

INSIDER FRAUD ON THE RISE

Employees seeking to maintain affluent lifestyles are increasingly turning to defrauding employers, and the length of the recession and slow pace of growth is escalating the risk of this type of insider fraud.

Mark Kenkre, partner and joint head of Challinors' Fraud & Asset Recovery department, says: "Economic commentators are telling us the economy is limping towards recovery, but agree it will be slow. This slow growth and the deep recession, has increased the risk of employee fraud."

Challinors' Fraud Survey, published earlier this year, revealed that only 28 percent of businesses surveyed are worried about being affected by fraud. "Interestingly, 37 percent felt the area they were likely to be affected would be internal fraud. Worryingly however, more than a third do not have systems in place to detect fraud and 47 percent do not invest in training staff on how to spot fraud," explains Mark.

A recent report by the UK's Fraud Prevention Service, CIFAS, confirmed fraud carried

out by employees is on the increase. "The findings show that dishonest actions by staff to obtain benefits by theft and deception in the first half of 2009 increased by 69 percent on the second half of 2008, while the number of women identified as staff fraudsters during the first half of 2009, more than doubled when compared with the second half of last year.

"All sectors have been targeted, but it is the finance and insurance sectors in particular, which are suffering major losses both in terms of a hit to the bottom line, and the business' reputation," says Mark.

"Not only must employers learn to recognise the key warning signs and danger areas of insider fraud, they also need systems to detect and investigate incidents and implement an appropriate incident response."

"The CIFAS survey revealed that in the first half of 2009, two in five of frauds were

identified through internal processes and audit procedures, which highlights the importance of correct internal systems to increase the chance of the employee being identified before the effects of the fraud are too great. Employers are now making an effort to protect themselves and there are better tools and services available for us to assist them in their fight against fraud, including continuously screening employees, and retrospectively screening employees who were not adequately checked when they joined.

"Implemented and managed properly, workplaces can become less vulnerable. However, if the employee slips through the net or these practices are not employed, Challinors' Fraud & Asset Recovery department is well placed to recover the monies taken from the employer via the Court process."

More information about Challinors Fraud & Asset Recovery Department is available at <http://fraud.challinors.co.uk>

SIZE DOES NOT MATTER WHEN IT COMES TO FRAUD

Companies large and small are vulnerable to massive levels of fraud in the recession due to a lack of safety measures designed to prevent and spot insider fraud.

Arun Chauhan, partner and joint head of Challinors' Fraud & Asset Recovery department, comments: "The recent Resilience to Fraud of UK PLC Survey, published by accountancy firm MacIntyre Hudson and the Centre for Counter-Fraud Studies, looked at the counter fraud systems at 135 public sector organisations and 32 FTSE 100 companies. In its snapshot, firms' susceptibility to fraud across the economy indicates some

major problems, with the FTSE companies revealed as the most at risk with 55 percent risk to capital among the companies, with a combined annual turnover of £180 billion.

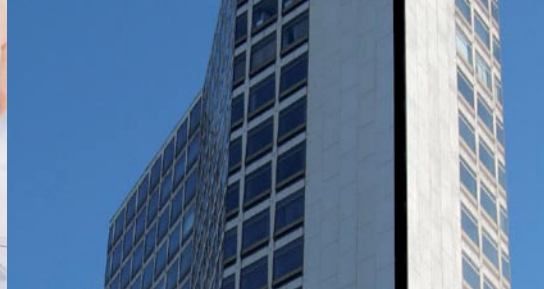
"In my view, the lack of counter-fraud systems in place before the recession is best explained by noting when the economy was good, if there were losses, they may not have been looked into as the time could be better spent on a profitable exercise. In the good times, the focus is on gaining more money and little losses are overlooked.

"Now we are in the grips of the recession, people are desperate to find alternative

means to support their previous lifestyles. As a result some may turn to fraudulent avenues and this is why employee fraud is on the rise.

"Fraud protection in the workplace is paramount. Our own Fraud survey revealed 41 percent of Midlands businesses do provide training, which is encouraging but not enough.

"It comes down to internal control – when there is a system in place, you can drill down to see every transaction on every level; it gives cash flow visibility and offers less scope for manipulation of figures and orders."



DIARY DATE: SECOND BITE

The second in the series of Challinors' Employee 'Insider' Fraud Breakfast Briefings will highlight how the legal process can be used to achieve recovery of losses sustained by the employer as well as review the warning signs of potential employee fraud.

This event will take place on Thursday 4th February 2010 at Hotel du Vin, Birmingham. For more information about the event and to register visit:

<http://fraud.challinors.co.uk>

CHEATING IS BIG BUSINESS

Cheating has dominated the sporting headlines this summer, with little to separate the depths individuals are sinking to in the name of winning and financial reward, both on the field and in the board room.

"Three sports have had their reputations tarnished by individuals cheating to gain an advantage," says Andrew Thomson, a lawyer in Challinors' Fraud & Asset Recovery department. "We have encountered 'bloodgate' in rugby union with a player using a blood capsule to fake injury, a footballer allegedly diving to deceive the referee, and a Formula One driver being told to crash into a wall to enable his teammate to win.

"Sport is becoming big business, the margins are slim between success with millions in prize money and failure with substantially less rewards."

Cheating is also dominating the commercial arena; a recent survey of seventy financial services institutions revealed that 80 percent believe insider fraud is on the rise. "The survey indicated firms have invested in technically sophisticated technology to fight insider fraud - in the first half of 2009, 20 percent of insider fraud was identified through internal processes and audit procedures, emphasising the need for businesses to have robust checks and systems in place. The role of staff in preventing fraud cannot be over-estimated. Those who witness fraud must be able to step forward without fear of reprisal.

"Businesses must have effective systems in place to prevent fraud and deal with the issue. Negative publicity about the existence of fraud should not prevent businesses tackling the problem."

INVESTIGATING INSIDER FRAUD

Andrew Whittaker, Head of Counter Fraud Training at Teceris, explains the steps which lead to investigating an employee who has turned to 'insider' fraud.

Academic research shows a '10:80:10' population split - 10 percent who are inherently dishonest, 10 percent who would always be honest whatever the circumstances, and 80 percent who could be dishonest if the circumstances dictated it.

"In recession, there will be some within that 80 percent who may be forced by their personal financial situation to move from the honest majority to become part of the dishonest minority. People who usually would never entertain committing fraud, find themselves under huge financial pressures and in positions where opportunities arise where fraud can be committed.

"It is these people who now pose a significant risk and organisations must be on guard against the real possibility of being a victim to 'insider' fraud. Even before the recession, the Fraud Advisory Panel had quantified

that 85 percent of all fraud is committed by employees or former employees. The Home Office's Offending, Crime and Justice Survey (2004) identified work expenses fraud as the most common type of fraud in the UK.

"One of the hardest things of handling this threat is the possibility that those we work with and often respect, may be capable of abusing the trust in them. Yet it is the very nature of our relationship that equips us with the knowledge and ability to detect the warning signs: Have there been any marked changes in behaviour? Has there been new-found wealth? Have spoken-about financial worries become a thing of the past? It is all too easy to ignore the signs when we are dealing with people that we know.

"The investigator normally becomes involved once suspicion has passed and the cold reality of a colleague defrauding us of many £1000's

slaps us in the face. The natural reaction is to deal with this quickly, with as little fuss as possible. This can present the investigator with problems - often in the first client meeting, the suspect is sitting in the next room ready to be interviewed. This puts us at a distinct disadvantage; unlike the police, who can arrest and detain an individual and dictate when and how often they will interview, we have no powers and in the majority of cases will have only 'one bite of the cherry'.

"Early engagement of a professional and accredited investigator is a key action to ensure insider fraud is dealt with efficiently, ethically and promptly; in the long-run, it is also the most cost-effective. Discrete 'behind the scenes' work can be undertaken within clear time-limits to substantiate or discount suspicions. Swift and effective action can then be taken to deal with the offender so the impact on the business, its workforce and reputation, is minimised."

IF YOU WOULD LIKE MORE INFORMATION ON OUR FRAUD AND ASSET RECOVERY SERVICES, PLEASE CONTACT:

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