

Guarding against the risk of fraud, corruption, abuse and avoidable losses during economic turmoil



Can aggressive cost reduction by management result in a significant impact on resources in compliance and internal audit functions?

Does an economic slowdown impact the risk of fraud or misconduct? While taking additional risk may be necessary, whose job is it to evaluate the effect of increased risk?

How strong are your organisation's three anti-fraud lines of defense: business, finance and compliance/audit?

How does your fraud management and compliance programme compare to your peers?

Does your organisation's compliance programme meet the minimum legal, regulatory and professional standards?

Fraud's hidden cost? It pulls management away from other critical issues.

The vast majority of executives (77%) say fraud impacts their use of time, having spent on average more than USD 639,000 over the last two years in "management costs" related to dealing with the fallout from a significant fraud¹.

During economic turmoil, the risk of fraud, corruption and abuse increases

It's a fact. When markets constrict – and when growth slows and revenues come under pressure – the risks of corporate fraud and misconduct escalate. Across the workforce, the fear of losing jobs, bonuses and benefits can silently undermine corporate cultures – even those recognised for upholding a high standard of ethics, behaviours and values. For some people, "doing the right thing" is hard to live up to when unpaid bills start piling up on the kitchen table. And when some of the consequences of cutting costs take effect – like weaker enforcement of segregation-of-duties restrictions and fewer resources dedicated to the internal audit and compliance function – risks rise.

Are companies adequately prepared to forestall these events? Or respond immediately when they occur? Or remediate vulnerabilities quickly to minimise the risk of a repeat occurrence?

Compliance – are you as protected as you think you are?

For many corporate risk managers, compliance officers, internal auditors and general counsels, the answer is often a cautious yes. This confidence, however tenuous, should make sense. After all, for the last several years of increased awareness of these issues, many companies have started implementing programmes and controls to prevent and detect fraudulent financial reporting, misappropriation of assets and criminal conduct in compliance with a rich tapestry of requirements.

But the findings from PwC's Global Economic Survey 2007 suggest that some of this confidence is misplaced. Responses from more than 794 companies operating in Central and Eastern Europe (CEE) reveal that 37% of frauds were detected by corporate controls, an increase of eleven percentage points in the previous two years². In spite of the increase, almost two thirds (63%)³ of the fraudulent acts were detected by means beyond any influence of the management as they represent external factors such as tip-offs or were discovered by accident.

Costs are rising – along with other business impacts

Meanwhile, the business consequences of fraud continue to increase.

In CEE, the average loss per company from fraud has more than tripled over a two year period – from roughly \$0.9 million in 2005 to \$3.4 million in 2007⁴.

The indirect costs are harder to measure – but, in some cases, may be more significant. Take opportunity costs, for example. Responses to PwC's survey indicate that 45% of companies believe that they lost an opportunity to a competitor whom they believe may have paid a bribe⁵.

¹⁻⁵ Source: PricewaterhouseCoopers Global Economic Crime Survey 2007

Prevention pays.
One Fortune 10
company recently
realised a 13:1
return on its
programme.



A proactive approach
makes good business
sense – especially in difficult
economic times

A strong corporate culture alone
will not protect an organisation
from significant misconduct. While
cultivating an ethical work environment
is a critical first step, attacking
significant risks also requires

- an effective first line of defense,
- strong internal controls,
- monitoring/auditing procedures that leverage technology to detect key risk indicators on a timely basis.

When economic conditions decline,
companies should proactively consider
fraud risks – particularly those most
common or unique to their industry
and theatres of operation – as part
of their anti-fraud programmes rather
than waiting for government bodies,
auditors, customers or the press to
find fraud, waste or abuse.

With proper planning, policies and
procedures, and controls, companies
can reduce the risk of serious fraud,
identify fraud occurrences early
and minimise the damage thereof.
A detailed fraud risk management
programme can also help companies
effectively respond to a fraud incident
with appropriate investigation and
remediation.

As always, prevention is better
than a cure. And the payoff can
be significant.

How we can help

PricewaterhouseCoopers' experienced
and knowledgeable teams manage
and reduce the risks of fraud,
corruption or abuse.

We can help you:

- Identify your organisation's vulnerability to financial and operational irregularities and evaluate potential gaps in your anti-fraud programme.
- Understand how effectively your organisation's misconduct management programme engages people, processes, and technologies to address misconduct risk compared to your peers, as well as industry benchmarks and standards.
- Remediate gaps with practical, customised solutions that identify, monitor and report on key risk factors and indicators; evaluate the likelihood and significance associated with each potential and actual fraud instance; establish processes to track key qualitative and quantitative measures; and provide the training required to raise awareness about fraud and misconduct across the organisation.
- Monitor specific business units that require additional oversight by establishing periodic checkpoints for operational fraud risk assessment.
- Develop an effective "first line of defense" by training operations and finance personnel on misconduct risk management.

PricewaterhouseCoopers:
The benefits of a practical,
experienced-based, and
multi-disciplinary approach
to managing risk

Because risk varies by sector and
market, PwC combines fraud subject-
matter specialists, global reach and
local knowledge with our industry
sector operational knowhow to create
a powerful team of professionals who
can create value by helping clients to:

- Avoid revenue leakage.
- Cut spending while avoiding longer term surprises.
- Protect physical and intellectual property.
- Gain a competitive advantage in frontier and emerging markets.
- Mitigate legal and regulatory risk.
- Safeguard brand value and the personal reputation of senior management and the board.

PricewaterhouseCoopers

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders.

More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice

Forensic Services in CEE

With the largest network of forensic services practices in the world, spanning 63 countries and employing over 1,400 specialists, PricewaterhouseCoopers firms can draw on vast experience of dealing with difficult situations across a broad spectrum of industries in many jurisdictions.

Our fast-growing Forensic Services practice in CEE employs over 60 professionals, including accountants, economists and IT experts.

Our services include:

- Investigations
- Fraud Risk Management
- Commercial Disputes
- International Arbitration
- Transaction and Shareholder Disputes & Investigations
- Forensic Technology Solutions
- Intellectual Property Services
- Licensing Management Services
- Insurance Claims Services
- Anti-Money Laundering Services
- Capital project services
- U.S. Regulatory Investigations and Securities Litigation

For more information, please contact:



John Wilkinson
Moscow, Russia

Tel.: +7 495 543 0743
E-mail: john.d.wilkinson@ru.pwc.com

Partner, Forensic Services Leader for CEE, Russia and CIS



Sirshar Qureshi
Prague, Czech Republic

Tel.: +420 251 151 235
E-mail: sirshar.qureshi@cz.pwc.com

Partner, Forensic Services Leader for Czech Republic



Jan Vylita
Bratislava, Slovakia

Tel.: +421 259 350 417
E-mail: jan.vylita@sk.pwc.com

Director, Forensic Services Leader for Slovakia and Hungary



Brian O'Brien
Warsaw, Poland

Tel.: +48 22 523 4485
E-mail: brian.obrien@pl.pwc.com

Partner, Forensic Services Leader for Poland and Baltic States



Kemal Ozmen
Bucharest, Romania

Tel.: +40 21 202 8614
E-mail: kemal.ozmen@ro.pwc.com

Director, Forensic Services Leader for Romania and South East Europe