

Royce Peeling Green provides services to private companies of all sizes, small listed businesses, owner-managed and family enterprises and not for profit organisations across a wide range of sectors.

FRAUD: ARE YOU A VICTIM..... (but do not know it yet?)

In difficult economic times the risk of financial wrongdoing increases.

We are hearing of increasing numbers of frauds found by companies across the UK; quite often these have involved people previously considered beyond suspicion - time served employees or friends of the family etc. even those in senior management or fraud detection themselves.

It is clear that companies need to heighten their appreciation of fraud risks and to consider how best to evaluate and address these risks.

Who is responsible for finding fraud?

Under UK law, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of an entity (i.e. the Board) and its management.

The auditor also has certain responsibilities in this regard: auditing standards - the basis of audit regulation - state that an auditor "is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error".

Hence, a properly planned and executed audit is designed to give the auditor a good chance of spotting errors and to a lesser extent frauds but only in the context of forming an audit opinion. However, it is not the primary focus of the audit and it is likely that an audit would not spot all frauds, especially those which involve sums or transactions which are immaterial to the auditors' risk assessment.

Clearly, the external audit alone cannot be relied upon as the sole means of identifying and preventing fraud.

What the business should be doing

Periodically the Board and/ or management should fully evaluate the risk to the business of fraud and the adequacy of the controls in place to mitigate that risk.

Royce Peeling Green suggest an approach to fraud detection overleaf.



We do not advocate a UK equivalent of the Sarbanes-Oxley regime which stifled large corporate America in recent years but we do recommend that fraud avoidance be considered anew in view of the current economic situation. The observation by staff of management taking action can of itself be a deterrent.

However, only the largest of businesses are likely to have internal audit arrangements in place. Even if your business has the resources to review fraud risk/ controls compliance, engaging an outside party may be more cost effective or deemed less corrosive to the business' culture; you could use your external auditor but this risks creating a conflict of interest.

If you would like to discuss what you can do to mitigate the risk of fraud we should be delighted to see whether Royce Peeling Green could help you in any way.



RPG: fraud alert

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We suggest the following approach:

1) Brainstorm the risks.

Consider the obvious first

- Lost income (un-invoiced despatches/ stock loss/ unapproved credit notes)
- Unapproved expenditure (including bonus, overtime/ expense payments)
- Fictitious employees or suppliers
- Cash diverted from the intended payee

Consider the potential mechanics giving rise to loss

- Lack of segregation of duties in key areas
- Lack of or ineffective management controls
- Collusion
- Controls not keeping pace with technology

Be creative and sceptical- the unthinkable can happen!

- Do key staff not take holidays
- Are staff relationships heightening the risk of collusion
- Do senior management fiefdoms exist
- Is budgeting zero based
- Can there be unusual expenditure without Board approval

Consider recommendations of prior audits and other investigations

Discuss fraud with your advisors; what risk areas do they see?

2) Consider the controls in place to mitigate the risks identified.

3) Test the operation of those existing controls.

4) Changes should be made where controls are flawed or absent.



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