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Business: Corporate fraud loses UK business £ 72bn each year

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FRAUD is costing British business £ 72 billion a year, according to a report out this week. Despite the warning of recent corporate scandals involving Enron, WorldCom, Parmalat and Refco, UK companies are still estimated to be losing 6 per cent of their annual revenue to fraud and corruption, says a study by the Association of Certified Fraud Examiners and international lawyers Mishcon de Reya.

Gary Miller, a partner at Mishcon, says: 'You would have thought recent corporate collapses would have been a wake-up call for UK plc, but we found only half of the nation's top 350 companies are taking extra measures, such as hiring financial investigators, even where there are signs of things going wrong.'

Fraud takes many forms but typically includes overstating profits, establishing complex accounting schemes that involve siphoning money into offshore accounts, money laundering and elaborate cover-ups by senior managers designed to protect dealers who trade in derivatives or equities.

Miller says: 'Companies are not paying enough attention to the human factor. No matter how many boxes you tick, and no matter how sanguine a firm's auditors, corrupt practices are overlooked because few people inside firms draw the right conclusions from individual behaviour. For example, an executive is drinking a lot, is tetchy and, importantly, never takes holidays. Taking time off for these people is risky because it often means handing his or her client business to colleagues who might blow the whistle.'

Last year alone, the serious fraud office investigated cases estimated to have cost UK companies £ 2bn. But much fraud remains undetected.

Patrick Grayson, the corporate investigator who founded Kroll in London but now runs his own firm, GPW, says: 'Companies need to establish proper fraud protection plans - and be more rigorous in their approach.'

Miller says that groups need to make greater use of independent investigators.

Despite the gloomy findings of the report, mandates awarded to firms such as Control Risks, Kroll, and Risk Advisory Group have increased over the years.

But Miller says: 'Corporate Britain is failing to accurately evaluate and effectively manage the risk of fraud.'