



Education
Funding
Agency

Fraud Indicators

**A generic checklist for learning
institutions**

September 2013

Fraud Indicators

Introductory text

This reference document provides a list of generic indicators of potential fraud. These include personal and organisational motives for fraud, possible weakness of internal controls, transactional indicators and possible methods of committing and concealing fraud. This document may be helpful for use as a checklist where concerns exist that fraudulent activity may be taking place.

REF	AREA	RESPONSE
1	Possible Personal Motives	
1.1	Personnel believe they receive inadequate compensation and/or rewards (recognition, job security, vacations, promotions etc.)	
1.2	Expensive lifestyle (cars, trips etc.)	
1.3	Personal problems (gambling, alcohol, drugs, debt, etc.)	
1.4	Unusually high degree of competition/peer pressure	
1.5	Related party transactions (business activities with personal friends, relatives or their companies)	
1.6	Conflicts of interest	
1.7	Disgruntled employee (recently demoted, reprimanded etc.)	
1.8	Recent failure associated with specific individual	
1.9	Personal animosity or professional jealousy	
2	Possible Organisational Motives	
2.1	Organisation experiencing financial difficulty	
2.2	Commercial arm experiencing financial difficulty	
2.3	Tight or under unusually tight time deadlines to achieve level of outputs	
2.4	Organisation governance lacks clarity and direction	
2.5	Organisation closely identified with/dominated by one individual	
2.6	Organisation under pressure to show results (budgetary, exam results etc.)	
2.7	Organisation recently suffered disappointment/reverses/consequences of bad decisions	
2.8	Organisation wants to expand its scope, obtain additional funding	
2.9	Funding award up for continuation	

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2.10	Organisation due for a site visit by auditors, Ofsted or others	
2.11	Organisation has for-profit component	
2.12	Organisation recently affected by new/changing conditions (regulatory, economic, environmental etc.)	
2.13	Organisation faces pressure to use or lose funds to sustain future funding levels	
2.14	Record of previous failure(s) by one or more organisational areas	
2.15	Sudden change in organisation practice or pattern of behaviour	
3	Internal Controls Are Weak	
3.1	Management demonstrates lack of attention to ethical values (lack of communication regarding importance of integrity and ethics, lack of concern about presence of temptations and inducements to commit fraud, lack of concern regarding instances of fraud, no clear fraud response plan or investigation policy)	
3.2	Management fails to specify needed levels of competence	
3.3	Management displays a penchant for taking risks	
3.4	Lack of an appropriate organisational and governance structure with defined lines of authority and reporting responsibilities	
3.5	Institution lacks policies and communication relating to individual accountability and best practices e.g. <ul style="list-style-type: none"> ▪ procurement ▪ travel and subsistence ▪ use of alcohol ▪ declarations of interest 	
3.6	Lack of personnel policies and recruitment practices	
3.7	Institution lacks personnel performance appraisal measures or practices	
3.8	Management displays lack of commitment towards the identification and management of risks relevant to the preparation of financial statements (does not consider significance of risks, likelihood of occurrence or how they should be managed)	

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3.9	There is inadequate comparison of budgets with actual performance and costs, forecasts and prior performance; no regular reconciliation of control records and lack of proper reporting to governing body	
3.10	Management of information systems is inadequate (no policy on information technology security, computer use and access, verification of data accuracy completeness or authorisation of transactions)	
3.11	There is insufficient physical security over facilities, assets, records, computers, data files, cash; failure to compare existing assets with related records at reasonable intervals	
3.12	There is inadequate or inappropriate segregation of duties regarding initiation, authorization and recording of transactions, maintaining custody of assets	
3.13	Accounting systems are inadequate (ineffective method for identifying and recording transactions, no tracking of time periods during which transactions occur, insufficient description of transactions and to which account they should be allocated to, no easy way to know the status of funds on a timely basis, no adequate procedure to prevent duplicate payments or prevent missing payment dates, etc.)	
3.14	There is a lack of internal, ongoing monitoring of controls which are in place; failure to take any corrective actions, if needed	
3.15	Purchasing systems/procedures inadequate (poor or incomplete documentation of purchase, payment, receipt; poor internal controls as to authorization and segregation of duties)	
3.16	Subcontractor records/systems reflect inadequate internal controls	
3.17	Management is unaware of or displays lack of concern regarding applicable laws and regulations e.g. Companies Acts, Charities Acts, Funding Agreement, Child Protection	
3.18	<ul style="list-style-type: none"> ▪ Specific problems and/or reportable conditions identified by prior audit, other audits, or other means of oversight have not been corrected ▪ History of problems 	

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	<ul style="list-style-type: none"> ▪ Slow response to past findings or problems ▪ Unresolved present findings 	
3.19	No mechanism exists to inform management and governors of possible fraud	
3.20	General lack of management oversight	
4	Transactional Indicators	
4.1	Related party transactions with inadequate, inaccurate or incomplete documentation or internal controls (business/research activities with friends, family members or their companies)	
4.2	Not-for-profit entity has a for-profit counterpart with linked infrastructure (shared board of governors or other shared functions and personnel)	
4.3	Specific transactions that typically receive minimal oversight	
4.4	Previous audits with findings of <ul style="list-style-type: none"> ▪ questioned costs ▪ evidence of non-compliance with ▪ applicable laws or regulations and ▪ weak internal controls ▪ inadequate management response to any of above ▪ a qualified opinion 	
4.5	Transactions and/or accounts <ul style="list-style-type: none"> ▪ which are difficult to audit or ▪ subject to management judgment and estimates 	
4.6	Multiple sources of funding with <ul style="list-style-type: none"> ▪ inadequate, incomplete or poor tracking ▪ failure to segregate funds and/or ▪ existence of pooled funds 	
4.7	Unusual, complex or new transactions, particularly if occur at year end, or end of reporting period	
4.8	Transactions and accounts operating under time constraints	
4.9	Cost sharing, matching or leveraging arrangements where industry money or other donation has been put into a foundation (as in a foundation set up to receive	

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	gifts) without adequate controls to determine if money or equipment has been spent/used and whether it has gone to allowable costs and at appropriate and accurate valuations; outside entity such as foundation provided limited access to documentation	
4.10	<p>Travel accounts with</p> <ul style="list-style-type: none"> ▪ inadequate, inaccurate or incomplete documentation or poor internal controls such as appropriate authorisation and review ▪ variances between budgeted amounts and actual costs ▪ claims in excess of actual expenses ▪ reimbursement for personal expenses ▪ claims for non-existent travel ▪ collecting duplicate payments 	
4.11	Credit card accounts with inadequate, inaccurate or incomplete documentation or internal controls such as appropriate authorisation and review	
4.12	Accounts in which activities, transactions or events involve handling of cash or wire transfers; presence of high cash deposits maintained with banks	
4.13	Assets and inventory are of a nature to be easily converted to cash (small size, high marketability, lack of ownership identification, etc.) or easily converted to personal use (cars, houses, equestrian centres, villas etc.)	
4.14	Accounts with large or frequent shifting of budgeted costs from one line item to another without adequate justification	
4.15	<p>Payroll (including fringe benefits) system:</p> <ul style="list-style-type: none"> ▪ Controls inadequate to prevent an individual being paid twice, or paid for non-delivery or non-existence; or ▪ outsourced but poor oversight of starters / leavers and payments 	
4.16	Consultant agreements which are vague as to work, time period covered, rate of pay, product expected; lack of proof that product or service actually delivered	

REF	AREA	RESPONSE
4.17	<p>Subcontract agreements which are vague as to</p> <ul style="list-style-type: none"> ▪ work ▪ time period covered ▪ rate of pay ▪ product expected <p>Lack of proof that product or service actually delivered</p>	
5	Possible methods of committing/concealing fraud	
5.1	<p>Auditee issues such as</p> <ul style="list-style-type: none"> ▪ Refusal or reluctance to turn over documents ▪ Unreasonable explanations ▪ Annoyance at questions ▪ Trying to control the audit process (timetables, access, scope) ▪ Auditee blames a mistake on a lack of experience with financial requirements or regulations governing funding ▪ Promises of cooperation followed by subsequent excuses to limit or truncate co-operation ▪ subtle resistance ▪ Answering a question that wasn't asked ▪ Offering more information than asked ▪ Providing wealth of information in some areas, little to none in others ▪ Explaining a problem by saying "we've always done it that way", or "someone at EFA/DfE (or elsewhere) told us to do it that way" or "Mr X said he'd take care of it" ▪ A tendency to avoid personal responsibility (overuse of "we" and "our" rather than "I"); blaming someone else ▪ Too much forgetfulness ▪ Trying to rush the audit process 	
6	Record Keeping /Banking/Other	
6.1	Documents	

REF	AREA	RESPONSE
	<ul style="list-style-type: none"> ▪ Missing documents ▪ Documents are copies, not originals ▪ Documents in pencil ▪ Altered documents ▪ False signatures/incorrect person signing 	
6.2	Deviation from standard procedures (all files but one handled a particular way; all documents but one included in file, etc.)	
6.3	Excessive journal entries	
6.4	Transfers to or via any type of holding or suspension account	
6.5	Inter-fund loans to other linked organisations	
6.6	Records maintained are inadequate, not updated or reconciled	
6.7	Use of several different banks, or frequent bank changes; use of several different bank accounts	
6.8	Failure to disclose unusual accounting practices or transactions	
6.9	<ul style="list-style-type: none"> ▪ Uncharacteristic willingness to settle questioned costs ▪ Non-serial-numbered transactions or out-of-sequence invoices or other documents ▪ Duplicate invoices ▪ Eagerness to work unusual hours ▪ Access to/use of computers at unusual hours ▪ Reluctance to take leave ▪ Insistence on doing job alone ▪ Refusal of promotion or reluctance to change job 	
6.10	<ul style="list-style-type: none"> ▪ Creation of fictitious accounts, transactions, employees, charges ▪ Writing large cheques to cash or repeatedly to a particular individual ▪ Excessive or large cash transactions ▪ Payroll checks with unusual/questionable endorsements 	

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	<ul style="list-style-type: none"> ▪ Payees have similar names/addresses ▪ Non-payroll checks written to an employee 	
6.11	Defining delivery needs in ways that can only be met by one source	
6.12	Continued reliance on person/entity despite poor performance	
6.13	Charging items to project account for personal purposes (books and supplies bought for family members, home gym equipment charged to project account etc.)	
6.14	Materials erroneously reported as purchased; repeated purchases of same items; identical items purchased in different quantities within a short time period; equipment not used as promised, doesn't work, doesn't exist	



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