

Forensic Investigation

4 July 2009
Juvenia Ho

This document is intended solely for the information of Swire Pacific Limited and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this document. This Presentation and any part thereof shall not be produced or made available to any third party without prior written consent from Deloitte & Touche Financial Advisory Services Ltd.

Understanding the High Risk Fraud Environment

Siemens won leniency

Fine could have been much higher without firm's cooperation



Assistant Attorney General Matthew Friedrich, center, discussed the Siemens plea agreement Monday.

Carrefour supervisors prosecuted

Eight supervisors of Carrefour stores in Beijing received jail sentences of one to five years on Monday, for taking bribes from suppliers.



Seven worked in the meat-procurement departments of the stores and one at the Carrefour Beijing City Commission Unit, a purchasing and operations department.

The Chaoyang District People's Court heard they took bribes from two suppliers from May 2005 to July last year, to promote

Lloyds TSB will pay fines to settle with U.S. officials

Investors rush to assess their exposure to Madoff's '\$50bn losses' on funds

"It's only when the tide goes out that you learn who's been swimming naked."

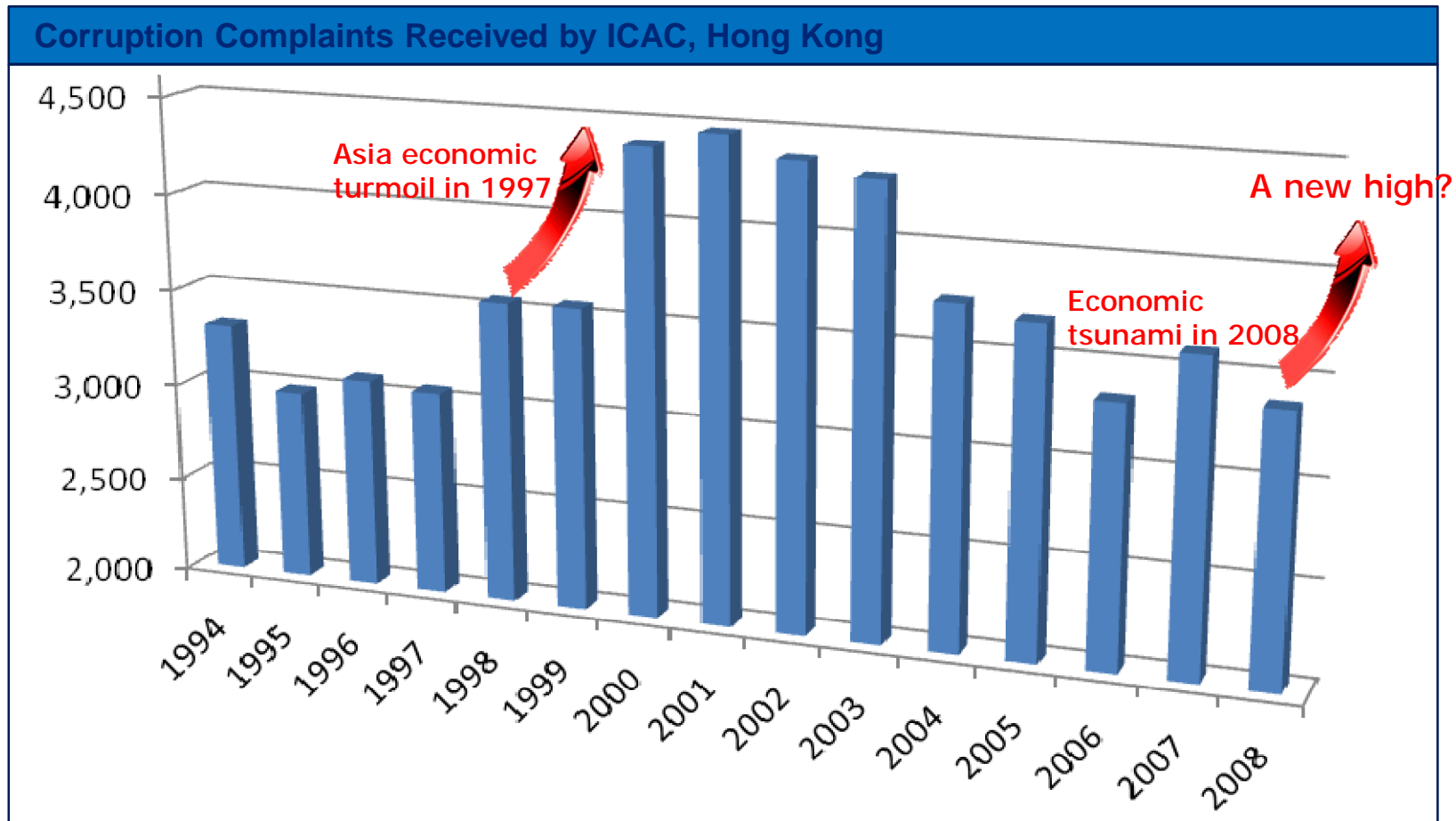
Warren Buffet

Satyam allegations revealed \$1bn fraud at India IT group



Understanding the High Risk Fraud Environment

Economic Downturn Fuels Fraud



A slowing economy may increase pressure on companies to meet short-term performance goals

Reward Risk Equation

*“Average armed robbery nets **US\$65,000** with an **82%** probability of being caught.”*

*“Average fraud nets **US\$685,000** with a **2%** probability of being caught.”*

Association of Certified Fraud Examiners
Newsletter

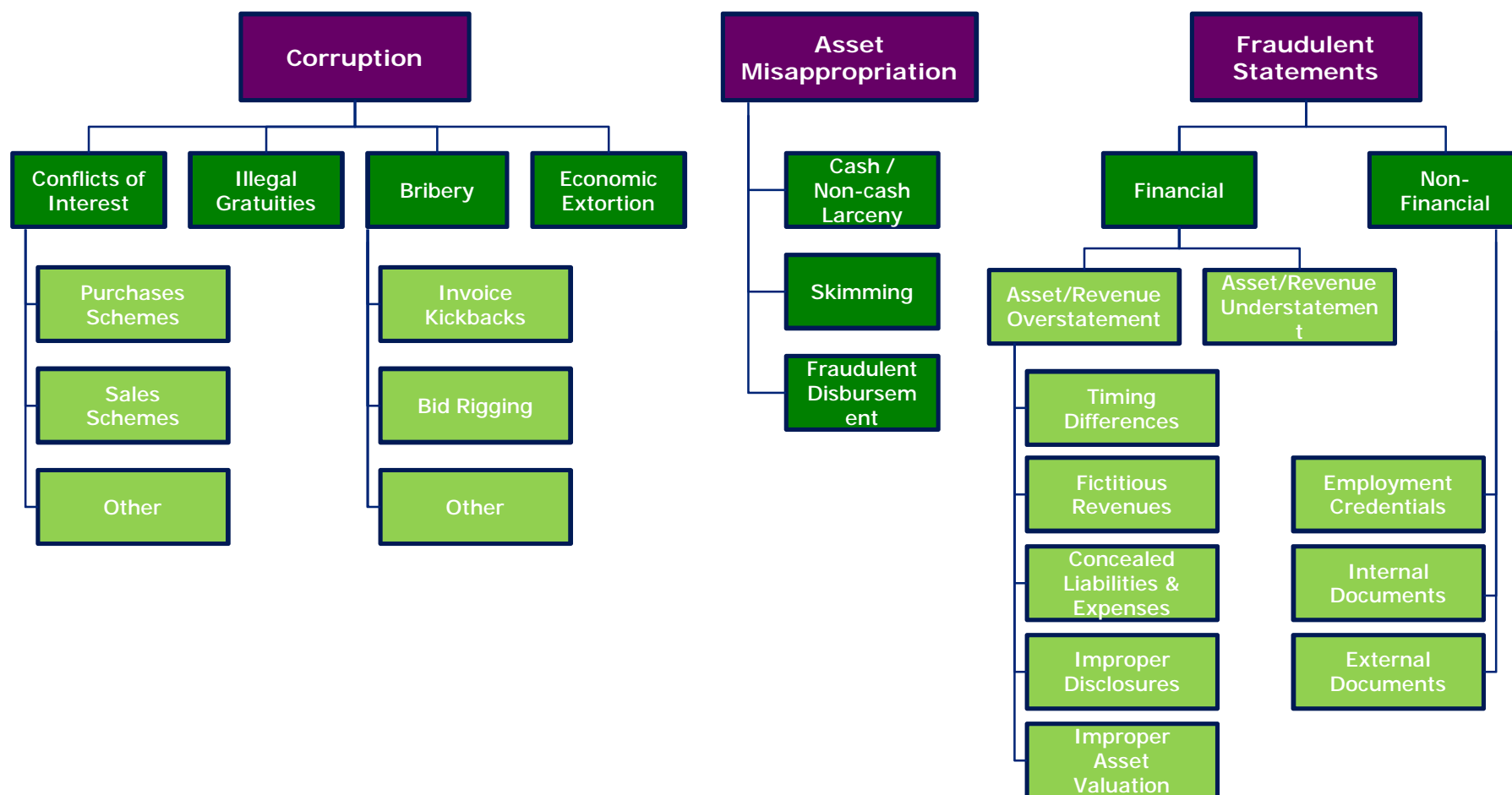


What is Fraud?

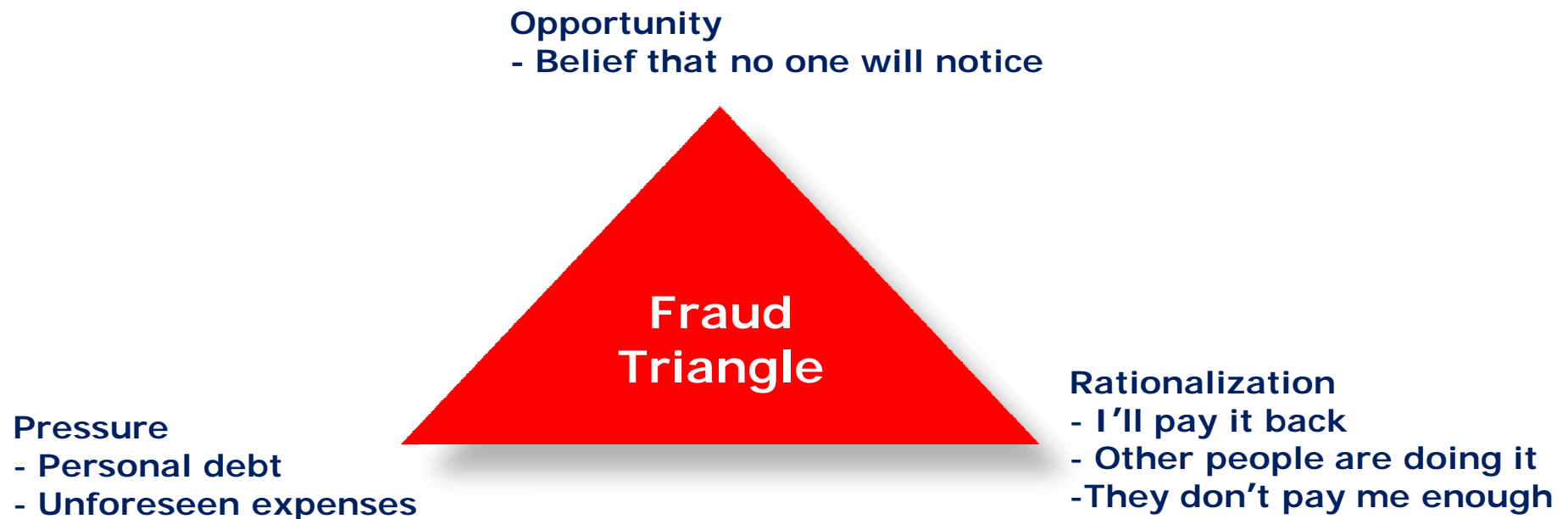
Fraud refers to an intentional act by one or more individuals among management, involving the use of deception to obtain an unjust or illegal advantage.

The Hong Kong Society of Accountants Handbook of
Statement of Auditing Standards 110

Occupational Fraud & Classification System



Why People Commit Fraud?



New dimension to the Fraud Triangle due to the economic downturn:
"widespread sense of **alienation and disenfranchisement**, driven largely by the "**layoff culture**" and further fueled by the accelerated disappearance of healthcare, pension and other benefits ... foreign outsourcing of both hourly and salaried jobs ... and increasingly stressful workloads."²²

ACFE, "The New Fraud Triangle: Another Dimension in Employee Fraud Motivation", July 2008,
<http://www.acfe.com/newsletters/fraud-examiner.asp?copy=july08-goldmann-column>

What every person asks themselves



1. Is it more than what my job is worth?
2. Will I get caught?
3. Is it right or wrong?

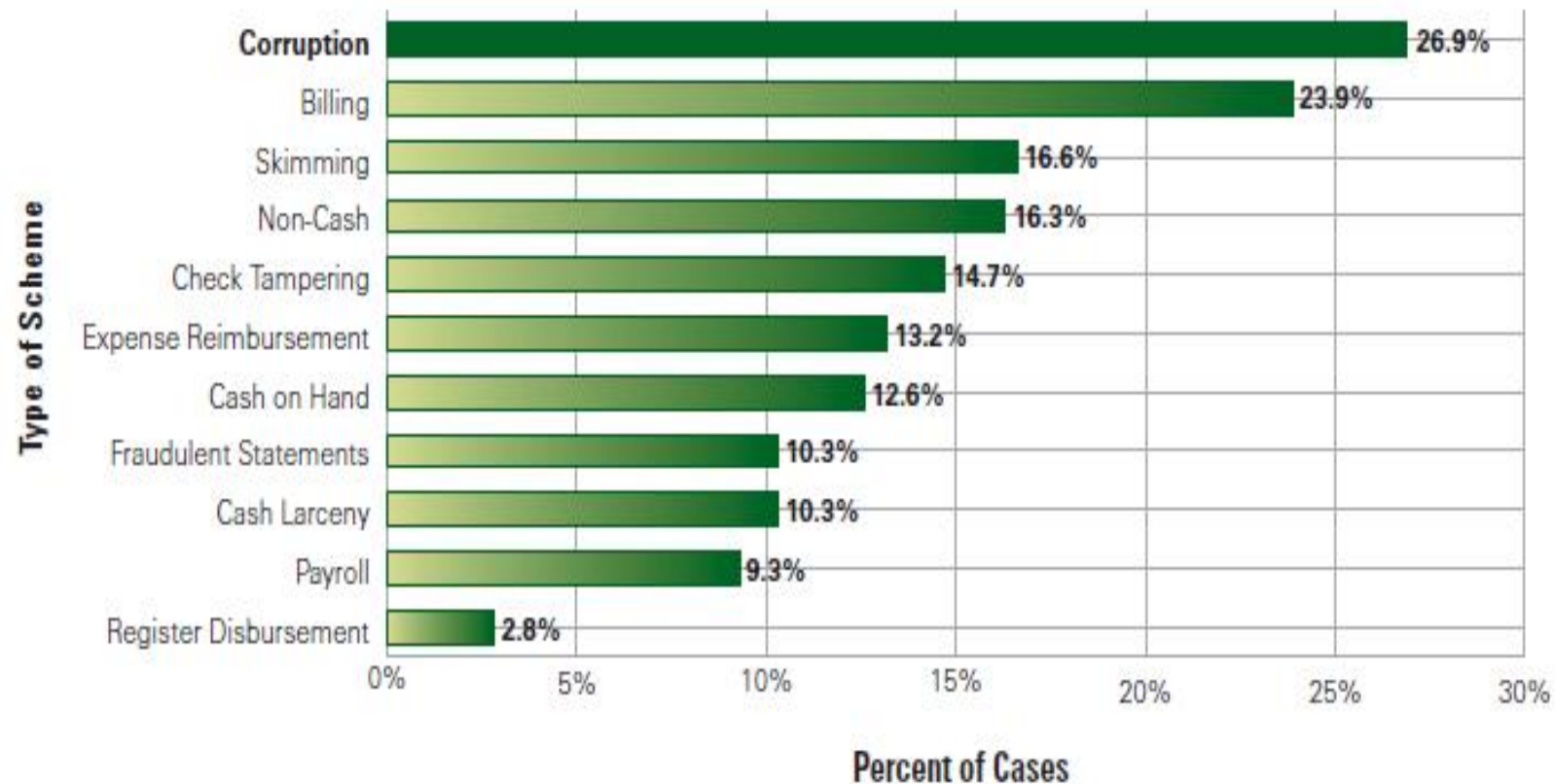
Profile of a fraudster:

- Male
- Postgraduate degree
- Risk taker
- 10+ years with company
- High income
- Hard worker
- Greedy
- Financially needy
- Big spender
- Accounting department
- Knowledge of controls



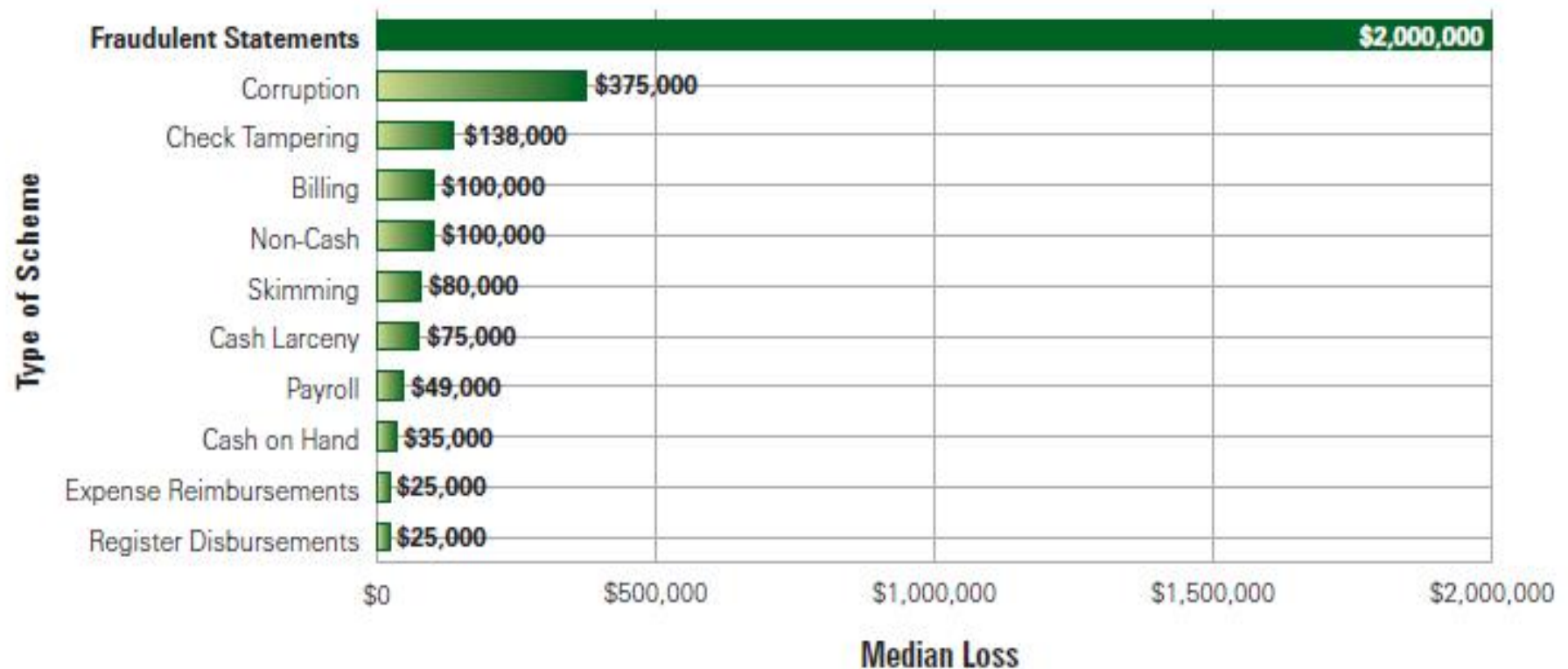
Fraud Statistics: ACFE Report 2008

Breakdown of All Occupational Fraud Schemes — Frequency³

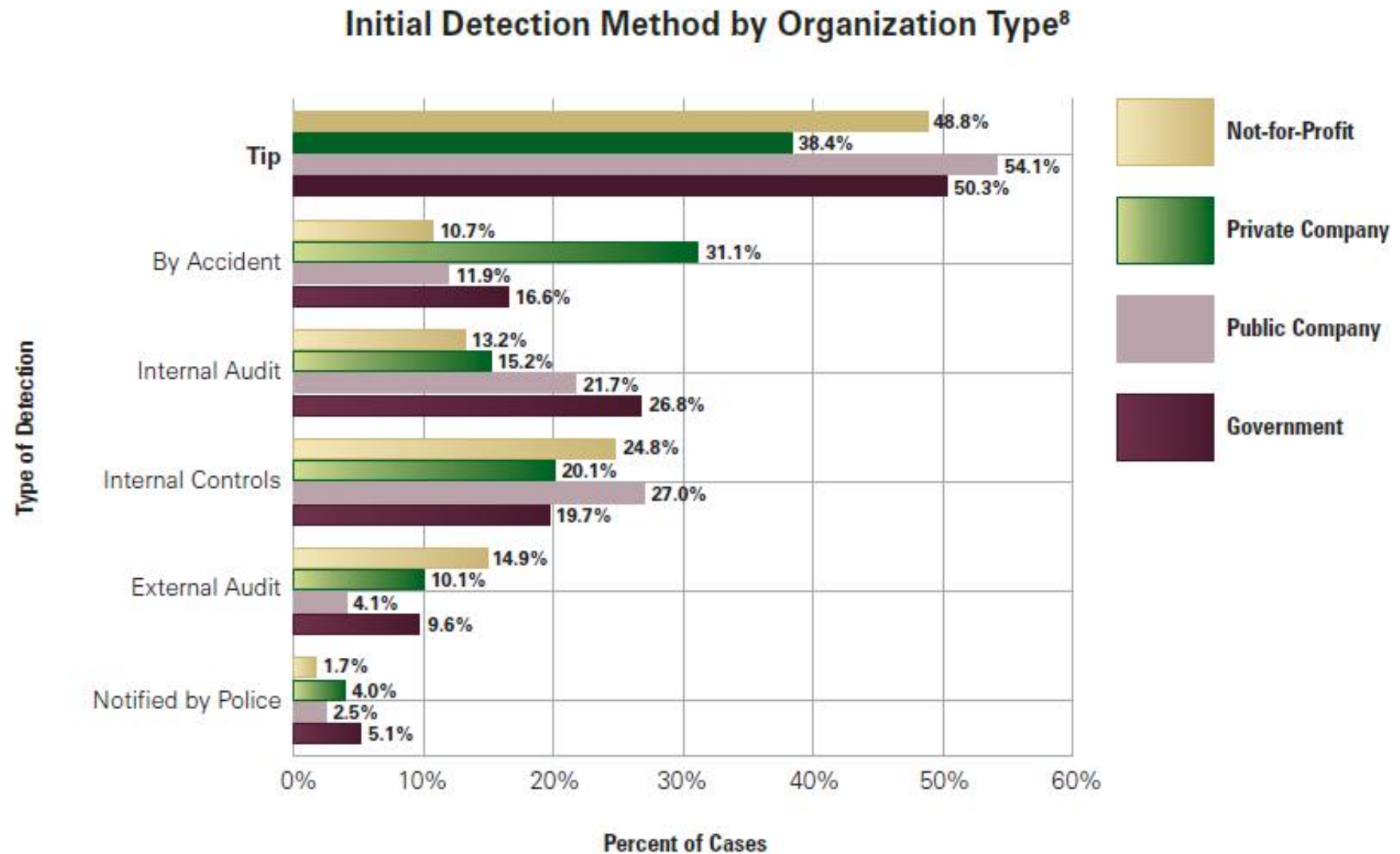


Fraud Statistics: ACFE Report 2008

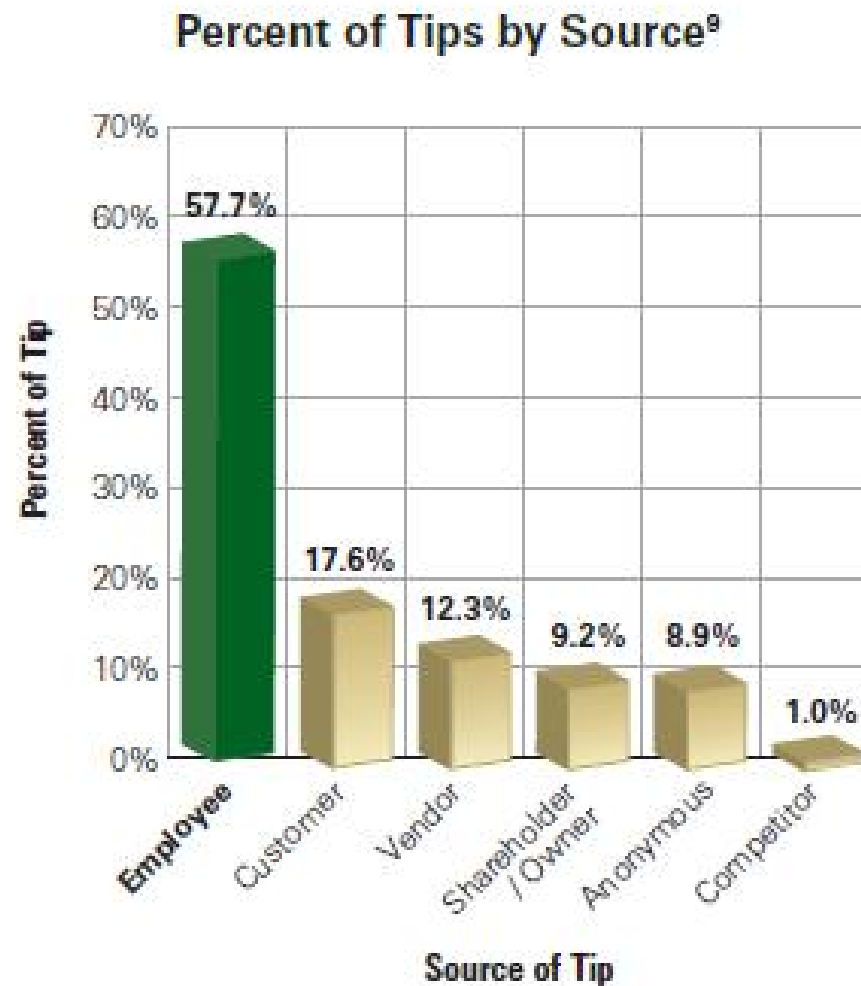
Breakdown of All Occupational Fraud Schemes — Median Loss



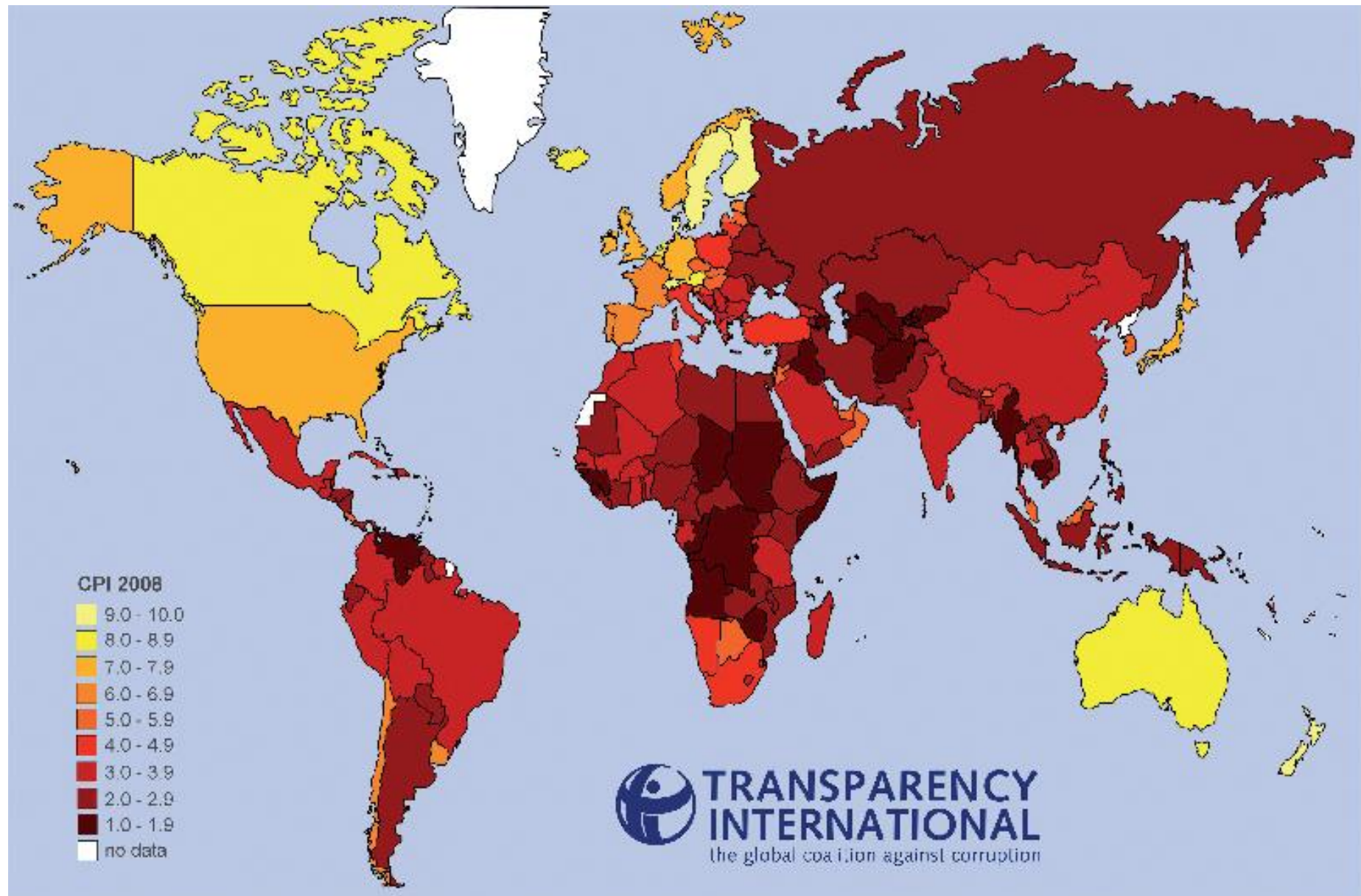
Fraud Statistics: ACFE Report 2008



Fraud Statistics: ACFE Report 2008



Transparency International Corruption Index



Elements of Investigation

- (A) Books and Records,
- (B) Interviews,
- (C) Computer Forensics, and
- (D) Business Intelligence.

Professional Skepticism should be exercised throughout the investigation



Computer forensics imaging

Computer forensics goes beyond normal data collection and preservation techniques available to end-users or system support personnel and is used for the recovery, authentication and analysis of electronic data



Results

- Assist in identifying, isolating, reporting and predicting possible financial irregularities
- Search for evidence of malfeasance, such as:
 - Ø information deletion,
 - Ø policy violations or
 - Ø unauthorized access from electronic media preserving the chain of evidence.



Books and records

- Financial statement analysis
- Journal entries
- Related entries
- Supporting documentation, e.g. fapiao
- Employees involved
- Third parties involved
- Non-financial business data, e.g. correspondence

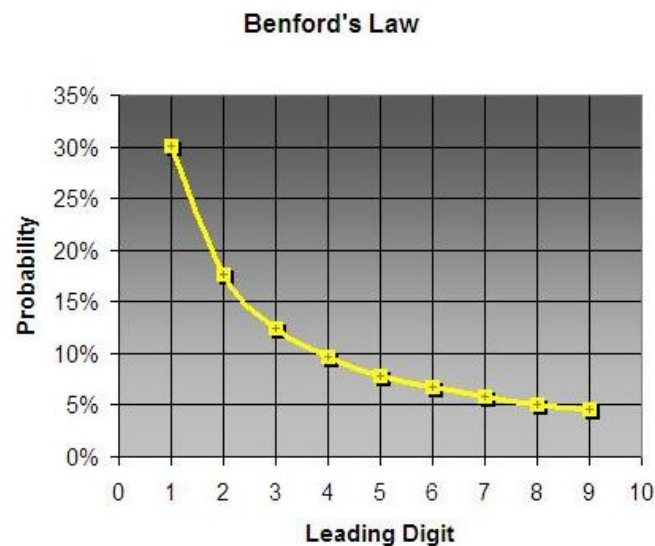


Fraud Investigation

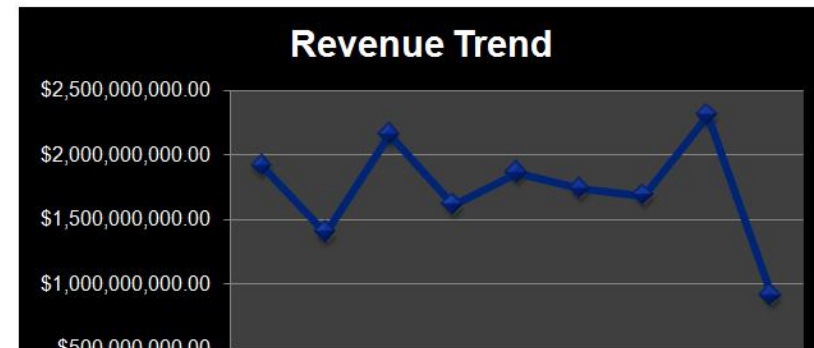
Analysis Methods

- Data analytics
- Trend analysis
- Ratio analysis
- Benford's law
 - Human choices are not random
 - Invented numbers unlikely to follow Benford's law

digit probability	
1	30.1%
2	17.6%
3	12.5%
4	9.7%
5	7.9%
6	6.7%
7	5.8%
8	5.1%
9	4.6%



Trend Analysis



Customer Loan Ratio Analysis

Description

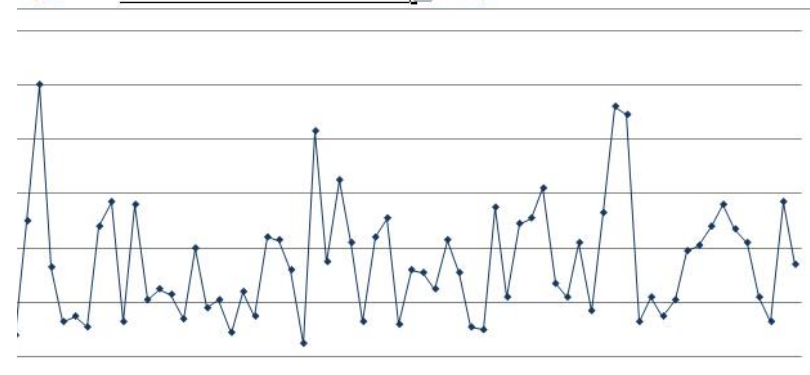
Customer Loan Ratio with Low Ranking in FY2006 (Sub-branch Level)

Risk Filter

No. of Loan 40
No. of Distinct Customers 10
Ratio (Loan/Customer) 20.00
Unit 1,000,000,000

Summary

Graph:



Fraud Investigation

北京市服务业、娱乐业、文化体育业专用发票
BEIJING SPECIAL INVOICE FOR SERVICE INDUSTRY, ENTERTAINMENT INDUSTRY
AND PHYSICAL CULTURE INDUSTRY

发票代码 211000872140
发票号码 09445050
密码 [REDACTED]
信息码 2014080202
63087214-09709144-45050205

税务登记号: 110105738230398
收款单位: 北京尝试西餐厅
付款单位(个人): 个人

经营项目: 餐费

金额合计(人民币大写): 贰佰肆拾肆元整
TOTAL IN CAPITAL: 201408020209445050
机打票号: 201408020209445050
税控装置防伪码: AFC67685F43CB60B
收款单位(盖章有效): [REDACTED]
PAYEE(SEAL): [REDACTED]

奖区 AWARD AREA

1. 刮开奖区, 刮层内显示中奖金额或“谢谢”字样。
2. 中奖事项: 中奖后, 在兑奖期前将发票剪下并寄至本区, 凭票兑奖。兑奖时, 请出示本区, 并凭本区兑奖。

SECOND INVOICE
1. 发票联
2. 记账联

63087214-

THE WESTIN SHANGHAI

上海金光外滩置业有限公司威斯汀人饭店

发票代码: 231000972301
发票号码: 00031799

开票日期: 2014年8月20日

地址: 中国上海市河南中路100号 邮编: 200002
No. 100, Middle Henan Road, People's Republic of China, 200002
电话: (PHONE) 021-63251888
传真: (FAX) 021-63252888

发票联 INVOICE

房号/账号: [REDACTED]
Room No. / A/C No.

序号 Item	摘要 Description	金额 Amount
		十 万 千 百 十 元 角 分
	预付款	730.00
合计人民币大写 Total in Words		730.00

企业(盖章有效)
Enterprise (Valid By Seal)

开票人: [REDACTED]
Person Writing Invoice

Fraud Investigation

**Most frequent fraud with cash / purchase
- Counterfeit invoice**

Identification

Tax bureau Fapiao Verification Hotline

When not sure if the fapiao is counterfeit, please dial

(Area code) + **12366**

and key in the fapiao number and cipher for verification.

Most frequent fraud with cash / purchase -Counterfeit invoice

Most local tax bureaus have also incorporated a fapiao verification function on their websites.

E.g. on the website of Shanghai Local Tax Bureau, there are two links for fapiao verification:

For fix amount fapiaos:

<http://www.csj.sh.gov.cn/wsbs/ticket1.jsp>

For other fapiaos:

<http://www.csj.sh.gov.cn/wsbs/jticket1.jsp>

The screenshot shows the Shanghai Local Tax Bureau website (www.csj.sh) with a navigation bar and a sidebar. The main content area is titled "上海市定额专用发票真伪查询" (Shanghai Fixed Amount Special Invoice Authenticity Query). It contains a text block explaining the purpose of the system and a form for verification. The form has two input fields: "发票代码及号码" (Invoice Code and Number) and "发票密码" (Invoice Password). Below the fields are buttons for "确认" (Confirm) and "重输" (Re-enter). Arrows point from the text boxes below to these input fields.

Input invoice's
cipher here

Input invoice
number here

Business Intelligence

Public Records Searches

- Articles of incorporation
- Directors
- Related parties
- Corporate affiliations
- Assets
- Bankruptcies
- Civil litigation
- Liens/judgments
- Depends on jurisdiction

Background Enquiries

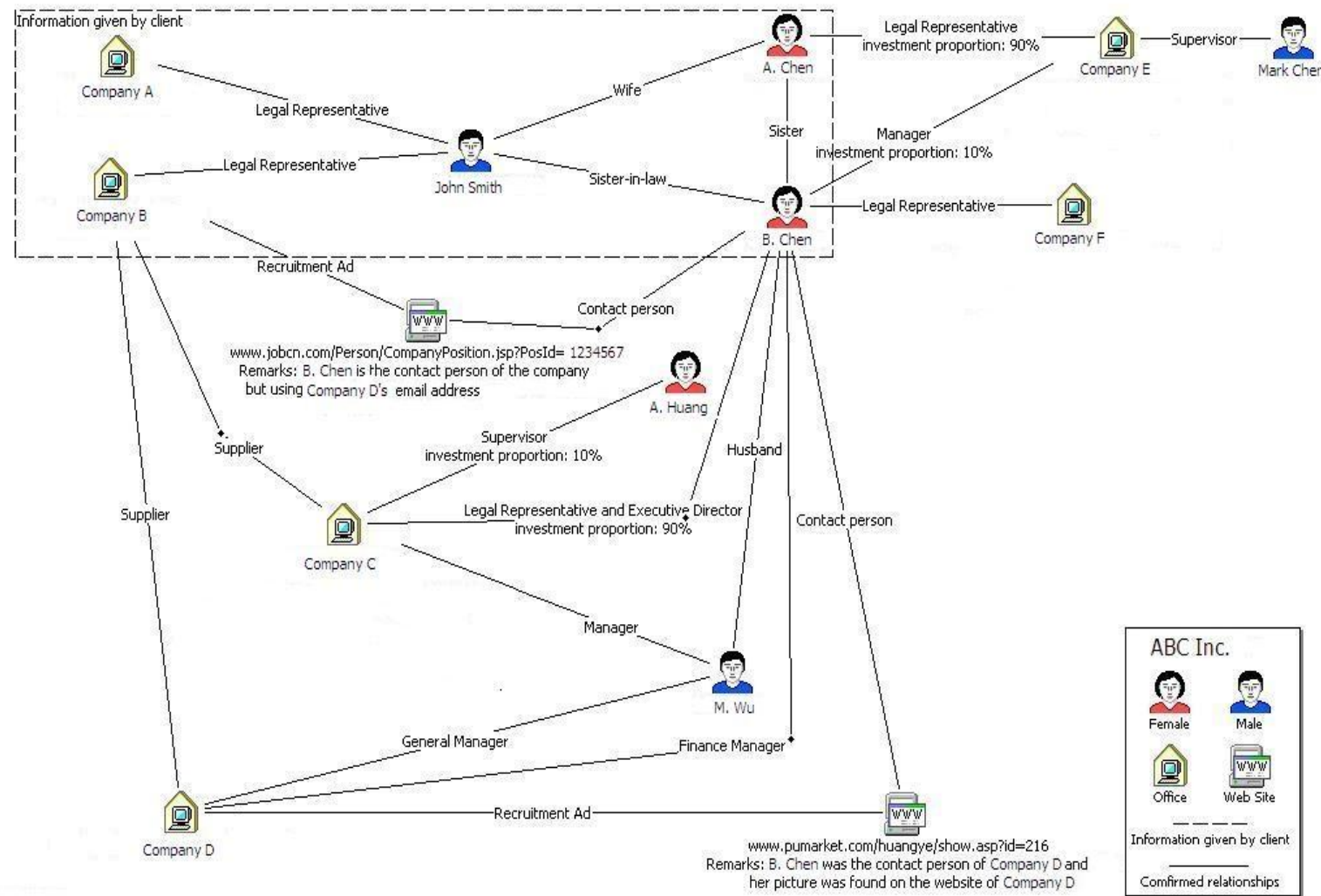
- Criminal history
- Credit history
- Reputation
- Search for or verification of licensing/professional disciplinary actions/education
- Regulatory sanctions/watch lists
- HR files, family connections

Fraud Investigation

Visual investigative analysis

ABC Inc.
Summary of Relationships

DRAFT
PRIVATE & CONFIDENTIAL



Interview Techniques

Objectives: Information gathering / Interrogation?

➡ Totally different approaches

Basic principles:-

- Always prepare for the interview (Prepare and read through interview folders)
- Select appropriate venue to conduct the interview
- Timing is crucial ➡ premature interview = poor outcome
- Interviewee tends not to talk if he feels the interviewer knows little about the case
- Opening – build up rapport with interviewee
- Get the interviewee talking – listen more rather than talk more



Interview Techniques

Basic principles: -

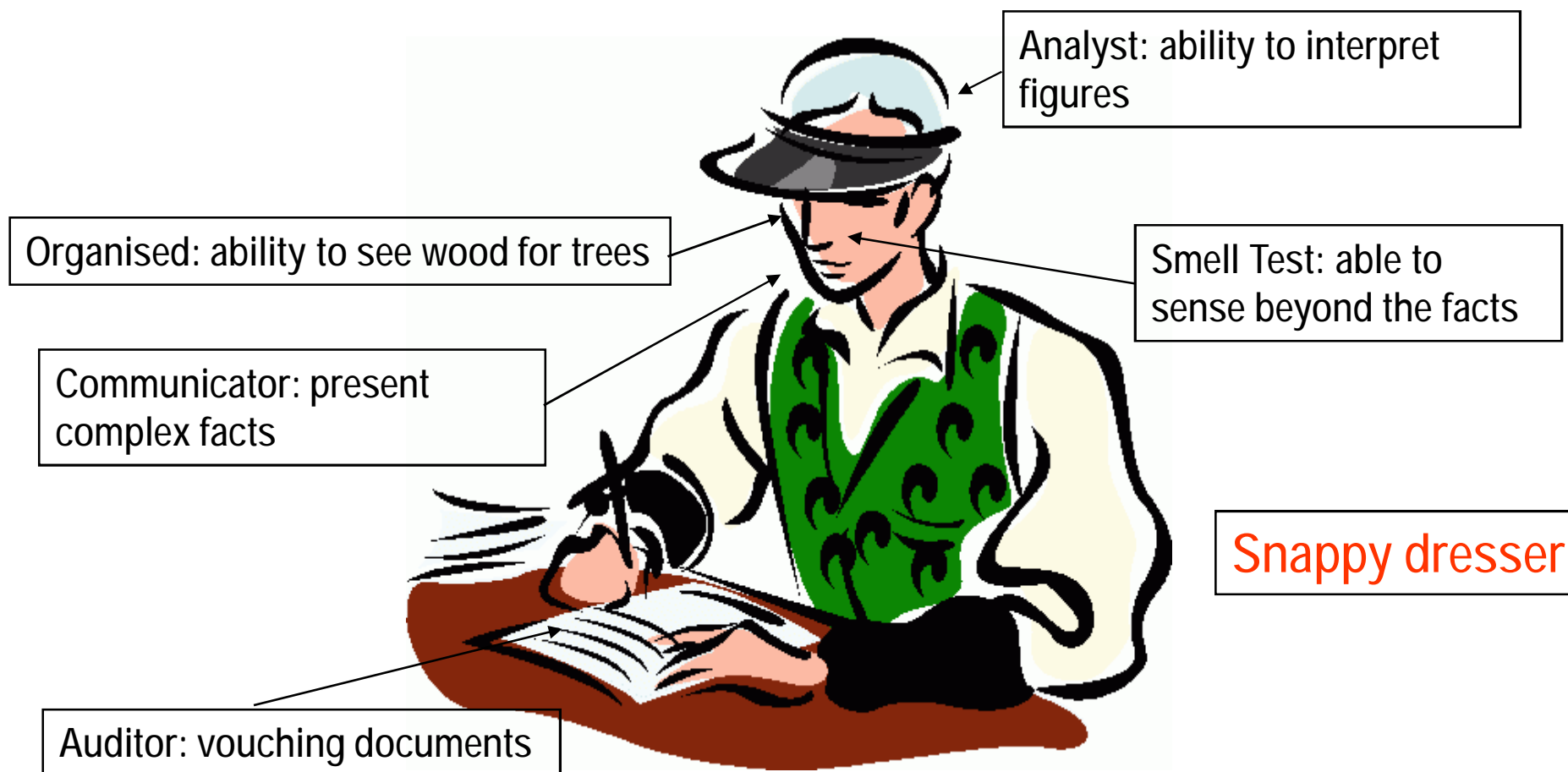
- Observe **body language** / non-verbal communication
- Ask **open questions** to elicit information (Leading questions are only for those answers that you already know to save interview time (e.g. background information))
- Be **interactive** with the interviewee – ask follow up questions based on answers given to reveal more information
- Use of **soft words** can decrease interviewees' resistance to persuasion, e.g. take vs steal, review vs investigation
- Be ready for different outcomes – what is the next course of action if other personnel implicated etc
- Prepare the interview note asap after the interview while your memory is still fresh

Interview Techniques

Make sure you have all elements of the fraud to validate an allegation: -

- I. People – who committed the fraud?
- II. Relationship – what is the connection between people, including witness, accomplice and victim?
- III. Time – when was the fraud committed?
- IV. Place – where was the fraud committed?
- V. Method – how did it happened?
- VI. Key – amount of money involved, how it was transacted and where the evidence was?

Forensic Accountant's Skill Set



Professional Skepticism

Fraud Prevention

Develop Corporate Values

- The control environment establishes an **ethical framework** that contributes to a **collective attitude** toward generating reliable financial statements
- The control environment is pervasive throughout the organization, and is **demonstrated in actions as well as words**.

Examples of elements of the control environment:



Examine Controls

How to optimize the control effectiveness?

- Appoint trained finance or accounting personnel to key roles
- Rotate personnel
- Surprise inspections of books and records by auditors
- Regularly review business relationships
- Provide the whistle-blower hotline mechanism to local suppliers and vendors to report inappropriate business practices
- Increase physical controls
- Lower the monetary thresholds that require approval from corporate management
- Independent monitor for the company's procurement process

Fraud Prevention

Controls Effectiveness

CFEs' Ranking of Controls' Importance in Detecting or Limiting Asset Misappropriations

Control	Average Score
Internal Audit / FE Department	3.86
Surprise Audits	3.55
Management Review of IC	3.17
Mandatory Job Rotation / Vacations	3.06
Fraud Hotline	2.99
Rewards for Whistleblowers	2.93
Audit of ICOFR	2.65
Audit of F/S	2.53

CFEs' Ranking of Controls' Importance in Detecting or Limiting Corruption Schemes

Control	Average Score
Internal Audit / FE Department	3.83
Fraud Hotline	3.48
Surprise Audits	3.41
Management Review of IC	3.14
Rewards for Whistleblowers	3.11
Mandatory Job Rotation / Vacations	2.87
Audit of F/S	2.66
Audit of ICOFR	2.63

CFEs' Ranking of Controls' Importance in Detecting or Limiting Financial Statement Fraud Schemes

Control	Average Score
Rewards for Whistleblowers	4.00
Internal Audit / FE Department	3.78
Fraud Hotline	3.77
Surprise Audits	3.69
Mandatory Job Rotation / Vacations	3.17
Audit of F/S	2.93
Management Review of IC	2.84
Audit of ICOFR	2.68

Monitor Controls

- **Assessment of the design and effectiveness of existing antifraud programs and controls**
- **Monitoring the effectiveness of controls through ongoing activities and/or separate evaluations**
- **Internal audit activity and evaluations (appropriate level of activity based on size and complexity of organization)**
- **Effective audit committee oversight**
- **Application monitoring controls to flag exceptions**

Overview of the Company



One of the world's largest engineering electronics companies

Employs in excess of 475,000 people globally

Operations in over 190 countries

In 2006/07 sales of HKD1,440 billion and net income of HKD54 billion

Overview of the allegations



Various allegations reported in the press – the scandal first became public when German prosecutors conducted a dawn raid on the homes of six senior executives

The specific allegations centred around the use of "*Business Consultants*" (BCs)

BCs were used to funnel funds to shell companies and route commission payments to government officials

*"An isolated criminal enterprise or a wider culture of corruption?"
Sydney Morning Herald 23 December 2006*



Overview of Deloitte's investigation

The company's global operations were now being intensely scrutinised by various agencies including the US Department of Justice

Deloitte continued to investigate the known allegations whilst examining the company's operations in specific high risk countries

Deloitte performed a comprehensive examination of the company's books & records, which involved over 400 staff globally and in excess of 10 terabytes of data

Investigative work remains ongoing today

What Deloitte uncovered



Institutional and accepted practices - money was paid via intermediaries to secure business

A sophisticated system in place to facilitate bribes

A sales sub culture that pushed people to *"win at all costs"*

Management who turned a blind eye to unethical behaviour

*"Prosecutors have revealed how bribery was rife
... with executives hiding the expenditure under
innocuous descriptions in the corporate accounts"
German Press Agency September 2008*

Consequences for the Company

Investigations by the US Department of Justice,
German Department of Justice and Deloitte

Fines and confiscation of profits made on corrupt
transactions

Potential ban on bidding for public contracts

Loss of credibility in the marketplace

Increased staff turnover, loss of corporate
knowledge and a reduced productivity



Case Study (2)

Case background

- Anonymous letter alleged a PRC healthcare products producer has created fictitious sales in order to meet the listing requirement
- The sales model of the company is simple, it relies on 10 distributors to sell its products all over China
- The distributors operate over 300 POS in China to promote and sell the healthcare products
- We have been told that the distributors operate independently and therefore it is impossible for us to examine these distributors' business and accounting records

Case Study (2)

Investigation

- Request has been made to examine the accounting records of the producer but we was advised that all the records “had just been taken by the Tax Bureau and no idea when they would be returned”
- No direct evidence to support the allegation of fictitious sales after investigation
- However, the integrity of the producer is seriously in doubt after considering all the business intelligence gathered
- Enquiries unveil that several major distributors are actually operated by the wife of the producer. His wife was also involved in several fraud cases investigated by the US SEC in 90's



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 140 countries. With access to the deep intellectual capital of 165,000 people worldwide, Deloitte delivers services in four professional areas, audit, tax, consulting and financial advisory services, and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

Deloitte's China practice provides services through a number of legal entities and those entities are members of Deloitte Touche Tohmatsu (Swiss Verein). We are one of the leading professional services providers in the Chinese Mainland, Hong Kong SAR and Macau SAR. We have over 8,000 people in eleven offices including Beijing, Dalian, Guangzhou, Hangzhou, Hong Kong, Macau, Nanjing, Shanghai, Shenzhen, Suzhou and Tianjin.

We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We also provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

Member of
Deloitte Touche Tohmatsu