



white paper

The New Discount Culture

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Over the past few years the new discount voucher culture has transformed the restaurant industry. The levels of discounting during this time has increased dramatically. This is apparent by the vast number of offers available via different mediums such as dedicated internet discount voucher sites, mobile phone apps, vouchers available on company websites, membership scheme discount cards and in-house promotions.

The popularity of the vouchers has increased due to the availability of these promotions. During the past few years most major restaurant chains, if not all, have offered some form of discount to customers. People can now pick and choose which restaurants they visit dependent on the promotions available at that particular time.

Some research has even shown that some customers will not visit a restaurant if a promotion is not being offered. Furthermore with the current economic downturn and tightening of people's purses it has meant that people are more likely to be on the look out for a bargain!

An Increased Risk in Employee Fraud?

Whilst the vouchers have been a success for companies in terms of retaining or increasing market share, our experience suggests that there has been a marked increase in employee fraud.

Whilst the vouchers are readily available to customers, they are equally readily available to restaurant employees. Due to the volume of discounts applied on a regular basis and without the necessary controls in place, it is relatively easy for an employee to fraudulently apply these discounts to customer bills. The 2-4-1 voucher has been a successful promotion for many a company, however it has also been a good way of fraudulently increasing an employee's income, i.e. 2 vouchers 4 the company and 1 for me!

Along with the number of voucher discounts in the past few years, there has also been a significant increase in the number of discounts applied to individual customer bills for issues such as customer complaints, generosity and runners.

Although the vast majority of these discounts are genuine, it is more than likely that a number of these discounts are fraudulent.

Our Audit Investigation Team have uncovered cases where a customer's bill had been paid in full, however later fully discounted by an employee and entered onto the restaurant's back of house system as a "runner" or "hair in food" or a number of other reasons.

Employee fraud, including discount voucher fraud, can cost a business on average 7% of their revenue.

Prevention of Fraud

The impact to the bottom line can be significant. According to the Association of Certified Fraud Examiners, employee fraud can cost a business on average 7% of their revenue. This can include different types of fraud as well as discount voucher fraud.

To ensure the risk of employee fraud through this avenue is decreased it is vital that adequate controls are in place. With a good system of control in place, levels of fraud will decrease.

Although it is difficult to ascertain the actual overall saving for a company, what would a 1-2% saving of the overall company revenue mean to a business? For a company turning over £100m, this percentage would mean £1m to £2m being added back to the bottom line.

What is meant by good controls?

We at m-r-s precision auditing recommend that the following areas are covered when dealing with discount fraud:

Having a good till system in place

Having a good back of house system that includes a fully detailed Journal Report. This will ensure that all relevant data is captured from the till

Ensure that a company has thorough audit controls and procedures in place

Ensure that a company has a no tolerance approach to fraud and that all employees are aware of the policy

Ensure that required restaurant controls and procedures are fully documented and all relevant employees are made aware of the requirements. Furthermore these procedures should be reviewed and amended on an on-going basis to ensure they are up to date and relevant

Have an audit department or systems in place that can analyse the data from the Journal Reports

Ensure that all fraudulent cases are followed up correctly and the relevant employees disciplined accordingly

We recommend that any investigations and interviews are completed by a department that is not involved in the operations team. This should ensure that any subsequent findings and recommendations are fair, independent and not influenced by any working relationships

Where there are cases involving significant levels of fraud, we would recommend that the employee(s) are reported to the police and prosecuted

Audit controls should also be regularly reviewed and amended accordingly to ensure that new methods of fraud are detected and then checked

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Working with m-r-s

Over the past 25 years m-r-s have worked closely with our clients to ensure we provide a tailored service that meets their requirements. This has particularly been the case when dealing with discount voucher fraud. We have worked very closely with our clients and have regularly reviewed, amended and implemented new procedures and systems that ensure that discount fraud is identified and ultimately reduced.

New technology has also meant that where our client's systems allow us to, we can complete forensic audits away from the restaurants. This led us to creating an Audit Investigations Team.

As well as completing full investigations on potential discount fraud, the team can also complete interviews with any employee who is suspected of being involved in fraud.

About m-r-s

m-r-s solutions Ltd has provided internal audit services to the hospitality industry for the past 25 years. The company is based in Leicestershire and provides a tailor made service to our clients throughout the United Kingdom, Channel Islands and the Republic of Ireland.

We pride ourselves in being able to deliver in services to meet niche markets and tailor specifically to achieve desired goals of our customers. Our current Portfolio of Services includes:

Standards Audits

Ensuring standards are maintained and adhered to and specifically in line with the company's controls and procedures financial policies. This can take the form of a scored audit assessing the efficiency within that establishment.

Compliance Audits

As well as ensuring standard practices are being adhered to, compliance testing includes specific audit checks on Cash, Banking, Discounts, Voids, Refunds, Purchases, Stock, Payroll, Personnel and Legal/ Company Notices. Scored audits are recommended to assess efficiency within that establishment.

Risk Audits

Risk management audits have become a popular way of addressing a problem area within specific area of the business. Risk audits are becoming a much more commonplace within the Hospitality Sector and guards against fraud, embezzlement, legal threats, poor performance, mis-management etc. Audits are tailored specifically to ensure future risk is minimised.

Remote System Audits

More sophisticated back office management systems are being introduced all the time into the Hospitality Sector. Our Remote Investigation Team monitor and report back trends, concerns and potential Fraudulent practices. We also support the Interviewing processes that may lead on from such findings.

Stock Valuations

For customers who require an accurate Food and Beverage count and valuation.

Stock Audits

Auditing of management own stocks, reporting back accuracy, findings and anomalies.

Stock Result Audits

Completing a full Food and Beverage count, reconciling Sales, Purchases and Allowances. Producing Gross Profit result, variance report and recommendations report.

Stock Inventory

We can provide, install and service maintain a bin book system to aid the operation in achieving good ordering practises, reduce stock holding and improve efficiency.

Workshops & Management Consultancy

We are here to help! m-r-s solutions Ltd can provide workshops for management struggling to achieve their Gross Profit margins, comply with company controls and procedures, personnel file management etc.

To find out more about our services, please contact:

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