



# Fraud Prevention

## Good Practice Guide

An introductory guide to protecting your firm against fraud.



# Contents

# UK Fraud Act & the ECCTA

Fraudsters are always looking for new ways to defraud individuals and companies. They may do so by impersonating your customers, fraudulently obtaining your goods and services, infiltrating your supply chain, or colluding with representatives. Although you may never have met them, you'll still be in their sights.

To protect your company, you need to be aware of any vulnerabilities that you may be exposed to and strengthen your existing arrangements. This guide begins with the basics of Fraud Prevention and then acts as a platform to help you manage and identify the threat of fraud in your company

## The Fraud Act And Key Offences

Economic Crime and Corporate Transparency Act 2023: What does it mean for your business?

Like the Fraud Act 2006, the goal of the Economic Crime and Corporate Transparency Act (ECCTA) 2023 is to

prevent fraudulent activity – however, it is firmly rooted in the business world. It builds on the Economic Crime (Transparency and Enforcement) Act 2022, which is designed to promote transparency and ensure that corporate structures aren't used to hide economic crimes such as money laundering. It was introduced following the invasion of Ukraine when the risk of this kind of illicit activity was heightened.

A key element of the act is Failure to Prevent Fraud, which makes organisations criminally responsible for fraudulent acts if there weren't strong processes in place to prevent it.

While some businesses may be more vulnerable than others to financial crime – for example, those in financial services or law – the risks apply to organisation in any sector. Organisations that are convicted of failing to prevent fraud face court action and an unlimited fine.

**“Dishonest representation, failure to disclose information or abuse of position that is intended for making a gain for oneself or another, or causing a loss to another or exposing another to a risk of loss”**

Source: UK Fraud Act

# The Fraud Act & **Key** **Offences**

Chapter One

# The Fraud Act

What are the **key offences?**

Under the Fraud Act, there are three main offences:



## **Fraud by false representation:**

Where someone makes a dishonest representation (express or implied) with the intention of making a gain or causing a loss to another.



## **Fraud by failing to disclose information:**

Where someone dishonestly fails to disclose information which they're under a legal duty to disclose, with the intention of making a gain for himself or inflicting a loss on another.



## **Fraud by abuse of position:**

Where someone holding a position of responsibility (which requires him to safeguard the interests of another) dishonestly abuses the position, with the intention of making a gain for himself or inflicting a loss on another.

**Other offences include the possession of articles for use in fraud, making or supplying articles for use in fraud, participating in fraudulent business, and obtaining services dishonestly.**



# What's the scale of the problem?

No-one knows for sure, but according to CIFAS (Credit Industry Fraud Avoidance System), more than **421,000** cases were filed to the National Fraud Database in 2024 - a rise of **13%** and a record number of cases.

**£2.1 billion** in fraud losses prevented by CIFAS members in 2024

# **Internal versus External**

# **Fraud**

Chapter Two

# Who commits fraud?

## The internal & external threat

Fraud may be perpetrated by people who are internal or external to your firm:



### Internal threat:

For instance, by disgruntled employees who may pilfer company assets, overstate expenses or overbill customers. Workers may also collude with suppliers to defraud the firm (misappropriation of funds). There may also be fraudulent reporting of company accounts by senior managers.



### External threat:

For instance, by customers (obtaining goods or services without paying or misrepresenting their finances), by suppliers (submitting false or duplicate invoices), by representatives (not passing on all the money they receive to our firm). Fraud may also be committed by people who are unknown to us, via identity theft, CEO fraud, and so on..

# The Fraud Triangle

Chapter Three

# The Fraud Triangle

## Donald Cressey's Fraud Triangle

It helps us to understand what drives people to commit fraud.



### **Motivation**

Debt, greed, unaffordable lifestyle,  
addiction, blackmail, pressure, need to hide losses

### **Opportunity**

Weak controls, system loopholes,  
concentration of supervision

### **Rationalisation**

*"Everyone does it", "It's a victimless  
crime", "They deserve it for treating me like that"*

# Preventing

# Fraud

## Chapter Four

# Fraud Prevention Strategy



## Prevent

- Reducing the risk of fraud
- Implementing controls and systems



## Detect

- Controls which identify fraud as soon as it happens



## Respond

- Responding to actual fraud
- Taking action to prevent it happening again

# Fraud Risk Assessment

Use this checklist to conduct a 'current state' assessment of external fraud risks

## Risk Assessment:

Have you conducted a risk assessment?  
Are actions proportionate to the risks we face?

### Action

Yes No Date:

## Management Commitment:

Is there an Anti Fraud policy or a code of ethics?  
Are there standards and charters?  
Do you promote a culture of ethical behaviour?  
Is there regular training to identify red flags?

Yes No Date:

## Effective Controls:

Are there appropriate controls in place? (e.g. double signoff on invoices, stringent checks)  
Are there clear limits on budgets and expenses?  
Do we conduct due diligence on employees, customers, suppliers, etc to prevent fraud?

Yes No Date:

## Monitoring and Oversight:

Is there adequate supervision? Or an overreliance on some individuals?  
Are processes, policies and procedures followed at all times?  
Is there an Internal Audit function to assess the effectiveness of our controls?  
How effective is our Anti Fraud policy?  
What improvements might we make?

Yes No Date:

## Risk Assessment:

Have you conducted a risk assessment?  
Are actions proportionate to the risks we face?

Yes No Date:

# Fraud Risk Assessment

Use this checklist to conduct a 'current state' assessment of external fraud risks

## Risk Assessment:

Stealing company assets

Overstating expense claims

Stealing customer information or other confidential data

Abusing their position to enrich themselves

Using company assets for personal gain

Manipulating sales and/or costs to make their performance look better

Soliciting bribes, gifts or entertainment from suppliers or agents

### Level of Risk

High

Medium

Low

## Other please specify):

### Level of Risk

High

Medium

Low

# Fraud Risk Assessment

Use this checklist to conduct a 'current state' assessment of external fraud risks

## Level of Risk

High

Medium

Low

### Customers:

Misrepresenting their finances, intentions etc

Filing false complaints

Exaggerating genuine complaints

Stealing company assets

Obtaining products or services without paying for them (via receipt or returns fraud)

### Suppliers:

Stealing company assets

Submitting invoices for fictitious goods or services

Submitting duplicate invoices

Offering bribes to our employees to win and retain business with us

### Representatives and agents:

Not passing some or all of the money paid by customers to our Company

Misleading or mis-selling to customers to boost their commission

Colluding with criminals to defraud our Company

Offering bribes to win contracts

Making false promises to customers about what we can deliver

### Other:

Customer identity theft

Theft of company assets

# Resources

## Chapter Five

# Further Reading



## Fraud related websites:

[www.cifas.org.uk](http://www.cifas.org.uk)

[www.takefive-stopfraud.org.uk](http://www.takefive-stopfraud.org.uk)

[actionfraud.police.uk](http://actionfraud.police.uk)

[stopthinkfraud.campaign.gov.uk](http://stopthinkfraud.campaign.gov.uk)



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