

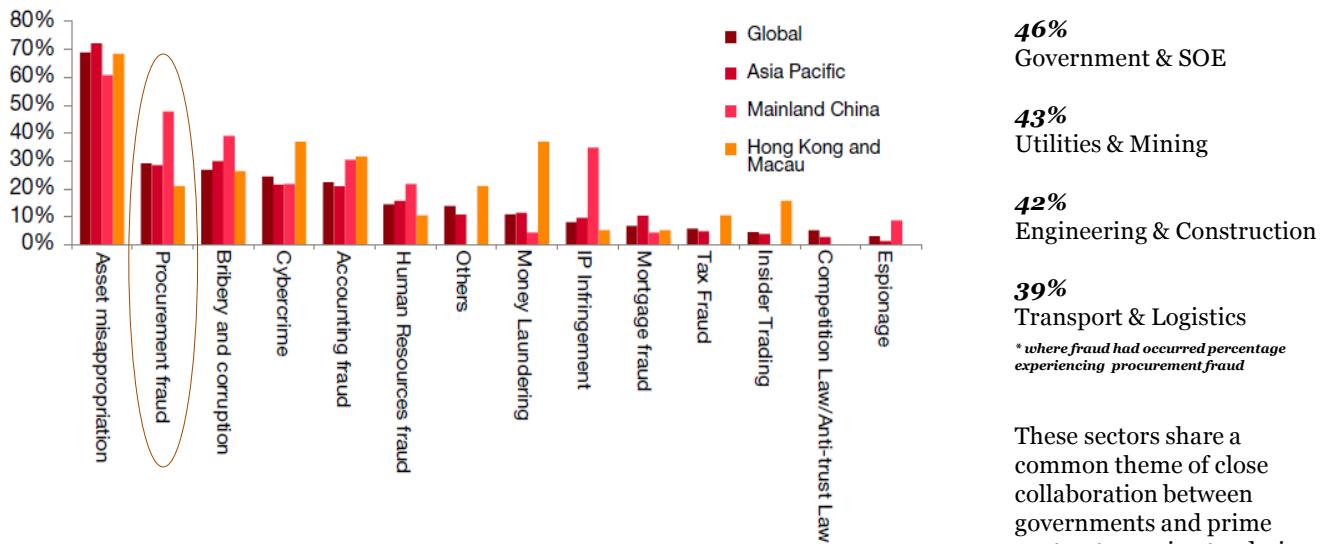


For boards and all officers responsible for Good Corporate Governance : This quarter's issue addresses:

- Irregularities in Procurement (page 1)
- Local recent case studies (page 2)
- Collusion by passes controls (page 3)
- Forensic Analytics in sales (page 4)

Globally procurement fraud is ranked number 2

By Industry*



46%
Government & SOE

43%
Utilities & Mining

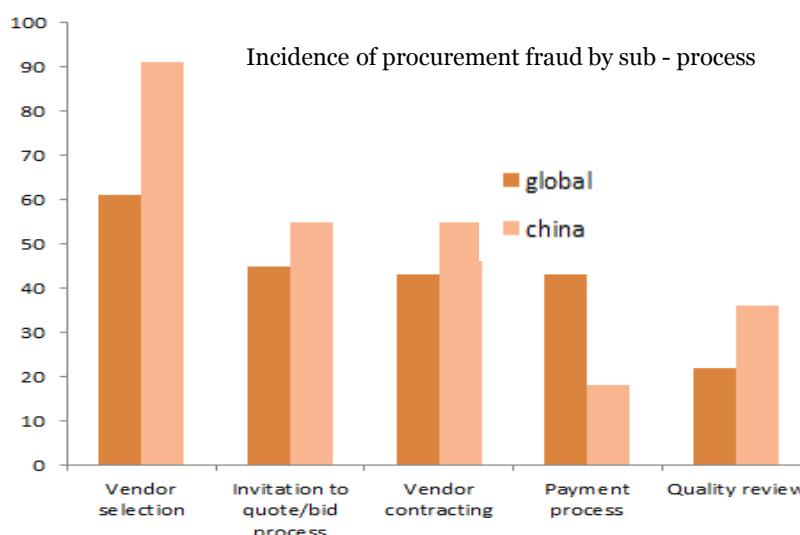
42%
Engineering & Construction

39%
Transport & Logistics

* where fraud had occurred percentage experiencing procurement fraud

These sectors share a common theme of close collaboration between governments and prime contractors using tendering processes

Highest risk is in Vendor Selection



Vietnam is likely to lie somewhere between Global and China

Survey found the incidence of fraud rises where processes are less transparent and where regulations are not consistently enforced.

Kick backs to employees were more likely when controls were weak and where monitoring of supplier and employee relationships was low

Source: PwC's 2014 Global Economic Crime Survey

Not so sweet

Fraud scheme

The buyer in a local food and beverage manufacturer was arranging the purchases of sugar and the timing of inbound transport. Poor access controls in SAP enabled the buyer to raise Purchase Orders and Goods Received Notes and input quantity tolerance levels. Deliveries were arranged at the time of the highest number of other deliveries. Supplier's truck drivers extracted 4.5% of the sugar from each bag before delivery. Water, stored in a container under the vehicle, made up the total weight and was discharged after passing the weighbridge

Detection

QC checks found sampling holes in bags before QC samples were taken. Weighing determined consistent weight loss. Forensic analytics identified the buyer, vehicle and driver

Correction

Segregate procurement duties, improve SAP access controls, the buyer resigned

Prevention

Long term contracts with quality suppliers, reduce material tolerance levels, carry out vendor audits. Inspect underside of vehicles. Review adequacy of controls

Loss

\$95k p.a.

Industry

Manufacturing

Undermined

Foreign owned company management team was being undermined by local managers who were deliberately missing production targets. The action distracted attention away from multiple frauds: special salary increases (3x the normal rate) and bonus payments, conflicts of interest where the local manager was the owner of a major supplier, finished goods being removed for personal consumption. Finished goods, overtime and pay increases given to staff to ensure silence about ongoing frauds

Foreign management requested an investigation based on imaging of suspects' computers. Images identified fraud scheme participants and led to the discovery of documentary evidence

Outsource preparation of payroll and off site review of pay rises and bonus justifications

Manager background checks and references, improved procurement segregation of duties including foreign management in authorisation hierarchy

\$150k p.a. Plus loss of output and sales and poor morale

Manufacturing

Over - overtime

In a local manufacturing company there were excessive amounts of overtime each month compared to budget and output volumes. Although machine breakdown was used as an explanation there was, unusually, no overtime for maintenance crews. It was found that management was using overtime as a reward to production staff. It was also suspected that the reward was for ignoring finished product stock theft. Overtime also exceeded government regulations

Due to senior management suspicions, comparison was made between overall equipment efficiencies (OEE) by production line, overtime and output to show unusually high levels in some areas

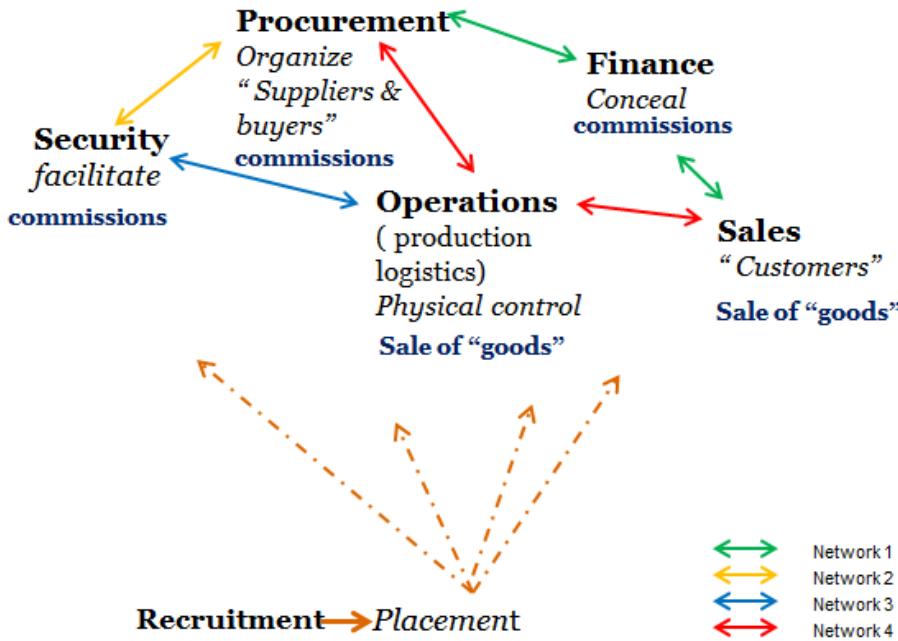
Overtime restricted such that has to be authorised by CEO in advance and non payment of overtime if not pre-authorised

Operational controls: Redesign and implement standard times and operations coupled with a program of preventative maintenance, root cause tracking & long term analysis of breakdowns

\$20k p.a. Plus loss of output

Manufacturing

Example showing multiple networks



- Network members share commissions and kick - backs
- Often one network leads to another
- Many companies with fraud discover more than one network
- Procurement is often at the centre of fraud networks
- Recruitment can sustain and regrow networks by careful placement

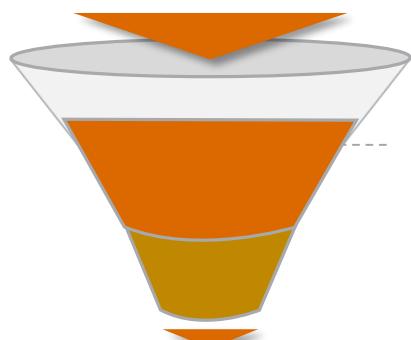
What can you do ?

- Enforce segregation of duties, ie. in procurement split sourcing new vendors from buying from inbound supply management
- Implement vendor accreditation program and inspect vendor site, procedures, quality and safety arrangements
- Review vendor history and review range of supplies, for unusual or suspicious activities eg a supplier of imported tools fabricates all the companies steel cabinets
- Improve employment policies to include declaration of relationships within the business and with suppliers
- Improve employment policies to include conflict of interest requirements (ie. employees should not take incentives from suppliers)
- Upgrade standard terms and conditions for suppliers with penalties for actions contrary to company policy

Analytics process

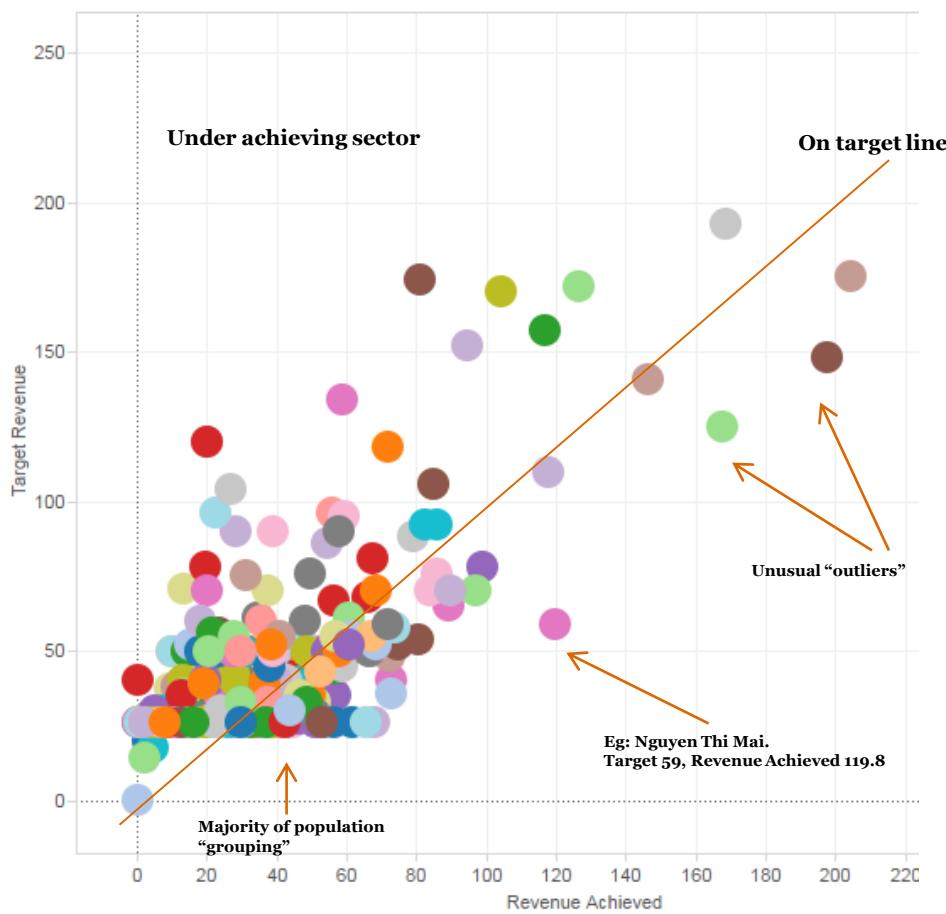
- Forensic analytics is that reduces the whole data volume into those items that need to be investigated further
- Typically data forms grouping or clusters with a few items that are outliers indicating they are unusual or suspicious

Raw data , typically >0.5m records



Unusual & suspicious items < 100 items

Example using Sales person actual performance against target



- Outliers are the basis for further analysis., most often being less than 0.5% of population
- Outliers could be due to:

- exceptional performance (good or bad)
- Data errors
- Timing differences or local promotional spend

Or

- Manipulation of results to enable selected sales staff to achieve bonus by reallocating sales from other staff

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