# “ THE 2004 INTERNATIONAL FRAUD CONFERENCE IN LONDON” By SALLY RAMAGE®

The 2004 Annual Fraud Conference entitled “STRATEGIES TO COMBAT FRAUD” took place this week in London, England. It was attended by fraud specialist investigators, police, regulatory agencies and corporations’ senior compliance personnel.

I discovered that it was estimated by some that fraud in the UK was over £45 BILLION in 2003, of which a total of £7 billion was telecoms fraud . It was disconcerting to hear that the UK has the highest percentage of “card-not-present” (ie, spending by credit card on the internet) fraud in the world and also that the UK has the highest percent of internet gambling in the world, 60% of all internet gambling !
The most important bit of information is that most fraud is “an inside job”. This means that corporations must put in place fraud policies, whistle-blowing policies and ethics policies, not forgetting to physically secure the corporate computer network and to control internet access.

One of the subjects at the Conference is the UK’s newly formed Assets Recovery Agency. This new agency was formed after the UK’s Proceeds of Crime Act 2002 came into force. The Proceeds of Crime Act 2002 significantly extended the scope of money laundering offences and introduced various reporting requirements and established the Assets Recovery Agency.

The Assets Recovery Agency is a non-ministerial department that is accountable to the Home Secretary. Its main role is to conduct investigations resulting in the retrieval of the proceeds of crime, the recovery of such proceeds by civil proceedings; and the taxing of criminal gains. The Civil Recovery Scheme empowers the Director of the Assets Recovery Agency to sue in the High Court to recover proceeds of unlawful conduct. The Director is able to apply to the High Court for an interim receiving order and freeze suspected assets that will ten be managed by an independent receiver. The Director will have to have a strong , arguable case that the property is derived from crime. A court may make a compensation order in favour of victims of crime, but in practice these are only made in straightforward cases and involve loss of control.

This new agency is seen as a useful weapon against fraud because it uses the civil court where the proof of the crime is on a balance of probability instead of the criminal conviction needing a proof beyond reasonable doubt. Financial institutions have faced particular difficulties in relation to efforts to combat money laundering. Section 333 of the Proceeds of Crime Act makes “tipping off” an offence.

Another subject discussed at the Conference at which Ros Wright, SFA Director, Robert Wardle, SFO Director and George Staples, former SFO Director spoke, was the very practical subject of how fraud can be detected in a computerised system of accounts. Some of the classic tests for fraud are as follows:

**a) Sales Allowance and Credit Notes.**

Analyse customer accounts and identify all allowances and credit notes for both product and non-product items. Calculate the ratio of product A and non-product B as a percentage of sales. Print out customers by reference to the ratio of A/B, B/C, and (A+B) /C.

**b) Pricing.**

Identify the lowest prices charged (for a selection of products) to customers (including intra-company transactions). Print details of customers with the lowest prices or lowest gross margins.

**c) Free Issues and Consignment Stocks.**

Identify free issues (consignment stocks, free samples, warranty replacements) to customers. Summarise these as a ratio of free issues : total sales.

**d) Sales of Scrap Goods (and Fixed Assets)**

Identify sales of scrap (raw materials, components, finished goods ), summarise by customer : showing product description, date and price.

e) **Bad Debt Write-offs**.

Identify bad debt write-offs. Summarise by customer and authorised signatory.

**f) Inflated Sales.**

For each customer, calculate the ratio of sales in the fourth quarter (A) as a percentage of annual sales (B). Aggregate the credit notes in the first quarter of the subsequent year (c) and calculate C/A. Print out customers and branches with the highest ratios (possibly indicating fictitious sales in the fourth quarter ).

g) As regards **purchasing**, the risks are that purchasing agents may misuse their authority to favour vendors with whom they are in collusion, including fictitious entities. So you can make a check file for purchasing thus:

| **Database Field** | **Comment** |
|---|---|
| VENDOR NO.<br><br>VENDOR NAME<br><br>VENDOR ADDRESS<br><br>VENDOR TEL NO.<br><br>DATE ENTERED ON FILE<br><br>VAT REF | Standing data. One file each year to monitor Changes. |
| COST CODE | To identify department or individual authoriser |
| INDIVIDUAL PURCHASE ORDERS FOR PAST 3 YEARS | Vendor no., Purchase Order No., Invoice No., date, gross amount,<br><br>Net amount, product code, product Description, quantity, gross price, Net price. |
| GOODS RECEIVED FILE FOR PAST YEAR | Vendor No., Purchase Order No., Invoice no., date, gross amount, Product code, product description, Quantity, gross price, net price. **Goods received date.** |
| INDIVIDUAL PURCHASE INVOICES FOR PAST 3 YEARS | Vendor no., purchase order no., invoice No., date, gross amount, net amount, tax, Product code, product description, Quantity, gross price, net price. **Any Special transaction codes. Goods Received date.** |

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|---|---|
| CREDIT NOTES FOR PAST 3 YEARS | Vendor no., credit note no., date, gross amount, net amount, tax, product code, product description, quantity, gross price, net price. |

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|---|---|
| PURCHASE LEDGER FOR PAST 3 YEARS | Vendor no., vendor name, gross and Net purchases, adjustments, credit notes an payment details. **Bad debt write Offs.** |

| | |
|---|---|
| PAYMENTS FILE (RECURRING & NON-RECURRING) | Beneficiary Account No., (Customer no., supplier no., employee no., etc.), beneficiary name, date of payment, transaction reference (cheque no.), amount, bank name, bank sort code, bank reference. |

Then compare key fields (post codes, addresses, bank accounts) in the vendor master file (and if appropriate, miscellaneous vendors) with the employees’ master file. Print out matching fields and details of suppliers where key data is missing.

You can also identify budgets which have over-run in the previous year. List all transactions UNDER THESE HEADINGS, IDENTIFY THE SUPPLIERS CONCERNED AND SUMMARISE BY TURNOVER.

h) **Test for round amounts of money transactions.**

Examine the purchase transaction file and identify all round amount items where the two least significant digits and decimal points are all zeros (15,000.00).Summarise by supplier and authorised signatory. This test identifies a classic fraud profile of fraudulent invoices and advance payments.

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