhance fraud risk detection, management, and expectations throughout an organization. In other words, it is an effective preventive control.

Programmatic Approach: Ideal Best Practice

Compliance professionals are schooled in the value of a programmatic approach to risk mitigation, so it is no surprise to a compliance professional that to be truly effective, a fraud risk management program needs to be managed holistically.^[5]

It can be difficult to institute or reshape a fraud risk management program in tough economic times. There are

limits on an organization's human and capital resources and its overall capacity to manage continuing change. There are also constraints on how much can be spent on designing, implementing, and conducting systems of internal control. In these times, there is often "no appetite" for new programs. Despite these realities during strained economic times, there is a low cost but high impact, effective tool to uncover and mitigate fraud risks—interactive fraud awareness training.

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