

FRAUD

Common types of fraud are:

- Credit card fraud
- Money Laundering
- Manipulation of accounts
- Overstating/understating debtors & creditors
- VAT Fraud
- Expenses Fraud
- Not declaring income
- Payroll Fraud

There are two main types of fraud:

a. Removal of assets from the business

- Cash (petty cash or not ringing through cash sales)
- Theft of stock
- Work Time
- Payroll (false time sheets, payroll department entering incorrect data, fictitious staff)
- Teeming & Lading (continually allocating funds to other accounts to cover)
- Fictitious customer

- Collusion with customers (invoice incorrect amount & split the difference)
- Bogus supplies of goods or services
- Paying for goods not received
- False Expense claims
- Disposal of assets to employees
- Mis-use of pension fund (Maxwell)

b. Intentional mis-representation of financial position

- VAT Fraud
- Overstating/understating debtors/creditors (bad debt policy not being enforced or factious sales)
- Manipulation of accounts - understating expenses or manipulation of depreciation

Implications of fraud

- **Removal of assets from the business**
 - Reduce Cash (working capital)
 - Reduce profit
 - Both of the above lead to cash flow problems & maybe insolvency (depending of the scale of fraud)

- **Intentional mis-representation of financial position**
 - Increase profit & strengthen the balance sheet
 - Loan from the bank
 - Increase in shareholders
 - Suppliers could extend credit
 - Directors can take out dividends they haven't got
 - If you make business have a lower profit they won't pay tax & may also reduce amount paid out to shareholders

Indicators of fraud

- Sudden decrease in stock or frequent stock outs
- Missing or messy company records
- Employee not taking time off work
- Unusual activity (high bad debts or high expenses, high usage of something, payroll)
- Employees with a lifestyle that is not supported by their salary
- Grudge against employer
- Complex Structure (higher incidence of fraud)
- Dominant personality
- Lack of segregation of duties (split duties)