

Fraud in a recession – the risk to smaller businesses

Recession brings enormous pressures to businesses and it may be tempting for small firms to treat fraud as the least of their worries. The risk of fraud to businesses is at its greatest in times of economic downturn. Big companies can be badly shaken by fraud; small ones can be destroyed. Fraud prevention is an essential part of any recession survival strategy.

Economic recession

A downturn places people under pressure and leads some into dishonesty. Reported fraud against British businesses has increased over the last year. Fraud losses make recession induced cashflow, liquidity and credit problems worse. Coping with the consequences of even a small fraud will consume energies when management time is already at a premium.

The threats

A recession increases fraud threats from inside the business.

- Managers desperate to keep their heads above water may be tempted to falsify accounts and sales returns.
- Employees with large debts may inflate expense claims, 'borrow' from the till, steal stock and company assets and collude with customers, suppliers or contractors.
- Staff may be more vulnerable to attempts to get them to sell confidential information. Organised criminals may infiltrate companies, placing individuals

in positions where they have access to money, goods, or information that can be turned to financial gain.

- Recession also brings to light existing frauds as credit lines run out and financial manipulation can no longer be concealed.

External attacks are equally serious.

- Companies providing customer credit are at risk from an increase in fraudulent applications.
- Suppliers and contractors will be under pressure and some will defraud business customers.
- As smaller firms find it harder to obtain credit from traditional sources they will be tempted to turn to new and untried sources of funding, some of which will be offered by fraudsters.

What to do if your business suffers a fraud

Three steps that you should take:

1. Report the matter to the police and other relevant organisations immediately.

Depending upon the type of fraud this could include your bank, insurance company, suppliers and/or customers.

2. Consider seeking specialist professional advice.
3. Reassess the way your organisation conducts and manages its business to ensure it is adequately protected against fraud.

Further information

Business Link

www.businesslink.gov.uk

CIFAS – the UK's Fraud Prevention Service

www.cifas.org.uk

Federation of Small Businesses

www.fsb.org.uk

Financial Services Authority

www.fsa.gov.uk

Fraud Advisory Panel

www.fraudadvisorypanel.org

Office of Fair Trading

www.oft.gov.uk

How to protect your business

DO:

- ✓ Remember that a recession is **the** time to take fraud seriously.
- ✓ Identify the areas of your business that might be most vulnerable to loss from theft or fraud, such as sales, stock, purchasing, expenses and record keeping.
- ✓ Strengthen any obvious weaknesses you have identified. This might include introducing additional checks for signing off payments or authorising purchases.
- ✓ Monitor your bank and credit card statements for unusual transactions.
- ✓ Designate a senior member of staff with responsibility for managing risk. He/she should identify areas of vulnerability and recommend changes to business processes where appropriate.
- ✓ Ensure that your business premises have adequate physical security protection including locks, keypads and alarms.
- ✓ Try to minimise cash transactions within your business.
- ✓ Conduct checks on your suppliers, contractors and biggest customers to make sure they are who they say they are and that you are getting value for money.
- ✓ Check invoices against original purchase orders and the goods supplied.
- ✓ Make sure your staff are aware of the risks from theft and fraud and how to report it.
- ✓ Communicate staff expense policies/procedures and monitor compliance.
- ✓ Check references for all new staff; full-time, part-time, temporary, and casual. Further checks may be needed as employees are promoted or require access to more confidential information.
- ✓ Adequately protect your IT systems and business information from the cybercrime risks posed by phishing, viruses, hacking and scams.
- ✓ Ensure sources of credit and finance are properly authorised by the Financial Services Authority; or licensed under the Consumer Credit Act, 1974 by the Office of Fair Trading.
- ✓ Consider how you would respond to a fraud if it was discovered in your organisation.

DO NOT:

- ✗ Forget that severe economic pressures can cause previously honest people to become dishonest.
- ✗ Assume all information provided by prospective employees, lenders or contractors is accurate.
- ✗ Economise on protecting your business against the risk of fraud.

*The Fraud Advisory Panel gratefully acknowledges the contribution of **Simon Pearce, Martin Robinson, Ros Wright and Mia Campbell** in the preparation of this Fraud Fact Sheet.*

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