



# Economic Crime Survey Poland 2009

Fraud in a downturn

## Methodology

PwC's 5th Global Economic Crime Survey was conducted between July and November 2009. We invited general managers and corporate executives to participate in our survey. There were 3,037 respondents from 55 countries that took part in answering an online questionnaire. The participants were asked to respond to the questions in regards to (a) their company and (b) the country in which they are located.

Getting these results prepared has taken six months, during which we worked to achieve the highest scientific and analytic standards. Work began with a meticulous selection of questions by the international and interdisciplinary members of the project's Survey Management Board. This was then followed by several weeks of careful data analysis by the PwC survey team. As a result, all findings have gone through several control tests before being released for publication in our survey.

## Introduction



We are very pleased to present to you our fifth Global Economic Crime Survey. Our 2009 survey addresses fraud and its associated integrity risks in a period when most territories around the world have experienced an economic downturn or at least significant slowdown, unprecedented in our working lifetime. The survey looks at the root causes of economic crime, and the way in which it affects businesses worldwide.

Economic crime is a subject of global interest. Senior representatives of 3,037 companies in 55 countries including respondents spread as far afield as Australia to Venezuela completed our web based survey. Respondents were asked a number of 'core' questions on fraud, which enabled us to determine long term trends. They were also asked a number of other questions specifically on the threats which emerge in an economic downturn. 75% of respondents reported their organisation to have suffered a decline in revenues during the last 12 months and therefore their responses provide a useful insight into the types and likely causes of fraud in an economic downturn.

In this year's edition the INSEAD business school assisted us with the scope, content and subsequent interpretation of the survey data. Their involvement has added an extra dimension to the survey bringing significant value to the report.

The aim of the 2009 survey was primarily to:

- assess corporate attitudes to economic crime in the current economic environment, particularly to understand whether economic crime has increased or tends to increase in an economic downturn; and
- understand and explore the trends in relation to economic crime and the reasons for why these might arise.

Our survey shows that economic crime continues to be a serious issue affecting organisations in Poland. Despite increasing regulatory actions and anti-fraud controls introduced by organisations in recent years, economic crime continues to be a threat. Indeed, the global economic slowdown has meant that pressures and incentives to commit fraud have increased.

In this climate, we are continuing to develop knowledge and understanding of fraud and its perpetrators. With this knowledge we are able to identify what organisations can aim to do when it comes to tackling fraud and what should be done to prevent it. We are very grateful to all respondents and organisations who have participated in the survey, and without which we would not have been able to produce this report. We hope that this information will further assist the readers in their ongoing fight against economic crime.

**Brian O'Brien**  
 PricewaterhouseCoopers  
 November 2009

## Overall increase in fraud occurrence

According to this year's survey, 30% of companies in Poland suffered from at least one economic crime during the last year, which leads to a conclusion that fraud in times of crisis, is a significant threat. It is worth mentioning that in Global Economic Crime Survey 2007 43% of companies in Poland reported incidences of fraud, however those occurrences covered a 2-year period. Based on this factor and the number of cases investigated by the Polish forensic practice of PricewaterhouseCoopers, the actual increase in fraud occurrence may be treated as fact.

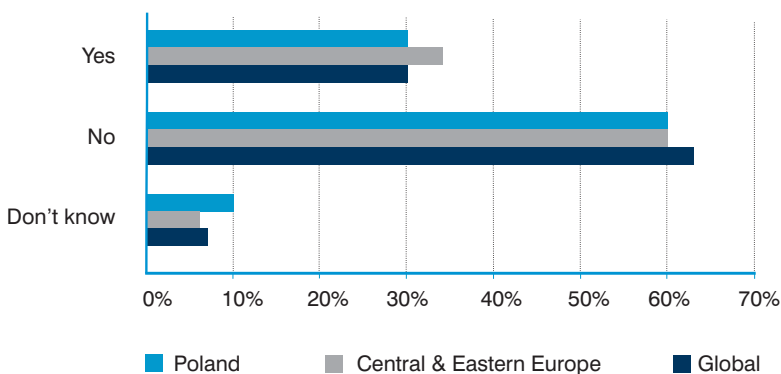
Consequently, Polish companies matched the global level of reported crime where this rate also reached 30%. At the same time, the incidence of economic crimes in Poland during the last year proved to be lower than that in Central and Eastern Europe, which suffered the most from the world economic crisis, where over 33% of companies participating in the survey recorded crimes. Additionally Polish executives at 10 % of companies were not able to ascertain if they suffered from any economic crime, which indicates that there is a possibility of existence of such crime.

The increase in number of economic crimes reported by Polish companies results inter alia, from:

- the economic downturn;
- a constant increase of awareness of fraud-related issues that resulted in common implementation of controls that lead to increased detection;
- a decline in financial performance of the companies that lead to tightening control mechanisms;
- an increase of pressure on managers to meet corporate targets

Along with the increase of occurrence in economic crime, Polish respondents pointed at the threatening scale of this problem. 42% of the companies being victims of fraud reported that the number of incidents during last 12 months was higher than 11. The same portion of respondents declared an increase in the number of crime incidents over last 12 months. A similar trend may be observed both globally and in Central and Eastern Europe, however the percentage of companies facing so many incidents of crime was lower and amounted respectively to 25% and 20%.

### Has any economic crime occurred in the company within the last 12 months?





## Increased fraud risk due to a global downturn

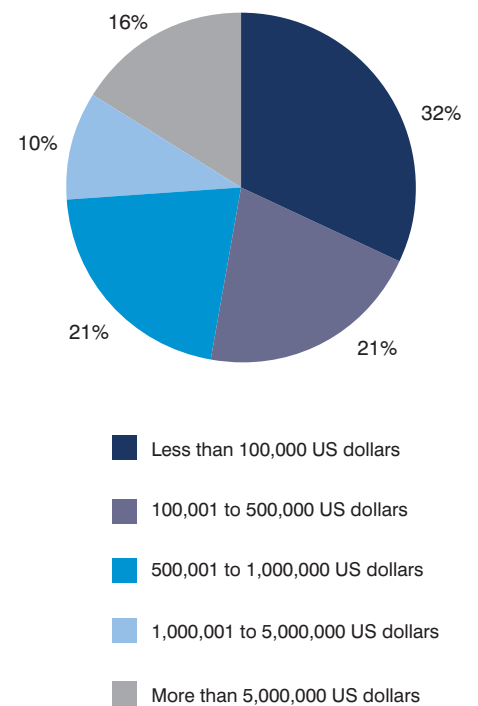
What concerns the most is that one third of the companies perceive increased risk of fraud due to the economic situation. Over 60% of companies indicate that the reasons for the expected greater risk of fraud are increased pressures and incentives to commit fraud in the difficult economic situation. Though the predictions are lower than in Central and Eastern Europe (70%), the companies should take into account that they may face a larger number of frauds.

## The significant costs of economic crime

Comparing to the results of previous surveys, we observe a continuous growth of the losses arising directly from economic crime. While 1/3 of the respondents may still perceive losses of their companies as insignificant (below 100,000USD), almost half of the companies should consider fraud as a serious threat to their operations due to losses of over 500,000 USD resulting from fraud during last 12 months. The significance of this factor is even more threatening when we compare those amounts with 67% of respondents who had reported losses of not more than 250,000 USD in 2007 edition. Apparently, Polish companies are exposed to higher losses than other companies in the CEE region or globally, where respectively 37% and 27% of the respondents estimated losses higher than half million USD.

Despite differences in values between countries and regions, the increase of direct financial losses is common worldwide. Almost half of the respondents in Poland reported an increase in the cost of fraud compared to 12 months ago. In CEE and globally this factor was just slightly lower and reached around 43%.

## Average financial losses resulting directly from economic crime (USD)



## Theft still the most prevalent

Asset misappropriation was the most common type of economic crime in Poland, as well as worldwide, during the last year. Almost 53% of fraud victims in Poland reported asset misappropriation as the fraud they suffered from. The rate reported by companies from Central and Eastern Europe was higher by 6%, while worldwide the incidence of this crime was reported at the level of 67%. Though asset misappropriation is the most common fraud that companies face, only 14% of Polish respondents claim it is the most significant fraud they experienced in last 12 months. In other regions of the world this rate was higher although did not exceed 30%.

Bribery and corruption, suffered by almost 42% of companies, was another common economic crime in Poland. The incidence of bribery and corruption was clearly higher in Poland and Central and Eastern Europe (44%) than worldwide, where 27% of

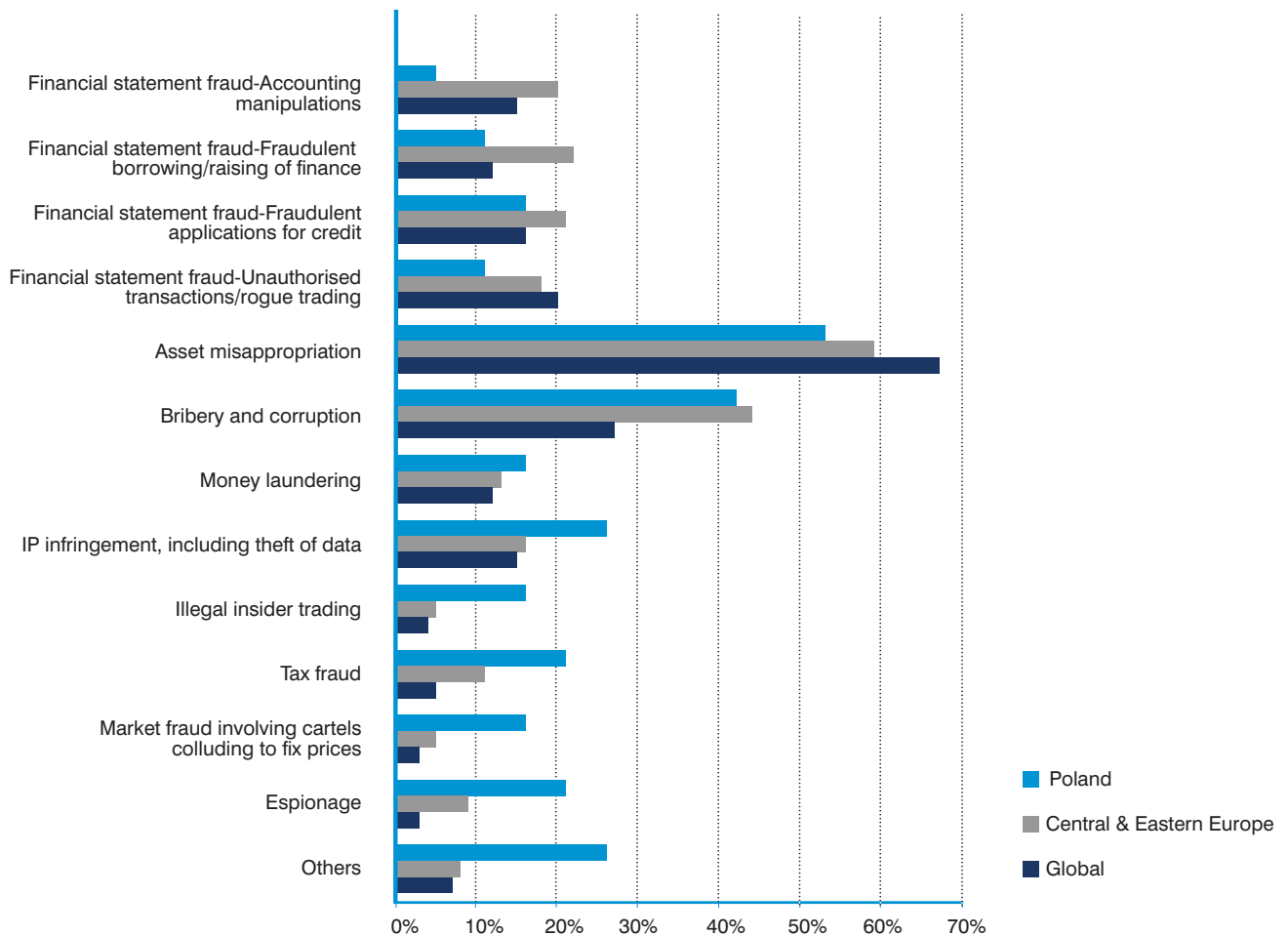
companies suffered from corruption. Simultaneously only 14% of Polish companies perceive bribery as the most significant fraud they experienced last year, which is slightly lower than in our region and worldwide where the rate were 21% and 15% respectively.

Intellectual property infringement is another economic crime, which was reported by 26% of respondents. The incidence of that crime in Poland is significantly more often reported than in Central and Eastern Europe and worldwide, where the rates are 16% and 15% respectively. Combining this with the relatively high percentage of companies in Poland that experienced espionage within the last 12 months (21%) it appears that in Poland the economic crisis caused increased market competition involving illegal actions.

On the other hand in Poland, financial statements fraud are less wide-spread among the companies than in Central and Eastern Europe. Only 10% of respondents

reported that they suffered from fraudulent borrowing or raising finance, whereas in the region the rate exceeded 22%. Fraudulent application for credit was experienced by 16% of companies, which also was lower than in our region, where the percentage of such frauds was at the level of 21%. Also accounting manipulation appears not to be a problem in Poland as only 5% of respondents suffered from that fraud, though in the region and worldwide this type of fraud was experienced by 15-19% of companies. This may indicate that Polish companies are more focused on other, more obvious crimes rather than accounting frauds. In the long-term however we should expect that this type of fraud would reach the level reported worldwide and Polish companies should focus more on their financial reporting.

## Types of fraud that companies experienced in the last 12 months



## The detection mechanisms

The reason to maintain control mechanisms within organizations is to detect potential irregularities, errors or misbehavior of employees and external parties. There are different actions being used by managements of the companies in order to detect fraud. Incidents may be identified through a formal means (e.g. whistle-blowing systems, internal audit functions, anti-bribery procedures) or transpire from informal means (e.g. in the form of information provided by suppliers or customers).

With regard to the detection mechanisms used to identify the most serious economic crimes within the companies, the respondents reported mainly: formal whistle blowing mechanisms, internal audit as well as

internal and external tip-offs as the most common, constituting almost 74% of initially detected of crimes. However in CEE and worldwide these categories amounted to only about 50%. For example formal preventive fraud risk management procedures in Poland played a less important role than abroad.

It is worthwhile to mention that whistle blowing mechanisms used for detecting crimes in Poland seem to have gained an importance recently as previously they were perceived negatively and also few companies declared using those systems.



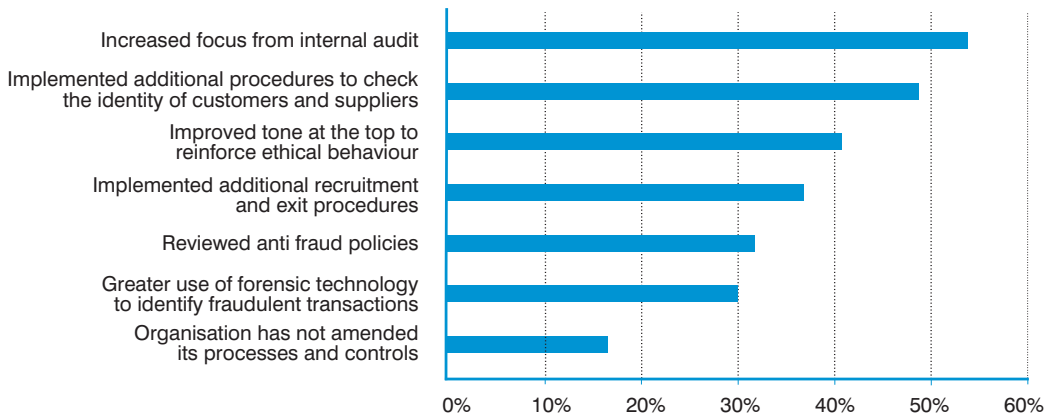
## It is better to prevent than to cure...

For companies it was important not only to have appropriate controls, but also to make regular fraud risk assessments designed to prevent economic crimes. 54% of the respondents answered that such assessments were performed at least once within the last year, while in 29% of the cases there were no assessments. Also the frequency of such fraud risk assessments remained at the same level or was higher than a year before. In 60% of cases the frequency of assessments did not change and in 22% of cases, it increased. Only in 2% of the cases the frequency of performing fraud risk assessments decreased. This indicates that the matter of fraud risk and controls is treated very seriously by the companies.

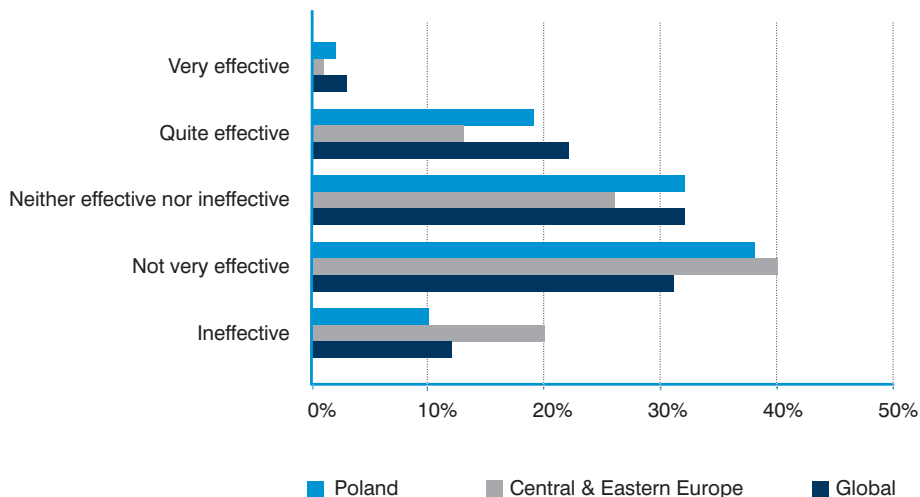
In the last 12 months the majority of organizations improved controls or implemented additional mechanisms, only 18% of respondents have not amended their fraud prevention processes and controls. The most common actions were: increased focus on internal audit, which was reported by 54% of the respondents and implementing additional procedures to check the identity of customers and suppliers (reported by 49% of the respondents). The other important controls which were improved include: implementing additional recruitment procedures, reviewing of anti fraud policies and greater use of forensic technology to identify fraudulent transactions – each reported by more than 30% of respondents.

Our respondents did not find the measures adopted by regulatory and/or law enforcement authorities to be effective. Almost half of them claimed that the regulations that were in place were ineffective or not very effective. Only about 21% of them thought the opposite.

### Most common prevention and detection methods



### Effectiveness of regulators and law enforcement institutions





## Fraud Triangle

Based on our survey it appears that 75% of the companies experienced major or minor declines in financial performance in the last 12 months, while only 16% continued to improve.

We were interested though how respondents perceive the risk of economic crime in the current economic environment. About half of the respondents believe that the risk of economic crime is similar as before, however one third of them think there is greater risk of economic crime. More than 60% of them indicated that this increased risk results from increased pressures and incentives to commit fraud in the difficult economic conditions.

Among these pressures and incentives, some seem to be more significant than others, especially:

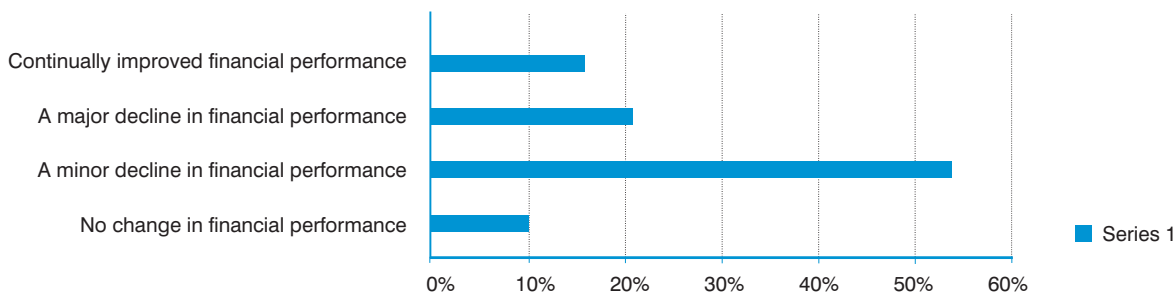
- Targets are more difficult to achieve,
- People are afraid that they might lose their jobs,
- They want to make the numbers in order to earn performance bonuses,
- There is pressure at corporate level to maintain financial performance needed to sustain debt financing provided by lenders.

At the same time there are more opportunities for committing fraud as costs are cut and gaps in control system appear. This is mainly caused by staff reductions resulting in fewer resources deployed on internal controls as well as by the Management actions focused on survival of the business rather than on the control environment.

According to the respondents' view, the rationalization of perpetrators to commit fraud still follows the same patterns as mentioned in our previous surveys:

- People want to maintain their existing standard of living,
- "Others do it so it's okay",
- The bonuses earned by high earner are perceived as unfair,
- The allegations of fraud within the organization are not fully dealt with.

## Company's financial performance during last 12 months



## Summary

This year's edition of Crime Survey revealed very strong correlation between the occurrence of economic crime and the global economic environment. Polish companies, which have not been exposed to the full force of the global economic crisis, did not avoid more intense attacks of perpetrators. Companies in Poland have been facing more incidents of fraud and as a result incurred higher losses directly from economic crime from economic crime than 2 years ago.

As the focus on company survival appears to be a natural strategy in a downturn, stakeholders should not ignore the importance of controls and fraud risk management activities as even significant investment in these areas would be much less than the potential losses the company may suffer as a result of fraudulent actions by management, employees and third parties. The question all executives should ask is whether their company can afford the additional risk associated with fraud while also facing the crisis.



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