

# FRAUDCAST

Welcome to the Autumn 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 likely impact of the Fraud Bill.

## **NEFF UPDATE FROM PHIL BUTLER**

This issue of Fraudcast couldn't come at a more opportune time. The findings of the Government's Fraud Review has been on all of our minds over recent weeks and the receiving of the Royal Assent for the Fraud Bill firmly puts Fraud back on the map. This 'double whammy' has implications for us all. Our conference next week, 'Futures of Fraud' is focused firmly on these issues and I'm pleased to say that it's another bumper turnout. What is pleasing is that members of fraud forums are streets ahead of those who are still content to work in lone isolation, "Come on and smell the coffee beans!" I hear you say! Not only is it fun to meet your colleagues at NEFF events but isn't it great to realise that if you get stuck there is someone to turn to? Investigating fraud on your own or within a small team can be a very lonely business particularly when things go wrong. So if you know anyone out there who could do with some assistance put your recruiting Sergeant stripes on and do them all a favour and get them involved in NEFF!

The Government accepts and recommends that the future approach must include the coming together of both the public and private sectors when tackling fraud and financial crime. We have all seen the benefits of working together and not just reduction of economic crime in the region, but practical benefits too such as useful contacts and joint training.

The new legislation brings new training issues for all members. With the new reporting structures members in the private sector will be expected to collate and carry out their own preliminary investigations before referring cases to the new national reporting centre. In addition, the Government's proposals to license those working within the security and corporate fraud investigation sector will mean that staff will have to be trained and accredited. There will be an awful lot of submissions and referrals; thresholds will have to be set at the centre. So if you want to make sure that your case gets investigated then we recommend that you make sure you are carrying out your investigations along recognised lines. We identified this some time ago and have several popular new and accredited training courses, all discounted for members, which fit the national criteria to assist members in staying ahead of the game. Contact John Heslop for further details.

This will be the last Fraudcast for 2006 and we are now starting to plan for next year's conference which will be based around corruption, another new and fascinating subject we have not approached before. We also have 2 new training DVD's coming out in the New Year, 'Learning from Fraudsters' and 'Cyber Crime'. More themed training is planned and fun and innovative Master Classes scheduled for the New Year. Our newly incorporated NEFF Board chaired by Alan Brown QPM and our Patron Lord Stevens are really making a difference and have ensured that we continue in the future to punch above our weight!

Finally in this issue our Editor Peter Smith uses an 'interesting' case study to show how creative criminals can be when cleaning their dirty money. But I warn you that if you were to try this at home there are serious health and safety implications! It just goes to show you that there is no end to a fraudster's imagination! On behalf of us all thanks again for your support in 2006 and have a safe and peaceful Christmas.

**Phil**

## A RINGING ENDORSEMENT

*'The way to fight fraud in the future is for the public and private sectors to join together. This is what the regional Fraud Forums must do and the formation of the North East Fraud Forum by Northumbria Police is an excellent example of this'* **Lord Goldsmith QC, H.M Attorney General**

Not only has the NEFF received acclaim from the Attorney General, since the last issue of Fraudcast, the NEFF was the centre of a two day article on the BBC's website by Jeremy Scott-Joynt, focusing on tackling fraud the regional way. For those that missed it, the website link is: [www.news.bbc.co.uk/1/hi/business/5053258.stm](http://www.news.bbc.co.uk/1/hi/business/5053258.stm). It's well worth a read.

In this issue, both Jeremy and Ros Wright, Chair of the Fraud Advisory Panel and former Head of the Serious Fraud Office, have given us their thoughts on the impact of the Fraud Bill. I am grateful to both Jeremy and Ros for their input and assistance.

## QUEEN'S SPEECH HERALDS FRAUD SHAKE UP

**By Jeremy Scott-Joynt, Business Reporter, BBC News**

There's no such thing as fraud.

Not in criminal law - or not directly, at least in England and Wales.

There is plenty of fraud in the UK, of course.

In the six months between January and June this year, major cases worth more than £650m went through the High Court alone - and most estimates believe the total cost to individuals, businesses and the government each year is many times higher.

But until now, there has been no specific criminal offence of fraud.

Police have had to use offences such as conspiracy to defraud, or obtaining money by deception, or even - in a phrase redolent of masked 19th-Century burglars with a jemmy under their cloak - going equipped to steal.

This has often meant defendants squeaking through on technicalities.

Other difficulties include the widespread under-resourcing of fraud squads; the regular collapse of fraud trials as juries groan under the weight of complex evidence; and the ever-increasing sophistication of the crooks, and perhaps it is no wonder the UK sometimes seems like a fraudster's paradise.

### Simpler laws

Now, though, the government has vowed that things will change.

#### TYPES OF FRAUD

**Phishing:** The use of emails which guide unsuspecting users to fake banking websites to steal their login details

**Long firm fraud:** Setting up companies to trade legitimately, then disappear with the gains from one last, big deal

**Lottery scam:** Using letters or emails to convince someone that they have won a foreign lottery - and then charging them thousands in "taxes" and fees

**Boiler rooms:** cold-calling people to talk them into buying worthless shares at inflated prices

To that end, the Queen's Speech has included new legislation which could simplify fraud trials, tighten up the national strategy on fraud and - controversially - re-open the question of judge-only trials for fraudsters.

The moves build on two recent developments. The first is the Fraud Act, which comes into force next year. For the first time in more than 150 years, it creates an offence of fraud - whether by false representation, abuse of position or failing to disclose information.

The second is the outcome of the Fraud Review, which the government unveiled in July this year in an attempt to answer critics who argue with some force that the key problem is not the tools on offer, but the resources available to use them.



Identity theft can mean your bank accounts gets rifled

As a result of the Fraud Act, a boiler-room scam trying to offload penny shares on unsuspecting investors by means of a glossy if bogus prospectus or website would be committing a fraud of misrepresentation, regardless of whether any money actually changed hands.

A bank employee seeking to bend a deal in the direction of associates would commit fraud by abuse of position, while a solicitor or estate agent giving bad advice on a land deal in which a friend had a competing interest would commit a fraud by failing to disclose information.

In each case, senior police officers say, the emphasis is on what was done and how, rather than on the outcome.

Add in other offences which tackle the kind of sole trader who flits from one company name to another, or which outlaw the possession or creation of tools for fraud, and the police think they have a powerful new tool on their hands.

### **Strategic thinking**

But there is also a need to address the question of resources and to take a more strategic approach to fraud prevention.

The Fraud Review acknowledged the need for urgent action, and promised a raft of measures, some of which may make it into the legislation promised in the Queen's Speech.

One would be the establishment of a national fraud strategic authority as a public-private partnership.

It may also introduce a national fraud reporting centre - intended to make sure that since fraudsters can operate nationwide, their activities can more easily be tracked and intelligence gathered across the boundaries of the 43 police forces in England and Wales.

That could lead to a clearer picture of just how prevalent, and how damaging, fraud is in the UK - and, some argue, will make the case for more resources irresistible.

However, it remains unclear whether the strategic authority will have a sufficiently specific remit not to get bogged down in inter-agency squabbles, or whether it will act as a figleaf to get the fraud problem off ministers' desks.

And as yet, there is no promise of extra money, not even the £15.5m that the Fraud Review said would be needed to double the number of fraud detectives outside London from their current level of about 300.

## **Farewell to juries?**

Instead, the government is set to propose a simplification of the system for prosecuting frauds.

That could mean less onerous rules for disclosing evidence, or more freedom for prosecutors to follow the lead of their US counterparts in zeroing in on particular aspects of a fraud.

It could also mean plea bargains, in which the prosecution might be allowed to offer a reduced sentence to fraudsters who agree to testify: the tactic which has helped land the big fish in cases such as WorldCom and Enron.

Most controversially, the idea of ditching juries in the most complex fraud cases is back on the agenda.

The law which makes it possible is already on the statute books. But it failed to gain the necessary approval from the House of Lords, and is now languishing in legislative limbo.

The government continues to argue that juries cannot be expected to cope with trials which last several years and involve thousands of pages of complex accounting paperwork.

Critics argue that other countries, for example the US, manage perfectly well with juries.

Better case handling, more targeting of specific elements of a large fraud and, of course, the greater clarity of the new fraud offences will do the job just as well, they say.

## **THE FRAUD ADVISORY PANEL'S VIEW**

Speaking to Fraudcast, Ros Wright, the Chair of the Fraud Advisory Panel, said '*We warmly welcome the Government's determination to take a firm grip on the problems of financial crime. We hope that the excellent initiatives set out in the Report of the Fraud Review will bear fruit in the form of well-resourced effective enforcement measures capable of policing, trying and deterring professional criminals who are threatening the welfare of the economy and all of us as individuals.*'

Ros is one of the keynote speakers at the NEFF's forthcoming 'Futures for Fraud' Conference, details of which can be found below, and will no doubt add further to the above.

The Fraud Advisory Panel consider that the following seven steps are essential:

- Recognise that the state has failed to protect the citizen against fraud. The low priority given to the problem leaves even serious frauds uninvestigated, victims floundering and policies uncoordinated. The Government should make fighting financial crime a criminal justice priority.
- End the reluctance to spend the relatively small sums of additional money required for public protection – the Review identifies a maximum cost of £27 million. Since annual fraud losses run to a minimum of £16 billion this is excellent value for taxpayers' money.
- Strengthen the police response at both local and national level via new funding, new structures – including a National Lead Force – and the designation of fraud as a policing priority. Civilian expertise should be used to supplement police investigators, not to replace them.
- Reform the courts and legal rules in order to deliver speedier and more comprehensive justice. A start should be made by lifting the onerous obligations on investigators and prosecutors which are snarling up cases. A cadre of specialist fraud case judges is another vital step.

- Task an independent authority to facilitate improved co-ordination, develop a national fraud strategy and monitor the performance of government departments as well as front-line agencies. Britain needs a permanent and powerful official voice on fraud.
- Take fraud victims seriously. It is unacceptable that the police often refuse to accept crime reports. It is wrong that so many cases go uninvestigated. It is a mistake to regard fraudsters as essentially low risk criminals – the harm they do must be seen to be believed and many are in organised crime.
- Improve our knowledge of fraud but never let data gaps become an excuse for inaction. We already know enough about the damage fraud causes to make a much more serious effort against it.

## **FORTHCOMING NEFF CONFERENCE / MASTERCLASSES / SEMINARS**

### **Conferences**

NEFF 'Futures for Fraud?' – Tuesday 28<sup>th</sup> November 2006 – St James' Park

This conference is aimed at discussing the Government's latest plans in fighting fraud and financial crime including impending legislation such as the Fraud Act. It also seeks to draw together a framework for developing the 'Fraud Forum' franchise in an attempt to improve the service that fraud forums currently provide. It is open to all members and steering groups of all regional fraud forums, to discuss, share and air their ideas and opinions. It is envisaged that by the end of the conference, delegates will have decided upon a framework from which a national federation can operate. Geoffrey Robinson is the esteemed after dinner speaker.

### **Masterclasses**

Working with the Police Masterclass – Tuesday 19<sup>th</sup> December 2006 – St James' Park

The aim of this Masterclass is to provide an insight into a Fraud or Financial Crime investigation from the very beginnings to the final conclusion.

The topics covered will show:-

- Policing priorities and Policing plans
- Regional Threats
- The local SAR regime
- what type of information the Police need
- how the information should be provided
- and best practice in this area
- how Fraud and Financial Crime is investigated from a Police perspective
- how close cooperation between both Police and Injured Party can lead to a successful conclusion / prosecution

The NEFF Christmas Lunch will take place following the event.

### **Business Crime Forums**

Two one-day events held across our region that are free to interested parties on Tuesday 12<sup>th</sup> Dec 2006 (Newcastle Government Office for the North East) and Wednesday 28<sup>th</sup> Feb 2007 (Gateshead Council Civic Centre).

For booking details visit [www.northeastfraudforum.co.uk](http://www.northeastfraudforum.co.uk)

# And finally ...



## **Ex-JP FRAUDSTER CLEANED OUT!**

A former JP stole more than £160,000 from his workplace - taking £2,000 every week to pay for a cleaner. Michael Lee, a former magistrate, paid his cleaner up to £200 an hour to clean his house whilst wearing nothing but rubber gloves.

Lee, 59, told police he turned to crime after handing his £20,000 savings to the cleaner and running up £80,000 in credit card bills to pay for her services.

Colleagues at the furniture showroom where Lee was financial director were stunned when they found out how he had been spending the firm's funds. Lee kept stealing even after his boss told him the business was in trouble.

He admitted the theft of £164,124 and was jailed for two years.

One of Lee's neighbours, in Bolton, said: "If he spent £250,000 to clean the house, he should ask for his money back. She obviously didn't have her mind on the cleaning aspect of her work. His place was absolutely filthy!"

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