Securing board-level support for anti-fraud measures

Fraud is a major issue for organisations of all sizes and types and should be considered when implementing an overall risk management strategy. Securing board-level support is a critical first step in establishing effective fraud defences. This factsheet offers some helpful tips and hints on how to do this.

Introduction

‘Why go looking for problems?’ ‘Won’t people think we have a fraud problem?’ ‘We’ll worry about it if it happens’ ‘Why spend money on something which may never occur?’

It can be difficult to justify non revenue-generating expenditure to the governing body of an organisation (sometimes called a board, executive, council or cabinet). This means that investment in preventative measures, especially for fraud, can often be regarded as a low priority. Such an attitude commonly indicates either short-sightedness or a lack of awareness about the key risks facing organisations today and the responsibilities for managing them.

Fraud is not an issue that will simply ‘go away’. In this area, ignorance is certainly not a strength. Ultimate responsibility for fraud defences resides with the governing body (herein called the ‘board’). It needs to understand the risks (‘you need to look for fraud to find it’) and take appropriate measures to reduce them.

The creation, adoption and maintenance of anti-fraud capabilities will cost money. However, it is important for the board to understand that the benefits of investment now will often far outweigh the consequences of inaction later.

This factsheet highlights some of the key issues that should be considered by practitioners when trying to secure board-level support for the adoption of an anti-fraud strategy – to protect assets, people and data now and in the future.

The benefits

Investment should be seen as an enabler to business, not as a barrier. To drive change in perception and budgets successfully, the benefits of a robust anti-fraud system need to be demonstrated. These can include (but are not limited to):

- **Cost-savings**: it is often cheaper to prevent fraud in the first place than to deal with the aftermath.
- **It pays for itself**: ‘getting it right’ can result in significant returns on investment.
- **It sets the ethical tone**: in having an anti-fraud system the organisation shows that it cares about its staff, customers, suppliers and shareholders.
- **It acts as a deterrent**: robust anti-fraud measures can deter would-be fraudsters (internal and external) from targeting the organisation.
- **It encourages business**: it allows organisations to conduct business with confidence.

Although the initial budgetary impact cannot be avoided, the benefits can be emphasised. For example, ‘investing £xxx in staff, policies, and controls now could lead to the avoidance of a future fraud incident of many times that value, resulting in a significant return on the original investment’.

Where to start?

Some areas you can use to approach the board are outlined below.

Practice good corporate governance

As a matter of good corporate governance the board must act in the best interests of the organisation by exercising due diligence and care to safeguard its assets, people and data. Access to accurate, relevant and timely information is vital to fulfil this duty. An engaged board will take an interest in all risks to, and opportunities for, the organisation and recognise the importance of setting the right cultural and ethical ‘tone’.

However, responsibility for fraud risk management does not (and should not) rest with the board alone. It should be widely shared within the organisation.

- **The board**: sets the policy and ‘tone’.
- **Senior management**: implements and monitors compliance.
- **Staff**: adhere and report concerns.¹

Employees need to understand the expectations placed on them by their employer. This is particularly true in an anti-fraud scenario, where a zero tolerance approach should be adopted.

Understand the risk

All organisations are vulnerable to fraud, and different sectors have different risk appetites.

To understand your organisation’s risk profile and appetite for fraud, start a regular dialogue at board level as part of the strategic approach to risk management. Align it to your business objectives to begin to change the mindsets of those at the top. Provide examples of the issues and consider the full spectrum of risks: financial, legal, operational, regulatory and reputational.

Such discussions should ensure that fraud features on your risk register and informs what needs to be done and how much it will cost. Investment in anti-fraud measures should be proportionate and risk based. There does not need to be a costly blanket approach. By identifying the areas of highest fraud risk within your organisation and acting on this information, targeted and effective expenditure can be achieved.

Estimate the true cost of fraud

Consider the bigger picture and use national and international fraud statistics to establish the likelihood of becoming a victim and the potential costs involved.

The true cost to your organisation of becoming a victim of (or conduct for) fraud is usually much more than the actual amount lost to the fraudster, and sometimes small frauds can cost the most. In fact UK research estimates that the true cost of staff fraud can be as much as 14% higher than the initial amount lost.²

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Case study: City of Stoke-on-Trent

In 2012 the Stoke-on-Trent City Council embarked upon a 12-month Spot The Cheater publicity campaign to tackle fraud.

The business case presented to senior authority officials estimated that the campaign would cost £260,000, identify £1.2m worth of fraud and recover 20 properties lost through fraud. This represented a return on investment (ROI) of 2:9.

Overall it identified £1.5m worth of fraud and recovered 62 properties at a cost of £105,000 (a ROI of 1:14).

The award-winning campaign was a major success and is now ongoing.
Investment in anti-fraud strategies should reduce the incidence of fraud within your organisation and the resultant costs. To calculate the costs of fraud to your organisation consider:

- **actual loss**: the amount lost to the fraudster;
- **response costs**: including investigative and/or internal disciplinary processes, and regulatory penalties etc;
- **intangible costs**: the impact on reputation, customers and suppliers, management time, and on staff morale and productivity.

Although some costs will be more readily quantifiable than others, the overall impact on the well-being of your organisation should not be underestimated, particularly as resources and attention are often diverted, at least temporarily, from usual business activities.

**Consider synergies with other policies**

There is a considerable overlap between fraud risk management and the types of systems and controls (‘adequate procedures’) that organisations should have in place to prevent bribery as well as money laundering. This means that you may be able to ‘tweak’ your existing controls at a reasonable cost to mitigate fraud risk. For further information see our separate fraud factsheet on Bribery and Corruption.

**Become an ethical organisation**

If the cultural and ethical expectations within an organisation are led by, and are seen to be led by, the board, then more employees are likely to care about the organisation’s success and be committed to its ethos.

Increasingly customers, investors and others are looking to organisations that actively promote ethical behaviours and trading practices. Encouraging the organisation to act responsibly and ‘do the right thing’ in adopting ethical standards and anti-fraud measures helps you to do this. It also shows that you take fraud seriously and proactively seek to protect those you do business with (or offer services to) from victimisation.

Reputational damage is much more difficult to quantify than something more tangible, but it is also more difficult to repair. Consider the potential impact on the organisation if negative media coverage was received in the wake of a significant fraud or data loss incident where insufficient controls were found to play a part.

**The deterrent effect**

Be seen to be proactive rather than reactive by preventing fraud (internal or external) before it can succeed (by spotting the red flags). Appropriately trained staff play a crucial role – benefiting your organisation, your customers and beyond (not to mention potentially enhancing your reputation in the process).

Consider conducting a complete fraud risk assessment during which a cross-section of staff are allowed to participate, and repeating the exercise at determined intervals. The board will almost certainly learn about some fraud issues they had not considered, but are seen from an employee perspective. Involving employees in this way will produce a very positive effect for any organisation, showing that the board cares about fraud. The deterrent effect around the business should not be underestimated.

**How to get buy-in**

**DO:**

- Start an open dialogue with the board.
- Align your anti-fraud strategy with your organisation’s key objectives.
- Assess and monitor fraud risks and include them on your risk register.
- Research and illustrate the commercial benefits of anti-fraud investment, including potential returns.
- Try to quantify/compare the consequences of action versus inaction.
- Consider public perceptions if the organisation were to become a victim.
- Set clear key performance indicators to measure the success of your strategy and to demonstrate return on investment.
- Benchmark performance against similar or comparable organisations.
- Provide the board and senior management team with help to lead the anti-fraud initiative.
- Consider the impact of culture and ethics on your organisation.
- Learn from previous fraud incidents (and what may have motivated the fraudster) and modify controls appropriately.
- Nurture engagement throughout the organisation and with key external stakeholders.
- Assume vague on costs or requirements.
- Assume a ‘one size fits all’ solution.

**DO NOT:**

- Avoid the issue and hope that fraud will not happen.
- Assume that ‘no fraud detected’ is the same as ‘no fraud committed’.
- Allow misconceptions about fraud to remain. Challenge them.
- Take ‘no’ for an answer. Consider alternative approaches.
- Be seen to be proactive rather than reactive by preventing fraud (internal or external).
- Be vague on costs or requirements.
- Assume a ‘one size fits all’ solution.

**Further information**

See our separate fraud factsheets on Bribery and Corruption, An Introduction to Fraud Risk Management, An Introduction to Fraud Indicators, and Anti-fraud Policy Statements for more information.

**Audit Commission**

www.audit-commission.gov.uk/counter-fraud/

**CIFAS – the UK’s Fraud Prevention Service**

www.cifas.org.uk

**Fraud Advisory Panel**

www.fraudadvisorypanel.org

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**Case study: SME in Leicester**

In 2012 a financial controller handed himself over to the police for stealing £50,000 from his employers. He had overridden the internal controls to fund his own expenditure and falsified the accounting records to conceal his theft.

The fraud cost the SME much more than the stolen £50,000. The investigation and correction of the accounting records cost in excess of £100,000, and the falsified reports undermined the SME’s relationship with its funders and shareholders.

Furthermore, the falsified accounting records painted a picture of a healthy, growing and profitable business, and on the back of that, senior management expanded the business, taking on new staff, new premises and new product ranges.

The truth was that the SME was losing money, it was technically insolvent, and took on further expenses which exacerbated its losses. Without further financial support, its 50 employees were in danger of losing their jobs as the SME faced insolvency.

Fraud Advisory Panel, Chartered Accountants’ Hall, MoorGate Place, London EC2R 6EA.

Tel: 020 7920 8721, Fax: 020 7920 8545, Email: info@fraudadvisorypanel.org.

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