

# Employee Infidelity – Pay away frauds

## CRIME

**This type of fraud is usually characterised by an employee, typically the bookkeeper, accountant or office manager – altering the company’s accounting records to disguise the fact that they have been diverting the company’s resources to an account under their control or paying them away for the benefit of a third party such as a family member or friend.**

**Frauds of this type are often long-running and difficult to detect, principally due to the employee having taken elaborate steps to disguise the misappropriations. These steps often become increasingly complex as the shortfall which the fraudster is attempting to disguise grows larger, with the result that the company is never able to entirely unravel the trail of accounting entries or establish exactly what happened.**

**A typical feature of this type of fraud is the manipulation of bank reconciliations and the replacement of one set of false accounting entries with another – this is known as “teeming and lading”. Some examples of Pay Away Frauds follow.**

### Online Payments

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Many businesses now use online banking and their bank accounts are accessed using a smart reader and pin number. Businesses where one employee is authorised to make payments using the online system are particularly susceptible to pay away fraud as there is no second pair of eyes checking what has been paid. The employee will process payments to their own account before disguising the payments as explained above.

### Forged Cheques

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UK cheque frauds are becoming less common because of the move to online banking and electronic payments. However, some businesses still use cheque books. In frauds of this type, an employee, who typically has custody of or access to the cheque book, will either forge the authorised signatories’ signatures or trick them into signing a blank cheque. Payments can often be reclaimed from a bank if it can be proved that the signature was forged or the cheque was otherwise paid in breach of the bank’s mandate.

### Supplier Invoice Frauds

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In frauds of this type the dishonest employee will initiate the payment of supplier invoices from a bogus company in the knowledge that no underlying service was provided.

Typically the employee will prepare the invoices themselves and include their own bank details on the invoice or the bank details of a friend who is in collusion.

### Client Monies

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Some businesses handle client monies which they are legally obliged to keep in a separate account to the company’s own money. Often businesses hold balances on behalf of very large numbers of clients; the records of who those funds belong to can be manipulated by a dishonest employee so as to disguise monies they have paid away. The dishonest employee will pay away funds from the client accounts, sometimes moving funds through other clients’ accounts to try to ‘muddy the waters’. When the fraud comes to light the business is typically obliged to repay the funds stolen by their employee.

## Payroll Frauds

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The dishonest employee will add bogus employees onto the payroll and divert monies into bank accounts opened for the purpose. In these cases the company will likely have paid tax on the bogus salary and these tax sums can normally be reclaimed from HMRC.

## Who within a company is likely to perpetrate a Pay Away Fraud?

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Typically, employees who perpetrate these types of fraud have an accounts role with a responsibility for initiating/processing payments and reconciling the bank accounts.

In supplier invoice frauds, the employee does not necessarily have to work in the accounts department and, instead, could simply be a budget holder in a department who has responsibility for approving invoices for payment before passing them to accounts for payment.

## How to help prevent Pay Away Frauds by employees?

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There are several steps that businesses can take to prevent these types of fraud, for example:

- Maintaining a segregation of duties between employees authorising invoices for payment and those processing the payment;
- Ensuring that there is a two step process to making online payments i.e. one employee can prepare the payments but they can only be released by a second;
- Bank reconciliations should be carried out by a person who does not have responsibility for authorising/processing payments or, if that is not practical, the reconciliation should, at a minimum, be checked by someone without those responsibilities;
- All payments should be supported by documentation including an invoice and purchase order and cheques should never be signed blank;
- A list of approved suppliers should be maintained. Checks should be carried out on suppliers before they are added to the list. Invoices from suppliers not on the list should be investigated;
- Cheque books / smart readers should be kept in a secure location and employees should never share their log in details;
- Payroll should regularly be checked for duplicate or bogus employees or for entries where two employees have the same bank account details.

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