Fraud – Internal and External

Internal Fraud – Fraud by employees

Internal fraud includes employees undertaking any of the following actions:
- Theft of cash or stock.
- Theft from other employees.
- Not charging friends, family or accomplices.
- Allowing accomplices to use bad credit.
- Supplying receipts for refunds.
- Allowing friends to steal, or
- Participating in delivery scams.

Sometimes employees will rationalise the fraud by:
- Trivialising the offence: "They can afford it", "No harm done", “Everyone does it”.
- Claiming unfair treatment as a justification.
  - Missing out on promotion.
  - Feeling remuneration is inadequate.
  - Unfair treatment compared to colleagues.
  - Disciplinary action.
  - Resentment at lack of appreciation.

The risk of internal fraud includes:
- Stolen, embezzled or ‘discounted’ stock.
- Loss of cash or securities.
- Loss of company funds or critical information, and/or
- Loss or damaged business reputation and custom.

You may be at risk of internal fraud by employees who:
- Work long hours.
- Return to work after hours.
- Are unusually or overly inquisitive about the company’s payment system.
- Resist taking annual or sick leave.
- Avoid having others assist or relieve them.
- Resign or leave suddenly.
- Have a large number of voids.
- Have a low number of transactions.

How to reduce the risk of internal fraud:

Step 1: Develop clear policies that cover:
- Serving or processing transactions for family and friends.
- Personal purchases/transactions.
- Personal use of equipment such as telephones, lap-top computers, video cameras etc.
- Authorised delegations.
Step 2: Have clear transaction procedures, including:

- A pre-determined ‘float’.
- Petty cash limits.
- Daily banking – by two people if possible.
- Dual signatures on cheques.
- Provision of receipts and acknowledgment of transactions.
- Limited access to safe by staff.
- Keeping registers closed unless in use, and
- Segregating purchasing, receipting and paying.

Step 3: Provide strong, consistent supervision of staff:

- Have supervisors monitor delegations.
- Supervise employee compliance with procedures.
- Regularly review cash shortages and report instances where an explanation is unsatisfactory.
- Have supervisors check receipts and documentation.
- Challenge suspicious transactions.

Step 4: Regularly review and monitor your register of assets and your transactions:

- Record all transactions.
- Conduct regular stocktakes.
- Keep a register of your tools, equipment and assets.
- Wherever possible, engrave your business property with an identifying number (such as your ABN).

Step 5: Establish strong audit procedures:

- Reconcile bank deposits with register totals regularly.
- Acquit all claims and allowances to avoid duplicate or multiple payments.
- Audit IT systems regularly.
- Conduct regular and random audits of all processes.
- Randomly check wages and allowances for overpayments.

Step 6: Maintain security of information:

- Limit access to confidential information.
- Enforce the use of employee ID.
- Regularly change passwords for computers, alarms etc.
- Review and investigate security violations.
- Cancel access promptly when people transfer or leave.

Step 7: Establish strong human resource management procedures:

- Undertake pre-employment screening.
- Implement equitable remuneration system.
- Provide job descriptions that segregate duties.
- Provide adequate training and education.
- Communicate policies, expectation of compliance, audit regime and consequences of non-compliance.

External Fraud – Fraud by customers

Please refer to the information sheet on credit card and cheque fraud.

External Fraud – Fraud by suppliers

External fraud by suppliers includes:

- Short or inferior supply of goods.
- Payment for services and goods not supplied.
- Kickbacks for biased selection of suppliers.
- Payments to bogus vendors for false claims.
- Cheques written for cash only or not property authorised.
- Purchase of goods for private use.

Fraud by suppliers can be prevented by:

- Ensuring staff are appropriately trained in accounts payable and stores functions.
- Ensure that supervision occurs over processing receipts and payments for expenditure.
- Ensure that purchasing, receipting and payment functions are segregated so that no single person performs all three duties.
- Ensuring there are guidelines for relationships between your business members and suppliers to avoid bias and inducements from suppliers (gifts).
- Ensuring audits are conducted on all areas of purchasing including petty cash, non-receipted items and all invoices.