The Fraud Advisory Panel
Seventh Annual Review 2004 2005

The human cost of fraud

Fraudsters...
took my good name,
stole my identity,
destroyed my job,
drained my pension fund,
robbed my life savings,
betrayed my trust.

Sounding the Alert on Fraud:

The Role of the Fraud Advisory Panel

The Panel raises awareness of the immense social and economic damage caused by fraud and helps the public and private sectors, as well as the public at large, to fight back. It is dedicated to a holistic approach and the long view.

The Panel works to:

Originate proposals for reform of the law and public policy on fraud.

Develop recommendations to enhance the investigation and prosecution of fraud.

Advise business as a whole on fraud prevention, detection and reporting.

Improve fraud-related education and training in business and the professions and to advise the general public on prevention.

Establish a more accurate picture of the extent, causes and nature of fraud.

The Panel is an independent body of volunteers drawn from law and accountancy, financial services, commerce, government departments, law enforcement, regulators, public agencies and academia. It is not restricted to seeing the problem from any single point of view but works to encourage a truly multi disciplinary perspective. No other organisation has such a range and depth of knowledge, both of the problem and of the means to combat it.

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The Devastating Cost of Fraud

The victims of fraud tend to attract little attention and limited sympathy. The reasons are obvious. The tendency is to think of fraud as a crime without pain; as a crime that afflicts the well-off; or, quite simply, as one that people suffer by reason of their own greed or stupidity. And, of course, crimes of violence are seen as far more shocking.

People Like Us

Yet losing one's life savings or job is every bit as emotionally devastating as a burglary or a street robbery and can have more serious consequences than all but the most violent offences.

Fraud strikes the prudent as well as the unwise. Indeed it afflicts people who have had no direct contact with the original crime, as many thousands of small investors, pensioners and unemployed, can testify. Many go uncompensated; few stories have a happy ending.

Fraud is a silent crime. It is not recognised as a threat until it happens to us or someone we know. Surveys of the general public, when gauging fear of crime, always highlight the kind of offences that hit the popular press muggings, burglaries, car thefts. Very few people express an apprehension that they might fall victim to fraud, even though the possibility is an alarmingly real one.

Fraud itself is often regarded as 'victimless', with the oft heard comment that 'the company/banks/insurance companies/government can afford to lose the money.' Victims of fraud have assumed second class status. We rarely see them featured on *Crimewatch* or in the press. This attitude is unsustainable, morally and practically. Public indifference to the plight of those who have lost so much in many cases their self confidence as well as their financial security and is an invitation to the predators to rob even more of us. A recent survey found 11 of Britain's consumers had been defrauded. Many more of us are going to learn how they feel as identity theft grows exponentially; over 100,000 people were targeted in 2003 alone.

Dry statistics won't suffice to wake people up. That's why this year's Review focuses on the human cost of fraud, on real people, sometimes those with all too little to lose to begin with. Our cases studies avoid the spectacular and dwell instead on the everyday disasters that fraud inflicts.

A Lagging Response

Every level of society and each public and private institution needs to take fraud more seriously. That is not to say that recent years have not seen some rise in awareness of the threat and improvements in the scope and quality of countermeasures. The present Government has made significant advances in addressing the problem, particularly with the introduction of its new Fraud Bill which will simplify the law and at last create a statutory and flexible offence. Our concern at the Fraud Advisory Panel is that neither public nor private sectors are keeping pace with the growth of the problem.

The greatest single responsibility rests with government as policy maker, legislator, and priority setter for the police. Protecting the citizen is the responsibility of the state and can never be privatised or contracted out. Fraud is a national issue and the response to it needs to be galvanised and co ordinated at a high level.

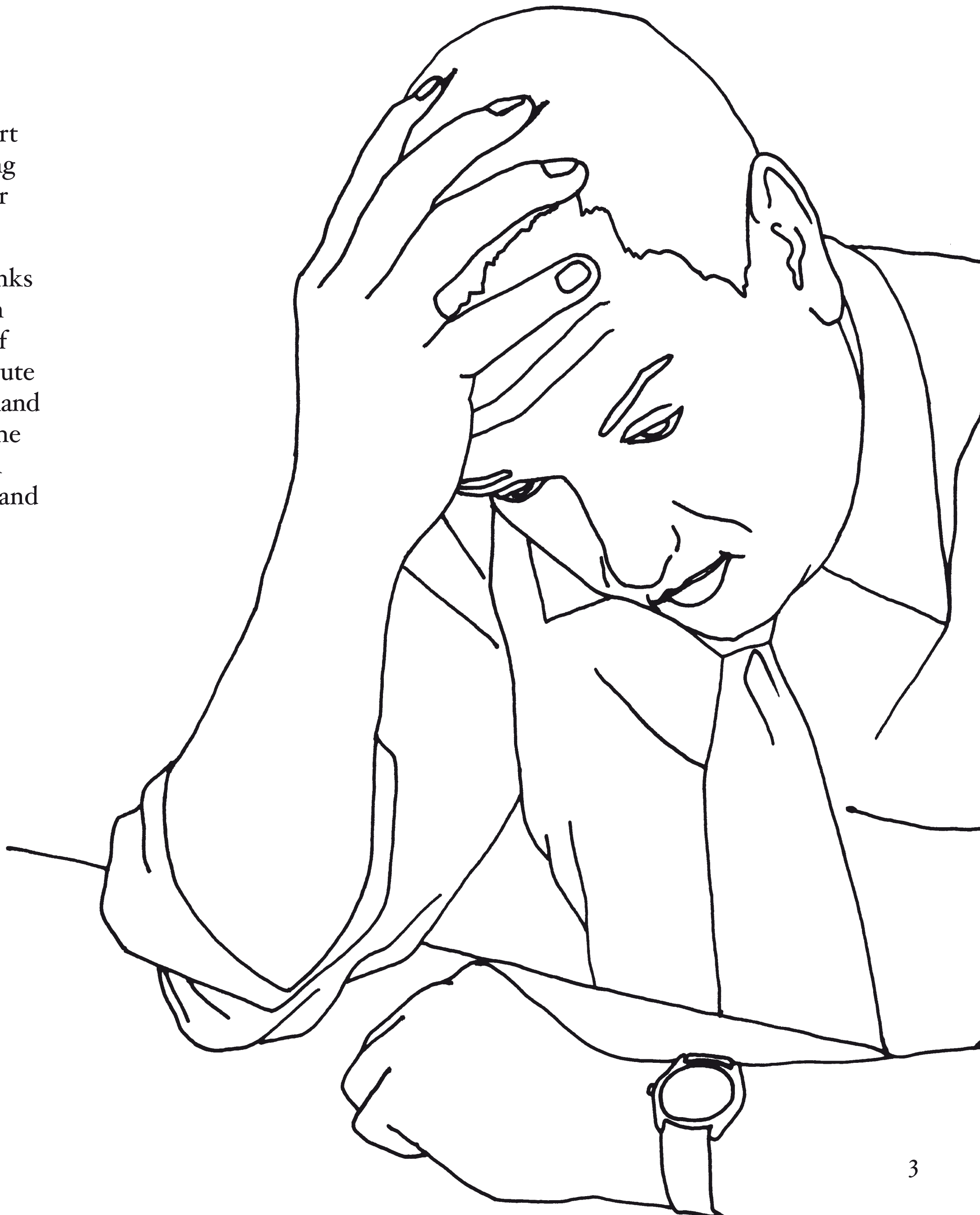
The Panel has repeatedly urged the Government to adopt a comprehensive anti fraud strategy. It therefore welcomes the announcement in July 2005 of a system wide review of fraud that aims to assess the scale of the problem, the appropriate role of government, and how resources could be spent to maximise value for money. The Panel intends to submit its own proposals to the review. We are also contributing to the development of a draft National Fraud Strategy being prepared by the Association of Chief Police Officer's Economic Crime Portfolio Group.

The Panel has earned a reputation as an authoritative voice on fraud; indeed as the only body that seeks to address the whole issue from an expert and independent perspective. Our impact stems from the generous provision of time, enthusiasm and expertise of our team of volunteers, all of whom have their own heavy professional responsibilities. Our work would be impossible without them and I am glad to take this opportunity to thank them all.

My gratitude, as well as that of my fellow Trustees, is also due to Mia Campbell, our truly dedicated and resourceful Executive; and to Martin Robinson our Consultant on Education, Training and Events who has turned a previously marginal area of our work into a highly successful core activity. Special thanks are also due to Professor Alan Doig; the case studies that follow in this Review draw in part on material from his forthcoming book *Fraud*, to be published later this year by Willan Publishing.

Finally I wish to express my thanks to our corporate members, upon whose support we depend. Chief amongst these remains the Institute of Chartered Accountants in England and Wales (ICAEW); it set up the Panel as an independent body in 1998, has backed it consistently and is still its principal supporter.

Rosalind Wright CB,
October 2005



Posing a Challenge, Making a Difference: The Panel at Work

The Panel exists to awaken, educate and change minds on the subject of fraud. Since its foundation in 1998 it has:

Helped make the fight against economic crime a more important government objective.

Achieved acceptance of its recommendations to reform both the law of fraud and court procedure in serious and complex cases.

Raised awareness of the need for more and improved anti fraud training in the professions and business.

Highlighted urgent issues such as the scale of fraud, the decline of police fraud squads, the threat to SMEs, the nature of cybercrime and identity theft.

Educated the public and private sectors, and the public at large, in effective responses to fraud through publications, conferences, seminars and the media.

The Panel became a registered charity in April 2005. Every penny raised is ploughed back into its activities. The Memorandum of Association states that "The Company's object is the protection of life and property by the prevention, detection, investigation, prosecution and deterrence of fraud".

The Panel is led by a Board of Trustees, chaired by Rosalind Wright, Director of the Serious Fraud Office 1998-2003. A Projects Sub committee develops and supervises research and publications. The Panel is supported by a full time Executive, Mia Campbell, and an Education and Training Consultant, Martin Robinson, who identifies fraud training issues and develops appropriate packages.

Much of the Panel's detailed work is conducted via four multi disciplinary working groups:

Investigation, Prosecution and Law Reform: reviewing the legal process and the law as it relates to fraud.

Cybercrime: promoting greater understanding of cybercrime and the safeguards against it.

Education, Events and Training: identifying and disseminating best practice in fraud prevention, detection and investigation.

Anti Money Laundering Monitoring Group: studying the implications of the money laundering regulations for the reporting, policing and prosecution of fraud.

Key Activities 2004 2005

Fraud Awareness Training.
The Panel offers a free one-hour presentation entitled *Fraud: Is This a Risk You Manage?* Topics covered include fraudster profiles; examples of external fraud; warning signs; misconceptions about fraud; key internal controls and crisis planning.

Organisations presented to include major financial institutions, charities, museums and local authorities. Courses are attended by executives working in finance, HR and IT, as well as internal audit.

Conferences, Seminars and Debates.
Well attended and lively events have included:

A half day conference on money laundering and the proceeds of crime in October 2004.

The Great Fraud Debate: Are Too Many Obstacles Placed in the Way of the Prosecution in Serious Fraud Cases? in December 2004.

A joint event with the Institute of Internal Auditors UK and Ireland, *Fraud Management; How Can Audit Add Value?* in February 2005.

The Panel held its first event outside London in March 2005 when it staged a seminar on data mining hosted by Pricewater houseCoopers LLP in Scotland.

A unique conference on *Art and Crime* in May 2005 (see pages 8-9).

A seminar on fraud in the charity sector in June 2005.

In recognition of the Panel's standing, the Home Office invited it and the North East Fraud Forum (NEFF) to share a stand at the European Union Crime Prevention Conference, part of the UK Presidency, in Budapest in September 2005.

Publications and submissions. These have included:

A submission to the DTI's Company Law Reform consultation in June 2005.

IT Network Protection: A Guide for SMEs by The Cybercrime Working Group, published in September 2005.

Getting Involved, Getting a Benefit

The Panel has 42 corporate members, listed in full on page 6, 141 individual members and 82 observer organisations mostly public sector bodies precluded from taking out formal membership). Individual membership costs 50 a year. Corporate membership costs 1,000 and allows up to 20 employees to participate in Panel activities. All members are required to conform to a Code of Conduct.

Membership offers significant benefits:

Networking and information exchange: members meet a wide range of experts from banking and insurance, accountancy, the legal profession, academia and the IT and security industries.

Involvement in specialist working groups on Investigation, Prosecution and Law Reform; Education, Training and Events; Cybercrime and Anti Money Laundering. Working group deliberations can be accessed through the members' only section of the Panel's website.

Speaker meetings: hear informed, and often alternative, points of view.

Influence public policy via the Panel's own proposals to government.

Address business, the professions and the public through the Panel's seminars and publications.

For more information please contact: info@fraudadvisorypanel.org or visit www.fraudadvisorypanel.org

The Panel's Trustees

Rosalind Wright CB, Chairman
Director of the Serious Fraud Office 1997 2003; General Counsel and Executive Director in charge of the Investor Protection Policy and Legal Division at the Securities and Futures Authority 1987 97; Head of the DPP's Fraud Investigation Group for the City of London and Metropolitan Police areas 1983 1987; Independent Member of the Board of the Office of Fair Trading; Independent Member of the Department of Trade and Industry's Legal Services and Companies Investigation Branch boards; Vice-Chairman, Jewish Association for Business Ethics; Bencher of the Middle Temple.

Felicity Banks MSc FCA
Head of Business Law at the Institute of Chartered Accountants in England and Wales; represents the ICAEW on economic crime issues; represents the accounting profession on HM Treasury's Money Laundering Advisory Committee.

Steven Philippsohn Chairman, Cybercrime Working Group)
Founder and Senior Partner, Philippsohn Crawfords Berwald; Co editor of the UK Manual of the Association of Certified Fraud Examiners; member of the editorial boards of *E Commerce Law & Policy* and *Inside Fraud Bulletin*; UK representative member of the Fraud Network of the International Chambers of Commerce; member of the Home Office panel on the future of internet crime.

Neil Griffiths
(Chairman, Investigation, Prosecution and Law Reform Working Group)
Partner in the Reconstruction and Insolvency Group at Denton Wilde Sapte specialising in contentious and fraud related cases; former Vice-Chairman of the Creditors' Rights Committee of the International Bar Association.

James Perry
Former Detective Chief Superintendent with the Metropolitan Police Service and Commander in Charge of its Economic and Specialist Crime Unit; former Chair of the Association of Chief Police Officers' National Financial Investigation Working Group; now a consultant to business on anti money laundering and anti fraud services.

Corporate Membership

Accountants' Joint Disciplinary Scheme

Argos Ltd

Association of British Insurers

Association of Chartered Certified Accountants

Association of Certified Fraud Examiners

Aviva Plc

Bank of England

BDO Stoy Hayward LLP

Bentley Jennison

Bishop International Ltd

BSkyB Ltd

Cadbury Schweppes Plc

Capcon Plc

Chantrey Vellacott DFK LLP

CIFAS - The UK's Fraud Prevention Service

Control Risks Group

Deloitte & Touche LLP

Denton Wilde Sapte

Finance & Leasing Association

Financial Services Authority

Gallaher Group Plc

GB Group Plc

Grant Thornton UK LLP

HBOS Plc

Institute of Chartered Accountants in England & Wales

Institute of Chartered Accountants of Scotland

Institute of Internal Auditors UK & Ireland

Law Society of England & Wales

Alex Plavsic
Head of Financial and Fraud Investigation at KPMG Forensic; conducted independent reviews for regulators such as Bank of England, the Financial Services Authority and government departments; investigated serious fraud cases including Polly Peck and Group Torras.

Will Kenyon
Partner in PricewaterhouseCoopers LLP's Forensic Services group; founding head of Forensic Investigations, PricewaterhouseCoopers GmbH, Germany 1998 2001; specialises in the prevention, detection and investigation of fraud of all kinds across all sectors; involved in investigations and recovery actions in relation to some of the most significant fraud cases of recent years, both in the UK and internationally.

Monty Raphael Chairman, Anti Money Laundering Monitoring Group)
Senior Partner, Peters & Peters until April 2005; now its Head of Fraud and Regulatory; conducted fraud enquiries for regulators, Inland Revenue and HM Customs & Excise; Visiting Professor in Law at Kingston University; former President, London Criminal Courts Solicitors Association; founder of the Business Crime Committee of the International Bar Association and Chair of its Anti Corruption Working Group; Honorary Solicitor to the Howard League for Penal Reform.

Education and Training Consultant:
Martin Robinson FCIS, FIIA
 Chairman, Education, Training and Events Working Group)
Independent risk and audit consultant; Training Development Adviser to the Institute of Internal Auditors UK and Ireland; Audit Adviser to the Institute of Chartered Secretaries and Administrators.

Law Society of Scotland

Legal & General Group Plc

Lloyds TSB Bank Plc

MCL Software Ltd

Merrill Lynch Europe Plc

MHA Consulting

NHS Counter Fraud & Security Management Service

OVAG Limited

PKF (UK) LLP

PricewaterhouseCoopers LLP

Prudential Plc

Royal & SunAlliance Plc

UBS AG

WestLB AG

The Panel Looks at Art Fraud

Art crime is now a large, high value 'industry'. A joint Fraud Advisory Panel/Arts Club conference held in London on 23rd May 2005 exposed the tricks of the art crooks and highlighted the latest counter measures. Guests from the art world, law enforcement, security, insurance and accountancy heard from a line up which included some of the world's most renowned experts.

Britain's art market is worth around half a billion pounds a year. Fraudsters make extensive (and often highly ingenious) use of forged provenances and are backed by an illicit and highly organised international trade targeting high value works of art.

Experts believe that between 10 and 40 of pictures for sale by significant artists are bogus, or so over restored as to make them the equivalent of a fake. In 2000 alone, the Metropolitan Police Service seized 22 million worth of stolen or faked antiquities.

As one part of the extensive media coverage put it "the message from many experts was that art and crime should not be a topic for Robin Hood whimsy." Panel Chairman Rosalind Wright told the conference that "Fraud involving art and antiquities is perpetrated not by opportunist thieves but by organised criminals. There is nothing 'gentlemanly' or 'white collar' about it and public confidence in the art market is diminished. How can you be sure of what you're buying at an auction if its provenance is open to doubt?"

Highlights included former forger John Myatt making a joint presentation with retired Metropolitan Police Detective Sergeant Jonathan Searle and Crown Prosecutor, Clifford Allison. Mr Myatt now helps to combat art fraud: "The overall standard of expertise in the art world needs to be improved. I knew it was only a matter of time before I was caught - after all, I painted with household emulsion paint." He noted that someone is now making forged copies of his original fakes.

The British Museum's Dr Paul Craddock told the conference that "Fakery is never pure and rarely simple...as well as copies of originals, genuine but mundane artefacts are subtly changed to being unique, and thus much more valuable. The addition of a royal cipher to a piece of silver does wonders for its value, as does the transformation of a horse into a unicorn...With the range of expertise and apparatus available, the story of every object should be revealed but there are still...objects that are obvious, risible fakes that pass every test".

Mark Dalrymple of loss adjusters Tyler & Co said there were grounds for hope: "Auction houses and dealers are now within the scope of the Money Laundering Regulations making it more difficult for the Fagin's of the world to launder money. This should have a deterrent effect on those lower down the criminal ladder."

We're All Targets Now: The Spread of Fraud

The real incidence of fraud has to be pieced together from a variety of sources. Much goes unrecorded because there is no uniform method of counting such offences across the country's various police forces. Official figures on the extent of fraud are in fact a thoroughly misleading and increasingly dangerous mess. The Home Office does not collect crime statistics from any source other than the police, despite the fact that other public agencies have major anti fraud investigatory roles notably the Benefits Agency, HM Revenue and Customs, the Office of Fair Trading and the Financial Services Authority [FSA]). The frauds they investigate are not recorded in crime statistics for England and Wales. Nor does the British Crime Survey record offences against businesses or frauds on public funds.

The result is a set of official statistics which every concerned and informed observer knows is far from the truth. The Home Office treats an apparent slight fall in fraud and forgery offences recorded by the police in 2003 4 as "unreliable", adding that "For example, individual customers are more likely to take fraudulent transactions up with their bank than report them to the police, and companies may not want to incur negative publicity by reporting fraud." It should also be noted that recorded offences rose from around 175,000 in 1991 2 to almost 318,000 in 2003 4. The Home Office's comments must also cast doubt on the recorded fall to 279,000 in 2004 5.

The last generally accepted estimate of the cost of fraud by National Economic Research Associates on behalf of the Home Office), published as long ago as 2000, totalled 13.8 billion a year, around 230 per head for every man, woman and child in Britain. The figures naturally took no account of unreported fraud, although this was acknowledged by the researchers to be considerable.

A High and Rising Tide

Recent evidence backs claims that fraud has reached immense proportions:

89 of companies with more than 1,000 employees said that they had experienced some form of hi tech crime which usually involves fraud) in 2004 according to a survey for the National Hi Tech Crime Unit. The total estimated minimum cost to this category of companies is 2.45 billion.

APACS reports that card fraud losses rose by 20 in 2004, from 420.4m to 504.8m. Fraud at cash machines grew by 81 to 74.6m during the same period. Card not present fraud against consumers buying goods over the internet and telephone rose by 24 to 150.8m though this was partly a response to the improved security offered by the introduction of CHIP and PIN cards).

25 of UK adults know someone who has fallen victim to identity fraud or have had their identity stolen themselves, according to a March 2005 survey by *Which?* Its role in plastic card fraud rose 22 to 36.9m in 2004 according to APACS. CIFAS - the UK's fraud prevention service, an alliance of suppliers of consumer credit, estimates that approximately 100,000 UK citizens are victims of identity fraud each year.

11 of consumers have been victims of fraud according to a survey of 1,000 households published by information technology company Unisys in August 2005.

A February 2005 survey by Forrester UK Internet User Monitor found that about 600,000 internet banking customers have given up online banking as a direct result of security fears, which also stop another 20 of internet users more than 6 million people from using those services.

A New Level of Criminality

Fraudsters have become more imaginative, skilful and unscrupulous:

CIFAS estimates that between 2001 and 2004, 180,000 families reported that a loved one had been impersonated after his or her death by fraudsters seeking to obtain credit cards and loans (see page 13).

The Finance and Leasing Association (FLA) estimates that companies are losing 50 million a year to criminals who steal the identity of a business and trade under its credit. 120,000 have been stolen so far this year alone. Small companies are particularly vulnerable to corporate identity fraud. Goods and services are ordered using a real corporate name. Suppliers aren't paid and the victimised company may have to go through a lengthy process to correct its records and regain its reputation and credit worthiness.

New technology is being turned to criminal advantage. The FSA warned in late 2004 that the latest personal organisers and mobile phones can be connected to computers in order to steal corporate secrets. Wireless technology is highly vulnerable to those people with easily obtainable scanning equipment. Spyware is a particularly severe threat. In March 2005 a gang infiltrated a major London bank using "keystroking" equipment that enabled them to record and sift every key stroke made on PCs. This would have enabled them to acquire account numbers, passwords and other sensitive information. Fortunately the plot was discovered and closed down.

The Gangs Intervene

Fraud used to be the domain of the corrupt individual. Now organised gangs have transformed it in scale, complexity and scope:

KPMG's Fraud Barometer gauges the total value of fraud cases tried in Crown courts that are each worth at least 100,000. The July 2005 report notes that fraud committed by professional criminals in such cases totalled 191 million.

The FSA announced in November 2004 that persons involved in organised crime were applying for jobs in financial institutions. The National Criminal Intelligence Service (NCIS) reported in September 2005 that "serious organised criminals set out to infiltrate target companies, looking to place individuals in positions where they have access to money, goods, or information that can be turned to financial gain, including information about identities."

Your Friends, Your Family, You: The Human Impact of Fraud

Much is said, and rightly so, about the impact of fraud on prices, taxes and confidence in e business. But far less attention is paid to the impact on individual men and women.

Yet this is where fraud bites hardest, not only in financial terms but also in the wrecking of emotional and physical health and family harmony under the shock. 16 investors took their own lives in the wake of the Barlow Clowes fraud. Every fraud boils down to highly individual pain.

It's Easy to be a Victim

It is widely believed that most fraud victims fall into one of three categories:

1. Too rich to be hurt

2. Too greedy to be pitied

3. Too stupid for words

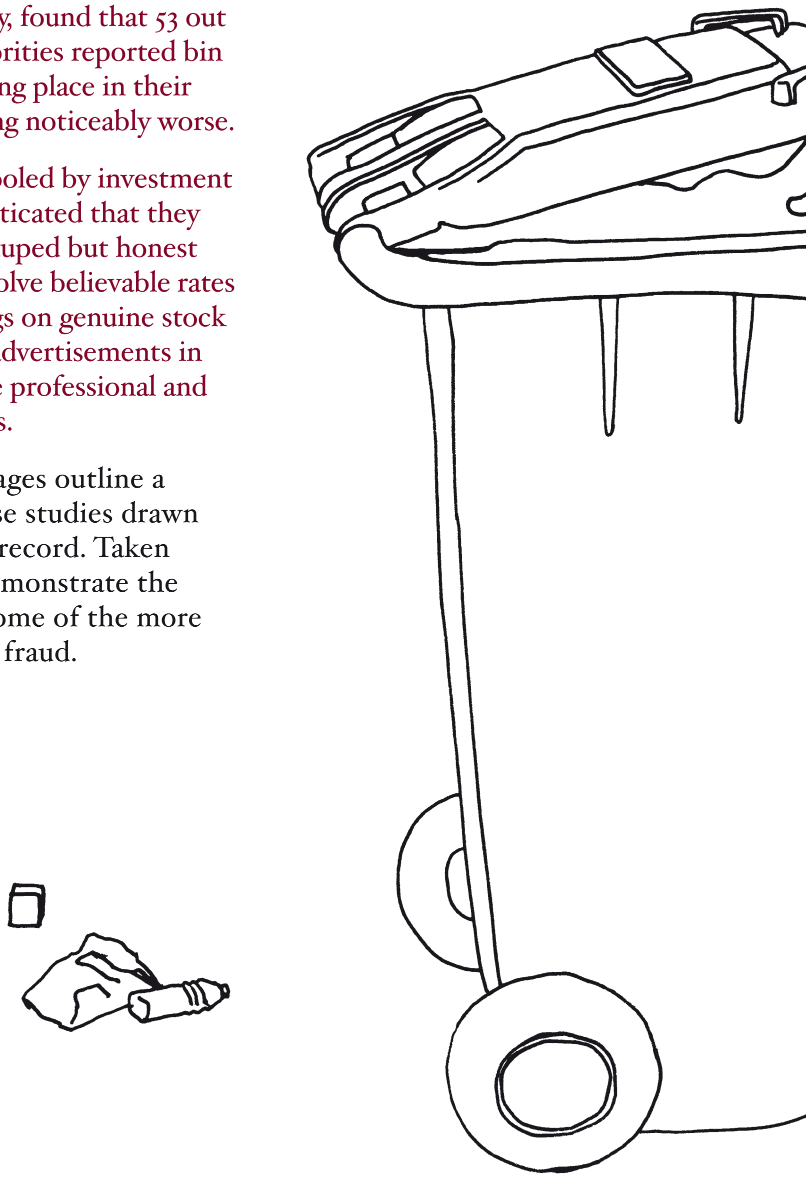
The truth is that most victims of fraud had little choice in the matter.

It's impossible for employees, suppliers or members of a firm's pension fund to stop fraud because they don't have the power to do so. When they lose their jobs, can't get paid for goods or services or lose their pension, they are victims pure and simple.

Identity theft is now commonly committed by organised, professional gangs whose sophisticated methods go far beyond the mere searching of household refuse for old credit card slips. Many identity thieves intercept chequebooks in the mail and use them and the banking information they contain before the customer realises the book is overdue. Even so, 'traditional' methods are still popular: in a survey last year, Experian, a credit reference agency, found that 53 out of 71 local authorities reported bin raiding was taking place in their areas, and getting noticeably worse.

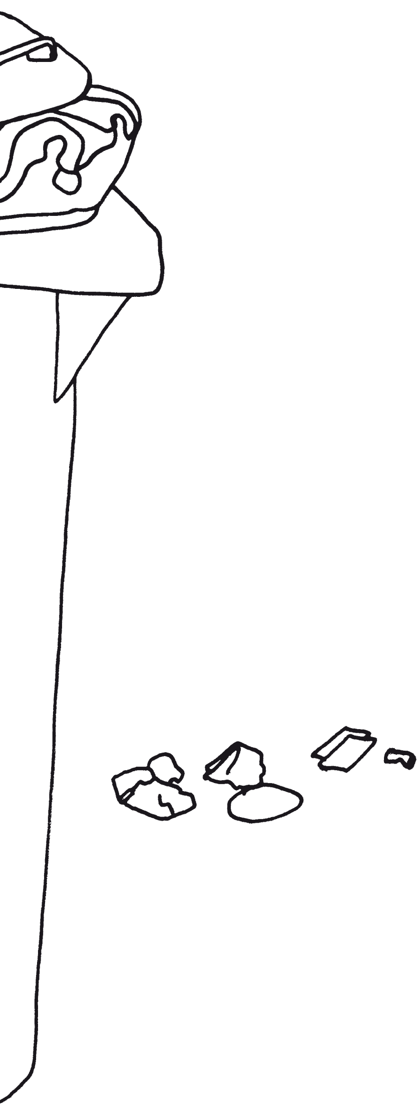
It's easy to be fooled by investment frauds so sophisticated that they are fronted by duped but honest salespeople, involve believable rates of return, listings on genuine stock exchanges and advertisements in highly reputable professional and investor journals.

The following pages outline a series of true case studies drawn from the public record. Taken together they demonstrate the human cost of some of the more notable types of fraud.



‘They Took My Good Name’

One would have thought that impersonating British victims of 2004’s Indian Ocean tsunami would have been beyond the pale. Apparently not. As names, ages and home districts began to be published they were used to obtain credit cards, mobile phones, bank accounts and loans. Nor was this unique: such incidents frequently occur after major accidents.



CIFAS members estimate that 180,000 thefts of the identities of deceased persons took place between 2001 to 2004. 17,500 of these were cases where the dead individual was aged 18 or under; 2,700 involved the identities of children who had died before the age of 10.

CIFAS sums up the human impact:

“You are 80 years old. Your partner of 50 years has died after a long illness. Now you have only memories and are wondering how you will get through the next year alone. The family came for the funeral but they’ve had to go home and can only manage calls or the occasional visit.

“Then you start receiving credit card and bank statements, letters about missed payments, telephone calls demanding money, a visit from a debt collector. No one will believe you. You do not owe anyone any money, but you start to pay one or two of the debts off, thinking that your partner must have borrowed without you knowing and hoping that the debt collectors will go away and leave you alone with your grief.

“This is not a far fetched scenario it happens in Britain today. One elderly victim from the Rhondda valley in South Wales said the fraudsters were ‘stealing the memories’ she had of the good times with her late husband and replacing them with misery.”

‘They Stole My Identity’

There are around 100,000 victims of identity theft a year. It has been claimed that personal data has become so potentially lucrative that some burglars prefer to steal key personal documentation rather than other personal possessions. In fact they needn’t go to such lengths.

In 2005 *Which?* conducted an experiment aimed at ‘stealing’ the identity of a volunteer. “By accessing public documents and posing as the person concerned, the researcher managed to get hold of a birth certificate, mother’s maiden name, place of birth, mortgage details and even a record of gym attendance. An attempt to obtain credit card details only failed because the bank had not been notified of a legitimate change of address.”

Had this been a real case of identity theft the person concerned could have found his bank account looted, or another account plus fraudulent loan or credit card applications set up in his name. Nor need there be tell tale signs; criminals register a false address for a stolen identity to stop its true owner receiving correspondence about fraudulent transactions.

It takes the average victim 18 months to realise they have been targeted by an identity thief. This news often comes only when he or she is denied credit, a mortgage or insurance because of their apparently bad financial record. Since credit files can be checked for job applications, identity theft can even lead to a denial of employment. The Cabinet Office reports that it can take up to 60 hours of work for a typical victim to sort out their life and clear their name. In cases where a 'total hijack' has occurred, perhaps involving 20 30 different lenders, it may take the victim as long as 400 hours.

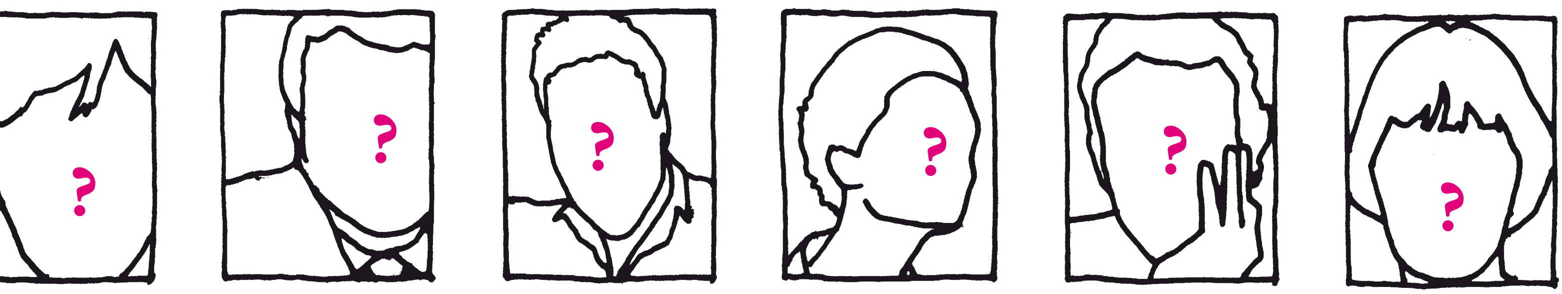
Can't get a mortgage and investigated for money laundering

"My partner and I applied for a mortgage for a property we had fallen in love with. We both have a steady credit rating and good incomes and applied through a mortgage broker. He told me that I had been refused by all the lenders he had approached because I had been applying for loans, mortgages and credit cards from a variety of addresses all over the UK, and I was being investigated for money laundering. This was the first I had heard of this and as a result not only can we not get a mortgage but we also have a blacklisted credit rating. This can't be overturned until I have received a credit report and then run through each and every application in my name. I have had no clear explanation of how this could happen and what I can do to get us out of this horrible situation."

Access to credit affected for over a year

"I was a victim of fraud from an address I lived at in Manchester two years earlier. Several applications for loans and credit agreements were made, using only my name and an out of date address. No other details used were correct. Even with this two companies issued credit in my name. Fortunately, another company, wrote to me to ask if I had requested an account they thought was suspect. As it was, my access to credit was affected for over a year after as additional checks on my identity were always needed). Disappointingly, many people I know think I am just paranoid."

Both cases were reported by BBC Online during 2005.



‘They Destroyed My Job’

When fraud brings a company down its employees fall with it. Here are two cases from the files of the Serious Fraud Office (SFO):

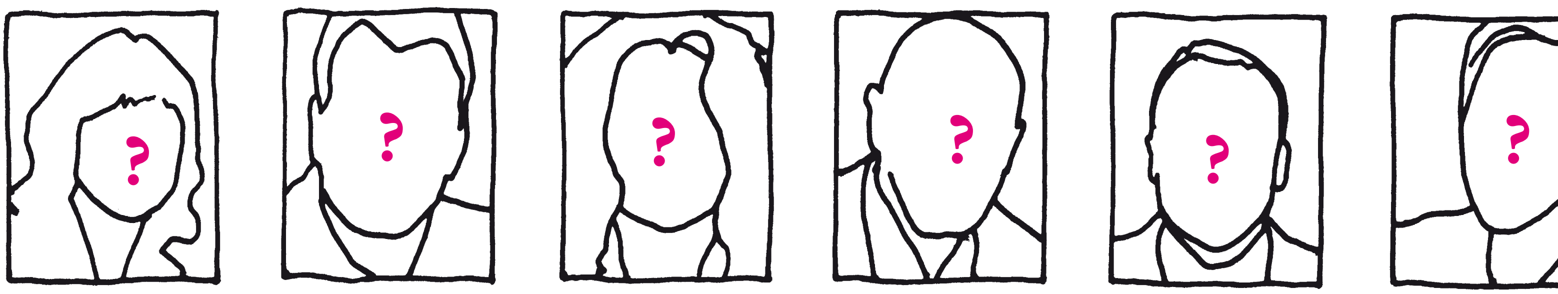
False accounts at Universal Bulk Handling

When this Lancashire company was placed into receivership in February 1999 it had a turnover of around 22m a year and employed 270 staff but was, in fact, a loss-making business whose poor performance was fraudulently hidden by senior management. During the early 1990s the tank container industry experienced adverse trading conditions. In order to present a more favourable financial picture a senior manager began to falsify the firm’s accounts. He and a colleague then concealed the true position from the parent company and the auditors.

A worsening cash flow led to a detailed investigation and the discovery of the true state of the finances. An apparent average annual profit of some £2m turned into a discrepancy of almost 12 million between what the company was supposed to be owed and what it actually owed suppliers and customers. Continued business was untenable and the company was placed in receivership. The factory closed, 270 jobs were lost and a number of creditor firms collapsed. A number of former employees bought its assets but the new business now trades with a reduced workforce.

Asset stripping fraud at Atoriana

Businesses are sometimes acquired with the sole intention of dishonestly extracting cash. In 1999 Atoriana was a successful small business with a turnover of around 800,000. The then owners wanted to take a less active role and were looking for a buyer. After the sale financial control was placed in the hands of the new owners. Within three months Atoriana’s suppliers were not being paid. When it was purchased, the firm had net assets of over 320,000; within four months its liabilities had increased by 50,000 and nearly 230,000 was outstanding to suppliers. There was no money to settle these bills. Over 236,000 had been removed from the company’s account. Insolvency practitioners were called in, the business wound up and jobs lost.



'They Drained My Pension Fund'

"A financial adviser who took almost 800,000 from a pension fund set up for miners after they bought their own pit was jailed for three years yesterday. Colin Stanton, 59, was employed by 300 miners who pooled their resources in 1995 to buy the Tower Colliery, the last deep pit in Wales. They later discovered the pensions expert had taken their savings and disappeared. Some, who had planned to leave, were forced to continue working underground until they had saved the extra cash for their retirement.

Stanton, from Taplow, Bucks, was convicted at his trial two months ago of four charges of evading liability by deception between March 1995 and November 2000. He returned to Reading Crown Court, Berks, yesterday to be sentenced.

Judge Critchlow told him that he had been found guilty of "serious matters of dishonesty." He added: "You came from a mining background yourself and you were highly recommended."

The offences came to light when another client found Stanton had paid himself 85,000 in commission instead of an agreed fee. When miners challenged Stanton over their pension fund arrangements, he offered to repay them £325,000 but instead he disappeared.

A jury had previously heard that the defendant won a contract to set up a new pension scheme for the miners at Tower Colliery in Hirwaun, South Wales, which they had bought from British Coal. The miners voted for Stanton when he promised to share any commission with them. He also told the shareholders they could retire early without being penalised. However, cracks began to emerge in Stanton's business practices when another client made complaints to the police and an investigation was launched."

From *The Daily Telegraph*, 21st December 2001.

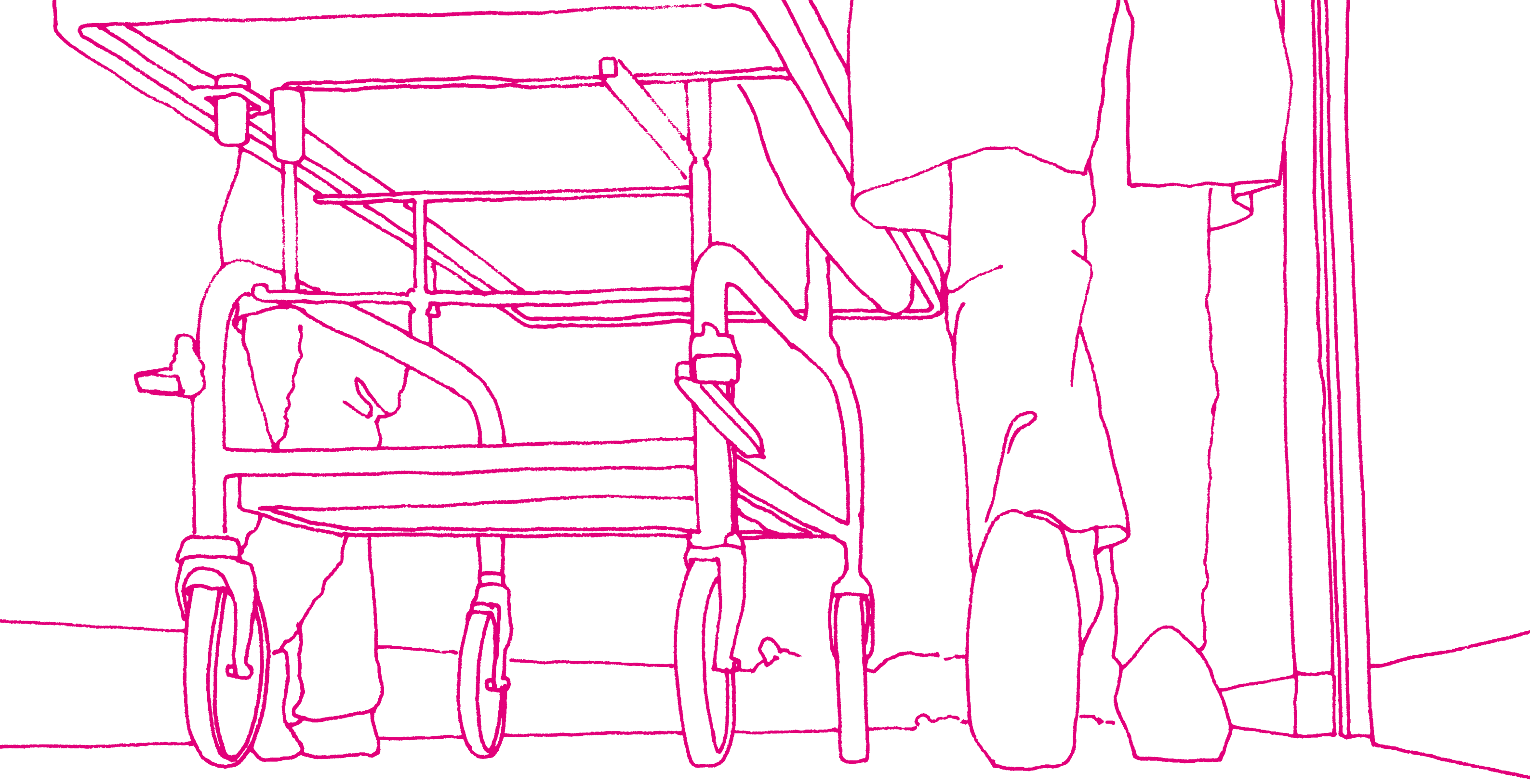
'They Robbed My Life Savings'

The great malt whiskey fraud of the 1990s: It sounds like a farce but it became a tragedy for the thousands who lost most of their life savings, particularly the many old age pensioners. They had been the victims of high pressure marketing by a number of firms claiming that casks of quality young single malt whisky could increase markedly in value over its maturing period, after which it could be re sold. But much of the whisky was recently distilled spirit; its investment potential was always going to be poor. Bonded spirit worth around several million pounds was purchased by investors who found that it was almost impossible to sell.

Yet the investors weren't fools. These were highly professional frauds 'marketed' via high-quality brochures, advertisements in professional journals and highly reputable investment magazines. The media talked up the notion of investing in malt whisky. If experienced journalists were deceived why should the less knowledgeable do better?

Almost 900 investors approached an action group founded by Paul Smith, a Lake District solicitor. Anxiety and illness were rife amongst the elderly victims. Only those who paid by credit card were compensated, together with those who gave evidence at a subsequent trial, the latter group obtaining recompense for only a small proportion of their losses. The majority, including those who paid by cheque got nothing.

It took seven years from investigation of the main fraud to trial. The three defendants received sentences of seven, five and three years respectively.



‘They Betrayed My Trust’

Fraud by trusted advisers causes havoc; the greater the trust, the greater the ability to do damage.

Fraud shakes a small town

Philip Huxtable ran a legal practice Pitts Tucker in North Devon. At the last count in June 2005 he had defrauded 250 families, the county’s Royal Masonic Hospital and the North Devon Hospice. The Law Society has already paid out 2.6 million compensation and some claims are still outstanding.

Huxtable brought an old established country law practice and enhanced its reputation by his apparent care for his clients. One family which had lost its husband and father was given a loan by Huxtable while he was in fact pillaging their loved one’s estate by gross over charging on probate fees.

In one case Huxtable’s services amounted to a fee of 60,000 per hour. He charged another client 1,000 for a single phone call and billed for arranging a funeral which took place before his services had been retained. Some invoices showed that his usual hourly rate of between 100 and 120 had jumped to 1,600 an hour. Many beneficiaries, including charitable institutions, did not receive the sums they had been bequeathed. He cheated people who had known him for years; sometimes he had known their fathers or mothers before them.

Harry Sleeman, investigator for Devon and Cornwall police commented that “You are talking about a small town and the impact that this matter had on Barnstaple was quite traumatic at the time.”

Defrauding the most vulnerable

The NHS’s Counter Fraud and Security Management Service (CFSMS) has reported the following recent frauds:

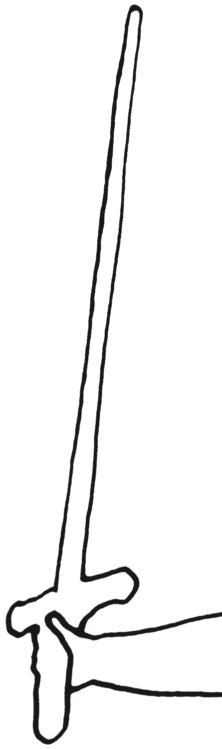
The manager of a residential home for people with severe learning difficulties systematically abused the trust of six of its residents by defrauding them of over 3,500 in a six month period.

A community living scheme manager stole over 12,000 from two disabled patients whose finances he was responsible for managing.

A nurse persuaded patients with learning disabilities to let him hold their building society books and misappropriated over 9,000.

It was announced in July 2005 that the CFSMS had saved the NHS 675m in the last six years. This saving could pay for five new hospitals, 27,000 heart transplants or 170,000 hip replacements.

Bringing to Book? Policing Fraud



Under resourced, Patchy and Inadequate

There's no secret about the overall police response to fraud: it's under resourced, patchy and some beacons of good practice notwithstanding sometimes deeply inadequate.

The current Director of the SFO is on record as saying that "There is no doubt that...a large number of cases have not been investigated when they could have been." A senior Metropolitan Policeman recently told the BBC that "with the former threshold to win police attention as high as 750,000 in London, more and more businesses looked to private sector firms for redress. Individuals, meanwhile, were out in the cold."

The Attorney General, Lord Goldsmith described the current state of affairs honestly but dispiritingly when he said 'To put it bluntly, the risk of detection, investigation, prosecution and conviction of an offence of fraud is small.' That was in September 2003 and little has changed. Some forces have gone so far as to admit openly that certain types of fraud will not be investigated at all. Nor will the new Serious and Organised Crime Agency (SOCA) tackle mainstream fraud.

A debate on the current Fraud Bill in the House of Lords on June 22nd 2005 illustrated the scale of the problem. Baroness Anelay of St Johns cited a briefing by the insurance giant Norwich Union: "In 2004, it identified and prevented 15,000 insurance frauds. Of those, it estimates that 4,000 would have met the criminal level of burden of proof, but it has to be very selective about what it refers on to the police because of the lack of police resources. So it submitted 41 fraud complaints to the police. Generally, those involved organised crime or links to other serious crime, where it believed that the evidence that it could submit to the police was overwhelmingly persuasive. Of those 41 cases, 27 were subsequently investigated by the police. Eighteen came to court and all of them resulted in convictions."

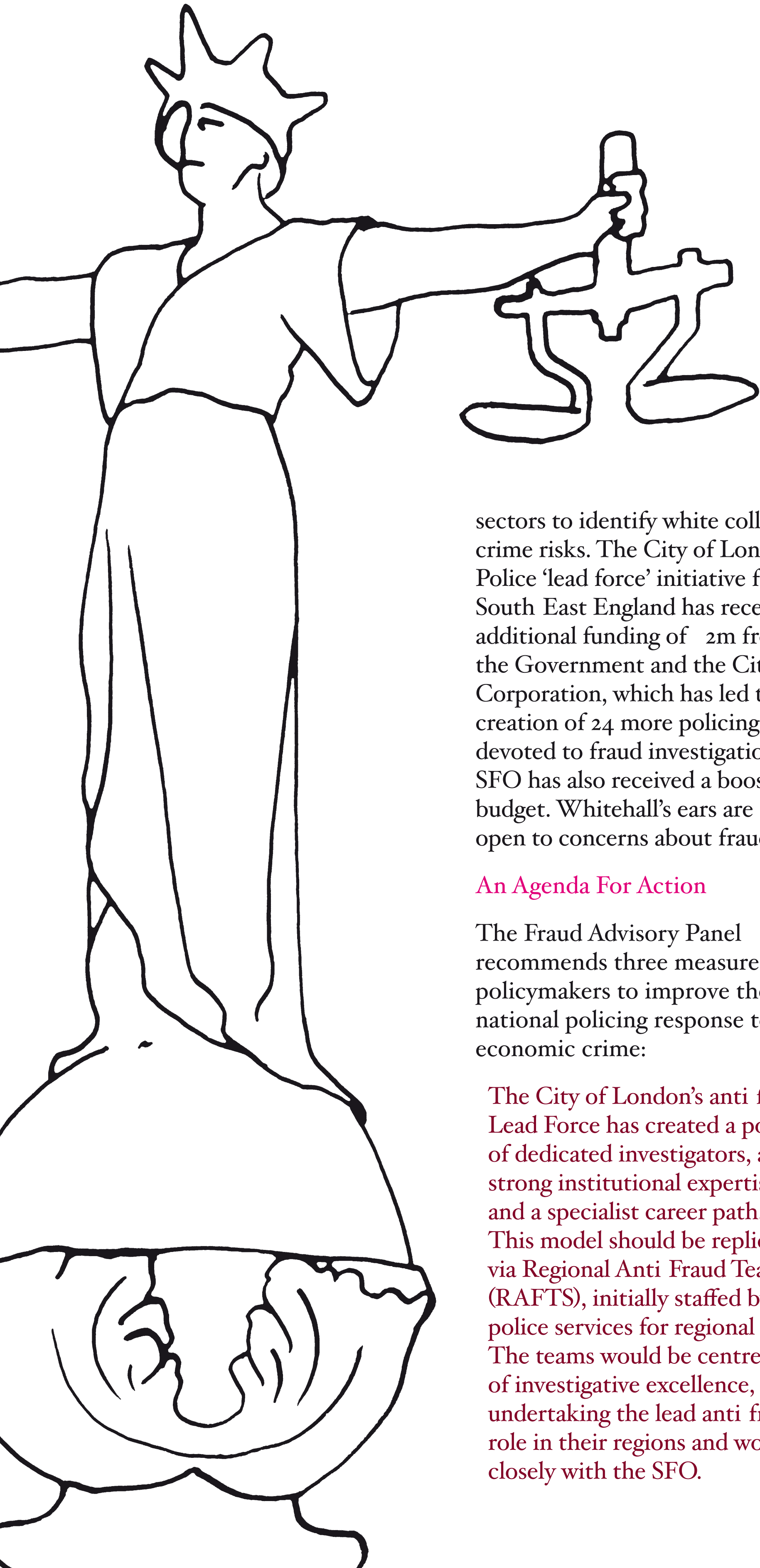
If a household name company can only expect to obtain police investigations in 27 out of 4,000 cases meeting the criminal standard of proof what are the prospects for smaller firms, let alone individuals?

As of May 2005, fewer than half a percent of police officers - about 700 in all worked in a fraud squad. Most county forces have no fraud squads at all; others have only a handful of officers (in one case as few as two). In all forces, such officers are frequently diverted to other pressing investigations. The neglect of economic crime has resulted in far fewer younger officers obtaining relevant experience in this inherently complex area. "We had a hundred and something cops from all around the country at one recent conference," said the head of the City of London Police's economic crime department in May 2005. "If you looked around, they all had grey hair."

Government gives the police little encouragement to tackle fraud. The *National Policing Plan 2004 07* and the recent White Paper *Building Communities Beating Crime* specifies that "citizens should be satisfied that tax payers' money is being spent on issues of the most direct relevance to their safety and well being". This implies that fraud should not be a police priority, erroneously in view of its impact on all sectors of the community.

The current public consultation process reinforces existing policing priorities. Fraud is simply not presented as an issue at local level where consultative committees concentrate largely on street crime and anti social behaviour. The Plan's recommendation that "Police forces should respond positively to businesses' concerns" means little when set against other, more specific, targets and an often serious shortage of manpower.

Significant progress is being made in a few parts of the country. The Metropolitan Police Service's Operation Sterling team is actively working with public and private



sectors to identify white collar crime risks. The City of London Police 'lead force' initiative for South East England has received additional funding of 2m from the Government and the City Corporation, which has led to the creation of 24 more policing posts devoted to fraud investigations. The SFO has also received a boost to its budget. Whitehall's ears are at least open to concerns about fraud.

An Agenda For Action

The Fraud Advisory Panel recommends three measures to policymakers to improve the national policing response to economic crime:

The City of London's anti fraud Lead Force has created a pool of dedicated investigators, a strong institutional expertise and a specialist career path. This model should be replicated via Regional Anti Fraud Teams (RAFTS), initially staffed by the police services for regional areas. The teams would be centres of investigative excellence, undertaking the lead anti fraud role in their regions and working closely with the SFO.

Establish a national fraud intelligence database to which public bodies with investigatory functions such as Revenue and Customs and the FSA, as well as the police, would feed information. This would permit more comprehensive and sophisticated analysis which would in turn lead to better identification of criminal trends, methods and targets.

Establish local Police & Community Fraud Liaison Groups, with members drawn from chambers of commerce, professional associations, local authorities and other interested parties. Such fora would ensure that detailed information and concerns were fed through to local police command units. Once fraud is fully established on the local agenda the scale of the problem will become more transparent and the desire to tackle it more urgent.

Fit for Purpose? Law and Court Procedure

The Fraud Bill 2005

English law recognises no offence of fraud *per se*. The Fraud Bill 2005, which should be enacted next year, will for the first time provide a legal definition as well as augmenting the arsenal of measures against economic crime. The Panel had long argued for such a measure. The Bill will:

- Simplify fraud law, making it more easily comprehensible to juries.
- Reduce the risk of cases being successfully disputed on technical points.
- Facilitate prosecutions by focusing on intentions rather than outcomes.
- Enable the law to be used to counteract changes in technological, commercial and other practices.

The Panel argued that the offence of conspiracy to defraud should be retained and ministers have agreed. Abolition would have severely restricted the Crown's ability to prosecute large and serious fraud cases. A conspiracy charge allows juries to be shown evidence of a pattern of dishonest behaviour rather than what appears to be merely a string of minor frauds. The prosecution can therefore demonstrate how devastating a large number of such small offences can be.

Expediting Court Proceedings

March 2005 saw the start of a new approach to court proceedings in serious and complex fraud cases. It also saw dramatic confirmation of the need for radical change.

The collapse of the 'Jubilee Line Extension corruption case' exposed the kind of shortcomings that the Panel and others have long drawn attention to. The trial cost 60 million, lasted more than 21 months, involved 26 million pages of unused material, saw repeated delays, extended legal argument on admissibility of evidence jurors were only present for 17 of the time plus adjournments for illness. Two jurors left, one because she had become pregnant. In the event the presiding Judge ruled that justice would not be served by continuing the case.

The average length of a contested serious fraud case is now about six months, more than twice the length of an average major non fraud trial. The pressure that hearings of this length impose on all concerned, trial judge, counsel, the witnesses (including the victims), jurors and the defendants themselves, is considerable. The issues are often extremely complex, the transactions convoluted and outside the experience of non specialists. This in turn complicates the way issues are presented to the court and lengthens the trial process.

The Protocol and Practice Directions to judges on management of complex and lengthy criminal trials were issued by the Lord Chief Justice, Lord Woolf, on the day the Jubilee Line case ended. They came into force on 5th April 2005.

It is now clearly stated that no trial should be permitted to exceed three months, or an outer limit of six months, save in exceptional circumstances. Judges now have a clear managerial role in ensuring quicker and smoother proceedings. Wherever practical, the same judge will handle the entire case. The trial date will also be fixed at the first opportunity so that both sides can work to a realistic timetable.

The Protocol highlights the immense importance of good pre trial preparation. The Panel has long argued for more attention to be paid to the pre trial phase, where non contentious or peripheral matters can be argued out before the jury is convened. The trial itself can then concentrate on fundamental issues.

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