

Belgium

# Economic crime in a downturn

The Global Economic Crime Survey  
November 2009

## Introduction



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PricewaterhouseCoopers Belgium is pleased to present the results for the Belgian market drawn from its biennial Global Economic Crime Survey. This year, 62 companies of varying sizes (39 of which are listed) and active in different industries took part in this survey. The

web-based survey indicates that the effect of the global economic downturn on businesses is thought to be high as regards economic crime.



Classically, the participants in the survey are mainly active in finance (40.3%), executive management (32.3%) and compliance (8.1%). Only 4.3% are from the field of risk management, which may possibly indicate that, although fraud prevention is of concern to top management, companies do not have designated roles for risk management.

Fraud continues to figure as a prominent issue and has become increasingly important in the eyes of the world's business players. Over 24% of the Belgian companies surveyed have been faced with one or more significant cases of economic crime during the past 12 months. The vast majority of these companies (80%) had as many as ten incidents of economic crime in one year. More than 53% of the Belgian companies reported that the number of incidents had increased, while only 6.7% stated that the number had decreased year on year.

The impact and consequences of economic crime cannot be ignored. The survey reveals that it is a source of significant loss to companies. Moreover, 40% of those that had fallen victim to economic crime

experienced an increase in the cost associated with fraud. Over 33% of Belgian business leaders believe that economic crime has caused collateral damage to their companies, including damage to their brand, customer trust and staff morale.

Our track record in the field of fraud prevention and investigations has been built up over many years' experience. Our biennial survey enhances our knowledge of the most prevalent economic crimes. The outcome enables us to continuously develop and refine our forensic services.

This report marks a step towards a future in which experience and practices in the business world will contribute towards dialogue on effective control and prevention strategies. In the fight against economic crime, we are unlikely to find a panacea, but we are finding out more about "what works and what doesn't". There is no doubt that we need to continue working on this process together with the business communities, who have been willing to participate in our survey despite the sensitivity of the topic. For this, we would like to express our thanks.

## Economic downturn and the heightened risks of fraud

The Belgian respondents (61%) reported a decline in financial performance over the past 12 months. 34% of the respondents believe that the current economic climate is increasing the risk of economic crime that organisations face.

The economic crisis has caused organisations to focus on areas other than fraud risk management. However, fraud risk assessments have proved to be a 'critical tool' in identifying potential fraud threats and controlling system weaknesses that create opportunities to commit fraud.

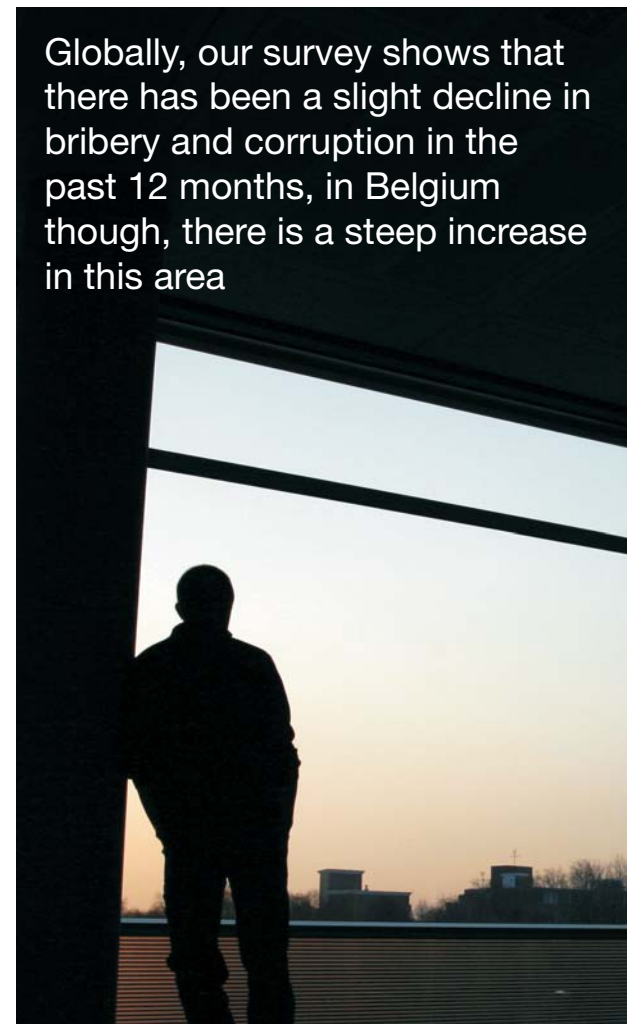
53% of respondents who reported fraud believed that there had been an increase in the level of economic crime compared to 12 months ago, yet 66% of respondents had made no change to the frequency of fraud risk assessments in the same period.

## Are organisations managing fraud effectively?

24% of respondents have suffered economic crime over the past 12 months. Inevitably, a certain amount of fraud remains undetected. In addition, the most common factor contributing to a greater opportunity for committing fraud was reported to be 'staff reductions, resulting in fewer resources deployed on internal controls'. Our survey statistics show that 27% of the fraud reported was detected by internal audits. Hence, it is apparent that, had there been no reductions in internal control staff levels, more fraud could have been detected.

13% of reported fraud was detected through risk management measures, including preventive fraud risk assessments. However, in the past 12 months, 16% of respondents had performed no fraud risk assessment and another 42% had done only one.

Globally, our survey shows that there has been a slight decline in bribery and corruption in the past 12 months, in Belgium though, there is a steep increase in this area

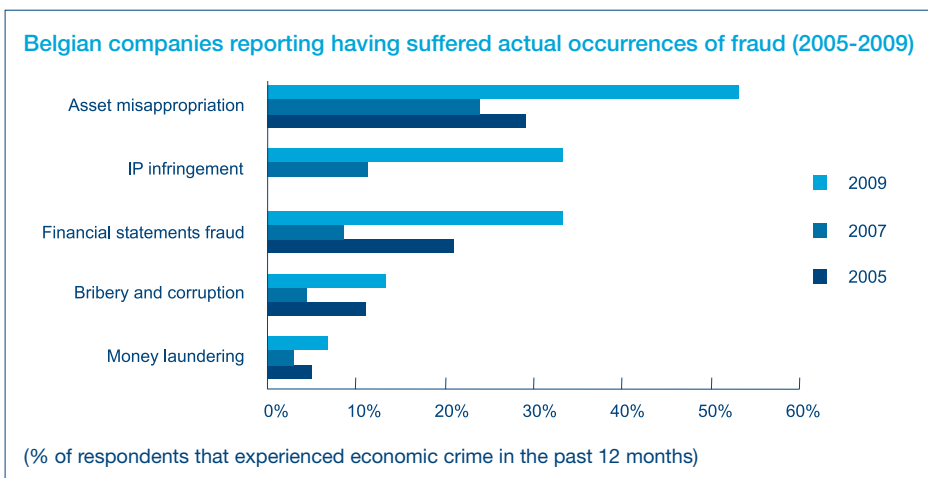


## The changing face of fraud – rise in financial statement fraud

On the past few occasions that the survey was conducted, asset misappropriation tended to be the most common type of economic crime. However, respondents in the current survey reported a significant increase in financial statement fraud, particularly fraudulent applications for credit, fraudulent raising/borrowing of money or unauthorised transactions/rogue trading. The reason for the increase in this type of fraud could be because of control failures arising from cuts in costs due to the economic climate, combined with the pressure to meet increasingly difficult financial targets.

IP infringement, including theft of data, was again frequently reported by the survey respondents.

Another contrasting element is represented by bribery and corruption cases. Globally, our survey shows that there has been a slight decline in bribery and corruption in the past 12 months. In Belgium, though, there was a steep increase in this area (from 5% in 2007 to 13% in 2009). The same upward trend was noted in the percentage of money-laundering incidents: from 3% in 2007 to 7% in 2009.



## Direct costs and collateral damage from economic crime

### Direct costs

20% of the respondents that reported fraud stated that its direct cost in the past 12 months had been more than \$500,000. Proper detection systems and internal controls may limit the level of these costs.

### Collateral damage

Respondents to the survey perceived a relationship between the occurrence of fraud, on the one hand, and the company's reputation, employee morale, business relations and relations with regulators, on the other hand. Although companies are aware of the collateral damage fraud produces, in Belgium its significance is lower than it is globally.



## Do organisations set the right ‘tone at the top’?

The ‘tone at the top’ lays down the environment of the company’s culture and morale. The survey indicates that, when it occurs, economic crime is commonly known of at lower management levels, but top management are not always informed.

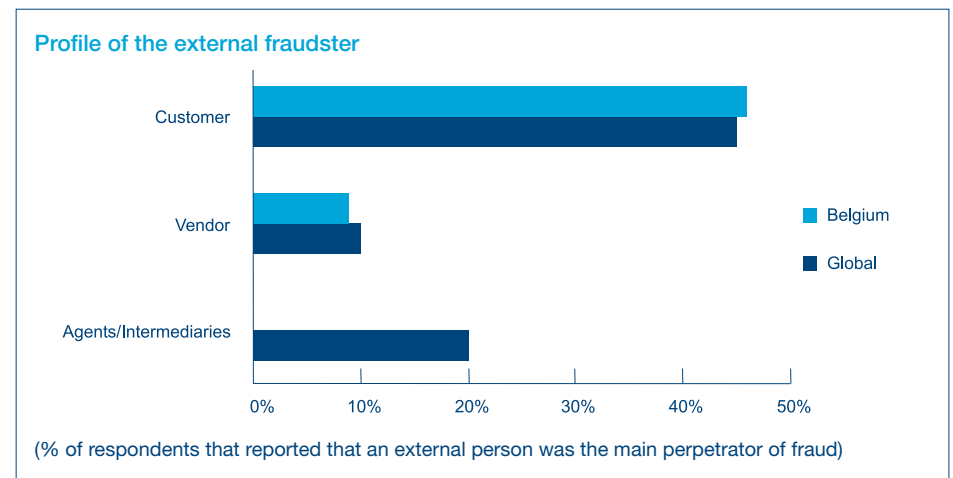
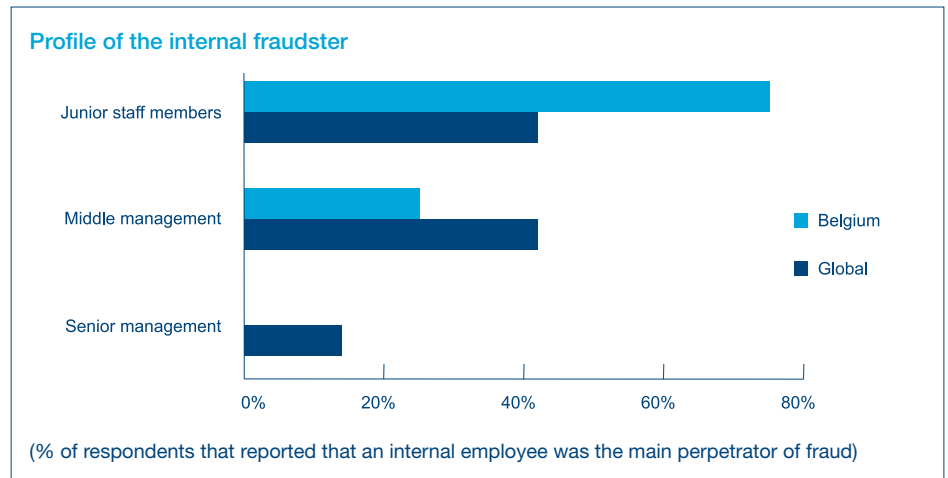
The effect of economic crime on employee morale is not to be underestimated. The way top management act against perpetrators and how staff are informed play an important role in staff motivation.

Of the respondents that reported increased pressure and incentives for committing fraud as a main reason for fraud, 50% noted that targets are more difficult to achieve and 31% said that people want to make the numbers in order to earn performance bonuses. A further 31% also noted that senior management were keen to report that target levels of financial performance had been achieved.

These results emphasise how important it is within organisations for top management and their employees to communicate with each other in respect of fraud.

## Perpetrators of fraud

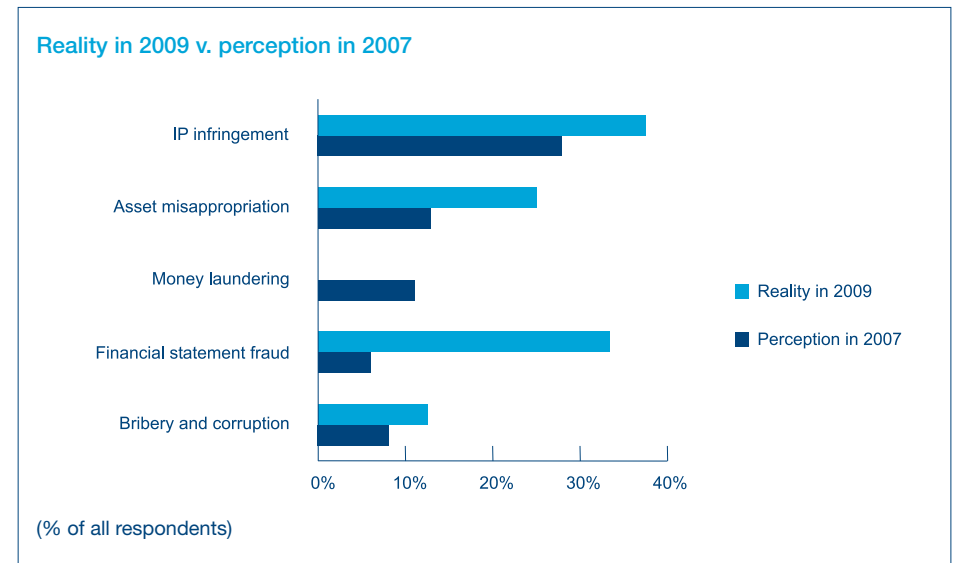
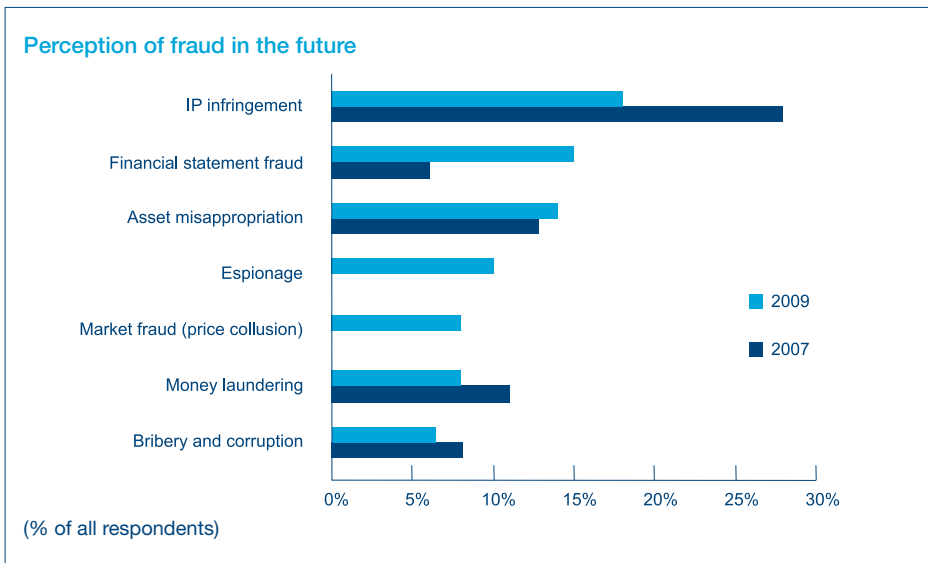
As with previous surveys, in Belgium the main perpetrator of fraud is an outside party: in almost three-quarters of cases (73%). In the other 27% of cases, the perpetrator is an internal fraudster.



## Fraud in the future

IP infringement, financial statement fraud (in particular fraudulent applications for credit) and asset misappropriation, industrial espionage and market fraud (involving cartels colluding on prices) are the main forms of crime that respondents believe their organisation will most likely experience in the next 12 months. Although the first three types were perceived as threats back in 2007 as well, espionage and market fraud are new on companies' radar screens.

Although there has been an increase in perception levels, the results show a significant gap between perceptions of the likelihood that fraud will occur in future compared with the empirical reality of historically reported fraud.





The crisis has an impact on fraudulent behaviour. 53% of respondents who reported fraud believed that there had been an increase in the level of economic crime compared to 12 months ago

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