



People Management

20 April 2006

Stop Fraud – Now

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Organisations are always seeking to reduce costs – so why do they often ignore the business 'overhead' of fraud?

The UK's endemic acceptance of employee-led fraud is damaging economic performance. Given that fraud detection and prevention can create an increase in profit of between 10 per cent and 40 per cent annually, in this era of shareholder influence it's time for a more proactive strategy for combating fraud. From misuse of staff discounts to systematic exploitation of financial software, fraud is widespread.

Despite huge investment in compliance-focused technology and increasing demand for excellent corporate governance, few organisations have any idea of the level of fraud carried out every year. And why should they? There is no regulatory requirement to state losses to fraud in accounts. Nor would any successful company, without glaring financial black holes, feel the need to rock the boat and undermine staff morale by introducing severe fraud prevention policies.

But the result is that, on average, organisations are losing between 3 and 5 per cent of annual revenue to fraudulent activity – 80 per cent of which is carried out by employees.

Many companies make it frighteningly easy for individuals to manipulate finances. Research by our company revealed appalling inaccuracies across invoice systems: some 40 per cent of invoices couldn't be matched against the Royal Mail's postal address file that holds UK business addresses. So 40 per cent of all payments – in this case, some £21 billion over three years across just 35 companies – were paid to unverified addresses. While not all of these payments were fraudulent, up to 10 per cent were inappropriate.

Furthermore, the lack of process within these organisations offers clear opportunities for any criminally minded employee.

Lacking deterrents, organisations leave themselves wide open to fraud. Given research which shows that only 25 per cent of employees are totally trustworthy, this risk should never be underestimated.

For many individuals, defrauding an employer – from fiddling expenses onwards – is not perceived to be a crime since there is no obvious victim. However, small frauds rapidly escalate into large ones. And a lack of fraud detection and deterrent can soon create a culture where defrauding the company is accepted practice.

Some organisations are putting in place expensive mechanisms – the UK invests £8 billion a year to counter the £32 billion lost to fraud each year. Yet many of the expensive technological solutions are complex to use; there are cheaper alternatives.

For example, running a fraud detection algorithm across the accounts payable information can flag up anomalies. This algorithm can be run in real-time, highlighting both potential mistakes and potentially fraudulent activity that can be immediately followed up, before the perpetrator leaves the organisation. It is this timeliness, supported by strong processes, that can turn a low-cost investment in fraud prevention into a significant financial asset for any business.

Given the sums invested in cost reduction or corporate governance, it seems extraordinary that so many organisations simply ignore the business overhead of fraud, particularly with the arrival of low-cost fraud detection techniques.

Too many UK businesses are allowing employees to get away with fraud for fear of rocking the boat. But this blasé attitude is not only condoning a culture of petty crime but also potentially opening the door to massive theft by criminals increasingly linked to terrorism. Isn't it time to shut the door on fraud before it is too late?

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