KPMG

cutting through complexity

2013/2014
Global profiles of the fraudster:
White-collar crime – present and future



Agenda – 26 February 2014

- Opening and Welcome – Jack Murioga
- Fraud in Uganda Presentation – Deputy Inspector General Government of Uganda – George Bamugemereire
- Profile of a fraudster and how to proactively manage the risk of fraud - Willie Oelofse
- Closing – Edgar Isingoma

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Profile of the fraudster



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Methodology

- KPMG gathered data from fraud investigations conducted by our member firms' forensic specialists in Europe, Middle East and Africa (EMA), the Americas, and Asia-Pacific regions between August 2011 and February 2013.
- KPMG analyzed a total of 596 fraudsters who were involved in acts committed in 78 countries.
- KPMG Investigations leaders provided insight into the difficult question of profiling a fraudster.



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Methodology

- The survey examined ‘white collar’ crime investigations conducted across the three regions where we were able to identify the perpetrator and could provide detailed contextual information on the crime.

- The analysis identifies:
  - fraudster profiles and details of the more common types of fraud
  - environmental conditions that tend to enable fraud
  - the impact of fraudsters’ capabilities
  - The context in which fraudsters ply their trade across the countries in which KPMG operates



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Methodology

- The findings in this study are contrasted, where possible, with our 2007 and 2011 analysis to highlight shifts in patterns and to provide a perspective on emerging trends.



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KPMG's 2013 Global profiles of the fraudster key findings

Analysis shows that there is no fixed, but rather a continuous morphing, face of a fraudster. Organizations thus need dynamic responses to fraud risk and may have to anticipate the impact of these changes in the behavior of fraudsters

Based on an analysis of the 596 fraudsters, some of the key observations are:

- 70 percent of fraudsters are between the ages of 36 and 55
- 61 percent of fraudsters are employed by the victim organization. Of these, 41 percent were employed there for more than 6 years
- In 70 percent of frauds, the perpetrator colluded with others - a continuing rising trend since 2007
- When fraudsters acted alone, 69 percent of frauds were perpetrated over 1 to 5 years. Of these, 21 percent of the frauds incurred a total cost to the victim organization of $50,000-200,000 and 16 percent cost a total of $200,000-500,000. In 32 percent of these cases the cost to the victim organization exceeded $500 000, exceeding $5 000 000 in 9 percent of these cases.

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KPMG's 2013 Global profiles of the fraudster key findings

Continuing rising trend of collusion and greater financial impact thereof may require organizations to extend defenses against fraudsters beyond the internal processes and controls

Based on an analysis of the 596 fraudsters, some of the key observations are:

When acting in collaboration, 74 percent of frauds were perpetrated over one to five years. With regard to value, 18 percent of frauds had a total value of $50,000-200,000 and 16 percent of the frauds had a total value of greater than $5,000,000. In 43 percent of these cases the cost to the victim organization exceeded $500 000, exceeding $5 000 000 in 16 percent of these cases.

93 percent of frauds were committed in multiple transactions. For 42 percent of these frauds, the average value per individual transaction was between $1,000 and $50,000.

The most prevalent fraud is misappropriation of assets (56 percent) of which embezzlement comprises 40 percent and procurement fraud makes up 27 percent. The second most prevalent fraud is revenue or assets gained by fraudulent or illegal acts (24 percent).

For 53 percent of the 198 fraudsters where corrupt conduct was present, weak internal controls contributed to the perpetration of the fraud. Corruption was a common element in cases of collusion - 29 percent of collusion-related cases involved bribery.

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KPMG's 2013 Global profiles of the fraudster key findings

We also make the following key observations based on the analysis and insights of our investigators:

The level and nature of the opportunity for frauds affect the frequency and behavior of fraudsters. Managing opportunity affects the type of fraudster organizations can encounter.

Greed, financial gain and financial difficulty remain strong motivators of the fraudster.

Emotion is not a key factor, but ethical and cultural context seem more relevant in rationalizing fraud. This, in turn is affected by the way ethics and morals are institutionalized in regulations.

Environmental factors affect the behavior of the fraudster and changes in environment drive changes in the fraudster's behavior.

Collusion is a growing trend and probably represents the fraudster's response to the increasing global connectedness of business and the complexities of the modern business world.

Cyber crime and technology is a growing area of interest to fraudsters. These, along with the rising trend in collusion, may indicate future patterns of fraud.

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Three drivers of fraud: Opportunity

In order to understand a fraudster's profile it is useful to consider three drivers of fraud:

Opportunity

People do not commit fraud without an opportunity presenting itself.

- A plurality of fraudsters in the surveyed cases has worked in the victim organization for more than six years, and nearly three quarters of the frauds were conducted over a 1-5 year period. This implies that fraudsters do not join an organization with the aim of committing fraud. But opportunity presents itself then and is identified, fuelled by personal circumstances or pressures to meet aggressive business targets, which create the conditions conducive to fraud.

How does the opportunity present itself? According to the survey, 54 percent of the frauds were facilitated by weak internal controls. This suggests that if organizations tightened controls and the supervision of employees, the opportunity for fraud would be severely curtailed.



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Three drivers of fraud: Motivation

In order to understand a fraudster's profile it is useful to consider three drivers of fraud:

Motivation

Fraud, as with most crimes, requires a motivation, and for the 596 fraudsters, the overwhelming reason for committing fraud is financial.

- Survey respondents were offered 14 possible motivations and could select as many as they believed appropriate. Out of a total of 1,082 motivations listed, 614 were motives of greed, financial gain and financial difficulty, and a further 114 were related to business targets.
- Greed infrequently seems to spill over into observable patterns of behavior. Only 18 percent of the fraudsters had expensive hobbies and 17 percent drove expensive vehicles, hardly distinguishing features when the fraudster is a senior executive.



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Three drivers of fraud: Rationale

In order to understand a fraudster's profile it is useful to consider three drivers of fraud:

Rationale

Fraudsters, as with other types of criminal, will frequently provide a rationale for their deeds.

- Anger and fear were important factors in 10 percent or less of the 596 fraudsters.
- 16 percent of the responses mentioned being under-remunerated as being important.
- The only emotion that appears to be significant is a sense of superiority, which is important for 36 percent of the fraudsters. This may be linked to the fact that 29 percent of the frauds were committed by executive directors, the largest single job title.



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Fraud by industry

Industries should have unique fraud risks, but in the industries listed below the most common type of fraud was misappropriation of assets.

Financial Services	**Mostly embezzlement**
Pharmaceuticals	
Consumer & Industrial Markets	
Energy & Natural Resources	**Mostly procurement fraud**
Public Sector & Information	
Communications & Entertainment	



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New technology and the fraudster

New technology has created novel types of fraud behavior and brought new capabilities to the face of a fraudster:

- Cyber-related crimes occurred by virtue of infections of computer systems with malware, attacks on computer networks, etc.
- Cyber fraudsters were employed by the victim organization, mainly in IT, but also in finance and operations.
- 67% of the fraudsters in cyber enabled frauds acted in collusion with others, who were also mostly employed by the victim organization.

Organizations are struggling to keep pace with the growing technological sophistication of hackers. A few years ago, hackers were motivated by political objectives and disrupted computer networks to make an ideological point; but it is only a matter of time until fraudsters harness the full power of technology for financial gain.



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Some thoughts on the profile of the fraudster…

The ever changing face of the fraudster

- There is no fixed face of a fraudster. The fraudster's appearance changes to respond to rapid flux in the modern business world.

Complexity of changing factors

- Factors affecting the fraudster profile include the opportunity of the day, relationships on an organizational and global scale, the latest technologies, and socio-political and economic issues.

Collusion

- The collusion trend suggests that organizations may need to reach beyond the organization itself, perhaps in collaboration with other similar organizations and law enforcement/regulatory bodies, to combat fraudsters.

Technology

- The fraudster of the future will be shaped by factors such as technology, the inter-connectedness of the business world, as well as the traditional fraud drivers of opportunity, rationalizing and motivations of greed and financial gain.



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Conclusions

Changes in the environment spawn new capabilities that drive different behavior.

Organizations must constantly adapt their strategies for managing fraud risk to the changing relationship between the drivers (motivation, opportunity and rationale) and behaviors and capabilities.

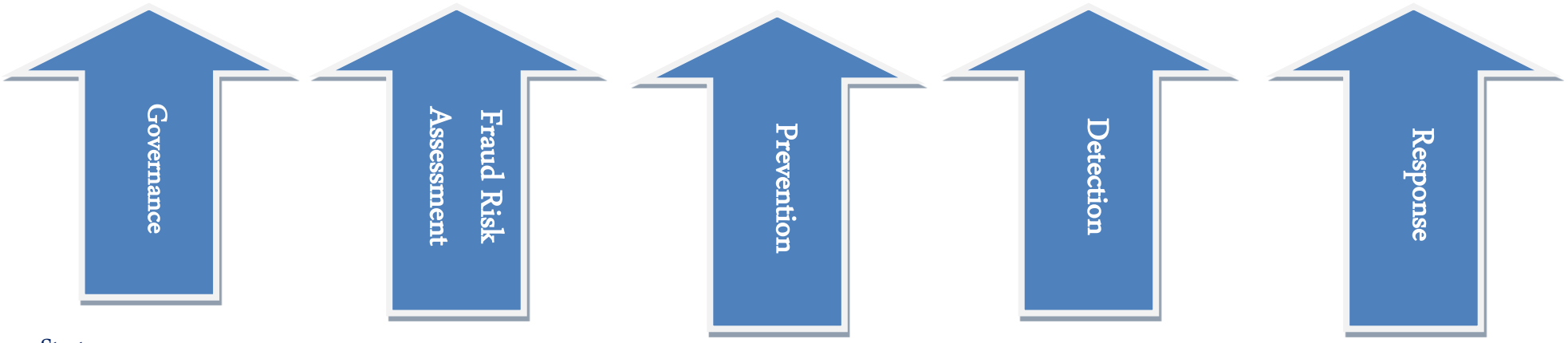
The dynamic opportunity of the day, relationships on an organizational and global scale, the latest technologies, and socio-political and economic issues will shape the fraudster's profile timelessly.

One must also not forget the typical fraudster may likely remain the tenured, trusted employee. The one you may never have suspected…because we do not look.



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A holistic approach to fraud risk management



- Strategy
- Role of senior management
- Relevant elements
- Commitment
- Clear definition
- Centralised FRM function

- Ongoing assessment
- Methodology
- Coverage
- Resources utilised
- Validation of fraud risks
- Use of historic information and technology

- Due diligence
- Code of Conduct
- Authority levels
- Communication and training
- Automated Controls
- Segregation of duties

- Reporting incidents/whistle blowing
- Internal Audit
- IT systems and controls
- Relevant to all levels
- Data analytics
- Security

- Fraud response plan
- Independent investigations
- Staffing &skill sets
- Additional fraud detection techniques
- Post fraud control action

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KPMG training for 2014

Fraud Risk Management Training	Days
What an effective board member should know about fraud risk management Keep your reputation intact	1/2
How to successfully respond to a potential fraud incident when it happens	1
Building a holistic fraud risk management framework	1-2
Moving your code of ethics from being just a document to a way of life	1/2
How to carry out a fraud risk assessment	1
Critical fraud risk initiatives for the chief executive officers	1/2
Creating an effective whistle blowing strategy	1
Ethics and fraud risk management: Measuring ethical performance and developing ethics training programs	1

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KPMG training for 2014

Anti bribery and corruption	Days
Bribery and Corruption (B&C) 101: understanding B&C, where B&C occurs, effects of B&C and combating B&C	1
Developing an anti-bribery and corruption framework reflective of best practice	2
Effective Board oversight on bribery and corruption risks	1/2
The role of management in managing bribery and corruption risks	1/2
Bribery and corruption risk assessment	1

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KPMG training for 2014

General training	Days
The ABCs of forensic investigation – Preliminary and ethical considerations, tools required, planning and management, gathering of information, search and seizure, interviewing, analysis of financial and non-financial information, report writing and deliverables and preparation for court	2-4
Procurement fraud issues – spot fraud and avoid it, fraud trends in procurement, conflict of interest	1
Fraudulent disbursement schemes	1
Inventory fraud and asset misappropriation	1
Enhanced fraud detection techniques	1

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KPMG training for 2014

General training	Days
Anti-money laundering : What you need to know	1
Computer fraud : Responding to fraud involving use of technology and enhancing your system security	1
Proactive data analytics	1

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