

How Well Do You Know Your Mates? – Corruption Prevention Network Conference

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Guy Underwood

Hibis Corporation Pty Limited



Fraud Issues

- ◆ Security of physical assets
- ◆ Security of liquid assets
- ◆ Irregularities in the procurement process
- ◆ Infringement of Intellectual Property
- ◆ Theft of corporate information



Common Controls

- ◆ Code Of Conduct
- ◆ Fraud awareness training
- ◆ Trust in employees, customers and vendors
- ◆ Segregation of duties
- ◆ Security measures
- ◆ External Audit
- ◆ Insurance



How Fraud Can Affect Your Organisation

- ◆ Loss of revenue
- ◆ Damage to reputation
- ◆ Poor morale
- ◆ Investigation by external agency – ICAC
- ◆ Costs associated with litigation
- ◆ Cost of dismissal – need to recruit new staff



Where Do Your Mates Fit In?

Purchasing:

- ◆ Collusive tendering – inflated costs
- ◆ Conflicts of interest
- ◆ Invoice splitting – just below approval limit

Payroll:

- ◆ Paying staff after they have left
- ◆ Incorrect wage payments – overtime, allowances etc.



Where Do Your Mates Fit In?

Inventory:

- ◆ Theft of stock
- ◆ Diversion of goods – related business
- ◆ Improper disposal – written down due to damage

Accounts Receivable:

- ◆ Payment of bogus invoices
- ◆ Payment of invoices prior to work being completed



Case Study 1

- ◆ Client - large Australian company
- ◆ Allegation - “closed site”
- ◆ Modus Operandi - purchasing manager befriended by supplier who acted as middle-man for all types of products
- ◆ Investigation - involved comparison of costs v preferred suppliers and market (17.5% over the odds),
- ◆ Result - purchasing manager dismissed, staff counselled, costs reduced and increased staff morale



Case Study 2

- ◆ Client - large Australian company
- ◆ Allegation - sale of company assets to a mate at a reduced price
- ◆ Modus Operandi – manager would write-down the value of an asset allegedly due to damage. The asset would then be sold to the mate at a reduce price.
- ◆ Investigation – manager had also misappropriated funds. Total loss in excess of \$750,000.
- ◆ Result – manager dismissed and charged by the police.



Did you know...?

- ◆ Manager worked with a company for over 10 years. Kids all went to same school. Committed a \$1 million fraud.
- ◆ CFO was a long time employee. Well liked by peers and staff. Committed a \$5.5 million fraud.
- ◆ Security Manager outsourced security work to a mate's company. His mate had recruited staff from gaol.
- ◆ CFO at K & S Freight was a family friend. He had a gambling addiction which cost the company over \$20 million in fraud.



Changes in Circumstances

FRAUD = MOTIVE + OPPORTUNITY

- ◆ Divorce
- ◆ Gambling
- ◆ Drug and/or alcohol addiction
- ◆ Extortion



Pre-employment Screening Defined

“the verification of personal information supplied by a candidate seeking employment with an organisation.”

- ◆ Can also apply to internal promotions, transfers or re-structuring
- ◆ Also known as vetting, probity checks, due diligence, background checks



Why the Need to Screen?

- ◆ Financial Services Reform Act – financial institutions should ensure that directors and senior executives are of good fame and character.
- ◆ *Smith v State Bank of NSW Limited [2001] FCA 946 (20 July, 2001)* – reasonable steps should be taken to enquire about the background of staff or representatives



Why the Need to Screen?

Risk Management

- ◆ Preventing a potentially dishonest person becoming an employee
- ◆ Draft Australian Standard DR 99025 – “Human resources management Part 1: Pre-employment checking”

“ A thorough employment screening process is considered to be a highly effective way of minimizing and guarding against potential security risks.”



Why the Need to Screen?

The Doctrine of Negligent Hiring – The US Experience

- ◆ Employers failing in their duty of care to the employee by not conducting background checks on potentially violent or fraudulent co-workers.
- ◆ Failing to meet this obligation is effectively a breach of the employment contract
- ◆ Courts have found employers liable. For example, *Gaines v Monsanto Co.*



Case Study 3

- ◆ Client – large European bank operating in Singapore
- ◆ Background – desire to become involved in trade finance in the region. Hired local credit officer due to lack of internal experience. No background screen conducted.
- ◆ Modus Operandi – credit officer secured several Indonesian clients. Small facilities, gradually increased. After 2 years they defaulted. No security over bills of lading, assets etc.
- ◆ Result – bank suffered a loss of USD20million. Credit Officer charged by Singaporean police.



Typical Enquiries Conducted

- ◆ Previous employment - line managers and Human Resources
- ◆ Educational qualifications – verify attendance and graduation
- ◆ Bankruptcy – different from credit searches which are unlawful under the Privacy Act
- ◆ Criminal history – conducted through the Australian Federal Police



Typical Enquiries Conducted

- ◆ Professional membership – AIRM, ICAA etc.
- ◆ Directorship – identify possible conflicts of interest
- ◆ Search of ASIC enforceable undertakings registry
- ◆ Verify *curriculum vitae* for gaps and inconsistencies – identify previous employers, travelling, gaol



Investigative Due Diligence

- ◆ Liabilities
- ◆ Reputation
- ◆ Alliances
- ◆ Hidden Shareholders
- ◆ Unresolved litigation
- ◆ Phoenix



Focal Points

- ◆ Growth and development of the company
- ◆ Shareholders and strategic partners
- ◆ Reputation, track record and conflict of interest reviews of directors, senior managers and their associated mentors and advisers



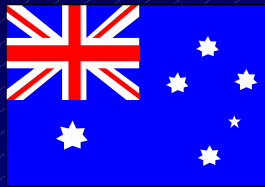
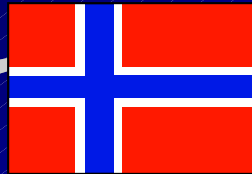
Focal Points

- ◆ Relationships with key customers and suppliers
- ◆ The company's reputation, ethics and corporate governance (e.g. "know your client/customer")
- ◆ Incidents of crime, corruption and legal proceedings



Hibis mission statement

Five independent
companies



The mission of Hibis is to :

- *advise clients on preventing fraud and corruption*
- *assist clients to investigate suspected fraud*
- *make a positive contribution towards improving business ethics and capital protection with our clients and within society*

