

PROFILING THE FRAUDSTER

**REMOVING THE MASK TO PREVENT AND
DETECT FRAUD**

WILEY CORPORATE F&A

BY SIMON PADGETT

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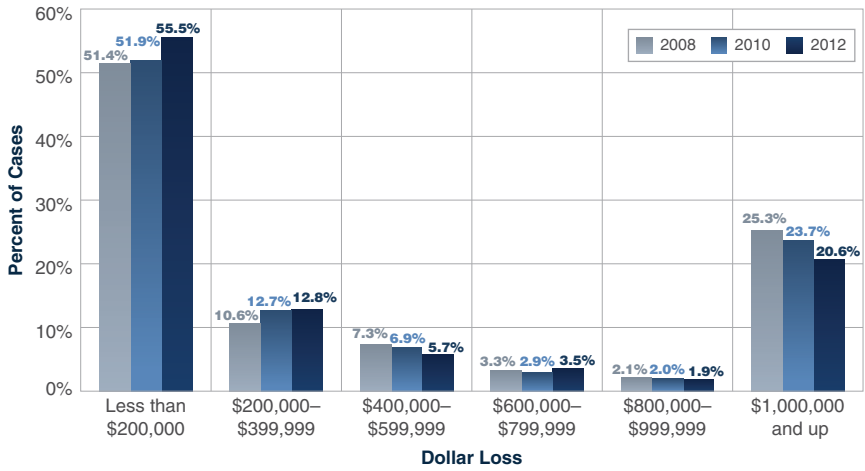
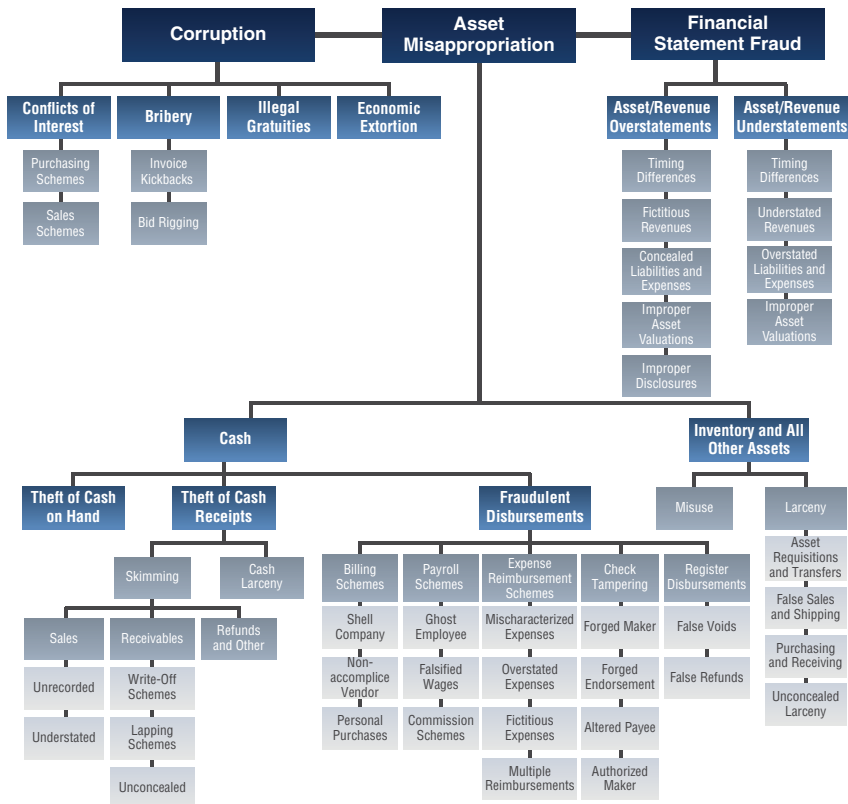


FIGURE 1.1 Distribution of Dollar Losses. *Source: ACFE, Report to the Nations, 2012.*



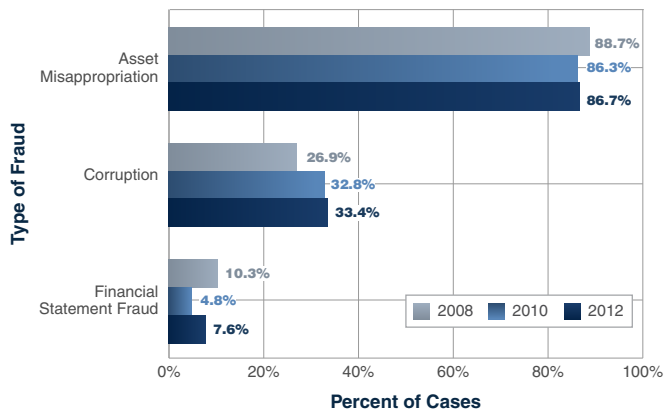


FIGURE 1.3 Occupational Frauds by Category—Frequency. *Source: ACFE, Report to the Nations, 2012.*

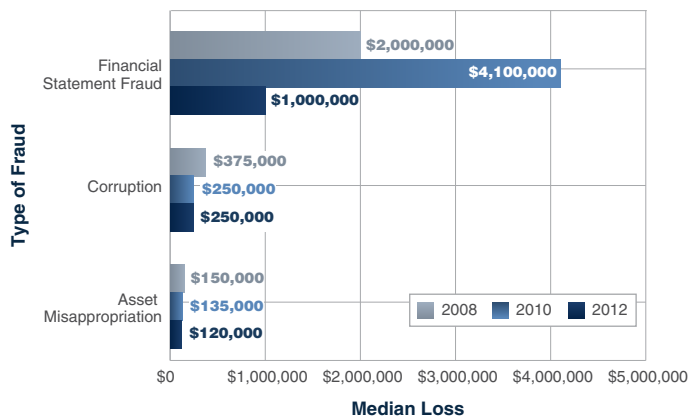


FIGURE 1.4 Occupational Fraud by Category—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

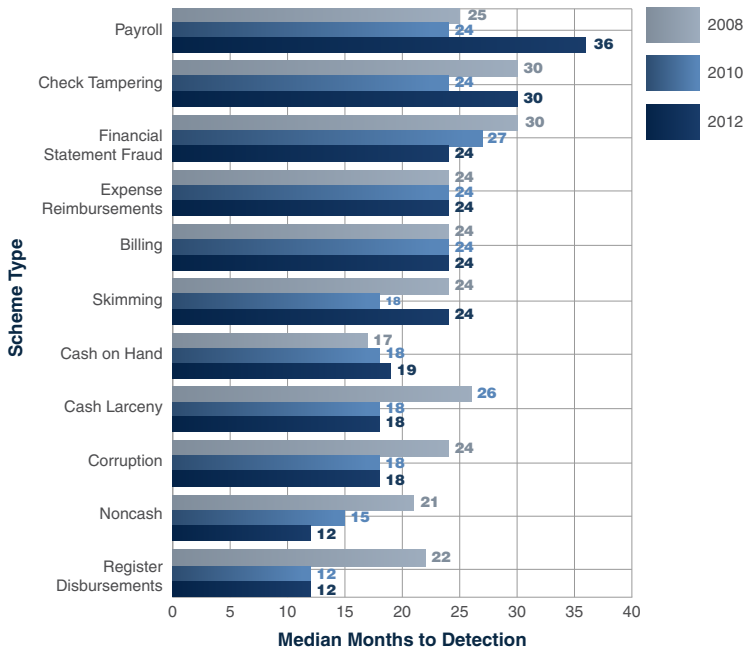
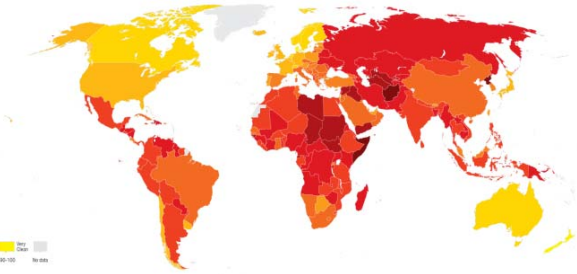


FIGURE 3.1 Duration of Fraud Based on Scheme Type. *Source: ACFE, Report to the Nations, 2012.*

TRANSPARENCY INTERNATIONAL
for global leaders against corruption

CORRUPTION PERCEPTIONS INDEX 2013

The perceived levels of public sector corruption in 177 countries/territories around the world.



RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE	RANK	COUNTRY/TERRITORY	SCORE
1	Denmark	93	101	Israel	72	102	Guatemala	36	103	Kazakhstan	26	104	Guatemala	35	105	Guatemala	34
2	New Zealand	91	103	Cape Verde	70	104	Costa Rica	35	105	Uganda	28	106	Guatemala	33	107	Guatemala	32
3	France	89	105	Dominica	68	106	Costa Rica	34	107	Uganda	27	108	Guatemala	31	109	Guatemala	30
4	Sweden	88	107	Chad	67	108	Costa Rica	33	109	Uganda	26	110	Guatemala	29	111	Guatemala	28
5	Norway	86	109	Chad	66	110	Costa Rica	32	111	Uganda	25	112	Guatemala	28	113	Guatemala	27
6	Singapore	85	111	Chad	65	112	Costa Rica	31	113	Uganda	24	114	Guatemala	27	115	Guatemala	26
7	Switzerland	84	113	Chad	64	114	Costa Rica	30	115	Uganda	23	116	Guatemala	26	117	Guatemala	25
8	Australia	81	115	Chad	63	116	Costa Rica	29	117	Uganda	22	118	Guatemala	25	119	Guatemala	24
9	Canada	81	117	Chad	62	118	Costa Rica	28	119	Uganda	21	120	Guatemala	24	121	Guatemala	23
10	Germany	80	119	Chad	61	120	Costa Rica	27	121	Uganda	20	122	Guatemala	23	123	Guatemala	22
11	United Kingdom	79	121	Chad	60	122	Costa Rica	26	123	Uganda	19	124	Guatemala	22	125	Guatemala	21
12	Belgium	78	123	Chad	59	124	Costa Rica	25	125	Uganda	18	126	Guatemala	21	127	Guatemala	20
13	Hong Kong	76	125	Chad	58	126	Costa Rica	24	127	Uganda	17	128	Guatemala	20	129	Guatemala	19
14	Japan	74	127	Chad	57	128	Costa Rica	23	129	Uganda	16	130	Guatemala	19	131	Guatemala	18
15	United States	73	129	Chad	56	130	Costa Rica	22	131	Uganda	15	132	Guatemala	18	133	Guatemala	17
16	Uruguay	73	131	Chad	55	132	Costa Rica	21	133	Uganda	14	134	Guatemala	17	135	Guatemala	16
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20	...	...	139	Chad	51	140	Costa Rica	17	141	Uganda	10	142	Guatemala	13	143	Guatemala	12
21	...	...	141	Chad	50	142	Costa Rica	16	143	Uganda	9	144	Guatemala	12	145	Guatemala	11
22	...	...	143	Chad	49	144	Costa Rica	15	145	Uganda	8	146	Guatemala	11	147	Guatemala	10
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79	...	...	257	Chad	0	258	Costa Rica	0	259	Uganda	0	260	Guatemala	0	261	Guatemala	0
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85	...	...	269	Chad	0	270	Costa Rica	0	271	Uganda	0	272	Guatemala	0	273	Guatemala	0
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94	...																

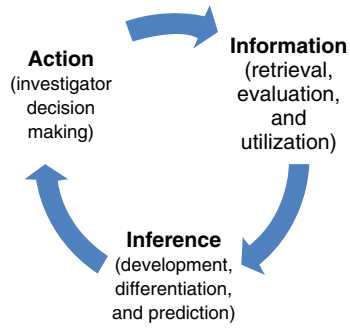


FIGURE 5.1 Investigative Psychology Cycle. *Source:* Simon Padgett, fraud and corruption training.

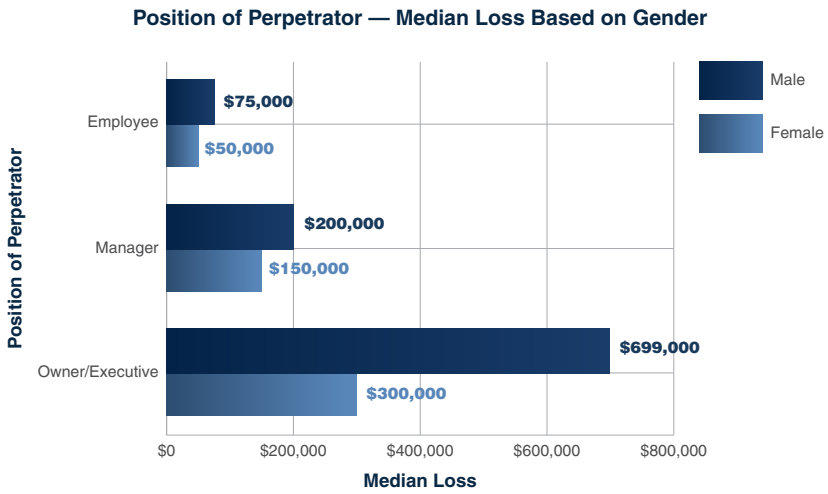


FIGURE 6.1 Position of Fraud Perpetrator. *Source: ACFE, Report to the Nations, 2012.*

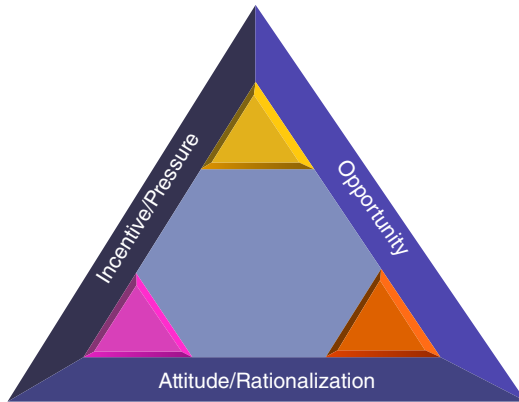


FIGURE 6.2 Cressey's Fraud Triangle. Source: D. Cressey, *Other People's Money*, 1953.

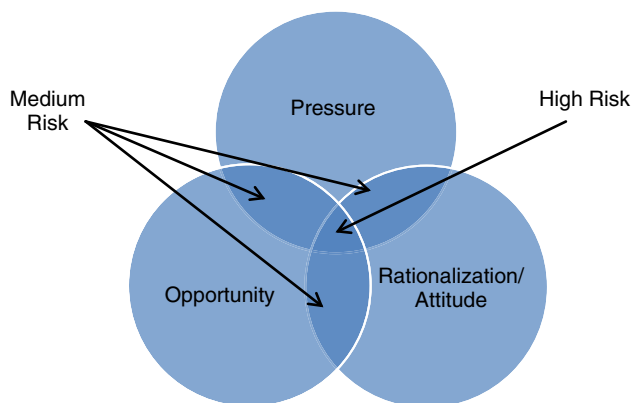


FIGURE 6.3 Fraud Risk Model. Source: Simon Padgett, fraud and corruption training.

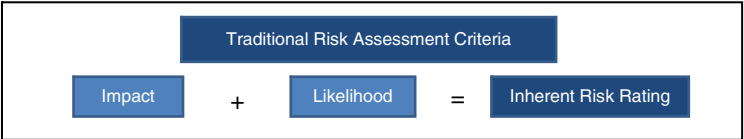


FIGURE 6.4 The Fraud Risk Assessment. *Source:* Simon Padgett, fraud and corruption training.

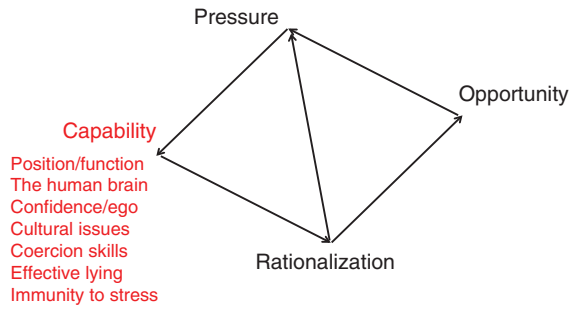


FIGURE 6.5 The Fraud Diamond. Source: D. Wolfe and D. Hermanson, "The Fraud Diamond: Considering the Four Elements of Fraud," *CPA Journal*, 2004.

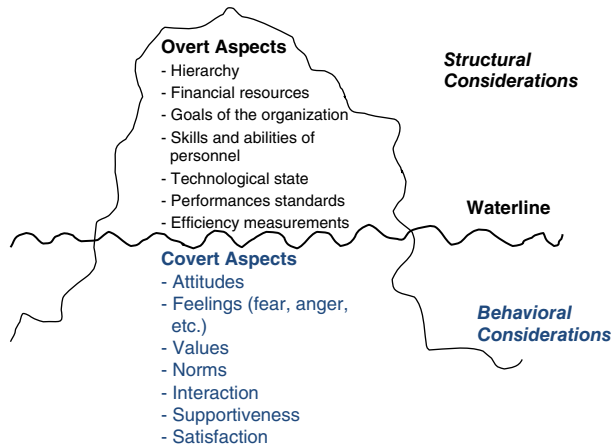


FIGURE 6.6 The Iceberg Theory of Dishonesty. Source: Simon Padgett, fraud and corruption training.

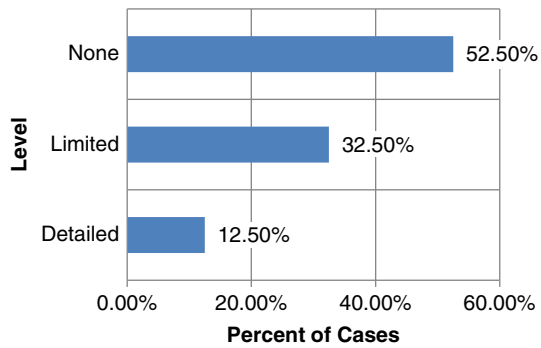


FIGURE 8.1 Internal Communication on Fraud. *Source:* KPMG, "Analysis of Global Patterns of Fraud," 2011.

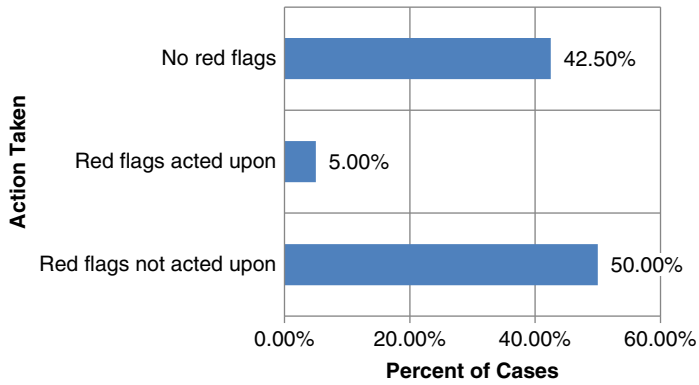


FIGURE 9.1 Actions Taken on Identified Red Flags. *Source:* KPMG, "Analysis of Global Patterns of Fraud," 2011.

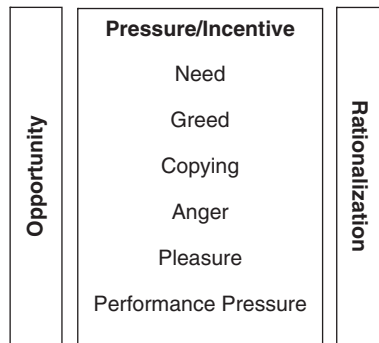


FIGURE 10.1 The Motivation Model. *Source:* Simon Padgett, fraud and corruption training.

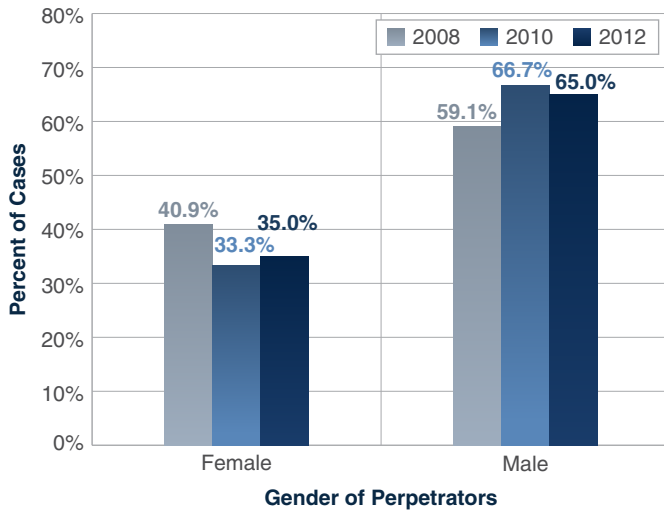


FIGURE 11.1 Gender of Perpetrator—Frequency. *Source: ACFE, Report to the Nations, 2012.*

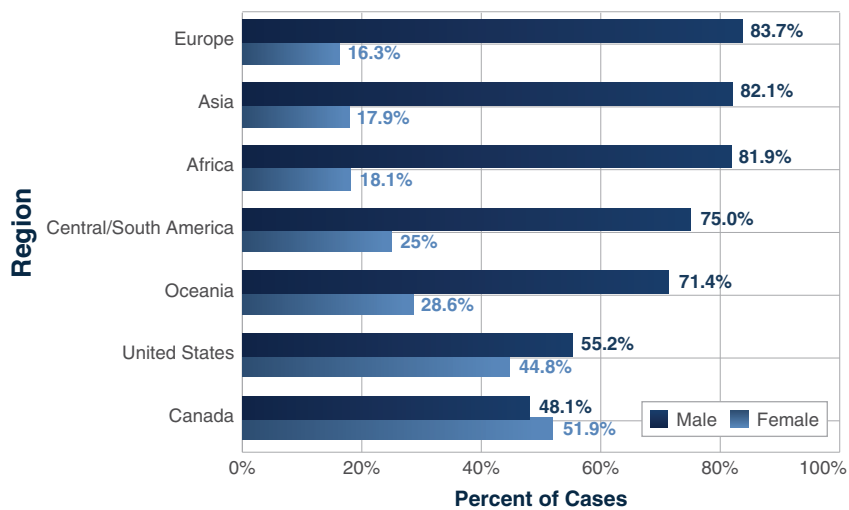


FIGURE 11.2 Gender of Perpetrator—Regions. *Source: ACFE, Report to the Nations, 2012.*

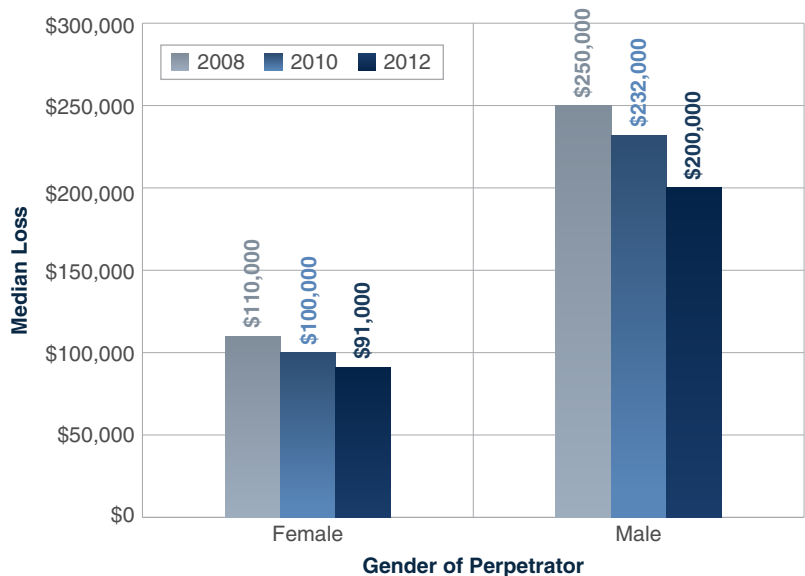


FIGURE 11.3 Gender of Perpetrator—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

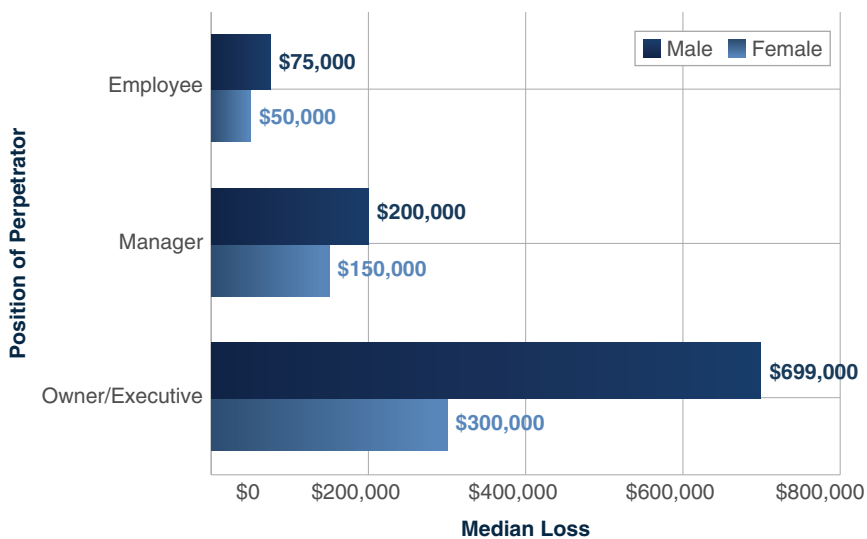


FIGURE 11.4 Position of Perpetrator—Median Loss Based on Gender. *Source: ACFE, Report to the Nations, 2012.*

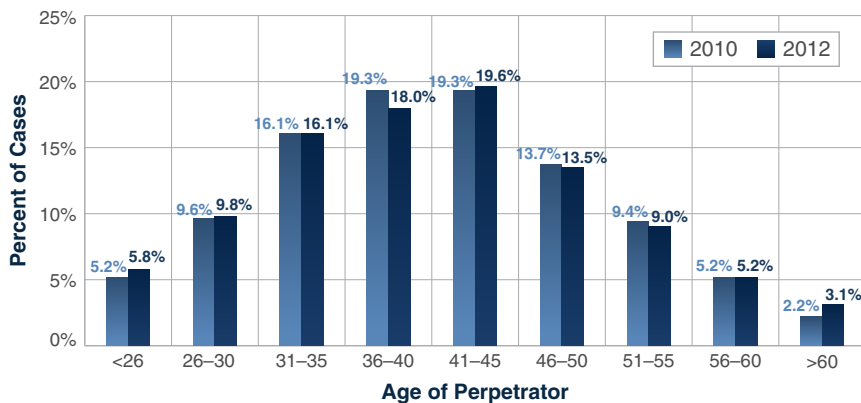


FIGURE 11.5 Age of Perpetrator—Frequency. *Source: ACFE, Report to the Nations, 2012.*

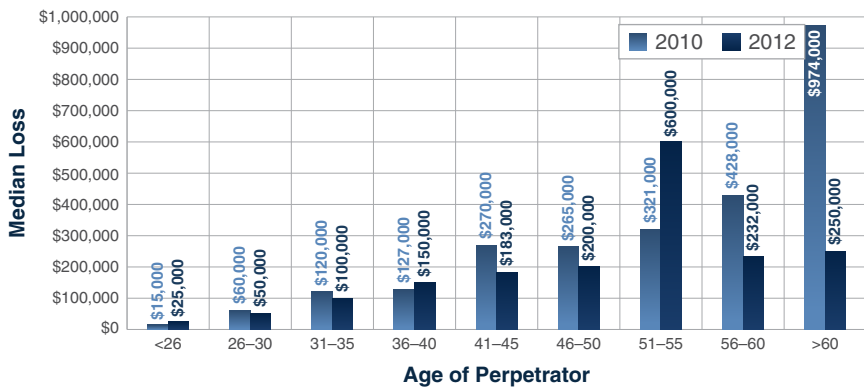


FIGURE 11.6 Age of Perpetrator—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

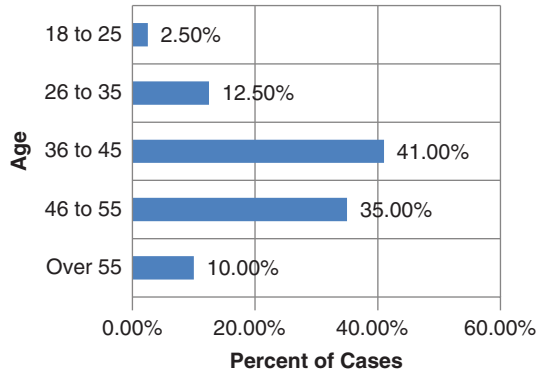


FIGURE 11.7 Age of Fraudster. Source: KPMG, "Analysis of Global Patterns of Fraud," 2011.

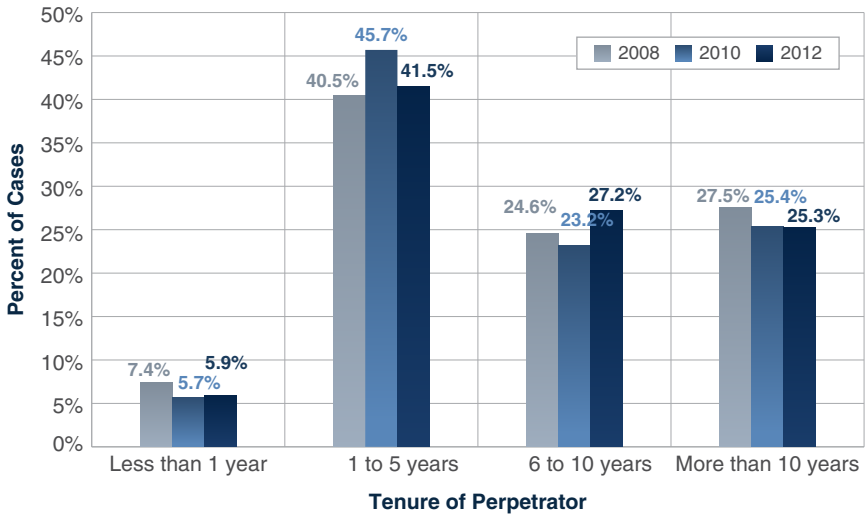


FIGURE 11.8 Tenure of Perpetrator—Frequency. *Source: ACFE, Report to the Nations, 2012.*

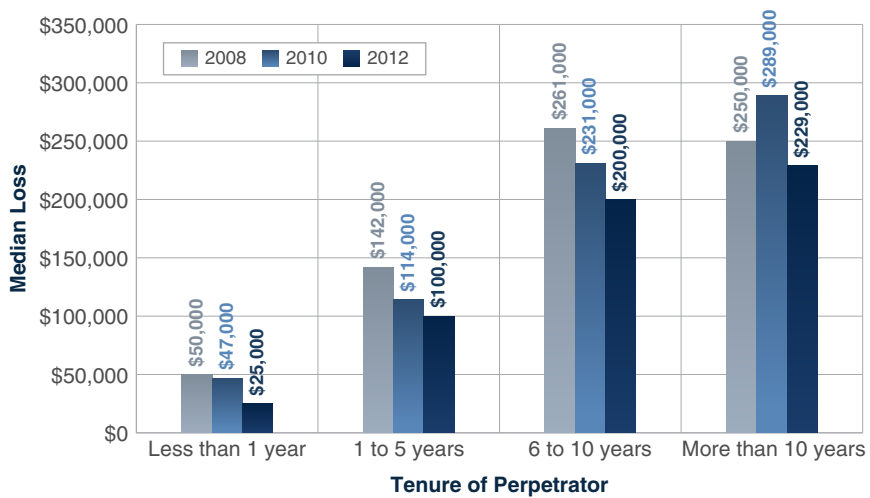


FIGURE 11.9 Tenure of Perpetrator—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

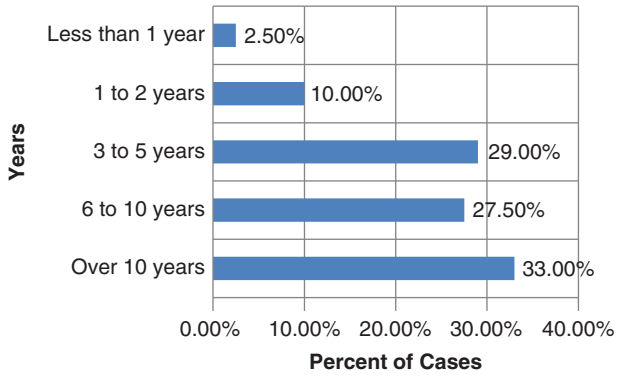
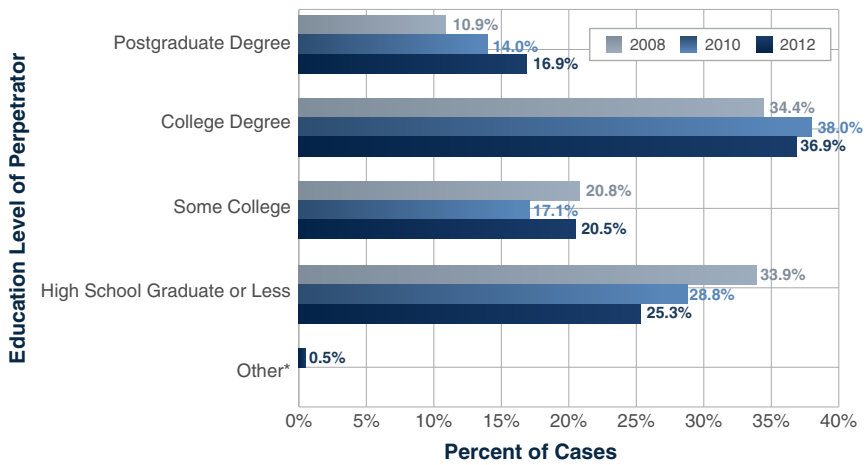
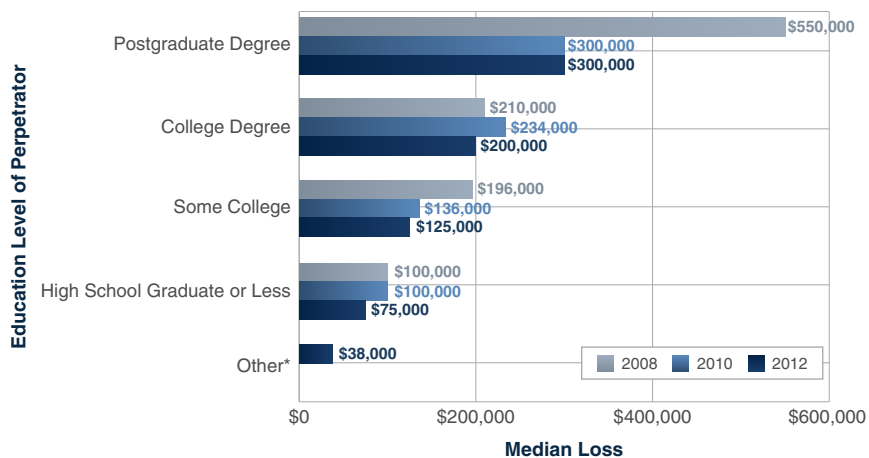


FIGURE 11.10 Length of Tenure. Source: KPMG, “Analysis of Global Patterns of Fraud,” 2011.



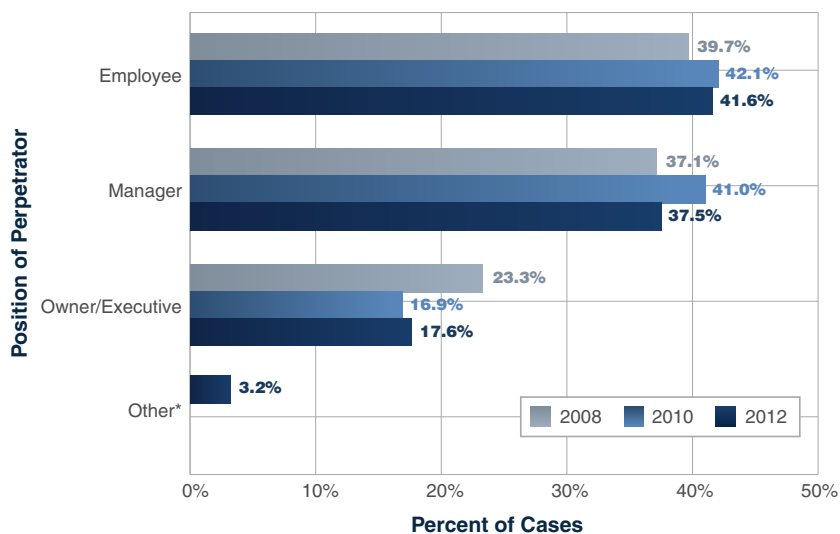
**Other" category was not included in the prior years' reports.

FIGURE 11.11 Education of Perpetrator—Frequency. *Source: ACFE, Report to the Nations, 2012.*



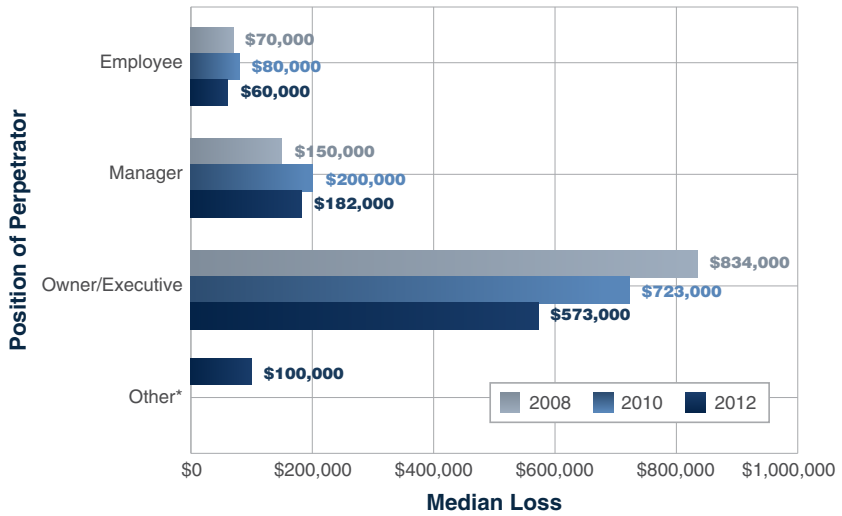
*"Other" category was not included in the prior years' reports.

FIGURE 11.12 Education of Perpetrator—Median Loss. *Source: ACFE, Report to the Nations, 2012.*



**Other* category was not included in the prior years' reports.

FIGURE 12.1 Position of Perpetrator—Frequency. Source: ACFE, *Report to the Nations*, 2012.



**"Other" category was not included in the prior years' reports.

FIGURE 12.2 Position of Perpetrator—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

Position	Median Months to Detect
Employee	12
Manager	24
Owner/Executive	24
Other	10

FIGURE 12.3 Duration of Fraud Based on Position. *Source: ACFE, Report to the Nations, 2012.*

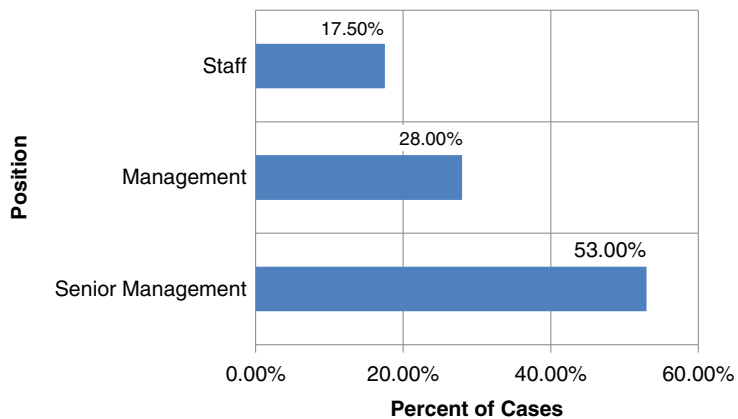
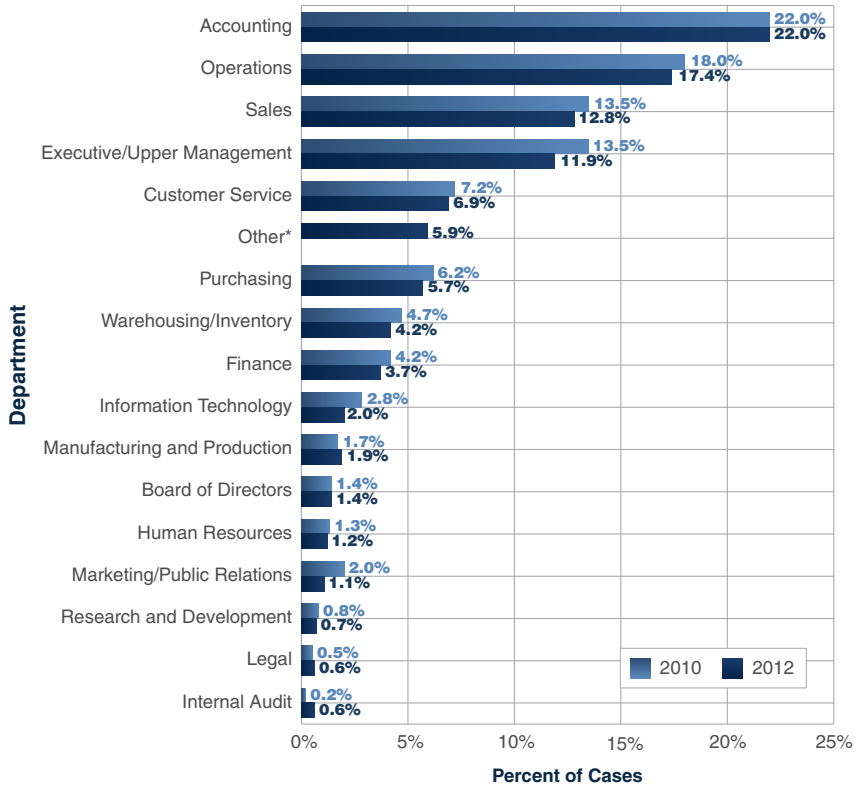


FIGURE 12.4 Position within the Organization. *Source:* KPMG, "Analysis of Global Patterns of Fraud," 2011.



*"Other" category was not included in the 2010 report.

FIGURE 12.5 Department of Perpetrator—Frequency. *Source: ACFE, Report to the Nations, 2012.*

Department	Number of Cases	Percentage	Median Loss
Executive/Upper Management	159	11.9%	\$500,000
Finance	49	3.7%	\$250,000
Board of Directors	19	1.4%	\$220,000
Purchasing	76	5.7%	\$200,000
Accounting	293	22.0%	\$183,000
Legal	8	0.6%	\$180,000
Marketing/Public Relations	14	1.1%	\$165,000
Manufacturing and Production	25	1.9%	\$160,000
Human Resources	16	1.2%	\$121,000
Research and Development	9	0.7%	\$100,000
Information Technology	27	2.0%	\$100,000
Other	79	5.9%	\$100,000
Operations	232	17.4%	\$100,000
Sales	170	12.8%	\$90,000
Warehousing/Inventory	56	4.2%	\$67,000
Internal Audit	8	0.6%	\$32,000
Customer Service	92	6.9%	\$30,000

FIGURE 12.6 Department of Perpetrator—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

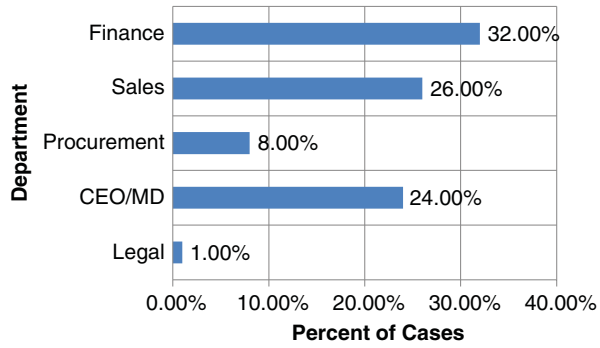


FIGURE 12.7 Department within the Organization. Source: KPMG, "Analysis of Global Patterns of Fraud," 2011.

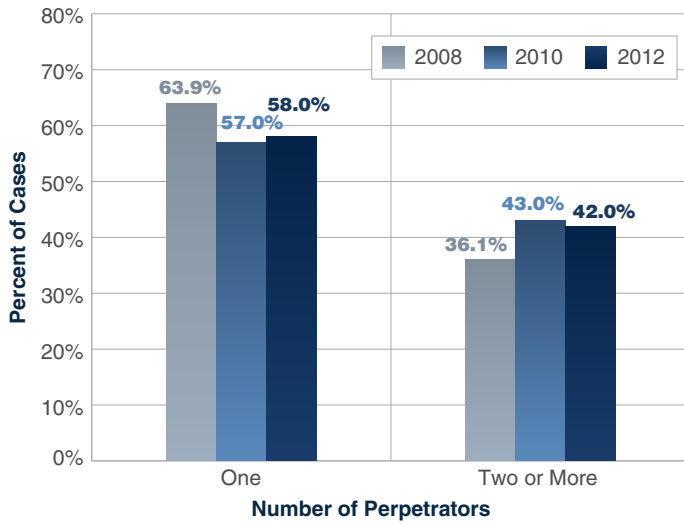


FIGURE 13.1 Number of Perpetrators—Frequency. Source: ACFE, *Report to the Nations*, 2012.

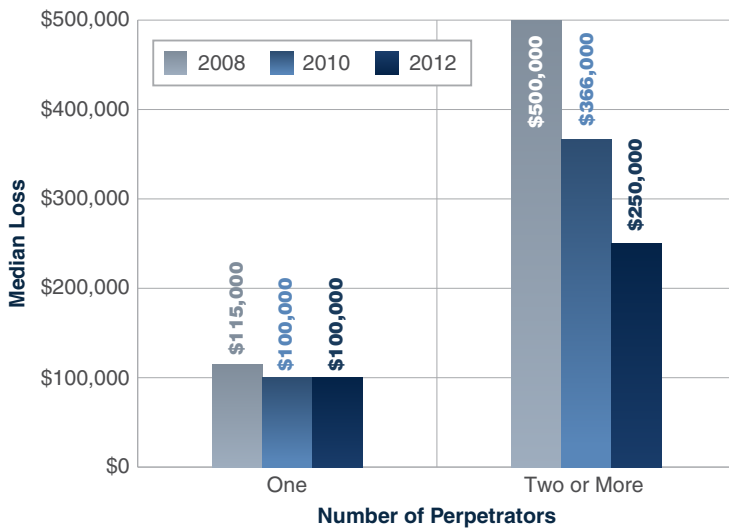


FIGURE 13.2 Number of Perpetrators—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

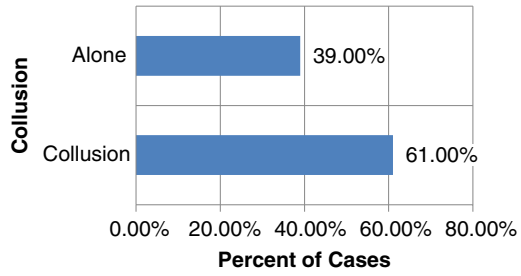


FIGURE 13.3 Fraud with Collusion. *Source:* KPMG, "Analysis of Global Patterns of Fraud," 2011.

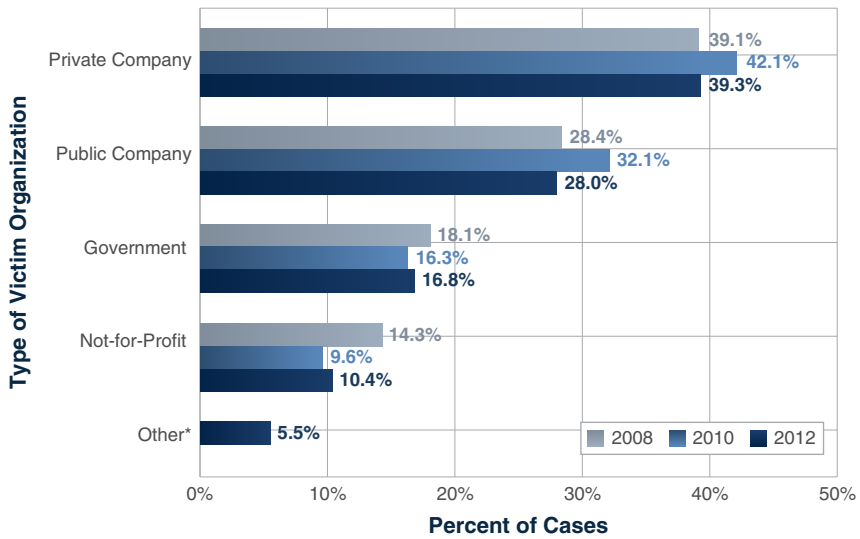
Region*	Number of Cases	Percent of Cases	Median Loss (in US Dollars)
United States	778	57.2%	\$120,000
Asia	204	15.0%	\$195,000
Europe	134	9.9%	\$250,000
Africa	112	8.2%	\$134,000
Canada	58	4.3%	\$87,000
Latin America and the Caribbean	38	2.8%	\$325,000
Oceania	35	2.6%	\$300,000

*See Appendix for a list of countries included in each multicountry region.

FIGURE 14.1 Geographic Location of Victim Organizations. *Source: ACFE, Report to the Nations, 2012.*

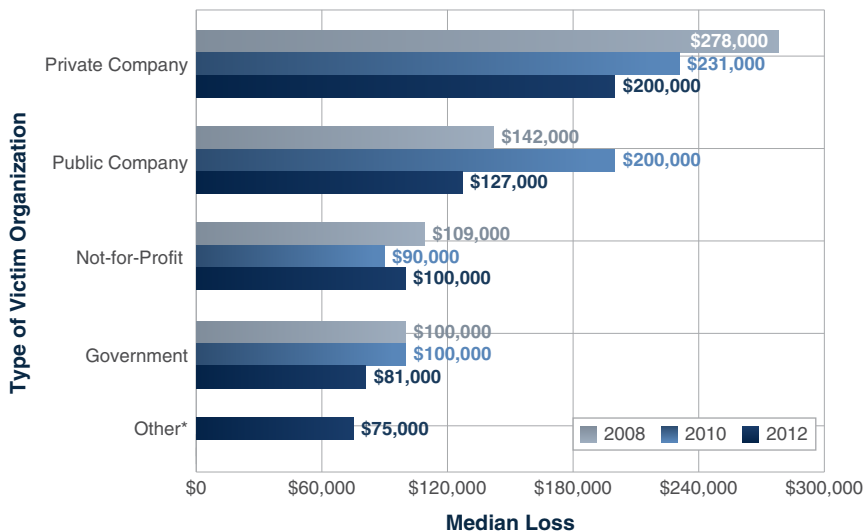
Region	Number of Corruption Cases	Percent of All Cases in Region	Median Loss
Asia	104	51.0%	\$250,000
Latin America and the Caribbean	18	47.4%	\$300,000
Europe	59	44.0%	\$250,000
Oceania	14	40.0%	\$300,000
Africa	44	39.3%	\$350,000
Canada	17	29.3%	\$200,000
United States	195	25.1%	\$239,000

FIGURE 14.2 Corruption Cases by Region. *Source: ACFE, Report to the Nations, 2012.*



*"Other" category was not included in the prior years' reports.

FIGURE 14.3 Type of Victim Organization—Frequency. *Source: ACFE, Report to the Nations, 2012.*



*"Other" category was not included in the prior years' reports.

FIGURE 14.4 Type of Victim Organization—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

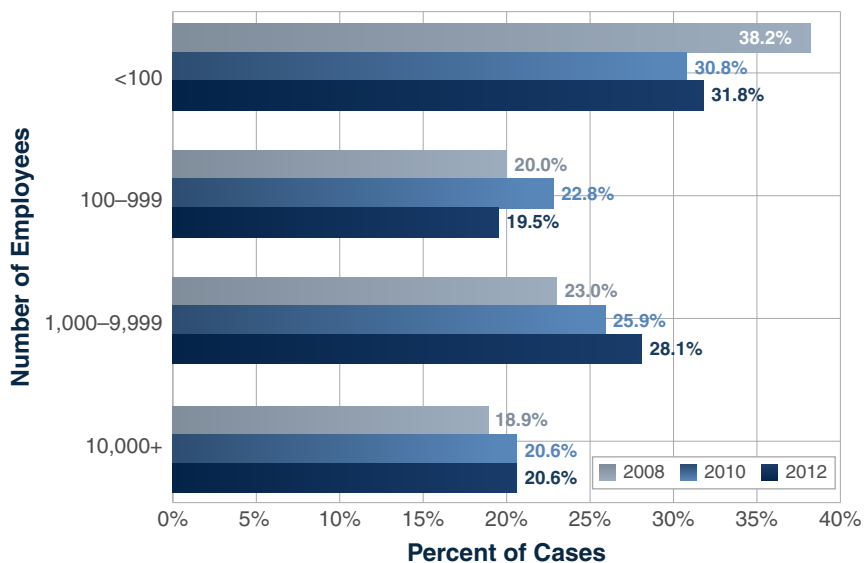


FIGURE 14.5 Size of Victim Organization—Frequency. *Source: ACFE, Report to the Nations, 2012.*

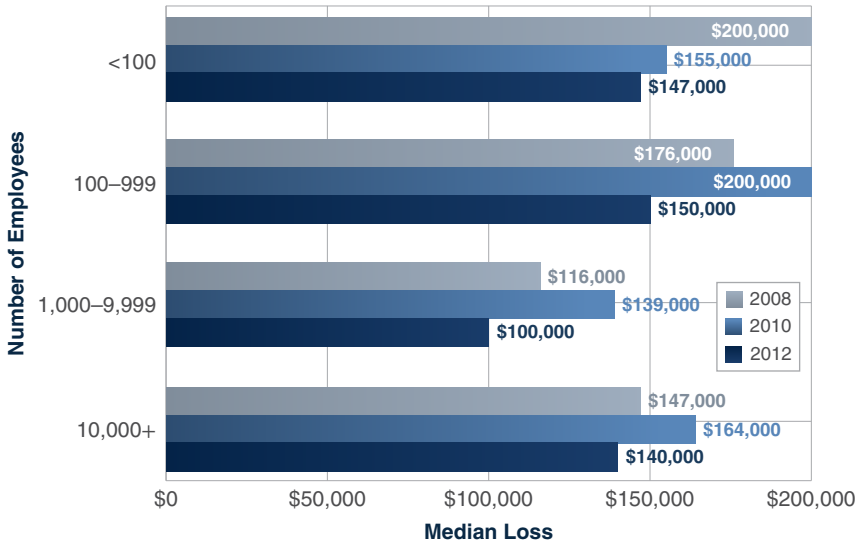


FIGURE 14.6 Size of Victim Organization—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

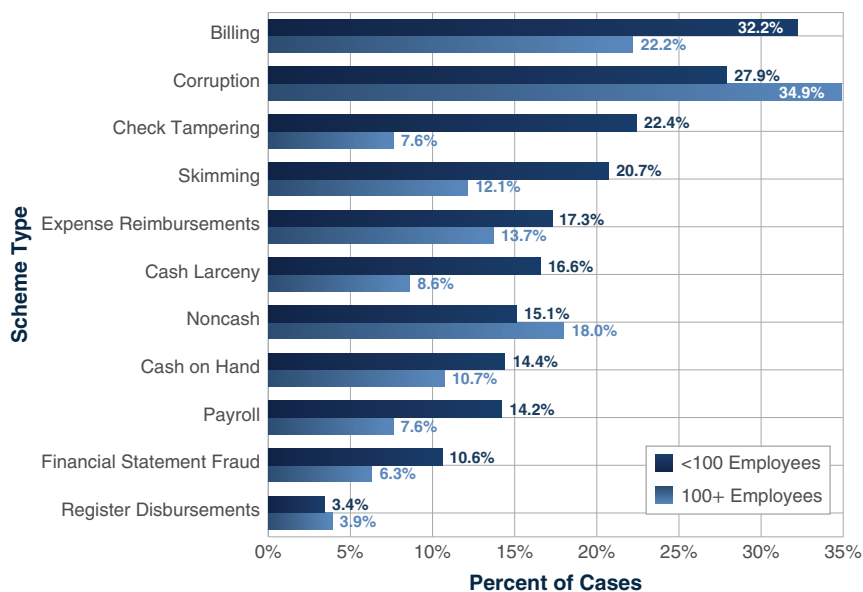
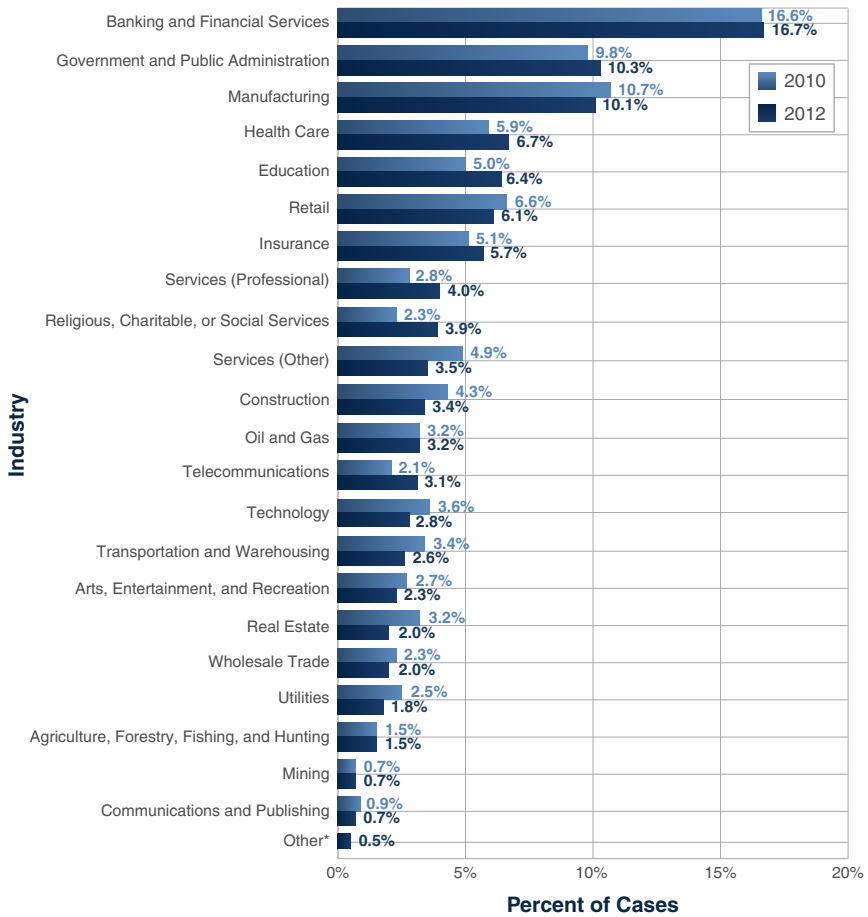


FIGURE 14.7 Scheme Type by Size of Victim Organization. Source: ACFE, *Report to the Nations*, 2012.



**"Other" category was not included in the 2010 report.

FIGURE 14.8 Industry of Victim Organizations. *Source: ACFE, Report to the Nations, 2012.*

Industry	Number of Cases	Percent of Cases	Median Loss
Mining	9	0.7%	\$500,000
Real Estate	28	2.0%	\$375,000
Construction	47	3.4%	\$300,000
Oil and Gas	44	3.2%	\$250,000
Banking and Financial Services	229	16.7%	\$232,000
Manufacturing	139	10.1%	\$200,000
Health Care	92	6.7%	\$200,000
Transportation and Warehousing	36	2.6%	\$180,000
Services (Other)	48	3.5%	\$150,000
Communications and Publishing	9	0.7%	\$150,000
Other	7	0.5%	\$150,000
Telecommunications	43	3.1%	\$135,000
Services (Professional)	55	4.0%	\$115,000
Agriculture, Forestry, Fishing, and Hunting	20	1.5%	\$104,000
Government and Public Administration	141	10.3%	\$100,000
Retail	83	6.1%	\$100,000
Technology	38	2.8%	\$100,000
Insurance	78	5.7%	\$95,000
Religious, Charitable, or Social Services	54	3.9%	\$85,000
Arts, Entertainment, and Recreation	32	2.3%	\$71,000
Wholesale Trade	27	2.0%	\$50,000
Utilities	24	1.8%	\$38,000
Education	88	6.4%	\$36,000

FIGURE 14.9 Industry of Victim Organizations—Median Loss. *Source: ACFE, Report to the Nations, 2012.*

Industry	Total Number of Cases	Number of Corruption Cases	Percent of Cases Involving Corruption
Mining	9	7	77.8%
Utilities	24	14	58.3%
Oil and Gas	44	22	50.0%
Technology	38	18	47.4%
Real Estate	28	12	42.9%
Agriculture, Forestry, Fishing, and Hunting	20	8	40.0%
Wholesale Trade	27	10	37.0%
Banking and Financial Services	229	83	36.2%
Transportation and Warehousing	36	13	36.1%
Government and Public Administration	141	50	35.5%
Construction	47	16	34.0%
Manufacturing	139	47	33.8%
Services (Other)	48	16	33.3%
Health Care	92	28	30.4%
Telecommunications	43	13	30.2%
Services (Professional)	55	15	27.3%
Insurance	78	21	26.9%
Arts, Entertainment, and Recreation	32	8	25.0%
Education	88	21	23.9%
Retail	83	19	22.9%
Religious, Charitable, or Social Services	54	12	22.2%
Communications and Publishing	9	1	11.1%

FIGURE 14.10 Corruption Cases by Industry. *Source: ACFE, Report to the Nations, 2012.*

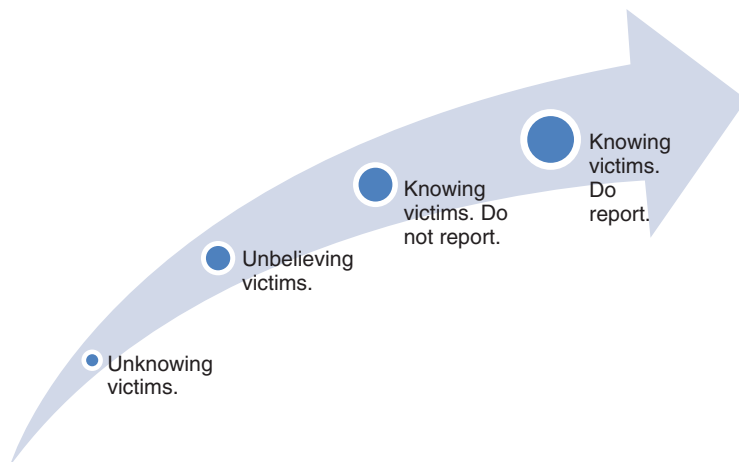


FIGURE 14.11 Profile of Victims by Knowledge. *Source:* Simon Padgett, fraud and corruption training.

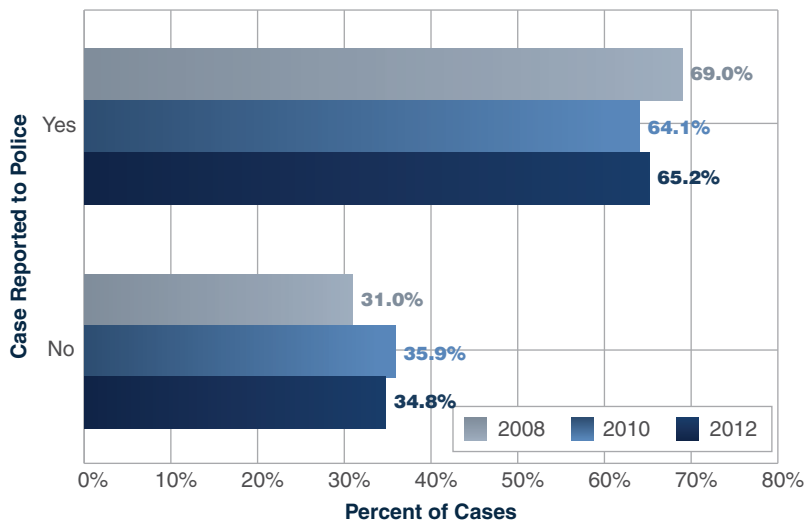
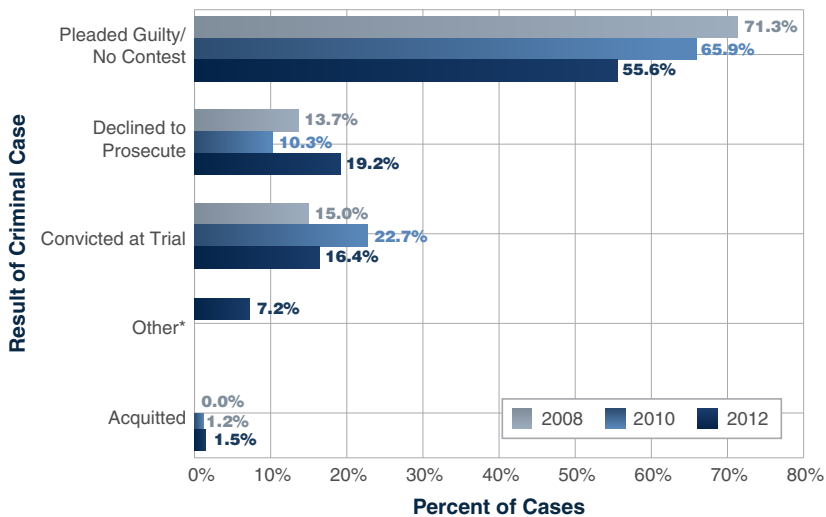
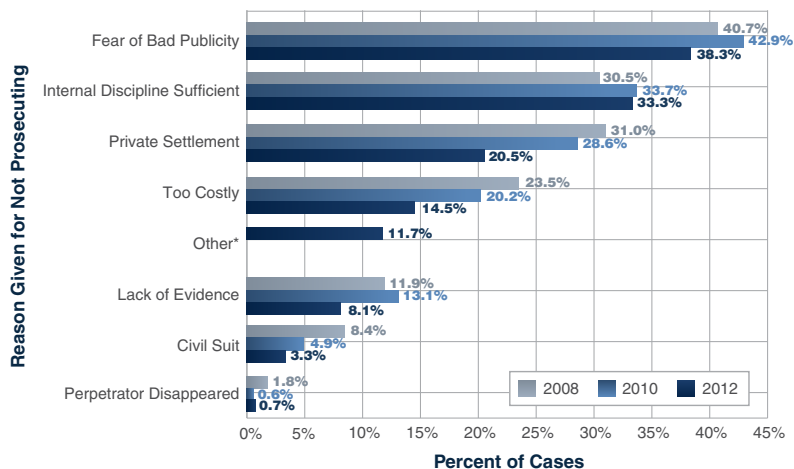


FIGURE 15.1 Cases Referred to Law Enforcement. *Source: ACFE, Report to the Nations, 2012.*



*"Other" category was not included in the prior years' reports.

FIGURE 15.2 Results of Cases Referred to Law Enforcement. *Source: ACFE, Report to the Nations, 2012.*



*"Other" category was not included in the prior years' reports.

FIGURE 15.3 Reasons Case Not Referred to Law Enforcement. *Source: ACFE, Report to the Nations, 2012.*

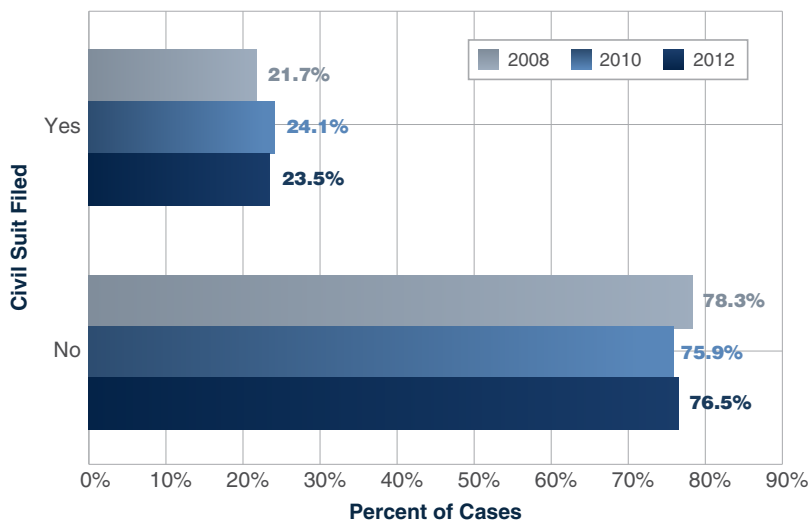
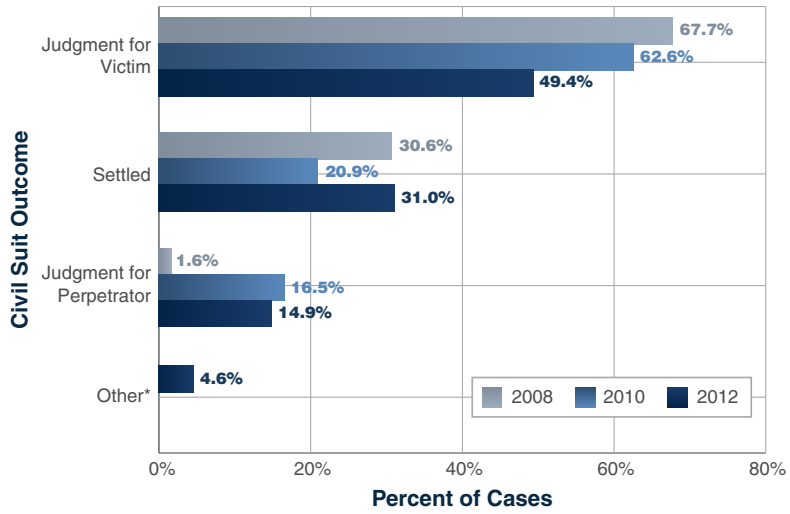


FIGURE 15.4 Cases Resulting in Civil Suits. *Source: ACFE, Report to the Nations, 2012.*



*"Other" category was not included in the prior years' reports.

FIGURE 15.5 Results of Civil Suits. *Source: ACFE, Report to the Nations, 2012.*

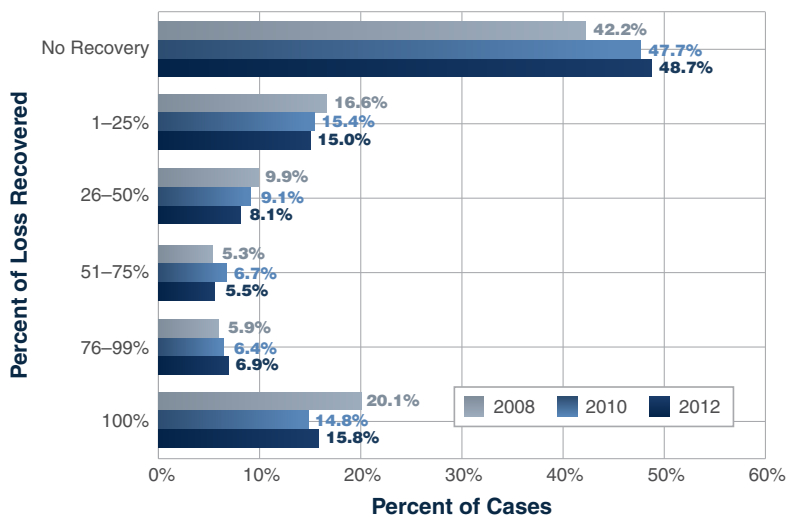


FIGURE 15.6 Recovery of Victim Organization’s Losses. *Source: ACFE, Report to the Nations, 2012.*

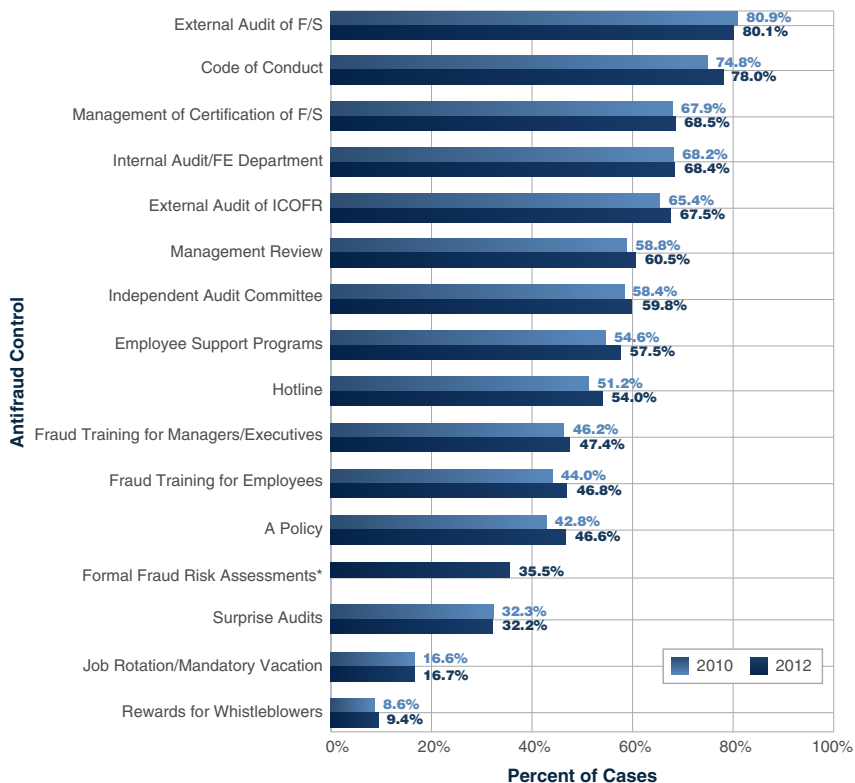


FIGURE 18.1 Frequency of Antifraud Controls. *Source: ACFE, Report to the Nations, 2012.*

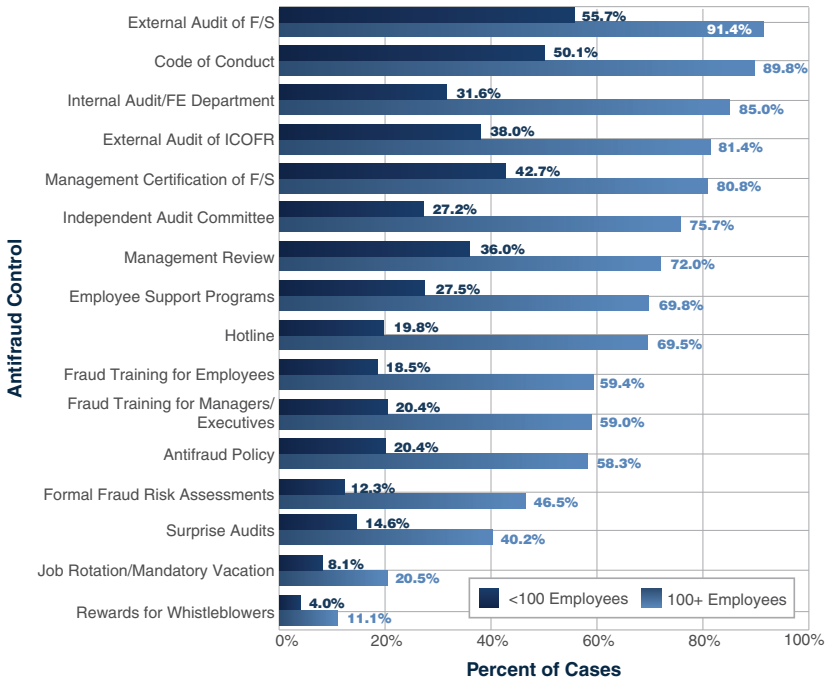


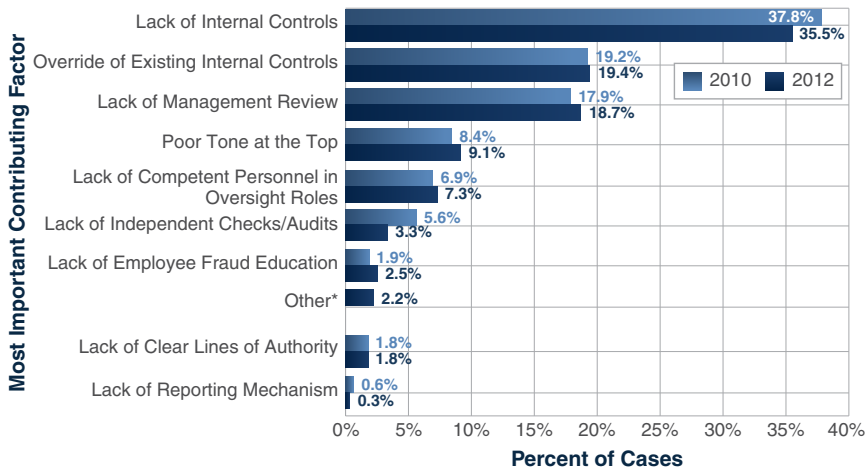
FIGURE 18.2 Frequency of Antifraud Controls by Size of Victim Organization.
Source: ACFE, *Report to the Nations*, 2012.

Control	Percent of Cases Implemented	Control in Place	Control Not in Place	Percent Reduction
Management Review	60.5%	\$100,000	\$185,000	45.9%
Employee Support Programs	57.5%	\$100,000	\$180,000	44.4%
Hotline	54.0%	\$100,000	\$180,000	44.4%
Fraud Training for Managers/Executives	47.4%	\$100,000	\$158,000	36.7%
External Audit of ICOFR	67.5%	\$120,000	\$187,000	35.8%
Fraud Training for Employees	46.8%	\$100,000	\$155,000	35.5%
Antifraud Policy	46.6%	\$100,000	\$150,000	33.3%
Formal Fraud Risk Assessments	35.5%	\$100,000	\$150,000	33.3%
Internal Audit/FE Department	68.4%	\$120,000	\$180,000	33.3%
Job Rotation/Mandatory Vacation	16.7%	\$100,000	\$150,000	33.3%
Surprise Audits	32.2%	\$100,000	\$150,000	33.3%
Rewards for Whistleblowers	9.4%	\$100,000	\$145,000	31.0%
Code of Conduct	78.0%	\$120,000	\$164,000	26.8%
Independent Audit Committee	59.8%	\$125,000	\$150,000	16.7%
Management Certification of F/S	68.5%	\$138,000	\$164,000	15.9%
External Audit of F/S	80.1%	\$140,000	\$145,000	3.4%

FIGURE 18.3 Median Loss Based on Presence of Antifraud Controls. *Source: ACFE, Report to the Nations, 2012.*

Control	Percent of Cases Implemented	Control in Place	Control Not in Place	Percent Reduction
Job Rotation/Mandatory Vacation	16.7%	9 months	24 months	62.5%
Rewards for Whistleblowers	9.4%	9 months	22 months	59.1%
Surprise Audits	32.2%	10 months	24 months	58.3%
Code of Conduct	78.0%	14 months	30 months	53.3%
Antifraud Policy	46.6%	12 months	24 months	50.0%
External Audit of ICOFR	67.5%	12 months	24 months	50.0%
Formal Fraud Risk Assessments	35.5%	12 months	24 months	50.0%
Fraud Training for Employees	46.8%	12 months	24 months	50.0%
Fraud Training for Managers/Execs	47.4%	12 months	24 months	50.0%
Hotline	54.0%	12 months	24 months	50.0%
Mgmt Certification of F/S	60.5%	12 months	24 months	50.0%
Independent Audit Committee	59.8%	13 months	24 months	45.8%
Internal Audit/FE Department	68.4%	13 months	24 months	45.8%
Management Review	68.5%	14 months	24 months	41.7%
Employee Support Programs	57.5%	16 months	21 months	23.8%
External Audit of F/S	80.1%	17 months	24 months	29.2%

FIGURE 18.4 Duration of Fraud Based on Antifraud Controls. *Source: ACFE, Report to the Nations, 2012.*



*"Other" category was not included in the 2010 report.

FIGURE 18.5 Primary Internal Control Weakness Observed by CFEs. *Source: ACFE, Report to the Nations, 2012.*

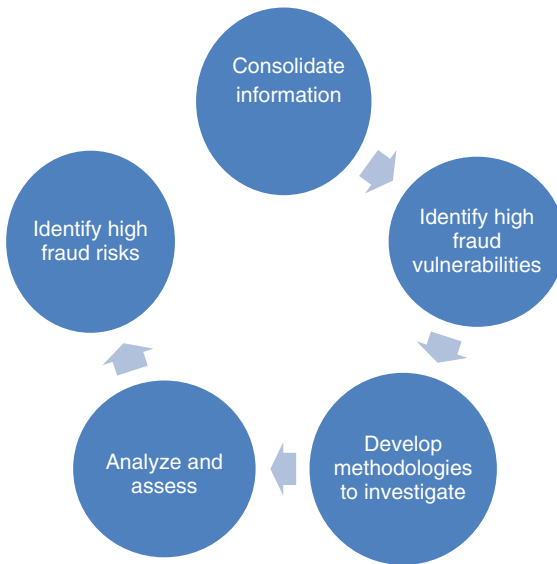


FIGURE 18.6 Staged Analysis Process. *Source:* Simon Padgett, fraud and corruption training.

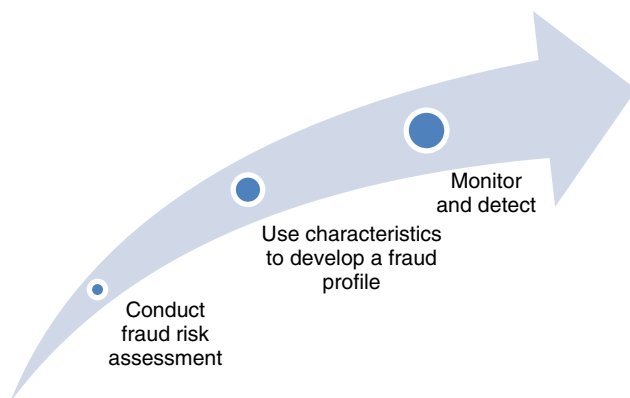


FIGURE 21.1 Process of Developing a Fraud Profile. *Source:* Simon Padgett, fraud and corruption training.

Probability/ Likelihood	Description
Almost Certain	The risk event is expected to occur more than 10 times per year.
Common	The risk event is expected to occur less than 10 times per year, up to once per year.
Likely	The risk event is expected to occur less than once per year, up to once in 10 years.
Rare	The risk event is expected to occur less than once in 10 years, up to once in 50 years.
Unlikely	The risk event is expected to occur less than once in 50 years, up to once in 500 years.
Remote	The risk event is not expected to occur more than once in 500 years.

FIGURE 21.2 Probability (Likelihood) Scale. *Source:* Simon Padgett, fraud and corruption training.

Impact/ Severity	Financial Impact	Operational	Employees	Health, Safety, Environment	Reputation	Regulatory Legal
Incidental	< \$1,000 < 10% of budget	System failure up to 1 day	Negligible or isolated staff dissatisfaction	Minor effects	Minor public attention	Isolated, remedied non- compliance
Minor	\$1,000 to \$10,000 10% to 25% of budget	System failure 1 to 3 days	General moral problems. Under 20% staff turnover	Minor medical treatment. Rapid cleanup.	Ongoing media attention	Repeated, remedied non- compliance
Moderate	\$10,000 to \$100,000 25% to 50% of budget	System failure 4 to 10 days	Poor employer of choice; 20% to 40% staff turnover	Lost time injury. Cleanup by contractors.	Social criticism	Sustained non- compliance with significant fines
Major	\$100,000 to \$1,000,000 50% to 75% of budget	System failure 11 to 20 days	20% to 40% senior staff turnover	Single fatality or significant disability. Impaired eco- system.	Serious national social issues	Serious breaches with prosecution
Catastrophic	>\$1,000,000 > 75% of budget	System failure for over 20 days	Over 40% staff and manager turnover	Multiple fatalities or disabilities. Long-term environmental recovery.	Serious regional social issues. Sustained negative outray.	Class actions and imprisonment

FIGURE 21.3 Impact (Magnitude or Consequence) Scale. Source: Simon Padgett, fraud and corruption training.

Impact	Probability						
		Remote	Unlikely	Rare	Likely	Common	Almost Certain
	Catastrophic	High	High	Very High	Very High	Very High	Very High
	Major	Medium	Medium	High	High	Very High	Very High
	Moderate	Medium	Medium	High	High	High	High
	Minor	Low	Low	Medium	Medium	High	High
	Incidental	Low	Low	Low	Medium	Medium	Medium

FIGURE 21.4 Risk Matrix or Heat Map. *Source:* Simon Padgett, fraud and corruption training.

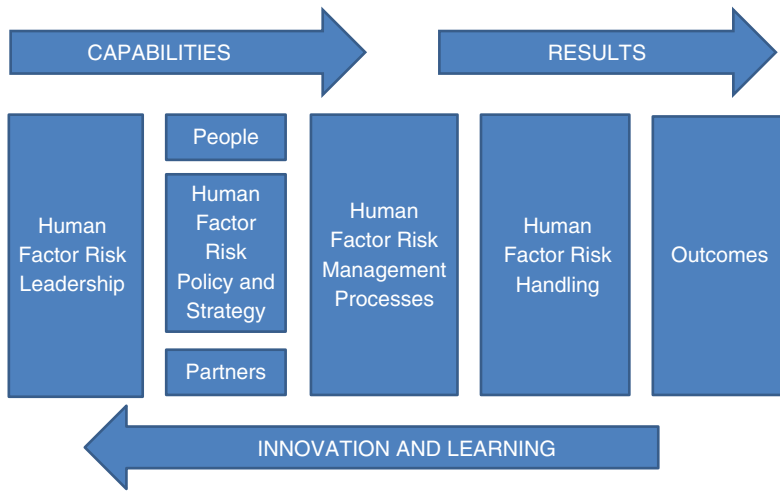


FIGURE 22.1 Human Factor Management Assessment Risk Framework. *Source:* European Foundation for Quality Management, 1999.
