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Bringing the fraudsters to book

How one company is helping Thai businesses battle a problem that costs billions of baht every year

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Writer: [Nanchanok Wongsamuth](#)

A car parts manufacturer in Thailand was puzzled when it found that despite turnover increasing substantially, there was a mysterious decline in profits.

When Vorapong Sutanont and his financial forensics team at PricewaterhouseCoopers (PwC) were asked to look into the case, they performed an investigation based on the suspicion that this notable imbalance was due to fraud.

The team pulled hard disk drives from company PCs and searched emails between factory employees, reviewed accounting transactions and company records such as invoices and receipts, matching up purchase orders with actual material on the ground, and conducted interviews with suspects and employees.

"What we found was actually much greater than what was even suspected by the company," Mr Vorapong said.

THE ROLE OF TECHNOLOGY

In today's corporate environment, everything is stored electronically, and disk drives are a crucial part of any investigation.

Up to six people usually occupy PwC's computer forensics laboratory on the 17th floor of Bangkok City Tower on Sathon Road, which was empty when Spectrum paid a visit last week as the staff were in Hong Kong for a two-week data analysis training course.

Equipped with notebook PCs and servers, the room also contains a 45 by 60cm black briefcase made of hardened plastic composite.

The computer forensics team preserves, extracts and recovers electronically stored information and uses it to gather evidence. This is done using special hardware and software — the same as used by the FBI in the US — through digital forensic procedures called electronic discovery, which allows the production of an exact replica of a disk drive for analysis.

Weighing 10kg, PwC staff sometimes take the briefcase containing the e-discovery tools to clients' offices, working from 4pm, through the night to the next morning. When they are allowed to take the hardware back to their computer forensics laboratory, they will often say they are conducting a software licence audit or a procurement process upgrade to prevent raising suspicions among their clients' employees.

"We need this kind of technology to go through hundreds of millions of transactions in a day," Mr Vorapong said, referring to cases involving banks.

After earning a degree in information systems at Indiana University's business school, 37-year-old Mr Vorapong joined PwC in the US in 2002 as an associate. When Mr Vorapong returned to Thailand in 2009, he helped set up computer forensic services for PwC here. The current team consists of technologists, ex-journalists, people who understand business processes, accountants and information security people.

The world's second-largest professional services network as measured by 2013 revenues, PwC is one of the Big Four auditors, along with Deloitte, Ernst & Young and KPMG.

"People often ask how is it possible there could be fraud if a company's accounts are audited, and the answer is a regular audit is based on disclosure. As a result, the audit is done on a sampling basis," said Mr Vorapong, who climbed the company's ranks and became a partner two years ago. "A forensic audit is very different."

THE CAN OF WORMS

The team investigating the car parts manufacturer discovered that one of the key managers actually owned a supplier the company used, which set off alarm bells.

After requesting corporate registration documents from the Commerce Ministry, the team went through the shareholder and director information and cross-checked it against the names of employees at the car parts company to discover if any of the employees were listed as directors or shareholders.

A check on market prices for the raw material (which we were asked not to name for reasons of confidentiality) supplied by the manager's company found that he had inflated his prices by 30-45%.

Through the search of company emails, the team found that another of the company's managers was having a romantic relationship with one of the owners of the producer of the raw material. The team also found evidence of payments going from certain suppliers to key employees in the factory.

"The reason this wasn't detected is that part of that money was given to employees to keep their mouths shut," said George McLeod, a manager of corporate investigations who took part in the case last year.

In addition, it was also discovered that rather than using a proper tendering process to find a company to provide building services, one of the directors had set up their own building company that was given the work, resulting in higher costs.

PwC's financial forensics department investigates 50-60 cases each year, all of which are big-name companies. Of the total, one third are Thai, one third are Western and the rest Asian.

According to a 2014 PwC Thailand economic crime survey of 78 Thai companies, 80% deal with fraud internally, which is preferred by many because it is potentially cheaper and keeps the problem in-house, reducing the risk of public exposure. The remaining 20% pay from one million to tens of millions of baht for PwC to resolve their cases.

"Fraud spreads like a disease through a company, because you eventually need people in the accounting and quality control departments to be colluding with you," Mr McLeod said. "They need a kickback, which means you have to increase the amount of kickback that you demand."

For a parts supplier, this has potential implications for the quality of goods they buy. This might lead to safety issues and even recalls, which could lead to businesses relocating to lower risk locations such as the EU, Mr McLeod said.

TAKING PRECAUTIONS

Mr Vorapong does not have his own Facebook account, but he has several fake ones to check the profiles of his targets in case something fishy comes up. His business card does not specify the department he works in.

At home, his wife and parents have no idea what types of cases he is working on. The same goes for colleagues sitting next to each other, who refer to cases using code names.

Keeping a low profile is needed when working with influential corporate individuals.

"There's the risk that you are taking money out of these people's pockets, so we do have to take precautions," Mr Vorapong said.

One challenging aspect of the work is when he conducts investigative interviews with suspects. Apart from reading their body language, Mr Vorapong's charm and looks are a plus when he attempts to bond with individuals in order to make sure they feel comfortable during their interviews.

"Typically when we conduct an interview, we know everything about the interviewee. But I don't let them know what we know, in order to keep the upper hand," Mr Vorapong said.

WHERE THAILAND LIES

Thailand has always been a medium- to high-level fraud risk area, and the political uncertainty in the past year has added to the challenges of doing business here.

PwC Thailand's 2014 survey found that 37% of respondent companies indicated they had directly experienced economic crime, with 11% reporting that they do not know if economic crime had taken place.

Only 53% answered definitely that they have not experienced economic crime. This means that almost half of the respondents are potential victims.

The figure for companies saying they had experienced economic crime is higher than the Asia-Pacific average of 32%, although it does match the global average of 37% for 95 countries surveyed.

The issues in Thailand span across sectors and include the theft of materials from manufacturing sites, hacking and financial fraud at financial institutions, and dummy companies being used to rig bids and skim profits from building firms.

According to PwC Thailand's survey, 15 respondents who were victims of fraud said they suffered damages of up to three million baht, while 10 said they suffered damages of up to 150 million baht.

Asset misappropriation such as stealing cash or goods is the most common type of crime perpetrated against companies in Thailand, followed by procurement fraud and bribery and corruption. "This is because it's the easiest to understand, as opposed to conflict of interest issues, which is essentially not acting in the best interests of your company," Mr Vorapong said. "In fact, corruption is happening more here but people don't understand it."

Transparency International, in its Corruption Perceptions Index 2013, ranked Thailand 102 out of 177 countries, below Malaysia at 53, and a far cry from Singapore's region-leading fifth place. Thailand dropped from 88th last year.

Thailand's corruption problems are endemic, with 28% of respondents reporting being asked to pay a bribe. This is significantly higher than the global and regional level of 18%, which points to a culture of corruption.

SETTING A BAD EXAMPLE

Siriwat Karndacharuk, a manager at PwC who is part of the financial forensics team, was once confronted by a clients' employee, who told him that his job produces bad karma as a result of getting people fired.

"I told him that I'm proud of what I do, because it increases transparency and the checks and balances in firms," Mr Siriwat said.

Thailand is comparatively lenient towards internal fraudsters when compared to the rest of the world, says PwC Thailand's report.

Asking a fraudster to resign rather than being dismissed is common practice here. They will then often obtain a job at another firm and get caught again.

"It's like a technique to attack your competitor — send a fraudster," Mr Vorapong said.

Less than 5% of the cases PwC deals with end up in court. This will usually only happen if an employee sues the company, or management decides to make an example.

"But usually that's not the case. People aren't sticking to the rules, and management are setting a bad example," Mr Vorapong said. "This is giving the message [to employees] that this is acceptable practice."

As a response to the Enron scandal in 2002, the US adopted an act that attempts to encourage and protect whistleblowers in a variety of ways by providing channels for anonymous whistleblowing. Thailand does not have laws in place to protect and encourage whistleblowers to speak up, and PwC helps companies set up a whistleblowing processes as well as fraud-risk management.

"It's part of the culture. We've seen people sharing illicit profits and paying each other, and ultimately these people will advance in these organisations and become management," Mr Vorapong said. "It's getting worse and worse."