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KPMG Forensic – Fraud and the Public Sector

Joint CMA-CGA-FMI Workshop

March 1, 2011



Agenda

- KPMG Forensic - Our Team
- Our Key Services
- Fraud and the Public Sector

KPMG Forensic – Our Team

- More than 30 accredited Forensic practices globally
- Offices across Canada with more than 80 service team members
- National team includes CA, CA•IFA, Charter Business Valuators, forensic technology professionals, former police officers, and intelligence analysts
- Western Canada - 10 client service team members

Our Key Services

- Fraud Risk Management
- Investigations
- Dispute Advisory Services
- Forensic Technology and Data Analysis
- Corporate Intelligence



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Fraud Risk Management

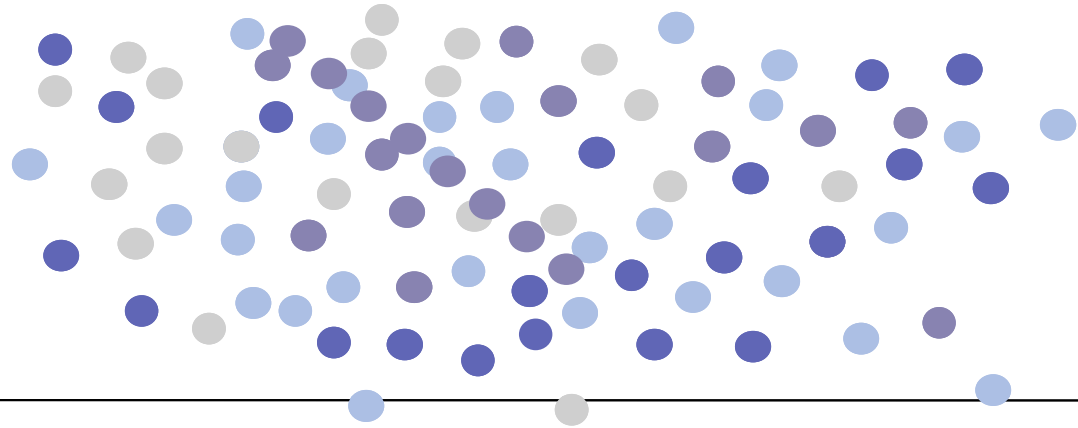
ACFE 2010 Global Fraud Study – Public Sector At Risk

- Estimated organizations lose 5% of annual revenue to occupational fraud
- In 16% of the reported cases the victim was a government organization
- Median loss for government/public sector cases were \$100,000
- Top three fraud schemes in government and public administration:
 - Corruption (e.g., bid rigging, kickbacks)
 - Billing schemes (e.g., false vendors, false invoices)
 - Expense reimbursements schemes
- Controls associated with the greatest reduction in median loss
 - Whistleblower hotlines (59% reduction)
 - Employee support programs (59% reduction)
 - Surprise audits (52% reduction)
 - Fraud training for staff members (50% reduction)

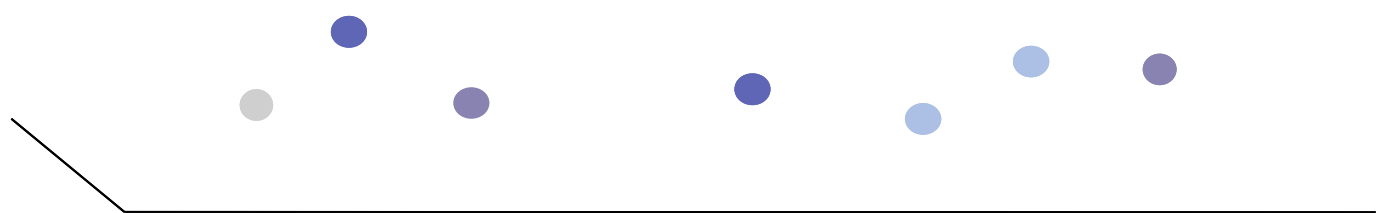
Organizations that had anti-fraud controls in place had significantly lower losses and time-to-detection than organizations without such controls

Fraud Risk Management - Objectives

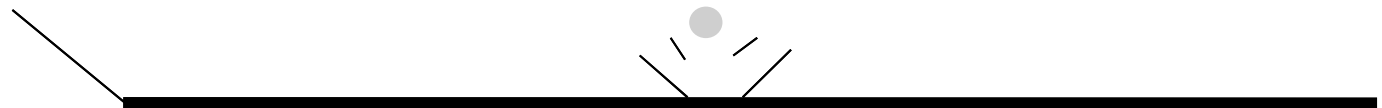
Prevent
fraud and
misconduct



Detect
occurrence



Respond
appropriately
once
discovered



Consider Key Fraud Controls – Entity Level

- Fraud Risk assessment
- Tone at the top – Code of Conduct
- Whistleblower Hotline
- Human Resource Policies & Practices
- Monitoring compliance with key controls
- Training – control responsibilities, fraud awareness
- Fraud response plan

Consider Key Fraud Controls – Process Level

- Segregation of incompatible duties
- Verification Process/Review
- Reconciliations
- Financial reporting process controls
- Controls over access to information and assets
- Authorizations and approval limits

Fraud Risk Assessment

Process to:

- Identify fraud risks faced by the organization (before impact of controls)
- Assess the likelihood and significance of identified risks
- Prioritize and develop a plan to mitigate or manage the risks

Some factors to consider include:

- Think broadly – there are risks beyond asset misappropriation
- The nature and complexity of your organization
- Incentives, pressures, attitudes
- Areas susceptible to manipulation – estimates, complex/unusual transactions, non-standard journal entries



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Investigations

Investigations

- Our role includes gathering and reviewing evidence, conducting interviews, and analyzing accounting records and other business documents with a view to establishing the facts

Examples of where we get involved include:

- Assisting clients in dealing with whistleblower reports and other allegations
- Assisting Internal Audit or Compliance functions by investigating concerns identified through audits or compliance activities
- Assisting parties, for example Company Boards, by establishing the facts in a specific matter
- Assisting regulators or clients by investigating regulatory compliance
- Assisting management in responding to fraud red flags

Investigations

Types of matters investigated:

- Misappropriation of cash or other assets
- Diverted corporate opportunity
- Bribery and corruption
- Financial statement manipulation
- Breach of confidential information
- Conflict of interest and misconduct

Investigations

Key benefits include:

- Establish the facts so that management can make informed decisions
- Help management take control of a situation that may appear out of control
- Help the organization limit losses from actual or potential fraud
- Quantify financial impact of fraudulent activity or misconduct to support recovery
- Prepare understandable and thorough reports according to our clients' needs
- Act as expert witnesses in criminal or civil law suits
- Assist clients in identifying fraud red flags and possible internal control weaknesses

Responding to red flags or suspected fraud

Your initial response is critical. Considerations include:

- Protect your assets from further loss
- Preserve the evidence
- Consider whether you are insured and make notification
- Consider your objective (civil, criminal, dismissal, other)
- Consider whether to involve other parties
- Consider whether to consult legal counsel



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Thank you



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