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# Fraud Risk Management

## The cost of fraud and the new ECCTA requirements

The cost of fraud to UK companies is significant and BDO's Fraud Track Report 2024 highlights that this is likely to increase with new fraud growth areas such as greenwashing, bluewashing and the increasing use of AI. The UK Fraud Strategy 2023 reported that Fraud represents 41% of all crime committed in the UK and with the Association of Chartered Fraud Examiners Report to the Nations 2022 estimating that the average organisation loses 5% of its annual revenue to fraud each year, fraud is very much on the board agenda.

The cost of fraud however is more than financial, and can include:

- **Reputational:** How businesses reach to fraud can be hugely impactful on customers and the supply chain
- **Regulatory:** Business may be subject to fines and increased focus from regulators
- **Cultural:** Fraud can cause staff attrition, apathy and failure to attract and retain the right talent due to a seemingly poor culture

The Economic Crime and Corporate Transparency Act (ECCTA) received Royal Assent in October 2023. This act introduces a new failure to prevent fraud offence for organisations in scope. The offence is similar to previous failure to prevent bribery and tax evasions offences and organisations will be liable for underlying fraud offences committed by employees and associated third parties if they do not have reasonable procedures in place. Guidance for reasonable procedures was issued in November 2024 meaning that ECCTA will be fully in force by August 2025.

## Why take action now?

Fraud is an issue that all organisations face regardless of size, industry or location. UK companies face significant costs from being victims of inward fraud, both from internal and external sources, and the new focus on outward fraud in the ECCTA is prompting companies to review enhance their approach to fraud risk management in advance of the August 2025 deadline.



## Fraud Risk Management Frameworks

The most effective way to reduce the risk of fraud is to design and implement a robust fraud risk management framework (see below), the starting point for which should be a robust organisation wide fraud risk assessment (see following page).

An effective fraud risk management framework should include a clear understanding of the fraud risks, a policy and control framework to mitigate the risks, effective engagement with the business to embed fraud controls and ethical decision making, and processes to detect and investigate fraud. To achieve this organisations need to have clear accountability and resources for preventing and detecting fraud.

The fraud risk management framework will need to cover all types of inward (victim of fraud) and outward (benefitting from fraud) fraud including:

- Customer Fraud
- Supply Chain/Procurement Fraud
- Misappropriate/Misuse of Assets
- Cybercrime
- Employee Fraud
- Financial Fraud (including financial reporting)

## BDO Fraud Risk Management Framework

- ▶ Fraud analytics and monitoring
- ▶ Fraud Investigations
- ▶ Governance and reporting
- ▶ Training and awareness
- ▶ Controls built into systems and processes
- ▶ Leadership, tone & culture
- ▶ Promotion of ethical decision making



- ▶ Assessment of fraud exposure (inward and outward fraud)
- ▶ Business activity driven fraud risk assessment
- ▶ Fraud Policy
- ▶ Expected controls identified for all key fraud risks
- ▶ Identification of automated controls and technology

## Conducting a fraud risk and controls assessment

An organisation wide fraud risk assessment should:

- ▶ Consider all types of fraud risk which could occur within your business across all of the risk categories referenced on the first page;
- ▶ Consider the inherent risk of all fraud risk occurring, including their likelihood and financial impact upon the organisation;
- ▶ Assess the current controls in place and compare these to the expected controls you should have in place to mitigate the fraud risks identified;
- ▶ Take account of the controls identified within your existing controls frameworks to drive consistency and alignment.

Our fraud risk management team can help you with an organisation wide fraud risk and controls assessment, which would involve:

- ▶ Desktop review of documentation for your business relevant to fraud risk management;
- ▶ Design of a tailored set of fraud risk scenarios relevant to your business and activities;
- ▶ This can be supplemented by a confidential fraud risk survey/questionnaire to assist in the identification of key fraud risks and to gather information on control identification, known gaps and employee awareness of fraud risks;
- ▶ Fraud risk meetings and workshops with key functions and stakeholders in the business to:
  - ❑ Validate the list of fraud risks and scenarios
  - ❑ Gain consensus on the priority of the fraud risks and scenarios
  - ❑ Assess the likelihood/impact of specific fraud risks
  - ❑ Understand the current controls in place
  - ❑ Gather further intelligence on employee awareness of fraud risks.
- ▶ Completion of a risk register setting out relevant fraud risks, controls and risk ratings.

## BDOs Fraud Risk Management Services

Our team of experts can help you to develop and operate a comprehensive fraud risk management framework in line with the Home Office reasonable procedures guidance including the following elements:

- ▶ Fraud Risk Assessments
- ▶ Fraud Prevention and Detection Controls
- ▶ Fraud Risk Management Frameworks
- ▶ Fraud Risk Policies
- ▶ Fraud investigation and remediation
- ▶ Anti-fraud Training
- ▶ Anti fraud Culture and Communications
- ▶ Fraud risk and control monitoring and analytics

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