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KPMG Forensic Fraud Barometer, February 2009

Fraud nears record levels in 2008 – and worse to come, says KPMG

- Over £1.1bn of fraud comes to court nationwide– second highest level in 21 years
- Full impact of credit crunch on fraud is yet to be seen
- KPMG seeing more fraud in restructuring and insolvency projects
- Major Yorkshire fraud totals £27.48m in 2008

More than £1.1bn of fraud came to UK courts in 2008 according to KPMG Forensic's Fraud Barometer – the highest level recorded since 1995 and the second highest in the twenty-one year history of the survey.

According to KPMG's Barometer, which measures fraud cases coming to court where the charges are for £100,000 or more, there were 239 cases through the year.

Fraud by professional gangs remained at the extremely high levels seen in previous years (£800m in 2008), but there was a marked increase in fraud by individuals. Taken together, company managers, employees and customers together were tried for some £300m of fraud last year, three times the value seen in 2007.

Yorkshire's Crown Courts saw 22 cases of large scale fraud valued at £27.48m during 2008 including:

- An £8m fraud relating to counterfeit jewellery brought to court by York trading standards officers
- A financial adviser who was sentenced to ten years in prison at Leeds Crown Court, for spending £1m of his clients' investment funds on a lavish lifestyle
- A fraudster in Hull who applied for more than £494,000 loans and credit cards to buy luxury goods including a motorbike and a speedboat

KPMG warns that the worst is yet to come: the bulk of the fraud committed since the credit crunch began in August 2007 will most likely not yet have come into the public courts. The Fraud Barometer's records show that in the last recession of the early nineties the full peak of fraud in the courts was not reached until 1995.

Vivien Osborne, director in KPMG's Leeds forensic practice, said: "As the economic downturn takes hold and organisations look increasingly closely at their operations it is very likely that more fraud will come to light, so the real impact of the credit crunch on fraud is yet to be fully felt. Already though, the signs are there - globally in the last twelve months alone at least three alleged multi-billion pound frauds have been uncovered."

Financial sector hit; mortgage fraud up

The worst hit sector was financial services, which suffered £388m of fraud in 63 cases, a ten-fold increase on the £37m (36 cases) recorded in 2007. However, this was in part fuelled by an alleged £220m attempt to hack into Sumitomo Matsui Banking Corporation's systems which came to court in the first half of the year.

Mortgage fraud cases, which started to show an increase in the first half of 2008, continued to grow in the second half of the year, with 25 cases worth £36m across the whole year compared to just 10 cases worth £3.7m in 2007. KPMG Forensic warns that as the downturn unfolds mortgage frauds conducted during the boom years, both by organised syndicates and individuals, are likely to become more visible as property values continue to drop and lending markets remain constrained.

Government sees fraud fall; carousel fraud down

The Government experienced a significant fall in losses to fraud, down to £207m (56 cases) from £833m (68 cases) in 2007. This was driven by a large reduction in carousel fraud cases, where VAT on items such as mobile phones is fraudulently claimed back. In an encouraging sign that government efforts to counteract carousel fraud (the 'reverse charge' mechanism) may indeed be paying dividends, 2007's £700m of carousel cases fell to £115m in 2008.

Companies badly hit; increased fraud alert due to rising company collapses

The corporate sector suffered during 2008. There was a five-fold increase in fraud losses, up from £24m (45 cases) in 2007 to £125m (54 cases) in 2008. For all companies, the fraud threat grew both internally and externally: managers accounted for £128m (£54m in 2007) and employees for £100m (£27m), while customers inflicted £66m (£25m).

One senior fraudster was the financial controller of a data firm in Exeter who wrote cheques to himself to pay for three cars including an £84,000 Bentley, ran up credit card bills of some £150,000, and diverted £130,000 of company funds into his wife's business. At the other end of the spectrum, a junior PA carried out frauds at three employers in a row, splashing out on company credit cards, cashing cheques and even setting up personal direct debits from business accounts. Despite being sacked by her first two employers for committing fraud, she was still able to find work and carry out her scams again. She got away with over £200,000 before she was finally prosecuted.

Vivien Osborne commented: "In these harsh economic times, internal fraud could become the tipping point between the survival and demise of an organisation. Companies need to be rigorous about re-enforcing their anti-fraud measures. By reviewing their high risk and key operations, having effective reporting channels and deploying detection mechanisms such as data analytics they may give themselves a better chance to fight fraud."

Due to the increased prevalence of fraud, KPMG is bringing more forensic specialists into its restructuring teams, who work on company administrations and rescue packages. This is to help the restructuring team unravel any possible manipulation of

a company's cashflow or financial figures either leading up to or at the time of its collapse.

Mark Firmin, Restructuring Partner at KPMG in Leeds, said: "Our restructuring teams are seeing far more fraud than was the case just two years ago. For management teams economic stress leads to personal stress. With falling revenues and often high levels of debt, managers of businesses may be tempted to massage figures to paper over the cracks in the hope that operational changes can be made to improve performance before creditors look more closely. Unfortunately 'tweaking' the figures can spiral out of control and, by the time the restructuring experts are called in, management are digging themselves further and further into a hole."

No accounting for fraud

There were 34 cases of accounting fraud worth over £145m, up from 30 cases worth £22m in 2007. These ranged from relatively small-scale frauds, such as the Blackburn post office counter clerk who massaged the books to take some £170,000 over an eight month period, to more significant deceptions such as the three employees of a Welsh slate company who were alleged to have misrepresented production volumes and sales over several years to the tune of £40m.

Coining it in...

Many fraudsters were audacious in their efforts, such as the convicted fraudster who applied for a £130,000 mortgage from his prison cell, and the man who stole company cheques and wrote one out to himself to the tune of £500,000, which he then attempted to pay in to his bank account via a self-service ATM. Unsurprisingly he did not get away with it.

Another Midlands woman stole £250,000 over a two year period from the vending company for which she worked – including a logistically-challenging £70,000 in coins...

Half of fraud by value in 2008 was committed in London and the South East (£527m). However, a notable amount (£380m) was also seen in the Midlands – three times the amount registered there in 2007.

Methodology

KPMG's Fraud Barometer has been running for 21 years, and considers major fraud cases being heard in the UK's Crown Courts, where charges are in excess of £100,000.

Fraud by perpetrator in 2008

Perpetrator	Total (£)	Number of cases
Management	128,610,000	40
Customer	65,070,000	38
Professional Criminals	806,042,000	111
Employee	99,515,000	41
Other	3,127,000	9
Total	1,102,364,000	239

Fraud by victim in 2008

Victim	Total (£)	Number of cases
Government	206,965,000	56
Investor	133,186,000	25
Financial Institutions	387,704,000	63
Commercial Business	125,001,000	54
Other	249,508,000	41
Total	1,102,364,000	239

Fraud by region in 2008

Region	Total (£)	Number of cases
London & SE	526,919,000	75
North West	52,508,000	32
Midlands	379,643,000	40
North East	50,927,000	38
Northern Ireland	3,033,000	6
South West and Wales	64,644,000	33
Scotland	24,690,000	15
Total	1,102,364,000	239

About KPMG Forensic: KPMG's Forensic practice includes a European fraud investigation and dispute advisory team of over 400 people, including ex-police officers, forensic accountants, expert witnesses, data mining consultants and fraud risk management specialists. It investigates and advises on all suspicions of fraud and deception including, for example, procurement, treasury, payments and revenue fraud and accounts manipulation, as well as giving expert evidence in commercial disputes. Our casebook ranges from matters of less than £50,000 to major international scams or disputes with sums at risk in excess of \$1 billion. Our clients are truly international. Over the last few years we have worked all over the UK and Europe. Other countries in which we have carried out assignments include Brazil, Argentina, Congo, UAE, India, Libya, Iraq, Indonesia, and South Korea.

About KPMG: KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and operates from 22 offices across the UK with 11,500 partners and staff. The UK firm recorded a turnover of €2.2 billion in the year ended September 2008. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 148 countries and have more than 113,000 professionals working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. KPMG International provides no client services.