



Safeguarding Your Business from Fraud

By Charlotte Kreitlow, VA Manager

Posted April 30, 2024

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In the intricate web of commerce, businesses are vulnerable to various risks, with fraud being one of the most insidious threats. From embezzlement to financial misstatement manipulation, to asset misappropriation, fraudulent activities can cause irreparable damage to a company's financial health and reputation. In the face of such risks, a robust fraud prevention framework is indispensable, and well designed and implemented accounting practices play a pivotal role in fortifying the defenses of businesses against fraudulent activities. Onto the juicy specifics.

7 Best Practices for Financial Fraud Prevention

Implementing effective fraud prevention measures requires a comprehensive approach that encompasses people, processes, and technology. Here are seven best practices for businesses to enhance their accounting related fraud prevention efforts:

1. **Segregation of duties:** Divide responsibilities among multiple individuals to reduce the risk of collusion and unauthorized activities. For example, separate the roles of authorizing transactions, recording transactions, and reconciling accounts to create checks and balances. As another example, the person that processes payroll should not also be the person who set's up new employees in your accounting and human resource systems. Having dual access provides them the ability to create a fake employee and then authorize payroll to their account.
2. **Regular reconciliation and review:** Conduct monthly or quarterly reconciliations of bank, credit card, and investment accounts and perform thorough reviews of financial statements compared with expectations in order to identify discrepancies or irregularities promptly. The knowledge that someone else is looking at transactions and will be questioning them will be a deterrent for the majority of potential fraudsters.
3. **Employee training and awareness:** This one is huge! Educate employees about the risks of fraud and the importance of ethical behavior in the workplace. Provide training on recognizing red flags and encourage a culture of transparency and accountability. According to the [ACFE 2024 Report to the Nations](#), employees account for 52% of fraud reporting within organizations. Your employees are your best resource to identify and stop fraud in your organization, so empower and reward them for their help. Check out these common behavioral red flags, also from the ACFE 2024 Report to the Nations:

8 KEY WARNING SIGNS

75% of fraudsters displayed at least one of the **8 MOST COMMON** behavioral clues; each of these **BEHAVIORAL RED FLAGS** was observed in **AT LEAST 10%** of cases.



Source: [ACFE 2024 Report to the Nations](#)

- Whistleblower hotline:** According to the ACFE, tips through hotlines and other whistleblower mechanisms are the #1 way that organizations detect occupational fraud. Establishing a process for employees and non-employee to confidentially report suspected fraud or misconduct without fear of retaliation will increase your chances of tips being reported. It’s important for the company to promptly investigate and address reported concerns to demonstrate a commitment to integrity.
- Utilization of technology:** Leverage advanced accounting software and data analytics tools to automate processes, monitor transactions in real-time, and identify anomalies more efficiently. Many software platforms are incorporating an aspect of AI-based comparisons, essentially creating fraud detection algorithms that can enhance the end-users chances of spotting abnormal activity before it’s too late.
- Independent audits and reviews:** Engage external auditors or fraud prevention specialists to conduct independent audits and reviews of financial records, or fraud risk assessments. External scrutiny provides an additional layer of assurance and helps identify control weaknesses or potential fraud risks. Learn more about Kernutt Stokes’ risk advisory team and the services they provide in this area [here](#).
- Continuous improvement:** Fraud prevention is an ongoing process that requires constant vigilance and adaptation to evolving threats. Regularly assess the effectiveness of existing controls, gather feedback from stakeholders, and refine strategies to stay ahead of emerging risks.

Fraud prevention is a critical aspect for businesses seeking to protect their assets, reputation, and stakeholders' trust. From the effective design of internal controls to the strategic deployment of technology-enabled/assisted solutions, accounting and fraud prevention professionals play a central role in fortifying the defenses of businesses against fraudulent activities. By embracing best practices, fostering a culture of integrity, and remaining vigilant in the face of evolving threats, businesses can mitigate the risk of fraud and safeguard their long-term success.

The logo consists of the letters 'K' and 'S' in a bold, sans-serif font. The 'K' is white and the 'S' is grey, both set against a black square background. A thin yellow horizontal line is positioned above the 'K'.

ADVISOR

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Kernutt Stokes has a team of certified fraud examiners (CFE), certified public accountants (CPA), and certified internal auditors (CIA) on staff ready to assist your organization. If you would like to explore how your business can be better protected from fraud, please [reach out](#) to us.