

F R A U D A D V I S O R Y P A N E L

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Trust is a vital weapon in the fight against fraud and financial crime. The challenge facing policy-makers, law enforcement and the business community is to strengthen the trust placed in our institutions through a demonstrable commitment and resolve to tackle fraud head-on.

CONTENTS

- 02 Chairman's overview**
- 03 About the panel**
- 04 Key achievements**
- 05 Fraud in the charity sector**
- 06 Trustees, staff and consultants**
- 08 Hard times**
- 09 A fraudsters' playground**
- 10 Fraud and the recession**
- 12 Building an anti-fraud culture**
- 14 A watershed year**

The Fraud Advisory Panel is an independent body with members drawn from the public, private and third sectors. It exists to raise awareness of the immense human, social and economic damage caused by fraud and to help individuals and organisations develop effective fraud prevention strategies.

The Panel's work includes:

- Advising business and the public on prevention, detection and reporting.
- Originating proposals to reform the law and public policy, with a particular emphasis on investigation and prosecution.
- Improving education and training in business and the professions as well as amongst the general public.
- Establishing a more accurate picture of the extent, causes and nature of fraud.

The Panel has a truly multi-disciplinary perspective on fraud. No other organisation has such a range and depth of knowledge, both of the problems and the solutions.

The Panel was established in 1998 through a public spirited initiative by the Institute of Chartered Accountants in England and Wales. Today it is a registered charity and company limited by guarantee, funded by subscription, donation and sponsorship.

CHAIRMAN'S OVERVIEW

The Chief Rabbi, Lord Sacks of Aldgate, said recently that: "Trust is essential to business, finance, indeed every sphere of human activity... Where levels of trust are high, levels of business and investment are also high". The theme of our annual review this year is restoring trust, in business, financial institutions and in UK plc; trust that has been dented severely this past year by banking failures, MPs' expenses scandals and the recession, with a concomitant upsurge in economic crime. Business depends on confidence and trust. Without it, people look elsewhere to find an opportunity to invest or deposit or to purchase goods and services. London, as one of the pre-eminent financial capitals of the world, must re-establish confidence in its markets to maintain its position and to fight off the threat of competition. Confidence is never more endangered than by the taint of fraud, the suspicion that financial crime flourishes unchecked and investments and deposits are easy prey to fraudsters.

The Fraud Advisory Panel has always advocated a strong ethical lead from the top in business as a sure way to counter the threat of fraud. This has never been as necessary as now: with a general feeling of distrust in our political leaders, our captains of industry and in the financial institutions which underpin the economy of this country, it is essential to raise the game when it comes to setting an ethical agenda and looking to the weaknesses in fraud controls and systems which can allow fraud to flourish. It is no use having the most sophisticated fraud controls if these are not monitored regularly to make sure that they are up-to-date and working as intended.

Fraud, forgery and corruption are never out of the news and frequently the size and audacity of the fraud make for shock headlines. This year the Crown Prosecution Service (CPS) recorded that prosecutions for offences of fraud and forgery had doubled in two years, between 2006/7 and 2008/9. The Serious Fraud Office (SFO) also reported a rise in the number of cases handled over the same period.

The major forensic accountancy firms who monitor trends in financial crime also reported a marked increase in the amount of fraud – KPMG noting that: "more than £1.1bn of fraud came to UK courts in 2008 ... the highest level recorded since 1995 and the second highest in the twenty-one year history of [KPMG's fraud] survey."

Such figures raise some fundamental questions at a time when a number of high-profile initiatives (including the new National Fraud Authority, the National Fraud Reporting Centre and the National Fraud Intelligence Bureau) are starting to make an impact. Are more fraud offences being committed, or are more individual and corporate victims coming forward to report fraud to law enforcement authorities?

Are the police detecting more fraud, or are they now defining cases of dishonesty as 'fraud' under the provisions of the Fraud Act 2006, which came into force in 2007, so changing the way that fraud offences are counted by the police? Do rising figures of fraud mean that the publicity given to financial crime by government initiatives has had a beneficial effect (in that more attention is being paid to financial crime by police and regulators) so that more crimes are in fact being investigated? The CPS figures alone may indicate a greatly improved service by the new Fraud Prosecution Service in tackling major fraud cases, many of which would otherwise not have come to court.

An economic downturn inevitably produces increased financial crime, and experience shows that even when recession is over the fraud figures continue to rise. This is the last thing UK plc needs to re-establish confidence in the business and financial worlds. How can we best arm ourselves to prevent fraud and restore confidence in the markets?

The police are under increasing pressure; fraud prevention is largely outside the remit of law enforcement authorities and they do not have the resources to add value in this area. It is essential that individuals and businesses, SMEs as well as large corporates, take up the cudgels to protect themselves as far as possible from fraud. This means, as far as individuals are concerned, adopting a different approach to business transactions, whether it be looking for investment opportunities, reacting to tempting offers from cold callers, or borrowing funds from traditional and less traditional sources. A healthy scepticism should now be informing much of what we do in the marketplace. The truism 'If a thing looks too good to be true, it usually is' is now of less practical application when almost any investment opportunity offering more than 0.5% return could well be 'too good to be true'. We must now look much more closely at the source of the funds and, when we aren't sure, take professional advice from those we know we can trust.

As far as business is concerned the message is straightforward: to restore trust, demonstrate that you are trustworthy. Put in place a fraud prevention plan and make sure that it is practical and relevant to your business and that each member of staff reads it and understands it. Have 'fraud practice drills', like fire drills, to anticipate the problems and disruption that a fraud in your business will cause and see where the weak points are. But above all, businesses must live the mission statement; they must deal fairly and honestly with suppliers, customers and employees and reinforce a reputation for being responsible, honest and upright. Only then will confidence be restored and fraud and financial crime will find it that much harder to take hold.

Rosalind Wright CB QC

ABOUT THE PANEL

The Panel welcomes the involvement of individuals, companies and other organisations with an interest in the prevention, detection, investigation and prosecution of fraud. Two categories of membership are available – individual and corporate.

Benefits of membership include:

- Working in the public interest to address the concerns of business, the professions and the general public.
- Influencing public policy through the Panel's proposals and recommendations to government.
- Networking and opportunities to exchange information with like-minded professionals from the public, private and third sectors.
- Participating on multi-disciplinary working groups and special project groups on topical fraud issues.
- Preferential rates for conferences, seminars and workshops.
- Regular updates on Panel activities and developments in the anti-fraud arena.

Corporate members also receive:

- Twenty named employees entitled to all the above benefits.
- Preferential rates for Panel events, applicable to all employees.
- Public acknowledgement on the Panel's website and in the annual review.
- A free professional training session on a fraud-related subject of choice.

All members are required to comply with a code of conduct.

For more information about membership contact the Fraud Advisory Panel on 020 7920 8637 or membership@fraudadvisorypanel.org.

Corporate members

Alico Management Services Ltd	Kennedys
Alix Partners	KPMG LLP
AON Ltd	Law Society of Scotland
Association of Certified Fraud Examiners	Lawrence Graham LLP
Association of Certified Fraud Examiners (UK Chapter)	Lloyds Banking Group
Association of Chartered Certified Accountants	McGrigors LLP
Aviva plc	National Audit Office
AXA Sun Life	NHS Counter Fraud and Security Management Service
Baker Tilly	Northern Ireland Audit Office
Beever and Struthers	PKF (UK) LLP
Calyon	PricewaterhouseCoopers LLP
Chantrey Vellacott DFK LLP	Prudential plc
CIFAS – the UK's Fraud Prevention Service	Royal and Sun Alliance plc
COLT Telecom	The Cotswold Group Ltd
Control Risks Group	Transport for London
Deloitte LLP	UBS AG
Denton Wilde Sapte	Wolters Kluwer Financial Services
Ernst & Young	
Experian Decision Analytics	
Finance and Leasing Association	
Financial Services Authority	
Haslocks Forensic Accountants Ltd	
HBOS plc	
Institute of Chartered Accountants in England and Wales	
Institute of Chartered Accountants of Scotland	

KEY ACHIEVEMENTS

In one of its busiest periods the Panel has been instrumental in convening, enabling, promoting, conducting and publishing a wide range of events and publications, to support organisations and individuals (including victims), as well as to contribute to the activities of government and others in developing policies and proposals to strengthen the fight against fraud.

Advice and information

- There is now a brand new series of factsheets for businesses and individuals on topical fraud-related subjects, including: *Email and Internet Scams*, *Identity Fraud*, *Fraud Hotspots in Smaller Businesses*, *Pre-employment Screening* and *Investment Scams*.
- We published new guidance for the victims of fraud on *Recovering Your Money* through civil recovery.
- Two expert roundtables considered the nature and extent of fraud in local authorities and in the charity sector.
- We responded to government proposals on *Extending the Powers of the Crown Court to Prevent Fraud and Compensate Victims* and *The Introduction of a Plea Negotiation Framework for Fraud Cases*, as well as to the Law Commission's proposals on *Reforming Bribery*.
- A comprehensive series of six best-practice leaflets is now available to help fraud investigators comply with current data protection requirements.
- We provided evidence to the House of Lords Select Committee inquiry into *Money Laundering and the Financing of Terrorism*.

Education and training

- An executive breakfast briefing at the Mansion House, in conjunction with the City of London Crime Prevention Association, looked at *Trust in the City: Tackling Fraud in the Square Mile*.
- Our three major one-day conferences were *The Globalisation of Fraud*, *Fraud: Prevention is Better than Cure* and the annual event run in conjunction with the Institute of Internal Auditors – UK and Ireland, *Internal Audit and Fraud: Taking a Holistic Approach to Fraud Risk Management*.
- A full programme of seminars and lectures included events on terrorism and fraud, procurement and contract fraud, information security, employment fraud, virtual crime, and fraud in the shipping sector; amongst others.

- A series of half-day forums looked at anti-money laundering, crisis planning, managing personal information, corporate governance, whistleblowing, and bribery and corruption.
- For charity professionals in particular we hosted two highly practical and participative workshops on fraud prevention and detection techniques.

Research

- Our groundbreaking new research into fraud in the charity sector resulted in the publication of a special report, *Breach of Trust*, and a number of supporting events (see facing page).

Acknowledgements

The Panel gratefully acknowledges the support of members who have contributed to our many activities by way of expert input or through the provision of suitable venues.

Special thanks for sponsorship go to Calyon, Carter Backer Winter, CY4OR, Daylight Forensic and Advisory, Haslocks Forensic Accountants, KPMG, National Audit Office and Navigant Consulting.

FRAUD IN THE CHARITY SECTOR

A pioneering piece of research formed the centrepiece of our 18-month campaign to support the charitable sector in combatting fraud.

Fraud is not a word commonly associated with the charitable sector, but altruism, trust and goodwill are. The core question we wanted to answer was this: might these traditional strengths also contain the seeds of a particular vulnerability to fraud?

The research

The study was conducted in two phases during the fourth quarter of 2008. In particular it sought to:

- investigate charities' attitudes to fraud;
- explore anti-fraud strategies and whether these are a match for the threats;
- measure the incidence, size and nature of the frauds committed; and,
- explore whether charities of different types and sizes experience fraud and its consequences in different ways.

A self-completion postal survey was sent to a sample of 5000 registered charities in England and Wales drawn randomly from the Charity Commission's register. The second phase was a series of in-depth interviews with six charities which had reported a fraud in the first phase, selected to create a representative cross-section in terms of size, activity and type of fraud suffered.

The results

Our findings revealed that even though reported fraud is still less common among charities than in mainstream business, the impact on individual organisations and the sector as a whole can be serious. Victims in the third sector must cope not only with direct financial losses but also cancelled projects, damaged reputations, adverse publicity and, perhaps most distressingly, the undermining of the personal commitment and team spirit that so often bridges the gap between a charity's limited financial resources and what it can achieve in human terms. Key findings included:

- half of all respondents thought fraud a major risk to the charity sector;
- 7% of respondents had suffered a fraud within the last two years and half of those felt that, in retrospect, they had contributed to the fraud, generally by being too trusting or by having inadequate risk management;
- six out of ten respondents had no anti-fraud policies and procedures in place;

- the in-depth interviews revealed significant damage to staff morale and well-being, with some staff suffering stress, feelings of betrayal, illness and redundancy.

Media coverage

The press response to the survey was excellent and included coverage by the Financial Times. Publications and websites devoted to charities and the third sector – including Third Sector and Charity Governance – gave the findings substantial space, as did specialist professional publications like Chartered Secretary, Professional Security, Retail Security and Accountancy. The Institute of Chartered Accountants in England and Wales and the Charity Commission both gave the report prominence in their communications.

Training

Later in the year we conducted a pair of workshops – *Charities and Fraud: Protecting Assets, Beneficiaries and Staff* – in London and Leeds. Both were well attended. Practical and participative sessions provided attendees with an overview of the current third sector risk environment as well as insights into techniques for fraud prevention and detection. Speakers included representatives from Chantrey Vellacott DFK and the Charity Commission. Delegates left with a four-point action plan:

1. **Treat fraud as a business risk** and undertake regular assessments of the types of fraud to which your charity is most exposed.
2. **Develop an anti-fraud policy** which is clearly communicated throughout the organisation. Nominate a person with responsibility for fraud and encourage staff, volunteers and others to report fraud. Check new employees and take up references.
3. **Enhance fraud detection processes and controls** and test existing systems and procedures against fraud – particularly those with a financial element.
4. **Have a plan for responding to fraud** which outlines how investigations will be conducted and by whom, the people and organisations that need to be notified, and the process for handling internal and external communications.

The Fraud Advisory Panel would like to acknowledge the invaluable support of our project sponsors, Chantrey Vellacott DFK LLP, and would also like to thank all of the charities that took the time to complete the survey and especially those who participated in the case study interviews.

TRUSTEES



Ros Wright CB QC

Chairman

Member and past chairman of the supervisory committee at OLAF (the European Anti-fraud Office); independent member, Department for Business Innovation and Skills insolvency service steering board; vice-chairman, Jewish Association for Business Ethics; bencher of the Middle Temple; director, Serious Fraud Office 1997-2003.



Bill Cleghorn

Director of Kinetic Partners LLP (asset management), and director of Aver Corporate Advisory Services Ltd (non-asset management), specialising across all sectors in fraud and financial crime investigation and corporate recovery; director, London Fraud Forum; fellow, Association of Business Recovery Professionals; lecturer on fraud-related issues and money laundering.



Steven Philippsohn

Deputy chairman

Chairman, Asset Recovery Working Group

Founder and senior partner at PCB Litigation LLP, specialising in national and international fraud litigation and asset recovery; member of SOCA's asset recovery committee; UK representative member of the fraud network of the International Chamber of Commerce.



Jonathan Fisher QC

Chairman, Legislative Review Working Group

Barrister at 23 Essex Street Chambers, specialising in fraud and financial crime; chartered tax advisor and fellow, Chartered Institute of Taxation; general editor, *Lloyd's Law Reports: Financial Crime*; honorary steering committee member, London Fraud Forum; committee member, International Bar Association's anti-money laundering 3rd directive implementation group; visiting professor, London School of Economics.



Felicity Banks

Head of business law at the Institute of Chartered Accountants in England and Wales; represents the accounting profession on HM Treasury's money laundering advisory committee; chairman, accountants affinity group of the Anti-Money Laundering Supervisors Forum.



Neil Griffiths

Partner in the reconstruction and insolvency group at Denton Wilde Sapte, specialising in contentious and fraud-related cases; former vice-chairman, creditors rights committee, International Bar Association.



David Clarke

Detective superintendent with the City of London Police economic crime directorate; head of the National Fraud Intelligence Bureau. David was a member of the original Fraud Review team and led the project teams to create the National Fraud Reporting Centre, National Fraud Intelligence Bureau and Lead Force for Fraud.



Barbara Hart

Chartered accountant; former charities manager; Institute of Chartered Accountants in England and Wales 2007-2008; former finance director of CARE International UK 1998-2001 and the Mothers' Union 2001-2007.



Dr Stephen Hill

Chairman, Cybercrime Working Group

Head of fraud and forensics group at Chantrey Vellacott DFK LLP, specialising in e-crime and fraud; honorary steering committee member, London Fraud Forum; member, North East and Eastern Fraud Forums; associate, Association of Certified Fraud Examiners; affiliate, Institute of IT Trainers; CIIP certified; lecturer on fraud awareness and e-crime.



Will Kenyon

Partner in the forensic services group at PricewaterhouseCoopers LLP; founding head of forensic investigations, PricewaterhouseCoopers Germany 1998-2001; specialising in the prevention, detection and investigation of fraud and financial crime across most industries, both private and public sector; involved in investigations and recovery actions in relation to some of the most significant fraud and corruption cases of the last 20 years.



Alex Plavsic

Head of forensic services at KPMG. During Alex's 18 years at KPMG he has worked on many high profile cases including Polly Peck, Grupo Torras and the investigation of Jeffrey Archer in relation to the Simple Truth appeal. In the last four years several of Alex's cases have involved bribery and corruption matters including presenting to the SEC and SFO.



Monty Raphael

Chairman, Fraud Investigation and the Legal Process Working Group

Special counsel at Peters and Peters, specialising in domestic and international business crime and regulation and acknowledged as the "doyen" of the UK's fraud lawyers; honorary solicitor; Howard League for Penal Reform; trustee director, Transparency International (UK); visiting professor of law, Kingston University; editor, Blackstone's Guide to the Bribery Act; lecturer on fraud-related issues.



David Skade

UK head of financial security and MLRO for Calyon – Crédit Agricole CIB with responsibility for all aspects of financial crime within the UK. David previously worked in a similar role at HVB AG and has a wide background across many aspects of banking involving internal audit investigations, operational risk control, fraud investigations and front office lending activities.

STAFF



Mia Campbell

Manager



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Education and training consultant

Chairman, Fraud Prevention and Detection Working Group



David Ovenden

Website and database consultant

HARD TIMES

These are hard times for those who put their trust in financial institutions, political leaders or those leading business. Whether it is the steady stream of employees, managers and professionals ready to exploit their positions of trust to feather their own nests, anger about MPs' expenses, or concerns about a banking system brought to its knees by greed and mismanagement, there is no shortage of dispiriting stories about trust breached for personal gain.

But does trust matter in the fight against fraud and financial crime? The Panel suggests that it does matter – a great deal. The challenge facing policy-makers, law enforcement and the business community is to strengthen the trust placed in our institutions through a demonstrable commitment and resolve to tackle fraud head-on.

For many organisations, recession-driven cost-cutting has been a by-product of current economic conditions, but this is not the time to reduce our fraud fighting capability. The actions that we take now – collectively and individually – to safeguard both our organisations and our customers against fraud, will be the measure upon which our success is judged in future.

Trust is a vital weapon in the fight on fraud, supported by an ethical culture in the workplace.

The success of two of the most exciting new initiatives in fraud fighting – the National Fraud Intelligence Bureau and the newly launched pilot of the National Fraud Reporting Centre (now called Action Fraud) – will depend crucially on the trust of stakeholders and victims. In its survey *Inhibiting Enterprise: Online Crime Against Small Businesses*, the Federation of Small Businesses found that one third of victims did not report their crimes. This is only the most recent reminder that some fraud goes unreported because victims do not trust 'the system' to act on the information they provide.

Tackling the threat from within

Trust is a vital weapon in the fight on fraud, supported by an ethical culture in the workplace. The two are inextricably intertwined. Low levels of trust foster cynicism; cynics can justify almost any act of petty dishonesty; and when petty dishonesty is rife, serious fraud is given a helping hand. Employees trust bosses who are not merely competent but ethical too, and seen to be so. And when ethical behaviour is the norm at the top of an organisation, it soon trickles down.

The effect of the bonus culture

For the first time, in 2009, the PricewaterhouseCoopers *Global Economic Crime Survey* has probed the question of a possible link between performance-related pay for senior executives and the levels and types of economic crime their organisations suffer. Globally the survey found that among companies that do not pay executive performance-related bonuses the incidence of fraud in the previous twelve months was 26%; for the rest the figure was substantially higher, between 40% and 48% depending on the size of the variable component. Focusing on the UK, 33% of companies with no bonuses reported accounting frauds, but among companies who paid the highest bonuses (ie, 50% or more of total executive pay) this rose sharply to 56%. In fact, the survey found that all of the main types of fraud are more likely to occur in companies where executive pay is heavily skewed towards bonuses.

Such findings point to a key challenge; after a long period of strong growth, many of the corporate incentive structures and control systems in which we have come to place our trust may now be poorly suited to a new recessionary world of tight budgets, weak markets and fearful people. Our job as anti-fraud professionals is to build on the fact that most people instinctively tend to live up to the trust that is placed in them and to use that trust in the fight on fraud.

A FRAUDSTERS' PLAYGROUND

The IT revolution, financial deregulation, the snowballing complexity of our personal finances, the weakening of traditional values and the inter-personal, the deregulation of gambling and the relentless promotion of the lottery; all these things, and more besides, have enabled and emboldened fraudsters and organised criminals. How could they not? The result is a veritable explosion of confidence-style scams based on little more than the law of large numbers.

The faceless fraudster

The internet continues to provide commerce with some of the biggest challenges for fraud prevention.

On the one hand, consumer nervousness about the internet is fading fast. The UK Cards Association industry group says 32 million of us now shop online and recent months have seen a 15% increase in online spending. The popularity of social networking sites has helped give the internet the personal touch, and the ease with which growing numbers of people relate comfortably to the online world is visible in the quite remarkable levels of trust many seem prepared to place in it.

But then, on the other hand, the online world continues to provide fraudsters with rich pickings which, if left unchecked, could come to threaten the extraordinary success story of internet commerce.

Serious organised criminals are increasingly looking to the virtual world and fraud as a means of funding their illicit activities. Unsuspecting victims are targeted using a sophisticated array of techniques – such as fake websites, phishing scams and social engineering attacks – all in an attempt to harvest financial and personal information for fraudulent use.

The cunning fraudster makes no distinction between business and individual:

- Over half of respondents in the latest GetSafeOnline.org research said that: *"they, or their close friends, family or colleagues have been the victim of some kind of internet crime"*, mostly viruses, phishing attacks, online identity theft, and email and website scams.
- Online crime costs the average small business £800 a year, says the Federation of Small Businesses in a survey published in early 2009, with slightly more than half of respondent firms having fallen victim in the last twelve months.
- A very recent YouGov survey for online security specialists VeriSign found that: *"12% of the UK population has been a victim of online ID fraud within the last 12 months"*.

The identity merry-go-round

Since the Panel first raised the alert on identity fraud back in 2003 the problem has continued to grow. Today it is exacerbated by the current economic conditions and the increasing use of the internet to shop, conduct business, manage personal finances and to interact with one another.

According to CIFAS – the UK's Fraud Prevention Service, in its *Anonymous Attacker* report, the first nine months of 2009 saw identity theft jump 33%. The number of 'account takeover' frauds (a similar ID-style crime in which the fraudster simply hijacks and plunders a victim's accounts without bothering to impersonate them) also increased sharply, up 23% after *"a staggering 207% increase in 2008"*.

The cost of identity fraud is borne by us all. Individual victims have the unenviable task of rebuilding their identity and financial history. This can take anywhere between three and 48 hours, or even longer for complex cases. For business victims, where reputation, brand and customer loyalty are of the utmost importance, the cost is all too obvious. Then there is the cost to the providers of goods and services, including financial institutions, which *"bear the financial brunt of all cases unless the victim has been negligent"*. And finally there is the cost to the consumer.

Too good to be true?

False home-working and business opportunities, fraudulent property and land sales, and non-existent shares and bonds – anyone can, and does, fall victim to investment scams. In 2006 it was estimated that each year consumers lose about £3.5 billion to scams and this figure is likely to have increased.

An Exeter University study into the psychology of scams, performed for the Office of Fair Trading in 2009, found that many victims of common scams know full well that what they are looking at is unbelievable, but they take the plunge anyway, treating the whole thing as a long odds bet, just like the National Lottery. The chance of getting all six numbers in the UK lottery is one chance in 14 million; a probability virtually indistinguishable from 'never' for most everyday purposes.

The same researchers also found that knowledge can make someone more, not less, vulnerable to a scam by making them overconfident: *"Scam victims often have significant knowledge about the subject of the scam content, and this can increase rather than decrease the risk of becoming a victim."*

Ponzi schemes too snare highly sophisticated investors who, for all their knowledge and experience, or perhaps because of it, think that almost any return is plausible.

Now near-zero high street interest rates have complicated the picture further. These tiny returns, unheard of in most people's lifetime, must have reset the too-good-to-be-true threshold, but nobody knows to where.

FRAUD AND THE RECESSION

We are entering a new phase of fraud in the recession. The first, not yet over, revealed existing frauds – often Ponzi-style – as the flows of cash dried up. The second, now begun, will include a large number of crimes directly resulting from the recession, affecting hitherto honest firms and exposing their vulnerability to fraud.

Opportunity and the recession

It will be some time before the true scale of this second wave of offending becomes clear. KPMG reports that in the last recession the number of fraud cases brought to court did not peak until 1995, three years after the economy returned to growth. Many frauds are yet to come to light and there is plenty that can still be done to stop them in their tracks.

Much anti-fraud effort focuses on reducing opportunity by implementing internal controls. This is among the most practical, direct and controllable routes to reducing fraud and vulnerability, and never more so than during a downturn when efforts to grapple with recession can have unintended consequences.

Cost-cutting, consolidations, reorganisations, redundancies, mergers and acquisitions can all lead to gaps in internal controls, process confusion, conflicting standards, blurred management responsibilities, periodic staff shortages and low staff morale, and so create and exacerbate opportunities for fraud.

Ernst & Young's *European Fraud Survey 2009* found that about a third of respondents expect business initiatives in response to the downturn to create a greater risk of fraud as managers take their eye off the ball. Prudent managers will take care to monitor the way in which resource cutbacks may affect those responsible for fraud prevention and detection.

Motive and rationalisation

The huge financial and economic pressures now being experienced by organisations and individuals will tip some otherwise honest owners, managers and employees over into committing fraud. But even where there is an internal control failure, and a criminal opportunity presents itself, crime is not an inevitable consequence.

Fraudsters' motives are not always rooted simply in a desire for material personal gain, important though that can be. During a downturn, avoidance of loss – of job, income, bonus, security, status, influence – can become the most powerful motivator. Getting the workplace culture right can help to minimise the risk.

PricewaterhouseCoopers reports that some organisations have inadvertently increased their vulnerability to fraud by simply not taking proper account of the severity of the recession when setting executive objectives. Over-ambitious targets allied to executive pay structures that include large performance-related bonuses can increase the potential for accounting fraud. Executives, managers and employees alike seek to maintain an impression of 'business/lifestyle as usual' while the economic environment deteriorates around them.

Rationalisation can be easy: pressure to meet personal financial commitments such as mortgages, utility bills and insurance premiums; increases in the cost of living; the perceived unfairness of workplace salary structures and bonus payments; and the belief that others are 'on the take'.

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As 'John', a local authority accountant who stole £360,000, so vividly illustrated when he spoke to the BBC radio programme *Thinking Allowed*, sometimes it is all but impossible to untangle motives from rationalisations because it is as if the workplace culture itself has become a provocation: there was a lot of waste; it was easy; I was very busy; I wasn't paid enough.

Of course the truly desperate will, by definition, never lack a compelling motive and are always likely to find a way to distance themselves from feelings of personal culpability. (And all bets are off in the case of the professional fraudster.) But for everyone else, the creation of an open, fair and trust-rich culture can minimise the available sources of motive and rationalisation and make a very significant difference to someone's final course of action.

"Squeezed on all sides"

Losses to fraud in the public sector make themselves felt not only as higher costs and lower revenues, but in their impact on families trapped in temporary housing by the illegal tenancies of others (thought to be 50,000 nationwide), or as care and educational opportunities denied because of the £90 million of revenues lost in fraudulent claims for council tax discounts. Total losses to housing and council tax benefit fraud are thought to exceed £200 million per annum.

In *Protecting the Public Purse 2009*, the Audit Commission applauds the progress made by local government in tackling fraud, but, like others, warns of growing recession-induced challenges in a sector "squeezed on all sides".

Protecting the frontline

In the financial services sector the Powerchex *Pre-Employment Screening Survey 2009* found that the number of candidates whose CVs contained false or embellished information increased to 19% in the last year – the highest level for three years.

Can a candidate ever be 'suitable' if from the very start they build their employment relationships on a foundation of lies and half truths? How much harder is it to nurture a strong, ethical and trusting workplace culture when we don't know who our members of staff really are, or what they are really qualified to do?

The safeguards that organisations should have in place were highlighted in the Panel's pre-employment screening *Fraud Facts*, published in July 2009, which provided an important reminder of the vital checks that need to be completed before job applicants are taken on.

Maintaining trust

Personal circumstances can change in the blink of an eye. The stresses brought on by tight personal finances can drive once loyal and honest employees to the very limit, but fraud doesn't have to be the inevitable consequence. Organisations which recognise the value of their workforce (getting to know their employees, nurturing openness and operating clear support networks) can expect much in return. Learn to spot the signs.

BUILDING AN ANTI-FRAUD CULTURE

The fear that you or your organisation are, in effect, fighting for your economic life can often lead to ethical corner-cutting. But it doesn't have to be like that. The twin objectives of helping an organisation and its staff weather the recession and improve its fraud resilience need not be mutually exclusive. Building a trust-rich and highly ethical culture is the key to squaring the circle. Here are some pointers.

A strong and coherent anti-fraud commitment now – led actively and visibly from the top – will strengthen most organisations, financially and reputationally, in preparation for the economic recovery to come. If anything, positive organisational and cultural change can be easier to achieve when a recession has already thrown the cards in the air.

Every organisation should aim to establish an anti-fraud culture which covers ethical standards of workplace practices.

WORKPLACE ETHICAL OPPOR
 NCIPALS **CULTURE** REPUT
 JUST CREDIBILITY HONESTY

Wise
 companies
 will engage
 employees first
 and foremost
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Lead from the front

The Panel has long advocated that the tone must be set at the very top. Without knowing it, people are almost always led by example. Senior management must set the anti-fraud agenda and the standard of behaviour expected of staff.

Research shows that the most trusted bosses are those who are not merely competent but principled and honest too. There is no better way to show that everyone is expected to play by the same rules *and* by their spirit. An ethical policy that is subject to the whims of executive expediency is worse than no policy at all.

Establish a formal code of ethics ...

Formal, documented standards of behaviour demonstrate clearly that senior management takes fraud prevention seriously, and that everyone else is expected to do so as well.

The Institute of Business Ethics (IBE) says that the adoption of a formal ethics programme and the creation of a positive climate will support higher standards of ethical behaviour in the workplace. But the converse can also be true.

... and spread the word

Communicate and celebrate ethical behaviour and reward the values you want to see adopted by all. Make fraud awareness training a priority; it should be ongoing, relevant and available to everyone. These are vital parts of creating an anti-fraud culture.

The Chartered Institute of Management Accountants (CIMA) found that almost three quarters of companies now have a code of ethics or something similar, but that less than half of them support it with ethics training. Companies which don't make a sincere effort to embed their ethical business principles risk damaging their credibility in the eyes of employees.

Engage the young

Evidence from the IBE's *Ethics at Work Survey 2008* suggests that younger employees (aged 16-34) are significantly more likely to be tolerant of unethical workplace practices than their older colleagues. Is it because they are less ethically scrupulous? Or is it simply that they feel the pressures of social conformity more keenly? It is always hard to stick your head above the parapet, but arguably it becomes easier as confidence grows with age and experience. Support the young with clear ethical guidance so that they can confidently embrace an ethical workplace culture and make a full contribution to it.

Be fair

Fairness at work encourages ethical behaviour. No-one trusts a system that is not fair.

Festering injustice, a simple (mis)perception of unfairness, revenge for some slight, real or imagined; these are all common motivations for workplace fraud, especially 'fiddles'. In the fraudster's mind he or she is often redressing an old wrong, not creating a new one.

Zero tolerance

The IBE also found that three out of ten managers and supervisors still think that 'minor fiddling' is inevitable in a modern organisation.

If fiddles and petty theft are condoned and tolerated every effort to establish fairness, consistency of treatment and the encouragement of ethical choices as guiding principles of workplace behaviour will fall at the first hurdle. Every instance of dishonesty should be dealt with firmly and consistently, and every effort should be made to establish a policy of zero tolerance towards fraud.

Know your staff

We trust the people we know, and the better we know someone the harder it is to let them down. When the *Index of Leadership Management 2009* (jointly conducted by Management Today and the Institute of Leadership in Management) surveyed executives, managers and staff about what is important in creating high levels of trust, it found that trust takes time to build and earn, and that face-to-face time matters.

Among other things this means promoting a culture that values relationships between people, creating opportunities to meet informally, and making the time to get to know each other. Once a relationship of trust is built with staff they will be more likely to come to you with problems and less likely to resort to fraud.

Turn sticks into carrots ...

Wise companies will engage employees first and foremost as allies, not treat them as potentially dishonest.

Trust is reinforced by showing that the organisation is serious about encouraging and rewarding honesty. Enable staff to speak up and voice concerns about fraud and be willing to listen.

... but use both

But if the dishonest do not have to face proper sanctions, what is the point in being honest? Don't you end up being taken for a mug?

Too many organisations treat fraudsters too leniently, discouraging the honest and ethical along the way. *The Resilience to Fraud of UK plc*, a report by the University of Portsmouth's Centre for Counter Fraud Studies, found that about one third of big companies and three quarters of public sector organisations make no use of legal sanctions, civil or criminal.

What message does this send to the would-be internal fraudster? No wonder the IBE found that around a quarter of British employees are aware of misconduct in their organisations, but only two out of five of them will report it, in part because they believe no corrective action will be taken.

Ethics training in the Netherlands

Not every country leaves the ethical development of its business leaders to chance.

In 1992 the Dutch interior minister dropped a bombshell: the ethics of civil service officials must improve. It came as a surprise to many. The Dutch have some pride in their country's low levels of corruption when compared to certain other European countries. But the minister claimed that too much was taken for granted in the Netherlands and that a closer look would reveal corruption was widespread.

The minister was right. In the years since 1992 a number of big fraud stories have hit the Dutch headlines as the civil service paid increased attention to the prevention of malpractice and the promotion of ethical behaviour. All big public organisations, municipalities and ministries now have their own 'bureau of integrity', and the interior ministry maintains a special operation to support other public organisations.

Today it is a legal requirement that civil servants receive integrity training. Where the state has beaten a path, business has followed, and demand for ethics training in companies has grown steadily. Now a public debate has begun about mandatory ethics training for students in higher education.

A WATERSHED YEAR

This year will be widely remembered for the damage done by breaches of trust in banking and politics. It is certainly true that when those so close to the top of our society set such bad ethical examples it makes the jobs of anti-fraud professionals harder. The Panel's message, that ethical and trust-rich cultures are built from the top, is as true for a nation as it is for the smallest business.

But in the fraud-fighting world there has also been much to applaud. Will we look back on 2008/2009 as a watershed year in the fight on fraud? We think so.

Improving fraud reporting

The Fraud Reporting Centre (NFRC), a dedicated point of contact to which victims can report fraud and seek advice on what to do next, went live in the West Midlands at the end of October.

As well as providing coordinated support for the victims of fraud, a welcome and long overdue development, the NFRC will feed fraud data into another new initiative, the National Fraud Intelligence Bureau (NFIB), housed within the City of London Police.

Over time this will provide government with increasingly comprehensive data on the types and amounts of fraud being committed, and where that fraud is happening. Law enforcement and counter-fraud agencies will be much better able to target fraudsters as these initiatives steadily develop the first high resolution picture of fraud in the UK.

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There is, of course, a caveat: while the initiative to establish a dedicated point of contact for fraud reports is to be warmly welcomed, it will raise public expectations that a police investigation will follow. With economic crime often featuring low on the list of policing priorities (unless there is a link to serious organised crime), the resources allocated to counter fraud are still very limited.

Building our fraud fighting capacity

The City of London Police's National Lead Force for Fraud is now 50-plus strong. It is intended that its expertise and technical resources will supplement and assist other police forces, many of which have no specialist economic crime unit or even officers specially trained to deal with fraud cases. In its first year of operation the new Lead Force took on 70 fraud investigations outside the Square Mile and responded to a similar number of general requests for assistance.

But 50 officers must of necessity be spread fairly thinly around the country, and local forces will still, to a large extent, be obliged to rely on their own supply of detectives to investigate what can be highly esoteric and technically difficult criminal cases. There is the risk that they may resort to 'screening out' even detectable cases on the grounds that they are 'too resource intensive' or 'not a priority for this community'. Even worse, they may not record the fraud at all and instead advise victims to seek their own legal advice.

The challenge now facing police forces is to cast aside traditional responses to the victim in favour of a renewed vigour and, with the support of the Lead Force, to meet fraud head-on.

Tackling e-crime

This year's launch of the Metropolitan Police's Central e-crime Unit (PCeU) was another positive step. The new unit will support the NFRC and NFIB and provide specialist officer training and cross-force coordination for initiatives to crack down on a variety of e-enabled offences, including fraud.

Better intelligence, better understanding

The success of the NFIB and the National Fraud Authority's measurement and analysis unit will hinge on their ability to gather and process large volumes of reliable fraud data. However, much information about fraud remains unavailable. Victims are often too scared for their reputations or their share price to speak openly about what has happened. Sometimes fraud data is simply difficult to collate or there is a perception that it is not permitted to share it more widely.

Taking a proactive approach

This year has seen a distinct shift in direction for the Serious Fraud Office (SFO). It has signalled a much more proactive approach toward City fraud; 'cold-calling' more than 50 business leaders, visiting them and soliciting their thoughts on the threat of fraud. This is an excellent initiative which the Panel applauds.

There has also been a laudable desire to cut lengthy investigations and concentrate on the core issues in major cases. In this regard, the Panel has noted a marked enthusiasm on the part of the SFO to use alternatives to criminal trial and for the pursuit of less public paths to an ultimate resolution, sometimes outside the ambit of the criminal courts. This approach has in some quarters raised the concern that this is a step towards the decriminalisation of fraud, as well as the perennial worry that there is one law for the conventional 'blue collar' criminal and another for the 'white collar' fraudster who can buy his or her way out of a criminal conviction. One of the arguments cited in favour of these alternative solutions is that, if used judiciously and in appropriate circumstances, they open up the potential for a more effective, less costly and more flexible approach to dealing with at least certain kinds of fraud.

Working in partnership

True partnership must involve a degree of give and take on both sides, rather than just words of support. It is also about sharing best practice, expertise and risks.

There is no shortage of examples of good collaborative working:

- private sector secondments to the NFIB and the National Fraud Authority;
- sector-specific associations which share information and good practice such as CIFAS – the UK's Fraud Prevention Service, the Dedicated Cheque and Plastic Crime Unit, Financial Fraud Action UK, and the Insurance Fraud Bureau;
- the establishment of the National Federation of Fraud Forums to represent all the regional forums at a national level.

And this is to name but a few.

Indeed, the Fraud Advisory Panel has worked tirelessly since 1998 to bring together the public, private and third sectors to sound the alert on fraud.

Deputy-head of legal swindled £7.4 million from bank employer

Top accountant confesses to £1/2 million fraud to maintain wife's lavish lifestyle

Solicitor struck off for multi-million pound Legal Aid fraud now back giving advice

Queen's composer hurt by old friend's £1/2 million false accounting

Bank fined £8m after staff gambled with customers' money

Three senior executives jailed for overstating production and sales figures

FSA FINES AND BANS DIRECTORS AT DISGRACED STOCKBROKER

Finance chief jailed for falsifying land valuations to meet targets and clear deficits

CORRUPTION PROBE TARGETS FRAUD-BUSTER

trust *n. & v.* —*n.* a firm belief in the reliability or truth or strength etc. of a person or thing. —*v. tr.* place trust in; believe in; rely on the character or behaviour of.

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