

Fraud—the ultimate illusion

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The best stage illusionists use distraction and misdirection. Their illusions are clouded by mystery and secrecy. They make you believe in something that's just not real.

Fraud too allows us to believe that something is there when in fact it is not, or shows that it was used in one way when it was, in fact, used in a completely different manner. Both have the appearance of reality and both will deceive even the brightest—for short periods of time.

Consider the examples of Bre-X, Enron, WorldCom and, more recently, the alleged Madoff Ponzi scheme and Stanford investment scam investigation by the SEC. In each of these cases things appeared too good to be true and were even accepted as such.

So why, when we so often suspect the truth, do these illusions succeed? Sigmund Freud provides one answer. “Illusions commend themselves to us because they save us pain and allow us to enjoy pleasure instead...” But as we all know, the pleasure is always brief and leads down the path to great pain later.

The reality of fraud

With the good times over, many organizations are under significant pressure to take all possible steps to control costs and stem financial losses. With human

resources often reduced or redirected to other corporate survival matters, holes begin to develop in an organization's internal control system designed to reduce and detect fraud. The symptoms resulting from downsizing or rightsizing provide increased motivation to defraud—significantly changing the risk profile of an organization.

Acts of fraud that may have flourished undetected in the shadows of prosperity begin to emerge in the light created by increased operational scrutiny that occurs in times of economic decline.

Organizations should be prepared for this reality and be ready to deal with feelings of betrayal such findings elicit. Despite the need to cut expenditures, organizations that are victims of fraud are now faced with the expense of having to investigate to determine what cash and other vital assets have been taken and then pursue legal action in an attempt to recover it. Measures must then be put in place to prevent fraud from happening in the future.

Seeing the light

What steps can private businesses take to coax the illusion of fraud out from the shadows? Seeing it through the eyes of the illusionist is a start. A forensic accountant puts on the magic glasses necessary to see through the smoke and mirrors—bringing the act of fraud and its consequences out into the light for all to see.

Regardless of what position an organization finds itself in during times of economic downturn, there are measures that should always be in place when it comes to safeguarding from acts of fraud including:

- continuously reviewing and monitoring your internal control systems to ensure that they are in place and working as designed;
- establishing an investigation protocol/fraud policy for your organization now. Having a logical process already in place will keep emotions in check—helping to ensure you’ll do the right thing at the right time;
- implementing or improving a confidential reporting process, such as the Grant Thornton C.A.R.E (Confidential, Anonymous, Reporting for Employees) program, for employees to report suspicions of fraud and other acts of wrongdoing;
- trusting your instincts and investigating the “too” good as well as the bad; and
- staying informed—ask questions, keep good notes and records, and follow-up until the issue is resolved.

Despite having anti-fraud measures in place, sometimes even the most secure of businesses may find it necessary to call in expert help in order to get to the bottom of a situation. Early involvement of legal counsel and forensic accounting and investigation specialists can save considerable time and money later on. More importantly, professionals trained in fraud investigations release your vital internal resources to continue to look after the going concern of the business.

For more information, please contact your local adviser at www.GrantThornton.ca

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