

Fraud Barometer

Edition 2 | September 2020



OVERVIEW

- **\$72 million:** The total value of large fraud cases in the 12-month period from 01 August 2019 to 31 July 2020.
- **19 cases:** Identified fraud cases in total.
- **2 'super frauds':** Frauds valued at over \$3 million.
- **\$45 million:** The largest reported fraud, a Ponzi scheme that targeted wealthy Japanese citizens looking to move to or invest in New Zealand; the fraud was uncovered following the death of the financial advisor who operated the investment scam.

Summary

The total value and volume of frauds reported in the last 12 months has fallen in comparison to the previous period, however the average fraud value, \$3.8 million, is slightly higher than last year (\$3.4 million).

Some of the more intriguing cases that have been reported in the last 12 months include:

- A business owner who misled consumers and wholesalers by selling caged eggs as free range eggs. This led to the business fraudulently generating an estimated profit of \$320,000.
- A former employee of filmmakers Peter Jackson and Fran Walsh sold vintage aircraft belonging to the company without authority and kept the proceeds; also using one of the planes as security to dishonestly obtain a bank loan. Approximately half of the \$2 million in diverted funds were used to clear a debt owed to a trust controlled by the filmmakers.
- A \$45 million Ponzi scheme was discovered following the death of the founder of a network of companies that offered immigration and financial advice to wealthy Japanese citizens looking to move to or invest in New Zealand. Tom Tanaka ran the East Wind group of companies and claimed that he could provide investors with an 8% return. His death led to the collapse of the group, with the companies now in liquidation; over 200 investors are understood to be affected by the fraud.

Perpetrators

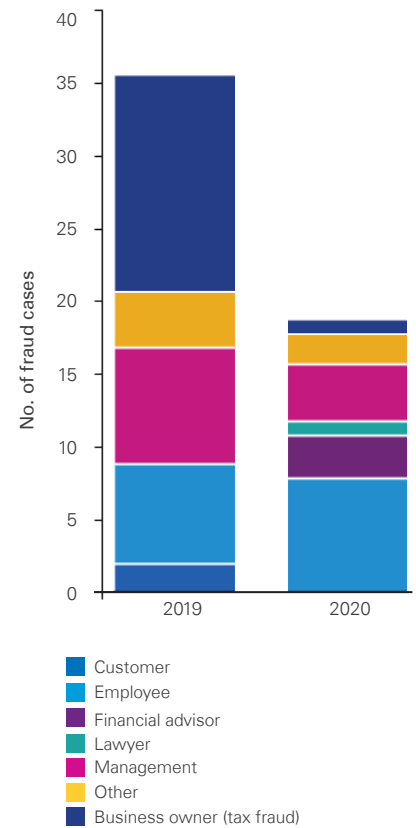
The most common perpetrators of fraud were employees. In the year to 31 July 2020, eight frauds were reported as committed by employees for a combined value of \$5 million. This represents a marginal increase in number and value of employee fraud compared to the previous twelve-month period. Cases involved employees accepting kickbacks and redirecting payments to their personal bank account.

This is consistent with the latest findings from the KPMG Australia Fraud Survey, that senior executives regard employees, along with suppliers, as the mostly likely source of fraud. Click [here](#) to read more.

Management was the second most common fraud perpetrator, with four frauds in the year totalling \$3 million.

The two largest value frauds were perpetrated by financial advisors running Ponzi schemes, where new investor funds were used to pay existing investors. These two frauds were valued at \$45 million and \$16 million.

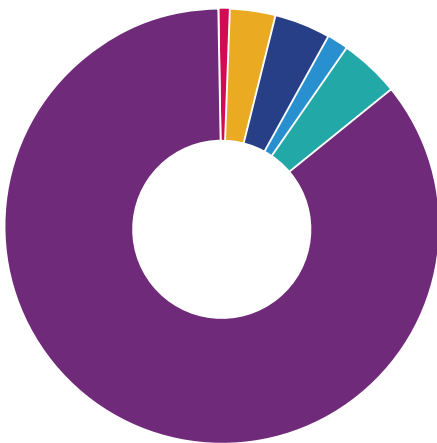
Perpetrators of fraud by volume



Victims

- The 12 month period saw a sharp increase in the value amount of investor fraud. In total, investors were defrauded of \$62 million, the highest victim category by value. This represented an increase of \$35 million on the previous period, despite one fewer investor fraud being committed.
- The government sector was subject to the highest proportion of frauds by count, 37%, however this amounted to only 5% of the total fraud value. This pattern is similar to that observed in the previous period; when the government sector was again the victim of the highest proportion of fraud by count.

Total fraud by victim type in 2020



FRAUD VALUE



FRAUD VOLUME

- Customers
- Iwi
- Investors
- Government sector
- Commercial business
- Not-for-profit organisation

COVID-19 impacts

COVID-19 has allowed the three fraud factors to coincide:

1. Opportunity
2. Motivation
3. Rationalisation.

These factors create the perfect storm for fraud to occur. A disturbance in normal business processes and working conditions have created opportunity to commit fraud, as normal controls are circumvented, and the chaos and uncertainty of the crisis enable others to rationalise bad behaviour.

We therefore expect to observe an increase in the amount of fraud cases that occur over the next few years, as these cases emerge and make their way through the courts.

We are not yet seeing fraud cases relating to the wage subsidy, however, due to the magnitude of the amount that has been paid out in COVID-19 relief packages, it is possible that this may change in the aftermath of the pandemic.

Click [here](#) to view our previously released article on COVID-19 fraud risk.

Key statistics from this year's Barometer cases

57



The average age of a fraudster

2x



Twice as many frauds were committed by employees than by management

54%



of cases were committed by men

58%



of frauds resulted from internal controls failure

Additional Barometer case highlights

\$1.2m

Steven Robertson was found guilty of theft, deception and dishonesty in August 2019. He sold software purportedly designed to help investors trade on the financial markets. However, when investors found the software difficult to use, Robertson invited investors to deposit funds they believed would be traded on their behalf or used for the purchase of shares in his company Prosper Through Trading. At times, he stole directly from clients' credit card accounts using details provided when they had purchased the trading software. These monies were then used to fund his extravagant lifestyle.

\$1.3m

An individual dishonestly used documents to obtain funding from Te Whare Wānanga o Awanuiārangī and the Tertiary Education Commission. \$1.3 million in misappropriated funds was used to benefit various charitable organisations that the individual was involved with.

Concluding remarks

Fraud is a constantly evolving threat, adapting quickly to capitalise on technological advances, emerging market trends and changes to business environments. This is evident in the wide range of frauds, victims and perpetrators that have been identified in this edition of the Fraud Barometer. A vast amount of fraud goes unreported and therefore this Barometer only offers a glimpse into the entire fraud landscape in New Zealand.

As in previous editions, this year's Fraud Barometer findings emphasise the need for all organisations, of whatever size, to consider their fraud risk management framework and the specific internal and financial controls that they have in place to detect and prevent fraud.

In May 2020, following the current Government's intention to increase the focus on fraud, the SFO received a budget increase of 20%. This allows the SFO to investigate a higher volume of increasingly complex financial crimes. Consequently, we expect to see an increase in the amount of reported fraud in the coming years.

Methodology

The objective of the Fraud Barometer is to monitor, through media searches, the level of reported frauds coming before the criminal courts in New Zealand, and provide commentary surrounding the types of victim, perpetrator and fraud occurring. In order for a case to be included in our Fraud Barometer, the fraud must exceed \$100,000.

Watch this space

The following cases have not been included in this year's Fraud Barometer findings because they have not reached the courts, but they may do so in the future.



Electoral funding fraud

The Serious Fraud Office (SFO) is currently investigating three separate cases of electoral funding fraud by three of New Zealand's major political parties.



Cyber scam

Team New Zealand is reported to have inadvertently paid \$2.8 million to a Hungarian bank account. The scam allegedly involved a fraudster posing as a legitimate supplier and encouraging the America's Cup team to pay a different bank account to that which belonged to the legitimate supplier. We understand some of the proceeds may have been recovered and investigations are ongoing.

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