

Fraud in Business

When there is a downturn in the economy, there is an increased risk of fraudulent activity, which could cost your company. More fraud, such as fictitious invoices and double invoicing, is found during a recession as companies pay closer attention to their books. There also tends to be an increase in counterfeit currency, credit card and cheque fraud during recessions.

Scarcely a week goes by without another news story concerning fraud affecting an Irish company. Most fraud schemes are uncovered by accident, and usually not during a regular audit. For that reason, it is important that certain aspects of good internal control be adopted wherever possible.

A study by the Small Firms Association in September concluded that 69% of small firms had been victims of fraud in the last two years. The newly formed Irish Fraud Bureau, which aims to tackle fraud in Ireland, estimated that the total bill for fraud in Ireland could total €900million.

There is clearly a huge potential cost to Irish business from fraud in all its forms. However, there is a perception that a lot of companies take a reactive approach to the issue. In their study, The Small Firms Association commented that 'small firms tend to be reactive, rather than proactive in dealing with fraud, with only one in ten companies having taken fraud prevention measures and risk audits in the last year'.

It is difficult to measure the cost of fraud to an organisation. Some companies do not even keep a record of the cost of discovered fraud. It is certainly recommended that companies keep a record of their fraud cost, for example, management time, investigation and legal costs. This will give a company a reasonable cost of discovered fraud and will help to determine what level of anti-fraud expenditure is worthwhile.

There is reliable evidence to support the fact that the amount of illegitimate expenditure could be in the order of 5% of total expenditure. It is believed that a thorough fraud reduction programme could reduce

that cost by 50%. Therefore, potential savings could be 2.5% of total expenditure.

When companies start to think in these terms then the advantages of an anti-fraud programmes, which can easily pay for themselves in a short time, become more apparent.

Anti-fraud Programmes

The following sets out some of the essential components of an anti-fraud programme.

Prevention

Getting key people in place responsible for this function and deciding where the company face the greater risks. These people can:

- Pool the knowledge they have within the business
- Decide what are the biggest risks
- Decide what can be done to reduce them
- Allocate responsibility to specific individuals to implement an action plan

Employee & Third Party Due Diligence

There are a range of standard checks that can be done on potential employees, suppliers and customers or other third party arrangements to make sure you really know who you are dealing with. Screening employees and conducting background checks on businesses to see if they have sound financial conditions are some standard procedures for this. Establish and follow tight credit procedures at all times.

Detection

Put in place a good whistle blowing procedure. Increasing the number of effective tip-offs will identify more fraud and thus enable your company to reduce the risks going forward.

Pro-active data-analysis

The majority of companies hold huge amount of data on their daily transactions. This can be harnessed to try and identify expected and unexpected trends in performance. The benefits of this type of analysis include:

- Identifying hidden relationships between people, organisations and events
- A means of analysing suspicious transactions
- Assessing the effectiveness of internal controls intended to prevent or detect fraudulent activity.

Response

It is vital that any anti-fraud strategy includes effective measures to respond to frauds and to take appropriate action.

As one can see a more pro-active approach to fraud can significantly reduce your risk of fraud with subsequent cost savings.

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