

# Fraud Barometer

June 2011 | Edition 5



## SUMMARY

- Value of large fraud cases totalled **\$79.8m** (as opposed to \$100m last period).
- **29 cases** in total (as opposed to 30 in the last period).
- There were 3 'super-frauds' being frauds greater than \$3m. The first super-fraud was for \$39.6m and involved a direct debit kiting scheme. The second super-fraud was for \$14.5m and involved directors of a finance company using investor funds for their personal benefit. The third super-fraud was just short of \$9m and involved fraudulent loans whereby customers were the ultimate victims.

### About the Fraud Barometer

This is the fifth edition of the Fraud Barometer and seventh period of data to be released in New Zealand. The Barometer is released semi-annually, and this release is for the six months to June 2011. It also includes some analysis of the full 3 years of the Barometer to date, with a recently added category related to gender.

### Fraud Barometer methodology

The objective of the Fraud Barometer is to monitor (primarily through media) the level of reported frauds coming before the criminal courts in New Zealand, and to provide commentary surrounding the types of victim, the types of perpetrator and their gender, and the types of fraud occurring. In order for a case to be included in the Barometer, the fraud must exceed \$100,000 (usually referred to as a 'large fraud'), and the individuals must at least have been charged.

There is no change in methodology from the last Barometer – i.e. cases over \$100K, in New Zealand, before the courts.

## Victims

- Most common victim is the **Government** (10 cases) – external fraud and internal fraud.
- Most prominent victims, by value, were **financial institutions** (\$51.1m) – fraudulent loans, internal bank fraud and kiting.
- Commercial businesses – lower average fraud (\$0.3m) even though number of incidents is high (5 cases). This suggests that businesses are reducing ultimate loss by early detection.

## Perpetrators

- More likely the perpetrator is internal to the organisation – **employees and management** count for 14 of the 29 cases (employees – 4 cases; management – 10 cases).
- Fraud by **management** – highest number of cases (10 cases with \$21.5m in value). The frauds committed by management were shared among commercial businesses, financial institutions, customers, investors and other.
- Other prominent perpetrators were taxpayers (7 cases with \$2.8m in value) – benefit fraud, tax fraud and tax evasion against Government.

## Type

Most common type of fraud is **accounting fraud** (9 cases). These generally involve internal staff (employee or management) as the perpetrator.

## Gender

- **Men** accounted for **62% of the cases and 94% in value**
- Most fraud perpetrated by women relates to **accounting fraud** and **internal bank fraud** as an employee (or management) within an organisation and **benefit fraud** as a taxpayer.

## CURRENT PERIOD FINDINGS – JUNE 2011

### Summary

Compared with the same Fraud Barometer period last year (covering the 6 months to June 2010), our latest analysis of court records shows that the number of large fraud cases going before the New Zealand courts has stayed fairly consistent with an increase from 26 cases to 29 cases in the latest Barometer period ended June 2011. This is a relevant comparison given that the month of January is typically a slow month for prosecutions in the High Court. In fact there were no large fraud cases per court records in the month of January 2010. The aggregate value of serious frauds for the first half of these respective years increased from \$72.2 million to \$79.8 million. While this level of aggregate value of fraud represents a decline from the December 2010 Barometer results which reached record levels of \$100.0 million, the second half of the year has had greater number and value of prosecutions than the first half since we began this analysis in January 2008.

**What is behind this trend:** Well the spike in the prosecution of 'super-fraud' (i.e. large frauds over \$3m) which began in the second half of 2009 continues to drive the aggregate value of frauds to record annual levels. The Serious Fraud Office (SFO) is behind all of the 'super-fraud' prosecutions in the most recent period for which there were 3 totalling \$62.9 million. The number and aggregate value of large frauds prosecuted by the SFO according to court records during this last 6 month period is 10 valued at \$69.0 million. Recent court activity indicates 2011 will once again reach record levels with over \$200 million in charges being laid by the SFO in the High Court in the month of July alone. We therefore can conservatively expect the aggregate value of charges in these 'super-fraud' cases prosecuted by the SFO to exceed \$300 million in 2011. This compares to 10 'super-fraud' cases prosecuted in the High Court in 2010 by the SFO totalling approximately \$143.9 million.

**Government initiatives:** In August 2011 the Ministry of Justice released a document titled 'Strengthening New Zealand's Resistance to Organised Crime' which outlines the all-of-Government response to the threats posed by organised crime. The Ministry of Justice acknowledges that a proportion of frauds committed, are linked to organised crime and has therefore developed actions to disrupt fraudulent activities. The actions include:

- Review legislation to improve information sharing and data matching between agencies
- Improve cross-agency threat and risk assessments
- Develop a fraud landscape to identify the quantum of loss due to financial crime and identify enablers of financial crime.
- Improve cooperation between agencies

| Period | Value (\$)  | Number |
|--------|-------------|--------|
| Jun-08 | 26,844,000  | 29     |
| Dec-08 | 43,817,000  | 34     |
| Jun-09 | 21,877,000  | 28     |
| Dec-09 | 76,147,000  | 33     |
| Jun-10 | 72,213,000  | 26     |
| Dec-10 | 100,003,000 | 30     |
| Jun-11 | 79,840,000  | 29     |

Table 1: Fraud Barometer: New Zealand cases June 08-June 11  
Source: KPMG New Zealand 2011

### Fraud Barometer: New Zealand Cases 2008-2011

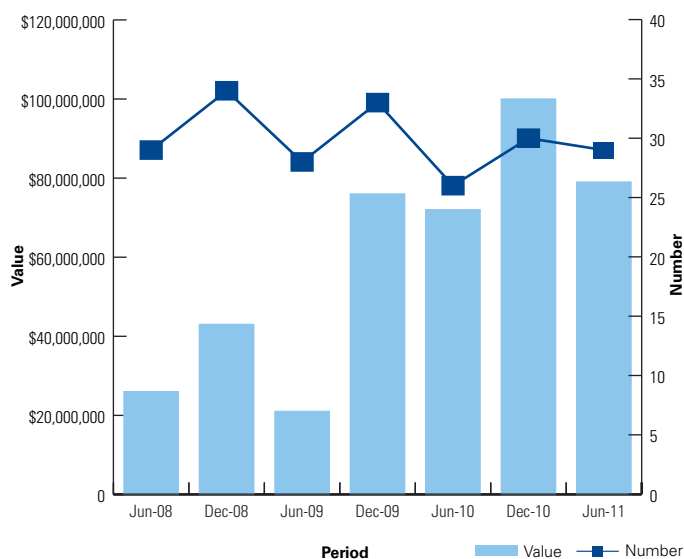


Chart 1: Fraud Barometer: New Zealand Cases June 08-June 11  
Source: KPMG New Zealand 2011

This Barometer has recorded 29 cases with an aggregate value of \$79.8 million.

The number of cases falls within the range evident in previous Barometers. The aggregate value of cases is the second highest recorded by the Fraud Barometer.

'Super-frauds' continue to have a significant impact on the Barometer. There were three such cases in the last 6 months, totalling \$62.9m included in the above total.

## Victims of fraud

**Fraud Barometer: Cases by Victim June 2011**

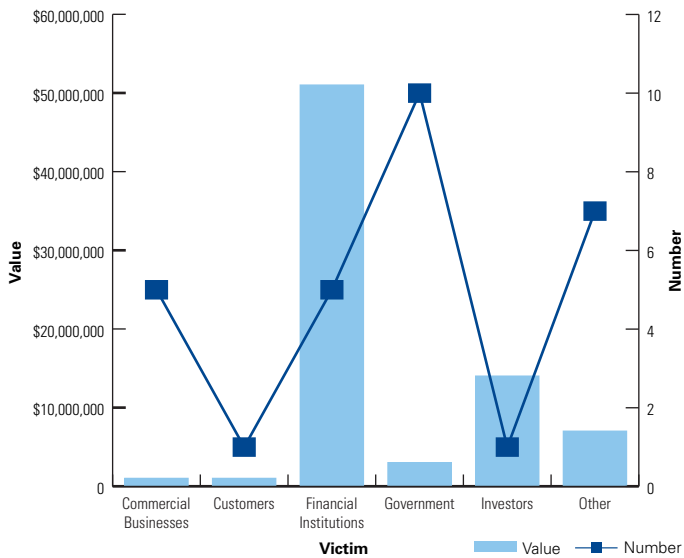


Chart 2: Fraud Barometer: Cases by Victim June 2011

Source: KPMG New Zealand 2011

Government was the most common target for large frauds during the June half period, suffering 10 different frauds. These frauds consisted primarily of frauds by external parties – benefit fraud by welfare recipients and tax evasion and tax fraud by taxpayers.

It is interesting to note that the average size of frauds against government was \$386K, versus nearly \$4m per fraud for non-government frauds. While there is no definitive reason why the government might suffer smaller average frauds, it is possible that greater resources are able to be deployed towards the prevention and detection of fraud. Evidence of this was a case where the relevant government department detected the fraud by the use of data analysis, one of the most powerful fraud detection techniques.

Financial institutions suffered the highest aggregate of fraud with a significant average of over \$10.2 million per fraud. The high average can be attributed to two ‘super-frauds’ occurring in this category. Fraudulent loans by customers or the diversion of funds by internal bank managers were the most common types of fraud against these institutions.

Investors suffered the next highest aggregate of fraud at \$14.5m which relates to one case against directors of a finance company.

The other notable category in this Barometer is ‘other’, being frauds primarily perpetrated against either the vulnerable in society or not-for-profit and charitable organisations. While all fraud cases are unfortunate events, the level of these cases in this Barometer is concerning, recording the highest number and value of cases in this category since the New Zealand Barometer began.

## Perpetrators of frauds

**Fraud Barometer: Cases by Perpetrator June 2011**

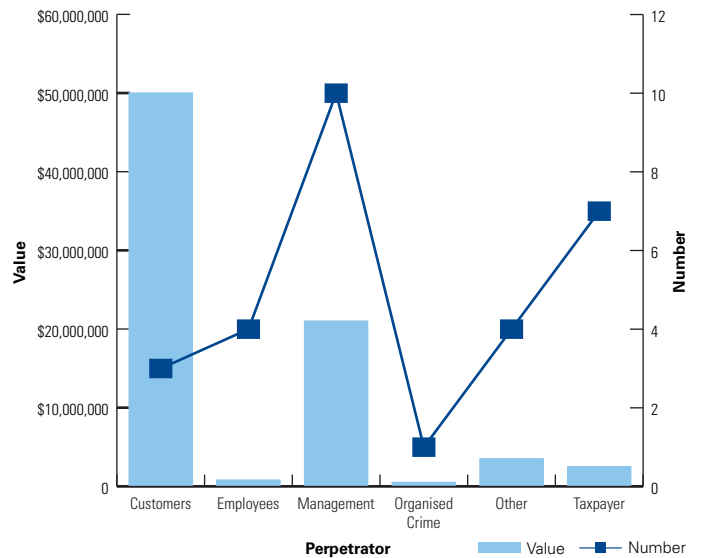


Chart 3: Fraud Barometer: Cases by Perpetrator June 2011

Source: KPMG New Zealand 2011

Consistent with previous Barometers, management have again been the most frequent perpetrator of larger frauds, and defrauding larger sums per fraud than lower level employees. Most of the frauds against not-for-profits and vulnerable individuals were also perpetrated by those in management positions.

The prevalence of frauds by management reflects their ability to understand and override controls more easily within an organisation.

Customers have been recorded as the category with the largest aggregate value of frauds. This reflects, to a large extent, the higher value frauds perpetrated against financial institutions during this Barometer period.

## Types of fraud

The frauds with the greatest impact were:

- Accounting frauds (9 cases, \$4.4m)
- Benefit fraud (4 cases, \$0.7m)
- Fraudulent loans (2 cases, \$11.1m)
- Kiting\* (1 case, \$39.6m)
- Investor money stolen (1 case, \$14.5m)

## Gender

The gender patterns in relation to perpetrators are similar to previous findings – the majority are men (approx 62% by number) and men are successful in misappropriating greater amounts when they perpetrate a fraud.

Two interesting observations for this period:

- All of the cases involving fraud against 'other' organisations (the vulnerable, charities, etc) were perpetrated by men.
- A majority of the benefit frauds and accounting frauds against commercial businesses were by women. These accounting frauds all involved women in lower level positions rather than management.

| Gender | Amount       | Count |
|--------|--------------|-------|
| Male   | \$75,340,000 | 18    |
| Female | \$1,687,000  | 8     |
| Both   | \$2,813,000  | 3     |
| Total  | \$79,840,000 | 29    |

Table 2: Fraud Barometer: New Zealand Gender Cases June 2011

Source: KPMG New Zealand 2011

\* Kiting is dishonestly borrowing non-existent funds by taking advantage of the time lag between withdrawing the non-existent funds from a financial institution and the transaction being dishonoured. To avoid detection, the perpetrator needs to continually process ever increasing withdrawals to cover the amounts being 'borrowed'.

## Final observations for organisations

All of the frauds recorded against commercial businesses were accounting frauds. This reinforces the need for all organisations, of whatever size, to consider the strength of their internal and financial controls, particularly in relation to the receipt of revenues and payment of payroll and accounts payable.

## Forthcoming KPMG Fraud Research

The next KPMG Fraud Barometer is due for release in February 2012.

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