

## Preventing Fraud in Creative Sector Organisations

The consequences of fraud for any (arts) organisation (or even any accusation of fraud) can be catastrophic, not just in cash terms and any potential legal action against the organisation, but confidence will also be eroded in the eyes of the clients and donors, the public, beneficiaries, and even within the organisation's remaining staff and committee members.

When fraud occurs, one of the most common features found in organisations affected is a weakness or lack of internal controls. People do not usually start off with the intention of committing fraud, a lack of capacity and/or knowledge, too much reliance and trust placed on certain individuals, things being taken at face value, poor formal systems and protocols, ineffective management all create the environment in which fraud (and error) occur.

An important principle of internal control is segregation or division of duties; this prevents any individual from being able to authorise, record and process a complete transaction. For example, where the same person receives cash for ticket sales records it in the cash book, pays in into the bank and prepares the bank reconciliation it would be difficult to detect dishonesty or error; cash could be misappropriated, and hidden by false record keeping, this is known as teeming and lading.

All transactions should require advanced authorisation or approval by an 'appropriate and responsible person' with backing documentation provided. For example, systems for expense claims are a common area of weakness. No reimbursements should be made without receipts, these should be authorised separately and payments only made for legitimate expenses, i.e. non-personal.

Management controls are concerned with the overall supervision and management of an organisation; they provide the framework in which controls are exercised. For example, organisations need to budget at all levels, strategically, tactically and operationally, prepare and review management accounts; they also need to compare reality with expectations.

Internal control systems need to be based on a clear statement of responsibilities; this consists of an organisation chart backed up by job descriptions. This helps staff and management to have a clearer understanding of their duties and to whom they are responsible.

Delegation of responsibility by (senior) management does not mean abrogation of responsibility, and it is important that transactions are actually checked for accuracy,

completeness and legitimacy. For example, arts bodies may receive restricted funds; it is essential to verify that they have been spent in line with the stated purposes. Too often members may take a baffled glance at financial reports, give their sweeping approval and then move quickly onto the next item on the agenda (one that they have a better understanding of).

Good effective internal controls are a necessary part of the management tool kit; they provide additional assurance, protection and clarity to staff, management and the outside world. Arts organisations range in size and complexity. In an age of contract culture, internal controls need to be adapted and adopted according to the organisations size, complexity, funder's criteria, and areas of higher risk.

Internal controls should not be seen as a straightjacket or costly to implement, they will never guarantee that fraud will not occur but they certainly reduce the risk of it occurring and demonstrate that the organisation has been proactive and responsible.

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