



Spotting the fraudsters

It is hardly surprising the phenomenal growth in invoice finance for businesses of all sizes during the past 10 to 15 years has correlated with a simultaneous rise in the incidence of fraud against invoice finance companies.

As someone who has worked in the insolvency profession for more than 20 years I have seen varying degrees of this type of fraud – from the finance director who raises early invoices to ease cashflow, to the director who deliberately presents a bogus ledger as part of a longer-term plan to run off into the sunset with an embezzled fortune. Although there are no reliable figures available, it is estimated that the factoring industry in the UK alone loses between £25m to £50m per annum in fraud.

However, despite the rise in this type of fraud, most directors act responsibly and honestly and have no intentions of defrauding others. But to play it safe, what can those who work in the invoice finance industry do to reduce the risk of being exposed to this kind of fraud? Here are some tips on prevention.

Desperate times – desperate measures

Companies trying to avoid insolvency will go to extreme lengths, including banking debtor receipts into the general bank account and producing misleading management accounts. Often no accounts will be available, so insist on receiving current financial information, which will highlight any looming cash crisis.

Everything going too well

Of course there are many successful companies but do not take it on face value; visit the company and insist on appointments being kept.

In order to minimise risks, be mindful of the following:

Opt for careful client selection

New business is not always good business and factoring is no different in this respect.

Due to the large level of funds advanced there is the definite need to conduct background searches into the past and present directorships of the prospective directors, stakeholders and guarantors. As always, the best advice is know your client. Obtain copies of CV's for those that work in the accounts department. Also, do not discount the value of face-to-face meetings with the key stakeholders.

Regular and thorough audits

Use trained and qualified staff to carry out field visits to the company. Do not allow appointments to be continually cancelled and by inference those clients that cause greatest concern should have the more frequent and thorough audits.

Be wary of possible collusion with a customer. A detailed analysis should be carried out on the ledger, principally focusing on the main 10 to 15 customers. It's worth finding out if any of the customers are connected.

Monitor key financial indicators

Undoubtedly many invoice discounters operate sophisticated internal management systems to assess their client's financial wellbeing and highlight risk. The most common of these indicators are as follows:

- **Unusual sales patterns**

A good example of this is where a client has a seasonal business. It's a good idea to ask the client questions if they suddenly start to notify you of an upturn in sales, out of season.

- **Increasing turnover**

This is often the trademark of those clients generating fresh air invoices, duplicating invoices and/

or early notification of invoicing. It is often the case that a company will notify the invoice discounter of an increase in turnover as it finds itself generating more bogus invoices in order to repay its debts and cover its tracks.

- **Increased number of credit notes**

Often those that generate fictitious invoices will subsequently raise credit notes in order to prevent the discounter from chasing the debt.

- **Decreasing number of credit notes**

As opposed to those clients generating a sharp upturn in credit notes, those clients generating few or indeed no credit notes should equally concern invoice discounters. Clients who do not produce debit notes, or do not notify the invoice discounter may be trying to deceive them in order to maximise their funding availability.

It is important for all businesses to tackle fraud. Prevention and detection of fraud is key but in order to do this knowledge of the types of fraud that exist is necessary. Fraud prevention should be proactive not just after a big loss when it is too late. Recent research indicates that 50% of all companies were defrauded last year. You have been warned.



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