

Fraud Barometer

New Zealand September 2019

Overview

- The value of large fraud cases totalled **\$124 million** in the 12 month period from 1 August 2018 to 31 July 2019.
- There were **36 cases** identified in total.
- There were **six** "super frauds"; frauds greater than \$3 million.
- The largest fraud case involved **\$54 million** of home loans obtained illegally via deception and bribery by the property development group LV Park.



Summary

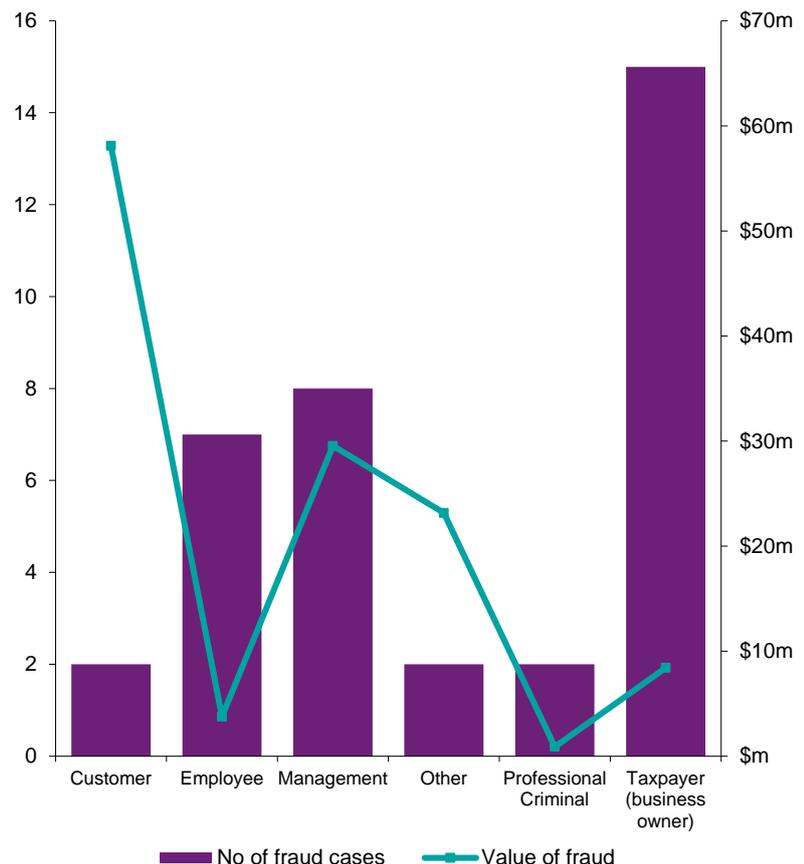
The range of frauds reported in the last 12 months includes a number of interesting cases:

- A company added synthetic compounds to 14 tonnes of honey in order to portray they were selling high-grade mānuka honey, fraudulently increasing prices by around \$700,000;
- An employee of the Waitangi National Trust Group, who was responsible for the financial administration of the trust, misappropriated \$1.2 million via 43 payments that were disguised as legitimate transactions; and
- A \$7 million Ponzi scheme originating from a foreign exchange brokerage that began to suffer trading losses. New investors' funds were used to pay existing investors their reported gains or to refund investment principal.

Perpetrators

The most common perpetrators of fraud were business owners submitting fraudulent GST claims or income tax returns. However, the highest value fraud was perpetrated by customers in the LV Park case where bank customers illegally obtained fraudulent home loans to the value of \$54 million through bribery and collusion with a bank employee.

Chart 1: Perpetrators of fraud



Case Study

In January 2019 the cryptocurrency exchange **Cryptopia** was hacked, with an estimated \$23 million of crypto-assets stolen.

The company contacted the New Zealand Police and an investigation into the hack commenced. This investigation is still ongoing.

The hack severely impacted the company and, despite attempts to resume trading, Cryptopia entered liquidation in May 2019. The liquidators have issued a statement saying that they are continuing with the recovery process of the compromised crypto-assets.



The hacking of Cryptopia is just the tip of the iceberg in New Zealand, with most similar incidents in New Zealand never making the media. It's unfortunately not uncommon now to see multi-million dollar losses resulting from New Zealand organisations having been hacked.

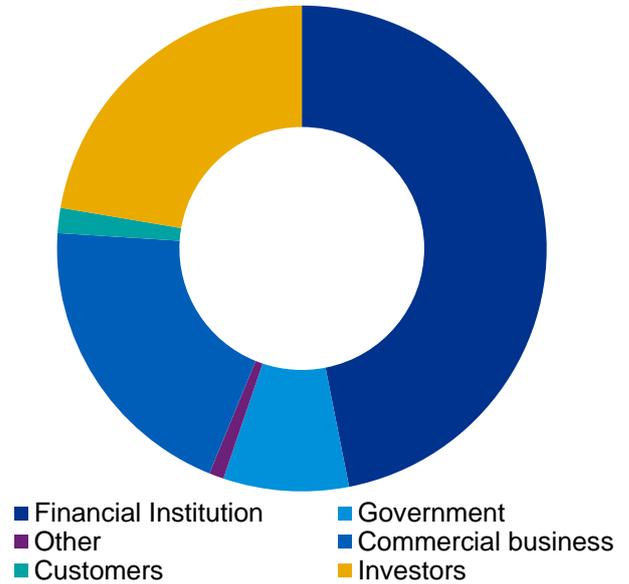
Philip Whitmore
KPMG Partner – Cyber Security

Victims

Whilst the Government was subject to the highest number of frauds, 18 in total, the value of the frauds represented only 8% of the total value of fraud identified in the Barometer.

Driven by the \$54 million LV Park case, financial institutions suffered the most at the hands of fraudsters in the last 12 months. Second to financial institutions were investors and commercial businesses suffering total frauds of \$28 million and \$25 million respectively.

Chart 2: Value of Total Fraud by Victim Type



Fraudster Profile



20% exploited weak controls



Average age of 53



25% of cases involved multiple fraudsters



70% of cases committed by men



Most Common Types of Fraud

15

Cases of tax fraud identified. Cases involved business owners filing false GST Claims, false Income Tax Returns, or failing to pay PAYE deductions to the IRD. These cases totalled \$8.4 million.

8

Cases of fraud committed by employees of organisations to misappropriate funds via false accounting and/or forged documents (fake invoices). Cases totalled \$3.9 million.

3

Cases of investors being misled regarding the status of their funds / the purpose of their investment. Investment scams totalled \$10.6 million and included one Ponzi Scheme of \$7 million.

The remaining 10 reported cases of fraud involved the following fraud types: management fraud, mortgage / loan fraud, counterfeit goods and hacking.

Final thoughts

Fraud is a constant and evolving threat to all types of organisations, as demonstrated by the range of frauds, victims and perpetrators identified in this Fraud Barometer. Indeed a vast amount of fraud goes unreported and therefore this Barometer offers only a glimpse of the entire NZ fraud landscape.

The key findings from the Barometer demonstrate the need for all organisations, of whatever size, to consider their fraud risk management framework and the specific internal and financial controls that are in place to detect and prevent fraud

Methodology

The objective of the Fraud Barometer is to monitor, through media searches, the level of reported frauds coming before the criminal courts in New Zealand, and provide commentary surrounding the types of victim, perpetrator and fraud occurring. In order for a case to be included in our Fraud Barometer, the fraud must exceed \$100,000.

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