

**13<sup>th</sup> March 2009**

**Madoff Guilty!**

**Yes he really did it!!!**

Not really a shocking heading, although in today's world of 'innocent until proven guilty' taken to extremes, I must admit to a certain surprise when Madoff just pleaded guilty.

The stories of what Madoff has been up to are circulating thick and fast. The barefaced cheek of this man's approach is quite incredible and despite all the public commentary, I can't work out whether he has spent the last couple of decades crumbling on the inside (apparently he always thought he would be found out) or whether he simply didn't care taking the money and enjoying the wild decadence that came with it.

What it does sadly indicate however is that no matter what you might think, sometimes we really don't know people, either in a commercial or domestic context. As a result it pays to be cautious, prudent and careful how we manage our affairs.

Despite our inherent suspicion with procedures, checks, processes and (proper) audits, there is something safe and secure in the knowledge that we have in our businesses checks and balances to make sure we are doing the right thing.

And, although it's quite embarrassing to keep 'monitoring' management and staff alike, in order to prevent fraud and the financial or reputational loss that accompanies it, the monitoring is necessary.

Of course, in reality, the overwhelming majority are honest and above board. It's the minority who would seek the take advantage of fraudulent activity. The procedures and all the rest are there simply because it is nigh on impossible to identify the fraudsters (and in many cases those same fraudsters are often the people you would never imagine in a million years would be trying to rip you off).

I suppose we can all put in place a few checks and balances:

- make sure there is proper segregation of duties (especially in finance where for example no one person should handle incoming cheques and the recording of those cheques in the accounting system);
- ensure that all members of staff at all levels are subject to controls and checks (especially of expenses!);
- make sure you are happy with authority levels and procedures for expenditure and signing of outgoing checks;
- undertake regular review of all commercial relationships (you don't want a member of your team colluding with suppliers against your interests);
- conduct a regular review of the key business risks including fraud, again at all levels in the business.

What the Madoff affair shows is that all companies, of all sizes (including those with the most experienced management) need to take risk management more seriously. We've had our fair share of corporate scandals in the UK, and the Maxwell affair stands out. There, as with Madoff, you had an aggressive leader who scared the staff and management under him. In fact he scared just about anyone who refused to do his bidding.

Refusing to 'rollover' is hard to do sometimes, it would perhaps help if the senior management are subject to clear rules and procedures and in no circumstances can they be varied to suit managements' whim.

13.3.09