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Workplace Fraud

The Enemy Within

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Introduction

Almost half (48%) of the companies surveyed in a recent survey by PricewaterhouseCoopers reported being victims of fraud. The average direct cost of this economic crime is £1.75 billion. This does not however include the other hidden costs such as the costs of trying to prevent fraud before the event, and the costs of responding to fraud, such as the loss of management time.

What is Fraud in a workplace context?

There is no universally accepted definition of fraud. However, taking one of the wider definitions, as highlighted by David Davies in the publication *Fraud Watch*, it includes:

All those activities involving dishonesty and deception that can drain value from a business, directly or indirectly, whether or not there is a personal gain.

Fraud in this context is therefore considered to be more than just the intentional distortion of financial statements, and can range from the exaggeration of expenses, to international fraud.

Triggers for Fraud

The 'fraudster' can operate at all levels of an organisation, but each individual will have his or her own motives and opportunities. Donald R Cressey, an American criminologist, devised a theory for the triggers required to lead to fraud, which involved three aspects which became known as the Fraud Triangle:

Pressure

The motivation for fraud is often rooted in overwhelming pressure, be it business factors such as targets to meet, or the need to continue on a promotion path, or personal factors such as gambling habits and financial problems. Often these pressures are deemed to be non-shareable, but are perceived to be solvable by the fraudulent activity.

Rationalisation

From minor unauthorised risks, to continual bad business practices, deception increases slowly, perhaps over a period of years, with the fraudster rationalising the continued deception. This does offer the chance that some frauds may be stopped in the early stages if robust detection procedures are in place.

Opportunity

An environment has to be in place to allow the opportunities for the fraud to happen. A lack of internal controls, a blame culture, lack of reporting structure can all in their small ways create the opportunity for fraud to more easily occur.

If the triggers for potential fraud can be managed within an organisation, it has the potential to lessen the chance of fraudulent activity occurring.

Types of Fraud

IT Fraud

The growth in the capability of IT systems has removed some of the traditional safety provided by physical boundaries. Important information, such as client details or financial information stored on computer or websites, can be altered, copied or removed as a consequence of weak internal controls or by the IT systems being hacked into.

Identity Fraud

This is the impersonation of another person or whole organisation to purchase goods or deceive customers in the individual's/company's name. This fraud and theft of identity can be perpetrated through hacking, the theft of laptops, or through the submitting of false documents to Companies House. With the increase in social/business networking websites, and the availability of personal information on these, the opportunities for ID theft is more prevalent.

Manipulation of Accounts

Information on sales, purchases or stock can be used to perpetrate fraud either for personal financial gain or by presenting a more positive financial picture of a department or whole business than its true position.

Petty Fraud

Low level fraud probably occurs in most organisations. Often those who do it do not think that what they are doing is wrong because it is 'victimless'. This is not the case and consistently exaggerating expenses or taking office supplies will have an impact elsewhere be it through animosity of other employees or budgetary cut backs.

The Impacts of Fraud

The impacts of high-level fraud can affect an organisation in a number of ways:

Financial

The main impact is the loss of funds or equipment that occurs from the fraud. The share price may also be affected adversely if the fraud is of a sufficient level or indicative of weak internal controls.

Reputation Management

The impact of fraud may affect the ability of the organisation to deliver on future contracts. Additionally long term perceptions of the reliability of an organisation may be negatively affected and so deter future clients or customers.

Employee Morale

Internal trust of existing employees may be damaged, especially if concerns have not been sufficiently followed up in the past. Future recruitment and retention of staff may be an issue dependent upon the size of fraud, or if action is not taken following the discovery of fraud.

The Fraudster

An individual found to be committing fraud is likely to suffer a range of impacts, from economic loss by the repaying of monies taken or the payment of fines, to the loss of personal and professional integrity, possibly limiting future career options and earning capacity.

There is also a potential loss of liberty for the fraudster if prosecution occurs, and a jail sentence is passed.

Good Practice Principles for deterring and detecting Fraud

100% fraud prevention is not practicable as the additional internal controls required would stifle an organisation's ability to function. It would also be highly costly and may be seen as outweighing the benefits which might be gained by the reduction of potential fraud loss.

Fraud deterrence aims to improve organisational procedure to reduce or eliminate the underlying causes of fraud, and involves both short term (systems) and long term (cultural) initiatives, for example:

- **Systems**

- **Writing a fraud strategy statement**

Guidelines adopted at a top level within an organisation should provide guiding principles on how to distinguish between what is accepted custom and practice and what is not acceptable. The guidelines could answer such practical questions as 'when does pilfering become fraud?' and 'when does hospitality become corruption?'

The establishment of a register of interests can also help identify areas or within an organisation where the potential for fraud may lie.

o Engaging/establishing an audit committee

One of the roles of an audit committee is to help design fraud prevention measures, investigate allegations of malpractice, and suggest action when they are uncovered.

o Utilising Information Technology

Fraud is sometimes perpetrated because one department does not know what the other is doing. Integrated and relational databases enable information to be cross referenced, both internally and with other organisations, to enable fraud to be more easily spotted.

• Culture

Systems can only be effective in an organisation where the cultural environment is such that fraud prevention and detection measures are supported and communicated.

o Leadership

Messages about fraud and corruption need to come from the top and be reinforced with action. There may be cynicism amongst employees if previous concerns have been brushed under the carpet.

o Communication

If fraud has occurred within your organisation it is important that relevant information is fed back to staff. Communication should occur to allow concerns to be addressed. It is also important that the offence is not overly trivialised or dramatised and that updates and conclusions are given to employees on cases that are being investigated.

Explain to your teams what fraud is and the effect that it will have on their jobs and the services provided to internal and external customers. Ensure they are aware of the possible signs that indicate fraud may be occurring in the organisation. A range of communication channels can be used such as formal policy statements, presentations and internal newsletters.

o Whistle blowing

Employees need to be aware of the appropriate reporting routes if they identify an issue or problem. This can be through their line manager or a nominated member of staff who is perceived as being independent. Employees should not attempt to investigate the matters of fraud themselves.

The Public Interest Disclosure Act 1999 offers a framework for the protection of employees who whistle-blow. Provided a disclosure is believed to be substantially true and made in good faith, the act provides the employee with protection from sanctions.

Investigation

If a fraud is alleged, consideration is needed as to the collection of supporting evidence when making the decision to formally investigate and interview the individual(s) involved. The following steps can also be considered:

- Appoint a steering officer for the investigation
- Record details of the alleged fraud, with as many specifics as possible – dates, times, places and people
- Identify the actions required
- Consider likely outcomes i.e.: internal disciplinary action or prosecution
- Hold post-investigation meetings to discuss progress, agree variations and identify future targets.

Summary

Workplace fraud damages organisations to a greater extent than just financial loss. It is important to have a policy in place on the deterrence of fraud as well as investigative procedures. Any policy changes need to be communicated effectively throughout the whole organisation to become embedded within the organisational culture.

Further information may be obtained from

Chartered Management Institute

www.managers.org.uk/bestpracticeguides

This leaflet and other professional practice guides covering a range of topics from diversity to corporate responsibility are available for download from the Institute's website.

Business Link

www.businesslink.gov.uk/it

Provides information and tools on how to minimise IT fraud risks

CIFAS

www.cifas.org.uk

Provides a range of fraud prevention services, including a fraud avoidance system used by the UK's financial services companies and public authorities

Companies House

www.companieshouse.gov.uk

Provides on-line monitoring and protection systems to combat identity fraud

The Fraud Advisory Panel

www.fraudadvisorypanel.org

Provides up to date information on fraud and effective remedies

Home Office

www.homeoffice.gov.uk/crime-victims/reducing-crime/fraud

Provides personal fraud prevention advice

Metropolitan Police

www.met.police.uk/fraudalert

A resource to assist in combating fraud and economic crime in London

Public Concern at Work

www.pcow.co.uk

A resource on whistle blowing for individuals and organisations

National Fraud Initiative

Scotland: www.audit-scotland.gov.uk/work/nfi.php

Wales: www.wao.gov.uk/whatwedo/1252.asp

England: www.audit-commission.gov.uk/nfi

Provides reports, guidance and handbooks on the prevention and detection of fraud

Serious Fraud Office

www.sfo.gov.uk

The government department for serious high-level fraud. Provides news and publications.

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- work with **employers** to identify and develop the necessary management and leadership skills that drive performance
- influence **stakeholders** to address the challenges that face today's managers and leaders

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