



HM Revenue  
& Customs

## Red ALERT

# Business outsourcing fraud

**Date:** August 2016

**Reference:** A0242-ECC

This Red Alert is issued by the United Kingdom's National Crime Agency (NCA). It is based on assessed intelligence and warns of dangers and threats from serious organised criminality. It is devised with the aim of bringing about preventative or remedial action.

This information is for your immediate attention.

# Business Outsourcing Fraud

## Overview

The National Crime Agency (NCA) and HM Revenue and Customs (HMRC) have identified that organised criminal groups are increasingly attempting large-scale frauds on small and medium-sized businesses, using outsourcing companies as a front for their fraudulent activity.

It is perfectly legitimate for a company to manage their payroll, tax contributions and other business expenses in exchange for a fee, and this practice is commonly known as outsourcing. However, NCA and HMRC are aware that criminal groups are attempting to exploit outsourcing arrangements to commit fraud.

The fraud is perpetrated through the use of companies set up by crime groups. These companies offer to process business expenses in return for a percentage fee, but then fail to pay those business expenses over to the service provider, for example a utility supplier. This alert is highlighting this issue.

Criminal groups may encourage businesses to outsource their utilities and other regular obligations (such as gas or electric bills through to local council bills) to bogus front companies, the 'outsourcers'. They offer the incentive of reducing administrative costs to the company by removing the need to employ staff to manage the processes internally. The companies then provide funds to the bogus outsourcer to pay the liabilities to the service providers being managed on their behalf. However, the bogus outsourcer then fails to pass on that money to the service provider.

When debt recovery action is taken by the service provider to seek payment, the bogus outsourcer ceases trading, leaving the outstanding service provider debts for the legitimate company, who employed the outsourcer in the first place.

Similarly, the same organised crime groups, using the same method are able to divert "Pay As You Earn" (PAYE) and National Insurance Contributions (NIC) when

handling pay-roll administration. In such instances the business and its employees may be unaware of the fraud. When the tax and NIC becomes due to HMRC, no payment is made and when action is taken to recover the debt the bogus outsourcer ceases trading.

These services are promoted through a number of ways including local advertising, door step sales, and leafleting.

## What we would like you to do

Your organisation is asked to review the information this Alert contains, remain vigilant to the possibility of the scam and take action where necessary to identify and prevent it.

If you are concerned about an offer to manage business expenses on behalf of your company in exchange for a fee, please consider the following:

- a) Frauds of this nature usually concern short-term trading companies. A new company, or one that has only traded for a short time, may be an indicator of fraud; and
- b) How was the offer to outsource your liabilities advertised? A leaflet or door-to-door sales campaign are common elements of those involved in this fraud. Any incentive, such as personal payment or reward to the company officer for agreeing to their services, should be considered suspicious.

If you are already utilising the services of an outsourcing company you should consider making assurance checks that the liabilities being accrued are being paid. If you have entered into an agreement to outsource the utilities being used by your organisation then seek evidence of payments being made against accounts by the outsourcer.

Employers should conduct due diligence on anyone offering services to outsource liabilities; check and confirm that the outsourcer is paying the liabilities that have been accrued.

A legitimate outsourcer will be able to demonstrate that their processes and mechanisms for onward payment to service providers are transparent, operating effectively and funds are not being misused.

If you know, or suspect your organisation has become a victim of fraud, you should report this to Police's Action Fraud service. [www.actionfraud.police.uk/report\\_fraud](http://www.actionfraud.police.uk/report_fraud).

If you know, or suspect, that your organisation has been a victim of fraud that involves NIC and PAYE contributions you should report this to HMRC:

<https://www.gov.uk/report-an-unregistered-trader-or-business>

You can report suspected tax evasion to HMRC by -

Telephone: 0800 788 887.

Post at - HMRC Reporting Tax Evasion, Cardiff, CF14 5ZN, United Kingdom.

Online – [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and at [www.gov.uk](http://www.gov.uk).

The NCA is a national law enforcement agency which leads the UK's fight to cut serious and organised crime. HMRC is the lead agency for fiscal fraud. The NCA Alerts process is the way in which we provide information to non-law enforcement bodies including the private sector to combat and disrupt serious crime. To help us to improve this service, we would welcome any feedback you have on both the Alert itself and the information provided to you. Please email all feedback to [alerts@nca.x.gsi.gov.uk](mailto:alerts@nca.x.gsi.gov.uk) and include the reference **A0242-ECC** in the subject line.

## **Data Protection Act**

The NCA reminds you of your legal obligations in respect of the management of this information, including under the Data Protection Act 1998. In particular, and without prejudice to your other legal obligations, the NCA requests, in accordance with the 5th principle of the Data Protection Act (personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes) that all personal data comprised in or associated with this Alert are appropriately removed from systems and disposed of securely within a satisfactory timeframe.

## **Suspicious Activity Reporting [SARs]**

If you know or suspect that there has been money laundering or terrorist financing activity (including as a result of information provided to you by the NCA) and your

business falls within the regulated sector, then you are reminded of the obligations to make reports to the NCA under Part 7 Proceeds of Crime Act 2002 and the Terrorism Act 2000. If you decide to make a report in this way you should adopt the usual mechanism for doing so, and it will help our analysis if you would include the reference **A0242-ECC** within the text. This reference is specific to the Alerts process; where appropriate, we would ask that this is used *in addition* to the ongoing use of the Glossary of Terms. Guidance on making suspicious activity reports is available at [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk).

## Disclaimer

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### Alert Markings

NCA Alerts are marked either Red or Amber. This is designed to indicate the urgency of the warning. Red may indicate a more immediate or specific threat, whilst those marked Amber will provide more general information that may complement existing knowledge.

### NCA Alerts Team

Recognising that the private sector is often the victim of serious organised crime and is engaged in its own efforts to prevent, deter and frustrate criminal activity, the NCA seeks to forge new relationships with business and commerce that will be to our mutual benefit – and to the criminals' cost. By issuing Alerts that warn of criminal dangers and threats, the NCA seeks to arm the private sector with information and advice it can use to protect itself and the public. For further information about this NCA Alert, please contact the NCA Alerts team by email [alerts@nca.x.gsi.gov.uk](mailto:alerts@nca.x.gsi.gov.uk) or by telephoning 020 7238 0958. For more information about the National Crime Agency go to: [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk).

### Protecting the Public – Providing information back to the NCA

Section 7(1) of the Crime and Courts Act 2013 allows you to disclose information to the NCA, provided the disclosure is made for the purposes of discharging the NCA's functions of combating serious, organised and other kinds of crime. The disclosure of such information to the NCA will not breach any obligation of confidence you may owe to a third party or any other restrictions (however imposed) on the disclosure of this information. The disclosure of personal information about a living individual by you to the NCA must still comply with the provisions of the Data Protection Act 1998 (DPA). However, you may be satisfied that the disclosure by you of such personal information to the NCA in order to assist the NCA in carrying out its functions may be permitted by s29 of the DPA. Any Section 7(1) information should be submitted to [alerts@nca.x.gsi.gov.uk](mailto:alerts@nca.x.gsi.gov.uk).

### Handling advice – Legal information

This information is supplied by the UK's NCA under Section 7(4) of the Crime and Courts Act 2013. It is exempt from disclosure under the Freedom of Information Act 2000. It may be subject to exemptions under other UK legislation. Except where permitted by any accompanying handling instructions, this information must not be further disclosed without the NCA's prior consent, pursuant to schedule 7, Part 3, of the Crime and Courts Act 2013.

This report may contain 'Sensitive Material' as defined in the Attorney General's guidelines for the disclosure of 'Unused Material' to the defence. Any sensitive material contained in this report may be subject to the concept of Public Interest Immunity. No part of this report should be disclosed to the defence without prior consultation with the originator.

Requests for further disclosure which are not permitted by any handling instructions or handling code must be referred to the NCA originator from whom you received this information, save that requests for disclosure to third parties under the provisions of the Data Protection Act 1998 or the Freedom of Information Act 2000 and equivalent legislation must be referred to the NCA's Public Information Compliance Unit by e-mail on [picuquiries@nca.x.gsi.gov.uk](mailto:picuquiries@nca.x.gsi.gov.uk).