

# New College Lanarkshire

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### Fraud Risk & Prevention

# Introduction

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# Content

- Fraud Risk
- Case Studies / Examples of Fraud
- Things to be aware of
- Questions

## Fraud Risk

- The true cost to UK Charities is unknown but could be as high as £2bn a year.

## Fraud Risk

- The common types of fraud risk are:
  - Supplier Payment
  - Procurement
  - Expenses
  - Credit Card
  - Identity
  - Cybercrime

# Fraud Risk - Common Frauds and how to prevent them

- Bank Fraud
  - Regularly review and update online payments system-user roles and privileges.
  - Do not share passwords.
  - Apply payment limits and strictly enforce dual authorisation of payments.
  - Question all requests for information, especially when unexpected.

## Fraud Risk - Common Frauds and how to prevent them

- Procurement Fraud
  - Appoint a contract manager to take responsibility for all contracts.
  - Verify supplier performance and pay only for what's actually been received.
  - Seek independent verification of any requests to vary payee details using an entirely different communication channel to the original request.
  - Audit all procurement processes. Monitor and review the performance of anyone responsible for contract management.

## Fraud Risk - Tips for responding to Fraud

- Act quickly. This will minimise harm done and maximise your legal options.
- Don't panic, stay calm and follow procedure.
- Find out in advance who needs to be informed.
- Have a 'fraud response plan' ready
- Take steps to preserve evidence.
- Seek professional legal advice.

# Case Studies - Examples of fraud

- Supplier Payment Details (Mandate Fraud)
- IT Procurement
- Expenses
- Billing Fraud
- Email Hijacking
- Use of dormant supplier accounts or Fictitious suppliers
- Use of bank accounts which only require one signatory
- Maintenance Services Fraud via collusion with approved suppliers

# Case Studies - Examples of fraud

- **Supplier Payment Details (Mandate Fraud)**
- Request to change supplier payment details (either by email or letter)
- Everything looked normal and request processed with no questions raised.
- Payment made to wrong account.

**WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?**

# Case Studies - Examples of fraud

- **Supplier Payment Details (Mandate Fraud)**
- Ensure any changes are confirmed with the supplier – using known details.
- Ensure approval of change by Vice Principal
- Consider asking for confirmation that payment has been received via follow up phone call

# Case Studies - Examples of fraud

- **IT Procurement**
- Suspicion raised by FD over level of toner cartridges for one printer and control over IT spend on a particular project.
- We undertook a review of the toner cartridges compared with the number of prints produced and reviewed the IT expenditure over a 3 year period.
- Printer had not used the cartridges despite being purchased. These had been signed for as being delivered however not in stock.
- A number of laptops and other IT equipment purchased but unaccounted for.
- Overall project spend was £1.3m but approx. 50% hadn't followed procurement guidelines.
- Framework being manipulated – PO's noting that company was an approved supplier therefore no quotes required.
- Expenditure signed off by FD without evidence being provided.

## WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?

# Case Studies - Examples of fraud

- **IT Procurement**
- Closer attention required by Finance teams to ensure purchasing guidelines are being followed.
- Better control over assets – ensuring all items are recorded when received and moved.
- Closer monitoring of toner cartridge levels – who approves etc

# Case Studies - Examples of fraud

- **Expenses**

- Situation arose as part of a whistleblowing making allegations of Senior Management, including: Misuse of College resources, Fraudulent claims on expenses, excessive foreign trips, Mis-use of credit cards.
- We undertook a review of expense claims over a 3 year period
- We undertook a review of credit card statements over a 3 year period
- We undertook a review of the level of foreign trips.

# Case Studies - Examples of fraud

- **Expenses**

- We found the following:
  - Lack of appropriate approval for credit card payments of Senior Management.
  - Lack of control over credit card – card was ‘photocopied’ and given to other staff to use.
  - Significant level of expenditure across 2 credit cards and not following the correct purchasing process.
  - Fuel purchased for personal vehicles for business trips rather than claiming mileage
  - Number of missing items of equipment
  - Significant spend on amazon – no information on what these were for and spend couldn’t be identified
  - Significant spend on hotels and restaurants with no explanation.
  - £20k spent on foreign travel to ‘generate international business’ however minimal income realised. Trips were also approved by same person travelling on the trip.

## WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?

# Case Studies - Examples of fraud

- **Expenses**

- Tighter controls around use of credit card.
- Ensure Senior Management expenditure is approved by the Board.
- Ensure business case for 'foreign travel' and this is approved.
- Tighter inventory control over purchase of equipment.
- Challenge from FD re credit card spend.

# Case Studies - Examples of fraud

- **Billing Fraud**

- We were asked to undertake a review where there was a suggestion that disposal company had been under-declaring the quantity of paper wastage from a printing company. As a result the invoices raised were based on inaccurate quantities of wastage.
- We also found that the price per tonne had been below the agreed market rate and was less than the agreed rate per the contract.
- Reliance had been placed on the wastage company with very little checks being undertaken by the Printing Company'.

**WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?**

# Case Studies - Examples of fraud

- **Billing Fraud**
- Detailed checks of levels of wastage should be undertaken
- Maintenance of proper records of wastage collected.
- Independent checks undertaken on pricing per tonne.

# Case Studies - Examples of fraud

- **Email Hijacking**
- One of our clients was subject to email hijacking.
- The hacker had managed to hack into an email from the college and one of their suppliers.
- After viewing the email traffic, the hacker then responded to one of the emails from the college and asked for a payment to be made.
- Due to the nature of the communication and the fact that the subject matter had been discussed previously it appeared a normal request.
- A payment was made to the hacker without going through the appropriate channels

**WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?**

# Case Studies - Examples of fraud

- **Email Hijacking**
- As noted previously, there should have been the appropriate checks for the processing of payments.

# Case Studies - Examples of fraud

- **Use of dormant bank account / Credit card / Supplier Fraud**
- We were asked to undertake an investigation into a fraud by a senior staff member in the finance department at a college.
- The staff member had been at the college for a number of years and full control of the finance function.
- Over a period of several years a series of frauds were undertaken, including :
  - the use of college credit card without prior appropriate scrutiny
  - the use of a dormant bank account for fraudulent purposes
  - Invoices paid with no matching orders
  - Suppliers standing data (bank accounts) could be changed without approval by another staff member.
  - The use of dormant suppliers

**WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?**

# Case Studies - Examples of fraud

- Use of dormant bank account / Credit card / Supplier Fraud
  - Appropriate segregation of duties
  - Invoices matched with orders
  - Changes to suppliers data authorised
  - Credit card expenditure appropriately approved
  - Review signatories on bank accounts/ review bank accounts in use

# Case Studies - Examples of fraud

- **Maintenance Services Fraud**

- We were asked to undertake an investigation following an allegation that the Maintenance Manager was colluding with a supplier at a housing association client.
- It appeared that an approved contractor was being used for a series of jobs where the work hadn't been undertaken or where the work wasn't even required.
- This arose as the Maintenance Manager was approving the works orders and then paying the orders.
- There were no checks that the work had been performed but everything appeared ok.
- Our review found that the work wasn't actually completed and the contractor had been asked to produce invoices in advance of the work being performed

**WHAT CHECKS SHOULD HAVE BEEN UNDERTAKEN?**

# Case Studies - Examples of fraud

- **Maintenance Services Fraud**
- Segregation of duties
- Verification of work undertaken

# Things to be aware of

- Requests to change supplier payment details.
- Unusual purchasing activity.
- Purchases signed off without appropriate purchase orders.
- Controls over credit cards.
- Authorisation of expense claims.
- Unusual spend on credit cards.
- Levels of spend on things such as 'foreign trips'.
- Expenditure claimed without appropriate receipts.

# Things to be aware of

- Verification and challenge of quantities of goods purchased/delivered.
- Challenge of pricing on invoices.
- Question unusual email requests.
- Close any unused bank accounts.
- Verify any request for changes to suppliers.
- Ensure any changes to suppliers are approved.
- Review suppliers listings and remove dormant suppliers.
- Ensure any invoices are approved by someone separate from raising the order.

# Fraud

- Almost half of all detected fraud is discovered through a college's internal controls or audit processes.

# Questions