PREVENTION: THE BEST CURE FOR EMPLOYEE FRAUD

PREVENTATIVE MEASURES, ALONG WITH AN EFFECTIVE RESPONSE PLAN, ARE ESSENTIAL FOR BUSINESSES LOOKING TO DETER EMPLOYEE FRAUD WITHIN THEIR ORGANISATION

Employee fraud has become an increasingly common issue for many of the organisations we work with. While the potential for fraud has always existed for businesses, modern enterprises are more exposed than ever to the dangers posed by employee fraud.

Fraud is also a widespread issue, with figures from the Economist Intelligence Unit finding that 70 per cent of companies surveyed experienced an incident of fraud in the 12 months prior to the survey. A further 81 per cent reported their exposure to this activity has increased over the same time period.

While fraud poses a significant operational threat, organisations are now looking to implement a robust risk strategy that can address the causes of employee fraud and also respond when it's detected.

Preventing fraud before it begins

Organisations that are serious about addressing fraud need to begin at the top of an enterprise. Board or Committee members have ultimate responsibility for understanding financial statements and they should be able to spot irregularities that might hint at fraud. Likewise, business leaders at the C-Suite need to be sure they are leading by example and lending their whole support to anti-fraud initiatives.

Beyond the board and leadership team, fraud prevention and detection measures need to be encoded through internal policies. Policy manuals that demand a zero tolerance for employee fraud, in line with a strong Code of Conduct, are essential measures.

Those working in positions of financial responsibility, as trustworthy as you think they might be, require careful checks and balances to reduce the opportunities to conduct fraudulent activity. Segregation of duties and dual authorisation for financial processes can also prevent any one employee from having autonomy over corporate finances.

To detect incidences of fraud, an anonymous whistle-blower policy is essential, as is having a mechanism to investigate allegations of financial misconduct.
Finally, there are certain areas of a business which require a specific approach to employee fraud. A policy of rigorously checking employee backgrounds during the recruitment stage is essential both as a matter of best practice and to potentially detect a history of deceitful behaviour.

All of these measures are structural, but it is equally important that the company culture is one where fraud isn’t tolerated. This culture is essential if measures like an anonymous whistle-blowing mechanism are actually going to achieve results.

How should companies respond to incidences of fraud?

Once fraud activity has been detected, those in governance roles need to respond quickly in order to mitigate the potential damage to the organisation.

The first step is to prevent the perpetrator from continuing what they are doing and stop the situation from getting any worse. This will depend on the nature of the fraud and the methods the employee is using. Either way, restraining this activity promptly is essential.

As well as halting the fraudulent activity an employee was undertaking, it’s important to immediately restrict - or even block - access to sensitive information. This might involve removing remote access to digital information for example, especially if the fraud is being carried out from outside the office.

Organisations should also begin collecting information relating to the employee fraud. If these capabilities don’t exist within the company, or if the fraud is widespread and took place over a substantial length of time, it might require bringing in an expert third party to assess the situation.

If there is sufficient evidence of wrongdoing, the business should consider either suspending or terminating the employee’s contract. Navigating this process may also require the specialised advice of an employment lawyer.

Organisations will also need to begin a conversation with the employee regarding the likelihood of the money being returned. In the event the staff member can pay the money back, it may be preferable for them to resign, rather than have their contract terminated. Again, this will require specialised legal advice.

Finally, you need to consider whether the fraud will be reported to the police once this behaviour has been detected.

Regardless of the industry, there is always a threat that employees will choose to undertake fraudulent behaviour. However, by developing a prevention plan and responding effectively when an incident is detected, a business can limit the potential losses from illegal staff activities.

Additional resources


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