
Fraud And Smes In Namibia

Cultural Reflections

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Fraud comprises both the use of deception to obtain an unjust or illegal financial advantage, and intentional misrepresentation affecting financial statements.

Fraud is motivated by many factors, the main one being the greed in man or egoism.

Many organizations tend to regard fraud as an external threat, committed by external criminal gangs against the organization (e.g. the common cheque and credit card frauds), instead of concentrating on internal threat, i.e. fraud committed by management and employees or conspiracies between internal and external forces.

This paper discusses fraud in Namibia in relation to the Small and Medium Enterprises (SMEs). The survey is confined to items as reported in the press since obtaining information from either the victims or the fraudsters not only requires funding (which is not readily available) but is also a very difficult task indeed.

The analysis is therefore on the following lines:

- Types of fraud;*
- Motivation for fraud;*
- Methods used;*
- Types of victims;*
- Types of fraudsters; and*
- Amounts involved, wherever possible to quantify.*

The paper concludes by indicating common areas of weakness while recommending: -

- (a) possible protective measures and*
- (b) areas for future research.*

Introduction

Fraud is a world phenomenon and Namibia is therefore no exception. This paper presents a survey of fraud in Namibia as reported in the local daily newspapers.

Due to industrialisation it is estimated that world-wide cheque fraud is growing by 12 - 15% annually. In an international survey carried out by Ernst and Young it was revealed that more than 50% of the fraudsters were in management positions. However our experience also confirms this finding in that more than 57% (70% in 2003) involved employees - see Table 4 below.

Definitions

Fraud comprises both the use of deception to obtain an unjust or illegal financial advantage, and intentional misrepresentation affecting financial statements.

Fraud initially arises out of a pressing need or financial pressure e.g. chronic debt or family commitment. However it is later perpetuated as a result of greed.

Lapping (also known as *teeming and lading*) is stealing a customer's payment and then covering it with subsequent payment from another customer, thus creating a "float". This float rises like a pyramid until it collapses when the source dries out.

Larceny is stealing cash or assets that have already been recorded in the company's books.

Skimming, on the other hand, is stealing cash or assets before they are recorded in the company's books, e.g. employees' death benefits.

Literature Review

Fraud may involve:

- (1) Falsification or alteration of accounting records or other source documents:
 - (a) Falsification of expense claims, petty cash vouchers, fuel coupons
 - (b) Intentional addition errors e.g. wages listing
 - (c) Dummy invoice/receipt books e.g. one for VAT and another for internal use
 - (d) False carbon copies for internal records
- (2) Misappropriation of assets or theft, e.g. asset stripping by about-to-be privatized parastatal employees
- (3) Suppression, omission or overstatement of the effects of transactions from records or documents
- (4) Recording of transaction without substance (trivialities) to divert attention
- (5) Wilful misrepresentation of transactions or of the person's state of affairs e.g. on application for banking facilities; renewal of agency license; tax calculations
- (6) Manipulation of accounting data in order to earn commission/promotion.

(a) *Types of fraud*

- (1) Smash and Grab type - small number of fraudulent acts, each one of high value. Easily detectible hence essentially "one - off" event and the perpetrators escape (resign) immediately
- (2) Salami or drip type- an employee takes a large number of small amounts, repetitive in nature, over a period, like taking thin slices off salami, or small rounding off differences credited to (dripped into) a favoured or suspense account

(b) *Motivation*

The greed in man:

- (1) Financial motives - debt, suppliers, customers
- (2) Power motive - competitors, associates
- (3) Sweet revenge - "fix them" by disgruntled employees and outsiders

(c) *Perpetrators*

- (1) Managers including chief executive officers
- (2) Workers
- (3) Consultants
- (4) Computer programmers
- (5) Competitors
- (6) Opportunists including money-makers
- (7) Habitual criminals or con men/women

(d) *Enabling factors*

- (1) Large organizations; large labour force, numerous financial transaction, and large sums, e.g. government ministries and banks.
- (2) Job insecurity: Privatization and takeover bids
 - Poor remuneration
 - Delayed or non-payment of salaries
 - Lack of fringe benefits
 - High labour turnover especially from dismissals and resignations
- (3) Lack of job rotation
- (4) Major change of procedures/ ownership/computerization or relocation (assets are lost in-transit)
- (5) Precious, high demand products, e.g. diamonds which may also attract fake duplicates (so are the high value currency denominations).
- (6) Economic recession: Corruption by leaders – (providing “example”)
 - Counterfeit goods (fake cigarettes and electronic goods)
 - Fake money-makers promoting pyramid schemes
- (7) Accounting records – old credit balances i.e. dormant accounts attract refunds
- (8) Clientele – Illiterate customers or members

(e) *Symptoms (pointers)*

- (1) Reluctance to take annual leave/job transfer/new assistants
- (2) Change of lifestyle -Misuse of senior titles;
 - Absenteeism, alcoholism, gambling
 - Expensive tastes for clothes, girls and food
 - Gifts for supervisors
- (3) Insistence to be served by a specific employee
- (4) Excessive interest in in-coming mail (to intercept incriminating mail from customers and suppliers)
- (5) Habitual late arrival (at closing time)
- (6) Single authority (no counter checking)
- (7) Accounting records
 - Customer debit balances
 - Overdue invoices
 - Continuously exceeding limits
 - Stale cheques
 - Outstanding deposits/un-banked receipts
 - Constant refunds
 - Un-retired advances/imprest
 - Constant loan applications
 - Constant loss of source documents
 - Re-writing of documents/photocopies
 - Alteration of official records (beware of the tippex!)

(f) *Methods*

- (1) Teeming and lading (also known as “lapping”) - advances, loans and customer receipts
- (2) Purchasing: Over-invoicing (commissions)
 - Fictitious purchases – fuel, canteen, air tickets; purchase from own company
 - ‘Bid fixing’ (supply of confidential information)
- (3) Sales
 - Fictitious customers
 - Fake credit notes
 - Unauthorized credit sales

- Insider dealing & loans to directors & senior managers
- Commissions from buyers or suppliers
- (4) Payments Advances
 - Overstating totals - payroll
 - Commissions in order to effect payment e.g. withholding of source documents/ cheques
 - Ghost workers
- (5) Journal entries Bank supervisor's over-ride (an error correction instructions)
 - Unauthorized corrections

In an international survey conducted by Ernst & Young (chartered accountants), approximately 85% of the worst frauds in 2002 were carried out by insiders on companies' payrolls - representing a 3% increase from the previous survey in 2000. More than 50% of the fraudsters were in managerial positions. This compares well with our Table 5 below.

Methodology

This paper is based on data collected from Namibia's English daily newspaper, the *Namibian*, covering the period from January to December 2002. More than 150 stories were assessed and 82 were picked after eliminating repeat items. For the current year 2003 the period was limited to six months to 30 June. This year's newspaper space was taken up by one major event: the *Presidential Commission of Inquiry into the Social Security Commission's financial affairs*. The deliberations of this commission have been left out of this paper in order to maintain a reasonable balance of the state of affairs in the Namibian financial environment. The percentages are based on number of fraud cases rather than on amounts involved because certain cases had no amounts reported.

Findings

The findings are summarised below under a variety of captions. It is important to note that the Namibian economy is dominated by the Government (Table 2). Furthermore most private business organisations are not keen to publicise any fraudulent activities for fear of alarming the public. The money-making scam (con men and women) and contrabands (counterfeits) are gaining ground due to increasing unemployment level and the influx of people to urban areas looking for means of survival.

Table 1: Summary of Frauds

Details	2002	2003
	Full Year %	Half Year %
Cash	25	15
Cheques	11	25
Counterfeits	31	15
Others	33	45
	100	100

Victims included the retirees, retrenches and orphans, being people with access to lump sum amounts, who lost N\$2.5 million. Other victims were 1 091 squatters who lost N\$25 000 in their desperate need of plots and also those in debt who fell for the "money tripling" trick. In one instance a sight-impaired employer was swindled of N\$820 000 by a heavily indebted personal assistant by altering figures on the cheques. Other victims were lured to the money-making schemes or "pyramids".

Table 2: Summary of Victims

Details	2002 Full Year %	2003 Half Year %
Government	45	68
Companies	33	12
Public (individuals)	16	10
Others	6	10
	100	100

Insurance companies were highly susceptible to people who faked car thefts and another one claimed death of three children (N\$30 000). Banks were victims of cash and electronic transfers to employees' relatives where parastatals lost cheques and commissions to unscrupulous employees. International fraudsters, using locals, set up illegal telephone exchanges through which they offered cheap international calls. This cost the local telephone service provider N\$278 000. Other schemes involved raids on clients' parcels sent from abroad by post.

Table 3: Types of Companies Defrauded

Details	2002 Full Year %	2003 Half Year %
Bank	37	--
Insurance	18	--
Parastatal	41	83
Others	4	17
	100	100

Most con women were involved in insurance frauds. Syndicates of smugglers brought in contra-bands: shoes and counterfeit cigarettes. Bankers and other desperate individuals fell for the temptation to make quick money through various pyramid schemes. Other employees abused their free air travel privileges.

Table 4: Summary of Fraudsters

Details	2002 Full Year %	2003 Half Year %
Conmen/women	25	10
Employees	57	70
Money-makers	7	7
Syndicates	11	13
	100	100

Table 5: Employees & outsiders

Details	2002 Full Year %	2003 Half Year %
Employees	62	79
Employees + outsiders	38	21
	100	100

There have been few successful prosecutions where the defrauded amount has been recovered. However the courts have continued to impose stiff penalties to offenders: even where the employee has offered to return the money the courts have insisted on imposing fines in addition to imprisonment. This court action has not deterred the criminals

Table 6: Types of Methods Used

Details	2002	2003
	Full Year %	Half Year %
Theft of cheques (forgeries & signed)	11	15
Theft of cash	23	8
Larceny	14	8
Counterfeits	4	12
Money multipliers (pyramid schemes)	5	--
Other false claims & sales	26	25
Others	17	32
	100	100

The theft of cheques and misappropriation of cash are most common in big organisations with lax internal controls. Thus a parastatal lost 30 cheques amounting to N\$154 000 in one instance while a woman forger successfully helped herself to the parastatal's cheques for N\$163 000, N\$69 000 and N\$85 000 but was nabbed in a separate attempt to cash another N\$163 000 cheque. A Government ministry had a one-time record loss of 400 ready-for-payment cheques worth N\$500 000. A bank had more than N\$2 million of one of its VIP customer's funds electronically transferred to the accounts of a cashier's relatives in order to finance their (family's) extravagant living. In another incident a bank cashier helped herself to a Government cheque amounting to N\$4.9 million.

There is also a marked increase in the smuggling of counterfeit cigarettes of popular brands (one case reported in 2002 worth N\$7 million compared to three cases reported in the first half of 2003 worth N\$9.9 million). This scam seems to be run by foreigners who want to use Namibia as a transit route.

Another notable 2003 case is that of theft of Government revenue stamps by employees valued at N\$9.5 million.

Table 7: Employee-related Frauds

Details	2002	2003
	Full Year %	Half Year %
Cheques	11	22
Cash	38	19
Salaries & other allowances	23	22
Purchases (including credit cards)	19	19
Death benefits	9	18
	100	100

Credit and fuel cards are highly abused, especially in parastatals and Government institutions. This has proved to be an inexhaustible source of additional income for middle and top management. There is a case of a car being filled full tank more than five times in a single day while a parastatal manager bought condoms using an official credit card.

Table 8: Bank Frauds

Details	2002	2003
	Full Year %	Half Year %
Cheques	60	--
Cash	30	--
Purchases of equipment, materials & services	10	--
	100	--

Bank frauds are perpetrated by people with connections unless one is an employee. One of the controversial cases in 2002 involved collusion between a bank manager and a transport operator who got a financing facility for two fictitious trucks for employees worth N\$250 000 each.

It appears the local banks reported no cases in 2003 maybe as a new strategy in tackling fraud. Could it be a sign of improvement in internal controls?

How does the fraud situation in Namibia compare with the rest of the region in general and South Africa in particular? See Table 9 below.

Table 9: Fraud within a major South African bank (1998)

	%
Electronic transfers	37.5
ATM card	20.6
Forged cheques	15.0
Stolen cheques	8.7
Theft	4.7
Instalment credit	4.2
Other	9.8
	100.0

One spectacular insurance fraud involved death benefits for deceased employees amounting to N\$7.3 million which was misappropriated by the company's employee using other people's names as beneficiaries. All in all, misappropriated death claims in 2002 amounted to N\$7.6 million (2003: N\$1.6 million) while false death claims by a con woman, in league with an employee of the insurance company, amounted to N\$300 000.

Table 10: Insurance Frauds

Details	2002	2003
	Full Year %	Half Year %
Car (false theft)	20	--
Deaths (fictitious)	60	--
Surrenders (contrived)	20	--
	100	--

Conclusion And Recommendations

The problem of fraud is with us in earnest. Fraud is committed by human beings who are also employed by SMEs, therefore it is important to be aware of its existence. SMEs can reduce the incidence of fraud by taking the following tips or activities as a matter of routine:

- (1) Internal check – encourage leave taking and job rotation by employees

- (2) Regular reconciliation of debtors, creditors and bank statements
- (3) Circularization of debtors and creditors
- (4) Snap checks on floats, stocks, customers, suppliers, shops
- (5) Control of in-coming mail; pay attention to complaints from customers and suppliers
- (6) Ensure variation of routines especially those relating to banking

Make your systems simple; human nature likes challenges; the more complex the system the more attractive it is to fraud.

Most importantly: **BEWARE OF THE UNUSUAL** - As someone once said: "An ounce of PREVENTION is worth a pound of cure"

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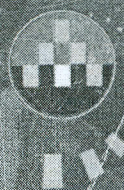


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