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WELCOME

Behind Closed Books: Unmasking Fraud and Ethical Challenges in Finance

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Learning Objectives

- 01.**
Understand fraud in the context of financial accounting and reporting for CFOs & leaders in the Finance function.
- 02.**
Identify anecdotal fraud threats, techniques, and detection methods related to fraudulent financial reporting and misappropriation of assets.
- 03.**
Understand the professional role and responsibilities of a financial executive as it relates to financial fraud and ethical conduct.

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Agenda

- 01.** Brief overview of **CFO responsibilities** and **fiduciary role**.
- 02.** Importance of **ethics** and **integrity** in finance roles.
- 03.** Set the stage for understanding the **difference between fraud and unethical conduct** to better recognize risks and make integrity-based decisions.

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Deloitte's Four Faces of the CFO

Protect and preserve the critical assets of the organization and accurately report on financial position and operations to internal and external stakeholder



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Deloitte's Four Faces of the CFO

Balance capabilities, talent, costs and service levels to fulfill the finance organization's core responsibilities efficiently



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Deloitte's Four Faces of the CFO

Catalyze behaviors across the organization to execute strategic and financial objectives while at the same time creating a risk intelligent culture



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Deloitte's Four Faces of the CFO

Provide financial leadership in determining strategic business direction, M&A, financing, capital market and longer-term strategies vital to the future performance of the company



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Your stakeholders

More obvious

- Shareholders
- Directors
- Investors
- Finance department

Less obvious

- All employees
- Every department head
- Commissioned sales personnel
- Customers
- Federal, State & Local Tax authorities
- Regulators
- Lenders
- Vendors
- Courts
- State Corporation Divisions

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Fraud by CFOs: Methods and Transactions

Common Fraud Schemes:

<p>Financial statement manipulation</p> <p>(e.g., inflating revenue, misrepresenting expenses).</p>	<p>Asset Misappropriation</p> <p>(e.g., embezzlement, unauthorized transactions).</p>	<p>Insider trading and manipulation of stock options</p> 	<p>Transactions prone to fraud</p> <p>(e.g., mergers and acquisitions, revenue recognition, expense accounting, and payroll).</p>
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Unethical Acts by CFOs

Examples of unethical but non-fraudulent actions:

- 

Earnings management
within legal limits but misrepresenting economic reality
- 

Selective disclosure
of financial information to influence investor perception.
- 

Conflicts of interest
Conflicts of interest, such as related-party transactions.
- 

“Grey Area” activities:
Pushing limits without crossing into illegal territory.

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Leadership by Example

Unethical behavior may also cause **personal** reputational harm



Scott Thompson
Yahoo

Andrew Fastow
Enron



Jill Kanin-Lovers
Monster
Worldwide



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Fraud vs. Unethical Acts



Definition and examples of fraud as illegal, with intent to deceive.



Unethical actions may be legal but violate professional standards or company values.



Emphasis on the importance of ethical integrity beyond legal compliance.

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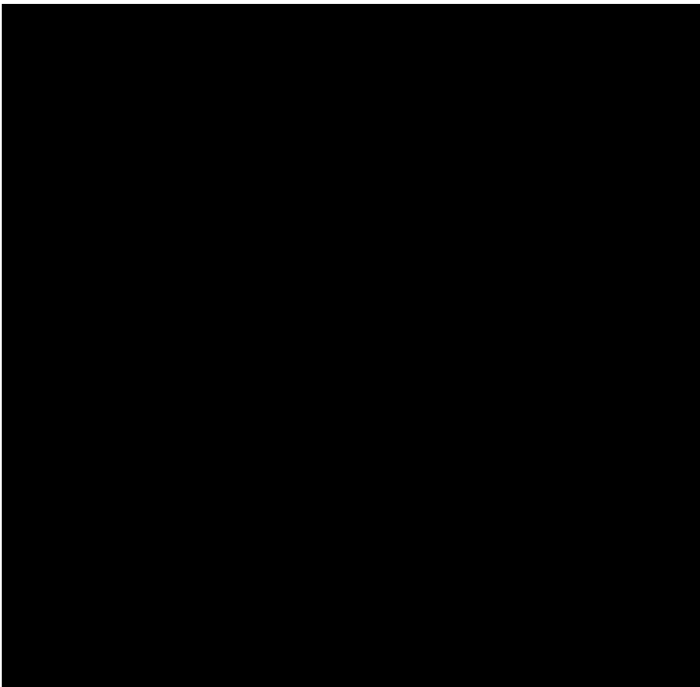
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Laws Violated by CFO Fraud

Common legal breaches:

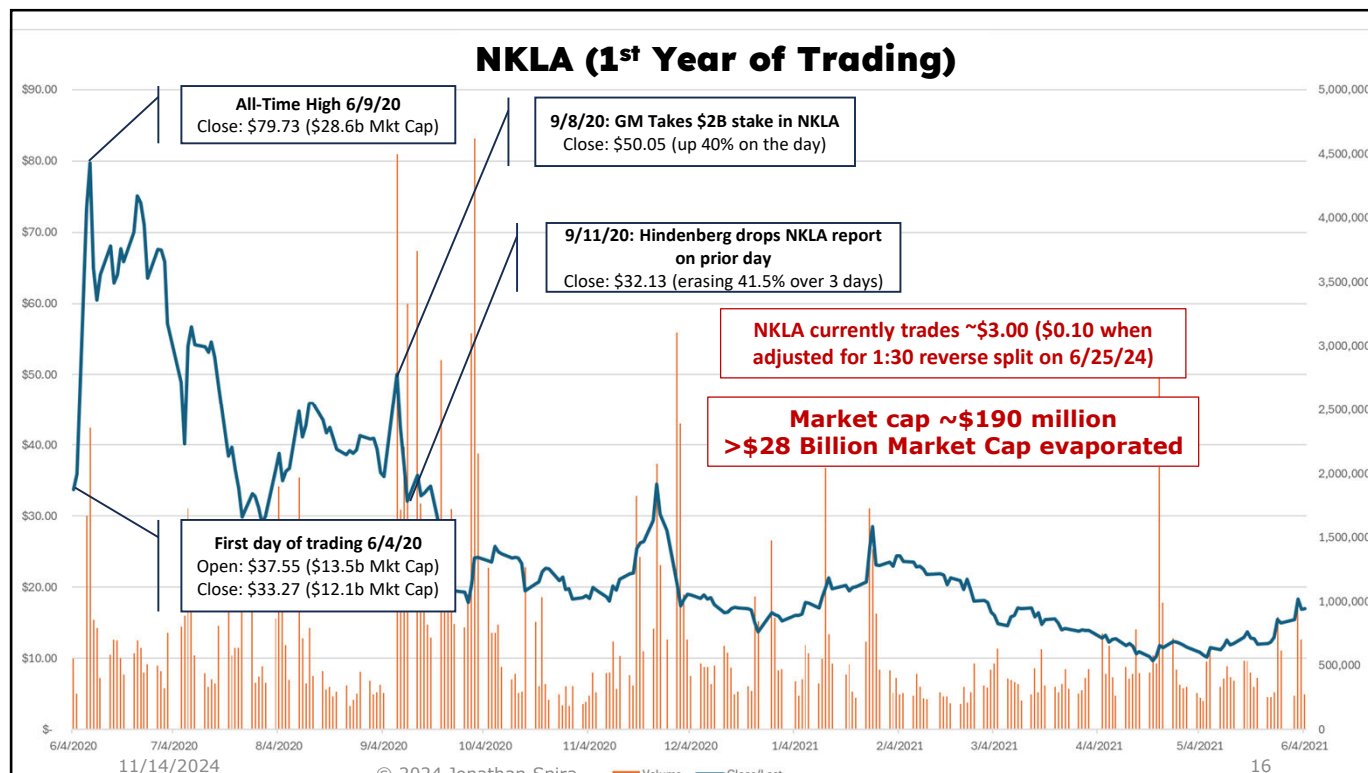


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Consequences of Unethical but Non-Fraudulent Acts

- **Reputational damage:** Loss of trust from investors, employees, and partners.
- Impact on **employee morale** and **corporate culture**.
- Potential financial consequences: stock price declines, decreased investor confidence.

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Pressures and Triggers Leading to CFO Fraud

Common triggers: Performance pressure, unmet earnings forecasts, and bonus structures.

Environmental or “systemic” factors: Economic downturns, industry volatility, and personal financial strains.

Psychological and organizational factors that lower resistance to fraud.

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Pressure from Superiors or Stakeholders

Superiors may subtly or overtly push CFOs to manipulate results.



Pressure from CEOs or boards to hit unrealistic goals, incentive structures that reward risky behavior



CFOs may experience intense pressure to commit fraud or unethical acts.



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Prevalence of Fraud and Unethical Conduct Among CFOs

- **Fraud Statistics:** Insight into how common CFO-led fraud cases are across industries.
- **Unethical conduct:** Prevalence and impact of unethical practices, using studies and data.
- Brief comparison of fraud frequency vs. unethical but legal acts.

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ACFE Fraud Study



Source: ACFE Report to the Nations | 2024 Global Fraud Study

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ACFE Fraud Study



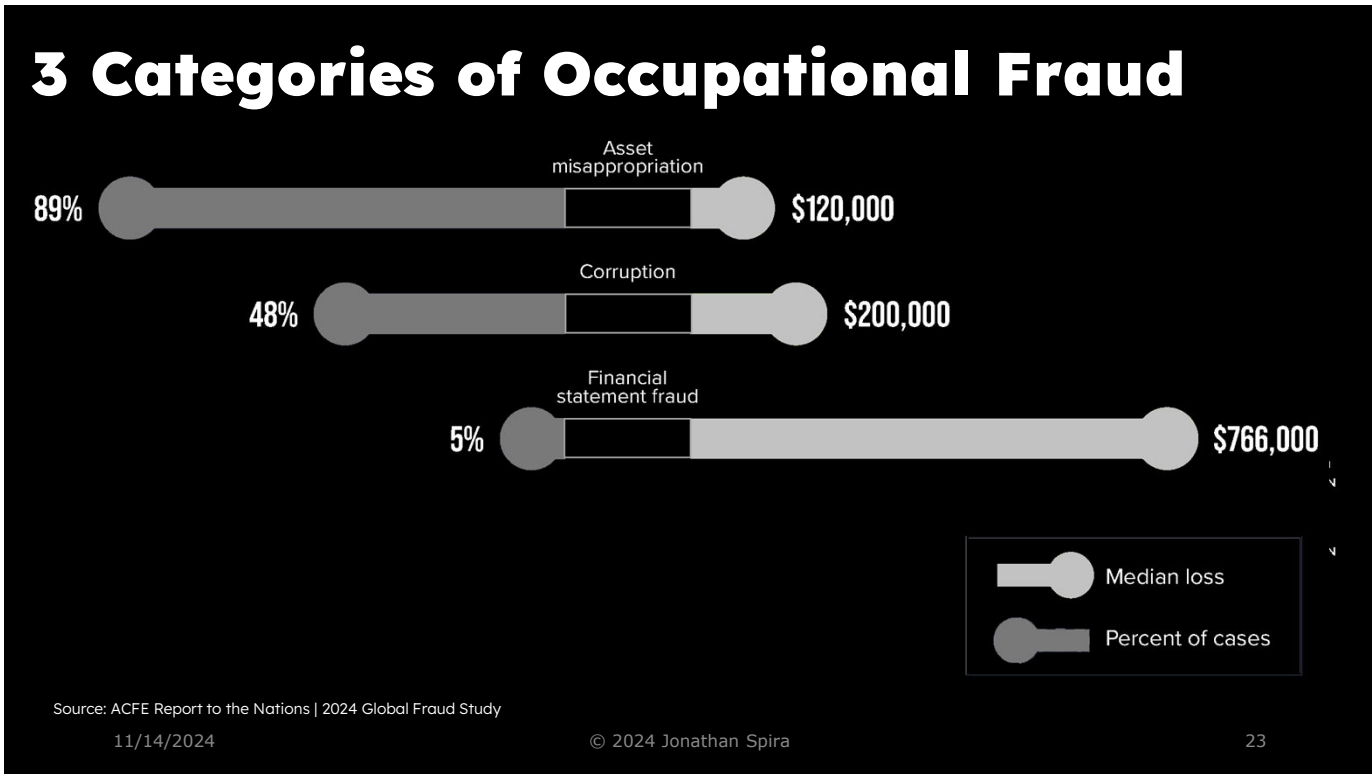
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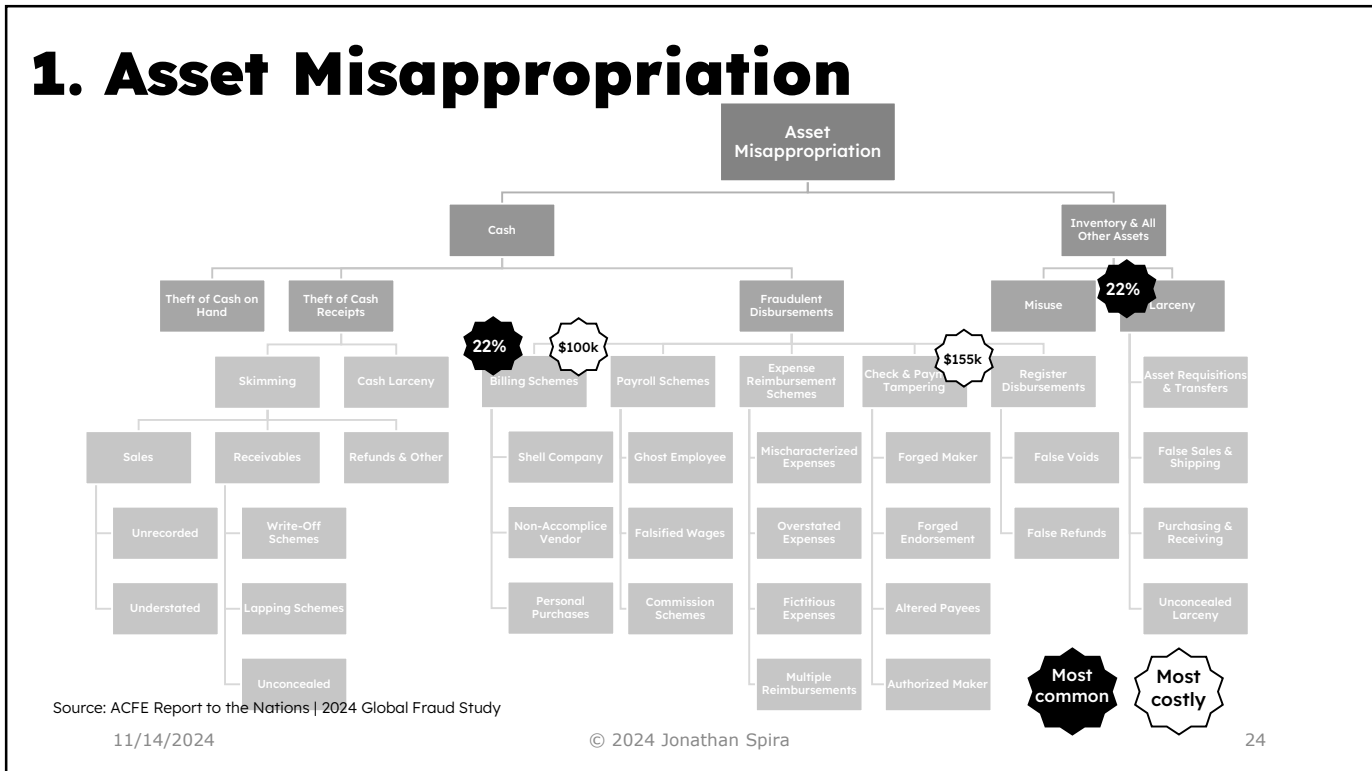
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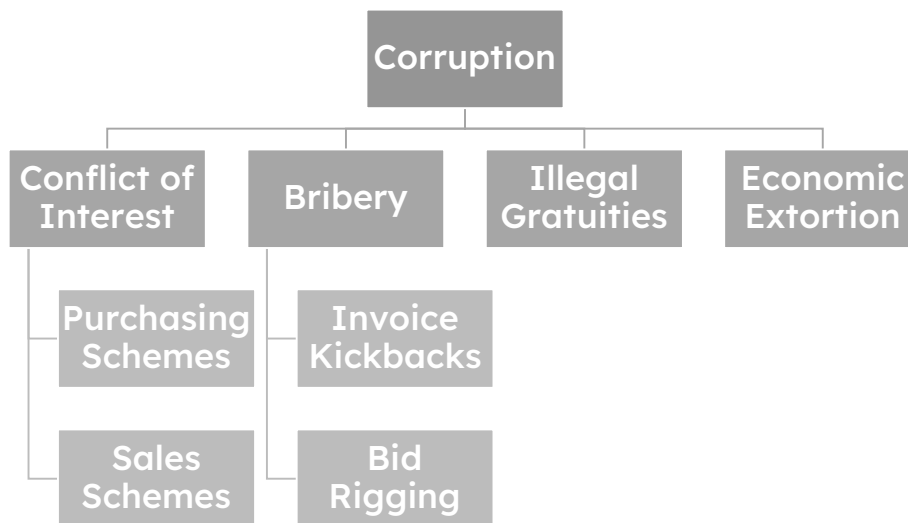


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2. Corruption



Source: ACFE Report to the Nations | 2024 Global Fraud Study

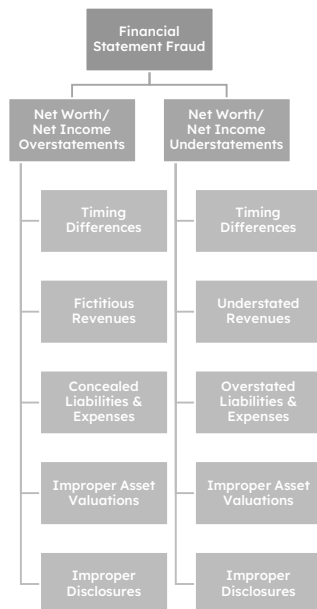
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3. Financial Statement Fraud



Source: ACFE Report to the Nations | 2024 Global Fraud Study

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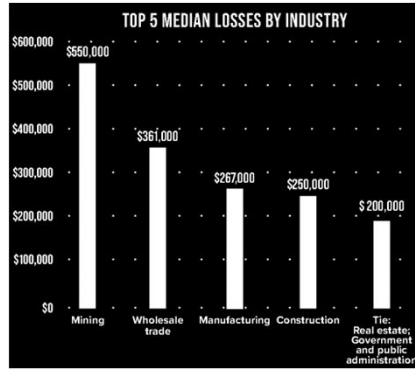
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Occupational Fraud

- MORE THAN HALF** of all cases came from these five departments:
- Operations **14%**
 - Accounting **12%**
 - Sales **12%**
 - Customer service **9%**
 - Executive/upper management **9%**



Median losses for frauds by owners/ executives were more than **7X GREATER** than those carried out by employees.

- Owner/executives: **\$459,000**
- Employees: **\$60,000**

Source: ACFE Report to the Nations | 2024 Global Fraud Study

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Key Fraud Factors

84% of all fraudsters displayed at least one **BEHAVIORAL RED FLAG**.

FRAUDSTERS WHO DISPLAYED AT LEAST ONE behavioral red flag caused median losses that were **20% GREATER** than those who did not display any.

Behavioral Red Flag	Median Loss
No behavioral red flags	\$125,000
At least one behavioral red flag	\$150,000



75% of fraudsters displayed at least one of the **8 MOST COMMON** behavioral clues; each of these **BEHAVIORAL RED FLAGS** was observed in **AT LEAST 10%** of cases.

Behavioral Red Flag	Percentage
Living beyond means	39%
Financial difficulties	27%
Unusually close association with vendor/ customer	20%
Control issues, unwillingness to share duties	13%
Irritability, suspiciousness, or defensiveness	12%
"Wheeler-dealer" attitude	12%
Bullying or intimidation	11%
Divorce/ family problems	10%

FRAUDSTERS LIVING BEYOND THEIR MEANS has consistently been the **MOST COMMON BEHAVIORAL RED FLAG** since we began tracking this data in 2008.

Source: ACFE Report to the Nations | 2024 Global Fraud Study

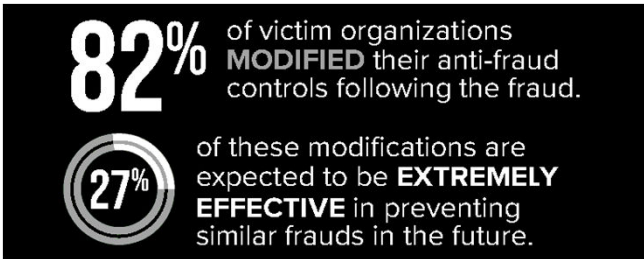
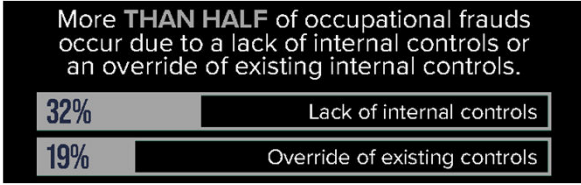
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Fraud Detection



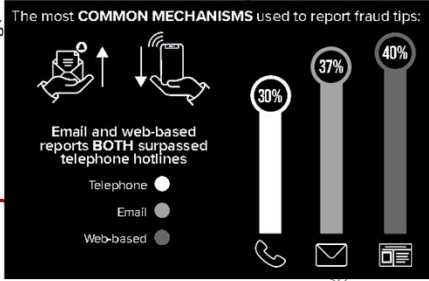
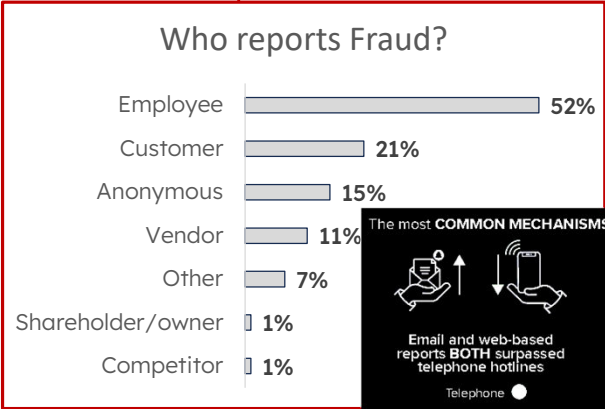
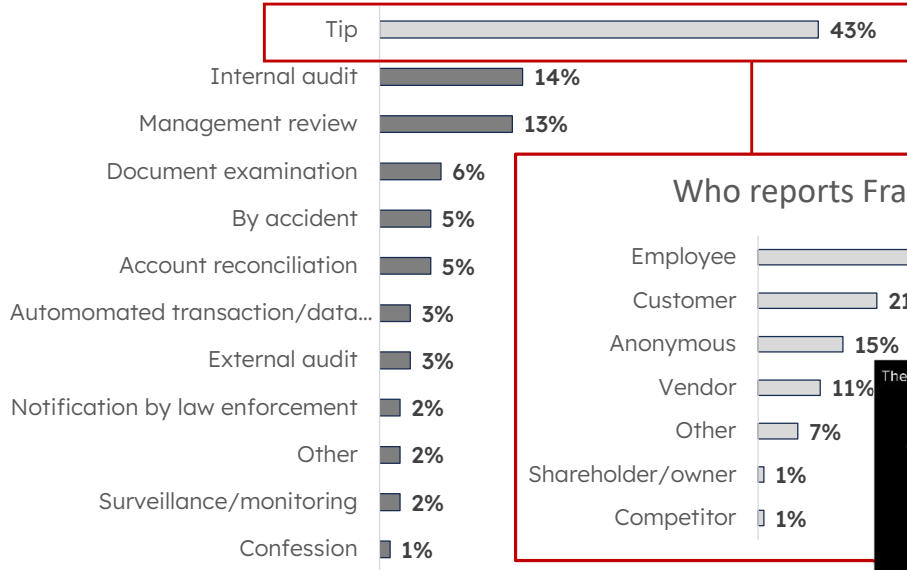
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Fraud Detection



Source: ACFE Report to the Nations | 2024 Global Fraud Study
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Preventative Measures and Ethical Guidelines for CFOs and Finance Professionals

- Establishing and following strong internal controls.
- Creating an organizational culture that values transparency and ethical leadership.
- Importance of whistleblower protections and audit committee oversight.

The presence of anti-fraud controls is associated with

 **LOWER** fraud losses **AND**  **QUICKER** fraud detection

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Risk Mitigation

- 1. Strong Governance Policies**
- 2. Independent Oversight**
- 3. Transparent Processes**
- 4. Audits**

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FEI Recommendations

Focused on 4 areas

**Strengthening
financial
management
and
commitment to
ethical conduct**

**Rebuilding
confidence in
financial
reporting, the
accounting
industry and
audit
effectiveness**

**Modernizing
financial
reporting, and
reforming the
accounting
standards-
setting process**

**Improving
corporate
governance
and the
effectiveness of
audit
committees**

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FEI Code of Ethics

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.
- Provide constituents with information that is accurate, complete, objective, relevant, timely and understandable.
- Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.
- Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be subordinated.
- Respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage.
- Share knowledge and maintain skills important and relevant to constituents' needs.
- Proactively promote ethical behavior as a responsible partner among peers, in the work environment and the community.
- Achieve responsible use of and control over all assets and resources employed or entrusted.

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Changing Norms in 2024

What we say we value  What we reward

Integrity?

**Still valued?
Still relevant?
The choice is ours.**

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Closing Thoughts

- Tone at the top
- Code of conduct
- Corporate governance
- Financial **and operational** controls
- Comprehensive background checks for all employees; credit checks for finance employees
- Implement whistleblower communication mechanisms
- Partner with HR, Legal & InfoSec
- Publish official definitions of non-gaap reporting metrics.

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Thank you.

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