# Fraud aide-memoire

This fraud aide memoire may be used at the outset of an engagement or periodically thereafter to identify red flags and potential fraudsters or their activities. These risk factors may be built into existing Know Your Client (KYC) requirements under Money Laundering Regulations (MLR).

**Personal motives**

- Personnel believe they receive inadequate compensation and/or rewards
- Expensive lifestyle (such as cars or trips)
- Personal problems (such as gambling, alcohol, drugs or debt)
- Unusually high degree of competition or peer pressure
- Related party transactions (business activities with personal friends, relatives or their companies)
- Conflicts of interest
- Disgruntled employee (such as being recently demoted or reprimanded)
- Recent failure associated with specific individual
- Personal animosity or professional jealousy

**Organisational motives**

- Organisation or commercial arm facing financial difficulty
- Tight deadlines to achieve level of outputs
- Organisational governance lacks clarity, direction, or substance
- Organisation closely identified with, or dominated by, one individual
- Organisation under pressure to show results (such as budgetary matters or exam results)
- Organisation recently suffered disappointment/ consequences of bad decisions
- Organisation wants to expand its scope, obtain additional funding
- Funding award/contract for services up for renewal/continuation
- Organisation due for a site visit by auditors, Ofsted or others
- Organisation has for-profit component
- Organisation recently affected by new and/or changing conditions (such as regulatory, economic or environmental)
- Organisation faces pressure to use or lose funds to sustain future funding levels
- Record of previous failure(s) by one or more organisational areas, associated business or key personnel
- Sudden change in organisation practice or pattern of behaviour

**Weaknesses in internal controls**

- Lack of transparency about how the organisation works
- Management displays high-risk risk appetite
- Management displays lack of commitment towards the identification and management of risks relevant to the preparation of financial statements

- There is insufficient physical security over facilities, assets, records, computers, data files, cash; failure to compare existing assets with related records at reasonable intervals
- There is inadequate or inappropriate segregation of duties regarding initiation, authorisation and recording of transactions, maintaining custody of assets and alike.
- Accounting systems are inadequate, or have poor controls in place
- Inadequate monitoring of controls
- Management is unaware of or displays lack of concern regarding applicable laws and regulations
- Issues identified by prior reviews have not been corrected
- No mechanism to inform those charged with governance of possible fraud

**Transactional indicators**

- Related party transactions with inadequate, inaccurate or incomplete documentation or internal controls
- Not-for-profit entity has a for-profit counterpart with linked infrastructure (such as shared board of trustees, governors or other shared functions and personnel)
- Specific transactions that typically receive minimal oversight
- Transactions subject to management judgement and estimates
- Unusual, complex or new transactions, particularly if occur at year end, or end of reporting period
- Transactions and accounts operating under time constraints
- Staff expenses with inadequate, inaccurate or incomplete documentation or poor internal authorisation and review (including company credit cards)
- Accounts in which activities, transactions or events involve handling of cash or wire transfers; presence of high cash deposits maintained with banks
- Assets which are of a nature easily converted to cash or easily diverted to personal use
- Payroll system with poor controls, failing to prevent duplicate payments or payment for non-delivery
- Consultant agreements which do not specify terms clearly and open to abuse

**Record keeping**

- Missing documents, or documents are copies
- Documentation deviates from standard procedures
- Excessive and/or poorly evidenced journal entries, unable to provide explanations for journal entries
- Records maintained are inadequate, not updated or reconciled
- Failure to disclose unusual accounting practices or transactions
- Continued reliance on person/entity despite poor performance
- Legitimate business assets put to non-business/private use

**Methods used to commit or conceal fraud**

- Employee indicators - eagerness to work unusual hours, access to/use of computers at unusual hours, reluctance to take leave/seek support, insistence on doing job alone and/or refusal of promotion or reluctance to change job
- Auditor/employee collaboration issues such as: refusal or reluctance to provide information/turn over documents; unreasonable explanations