Brexit: Potential Fraud Risks in a Time of Change

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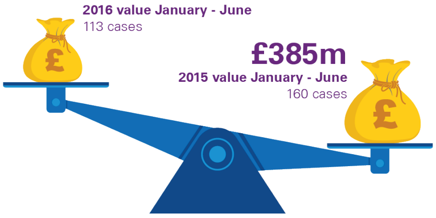
KPMG's Fraud Barometer - August 2016

A snapshot of Fraud in the UK January-June 2016

Total cost of fraud cases

£328m
2016 value January - June
113 cases

£385m
2015 value January - June
160 cases



Commercial businesses, particularly **SMEs**, fall victim to **fraud totalling**

£95m

Charitable donations and gift aid hijacked by

£6m

Who were in fraudsters' sights in 2016?

52%
Government

Commercial Business	29%
Investor	8%
Financial Institution	5%
Other	5%

Regional fraud loss

42%
London & South East

42%
Midlands

North East	6%
North West	4%
South West & Wales	3%
Northern Ireland	2%
Scotland	1%

88% increase

Fraudsters plaguing the healthcare sector as **fraud increased 88% to £7.2m**

Uncertainty, disruption and change heightens the risk of fraud.

As separation from the EU takes shape and happens, we are likely to see uncertainty and some volatility. Businesses may respond to uncertainty by changing processes, initiating new projects and working with new suppliers, this presents a perfect ecosystem for fraud within which fraudsters will conceal, mislead and misrepresent as they exploit people's vulnerabilities and confusion about the future.

The need to maintain robust fraud controls and embed a risk management framework in change programmes for BREXIT –and the need to remain vigilant and thorough during uncertainty – is critical.

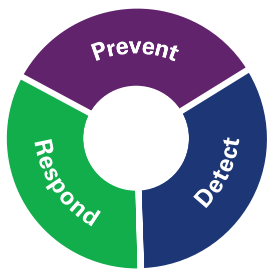
Three Key Steps to Managing the Risk

— **Prevent** instances of fraud and misconduct from occurring in the first place.

— **Detect** instances when they do occur.

— **Respond** appropriately and take corrective action when instances arise.

The landscape may be changing, but the fundamentals of managing risk and preventing fraud remain the same – keep calm and stay vigilant.



Post-Brexit Fraud Risks for Businesses

Increased volatility and uncertainty arising from the EU referendum result creates an opportunity for fraudsters to spin stories and create scams. We have set out some examples of the types of issues that fraudsters may take advantage of in this uncertain climate. A proactive, robust and updated risk strategy that considers the range of issues that Brexit creates for you will help better manage these risks.

Legal and regulatory change

Fraudsters may look to exploit loopholes and confusion over legal and regulatory changes. The first wave of fraudsters are likely to be industry insiders who best understand these changes.

Supply chains could be contaminated by an increase in sub-standard produce as EU regulatory frameworks are disapplied and new UK frameworks enacted.

Reduced regulation presents opportunities for riskier trading practices that generate greater returns – these may be understood by insiders but misrepresented or mis-sold to more remote investors (or company boards) looking for higher returns.

Business investment

As investors and companies seek to retain access to both the UK and EU markets, businesses may misrepresent their levels of access rights, tax benefits or central grant funding.

Business owners may overstate future revenue streams, profits or assets, in order to raise capital or loans from investors and financial institutions.

As businesses restructure their operations the threat of possible loss of jobs and impact on livelihoods may drive an erosion in employee morale and loyalty and an increase in fraud and misconduct risks.

Change in location of operations

As businesses reallocate resources as part of Brexit planning, there is an increased risk of funds being fraudulently diverted.

Fraudsters may spoof e-mails from senior staff to accounts staff asking for amounts to be paid to an account in relation to Brexit - and of course "keep quiet – it is still highly confidential!"

Fraudsters may impersonate suppliers, report that they are moving administrative operations overseas, and then advise of a change in bank details for future payments – such as to a new overseas account.

Tax

It's far from clear whether the UK will be able to maintain its access to the Single Market following the Brexit vote.

However, if the UK does leave the Single Market then this is likely to reduce the risk of MTIC fraud, also known as 'carousel' fraud, being carried out in the UK. In practice, this is likely to drive the fraud elsewhere in the EU rather than reduce overall levels of MTIC fraud.

At the same time, as the government seeks to generate overseas trade and investment with possible changes in VAT and tax incentive policies, this may result in new opportunities for fraudsters to carry out new/different tax evasion frauds.

Immigration/right to work

The government's policy on EU workers post exit has yet to be established. Employees go to elaborate lengths to either show residency and/or falsify residency documents.

Fraudsters may sell immigration services to companies or individuals that abuse or circumvent work and residency restrictions.

Government funding

Due to the removal of EU funding, and possible moves to plug some gaps with UK government funding, fraudsters may look to get involved improperly.

Fraudsters may seek to represent genuine claimants and then charge clients for unnecessary services, or divert the grant funding to their own accounts.

Fraudsters may make bogus claims for newly introduced UK government funding – effectively shifting claims against the EU budget towards claims against the UK budget.

Contacts

If you have any questions or would like any advice regarding discussions around Brexit, risk or preventing fraud in your organisation please get in touch.

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