

Burgan Bank

Fraud Risk Management



Introduction

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Policy Statement

Burgan Bank is committed to protecting its tangible and intangible assets through an effective Fraud Risk Management Program that integrates into its corporate governance framework. The Board of Directors (BOD) and senior management ensure the implementation of controls to prevent, detect, and respond to fraud, consistent with best practices as outlined by the COSO and ACFE Fraud Risk Management Guide.

Purpose / Scope

This policy provides a structured approach for Fraud Risk Management, aiming to protect the Bank's assets and reputation. It applies to all employees, management, and stakeholders across the three lines of defense model, focusing on fraud prevention, detection, deterrence, and response.

Application

1. FRAUD RISK MANAGEMENT PRINCIPLES

The following principles form the foundation of Burgan Bank's Fraud Risk Management Program:

1. Fraud Risk Governance

The BOD and senior management promote a culture of integrity and ethical conduct, ensuring fraud risk management is embedded in corporate governance.

2. Comprehensive Fraud Risk Assessment

The Bank conducts regular assessments to identify fraud risks across operations, including emerging risks from digitalization and cyber threats.

3. Preventive and Detective Controls

The Bank deploys a combination of preventive (internal controls, segregation of duties) and detective (fraud monitoring, whistleblowing mechanisms) controls to mitigate fraud risks.

4. Timely Reporting and Response

A structured process for reporting and investigating suspected fraud ensures prompt action. This includes a whistleblowing policy that protects employees who report fraud.

5. Ongoing Monitoring and Improvement

Continuous monitoring of fraud risk management systems and periodic reviews ensure the effectiveness of fraud prevention efforts.

2. FRAUD DEFINITION

2.1. REGULATORY (KUWAIT)

As per the Kuwait Law No. 16 of 1960 promulgating the Penal Code Article 231, fraud is defined as “Every deceit of which the perpetrator intends to coerce someone to commit or to keep on committing a mistake, to push him to hand over money in his possession, entailing the handing over of the money to the perpetrator or to others, shall be considered as fraud, whether the deceit was verbal, in writing or through signs.” Furthermore, Article 231 defined deceit by stating “The use of fraudulent ways to convince people of the presence of a non-existing fact, to hide an existing fact, to convince people of the presence of a false project, change the reality of this project or hide it, create hope of obtaining an imaginary profit, find a debt instrument that is incorrect or hide an existing debt instrument, dispose of money without having the right to do so, take a false name or take an incorrect capacity, shall be considered as deceit”.

2.2. INDUSTRY DEFINITION

According to the ACFE’s definition, fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and / or the perpetrator achieving a gain.

3. ROLES AND RESPONSIBILITIES

- **Board of Directors (BOD):**
Oversees the overall fraud risk management strategy and ensures the program aligns with corporate governance.
- **Executive Management:**
Responsible for setting the tone at the top, ensuring ethical behavior, and fostering a culture of fraud prevention.
- **Management:**
Responsible for setting fraud prevention and detection controls to protect the customers and the bank.
- **Fraud Risk Governance Unit:**
Monitors, implements, and evaluates fraud risk management controls, conducts risk assessments, and reports to the BRC and BOD.
- **Employees:**
Adhere to the fraud related policies and promptly report any suspected fraud.

Fraud Risk Management at Burgan Bank follows the Three Lines of Defense Model:

- **First Line of Defense (Business Units and Staff)**
 - Ensure adherence to internal controls and ethical behavior.
 - Report any suspicions of fraud through established channels.
 - Actively participate in fraud awareness and prevention programs.
- **Second Line of Defense (Risk Management and Fraud Governance Unit)**
 - Develop and implement fraud detection and prevention strategies.
 - Perform periodic fraud risk assessments.
 - Oversee the monitoring and compliance of fraud controls.
 - Investigate suspected fraud cases and report to senior management and relevant authorities.
- **Third Line of Defense (Internal Audit)**
 - Conduct independent reviews of fraud risk management activities.
 - Perform forensic audits and investigations where required.
 - Report on fraud risks to the Board Audit Committee and regulatory body.

4. FRAUD PREVENTION MECHANISMS

Burgan Bank emphasizes a proactive approach to fraud prevention by setting up:

- **Internal Controls:** Well-defined policies and procedures, including segregation of duties, access rights management, and transaction approval authority, to minimize fraud opportunities.
- **Pre-employment Screening:** Comprehensive background checks and vetting for all new hires to minimize the risk of internal fraud.
- **Training and Awareness:** Regular fraud awareness and prevention training for all employees, with a focus on high-risk areas such as procurement, finance, customer service, and IT.
- **Ethical Culture:** Promotion of a strong ethical culture and code of conduct to guide employees in making appropriate decisions.

5. FRAUD DETECTION MECHANISMS

Fraud detection at Burgan Bank is supported by:

- **Whistleblower Protection:** The Bank provides confidential channels for reporting suspected fraud, ensuring protection against retaliation.
- **Internal Audits and Reviews:** Regular internal audits to review the effectiveness of fraud controls and investigate suspicious activities
- Monitoring the Code of Conduct related KRIs, adherence to the bank's policies, and the employee surveys for signs of deterioration.

6. FRAUD RESPONSE

- **Investigation Process:** Upon receiving a report of suspected fraud, the Fraud Risk Governance Unit will initiate an investigation.

7. TRAINING AND AWARENESS

- **Training Program:**

The Bank will maintain a formal, ongoing fraud awareness and training program for all employees.

- **Incident reporting and Whistleblower Mechanism Awareness:**

The Bank will educate staff on the availability and use of the Operational Risk incident management process and the whistleblower mechanisms to report suspected fraud.

8. CONTINUOUS MONITORING AND REVIEW

- **Fraud Risk Assessments:**

The FGU will conduct regular fraud risk assessments to ensure the Bank's exposure to fraud risks is understood and mitigated.

- **Metrics and Reporting:**

Fraud incidents, investigation outcomes, and corrective actions will be tracked and reported to the Senior Management and BOD. Metrics such as the number of reported frauds, resolution times, and financial impact will be monitored to assess the effectiveness of the fraud risk management program.

ABBREVIATIONS

Abbreviation	Description
IP	Intellectual Property
ACFE	Association of Certified Fraud Examiners
CBK	Central Bank of Kuwait
BAC	Board Audit Committee
IT	Information Technology
AFC	Anti-Financial Crime
RCSA	Risk and Control Self-Assessment
CIMA	Chartered Institute of Management Accountants
IAD	Internal Audit Department
IIA	Institute of Internal Auditors
AI / ML	Artificial Intelligence / Machine Learning
SoD	Segregation of Duties
HRD	Human Resources and Development
IT	Information Technology
BRC	Board Risk Committee
BOD	Board of Director's
COSO	Committee of Sponsoring Organization of the Tradeway Commission
Term	Definition
"the Bank"	Burgan Bank