

# Bulletin

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feature article

Who's watching who?

"Be extra vigilant over  
'insider' fraud by  
management or staff"

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Chartered Accountants

# Who's watching who?

A Kent accountancy firm is warning businesses to be extra vigilant over 'insider' fraud by management or staff, after figures for 2005 showed an explosion in fraud case prosecutions.

Based in Canterbury, Burgess Hodgson is one of the leading firms of Chartered Accountants in the South East, and has itself uncovered several cases of fraud over the years.

Nationwide, there were 222 major fraud cases reaching court over the course of 2005, an increase on 174 cases in 2004.

Insider fraud accounted for nearly £500m, the bulk of which was fraud committed by individuals at management level – such as the medical centre practice manager who awarded himself some £400,000 in extra salary payments over a period of seven years.

Richard Stewart, a partner at Burgess Hodgson, says that insider fraud is often carried out over a period of months or even years without anybody noticing.

"It is often the most apparently innocent or trusted person that is perpetrating a fraud," he explains. "In fact, it is getting into that position of trust that can create the temptation to steal in the first place."

London and the South East is the cradle for the bulk of UK fraud, accounting for £673m of the £942m fraud carried out in 2005.

Other recent research found that UK businesses are losing more and more at the hands of their own workers, with the value of employee fraud increasing by over 80% since 2004 (and 200% since 2003).

Nearly two-thirds (65%) of frauds where a motive was reported have been as a result of greed and the desire to lead a lavish lifestyle. A further 11% were linked to gambling and 10% were to pay existing debts.

Changes in legislation have helped create a climate where fraud is much easier to perpetrate. Ten years ago, for example, most companies were subject to an audit from an appropriately qualified independent person, such as a Chartered Accountant.

However, legislative changes meant that, during this period, the turnover threshold at which at least an independent review would be required increased from £90,000 to £5.6m – a not insubstantial sum by

any means (and hardly within the realm of most small businesses). A consultation document issued by the DTI indicated that out of 1,115,000 companies registered in the UK, 863,000 would not be required to have a statutory audit.

"The scope for internal fraud has increased significantly, with fewer audits being undertaken," says Richard. "Initially, businesses hailed the changes in legislation as a forward step in reducing the administrative burden and 'red tape'. However, recent reports suggest that it may not have all been positive."

One survey found that the main cause of fraud was personal gain by management, often involving the manipulation of records to disguise, suppress or alter transactions.

"In those cases, management overrode financial controls to let fraud be effected," comments Richard. "In 45% of cases it was external auditors that detected the fraud."

Some businesses also ask for an audit on a voluntary basis. In a recent example, a family business had grown significantly enough to employ a number of staff. Burgess Hodgson was asked to attend and review the systems they had in place and provide any recommendations.

"We found several weaknesses in the systems in place, one of which allowed individuals, who were not authorised, to order goods that were not required and, more worryingly, allowed the company to pay for goods it had not received or ordered!"

The weaknesses had arisen because of over-reliance on the owners, who had carried out all of the tasks in the business when it started, and had not put in appropriate safeguards as the business grew."

Richard says companies need to review their internal control processes regularly, where appropriate. If in doubt, call in an expert like Burgess Hodgson, who will not only conduct the audit but suggest ways in which the accounting process can be improved.

"Audits are traditionally seen as a cost of complying with legislation, however, we always look for opportunities to add value when we are carrying out audits, such as improving the internal systems of a company or removing duplicated tasks or roles."

Burgess Hodgson: forward thinking business advice

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# Partner profile



Although he lists cycling, rugby, football and golf as his main interests, most of Richard's spare time is spent with baby Callum and wife Georgie. In fact, when asked what he's most looking forward to, Callum walking and talking is pretty high on the list. The doting father (aren't we all!) was born and raised in Herne Bay and attended the Simon Langton Grammar School For Boys in Canterbury. He joined the firm in 1995 and qualified as a Chartered Accountant in 1999. During his training, he worked with the senior partner, Steve Sutton, on a variety of cases, before being appointed an Associate in 2002 and becoming a partner in 2003. His specialisms include working with professional partnerships, such as doctors, dentists, architects etc, and the property industry, with developers, investors and associated businesses. I help companies develop their businesses and also help them implement regular management meetings and planning sessions," says Richard. He has a wide ranging client portfolio, from personal tax cases to developing businesses of all sizes both corporate and non-corporate, based in the South East and London.

We are a leading firm of chartered accountants and business advisers, specialising in personal and corporate tax planning. Our experienced professionals have a strong reputation for providing quality technical advice and the ability to implement practical financial solutions as flexibly as our clients demand.

Building relationships has always been at the heart of our business. We understand that business success is measured by the strength of our relationships with clients. Our partners' technical skills, professionalism and business acumen is complemented by the commitment of our staff to provide our customers with the best service possible.

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