Network of Independent Forensic Accountants

Prevent your business being de-frauded Top Ten Fraud Tips

The cost of fraud is not limited to the amount the fraudster has taken from your business – it also includes the time spent uncovering the fraud and proving who committed it – time better spent on growing your business. And of course there are likely to be legal fees.

So it pays to do as much as you can to prevent your business being defrauded. Here are some simple measures every SME should adopt.

1 Cash is the most "liquid" of assets – you don't need to sell or convert it to get value. If your business takes cash, control it from the moment the customer hands it over:
   a. This may involve security cameras recording cash till operators;
   b. Ensure that a receipt is given for all money received;
   c. Restrict the handling of cash to one or a small number of employees.

2 Prepare a bank reconciliation at the end of each month. If you do not prepare it yourself, check it – in particular look for items in the reconciliation described as "uncredited bankings / lodgements / items". Check with your bank that they get credited to your account within 5 days. If they are not, it can mean that they never will be banked because someone has pocketed the money!

3 If you grant customers credit and they are in the habit of paying you in cash, make sure that the full amount of cash received is credited to their account and not partly allocated to another customer's account. This is known as "teeming and lading" – using cash received from one customer "A" to credit to another "B", so that it looks as if B's debt is being reduced, when in fact one of your employees or bookkeeper has pocketed the money which B paid in the first instance!

4 Insist that refunds to customers are within your terms of trade and properly authorised – preferably by you. It's so easy for a till operator to process a fictitious refund and pocket the cash or process the refund to their own credit / debit card. It's not so easy to spot what has happened unless you have a point of sale stock system and very frequent stock counts.

5 Never:

a. Sign a blank cheque. Doing so is like opening your wallet or purse and inviting people to help themselves to your money. Anyone who finds the cheque can add their name and any amount and then bank it.
b. Sign a cheque without examining the invoice being paid and, if possible, the supplier's account in your purchase ledger. Make sure the invoice is valid – not a copy of one that has been paid before – and for goods or services your business normally purchases.

6 Always seek character references for those you employ. Fraudsters rely on deception and they are usually very good at it! A skilled fraudster at an interview can look you in the eye and say "No, I've never been involved in fraudulent activity". Only a letter from or a call to a previous employer can give you some comfort.

7 Always have cheques over, say £200, signed by two people. Would you notice if a trusted employee signed a cheque to him/herself every week for £200? That adds up to £10,400 over a year – the price of two good holidays for you and your partner. Requiring two signatures is a simple way of making sure that the payment has been authorised.

8 Know your employees – if Donald Duck appears on your payroll, you're in trouble! Setting up a fictitious employee on the payroll, whose net pay is paid into the bank account of, or collected by another employee, is a simple way of doubling your pay. The Inland Revenue is unlikely to complain if tax has been calculated and paid over on the bogus employee's account.

9 Check the payroll:

a. Is anyone working unauthorised overtime?
b. Has the bookkeeper / payroll clerk given him/herself a rise in gross pay?
c. Check that the net pay of each individual shown on the payroll is the same amount as the cheque or Autopay credit transfer for that individual – it's easy to add a zero onto someone's net pay if no-one checks what is being paid out.

10 A simple way for one of your employees to defraud your business is to collude with a supplier – your employee photocopies the supplier's invoice, the original invoice is paid and then some weeks or months later the copy invoice is also paid. Your supplier and your employee split the proceeds. Stamp all purchase invoices with a "RECEIVED DATE" upon receipt and "PAID" when they have been settled to prevent them being used to obtain a duplicated payment.