Current Affairs Noticeboard

Payment of fictitious invoices

Payment of fictitious invoices is a common fraud involving small and emerging businesses. It is often the finance manager or accountant who commits this type of fraud. This person has authority within the organisation and can circumvent controls. The finance manager or accountant creates a fictitious supplier by circumventing the usual vendor authorisation process (Dalton, 2004b, p.50). False purchase orders and receiving records are created with the invoices processed for payment and the goods recorded as stock. A false sale of stock is recorded to reduce stock holdings of the fictitious purchase.

Dalton (2004b) states creating a culture within the organisation that report breaches in processes or controls is the best means to prevent this type of fraud from occurring. However this culture may take time to develop. The development of this culture also protects innocent employees for the "devastation fraud leaves behind" (p.50).

To detect this fraud, Dalton (2004b) suggests the following

- A comprehensive review to ensure written processes and procedures are being adhered to.
- A vendor audit, whereby payments for a period are checked to ensure the genuineness of the vendor and to ensure there is a valid reason why the goods or services were supplied.
- Telephone contact with unknown vendors

Reference

Dalton Rob, 2004b, "Trust can work against SMEs", *The Australian Financial Review*, 31 August, p.50