

The MNP logo is displayed in a bold, green, sans-serif font within a white rounded rectangular box. The background of the entire page features a blue-tinted photograph of a modern glass-walled building. A person is visible through one of the windows, looking down at a device. The sky is a light, hazy blue. A dark brown, curved shape separates the top image from the bottom text area.

MNP

FRAUD AWARE 2019

National Study on Reported Fraud Cases in Canada

FRAUD IN CANADA:

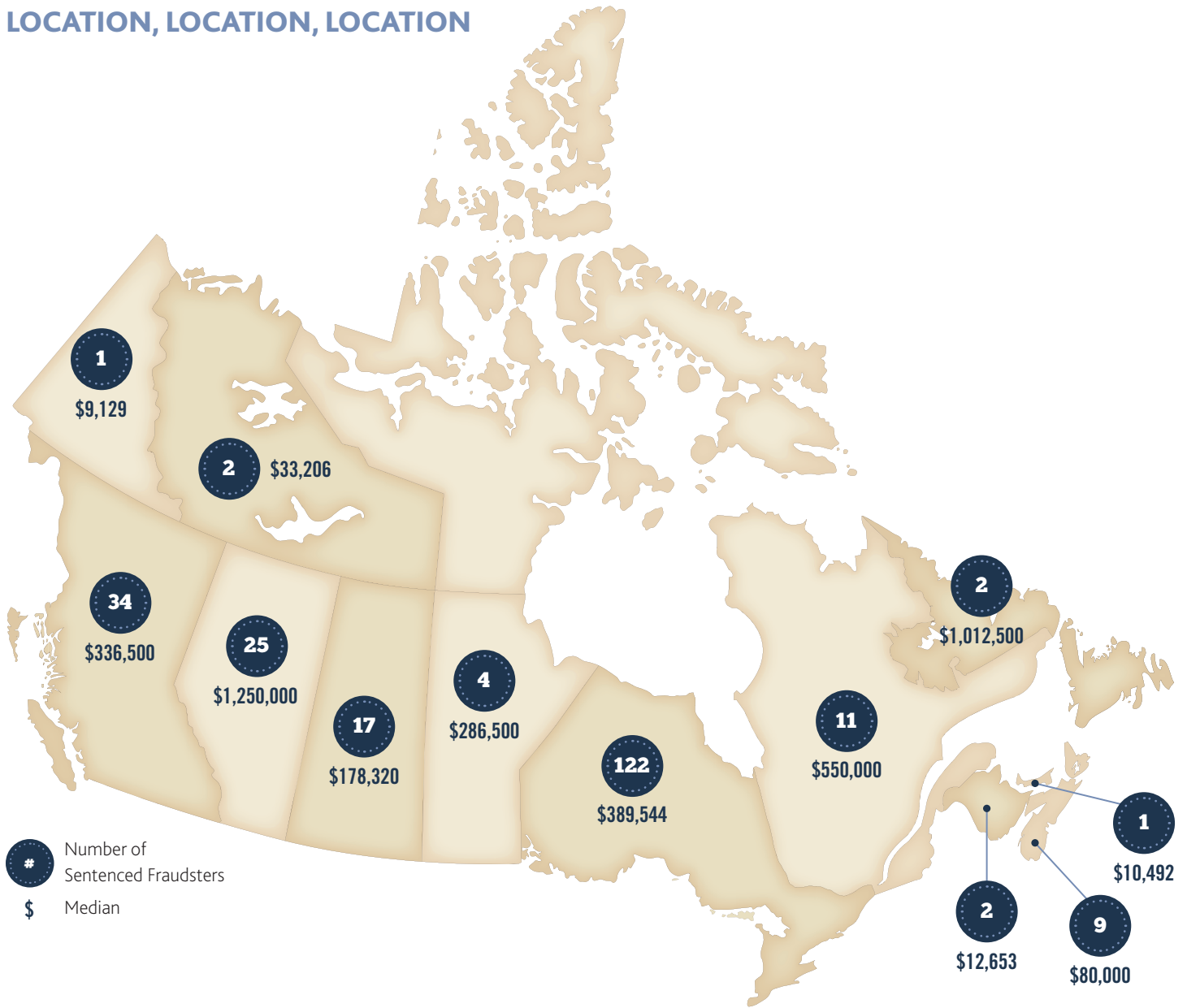
Instances of fraud in Canada capture the public eye when large amounts of funds are stolen, or lurid details are involved. But fraud happens every day, in every province, industry sector and at every economic level.

Given incidents of fraud are common, what do we really know about the crime in Canada? Generally, public reports around fraud centre on how much was taken and by who. However, details that could be used to create stronger anti-fraud processes – such as not just who, but what their position was, over how long the fraud took place and post-detection sentencing – are usually lacking.

How can we institute the best procedures and policies to prevent fraud without a better understanding of fraud-specific data? And are our expectations around investigations and prosecution realistic? MNP decided to analyse details from fraud cases across Canada involving more than \$5,000 to uncover the answers. And the findings – culled from hundreds of cases prosecuted between 2012 and 2018 – were revealing.



LOCATION, LOCATION, LOCATION



While there were fraud cases in every province and territory, the most convictions and the largest reported losses due to fraud were seen in the four largest provinces by population and economy – Ontario, Quebec, Alberta and B.C.

Ontario had the largest number of frauds (122) and B.C. had the largest total losses (\$191.9 million). Alberta had the highest median monetary fraud, at \$1.25 million.

As averages can be skewed by singular cases tipping the scales, we calculated median values to provide more realistic insights. As noted, the resource-rich province of Alberta had 25 cases of fraud but led the pack for median value.

Newfoundland and Labrador came in second, with two cases of fraud over the reported period, each with a median average of \$1.01 million. Applying the median average, Ontario and B.C. fell into the middle of the pack, at \$336,500 and \$389,544 per case, respectively.

That might seem humdrum. But when you set the dollar amounts against the number of fraud cases, the data shows Ontario and B.C. residents were victim to a small number of extremely high-value frauds

WHO ARE THE FRAUDSTERS

According to the prosecution and conviction data, male fraudsters outnumber females two to one and the amount men stole totaled four times higher than the dollar value women stole.

Age also appeared to be a factor in how much was stolen. About 62 percent of the fraudsters, both male and female, were between 40 and 59 years old and those persons stole significantly more than younger fraudsters. In fact, the number of people in their 20s taken to court and convicted over fraud was relatively low and there were none under the age of 22.



TOP SCHEMES

Stock Price Manipulation
Ponzi Schemes
GST Fraud
Investment Fraud

Cash Misappropriation
Mortgage Fraud
Tax Evasion

The data points to people in established positions taking advantage of what turns out to be misplaced trust to perpetuate crime. The older the fraudster, the more money was lost – a median of \$400,000 across the country was taken by people in their 50s. And the average median value stolen by people in their 70s was even higher, at \$787,338.

Which raised the question: are people committing fraud to cover perceived gaps in their retirement funds? And how long does it take to work oneself into a position of trust that provides the opportunity for the largest frauds?

WHAT DRIVES FRAUDSTERS

If you responded “pure, simple greed,” you would be correct. Greed was the motivation for 63 percent of the frauds researched by MNP. Gambling, financial hardships, drug addiction and relationships (supporting a mistress) came in far behind.

The take-away from the “motivation” data tested the fraud triangle of opportunity to commit fraud, rationalization of actions and motivation. Trying to make ends meet, shoring up a failing business, paying for family medical procedure, all were exceptions. Greed, the desire for more, proved the overwhelming motivator.

TRUST NOT, WANT NOT

If you average the losses inflicted by people in a position of trust, they are more than double the average losses from people not in a similar position. Fraud committed by people in power who pled not guilty were also higher than fraud committed by people who did plead guilty.

Fraudsters in a position of trust also were able to perpetuate their crimes longer than those who weren't by a median of a year. However, if you take away the singular, high-dollar incidents, the average employee took almost 50 percent more.

Most fraud schemes lasted about three years, with the longest (a Ponzi scheme) bilking victims over a dozen years. Criminals playing the long game – five or more years – unsurprisingly stole far more than those detected within a year.



HOW MUCH, HOW LONG

> (less than) 5 years: **\$550,000**
> 1 year: **\$140,000**
< (more than) 1 year: **\$240,000**

Defend your organization's funds with tighter internal controls and regularly scheduled independent audits.

JUDGEMENT DAY

Sentencing was not so much influenced by the size of the fraud as by who committed the crime – people in positions of trust were given tougher sentences. However, even though the maximum penalties for fraud have increased since 2012, the research didn't show longer prison sentences being imposed.

More importantly, restitution was only ordered in 70 percent of convictions, and even then only ordered for 29 percent of the fraud losses. And worse, there is little recourse to victims if the restitution order is not complied with.

SOLUTIONS

Organizations need to be vigilant to protect themselves from potential misdoings of those in positions of trust. Controls, policies, procedures, how the company does business and who has control should all be looked at. And once that examination is done, the necessary changes can be made.

In fraud cases, the greatest damage to organizations is inflicted by persons in a position of trust, as they have greater levels of influence and authority. What's worse is the research showed 16 percent of fraudsters who were in a position of trust were repeat offenders – a simple background check prior to hiring could have prevented the loss.

Despite the often-lasting impact of fraud on a business or organizations, many frauds aren't even reported or reach the court system. The civil justice process is timelier and routinely more effective at recovering fraud losses.

The bottom line of defence against fraud is a clear commitment to fraud prevention, starting with the board. Also necessary is a robust fraud risk management program that considers risks posed by senior members of the organization, as well as more junior employees. Appropriate preventative and detective measures are important, as fraud losses grow exponentially after one year in duration. Stopping fraud earlier is critical to reducing losses.



PROFILE OF A FRAUDSTER



IT'S A GUY THING:

2X more men than women were named fraudsters and the amount men stole was **4X** higher than that stolen by women.



ALTERNATE RETIREMENT PLAN:

The older the fraudster, the more they stole and the higher the dollar value.



TRUST ME NOT:

People over the age of **65** – mostly holding positions of trust – executed the **largest frauds** in the country.



WHO, ME?

Fraudsters who pled not guilty stole a median of **56%** more than those who accepted guilt.

FRAUD BY THE NUMBERS:



68% Male
32% Female



10% of fraudsters are in their 20s



4 to 1: \$ Value of Fraud
Male vs Female



62% of fraudsters are middle-aged, between 40 and 59 years old



HEY, BIG SCHEMER:

Alberta had the largest median value fraud, at **\$1.25 million**.

COSTLIEST FRAUDS (TOTAL):



\$549M

Ponzi Schemes (15 cases)



\$87M

Stock Price Manipulation (2 cases)



ABOUT MNP

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