

**Serious Fraud Office**  
**Annual Report 2008-09**

ISBN 9780101760423

**CORRECTION**

**Page 21 -Table SFO capital employed**

Table should read as follows

SFO Capital Employed					
	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Plan
	£000	£000	£000	£000	£000
<b>Assets on Balance Sheet at end of year</b>					
Fixed Assets	3,934	5,665	7,864	6,143	7,043
<b>Current Assets</b>	<b>1,660</b>	<b>2,758</b>	<b>2,701</b>	<b>3,687</b>	<b>2,500</b>
Creditors	(6,125)	(5,102)	(5,899)	(6,913)	(7,000)
<b>Provisions</b>	<b>(347)</b>	<b>(1,155)</b>	<b>(965)</b>	<b>(2,692)</b>	<b>(2,200)</b>
Capital employed	(878)	2,166	3,701	(1,775)	343

**July 2009**

London: The Stationery Office





# **Serious Fraud Office**

**Annual Report 2008-09**



## **SFO Annual Report 2008-09**

From 1 April 2008 to 31 March 2009

Presented to Parliament on July 14 2009 pursuant to  
Section 1(15) and Paragraph 3 of Schedule 1 to the  
Criminal Justice Act 1987

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## Letter to the Attorney General from Richard Alderman, Director, SFO

It is with great pleasure that I present my report on the work of the Serious Fraud Office for 2008-09. It was a very successful year for us. Eighteen cases involving 60 defendants went to trial. In 17 of these cases at least one defendant was convicted or pleaded guilty. This is a success rate of 94% - an excellent achievement in any circumstances and all the more so given that it was achieved against the background of the SFO's most significant transformation in its 20-year history.

I was also very pleased to see us achieve a number of significant firsts. During the year we:

- were granted our **first** ever Serious Crime Prevention Order. This was against a twice-convicted fraudster.<sup>1</sup>
- settled our **first** case on civil lines using Proceeds of Crime legislation. This case involved an overseas subsidiary of Balfour Beatty.
- appointed our **first** General Counsel, the eminent lawyer Vivian Robinson QC, who has a wealth of experience prosecuting on behalf of the SFO and defending against us.
- opened our **first** telephone helpline (020 7239 7388) – a fraud reporting and whistleblowers line. This is enhancing the support we give to victims, witnesses and whistleblowers.
- developed a more proactive relationship with the media and stakeholders. We hosted our **first** press briefings on our work, **first** podcasts and **first** advertising campaign to raise the public's awareness of our new approach to seeking out and investigating fraud.

These firsts for the SFO illustrate some of my key aims as Director – being tough and effective by getting faster resolution to our cases, enhancing our existing skills and expertise by bringing in new talent (including our first ever Chief Operating Officer), and placing victims at the heart of everything we do.

The Balfour Beatty case illustrates a new, pragmatic approach to corporates. Where a new management team uncovers fraud and reports it to us, we are able to treat them more sympathetically than if we uncover the fraud ourselves. We are therefore encouraging corporates to come to us, when they first discover fraud, to discuss the best way of moving forward. In coming to a view we will take into account what is in the public interest and the board's commitment to fighting corruption. Where, though, we find evidence of corporates and individuals actively engaging in fraud and corruption, they can be sure that they will receive a very firm and effective response from us. We want to ensure that those who defraud the public and use bribery cannot continue to do so. We are using and will continue to use all the levers at our disposal through the courts, including restraint and confiscation of assets, investigation and prosecution; as well as intervening early to disrupt fraudsters in real time.

Nothing upsets me more than the myth that fraud and corruption are victimless crimes. In the SFO we are only too aware of the havoc fraudsters cause: where victims have lost their life savings, where some are laid so low that they commit suicide and victims in countries abroad where the corruption of local Government officials has been so endemic that, in the words of one correspondent who wrote to me personally: 'We are profoundly grateful to the SFO for help in stamping out corruption which is ruining our country.' This year alone we have



*Richard Alderman, Director of the Serious Fraud Office*

assisted 37 countries around the world in the fight against corruption and bribery. Around a third of our people now work in a dedicated Anti-Corruption Unit headed by Keith McCarthy, a much respected figure in this field and Chair of the OECD's Sub-Group on Tax Crimes and Money Laundering.

Increasingly the cases we tackle are international in their nature. And so, as you will see as you read through this report, we are working ever more closely with international partners in overseas corruption and bribery cases, in tracking fraudsters and in seeking justice for victims. To do this effectively we need to be an organisation that can chart the changing fraud landscape, see emerging risks and intervene to prevent fraud happening. We are well positioned now to respond to public concerns and move rapidly, as we did when we began an investigation into the UK arm of Madoff Securities. Where we learn of victims, we warn others of the traps they fell into and so try to prevent further fraud taking place. Through our advertising campaign, our website ([www.sfo.gov.uk](http://www.sfo.gov.uk)) and dedicated fraud reporting line, we

encourage advisers, investors, members of the public and former employees to come forward with their experiences and tell us what they know.

We are transforming the way the SFO operates; getting cases into court quicker and making us more responsive to the public. It is essential that we remain relevant and respond quickly to the changing attacks that fraudsters continue to mount on hard-working and sometimes vulnerable members of our society. Our talented and dedicated workforce is vital to this. Our people are passionate about justice and work tirelessly on the public's behalf. I want to pay tribute to each and every one of them. In a year that has seen the biggest transformation in the SFO's history, they have delivered our best results for many years. We have restructured ourselves, modernised our processes and are working in proactive and innovative ways that are making us more effective and efficient so that we can deliver more in a climate of reducing resources. We now make decisions about cases that come to our attention faster than ever before (another first) and our conviction rates in cases that come to the Crown Court are at the best for several years. We are sourcing our own work in addition to cases referred to us. Yet we all know that we cannot stand still. We and the society we serve demand ever more from us and we are determined to do even better next year than we have done this year.

Finally I would like to thank the SFO's Strategic Management Board, including the non-executive directors, for their enthusiasm and guidance during this year of huge change and to all our partners for their continuing support.

#### **Richard Alderman**

<sup>1</sup> For more details see [http://www.sfo.gov.uk/news/prout/pr\\_616.asp?id=616](http://www.sfo.gov.uk/news/prout/pr_616.asp?id=616)

<sup>2</sup> See [http://www.sfo.gov.uk/news/prout/pr\\_582.asp?id=582](http://www.sfo.gov.uk/news/prout/pr_582.asp?id=582) for more details

## Transforming the SFO

**N**early a year into her role as the SFO's first Chief Operating Officer, Phillippa Williamson looks back on the challenges and achievements of her first 12 months in post and forward to what she sees as the main goals for the SFO in the year ahead.

**What have been the major challenges you have faced in your first 12 months?**

The challenge of the last 12 months has been to build on the past, understand the new vision for the organisation, to look at what that meant for the way we go about our work and how we are organised, and then to transform the organisation in order to deliver what society wants from us. And in doing all this we had to convince our people of the need for change and then involve them in the developments.

**Can you give some idea of the scale of the changes that have taken place?**

Transformation has become something of a management cliché, but at the SFO the changes we have made across the whole organisation really do warrant the description. We have addressed every aspect of the organisation so that we are able to meet the challenges we face in a rapidly changing and increasingly global environment. But as well as looking at what needs to change, we are also very focused on how change is made. People need to feel part and parcel of the future. I won't pretend that this has been easy, and so we have tried our best to ensure that everyone working in the SFO appreciates that they have a major part to play in shaping the transformation.

**What about the culture of the SFO, how has that needed to adapt?**

The SFO has to think of itself as one organisation, with a single culture. Our people told us as much. The developments over the last year have emphasised the need to build a corporate and collaborative culture and approach to our work.

**What do you see as the major achievements of the last 12**

*Transformation has become something of a management cliché, but at the SFO the changes we have made across the whole organisation really do warrant the description.*

**months?**

We may only be a small organisation, but every aspect of the SFO has been touched, from the creation of a new senior management team to putting in place the administrative support and IT infrastructure that we need to function efficiently. We have also begun to be more outward-facing, focusing more on the needs of victims, witnesses and whistleblowers.

So last year we took stock of where we were in terms of people, processes and organisation to deliver our vision for the SFO. We then identified what needed to be changed and made those changes. It was very much about getting the basics in place quickly. We developed a strategy for the SFO and all the things that we needed to deliver it in six months so that by January 2009 we were a completely reshaped organisation. Of course that did not mark the end of our





*Phillippa Williamson (above) joined the SFO as its first ever Chief Operating Officer in June 2008*

transformation – we still have much more we want to do to improve on the important work we do.

#### **How do the changes have an impact beyond the SFO?**

The SFO interacts with a wide range of external organisations; from the judiciary and the other law enforcement agencies through to the media. I think it is fair to say that the speed at which we have transformed the SFO has surprised a number of outside organisations that we deal with.

But there has been a very enthusiastic response and a lot of positive feedback – here and abroad – to the changes we are making. We are developing relationships with organisations where, frankly, none previously existed and are strengthening the ties that we have with others.

You talk about a focus on victims. What does that mean in

*What we want to do now as an organisation is to make sure that we support not just victims but also whistleblowers on a more personal level.*

#### **practical terms?**

Everyone at the SFO has always felt very passionate about the victims of fraud and corruption. What we want to do now as an organisation is to make sure that we support not just victims but also whistleblowers on a more personal level.

Of course, when there are thousands of victims in any one case and bearing in mind that many may live abroad, it is not possible for us to give every victim one-to-one support.

And so our victim focus has to work on a number of different levels – from keeping people informed of progress, to more immediate support for victims who are witnesses at court. For those victims who do not become witnesses at court, we can help by keeping them up to date on progress in the case through publications and on our website.

We can also, for example, use our experience of fraud and corruption to influence policies and eventually perhaps even legislation to help prevent frauds happening. This will allow all victims to feel as if they are fighting back so that what happened to them does not happen to others. For people who do act as witnesses at court, we will have a much closer relationship.

Overall, we need to make sure that we balance the needs of all victims and still deliver the protection and justice that they are looking for.

### How have you gone about getting people engaged with the changes?

The great thing about working with around 300 people is that you can speak directly to each of them. But it is also important to remember that those 300 individuals each have their own experience of change and concerns about it. So, we know we have to convince people of the need for the developments we are making and of their stake in the future.

We recognised early on that we needed to communicate regularly with our people and in different ways – at face-to-face meetings with the Director and other senior managers, at ‘open days’ that featured the people working on the various projects, through newsletters and through an online mailbox where people could pose any question about the changes.

We also wanted to get as many people as possible actively involved and were delighted when people volunteered to manage a project or be a member of a project team. I was particularly pleased that around 40% of our people took part in a series of workshops that looked at our processes and developed ways to improve them. As a result of these workshops, 35 of our business processes have been overhauled with significant efficiency savings and outcomes. I really believe that there is no-one better placed to improve a process than the people who use it and these workshops proved that.

*As a result of these workshops, 35 of our business processes have been overhauled with significant efficiency savings and outcomes .*

Staff development is also a key priority for us. We ran formal training events for our people on over 140 days last year. And our new structure and processes have opened up career

opportunities for many of our people who, in the past, would have had to leave the SFO to get the chance of progressing to certain positions.

### How are people changing the way that they approach their work at the SFO?

The big difference here is that we have become a much more proactive organisation. At the turn of this year we researched what was happening as a result of the global financial situation, we assessed the facts quickly and initiated some well-publicised enquiries. This was a totally new approach for the SFO and one that took many people by surprise.

Of course, there is much more that we need to do here to source our work and influence others. For one, we need a function that gathers intelligence and data about the fraud landscape and that is able to provide guidance about the best places to invest and target our limited resources.

In many ways that pro-activity gives us more control over what we do and helps us to focus on the prevalent fraud risks we have identified. It also means we can collaborate more effectively with our law enforcement colleagues – achieving a better outcome for the public and the taxpayer by using our resources more effectively.

### What do you see as the main goals and challenges for next year?

Our major focus is on making the ‘new SFO’ a reality for people both inside and outside the organisation. We need to focus on delivering the expectations we have set. We must continue to improve performance; build on our capabilities and manage all our people better.

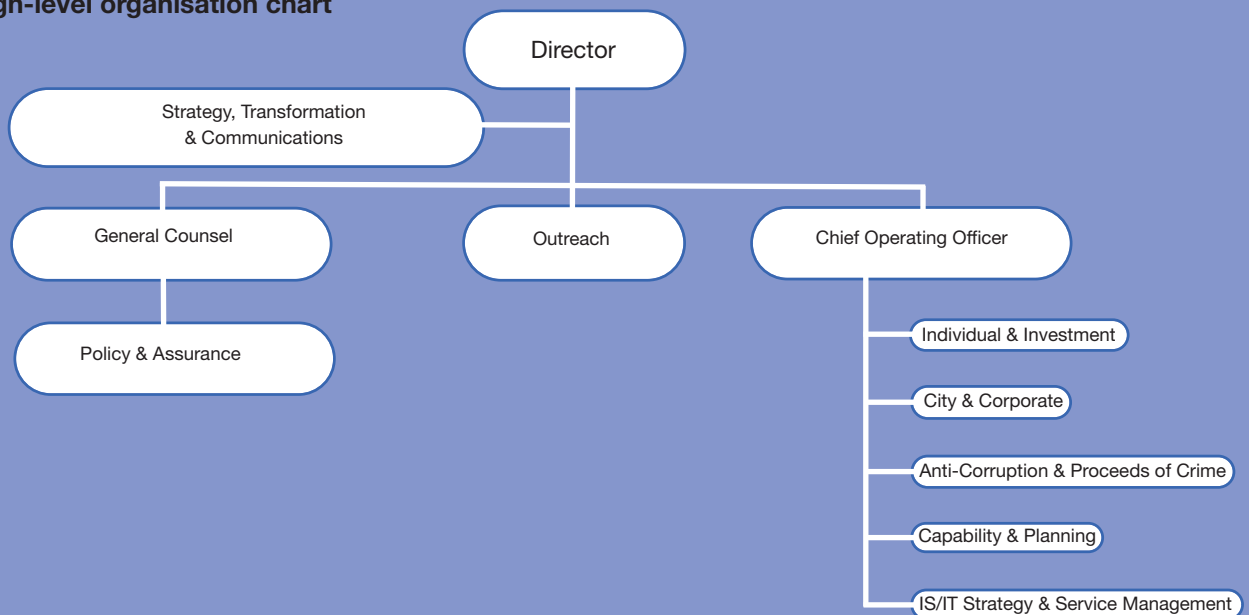
In many ways we are consolidating the promise of the new

SFO that we set up last year – and to make sure that every level of the organisation can help deliver that promise.

We have a fantastic business and a vital role in protecting the public. We need everyone in the organisation to get behind this and understand the part they play in maintaining and developing it. SFO people have a keen sense of justice and are passionate about delivering it – there is a very powerful drive to right wrongs. So what we are trying to do is to allow

that energy and commitment to operate in an organisation that is viable and sustainable and can achieve the right results in the right contexts. Sometimes that will mean having to make tough decisions, taking a more pragmatic approach to achieving the best possible outcomes using our resources to best effect. But I am sure that we can build on the work of the last 12 months and really deliver on the promising start that we have made.

### SFO high-level organisation chart



## Reacting fast to public concerns about online ticket sales



**N**o other event attracts the global profile achieved by the Olympic Games. The television viewing figures say it all. Some 4.7 billion people around the world watched some part of the Beijing Games during August 2008. But for others the dream of seeing the games in person was cruelly denied them by an alleged ticketing scam that saw thousands of individuals pay thousands of pounds for tickets that did not arrive.

Following a significant number of complaints from cheated members of the public, the Department for Business, Enterprise and Regulatory Reform (BERR<sup>1</sup>) referred the case to the SFO. The SFO team – the first at the SFO to be led by an investigator rather than a lawyer – in conjunction with the Metropolitan Police (Southwark CID) is working on an enquiry that has focused its investigations on two companies.

Music festivals were also targeted; and many individuals paid for tickets and passes that they never received. The majority of transactions were carried out online. The servers that hosted the websites were based in the United States and this has led to mutual cooperation between the SFO and the US

authorities to further the investigations on both sides of the Atlantic.

### A digital case

The reliance on digital material has meant that the SFO's specialist Digital Forensics Unit has been working hard to help provide the investigatory team with the information that they need. Information from assorted hard drives, servers and mobile phones has to be extracted and presented to the team in such a way that a complete picture of the alleged fraud can be established and the appropriate connections made with the individuals suspected of perpetrating the crime.

### Online appeals

The investigatory team, lead by Simon Daniel, has also made extensive use of online appeals and information gathering techniques in order to ensure that as many of the victims as possible are identified and are able to provide details of their experience. To date, some 620 online questionnaires have

*the dream of seeing the games in person was cruelly denied them by an alleged ticketing scam that saw thousands of individuals pay thousands of pounds for tickets that did not arrive*

been completed, from many different parts of the world including China, the USA and Australia, in addition to the UK. And because the alleged fraud took place online, it has been possible to use online channels to drive the public's awareness of the steps and precautions they should take when they are considering using an online ticketing agency for a special event. Victims of the alleged fraud are also being

kept up to date with the investigation's progress online.

The large amount of publicity surrounding the case has also helped raise awareness and gather evidence. The case has been reported widely in the domestic and international media and has attracted coverage in a range of news, sport and music publications, including a comment from the SFO's Director, Richard Alderman, in the unlikely setting of the New Musical Express.

### Ongoing investigation

During the investigation it has become apparent that this is just one of a number of similar alleged scams which have been perpetrated online by a variety of companies, some of which now form part of the SFO and Metropolitan Police enquiries.

To date six people have been arrested, interviewed and released on bail and searches have been carried out at six locations.

### How to protect yourself from online fraud

- If you are buying a ticket for an FA Premiership, Football League, League Cup or FA Cup game, the Conference League or UEFA or FIFA match, check that the ticket agency is authorised (as they must be). If you buy from unauthorised agencies you could end up with no ticket, a forged ticket or expose yourself to risk through lack of supporter segregation.
- For tickets for other events, secondary sale is not illegal but often the terms of their issue prohibit their transfer for profit. Check with the venue or promoter before you buy. Tickets sold by an unauthorised agency could be cancelled by the venue or the promoter or could be forgeries.
- Check the credentials of a ticket agency on internet bulletin boards. Many carry comments on the service the agencies provide. Though the accuracy of the comments cannot be verified they can highlight agencies that attract a number of complaints about delivery and refunds.

Further information about the Xclusive enquiry can be found on the SFO's website: [www.sfo.gov.uk](http://www.sfo.gov.uk) - [http://www.sfo.gov.uk/news/prout/pr\\_601.asp?id=601](http://www.sfo.gov.uk/news/prout/pr_601.asp?id=601)

1 Now the Department for Business, Innovation and Skills



## Practical Property Portfolio: lessons for property investors

**T**he UK buy-to-let boom spawned a number of frauds – some have already come to light, others will undoubtedly do so as the economic downturn continues to play out in the months ahead. One successfully prosecuted case, recently sentenced, carries some valuable lessons for investors in what can be a hazardous market place.

When five directors of a property investment group were sentenced in April 2009 for their involvement in a multi-million buy-to-let fraud, it marked the culmination of six years' cooperation between the Serious Fraud Office and Northumbria Police Economic Crime Unit. Sentence was passed after the defendants admitted defrauding investors of millions of pounds (funds which were used to pay the directors' excessive salaries), as well as financing lavish lifestyles involving luxury cars, fine art and racehorses.

The facts of this case are worth noting. Between 2001 and 2003, the defendants' Practical Property Portfolio (PPP) companies sold around 4,000 residential properties in the north of England to at least 1,750 investors in exchange for an estimated £80 million. Most of the investors were individuals who chose to entrust their savings to PPP, although a number of larger organisations were also duped by PPP's promises. The PPP companies were wound up by the DTI in spring 2003 on the basis that they were not being run in the public interest, the SFO/Northumbria Police investigation was launched shortly afterwards.

It emerged that investors had been asked to pay a package price of around £25,000. In return, they were promised a house in an 'up and coming' area, refurbished by PPP to a tenantable

standard before being let to vetted tenants. Each property would be maintained and managed on behalf of the landlord, building and contents insurances would be obtained and, crucially, rent would be guaranteed by an insurance policy that would cover any periods when the property was untenanted.

The prosecution alleged that the defendants had misled investors in almost every material respect. Indeed, by the time the DTI intervened, the overall position of PPP was found to be little short of catastrophic from an investor's perspective. Properties were often of much lower quality than represented and many were in undesirable areas. 49% of them had yet to be renovated and the necessary provision for refurbishment was not there (in fact, there was a shortfall of £4.5 million). 63% of properties were unlet and PPP's claims about insurance were also found to be untrue – the 'rental guarantee scheme', said to be underwritten by a blue-chip insurer, was a sham. The defendants' contempt for their investors was illustrated by the company's practice of recycling substandard properties. If an investor was unhappy about the property purchased on their behalf, PPP often agreed to a buy-back. However, in practice this frequently meant re-selling that same property to another unsuspecting investor. One property, first acquired in 1999, passed through the hands of four investors in the space of three years, before apparently being sold at a loss.

The whole scheme, in its simplest form, was actually a type of 'Ponzi' fraud. Investors' funds were being used to pay out the expected rental returns, as well as to provide PPP's directors with often staggering personal gains. For example, £500,000 was spent on a fleet of luxury cars (including Aston Martins and Bentleys). Approximately £250,000 was spent on racehorses,

with a further £200,000 being spent on luxury clothing; the company also threw a lavish Christmas party.

Passing sentence at Newcastle Crown Court in early April 2009, Judge Whitburn QC said of one director that he had "looted" from the company, "spent blatantly" and demonstrated "profligacy on a heroic scale". The five directors received sentences of varying severity, ranging from five years' imprisonment for PPP's former chairman, John Potts, through to 21 months' imprisonment, suspended for two years, for Natalie Laverick, former Operations Director. SFO investigator, Kay Rogers, summed up the case as follows: "The police and the SFO obtained around 400 witness statements, including 175 from investors (10% of the total who invested in the PPP companies). The investigation required us to review vast numbers of documents, including 600 boxes of material and multiple computer hard-drives from the companies' own offices alone. This is the nature of serious and complex fraud cases."

#### So what can the public learn from this case?

- Don't buy a property without seeing it
- Don't rely on what the people selling the property tell you – check out the rentals in the area
- Use your own professional advisers – solicitors, valuers, etc

Further information about the PPP case can be found on the SFO's website: [www.sfo.gov.uk](http://www.sfo.gov.uk)

[http://www.sfo.gov.uk/news/prout/pr\\_618.asp?seltxt=](http://www.sfo.gov.uk/news/prout/pr_618.asp?seltxt=)

[http://www.sfo.gov.uk/news/prout/pr\\_602.asp?seltxt=](http://www.sfo.gov.uk/news/prout/pr_602.asp?seltxt=)

## Tackling corruption

While it is possibly the case that in some countries corruption has been seen as ‘a cost of doing business’, in the UK that attitude has seen a significant change, says Keith McCarthy. In fact, he describes those that cling to that belief as “dinosaurs” and is emphatic when he says “if you pay bribes, or are corrupt, the SFO is now more likely to be knocking on your door. The SFO is taking a hard-nosed approach and will pursue criminals and their proceeds.” He can already point to some successful investigations underway, and is ensuring that the SFO’s Anti-Corruption and Proceeds of Crimes investigations are focused on delivering results in the form of successful prosecutions and recovering the proceeds of crime.

### Focus on delivery

Part of that focus on delivery will be achieved by developing stronger relationships with the broader law enforcement community. As Keith McCarthy explains: “If we are going to move the SFO forward in this area, we need to develop relationships with our key law enforcement partners both here and abroad. We need to engage better and I see one of the key elements of my role as being to speak to people in the law enforcement community, to make sure that we are on their radar and to add value to cases.”

Businesses, too, can expect a more proactive approach from the SFO. Keith is keen to point to the work that he and his team are doing to ensure that businesses are aware of the expected standards of governance, can identify for themselves where there may be a problem and self-report cases to the SFO. “We are changing the way that we speak to companies, telling them about the ability to self-report, for



*Keith McCarthy (above) joined the SFO to head up the anti corruption and proceeds of crime unit in November 2008. From a thirty year career at HMRC, most recently as a Deputy Director of criminal investigations, he brings to the SFO his extensive knowledge of corruption, organised and financial crime, tax evasion, trust and offshore arrangements, money laundering, and proceeds of crime investigations.*

example, and encouraging them to trust us. The message that we are getting through to them is that if they want to do the right things in a positive way, we will help them to do that. But if not, we will not hesitate to prosecute them as appropriate. We need to take a publicly hard line. I think we need to get across that the SFO is now looking to deal with behaviour like this in a very determined manner.”

### Changing attitudes to corruption

And according to Keith there is a change in attitude, “The



mentality that corruption is inevitable is changing – people now realise that ethics, governance and so on are essential for good business. We are not trying to persuade people. We are saying that this is what you need to do. If you ignore us, you can expect us to call.”

The consequences of corruption are very real, and short shrift is given to the notion that this is somehow a victimless crime. Corruption creates major problems around the world, but is particularly tragic in the impacts that it has on developing countries where corruption directly diverts and reduces the funds available for essential infrastructure. The results are that roads, schools, hospitals and sanitation facilities are either sub-standard, or in many cases not built at all.

And Keith also believes that corruption has a heavily negative impact on UK PLC. “We have a whole raft of businesses in the UK that have global influence. If any of them in their dealings overseas create the impression that corruption is acceptable to the UK then they are doing us all a gross disservice. Corruption is a horrible stigma; to have it thrown at the UK is not acceptable.”

#### **International cooperation**

The international nature of corruption means that it is essential to work with a wide range of governments, agencies and international institutions across the globe in the fight against it. Keith McCarthy chairs the OECD’s Committee on Tax Crime and Money Laundering and believes that this role allows him to ensure that the SFO is kept up to date with international developments and so profit from others’ experiences in dealing

with particular types of corruption and related crimes. “This is a real voice in the international arena with connections to all the relevant institutions. What’s clear is that we are not alone – we all share similar problems and the committee provides an excellent forum for sharing information and insights. All these aspects of crime are linked – from corruption to tax evasion and money laundering. We can build much more detailed pictures of the mechanics of corruption by sharing information and learning from one another.”

Recent examples of this include work with overseas authorities as they develop their expertise and help with practical best practice. Keith also mentions the vital work of the SFO’s International Assistance team. He sees a broader international remit for the SFO as an inevitable part of the fight against corruption. A new bill to tackle bribery and corruption should become UK law by the end of 2009, and Keith welcomes the clarity that this will introduce.

But most of all he is keen to emphasise that Anti-Corruption and Proceeds of Crimes teams should be judged on the basis of what they deliver, as he puts it: “Criminals in the dock and their criminal proceeds recovered. To do that we need to have a clear strategy and clear objectives for our staff to follow. The work we have done on the vision and transformation in the SFO is putting us on track to do this. We are working on new, more robust investigation techniques. But most of all, everything we do is geared to making sure that our investigators have the confidence and deliver effective results. This is something we are committed to.”

## Helping in the fight against corruption in Uganda

**T**B, malaria and HIV/AIDS are among the biggest killers in the developing world. They are particularly virulent in sub-Saharan Africa. The Global Fund is a major partnership between governments, civil society and the private sector that aims to alleviate the impact of these major diseases throughout the developing world. Ensuring that the substantial sums made available by the Global Fund get through to the victims and potential victims of these diseases is obviously critical to the success of the Fund's mission. When an audit in 2005 raised concerns over the management of a large Global Fund grant made to Uganda, the Fund suspended donations to the country. In response, the Ugandan government established a Commission of Inquiry to look into the alleged mismanagement and misallocation of funds received.

### SFO assistance

The Ugandan Commission asked the SFO to assist with their investigations and to focus particularly on alleged manipulation of foreign exchange rates involving a local bank. A team from the SFO made two preliminary visits and provided specific assistance with the chapter of the Commission's report dealing with the foreign exchange manipulation.

The Commission's report, published in 2006, recommended prosecution for those people whom it could be shown had committed fraud and led to the Minister of Health and his two deputies losing their positions in government.

The Ugandan government considered the Commission of

Inquiry's report and published a white paper that recommended that a task force made up of elements from the Director of Public Prosecutions Office, the Police and the Office of the Auditor General be established to investigate and prosecute the cases arising from abuses of the Global Fund. The SFO was again asked to assist with the newly-formed body's work. Glyn Powell, a member of the SFO team, explains the approach: "First and foremost this was a Ugandan investigation, but we were happy to be asked to contribute our expertise. The main role of the SFO in this instance was to provide a 'reality check'. The Ugandan authorities had aspirations to tackle many cases, when a realistic assessment of the resources at their disposal meant that a more limited programme was more likely to be effective." The SFO team helped select three cases for each of three assembled teams and then set up a fourth team to deal directly with the bank fraud involving manipulation of exchange rates. "We identified the case, set out the work plans and helped establish the areas of investigation" says Glyn.

In 2008 the Global Fund was considering a further grant to Uganda but wanted to check the progress the Ugandan investigators had made. Despite investigation work having been undertaken, no criminal charges had been laid by August 2008 and so the Global Fund started to take a more active role in driving the work to investigate and prosecute and, at the same time, to address other structural issues relating to the administration of aid. The Global Fund eventually made it clear that no further money would be made available in the absence of discernible progress.



*Members of the joint team gather in Kampala, including representatives from the SFO, The Global Fund, Director of Public Prosecutions Uganda and OLAF (the EU's anti-fraud agency).*

The SFO team returned to Uganda along with staff from the EU's anti-fraud agency OLAF to restart work on reviewing the progress of investigations and assessing the strength of cases. The highest profile accusations were against senior government figures. However, on analysis, the evidence was not deemed sufficient to bring criminal proceedings. But in other cases, there have now been successful prosecutions. The most prominent of these being the former head of the Ugandan internal security service (and ironically a former anti-corruption campaigner), Teddy Cheyee, who was convicted in April 2009, and sentenced, by the newly-formed Anti-Corruption Court, to 10 years' detention for stealing \$56,000 of Global Fund money.

*We aim to do two things. We want to focus on those cases where there is a good chance of securing a conviction and we also want to pursue high-profile cases.*

#### **A work in progress**

The SFO is returning to Uganda to help drive progress on the bank fraud specifically and also to look into other cases that have been identified. Glyn Powell explains the rationale behind the SFO's approach "We aim to do two things. We want to focus on those cases where there is a good chance of securing a conviction and we also want to pursue high-profile cases. The reason for that is two-fold: to help overcome the considerable cynicism among the local population who believe that anti-corruption efforts are mere window dressing, and of course it helps to demonstrate to the international donor community that those efforts are being taken seriously.

#### **Building the right approach**

Among the biggest contributions that the SFO has made to the work of the Ugandan authorities has been to help the

various agencies involved work in a coordinated way. Glyn Powell explains: "The SFO team helped to establish joint ways of working. Operating in multi-disciplinary teams (police, Director of Public Prosecutions and Auditor General) was a new concept for them and so we gave them protocols that we have used successfully in our own joint working initiatives, and introduced them to new methods of working – eg case conferences, task management systems, etc – that can drive successful working partnerships. We also helped them to identify realistic targets – how to make the best use of the resources they had available."

#### **Encouraging progress**

The most recent trip to Uganda, in early June 2009, saw further signs of encouraging progress. Glyn explains: "Significant progress was made in reviewing the cases being investigated by the Task Force. To date there have been two convictions in respect of Global Fund cases and a third case has been tried with a verdict expected in July 2009. These convictions and in particular the heavy sentences handed down are seen as a major achievement. In the past, in the limited cases where convictions have been obtained, sentences have been widely viewed as derisory. Commonly, any sentence of imprisonment would have an alternative of a fine which would be significantly less than the amount obtained as a result of the corruption in question."

*The diversion of funds has real and serious impacts on the lives of the people that the money from the Global Fund is supposed to help.*

#### **Real victims**

The crucial nature of the work to combat TB, malaria and HIV/AIDS that the Global Fund makes possible is seriously hampered when funds fail to reach the people who need them most. And this is a factor that the SFO team is keen to point out, as Glyn says "Anyone who misappropriates funds is taking them directly from people who should have received money to help them with their immediate problems. The diversion of funds has real and serious impacts on the lives of the people that the money from the Global Fund is supposed to help."

#### **Recovery**

Accordingly, the SFO's work with the Ugandan authorities has emphasised the recovery of money milked out of the system. Some of the people named in the Commission of Inquiry report have come forward and repaid some of the money that they took. But, as Glyn suggests, a long-term and patient approach is necessary: "It is an ongoing piece of work to ensure that as much of the money that went missing as possible is recovered. We are helping to provide the technical assistance to develop the structures that will make the process of recovery as efficient and effective as possible."

## SFO Key facts and figures 2008-09

### Workload

Our workload represents all the cases that we are working on – whether investigating or taking action in court, including restraint and confiscation action following a court ruling. The table below illustrates the flow of our caseload during the year. The estimated sum at risk in these cases amounts to £6.8 billion.

Active cases at the start of the year	65
Cases referred to us and accepted by us during the year	18
Cases worked on during the year	112 <sup>1</sup>
Investigations closed (not prosecuted)	10
Cases completed at court	18
<b>Total cases concluded</b>	<b>28</b>
Cases ongoing at year end	84 <sup>2</sup>

<sup>1</sup> This figure includes cases where asset confiscation and restraint proceedings have been taken/are being pursued following a verdict in court

<sup>2</sup> This figure includes 57 cases under investigation, 12 cases being tried and 15 where confiscations/restraint proceedings are being taken

### Trial results

During the year, 18 cases went to trial. In 17 of these, at least one defendant was convicted. This equates to a success rate of 94%. The 18 cases involved 60 defendants. Nine were convicted by jury, 27 pleaded guilty and 24 were acquitted. The 24 acquitted defendants include five corporate and nine individual defendants from the Operation Holbein case who were never tried before a jury. 78% of all defendants who pleaded guilty or were tried by a jury were convicted.

### Sentencing

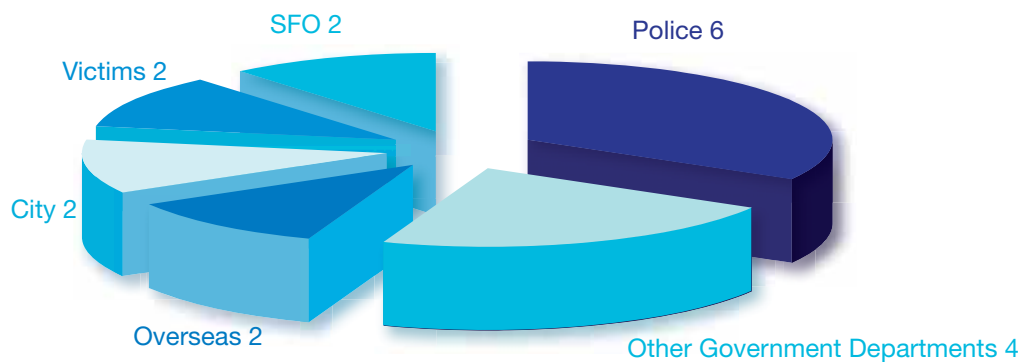
The table below shows the number of convictions and company director disqualifications we achieved in the year compared to the previous four years.

	2004-05	2005-06	2006-07	2007-08	2008-09
Defendants convicted	37	13	15	17	<b>36</b>
- immediate custody	29	12	14	15	<b>18</b>
-suspended custody	3	1	0	2	<b>7</b>
Disqualified as a company director	15	4	7	12	<b>22</b>

### Referrals

We have started to source cases. We have done this through an advertising campaign targeted at professional advisers (such as lawyers and accountants), members of the public and whistleblowers. In the US around 50% of referrals come from the public and whistleblowers, so the SFO sees further scope for increasing workflow in this way in the future.

In parallel with our own work to source cases, others continue to be referred to us from a range of organisations including the police, other government departments and agencies (such as the Department for Business, Innovation and Skills, the Office of Fair Trading, the Financial Services Authority, etc), overseas authorities and the public.



### Proceeds of Crime

During 2008-09 we reviewed our proceeds of crime activity with a view to increasing its effectiveness. We have made changes which will enhance our ability to capture and realise more criminal assets for the benefit of the victims and the Crown. All aspects of the process were reviewed including restraint, confiscation, civil recovery and forfeiture. Our newly-formed Proceeds of Crime team will:

- focus solely on the financial investigation of a case, including all confiscation and restraint activity
- undertake new proceeds of crime work including referred civil recovery cases and cash forfeiture work
- proactively deal with suspects subject to restraint orders

Confiscation orders obtained	11
Total value of confiscations	£5,539,323.00
Civil Settlement	£2,250,000.00
Compensation to be paid out	£3,790,394.00
Paid out to date	£835,688.00

**International Assistance – working with overseas authorities**

Deterring criminals abroad who target victims in the UK is one of the reasons the SFO has a team of investigators who assist overseas investigations. International Assistance also builds reciprocal relationships with overseas law enforcement agencies. Agencies help each other wherever legal gateways and operational constraints permit. An example of the type of help International Assistance gave over the past year involved a prosecution in Zambia where information the team had gathered since 2000 helped to secure a four-year jail sentence. International requests for assistance during 2008-09 show an increase of investigated offences involving corruption. While the overall volume of cases has not surpassed the previous year's figures, the level of assistance, collaboration and training the SFO has given overseas authorities has become more demanding.



North America	South America	Caribbean	East Europe	West Europe	Africa	Middle East	Australia and Asia
Canada	Argentina	Antigua	Belarus	Austria	Italy	Iran	Australia
United States	Bolivia	Barbuda	Bosnia	Belgium	Malta	Bahrain	Hong Kong
	Chile	St Kitts & Nevis	Georgia	Cyprus	Monaco	Kuwait	India
	Costa Rica	St Vincent	Latvia	Denmark	Norway		Indonesia
	Mexico	Vanuatu	Kazakhstan	Eire	Poland		New Zealand
	Peru		Slovak Republic	France	Portugal		Pakistan
			Czech Republic	Germany	Romania		
			Lithuania	Gibraltar	Spain		
			Russia	Hungary	Turkey		
			Slovenia	Israel	Liechtenstein		
			Ukraine	Jersey	Switzerland		
					Netherlands		



## SFO Financial Information

### SFO Capital Employed

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Plan
	£m	£m	£m	£m	£m
<b>Assets on Balance Sheet at end of year</b>					
Fixed Assets	3,934	5,665	7,864	6,143	7,043
<b>Current Assets</b>	<b>1,660</b>	<b>2,758</b>	<b>2,701</b>	<b>3,687</b>	<b>2,500</b>
Creditors	(6,125)	(5,102)	(5,899)	(8,193)	(7,000)
<b>Provisions</b>	<b>(347)</b>	<b>(1,155)</b>	<b>(965)</b>	<b>(2,692)</b>	<b>(2,200)</b>
Capital employed	(878)	2,166	3,701	(1,775)	1,000

### Resource Budget for the SFO

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Plan
	£m	£m	£m	£m	£m
<b>Total</b>	<b>39,869</b>	<b>40,678</b>	<b>43,318</b>	<b>51,529</b>	<b>43,407</b>

### Counsel Fees & Costs awarded against the SFO

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Plan
	£m	£m	£m	£m	£m
Counsel Fees	4,284	4,227	5,698	4,800	4,000
Costs Awarded	822	0	150	245	50

### Total Public Spending for the SFO

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Plan
	£m	£m	£m	£m	£m
Total Resource Budget	39,869	40,678	43,318	51,529	43,407
Total Capital Budget	2,259	3,933	4,223	1,777	3,500
Total Public Spending <sup>1</sup>	42,128	43,369	45,937	50,952	44,307

<sup>1</sup> Total public spending calculated as the total resource budget plus the capital budget, less depreciation

# SFO HR and Diversity information

**Permanent Women, Ethnic Minority & Disabled Staff**

Band	Number of posts	Women	Ethnic minority	Disabled People
SCS	12	5	1	-
Grade 6 - Grade 7	80	30	3	1
HEO-SEO	94	29	6	1
EO	87	43	18	3
PS-AO	31	17	5	3
<b>Total</b>	<b>304</b>	<b>124</b>	<b>33</b>	<b>8</b>

**SCS £5000 Bands number of staff**

From	To	Number
£65,000	£69,999	1
£70,000	£74,999	1
£75,000	£79,999	2
£80,000	£84,999	5
£85,000	£89,999	1
£110,000	£114,999	1
£165,000	£169,999	1
<b>Total</b>		<b>12</b>

**Total SFO Staff**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Civil Service full time equivalents	232	238	247	290	317	307	300
Overtime	2	2	2	2	2	2	2
Casuals	18	14	12	10	3	3	3
<b>Total</b>	<b>252</b>	<b>254</b>	<b>261</b>	<b>302</b>	<b>322</b>	<b>312</b>	<b>305</b>

The SFO vision







# Contacting the Serious Fraud Office

If you believe that you have been the victim of a fraud there are a number of ways to contact the Serious Fraud Office. You can call the Fraud hotline on +44 (20) 7239 7288 which is answered between 09:00 and 17:00. Out of hours messages can be left on the answering service.

It's also possible to contact us through our website at: [www.sfo.gov.uk](http://www.sfo.gov.uk). The SFO website contains specific information to report suspected City crime as well as providing details about how professionals such as lawyers and accountants can contact the SFO if they have concerns about fraud.

Serious Fraud Office

Elm House

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Telephone +44(0)20 7239 7272

Facsimile +44(0)20 7837 1689

Website: [www.sfo.gov.uk](http://www.sfo.gov.uk)

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