

**Fraud Indicators**

A number of frauds can come to light because of suspicions aroused by, for instance, the behavior of certain individuals. Managers and staff should also be alert to any warning signs that might indicate that fraud is taking place. These should not be taken alone as evidence that fraud is occurring within the organisation; there may be other legitimate explanations for the occurrence of these indicators.

These indicators include:

**Behavioural Indicators of Fraud**

Staff under stress without a high workload.

First to arrive in the morning, last to leave at night i.e. regular long-hours working

Egotistical (e.g. scornful of system controls).

A risk taker or rule breaker, perhaps a ‘Wheeler dealer’ attitude.

Reluctance to take leave.

Refusal of promotion.

Sudden change of lifestyle with unexplained wealth.

Cosy relationships with suppliers/contractors.

Dissatisfied/unhappy employee, a complainer.

Greedy or has suffering genuine financial difficulties.

Living Beyond their means

Poor attitude to controls

Unwilling to share tasks e.g. a supervisor who opens all incoming mail,

managers by-passing subordinates,

subordinates by-passing managers,

secretiveness or defensiveness

Employees who delay providing information or who provide different answers to different people.

Employees who ask to defer internal audits or inspections to ‘properly prepare’.

Employees who request significant detail about proposed internal audit scopes or inspections.

Employees with new and unusual relationships with other individuals or departments within the organisation.

Employees who appear to make a greater than normal number of mistakes, especially where these lead to financial loss through cash or account transactions.

Employees with competing or undeclared external business interests.

Employees who submit inconsistent and/or unreasonable expense claims.

Employees at the highest level of performance (eg sales) where there might be a concern that they are achieving this through suspect activity.

Employees making procedural or computer-system enquiries inconsistent or not related to their normal duties.

New employees with knowledge of industry procedures but no such experience disclosed on their CV.

Prospective employees who are reluctant to provide full background information or who provide inaccurate or inconsistent information.



**Procedural Indicators of Fraud**

Inadequate or no segregation of duties.

Lack of rotation of duties.

Absence of controls and audit trails.

Too much delegation by senior managers without proper review procedures

Management frequently override internal control

Inadequate monitoring to ensure that controls work as intended

Insufficient oversight/audit applied

Policies not being followed.

Consistent failures to correct major weaknesses in internal control.

Crisis management coupled with a pressured business environment.

Lack of established code of ethical conduct.

Lack of Senior Management oversight.

Key managers with too much hands-on control

Lack of transparency

Poor engagement with corporate governance philosophy

Climate of fear or an unhealthy corporate culture.

Excessively high or low staff turnover and/or new employees resigning quickly High staff turnover rates in key controlling functions.

Chronic understaffing in key control areas.

Low staff morale/lack of career progression/weak management.

Excessive hours worked by key staff.

When an employee is on leave, the work is left until the employee returns.

Lack of common sense controls such as changing passwords frequently, requiring two

signatures on cheques or restricting access to sensitive areas.

Unauthorised changes to systems or work practices.

Contract documentation that is photocopied or lacking essential information.

Key documents missing (e.g. invoices, contracts).

Missing expenditure vouchers and official records.

Excessive variations to budgets or contracts.

Bank and ledger reconciliations are not maintained or cannot be balanced.

Excessive movements of cash or transactions between accounts.

Numerous adjustments or exceptions.

Overdue pay or expense advances.

Cash-only transactions

Poorly reconciled cash expenses or customer accounts

Rising costs with no explanation or that are not commensurate with an increase in revenue

Large volume of refunds to customers

An unusual number of customer complaints

Unusually large inventories

Unusual transactions or inter-account transfers (even for small amounts)

Remuneration disproportionately linked to activities such as sales.

Duplicate payments.

Ghost employees on the payroll.

Large payments to individuals.

Post Office boxes as shipping addresses.

Customers/Suppliers/contractors who insist on dealing with one particular member of staff.

Unclosed but obsolete contracts.

Splitting up requirements to get under small purchase requirements or to avoid prescribed levels of review or approval.

Managers who avoid using the purchasing department

Tendering to one supplier only or to the same suppliers

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**Procurement and Tendering Fraud Indicators**

The following may be indicators of fraud in the tendering and contract award process:-

**Before contract award**

* Disqualification of suitable tenderers.
* “Short” invitation to tender list.
* Unchanging list of preferred suppliers.
* Consistent use of single source contracts.
* Contracts specifications that do not make commercial sense.
* Contracts that include special, but unnecessary specifications, that only one supplier can meet.
* Vague specifications
* Personal relationships between staff and suppliers

**During the contract award process**

* Withdrawal of a lower bidder without apparent reason and their subsequent sub-contracting to a higher bidder.
* Lowest tenders or quotes passed over with minimal explanation recorded
* “Flexible” evaluation criteria.
* Acceptance of late bids.
* Changes in the specification after other bids have opened.
* Consistently accurate estimates of tender costs.
* Poor documentation of the contract award process.
* Consistent favouring of one firm over others.

**After the award of contract**

* Unexplained changes in the contract shortly after its award.
* Contract awarded to a supplier with a poor performance record.
* Split contracts to circumvent controls or contract conditions.
* Suppliers who are award contracts disproportionate to their size.
* Frequent increases in the limits of liability.
* Frequent increases in contract specifications.