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ONE-ON-ONE INTERVIEW

BACKGROUND INVESTIGATIONS



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Having dedicated his career to the areas of fraud prevention, protective integrity, security and compliance, **Zafar Anjum** is a distinguished and highly respected professional in his field. He uses his extensive knowledge and expertise in creating stable and secure networks across challenging global markets. For organisations needing large project management, security, safeguard testing and real-time compliance applications, Mr Anjum is the assurance expert of choice for industry professionals.

R&C: To what extent have you seen an increase in corporate fraud in recent years? What are some of the common themes and underlying causes?

Anjum: Fraud always seems to be increasing. No matter how sophisticated our attempts to prevent it become, perpetrators are always adapting with new methods. According to the 2018 Association of Certified Fraud Examiners (ACFE) Report to the Nations, asset misappropriation is the leading type of occupational fraud. It makes up 89 percent of fraud cases and causes a median loss of \$114,000. This is followed by corruption – which includes conflicts of interest, bribery, illegal gratuities and economic extortion, primarily – at 38 percent and a higher median loss of \$250,000. There are various factors at play here, but it starts with ‘tone at the top’. Basically, corporate culture often sets the tone for how strict, or lax, an organisation is when it comes to preventing or detecting fraud. Combine a lax approach with a country or jurisdiction where corruption is still prevalent, even considered ‘business as usual’, and there will likely be fraud.

R&C: Could you outline the benefits of using background investigations to reduce potential fraud? Under what

circumstances is it prudent to undertake a background investigation?

Anjum: It should be a priority to conduct thorough background investigations when engaging in a merger or acquisition, an initial public offering (IPO), engaging suppliers, contractors or new clients – your client relationships can affect your organisation’s reputation and your liability – just

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to name a few situations. This can help you avoid becoming entangled with third parties that have hidden fraud and other legal issues. It will also make you aware if a potential partner has a credit risk, has claimed bankruptcy or is faced with debtor filings, for example. In one case, a company was seeking to engage a new supplier for medical supplies and equipment. A background investigation revealed that

the physical location – the warehouse – claimed by this ‘supplier’ did not exist. The company’s principal had previously been charged with ‘criminal breach of trust’. Three other civil damages claims against the principal were discovered, with millions claimed in liabilities.

R&C: What are some of the best practice approaches to conducting a background investigation?

Anjum: One of the most important aspects of thorough background investigations is having a ‘boots on the ground’ approach. Online database searches can only take you so far. When conducting due diligence on entities or individuals, red flags that pop up often warrant further checking before they can be truly weighed as part of the decision process. For example, if you are considering partnering with another company and they provide information for their physical location, do you have agents who can actually visit that location to make sure it is legitimate? Investigations sometimes discover that purported ‘headquarters’ is actually an abandoned home or a vacant lot. Also, if certain credentials are claimed, you need to make phone calls or possibly visits to schools or accrediting bodies to verify them. These are the important details that help you establish facts that help guide your decisions.

R&C: What kinds of legal or regulatory issues might complicate a background investigation?

Anjum: Privacy laws are probably the most important issue, and they need to be carefully understood and followed for every jurisdiction. In the UK, for example, prudent organisations have re-evaluated their data protection strategies under the General Data Protection Regulation (GDPR). When it comes to background investigations, similar privacy considerations apply. You might want to check an individual’s financial or credit history – relevant information if they own a business you seek to partner with or acquire, or if you are considering them for a high-level position at your organisation. Accessing such information is permitted in some jurisdictions, and restricted by law in others. The last thing you want is to end up in court for violating someone’s privacy. It is best to engage a professional due diligence background screening firm. They will be trained and up-to-date on the laws governing your background investigations, plus they will have access to resources that most companies do not have.

R&C: To what extent are background investigations more challenging in a cross-border or multijurisdictional

context? How can these additional challenges be overcome or avoided?

Anjum: This goes back to the importance of having investigators in various locations, your 'boots on the ground', in your approach to due diligence. The world is much smaller these days as organisations seek to expand across international borders. This can lead to obvious challenges – both with following the laws and regulations in various jurisdictions, and overcoming language and cultural barriers. That is why it is important to have access to locally based agents – including certified fraud examiners and similarly credentialed professionals – to help with your checks, whether investigating a potential third-party partner or an individual being considered for employment. Another advantage is to have a set, written policy and process for conducting background investigations that you can reference and rely upon when undertaking key business decisions. In this way, your organisation is less susceptible to someone convincing you to bypass proper due diligence simply because it might seem logistically difficult to conduct an overseas investigation.

R&C: Once the results of a background investigation are collated, what are the key points to analyse?

Anjum: If red flags are uncovered, the best way to proceed is to investigate further to understand discrepancies. For example, if you are conducting background screening on a potential employee and something comes up in their criminal record, rather than eliminating them from consideration, you should ensure that there was not an error in your background check, investigate the discrepancy and gather all relevant information, and ask the person to explain what you found and why they did not disclose it. They might have an explanation that affects your decision process. In other words, do not overlook potential talent. According to Nacro, more than 11 million people in the UK have a criminal record. Not all of those have a prison record, however. Most convictions are for motoring offences, such as speeding or unpaid parking tickets.

R&C: What essential advice would you offer to companies on developing internal policies and processes to combat fraud? Should intensive background investigations form part of their standard procedures?

Anjum: Intensive background investigations should be a part of an organisation's standard procedures. It should be part of a greater risk management plan, be set forth as written policy that is approved by owners and directors, and be reviewed and understood by management and

other relevant personnel. Engage risk management professionals when developing your policies and procedures. They can help tailor a plan based on your organisation. Key questions to address include who will implement the plan, how an investigation is conducted, who evaluates and reports the results, and so on. Sometimes organisations put forth a

thorough, excellent programme for background investigations and then, six months or a year later, nobody is following it. The key to success is following through with it and making sure your entire organisation understands the process and why it is so important. The security of your company depends on effective risk management. **RC**