

## Fraud hunters

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Natallie Cai

Truth is often the biggest casualty in the search for wealth and power. And private individuals and businesses who want straight facts depend on the services of investigating firms such as Verity and MAWSL Consulting to assist them in detecting fraud and to provide legal support.

An increasing number of mainland private enterprises - frightened by short-selling houses - have inquired about how to improve corporate governance and reduce loopholes.

Multinational corporations are hiring investigators to check their subsidiaries in the mainland and considerable loopholes have indeed been found, said founder of MAWSL Consulting Andy Cheung, a partner of Verity.

Cheung worked with the Independent Commission Against Corruption for seven years and moved on to Forensic and Dispute Services at Deloitte.

"It is morally wrong for Muddy Waters or other similar research houses to attack listed companies because such houses aim to make a profit by short-selling," said managing director of Verity Consulting Kelvin Ko.

"But a straight foot is not afraid of a crooked shoe. The companies can blame no one if they do have problems," said Ko, who started his career in the Royal Hong Kong Police Force.

The founders of Verity and MAWSL offer investigation and advisory services on commercial fraud and business malpractices.

About 80 percent of their clients are multinational giants, 10 percent are based in the mainland and the rest are in Hong Kong.

"People have assumed that small firms are more likely than large ones to get involved in fraud and that certain sectors are riskier," said Cheung.

But problems do exist in practically all sectors, Cheung noted, based on the cases he and Ko have handled so far.

However, they agree that some departments such as procurement, sales and finance deserve closer attention.

Staff in procurement positions, who are constantly tempted by offers from suppliers, could simply fall for a kickback, said Ko.

When a company signed a big contract with a small supplier who had been in business for only three months and offered unattractive prices, this called for some digging.

Verity's moles later found out that the supplier is a cousin of the company's chief executive.

"We also discovered that some procurement men first negotiated with suppliers through the company's e-mail, but used their personal e-mail afterward. That could indicate a kickback negotiation," Ko said.

Verity offers computer forensic investigation, he added.

Cheung said companies always inflate their sales figures, and some flaws are easy to spot.

He once conducted research for a client who was planning to invest in a local retail store which claimed to have record high sales.

However, the sales figures had no support based on the economic conditions at that time and given the shop's location. A number of frauds surface when you read between the lines of financial books, Cheung said.

A certain firm bragged about its good sales record, but it did not buy in more stocks. "It claimed to have three production plants, but we discovered two were actually left idle for a long time." Investigators can uncover a lot from a firm's travel expenses.

Cheung found a senior executive actually went to Malaysia for rest and recreation, but charged his expenses to the company, calling it an official business trip.

Sometimes going over the company's balance sheet and cash flow may not help accountants at all so an in-depth investigation is required.

"If a listed company sacks its auditor or the latter resigns for no apparent reason, the firm's accounting books deserve attention," said Cheung. He explained that auditors usually quit when a firm refuses to supply enough financial documents.

Still, a company's overseas subsidiaries could just be "corrupted payment vehicles."

"The firms may claim they have used a lump sum for overseas marketing. But if no supporting documents are available, they may have bribed someone through its overseas units. We have found several cases of this kind," Cheung explained.

Ko said the number of false insurance claims increased as the economy took a beating.

"People pretend they have sprained their ankles to collect claims," said Ko.

After an initial investigation, Verity and MAWSL run interviews with suspects.

Cheung said they have to be fluent in the mother tongue of the people involved in the case. A language barrier may work in the suspects' favor so the company sometimes hires interpreters. He said being wellversed in body language could help in spotting cheats. When someone sweats, trembles or raises his head and sighs, he could be close to making a confession. Investigators will then add pressure to the suspect.

Ko and Cheung, who believe justice has a long reach, often let them make up all kinds of stories until they can no longer back up their lies.

The two have done their fair share of investigations for more than a decade before setting up their own firms. And they have received threats from criminal groups.

One time Ko had to infiltrate a group without a back-up and later carried back to the office 2,000 fake VCDs as evidence.

"Investigation is like playing puzzle games in the dark. Although it requires tremendous effort, it brings a huge sense of satisfaction when we finally see the whole picture," he said.

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