



**BDO Corporate  
Governance Matters**

**WEBCAST SERIES**

# The Board's Oversight of Fraud

March 27, 2024



# With You Today



**AMY ROJIK**

Assurance National Managing Principal,  
Corporate Governance  
BDO USA

[arojik@bdo.com](mailto:arojik@bdo.com)



**HOLLY CARR**

Managing Director,  
Forensics  
BDO USA

[hcarr@bdo.com](mailto:hcarr@bdo.com)



**CAITLYN M. CAMPBELL**

Partner  
McDermott, Will & Emery

[cmcampbell@mwe.com](mailto:cmcampbell@mwe.com)

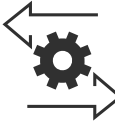
# Our Agenda Today



Welcome and Introductions



Board's Role in Fraud Prevention and Detection



Current Relevance of Fraud to the Board



Most Fraud Cases Never Make the Headlines



Resources

# Board's Role in Fraud Prevention and Detection

## Tone at the Top Matters

### Enterprise Risk Management

A key Board responsibility is oversight of the management of risk, including the risk of fraud; however, every company's risk of fraud may be different. It's important for the Board to analyze the company's business activities and understand where fraud might occur. Boards must demonstrate a clear top-level commitment to preventing and detecting fraud. **Risks change over time and new risks arise, even when activities remain the same, so Boards must stay actively involved in fraud prevention and detection.**



**Regulatory  
Requirements**



**Listing Requirements For  
Public Companies**



**Fiduciary  
Responsibility**

# Board's Role in Fraud Prevention and Detection

## Defining Fraud

### MISMANAGEMENT

- ▶ Mismanagement is when a person fails to follow the rules or guidelines when handling an action for another person or organization.
- ▶ Most mismanagement lawsuits involve some type of negligence or neglect on the side of the responsible party, usually misappropriation, misuse, or mishandling of finances.
- ▶ Mismanagement is common in board of director litigation.
- ▶ Examples include:
  - Combining funds with the individual's personal accounts/using the funds for personal use
  - Trustees' breaches of fiduciary duty

### ERROR

- ▶ An error is an unintentional mistake.
- ▶ Material errors should be communicated to management.
- ▶ Errors can be detected more easily than mismanagement or fraud.
- ▶ Examples include:
  - Clerical errors
  - Errors of principle (i.e., not complying with GAAP)
  - Compensating errors
  - Duplication of transactions

### FRAUD

- ▶ Frauds are committed intentionally.
- ▶ The objective of committing fraud is to derive some personal gain or unfair advantage.
- ▶ Fraud may be conducted by employees or third parties.
- ▶ The possibility of detection of fraud is comparatively less than mismanagement and error because there are usually conscious attempts to conceal fraud.
- ▶ Examples include:
  - Imposter scams
  - Falsification of accounts

# What Increases Fraud Risk?

## FRAUD RISK FACTORS

Company Distress

Poor Tone

Change in Business Model

Material Acquisition(s)

Foreign Based Subsidiaries Fraud Risk Factors

Incentive Compensation

Dramatic/Crisis Conditions (i.e., Economic Or Environmental Changes)

## FRAUD RISK FACTORS

Pressure to Deliver Financial Results

Expense Reductions

Layoffs

Telework/Lack of In-person Interaction

Management Paying More Attention to Other Matters

Lack of Efficient Internal Controls and Compliance Systems

# Current Relevance of Fraud to the Board

## Case Studies

### U.S. Federal Government

U.S. Securities And Exchange Commission (SEC)  
Department of Justice (DOJ)

- ▶ **Issue:** FTX, a trading platform for crypto investors, was accused by the SEC and DOJ of defrauding its investors by transferring money from FTX into another venture between 2019 and 2022. Sam Bankman-Fried, FTX's majority owner, allegedly used the cash to purchase homes in the Bahamas, invest in other companies, and fund favored political causes.

*When crypto assets took a significant plunge in 2022, FTX and Bankman-Fried's affiliated hedge fund, Alameda Research, quickly collapsed after some of their financial liabilities were exposed.*

- ▶ **Result:** Bankman-Fried was charged with seven counts of wire fraud, securities fraud, and money laundering and could face up to 110 years in prison.

### U.S. Federal Government

Department of Justice (DOJ)

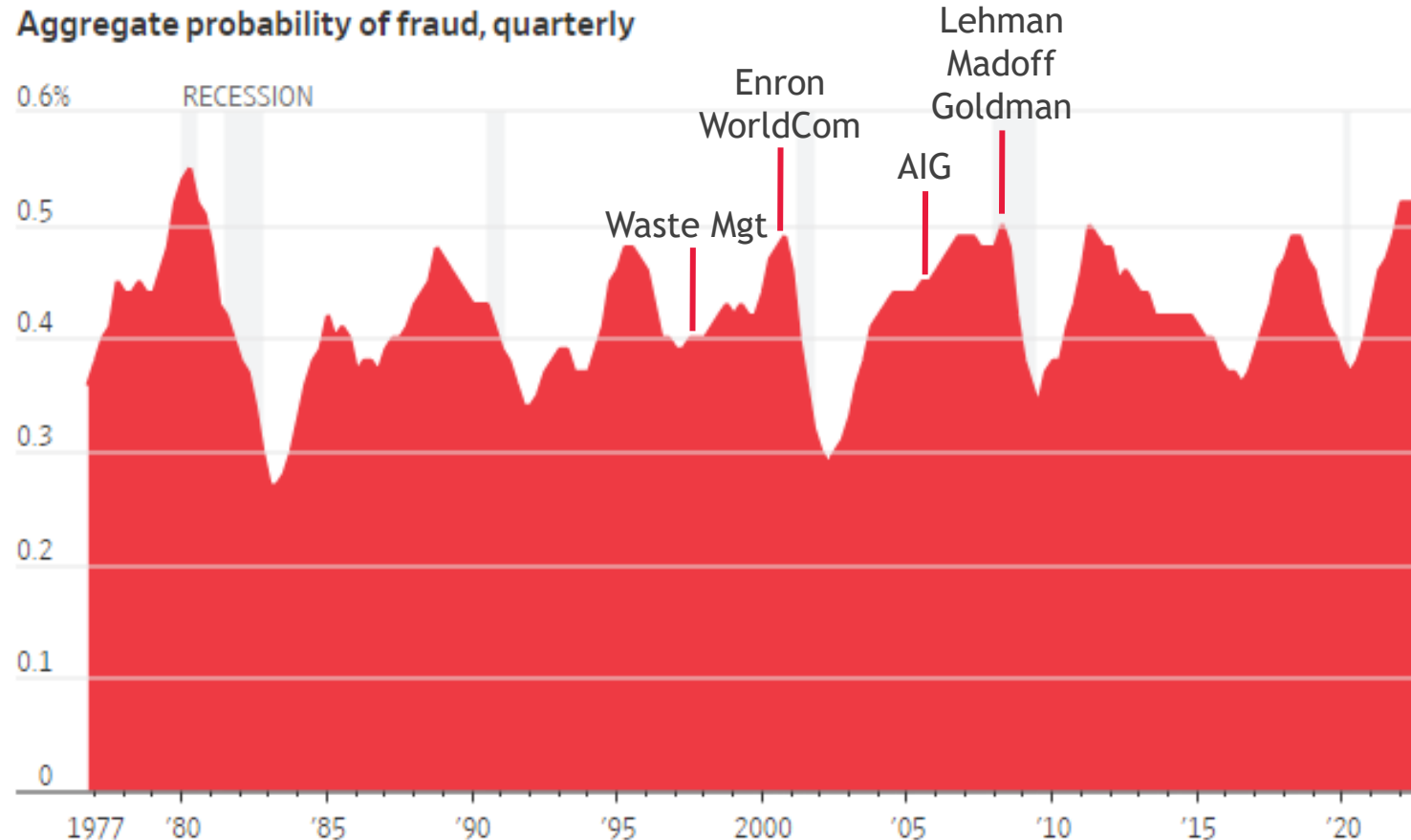
- ▶ **Issue:** In 2023, Pareteum Corporation's CEO and CFO were charged with an accounting scheme that not only overstated revenue but also included intentional efforts to repeatedly mislead the company's auditors, shareholders and the general public regarding the company's financial health. Revenue was recognized on non-binding contracts and in many instances when the company was incapable of delivering the services in question. The company previously settled with the SEC in 2021 over different revenue issues.
- ▶ **Result:** Follow-on litigation from SEC and securities class action. Pareteum filed for Chapter 11 in 2022. Case is active and executives face up to 20 years in prison.

### U.S. Federal Government

U.S. Securities And Exchange Commission (SEC)

- ▶ **Issue:** In 2022, the SEC charged HeadSpin, Inc. a technology start-up, with engaging in a scheme to increase the company's valuation by \$1B through inflating metrics and doctoring internal sales records. Allegedly, the scheme involved the CEO and the false information led to investors to increase their positions by \$80M from 2018 to 2020. The fraud was detected through an internal investigation conducted at the direction of the Board of Directors and resulted in swift action by the company. The company fired the CEO, repaid investors, expanded the board of directors, and established new procedures around revenue.
- ▶ **Result:** HeadSpin settled with the SEC without any financial penalties. The SEC charged the former CEO under a separate action.

# Most Fraud Cases Never Reach Headlines...Until They Do



Source: Messod D. Beneish, Indiana University

The **M-Score** is a screening model that detects **fraud in corporate earnings reports**. It has recently reached a **40 Year High**.

**One third** of frauds detected at public companies.

**\$830 Billion**  
Estimated Annual  
Corporate Fraud and  
up to **5% of Revenue**

**\$1,783,000** and **12-Months**  
Average Fraud  
Loss and Duration



# Where Do You Begin?

Review your company's organizational structure to identify important functions and resources to support fraud risk management.

## GOVERNANCE - INTERNAL GATEKEEPERS

### External Gatekeepers

Independent Auditors  
External Council  
Shareholders  
Board of Directors



### Financial

Chief Financial Officer (CFO)  
Chief Administrative Office (CAO)  
Tax Department



### Operational

Sales  
Supply Chain  
Health & Safety



### Technology

Chief Information Security Officer (CISO)



### Governance

Compliance  
Legal  
ERM  
Internal Audit



# Board's Role in Fraud Prevention and Detection

## Best Practices

### ORGANIZATIONAL STRUCTURE

- ▶ Formalize roles and responsibilities for fraud risk management. Leverage an inter-departmental team with fraud risk management experience and advisors with relevant topical expertise.
- ▶ Identify Board committees, beyond just the Audit Committee, to focus on oversight of risk management.
- ▶ Appoint a fraud risk management champion(s).
- ▶ Review internal audit functions from a fraud perspective, and whether they are appropriately staffed and knowledgeable for company's size and complexity.
- ▶ Implement an ethics and compliance program and code of conduct. Periodically test them with simulations.

### MONITORING & GOVERNANCE

- ▶ Regularly perform a fraud risk assessment with qualitative and quantitative measures.
- ▶ Monitor for changes in organizational risk and compliance obligations and leverage Enterprise Risk Management (ERM) efforts.
- ▶ Institute fraud mitigation procedures and implement systems for ongoing fraud monitoring of potential "red flags" of KPIs leveraging data and technology.
- ▶ Regularly review documents that outline the protocols for handling fraud, and procedures to be followed upon the detection of fraud.
- ▶ Have established communication protocols for elevating potential fraudulent matters to Board level.
- ▶ Assess and benchmark the company's whistleblower system.

# Board's Role in Fraud Prevention and Detection

## Best Practices

### TRAINING & AWARENESS

- ▶ Empower employees to build a culture of trust/zero tolerance and an ethical business environment.
- ▶ Align the rewards system with the core values of the organization.
- ▶ Educate senior management on the risk of fraud and the effectiveness of measures currently adopted by organizations. Set clear expectations of management for handling potential fraud issues.
- ▶ Offer employees applicable training. Target risk areas such those working from home, higher risk areas for FCPA and anticorruption, and regular ethics training.
- ▶ Pulse Check with periodic employee fraud awareness surveys.

### INVESTIGATIONS

- ▶ Timely investigate allegations of fraud and determine the root cause. Identify ways to prevent in the future and assess how effective the communication protocols were.
- ▶ Have a plan to coordinate with law enforcement, regulators and possibly insurance carriers.
- ▶ Deploy protocols and resources to manage fraud investigations (i.e., identify in advance legal and forensic investigative resources needed to conduct investigation into serious allegations)
- ▶ Conduct due diligence when needed.

# Fraud Oversight Best Practices

Key Take Aways



# Resources

# The BDO Center for Corporate Governance

[The BDO Center for Corporate Governance](#) recognizes board members need easy access to comprehensive information and insights they can rely on. Corporate governance and related risks and opportunities is an evolving landscape encompassing a variety of issues and requires subject matter professionals who engage regularly with stakeholders - including regulators, management, board members and thought leaders - and share information directly with client management teams, the board and its committees. Whether you are new to board service, assuming a new role or a seasoned director who wants to remain up to date, we have you covered.

## Our governance team delivers

- ▶ Thought leadership, practice aids, tools, and newsletters
- ▶ Technical updates and insights on emerging business issues
- ▶ [BDO in the Boardroom](#) podcast series for board of directors and those charged with governance
- ▶ A three-pronged evolving curriculum consisting of upcoming webinars & archived self-studies
- ▶ Opportunities to engage directly with BDO thought leaders
- ▶ External governance community resources



To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit [BDO.com/create-account](https://www.bdo.com/create-account) and create a profile.

If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences [BDO.com/login](https://www.bdo.com/login).

# The BDO Center for Accounting and SEC Matters

[BDO's Center for Accounting and SEC Matters](#) recognizes that financial reporting and accounting are complex, and you need the right guidance and timely information to avoid making costly mistakes. We provide resources that cover topics of broad interest to CFOs, financial management and the financial reporting community. Our collection of practice aids, guides, alerts, webinars and more will help you gain a deeper understanding of the finer points of financial reporting, while also keeping you informed on relevant updates from key regulators including AICPA, FASB, PCAOB and the SEC.

## Our team delivers

- ▶ Practice Aids
- ▶ Guides and Insights
- ▶ Alerts, Bulletins & Flash Reports
- ▶ Webinars & Podcasts



To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit [BDO.com/create-account](https://www.bdo.com/create-account) and create a profile.

If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences [BDO.com/login](https://www.bdo.com/login).

# BDO Accounting and SEC PUBLICATIONS

TITLE	DATE
<a href="#">BDO Bulletin: SEC Finalizes Climate Rules</a>	Mar 2024
<a href="#">SEC Settlement Date Change Affects Equity Compensation Plan Administration</a>	Mar 2024
<a href="#">SEC Adopts Rules on SPACS, Shell Companies, and Projections</a>	Feb 2024
<a href="#">Pay versus Performance Disclosures: A Snapshot</a>	Jan 2024
<a href="#">SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures</a>	Jan 2024
<a href="#">SEC Staff Releases New Interpretive Guidance on Cybersecurity Incident Disclosure</a>	Dec 2023
<a href="#">FASB Issues Final ASU to Improve Income Tax Disclosures</a>	Dec 2023
<a href="#">FASB Issues New Accounting Standard for Certain Crypto Assets</a>	Dec 2023
<a href="#">2023 AICPA SEC &amp; PCAOB Conference Highlights</a>	Dec 2023
<a href="#">New Accounting Standards Upcoming Effective Dates for Public and Private Companies</a>	Dec 2023
<a href="#">BDO Bulletin: SEC Postpones Effective Date Of Share Repurchase Disclosure Rules</a>	Dec 2023
<a href="#">FASB Updates Segment Reporting Disclosures</a>	Dec 2023
<a href="#">2023 SEC Reporting Insights</a>	Nov 2023

[VIEW A COMPLETE LISTING OF BDO PUBLICATIONS](#)



# Sustainability and ESG Center of Excellence

BETTER PLANET. BETTER SOCIETY. BETTER BUSINESS

Today, every business has a responsibility - and an opportunity - to address the significant environmental, social and governance (ESG) challenges we face as an interconnected, global society. Not only is it the right thing to do, it is the only thing to do to contribute to a better planet, a better society and a better - and more sustainable - business. At BDO, ESG is a top firm priority and a key component of our strategic vision for the future. We invite you to learn more about BDO's approach to ESG and visit our [BDO Sustainability and ESG Center of Excellence](#).

## With you at every stage of your journey

- ▶ ESG Strategy & Program Development
- ▶ ESG Reporting & Attestation
- ▶ Tax Transparency & ESG Tax Strategy
- ▶ Human Capital Management Strategy
- ▶ Supply Chain Sustainability & Resilience
- ▶ Climate Risk
- ▶ Sustainable Finance & Investing
- ▶ Community Resilience
- ▶ ESG Value Creation & Innovation



Visit our [BDO CoE](#) for evolving ESG-related insights and learning opportunities

- ▶ Publications
- ▶ Alerts
- ▶ Practice Aids
- ▶ Podcasts
- ▶ Webinars

# BDO Corporate Governance & Other Webinar Series

BDO commits significant resources to keep our professionals and our clients up to date on current and evolving technical, governance, industry, and reporting developments.

Our clients' time is valuable, as management must meet all compliance requirements while maintaining lean and efficient teams. This is why our culture guides us to view ourselves as trusted advisors, not merely accountants serving compliance needs. By leveraging the shared knowledge of our top professionals across the country and globe, we develop succinct thought leadership and training programs to help clients stay abreast of emerging trends and requirements. Below are examples of our resource centers, knowledge programming and technical researching tools used by BDO to keep our clients and our professionals current:

- ▶ **BDO Knowledge Webinars, Archives and Self-Study Courses** - BDO continues to develop a broad variety of topical programming via CPE-worthy webinars and self-study courses and non-CPE archives so that participants can build a customized education curriculum to meet their needs. Refer to our [Events & Webcasts](#) page.
- ▶ **Technical Research Tools** - BDO uses Thomson Reuters Checkpoint Edge ("Checkpoint") as a primary source of insightful interpretations on GAAP, GAAS and Securities and Exchange Commission rules. Checkpoint is continually updated and is considered one of the timeliest and most comprehensive online databases of analytical interpretations of accounting, auditing and SEC matters. Access to Checkpoint, and a number of other research tools, provide each professional the technical research capability to enable immediate response to client-specific technical issues.

View the full [BDO Corporate Governance Matters Webinar Series](#)



2024 Quarterly  
Technical Update  
WEBCAST SERIES

VIEW THE FULL  
QUARTERLY TECHNICAL  
UPDATE WEBINAR SERIES



IFRS Quarterly Update  
Webinar Series

VIEW THE FULL  
IFRS QUARTERLY WEBINAR SERIES

INTERNAL AUDIT  
WEBINAR SERIES

VIEW THE FULL  
INTERNAL AUDIT WEBINAR SERIES

# BDO in the Boardroom Podcasts

SUBSCRIBE TO BDO'S PODCAST SERIES ON [ITUNES](#) OR [SPOTIFY](#)

- ▶ [Are You Prepared for New Sustainability Laws in California?](#)
- ▶ [Governing the Embrace of AI Benefits and Risks within Your Business](#)
- ▶ [How Technology Enablement Can Magnify A Positive Impact on Audit Quality](#)
- ▶ [How to Prompt Management to Get the Most Out of Data Analytics](#)
- ▶ [Automation: How to Unlock Corporate Value](#)
- ▶ [AI's Impact on the Evaluation of Audit Risk](#)
- ▶ [Applying Data Analytics - Benefits and Challenges for the Annual Audit](#)
- ▶ [Automating the Annual Audit](#)
- ▶ [Ensuring Corporate Success in Sustainability at the Cross Section of Innovation and Technology](#)
- ▶ [What is Data Governance and Why is it Critical for your Organization?](#)
- ▶ [Succession Planning from the Activist Perspective](#)
- ▶ [How Will the Chips for America Act Impact the U.S. Economy?](#)
- ▶ [ESG Considerations for Supply Chain Management](#)

**MORE CONTENT AVAILABLE AND NEW EPISODES ADDED REGULARLY!**



Want to stay up to date with the BDO in the Boardroom podcast? Sign up to receive our Corporate Governance Insights and you'll receive an email as new episodes are released.

 **SUBSCRIBE**

# BDO Archived/ Upcoming Webinars

UPCOMING	DATE
<a href="#">The Board's Oversight of Fraud</a>	March 27, 2024
<a href="#">The Board's Oversight of Artificial Intelligence</a>	May 22, 2024
ARCHIVED	DATE
<a href="#">2024 Shareholder Meeting Agenda: Setting Expectations for Shareholder Meetings</a>	February 21, 2024
<a href="#">Quarterly Technical Update - Q4 2023</a>	January 10, 11, 12, 2024
<a href="#">Q4 2023 IFRS Quarterly Update</a>	January 17, 18, 2024
<a href="#">2023 Board Compensation Trends and Year-End Planning Considerations</a>	November 8, 2023
<a href="#">The Intersection of Tax &amp; ESG Webcast Series: Sustainable Value Creation for Multinational Companies</a>	October 10, 2023
<a href="#">Quarterly Technical Update - Q3 2023</a>	October 11, 12, 13, 2023
<a href="#">Audit Committee Best Practices for the Oversight of the Internal Audit</a>	October 18, 2023
<a href="#">Q3 2023 IFRS Quarterly Update</a>	October 18, 19, 2023
<a href="#">The Boards Role in Post Close Integration Activities</a>	September 20, 2023
<a href="#">Q2 2023 IFRS Quarterly Update</a>	July 19, 2023
<a href="#">The Boards Role in Enterprise Risk Management (ERM) Oversight</a>	June 21, 2023
<a href="#">Audit Committee Best Practices for the Oversight of the Internal Audit</a>	May 10, 2023
<a href="#">VIEW A COMPLETE LISTING OF BDO WEBINARS AND ARCHIVED WEBINARS</a>	

# BDO Board Governance PUBLICATIONS

TITLE	DATE
<a href="#">BDO Bulletin: SEC Finalizes Climate Rules</a>	Mar 2024
<a href="#">2024 Shareholder Meeting Agenda</a>	Feb 2024
<a href="#">Audit Committee Priorities for 2024</a>	Feb 2024
<a href="#">What Directors Think 2024 Survey</a>	Jan 2024
<a href="#">Compensation Committee Priorities for 2024: Navigating the Latest Compensation Trends</a>	Jan 2024
<a href="#">2023 Conference Recap: Five Themes from the Top Board Governance Events</a>	Dec 2023
<a href="#">Nominating &amp; Governance Committee Priorities for 2024: Excelling in Board Leadership</a>	Dec 2023
<a href="#">2023 Audit Committee Transparency Barometer</a>	Dec 2023
<a href="#">Audit Quality Reminders Through the Lens of the Audit Committee</a>	Oct 2023
<a href="#">Considerations for the Board's Role in Post Merger Integration</a>	Sept 2023
<a href="#">Board Requisite for Data Quality and Oversight</a>	July 2023
<a href="#">BEPS 2.0: Addressing Organizational Impact of Global Tax Reform</a>	June 2023
<a href="#">Internal Audit Functions Bring Indispensable Value to Audit Committees. Does Yours?</a>	May 2023
<a href="#">Spring 2023 BDO Board Pulse Survey</a>	May 2023
<a href="#">Questions Every Board Should Ask About Risk Management</a>	May 2023

[VIEW A COMPLETE LISTING OF BDO PUBLICATIONS](#)



## About BDO USA

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C, a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

[www.bdo.com](http://www.bdo.com)

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2024 BDO USA, P.C. All rights reserved.

