

## Accounting Controls, Fraud and the Importance of Kindness

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Given the current circumstances, it's easy to ignore the basics while you try to manage a multitude of tasks, but research has showed that financial pressures massively increase fraud and theft, result in everyday tasks being neglected, increases stress and can result in staff being neglected.

It would be pragmatic to cover the basics to protect the business and your staff and below are a few tips on the things you could focus on.

### **Business Interruption Insurance**

On 17 March the Chancellor announced, with reference to the Association of British Insurers (ABI), that business interruption insurance policies covering pandemics would be activated by the Government's announcement.

Business interruption (BI) cover typically insures you for lost net income, so that you can continue to cover your fixed costs. The ABI explains BI cover here:

<https://www.abi.org.uk/products-and-issues/choosing-the-right-insurance/business-insurance/business-interruption-insurance/>

Sometimes BI cover is included in general insurance policies, sometimes it is an add-on. Dig out your general and business interruption insurance policy and check the terms; there may be reference to whether pandemics are included or excluded.

It is likely that most of your policies will be silent or not entirely clear on it. The ABI says that pandemic cover is a specialist add-on and that general policies would not cover pandemics. If you have BI cover and pandemics are not specifically excluded and your policy wording says something like "people not being able to get into your business premises" then we would press a claim. Speak to your insurance broker. If a claim is rejected you might be able to go to the FCA and then the ombudsman.

## **Accounting controls**

Good controls have always been important, but this crisis means that good controls are more important than ever.

- Ensure all sales invoices are processed and sent – even if your customers are unlikely to pay them it's still important to have their liability to you recorded. If you need to get a loan, then all the assets you have in the business should be noted;
- Continue to practise your credit control, it may be more frustrating than normal, but it will yield results;
- Process expenses and purchase invoices as normal – you can't manage the future if you don't know what it looks like;
- Review your bank, credit card, PayPal statements and all direct debits and standing orders daily – you may be paying for services that you no longer need, or worse, never ordered in the first place.
- Accounting policies should be reviewed (or created) to ensure they protect you
- Not strictly accounting, but ensure other records such as staff and supplier contracts, furlough notifications, holidays and sick leave are also up to date, both for your own records and for any future audits that the government may impose. (The Government hinted at increased taxation for the self-employed when announcing the help they would provide – it's not unreasonable to speculate that they may change the audit threshold for example, or require some type of accounting report for businesses that received government support. )

It's best to be prepared for any eventuality and you never lose out by having your books in order. Knowing where you stand may help your business recover quickly and avoid the scenario where you survived the worst but weren't able to take advantage of the better times to come.

## **Fraud**

This is part of your accounting controls and now is a good time to review your fraud controls.

- Who is authorised to make payments from your bank account? Is it an administrator or a bookkeeper? We would suggest making payment access to the bank as senior as possible, or perhaps add a senior member of staff as a counter signatory for better control.
- Who has a company credit card and what controls are there in place to stop them being used for personal circumstances? It's worth getting them returned to the office if possible or having a daily review online of their activities. We wouldn't recommend stopping them (it may be difficult to get credit in the future) but greater oversight now is a must.
- Conduct due diligence on all your suppliers and the contracts you have with them - it's a good way of ensuring that all your business relationships are above board and avoiding conflicts of interest and collusion between suppliers and staff to your detriment.
- Stock takes and fixed assets reviews – check that you have in your possession all the items your records say you have.

- Access to your systems – you should use this hiatus to ensure no one can get control of your systems and black mail you to get access back. Use reputable firms to get the necessary software; it may sound counter intuitive but trying to save money for this type of security may cost you more in the long run.

### **Rethink your business model, rapidly**

It's time to get creative and make the best of what you've got - hopefully the following examples from some of our clients will inspire you;

- A local Pub has started to sell bulk vegetables; customers pay on-line and are given a time slot for picking up so they can do it as part of their daily exercise routine.
- A local winery is delivering to local customers using their own staff.
- A local Garden centre which had a very basic website is now taking orders by email, contacting customers by phone to take payments and delivers to their front gates.
- Some businesses such as restaurants are using the 'Pay it forward' crowd funding app (which Crowdfunder are supplying for free) to allow customers to contribute towards a future meal or service now.
- A nursery looking after the children of key workers have asked other parents to contribute what they can now to next term's fees.

### **Kindness**

It's a difficult and uncertain time for all, but kindness should be remembered. If you need to furlough your staff and you've not handled it well why should they stay with you when things get better? Or even worse, why should they be honest with your cash or assets?

It's been our experience that people sometimes steal from their employers after feeling 'hard done by' or 'disrespected' in some way. If your relationship with your team isn't the great at the moment, now is the time to start improving it.

The same applies for your suppliers – some larger businesses have made clear that they're not prepared to support their supply chain at all presently. How many of their suppliers will support them when this is over? And how of their previous customers will respond by never returning?

But there have been good stories too, for example, the supermarkets have pledged to pay their suppliers earlier to help them survive, which makes sense because they need the goods they supply (we can all learn from 2005 when BA's entire fleet were grounded because the 'good' deal they made with their inflight meals supplier caused that supplier to go bust).

It's important to weigh up holding cash verses paying your suppliers and find a manageable middle ground. If customers are finding ways of supporting their local restaurants and businesses via 'pay it forward' campaigns, then we as businesspeople can find ways to support each other.

### **Important: disclaimer**

This information is prepared for general use to support and inform many people quickly. It was based on information available at the time of writing. The situation is changing fast and new updates may have already superseded this information. Guidance is being published in stages, so we are working with other accountants to try and make sensible interpretations of announcements about what is available.

Your personal circumstances are individual to you.

If you intend to rely on this information, please check the current Government advice, check with your professional adviser or contact us on [insights@pcfo.co.uk](mailto:insights@pcfo.co.uk) to ensure that this remains relevant and is applicable to you