Fraud risks in recruitment and payroll
Fraud and fraud risks associated with recruitment are prevalent, and yet, are often overlooked by businesses. There is a need to recognize fraud-related risks in the areas of recruitment and payroll to prevent financial losses and serious damage to organizational reputation. Occurrence of fraud may also expose businesses to civil or criminal liabilities. Identification, timely prevention and detection of fraud are crucial activities companies need to undertake.
Some fraudulent activities reported in the public domain

<table>
<thead>
<tr>
<th>Recruitment-related fraud</th>
<th>Campus recruitment-related fraud</th>
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<tbody>
<tr>
<td>Candidates with fraudulent Curriculum Vitae (CV) (using false academic credentials/experience certificates) to obtain employment</td>
<td>Company employees seeking favours from colleges for empanelment</td>
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<tr>
<td>Fraudulent offer letters issued by persons posing as employees of an organization</td>
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<tr>
<th>External fraud against an organization</th>
<th>Payroll-related fraud</th>
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</thead>
<tbody>
<tr>
<td>Outsiders claiming to be company officials and accepting deposits from candidates for fictitious jobs</td>
<td>Payment to ghost employees</td>
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<tr>
<td>Fake job portals created to entice and offer fake jobs to people</td>
<td>Deliberate duplicate payments made to favored employees</td>
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<th>Background Verification services</th>
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<tr>
<td>Forged stamping on verification papers submitted by the vendors to the entity</td>
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The following are some fraud risks companies face in the area of recruitment

- **Direct recruitment by company**
  - Candidates with fake CVs or academic credentials securing jobs with companies
  - Unauthorized interviews conducted or fictitious approval provided to select preferred candidates

- **Campus recruitment**
  - Empanelment of preferred colleges, selection of relatives without disclosure, modification of test scores, etc.
  - Bias in ranking colleges by recruitment teams in organizations
  - HR anchor may collude with vendors or Training Placement Officer (TPO) of a college to share confidential information

- **Recruitment through manpower consultancy firms**
  - Walk-ins/website registrations routed as employee referrals or as candidates referred by manpower consultancy firms
  - Selection of incompetent agencies, prejudicial agreements entered or direct payments made to dummy vendors

- **Employee referrals**
  - Incompetent candidates referred for personal gain, referral bonus being paid even when it was not due

- **Sharing confidential HR information with third parties**
Payroll-related fraud risks

What are leading organizations doing to address such fraud risks?

Anti-fraud framework, internal controls and policies

- Having an anti-fraud framework in place, including policies and procedures to prevent and detect instances of fraud, whistle-blowing mechanisms, communication/training programs, procedures for investigating incidents and monitoring of data to prevent fraud
- Formulating and implementing an employee referral policy
- Delegating authority to ensure that only eligible employees have access to sensitive HR- and payroll-related information
- Delegating authority to ensure that only eligible employees can conduct interviews
- Implementing adequate monitoring and oversight mechanisms

Fraud risk assessment

- Conducting proactive fraud risk assessments of recruitment and payroll processes so that the risks faced are identified and proper mitigating controls (whether preventive or responsive) are put in place
- Proactive data analytics of employee master, vendor master, payroll master

Creating awareness

- Conducting manual and online training for relevant employees
- Putting up notices to warn candidates about such practices

Third-party due diligence and monitoring

- Conducting due diligence on recruitment agencies and implementing continuing monitoring measures to ensure that they are not involved in fraudulent practices, either on their own or in collaboration with employees
- Conducting background checks of manpower consultancy agencies, payroll processing agencies and selected candidates before appointing them
Our expertise

- **Anti-fraud framework:** Development of fraud response plans, anti-fraud policies, whistle-blowing policy and review of controls for mitigation and detection of fraud

- **Fraud risk assessment:** Fraud risk assessment for recruitment and payroll processes for multiple geographies including India, the US and the UK, to identify gaps that could lead to fraud

- **Training and awareness:** Fraud awareness sessions for employees in the HR function and those managing ethics and compliance

- **Data analytics:** Data analytics of sample data generated within recruitment and payroll processes for monitoring of fraud, conducting trend analyses and identifying red flags

- **Fraud Investigation:** Investigation of alleged, suspected, admitted or detected fraud related to payroll and recruitment, directly or through third parties

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Our team

- Chartered Accountants, engineers, MBAs, certified fraud examiners and former police officers with significant experience in different sectors

- Field staff, specifically experienced and trained in corporate intelligence in conducting interviews, mystery shopping exercise, etc.

- Experienced personnel in forensic technology with significant experience in data analytics, software and database management, IT infrastructure and controls, disk imaging and digital evidence recovery

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**Contact us**

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EYIN11311-087 ED 0114

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