IDEAS | PEOPLE | TRUST

FRAUDTRACK 2023

Exploring recent trends in fraud

MARCH 2023

CONTENTS

INTRODUCTION

FraudTrack data analysis is based on all reported UK fraud cases with monetary value of £50,000 and over from the year ended 30 November 2022.

Set out below are highlights of our findings from 2022.

FRAUDTRACK 2023

EXPLORING RECENT TRENDS IN FRAUD

1

REPORTED FRAUD VALUE RETURNS TO PRE-PANDEMIC LEVELS

The total monetary value of reported fraud in 2022 was £1.1 billion, returning to levels comparable to those seen before the COVID-19 pandemic.

2021 constituted a huge outlier that not only included £6 billion worth of government COVID-19 support scheme frauds but was also skewed by eight other high-value frauds totalling £3.6 billion.

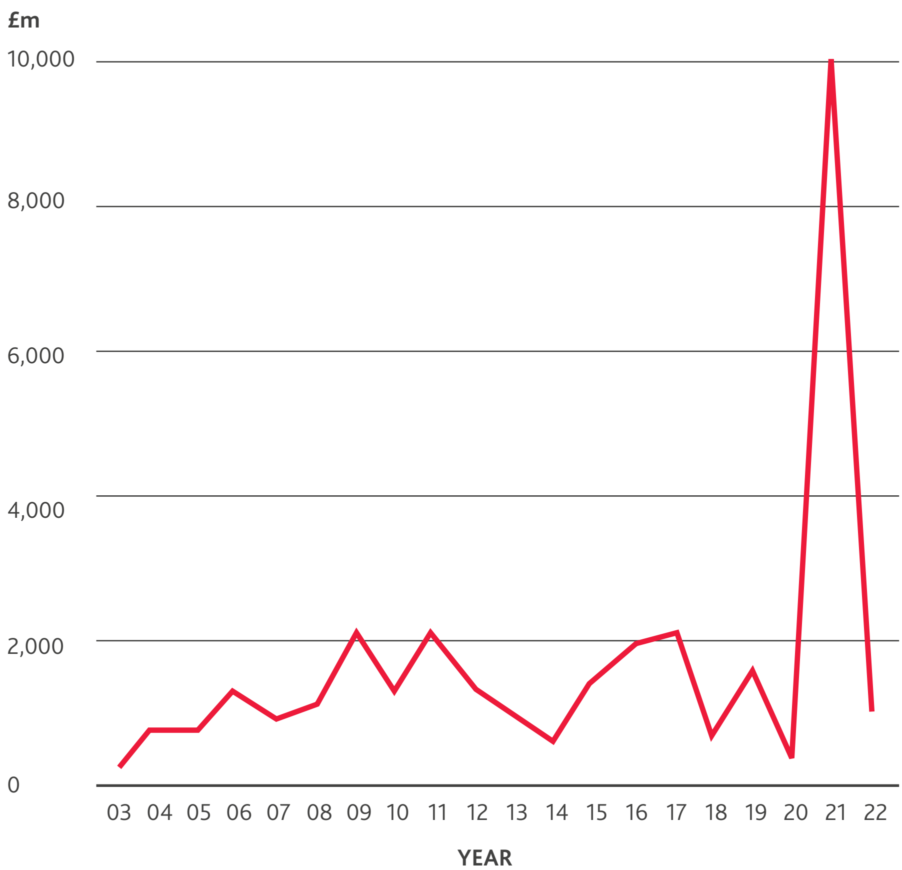
The COVID-19 pandemic and resultant changes to social behaviours and work patterns had created a set of conditions enormously well suited to fraudsters.

It seems that the pandemic afforded a unique set of opportunities for fraudsters, and whilst the world remains significantly impacted by fraud, the 2022 figures reflect significant decrease in opportunities for fraud since lockdowns and government support schemes ended.

"…fraud has now returned to pre-coronavirus pandemic levels… this suggests [2020/2021] increases may have been specific to the coronavirus pandemic period rather than a sustained change in trends".

The Crime Survey for England and Wales for the year ending September 2022.

FIG 1: TOTAL MONETARY VALUE OF REPORTED FRAUD FROM 2003 TO 2022



FRAUDTRACK 2023

EXPLORING RECENT TRENDS IN FRAUD

2 THE MOST COMMON TYPES OF FRAUD

Third party fraud remains the most common type of fraud.

Third party fraud accounted for over one-third (37%) of the total reported fraud value in 2022, the most common fraud for the third year in a row.

The biggest of these third party frauds in 2022 involved the collapse of a broadcasting company which had borrowed £280m from various banks and other lenders as well as a significant amount through the COVID-19 emergency schemes.

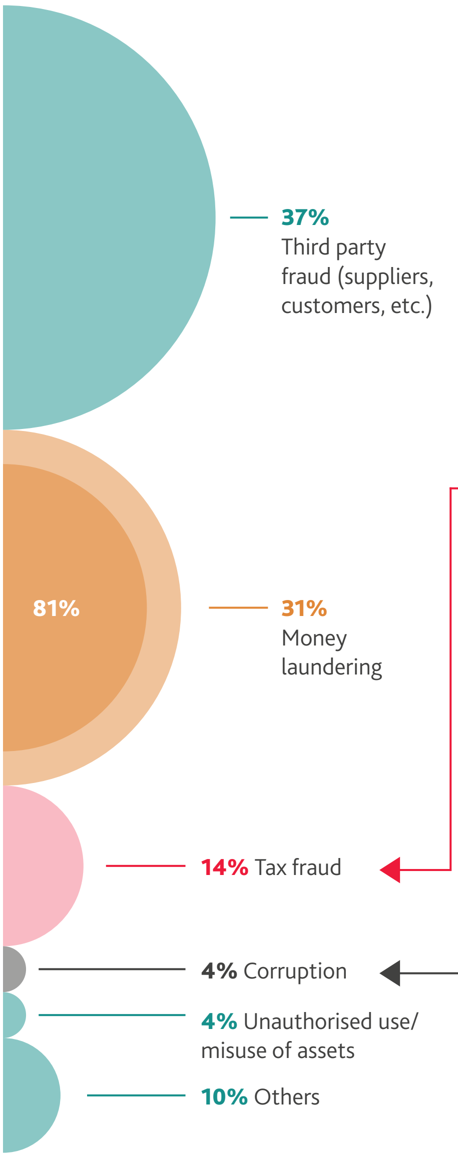
MONEY LAUNDERING SURGES

Money laundering was the second highest ranked fraud type in 2022, accounting for almost one-third (31%) of the total reported fraud in 2022, compared to 3% in 2021.

There were thirteen cases reported in 2022 totalling £345m, with two high-value cases accounting for the majority (81%) of that:

1. A British man was accused of using a vodka firm to front the proceeds of crime totalling £173m
2. The laundering of cash worth over £104.5m, believed to be the profits of drug dealing, between the UK and the UAE using 'cash mules'.

FIG 2: FRAUD TYPES BY VALUE 2022



BIG JUMP IN TAX FRAUD

Tax fraud was the third highest ranked type of fraud by monetary value in 2022, having increased by 347% from the prior year. There were fourteen cases reported in 2022, the biggest two being:

1. The collapse of an accountancy practice that had been providing payroll services over a 20-month period, passing £100m through its books before fraudulent trading was admitted
2. Tax evasion totalling £36.5m on 117 million cigarettes smuggled into the UK by a Rochdale based gang.

CORRUPTION ABOUNDS!

The fraud type that has had the most significant percentage increase in 2022 is Corruption, having increased by **£46m** (over **15,000%**) compared to 2021. There were six frauds reported in this category in 2022, compared to just one in 2021. The two largest reported cases in this category featured:

1. A large mining company convicted of bribery and corruption charges after admitting that its employees had paid over **£23m** to entice officials to favour the company in the allocation of crude oil cargoes
2. The payment of inducements and rewards to an official in a City Council in order to obtain a housing department contract worth **£18m**.

3 BRAKES ON FOR HIGH-VALUE FRAUDS AS COVID-19 PANDEMIC ENDS?

The level of high value frauds (those over £50m) continues to dominate the yearly fraud statistics. Whilst 2022 saw a 44% decrease in the number of high value frauds, they still represented some 65% of the total fraud value in the year. The indications are that fraudsters had fewer opportunities in 2022 to perpetrate high value frauds, compared to in the peak of the pandemic when many organisations struggled to effectively check identities and monitor activities during remote working, resulting in nine cases making up 96% of the total fraud value that year. Almost half (48%) of the high value frauds reported in 2022 were conducted by suppliers, customers and other external entities, with money laundering fraud (38%) and tax fraud cases (14%) making up the remainder of the high value total.

"Victims, witnesses and defendants are waiting longer for their cases to be heard as the number of cases older than a year increased from 2,830 to 11,379 (302%)".

National Audit Office, October 2021

4 TOTAL NUMBER OF FRAUD CASES FALL

There was a total of 267 reported fraud cases in 2022, representing a 4% decrease from 2021. Whilst this small reduction will have been triggered at least in part by the change in the fraud landscape with the UK reverting to more normal post-pandemic working practices, there are other key factors that may be influencing this fall in reported cases. These factors include a reluctance to report fraud and the continued impact of court backlogs.

Reluctance to report

We have discussed in previous FraudTrack editions how reported fraud is just the tip of the iceberg - so many frauds go unreported.

This still holds true this year; many UK corporates opted not to report the frauds they suffered, and individuals often preferred to keep quiet, perhaps out of a feeling of embarrassment or shame over being duped.

Concerns also remain that the Police are significantly under-resourced to investigate fraud effectively, and this may also have influenced some reporting decisions. It is notable that Action Fraud (the public facing national fraud and cybercrime reporting centre) reported a 23% decrease in reported fraud offences in 2022 compared to 2021.

Court backlogs

The pandemic significantly affected the operations of the criminal justice system and necessitated extensive changes in criminal courts to keep judges, court staff, and users safe.

The resultant backlog in criminal court cases has been the subject of significant Parliamentary, media and public interest. The National Audit Office stated in their October 2021 report that "Victims, witnesses and defendants are waiting longer for their cases to be heard as the number of cases older than a year increased from 2,830 to 11,379 (302%)".

Unfortunately, these delays may have had additional knock on effects as waiting longer to give evidence at trial can lead to more witnesses and victims withdrawing from the process, which can cause cases to collapse. It can also affect the accuracy of their accounts as memories fade. Regrettably these issues will take time to unravel and indeed the Financial Times reported in October 2022 that the UK criminal court case backlog was "set to last several years".

FRAUDTRACK 2023

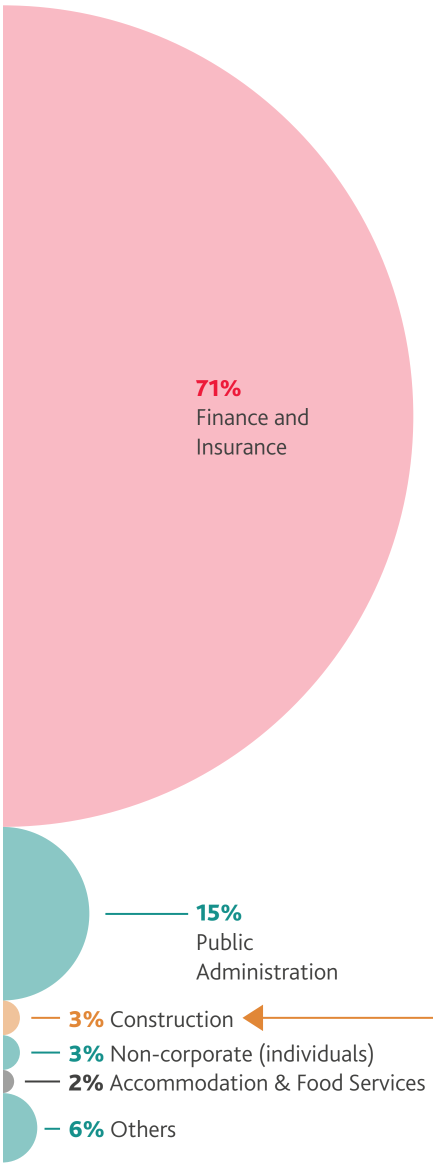
EXPLORING RECENT TRENDS IN FRAUD

5 INDUSTRIES WITH SIGNIFICANT INCREASES IN FRAUD

The Finance and Insurance industry reported the largest monetary value of fraud in 2022, at £791.7m, or 71% of the total.

The majority of this amount was made up of four high-value cases that totalled £622.5m.

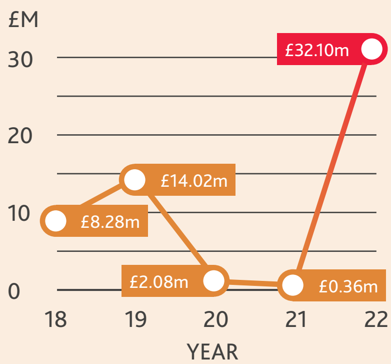
FIG 3: FRAUD BY INDUSTRY SECTOR



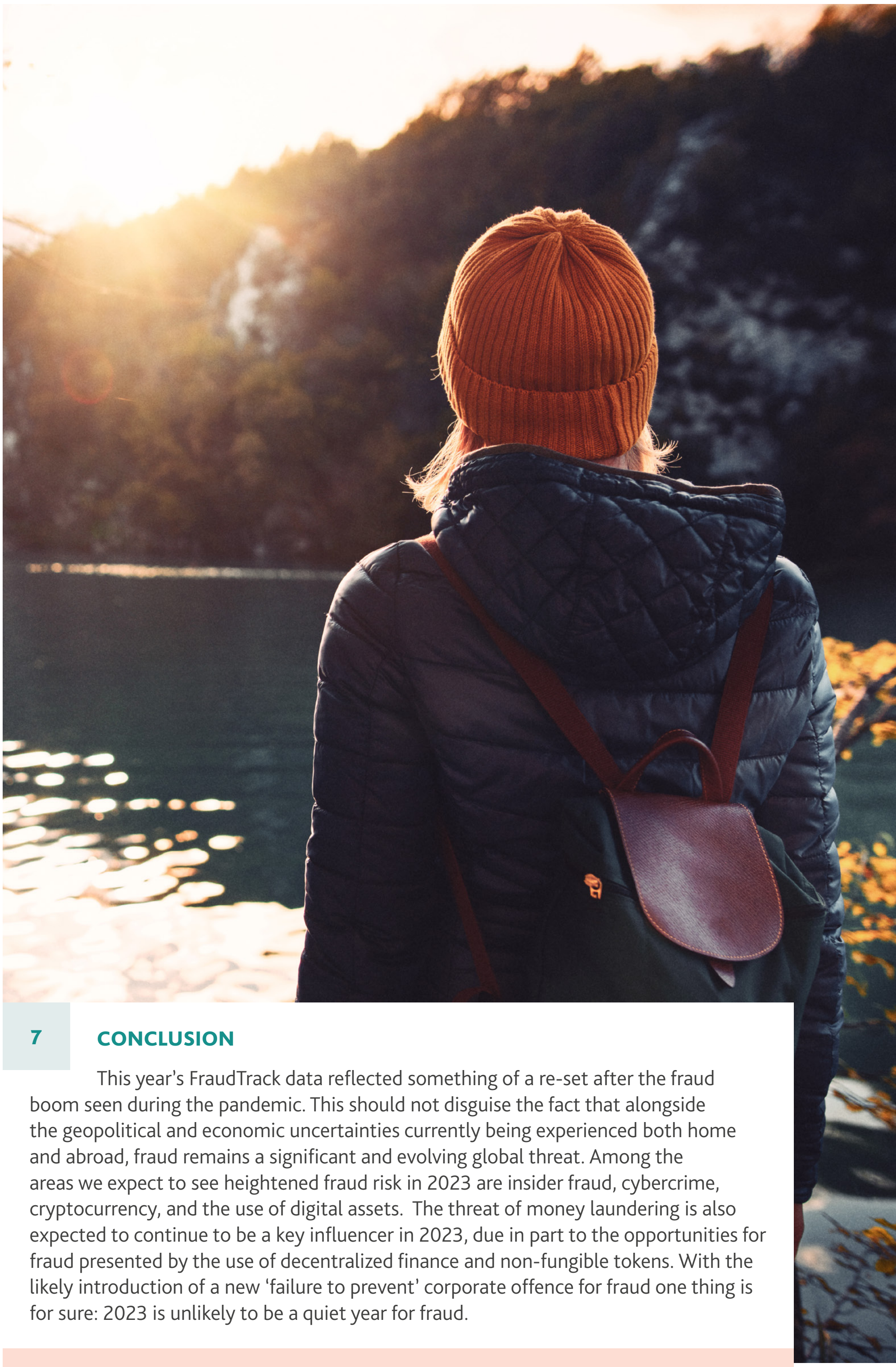
The construction sector recorded the most significant year on year percentage increase in reported fraud at 8800% (£32m), making it the industry with the third highest fraud value in 2022 and accounting for 3% of the total fraud value.

This is consistent with the upturn in construction projects seen since the pandemic and hence greater opportunities for fraudsters in a sector historically susceptible to a range of frauds including bid rigging, related party fraud and bribery and corruption.

FIG 4: MONETARY VALUE OF REPORTED CONSTRUCTION FRAUDS 2018-2022



Accommodation and Food Services has also seen a significant increase of £26m (3500%) compared to the prior year and now accounts for 2% of the total reported fraud value in 2022.

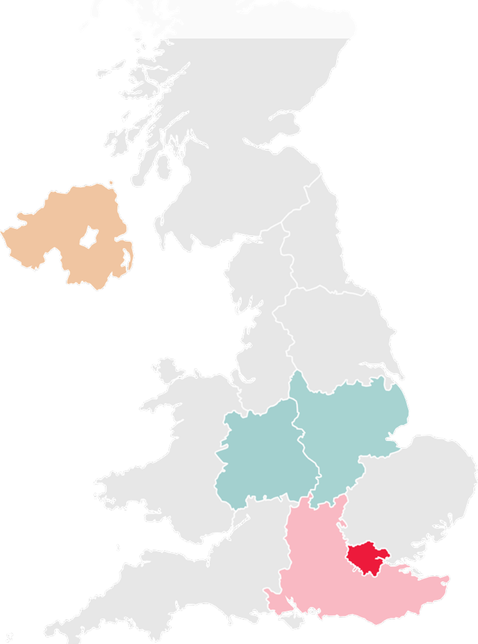


6 LONDON & SOUTHEAST ARE FRAUD HOTSPOTS, WITH FRAUD IN THE MIDLANDS & N. IRELAND ON THE RISE

London & the Southeast was the number one hotspot for reported fraud in 2022.

The total fraud value that occurred in locations in London & the Southeast made up over half (**54%**) of the total fraud in the year. In addition, locations within London & the Southeast accounted for the majority (**62%** or **£449.5m**) of the individually reported high-value frauds.

The Midlands had the most significant percentage increase in reported fraud value, with a rise of just over **450%** or **£96m**, followed by Northern Ireland with an increase of **234%** or c.**£17m** .



7 CONCLUSION

This year's FraudTrack data reflected something of a re-set after the fraud boom seen during the pandemic. This should not disguise the fact that alongside the geopolitical and economic uncertainties currently being experienced both home and abroad, fraud remains a significant and evolving global threat. Among the areas we expect to see heightened fraud risk in 2023 are insider fraud, cybercrime, cryptocurrency, and the use of digital assets. The threat of money laundering is also expected to continue to be a key influencer in 2023, due in part to the opportunities for fraud presented by the use of decentralized finance and non-fungible tokens. With the likely introduction of a new 'failure to prevent' corporate offence for fraud one thing is for sure: 2023 is unlikely to be a quiet year for fraud.

WE ARE HERE TO HELP YOU NAVIGATE AND MINIMISE THE IMPACT OF FRAUD ISSUES

Does your organisation need help detecting and preventing fraud and financial crime? We can help you understand the specific risks relevant to your business, and develop best practice procedures and solutions to protect you against the threat of economic crime. If you suspect that your business has been a victim of fraud, we can conduct rapid response forensic investigations and advise on crisis management.

FOR MORE INFORMATION:

KALEY CROSSTHWAITE

Forensic Accounting and Valuation Services Partner
kaley.crossthwaite@bdo.co.uk

RICHARD SHAVE

Forensic Accounting and Valuation Services Director
richard.shave@bdo.co.uk

KAREN BAILEY - EDWARDS

Forensic Accounting and Valuation Services Senior Manager
karen.edwards@bdo.co.uk

www.bdo.co.uk

23-03-3494