



## Fraud Prevention | 4 Ways Accounting Practices Aid in Fraud Prevention

By Charlotte Kreitlow, *Manager*

Posted May 15, 2024

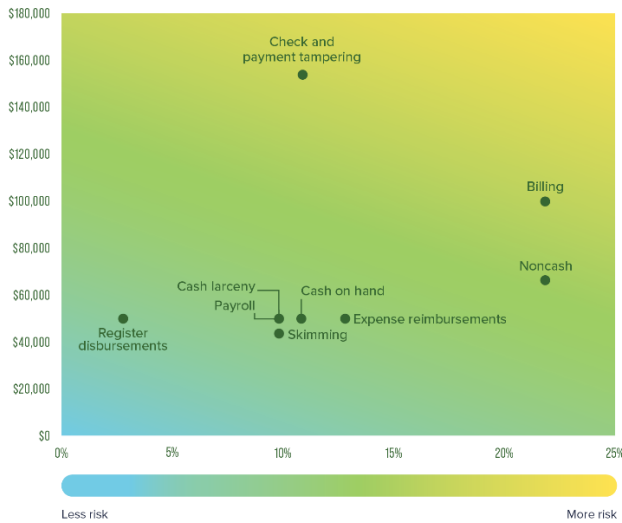
[kernuttstokes.com/resource-center/](https://kernuttstokes.com/resource-center/)

Fraudulent activities come in many forms, often exploiting weaknesses in internal controls and processes. According to the [Association of Certified Fraud Examiners \(ACFE\)](#), businesses lose an estimated 5% of their annual revenues to fraud each year. This staggering statistic underscores the urgency for businesses to implement proactive measures to deter, detect, and mitigate fraud. In this blog, I'll share four ways your accounting practices can help in fraud prevention.

But first, let's take a look at what is considered fraud. Fraudulent activities can be broadly categorized into three main types:

**Asset Misappropriation:** This involves the theft or misuse of company assets, such as cash, inventory, or intellectual property. Common examples include billing schemes (think fake vendors and shell companies), payroll fraud (think fake employees or inflating sales for more commissions), and skimming cash receipts before being recorded.

FIG. 5 WHICH ASSET MISAPPROPRIATION SUB-SCHEMES PRESENT THE GREATEST RISK?



Category	Number of cases	Percent of all cases	Median loss
Noncash	426	22%	\$66,000
Billing	424	22%	\$100,000
Expense reimbursements	248	13%	\$50,000
Check and payment tampering	217	11%	\$155,000
Cash on hand	205	11%	\$50,000
Skimming	200	10%	\$43,000
Cash larceny	192	10%	\$50,000
Payroll	190	10%	\$50,000
Register disbursements	52	3%	\$50,000

Source: [Association of Certified Fraud Examiners 2024 Report to the Nations](#)

**Financial Statement Fraud:** This type of fraud entails the manipulation or falsification of financial statements to deceive stakeholders about a company's financial performance or position. Examples include overstating revenues, understating expenses, or misrepresenting financial disclosures, with manipulation of financial ratios being one of the biggest areas of concern.

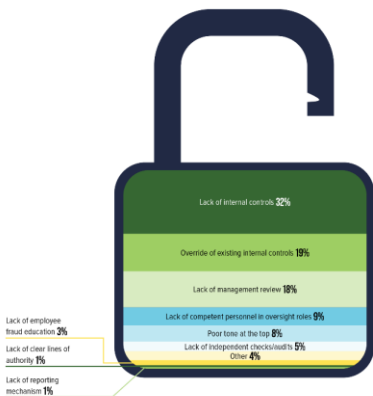
**Corruption:** Corruption involves the abuse of power or authority for personal gain, such as bribery, illegal kickbacks, or conflicts of interest.

### 4 Ways Accounting Practices Aid in Fraud Prevention

Solid accounting practices serve as the bedrock of fraud prevention efforts within an organization. By leveraging industry standard accounting principles, techniques, and up-to-date technologies, businesses can implement effective strategies to safeguard their assets, integrity, and reputation.

- 1. Establishment of internal controls:** Internal controls are the policies and procedures designed to safeguard assets, ensure the accuracy of financial reporting, and promote compliance with laws and regulations. Accounting and fraud prevention professionals play an integral role in designing, advising, and implementing robust internal control systems tailored to the specific needs of each business.
- 2. Risk assessment and mitigation:** Accountants are adept at identifying and assessing the various risks that could expose the business to fraudulent activities. Through risk assessments, like questionnaires and comparative analytic trends, businesses can identify potential risks. This allows them to prioritize their resources and implement controls to get ahead of potential or real issues.
- 3. Monitoring and detection:** Accounting systems generate vast amounts of financial data which can be leveraged to monitor transactions and detect anomalies that might point to fraudulent activities requiring further attention. Leveraging data analytics tools and techniques to scrutinize financial transactions it's possible to identify patterns and flag suspicious activities before too much time has passed for the fraud to cause irreparable damage.
- 4. Compliance and governance:** Adherence to regulatory requirements and ethical standards is paramount in fraud prevention. Accounting professionals ensure that the business complies with applicable laws and regulations governing financial reporting and disclosure. Additionally, they promote a culture of ethics and integrity within the organization through the establishment of clear expectations and robust governance structures.

FIG. 11: WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



Source: [Association of Certified Fraud Examiners 2024 Report to the Nations](#)



**ADVISOR**

**BLOG**

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.

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!