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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 Canada. This study is based on the 82 cases of occupational fraud in Canada that were reported in our 2017 Global Fraud Survey. Collectively, these cases, which accounted for 4% of all cases in our global study, caused a median loss of USD 200,000 and lasted a median 12 months before they were detected.

This report contains information on fraud losses in the Canadian cases we analyzed, 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. We hope this report will be of value to our readers in Canada, helping them tailor fraud prevention, detection, and investigation strategies to the specific fraud risks faced by their clients and employers.

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1 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.

2 For a glossary of terms used in this report, please see pg. 78 of the 2018 Report to the Nations.
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; 85% of cases in Canada involved the misappropriation of assets. These cases caused a median loss of USD 200,000. Financial statement fraud schemes accounted for 14% of Canadian cases and also had a median loss of USD 200,000, while corruption schemes occurred in 40% of cases and caused a median loss of USD 250,000.
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 2 shows the breakdown of the cases in Canada among the nine sub-categories of asset misappropriation, along with corruption and financial statement schemes for comparison purposes. Corruption was at least twice as common as any other scheme type, followed by billing schemes, which occurred in one-fifth of the Canadian cases reported to us.

FIG. 2 What are the most common occupational fraud schemes in Canada?

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>40%</td>
</tr>
<tr>
<td>Billing</td>
<td>20%</td>
</tr>
<tr>
<td>Non-cash</td>
<td>18%</td>
</tr>
<tr>
<td>Financial statement fraud</td>
<td>14%</td>
</tr>
<tr>
<td>Skimming</td>
<td>13%</td>
</tr>
<tr>
<td>Cash on hand</td>
<td>13%</td>
</tr>
<tr>
<td>Expense reimbursements</td>
<td>11%</td>
</tr>
<tr>
<td>Check and payment tampering</td>
<td>10%</td>
</tr>
<tr>
<td>Payroll</td>
<td>6%</td>
</tr>
<tr>
<td>Register disbursements</td>
<td>3%</td>
</tr>
<tr>
<td>Cash larceny</td>
<td>3%</td>
</tr>
</tbody>
</table>
We asked respondents to provide information about how frauds were initially detected. The importance of tips as a fraud detection method is clear; Figure 3 shows that almost a third of cases in Canada were discovered this way. Our data also shows that organizations can increase the amount of cases detected by tips by implementing hotlines—46% of Canadian cases were detected by tip when a hotline was in place, compared to 19% of cases where the organizations did not have one.

**FIG. 3 How is occupational fraud initially detected in Canada?**

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>32%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>21%</td>
</tr>
<tr>
<td>Management review</td>
<td>15%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>Surveillance/monitoring</td>
<td>6%</td>
</tr>
<tr>
<td>External audit</td>
<td>5%</td>
</tr>
<tr>
<td>Account reconciliation</td>
<td>5%</td>
</tr>
<tr>
<td>Document examination</td>
<td>4%</td>
</tr>
<tr>
<td>By accident</td>
<td>4%</td>
</tr>
<tr>
<td>IT controls</td>
<td>1%</td>
</tr>
</tbody>
</table>
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 Canada.

57% of victim organizations had hotlines.

Fraud losses were 15% smaller at organizations with hotlines than those without.

Organizations without hotlines were 3X as likely to detect fraud by:
- Management review
- Accident
- Document examination

Tips are by far the most common initial detection method.

Employees provided the most tips, while a substantial amount also came from anonymous parties and customers.
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 4, 62% of the frauds in Canada occurred at for-profit organizations, with 40% of the victim organizations being private companies and 22% being public companies. The public companies in our study suffered the greatest median loss, at USD 362,000. Government organizations were the victims in 20% of frauds and had the lowest median loss of USD 55,000. Not-for-profits accounted for 12% of cases reported to us and had a median loss of USD 178,000.

FIG. 4  What types of organizations are victimized by occupational fraud in Canada?

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Percent of Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private company</td>
<td>40%</td>
<td>$205,000</td>
</tr>
<tr>
<td>Public company</td>
<td>22%</td>
<td>$362,000</td>
</tr>
<tr>
<td>Government</td>
<td>20%</td>
<td>$55,000</td>
</tr>
<tr>
<td>Not-for-profit</td>
<td>12%</td>
<td>$178,000</td>
</tr>
<tr>
<td>Other*</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

*Median loss calculation omitted for categories with fewer than ten cases.
Size of Organization

Figure 5 shows that small businesses (those with fewer than 100 employees) experienced the greatest percentage of cases in Canada (38%) and suffered a median loss of USD 200,000. Large organizations (those with more than 10,000 employees) represented 21% of all cases in Canada and also suffered a median loss of USD 200,000. Small organizations, however, are likely to be more significantly impacted by losses of this size than their larger counterparts.

FIG. 5 How does an organization’s size relate to its occupational fraud risk in Canada?
**Industry of Organization**

Figure 6 illustrates the breakdown of the cases reported to us based on the industry of the victim organization. The greatest number of cases in Canada occurred in the banking and financial services, insurance, and government and public administration sectors. 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. 6 What industries in Canada were victimized by occupational fraud?**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and financial services</td>
<td>23%</td>
</tr>
<tr>
<td>Insurance</td>
<td>11%</td>
</tr>
<tr>
<td>Government and public administration</td>
<td>9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6%</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>5%</td>
</tr>
<tr>
<td>Technology</td>
<td>5%</td>
</tr>
<tr>
<td>Retail</td>
<td>5%</td>
</tr>
<tr>
<td>Health care</td>
<td>5%</td>
</tr>
<tr>
<td>Construction</td>
<td>5%</td>
</tr>
<tr>
<td>Services (professional)</td>
<td>4%</td>
</tr>
<tr>
<td>Food service and hospitality</td>
<td>4%</td>
</tr>
<tr>
<td>Education</td>
<td>4%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>2%</td>
</tr>
<tr>
<td>Real estate</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Mining</td>
<td>2%</td>
</tr>
<tr>
<td>Arts, entertainment, and recreation</td>
<td>2%</td>
</tr>
<tr>
<td>Agriculture, forestry, fishing, and hunting</td>
<td>2%</td>
</tr>
<tr>
<td>Services (other)</td>
<td>1%</td>
</tr>
</tbody>
</table>
Anti-Fraud Controls in Canada

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. 7 What anti-fraud controls are the most common in Canada?**

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code of conduct</td>
<td>80%</td>
</tr>
<tr>
<td>External audit of financial statements</td>
<td>72%</td>
</tr>
<tr>
<td>Internal audit department</td>
<td>71%</td>
</tr>
<tr>
<td>Employee support programs</td>
<td>71%</td>
</tr>
<tr>
<td>Management review</td>
<td>68%</td>
</tr>
<tr>
<td>Management certification of financial statements</td>
<td>67%</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>61%</td>
</tr>
<tr>
<td>Hotline</td>
<td>57%</td>
</tr>
<tr>
<td>External audit of internal controls over financial reporting</td>
<td>54%</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>51%</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>51%</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>44%</td>
</tr>
<tr>
<td>Proactive data monitoring/analysis</td>
<td>38%</td>
</tr>
<tr>
<td>Formal fraud risk assessments</td>
<td>35%</td>
</tr>
<tr>
<td>Dedicated fraud department, function, or team</td>
<td>33%</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>28%</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>15%</td>
</tr>
<tr>
<td>Rewards for whistleblowers</td>
<td>10%</td>
</tr>
</tbody>
</table>
We compared the median loss and median duration of fraud at victim organizations in Canada 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 8).

**FIG. 8** How does the presence of an anti-fraud control relate to the median loss and duration of fraud in Canada?
What are the primary internal control weaknesses that contribute to occupational fraud in Canada?

- Lack of internal controls: 33%
- Override of existing internal controls: 22%
- Lack of management review: 20%
- Poor tone at the top: 9%
- Lack of competent personnel in oversight roles: 6%
- Other: 4%
- Lack of employee fraud education: 4%
- Lack of independent checks/audits: 1%
- Lack of clear lines of authority: 1%
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 Canadian perpetrators in our study.

How does the perpetrator’s level of authority relate to occupational fraud?

<table>
<thead>
<tr>
<th>Level of Authority</th>
<th>Percent of Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>47%</td>
<td>$156,000</td>
</tr>
<tr>
<td>Manager</td>
<td>27%</td>
<td>$205,000</td>
</tr>
<tr>
<td>Owner/executive</td>
<td>23%</td>
<td>$600,000</td>
</tr>
</tbody>
</table>

WHERE DID PERPETRATORS WORK WITHIN THEIR ORGANIZATIONS?

- Executive/upper management: 19% of cases
- Accounting: 16% of cases
- Customer service: 13% of cases
- Operations: 11% of cases
- Sales: 10% of cases

Contrary to our global data, median losses in Canada did not vary substantially based on the perpetrator’s age:

- Median age: 45 years old
- Median loss younger than 45: $198,000
- Median loss older than 45: $200,000

Median age for all fraudsters in the region was 45 years old.

CONTRARY TO OUR GLOBAL DATA, MEDIAN LOSSES IN CANADA DID NOT VARY SUBSTANTIALLY BASED ON THE PERPETRATOR’S AGE:
How does the perpetrator’s level of authority relate to occupational fraud?

<table>
<thead>
<tr>
<th>Employee</th>
<th>Manager</th>
<th>Owner/Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>47%</td>
<td>27%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Median loss:

- $156,000
- $205,000
- $600,000

Contrary to our global data, median losses in Canada did not vary substantially based on the perpetrator’s age. These were the five most common departments:

- Operations: 11% of cases
- Sales: 10% of cases
- Executive/upper management: 19% of cases
- Accounting: 16% of cases
- Customer service: 13% of cases

Where did perpetrators work within their organizations?

- Median age for all fraudsters in the region was 45–45 years old.

FRAUDSTERS WHO HAD BEEN WITH THEIR ORGANIZATIONS FOR MORE THAN FIVE YEARS STOLE 47% MORE THAN THOSE WHO HAD LESS TENURE.

Fraudsters who had been with their organizations for more than five years stole 47% more than those who had less tenure.

Losses caused by men were about 1.5x as large as losses caused by women.

IN 87% OF CASES fraudsters displayed at least one behavioral red flag. The five most common red flags were:

- Living beyond means: 33%
- Financial difficulties: 28%
- ‘Wheeler-dealer’ attitude: 23%
- Divorce/family problems: 21%
- Unusually close association with vendor/customer: 21%
CASE RESULTS

We also asked respondents what actions the victim organizations took against the perpetrators after the frauds had been detected. Figure 10 shows that 78% of perpetrators in Canada were either terminated or permitted or required to resign. However, some perpetrators remained at the organization, with 10% receiving probation, suspension, or no punishment.

FIG. 10  How do victim organizations in Canada punish fraud perpetrators?

<table>
<thead>
<tr>
<th>Punishment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Termination</td>
<td>68%</td>
</tr>
<tr>
<td>Permitted or required resignation</td>
<td>10%</td>
</tr>
<tr>
<td>Settlement agreement</td>
<td>10%</td>
</tr>
<tr>
<td>Perpetrator was no longer with organization</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
<tr>
<td>No punishment</td>
<td>6%</td>
</tr>
<tr>
<td>Probation or suspension</td>
<td>4%</td>
</tr>
</tbody>
</table>
Victim organizations might refer fraud cases to prosecution or commence civil litigation to recover their losses. Our data indicates that cases referred for prosecution in Canada lead to a conviction most of the time, while 15% are not prosecuted.

52% OF CASES WERE REFERRED FOR CRIMINAL PROSECUTION

25% OF CASES RESULTED IN A CIVIL SUIT AGAINST THE FRAUDSTER

46% PLEADED GUILTY OR NO CONTEST
15% WERE CONVICTED AT TRIAL
15% WERE NOT PROSECUTED

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

The top three reasons were:

32% PRIVATE SETTLEMENT
29% FEAR OF BAD PUBLICITY
26% TOO COSTLY

After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data shows that 80% of victims were not made whole.
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, 82 involved occupational fraud cases perpetrated against organizations in Canada; the data contained in this report is based solely on the information provided in these 82 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.

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### 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.
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 respondents. 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 or call (800) 245-3321 / +1 (512) 478-9000.

Contact

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