

Ukraine

Economic crime in the downturn

The Global Economic Crime Survey
November 2009



Introduction

PricewaterhouseCoopers has completed its annual survey report for 2009, and this year Ukraine is for the first time qualified for a territory-specific study based on a significant level of participants. Ukrainian businesses contributed a total of 65 of 3000 global responses, 70% generated from Ukrainian top management.

The global survey confirms that the economic turmoil of last year is adversely affecting the level of crime in the business environment. Findings in Ukraine are consistent with global results, suggesting increase in the risk of economic crime. Therefore, the detection and prevention of economic crimes is a critical priority for Ukrainian business, particularly in the midst of the current economic crisis.

Survey participants by Industry Segment

Industry Segment	Ukraine	Global survey
Financial services (inc. insurance)	24.62%	20.48%
Retail and consumer	18.46%	8.59%
Professional services	18.46%	5.73%
Energy, utilities and mining (inc. chemicals)	9.23%	9.52%
Technology, entertainment, communication	9.23%	12.05%
Engineering and construction	7.69%	7.44%
Manufacturing and automotive	4.62%	19.00%
Other industries/business	7.69%	17.19%
Total	100%	100%



Economic crime – the intentional use of deceit to deprive another of money, property or a legal right

Summary of key findings

The survey highlights the current level of economic crime in Ukraine:

- 45% of businesses have experienced economic crime during the last 12 months;
- Corruption and job security uncertainties are pointed out as the key factors contributing to economic crime growth;
- Bribery and asset misappropriation are the most common economic crime types;
- 40% of respondents state that their companies are not conducting fraud risk assessments at all, or are unaware of such assessments in their organization;
- 24% of economic crimes uncovered were detected accidentally, and not through the deliberate action of management;
- Future economic crime expectations are on average twice as high in Ukraine compared to global opinion.

Economic crime awareness

45% of Ukrainian businesses have been adversely affected by fraud within the last year, demonstrating the presence of economic crime.

An additional 15% of the respondents are uncertain whether their organizations have experienced incidents of economic crime at all. This statistic is alarming, considering that 70% of the respondents are top executives dealing directly with economic crime detection and prevention.

Factors, contributing to increase of economic crime



The past year’s economic downturn significantly impacted the level of economic crime:

- 35% of respondents confirm an increase in fraud costs during the last 12 months;
- 48% of respondents state an increase in the quantity of cases of fraud.

According to Ukrainian top-managers the most frequent factors contributing to fraud risk growth are:

- Corruption (26%)
- Job security uncertainty (23%)

However, only 13% of global respondents selected corruption as a key fraud growth factor.

Less important in Ukraine (19% of respondents) are aggressive, hard to achieve performance targets, noted as the most influential factor world-wide (47% of respondents globally).



Costs of economic crime

During the last year, 55% of organizations that identified fraud each lost over 100 000 USD directly through incidents of economic crime.

In addition to financial costs, organizations also had to deal with the intangible but substantial impact of economic crime. The most frequently-cited types of non-monetary fraud costs are:

- Decrease of employee morale
- Worsened relations with regulators
- Worsened business relations

The survey response also suggests that the impact on brand and company reputation is insignificant in Ukraine. Furthermore, not a single Ukrainian respondent foresees decrease in share prices as a result of economic crime.



How much does economic crime cost?

Cost	Ukraine	Global survey
Direct costs above 100 000 USD	55%	52%
+ Decreased employee morale	35%	32%
+ Deteriorating relations with regulators	35%	16%
+ Deteriorating business relation	28%	22%
+ Decline of reputation and brand	14%	19%
+ Decreased share price	0%	6%

Types of economic crime

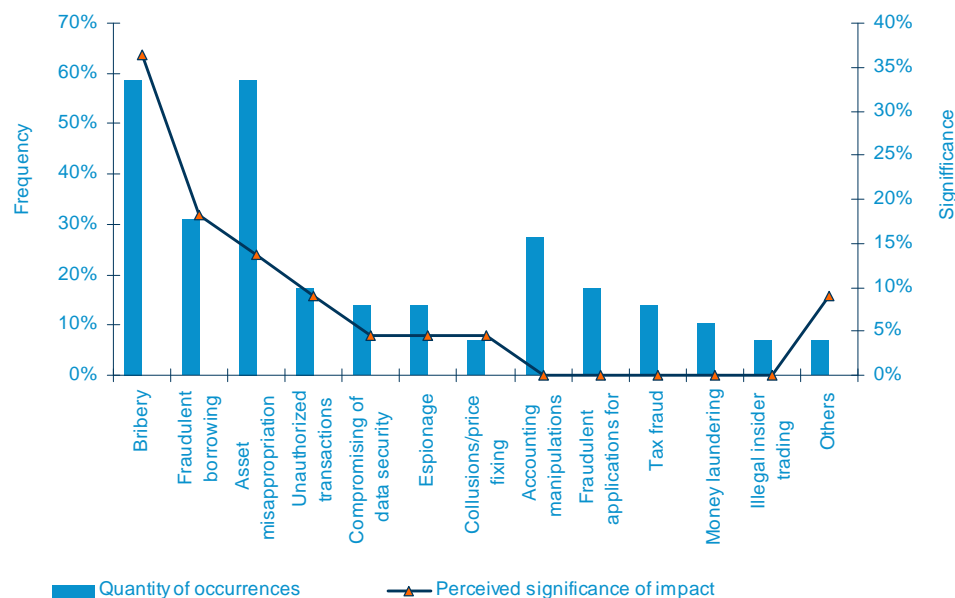
Ukrainian respondents cite bribery and asset misappropriation as the most frequent types of fraud identified during the last year. Insider trading, collusion and price fixing, on the other hand, are the least frequently discovered types of economic crime.

Bribery is considered to be the most significant type of fraud according to Ukrainian top-managers.

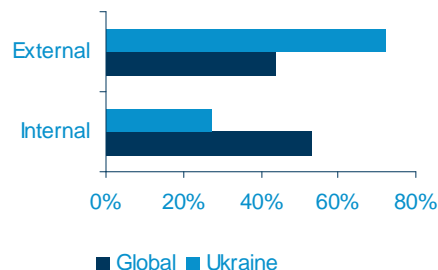
Ukrainian survey results show that the perceived significance of fraud is inconsistent with the frequency of actually uncovered economic crimes

Global results, on the other hand, show that the frequency of economic crime has a direct impact on the perception of its significance.

Frequency and perceived significance of economic crime types



Sources of economic crime threat



Sources of economic crime

72% of Ukrainian enterprises surveyed view fraud from outside the company as the main threat. This view contrasts with the global survey results, where internal threats are accountable for over 53% of all risks.

When breaking down external threats by category, Ukrainian respondents most frequently mention the following sources of fraud:

- Customer relations (33%)
- Agents and intermediaries (19%)
- Vendors (14%)

With respect to internal risk, Ukrainian respondents' focus was concentrated on actions of middle management (88% of respondents). Global survey results assign only 42% of all internal risks to middle management, with the same amount of threat linked to junior staff.

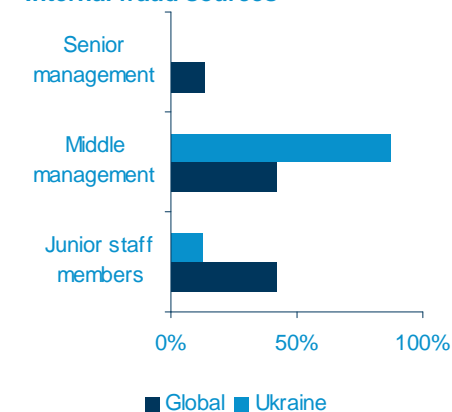
Economic crime detection

Over 50% of all economic crimes in Ukraine, compared to only 26% globally, are identified through risk-management procedures, including a formal whistle-blowing mechanism, or through corporate security.

The source of 24% of identified cases of fraud in Ukraine is either unknown or accidental, compared to less than 16% worldwide. This suggests that Ukrainian business depends on chance when dealing with the detection of economic crime.

Only 7% of Ukrainian fraud detections, compared to 17% globally, result from internal audit, suggesting that this type of review is still in an early development stage in Ukraine.

Internal fraud sources



Economic crime prevention

6% of Ukrainian respondents consider regulatory and law enforcement authorities effective in combating the growth of economic crime. However, despite the lack of faith in the institutions, businesses themselves are slow to respond to this trend in Ukraine:

- Among 52% of respondents, the frequency of fraud assessments and audits has not increased;
- 40% of respondents either are not conducting or have not heard of fraud risk assessments in their organization.

Changes in fraud prevention processes

Change	Ukraine	Global survey
Implemented additional procedures to check the identity of customers and suppliers	47.69%	36.55%
Increased focus on internal audit	46.15%	51.10%
Improved tone at the top to reinforce ethical behavior	36.92%	41.55%
Implemented additional recruitment and exit procedures	33.85%	23.05%
Reviewed anti-fraud policies	30.77%	36.98%
Revised objectives and targets to minimize fraud	26.15%	20.45%
Organization has not amended its processes and controls	21.54%	29.01%
Greater use of forensic technology to identify fraudulent transactions	20.00%	19.20%

Ukrainian companies are focused on implementing additional procedures, while anti-fraud policies and forensic technology remain low on the priority list.

Future expectations

Ukrainian companies are more pessimistic about the future than their global counterparts, citing fraud expectations on average twice as high as the survey's worldwide audience.

The expectations of higher fraud are centered on:

- Bribery and corruption (50%)
- Asset misappropriation (30%)
- Compromised data security (25%)

Comparing these expectations to the current detected cases of fraud, the survey reveals:

- An increase in risks associated with compromised data security, and with money laundering and tax fraud;
- A decline in fraudulent borrowings and accounting manipulation.



Summary

The effects of the financial downturn on economic crime are well-recognized in Ukraine. But the understanding of the nature, causes and responses to economic crime is not uniform. Therefore, developing management procedures may not be sufficient to mitigate the risks of economic crime on their own. And, with the growing cost of fraud, external assistance can be appropriate to detect or avoid this threat.

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