

PRIVATE CLIENTS, SMES,
DIRECTORS & SHAREHOLDERS

Different types of corporate fraud explained



1 Corporate services fraud

A. PAYMENT FRAUD

This type of fraud involves falsely creating or diverting payments. Examples include creating fake records and bank accounts which enable the fraudulent payments to be made. Other examples include generating false payments, making fraudulent payments to oneself, intercepting and altering payee details, and amounts on cheques and other forms of payment order and attempting to then bank those payments and processing false claims by accomplices for later repayments.

B. FALSE ACCOUNTING FRAUD

This type of fraud involves the alteration of the way in which company accounts are presented so that they do not reflect the true value or financial activities of the company. This fraud commonly includes the overstating of assets and/or understating of liabilities. False accounting may be undertaken for a variety of reasons, often to obtain additional financing or to report unrealistic profits and/or to inflate the share price.

C. PROCUREMENT FRAUD

Procurement is the process of acquisition from third parties and covers the acquisition of goods, services and construction projects. Procurement fraud often involves collusion to perpetrate a fraud covering tendering irregularities, the rigging of bids or claims for payment – often in relation to goods (and sometimes services) that were not delivered or are inferior to what was specified as the order.

D. EXPLOITING ASSETS AND INFORMATION FRAUD

Examples of fraudulent activities reported under this category include staff on sick leave but working elsewhere, abuses of flexible working time systems, misuse of company time, and deceit or misrepresentation for advantage (e.g. false references or false qualifications used to secure employment.)

E. TRAVEL & SUBSISTENCE, PAY AND OTHER ALLOWANCES FRAUD

Fraud in this area involves such activities as the completion of fraudulent claims for payment or the creation of false payroll records. Examples of fraud include claims for journeys that were not made, false client entertainment claims, overstated claims, forged signatures authorising payment, falsification and/or unauthorised amendments of timesheets, deliberate failure to repay salary overpayments and the creation of non-existent personnel on payrolls.

F. RECEIPT FRAUD

This type of fraud involves using the assets of the organisation for other than official purposes and/or supplying information to outsiders for personal gain. It excludes straight theft from the company by insiders, such as stealing stationery or other physical assets.

2 Institutional investment fraud

A. PYRAMID OR PONZI SCHEMES FRAUD

These well-known types of fraud involve a non-sustainable business model in which the investments of later investors are used to pay earlier investors, giving the appearance that the investments of the initial participants dramatically increase in value in a short amount of time. These types of frauds often appear at the outset of a recession when investors want to remove their money from the scheme, leading to its sudden collapse and exposure.

B. SHARE SALES, PENSION FUND AND HEDGE FUND FRAUDS

This fraud category relates to the targeting of institutions and corporations by fund managers to make financial investments that promise very high return but often turn out to be “too good to be true”.

In these types of frauds fund managers often mislead investors by making false disclosures, or through failure to provide full information about the investment opportunity.

3 Business trading fraud

LONG AND SHORT FIRM FRAUD

This type of fraud occurs when an apparently legitimate business is set up with the intention of defrauding its suppliers and customers. This may be after the business has developed a good reputation and credit history (long-firm fraud) or when the apparent business has only been in operation for a few months (short-term fraud, often internet-related).

4 General business fraud

A. INSOLVENCY AND BANKRUPTCY RELATED FRAUD

Insolvency related fraud occurs when a company is trading fraudulently and often takes place prior to the anticipated insolvency of the company. Directors (or shadow directors) often set up phoenix companies just prior or after the insolvency of the first company with a view to taking assets from the first company and avoiding paying its debts at the same time. However, there are various provisions of the Insolvency Act which allow liquidators and / or creditors to take action against those individuals personally who try and shelter behind the corporate veil of the company.

Although bankruptcy applies to the financial status of an individual the victims are often the businesses that have provided the individual with credit (e.g credit card companies, hire purchase providers, store cards and personal loan companies).

B. BUSINESS DIRECTORY FRAUD

This is a fraud which involves receiving a form via post, email or fax appearing to offer a ‘free’ listing or continuance in a hard copy or online business directory. The business is asked to return the form even if they don’t want to place an order but in the small print it states that by returning the form you

are committing to an order to pay for ongoing entries in the directory, costing hundreds of pounds per year. The publisher may try to enforce this debt by sending threatening 'debt collection' letters.

C. DOMAIN NAME FRAUD

Unsolicited telephone calls are made from a person claiming to be a domain name registration agent. The agent will inform the business that a third party is interested in, or just about to purchase an internet domain name similar to that of the business and they are offering first refusal on the domain name. Sometimes the business is given only minutes to accept the offer. The agent will pressure the business into agreeing to pay an excessive fee for a domain name. In reality no interested third party exists.

D. OFFICE SUPPLY FRAUD

Companies are typically contacted by a telemarketer to discuss office supplies that might be needed on a regular basis. The caller misleads employees into thinking that an order for office supplies has already been placed by either an existing or former employee and that the call is just to chase up a signature for the order form to assist with their record keeping. The business is sent and invoiced for unwanted and often overpriced stationery, photocopying toner or other office supplies. When trying to return the goods the business is told that they are not able to because an order form has been signed and the goods agreed to on the telephone.

E. CHARITABLE PUBLICATION FRAUD

In this type of fraud, a telesales agent will call selling advertising space in a publication for a seemingly good cause. The caller will give the impression that the publisher is affiliated with local charities, emergency services, crime prevention and community health initiatives. The caller may say that the business has placed an order previously or that someone else in the business has agreed to take out advertising space. Businesses may be sent invoices even when they had said no to the telephones sales pitch or follow up the invoices with threats of legal action.

F. FAKE INVOICE FRAUDS

In this scenario, fraudsters send an invoice or bill requesting payment for goods or services. These invoices may state that the due date for payment has passed and threaten that non-payment will affect credit rating. The invoices are fake and are for goods or services you haven't ordered or received.

G. PREMIUM RATE PHONE LINE FRAUD

Although most businesses receive legitimate communications on a daily basis, there have been cases where fraudsters use a premium rate call back number which can cost up to £1.50 per minute from a landline (and potentially significantly more from a mobile). With fax back scams, the sender may adjust their fax machine to its slowest speed to ensure the cost to you in replying is maximised.

H. BOGUS GOVERNMENT AGENCY FRAUD

Fraudsters send official looking letters or emails giving the impression that they are from a government department or falsely implying or claiming authority to act. For example, they may advise that you must register, for a fee, in order to comply with certain legislation, pay a fine for breaches of the law, or give bank details to claim a tax rebate.

J. CHEQUE OVERPAYMENT FRAUD

This type of fraud involves the presentation of fraudulent cheques for the payment of goods or services in excess of the actual value. The seller then reimburses the purchaser with the excess sum prior to the cheque being discovered as fraudulent. This is commonly part of employment opportunity scams or transactions for goods sold through the classified advertisements. This refers to instances where a business is the victim, where individuals are victims of this fraud type this should be reported in advance fee payments category.

5 Intellectual property theft and counterfeit goods fraud

This fraud involves the production and sale of counterfeit goods, some of which pose a health and safety risk and / or can damage the reputation and trading position of the companies that produce the legitimate goods.

6 Banking and credit specific frauds

A. CHEQUE FRAUD

This type of fraud refers to a category of criminal acts that involve making the unlawful use of cheques in order to illegally acquire or borrow funds that do not exist within the account balance or account-holder's legal ownership. These frauds include counterfeit, forged, fraudulently altered cheques, kiting, paper hanging, bad cheque writing, cheque washing and even disappearing ink.

B. PLASTIC CARD FRAUD (STORE, DEBIT & CREDIT CARDS)

These frauds compromise of information associated with credit/debit card accounts. Unauthorised information is used to obtain goods or obtain unauthorised funds from an account. Includes "Card not present" fraud (phone/internet/mail order) and counterfeit card fraud.

C. APPLICATION FRAUD

This type of fraud occurs when fraudsters open an account utilising fake or stolen documents in someone else's name.

D. ACCOUNT/FACILITY TAKEOVER FRAUDS

This type of fraud occurs when a fraudster posing as the genuine customer gains control of the account and makes unauthorised transactions. The take-over of online banking accounts is usually a result of phishing, spyware or a malware scam.

E. MORTGAGE-RELATED FRAUD

This type of fraud occurs where individual/s or organised criminal groups generally involve one or more associates (e.g. corrupt accountants, solicitors, surveyors) to obtain fraudulently one or more mortgages for profit and/or to assist in money laundering. They can include over-valuing of properties; overstatement of income; hijacking of genuine conveyancing processes; taking out mortgages in names of unsuspecting individuals or deceased persons; taking out multiple mortgages on an address

with different lenders by manipulation Land Registry data; and changing title deeds without the owner's knowledge to allow a sale.

7 Insurance specific frauds

INSURANCE COVER BASED ON FALSE INFORMATION

This type of fraud involves the provision of false information to obtain insurance cover on favourable terms and/or deliberately under insuring to reduce the premium. Includes motor vehicle, commercial, household and other personal insurance claims.

FALSE INSURANCE CLAIMS

This type of fraud involves the making of false claims to insurance companies (e.g. overstating losses, making multiple claims, deliberate destruction of assets). Includes motor vehicle, commercial, household and other personal insurance claims.

LIFE ASSURANCE TAKEOVER/ REDEMPTION FRAUD

This type of fraud involves the redemption of victim's life assurance policy (usually following account takeover fraud) and the transfer of the lump sum to an account accessed by fraudster.

8 Telephony specific fraud

FIXED LINE FRAUD

This is a type of fraud committed against telephone companies. It includes Dial Through Draft (DTF) also known as Direct Inward System Access Fraud (DISA), where fraudsters gain access to a switchboard and sell the ability to make calls on to others. It also includes Premium Rate Services (PRS) fraud, where fraudsters inflate the volume of calls to a premium number in order to increase their share of the revenues; call selling fraud – where fraudsters take out a phone service and sell the facility to make calls to others with no intention of paying the bill; and fraudulent applications – where a fraudster takes out a phone service in a false name and leaves a bad debt.

MOBILE PHONE INDUSTRY FRAUD

These frauds involve obtaining airtime contracts by false representation either by using false details or stolen documents/credit cards or with no intention of paying the contract.

9 Gambling specific frauds

BETTING FRAUD

This is fraud involving "fixed" races and other forms of sport upon which fixed odds betting and other gaming wagers have been made.

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