Technology in the fight against fraud

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Companies fail to use technology in the fight against fraud

— Only three percent of companies successfully used technology to detect fraud.

— Average fraudster is male, aged between 36 and 55, holds a senior role and is trusted and liked by colleagues.

Technology is proving business' Achilles heel in the fight against fraud. New research by KPMG reveals that while a quarter of fraudsters use technology to rip off companies, only three percent of businesses detected illegal behaviour using data analytics.

In fact 24 percent of technology-enabled frauds were caught accidentally, demonstrating that companies are failing to harness new methods of fraud detection.

Vivien Hopkins, forensic director at KPMG in Leeds, said: "As technology becomes more advanced, so too do the schemes to use it maliciously. While it's clear that fraudsters are all too comfortable using technology to perpetrate a fraud, we are seeing little evidence that companies are doing the same in response to prevent it. A shockingly small number of companies have invested in threat-monitoring systems and data analytics, which can shift through data looking for suspicious items and help businesses uncover and question anomalous or suspicious behaviour."

"Social media is also an important weapon in the fight against fraud, and needs to be regularly monitored by companies to uncover suspicious behaviour. Fraudsters' urge to brag, show off assets and reveal their business connections can prove insightful as they unwittingly share too much online."

Effective data analytics can be used by businesses to understand patterns of behaviour and build the risk profile of employees by aggregating unusual conduct such as: incomplete expense submissions, authorisations consistently below thresholds, and high levels of changes to standing payment data.

KPMG has invested in technology that links data from across the firm to help flag potential risks. For example the technology allows the firm to identify hotels and travel booked via corporate accounts which may be inconsistent with its travel policy; it can also monitor key words in emails, texts and corporate social media systems to look for trends. This data can then be used to identify changing behaviour.

"In the fight against fraud, technology is a key enabler, but is just one of the core elements. It relies on experienced multi-disciplinary teams of accountants, investigators and technologists working with data scientists to create the algorithms that drive fraud analytics." said Vivien Hopkins.

KPMG's analysis found that companies are using traditional methods to detect fraud, and remain reliant on employees, or third parties like suppliers and customers to report suspicious behaviour. 44 percent of fraudsters were caught as a result of a tip or whistleblowing hotline, highlighting the importance of enabling individuals to feel safe to step forward without fear of retribution, and giving them the means to do so.

The research, which analysed 750 fraudsters worldwide, found that the average fraudster is male, aged 36 to 55, holds a senior role in the company and has worked there for at least six years.

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34 percent of those investigated held executive or non-executive director roles, and 32 percent were in management jobs. In fact 44 percent of the fraudsters investigated by KPMG were able to commit fraud because they had unlimited authority, and could easily circumvent or override company controls.

"Without anyone to keep their power in check, these executive fraudsters can commit high value fraud and remain undetected for a significant amount of time. They pose a double threat to their employer: not only can they use their authority to override controls, they can also order employees to perform tasks to assist or cover their misdeed, making it harder to detect," says Vivien Hopkins.

"Due to their seemingly limitless powers senior fraudsters also tend to be more damaging: 34 percent of their frauds cost companies $1 million or more, compared with 18 percent for fraudsters that had more limited authority."

The existence of weak controls within businesses remains a growing problem. KPMG's research revealed cash strapped companies are failing to invest in stronger anti-fraud controls, leaving them vulnerable to opportunistic white collar criminals. In 61 percent of cases weak internal controls in their business presented an opportunity for the fraud, compared with 54 percent in 2013.

Profile of a fraudster:

— Aged 36 to 55 (68 percent of fraudsters investigated).

— Male (79 percent) and holds a senior position. 34 percent are executives or non-executive directors; 32 percent are managers.

— Has been with the company for at least six years (38 percent).

— Have unlimited authority in their company and able to override controls (44 percent of fraudsters investigated).

— Personality traits: autocratic (18 percent) and possesses a sense of superiority that is far stronger than a sense of fear or anger.

— Is likely esteemed, with 38 percent of fraudsters being described as well-respected in their organisation.

— Personal financial gain and greed was the predominant overriding motivation for fraudsters (66 percent).

Other key findings:

— The most common 'white collar' fraud was the misappropriation of assets – embezzlement and procurement fraud, which was committed by 47 percent of fraudsters investigated by KPMG.

— Fraud is more frequently perpetrated in collusion with others than alone (62 percent against 38 percent respectively).

— Women were less likely to collude: only 45 percent of the females colluded with others compared to 66 percent of males.

— 44 percent of fraudsters were detected as a result of a tip or a complaint; a further 22 percent were detected as a result of a management review.

To view additional information about the study, please visit kpmg.com/fraudster. You can also follow the conversation @KPMG on Twitter.

Survey methodology

The survey is based on a questionnaire asking KPMG forensic professionals around the world for details about the fraudsters who were investigated between March 2013 and August 2015. The professionals filled in a detailed questionnaire on each fraudster, after investigating the case at the invitation of the company affected. The investigation frequently involved interviewing the fraudster, helping KPMG to form a detailed picture of the perpetrator and the fraud committed. This report is based on an analysis of 750 fraudsters in 81 countries, not fraud cases (some cases involved more than one fraudster). In 2013, the total was 596 and in 2010 it was 348.

Notes to editors

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