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Corporate fraud reporting requirements are confusing and lack common thread, says fraud watchdog

Current obligations on UK companies to prevent, detect and report fraud resemble a patchwork of measures with a worrying absence of any common thread, according to a new report published today by independent fraud watchdog, the Fraud Advisory Panel (FAP).

The report calls on government and the business community to develop a more consistent approach to help reduce corporate fraud which is estimated to cost the UK economy £30 billion a year.

“The current corporate fraud reporting regime is based on a confusing hotchpotch of internal and external obligations which is undoubtedly hampering the fight against fraud. This really isn’t good enough,” says Ros Wright, chairman of the Panel and a former director of the Serious Fraud Office.

“Corporate fraud is a very real and pervasive threat to UK plc. It does great damage to individual businesses and to the economy as a whole. If companies do not have a true handle on the fraud problem within their organisations they are going to fall prey to fraudsters” she said.

A special FAP project group of industry experts conducted an extensive review of relevant legislation, regulations and guidance, followed by a pair of stakeholder forums which sought the opinions of more than 50 business leaders and representatives from law enforcement, regulation and professional services.

The report's findings reveal that:

- there are few requirements for companies to have internal fraud reporting arrangements in place and very little appetite amongst stakeholders for more prescriptive arrangements;
- stakeholders have mixed feelings about the adequacy of anti-fraud systems and processes inside listed companies;
- the majority of frauds are still uncovered by accident or by a whistleblower – routine internal controls play only a minor role;
- compulsory obligations to report fraud to third parties are limited mostly to financial services companies (to the FSA) and money laundering (to SOCA);
- there is no general obligation to report corporate fraud (other than money laundering) to UK law enforcement agencies;
- shareholders and the market need not be told about a fraud unless it threatens the company's stability or share price;
- the anti-fraud role of auditors is widely misunderstood and overstated.

The Fraud Advisory Panel, a registered charity established by the Institute of Chartered Accountants in England and Wales, wants government and the business community to take fraud seriously by considering:

- the need to streamline existing obligations to report fraud;
- giving greater weight to companies' ethical and social responsibility to report fraud in the public interest;
- enhancing and extending the legal and regulatory frameworks for whistleblowing;
- placing greater emphasis on educational initiatives to improve and promote the benefits of greater investment in mechanisms to prevent and detect fraud within companies.

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For further information

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Notes for editors

1. The full version of this report '**Fraud reporting in listed companies: a shared responsibility**' can be downloaded from http://www.fraudadvisorypanel.org/new/publications.php?c_id=24.
2. **Special project group:** The project was led by a group of industry experts:
 - Jonathan Fisher QC (special project group chairman) is a barrister at 23 Essex Street Chambers, specialising in fraud and financial crime.
 - Felicity Banks FCA is head of business law at the Institute of Chartered Accountants in England and Wales.
 - Mia Campbell is the senior manager of the Fraud Advisory Panel.
 - Louise Delahunty is a partner in the crime and fraud investigations group at Simmons and Simmons.
 - Andrew Hobbs is a solicitor and director of regulatory and public policy at Ernst & Young.
 - Martin Robinson is the education and training consultant for the Fraud Advisory Panel and the training development adviser for the Institute of Internal Auditors – UK and Ireland.
 - Phillip Wallace FCA is the chairman of the Insolvency Service Steering Board and a non-executive director of the Financial Services Compensation Scheme.
 - Rosalind Wright CB QC is the chairman of the Fraud Advisory Panel and a former director of the Serious Fraud Office.
3. **Methodology:** The project was undertaken in two phases during late 2009 and early 2010: first a literature review of the relevant legislation, regulations and guidance; then a pair of stakeholder forums in which 55 people took part. Forum participants included leading figures from the corporate sector as well as representatives from law enforcement agencies, regulators and professional service providers such as solicitors and accountants.
4. **Definitions:** For the purposes of the study corporate fraud was defined as any intentionally dishonest act, including the deliberate falsification of information, committed by or against a company by management, employees or third parties, to obtain an advantage or cause a loss.
5. The **Fraud Advisory Panel** (www.fraudadvisorypanel.org) is a registered charity which works to raise awareness of the immense human, social and economic damage caused by fraud and to help individuals and organisations develop effective strategies to prevent it. It was established in 1998 by the Institute of Chartered Accountants in England and Wales (ICAEW) which continues to provide valuable support.

The Panel works to:



- Advise government, business and the general public on fraud prevention, detection and reporting;
- Assist in improving education and training in business, the professions, and general public; and
- Establish a more accurate picture of the extent, causes and nature of fraud.

The Panel has a truly multi-disciplinary perspective on fraud. Members include representatives from the law and accountancy professions, industry associations, financial institutions, government agencies, law enforcement, regulatory authorities and academia.