



Fraud Uptick?

The impact of the GFC on Fraud October 2008 to October 2011

Peter Coleman

Executive Director, Deloitte Forensics

Singapore and Southeast Asia



Setting the Scene

Global Financial Crisis

- First real impact of the GFC felt in October 2008
- Sudden and dramatic decline in business activity and cash
- Many suggested a crisis of confidence and cash
- Governments and financial institutions struggled for appropriate responses
- Great deal of effort spent on finger pointing
- Corporations, whether MNC, regional or local were all immediately impacted
- There was no early indication of how long this would last or how deep it would go
- Some economists predict double-dip recession
- But how much effect would this have on fraud?

So what does this mean for fraud?

Fraud uptick?

- In October 2008 we asked these questions:
 - Does fraud increase during an economic downturn?
 - What are the common factors driving fraudulent activity
 - What types of fraudulent activity that can be expected during times of economic upheaval
 - What are the leading practices in fraud risk management
 - What are the considerations for conducting investigations in an economic downturn
- Today we will address these issues and see what has happened over the past two years of the GFC

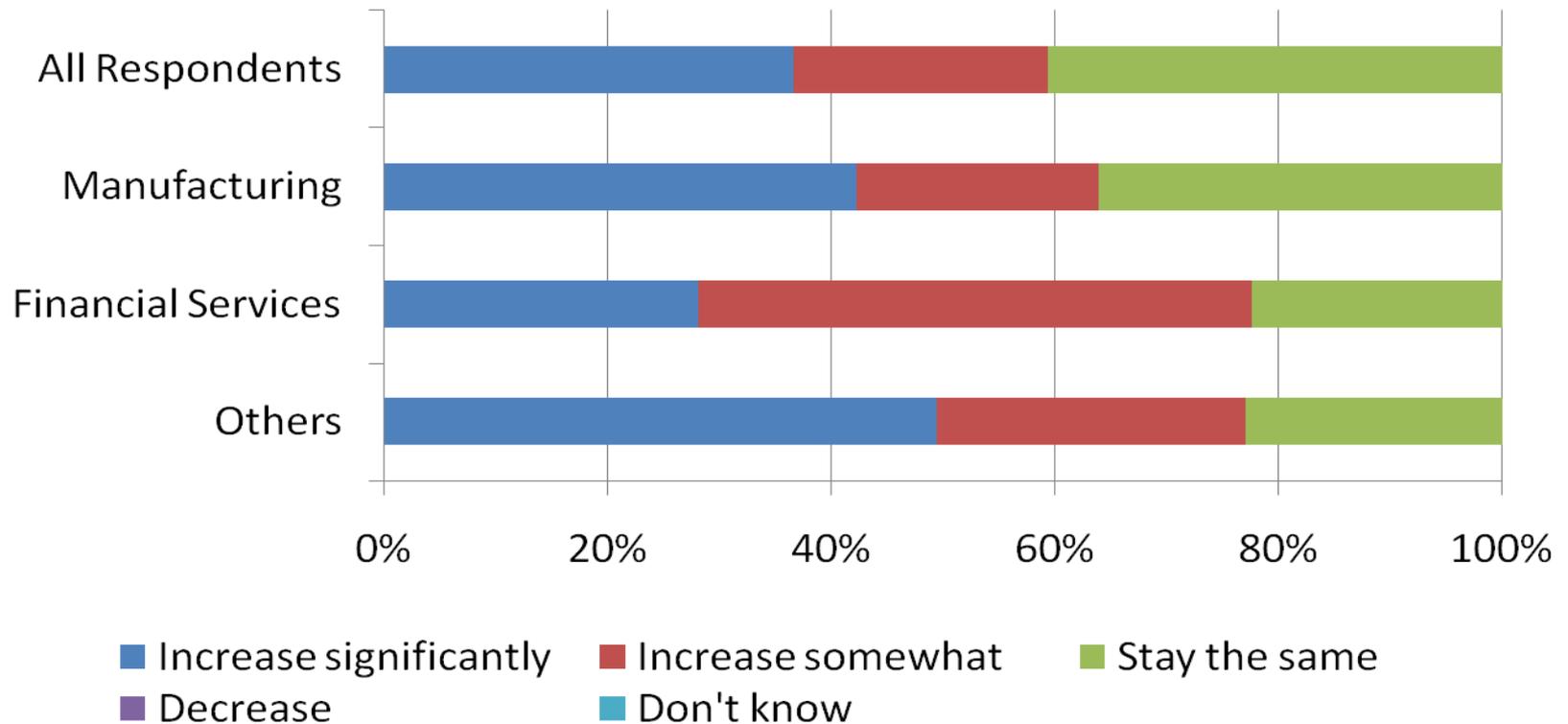
Economy down / Fraud up?

- Criminologists and other social commentators will disagree on the causes of crime in general
 - However there is strong evidence to show that more fraud is DETECTED in periods of economic downturn
 - Discussion on some aspects of property and personal crimes and fraud
 - A Deloitte survey in late 2008 showed 63% of our clients believed they would see an increase in ACCOUNTING fraud alone in this current period
 - Similar views held regarding expense fraud, procurement fraud and payroll and similar frauds

The numbers

Fraud risk in the economic downturn

Deloitte Poll: Expected change in incidence of Fraud over next year

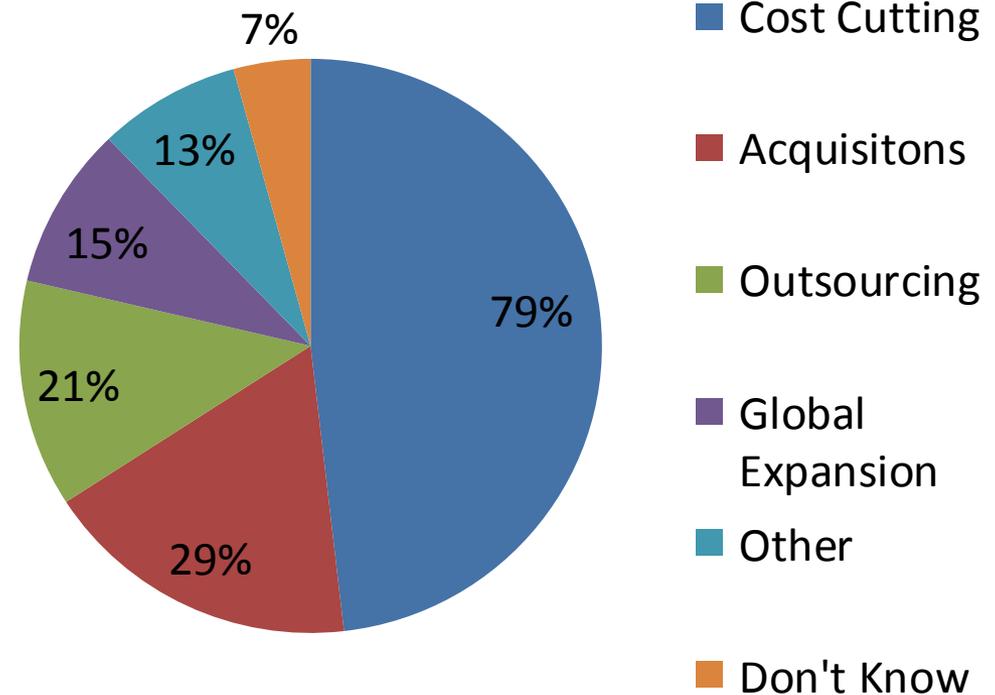


Fraud risk in the economic downturn

Deloitte Online Survey

1. Cost Cutting
 - Reduction in workforce
 - Corporate Reorganisation
2. Acquisitions
 - Mergers
 - Takeovers
3. Outsourcing
 - Internal Processes
4. Global Expansion
 - Entry into new markets
5. Other
6. Don't Know

Expected responses to the economic downturn (perceived)



The GFC headlines so far

Satyam Computer Services

- Financial Statement Fraud
- India's 4th largest software services provider
- 53,000 employees and operations in 66 countries
- Profits falsely inflated by over 80% over several years
- 50.4 billion rupees (\$1.04bn USD) in cash and bank loans non-existent.
- Serves more than a third of the fortune 500 companies

Home > Breaking News > Money > Story
Jan 7, 2009

Satyam hit by US\$1b scam

Founder and chairman quit after admitting falsifying account.



Mr Raju (pictured) admitted in the statement that the Maytas acquisition plan was 'the last attempt to fill fictitious assets with real ones.' --PHOTO: BT

MUMBAI - THE head of one of India's biggest outsourcing firms, Satyam Computer, resigned on Wednesday amid a scandal over a billion dollar fraud that sent company stocks into freefall.

Company founder and chairman B. Ramalinga Raju admitted the Hyderabad-based software services firm had falsified accounts and assets and inflated its profits over several years.

The company overstated its cash and bank balances of 50.4 billion rupees (\$1.5 billion) in its September-end balance sheet, 'purely on account of inflated profit over a period of several years,' Mr Raju said in a statement.

Bernard L. Madoff Investment Securities LLC

- Bernard Madoff, former Nasdaq chairman
- USD50 billion Ponzi Scheme
- Auditor: Frierling & Horowitz
 - Three-person accounting firm based in New City , N.Y.
- Whistle-blowing - Securities Exchange Commission
 - Mr Markopolos, highlighted to the SEC that Madoff's stock-options strategy was improbable and submitted documents reviewed by The Wall Street Journal
 - Mr. Vos, investigated Madoff Securities on behalf of an investor and found a red flag in the form of the auditor Madoff used.

>> ASIAONE / BUSINESS / NEWS / MY MONEY / STORY



Photo: Reuters

Sat, Dec 13, 2008
Reuters



Print-friendly



Email a friend

Bernard Madoff arrested over alleged US\$50 billion fraud

NEW YORK, USA - Bernard Madoff, a quiet force on Wall Street for decades, was arrested and charged on Thursday with allegedly running a US\$50 billion "Ponzi scheme" in what may rank among the biggest fraud cases ever.

The former chairman of the Nasdaq Stock Market is best known as the founder of Bernard L. Madoff Investment Securities LLC, the closely-held market-making firm he launched in 1960. But he also ran a hedge fund that U.S. prosecutors said racked up \$50 billion of fraudulent losses.

Madoff told senior employees of his firm on Wednesday that "it's all just one big lie" and that it was "basically, a giant Ponzi scheme," with estimated investor losses of about \$50 billion, according to the U.S. Attorney's criminal complaint against him.

A Ponzi scheme is a swindle offering unusually high returns, with early investors paid off with money from later investors.

On Thursday, two agents for the U.S. Federal Bureau of Investigation entered Madoff's New York apartment.

"There is no innocent explanation," Madoff said, according to the criminal complaint. He told the agents that it was all his fault, and that he "paid investors with money that wasn't there," according to the complaint.

The \$50 billion allegedly lost would make the hedge fund one of the biggest frauds in history. When former energy trading giant Enron filed for bankruptcy in 2001, one of the largest at the time, it had \$63.4 billion in assets.

Stanford Ponzi Scheme



- Allen Stanford operated an **\$8 billion fraud** surrounding the certificates of deposit his Antigua-based **Stanford International Bank** (“SIB”) sold to investors and marketed through several of his U.S. companies.
 - Acting through a network of SGC financial advisers, SIB has sold approximately \$8 billion of so-called "certificates of deposit" to investors by promising improbable and unsubstantiated high interest rates. These rates were supposedly earned through SIB's unique investment strategy, which purportedly allowed the bank to achieve double-digit returns on its investments for the past 15 years.
 - Funds were invested in "speculative, unprofitable private businesses controlled by Stanford.
 - Every month, Stanford and Davis set a predetermined rate of return for certificates of deposit issued by their Antigua bank, then bank accountants reverse-engineered financial statements to report investment income that the bank did not actually earn.
 - Also alleges Stanford and his co-defendants allegedly misused and misappropriated most of those investment assets, including diverting at least 1.6 billion dollars into undisclosed personal loans to Stanford himself.
 - Also alleges an additional scheme relating to \$1.2 billion in sales by SGC advisers of a proprietary mutual fund wrap program, called Stanford Allocation Strategy (SAS), by using materially false historical performance data. According to the complaint, the false data helped SGC grow the SAS program from less than \$10 million in 2004 to more than \$1 billion, generating fees for SGC (and ultimately Stanford) of approximately \$25 million in 2007 and 2008. The fraudulent SAS performance was used to recruit registered investment advisers with significant books of business, who were then heavily incentivized to reallocate their clients' assets to SIB's CD program.
 - The SEC's complaint charges violations of the anti-fraud provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act, and registration provisions of the Investment Company Act.

Lehmann Brothers



A March 2010 report by the court-appointed examiner indicated that Lehman executives regularly used cosmetic accounting gimmicks at the end of each quarter to make its finances appear less shaky than they really were. This practice was a type of repurchase agreement that temporarily removed securities from the company's balance sheet. However, unlike typical repurchase agreements, these deals were described by Lehman as the outright sale of securities and created "a materially misleading picture of the firm's financial condition in late 2007 and 2008." [10]

(http://en.wikipedia.org/wiki/Lehman_Brothers)

UBS

Kweku Adoboli



Rogue Trader

- *September 2011 discovery of US\$2billion + losses due to actions of alleged rogue trader, Kweku Adoboli, a 31-year old trader on the Delta One desk of the firm's investment bank.*

Response by UBS

- *The bank stated that no client positions had been affected and its CEO Oswald Gruebel initially dismissed calls for his resignation, commenting that "if someone acts with criminal intent, you can't do anything."*

Impact:

- *"The scale of UBS's losses led to renewed calls for the global separation of commercial banking from investment banking while media commentators suggested UBS should consider downsizing its investment bank and potentially rebranding it under the resurrected S.G. Warburg name."*

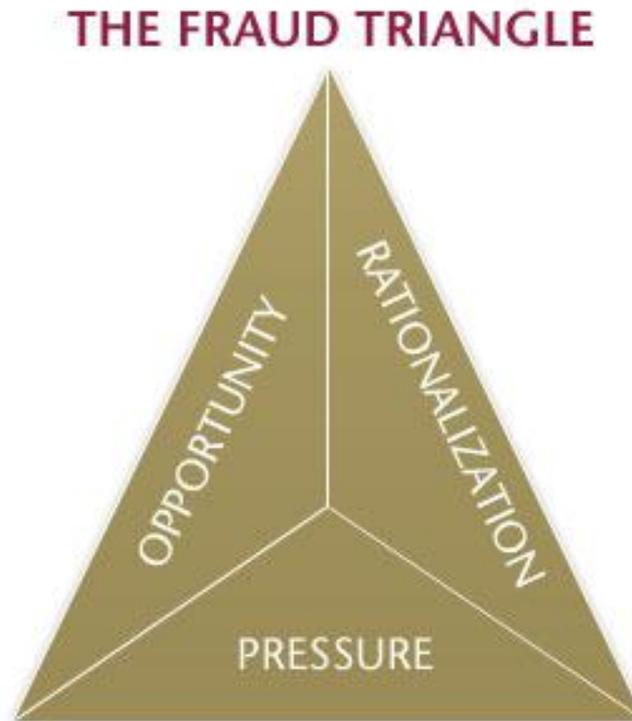
Scale of incident

- *"If found guilty, Adoboli will have generated the third-largest loss by a rogue trader in history, after Jerome Kerviel of Société Générale (who also worked on a Delta One desk) and Yasuo Hamanaka, a copper trader at Sumitomo Corporation."*

Source: (http://en.wikipedia.org/wiki/UBS#2011_rogue_trader_scandal)

How it happens

Three common factors



Donald Cressey's "Fraud Triangle"

Financial Pressure

- Is there increased financial pressure during an economic downturn?
 - Certainly, that cannot be denied
 - The pressure can be from many fronts
 - Meeting targets
 - Feeding the family
 - Making loan payments
 - Increased personal expenses
 - Reduced business activity
 - Fear of losing jobs
 - Reduced working hours and salaries

Opportunity

- Increased opportunities to commit fraud can be found where employers downsize and so less people are doing more work
 - Middle management usually the first to be fired
 - Most internal controls focus on supervision
 - Same or more supervision/control is spread over fewer people
 - Lack of experience, skill, knowledge to cope with new responsibilities
 - Increased distance from point of control to the place of business activity (geographically and line of sight)

Rationalisation

- Rationalisation with crime, especially fraud is usually
 - My needs are greater than yours
- The rationalisation is not always logical
 - Fear of getting caught reduces as the pressures increase
- Increased pressures and opportunities will often make the commission of a crime easier to rationalise
 - If I can do it and not get caught, and I know nobody can catch me, then I can do it
- Subtle differences between fraud committed for immediate personal gain and that to meet the demands of the employer such as to meet sales targets or quarterly results
- Remember this is an IRRATIONAL form of Rationalisation
 - Many arguments can be had here
 - Its not hurting anyone
 - I can pay it back, its just a loan
 - Nobody will catch me
 - I am helping the company

Specific activities expected

Types of activity to expect

- Revenue recognition
 - Schemes designed to hide the true financial position of the company from shareholders, financiers, regulators
 - Or sales and inventory related recognition schemes to hide the true nature from the company itself
- Improper disclosures
 - Deliberately falsified records designed to mislead financiers, investors, regulators, auditors, BOM
- Corruption
 - Pressure to reach sales and other business targets will tempt many companies and employees to offer and indeed to accept bribes
 - This can lead to increased surveillance by regulators, law enforcement and prosecutors in home markets and other locations
 - FCPA, OFAC, EU, CPIB, UKBA

Other activities

- Expense claim fraud
 - Always present, but greater temptation
- Procurement fraud
 - Also always present, but greater pressure
- Channel stuffing
 - Quarterly reporting requirements drive much
- Conflicts of interest
 - Why not do business with yourself, your family or your friends?
- Payroll fraud
 - One for you and two for me!
 - Ghosted employees, unworked overtime and allowances etc

Three years have passed

2009/10 Case studies

- **Singapore based regional player**

- Allegations of fraud, conflicts of interest, financial misstatement
- As financial pressures increased, margins decreased, competition increased and client activity decreased, scrutiny increased
- Senior Management involvement
- Procurement inconsistencies
- Unusual accounting and management decisions

- **Singapore based niche services provider**

- Allegations of fraud, conflict of interest and procurement procedure breaches and more
- Funding for organisation depends on financial management, probity and quality of services to client base
- Senior Management involvement
- Close relationships with vendors
- Procurement issues
- Poor internal financial processes
- Allegations from disgruntled member of organisation

2009/10 Case studies

- **MNC operating across SEA**

- Allegations of fraud and corruption regarding the following areas of procurement
 - Purchase of land for development
 - Engaging vendors for high value contracts
 - Bribes to government officials
 - Hiring of staff related to senior management
- Increased scrutiny from HO lead to review of contracts and financial statement revealing above issues

- **MNC Financial Institution/s**

- Regulator driven activity causing more than one MNC Financial Institution to perform reviews of financial transactions across the region
- Global financial pressures and perceived failures by some regulators driving increased scrutiny
- Continuing global war on terror and drugs, as well as people smuggling also driving increased scrutiny in some markets
- Proximity of Singapore to 'hot spots' a factor

2009/10 Case studies

- **Global organisation with SEA wide operations**
 - Global review of organisations operations highlighted significant financial pressures in one location out of many
 - Review of target office revealed apparent fraudulent activity ongoing for up to 5 years
 - Pressure seen to increase significantly around time of GFC
 - Potential losses in \$10'sM
 - Recovery unlikely
- **Regional conglomerate with investments SEA region**
 - GFC dried up lines of credit
 - BoD decision to liquidate certain as yet un-performing assets
 - Initial actions to dispose of certain assets revealed no longer owned by company, having been transferred to ownership of shareholder/investor without knowledge of the BoD
 - Internal relationship had been leveraged to allow the transfer to take place invisibly
 - Asset had indeed increased significantly since the transfer and appears the debt left behind

Singapore media reports

Singapore media

THE STRAITS TIMES MONDAY, OCTOBER 4 2010 PAGE B5

White-collar crimes: Those suspected or convicted

■ Koh Seah Wee and Christopher Lim (2010)

Koh, 40, a deputy director in a department of the Singapore Land Authority, and Lim, 37, a manager in the same department, are suspected of having cheated the Government of \$12 million by rendering false invoices through various businesses for undelivered IT goods and services. Police are investigating.

■ Peter Khoo Chong Meng (2010)

Khoo (right), a senior executive at Singapore Press Holdings, admitted to receiving illegal payments and misappropriating shopping vouchers. He has since paid back \$196,500. Sacked and later arrested on suspicion of criminal



breach of trust, he is out on police bail pending investigations.

■ Ming Yi (2009)

The founder and former chief executive of Ren Ci Hospital (right) was jailed six months after being convicted of four charges, including giving an unauthorised \$50,000 loan to his personal assistant Raymond Yeung from the hospital's coffers. With remission for good behaviour, he served four months and was released last week.



■ T. T. Durai (2008)

The former chief executive of the National Kidney Foundation was jailed two months for using a fake invoice to cheat the charity into

paying \$20,000 to a friend.

■ Chia Teck Leng (2004)

In what is still the largest case of commercial fraud, this former finance manager (right) of Asia Pacific Breweries (APB) swindled four banks of \$117 million from January 1999 to March 2003 by forging the signatures of APB's top executives. He is serving a 42-year jail term.



■ Teo Cheng Kiat (2000)

The former Singapore Airlines employee took \$35 million over 13 years in bogus meal and night-stop allowances. He was jailed 24 years in 2000.

Singapore media

The Straits Times, 1 August 2009

Lawyer jailed for pocketing clients' payment to firm

By ELENA CHONG

A LAWYER who pocketed clients' funds totalling \$84,000 was jailed for three years and eight months yesterday.

Leong Wai Nam pleaded guilty earlier before District Judge Sarjit Singh to five counts of criminal breach of trust involving \$56,600 and one of cheating a businessman of \$4,300.

Ten other charges were taken into consideration and the sentence was backdated to his remand on Feb 17.

Deputy Public Prosecutor Ong Luan Tze told the court that Leong, 41, who was called to the Bar in 1994, chose not to register himself with any law practice after leaving his last law firm, Regional Law, in 2007.

His practising certificate expired in March last year and was not renewed.

She said that Leong established a profit-sharing arrangement with a number of law firms. He also made a similar verbal agreement with his friend and former colleague, Mr Benjamin Ang, an associate di-



Leong Wai Nam had struck a verbal agreement with friend and former colleague Benjamin Ang, an associate director of Engelin Teh Practice, in which Leong would liaise with the client and relay instructions to Mr Ang, who would carry out the legal work involved.

rector at Engelin Teh Practice (ETP).

Under this agreement, Leong would liaise with the client and relay the instructions to Mr Ang, who would carry out the necessary legal work.

If the client needed to be represented, Leong would be the one to appear in court.

Leong was meant to split the fees equally for work done with Mr Ang in relation to ETP's clients. But instead of forwarding the fees to the client's account under the firm, Leong deposited them into his own bank account.

Between 2005 and 2007, Leong represented five clients in various matters and pocketed all fees directly.

Early last year, he cheated a businessman of legal fees, by letting him believe that he would act for him on two matters when he was no longer practising.

In response, his lawyer Leonard Loo said Leong, who had learnt from his mistakes, had partially paid back \$25,000 before he gave himself up to the police in 2007.

He said his client had cooperated fully with investigations to "redeem his errors", and the fact that he made a police report against himself showed that he knew he had to rectify the situation by coming clean.

Leong, he added, is likely to face a second round of disciplinary proceedings from the Law Society.

elena@sph.com.sg

Singapore media

- Ex-director fined \$24k By Elena Chong (ST) July 28, 2009. A FORMER director of Empire Investment Group (EIG) was fined a total of \$24,000 on Tuesday for making false declarations. Yong Wai Hong, 28, was among four people hauled to court earlier this year over an alleged fraudulent investment scheme connected to multi-level marketing firm Sunshine Empire.
- Yong, who faced six charges, admitted to two counts of authorising a company officer to lodge a return which was misleading. On Aug 28, 2007, he authorised company secretary to file a return that 500,000 shares in EIG were allotted for cash.
- Similarly on Sept 7 that year while he was a director of Empire Energy, he did the same for 250,000 shares in the company.
- The resolution stated that its paid -up capital was \$500,000 with Phang Wah holding 400,000 shares at \$1 each. Yong held 50,000 shares, and two others, 25,000 shares each. Phang, also known as James, 49, is facing 20 charges of falsifying accounts, criminal breach of trust and possession of obscene films.
- Investigation showed that as of November 2007, none of the capital for EIG nor Empire Energy had been paid up. The DPP said the financing of EIG and its related companies was provided purely by a \$9.5 million loan from Sunshine Empire. Lawyer Shashi Nathan said his client, who is now general manager of a Hong Kong-based trading company, had no intention to deceive the Accounting and Corporate Regulatory Authority or individuals. He said Yong did not gain any profit nor avoid any loss from his act of authorising Mr Ng to lodge false returns to Acra.

Singapore media

- Bank officer caught four years after \$3.5million cheating offence. AN OFFICER of a private bank made fraudulent withdrawals of more than \$3.5 million from a client's account and got away with it for four years. **(ST 29 August 2009)**
- Yesterday, Ian Flynn Tessensohn paid the price. The 39-year-old was jailed for 6-1/2 years by a district court. He had committed nine cheating offences and had forged 46 documents between 2004 and last year. He also contravened the Computer Misuse Act and concealed and transferred criminal proceeds.
- The court heard that Tessensohn stole \$3.5 million from a client's account while he was an assistant relationship manager for the local branch of Dexia Banque Internationale a Luxembourg between April 1999 and August 2004. He then left the bank to become a business development manager with a travel and tour company. No one was any the wiser about what he had done then.
- But in May 2007, he returned to the banking industry as a private banking assistant with the Singapore branch of Fortis Bank. He then heard that the client at the previous bank planned to close his account. Fearing that his theft would come to light when this happened, Tessensohn began stealing money from the account of another client at his new bank.
- He planned to return the money to the Dexia account to cover up his misdeeds. This, however, led to his crime being exposed. In May last year, Fortis made a police report about an unauthorised withdrawal of €595,000 (S\$1.2 million) from a client's account.

What to do about it?

Leading practices in controlling fraud

- **Setting roles & responsibilities**
 - Making sure that everyone knows their job. It is everyone's job to prevent fraud
 - Involve the BOM
- **Assessing fraud risks**
 - Do you know what you are losing now
 - Do you know where the threats are coming from
- **Monitoring key business metrics**
 - How is the business measured
 - What is success or failure in your organisation
- **Proactive Forensic Analysis**
 - Whistleblowing
 - Forensic Data Analytics
 - Fraud and ethics training for all staff
- **Champion!**
 - One person needs to be 'Champion' of fraud
 - A senior executive who is respected by all and will do the right thing
- **Positive and supportive tone at the top**
 - Executive behaviour that aligns with corporate ethics and compliance requirements

Investigations in the GFC

Conducting investigations in an economic downturn

- Secure the data
 - It is too easy for important data to be lost, destroyed or tampered with, even by those with the best of intentions
 - Follow proven forensic procedures as you will need to rely on the data if the matter ends up in a court
- Let people know about it
 - Tell your staff you are investigating a fraud
 - You will be surprised what they will tell you, many will already know about the fraud, and indeed others
- Investigate thoroughly, no assumptions
 - Expense claims, conflicts of interest, procurement fraud are always present and increasing now
- Use all available tools to reduce costs
 - Smart technology can do the work of many people so the end cost will be lower for the volume and quality of the reporting
- Don't ignore the obvious
 - Never, never, never say: Oh, they would never do that!
 - People are people and when Pressure, Opportunity and Rationalisation converge, fraud will occur

Questions?





Deloitte & Touche Financial
Advisory Services
6 Shenton Way, #32-00, DBS
Building Tower Two, Singapore
068809

Peter Coleman
Executive Director
Head of Forensic Services
Singapore & Southeast Asia

Direct: +65 6216 3220
Mobile: +65 9105 4657
petcoleman@deloitte.com



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/sg/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 182,000 professionals are committed to becoming the standard of excellence.

About Deloitte Southeast Asia

Deloitte Southeast Asia Ltd—a member firm of Deloitte Touche Tohmatsu Limited comprising Deloitte practices operating in Brunei, Guam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam—was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises. Comprising over 230 partners and 5,300 professionals in 22 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.

About Deloitte Singapore

In Singapore, services are provided by Deloitte & Touche LLP and its subsidiaries and affiliates.

Disclaimer

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte & Touche LLP (Unique entity number: T08LL0721A) is an accounting limited liability partnership registered in Singapore under the Limited Liability Partnerships Act (Chapter 163A).