

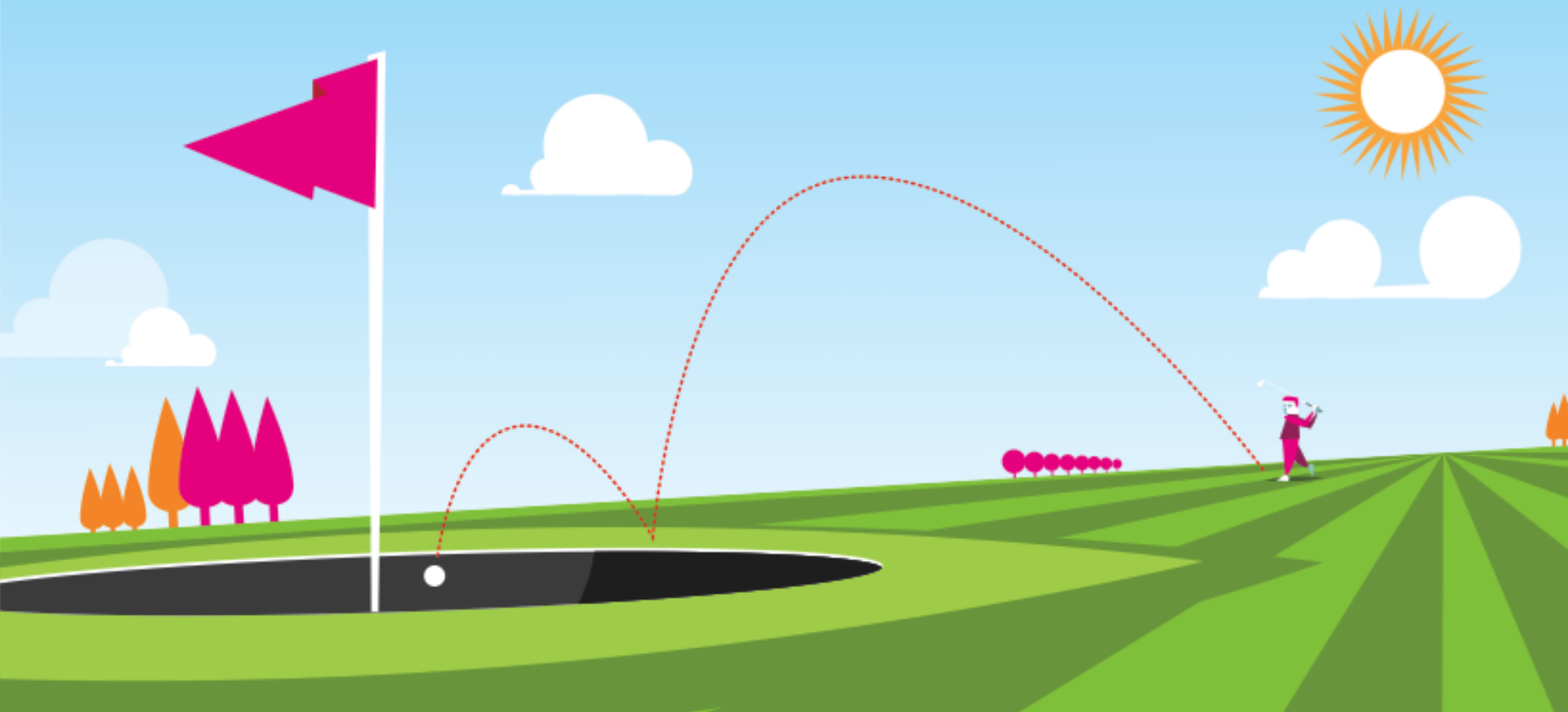
# Agenda

- 08:30 Welcome & introduction – TIM POTTER
- 08:45 Accounting update – PETER HERBERT
- 10:45 Coffee
- 11:00 Protecting your organisation against fraud – HELEN BESANT-ROBERTS
- 11:30 Tax update – RACHEL MURPHY
- 12:00 IFRS for SMEs – HELEN BESANT-ROBERTS
- 12:30 Lunch and networking

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# Welcome



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**HURST**  
ACCOUNTANTS  
**THE EDGE**

# Protecting Your Organisation Against Fraud

Technical Workout 2010

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# Agenda

- What is fraud?
- Why consider fraud?
- Impact of fraud
- Understanding fraud - opportunity, rationalisation, pressure
- Examples
- Red flags
- Protect against fraud
- Control environment & governance
- Risk management
- Internal controls
- Monitoring & reporting
- Managing fraud risks

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# What is fraud?

- The use of deception to deprive, disadvantage or cause loss to another person or party
- Includes
  - Theft and embezzlement
  - Misuse of funds/assets/other resources
  - False accounting
- Assets include cash, fixed assets and data

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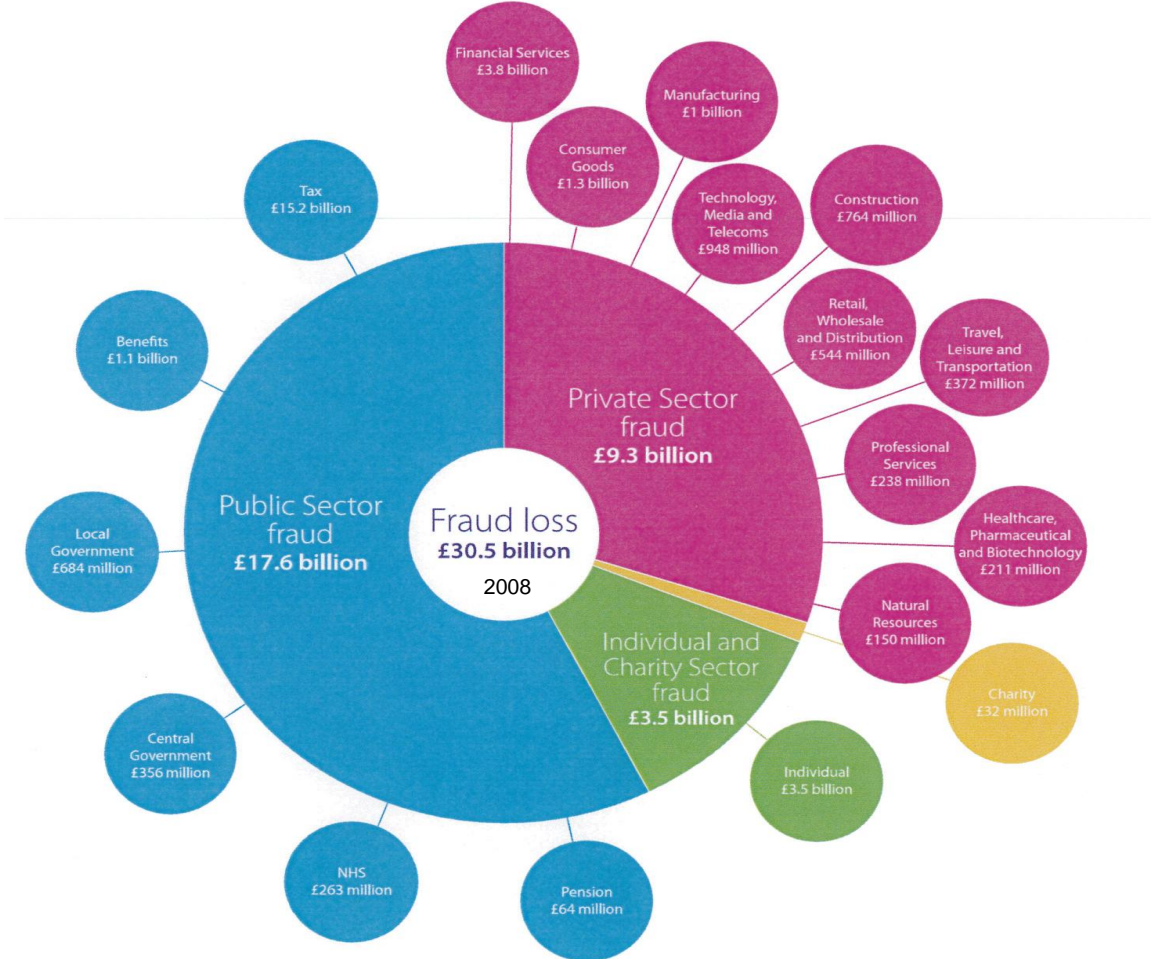
# Why consider fraud?

- Cost of fraud
- Impact of fraud
- Economic downturn increases incidence of fraud
- Companies are more vulnerable to external attack
- When it is harder to obtain credit, minor fraud more of an issue
- New bribery legislation puts focus on anti-corruption

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# The cost of fraud



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# Impact of fraud

## On businesses

- Losses suffered
- Cash-flow and liquidity impact (suppliers not paid, customer orders not fulfilled, debt not repaid)
- Damage to reputation
- Disruption & associated costs
- Inability to fund future projects/growth
- Loss of funding/credit
- Reduced confidence of stakeholders

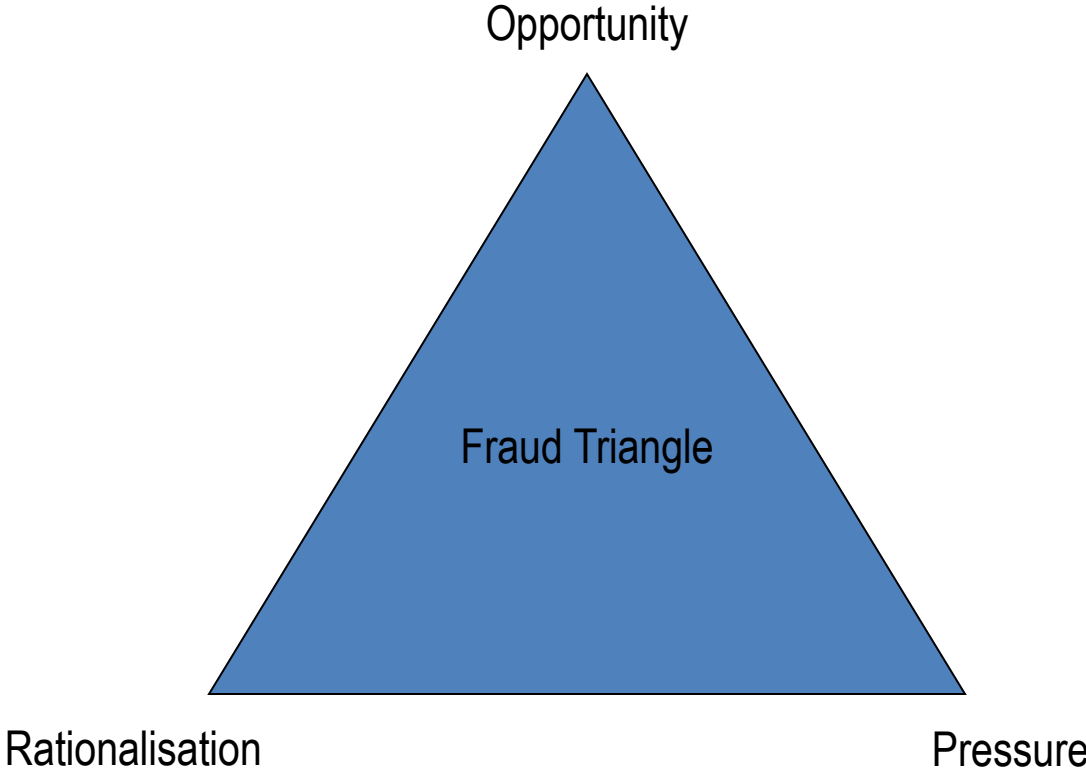
## On employees

- Reduced morale
- Loss of jobs if business suffers

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# Understanding fraud



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# Pressure

## Business owners/management

- Reporting to stakeholders/investors
- Poor performance (losses, negative cash-flow)
- Bank covenants
- Lack of cash/working capital
- New regulatory/legal burdens
- Incentive schemes
- Resource constraints
- Ill-advised strategic decisions
- Over-expansion
- Competitor pressure

## Employees

- Lifestyle
- Large debts
- Pressure from others
- Incompetence
- Keep jobs
- Incentive schemes
- Mental or emotional problems

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# Opportunity

- Nature of industry/operations
- Assets, liabilities, revenue, expenses based on significant estimates
- Unusual or complex transactions
- Complex organisational structure
- Poor financial management
- Informal or poor internal controls eg segregation, oversight, record-keeping, safeguards, access controls
- Large amounts of cash on hand
- Inventory items or fixed assets that are small in size but high in value
- Easily convertible assets
- Incentive-based remuneration

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# Rationalisation

- Culture eg:
  - Owner-manager does not differentiate between business and personal transactions
  - Disregard for internal controls
  - History of violations of laws and/or standards
  - Failure to correct known weaknesses/tolerance of unacceptable behaviour
  - Ineffective communication, implementation, support or enforcement of values and standards
- Avoid tax
- Attract investment
- Dislike employer/low morale
- Terrorism
- Everyone else is doing it
- Thrill-seeking

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# Examples

## Manufacturing company

- Purchase ledger clerk
- Created dummy invoices and whole cheques to herself
- Needed money for child support

## Contracting company

- Director “duped” investors into investing in company
- False documentation and false accounting

## Service company

- Financial controller
- Diverted BACs payments to own bank account
- Stole £200k

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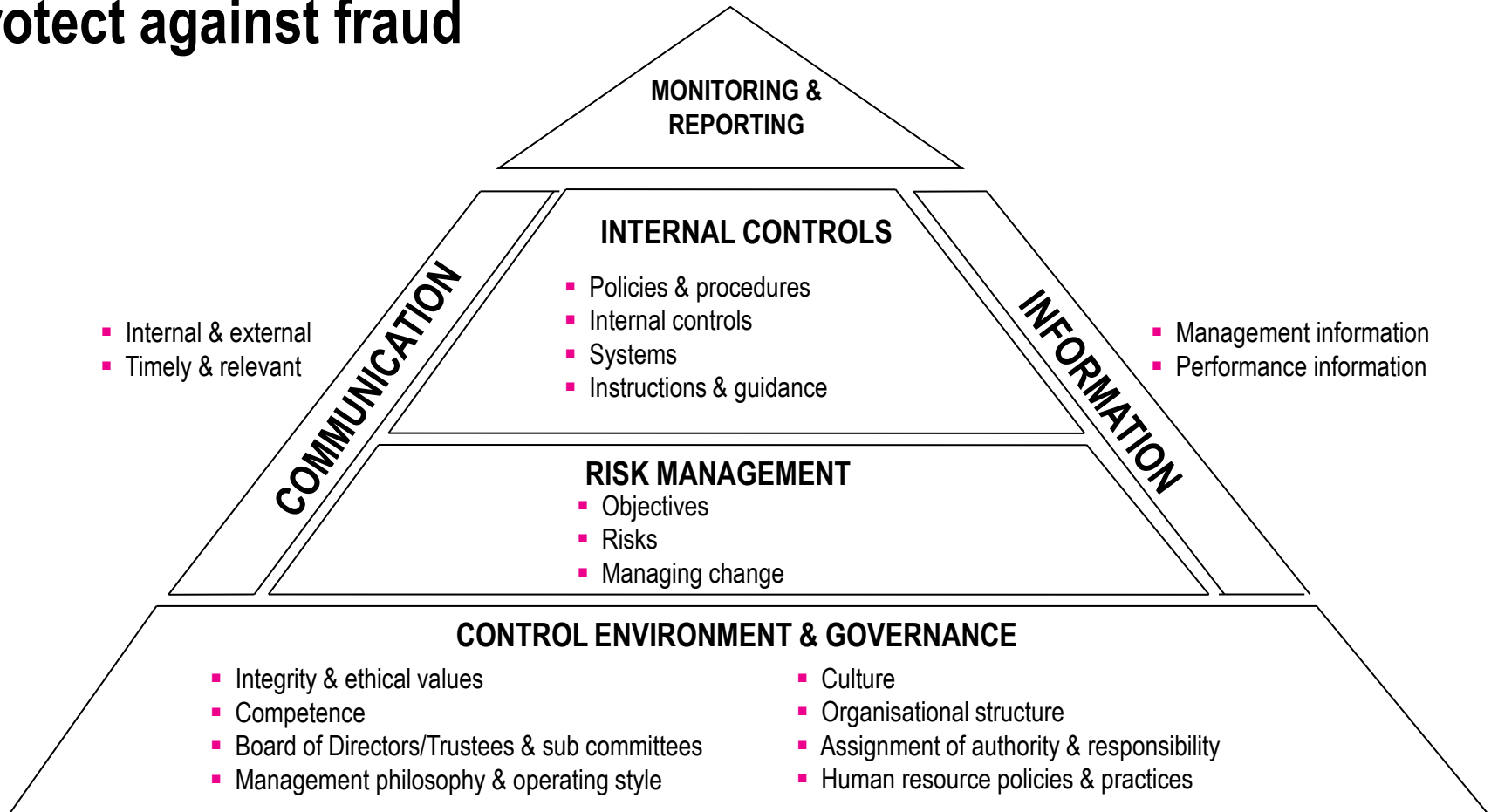
# Red flags

- Employees:
  - Changes in behaviour
  - Lifestyle not commensurate with salary
  - Personal financial difficulties
  - Work late/early consistently
  - Appear unduly stressed
  - Do not take or reluctant to take holidays
  - Always subject of complaints
  - Too much control/authority
  - External business interests
  - Too close to contractors/suppliers
- New staff resigning quickly
- Transactions:
  - Taking place at strange times
  - Not recorded completely/timely
  - Unusual or unsupported
- Discrepancies in accounting records, messy/complex accounting records
- Late adjustments or duplications
- Unexplained items on reconciliations
- Excessive voids or credits
- Missing documents or alterations to documents
- Missing inventory/assets

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# Protect against fraud



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# Control environment & governance

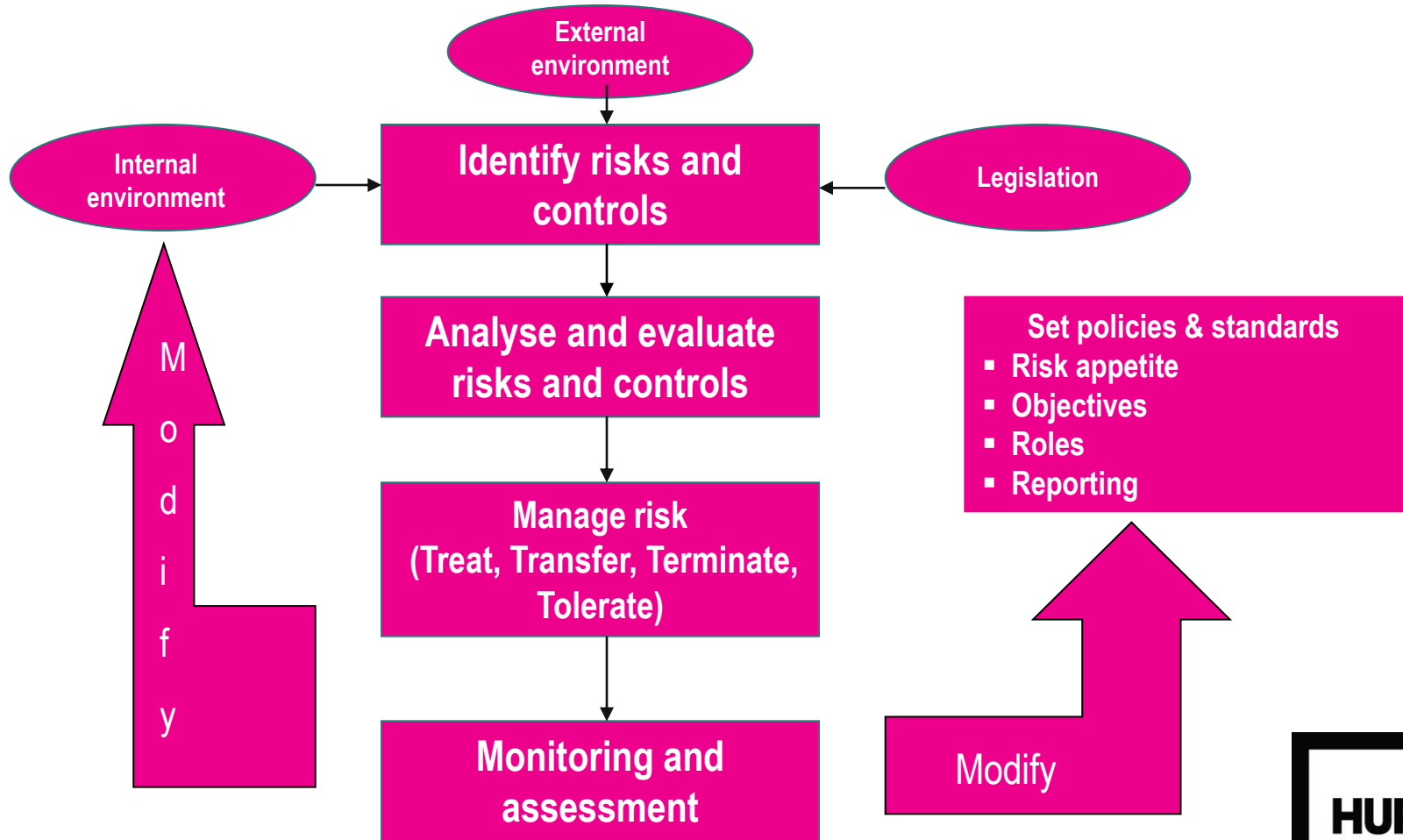
- Leadership, culture & values – tone at the top
- Ethics and integrity
- Effective management
- Appropriate corporate structure
- Business and strategic plans
- Board competence
- Clear roles and responsibilities
- Clear policies eg fraud & anti-corruption
- Training
- Performance monitoring
- Internal controls
- Delivery of objectives
- Compliance with laws, regulations and best practice



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# Risk management



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# Internal controls

## Preventive

- Building and IT access restrictions
- Screening of job applicants
- Segregation of duties

## Detective

- Reconciliations
- Exception reporting
- Review processes
- Audit

## Corrective

- Insurance policies
- Business continuity plans

## Directive

- Training programmes
- Performance targets
- Quality standard initiatives e.g. ISO, IIP

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# Monitoring & reporting

- Record-keeping
- Whistle-blowing procedures
- Effective communication channels
- Fraud reviews
- Data mining
- Internal control reviews
- Staff training and awareness schemes
- Warning signs

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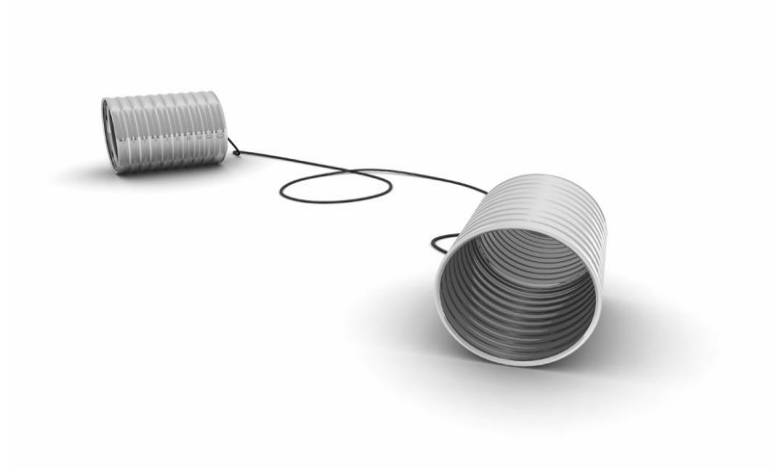
# Managing fraud risks

- Understand the potentially damaging consequences of fraud on your organisation
- Prevention - implement an anti-fraud culture, supported by policies and procedures
- Detection - implement systems and procedures to detect the early warning signs of fraud
- Investigation - prepare for fraud by having a fraud response plan
- Insurance - arrange appropriate theft and fraud insurance

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# Questions



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