



Accounting

Business Interruption insurance coverage advice
Insurance and Consequential Loss claims
Fraud investigations

Author: Vernon Sawers
CA CFE

W: www.israccounting.com.au
E: enquiries@israccounting.com.au

PO Box 617, Goodwood, South Australia 5034
T 1300 883 963 F 1300 883 964

Facts and figures on Fraud in Australia

A recent KPMG Fraud Survey provides some useful information for Agents and Brokers when advising their clients of the risk of fraud and the need for Fidelity Insurance

Risk of a fraud occurring

- 47% of the 465 respondents to the survey experienced at least one fraud during the survey period (Apr04 to Jan 06)
- Most frauds were only detected after about a year of the scheme operating – longer for senior management employees. A lot of money can be lost over a year plus period of time.
- The risk of fraud varies with the size of the organisation:

No. of employees	Percentage experiencing a fraud
Less than 100	11%
101 to 500	44%
501 to 1,000	51%
1,001 to 10,000	65%
Over 10,000	82%

When interpreting the above table remember that the survey targeted larger organisations. Consequently, the risk of fraud in smaller organisations is likely to be under represented in the above table.

What is a businesses exposure to fraud? – look at the perpetrators

- Most likely perpetrators were somebody within the organisation – Fidelity policies will cover employees
- Internal employees accounted for 66% by no. and 55% by value of all frauds
- 45% of frauds by number perpetrated by Non-management employees
- 19% by managers, 2% by senior managers

Which areas of a business are susceptible to fraud?

Top ten employee related fraud types were:

1. False invoicing	2. Fraudulent use of corporate credit card
3. Theft of cash	4. Fraudulent expense claim
5. Theft of stock	6. Theft of cash receipts
7. Payroll fraud	8. EFT fraud
9. Theft of plant & equipment	10. Accounts receivable fraud

How much Fidelity cover is needed?

The survey revealed the following average values of fraud by employee type:

- Senior executive and director - \$449,227
- Manager - \$209,573
- Non-management \$179,114
- Fraud investigation costs accounted for around 25% of the larger value frauds – say an additional \$125,000

The survey contained the following further comments on fraud values:

- Average value of fraud for each organisation experiencing at least one fraud was over \$700,000
- 34% of respondents reported single frauds with a value greater than \$200,000 each
- 8 organisations where the value of fraud in the survey period exceeded \$4 million
- Average value of frauds perpetrated by re-offenders was \$373,593

The above figures are averages. Individual frauds were both greater and lower than the average values shown above. The Scott Transport group of companies suffered fraud losses in the region of \$20 million.

In determining the amount of cover to buy, remember to include an amount for likely fraud investigation costs.

Fraud investigation costs – points to consider

In addition to the cost of the fraud itself is the cost of the investigation:

- Will often involve Forensic Accountants who are expensive
- Most policies cover costs – however be wary of sub-limits
- Extent of investigative work needed and hence costs is not proportional to the value of the fraud. The cost is determined by the complexity of the fraud and period over which it was perpetrated.
- ISR policies are often silent as to fraud investigation costs. Remember to confirm with the underwriters at the time of taking out the cover that the policy extends to include fraud investigation costs.

What are the benefits of Fidelity cover for a business or organisation?

The survey revealed the following:

- In 63% of cases by value there was no recovery
- Where a recovery was made, 57% of the recovery by value was from an insurer
- Survey indicated that businesses did not give adequate attention to insurance for Fidelity losses

The above indicates that Fidelity insurance is a product that provides good value.

Source of fraud statistics: KPMG 2006 Fraud Survey. Information used with permission.

For a copy of the survey use the following link:

<http://www.kpmg.com.au/default.aspx?tabid=145>

On the Forensic screen that then displays look for the 'Publications' heading and click on the 'Fraud Survey 2006' link.

Alternatively go to the www.kpmg.com.au Home page, then click on the 'Services' tab, then click on 'Forensic'. On the Forensic screen look for the 'Publications' heading and click on the 'Fraud Survey 2006' link.

This fact sheet has been prepared for the information of clients of ISR Accounting. It contains brief comments that are not a substitute for professional advice in the individual circumstances of a business.