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THE EQUITY FUNDING STORY

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The 'crime of the century' took place during the 'sixties and 'seventies at Equity Funding, the USA financial services and life assurance group. Although the conception of the fraud required no computer, other than to provide immensity of scale, it was the first widely publicised case of computer crime which demonstrated the manipulative possibilities of electronic data processing when it comes under the untrammelled control of the criminal mind, while also subject to totally ineffective audit.

The early '60s saw the initial growth of Equity Funding Corporation of America (EFCA), a financial services company with a modest capital of 100,000 shares issued to the public in 1963 at £6 per share. At first its trading followed a normal pattern of separately marketing life insurance and mutual fund shares, but its visionary founders soon saw an opportunity of making each dollar of income work twice.

To exploit the scheme, it was necessary for them to acquire their own insurance company, whereas previously they had simply acted as an agency, selling other companies' policies and mutual fund shares.

In 1966 EFCA formed its own mutual fund, and acquired another from Bernie Cornfeld's IOS (whose own collapse was almost as spectacular). They also acquired four insurance companies, including one which they renamed Equity Funding Life Insurance Company (EFLIC), and which they singled out as the prime vehicle for the dirty deeds which followed. Within days of the acquisition, the existing board and senior management were sacked and replaced by EFCA officers.

The Equity Funding concept was unique yet simple – and was marketed by exploiting that human failing whereby one desires more life cover than one can afford. This, of course, is just an extension of the necessary myth on which all life insurance is based; no one wants to die, yet the evidence suggests its inevitability; therefore the concept of life insurance (an obvious contradiction) provides some secondary consolation.

Of the four initial entrepreneurs of Equity Funding, only one, Stanley Goldblum, survived to carry their idea through to its ultimate consummation.

The idea was to offer mutual fund shares and life insurance in an attractive package to middle-income families. Each year the participant would acquire shares in the mutual fund, against the security of which he would borrow money from EFCA to pay the premiums on a life policy with EFLIC. The expectation (which sounded like a certainty when explained by the salesman) was that the income from the shares, together with their appreciation in value, would exceed the cost of the borrowing. Normally the 'programme' ran for a 10-year period, the participant paying cash in instalments for the mutual fund shares. EFCA paid the premiums and retained the shares as a security for premiums advanced. In essence, therefore, the participator's life insurance was funded by his equity in the mutual shares investment.

As each year's renewal premium and loan interest (at 6% to 10%) fell due, the loan was increased and the participant purchased additional shares to cover the amount of the loan increase. At the end of the 10-year period, the loan was repaid, either by the sale of a sufficient number of the shares, or by applying the surrender value of the life policy, or directly in cash, or by a combination of these methods. What is absolutely clear, of course, is that the success of the package depended upon a steady increase in the value of the mutual fund shares, which in turn required a generally rising stock market. Never stated at the time, however, was that the only certainty about the scheme was the two commissions received by the salesman!

Whatever happened to the shares, the loan had eventually to be repaid. Rather than a 'two-for-one' advantage, the buyer bought a potential 'two-for-one' disadvantage, and paid two commissions on the same dollars: once on the insurance and once on the mutual shares. Thus was formed the main platform of EFCA's success – a sales force which stood to gain twice as much as most others in the field. In 1964, the number of salesmen stood at around 500; by 1972, it had grown to more than 4,200, operating in 152 branch offices. It is therefore no surprise that throughout the '60s the growth of EFCA was swift and spectacular. This growth is clearly seen in the accompanying table.

Equity Funding's growth record ($m)

	1964	1968	1971
Total revenues	2.8	19.2	131.0
Net profits	0.4	7.8	19.0
Total assets	9.3	79.0	497.0

The December 1972 accounts, which were prepared but never published, showed a further 17% increase in net profits to $23m. The company's earnings per share had compounded on paper at an average annual rate since 1961 of 60.79% - which made it the fastest growing financial services organisation in the USA!

With the company's shares being publicly traded, its earnings became a matter of intense concern – especially among the salesmen and executives themselves, who were offered EFCA stock at attractive prices as 'production bonuses'. It was therefore in their interests that the market price of the company's stock should continue on the upward path which inevitably followed reports of increased earnings. But for Stanley Goldblum, Fred Levin, Sam Lowell and the inner circle of senior officers with vast holdings of EFCA stock, it was even more vital. Had EFCA stock maintained its price in 1973, for example, Levin's 4,000 bonus shares would have effectively doubled his $100,000 salary! Further, a healthy growth record was essential for the issue of new capital, and was also the first prerequisite for entry into the conglomerate game par excellence: merger by acquisition, on a simple stock-for-stock basis.

It was therefore clear that whatever the means of achieving it, the end had to be a continuous rise in reported earnings.

The underlying objective behind this vast deception was thus clear enough, and it united, with single-minded dedication and resourcefulness, the handful of men responsible for perpetrating it. What follows is a summary of their activities.

One of the main avenues selected for the fraud lay in the common practice of re-insurance. In 1969 EFLIC announced that all employees who requested it would be issued with free life cover for one year. The amounts insured were substantial, in some cases (depending on status) up to $50,000, and there was an option to continue the policy after the first year. As expected, of course, the majority of those who accepted the offer cancelled after the year of grace. In the meantime, however, the free insurance had been re-insured with other unsuspecting companies, EFLIC having received cash from them equal to 180% of the renewal premium; moreover, EFLIC had no salesmen's commission to pay. It was therefore a device for obtaining an immediate cash and earnings boost, leaving the re-insuring company with a virtually worthless asset.

But the conspirators did not let the matter rest there. When the December 1970 year-end accounts were being prepared, it became obvious to certain key employees that 'additional' business was being inserted. Whichever way the genuine figures were extrapolated – such as on the basis of monthly totals submitted from branches, or of salesmen's commissions earned – it was clear that the final accounts figure was more than double the most optimistic reckoning. By mid-November 1970, the face amount of actual life insurance produced in the year had reached $375m (the 1969 accounts had reported $370m). Then the weekly management reports ceased, ostensibly for the year-end accounts preparation. Early in 1971, Pat Hopper, the senior executive responsible for sales, was amazed to learn from Fred Levin that EFLIC had written $826m in life insurance in 1970!

Nor did the published report itself make any sense to him: it declared that more than 31,000 mutual funding/life cover schemes were in existence, whereas Hopper had reported to Levin, for annual accounts purposes, that the total number of such files was 18,000 to 21,000. A year later the genuine funding files still totalled around 18,000 (ie surrenders and new business approximately cancelled each other out). Yet the 1971 annual report declared that there were 41,121 funding programmes operative.

Declaring fictitious business was one thing; producing the necessary back-up records was quite another. And this is where the computer came in. EFCA used an IBM 370/145 computer, which it ran in an open-shop service-bureau environment, serving about 100 EFCA subsidiaries and associates. The EFLIC actuarial department, responsible for producing the fake business, was treated as just another user.

There was a special code ('99') for bogus business, obviously unrecognisable to most staff (and certainly to the auditors), and the machine was programmed to skip these policies when running the monthly billings; this was essential, since none of the persons insured under these policies actually existed. In the open-house environment there was unrestricted access to the programs, the master files and the machine. It has been suggested in Datamation that what probably happened was that an EFLIC actuary or other DP user gained access to the live master file and regularly created a volume of 'test' data which would be blended with 'real' data, and would then become part of the scheduled input next time the master files were updated. As the contrived business became more sophisticated, EFLIC staff would run the same fake policies through three or four times; or a $10,000 policy could be rerun as $50,000, and so on. The permutations were virtually without limit.

In most cases these false records did not need to be supported by actual file documentation. However, whenever the auditors dutifully asked to see files containing the policy applications, medical histories, transmittal and settlement sheets and other papers, they were told that the files were scattered throughout the building and that they would be available the next day. This left enough time for the files to be 'manufactured' with every appearance of authenticity.

Occasionally the auditors sought independent outside confirmation directly from the insured. The EFLIC staff were always helpful in providing a 'random' selection of names and addresses from the master files. In fact, these were always those of co-operative employees who, having been briefed that the auditors were 'running a computer test', dutifully filled out the confirmations and returned them to the auditors – who were no doubt surprised at the high response rate!

Several computer staff became suspicious, but were strangely disinclined to report their feelings, fearing the consequences of biting the hand that fed them so well; the organisation was so fragmented that it was always tempting to regard one's doubts as groundless and misguided. One manager, for example, noticed that there was a significant blank of 12,000 numbers in the policy number sequence on the master file. A few days later, running a test on some 'real' files, he was surprised to find that several of these carried unique numbers that fell into that space. Had he put two and two together he might have guessed, correctly, that the 12,000 blanks had been specially set aside for bogus entries.

The fake business was known internally by several euphemisms: 'Stanley Goldblum's Friends', 'The Chicago Telephone Directory' and others. The number of fake policies created may be estimated conservatively at 11,000 in 1970; 45,000 in 1971; and, unbelievably, 64,000 in 1972 – twice as many as the genuine ones. And the EFLIC group was not content simply to 're-insure' these policies once: many were re-insured as often as four times, with four different companies. A major assisting factor was, of course, the absence of any sales commissions – normally anything up to a full year's premium.

Yet another convenient way of creating fictitious business was to keep genuine policies alive after they had been lapsed or surrendered. It was merely necessary to continue recording the premium payments. Thus a further source of suspicion, for anyone who was prepared to look, was the apparently declining percentage of lapsed policies each year – by 1972 lapses were virtually non-existent.

The naivety of the re-insurance companies was staggering. The fact is that not one of the companies which bought thousands of bogus policies from EFLIC lifted a finger to check whether these policies so much as existed. As far as they were concerned they were buying an entitlement to future premiums, and nothing else seemed to matter. As one re-insurance department head put it later: 'The insurance industry is like a club; you trust people'.

The question arises, of course, as to how the premiums were paid by EFLIC to the re-insurers in the second and subsequent years of a fake policy's existence. The answer is, in two ways: first, by generating and re-insuring still more fake new business, thus creating a totally phantom inverted pyramid, which would undoubtedly have toppled in ruins had it not been for the second ploy. This was to programme the 'deaths' of selected non-existent 'lives', thus (a) terminating the need to pay any more premiums on those policies, and (b) providing a welcome cash influx from the re-insurer which had acquired the risk, representing the capital death benefit insured. Providing the supporting death certificates proved no problem at all, for EFLIC ran its own printing shop!

When the monolithic edifice was dismantled in 1973, it became obvious that the fake business was by no means confined to EFLIC. The parent company, EFCA, adopted a number of devices to boost its assets position 'creatively', including the age-old method of simply forging securities. The chief printer was given specimen copies of blue chip share certificates, with instructions to reproduce them on metal plates and to run off a specified number. He was told: 'We're using them in a presentation by our investment department – they're working on new retirement programmes'. There were also specific instructions to destroy all the waste afterwards. Later, when the fraud was blazoned all over the newspapers, the printer described how he did his own sums: he listed the names of all the companies whose certificates he had created, and next to each name he entered the size of the print run. He looked up the stock prices in The Los Angeles Times and carried out the multiplication. He could hardly believe the result – it exceeded $100m!

This intense need to create bogus assets was an essential part of the acquisition game, whereby more profitable companies (with a higher earnings per share ratio) would be acquired by means of a straightforward share exchange. The basis agreed with the other shareholders would naturally rest on the apparent value of the EFCA stock issued in exchange; in effect, EFCA was steadily acquiring genuinely valuable scrip in return for its own worthless paper: the key to a financial fountain of youth.

The earnings and assets of the companies acquired (whose officers were invariably sacked and replaced by EFCA people) would then be parasitically transferred to EFCA by means of appropriate book entries and completely bogus charges. In the case of profitable life insurance subsidiaries, this had the incidental effect of robbing their participating stockholders of the profits to which they were entitled under their policies. The overall effect of these life-giving injections was, of course, to conceal the totally unprofitable state of the parent company.

No device was too far-fetched for Goldblum, Levin, the company's chief accountant Mike Sultan, its actuary Arthur Lewis, or its treasurer Lloyd Edens. Even the time-lag between Los Angeles and the east coast was used to good effect: on one occasion a $3m bank balance was ‘shipped’ from a New York subsidiary to EFCA in Los Angeles for three hours, so that at close of business on the year-end date it appeared in the records of both companies!

Fred Levin also dealt with the auditors when they decided to telephone Equity’s branch managers all over the USA to confirm directly the amount of insurance/funding business on record. The calls were made from the audit room in Equity’s offices, and the enquiries were based on a detailed schedule of insurance/funding programmes allegedly in existence at each branch.

The purpose of the exercise was sound enough: by this means the auditors would be able to reconcile the total business carried out by the group with the individual branch returns.

In the event, however, the test proved to be a farce: Fred Levin, having instructed the switchboard to alert him whenever the auditors used the telephone, had all the calls to outside branch managers diverted straight into his office. Depending upon where the branch in question was located, he carefully put on the appropriate voice and accent, and duly confirmed the amounts called over by the auditors.

Two errors of judgement therefore emerge – with hindsight, of course. Firstly, the calls should have been made from the auditor’s own offices, thereby avoiding any possibility of internal tampering; secondly, the auditors should not have volunteered the information sought, thus merely requiring a straightforward ‘yes/no’ confirmation.

Although it would not have been foolproof (since Levin may have had a copy of the auditors’ schedule in front of him at the time), the test would certainly have been more authentic if the auditors had required the ‘manager’ to provide detailed figures in response to their enquiries.

EFCA increased its borrowings by $44m during 1971 and 1972 through public issues, yet cash flow continued to be a problem. Furthermore, the inter-company accounts became vastly out of balance; whenever EFLIC issued a new insurance/funding programme it would ‘sell’ this to its parent and show it as receivable in the intercompany account – yet EFCA never recorded liability and no cash ever passed.

By the end of 1971 the imbalance was $16m which was then settled by a transfer from EFCA out of the proceeds of a public issue, thus clearing the account in EFLIC’s books. However, the transfer was recorded differently in the books of EFCA. The bank advice on the transfer was intercepted by Mike Sultan, who altered it to show the $16m as a purchase of commercial bills, with a ‘redemption date’ shortly before the December 1971 year-end; the aim being to avoid attempts by the auditors to verify the fake investment. On this redemption date, the actual cash came back from EFLIC, who recorded it as a loan to EFCA. But in EFCA’s books even $177,000 in fictitious interest on the ‘commercial paper’ was included in the ‘redemption’. The non-discovery of the disparity was due to the fact that EFCA and EFLIC had different auditors; and as the bogus investment had ‘matured’ and the cash had been received, EFCA auditors made no attempt at independent confirmation. Throughout this intensive ‘debit creation’ exercise (whether for fake assets or cash received), the corresponding credit was always the same: earnings, earnings, earnings.

It was the aim of Goldblum and company that the highly profitable acquisition business would render it unnecessary to keep up the deception at this alarming level. In February 1973, in order to improve the cash flow, Goldblum launched a stringent cost-cutting exercise. Unfortunately (from his point of view), this resulted in the sudden dismissal of one of EFLIC's administrative officers, Ronald Secrist, who promptly 'blew the whistle' on the conspirators by talking to the Illinois state insurance officials and to Raymond Dirks, a securities analyst who specialised in insurance company stocks. At first the hearers were incredulous, and attributed the fantastic story to Secrist's bitterness at the peremptory manner of his dismissal. But Dirks persisted with probing enquiries, and the pieces gradually began to fit until no reasonable doubt remained about the fraud's grotesque dimensions.

Secrist had known a good deal, of course, and he was totally forthcoming in his declarations: the senior officers of the company were not merely complicit in the crime – they were its architects. Goldblum had not resorted to devices in bad years in order to 'plug a dyke' – he had built it.

Raymond Dirks was convinced that EFCA stock was worthless paper, and was determined to make the facts known. This naturally produced a flurry of trading in EFCA stock, coinciding with (a) Goldblum's persistent denials that there was any substance to the rumours; (b) the state insurance department's surprise audit as a result of Secrist's disclosures; and (c) the pre-publication preparation of the company's 1972 annual report.

But Goldblum could not halt the slide. The price of the eight million EFCA shares on the New York Stock Exchange fell from just under $30 per share at the beginning of March 1973 to $14 by the 27th. At the end of March the Securities & Exchange Commission (SEC) halted trading, and on 2 April the disaster was all over the newspapers. On 4 April the company was put into bankruptcy, facing claims of over $10bn in courts throughout the USA. The 10-year game was over.

The state investigators now worked in earnest to salvage the genuine assets of the group, unwittingly hampered by their offices being bugged – Goldblum and Levin listening to the tapes every night and thus being able to anticipate the next move. The investigators were in for some shocks. The EFLIC balance sheet dated 31 December 1972 (never published) included securities held at bank of $24m. On enquiry it transpired that the EFLIC account had been cleared out 10 months previously – there was nothing at the year-end; no cash, no stocks. The auditors had been sent a totally fraudulent confirmation at the year end, mailed by the conspirators (from the false bank address which they had given the auditors) after signing it 'Joseph S Phillips, second vice-president'. No such person had ever worked at the bank. Those banks which actually held EFCA balances virtually set these off against outstanding loans and overdrafts, despite the dubious legality of so doing. In the scramble for pieces, all constraints were thrown to the winds.

Lack of space prevents me from describing every post-exposure discovery in detail. No doubt what has been written so far suffices to indicate the lengths to which the ever-resourceful conspirators were prepared to go in order to maintain their pretence until they had acquired enough legitimate business to phase out the aberrations slowly, and bury the fraud forever. Their over-riding objective had been the maintenance of the price of the company's stock. With valuable shares, EFCA could exchange these for healthy companies; and high stock prices kept the salesmen happy since their remuneration included stock options. The one factor was totally dependent on the other; the fight to maintain the stock price was a fight for the life of the company. Before eventually handing over millions of dollars in cash and securities from his own personal strong box, Levin muttered pathetically: *'What hurts most is that in another year we would have been in the clear'*. By this stage, the collapse of the company's top management was total.

When all the fictitious layers were peeled away, EFCA emerged as relatively small, devoid of equity, and totally unprofitable. The money (missing cash, on its own, accounted for $80m) had gone in supporting substantial ongoing losses, occasioned not least by the vast and entirely disproportionate remuneration with which the conspirators enriched themselves.

After prolonged investigation by the state authorities, the SEC and the FBI, Goldblum and 18 others were criminally indicted on 105 counts. The arch-conspirators pleaded guilty, and all received prison sentences – eight years in Goldblum's case. Also imprisoned were two partners and one manager in Equity Funding's audit firm, Wolfson Weiner, which had been absorbed by Seidman & Seidman shortly before the collapse.

It is essential to draw the many strands together and consolidate the vital lessons which must be learnt, not least by auditors, if we are to make even minimal progress by improving the degree of vigilance over corporate activity which is so obviously needed.

The Lessons for Auditors

a. Throughout the period of this growing fraud, the presence of auditors was regarded by the staff and officers of Equity as a mere formality, devoid of substance or significance. The two partners and manager of the small audit firm of Wolfson Weiner who were criminally indicted were in fact so close to Equity that one of them was personally listed in the company's internal telephone directory; a second had left the audit firm to join the accounting staff of Equity, but still 'supervised' the audit. The three indicated were regarded by Equity staff as effectively being on the payroll. Another Wolfson Weiner manager had left the firm to set up on his own account, but retained most of the conspirators as his personal clients. *The lesson: Never allow familiarity between auditor and client to undermine the effectiveness of the audit function. Independence in name only makes a mockery of auditing. Even after the Seidman-Wolfson merger, there was in fact no change in the audit staff involved.*

b. Wolfson Weiner were taken over by Seidman & Seidman during 1972, and there is no evidence that Seidman suspected Wolfson Weiner of being complicit or acquiescent in the 'creative' accounting methods of its major client. Nor, unfortunately, is there any evidence of enquiry by them into the relationship between the Equity officers and Equity auditors prior to the merger – let alone into the procedures adopted by the small firm, with its limited resources, when faced by the audit of a highly complex public conglomerate with a 'go-go' image. The evidence is rather that Seidmans succumbed to the old-fashioned lure of a high return. The fact that the merger has since been dissolved, and Wolfsons stand accused by their acquirers of deliberate deception, is small consolation for the heavy price of being remembered as 'the Equity Funding auditors', and also of being castigated by the SEC for the inadequacy of its procedures. *The lesson: I trust that it is obvious – enquire before you acquire!*

c. When Dirks told Seidmans partner Robert Spencer everything he knew about the fraud and allowed him to Xerox all his notes, Spencer promptly took the extraordinary steps of telling Goldblum all that he had heard from Dirks, and handing over a complete set of these notes, which Goldblum duly circulated among his co-conspirators! The correct action, far from playing straight into the hands of the criminals, would have been to investigate the substance of the allegations and proceed immediately to the authorities with the findings, if positive. *The lesson: Learn to distinguish when duty to one's client has been superseded by a duty to the public – especially where criminal acts are concerned. The auditor must take the initiative. After all, a criminal client is hardly likely to report one to a professional body for breach of confidence!*

d. The auditors seem to have been led by the nose all the way. Some will inevitably suggest that they were trusting to the point of uselessness. The 'blood-hound/watchdog' – even sheepdog – argument hardly applied (unless the auditors are represented by the sheep)! They were content to go through the formalities of confirming assets independently, for example, but invariably allowed themselves to be 'assisted' by being given helpful lists of random file or policy numbers, thereby ensuring that the confirmations always ended up in the hands of the conspirators or their allies. Once the fraud investigation had actually commenced, Seidmans made a series of phone calls to alleged policyholders, and only six out of the 82 persons called turned out to be genuine. The inevitable question: why on earth were there no such phone calls in the course of the normal audit? *The lesson: When faced by technical difficulties in the course of verification, avoid the temptation of asking or allowing an obliging client to assist. It is essential to overcome the difficulties oneself if the audit programme is to carry any real significance.*

e. The disparity in intercompany balances between EFCA and EFLIC would never have been allowed to stand if both companies had had the same firm of auditors. This device of using different auditors only worked because each firm was content to verify the year-end balance (if any) in isolation, without considering either the nature of the voluminous transactions during the year, or the redemption and settlement dates which were so suspiciously close to the year-end dates. *The lesson: Audit confirmations should always include direct contact with the other auditors on matters such as inter-company balances, and should require the submission and exchange of complete copies of all the book entries in the respective accounts during the period under review.*

f. When the auditors were told that the files requested were not immediately available, they were always content to wait a day or two. *The lesson: Standards of vigilance should have required them to insist on at least a handful of such files being traced immediately,* *regardless of any alleged inconvenience to staff. The auditors appear to have been altogether too accommodating – no doubt due to the circumstances described in (a).*

g. Whenever the auditors decided to review the funded programmes control account, the computer would be made to duplicate a real programme a sufficient number of times so as to reach a total figure equal to the amount that the company was reporting for its funded programmes. The genuine programme bore five-digit numbers – repeated over and over again on the bogus tape. But the computer was programmed to print out only the last three digits. When the auditors asked to see the full five-digit codes they were told (and accepted) that this could not be done for mechanical reasons. Whenever the auditors attempted to confirm the bogus funded programmes direct with their 'owners', a series of three-digit numbers would be provided which resulted in the confirmations being sent to employees, their relatives or close friends, who, having been advised in advance that the exercise was part of a computer 'test', would obligingly sign and return the confirmations to the auditors. When the SEC asked the computer manager at Equity if he had spoken to the auditors, he replied that he had never even seen them. In the circumstances, what chance was there of them discovering, for instance, that there was no computer file of insurance policies which actually reconciled with the figure on the company's balance sheet? *The lesson: the client's computer expertise must be matched by that of the audit staff. The Equity auditors were attempting to audit 'round' the computer, when the complete absence of an audit trail ought to have made it obvious that the computer itself had to be used as a prime audit tool.*

The above lessons may appear to be too general, even facile – yet the Equity auditors came nowhere near following them. The overriding lesson, of course, is that the auditor dare not bury his head in the books, hoping that everything outside of them is in order. He should audit the client – not merely the client's records or accounts. Just as a good doctor treats the whole patient, not just surface appearances or symptoms, so, to the skilled auditor, it is the total picture which matters. Ray Dirks, understandably, is bitter about auditors: *'If the Equity Funding scandal proves anything, it is that auditors as safeguards are worthless. The 'independent' auditor may not be independent. Paid by the company being audited, he is worried about keeping the account. A frequently heard comment after the scandal became public was that 'routine auditing procedures aren't designed to detect fraud'. If routine auditing procedures cannot detect 64,000 phony insurance policies, $25m in counterfeit bonds and $100m in missing assets, what is the purpose of audits?'* Dirks has, one must admit, a point.

The final indictment, however, is not merely of ineffectual auditors; state investigators hamstrung by their own regulations; credulous investors; salesmen and staff more concerned for the security and size of their pay then where it was coming from; or even the immoral and rapacious men who plotted the entire burlesque. The ultimate indictment lumps them all together – for the great shock of the Equity Funding scandal was the slackness of effort it exposed. Underwriters examined the company with care; banks analysed it intensively before lending it money; lawyers were paid vast fees to prepare each public prospectus; outside actuaries certified the insurance reserves; auditors passed the accounts without reservation. Every one of them failed – totally.

And the law? That proved to be an equally ineffectual safeguard. Every financial scandal prompts a cry for new legislation to prevent it happening again – yet all the illegal manoeuvring which took place at Equity Funding has always been illegal – the need is certainly not for new laws. More than 1,000 people were on the Equity payroll, yet only 22 were indicted. Many others suspected something was going on, even knew about it in some detail – yet it was their reluctance, based entirely on fear, to go to the authorities that highlights the impotence of just those authorities, despite all appearances of power and thoroughness.

Let the final word go to Ray Dirks, whose solo sleuthing in uncovering one of the most unwholesome spectres of this age uniquely qualifies him to sum it all up: *'When conscience is immobilised, public trust has disappeared. At that point, by default, institutions become omnipotent. May Equity Funding tell us, at a minimum, that there is work to be done not simply to police our commerce, but to redeem the efficacy of will'.*