

THE IMPORTANCE OF BEING VIGILANT

Taking proactive steps to safeguard your business interests may appear costly in the short term but ultimately, the need to preserve and protect hard fought gains in a tough business environment ought to be the mantra **BY LIONEL TAY & NIGEL PEREIRA**

AS WE come to the close of the first quarter of 2017, many businesses will announce their fiscal year or quarterly results, or complete their filing of annual returns. Other businesses will be assessing how well they have adapted to the global uncertainties in Q1, how effective their management strategies have been in realising value for the business and how else they can gear up for the challenges ahead.

It is also an opportune time of the year for businesses to conduct a review of what has worked well for the business and what needs improvement. In particular, businesses can cast a critical eye on their internal controls, address the findings of their auditors and to consider some of the systemic threats which have surfaced over the preceding months.

Increasingly, one of the more significant threats facing business owners is the incidence of fraud. With continuing advancements in technology and highly skilled expertise among those with a criminal mindset, combating fraud is often fraught with complex challenges.

Business owners can be defrauded by an employee, a counterpart or a customer. Invariably, a business owner would suffer financial and reputational loss arising from a fraud.

Fraud is an inherent risk. It may not be entirely preventable, and so it must be mitigated. At the very least, the risk of fraud can be mitigated if appropriate measures and internal controls are put in place.

While it can be appreciated that small businesses will have limited resources to call upon to mitigate the risk of fraud, it is this very reason – to preserve and realise precious value from such limited resources – that ought to encourage business owners to take the matter of internal controls seriously. Proactive steps to safeguard their interests may appear costly in the short term but ultimately, the need to preserve and protect hard fought gains in a

tough business environment ought to be the mantra.

There are several other reasons for business owners to take a closer look at the effectiveness of their internal controls. One truism is that a company's internal control system usually suffers from inherent limitations. Countless past experiences, both documented and reported, reinforce this view.

Equally, the same can be said of a business' accounting systems. It is trite that audit shortcomings cannot be entirely eliminated. An auditor is often faced with practical limitations in an audit process. His role as auditor is not specifically focused on effective detection and prevention of fraud and wrongdoing. There is an unavoidable risk that some material misstatements will go undetected. Qualifications in an audit often have to be made.

Given the above, what methods or procedures can be adopted by business owners to tackle fraud?

A good start would lie in business owners reviewing the type of measures which they have already put in place to safeguard physical assets, computer systems, protect business reputation, regulating business presence on social media, as well as safeguarding non-current assets of the business. Basic steps can be taken, such as reviewing operational protocols for its laptops, operating premises, inventory and regulation of employees' use and access to inventory and assets.

Another overlooked but basic step for business owners to adopt is the setting up of a proper system to capture and record all expenses, revenue and backed up by accurate documentation. This would immediately improve reliability of the business' source documents.

Sufficient controls should also be in place to safeguard critical functions of the business. These critical functions include sales, accounts receivable, bank account management and cash management, purchases and accounts payable, payroll and

employee benefits, as well as know-your-client and know-your-employee protocols.

Business owners should also ensure compliance with a business' statutory, regulatory and contractual obligations. These include compliance with auditing standards as well as applicable safety requirements. Keeping regular and open communication channels with its employees, its customers, third party suppliers and intermediaries as well as the landlord would ensure that proactive steps can be taken instead of reacting to situations after the event.

There are also "softer" measures which business owners ought to consider putting in place to ensure that a happy and motivated employee is an effective employee. This is often overlooked in favour of having tight controls and comprehensive protocols.

Instead, a system which recognises value through offering a stake in the business or other incentive schemes would ensure lower employee turnover and a motivated workforce.

Enlightened and successful businesses often excel with properly established controls and protocols backed up by a workforce which shares the corporate philosophy and embraces a stakeholder mentality.

It is our experience that the human factor is often overlooked when a business is examining ways to prevent fraud and wrongdoing. A happy motivated employee is less likely to succumb to temptation compared with disgruntled unmotivated employees with a "worker bee" mentality.

Accordingly, in the coming months of economic turbulence and uncertainty, it is suggested that apart from having a proper control system to detect and prevent fraud, a vigilant company should also ensure that all its employees work together in the face of new challenges on the horizon. ■

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