CPA
Practice Advisor

Crime

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While there is no single template for fraud or single face of a fraudster, understanding recent shifts in fraudulent activity can help organizations stiffen their defenses against emerging criminal threats, according to a new report from KPMG International.

The KPMG Profiles of a Fraudster report reveals that people who commit fraud are typically experienced employees in a position colluding with others inside and outside their organization. Fraudsters usually hold managerial or senior executive positions and do not have a prior history of criminal activity. The fraudster tends to be highly respected and appears trustworthy. Most commonly, fraudsters are employed by the victim organization (61 percent) posing as something of a Trojan horse.

The study also revealed that many fraudsters are not being held accountable for their crimes, with only 35 percent facing criminal or civil litigation, and only 7 percent actually facing time in jail. A bit more than half, 55 percent, were dismissed from their jobs.

"The intriguing thing about fraud is that it is always morphing, like a strain of flu; you can cure today's strain, but next year it evolves into something as bad if not worse," said Phil Ostwalt, Global Coordinator for Investigations for the Global Forensic practice at KPMG and Investigations leader in the United States.

"It is alarming that some fraudsters keep their jobs and don't face more severe penalties, added Ostwalt. Companies need to set a tone of no tolerance for fraud or any other type of misconduct. By taking the fraudster to task for their actions, the

Technology as an Enabler and Defender

A special section of the report underscores the challenges businesses face due to the growing use of technology. KPMG Forensic experts from around the globe outline how new technology has created new types of criminal behavior.

"While the profile of the fraudster has remained fairly consistent over the years, the means by which fraud is committed and the ways in which it is detected have changed," said Richard H. Girgenti, KPMG's US Service Line leader for Forensic. "Developments in technology have not only enabled the fraudster, but also provide organizations with more tools to defend themselves. Real time data analytics leveraging techniques such as predictive coding and machine learning and mining information available in public data bases and social media provide organizations with the means to stay a step ahead of even the most sophisticated fraudster."

Fraud by Industry

In financial services, pharmaceuticals, consumer and industrial markets, the most common fraud is embezzlement.

- In energy, public sector and information technology, communications and entertainment, the most common is procurement fraud.
- Financial services yielded the highest cost of fraud, commonly more than $5 million per fraudster in comparison to $200,000 to $500,000 in other industries.
- Corruption was more prevalent in pharmaceuticals, financial services and energy.

When Opportunity Knocks

- More than half (54 percent) of the frauds were facilitated by weak internal controls. This suggests that if many organizations tightened controls and the supervision of employees, the opportunity for fraud could be severely curtailed.

aggressive business targets, especially once they are comfortable in their job and enjoy the trust and respect of colleagues, often creates the backdrop for their crime.

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