



# NEWS WITH CLOUT

Chartered Accountants for Business Recovery & Insolvency Services  
November 2004

## FRAUD A MAJOR CONCERN

KPMG recently released the results of a fraud survey they conducted on 491 government and private sector organisations throughout Australia and New Zealand.

Of the organisations surveyed, it was revealed that in excess of \$456 million was lost by the organisations over a 2 year period. This equates to \$928,716 an organisation which is horrendous.

Of these, 27,657 incidents of fraud were actually reported with the fraudsters being motivated mostly by greed (38%) and gambling (21%).

It is rather hard to distinguish a fraudster from other employees, however, the KPMG survey has provided a profile of a typical fraudster in these large organisations which appears to us to be rather generalised. He would be

- Male aged 31 years and acting alone;
- Non-management employee with no known prior dishonesty;
- Employed for 6 years and held their current job for 4 years;

Of the money fraudulently obtained only 21 percent of the proceeds were actually recovered. That must hurt.

From our experience unfortunately fraud has an effect on all business from a small family operated business all the way to large national and international conglomerates.

The small to medium business operators are the ones to feel the effects of fraud the most.

In a lot of cases fraud does eventually lead to

insolvency, particularly where the operations have small turnovers and are debt financed.

In our view there is always merit in checking whether your clients have adequate internal controls in place, as the odds contained in the KPMG review clearly indicates that there is some fraud going on.

At the risk of preaching to the converted, the old chestnuts of internal controls can be implemented very simply by all business owners ensuring that they have:-

1. A system of checks using **external** documentation;
2. System of cross-checks using **internal** documentation;
3. Clear **separation** of duties to ensure the above 2 points work and make it necessary for collusion to occur for there to be any fraud.

Our research on fraud in the small to medium business area has revealed that the most likely persons to commit larceny, skimming and fraudulent disbursements in your business, are likely to be:

- 45% - professional/managerial employees.
- 32% - clerical employees.

Also around 30% of fraud cases involve collusion between employees and third parties.

We have seen many who have suffered fraud and become insolvent but tried to fight their way out of it. The fraud was not of their causing. To formally buy time, by using Part X or Voluntary Administration, from our experience is received with some sympathy by Creditors. It also enables the business to survive.



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