

**THE BEST PRACTICES APPLIED BY FORENSIC INVESTIGATORS
IN CONDUCTING LIFESTYLE AUDITS ON
WHITE COLLAR CRIME SUSPECTS**

by

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PREFACE

This research looks at the best practices applied by forensic investigators in conducting lifestyle audits on white collar crime suspects. The researcher explored, firstly, how a lifestyle audit relates to white collar crime investigations; secondly, the best practices in performing lifestyle audits on white collar crime suspects, and lastly, the various sources of information available to forensic investigators when conducting a lifestyle audit of a white collar crime suspect.

As lifestyle audits will serve as an investigative tool in future forensic investigations into white collar crime, this study's aim was to understand and create an awareness of the current best practices applied by forensic investigators within private sector forensic investigation practices while conducting lifestyle audits during white collar crime investigations. It also makes available research data regarding the concept of lifestyle audits in white collar crime investigations, the implementation of these audits, the benefits, and the best practices of these audits.

The general purpose of this study was to provide practical recommendations on the best practices for lifestyle audits for forensic investigators within private sector.

KEY TERMS

Fraud; White Collar Crime; Crime investigation; Forensic investigation; Crime intelligence; Crime information; Net worth analysis; Lifestyle audit, Background check, Suspect profiling, Lifestyle profile; Sources of information; Fraud detection.

DECLARATION BY CANDIDATE

I declare that this dissertation, submitted in part fulfilment of the requirements for the degree of MTech: Forensic Investigation at the University of South Africa, is my own work, and all sources used or quoted have been reflected and acknowledged by means of complete references.

Roy Gillespie

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CHAPTER 1

GENERAL ORIENTATION

1.1 Introduction

According to the Association of Certified Fraud Examiners (ACFE) (2010:5) Report to the Nation in 2010, fraudsters often display certain warning signs or red flags that they are engaging in illicit activity. In 43 percent of the fraud cases, the fraudsters were living beyond their means. In 36 percent of the fraud cases the fraudster had been experiencing financial difficulty.

Powell (2011:4) highlights that with fraud, corruption and bribery being so prevalent, it has become more and more necessary for companies to understand and perhaps implement lifestyle audits as a prevention method to crime. The lifestyle audit is considered by many to be a valuable tool/mechanism in uncovering irregular income and is thus been called for by many sectors of business and government who believe they are necessary to expose cases of fraud and corruption (Powell, 2011:4).

From the researcher's own experience as a forensic investigator, it is evident that lifestyle audits are used by investigators during investigations. With this study, the researcher attempted to understand the best practices applied by forensic investigators within private sector forensic investigation practices, in conducting lifestyle audits on white collar crime suspects. The questions that the researcher asked were firstly, how do these lifestyle audits relate to white collar crime investigations; secondly, what best practices exist in performing lifestyle audits on white collar crime suspects; and, thirdly, what are the various sources of information that forensic investigators can consult when conducting a lifestyle audit of a white collar crime suspect.

To answer these questions, the researcher also asked how do investigators go about conducting these lifestyle audits; what information do they take into consideration; how do they go about gathering this information; what sources of information are available to them; and what benefit does this information provide to the investigation. This study asks these and other questions in order to understand the best practices applied by forensic investigators in conducting lifestyle audits on white collar crime suspects.

Chapter 1 further deals with the research approach, design and demarcation, legality, the target population, sampling, data collection and analysis, methods to ensure validity and reliability, ethical considerations, and lastly, the research structure.

1.2 The Aim of the Research

The aim of any research is to establish facts, gather new data, and determine whether there are any patterns in the data (Mouton, 1996:103). The aim of this research is to establish the best practices applied by forensic investigators within private sector forensic investigation practices, in conducting lifestyle audits on white collar crime suspects.

1.3 Purpose of the Research

Maxfield and Babbie (1995:70) are of the opinion that research serves many purposes, such as exploration, description, explanation and application, and a given research can have more than one of these purposes. For the purposes of this research, the researcher focused on exploration, empowerment and application.

The statement of purpose indicates the focus and direction of the research, and provides criteria for the evaluation of the outcomes of the research. There should be a reason for doing research or else there would be no point in spending time, money and effort to undertake the investigation (Denscombe, 2002:25). Denscombe (2002:27) continues to say that descriptive research is to describe something, in other words, to say what it is. In descriptive research, the researcher breaks into new territory to explore things, collect facts, describe them and report back on what he or she has found.

Furthermore, application research is fundamentally based on a need for specific facts and findings with policy implications. Application can be to evaluate or analyse something. The main drive behind a piece of research is the desire to solve a practical problem or to improve procedures (Denscombe, 2002:27).

The ultimate purpose of this research is to establish the best practices applied by forensic investigators within private sector forensic investigation practices in conducting lifestyle audits on white collar crime suspects which would empower them

to become better investigators by assisting them in detecting fraud and solving white collar crimes (Denscombe, 2002:27).

1.4 Research Questions

Research questions are formulated from a problem or sub-problem, and therefore, to concentrate on and address a research problem or sub-problem, it is important to formulate it in the form of questions (Mouton, 2001:53). The research questions provide guidance for the kind of data that the researcher will collect and offers suggestions as to how the researcher analysed and interpreted the data collected (Leedy & Ormrod, 2001:60).

Research questions specify exactly what is to be investigated. They are not the broad goals of the research that are directly investigated by the research, but are specific things that need to be observed, measured and interrogated in order to shed light on the broader topic (Denscombe, 2002:31).

It is important for the researcher to limit the number of questions asked in the research, in order to focus on the aim, and in Vithal and Jansen (1997:10) it was proposed that a maximum of three questions be asked, as focussing on a limited number of issues would be a way of retaining a sharp focus on what the researcher intended to do.

The following research questions are posed for this dissertation:

1.4.1 Research Question 1: How do lifestyle audits relate to white collar crime investigations?

1.4.2 Research Question 2: What best practices exist in performing lifestyle audits on white collar crime suspects?

1.4.3 Research Question 3: What various sources of information can forensic investigators within private sector forensic investigation practices consult when conducting a lifestyle audit on a white collar crime suspect?

1.5 Key Theoretical Concepts

1.5.1 Fraud

According to Van Rooyen (2008:63), fraud is one of the oldest crimes known to mankind. He cites the examples of Adam and Eve, where Eve cheats Adam with the

apple, and Jacob, who tricks his half-brother Esau out of Esau's birthright by means of a misrepresentation. Pasco's (2009:5) definition is similar to that of Van Rooyen, in that financial crimes have existed as long as men have had financial dealings with each other. Van Rooyen goes on to say that fraud can take on many forms, and in order to investigate it, one must first understand it. He says fraud is a term which is rather loosely used in order to describe certain acts or conduct – conduct which is not necessarily fraud in the legal sense of the word.

Fraud involves intentional and material misrepresentation of one or more material facts, with the intent of taking property from a victim (Hopwood, Leiner & Young 2012:32), or, as described by Snyman (2008:531), is the unlawful and intentional making of a misrepresentation which causes actual or potential prejudice to another.

Silverstone and Sheetz (2007:3) describe fraud as an activity that takes place in a social setting, and having severe consequences for the economy, corporations and individuals. He describes fraud as “an opportunistic infection that bursts forth when greed meets the possibility of deception”. Pasco (2009:26) states that fraud involves trickery, deceit, and false representations and may include an omission or intentional failure to state material facts.

Pasco (2009:19) also argues that financial crimes incorporate the element of deception, but elaborates further that planning and business acumen is also required. Orthmann's (2003:121) definition broadens the concept fraud further to include the intentional deception to cause a person to give up property or some lawful right. He highlights that fraud differs from theft in that fraud uses deceit, rather than stealth, to obtain goods illegally. This can comprise confidence games, real estate fraud, telephone fraud, mail fraud, and fraud committed through counterfeiting or the use of cheques and debit or credit cards.

In *S v Myeza* 1985 (4) SA 30 (T) the accused was found guilty of fraud after he had placed the ring from a cool drink can in a parking meter, thereby activating the mechanism of the instrument. The misrepresentation was found to have consisted of activating the mechanism of the parking meter, as the accused had falsely created the impression that he was parking lawfully in the demarcated parking area. Persons

involved in the enforcement of parking regulations could falsely have been brought under the impression that the vehicle had been parked lawfully.

In *S v Deetlefs* 1953 (1) SA 418 (A) it is seen that a person X can be found guilty of fraud if he pays Y by means of a cheque, while X does not at that stage have sufficient funds in his or her bank account to honour the cheque on presentation. He implicitly makes the (false) representation to Y that he believes, or is certain, that the cheque will be honoured when presented for payment.

Actual prejudice is, however, not a requirement. The mere fact that a misrepresentation may cause the victim prejudice (i.e. that the potential of prejudice is present) is sufficient (*R v Heyne* 1956 (3) SA 604 (A) 622).

1.5.2 Investigation of Crime

According to Marais (1991:13), the investigation of crime is directed at the gathering of facts and information through which a crime can be reconstructed. Marais states that, in effect, it comes down to the observation and inquiry, in order to obtain information about allegations, circumstances and associations. Stelfox (2009:1-2) states that the investigation of crime involves locating, gathering and using information to bring offenders to justice.

1.5.3 Forensic Investigation

According to Goss (2004:6), forensic investigation is the gathering of facts to assist in resolving crimes and/or other irregularities. Nickell and Fisher (1999:1) state that forensic investigation involves the scientific investigation of crime that is utilised in investigations, with the aim of bringing criminals to justice.

According to Lambrechts and Theart (1996:1), forensic investigation means to collect facts that can be used as evidence for court purposes, through which the associative part of an accused in the commission of a crime can be proved.

1.5.4 White Collar Crime

Within the field of criminology, white collar crime has been defined by Sutherland (1949:30) as a crime committed by a person of respectability and high social status, in the course of his occupation.

1.5.5 Crime Intelligence

Crime intelligence is defined in section 1(vii) of the National Strategic Intelligence Act 39 of 1994, as intelligence used in the prevention of crime, or to conduct investigations and prepare evidence for the purpose of law enforcement and the prosecution of offenders (South Africa, 1994).

1.5.6 Lifestyle Audit

According to Powell (2011:4), the lifestyle audit is defined as –

Simply an amalgamation of reports from a variety of databases which provide management, as well as investigators, with a snapshot into certain aspects of the life of an employee. Lifestyle audits are a legitimate fraud prevention and detection mechanism.

It is also one of the few mechanisms that organisations may utilise as a first step towards discreetly determining whether a “tip-off” of suspected fraudulent activity potentially has merit or not.

1.6 Value of the Research

According to Welman and Kruger (2001:256), the acceptability of a research topic for study purposes may be judged by giving consideration to its feasibility and value. Value entails demonstrating a measure of research competence or problem-solving ability and, to a lesser degree, adding to the body of knowledge in a field of science.

The aim of this research is to establish the best practices applied by forensic investigators within private sector forensic investigation practices in conducting lifestyle audits on white collar crime suspects. The research may provide forensic investigators in general with an understanding of how best to source information for the lifestyle audit, the value of lifestyle audits to the forensic investigation process, the

current best practices applied by forensic investigators in conducting a lifestyle audit, the risks forensic investigators face when conducting lifestyle audits, the various sources of information available to gather information for the lifestyle audit, as well as the value of these sources of information.

Ultimately this research will provide valid and reliable scientifically researched information on the best practices applied by forensic investigators in conducting lifestyle audits on white collar crime suspects, so that they may improve their skills as forensic investigators.

1.7 Literature Review

According to Mouton (2001:88), the purpose of a literature study is to establish what has been done in one's field of study. To understand the research, the reader needs to know the following:

- Theoretical perspectives, historical approaches, and previous findings that precede the research in this terrain
- The definition of key concepts

To appreciate the research, the reader needs to know –

- about gaps in existing knowledge.
- how the approach differs from, or expands upon, previous approaches.
- the particular contribution to knowledge that their study will make.

The first step in the preliminary literature review was to identify relevant literature on the particular topic. The researcher then compiled a list of keywords and used these keywords to search libraries and consult the internet. Once the researcher had identified the literature dealing with the chosen topic, he then read this literature to determine whether it was relevant or not. In order to do this, the researcher had to read both local and international publications and perform internet research on the following key words:

- background checks
- criminal information
- criminal intelligence
- crime detection

- forensic investigation
- fraud
- gathering information
- investigation of crime
- interviewing suspects
- lifestyle audit
- source of information
- net worth analysis
- suspect profile
- white-collar crime

Over and above, the researcher identified books that were unavailable at libraries, and which he purchased new and/or second hand from online book stores. The literature review formed the foundation for Chapter 2.

1.8 Research Approach

The researcher made use of a qualitative approach for this research. Qualitative researchers study things in their natural settings (Creswell, 1998:15; Pope, Lovell & Brandl, 2001:369). The researcher decided on a qualitative approach, as he wished to obtain practical answers to the problem as well as the explanations provided by respondents who are practitioners in the field. Qualitative research involves the study, use and collection of a variety of empirical materials, such as case studies, personal experience, introspective and extensive examination of documents, interviews, and observational, historical, interactionable and visual texts, that describe routine problems and meaning in individuals' lives (Creswell, 1998:15; Pope et al., 2001:369).

A further reason for using a qualitative approach in this study is that the researcher's choice of topic is of an investigative nature and the researcher needed to interview and listen to respondents in order to obtain new information to develop an understanding of their ideas and personal experiences (Creswell, 1994:21; Taylor, 1994:208). Further to this, the topic needs to be explored, as the research covers new information (Creswell, 1998:17-18).

According to Creswell (1994:21), a qualitative study is defined as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting. To achieve this, the researcher made use of a semi-structured interview schedule and face-to-face interviews with forensic investigators, to obtain information from them regarding their practical knowledge and personal experience. According to Welman and Kruger (1999:167), the use of semi-structured interviews plays an important role in clearing out ambiguous or incomplete responses from participants, and it allows the interviewer to ask follow-up questions if necessary (Vithal & Jansen, 2004:22).

Furthermore, this study is a mini-dissertation, and the researcher works professionally in the field of forensics and white collar crime investigation, and believes that the qualitative approach would yield the best research results by interacting with peers within the industry.

1.9 Research Design

A research design is an exposition or plan of the way in which the researcher plans to execute the research problem that has been formulated (Mouton, 1996:175). Basically, it consists of a clear statement of the research problem, as well as the plans for gathering, processing and interpreting the observations intended to provide some resolution to the problem (Singleton & Straits, 1999:91).

The researcher adopted an empirical design for this research, as it best explores the research questions. Empirical research is the production of knowledge based on the experience or observation of the respondents (Maxfield & Babbie, 1995:4). The empirical design further involves the researcher going into the field (to conduct fieldwork) and focuses on the personal experience of the participants in the study (Mouton, 2001:149). This was necessary, as there is limited literature available on the topic of a lifestyle audit or the best practices thereof, and also to learn from the respondents on how they conduct lifestyle audits.

The design strengths are that it has high construct validity, provides in-depth insights, and a rapport with the research subjects is produced (Mouton, 2001:150). According to Mouton (2001:150), the limitations of the design are that the results cannot be

generalised as they constitute the views of individuals, measurements cannot be standardised, and the collection and analysis of data may be time consuming. The researcher attempted to minimise these limitations by means of an in-depth literature study and by interviewing a representative sample of respondents.

1.10 Demarcation

The researcher is currently employed as a forensic manager at ENS Forensics (Pty) Ltd in Cape Town, and has a background in law enforcement (South African Police Fraud and Syndicate Fraud Unit), as well as forensic experience with Deloitte Forensic Services (South Africa) and PricewaterhouseCoopers Forensics, Advisory (PwC) in London. The researcher used his knowledge of the industry to determine the most feasible design, including the limitation of the study.

The research was limited to forensic investigators in the private sector forensic investigation practices in Cape Town, who conduct forensic investigations, as well as lifestyle audits, on white collar crime suspects who have allegedly committed crimes within private companies.

The researcher limited the research study in respect of lifestyle audits and sources, to relevant financial information and records, including the assets and liabilities of the offender, and was not concerned with information regarding the personality type, psychology, human behaviour, or other characteristics of the white collar crime suspect. This study also did not focus on the procedures or process for obtaining information from sources, since this is a complex legal issue on its own which is governed by various aspects of local and international legislation. Suffice to say, information used and sourced by forensic investigators for lifestyle audits must be obtained legally; however, legislation was not the focus of this study, and is beyond the scope of this mini-dissertation.

It would, furthermore, have been impossible to interview all forensic investigators who investigate white collar crimes throughout South Africa, due to the financial implications, logistics, time constraints, and the fact that this research is a mini-dissertation. Therefore, the researcher has limited this study to a sample of forensic

investigators in the private forensic investigation sector in the Cape Town geographical area, as this is where the researcher works and is based.

1.10.1 Terminology for the words ‘lifestyle audit’

Regarding the terminology for the words ‘lifestyle audit’, the researcher is cognisant of the fact that there are a number of different terms which are used by forensic investigators in various parts of the world (including South Africa) to describe the term ‘lifestyle audit’. The various terms may be due to the forensic investigators’ differing backgrounds and training.

Powell (2011:4), *supra*, highlighted that the lifestyle audit provides management, as well as investigators, with a snapshot into certain aspects of the life of an employee.

Lifestyle audits can also be described as suspect profiling or business intelligence (Powell, 2011:4), financial investigation (Pasco, 2009:57), background investigations (Van Rooyen, 2008:216), lifestyle analysis (Coenen, 2009:171) and “Net Worth” analysis (Madinger & Zalopany, 1999:144). From the researcher's own experience, the lifestyle audit process is often also referred to by forensic investigators as a background check, a suspect profile or an offender profile.

In order to prevent any confusion in this dissertation, the researcher has chosen to use the term ‘lifestyle audit’ throughout this dissertation. The reason why this term was chosen for this dissertation is because, from the researcher's own experience, this term is used daily by forensic investigators in their work environment throughout South Africa, and appears in the media often when describing background checks or similar processes during forensic investigations. This definition is discussed in more detail in section 2.9 in Chapter 2.

1.11 Legality

1.11.1 Legal Principle

According to the ACFE (2012:43.01), the fraud examiner must be certain that information obtained in the course of an investigation is done so legally. Records from confidential sources, and illegally obtained documentary evidence, generally may not be

introduced as evidence in criminal cases. Unfortunately, some investigators get so caught up in the thrill of the chase that they will stop at nothing to find out the information they need. Kass-Shraibman and Sampath (2011:197) warn investigators to stay legal, as their work will certainly be recorded and possibly become part of future litigation, so that staying within the boundaries of the law is imperative.

Bank records can usually only be obtained legally if due process is followed concerning obtaining a subpoena, search warrant and the like – which banks will customarily demand as a condition for disclosure (ACFE, 2012:3.805).

It is further of critical importance for investigators to take note of the Constitution of the Republic of South Africa 108 of 1996. According to section 14, everyone has the right to privacy – which includes the right not to have (a) their person or home searched; (b) their property searched; (c) their possessions seized; or (d) the privacy of their communications infringed upon.

It is thus vitally important that information secured by forensic investigators for the purpose of a lifestyle audit be obtained in a legal manner – that is, either with the consent of the subject of the lifestyle audit, or by court order or search warrant (J50), or through a Section 205 subpoena, in terms of the Criminal Procedure Act 51 of 1977. Failing this will render the information in the forensic investigators' possession legally challengeable from an admissibility perspective, and may jeopardise the investigation, drastically influence the outcome of the case, and tarnish the forensic investigators' or company's reputation. Therefore, for the purpose of this mini-dissertation, the researcher will assume that all information obtained or sourced by the forensic investigators for the purpose of the lifestyle audit on white collar crime suspects, would have been sourced either with the consent of the subject of the lifestyle audit, or by court order or search warrant (J50), or through a Section 205 subpoena.

1.11.2 Section 205 Subpoena in terms of the Criminal Procedure Act 51 of 1977

A Section 205 subpoena, in terms of the Criminal Procedure Act, is a court-issued document signed and stamped by a magistrate or judge, and allows a magistrate or judge to summons anyone “who is likely to give material or relevant information as to any alleged offence”. The 205 subpoena is completed by the investigating officer (a

law enforcement official) who is requesting the information from the institution (such as a bank, insurance company or mobile phone service provider). The investigating officer motivates the application for the 205 subpoena with a prosecutor from the National Prosecuting Authority who approves the request, and then a further authorisation is required from a magistrate or judge.

Once the subpoena is signed by both the prosecutor and magistrate/judge, the investigating officer may serve the subpoena on a representative of the institution. The subpoena sets out a defined time within which the representative needs to comply with the subpoena (e.g. two weeks) to provide the information requested in the subpoena. Should the representative furnish the required information to the investigating officer to the satisfaction of the public prosecutor prior to the date on which he/she is required to appear before the magistrate, the representative shall not be under further obligation to appear before the magistrate.

According to Section 236 of the Criminal Procedure Act, which relates to the proof of entries in accounting records and documentation of banks, the required information in the accounting records of the bank, as well as any document which is in the possession of the bank, will have to be accompanied by a statement in terms of this section (a Section 236 Statement). This Statement authenticates that the documents subpoenaed are true records of the institution, and that –

- the person making the statement is in the service of the bank.
- the accounting records or documents are or have been the ordinary records or the documents of the said bank.
- the said entries have been made in the usual and ordinary course of the business of such bank, or that the said document has been compiled, printed or obtained in the usual and ordinary course of the business of such bank.
- such document or accounting records are in the custody or under the control of such bank.

Should the representative fail to comply with the Section 205 subpoena, they will have to appear in front of the magistrate at court to explain why the information cannot be provided to the investigating officer.

1.11.3 Legal requirements in using electronic surveillance

When electronic (technical) surveillance is to be utilised, it is managed and controlled by the Regulation of Interception of Communication and Provision of Communication-Related Information (RICA) Act 70 of 2002. This Act entails that a directive must be obtained before executing this methodology. This does not include the taking of photographs or making of video recordings without audio as undertaken during physical surveillance operations. An application in terms of Act 70 of 2002 must be processed through the Interception and Monitoring Crime Intelligence Unit of the SAPS.

1.11.4 Practical limitations

From the researcher's own experience, he has found that investigators who are not members of law enforcement agencies such as the South African Police Services (SAPS), Directorate for Priority Crime Investigation (DPCI) (also known as the Hawks), or the South African Revenue Services (SARS), would have difficulty in acquiring certain information such as the subject's bank statements, tax records, criminal records and firearms records, unless a criminal matter had been registered with the SAPS. Even if such information was obtained, it would not be legal for the law enforcement agencies to divulge it to unauthorised persons.

However, should the private investigator be officially seconded, mandated or appointed by these law enforcement agencies in a joint investigation team with these authorities in order to supplement the skills set of the team, and was provided with such information; this would be legal and useful in profiling the offender. One such example of this would be when chartered accountants of a 'Big 4' accounting firm¹ are seconded into an official investigation team to assist the SAPS with analysing bank statements and drafting a cash flow analysis, as the SAPS would not usually have these expert skills at their disposal.

1.12 Target Population

According to Bailey (1987:81), the sum total of all the units of analysis is called the population or universe. The total population of this research is all forensic investigators within private sector forensic investigation practices, who investigate white collar

¹ PricewaterhouseCoopers (PwC), KPMG, Deloitte, and Ernst & Young (E&Y)

crimes in South Africa (Taylor, 1994:158; Bailey, 1987:81). A study population is that aggregation of elements from which the sample is actually selected (Maxfield & Babbie, 1995:186).

The target population for this research was, due to reasons stated *supra* in the section on demarcation, limited to a sample of forensic investigators employed within private sector forensic investigation practices in the Cape Town, South Africa geographical area. This sub-population was therefore accessible to the researcher.

1.13 Sampling

The ideal sample is one that provides a perfect representation of a population (or target population), with all relevant features of the population included in the sample in the same proportion (Blaikie, 2003:161).

In the researcher's experience, the 'Big 4' accounting firms in Cape Town would have represented the perfect target population of forensic investigators who conduct lifestyle audits on white collar crime suspects. The researcher initially approached these accounting firms, with the aim of using their forensic staff as respondents and making use of the simple random sample method to select the sample. However, three of the four firms declined to participate in this research.

Following this, the researcher decided to make use of the purposive or judgemental sampling technique in identifying the respondents from private investigation practices, including the remaining one accounting firm who agreed that its staff might participate in the research. Purposive sampling is a type of non-probability sampling where units or people, according to Leedy and Ormrod (2001:219), are chosen as a sample for a particular purpose, or who represent a wide perspective on an issue. It was decided to use the purposive sampling method to approach and interview respondents, due to their experience and expertise in the forensic investigation field.

In purposive sampling, people or other units are chosen, as the name implies, for a particular purpose. For instance, one might choose people who are "typical" of a group, or those who respect diverse perspectives on an issue. Purposive sampling may be very appropriate for certain research problems; however, the researcher should always

provide a rationale, explaining why a particular sample of participants was selected (Leedy & Ormrod, 2005:206).

The basic assumption behind purposive sampling is that with good judgement and an appropriate strategy, one can handpick the cases to be included, and therefore develop samples that are satisfactory in relation to one's needs. A common strategy of purposive sampling is to pick cases that are judged to be typical of the population in which one is interested, and assume that errors of judgement in the selection will tend to counter-balance one another (Hoyle, Harris & Judd, 2002:187).

Based on these guidelines, the researcher then invited 25 potential respondents who were known to the researcher as experienced forensic investigators at private investigation practices in the Cape Town geographical area, to participate in the study. The researcher knew that the potential 25 respondents undertake some form or other of lifestyle audits during the forensic investigations they conduct. Of these 25 potential respondents approached by the researcher, 20 agreed to participate in this study. This size of the sample is in line with what Huysamen (1991:183-190) states, namely that as a general rule, no sample in a qualitative study should be less than 15 units for analysis.

1.14 Data Collection

According to Mouton (2001:57) and Patton (1980:43), qualitative research involves the following data collection techniques: surveys, experiments, case studies, programme evaluation and ethnographic studies. For the purpose of this research, the researcher decided on literature reviews and face-to-face interviews, as this would be the best practical method to collect the primary data needed to address the research questions (Creswell, 1994:148; Leedy, 1997:71).

Primary data, which, according to Bauer and Gaskell (2000:355), constitutes facts or evidence that is at the disposal of the proponent of an argument, and which in this study would be the respondents, was used for this research, and was obtained from primary literature sources. Primary data is characterised by being the result of direct contact between the researcher and the source, and generated by the application of particular methods by the researcher (Blaikie, 2003:18). According to Leedy and Ormrod

(2001:95), primary data is often the most valid, the most illuminating and the most truth manifesting.

The researcher decided on this approach, as it ensures a distinction between what the literature review states and what takes place in practice.

1.15 Data Analysis

Data analysis takes place whenever theory and data are compared (Singleton & Straits, 1999:455). Once all of the data was collected and captured into an Excel spreadsheet, the researcher was able to obtain a holistic picture of it, in order to analyse it. The researcher used the following process described by Mouton (2001:198), during the data analysis process:

- Data from the different data collection methods (interviews and literature) was organised, and then categorised according to the research questions.
- Information was compared within the categories, in order to identify variations and similar meanings.
- Similar data was categorised together.
- Variations were categorised together.
- Useless information was eliminated from the study.
- Where information was still needed or outstanding, this was easily identified, obtained, and then categorised.
- After each interview, the researcher discussed the answers with the specific respondent to ensure they had been correctly and clearly understood.
- Findings on the case study and literature were discussed with colleagues, for a better understanding.

Furthermore, the above approach also provided the researcher with focus areas in where forensic investigators potentially require further training.

1.16 Methods Used to Ensure Validity

According to Robson (2000:98), validity is ensuring that the research measures what it is intended to measure. To limit risks during the data collecting stage and to ensure validity, the researcher used different sources of data, such as interviews and a literature review (Mouton, 2001:100).

The validity of research is addressed in both the population and the measuring instruments used. Population validity is the extent to which the sample used in the study represents the experience of the population (Schloss & Smith, 1999:99). The validity is increased by the fact that the respondents are all experts in their field, based on relevant investigation experience and as a result of current/previous employment.

To ensure valid and comparable data was collected, the researcher ensured that the same questions were asked of the respondents by making use of an interview schedule (refer to Annexure A1) based on the aims of the study, and focused on the research questions. The respondents were requested to answer these questions truthfully and according to their own personal experiences. The researcher further ensured that no leading questions were asked of the respondents during the interviews. The answers given by each of the respondents were discussed with them, to ensure that their responses were correctly interpreted by the researcher and recorded as such (Creswell, 1994:158). The data was analysed using the method described by Mouton (2001:198), to ensure that valid deductions were made from the data.

The literature was gathered from subject-specific books, articles, journals and other sources, to ensure its reliability and validity (Mouton, 2001:101). Due to this non-probability sampling method, the research results will, however, only be valid for the sample group, as this is a focused sample, and the researcher will be unable to generalise the findings to a broader audience.

Even though the sample of 20 respondents cannot be scientifically proven to be representative of the population, the researcher considers the respondents to be experts within this field. Their expert knowledge is, in the researcher's opinion, most probably relevant to all forensic investigators within the private investigation industry. The forensic investigators are all, in general, from a similar background as far as training, experience and work environment is concerned, and their investigations are subject to the same regulations and laws within South Africa. There is therefore a high probability that the findings of this research might be transferable to the rest of the forensic investigators within the private investigation industry in South Africa, as well.

1.17 Methods Used to Ensure Reliability

Reliability generally relates to methods and techniques used to collect the data (Denscombe, 2002:100). According to Schloss and Smith (1999:93) and Welman and Kruger (1999:143), reliability in the research process is the consistency of measurement and the extent to which the observations made by the researcher could be replicated by another independent researcher.

According to Mouton and Marais (1990:79) and De Vos (2003:168), the requirement for reliability is that the application of a valid measuring instrument to different sets of circumstances should lead to the same observation. Mouton and Marais (1990:79) also ask whether the same method that is used by different researchers, and/or at different times, would produce the same results. The researcher ensured that he followed a disciplined approach, as described by Bouma (1993:14), used a scientifically acceptable design, and accurately reported the findings of the research. In order to do this, the researcher interviewed investigators who are experienced in forensic investigation and who are among the most experienced people to obtain information from, in respect of this research.

According to Leedy and Ormrod (2005:92), reliability of data is influenced by four variables: the researcher, the participant, the measuring instrument, and lastly, the research context and circumstances under which the research is conducted. The researcher in this study has done everything possible to enhance the reliability of the measuring methods, to ensure that the same methods used by other researchers and/or at different times, would produce the same results.

The sampling of respondents is further considered to be reliable, by virtue of the fact that the members are experts in their field, and should a similar sample be drawn by another researcher using the same criteria, it would most probably include the same respondents from Cape Town. Reliability is further addressed through the use of a structured interview schedule during semi-structured interviews, for all interviews conducted with the sample.

To enhance the validity of the study the researcher ensured the following:

- The fact that semi-structured interviews were conducted allowed both for a semi-structured approach in asking the respondents the same questions, and for the researcher to ask probing questions when necessary.
- All 20 respondents were interviewed in English (their business language) on a face-to-face basis in private meeting rooms, with an interview schedule including closed- and open-ended questions. Open-ended questions allow a respondent to provide an in-depth explanation with regard to a specific aspect of the research.
- The respondents were asked specific questions, based on the research questions and the aims of the research contained in the interview schedule.
- All the respondents were asked the same questions and in the same sequence.
- All interviews were written down, in the form of interview notes, to provide a proper record for analysis, as suggested by Bouma (1993:14).
- Interviews were conducted personally by the researcher, in such a manner that the same questions were put to all respondents, resulting in similar kinds of information being obtained from each, so as to ensure consistency.
- All interviews were conducted in private, providing an opportunity for the respondents to express themselves freely.
- The qualitative approach allowed for rich data, namely in obtaining information on the respondents' practical knowledge and personal experience (Creswell, 1994:21).
- There was no confusion on the part of the respondents when answering the questions, and the absence thereof confirms that the research questions were properly formatted.

Furthermore, the researcher ensured that the respondents were voluntarily participating in the research, as if they had been forced to participate, it could have led to them deliberately misleading the researcher. In addition, the fact that the respondents' anonymity was guaranteed, provided them with the opportunity to offer full details and disclosures regarding the research questions.

According to Merriam (1991:170), however, one should keep in mind that human behaviour is never static, and therefore, should interviews using the same interview

schedule be conducted with the same respondents at a later stage, it could well be that the answers to the same questions would be different. The reason for this is that the respondents may have gained experience or training in the meanwhile.

1.18 Ethical Considerations

The researcher ensured transparency at all times throughout the research, and ensured that he abided by the rules of UNISA. The researcher did not commit scientific fraud or plagiarism (Mouton, 2001:240).

References were made to all sources consulted to complete the research (Leedy & Ormrod, 2005:102). The researcher did not fabricate data to support any findings or recommendations, and both the findings and recommendations are based on the facts determined in the research (Leedy & Ormrod, 2005:102). The researcher also ensured that no special equipment or trained fieldworkers were used for this research. In order to protect the identities of the respondents, they were not harmed or their privacy violated (Mouton, 2001:240-243).

In order to respect the anonymity, privacy and confidentiality of the respondents, the researcher assigned each of them with a number, to avoid using their names in the research. For example, the first participant was assigned with the description “Respondent 1”, the second “Respondent 2”, and so on (Leedy & Ormrod, 2005:101).

The participants were also informed of the nature of the research, and were given the choice of participating or declining to participate. In addition, they were informed that should they agree to participate, they would have the right to withdraw from the study at any time (Leedy & Ormrod, 2005:102). A consent form was completed by each participant in the research.

1.19 Research Structure

The research is divided into four further chapters as set out below:

1.19.1 Chapter 2: The Lifestyle Audit and White Collar Crime Investigation

In this chapter, the relationship between fraud investigation, white collar crime, forensic investigation and the lifestyle audit, is explored. In particular, the following areas are discussed: investigation of financial crime, fraud, the concept of white collar crime, forensic investigation, the forensic investigation process, methods for detecting fraud, the concept of the lifestyle audit in forensic investigations, the aim or purpose of the lifestyle audit, as well as the advantages and reliability thereof.

1.19.2 Chapter 3: The Lifestyle Audit Process

This chapter explores the lifestyle audit process, and touches on the steps in the lifestyle audit process, the risks in conducting a lifestyle audit, sources of information for the lifestyle audit, including documentary and general sources, initiating the lifestyle audit, as well as the resources and tools required for the lifestyle audit.

1.19.3 Chapter 4: The Lifestyle Audit

Chapter 4 focuses on the concept of the lifestyle audit and how it relates to white collar crime investigation. In particular, the following areas are discussed: the lifestyle audit, the aim or purpose thereof, the advantages to, and importance of, conducting a lifestyle audit during forensic investigations, the focus of the lifestyle audit, the importance of conducting a lifestyle audit during forensic investigations, implications of failing to conduct a lifestyle audit, reliability of the lifestyle audit, as well as the value the lifestyle audit holds for the forensic investigation process.

1.19.4 Chapter 5: The Lifestyle Audit Methodology

Chapter 5 deals with the current best practices in performing lifestyle audits on white collar crime suspects, and the methodology used in conducting these lifestyle audits. In particular, the following areas are discussed: current methodology of the lifestyle audit, training on how to conduct a lifestyle audit, when to commence a lifestyle audit, selecting a subject for the lifestyle audit, the lifestyle audit process used by the respondents, core elements of the lifestyle audit methodology, duration of time to complete the lifestyle audit, the resources and tools required, the costs, initiating the lifestyle audit, information sources – including public and non-public, the value of information obtained from sources during the lifestyle audit, terminating the lifestyle

audit, red flags, key best practices, and finally, the risks associated with conducting a lifestyle audit.

1.19.5 Chapter 6: Findings and Recommendations

Chapter 6 is the final chapter of this research, and concludes with the findings and recommendations emerging from this study.

CHAPTER 2

THE LIFESTYLE AUDIT AND WHITE COLLAR CRIME INVESTIGATION

2.1 Introduction

In this chapter, the relationship between fraud investigation, white collar crime, forensic investigation and the lifestyle audit, is explored. In particular, the following areas are discussed: investigation of financial crime, fraud, the concept of white collar crime, forensic investigation (a brief overview), the forensic investigation process, methods for detecting fraud, the concept of the lifestyle audit in forensic investigations, the aim or purpose of the lifestyle audit, the advantages of conducting a lifestyle audit, as well as the reliability thereof.

There has been much press coverage of the topic of lifestyle audits in South Africa. For example, an article titled "Leaders should get lifestyle audits" appeared in News24 (2011), reporting Cosatu's (then) general secretary, Zwelinzima Vavi, as stating to delegates at an anti-corruption summit in Johannesburg, that political leaders should undergo lifestyle audits to clear suspicions about their wealth, "so that there is no doubt in the minds of people who are increasingly suspicious of everybody that seems to be driving a better car." Vavi further welcomed the idea of lifestyle audits being carried out by SARS into the sources of wealth of some individuals, including the (then) suspended African National Congress Youth League president, Julius Malema: "We are happy that SARS is investigating those suspected of dodging their tax responsibilities or who have wealth that they can't explain." Vavi confirmed that lifestyle audits are valuable weapons, needed to identify and prosecute those involved in corruption.

A similar call had been made by the South African government, when Business Unity SA's president, Ms Futhi Mtoba, said that "lifestyle audits need to be conducted within government in order to win the fight against corruption in South Africa" (iAfrica, 2011). Addressing delegates at the International Anti-Corruption Day summit in Pretoria, Mtoba stated (as quoted in the article) that "such audits were not an issue against wealth creation, as it tended to be debated, but rather a question of how wealth was acquired". According to Mtoba, one's lifestyle depicts what one earns, and the lifestyle audit will

help explain how one created one's wealth, and therefore, that one deserves the life one leads.

Mtoba was supporting calls by Public Service Commission chairman, Ralph Ngijima, who earlier indicated that the commission intended to introduce lifestyle audits in government, and that the commission would be producing a concept document on lifestyle policy soon. This call for lifestyle audits was further emphasised by Finance Minister Pravin Gordhan (iAfrica, 2011) in his budget address, wherein he stated that SARS would be conducting lifestyle audits on a regular basis.

More recently, SARS confirmed in court papers that a lifestyle audit on convicted drug dealer and one-time murder accused Glenn Agliotti, revealed a tax bill of R78 million following allegations that he had laundered millions into overseas bank accounts (Pauw, 2013).

2.2 Investigation of Financial Crime

In recent publications there is no clear and outstanding distinction between the two concepts 'criminal investigation' and 'forensic investigation', and that what one calls an investigation is purely a matter of preference in the use of terminology. The concept 'criminal investigation', however, only covers investigations of a criminal nature, while forensic investigations can also include civil investigations, as pointed out by Lambrechts (2001:93). In this dissertation, no distinction will be made between criminal and forensic investigation.

Forensic investigation includes the investigation of financial crimes. A financial investigation is a blend of traditional investigative techniques and those used by auditors for 3,000 years (Madinger & Zalopany, 1999:121):

A financial case is about "accounting." Not the really boring stuff you learned (or heard about) in college accounting 101, but "accounting" in the sense that your investigation is trying to account for different events or facts, such as where did he get the money? How much money did he get? What did he do with the money?

Collecting information, including conducting lifestyle audits, forms part of any forensic or criminal investigation. According to Marais (1991:13), crime investigation is directed at the gathering of facts and information through which the crime can be reconstructed. He states that, in effect, it comes down to observation and inquiry, in order to obtain information about allegations, circumstances and associations. He later describes the crime investigation process as being made up of situation, victim and perpetrator identification (Marais, 1992:2).

According to Van Rooyen (2001:50) investigation is the systematic search for the truth. Investigation means to observe intensely, to question systematically, and to gather information that will reveal the truth.

Silverstone and Sheetz (2007:111) point out that investigations all share similarities. Whether the investigation centres on financial crime, burglary, or even murder, each of these investigations must pass through the same general stages. All cases go from initiation to planning, execution, prosecution and, finally, reflection. Some of these stages overlap, and in others they are abbreviated. However, in every case, each stage plays a key role in how well or poorly the outcome matches the expectations. Turner's (2011:169) description of a financial investigation agrees with that of Silverstone and Sheetz, in that any investigation into financial crime must begin with an investigation plan, and look at three potential perpetrator markers, namely –

- their behaviour (what they like to do).
- their finances (what they can afford to do).
- their business (the financial vehicles they have access to).

Orthmann (2003:3), on the other hand, defines criminal investigation as the process of discovering, collecting, preparing, identifying and presenting evidence to determine what happened and who is responsible. Orthmann goes on further to state that the goals of investigation are to –

- determine whether a crime has been committed.
- legally obtain information and evidence to identify the responsible person.
- arrest the suspect.
- recover stolen property.

- present the best possible case to the prosecutor.

From the discussion, it is clear that investigation of crime is about the gathering of information and facts in order to understand the truth. This dissertation is focused on white collar crime suspects who would be committing the crime of fraud. The definition of fraud is discussed in the next section, 2.3.

2.3 Fraud

From the literature review in Chapter 1, Section 1.5.1 it can be seen that fraud involves misrepresentation, deception and the loss of property or the rights to property. It can also be defined as the unlawful and intentional making of a misrepresentation which causes actual or potential prejudice to another, or the obtaining of something of value, or avoiding an obligation by means of deception. For investigators to investigate fraud, they first need to understand it. In order to do this, the researcher touches on the concept of white collar crime in its various forms in the following section.

2.4 The Concept of White Collar Crime

White collar crime, first coined by Edwin Sutherland, is a financial crime. It may involve violence and physical harm to the victims, but the root cause is greed and a lust for financial gain (Pasco, 2009:103). He points out that most crimes are committed for financial gain, and the street mugger and the corporate executive have that much in common. The major differences are in the amount of gain, the planning required, the intricacies of the crime, and the tools needed to commit the crime.

According to a SAPS circular (1995:2), white collar crime is a component of commercial crime, the latter being defined as all crimes which take place within the commercial sphere, including common law, statutory offences and regulations, as well as white collar crime. The SAPS therefore consider the term “white collar crime” to be a concept which denotes crimes as those perpetrated by individuals and corporations/syndicates/organisations, advanced crimes (excluding street crimes or ordinary crimes), and crimes needing planning, skill, camouflage and fraud. Examples of such crimes would include income tax evasion, fraud, employee theft, computer crime, advertising fraud, crimes relating to abuse of confidentiality, share/investment

fraud, credit card/cheque fraud, bankruptcy fraud, corruption, forgery and uttering, and counterfeiting (Van Rooyen, 2008:25).

Silverstone and Sheetz (2007:4) state that white collar crime should be viewed as a subclass of fraud, which is committed by individuals embezzling, manipulating accounts, and taking bribes at their place of business. They point out that what these crimes all have in common is the intent to deceive.

According to Barnett (2009), the United States Department of Justice's (DOJ) definition of white collar crime has been hotly contested within the community of experts, and the debate regarding the definition is currently ongoing. Although there are a multitude of variations, there appear to be three major orientations: those who define white collar crime by the type of offender (for example, high socioeconomic status and/or occupation of trust), those who define it in terms of the type of offence (for example, economic crime), and, those who study it in terms of the organisational culture rather than the offender or the offence.

Silverstone and Sheetz (2007:6) state that white collar crime involves an intentional deception by employees, management, vendors and customers, to obtain money or other assets or services from a business. Some of these frauds are perpetrated by individuals, and some in collusion across the management-employee social boundaries, or between insiders and outsiders. Pasco (2009:22) agrees with Silverstone and Sheetz in that white collar crime requires deception, but adds also planning and organisation. The planning or premeditation of the crime can be simple or complex.

From the discussion above, it is clear that the concept of white collar crime has many broad definitions. The following section provides an overview of what forensic investigation constitutes, and how it ties into the investigation of fraud and the various types of white collar crimes.

2.5 Forensic Investigation (a brief overview)

According to the researcher, forensics as an industry has evolved rapidly over the past two decades, and involves a number of disciplines. In the 1980s, companies in South Africa started building their own internal investigation capacities, with these new

sections usually situated within their internal audit departments, and known as internal investigations or special investigations departments. These forensic teams were usually staffed by ex-commercial branch police officers and ex-prosecutors from the Department of Justice, internal auditors and accountants. At the same time, the 'Big 4' accounting firms in South Africa started building specialist accounting/investigation capacities within their businesses. These were sometimes also called special investigations, dispute resolution services, risk advisory or risk services, and later became known as forensics. This term was also adopted for in-house corporate investigation departments.

The researcher has first-hand experience of the confusion in the industry, regarding not only the understanding of the term 'forensic investigation', but also the understanding of the associated terminology – namely 'forensic investigator', 'forensic accountant' and 'forensic auditor'. Zysman (2001) defines the term 'forensic investigation' as the utilisation of specialised investigative skills in carrying out an inquiry conducted in such a manner that the outcome will have application to a court of law. He points out that a forensic investigation may be grounded in accounting, medicine, engineering or some other discipline.

2.6 The Forensic Investigator investigating Financial Crimes

For the investigator, the complexities and intricacies of a financial investigation require constant application of mental exercise in logic and reason (Pasco, 2009:xiii). At the same time, the investigator must be able to organise and relate a large amount of individual activities to construct the financial profile of the investigation. The ability to work these cases does not need specialisation in any specific discipline; however, it does require familiarity with a variety of disciplines and an understanding of how those disciplines work together to uncover the truth (Pasco, 2009:xiii).

Golden, Skalak and Clayton (2006:22) highlight the difference between the independent auditor and the forensic investigator. The forensic investigator has a largely separate set of concerns from that of the auditor, based on a different role that calls for different tools, different thought processes and different attitudes. The forensic investigator's concern is not with reaching a general opinion on financial statements as a whole, derived from reasonable efforts within a reasonably materiality boundary. Instead, the

forensic investigator's concern is at a much more granular level, with the detailed development of factual information, derived from both documentary evidence and testimonial evidence – about the who, what, when, where, how, and why of a suspected or known impropriety (Golden et al., 2006:22).

Van Rooyen (2008:14) points out further that the forensic investigator is central to a forensic investigation, in that the investigator leads team members, coordinates attempts and activities, liaises with specialists, and assembles evidence. One of these specialists would be the forensic accountant or auditor, who is discussed below.

2.6.1 The Forensic Accountant

The forensic accountant works within the forensic accounting industry. Forensic accounting is the application of investigative and analytical skills for the purpose of resolving financial issues in a manner that meets standards required by courts of law (Hopwood et al., 2012:3).

According to Pasco (2009:1) the methodology of general criminal forensics and forensic accounting is the same. Documents created to record and preserve financial transactions are the raw evidence used in forensic accounting. Just as fingerprints and DNA are used in forensic crime scene investigations, documents are used to identify the 'who, what, where, when and how' of financial crimes. Forensic accounting disciplines are used to determine the profitability of criminal activities and the beneficiaries of illegal gains.

Hopwood et al. (2012:4) further point out that forensic accounting differs from traditional accounting, in that traditional accounting involves using financial language to communicate the results of transactions and make decisions based on that communication.

Forensic accountants apply special skills in accounting, auditing finance, quantitative methods, certain areas of the law, research, and investigative skills, to collect, analyse and evaluate evidential matter, and to interpret and communicate findings. As fraud examiners, forensic accountants are a combination of accountant and private investigator. In other words, the fraud examiner is a type of private investigator with a

strong financial sixth sense, who possesses knowledge of professional standards in accounting and law (Hopwood et al., 5:2012).

Pasco (19:2009) explains that the forensic accountant uses methodology to investigate financial crimes that have taken place over time. The forensic accountant begins with a current financial status and must work backwards to determine how the status was obtained.

Hopwood et al. (2012:6) suggest that the forensic accountant must have skills in many areas, including auditing, investigative knowledge, criminology, accounting, legal knowledge, information technology (IT) and communication.

2.6.2 The Forensic Auditor

Van Rooyen (2008:14) cites that the traditional concept of an auditor is that of an individual coming in to check the books, looking for fraud and mistakes, and taking great pleasure in finding either. On the other hand, he describes a forensic accountant or auditor as a person who examines financial documents, as well as the compliance of policies and procedures, with the goal of detection and investigation of crime [or misconduct].

According to Coenen (2009:17), there are obvious differences between a [financial] audit and a fraud investigation. She describes these differences as 'quite different'. Audits, on the one hand, are standard, where the auditor looks for documentation that supports accounting entries, but does not try to verify the authenticity of the documentation or determine whether the transactions under examination are suspicious. In contrast, she points out that fraud examinations are anything but routine, and this materially affects the planning and execution of the engagement. The most obvious difference between an audit and a fraud investigation is the lack of standard work programmes for fraud investigations. In a fraud examination there are no standardised processes, checklists and investigation guides which can assist the investigator to some extent, but rather, the investigative process is often determined based on the results of the work just completed. An area of suspicion is isolated, and the fraud investigator will usually examine all transactions within that area (Coenen, 2009:17).

2.7 The Forensic Investigation Process

Dowling (1979:1) states that a forensic investigation is a systematic, planned process, consisting of establishing that a crime has actually been committed, the gathering and safekeeping of evidence and evaluation, identifying and apprehending the suspect(s), recovering stolen property, and assisting in the prosecution of the person(s) charged with the crime. According to the training manual of Deloitte and Touche (2002:4), [financial] forensic investigation is also the application of both financial skills and an investigative mentality to unresolved issues. These unresolved issues can also include non-criminal acts such as contravention of internal company policy, for example, nondisclosure of interests, and abuse of company resources, which are usually governed by company disciplinary policy.

For successful financial investigations, interviewing, documentation and observation are three critical elements (Pasco, 2009:57). Given this information, how does the forensic investigator then go about detecting or uncovering fraud within the company? This is discussed in the following section.

2.8 Methods for Detecting Fraud

According to Coenen (2009:16), fraud, by its very nature, is difficult to uncover, as steps have been taken by the participants in the fraud to conceal it. Fraudsters try to conceal a fraud, not only from the company's management and owners, but also from the auditors, and familiarity with the company's operations and auditing processes will help the fraudster to be successful in their unlawful undertakings.

The ACFE (2010:3.818) highlights that there are many fraud detection methods, and whatever method is employed will usually require the examination of source documents. Many times, these documents provide the evidence necessary to prove fraud in a court of law. Individual documents can be examined in several ways to detect possible fraud.

Golden et al. (2006:121) agree with Coenen, in that detecting fraud is difficult, and highlights that this is especially so in fraud involving material financial statement misstatements, which occur only in about two percent of all financial statements. Fraud is generally concealed, and often occurs through collusion. Normally, the documents

supporting omitted transactions are not kept in company files. False documentation is often created, or legitimate documents are altered, to support fictitious transactions. While fraud detection techniques will not identify all incidents of fraud, the use of sound techniques can increase the likelihood of discovery.

Pasco (2009:xiii) is of the opinion that an ability to follow the money trail allows for the full development of the facts and circumstances involved in the case to be shown in a logical and sequential pattern, and simplifies the understanding of how the financial pieces fit together. This provides the investigator with the tools to uncover and identify all the participants in a criminal enterprise.

According to Kass-Shraibman and Sampath (2011:183), tracing the flow of money will identify the names of payees, individuals or businesses that have received money or some other form of compensation. These parties will be the subjects of the investigation. Understanding who these payees are and how they relate to each other, will assist the investigator in uncovering the fraud scheme.

Powell (2011:4) further highlights that fraud and corruption are usually committed by means of 'off book' transactions or manipulated accounting records. It is very difficult to detect, and dishonest professionals are able to conceal their fraud with disturbing alacrity and ease, particular in work environments with weak controls or limited segregation of duty. The ACFE (2010:3.820) state that fraud will often be concealed in questionable documents. Missing or altered documents are some of the principal indicators of fraud and such occurrences should be thoroughly investigated.

In order for forensic investigators to detect fraud, Golden et al. (2006:122) state:

Knowing where to look is the first step in fraud detection. Understanding the motivations of those committing the fraud and knowing in which accounts fraud is more likely to exist, based on a risk assessment, helps identify areas that might be subject to the greatest need for scrutiny. Similarly, being aware of the types of transactions that warrant further review, as well as other potential red flag indicators, may alert investigators to areas that might require a closer look.

Specific fraud detection techniques include carrying out analytical procedures, using audit tests, observing and inspecting, making enquiries, and conducting interviews (Golden et al., 2006:122).

Golden et al. (2006:122) point out further that having a mind-set of professional scepticism and better knowledge of various types of fraudulent schemes, may make the difference between detecting and not detecting fraud.

Coenen (2009:8) states that newfound wealth is often difficult for a person to hide. Despite an employee's best efforts to keep a fraud under wraps, buying a new car or fancy jewellery may be too much to resist. Spending beyond one's apparent means should be a warning sign that a fraud may be occurring.

Sometimes the only clue to the illicit activities is a sudden unexplained change in an employee's lifestyle. Powell (2011:4) suggests further that the lifestyle audit is therefore a critical management tool to identify staff members who, based on an extravagant lifestyle, may potentially be engaging in illicit activity. It is also one of the few mechanisms that organisations may utilise as a first step towards discreetly determining whether a 'tip-off' of suspected fraudulent activity, potentially has merit or not.

Coenen (2009:8) agrees with Powell and points out that it is a potential sign of fraud when an employee exhibits significant changes in behaviour. Drug and alcohol problems could be precursors to fraud because of the expense of the addiction, or they could be the result of fraud as a person tries to hide a guilty conscience. Behavioural changes, such as becoming uncooperative, argumentative, or defensive, can be signs of problems as well. These behaviours may be signs of dissatisfaction at work which could be a reason for an employee to commit fraud. Or they could be an outward sign of an employee's stress as they engage in on-the-job fraud (Coenen 2009:8).

Coenen (2009:9), however, cautions further that lifestyle changes alone are not a definite indicator that fraud is occurring; however, changes in lifestyle are small pieces of a puzzle which should be watched carefully as they sometimes relate to occupational fraud. She goes on to say that the method of a lifestyle analysis does not give definite proof of hidden income, but it appeals to the common sense argument that if an

individual is spending this much money, it has to come from somewhere (2009:171).

According to Powell (2011:4), *supra*, the lifestyle audit is a legitimate fraud prevention and detection ‘mechanism’. Powell (2011:4) is also of the view that –

Lifestyle audits are an excellent barometer of the extent of the fraud risk within an organisation’, and that ‘companies should make use of this proactive anti-fraud mechanism to protect themselves before they fall victim to fraud and, in some instances, to identify fraud which is happening right under their nose!

Powell (2011:4) further highlights that background investigations are also a means to seek direct evidence of fraud.

The following section touches on the concept of the lifestyle audit.

2.9 The Concept of the Lifestyle Audit in Forensic Investigations

Conducting background investigations is a key component to any forensic accounting investigation. It is a useful way to discreetly obtain information without tipping off the subjects that they’re on the radar (Kass-Shraibman & Sampath, 2011:180).

According to the ACFE (2012:3.826), any recipient of funds, whether honest or suspect, has only four ways of disposing of income: save it, buy assets, pay off debts, or spend it. This provides information to the forensic investigator on where to start searching for possible evidence in a suspected case of fraud, including investigation into the background of a suspect.

According to Van Rooyen (2008:216), auditors and forensic investigators use these background investigations for a variety of purposes. Sometimes it is to seek direct evidence of fraud by digging deeply into related party transactions, and at other times it is to identify investigative leads, locate interviewees and perform asset searches. But what exactly is a lifestyle audit?

In the glossary of the website of Investorwords (2011), a lifestyle audit is defined as a study of a person's living standards to see if it is consistent with his reported income. The definition of lifestyle audit on the website of QFinance (2011) is similar to that of Investorwords, but provides more detail on a lifestyle audit as being –

- a comparison of a taxpayer's living standards with reported income.
- the study of a taxpayer's living standards and spending, to determine if it is consistent with that person's reported income.

According to Coenen (2009:171), a lifestyle analysis is a tool which investigators can use to prove, through circumstantial evidence, that a target is generating income from somewhere. This type of analysis requires the investigator to estimate the known living expenses of the target, such as mortgage payment, groceries, insurance, healthcare costs, automobile fuel, and the like.

According to Jackson and Bekerian (1997:3), offender profiling can be regarded as a useful investigative tool for investigators. Offender profiling is considered to be an aid in investigations; therefore, there is a relationship between offender profiling and investigations.

Bekerian and Levey (2005:53) believe that offender profiling is a method of collating various pieces of information and data about an offender, with the intention of establishing the most likely offender to have committed the crime; and that the profiling of an offender is used to understand why and how the crime was committed.

In the case CEPPWAWU obo Hlebela/Lonmin Precious Metals Refinery [2011] 8 BALR 814 (CCMA), the applicant employee, an operator, was charged with failing to disclose information which would have assisted the respondent to investigate “enormous” losses of precious metals suffered by the company. The charges followed a “lifestyle audit” in which the respondent established that the employee was living far above the standard he could have maintained on his salary. When the company learned that the applicant owned several motor vehicles and properties, including a luxurious home in which he lived; it requested the employee to make a full disclosure of his assets. He declined to do so on the advice of his union, and was

dismissed by his employer. The applicant denied any involvement in, or knowledge of, theft, and claimed that he had been “singled out” and that his dismissal was also procedurally unfair.

The employer had, in this instance, called in the police, after suffering losses of around 200kg of precious metal each month, and had requested the employee to disclose his assets. The natural inference drawn from the employee’s refusal to do so was that he had something to hide. The court ruled the dismissal substantively fair. The outcome of the appeal (or arbitration) was dependent, among others, on the outcome of a lifestyle audit. During the investigation, the lifestyle audit illuminated the following in respect of the employee:

- Nedbank Bond of R200 000 on a property of R582 900
- Bond of R14 000 on the applicant’s mother's house
- Photograph of the house in question highlighting the luxurious nature thereof
- Standard Bank bond of R400 000 related to applicant

When the above bonds and properties were assessed against the applicant’s salary slip, showing a basic salary of R10 816,81, it simply did not reconcile. This then eventually culminated in a disciplinary inquiry. The commissioner ruled as follows: “I accept that the respondent on a balance of probabilities has proven these two “ingredients”. In fact, what other reasonable inference can be drawn from the applicant’s refusal to disclose his assets? Would it be unfair, for example, if a Standard Bank teller suddenly drives a Maserati, not for the bank manager to be rather concerned, as that very teller is the custodian of the bank’s revenue? If the teller then discloses that she had won the National Lottery, the matter ends right there. Similarly, here we have a platinum producer who had 200kgs monthly unexplained platinum losses, who is alerted by the SAPS that some of their employees really live the “economic high life”, to then do a life style audit, and merely request an explanation from these employees surely should be seen as entirely reasonable?” The commissioner held further that there was no basis to the employee’s allegations of procedural unfairness.

The following section touches on the aims and purposes of the lifestyle audit.

2.10 The Aim or Purpose of the Lifestyle Audit

According to Ensor (2011), the usefulness of lifestyle audits as an indicator of possible fraud and corruption, was highlighted when [then] suspended SAPS criminal intelligence head, Richard Mdluli, surrendered himself to the Hawks over fraud and corruption charges. Mdluli was allegedly living above his means, having used taxpayers' money to help pay for his private BMW motor vehicle.

In September 2011, Police Minister Nathi Mthethwa was quoted as saying that lifestyle audits would be one of the tools the SAPS would be making use of as part of their integrity management framework which would form part of their revised anti-corruption strategy (Ensor, 2011) .

Ensor (2011) continues by quoting the spokesperson for the police, Zweli Mnisi in the same article as saying that –

... when police officers clearly live beyond their means, questions could validly be asked about where they are getting the money from and this would justify an audit into their lifestyle.

The information obtained from background investigations helps forensic investigators to narrow their list of potential suspects, and may help identify recoverable assets (Kass-Shraibman & Sampath, 2011:180). Further background investigations play a key part in finding assets lost due to fraudulent acts – such as assets that have been misappropriated (Kass-Shraibman & Sampath (2011:184).

Deloitte (2002:14) states that a personal profile highlights important clues to hidden assets. The aim or purpose of the lifestyle audit is to determine the financial profile of an individual. The ACFE (2012:3.823) states that the financial profile will identify most illicit funds that are deposited into accounts or expended in significant amounts.

Deloitte (2002:14) suggests further that the individual profile gives the financial picture of the subject, and should be as thorough as possible to prevent it from being contested on the grounds that something was left out. It is also important to prevent the subject of the investigation being falsely accused of any wrongdoing, if it is, for example,

discovered that the person received an additional income in a legitimate way. The profile will later serve as the foundation for the tracing and recovery of assets, if a criminal case is pursued.

A lifestyle profile supports the subject's financial profile and will help to direct the investigation to the discovery of assets or documents thereto. For example, if it is known that the subject is a keen yachtsman or golfer, the search for assets may go in that direction (such as ownership of property on a golf estate). Certain vices could also indicate spending patterns that might not be affordable from known sources of income (such as drugs, gambling or personal relationships) (Deloitte, 2002:19).

However, the lifestyle audit does not always provide evidence solely that a subject is living beyond their financial means. Sometimes, the lifestyle audit can vindicate the subject, as Van Rooyen (2008:96) highlights that crime investigation is not a 'one way street', in that although priority must be given to gathering information towards a solution, one cannot disregard data that will exonerate an accused or suspect. This is also the case during a lifestyle audit, namely that the information might also serve to exonerate a suspect.

The following section deals with the advantages of conducting a lifestyle audit during a forensic investigation.

2.11 The Advantages of Conducting a Lifestyle Audit

Conducting a lifestyle audit is one of the financial investigative techniques used during an investigation into a financially-related offence. According to Madinger and Zalopany (1999:121), the financial investigative techniques which are useful, if not essential, in proving a money laundering case, can be used effectively in any other investigations as well.

Background investigations can point the forensic accountant in the direction of misappropriated funds and hidden assets that may be recovered. Locating assets hidden in the names of individuals and entities can quickly help narrow the list of possible fraud suspects by shining a spotlight on those who are living beyond their apparent financial means. For example, an employee earning R50,000.00 salary per year who

purchases a new Mercedes and a R10 million home in Constantia should raise a red flag to the investigator (Kass-Shraibman & Sampath, 2011:185).

Deloitte's training guide (2002:14) states further that profiling of individuals (inter alia, through lifestyle audits), will add value to the investigation by indicating to the investigator where to direct their enquiries. The personal behavioural or lifestyle profile can yield direct or circumstantial evidence of illegal income or hidden assets, indicating that the subject cannot afford the lifestyle they are leading. A lifestyle profile supports the subject's financial profile.

Powell (2011:4) expands on the advantages of conducting a lifestyle audit, when stating that a simple credit check on an individual may reveal bad debt or judgements, and is a crucial fraud risk indicator, as well as an excellent barometer of the extent of the fraud risk within an organisation. According to Ratcliffe (2004:73), developing new intelligence assists law enforcement to tackle its priorities by filling gaps in knowledge about particular threats or target criminals. Both the assimilation of current knowledge and the collection of new intelligence support attempts to project the future direction of existing threats. Crime intelligence incorporates all possible information including lifestyle audits (Ratcliffe, 2004:73).

From the above discussion, it is clear that conducting a lifestyle audit during a forensic investigation is advantageous as it –

- can identify misappropriated funds and hidden assets.
- can quickly help narrow the list of possible fraud suspects who are living beyond their financial means.
- can identify direct evidence of fraud.
- is a tool investigators can use to prove that a target is generating income from somewhere.
- will add value to the investigation by indicating to the investigator where to direct their inquiries.
- can yield direct or circumstantial evidence of illegal income or hidden assets, indicating that the subject cannot afford the lifestyle they are leading.
- is a crucial fraud risk indicator.

- is an excellent barometer of the extent of the fraud risk within an organisation.

The following section deals with the reliability of the lifestyle audit.

2.12 Reliability of the Lifestyle Audit

The ACFE (2012:3.823) highlights that although the financial profile will identify most illicit funds that are deposited to accounts or expended in significant amounts, investigators are warned that this process will not catch relatively small currency transactions, particularly if they were for concealed activities, consumables, or for unusual one-time expenses such as medical bills. ACFE (2012:3.826) also warns that the financial profile might also give inaccurate or false negative readings, unless certain activities are identified. This can be done through the behavioural profile of the suspect, which might provide the investigator with supporting evidence of a possible motive for the crime – such as large debts, as well as additional evidence of illicit funds.

Powell (2011:4) cautions that the results of the lifestyle audit are an indicator, or clue, that something may be amiss, but can never, without further evidence, be regarded as conclusive proof of illicit activity. There may, of course, be a perfectly reasonable explanation for what, on the face of it, appears to be an extravagant lifestyle; these explanations include an inheritance, or a wealthy partner or family member, not known to the employer, providing financial support. The results of the lifestyle audit must, accordingly, be approached with caution. Powell's (2011:4) caution agrees with Coenen (2009:9), *supra*, in that lifestyle changes alone is not a definite indicator that fraud is occurring; however, changes in lifestyle are small pieces of a puzzle which should be watched carefully, as they sometimes relate to occupational fraud.

2.13 Summary

From the literature review in Chapter 2, it is seen that white collar crime can be viewed as a sub-class of fraud, and that the forensic investigator is central to white collar crime investigation. Fraud, by its very nature, is difficult to uncover, as steps may have been taken by the participants in the fraud to conceal it.

Investigation is directed at the gathering of facts and information through which the crime can be reconstructed, or the process of discovering, collecting, preparing,

identifying and presenting evidence to determine what happened and who is responsible. Further, financial investigation is a blend of traditional investigative techniques and those used by auditors. Knowing where to look is the first step in fraud detection. One of these detection methods is to follow the money trail – which will allow for the full development of the facts and circumstances involved in the case to be shown in a logical and sequential pattern.

Sometimes the only clue to the illicit activities is a sudden, unexplained change in an employee's lifestyle. Conducting background investigations is a key component in any forensic accounting investigation. It is a useful way to discreetly obtain information, without tipping off the subjects that they're 'on the radar'. The lifestyle audit is therefore a critical management tool to identify illicit activity, and is, further, a legitimate fraud prevention and detection mechanism.

The lifestyle audit has many aims, from providing the forensic investigator with a financial picture of the subject, to seeking direct evidence of fraud, to identifying illicit funds, to mention a few.

Investigators need to take note that although the lifestyle audit can be a useful tool to identify illicit activity, it may never be used as conclusive proof of illicit activity, as there may be a perfectly reasonable explanation for what, on the face of it, appears to be an extravagant lifestyle.

2.14 Conclusion

It is evident to the researcher that the lifestyle audit is described in many different ways by various authors, and is sometimes termed a background investigation, lifestyle analysis, net worth analysis, offender profiling, suspect profiling, business intelligence, personal behavioural, or lifestyle profile. These definitions will mean different things to different forensic investigators, and may well lead to confusion regarding the actual process they should follow – and their deliverables. Regardless of this confusion, the literature reviewed does show that the authors agree that a lifestyle audit is a significant tool in white collar crime investigation, as it allows for the detection of fraud. The following section touches on the process followed by forensic investigators when conducting lifestyle audits.

CHAPTER 3

THE LIFESTYLE AUDIT PROCESS

3.1 Introduction

This chapter focuses on the lifestyle audit process. In particular, the following areas are discussed: the steps in the lifestyle audit process; the risks in conducting lifestyle audits; sources of information for the lifestyle audit, including, documentary and general sources; initiating the lifestyle audit process; and, the resources and tools required for the lifestyle audit.

According to Pasco (2009:57), a financial investigation involves the connection of a series of unrelated financial transactions that, when presented in total, provide a complete picture of an individual's financial activity over a set period of time. He compares it to a jigsaw puzzle: when sections of the puzzle are completed and joined together, the entire picture is revealed.

3.2 The Lifestyle Audit Process

According to the ACFE (2012:3.821), the net worth method is defined as the difference between assets and liabilities at a particular point in time.

Madinger and Zalopany (1999:149) state that the net worth method can be a valuable part of a criminal investigation. According to Coenen (2009:172), a person's change in net worth, plus the living expenses for the period, equal the funds required for the period. According to Jackson and Bekerian (1997:3), offender profiling can be regarded as a useful investigative tool for investigators. Offender profiling is considered to be an aid in investigations; therefore, there is a relationship between offender profiling and investigations.

Coenen (2009:171) agrees with Madinger and Zalopany, that the lifestyle analysis is similar to the net worth method, the latter being another way to connect the "dots" of someone's lifestyle, to make a circumstantial determination of hidden income. Pasco (2009:141) agrees with Coenen, in that the net worth is a complete listing of assets less liabilities, or, what one owns, less what one owes.

Bekerian and Levey (2005:53) believe that offender profiling is a method of collating various pieces of information and data about an offender, with the intention of establishing the most likely offender who committed the crime, and that the profiling of an offender is used to understand why and how the crime was committed.

As stated by Coenen (2009:171), *supra*, the process for the net worth analysis that can also be used for a lifestyle audit includes both public records and legitimately obtained private records. The fraud investigator assembles known purchases of real estate, automobiles, personal possessions, and other assets. Liabilities are tabulated as well, taking into account mortgages, personal loans, personal credit cards, and trade credit.

According to SARS spokesman Adrian Lackay (as quoted by Temkin, 2012), the taxman conducts audits on taxpayers, businesses trusts and individuals. Lackay goes on to say that the process has many stages, one of which is a lifestyle questionnaire which SARS requires a taxpayer to complete (Temkin, 2012). Lackay is also reported as saying the following (Temkin, 2012):

This questionnaire is used to judge whether the monthly living expenses are consistent with the taxpayer's declared income and assets in the name of the taxpayer. In the risk-profiling of individual taxpayers, SARS uses a variety of sources of information including third-party data and risk rules which assist in identifying potential discrepancies between income declared by taxpayers and the income and assets they are thought to have.

Should such a potential discrepancy be identified, a taxpayer is selected for audit (Temkin, 2012).

According to newspaper reports, the Hawks have previously approached banks and cell phone companies to request the records of suspects regarding lifestyle audits into their alleged questionable wealth. This lifestyle audit is part of a preliminary investigation handled by the Hawks, to determine whether they have a case against a suspect or not (Ngalwa & Malefane, 2011).

According to SAPA (2010), Deputy President Kgalema Motlanthe indicated that SARS conducted investigations of people who appeared to be living beyond their means. These investigations started on the basis of information obtained from various sources, including the SARS anti-corruption and fraud hotline, income tax returns submitted to SARS, and suspicious activity reports from members of the public. A lifestyle questionnaire is one method of obtaining information from a taxpayer, and together with other information sources, helps SARS in matching the lifestyle trends, income streams, and the asset base of a taxpayer, to what has been declared in an income tax return.

A lifestyle audit conducted by SARS can take an extended period to finalise, and can be exacerbated when financial records are not readily available to explain the increases in assets reflected by the taxpayer, or to address the nature of deposits received by the taxpayer in their bank accounts, satisfactorily (Croome, 2010:5).

The following section deals with the suggested steps in the lifestyle audit process.

3.3 The Steps in the Lifestyle Audit Process

Part of the lifestyle audit process is to compile a financial profile of the person under investigation. The ACFE (2012:3.823) suggests the following steps when building a financial profile of an individual:

- **Step 1** - Identify the subject's significant assets, e.g. cash on hand or anything else of value that can be converted into cash.
- **Step 2** – Identify all significant liabilities, e.g. any debt arising from an oral or written promise to pay.
- **Step 3** – Identify all income sources during the relevant time period. Income includes money or other things of value received in exchange for services or goods. Income is never included as an asset.
- **Step 4** - Identify all significant expenses incurred during the relevant period. An expense is any payment for consumables, for personal or business reasons, over the relevant time period. Expenses are not included as liabilities.
- **Step 5** – Analyse the information collected using the following chart:

Table 3.1 – ACFE Chart for analysing collected information

The Financial Profile²	
Typical Assets	For each significant asset, determine:
Residence, Jewellery, Real Estate, Clothing, Bank Accounts, Collectibles, Stocks and Bonds, Pensions, Automobiles, Home Furnishings, Insurance, Boats, Cash on Hand	<ul style="list-style-type: none"> • When was it acquired and from whom? • How much did it cost? • How was it paid for? • What source of funds was used to acquire it? • What documentation exists for the purchase and where is it?
Typical Liabilities	For each significant liability, determine:
Mortgages, Other Loans, Lines of Credit, Credit Cards, Instalment Purchases, Accounts Payable, Taxes and other Bills, Alimony and Child Support	<ul style="list-style-type: none"> • What was the original amount of the liability? • What is the present balance due? • When was the liability incurred? • What was the purpose for the loan or debt? • How were the proceeds used and where were they deposited? • What security, if any, was given for the debt? • What documentation exists for the transaction and where is it? • Was the debt written off as a bad loan for tax purposes? • Who was the creditor or lender?
Typical Sources of Funds	For each source of funds determine:
Salary, Gifts, Rental Income, Dividends, Interest, Sale of assets, Insurance Proceeds, Commissions and Fees, Awards, Inheritances, Disability Payments	<ul style="list-style-type: none"> • What was the total amount during a given period? • What was the source? • How was it paid for? • When was it deposited? • How was it spent? • What documentation exists and where is it?
Typical Expenditures	For each major expenditure item, determine:
Rent and Mortgage, Health Costs, Interest of Loans, Credit Cards, Car Payments, Travel	<ul style="list-style-type: none"> • What was the total amount spent? • How was it paid for? • Where were the funds obtained to pay the expense? • What documentation exists and where is it? • When was the payment made?

² Source: ACFE (2012:3.823).

The following section deals with the risks associated with conducting the lifestyle audit.

3.4 Risks in Conducting Lifestyle Audits

Kass-Shraibman and Sampath (2011:194) warn that background investigations are not all simple or foolproof, and suggest that investigators use multiple sources to verify information on a subject. The reasons for this are that online databases have limited coverage; human error may come into play, and jurisdictional coverage may vary.

According to Ratcliffe (2004:79), the starting point for intelligence gathering is normally to undertake some basic research to assimilate current knowledge of the target. This should include identifying operational sources of intelligence that are relevant. While the value of basic research may seem self-evident, the work is sometimes not done. It is common for investigators to launch into a 'scattergun' approach, which could be counterproductive (Ratcliffe, 2004:79).

Coenen (2009:92) warns that searches on the internet should not be limited to a person or company in question. Coenen advises the following (2009:92):

Search relatives, friends, neighbours, co-workers, and business associates who might provide clues about a suspect. Use alternative spellings of names in case the information was recorded with a misspelling. Be sure to find out whether a suspect has a maiden name or has otherwise changed her or his name legally or informally. Determine whether the person has a nickname or abbreviated name that should be searched. Look for variations in company names, from changes in spelling, to use of acronyms, to changes in legal name.

Golden et al. (2006:331) state that relying on any information found on the internet, without consideration of the source, is never advisable. While some laws regulate what can appear in certain commercial contexts, the public is, for the most part, able to post virtually anything it likes, though it may subsequently be called to account for libel, defamation, misappropriation, unfair dealing and more. In some cases, it may be necessary to conduct two investigations: one of the subject, and one into the sources providing information on the subject (Golden et al., 2006:331). The internet also

provides links to information vendors that can provide private records such as credit card statements, bank statements, telephone records, utility bills, academic transcripts, and tax returns (Golden et al., 2006:331). These records are generally private information, however, and if the vendor obtained them in an unlawful manner, customers may incur potential liability as an accomplice in, or abettor of, criminal activity.

The training guide by Deloitte (2002:32) states that there are certain problems that the forensic investigator faces which are intrinsic to the format of electronic information in the public domain. These problems include the fact that public records are not always accurate, complete, or up to date. It is, therefore, important that the investigator correctly interprets the information available, and compares the various sources of information (including information obtained by means other than electronic searches) before drawing conclusions on what is the most recent information.

According to Pasco (2009:20), because the evidence in financial crimes is preserved and maintained for long periods of time, and is usually kept by each of the persons involved in the transaction, it is less likely to deteriorate or be lost. However, he warns that it may still be destroyed or concealed, just as a violent criminal may try to destroy evidence. Also, although records are kept for a long time, the crime may not be discovered until after it has been on-going for a long time.

Further, fraud examiners should realise that, in most instances, bank records are not readily obtainable (ACFE, 2012:3.805).

According to Kass-Shraibman and Sampath (2011:195), when investigators find information they think will be relevant to their investigation, they need to trace it back to its source in order to verify its accuracy. Wherever possible, investigators should obtain the actual source document.

The following section deals with the various sources of information the forensic investigator may approach when conducting the lifestyle audit.

3.5 Sources of Information for the Lifestyle Audit

Without information, a fraud investigation goes nowhere. There are so many sources of information on people and companies, and as the internet continues to expand, so does the accessibility of the information. Doing a thorough fraud investigation often goes beyond just analysing documents. The best fraud investigators are able to go beyond these papers and computer files, find additional sources of information, and get legal access to this information. Finding this information is an art and it all starts with knowing what to look for (Coenen, 2009:73).

How Criminals Conceal Their Assets

It is important for investigators to understand how fraudsters conceal misappropriated funds or the assets acquired from their fraudulent activities. The training guide by Deloitte (2002:14) states further that the proceeds of crime are usually converted into assets, which are hidden. Rather than hoard the proceeds of their acts, subjects may spend lavishly on conspicuous items such as cars, homes, clothing and jewellery. This may also be the case with corrupt police officials.

According to the ACFE (2012:834-835), in addition to opening hidden bank accounts or purchasing real estate through a straw or front, a suspect may attempt to preserve his assets by transferring them to other parties or to accounts that might escape detection.

Ways in which suspects can hide assets include –

- Transferring assets to family members or parties under their control.
- Transferring assets to a children's or family trust from a personal estate.
- Repaying a significant portion of their home mortgage.
- Making additional payments to a life insurance policy that accrues.
- Prepaying credit card accounts.
- Purchasing savings bonds in their individual names, their spouses' maiden names, or their children's names.
- Purchasing cashiers' cheques and travellers' cheques in an attempt to reduce cash amounts.

More sophisticated suspects may also hide assets offshore in tax havens and secrecy jurisdictions (ACFE 2012:3.836). Investigators can take the following steps to identify off-shore assets:

- Review domestic bank accounts for transfers involving offshore accounts.
- Determine whether the suspect has personally travelled overseas.
- Attempt to locate the suspect's travel agency.

In the following two sections the researcher discusses the various sources of information available to investigators.

3.5.1 Documentary Sources of Information

According to Madinger and Zalopany (1999:275), people today leave tracks wherever they go – a trail of paper extending from birth to death. Much of this information is financial documentation of the things people buy, sell and own. In fact, there may be so much information, that simply managing the sheer volume of evidence becomes a problem.

The ACFE (2012:3:401) highlights that there is a surprisingly amount of information about both individuals and businesses that can be accessed without a legal order, such as information contained in public records. Public record information can be either information developed about the public, or information open to the public. Some of this information is maintained by agencies, and is available simply by asking for it, other information is restricted to law enforcement agencies, while still other information can only be accessed by means of court proceedings – such as a subpoena. Kass-Shraibman and Sampath (2011:180) agree with the ACFE in respect of public record searches during background investigations, stating that they are a key component to any forensic accounting investigation.

Numerous source documents may be helpful in building a profile of a suspect, and establishing a case to support the allegation of fraud (Hopwood et al., 250:2012). Several of these sources (e.g. social networking sites) are easily accessed, and provide helpful information that the suspect himself divulges. Although some sources are available to the general public, others are restricted to law enforcement.

According to Pasco (2009:63), documents make up the bulk of evidence in financial investigations, and are pieces of the jigsaw puzzle that result in completing the picture of the subject's financial activities. Hopwood (2012:249) agrees with Pasco, in that documents (including records in electronic format) are the most often used type of evidence in forensic investigations. These can include charts, graphs and other exhibits, files residing on hard drives, flash drives and servers. They can be in the form of paper (e.g. personnel files contained in a filing cabinet) or web pages (e.g. Facebook). In short, documents are representations of information about persons, places and things. Usually they provide circumstantial – not direct – evidence, and may be the only evidence available.

Coenen (2009:74) suggests further that sometimes copies of invoices, purchase orders, shipping documents, or other items from customers, can provide very important information to the investigator. Information coming from a third party can be particularly valuable when investigating an internal fraud, as documents in the possession of outside parties are less likely to be altered or manipulated.

According to Madinger and Zalopany (1999:312), every business with which the subject comes in contact is a potential source of documentary evidence. This contact may be direct or peripheral, but every single instance represents a chance to break into the paper trail the subject has left behind. Some of the sources which investigators should consider for obtaining documentary information include: hotels, airlines, travel agencies, car rental agents, car dealers, aircraft sales and leasing, boat dealers, mobile telephone companies, paging services, electricity and water utilities, insurance companies, entertainment companies and libraries.

Deloitte (2002:14) states that by examining information on file at the place of business, such as personal files, performance appraisals, company records, prior audit and investigative files, and financial disclosure statements, investigators can discover much about a subject. These internal sources can provide the framework to investigate further sources. Public information can also identify changes in a subject's assets or lifestyle.

Some of the documentary sources of information for investigators to consider listed by the ACFE (2012:3.401-3.409), include –

- **Municipal/Building Inspectors Office:** Building permits; building plans; building inspectors reports; legal descriptions of properties; amounts of rates and taxes paid on properties; and, names of current and former property owners.
- **Regulatory Agencies:** Applications for business licences; businesses seeking liquor licences; professionals – including chartered accountants, dentists, doctors, plumbers, electricians and optometrists; restaurants, bars and nightclubs; and, businesses operating under names other than the owners names.
- **Coroner:** Name and description of deceased persons; date of inquest; and, any property found on the deceased and the cause of death.
- **Court Records:** Details of civil cases; name changes; divorces; judgements.
- **Provincial Government:** Birth, death and marriage records.
- **Professional Associations and Licensing Boards:** Records on medical practitioners; social workers; attorneys; public or chartered accountants; real estate licences; notaries; law enforcement; fire fighters; security guards; stockbrokers; teachers; insurance agents; private investigators; travel agents; engineers, electricians and architects.
- **Land Register Office:** Documents pertaining to real estate transactions, including deeds, transfers, and mortgages of real estate, etc.; wills; and, transcripts of judgements.
- **Department of Labour:** Records on labour arbitrations, collective agreements and other labour records.
- **Civil Litigation Records:** Can be accessed at the court in which they were filed, or may be available online.
- **Bankruptcy Records:** Bankruptcy or liquidation filings are generally public records, and can be accessed on payment of a fee.
- **Other Regulatory Agencies:** Auto licences; transfers and sales of vehicles; driver's licences; health department; name changes; voter registrations; and, welfare agencies.
- **Chamber of Commerce:** The reputation of businesses and operators in an area.

- **Credit Card Records:** Information on expenditure, e.g. from MasterCard, Diners and Visa; these will usually require a subpoena or court order.
- **Stockbrokers:** Information on all client transactions, similar to banks; these will usually require a subpoena or court order.
- **Commercial Databases and Research Reference Services:** Education verification; professional licence verifications; national telephone identifier; names and addresses of neighbours; civil court records; business credit checks; corporate records; aircraft registrations; and, bankruptcy searches.
- **Directories:** Corporation records; company profiles; and, Who's who.

Madinger and Zalopany (1999:145) elaborate further on divorce records, stating that these are particularly good sources because both parties have to file both income and asset/liability statements.

Other documentary sources that the ACFE (2012:3.823) suggests that investigators make use of to determine a target's assets, liabilities, income and expenditure include the following: documents from financial sources; bank account records; mortgage and loan files; credit card records; tax returns; public records; business filings; real estate filings; and, court records.

According to SAPA (2010), SARS relies on data from a number of different sources when conducting a lifestyle audit. These include third party data from banks, insurance companies, the Deeds Office, the Master of the High Court's office, and eNaTIS (the National Transport Information System), including the media and the SARS anti-corruption hotline.

Given the above, the ACFE's (2012:3.805) description is in line with what SARS applies in practice, and emphasise that bank records are perhaps the single most important financial source available to a fraud examiner. Jordaan's (2007:29) discussion on sources correlate with that of the ACFE and SARS, in that bank account statements are a valuable and relevant source of circumstantial evidence in both criminal and civil law.

According to the ACFE (2012:3.806-3.816), these bank records can include the following: signature cards; negotiated cheques; deposit slips; wire transfers; telegraphic transfers; interbank transfers; savings accounts; certificates of deposit; bank ledgers; bank statements; saving account statements; bank drafts; cashiers' cheques; travellers' cheques; bank money orders; certified cheques; loans; line of credit or borrowing an overdraft; mortgage loan files; consumer or instalment loans; credit cards; bank collection department records; debit cards and automated teller machines; safe-deposit boxes; stock brokerage records; tax returns and related documents.

Deloitte (2002:41) is of the view that bank records are extremely important to any investigation in the uncovering or locating of assets. Tracing the flow of funds through bank records can provide information that may lead the investigator to the source of the funds, the destination of the funds, hidden sources, of income and hidden assets.

3.5.2 General Sources of Information

There are many other sources of information besides documents which investigators can rely on when conducting a lifestyle audit. These general sources of information are discussed in this section.

Ensor (2011) quotes the Police Minister Nathi Mthethwa in saying that the sources of information required for the lifestyle audit are varied, ranging from everyday interactions of officers of the law with the public, anonymous reports, the use of paid and unpaid informants from the criminal underworld, to law enforcement and security services' use of agents. In some cases, informants are offenders who supply information and evidence against other criminals, and who may have been former comrades of the criminals.

Temkin (2012) points out SARS may obtain information about non-disclosure of taxable income from various sources – for instance, a disgruntled employee, a recently divorced spouse, or media reports – which raise suspicion about a taxpayer.

Some general sources of information that the ACFE (2012:3.823) suggests that investigators make use of to determine a target's assets, liabilities, income and expenditure include –

- interviews
- the target himself
- associates

The ACFE (2012:3.803) suggests that investigators further consider the following sources of income when compiling a profile of a person under investigation: salaries, wages, business receipts; interests and dividends; sale of securities; rents and royalties; pensions, trusts, annuities, etc.; gifts (money, property, etc.); inheritances; loans; mortgages; sales of assets; municipal bond interest; insurance settlements; damages from legal actions; and, any other source of funds.

Further, Deloitte (2002:20) highlights the following sources that may provide valuable information when profiling individuals during a lifestyle audit (over and above those already mentioned by Madinger and Zalopany, *supra*), including –

- cards, e.g. telephone cards, ATM cards, gambling and garage cards.
- keys (could indicate safety deposit boxes, vehicles, etc.).
- photographs (could include family members).

3.5.2.1 Crime intelligence

Silverstone and Sheetz (2007:131) state that early intelligence gathering will pay great dividends as the investigation moves forward. By learning as much as possible about the suspect, investigators can more accurately plan for the resources and time demands of the investigation. Turner (2011:160) elaborates further and emphasises that success in investigations is not due to a single source. It entails assembling sufficient data to show that a given transaction is a sham, sometimes taking extensive effort; other times, it is merely a matter of confirming the source of recipient funds. What makes the process difficult, is not the information needed but the lack of a central source for the relevant data.

According to Ratcliffe (2004:26), in 1954 detectives in the UK were trained specifically to investigate certain types of crime. This was necessary, because the modern criminal used more intelligent methods and techniques to commit crime – they were “a far more intelligent type of crook”. To combat this, police had to use an equally intelligent

approach, and thus initiated the new crime intelligence section which had a dedicated team focused on gathering information about the activities of certain criminals regarded as potentially dangerous – including who their associates were, their habits, spheres of operation, and plans for future exploits.

Ratcliffe (2004:18) postulates that, historically and culturally, crime intelligence has been a development of the investigatory arm of law enforcement. Investigators have historically collected intelligence and controlled informants, and, largely, still do.

Crime intelligence is defined in section 1(vii) of the National Strategic Intelligence Act (1994), as intelligence used in the prevention of crime, or to conduct investigations and to prepare evidence for the purposes of law enforcement and the prosecution of offenders (South Africa, 1994).

Silverstone and Sheetz (2007:127) warn that intelligence gathering in the forensic investigation process should not be seen as a static process, and divides the intelligence gathering process into three parts:

- surveillance
- database searches
- trash collection

He highlights that the above are a starting point, and not an exhaustive list.

Zinn (2007:29) describes crime intelligence as “the product of information that has been taken from its raw state and processed, refined, verified and evaluated”. Osterburg and Ward (1997:151) explain that, if correctly administered and applied, crime intelligence, in the form of offender profiling, could serve as another useful tool in the hands of the investigator in solving crime.

3.5.2.2 Surveillance

Surveillance is another investigative technique as old as law enforcement (Madinger & Zalopany, 1999:279). According to Pasco (2009:86), the best-known method of surveillance is to physically follow and observe the subject while remaining undetected.

This can be applied at the beginning of an investigation, to establish the subject's routines and associates.

There are three basic types of surveillance (Lee, 2004:98, 99):

- Mobile – conducted either on foot or using a vehicle.
- Stationary: conducted from a fixed place.
- Electronic: conducted using technical listening equipment and cameras to keep subjects under surveillance.

According to Lee (2004:97), physical surveillance is the human act of secretly and continuously or periodically watching persons, vehicles, places and objects, to obtain information concerning the identities and activities of individuals.

According to Pasco (2009:45), surveillance of the subject can provide leads regarding the third parties who have financial dealings with the subject. These third parties (who are unrelated to the investigation, but who are doing business with the subject of the investigation) are a valuable resource in documenting an individual's transactions, as two or more parties almost always receive documentation for each financial transaction.

Surveillance can provide investigators with a wealth of general information in order to support lifestyle audits (Silverstone & Sheetz, 2007:128). This author suggests conducting covert surveillance of the suspect, the victim or the suspect's associates, to learn more about the case. Surveillance is likely to uncover such important information as (Silverstone & Sheetz, 2007:128) –

- banking or financial institutions.
- cars, boats, and other valuable assets.
- homes, buildings, and other real estate
- other associates or acquaintances with whom the investigator may wish to conduct later interviews.

Silverstone and Sheetz (2007:128) further highlight that the above assets may be visible to the naked eye, but can be invisible to the paper trail.

Various authors (Madinger & Zalopany, 1999:145; Pasco, 2009:45; Silverstone & Sheetz, 2007:128) confirm that physical surveillance should not be overlooked as a traditional investigation method, and can lead to the discovery of assets concealed in someone else's name, as well as the identification of informants.

3.5.2.3 Databases

According to the ACFE (2012:3.408), databases are a rapidly growing source of information which does not generally provide any more information than can be accessed from other sources. However, they have two distinct advantages: search speed and constant access.

Turner (2011:160) highlights that investigators should consider the following database searches during the investigation process:

- Law enforcement databases such as criminal history and conviction records.
- Database records from the financial sector, including loan accounts, past account history, related parties, etc.

Silverstone and Sheetz (2007:128) state that database searches are a wealth of information, providing useful information to forensic investigators conducting lifestyle audits:

We are a society that lives and breathes data. We create them, collect them and collate them. Whether using a debit card to purchase your groceries or renewing your driver licence, chances are very strong that some tiny piece of discreet data will be created and stored in a database somewhere. It is therefore natural for investigators to seek to tap into this wealth of personal information to try and piece together a picture of their target.

Silverstone and Sheetz (2007:128) define private data as that data to which access is restricted, and includes both commercial and government sources – for example, driver's licence information and credit reporting services such as Experian. Private databases are extremely powerful repositories of data as they contain a broad range of information.

3.5.2.4 Trash/garbage collection

According to Madinger and Zalopany (1999:280), trash covers are not one of the more pleasant jobs, but can be among the most productive. People do discard a lot of important stuff, much of which can be used in financial investigations. These include credit card slips, bank statements, cancelled cheques, repair bills, tax assessment records, and correspondence. A person's whole life basically gets discarded. Garbage collections are also known as "garbology" investigations (Kass-Shraibman & Sampath, 2011:180).

Silverstone and Sheetz (2007:130) highlight that this information source, the trash collection (also known as dustbin or garbage collection), is seldom discussed; and agrees with Madinger and Zalopany in that it can provide useful information to the forensic investigator when conducting lifestyle audits. The job is dirty, smelly, and can be degrading; however, the value that discarded trash can offer as an intelligence-gathering tool should not be overlooked. People routinely discard papers, receipts, and other personal items that while alone are meaningless, when considered together can offer a detailed picture of the suspect's activities.

3.5.2.5 Persons as a source of information

According to Daysh and Exley (2000:44), an individual's assets, liabilities and income expenses can be determined from a variety of sources, including –

- the subject himself (all personal information including name, surname, alias, race, gender, language, identity number, passport number, photo, outstanding physical traits, country of birth, birthdate, address, telephone numbers, occupation and address, marital status and details regarding next of kin).
- informants or sources.

Turner (2011:170) believes that persons such as a former employee, confidant or spouse, can be a tremendous source of information to the investigator, as they may be able to prove, disprove or validate both statements and documentation. Hopwood et al. (2012:251) take the approach that persons such as current co-workers, friends and acquaintances of the subject, can be helpful sources of information.

Madinger and Zalopany (1999:277) reflect that informers are a valuable and traditional source of information to investigators, which can be used to establish facts or refute defences. For example, a confidential informer who has bought drugs from the subject in the past can be asked about the records kept, any assets owned, and any banks the subject uses. These leads could save a lot of time and cut the risk of exposure which might accompany other methods. Other traditional sources of information highlighted by Madinger and Zalopany (1999:278) include undercover agents and interviews.

3.5.2.6 Social networking sites

According to Coenen (2009:91), social networking sites add to the volume of information available on the internet. Users have been known to create detailed profiles – which include information on friends, vital statistics, work, education history, and many other personal details. It is possible to see with whom these people have 'connected' on the various sites, which might provide the investigator with valuable information about business and personal relationships.

From the above discussion it can be seen that the investigator must first consider the nature of the information required, before selecting the sources to be used in collecting information for a lifestyle audit. There are various sources of information available to forensic investigators, including documentary evidence, surveillance, database searches, social networking sites and trash collection, among others.

The following section deals with how the forensic investigator would go about initiating the lifestyle audit.

3.6 Initiating the Lifestyle Audit

Kass-Shraibman and Sampath (2011:184) suggest that investigators should start to investigate the backgrounds of the most logical subjects first, and then expand the scope of their investigations to include less obvious subjects – if necessary. Obvious targets include individuals that have received significant sums of money.

Following a logical searching order by knowing where a subject currently resides and where he lived in the past, helps focus the searches in other areas, and ensures that

investigators are not missing relevant information because they failed to search all the right locations (Kass-Shraibman & Sampath, 2011:192).

According to Deloitte (2002:34), when profiling individuals, investigators need to start with those points of identity which give the subjects their individuality, and separate them from others with the same name or situation. This requires knowing the following details about a person:

- name – last, first, middle, variations and abbreviations
- identity number
- date of birth
- last known address
- telephone number(s)

Golden et al. (2006:331) state that much of this information can be found in audit documents, business cards, stationary, personal records, and conversations with people who know the subject.

As public records are maintained on a municipal, provincial or national level, the challenge for investigators is in knowing where to begin to search for information; the investigator must, furthermore, know something about the location or place(s) where the subject conducts his or her affairs. Property ownership may extend beyond the primary residence, and business transactions can occur anywhere (Deloitte, 2002:35).

It is, further, important that investigators verify the information that they already have at their disposal. This can be done by reviewing the personnel files of internal employees who are the subject of the investigation. Reading the subject's internal employment application, his resume and performance reviews, is a great starting point, and could yield useful clues that may factor into the investigation as it progresses (Kass-Shraibman & Sampath, 2011:192).

Before initiating the profiling of individuals, the following critical information is required (Deloitte, 2002:20):

Table 3.2: Critical information required when conducting a lifestyle audit

Category	Details	Category	Details
Personal Particulars	<ul style="list-style-type: none"> • Name and surname • Date and place of birth • Nationality • Identity number/passport number • Residential address • Postal address • Email address • Telephone numbers • Education • Hobbies • Criminal record • Insolvency records 	Business Relationships	<ul style="list-style-type: none"> • Business interests • Co-members • Partners • Fellow shareholding • Joint ventures • Lawyers • Accountants • Auditors • Bankers • Insurances • Stockbrokers
Professional Licences	<ul style="list-style-type: none"> • Medical • Dental • Insurance • Stockbrokers • Real estate • Lawyers • Chartered accountants • Gun permits • Driver's license 	Family Relationships	<ul style="list-style-type: none"> • Names • Maiden names • Dates and place of birth • Marriages of children • Addresses • Contact numbers • Occupation and business interests • Present personal intimate relationships
Employment History	<ul style="list-style-type: none"> • Current and past employment • Address • Contact numbers 	Financial Information	<ul style="list-style-type: none"> • Assets • Liabilities • Income • Expenses
Probate and Death Records	<ul style="list-style-type: none"> • Inheritances • Wills • Administrators • Guardians • Leads to beneficiaries 		

From the above discussion, it is seen that an important first step in any investigation is to identify the subject accurately. This information should include properly spelled first, middle and last names. The following section deals with the resources and tools that the forensic investigator requires in order to conduct the lifestyle audit.

3.7 The Resources and Tools Required for the Lifestyle Audit

Deloitte (2002:31) highlights that the internet and computer searches are powerful tools for gathering information on targeted subjects. Electronic searches provide an efficient, relatively inexpensive and speedy tool to establish basic information and link the subject to certain assets. If used correctly, such searches will add value to the

investigation by indicating to investigators where to direct their enquiries. For example, should a deeds search highlight that a suspect has a number of beachfront properties, the investigator will know that he will have to establish from the bank how the suspect purchased these properties, whether they have been mortgaged, and what the monthly repayments are; this will focus or direct the investigator in that direction. Some websites are freely accessible, while others are available for perusal only on subscription. In addition, public records and statutory information (such as the records held by the Deeds Office and the Registrar of Companies) are increasingly available in electronic format on a variety of websites.

Silverstone and Sheetz (2007:128) state that no discussion of database searches would be complete without a mention of the greatest public database in the world – the World Wide Web. Most people do not think of the Web as a database. The reality is that it is probably the most robust and wide-ranging database available. One may not be able to download a copy of a suspect's criminal history, or a copy of their driver's licence, but one can obtain an unprecedented amount of information at the click of a button.

Coenen (2009:92) points out that making the best use of records available on the internet means being aggressive in searching and seeking out information. Effectively using search engines is, itself, an art, and a fraud investigator should work on learning this art in order to find better, more useful search results.

3.8 Summary

From this literature review, it is seen that proceeds of crime can be converted into assets which can then be hidden. Rather than hoard the proceeds of their acts, subjects may spend lavishly on conspicuous items such as cars, homes, clothing and jewellery. The initial process of the lifestyle audit involves the identification of significant assets, liabilities, sources of income, as well as all significant expenses incurred.

The lifestyle audit process can include lifestyle audit questionnaires to gather information from subjects, as well as the securing of both public records and legitimately obtained private records.

There are numerous sources of information, both public and private, available to the forensic investigator when conducting a lifestyle audit. Documents make up the bulk of evidence in financial investigations, with bank records being the single most important financial source available to a fraud examiner. Other valuable sources of information can include crime intelligence, surveillance, databases, trash or garbage collections, persons and social networking sites.

It is seen further that forensic investigators face numerous risks when conducting lifestyle audits, ranging from the misspelling of names to the unlawful securing of information through third parties, and also inaccurate public records. The concern with these risks is that a picture of the subject may be formed that is not necessarily an accurate or complete reflection of the factual situation. For these reasons, forensic investigators should never rely solely on electronic searches to complete a profile on a subject, but should rather actively seek to enhance their knowledge of a subject through other means.

3.9 Conclusion

There are many sources of information available, and various processes, that forensic investigators can follow when conducting a lifestyle audit. The lifestyle audit can assist the forensic investigator in either exonerating a suspect, uncovering inappropriate income which has not been declared, or identifying hidden assets.

In the following chapter, the researcher focuses on the applied concept of the lifestyle audit, and how the lifestyle audit relates to white collar crime investigation.

CHAPTER 4

THE LIFESTYLE AUDIT

4.1 Introduction

This chapter focuses on the concept of the lifestyle audit and how the lifestyle audit relates to white collar crime investigation. Details about the respondents, as well as their responses to the questionnaire, are also elaborated on in this chapter. In particular, the following areas are discussed: the lifestyle audit, the aim or purpose thereof, the advantages of conducting a lifestyle audit during forensic investigations, the focus of the lifestyle audit, the implication of failing to conduct a lifestyle audit, the reliability thereof, as well as the value of the lifestyle audit to the forensic investigation process.

4.2 The Biographical Details of the Respondents

Below is a summary of the biographical details of the respondents. This biographical information is important, in order for the readers to understand the respondents and their unique backgrounds:

- **Age Group** – Nine (45%) of the respondents were aged between 40 and 45 years of age at the time of this study, with eight (40%) between the ages of 25 and 40. One (5%) was between the ages of 50 and 55, and the remaining two (10%) were between the ages of 55 and 60 years of age.
- **Qualification** – Ten (50%) of the respondents held university degrees and the other ten (50%) held diplomas relevant to their field of expertise (forensic investigation/investigation). Four (20%) held a further postgraduate degree.
- **Industry Type** – The respondents were employed in a number of private sector companies, as follows: six (30%) were employed with corporate companies, five (25%) in the financial services and legal/consulting fields, respectively, and the remaining four (20%) in the accounting/consulting environment.
- **Job Capacity** – Eleven (55%) of the respondents were in a management position; five (25%) were senior managers, one (5%) was a head of department, one (5%) was an investigator, one (5%) was a head of audit and compliance, and one (5%) was a senior detection consultant.

- **Years' Experience as Forensic Investigator** – Six (30%) of the respondents had between 20 and 30 years' experience as forensic investigators; of the balance, five (25%) had 15 to 20 years, five (25%) had 5 to 10 years', and four (20%) had 10 to 15 years' forensic investigative experience.
- **Years' Experience in White Collar Crime Investigation** – Six (30%) of the respondents had between 10 and 15 years' experience with white collar crime investigation; five (25%) had 20 to 30 years' experience, five (25%) had 5 to 10 years' and of the balance, four (20%) had 15 to 20 years' experience in white collar crime investigations.
- **Previous Law Enforcement Training** – Thirteen (65%) of the respondents had previously received law enforcement training.
- **Attended a Police Detective Training Course** – Of the thirteen (65%) of the respondents *supra* who had previously received law enforcement training, ten (50%) had attended a police detective training course, and nine (45%) received this training in the SAPS.

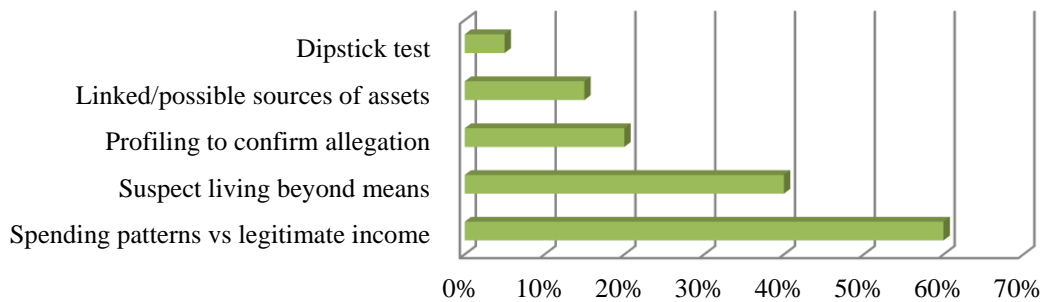
4.3 The Lifestyle Audit

This section deals with the lifestyle audit and the investigator's definition thereof. Powell (2011:4) describes lifestyle audits, stated *supra*, as a critical management tool to identify fraud. He describes a lifestyle audit as the term commonly used by forensic auditors and management in companies to describe the tests that are performed to determine if the lifestyle of an employee is commensurate with that person's known income stream.

The researcher asked the respondents for their definition of a lifestyle audit. This was important, to understand whether the respondents had comprehension of the definition of a lifestyle audit and the concept of a lifestyle audit, in terms of forensic investigation. Chart 4.1, below, sets out the respondents' understanding of a lifestyle audit³.

³ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 28 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 4.1 - Understanding of the term “lifestyle audit”



According to the sample, they understood the term ‘lifestyle audit’ as follows:

- Determining a person’s lifestyle and spending patterns in relation to their legitimate income (and expenditure, also called ‘financial or asset profiling’ or ‘net worth analysis’); understanding whether living expenses equate to lifestyle; anything from a credit bureau check to a full-blown suspect profile (12 out of 20 = 60%).
- Background checks on a subject to understand whether they are living beyond their financial means (8 out of 20 = 40%).
- Understanding the profile of the suspect in order to confirm whether they are linked to the allegations or not (that is, establishing a link between the suspect’s lifestyle before, during and after the crime) (4 out of 20 = 20%).
- The identification and evaluation of owned or linked assets, and the possible source of the assets (matching of assets and liabilities and the source thereof) (3 out of 20 = 15%).
- A dipstick test of a suspect’s financial profile (1 out of 20 = 5%).

The majority of the respondents' answers were consistent, and agreed broadly with the literature's definition of a lifestyle audit in sections 1.5.6, 2.9 and 5.2 (InvestorWords, 2011; QFinance, 2011; ACFE, 2012:3.821, 3.826; Powell, 2011:4; Turner, 2011:161; Kass-Shraibman & Sampath, 2011:180; Coenen, 2009:171, 172; Pasco, 2009:141; Van Rooyen, 2008:216; Bekerian & Levey, 2005:53; Madinger & Zalopany, 1999:127, 144, 149; Jackson & Bekerian, 1997:3).

The response of “establishing a link between the suspect’s lifestyle before, during and after the crime” (2 out of 20 = 10%) did not disagree outright with the definition offered by the literature by suggesting that the definition of a lifestyle audit was to link

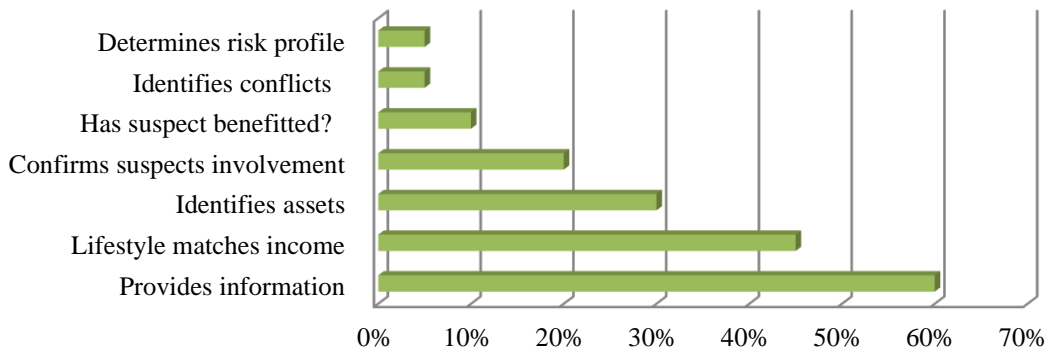
the suspect's lifestyle before, during and after the crime. These respondents may have a skewed or limited understanding of the definition of a lifestyle audit.

As can be seen from the above, the high frequency with which the respondents' answers correspond to the literature, is a strong indication that investigators do understand the meaning of a 'lifestyle audit' (*see* sections 1.5.6, 2.9 and 5.2).

4.4 The Aim or Purpose of the Lifestyle Audit

This section deals with the forensic investigators' understanding of the aim or purpose of the lifestyle audit. Chart 4.2, below, sets out the respondents' understanding of the aim or purpose of a lifestyle audit in white collar investigations.⁴

Chart 4.2 - The aim or purpose of a lifestyle audit



According to the sample they understood the aim or purpose of the lifestyle audit as follows:

- To provide the investigator with information on the suspect (that is, sources of income, associates, asset identification such as vehicles and properties, bank account information, vices such as gambling or prostitution, business relationships, company ownerships, previous convictions, etc., in order to identify red flags – for example, debt, assets, income, criminal records, trusts, etc.) (12 out of 20 = 60%).
- A test to understand whether the suspect's lifestyle is commensurate with their income (that is, to understand whether a suspect is receiving income that is not comparable to their income, and that will raise a red flag); to determine if a

⁴ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 35 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

suspect has other sources of income; to identify illicit income streams; to establish whether a person is enjoying the fruits of an illegal source; to understand the financial profile of a suspect; to determine whether a suspect has any undeclared income; to determine whether a person is living beyond their means; to understand the net worth of the subject) (9 out of 20 = 45%).

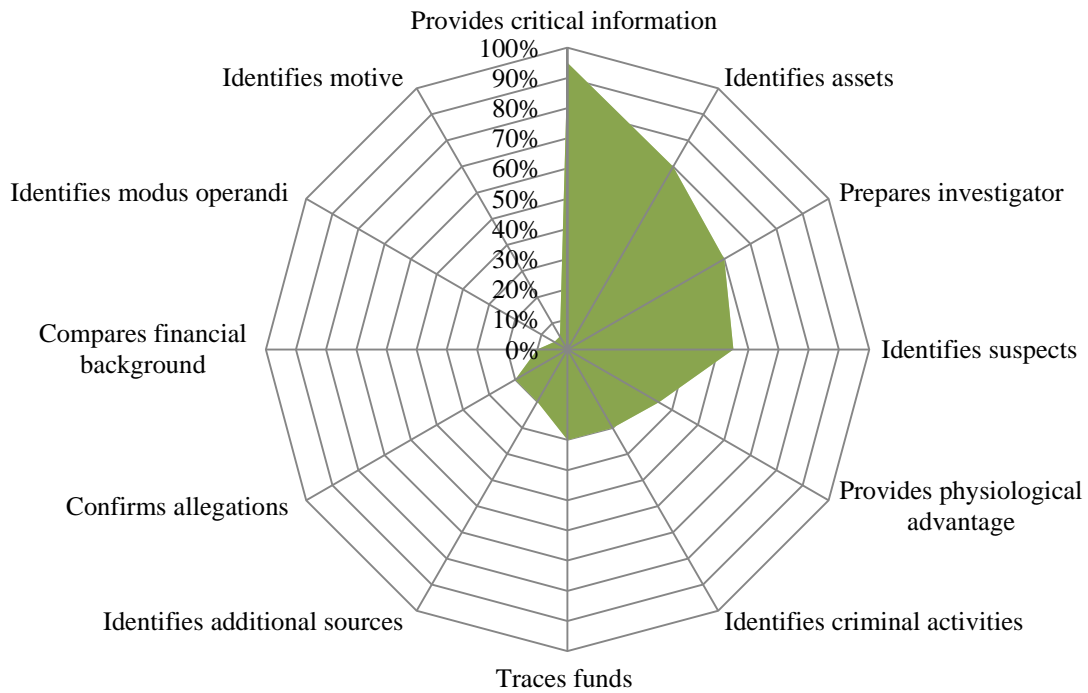
- To identify assets which are the proceeds of crime (that is, to understand whether a suspect's assets or income are out of proportion with income) (9 out of 20 = 45%).
- To provide evidence of whether a suspect is implicated in a crime or not (provides the investigator with an idea of the veracity of the allegations and an understanding of the extent of the fraud); to identify the motive for the crime (4 out of 20 = 20%).
- To understand whether the suspect has benefitted financially from a crime (that is, establish a link between the loss and the suspect's new found assets/lifestyle) (2 out of 20 = 10%).
- To identify any possible conflicts in competitive businesses (i.e. conflicts of interest) (1 out of 20 = 10%).
- To determine the risk profile of the subject (1 out of 20 = 10%).

The common thread running through the majority of the above responses is that the respondents understood that the aim or purpose of a lifestyle audit is the indicator of possible (undeclared) income or illicit income streams or proceeds of crime. All the responses provided above by the sample are consistent with the literature in this regard, mentioned in sections 2.10 (ACFE, 2012:2:834, 2:835, 3:836, 3.803, 3.823; Ensor, 2011; Kass-Shraibman & Sampath, 2011:184; Deloitte, 2002:12, 14; Madinger & Zalopany, 1999:121).

4.5 The Advantages of Conducting the Lifestyle Audit

This section deals with the advantages that the lifestyle audit provides to the forensic investigator when conducting white collar crime investigations. Chart 4.3, below, sets out the respondents' understanding of this⁵.

Chart 4.3 - The advantages of conducting a lifestyle audit on white collar crime suspects



The sample understood the advantages of conducting a lifestyle audit as follows:

- Provides the investigator with critical information on the suspect, including modus operandi, activities, family tree, relationships, criminal record, residential address, vices, spending patterns, demographics, marital status, job history, property history, cross-border movement, assets, lifestyle, clear indication of a suspect's income and expenses, builds a profile of a suspect in a fairly short period of time, etc. (19 out of 20 = 95%).
- Identifies misappropriated assets and the recovery thereof (including funds, bank accounts, properties, vehicles, jewellery, planes and yachts, via the Asset Forfeiture Unit (AFU) and Section 300) (14 out of 20 = 70%).

⁵ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 87 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

- Prepares the investigator for the next stages of the investigation by giving direction to the methods and techniques to be applied (such as the interview with the suspect, how to approach the suspect, what areas to focus on, where to look for evidence next, what questions to ask witnesses, etc.) (12 out of 20 = 60%).
- Identifies other role players or suspects involved in the crime (11 out of 20 = 55%).
- Provides the investigator with a psychological advantage during the investigation (places the suspect on the "back foot", in that they are unsure what the investigator knows; provides a basic physiological profile of the suspect) (6 out of 20 = 30%).
- Identifies other criminal activities (such as money laundering, corruption, fraud, etc.) (6 out of 20 = 30%).
- Assists the investigator in tracing the flow of funds ("follow the money" provides the investigator with evidence on the flow of funds, confirms the quantity of misappropriated funds) (6 out of 20 = 30%).
- Identifies additional information and sources (such as bank safety deposit boxes, bank accounts, telephone numbers, properties, witnesses, etc.) (4 out of 20 = 20%).
- Provides the investigator with an indication or confirmation of whether the allegations are accurate or not (that is, links the suspect to a crime by showing that the suspect benefitted from the offence) (3 out of 20 = 15%).
- Allows the investigator to compare the suspect's financial background with other persons earning similar income (2 out of 20 = 10%).
- Identifies the modus operandi and the means through which the offence was committed (that is, finance houses, banks, asset purchases) (1 out of 20 = 5%).
- Identifies the motive for the crime (1 out of 20 = 5%).

The vast majority of the responses provided by the sample (19 out of 20 = 95%) agreed with the literature, mentioned in sections 2.8 and 2.11 (Kass-Shraibman & Sampath, 2011:185; Powell, 2011:4; Ratcliffe, 2004:73; Deloitte, 2002:14; Madinger & Zalopany, 1999:121), in that the main advantage of conducting the lifestyle audit is to provide information to the investigator.

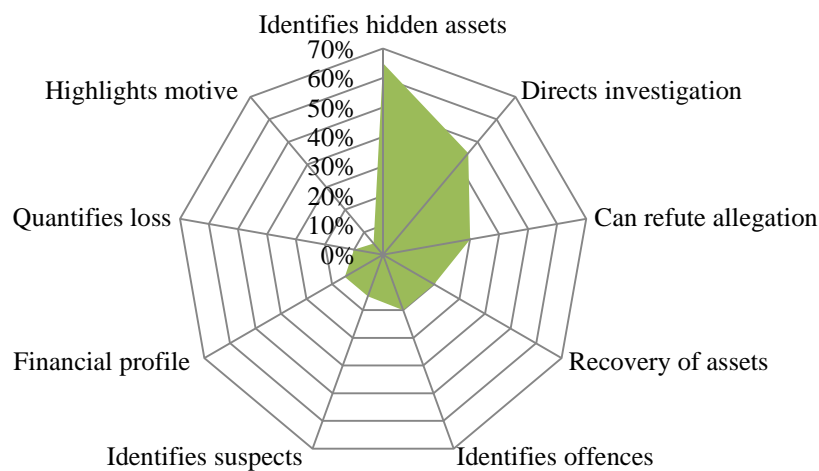
The balance of the responses provided by the respondents did not agree outright with the literature, but are not incorrect either. Although not explicitly stated in the literature, from the researcher’s experience all the above responses are relevant, in terms of the advantages of conducting a lifestyle audit.

It is important to highlight that in Section 4.4 *supra*, the respondents mentioned that the aim or purpose of the lifestyle audit was, among others, “to provide information and identify assets”; this correlates with the respondents' answers in this Section (4.5) in that the advantage in conducting a lifestyle audit is to provide the investigator with “information on the suspect and identify assets”.

4.6 Focus of the Lifestyle Audit

This section deals with the focus of the lifestyle audit. Chart 4.4, below, sets out the respondents' understanding of the focus of the lifestyle audit during white collar crime investigations.⁶

Chart 4.4 - Focus of the lifestyle audit during white collar crime investigations



According to the sample, the focus of the lifestyle audit during the forensic investigation allows the investigator to do the following:

- Identify and trace hidden assets/funds (proceeds of crime for recovery; focus on all unexplained assets and flow of funds where there is no legitimate income;

⁶ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 45 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

point attention of the investigation team in the right direction) (13 out of 20 = 65%).

- Provide direction on the next steps of the investigation (preparation for the suspect interview; determines the direction of the future investigation; highlight red flags as to where the investigation should focus; provide law enforcement officials working in parallel; provide an additional source of information for further probing) (9 out of 20 = 45%).
- Assist in proving or refuting the allegation (through admissible evidence; prove or confirm the allegations; may eliminate certain suspects; confirm whether the suspect is involved in the offence) (6 out of 20 = 30%).
- Recover misappropriated assets/funds (early preparation for possible court orders, search warrants or asset forfeiture orders) (4 out of 20 = 20%).
- Identify other offences (provides evidence on how the funds have been laundered, for example, money laundering offences) (4 out of 20 = 20%).
- Identify other suspects linked to the crime (or implicated in the crime and whether the investigation should focus on these) (3 out of 20 = 15%).
- Provides the investigator with a profile of the suspect (financial profile, what kind of person the investigator is possibly dealing with; provides a picture or snap shot of the suspect behind the crime) (3 out of 20 = 15%).
- Quantify the loss (2 out of 20 = 10%).
- Highlight the motive for the crime (1 out of 20 = 5%).

The main focus of a lifestyle audit appears to be to assist the investigator to identify hidden assets or the tracing of hidden assets (13 [65%] of the sample), and very little emphasis is based on collecting evidence. Nine (45%) of the sample believed that the focus of the lifestyle audit provides the investigator with direction on the next step(s) of the investigation, and four out of 20 (20%) believed that it allows the investigator to focus on the recovery of misappropriated assets/funds.

The researcher agrees with the majority of the responses from the sample, except for the response from six (30%) of the sample, that the lifestyle audit assists in proving or refuting the allegation. Here the researcher concurs with Powell (2011:4), namely that results of a lifestyle audit must be approached with caution, and are only an indicator or

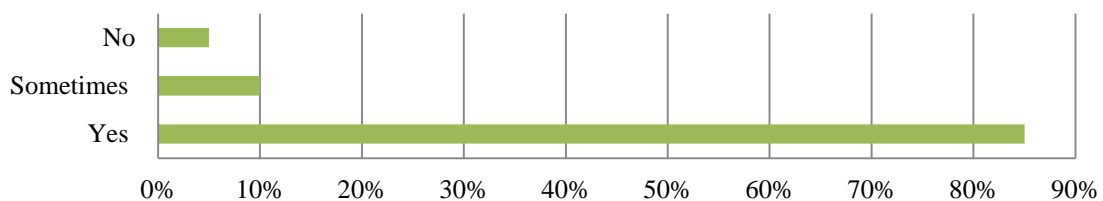
clue that something may be amiss, but can never, without further evidence, be regarded as conclusive proof of illicit activity.

It is important to highlight that in this section (4.6) the respondents mentioned that the results of the lifestyle audit, among others, allows the investigator to focus on “identifying assets”. This correlates with the responses provided by the respondents in section 4.3. Furthermore, the responses in this section (4.6) – “identifies assets”, "identifies suspects", "identifies offences", "provides direction to the investigation" and "highlights the motive”, also correlate with the responses provided by the respondents in section 4.4 *supra*.

4.7 The Importance of Conducting Lifestyle Audits during Forensic Investigations

This section deals with the importance of conducting lifestyle audits during forensic investigations. Chart 4.5, below, reflects the respondents’ understanding whether it is necessary to conduct lifestyle audits on all white collar crime suspects during a forensic investigation.

Chart 4.5 - Necessary to conduct lifestyle audit on all white collar crime suspects during a forensic investigation



Seventeen out of 20 (85%) of the sample believed that it is necessary to conduct lifestyle audits on all white collar crime suspects during a forensic investigation, as opposed to one out of 20 (5%) who disagreed. Two out of 20 (10%) felt that “sometimes” it would be necessary to conduct a lifestyle audit on these suspects. Based on practical experience, the researcher agrees with the vast majority of the respondents, in that it would be prudent to conduct a lifestyle audit on all white collar crime suspects during a forensic investigation.

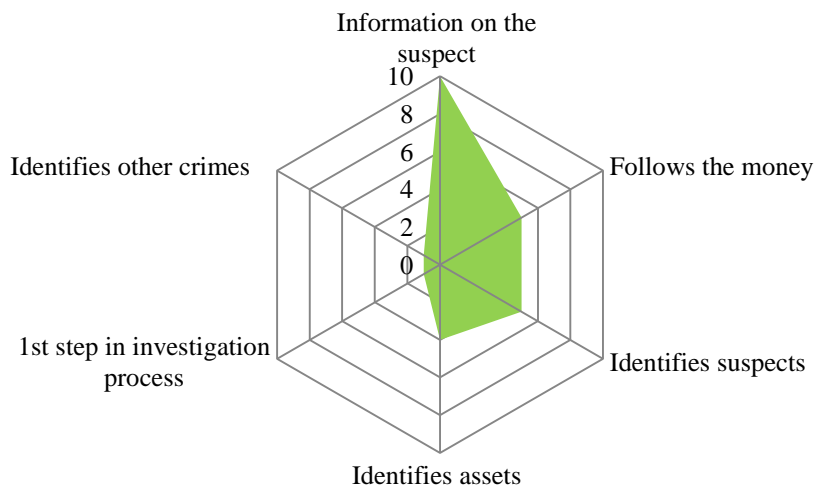
The researcher argues further, however, that in some cases the degree or intensity of the lifestyle audit may vary, depending on the type of allegations or severity of the crime.

This would mean that the forensic investigator would typically conduct a less intense lifestyle audit in the case of a small or innocuous fraud – for example, in the case of a stolen cheque for a small amount of money involving one suspect, as opposed to a much more intense and focused lifestyle audit in the case of a tender corruption investigation involving millions of rand and multiple suspects.

Some of the respondents (5%) may have felt that conducting a lifestyle audit on all white collar crime suspects during forensic investigations is a waste of time when dealing with a small fraud. This can be risky, however, as the lifestyle audit may uncover aspects of the suspect’s lifestyle of which the investigator is unaware.

Chart 4.6, below, sets out the 17 out of 20 respondents (who answered in the affirmative, above), as to why they felt it was necessary to conduct lifestyle audits on all white collar crime suspects during forensic investigations.⁷

Chart 4.6 - Why it is necessary to conduct lifestyle audits



According to the sample, it is believed necessary to conduct a lifestyle audit on all white collar crime suspects during a forensic investigation, for several reasons:

- It provides information on the suspect – i.e. it was necessary to conduct a lifestyle audit on all suspects, as the audit provides the investigator with information on the suspect. In order to understand the suspect better, or more

⁷ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 26 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

thoroughly, the investigating officer needs to perform a background check, to establish whether there are any red flags (or warning signs) in terms of both the proceeds of crime and understanding of the suspect's financial profile) (10 out of 17 = 59%).

- Follow the money (i.e. they felt that the reason was to “follow the money” or be able to trace the flow of misappropriated funds and how these funds have been dissipated) (5 out of 17 = 29%).
- Identify further assets (i.e. they felt that it was to assist the investigator to identify further assets or the proceeds of crime, as well as identify undeclared interests of the suspect) (4 out of 17 = 23%).
- Identify further suspects (i.e. as it is never clear at the offset whether a person is involved in an irregular transaction; the background check allows the investigator to gain an understanding of all potential subjects; can also be a process of elimination) (3 out of 17 = 18%).
- Establish the first step in the investigation process (it is one of the first steps in the preliminary phase of our corporate investigation methodology) (1 out of 17 = 6%).
- Identify other crimes (the ultimate reason is to understand whether there is a case for money laundering, if there is such legislation, and also bring in the tax authorities) (1 out of 17 = 6%).

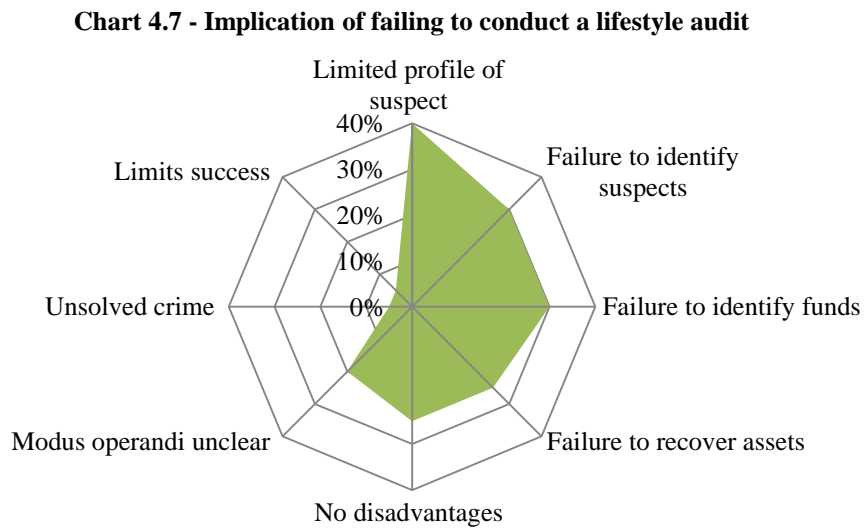
The researcher agrees with the sample, in that all of their responses are valid. The lifestyle audit will certainly provide information on the suspect, allow the investigator to follow the money, and identify further assets and suspects, as well as other crimes. The researcher also agrees with one of the respondents, in that the lifestyle audit is possibly the first step in the preliminary phase of any forensic investigation.

It is important to highlight in this section (4.7) that 17 (85%) of the respondents mentioned that it is necessary to conduct a lifestyle audit on all white collar crime suspects during a forensic investigation, as, among others, this “provides information on the suspect”. This correlates with the responses provided by the respondents in sections 4.4 and 4.5 *supra*. Furthermore, the response “identifies assets” correlates with the responses in sections 4.4, 4.5 and 4.6 *supra*. The responses “identifies suspects” and

"identifies other crimes" further correlates with the responses provided by the respondents in sections 4.5 and 4.6 *supra*. The response "follow the money" further correlates with the response "trace funds" provided by the respondents in section 4.5 *supra*.

4.8 Failing to Conduct a Lifestyle Audit

This section tests the investigators' understanding of the impact of failing to conduct a lifestyle audit during a forensic investigation, and the possible impact of this on an investigation. Chart 4.7, below, sets out the respondents' understanding of failing to conduct a lifestyle audit on a white collar crime suspect.⁸



The majority of the respondents felt that the implications of failing to conduct a lifestyle audit during a forensic investigation were as follows:

- Unable to build a comprehensive profile of the suspect (the forensic investigator will miss the big picture; limits the forensic investigators understanding of the suspect) (8 out of 20 = 40%).
- Failure to identify other suspects and perpetrators (6 out of 20 = 30%).
- Failure to identify the flow of funds (failure to identify all of the bank accounts involved in the crime) (6 out of 20 = 30%).
- Failure to recover misappropriated assets and funds (5 out of 20 = 25%).

⁸ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 36 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

- No disadvantages in conducting a lifestyle audit (5 out of 20 = 25%).
- Failure to establish the true modus operandi (4 out of 20 = 20%).
- Failure to solve the crime (1 out of 20 = 5%).
- Limits the success of the investigation (1 out of 20 = 5%).

These results are consistent with the researcher's own experience, that the implications of failing to conduct a lifestyle audit will certainly impact negatively on the forensic investigation, as the investigator will –

- be unable to build a comprehensive profile of the suspect.
- fail to identify other suspects and perpetrators.
- fail to identify the flow of funds.

Therefore, as a result, the investigator will –

- fail to recover misappropriated assets and funds.
- possibly fail to establish the true modus operandi.
- fail to solve the crime.

All of the above will, in turn, limit the success of the investigation. The researcher therefore agrees with all of the above and, specifically, with 25% of the respondents who stated that there are no real disadvantages in conducting a lifestyle audit during a forensic investigation.

Nevertheless, investigators always need to take into consideration the dangers in making incorrect deductions or assumptions regarding the subject of a lifestyle audit. Investigators need to always be aware of the fact that the suspect may be innocent, and be cautious of casting doubts on a suspect's credibility and integrity and the possible infringement of their right to privacy. Investigators need to be cognisant of the fact that the subject of the lifestyle audit may well be innocent, and the result of the lifestyle audit may exonerate the subject (Van Rooyen, 2008:96). (Refer to section 2.10).

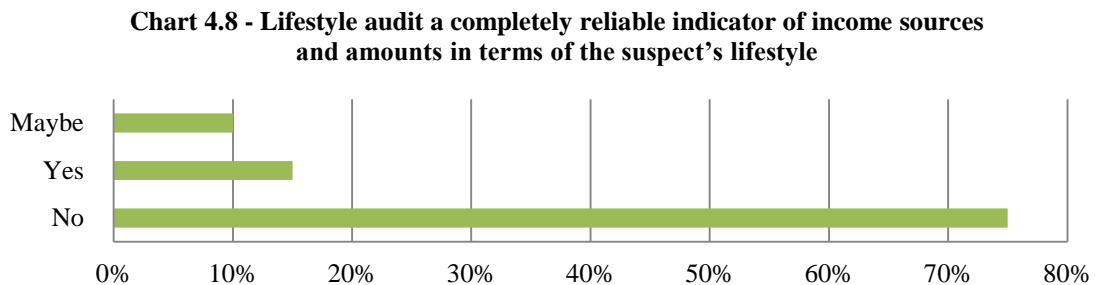
4.9 Reliability of the Lifestyle Audit

This section touches on the reliability of the lifestyle audit, and whether investigators believe that the lifestyle audit is a completely reliable indicator of income sources and

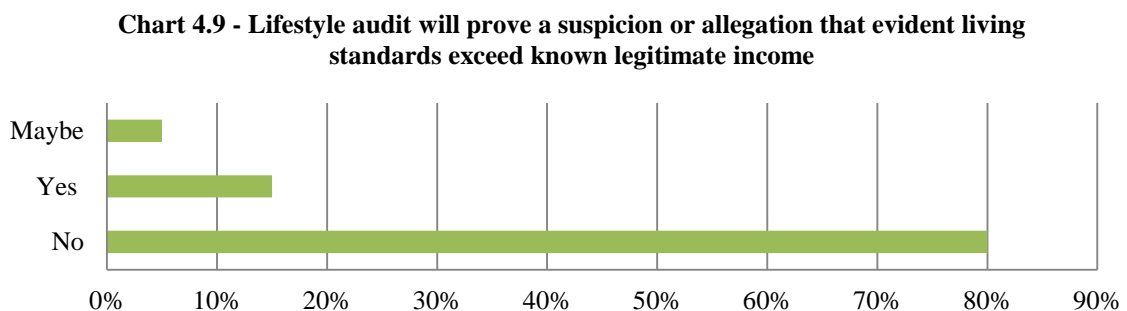
amounts, in terms of the suspect's lifestyle, and whether the results of a lifestyle audit alone prove a suspicion or allegation that evident living standards exceed known legitimate income.

The caution highlighted in Deloitte (2002:14) *supra*, that there are certain problems facing the investigator, inherent in information available in electronic format in the public domain, is especially applicable to this section.

Chart 4.8, below, reflects the respondents' understanding of whether the lifestyle audit is a completely reliable indicator of income sources and amounts, in terms of the suspect's lifestyle.



Fifteen of the 20 respondents (75%) agreed with the literature, in section 2.12 (ACFE, 2012:3.826, 3.823; Powell, 2011:4; Coenen, 2009:9), that a lifestyle audit is not a completely reliable indicator of income sources and amounts. Chart 4.9, below, reflects the respondents' understanding of whether the results of a lifestyle audit alone prove a suspicion or allegation that evident living standards exceed known legitimate income.



Sixteen of the 20 respondents (80%) agreed that the results of a lifestyle audit alone will not prove a suspicion or allegation that evident living standards exceed known legitimate income.

The researcher is concerned that –

- three (15%) of the respondents believe that a lifestyle audit is a completely reliable indicator of income sources and amounts, in terms of the suspect's lifestyle, two (10%) say it maybe, and further, that –
- three (15%) of the respondents believe that a lifestyle audit alone proves a suspicion or allegation that evident living standards exceed known legitimate income, one (5%) say it maybe.

This is in direct contrast with the findings of the literature, in section 2.12, which state that the lifestyle audit is not conclusive, but merely an indicator or a clue that something may be amiss, but can never, without further evidence, be regarded as conclusive proof of illicit activity (ACFE, 2012: 3.826, 3.823; Powell, 2011:4; Coenen, 2009:9).

These respondents may be placing too much reliance on the results of their lifestyle audits, without taking into consideration the possible legitimate reasons for an extravagant lifestyle – such as an inheritance, or a wealthy partner or family member providing financial support, which are not known to the investigator. In the researcher's opinion, and based on practical experience, the researcher agrees with the literature, in section 2.12, and with the fifteen (75%) respondents, that the overriding principle of the lifestyle audit is that it must be approached with the utmost caution (Powell, 2011:4; Coenen, 2009:9, 171).

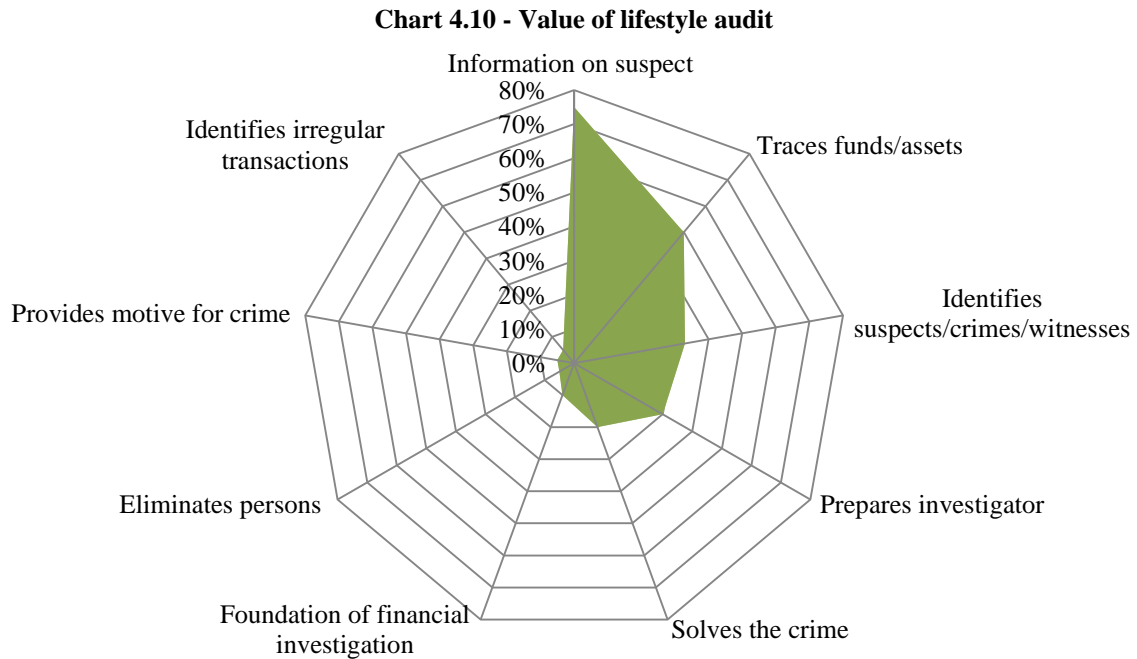
Possible reasons why some of the respondents answered as they did, may include the following – which are all discussed further in Chapter 4:

- Respondents not adequately trained on how to conduct a lifestyle audit.
- The various methodologies that are followed while conducting a lifestyle audit.
- The risks associated with conducting a lifestyle audit.

4.10 Value of the Lifestyle Audit

This section deals with understanding the value of a lifestyle audit to the forensic investigator during a forensic investigation, to compare any correlation with the claim of Powell (2011:4), that the lifestyle audit is a critical management tool to identify

fraud. Chart 4.10, below, reflects the respondents' understanding of the value of a lifestyle audit to the forensic investigator during a forensic investigation.⁹



According to the sample, they understood the value of conducting a lifestyle audit as follows:

- Provides invaluable information on the suspect to the investigator (e.g. on the suspect's background, financial lifestyle, modus operandi, how the suspect operates, and their patterns of operation – i.e. the acquaintances whom they meet with regularly, cars they drive, where they travel, clubs and bars they frequent, as well as spending patterns; provides confirmation of whether the suspect's lifestyle matches their income, shows the discrepancies in declared income, establishes associations between the suspect and assets, continuous updating of the suspect's profile) (15 out of 20 = 75%).
- Identifies and traces misappropriated funds and hidden assets (provides a basis for asset forfeiture and recovery of funds, critical in identifying the flow of funds) (10 out of 20 = 50%).
- Assists in the identification of additional suspects, crimes and witnesses to the crime (7 out of 20 = 35%).

⁹ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 47 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

- Prepares the investigator for the suspect interview/interrogation (provides the factual basis for an investigative interview); provides the investigator with an advantage over the suspect (in that he identifies the weak spots of the suspect) (6 out of 20 = 30%).
- Assists in solving the crime (critical in the successful resolution of white collar crime cases) (4 out of 20 = 20%).
- Provides for the foundation of a financial investigation (for example, the strength of the whole case is built on this; it is critical to supplement the financial analysis of a forensic investigation; it is complementary to all the other aspects of the investigation such as legal and accounting aspects) (2 out of 20 = 10%).
- Eliminates persons not associated with the crime (1 out of 20 = 5%).
- Provides evidence of the motive for the crime (1 out of 20 = 5%).
- Identifies specific irregular transactions (that are relevant to the offence under investigation) (1 out of 20 = 5%).
- Can assist in the identification of other crimes (such as money laundering, corruption, fraud) (1 out of 20 = 5%).

The answers provided by the participants, above, do agree with the literature in sections 2.9, 2.10 and 2.11 (ACFE, 2012:3.826, 3.823, 3.834, 3.835, 3.836; Ensor, 2011; Powell, 2011:4; Kass-Shraibman & Sampath, 2011:180, 184, 185; Coenen, 2009:171; Van Rooyen, 2008:216; Bekerian & Levey, 2005:53; Ratcliffe, 2004:73; Deloitte, 2002:12, 14, 19; Madinger & Zalopany, 1999:121, 149; Jackson & Bekerian, 1997:3).

Furthermore, the respondents' answers are consistent with the researcher's experience, in terms of the value that a lifestyle audit can add during a forensic investigation. The most significant being the following:

- It provides invaluable information on the suspect to the investigator (15 = 75%).
- It identifies and traces misappropriated funds and hidden assets (10 = 50%).
- It assists in the identifying of additional suspects, crimes and witnesses to the crime (7 = 35%).
- It prepares the investigator for the suspect interview/interrogation (6 = 30%).
- It assists in solving the crime (4 = 20%).

It is important to highlight that in this section, 4.10, the respondents mentioned that the value of the lifestyle audit to the forensic investigator is to “provide information on the suspect”; this correlates with the responses provided by the respondents in sections 4.4, 4.5 and 4.6 *supra*. Furthermore, the response “trace funds/assets” correlates with responses in sections 4.4, 4.5, 4.6 and 4.7 *supra*. The responses “identifies suspects” and “identifies other crimes” further correlates with the responses provided by the respondents in sections 4.5, 4.6 and 4.7 *supra*. The responses “prepares the investigator” and “provides motive for the crime” further correlates with the responses provided by the respondents in sections 4.5 and 4.6 *supra*. The response “eliminate persons” correlates with the response “can refute allegation” mentioned by the respondents in section 4.6 *supra*.

4.11 Summary

Although the term 'lifestyle audit' is a fairly new concept in forensic investigation, the majority of the respondents have a fairly accurate understanding of the definition – that is, determining a person’s lifestyle and spending patterns in relation to their legitimate income and expenditure – sometimes also termed “financial profiling” or “asset profile”.

The lifestyle audit has multiple aims and purposes, including –

- identifying assets which are the proceeds of crime.
- understanding the financial profile of a suspect, in terms of his legitimate declared income vs. his illicit income from crime.
- providing the investigator with information on the suspect.
- determining whether a suspect has any undeclared income.
- determining whether a person is living beyond their means.
- providing evidence of whether a suspect is involved in a crime.
- identifying red flags, e.g. debt, assets, income, criminal records, trusts, hidden assets, and undeclared income.

One sees that the main advantages of the lifestyle audit include providing the investigator with critical information on the suspect, preparing the investigator for the next stages of the investigation by giving direction, and identifying misappropriated

assets. Disadvantages of the lifestyle audit include the failure to identify other suspects and perpetrators, failure to identify the flow of funds, and failure to recover misappropriated assets.

Furthermore, the respondents confirmed that the lifestyle audits are –

- not a completely reliable indicator of income sources and amounts.
- alone unable to prove a suspicion or allegation that evident living standards exceed known legitimate ones.

In terms of the value of a lifestyle audit, they can –

- provide invaluable information to the investigator on the suspect.
- assist the investigator in the identification and tracing of misappropriated funds and hidden assets.
- assist in the identification of additional perpetrators/suspects.
- assist in solving the crime/critical in the successful resolution of white collar crime cases.
- prepare the investigator for the suspect interview/interrogation.

4.12 Conclusion

From this chapter it is clear that the lifestyle audit is a critical tool in the investigation of crime, as it provides investigators with vital information. The following chapter deals with the current best practices in performing lifestyle audits on white collar crime suspects, and the methodology used in conducting these lifestyle audits.

CHAPTER 5

THE LIFESTYLE AUDIT METHODOLOGY

5.1 Introduction

This chapter deals with the lifestyle audit methodology, and the following areas, in particular, are discussed: current methodology of the lifestyle audit, training on how to conduct a lifestyle audit, the lifestyle audit during the forensic investigation, when to commence a lifestyle audit, selecting a subject for the lifestyle audit, the lifestyle audit process, core elements of the methodology, duration to complete the a lifestyle audit, costs, when to terminate the lifestyle audit, red flags emerging from the lifestyle audit, key best practices, as well as the risks in conducting the lifestyle audit.

Chapter 5 further deals with the various sources of information that forensic investigators can consult when conducting a lifestyle audit on a white collar crime suspect. In particular, the following areas are discussed: the resources and tools required for the lifestyle audit, accessing information, various sources of information for the lifestyle audit, initiating the lifestyle audit, the value of sources of information to the lifestyle audit, as well as the information source to be approached first when conducting a lifestyle audit.

5.2 Methodology to Compile a Lifestyle Audit

According to Madinger and Zalopany (1999:144), law enforcement has, over the years, used several different indirect methods to prove income from criminal sources. The most common of these methods are the following:

- net worth
- source and application of funds
- bank deposits
- unit and volume

These methods combined, in itself assists to determine the elements of a lifestyle audit.

According to Coenen (2009:171), the lifestyle analysis is similar to the net worth method, in that both rely on very similar sets of numbers but approach them from

different directions. The net worth method is another way to connect the dots of someone's lifestyle, to make a circumstantial determination of hidden income. This method focuses on the known assets and liabilities of a person, and the changes in these assets and liabilities over time. Turner (2011:161) elaborates on net worth analysis being the most common of the accounting tools, consisting of an income and expense comparison, as well as a bank account deposit analysis, which compares the claimed activity with visible records and evaluates the relative value of the missing data, if any. Pasco's (2009:141) definition of a lifestyle audit is in agreement with those of Coenen and Turner, in that net worth is a complete listing of assets less liabilities, or what is owned, less what is owed.

The ACFE (2012:3.821) defines the net worth method as the difference between assets and liabilities at a particular point in time.

According to the ACFE (2012:3.826), the net worth method begins with the completion of a suspect's financial profile; through identification of a suspect's assets, liabilities, income and expenses, a net worth statement can be determined. Once completed, changes in the suspect's net worth can be compared to his known income, and differences can be inferred to be from unknown sources. The formula for the net worth method can be demonstrated as follows (ACFE, 2012:3827):

Assets
- Liabilities
= Net worth
- Prior year's net worth
= Net worth increase
+ Living expenses
= Income (or expenditures)
- Funds from known sources
= Funds from unknown sources

Madinger and Zalopany (1999:149) state that the net worth method can be a valuable part of a criminal investigation. It can be used in all situations, as when the subject has few assets, or when direct evidence of income is available. Madinger and Zalopany

(1999:127) state that net worth is what one has after one subtracts the liabilities from the assets. This is also known as “equity” or “capital.” The net worth method is devastatingly effective, though not always easy to perform. It also can’t be used in all situations. Simply put, it is $Assets - Liabilities = Equity$ (Madinger & Zalopany, 1999:144).

According to Coenen (2009:172), a person’s change in net worth, plus the living expenses for the period, equal the funds required for the period. If this number is larger than the known source(s) of money, then a hidden source of income probably exists. She points out that this is similar to the lifestyle analysis.

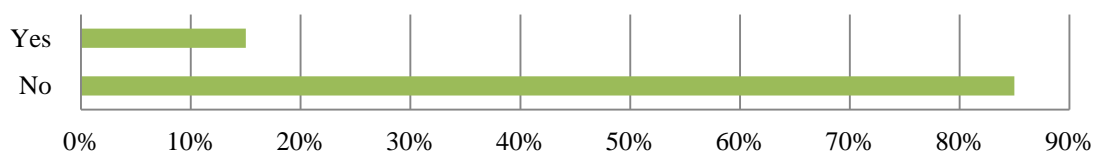
As stated *supra* by Powell (2011:4), a lifestyle audit is simply an amalgamation of reports, from a variety of databases. When a detailed lifestyle audit is performed on an employee implicated in fraudulent or corrupt activity, it is often also described as suspect profiling or business intelligence (Powell, 2011:4).

Powell (2011:4) goes further and explains that a lifestyle audit is the term commonly used by forensic auditors and management in companies to describe the tests that are performed to determine if the lifestyle of an employee is commensurate with that person’s known income stream. These can be a useful tool during fraud investigations when there is a suspicion of fraud, as the employer has detailed knowledge of the remuneration which they pay to the employee, but often management will only have rudimentary knowledge of the staff member’s lifestyle.

5.3 Training on how to conduct a Lifestyle Audit

This section touches on whether the respondents received any formal training on how to conduct a lifestyle audit, and also whether they routinely conduct lifestyle audits during forensic investigations. Chart 5.1, below, reflects the respondents who have/have not received training on how to conduct a lifestyle audit.

Chart 5.1 - Training on how to conduct a lifestyle audit



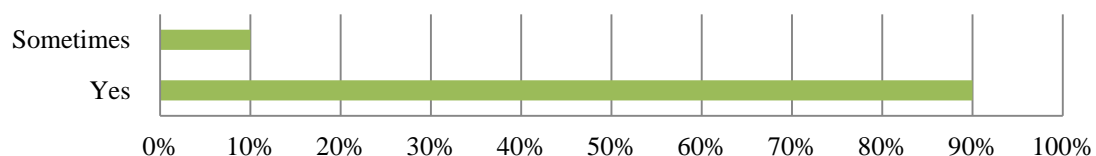
Seventeen out of 20 (85%) of the sample confirmed that they had received no training on how to conduct a lifestyle audit, as opposed to three out of 20 (15%) who were trained. This high percentage of investigators who had no training on how to conduct a lifestyle audit, may be due to the fact that a lifestyle audit is a fairly new concept in South Africa, and still in its infancy, resulting in limited training courses available. Added to this, the term 'lifestyle audit' can mean different things to different investigators, as seen in Chart 15 in Chapter 3, *supra*, and could range from –

- determining a person's lifestyle and spending patterns in relation to their legitimate income, to
- background checks on a subject to understand whether they are living beyond their financial means, to
- understanding the profile of the suspect in order to confirm whether they are linked to the allegations or not, to
- the evaluation of owned or linked assets and the possible source of the assets, or
- a dipstick test of a suspect's financial profile.

5.4 Lifestyle Audit during the Forensic Investigation

From the researcher's experience, lifestyle audits are conducted in each forensic investigation, and form the foundation of the investigation approach. The respondents were asked whether they conduct lifestyle audits during their forensic investigations. Chart 5.2, below, reflects the respondents who normally conduct lifestyle audits during forensic investigations.

Chart 5.2 - Conduct lifestyle audits during forensic investigations



Although the vast majority of the respondents, 17 out of 20 (85%), were not trained on how to conduct a lifestyle audit, 18 out of 20 (90%) confirmed that they, as a matter of course, normally conduct lifestyle audits during investigations, with two out of 20 (10%) stating that they “sometimes” conduct a lifestyle audit.

The researcher is concerned that although the vast majority of the sample (18 out of 20 (90%)) conduct lifestyle audits as a matter of routine during forensic investigations,

only a very small percentage of these (3 out of 20 (15%)) have had some sort of training of how to conduct a lifestyle audit. This could highlight a number of potential dangers, including the following:

- Forensic investigators are uncertain of the “how to”, or the proper process/methodology to follow when it comes to conducting lifestyle audits, and are uncertain when it comes to the most efficient process.
- They are not extracting the best results from the lifestyle audits that they are currently conducting, which could impact on the outcome(s) of their investigations.
- They are not identifying all assets/funds/suspects/witnesses/all other sources of data during these lifestyle audits, which could negatively affect the results and outcome of the investigation.
- They are possibly making incorrect deductions based on inaccurate or outdated information, which may adversely affect the outcome of their investigation.
- Reputational damage could be suffered, should they make decisions based on their inaccurate results.

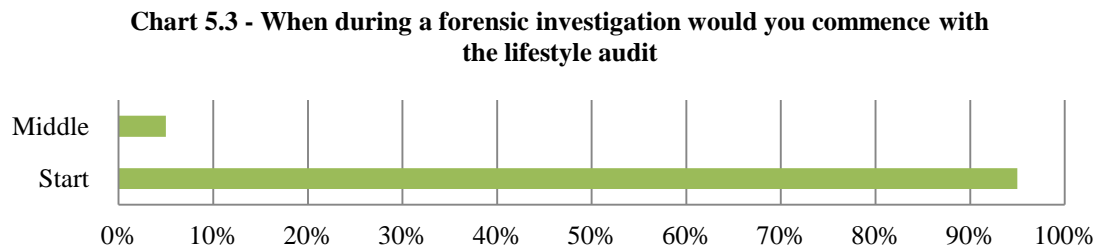
The researcher has identified, from this question, that there is a gap in respect of training for lifestyle audits on the part of the sample in this study, and this could expose the forensic investigators, as well as their clients, to risk.

5.5 When to Commence a Lifestyle Audit

This section deals with the timing of initiating the lifestyle audit during the forensic investigation process. The researcher is of the view that the timing of the lifestyle audit is critical to the success of the investigation. From experience, the sooner the investigator is able to glean information about the suspect's lifestyle/activities/whereabouts/assets, the better it is for the investigation, as this allows the investigator to plan ahead, and also prepares them for the next stages of the investigation. This is confirmed by Kass-Shraibman and Sampath (2011:185), who state that background investigations can point the forensic accountant in the direction of misappropriated funds and hidden assets that may be recovered. Locating assets hidden under the names of individuals and entities, can quickly help narrow the list of possible

fraud suspects by shining a spotlight on those who are living beyond their apparent financial means.

Chart 5.3, below, reflects the respondents' understanding regarding at what point during a forensic investigation the forensic investigator would commence with the lifestyle audit.



Nineteen out of 20 (95%) of the sample believed that the lifestyle audit should commence at the start of the investigation process as soon as the suspects identity is known, as opposed to one out of 20 (5%) who believed that the lifestyle audit should start in the middle of the investigation. The researcher agrees with the majority of the respondents, in that a lifestyle audit needs to start at the outset of the investigation (that is, as soon as the suspect's identity is known).

The researcher found it hard to understand why one respondent (5%) felt that the lifestyle audit should commence during the middle of the forensic investigation as, from experience, performing the lifestyle audit is seen as the foundation of the investigation process. The question to be asked is how this investigator knows when the middle of the investigation has been reached, for them to commence with the lifestyle audit. The researcher surmises that possible delay in performing the lifestyle audit could be as a result of the following:

- The investigator does not have the data needed to commence with, or initiate, the lifestyle audit; that is, the ID number or full names of the suspect may be unknown at the start of the investigation, which could delay the lifestyle audit.
- The investigator may see fit to first perform other investigative steps which are felt to be more important than the lifestyle audit; these steps could include the recording of affidavits or statements from a crucial witness, or securing electronic evidence from a computer hard drive and/or interviewing witnesses.

- The investigator may place little value on the lifestyle audit as an investigative tool, and does not believe that it will add much value to the investigation.

The above may be credible reasons for the investigator to delay commencement of the lifestyle audit, but yet not be reason enough to discard the benefits of conducting the lifestyle audit at the beginning of the investigation, if at all possible.

5.6 Selecting a Subject for the Lifestyle Audit

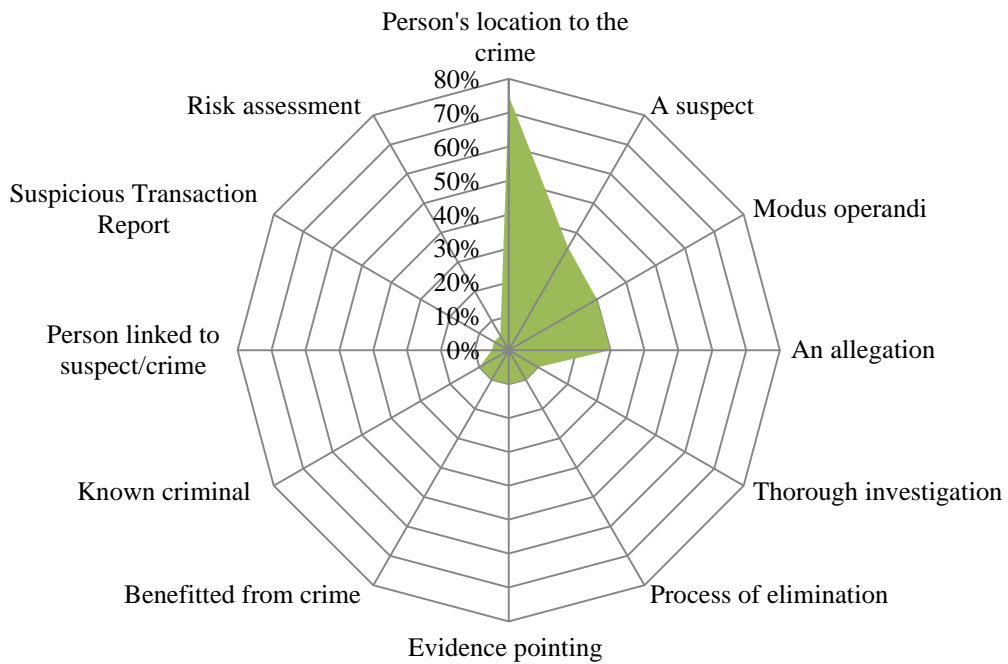
Kass-Shraibman and Sampath (2011:184) suggest that investigators should keep in mind the fraud triangle – motive, opportunity and rationalisation, when identifying subjects for a background check. An example of motive could be an employee who has encountered some type of financial hardship (a spouse who has lost a job, or has gambling debts, for example). The 'opportunity' part could be weak controls at the place of business, which could allow one person to process payments without detection. The 'rationalisation' angle could be that the fraudster believes he is entitled to the funds he is misappropriating because he is underpaid, or, that he will eventually repay these funds.

This section deals with how investigators select a subject for a lifestyle audit, including when the lifestyle audit is performed as part of a forensic investigation, as well as when a formal charge has been brought against the person, or when a subject's lifestyle gives reasonable grounds for suspicion that they have a sustained living beyond their financial means.

The sample was asked how they select a subject for a lifestyle audit. Chart 5.4, below, reflects the views of the respondents as to how they select a subject for a lifestyle audit.¹⁰

¹⁰ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 47 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 5.4 - How to select a subject for a lifestyle audit



According to the sample, they would select a subject for a lifestyle audit as follows:

- Persons working in the area where the crime was committed – that is, in close proximity to where the crime was committed (high risk areas within the company where a fraud has occurred or who has access to the systems that were used in perpetrating the crime, or through a process of identification; a person with opportunity to commit the fraud) (15 out of 20 = 75%).
- A person identified as a suspect by a witness (person who has been named by an informer, whistle-blower or through a tip-off) (7 out of 20 = 35%).
- From the modus operandi of the crime (that is, the method or way in which the offender has committed the crime) (6 out of 20 = 30%).
- An allegation linking a person to the crime (persons linked to/or implicated in a crime) (6 out of 20 = 30%).
- By conducting a thorough investigation (during the course of the investigation the suspect would be identified) (2 out of 20 = 10%).
- Through a process of elimination – that is, by working through all possible scenarios of who could have been involved in the crime, and then selecting the most likely candidate (2 out of 20 = 10%).

- Evidence pointing to a person (red flags would point to who the most likely suspects are) (2 out of 20 = 10%).
- Person who has possibly benefitted from the crime (a suspect living above their means) (2 out of 20 = 10%).
- Person who has committed a crime (or suspected of having committed a crime) (2 out of 20 = 10%).
- Person linked to a suspect implicated in the crime (such as a spouse, family member, or close business associate) (1 out of 20 = 5%).
- Through a Suspicious Transaction Report (STR) received from a financial institution (1 out of 20 = 5%).
- By conducting a risk assessment (1 out of 20 = 5%).

Once again, there is a limited amount of literature on how investigators select a subject for a lifestyle audit. According to the responses from the sample, the vast majority (75%) of the respondents would select a person working in the area where the crime was committed. This would include persons working in high-risk areas within the company where a fraud has occurred – for example, bank tellers, procurement officers, or persons in the finance department of a company who have access to, let's say, processing Electronic Fund Transfers (EFTs).

The rationale is that these employees would, in general, have easy access to systems, in order to manipulate financial transactions in a fraudulent manner. A more “blanket approach” would be used if a specific suspect had not as yet been identified. In these cases, the forensic investigator may have to conduct lifestyle audits on all the staff in a particular department, in order to identify key suspects through a process of elimination.

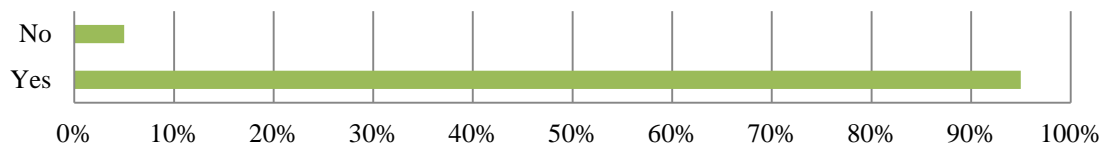
One of the respondents (5%) agreed with the way SARS selects a subject by means of risk profiling or a risk assessment (Temkin, 2011). The balance of the answers provided by the respondents is not incorrect, as, in the researcher’s opinion, each reason provided by the respondents would justify an investigator conducting a lifestyle audit on such a person.

5.7 The Lifestyle Audit Process used by the Respondents

According to Ratcliffe (2004:26), the intelligence process is also part of “designed for action”. The tools of intelligence can be described as a cyclical process involving collection of information, its evaluation, the development of the initial findings, analysis of those findings, dissemination to those who need to know, and action leading back to further collection plans. This section deals with the actual process followed by forensic investigators when they conduct a lifestyle audit.

Chart 5.5, below, reflects whether the respondents apply a defined methodology when conducting a lifestyle audit.

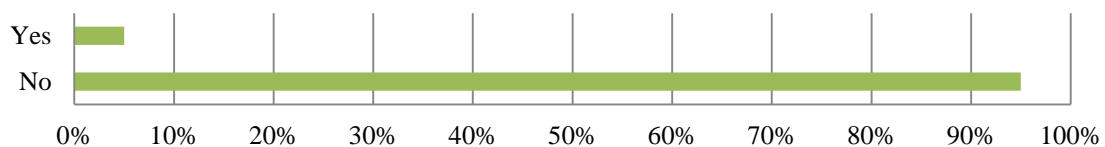
Chart 5.5 - Apply a defined methodology when conducting lifestyle audit



Nineteen out of 20 (95%) of the sample do apply a defined methodology when conducting a lifestyle audit, as opposed to one out of 20 (5%) who do not have a defined methodology.

Chart 5.6, below, reflects whether the respondents have the above methodology or procedure documented or not.

Chart 5.6 - Lifestyle audit methodology or procedure documented



Ninety-five percent (95%) of the respondents have no documented methodology or procedure in place, as opposed to five percent (5%) who do have a documented methodology or procedure.

From the above it is clear that the large percentage of forensic investigators, 19 out of 20 (95%), do have a defined methodology for conducting a lifestyle audit; however, only one out of 20 (5%) has documented this methodology or process. Some of the

possible reasons why such a high number of forensic investigators have no clear documented methodology for conducting a lifestyle audit, may be that –

- the process exists only in their heads, and they have failed to document this on paper.
- they do not believe that the process is important or critical enough to document.
- they do not believe that the process is elaborate enough to have to document it.
- they do not understand the process well enough.

As seen in section 5.3 *supra*, 17 out of 20 (85%) of the sample confirmed that they had received no training on how to conduct a lifestyle audit, as opposed to three out of 20 (15%) who had been trained. This may be a contributing factor towards why the respondents do not follow a defined methodology or documented standard operating procedure when conducting lifestyle audits.

The researcher is of the view that the inherent dangers in an undocumented methodology are that investigators –

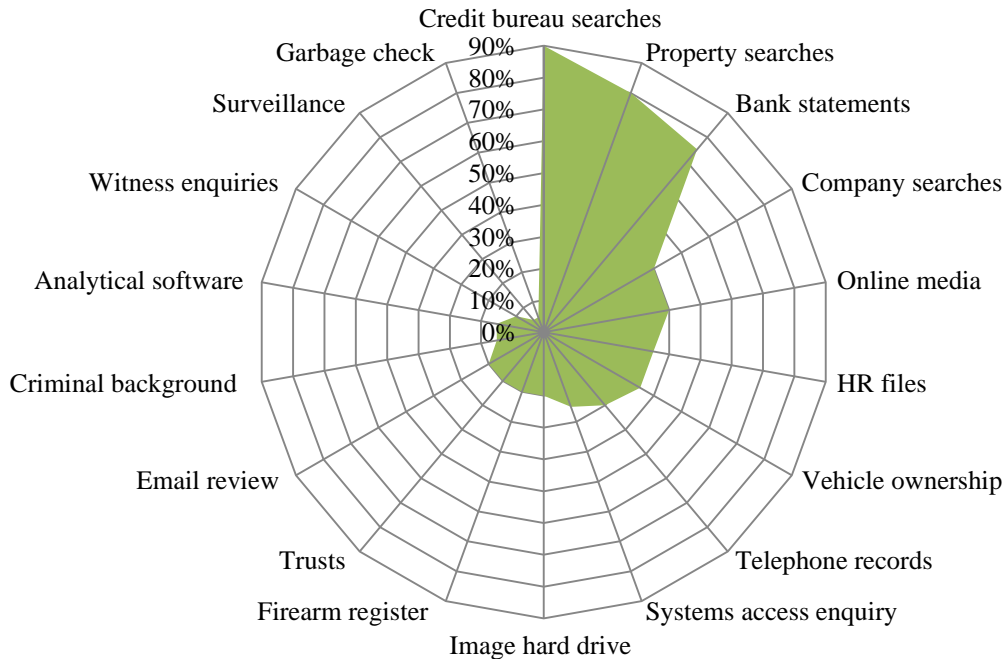
- do not follow a defined process when conducting the lifestyle audit, and, as a result, they miss critical steps or phases.
- miss critical data that could assist them in identifying additional suspects, other crimes, additional witnesses, or assets or the flow of funds.
- do not follow the chain of evidence when securing evidence during the lifestyle audit.
- fail to collect critical information on the suspect(s), which leaves them with a poor snapshot of the suspect's true profile.
- find that there are inconsistencies in the data emerging from the lifestyle audit.

5.8 Core Elements of the Lifestyle Audit Methodology

This section deals with the core elements of the lifestyle audit methodology – that is, what steps the investigators follow when conducting the lifestyle audit process. Chart 5.7, below, reflects the core elements of this lifestyle audit methodology.¹¹

¹¹ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 116 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 5.7 - Core elements of the methodology



According to the sample, they described the core elements of their lifestyle audit methodology as follows:

- Credit bureau searches (ID number search through credit bureaus such as Transunion ITC and Credit Inform) (18 out of 20 = 90%).
- Property searches (on DeedsWeb or Companies and Intellectual Property Commission [CIPC] website) (16 out of 20 = 80%).
- Secure bank statements with the assistance of authorised investigators – for example, SAPS investigators (via a Section 205 subpoena under the Criminal Procedure Act, and approaching financial institutes for information on the suspect) (15 out of 20 = 75%).
- Company searches (link or director link searches at CIPC) (8 out of 20 = 40%).
- Online media searches (i.e. on the topic, via Google, AltaVista, etc.; searches on social networking sites such as Facebook, LinkedIn, Twitter, MySpace' viewing suspect properties on Google maps) (8 out of 20 = 40%).
- Review of HR files or company staff records (7 out of 20 = 35%).
- Vehicle ownership searches (with the assistance of authorised investigators – for example SAPS investigators) on National Traffic Information System (NATIS) (7 out of 20 = 35%).

- Telephone records, including mobile phone records, secure mobile phone records (with the assistance of authorised investigators – for example, SAPS investigators) with a Section 205 subpoena and review, secure telephone records of the suspect (landline and internal line in the company) (6 out of 20 = 30%).
- Systems access enquiries (i.e. enquiries with the suspect's IT department to determine systems access or to release funds on various systems such as SAP [Systems Applications and Products] – an enterprise software solution, or AccPac – a small- and medium-size business accounting software) (5 out of 20 = 25%).
- Image and analysis of PC hard drive (that is, secure legally, and in terms of the chain of evidence, make an exact copy of the suspect's hard drive for analysis) (5 out of 20 = 20%).
- Firearm register check, with the assistance of authorised investigators – for example, SAPS investigators (5 out of 20 = 20%).
- Trust searches at the Master's Office of the courts (that is, make enquiries at the Master's Office for deed of trusts, trustees etc.) (5 out of 20 = 20%).
- Email review of the subject's .pst file (secure emails from the suspect's server [pst. File] for review and analysis, or live monitoring of the suspect's emails through the server) (5 out of 20 = 20%).
- Criminal background check (through SAPS Criminal Record Centre [CRC], and only with the subject's consent) (3 out of 20 = 15%).
- Use of analytical software (i.e. draft graphical depiction of the established relationships using software such as i2 Analyst Notebook¹², an assisted analysis and visualisation software package, or mind map charts, creating a timeline of events, linking dates of events that are more than circumstantial) (3 out of 20 = 15%).
- Witness enquiries (that is, network enquiries, making enquiries with informal contacts, conducting enquiries with the suspects direct line manager or superior for information) (2 out of 20 = 10%).
- Surveillance (that is, a physical visit of the suspect's address for surveillance, photographs and video recordings) (1 out of 20 = 5%).

¹² i2 Analyst Notebook - visual intelligence and investigative analysis software for military intelligence, law enforcement and commercial agencies.

- Garbage check (that is, secure the dustbin bags of the subject and review the contents of these bags for evidence – such as utility bills, credit card slips, invoices) (1 out of 20 = 5%).

From the literature reviewed in sections 3.2 and 3.3, *supra*, a number of approaches to conducting lifestyle audits can be seen, such as the following:

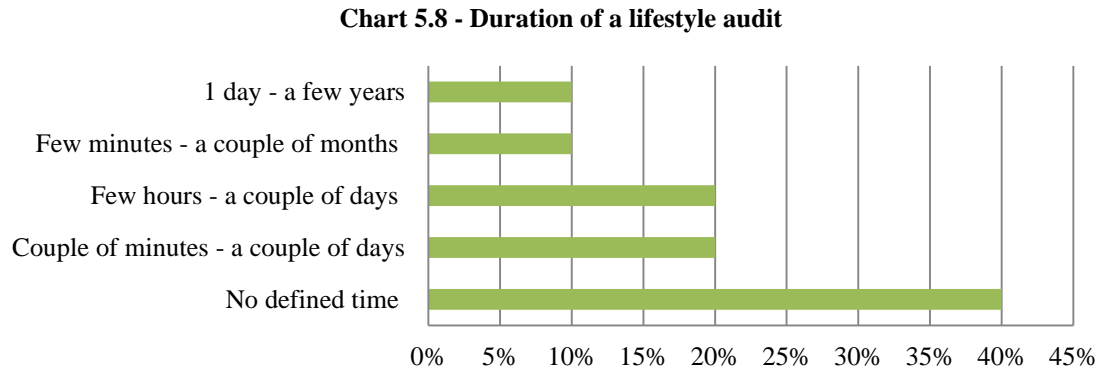
- SARS conducts a lifestyle questionnaire which would be initiated from a tip-off from the SARS anti-corruption and fraud hotline, income tax returns a taxpayer submitted to SARS, or a suspicious activity report from members of the public (Temkin, 2012).
- The Directorate for Priority Crime Investigations (Hawks) approaching banks and cell phone companies to request the records for analysis as part of their preliminary investigation methodology (Ngalwa & Malefane, 2011).
- The ACFE (2012:3.823) has five main steps, including identifying the subject's significant assets, identifying all major liabilities, identifying all sources of income, identifying all significant expenses incurred, and creating a personal behavioural or lifestyle profile.

Although different in approach, all three of the above methodologies relate to identifying assets of the subjects. Fifteen (75%) of the sample agreed with the literature in sections 3.2 and 3.5.1, in terms of securing bank statements or bank records as part of their core methodology when conducting the lifestyle audit (Ngalwa & Malefane, 2011; ACFE, 2012:3.401-3.409, 2012:3.823, 3.805, 3.806-3.816; SAPA, 2010; Jordaan, 2007:29; Deloitte, 2002:41).

The balance of the answers provided by the sample is also relevant to the core methodology of a lifestyle audit. The most significant is that 18 (90%) of the respondents felt that credit bureau searches were critical to glean more information about the subject, followed by property searches (16 = 80%). The researcher agrees with the bulk of the respondents, in terms of the starting point of the lifestyle audit being with the credit bureau searches, as this can be one of the most valuable sources of information on the target, and can provide invaluable information on other links to companies and other assets.

5.9 Duration of Time to Complete a Lifestyle Audit

This section touches on the duration of time to complete the lifestyle audit during a forensic investigation. Chart 5.8, below, reflects the respondent's view on how long a lifestyle audit usually takes to complete.



According to the sample, it takes the following amount of time to complete a lifestyle audit:

- No defined time (it is an ongoing process, so it is never really complete); depending on the extent of the criminal activities, initially could take up to a day, especially if searches are offshore, such as Dun and Bradstreet, then up to a couple of weeks; all depends on the type of checks and how easy it is to get hold of the information; will all depend on how much information can be accessed immediately, as opposed to how much information has to be waited for, via a Section 205 subpoena) (8 out of 20 = 40%).
- A couple of minutes to a couple of days (depending on the complexity of the case, less than a day to complete) (4 out of 20 = 20%).
- A few hours to a couple of days (depending on the complexity of the case) (4 out of 20 = 20%).
- A few minutes to a couple of months (spanning the length of the investigation; an investigation is on-going, and so a lifestyle audit all depends on how sophisticated the suspect is in disguising his assets – for example, the King and SARS case; high-flying white collar criminals have extensive assets, and it can take months to unravel these) (2 out of 20 = 10%).
- Between 1 day and a few years (it all depends on how large the investigation is) (2 out of 20 = 10%).

According to the sample, eight (40%) believe that there is no defined time when it comes to completing a lifestyle audit, as it is an ongoing process, and it takes time to access information, especially when there are offshore jurisdictions involved. This statement agrees with the limited literature reviewed in section 3.2 (Croome, 2010), in that the audit can, unfortunately, take an extended period to finalise, and is exacerbated when records are not readily available. Further, fraud examiners should realise that in most instances bank records are not readily obtainable, and can usually only be obtained if due process is followed concerning obtaining a subpoena, search warrant, and the like, which banks will customarily demand as a condition for disclosure (ACFE, 2012:3.805). This process will inevitably result in delays in respect of the lifestyle audit investigation.

The researcher agrees with this statement from his own experience, as there is no defined timeline when it comes to conducting a lifestyle audit, because numerous factors may influence the process, including access to information, the speed to which financial institutions and other service providers respond to the request for information, offshore and cross-border requests for information, limited information at the start of an investigation, among others. The investigator may also be limited by a specific mandate from his client, as well as budgetary constraints which will place further restrictions of the extent and depth of the lifestyle audit.

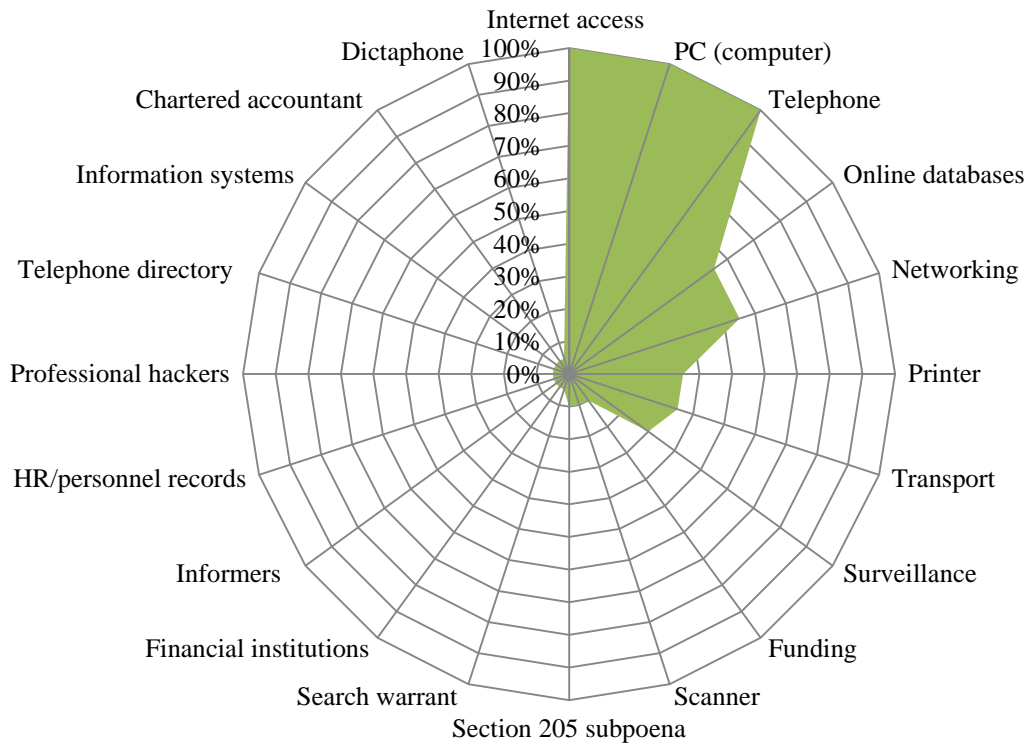
The balance of the answers provided by the sample are also not incorrect, as the researcher knows that in some cases it would possible to complete a lifestyle audit on a subject in a simple case where there has been limited misappropriation of funds, and the loss has been quantified in a relatively short period of time – let's say, within a few hours. Obviously, in more complex matters involving syndicates with a more elaborate cross-border modus operandi, and greater losses, the lifestyle audit could take years to unravel the web of transactions and hidden assets.

5.10 The Resources and Tools required for the Lifestyle Audit

Investigators are as good as their sources. The more they have, and the better they're able to mine them, the tighter their cases will be (Madinger & Zalopany, 1999:316).

The respondents were asked to provide the resources and tools they require in order to conduct a lifestyle audit. Their responses are reflected in Chart 5.9, below.¹³

Chart 5.9 - Resources and tools required for a lifestyle audit



The sample indicated that they require the following resources and tools when conducting lifestyle audits:

- Internet Access (20 out of 20 = 100%).
- A personal computer (PC and computer software, analytical software e.g. iBase; a USB mass storage device and email communication) (20 out of 20 = 100%).
- Telephone, including mobile phone (20 out of 20 = 100%).
- Subscription to online databases (11 out of 20 = 55%).
- Networking (including network with law enforcement agencies, and informal relationships with financial institutions) (11 out of 20 = 55%).
- Printer (7 out of 20 = 35%).
- Transport to be used by the investigator (including vehicle and flights) (7 out of 20 = 35%).

¹³ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 117 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

- Surveillance of the suspect, acquaintances or family members (including camera and video camera) (6 out of 20 = 30%).
- Funding to pay for the online databases, surveillance, fuel, office space, mobile phones, salaries, etc. (2 out of 20 = 10%).
- A scanner to copy data (2 out of 20 = 10%).
- Making use of the law to secure information such as a Section 205 subpoena, in terms of the Criminal Procedure Act (2 out of 20 = 10%) (done by authorised official investigators only).
- Obtaining a search warrant (J50) (1 out of 20 = 5%) (done by authorised official investigators only).
- Information sources at various financial institutions, to assist with banking enquiries and to receive subpoenas (1 out of 20 = 5%).
- Informers (1 out of 20 = 5%).
- Access to HR/personnel records (1 out of 20 = 5%).
- Professional hackers to test systems access and password security (1 out of 20 = 5%).
- Telephone Directory (1 out of 20 = 5%).
- Access to information systems (1 out of 20 = 5%).
- Chartered accountant to analyse data (1 out of 20 = 5%).
- Dictaphone (1 out of 20 = 5%).

All of the respondents agreed with the literature in sections 3.5 and 3.7 (Coenen, 2009:73, 92; Silverstone & Sheetz, 2007:128; Deloitte, 2002:31), in that the most important resources and tools when conducting lifestyle audits are as follows: access to the internet for internet searches and online databases, a personal computer (PC and computer software, analytical software, USB mass storage device and email communication), as well as a telephone, including a mobile phone. Eleven (55%) of the sample also agreed with the literature in section 3.5.2.3 (ACFE, 2012:3.408; Turner, 2011:160; Silverstone & Sheetz, 2007:128), in that subscriptions to online databases were essential tools and resources in conducting a lifestyle audit.

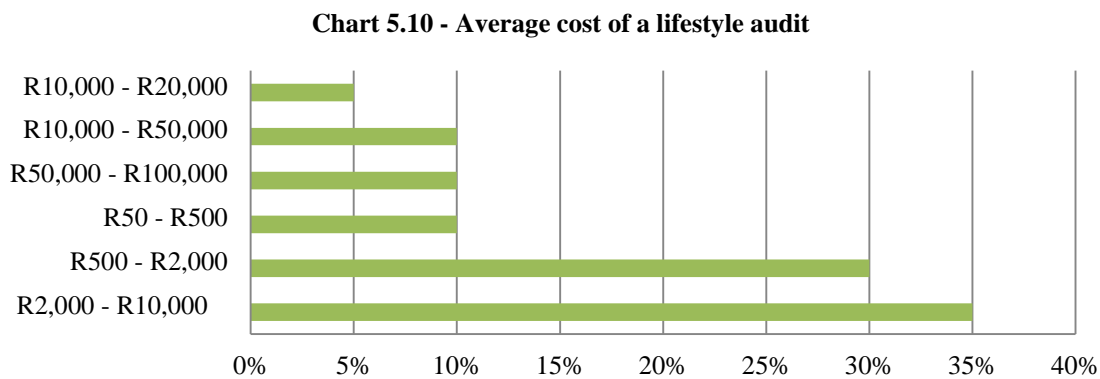
The researcher is concerned that only two of the respondents (10%) considered funding to pay for the online databases, surveillance, fuel, office space, mobile phones,

and salaries, as essential tools and/or resources in conducting the lifestyle audit. In the researcher's view, funding is an essential ingredient of the lifestyle audit process, as, without funding, the investigator will not be in a position to operate and conduct comprehensive searches.

The balance of the answers provided by the sample is also relevant, as they all play a role in assisting the forensic investigator in performing the lifestyle audit.

5.11 The Cost of the Lifestyle Audit

This section deals with the costs associated with the lifestyle audit. Chart 5.10, below, reflects the respondents' understanding of the average cost (in rand) associated with conducting a lifestyle audit on a single subject during a forensic investigation.

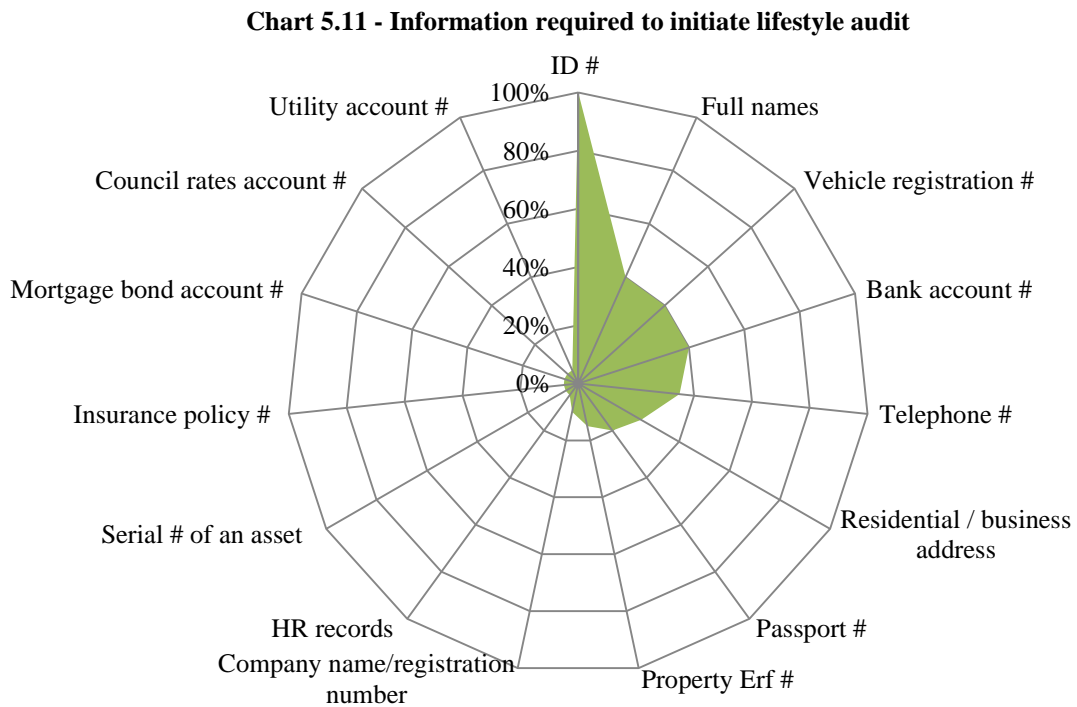


According to the sample, seven (35%) of the respondents indicated that a lifestyle audit usually costs less than R10,000 per suspect, while the remaining 13 (65%) indicated that the costs could go up to R100,000 depending on the circumstances and complexity of the investigation.

The researcher agrees with the seven (35%) respondents, in that, from his experience, the average cost of a basic lifestyle audit per suspect would be in the region of R10,000 or below. Once again, in more complex investigations the costs of the lifestyle audit would be more excessive, depending on the modus operandi, number of suspects, number of assets that need to be traced, and the multiple jurisdictions involved.

5.12 Initiating the Lifestyle Audit

This section deals with initiating the lifestyle audit and what information the forensic investigator requires to 'kick off' the audit. Chart 5.11, below, reflects the information required by investigators when initiating a lifestyle audit.¹⁴



(Note that the symbol “#” in the above chart depicts the word “number”)

According to the sample, they require the following information in order to initiate a lifestyle audit:

- ID number (or any other unique identification characteristic of a suspect, such as an ID number, full name and date of birth) (20 out of 20 = 100%).
- Full names of the subject (8 out of 20 = 40%).
- Vehicle registration number (including aeroplanes, yachts and boats, etc.) (8 out of 20 = 40%).
- Bank account number (including credit card, debit card and garage card account number) (8 out of 20 = 40%).

¹⁴ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 71 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

- Telephone number (including mobile telephone number, mobile SIM card number) (7 out of 20 = 35%).
- Residential or business addresses (5 out of 20 = 25%).
- Passport number (4 out of 20 = 20%).
- Property Erf. number (3 out of 20 = 15%).
- Company name/registration number (or VAT number) (2 out of 20 = 10%).
- HR or staff personnel records (internal staff files) (1 out of 20 = 5%).
- Serial number of an asset (e.g. the chassis number of a vehicle, serial number of a firearm, asset number of a diamond ring, serial number of a mobile phone (1 out of 20 = 5%).
- Insurance policy number (1 out of 20 = 5%).
- Mortgage bond account number (1 out of 20 = 5%).
- Council rates account number (1 out of 20 = 5%).
- Utility account number (1 out of 20 = 5%).

All the respondents (100%) agreed with the literature in sections 3.5.2.5 and 3.6 (Deloitte, 2002:20, 34; Daysh & Exley, 2000:44), in that they require the ID number (or any unique identification characteristic of a suspect, such as an ID number, name and date of birth) to initiate the lifestyle audit. The balance of the answers provided by the sample are also relevant to initiating the lifestyle audit, as from the researcher's experience it is still possible to initiate a lifestyle audit even without these identification numbers.

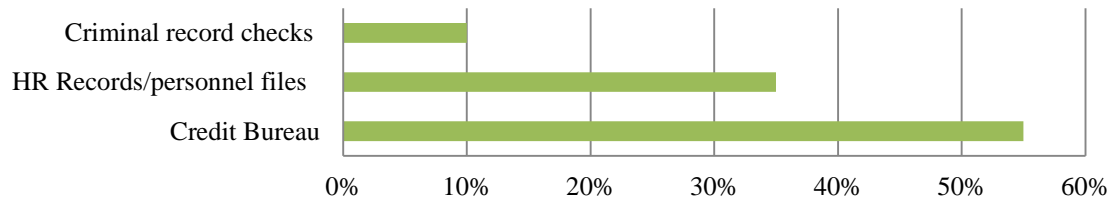
5.13 Information Source to be approached first when conducting a Lifestyle Audit

This section deals with the information sources to be approached first, when conducting a lifestyle audit. It is important to understand which information sources investigators approach first when conducting lifestyle audits. Madinger and Zalopany (1999:297) state that knowing where these sources are, and what is available from them, has become more complex, if only because there are so many more of them (sources) 'out there'.

The researcher is of the view that it would make sense for investigators to approach the fastest and most reliable source of information first, when initiating the lifestyle audit, as this would provide them with a quick 'hit' and summary of the suspect.

Chart 5.12, below, reflects the respondents' understanding of which information source they approach first when conducting a lifestyle audit.

Chart 5.12 - Information source first approached



According to the sample, 11 out of 20 (55%) investigators make use of a credit bureau as a first step when conducting a lifestyle audit; seven out of 20 (35%) commence the lifestyle audit with a review of staff personnel or HR records, while the balance of the sample, two out of 20 (10%), approach the CRC for a criminal record check.

The researcher would, from personal experience, have to agree with the majority of the respondents (55% in total), that the best approach would be to conduct a credit bureau search on the suspect. This would, by far, provide the investigator with an abundance of information on the suspect. Credit bureaus such as TransUnion ITC and Experian hold credit and other information on persons, and this credit information is strictly controlled by the National Credit Act 34 of 2005. However, section 17(4)(b) of the regulations of the Act specifically provides for the use of credit information for fraud prevention and detection services. The forensic investigator may only perform an enquiry on a subject with the consent of the party involved, or without the consent of the person involved when the subject is suspected to be involved in fraud, or when the forensic investigator is conducting a fraud detection and/or a fraud prevention process.

Accessing HR records or personnel files (seven (35%)) as a first source of information when initiating a lifestyle audit, can also be a valuable source of data. The researcher agrees with these responses. These responses (35%) agreed with the literature reviewed in sections 3.5.1 and 3.6 (Pasco, 2009:63; Kass-Shraibman & Sampath, 2011:192). In

some cases, the investigator may have to access this source of information to extract the ID number and full names of the suspect, before they can initiate the credit bureau check. HR records can provide details of previous disciplinary matters involving the suspect, their previous employment history (curriculum vitae), details of family members and beneficiaries on company pension schemes, job descriptions, employment contracts, earnings, and also records of leave and illness.

The researcher is of the view that performing these steps either way around would not make much of a difference, as the experienced investigator should be able to undertake both of these steps in a fairly short period of time. The credit bureau search should not take more than a few minutes to complete, as with the review of the HR records (depending on the extent thereof and ease of access to this information).

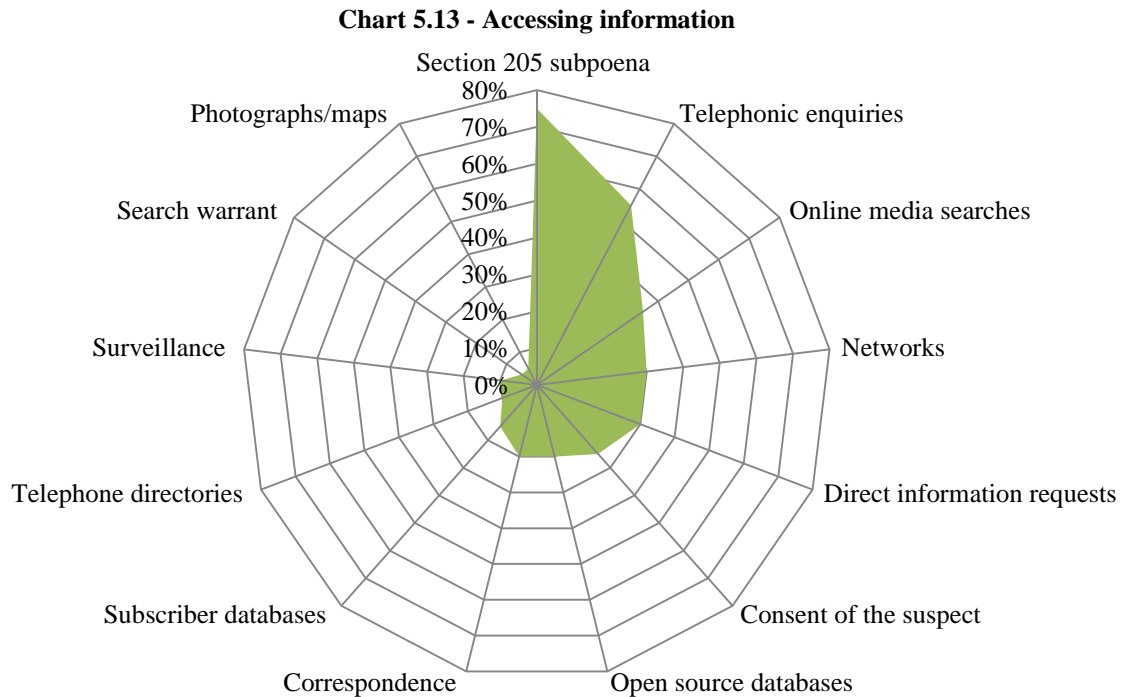
The researcher does not agree, based on his experience, with the the two respondents (10%) of the sample who approach the lifestyle audit by initially conducting a criminal record check. This would be a lengthy process for the private investigator to perform, as they would be relying on a service provider (providing they have signed consent from the suspect) or the CRC of the SAPS to supply this information. This step could take a few days to complete. Furthermore, without the subject's consent this would also not be legally possible.

5.14 Accessing Information for the Lifestyle Audit

Madinger and Zalopany (1999:275) suggest that investigators make every effort to acquire the subject's own records, as these are the primary, and best, source of information on the activities of the subject and their organisation. The subject's own records can be obtained in the following four ways:

- By just asking the subject for the records – i.e. the direct approach
- Obtaining the records through a second party
- Subpoena
- Search warrants

The respondents were asked how they would go about accessing information during the lifestyle audit. Their responses are reflected in Chart 5.13, below.¹⁵



According to the sample, they access information for their lifestyle audits in the following manner:

- Section 205 subpoena (15 out of 20 = 75%), as clarified in section 1.11 *supra*
- Telephonic enquiries (11 out of 20 = 55%)
- Online media searches (7 out of 20 = 35%)
- Network enquiries (6 out of 20 = 30%)
- Direct information requests (direct enquiries with witnesses or in person, visit to the institution – e.g. bank, clerk of the court etc., or personal enquiries with informers) (6 out of 20 = 30%)
- By consent of the suspect (5 out of 20 = 25%)
- Open source databases and records (4 out of 20 = 20%)
- Correspondence (official written request for information, including emails) (4 out of 20 = 20%)

¹⁵ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 67 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

- Subscriber databases (e.g. Transunion, ITC, Deedsweb, CIPRO) (3 out of 20 = 15%)
- Telephone directories (2 out of 20 = 10%)
- Surveillance (on the suspect and associates) (2 out of 20 = 10%)
- Search warrant (executed by the SAPS) (1 out of 20 = 5%)
- Photographs and maps (e.g. Google maps) (1 out of 20 = 5%)

Fifteen (75%) of the sample agreed that securing a Section 205 subpoena in terms of the Criminal Procedure Act, was one of the primary means for accessing information during a lifestyle audit. This trend ties in directly with the non-public sources of information seen listed by the sample in Chart 4.15, below, where the respondents list financial records (100%) as the primary non-public source of information. The use of the Section 205 subpoena as the primary means for accessing information during a lifestyle audit thus makes sense, as there is no other way to access this financial information legally, other than with the consent of the suspect.

The researcher noted further that five (25%) of the sample stated that they would access information “by consent of the suspect” or by asking for it – meaning that the suspect may provide access to non-public information during the investigation. This agrees with Madinger and Zalopany (1999:275), *supra*. This concept is discussed in section 5.19 below, under ‘Key Best Practices of Lifestyle Audits’.

The balance of the responses provided by the sample is all relevant, in terms of accessing information during a lifestyle audit.

It terms of the actual physical observation, surveillance work and searches of premises mentioned above by the respondents, these tasks may be conducted either by the forensic investigators themselves, or, alternatively, be outsourced to consultants or other private investigators who specialise in these services. From the researcher's own experience in the case of surveillance work, for example, this would be outsourced to private investigators who specialise in this area, and who have the necessary skill and equipment (cameras, video equipment and tracking devices) to perform the work. Surveillance work is usually time, resource and manpower intensive, and it would make

sense to outsource this work to investigators who are able to perform this task at a cheaper rate and free up the forensic investigator to focus on the key investigation itself.

5.15 Sources of Information for the lifestyle Audit

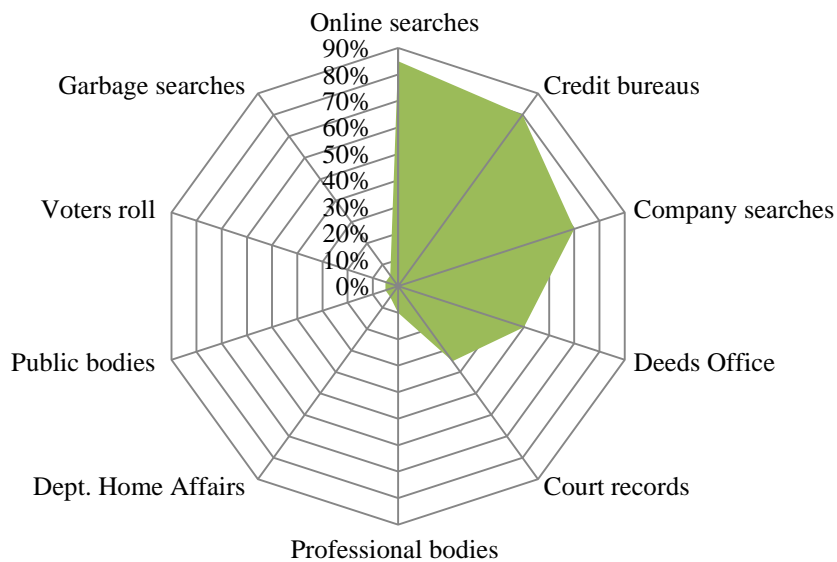
Coenen (2009:77) highlights that public record sources can be invaluable in a fraud investigation. At first glance, some of them may not seem all that important, but the investigator must recognise that small nuggets of information can be pulled from a variety of sources, and assembled in a way that significantly benefits a case.

5.15.1 Public Sources of Information

The respondents were asked to provide the various information sources they consult when conducting a lifestyle audit. For the purpose of this research, the information sources have been divided into two categories, namely public and non-public sources of information. Their responses are reflected in charts 5.14 (public sources) and 5.15 (non-public sources), below.

Chart 5.14 reflects the public sources of information used by the respondents.¹⁶

Chart 4.14 - Public sources of information



¹⁶ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 70 responses to this question regarding public sources of information. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

The vast majority of the responses from the sample above agree with the literature reviewed in sections 3.5.1, 3.5.2, 3.5.2.3, 3.5.2.4, 3.5.2.6 and 3.7 (ACFE, 2012:3.401-3.409; Hopwood et al., 2012:249, 250; Deloitte, 2002:14, 31; Turner, 2011:160; Silverstone & Sheetz, 2007:128, 130; Madinger & Zalopany, 1999:280; Coenen, 2009:91, 92; Kass-Shraibman & Sampath, 2011:180). The most pertinent are online internet or media searches (17 out of 20 (85%)), in that a skilled forensic investigator can develop critical leads and make connections that may never be found through traditional field investigation.

The balance of the answers provided by the sample are also relevant to public sources of information when conducting a lifestyle audit, including credit bureaus (16 out of 20 = 80%), company searches (14 out of 20 = 70%), Deeds Office (10 out of 20 = 50%), court records (7 out of 20 = 35%), professional bodies (2 out of 20 = 10%), Department of Home Affairs (1 out of 20 = 5%), public bodies (1 out of 20 = 5%), and the voters' roll (1 out of 20 = 5%).

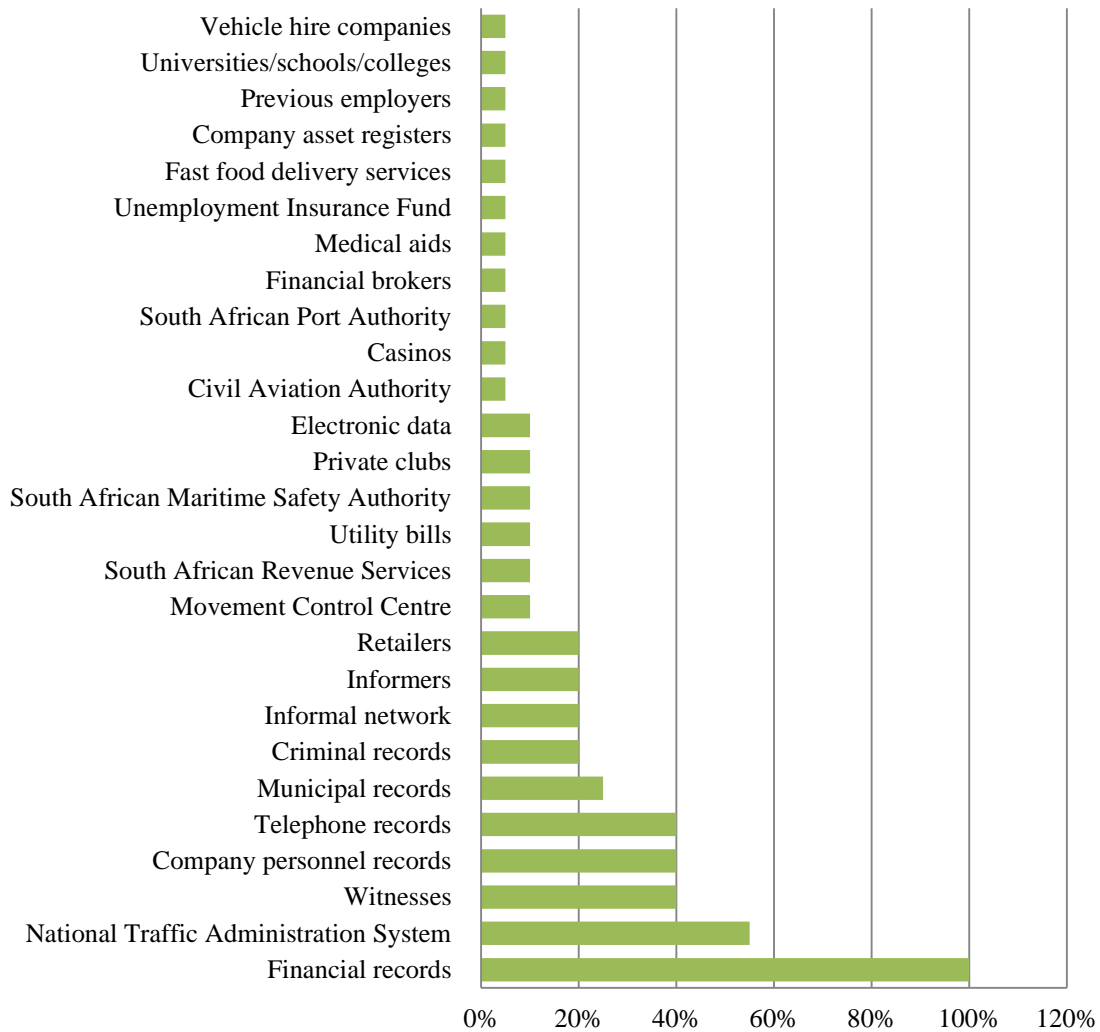
One of the most interesting sources of information mentioned by one (1 out of 20 = 5%) of the respondents, is that of garbage and dustbin searches (also known as dustbin or garbage collection). This is confirmed in the literature as a valuable source of information, in section 3.5.2.4 (Silverstone & Sheetz, 2007:130; Madinger & Zalopany, 1999:280; Kass-Shraibman & Sampath, 2011:180), and further highlights that this is a source which is seldom discussed; however, the value that discarded trash can have as an information-gathering tool should not be overlooked.

5.15.2 Non-Public Sources of Information

The respondents provided the following non-public sources of information (private) when conducting a lifestyle audit (see Chart 5.15 below).¹⁷

¹⁷ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 99 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 5.15 - Non-public Sources of information



The sample listed an extensive number of non-public sources of information when conducting a lifestyle audit. All the respondents agreed with the literature discussed in sections in sections 3.5.1, 3.5.2, 3.5.2.4 and 3.5.2.5 (Madinger & Zalopany, 1999:312, 145, 277, 280; Deloitte, 2002:14; Coenen, 2009:74; ACFE, 2012:3.401-3.409, 3.803, 3.805-3.816, 3.823; SAPA, 2010; Jordaan, 2007:29; Temkin, 2012; Kass-Shraibman & Sampath, 2011:180; Silverstone & Sheetz, 2007:130; Daysh & Exley, 2000:44; Hopwood et al., 2012:251), in that financial records were critical sources of information when conducting the lifestyle audit. From the researcher’s experience, all of the sources of non-public information provided by the respondents are relevant sources of information when conducting the lifestyle audit.

One critical non-public source of information which the respondents failed to mention, was that of timeshare ownership. In the researcher’s experience, fraudsters often plough

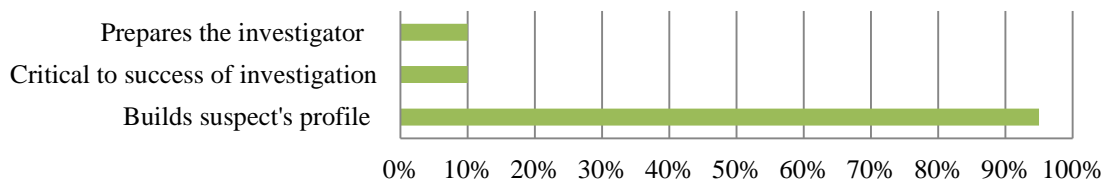
illicit funds into timeshare ownership – which can be difficult to trace, given that the ownership is not recorded at the Deeds Office. The Vacation Ownership Association of South Africa (VOASA), previously known as the Timeshare Institute of Southern Africa, can be approached to assist with enquiries on timeshare ownership.

It is, however, vital that investigators understand their responsibilities when it comes to accessing the above information sources, and that they receive training on how to go about accessing and interpreting information originating from these sources.

5.16 The Value of Information obtained from Sources during the Lifestyle Audit

This section discusses the value of the information obtained from sources during the lifestyle audit. Chart 5.16, below, reflects the respondents' understanding of the value of these sources of information in compiling a comprehensive lifestyle audit.¹⁸

Chart 5.16 - Value of the information obtained from sources



According to the sample, 19 out of 20 (95%) understood that the value of the information obtained from sources during the lifestyle audit is invaluable, as this assists the investigator in building the suspect's profile (in terms of building an understanding of the suspect's financial profile; enormous value to any white collar crime investigation; provides information; critical in identifying red flags). Two out of 20 (10%) respondents believed that the value of the information obtained from sources was critical to the successful outcome of the investigation. Two out of 20 (10%) felt that the value of the information sources would prepare the forensic investigator for the suspect interview, and further aid in directing the investigation.

¹⁸ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 23 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

All of the responses from the respondents are relevant. The sample agreed with the above sources of information, that these sources are invaluable to the investigator when conducting a lifestyle audit. It is important to highlight that in this section, 5.16, the respondents mentioned that the value of the information obtained from sources is that it “prepares the investigator”. This correlates with the responses provided by the respondents in sections 4.5, 4.6 and 4.10, *supra*.

5.17 Terminating the Lifestyle Audit

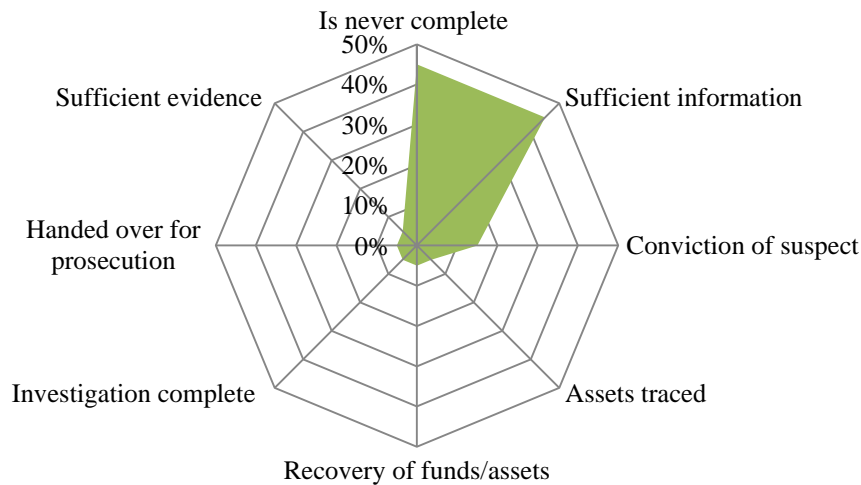
This section deals with the termination of the lifestyle audit. From the researcher's own experience, it is important for investigators to understand when to terminate a lifestyle audit, for the following reasons:

- The investigation may have yielded sufficient evidence to connect the suspect to the crime.
- The initial lifestyle audit may have exonerated the subject as a suspect.
- The cost implications of the lifestyle audit may be excessive (beyond what the mandate is for that specific case).
- The lifestyle audit may have produced sufficient results to satisfy the investigator.

Chart 5.17, below, reflects the respondents' understanding of how the forensic investigator knows when to end or terminate the lifestyle audit.¹⁹

¹⁹ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 26 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 5.17 - Terminating the lifestyle audit



According to the sample, the respondents know when to terminate a lifestyle audit, for the following reasons:

- A lifestyle audit is never complete. (According to some of the respondents the lifestyle audit is an ongoing process, as the investigation unfolds a process of live monitoring: there is the historic phase and the real time phase, and so the lifestyle audit is never complete as it is always evolving) (9 out of 20 = 45%).
- When there is sufficient information on the suspect (assets and income streams, whereby the suspect is implicated in, or linked to, the irregularities, or where there is nothing openly apparent to suggest an abnormal lifestyle) (9 out of 20 = 45%).
- Upon conviction of the suspect (3 out of 20 = 15%).
- Once assets have been traced (that equate to the value of the misappropriated funds) (1 out of 20 = 5%).
- Upon recovery of the misappropriated funds/assets (1 out of 20 = 5%).
- Upon completion of the investigation (1 out of 20 = 5%).
- Once the investigation is handed over for prosecution (1 out of 20 = 5%).
- Once there is sufficient evidence to prove the case (1 out of 20 = 5%).

When asked how they know when to terminate a lifestyle audit, the sample (45%) agreed that–

- a lifestyle audit is never complete.

- a lifestyle audit can only be terminated when there is sufficient information on the suspect.

The researcher agrees with the first statement, in that the lifestyle audit of the suspect is never really complete, as the suspect's position will continue to evolve from day to day. Even while under investigation, the suspect may be involved in further criminal activities from which they acquire illegal income and purchase assets, so that the lifestyle audit will be an ongoing process.

There will obviously come a time in the investigation when the lifestyle audit will have to be terminated for cost-related or other practical reasons. The lifestyle audit may also be terminated, as the mandate of the investigator may cease or the investigation may be terminated. Thus, the other responses provided by the sample are all relevant.

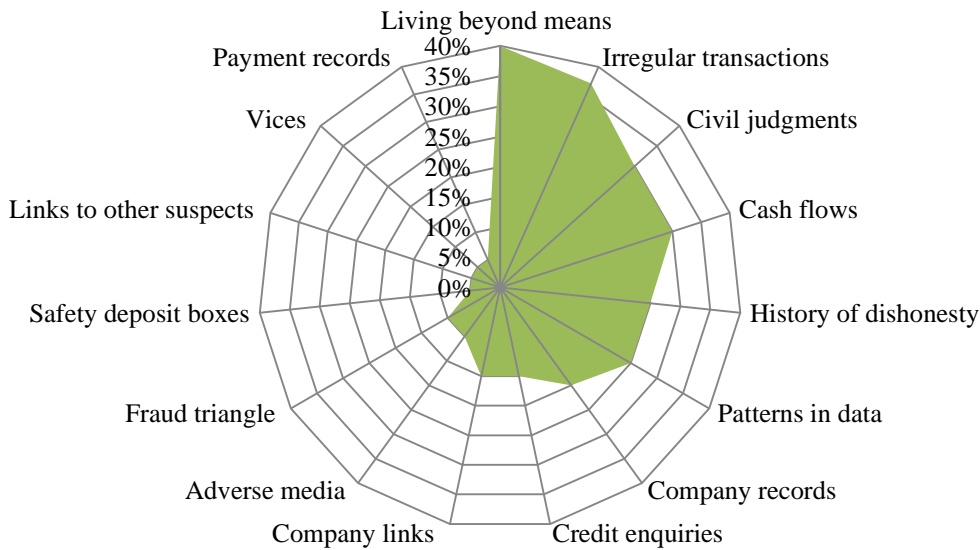
5.18 Red Flags from the Lifestyle Audit

This section deals with the red flags that emerge from a lifestyle audit. The term "red flag" is described in the Concise Oxford Dictionary (1990:1005) as "a warning of danger". From the researcher's experience, when there is a change in the lifestyle of a suspect, this change may, for example, be a red flag alerting the investigator to take notice of these changes in lifestyle, and may need further investigation.

Chart 5.18, below, reflects the red flags that the respondents look for when conducting a lifestyle audit²⁰.

²⁰ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 55 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 5.18 - Red flags



According to the sample, they look out for the following red flags when conducting lifestyle audits:

- Suspects living beyond their means (in terms of assets – for example, owning high-value properties and vehicles that are not commensurate with their income. What was the suspect’s lifestyle prior to the event? What has changed? Could the change be linked to their alleged involvement in the crime? Any sudden changes to a suspect’s financial status, such as suddenly purchasing a new expensive vehicle or multiple properties; the extent of asset ownership; the debt exposure of the suspect. Have they overextended themselves financially? Could this be a motive for the crime?) (8 out of 20 = 40%).
- Irregular transactions – e.g. payments taking place after normal business hours, over weekends or on public holidays, inconsistent payment patterns on a bank account, any spike in data (increases or decreases in data, high turnover and low-balance patterns in bank statements) (7 out of 20 = 35%).
- Number of civil judgments – for example, in respect of bad debt, is a red flag and a sign of financial stress (6 out of 20 = 30%).
- Cash flows between bank accounts, as this will usually identify links to other bank accounts (6 out of 20 = 30%).

- Previous records for dishonesty – that is, for fraud or crimes of dishonesty. Did the suspect feature as a suspect in a previous case? Do they have a record of previous disciplinary hearings on their staff HR file? (5 out of 20 = 25%).
- Patterns in data – i.e. patterns in different sets of data, e.g. links between cash deposits and telephone calls, financial transaction patterns, patterns in the sequence of events, similar trends between various data sources, the relationship between various data sources such as telephone records, access records to a premises and an irregular transaction – for example, over the weekend while the office is closed (5 out of 20 = 25%).
- Company records, such as leave and attendance records, and access control records. (These records will show the pattern of the suspect's attendance at work, and may place them at the scene of the crime; for example, if vendor information on the accounts payable system had been altered over the weekend and the access control records show that the suspect was at the office over the weekend when the data was changed, this will then link them to the scene of the crime) (4 out of 20 = 20%).
- Number of credit enquiries (that is, the number of credit enquiries on a person's credit report could show that they have applied for credit at multiple banks. This, in turn, could be an indicator that they are cash strapped –which could be a red flag indicator (3 out of 20 = 15%).
- Links to companies (director links and shareholdings or spouse's links to companies and associated companies to the suspect's employer) (3 out of 20 = 15%).
- Adverse media; publicity in the media, a record of previous litigation, investigation for dishonest behaviour or court case (2 out of 20 = 10%).
- Fraud triangle: take into account the three corners of the triangle, namely pressure, rationalisation and opportunity; did the suspect have all three? (2 out of 20 = 10%).
- Links to safety deposit boxes, is the suspect paying for and maintaining a safety deposit box at a bank or other financial institution? if so, why and what is stored in this box? (1 out of 20 = 5%).
- Links to other potential suspects; or business associates; other persons of interest (1 out of 20 = 5%).

- Vices; does the suspect have any vices such as gambling, prostitution or drug habit, or does anyone closely linked with the suspect (partner or spouse) have any of these vices? (1 out of 20 = 5%).
- Payment records – look for proof of payment of accounts; has the suspect started paying his accounts all of a sudden? Why is the suspect paying his accounts now when in the past he was defaulting? The investigator should ask “where is this money coming from now”? (1 out of 20 = 5%).

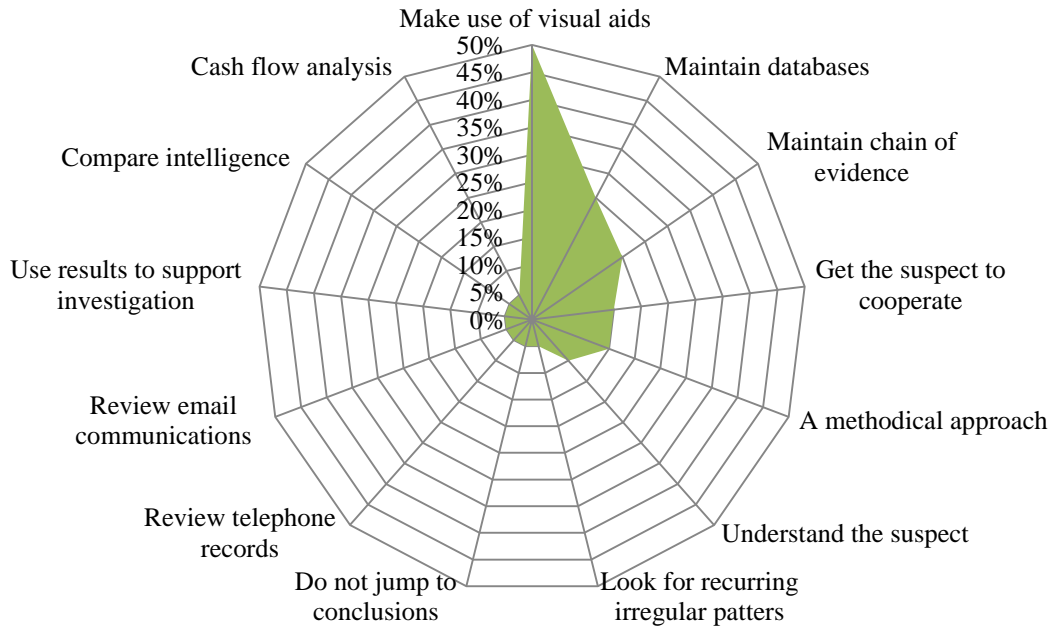
Eight (40%) of the sample look out for red flags of the “suspect living beyond their means” when conducting lifestyle audits. These responses agree with the literature in section 1.1 and 3.2 (ACFE, 2010:5; SAPA, 2010), in that investigators look for an excessive lifestyle – for example, properties or motor vehicles where the monthly repayment exceeds what would be reasonably affordable for the employee concerned. The balance of answers provided by the sample provides a list of possible further indicators (red flags) of a person living from an undisclosed income.

5.19 Key Best Practices for Lifestyle audits

This section deals with the key best practices that forensic investigators exercise when conducting the lifestyle audit. Chart 5.19, below, sets out the respondents’ key best practices they perform when conducting lifestyle audits.²¹

²¹ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 34 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

Chart 5.19 - Best practices



According to the sample, they make use of the following key best practices when conducting lifestyle audits:

- Visual aids – such as the use of i2 Analyst Notebook charts to manage and map out the information and the links in complex cases and timelines, or creating a dashboard in Microsoft PowerPoint to manage the data at a high level; build a timeline from the data: timelines can include mobile phone records, BBS cross-border movements, bank statements and a summary of documents and surveillance reports. This assists the investigator to understand the relationships better between, let's say, bank deposits and mobile telephone records – that is, there are calls to a certain number before each large cash deposit? (10 out of 20 = 50%).
- Maintain databases (e.g. Microsoft Access) as they assist in maintaining records and allow investigators to run filters on the data; amalgamate different data sources into databases; make use of a template asset register adapted from the AFU to capture and manage the data; on complex cases investigators should ensure that they manage their data accurately) (5 out of 20 = 25%).
- Maintain the chain of evidence (maintaining the chain of evidence accurately, recording where one receives one's information from, in order to preserve the

chain of evidence for court purposes or disciplinary hearings; verify all data sources) (4 out of 20 = 20%).

- Get the suspect to cooperate in the lifestyle audit (attempt to get the suspect to cooperate with investigation; if they agree, get written consent and for them to provide the investigator with access to their bank statements and other personal information, ask them to sign permission for access to their records, or ask them to go to the bank directly and source copies of the bank statements that are required for the investigation. This access to information will speed up the investigation process, allowing the investigator to identify irregular transactions on the bank statements, flow of funds, and clarify the modus operandi and the sum of cash misappropriated, with the suspect) (3 out of 20 = 15%).
- Use a methodical approach (in respect of managing the lifestyle audit; maintain a structured checklist of all the data found on the subject) (3 out of 20 = 15%).
- Understand the suspect (what does the suspect look like financially, what are their habits, who are their family members, do they travel abroad, do they like sport – that is, have they purchased a yacht instead of an expensive car? have they purchased a 4x4 motor vehicle in the name of a company, CC/company member or spouse? Perform actual physical surveillance on the suspect) (2 out of 20 = 10%).
- Look for recurring irregular patterns (for example, a telephone number occurring over and over again, indicating an established relationship between two parties, or things out of the ordinary, or out of sync with the norm) (1 out of 20 = 5%).
- Do not jump to conclusions (a cautionary warning about jumping to conclusions without justification and to be aware of subjective verbal reports rather than objective ones) (1 out of 20 = 5%).
- Use telephone records (make use of telephone records of the subject as these are often invaluable, both internal and external, incoming and outgoing) (1 out of 20 = 5%).
- Review email communications (e.g. a .pst file²² when reviewing a suspect's mailbox; pay attention to the contacts in their email folder, as this may provide indications of other possible suspects or acquaintances, etc.) (1 out of 20 = 5%).

²² A Personal Storage Table (.pst) is an open proprietary file format used to store copies of messages, calendar events, and other items within Microsoft software such as Microsoft

- Use the results of the lifestyle audit to support other aspects of the investigation, and then build on these (for example, use the results of the lifestyle audit, such as poor credit history or bad judgments, in the interview with the suspect to place them under pressure, in order to leverage them into a confession or to make certain admissions) (1 out of 20 = 5%).
- Compare current information on the suspect to previous information received (compare the information received on old cases to the new information emerging from the current lifestyle audit, and note the differences; what is the suspect doing differently, what new assets have they acquired, what new companies have they started, how many new bank accounts do they now have, why did they close the previous bank accounts, what happened to the cash in the old bank accounts, and are there any links between the suspect and other syndicate cases? Etc.) (1 out of 20 = 5%).

In the researcher's opinion, and based on practical experience, the researcher agrees that making use of visual aids, such as i2 Analyst Notebook charts, to manage and map out the information links in complex cases for a visual display, best assists the investigator to understand the relationships and links to assets in the investigation. As indicated in the data, timelines are also a valuable way of depicting information flows which can include links between mobile phone records, movement control and bank statements, for example. The rest of the key best practices listed by the respondents are also relevant best practices when conducting a lifestyle audit.

From the researcher's experience, possibly one of the most underestimated best practices would be to secure the cooperation of the suspect when conducting the lifestyle audit, as stated by 15% of the respondents. This agrees with section 5.14, *supra*, where Madinger and Zalopany (1999:275) point out that the subject's own records can be obtained by "just asking the subject for the records – i.e. the direct approach". According to the researcher, this would obviously eliminate the element of surprise from an investigation point of view, but would allow the investigator access to non-public and private data of the suspect with their consent. This scenario would, in

Exchange Client, Windows Messaging, and Microsoft Outlook. The open format is controlled by Microsoft who provide free specifications and free irrevocable technology licensing.

the researcher's experience, usually take place when a suspect is cooperating with an investigation, and agrees to provide the investigator with access to, let's say, his bank statements and other personal information such as mobile phone records, among others. The investigator should ensure that in these cases the suspect signs permission for access to these records, or, as mentioned previously, the investigator should ask the suspect to visit the bank directly and source copies of the relevant bank statements himself.

This access to information will speed up the investigation process, circumventing the need for a Section 205 subpoena and also any delays in allowing the investigator to identify irregular transactions on the bank statements and flow of funds, and clarify the modus operandi and the sum of cash misappropriated. This also allows the subject of the lifestyle audit to provide explanations for certain transactions that can be verified or refuted more quickly by the investigation. The suspect will also, later, benefit from this, as he will be able to demonstrate in court that he provided assistance to the investigator when confronted with, let's say, the fraud, and this may count in his favour in mitigation of sentence.

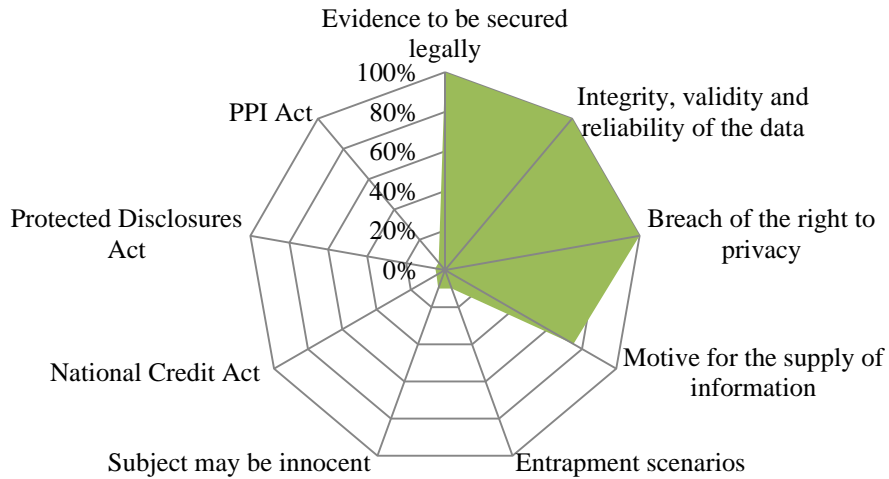
5.20 Risks in Conducting Lifestyle Audits

Powell (2011:4) cautions that there may be a perfectly reasonable explanation for what, on the face of it, may appear to be an extravagant lifestyle. These explanations include an inheritance or a wealthy partner or family member providing financial support, which is not known to the employer. The results of the lifestyle audit must, accordingly, be approached with caution.

This section deals with the risks that forensic investigators face when conducting a lifestyle audit.

Chart 5.20, below, lists the risks that the respondents face when conducting lifestyle audits.²³

Chart 5.20 - Risks associated with lifestyle audits



According to the sample, the following risks when conducting a lifestyle audit, are highlighted:

- Secure evidence legally (by following the rules of evidence and acquiring confidential information through the appropriate means – such as a Section 205 subpoena, civil court order, or written consent of the suspect; acquiring information illegally, such as purchasing information – for example, mobile phone records and bank statements from private investigators of persons with access to this data, and inappropriate searches, should be avoided; always make use of a search warrant. Investigators need an understanding of local applicable legislation, and to act within the boundaries of this legislation; Section 205 of the Criminal Procedure Act subpoena to secure private data. How was the data acquired or collected? Has the chain of evidence been preserved for court purposes? Criminal record checks can only be done with the consent of the subject) (20 out of 20 = 100%).
- Integrity of the data (has the data been compromised, manipulated, corrupted, contaminated or tarnished? Accuracy of the data, validity of the data, human

²³ Note that more than one respondent could have provided the same answer or more than one answer in their response. There were 82 responses to this question. The number of responses is displayed proportionately; (%) reflects the frequency which this theme occurs in the answers from the respondents.

error factor (was the data captured accurately?); Has the data been verified?; reliability of the data source; also, is the data outdated? What is the source of the data? Verify the source of the data, reliability of the information – is it only based on hearsay? Verify all information from third parties. Is the information a rumour, or data distortion? Is the data reconcilable, has it been manipulated or is it a misinterpretation or misunderstanding of data source? Is the data set complete? Is the data representative) (20 out of 20 = 100%).

- Breach of the right to privacy of an individual (for example, by illegal interception and monitoring of contraventions) (20 out of 20 = 100%).
- Motive for the third party to supply information (and malice intent from, for example, disgruntled fellow employees, mistresses, revenge, vendetta, hidden agendas) (15 out of 20 = 75%).
- Entrapment scenarios (e.g. enticing the subject into illegal activities) (2 out of 20 = 10%).
- Subject of the lifestyle audit may be innocent (e.g. the subject of the lifestyle audit may have been falsely accused; this could have negative implications on the investigation, should the subject be unaware of the investigation and find out about the investigation at a later date) (2 out of 20 = 10%).
- National Credit Act 34 of 2005 (you may not perform a credit check without the consent of the subject, Regulation 18 of the National Credit Act) (1 out of 20 = 5%).
- Protected Disclosures Act 26 of 2000 (for example, employees (in both the private and public sector) may disclose information regarding unlawful or irregular conduct by other employers, or other employees in the employ of their employers, and to provide for the protection of employees who make a disclosure – which is protected in terms of the Act) (1 out of 20 = 5%).
- The Protection of Personal Information Bill (POPI) (still to be enacted) (1 out of 20 = 5%).

All the respondents agreed with the literature reviewed in sections 1.11.1 and 3.4 (ACFE, 2012:43.01, 3.805; Coenen, 2009:92; Pasco, 2009:20; Golden et al., 2006:331; Ratcliffe, 2004:79; Deloitte, 2002:32), in that the following three principles are the main risks when conducting a lifestyle audit:

- Evidence to be secured in a legal manner
- Integrity of the data (accuracy, validity and reliability of the data)
- Breach of the right to privacy should be avoided (Bill of Rights and Constitution)

Of the above three, the researcher suggests that a person's right to privacy would be paramount when conducting a lifestyle audit. According to Section 14 of the Constitution, everyone has the right to privacy, which includes the right not to have –

- their person or home searched.
- their property searched.
- their possessions seized.
- the privacy of their communications infringed.

Coupled to this is the proposed Protection of Personal Information Bill (2009), the purpose of which is to give effect to the right to privacy by introducing measures to ensure that the personal information of an individual (data subject) is safeguarded when it is processed by responsible parties. The Bill also aims to balance the right to privacy against other rights, particularly the right of access to information, and to generally protect important interests, including the free flow of information within and across the borders of the Republic.

The balance of the responses by the sample is also important to consider when conducting a lifestyle audit.

5.21 Summary

In this chapter, the researcher explored the best practices applied by forensic investigators when conducting lifestyle audits on white collar crime suspects. The respondents provided much interesting data on the various best practices they apply when conducting their lifestyle audits.

The bulk of the respondents (17 = 85%) confirmed that they received no training on how to conduct a lifestyle audit. Although the vast majority of forensic investigators were not trained on how to conduct a lifestyle audit, most of them confirmed that they, as a matter of course, normally conduct lifestyle audits during investigations. This is of concern to the researcher, as there may be a number of investigators using a 'scattergun'

approach to their lifestyle audits – which could affect the results, and ultimately impact on the outcome of their investigations.

The second concern noted in this chapter is that 19 (95%) forensic investigators apply a defined methodology when conducting a lifestyle audit; however, all 19 of these forensic investigators confirmed that they have no documented methodology or procedure in place for conducting lifestyle audits.

In this chapter, the researcher further explored the various sources of information forensic investigators can consult when conducting a lifestyle audit on a white collar crime suspect.

5.22 Conclusion

An extensive number of potential sources of information were identified from the literature and the respondents, during this study. From this, the researcher has drafted a checklist of information sources (including both public and non-public), which forensic investigators can refer to when conducting lifestyle audits. The checklist includes the type, source and address of the source, and an overview of the information that can be gathered or collected from the source.

Note that this is not an exhaustive list of information sources that are available to forensic investigators. Rather, the idea is that forensic investigators can build on these sources and evolve the list as they mature as investigators. This checklist is attached as Annexure A2.

The following chapter is the final chapter of this research, and concludes on the findings and recommendations emerging from this study.

CHAPTER 6

CONCLUSION

6.1 Introduction

This research was initiated, firstly, to establish how lifestyle audits relate to white collar crime investigations; secondly, to establish what best practices are applied by forensic investigators in conducting lifestyle audits on white collar crime suspects; and thirdly, to understand the various sources of information forensic investigators can consult when conducting these lifestyle audits.

The researcher believes that he has achieved the aim of this research through a detailed literature review as well as interviews with respondents who are experts in their field. The findings emerging from this research are detailed below, together with the researcher's recommendations.

6.1.1 Accuracy and Reliability of the Collected Data

It is important to draw attention to the fact that the respondents cross-correlate responses to various questions – which highlights the accuracy and reliability of the collected data. This not only provides scientific proof that the construct validity of the research design/measuring instrument is high, but also indicates that the responses were consistent – which is a further indication that the respondents were truthful in their answers. This was evident in the responses seen in sections 4.3, 4.4, 4.5, 4.6, 4.7, 4.9, 4.10, 5.6, 5.7, 5.8, 5.9, 5.10, 5.12, 5.13, 5.14, 5.15.1, 5.15.2, 5.18 and 5.19, *supra*, of this dissertation.

6.2 Findings

The following findings have emerged from the literature and the interviews with the respondents:

6.2.1 Research Question 1: How do lifestyle audits relate to white collar crime investigations?

6.2.1.1 Forensic investigation of crime

In Chapter 2, section 2.2, it is seen that a financial investigation is a blend of traditional investigative techniques and those used by auditors. A financial case is about accounting for different events or facts, such as – Where did the suspect get the money? How much money did he get? What did he do with the money?

It is also seen that the forensic investigator is central to white collar crime investigation, and that there are obvious differences, although synergies exist, between the three main disciplines: forensic accountant, forensic auditor and forensic investigator (Chapter 2, section 2.6).

Investigation is directed at the gathering of facts and information, through which the crime can be reconstructed, or the process of discovering, collecting, preparing, identifying and presenting evidence to determine what happened and who is responsible (Chapter 2, section 2.2). The goals of investigation are thus to –

- Determine whether a crime has been committed.
- Legally obtain information and evidence to identify the responsible person.
- Arrest the suspect (or provide the authorities with sufficient relevant information to enable them to effect an arrest).
- Recover stolen property.
- Present the best possible case to the prosecutor.

6.2.1.2 Fraud and the concept of white collar crime

From the literature review in Chapter 1, section 1.5.1, it is seen that fraud involves misrepresentation, deception and the loss of property or the rights to property. It can also be defined as the unlawful and intentional making of a misrepresentation which causes actual or potential prejudice to another, or the obtaining of something of value, or avoiding an obligation by means of deception. Fraud involves trickery, deceit and false representations, and may include an omission or intentional failure to state material facts.

White collar crime, on the other hand, is defined as a crime committed by a person of respectability and high social status, in the course of his occupation (Chapter 1, section 1.5.4), and may involve violence and physical harm to the victims, but the root cause is greed and a lust for financial gain (Chapter 2, section 2.4). The street mugger and the corporate executive have that much in common. The major differences with white collar crime is in the amount of gain, the planning required, the intricacies of the crime, and the tools needed to commit the crime.

White collar crime can be viewed as a sub-class of fraud, which is committed by individuals embezzling, manipulating accounts and taking bribes at their place of business (Chapter 2, section 2.4).

6.2.1.3 Synergy required between disciplines

From the research, it is seen that although the forensic investigator is central to white collar crime investigations, there are obvious differences, although synergies exist between the three main disciplines: forensic accountant, forensic auditor and forensic investigator (Chapter 2, section 2.6). As fraud examiners, forensic accountants are a mix of accountant and private investigator. The fraud examiner is a type of private investigator with a strong financial sixth sense, who possesses knowledge of professional standards in accounting and law (Chapter 2, section 2.6.1).

6.2.1.4 The forensic investigation process

From the discussion, one sees that the forensic investigation is a systematic planned process, consisting of establishing that a crime has actually been committed, the gathering and safekeeping of evidence, evaluation of the evidence, identifying and apprehending the suspect(s), recovering stolen property, and assisting in the prosecution of the person(s) charged with the crime (Chapter 2, section 2.7).

According to Chapter 2, section 2.2, any investigation into financial crimes must begin with an investigation plan and look at three potential perpetrator markers, namely –

- Their behaviour (what they like to do)
- Their finances (what they can afford to do)

- Their business (the financial vehicles they have access to)

The investigation process is further defined in Chapter 2, section 2.2, as the discovering, collecting, preparing, identifying, and presenting of evidence, to determine what happened and who is responsible. The goals of investigation are to –

- determine whether a crime has been committed.
- legally obtain information and evidence to identify the responsible person.
- arrest the suspect (or provide the authorities with sufficient relevant information to enable them to effect an arrest).
- recover stolen property.
- present the best possible case to the prosecutor.

6.2.1.5 Methods for detecting fraud

From the discussion in Chapter 2, section 2.8, it is seen that fraud, by its very nature, is difficult to uncover, as steps may have been taken by the participants in the fraud to conceal it. Knowing where to look is the first step in fraud detection, and there are many fraud detection methods which will usually include the examination of source documents. Many times, these documents provide the evidence necessary to prove fraud in a court of law.

One of these detection methods is to follow the money trail, which will allow for the full development of the facts and circumstances involved in the case to be shown in a logical and sequential pattern, and simplifies the understanding of how the financial pieces fit together (Chapter 2, section 2.8). Following the money will identify the names of payees, individuals, or businesses, that have received money or some other form of compensation. These parties will be the subjects of the investigation. Understanding who these payees are, and how they relate to each other, will assist the investigator in uncovering the fraud scheme.

Other fraud detection methods include carrying out analytical procedures, using audit tests, observing and inspecting, making enquiries, and conducting interviews (Chapter 2, section 2.8).

Sometimes the only clue to the illicit activities is a sudden, unexplained change in an employee's lifestyle. The lifestyle audit is therefore a critical management tool to identify illicit activity, and is, further, a legitimate fraud prevention and detection mechanism (Chapter 2, section 2.8).

6.2.1.6 Concept of the lifestyle audit in forensic investigations

From the discussion in Chapter 2, section 2.9, it is seen that conducting background investigations is a key component to any forensic accounting investigation. It is a useful way to discreetly obtain information, without tipping off the subjects that they're 'on the radar'. These background investigations can be used to seek direct evidence of fraud, by digging deeply into related party transactions, and, at other times, to identify investigative leads, locate interviewees and perform asset searches.

A lifestyle analysis is a tool which investigators can use to prove, through circumstantial evidence, that a target is generating income from somewhere (Chapter 2, section 2.9). Offender profiling can also be regarded as a useful investigative tool and aid for investigators. This involves the method of collating various pieces of information and data about an offender, with the intention of establishing the most likely offender who committed the crime (Chapter 2, section 2.9).

The concept of a lifestyle audit is defined as a study of a person's living standards to see if it is consistent with his reported income, and can include –

- a comparison of the person's living standards to their reported income, or
- a study of the person's living standards and spending, to determine if it is consistent with that person's reported income.

The net worth method begins with the completion of a suspect's financial profile; through identification of a suspect's assets, liabilities, income and expenses, a net worth statement can be determined. Once completed, changes in the suspect's net worth can be compared to his known income, and differences can be inferred to be from unknown sources (Chapter 5, section 5.2). The net worth method is similar to the lifestyle analysis (Chapter 5, section 5.2).

A lifestyle audit is simply an amalgamation of reports, from a variety of databases, which provide management, as well as investigators, with a snapshot of certain aspects of the life of an employee. Lifestyle audits are legitimate fraud prevention and detection mechanisms. A detailed lifestyle audit is often also described as suspect profiling or business intelligence (Chapter 5, section 5.2).

From the above research, it is clear that the lifestyle audit can also be referred to as the lifestyle analysis, background investigation, financial investigation, suspect profiling, business intelligence or net worth method.

The respondents understood the term ‘lifestyle audit’ as follows:

- Determining a person’s lifestyle and spending patterns in relation to their legitimate income.
- Background checks on a subject, to understand whether they are living beyond their financial means.
- Understanding the profile of the suspect, in order to confirm that they are either linked to the allegations, or not.
- The evaluation of owned or linked assets, and the possible source of the assets,
- A dipstick test of a suspect’s financial profile.

6.2.1.7 Aim or purpose of the lifestyle audit

From this research, one sees that the aim or purpose of the lifestyle audit is as follows:

- To give the financial picture of the subject, and it should be as thorough as possible to prevent it from being contested on the grounds that something was left out (Chapter 2, section 2.10).
- To support the subject’s financial profile – and it will help to direct the investigation to the discovery of assets or documents thereto (Chapter 2, section 2.10).
- To highlight important clues to hidden assets. The proceeds of crime are usually converted into assets which are hidden. Rather than hoard the proceeds of their acts, subjects may spend lavishly on conspicuous items such as cars, homes, clothing and jewellery (Chapter 3, section 3.5).

- To either assist in exonerating a suspect, or uncover inappropriate income which has not been declared (Chapter 3, section 3.2 and Chapter 4, section 4.8).
- To be a critical management tool to identify staff members who, based on an extravagant lifestyle, may potentially be engaging in illicit activity. It is also one of the few mechanisms that organisations may utilise as a first step towards discreetly determining whether a “tip-off” of suspected fraudulent activity potentially has merit, or not (Chapter 2, section 2.8).
- It has become more and more necessary for companies to understand, and perhaps implement, lifestyle audits as a prevention method to crime (Chapter 1, section 1.1).
- It is considered to be a valuable tool/mechanism in uncovering irregular income, and is therefore called for by different sectors of business and government who believe it is necessary to expose cases of fraud and corruption (Chapter 1, section 1.1).
- It is a means to seek direct evidence of fraud (Chapter 2, section 2.8).
- It does not give definite proof of hidden income, but it appeals to the common sense argument that if an individual is spending this much money, it has to come from somewhere (Chapter 2, section 2.8).
- The lifestyle audit is a legitimate fraud prevention and detection mechanism, as it provides management, as well as investigators, with a snapshot into certain aspects of the life of an employee (Chapter 5, section 5.2).
- Lifestyle audits are an excellent barometer of the extent of the fraud risk within an organisation (Chapter 2, section 2.8).
- Auditors and forensic investigators use background investigations for a variety of purposes – sometimes to seek direct evidence of fraud, digging deeply into related party transactions, and at other times to identify investigative leads, locate interviewees and perform asset searches (Chapter 2, section 2.9).
- Offender profiling can be regarded as a useful investigative tool for investigators. Offender profiling is considered to be an aid in investigations; therefore, there is a relationship between offender profiling and investigations (Chapter 2, section 2.9).
- The lifestyle audit is simply an amalgamation of reports from a variety of databases (Chapter 5, section 5.2).

- The results of the lifestyle audit are an indicator or clue that something may be amiss, but can never, without further evidence, be regarded as conclusive proof of illicit activity. The results of the lifestyle audit must accordingly, be approached with caution (Chapter 2, section 2.12).
- The financial profile will identify most illicit funds that are either deposited to accounts, or expended in significant amounts (Chapter 2, section 2.12).

6.2.1.8 Advantages of conducting a lifestyle audit

Conducting a lifestyle audit is one of the financial investigative techniques utilised during an investigation into a finance-related offence. The financial investigative techniques which are useful, if not essential, in proving a money laundering case, can be used effectively in any other investigations as well (Chapter 2, section 2.11).

The research has confirmed that there are a number of distinct advantages for forensic investigators in conducting lifestyle audits – the key advantage being that the lifestyle audit provides the investigator with critical information on the suspect (Chapter 4, section 4.11).

6.2.1.9 Lifestyle audit process

From the discussion in Chapter 3, section 3.3, it is seen that the initial process of the lifestyle audit involves the identification of significant assets, liabilities, sources of income, as well as all significant expenses incurred.

There are various methods that can be applied for the lifestyle audit process. These include lifestyle audit questionnaires, such as those used by SARS, or both public records and legitimately obtained private records (Chapter 3, section 3.2).

SARS also obtains information from various sources, including the SARS anti-corruption and fraud hotline, income tax returns submitted to SARS, and suspicious activity reports from members of the public (Chapter 3, section 3.2).

6.2.2 Research Question 2: What best practices are applied by forensic investigators in conducting lifestyle audits on white collar crime suspects?

6.2.2.1 Training

The researched showed that although the vast majority of forensic investigators received no training on how to conduct a lifestyle audit, most of them do conduct lifestyle audits as part of their forensic investigation process (Chapter 5, section 5.3).

6.2.2.2 Initiating the lifestyle audit

The vast majority of the investigators believe that the lifestyle audit should commence at the start of the investigation process, or as soon as the identity of the suspect is known (Chapter 5, section 5.5).

6.2.2.3 Selecting a subject for the lifestyle audit

Forensic investigators select a subject for a lifestyle audit, mainly from persons working in the area of close proximity to where the crime was committed (that is, close to the money or access to the money), or from persons identified as a suspect by a witness (that is, a person who has had the opportunity to manipulate the records) (Chapter 5, section 5.6).

6.2.2.4 The lifestyle audit process used by the respondents

The researched showed that by far the majority of investigators do apply a defined methodology when conducting a lifestyle audit; however, this methodology or process is undocumented (Chapter 5, section 5.7).

6.2.2.5 Core elements of the lifestyle audit methodology

The research confirmed that there is a high correlation between the respondents and the literature, regarding the core elements of a lifestyle audit. These core elements can range from credit bureau searches to garbage searches (Chapter 5, section 5.8).

6.2.2.6 Duration of time to complete a lifestyle audit

The majority of forensic investigators believe that there is no defined timeline for completing a lifestyle audit, as the lifestyle audit is an ongoing process, and takes time

to access information – especially when there are offshore jurisdictions involved (Chapter 5, section 5.9).

6.2.2.7 The resources and tools required for the lifestyle audit

From the discussion in Chapter 5, section 5.10, it can be seen that electronic searches on the internet are one of the most effective resources/tools when conducting lifestyle audits, due to the fact that information is available to the investigator almost immediately, and that increasingly more information, such as public records and statutory information, is available in electronic format on a variety of websites.

The research showed that there is a high correlation between the respondents and the literature, regarding the resources and tools required in order to conduct a life style audit, with the key element being access to technology (that is, internet access, computer, telephone and mobile communications and subscriptions to online databases) (Chapter 5, section 5.10).

6.2.2.8 The cost of the lifestyle audit

The lifestyle audit can vary in cost, between R10,000 and R100,000 to complete, depending on a number of circumstances, including jurisdiction, number of suspects and the complexity of the investigation (Chapter 5, section 5.11).

6.2.2.9 Initiating the lifestyle audit

Forensic investigators will require basic information in order to initiate a lifestyle audit, starting with the subject's ID number (Chapter 5, section 5.12).

6.2.2.10 Information source to be approached first when conducting a lifestyle audit

Just over half of forensic investigators make use of credit bureaus as a first step when conducting a lifestyle audit. Others prefer to commence the lifestyle audit with a review of staff personnel or HR/personnel records, while yet others approach the CRC for criminal record checks (Chapter 5, section 5.13).

6.2.2.11 Accessing information for the lifestyle audit

The researched showed that forensic investigators can access information for their lifestyle audits through multiple information sources, both public and non-public. The investigators mainly make use of Section 205 subpoenas to access financial information. They also make use of everything from telephone enquiries and online media searches to surveillance, photographs and maps (Chapter 5, section 5.14).

6.2.2.12 Terminating the lifestyle audit

Just under half of the forensic investigators believe that a lifestyle audit is never complete, as it is an ongoing process, and is therefore never terminated. Other forensic investigators terminate the lifestyle audit once there is sufficient information gathered on the suspect (Chapter 5, section 5.17).

6.2.2.13 Red flags identified from the lifestyle audit

The main indicator of possible fraud is when “a suspect is living beyond their means”, when conducting lifestyle audits. A variety of other possible ‘red flags’ have also been identified in this study (Chapter 5, section 5.18).

6.2.2.14 Key best practices for lifestyle audits

The key best practices identified as used by forensic investigators when conducting lifestyle audits, include the use of visual aids, maintaining of databases, as well as maintaining the chain of evidence (Chapter 5, section 5.19).

6.2.2.15 Risks in conducting lifestyle audits

From the research in Chapter 3, section 3.4, it is clear that the forensic investigator faces numerous risks when conducting lifestyle audits, ranging from a 'scattergun' approach to the lifestyle audit, misspelling of names, the ethics and motives of informers, the reliability of information collected by using people as information sources, unlawfully secured information through third parties, and inaccurate public records.

The concern with these risks is that a picture of the subject may be formed that is not necessarily an accurate or complete reflection of the factual situation. For this reason, investigators should never rely solely on electronic searches to complete a profile on a subject, but should rather actively seek to enhance their knowledge of a subject through

other means. Electronically available information should thus be regarded as a useful tool of assistance in an investigation, but never as the primary source of information (Chapter 3, section 3.4).

The lifestyle audit alone may never be used as conclusive proof of illicit activity, as there may be a perfectly reasonable explanation for what, on the face of it, appears to be an extravagant lifestyle. These explanations include an inheritance, or a wealthy partner, or a family member not known to the employer, providing financial support. The results of the lifestyle audit must, accordingly, be approached with caution. (Chapter 2, section 2.12).

Evidence in financial crimes may be destroyed or concealed, just as a violent criminal may try to destroy evidence. Further, fraud examiners should realise that in most instances bank records are not readily obtainable (Chapter 3, section 3.4).

6.2.3 Research Question 3: What various sources of information can forensic investigators consult when conducting a lifestyle audit of a white collar crime suspect?

The vast majority of respondents (19 out of 20 (95%)) understood the value of sources of information in compiling a comprehensive lifestyle audit as “invaluable” to the forensic investigator and investigation (Chapter 5, section 5.16).

The various sources of information available to forensic investigators are listed in Annexure A2 (Sources of information for the lifestyle audit).

6.3 Recommendations

Emanating from the findings of this study, the researcher proposes the following recommendations:

6.3.1 Research Question 1 - How does the lifestyle audit relate to white collar crime investigations?

Investigators have a varied understanding (and possibly misunderstanding) of the definition of the term “lifestyle audit”. It is therefore recommended that they attend training to ensure clarity on this definition.

In order to create an awareness of the important role the lifestyle audit plays in white collar crime investigation, managers of forensic investigation teams should ensure that they and their staff are made aware of the following aspects of lifestyle audits:

- The aim and purpose of the lifestyle audit.
- The value of the lifestyle audit.
- The advantages of conducting a lifestyle audit.
- An understanding of what the results of the lifestyle audit allow the investigator to focus on.
- The importance of conducting lifestyle audits on all white collar crime suspects during forensic investigations.
- The implications of failing to conduct a lifestyle audit during a forensic investigation.
- That the lifestyle audit is not a completely reliable indicator of income sources and amounts.
- That the results of a lifestyle audit alone will not prove a suspicion or allegation that evident living standards exceed known legitimate income.
- The correct and legal manner to secure information.

6.3.2 Research Question 2: What best practices are applied by forensic investigators in conducting lifestyle audits on white collar crime suspects?

Forensic investigators should receive training in the process of how to conduct a lifestyle audit, and should exercise the following best practices when conducting lifestyle audits:

- The lifestyle audit should commence at the start of the investigation process, or as soon as the identity of the suspect(s) is known. This will provide investigators with direction as to where to focus their efforts and prepare themselves for the interview process.

Further the Forensic investigator should:

- Understand how to select the subject for a lifestyle audit.
- Apply a defined methodology when conducting a lifestyle audit.
- Document the lifestyle audit methodology or procedure.
- Understand the core elements of the lifestyle audit.

- Understand that there is no defined timeline for completing a lifestyle audit, as it is an ongoing process.
- Understand that there are cost implications to a lifestyle audit, and apply a budget to this process.
- Understand when to terminate the lifestyle audit.
- Be aware of the many red flags which may emerge when conducting a lifestyle audit – the main red flag being a “suspect(s) living beyond their means”.
- Make use of visual aids while conducting lifestyle audits.
- Maintain databases on the data emerging from the lifestyle audit, in order to best manage this information.
- Maintain the chain of evidence regarding the information they receive while conducting the lifestyle audit.
- Consider the approach of requesting the suspect to cooperate in the lifestyle audit, by interviewing the suspect, requesting their assistance and asking for relevant source documents.
- Use a methodical approach in applying the lifestyle audit process.
- Look for recurring irregular patterns in sets of data and information.
- Not jump to conclusions.
- Consider making use of telephone records for information on the suspect’s call history, as part of the lifestyle audit process.
- Consider reviewing email communications for information about the suspect’s communications, while conducting the lifestyle audit process.
- Use the results of the lifestyle audit to support other aspects of the investigation, and then build on these as the case progresses/evolves.
- Compare current information on the suspect to previous information received.

Forensic investigators should heed the following risks when conducting a lifestyle audit:

- All evidence should be secured legally.
- Integrity of the data is paramount (they can achieve this by maintaining the chain of evidence, and verifying data sources).
- Adhere to the South African Constitution, and not breach anyone's right to privacy.
- Be sceptical of information received from third parties, and try to understand the motive for providing the information.

- Consider the fact that the subject of the lifestyle audit may be innocent.
- Have an understanding of the National Credit Act.
- Have an understanding of the Protected Disclosures Act.
- Understand what is contained in the POPI Bill, and note its future commencement date.

6.3.3 Research Question 3: What various sources of information can forensic investigators consult when conducting a lifestyle audit of a white collar crime suspect?

Forensic investigators need to ensure that they have a detailed understanding of the resources and tools at their disposal when conducting lifestyle audits. In order to do this they need to ensure that they keep abreast of the latest sources of information and how to access them.

Forensic investigators must have a comprehensive understanding of how to access these sources of information, in order to extract the necessary data/information during a lifestyle audit. The following points are important:

- It is essential that forensic investigators have access to the internet for online searches, in order to search public sources of information when conducting a lifestyle audit.
- Forensic investigators should always consider securing legal access to the subject's financial records, by applying for a Section 205 subpoena (in terms of the Criminal Procedure Act), as this is a critical source of non-public information when conducting a lifestyle audit.
- Forensic investigators should consider all the various data options available to them, when initiating a lifestyle audit.
- In order to ensure forensic investigators extract the maximum value from the lifestyle audit process, it is suggested that they consult the Checklist of Information Sources (drafted by the researcher from this study – see Annexure A2), to ensure they are comprehensive in their data/information searches.
- Forensic investigators should consider making use of credit bureaus as a first step when conducting a lifestyle audit, as this will provide them with reliable quick data on the subject within a matter of a few minutes.

As there is limited literature available relating to lifestyle audits, the researcher recommends further research in the following two areas:

- How progress in technology will affect the lifestyle audit process in future.
- Synergies between the lifestyle audit and other fraud detection tools.

6.4 Conclusion

The researcher's aim was to provide forensic investigators with the best practices on lifestyle audits, in order to empower them to become better forensic investigators by assisting them to detect fraud and solve white collar crimes.

One of the best practices developed from this research was the Checklist of Information Sources that forensic investigators can consult when conducting lifestyle audits (see Annexure A2). The purpose of this checklist is to assist forensic investigators to extract the maximum value from the lifestyle audit process, in order to benefit their investigations. It is recommended that forensic investigators consult this checklist to ensure they are comprehensive in their data/information searches. The researcher trusts that his efforts will empower forensic investigators in their efforts in the fight against white collar crime.

The results of this research have revealed that the lifestyle audit is an important tool for forensic investigators investigating white collar crimes, and will enhance the quality and success of investigations in the future. However, forensic investigators will have to ensure that they receive the necessary training on how to conduct lifestyle audits effectively, should they want to succeed.

This research has also revealed discrepancies between the literature and the respondents – which indicates that there areas and topics that need to be researched further.

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CASE LAW

CEPPWAWU obo Hlebela/Lonmin Precious Metals Refinery [2011] 8 BALR
814 (CCMA)

R v Heyne 1956 (3) SA 604 (A) 622

S v Deetlefs 1953 (1) SA 418 (A)

S v Myeza 1985 (4) SA 30 (T)

ANNEXURE A1
INTERVIEW SCHEDULE FORM

UNISA

The best practices applied by forensic investigators in conducting lifestyle audits on white collar crime suspects.

Researcher – Roy Gillespie (Student Number 3678-112-6)

Promoter – Rudolph Zinn, Senior Lecturer: Forensic Investigation

This research dissertation is undertaken by the researcher as part of his MTech Forensic Investigation studies at UNISA

Summary of this research dissertation

This interview schedule forms part of a research dissertation to establish “the best practices applied by forensic investigators in conducting lifestyle audits on white collar crime suspects”.

Confidentiality

You will not be required to provide your name in this interview. Your name will also not appear in any other report and the researcher guarantees your anonymity. In addition, all other personal information will be kept confidential. Your identity will in no way be detectable from the research results. The analysed and processed data (statistics) will be published in a research report. The researcher is bound to his assurances and guarantees by the ethics code for research of UNISA.

Definition

"Lifestyle audit" is a term commonly used by forensic investigators to describe the tests that are performed to determine if the lifestyle of an individual is commensurate with that person's known income stream.

General

Only one answer per question is required. Your answers will be written on the questionnaire sheet by the interviewer. Should any question or statement be unclear to you, please ask the interviewer to explain it to you. When answering the questions, it is very important to give your own opinion and to provide accurate facts.

If, during the course of the interview, you have other information that you think is important to the research, please inform the researcher of this.

In closing, I must remind you again that you have the right to refuse to answer any particular question, although I would appreciate your telling me why, if there is anything you do not want to answer. Do you have any questions now?

Section A – Biographical Information

1. Gender

Male	Female

2. Nationality

South African	Non South African (Specify country)

3. Home language

Zulu	Xhosa	Tswana	Sotho	English	Afrikaans	Other

4. Age group

25 – 30	30 – 35	35 – 40	40 – 45	45 – 50	50 – 55	55 - 60

5. Marital Status

Single	Married	Divorced

6. Highest educational qualifications

Grade 12 (Matric)	Certificate	Diploma	Degree	Post-Graduate

Section B – Employment history and background

7. Current employment capacity or level

Investigator	Junior manager	Manager	Senior Manager	Head/Partner	Other

8. Industry type

Financial Services	Legal	Accounting	Corporate	Other (Specify)

9. Number of years experience as an investigator

0 – 5	5 – 10	10 – 15	15 – 20	20 – 30

10. Number of years experience with white collar crime investigations?

0 – 5	5 – 10	10 – 15	15 – 20	20 – 30

11. Did you ever receive any police or law enforcement training?

Yes	No

12. If you have received police or law enforcement training where did you receive this?

South African Police Service	Former Homeland Police Service	Other country police force	South African Defence Force	Security Based Training	Other

12.1 If you have received police training did you attend a detective training course?

Yes	No

12.2 List the other crime investigation training courses have you attended?

13. What is your background in terms of a forensic investigator?

Section C - lifestyle audits

14. What do you understand by the term “lifestyle audit” in a forensic investigation context?

15. What do you understand is the aim or purpose of a lifestyle audit in white collar forensic investigations?

16. In the course of the forensic investigations that you conduct, do you as a matter of course normally conduct lifestyle audits during these investigations?

Yes	No	Sometimes

17. Is it necessary to conduct lifestyle audits on all white collar crime suspects during forensic investigations?

Yes	No	Sometimes

17.1 If your answer is “yes”, please explain why?

17.2 If your answer is “no”, please explain why?

17.3 If your answer is “sometimes”, please explain why?

18. From your experience as a forensic investigator, at what point during a forensic investigation would you start with the lifestyle audit?

19. From your experience as a forensic investigator, how would you select a suspect for a lifestyle audit?

20. What are the investigative advantages of conducting a lifestyle audit on white collar crime suspects?

21. What are the investigative disadvantages of not conducting a lifestyle audit on white collar crime suspects?

22. What information do you require as a forensic investigator to conduct a lifestyle audit?

23. Name the resources and tools you as a forensic investigator require to conduct a lifestyle audit.

24. Do you apply a defined methodology for conducting a lifestyle audit?

24.1 If so describe the core elements of this methodology.

25. In your experience, what are the various information sources forensic investigators can consult to conduct a lifestyle audit of a white collar crime suspect?

26. From your personal experience, what is the value of these sources of information to you as a forensic investigator in compiling a comprehensive lifestyle audit?

27. Please provide a brief description of the type of information the forensic investigator is able to collect or gather on the white collar crime suspect from the sources supplied in your answer to question 26.

28. From your experience, which public records have you accessed in conducting lifestyle audits on white collar crime suspects?

29. How did you go about accessing this information in the question above, during the lifestyle audit?

30. From your experience, which private records have you accessed in conducting lifestyle audits?

31. From your experience, how long does a lifestyle audit usually take to complete?

32. What are the cost implications in conducting a lifestyle audit?

33. From your experience, how do you know when to terminate the lifestyle audit?

34. From your experience, what is the value of a lifestyle audit on the white collar crime suspect to the forensic investigator during a forensic investigation?

35. What best practices, besides those you have already mentioned, if any, exist in performing lifestyle audits on white collar crime suspects?

36. What types of specific information or indicators do investigators look for when conducting lifestyle audits on white collar crime suspects?

37. What risks should the forensic investigator be aware of when conducting a lifestyle audit?

38. In your opinion, is a lifestyle audit a completely reliable indicator of income sources and amounts in terms of the suspect's lifestyle?

Yes	No

39. Will the results of a lifestyle audit alone prove a suspicion or allegation that evident living standards exceed known legitimate income?

Yes	No

40. In terms of a forensic investigation, what does the result of the lifestyle audit allow, if anything, for the investigator to focus on?

Thank you, that is the end of the interview I have no more questions for you. Now, is there anything else that you can think of that might be of importance to my study and that I have not asked you about?

ANNEXURE A2

CHECKLIST OF INFORMATION SOURCES FOR LIFESTYLE AUDIT

Public Sources of Information

Type	Source	Information
Online searches (17 out of 20 = 85%)*	Internet search engines such as: Google (www.google.co.za) Yahoo (www.yahoo.com) AltaVista (www.altavista.com) Metacrawler (www.metacrawler.com) Ask (www.ask.com) Ananzi (www.ananzi.co.za)	Information on anything including local and global news coverage Articles from medical or scientific journals Bibliographies Organizations Services (for example, self-help groups, local chapters, lending libraries, etc.) Contact information Newsletters (online or e-mail) Newer methods of information delivery: Blogs, podcasts, etc.
	News sites such as: Media24 (www.media24.co.za) IOL (www.iol.co.za) Money Web (www.moneyweb.co.za) Sunday Times (www.timeslive.co.za/sundaytimes/) BBC (www.bbc.com) Sky News (www.skynews.com) Mail and Guardian (www.mg.co.za)	Media searches News events Information on persons and companies Court cases Adverse data Business transactions and relationships Litigation details
	Social networking sites such as: Facebook (www.facebook.com) MySpace (www.myspace.com) Twitter (www.twitter.com)	Social relationships, family members, friends, personal details, photographs, contact details, place of current employment, marital status, current location, hobbies
	Business networking sites such as: LinkedIn (www.linkedin.co.za) Who'sWho (www.whoswhosa.co.za) Plaxo (www.plaxo.com)	Business relationships, curriculum vitae, employment history, company details, email addresses, other contact information, photographs, etc.
	Online property valuation sites such as Reep (www.reep.co.za)	Current and historical property valuations; previous property ownership; market property trends, etc.
	Maps Google Maps (http://maps.google.co.za/)	For information on addresses, the location and layout out of properties, visuals of property locations, road layouts and maps, etc.
	South African Aircraft Register (www.avdex.co.za/saregister/)	Maintains database of registered aircraft in South Africa including date, registration number, serial number, aircraft type and aircraft owner
	co.za Domain Administration (http://whois/)	Like a telephone number, a Domain name is a unique identifier that points to a certain site on the World Wide Web. Each computer on the Internet has a unique numeric Internet Protocol address such as 131.215.3.29. These numbers are not user-friendly and give no indication as to

		what this address contains.
	Yellow Pages (www.yellowpages.co.za)	Business directory of information, company names, contact details, address, services, etc.
Credit Bureaus (16 out of 20 = 80%)*	Experian (www.experian.co.za) TransunionITC (www.transunion.co.za)	<p>Principal Enquiry</p> <p>Consumer Information - Principal Name, ID Number, Date of birth, Marital status, Entry Date, Address, Employer, Telephone, Previously Known As</p> <p>Consumer Enquiries - Date, Subscriber, Type, Contact, Name, Telephone Number</p> <p>Business Enquiries - Date, Subscriber, Type, Contact, Name, Telephone Number</p> <p>Default Information</p> <p>Judgments - Judgements on file for this subject</p> <p>Default - Defaults on file for this subject</p> <p>Notices – Notices on file for the subject</p> <p>Notarials - Notarials on file for this subject</p> <p>Trace Alerts - Trace alerts on file for this subject</p> <p>Company Header Record - TU Number, Name, Previous Name, Registration Status, Address, Type of Business, Industry, Category of Business, Function, Registration Number, Duns Number, Phone Number, Fax Number, Language</p> <p>Principals of Company - Name, ID Number, Birth Date, Consumer Name, Address, Telephone No</p> <p>Subject Civil Court Record - Displays the civil court records as a result of a court ordering a business to make payment on debt or an outstanding account. A judgment remains on a business's profile for 5 years.</p> <p>Subject Default Data - Displays the Default data as supplied to Transunion by credit grantors and relates to late or non-payment of accounts. A default remains on a business's profile for 3 years if it relates to legal action, handed-over or written-off debt. All other defaults remain on the profile for one year.</p> <p>Notarial Bonds - Displays information on all the notarial bonds held against the business. A notarial bond is a bond over moveable assets as registered the Registrar of Deeds. These bonds are used to secure debt and are not considered negative information - it means that should a business liquidate, the holder of the notarial bond will have preferential claim to the funds that have arisen from the sale of the moveable assets.</p>
Company Searches (14 out of 20 = 70%)*	CIPC (Companies and Intellectual Property Commission) (www.cipc.co.za) Transunion (www.transunion.co.za) Experian (www.experian.co.za) SA Company Links (www.sacompany.co.za)	<p>Company records</p> <p>Subject Identification - Displays the business identification information, including the Business Name/s, Start Date, Business Type, Duns Number, Tax Number, Postal Address, Previous Name, Date of Change</p> <p>Registration Details - Displays the Registration details of the business, including the Registration Date, Status, Current Reg Number, Financial Year End, Company Type, Country,</p>

		<p>Registered Address, Auditors Details, Status, Postal Address, Members according to the registrar</p> <p>Subject Civil Court Record - Displays the civil court records as a result of a court ordering a business to make payment on debt or an outstanding account. A judgment remains on a business's profile for 5 years</p> <p>Subject Default Data - Displays the Default data as supplied to Transunion by credit grantors and relates to late or non-payment of accounts. A default remains on a business's profile for 3 years if it relates to legal action, handed-over or written-off debt.</p> <p>Notarial Bonds - Displays information on all the notarial bonds held against the business. A notarial bond is a bond over moveable assets as registered the Registrar of Deeds. These bonds are used to secure debt and are not considered negative information - it means that should a business liquidate, the holder of the notarial bond will have preferential claim to the funds that have arisen from the sale of the moveable assets</p> <p>Principals Summary - Displays a summary of the information available on the principals of the business, including Name, Confirmed By, Date Started, ID Number, Birth Date, Civil Court Rec, Default Data, Notarial / Notices</p> <p>Principal Default - Displays the adverse information recorded against the principals of the business</p> <p>Principal Link - Displays information on any other businesses which are associated with the principals of the business</p> <p>Business Interests Via Principal Link For each Principal - Name of Company, Registration Status, Registration Number, Year Established</p> <p>Deeds History - Displays information on the properties owned by the business as obtained from Deeds offices across South Africa, including Information as at, Purchase Price, Purchase Date, Size, Bond Number, Bond Holder, Bond Date, Id/Reg/Dob, Farm, Name, Portion, Title, Town</p> <p>Enquiry History - Displays the history of all enquiries made on the business by other Businesses over the past three years, including Date, Reason, Subscriber, Amount, Contact, Telephone</p>
<p>Deeds Office (14 out of 20 = 70%)*</p>	<p>Windeed (www.windeed.co.za) Transunion (www.transunion.co.za)</p>	<p>Property searches at the Deeds Office including person, property or document searches, Surveyor General diagrams, property valuations and erf-to-street conversions (or vice versa). Information includes Property owner details (name and ID number) ERF number, Purchase price, Name of owner, ID/Reg Number, Erf number, Portion, Township, Local Authority, Province, Share, Property Type, Deeds Office,</p>

		<p>Title Deed, Extent, Purchase Price, Purchase Date, Registration Date, Sell Price, Sell Date, Transfer searches - Deeds Office transfer data for specified townships, municipalities, registration divisions, agricultural holdings, sectional schemes or farms for a specified period. Historical transfers (dating back to 1993).</p> <p>Credit checks - Experian Consumer Profile, TransUnion Consumer Profile, Principal Link and ID Verification. A TransUnion Business Profile is also available through WinDeed.</p> <p>Company searches – Through the CIPRO Company Search facility, close corporations or organisations registered in South Africa, statutory details on directors or members.</p>
<p>Court Records (7 out of 20 = 35%)*</p>	<p>Clerk of the Civil and Criminal Court, Master of the High Court (www.justice.gov.za)</p>	<p>Trust information, including name, registration number, trustee information and details, purpose of the trust</p> <p>Divorce records and decrees</p> <p>Criminal sentence details</p> <p>Civil judgements</p> <p>Liquidation orders</p> <p>Insolvency records</p> <p>Child support and divorce records</p> <p>Maintenance Payment (Divorce settlement etc.) - Court/Office, Date of order, Beneficiary, Amount of payment, When payable, Method of payment</p> <p>Court Judgements / Fines / Previous Orders – Court, Date of order, Beneficiary, Amount of payment, when payable, Method of payment</p> <p>Liquidations - Liquidation Order Y/N, Date of Order, Liquidator, Address, Contact & Tel. No</p>
<p>Professional Bodies (2 out of 20 = 10%)*</p>	<p>Professional bodies such as: South African Institute of Chartered Accountants (www.saica.co.za)</p>	<p>For information on accreditations, memberships, qualifications, licences and registration.</p>
<p>Marriage Records (1 out of 20 = 5%)*</p>	<p>Department of Home Affairs (www.home-affairs.gov.za) Verify marital status online (http://www.home-affairs.gov.za/marital_status.asp)</p>	<p>Information on marriages marriage status and date of marriage</p> <p>Verify marital status online</p>
<p>Public Bodies (1 out of 20 = 5%)*</p>	<p>Round Table OF South Africa (www.roundtable.org.za) Rotary Associations Charities (www.rotary9270.org.za/clublocator)</p>	<p>For information on current and past members</p>
<p>Voters roll (1 out of 20 = 5%)*</p>	<p>Independent Electoral Commission (IEC) (http://www.elections.org.za/content/)</p>	<p>Provides confirmation of the votes ID number as well as the Province, Municipality, Voting District and Ward Number where registered as a voter</p>
<p>Garbage and dustbin searches (1 out of 20 = 5%)*</p>	<p>Discarded mail, correspondence, financial records, utility bills, invoices, receipts</p>	<p>Various types of information including invoices, till slips, bank statements, diaries, s of transactions etc.</p>

(Note that * depicts the number of respondents who cited this source of information in their responses)

Non-public Sources of Information

Type	Source	Information
Financial records (20 out of 20 = 100%)*	Banks and other financial institutions including insurance companies and brokerages and other financial information (Various banks including ABSA, Standard Bank, First National Bank, Nedbank, etc.) South African Banking Risk Information Centre (SABRIC) (www.sabric.co.za) Financial Services Board (www.fsb.co.za)	Bank accounts - Bank name, Bank address, Sort Code, Account number, Type of Account, Full name of account holder, ID number of account holder, Current balance, Annual credit turnover, Annual Debit Turnover, Account Signatories Saving Certificates - Certificate numbers, Value, Where held, Amount held and dates of acquisition, Quoted Shares - Name of company, Amount of holding, Location of certificates, Value of holding, Share transfer office Non Quoted Shares – Name of company, Amount of holding, Location of certificates, Value of holding, Share transfer office Trusts - Name of Trust and Trust No., Type of trust, Beneficiary, Trustee or Donor, Trust Bank Account No, Bank and Branch, Current Balance, Annual Credit turnover, Annual Debit turnover Life Insurance/Endowment Policies - Insurance company, Branch address, Policy details, Surrender value, Beneficiary, Premium amount week/month/year, How and when paid, Mortgage linked Yes/No Unit Trusts - Administering Company, Purchase Price, Monthly premium, Current value Motor Vehicle Finance Agreements - Make and model of vehicle, Registration mark, Dealers details, Purchase price, Current value, Registered keeper, Credit - Yes/No, Name of company, Address of company, Date of agreement, Balance of agreement Other Liabilities/Debts – Creditor, Creditor address, Amount of debt/liability, Particulars of debt Actual Overdrafts - Bank, Address & Tel No, Security on overdraft, Sort Code/Ac No., Amount Personal Solvency - Sequestration Order Y/N, Date of Order, Trustee/Official, Address, Contact & Tel. No. Bank statements, transaction details and amounts, deposit slips, account details, opening cards, transfers, Life insurance policies, benefit details, payout amounts, premium details, beneficiary details, deceased details Short term insurance policies Assets insurance, life insured, beneficiaries Pension savings and contributions Investments, source of investment deposits

		<p>Shares, certificates Safety deposit boxes ATM slips Credit cards – Account Number, Name of card, Amount owed or credit, Average payments, Name of Holder, Credit card slips Credit Agreements (Hire Purchase etc.) - Name of company, Branch, Purpose of loan, Amount borrowed, Amount owed, Monthly payments, Arrears, Invoices, Bills, Mortgage/Bond account information – Mortgagee or bond holder, Address of Mortgagee, Account name(s), Account number, Amount borrowed, Date commenced, Balance of account, Payment week/month, Method of payment, Arrears Insurance - Insurance company, amount insured, Risks covered, Amount paid week/year, When paid, How paid, Any special risks Insurance Claims - Insurance company, Date Claimed, Claim Type, Amount claimed, Amount Paid, When paid, How paid, Copy of claim</p>
<p>Vehicle ownership and history (11 out of 20 = 55%)*</p>	<p>National Traffic Administration System (NATIS) (www.enatis.com)</p>	<p>Vehicle ownership details Vehicle registration data Vehicle ownership history Engine and chassis numbers Make and model of vehicle, Registration mark, Dealers details, Title Holder,</p>
<p>Human Intelligence/Information (8 out of 20 = 40%)*</p>	<p>Witnesses (including friends, neighbours, family members or work colleagues of the suspect, prostitutes, strippers etc)</p>	<p>General intelligence on the subject Information on irregularities Other suspects Habits Patterns Associates Friends, family members Modus operandi</p>
<p>Internal Company records (8 out of 20 = 40%)*</p>	<p>Company personal and HR records</p>	<p>Income Tax - Registered, Reference No, Liability date (registration), Addresses on record, Bank accounts on record, Trusts disclosed, Business links, Spousal details, Telephone / Box No's on record, District, Return History – last 5 years, Income declared last 5 years, Amount due, Prosecutions pending ? VAT - VAT Registered?, VAT Reference No., District, Public Officer / Representative, Directors/Members/Partners names, Addresses /PO Box No's, Telephone Nos, Accountants, Bank Account details, Return History (201's) – last 5 years, VAT Active/VAT Semi Active / Dormant, VAT Activity increasing / decreasing for last financial year, Red Flag indicators (ie continuous refund situation, are VAT refunds consistent with activity), Amount due, Prosecutions pending? PAYE - IRP 5 issues?, Gross income (salary and allowances), Employers details, Personal address, Cross ref to business entities? UIF / RSC / STL - UIF payments being made?, Amounts per month?, RSC Levies being paid?,</p>

		<p>Amounts per month?, Skills Development Levy (STL) being paid?, Amounts per month?</p> <p>Accountant/Book-keeper - Name, Address, Telephone number</p> <p>Company Attorneys - Name, Address, Telephone number, Known Civil Actions</p> <p>Accounting records - Holder, Location Address, Telephone number</p> <p>Occupation</p> <p>Qualifications and skills</p> <p>Pension details amounts and beneficiaries</p> <p>Residential address</p> <p>Pervious employment (resume)</p> <p>Records of previous disciplinary hearings or disciplinary warnings</p> <p>Family members etc.</p> <p>Net income - Weekly/monthly or annually</p> <p>Employment commencement date/termination date</p> <p>SARS tax number</p> <p>Salary advice</p>
<p>Telephone records (8 out of 20 = 40%)*</p>	<p>Telkom and other mobile telephone network operators such as MTN, Vodacom, Cell C etc (Including internal company telephone and mobile phone records) (www.telkom.co.za)</p>	<p>Fixed Line - Telephone No, Telephone /Fax No, Tel. Company paid, Amount Paid, Payable annually, When and how paid, Current arrears, Itemised billing</p> <p>Cellular Telephone - Cellular Phone No, Airtime provider, Phone provided by, Amount paid, When and how paid, Current arrears, Itemised billing</p> <p>Telephone number owner details</p> <p>Telephone call dates, duration and dialled history</p> <p>Subscribers details</p> <p>Network activity</p> <p>Call history on telephone numbers</p> <p>Bill payment information</p> <p>Triangulation of numbers called etc.</p>
<p>Local Municipal records (5 out of 20 = 25%)*</p>	<p>Local Municipalities</p>	<p>Rates and taxes information</p> <p>Billing information</p> <p>Business licences</p> <p>Building plans</p> <p>Municipal utility payments for refuse collection, water consumption, property rates and taxes information etc.</p>
<p>Criminal Records (4 out of 20 = 20%)*</p>	<p>SAPS Criminal Record Centre or Criminal Court Records</p>	<p>History of previous criminal convictions</p> <p>Sentence details</p> <p>Pending cases</p>
<p>Informal network (4 out of 20 = 20%)*</p>	<p>Various network contacts including fellow forensic investigators, colleagues and contacts at financial institutes etc.</p>	<p>Latest modus operandi</p> <p>Similar suspects and trends</p> <p>Patters in crimes</p> <p>Suspect identities</p>
<p>Informers (4 out of 20 = 20%)*</p>	<p>Informants and Whistle-blowers</p>	<p>Suspects identities and details</p> <p>Other crimes and modus operandi</p> <p>Misappropriated funds and hidden assets</p> <p>Irregularities and other linked suspects</p> <p>Suspects movements and future plans</p>
<p>Retailers (4 out of 20 =</p>	<p>Various retailers such as Edgars, Truworths, Woolworths etc.</p>	<p>Customer names</p> <p>Current addresses</p>

20%)*	including Video rental outlets and pay channel television networks such as DSTV	Telephone and ID numbers Billing information and payment details Purchases Spending patterns
Cross Border Movements (4 out of 20 = 20%)*	Movement Control Centre (MCC)	Cross border activity of persons Dates of travel. Arrival and exit Entry and exit points into South Africa Travellers full names, date of birth and ID number Mode of transport/travel Port of Entry Travel purpose Occupation code
Tax information (SARS) (2 out of 20 = 10%)*	South African Revenue Services (SARS) (www.sars.gov.za)	Income Tax - Registered, Reference No, Liability date (registration), Addresses on record, Bank accounts on record, Trusts disclosed, Business links, Spousal details, Telephone / Box No's on record, District, Return History – last 5 years, Income declared last 5 years, Amount due, Prosecutions pending ? VAT - VAT Registered?, VAT Reference No., District, Public Officer / Representative, Directors/Members/Partners names, Addresses /PO Box No's, Telephone No's, Accountants, Bank Account details, Return History (201's) – last 5 years, VAT Active/VAT Semi Active / Dormant, VAT Activity increasing / decreasing for last financial year, Red Flag indicators (i.e. continuous refund situation, are VAT refunds consistent with activity), Amount due, Prosecutions pending? PAYE - IRP 5 issues? Gross income (salary and allowances), Employers details, Personal address, Cross ref to business entities? Declared income, assets and liabilities
Utility bills (2 out of 20 = 10%)*	Utility companies such as Eskom, Telkom and other utility service providers	Rates/Electricity/Water Charges/ - Authority paid, Payable annually, When and how paid, Current arrears, Address and physical location of utility services, Account holder details such as full names address, ID and telephone number, History of account payment, History of utility supply and usage
Maritime records (2 out of 20 = 10%)*	South African Maritime Safety Authority (SAMSA) (www.samsa.org.za)	Small craft registration Small craft ownership
Private Clubs (2 out of 20 = 10%)*	Various sporting and members clubs including golf	Membership details including names, address and ID numbers Fee record payments Historical booking times and events
Electronic data (2 out of 20 = 10%)*	Imaged PC or mobile phone hard drives, PST files, USB devices etc	On the suspect and accomplices Modus operandi Hobbies and patterns Communications such as emails, texts and other electronic communications Relationships etc.
Aircraft registration details	Civil Aviation Authority (CAA) (www.caa.co.za)	Aircraft registration details Aircraft ownership Make and model type

(1 out of 20 = 5%)*		Location Registration details if applicable
Gambling records (1 out of 20 = 5%)*	Various Casinos	Gamblers personal information, name address telephone number and ID number MPV gambling records and winnings
Transnet National Ports Authority (1 out of 20 = 5%)*	Transnet National Ports Authority (www.transnetnationalportsauthority.net)	Container imports and exports Value of cargo Contents of containers Information of shipping movements and arrivals Port activities and vessel identification
Financial Brokers (1 out of 20 = 5%)*	Various Financial brokers	Investment products and vehicles Income and dividends Investment amounts and sources of income Investor details
Medical Aids (1 out of 20 = 5%)*	Various Medical Aids	Members information including full names, address, and ID numbers Other members
Unemployment Records (1 out of 20 = 5%)*	Department of Labour, Unemployment Insurance Fund (UIF) (www.labour.gov.za)	Employment and unemployment history of persons History of benefits UIF contributions UIF payments being made Amounts per month
Delivery Services (1 out of 20 = 5%)*	Various delivery services such as Mr Delivery, florists etc.	Clients names, ID numbers, addresses and telephone numbers Patters and habits
Company Asset registers (1 out of 20 = 5%)*	Various company asset registers	Location of assets Serial numbers of assets Ownership of assets Movement of assets Plant/Machinery etc. - Make and model, Registration details if applicable, Purchase price, Current value, Keeper, Hire purchase Yes/No, Name of company, Address of company, Date of agreement, Balance of agreement Office/Trade fixtures and fittings - Details, Make and model, Serial No., Purchase price, Current value, Lease purchase Yes/No, Name of Lease Company, Address of company, Date of agreement Other valuable property - Details, Registration details if applicable, Purchase price, Current value, Keeper/location, Hire/Lease purchase Yes/No, Name of company, Address of company, Date of agreement, Balance of agreement
Employment history (1 out of 20 = 5%)*	Previous employers	History of previous employment / Job description Reasons for leaving / changing employment Qualifications Previous resumes, Curriculum Vitae Contact details
Qualifications (1 out of 20 = 5%)*	Various Universities, Schools and collages Lexis Nexus RefCheck (www.lexisnexus.co.za/our-solutions/private-	Criminal Illicit Activity (AFISwitch) Credit Bureau Reports (TransUnion & Experian) Tertiary Academic Qualifications (Local & Global)

	sector/risk-management/refcheck.aspx	Employment History (Local & Global) Professional Association Memberships (Local & Global) Fit & Proper Screening (S-Reference & FSB Debarred Listing) ID Verification ID Verification with Fraud Listing Matric & Secondary School Drivers Licence Permanent Residency Bank Verification
Vehicle hire information (1 out of 20 = 5%)*	Various vehicle hire companies such as Avis, Europcar etc.	Vehicle hired dates Responsible person details Method of payment Location of hire, return location of vehicle
Timeshare Ownership (0 out of 20)*	Vacation Ownership Association of South Africa (VOASA) (www.voasa.co.za)	Information on timeshare ownership

*(Note that * depicts the number of respondents who cited this source of information in their responses)*

ANNEXURE A3
EDITOR'S CERTIFICATE

28 May 2014

I, Marlette van der Merwe, 4802060118085, hereby certify that the master's dissertation, "*The best practices applied by forensic investigators in conducting lifestyle audits on white collar crime suspects*", by Roy Tamejen Gillespie, has been edited by me, according to the Harvard reference method as used by Unisa.



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