

THE FRAUD CLINIC

By Tim J. Leech, CA, MBA

WELCOME to a new monthly column for The Bottom Line's Canadian Internal Auditing Letter: "The Fraud Clinic". As a full-time forensic accountant and control and risk consultant, I'm looking forward to sharing some of my ideas and experiences with you in the issues ahead. As a former internal audit manager, I'm aware of many of the issues that affect internal auditors, so you know what my perspective will be. I look forward to your questions and comments.

When I was asked to provide a regular column on fraud, I gave considerable thought to the column's by-line and title. I wanted a title that allowed the latitude to explore and discuss issues related to preventing, predicting and resolving fraud-related problems in business, and one that gave all three equal importance. All too often, the glamour of the chase after a suspected fraud takes away from the more important issues of avoiding a problem in the first place, and of recognizing that a problem exists early on. I hope the title "The Fraud Clinic" meets this objective.

The association in the title with medicine is not an accident. A very close parallel can be drawn between personal health and fraud. In both cases, the priorities, in order of preference, should be as follows:

1. Avoid as many problems as possible through conscious selection of preventative measures and lifestyle.
2. Have the knowledge and diligence to detect problems that do occur at an early enough stage to avoid permanent harm.
3. Deal quickly and effectively with those problems that slip through stages 1 and 2. Mistakes and/or procrastination can be costly.

In the months ahead, I will deal with topics that fall into all three categories. Whatever the topic, I hope that the image of radical surgery and its associated pain and trauma caused by failures in categories 1 and 2 stays with you in your daily work as an internal auditor.

All too often I see companies, that have failed in their obligation to prevent and diagnose early, left with no choice but to fire or sever the staff involved. The scars often linger for years. You have a major role to play in assisting your organization to avoid the unpleasantness of the "option of last resort."

Some of the topics I will be covering in the issues ahead include:

- *Whistleblowing mechanisms:* Does your organization need them and, if so, which kind is right for you?
- *Training internal auditors to detect fraud:* Can it be done? Should it be done?
- *Exit interviews:* How can they help you detect fraud?
- *Systems that invite abuse:* Does your organization deserve to be defrauded?
- *Dealing with senior management* that want to keep defrauders on the payroll.
- *Perils, pitfalls and rewards* of succeeding at detecting fraud.
- *Ten high-return* methods to "mine" your organization for fraud.
- *Auditing for secret commissions*, both the giving and the receiving.
- *Auditing for corporate corruption at the top.* Do you dare?

These thought-provoking topics will be discussed to assist you in working with your organization to minimize or avoid some of the problems associated with employees and companies who cross the line of acceptable behaviour.

At the time this article was written in 1989 Tim Leech was Managing Director of NCM Control & Security Services Limited, the Canadian subsidiary of an international consulting firm based in London, England. Tim Leech is now Principal Consultant and Chief Methodology Officer at Paisley Consulting, a world leader in business accountability software solutions. He can be reached by phone at 905 823 5518 or by email at tim.leech@paisleyconsulting.com