C-SUITE'S DIRTY LITTLE FRAUD SECRET

Fraud committed by CEOs, CFOs, and others in the C-suite is a dirty little secret. It is rarely discussed, but it happens with disturbing regularity. It is one of those once in a lifetime events that seems to happen regularly. Most business leaders do the right thing and have ethics and integrity beyond reproach. Their qualifications and training, professional associations and institute affiliations, careers, focus on business viability (private sector) or services to the public (public sector), business acumen, governance practices, risk management practices, compliance procedures, and philanthropic work are well honed to instill confidence. Only a small percentage of the C-suite engages in fraudulent activities; however, it does happen enough to cause concern. This presentation discusses the phenomenon and provides suggestions for checks and balances that could be put in place to mitigate these risks and assure businesses, boards, audit committees, stakeholders, and shareholders that their trusted C-suite executives continue to act ethically and with integrity at all times.

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Roger Darvall-Stevens is a Partner at RSM and is the National Head of Fraud & Forensic Services in Australia. Roger has more than 25 years of experience in forensic investigations and accounting, providing value-added services to corporate and government clients in all industries in fraud, bribery, corruption and improper conduct prevention, detection and response or investigation, foreign bribery and corruption compliance, related fraud crisis management, and specialist services such as forensic training and corporate security advice. Roger is well credentialed as a licensed investigator in multiple locations across Australia and New Zealand, a former police detective (areas include fraud and counterterrorism), a CFE and Regent Emeritus (a member on the ACFE Global Board 2012–2013), the Melbourne, Australia ACFE Chapter President, and is trained and experienced in advanced interview techniques. He has also presented at many international and local conferences and seminars and authored a number of articles and publications. Roger's qualifications include:

- Master of Business Administration (M.B.A.) degree
- Master of Arts (Criminology) degree
- Graduate Diploma in Criminology
- Graduate Certificate in Fraud Investigation
- Bachelor of Arts degree majoring in police studies and sociology

Roger was previously with Ernst & Young for 13 years as a partner in their global Fraud Investigation & Dispute Services team. Prior to that Roger was an investigations manager for AAMI Insurance, a corporate security investigator and trainer for Ford Motor Company of Australia Limited, and a policeman and detective with the Victoria Police Force in Australia for 12 years.

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Who Is the *C-Suite* or *C-Level*? Members of the C-suite are an organisation's most trusted executives. They have titles that usually begin with the letter *C* or *Chief* and include the following: ❑ Chief Executive Officer ❑ Chief Financial Officer ❑ Chief Information Officer ❑ Chief Risk Officer ❑ Chief Compliance Officer ❑ Chief Operating Officer ❑ Chief Human Resources Officer ❑ Chief Marketing Officer ❑ Chief Administrative Officer ❑ Chairman or owner ***Acknowledgement … Then What?*** Once it is acknowledged that fraud is committed on occasion by members of the C-suite, the next step is to address what can be done to mitigate the risk and provide confidence that blind trust should never be a control. Everyone should be accountable and subject to appropriate and proportionate checks and balances. What do the statistics say about who commits fraud and the motivations to do so? One of the leading authoritative fraud surveys is from the Association of Certified Fraud Examiners (ACFE). The ACFE's most recent 2014 Global Fraud Study revealed that: *The higher the perpetrator's level of authority, the greater fraud losses tend to be. Owners/executives only accounted for 19 percent of all cases, but they caused a median loss of $500,000. Employees*	**NOTES**

conversely committed 42 percent of occupational frauds but only caused a median loss of $75,000. Managers ranked in the middle, committing 36 percent of fraud with a median loss $130,000.

Figure 40: Position of Perpetrator — Frequency

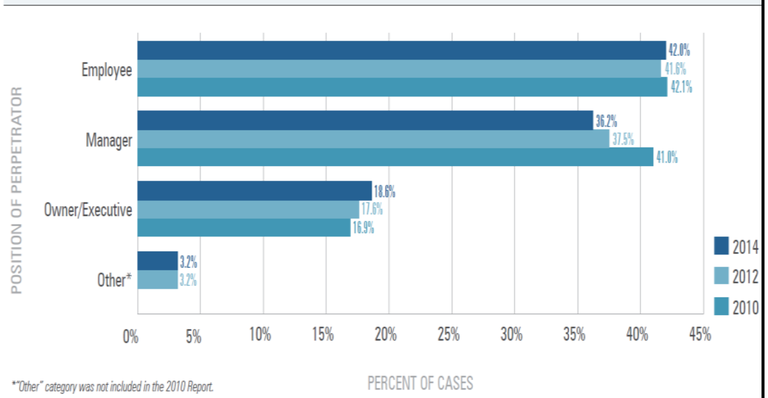

Figure 41: Position of Perpetrator — Median Loss

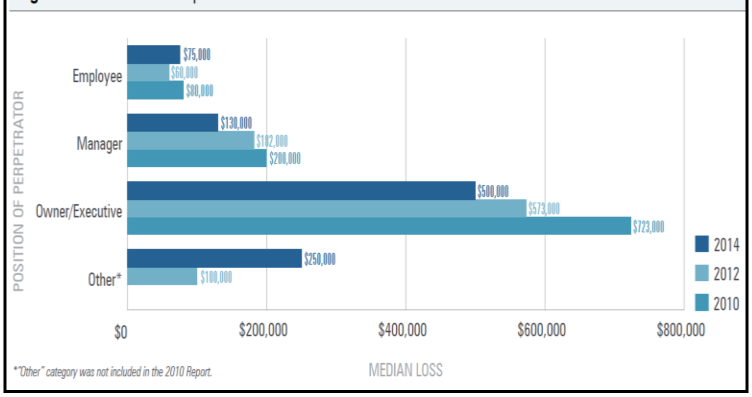

Figure 42: Median Duration of Fraud Based on Position

Position	Median Months to Detect
Employee	12
Manager	18
Owner/Executive	24
Other	16

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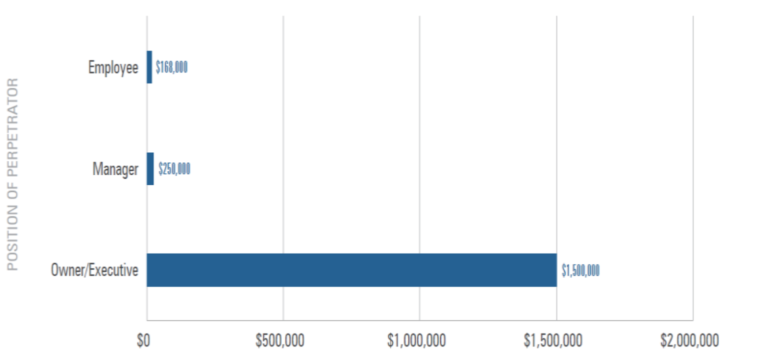
Figure 46: Median Loss Based on Position of Perpetrator — Asia-Pacific (123 Cases)



*"Other" category had insufficient responses for median loss calculation.

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Motivations

The ACFE 2014 Global Fraud Study reveals that motivations for fraud for the owner/executive category (separate from employee or manager categories), which is the closest category to the C-suite, are captured in the top nine behavioural fraud red flags and are as follows in order of prevalence (note: percentages exceed 100 percent as there are multiple red flags in some cases):

1. Living beyond means 43.7 percent
2. Wheeler-dealer attitude 29.6 percent
3. Control issues, unwillingness to share duties 28.6 percent
4. Financial difficulties 25.2 percent
5. Unusually close association with vendor or customer 24.3 percent
6. Irritability, suspiciousness, or defensiveness 15.5 percent
7. Divorce or family problems 15 percent
8. Excessive pressure from within the organisation 14.6 percent
9. Addiction problems (e.g., gambling, alcohol, drugs) 10.7 percent

Case Studies	NOTES

Case Studies

Satyam Indian IT company (2009)

Company founder and Chairman Ramalinga Raju falsified revenue by US$1.5 billion and admitted this in a letter to the company's board. Raju was found guilty along with nine others of inflating the company's revenue, falsifying accounts, income tax returns, and more.

Bernard L. Madoff Investment Securities LLC (2008)

Bernie Madoff, who was founder and chairman of a Wall Street investment firm, was sentenced to 150 years in prison and US$170 billion in restitution for deceiving investors out of US$64.8 billion through a Ponzi scheme.

WorldCom, Telecommunications Company (2002)

Assets were inflated as much as US$11 billion, and the company filed for bankruptcy, with US$180 billion in losses for investors. Those involved included the CEO, Bernie Ebbers, who was sentenced to 25 years in prison because of fraud.

Enron, Energy and Commodities Company (2001)

Shareholders lost US$74 billion, and the company filed for bankruptcy which led to the demise of the Arthur Andersen accounting firm. Those involved included CEO Jeff Skilling (sentenced to 24 years in prison) and former CEO Ken Lay, who died before being imprisoned.

Confidential cases five, six, and seven will be displayed and discussed at the conference.

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What Can Be Done?

Boards, audit committees, and executive or senior management have vested interests in implementing checks and balances to ensure that C-suite professionals are leading the way with the tone from the top and showing ethical behaviour beyond reproach. The key is to develop tailored forensic or fraud detection procedures focused on the C-suite. Such a forensic review can be designed by reverse engineering the intelligence gained in understanding C-suite fraud red flags and using fraud profiling.

Fraud Profiling

Fraud profiling seeks to understand the motivations and characteristics of C-suite fraudsters, the industry, and businesses in which the C-suite executives operate. It is then worked to develop forensic or fraud detection procedures to provide insight into the fraud vulnerabilities or actual fraud that may be occurring or is at high risk of occurring in the future. Examples of forensic procedures include:

1. Interviewing the C-suite executive to understand fraud and corruption control awareness, as well as reviewing the family and individual profiles for vulnerabilities.
2. Conducting forensic due diligence background checks on the C-suite executive and family that are either publicly available (e.g., background checks for other business interests, social media sites) or with consent when required (e.g., police checks) to ensure that any conflict of interest, perceived or actual, is managed.
3. Understanding the systems access profile of the C-suite executive (e.g., transactions, approvals) and performing forensic data analytics, including an analysis of personal expenses.

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4. Performing forensic IT analysis as required (e.g., Internet site visits such as to gambling websites if corporate access is allowed) or email reviewing if required. If a C-suite executive objects to forensics or fraud detection procedures (a forensic review), I suggest that this may be a red flag in itself and should cause concern for the board. No one, regardless of level in a business, is beyond the checks and balances that mitigate the risks of fraud and corruption.	