CASE STUDY - SALES FRAUD

# Fraud Deconstructed: Inflating Revenues to Achieve Promised Earnings

## BACKGROUND

A global organization regulated on a large stock exchange investigated allegations made by a whistleblower regarding the Finance Head of their subsidiary. The whistleblower accused the finance Head of falsifying and inflating revenue.

## DETAILS OF THE FRAUD

The subsidiary was acquired by the company, with the acquisition price tied to the organization's revenue over a three-year period. The Finance Head was promised an incentive based on the company's valuation. In an effort to secure a higher incentive, the Finance Head manipulated the financials by inflating the revenue and resulting profits.

## CLIENT IMPACT

An inflation of approximately 17% in the reported revenue over a three-year period was identified, resulting in an overvaluation of the company during its acquisition. By addressing this discrepancy, the company was able to present correct and accurate financials with restated figures to the board and regulators.

## AT A GLANCE

### How was fraud committed?

- The Finance Head established a barrier between senior management and their direct reports, limiting transparency and communication.
- The auditors were provided with forged balance confirmations through a fraudulent domain of customer's email ID.
- Documents provided to auditors were altered to match the falsified revenue.
- Parallel books and records were maintained to conceal discrepancies.
- Large value revenue was posted through fictious customers during year end and reversed in the following year.

### How could have this been prevented?

- Independent review and reconciliation with sales transactions
- Establish clear segregation of duties and auditors' direct access with finance team
- Implement automated controls within your accounting systems to flag suspicious transactions