

How to Protect Your Business from Fraud

The typical Canadian company loses 5 percent of its annual revenues to fraud. More than a quarter of fraud cases result in losses of \$1 million or more. Companies with fewer than 100 employees account for 42 percent of victim organizations. Not surprisingly, these smaller companies suffer disproportionately large losses. The departments where most fraud occurs? Sales, upper management, accounting and customer service.

These shocking statistics, reported in the Association of Fraud Examiners' (ACFE) report, **Detecting Occupational Fraud in Canada: A Study of its Victims and Perpetrators**, are a jarring reminder that fraud is not uncommon. It happens in companies of all sizes, in all industries. Among the study's thought-provoking findings:

Watch the wise guys. Approximately 71 percent of occupational fraud is committed by men. A vast majority have college degrees and have never been charged with a crime. Employees in two tenure categories — under two years, and between five and 10 years — are the most likely perpetrators.

Perpetrators with higher incomes are associated with larger losses.

Interestingly, collusion is not rare: 42 percent of fraud cases were committed by two or more employees working together.

Tips are top. The ACFE study reports that 42 percent of frauds were detected via tips from employees, vendors, customers or anonymous sources. Unfortunately, only 19 percent of fraud cases were uncovered by internal controls.

Organizations with a tip line or other fraud reporting mechanism suffered much lower median fraud losses than organizations without a reporting system. In addition, the use of a tip line reduced the time it took to detect fraud from 24 months to 18 months.

Money talks ... and walks. Cash can be stolen in many ways, but the most common cash disbursement frauds occur via billing schemes. In these cases, criminal employees set up a shell vendor, bill the company for fictitious services or include personal charges on a company credit card.

Other popular methods of stealing include cheque tampering, fraudu-

lent electronic transfers and payroll schemes. (Ever heard of ghost employees? These are "ghosts" added to the payroll so the fraudster can collect their cheques.)

Audits and ethics work. Organizations that perform surprise audits on a regular basis experience much lower fraud losses than those that do not. Conducting fraud and ethics training also increases the perception that fraud will be detected, illustrates that fraud will not be tolerated and reinforces the importance of reporting fraud. These anti-fraud tactics reduce the time to detect fraud by as much as six months.

Clearly, occupational fraud can be very damaging. Victim companies not only suffer financially, but also culturally. Camaraderie and trust often get washed away in scandal, and it can take years to get a company back on track.

Act now to prevent fraud in your company. A few simple steps can make a big difference. ❖

We would be glad to share our ideas about how to proactively deter fraud in your company.

The Fraud Triangle

Three elements must be present for fraud to occur:

1. **Opportunity.** Employees must have access to data, records, cheques or other information that makes it possible to commit and conceal their crimes.
2. **Need.** Perpetrators are motivated to commit fraud by real or perceived "needs," such as financial difficulties or lifestyle desires.
3. **Justification.** Fraudsters rationalize their crimes. They may feel underpaid or unappreciated. They may want to "punish" the company in some way. Some have convinced themselves that it's okay to "borrow" money as long as they intend to pay it back someday.

