

Fraud contagion shows no sign of abating

Fraud Barometer June 2010 readings

Summary

Figures for the 6 months to June 2010 confirm there has been little let up in the number and value of large frauds giving rise to criminal proceedings in Australia. Emerging fraud trends include the relatively large number of cases involving misappropriation of client or investor monies, taxpayer fraud and investment scams directed at unsophisticated investors.

These findings are discussed in this issue of *KPMG's Fraud Barometer*, which monitors the incidence of major frauds coming before criminal courts in Australia.

For the fifth straight half-year period, the monetary value of cases coming before the courts has exceeded \$100m. The value of cases for the most recent Fraud Barometer period exceeded three of the four previous periods covered since the Fraud Barometer's inception in 2008 (see Table 1). For the second straight period, the value of individual frauds monitored averaged more than \$2m. Notably, in the two-and-a-half years of its existence, the Fraud Barometer has recorded 366 separate frauds involving alleged losses of more than \$670m.

Table 1: Frauds tried in Australian courts Jun-08 to Jun-10

Period	Value (\$)	Number	Average
Jun-08	119,563,000	72	1,660,597
Dec-08	101,862,000	88	1,157,523
Jun-09	100,122,000	69	1,451,043
Dec-09	217,924,000	81	2,690,420
Jun -10	132,176,000	56	2,360,286
Total	671,647,000	366	

Source: KPMG Research

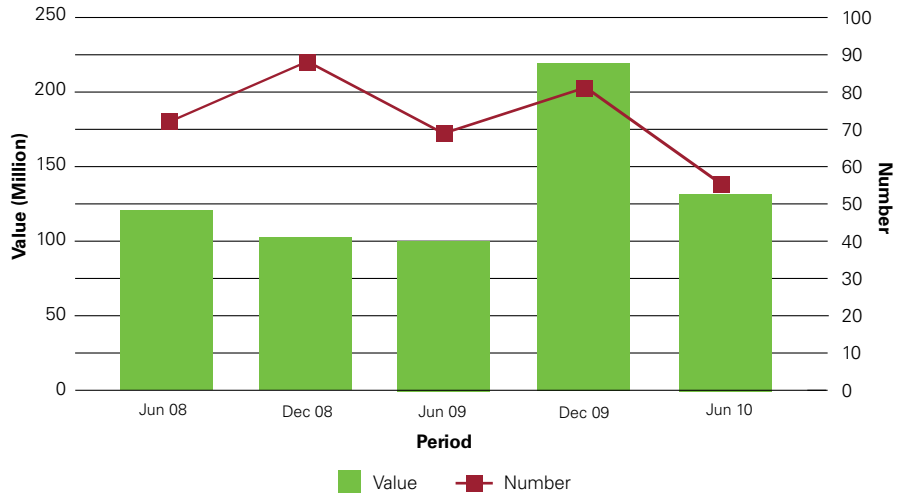
Allowing for the time lags involved, the Fraud Barometer analysis is still identifying frauds committed before and during the worst of the global financial crisis.

Given the level of economic uncertainty in Australia at present, the increasing threat of organised crime and reality that opportunistic staff continue to offend, we believe fraud will continue to be a substantial risk for organisations in all sectors.

Findings in detail

For the 6 months to June 2010, the value of fraud cases prosecuted totalled \$132m, being the second highest value of cases for the Fraud Barometer in Australia. This was despite the number of cases (56) during the period (while relatively constant over time) being the lowest recorded in any 6 month period that the Fraud Barometer has covered.

Chart 1: Frauds tried in Australian courts Jun-08 to Jun-10



Source: KPMG Research

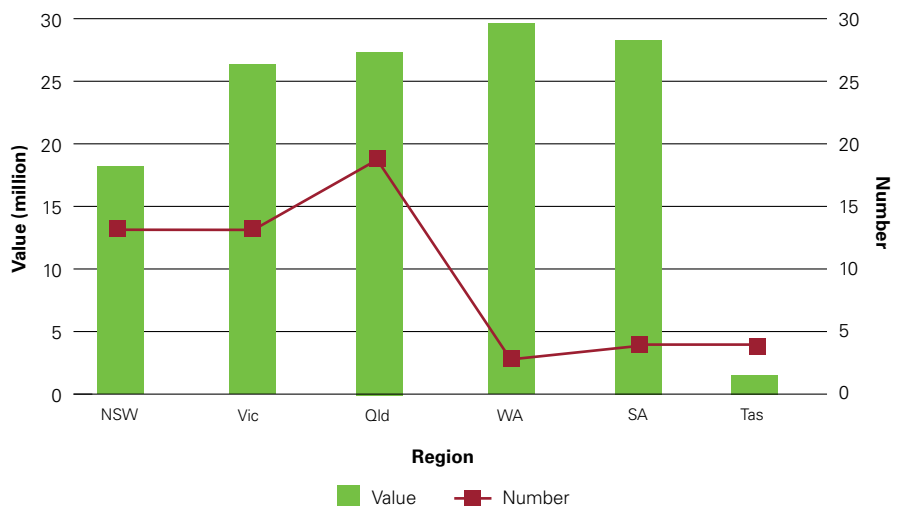
The large value of frauds is partially attributable to several substantial cases that have been brought before the courts in the first half of 2010, including:

- a large accounting fraud in South Australia of \$27m
- a large tax evasion case in Western Australia of \$27m
- a \$10m betting scam, and
- a \$15m forgery case.

These ‘supercases’ have caused the average loss per fraud incident to exceed \$2.3 million, being the second highest average since the Fraud Barometer began.

Regions

Chart 2: Frauds by region Jan-10 to Jun-10



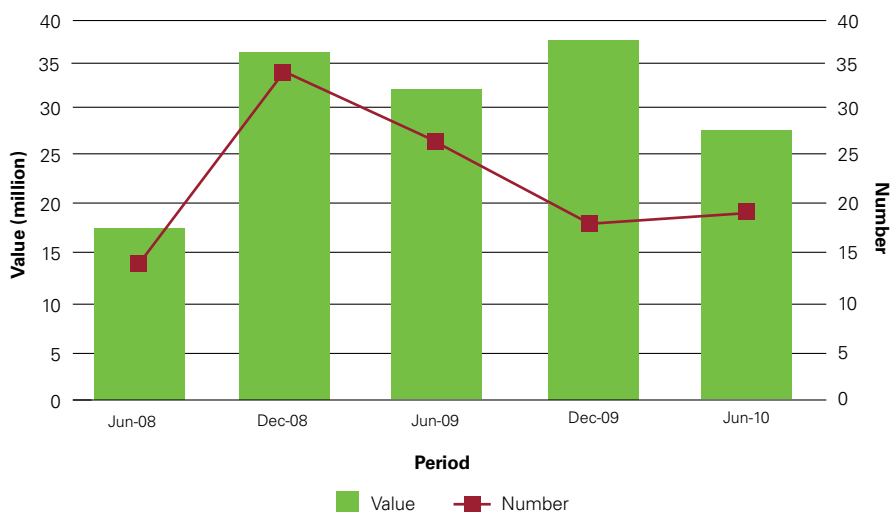
Source: KPMG Research

Large frauds occurred across the nation. In each state at least three large frauds came before the courts during the period. Similar to the findings of previous Fraud Barometers, there was a notable concentration of large fraud cases on the eastern seaboard. Eighty percent of the frauds by number occurred in either Queensland, New South Wales or Victoria.

Queensland

Once again Queensland recorded a high number and value of large fraud cases. This was the third out of five Fraud Barometer periods in which Queensland has recorded the highest number of cases. Across the full Fraud Barometer history certain frauds appear particularly prevalent in Queensland, notably accounting frauds (more cases than any other state) and investment scams (more than all other states combined).

Chart 3: Qld frauds Jun-08 to Jun-10

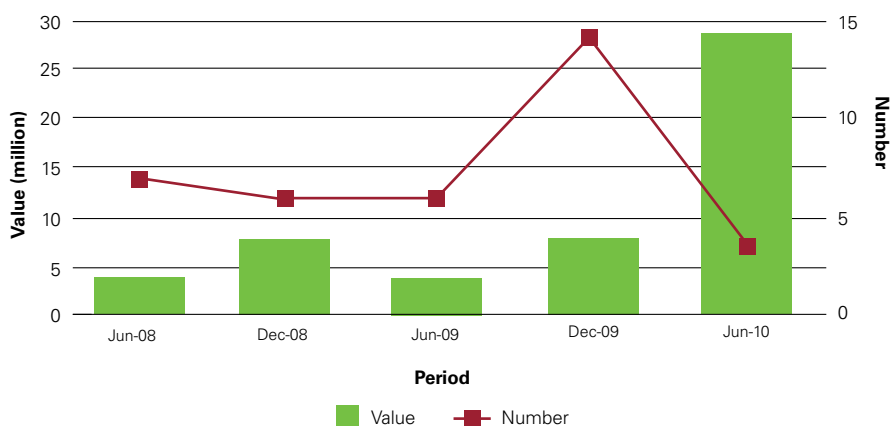


Source: KPMG Research

Western Australia and South Australia

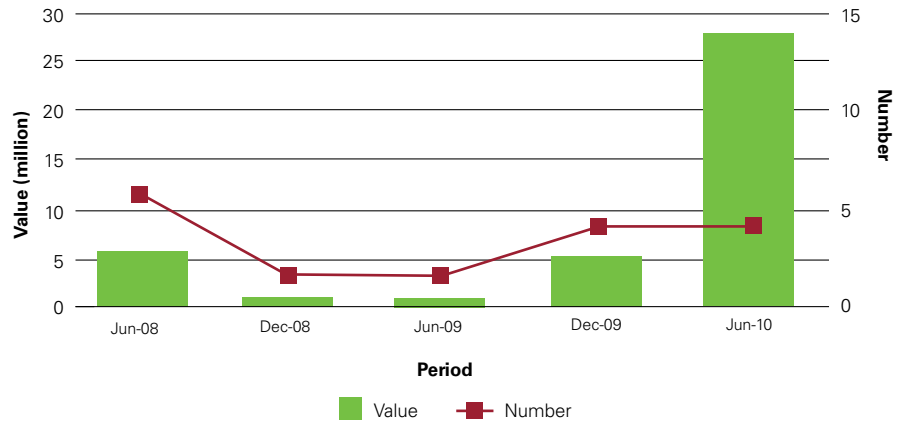
Western Australia and South Australia had previously recorded considerably smaller numbers and values of frauds than the east coast states. However in the latest Fraud Barometer, these states recorded the two highest value cases, primarily as a result of the super-cases mentioned earlier.

Chart 4: WA frauds Jun-08 to Jun-10



Source: KPMG Research

Chart 5: SA frauds Jun-08 to Jun-10

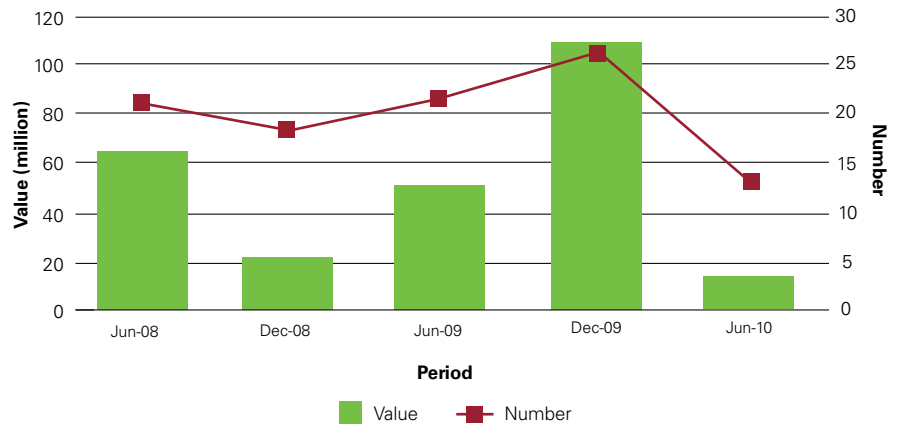


Source: KPMG Research

New South Wales

NSW recorded its lowest number and value of fraud cases in the 6 months to June 2010 since the Fraud Barometer was launched.

Chart 6: NSW frauds Jun-08 to Jun-10

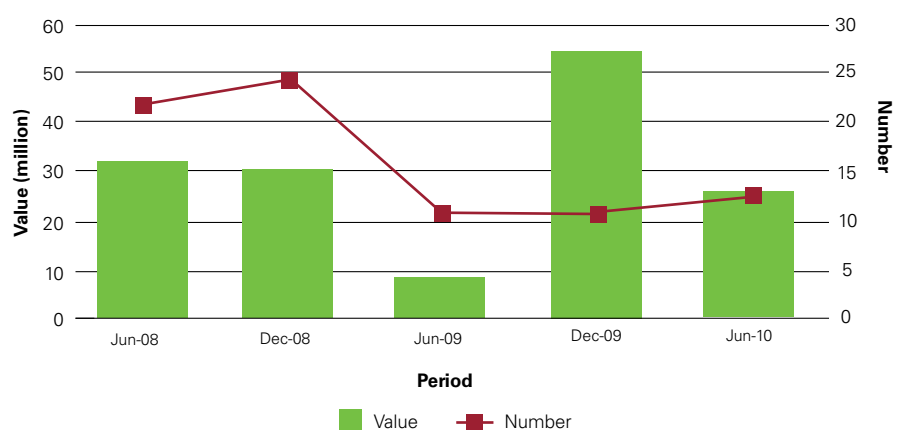


Source: KPMG Research

Victoria

Victoria recorded a similar number of cases for the third straight period. However, the value of cases dropped back to a similar level to previous periods after a marked jump during the 6 months to December 2009, which included the Clive Peeters supercase.

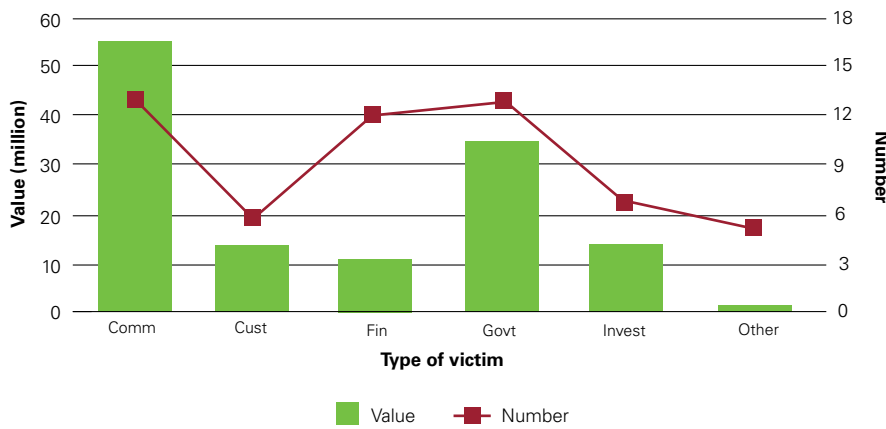
Chart 7: Vic frauds Jun-08 to Jun-10



Source: KPMG Research

Victims of fraud

Chart 8: Frauds by victim Jan-10 to Jun-10



Source: KPMG Research

The most common victim, and by far the hardest hit by the value of frauds, were commercial businesses. They range from family owned enterprises to large listed companies. The vast majority of frauds suffered by businesses were committed by staff (employees, managers or directors) with about half of these frauds being perpetrated by manipulation of accounting systems to misappropriate funds.

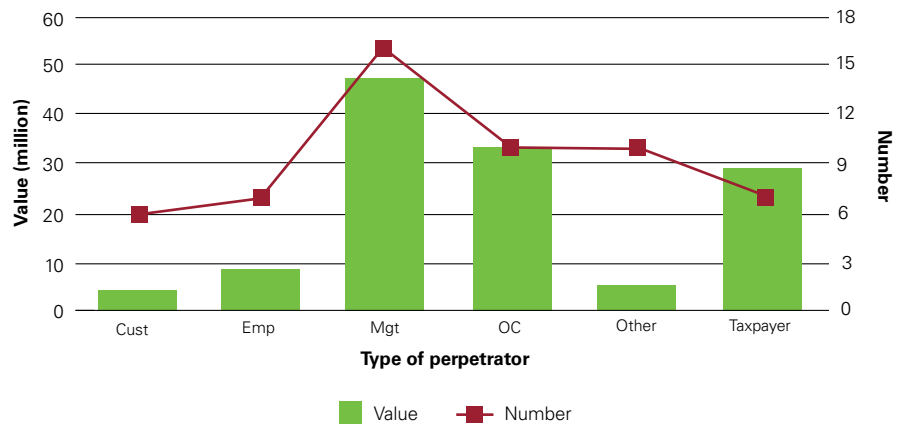
The other prominent victims during the period under review were government organisations, which suffered a range of frauds by both internal parties (staff) and external parties (taxpayers).

Financial institutions (banks, insurance companies, etc.) continued to be a regular target for fraudsters, with most of the frauds prosecuted in the past 6 months committed by external parties (i.e. customers and, increasingly, organised crime syndicates).

While large frauds against investors are not as common as frauds against organisations, there were still a significant number of cases prosecuted that involve direct losses to investors, including a number of investment scams.

Perpetrators of frauds

Chart 9: Frauds by perpetrator Jan-10 to Jun-10



Source: KPMG Research

Note: Abbreviations expanded on page 8.

It is clear that the biggest perpetrators of fraud within an organisation are those in the most trusted positions – management staff and directors. The frequency and size of frauds committed by management, when compared to other rank and file employees, is considerably greater. This is consistent with prior findings in KPMG’s fraud research in a number of countries. Inevitably, when management staff perpetrate a fraud, they are more successful in misappropriating larger sums because they have access to information and understand and can override internal controls.

As predicted in previous Fraud Barometers, and consistent with patterns in KPMG’s Fraud Barometers in other countries such as the United Kingdom, the number of frauds attributable to organised crime syndicates continued to rise. Over \$30m of cases relating to organised crime were prosecuted in the past 6 months, with every category of victim under the Fraud Barometer defrauded in at least one instance. Financial institutions were the most affected by this group of perpetrators.

More taxpayer fraud cases against the government were recorded in the latest period than in prior Fraud Barometers. Cases included benefit fraud, tax fraud and tax evasion. Prosecutions resulting from the ATO’s *Project Wickenby* investigation appear to be a contributing factor to the increase.

Types of fraud

Based on number and value of frauds, the following are the top five types of frauds committed during the first half of 2010:

Table 2: Top 5 types of fraud Jan-10 to Jun-10

Number		Value (\$)	
Accounting fraud	10	Accounting fraud	41,478,000
Benefit fraud	5	Tax evasion	28,080,000
Client money stolen	5	Forgery	15,000,000
Investment scam	5	Investment scam	12,135,000
Deception	3	Betting scam	10,000,000

Source: KPMG Research

Consistent with previous Fraud Barometer findings, frauds involving the manipulation of accounting systems continued to be the biggest single fraud threat to organisations. These generally involve a staff member (employee or management) overriding or manipulating accounting procedures to divert payment of funds for their own benefit. In many cases these frauds went undetected for many years, suggesting fundamental weaknesses in internal controls.

A number of new trends also emerged in the findings for the latest period:

- Of particular concern were the number of cases involving the misappropriation of client or investor monies by trusted individuals with control of substantial amounts of money. The proposed tightening of regulation of the financial advisory industry appears timely in this respect.
- The number of frauds perpetrated by taxpayers against the government, particularly with respect to benefit fraud, with more of these cases than for the whole of 2009. This suggests that the increased use of data analysis and data matching by government agencies, and the targeted investigations that have been widely reported in the media, are beginning to bear fruit.
- Investment scams continue to part investors from their money. Unregulated schemes and occasionally the promise of outlandish returns reinforce the case for enhanced financial caution across the community at large.

Abbreviations:

Comm	Commercial Businesses
Cust	Customers
Emp	Employees
Fin	Financial Institutions
Govt	Government
Invest	Investors
Mgt	Management
OC	Organised Crime

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Final observations

In considering our *Fraud Barometer* results for the latest 6 months, certain clear messages emerged:

- The extent of frauds successfully perpetrated by management reinforces the need for organisations to consider the adequacy of internal controls, and in particular the segregation of duty and oversight controls surrounding the management of financial functions.
- Given the level of economic uncertainty in Australia at present, the increasing threat of organised crime and the prevalence of opportunistic staff, fraud will continue to be a material risk to organisations. With some businesses expanding, fraudsters will look for ways to exploit that growth and any weaknesses in procedures. For those businesses in a contraction phase, the harsh business climate may trigger staff discontent and give rise to acts of desperation. In any event, now is the time for organisations to address the adequacy of internal controls to mitigate against fraud risks. (In fact, now is always the right time to do these things.)

Forthcoming KPMG fraud research

The next KPMG *Fraud Barometer* is due for release in late January 2011, while the biennial KPMG Fraud Survey is due for release in late 2010.

About the Fraud Barometer

This is the third edition of the Fraud Barometer to be released in Australia. The Fraud Barometer is released biannually, and this release is for the 6 months to June 2010. The previous Fraud Barometer covered the 2008 and 2009 calendar years. The findings for the 6 month period to December 2009 were particularly notable – with record levels of fraud prosecutions in Australian courts.

Fraud Barometer methodology

The objective of the *Fraud Barometer* is to monitor the level of reported frauds coming before the criminal courts in Australia, to provide commentary surrounding trends in each region, the types of perpetrators and victims, and the types of frauds occurring.

In order for the case to be included in the Fraud Barometer, the fraud must exceed \$100,000 (usually referred to as a 'large fraud'), and the individuals must at least have been charged (or sentenced).

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