



How to spot possible fraud **Deloitte Forensic**

Throughout the numerous fraud investigations we have carried out, we have identified a list of common themes or 'red flags'. Any one of these could indicate that a possible fraud is taking place. Being alert to red flags and responding appropriately can assist you to detect fraud earlier and in some cases prevent fraud occurring altogether.

It is important to emphasise this list is not exhaustive, rather it represents many of the common red flags present in fraud cases that we have investigated. If one or two of these red flags alone are present, it may not necessarily mean that fraud is occurring, however it would be prudent for the organisation to understand the underlying details and make enquiries.

- 1 Unusually close relationship with suppliers**
Employees who have unusually close personal relationships with suppliers. For example an employee takes a holiday with a supplier.
- 2 Recurring transactions with a particular supplier for no apparent reason**
A large number of transactions with a particular supplier – often when many are slightly below an employee's authorisation limit or when the supplier or goods/services supplied are not known to finance or senior staff.
- 3 Unprofessional "manufactured" manual invoices**
Invoices that do not appear to have been generated through a computerised accounting system and/or the description of what is being invoiced for is 'light'. Invoices that have been created for supposedly legitimate products or services which were never delivered or carried out, or legitimate invoices that have been altered to include false bank account details.
- 4 Insufficient knowledge of suppliers**
Payments made to suppliers, where finance or senior staff do not know of the supplier or do not know why the payment is being made.

- 5 Common contact details and bank account numbers**

Two or more suppliers and/or employees that seemingly share contact details and/or bank account numbers.
- 6 Lack of supporting documentation**

Lack of supporting documentation for payments, especially those incurred through corporate credit cards. This risk is magnified if there is no review or oversight of the expenditure.
- 7 An overly dominant management team**

Managers with dominant personalities that people rarely question or are wary of questioning.
- 8 Annual leave not taken**

The accumulation of large amounts of annual leave coupled with reluctance to take holidays or to delegate work when away. Similarly an employee may refuse to take sick leave when they are really sick.
- 9 Working unnecessarily long hours**

Employees who routinely work excessive amounts of overtime, work weekends or work early or stay late - for no apparent reason or business need. This could be coupled with a reluctance to delegate work.
- 10 Significant observed changes in the attitude and behaviour of an employee**

An individual who displays feelings of resentment towards their employer or has a perception of being owed something by their employer. For example an employee suddenly becomes more animated and aggressive or alternatively becomes closed or even evasive when they had always been quite open.
- 11 Employee lifestyle change**

Individuals who appear to live beyond their means or have an unexplained lifestyle change. For example an employee suddenly buys a new, expensive car or starts wearing expensive clothes and/or jewellery – when their income or personal situation doesn't support this lifestyle change.
- 12 Unavailability of original documentation**

Payments to suppliers supported by photocopies instead of originals or not supported at all.
- 13 Odd transaction patterns**

Transaction patterns that are inconsistent with overall business and industry norms. For example a payment to a supplier might be split into two smaller payments so as to avoid triggering the employee's authorisation limit.
- 14 Weak internal control environment**

Management does not emphasise the importance of strong internal controls or does not take any corrective action when problems arise.
- 15 Liberal accounting practices enacted by management that compromise internal controls**

Controls such as separation of duties, delegation levels or review of expenditure are ignored or modified in practice.

Avoid becoming a victim of fraud

The best method for any organisation to protect themselves against a possible fraud is to ensure that they have adequate fraud prevention and detection methods in place.

Fraud prevention methods include:

- Ensuring that adequate internal controls are implemented (such as separation of duties and appropriate delegation levels etc) and that these controls are adhered to
- Code of Conduct, ethics/values and Conflict of Interest policies are documented and are regularly communicated to all staff
- Senior staff set a positive 'tone from the top'
- Pre-employment screening
- Carrying out regular fraud risk assessments and following up on control improvements.

Having adequate prevention methods in place will make it harder for fraud to be committed. However, in the same way that you can only deter (and not completely stop) would-be burglars by having prevention mechanisms in place (such as an alarm system), a person intent on committing fraud may still find a way in despite having adequate prevention methods in place. Therefore, it is also important that an organisation has

implemented adequate fraud detection methods as well. Fraud detection methods could include:

- Having a whistleblower hotline
- Implementing a regular fraud detection data analytics programme
- Providing regular fraud awareness training to employees.

Fraud detection is about making sure systems are good enough to not only identify problems but to act on them (and elevate them) appropriately. The 2016 Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud highlights that tip-offs are still the most common fraud detection method,

with 39% of all cases being detected through this method. This report also identified that organisations with whistleblower hotlines were much more likely to catch a fraud through this method. So in regards to fraud detection, your own people are your greatest asset.

Our publication, "Your 10-point plan on how to combat fraud and corruption in your organisation" is a useful guide to protecting your organisation against fraud.

If you suspect that you might be a victim of fraud or you would like to discuss how you can avoid becoming a victim, please contact David Carson or Barry Robinson.



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