



BRITAIN AT HIGH RISK OF FRAUD EVEN *BEFORE* THE RECESSION, WARNS NEW RESEARCH

- FTSE 100 companies with a turnover of almost £180 billion were not properly protected against fraud immediately prior to the recession
- Reactive approach at FTSE companies resulted in weak fraud prevention measures
- Over a third (37 per cent) of FTSE companies not even reporting on fraud-related measures to senior management

A new report published today reveals that an endemic risk of fraud existed in the UK immediately prior to the recession, raising significant questions over the ability of UK companies to combat the recessionary spike in fraud now being reported.

The Resilience to Fraud of UK plc – **published jointly by MacIntyre Hudson, the top-25 accountancy firm, and the Centre for Counter Fraud Studies**, based at the University of Portsmouth – examines the counter fraud systems in place within 135 public sector bodies and 32 FTSE 100 companies. Combined, these organisations account for approximately one third of UK GDP, in the first ever snapshot of economy-wide fraud susceptibility.

The study identifies an acute risk of fraud facing FTSE companies. While the incidence of weak fraud prevention was higher within the public sector, this is largely explained by the poor systems in place among smaller departments where little capital was in fact at risk. By contrast, FTSE companies perform poorly in the study irrespective of their size. As a result, the research calculates that only 6 per cent of public expenditure was at risk, compared with a 55 per cent risk to capital among FTSE companies with a combined annual turnover of £180 billion.



The findings indicate that the commitment within the private sector to tackling fraud is largely *reactive*, with 91 per cent of FTSE companies having whistle-blowing procedures in place and 84 per cent investigating suspected fraud.

By contrast, in terms of *preventing* fraud, only a slim majority (56 per cent) had a counter fraud strategy in place within the company, while less than half (47 per cent) had measures in place to review the effectiveness of this policy. More than a third (37 per cent) did not even report fraud-related measures to senior management or an appropriate division within the organisation.

The research is published in the wake of significant concern about increased fraud as a result of the recession. At the height of the economic boom, the Home Office estimated that fraud was costing the UK at least £14 billion a year. It is believed that this figure has since spiralled, with the City of London Police – the leading police force for counter fraud operations – reporting an increase of 72 per cent in the number of recorded fraud cases over the last 12 months.

Jim Gee, Director of Counter Fraud Services at MacIntyre Hudson, and Chair of the Centre for Counter Fraud Studies, comments:

“This is the first ever analysis of the resilience of UK plc to fraud – and its findings do not make easy reading. The current spike we are seeing in fraud levels has a clear origin in the kind of weak preventative systems that this report lays bare. Taking a reactive approach to fraud is like closing the stable door after the horse has bolted, leaving some of the UK’s biggest and most respected companies highly vulnerable to fraudsters.

“Fraud is a global, economic problem that independent audited studies have shown typically involves losses of between 3%-8% of the income or expenditure concerned. Yet professional work to address the problem also shows that such losses can be reduced by up to 40% within a year. The choice is straightforward – organisations can either gain enormously from these benefits or they can continue to suffer unnecessary financial and reputational damage. Now is the time for companies to engage seriously with the critical issue of fraud in what is shaping up to be one of the most protracted periods of economic difficulty we have witnessed in decades”.

While large public sector organisations score more highly on fraud prevention than their FTSE 100 counterparts, the research reveals that the public sector is significantly less aggressive than the private sector in its pursuit of known or suspected fraudsters.

In-keeping with their reactive approach to fraud, the study reveals that 84 per cent of FTSE companies surveyed would investigate suspected fraud, compared with only 39 per cent of public sector organisations. FTSE companies were also much more likely to seek civil and criminal damage in the face of employee-related fraud. 63 per cent of FTSE companies would seek to apply sanctions beyond disciplinary proceedings, compared with only 30 per cent of the public sector.

Part of the reason for the divergence in the treatment of fraud across the public and private sectors is accounted for by the *kind* of financial crime committed. Typically, the public sector battles with high-volume, low-value fraud for which criminal redress is expensive. By contrast, fraud is typically lower volume but of far higher value in the large corporate sector.

Nonetheless, the research also finds evidence of poor fraud-preventative policies in place within public sector organisations. Only a third (34 per cent) of public sector organisations surveyed had in place a dedicated counter fraud function, while 71 per cent failed to give any professional training to those responsible for counter fraud activities.

Mark Button, Director of the Centre for Counter Fraud Studies said:

"This research lifts the lid on many large companies' inability to effectively reduce fraud. There are huge gaps in the infrastructure needed to protect the UK from fraud and an urgent need to establish counter fraud goal posts. More detailed and regular research into the risk facing public and private organisations is essential to gauge how the UK is faring in the critical battle against fraud."

The study receives endorsement from former Minister, Frank Field M.P., who commissioned the research. He comments:

"Jim Gee, MacIntyre Hudson and the Centre for Counter Fraud Services should be congratulated for producing this report. It shows just how bad things got before the recession."

"Whether we are citizens, consumers, employees, shareholders or taxpayers, what we need to know is how carefully the organisations and companies we rely on are protecting themselves against fraud. The current lack of care that most show leads directly to us"

incurring additional costs, or receiving worse public services, or having less secure jobs, or benefiting from a worse return on our investments. It is both unacceptable and erroneous to dismiss the seriousness of fraud or view it as a problem that is somehow untreatable. Now is the time for policymakers and the private sector to take a stand on this issue and demonstrate their commitment to combating head-on the destructive effects of fraud.”

In view of the seriousness of the risk discovered in the study, MacIntyre Hudson and the Centre for Counter Fraud Studies are now working on further research in the area of counter fraud protection in the UK, which will be concluded by the end of the year.

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If you would like further information on the survey, or would like to talk to a spokesperson, please contact James Reynolds or Milly Saunders at:

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NOTES TO EDITORS

About MacIntyre Hudson LLP

MacIntyre Hudson LLP is a top 25 UK accounting firm, offering a full range of compliance and advisory services to entrepreneurial businesses, groups and multinationals with operations in the UK. The firm has 52 Principals and 400 staff in nine offices in London and the South East, and across East Anglia and the Midlands, servicing the whole country. The firm is the UK member of CPA Associates International Inc, a global association of independent accountancy and business advisory firms worldwide, and is registered to carry on audit work and regulated for a range of business activities by The Institute of Chartered Accountants in England and Wales.

About the Centre for Counter Fraud Studies (CCFS)

The University of Portsmouth's Centre for Counter Fraud Studies (CCFS) was founded in June 2009 and is one of the specialist research centres in the University's Institute of Criminal Justice Studies. It was founded to establish better understanding of fraud and how to combat it through rigorous research. The Institute of Criminal Justice Studies is home to researchers from a wide cross-section of disciplines and provides a clear focus for research, knowledge transfer and educational provision to the counter fraud community. The Centre for Counter Fraud Studies makes its independent research findings available to support those working in counter fraud by providing the latest and best information on the effectiveness of counter fraud strategies.

About the study

The Resilience to Fraud of UK plc is published jointly by MacIntyre Hudson, a top 25 professional services firm, and the Centre for Counter Fraud Studies, based at the University of Portsmouth.

The Report was commissioned by former Government minister Frank Field MP, and is based on survey responses from 135 public sector organisations with a combined budget of £129 billion, and from 32

FTSE100 companies with a combined turnover of £326 billion. Together, they represent around one third of UK GDP.

The research examined the counter fraud systems in place within these organisations, based on the 13 most essential counter fraud standards laid out by the Chartered Institute for Public Finance and Accountancy (CIPFA) in its 56 fraud prevention standards. In a conservative estimation of the risk at stake, those organisations with eight or less measures in place were considered to be at a critical risk of fraud.