



### Editorial...

#### Welcome to the third and final issue for 2011!

#### November 6-12 2011 is Dedicated to Fraud Awareness, Detection and Prevention

I encourage you to get your company involved, and take the initiative to make an impact during the week, whether by hosting fraud awareness training for your employees and/or the community, conducting employee surveys to assess levels of fraud awareness within your organization, posting articles on your website and newsletters and/or teaming with local media to highlight the problem of fraud.

The problem is an urgent one, as fraud schemes are extremely costly:

- The median loss caused by the occupational fraud cases studied in the ACFE's 2010 Report to the Nations on Occupational Fraud and Abuse is **5% of annual turnover**.

- Schemes can continue for months or even years before they are detected, lasting a median of **18 months** before being caught.

- **Small businesses** are especially vulnerable to occupational fraud. These organizations are typically lacking in anti-fraud controls compared to their larger counterparts.

- Occupational frauds are much more likely to be detected by **tips** than by any other means. This finding reinforces the need for promoting awareness to foster an informed workforce.

#### In This Issue:

- [International Fraud Awareness Week](#)
- [Newsflash! Company directors & fraud prevention - what does the new Companies Act mean to you as a director?](#)
- [What Part of "Prevention" Are Business Leaders Not Getting?](#)
- [Fraud Awareness Training \(desperately\) Needed](#)
- [Fraud Training Course in Marvelous Mauritius](#)
- [Fraud & Ethics Training Courses for 2011 - We are running a 4-day Fraud Prevention & Detection course in Bedfordview for the IIA](#)
- [Who do you trust to help protect your organisation's profits from Fraud?](#)

Enjoy!

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International  
**FRAUD  
AWARENESS**  
Week  
November 6-12, 2011

**November 6-12, 2011 is the Week that is Dedicated to Fraud Awareness, Prevention and Detection** Organizations around the world lose an estimated five percent of their annual revenues to fraud, according to a survey of fraud experts conducted by the Association of Certified Fraud Examiners (ACFE). It is against this backdrop that the ACFE urges organizations worldwide to participate in International Fraud Awareness Week, November 6-12, 2011 to help cast a spotlight on this urgent problem.

This weeklong campaign encourages business leaders and employees to proactively take steps to minimize the impact of fraud by promoting anti-fraud awareness and education.

Supporters, like **Exactech**, are adding to the blanket of coverage with our own blog posts and this newsletter.

**There are some basic steps that any organization can and should take to help combat fraud:**

**Establish & Communicate a Fraud Policy**

Every organization needs a written policy to address fraud - before it happens. Download our [Sample Fraud Policy](#) (PDF) provided by the ACFE.

**Take the Fraud Prevention Check-Up**

Encourage your company or your clients to take the [Fraud Prevention Check-Up](#) (PDF) to help identify and manage your fraud risks.

**Establish an Anti-Fraud Hotline**

With their proven record of deterring and detecting unethical activity, an anonymous hotline is a critical internal control for any organization. Read about [EthicsLine's comprehensive hotline strategy](#) (PDF).

**Influence Future Professionals**

Speak to local university students enrolled in business, management and accounting courses about the importance of being trained in the detection and prevention of fraud.

**Reduce Risk**

Send an email to clients outlining the risks and cost of fraud. Encourage them to reduce their fraud risk.

**Spread the Word**

Encourage other individuals and organisations to become involved with the [ACFE](#) in the fight against fraud.

## Utilize Anti-Fraud Resources

Everyone is encouraged to take advantage of the free resources provided by the ACFE to help train your employees and increase awareness of fraud within your organization. Also, add the [Fraud Examiners Manual](#) and [Small Business Fraud Prevention Manual](#) to your reference library and make them readily available to your employees.

## New Resources

You and your organization can help make a positive impact in the fight against fraud by taking the following steps today:

download these ACFE resources to share with employees, colleagues, clients and the public. The following files are provided free-of-charge in an effort to promote fraud awareness and prevention.

### **NEW:** [Profile of a Fraudster \(PowerPoint\)](#)

ACFE research helps identify common traits and behavioral red flags among those who perpetrate fraud. Presented in a short and insightful presentation for any audience.

### **NEW:** [Tips for Organizations \(PowerPoint\)](#)

This short and effective presentation from the ACFE provides simple steps any organization can take immediately to help prevent and detect fraud.

### **NEW:** [The Report to the Nations on Occupational Fraud & Abuse \(PDF\)](#)

According to research conducted by the ACFE and published in the 2010 Report to the Nations on Occupational Fraud and Abuse, organizations worldwide lose an estimated 5 percent of annual revenues to fraud.

### **NEW:** [Report to the Nations presentation \(PowerPoint\)](#)

This PowerPoint presentation of the Report to the Nation is an effective tool for use in anti-fraud training.

### [Managing the Business Risk of Fraud: A Practical Guide \(PDF\)](#)

This guidance paper, developed jointly by the ACFE, IIA and AICPA, provides key principles for proactively establishing an environment to effectively manage an organization's fraud risks. It also provides tools, recommendations and real-life examples of how fraud risk management principles are applied.

### [Occupational Fraud: A Study of the Impact of an Economic Recession \(PDF\)](#)

Intense financial pressures during the economic crisis have led to an increase of fraud, according to a survey of fraud experts conducted by the ACFE.

**Please keep in mind that all these resources can be used at any time during the year - not just during Fraud Week!**

## NEWSFLASH! COMPANY DIRECTORS & FRAUD PREVENTION

- Craig Campbell, Legal Counsel: Melbro Group

It is incumbent upon company directors to ensure that they use their powers to make certain that the companies under their charge become "streetwise" and that fraud prevention is high on the Board agenda.

The new Companies Act, 2008 ("the Act"), is the basis for this assertion.

Section 159 of the Act **reinforces the concept of protection for corporate whistleblowers.**



Companies should therefore review their whistle blowing systems in order to ensure that they are functioning well, and that whistleblowers are afforded protection.

Should such a system not be in place, one would be well advised to implement a hotline or a similar system designed to receive disclosures, as a matter of urgency.

Furthermore, without getting too technical, an **audit committee** and a **social and ethics committee** is now mandatory for certain companies.

It is a 'sine qua non' (an essential element or condition) that such committees be informed by a formal code of ethics.

How else would executive and non-executive directors know what standards of conduct are to be tolerated?

Prudent directors therefore should **harmonise their business operations with the Act** by formulating a hardcore code of ethics.

These documents could (and should!) serve as the **basis for measuring employee and management's workplace conduct**, and **also provide shareholders and stakeholders with a measure of comfort** with respect to what a company's "DNA" is all about.

*"South African CFOs, like their African and global counterparts, are increasingly worried about personal liability from fraud, bribery and corruption in their firms" - E&Y 11th Global Fraud Survey*

**I have to wonder why these CFOs are worried, as all the CFOs we have spoken to are well aware of the nine fraud prevention building blocks that are considered best practice for organisations. It may be because they are not listening to their risk managers or internal auditors and have chosen to NOT implement these fraud prevention solutions - (penny-wise & pound-foolish)...**

## What Part of "Prevention" Are Business Leaders Not Getting?

*By Peter Goldmann, CFE*

In 2002, National Century Financial Enterprises (NCFE) collapsed under the weight of a \$2.3 billion financial fraud committed by its top executives without questioning, querying or curiosity by the board or shareholders.

After eight years beginning in 2003, Jersey State Bank's executive vice president, Mary Becker, was charged with stealing \$4.4 million while management entrusted her with all of the bank's key financial responsibilities.

And just a few months ago, it was finally learned that Citibank vice president Gary Foster had allegedly embezzled nearly \$20 million over the course of 15 months by stealthily shifting funds from Citibank accounts to his own.

These are just three of countless cases of internal fraud that not only weren't prevented, they continued for months or years right under the noses of the perpetrator's bosses. More importantly, though, each of these crimes -- along with thousands of others like them -- could have been prevented at minimal cost and effort.

Had, for example, NCFE's auditors looked for signs of suspicious cash transfers that were part of the multi-billion-dollar fraud, wouldn't someone have blown the whistle?

Similarly, had Jersey State Bank's auditors and top management been looking more closely at the books, clues to the \$4.4 million embezzlement probably would have popped out at them. Same at Citibank where, with the benefit of hindsight, better internal controls over approval of cash transfers between specific accounts would have made it difficult if not impossible for Foster to siphon off the \$20 million.

### **Prevention: a No-Brainer**

The damage caused by such frauds requires no exaggeration: financial loss, bankruptcy, reputational devastation, onerous legal fees, etc. can all result. And according to recent research, the "fraud problem" is on a relentless upward trajectory. For example, Kroll reported in its latest "2010-2011 Global Fraud Report" that fraud losses increased by a staggering 20 percent in a recent 12-month period. In dollar terms, that translates into a jump from \$1.4 million in fraud losses to \$1.7 million per \$1 billion of sales.

So it begs the question (yet again): why do organizations continue to downplay -- or even neglect -- fraud prevention in favor of a "we'll deal with it when it happens" mindset?

Sensitive to this cycle of self-destructiveness, in 2003 the ACFE published its "Fraud Prevention Check-Up." [Download it for free](#), and you'll note that the document contains seven steps to substantially bolster an organization's fraud prevention and detection measures.

Central to the Check-Up is conducting a fraud risk assessment. How many times have you heard anti-fraud practitioners lecture about the importance of such a measure? Unfortunately, the lecturing seems to still fall on deaf ears; according to Ernst & Young's "11th Annual Global Fraud Report," only one in seven organizations conducted a formal fraud risk assessment.

By contrast, 74 percent of organizations surveyed by E&Y said that internal controls were the likeliest way to prevent fraud.

**Problem:** You can't have good controls if you don't know what your fraud risks are. Properly conducted fraud risk assessments identify the specific fraud schemes and scenarios that your organization is most vulnerable to. That gives your internal audit, accounting, security, compliance and legal teams guidance in testing for red flags of these frauds. If there is evidence that they are occurring, then management has exactly what it needs to implement the anti-fraud controls needed to prevent these crimes.

Simple, right? Not exactly. Doing a fraud risk assessment is not rocket science, but it's no walk in the park, either. Importantly, though, it's a lot less costly than the fallout from a multi-million dollar embezzlement or accounting fraud.

Obviously, doing a fraud risk assessment and putting effective anti-fraud controls into place is not the whole prevention story. You still need capable auditors, financial executives or fraud prevention professionals to monitor the effectiveness of controls and to ensure that complacency doesn't creep in and recreate the weaknesses that fraudsters were able to take advantage of before the controls were reinforced.

Yet, you have to start somewhere. As the ACFE says in the introduction to its Fraud Prevention Check-Up, "any organization that fails to protect itself appropriately faces increased vulnerability to fraud. It is the least expensive way to find out your company's vulnerability to fraud. Most organizations score very poorly in initial fraud prevention check-ups because they don't have appropriate anti-fraud controls in place. By finding this out early, they have a chance to fix the problem before becoming a victim of a major fraud.

"It's like finding out you have seriously high blood pressure. It may be bad news, but not finding out can be a lot worse."

For example, Citibank's discovery after the \$20 million theft, that it lacked fundamental segregation of duties (SoD) in Mr. Foster's area of the bank, is not the way one would want to find out that an organization's framework of SoD is poor to nonexistent.

The same applies to such basic controls as performing thorough employee background checks, proper delegation of authority and controls over disbursements and receivables.

## **Getting to the Top**

It may be that this writing falls into the category of preaching to the choir. If you're an auditor, fraud examiner or security professional, you probably learned this lesson years ago. My fear, however, is that those in the anti-fraud profession are often frustrated by the communication gap they are up against with top management when trying to obtain resources to implement necessary controls.

I won't belabor the tone-at-the-top argument, but I will say that unless we in the fraud fighting community find a way to get through to the bosses who still have their heads buried in the sand when it comes to fraud, there will be more and more cases like those of Citibank, NCFE and Jersey Bank down the road.

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Peter Goldman is the author of [Fraud in the Markets: Why It Happens and How to Fight It](#), published by John Wiley & Sons, available at the [ACFE Bookstore](#). He is also the Editor and Publisher of the monthly newsletter, *White-Collar Crime Fighter*, <http://www.wccfighter.com/>.

## Fraud Awareness Training Needed

SOUTH AFRICAN companies need to implement effective fraud awareness training through in-house workshops and ethics training, in order to combat the country's growing levels of private sector corporate crime.

This is according to Daniel Malan, head of the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School (USB), who says that **South Africa is estimated to be losing between R86 billion and R120 billion per year as a result of white collar crime.** The educational investment needed is now urgent.

"If there is a greater understanding of the ramifications of private sector fraud and the various ways it can be played out in the business community, combating it would be easier," says Malan, who is also a member of a task group on anti-corruption formed by the UN Principles for Responsible Management Education.

Malan points to a recent survey by ITWeb, which revealed that, over the past three to five years, over 70% of local companies discovered fraud committed by their employees. Furthermore, the majority of companies that experienced internal fraud did not report it in order to avoid bad publicity and costly legal battles.

Malan believes that teaching more employees about the complexities of crimes like those involving tax swindles, insider trading, securities violations, kickback schemes and computer fraud, would create a greater awareness not just for those operating in the private sector, but also for those dealing officially with private sector crimes.

This sentiment is echoed by Willem Heath, former judge and investigator and now an advocate and head of Heath Executive Consultants, who says law enforcement officers dealing with private sector crime should go to business school to get to grips with the theory and practical implementation of commercial principles, as well as the basics of internet fraud.

"We have too few police officers, magistrates and judges with sufficient knowledge of the mechanisms of commercial transactions to enable them to investigate corporate misdemeanor effectively. We need highly trained investigators who not only know the law but also have commercial experience and can understand financial statements," says Heath.

Source: [Cape Business News](#) 27 June 2011

***"I hated every minute of training, but I said, "Don't quit. Suffer now and live the rest of your life as a champion."  
- Muhammad Ali***

(Our training courses are enjoyed by the delegates and the ones that take the course seriously are able to live their lives as **fraud-fighting champions!**)

## Fraud Training Course in Marvelous Mauritius

Antonio and I spent one week training attendees at the Forensic Auditing course that we ran in conjunction with the **Mauritian Management Association**.



There were fifty five delegates from private and public sector organisations.

In addition we spent 2-days training about 150 delegates from the **National Audit Office** - the equivalent of our Auditor General.

What struck us most about all these delegates was their willingness to learn and their existing knowledge.

Here in South Africa many delegates are sleeping, working on their laptops or sending SMSs while in the training.

It is refreshing for us to train attendees who are enthusiastic, attentive and want to learn more. We have been invited back next year to provide more detailed forensic training.



Back home we find that many delegates attend these courses just to obtain their CPD points and we never hear from them again. And in a lot of cases they suffer the consequence of being complacent as we deal with law enforcement who tell us which organisations have suffered what frauds or we are involved in the cyber-forensic part of the investigation.

The Mauritian culture is a refreshing blend of honesty and serious work-ethic, plus Mauritius has developed immensely since I was last there in 2001 training their Economic Crime Unit. There are new shopping malls, new corporate buildings and a new highway being built in Port Louis.

**If you would like to attend a training course in Mauritius, combining education with a vacation, this may be your chance - so keep a look out for our next newsletter that will have the dates of our 2012 training program!**

## Fraud and Ethics Training / Awareness Courses:



Here are the dates for our popular 4-day *Fraud Prevention and Detection* course run by the IIA...

### **06 - 09 December 2011, Bedfordview, Johannesburg**

Why these courses are important...

**According to the 2010 ACFE global fraud survey, the average organisation loses 5% of its annual turnover to fraud!!**

General Course Outline...

- The success of a fraud risk management program relies on an organisation implementing a dynamic and sustainable anti-fraud strategy.
  - We discuss criminology theory and the fraud triangle.
  - The three categories of occupational fraud are examined.
- We unpack the nine best-practice fraud prevention building blocks and then show how to get management buy-in.
- We use case studies; show DVDs and use practical exercises to ensure that workshop attendees are 'edutained'.

Some past delegate comments...

- *Made me aware of the fraud risks to my clients and myself.*
- *I definitely enjoyed every minute and it was a big eye opener.*
- *Thank you for an excellent course - I was so impressed by your knowledge, presentation skills and enthusiasm.*
- *I am now able to go back to my company and plug the gaps.*
- *Made me realise that fraud is possible even if there are internal controls.*
- *It created a strong awareness in me on how to prevent and detect fraud.*
- *Mario has inspired me to go back and enhance our anti-fraud initiatives.*
- *Integrity and values must be the cornerstones to any organisation.*
- *The seminar was excellent and I greatly enjoyed the examples you provided of moral relativism, as well as the areas of vulnerability.*

To register please contact Jenine or Maria at the **Events Department on:**

**Tel: +27 (0)11 450 1040, email: [events@iiasa.org.za](mailto:events@iiasa.org.za)**

## Who do you trust to help protect your organisation's profits from Fraud?

***“If you were to ask a group of typical accountants what deters fraud, they would respond in unison: ‘Internal control!’***

***Using this logic, companies with adequate controls would not have fraud. But they do, time & again”***

– Joe Wells, founder of the ACFE

Internal Controls **≠** Fraud Prevention!!

Every organisation has internal controls but they don't all have fraud prevention!

Exactech Fraud Prevention Solutions specializes in helping private and public sector organisations to implement best-practice anti-fraud initiatives based on the nine fraud prevention building blocks.

Fraud is present in almost all businesses, with only the 9 fraud prevention elements and regular monitoring to keep it in check. When some of these elements are missing or are circumvented, frauds can quickly grow to shocking proportions.

Exactech specializes in:

- **Data Analytics**
- **Fraud Risk Assessments**
- **Code of Ethics Review / Compilation**
- **Policy Reviews**
- **Hotline Management**
- **Computer Forensics**
- **Fraud Awareness Training**
- **Ethics Training**
- **Fraud Prevention & Detection Training**
- **Cyber Forensic Training**

Fraud Risk Assessment	Accountability	Controls
Data Analytics	Policy	Whistle-blowing System
Value System - Ethics	Recruitment	Training & Awareness

Based on the ACFE Fraud Prevention Check-up

Contact: [Antonio Pooe](#) or [Mario Fazekas](#)  
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