

Test Your Knowledge of Fraud



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According to the Kroll 2013/2014 Global Fraud Report, incidents of global fraud are on the rise.

With this in mind, try your luck at answering the following ten questions¹ on fraud. The answers appear beginning on Page 4.



1. What is the most common type of fraud?
 - a. Corruption and bribery
 - b. Theft of physical assets
 - c. Information theft
 - d. Management conflict of interest

2. Which type of fraud do companies believe they are most vulnerable to?
 - a. Corruption and bribery
 - b. Theft of physical assets
 - c. Information theft
 - d. Management conflict of interest

3. What percentage of revenues did companies lose last year due to fraud (estimated)?
 - a. 1.4%
 - b. 2.5%
 - c. 3.6%
 - d. 4.8%

¹ Quiz is based on Kroll's 2013/2014 Global Fraud Report



4. What is the primary reason(s) cited for the increase in frauds over the last twelve months?
 - a. Complexity of information technology infrastructure
 - b. High staff turnover
 - c. Entry to new, riskier markets
 - d. All of the above

5. What percentage of companies surveyed have suffered at least one fraud incident in the last year?
 - a. 50%
 - b. 60%
 - c. 70%
 - d. 80%

6. Who is the most common party that commits fraud in an organization?
 - a. Junior employee
 - b. Middle level management
 - c. Senior management
 - d. Outside consultants

7. Which type of fraud experienced the largest growth in 2013?
 - a. Vendor/supplier/procurement fraud
 - b. Management conflict of interest
 - c. Regulatory or compliance breach
 - d. Financial reporting fraud

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8. What percentage of companies surveyed stated that entering new, riskier markets has increased their exposure to fraud?
 - a. 20%
 - b. 30%
 - c. 40%
 - d. 50%

9. How is fraud most likely to be detected?
 - a. Internal audit
 - b. External audit
 - c. Tip
 - d. Management discovery

10. Which of the following is the most important factor that can prevent fraud from occurring in an organization?
 - a. Internal audit
 - b. External audit
 - c. Fraud training
 - d. Strong tone at the top

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Answers:

1. What is the most common type of fraud?

Answer: (b) Theft of physical assets.

According to the Kroll study, 28% of companies surveyed suffered from theft of physical assets. Mind the GAAP notes that incidences of information theft (22%) continue to rise, and we expect that it will soon become the number one category of fraud.

2. Which type of fraud do companies believe they are most vulnerable to?

Answer: (c) Information theft.

Around 21% of companies surveyed described themselves as highly vulnerable to information theft, compared to just 7% in 2012. Furthermore, the Kroll report states that the percentage of executives admitting that their firms are highly vulnerable to any type of fraud – corruption, money laundering, regulatory breach, misappropriation of company funds, intellectual property theft and market collusion – was higher than the actual percentage of companies that were hit by fraud in the past year. This suggests that there may be greater opportunities for fraudsters in the near future.

3. What percentage of revenues did companies lose last year due to fraud (estimated)?

Answer: (a) 1.4%.

Kroll reported that fraud incidents losses increased from 0.9% of revenues in 2012 to 1.4% of revenues in 2013. In addition, one in 10 businesses suffered a loss of more than 4% of revenue. Another leading fraud prevention organization – the Association of Certified Fraud Examiners (ACFE) – estimated that 5% of revenues are lost due to fraud each year in its 2012 Global Fraud study.

4. What is the primary reason(s) cited for the increase in frauds over the last twelve months?

Answer: (d) All of the above

Respondents to the Kroll survey cited complexity of information technology (IT) infrastructure, high staff turnover and entry to new/riskier markets as reasons for the increase in fraud.

Not surprisingly, complex IT infrastructure is the main reason cited for the increase in exposure to information theft.

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5. What percentage of companies surveyed have suffered at least one fraud incident in the last year?

Answer: (c) 70%.

The survey revealed that fraud is on the rise. Around 70% of companies reported suffering from at least one type of fraud in 2013, up 9% from 2012.

6. Who is the most common party that commits fraud in an organization?

Answer: (a) Junior employee.

Consistent with past Kroll surveys, fraud is typically carried out by the employees within the company. Approximately 42% of fraud incidents involved a junior employee, while 32% were perpetrated by senior management.

This finding is consistent with the ACFE study. In addition, the ACFE study also revealed a strong correlation between the fraudster's authority level and losses from the fraud. Average losses were approximately three times higher in frauds perpetrated by owners/executives (\$573,000) compared to managers (\$182,000). Manager fraud losses were in turn three times higher than losses due to fraud committed by employees (\$60,000)

7. Which type of fraud experienced the largest growth in 2013?

Answer: (a) Vendor/supplier/procurement fraud.

Companies that experienced vendor, supplier or procurement fraud increased from 12% in 2012 to 19% in 2013. As this seems to be a growing area of risk, more thorough due diligence on vendors and suppliers may be needed by many organizations. However, the Kroll study showed that only 42% of companies planned to invest in performing greater due diligence over partners or vendors over the next 12 months. This may partly be because of pressures to reduce costs. However, companies should be wary that short-changing this important area may end up actually resulting in higher costs due to fraud.

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8. What percentage of companies surveyed stated that entering new, riskier markets has increased their exposure to fraud?

Answer: (b) 30%.

The move towards globalization has increased the risk of fraud, with 30% of respondents reporting an increase in exposure to fraud due to entry into riskier markets. In addition, 28% of respondents reported higher fraud risk arising from greater levels of outsourcing and offshoring, while 20% reported a rise in fraud risk due to increased collaboration in the form of joint ventures and partnerships.

9. How is fraud most likely to be detected?

Answer: (d) Management discovery.

The Kroll survey shows that most frauds are discovered internally. Management discovery of the fraud was the most common reason (52% of the time), followed closely by internal audit (51%). External audit only helped in the discovery fraud 10% of the time. While management alertness and internal audit are critical to detect fraud, the survey revealed that these mechanisms are less effective when it came to detecting frauds perpetrated by senior employees. In these instances, 41% of the cases were detected through whistleblower tips.

The ACFE 2012 Global Fraud Study also found that tips are by far the most common method of fraud detection at 43%.

Results from both studies support the need for maintaining an effective whistle-blower program to help detect fraud.

10. Which of the following is the most important factor that can prevent fraud from happening in an organization?

Answer: (d) Strong tone at the top.

Both the Kroll and ACFE studies cite the importance of strong management commitment to compliance and ethics to protect an organization from fraud. The ACFE study cited that poor tone at the top was the primary factor in 18% of the cases that resulted in a loss of \$1 million or more.

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