



FRAUD... ARE YOU NEXT?

“NO, IT WON’T HAPPEN TO MY FIRM! WE’RE ALWAYS CAREFUL...”

A common statement when reading articles of this nature. Nevertheless, news headlines of recent months forecast a challenging year ahead – recession is looming and with that, law firms can expect a drop in work received, difficult fees collection, employee layoffs, pay cuts.

FRAUD EXPOSURE

In these times, greed is no longer the primary cause of fraud, it is **survival** and with this, your firm’s exposure to fraud increases without exception.

It is expected that the risk of fraud would increase for different reasons:

- Those in money and having lost it will try and recover, increasing the potential for fraud.
- Those who need to make ends meet would look to lack of controls within an organisation to overcome shortfalls.

THE TREND

Previous to 2006, an average of five (5) cases were reported annually. The past three (3) years have shown an alarming **300% increase** in such claims and the amounts embezzled have **doubled**. Claims reported are not only increasing, they are growing in size!

The anticipated trend is that there will be increasing numbers of small claims and the potential for large claims to increase in quantum. Aside from direct money losses there is the potential for increased fraud claims involving Conveyancing matters.

Troubling is that most members do not know that **not** all these losses are covered under the PII Scheme.

THE THREAT FROM WITHIN – PARTNER/EMPLOYEE FRAUD

FACT:

The risk of fraud will be from within and outside your law firm, regardless of whether your practice is in Kuala Lumpur or Alor Setar, whether you work with a big/medium/small firm or on your own – you are equally a potential target for a fraudster.

WHY?

The opportunity for fraud arises where there is a lack of supervision, poor financial and accounting controls and to a larger extent misplaced trust.

HOW?

It can be direct theft of cash money, forgery of cheques, individuals masquerading as land owners, etc.





PROTECTING YOUR FIRM

THERE IS NO QUICK FIX TO AVOID FRAUD.

You must be:

1. Constantly vigilant,
2. Take control of the processes and procedures in your law firm, and
3. Exercise supervision over staff and files.

REMEMBER:

- If it seems too good to be true, it **is** too good to be true! Use your common sense and listen to your instincts. Ask detailed questions. Conduct various available searches. If you don't like the answers or search results, decline the client. Be particularly wary of the rushed retainer offering fees above your normal rate.
- Your staff are valuable assets in identifying possible fraudulent deals. Often, they receive the instructions from a 'client' for a S&P Agreement, open the file and conduct the search before you do. If they know the warning signs and look out for them, they will be able to draw your attention to possible problems early in the deal.

LOOK OUT FOR THESE WARNING SIGNS!

A client who cannot produce utility bills, assessment receipts, quit rent receipts or any other documents related to the property, except the 'title'. A real owner usually has these documents going back a few years.

A direction to pay funds from your client account to a third person who is not a party to the transaction.

Potential clients who claim that they are acting/representing a 'genuine owner', 'relative', 'parent' etc. who is too ill to come to the lawyer's office. Even if they produce a Power of Attorney, you **must** verify it independently.

For more information, read the Case Studies on the next page.

4 STEPS TO REDUCING FRAUD RISKS

Awareness is key! Complete prevention is impossible, because fraudsters will always come up with new methods as their old methods become outdated.

Be alert! Stay up to date on the most recent scams reported. Talk to fellow lawyers and your staff about these scams.

Continue to educate yourself and your staff. The more people are alert to the unusual elements in a transaction, and who are willing to ask the next question, the better position you and your firm are to avoid being a victim of fraud. Some form of 'trigger alert' method can be implemented to safeguard your firm.

Diligence. Be diligent in all aspects of your practice: obtain photo identification of borrowers/purchasers, utility bills, etc. and keep a copy of all documents obtained in your file.

