

Economic conditions may spark fraud

WHITE collar crime is set to rise with SA's middle class at potentially the greatest risk.

The past year has seen most people being dramatically affected by the cost of living increases. Consumers' after-tax spend has been hardest hit by increases in interest rates, fuel and food prices, which shows few signs of respite. Many will be reduced to desperation in an effort to service debt accumulated in more stable conditions.

Figures released by the South African Reserve Bank show an increase of 500 basis points over the last three-year interest rate cycle.

The implication for the mid-market home owner (average house value of R1m) who purchased before this rise is that on a 100% bond they will be paying about R5 000 more a month than they were three years ago. This will have a dramatic effect on disposable income. Home owners have been forced to scale down, get second jobs and adjust spending habits in line with the increase in their monthly fixed commitments. The demand for rental properties is steadily increasing.

Data released by Wesbank cite

an increase in car repossessions to more than 2 000 a month nationally compared with just over a 1 000 only a year ago. Wesbank estimates that up to 6 000 vehicles could be auctioned monthly.

Food prices show similar trends and SA, like many other nations globally, has been exposed.

It is clear that while tougher market conditions prevail, the percentage of those unable to keep up with rising costs across most sectors will increase. Therefore, the rise of fraudulent activities by employees trying to maintain particular lifestyles habits is a reality many local companies will now face. Bearing this in mind it is useful to examine the profile of a typical fraudster:

- A fraudster is very often the most trusted, capable and willing employee;
- It is somebody who knows the business well and can do everything, a typical Mr Fixit;
- Over the age of 30, generally male, coming from a stable home with an above-average education;
- A first offender, with a relationship of trust between the employer and employee over time which replaces the need for controls and



“(Fraudsters) are usually an employee who has been with the company five years or more, often employed in the finance department and in a managerial position”

eliminates the controls such as the segregation of duties; and

■ They are usually an employee who has been with the company five years or more, often employed in the finance department and in a managerial position.

The detection of such a fraudster is usually evident through a series of behavioural red flags. When considering that many frauds go unnoticed until considerable loss has occurred, picking up on such tendencies early could be crucial.

The stolen money often ends up being spent on expensive accessory items such as cars and designer clothes. The person may have an addiction to gambling, alcohol and drugs which slowly increases.

Staff who feel they are not valued and begin to misinterpret the real value of their input are the ones who usually commit fraud.

Committing the fraud and using this as justification is commonplace.

Certain suppliers will be favoured irrespective of price or quality. The awarding of tenders and irregularities in the procurement process should arise suspicion particularly with larger contracts over sustained periods.

Irregularities are often uncovered when employees are out the office unexpectedly and someone has to manage their responsibilities. Many companies are moving towards enforcing minimum continuous leave periods during a one-year cycle in an effort to identify such offenders.

The perpetration of a fraud often happens in an environment which the individual knows well and can control. Any efforts to remove them from this, such as via promotion, would be resisted.

A seemingly obvious point that many companies overlook when securing the services of an employee is a prior criminal record. Pre-employment screening is a valuable proactive measure that can prevent considerable losses down the line.

It is clear that while we move through harsh economic conditions the need to raise awareness about such threats is stronger than ever. The promotion of a strong ethics culture combined with the introduction of strong antifraud controls is critical. Closing gaps and reducing the exposure to certain staff could be a valuable exercise in the long run. The signs may already be there. It is how one reacts to them which will determine prevention and success.

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