

'SURVIVAL GUIDE' FOR EXECS

Seminar puts fraud, business in scales



A recent seminar offered an executive's survival guide to commercial fraud and corruption. Mark Rowe took a seat.

You've flown into a country hoping for a multi-million contract. You see the government minister who tells you that as part of the deal, he expects you to pay for his pension. That would cost £2m. Do you get on the next plane? You work in a company that makes widgets that has 100 per cent stock takes. Does that mean you can remove the internal controls? Preventing fraud can take many forms, as one short exercise towards the end of the day showed. Nigel Iyer, who was leading the seminar - an accountant turned fraud investigator turned script-writer - asked everyone to think in a minute of how they would defraud their organisation of £100k in the next 12 months. In other words, to think like a criminal. The variety of some methods - if you truly had the motivation, and the ease, if you had the opportunity - felt shocking. How about colluding with an agent or a colleague to siphon off sales to a bank account of yours. Or generate false sales and claim commission. Or sell the company customer and other data to rivals; or use it to set up your own, shadow, business. Or make false expenses claims for a home office, your wife's work, or travel.

More than compliance

One of the most striking points I came away with on a thought-provoking day was: fraud prevention should be about commitment of a business to doing things right, and of a workplace's culture; and not about (frankly dull) compliance with controls, that you could argue get in the way of doing business. A tick in a box to say that your organisation

complies with rules, as checked by auditors, do not necessarily mean that fraud will be found out. Because fraud is around, because fraud is done by people; people who are determined enough to ignore the controls, or who - because they are trusted - know the ways around the controls. Nigel Iyer described fraud prevention as 'defence against the dark arts', or 'the dark side', to liken it to the Star Wars films.

Have we progressed?

Nigel began by recalling 9-11 and the now ten-year-old 'war on terror'. You could give an opinion on how far that war had progressed. As for the ten or so years since the US Sarbanes-Oxley law on risks such as fraud, that American companies have to abide by: how far has the fight against fraud been won? Completely? Ten per cent? Not at all, or have we even gone backwards, because the technology for doing fraud - email scams, transactions digitally - has made it so much easier, and is available to quite junior workers, or anyone in their bedroom? (That said, the technology is available to the good guys, too: as Nigel said, Facebook is a tool for fraud investigators, as people put all sorts of things online that they would not admit to Companies House.)

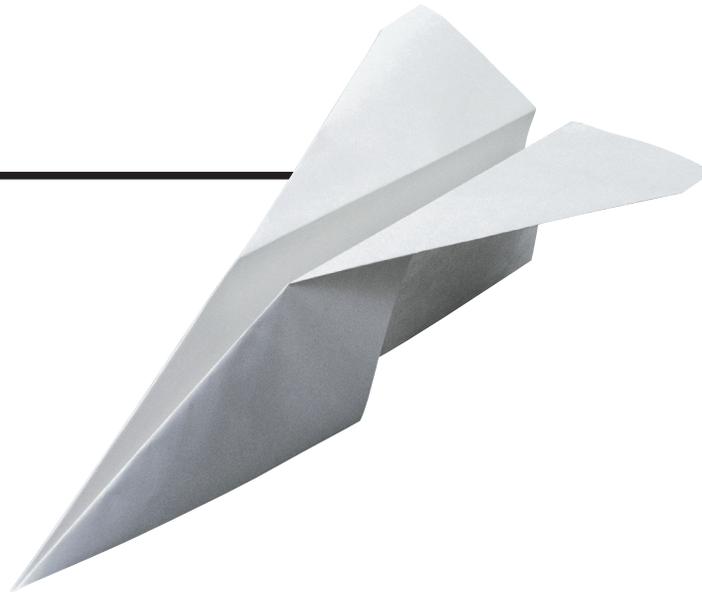
Stationery theft

Whereas much fraud training may be aimed at specialists, or security managers, Nigel interestingly contrasted the responses of chief executives or auditors, and fraud and security practitioners, to the problem. As one exercise, he gave three events and asked what the fair, consistent and proportionate approach would be. First, what if you saw a colleague take (let's say) £30 of pens and stationery from the office cupboard and walk out with them - and when confronted, tearfully admitted they

were for her children? Second, a colleague says a sales director - meant to be at a two-day conference - was at a football game and could not possibly have been at the conference. Thirdly, what of rumours that a senior manager has connections to suppliers and does consultancy work for suppliers? For the stationary thief, the evidence is there, and investigation is low cost - but would showing her the door mean you lose a valuable employee? The other two cases are harder to prove - too hard? - but if the managers are defrauding the company of time and maybe millions, do you want them in your organisation? Could these be ideal occasions to ease them out of the company, without a 'golden handshake'?

As low as zero?

Would you say fraud in your organisation is zero, one per cent, five per cent, more? The chief exec may believe it's near zero; the specialist in the field may put it at several per cent, given the scope of fraud in the supply chain, or in overseas divisions, or by contractors. A phrase Nigel offered was 'big people, big frauds, little people, little frauds'. The senior 'big people' can sign things off and avoid controls; the smaller-value frauds by 'little people' may be easier to find, but a business may employ more 'little people'. The chief who doubts 'his' employees do fraud - for fine reasons, because he sees his staff as trustworthy - may have the unintended effect of making it hard for staff to tell their chief of anything bad, or any suspicions. Nigel, as someone by his own admission who was good at finding fraud, has independent views. Confidential whistle-blowing lines are generally regarded as a 'good thing'. Nigel queries why a company should have such a line - why cannot someone in a company just talk of concerns, and the company recognise that fraud can and does happen?! And as for the Transparency International index of bribery perceptions - that typically ranks the Scandinavian nations as least corrupt and the likes of Nigeria and Bangladesh as most corrupt: Nigel does not dispute corruption in any of those countries, but asks if the



How does the fraud and security practitioner respond consistently and proportionately to the member of staff who steals a small amount of office stationery; and the director who may be abusing company assets - possibly costing the organisation far more?

Drama plays out dilemmas

Tony Scales, the MD of Miralux Group, spoke in front of greenery and a pond about how important his company's environmental credentials were. Suddenly they switched off and it turned out that he was only standing in front of a screen in his office. He was making a corporate video. 'How was the performance?' he asked his PA, Cassie Di Alba. So began the short film scripted by Nigel Iyer for CIMA (the Chartered Institute of Management Accountants), about a fictitious corporation. Nigel's done this sort of drama before. Part of his book *Fraud and Corruption* (Gower Publishing, 2006) was *The Tightrope*, a 'management novel', playing out a corporate fraud as a fictional story, to show the dilemmas and working relationships that a dry textbook might not be able to

Talking the talk

In the film, we see Tony Scales 'talk the talk' about corporate responsibility and doing things right. However, does he really mean it? Does he want to hear about, and act on, a fraud done to make Miralux's environmental record look better? We see the different personalities, friendships

and viewpoints, as in any business: of the chief financial officer; the management accountant who puts together a file of suspect paperwork; the head of new ventures who has to bring in business; the head of SHE (safety, health and environment) who wants Miralux to sign up to, and work to, 'green' principles. As films so often say as a disclaimer, Miralux is not a real firm; and Tony Scales and all the other characters are not real people. As Nigel says: "The lines are all taken from reality and put into a composite." Tony Scales, for example, as his surname suggests, is - not very successfully - weighing in his personal scales the conflicting wish to be 'green' and profitable, to balance the valid views of his senior staff, who may have done frauds. The film therefore raises business dilemmas; is it right or sensible to pay 'commissions' to win contracts, if that does not match the rhetoric from the top? Staff, Nigel warns, will pick up any difference between the rhetoric they hear and their reality. The Leicester seminar was the first showing in England of the film, commissioned by CIMA (www.cimaglobal.com). Having grown up wanting to be a dramatist, and going into accountancy, then becoming an auditor who was good at finding fraud, and going into fraud investigation, he now does occasional investigations but is concentrating on that first dream of his; to write, having gained a masters in screen-writing for film and television, from Royal Holloway University of London. Also speaking at the seminar was the University of Leicester management Prof Peter Jackson. □



Nigel Iyer of Septia Group

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cost to a rich country such as Norway might be greater, per person, than in supposedly fraud-ridden Nigeria. As for the UK, Nigel points out that it's excellent at providing off-shore companies, such as in Gibraltar or the British Virgin Islands. Nothing illegal about off-shoring; what can be illegal is the uses you put to such legal creations. Because, as Nigel stressed, we are human. Just as there are very few deeply, pathologically criminal people, so there are few completely honest. For most, 'it depends'; people may do frauds that they can justify to themselves, if they are blatantly given the opportunity, and if they have a motive - such as a grievance or an addiction or unsustainable lifestyle to pay for. Different countries may

have different business cultures, that see offering work to a relation as the norm, and a strength, not something suspicious. However, to return to the minister and his pension; would the price of such a contract be worth it? Would the incoming minister want paying, too?! The summer of 2011 saw the Bribery Act become law; it applies to UK business done overseas, including agents and subsidiaries.

Bribery Act

For Nigel, it remains to be seen how successful the Bribery Act will be. Will it merely be one more law for a business to comply with and sign off, by making someone responsible - the one to take the chop if a case reaches

the courts?! We have to wait for case law. Meanwhile, Nigel suggested being aware, and making staff aware, of the 'red flags' of fraud, behaviour that doesn't seem sensible. Do you go to your legal department with cases? Because they will always say there isn't enough evidence; and if you go back with more, they will say there still isn't enough evidence. You want outcomes from preventing fraud, by being open, and honest, and for a healthier (and more profitable) business. At the end, the attendees were each asked what, in a sentence, they were taking away from the day most. Some answers were 'it's everywhere'; 'not to be afraid'; 'getting the culture right'; and 'watch for red flags'. □

More details

Nigel Iyer and the University of Leicester plan more seminars on 'executive's survival guide to fraud and corruption', in 2012. For more details: visit www.septiagroup.com.