

A Pathology on Fraud

From the Man's Den

By Michael Laliberte



Employees, executives and other associates who do not have to steal do so anyways. It's not always about the need, but is quite often facilitated through the opportunity. That opportunity exists in the weaknesses of the entities' accounting procedures, or internal controls. They are within any corporate or public government organisations. All too often they are detected much too late, but why not soon enough?

According to the Man's Den research, (Liane Greenberg and Julian Barling, Queens University,) asserts in their paper that employee frauds & thefts results in an annual loss exceeding \$40-billion for North American organisations. That's ten times the amount of street crimes. The astonishing impact is that everyone has to suffer to make up these losses, including consumers, employees having to suffer layoffs, taxpayers and Insurance Companies. Is there a desperate need in detecting these weaknesses in preventing frauds? A forensic accountant asserts his professional views.

This article is about the types of Frauds: committed against an organisation, whether a private, corporate public or government entity. In combatting this highly expansive criminal activity we first go inside the world of forensic accounting. With our special featured guest of the Toronto-based boutique Forensic Accounting Firm, nagel+ associates inc.

Edward Nagel, Forensic Accountant



Edward Nagel, Principal and Founder of nagel + associates inc., a boutique forensic accounting firm that focuses exclusively on forensic investigations, and anti-fraud consulting and anti-fraud training. Edward Nagel is a seasoned forensic accountant-whose sixteen plus years of combined experience in forensic accounting and auditing has earned him the designation of specialist in forensic accounting by the Canadian Institute of Chartered Accountants. Also are other credentials with sharp eyes as a Chartered Business Valuator and also a Licensed Private Investigator.

Changes have been made to the rules governing the audit worlds, as set out in the Canadian Auditing Standards (CAS), including the auditor's responsibilities relating to fraud in an audit of financial statements.

Effective for audits of financial statements for periods ending on or after December 14, 2010, auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

"Although fraud is a broad legal concept, according to the CAS's, the auditor is concerned with fraud that causes material misstatements in the financial statements." Nagel asserts with his information.

According to the CASs, there are two types of intentional misstatements that are relevant to the auditor, "misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets."

Even though the auditor may suspect fraud, the CASs state that they do not make a legal determination of whether fraud has actually occurred.

The CASs state, "The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management."

In other words, management must place strong emphasis on fraud prevention. Reducing opportunities for fraud to occur is where nagel + associates inc.'s expertise's has to offer.



With an independent objective analysis that focuses on getting beneath the surface that goes beyond the obvious. Uncovering the Truth is nagel + associates' primary objective pursuit. "It is when fraud is suspected and how quickly you respond, will determine the potential impact to your organisation." Nagel continues, "Evidence tends to disappear or is at risk being destroyed, and this is no accident."

It all starts with weak internal accounting controls. Nagel's firm knows where to look and how to properly secure them. The extensive experience conducting investigations brings firsthand knowledge and insights about how overridden or failed detectors of complex frauds are perpetuated. With the use of electronic devices which are commonplace in today's society fraudsters, are even able to hide evidence, which properly secured can be legally admissible.

It's never soon enough to proactively take measures to prevent fraud. "After a fraud is revealed, employees invariably recognize transactions or aspects of such transactions that appeared suspicious; however, they simply did not recognize the "warning signs," Nagel mentions.

Anti-Fraud Training helps employees maintain a skeptical mindset when reviewing and processing routine transactions. Even if internal controls exist, its complacency that can lead to fraud.

nagel + associates inc.'s customized training solutions help participants learn how to identify the potential “red flags”;" this is crucial in the fight against frauds.”

nagel + associates inc. whose speciality training in detecting and preventing frauds services all private and public businesses and the government controlled public sectors. They also provide their services to the legal and public auditing communities.

The following cases are but a few of the Man's Den researches where alleged frauds against organisations reveal weak internal accounting procedures. They are in addition to our vast number of discoveries on Frauds committed against organisations. Please note these cases are taken from published sites and are without prejudices to both the victim and their perpetrators.

This could have been prevented (R v. Kelly)

The perpetrator was in control of the accounting procedures, he forged his employers' signatures to checks stealing \$643,000 over a two year period.

Without a question (R v. Scott)

On twenty-three occasions the petty-cash-cashier steals \$177,000 by replenishing the petty cash float that was not needed.

An overt weakness, but with a trusting blind oversight (R v. McConnell)

Trusted as the person handling the banking with a school board recreational association's fund, the perpetrator steals close to \$800,000 over a ten year period.

Who on earth would question a Senator (R v.Lavigne)

The perpetuator handed in \$10,000 worth of bogus travel expense receipts. The money went for his cottage.

Shoddy bookkeeping practices will certainly allow for diverting (Globe & Mail)

In a small community of Bridgetown Nova Scotia an employee diverts to himself \$113,000 over a number of years.

Edward Nagel Asserts on some of cases

He has come “across cases where fraudsters used a variety of software programs to create fictitious invoices or other business records.”

With more insights and findings, “some fraudster’s load CD burning software (e.g. Nero, Roxio, etc.,) or use non-corporate sanctioned hardware, which is later, determined, was used to remove sensitive company data.” Edward Nagel also asserts. “Scanners are also frequently used to alter legitimate accounting or other business records, such as invoices and payroll.”

Is there a desperate need to detecting weaknesses in the accounting procedures within our organisations? With the professional insights and views of nagel + associates inc. The Man’s Den rests their case.

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Regards Michael Laliberte