

THE INSPECTORATE OF GOVERNMENT

KEY NOTE PRESENTATION ON
FRAUD
TO PARTICIPANTS AT THE KPMG'S WORKSHOP

HELD AT
IMPERIAL ROYALE HOTEL, KAMPALA

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INTRODUCTION

The Inspectorate of Government (IG) is established to

1. Promote good governance
2. Enforce the rule of law and Administrative justice in public offices
3. Elimination of corruption.

Under Article 225 of the constitution of the Republic of Uganda, the Inspectorate of Government is assigned the following functions;

I. To promote and foster strict adherence to the rule of law and principles of natural justice in administration;
II. To eliminate and foster the elimination of corruption, abuse of authority and of public office;
III. To promote fair, efficient and good governance in public offices;
IV. To supervise the enforcement of the Leadership Code of Conduct;
V. To investigate any act, omission, advice, decision or recommendation by a public officer taken, made, given or done in exercise of administrative functions
VI. To stimulate public awareness about the values of constitutionalism

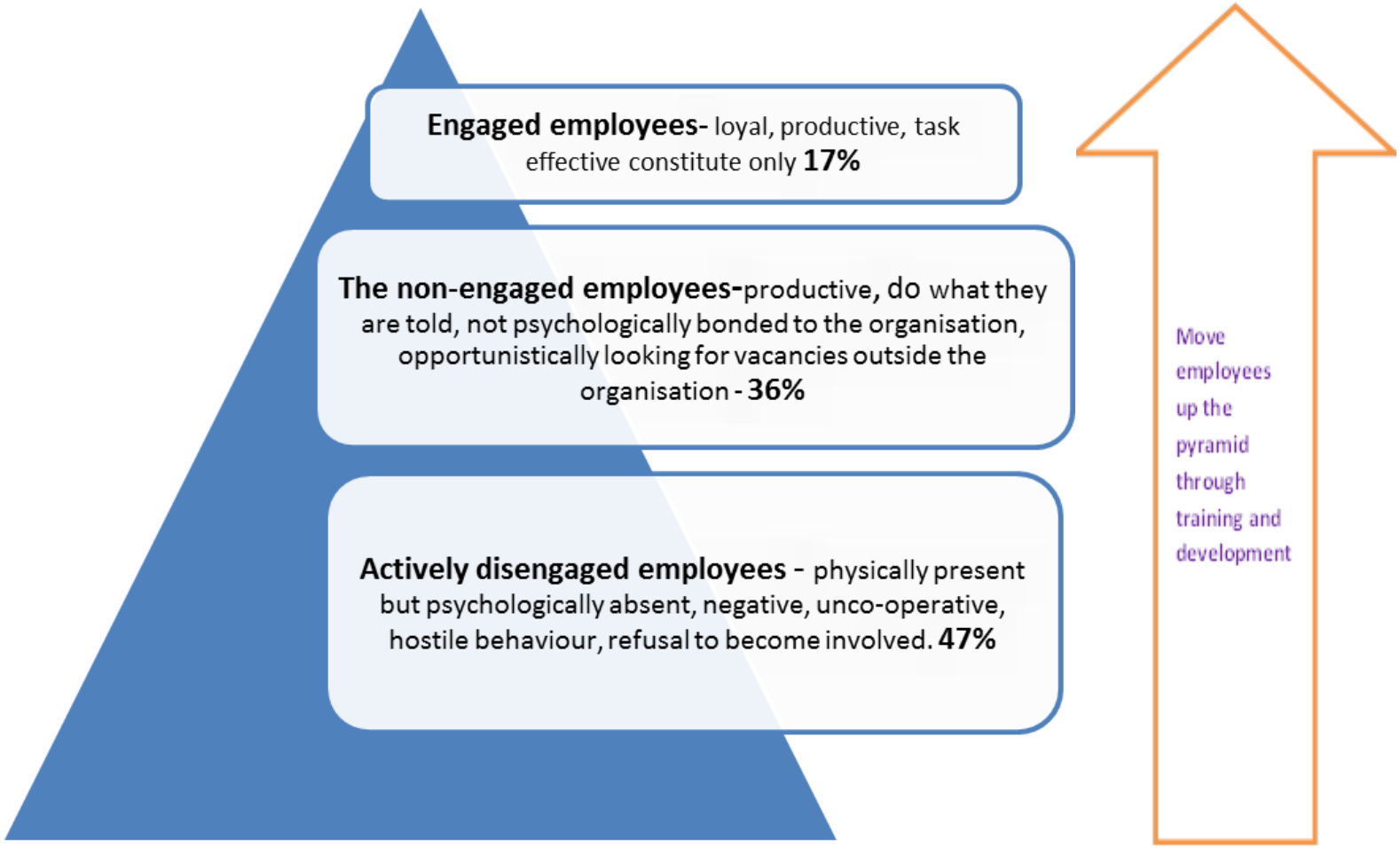
In furtherance of the above-mentioned functions, Article 230 of the Constitution empowers the Inspectorate of Government;

a) To investigate, cause investigation, arrest, cause arrest, prosecute or cause prosecution in respect of cases involving corruption, abuse of authority or of public office;
b) To make orders and give directions where necessary and appropriate;
c) To enter and inspect premises or property of any department of Government, person or authority and to examine or retain any documents found therein.
d) To enforce the Leadership Code.

Why people work

Employee category	Normal thing to do	Money to live	Buy extras	Independence	Career	Company of others	Enjoyment
Senior Professionals	4	56	5	4	1	1	16
Junior Professionals	3	59	6	5	1	1	11
Administrators	2	57	13	8	5	8	6
Routine Non Manual	2	45	14	18	5	11	3
Supervisor/Technician	3	69	4	5	2	1	4
Skilled Manual	5	69	9	7	2	3	3
Semi/Unskilled manual	3	64	11	11	2	6	2

The Hearts and minds dimension



Participant Engagement Uganda/UK

	% UK	% Uganda
Engaged	17	52
Disengaged	36	20
Actively Disengaged	47	18

The Trust Question

Internal

- **The Trust Equation – Trust= $\frac{C+R+I}{S}$**
- **C**=Credibility, **R**=Reliability, **I**=Intimacy, **S**=Self Orientation. NB: The higher the **S** the lower the Trust

General

- **Bottlenecks?**

Information vision, goals, and process	**Motivation**- willingness, time and energy	**Capability** – knowledge and Skills required	**The real world**- opportunities to implement	**Accountability** -result delivery and measurement

DEFINITION OF FRAUD

- Section 113 of the Penal Code Act Cap 120 states that " *Frauds and breaches of trust by persons employed in the public service who in the discharge of the duties of his office, commits any fraud or breach of trust affecting the public whether such fraud or breach of trust would have been criminal or not if committed against a misdemeanor*"

- "Fraud is the unlawful and intentional making of a misrepresentation with the intent to deceive and to defraud by causing actual and potential prejudice"

- "Wrongful or criminal deception intended to result in financial or personal gain"

- "Unfair advantage by unlawful or unfair means"

STUDIES ON FRAUD

- Steve Albrecht
  - **Nine motivators of fraud**
    - Living beyond means
    - Overwhelming desire for personal gain
    - High personal debt
    - Close association with customers
    - Pay not commensurate with job
    - Wheeler-dealer - a shrewd or unscrupulous person who uses a dishonest method to get advantages from a situation
    - Strong challenge to beat system
    - Excessive gambling
    - Family/peer pressure

AREAS OF FRAUD

- **Purchase-to-Pay**
  Potential fraud risks include (a) an employee initiating purchase orders (P.O.) for goods and services that are diverted for personal use and (b) an employee setting up a "phantom" vendor account, through which fraudulent invoices are processed and payments are made to the employee.

- **Corporate Credit Cards**
  A common fraud risk is an employee using a corporate credit card for personal gain instead of legitimate corporate purchases or travel and entertainment expenses.

- **Payroll**
  Payroll fraud can consist of (a) "phantom" employees being set up on payroll systems; (b) excessive overtime payments; and (c) employees remaining on the payroll after death or termination.

- **Sales and receivables**
  Some potential frauds include (a) employee collusion with vendors and (b) sales representatives inflating sales to achieve higher commissions and bonuses.

- **Information systems and critical data**
  This kind of fraud includes (a) employee theft of critical data and (b) employees providing corporate data to external individuals.

WHO IS A TYPICAL FRAUDSTER?

Some one perceived as greedy and deceitful by nature.

However, it's also someone driven by influencing factors –financial worries, job dissatisfaction, aggressive targets or simply an opportunity to commit fraud.

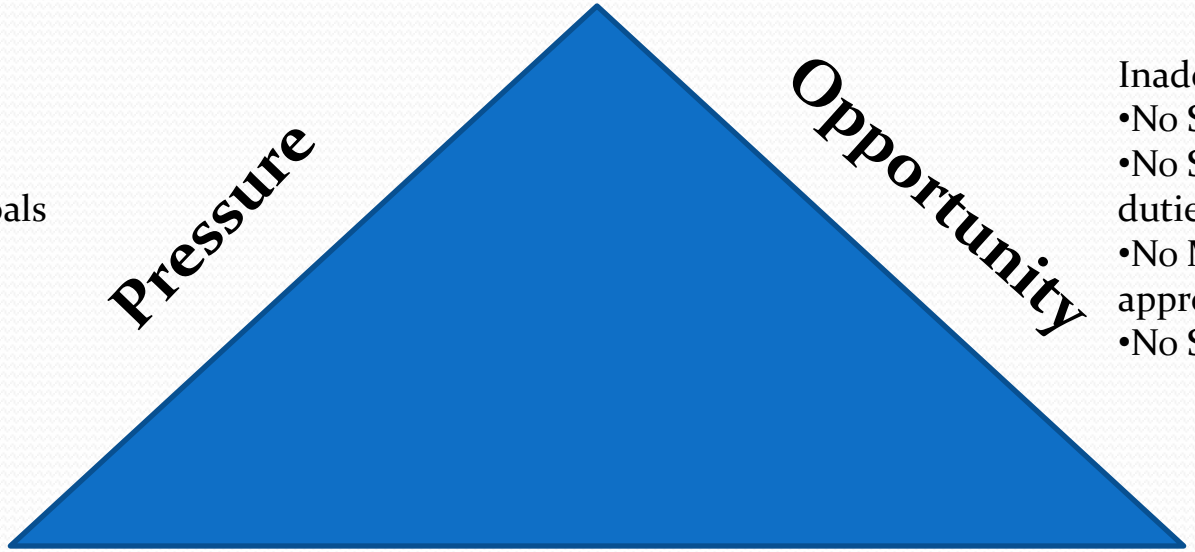
A fraudster is also driven by corruption where the operating goals are;

- C – Conspire (work against) Conspiracy
- O – Opportunist (seize any chance), opportunism
- R – Risk taker – Risk taking
- R – Rough (desperate)
- U – Usurp power or chances
- P –Plotting/ Planning always
- T – Tricky (slippery behavior)
- I – Intelligence (Innovation)
- O – Organized (cartels)
- N – Networked (syndicate)

All these are characteristics of a fraudster

FRAUD TRIANGLE

•Unrealistic deadlines
•Unrealistic performance goals
•Personal vices



Inadequate or
•No Supervision
•No Segregation of duties
•No Management approval
•No Systems control

Rationalization

A frame of mind or ethical character that allows employees to intentionally misappropriate cash or other organizational assets and justify their dishonest actions.

THE FRAUD TRIANGLE

Perceived Pressure

Do I have a reason to steal?

A situation where someone believes that they have a need to commit a fraud.

- Biggest driver of fraud – personal financial gain
- Greed & work pressures
- External pressures e.g Peer Pressure, family background etc

Opportunity

Can I get away with it?

- *A situation where someone believes they have a favorable or promising combination of circumstances to commit an undetectable fraud*
  - Exploitation of weak internal controls
  - Collusion to circumvent good controls
  - Reckless dishonesty regardless of controls
  - Inadequate or no: supervision & review and segregation of duties

Rationalization

To devise a self-satisfying but incorrect reasons for one's behavior

- The ability to persuade oneself that something you know is wrong is really OK
- All internal restraints has been removed
- Entitlement mentality
  - *"Everyone is doing it"*
  - *"The company owes me"*
  - *"I will replace the money next month"*
  - *"No one gets hurt"*

EARLY DETECTION/RED FLAGS

Behavioural red flags:

- Rarely takes holidays/leave; Don't take vacation or sick time or only take leave in small amounts.
- Refuses or does not seek promotion and gives no reasonable explanation;
- Does not or will not produce records/information voluntarily or on request; Don't like people reviewing their work
- Tends to shift blame and responsibility for errors;
- Unreliable and prone to mistakes and poor performance; Often have a "too good to be true" work performance
- Surrounded by "favourites' or people who don't challenge them;
- Somebody highly motivated unnecessarily
- Is suspected to have over-extended personal financial obligations
- Domineering/Controlling

EARLY DETECTION/RED FLAGS

Behavioural red flags:

- Seems unhappy at work and is poorly motivated;
- Seems stressed and under pressure; Unable to Relax
- Self-interested and concerned with own agenda
- Micromanages some employees and keeps others at arm's length.
- Bullies or intimidates colleagues;
- Vendors/suppliers will only deal with this individual; Close relationship with customers or vendors
- Lifestyle seems excessive for income; Live Beyond Their Means
- Volatile and melodramatic, arrogant, confrontational, threatening or aggressive when challenged
- Strong Desire for Personal Gain
- Have a "Beat the System Attitude"
- Often work excessive overtime
- Outwardly, appear to be very trustworthy.

PREVENTION OF FRAUD

The following can be done;

- Reinforcing ethical behavior among officials through enforcement of appropriate codes of ethics.
- Reporting instances of fraud timely and accurately and complaints handled expeditiously.
- Ensuring adequate procurement planning such as clear identification of goods, works or services required;
- Assessment of risks; and development of capacity to address them.
- Ensuring separation of duties while handling procurement of goods, services and works.
- Safeguard payroll. Payroll is another area subject to abuse. Managers should take the extra time to review every payroll check personally. Although time consuming, this procedure provides a monitor to assure employees are being paid appropriately
- Check employee references. When hiring new employees, check references and perform background checks that include employment and criminal history. The cost is far outweighed by the benefit

ACTIONS TAKEN BY THE INSPECTORATE OF GOVERNMENT ON FRAUD

- Prosecution of offenders
- Enforcing recoveries and refunds
- Recommending for cancellation of tenders
- Directing repeat of tendering processes
- Recommending for black listing of contractors
- Administrative reprimand of officials
- Disbanding contracts committees
- Education and sensitization of the public

Fraud and corruption in the public sector heavily harm the economy, lower investment levels and public finances. Anti fraud and anti-corruption strategies are often not effective enough and damages done to public institutions and their budgets by fraud can be enormous ranging from financial loss, reduction of organizational performances, reputation, credibility and public confidence.

It is therefore imperative that public staff responsible for preventing, detecting and combating fraud are well trained and have the knowledge and tools they need to protect the integrity of their public institution. Good risk management as well as prevention, detection and control system should be considered by every authority as a constant challenge. There is need for more effective control instruments, reporting mechanism, investigation methods and best practices.

Preventing fraud and corruption and making sure that it cannot be repeated is not solely the responsibility of anti-fraud officials and auditors. Without the cooperation of public officials working in high risk areas, it is difficult to detect malpractice and illegitimate personal gain. Therefore it is up to all levels of hierarchy in public institutions to create an environment of transparency, ethical conduct and accountability in order to ensure proper handling of this important issue of prevention, detection and handling of fraud and corruption cases in public institutions

CONCLUSION

Fighting corruption and fraud involves a concerted effort and cooperation from all stakeholders. As you launch the profile of a fraudster publication I implore on you all to have a part to play in the struggle. I therefore, urge all of you to play your roles in accordance with the relevant laws, regulations and guidelines in order to achieve the fight against fraud and corruption.

END

Thank you for listening to me

FOR GOD AND MY COUNTRY