



EMPLOYEE FRAUD HOW TO SPOT A POTENTIAL 'THIEF'...

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Record-setting fuel prices, inflation, world recession and commodity shortages which have financial impact on our day-to-day living are common headlines in newspapers today. During such times statistics reveal a sharp increase in employee fraud which not only relates to direct theft of money but also identity fraud, theft of data, increased expense claims, amongst others.

KPMG in collaboration with the Royal Malaysian Police produced a 2004 Fraud Survey Report. Extracts of statistical information based on 107 responses from corporations were:

83%	Experienced fraud
36%	Experienced fraud losses of between RM10,001.00 to RM100,000.00 whilst 17% experienced losses in excess of RM1 million
87%	Frauds committed internally, of which 69% were by non management staff and 18% by management staff
30%	Respondents that experienced fraud indicated that red flag or warning indicators were ignored

While we do not know whether any legal firms participated in the Survey, the most alarming statistic is the number of corporations which experienced fraud by employees, at 83% of the 107 corporations who responded to the Survey.

It would be safe to say that majority of employees would not commit fraud but against this there is an old saying among fraud prevention circles of the **10-10-80 rule** which is that 10% of staff will never contemplate theft, 10% will steal at anytime and 80% will go either way depending on how they assess the possibility of being identified.

This article is intended to raise awareness of employee fraud, identify fraud indicators and propose a number of preventive measures to minimise the potential of fraud by employees.

COMMON TRAITS OF EMPLOYEES WHO COMMIT FRAUD:

The opportunity to commit fraud arises in most instances due to the lack of supervision, accounting controls and to a larger extent, misplaced trust. Employees committing fraud were found to be

- Aged from **26 to 40 years**
- With an annual income of RM15,000.00 to RM30,000.00
- In employment from **2-5 years**
- Always willing to assist fellow employees
- Taking on more responsibilities
- Having multiple responsibilities
- Employed in a position to
 - Receive cash
 - Issue receipts
 - Prepare bank deposit slips
 - Reconcile bank statements
 - Control cheque books
 - Deal with complaints

FRAUD INDICATORS:

It takes approximately **eighteen months** for an employee fraud to be detected. Ignoring red flag indicators could cost Firms financially. The following are some indicators of employees who commit fraud:

- Works late;
- Does not take annual or medical leave;
- Under stress/marked personality change;
- New staff resigning quickly;
- Suppliers/contractors/clients who insist on dealing with just one individual;
- Change in lifestyle;
- Does not comply with financial deadlines
 - Does not reconcile bank statements
 - Delays payments to suppliers or staff salaries
 - Delays or fails to deposit money into fixed deposit accounts
 - Fails to transfer money from the clients to the office account

Firms should immediately take steps to investigate when they discover:

- I. Receipts are not in sequential order
- II. Missing cheque leafs/books
- III. Complaints are not immediately brought to the attention of Partners

SOME WAYS TO HELP PREVENT EMPLOYEE FRAUD:

The proposals are not exhaustive but are general in nature and may not work for all Firms. Implementation needs to be geared to the size of each firm. Firms should identify potential risk exposures, document and implement checks and controls and consistently ensure compliance with the procedures set in place.

- A. Carry out due diligence when employing staff. Check references and evaluate staff before putting them in positions of trust.
- B. Be clear with employees that there is **ZERO** tolerance for not only theft but such things as taking long lunch/tea breaks, taking sick leave when not sick, coming to work late or leaving early, keeping a messy table, going out of office and returning late. **If employees believe that they will be caught it is less likely that they will steal!**
- C. Separation of duties is critical particularly in the finance department:
 - Different persons receiving cash payments and issuing receipts
 - Deposit slips prepared by staff are signed off by a Partner against the cash register
 - Cheques have to be signed by at least two people
 - The case file must accompany any cheques to be signed
 - Payments to any third party must be accompanied by an invoice and a payment voucher
- D. Carry out surprise audits at irregular intervals. Any irregularity, however small irrespective of whether it involves finances should be taken seriously.
- E. External auditors should be engaged at least once a year.

- F. Insist that staff who handles finances take extended leave of at least 10 days; use the opportunity to conduct an audit.
- G. Ensure that receipt books and cheques are in sequential order. Put in place a procedure to record cancellation of receipts and/or cheques.
- H. Partners should keep cheque books/receipt books which are not in use.
- I. Personally look into complaints and investigate immediately.
- J. Be aware of the list of your suppliers so that fictitious accounts are not created.
- K. Monthly reconciliation of Office and Client accounts giving attention to small withdrawals.
- L. Periodically question staff on the Firm's financial transactions. Even if Partners may not be proficient with accounting matters the mere fact staff are questioned is a deterrent.
- M. Reconcile petty cash regularly.

The reality about prevention of fraud is that there is no magic solution to preventing fraud. The most you can do is to put in place a structure that minimises the opportunity for an employee to commit fraud. Firms should also consider purchasing a **Fidelity Guarantee Insurance Policy** for any financial loss suffered as a result of fraud or dishonesty on the part of an employee.

IS THE EMPLOYEE THE VICTIM?

The obvious answer is "NO". However referring to the **10-10-80 rule** raised earlier, there is a moral duty on an employer to ensure that the 80% of the staff, who **may** commit fraud, do not contemplate such an act. YOU may be doing a great service to your employees, their families and society if the opportunity to commit fraud is minimised by implementing simple **CHECKS** and **CONTROLS**, which are consistently enforced.

This article addresses some of the financial risks facing Firms. Firms should also look into other risks such as theft of clients' personal bio data, safe keeping of confidential information, documents and land titles to mention a few.