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FORENSIC

Fraud Survey 2008

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Note: Unless otherwise stated, the amounts in this document are in Australian dollars.

Due to rounding, graph totals may not equal 100 percent.

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Preface

Welcome to KPMG Forensic's 2008 survey of fraud in Australia and New Zealand.

Since 1993 the biennial KPMG *Fraud Survey* has become the most credible and widely quoted survey of fraud in Australian business. In 2002 we permanently expanded the survey to become the only in-depth survey dealing with fraud in New Zealand.

In 2003 KPMG Forensic and the University of Queensland established the first dedicated centre for business forensics in Australia. KPMG Forensic and the University of Queensland have since joined forces to investigate the instances, motivations and prevalence of fraud in Australia. We thank, in particular, Dr Larelle Chapple of the University of Queensland, Professor Colin Ferguson of the University of Melbourne and the joint research team for their invaluable support and guidance over many months.

The 2008 survey provides a detailed insight into contemporary fraud issues in Australia and New Zealand, including:

- the types of fraud affecting both public and private sectors
- the financial consequences of fraud
- the perpetrators of fraud
- the conditions that increase the risk of fraud
- how organisations respond to the discovery of fraud
- the strategies employed by entities to mitigate the risks of fraud
- unethical behaviours common in business and the factors that encourage these behaviours.

Our report is based on a detailed study of fraud across a broad cross-section of Australian and New Zealand organisations. However, our research does not end with this report. We are further analysing the results by industry and by location. Supplementary reports containing the results of these analyses will be released progressively over the coming 12 months in our *Forensic Insight* publication. Data captured in the 2008 survey will be used by Professor Ferguson's research team to understand more about how fraud is affecting organisations in Australia and New Zealand.

We thank those people and organisations that took the time to respond to this year's survey. Without your support this report would not have been possible.

We believe this document is essential reading for business leaders. We trust you will find it a useful tool in helping you and your organisation better manage the risk of fraud.

Gary Gill
Partner in Charge – KPMG Forensic
Australia

Peter Morris	Mark Leishman
Director – KPMG Forensic	Partner – KPMG Forensic
Australia	New Zealand

Executive summary

KPMG's eighth biennial *Fraud Survey* shows a significant increase in fraud in Australia and New Zealand, compared with our last survey in 2006. Gambling was the major driver of fraud and a significant number of the reported incidents of fraud involved some form of identity compromise.

The findings in this report come from the responses to a questionnaire sent in August 2008 to a representative sample of Australia and New Zealand's largest organisations across the public and private sectors. The questionnaire sought information about fraud incidents within the respondents' business operations during the period February 2006 to January 2008[1]. Usable responses were received from 420 organisations, representing just over 20 percent of the 2,018 surveys distributed.

There are several major findings.

- The total value of fraud reported was $301.1 million with an average value for each organisation of $1.5 million.
- Gambling was the most common motivator of fraud with an average value of $1.1 million per incident.
- Fifteen percent of the largest fraud incidents involved some form of identity fraud.
- Forty-five percent of all respondents experienced at least one fraud during the survey period.
- Respondents reported 222,577 separate frauds.
- Non-management employees were found to be the group most likely to commit major fraud.
- Internal controls were the most effective means of detecting fraud. Conversely, poor internal controls were the most important factor contributing to major fraud.
- Fraud red flags were ignored in 22 percent of the largest fraud incidents.
- Seventy-nine percent of respondents had a system for the anonymous reporting of fraud.
- Eighty-nine percent of the value of major fraud was not recovered.
- Fifteen percent of employees involved in fraudulent conduct had a history of dishonesty with previous employers. In 3 percent of cases the employee had a history of dishonesty which was known to the employee's current employer.

[1] Referred to in this report as the 'survey period'.

The total number and value of fraud incidents reported increased significantly over our 2006 survey. While some of this increase can be explained by the variation in respondents, the trend is clear: fraud continues to be a big problem for Australian and New Zealand organisations.

The worrying signs are that gambling continues to be a strong motivator for fraud and that fraud recoveries at 11 percent, have decreased substantially from the 37 percent experienced in 2006. We believe these factors are closely connected.

More organisations are providing a means for employees to report their suspicions of fraud, although the percentage of organisations offering anonymous reporting has decreased. KPMG believes anonymous reporting systems are crucial to the detection of fraud, particularly when whistleblowers are concerned about retribution should their identity become known. An anonymous reporting system is one of the most cost effective fraud detection strategies that can be employed by organisations of all sizes.

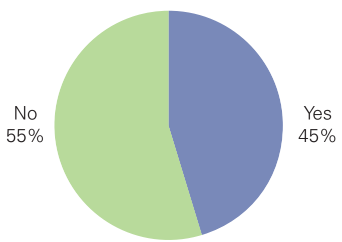
Fifteen percent of perpetrators had a prior history of dishonesty which was not known to the organisation – clearly more due diligence is required by organisations in their recruiting processes.

There are positive indicators in the 2008 survey that organisations are doing more to prevent, detect and respond to fraud risks, including increased use of data analytics as a fraud detection strategy, together with fraud risk assessment and fraud awareness training. We note, however, that in 22 percent of the largest cases of fraud, critical red flags were ignored.

Our overall finding is that organisations must further improve their fraud risk management strategies in response to the continued increase in the prevalence of fraud.

1. Fraud in Australia and New Zealand

Figure 1 – Respondents experiencing fraud



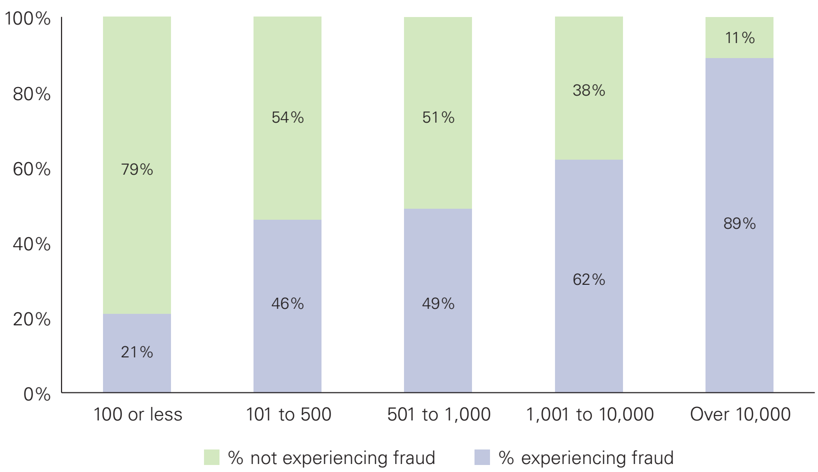
1.1 How big is the problem?

Survey respondents reported 222,577 incidents of fraud during the survey period. The total value of fraud reported (before taking into account associated costs and recoveries) was $301.1 million. Forty-five percent of all respondents experienced at least one fraud during the survey period (see Figure 1). This result is relatively consistent with our previous surveys.

The average value of fraud suffered by each organisation experiencing at least one incident of fraud was over $1.5 million. Twenty-six respondents reported single frauds with a value of greater than $200,000 each and there were seven organisations where the value of fraud in the 2 year period exceeded $3 million.

Consistent with previous surveys, the level of fraud suffered was higher in large organisations. Sixty-two percent of organisations with between 1,000 and 10,000 employees experienced at least one fraud, while 89 percent of respondents employing more than 10,000 people experienced at least one fraud (see Figure 2). Lower rates of fraud were reported in smaller organisations.

Figure 2 – Respondents experiencing fraud by size (number of employees)



Of the respondents that experienced fraud, 74 percent suffered more than one incident of fraud (see Figure 3). Three percent reported more than 1,000 incidents each.

Figure 3 – Number of frauds detected

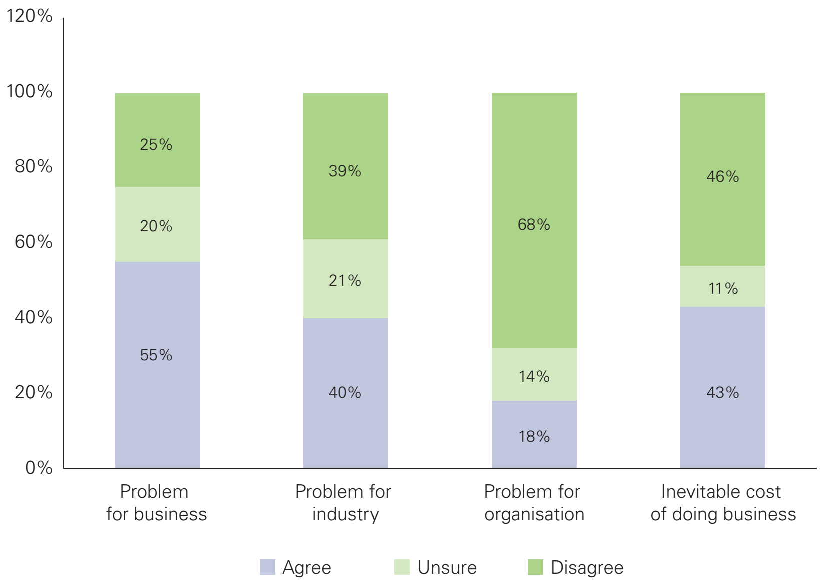
Number of frauds detected	Percentage of organisations
1	26%
2 to 10	52%
11 to 50	10%
51 to 1,000	9%
over 1,000	3%
	100%

Fifty-five percent of respondents believed that fraud was a major problem for business generally (see Figure 4).

Eighteen percent of respondents believed that fraud was a major problem for their own organisations compared to 23 percent in 2006. Consistently throughout our surveys, respondents have said that fraud is a greater problem for business in general than it is for their organisation. This increase in confidence in 2008 over our 2006 survey may reflect the reported increase in fraud risk management strategies employed (see Figure 36 for the strategies organisations are employing to manage the risk of fraud).

Interestingly, 43 percent of respondents believed fraud was an inevitable cost of doing business, which may explain the increased use of fraud mitigation strategies employed by organisations we have observed over our surveys.

Figure 4 – Perception of whether fraud is a major problem



1.2 Who are the perpetrators?

The survey considered the extent and financial impact of frauds committed by three categories of perpetrator:

- managers (including senior executives and directors)
- non-management employees
- external parties.

As expected, externally instigated fraud accounted for a majority of frauds in the financial services sector – in 2008 externally instigated fraud accounted for 84 percent compared to 90 percent in 2006 of the value of reported fraud in the financial services sector (see Figure 5).

For respondents generally, excluding those in financial services, 57 percent of the value of fraud was perpetrated internally. Fraud instigated by management level personnel (including senior executives and directors) accounted for 32 percent of the total reported value of fraud while non-management level personnel accounted for 25 percent. Forty-three percent of the total reported fraud resulted from frauds committed by external parties.

Figure 5 shows the percentage of the value of the total reported fraud across the three perpetrator categories, both for the financial services and the non-financial services sectors.

Figure 5 – Breakdown of fraud by perpetrators by value

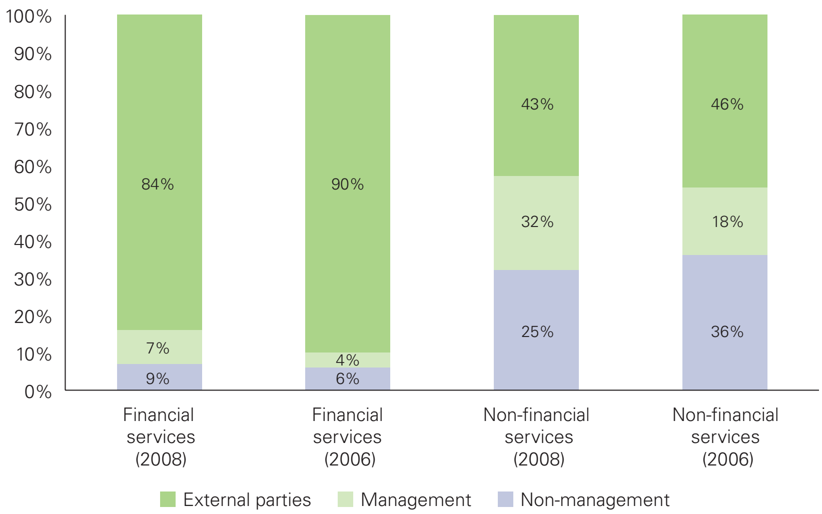


Figure 6 shows the average value associated with frauds committed by the three perpetrator types for the financial services sector and non-financial services sector. In the financial services sector, non-management employees had the highest average value per fraud, with external parties having the highest average value per organisation. In the non-financial services sector, managers had the highest average value per fraud with external parties having the highest average value per organisation.

Figure 6 – Average loss associated with fraud by perpetrator type

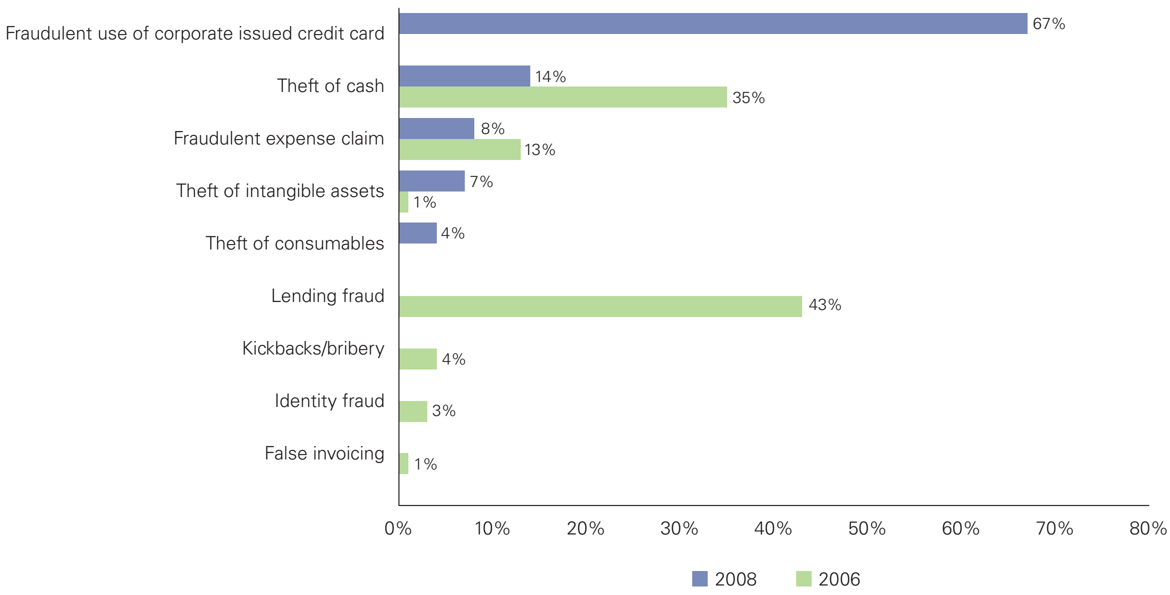
Perpetrator	Financial services		Non-financial services	
	Average value per fraud	Average value per organisation	Average value per fraud	Average value per organisation
External	$1,424	$5,778,960	$1,201	$82,022
Manager	$78,246	$515,620	$27,792	$62,350
Non-management	$140,734	$613,458	$6,440	$47,762

The following three sections contain a more detailed analysis of the types of fraud reported for each of the three perpetrator types across the financial services and non-financial services sector.

1.3 Fraud by managers (including directors and senior executives)

Within the financial services sector, the most costly fraud committed by management level personnel was the fraudulent use of corporate issued credit cards, representing 67 percent of the total (see Figure 7). This was followed by theft of cash at 14 percent and fraudulent expense claims at 8 percent.

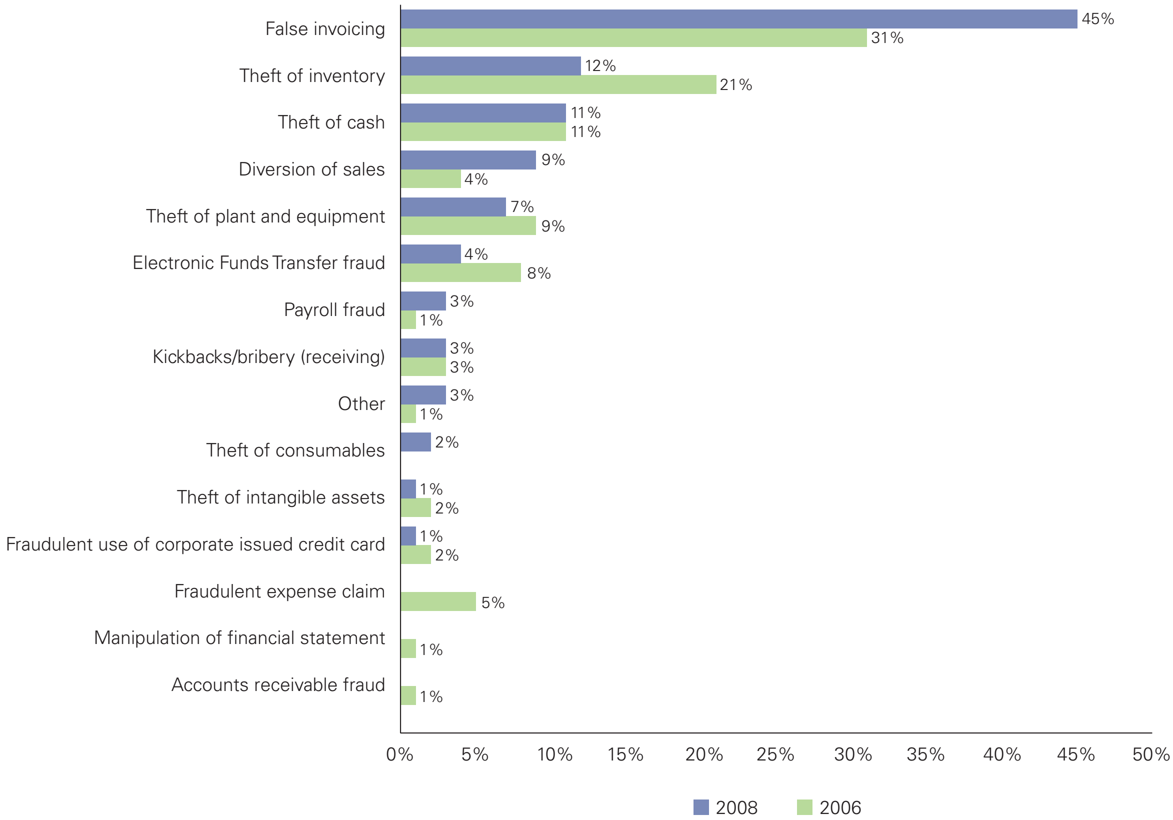
Figure 7 – Value of fraud by management in financial services sector



Note: Figure 7 excludes one incident of account manipulation and theft to the value of $19.8 million.

Within the non-financial services sector, the most costly fraud associated with managers was false invoicing, representing 45 percent of the fraud value (see Figure 8). Theft of inventory followed, representing 12 percent of the total value.

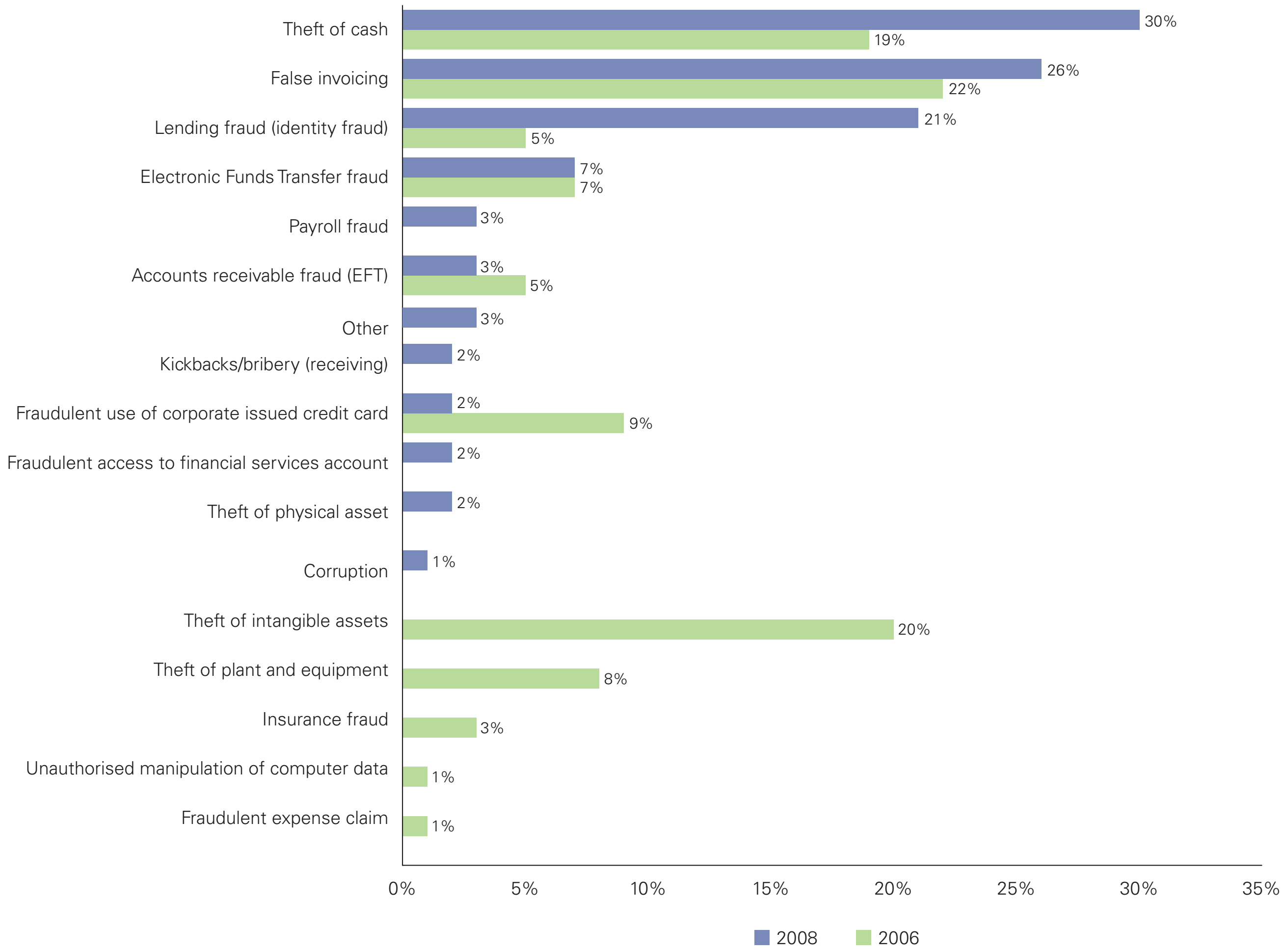
Figure 8 – Value of fraud by management in non-financial services sector



1.4 Fraud by non-management employees

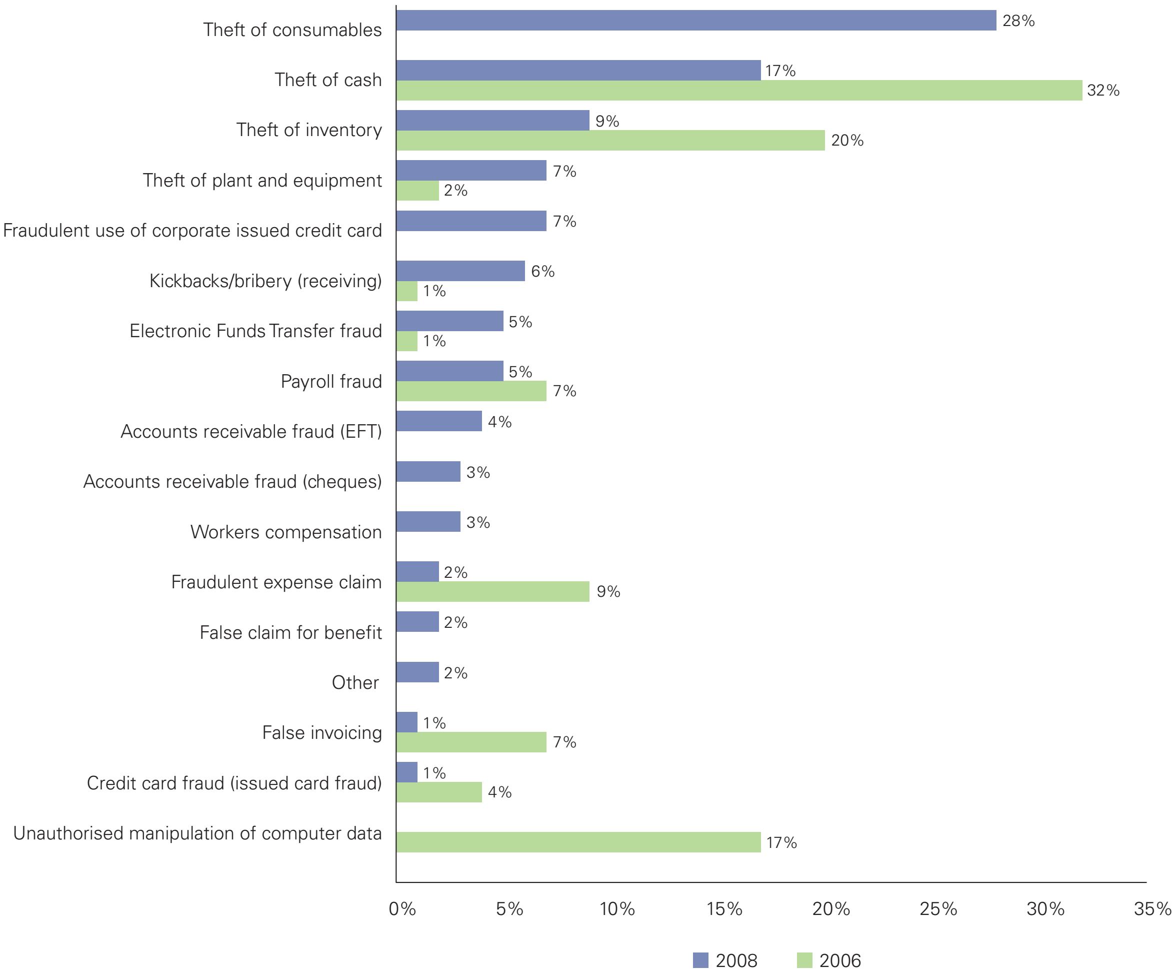
Within the financial services sector, theft of cash accounted for 30 percent of the total value of non-management fraud (see Figure 9). This was followed by false invoicing at 26 percent and lending fraud at 21 percent.

Figure 9 – Value of fraud by non-management in financial services sector



Within the non-financial services sector the most significant type of fraud committed by non-management employees was the theft of consumables at 28 percent (see Figure 10) followed by theft of cash at 17 percent.

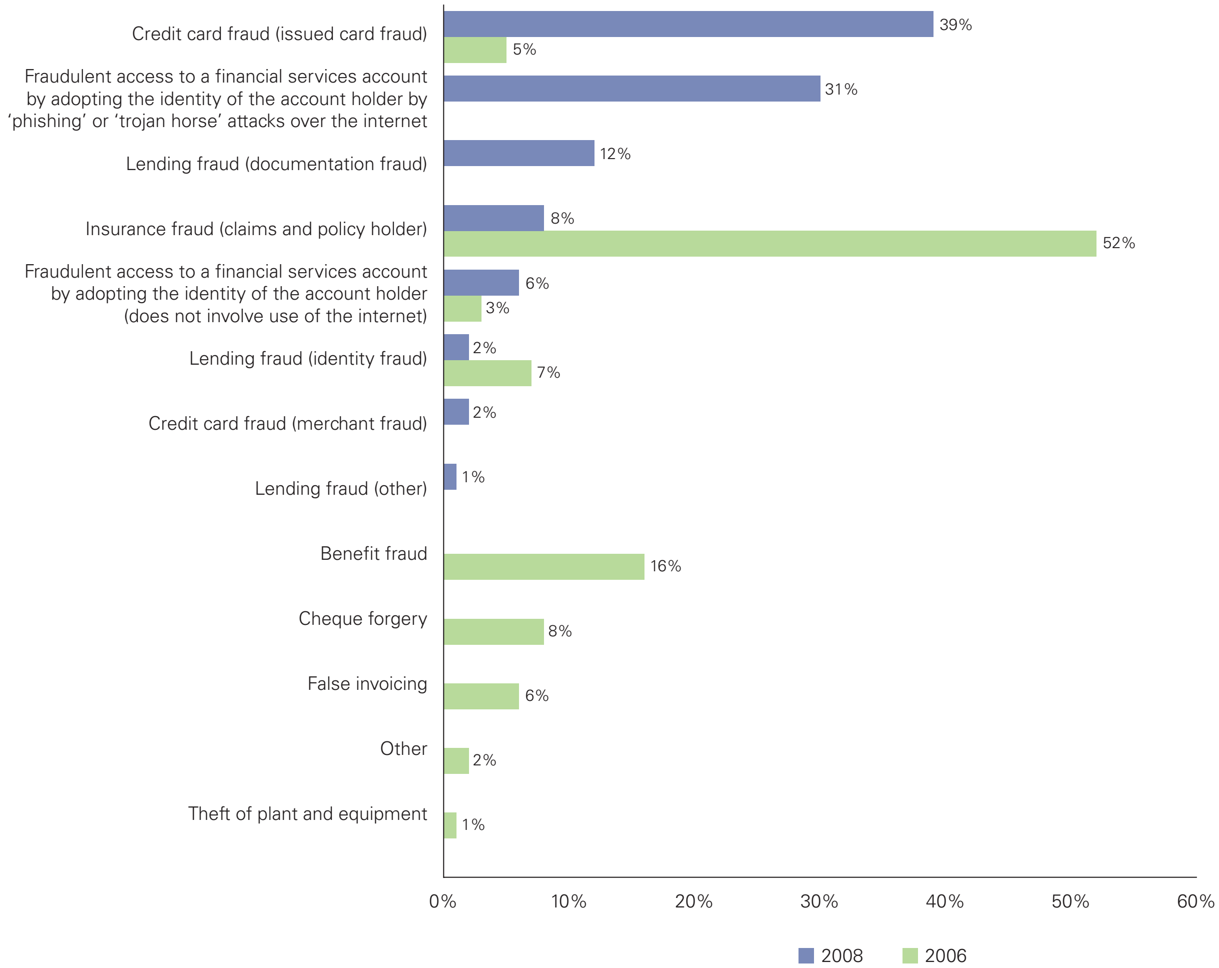
Figure 10 – Value of fraud by non management in non-financial services sector



1.5 Fraud by external parties

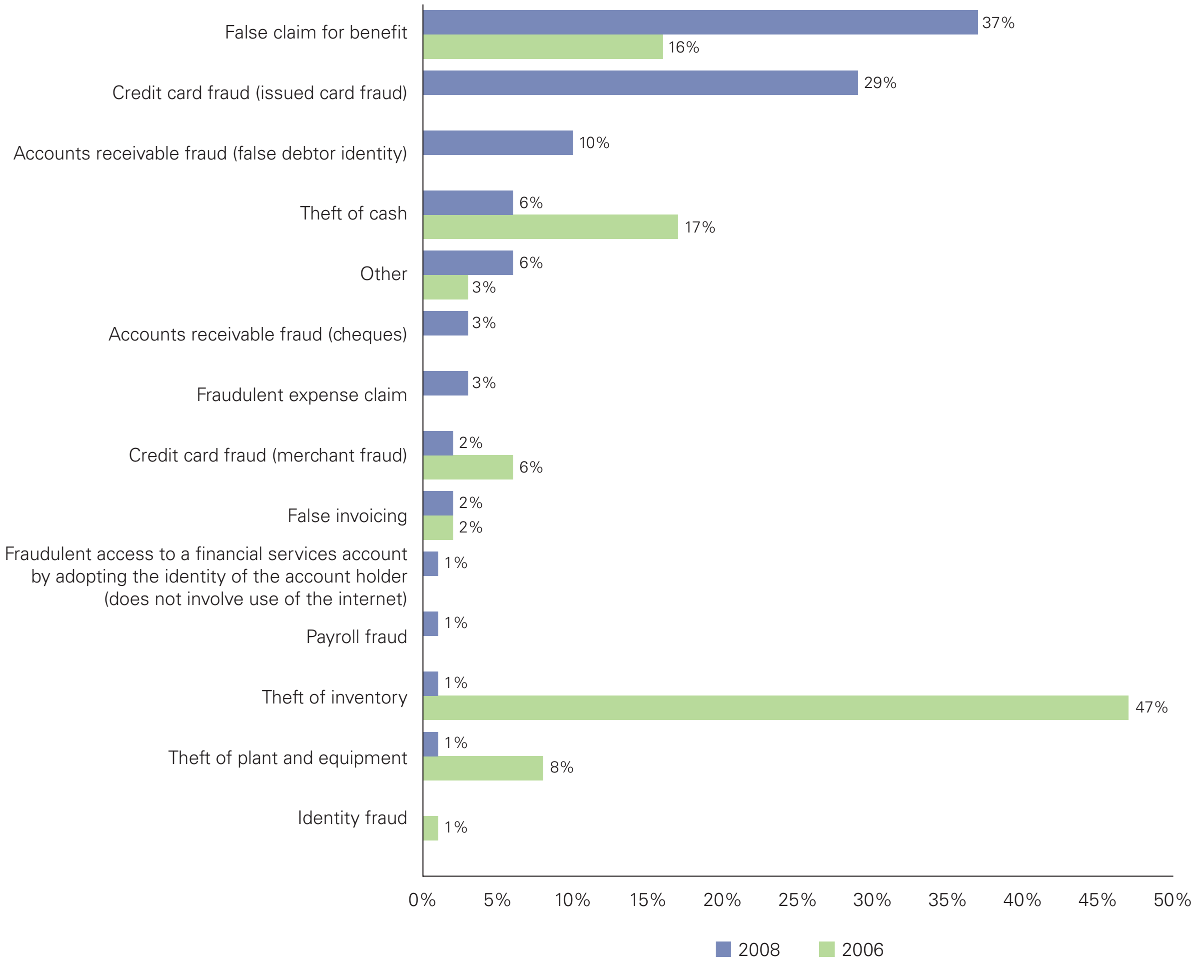
Within the financial services sector, credit card fraud accounted for 39 percent of the value of fraud attributable to external parties. Fraudulent access to financial services' accounts using attacks over the internet amounted to 31 percent of the total value attributable to external parties (see Figure 11).

Figure 11 – Value of fraud by external parties in financial services sector



Within the non-financial services sector, false claims for benefits were the most costly form of fraud, accounting for 37 percent of all frauds (see Figure 12).

Figure 12 – Value of fraud by external parties in non-financial services sector



2. Analysis of individual fraud incidents

2.1 Overview

To better understand the effects of fraud, the factors that contribute to it and the ways in which it is detected and dealt with, we asked organisations to tell us more about the largest single fraud (by value) they had detected during the survey period.

Respondents were asked to answer a number of questions about the circumstances of the largest single fraud (major fraud), including:

- the type of fraud
- the loss incurred
- the apparent perpetrator(s)
- gender and age of the perpetrator
- the perpetrator’s length of service within the organisation prior to the fraud occurring (internal fraud only)
- the perpetrator’s duration in their position at the time of the fraud (internal fraud only)
- the perpetrator’s prior acts of dishonesty (internal fraud only)
- the most important factor in detecting the fraud
- the most important factor that allowed the fraud to occur
- whether there was any recovery of the proceeds of fraud
- whether the matter was reported to the police.

We also captured information about whether or not the fraud involved collusion with other persons (internal or external to the organisation), whether the fraud damaged the organisation’s reputation and whether identity fraud was involved.

We received 166 usable responses providing details of the largest individual fraud. They are summarised by fraud type in Figure 13, showing also the average value attributable to each fraud type.

Figure 13 – Major frauds listed by fraud type

Fraud type	Number of frauds	Number of frauds (%)	Total value of fraud ($)	Total value of fraud (%)	Average value of fraud ($)
Theft of cash	46	28	21,413,761	44	465,517
False invoicing	16	10	2,750,640	6	171,915
Fraudulent use of corporate issued credit card	14	8	349,650	1	24,975
Theft of inventory	8	5	1,545,000	3	193,125
Payroll fraud	8	5	515,000	1	64,375
Credit card fraud (issued card fraud)	8	5	137,801	–	17,225
Other	8	5	273,000	1	34,125
Theft of plant and equipment	7	3	950,200	2	135,743
Electronic Funds Transfer fraud	7	3	912,255	2	130,322
Theft of consumables	5	3	769,600	2	153,920
Kickbacks/bribery (receiving)	5	3	645,354	2	129,071
Theft of physical assets	4	2	222,600	–	55,650
Fraudulent expense claim	4	2	105,000	–	26,250
False claim for benefit	3	2	28,000	–	9,333
Accounts receivable fraud (cheques)	3	2	55,000	–	18,333
Theft of confidential/business information	3	2	100,000	–	33,333
Fraudulent access to a financial services account by adopting the identity of the account holder (does not involve use of the internet)	3	2	843,199	2	281,066
Identity fraud and other related fraud	3	2	1,231,207	3	410,402
Diversion of sales	2	1	109,000	–	54,500
Fraudulent access to a financial services account by adopting the identity of the account holder via 'phishing' or 'trojan horse' attacks over the internet	2	1	50,500	–	25,250
Provision of false information	2	1	234,683	–	117,342
Accounts receivable fraud (EFT)	1	1	107,000	–	107,000
Theft of intellectual property	1	1		–	
Lending fraud (other)	1	1	37,000	–	37,000
Insurance fraud (policyholder)	1	1	6,000	–	6,000
Lending fraud (documentation fraud)	1	1	15,000,000	31	15,000,000
Total	166	100	48,391,450	100	291,515

The most common type of fraud by number of events was theft of cash. It involved 46 frauds, or 28 percent of cases. This was closely followed by false invoicing, which occurred in 16 instances, or 10 percent of all the reported major frauds. Theft of cash also accounted for the highest total value of fraud at $21.4 million, equivalent to 44 percent of the value of major fraud, followed by lending fraud at 31 percent of the value of major fraud.

Sections 2.2 to 2.12 outline the findings of our research into the largest single cases of fraud reported.

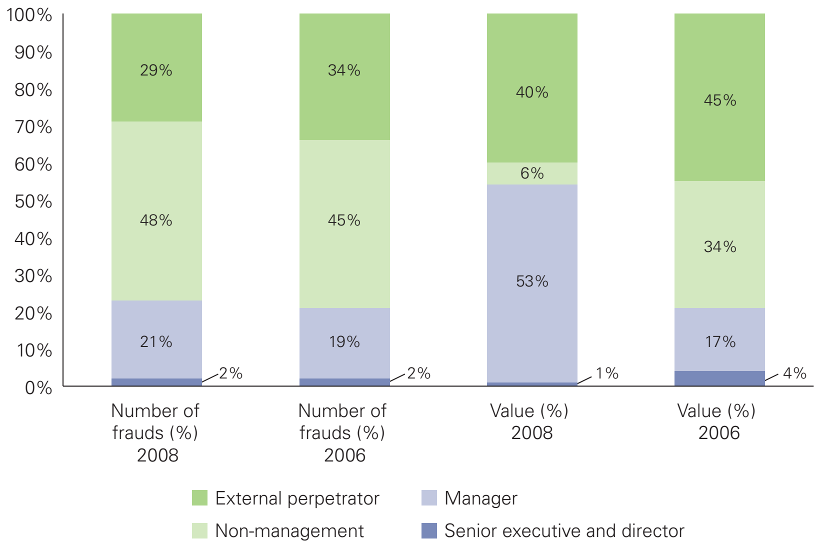
2.2 Who are the perpetrators of major fraud?

The survey shows that Australian and New Zealand business is vulnerable to fraudulent attack at the hands of those within organisations as well as from outsiders, including organised crime and opportunistic criminals acting alone.

The survey categorised the frequency and proportionate value of fraud committed against the respondent organisations into four perpetrator categories: directors and senior executives, management, non-management employees and external parties.

Figure 14 summarises the incidence of fraud categorised by perpetrator type.

Figure 14 – Major fraud by perpetrator type



The most likely perpetrators of major fraud identified in the survey were those working within organisations. The frauds they were responsible for accounted for 71 percent by number and 60 percent by value. The large increase in the value of manager fraud was due to one incident of $19.8 million. Ignoring this incident, the value in this category was consistent with our 2006 results.

Figure 15 shows the value of the major frauds categorised by perpetrator type.
(Note that where more than one perpetrator type was associated with a single fraud, the total value has been allocated evenly over all known perpetrators).

Figure 15 – Major fraud committed by known perpetrator

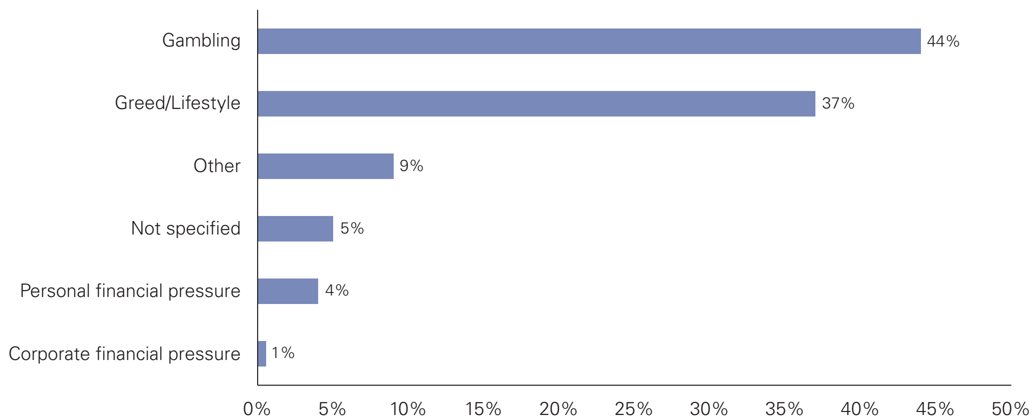
Perpetrator	Number of perpetrators	Number of perpetrators (%)	Total value ($)	Total value (%)	Average value of each fraud ($)
Senior executive and director	4	2	187,851	1	46,962
Manager	36	21	24,466,855	53	679,634
Non-management	84	48	2,769,378	6	32,968
External perpetrator	50	29	18,531,779	40	370,635
Total	174	100	45,955,863	100	264,114

Managers were responsible for the highest total value of fraud representing a total loss of $24.4 million. This includes one incident to the value of $19.8 million.

2.3 Motivation

Typically, three factors are present when fraud occurs: motivation, rationalisation (justification by the individual for the fraudulent activity) and opportunity (often a function of poor internal controls). Figure 16 shows the value of fraud associated with the various motives for fraud.

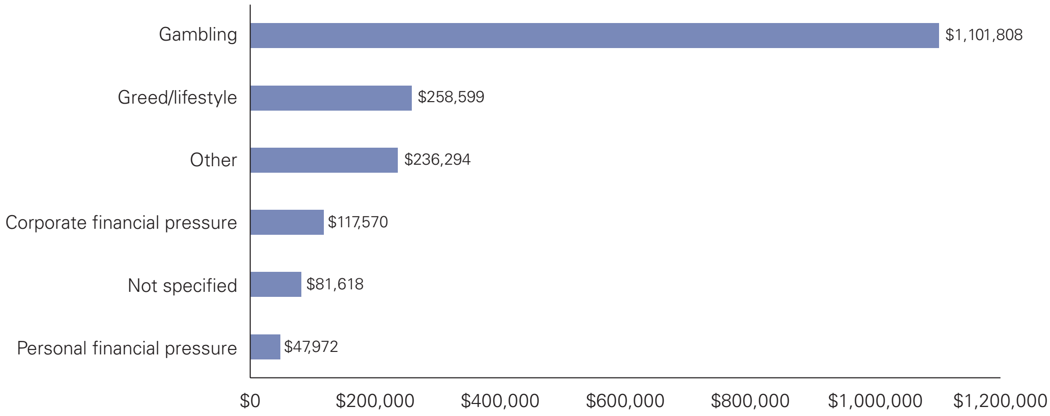
Figure 16 – Major fraud motivation



The most common motive for fraud, measured by the value of the fraud committed, was gambling. Forty-four percent of the total value of fraud was attributed to this reason without any apparent more specific motive. This was a twofold increase over our 2006 survey. The second most prevalent motive observed was greed and lifestyle, which accounted for 37 percent compared to 54 percent in our 2006 survey.

Figure 17 shows the average value associated with all frauds where a motive was determined. Gambling as a motive resulted in an average value per incident of $1,101,808. The average value of gambling related fraud has increased significantly from our 2006 survey where the average value was $299,729.

Figure 17 – Average value of major fraud by motivation



2.4 Collusion

Consistent with our previous surveys, we found that employees who committed fraud usually acted alone (80 percent of cases) and collusion occurred in 20 percent of cases (usually with other internal parties) (see Figure 18).

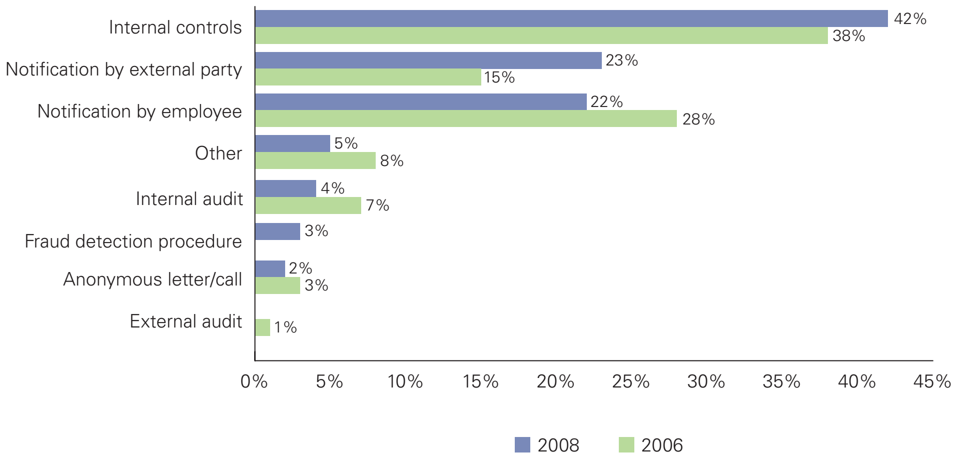
Figure 18 – Internal fraud involving collusion

Acted alone	80%
Colluded with internal party	14%
Colluded with external party	4%
Colluded with external party and internal party	2%

2.5 How is fraud detected?

Internal control was the most common method by which respondents detected their largest fraud covering 42 percent of detected cases (see Figure 19). This was followed by notification from external parties and employees, which were responsible for 23 percent and 22 percent of detected cases respectively. It was significant that notification by external parties increased over the 2006 survey from 15 to 23 percent of cases, suggesting that organisations were improving their avenues for external parties to report suspicions of fraud while both internal and external parties were more prepared to report suspected fraud.

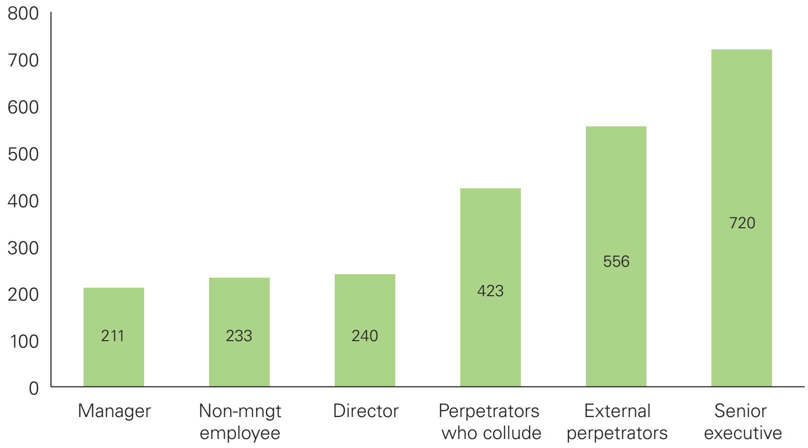
Figure 19 – Detection of largest fraud



2.6 The delay in discovering fraud

Figure 20 shows the average number of days that fraud continued before discovery ranked by perpetrator category.

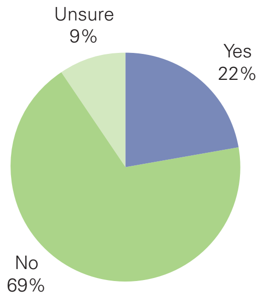
Figure 20 – Average time to discovery of largest fraud (days)



The 2008 survey disclosed an average time of 342 days to discover fraud, a slight reduction from our 2006 survey result of 362 days. This reduction may have reflected an increased focus by senior management on fraud and in the number of respondents with anonymous fraud reporting hotlines (refer to Section 3).

External perpetrators took an average 556 days to detect compared with 303 days in our 2006 survey. Figure 22 shows an analysis of the value of fraud associated with failing to recognise or act on 'red flags'.

Figure 21 – Respondents indicating early warning signs were ignored



2.7 The cost of ignoring red flags

'Red flags' are early warning signs or indicators of possible fraud. In 22 percent of cases respondents indicated that relevant warning signs were ignored by the organisation (see Figure 21).

The comments set out at Figure 22 describe the nature of these overlooked or ignored early warning signs, symptoms or red flags as described by respondents. The value associated with each incident is given together with the time to detect each incident.

Figure 22 – Value of fraud and delay where early warning signs were ignored

Red flags	Value of fraud(s) ($)	Time (days)
Signs of excessive wealth and spending	1,600,000	1,080
Aggressive management style	1,000,000	360
Refused to implement internal controls	750,000	–
Replacement of existing supplier upon appointment to position	250,000	1,080
Supplier favouritism	200,000	180
Overlooked in exception reporting	177,000	540
Financial information inconsistent with KPIs	160,000	3,600
Provision of gifts to other staff members/culture within branch/lifestyle above financial means	121,000	150
Pay advances requested by perpetrator	107,000	1,800
Delay in cancelling computer and building access at end of employment	100,000	60
Abnormally high and increasing costs in a specific cost centre function	100,000	360
Dubious record keeping	80,000	540
Failure to follow up on persons reported on premises after hours	75,000	180
Failure to identify fraud in department's high overheads	44,000	360
Failure to keep records and provide receipts	40,000	180
Bank reconciliation not up to date/inadequate segregation of duties	25,000	180
Customer cheques collected and lost	25,000	180
Change in behaviour/known personal issues	23,000	300
Chronic shortage of cash/seeking salary advances	20,000	60
Missing inventory noticed but not reported	16,000	150
Minor previous thefts	12,000	8
Culture of gifting or acts of generosity by the manager	12,000	60
Previous missing assets	10,000	1
Manager maintained poor petty cash records	9,000	180
Low weekly cash banking	8,000	60
Reconciliation form showing receipts not banked	6,000	60
Failed to detect earlier minor frauds	5,000	360
Cash owing on transaction not closed	4,000	60
Reconciliation not performed on a monthly basis	3,000	90
Small cash discrepancies over a period of time	500	90

2.8 How much of the proceeds of fraud are recovered?

Figure 23 shows that 89 percent of the value of the major frauds reported were not recovered, or likely to be recovered. This low recovery rate suggests that organisations generally are either not seeking recovery or have not adequately addressed the issue of recovery as part of their fraud response strategies.

Figure 23 – Recovery of the proceeds of fraud

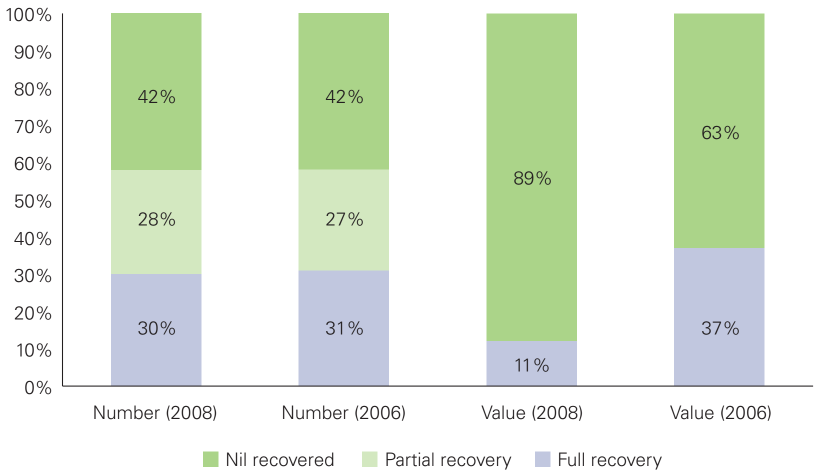
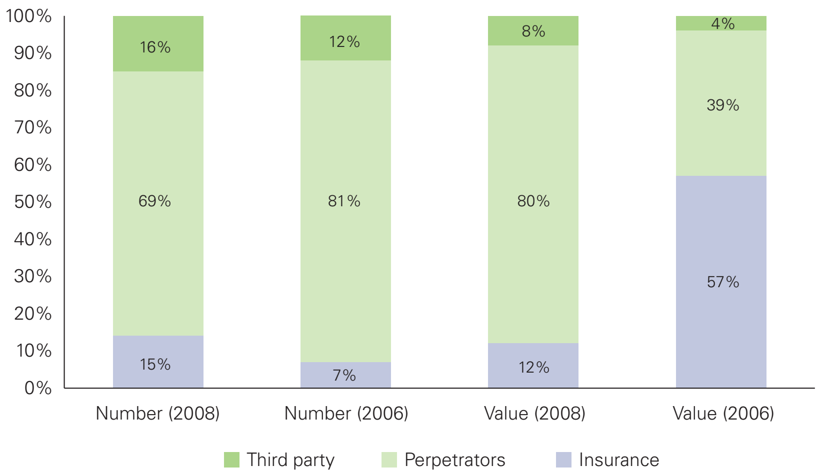


Figure 24 shows that of these recovered funds, 69 percent was recovered from the perpetrator, 16 percent from third parties and 15 percent from insurance claims.

Figure 24 – Source of funds where recovery is made

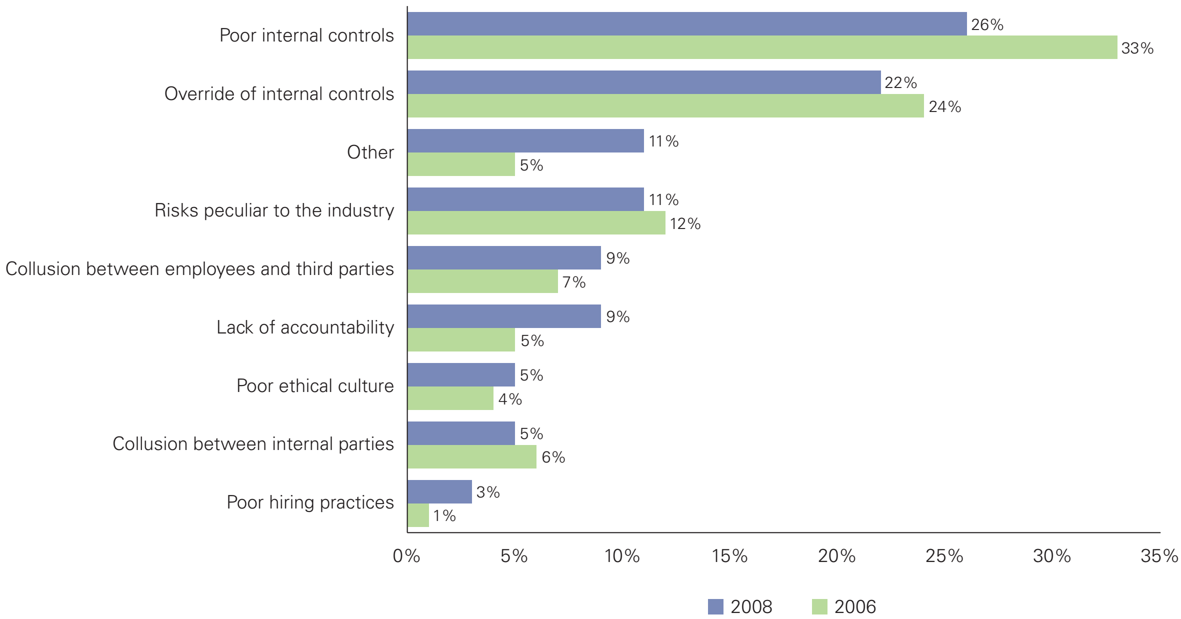


Compared with our 2006 results, there was an increase in the number of recoveries from insurance, but a significant decrease in the value of recoveries from this source. There was a substantial increase in the value of recovery from perpetrators compared to insurance.

2.9 What allowed the fraud to occur?

The responses to our latest survey indicated that the major factor allowing fraud to occur was poor internal controls. This represented the most important pre-condition for 26 percent of frauds reported (see Figure 25). This finding was consistent with all KPMG fraud surveys since 1993. It is clear that there is a very strong nexus between fraud and internal control weakness or failure.

Figure 25 – Most important factor contributing to the largest fraud incident

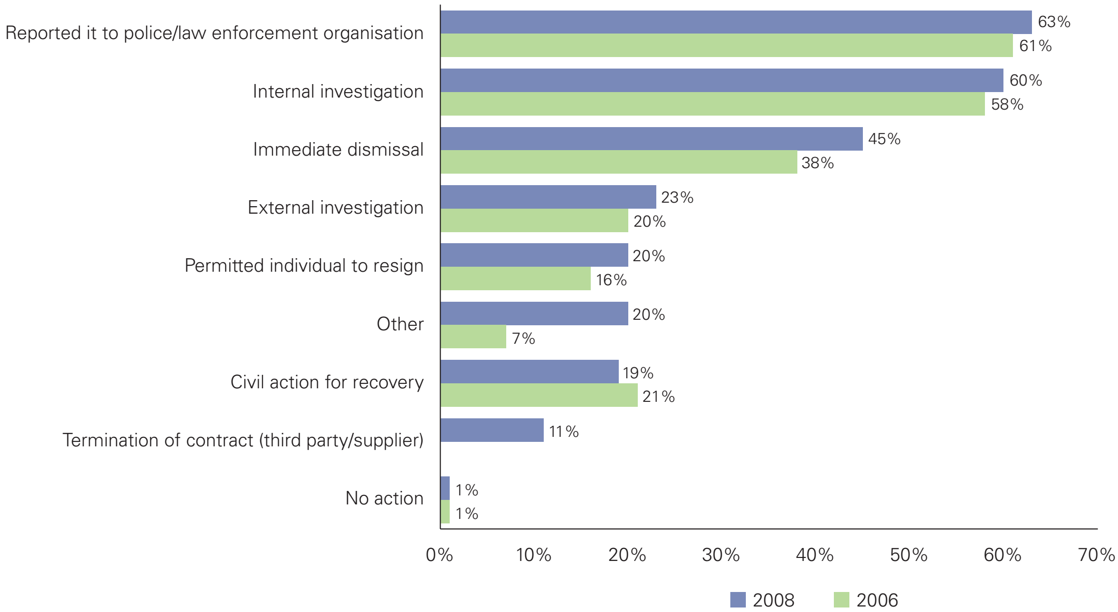


2.10 How do organisations respond to fraud incidents?

When fraud is detected, the response varies according to how well prepared the organisation is for the event i.e. whether appropriate fraud response strategies have been designed and implemented.

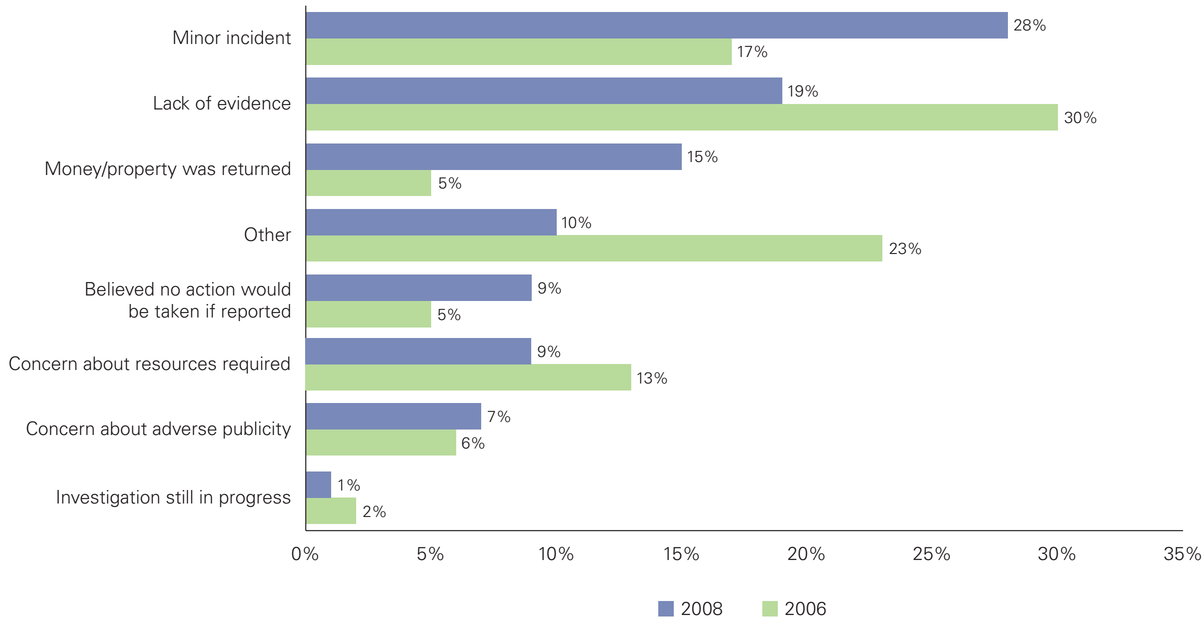
Figure 26 shows how organisations responded to a major fraud incident. The results were consistent across the two surveys. The most frequent action taken was to report the matter to police (63 percent), internal investigation (60 percent) and immediate dismissal (45 percent). These results are consistent with our 2006 survey.

Figure 26 – Action taken concerning major fraud incidents



Organisations said that their main reason for not reporting matters to the police (see Figure 27) was that the matter was minor (28 percent) followed by lack of evidence (19 percent) and the return of money/property taken (15 percent). Only 7 percent of respondents cited concerns about adverse publicity as the reason for not reporting the matter to police.

Figure 27 – Reasons for not reporting a major fraud incident to police



The non-financial services sector proportionally reported fewer matters to police than the financial services sector.

2.11 How much does it cost to investigate the fraud?

We found that, on average, 10 percent of the value of fraud was absorbed in investigating the largest frauds. This contrasts with 25 percent reported in our 2006 survey. The decrease was the result of two significant frauds that occurred during the 2008 survey period. Removing these two frauds from the analysis, resulted in an average cost of 23 percent, which is consistent with our 2006 survey.

2.12 Was there a history of fraud?

Respondents stated 3 percent of employees involved in fraudulent conduct during the survey period had a history of dishonesty with a previous employer that was known to the current employer (see Figure 28).

Twelve percent of employees who were involved in fraudulent conduct during the survey period were subsequently found to have had a prior history of dishonesty. This is consistent with our 2006 survey.

The chart at Figure 29 shows a breakdown of persons with a history of dishonesty committing internal fraud split between managers and non-managers. Sixty-nine percent of these prior offenders were non-management employees.

The frauds most commonly associated with a perpetrator with a previous history of dishonesty were theft of funds (outgoing), which was 56 percent of cases, and theft of physical assets, which was 33 percent of cases (see Figure 30).

Figure 28 – Percentage of perpetrators with a history of dishonesty

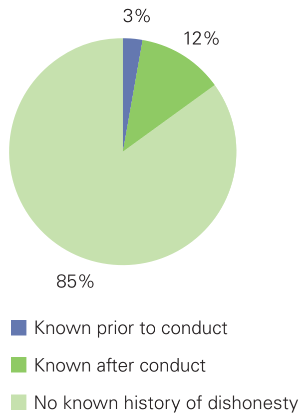


Figure 29 – Positions held by perpetrators of the largest fraud incident

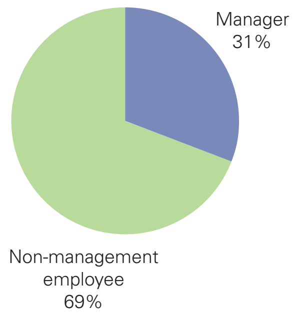
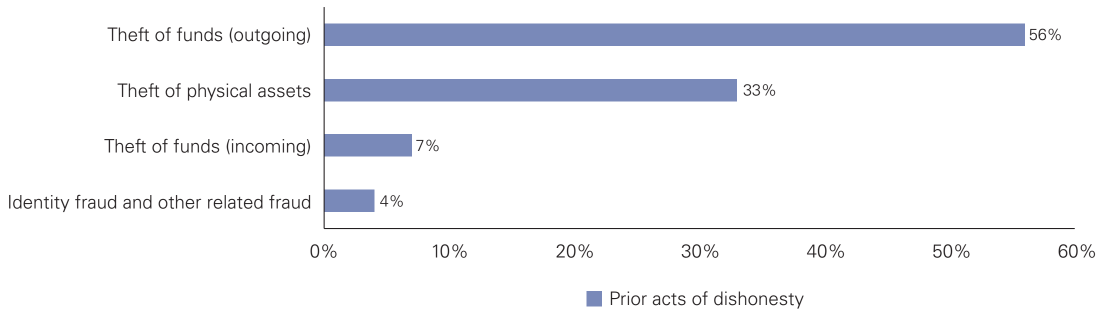


Figure 30 – Frauds perpetrated by employees with a history of dishonesty



The average value of the frauds perpetrated by employees with a history of dishonesty was $76,959. This experience reinforces the value of ensuring pre-employment screening, a relatively inexpensive fraud prevention procedure, as a standard component of the hiring process.

2.13 The typical fraudster – a 'word picture'

Using the most common response – or in appropriate cases, the 'average' response – to the questions dealing with major fraud, we have developed a profile of the 'typical fraudster'. The typical fraudster in the survey period exhibited the following characteristics.

- A non-management employee of the victim organisation with no known history of dishonesty.
- A male aged 38 years acting alone.
- Employed by the organisation for a period of 6 years and had held his current position for 4 years at the time of detection.
- Motivated by greed, misappropriating cash to an average value of $262,000.
- Detected by the organisation's internal controls 11 months after the commencement of the fraud, leading to the organisation recovering 12 percent of the proceeds of the fraud.

This profile is largely consistent with our 2006 survey.

Figure 31 – Typical fraudster by position

Perpetrator	Male	Female	Average age	Length of service (months)	Time in position (months)	Motivation	Detection method	Recovery of the proceeds of fraud
Director/Senior manager	100%	0%	41	12	4	Greed/lifestyle	Notification by external party/ internal controls	Nil
Manager	80%	20%	41	64	42	Greed/lifestyle	Internal controls	32%
Non-manager	63%	37%	36	56	37	Personal financial pressure	Internal controls	28%
External	76%	24%	39	N/A	N/A	Greed/lifestyle	Notification by external party	33%

3. Managing fraud risk

For the first time we asked organisations about who has responsibility for managing the risk of fraud.

3.1 Management of fraud

For the majority of organisations, the CFO/Finance Director had this primary responsibility (43 percent) (see Figure 32). The qualifications held by those responsible for fraud risk management included Diploma (24 percent), Masters (16 percent) and Certificate in Fraud Control/Investigations (15 percent) (see Figure 33). Almost half of those responsible for managing fraud were either members of the Australian Society of Certified Practising Accountants (28 percent) or the Institute of Chartered Accountants in Australia (18 percent) (see Figure 34). We also found that 90 percent of persons with a responsibility for managing the risk of fraud did not hold any formal fraud management or investigation qualifications.

Figure 32 – Responsibility for fraud management by position

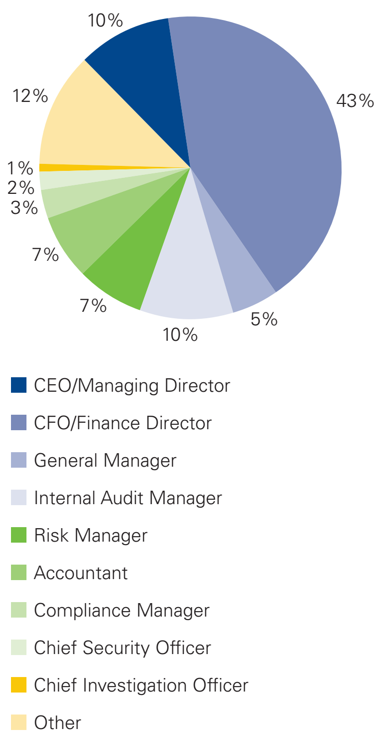


Figure 33 – Highest qualification held by persons responsible for fraud management

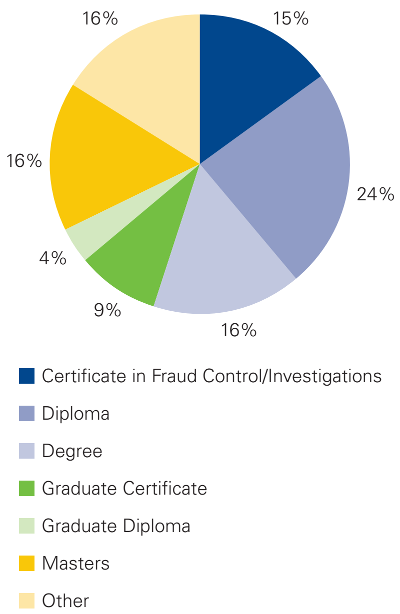
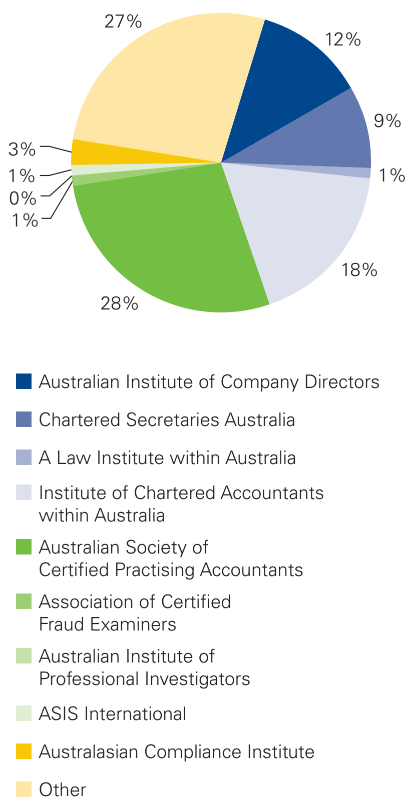


Figure 34 – Professional organisations memberships held by persons responsible for fraud management



3.2 What are organisations doing to mitigate fraud risk?

An effective, business driven fraud risk management approach is one that is focused on three objectives.

- Prevention controls designed to reduce the risk of fraud from occurring in the first place.
- Detection controls designed to discover fraud when it occurs.
- Response controls designed to take corrective action and remedy the harm caused by fraud.

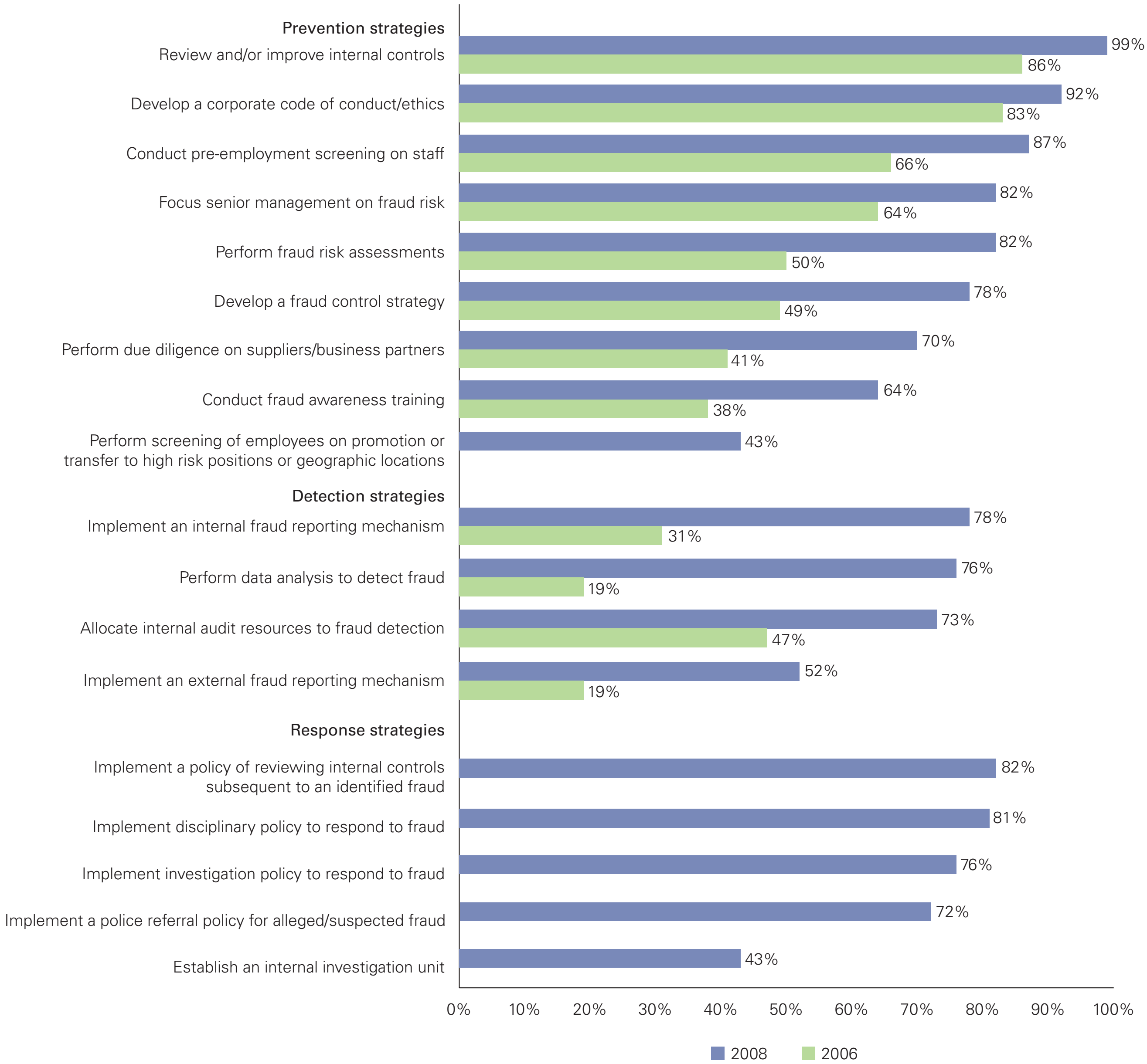
Figure 35 lists sample elements of an extensive program designed to prevent, detect and respond to fraud.

Figure 35 – Sample elements of a fraud risk management framework

Prevention	Detection	Response
Board/Audit committee oversight Executive and line management functions Internal audit, compliance and monitoring functions		
• Fraud risk assessment • Code of conduct and related standards • Employee and third party due diligence • Communication and training • Process specific fraud risk controls	• Hotlines and whistleblower mechanisms • Auditing and monitoring • Proactive forensic data analysis	• Internal investigation protocols • Enforcement and accountability protocols • Remedial action protocols • Disclosure protocols

We asked recipients to identify the steps taken, or intended to be taken, by their organisations to mitigate the risk of fraud. The results are set out in Figure 36.

Figure 36 – Steps taken to reduce the risk of fraud



The most significant initiative taken to reduce the risk of fraud was reviewing and/or improving internal controls (99 percent) and developing a code of conduct/ethics (92 percent). Overall, there was an increase in fraud risk management strategies in place compared to our 2006 survey. The most significant increases were in performing data analytics (76 percent compared to 19 percent in 2006), developing a fraud control strategy (78 percent compared to 49 percent in 2006), conducting fraud risk assessments (82 percent compared to 50 percent in 2006) and conducting fraud awareness training (64 percent compared to 38 percent in 2006). We again noticed an increase in the implementation of internal and external fraud reporting mechanisms. These results indicate organisations are increasingly following leading practice in fraud risk management.

3.3 Fraud reporting channels

Figure 37 provides a breakdown of the different channels respondents provide for the reporting of fraud. The most common reporting option is email.

Figure 37 – Fraud reporting channels

Service	Internal	External	Anonymous
Hotline	34%	18%	33%
Email	67%	61%	20%
Fax	24%	11%	17%
Drop box	10%	3%	9%

Seventy-nine percent of respondents said they had a system for the anonymous reporting of fraud and corruption. These systems were either operated by the organisation itself, or by an external agent acting on the organisation's behalf. Of the respondents with anonymous reporting, 45 percent operated it internally whilst 14 percent used an external provider. The proportion of respondents with both was 41 percent (see Figure 38).

Figure 38 – Method by which anonymous reporting line is serviced

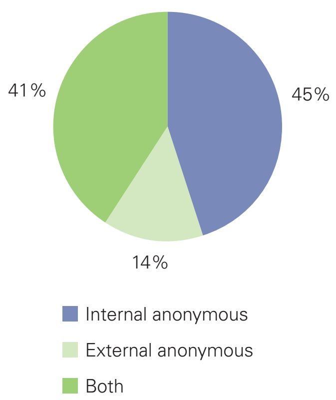


Figure 39 depicts respondents with and without anonymous reporting channels by organisation size. Organisations with more than 10,000 employees have the highest rate of anonymous reporting lines. The respondents indicate that the greater the number of employees, the more likely the organisation will have an anonymous reporting line.

Figure 39 – Availability of anonymous reporting channels by respondent size (number of employees)

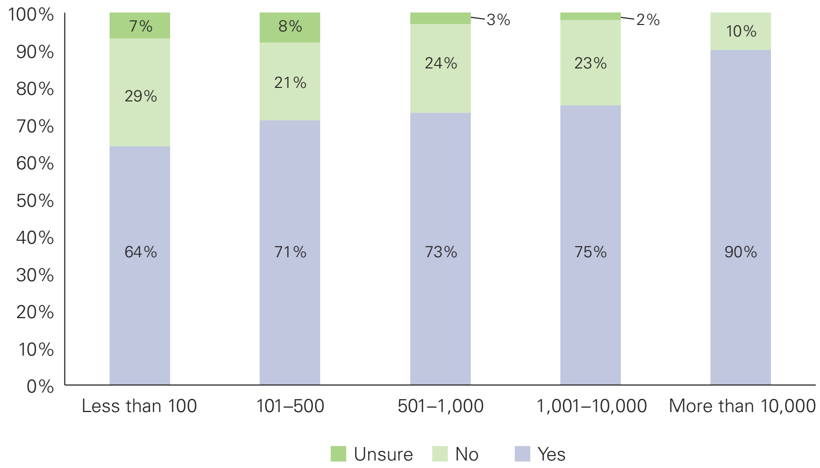
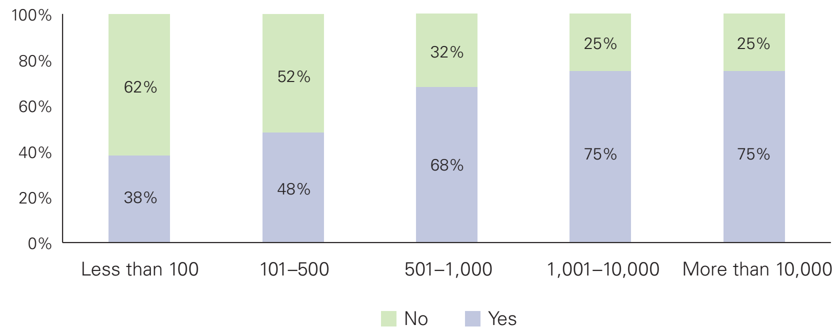


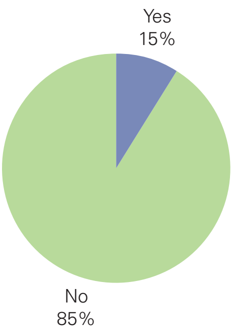
Figure 40 depicts respondents with and without a policy and procedure for whistleblower protection by organisation size. Whistleblower protection policies exist more frequently in organisations with over 1,000 employees.

Figure 40 – Respondents with a policy and procedure for whistleblower protection by organisation size



4. Identity fraud

Figure 41 – The largest incidents involving identity fraud

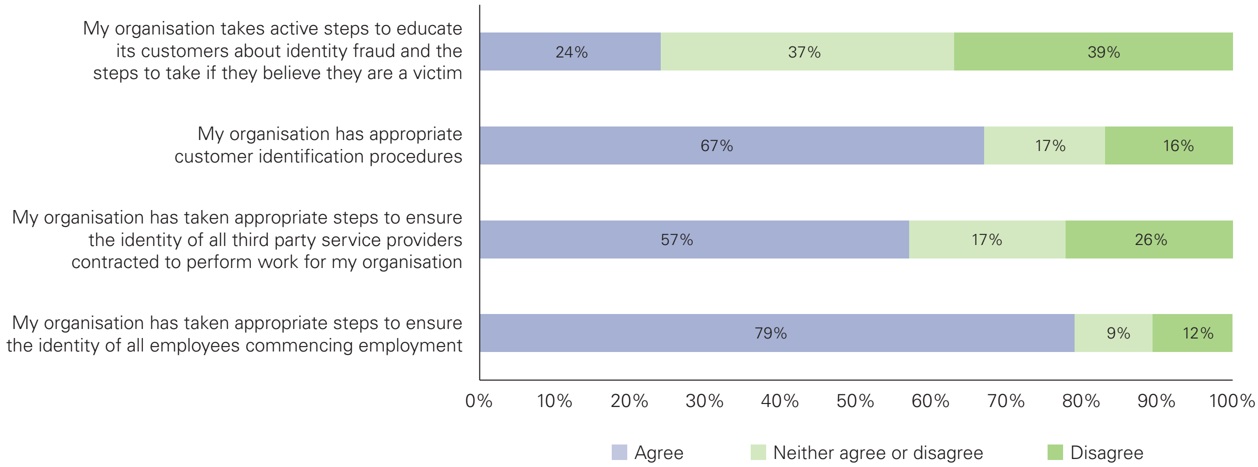


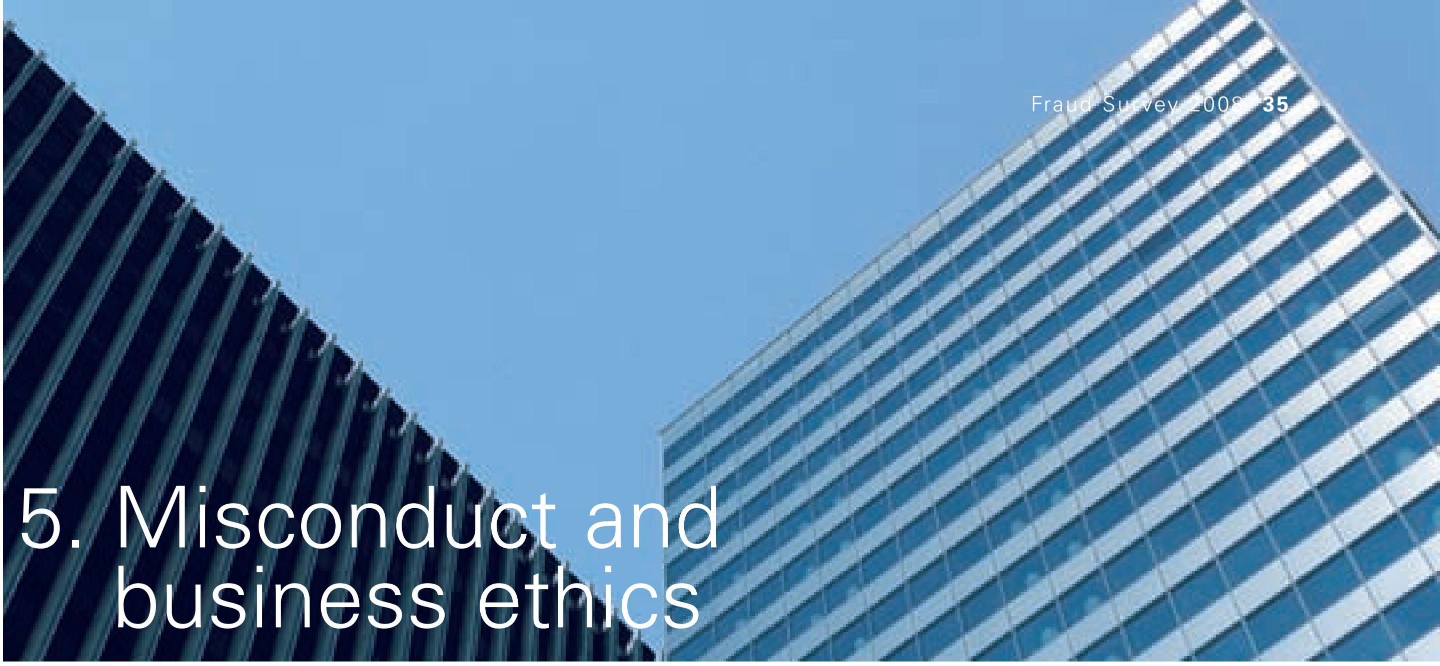
In this survey we asked respondents if their largest reported fraud incident involved identity fraud. Fifteen percent of the largest fraud incidents involved some form of identity fraud (see Figure 41).

The most common form of identity fraud reported by respondents in 2008 was the unauthorised use of a credit card or credit card number stolen from the cardholder. Respondents reported 154,602 cases of this kind of fraud with a total value of over $90 million.

In response to the risk of identity fraud, organisations have generally introduced strategies to mitigate the problem. Figure 42 summarises the steps respondents have taken to deal with identity fraud. The data is consistent with the 2006 survey.

Figure 42 – Mitigating identity fraud





5. Misconduct and business ethics

Survey recipients were asked if their organisations had been subject to unethical conduct (other than fraud) in the survey period. Thirty-seven percent indicated that they had identified unethical conduct, a slight increase over our 2006 survey (see Figure 43).

Figure 43 – Respondents experiencing unethical behaviour

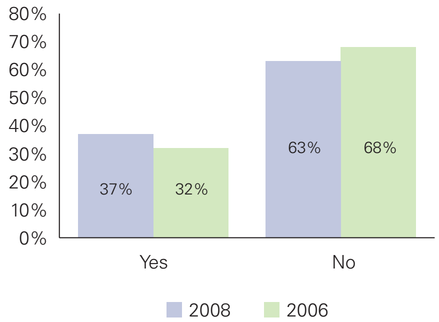


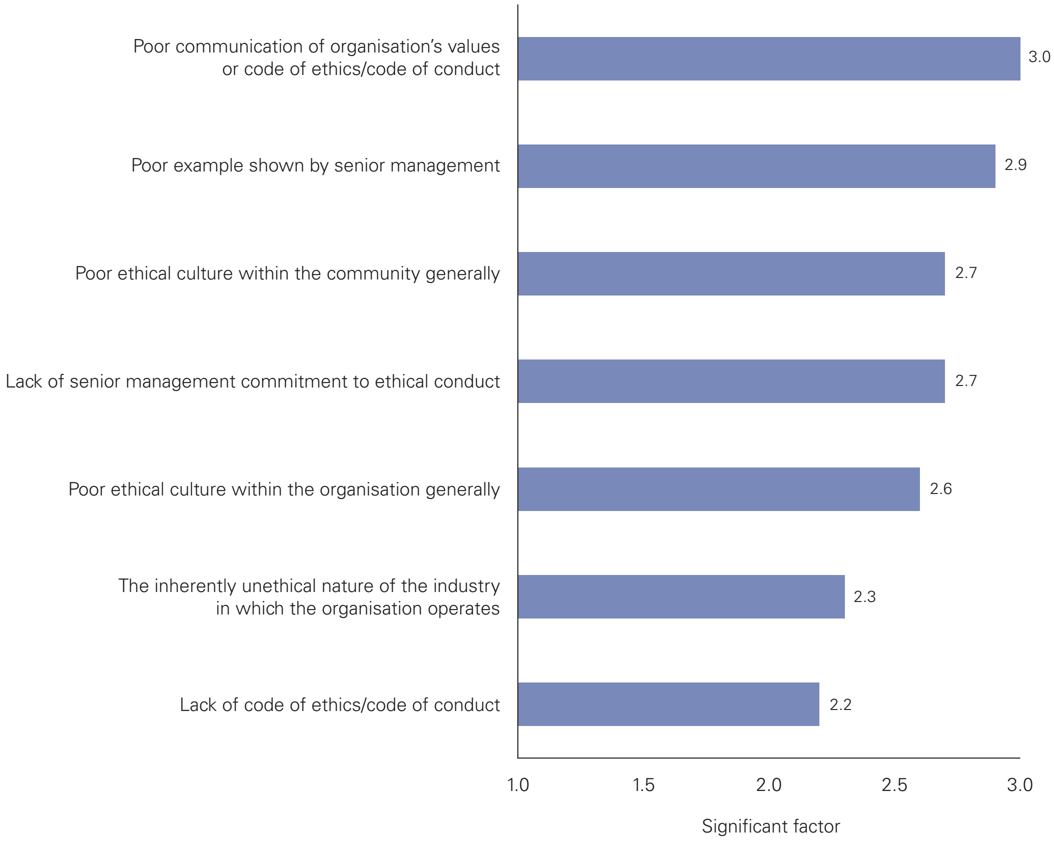
Figure 44 shows the types of unethical behaviour experienced compared with the results of the 2006 survey. Whilst the findings are relatively consistent with our 2006 survey, we note the decrease in the unauthorised disclosure of confidential or sensitive information and running a private business during working hours. We also note an increase in substance abuse and sexual harassment and the receipt or provision of gifts without management approval.

Figure 44 – Types of unethical behaviour

	2008	2006
Unauthorised personal use of corporate assets	17%	18%
Falsely claiming sick leave or absenteeism	14%	17%
Unauthorised disclosure of confidential or sensitive information	13%	17%
Management/employees' conflict of interest (e.g. awarding contracts to a company in which the employee holds a personal interest)	11%	11%
Conducting business transactions in a manner which derives an unwarranted personal advantage (e.g. using a personal credit card to pay major corporate expenses to generate frequent flyer points for the card holder)	9%	13%
Lavish gifts or entertainment received by an employee of your organisation, which are not brought to the attention of management, or gifts or entertainment bought at the expense of your organisation for parties external to your organisation	8%	5%
Substance abuse and sexual harassment	8%	1%
Intentionally falsifying the organisation's records (without personal gain)	4%	2%
Favouritism to suppliers	4%	0%
Running a private business during working hours	4%	9%
Other	3%	3%
Breach of policy/procedures	3%	0%
Breach of code of conduct	1%	3%
Inappropriate use of email/internet	0%	1%

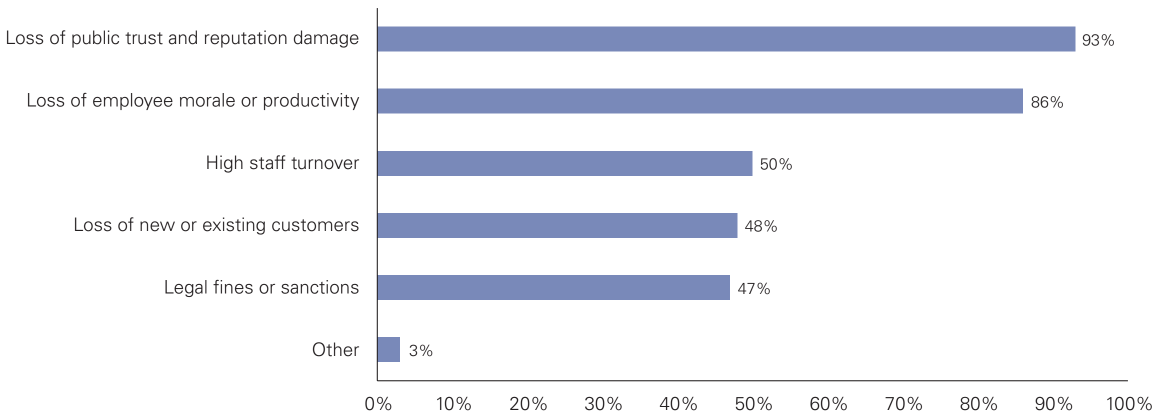
We asked respondents what factors contributed to the incidents of misconduct and the significance of those factors, ranging from insignificant to very significant. A rating of one was an 'insignificant factor' where a rating of seven was a 'very significant factor'. The highest rated factor was poor communication of the organisation's values and code of conduct (see Figure 45).

Figure 45 – Cultural factors contributing to unethical behaviour



Survey recipients were asked to gauge how organisations perceived the implications of unethical behaviour. The results in Figure 46 reveal that loss of public trust and reputation damage (93 percent) and loss of employee morale or productivity (86 percent) are the main consequences of unethical behaviour.

Figure 46 – Implications for unethical behaviour



6. Operations in Asia

We asked survey recipients with operations in Asia about their experiences with fraud.

Twenty-six percent of respondents indicated they operated in Asia (see Figure 47).

Current experience

Of those who operated in Asia, 29 percent had experienced at least one incident of fraud in their Asian operations (see Figure 48). This figure is consistent with our 2006 survey results[2].

Figure 47 – Percentage of respondents with operations in Asia

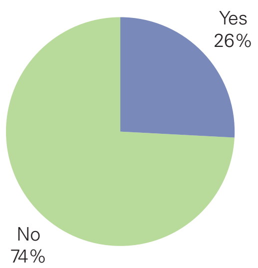
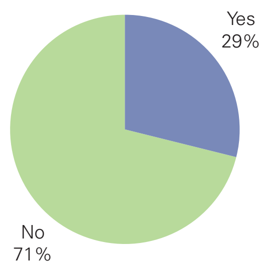


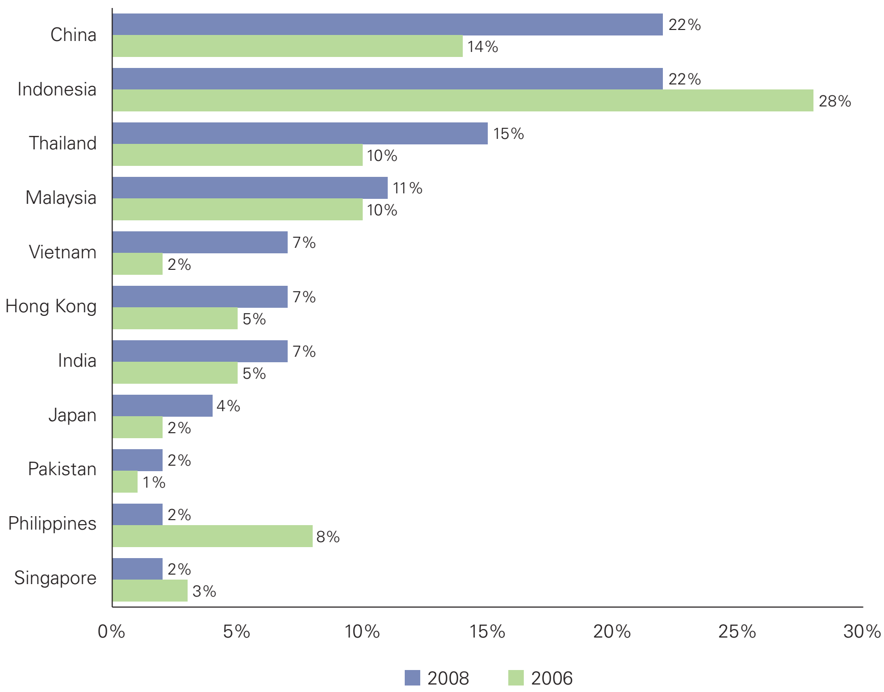
Figure 48 – Respondents with operations in Asia experiencing fraud



[2] Our 2006 report incorrectly stated the fraud experience of organisations with operations in Asia was 61 percent. The correct figure is 30 percent.

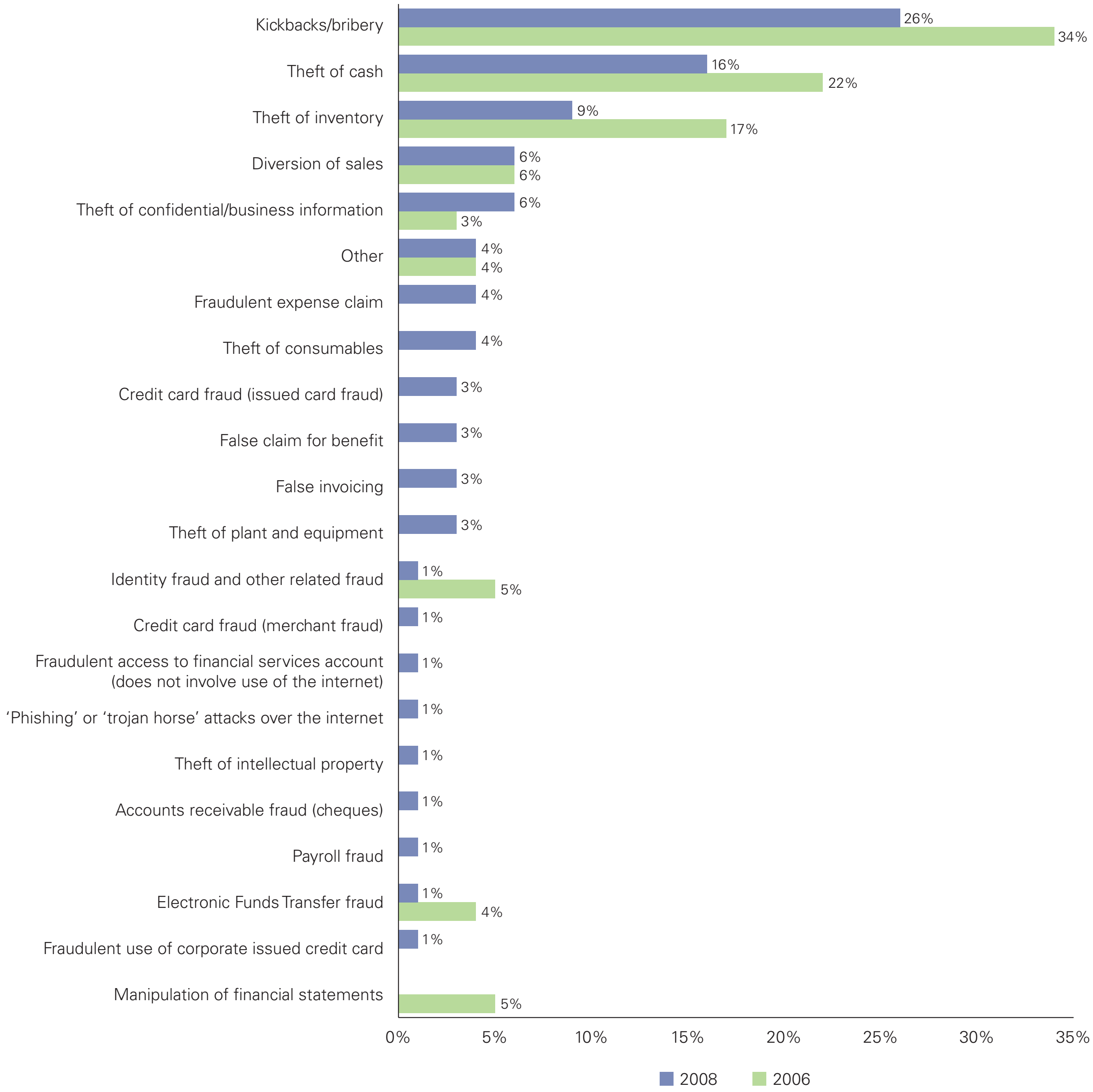
Figure 49 shows the regions within Asia where respondents experienced at least one incident of fraud during the survey period. While the results for most countries remain consistent with our 2006 survey, the results for China showed an increase from 14 percent in 2006 to 22 percent in 2008.

Figure 49 – Fraud incidents in Asia by location



Kickbacks and bribery (both giving and receiving) continued to be the most common fraud. Figure 50 highlights the prevalence of corruption and shows the breakdown of reported incidents of fraud perpetrated in Asia.

Figure 50 – Frauds occurring in Asia by fraud type



About this survey

In August 2008 KPMG Forensic, in collaboration with the University of Melbourne and the University of Queensland, sent a fraud survey questionnaire to 2,018 of Australia and New Zealand's largest public and private sector organisations.

The survey was conducted on a confidential basis. We gave an undertaking that no information would be released on individual survey responses.

Those surveyed were asked questions relating to the following:

- their opinion on the extent of fraud in business generally
- the fraud experienced in their organisations during the survey period
- the steps taken to prevent fraud
- business ethics
- identity fraud.

The definition of fraud for the purpose of this survey was 'any dishonest activity occasioning actual or potential financial loss to any person or entity or other property by employees or persons external to the entity, and whether or not deception is used at the time, immediately before or immediately following the activity'.

Usable replies were received from 420 organisations. This was a response rate of 20 percent. Figure 51 sets out the percentage of respondents by their primary line of business and Figure 52 sets out the industry in which respondents operated.

Figure 51 – Main line of business in which respondents operate in

Primary line of business	Percentage of respondents
Consumer markets	19%
Government	18%
Financial services	18%
Industrial markets	15%
Energy and resources	14%
Other	10%
Information, communications and entertainment	6%
Total	100%

Figure 52 – Respondents industries

Industry	Percentage of respondents
Managed investments and funds management	6%
Health services	6%
Consumer products	6%
Food and beverage	6%
Power and utilities	6%
Mining	5%
Superannuation	5%
Building and construction	5%
Insurance	5%
Retail	5%
Local government	5%
Transport and distribution	4%
Federal government	4%
State government	4%
Tourism and leisure	4%
Banking	4%
Oil and gas	3%
Automotive	3%
Pharmaceutical	2%
Media	2%
Chemicals	2%
Software and electronics and allied services	2%
Real estate	2%
Communications	1%
Winery	1%
Forestry	1%
Biotechnology	1%
Total	100%

Contributors

Gary Gill
KPMG Forensic

David Van Homrigh
KPMG Forensic

Mark Leishman
KPMG Forensic

Peter Morris
KPMG Forensic

Matt Fehon
KPMG Forensic

Vince Lagana
KPMG Forensic

Lisa Meepummarin
KPMG Forensic

Professor Colin Ferguson
The University of Melbourne

Dr Larelle Chapple
The University of Queensland

Suzanne Burdett
The University of Melbourne

Contact us

For more information about how KPMG Forensic can help your organisation, please contact:

Adelaide
+61 8 8236 3111

Auckland
+64 9 367 5800

Brisbane
+61 7 3233 3111

Canberra
+61 2 6248 1111

Melbourne
+61 3 9288 5555

Perth
+61 8 9263 7171

Sydney
+61 2 9335 7000

Alternatively, visit our website **kpmg.com.au** kpmg.com.au

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