

Dealing with fraud in your business

When operating a small business it is very important that you keep a careful eye on the financial affairs of your business. Small businesses are just as likely to be the victims of fraud as large corporations.

In some respect, small businesses may be even more susceptible to fraud due to the fact that some anti-fraud measures, such as video surveillance, are prohibitively expensive or that small businesses operate under the misconception that they can trust all their staff, suppliers and customers because they 'know them well'.

Staff

A significant proportion of most small businesses' weekly takings will be taken in cash. An inherent risk for small businesses is that employees or other persons at the business premises will steal this cash. It is therefore important for small businesses to implement risk management practices that will adequately provide protection of its cash takings. These may include:

- **Separating staff duties** - this involves assigning different staff members a different aspect of the same task, so that one staff member is effectively checking the work of another staff member. For example, you may have one staff member count the float in the cash register at the start of the day and have another staff member reconcile the cash register at the beginning of their shift.
- **Installing video surveillance** - installing video surveillance cameras over the areas of your premises where cash is handled will provide useful evidence in the event that someone does steal from your business. The presence of the surveillance cameras will also act as an effective deterrent for anyone thinking about stealing from your business.
- **Positioning of your cash register** - where possible place your cash register in a position where it is easily viewed from different areas of your business and is also easily viewed by customers.

Suppliers

Like you, many of your suppliers may also be running small businesses and they may be preparing their invoices by hand or using a simple computer program to invoice their customers. This increases the likelihood of your suppliers sending you an incorrect invoice. For example, your suppliers:

- May charge you for goods or services that you did not receive.
- May not charge you for the goods or services that you actually did receive.
- May charge you again for goods or services that you have already paid for.

For this reason, it is very important that you keep detailed records of:

- Everything that you order from a supplier.
- Everything that you pay to a supplier.

Keeping these records as a matter of habit means that if you are over, under or double charged by a supplier you will be able to quickly refer to your records prior to contacting your supplier and resolving the problem.



Customers - online credit card fraud

The internet has brought many opportunities to small businesses, including the chance to expand customer bases, provide faster services to customers and reducing the cost of running a business. However, conducting your business on the internet also involves certain risks. One of the most significant of these is the risk of online credit card fraud.

Businesses that trade on the internet are more susceptible to credit card fraud than businesses that solely trade on a face-to-face-basis. It is generally accepted that the instances of online credit card fraud are far greater than in-store credit card fraud because of the lack of personal contact between the seller and the customer. In the case of online credit card fraud the fraudulent customer can remain anonymous. Furthermore, unlike the use of credit cards in stores, when purchasing online the customer usually does not have to replicate the signature on the back of the card or even physically have the card in their possession. Usually, the online customer is generally only asked to provide the credit card number and expiry date on the card.

Businesses are also susceptible to suffering losses from online credit card fraud because credit providers are reluctant to cover losses suffered by businesses resulting from online credit card fraud than they are for other types of credit card fraud. This means that the losses resulting from online credit card fraud are generally borne by the businesses who offer their goods for sale online.

There are numerous ways that small businesses can minimise the risk of online credit card fraud against their business, including:

- **Electronic authorisation** - This involves verifying, at the time of purchase, that the credit card is valid and has sufficient funds attached to it to cover the purchase. However, this process does not provide any verification that the person using the card is authorised to make the purchase.
- **Manual fraud prevention techniques** - There are numerous things that small businesses can do 'at their end' to try and prevent online credit card fraud. According to an article by D Tomlinson in 2002 titled "Unauthorised Signature" (published in *The Investigator*) retailers should be aware of:
 - Orders comprising of duplicate items, as these may be on-sold.
 - Orders placed on an urgent basis or with immediate delivery requests.
 - Cards that have been used previously and found to be fraudulent.
 - Customers who provide an email address from a free email service as the only contact details.

Furthermore, if small businesses are suspicious about any orders, they should:

- Verify the order with the customer by telephone or email.
- Confirm the delivery address with the financial institution or recent telephone directory.
- Establish a database which records good and bad customers.
- Request information from the customer which only the cardholder would know (address, digits on back of card, bank who offers the card).

A useful source of further information in relation to the effect of online credit card fraud on small businesses is a study that has been conducted by the Australian Institute of Criminology entitled "Online Credit Card Fraud Against Small Businesses". You can obtain a copy of the study from the Australian Institute of Criminology's website at <http://www.aic.gov.au>.



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Further information

The above is in no way an exhaustive list of the steps that you may take to protect your business against fraud. There are many other steps you can take to better protect your business against fraud. Determining which is the most effective for your business will depend on the specific nature and circumstances of your business. You should consult your professional advisor or industry association in relation to effective risk management techniques for your small business.

The following fact sheets provide further information on these issues:

- Accounting records you should keep
- Business records you should keep
- Control against fraud
- Reduce your exposure to losses
- Risk management