

# Press Release

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**CONTACT:** Ruxandra Bandila, Marketing & Business Development Director,  
PricewaterhouseCoopers Romania  
Tel: +40 (21) 202 8544, e-mail: [ruxandra.bandila@ro.pwc.com](mailto:ruxandra.bandila@ro.pwc.com)

## **ECONOMIC CRIME IS PERVASIVE AT COMPANIES WORLDWIDE**

**36.4% of Romanian respondents were victims to economic crime in the past two years**

### **PricewaterhouseCoopers Finds Controls Alone Are Not Enough Deterrent, Corporate Culture, Ethics and Risk Management Needed to Effectively Fight Fraud**

**Bucharest, 31 October 2007** – Despite heightened efforts at regulation and control, fraud remains a major threat to companies around the world. According to PricewaterhouseCoopers' 2007 Global Economic Crime Survey, nearly half (about the same level as in 2005) of all organisations that were part of the survey, reported they were victims of some form of economic crime in the past two years.

The biennial survey of 5,400 global companies, entitled "Economic Crime: People, Culture and Controls", is the most comprehensive study of its kind, conducted in association with Germany's Martin-Luther University from Halle-Wittenberg. The survey revealed that 43% of the respondents worldwide and 36.4% of the Romanian respondents had suffered one or more incidents of economic crime in the past two years. Total direct losses reported by our respondents were US\$4.2 billion globally and US\$13.7 million in Romania. The losses arose from a variety of economic crimes, including asset misappropriation, accounting fraud, bribery and corruption, money laundering, and intellectual property infringement.

In addition to the direct financial costs of fraud, companies also reported suffering significant "collateral damage" to the day-to-day operations and success of their businesses. Of those reporting fraud in Romania 88 percent reported that they had suffered collateral damage as a result.

The survey found that economic crime is all but universal, affecting companies of all sizes, on all continents and in all industries. And while fraud remains intractable, most companies are confident that their control measures will limit their exposure to fraud in the future. Only 13 percent of Romanian respondents (11% globally) consider it likely they will be the victims of fraud in the next two years.

"It is simply impossible to eliminate economic crime. It's like fighting the mythical Hydra, cutting off one form of fraud merely allows another to grow," said Steven Skalak, Global Investigations and Forensic Leader, PricewaterhouseCoopers "Controls alone are not enough. The answer lies in establishing a culture that supports control efforts and whistle-blowing with clear ethical guidelines. Companies need to build loyalty to the organisation give employees the confidence to do the right thing, and identify clear sanctions for those who commit fraud, regardless of their position in the company."

The 2007 survey revealed a direct correlation between the size of a company and the prevalence of fraud. Among companies of 5,000 or more employees, 62 percent reported being victims of fraud globally. That number dropped to 52 percent for companies with 1001 to 5000 employees and to 32 percent for small companies of less than 200 workers.

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No industry is immune to fraud. Fraud was most prevalent in the insurance and retail sectors, where 57 percent of companies reported fraud, followed by the government and the public sector, with 54 percent, financial services, 46 percent, and automotive, 44 percent (global figures). The types of fraud most common to each industry, varies due to their unique operating characteristics.

### **Types of fraud**

Theft was the most common type of fraud, reported by 23% percent of those who said they had experienced economic crime in Romania. Intellectual property infringement and accounting fraud were both reported by 15 percent of Romanian respondents, corruption and bribery by 10 percent, and money laundering by one percent.

### **The perpetrators of fraud**

Of those responsible for committing fraud in Romania, 89 percent are male, most often between the ages of 31 and 50, with just under half (47 percent) having college educations or advanced degrees. Nearly 20 percent were employed by the defrauded company, 48 percent in senior management, and 83 percent had more than five years with the company.

### **Drivers of fraud**

"Two elements are needed for fraud to occur -- motive and opportunity," Skalak said. "The most common motives for fraud are simple -- need and greed. Opportunities for fraud arise as a result of a weak control environment and from a corporate culture that does not engender loyalty, ethics and compliance."

According to the survey, reasons cited by our Romanian respondents to explain why individuals committed fraud included lacking awareness of values or wrongdoing, 52%, low temptation threshold, 45%, low commitment, 41%, financial incentives, 33 percent, expensive lifestyle, 32 percent. Internal collaboration (with other fraudsters) was cited in 44% of the cases, management override of controls, 30 percent, weak controls, 26 percent and collaboration with external parties, 26 percent.

### **How was fraud detected?**

Despite all Romanian respondents reporting that they have at least one measure in place for the prevention or discovery of fraud, 39 percent of fraud was initially detected via a whistleblower hotline or other tip off -- while the most effective control measure -- internal audit -- was the initial detection method in 13 percent of reported cases, highlighting the importance of a transparent corporate culture that enables employees to recognize and expose improper conduct.

### **Fraud: an illusion of safety?**

Fraud remains an intractable business problem. Global fraud levels have not dropped in the eight years since PwC initiated the survey. However, most companies are confident that their control measures will limit their exposure to fraud in the future. Only 11 percent of companies globally and 13% of companies in Romania believe that it is likely that they will be the victims of fraud during the next two years. With tip-offs or reports to whistle-blowing hotlines continuing to play a dominant role in the initial detection of fraud (39 percent of frauds in Romania and 42 percent of frauds globally were detected in this way), such confidence may be overly optimistic.

**Notes to Editors:**

1. PricewaterhouseCoopers Global Economic Crime Survey 2007 was conducted on behalf of PricewaterhouseCoopers and Martin-Luther University, Halle-Wittenberg by TNS-Emnid in Germany.

The survey was conducted in 40 countries between May and September 2007. Over 5,400 computer-assisted telephone interviews were conducted with CEOs, CFOs and other executives who claimed responsibility for crime prevention and detection within their respective companies. More than half of the respondents (52%) are members of the executive board or company management. 43% stated that their main responsibility was in the field of finance.

The companies were randomly selected with preference given to the 1,000 largest companies of a country and the target number of respondents for each country was determined according to its GDP.

A full copy of the country report can be found at: [www.pwc.com/ro](http://www.pwc.com/ro)

2. PricewaterhouseCoopers Investigations & Forensic Services practice operates across over 50 countries and can deploy experienced and knowledgeable teams to manage and mitigate the threat of corporate crimes and achieve the best possible outcomes. Using in-depth forensic accounting and corporate investigation skills allows clients to continue their business, recover lost funds, and halt further economic losses. The expertise to assist organisations investigate and manage the many risks associated with fraud, abuse and dishonesty comes from the experience of the international staff and their backgrounds in forensic accountancy, forensic IT and private sector investigations as well as regulatory work and law enforcement.
3. PricewaterhouseCoopers ([www.pwc.com/ro](http://www.pwc.com/ro)) provides industry-focused assurance, tax and advisory to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.