

COMBATING FRAUD: ARE YOU PREPARED?

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In the twenty first century any organization ignoring the risk of Fraud can do it its own peril. We have numerous instances of such nature be it Enron, World Tel Or the Famous BCCI scandal. Successive economies continued to be hit by one scam after other still world seems to grappling with outburst of Fraud instances but a little thought has been spared for Fraud Prevention Programmes.

Fraud is defined as a deliberate act of deceit planned and executed with intent to deprive another of his property or rights. This deprivation may be as a single act of deception or an organized activity. Over the centuries we have graduated from individual act of deception to an organized activity. When good faith requires expression a silence may also amount to deceit. Fraud encapsulates the key elements of deception or concealment and deprival or loss to the victim. People become Fraudsters/Scamsters when motive comprise with opportunity. The motive has been varying from greed, revenge or to prove a point to people who matter.

In a fraud carried out by Ernst Young International it has come to the notice that Organizations are increasingly hit by fraud instances more than 618 million Pound sterling has been lost in a single year due to fraud in Industry. The main reason behind the increasing incidence of Fraud is loss of moral values followed by unbridled desire for wealth without having ability to succeed. The non-existing fraud prevention programmes weak internal audits and sloppy Statutory Audits followed by increased economic pressure are main reasons behind increase incidence of Fraud.

The Fraud does not leave its footprints on a single unit or department but can effect entire organization its position in capital markets and can put as a major risk Industry. Banking and Insurance are such industry where few incidence of fraud are enough to undermine the

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confidence of investors and customers alike. At a micro level in an organization if remain unchecked it can create a situation where honest employees would find it difficult to survive or covert them as future Fraudsters. The major Scam which have recently unearthed shows that there has been a corrupt environment already existing in environment and where management and employees whenever get opportunity do not hesitate to commit Fraud the result have been loss of confidence in Market and weakening of National Economies. In these context examples of African Continent and some of its Countries like Nigeria Chad, Somalia and Liberia can be cited. The Economies of east European countries have been hit in a different way with relaxed state controls and open economy the influence of developed Economies of Western Europe leaves a desire for higher standard of living while the economy continues to struggle to cover the huge gap resulted as a change from closed economies to open economies. The rising unemployment, closure of state run factories and higher cost of living create a conducive environment for fraudsters to commit fraud. There has been enough opportunity in form of loose control for example a change in accounting system from say French to UK standards can give enough opportunity to a smart accountant to adjust defalcations which would have been otherwise difficult to hide.

The Warehouse is one area where spare parts can be easily turned into wastes and can find way to open markets. In fact in some countries there have been two parallels where an employee serves the State in the day and the Evening works for the mafia or Fraudsters.

Most of the Fraudsters when confronted with the fact have several explanations Like Organization did nothing for me when I served for 20 years or Every body was doing it what went wrong when I did it. Or there was a valid reason for that family problems or deep in debt. In one instances a Lady Cashier committed theft to pay her boyfriends debt. We have even instances where Fraudsters have been honest in repaying the money they took unauthorisely. They have simple explanation we never want to hurt the organization we need it when asked refused so we took it and when had enough put it back in system What u would do to such type of Fraudsters.

Fraud is like a foundation of a building you withdraw a brick and entire edifice will fall down. In case owner ignores it then he will have rubble only to be written off in books of account.

COMBATING FRAUD IN UK ENVIRONMENT

The UK experience shows that even in an environment where not enough people are there trained and experienced to carry Fraud investigation a mechanism can be put in place to have enough check and balances to discourage incidence of Fraud. The First instances have been at the level of CCAB the Accounting bodies which through change in Standards of Accounting put more emphasis on disclosures and transparency in financial statements followed by increasing awareness among members of Accounting profession through seminars training and Symposiums. The Second approach has been called a Industry Government partnership approach popularly known as PAC report partners against crime where Confederation of British Industry joined hands with Metropolitan Police and Serious Fraud office where the investigating agencies agreed to take services of experts like Forensic accountants, Certified Fraud Examiners and Chartered Accountants this has bridged the gap in terms of expert knowledge experienced investigators and even law attorney joined hand in tackling such a situation. The situation can be further improved by having enough provisions in our trade laws to set a mechanism desisting fraud followed by having enough experts like Certified Fraud Examiners to investigate Fraud.

AUDITORS RESPONSIBILITY IN FRAUD INVESTIGATION

Often this question is asked that why don't we give the responsibility of Fraud investigation to Auditors both Internal and statutory .In a Judgment given by Circuit Court of Cincinnati USA that Auditor is a watchdog and not a bloodhound. The primary responsibility of an auditor is to verify the accuracy of Accounts. The key elements of fraud are deception or concealment while the auditors by nature are not been trained to differentiate between a fake invoice and a genuine invoice neither he has the mandate to interview a Fraudster. The Enron case is the best example of such subterfuge where year after year the fake documents have been presented before Auditors that they started looking genuine. The Auditors responsibility was culpability when they should have brought the facts to the notice of the Regulators they failed. Second the reasonable degree of care is another area where auditor on having reasonable suspicion of

financial irregularity has the responsibility to bring to the notice of Management and regulators even to Law enforcement agencies if the need arise depending upon gravity of situation

FINDING A INVESTIGATOR

The most critical qualification an investigator should have is the experience and experience alone. However with change in technology and new modus operandi used by fraudsters a multi disciplinary team comprising of Certified Fraud examiners (CFE), Police officials. Industry experts, IT specialists, attorneys and business values are essential. We must not forget any team can only succeed if it comprise of people with proven Honesty and Integrity.

To be effective investigating officers you should have knack for inquisitiveness and well versed in interviewing techniques. They should ask the obvious questions and just not the essential one. They should be experienced to look for documents and statements that can withstand in a court of law and expert interviewer with emphasis on body language. The forensic accountant in multidisciplinary team is trained to look for forgeries fake documents and recognize different handwriting patterns.

The investigators should carefully analyze every voucher. There is a story attached to it .In case the accounting records and supporting documents are doctored to fool statutory Auditors. In such case it is essential to ask for corollary information such as bank statements invoices, contracts, suppliers records, gate passes, contracts, invoices and computer programmes.

WHEN SHOULD A ORGANIZATION CALL FOR INVESTIGATORS?

In fraud investigation a situation requiring investigation is being referred to as Red Flags. Some time a tip off from certain quarters or received through Hotlines need to be followed up seriously. Many frauds could have been detected much earlier and loss of several million Dollars could have been avoided if Red Flags have not been ignored. Some examples of Red Flags are complaints from customers, disgruntled Employees, inconsistent business partners, regularly flouting of company directives, existence of suspense account, high wastage and violation of Regulatory provisions. Lets take an example In case if there has been a fall in production without any reduction in Expenses on Sales commission it needs investigation.

Similarly if sale of Waste continued even when the company was in Lock out needs to be investigated. Consistent payments on Photocopier and Fax payments are often gray areas which fraudsters used so often. Then sudden changes in life style of certain employees without any change in their earnings need to be probed.

Evidence collated on investigations suggests that most companies have the information of Frauds existing in their organization but they still choose to ignore for fear of loosing company goodwill. The key issue for Board level Management is how to evaluate and follow up on the leads received from middle and lower level staff. To effectively tackle this issue company need to address certain key questions:

1. Is there an agreed approach for filtering reported suspicion?
2. Does it have plan setting out immediate steps, which it would take to stop loss and assist future recoveries?
3. Is there a mechanism in place for preliminary investigation of serious suspicions?

FILTERING SUSPICIONS

- Top management should first log on to all reports and then assess the suspicions against certain agreed criteria such criteria may include
- Assessment of the creditability and motives of the source
- The quality of Evidence documentary evidence irrefutable in nature or corroborated by other reports
- The seriousness of allegations like fiddling with books of account by accountant or manipulation of Imp rest account by Senior clerk
- Assessment of Information obtained from preliminary enquiries.

IMMEDIATE ACTION

Often when suspicions are being followed up, immediate action is required to:

- To avoid any future losses

- To, collect evidence for a successful prosecution and recoveries of assets lost due to defalcations'

However until proven action to mitigate potential loss should be tailored to the weight of evidence available. For Example removing a Contracts manager for his friendship with Vendors may cause considerable alarm in the organization. However if a mechanism exists where consistent placement of orders with particular group followed by price variations may lead to circumstantial evidences, which can be used against the contracts manager for any impropriety in tender process. The best way would be to get rid of Erring contract manager and put the vendor on black list. Its important that there should be a mechanism of check and balances which means the floating of tender, receiving quotations and short listing vendors should not be left with one single employee, its necessary that the performance of preferred vendor should be evaluated by Purchase Department and should be contra check with comments by Audit Committees. It's important to note that whether internal control exist in Department where there is too much concentration of power. Like for example in Purchase department if there is an sudden increase in photocopying exp relevant to period of short listing of vendors it need to be investigated. The computer discs need to be checked for copying of any suppliers list. This is time for collecting evidences and not taking action as its important to be aware of entire modus operandi of perpetrators to get to the root of Scam. While collecting evidences you should be ready for worst-case scenario what will happen if key information reduced or destroyed or removed.

PRELIMINARY INVESTIGATION

A preliminary investigation seeks to give initial view of the credibility of a suspicion. This may involve searching publicly held information reviewing documents and interviews with key personnel's. The investigator should ensure that necessary safeguards have been undertaken and logical explanations obtained for what has happened. Its always better for an investigator to approach a suspect after having obtained evidences to prove culpability then trying to sum up jut on basis of replies in interview sessions. In a US case it was found that a company dealing in business of arbitrage was consistently showing profits and declaring high dividends. However a close scrutiny of balance sheets showed that company for not very long have been

running in losses and no major policy shift has taken place over the years neither the company have infusion of fresh funds or new clientele it has also not ventured into new business territory this is enough for carrying investigation as to source of profits. This may be cost by additional borrowings, which diverted to show profits. This type of Fraud is more common when market is tight and share prices are constantly falling in capital markets.

It is absolutely essential that immediate action be taken on the results of the preliminary investigation. Appropriate action against the Fraudsters will set an example for others to follow. The internal controls should be reviewed and corrective steps be taken to remove weak areas. It is also important that an ethical behavior Audit be carried out among the employees of the company to understand the value system, which exist, as it is potential indicator of future frauds.

CONCLUSION

At the end it would be appropriate for you to ask yourself whether a value system exist in my organization, Is management sensitive to Fraudulent practice, Are Internal Control system in place, Whether a mechanism to identify and prevent Fraud exist in the organization only then a organization can be safe from future scamsters.