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## **Downturn Could Lead to Fraud Boom Warns Expert Panel**

The current economic downturn may prompt an increased risk of corporate financial crime, warns the independent watchdog the Fraud Advisory Panel (FAP).

The Panel, currently marking its 10<sup>th</sup> Anniversary, today published its 2007-2008 annual review which lists high interest rates, more restrictive covenants and forced asset sales as a condition of raising finance as key drivers of fraud in a downturn. It adds that “in such circumstances linking high-level remuneration to financial targets can actually incentivise business fraud.”

Ros Wright, Chairman of the Panel and a former Director of the Serious Fraud Office, said: “Worsening economic conditions can often lead to an increase in financial crime. The pressures caused by tighter access to funds can lead some senior executives to forge their way to capital gains. Over-valuing assets is a common scam.”

The Panel’s annual review also highlights a new risk: deliberate misreporting in areas such as the environment and ethical sourcing. With organisations increasingly expected to display greater social responsibility, there is potential scope for dishonest business executives to gain financially by manipulating these indicators.

Ros Wright said “It is vital for firms to create an anti-fraud culture where each employee has a responsibility for fraud prevention and detection and all boards of directors supply clear standards and strong leadership.”

“Effective prevention strategies have never been more important and will save many companies from ruin if fully implemented. It will also help avoid a re-run of what happened during the last downturn in the early 1990s, which saw major fraud cases such as Polly Peck, Maxwell and BCCI,” she said.

Mrs Wright points out that the Panel “has clearly raised awareness of fraud and changed public policy. The Government’s recent decision to create a National Fraud Strategic Authority and Fraud Measurement Centre was the culmination of our campaign for what we originally called a ‘Economic Crime Commission’, together with a truly systematic analysis of the problem, both of which we called for in 1998-99.”

“With fraud already costing at least £20 billion a year [see Notes to Editors] there is still a constant need for warnings, analysis and advice on all aspects of financial crime. We are determined to help both government and business fight fraud,” she added.

- Ends -

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**Notes to editors:**

1. The Annual Review can be downloaded from [www.fraudadvisorypanel.org](http://www.fraudadvisorypanel.org). Printed copies are available from Tamaryn Thorburn on 020 7920 8637; [info@fraudadvisorypanel.org](mailto:info@fraudadvisorypanel.org)
2. The Fraud Advisory will be holding a major conference on fraud prevention *Fraud: Prevention is better than cure* on Tuesday 17 June 2008 in London.
3. The Fraud Advisory Panel is a registered charity which raises awareness of the immense human, social and economic damage caused by fraud and helps the private and public sectors, as well as the public at large, to fight back. It was established in 1998 by The

Institute of Chartered Accountants in England and Wales (ICAEW) which continues to provide valuable support. Since its foundation the Panel has:

- Raised the profile of fraud helping to push the issue up the policy making agenda
- Developed major proposals for the reform of policing, prosecution and the law; many of which have been implemented by the government
- Worked to improve business and professional education and training
- Commissioned important new research, for instance on the extent of fraud, cybercrime and the risk to SMEs
- Raised awareness through conferences, seminars and the media.

Members include representatives from the legal and accountancy professions, industry associations, financial institutions, government agencies, law enforcement, regulatory authorities and academia.

4. In March ACPO published *The Nature, Extent and Economic Impact of Fraud in the UK*. Drawing on a wide range of published sources the report showed that financial crime now costs a bare minimum of £13.9billion a year, increasing to £20 billion when income tax and EU-related fraud are taken into account. This amounts to £330 for every man, woman and child in the country.