

# REPORT TO THE NATIONS

2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

WESTERN EUROPE EDITION



**ACFE**<sup>®</sup>

Association of Certified Fraud Examiners

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# INTRODUCTION

In April 2018, the ACFE released the 2018 *Report to the Nations*, which provided a global analysis of the costs and effects of occupational fraud (i.e., fraud committed against the organization by its own officers, directors, or employees). The 2018 *Report to the Nations*, which was based on 2,690 cases of occupational fraud reported from 125 countries, highlighted the tremendous impact occupational fraud has on organizations throughout the world.

With this report, we now focus more closely on how occupational fraud impacts organizations in Western Europe. This study is based on the 130 cases of occupational fraud in the region that were reported in our 2017 *Global Fraud Survey*. Collectively, these cases, which accounted for 6% of all cases in our global study, caused a median loss of USD 200,000 and lasted a median 24 months before they were detected. Figure 1 shows the countries in which these frauds occurred.

This report contains information on fraud losses in the Western Europe cases we analyzed<sup>1</sup>, along with the methods of fraud committed, the ways in which the frauds were detected, the characteristics of the victim organizations and their anti-fraud controls, the characteristics of the fraud perpetrators, and the results of the cases after the frauds had been discovered.<sup>2</sup> We hope this report will be of value to our readers in the region, helping them tailor fraud prevention, detection, and investigation strategies to the specific fraud risks faced by their clients and employers.

<sup>1</sup> Readers should note that all losses in this report are presented in U.S. dollars (USD), which is how respondents reported this information in our 2017 *Global Fraud Survey*.

<sup>2</sup> For a glossary of terms used in this report, please see pg. 78 of the 2018 *Report to the Nations*.

FIG. 1 Cases by country in Western Europe

Country	Number of cases
Austria	4
Belgium	7
Denmark	2
Finland	2
France	4
Germany	16
Greece	22
Iceland	1
Ireland	2
Italy	8
Netherlands	10
Norway	2
Portugal	1
Spain	4
Switzerland	11
United Kingdom	34
<b>Total cases:</b>	<b>130</b>

MEDIAN LOSS:  
**USD 200,000**



Median duration  
of a fraud scheme



# HOW OCCUPATIONAL FRAUD IS COMMITTED

As part of our ongoing research, we examine the methods by which occupational fraudsters perpetrate their schemes. Our results have consistently shown that occupational fraud cases can be broken down into three broad categories. The most common of these is asset misappropriation; 82% of cases in Western Europe involved the misappropriation of assets. These cases caused a median loss of USD 180,000. Financial statement fraud schemes were the least common scheme type in the region, accounting for 8% of cases, while corruption schemes occurred in 36% of cases and also caused a median loss of USD 180,000.

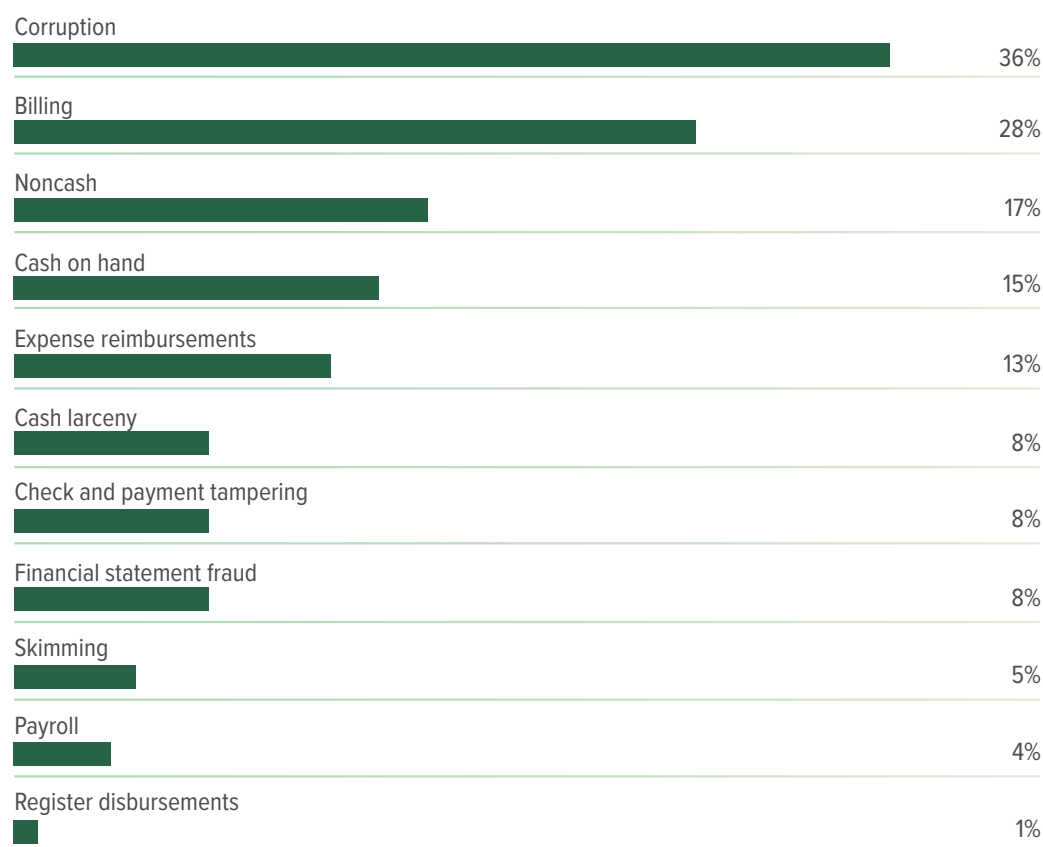
FIG. 2 How is occupational fraud committed in Western Europe?



\*Median loss calculation omitted for categories with fewer than ten cases.

Because asset misappropriations account for such a large percentage of occupational fraud cases, we further divided that category into sub-schemes based on the specific mechanism used to misappropriate assets. Figure 3 shows the breakdown of the cases in Western Europe among the nine sub-categories of asset misappropriation, along with corruption and financial statement schemes. Corruption was the most common scheme type, followed by billing schemes, which occurred in 28% of the Western European cases reported to us.

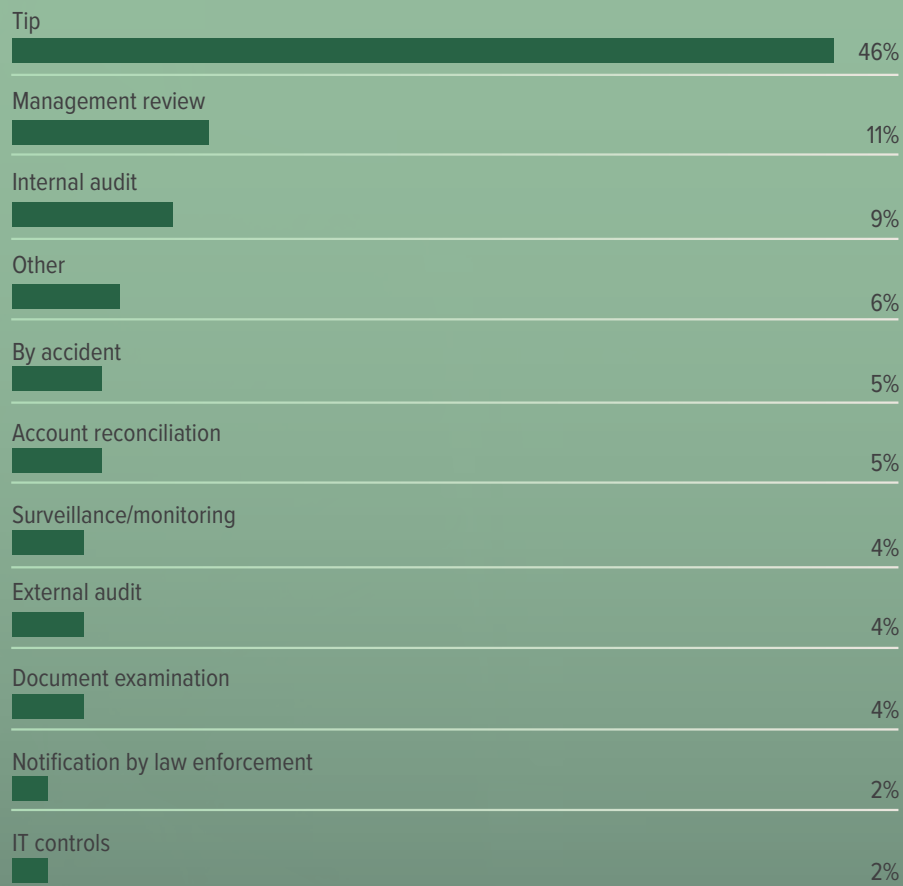
**FIG. 3 What are the most common occupational fraud schemes in Western Europe?**



# DETECTION

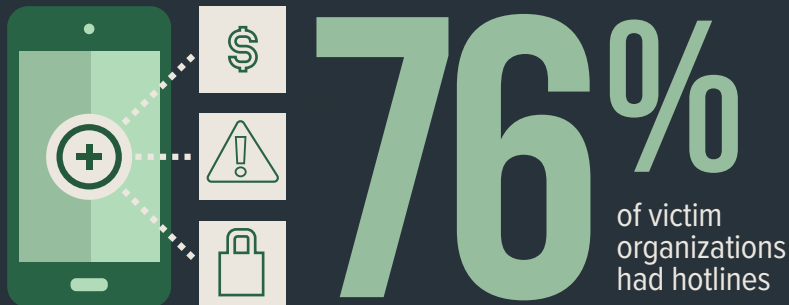
We asked respondents to provide information about how frauds were initially detected. The importance of tips as a fraud detection method is clear; Figure 4 shows that more cases were discovered this way in Western Europe than the next seven detection methods combined. Management review and internal audit were the next most common detection methods (11% and 9% of cases, respectively).

FIG. 4 How is occupational fraud initially detected in Western Europe?



# HOTLINES AND REPORTING MECHANISMS

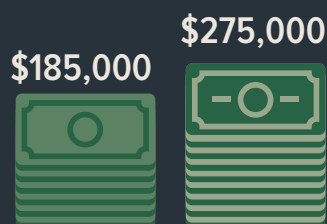
Respondents provided information about hotlines and reporting mechanisms that can help us understand who is reporting fraud, how they are doing so, and how effective such mechanisms are in Western Europe.



Fraud losses were

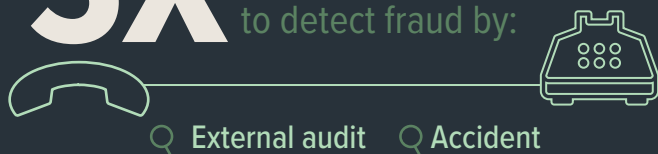
**49% LARGER**

at organizations **without hotlines** than **those with them**.



Organizations **without hotlines** were about

**5X MORE LIKELY** to detect fraud by:



Out of 19 cases reported through formal reporting mechanisms, using a telephone hotline was most common.

Telephone hotline



**32%**  
(6 CASES)

Mailed letter/form



**26%**  
(5 CASES)

Email



**21%**  
(4 CASES)

Web-based/online form



**21%**  
(4 CASES)

**TIPS** from employees were the most common, but outside parties like customers and vendors were also valuable sources.



In cases in which a tip was made but not through a formal reporting mechanism, the top five parties whistleblowers reported to were:

**DIRECT SUPERVISOR 40%**

**COWORKER 20%**

**HUMAN RESOURCES 20%**

**EXECUTIVE 13%**

**INTERNAL AUDIT 7%**

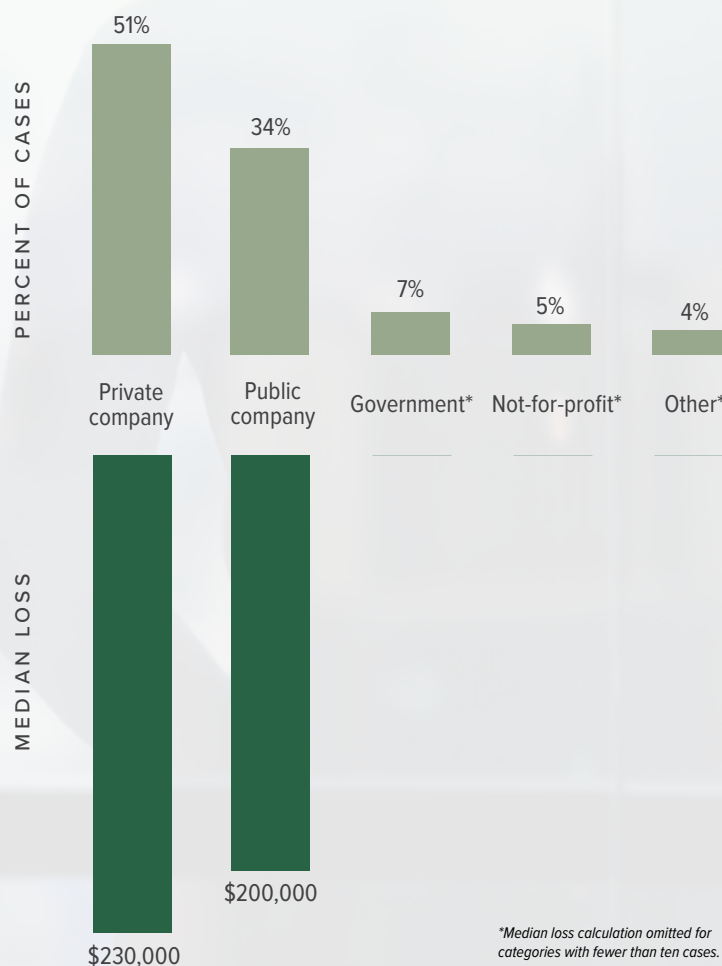
# VICTIM ORGANIZATIONS

To gain a better understanding of the organizations victimized in our study, we asked respondents to provide information about the victims' type, size, and industry. Participants also described the types of controls that were in place to prevent and detect fraud at the time the schemes occurred.

## Type of Organization

As shown in Figure 5, 85% of the frauds in Western Europe occurred at for-profit organizations, with 51% of the victim organizations being private companies and 34% being public companies. The private companies in our study suffered a median loss of USD 230,000, while the public companies had a median loss of USD 200,000. Government organizations and not-for-profits did not report enough cases for us to calculate median losses.

FIG. 5 What types of organizations are victimized by occupational fraud in Western Europe?

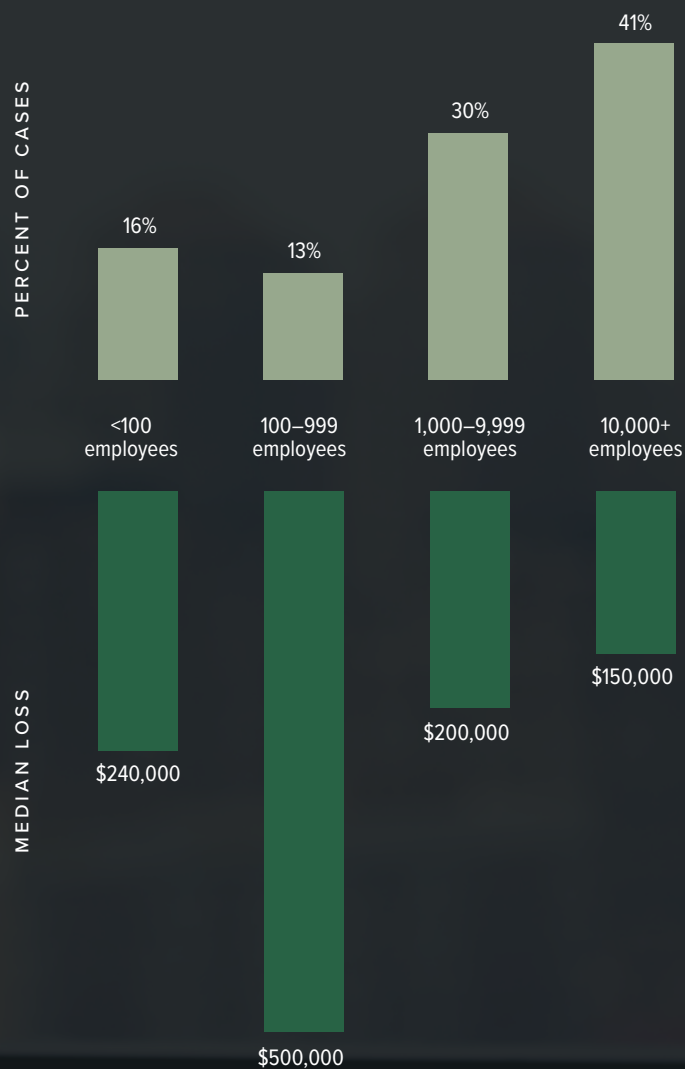




## Size of Organization

Figure 6 shows that large organizations (those with more than 10,000 employees) experienced the greatest percentage of cases in Western Europe (41%) and suffered a median loss of USD 150,000. Organizations with 100 to 999 employees had the largest median loss of USD 500,000. Small businesses (those with fewer than 100 employees) represented 16% of all cases in the region and suffered a median loss of USD 240,000. Small organizations, however, are likely to be more significantly impacted by losses of this size than their larger counterparts.

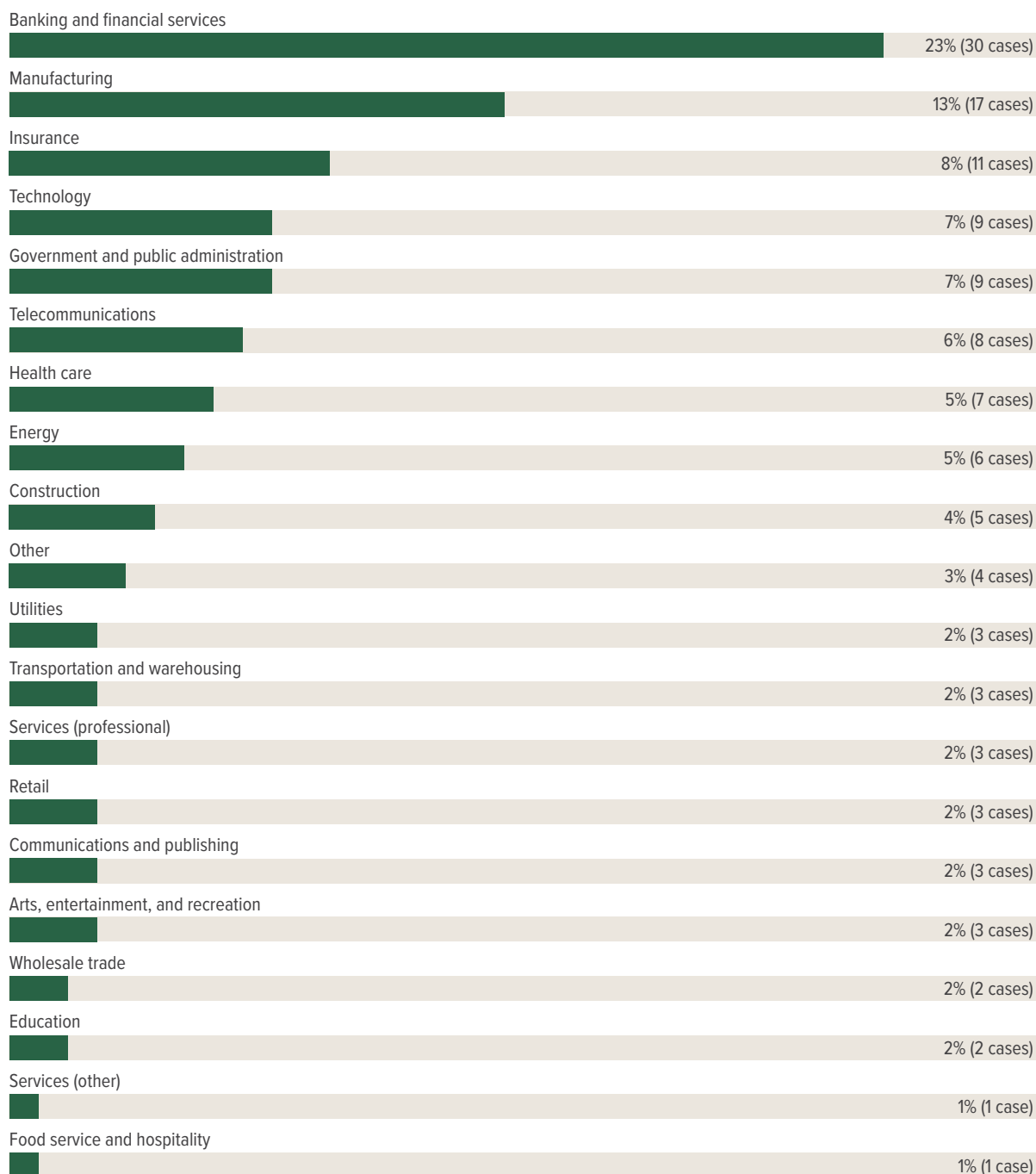
FIG. 6 How does an organization's size relate to its occupational fraud risk in Western Europe?



## Industry of Organization

Figure 7 illustrates the breakdown of the cases reported to us based on the industry of the victim organization. The greatest number of cases in the Western European region occurred in the banking and financial services, manufacturing, and insurance sectors. Organizations in the banking and financial services sector were the victims in 23% of cases and suffered a median loss of USD 150,000. Readers should note that this data most likely represents industries that tend to employ the greatest number of CFEs, rather than the industries that are most susceptible to fraud.

FIG. 7 What industries in Western Europe were victimized by occupational fraud?



To help organizations in Western Europe benchmark their fraud risk and loss amounts, Figure 8 provides the median loss caused by the reported frauds in the industries for which we received ten or more cases.

FIG. 8 How does occupational fraud affect organizations in different industries in Western Europe?



## Anti-Fraud Controls in Western Europe

Internal controls play an important part in protecting organizations against fraud. As part of our research, we examined which anti-fraud controls the victim organizations had in place at the time the fraud occurred, as well as what internal control weaknesses primarily contributed to the fraud.

FIG. 9 What anti-fraud controls are the most common in Western Europe?

Control	Percent of cases
Code of conduct	93%
Management certification of financial statements	88%
External audit of financial statements	88%
External audit of internal controls over financial reporting	85%
Management review	83%
Internal audit department	80%
Independent audit committee	78%
Hotline	76%
Anti-fraud policy	65%
Fraud training for managers/executives	63%
Fraud training for employees	59%
Formal fraud risk assessments	53%
Dedicated fraud department, function, or team	49%
Employee support programs	48%
Surprise audits	41%
Proactive data monitoring/analysis	38%
Job rotation/mandatory vacation	22%
Rewards for whistleblowers	10%

We compared the median loss and median duration of fraud at victim organizations in Western Europe based on whether they had specific anti-fraud controls in place. The presence of several controls was associated with notable reductions in both losses and duration of fraud (see Figure 10).

FIG. 10 How does the presence of an anti-fraud control relate to the median loss and duration of fraud in Western Europe?

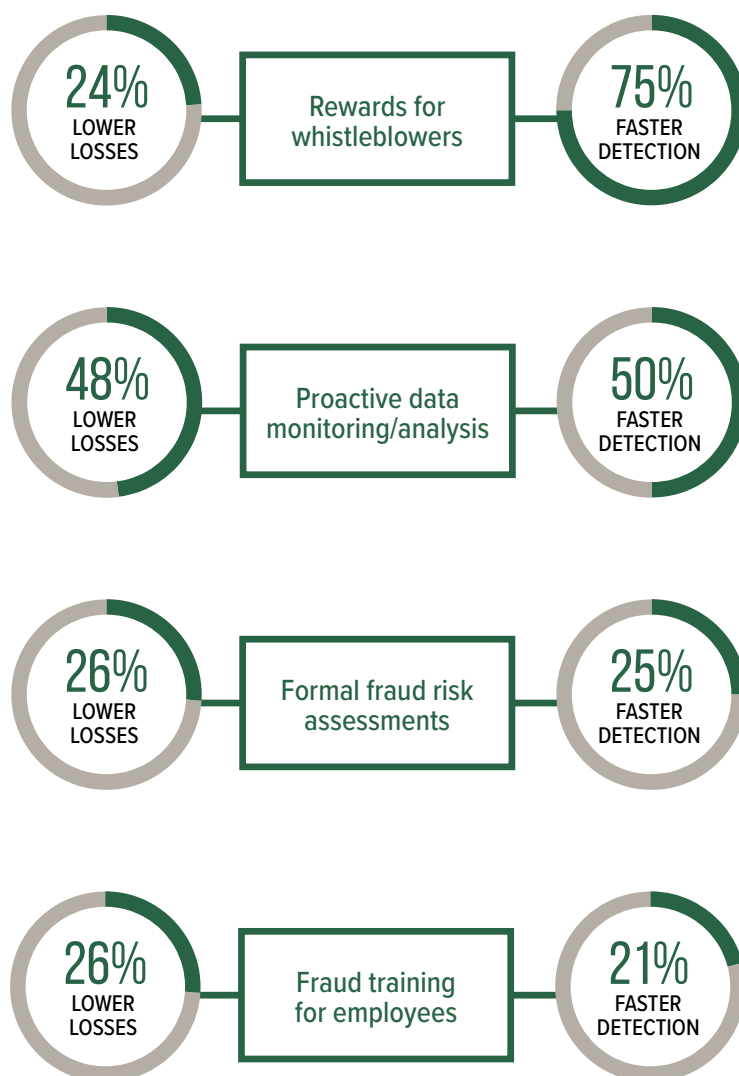
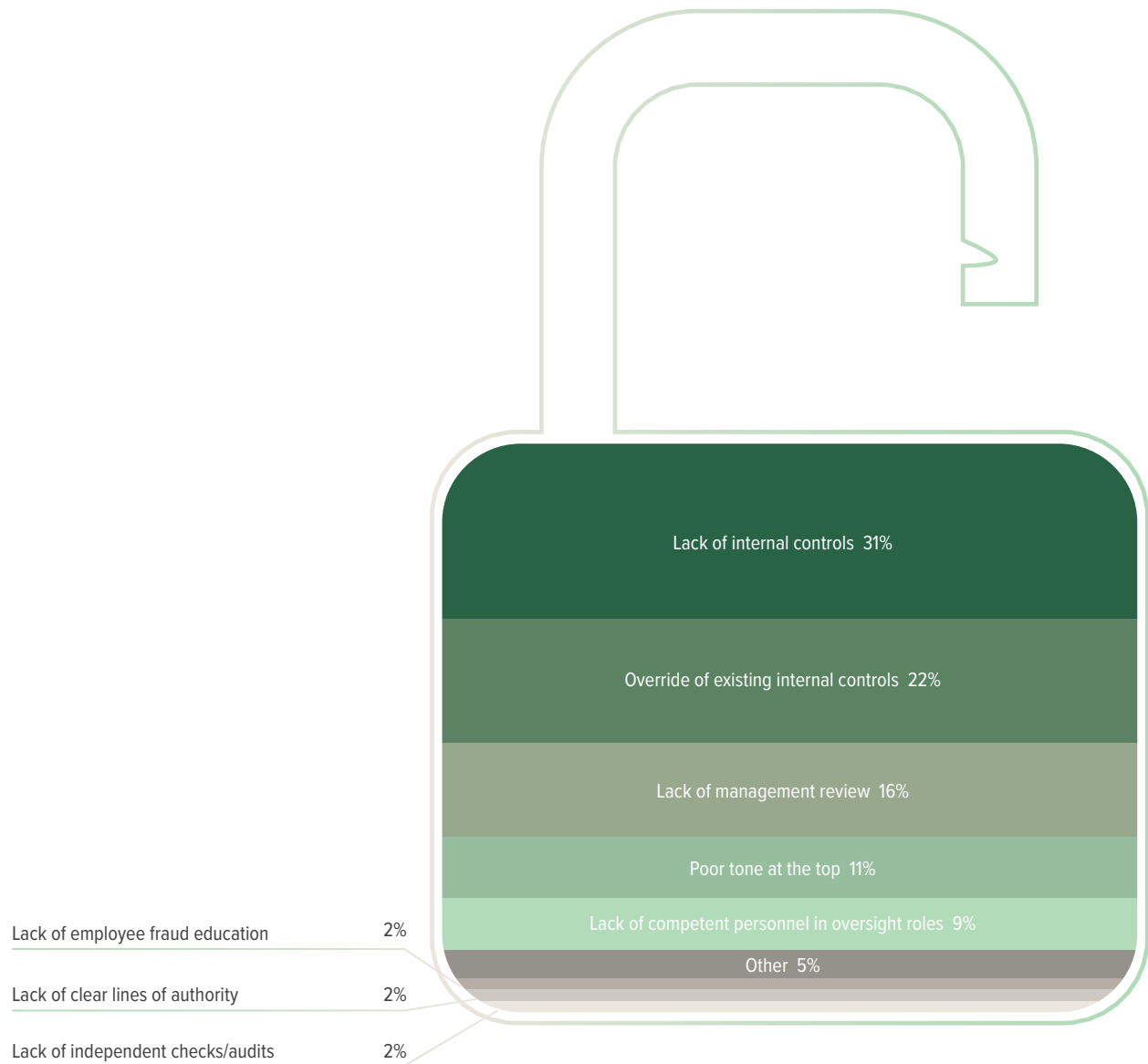
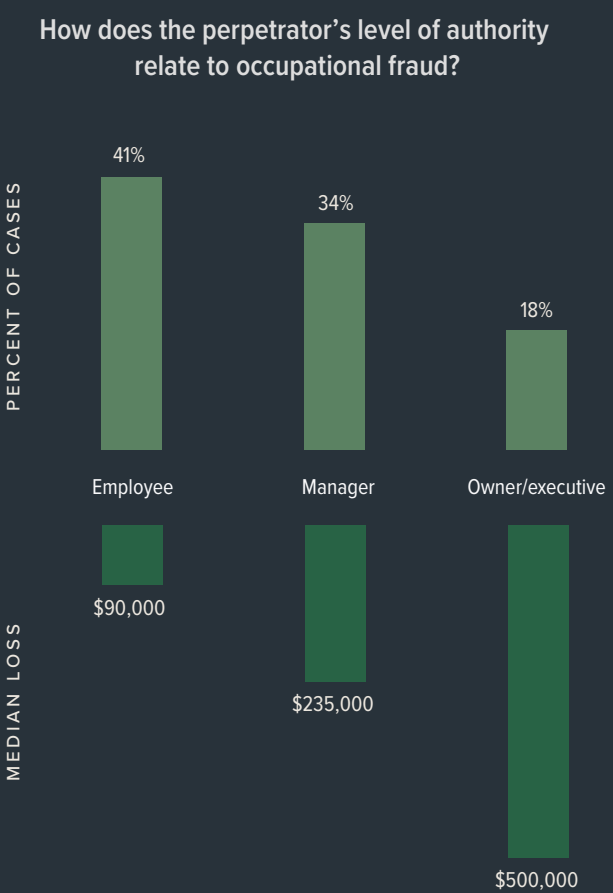


FIG. 11 What are the primary internal control weaknesses that contribute to occupational fraud in Western Europe?

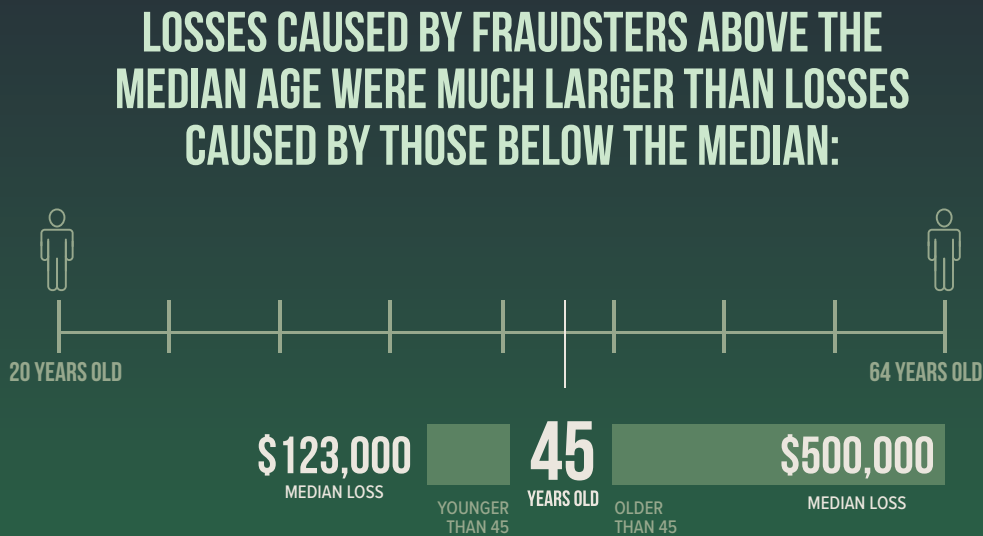


# PROFILE OF A FRAUD PERPETRATOR

Understanding the common characteristics of fraud offenders can help organizations improve their ability to detect fraud and minimize their risk of loss. The following information is based on the perpetrators in our study who committed fraud in Western Europe.



Median age for all fraudsters in the region was



## 77% OF FRAUDS WERE COMMITTED BY MEN



**\$210,000**  
MEDIAN LOSS



**\$157,000**  
MEDIAN LOSS

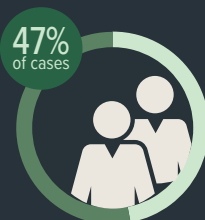
**LOSSES CAUSED BY MEN WERE 34% LARGER**  
than losses caused by women

## MEDIAN LOSSES WERE FAR GREATER WHEN FRAUDSTERS COLLUDED



**ONE PERPETRATOR**

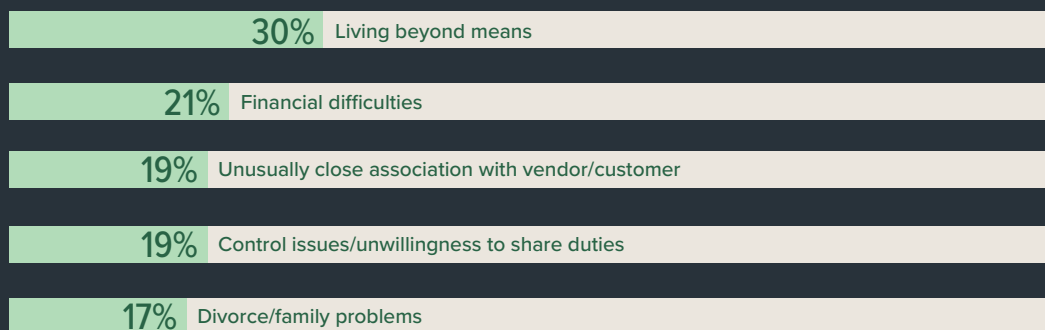
**\$150,000** Median loss



**TWO OR MORE PERPETRATORS**

**\$250,000** Median loss

In 74% of cases fraudsters displayed at least one behavioral red flag.  
The five most common red flags were:



**ONLY 4%**  
OF PERPETRATORS  
HAD A PRIOR  
**FRAUD CONVICTION**



# CASE RESULTS

We also asked respondents what actions the victim organizations took against the perpetrators after the frauds had been detected. Figure 12 shows that 72% of perpetrators in Western Europe were either terminated or permitted or required to resign. However, some perpetrators remained at the organization, with 15% receiving probation, suspension, or no punishment.

FIG. 12 How do victim organizations in Western Europe punish fraud perpetrators?





# LITIGATION AND RECOVERY OF LOSSES

Victim organizations might refer fraud cases to prosecution or commence civil litigation to recover their losses. Our data indicates that over half of cases in Western Europe were referred to law enforcement, while civil suits to recover fraud losses were relatively less common.

## 54% OF CASES WERE REFERRED FOR CRIMINAL PROSECUTION

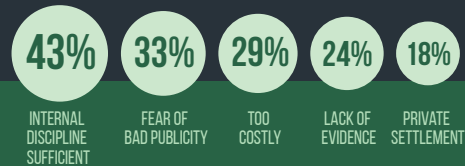


## 31% OF CASES RESULTED IN A CIVIL SUIT AGAINST THE FRAUDSTER

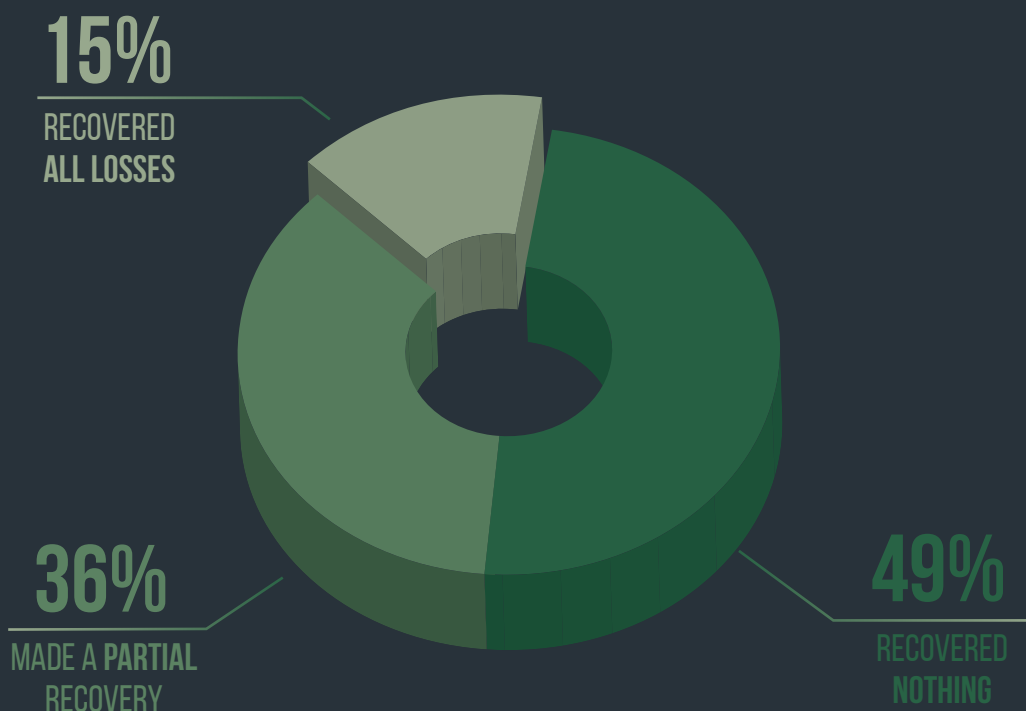


### WHY DID ORGANIZATIONS CHOOSE NOT TO REFER CASES TO LAW ENFORCEMENT?

The top five reasons were:



After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data shows over half of victims made some recovery.



# METHODOLOGY

The 2018 *Report to the Nations* is based on the results of the 2017 *Global Fraud Survey*, an online survey opened to 41,573 Certified Fraud Examiners (CFEs) from July 2017 to October 2017. As part of the survey, respondents were asked to provide a narrative description of the single largest fraud case they had investigated since January 2016. Respondents were then presented with 76 questions to answer regarding the particular details of the fraud case, including information about the perpetrator, the victim organization, and the methods of fraud employed, as well as fraud trends in general. (Respondents were not asked to identify the perpetrator or the victim.) Additionally, after completing the survey the first time, respondents were provided the option to submit information about a second case that they investigated.

## Cases submitted were required to meet the following four criteria:

1. **The case** must have involved occupational fraud (defined as fraud committed by a person against the organization for which he or she works).
2. **The investigation** must have occurred between January 2016 and the time of survey participation.
3. **The investigation** must have been complete at the time of survey participation.
4. **The respondent** must have been reasonably sure the perpetrator(s) was (were) identified.

We received 7,232 total responses to the survey, 2,690 of which were usable for purposes of our global study. Of these usable responses, 130 involved occupational fraud cases perpetrated against organizations in Western Europe; the data contained in this report is based solely on the information provided in these 130 responses.

## Analysis Methodology

In calculating the percentages discussed throughout this report, we used the total number of complete and relevant responses for the question(s) being analyzed. Specifically, we excluded any blank responses or instances where the participant indicated that he or she did not know the answer to a question. Consequently, the total number of cases included in each analysis varies.

In addition, several survey questions allowed participants to select more than one answer. Therefore, the sum of percentages in many figures throughout the report exceeds 100%. The sum of percentages in other figures might not be exactly 100% (i.e., it might be 99% or 101%) due to rounding of individual category data.

Unless otherwise indicated, all loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Average losses were skewed by a limited number of very high-dollar frauds. Using median loss provides a more conservative—and we believe more accurate—picture of the typical impact of occupational fraud schemes.

Additionally, we excluded median loss calculations for categories for which there were fewer than ten responses. Because the direct losses caused by financial statement frauds are typically spread among numerous stakeholders, obtaining an accurate estimate for this amount is extremely difficult. Consequently, for schemes involving financial statement fraud, we asked survey participants to provide the gross amount of the financial statement misstatement (over- or under-statement) involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts.



# ABOUT THE ACFE

Founded in 1988 by Dr. Joseph T. Wells, CFE, CPA, the Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with nearly 85,000 members in more than 180 countries, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively. The ACFE provides educational tools and practical solutions for anti-fraud professionals through events, education, publications, networking, and educational tools for colleges and universities.

## Certified Fraud Examiners

The ACFE offers its members the opportunity for professional certification with the Certified Fraud Examiner (CFE) credential. The CFE is preferred by businesses and government entities around the world and indicates expertise in fraud prevention and detection. CFEs are anti-fraud experts who have demonstrated knowledge in four critical areas: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence.



## Membership

Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals, and educators, all of whom have access to expert training, educational tools, and resources. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, the ACFE provides the essential tools and resources necessary for anti-fraud professionals to accomplish their objectives.

To learn more, visit [ACFE.com](https://www.acfe.com) or call (800) 245-3321 / +1 (512) 478-9000.

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