Let's talk about fraud awareness mini-guide
Fraud: n. Intentional act committed by any person (employees, management, third parties…) aiming to obtain an improper advantage or to cause a loss to the company.

Dear Colleagues,

Pernod Ricard operates in over 80 countries, each with different cultures and different business practices. The last ten years have seen our Group grow rapidly, made possible by the strength of our people, our brands, and our reputation. With this growth come additional opportunities, but also greater risks which we have to address in all the countries where we operate.

Fraud is not a new subject, but it is ever more prevalent - a global survey conducted in 2011 showed that 34% of the nearly 4,000 participant companies had experienced economic crime in the 12 previous months. As the incidents of fraud increase in number and scale, it is even more important to foster awareness, provide key facts and guidance to do the right thing, and thus protect the reputation of our brands and our Group.

This mini-guide is designed to be a quick reference guide to understanding and dealing with fraud, aligned with our fundamental values: entrepreneurial spirit, mutual trust and a strong sense of ethics.

Best regards,
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Best regards,

Gilles BOGAERT
Managing Director
Finance

TABLE OF CONTENTS

UNDERSTAND FRAUD IN GENERAL 2
FRAUD RISKS AT PERNOD RICARD 8-19
8 RULES TO REDUCE FRAUD RISKS 20
DOCUMENTATION & CONTACT DETAILS 21

LET'S FOSTER AWARENESS
UNDERSTAND
FRAUD IN GENERAL

WHY DO WE CARE ABOUT FRAUD?
If fraud is obviously a matter of cost, it can also tarnish the image of the company involved in a fraud case. No organisation is immune, as all countries and all industries are affected.

EACH YEAR, INTERNATIONAL ORGANISATIONS ARE LOSING AN ESTIMATED 2-3% OF THEIR REVENUES TO FRAUD

IMAGE
Fraud also affects reputation of the company towards the stakeholders.

49% of companies do not recover amounts lost to fraud
18 MONTHS is the average time span before a fraud is detected

Source: Kroll’s global fraud report 2011/2012
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HOW CAN WE DEFINE FRAUD?

To sensitize Pernod Ricard employees to the risks of fraud and have a common understanding of what fraud really is, it is essential to provide a definition, to explain main characteristics of fraud, and to present the different types of fraud.

**Fraud:** n. Intentional act committed by any person (employees, management, third parties...) aiming to obtain an improper advantage or to cause a loss to the company.

3 FRAUD CATEGORIES

**ASSET MISAPPROPRIATION**

The organisation’s resources are stolen or misused

**FRAUDULENT STATEMENTS**

Intentional misstatement, or omission of financial or non-financial information

**CORRUPTION**

A person uses his influence or position inappropriately to procure a personal or organisational benefit

4 KEY CHARACTERISTICS

**INTENTION**

Fraud is a willful act, as opposed to an error. Fraud is not an error!

**UNLAWFULNESS**

A fraudster acts in violation of law/internal policies

**ACTUAL OR POTENTIAL PREJUDICE**

To the detriment or the benefit of the organisation (financial loss or gain, reputational)

**MISPRESENTATION**

Intentional and material false statements or willful omission of a material fact (orally or in writing)

3 FRAUD PROFILES

**INTERNAL**

Fraud may be committed by an employee of Pernod Ricard

**EXTERNAL**

Or by a third party, known (supplier, customer...) or unknown

**COLLUSION INTERNAL/EXTERNAL**

It may also be committed by an employee in collusion with a third party
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The 3 conditions that may lead someone to defraud can be diagrammed by a triangle which highlights the importance of human and organisational factors. NB: not all 3 elements need to be present at once.

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**THE FRAUD TRIANGLE**

**INCENTIVE/PRESSURE**
- Pressure to meet financial target
- Personal financial obligations
- Significant portion of variable salary

**OPPORTUNITY**
- Inexistent or weak internal controls
- Unusual or complex transactions
- Unstable organisational structure

**RATIONALISATION**
- “Everybody does it”
- The perpetrator is “just borrowing” the money/asset
- Disillusionment with the company: “the company deserves it”
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Risks specific to Pernod Ricard environment have been identified through a fraud risk assessment. For each risk, you’ll find on the following pages a risk card presenting a concrete fraud scenario, the type of fraud it represents, and recommendations in terms of internal controls. The fraud scenarios have been designed based on either real past fraud experiences within Pernod Ricard, or cases likely to happen.

### 10 KEY FRAUD RISKS

<table>
<thead>
<tr>
<th>Sales</th>
<th>Purchasing</th>
<th>Inventories</th>
<th>Cash</th>
<th>Financial Statements</th>
<th>HR</th>
<th>All</th>
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<td>Theft of intellectual property/sensitive information</td>
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<td>discounts</td>
<td>Conflicts of interests</td>
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<td>Understated liability</td>
<td>Fraudulent expenses claims</td>
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<td>Fraudulent payments</td>
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### OTHER RISKS

- Fraudulent alteration of the product quality
- Resale of bottles (stolen/purchased)
- Fraudulent modification of credit limits
- Theft of petty cash

- Resource diversion
- Manipulation of remuneration/ghost employee
- Counterfeit products
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<td>- N° 1 - Unauthorised discounts</td>
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<td>- N° 3 - Conflict of interests and supplier favouritism</td>
<td>- N° 4 - Incoming false invoices</td>
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- **N° 1 - UNAUTHORISED DISCOUNTS**

**CONCRETE FRAUD SCENARIO**

– A large amount of discounts were granted to customers in breach of the local sales policy and validation process. Such discounts were not recorded in the financial statements at the end of the fiscal year. The fraud was discovered a few months later when customers refused to pay the amounts disclosed on the invoices, claiming that a specific discount had been granted to them by the sales team.

**TYPE OF FRAUD**

- Clear commercial policy, formalised and communicated to customers, including a statement on who is authorised to grant discounts within the Pernod Ricard affiliate
- Adequate approval process with thresholds for all kinds of discounts
- Monitoring of the trade receivables ageing balance
- Periodic reconciliation between receivables in Pernod Ricard affiliate accounts and payables in customer accounts

**INTERNAL CONTROLS TO REDUCE THE RISK**


- **N° 2 - KICKBACKS AND OVERBILLING**

**CONCRETE FRAUD SCENARIO**

– **Towards customer:** an on-trade sales representative accepted to pay a listing fee to a bar at an overpriced amount, sharing with the owner of the bar the difference between the invoiced price and the fair price. The fraud was discovered when a similar scheme was offered to a new salesperson.

– **Towards supplier:** a Pernod Ricard employee accepted the purchase of a marketing service, knowing that it was over-priced, in exchange of an expensive trip for him and his family. He authorised the commitment and validated the invoice. The fraud was discovered when a new brand manager was offered a similar fraud scheme.

**TYPE OF FRAUD**

- Rotation of people potentially exposed to this risk
- Adequate validation process for commitments
- Segregation of duties between purchasing (N) and invoice validation (N+1)
- Supplier selection based on fact-based criteria (e.g., organisation of bid-tenders, multiple-party decision process)
- On-trade deals with outlets based on relevant criteria (e.g., segmentation, volumes)
SALES & PURCHASING

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**CONFLICTS OF INTEREST AND SUPPLIER FAVOURITISM**

**CONCRETE FRAUD SCENARIO**

– A Pernod Ricard employee used his position to favour the selection of a supplier in the framework of bid-tender. The supplier was a family member and therefore the employee had an undisclosed interest in the selection of the supplier. The fraud was discovered after an investigation due to lack of quality.

**TYPE OF FRAUD**

- Supplier selection based on fact-based criteria (e.g., organisation of bid-tenders, multiple-party decision process)
- Specific guidance on conflicts of interest: e.g., ask employees to declare their potential conflicts of interest (“COI”)

The failure to disclose a COI could lead to disciplinary action.

**INTERNAL CONTROLS TO REDUCE THE RISK**

- Segregation of duties between purchasing (N) and invoice validation (N+1)
- Systematic control of the services provided by suppliers (e.g., deliverables)
- Documented supplier selection process
- Strict procedure to record new suppliers in a vendor master file (including bank account information)

**INCOMING FALSE INVOICES**

**CONCRETE FRAUD SCENARIO**

– A Pernod Ricard employee set up a shell company for the sole purpose of sending false invoices to his company. The employee was in the position to approve the invoice himself within a budget envelope. The fraud was detected when the employee’s new manager performed an in-depth review of the service provided.

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### INVENTORIES

#### THEFT OF TANGIBLE ASSETS (NON-CASH)

**CONCRETE FRAUD SCENARIO**

- **Ageing inventories**: an unknown person replaced significant volumes of ageing inventories by a lower quality liquid. The fraud was discovered during a quality control test.

- **Finished products**: a man in a truck pretending to be a representative of a delivery company loaded a full truck of finished Pernod Ricard goods and left with the products. The fraud was discovered when the true delivery man arrived at the warehouse later that day.

**TYPE OF FRAUD**

- Adequate security of assets and storage (e.g., cameras/alarm systems, security agent)
- Storage area access restricted to authorised personnel
- Segregation of duties for reception, handling of goods, recording of transactions, and inventory stocktake
- Periodic inventory counts by personnel not ordinarily in direct contact with the assets (with “multiple-eyes” and rules for inventory variance recording)
- Strict rules for inventory variances included in contracts with third party warehouses
- Review of documentation before the transfer of ownership of goods

### CASH

#### WIRE FRAUD

**CONCRETE FRAUD SCENARIO**

- A finance employee of a Pernod Ricard affiliate was contacted by phone by a person claiming to be Pierre Pringuet and requesting an urgent and confidential bank transfer. The finance employee checked first with his CFO and no wire transfer was executed. However, quite a few large international Groups suffered from this kind of fraud with important cash losses.

**NB:**
- Requests can also be made via email using an address that appears to be the CEO’s.
- Fraudsters often make repeated attempts, and may even pose as police officers.

**TYPE OF FRAUD**

- Standard procedure for all types of payments (e.g., authority, documentation, accounting)
- Specific guidelines to deal with bank transfers requested by phone:
  - Take the phone number of the person and agree to call back later
  - Always inform your CFO and never process a wire transfer under pressure
  - Respect the standard internal procedures, including double signature above threshold. **NB**: bank transfer requests cannot be instructed by phone.

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FRAUDULENT PAYMENTS

CONCRETE FRAUD SCENARIO

- **Interception and altering:** a cheque signed by an authorised person within an affiliate was intercepted before it had reached the payee. The cheque was tampered to change the payee’s name and the amount was increased by 100 times. The cheque was paid by the bank. Fraud was discovered when actual payee claimed the payment.

- **Authorised maker:** an employee with signature authority signed fraudulent cheques for his own benefit (using the name of a fake company recipient as payee). Fraud was later discovered through review of bank reconciliation.

- **Electronic payment tampering scheme:** an accounts payable clerk forged an electronic transfer form, copying and pasting the signature from a legitimate transfer order and faxing the notification to the bank from outside the office. Due to a doubt from the bank clerk, the fraud was detected at the time the money was being transferred, as such amount was unusually high for the recipient.

- **Change in bank account details:** a fraudster pretending to be a supplier contacted Pernod Ricard asking to be paid to a different bank account. The transfer to this “new” bank account was made. The fraud was discovered when the real supplier requested payment.

**TYPE OF FRAUD**

- Segregation of duties regarding payment
- Access to payment software limited to a restricted set of people
- Control for bank account information changes (e.g., call the supplier for confirmation)
- Use of paper forms reduced (to the extent possible) for the execution of bank transfers
- Payment by cheque reduced in favour of electronic transfers, or favor automatically generated cheques
- Monthly bank reconciliations, with validation by a senior finance employee

**INTERNAL CONTROLS TO REDUCE THE RISK**

- Management reviews of specific KPIs/financials by the Supervising Entity
- Establish clear accounting guidelines for accrual process
- Rotation of finance teams

- N° 8 -  
UNDERSTATED LIABILITY

CONCRETE FRAUD SCENARIO

- A CFO artificially understated a liability to make the company appear more profitable, distorting the financial statements of the local affiliate in breach of Group Accounting Guidelines. Fraud was detected when external auditors challenged the accounts (e.g., accruals for A&Ps or sales discounts).

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- Monthly bank reconciliations, with validation by a senior finance employee
- N°9 -
FRAUDULENT EXPENSE CLAIMS

CONCRETE FRAUD SCENARIO

– **Unjustified T&E expenses**: a Pernod Ricard manager asked his subordinate to pay for a non-business related expense (luxury goods or dinner). Fraud was detected following a tip from another employee.

– **Petrol card**: an employee used the company petrol card to fill his boat and his wife’s car. The fraud was discovered after a consistency check between volume of petrol purchases and the distances the car had been driven.

– **Unjustified allowances**: an employee was provided with an accommodation allowance for the first 3 months (as written in his contract). However, he took advantage of it for about a year before the fraud was detected.

TYPE OF FRAUD

INTERNAL CONTROLS TO REDUCE THE RISK

- Detailed T&E policy (DO’S & DON’TS/limits)
- Formal T&E expenses validation process, including review of vouchers by the accounting department:
  - Each expense involving more than one employee must always be paid by the most senior employee
  - Exclude cash withdrawals from claimable expenses

- N°10 -
THEFT OF INTELLECTUAL PROPERTY/SENSITIVE INFORMATION

CONCRETE FRAUD SCENARIO

– **Current employee**: an employee sells sensitive information/data to a competitor or to any organisation.

– **Former employee**: an employee took information with him when he left and shared it with a competitor in the context of a new job.

TYPE OF FRAUD

INTERNAL CONTROLS TO REDUCE THE RISK

- Secured access to confidential information (both physical locations and IT contents)
- Restrict access to sensitive information to people who “need to know” only
- Confidentiality agreements
- Nº 9 -
FRAUDULENT EXPENSE CLAIMS

CONCRETE FRAUD SCENARIO

– **Unjustified T&E expenses**: a Pernod Ricard manager asked his subordinate to pay for a non-business related expense (luxury goods or dinner). Fraud was detected following a tip from another employee.

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- Confidentiality agreements
8 RULES TO REDUCE FRAUD RISKS

- 1 -
STRONG SENSE OF ETHICS, ENCOURAGING TRANSPARENCY IN WAYS OF WORKING, PROMOTED BY MANAGEMENT

- 2 -
A CLEAR SPLIT OF ROLES AND RESPONSIBILITIES ACROSS THE ORGANISATION

- 3 -
SEGREGATION OF INCOMPATIBLE DUTIES, WITH SPECIFIC FOCUS ON SENSITIVE TASKS

- 4 -
STANDARDIZED AND ROBUST IT TOOLS

- 5 -
MANAGEMENT REVIEWS, IN PARTICULAR ON KEY FINANCIAL ACCOUNTS (B/S AND P&L)

- 6 -
IMPLEMENTATION OF SPECIFIC CONTROLS, BASED ON FRAUD RISK ANALYSIS (INCL. PAST FRAUD CASES)

- 7 -
REGULAR ROTATION OF KEY POSITIONS

- 8 -
FRAUD AWARENESS AND TRAINING PROGRAM FOR EMPLOYEES

EXISTING DOCUMENTATION
Pernod Ricard Charter
PR Internal Control Principles (March 2013 - Coming up !)
Procurement Code of Ethics

TRAINING MATERIAL
Training material based on PR India best practice 2012

CONTACT REFERENCE
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8 RULES TO REDUCE FRAUD RISKS

- 1 - Strong sense of ethics, encouraging transparency in ways of working, promoted by management

- 2 - A clear split of roles and responsibilities across the organisation

- 3 - Segregation of incompatible duties, with specific focus on sensitive tasks

- 4 - Standardized and robust IT tools

- 5 - Management reviews, in particular on key financial accounts (B/S and P&L)

- 6 - Implementation of specific controls, based on fraud risk analysis (incl. past fraud cases)

- 7 - Regular rotation of key positions

- 8 - Fraud awareness and training program for employees

EXISTING DOCUMENTATION

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