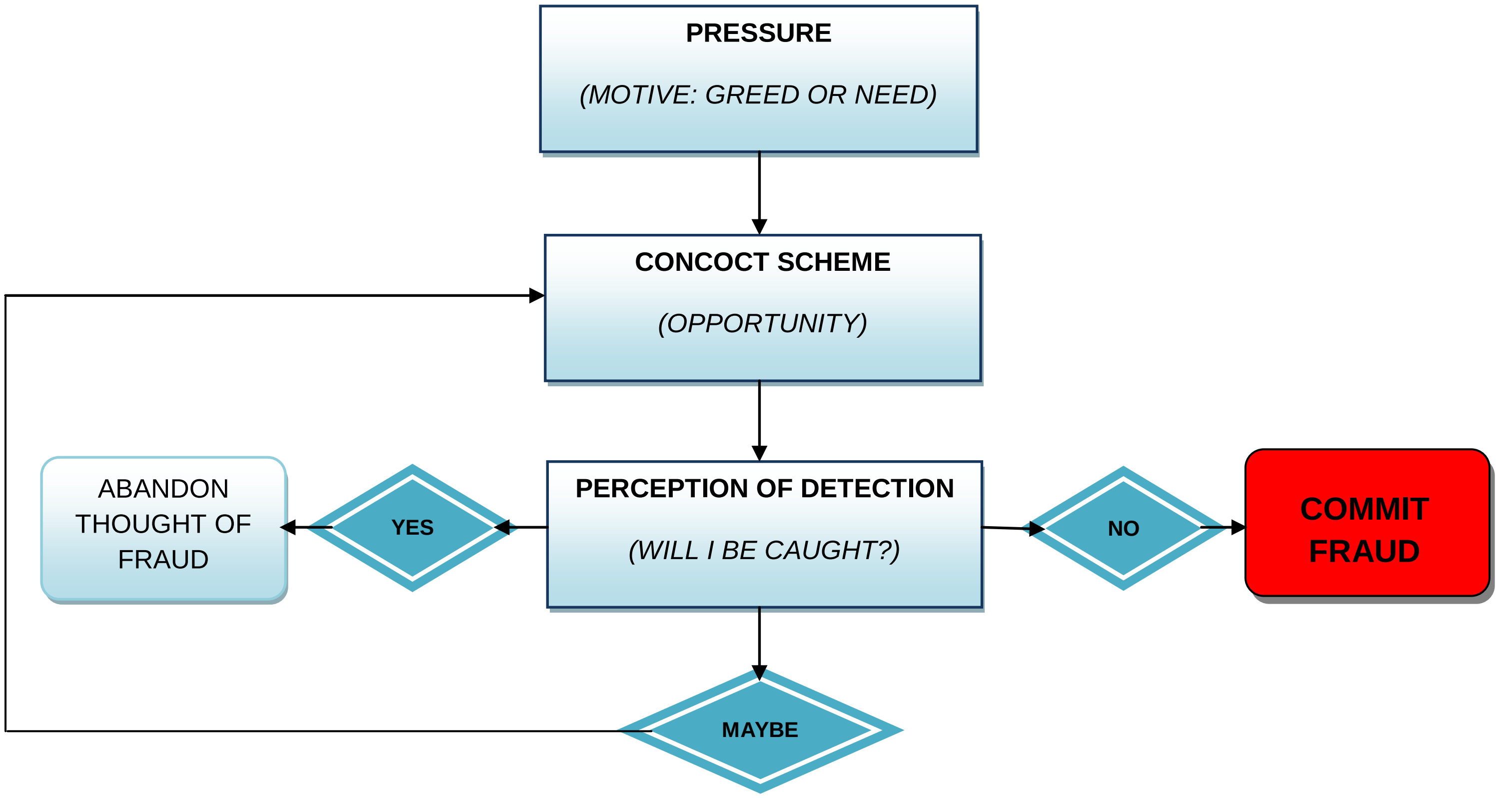


The diagram above illustrates how fraudsters think of ways to defraud the company.

The nature and threat of employee fraud is universal. Organisations loose between 5 - 7% of its revenue to fraud each year, and between 40 - 50% never recover any of their fraud-related losses. Small businesses are particularly vulnerable to fraud due to fewer resources, lack of internal controls, lack of segregation of duties, *etc*. The losses experienced in small businesses have a greater impact than they would in larger organisations and they are victimised more frequently than larger organisations.

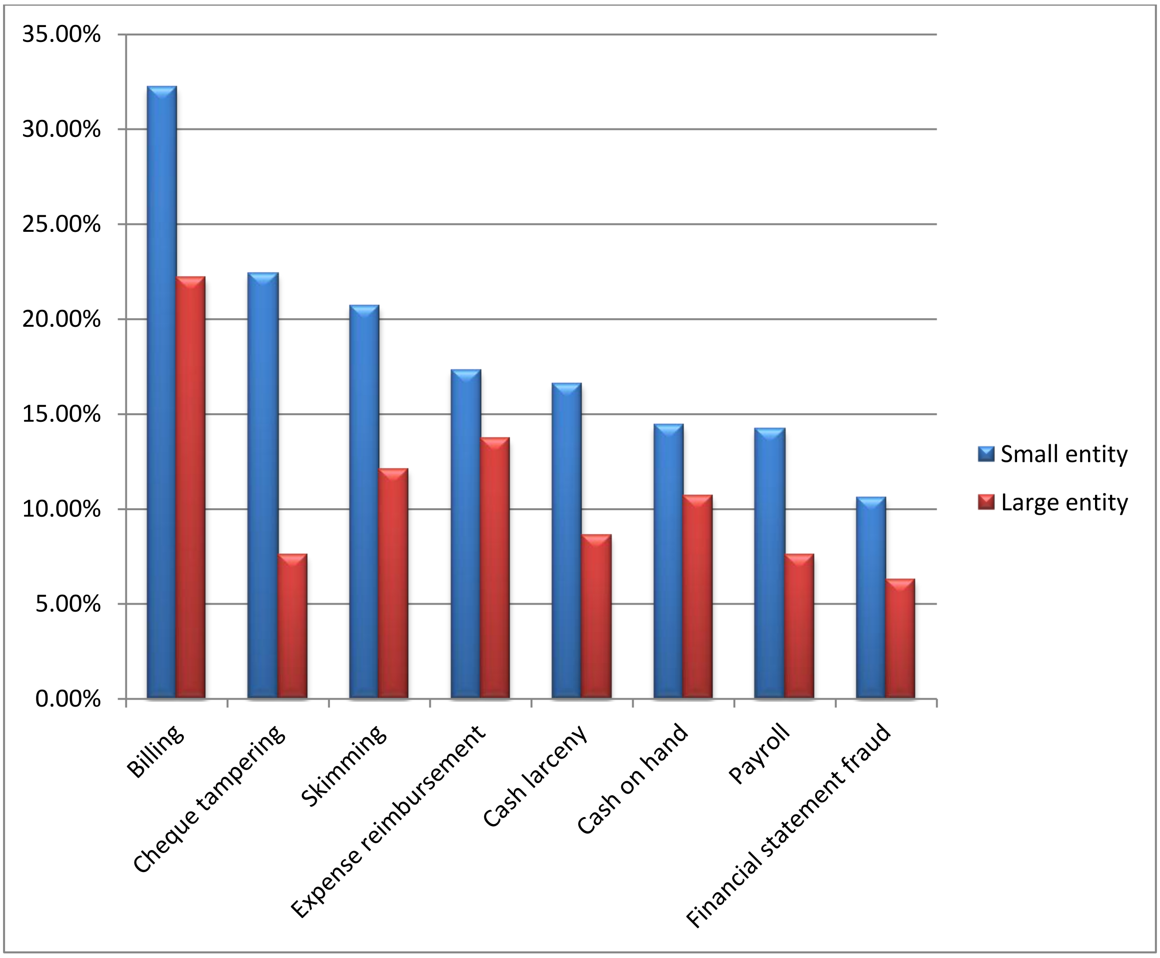
Although fraud is not a subject that any organization wants to deal with, the reality is most organizations experience fraud to some degree. The cost of employee fraud, both financially and to the organisation's reputation, can be extremely damaging. The important thing to note is that dealing with fraud can be constructive, and forward-thinking, and can position an organization in a leadership role within its industry or business segment. Strong, effective, and well-run organizations exist because management takes proactive steps to anticipate issues before they occur and to take action to prevent undesired results.

Providing individuals a means to report suspicious activity is a critical part of an anti-fraud program. Fraud awareness training for employees and managers is another critical component of a well-rounded program for preventing and detecting fraud.

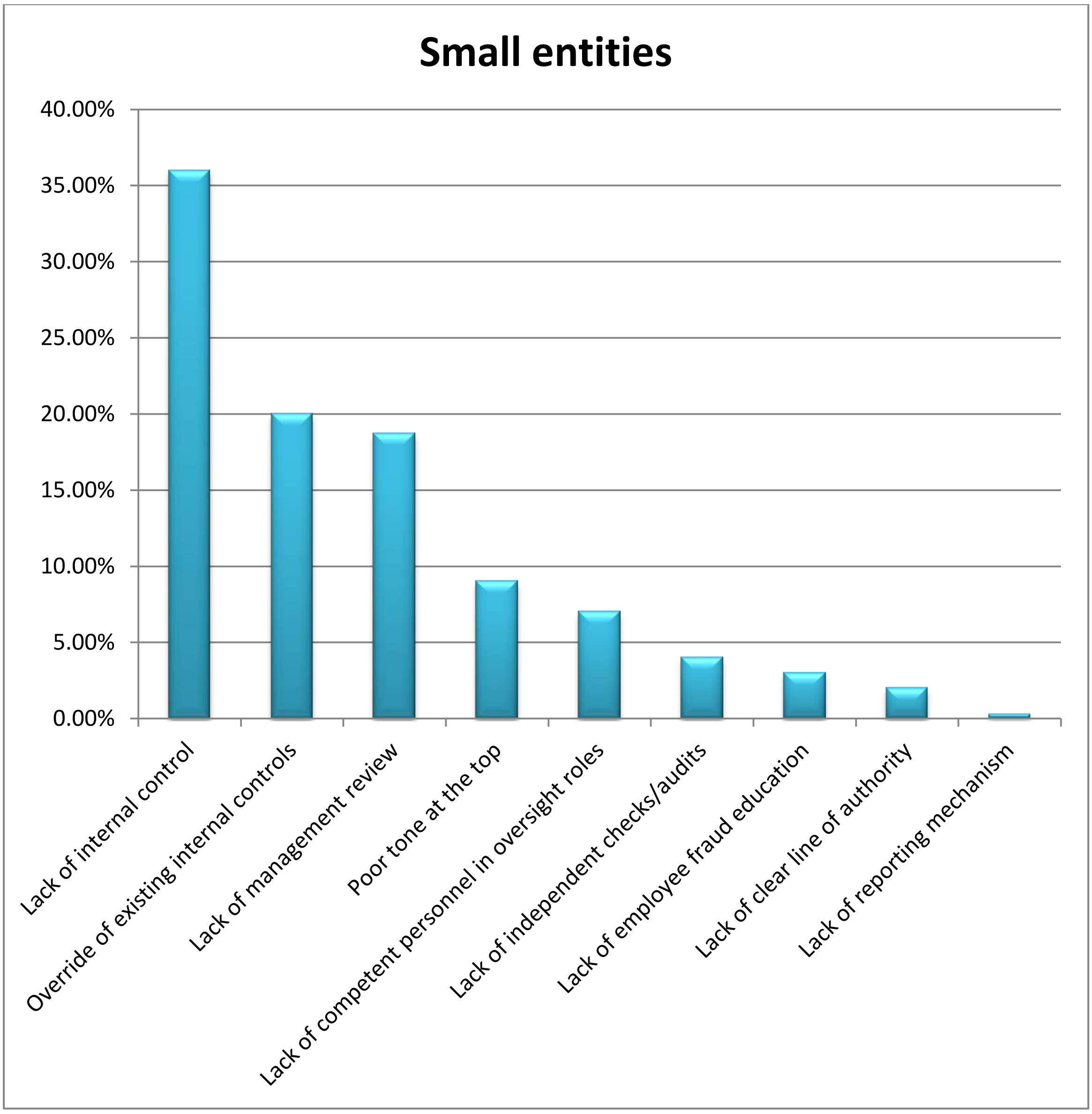
External audits should not be relied upon as an organisation's primary fraud detection method, as they only detect 3% of the frauds committed.

Internal audits however detect 14,4% of the fraudulent activities.

The following fraud schemes are more common in smaller organisations than their larger counterparts:



Due to their limited resources small companies do not invest in anti-fraud controls which make them more susceptible to fraud. The most important contributing factors to fraud are:



Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

Fraud risk assessments are used to identify and assess fraud risks within the organisation.

Both the internal controls and fraud risks must be monitored regularly by an independent entity.

Each evaluation must include evidence that management is actively retaining responsibility for oversight of the fraud risk management program, that timely and sufficient corrective measures have been taken with respect to any previously noted control deficiencies or weaknesses, and that the plan for monitoring the program continues to be adequate for ensuring the program's ongoing success.

Having effective control in place is one of the strongest deterrents to fraudulent behaviour.

Organizations can never eliminate the risk of fraud entirely. There are always people who are motivated to commit fraud, and an opportunity can arise for someone in any organization to override a control or collude with others to do so. Therefore, detection techniques should be flexible, adaptable, and continuously changing to meet the various changes in risk.

Process controls specifically designed to detect fraudulent activity, as well as errors, include reconciliations, independent reviews, physical inspections/counts, analyses, and audits, and in particular, surprise audits. A lack of, or weakness in, preventive controls increases the risk of fraud and places a greater burden on detective controls. The more significant the fraud risk, the more sensitive to occurrence (e.g., use of thresholds, performance frequency, and population tested) the detective control should be.

It is important that risk management and control are not seen as a burden on small businesses, but rather the means by which business opportunities are maximised and potential losses associated with unwanted events reduced.

The operation and monitoring of the system of internal control must be undertaken by individuals who possess the necessary skills, technical knowledge, objectivity, and understanding of the company and the industries and markets in which it operates.