

news release



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GROUNDBREAKING REPORT SHOWS THE REAL COST OF FRAUD

- *Global study shows that losses average 4.5% of expenditure*

The first ever global Report on the real cost of fraud (and error), across economic sectors, shows that losses average 4.57% of expenditure. Taken as a proportion of global GDP for 2008, this equates to losses of £2.74 trillion, a sum equivalent to the global cost of healthcare in that year or the entire GDP of the UK.

The Report is published by MacIntyre Hudson LLP and the Centre for Counter Fraud Studies at the University of Portsmouth, with a Foreword by the Right Honourable Frank Field M.P. It examines 132 exercises undertaken over the last 10 years in 44 organisations in 9 countries. These cover 32 different types of expenditure with a total value of just under £800 billion (sterling equivalent). The level of accuracy varies from plus or minus 1 – 2.5% and the statistical validity from 90 – 95%.

Jim Gee, Director of Counter Fraud Services at MacIntyre Hudson, said:

“This Report highlights one of the last great unreduced business costs. We can now go beyond reacting to unforeseen individual instances of fraud and to include plans to pre-empt and minimise fraud losses in business plans. The Report shows the serious level of ongoing losses but also highlights the success stories where losses have been significantly reduced over a short timescale.

“The evidence in this Report shows that any organisation should expect its losses to be in a range of 3 – 9%. In a tough economic climate, tackling fraud and error effectively is one



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of the least painful ways of making cost reductions and the evidence shows that return on the costs of the work can be as high as 12 : 1.”

The current debate about public expenditure

Jim Gee, who has considerable experience as an adviser to the Government and public institutions such as the NHS, goes on to say:

“Reducing losses to fraud and error should also be an important factor in the current debate about public expenditure reductions – the more fraud and error in public expenditure can be reduced, the better public services can be, and the less the burden on the taxpayer.”

The Right Honourable Frank Field M.P. said:

“It will take a brave Chief Executive of either a public or private sector organisation who argues that their losses are outside what this Report finds to be the case – two thirds of the exercises reviewed showed losses of between 3 – 9%, with an average of just over 4.5%. It would be important at any time to counter fraud on this scale. It becomes doubly so in an age of major public expenditure cuts which will ricochet into the private sector.”

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

“This Report shows three main things. Firstly, that losses to fraud and error can be accurately measured; secondly, that the losses are significant; and thirdly, that, with the right focus, they can be reduced relatively quickly, just like any other business cost.

It also highlights the benefits of being able to accurately measure these losses. Now that this is possible, informed judgements can be made about the level of investment to be made in reducing them, progress can be tracked and we can assess the financial benefits resulting from their reduction.”

A full copy of the Report is available at www.macintyreHUDSON.co.uk. Updated versions will be published each year as new data becomes available.

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For more information or to obtain a copy of the full report, please contact:

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ABOUT THE REPORT

The Report collates the latest, accurate, statistically valid information from around the world about the real financial cost of fraud and error. The information is derived from examining a statistically valid sample of payments and considering the available evidence indicating that they are either correct, fraudulent or made in error. This data has never been collated before. Historically, there has been a reliance on figures for detected fraud (unless you assume a 100% detection rate these cannot be accurate) or surveys of opinion (which vary according to the perceived importance of the problem at the time of the survey).

Two thirds of the exercises showed losses of more than 3%. Looking at individual sectors, losses in exercises covering healthcare organisations averaged 5.59% of expenditure, and in social security, 5.57% - both higher than the cross-sector figure.

The Report doesn't just look at detected fraud or the individual cases which have come to light and been prosecuted. Because there is no crime which has a 100% detection rate, adding together detected fraud significantly underestimates the problem. It is also the case that if detected fraud losses go up, does that mean that there is more fraud or that there has been better detection; equally, if detected fraud losses fall, does that mean that there is less fraud or worse detection?

The Report also doesn't rely on survey-based information where those involved are asked for their opinions about the level of fraud. These tend to vary significantly according to the perceived seriousness of the problem at the time by those surveyed. While they sometimes represent a valid survey of opinion, that is very different from a valid survey of losses.

The Report does collate information derived from exercises which have examined a statistically valid sample of payments, which consider the available evidence indicating that each payment is either correct, fraudulent or made in error, and which then produced an estimate to an accuracy of plus or minus 2.5% or better and with 90% statistical confidence or better.

The GDP of the United Kingdom in 2008 was £2,635 billion; the World Health Organisation estimates global expenditure on healthcare to be '\$4.1 trillion +' for 2007.

NOTES TO EDITORS

About Jim Gee

Jim Gee is one of the leading counter fraud specialists in the UK and globally. His accomplishments include leading the team which cleaned up London Borough of Lambeth in the mid to late 1990s; advising Right Honourable Frank Field M.P. during his periods as Chair of the House of Commons Social Security Select Committee and Minister for Welfare Reform; and being Director-General of the European Healthcare Fraud and Corruption Network between 2004 and 2006. During his tenure as Chief Executive of the NHS Counter Fraud Service, Gee's organisation reduced fraud-related losses by up to 60 per cent, delivering financial benefits to the tune of £800 million and achieving a 12:1 return on costs. He has since worked as a senior advisor to the UK Attorney-General on the UK Government's Fraud Review as well as delivering counter fraud services to public bodies and private companies both in this country and internationally.

About Mark Button

Mark Button is a Reader in Criminology and Associate Head Curriculum at the Institute of Criminal Justice Studies, University of Portsmouth. He has written extensively on counter fraud and private policing issues, publishing many articles, chapters and completing four books with one forthcoming. He has also recently founded the Centre for Counter Fraud Studies of which he is Director. He is also a Director of the Security Institute, and Chairs its Academic Board, and a member of the editorial advisory board of 'Security Journal'. Mark is currently working on a research project funded by the National Fraud Authority and ACPO looking at victims of fraud.

About Graham Brooks

Graham Brooks is a senior lecturer at the University of Portsmouth in the Institute of Criminal Justice Studies - specialising in fraud, gambling, crime, youth crime and community safety. He has written many research papers on fraud and often presents his research at conferences for those who work in criminal justice.

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 51 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.

www.macintyreHUDSON.co.uk/services/counter_fraud.html

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.
www.port.ac.uk/departments/academic/icjs/CentreforCounterFraudStudies/