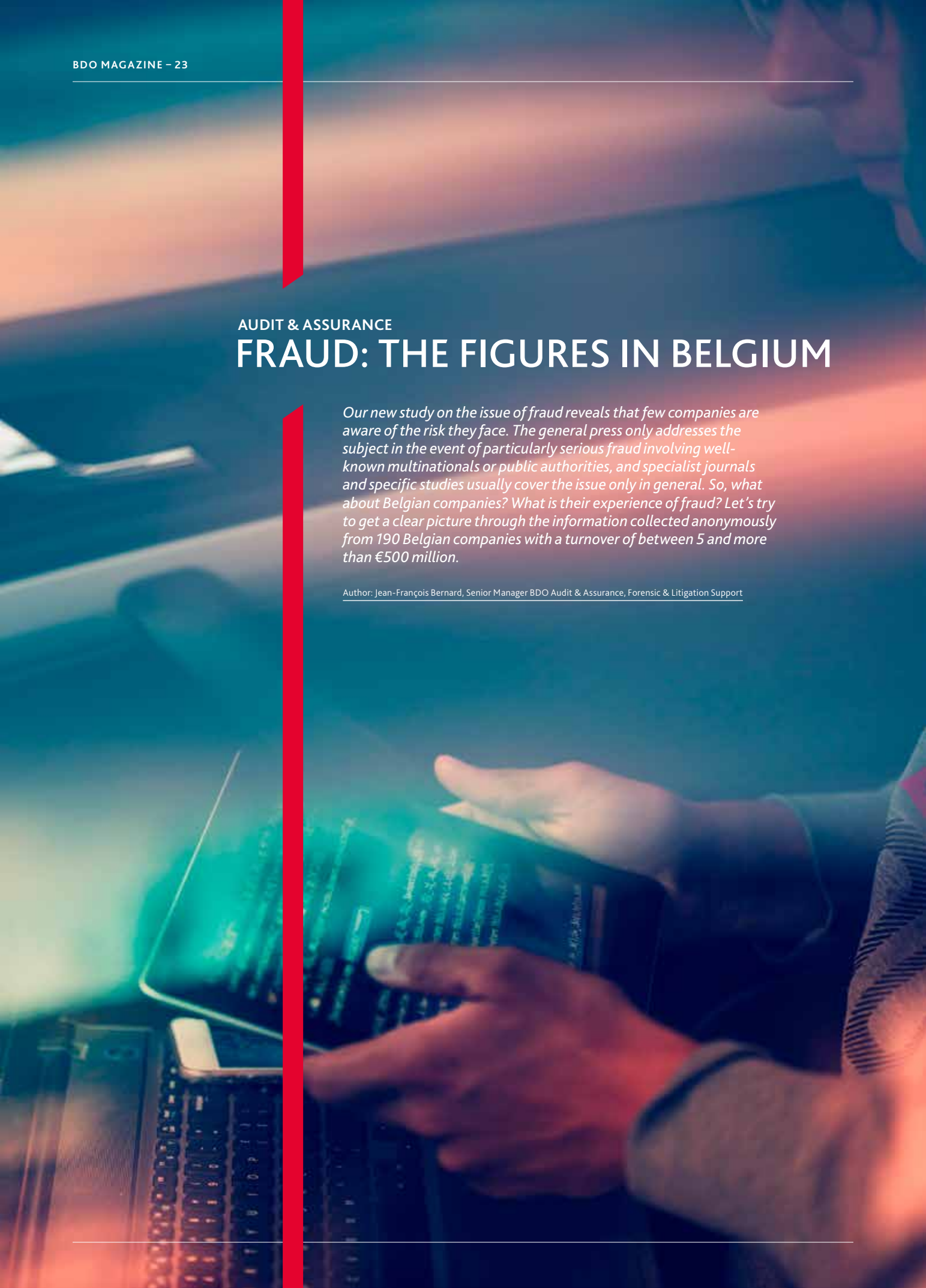

AUDIT & ASSURANCE

FRAUD: THE FIGURES IN BELGIUM

Our new study on the issue of fraud reveals that few companies are aware of the risk they face. The general press only addresses the subject in the event of particularly serious fraud involving well-known multinationals or public authorities, and specialist journals and specific studies usually cover the issue only in general. So, what about Belgian companies? What is their experience of fraud? Let's try to get a clear picture through the information collected anonymously from 190 Belgian companies with a turnover of between 5 and more than €500 million.

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Some 21% of the companies state that they have been the victim of at least one instance of fraud in the past 5 years, 45% have experienced attempted fraud but managed to avoid damage, and only 34% have not experienced it at all. The first 21% should be considered a minimum percentage, as most of the instances of reported fraud date back less than 12 months. Despite the figures remaining at a high level, fraud is down when we look at the data collected during our 2018 study, in which 32% of the companies surveyed indicated that they had fallen victim to fraud in the past 5 years.

THE COST OF FRAUD

The average loss due to an instance of fraud amounts to approximately €200,000. This amount was estimated at €150,000 in the previous study. So, while instances of fraud are decreasing, the resulting loss has increased significantly. In addition, these figures take into account only the sum stolen, to which indirect financial damages – such as business interruption, legal proceedings or damage to the company's image – may need to be added. However, 85% of the losses are below €100,000. When the fraudster is part of the company, the average loss is 6 times higher than for external fraud.

MOST COMMON CASES

The fraud that affects businesses most is computer hacking, which represents no less than 29% of the instances experienced. This is closely followed by fraudulent disbursements (similar to false invoicing in the broad sense) (25%) and thefts of non-cash assets (23%). Other major fraud schemes – namely, revenue theft, corruption, falsification of financial statements, and identity theft (better known as CEO fraud) – are much rarer.

CEO fraud is the most frequently attempted (39%), but many attempts end in failure. In fact, this type of fraud results in a loss in only 4% of the cases.

PREFERRED TARGETS

Companies with an annual turnover of more than €100 million represent 51% of the instances of fraud, whereas they account for 44% of attempts and make up 35% of the sample. Therefore, they experience around twice as many instances of fraud as the smallest entities (65% of respondents for 49% of frauds). This finding may seem surprising insofar as people imagine that the smaller structures, with seemingly more limited control procedures and resources to combat fraud, will be targeted more often. However, this can be explained by the greater involvement of management and shareholders in the day-to-day management of this category of company, and by the loss of the sense of responsibility that sometimes occurs in the significant fragmentation of work and positions in larger companies.

IDENTIFICATION OF FRAUD

Almost half of the instances of fraud are discovered by chance or as a result of whistleblowing (i.e. by means outside the company's control). Apart from this, fraud is generally identified by checking documents (33% of cases) – for example, checking purchase invoices – analysing changes in accounting accounts, or monitoring cancelled sales or inventory differences.

"Almost half of the instances of fraud are discovered by chance or as a result of whistleblowing."

21%

OF THE COMPANIES STATE THAT THEY HAVE BEEN THE VICTIM OF AT LEAST ONE INSTANCE OF FRAUD IN THE PAST 5 YEARS

€200,000

THE AVERAGE LOSS DUE TO AN INSTANCE OF FRAUD

29%

OF THE FRAUD THAT AFFECTS BUSINESSES IS REPRESENTED BY COMPUTER HACKING

25%

IS REPRESENTED BY FRAUDULENT DISBURSEMENTS

23%

IS REPRESENTED BY THEFTS OF NON-CASH ASSETS

45%

OF FRAUD IS COMMITTED BY STAFF MEMBERS OF THE COMPANY

DO YOU HAVE ANY QUESTIONS ABOUT COMBATING FRAUD?
Need help with analysing the risks facing your organisation? If so, please don't hesitate to contact the specialists on our 'Forensic & Litigation Support' team: jean-francois.bernard@bdo or cedric.antonelli@bdo.be

PROFILE OF THE FRAUDSTERS

The study shows that 45% of fraud is committed by staff members of the company in the broadest sense, and this figure actually rises to 59% when cybercrime is excluded. No particular function is especially at risk. Moreover, each department has its own type of fraud. Revenue theft generally involves someone from the sales department, misappropriation of non-cash assets involves someone from production, and corruption involves someone from the purchasing department, while fraudulent disbursement or falsification of financial statements can often be traced back to the accounting department.

"CEO fraud is still the most frequently attempted type of fraud (39%)."

AVOIDING FRAUD

When we look at the control measures put in place in companies that have fallen victim to fraud and compare them with those in effect in companies that have managed to protect themselves against it, we find that there is little or no difference. In short, this means that controls are not sufficient, but also that they must be properly designed and applied at all times. For example, 80% of companies that have fallen victim to fraud state that they systematically double-approve invoices and payments! Experience shows that this measure does not prevent fraud because there is almost always a control loophole: double approval does not block payment of the invoice; approval concerns invoices but not credit notes; exceptions are provided in the event of the absence of certain members of the approval chain; certain types of expenditure are not affected; the person approving the draft payment does not receive a copy of the invoices; both payment cards are, in practice, held by the same person, etc.

We have also observed that the strategy defending against fraud is only too rarely directed towards internal fraud. Here it is worth noting that no less than 56% of fraud attempts result in a loss when the fraudster is a member of the company, compared with only 13% when he or she is from outside the company.

In the quest for adequate protection, it is essential to maintain a balance between cost and risk. Some measures involve virtually no additional costs, such as implementing a fraud reporting mechanism (better known as 'whistleblowing' - read the article 'Whistleblowers: new European Directive', published in To The Point 02/2019) or drafting a code of conduct. This may seem simplistic, but it is not uncommon to see fraudsters justifying themselves by explaining, for example, that they were unaware that it was prohibited to disclose such information, or that their function involved such a control task. The company's fraud risks and how they are covered should be assessed every 2 or 3 years. This task can be performed by the internal auditor or a member of the accounting department. ■

You can consult the study entitled 'Fraud in Belgium in figures – Report 2019' at advisory.bdo.be/fraudsurvey