

## Guide: Safeguard your business

We have long known we're a nation powered by small business. This lends itself to highly personalised ways of doing business, strong relationships going back a long way, teams that feel like family.

That's why it's so devastating when a business finds out someone they've trusted has cheated them, sometimes over a long time: a so-called "theft by a person in a special relationship".

There have been a number of high profile employee cases of this, but it's not just employees — it could be any advisor. If they betray your trust, they are people who can damage your business badly.

When these stories come to light, there are common variables: gambling addictions, sudden illness in a loved one, someone dipping into client funds thinking they'd be able to pay it back, someone who's worked with the business since Mum and Dad ran it. The common thread is in the environment: someone was trusted enough that no one was checking.

### Keeping the relationship special

Being able to trust your team and advisors is gold standard. Keep it that way and don't make it easy for someone to abuse your trust. Think about these tips to safeguard your business and keep those trusted relationships strong.

### Ethical culture

As a business owner, you need to ensure that your business environment — physical and online — is safeguarded against abuses of trust. Create a company culture that supports ethical behaviour, as well as checks and balances that everyone understands. Incorporate a code of ethics into your team handbook that makes it clear that unethical behavior will not be tolerated.

### Background checks

Reference checks are a truism of recruitment but it's important to take them seriously. If you're interviewing for a role with access to sensitive financial data or business assets, consider whether background checks are advisable, eg criminal record checks or confirmation of qualifications.

Make sure background checks fall within legal requirements or you can fall foul of the Privacy Commissioner and/or the Employment Relations Authority. There are specialists who can provide this service.

### Audit

While audit is a significant additional business expense and we don't suggest it lightly, periodic independent financial reviews or spot checks might be wise, if only to let it be widely known that this is one of your resources.

### Financial controls

Financial controls go well beyond safeguarding against fraud. They are at the core of resource management and operational efficiency in any organisation.

However, financial controls reduce your exposure to risk and help ensure your money is managed properly.

Basics include separating functions such as sales, invoicing and debtors.

### Housekeeping

Good systems make it easy to understand and hard to hide things. If you have a system, make sure it's documented. It doesn't have to be complicated. For instance, when you refund a customer, make sure it's signed off by a manager or yourself and recorded somewhere central. Checklists can make systems easy for staff to understand and work with, too.

Have systems in place to routinely look at where your money's going or that require you to sign off on key transactions.

## **Monitoring**

Do you have regular reporting? Things to look for are unusual customer refunds or credits, a spike in new suppliers or payments to existing ones. Do your sales look right? Is there a dip in cash sales?

Make sure you understand your financial statements. Know what to look for so you have a better chance of spotting if something unusual is happening.

Know the benchmarks for other businesses in your industry. Compare your profit to overhead ratios with theirs and question inconsistencies.

## **Buddy systems**

Avoid systems where only one person has complete oversight:

- Red flag any of your systems where only one signatory is required or only one person oversees income and expenses
- Make it part of the monthly routine to run the bank statements by more than one pair of eyes
- Train up "buddies" to share key financial responsibilities to make it harder to siphon off funds unseen.

Buddy systems can strengthen your succession plans as well as taking the pressure off when a signatory takes holidays.

Ironically, it seems that people engaging in suspect activity tend not to take holidays for fear of being found out when they know someone else is performing their duties. So, make sure staff take their holidays. It can help:

- expose fraud, if it is occurring, and
- relieve overworked honest employees.

## **Recommendation**

We can help you with risk assessment for your business and help you strengthen your systems if needed.

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