



Grant Thornton

An instinct for growth™

# FRAUD ALERT—

## Charities and not-for profit organizations

The average organization loses **5%** of revenues each year to occupational fraud.\* Is your business at risk?

Fraud happens. It doesn't matter what industry you're in, or how big—or small—your business is, today's fraudsters don't discriminate. As a charity or not-for profit organization (NPO), you've likely heard of a number of frauds that have occurred in your industry. In response to this, Grant Thornton LLP has put together a list of preventive and detective measures the Board can take to help reduce the risk of fraud and financial exposure.

### The numbers

- **18** – The average number of months between a fraud's commencement and its detection.
- **\$145,000** – The average loss per fraud.
- **1 in 5** – The number of cases that involve losses greater than \$1 million.
- **50%** – The percentage of fraud cases detected by whistleblower hotlines and anonymous tips, which is more than twice the rate of any other fraud detection method.
- **3%** – The number of fraud cases detected by external audits—one of the least effective controls in combatting

occupational fraud.

- **7%** – The number of fraud cases detected by accident.
- **100** – The number of employees that constitute a small business—organizations that are disproportionately victimized by fraud due to their structure and their limitations regarding segregation of duties.

### Classifying occupational fraud

Occupational fraud, also known as internal fraud, occurs when an employee, manager or executive commits fraud against his or her employer.

Despite advancements in technology and concealment tactics, the methodologies used in occupational frauds generally fall into clear, time-tested categories. Under the Association of Certified Fraud Examiners' Occupational Fraud and Abuse Classification System, also known as the Fraud Tree, these types of frauds fall into three main categories:

- 1. Asset misappropriation**
  - Theft of cash on hand
  - Theft of cash receipts
  - Fraudulent disbursements

### About Grant Thornton in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton in Canada has approximately 4,000 people in offices across Canada. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member firms operate in close to 100 countries worldwide.

\*Statistics and findings referred to in this alert have been sourced from the Association of Certified Fraud Examiners' Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study.

## 2. **Corruption**

- Conflict of interest
- Bribery
- Illegal gratuities

## 3. **Financial statement fraud**

- Asset/revenue overstatement
- Asset/revenue understatement

### **The red flags**

An important component of fraud prevention and early detection is learning how to spot the red flags—issues that require further investigation. While red flags can take a variety of forms, the following is a list of the more common examples:

- weak internal control environment
- incomplete, missing or non-standard documentation used in business dealings
- track record of sloppy, secretive or irregular accounting activity
- exclusive or preferred treatment of vendors, often under the guise of sole source contracts
- management decisions made primarily by an individual or small group
- frequent changes in external auditors
- previous complaints, allegations or concerns over club or employee conduct
- conflicts of interest are the norm rather than the exception
- key individual and/or organizational background check comes back negative
- personnel refusing to take vacations or sick leave
- personnel not adhering to club policies, including subordinates being directed to bend or break rules

- personnel reluctant to provide information to auditors
- frequent disputes with the auditors
- personnel displaying significant disrespect for regulatory bodies
- employment of lax or inexperienced accounting personnel

### **Protecting yourself and your organization**

While anti-fraud controls can effectively reduce the chance and potential impact of fraud, the truth is that no organization is ever completely immune.

The faster a fraud is identified, the less financial damage is incurred. And when it comes to curbing fraud quickly, you're far better off using proactive detection measures, such as whistleblower hotlines and fraud awareness training, than relying on passive detection methods, such as confessions, notification by law enforcement and external audits.

These proactive measures don't have to be expensive. In many cases, the mere presence of anti-fraud controls is enough to make an impact. Statistics show that victim organizations with common anti-fraud controls in place experience less financial damage and quicker detection than victim organizations lacking these controls.



The following are examples of common, low-cost anti-fraud controls:

- **Anti-fraud culture**—a core fraud deterrent is a strong corporate/club culture, which is supported by tone from the top.
- **Fraud policy**—the organization should have a clear policy on fraud that outlines the implications to any person caught perpetrating fraud. This policy would be circulated to all staff, and require their confirmation of receipt and review. Employees should be asked to reconfirm review of the policy on an annual basis.
- **Fraud risk assessment**—a fraud risk assessment will assist organizations in identifying fraud risks and developing a fraud risk response.
- **Fraud awareness training**—in order for your team to identify red flags and unusual behaviour, it has to know what to look for. By implementing an effective fraud awareness program, management can harness the efforts of the full staff in its anti-fraud activities and significantly reduce the cost of fraud within the organization.
- **Hiring policy**—you should perform a background check on people you intend to hire. There is nothing worse than finding out your organization has been victimized by a repeat offender.
- **Whistleblower program**—tips are consistently and by far the most common detection method. In fact, organizations with hotlines experience frauds that are 41% less costly, and detect frauds 50% more quickly.
- **Fidelity insurance**—sometimes referred to as “employee dishonesty insurance,” this form of insurance reimburses a business for losses related to employee fraud or theft.
- **External control review**—your organization should consider having its auditors or another independent party

conduct an internal control audit of key risk areas.

When it comes to fraud, every organization is at risk. Your objective is to reduce this risk. While it's true you never know for certain if you will be targeted, chances are you'll never regret being prepared.

Should you wish to discuss any of the above material in more detail, or if you're interested in learning about how Grant Thornton LLP can meet the specific needs of your organization, please do not hesitate to contact us.

Sincerely,

**R. Dale Varney, CPA, CA**  
Assurance Partner  
T: 1-877-366-0100  
E: Dale.Varney@ca.gt.com

**David Malamed, CPA, CA, DIFA, CPA  
(Illinois), CFE, CFI, CFF**  
Forensic Accounting and Dispute Resolution  
Partner  
T: 1-877-366-0100  
E: David.Malamed@ca.gt.com