

Economic crime: people, culture & controls

The 4th biennial Global Economic Crime Survey
Belgium



Introduction



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PricewaterhouseCoopers Belgium is pleased to present the results of its biennial Global Economic Crime Survey for the Belgian market. 75 companies of different sizes (20 of which are listed) and active in different industries participated in this survey. The survey provides unparalleled depth of insight into perceptions, awareness and the impact of economic crime on business around the world.

Fraud continues to be a prominent issue and has become increasingly important in the eyes of the world’s business players. Over 33% of the Belgian companies participating in the survey have been faced with one or more significant cases of economic crime during the past two years. And, again, like its predecessor, our 2007 survey reveals that no industry is immune from fraud.

The impact and consequences of economic crime cannot be ignored. The survey reveals that companies suffer significant losses due to it. In addition, over 47% of Belgian business leaders believe that economic crime causes collateral damage, including damage to brand, customer trust and staff morale.

Identifying the internal and/or external parties involved in the incident requires the development of more-effective measures and controls. The Belgian survey reveals that in over 35% of reported incidents a foreign party is involved. This insight tends to impact investment procedures and decisions of Belgian companies doing business abroad.

We have many years’ track record in the field of fraud prevention and investigations. Our biennial survey enhances our knowledge of the most prevalent economic crimes. The outcome enables us to continuously develop and refine our forensic services.

In the fight against economic crime we are unlikely to find a panacea, but we are finding out more about “what works and what doesn’t”. There is no doubt we need to continue working on this process together with business communities, who have been willing to participate in our survey despite the rather sensitive topic. For this, we would like to express our thanks.

Table 1 – Participating Industries

Industry sector	Belgium	Western Europe	Global
Aerospace & Defense	4,0%	1,3%	1,7%
Automotive	1,3%	5,4%	4,9%
Chemicals	12,0%	3,7%	3,7%
Communication	2,7%	1,9%	1,9%
Energy, Utilities & Mining	2,7%	6,3%	7,2%
Engineering & Construction	5,3%	7,6%	7,2%
Entertainment & Media	4,0%	2,8%	2,8%
Financial Services	4,0%	14,3%	13,4%
Government Services/Public Services		1,9%	2,1%
Healthcare	4,0%	3,6%	3,1%
Insurance	2,7%	2,7%	3,5%
Industrial Manufacturing	13,3%	14,0%	14,8%
Pharmaceuticals	6,7%	2,9%	2,7%
Retail & Consumer	13,3%	7,0%	5,9%
Technology	4,0%	6,3%	6,5%
Transportation & Logistics	14,7%	5,2%	3,7%
Other Industries or business activities	5,3%	13,1%	15,0%

“Over 77% of the companies that took part in our research have fewer than 1,000 employees.”

Belgian companies participating in the survey

The Belgian companies participating in the survey operate in a diverse range of industries. The manufacturing industry, however, represents the largest group.

The financial services industry accounts for a mere 4%, whereas, on a global scale, this industry represents over 13% of all respondent companies.

On a global scale, the chemical and pharmaceutical industry represents nearly 6.5% of all participating industries, whereas, in Belgium, it counted for over 18.7% of respondents (see Table 1 – Participating Industries).

Before exploring the different types of fraud that companies have suffered over the past two years, it is interesting to compare companies' recent perceptions as to how prevalent individual categories of fraud are, against the actual incidence of such fraud (see Chart 1 – Perceived prevalence of fraud).

An important outcome of the survey is that Intellectual Property (IP) infringement is perceived by 11.1% of Belgian companies as a threat. Corruption & bribery have risen by over 5% (16.4%) compared to our 2005 survey and 8% of respondents believe that money laundering could be considered as a risk for their business. The perception remains relatively static over the years with regard to asset misappropriation (20.9%) and accounting fraud (21.8%), which are considered to be the most common types of fraud (see Chart 2 – Reported incidents).

Overview of the Belgian survey results

1. Fraud, still a significant threat in Belgium

- 33% of companies in Belgium fell victim of economic crime in the past two years, a 28% decrease compared with our previous 2005 survey. This is 10% less than the global figure.
- On average, Belgian companies reported suffering 5 fraud incidents since 2005.
- Our survey covers all industries and reveals that no industry is immune to the risk of fraud.

2. Types of economic crime occurring in Belgium

- The number of companies reporting incidents of asset misappropriation, accounting

Chart 1 – Perceived prevalence of fraud

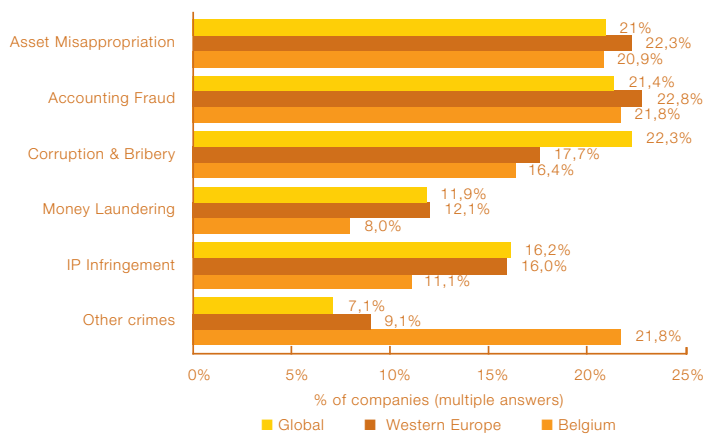
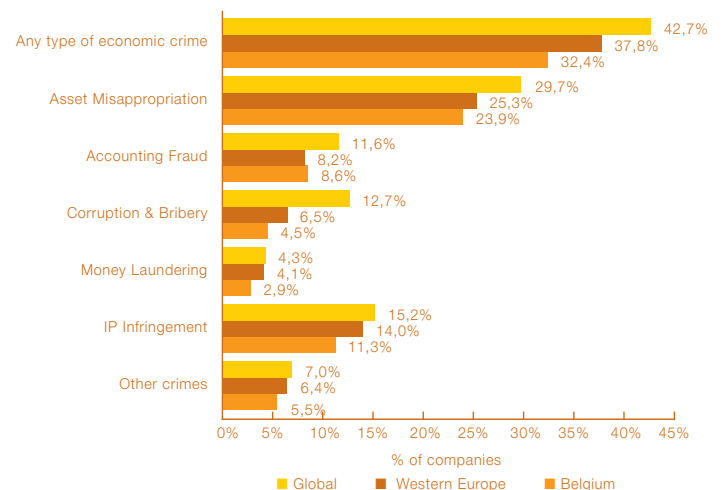


Chart 2 – Reported incidents



fraud or corruption & bribery slightly decreased between 2005 and 2007.

- However, there has been a slight increase in the number of money-laundering incidents and over 11% of participating companies reported IP infringements.

3. Incidence and cost of economic crime

- Our 2007 survey questioned companies on the losses caused by economic crime. The average loss from tangible types of economic crime (i.e. counterfeiting and asset misappropriation) over the past two years was nearly EUR 1,361,000 per company. This is more than twice the amount reported in the 2005 survey. Most of the losses were caused by accounting fraud (average of MEUR 1.9) and corruption & bribery (an average of MEUR 1.7).

- Management costs induced by, the reallocation of management time, or the possible costs of litigation are estimated at EUR 180,000.
- Remarkably, the results of the survey show that over 70% of Belgian companies have not taken out insurance to cover the losses and costs of economic crime.
- Besides these costs, the survey clearly reveals that 48% of the Belgian respondents suffered collateral damage, such as loss of brand reputation, decreased staff motivation, and declining business relations. The impact of such 'collateral damage' was perceived to be strongest in cases where incidents were leaked to customers or the media.

4. External fraudsters and tendency to bribery

- In more than three-quarters (78.3%) of the reported incidents, an external party was

involved. Over a third of these reported that the external party was located in a foreign country.

- Companies operating in eastern Europe, China and Russia typically reported a greater number of incidents involving a foreign party (see Table 2 – Countries where the external parties of the economic crime are located).
- An interesting outcome of the Belgian survey shows that over 10% of the companies were asked to pay a bribe. Nearly a third (28.6%) of these reported that a foreign entity was involved. More than one fifth (22%) of the companies reported they lost an opportunity to a competitor who they believe did pay a bribe.

5. Detecting and preventing fraud

- We inquired about fraud detection measures and the effectiveness of these measures. The results show that nearly

“Over the past 2 years, corruption & bribery caused an average loss of MEUR 1.7 per company in Belgium.”

“Our Belgian 2007 survey reveals that in over 78% of reported incidents an external party was involved.”

Table 2 – Countries where the external parties of the economic crime are located

Country of external party	Belgium	Western Europe	Global
Africa		11,1%	16,9%
Canada		2,2%	4,3%
USA		9,0%	13,7%
South & Central America (inc. MEX & BRA)		0,8%	8,7%
Other Asia & Pacific (exc. India & China)		6,8%	17,8%
India		3,4%	3,5%
China	40,0%	27,0%	26,8%
Other W Europe (exc. GER & UK)	20,0%	37,9%	24,3%
Germany		13,2%	9,1%
UK		13,3%	10,0%
Other CE Europe (exc. Russia & Turkey)	40,0%	17,7%	19,6%
Russia	40,0%	16,3%	11,0%
Turkey		2,3%	3,0%
Other		1,2%	2,0%

weighted - % companies reporting a foreign country involved - multiple answers - 23 Aug 07

two-thirds have implemented staff-selection tests, albeit less than half of the respondents believe in the effectiveness of these tests. The implementation of internal and external audit measures is widespread (over 86%), and the survey shows that Belgian companies feel fairly comfortable with their effectiveness. Over 90% of Belgian companies have developed internal controls and over 90% believe these controls constitute a good detection mechanism. Codes of conduct have been implemented in a majority of cases (77%), and more than half of all respondents believe these guidelines discourage fraud.

- Only 28% of the respondents indicated they had consulted external experts on fraud prevention, but 80% of these are convinced of the effectiveness of external advisers and training.

6. Legislation remains the prevailing reason for fraud-prevention measures

- Many Belgian companies participating in our survey indicated that the enhanced local regulation is one of the reasons for introducing measures for the detection and prevention of economic crime.
- Over 51% stated that local legislation was another driving force behind the measures.
- In 63% of cases, companies already faced with economic crime implemented more stringent measures.

Whereas our 2005 survey revealed that Belgian companies believed that they were most vulnerable to asset misappropriation (embezzlement and the like), our 2007 survey indicates that our respondents consider accounting fraud to be a more important threat to business.

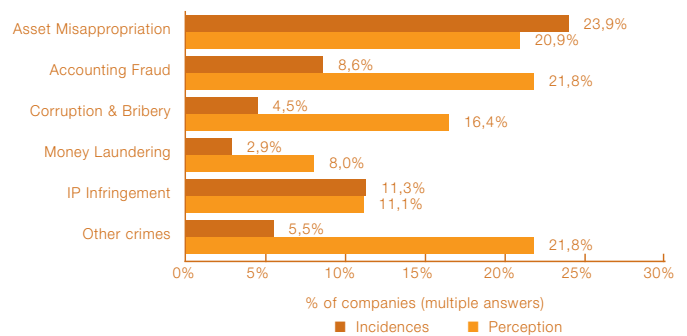
However, this belief is not confirmed by the actual incidence. According to the survey, only 8.6% fell victim to accounting fraud. Asset misappropriation, on the other hand, accounted for 24% of reported economic crime. 16% of Belgian companies are concerned about corruption & bribery, which is up 5% compared to 2005.

Only with regard to IP infringement is there as good as no gap between perception and reality. 11% of participating Belgian companies consider this type of economic crime to be prevalent in their business and 11% did indeed suffer IP infringement issues.

These observations are valid on a European and global level as well. Remarkable is the fact that, on a global level, the economic crime perceived as the most prevalent in business is corruption & bribery (22.3%), whereas this ranks third in Belgium (16.4%).

“Accounting fraud has become the most prevalent economic crime in Belgium at 22%.”

Chart 3 – Comparison of Perception & Incidences



Remarkable figures regarding perception, detection and prevention

Our survey reveals that over 50% of Belgian companies believe they will not be affected by fraud in the coming 2 years. Over 72% believe money laundering will not affect their businesses.

Most of the Belgian companies (90.5%) have implemented some internal control systems in order to deal with the problem of economic crime, but over 35% still do not have any idea of how to tackle the problem.

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