

# WORKING

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## The high cost of workplace fraud

Morale, confidence at stake in wake of rising crime

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A new report has found workplace fraud is costing Canada's small and medium enterprises (SMEs) at least \$2 billion a year — probably much more — and is hurting employee morale, as the authors of the report say the problem is growing.

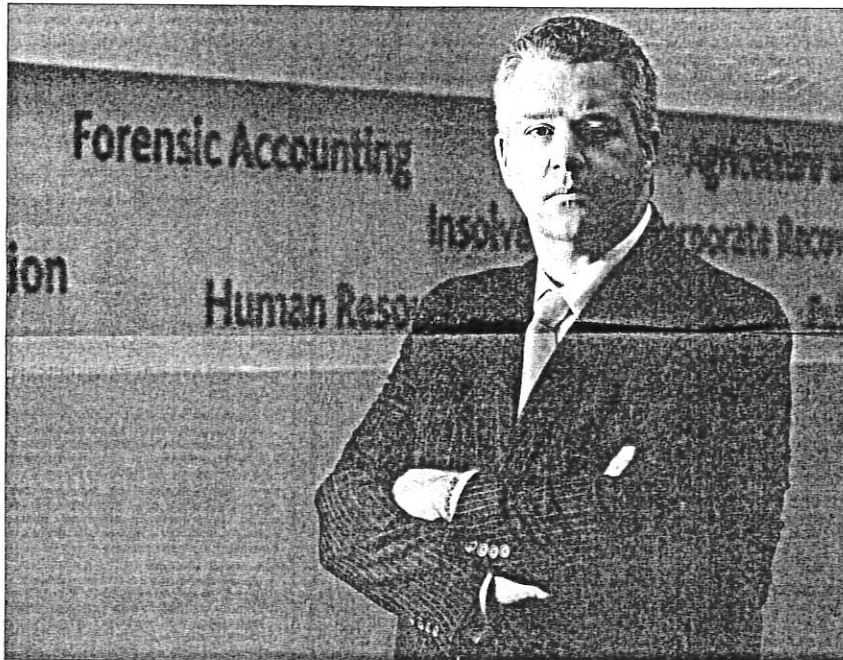
About 290,000 SMEs are victims of one or more instances of workplace fraud in the past year, says The Certified General Accountants Association of Canada (CGA-Canada) in a study.

"The risk of workplace fraud is almost certain to rise as economic growth slows and more employees experience financial difficulties," says Rock Lefebvre, CGA-Canada's vice-president of research and standards and co-author of the report.

The most common forms of fraud were misappropriation of inventory or assets and misappropriation of cash.

"The financial loss is one thing, but it's staff morale and management confidence that really take a hit," Lefebvre says. "The reputation, value and public and client trust of these companies also suffer."

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Stuart Gradon, Calgary Herald

Workplace fraud losses cost between five to 10 per cent of Canada's gross domestic product, according to Greg Draper, national leader of forensic services with MNP. Most frauds are committed by experienced workers, he says.

investigative forensic services with MNP LLP, one of the country's largest chartered accountancy firms.

At least 10 per cent of business bankruptcies cited fraud as the cause, according to the Office of the Superintendent of Bankruptcy Canada. Most frauds that happen are committed by an employee with seven to 14 years of experience on the job, Draper adds.

It causes an environment of stress and mistrust as everybody's day-to-day work schedules are "thrown out

the window" as companies try to recover from the damages.

"It can be like an atomic bomb going off inside of a business," Draper says. "There's shock, frenzy and you don't want to believe it happened."

As economic pressures ramp up on individuals, "we're seeing more of it come up now," he says, and it goes far beyond just the bottom line of a company to the point where some of a company's best employees may choose to find employ-

ment elsewhere. Those left behind to pick up the pieces often lose faith in the company and its managers.

Tim Houghton, vice-president of risk solutions for CKR Global Risk Solutions in Calgary, says 75 per cent of all employee-related crimes, including theft fraud, assaults and other crimes, go unnoticed.

"So much theft and fraud goes undetected," Houghton says, noting a company is 15 times more likely to have an employee steal from an employer versus a non-em-

ployee. "If you consider that 75 per cent (of all crimes) go unreported, then that \$3.2 billion is actually a quarter of the actual loss," he says. "It has a huge impact, both financially and non-financially, for most (SMEs)."

However, CGA-Canada found 74 per cent of respondents believe their exposure to occupational fraud is low, with 80 per cent having no response plan in place. Fifty-nine per cent of employers are undertaking no form of risk assessment. Early steps that can be

taken include a pre-employment background check, which can cost as little as \$150, compared to the average on-boarding cost of \$1,500 to \$2,000, Houghton says.

Once hired, employers need to have employees read, understand and sign a code of conduct and follow through with clear communication about expectations.

Internal controls and systems need to be monitored and effective by controlling who has data access, along with access to phone systems, Houghton says. A "zero-tolerance policy" must be clearly communicated to head off problems before they occur.

Whistle-blowing hotlines are another effective way to ensure that you use every employee's set of eyes and ears to limit the risk of fraud, which falls into three main categories: embezzlement, corruption and fraudulent documents.

Each company — no matter what the size — should view prevention, detection and response measures as an investment, rather than an upfront cost.

"If you're able to recover some of that potential loss ... it's really not an expense to manage fraud ahead of time," Draper says. "You have to look at it as an investment."

It also requires companies to tailor prevention and detection measures according to the individual needs of each organization.

"There's no one model for every single company," Draper says. "You can't eliminate fraud — there will always be a way for bad people to do bad things ... but if you can reduce the risks, you're much better off."

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