



THE COUNTER FRAUD CAMPAIGN 2019

PART 4: YOUR SUPPLY CHAIN

Prevention of Fraud in Travel (PROFIT) and the Fraud Intelligence Network (FIN) are working with the City of London Police to reduce fraud in the travel industry. In PART 4 we take a look at how problems can arise in the supply chain and identify ways to lower the risks.

PROFIT is the only official travel industry counter fraud body. We work on your behalf to carry out analysis and research, disseminate best practice and disrupt crime.

Find out how you can join the fight against crime. Contact via:
contactus@profit.uk.com

1.0 WHY YOU SHOULD CHECK OUT YOUR SUPPLIERS

- 1.1 Identifying potential risks within your supply chain is an important aspect of protecting your business against cyber and economic crime. Where your business is regulated by a body requiring 'Know Your Client' (KYC) checks, which in the UK includes the Financial Conduct Authority (<https://www.fca.org.uk/>) you should follow their requirements. However even unregulated businesses should carry out basic checks.
- 1.2 No matter how good your systems are, if your supplier either commits a fraud against you, or they have a cyber weakness which by-passes your security to infect your systems then you will lose out. Good checks, when done properly, will also assist you to comply with the know your client requirements under the anti-money laundering legislation relating to anti-bribery activity. Checking out your suppliers will ensure that your processes for verifying the identity of its clients and suppliers and assessing their suitability, along with the potential risks of illegal intentions towards the business relationship.
- 1.3 Being sure who you are doing business with should form the basis of all business relationships and be part of your due diligence procedures so that you reduce your own risk of being caught up in a fraud or other criminality and protect staff. Identity theft is a growing issue for businesses and is sometimes used by criminals to appear to be respectable companies. By checking out your suppliers properly you can be more certain that they will deliver the services they say that they can deliver, and also be less exposed to the risk that they will cause you financial or reputational damage during the term of your contract.
- 1.4 You can start by checking that a supplier company has no insolvency notices issued against it using the free tool: <https://www.mycreditcontrollers.co.uk/company-check.html>

2.0 IDENTIFICATION

- 2.1 Before you do any business with a new third party, you should identify them. For an individual (**sole trader or partnership**), identification will involve:
 - confirming their name
 - confirming their date of birth
 - confirming their address
 - confirming their National Insurance number
 - confirming how they make their living
 - confirming their sources of income.
- 2.2 Validation of the matters listed above can be achieved by their submission of acceptable documentation to you such that you can satisfy yourself that they are who they say they are. *For an individual, examples of acceptable documentation might include (originals, not photocopies):*

- a signed Passport
- a residency Permit
- a photocard UK driving licence
- a Benefit Book
- an Entitlement letter
- a Sub-contractors' Certificate
- Divorce Papers
- an Inland Revenue Tax Notification
- an NHS Registration Card
- a Firearms Certificate
- a Birth Certificate
- an Adoption Certificate
- a Marriage Certificate
- an HM Forces ID Card
- an Application Registration Card Card (asylum seekers)
- a Warrant Card.

2.3 A combination of several of the above will be necessary to establish identity, date of birth and address (see "Records" below). Whilst this may seem to be a lot of effort to go to in order to do business with someone it should not actually take too much time to carry out the necessary checks and it will save a lot of time and money avoiding problems, including potential enforcement investigation and action, that are more likely to occur if corners are cut.

2.4 When dealing with a **company**, rather than individuals, it is necessary to go further:

- confirm that the business exists
- confirm that it exists for a legitimate purpose
- confirm the nature of the business
- confirm the business' name
- confirm the business' address
- confirm the incorporation date
- confirm the business' VAT number or tax reference number
- confirm the company registration at UK Companies House, or equivalent foreign body
- confirm the relationship with any holding company or parent company or entity
- confirm the relationship with any subsidiary company or entity
- confirm the origin and destination of cash flow
- confirm the identity of directors/partners/shareholders/company representatives as for individuals

2.5 For a business/organisation/corporate entity, identification to confirm the legitimacy might include:

- Partnership Deeds
- a Certificate of Incorporation
- a Certified Copy of "Form 12"
- Tax Returns
- PAYE Records
- VAT Registration/Returns
- evidence of a Business Rate Account
- Trade Association Documents
- Professional Membership Documents
- Industry Memberships
- Invoices/Receipts/Bills
- Bank Statements
- Utility Bills
- Internal Business Documents
- Dunn & Bradstreet Reports.

3.0 RECORDS AND OTHER CONSIDERATIONS

- 3.1 Be aware that a person in the role of checking out suppliers could develop an unhealthy relationship which could imperil your business. In order to reduce this risk, you should rotate the people undertaking this task on a regular basis, carry out random audits, and compare supplier and employee addresses.
- 3.2 Keep records/copies of all the documentation you have seen, in separate files, and ensure that the person undertaking the Know Your Supplier checks, signs and dates copies of the evidence obtained as being copies of the originals. This allows reference back to the individual concerned later should this become necessary. Maintain a log of the records you hold:
 - See original documents and sign/date to confirm who saw it.
 - Where documentary/evidential requirements differ from the norm, for any reason, maintain a record of your reasons for accepting them.
- 3.3 For face-to-face Know Your Supplier checks; It is generally recommended by regulators that three pieces of cross-referring evidence of identification be obtained. However, the Joint Money Laundering Steering Group (<http://www.jmlsg.org.uk/>) recommends a minimum of five pieces of evidence for remote (non-face-to-face) Know Your Client checks.
- 3.4 Make sure that the identity of the client on any contract or agreement you make for working together matches the identity you have checked and verified during Know Your Supplier checks. It has been known for a 'substitute' to appear in person when the real controlling mind is a known criminal. Also make sure they have the authority to sign the forms.
- 3.5 Where you make checks and find that some of the documentary evidence of identification does not match up to that stated by the potential client, you could have a potential problem. Keep calm, anomalies in identification can occur for a variety of reasons. For example, the fact that an individual's address does not check out may arise because they have just moved to a new house or become divorced. Likewise, a name may not match because they recently got married.
- 3.6 Seek further information about the anomalies in order to rule out innocent explanations. If further information is not forthcoming or does not match up with the declared information, then you are probably wisest to not conduct business with that person or organisation. Don't forget that under anti-money laundering regulations if this occurs in an area covered by the regulations then you must report this to the appropriate authorities in the prescribed manner and time.
- 3.7 Where possible, encourage your suppliers to join you in obtaining Domain-based Message Authentication, Reporting & Conformance (DMARC) which is an email authentication protocol designed to give email owners the ability to protect their domain from unauthorised use ("spoofing").
- 3.8 DMARC will go some way to preventing your business suffering an attack where criminals have intercepted or hacked a suppliers account and use it to send an email diverting all funds into their own bank account. It will also help prevent the type of fraud where criminals send an email which looks like a senior member of your team but is in fact bogus and they use it to require immediate payment but to their own account. Free DMARC is available from the Global Cyber Alliance along with simple instructions: <https://dmarc.globalcyberalliance.org>.
- 3.9 DMARC provides a 'herd immunity' effect so is most effective in reducing the risks if it is taken up by most of your suppliers and contacts. This will also reduce the risks to the minority of your contacts that do not take DMARC.

Next Week: Part 5 Upon Discovering A Fraud