

Profiling the fraudster: Think like a thief to catch a thief

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The Theories of Fraud



What is Fraud?



Fraud is an *intentional deception* made for personal gain in order to *obtain unauthorized benefits* (money, property, etc.)

**FRAUD
ALERT**

The four elements of fraud:

- A **false** representation about a **material fact**,
- And made **intentionally**, **knowingly**, or **recklessly**,
- Which if **believed** and **acted** upon by the victim,
- Can cause the victim's **harm** or **unfair advantage** to the perpetrator.

Theories of Fraud – Is it mission impossible?



Psychologists and sociologists always use analogy of the following three fraud theories for the factor of the occurrence of frauds.



Tip of the Iceberg
When first discovered, very few frauds yield their true extent, along with the actual amount of the loss



Potato Chip Theory
Committing fraud and getting away with it becomes very addictive



Rotten apple Theory
Unchecked fraud in the org. can infect the group until it becomes the expected way of doing business

Theories of Fraud – Is it possible?

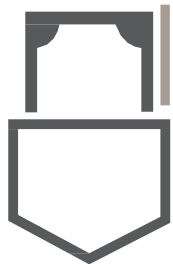


- Is it possible to unfreeze the hidden bottom of the iceberg? Is it mission impossible to prohibit human to go to nature of the iceberg as dangerous area?
- Is it possible to avoid someone eating more potato chips and became addicted? Or Is it mission impossible to eliminate the fraudster's habit?
- Is it possible to remove rotten apple inside the nice basket/box at a large warehouse? Or is it mission impossible to avoid a good apple from become a rotten apple?

The Key Drivers of Fraud



Opportunity – *Ability to execute plan without being caught.*



Incentive – *The financial or emotional reward pushing one to fraud.*

Fraud
Triangle

Fraud
Diamond

Rationalisation – *Personal justification or wrong action.*



Capacity – *Ability to perpetrate.*
(*iceberg theory of dishonesty)



Iceberg theory of dishonesty



- The capability of a person to commit fraud has direct links to the honesty of that person, the iceberg theory of dishonesty, whereby the mindset of a fraudster can be seen as either covert or overt.

✓ *Overt/Visual aspects* of an individual's characteristics would include such considerations as his position in the organization and the structure of that hierarchy and how that structure is managed, the skill and technical capabilities of the person and those who surround him, the financial resources.

✓ *Covert considerations* do, however, present more challenges with respect to their examination and the understanding due to the nature of human behavior and the way it can be camouflaged and hidden when necessary or required.

Iceberg theory of dishonesty



- So how is the examination of overt and covert aspects of human behavior?

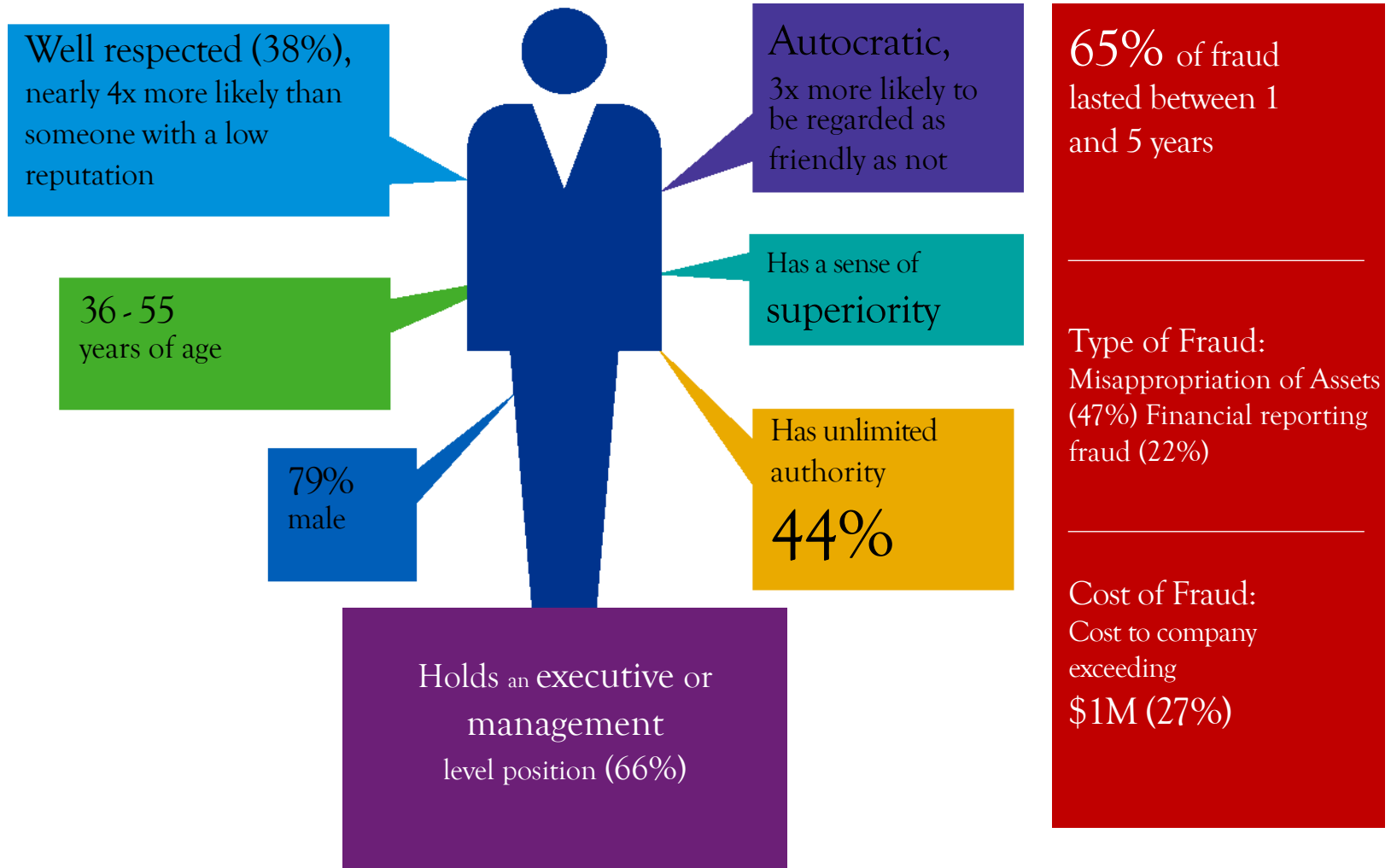


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Fraud Offender Profile



The typical Fraudster



Fundamental Characteristics of a Fraudster



- Between the ages of 36 and 55.
- Predominantly male with the proportion of women on the rise.
- A threat from within that holds an executive or director level position.
- Employed in the organization for at least six years.
- Described as autocratic and most likely to be regarded as friendly as not esteemed, describing themselves as well-respected in their organization.
- Likely to have colluded with others.
- Motivated by personal gain, greed and the sense of 'because I can'.

Fundamental characteristics of a fraudster



WHERE DID PERPETRATORS WORK WITHIN THEIR ORGANIZATIONS?

These were the five most common departments:



Executive/upper management
20% OF CASES



Board of directors
15% OF CASES



Sales
9% OF CASES



Accounting
7% OF CASES



Human resources
7% OF CASES

Owners/executives accounted for a small percentage of cases



but caused a median loss of
\$850,000



LOSSES CAUSED BY MEN WERE 75% LARGER
than losses caused by women



1
\$74,000



2
\$150,000



3+
\$339,000

MEDIAN LOSSES ARE FAR GREATER
when fraudsters collude

ONLY 4%
OF PERPETRATORS
HAD A PRIOR
FRAUD CONVICTION



85%
OF FRAUDSTERS

DISPLAYED AT LEAST
ONE BEHAVIORAL
**RED FLAG
OF FRAUD**

A MAJORITY OF THE VICTIMS **RECOVERED NOTHING**

**FRAUDSTERS WHO HAD BEEN
WITH THEIR COMPANY LONGER
STOLE TWICE AS MUCH**



MORE THAN 5 YEARS' TENURE

\$200,000
MEDIAN LOSS

LESS THAN 5 YEARS' TENURE

\$100,000
MEDIAN LOSS

Fundamental characteristics of a fraudster



AUTHORITY

The higher the level of authority the fraudster has, the larger the fraud losses tend to be.



TIME WITH COMPANY

The longer a fraudster works for a company, the higher the fraud losses tend to be.



EDUCATION

The higher the level of education the fraudster has, the larger the fraud losses tend to be.



DURATION OF FRAUD IN MONTHS BASED ON POSITION

Frauds committed by people in higher positions last longer than those in lower positions.



Gender of the fraudster



Primary Function
Finance

Level of Seniority
Staff member

Alone or in Collaboration
Alone

Has debt
20%



Primary Function
Varied

Level of Seniority
Executive

Alone or in Collaboration
Collaboration

Has debt
8%

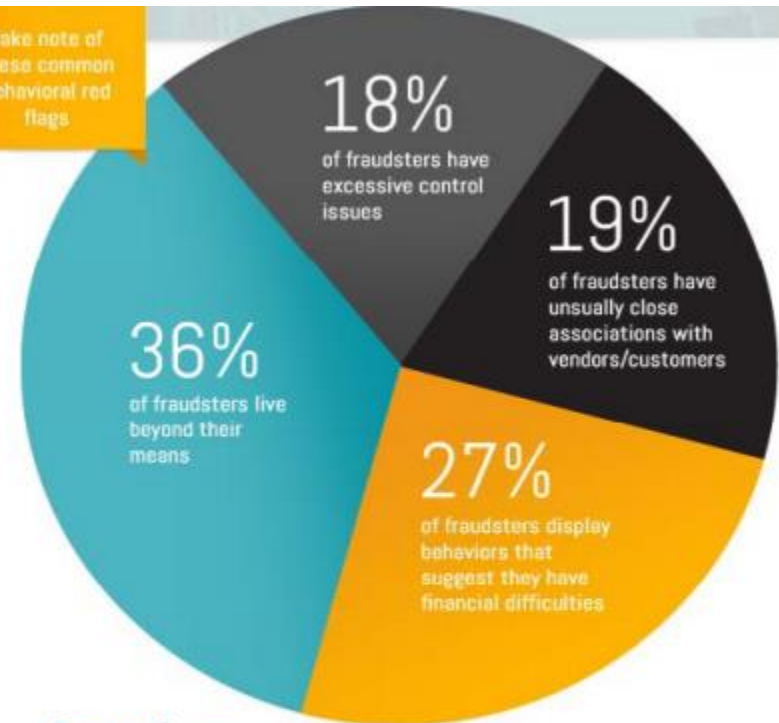
Behavioral red flags of a fraudster



Catch a Fraudster

In 81% of cases, the fraudster displayed one or more behavioral red flags that are often associated with fraud.

Take note of these common behavioral red flags



One or more behavioral flags displayed in
81%
of cases



87% First timers

35% Cases never reported to police

49% No recovery

Behavioral red flags of a fraudster

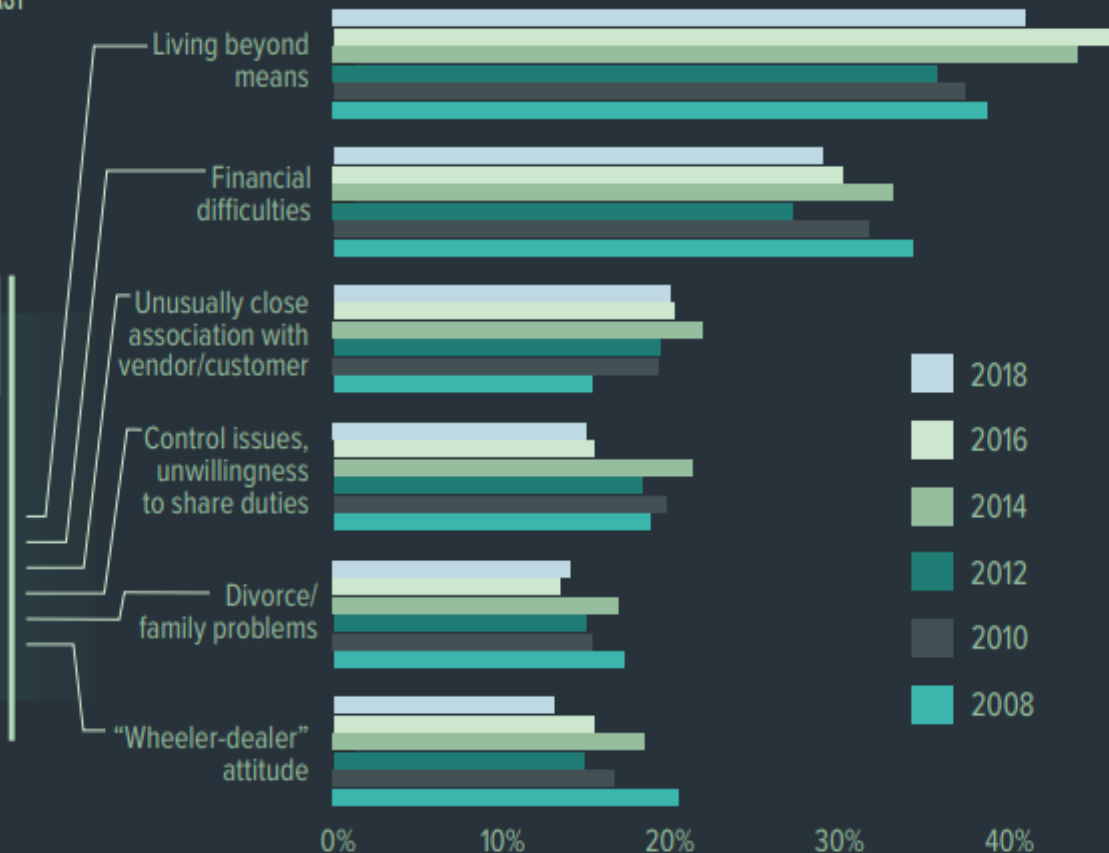


IN
85%
OF CASES FRAUDSTERS DISPLAYED AT LEAST
ONE BEHAVIORAL RED FLAG

AND IN
50%
OF CASES THEY EXHIBITED
MULTIPLE RED FLAGS

These **6 BEHAVIORAL RED FLAGS**

have been the most common in every one of our studies dating back to 2008, with a remarkably consistent distribution



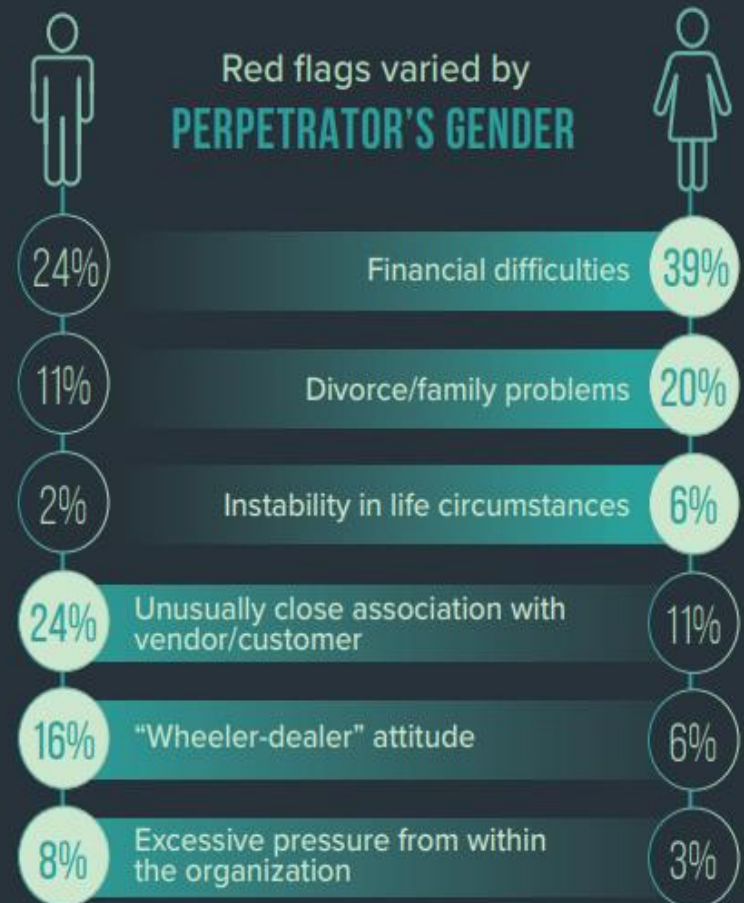
Behavioral red flags of a fraudster



Red flags varied by PERPETRATOR'S POSITION



Red flags varied by PERPETRATOR'S GENDER



Red flags within the office system



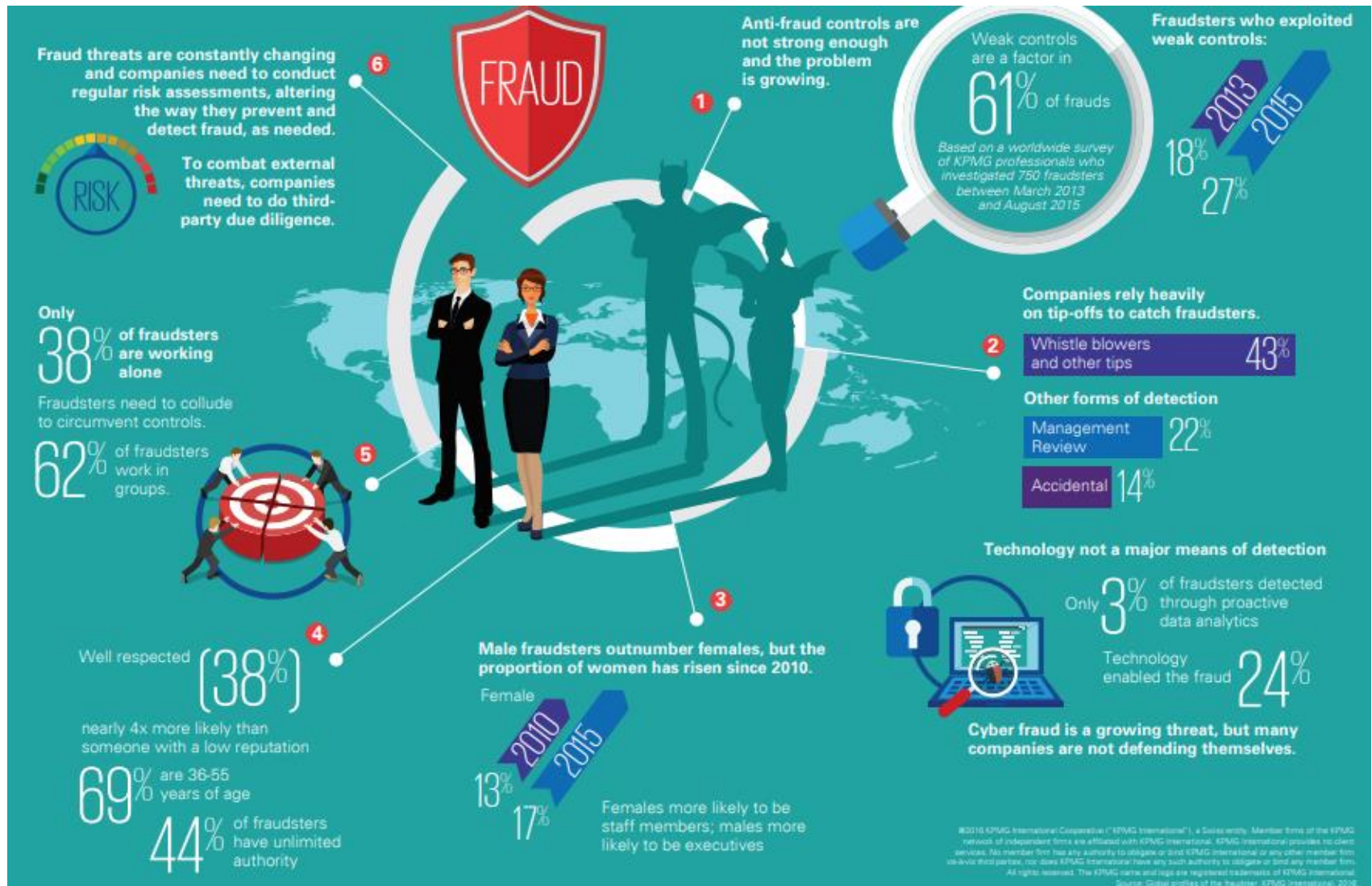
1. How do red flags help us catch fraudsters?
2. Is it management's role to manage fraud risks in an organization?
3. What are the red flags in the following?
 - Cash/Accounts receivables
 - Payroll
 - Purchasing and inventory
 - IT systems

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Enablers of
Fraud



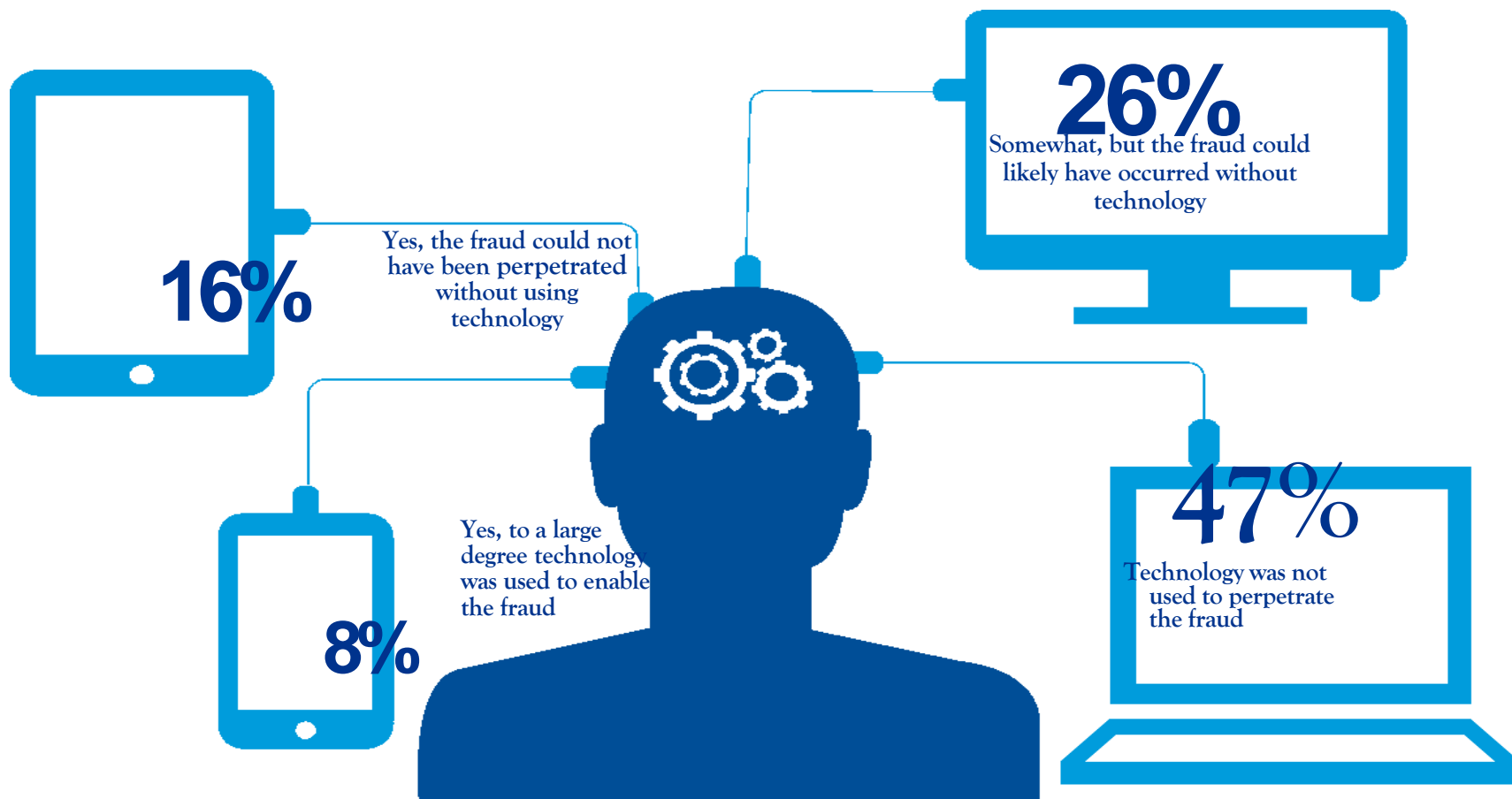
Technology enables and weak controls fuel the fraud



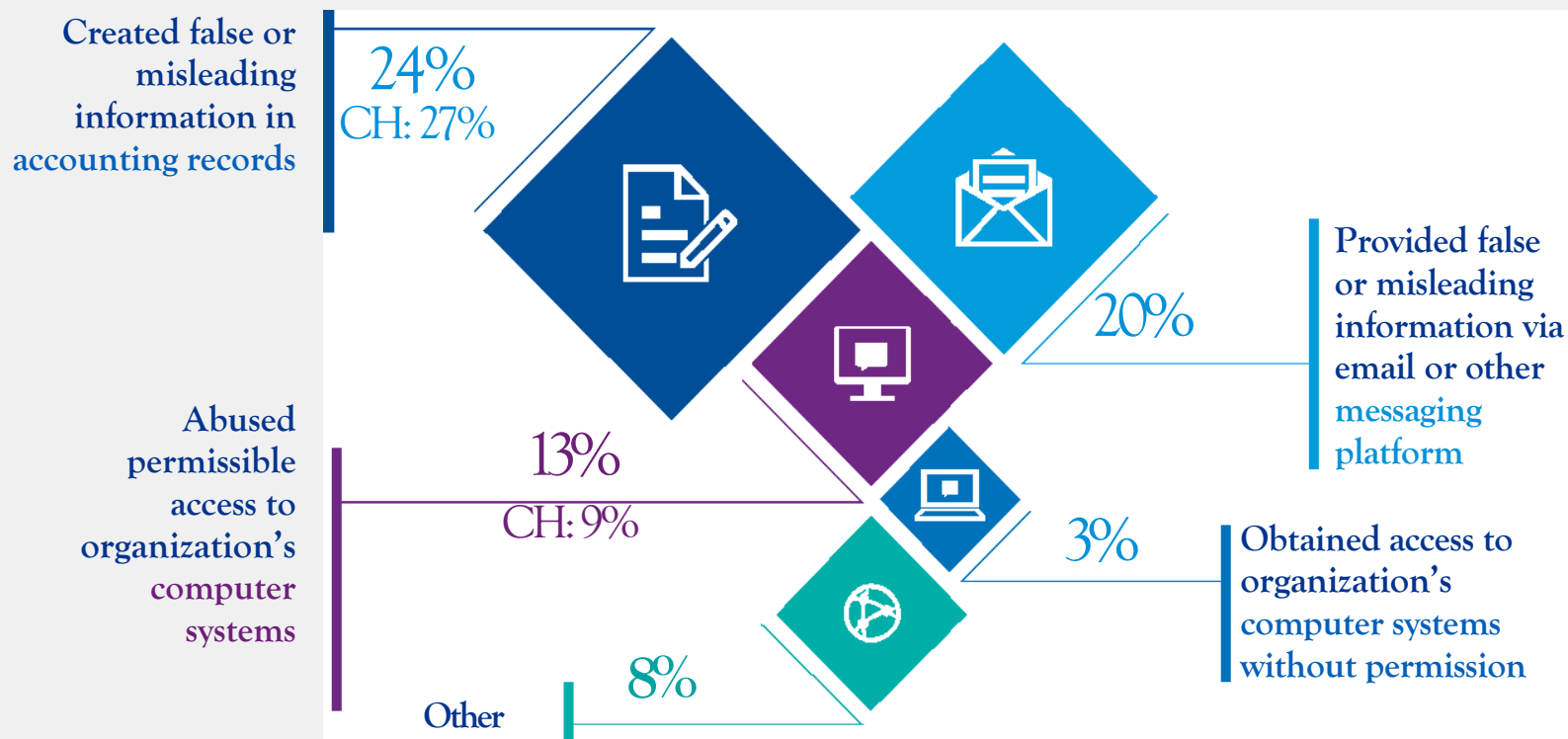
Enablers - Technology



Was technology used as an enabler to perpetrate the fraud?



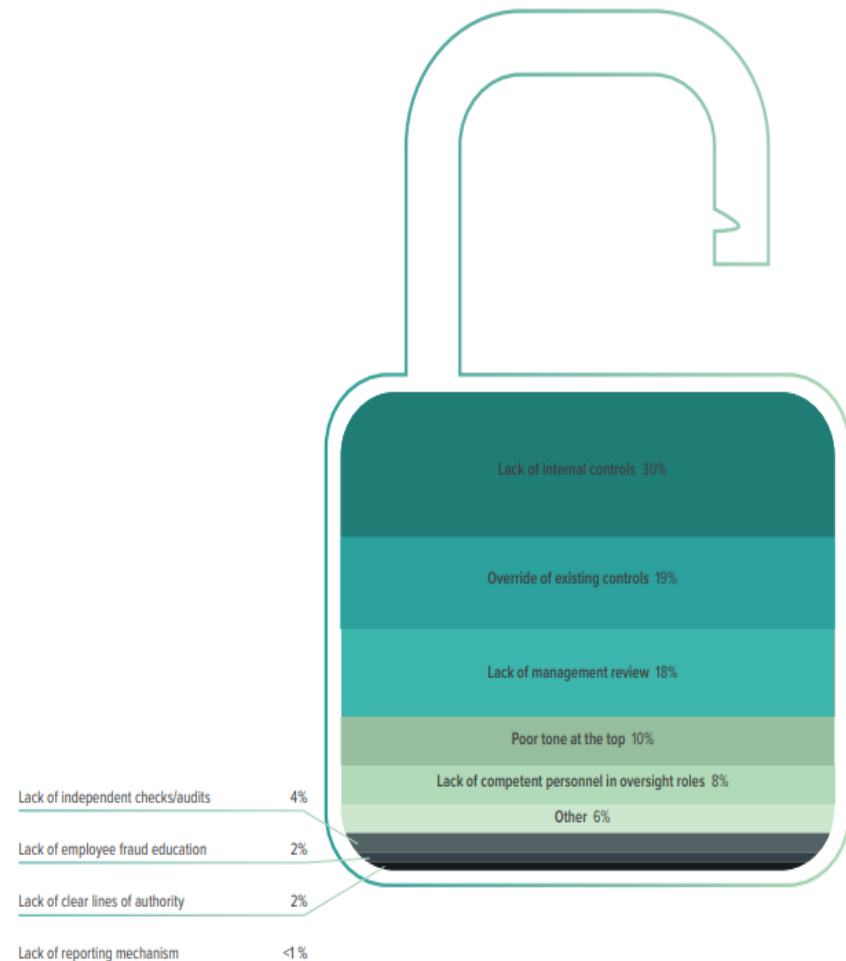
Enablers - Technology



Enablers – Weak Controls



In accordance to the ACFE 2018 Report to the Nations, the primary internal control weakness that contributed to the fraud they reported were noted to be *a simple lack of controls* was the main factor that enabled the fraud to occur and because the perpetrator *was able to override the controls* that had been put in place.



Enablers - Consequences to Fraudster



65% OF CASES WERE REFERRED FOR CRIMINAL PROSECUTION



31%
PLEADED GUILTY OR NO CONTEST
31%
WERE CONVICTED AT TRIAL
18%
WERE NOT PROSECUTED
4%
RESULTED IN ACQUITTAL

17 CASES (28%) RESULTED IN A CIVIL SUIT AGAINST THE FRAUDSTER



53%
JUDGMENT
FOR VICTIM



18%
SETTLED



18%
JUDGMENT FOR
PERPETRATOR

After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data shows that almost half of victims were unable to recover any of their losses.

48%
RECOVERED
NOTHING



12%
RECOVERED
ALL LOSSES

39%
MADE A
PARTIAL RECOVERY

Enablers - Consequences to Fraudster



- Disciplinary action.
- Enforcement action, including regulatory, legal and police involvement.
- Civil recovery.
- Resignation or voluntary retirement.
- No action or sanction.
- Out of court settlement.

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Anti – Fraud Controls



Anti- Fraud Measures



Perform risk assessments

- Fraud Risk Management
- Regulatory positioning services



Fight back with technology

Forensic technology
Cyber security
Data Analytics



Know your business partners & third parties

- 3rd Party Risk Management
- Corporate intelligence



Be vigilant with internal threats

- Investigations —
Forensic D&A
- Whistleblowing programs/outourcing

Would you identify the fraudster
here?



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Questions?

