



# Fraud in Australia

2005 – 2011

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& ASSOCIATES

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## Introduction

Many small and medium sized enterprises (SMEs) engage Bookkeepers to undertake a range of accounting functions, from the preparation of monthly and quarterly Business Activity Statements, to payroll, accounts payable and accounts receivable functions.

Significant trust is placed in the Bookkeepers as they often have access to financial records and the ability to make payments via cheques or Electronic Funds Transfer.

Some Bookkeepers are contracted or part-time, while others are full-time employees of an organisation.

During the course of our work with clients, Warfield & Associates has been involved in investigating several instances where fraud perpetrated against SMEs has caused enormous damage to the financial position of the organisation and the lives of the senior managers and proprietors of those businesses. In particular, one case that prompted the research involved a successful company in the construction industry, that despite the hard work of the staff was floundering and contemplating liquidation. Fortunately, they investigated the matter thoroughly, changed their Bookkeeper and took a much more hands on approach to their cash flow. Today it is once again a flourishing business.

The reason for the research is to make SMEs more aware of the risks involved and for them to undertake adequate due diligence on the people they engage or employ and importantly, to regularly monitor their work.

Most Bookkeepers are honest, diligent and perform their work ethically. However, those that are not, can have a devastating impact.

*Brett Warfield*

**Brett Warfield**

Partner

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## Executive Summary

This report presents findings of a 2011 study into the committing of criminal acts of deception by persons who held the role of Bookkeeper, either within an organisation, or, as a contracted provider of bookkeeping services.

The relevant period covered by the research incorporates any conviction in an Australian court of law during the period 1 January 2005 to 31 March 2011 for deception related offences.

Set up two bank accounts linked to the company's account without the knowledge of her boss

### The key findings include:

- 65 cases were identified.
- Nine were male perpetrators and 56 were female.
- Their ages ranged from 25 to 70 years old.
- When men stole, they did so at more than three times the average amount that the women stole.
- A total of \$31,379,761 was stolen over the period, with the average loss being \$482,766.
- Of this, at least \$5.432 million had been repaid by the offenders.
- The largest amount stolen was \$4.6 million by a woman in Geelong, Victoria.
- Nine cases involved more than \$1 million.
- Queensland was disproportionately represented with 31 cases of fraud. However, Victoria lost the most to fraud, which totaled \$14,868,545, stolen by 14 Bookkeepers.
- Gambling was the main motivating factor in 20 of the 65 cases.
- Improving the Bookkeepers' lifestyle was the main motivating factor in 21 cases.
- At least 12 Bookkeepers had prior criminal convictions for fraud offences.
- 37 offenders used Electronic Funds Transfer to credit their own bank accounts with fraudulent payments.
- In one case, a Bookkeeper made 359 unauthorised transactions.
- 11 of the organisations defrauded were involved with the construction industry, losing a total of \$6.376 million.
- The impact of the frauds caused three businesses to go broke and one other had to be sold. At least three more had to lay off staff. Four business owners had to sell properties to keep their businesses going.
- The impact on the Bookkeepers was also devastating, with 54 being gaoled. Four sold their homes to repay the debt.
- At the date of publication of this research, there were another four cases of alleged Bookkeeper fraud currently before the Australian courts.

# About this Research

## Aim of the Research

This report presents findings of a 2011 Australia-wide study into fraud perpetrated by staff or contractors who are described as, or perform the duties of, a Bookkeeper.

The aim of this research is to increase existing knowledge about the impact of those who betray trust and to provide guidance for SMEs who intend to engage a Bookkeeper. Hopefully, it will contribute to a reduction in the incidence of this type of crime in the future.

## How the research was undertaken

The research for this study involved an extensive review of online law judgments, as well as Australian newspaper articles containing court reports that provided details of judgments.

The relevant period covered by the research was any conviction in an Australian court of law during the period 1 January 2005 to 31 March 2011, for deception related offences, where evidence was led that the perpetrator was a Bookkeeper.

Examples of the types of criminal offences that were included in the research included, but were not limited to:

- Embezzlement
- False accounting
- Falsification of accounts
- Forgery
- Fraudulent misappropriation
- Larceny by a clerk
- Make false document
- Make false instrument
- Making false entries
- Obtain property by deception
- Obtaining financial advantage by deception
- Stealing as a servant
- Theft
- Use false document
- Uttering

There were a number of offences committed by Bookkeepers against the Australian Taxation Office, however these were ignored as the focus of the research was on the damage to individuals and organisations.

Convictions for criminal offences provides tangible evidence that a criminal offence has been committed.

## What is a Bookkeeper?

The Institute of Certified Bookkeepers describes bookkeeping as follows:

*"It is about understanding how a business works and then providing accurate figures that enable the business to know exactly how well it is doing..."*

*The basic system of double entry bookkeeping was invented more than five hundred years ago by a Cistercian monk called Luca Pacioli. His system still endures today and is used throughout the world, making bookkeeping a truly international profession...*

*Every business, no matter how large or small, is required by law to 'keep books'. This involves the recording of the financial transactions of a business, whether manually into ledgers or by entering everything onto a computer."*<sup>1</sup>

## About the author

Brett Warfield is a Sydney based Forensic Accountant and Partner of Warfield & Associates. Warfield & Associates is a Forensic Accounting firm that specialises in the prevention, detection and investigation of unethical behaviour, including fraud and corruption.

Brett has twenty-three years Forensic Accounting experience including seven years in senior management with KPMG Forensic in Australia. Prior to KPMG he had nine years as a Financial Investigator with four of Australia's leading corruption investigation bodies including the Royal Commission into the Building Industry in NSW and the Wood Royal Commission into the NSW Police Service, the NSW Building Industry Task Force and the Independent Commission Against Corruption. Prior to that he was a financial and management accountant with BHP Co Ltd.

He has been a frequent commentator on topical public issues over the years on ABC Radio and Television, SBS Television, Today Tonight and in articles in the Australian, Sydney Morning Herald, the Age, Australian Financial Review, Courier Mail, Daily Telegraph, CFO, Business Review Weekly, Charter Magazine and Choice Magazine.

Brett has the following professional qualifications:

- Bachelor of Commerce, University of New South Wales
- Graduate Diploma in Applied Finance and Investment, Securities Institute of Australia
- Master of Business Administration (Exec), AGSM
- Graduate Certificate in Fraud Investigation, Latrobe University
- Graduate Diploma in Applied Corporate Governance, Chartered Secretaries Australia

<sup>1</sup> <http://www.icb.org.au/About%20Us/What%20Is%20A%20Bookkeeper>

## Amounts stolen

\$4.6 million, \$4.5 million, \$3.2 million. These are very serious numbers for an SME and yet they represent the three largest amounts stolen by Bookkeepers.

65 cases were included in the study with a total amount stolen of \$31,379,761 over the six year period. This represented an average of \$482,766 per fraud.

There were three amounts under \$10,000, with the smallest amount stolen being \$2,609.

AMOUNT DEFRAUDED	NUMBER	AMOUNT
Over \$1 million	9	\$20,486,632
\$500,000 to \$999,999	3	\$2,373,897
\$100,000 to \$499,999	32	\$7,685,309
\$50,000 to \$99,999	7	\$542,108
Under \$50,000	14	\$291,815
	<b>65</b>	<b>\$31,379,761</b>

**Figure 1** Amounts defrauded by range

Nearly one third of all convictions were for frauds involving less than \$100,000. Although not large in size, the impact of these frauds is most often felt by those who can least afford them – small to medium sized businesses, charities and associations.

Made 43 electronic transactions to her own bank account mostly disguising them as payments to the ATO

## Case Study 1

43 year old female. Stole from her 90 year old employer whilst employed as a part time Bookkeeper over a period of five months. Altered cheques, including one from \$198 to \$198,000. Company Accountant had initiated an audit, which showed up the discrepancies.

**Amount stolen:** \$398,000

**Motivation:** Lifestyle. Bought a property for her parents

**Sentence:** Two years gaol



# The Perpetrators

## Sex

86% of the offenders were female. This is extraordinary. We approached the Institute of Certified Bookkeepers in Australia to find out the percentage of members who were female in order to see if this was representative of the population. They confirmed that their membership base was predominantly female.

We also referred to a recent survey<sup>2</sup> of Bookkeepers in June 2010 conducted on behalf of the Australian Taxation Office which recorded the gender of 550 respondees as being split 81% female and 19% male.

Therefore, the results appear consistent with the population of Bookkeepers in Australia.

Started the fraud two months after joining business

SEX	NUMBER	AMOUNT	AVERAGE
Male	9	\$11,350,293	\$1,261,144
Female	56	\$20,029,468	\$357,669
	<b>65</b>	<b>\$31,379,761</b>	<b>\$482,766</b>

**Figure 2 – Total fraud by sex**

When men stole, they did so at more than three times the average amount that the women stole.

Of the nine frauds that exceeded one million dollar frauds, five were committed by women.

2 State of the Industry 2010. Bookkeepers who provide BAS services for a fee. Final Report. GFK Bluemoon, June 2010, Page 19

## Case Study 2

30 year old female who was with the business for a long time. Stole money over a six year period. She was the only one with the special passwords required to undertake payments and she was able to work from her home if she wanted to. Worked 12 hours per week as a Bookkeeper. Business had to halve its staff numbers and move to a smaller premises. She filed for bankruptcy without repaying any money.

**Amount stolen:** \$1.8 million

**Motivation:** Prop up her other businesses which were failing

**Sentence:** Four years gaol



## Age

The age of the Bookkeepers as at conviction and/or sentencing has been used as the reference point. Of the 65 cases, ages were stated in 61 instances. The following table breaks down the age groups.

AGE GROUP	NUMBER	AMOUNT	AVERAGE
Under 31	6	\$2,435,616	\$405,936
31-40	20	\$8,906,354	\$445,318
41-50	17	\$8,658,322	\$509,313
51-60	13	\$4,381,725	\$337,056
61-70	5	\$6,535,326	\$1,307,065
	<b>61</b>	<b>\$30,917,343</b>	

**Figure 3 – Fraud broken down by age groups**

## How were the frauds done?

The frauds usually revolved around access to either the Electronic Funds Transfer of payments or access to the cheque books of the organisation.

Allowing one person to have almost unfettered access to these payment mediums is asking for trouble. This is because the only thing preventing fraud from happening is their honesty and integrity.

- In 37 cases the Bookkeepers simply transferred money to their own bank accounts via the Electronic Funds Transfer system.
- 13 Bookkeepers wrote cheques to either 'cash', their own name, or to a third party for their benefit.
- Four stole cash.
- In 11 of the cases the modus operandi of the Bookkeeper could not be determined due to a lack of information.

The increased use of Electronic Funds Transfer by businesses to pay creditors and staff will no doubt place greater responsibility in the hands of Bookkeepers. Unless there is adequate controls over the Electronic Funds Transfers, this type of fraud will only grow in number and size in the future.

### Case Study 3

70 year old female employed in a family business in the construction industry. Several family members ended up with insomnia, anxiety and depression. Perpetrator and her husband sold their home and accessed his superannuation. Now has no significant assets and she and her husband live with one of their daughters.

**Amount stolen:** \$291,000

**Motivation:** Stole for the welfare of her three daughters

**Sentence:** 12 months gaol

## Where were the frauds perpetrated ?

The frauds were broken down by State and Territory in which they occurred.

Queensland had almost half the frauds by number, but was only fourth highest by value. The largest total amount by a State or Territory was in Victoria with nearly half the national total.

Far North Queensland was represented by at least 13 cases equating to one fifth of all national cases. It is not clear why, although the Cairns Post newspaper appears to diligently report Bookkeeping frauds as nine of the cases were reported by them.

STATE/TERRITORY	NUMBER	AMOUNT	AVERAGE
Australian Capital Territory	2	\$260,000	\$130,000
New South Wales	7	\$2,586,089	\$369,441
Northern Territory	3	\$257,800	\$85,933
Queensland	31	\$6,374,514	\$205,629
South Australia	3	\$4,773,225	\$1,591,075
Tasmania	0	\$0	\$0
Victoria	14	\$14,868,545	\$1,062,039
Western Australia	5	\$2,259,588	\$451,918
	<b>65</b>	<b>\$31,379,761</b>	<b>\$482,766</b>

**Figure 4 – Frauds broken down by State and Territory**

My father wanted to retire but he had to work till the day he died because of the state of the business

## Duration of frauds

Of the frauds committed by employees, the longest period the fraud went undetected was for an extraordinary ten years involving more than \$1.4 million.

Of the 65 instances where fraud was committed by a Bookkeeper, the duration of the fraud was identified in 59 cases. The break-up of the duration should be of real concern to those responsible for governance in their organisations. No organisation can completely stop fraud from happening. However, a number of these organisations, had large frauds occurring that were not discovered by their internal control and reviews over what can only be regarded as an unreasonable period of time.

Management may want to believe that in the event of fraud in their organisations, the internal controls will identify the issue fairly quickly. The evidence from the research disagrees. The question that is apparent with a large number of the frauds committed by the Bookkeepers on their employers is, why did it take so long to discover ? This is particularly relevant in the smaller organisations who must have had warning signs that the business was not performing as well as was expected.

Transferred money into personal bank accounts by substituting supplier details for her own

DURATION	NUMBER	AMOUNT	AVERAGE
5 years +	12	\$18,803,999	\$1,567,000
3 years up to less than 5 years	11	\$6,214,541	\$564,958
2 years up to less than 3 years	12	\$1,891,074	\$157,590
12 months up to less than 2 years	16	\$3,198,808	\$199,926
6 months up to less than 12 months	4	\$307,486	\$76,872
Up to less than 6 months	4	\$160,263	\$40,066
	<b>59</b>	<b>\$30,576,171</b>	<b>\$518,240</b>

**Figure 5 – Time taken for fraud to be discovered**

35 cases of fraud lasted more than two years. The longer the period of time that the fraud goes undetected, the greater the impact on the person who commits the fraud and the organisation they defrauded.

It was also extraordinary to see how many unauthorised transactions had been undertaken, such as cheques stolen or changed, EFT transactions, or cash taken. They included cases involving 132 instances, 175, 315, 154, 359, 221, 191, 154, 127 and 312.

Some organisations can withstand a large fraud. They have the economic resources to recover, whether it is through their insurance policy or simply writing off the amount. However, small to medium sized organisations are not so fortunate. There have been cases observed where the fraud has caused the organisation to close its business, often leaving innocent victims, such as creditors out of pocket and employees out of a job.

## How were the frauds discovered ?

Most SMEs don't have large audit teams, nor do they always ensure complete separation of duties. There were a range of ways the frauds came to notice.

- Bank notified the company of an attempted illegal transfer
- New Bookkeeper audited the accounts and found deposits not banked
- Turned herself in
- Auditors discovered the theft
- Discovered by owner when she found an entry where the perpetrator paid for her car service through the company books
- Concerns by the owner who then called in an accounting firm
- After owner shifted the company's offices to Brisbane
- Owner became suspicious when the bills were not paid
- Bank teller tipped off the company about a suspicious transaction and an audit revealed the full extent
- Hired another Bookkeeper for an audit and fraud discovered
- Owner noticed some small amounts of cash were missing and called in an auditor
- MD noticed a decrease in cash flow and hired an investigator
- She made a mistake with a transaction and slipped up... The alarm bells started ringing
- Only detected when a technology expert was hired to investigate anomalies in the computer system
- Treasurer requested information which was not provided and an audit uncovered the fraud
- Only discovered after she left the centre in late 2006 and a new Bookkeeper noticed her predecessor had bumped up her hours and rate of pay
- The Bookkeeper retired and her replacement found some discrepancies which led to the conduct of an audit and the discovery of the thefts
- Crime discovered when she went on holidays
- Auditors found a paper trail of money she had taken that was meant for her creditors

One of the most effective ways to mitigate the risk of fraud in an organisation is to educate staff about fraud and how it occurs. In particular, the warning signs that it may be happening.

SMEs should consider providing fraud awareness training to their staff to ensure these types of issues are identified more quickly.

## What was the motivation ?

It is often unclear what has really motivated a person to commit fraud.

Sometimes there is clear evidence of asset accumulation or a gambling addiction.

Based on evidence provided to the courts, we have tried to identify the motivation in each case. As can be seen, there were still 14 instances where this could not be done.

Lifestyle and gambling were equally prevalent as the main reasons the Bookkeepers committed the frauds. However, the average value of each gambling motivated fraud was three times that of fraud motivated by improving their lifestyle.

MOTIVATING FACTORS	NUMBER	AMOUNT	AVERAGE
Improve Lifestyle	21	\$4,893,800	\$233,038
Gambling	20	\$15,522,461	\$776,123
Prop up failing business of Bookkeeper or family member	4	\$5,601,169	\$1,400,292
Drugs	2	\$362,210	\$181,105
Purchase Property	2	\$412,143	\$206,072
Medical Expenses	2	\$83,000	\$41,500
Unknown	14	\$4,504,978	\$321,784
	<b>65</b>	<b>\$31,379,761</b>	

**Figure 6 – Motivating factors for the frauds**

## Impact of the frauds on the Victims

As the majority of the victims were private companies, there are no figures available on their turnover or staff numbers that may assist in understanding their resources, or ability to withstand the frauds.

Therefore, we have relied on the evidence presented to the courts as to how the frauds impacted them.

The best way to present the impact on the businesses and individuals who suffered the frauds is to list some of the outcomes of the frauds. These include:

- Livelihoods of 70 families were endangered as the company nearly went under.
- The owner had to sell his business, despite battling to save it.
- A conveyancing company collapsed.
- Business owner's plans to retire at 55 went out the window and he was working up to seven days a week, 12-14 hours most days, so as to sustain the business.
- Owner had to sell a property to stop the business going broke.
- Owner believes it will take 15 years for the company to recover the lost money. Staff were sacked.
- Several family members ended up with insomnia, anxiety and depression.
- Queensland's Building Services Authority suspended its licence at the height of the Bookkeeper's fraudulent activity because of financial instability.

Signed his own name on some of the client's cheques

### Case Study 4

50 year old female transferred \$3.7 million to her personal savings, home loan and personal trust accounts. Also overstated her annual leave entitlements and paid herself excess super. Withdrew \$2.8 million at various gambling venues.

**Amount stolen:** \$4.6 million

**Motivation:** Gambling

**Sentence:** Five years gaol



# Impact of the frauds on the Bookkeepers

## Sentences

Not all people convicted were sentenced to a gaol term. Of the 65 cases, 54 received gaol sentences, whether full time or part time/weekend detention. The balance received suspended sentences, home detention, community service/community based order or good behaviour bonds.

The table below indicates the average length of sentences after taking into account mitigating factors. These are not the head sentences, but the minimum terms that the perpetrators faced.

AMOUNT	AVERAGE LENGTH OF GAOL SENTENCE	NUMBER OF CASES	NON CUSTODIAL SENTENCES
Over \$1 million	3 year 8 months	9	0
\$500,000 to \$999,999	2 years 5 months	3	0
\$100,000 to \$499,999	1 year 5 months	32	3
\$50,000 to \$99,999	12 months	7	0
Under \$50,000	11 weeks	14	8
		<b>65</b>	<b>11</b>

**Figure 7 – Sentences recorded by size after taking into account mitigating circumstances**

As can be seen, there was a much greater likelihood of a custodial sentence once the amount stolen was over \$50,000. For example, there was a 43% likelihood of gaol if the amount stolen was less than \$50,000, compared to a 93% likelihood of gaol as the amount rose to exceed \$100,000.

## Recompense and financial burden

There were at least four instances where Bookkeepers sold their homes to repay the money stolen.

Some significant amounts were repaid. Examples included:

AMOUNT DEFRAUDED	AMOUNT REPAYED
\$131,000	\$140,000
\$234,000	\$234,000
\$159,000	\$159,000
\$291,000	\$291,000
\$342,000	\$342,000
\$4.6 million	\$3.7 million
\$107,000	\$107,000
\$890,000	\$219,000

**Figure 8 – Amounts repaid by perpetrators**

The impact on those who committed the frauds was significant. It included:

- Perpetrator paid back the money by selling her home and moving into a caravan.
- Perpetrator sold her house and repaid the debt.
- To raise that money, she and her husband sold their home and accessed his superannuation. The appellant now has no significant assets and she and her husband live with one of their daughters.
- One offender agreed to work for an entire year without pay in order to repay the money stolen.
- The perpetrator ended up living in a caravan with her husband in her daughter's back yard.
- The perpetrator was made bankrupt.
- Sold her house and car and arranged a personal loan to repay the money she had defrauded from her boss. Living in a granny flat under her parents' place.
- Perpetrator now on Centrelink benefits. 200 hours unpaid community service and 10 months to repay the money, to be paid fortnightly from her Centrelink payments. Mother of 5 children.

## Case Study 5

31 year old female. Stole from her employer over nearly five years by transferring money into her own bank accounts. Claimed lack of supervision of her work. Purchases included 48 luxury handbags. Sold the family home and repaid at least \$219,000.

**Amount stolen:** \$890,000

**Motivation:** Lifestyle

**Sentence:** Two years gaol

## Ways to mitigate the opportunities for this to happen in the future

Resources are always going to be an issue for the small businesses. The medium sized organisations should be in a better position to ensure internal controls are more robust.

We have developed the following list of options for the SMEs to consider. Not all will be financially viable. However, we strongly recommend that they be given serious consideration.

- Require a criminal history check be undertaken for any new Bookkeeper or person who has access to cheques, EFTs or banking and also check their references.
- Does the Bookkeeper have appropriate qualifications and are they members of an industry body such as the Institute of Certified Bookkeepers, Institute of Chartered Accountants Australia or the Association of Accounting Technicians ?
- Carefully consider whether you allow bank statements, cheque butts and invoices to leave the business premises.
- Don't allow the Bookkeeper to undertake financial transactions on behalf of the organisation from their own premises.
- Ensure that a senior manager of the business reviews and approves all payments.
- Review bank statements regularly and ensure a monthly bank reconciliation is always done.
- Consider engaging an independent Accountant to prepare the financial statements and audit the records.

### Case Study 6

40 year old female working in the construction industry. Cashed company cheques made out to herself. Forged her employer's signature. She ripped out the cheque butts so the cheques would not be missed. No previous criminal convictions. Repaid the stolen money.

**Amount stolen:** \$8,825

**Motivation:** Poker machines due to loneliness

**Sentence:** Immediate parole

## Contact Us

# WARFIELD & ASSOCIATES

Warfield & Associates is a professional services firm specialising in Forensic Accounting and the prevention, detection and investigation of unethical behaviour, in particular fraud and corruption.

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