

Fraud is often an insider job

Businesses concentrate on providing external security but often the threat comes from within an organisation where staff perpetrate fraud.



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“The threat comes from within,” warns Reg Horne, MD of Justicia Investigations, one of South Africa’s largest privately owned investigation agencies. “Businesses often spend large amounts on security to combat external threats without putting in place systems to counter internal ones. Yes, you need visible security. However, it does not matter if you have three or 20 security guards, if you do not know where the problem is, the threat remains.”

Horne heads offices in Durban and Gauteng that have serviced an extensive corporate and private client base both nationally and internationally for 25 years.

“Currently, on-the-ground investigators have noted two interesting trends. The problem is not large corporate frauds but the ever-growing number of smaller crimes that are constantly adding up – and these are usually perpetrated by employees further down the line and not by top management, as might be expected.”

Case studies point to trend

This experience is echoed in the findings of two important studies.

The first is the 2016 PricewaterhouseCoopers (PwC) Global Economic Crime Survey, which not only showed that commercial crime was on the rise but also had reached crisis proportions in this region. More than two out of three (69%) South African companies reported having been victims of crime during the 24 months preceding the survey. At double the global average of 36%, this positioned South Africa as the top country reporting economic crime.

The second, the 2016 ACFE Global Fraud Study, not only indicated increased fraud but also highlighted that the majority of cases involved employees. Embezzlement – theft by an accountant, bookkeeper or manager who diverts income and then covers it up – was flagged as a particular threat.

Horne highlighted recent Justicia cases. These included disappearance of large amounts of fertilizer between storage facilities at an agricultural processing company; presentation of signed delivery notes for oil that had never arrived but had been sold off to a syndicate en route; diversion of supplier payments to the banking account of an accountant's relative; and 'sale' of fabrics from a clothing company warehouse.

"Unfortunately, cases like this are happening daily. Businesses need to fight back to survive. Right now, they are under siege from their own staff as well as from opportunists who know how to exploit employees when times are difficult.

"Even when the various schemes are engineered by crime syndicates, they are more often than not carried out by middle management and employees in positions of trust, such as those receiving or despatching goods, supervising logistics facilities, doing the accounts and controlling security.

This, too, was echoed by the PwC survey, which noted that the number of crooked senior management had more than halved whilst middle management appeared to have taken centre stage with 39% of fraud being perpetrated by internal actors at this level. It also noted that more than half of internal perpetrators (52%) had been employed for between 3 and 10 years and were not only likely to be ultra-familiar with any controls but may even have helped put them in place.

Horne says many fraudulent schemes are often only detected by accident when losses have accumulated over longer periods. This is particularly true during tough times, as companies tend to keep a closer eye on cash flow and look inward to manage processes better in order to cut costs.

Expert assistance in prosecuting

The only way to catch those who know the ropes extremely well is through intelligence driven prevention and the only way to prosecute them effectively is to bring in experts.

"In many instances, the organisation has the case in hand but does not know how to take it to the next level. It requires skill to get the correct evidence that not only enables a company to dismiss an employee but also to present the correct, admissible evidence to secure a conviction in court."

Horne recognises that different situations require different solutions. These could include the deployment of crime prevention units and undercover operatives, technical surveillance, counter-surveillance measures, forensic investigations and more.

"Our operations team has the experience and skill required to understand each unique situation and assess which tools would be best suited to solving the problem. Our investigators are well versed in the Criminal Procedures Act and work with the SAPS or independently in gathering admissible evidence, compiling a docket and leading evidence in court. Our extensive experience ensures that all cases are procedurally sound and are prepared with the ultimate objective of an effective resolution," he concludes.

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