



## Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

**Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.**

### PROXIMAL CONSULTING WHITE PAPER 23 INSIDER & EMPLOYEE FRAUD

What follows are the most common types of warning signs which ought to be continuously checked for and investigated further if found to be occurring. No, it's not a complete list, but it is fairly exhaustive and, based on my painful experience, it's probably better than what you've got now.

From missing invoices to ghost employees, the list and the risks are seemingly endless. Detailed below are the types of red-flag warning signs which signal possible insider fraud and thus demand investigation in the source accounting records at departmental level:

- An invoice is photocopied. What happened to the original: or is this a fraudulent copy of an invoice your organization has already paid?
- Invoice numbers from a specific vendor or supplier occur in an unbroken, consecutive sequence. Your organisation is the supplier's only customer. (Does this supplier actually exist?)
- Invoices from a supplier appear to be similar, except for areas which are whited out (fraudulent invoices generated from one original?). Alternatively invoices from completely different suppliers have exactly the same format. (Yes, I know that this could be genuine and they both use the same accounting software, but worth validating nevertheless).
- Invoice amounts are always round figures. This may be fine for consultancy projects but dubious when materials are involved.
- Invoice contains only a PO Box number. (There is a caveat here: in some countries, such as Saudi Arabia, there is no delivery-to-door post and all mail addresses are PO Box numbers. However, if the country in which the mail address is has a delivery service to door then PO Box numbers should raise suspicions).
- Invoice does not show a telephone or fax number. How can a company sell if customers and prospective ones cannot contact them? If you've got this one then you may as well presume it's out-and-out fraud and cut out any hesitation.
- The telephone number shown on the invoice is either a residential number answered by a machine; is a serviced office; is unobtainable or is answered by someone who has honestly never heard of the company. (Somewhat incredibly, all of these variations frequently occur). Or, and this also happens more than you may think, is the telephone number of a member of your staff!
- The amount of each invoice falls slightly below a threshold for approval. This is a favourite: the mandate holder is putting more than his authority through but achieves this by splitting the grand total into bite-sized chunks which he can approve. You need to look at cumulative totals for relevant vendors or suppliers instead.
- The invoicing company has the same address and/or telephone number as an employee.
- There is no delivery note to correspond with the invoice (only applicable to consumables or something physical which exists, as opposed to services. However in the case of services it is amazing how many false invoices get through with the legend 'professional services' or something similar, just because it is difficult to measure or obtain physical evidence of what has been provided).
- No invoice exists but a payment has been made. Strange but true: junior members of staff who are instructed to make payment without any documentation by their managers, or staff who just do it anyway themselves.
- A payment has been made to a supplier in an amount different from that on the invoice.
- Payments are made to suppliers who have similar names to those of genuine companies.
- Refunds or financial transactions are made with no documents or authorities.

- Ghost employees. Always a good one: set up employees on a payroll system that are non-existent. You would be amazed as to how frequently this happens.
- 'Borrowing' funds. Money transferred from company bank accounts during the month to personal interest-bearing ones and repaid before the month end. (This relates to an actual case where the finance directors of a large international organisation diverted massive sums of money each month to a high interest account, then transferred the money back at the month end, personally retaining the substantial interest generated).
- The fraudster can circumvent controls because he is the control (e.g. approval mandates). In other words if the fraudster can authorise payment or physically make payments he/she can get away with it for as long as nobody checks.

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Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.