

## Identify and prevent fraud in your business

It is estimated that fraud costs UK businesses as much as £5 billion a year. Are you certain your business is not a victim?

### Two types of employee fraud

Broadly speaking there are two types of employee fraud - fraudulent financial reporting and misappropriation of assets. The former is usually committed by senior officials or management and involves altering financial statements. The latter is far more widespread and can be committed at any level by any employee - and in many different ways.

Here are some areas in which fraud commonly occurs:

### Personal and company cheques

There are numerous fraudulent schemes involving personal or company cheques.

For example, an employee writes a cheque payable to cash and posts the debit to an expense account. He or she then discards the cancelled cheque when it arrives with the bank statement and reconciles the statements by attributing the debit to an expense account, direct cost, or purchases account that is written off at the year-end.

Another example might be an employee taking money from the petty cash and replacing it with a personal cheque. The cash box is always balanced, but the cheque is not deposited into the company bank account.

To prevent these kinds of fraud:

- Examine bank reconciliations thoroughly
- Scrutinise bank statements and cancelled cheques for cheques made out to cash, employees, or unusual suppliers
- Instruct the bank to send company statements to your home address for your attention

### Credit control

Those responsible for collecting debts and bringing in money can offer temptations.

A typical scam is 'lapping'. Here an employee receives a payment from a customer and transfers the money directly into his or her own pocket. When a second customer makes a payment, the employee credits the first customer's account. This can potentially be repeated time and time again, making it very difficult to unravel the overlap.

Other possibilities are an employee posting fictitious credit notes or other non-cash reductions to a customer's account and pocketing the cash, or altering the amount on a sales or work invoice and pocketing the difference.

To prevent these kinds of fraud:

- Verify credit notes and write-offs with receiving records and check for other documentation to support the transaction
- Compare credit notes with previous ones processed by a suspected employee, especially if you are unfamiliar with the accounts of the customer

## Stock and equipment

Pilfering and theft are very common in most areas of business. Theft of stock and small tools by employees for personal use or resale can add up to large losses for your business.

To prevent these kinds of fraud:

- Make use of closed-circuit television, or even dummy cameras
- Remove keys from unattended equipment and put alarms on major pieces of equipment
- Light all storage areas
- Limit the number of entrances to the site
- Hire an external security company

## Purchasing and payroll

The department responsible for paying out money also offers opportunities for fraud.

For example, an employee might invent a non-existent supplier and pay phoney invoices for an account that is basically his or her own. If questioned about the stock, he or she might claim that it is damaged, used up, or being stored off-site

To prevent these kinds of fraud:

- Check selected invoices for signs of doctoring
- Check supplier invoices for unusual amounts, pricing, or volumes
- Keep an eye on payroll cheques distribution and monitor unclaimed cheques

## Preventing fraud with internal controls

Effective internal controls can drastically reduce the risk of fraud in your business, but every control will have an administrative cost. You will need to evaluate the cost of additional procedures against the perceived risk of fraud.

However there are some inexpensive measures that you can take immediately:

- **Separate key duties.** - Having the same person in charge of more than one procedure such as placing orders, running credit checks, delivering goods, preparing invoices, recording transactions, or collecting debts is tantamount to inviting fraud. Wherever possible separate or rotate these duties among several employees.
- **Require purchase or payment authorisation.** - Decide on a reasonable figure and ensure that single transactions above that amount require an authorisation, either from you or from a trusted senior employee.
- **Compare actual to budgeted expenditure.** - The most frequent unauthorised transactions take place via expense accounts. By comparing your budget to the actual amounts being claimed by employees, you can identify discrepancies. These may be justifiable expenses, or they may be the telltale signs of inappropriate expenditure.

Source – Rothman-Pantall & Co, Chartered Accountants

[http://www.rothman-pantall.co.uk/content/forums\\_bus\\_general/managing\\_business\\_17.html](http://www.rothman-pantall.co.uk/content/forums_bus_general/managing_business_17.html)