

Report to the Nations on Occupational Fraud and Abuse

As Certified Fraud Examiners we were asked to participate in the Association of Certified Fraud Examiners (ACFE) Global Fraud Study. The 2010 Global Fraud Study titled "Report to the Nations on Occupational Fraud and Abuse" was released in July 2010.

This report is based on data compiled from a study of 1,843 cases of occupational fraud that occurred worldwide between January 2008 and December 2009. The fraud cases in the studies came from 106 nations - with more than 40% of cases occurring outside the United States of America.

A snapshot of the findings is as follows:

- Survey participants estimated that the typical organisation loses 5% of its annual revenue to fraud.
- The median loss caused by the occupational fraud cases in the study was \$160,000 (US\$). Nearly one-quarter of the frauds involved losses of at least \$1 million (US\$).
- The frauds lasted a median of 18 months before being detected.
- Occupational frauds are much more likely to be detected by tip off than by any other means. This finding has been consistent since 2002 when the ACFE began tracking data on fraud detection methods.
- Small organisations are disproportionately victimised by occupational fraud. These organisations are typically lacking in anti-fraud controls compared to their larger counterparts, which makes them particularly vulnerable to fraud.
- The industries most commonly victimised in the ACFE study were the banking/financial services, manufacturing and government/public administration sectors.
- Anti-fraud controls appear to help reduce the cost and duration of occupational fraud schemes. The study looked at the effect of 15 common controls on the median loss and duration of the frauds. Victim organisations that had these controls in place had significantly lower losses and time-to-detection than organisations without the controls.
- High-level perpetrators cause the greatest damage to their organisations. Frauds committed by owners/executives were more than three times as costly as frauds committed by managers, and more than nine times as costly as employee frauds. Executive-level frauds also took much longer to detect.
- More than 80% of the frauds in the ACFE study were committed by individuals in one of six departments: accounting, operations, sales, executive/upper management, customer service or purchasing.
- More than 85% of fraudsters in the ACFE study had never been previously charged or convicted for a fraud-related offence. This finding is consistent with the ACFE prior studies.
- Fraud perpetrators often display warning signs that they are engaging in illicit activity. The most common behavioural red flags displayed by the perpetrators in the ACFE study were living beyond their means (43% of cases) and experiencing financial difficulties (36% of cases).

The Conclusions and Recommendations from the study are:

- Occupational fraud is a global problem. Though some of the ACFE findings differ slightly from region to region, most of the trends in fraud schemes, perpetrator characteristics and anti-fraud controls are similar regardless of where the fraud occurred.
- Fraud reporting mechanisms are a critical component of an effective fraud prevention and detection system. Organisations should implement hotlines to receive tips from both internal and external sources. Such reporting mechanisms should allow anonymity and confidentiality, and employees should be encouraged to report suspicious activity without fear of reprisal.
- Organisations tend to over-rely on audits. External audits were the control mechanism most widely used by the victims in the ACFE survey, but they ranked comparatively poorly in both detecting fraud and limiting losses due to fraud. Audits are clearly important and can have a strong preventative effect on fraudulent behaviour, but they should not be relied upon exclusively for fraud detection.
- Employee education is the foundation of preventing and detecting occupational fraud. Staff members are an organisation's top fraud detection method. Employees must be trained in what constitutes fraud, how it hurts everyone in the company and how to report any questionable activity. The ACFE data show not only that most frauds are detected by tip offs, but also that organisations that have anti-fraud training for employees and managers experience lower fraud losses.
- Surprise audits are an effective, yet underutilised tool in the fight against fraud. Less than 30% of victim organisations in the study conducted surprise audits; however, those organisations tended to have lower fraud losses and to detect frauds more quickly. While surprise audits can be useful in detecting fraud, their most important benefit is in preventing fraud by creating a perception of detection. Generally speaking, occupational fraud perpetrators only commit fraud if they believe they will not be caught. The threat of surprise audits increases employees' perception that fraud will be detected and this has a strong deterrent effect on potential fraudsters.
- Small businesses are particularly vulnerable to fraud. In general, these organisations have far fewer controls in place to protect these resources from fraud and abuse. Managers and owners of small businesses should focus their control investments on the most cost-effective mechanisms, such as setting an ethical tone for their employees, as well as those most likely to help prevent and detect the specific fraud schemes that pose the greatest risks to their businesses.
- Internal controls alone are insufficient to fully prevent occupational fraud. Though it is important for organisations to have strategic and effective anti-fraud controls in place, internal controls will not prevent all fraud from occurring, nor will they detect most fraud once it begins.
- Fraudsters exhibit behavioural warning signs of their misdeeds. These red flags - such as living beyond one's means or exhibiting control issues - will not be identified by traditional controls. Auditors and employees alike should be trained to recognise the common behavioural signs that a fraud is occurring and be encouraged not to ignore such red flags, as they might be the key to detecting or deterring a fraud.
- Given the high costs of occupational fraud, effective fraud prevention measures are critical. Organisations should implement a fraud prevention checklist in order to help eliminate fraud before it occurs.

To find out more information on how RSM Bird Cameron can assist your organisation in minimising fraud risk, please contact Andrew Bowcher or Tim Gumbleton in our Riverina/Murray office on (02) 6921 9055 or by email andrew.bowcher@rsmi.com.au or tim.gumbleton@rsmi.com.au.



Andrew Bowcher CA, CPA, CFE
Director

Andrew is one of a limited number of Australians who holds the Certified Fraud Examiners qualification. He is also a Registered Liquidator and Official Liquidator.

His experience includes:

- Litigation Support assistance to solicitors and barristers on legal matters, including business valuation, expert witness, and economic loss reports; and
- Forensic Accounting/Fraud Investigation a range of proactive fraud and risk management services tailored specifically to identified areas of risk. Andrew has assisted with fraud risk management and financial investigation as well as assisting with the prevention of fraud and the creation of fraud prevention plans.



Tim Gumbleton CA, IPA
Principal

Tim is both a Registered Liquidator and Official Liquidator and he assists clients with all aspects of personal and corporate insolvency administration.

His experience includes:

- Fraud investigations;
- Strategic operational and governance reviews;
- Turnaround management and workout strategies;
- Insolvencies under the Corporations Act;
- Bankruptcies and personal insolvency agreements under the Bankruptcy Act;
- Due diligence reviews and business plans.