

Small-time fraud can have crippling impact

Companies are fleeced of millions every year, **Fran Molloy** writes.

WHEN it comes to fraud, there's good news and bad for small business: while large enterprises are defrauded far more than their smaller counterparts, when it does happen to small businesses, the impact is more devastating.

"In organisations with less than 100 staff, the average loss from fraud is much greater," says KPMG Forensic national managing partner David Van Homrigh.

KPMG's 2004 fraud survey showed that while almost half of all Australian businesses experience fraud, only 15 per cent of the small businesses surveyed were affected. But the defrauded small businesses had lost an average of just over \$1 million each.

"Most small businesses will say, 'I trust my staff, I know them well, fraud won't happen here'," Van Homrigh says. "But when it does happen, it can be far more devastating and can even be terminal in small companies."

Typically, a fraud perpetrator has the trust of the business proprietor and is usually the last person suspected, Van Homrigh says. That can mean it takes some time to uncover the fraud.

He lists some "red flags" indicating a risk for fraud including routine checks not being conducted, a key person not taking leave, breaches in procedure, margin erosion and falling cash flow. However, these early warning signs are often ignored.

"It all comes back to internal controls," Van Homrigh says. "There are ways that are cost-effective for small businesses to have the sort of scrutiny and checking that exists in bigger organisations."

He suggests that owners insist that people take holidays and that duties are rotated.

It's vital that the proprietor also has a healthy respect for standard accounting controls, he adds.

"Reconciliation of bank accounts, debtors, stock, creditors - these are all areas that, if they are not kept up to date and scrutinised, can allow fraud to occur."

Detective Superintendent Colin Dyson, commander of the NSW Police fraud squad, says the types of fraud that affect small business are as diverse as the businesses themselves.

He identifies two types of fraud - external and internal. "Identity fraud and technology scams are currently on the increase," he warns, adding that good computer security can prevent much of this.

"Internal fraud is perpetrated by an employee who takes advantage of trust," Dyson explains. "Usually that is because an employee has too much autonomy or there is an insufficient separation of duties, so the same person is acquitting invoices and writing

> CASE STUDY

The bookkeeper who ripped off the resort

TERRY and Cathy Maloney have been self-employed since 1979 and worked hard to establish the Daintree Eco Lodge & Spa resort in North Queensland.

Three years ago, the couple were independent of their business, had paid off their home and invested in their retirement.

But then a dishonest bookkeeper, Jennifer Hawkins, stole more than \$92,000 from the business between April 2002 and July 2003, costing the owners another \$150,000 in accounting and legal fees to sort out the mess she had made of their accounts.

The Maloneys remortgaged their home to pay creditors after Hawkins had cancelled cheques, reissued them in her own name and transferred business funds to her account.

"I felt so betrayed," Cathy says. "I had welcomed this woman

into my family business and trusted her with so much."

While Terry was undergoing chemotherapy, Hawkins would drop in to the couple's home with cheques to be signed.

Although the books were in chaos, Cathy soon realised that large sums of money had been stolen and went to the police.

Hawkins, previously convicted of fraud in the Northern Territory, was sentenced in 2005 to four years' jail on 46 fraud offences.

While business is booming at the resort, which won four international awards last year, Cathy has taken over the majority of the bookkeeping.

The money stolen from the Maloneys was never recovered.

HARD LESSON: Cathy and Terry Maloney, who run the Daintree Eco Lodge.



cheques. I'm not advocating a lack of trust," Dyson says. "Trust the dealer, but always cut the cards."

While police checks are open to employers, he says that past behaviour isn't always an indicator. "It may be unfair on someone who has done their time and wants to turn over a new leaf," he says. "The best way to prevent fraud is to show that you don't tolerate it."

Former police officer Paul Simmons heads PSG Australia Security Group and frequently advises small businesses on preventing and detecting fraud.

"There are three reasons for fraud," he says. "Greed, motivation and opportunity."

Some employees justify fraud because they feel that they are not rewarded enough for their hard work.

"They come up with a reason and then they look for an opportunity," Simmons explains. "Often it will start with something small - like misusing a Cabcharge [docket] and finding out that it isn't checked."

Other common frauds include not banking money from cash sales, stealing petty cash or inventory and accounts staff who create a "ghost" company to pay false invoices to.

"People start out small and then they find that there are no checks - that's when fraud escalates and gets out of hand," Simmons said.

