

Detection of Occupational Fraud on Leasing Companies

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Introduction

MM PLC is one of a leading finance company in Sri Lanka. The principle business activities of the company are leasing, hire purchase financing, vehicle hire, deposit mobilization and vehicle trading. It was found a fraud committed by one of the marketing officer during the branch internal audit.

Discussion of the Issue

When conducting the internal audit for a branch one aspect to be checked, is the returned cheques. Generally the system generated report, cheque return notifications received from the bank and return cheque register maintained by the cashier are cross checked. At an audit conducted very recently in a branch the return cheques were checked and observed that the number of cheques, which were returned had been issued from a same cheque book. However, those cheques were for different leasing contracts hold by different customers. Details of the returned cheques are as follows,

Contract No.	Cheque No.	Amount (Rs.)	Returned date	Remarks
10458382	XXXXXXXXXX5882	7,690.00	2015/04/30	Returned
13458278	XXXXXXXXXX5883	9,302.00	2015/05/05	Returned
10465433	XXXXXXXXXX5884	10,853.00	2015/05/12	Returned
13434577	XXXXXXXXXX5885	8,414.56	2015/05/18	Returned
10461635	XXXXXXXXXX5886	13,116.00	2015/05/19	Returned
10465510	XXXXXXXXXX5887	5,922.00	2015/05/20	Returned

When analyzing the facts in detail, it was found that the cheque book was owned by one of the marketing officers in the branch, who had initiated those contracts for which the cheques were issued and returned subsequently. Investigation was conducted accordingly and further explored that the particular marketing officer had created a personal agreement with customers to pay cash at once for a discount where the marketing officer could invest the money in somewhere else and earn a return.

For instance if a customer had a total amount of Rs.400,000, that is capital and interest payable for a leasing facility, Marketing officer requests customer to pay him only Rs.350,000 direct cash. He promises to customer that he will pay the rental on time on behalf of the customer. Marketing officer has invested the cash

somewhere else. However he had paid the installments from his cheque book and at the shortage of money the bubble had blasted and the cheques were returned.

Implication of the Issue

At glance it was visible that until the person who conducted this fraud suffers from a financial difficulty, the company is safe on its financial position but when the bubble is blasted it lead to a huge financial loss because company will loose lot of customer's periodic cash inflows of customers. Company is not in the position to request customers to pay as they have already paid and the person who received the payment was an employee of the company.

On the other hand, this kind of situation can damage the reputation of the company and encourage employees to behave unethically in the absence of integrity. Employee was dismissed by the company as the action of this fraud and filed a legal case against that employee to recover the loss.

Conclusion and Recommendations

Company has incorporate a special term in the agreement, as customer is liable to pay the amount if there is an issue, when the customer is unable to present the company issued receipts. And if customer is wish to pay rentals via cheques, company should collect customer's bank details from which he will pay the rentals at the point of initiating the contract. If one cheque is returned for any customer for a contract, subsequently the cheques should not be accepted from that customer unless for a reasonable circumstance.