The Fight Against Fraud

How to prevent, spot and survive fraud

Fraud-related claims are on the rise. Whether this is due to employees acting fraudulently, an accountant or auditor failing to identify fraudulent transactions, or as a result of social engineering, it is clear that fraudulent behaviour can have a significant impact on a firm's reputation, its bottom line and its ability to find professional indemnity insurance

Digital ease

Online banking is an everyday part of the digital age we live in and its rise has made fraud easier than ever to commit. In many cases transactions can be processed without authorisation.

This represents a significant departure from the days when payments were made largely by cheque or via a countersigned, multi-staged process.

In addition to this, social engineering has become ever more prevalent, with professional firms regularly falling victim to fraudsters who impersonate the directors or clients of a firm to request the unlawful transfer of funds.

Behaviours such as these have led to an increase in both the number and size of fraud-related claims.

Below we examine two such cases that have recently been notified under a professional indemnity policy and look at the ways in which each case could have been prevented or identified earlier.

Example one: the bookkeeper

In this example, various firms were defrauded of £600,000 by a bookkeeper submitting false invoices to clients and overstating VAT.

These invoices were falsified by amounts as little as £500, meaning they went undetected for many years until one client appointed a new accountancy firm which was unable to reconcile the VAT payments.

This prompted a claim against the insured under their professional indemnity policy and, after a lengthy enquiry into the accountant's files, it was found that several other clients had also been affected.

It transpired that the invoices were paid into the bank accounts of various family members of the bookkeeper who then went on to purchase new cars and put deposits down on properties.

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Example two: the financial director

On this occasion, nearly £700,000 was defrauded from a high profile client over the course of two years as a result of a senior member of the firm being able to transfer funds from the client's bank account into their own.

The funds were stolen in small increments of up to £10,000, meaning that the fraudulent activity went unnoticed for two years. The money was being used to fund the individual's gambling habit.

As the above examples demonstrate, fraud can be committed at any level of the business and in such a way this it is not instantly identifiable.

By reviewing your processes or making changes to the way you handle money, you may be able to prevent fraud from occurring or spot it much earlier on.

Dual authorisation

One of the key ways in which you can do this is to introduce dual authorisation for transactions above a certain limit. Many professional indemnity insurers already require this as a condition of their policy and it is likely that others will follow suit, as it introduces a second level of authentication before funds can be transferred.

While the limit varies from insurer to insurer, it often applies to transactions over £10,000. However, this is likely to be reduced given the frequency and size of fraud claims being experienced by insurers.

Be alert to changing behaviour

While the reasons for fraud vary greatly, for example, dislike of an employer or financial difficulties at home, changes in behaviour often follow.

An individual engaging in fraudulent activity may avoid taking holidays even if these are due and may similarly insist upon coming to work while sick to avoid any oversight of their work.

While care must be taken to avoid unfair accusations in such cases, sudden shifts in behaviour are best addressed in the interests of both protecting a practice from fraud and ensuring general employee wellbeing.

Impact on professional indemnity insurance

An unfortunate consequence of fraud is that accountants may struggle to find compliant, or indeed any, professional indemnity insurance. This can be an extremely stressful time for accountants and can make the process of trying to secure insurance very lengthy.

Where insurance can be obtained there can be a significant increase in premium and excess. These increases can be drastic, with premiums in the above examples having risen by as much as 550%.

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