

Fraud prevention

“The only limit to internal fraud,” says James Hunter, president, KPMG Forensic, “is human ingenuity. If there’s something that can be stolen, if deception can be applied, if there’s an opportunity for unjust enrichment, then bad people are going to do that.”

And that can be costly. According to the Association of Certified Fraud Examiners, the average cost of an incident of fraud to a small business is \$97,000 — and that doesn’t take into account associated costs such a loss of reputation or customers. And it happens more often than you might think.

“People would be very surprised at the prevalence of fraud in small and medium sized businesses,” says Jay Stark, vice-president, Fraud Management, RBC Royal Bank. “In recent studies, more than 50% of the respondents reported they had been victims of fraud.”

There are several reasons why small and medium enterprises are particularly at risk. “They may not have the budget for a detection system,” says Hunter. “Or, they

haven’t set up the internal controls, and they operate more on trust. When you do that, it creates opportunity for fraud.”

An ounce of prevention

Both Stark and Hunter say there is plenty that any sized business can do in terms of prevention — starting with understanding the different types of fraud.

“There’s internal fraud,” says Stark. “That includes things like theft of assets, employees stealing cheques, the altering of payroll and procurement accounts. And external fraud, like cheque fraud, trade fraud and theft of confidential information.”

For Stark, minimizing internal fraud starts with rigorous pre-employment screening, including criminal checks, credit checks, bankruptcy checks, media searches, court searches and following up on employment and education references.

Given that most cases of fraud are discovered internally — through tips or by accident — company culture also plays a key role.



“In a large company you might implement a whistle blower line,” says Hunter. “In a small enterprise you need to foster a spirit where an employee feels comfortable telling someone in senior management about their concerns.”

When it comes to anything to do with money, fraud experts advise small enterprise owners to “keep your hands on the cash.” There has to be a sense of vigilance on the part of the owner or chief executive, says Hunter. “That means keeping your eye on the cheque book. Making sure you know where the cash is going when it comes in and when it goes out. And, if the size of your company allows it, segregating duties.” For example, not having the person who receives the mail also control accounts receivable.

It also pays to protect your cheques from theft and tampering. “The first thing to do,” says Stark, “is reduce the number of cheques you write by moving

to electronic payment methods where possible. The cheques you do use should incorporate special security features. And, manage your cheque stock. That means being consistent in colors and fonts and printing styles.” He also recommends using a positive pay service — a cheque matching process offered by most financial institutions that identifies counterfeit or duplicate cheques or raised dollar amounts prior to a cheque being cashed.

Next to safeguarding cash and cheques, Stark notes that small and medium enterprises need to be increasingly concerned about the privacy of customer and company information — especially if they’re growing substantially. “This really comes down to controlling your environment with the right policies and procedures regarding use of the information and use of the information technology itself,” he says.

Warning signs

If you are worried that your business has been compromised, Stark and Hunter offer some warning signs — for example, sudden changes in financial results with no obvious explanation like sales suddenly going way up or way down, or profit margins that appear to have been shaved. Or, an employee living a Cadillac lifestyle but earning a Chevy wage. “You need to ask yourself where that money is coming from,” says Hunter. “Don’t ignore the obvious. If something is wrong, it’s not necessarily fraud, but it might be and needs to be checked.”

In other words, better safe than sorry.

For valuable resources and advice to help you achieve your business goals, visit www.rbc.com/business-advice.



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