



**COUNTER FRAUD CENTRE**

Tauārai Hara Tāware



**Capability**

**Countermeasures**

APRIL 2023

# Table of Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
	1.1 Purpose	2
	1.2 What is included	2
<b>2</b>	<b>Capability Countermeasures</b>	<b>3</b>
	2.1 Governance and oversight	4
	2.2 Ethical culture	6

# 1 Introduction

Fraud risks involve deceptive behaviours carried out by people who try to hide their actions. Therefore, organisations are encouraged to put in place anti-fraud and corruption countermeasures that help minimise opportunities to commit fraud and maximise detection of fraud.

Fraud risks can be managed by establishing practices and countermeasures to mitigate the risks or by designing specific fraud evaluation procedures. An organisation's mitigation practices will differ based on its fraud risk tolerance and exposure to risks.

No system of countermeasures can completely eliminate fraud. However, well designed and effective countermeasures can assist in deterring and detecting fraudulent activity.

Countermeasures come under the following four categories:

- ▶ **Capability countermeasures** guide expected behaviours and determine organisational culture around fraud. These are important for providing direction to employees.
- ▶ **Prevention countermeasures** are the most common and cost-effective way of limiting the size of fraud risks, by reducing the likelihood of it occurring.
- ▶ **Detection countermeasures** help to identify when fraud has occurred, disrupt it and reduce the impacts.
- ▶ **Response countermeasures** respond to fraud after it has occurred to reduce or disrupt additional impacts. This includes investigation, prosecution, disciplinary action and recovery activities.

## 1.1 Purpose

The purpose of this guide is to provide fraud practitioners and risk managers with information about **capability countermeasures** that can be applied or adapted to suit an organisation's fraud exposure and risk tolerance.

Similar information about detection, prevention and response countermeasures can be found on the [Serious Fraud Office website](#).

## 1.2 What is included

This guide contains high level information on two capability countermeasures. Not all countermeasures are appropriate for all organisations. Using this guide, practitioners will be able to determine whether it is appropriate to adopt the countermeasures, based on an organisations risk exposure and tolerance.

The guide includes the following information for each countermeasure:

- ▶ *'Examples'* provides examples of how the countermeasure can be implemented.
- ▶ *'Why this is important'* and *'Related fraudster personas'* give examples of the fraud and corruption risks, as well as the fraudster personas.
- ▶ *'Suggested measurements'* provides ways to test the effectiveness of the countermeasure.
- ▶ *'Vulnerability indicators'* includes indicators where the countermeasure may not be effective.
- ▶ *'This type of countermeasure is supported by'* lists complimentary countermeasures that can be used as part of an organisation's control environment. These countermeasures are included in the [capability, prevention, detection, or response countermeasure guides](#).

## 2 Capability Countermeasures

This guide contains **two capability** countermeasures and should not be considered an exhaustive list of all capability countermeasures.

Use this guide to:

- ▶ Consider whether your organisation is exposed to the fraud risks and fraud personas described in the guide.
- ▶ Consider whether these countermeasures are or should be in place to mitigate these fraud risks.
- ▶ Understand how your organisation can assess the operating effectiveness of the countermeasures.
- ▶ Understand how your organisation can identify if a countermeasure is not operating effectively.
- ▶ Consider whether other supporting countermeasures should be implemented as part of an organisation's control environment.

## 2.1 Governance and oversight

### Establish governance and oversight to oversee critical decisions and risks

#### Examples



This countermeasure targets internal fraud risks.

Examples of this countermeasure include:

- ▶ programme/project reporting requirements and governance arrangements to ensure transparency and accountability
- ▶ executive boards and committees overseeing operations and making decisions.
- ▶ defined accountabilities, responsibilities and reporting lines for programme/project performance and risk.
- ▶ risk management plans and regular risk reporting
- ▶ assurance processes e.g. pressure testing to assess the effectiveness of controls.
- ▶ processes for internal and external reporting framework and standards breaches.
- ▶ frameworks that incentivise finding and reporting fraud or error.

#### Why this is important



A lack of good governance and oversight can:

- ▶ lead to dysfunctional and unclear processes.
- ▶ cloud the visibility of fraud and corruption risks.
- ▶ inhibit the action needed to prevent, detect, and respond to fraud and corruption.

Employees or contractors can take advantage of this environment to abuse their position of trust to act corruptly, commit fraud and avoid exposure. They can also be coerced to commit fraud for the benefit of another person or entity e.g. individuals are coerced to provide information or pay a claim.

Good governance, accountability and oversight increases transparency and reduces the opportunity for fraud.



Bribery of public officials and the corrupt provision of official information are offences under the Crimes Act 1961.

<p>Suggested measures</p> 	<ul style="list-style-type: none"> <li>▶ Review governance structures to confirm that there are clear reporting lines and accountability for programme/project performance and risk</li> <li>▶ Confirm that executive oversight exists for critical processes and decision-making</li> <li>▶ Confirm that risk management plans or fraud risk assessments have been completed. Confirm these are monitored and reported to appropriate managers.</li> <li>▶ Confirm that identified fraud risks have an accountable person assigned to them</li> <li>▶ Identify how governance structure requirements and responsibilities are communicated</li> <li>▶ Undertake an employee survey with specific questions regarding strategic direction and executive engagement</li> <li>▶ Perform comparative analysis against similar programs and policies</li> </ul>
<p>Countermeasure supported by</p>	<ul style="list-style-type: none"> <li>▶ Ethical culture</li> <li>▶ Internal audits or reviews</li> </ul>
<p>Related Fraudster Personas</p>	<ul style="list-style-type: none"> <li>▶ The Organised</li> <li>▶ The Exploiter</li> <li>▶ The Enabler</li> </ul>




## 2.2 Ethical culture

Create an ethical culture that encourages supportive behaviours, while discouraging potentially fraudulent or corrupt activities.

<p>Examples</p> 	<p>This countermeasure targets internal fraud risks.</p> <p>Examples of this countermeasure include:</p> <ul style="list-style-type: none"> <li>▶ integrated organisational values in day-to-day activities.</li> <li>▶ reward and recognition programmes.</li> <li>▶ health and wellbeing training and initiatives.</li> <li>▶ an inclusive and supportive workplace culture.</li> <li>▶ training and promoting of ethical conduct and decision-making.</li> <li>▶ open and transparent communication and decision-making.</li> <li>▶ rewarding employees who identify and report fraud.</li> </ul>
<p>Why this is important</p> 	<p>An unethical culture can lead to:</p> <ul style="list-style-type: none"> <li>▶ incentives that encourage fraudulent or corrupt behaviour.</li> <li>▶ 'win at all costs' attitudes that disregard risks or unethical behaviour.</li> <li>▶ tolerance for cutting corners or workarounds.</li> <li>▶ bullying behaviour or employees being coerced to 'get on board with the program'.</li> <li>▶ demoralised or resentful employees who may then rationalise fraudulent or corrupt actions.</li> </ul> <p>Employees, contractors or third parties can abuse their position of trust to commit fraud or act corruptly. They can also be coerced to commit fraud for the benefit of another person or entity e.g. individuals are coerced to provide information or pay a claim.</p> <p>A dysfunctional organisational culture can increase an individual's ability to rationalise corrupt or unethical behaviour; a culture built on honesty, transparency and integrity are key organisational strengths that can serve to reduce the risk of fraud.</p> <p>Bribery of public officials and the corrupt provision of official information are offences under the Crimes Act 1961.</p>



<p>Suggested measures</p> 	<ul style="list-style-type: none"> <li>▶ Undertake an employee survey that includes questions about the workplace culture</li> <li>▶ Identify unethical behaviours through discussion with employees</li> <li>▶ Identify areas of improvement by completing quantitative and trend analysis of incidences of bullying and harassment, compensation, fraud and misconduct</li> <li>▶ Review completion rates of relevant courses, such as ethics training</li> <li>▶ Confirm whether employee turnover rates are a result of the organisation's culture</li> </ul>
<p>Countermeasure supported by</p>	<ul style="list-style-type: none"> <li>▶ Governance and oversight</li> <li>▶ Internal audits or reviews</li> </ul>
<p>Related Fraudster Personas</p>	<ul style="list-style-type: none"> <li>▶ The Organised</li> <li>▶ The Exploiter</li> <li>▶ The Enabler</li> </ul>



**COUNTER FRAUD CENTRE**

Tauārai Hara Tāware