

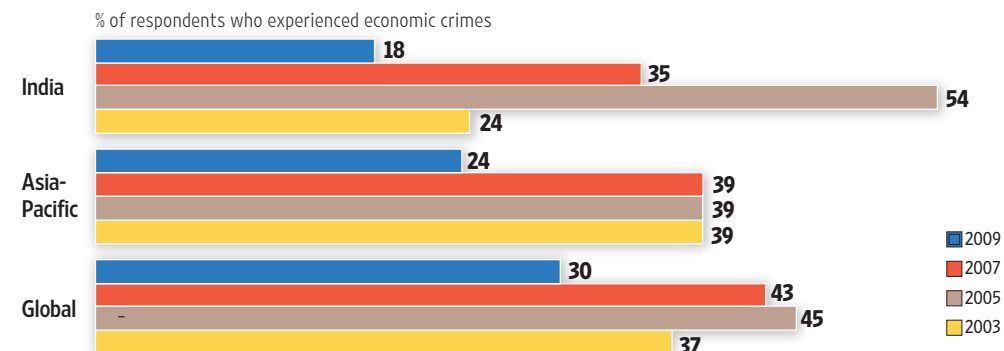
COMPANY FRAUDS MAY RISE

The 2009 economic crimes survey, carried out by PricewaterhouseCoopers (PwC), points out that risk of fraud increases during a downturn, with accounting malpractices taking the cake. Faced with a slowdown, most companies tend to cut corners on control measures and are under pressure to meet tough financial targets. While the incidents of fraud may have declined this year compared with the last, the risk of fraud has certainly shot up, according to 26% of the respondents. Not surprisingly, because many companies typically let off internal perpetrators of an economic crime with just a warning or a transfer of duties. Interestingly, it is difficult to quantify the financial costs of an economic crime as the company suffers damage not just monetarily, but also to its goodwill, both internally and externally. The survey, part of PwC's report on global economic crimes, drew upon responses from 145 executives.

Graphics by Ahmed Raza Khan/Mint

Declining incidence

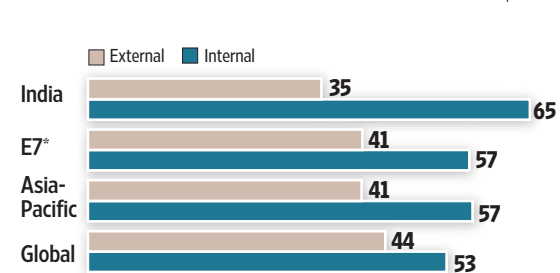
Globally, India reported the least number of crimes this year, compared with four years back when it had the ignominious distinction of leading the global portfolio of economic offences. Either the enforcement has got smarter or the perpetrators were too smart to be caught.



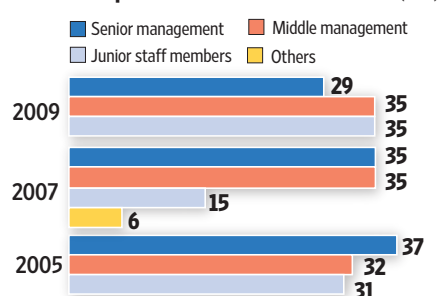
Greater threat from employees

The threat from inside is more serious than that from outside. No surprises here as globally most companies suffered due to the machinations of employees rather than outsiders, though India reported the highest number of frauds by employees across companies. And what started off as an expertise area of senior management levels—they were the single largest category of fraudsters in 2005—has now become more democratic, with the junior and middle management sharing the honours at 35% apiece this year.

Profile of fraudster: internal vs external

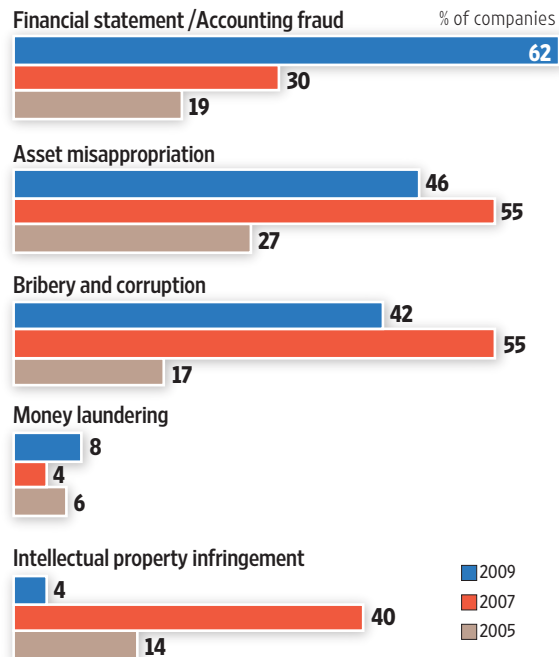


India: profile of internal fraudster



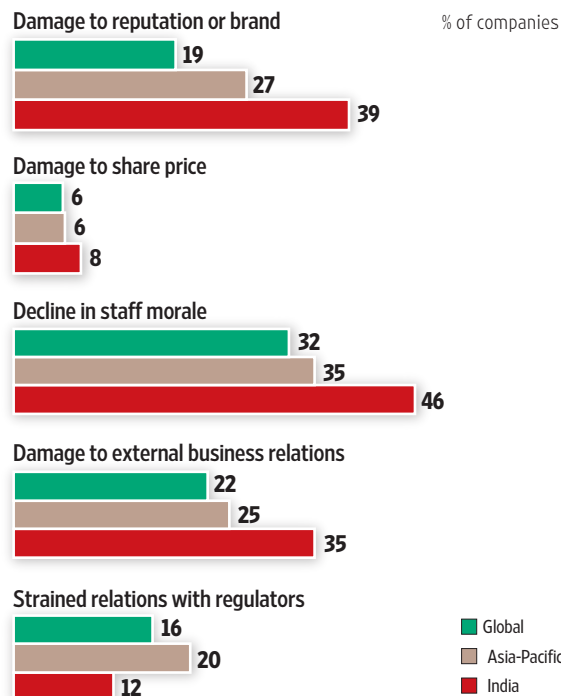
Anatomy of frauds

Financial and accounting frauds, not counting money laundering among them, have more than doubled this year compared with two years back, while the rest show a decline over the last four years.



Implications

Cost to company from an economic fraud is not just bare shell number crunching but also effect on brand equity both within the organization and outside as also the stock price.

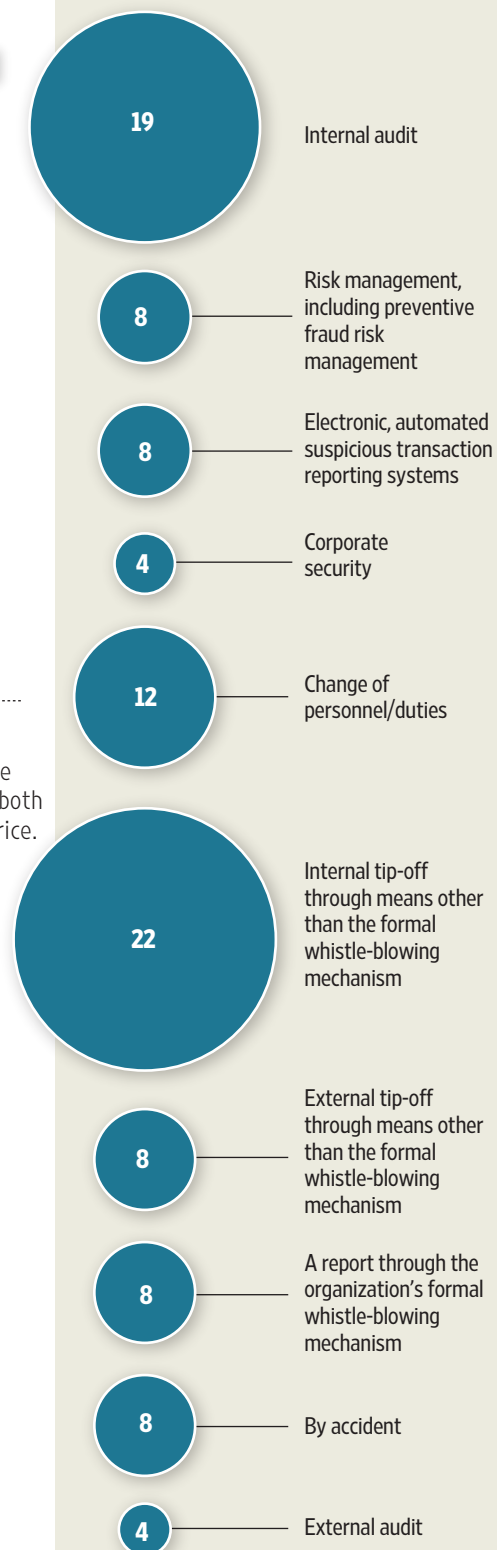


Prevention

Cultivating your own eyes and ears within an organization could help in detecting frauds, along with the normal mechanism of whistle-blowing—not to mention a strong minded internal auditor.

India: fraud detection methods (in 2009)

% of companies



*E7 refers to seven emerging economies of Brazil, China, India, Indonesia, Mexico, Russia and Turkey. The percentages don't add up to 100 as some respondents in E7, Asia-Pacific and Global segments said they did not know if fraud was committed by an internal or external source.