Fraud Deconstructed: Investigating Financial Mismanagement and Misconduct

BACKGROUND

A UAE-based establishment suspected instances of financial mismanagement and unethical conduct by the former C-suite executives of one of the company's subsidiary entities.

DETAILS OF THE FRAUD

The C-suite executives had a deep knowledge of the organization and understood the loopholes in systems and controls that were in place. They exploited this knowledge for personal gain, manipulating accounting records to present inflated financial results. This deception created the illusion of better performance, ultimately resulting in substantial bonus and remunerations payouts for the executives.

CLIENT IMPACT

The parallel and undisclosed business interests of the executives were identified revealing significant financial discrepancies. As a result, the client made the decision to terminate the C-suite executives of the subsidiary company. The investigation uncovered that the company had understated profits by a significant amount over a five-year period.

AT A GLANCE

How was fraud committed?

- The executives created a separation between senior management and their direct reports, which limited transparency and hindered effective communication.

- To boost profits, accounting practices adopted were contrary to accounting standards resulted in overstatement of income and understatement of expenses. Senior management received bonuses and salary increase based on these inflated profits.

- Contracts were repeatedly awarded to favored vendors, despite concerns regarding their quality and capability.

- The executives hired relatives with questionable qualifications to manage client's international operations.

How could have this been prevented?

- Proper governance and compliance structure including regular internal audits and fraud risk assessments.
- Well-defined SOPs and decision matrix should be implemented
- Robust and independent whistleblowing mechanism.
- Effective financial control at the group level, coupled with proper approvals for any significant JV adjustments.