



# FRAUDTRACK REPORT

FEBRUARY 2016

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# EXECUTIVE SUMMARY

Our Fraud Track report is in its 13th year – since 2003 we have been tracking all cases of reported fraud from publicly available sources.

This year, our analysis of UK fraud shows that the total value of reported fraud in 2015 was £1.5bn, an increase of 110% from the previous year, and the highest value since 2011. This report, which examines reported fraud cases over £50,000 in the UK, finds that the total number of cases, however, fell by 5.2%, with only 519 reported cases in 2015 compared to last year's 546 cases. The average value of fraud meanwhile has risen 121% to £2.9m with some of the largest cases brought to court reaching over £250m.

Total value of fraud **more than doubles**  
from

**£720m**

to

**£1.5bn**

Average value of fraud

**more than  
doubles**

from £1.3m to £2.9m

Volume of fraud

**falls**

**5.2%**

Non-corporate  
fraud makes

up **30%** of  
all fraud per  
case numbers,  
with 152 cases  
reported in 2015

Financial  
Services fraud  
up **138%** to  
£567m in 2015  
from £238m in  
2014

Value of fraud  
in Midlands,  
Yorkshire and  
North East rises

**1052%**  
and **321%**  
and **656%**  
respectively

# BE PROACTIVE

If you have a business, there will be a fraudster out there proactively trying to target it. The best way to combat a fraudster is to beat them at their own game and take a proactive approach rather than a 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 (take a look at your income and expenditure) the areas where you receive or pay the most money will be where the greatest fraud risk lies. For example, a supermarket's greatest expenditure may be in the purchase of tobacco products, whereas for a professional services firm, 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.

In order to maximise the ability to combat fraud, organisations need to be prepared and remember to consider the following:

**01**  
**Recruitment - vet potential recruits, check qualifications and references.**

**02**  
**Location - don't ignore outlying offices and locations, the more you lose touch the less likely you are to spot any unusual activity or performance.**

**03**  
**Training - even with good checks it is likely some potential fraudsters will still be employed, train everyone in codes of practice and policies.**

**04**  
**Review your spending - consider whether this is higher than it should be; conduct zero-based budgeting.**

**05**  
**Look out for warning signs amongst your staff - are they living beyond their means? A good place to start is the car park as fraudsters often don't hide their ill-gotten gains.**

**06**  
**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.**

**07**  
**Understand your key risk areas - fraudsters are more likely to attack areas of the business where there is the most expenditure, for example, fixed asset procurement.**

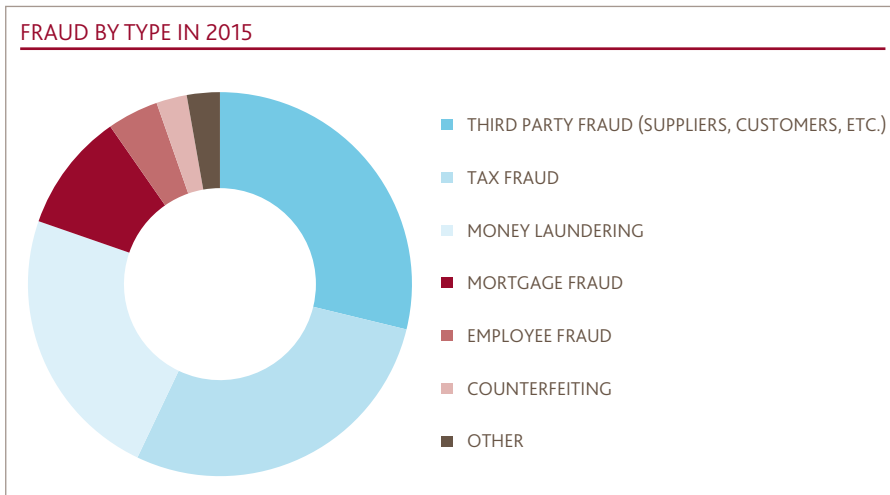
**08**  
**Install trip wires - test your own defences and controls.**

**09**  
**Monitor your suppliers - just as fraudsters can operate from within, external suppliers may decide to defraud you.**

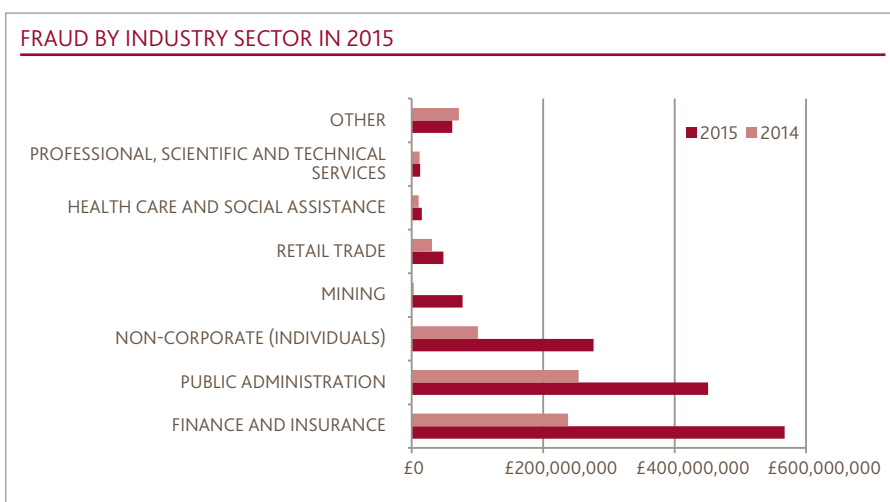
# TYPE OF FRAUD IN 2015

Of the reported frauds from 2015 the most common types were Third Party fraud (suppliers and customers), Tax Fraud and Money Laundering.

It's not only large corporations or public bodies that suffer fraud. There were several examples in 2015 of frauds targeting individuals, private companies and charities of all shapes and sizes. They included 'investment' scams, usually targeting non-corporate individuals, believing in unreasonably high returns on their investment, and the elderly or vulnerable.



The sectors that were targeted the most in 2015 were Finance and Insurance, Public Administration and Non-Corporate Individuals. The most number of cases, just under 30% of all the fraud cases in 2015, were against individuals. A 2013 estimate by the former National Fraud Authority put total losses for individuals at over £9 billion per annum. This is a useful indicator but is likely to be a significant under-estimate due to under-reporting and the fact that it may not include every type of fraud.



# TYPE OF FRAUD IN 2015

## CONTINUED

### REPUTATIONAL DAMAGE

Taking away the five largest cases in 2015 (£809m) the overall value of fraud would be lower at £701m compared to 2014's total of £720m. This indicates, which is in line with our experiences of investigations, that organisations are still more likely to be dealing with fraud internally rather than reporting it in the fear of damage to their reputation.

Reputational damage can have a greater consequence on businesses than just the financial loss itself. The effect might be long term or short term but in a competitive market the damage might be irreparable. Your business may suffer market deprivation, loss of customer base and employee morale, increased regulatory scrutiny, decreased shareholder and banking confidence – and this is all dependent on your company even surviving its financial losses.

Businesses increasingly have to surf the social media wave to keep up with their competitors and customer demands, and during the good times social media can be your ally, but during the bad times, if you have a fraud, it can soon become your enemy when you are under rapid fire.

Organisations can tell the media about their impressive customer service, or year-on-year profit rise and the chances are that the media won't be particularly interested. Lose a customer database to an internal fraudster however, and the business could well end up on the front page of the press for all the wrong reasons.

Many businesses fear that having a fraud investigated within their firm will mean bad publicity. They don't want any media attention that could damage their image or reputation, or harm staff morale. Headlines,

gossip and public trials are the last thing they need. But there is a trade-off between keeping quiet and taking a stand, spun the right way, an aggressive stance of zero tolerance against fraud and fraudsters could win back confidence within your team and the wider business community. The long-term effects of not launching an investigation can be far more damaging to the company's image.



# THE PERPETRATOR

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.

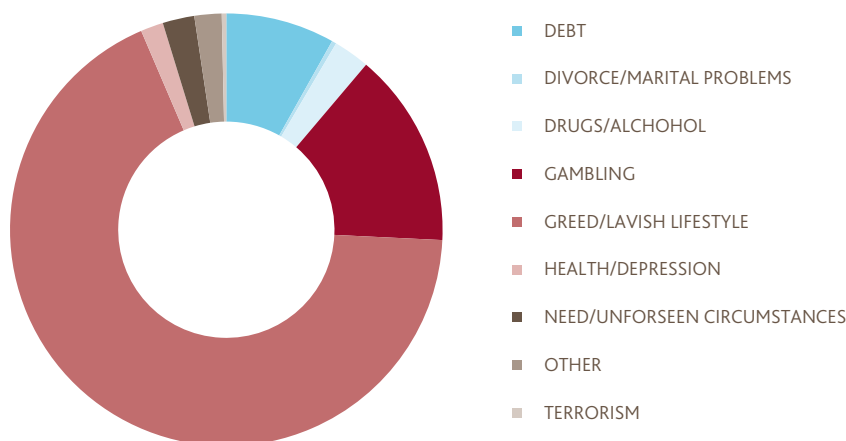
There's no such thing as a typical fraudster they can be men or women, young or old, with large or small incomes and with any number of motivations – that's what makes them so hard to spot – in our experience, it is more often than not the one you trust the most, the ones with the key to the safe, administrator rights and control of the bank. They may be acting alone, as a couple, or in larger teams or networks and their targets are just as varied: individuals, groups or companies, total strangers or close family. Fraudsters do not discriminate – everyone is a potential target.

People generally don't expect those in authority or in high salary, high profile roles to abuse their position – but investigations have shown that even Chief Executives and Finance Directors commit fraud. Those who have access to important files – like personal assistants and secretaries – can also be involved in fraudulent activities, or helping to conceal them whether knowingly or not.

The one common motive is greed; never underestimate the fraudster's capacity for greed, no matter how well remunerated they may be – if they have a five bedroom

house they will want a ten bedroom house, 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. They may start small when they are starting out with their fraudulent scheme, but once they get comfortable and more competent, the sky is the limit.

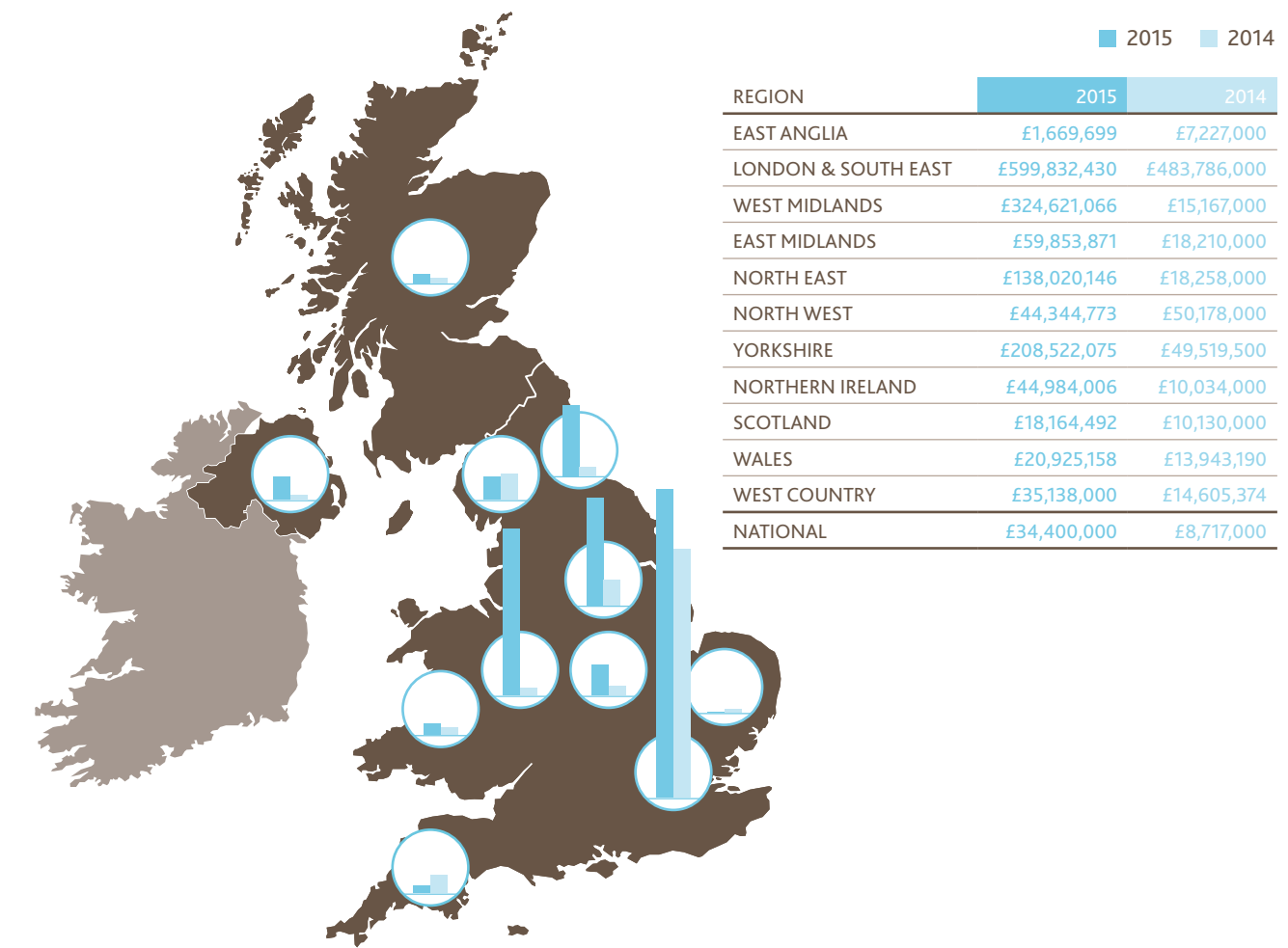
MOTIVE



# LOCATION, LOCATION, LOCATION

London and the South East are still the hotspots for frauds however, some of the largest cases in 2015 were linked to the West Midlands, Yorkshire and North East.

## FRAUD BY LOCATION





# OUR TEAM

We have a dedicated team of highly skilled investigators who investigate fraud and financial crime on a daily basis. Our aim is to find evidence of misconduct or fraud, and give you whatever help you need to deal with a fraud, but importantly, to get your business back on track.

## OUR SERVICES

We offer a number of fraud services:

- Accounting 'black hole' investigations
- Forensic due diligence
- Third party fraud investigations
- Procurement fraud investigations
- Employee/management fraud and theft investigations.

We are business advisors and have a multi-disciplinary team made up of:

- Specialist investigators
- Forensic accountants
- Forensic Technology specialists.

We have access to additional services including:

- International reach through specialist at overseas member firms
- Business intelligence
- Risk Management services
- Data analytics and i2
- Business restructuring
- Tax and VAT implications
- Specialist HR advice.

## ATTRIBUTES FOR SUCCESS

We have the following core attributes which are vital for a successful investigation:

- Confidence
- Curiosity
- Persistence
- Creativity
- Organisation
- Robustness
- Lateral thinking
- Attention to detail
- Open mind
- Flexibility
- Focus
- Resilience.

## WHAT CLIENTS WANT

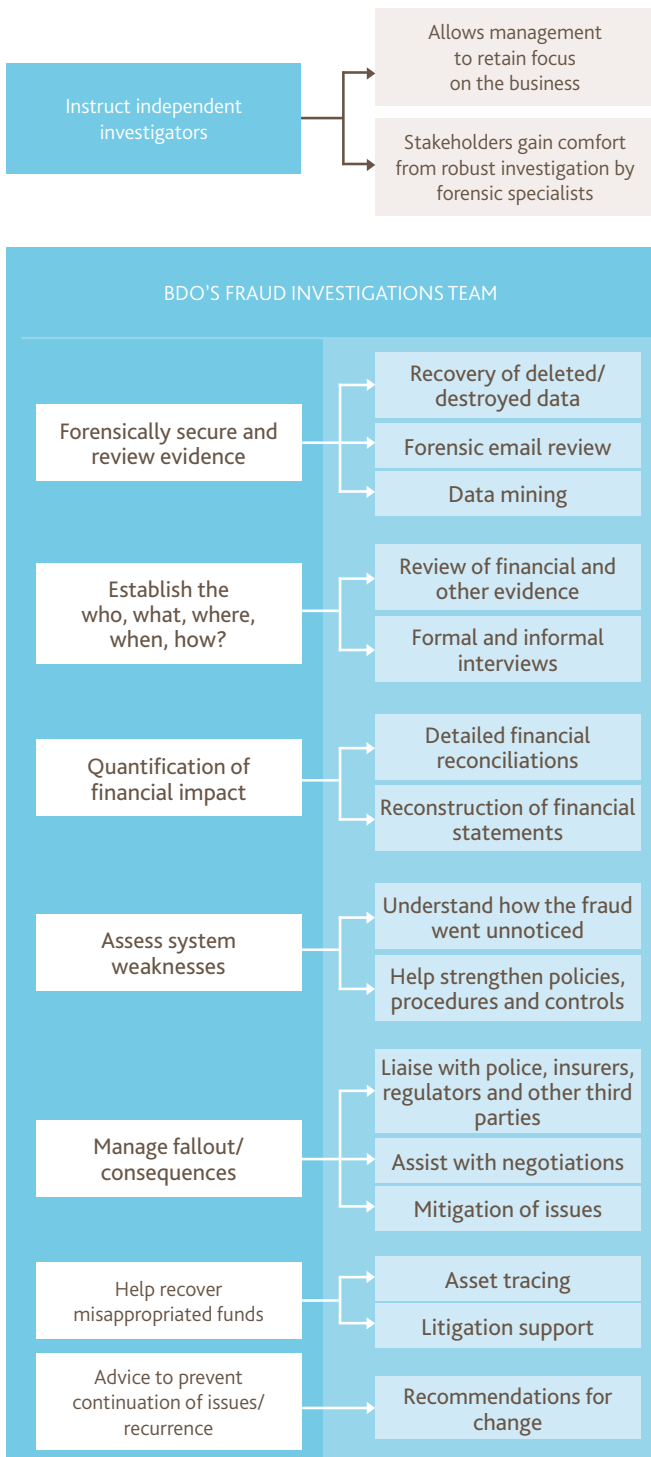
We know that clients want, and we can provide:

- A fast response
- Confidentiality
- Sensitivity
- Hand-holding
- Technical ability
- Understanding of their business and sector
- The problem to go away...

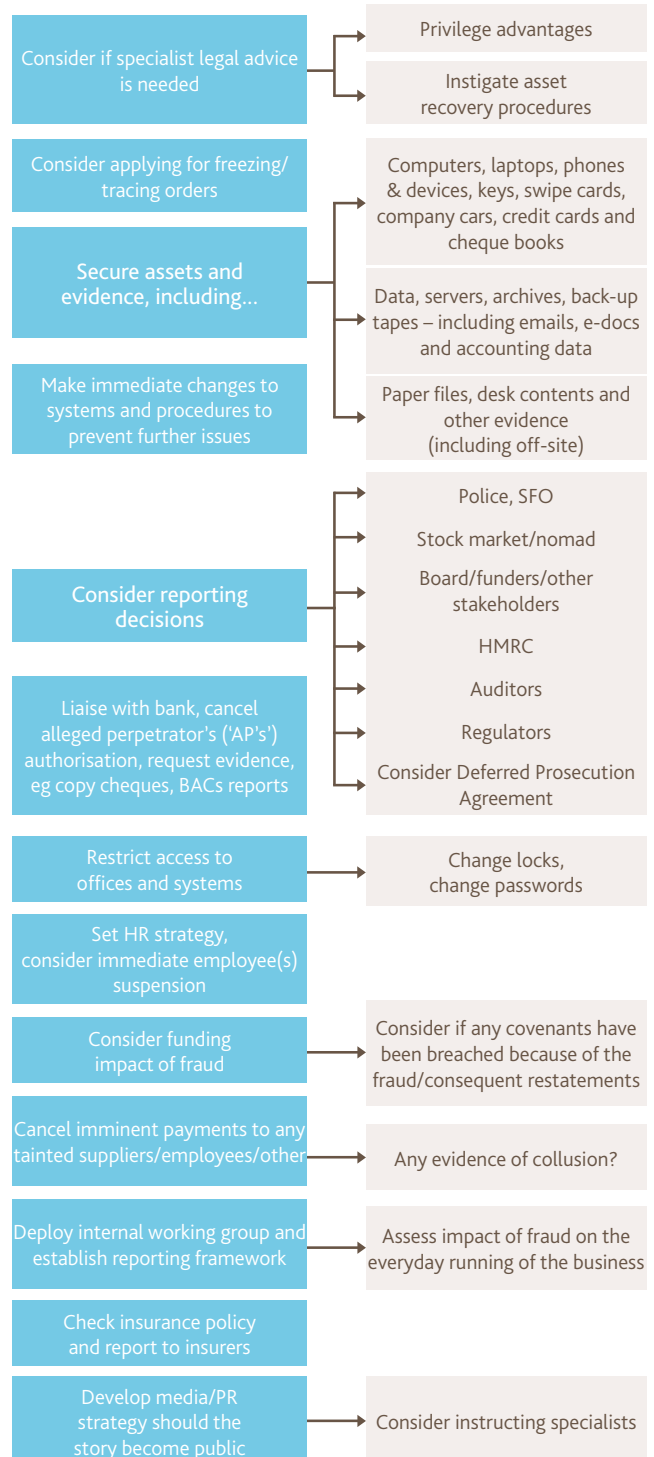
We can manage the investigation so you can focus on running the business.  
 We can provide strategic advice on short, medium and long term objectives.  
 We can help put matters in context – the bigger picture.

# CORE THINGS TO CONSIDER BEFORE EMBARKING ON A FRAUD INVESTIGATION

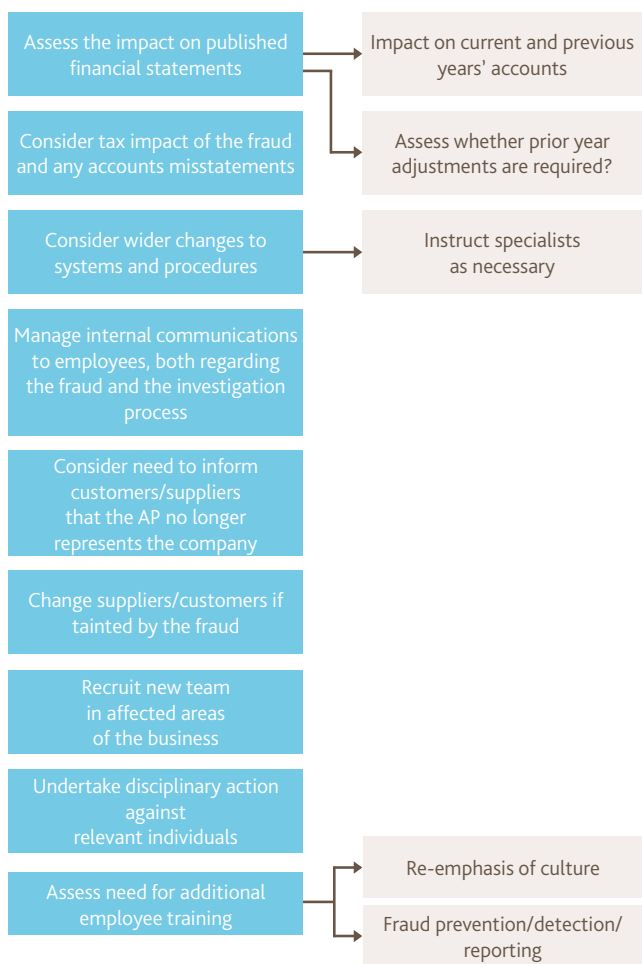
## UNDERSTAND THE FACTS



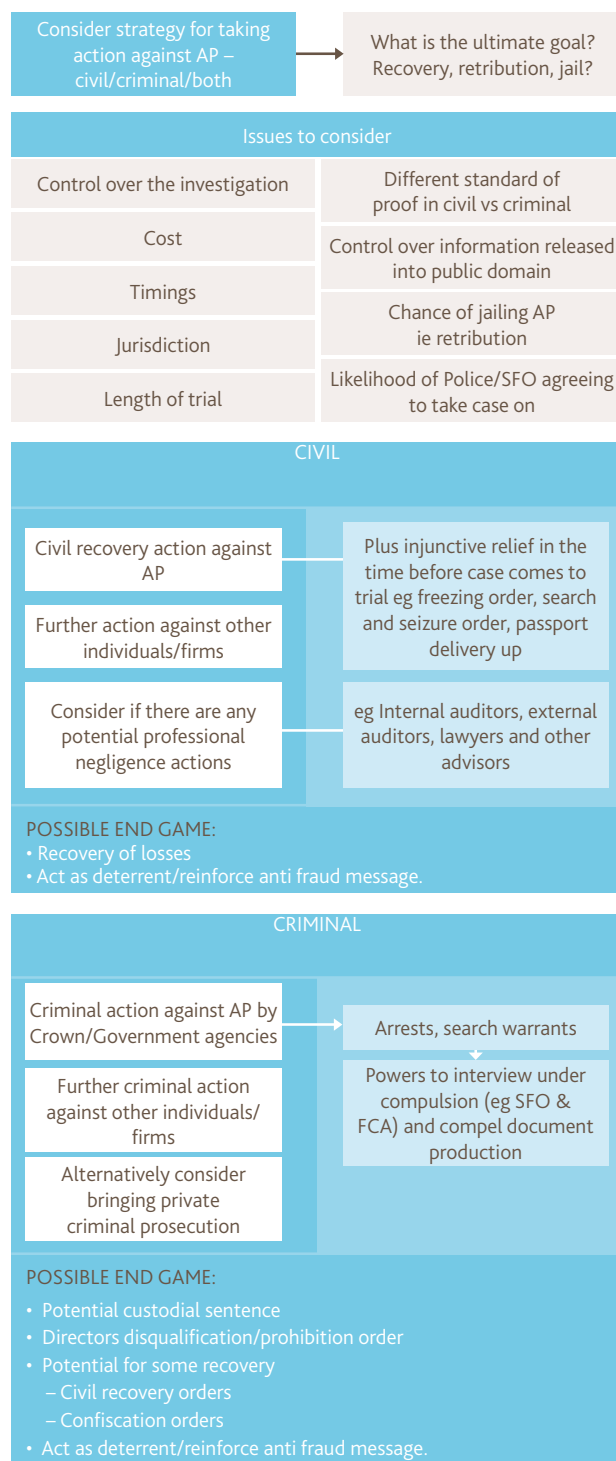
## IMPLEMENT URGENT INITIAL RESPONSE STRATEGY



## CONSIDER BROADER IMPACT



## TAKE ACTION IN THE COURTS



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**ABOUT FRAUDTRACK**

FraudTrack is prepared by BDO LLP and is based on reported fraud cases over £50,000 between 01/12/2014 and 30/11/2015. The sources for the database are publicly available and include the UK's national, regional and local press.

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