

Fraud Barometer



Overview of reported fraud cases

10
Cases
committed
by business
owners

The most common type of fraud in the period was by business owners. These cases included false information being provided to Inland Revenue in order to avoid tax, as well as one instance of cigarettes being smuggled into the country concealed in construction materials to avoid paying duties.

 **\$80m**

The largest single reported fraud related to a Christchurch fund manager who set up and managed an investment fund registered in the Cayman Islands. In 2012, when the fund started to perform poorly, Kelly Tonkin falsely inflated the value of the investments to hide the losses from his investors and to attract new investment.

Mr Tonkin continued to deceive investors as losses increased further, with over 150 victims affected prior to an employee discovering the fraud in February 2020. At that time, the true value of the fund was approximately 15% of its reported value.

7 'Super frauds'

The number of 'super frauds' (>\$1.0 million) reported in the 12-month period, up from three in the prior period.

21
Large frauds
over \$100k

Over the 12-month period 1 August 2021 to 31 July 2022, we identified 21 large fraud cases (>\$100k).

This is broadly the same as the number of large frauds reported in the prior period (22 cases).

\$105.8 Million

An increase in the total value of fraud reported during the period, to a total of \$105.8 million (value in the prior period was \$29.7m). This increase resulted from the large case noted opposite.

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CASE STUDIES

Examples of different fraud cases that have been reported in the last 12 months.



\$10,000,000

A woman and her co-offender used forged documents to obtain money in relation to a property development that breached overseas investment office requirements. They used false invoices to obtain the money from investors. The money was then used to buy land and property.



\$1,100,000

A director of an Auckland based labour hire company tried to evade PAYE, Student Loan and KiwiSaver deduction obligations. The director filed false tax returns for the company which understated wages and bonus payments made to staff. The effect was to reduce the amount of PAYE owed by the company to Inland Revenue.

The Director used the money to fund personal expenses including overseas travel, shopping for luxury goods, bonuses, loans and to pay for his nephew's music career.



\$440,000

An employee of an electricity network management company improperly charged their employer for work they were supposed to do as part of their employment.

The employee set up a business and began sub-contracting out the tasks his employer was paying him to do. Unbeknown to the electricity network management company, they were paying for the same services twice; once to their employee and once to his business.



\$170,000

A Wellington man filed false GST returns claiming money he was not entitled to. He knowingly provided altered, false, incomplete and/or misleading GST returns in order to obtain refunds that he used to fund his gambling addiction.

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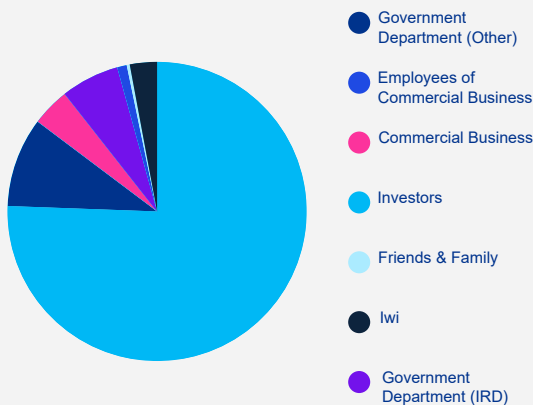
VICTIMS

Victims

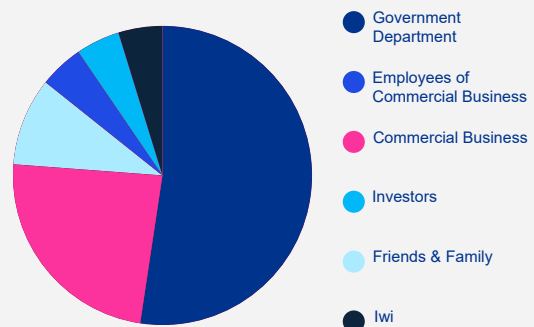
This 12 month period identified similar trends to those seen in the previous 12 month period. Government Departments were the most commonly defrauded category of victims, with 9 of the 21 cases related to tax fraud committed against Inland Revenue, and a further 2 cases relating to the deception of other Government Departments.

We also noted 6 cases impacting businesses, according to a report released by the ACFE, [Occupational Fraud 2022: A Report To The Nations](#) a strong presence of the 18 recognised anti-fraud controls (as detailed in the report) has resulted in lower median fraud losses within companies compared to prior periods. Almost all anti-fraud controls were considered to correlate with faster detection of fraud.

Frauds by value



Frauds by number of cases



Controls such as consistent job rotations, mandatory vacation policies and unannounced audits resulted in a 50% reduction in both the median loss and median duration of fraud. The report also identified fraud risk assessments and data monitoring and analysis as being key tools to help reduce fraud. We concur with those sentiments based on our own work and experience.

If you think your business could benefit from a review of your anti-fraud controls contact our Senior Manager, Matt Preece to discuss what options may be available. Contact details for Matt and other members of the KPMG Forensic team can be found on the last page.

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PERPETRATORS

Perpetrators

Our review of the 12 month period identified that, the majority of perpetrators were Company Management/owners, with 11 frauds comparative to 12 in the prior period. The second most common perpetrator was employees, presenting a shift from financial advisors in the previous period.

Frauds committed by Management and employees are most commonly linked to weaknesses in internal controls. Challenges such as the impact of COVID-19, and decreased business confidence may continue to lead to Management and staff looking to exploit vulnerabilities in internal controls.

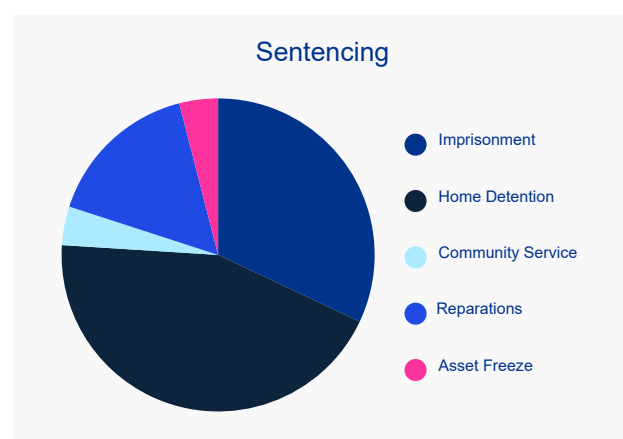
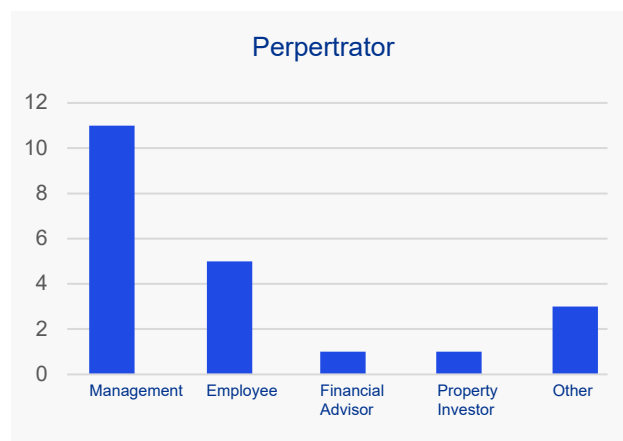
We are already seeing COVID-19 wage subsidy fraud cases appearing before the Courts. We expect these to feature in the next review period.

Of the frauds identified in the 12 month period, the most common sentence handed down was for a period of home detention ranging from five and a half months to one year.

Long tenure in an organisation can often result in an increased likelihood of collusion and can make it harder to identify the fraud. It is important that employees understand some of the red flags to help identify a fraudster, including someone living beyond their means, unwillingness to share duties as well as odd or out-of-character behaviors, perhaps due to issues in their personal lives.

Up to date fraud risk checklists, assessments and reviews of the effectiveness of internal controls all help to reduce the likelihood of fraud occurring, and help increase the chances of detection.

We note that sentencing takes into consideration a multitude of factors and therefore large differences in sentences imposed are to be expected. Generally, the level of authority a perpetrator has within a company is closely correlated to the size of the fraud that is committed.



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CONTACT US

Where to from here?

Our Fraud Barometer offers only a glimpse of the entire NZ fraud landscape, since a vast amount of fraud goes unreported, but it serves as a reminder to remain vigilant to the threat posed by fraudsters and the risk of financial and/or reputational loss.

We anticipate that increased external pressures, including inflation, the rising cost of living and other factors, may contribute to an increased risk of fraud risk in the coming years. Some businesses or individuals will likely be under greater pressure due to increased financial constraints, which may be a motivating factor to commit fraud.

The KPMG Forensic team is able to offer support with the prevention, detection and response to fraud risks. Some examples of how we can help include:

- performing a fraud maturity assessment of your organisations current practices against the Australia-New Zealand corporate governance standards
- conduct a fraud risk assessment to understand and address potential vulnerabilities
- provide a confidential whistleblowing hotline service to facilitate early detection
- independently perform, or assist with, an investigation into alleged or suspected fraud

Please contact us for more information on how we can support you and your organisation.

**FUELLING
PROSPERITY**

TĪTOKONA TŌ TĀTOU TŌNUITANGA,
MŌ AOTEAROA.

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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 and the perpetrator have pleaded or been found guilty.



Mike Lowe

Partner

T: +64 9 363 3282
E: mikelowe@kpmg.co.nz



Barry Foster

Director

T: +64 4 816 4684
E: barryfoster@kpmg.co.nz



Matthew Preece

Senior Manager

T: +64 9 367 5845
E: matthewpreece@kpmg.co.nz



Marieta Engelbrecht

Associate Director

T: +64 9 363 3223
E: marietaengelbrecht@kpmg.co.nz