

## TIPS TO REDUCE FRAUD RISKS

### Examples from experience

Fraud cannot be eradicated but the opportunity for fraud can be considerably reduced. Fraud is a dynamic risk because business processes are constantly changing to meet new requirements. This creates new opportunities for dishonesty. Managers must always be alert to the risk of fraud and apply appropriate techniques to reduce it. Experience provides a useful guide. Here are three real life examples of fraud risks taken from the day to day experience of an internal auditor. Are there controls in your organisation that minimise these fraud exposures?

### Instructions by email

An email instruction to change a supplier's bank details was received. It was implemented and payments were made to the new bank account. After a few weeks the supplier complained that they had not been paid. The email instruction turned out to be bogus. It had looked genuine but a subtle change was made in the email address to obscure the deception.

*Key control:* Instructions to change supplier details should be checked, for example by telephone, to confirm they are correct.

### Electronic documents

A building contractor submitted invoices as an email attachment. The attachment was a Word document in full colour containing the contractor's logo. At an unknown stage in the payment process a hard copy invoice was printed with changed bank details for making the payment. The hard copy looked genuine because it was printed from the supplier's template. But it included an inconspicuous and important change to the bank details. The invoice was approved and submitted for BACS processing.

*Key control:* There should be protocols for dealing with invoices (and other key documents) received electronically that minimise the opportunity for unauthorised alterations. For example, suppliers could be instructed to issue 'read only' documents for processing.

### Cashing a false cheque

Obsolete pre-printed cheque books were stored pending secure destruction. After some months several cheques from these books were presented to the bank for payment. The cheques had been used as part of an artful internet scam whereby members of the public were duped into providing a real cheque in return for a fraudulently completed stolen cheque. A great deal of work was created for the organisation's accounts department as the bank started to receive a large number of false cheques that required investigation. The organisation did not suffer a financial loss but considerable time was taken to investigate the attempted fraud.

*Key control:* Cheque books should be securely stored and controlled. Similar security measures must be applied to cheque destruction.

### Post script

These examples demonstrate how basic controls can prevent many frauds. Such controls are often overlooked. Because they are elementary it is often assumed that they are in place until the time that disaster happens. Internal auditors have wide practical experience of controls. If you would like to discuss steps that can be taken to improve your organisation's controls please contact us.