

Is there a nasty nick in your company?

Andy Noad, Detective Inspector with the City of London Police Fraud Squad, outlines the reasons that fraud occurs, and how your company can avoid it.

The City of London Police is, comparatively speaking, a small police force. On 31 March 2000 we fielded 735 officers. Mind you, we are only responsible for a small area. Or are we?

The City of London leads the UK financial services industry, which itself accounts for 7% of the UK gross domestic product. (Coincidentally, the City of London Police currently dedicates approximately 7% of its available strength to fraud investigation, a higher proportion than any other force in the country.) It is estimated that net overseas earnings of over £25bn are contributed towards the UK balance of payments each year directly by businesses in the City of London.

Scale of fraud

That is a lot of money, and it makes for a big target. In the financial year 1999/2000 the total amount of money obtained and attempted by means of serious fraud totalled over £470m, an increase of over 35% on the previous year. The fraudsters will not go away, and the police cannot cure the problem by themselves. We must work in partnership with the business community to reduce the opportunities for crime, to frustrate the criminal at the earliest opportunity, and to gather sufficient evidence for successful prosecutions.

If we are to work effectively together we should ensure that all parties are aware of the extent of the problem, and prepared to deal with it where necessary.

The business world should be aware that most of the biggest and worst frauds against companies are committed not by outsiders, but by the management or employees of an organisation – often long standing and trusted members of staff (Ernst & Young *International Fraud Survey* 1998). And there are plenty of cases to prove the point.

In December 1997 a major foreign bank reported the theft of \$2.9m by a

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member of staff who had worked in its emerging markets department. He had been so successful in concealing the deception that the bank did not discover it for several years. By that time the suspect was working for another major foreign bank in the City. When arrested and interviewed he admitted the theft, claiming he had been a victim of extortion by the Mafia. He denied committing any similar offences in his new place of employment, and a full audit failed to uncover any discrepancies.

During the subsequent fraud investigation officers identified a bank in Jersey containing a further \$1.6m stolen from the new employer. The offender was sentenced to seven years imprisonment.



Andy Noad

It should also be understood that not all criminals who commit fraud do so with the primary goal of massive personal gain. The treasurer (who was not a member of the Association) of the Bank of Credit and Commerce International spent several years creating an entirely false picture of the bank's financial position. Although Syed Akbar was well rewarded as a senior employee, and on leaving the bank in the late 1980s was granted control of a sizeable company, I believe the primary reason he committed his fraud was to give the bank an aura of strength and profitability, intending that it should grow and eventually compete with the largest of the 'western' banks. Akbar got six years.

Controls

Nick Leeson was given responsibility and power without being subjected to the controls that most financial institutions would take for granted. Again, he was well rewarded in terms of salary and bonuses – it would seem that his prime motive in committing his fraud was not to steal enormous sums of money from his employers, but to prove himself more than equal to the task of developing Barings' business in a market in which his seniors had little, if any, experience. He grew to believe in his own propaganda, and eventually reached a position from which he could not withdraw. Even now, he probably believes that, given more time and money, he could have recovered. Leeson got six years in Singapore.

Of course, some of you will employ those who do not hold the interests of the company quite so dear as Akbar and Leeson. Many years ago, Fleet Street printed many (possibly apocryphal) tales of employees who signed for two wage packets – one in their real name and one in the name of a Mr D Duck.

A more recent example of payroll theft relates to an employee whose name differed from that of a very senior company officer by just one letter. Their respective rates of pay were staggeringly different, but the senior officer had so much money to play with, that for several months he failed to notice that his salary was being credited to the junior.

There is little point in trying to provide an exhaustive list of the methods by which employees defraud their employers. Suffice to say that, whatever the nature of your business, it will provide opportunities. Methods of circumventing controls are as mundane or inventive as the controls themselves.

Insiders and outsiders

But let us not forget, we should consider the outsider as well as the insider. On occasion they will collude. A bank clerk will insert false payment instructions into the system just before a Bank Holiday, hoping that his or her accomplice will manage to collect cleared funds before the fraud is discovered.

Fraudsters will approach banks and financial institutions with forged or stolen documents, seeking a 'certificate of safekeeping' which can then be used to induce another victim to advance funds against it. Groups of 'financial advisers' will offer you the opportunity to invest in secretive and lucrative 'high-yield investment programmes', holding out the prospect of astonishingly high returns.

Standby letters of credit, prime-bank guarantees, promissory notes and blocked-fund letters all appear on a regular basis: these phrases are commonly used by professional fraudsters to make money out of unsuspecting and occasionally greedy victims. You will be over-invoiced, or invoiced for non-existent services or goods: a customer will pay regularly until you allow a substantial credit line, at which point they will take the goods and disappear.

One of your relatives will reply to an advertisement promising higher returns than are commonly available on an investment in a 'safe' instrument, such as gilts: the advert will have been placed by someone like Peter Clowes.

Be prepared

Let's be realistic. We are unlikely, even with the most perfect of partnerships, the most stringent of controls and the most observant of managements, to manage to eliminate fraud in its entirety.

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We can, however, be prepared.

Senior management should issue a statement of values, ensuring that their staff understand that honesty and integrity are valued, and that instances of dishonesty will be pursued vigorously. Such a statement should make it clear that culprits will be caught, prosecuted and, where necessary, pursued through the civil courts to recover losses.

An organisation with high staff morale and good employee relations will be more resistant to fraud. When recruiting, application forms should be comprehensive, and references taken up. Sensitive roles will justify more detailed enquiry.

Company operations should be carried out in accordance with planned systems and controls. Compliance with these systems should be monitored, as should access to buildings, sensitive areas within buildings, databases, documents and facilities. An audit trail will be of immense assistance if an investigation becomes necessary.

The company should draw up a contingency plan, to be put into operation by a senior manager with access at the

highest level and the authority to make decisions and issue instructions. This will include, for instance, authority to freeze transactions, notify the relevant authorities and commence investigations.

And finally, we come to the crunch. Should you involve the police? Many companies will be reluctant to do so, fearing the embarrassment of publicity and its possible effect on shareholder and customer confidence. Except in cases of suspected money-laundering, where there are legal obligations to report, this is largely a matter for you to decide, but it is advisable for your contingency plan to cover the matter in principle. If you don't tell us, the fraudster is free to try again. Others in your company may be tempted to try for a piece of the action, but it is worth bearing in mind that you may fail to recover your assets. Remember the man whose additional thefts were only uncovered when police started following the money?

And here's a parting shot: "Where company management engage in conduct which is considered unethical, where controls are non-existent or, at best, lax, and where talent and assets are wasted, the net result can only be the creation of the type of environment where that behaviour is the norm."

I can't remember who said it first, but they were right. ■

Andy Noad is a Detective Inspector, with the City of London Police Fraud Squad. He has been a police officer for 20 years and has served on the Fraud Squad for 13 years in total. Andy has taken part in a number of enquiries, including Johnson Matthey Bankers, Bank of Credit and Commerce International, Barings and Sumitomo.

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Reporting fraud

If your company decides to make a report to the City of London Fraud Squad, a team of experienced detectives is available on the Fraud Desk between the hours of 8am and 6pm from Monday to Friday. A voicemail facility exists outside these hours. Anyone can ring for advice, to report a crime or to discuss their suspicions. City companies who would like further information on preventing fraud, and possibly a presentation, should contact

the Fraud Desk to enquire about arrangements. The contact details are as follows:

Phone:

020 7601 2999

Fax:

020 7601 2345

In an emergency call:

0207 601 2222

E-mail:

frauddesk@city-of-london.police.uk