BDO's Global Forensics practice helps multinational organizations identify and mitigate risks associated with fraud and corruption, providing investigation, due diligence, anti-corruption compliance and fraud prevention services.
A second part of what we do is handling more structured data, which is reviewing accounting records looking for data irregularities, looking for outliers and anomalies, identifying strange trends. This can be as simple as looking for invoices that all end in 00. That could be a sign of fraud or laziness, or we’re looking for typos and misspellings on invoices. You’d be amazed how often someone committing fraud or embezzlement, or creating false invoices, misspells words on invoices. There’s a whole bunch of analytics to identify those patterns."

Increasingly fraud examiners and forensic accountants are using technologies such as artificial intelligence and machine learning to help them uncover wrongdoing.

"In large volumes of data, computers are really good at picking out irregularities," said Strayer. "We are really good at distinguishing the lion tail above the grass on the savanna, but we’re less good at seeing patterns. Computers are extremely good at seeing patterns and finding patterns. When we’re dealing with these huge volumes and you’re looking for ongoing fraud and ongoing inconsistencies and irregularities, the current technology is really great at identifying those trends. There are a number of tools that utilize artificial intelligence where the system is looking at the data points and identifying additional data points. It’s seeking out additional information to help it understand exactly what’s going on, and identifying any red flags it comes up with. We’ve also been very focused on developing a strong data visualization program. That’s a useful way for people to understand and comprehend large volumes of data quickly."

BDO has been using this type of technology for international cross-border investigations.

"These new tools are able to handle multiple languages," said Strayer. "You can quickly de-duplicate redundant or repetitive data to help with, say, large email analyses."

Conclusions
It can be easy to get lost in the details of the 119 questions in the DOJ’s corporate compliance guidance document; nevertheless, the guidance stresses some key factors for compliance professionals, boards and other stakeholders to focus on. Companies can develop solid compliance programs by integrating compliance into other relevant organizational activities and developing thoughtful compliance-related communications systems in advance.

ACCOUNTING TODAY
AUDITORS FOCUSING MORE ON FRAUD DETECTION
By Michael Cohn

Auditors are increasingly taking responsibility for fraud detection and cybersecurity at companies, whether they like it or not…

Adam Strayer, a BDO director who also leads technology-assisted review for BDO’s Forensic Technology Services practice, is closely involved in forensic examinations.

“We’re looking at crimes, reviewing or looking for conflicts of interest or double-dealing in foreign subsidiaries—whether or not a manager is an independent operator or whether he or she has an interest in something else, or in an affiliated business.”

His group also assists in audit evaluations of asset managers for purposes of SEC filings.

“We’re looking to see whether or not the process that was implemented for asset valuation was followed correctly, providing details on who, what, when, where and how of the valuation process,” said Strayer. "This is all going to unstructured data to help with, say, large email analyses.

TODAY’S GENERAL COUNSEL
THE NEW ISO ANTI-BRIBERY STANDARD
By Nina Gross and Leslie Benton

Despite stronger international collaboration around anti-corruption enforcement, bribery costs around the world continue to soar, with International Monetary Fund (IMF) estimates totaling between $1.5 and $2 trillion in economic and social costs per year…

Guidance that has been adopted to help companies comply with the FCPA, U.K. Bribery Act and other laws adopted pursuant to the OECD Anti-Bribery Convention helps mitigate the risk for bribery. However, gaps still exist, particularly in middle and emerging markets, and they cost businesses millions and sometimes billions of dollars in compliance costs, reputational damage and loss of clients…

The compliance risk is often greater for smaller organizations, as they are less able to command the resources needed to effectively mitigate the risk of corruption and bribery. These companies are now able to take advantage of ISO 37001, the recently published anti-bribery management systems standard from ISO, the International Organization for Standardization. ISO 37001 equips small and middle-market companies with a flexible, risk-based framework so they can fill in some of the gaps and better mitigate the risk of bribery without breaking the bank…

The risk-based standard of ISO 37001, published in October 2016, includes the following:

- Adopt and implement an anti-bribery policy and program, communicating the requirements to all relevant personnel and business partners, including subcontractors, consultants and suppliers.
The implementation of ISO 37001 effectively, and replicated to mitigate the risk of bribery. At best, if the organization has taken tangible steps in their management, employees and investors. It is also a vehicle to provide assurance to potential partners and clients, but only a selling point for organizations or self-attestation may prove to be not acceptable to emerge. At the very least, it will take time—likely a few years—for a clear picture of its market to become evident. Compared to 20 years ago, “I think things are definitely changing even in nations where they had little say before,” says Solon Angel.

The emerging Asia has yet to take such great strides. But change will surely come.

**THE STREET**

** HOW INVESTORS CAN AVOID THE CORRUPTION MINEFIELD IN ASIA**

By Alex Few McMillan

In the past, paying bribes in mainland China and many other Asian nations was a cost of doing business. Corruption is so endemic in China, that President Xi Jinping has made it a mainstay of his “reign” to combat problem members of the government...

Elsewhere, South Korea’s last president, Park Geun-hye, is charged in an influence-peddling scheme... Barely a Taiwanese president goes without being locked up after office...

It’s a seismic shift. The free flow of information means scandals are soon uncovered and broadcast. And people are more willing to stand up for their rights, even in nations where they had little say over who governs the country.

“I think things are definitely changing compared to 20 years ago,” Pei-li Wong, managing director and the leader of the Asia forensic desk at BDO, says.

This presents a serious challenge for companies, and particularly their investors. Shareholders are probably the last to know there’s something wrong at their investment, given the confidential nature of inter- or intra-company investigations.

“One of the best practices is to know what you’re buying,” Wong says. “A company that places the importance of meeting earnings expectations over compliance or over ethics is probably not a company that you want to invest in.”

Wong’s team helps companies with risk assessments and due diligence when they go into deals or new nations, as well as compliance reviews. But her team also investigates whistleblower complaints and suspect transactions. “It’s not enough to put in a policy and say ‘All our employees need to follow it’. You need to assess whether it’s working,” she says...

Most companies now have some code of conduct, ideally publicly displayed on their Web site. Their mission statement should outline their views on local laws and policies. The best among them will even outline the policies they put in place for the vendors that supply them...

Wong also recommends referring to Transparency International’s rankings... For Asia, it notes, the majority of countries unfortunately sit near the bottom...

The situation is, however, changing rapidly in developed Asia. Japan has introduced a Corporate Governance Code for companies and a Stewardship Code for investors...

The Stewardship Code will be revamped with greater disclosure guidelines this November, potentially requiring major investors to disclose how they voted on shareholder issues, something reported only in aggregate now. The Companies Act will also be revised, including a potential change to require the appointment of an independent director...

Emerging Asia has yet to take such great strides. But change will surely come.

**THE GLOBE AND MAIL**

**COULD A ROBOT CATCH THE NEXT MADOFF? OTTAWA STARTUP BETS AI CAN ROOT OUT FRAUD**

By Sean Silcoff

Eli Fathi was travelling in September, 2015, when the veteran tech executive... got a call from a stressed-out entrepreneur named Solon Angel.

Mr. Angel had set out to build artificial intelligence (AI) software to help auditors detect fraud and other accounting anomalies. Incidents of fraud had surged...
in the past decade, but while many were exposed by whistle-blowers, external auditors uncovered just 4 per cent of known offences and software tools caught even less, according to the Association of Certified Fraud Examiners...

The problem: Mr. Angel’s product was little more than a concept, backed by rudimentary technology he described as “garbage…”

He needed help – fast...

Now, 18 months later, MindBridge Analytics Inc. under the 65-year-old Mr. Fathi’s watch has transformed into what could be Ottawa’s first serious contender in the red-hot AI sector...

MindBridge has raised $4.3-million from investors… Mr. Fathi has an aggressive set of goals that sees MindBridge in use by 1,000 organizations in 2019, ready to go public by 2020 and generating $100-million in revenue in four years...

The company… is winning praise from its 20 audit customers and partners in Canada, the United States and the U.K. (up from seven in April), including BDO...

Kirstie Tiernan, a director with BDO in Chicago, said: “Some of what we’ve been able to do with MindBridge wouldn’t have been possible [with prior software] – period,” including a recent review of millions of journal entries for clients in a three-day period, during which it uncovered two instances of fraud. She said BDO plans to use MindBridge for forensic audit investigations.

The software isn’t meant to replace auditors, but rather help them up their game while saving time. Auditors typically apply standard rules – for example, flagging unusually sized transactions – to a sampling of entries from a firm’s books. Reviewing everything would take too long using traditional methods. MindBridge applies the same standard rules automatically, but the software reviews all entries in a fraction of the time auditors would take...

After reviewing the data, the software produces a neat, user-friendly table summarizing how many entries it flagged as suspicious. It is then up to auditors to review those entries and decide what to do next...

BDO’s Ms. Tiernan said auditors will come around once they see AI auditing in action: “They’ll say, ‘How can we possibly go back to doing it the way we’ve done it before?’”