



THE COUNTER FRAUD CAMPAIGN 2019

PART 6: INVESTIGATING A FRAUD

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 6 we identify what you should do when investigating a fraud that has occurred.

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 HOW TO INVESTIGATE A FRAUD

- 1.1 A fraud investigation can have serious consequences for a company, regardless of the outcome. Staff morale can suffer, associates may come under suspicion, and customers may be concerned enough to not enter into contracts or stop trading with your business.
- 1.2 Initially you cannot be sure that the person you suspect of fraud acted alone so it is important not to tip off any accomplices. Start by assuming that anyone at any level within the company may be working with the suspected fraudster until you know better. It is vital therefore that any fraud investigation should be carried out sensitively and confidentially by a trusted senior manager or external 3rd party such as your legal adviser. Only those with a need to know should be made aware of what is going on: the smaller the group involved the better.

2.0 FRAUD DETECTION AND INVESTIGATION

- 2.1 The first important step is to confirm whether fraud, or any other criminal activity, has taken place. At this stage, you may have suspicions that fraud has occurred, or you may know for certain. Before you take further action, ask yourself the following questions:
 - What has happened that makes you believe that fraud or corruption has taken place?
 - What is the impact/financial loss to your company?
 - How has this happened?
 - Who is responsible for what has occurred?
 - Could they have done this by acting alone?
 - When did the event(s) take place?
 - What evidence, if any, do you already have to support your belief?
 - Does an audit trail or CCTV exist that might have picked it up?

Some of The Signs of a fraud

- 2.2 The following are some of the early signs that a fraud has occurred. Although by themselves they may not be any cause for concern, a few of these together might be enough to alert you that something is not quite right:
 - Several people claiming to hold bookings that are not in the system,
 - Card numbers (usually the last 4 digits) repeatedly appearing on refund ledgers,
 - Transactions taking place that were at an odd time, odd frequency, unusual amount or to odd recipients,
 - Common names or addresses of payees or customers,
 - Discrepancies in suppliers' orders,
 - Customers claiming additional charges have been asked for after payment,
 - Significant changes in staff behaviour that you've noticed,
 - Staff show signs of having large personal debts or financial losses, and a desire for personal gain,
 - Audit findings deemed to be errors or irregularities,

- Internal controls that are not enforced, or often compromised by higher authorities,
- Discrepancies in accounting records and unexplained items on reconciliations,
- Missing documents, or only photocopies of documents available,
- Inconsistent, vague or implausible responses arising from inquiries,
- Unusual discrepancies between the client's records and confirmation replies,
- Missing inventory or physical assets,
- Excessive voids or credits,
- Alterations on documents (e.g. back dating),
- Duplications (e.g. duplicate payments),
- Payments to the wrong cards or accounts,
- Staff that have a lifestyle incompatible with their earnings,
- Staff driving luxury cars incompatible with their earnings,
- One employee has control of a process from start to finish with no segregation of duties.

Conducting an Investigation

2.3 If an internal investigation is decided upon, it must be conducted in a way that builds credibility with the company's own employees as well as with outside regulators, customers and the media. Counsel and experienced fraud investigators, if the company chooses to hire them, should be retained as soon as possible in order to ensure that any investigative steps meet the specifications of the law and that any documentary evidence is properly preserved.

Consider Forming a Team to Deal with the Issues that Arise

2.4 If the suspected fraud is thought to be large in scale, then it is a good idea to form a core team to deal with any issues that arise during the investigation. It is important to ensure that the team does not include anyone that might possibly be implicated during the investigation as this will undermine the company's response. The team might include;

- Senior managers.
- Public relations specialists – to deal with any media interest.
- Human resources – to deal with staffing issues for those implicated.
- IT – to manage document recovery, preserve files, and disclose audit trails.
- Internal and external legal advisors.
- Internal and external audit and accounting advisors including the use of a forensic accountant to examine complex financial data.

Taking Action

If you have discovered that a fraud has been committed by someone within your organisation, there are a number of actions you should take:

- Seek advice from your professional advisors on how to proceed
- Conduct a full internal investigation
- Depending on the size of the fraud, you may want to consider taking remedial action against those concerned

If your organisation conducts its own investigation with a view to reporting the matter to regulatory or law enforcement agencies, care must be given to ensuring that evidence is not handled in a way that could jeopardise a subsequent forensic investigation.

Preserving Documents

Companies should identify where all relevant original documents (paper and electronic), including emails and desk notes, are located and ensure that they are preserved. This will enable the company to piece together what happened more fully. It is also possible that a criminal offence will be committed if relevant documents are falsified, concealed, destroyed or disposed of.

Forensic accountants can be hired to investigate, analyse, interpret, summarise, and present complex financial information. A forensic accountant and/or damages expert could help quantify the extent of the company's loss due to the fraud, gather evidence as to how the fraud was perpetrated and make suggestions as to how it can be prevented in the future.

It is important to note that once law enforcement or a prosecutor becomes involved, the business owner will probably lose control of the investigation and that these third parties may not have the same priority to investigate the theft as the owner/operator because they have many other cases to address. Thus, business owners must take stock of the salient facts and what their ultimate objectives are regarding potential restitution and punishment for the perpetrator. Keep in mind that this is not a decision to be taken lightly as investigations (whether internal or external) can be time consuming and costly, and the likelihood of recovering the misappropriated funds or property may be remote.

Dealing with Implicated Employees

If current employees are implicated in the suspected fraud, careful consideration should be given to:

- Whether they should remain in their post or be sent home,
- Whether the suspected person(s) access to systems should be restricted or removed,
- Whether the suspect should have independent legal advice, and if so who should fund that,
- Whether the company's disciplinary procedure should be activated.
- Any severance payments need to be considered from both a legal and reputational perspective.

Remember that an individual who has been dismissed or suspended may not wish to co-operate with the investigation and you may not be able to compel them. Consider 'no fault' suspension if appropriate. Be prepared for an individual that, when confronted, decides to 'tell all'. A common ploy of internal fraudsters is to admit to part of their crime (perhaps the part you discovered) in the belief that you will not find the full extent.

The company may also need to rearrange the suspected person's duties, and this can cause an additional burden on other staff which needs to be managed.

Obligations to Report Fraud

Some industries are regulated and organisations under the regulator are required to report any instances of fraud.

- Regulatory issues should be referred to the industry authority
- Financial regulatory issues should be referred to the Financial Conduct Authority
- Suspected corporate misconduct that does not amount to fraud should be directed to the Insolvency Service
- Any crime that relates to a compromise of personal data may need to be reported to the Information Commissioners Office.

Employees Arrest and Interview

Businesses face several challenges when managing an employee's arrest and any subsequent formal interviews of staff. If it is possible avoid an arrest in the workplace this should be considered as the shock to other employees that are witness to it may have other repercussions. These range from the loss of employee time, support for work colleagues of the arrested employee, to obtaining separate legal counsel in support of innocent staff required to be interviewed.

Perhaps the hardest thing for the company and the accused employee is that an arrest may lead to the issue becoming public knowledge leading to press contact. The company will need to be prepared for this and handle it carefully to minimise reputational damage.

Remember keep your own investigation on a need to know basis – you may not be aware of all those involved – conspiracy.

Next Week: Part 7 When Police Become Involved