

Decision to investigate.

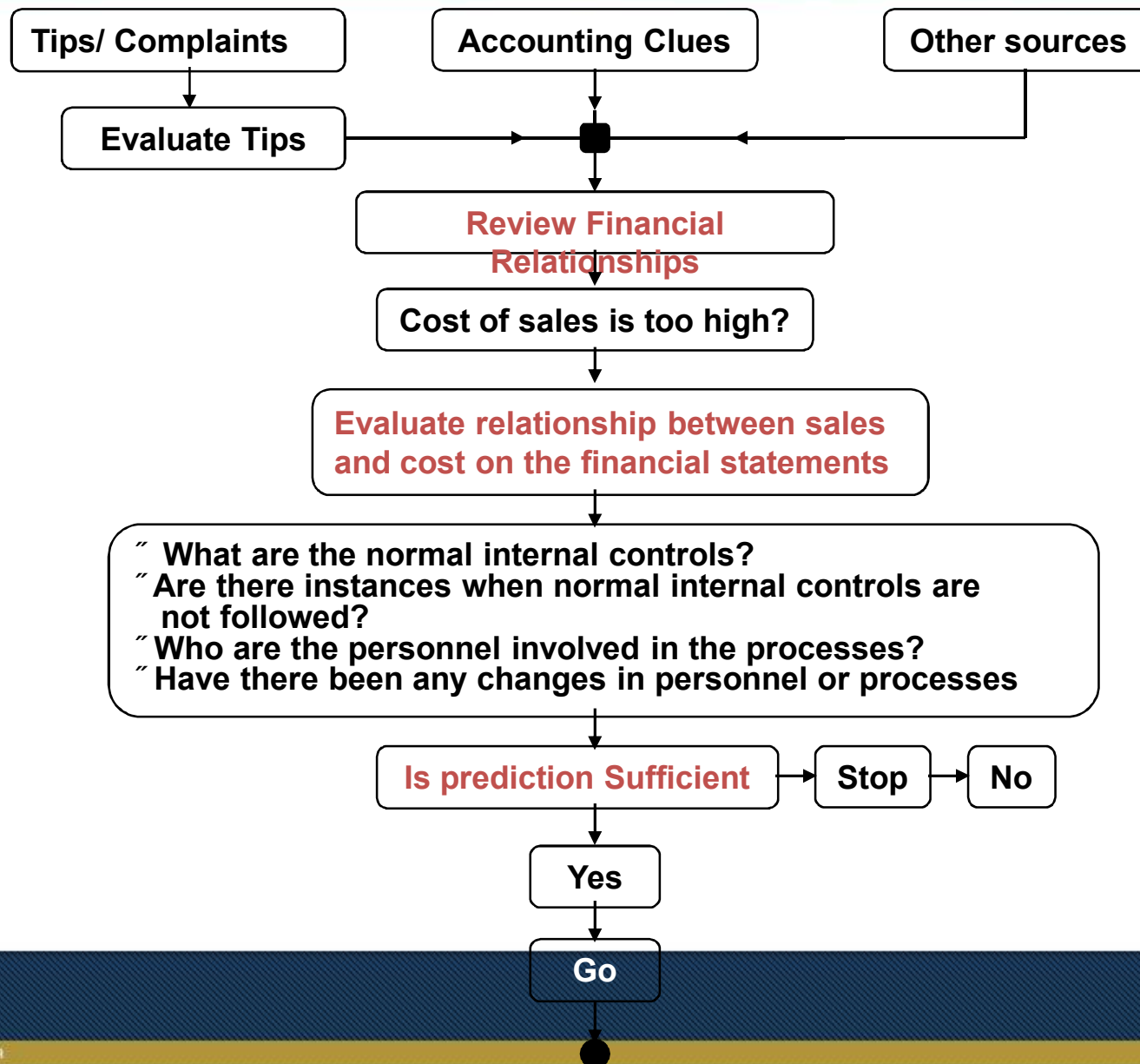
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FRAUD RESOLUTION INITIAL PREDICATION



DEVELOP FRAUD THEORY:

- WHO MIGHT BE INVOLVED?
- WHAT MIGHT HAVE HAPPENED?
- WHY MIGHT THE ALLEGATION BE TRUE?
- WHERE ARE THE POSSIBLE CONCEALMENT PLACES OR METHODS?
- WHEN DID THIS TAKE PLACE {PAST, PRESENT, OR FUTURE}
- HOW IS THE FRAUD BEING PERPETRATED?

DETERMINE WHERE THE EVIDENCE IS LIKELY TO BE:

- ON-BOOK VS.OFF-BOOK
- DIRECT OR CIRCUMSTANTIAL
- IDENTIFY POTENTIAL WITNESSES

WHAT EVIDENCE IS NECESSARY TO PROVE INTENT?

- NUMBER OF OCCURRENCES
- OTHER AREAS OF IMPROPRIETY
- WITNESSES

REVISE FRAUD THEORY

PREPARE CHART LINKING PEOPLE AND EVIDENCE

DETERMINE DEFENSES TO ALLEGATIONS

IS EVIDENCE SUFFICIENT TO PROCEED?

YES

No

DISCONTINUE

COMPLETE THE INVESTIGATION THROUGH:

INTERVIEWS
DOCUMENTS EXAMINATIONS
OBSERVATIONS



WHO IS THE FRAUD VICTIM

- **FRAUD AS IT TURNS OUT KNOWS NO BOUNDS.**
- **ALL TYPES OF FIRMS HAVE BEEN VICTIMISED**
 - **SMALL, MEDUM, LARGE COMPANIES AND NGOs.**
- **ABOUT 85 % OF TOTAL CORPORATE LOSSES ARE ATTRIBUTED TO EMPLOYEE MISAPPROPRIATION OF ASSETS**
- **THE COSTS OF EMBEZZLEMENT GO BEYOND MONEY.**
 - **BANKS RELY ON REPUTATION.**
 - **THE LOSS OF THAT REPUTATION CAN BE DEVATSTATING**



PROACTIVE FRAUD DETECTION AND INVESTIGATION

- **COMPLAINTS, ALLEGATIONS IN THE PRESS OR IN PARLIAMENT, ANONYMOUS TIPS FROM EMPLOYEES OR OTHERS COULD ALL IN THEIR SEPARATE WAYS REQUIRE TO BE ADEQUATELY ADDRESSED BY INVESTIGATION.**
- **THE TECHNIQUES OF UNIFORM FRAUD EXAMINATION METHODOLOGY ARE USEFUL IN SUCH CASES.**
- **THIS IS BEING CITED AS PROACTIVE BECAUSE IT IS WIDELY FELT THAT THE EXISTENCE OF A SYSTEM OF INVESTIGATION IN SUCH CASES IS A SIGNIFICANT DETERRENT TO FRAUD AND CORRUPTION.**



DEFINITIONS

- **DETECT – TO DISCOVER OR RECOGNISE THAT SOMETHING IS PRESENT.**
- **INVESTIGATE – TO DISCOVER AND EXAMINE ALL THE FACTS ABOUT SOMETHING IN ORDER TO OBTAIN THE TRUTH.**



FRAUD DETECTION

- **FRAUD DETECTION CONSISTS OF IDENTIFYING INDICATORS OF FRAUD SUFFICIENT TO WARRANT AN INVESTIGATION.**
- **THE MANAGER / AUDITOR OUGHT TO HAVE SUFFICIENT KNOWLEDGE OF FRAUD TO BE ABLE TO IDENTIFY INDICATORS THAT FRAUD MIGHT HAVE BEEN COMMITTED**



FRAUD DETECTION

- **THERE ARE NUMEROUS METHODS FOR DETECTING FRAUD IN ORGANISATIONS.**
- **ONCE FRAUD IS SUSPECTED, IT SHOULD BE DOCUMENTED AND INVESTIGATED.**
- **THESE INVESTIGATIONS INCLUDE INTERVIEWS, SURVEILLANCE, AUDITS, RECORD SEARCHES AND NETWORTH ANALYSIS.**



FRAUD INDICATORS

SOME FRAUD INDICATORS ARE AS LISTED BELOW:

- **RAPID TURNOVER OF EMPLOYEES-QUITTING OR BEING FIRED.**
- **COMPANY FAILING TO PERIODICALLY ROTATE OR TRANSFER KEY PERSONNEL.**
- **FAILING TO TAKE ANNUAL LEAVE**
- **INADEQUATE PERSONNEL SCREENING POLICIES WHEN HIRING NEW EMPLOYEES TO FILL POSITIONS OF TRUST.**



FRAUD INDICATORS

- **COMPANY LACKING A GOOD SYSTEM OF INTERNAL SECURITY**
- **INADEQUATE INTERNAL CONTROL SYSTEM OR FAILING TO ENFORCE THE EXISTING CONTROLS.**
- **EMPLOYEE APPEARING TO BE A 'WHEELER DEALER' WHO ENJOY FEELINGS OF POWER, INFLUENCE, SOCIAL STATUS AND EXCITEMENTS ASSOCIATED WITH FINANCIAL TRANSACTIONS INVOLVING LARGE SUMS OF MONEY**



FRAUD INDICATORS

- **KEY EMPLOYEES APPEARING TO EXHIBIT EXTREME GREED OR AN OVERWHELMING DESIRE TO SELF ENRICHMENT OR PERSONAL GAIN.**
- **EXCESSIVE GAMBLING**
- **HIGH EXPENSES DUE TO PERSONAL INVOLVEMENT WITH OTHER PEOPLE BY MAINTENANCE OF SEPARATE APARTMENTS.**



FRAUD INDICATORS

- **UNDUE FAMILY, COMMUNITY AND SOCIAL EXPECTATIONS OR PRESSURES.**
- **USE OF ALCOHOL OR DRUGS REGULARLY.**
- **BELIEFS OF UNFAIR TREATMENT EG UNDERPAID, POOR JOB ASSIGNMENTS.**
- **APPEARING TO RESENT THEIR SUPERIORS.**



FRAUD INDICATORS

- **EMPLOYEES HAVING UNUSUALLY HIGH PERSONAL DEBTS OR FINANCIAL LOSSES UNABLE TO MEET WITH THEIR OWN LEVEL OF INCOME / SALARY**
- **EMPLOYEES APPEARING TO BE LIVING BEYOND THEIR MEANS.**
- **EMPLOYEES INVOLVED IN EXTENSIVE INVESTMENT THAT WOULD CAUSE THEM FINANCIAL DIFFICULT**



FRAUD INDICATORS

- **COMPANY WHERE MANAGEMENT DO NOT INFORM EMPLOYEES RULES OF PERSONAL CONDUCT AND DO NOT DISCIPLINE FRAUD PERPETRATORS?**
- **EMPLOYEES HAVING CRIMINAL OR QUESTIONABLE BACKGROUNDS.**
- **EMPLOYEES HAVING A POOR PAST WORK RECORDS OR REFERENCES.**



PREDICATION OF FRAUD

- **BEFORE A FRAUD CAN BE INVESTIGATED, ONE MUST HAVE PREDICATION.**
- **PREDICATION IS THE TOTALITY OF CIRCUMSTANCES LEADING A REASONABLY KNOWLEDGEABLE PERSON TO BELIEVE THAT A FRAUD HAS OCCURRED OR IS OCCURRING**



PREDICATION CONTD

- **THIS PREDICATION MAY COME FROM ANY NUMBER OF SOURCES.**
- **SUCH MAY BE**
 - 1. ANONYMOUS TIPS**
 - 2. COMPLAINTS**
 - 3. BEHAVIOUR CHANGES OF EMPLOYEES**
 - 4. LIFESTYLE CHANGES OF EMPLOYEES**
 - 5. INTERNAL CONTROL WEAKNESSES**



TIPS AND COMPLAINTS

- **COMPLAINTS BY CUSTOMERS, EMPLOYEES OR OTHERS LEAD TO SUSPECTS IN FRAUD**
- **COMPANIES SHOULD ENCOURAGE OPEN COMMUNICATION WHICH LEADS TO POSSIBLE INVESTIGATION OF FRAUDULENT ACTIVITY.**



BEHAVIOUR CHANGES

- **FRAUD PERPETRATORS OFTEN UNDERGO PERSONALITY CHANGES AS A RESULT OF CONTINUOUS PRESSURE OF COMMITTING FRAUD.**
- **HAVING MANAGEMENT AND EMPLOYEES OBSERVE CHANGES IN BEHAVIOUR CAN LEAD TO SUSPECTS.**



LIFESTYLE CHANGES

- **FRAUD PERPETRATORS RARELY HOARD THE PROCEEDS OF THEIR ACTS.**
- **INSTEAD THEY FREQUENTLY SPEND CONSPICUOUSLY ON LAVISH LUXURY ITEMS SUCH AS CARS, RESIDENTIAL FLATS, CLOTHING, JEWELRY, ETC.**



INTERNAL CONTROL WEAKNESSES

- **WEAKNESSES IN INTERNAL CONTROL ARE A MAJOR CONTRIBUTING FACTOR.**
- **EG. FAILURE TO SEGREGATE FUNCTIONS OF RECORD KEEPING, AUTHORISATION AND CUSTODY OVER ASSETS.**



RESPONSE- INVESTIGATIONS

- CLOSING THE BARN
AFTER THE HORSE HAS
LEFT?



INVESTIGATIONS

- **AN INVESTIGATION IS AN EXAMINATION, STUDY, SEARCHING, TRACKING, AND GATHERING OF FACTUAL INFORMATION THAT ANSWERS QUESTIONS OR SOLVES PROBLEMS.**
- **THE INVESTIGATIVE PROCESS IS A COMPREHENSIVE ACTIVITY INVOLVING INFORMATION COLLECTION, THE APPLICATION OF LOGIC AND THE EXERCISE OF SOUND REASONING.**
- **THE END RESULT OF AN INVESTIGATION IS A FACTUAL EXPLANATION OF WHAT TRANSPIRED OR WHAT IS OCCURRING.**



CONSTRUCTIVE INVESTIGATION

- **CONSTRUCTIVE INVESTIGATIONS ARE COVERT IN NATURE –PERFORMED IN SECRECY.**
- **THIS TYPE IS PERFORMED WHILE THE SUSPECTED ACTIVITY IS TAKING PLACE OR ANTICIPATED.**



RECONSTRUCTIVE INVESTIGATION

- **RECONSTRUCTIVE INVESTIGATIONS ARE NECESSARY WHEN AN EVENT HAS TAKEN PLACE.**
- **THE INVESTIGATOR MUST RECREATE WHAT HAPPENED AFTER THE FACT.**
- **THIS TYPE OF INVESTIGATION IS USUALLY OVERT IN NATURE, CARRIED OUT IN THE OPEN.**



TOUGH & DEMANDING

- **THE REAL WORLD OF INVESTIGATIVE WORK IS HARD, DEMANDING AND RARELY GLAMOROUS.**
- **OCCASIONALLY A CASE MAY COME ALONG THAT IS EXCITING, OR ONE IN WHICH THE ANSWERS COME EASILY.**
- **BUT AS A RULE INVESTIGATION IS TEDIOUS, EXHAUSTING, FRUSTRATING, TIME CONSUMING AND SOMETIMES DIRTY PROCESS.**
- **THE INEXPERIENCED INVESTIGATOR MAY SOMEWHAT BE DISMAYED BY THE DIFFERENCE BETWEEN HIS/HER PRECONCEPTIONS OF THE NATURE OF THE WORK AND THE REALITY.**



QUALITIES OF AN INVESTIGATOR

- **CRIMES ARE NOT SOLVED BY INGENIOUS AND CLEVER SUPER DETECTIVES BUT BY HARD WORKING MEN AND WOMEN WHO UNIVERSALLY SHARE ONE COMMON DENOMINATOR –PERSEVERANCE.**
- **PERSEVERANCE, WHICH IS A GREAT INVESTIGATIVE VIRTUE, IS DEFINED AS:**
 - **‘HOLDING ON TO A COURSE OF ACTION, BELIEF, OR PURPOSE WITHOUT GIVING WAY, STEADFASTNESSCONTINUING STRENGTH OR PATIENCE IN DEALING WITH SOMETHING ARDUOUS.**
 - **IT PARTICULARLY IMPLIES WITHSTANDING DIFFICULTY OR RESISTANCE IN STRIVING FOR A GOAL**



QUALITIES OF AN EFFECTIVE INVESTIGATOR

- **OBSERVANT**
- **RESOURCEFUL**
- **PATIENT**
- **PEOPLE ORIENTED**
- **UNDERSTANDING OF HUMAN BEHAVIOUR**
- **KNOWLEDGEABLE ABOUT LEGAL IMPLICATIONS OF THE WORK.**
- **A SKILLED COMMUNICATOR**
- **RECEPTIVE**
- **POSSESSED OF A SENSE OF WELL BEING.**
- **DEDICATED TO THE WORK**



QUALITIES OF AN EFFECTIVE INVESTIGATOR

- **A SELF STARTER**
- **SCEPTICAL**
- **INTUITIVE**
- **ENERGETIC**
- **A GOOD ACTOR**
- **CAPABLE OF SOUND JUDGEMENT**
- **LOGICAL**
- **INTELLIGENT**
- **CREATIVELY IMAGINATIVE.**
- **OF GOOD CHARACTER.**
- **PROFESSIONAL.**



CORPORATE FRAUD INVESTIGATIONS

- **THE OBJECTIVE IN CASE OF REACTIVE FRAUD EXAMINATION IS TO INVESTIGATE CASES OF SUSPECTED FRAUD SO AS TO PROVE OR DISPROVE THE SUSPICIONS**
- **IF THE SUSPICIONS ARE PROVEN, TO IDENTIFY THE PERSONS INVOLVED, SUPPORT THE FINDINGS BY EVIDENCE AND TO PRESENT THE EVIDENCE IN AN ACCEPTABLE FORMAT IN ANY SUBSEQUENT DISCIPLINARY OR CRIMINAL PROCEEDINGS.**
- **IN SUCH CASES IT IS IMPORTANT TO KEEP IN VIEW THE FOLLOWING:**



INVESTIGATION

- **WORKING RELATIONS WITH THE INVESTIGATING AND PROSECUTING AGENCIES**
- **AUTHORISATION AND CONTROL OF THE AUDIT INVESTIGATION**
- **DOCUMENTATION OF RELEVANT INFORMATION AND SAFEGUARDING ALL PRIME RECORDS PERTAINING TO THE CASE**
- **RULES OF EVIDENCE GOVERNING ADMISSIBILITY/AUTHENTICATION OF RECORDS**
- **CONFIDENTIALITY**
- **EVALUATION OF THE EVIDENCE TO ASSESS WHETHER THE CASE IS SUSTAINABLE**
- **LEGAL ADVICE WHERE APPROPRIATE**
- **REPORTING THE FINDINGS IN A MANNER THAT MEETS LEGAL REQUIREMENTS**



STEPS IN THE INVESTIGATION

- **DOCUMENT EXAMINATION**
- **INTERVIEW NEUTRAL THIRD PARTIES**
- **INTERVIEW**
- **CORROBORATIVE WITNESSES.**
- **INTERVIEW CO-CONSPIRATORS**
- **INTERVIEW THE SUBJECT**



STEPS IN THE INVESTIGATION

1. DOCUMENT EXAMINATION

- **AS A GENERAL RULE DOCUMENTS SHOULD BE EXAMINED BEFORE INTERVIEWS COMMENCE.**
- **THIS ALLOWS THE INVESTIGATOR TO UNDERSTAND POTENTIAL EVIDENTIARY VALUE OF THE CASE.**
- **ALSO IT IS MEANT TO PROTECT THE SECURITY OF DOCUMENTS.**



2. INTERVIEW NEUTRAL THIRD PARTIES.

- **AFTER CONDUCTING SUFFICIENT DOCUMENT EXAMINATION, WITNESSES SHOULD BE INTERVIEWED IN A LOGICAL FASHION.**
- **BEGIN WITH THE LEAST LIKELY PERSON TO BE INVOLVED IN THE FRAUD.**
- **THEN PROCEED TO THE MOST LIKELY PERSONS TO HAVE SOME INVOLVEMENT.**



3. INTERVIEW CORROBORATIVE WITNESSES

- **INTERVIEWS WITH WITNESSES TO CORROBORATE THE FACTS SHOULD BE DONE AFTER INTERVIEWING THE NEUTRAL THIRD PARTY WITNESSES.**
- **THESE WITNESSES MAY BE COOPERATIVE OR UNCOOPERATIVE.**



4. CO-CONSPIRATORS

- **THOSE SUSPECTED OF COMPLEXITY SHOULD BE INTERVIEWED NEXT.**
- **BEGIN WITH THE LEAST CULPABLE TO THE MOST CULPABLE.**
- **IF APPROPRIATE LAW ENFORCEMENT CAN FREQUENTLY PROMISE LENIENCY IN RETURN FOR COOPERATION.**



5. TARGET / SUBJECT

- **THE TARGET IS EXAMINED LAST AFTER ALL OF THE FACTS NECESSARY TO RESOLVE THE FRAUD ALLEGATION ARE OBTAINED.**
- **AN INTERVIEW OR INTERROGATION IS USUALLY SCHEDULED.**
- **IT CAN BE USED LATER AS EVIDENCE.**
- **THE INTERVIEW MIGHT GIVE A GOOD IDEA OF WHAT DEFENCES THE FRAUDSTER MIGHT RAISE.**



ASSEMBLING THE TEAM

- **IN RESOLVING CORPORATE FRAUD:**
 - **DEVELOP BEST TEAM WITH KNOWLEDGE RICH SPECIALISTS.**
 - **ESTABLISH RESPONSIBILITIES/ROLES**
 1. **INTERNAL AUDIT**
 2. **COMPANY LEGAL ADVISER**
 3. **CORPORATE SECURITY**
 4. **OUTSIDE CONSULTANT**
 5. **MANAGEMENT REP – BOARD-(A.C)**
 6. **HUMAN RESOURCE PERSONNEL**



INVESTIGATION STAGE

- **ENSURE OUTSTANDING EXECUTION**
- **REGULAR CONSIDERATION OF OPTIONS**
- **REGULAR REPORT OF PROGRESS**
- **DEVELOP ASSET TRACING STRATEGY**



REPORTING

- **COMPREHENSIVE REPORT TO BOARD / AUDIT COMMITTEE**
- **CONSTRUCT A REPORT FOR LAW ENFORCEMENT**
- **CONSTRUCT REPORT ON CONTROL WEAKNESSES FOR MANAGEMENT ACTION**

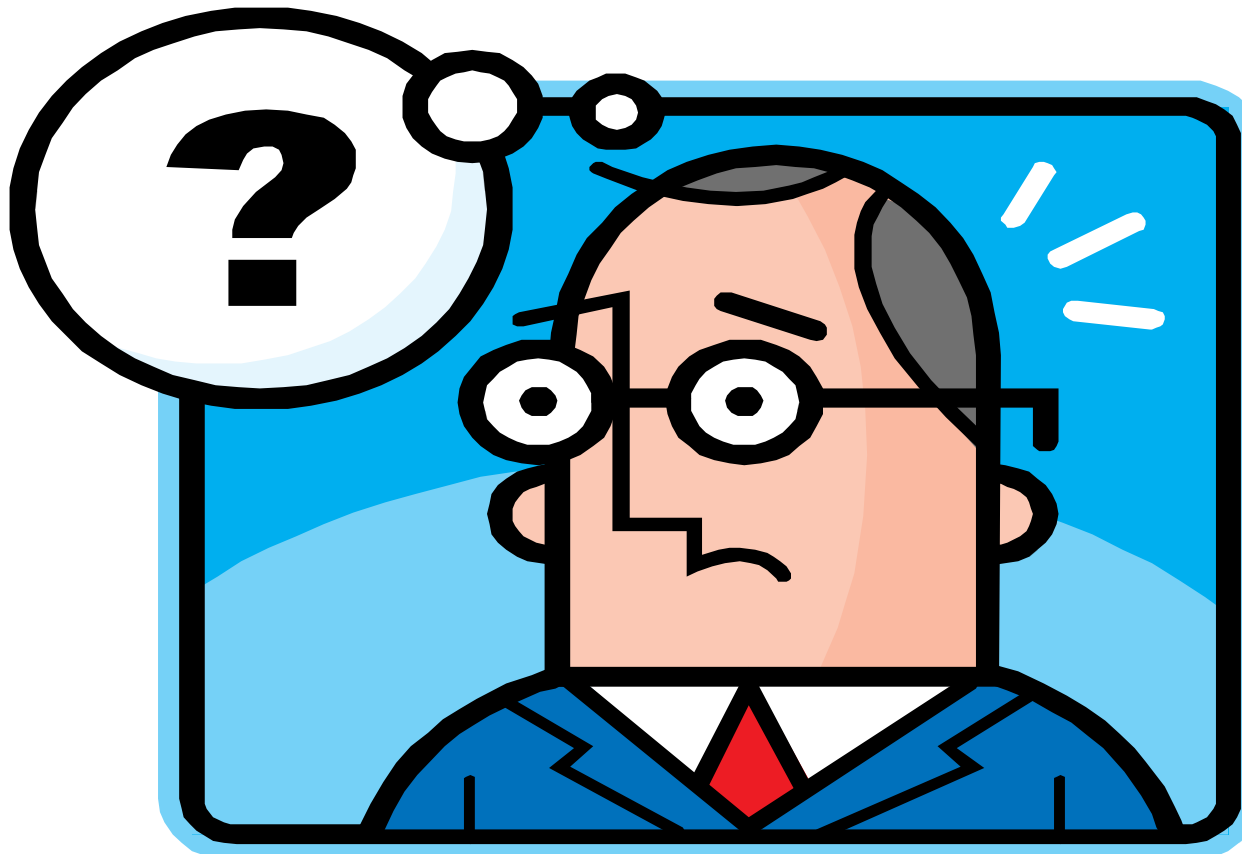


ACTIONS ARISING

- **DEVELOP BEST PRACTICE SUGGESTIONS.**
- **DISCIPLINARY AND CRIMINAL PROCEDURES**
- **POTENTIAL LITIGATION AGAINST THIRD PARTIES.**
- **DEVELOP WIDER INVESTIGATIONS WITHIN THE COMPANY.**
- **ASSET RECOVERY.**



Questions / Discussion



Discussion – application to a fraud scenario

In normal business transaction a procurement payment *voucher* is a file that includes:

- **Purchase Requisition**
- **The purchase order (LPO) which was sent to the supplier ,**
- **The supplier invoice which lists the cost and quantity of items purchased, and**
- **The internal receiving reports (GRN/) , which verify that purchased items have been received.**
- **In a purchasing cycle, a completed voucher containing all of these documents is required before the accounts payable department issues a payment cheque to a supplier.**

Procurement billing fraud schemes.

- **A fraudulent billing scheme might necessitate the falsification or alteration of any of the above indicated documents. In general, cash-generating fraudulent billing schemes are built around invoices from shell companies or employee-owned businesses.**
- **In some circumstances, a corrupt/fraudulent employee may utilize invoices from legitimate suppliers to generate fraudulent payments.**
- **What probable legal charges would you contemplate against such fraudsters?**



Thank you

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Delivering executive development courses on risk management, corporate fraud governance and forensic audit, benchmarking this against best practice for maximizing value.

