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Media Release

FOR IMMEDIATE RELEASE

Singapore, 24 May 2016

Companies failing to leverage technology to combat fraud

KPMG's Global Profiles of a Fraudster report also reveals technology is a significant enabler for fraud

Technology was found to be a significant enabler for 24 percent of the 750 fraudsters involved in white-collar crimes across 81 countries, including Singapore. In contrast, technology did not feature much in the detection process, according to a new report by KPMG, *Global Profiles of a Fraudster*. Proactive analytics plays an astonishingly minor role in combating fraud, with only 3 percent of the fraudsters being detected in this manner.

Tech-savvy fraudsters are using technology in a variety of ways to perpetrate frauds. In the instances where fraudsters are using technology, about 24 percent entailed the creation of false or misleading information in accounting records, 20 percent involved fraudsters providing false or misleading information via email or another messaging platform and 13 percent involved perpetrators abusing permissible access to computer systems.

"As technology becomes more and more advanced, the potential for it to be leveraged on or abused by fraudsters also rises exponentially," said Lem Chin Kok, Head of Forensic, KPMG in Singapore and Indonesia. "Organisations, however, have yet to utililse newer technology like data analytics in a pre-emptive manner that can help identify anomalies or inconsistencies in transactions or workflows when they deviate from standard operational procedures. With fraudsters moving nimbly in using technology to carry out their schemes, organisations should better arm themselves in the battle to protect their resources and data."

The New Face of Fraud

- Between the ages of 36 and 55 (69 percent of fraudsters investigated).
- Are a threat from within (65 percent are employed by the company).
- Could very well be executives or director level (35 percent), who have been with the company for at least six years (38 percent).
- Have unlimited authority in their company and are able to override controls (44 percent of fraudsters investigated).
- Fraudsters are most frequently described as autocratic (18 percent) and are three times as likely to be regarded as friendly as not.
- Are likely esteemed, with 38 percent of fraudsters describing themselves as well-respected in their organisations.
- Likely to have colluded with others (62 percent of frauds, down just slightly from 70 percent in the 2013 survey).
- While personal gain was the predominant overriding motivation for fraudsters (60 percent), greed was the second most common factor at 36 percent and the sense of 'because I can' was third at 27 percent.

Opportunistic Fraud a Growing Concern

Weak internal controls were a factor for 61 percent of fraudsters and the problem appears to be growing. The number of fraudsters who were able to commit their acts as a result of taking advantage of weak controls rose to 27 percent, from 18 percent in the 2013 report.

Even if controls are strong, fraudsters can and do evade them by collusion or override them. Colluders were able to circumvent strong controls in 16 percent of the cases and an additional 20 percent recklessly defrauded with no regard for the controls.

"The majority of frauds are carried out by threats from within organisations, making the job of detection even more challenging. Organisations cannot afford to let their guard down and should regularly check the robustness of their internal controls to see if they have been designed properly and kept updated frequently. During times of uncertainty, there is the temptation to cut costs by reducing the budgets allocated for internal controls, which may lead to a penny-wise and pound-foolish situation," said Mr Lem.

Other Key Findings

- Fraud is more frequently perpetrated in collusion with others than alone (62 percent against 38 percent respectively).
- While most collusion happens in mixed company (46 percent), men still tend to collude more than women do (39 percent of colluders are groups of men vs. 7 percent of colluders who are groups of women).
- External parties are involved in 61 percent of the instances where the fraudster is colluding.
- 44 percent of fraudsters were detected as a result of a tip-off or a complaint; a further 22 percent were detected as a result of a management review.

"A work culture that encourages staff to report activities that are potentially suspicious or irregular helps the organisation to raise red flags. By having such an independent reporting platform in place, would-be fraudsters who think they can get away scot-free may think twice before hatching up their schemes. Management can also proactively conduct checks using technology to strengthen the process," said Mr Lem.

Profile of the Singapore fraudster

By and large, a typical fraudster in Singapore exhibits similar traits and motivations as the global fraudster. The fraudster here is likely to be between 36 and 55 years old (66 percent), is an employee of the victim organisation (67 percent), has worked in the organisation for at least six years (42 percent) and is from the finance (17 percent) or operations (17 percent) department. The fraudster is likely an executive director or executive corporate officer (50 percent) who is described as autocratic (17 percent) and is probably motivated by personal financial gain (75 percent), greed (50 percent) or personal financial difficulty (17 percent).

Unlike the global results, a fraud here is detected either through a management review (33 percent) or accidentally (33 percent) while only 24 percent is uncovered due to a tip or complaint. The damage is likely to be worse here too, with 50 percent of frauds here costing the victim between US$1 million and US$2 million dollars, compared with 9 percent in that range globally.

"Fraud may not be totally eradicated as the temptation of the forbidden fruit could be too enticing for some. Organisations are, however, not defenceless in the quest to protect their assets. Having a holistic fraud risk management framework with an effective whistle-blowing programme and technology-aided continuous monitoring, amongst other antifraud programmes, can reduce the chances of being a victim of fraud. Technology costs are no longer prohibitive and can in fact be cost-effective if it is deployed properly," said Mr Lem.

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About the survey

Data was gathered from fraud investigations conducted by KPMG member firms' forensic specialists in Europe, Middle East and Africa (EMA), the Americas, and Asia-Pacific between March 2013 and August 2015. KPMG analysed a total of 750 fraudsters. The survey examined "white collar" crime investigations conducted across the regions where the perpetrator was known and detailed contextual information on the crime available. It incorporates the observations and views of KPMG Investigations leaders in 81 countries across the world. The report builds on a similar study conducted in 2013.

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. Our website is located at kpmg.com.sg.

The KPMG network operates in 155 countries, with 174,000 people working in member firms around the world. In the ASEAN region, member firms operate across all 10 countries of this regional grouping providing professional services supporting the growth, compliance and performance objectives of our clients.

The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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