

FRAUDTRACK 9
UNDER STARTER'S ORDERS

THE OPENING CEREMONY

Dear Reader,

I am delighted to welcome you to the ninth edition of FraudTrack.

Given the upcoming London 2012 Olympic Games and Euro 2012, it is likely that sport will be the hot topic on everyone's lips over the next few months. We thought this would be a good opportunity to discuss some of the common analogies we see between the world of sport and the world of fraud. Indeed, some frauds are committed by a team of people, others by individuals; some frauds can be very quick events, others can be drawn out and more complicated; often the frontrunners will be obvious, but there will also be underdogs that 'come up on the blind side' to steal the prize.

Those in charge of any type of organisation are also faced with many of the same challenges as those involved in sport. Competition is fierce, the stakes are high and, often as a result, both have been known to bring out the best and the worst in people. As Plato once said, "You can discover more about a person in an hour of play than in a year of conversation".

If a fraud is perpetrated against you or your organisation, the slur on your reputation, loss of employees, plummeting share price and loss of business are just some of the consequences. But, if you are well prepared and 'fit for purpose' to deal effectively with any incidents of fraud, these negative outcomes can be mitigated.

We hope this publication will reiterate the need for fraud prevention and the importance of being well prepared. On your marks, get set, go!

Yours sincerely

Simon Bevan
Partner, National Head of Fraud



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ANCIENT VS. MODERN

Sport, much like fraud, has evolved significantly over the years. We have seen a change in the types of sports that are popular – gladiatorial fighting is, thankfully, no longer a national pastime – and we have witnessed the commercialisation and globalisation of sport. With billions of pounds being generated across the industry, the stakes are higher and it is more competitive than ever.

One of the major developments for modern sporting events is in the use of technology. Technological advancements have allowed greater access to sport across the globe, a faster pace of game and reduced the risk of decisions being open to interpretation. Given the existence of photographic and video technology in sports such as rugby, athletics and tennis, officials are now armed with the tools to more effectively measure false starts, long shots or, indeed, foul play.

Technology has had a big impact in helping organisations prevent and deal more proficiently with fraud. In addition to implementing online compliance systems, or internal auditing software, organisations can now use technology to help identify fraudsters following an attack. During a fraud investigation, we will work with our Technology Forensics' team to sift through data, such as financial accounting records, emails and electronic records, to identify that 'smoking gun'.



Fraud Risk:

Individuals collude to inflate the price of goods and services to a buyer. The kickbacks the buyer receives will rarely go into a UK bank account.





Unfortunately technology can also work in favour of fraudsters, allowing for changes in techniques and a 'slicker' modus operandi. The ability to instantly move funds or data – for example, payment of a fake invoice to a dummy company, or price sensitive tender documentation emailed to a competitor – has re-written the rule book for what fraudsters can get away with. This has left many organisations, particularly those that are reliant on intellectual property or data, facing new fraud risks. As a result, organisations must work hard to identify their own particular risks and implement adequate safeguards and controls to prevent fraud occurring.

“Doctors and scientists said that breaking the four-minute mile was impossible, that one would die in the attempt. Thus, when I got up from the track after collapsing at the finish line, I figured I was dead”.

ROGER BANNISTER
(the first person to break the four minute mile)

THE TRAINING REGIME – PREPARATION IS EVERYTHING!

In order to maximise your ability to combat fraud, organisations need to be prepared; 'getting into shape' and becoming 'fighting fit' are key to your organisation's success.

Organisations need to take a proactive, rather than reactive, approach when it comes to preventing fraud. Too often internal risk management teams are either too externally focused or fail to look at fraud from a wider financial risk perspective. It is important to take an income and expenditure approach to fraud risk. That is to say, you look at your income and expenditure and the areas in which you receive or pay the most money will be where the greatest fraud risk lies. For example, a cable manufacturer's greatest expenditure may be in the purchase of copper, whereas for a call centre, payroll may well be the biggest risk area. You cannot design all fraud risk out of a business but you can certainly put trip wires in place to ensure the fraud is discovered quickly and appropriate action is taken.

Fraud Risk:

Do not allow falsified CVs to facilitate recruitment of a fraudster. Take a risk based approach – the more senior positions should have the most vetting.

Be vigilant to the fact that fraudsters will try harder and attempt to find more devious ways to beat the system in order to 'triumph' in their attempts to get what they desire!

THE FRAUDBOARD

1	RECRUITMENT - VET POTENTIAL RECRUITS. CHECK QUALIFICATIONS AND REFERENCES.
2	EVEN WITH GOOD CHECKS IT IS LIKELY SOME POTENTIAL FRAUDSTERS WILL STILL BE EMPLOYED. TRAIN EVERYONE IN CODES OF PRACTICE AND POLICIES.
3	REVIEW YOUR SPENDING - CONSIDER WHETHER THIS IS HIGHER THAN IT SHOULD BE. CONDUCT ZERO-BASED BUDGETING.
4	LOOK OUT FOR WARNING SIGNS AMONGST YOUR STAFF - ARE THEY LIVING BEYOND THEIR MEANS? A GOOD PLACE TO START IS THE CAR PARK!
5	IT SECURITY - ENSURE USER PERMISSIONS AND ACCESS RIGHTS ARE UP TO DATE FOR ALL EMPLOYEES AND DO NOT GIVE TEMPORARY STAFF UNRESTRICTED ACCESS. PREVENT COPYING OF DATA TO USB DEVICES.
6	KNOW YOUR RISKS - FRAUDSTERS ARE MORE LIKELY TO ATTACK AREAS OF THE BUSINESS WHERE THERE IS THE MOST EXPENDITURE. FOR EXAMPLE, FIXED ASSET PROCUREMENT.
7	INSTALL TRIP WIRES - TEST YOUR OWN DEFENCES AND CONTROLS.
8	MONITOR YOUR SUPPLIERS - JUST AS FRAUDSTERS CAN OPERATE FROM WITHIN, EXTERNAL SUPPLIERS MAY DECIDE TO DEFRAUD YOU.

INTERNATIONAL ARENA

Sport, it is often said, is a universal language. Its popularity transcends borders, cultures and religions and, given our ever shrinking world, it has become increasingly international. You only have to look at the number of different nationalities represented in the Premier League to see evidence of this. Fraud is similar in many ways – occurring across the globe, in many different forms and becoming increasingly international in how it manifests itself.

Fraud Risk:

In order to cover up a loss created by an unauthorised move from hedging to speculating, an employee may continue to dig an organisation into a deeper hole and create an even bigger loss.

Technological advancements, ease of travel and the ability to move money and data between different countries in seconds, all mean that modern day frauds will often involve teams who operate within an international network, in order to increase their ill-gotten gains and cover their tracks. Globalisation also means that the business world, in particular, is increasingly exposed to new customers, suppliers, business regimes and, consequently, fraud risks. Consider, for example, a UK domiciled manufacturing business with headquarters and distribution centres in the UK, and manufacturing plants located many thousands of miles away. These new locations are often rooted in emerging economies to take advantage of a cheaper workforce and cheaper materials, however they often come with a consequential absence or watering down of regulations. This makes it all the more challenging to effectively prevent, or deal with, fraud or bribery. Differing business ethics in the developing world means that UK companies now have to balance low overseas labour costs against the increased risk of falling foul of the UK Bribery Act. Severe individual and corporate penalties mean that bribery risk must now be on the boardroom agenda. For further information, please go to: www.bdo.co.uk/bribery





BDO has fraud teams in a number of offices internationally who are able to work together to fight fraud. We have an outstanding global network of over 1,000 offices in more than 100 countries, with offices as far afield as the USA, Australia, China and Dubai, giving us a distinct advantage in the fight against international fraud. Moreover, our dedicated UK team investigates white collar fraud not only in the UK, but across other countries such as China, USA, Canada, South Africa, Germany and Switzerland.

“Sport has the power to change the world. It has the power to inspire, it has the power to unite people in a way that little else does”.

NELSON MANDELA
(former President, South Africa)



THE OUTSIDE CHANCE

As accountants, we're not exactly what you would call 'gambling types', but if we were, we certainly wouldn't put our money on guessing who, within an organisation, would be most likely to commit a fraud. The fact is, there is no quintessential fraudster; they can be men or women, young or old, with large or small incomes and with any number of motivations. The one common motive which appears on our radar time and time again is greed; never underestimate the fraudster's capacity for greed, no matter how well remunerated they may be – if they have a big car, they will want an even bigger car, if they have a 70 ft yacht they will want a 100 ft yacht!

"Float like a butterfly,
sting like a bee".

MUHAMMAD ALI
(American boxer)

It can often be the person you least expect who will commit a fraud against you, or your company. As part of one investigation carried out by BDO, the longest serving employee of the organisation was supplied to our investigation team as a key contact who could provide any information required. However, it was this most trusted employee, with access to all the electronic systems and knowledge of internal policies and procedures, who was eventually identified by BDO as the actual fraudster. As a trusted member of staff, they had been committing fraud under the radar for a number of years. In our experience the perpetrator is often the person you least expect.

That said, organisations can assess the risks appropriate to both themselves and their sector and then monitor the people closest to those risk areas. Take, for example, financial services, in which the most costly frauds are often committed by employees and management. Those employees conducting commercial lending, with responsibility for the organisation's largest loans, may well be your biggest fraud risk. However, in retail, it may be that shop refurbishment is where you are most exposed, or your property team and their relationship with suppliers and third parties that need the closest attention. Indeed, this year's FraudTrack figures indicate that 30% of reported fraud is committed by suppliers and customers. Once these risks have been identified, beware of people who have unbridled power through seniority and consider adding your own 'tripwires' or divisions of duty, to check 'trusted' employees.

Fraud Risk:

Your sales force could conspire with your customers to dilute revenue by giving unjustified credit notes or discounts in return for kick backs.

BEWARE OF THE REPUTATIONAL RED CARD

Often the most controversial sporting moments are the most memorable. Ask any football fan about renowned Argentinean footballer Diego Maradona and they will no doubt mention the infamous 'hand of God' incident. Likewise, incidents such as rugby union's 'bloodgate', or international cricket's recent match-fixing debacle, often overshadow the good work done by the majority of sportsmen and sportswomen. It's very much the same when it comes to your reputation. Tell the media about your stellar customer service, or year-on-year profit rise and the chances are they won't be particularly interested. Lose a customer database to an internal fraudster however, and you could well end up on the front page of the press or 'trending' on the latest social media platform – for all the wrong reasons.

Fraud Risk:

Some of your employees may be running a business within your business by conspiring together to set up a rival organisation that takes away revenue that would otherwise come to you.

Organisations need to consider fraud and bribery risk in a wider context. Direct financial loss arising from a fraud may feel like your goalie failed to save a crucial penalty shot, however this isn't the only result that should drive your business strategy. Five years ago nearly all our fraud work was driven by quantum, but increasingly, our clients' major concern is reputation.

Reputational damage, whether long or short term, can have a greater consequence on your business than just the financial loss. You can suffer market deprivation, loss of customer base and employee morale, increased regulatory scrutiny, and decreased shareholder and banking confidence. If, for example, your fraud or bribery issues come to the attention of UK or US regulators, the consequential effect on your organisation's reputation could 'go viral' in a matter of hours, due to 24 hour rolling news and social media.





Or, if one of your overseas agents is seen to have bribed a government official you may not only be debarred from governmental work in that country but, under the intense media spotlight, your reputation will travel faster than you can control and you will lose governmental work elsewhere because of the negative association with your business.

No matter how much organisations and regulatory bodies try to eradicate fraud and bribery risk, much like cheating and controversy in sport, these issues will never go away. The impact on your reputation is a fundamental commercial risk that needs to be managed; a very real threat which should not be taken lightly.

"If winning isn't everything, why do they keep score?"

VINCE LOMBARDI
(American NFL coach)



DIFFERENT STROKES FOR DIFFERENT FOLKS

You could say that there is a sport for everyone. Chess is the thinking man's game, requiring a long term strategy, but not a great deal of physical exertion. Boxing, on the other hand, requires strength, agility and, most importantly, stamina. A sportsman's success will depend partly on their ability to pursue a sport that is best suited to their own strengths and skills.

The same can be said of fraud. Different incidents will occur depending on the position, expertise and responsibility of the fraudster in question. We see an array of different frauds being committed, depending on the organisation, or offender(s) in question. Some are drawn out and complex, expertly implemented in order to avoid raising alarms, whereas some will be high impact, quickly executed frauds, for example treasury frauds. Some involve teams of people working together, often across jurisdictions, whereas others will be committed by a lone fraudster.

Here are some sports comparisons to consider...

SHORT VS. LONG

100m vs. Marathon

Compare the fast paced and dynamic one-off event with a longer term and larger scale marathon. Perhaps a temporary employee gaining access to the company's IT systems to commit an accounts payable fraud versus the infamous Bernie Madoff ponzi scheme, considered to be the largest fraud of its kind in US history. Here are two frauds on a very different scale, yet both are examples of fraudsters abusing their relative position and power. The message? Fraud can occur anywhere within your business!

SINGULAR VS. TEAM SPORT

Rowing (skulls) vs. Rowing (8s)

The lone operator versus the well crafted team – compare the young Frank Abagnale, who defrauded the USA (amongst others) out of millions of dollars, with a group of procurement fraudsters working together to steal goods from your organisation. Fraud comes in all shapes and sizes.

POWER VS. AGILITY

Heavyweight vs. Bantamweight

Compare the real 'powerhouse' of boxing heavyweights to the speed and agility of the bantamweight: In fraud terms, this is comparable to the large financial institution that recently had one of its traders accused of unauthorised trading, which generated debts of up to \$1bn, versus an owner managed business having its key contacts sold to a competitor. Whatever the difference in size of

"Serious sport has nothing to do with fair play. It is bound up with hatred, jealousy, boastfulness, disregard of all rules and sadistic pleasure in witnessing violence. In other words, it is war minus the shooting".

GEORGE ORWELL
(Author)

company, the impact on your business can still be huge, both financially and in terms of reputation.

INTERNAL VS. EXTERNAL

The own goal vs. The open goal

Few losses in football can be more galling than those caused by an own goal. Even those instances where a 'defensive error', as Alan Hansen might say, effectively leaves the other side with an 'open goal' are still not quite as bad as having one of your own players kicking the ball in the back of your own net! Frauds are just as often caused by internal forces, as they are external. Internal frauds can include those involving payroll, ghost employees or theft of actual goods, as well as illegal trading. External frauds, on the other hand, are usually down to suppliers overcharging and under delivering. Be vigilant of threats to your company from both inside and outside.

THE WINNER TAKES IT ALL

Going for GOLD!

The key things clients want from a fraud investigation...



Confidentiality – First and foremost, the client needs to know that this kind of investigation will remain confidential in order to protect their reputation. Reputation is everything. Loss of reputation can lead to a loss of existing or future customers, employees and damage to the share price. These issues lead to financial losses further down the track, which often far outweigh the actual losses from the fraud.



Recovered money – Whilst not all frauds result in a significant financial loss, many frauds can be financially material, so any possible recoveries may help alleviate a company's deficit; this may involve civil proceedings. Similarly, businesses should be aware of any insurance policies where potential recoveries could also be significant.



A clean slate – Clients not only want to get the fraudster out of the door or off their books, but they need to know their organisation is not tainted by any residual issues left behind by the fraud. They need to be confident they have 'cut back to good wood' so they can demonstrate to regulators, shareholders, the board and other stakeholders that they have dealt with the issue thoroughly and have a clean slate going forward.

Clients value the varied skill sets we bring to an investigation. BDO provides winning solutions to client issues. See our credentials on Page 17.



CLOSING CEREMONY

Prepare your organisation's fraud response regime:

- Establish your own 'Fraud Response Team' and list contact details including out of hours numbers for:
 - Chief Executive
 - Finance Director
 - Head of HR
- Contact other relevant parties:
 - Dedicated fraud experts, such as BDO
 - Your regulator
 - Insurers
- Specialist technology forensics may be required to secure and protect electronic evidence
- Investigate – prepare a fraud investigation strategy and timetable
- Quantify the loss
- Manage reputation and PR
- Review reasons for loss and prevent recurrence
- Carry on the day to day running of the business

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Simon Bevan is BDO's UK Head of Fraud. Simon is an acknowledged expert in fraud and financial investigations with over 25 years' experience; he has conducted over 100 fraud investigations in 20 different countries. Simon was instrumental in the set up of the financial investigation departments at two other international accountancy firms and he is a renowned expert in the field, regularly appearing on national and international radio and television.



THERE'S NO 'I' IN TEAM – BUT THERE IS IN INVESTIGATION

What can the 'winning' fraud team at BDO do to help? We are a highly trained, motivated and specialist team of 'athletes' ready to 'bring home the winning prize' for our clients. Standing apart from the 'Big Four' accountancy firms, we can offer you more partner time, more experienced staff and the skills, power and mental agility to assist you through a difficult period and help you defend your business.

QUICK REFLEXES

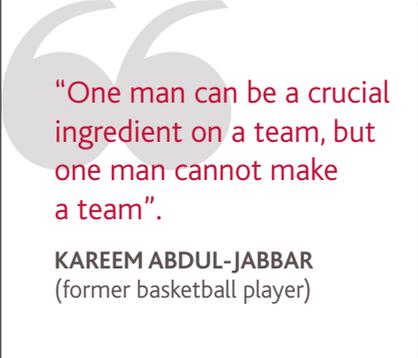
Discovering a fraud can be a particularly unnerving event. The receipt of a whistle-blowing letter, the discovery of an accounting 'black hole', or two sets of conflicting financial statements can cause anxiety, frustration and a great deal of wasted time. Fortunately, expert help is at hand; a simple phone call is all it takes to discuss how our team can help you resolve your problem.

A NATURAL TALENT

Our team is well equipped to undertake large, complex investigations where lateral thinking, diligence, technical ability and intuition are crucial in bringing about well reasoned and strong conclusions from an investigation. We have extensive experience of intelligence and information gathering, analysing and cross matching large and complex datasets from a vast variety of sources.

WALK THE WALK (BUT DON'T TALK THE TALK)

We understand the need for the strictest confidentiality in fraud matters. Companies do not wish to see their name in the papers for the wrong reasons, nor will they want to allow suppliers and customers to take advantage of such a situation. With our extensive insight and experience, we will do all we can to protect your business reputation from potential damage following the discovery of a fraud.



"One man can be a crucial ingredient on a team, but one man cannot make a team".

KAREEM ABDUL-JABBAR
(former basketball player)

RAPID REACTIONS

Fraud cases demand prompt action. Our national team has bases in Leeds and London and we can also call in our BDO International colleagues from around the world. We can have a team on-site in less than one day of the discovery of fraud, often within just a few hours. We make quick, efficient and robust decisions, challenge clients when appropriate and give straight answers.

TECHNOLOGICALLY SOPHISTICATED

Our dedicated Technology Forensics' team is trained in line with the Association of Chief Police Officers' guidelines in capturing data from computer hard drives and other electronic devices.

VITAL STATISTICS – A RECORD BREAKING YEAR!

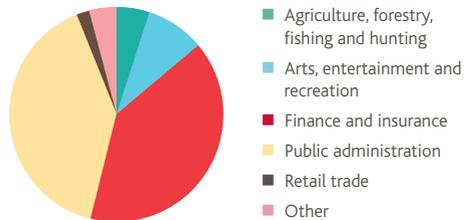
The value of reported fraud rocketed to more than £2bn in the UK in 2011, representing a 50% increase on 2010's figure of £1.4bn and the highest ever figure for our annual FraudTrack survey. This means that since its launch in 2003, when fraud totalled £331m, there has been a seven-fold increase in the cost of reported fraud.

There has also been a dramatic rise in both the number, and average value, of reported cases. In 2011, there were 413 reported cases at an average value of £5m, compared with 372 cases in 2010, at an average value of £3.7m.

Please visit <http://www.bdo.co.uk/fraudtrack> for a more detailed breakdown of our FraudTrack 2011 results.

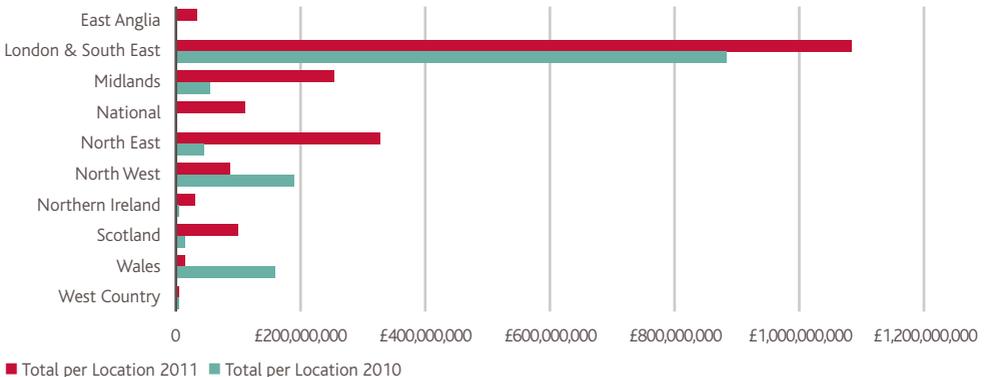
FRAUD PER SECTOR

The figures indicate that fraud tends to occur most frequently in the finance and insurance sectors and in public administration.



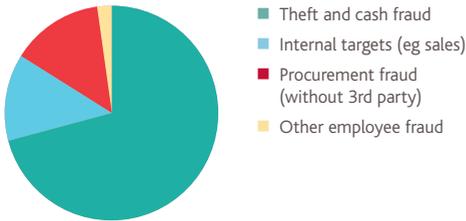
TOTAL OF FRAUD BY LOCATION

The total fraud figures by location have not changed significantly to the 'picture' from last year, however, there is a new 'peak' of frauds in the North East of England.



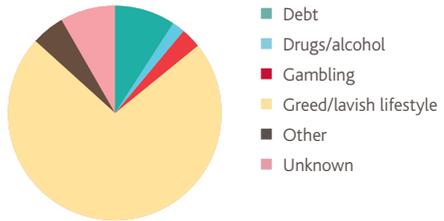
EMPLOYEE FRAUD

Our latest statistics show that employees mainly commit theft and cash fraud.



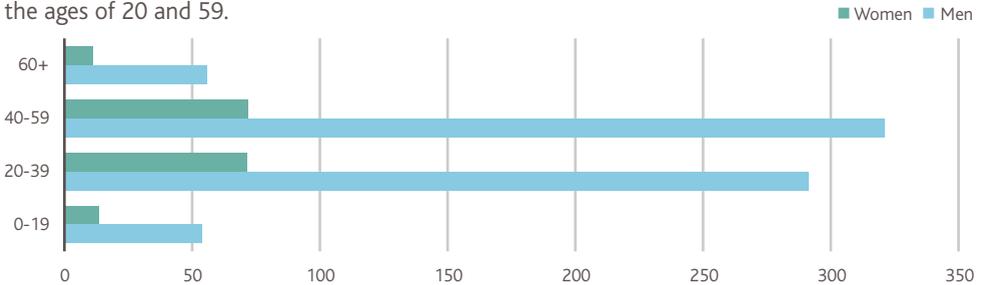
MOTIVES

Once again, top of the list for motive is greed; a fraudster's capacity for greed never fails to surprise us.



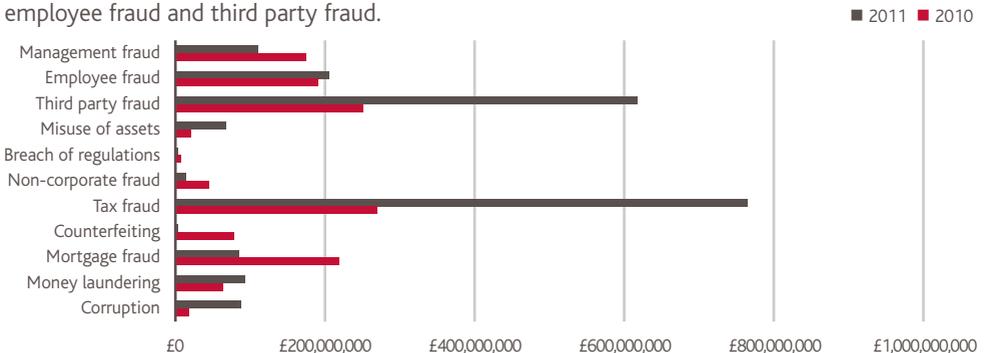
TYPE OF PERPETRATOR

Age range of perpetrators is varied; but often the fraudsters are more likely to be men between the ages of 20 and 59.



TYPE OF FRAUD

Types of fraud tend to vary significantly but the most frequent are tax fraud, employee fraud and third party fraud.



CONTACT US

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Next year we will be publishing our inaugural FraudTrack International research, which will combine reported fraud data from over a dozen countries among the BDO member firms.

ABOUT FRAUDTRACK 9

FraudTrack 9 is prepared by BDO and is based on all reported fraud cases over £50,000 from December 2010 to November 2011*. The sources for the database are publicly available and include the UK's national, regional and local press. For more information, please go to:

www.bdo.co.uk/fraudtrack

*It should be noted that there were two large cases last year (one of fraud, one of attempted fraud) with a total potential benefit in excess of £9 billion. These cases were not included in the figures to prevent undue and unnecessary skewing of the fraud figures.

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