

# Managing fraud risks

How to keep fraud out of your business



## A checklist

### Ask yourself...

- What fraud risks are we exposed to?
- How bad could things get if each risk became a reality?
- How often might that happen?
- What can I now do about the risks and consequences I've identified?

### Do...



- Be crystal clear with all staff and suppliers that your business takes every fraud seriously.
- Make regular, well-informed assessments of the risks you face. And involve your staff!
- Include fraud on your risk register and review it regularly.
- Make sure someone with sufficient authority is responsible for overseeing all fraud matters.
- Clearly set out the standards of behaviour expected of staff, suppliers and other third parties. Formal policies covering fraud and conflicts of interest can help you do this.
- Using communications and training, embed fraud prevention culture and thinking throughout the business.
- Exercise appropriate due diligence when selecting staff, contractors, suppliers and others, both as a form of risk assessment and a means of mitigating risk.
- Have a simple, hassle-free way to raise concerns about fraud. Make sure it is available to staff and anyone you do business with.

- Monitor and review the effectiveness of, and compliance with, anti-fraud policies, procedures and controls, then make improvements as necessary.
- Create a fraud response plan and practise it regularly to make sure it works.
- Include lessons learnt in employee training about previous frauds.
- Consider the need for crime insurance.
- Trust your instincts. If something feels wrong, it probably is.



### Don't...

- Expect staff to understand the term 'fraud' if you haven't defined it for them.
- Underestimate the importance of a strong 'tone from the top'. When owners and managers are seen to follow the fraud prevention standards set by the business, employees are much more inclined to do the same.
- Adopt generic control policies and procedures across the business – risks often vary across operations, so responses should too.
- Assume that 'once is enough' when communicating anti-fraud policies and procedures to staff. Training needs to be refreshed and re-delivered regularly.
- Encourage staff to confront suspected fraudsters and/or investigate their own suspicions. It could be dangerous or cause evidence to be destroyed.
- Ignore red flags. Make sure risks are addressed.

# Protecting your business

**A few simple steps can make your business safer.**

## Set the tone from the top

Good fraud risk management starts at the top. It is not enough for senior people to simply talk the talk, they must walk the walk as well. Owners, directors and managers must lead by example, setting the standards of behaviour expected of everyone else – staff, suppliers, contractors and other third parties.



## Assess your risks

Be aware of all possible risks so that you can identify, assess and manage them across the whole operation. Seek out areas most at risk. Focus your attention where it is most needed by thinking about all the ways money, assets and data flow into, through and out of your business.

Whenever a risk is identified add it to your risk register. Include details of its nature, likelihood, potential impact and the controls that will help to prevent it.

## Take steps to prevent fraud

Think about how you will reduce the likelihood of each risk becoming a reality. Which policies and controls are needed? Should you segregate finance duties, implement authorisation thresholds, limit access to certain IT systems or office areas, conduct checks on new recruits, consider propriety checks on new business partners, suppliers and service providers?

And don't forget to consider insurance. Do you need cover for crime protection (fidelity, cyber) and/or a directors' and officers' liability?

## Have ways to detect fraud

Even the best controls won't stop every fraud. Create manual and automated systems and processes that help you detect fraud by providing early warnings.

At the very least educate staff to identify common frauds, encourage staff to raise their concerns or suspicions, conduct spot audits (stock, sales, purchase ledgers and the like), and review profit and loss statements regularly.

## Have a response plan

Be prepared to act quickly and decisively. Have a response plan ready and make sure it is well understood so that everyone knows what they should do and when. Include:

- details of the investigation process (who, what, when and how);
- any duties to report fraud (to shareholders, customers, banks, insurance companies and regulators); and
- the action (disciplinary, regulatory, civil, criminal) to be taken against the culprits. (Remember, different responses require different standards of proof.)



## Monitor and review

In the event of a fraud, review what happened and take remedial action urgently to stop anything similar happening again.

Business practices and activities often change over time, so review policies, procedures and controls regularly. Make sure they are still fit for purpose and appropriate to the needs of your business. A good way to do this is with an annual fraud risk assessment.



**StoneTurn**

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**Love business. Hate fraud.**

**This practical guide highlights some of the things you can do to manage the risk of fraud to your business. But it always makes good business sense to find out more.**

Go to [lovebusiness-hatefraud.org.uk](https://lovebusiness-hatefraud.org.uk) or follow the campaign on **Twitter** and **LinkedIn**.

