

FRAUDCAST

Welcome to the Spring / Summer issue of Fraudcast, the quarterly email bulletin produced by the North East Fraud Forum and Quantis, Chartered Accountants, bringing you the latest fraud news and developments in the UK and across the world. In this issue we look at the theme of the forthcoming NEFF conference, namely 'Learning from Fraudsters', together with news on the progress of the Fraud Bill and some useful tips on recognising the latest scams.

NEFF UPDATE FROM PHIL BUTLER

PROTIVITI 'LEARNING FROM FRAUDSTERS' SURVEY

Protiviti, an independent risk consulting firm, have kindly given us permission to use some of the extracts from their excellent piece of research into the motives and mindsets of convicted fraudsters. The findings of the survey make for excellent, if not very worrying, reading.

It opens with the following quote from a convicted fraudster: 'Accountants can only work on the figures they have got, audit the same. Auditors came to see me and I just lied to them and gave them false pieces of paper and that was that. The checking process was abysmal. I was not worried because I have over 20 years' experience of auditors. Had they been better at their job I would have been in trouble. What I was doing was simple, but the lack of process enable me to do what I did, the absence of systems, the lack of attention to detail, the lack of knowledge in auditing and accounting. I had three audits in those 18 months. And I recall a balance sheet did not balance. Now there was good reason but I did not want it interrogated too much because that could highlight the bit I had taken. And so I worked hard at sorting this, I worked intensely for half a day. I gave the auditor the information and he said, 'thank goodness for that', and my thought was 'you complete muppet'. I really went through that with a passion just in case it was something involving me. There was no interrogation from audit and that was good for me.'

The Executive Summary of the report highlights the following:

- Reasons for offending include debt and greed, boredom, a lack of lift structure, blackmail and temporary insanity;
- Some interviewees claimed that a corrupt company / industry culture facilitated their offending. Some felt very poorly treated by their employers, either through low pay or inadequate rewards, but also because they felt unsupported;
- Committing offences was easy, there was little evidence of fraud prevention strategies, and there were easy opportunities not least because of weak financial or regulatory systems;
- Offenders abused the position of trust – which is not only associated with seniority – because it was that which gave them the autonomy and the lack of visibility to commit offences, and enable them to feel they would not be detected;
- Most offenders had acquired all the skills and knowledge they needed via their normal course of employment;
- The audit function (be it internal or external) was rarely perceived as a threat, although it was responsible for identifying some frauds and contributed to the identification of some offenders;
- Whatever their initial reason for committing the offence, most continued because they enjoyed the benefits of the money;
- Some interviewees described being caught as a relief; some were shocked;

- Many were concerned at the level of initial accusations made against them, which were far higher than the offences they knew they had committed. Some felt this made it difficult to co-operate with the police. Some admitted that they found this scary;
- Sentences were considered to be tough; in addition to having to repay all of the money taken (which included having to cash in pension funds and selling homes), they received what they considered long prison sentences;
- No one said they would commit the offences again.

These points highlight the ease with which some frauds are perpetrated and confirm the long held view that many fraudsters have the opportunity 'put on a plate' for them, rather than actively seeking them out.

Mike Adlem, Managing Director of Protiviti UK, is one of the guest speakers at the NEFF Conference in June, will discuss the findings of the research in more detail.

NEFF members can obtain copies of the full report via Protiviti's website www.protiviti.co.uk, it's well worth a read.

THE FRAUD BILL 2005

At the time of writing, the Fraud Bill 2005 is currently in progress through Parliament. As things stand, English law does not recognise the offence of fraud. The new Bill, which should be enacted later this year, will for the first time provide a legal definition as well as augmenting the arsenal of measures against economic crime. 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 offence of conspiracy to defraud has been retained, in order to allow Prosecutors to show juries that a pattern of dishonest behaviour was in place, rather than a string of minor frauds. This will enable the Prosecution to demonstrate how devastating a large number of small offences can be.

WHO YOU GONNA CALL 'SCAMBUSTERS'

The Office of Fair Trading has been running a 'stamp out scams' campaign throughout the early months of 2006.

The OFT website, www.offt.gov.uk/Consumer/Scams, allows you to download the 'How to recognise a scam' or the 'Scambusters' leaflet.

You can test yourself to see if you are a scambuster by playing the online quiz, as well as play the interactive phishing and spam scam games for tips on how to recognise internet scams and how to avoid them.

Whilst the majority of readers will feel that they would easily spot a scam, it is surprising that many professional people still fall foul. At Quantis we have recently been involved in the trial of an accountant who used his client's money to invest in what turned out to be a 'boiler room' scam. At the time, he was taken in by the opportunity to make good returns over the short-term. However, after some months of getting little or no answers (despite investing further client monies), it finally dawned that there may be something amiss and he started to chase the money with some vigour. In the end, an investment of almost £150,000 turned out to be worthless.

So I felt it would be worthwhile to re-emphasise the OFT's message of how to beat the scammers.

How to recognise a scam - is it too good to be true?

THE CON

How scam artists succeed - they will:

- catch you unawares, contacting you, without you asking them to, by phone, email, post or sometimes in person
- sound pleasant, well spoken and kind (on the phone or at your door) and want you to think they're your friend
- have slick, professional leaflets and letters
- be persistent and persuasive
- rush you into making a decision
- ask you to send money before you receive their tempting offer or win.
- New scams from the UK and overseas appear every day - so it's important to know how to spot them.

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THE PITCH

They offer you something for nothing - such as:

- you've won a major prize in a draw or a lottery (even though you haven't entered one)
- an exclusive entry to a scheme that's a surefire way to make money
- a way to earn easy money by helping them get untold millions out of their country
- the chance to join an investment scheme that will make you huge amounts of money.
- There are hundreds of examples but we can all protect ourselves by being sceptical. Is it likely that someone you don't know, who has contacted you out of the blue, will give you something for nothing?

THE STING

They'll ask you to:

- send money up front - an administration fee or tax, the list is endless but it's always a ruse to get you to give them money
- give them your bank, credit card or other personal details
- ring an expensive premium rate number (all UK premium rate numbers start with 090)
- buy something to get your prize.
- They will lie to you and give you what seem to be good reasons why you should do what they say. They will answer all your objections.

Don't send any money or give any personal details to anyone until you've checked that they are genuine, and talked to a professional or family and friends.

If they ask you to do any of these things they're trying to cover their tracks and get your money and it's likely to be a scam.

Other things to look out for:

- they ask you to send money straight away
- they give you a PO box number as their address
- they ask you not to tell anyone about the deal.

The OFT encourages everybody and anybody to report any scam that they come across, regardless of size. Their website sets out a number of useful links to guide you to the correct authority to report such matters.

FORTHCOMING NEFF CONFERENCE / MASTERCLASSES / SEMINARS

NEFF Annual Conference – Thursday 8th June 2006 – St James' Park

This conference has been planned to look specifically at what lessons can be learned from fraudsters themselves in the fight against the spiralling levels of fraud against companies and organisations. The speaker panel includes a convicted fraudster and money launderer, plus a report on research conducted in UK prisons of fraudsters and their motivations. The event aims to bring together all those involved in the fight against fraud - from financial institutions, companies, law firms, accountants, government departments and agencies, law enforcement, etc - to hear from experts in the field and to share knowledge, experience and information on how to learn from fraudsters in order to combat the worrying rise in fraud in the UK.

Humberto J Aguilar (Indicted for Money Laundering) joins the list of prestigious speakers.

There are a number of other masterclasses in the pipeline. Details will be sent out to NEFF members, or alternatively you can keep up to date via the NEFF website.

For booking details visit www.northeastfraudforum.co.uk

And finally ...



ID Theft – It's no laughing matter

You could be forgiven for losing your sense of humour if you'd just discovered that hundreds of thousands of pounds had been siphoned out of your bank accounts without you suspecting a thing – but that's exactly what happened to comedian Harry Hill.

Harry's identity was stolen in a sophisticated fraud operation involving a bank insider and criminals who registered a false address in his name. This allowed them to set up a fake account and remove the cash from Harry's real accounts over several weeks.

The star of *Harry Hill's TV Burp* and *You've Been Framed* wasn't the only one. Many other customers at the bank also lost large sums totalling almost half a million pounds – all without noticing a thing until the crimes were unexpectedly uncovered by Harry, whose real name is Dr Matthew Hall.

Luckily, Harry had popped into his local bank branch to query odd transactions on one of his accounts. Only then did staff discover the extent of the identity theft and start making enquiries about other recent account changes.

Police managed to recover £150,000 of the victims' cash and the bank has refunded the rest.

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