

THE FERTILE GROUND OF FRAUD

Like any virus or infection, the right conditions have to exist for the infection to spread.

Flood, Cyclones and post GFC – the perfect breeding ground for fraud!

The spate of recent natural disasters, together with the impact of the GFC still lingering has created a very fertile breeding ground for fraud. Fraudsters are opportunists by nature and the current climate has created a plethora of opportunities.

In every fraud perpetrated, there are 3 essential criteria that always exist. These criteria are referred to as the Fraud Triangle:

FRAUD TRIANGLE



Motivation:

- Maintaining a pre GFC lifestyle,
- Redundancy,
- Gambling,
- Mounting personal debts.

Opportunity:

- Reduction in areas of internal controls,
- Change in or additional work responsibilities,
- Increased pressure to meet financial targets.

Rationalisation:

- Just a loan, will pay it back,
- I'm underpaid, I deserve it,
- Win it back with gambling,
- Unable to provide for family/survive without it.

AN INTERESTING STATISTIC

- 5% of people will never commit fraud,
- 10% of people will always commit fraud, they will proactively seek out opportunities,
- 85% of people will commit fraud if the circumstances exist, i.e. the elements of the fraud triangle prevail.

The alarming statistic is that the vast majority, i.e. 85% would commit a fraud if the "right" circumstances existed.

Therefore, in the current economic climate, based on the above statistics, I would consider that 85% of us are now at a higher risk of committing a fraud.

WHERE'S THE RISK?

Small to medium business will be the main target of fraud, why?

- Less internal controls and review procedures in place,
- Higher reliance (level of trust) on fewer staff to cover multiple duties,
- Cash flow pressures arising from recent disasters.

AREAS TO FOCUS ON TO MINIMISE THE RISKS:

1. Segregation of duties – ensure the same person who accounts for the accounts payable does not authorise and process payment of the account,
2. Specified procedures in place to account for and authorise payments of expenses, – make sure a proper paper trail exists and payments are not made without the appropriate or original paperwork being provided,
3. Restrict control over the banking functions of the business, – ensure the owner or a trusted, separate person authorises and processes payments,
4. Ensure the bank accounts are reconciled on a regular basis,
5. Organisations that employ multiple casuals, e.g., the hospitality industry – ensure you can account for all the employees,
6. Review management accounts – identify discrepancies and investigate in a timely manner,
7. Identify the opportunities within your organisation – Undertake a “walk-through” of your business” – Ask yourself, if I wanted to commit a fraud, how would you do it?
8. Identify key red flags of fraud:
 - Key employees not taking annual leave,
 - Employees appearing to be living beyond their obvious financial means,
 - Unusual entries in the financial accounts.

CONCLUSION

Remember, where there is smoke, there is generally fire, therefore if you suspect that a fraud has been or is being committed within your organisation:

- Report it to a relevant senior person within the organisation, and
- Seek external professional assistance from a Certified Fraud Examiner (“CFE”). In this regard, I would recommend that: [CLICK HERE](#) to find a CFE to assist you.

Please note:

I would not recommend attempting to uncover and/or investigate a suspected fraud yourself as I have been involved in a number of cases over the years where this has occurred and what I generally find is that the suspect has been tipped off, evidence has been altered and/or destroyed and conviction of the suspect becomes difficult.

Often the person leaves /is terminated without being referred to the relevant authorities and simply moves unto the next victim organisation to commence perpetrating a new fraud.