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# Overview of corporate fraud and its prevention approach

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- Over 20 years of professional experience out of which 16 years in Forensic Services in Romania and SEE
- ACCA, CAFR, CFE, CIA

# PwC Forensics

## What do we do?

Forensic data analysis

**Investigations**

**AML/KYC**

Corporate Intelligence

Cybercrime

Compliance reviews

**Expert reports**

Anti-corruption

Computer forensics

Training

Anti-fraud

# Agenda

1

How serious is corporate fraud?

2

How to fight corporate fraud?

# How serious is corporate fraud?



**Most common  
fraud schemes**

**Cybercrime and social engineering**

**Procurement fraud**

**Customer fraud**

**Tax evasion**

**Assets misappropriation**

**Intellectual Property fraud**

**Bribery and corruption**

**Insider trading fraud**

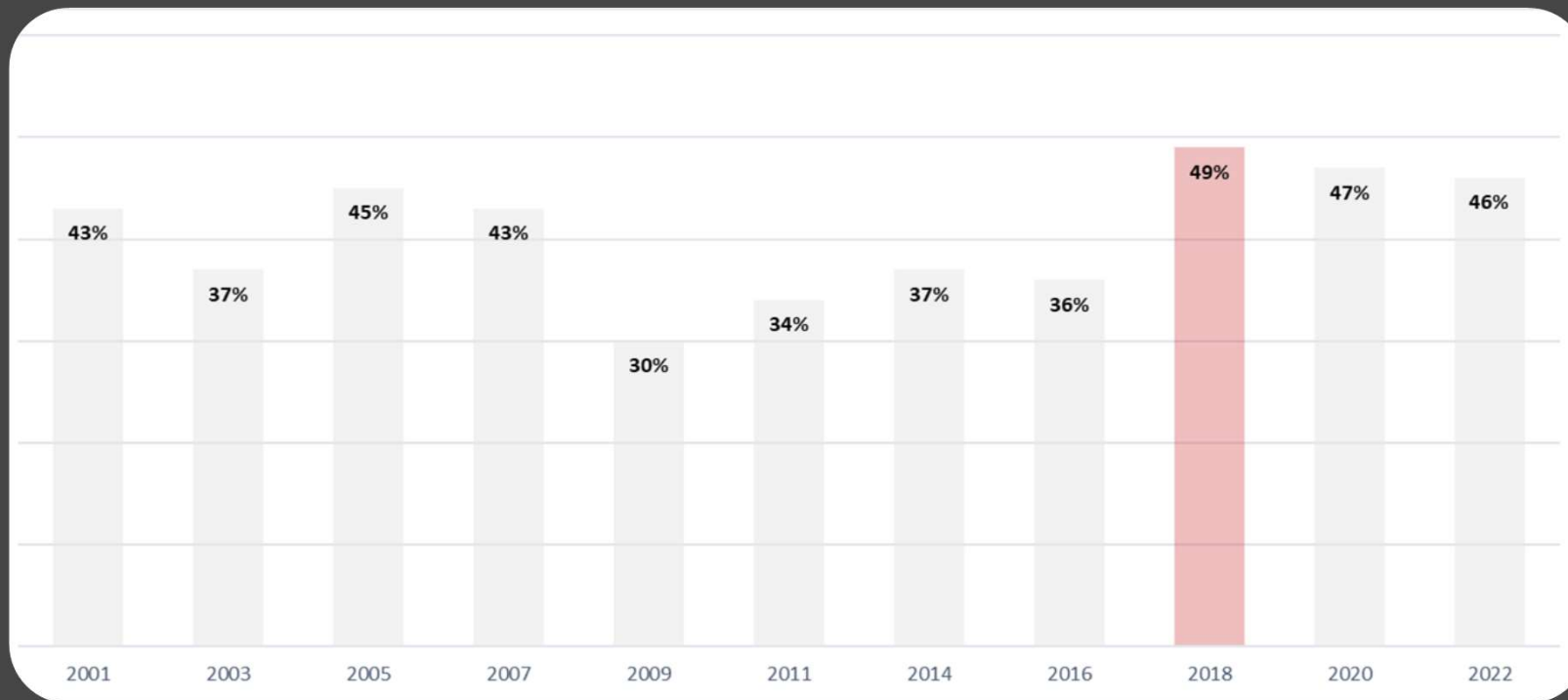
**Accounting/reporting fraud**


**Money Laundering**

## Overall reported rate of fraud and economic crime



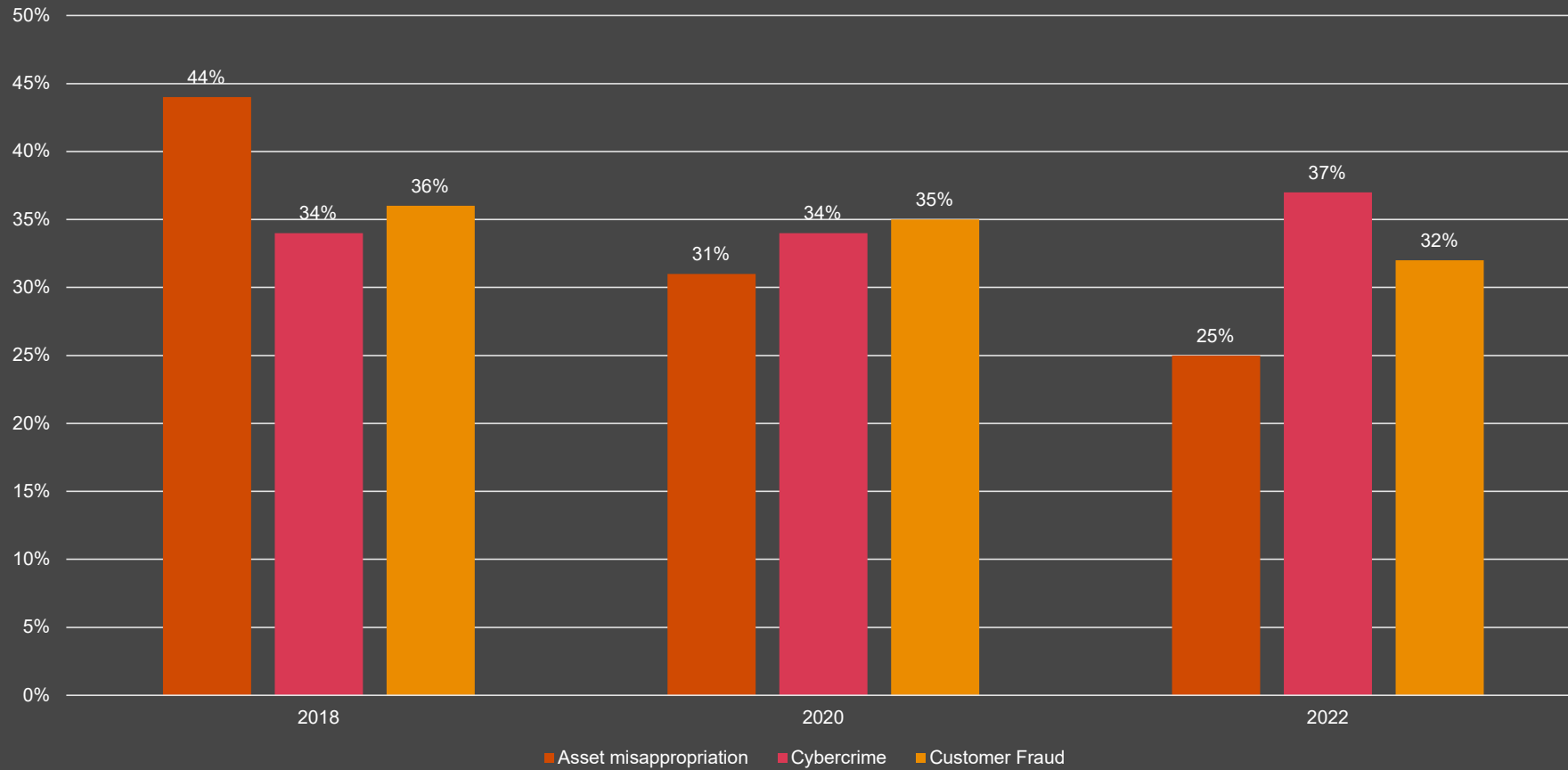
Share of organisations that experienced fraud, corruption or other types of economic crimes



  
**46% of responding organisations to the 2022 GECS have experienced economic crime in the last 24 months**

Source: PwC's Global Economic Crime and Fraud Survey

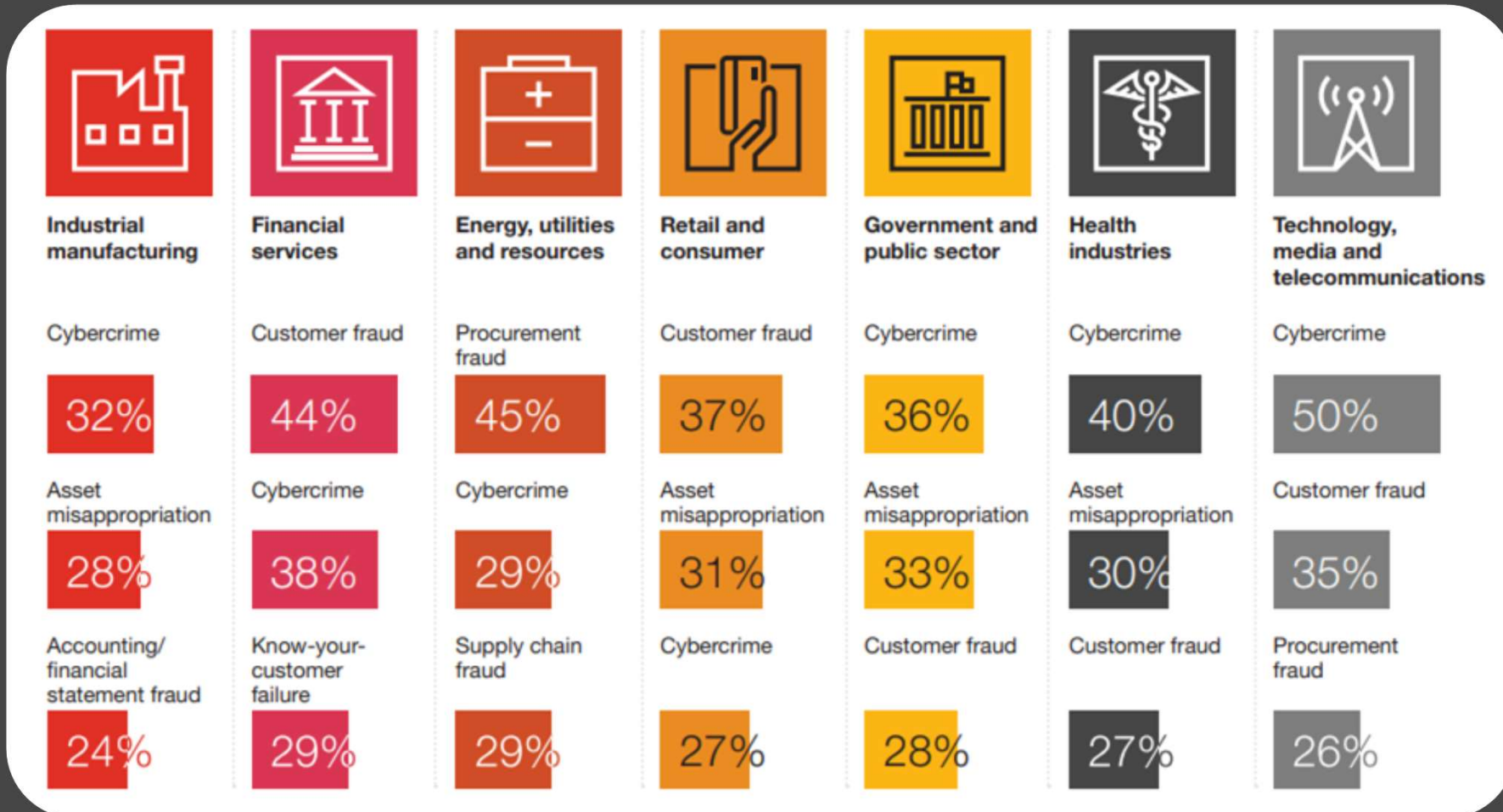
# Top types of fraud



Source: PwC's 2018, 2020 and 2022 Global Economic Crime and Fraud Survey



# Top types of fraud by industry in the last 24 months



Source: PwC's 2022 Global Economic Crime and Fraud Survey

Organizations without a programme to address bribery and corruption

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**6 in 10**

Companies performing limited testing of operating effectiveness

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**3 in 10**

Anti-embargo fraud in the last 24 months

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**6%**

ESG fraud reporting fraud in the last 24 months

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**8%**

## Emerging risks

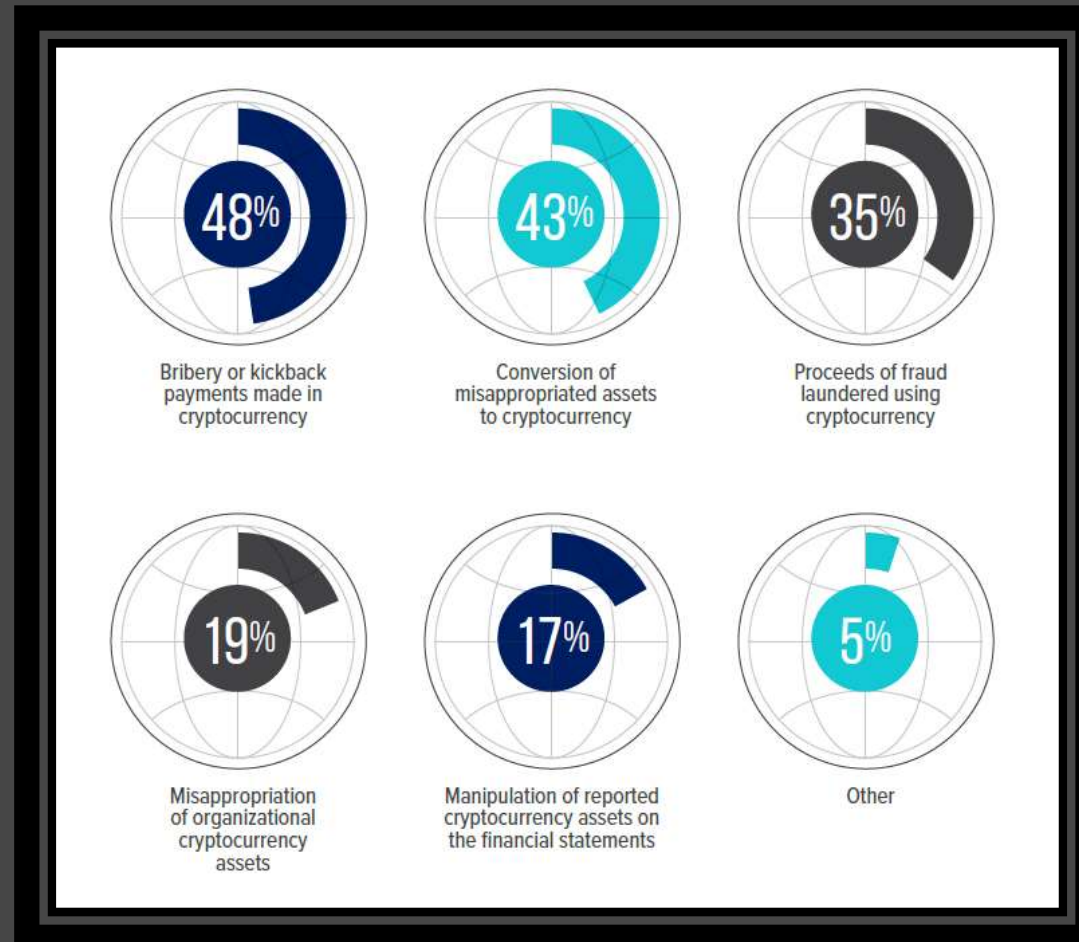


Incidents of supply chain fraud as a result of the disruptive caused by COVID - 19

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**1 in 8**

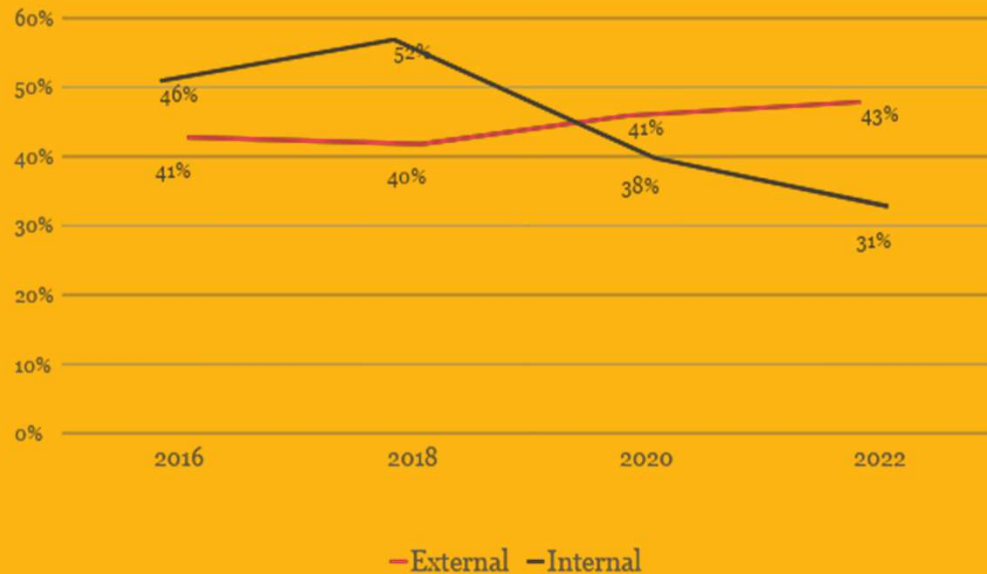
# Cryptocurrency schemes in 2022



Source: ACFE Report to the Nations 2022

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# Perpetrators of fraud



**External perpetrator**

**43%**  
(41% in 2020)



Organisations in Europe are significantly more likely than those in other regions to experience fraud perpetrated by external actors (56%).



**Internal perpetrator**

**31%**  
(38% in 2020)



Where an organisation's most disruptive fraud derived from misconduct risks, it was significantly more likely to be caused by internal perpetrators in comparison to cyber risks (35% vs. 16%).



**Collusion between internal and external actors**

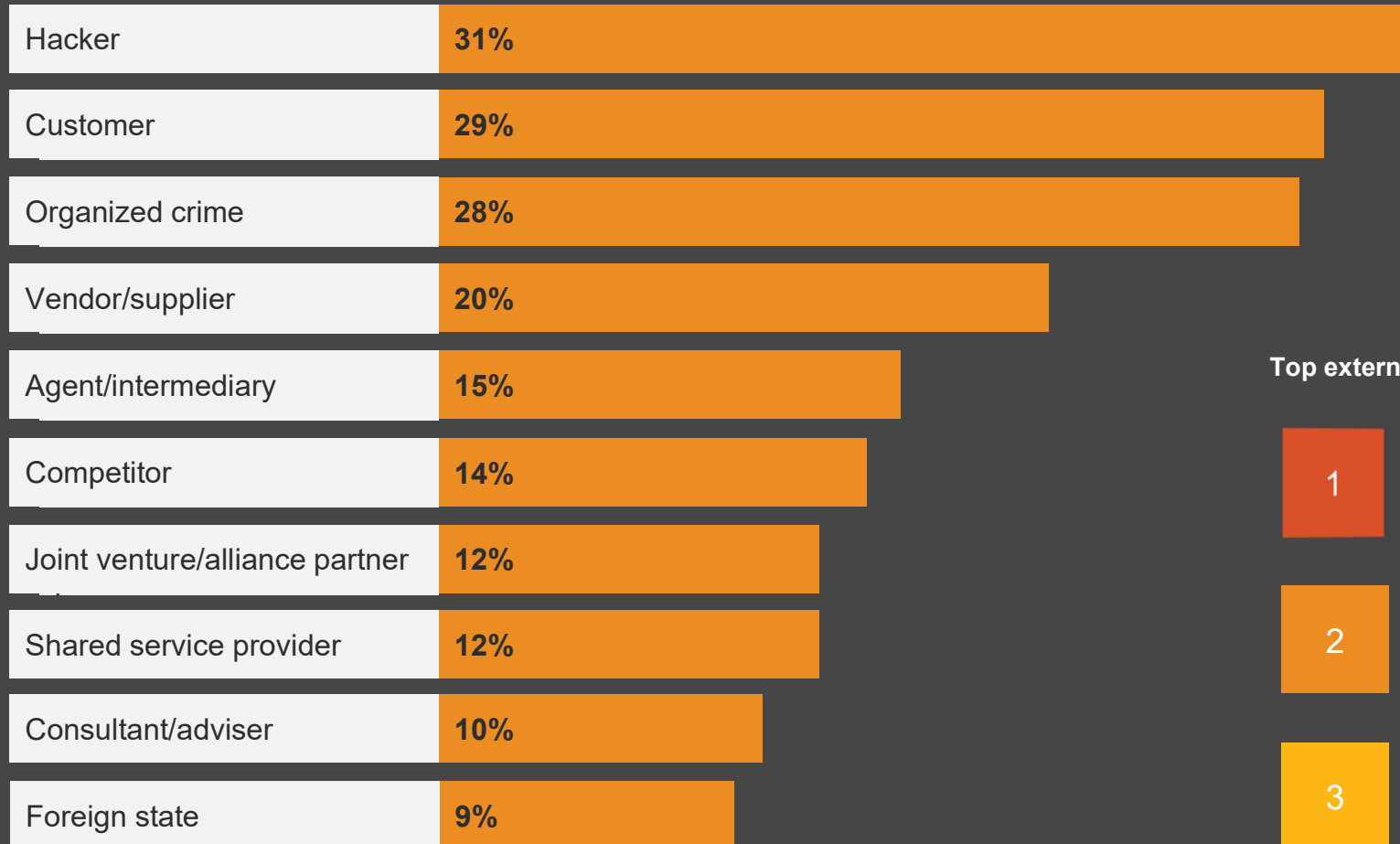
**26%**  
(21% in 2020)



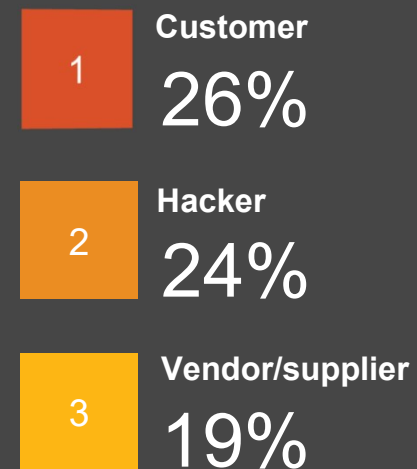
Organisations in China/Hong Kong were significantly more likely than those in other regions to experience fraud perpetrated by collusion between internal and external actors (50%).

Source: PwC's 2018, 2020 and 2022 Global Economic Crime and Fraud Survey

# Types of external perpetrators



## Top external perpetrators 2020



Source: PwC's 2022 Global Economic Crime and Fraud Survey

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## Fraud rates and financial impact among large and small companies

**52%**

**Companies with more than US 10bn in revenues experienced fraud in the last 24 months**

**18% of those companies had US 50m or more in financial impact from their most disruptive fraud incident**

**38%**

**Companies with less than US 100m in revenues experienced fraud in the last 24 months**

**22% of those companies had US 1m or more in financial impact from their most disruptive fraud incident**

*Source: PwC's 2022 Global Economic Crime and Fraud Survey*

# Top median losses by industry in 2022



Real estate and Wholesale trade were the most affected industries

## TOP 5 MEDIAN LOSSES BY INDUSTRY



ORGANIZATIONS WITH THE  
**FEWEST EMPLOYEES** HAD THE  
HIGHEST MEDIAN LOSS  
(\$150,000)

Source: ACFE Report to the Nations 2022

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# Examples of major corporate fraud cases

2001

**Enron:** Involved in financial statements fraud

Collapsed in 2001.

Settlement payment: **\$7.2 billion**

Several executives, including the CEO: sentenced to prison.

The company's accounting firm, Arthur Andersen, was found guilty of obstruction of justice and went out of business.

2002

**WorldCom:** Inflated earnings by \$11 billion through fraudulent accounting practices, leading to the downfall of the company in 2002.

Settlement payment: **\$500 million** in cash and **\$250 million** in shares

Several executives, including the CEO and the CFO: sentenced to 25 years in prison, respectively five years in prison .

2013

**JP Morgan:**

In 2013, JP Morgan Chase agreed to pay **\$13 billion in penalties to the U.S. government** for its role in the sale of mortgage-backed securities leading up to the 2008 financial crisis.

2016

**Volkswagen:** Involved in a scandal related to installed software in its diesel engines to cheat emissions tests.

Was fined **\$4.3 billion by the U.S. government** and

several executives were charged with fraud and conspiracy.

Paid over \$20 billion in fines and legal settlements in compensation to customers and investors.

2020

**Wirecard:** Allegedly inflated its revenue and profits through fraudulent activities, including the creation of fake sales contracts and the manipulation of accounting records.

In 2020, the company's CEO resigned and was arrested (later he was released on bail).

A clear verdict is not expected before 2024 at the earliest.



How to fight fraud?



# Fraud fight: Prevention – Detection - Correction



It is much cheaper and more effective to prevent than to detect.



Until the fraud is discovered (18 months in average), usually money is already spent and less likely to be recovered.



In more than half of the cases (52%), the victim organization did not recover any of its fraud losses!

Companies who invested in fraud prevention incurred lower costs when a fraud was experienced

% of reduced cost for companies with established fraud prevention programmes



Response

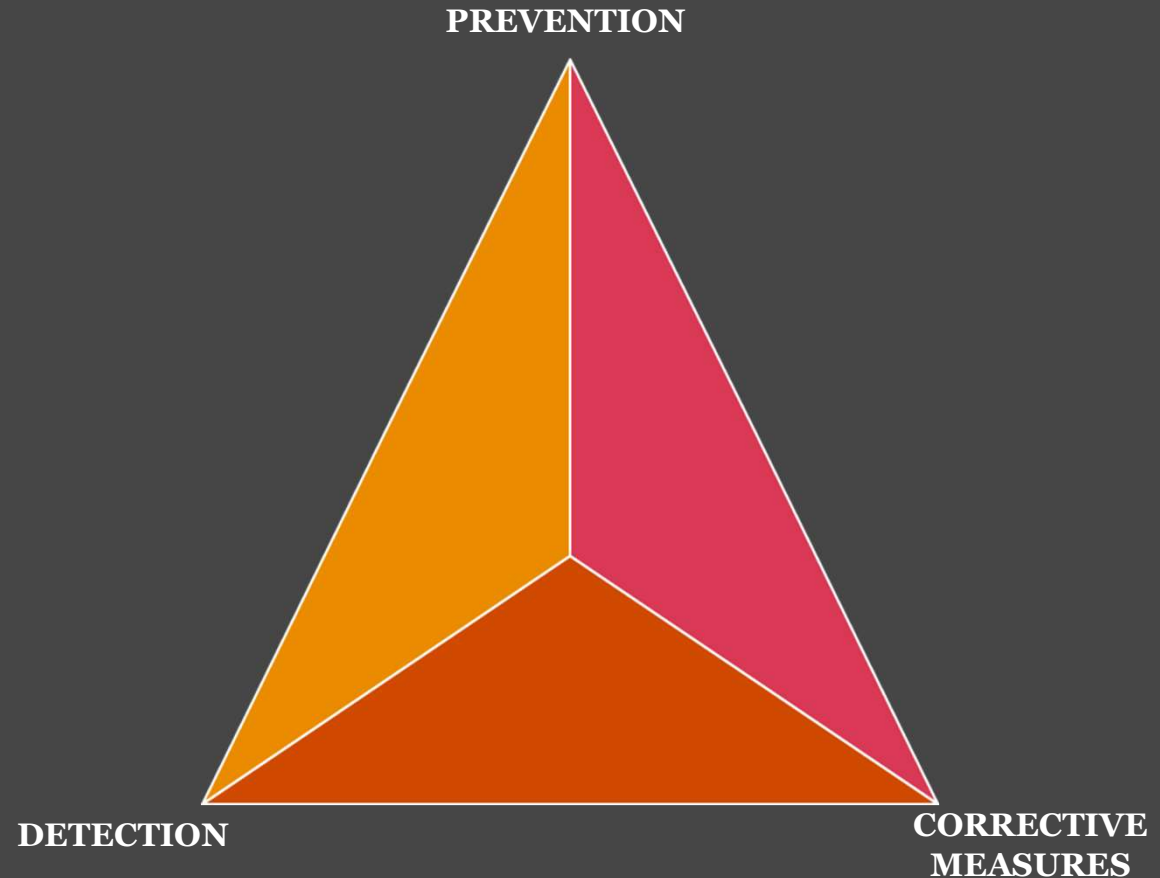


Remediation



**16%**

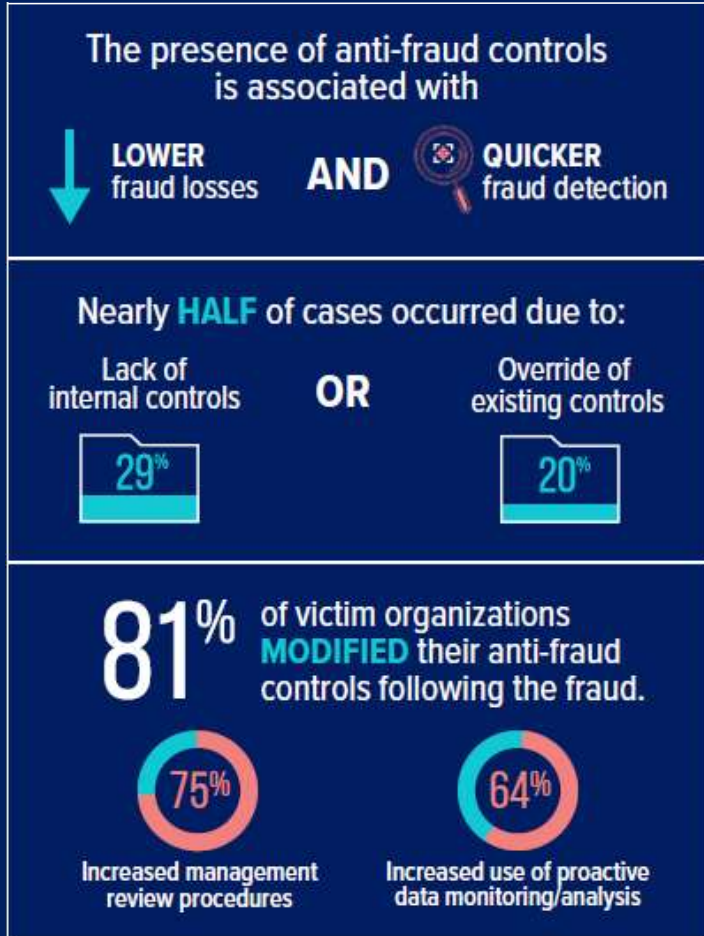
Fines and/or penalties



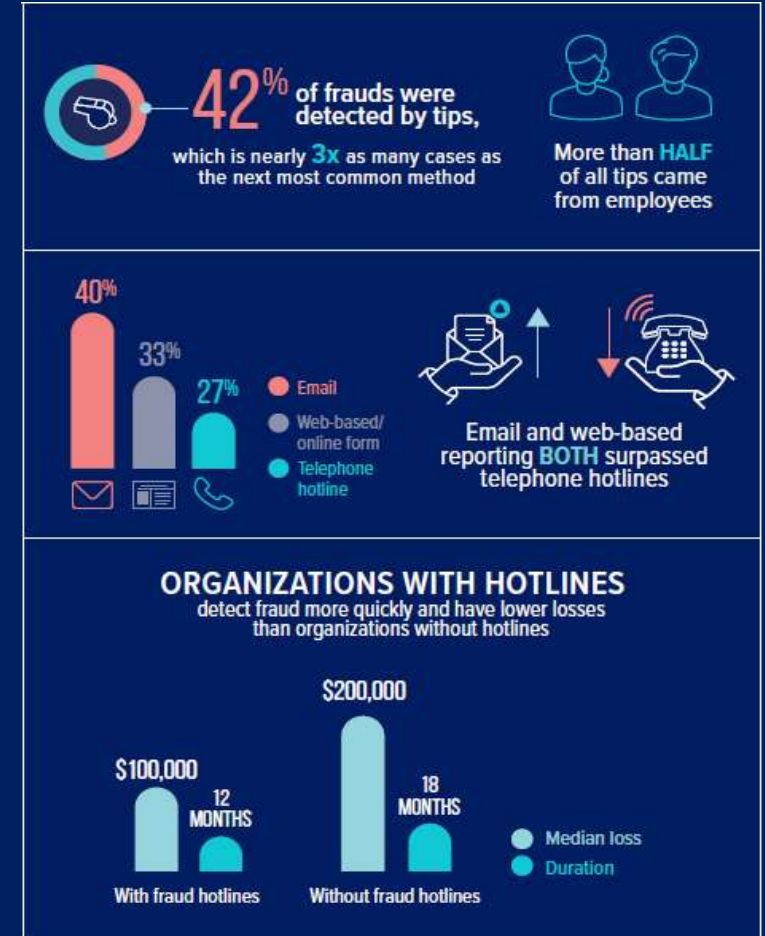
Source: ACFE Report to the Nations 2022 / GECS report

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# Anti-fraud controls

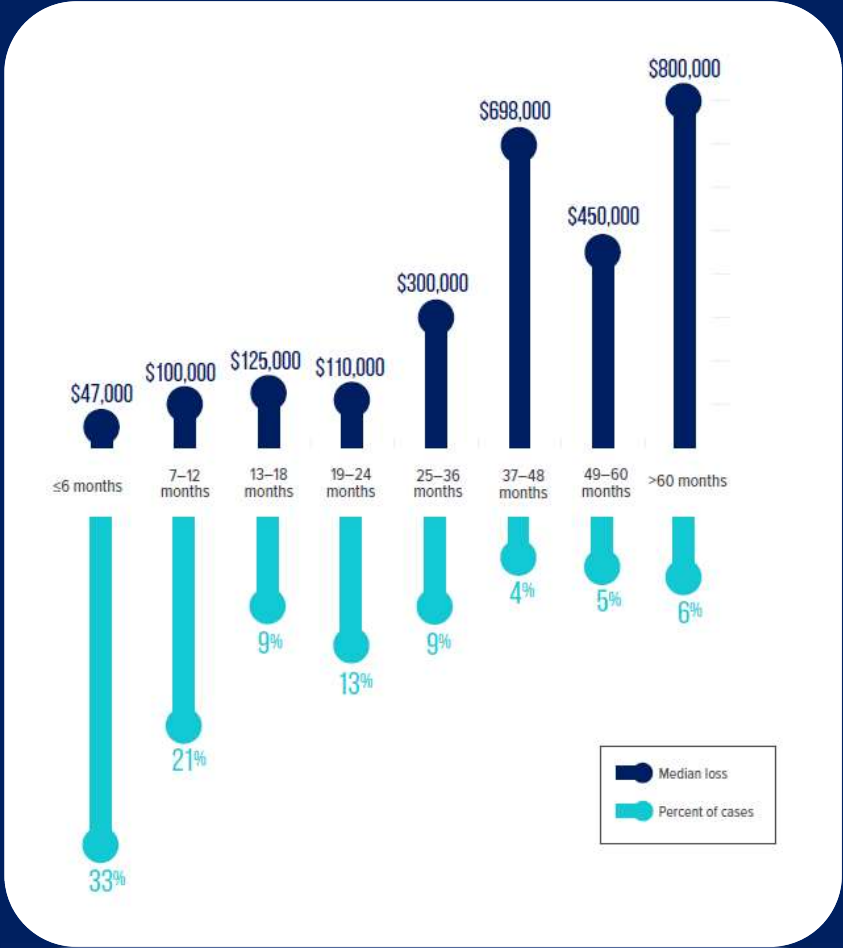


Proper anti-fraud controls are associated with lower fraud losses and quicker detection



Source: ACFE Report to the Nations 2022/ PwC GECS Report 2020  
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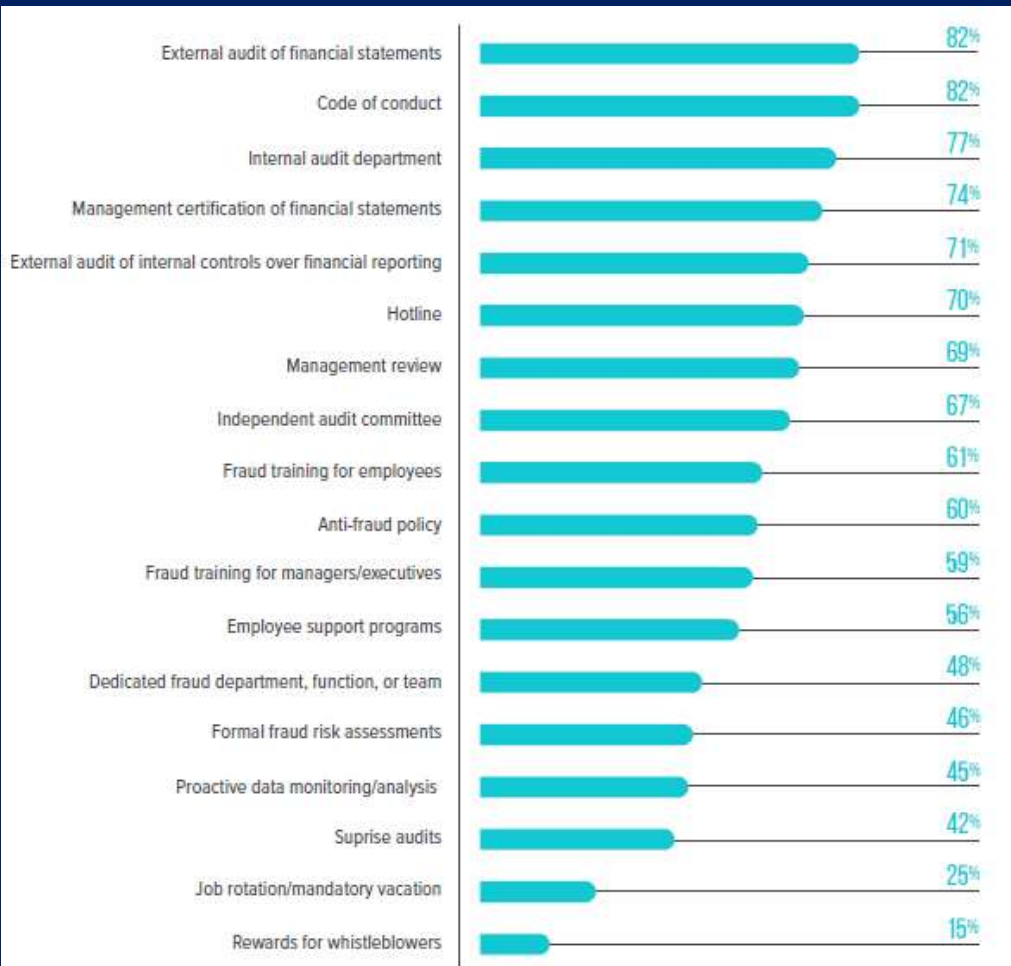
# Duration of fraud schemes and impact on median loss



Source: ACFE Report to the Nations 2022  
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# Anti-fraud controls



Source: ACFE Report to the Nations 2022

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These five have **INCREASED** the most:

	2012	2022	Increase
 Hotline	54%	70%	16%
 Fraud training for employees	47%	61%	14%
 Anti-fraud policy	47%	60%	13%
 Fraud training for managers/executives	47%	59%	12%
 Formal fraud risk assessments	36%	46%	11%

# Whistleblowing



## DETECTION



**42%** of frauds were detected by tips, which is nearly **3x** as many cases as the next most common method

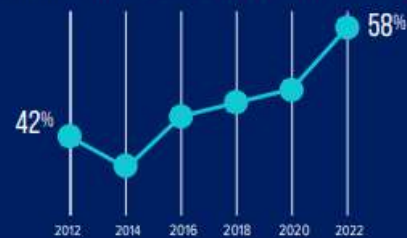


More than **HALF** of all tips came from employees

**LARGE ORGANIZATIONS** are especially likely to detect occupational fraud by tip

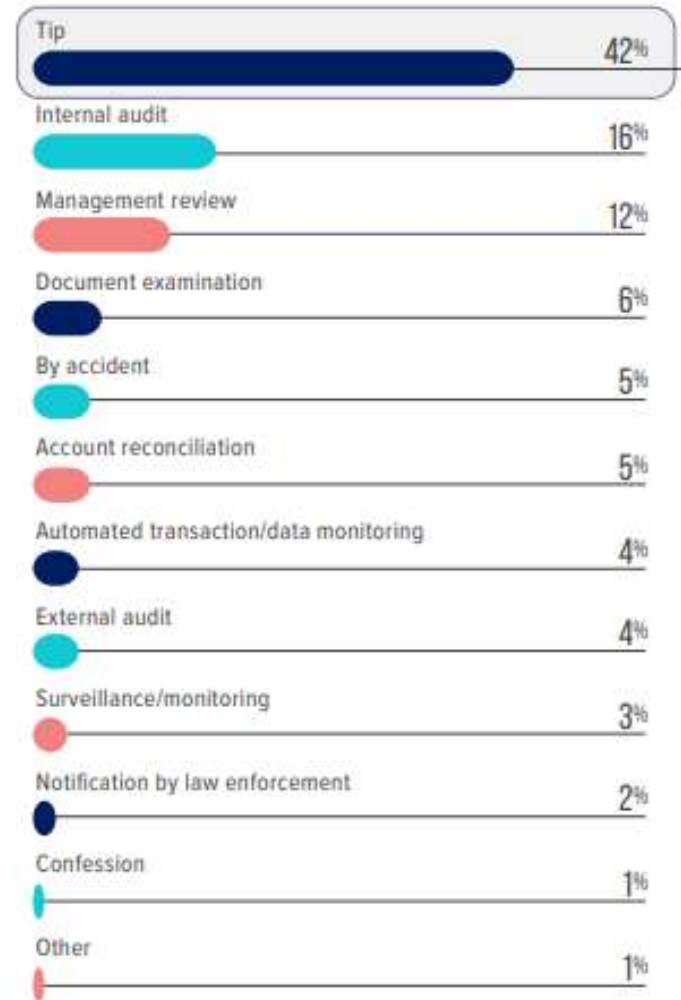


Since 2012, the percent of tips made through hotlines has **INCREASED DRAMATICALLY**



Source: ACFE Report to the Nations 2022

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# Overview of an antifraud program

## Control Environment

- ✓ Tone at the top
- ✓ Processes and systems
- ✓ Code of ethics
- ✓ Whistle-blower channel
- ✓ Background checks
- ✓ Hiring and promotion
- ✓ Audit Committee
- ✓ Fraud/crisis incidents response plan

## Fraud Risk Assessment

- ✓ Identify key fraud risks
- ✓ Systematic and top down approach
- ✓ Scenario Based analysis
- ✓ Likelihood and significance

## Control Activities

- ✓ Establish strong internal controls
- ✓ Link controls to identified fraud risks
- ✓ Monitor transactions and data analytics

## Information and communication

- ✓ Regular training and awareness programs
- ✓ Feedback on fraud incidents
- ✓ Limit access to sensitive information

## Monitoring

- ✓ Regular controls and fraud risk reassessment
- ✓ Periodic audits/forensic reviews
- ✓ Ongoing monitoring by management and Audit Committee



# Thank you!



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*“What one man can invent  
another can discover.”*

Sherlock  
Holmes



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