THE FACTORS THAT PERPETRATOR COMMITTED THE FRAUD SUCCESSFULLY AND THE THING THAT MAKES THE COMPANY DISCOVER ABOUT THE FRAUD

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ABSTRACT

Nowadays, we see many fraud cases of famous companies being revealed on the news and social media. Most of the time, accounting staff are part of the scheme or even the key person who commits the fraud. The first question that came to the minds of people who read the news would be how those people took the money from the company without anyone noticing and how the company found out eventually about the fraud being commited. This paper aims to study a fraud case which the fraud investigator team thinks is remarkable and can be a lesson for the management in every company to be aware about the potential fraud that might harm their organisation in many ways. Frauds can happen in any company of all sizes and the perpetrator, which can be in any level, may have a way to cover their wrongdoings immaculately. Understanding their intention and the scheme of the fraud would be a useful lesson for the management to prevent this kind of bad situation and any damage that might be caused from people inside the organisation.

KEY WORDS: Fraud/ Forensics Accounting/ Investigation/ White Collar Crime/ Red Flag

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CHAPTER I
INTRODUCTION

The Association of Certified Fraud Examiners (ACFE) estimated that the organisations globally lose 5% of revenue to fraud annually (ACFE, 2022). The ACFE also found that nearly half of all occupational frauds were committed by an employee in one of these four departments: operation (15%), accounting (12%), executive/upper management (11%), and sales (11%). According to Andon, Free & Scard. (2015), the accounting-related roles have high opportunities to commit and cover the fraud as their roles and responsibilities facilitate them to manipulate the accounting record, override the internal control, and present fraudulent financial reports. They are also working on a number of documents and are the final department who store the documents, which eases them on the evidence concealment. For example, the document for accounting records can be a fraudulent document prepared by the fraudster in the accounting department, and they can destroy the document to cover the crime they commit.

In the business world, there are many types of businesses, for example, Sole Proprietorships, Partnerships, Limited Liability Companies (LLC), and Corporations. Regardless of the type of business, every organisation needs an accountant to do their financial report and take care of the transactions related to the business. Not only is it required by law to have a registered accountant do the financial statement and submit it to the regulatory authority, but a good accountant can also tell the owner, board of directors and shareholders about the business performance and company's financial position. In order to reach the company's objective, be profitable and survive in the competitive environment, the management and shareholders need to see and understand how the company performs, based on real results (Ahid & Augustin, 2012). The accuracy of the information can help the management make the best decision based on that information and can lead to the company's success in the future.

Currently, the business world has become more complicated since trading is open worldwide. Once the company structure gets more complex and becomes larger, the accounting department needs to take care of all business transactions in the book and be aware of off-the-book transactions or over/under recorded transactions which may lead to financial statement's misstatement. The main roles and responsibilities of the accounting department revolve around 5 components which are asset, liabilities, equity, expense, and revenue of the company, according to Das (2018). The more complexity in the organisation is, the harder the accountants need to work. Hence, the company needs other parties other than the company's accountant, for example, internal and external auditors, who also have an accounting background, to check and monitor the information prepared by an accountant.

The higher monitoring level from both internal and external may help companies to prevent and detect the potential fraud or regulation violation actions in an organisation. Regardless of how strong the control is, there is always a hole which the employees may notice and use that little opportunity of the control deficiency that will cause damage to the companies for their own benefit. If the company can detect the red flags from fraudulent activities in an earlier stage, the damage to the company would be lower. All wrongdoing actions can have a small or substantial effect depending on many factors, for example, the number of accomplices, duration, amount, and frequency. According to Moore (2016), 30 to 50 percent of all business failures are caused by occupational fraud, which is a fraud that is committed against an organisation by one or multiple employees. This type of crime, the fraudster has the intention to gain from any misuse or misappropriation of the organisation's assets. In other words, the fraudsters use some things that belong to the organisation to make money or benefit for their own. One fraud case can result in a small company going bankrupt. Fraud can happen in many forms. There are 3 main categories of fraud (ACFE manual 2018): asset misappropriation, financial statement fraud, and corruption. The company should pay close attention to these wrongdoings and create an environment to protect those actions and build a good ethic within the company to mitigate any fraud risk. The occupational fraud can happen without anyone in the company knowing for a long time. A small company who lacks financial support to build a good internal control system may lose to those fraudsters more than the company can bear.

1.1 The fraud case story in this paper

Company X (the Company) is a manufacturing company, located at a famous industrial estate in the central part of Thailand. The size of the company is small with around 50 employees. It is a subsidiary of a Japanese company, where the Company's financial data is needed to do a consolidated financial statement. Every year, an internal audit team would require reports and documents to perform a number of tests on the Company's control efficiency and effectiveness. In March 2021, the internal auditor reported the issue on the reasonableness of the numbers in financial statements to the management. The issue was that the statement of its financial position as of 2020 showed an increase in fixed assets, while the statement of income for the year 2020 stated lower revenue. In addition, from the end of 2019 until March 2021, the Company lowered its production volume and the sales volume had decreased because of the effects from COVID-19 pandemic. There was no reason for the Company to invest in new fixed assets. The Company's Managing Director (MD) in Thailand, who is Japanese, could not find an explanation for this abnormality. He reported back to the head office in Japan that there was something wrong with this issue. Moreover, the production manager could not identify most of the assets purchased in the internal auditor's list.

The Japanese management decided to do an internal investigation from the accounting data remotely and found that the Company unnecessarily bought new assets into its factory every year for the past 10 years. The internal investigation team traced back to the person who was responsible for the fixed asset register report as she was the one who recorded additional asset transactions in the past several years. She answered that she recorded those transactions according to the former accounting manager's (Mrs. A) order. The team asked for the supporting vouchers and evidence, such as invoices, delivery notes, or billing notes, related to those additional fixed asset transactions but she said Mrs. A was the one who prepared and stored those files. The internal investigation team and management were quite sure that it was an unusual case and it could be a fraud performed by Mrs. A and possibly included others. They decided to hire the forensic investigation team in Thailand to further investigate the case at the Company.

A manager, senior consultant, and junior consultant from a well-known consulting firm were assigned to work on this case. The methods that the team used in this investigation included digital forensic, information-seeking interviews, document review, and 100% list-to-floor fixed physical asset count. The scopes of work in this investigation project were to quantify the damage made by Mrs. A, identify the possible accomplice (if any), explain the fraud scheme, and find the evidence of those transactions. The period to investigate was set from January 2016 to the time of the investigation (around September 2021). After gathered information, the team found that Mrs. A had been working for the Company as accounting manager for more than 20 years. She was the first employee of the Company. She graduated from a top tier university in Thailand and had a good relationship with the MD and all employees. She liked to give money to others occasionally. Her roles and responsibilities during being an accounting manager were to be a head of the accounting department, prepare financial statements, communicate with internal and external auditors, and take care of other important issues while the Japanese MD was not at the office. She was also a head of the purchasing department. She rarely took leave and never let anyone involved with her work. She was trusted by every employee in the Company since she worked for the company the longest. Mrs. A was supposed to retire at the end of March 2020 but she actually stopped working at the Company in June 2020. She insisted that she would like to continue to do the work and was willing to do it without receiving any salary. The Company allowed her to continue working for only three more months.

After knowing the background information, the team decided to do an on-site investigation. At the same time, the IT team used digital forensic to acquire, process, and analyse the data from the computer of Mrs. A and two accountants. From document review, interview session, physical asset count, and data in computers the team found that: 90% of fixed assets shown in the report were fictitious transactions, 620 cheques, totaling 71 million baht, that the Company made payment in the last 5 years were signed by an unauthorised person, two accounting staff potentially were the accomplices since they have close relationship with Mrs A, and Mrs. A created falsified documents to support the fakes transactions.

1.2 Motivation for research

The motivation for this research is to understand and study the fraud case and how the perpetrator committed the fraud and how the company found out about it. The story will lead to a lesson for the company to be aware of unseen fraud cases and ways to prevent it before it happens. Each of the fraud cases happen differently in the aspect of method, scheme, person/ people involved, and the damage amount. The fraud case in this paper is interesting and the writer believes that it will illustrate a good example for the company to learn from. The internal control which some organisations have may not include the specific control to prevent and detect the fraud risk. This paper intends to motivate the readers to realise how much damage a fraud can do to a company and why it is important to be mindful.

1.3 Value of the research

The paper aims to benefit the leader and the management who have the authorities and power to create an anti-fraud environment. The management should be aware of the importance of the internal control and fraud risk. As the complexity in the business has increased and the fraud scheme has gotten more advanced, the company and the management should learn from the existing cases, use them as a guideline and a lesson to prevent and detect the fraud in the organisation. The analysis part illustrates the red flag and the consequences from lacking the internal control of the company in the case. The end of this paper will link the story case to a useful theory in order to help the management to develop an internal control and create an anti-fraud environment for the organisation.

CHAPTER II
LITERATURE REVIEW

2.1 Internal control and external auditor

Internal control is a process that the organisation creates to help them successfully reach specific goals or objectives, as a result of the organisation's structure, work and authority flows, people and management information systems (Joseph, Albert, & Byaruhanga 2015). Weak internal control can increase the risk of fraud committed by the top management in the organisation, according to Donelson, Ege & McInnis (2017). Most of the companies that detected fraud found that it often was a result of a weak internal control system. The management of the organisation should establish the process which consists of preventative controls, detective controls, and corrective controls, as stated by Yuniarti & Ariandi (2017). It is also mentioned that fraud is an important threat to any organisation and it is better to prevent it at the earliest stage possible.

Even though there are internal and external auditors who monitor and recheck the work of accountants, their work does not cover 100% of what the accountants do. In addition, the things that they review are mainly prepared by the accountants. External auditors do their work based on their audit judgement, which consists of 3 main elements: reasonable assurance, materiality, and the auditors' opinion (Murdock, 2019), while internal auditors test accountants' work based on the company's policies and the control processes that the company has. The purpose of internal and external auditors are different, hence the deliverables also vary. External auditors are required by the law for the company to have and the deliverable is the auditor's opinion in a reasonable assurance report. It states the level of accuracy and reliability of the financial statement. Internal control department is not required for all the companies to have, only listed companies must have an internal control and its deliverable is the internal report which consists of the control deficiency and recommendation on areas which lack the control. From the previous research by Felix, Gramling A & Maletta

(2001), the better quality of the internal control from the more contribution of the internal auditor, the lower the external audit fee. It means that the company can mitigate the risks that they are exposed to by having good internal control and monitoring periodically, so that the external auditors can rely more on the company's data or information and lower the audit fee.

Some companies may deem the internal control department unimportant and a waste of money. As long as the operation can run and generate benefits, there is no need for the company to monitor each department's work. Moreover, some small companies may not have the financial fund to support the internal control system and that exposes the company to a high risk of fraud. However, having an internal control department helps the company to detect any wrongdoing that might happen, protect the company's interest, improve the operational deficiency and also increase the accuracy of financial reports (Indeed Editorial Team 2021). No matter what the company's size is, the internal control department is the important factor to build a strong foundation for the company to grow bigger without the loss of interest to the fraudster.

2.2 Corporate governance and tone at the top

Every company should have a good corporate governance and code of ethics as a guideline for employees' actions. Corporate governance is the concept to protect the interest of all stakeholders (Tuan, 2012). The concept relates to the guideline which creates the mindsets of employees to act in a way that best benefits the investors or the stakeholders. Corporate governance does not only consider the stakeholders' interest, it also needs to balance the business objective. A strong corporate governance will reflect in the company's value, good work ethic, and positive relationship within the organisation (Tuan, 2012). It shapes corporate culture and behaviour of people in the organisation, so all employees should acknowledge and be aware of their own corporate governance. Having only a strong corporate governance may not be enough for the organisation to create a good workplace culture. Tone at the top is also another key factor to govern and deliver those messages from the top management to all levels. The board of directors (BOD) and all high level management play an important role to represent corporate governance and culture. According to Schwartz, Dunfee & Kline

(2005), the tone at the top refers to a BOD being a good role model and showing actions which encourage a sufficient level of ethical behaviour and environment in the organisation. They have a responsibility to oversee ethics and compliance programs which will lead to a good long-term organisation's interest. The organisation where the tone at the top is strong, high level management show their ethical concern and put value in good corporate governance with high integrity, the internal control can effectively prevent fraudulent activities, as stated by Rubasundram (2015).

2.3 White-Collar Crime

From Croall 2001, white-collar crime is a crime committed by an individual who is respected by others and has high social status regarding his occupation. The term 'White Collar' in this context means a business manager or a person in an upper level in the organisation. White-collar crime also refers to an illegal behaviour in which an individual or group of individuals takes advantage of being in a specific position of professional authority, power from the position, or the opportunity from the organisation's structure for their personal benefit (Kempa, 2010). According to Mason (1987), the Criminal Justice Data dictionary defines white-collar crime as 'nonviolent crime for financial committed by means of deception by person whose occupational status is entrepreneurial, professional or semi-professional skills and opportunities; and also by anyone having special technical and professional knowledge of business and government, irrespective of the person's occupation.'. In this paper, the writer indicates the meaning of white-collar crime as a nonviolent crime for personal benefit which is committed by the high position employee of the organisation who has the opportunity and the authority from the legitimate occupation or profession. There are several components of the white-collar crime said by Croall (2001). It is deceitful in the form of manipulating the truth. It is intentional, not negligence, not an error, but intentionally to do the actions which are planned ahead by the perpetrator. It breaches the trust that the individual gained from management and other employees. It makes losses to the victim, who is the organisation or the employer. It may be covered to not show any anomalies.

2.4 Occupational Fraud and type of fraud

Occupational fraud can be referred to fraud or internal, insider, and employee fraud (Suh, Shim & Button, 2018). The world's biggest anti-fraud organisation, The Association of Certified Fraud Examiners (ACFE manual, 2018) defines occupational fraud as the fraud that is committed in connection with their occupation. It can be committed by an individual or a group of individuals to deliberately misuse the organisation's assets for their own benefit. The perpetrator position in the company can range from the normal employee, manager, to an owner/executive level (ACFE report, 2022). The writer would refer to occupational fraud as "Fraud". There are three main type of fraud stated by ACFE manual (2018): 1) asset misappropriation, which referred to misuse of an organisation's asset, 2) corruption, where fraudster use some power or influence over the third parties to gain an inappropriate benefit for their own, 3) fraudulent financial statements, which means to manipulate the financial statement through the intentional misstatement or omission of the amount to or information disclosed. In this paper, the writer defines fraud and type of fraud according to the concept of ACFE.

2.5 Fraud triangle

According to ACFE Manual (2018), the Fraud Triangle consists of 3 aspects, including opportunity, incentive/pressure and attitude/rationalisation. When all 3 components exist, there is a higher chance of fraud to happen (Kassem & Higson 2012). It is considered as 3 main components which make the perpetrator commit a crime (Turner, Mock, & Srivastava, 2003). Figure 2.1 below shows the Fraud Triangle Theory.

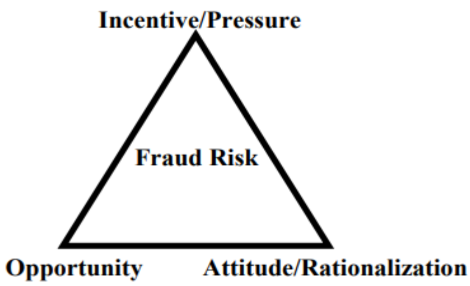

Figure 2.1 Fraud Triangle (Turner, Mock, & Srivastava, 2003)

- Opportunity: The perpetrator needs to have the opportunity in order to succeed in committing the fraud. The opportunity allows them to commit the fraud, cover the evidence, and avoid being caught. It will occur when the individual has trust from other employees and the management, lack of internal control, and the perpetrator knows the flow and business process of the company well (Moore, 2016). The opportunity of any individual to commit the fraud may be hard to identify, but it is the easiest of all components to prevent by developing a good and efficient internal control in the organisation.

- **Incentive/ Pressure:** In order to commit the fraud, the perpetrator must have an incentive or being under pressure to make them do such a thing. The pressure that they face can be from personal pressure, employment pressure, or external pressure (Kassem & Higson, 2012). These 3 factors can be related to financial pressure and non-financial pressure. For example, personal financial pressure can be from the high debt or urgent money needed and the external non-financial pressure can be image, ego, or social pressure.

- **Attitude/ Rationalisation:** When the perpetrators commit the fraud, they mostly have belief, attitude or rationalisation for their behaviour. They believe that what they do was not wrong and always have an excuse to support their actions. The rationalisation to commit a fraud can come from the perpetrator being treated unfairly by colleagues or the management (Moore, 2016). Sometimes there is a financial issue related to the rationale behind their thought. For example, the employees think that the salary is too low for what they do for the company. So it is not wrong to steal money from the company to pay for their contribution. Schuchter & Levi (2016) said that the rationalisation reflects the cultural ideologies which change the idea of criminality and moral sensibility with one another.

2.6 Red flag

Red flag is a signal of unusualness or the difference from normal activities or operations. It is something out of the ordinary which is a sign of fraud (DiNapoli, 2008). The red flag can occur when internal auditors perform their test. They need to be aware of the normality of the organisation before being able to identify the anomalies.

They should be careful of the irregularities while conducting the test, for example, interviewing the process owner, observing the business flow, reviewing documents, and analysing data (Murdock, 2019). Identifying the red flag can help the organisation to decrease the fraud risk, easier prevent fraud to happen, and also detect the unseen fraud faster (Stamler, Marschdorf & Possamai, 2014). Red flags can be noticed by anyone internally from the normal employees to the top management level or externally such as an external auditor. According to Stamler, Marschdorf & Possamai (2014) example of fraud red flag are:

- Employees never take leave and no job rotation within the company
- The long-tenured employee is familiar with the job or working process (The problem will initiate when the management trusts a long-tenured employee too much and decreases the amount of supervision monitoring. It distorts the effective control and can lead to the opportunity for the employee to commit the fraud.)
- Conflict of interest with third parties, for example, suppliers and customers (The closer the relationship of the employee with these parties, the higher chance of them to receive a benefit like kickbacks, bribes, and inappropriate gifts.)
- Ineffective or lack of internal control
- Poor accounting record
- High complexity of business structure
- Poor documentation management or unexplainable transactions
- The employee living beyond means or have financial difficulties
- The employee has high stress, is faced with a crisis, or under an overly competitive environment

CHAPTER III
RESEARCH METHODOLOGY

3.1 Data collection and methodology

This research used primary data and qualitative methods to gather all information. The interview sessions were conducted through an online channel with 3 forensic consultants from a well-known multinational consulting firm.

The primary research method is the best way to learn about one particular case from the real experience of the investigation team. It allows the writer to gain insight from the actual case and link to the related theories. The information needed is very specific and detailed so it is better to gather information from the investigation team than the pre-existing sources.

The qualitative method is suitable for this paper since the writer can obtain insight information from the one who discovered the fraud scheme through an interview session. Moreover, in the interview session, under a qualitative method, the interviewees can answer questions without any limit or scope and the writer can confirm the understanding whether they are correct. The writer mainly used open-ended questions during the interview so the interviewees can freely discuss and answer the questions. The writer asked the details of the case based on the story from investigation teams. The writer also has related experience in external auditing and forensic accounting for 6 years and asked the question based on professional scepticism to complete the story and do analysis on the related theories.

The main objective for this interview is to study fraud in an organisation and how it happened from the investigation team's perspective. It will focus mainly on one case, which the investigators think can give the most useful lesson and is the most interesting case during their working experience as a forensic consultant.

3.2 Interviewees selection criteria

The writer decided to interview the forensic consultants from one well-known multinational company because this paper will focus only on one case. The team members were working together on the case. At the time of the investigation, the 3 consultants were in different positions including a manager, a senior consultant and a junior consultant. They were Certified Fraud Examiners (CFEs) who had had 3 to 6 years of experience in the field and had been conducting many types of consulting service, for example, fraud investigation cases, internal control auditing, financial statement external auditing, and anti bribery & money laundering audit. Each of them had different roles while investigating and could present the case in different perspectives. The main roles of the manager were to communicate with the client (the company's management in Thailand and Japan), plan and give recommendations on the methods used during the investigation, and conclude the issue(s) found and finalise the report for the client. The senior consultant's roles were to lead the team, contact the staff in the company for obtaining the document and information, review and finalise the working papers, report issues found to the manager, and make decisions when facing difficult situations while working on the field. The junior staff mostly reviewed files and documents, performed the detailed test and data gathering, prepared working papers, and reported all the findings to the senior consultant. Although there were clear roles for each level, they mostly worked together as a team. They always sat together and shared all information found in order to know all the details and connect the story from each area together.

Before the interview session, the writer connected with the investigation team via email and asked them to prepare the story about the most impressive case in which they worked together. The writer interviewed a junior consultant first to get the main idea of the investigation process and to gather the general information of the case. The second interview session would be the one with the senior consultants and the team manager as they were the one who finalised the investigation report and knew about the detailed information of the case. They also knew about the overall methods used for the investigation of the case and were the ones who planned all the processes to complete the project.

All interview sessions were conducted online during 12 - 16 June 2022. The name of the interviewees and the companies involved will not be disclosed as it is highly confidential data. Instead, the writer will name them Mr. Man (the manager), Mr. Sen (the senior consultant), and Mr. Ju (the junior consultant) if necessary. The company who hired them to do the investigation would be called 'Company X'.

3.3 Research questions

The main topics used in the interview are "How the perpetrator took the money out of the company without anyone noticing?" and "How did the company find out about the case?". The questions list will be divided into 2 parts. First, general questions related to the interviewees background and their opinions towards the forensic consultant career. Second, the questions that are directly related to the case. The objective of general questions are to illustrate the background of each team member and to understand the mindset of forensic consultants. The case related questions' objectives are to gain the insight information of the case, the finding from the investigation, and the method of technique used to find those findings. The question list is shown in the section below.

- **General question**

- What is your background?
- What skills do you think are useful to investigate the fraud case?
- What do you think is hard to do in the investigation case?
- What are the main allegations that the company decided to hire the investigation team? (From your experience in many case)
- Do you think it is dangerous when you perform an investigation at the client or contact directly to the potential perpetrator?
- What are the skills needed in the future for investigating fraud?

- **The case related question**

- Why do you think this case is the most impressive case?
- What is the scope of the investigation team in this case?
- How did the management know about the case before hiring you?
- What technique do you use for the investigation?

- What are the findings?
- What do you think is the main reason that the company has this fraud case?
- What is the company decision on the perpetrator after knowing the result of the investigation?

CHAPTER IV
FINDINGS ANALYSIS

The major findings of the scheme used in the case that the external investigator team found from the case are:

- **90% of fixed assets shown in the report were fictitious transactions**

The fixed asset register report as of 2021 showed many fixed assets were assigned strange asset codes. The same asset was recorded multiple times but in different cost amounts. The management told the team that there were only 2 big investments in the Company's assets: after the big flood in 2011 and in 2017. However, the report showed that the Company purchased fixed assets every year. From 100% physical fixed asset count using a list-to-floor method, the production manager could not identify 90% (based on their cost) of the additional assets purchased from the list in the past 5 years. The production manager claimed to have no idea where those assets came from and said that the actual fixed assets in the production line were not as much as what appeared in the list. Some fixed assets had an uncleared name which he could not identify and some showed abnormal cost.

- **620 cheques, totaling 71 million baht, that the Company made payment in the last 5 years were signed by an unauthorised person**

The investigation team asked management to request a copy of the cheques issued by the Company from the bank in the past 5 years. They wanted to prove how she made the payment of those purchased fixed asset transactions because she was not the one who did the payment process and had no authorization to do so. They found that 620 cheques amounted to 71 million baht (MB) were signed by an unauthorised person who was a former shareholder and a director of the company. He went back to Japan in 2016 and has no longer been the company's shareholder since. The name of the present shareholder who replaced the former one was added into the authorised person list for the bank by Mrs. A according to the MD's order, but the former shareholder's name was not mentioned in the request form and never was withdrawn. The former shareholder was an authorised person to make the payment until the HR manager told the MD to remove him after Mrs. A stopped working for the company in June 2020. From the evidence, Mrs. A potentially forged his signature and issued a check to the nominees. Those cheques were paid for 516 transactions of fixed assets purchased, amounted to 61 million baht (MB), 61 transactions of factory supply, amounted to 4.5MB, and 33 advance transactions amounted to 6MB. The last cheque issued with the forged signature was in May 2020, two month after Mrs. A's retirement and one month before she stopped coming to the Company. The accounting staff, who was responsible for the cheque preparation process and cheque deposit to the third parties' account, stated in the interview that she never noticed the signature on the cheques. Her duty was to prepare the cheque according to Mrs. A's order and place the required documents on her desk. After the cheques were signed and placed back on the desk, she just went to the bank and deposited those cheques to the payee accounts whose names were on the cheques.

- Mrs. A had a close relationship with two accounting staff and always gave them extra money for personal use

From the data in 3 computers, Mrs. A frequently gave money to 2 accounting staff for their personal use. They went on trips together in many countries and also invested in a coffee shop together. Their families seem to be close to one another. It is possible that 2 accounting staff respected and never questioned Mrs. A, even though her actions were suspicious.

- **Mrs. A created falsified documents to support the fakes transactions**

The investigation team had a question as to why external and internal auditors who audited the transaction and reviewed the documents never noticed about these fake transactions before and why none of the employees asked about the non-existing documents while preparing the required documents for the auditors. The answer was because Mrs. A had created falsified supporting documents all by herself. From the interview, one of the accounting staff said that all the documents requested by internal and external parties were prepared by Mrs. A and no one ever saw these documents. In addition, the Revenue Department never mentioned these transactions for the tax audit because these transactions never recorded any input VAT. So they were not included in

VAT filling form (PP30) and VAT filing report. The team noticed this from the value of the transactions which mostly amounted to a rounded thousand baht.

After the Company and its parent company received the investigation report from the consulting firm, they decided to take this issue seriously and take a legal action against a perpetrator by filing a criminal complaint to a relevant police station for initiating the court proceedings. The filling was mentioned about the case in relation to forging the Company’s authorities’ signature and falsifying the Company’s documents which resulted in financial loss to the company. The damage that perpetrator made to the company quantified by the investigation team was far beyond their estimation. From this fraud case, the Company redesigned its organisation structure and created effective internal control to prevent the future crime that might happen.

The result of the investigation’s scope of forensic consultants over a 5-year period (2016 - 2021) are: 1) The total amount of company damages, amounted to 71MB, 2) A possibility that the accountants who prepared and deposited the cheques and the one who recorded the fixed asset transactions are accomplices, 3) the fraud scheme of Mrs. A which includes: preparing falsified documents, forging authority's signature, recording fictitious transactions, and doing related tasks to these transactions in secrecy to conceal her wrongdoings, 4) the evidence that the investigation team prepared including the internal report to the management and related documents of fictitious transactions from the Company and the bank. To conclude the research question, the Company uncovered this fraud incident from the financial statement analysis of the internal auditor. Mrs. A was able to take the money from the company successfully for a long time mainly because the company lacked internal control and her roles and responsibilities allowed her to commit the white-collar crime due to the supervisory failure. No one in the company ever raised any suspicion while she was working for the company and everyone simply trusted her. These factors led her to successfully commit the crime and be able to take the money from the Company for more than 20 years up until her retirement.

4.1 Analysis

4.1.1 The red flag

There were many red flags from the story but no one in the company had enough courage to tell management and even the management themselves never noticed them. The first obvious sign was when the fictitious transactions were created, the weak accounting record. The person who records the fixed asset addition must have a professional scepticism on the transaction before recording it. In order to record any accounting transaction, it should have sufficient information and evidence to prove that the transaction really happened. In this case, to record the fixed asset addition transaction, she should see the invoice and the signature of the operation manager upon the asset receiving to prove that the right assets were delivered to the company successfully and its risk and reward of the asset was transferred to the company. However, she ignored these practices and recorded those fictitious transactions just from the post-it or papers that the perpetrator gave to her, which cannot prove any existence or accuracy of the transactions. If she had courage and was curious enough why some fixed asset addition transactions have no invoice attached while some have, she would ask the accounting manager, production manager, or MD about this after seeing it many times and the irregularity would be found out and leave no opportunity for the fraudster to continue doing it. The second red flag would be the behaviour of Mrs A, which she rarely took leave or let anyone involved with her job. She was a long-tenured employee in a high position and never rotated roles within the company. Hence, she can conceal the evidence for a long time because no one can access her responsible area. Moreover, she was the first employee of the company and she knew everything related to the company better than anyone. The company should have job rotation rules or sufficient segregation of duty. The reason that she insisted on doing it alone is because she cannot let anyone fill her position even for a short time. She is afraid that her wrongdoing might be discovered. Even after her retirement, she informed the management that she wanted to continue working at the same position without receiving a salary. Luckily, the company allowed her to do so for only three months. If the management decides to let her maintain the position, the internal auditor might not discover the fraud and she would still continue her scheme until now. Another red flag that can be noticed from Mrs A is her lifestyle. She was living beyond means. This can be seen from the fact that she liked to give money to her colleagues, invested money to open the coffee shop with colleagues, and she had her personal driver.

The red flags from the Company side are lack of internal control. The Company should know that its internal control was very weak. There was no control over the accounting process and purchasing process. Even though there were some controls, those controls were not efficient. High position employee, Mrs A to be specific, can override those controls and make the employees follow her orders without any doubt. The control weakness creates the opportunity for the perpetrator to commit the crime. If the company has enough segregation of duty or some other management to cross check the work of Mrs A, she might not be able to commit the fraud successfully. In addition, there should be some supervisor to monitor her work to prevent fraud and error. If there is, she might be afraid that someone would find out evidence and not do it from the start. Another red flag from the company is poor documentation management. The Company did not have any documentation system. Payment vouchers (PV) folders are not ordered sequentially. There are many skipped PV numbers in the physical files. The explanation from the accountant was no one ever asked her to do it and most of the missing documents were those transactions which Mrs A ordered her to record. When auditors asked for those documents, Mrs A prepared the document herself and delivered it to auditors. After receiving those documents back from auditors, she stored those files separately and none of the staff knew where they were. If the Company has strict documentation management. It would be harder for Mrs A to conceal and destroy the evidence, and someone may find out about the anomalies while sequencing the physical document in the folder.

4.1.2 Type of fraud

The type of fraud that perpetrator committed in the case are assets misappropriation and fraudulent financial statements. The perpetrator took out the company money for her own benefit by creating a fictitious fixed asset purchase transaction, forging the authorised person's signature to do the cheques payments, and receiving the money through nominees from those cheques. The money transferred to her is the company's asset. It should be used for only the transaction which gives benefit to the company, not for any specific employee benefit without the management and shareholders approval. To simplify her wrongdoing, she stole the company's money illegally. She also prepared fraudulent financial statements because those fictitious transactions were included in the financial statements: statement of financial position, income statement, and statement of shareholder's equity. The fictitious transactions distorted the actual financial position and performance of the Company and also reflected in all parts of the company's trial balance, which were used for financial statements preparation. She was able to do it because she was the one who had responsibilities to do the financial statements. High judgement area and adjusting transactions during the period closing of the accounting book were under her responsibilities.

4.1.3 The Fraud Triangle theory

From the case Mrs A, the perpetrator, has all components of the fraud triangle. The organisation structure and culture in the Company give her the **opportunity** to successfully commit the fraud. She had high trust from both management and all employees. She knew the workflow and operation process well since she had been working with the Company for 20 years. There was not enough segregation of duty in the Company since the size is small, only 3 accountants in the company. She was the head of the accounting department and purchasing department and this role had never been changed since the company opened until her retirement. In addition, the company lacks internal control. No one ever cross checked or minitor her works because everyone trusted her and she could do her duties well. She can create a falsified document of fictitious transactions and destroy it without anyone involved. She got **pressure** from her family (social status) based on the management statement. Her family members are all successful in life and can make a lot of money from their careers. She always said that her family lived a luxurious life and she wanted to be like them. Her **rationalisation** to commit the fraud can be about her belief and lack of morality. She might think that she has been working with the Company for a long time and contributed many things. The salary that she got was not enough. Taking a little bit of the Company money and giving partly to colleagues would not be harmful to the company. She deserves that money and it was not wrong to do so. Note that the rationalisation of Mrs A was only the potential answer from the investigation team since the team did not conduct the interview session with the perpetrator. With all the fraud triangle components together, She decided to commit the fraud and continue doing it until her retirement.

4.1.4 Lack of internal control, corporate governance and tone at the top

The Company from this case has very weak internal control in the business process; in both human resources and operational systems. The company might have some basic controls which Mrs A could easily override. The management highly trusted Mrs A and did not review her work regularly. These factors gave her the opportunity to commit the fraud. In Thai culture, people tend to value a person who graduated from a top tier university and also has high seniority. Thus, Mrs A had a lot of power over everyone in both aspects, educational background and seniority. Another main issue in this case is the supervisory failure. The MD had never monitored any of Mrs A's tasks and no one was assigned to do so. A good workflow with good control should also have a segregation of duty in which the people involved can cross check each other's work. For the Company, there were too few employees to do a proper segregation of duty in the accounting and purchasing department. The critical segregation of duty in this company was that the head of these two departments was the same person, Mrs A, while these two departments should have worked separately and independently. Consequently, Mrs A benefited from the Company which lacked internal control and successfully committed the fraud over a long time.

The Company clearly had no corporate governance. The top management did not care about the stakeholders' interest and every employee simply worked for their salary. Since there was no corporate governance, the tone at the top was also weak, resulting in the lack of good culture and ethical mindset. The MD was not setting a good example for the employees. He often left work and did not pay much attention to their subordinates, according to one accountant's interview. This implies that the tone at the top of the company was not good and led to an unethical culture within the Company. The employees had no guidelines to act with integrity, making them overlook the benefit of the company or stakeholder while working. Moreover, employees lack knowledge about the fraud and no reporting mechanism was put in place to anonymously report suspicious issues directly to the top management. Educating the importance of internal control and creating an anti-fraud environment can help the company to prevent fraudulent activities from all levels.

CHAPTER V
CONCLUSIONS & RECOMMENDATIONS

This paper intends to obtain insight information from forensic investigators and suggest a practical theory based on a case study. The key questions are how the perpetrator took the money out of the company without anyone noticing and how the company detected the fraud. The end of the finding and analysis part are about the main cause of the case which links the findings with the related theories. Management can learn from Company X's (the Company) failure, develop an internal control, and create an anti-risk culture within their organisation. The writer used primary data and qualitative methods to obtain insight information through online interview sessions with 3 forensic consultants from a well-known multinational consulting company.

From the case, the Company detected this fraud from an internal audit report. The internal audit team from the parent company found the abnormality from the financial statement analysis. They reported the issue to the management that the Company suspiciously had high investment in fixed assets during the COVID-19 pandemic, while the operation in manufacturing as well as the revenue were lower . The management was concerned about this issue and performed a remote internal investigation before hiring a forensic consulting team to further investigate and find the evidence. From the internal and the external investigation team, they found that the perpetrator was an accounting manager who had been working with the company for a long time. She was in a management level and was highly trusted by the executives. She committed the fraud by preparing a fraudulent document, forging the authority's signature, recording the fictitious fixed asset addition, and doing related tasks to these transactions in secrecy to conceal her wrongdoings. She also took advantage of the high trust level which everyone had on her to cover her actions. The total damage amount which the investigation team quantified is 71 million baht (MB) over the five-year period (from 2016 to 2021). The payment was made by 620 cheques in 3 areas: fixed assets, amounted to 61MB, factory supplies, amounted to 4.5MB, and advance payments, amounted to 6MB. The company ended up taking a legal action against a perpetrator by filing a criminal complaint to a relevant police station for initiating the court proceedings.

According to the analysis, the main reason which made the Company face this fraud case is because it lacked internal control. There was not enough internal control in place to prevent or detect any error or wrongdoing in the Company. The lack of internal control include: lack of management review, no segregation of duties, poor tone at the top, lack of competent personnel in oversight roles, lack of employee fraud education, and lack of reporting mechanism. Fortunately, the parent company in Japan decided to perform an independent audit, using their internal auditor who monitored and analysed the Company data and found the issue. However, the perpetrator already took the money from the Company and retired in 2020. The internal auditor detected this case after the perpetrator retired in the beginning of 2021. The forensics investigation team believed that she potentially had been committing the fraud for more than 20 years. The management felt at fault to not detect any sign of fraud risk earlier although there were so many red flags. It would have been less damaging if this white-collar crime had been noticed earlier.

5.1 Recommendations

Every organisation should put their attention into creating an anti-fraud environment. The established internal control should cover preventative controls, detective controls and corrective controls. To be more precise, firstly, the top management should initiate good corporate governance with an ethical culture and anti-fraud environment, then deliver the message from the top down to every employee in the organisation. All employees must be trained and knowledgeable of the importance of corporate governance. It should state in a high ethical tone to have an integrity mindset and to be willing to protect the stakeholders' interest. This will create an understanding that committing any type of fraud is considered a bad behaviour that harms both perpetrator and the company. The top management should show that the company emphasises on fraud prevention and no tolerance to any case related to the fraud. They should also be a role model of every employee to work with utmost integrity. Then every employee would feel that it is their responsibility, not only one specific department or group of people, to be an eye for the company to prevent fraud and want to do a good job with high integrity. The daily work that all levels put effort into the company is to benefit the stakeholders and to gain financial rewards such as salary and bonus in return.

Secondly, the company should create control and identify the risk that prevents the company from achieving the company's objective or harm the company, both internally and externally. Those risks should be ranked in high to low impact and the company should mitigate the high risk area first based on the magnitude and likelihood of the impact. The faster the company responds to those risks, the less damage that the company will get. Fraud risk is also one of the most important risks that can highly affect the company. To manage the fraud risk, the company should have the standard control to prevent fraud and error by human and by system within the operation. The control should include the segregation of duties and supervisory review in each department. It would help each employee check the works of others and those works will be reviewed by an authorised person. This control will detect human error or any red flags of fraud that might have. In addition, the Enterprise Resource Planning system (ERP) used should help the management to prevent the fraud by setting some criteria and detect the anomalies or any practice that are not aligned with the company workflows and other controls. The segregation of duties in a small and medium company where there are not enough staff to do the work process separately is to rotate each staff within the company across business processes periodically and have management to closely monitor. Rotating the staff would help the company prevent and detect the fraud. The staff would have less opportunity to commit the crime because once they are rotated, they cannot continue to commit the crime and other staff would find out the trail of their wrongdoings. Moreover, the company should have an internal control department or a team to monitor whether the corporate governance and the controls are in a good place and can mitigate the risks efficiently and effectively or not. The team should analyse the data and randomly select the sample of each process to find control deficiency, error, and control override.

Thirdly, the company should have procedures to deal with a fraud case after detecting it. It should have a clear policy to report the suspicious issue and then assign a team to do the investigation related to the reported issue and how to manage those findings, for example, the scope and responsible task of the team, the team leader, the investigation duration, and the damage quantification. These factors need proper authorised persons to make a clear decision case by case. The whistle blowing program or anonymously reporting system for suspicious issues directly to the top management should be implemented. In addition, training sessions for the employee to have a scepticism to notice the red flag would help the company to prevent the fraud and detect it earlier. The penalty to the perpetrator should be stated in the company policy and emphasise on all levels in every business process that the company has an ethical and integrity culture and take the fraud issue very seriously. The anti-fraud environment can be created not only from a specific department or internal control team, but it needs a top and middle management level to represent the culture to the lower levels.

There are many fraudulent cases which are caused by a weak internal control and a lack of supervisor review. Learning from other failures and protecting the organisation from facing the fraud case should be one task that the management considers as a top priority. Letting one person in the company take advantage of the other's efforts for their own benefit would have an enormously negative effect on the company. If there are many employees who know about the case, then report to the top management, but they decide to ignore or do not take the case seriously, the reporter would think that it is unfair for them to work hard and start to have their own rationale for committing the fraud or do the job without integrity. To summarise, creating a good corporate culture, internal control, and anti-fraud environment from the top level is the most important factor in protecting the company from fraudulent activities.

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