

Economic crime risks are prevalent in emerging markets.

What can you do to mitigate the risks?

Fraud remains problematic

Fraud remains a problematic issue for businesses worldwide. According to PricewaterhouseCoopers' 2007 Global Economic Crime Survey (GECS), total losses reported by companies globally surpassed \$4.2 billion since the previous study in 2005. The number of reported incidents of fraud in the "Emerging Markets" (E7) countries, comprised of Brazil, China, India, Indonesia, Mexico, Russia, and Turkey, are consistent with the statistics from a global perspective. However, according to the GECS, corruption and bribery and asset misappropriation are reported more frequently in the Emerging Markets.

Over 45% of the \$4.2 billion was lost by companies operating in the Emerging Markets. Asset misappropriation, which involves the theft of company assets including cash and inventory, occurred in 19%–43% of the companies that comprise the Emerging Markets.

These findings are part of the most thorough assessment undertaken in the Emerging Markets regarding the prevalence of economic crime, business perceptions of incidences, and responses to economic crime in E7 countries.

Regarding Emerging Markets, the survey also revealed:

- In 2007, the average loss from fraud has increased over 40% since 2005. Yet, Mexico (an E7 country) experienced a 300% increase in average cost related to economic crimes in the same two year span.
- Average losses from fraud in Emerging Markets were more than double those in the rest of the world.
- Twenty-one percent to fifty-four percent of E7 corporations reported that they had been asked to pay a bribe.

Undoubtedly, the Emerging Markets offer significant investment opportunities for US companies, but with such quick integration of their business practices, certain operational processes have fallen short in safeguarding against various fraud risks.

PwC's investigators have substantial experience in conducting and managing investigations throughout the Emerging Markets.

Fraud and the deliberate misuse of company resources by employees and others cost US organizations alone more than \$994 billion dollars annually.¹ Our clients are often in disbelief when an employee or outside party steals from their organization. The realization then sets in that the warning signs were there, but no one noticed. With operations in far off places like China, Latin America, or Russia, to name a few, those warning signs are even more remote from the eyes of corporate headquarters.

Understanding the root causes of fraud

As global foreign investment continues to increase, PricewaterhouseCoopers suggests that each emerging country implement industry-specific fraud risk management programs as well as gain a firm understanding of anti-corruption laws like the Foreign Corrupt Practices Act (FCPA).

While certain companies in the Emerging Markets perceive that a reduction in economic crime may result with the implementation of corrective measures, it is unrealistic to expect decreases in fraud risks without substantial actions to tackle the root of the issue: motive, opportunity, and clearly perceived benefit of reward over punishment.

Within PwC is a group of professionals who perform financial fraud investigations on a full-time basis. PwC's investigators have substantial experience in conducting and managing investigations throughout the Emerging Markets and include professionals who speak Cantonese, Hindi, Mandarin, Portuguese, Russian, and Spanish, among other languages. The group is made up of professionals with a combination of backgrounds, including CPAs (Certified Public Accountants), CFEs (Certified Fraud Examiners), former federal law enforcement officers (e.g., FBI), and federal prosecutors. Their experience ranges from investigating financial statement fraud to performing investigatory due diligence for contemplated acquisitions, to investigating corruption and bribery matters, such as violations to the FCPA.

¹ Association of Certified Fraud Examiners: 2008 Report to the Nation on Occupational Fraud & Abuse.

We assist clients with:

- Assessing compliance risk on an international basis with a focus on heightened risks in Emerging Markets
- Conducting corruption risk assessments (CRA) for pending acquisitions or with existing joint ventures/investments
- Conducting public and private sector due diligence for investors, including anti-corruption due diligence
- Providing global on-call forensic assistance ranging from e-discovery to a wide range of forensic services
- Assisting companies in the design and implementation of anti-corruption compliance programs and training
- Evaluating the complex nature of financial and accounting frauds
- Providing analysis and industry expertise for local and international disputes and litigation support
- Creating and applying innovative IT solutions, including e-discovery readiness, to identify and mitigate the risk of corruption in business process, and help respond to regulators
- Monitoring and testing the implementation of controls and compliance processes

Getting back to business

PwC investigators assist clients in managing the costs that arise from the collateral damage of a fraud, specifically, damage related to brand name, business relations, and shareholder trust. PwC also has the capabilities to help reduce fraud-related risks.

Clients benefit by:

- Identifying internal controls weaknesses
- Assisting in improving internal controls
- Strengthening vulnerable IT systems
- Restoring shareholder confidence and improving business relationship
- Working with regulators with an experienced third party
- Utilizing innovative analysis regarding damages and settlements
- Re-designing business practices to reduce the risk of future financial fraud

PricewaterhouseCoopers professionals are well positioned to help our clients get back to business as usual.

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PH-09-0284