Introduction

Fraud is a global issue, but it also can present unique problems in different regions. While the ACFE’s 2016 Report to the Nations on Occupational Fraud and Abuse contains several regional comparisons, we wanted to provide a more robust analysis of occupational fraud trends in these areas. Consequently, we present this regional report that provides a closer view of the Canadian cases in our study.

For this report, we looked at 86 cases of occupational fraud against victim organizations in Canada, occurring between January 2014 and October 2015. Many of our analyses involve median loss amounts, which respondents reported in U.S. dollars (USD).

This report contains information on the specific fraud schemes, victim organizations’ demographics and controls, detection techniques, fraud perpetrators, and case results. Our hope is that readers will use this and our other regional reports to help tailor fraud prevention and investigation strategies to the risks in their respective regions.

1 For a glossary of terms used in this report, please see page 80 of the 2016 Report to the Nations on Occupational Fraud and Abuse.
How Occupational Fraud Is Committed

Frequency and Median Loss of Occupational Fraud Schemes

Occupational fraud schemes can be broken down into three primary categories: asset misappropriation, corruption, and financial statement fraud. Of these, asset misappropriation schemes were by far the most common form of occupational frauds among the cases in Canada, which is consistent with both our previous findings and our global data for 2016. Nearly 90% of Canadian cases involved the misappropriation of organizational assets; however, these schemes also caused the smallest median loss of the three categories, at USD 173,000 per scheme. In contrast, financial statement frauds were the costliest type of occupational fraud, with a median loss of USD 500,000, but were the least common, occurring in fewer than 13% of cases. Corruption schemes fell in the middle in both measures, at 26.7% of cases and with a median loss of USD 250,000.
How Occupational Fraud Is Committed

Figure 1: Occupational Frauds by Category—Frequency

- Financial Statement Fraud: 89.5%
- Corruption: 26.7%
- Asset Misappropriation: 12.8%

Figure 2: Occupational Frauds by Category—Median Loss

- Financial Statement Fraud: $173,000
- Corruption: $250,000
- Asset Misappropriation: $500,000

Median duration for all Canadian cases: 24 months
Median loss for all Canadian cases: USD 154,000
How Occupational Fraud Is Committed

To expand the analysis of the types of occupational frauds that affect Canadian organizations, we further broke down the asset misappropriation cases into nine sub-categories; Figure 3 illustrates the frequency of these fraud schemes along with the other two primary categories (corruption and financial statement fraud) for comparison purposes. More than 29% of cases involved billing schemes, making this the most common scheme type perpetrated by the Canadian fraudsters in our study.

Figure 3: Frequency of Fraud Schemes

Concealment of Fraud Schemes

In addition to gathering information about how the frauds were perpetrated, we also asked survey respondents how the perpetrators attempted to conceal their schemes. While the sample size of cases from Canada in which concealment methods were provided was quite small, illustrated below are the four most common methods used by the perpetrators in our study.

- Altered Physical Documents
- Destroyed Physical Documents
- Created Fraudulent Transactions in the Accounting System
- Created Fraudulent Physical Documents
Initial Detection of Occupational Frauds

We asked respondents to identify how the occupational fraud schemes were initially detected, and the results are shown in Figure 4. The most common detection method among Canadian cases was tips (32.6%), followed by management review (20.9%) and internal audit (16.3%). These were also the three most common methods of detection in our global study.

**Figure 4: Initial Detection of Occupational Frauds**
Detection of Fraud Schemes

Impact of Hotlines

We also analyzed how the presence of a reporting hotline affected the method by which fraud was initially detected; the results of this analysis are shown in Figure 5. While we generally expect the presence of a reporting mechanism to increase the likelihood of detection by tip, the contrast between organizations with and without hotlines was stark. Half of the fraud cases in Canada at organizations with a hotline were detected by a tip, compared to only 13.2% of cases at organizations without a hotline in place. Management review and internal audit were the top two detection methods at organizations without hotlines.

Figure 5: Impact of Hotlines on the Top Six Detection Methods

Top Three Sources of Tips

Understanding where tips of fraudulent conduct tend to originate helps organizations tailor their anti-fraud reporting and training programs to be more effective. In cases that were detected by tip, we asked survey respondents to identify the source. The infographic below shows the top three sources in Canada, which include employees (42.9%), customers (17.1%), and vendors (11.4%). While reporting hotlines are commonly designed for employees, this data shows that a significant number of tips come from other parties, something that we also found in our global study. This indicates that in order to maximize the effectiveness of anti-fraud hotlines, organizations should consider promoting those hotlines to external parties such as customers and vendors.
Victim Organizations

As part of our survey, we asked respondents to provide information about the organization that was victimized by the fraud scheme, including the entity’s type, size, and industry, as well as the mechanisms the organization had in place to help prevent and detect fraud.

**Type of Organization**

Figure 6 depicts both the median loss and percent of cases based on the type of organization that was victimized. Privately held companies and government agencies combined represented more than half of the cases reported to us. These organizations also suffered the highest median losses per case, at USD 300,000 and USD 148,000, respectively.

*Not-for-Profit and Other categories had insufficient responses for median loss calculation.*
Victim Organizations

Size of Organization
Small organizations (defined as those with fewer than 100 employees for purposes of this report) were the most common victims in our study, representing approximately 30% of Canadian cases reported to us. Small businesses also suffered the greatest median loss of USD 300,000 per case—nearly three times the median loss experienced by the largest victim organizations (USD 110,000). Compounding this disparity is that small businesses would likely feel the impact of such a loss much more than larger organizations would.

Figure 7: Size of Victim Organization—Frequency and Median Loss
Industry of Organization

Figure 8 categorizes the cases reported to us by industry of the victim organization. Banking and financial services, government and public administration, and health care were the most represented sectors in the fraud cases we examined. However, while this data shows the distribution of cases from our survey, it does not necessarily suggest that certain industries are more at risk of fraud than others. Our data was collected through a survey of Certified Fraud Examiners (CFEs), so this distribution primarily reflects the industries for which CFEs typically provide services.

**Figure 8: Industry of Victim Organization**
Victim Organizations

Anti-Fraud Controls at the Victim Organization

We asked survey respondents which, if any, of several anti-fraud controls were in place at the victim organization at the time the fraud occurred. External audits of the organization’s financial statements were the most commonly implemented control. As reflected in Figure 9, 83.3% of Canadian victim organizations in our study had their financial statements audited by an independent auditor. Other common controls among these organizations were management certification of the financial statements and a formal code of conduct. Interestingly, employee support programs were much more common among organizations in Canada than in any other region in our global study. This initiative can help address pressures that employees face, which—when combined with opportunity and rationalization—often lead to occupational fraud.

Figure 9: Frequency of Anti-Fraud Controls

Key:
External Audit of F/S = Independent External Audits of the Organization’s Financial Statements
Management Certification of F/S = Management Certification of the Organization’s Financial Statements
External Audit of ICOFR = Independent External Audits of the Organization’s Internal Controls Over Financial Reporting
Effectiveness of Controls

To explore the effectiveness of various anti-fraud controls, we compared cases where a certain control had been in place at the time of fraud versus cases where the control was missing. We then measured the size of the loss and the duration of the fraud in each group. As shown in Figure 10, the presence of each control was associated with a lower median loss. Similarly, all but two controls corresponded with quicker fraud detection (see Figure 11).

Figure 10: Median Loss Based on Presence of Anti-Fraud Controls*

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Cases</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>16.2%</td>
<td>$16,000</td>
<td>$250,000</td>
<td>93.6%</td>
</tr>
<tr>
<td>External Audit of Financial Statements</td>
<td>83.3%</td>
<td>$135,000</td>
<td>$750,000</td>
<td>82.0%</td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td>64.7%</td>
<td>$112,000</td>
<td>$396,000</td>
<td>71.7%</td>
</tr>
<tr>
<td>Surprise Audits</td>
<td>31.1%</td>
<td>$80,000</td>
<td>$250,000</td>
<td>68.0%</td>
</tr>
<tr>
<td>Formal Fraud Risk Assessments</td>
<td>35.5%</td>
<td>$80,000</td>
<td>$250,000</td>
<td>68.0%</td>
</tr>
<tr>
<td>Employee Support Programs</td>
<td>77.0%</td>
<td>$125,000</td>
<td>$350,000</td>
<td>64.3%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>39.0%</td>
<td>$98,000</td>
<td>$250,000</td>
<td>60.8%</td>
</tr>
<tr>
<td>Hotline</td>
<td>52.5%</td>
<td>$111,000</td>
<td>$250,000</td>
<td>55.6%</td>
</tr>
<tr>
<td>External Audit of Internal Controls over Financial Reporting</td>
<td>65.8%</td>
<td>$111,000</td>
<td>$250,000</td>
<td>55.6%</td>
</tr>
<tr>
<td>Dedicated Fraud Department, Function, or Team</td>
<td>38.6%</td>
<td>$118,000</td>
<td>$250,000</td>
<td>52.8%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>59.2%</td>
<td>$125,000</td>
<td>$250,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Management Review</td>
<td>61.5%</td>
<td>$138,000</td>
<td>$250,000</td>
<td>44.8%</td>
</tr>
<tr>
<td>Proactive Data Monitoring/Analysis</td>
<td>37.2%</td>
<td>$112,000</td>
<td>$200,000</td>
<td>44.0%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>38.0%</td>
<td>$118,000</td>
<td>$200,000</td>
<td>41.0%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Executives</td>
<td>35.4%</td>
<td>$128,000</td>
<td>$175,000</td>
<td>26.9%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>79.2%</td>
<td>$150,000</td>
<td>$188,000</td>
<td>20.2%</td>
</tr>
<tr>
<td>Management Certification of Financial Statements</td>
<td>79.7%</td>
<td>$150,000</td>
<td>$175,000</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

*Rewards for Whistleblowers was omitted from this table due to insufficient responses for median loss calculation.
### Figure 11: Median Duration of Fraud Based on Presence of Anti-Fraud Controls*

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Cases</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Support Programs</td>
<td>77.0%</td>
<td>13 months</td>
<td>42 months</td>
<td>69.0%</td>
</tr>
<tr>
<td>Dedicated Fraud Department, Function, or Team</td>
<td>38.6%</td>
<td>12 months</td>
<td>36 months</td>
<td>66.7%</td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td>64.7%</td>
<td>12 months</td>
<td>36 months</td>
<td>66.7%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>59.2%</td>
<td>13 months</td>
<td>36 months</td>
<td>63.9%</td>
</tr>
<tr>
<td>External Audit of Internal Controls over Financial Reporting</td>
<td>65.8%</td>
<td>12 months</td>
<td>33 months</td>
<td>63.6%</td>
</tr>
<tr>
<td>Hotline</td>
<td>52.5%</td>
<td>12 months</td>
<td>30 months</td>
<td>60.0%</td>
</tr>
<tr>
<td>Management Review</td>
<td>61.5%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Surprise Audits</td>
<td>31.1%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Formal Fraud Risk Assessments</td>
<td>35.9%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Executives</td>
<td>35.4%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>39.0%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>38.0%</td>
<td>12 months</td>
<td>24 months</td>
<td>50.0%</td>
</tr>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>16.2%</td>
<td>15 months</td>
<td>24 months</td>
<td>37.5%</td>
</tr>
<tr>
<td>Proactive Data Monitoring/Analysis</td>
<td>37.2%</td>
<td>15 months</td>
<td>24 months</td>
<td>37.5%</td>
</tr>
<tr>
<td>Management Certification of Financial Statements</td>
<td>79.7%</td>
<td>18 months</td>
<td>24 months</td>
<td>25.0%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>79.2%</td>
<td>24 months</td>
<td>24 months</td>
<td>0.0%</td>
</tr>
<tr>
<td>External Audit of Financial Statements</td>
<td>83.3%</td>
<td>24 months</td>
<td>24 months</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*Rewards for Whistleblowers was omitted from this table due to insufficient responses for median duration calculation.
Internal Control Weaknesses That Contributed to Fraud

Survey respondents also provided information about the internal control breakdowns that contributed to the fraud. A straightforward lack of controls was primarily to blame in more than 30% of Canadian cases, making this the top contributing factor. In one-quarter of the frauds, existing controls were overridden by the perpetrator, and in nearly 18% of cases, a lack of managerial oversight allowed the scheme to occur.

**Figure 12: Primary Internal Control Weakness Observed by CFE**
Perpetrators

We asked survey respondents to provide information about the fraud perpetrators they investigated, including the fraudster’s level of authority, the department where he or she worked, the perpetrator’s gender, and the behavioral signs that the fraudster had exhibited prior to or during commission of the fraud.2

2 In cases where more than one perpetrator was involved, the data on perpetrators relates to the principal perpetrator, which we defined as the person who worked for the victim organization and who was the primary culprit.
Perpetrator’s Position
The fraudster’s level of authority within an organization was strongly correlated with the size of the fraud, as shown in Figure 13. Only 19.5% of occupational frauds in our Canadian dataset were committed by owner/executives, but these cases resulted in a median loss of USD 835,000, which was significantly higher than the losses caused by employees or managers. This result was consistent with our global data and with prior studies; high-level fraudsters tend to have greater ability to override internal controls and greater access to organizational resources and thus typically cause greater financial damage when they commit fraud.

Figure 13: Position of Perpetrator—Frequency and Median Loss

*Other category had insufficient responses for median loss calculation.
Perpetrators

Perpetrator’s Department

Figure 14 shows the departments where Canadian fraudsters worked within their organizations. The most common source of occupational fraud was the sales department, which was identified in more than one-fifth of our Canadian cases. The sales department was followed by operations, accounting, executive/upper management, and customer service, each of which was identified in more than 10% of all cases. These were also the five departments most commonly associated with occupational fraud in our global report.

Figure 14: Department of Perpetrator—Frequency
Perpetrator’s Gender

Approximately 65% of occupational frauds in our Canadian cases were committed by males, as shown in Figure 15. While the disparity between male and female fraudsters in Canada was large, it was actually lower than in most other regions. We found in our global study that males were responsible for 69% of occupational frauds worldwide, and Canada had the second-lowest rate of male fraudsters among the nine regions we examined.

Figure 15: Gender of Perpetrator—Frequency

![Figure 15: Gender of Perpetrator—Frequency](image)

Losses caused by male fraudsters were significantly higher than those caused by females (see Figure 16). The disparity in median loss based on gender has been consistent since we began tracking this data in 1996.

Figure 16: Gender of Perpetrator—Median Loss

![Figure 16: Gender of Perpetrator—Median Loss](image)
Perpetrator’s Criminal and Employment History

Perpetrator’s Criminal Background

Only 4.1% of occupational fraudsters in the Canadian cases in our study had been previously convicted of a fraud-related offense (see Figure 17). Historically, we have found that very few occupational fraud perpetrators have prior fraud convictions. It should be noted, though, that in more than 41% of Canadian cases in our study, the fraud was never reported to law enforcement (see Figure 19 on page 24). This suggests that the number of occupational fraudsters who are repeat offenders may be higher than the conviction data would indicate.

Figure 17: Criminal Background of Perpetrator
Perpetrator's Employment History
Approximately 8% of fraud perpetrators had been previously terminated by an employer for fraud-related conduct, and approximately 8% had previously received some other form of punishment, such as a suspension or reprimand, for fraud-related activity. This also suggests that the number of occupational fraudsters who are repeat offenders is higher than prior criminal conviction data would indicate.

Figure 18: Employment Background of Perpetrator
OCCUPATIONAL FRAUD PERPETRATORS OFTEN EXHIBIT CERTAIN BEHAVIORAL CHARACTERISTICS ASSOCIATED WITH THEIR CRIMES.

THE FOLLOWING BEHAVIORAL RED FLAGS WERE IDENTIFIED IN AT LEAST 20% OF CANADIAN FRAUD CASES IN OUR STUDY:

- Irritability, Suspiciousness, or Defensiveness: 24%
- Living Beyond Means: 56%
- Financial Difficulties: 32%
- Divorce/Family Problems: 20%
- Wheeler-Dealer Attitude: 21%
- Complained About Inadequate Pay: 20%

46% OF CANADIAN OCCUPATIONAL FRAUDSTERS HAD COMMITTED SOME FORM OF NON-FRAUD WORKPLACE VIOLATION DURING OR PRIOR TO THEIR FRAUDS.

THE MOST COMMON NON-FRAUD VIOLATIONS WERE:

- Bullying or Intimidation: 31%
- Excessive Absenteeism: 15%
- Excessive Tardiness: 9%
Case Results

Criminal Prosecutions and Civil Suits

We asked respondents about the outcome of their fraud cases, including whether the cases were referred to law enforcement for criminal prosecution or pursued in civil court. Figure 19 shows that 58.7% of Canadian cases were referred to law enforcement, which is very similar to the criminal prosecution rate in our global study (59.3%). Conversely, 34.3% of cases in Canada resulted in civil litigation, which was about 11% higher than the rate of civil litigation in our global report.
Case Results

Figure 19: Cases Resulting in Referral to Law Enforcement or Civil Suit

Recovery of Losses
Detecting and investigating fraud is crucial to mitigate current losses and to serve as a deterrent against future frauds. However, our study suggests that organizations are rarely made whole through fraud recovery efforts, even when the perpetrator is identified. In fact, more than 60% of organizations in Canada recovered no losses resulting from the fraud. Only 7.9% of organizations obtained a full recovery.

Figure 20: Recovery of Victim Organization’s Losses
Action Taken Against Perpetrator

Recovering assets is not the only goal of a fraud examination. It is also important to identify perpetrators at the organization and take appropriate disciplinary action against them. As shown in Figure 21, approximately 70% of Canadian victim organizations terminated the perpetrator. Interestingly, the third-most common response among Canadian cases was for the perpetrator to receive no punishment. In our global report, “no punishment” ranked last among these possible responses to fraud.

Figure 21: Action Taken Against Perpetrator
Methodology

This report is based on the results of the 2015 Global Fraud Survey, an online survey opened to 41,788 Certified Fraud Examiners (CFEs) from July 2015 to October 2015. As part of the survey, respondents were asked to provide a detailed narrative of the single largest fraud case they had investigated since January 2014. 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 internal fraud, or fraud committed by a person against the organization for which he or she works).

2. The investigation must have occurred between January 2014 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.

Respondents were then presented with questions 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. We received 7,497 total responses to the survey, 2,410 of which were usable for purposes of our global study. Of these usable responses, 86 involved occupational fraud cases perpetrated against organizations in Canada; the data contained in this report is based solely on the information provided in these 86 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 certain figures throughout the report exceeds 100%. Additionally, all charts throughout the report include only those categories for which we received at least one response from survey participants.

All loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. 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 ACFE is the world’s largest anti-fraud organization and premier provider of anti-fraud training and education. Together with more than 75,000 members in more than 150 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 initiatives including:

- Global conferences and seminars led by anti-fraud experts
- Instructor-led, interactive professional training
- Comprehensive resources for fighting fraud, including books, self-study courses and articles
- Leading anti-fraud publications, including *Fraud Magazine™*, *The Fraud Examiner* and *FraudInfo*
- Local networking and support through more than 170 ACFE chapters worldwide
- Anti-fraud curriculum and educational tools for colleges and universities

The positive effects of anti-fraud training are far-reaching. Clearly, the best way to combat fraud is to educate anyone engaged in fighting fraud on how to effectively prevent, detect and investigate it. By educating, uniting and supporting the global anti-fraud community with the tools to fight fraud more effectively, the ACFE is reducing business fraud worldwide and inspiring public confidence in the integrity and objectivity of the profession. The ACFE offers its members the opportunity for professional certification. The Certified Fraud Examiner (CFE) credential is preferred by businesses and government entities around the world and indicates expertise in fraud prevention and detection.

Membership

Immediate access to world-class anti-fraud knowledge and tools is a necessity in the fight against fraud.

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. More than 75,000 members from all over the world have come to depend on the ACFE for solutions to the challenges they face in their professions. 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 or call (800) 245-3321 / +1 (512) 478-9000.

Certified Fraud Examiners

Certified Fraud Examiners (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. In support of CFEs and the CFE credential, the ACFE:

- Provides bona fide qualifications for CFEs through administration of the CFE Exam
- Requires CFEs to adhere to a strict code of professional conduct and ethics
- Serves as the global representative for CFEs to business, government and academic institutions
- Provides leadership to inspire public confidence in the integrity, objectivity and professionalism of CFEs