

Enterprise

Fraud remains silent epidemic

Employee fraud is costing small businesses dearly, but few pay adequate attention to it, reports Mark Fenton-Jones.

Pam, a new employee who is left alone at work, realises after two weeks that no one is watching her. Since she is a little short of money, she takes \$10 from the till. The next day she takes \$20.

Several weeks pass and she continues to steal small amounts of money. Then one day the firm's part-time accountant shows up unannounced.

By counting her cash, the accountant quickly finds that the employee has stolen more than \$500.

When confronted, Pam confesses she had "borrowed" the money without authorisation.

The accountant asks her if she knew someone would check her work.

"No," she replies. "Until you walked in, I didn't even know what an audit was."

This case is typical of the 70 per cent to 80 per cent of internal fraud perpetrated by employees who see it as an opportunity.

Another 10 per cent to 15 per cent is perpetrated by so-called "honest" people. They have got into financial trouble and intend to pay back the money once they crawl out of their financial hole.

But the remainder are the downright dishonest, says Joe Dicks, a partner with Melbourne accounting firm PPB.

The Australian Retailers Association estimates that employee fraud costs business \$875 million a year.

At the small-business level, the figure is staggering.

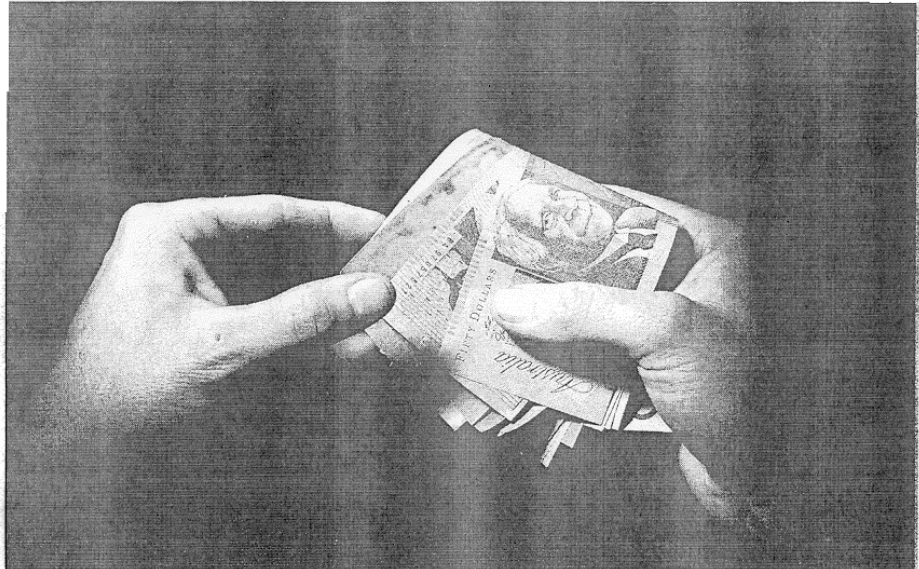
A survey by professional accounting body CPA Australia found that 28 per cent of the 600 small businesses surveyed had suffered from fraud since 2001.

The most common type of fraud reported was employee fraud — 10 per cent of the total reported. This was followed by loss of funds from bank accounts and credit card fraud at 7 per cent each.

Success in minimising employee theft depends on three interlocking elements: prevention, detection and proof, Dicks says.

The theft might be detected but the systems in place could be inadequate to prove a case.

Even among microbusinesses,



Between 70pc and 80pc of internal fraud is by employees who take the opportunity to steal when it arises.

Photo: JAMES DAVIES

those with one or two employees, internal fraud is a problem.

Australian Better Business Insurance — or ABBI — surveyed 300 microbusinesses earlier this year and found that employees had stolen from 9 per cent.

ABBI general manager Mike Hooton says the manufacturing sector is particularly at risk because many businesses believe they do not need the same level of controls as the retail sector.

"The hardest thing with employee theft is detection," Hooton says.

The main reason why dishonest employees are able to rip off business owners is because they lack adequate controls.

On the plus side, many small businesses have made attempts to put systems or procedures in place to prevent fraud.

The problem is, in vulnerable areas such as cash management, small business is a sitting target. About 31 per cent of small businesses do not have adequate cash-management controls, the CPA survey found.

"In the retail sector, shop stealing per incident can cost an average of \$200, whereas staff dishonesty incidents average \$1000," says Renata Ringin, managing director of loss-prevention consultancy Pro Active Strategies.

Ms Ringin says there are additional costs to business when

employees steal. This includes losses associated with writing off the costs of training employees who steal and subsequently have to be dismissed, the costs of investigating the incidents, and intangible costs relating to breach of trust and loss of staff morale.

"Often unsupervised access to cash and merchandise can be a significant temptation to employees, with dishonesty being reported for investigation on a daily basis," Ms Ringin says.

However, as few as 3 per cent of all dishonest acts by employees are

"Unsupervised access to cash and merchandise can be a temptation."

estimated to be reported.

The CPA survey found that business procedures to protect assets were rare among small business even though they were not difficult to implement. Adequate checks and systems include restricting access to assets, double-checking financial entries, separating functions between employees and using passwords to log on to computers.

Controls begin even before an employee starts on the job, with a reference check.

Once on the premises, the employee should be aware that the

business has an anti-theft policy. According to CPA Australia, these company controls will deter people who have the opportunity to commit fraud.

This view is backed by Dicks, who says company controls should include reporting financial results monthly, usually within two weeks of the end of the month.

Dicks says the results should be compared with a rigid budget and major differences analysed.

Staff or managers should provide reasons for any wide variations from budget.

"Where possible, businesses should segregate duties when cash is involved," Dicks says.

He says that the authorisation process should include a second signatory and bank reconciliation should be carried out regularly.

Dicks says he is astounded by businesses that say they have not reconciled their statements after three or six months.

He says this lax attitude creates the conditions for people to perpetrate fraud.

Proof is important when a claim is made on an employee dishonesty (fidelity) policy.

ABBI requires claimants to substantiate a loss and report it to the police.

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Next week: internet fraud ■