



CONTROLLING FRAUD

The best way of preventing fraud is to understand why it occurs. Fraudsters generally identify an opportunity for exploiting a weakness in control procedures and then assess whether the potential rewards outweigh the penalties should they be caught.

Prevention of fraud has two stages:

- ensuring that opportunities for fraud are minimised (fraud prevention)
- ensuring that potential fraudsters believe they will be caught (fraud deterrence)

FRAUD PREVENTION

So, how can a suspected fraudster be exposed? Firstly, it is necessary to examine all the key company systems and viewing them with the mindset of a potential fraudster.

The review will need to be carried out by senior management who are familiar with the detailed operations of the business. Undoubtedly the review will bring to light a number of weaknesses in the current systems which could be exploited by a fraudster. Having identified the weaknesses in the current systems, the company must then change those systems by introducing new or different controls. Simple controls are often the most effective and frequently require little management time or effort.

The introduction and enforcement of controls will reduce the opportunities for fraudsters. The controls themselves warn potential fraudsters that management is actively monitoring the business and that in turn deters fraud.

FRAUD DETERRENCE

Fraud thrives in those businesses with an unhealthy corporate culture, domineering management, abusing or overriding internal controls, low staff morale and weak management. Collectively they reflect the culture of the business. Indeed, until there is a healthy culture and strong management any attempt to deter fraud is unlikely to be successful. Only when potential fraudsters believe fraud will be detected and when whistle-blowers believe they will be protected will there be an effective deterrence of fraud.

CONTINGENCY PLANS

A good way of instilling a healthy culture in a business is to give every employee a copy of the ethics policy as part of their contract of employment or company handbook. This ensures they are aware of exactly what is expected of them.



EFFECTIVE WAYS OF DETECTING FRAUD

- Internal controls.
- Internal audit.
- Management review.
- Whistle-blowers.
- Change of management.
- Anonymous tip-offs.
- Outside information.
- Security of passwords.
- External audit.
- Accident.
- Access/exit controls.

The above list highlights the importance of having strong management and a healthy corporate culture in order to detect and, therefore, deter fraud.

Physical controls such as passwords and access/exit controls come at the bottom of the list in detecting fraud but have a big deterrent effect on potential fraudsters and are very important in reducing fraud.