



Guide to Minimising Employee Fraud in Your Business

Money is missing from the bank account!

As a busy business owner working hard to grow your business and to pay your employees and suppliers, the last thing you want to hear is, **'Money is missing from the bank account!'**

The sad reality is that it happens more often than most small business owners realise.

One reason is that many business owners believe that they had their pulse on everything and would know instantly if something had gone wrong.

However, the problem is that you cannot rely on being everywhere and everything to everyone in your business.

Misplaced trust, inadequate hiring, and a failure to implement strong internal controls create an environment that is ripe for an employee to commit fraud.

You need to implement a foolproof system that prevents fraud even when you have taken your eyes off the ball.

The main reason is that in the most serious of cases, employee fraud is damaging to the business, causing irreparable financial and reputational damage, destroying the business owner's and employees' source of income and possibly even their lives through resultant relationship breakdowns.

Statistics

According to the Australian Federal Police, staff and former staff are responsible for **70%** of business fraud, while the Australian Retailers Association estimates **55%** of stock shrinkage is due to employee theft.

Source: <https://www.news.com.au/finance/work/at-work/from-freebies-for-mates-to-150000-fraud-employee-theft-costs-australian-business-billions/news-story/ac7b41f93ace63b20ff99b5e3d1b712a>

What is Fraud?

Fraud is behaviour that is deceptive, dishonest, corrupt or unethical. For fraud to exist there needs to be an offender, a victim and an absence of control or safeguards.

Fraud is generally described in three categories:

- asset misappropriation
- fraudulent accounting and financial reporting
- corruption.

Conversely, fraudulent activity is usually motivated by one or more of three main factors:

- pressures
- opportunity
- rationalisation.

Opportunity is the element that every business should be seeking to reduce.



Examples of Employee Fraud

- creating “ghost” employees or not deleting ex-employee records and having the salary of these “ghost” employees paid into the fraudster’s bank account
- creating bogus suppliers, with payment being made to the fraudster’s bank account
- obtaining kickbacks or bribes from suppliers or contractors
- associates of the staff providing services to the business at inflated prices
- personal use of business resources
- inflated/bogus reimbursement claims
- manipulation of financial data to receive performance based bonuses
- faking time sheets
- private purchases through business accounts/business credit cards
- providing discounted (or free) goods or services to friends and associates.

Common Red Flags

- Business experiencing financial difficulties despite healthy turnover and profits.
- Employees who appear to be living beyond their means.
- Employees who form unusually close associations with a vendor or customer.
- Employees with control issues who exhibit unwillingness to share duties

How to Minimise Risk of Fraud

The most fundamental way to minimise risk of employee fraud is to set up a system of internal controls which involves segregation of duties.

This essentially means you don't have the same person authorising a transaction, recording that transaction and reconciling/checking the accounts.

In a small business, this is not always easy to achieve. It is also important to understand that no system of internal controls can completely eliminate the risk of fraud. The aim of a system of internal controls is to reduce the risks to a minimum, making it harder to commit fraud and easier to detect.

Suggested Segregation of Duties

(for small administrative office with just business owner and one staff)

Administrative Staff Member

- Records accounts payable & accounts receivables
- Prepares payments (eg. keys in details of payments to suppliers via online banking)
- Prepares petty cash reimbursement slips
- Records general ledger entries in bookkeeping software
- Reconciles bank transactions in bookkeeping software
- Processes time sheets
- Process pay runs

Business Owner

- Authorises purchases and invoices for payment
- Approves payment after checking invoices
- Reconciles petty cash
- Deposits funds into bank account and/or performs bank transfers
- Receives, opens and reviews soft/hard copy bank statements against records in bookkeeping software.
- Approves time sheets
- Approves pay runs and payments to employees



Other Tips

- ✓ Encourage staff vacations
- ✓ Practice job rotation where possible
- ✓ Physical safeguards - lock valuables including petty cash and use CCTV cameras to monitor the cash register and physical inventory
- ✓ Regular review of reports including budgets versus actual performance, exception reports, etc.
- ✓ HR best practices - Reference/background checks and employment verification

Leverage Outsourcing

One of the most effective ways to reduce the risk of employee fraud is to outsource your bookkeeping, accounting and control functions to an experienced service provider.

This eliminates the risks associated with a lack of internal controls in a small business and ensures that every transaction is checked for accuracy.

The truth is that the more people you have overseeing your books, the less attractive your business is as a target for employee fraud.

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Benefits of Outsourcing

- Peace of mind: Confidence in the accuracy and quality of your financial records with a second pair of eyes
- Time savings: Focus on what you do best, which is growing your business
- Better financial understanding: Timely, accurate financial reports allow you to understand your business better and make informed decisions relating to your business

Conclusion

As a concerned business owner, if you follow some of our suggestions, you are already a step ahead of minimising the risk of employee fraud to your business. Going forward, making an ongoing commitment to prevent employee fraud can make a difference to whether your business continues to thrive as you grow it or whether it falters as a result of cash flow issues arising from employee fraud.

For more information please visit www.fortiz.com.au

