

Fraud explosion: white collar crime doubles in a year.



FraudTrack² survey

Fraud in the UK rose dramatically in 2004. The value of reported cases more than doubled, to a total of over £700m. It seems the nation's fraudsters are becoming more ambitious.

So what can companies do to protect their revenue and reputation against fraud? It is more important than ever for all organisations to take a critical look at how they maintain the integrity of their business operations – examining all potential exposures, internal and external, setting up the right combination of controls to detect and prevent fraud and establishing a corporate culture which ensures the honesty of staff.

Defining fraud

Breach of regulations: wilful violations of laws or government regulations that are integrity-related.

Employee: employees by themselves or in collusion with customers or suppliers, perpetrate fraud against the company, resulting in financial loss.

Financial misstatement: management and/or employees issue misleading financial statements with intent to deceive the investing public and the external auditor.

Non-corporate: individuals or entities who commit an act against another individual, resulting in financial loss.

Tax: individuals or entities who commit fraud against the Inland Revenue, Customs and Excise or other tax related government departments.

Third party: individuals, suppliers or customers acting by themselves who commit fraud against an organisation, resulting in financial loss.

Unauthorised use: use of the organisation's physical, financial, information and other assets for unauthorised or unofficial purposes by employees or others resulting in a loss of competitive advantage.

Sample

FraudTrack is prepared by BDO Stoy Hayward and is based on all reported fraud cases of over £50,000 during the period from 1 January 2004 to 31 December 2004. The sources for the database include: The Serious Fraud Office, the Department of Trade and Industry, the Metropolitan Police and the UK's national, regional and local press. The data represents 229 cases of fraud with a total value of £756m.

The figures for 2004 exclude two major fraud cases with a combined value of over £4bn, which if included would prevent a sensible analysis of trends.

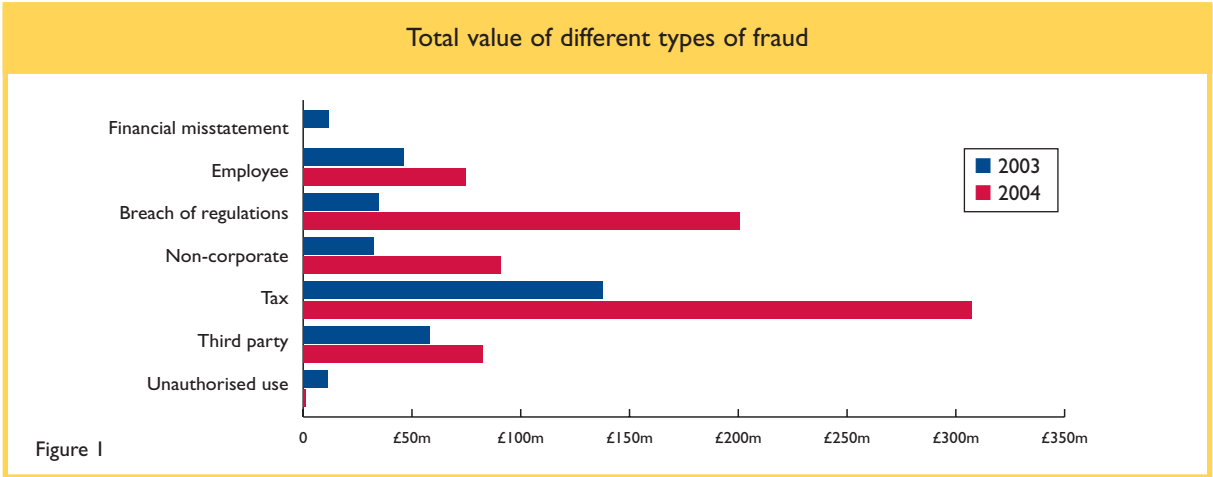
Insider or predator?

In 2003 the largest threat to corporates – in terms of frequency and value of fraud – was from the insider, as the most frequent fraud cases reported involved employee fraud. The balance has shifted, with the insider responsible for 48 per cent of fraud by frequency in 2004 in contrast to 60 per cent in 2003. Our research still highlights the need for companies to consider both the internal and external threats from fraud.

Fraudsters are playing for higher stakes

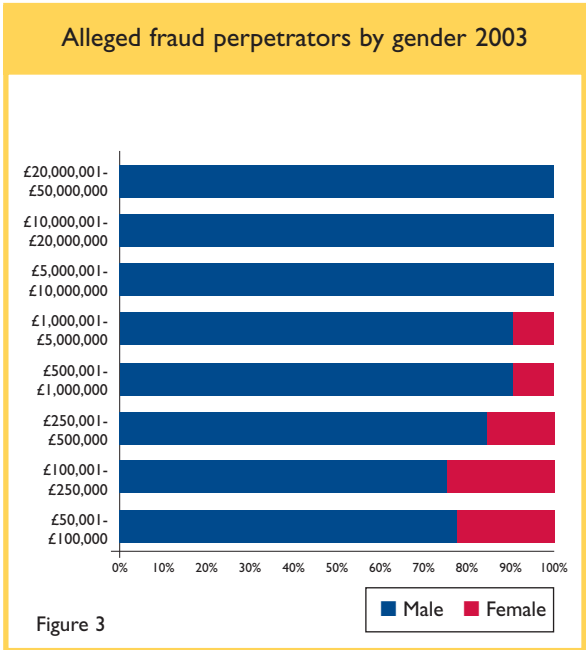
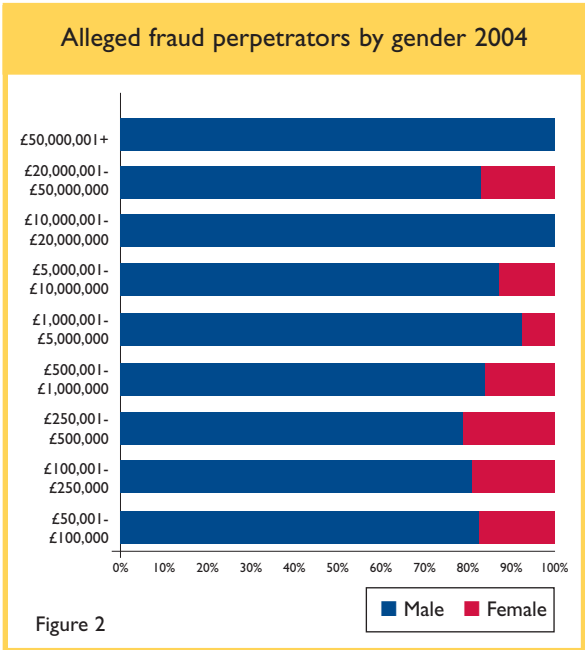
Total reported fraud in the UK has more than doubled, from £331m in 2003 to £756m in 2004. Whilst the actual number of cases was not dramatically different – 229 cases of fraud over £50,000 were reported in 2004 compared to 211 cases in 2003 – their value is much higher.

Increases in the average and total value of different types of fraud were evident across the board, with the exception of financial misstatement and unauthorised use. Our research shows significant increases in the total value of both tax fraud (123 per cent increase) and breach of regulations (480 per cent increase). Two sizeable breach of regulation cases contributed to a five-fold increase in average size.



Fraud is still a man’s game

Fraud continues to be male-dominated: 86 per cent of the perpetrators of frauds reported in 2004 were male, a slight increase from the 84 per cent reported for 2003. But women are getting involved in larger value frauds. For the first time since FraudTrack was published, women were involved in frauds in the £5-10m and £20-50m value bracket.



Sentencing still not a deterrent – and women get off lightly

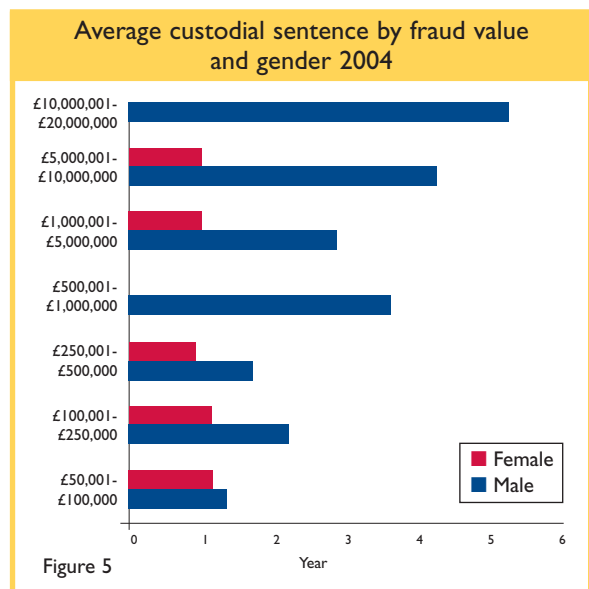
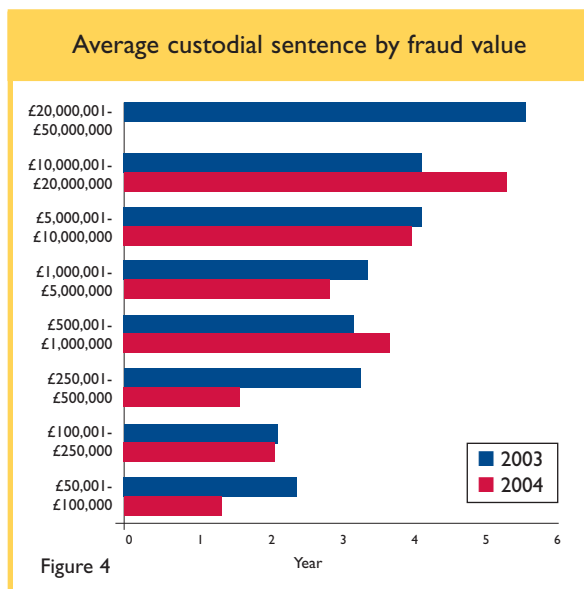
Despite calls in many quarters for harsher sentencing as a fraud deterrent, our research shows that there have not been any substantial changes in average custodial sentences handed down. Interestingly, in 2004 the average sentence dropped below two years within two fraud value categories. On the upper end of the scale – from £10m-£20m – there has been an average sentence increase from four years and one month to five years and three months between 2003 and 2004.

It appears women, on average, receive shorter sentences than men for comparable crimes.*

*So are judges more lenient on women? Not necessarily: there are several other factors that need to be considered, not least of all the degree to which the woman features in the crime, prior convictions and guilty pleas. If the female perpetrator is an accomplice rather than a ringleader, this will usually be reflected in a lighter sentence.

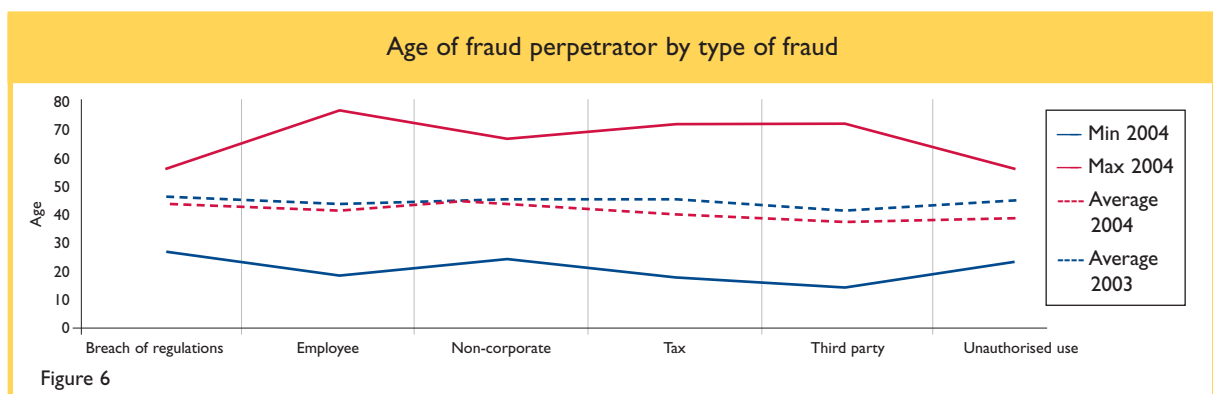
“The general level of sentencing in the UK is low considering the monetary gain derived from fraud, especially when compared to the US.”

Ken Farrow, Detective Chief Superintendent, City of London Police.



Fraudsters are getting younger

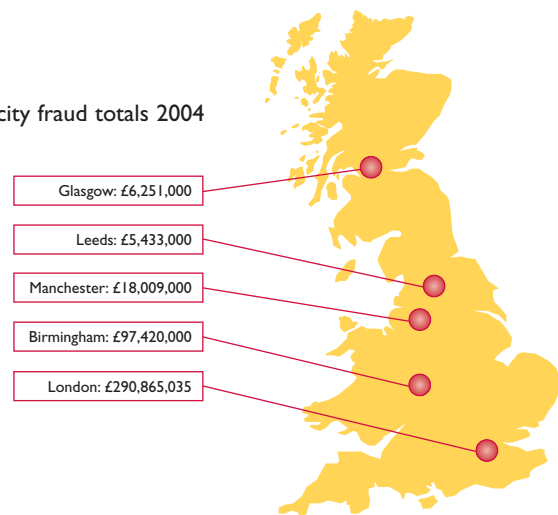
The average age of fraudsters dropped by two years in 2004, despite the fact that the maximum age rose. At the youth end of the spectrum, for the first time in the last two years a 15 year old fraudster appeared in court.



Fraud hotspots

London and the South East are still the major hotspots for fraud, and suffered dramatic increases in both total fraud and fraud per capita in 2004. The Midlands, Scotland and East Anglia also witnessed dramatic increases. The North East and Northern Ireland fared better, as average value of fraud per capita declined.

Top city fraud totals 2004



Location of fraud – average value of fraud per capita

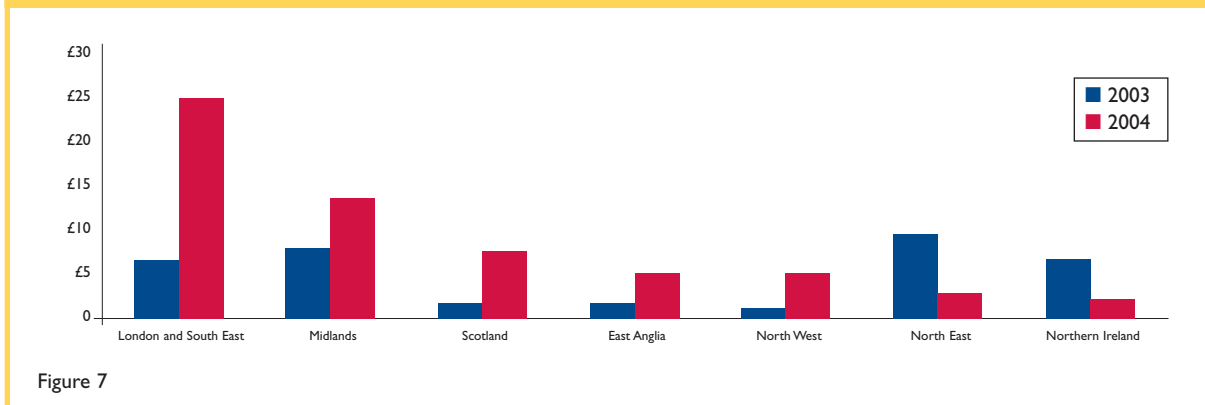


Figure 7

Fraud by industry

There are significant increases across a number of industries – most notably utilities, information, manufacturing and the wholesale trade. Reported fraud took a slight downturn for retailers, with the most marked reductions in the value of fraud seen by educational services and transportation and warehousing.

Instances of industry-specific reported fraud is reliant on a number of factors. If reported fraud is low, it may mean that companies or regulators are not looking for it, cannot find it, or even sweeping it under the carpet. Conversely, it may indicate that the most effective preventative controls are at work.

Total value of fraud by industry

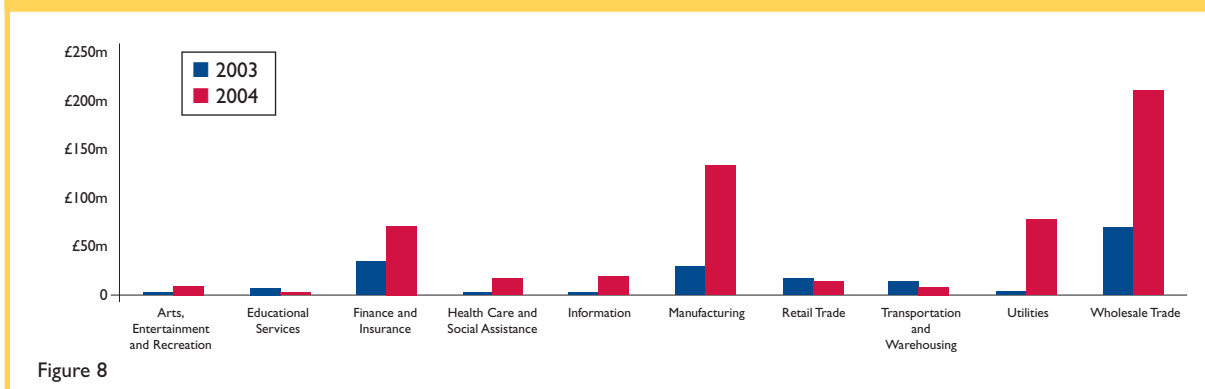
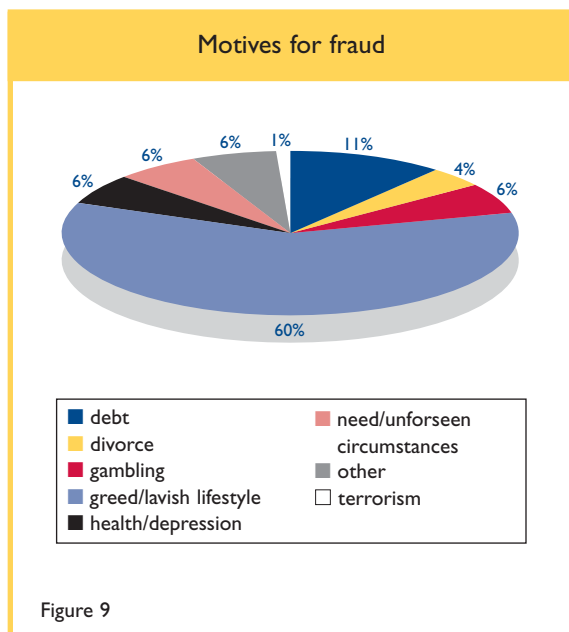


Figure 8

Today's swindlers are greedy, not needy



Until recently, the popular wisdom was that pressure from debts, divorce or addiction were the most likely reasons for fraud; that desperate financial need was what tipped the balance into criminal activity.

But our 2004 research challenges this notion. Plain, old-fashioned greed may well have been the driver behind the majority of fraud cases in 2004. Our statistics show that, wherever a motive was reported*, an overwhelming 60 per cent of cases were motivated by the desire for a more lavish lifestyle.

So how can you spot the greedy fraudster?

- Have any of your employees recently claimed to have won the lottery, had a big win on the horses or a windfall inheritance?
- Has anyone been showing off snaps from an unusually lavish holiday, or telling you about their gorgeous new villa in the Caribbean?
- Walk around the car park – who's bought themselves a new soft-top?
- Covering up fraud is time consuming: have you noticed anyone working long and unsocial hours over holiday periods?

*Analysis of all cases in which a motive was reported – 78 cases out of the total 229.

“In spite of all the attention given to big corporate scandals, we are still as a society surprised when people who seem to ‘have it all’ – or are not obviously needy – commit crimes, because we think of criminals as people who are ‘not like us’.”

“Gambling, debt and even divorce can be associated with the need to fund a lavish lifestyle, so the ‘greed factor’ may be an even higher percentage, though offenders themselves may define their greed as satisfying their ‘need’. In this sense, one person's greed is another one's need!”

Dr. Michael Levi, Professor of Criminology, Cardiff University.

Still persuing la dolce vita

In 2004 a brewery debt collector siphoned off £1.6m from his employer to fund a lifestyle of travel, luxury cars and designer clothes – later claiming he'd done it because he was ‘saving for a rainy day’.

A conman stole almost £1m from neighbours to fund a lavish lifestyle of houses, holidays, designer clothes and expensive cars.

In addition a transport adviser destroyed his own business and put 170 people out of work as a result of stealing £500,000 to lavish gifts on a prostitute.

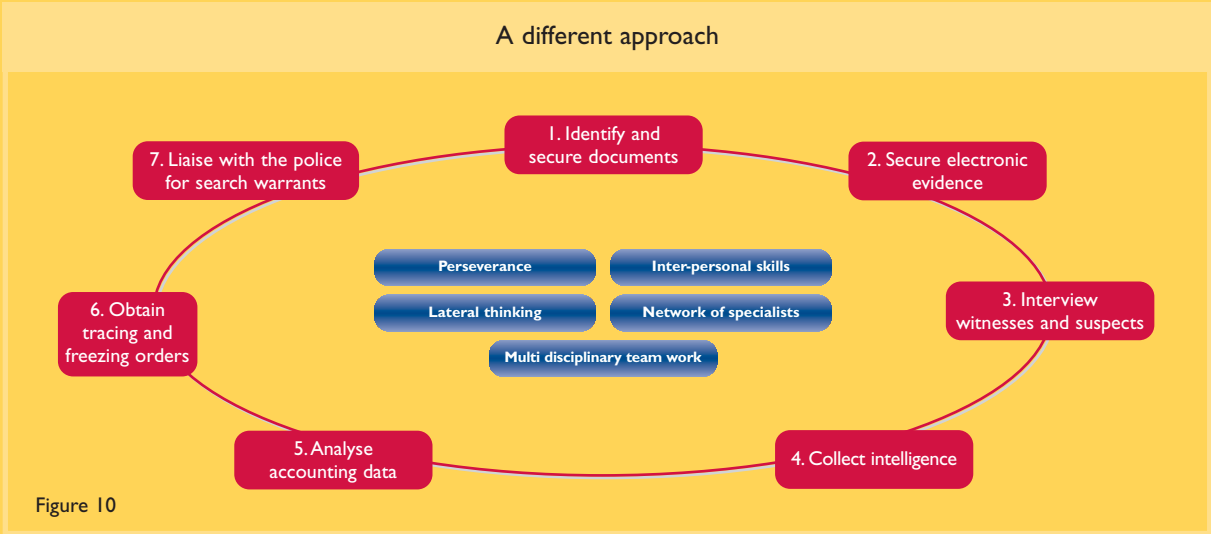
And for sheer cheek...

...the award has to go to the kingpin of a £1m-plus racket in forged Home Office documents for illegal immigrants, who faked blindness to claim benefits.

Oops!

Technology was a property consultant's downfall when investigators found the master plan of his £1m stolen car racket stored on his iPod.

Concerned about fraud? BDO Stoy Hayward can help you take action



Protecting your business

1. Preventive measures

- Take pre-employee screening seriously: conduct background checks and follow up references for all employees (and suppliers/customers too).
- Train new employees on company policy and procedure – especially codes of conduct and whistle-blowing policies.
- Ensure company policies are assessed, updated and communicated regularly.

2. What should you do if you discover a fraud?

- Act quickly and discreetly if you suspect fraud.
- Secure all evidence.

- Don't limit the scope of the investigation.
- Don't make emotional or hasty decisions.

3. Recovering assets

- Follow the cash – identify where the money has gone.
- Consult with your legal advisers regarding the tracing and freezing of assets.
- Don't be afraid to call the police when necessary.
- Don't give up: investigate all possible avenues.
- Consider adequate fraud insurance cover.

Our team of highly experienced forensic accountants, digital evidence specialists and researchers combine investigative, technical and financial skills with an in-depth understanding of the commercial realities of the workplace. We are used to working in multi-disciplinary teams with external and internal auditors, legal counsel, regulators, directors and the police.

Whether you want to take pre-emptive action to protect your organisation, or are investigating a suspected or actual fraud, our national and international network can help you to:

- assess and restructure business systems to block fraud abuses
- investigate fraud: find the fraudster, quantify losses and track missing assets
- put together a solid legal case, working closely with our legal colleagues, and provide expert witnesses.

If you would like more information about our wide range of Fraud and Forensic Accounting services, please contact your local BDO Stoy Hayward business centre.

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How we can help you

If you would like more information about this publication or our wide range of fraud and forensic accounting services please contact your local BDO Stoy Hayward business centre:

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