

2013/2014 Global Fraud Report

Who's Got Something to Hide?

Kroll

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OBJECTIVE:

Fraud is on the rise again following a decrease in 2012. Every type of fraud covered in this year's survey saw an increase in incidence with vendor, supplier, or procurement fraud and management conflict of interest seeing the biggest growth. This year's report provides useful insights and helps in identifying emerging threats and opportunities for businesses.

METHODS USED:

In July and August of 2013, 901 senior executives were polled worldwide from a broad range of industries. The industries include financial and professional services, retail, media, construction, healthcare, etc. Responses came from Europe (25%), North America (24%), Asia-Pacific (23%), Latin America (14%), and the Middle East (14%). Respondents were senior with 53% at C-suite level. 49% of companies reported annual revenues of over \$500 million.

KEY FINDINGS:

- The incidence and costs of fraud rose in the past year
 - 70% of companies reported suffering from at least one type of fraud in the past year, up from 51% in 2012.
 - The average cost of crime is reported to be 1.4% of revenue, up from last year's 0.9%.
 - 81% believe their firm's exposure to fraud has increased overall in the past 12 months, up from the previous 63%.
 - Respondents attribute the increases to the complexity of information technology, high staff turnover, and new riskier markets.
- Information related fraud is common and evolving, but many are not prepared for when they go wrong
 - Information threat remains the second most common type of fraud affecting over one fifth of companies.
 - 75% of respondents describe their businesses as at least moderately vulnerable.
 - 39% of the attacks within the past year were the result of employee misconduct.
- Fraud remains an inside job, but so does its discovery
 - For the firms that had suffered fraud and the perpetrator was known, 32% was a senior or middle management, 42% involved a junior employee, and 23% where it was an agent or intermediary.
 - Most fraud is discovered internally through management discovery or internal audit. Only 10% of cases were discovered through external audit.

- Global business practices often increase fraud exposure
 - 30% of respondents report that entering new, riskier markets has increased their exposure to fraud in the past year.
 - Greater levels of outsourcing and offshoring raised fraud risk for 28% of those surveyed.
- Those with local knowledge see fraud risk everywhere
 - 13% of all respondents were dissuaded in the past year from operating in Africa, and 11% in Latin America, from their experience or perception of fraud.
 - Fraud is even keeping companies from making local investments in regions where the problem is thought to be relatively well controlled, particularly North America.

United States Overview:

- The United States has an incidence of fraud below the overall average with 66% of companies being hit by one fraud in the last year compared to 70% globally.
- Rate of loss is also slightly under the norm with 1.2% compared to 1.4% for the survey as a whole.
- Areas of frequent loss include management conflict of interest (21%), information theft (20%), theft of physical asset or stock (20%), and regulatory or compliance breach (17%).
- IT complexity was identified as the leading cause of increase in fraud risk, affecting 44% of the surveyed companies.
- Complacency appears to be the biggest challenge because US companies are less likely to plan further investments in anti-fraud strategies compared to other countries.

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