



2020

Fraud and Economic Crime – opportunity in the face of adversity

PwC Uganda Economic Crime and Fraud Survey

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The continued rise of fraud and economic crime is impacting Ugandan companies in diverse ways. This poses some difficult questions for organisations: is our risk management programme agile enough to meet the dynamic challenges being thrown up by a globalised business environment? Are we leveraging technology effectively? How are we responding in crisis situations? Are we prepared for the worst-case scenarios?

The fight to counter laundering of proceeds of crime in the financial services sector saw the Financial Intelligence Authority (“FIA”) enforcing relevant provisions of the Proceeds of Crime and Anti-Money Laundering Act (“POCAMLA”) and regulations and demanding financial institutions to demonstrate that their compliance programmes are adequate and effective.

The Government’s strategies to fight corruption include the National Anti-Corruption Strategy (“NACS”), the Anti-Corruption Act, and the establishment of a specialized anti-corruption court within the judiciary. Internationally, Uganda has been a signatory of the United Nations Convention against Corruption (“UNCAC”) as well as the African Union Convention on Preventing and Combating Corruption since 2004.

Most recently, the President announced the creation of a toll free hotline to fight corruption in the public sector and led civil servants, supporters and police officers on an anti-corruption walk through the capital. This has also enhanced its efforts in the fight against corruption with high profile arrests and probes commissioned by the President.

Despite these efforts, a number of questions remain relevant: are we doing enough?... Are we matching up to economic criminals as they innovate and up their methods? Are we prepared to deal with the increasingly sophisticated technology designed to both commit and fight fraud?

For over 20 years, PwC’s Global Economic Crime and Fraud Survey has analysed fraud and economic crime worldwide to enable companies to navigate the fraud risk landscape. This is the second GECS Uganda report, with the last one having been launched two years ago.

In Uganda, the report draws insights from the experiences, perceptions and knowledge of economic crime from 52 respondents. The 52 respondents are Board Members and employees who are part of Executive Management, Finance, Audit, Risk Management and other core functions in large, medium and small organisations. Of the 52 respondents, 23% represent listed companies, 50% privately owned organisations, 17% public or non-governmental institutions and 10% Partnerships.

With in-depth and timely insights, the survey not only identifies how and why fraud is occurring but also highlights the changing face of economic crime. Importantly, we look to understand what companies are doing to successfully mitigate such risks and challenges.

We encourage you to take this Uganda report of PwC’s Global Economic Crime and Fraud Survey 2020 as a prompt for meaningful reflection. The survey results are a call to action for all local companies to prepare, respond and emerge stronger.



Economic crime

For over 20 years PwC’s Global Economic Crime and Fraud Survey has looked at a number of crimes, including:

- Accounting/Financial Statement Fraud
- Anti-Competition/Antitrust Law Infringement
- Asset Misappropriation
- Bribery and Corruption
- Customer Fraud
- Cybercrime
- Deceptive business practice
- Human Resources Fraud
- Insider/Unauthorised Trading
- Intellectual Property (IP) Theft IP
- Money Laundering and Sanctions
- Procurement Fraud
- Tax Fraud

¹PwC Uganda Economic Outlook 2019 Report

By the numbers – Our survey findings

When Fraud Strikes: Incidents Of Fraud

PwC's Global Economic Crime and Fraud Survey 2020 reveals that economic crime remains a persistent threat for Uganda: 54% of companies surveyed (compared with 47% globally) experienced incidents of fraud and economic crime within the past 24 months. This is, however, a decrease from our last survey conducted in 2018.



5,000+

respondents globally, with 52 drawn from Uganda

48%

of respondents were C-Suite

58%

generate US\$ 10m+ in global revenue

99



territories globally participated in the survey

UGX21.3b

was lost by Ugandan respondents



54%

of Ugandan respondents told us **they experienced economic crimes in** the past two years, down from **66%** in 2018, but still higher than the Global average of **47%**

18%

of Ugandan companies that experienced economic crimes had more than **10 incidents** reported in the last 24 months

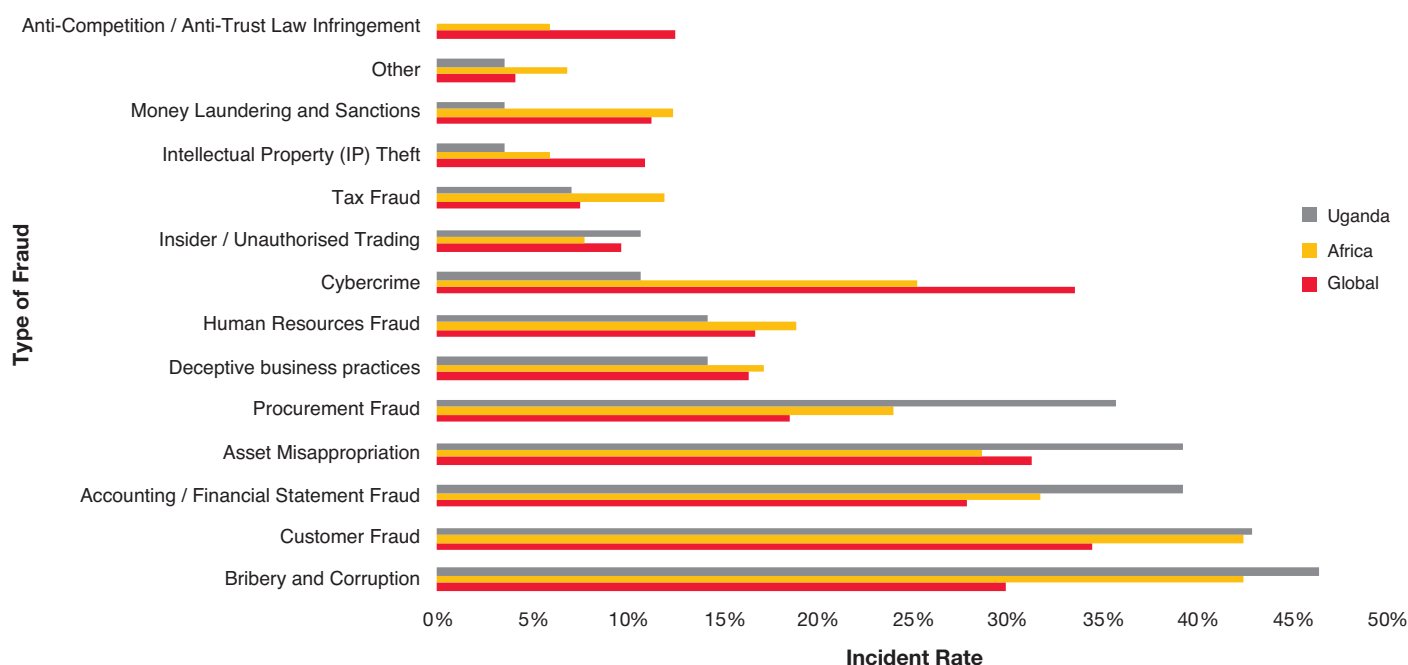
Top 5 types of economic crimes

- 1 Bribery & Corruption
- 2 Customer Fraud
- 3 Asset Misappropriation
- 4 Accounting / Financial Statement Fraud
- 5 Procurement Fraud

The reported incidents of Accounting Fraud, Bribery and Corruption, Asset Misappropriation and Procurement Fraud in Uganda saw significant increases this year. Globally, Customer Fraud and Cybercrime were the most common.

Breaking down Economic Crime

Types of Economic Crimes experienced



Source: PwC's 2020 Global Economic Crime and Fraud Survey

Most disruptive Fraud events

	1	2	3
Uganda	Procurement Fraud 25%	Bribery and Corruption 18%	Customer fraud 18%
Africa	Bribery and Corruption 17%	Accounting/ Financial statement fraud 15%	Customer fraud 15%
Global	Customer fraud 16%	Cybercrime 16%	Accounting/ Financial statement fraud 14%

Source: PwC's 2020 Global Economic Crime and Fraud Survey

With an incident rate of 36% and being ranked fifth in terms of occurrence by Ugandan respondents, Procurement Fraud was noted to be the most disruptive form of economic crime.

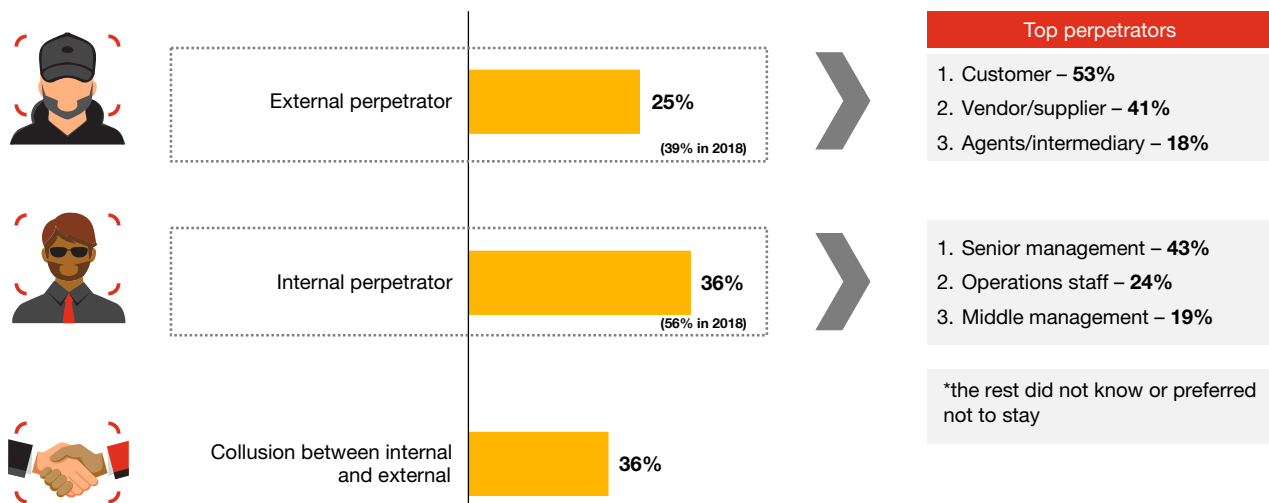
It is not a coincidence that Bribery & Corruption was the second most disruptive economic crime as the two are symbiotic in this part of the world. Incidentally, 43% of the respondents reported having been asked to pay a bribe in the past 24 months.





The Perpetrators: Who is committing these crimes?

Fraud attacks at an organisation can originate from a myriad of sources. The perpetrator could be internal; from the Board, management, operations staff; it could also be external; your customers, organized crime syndicates, suppliers or business partners; or in many instances there will have been collusion between internal and external parties.



Source: PwC's 2020 Global Economic Crime and Fraud Survey

Fraud committed by senior management is trending upward.

In Uganda, the survey results show that in the past two years, the main perpetrators of frauds suffered by Ugandan companies continues to be Internal perpetrators (36%), with Senior Management being the main actors this year. Though an equal proportion of crime was committed in collusion with external actors. Globally, most incidents were committed by external perpetrators.

Senior Management (43%): The number of economic crimes perpetrated by Senior Management has seen a significant increase in the last 24 months.

These crimes are often the most insidious because of the ability (whether through delegated authority levels, system knowledge, or influence) top executives have to override, or conspire to override, internal controls. It is also an indicator of a resultant poor organisational culture given the wrong signals from the top.

Customer fraud: Customer Fraud continues to be rampant, topping the list of externally perpetrated economic crimes reported in Uganda at 53%. Instructively, whereas Customer Fraud is the most prevalent globally at 35%, the Global rate is still lower than the Ugandan prevalence rate of 43%.

Vendors and suppliers: The Global operating models adopted by organisations continue to evolve, with services being outsourced from vendors and suppliers. Their closer interactions with people and systems brings with it untold risks, which many companies have not formally addressed. With 41% of economic crimes attributed to these third parties, the level of trust and controls required to combat the risks create an increasingly challenging environment for organisations.

Accused of fraud? In a new question introduced to the survey, we asked respondents who experienced fraud if their organisation had been accused of perpetrating fraud. 8% of the respondents (and 15% globally) reported having been accused of economic crimes.

From the global survey results:

- In almost equal numbers, competitors, regulators, employees, and customers were most likely to point the finger.
- Enhanced regulatory focus, and in some territories, whistleblower incentives may contribute to this trend.



How extensive is the damage? Cost of fraud

Losses resulting from fraud are complex. Some can be tallied: direct financial loss or costs due to fines, penalties, responses and remediation. But some costs are not easily quantified; these include brand damage, loss of market position, employee morale, and lost future opportunities.

Some economic crimes, such as external frauds, generally strike from outside the company, are transactional in nature, lend



themselves to active monitoring, and when managed properly may reduce financial impact.

For other economic crimes like Bribery and Corruption or mostly internally perpetrated crimes, they tend to be harder to predict, monitor and result in significantly higher costs.

Money Laundering and Bribery & Corruption can have untold consequences, as some of these crimes are subject to laws in multiple jurisdictions. This is especially so for multinational organisations listed in the US and UK stock exchanges where Bribery and Anti-Corruption laws transcend borders. Fines from regulators can cripple organisations found on the wrong side of these laws and we have seen regulators in Kenya and Tanzania slap banks with significant fines in the last year.

Top Four costliest frauds in Uganda

1	Procurement Fraud	25%
2	Bribery & Corruption	18%
3	Customer fraud	18%
4	Accounting/ Financial Statement fraud	14%

Diving In



Bribery and Corruption remain a big challenge not just in Uganda but globally as well. 43% of Ugandan (and 30% Globally) respondents reported being asked to pay a bribe or had lost an opportunity to a competitor who they believe paid a bribe. Bribery and Corruption was ranked as the second most disruptive and costliest economic crime in Uganda.

Customer Fraud continues to pose a significant challenge to businesses in Uganda. 43% of respondents reported experiencing this type of economic crime, which is higher than the global average of 26%. It was also ranked as the third most disruptive type of economic crime by Ugandan respondents.

A few encouraging takeaways:

- 64% of the respondents indicated putting in place programmes in their organisations to deal with Bribery and Corruption, higher than the global average of 39%, showing the level of awareness in Uganda of the threat, and commitment to address it.
- 40% of the Ugandan respondents reported having a dedicated programme to address the risk of Customer Fraud.

However, 52% of respondents don't have programmes in place to mitigate the risk of Procurement Fraud. The most disruptive and costliest form of economic crime.

Combating economic crimes



Taking action: Being prepared

Economic crime schemes are in their nature dynamic and at times surprisingly innovative. Criminals are always inventing new ways of beating controls and safeguards put in place by organisations. We need to always be alert to this fact.

What are you doing to prevent and identify fraud? Which programmes, methods and technologies are working, and which are not? What perception gaps are still standing in the way and what opportunities for improvement are ripe to be seized?

What is your organization investing in to stay ahead of the fraudsters?

More than Half of the organisations have documented risk-based due diligence and ongoing monitoring processes for third parties as well as dedicated programmes to address Bribery & Corruption, Accounting/ Financial statement fraud, employee fraud and Procurement/ vendor fraud.

We further noted that:

- 4 out 10 respondents either don't perform or perform only informal risk-based due diligence and ongoing monitoring of third parties.
- 69% of respondents have formal documented policies and procedures and controls for key compliance areas, more than the global average of 64%.
- A third of the organisations perform limited testing of the effectiveness of controls with 5% not carrying any tests. Whereas 63% of

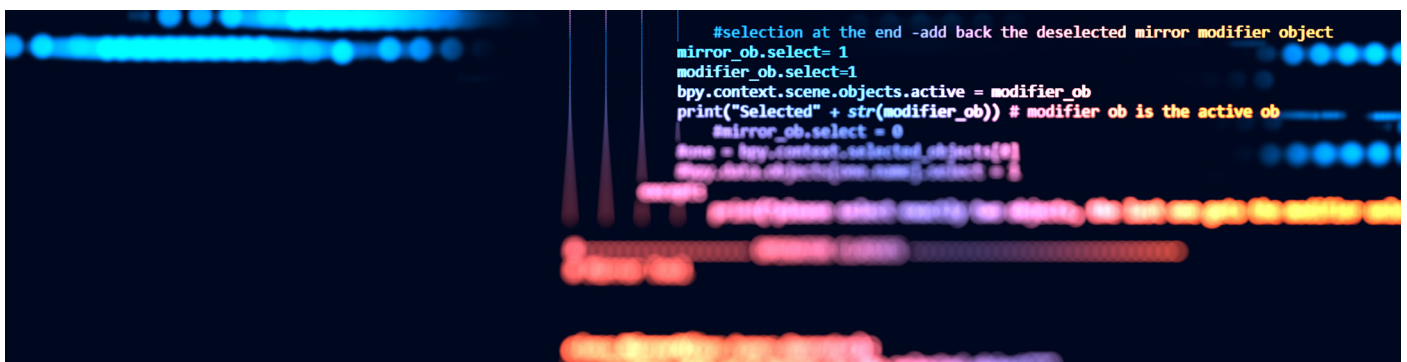
the organisations perform regular testing of the effectiveness of controls with periodic independent audits and trend analyses.

27% of Uganda-based respondents only conduct an informal risk assessment

What actions are most effective?

Against the backdrop of a reducing rate of fraud incidents reported by Uganda based companies, some areas of internal risk management present an opportunity to improve fraud prevention and detection.

1. **Robust Risk assessment.** A well-structured risk assessment helps a company to better understand and evaluate its specific risk exposure, develop plans to mitigate and manage risk as well as to better allocate resources. However, we note that 39% of Uganda-based survey participants do not have in place a formal risk assessment process.
2. **In addition to employing technology, investing in the right expertise, governance structures and monitoring mechanisms.** Advanced technology by itself is not sufficient to combat economic crimes.
3. **Reaction time.** Deploying the right tools and personnel to investigate and address a potential economic crime is critical. It enhances controls by deterring fraudsters in the first place.



Rise of technology



Taking action: **Keeping up**

Companies have long recognised the potential of technology to enhance their internal control systems. In Uganda, suspicious activity monitoring is the second leading detection mechanism of fraud incidents (18%), higher than the global average (12%).

The level of use of advanced technology in Uganda is approximately similar to the use within the region.

We found that nearly 3 out of 4 respondents in Uganda implemented or upgraded the technology used to combat fraud, corruption and economic crime in their organisation over the past two years.

At the same time, the rate at which companies are using advanced technology to support their risk management is still relatively low and there

organisation can help to find value-added solutions for adoption.

The differences in the value that companies are able to find from technology tools also underline the importance of the quality of the associated implementation process. In relative terms, companies often dedicate more efforts to the introduction of these technologies with less attention paid to continuous maintenance and employing and training skilled staff to manage the systems which is important to derive value on a long-term basis.

The current buzzwords in technology are Artificial Intelligence (AI), machine learning and predictive analytics.

Whereas using the latest technology and harnessing data are tools that can augment

We asked our respondents what alternative/disruptive technologies/techniques they have invested in and whether they find value in helping combat fraud and other economic crimes and found that:

Technology	% Currently using and finding value
GRC (Governance Risk and Compliance) Solutions	39%
Communications Monitoring	37%
Transaction Testing / Monitoring	31%
Contract or Other Unstructured Data Review	31%
Anomaly Detection	31%
Data Visualisation / Dashboards	25%
Pattern Recognition	18%
Predictive Analytics	14%
Artificial Intelligence (AI)	10%



is potential to enhance internal control systems through the use of technology.

Crucially, we observe a significant degree of variation in the value each company is able to derive from different technologies. Better customisation of appropriate technological solutions to specific risks faced by each

other more traditional methods of combating economic crimes, technology can only be part of the answer.

The most used form of AI technology which respondents have implemented and are finding value in is Biometric authentication systems, with 27% of Ugandan respondents installing and deriving value from it.

Responding



Our attitudes towards fraud

What do you do when your organisation is hit by fraud? 71% of companies that reported having suffered an economic crime conducted an investigation.

This is commendable as it is important to establish the facts around an incident to enable you improve your control environment to prevent recurrence of similar incidents in future.

However only, 14% disclosed the matter to regulators/ law enforcement, with the majority choosing to keep and deal with the matter in-house. Should we be worried about the confidence our organizations have in our regulators and law enforcement agencies?

Organisations adopted the following key steps to better themselves as they reacted to incidents of economic crimes:

1. Conduct an investigation – 71% - To get to the root cause of the crime and establish the facts and to prevent further damage.



2. Disciplined/ Terminated employees - 50% - Subject to labour laws and disciplinary and other related policies within organisations.
3. Implemented enhanced internal controls – 50% - Enhancing the controls in place to make it more difficult for criminals targeting the organisation.

In Africa, cyber crime ranks amongst the top areas of concern with 38% of CEOs citing it as a threat

Only
14%
of Ugandan respondents
conducted training
to staff following an incident

This is concerning because, training does not only better inform staff of new policies and procedures; it also promotes a stronger culture around fighting fraud.

Source: PwC's 2020 Global Economic Crime and Fraud Survey



61%

of respondents who experienced some form of **economic crime in the last 2 years** believe that despite the negative consequences, their organization is in a better place as result of the experience

Source: PwC's 2020 Global Economic Crime and Fraud Survey



Taking stock

All organisation leaders would wish to avoid falling victim to an economic crime. Resources deployed to deal with it, time, staff hours lost in addition to the monetary losses can be devastating. It can, however, be the commencement of a turnaround and better fortunes for the organisation if the experience is harnessed and lessons learnt from it.

The data shows that there's a significant upside to taking stock when an incident strikes.

53% noted an enhanced tone at the top and control environment in addressing economic crimes following an incident. In addition, 60% experiencing streamlined and improved operations as well as fewer repeats of the incidents.

20% of the organisations noted improvement in employee morale and there was a noted impact in financial performance with 60% seeing a reduction in losses of which 7% saw improvements in revenues and profitability.

On the flipside, 67% lost new business opportunities, 50% noted a decrease in revenues and profitability, increase in losses and 50% noted lower employee morale and 33% suffered damaged brand trust and reputation.

Depending on how the organisation prepared itself, it can therefore come out more resilient at the end of the crisis or in more extreme cases, could cease to exist altogether.



Almost 93% said they experienced negative emotions after an incident of fraud

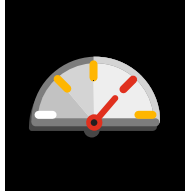


The most common feelings were **anger, frustration and worry**



33% suffered damaged brand trust and reputation

Source: PwC's 2020 Global Economic Crime and Fraud Survey



Emerging stronger: **Measuring success**

Business owners and management face a myriad of challenges at their workplace, and in addition to these operating challenges, battling an ever-changing economic crime landscape is one more headache they need to deal with. How can management multi-task and ensure they give adequate attention to all these competing areas?

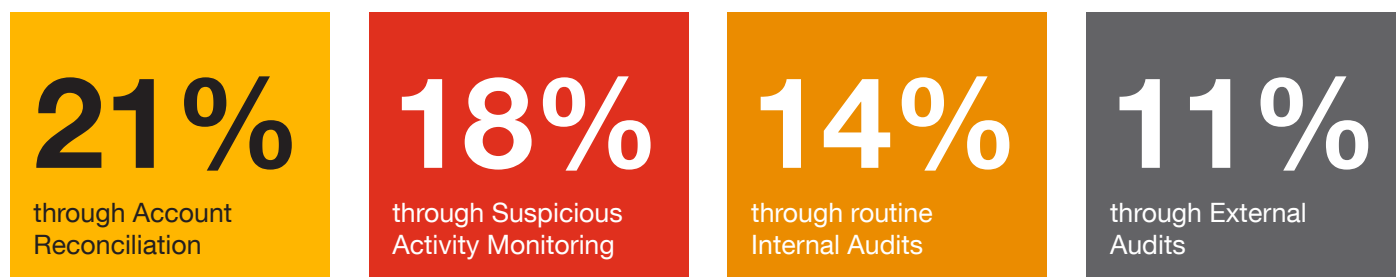
Those in fraud-related functions often find themselves fighting for increased budget to invest in new technologies, implement new programmes, or hire additional resources. Globally, nearly 40% of our respondents and 30% in Uganda, say they plan to increase their

It can be challenging to quantify the benefits of a fraud-fighting tool. Effective fraud prevention measures do reduce the quantity and magnitude of future fraud. But here's a more interesting statistic – there is a clear link between fraud prevention investments made upfront and reduced cost when fraud strikes.

Once you have a programme in place, periodic assessment and refinement is key. Why?

- From the Global survey, we observe that business models are often dynamic and can evolve or change before risk programmes

From the manner in which the economic crimes were detected:



The above shows the benefits of having proactive monitoring processes in place.

Source: PwC's 2020 Global Economic Crime and Fraud Survey

spend on fraud prevention in the next two years. But do the measures work and will they see a return on their investment? And how do you justify the expense to your board?

Quantifying the benefits and successes of an elaborate fraud fighting system is not easy. In some cases, it is akin to proving a negative, which in itself is an arduous task.

That is why in some organisations, the default attitude is to only invest in combating economic crimes where they have fallen victim in the past or where there are mandatory regulatory requirements to have measures put in place. Investment in proactive fraud fighting tools and resources are for such organisations not a priority.

are established or enhanced, leaving companies exposed to unanticipated risks.

- There's increasing convergence in certain industries (for example in Uganda technology companies such as Telcos are now offering financial services) and risk management programmes need to be adapted to meet those new or evolving risks.
- Information that is unexpected from the controls in place, such as a hotline call, whistleblowing email or an audit finding may yield a risk previously not considered.

Most importantly, where companies are slow to implement measures to mitigate economic crimes, regulators are paying more attention to



compliance programmes and some are starting to instruct companies to provide evidence showing that their compliance programmes are effective.

Many regulators recognise that compliance programmes should be risk-based and right-sized and that no programme is guaranteed to catch all improper activity.

There is no cookie-cutter approach to compliance, and a programme at a large telecommunications company will no doubt look and feel different from a programme at a small retailer. Even so, both may be adequate for addressing the particular risks faced by each organisation.

In the East African region, especially in the Finance Sector, we have observed the regulators directing companies to provide evidence of compliance programmes and reviews being conducted regularly.

The benefits from these initiatives may not manifest immediately and may take a bit

In the East African region, especially in the Financial Services Sector, we have observed the regulators directing companies to provide evidence of compliance programmes and regular independent reviews

of time for the effects to be noticed. Some of the initiatives, e.g. training or third-party management programmes may also not be easy to quantify, and prove a challenge in ensuring sustained investments given the performance metrics most organisations adopt.

There is no single prescribed method for assessing effectiveness. The key is to have a defensible measurement in place that will help to demonstrate that the programme area has been tested and how it would prevent or detect problematic misconduct in the future.

In conclusion



So where do you stand? Are you a leader in preventing, detecting, and responding to fraud? Or are there areas for improvement that you should address as a matter of urgency? What are your attitudes towards economic crimes?

Does it affect you or do you consider it to be someone else's problem?

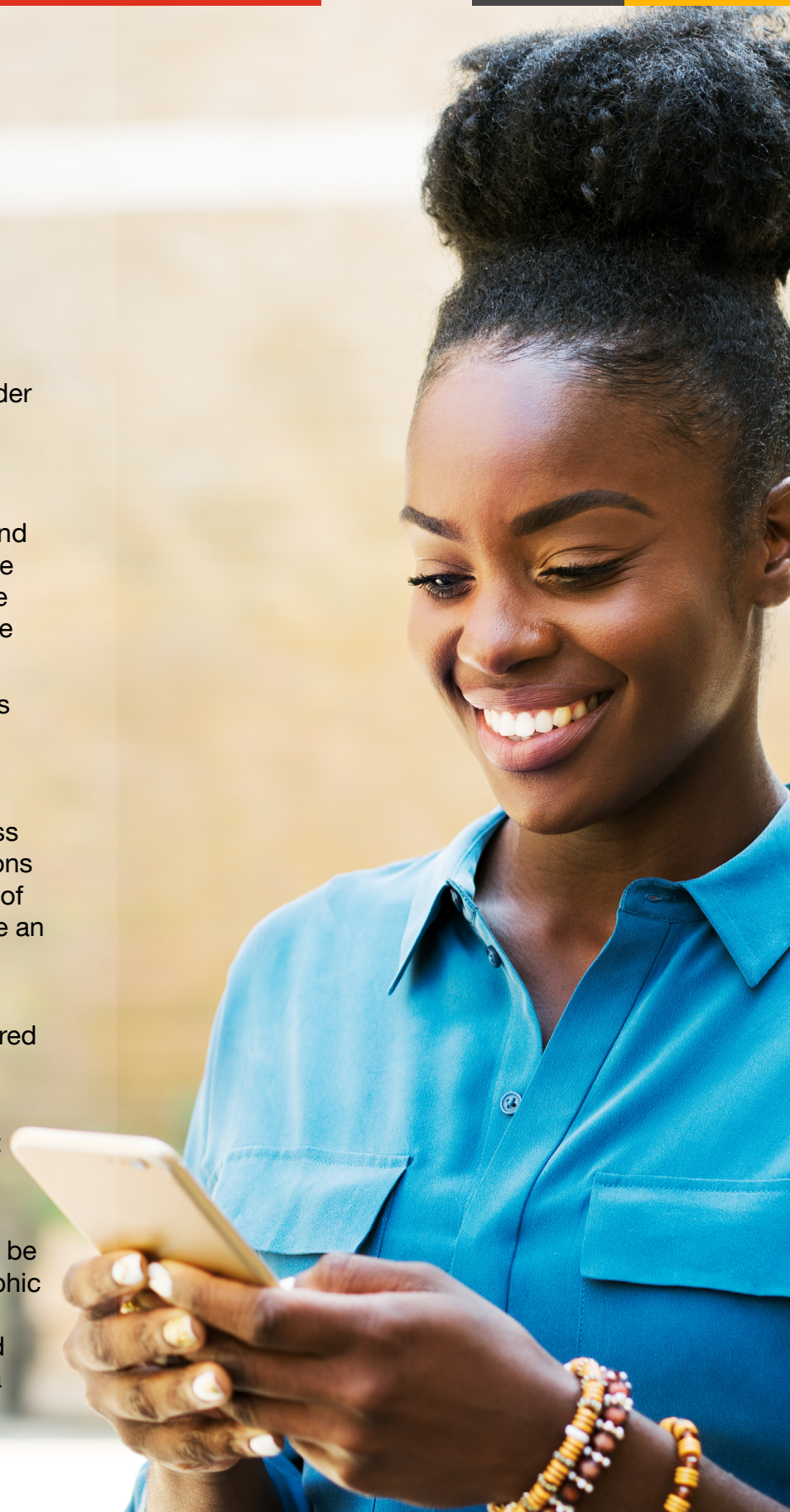
Either way, you need to act. Even the 'best' anti-fraud programmes need to be continually assessed and refined. Because as we've seen the perpetrators and methods of crime evolve, your defences must also be modified to address the new risks.

Alternatively, if your fraud defences have blind spots or gaps, you're leaving yourself exposed to risks and the increasing costs of fraud. Fraud is a risk to which no business is immune. And when hard questions are asked after an incident, a lack of awareness or insight should not be an excuse.

In the unfortunate event you fall victim, it is also useful to be prepared with a well thought out response mechanism and system.

Now is the time to understand just how prepared you are.

Equipping yourself with the right tools, structures and people could be the difference between a catastrophic fraud incident affecting your organisation and a greatly reduced impact on it. Invest wisely and in a timely manner.



Contact us

At PwC, we carry out fraud risk assessments and cyber security assessments to help you identify key risks and threats. Our assessment teams are fast and cost-effective, combining global leading best practices and in-market experience. In addition, we provide investigation services to detect economic crime. Our regional team of dedicated specialists has conducted some of the most complex and high profile investigations undertaken in Kenya and regionally in recent years.



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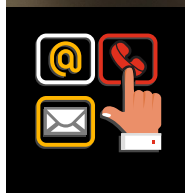
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