KPMG

Fraud alert

Check counterfeiting

FORENSIC

Counterfeit checks are being used in a growing number of fraud cases. In fact, check fraud can be a leading challenge for businesses and financial institutions. Advancing digital technology, in conjunction with the darker side of the internet, has made it easier for counterfeiters and fraudsters to acquire blank check stock (the paper checks are written on). MICR (magnetic ink character recognition) printers and fonts, which are used to write check and account numbers in magnetic ink on the check footer, and enable banks' scanners to automatically read checks are also easily available.

KPMG Forensic has recently assisted a client in Dubai who was concerned to learn that a large number of checks, totaling millions of dirhams, had been cleared from their account. However, the finance department hadn't issued the checks. The check stock that had apparently been used was still securely locked up in the safe. So how does this fraud work – how had the checks been issued? And what should you be doing to protect yourself and your business from check counterfeiters?

How does this fraud work?

There are number of check frauds that senior finance executives, as well as finance departments, should be aware of, ranging from forgery and counterfeiting to check alterations and check 'kiting' schemes. The recent example in the UAE involved **counterfeiting**.

Check stock similar to that issued by a leading regional bank was bought on the internet. An actual check was probably used as a template – which could have come from a customer or from anyone who came into contact with the original signed check. Completed or signed checks are valued by counterfeiters as they provide a template, including a check number as well as a usable signature that can be scanned or forged onto replica checks.

Large numbers of checks can then be run off. This fraud is short-lived but potentially high value. The scheme will eventually be detected, either by the bank or by the victim during the bank reconciliation process. Therefore, counterfeiters pass large volumes of checks, increasing in value, from the beginning of each month in order to maximize their gains without overdrawing the account.

The amounts that can be stolen in this way can run into the millions of dirhams. While the bank, not the company, normally bears ultimate responsibility, this clearly has a significant effect on a company's working capital. Banks are, not surprisingly, keen to identify any non-compliance on the part of business which might reduce their ultimate liability – which can mean that organizations must demonstrate effective controls over their check security and procedures.

How can you protect yourself – and your business?

Frauds are increasingly sophisticated – and fraudsters are increasingly skilled. However, there are a number of immediate steps that you can take to reduce the likelihood of check counterfeiting fraud, including:

Watermark your check stock – building customized watermarks, holographs and other security features into your check stock is an effective way of reducing check fraud. Many banks – which normally hold ultimate liability in the event of check fraud – will issue commercial checks with improved security features at no or little cost.

Lock check stock away – blank checks contain a significant amount of information which is extremely useful to counterfeiters. Using blank checks is a common feature of check fraud. Ineffective security can make a business liable for any misappropriated funds.

Reconcile bank statements and analyze check registers more often – many companies in the GCC only reconcile their bank statements on a monthly basis. Reconciling check registers and payment instructions against online bank statements on a daily or weekly basis may seem time consuming but effectively prevents many types of check fraud.

Destroy or deface old and cancelled checks – the personal information on checks may help someone impersonate your business and fraudulently withdraw money from your account.

Periodically ensure none of your check stock is missing – as we have already seen, unused checks can quickly and relatively easily be used for fraudulent purposes. Audit check stock at least once a month. Report any missing checks to both your bank and to the police.

Change locks, passcodes and security codes regularly – you should change locks and passcodes regularly and when certain employees leave the business.

Run background checks on your finance staff – unfortunately, experience shows that many business frauds start from within businesses. Ensure that you effectively research both new and existing hires. If checks are used by unscrupulous employees (or former employees), the business may be found liable for the fraud. Conduct random audits and enforce holiday policies.

Separate check preparation and account reconcilement functions – this makes it much more difficult for an employee to write fraudulent checks and then cover them up.

Set up bank assisted controls – your bank may be able to provide services such as positive pay, which matches the checks a company issues with the checks presented for payment.

If you are concerned that you may have been a victim of check fraud, don't hesitate. The faster you act, the more likely it is that the fraudster will be caught – and the smaller the amount lost.

If you believe you may have suffered from check fraud – or if you have any questions or comments about anything included in this fraud bulletin – please contact Nicholas Cameron or KPMG's market-leading forensic team.

Contact us:

Nicholas Cameron

Head | Forensic Services
Risk Consulting
M: +971 56 683 3019

nicholascameron@kpmg.com

Nicholas specializes in risk and compliance advisory services, high profile fraud investigations and expert witness services for public and private sector clients. As an expert accountant in serious criminal fraud proceedings, he has given oral evidence before the UK Crown Court both as an expert and as a witness of fact. Previously, Nicholas led teams of financial investigators for the UK's Serious Fraud Office on a number of large multi-jurisdictional fraud cases.

Obaid Kazmi

Director | Forensic Services
Risk Consulting
M: +971 56 992 9713

okazmi1@kpmg.com

Obaid provides dispute advisory and investigation services for public and private sector clients. He has quantified damages and conducted forensic investigations in different jurisdictions around the world with a focus on the real estate, construction, and manufacturing industries. Obaid acted as an independent expert accountant in an arbitration for a Dubai real estate dispute. Previously, Obaid was a director with KPMG's Dispute Advisory Services practice based out of Washington, D.C.

Katerina Joanna Pagoni

Head | AML and Sanctions
Forensic Services
Risk Consulting
M: +971 56 992 9366
kpagoni@kpmg.com

Katerina is a financial services compliance specialist. Before joining KPMG, she led the financial services compliance practice for a 'Big 4' firm in Greece. For approximately 20 years, Katerina was the money laundering reporting officer and the senior compliance officer at two global financial institutions. She has broad experience in money laundering deterrence, sanctions, regulatory compliance and business risks.