



2009 Fraud Survey in Organizations in Slovakia

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Introduction

We are pleased to present the results of the *2009 Fraud Survey in Organizations in Slovakia*, conducted by Surveillgence, s.r.o. and TPA Horwath A&A, s.r.o. in cooperation with ACCA (The Association of Chartered Certified Accountants).

In the survey, Surveillgence, a specialized forensic agency focused on fraud detection, investigation and prevention, and TPA Horwath, an audit and advisory firm ranking globally among the TOP 10 in professional audit and advisory services, attempted to review fraud incidence, impacts of fraudulent behavior and existence of control measures to eliminate fraud in organizations operating in Slovakia.

Our primary objective was to gain an understanding of the extent of fraud, its negative impacts and the preparedness of organizations to confront fraudulent behavior. Another aim of this survey was to assess the incidence rate and causes of fraud occurrence in particular segments of the financial and non-financial sectors in Slovakia.

Our decision to make the survey results available to the general public was driven by our desire to increase public awareness of the dangers and negative impacts of fraudulent behavior and to make a small contribution to the development of an ethical society. We believe that a better understanding of the current situation in fraud incidence, detection and investigation methods may lead towards increased introduction of tools to control, prevent and eliminate fraud, broader awareness of misconduct and, in particular, promotion of fraud education in Slovakia.

This report is the first detailed survey focused solely on organizations operating in Slovakia. Our ambition is to provide such survey and overview on a regular basis to help observe trends and review developments in all sectors of Slovakia's economy.

The 2009 Fraud Survey in Organizations in Slovakia took place in June and July 2009. Of the invited organizations operating in Slovakia, selected based on their size and business segment, 74 sent us their answers.

The survey was strictly anonymous. The survey was accessible on-line, in the form of a web-based questionnaire. It included 54 questions divided into two parts. The first part of the survey included questions concerning fraud incidence and impacts of fraudulent behavior. The second part was focused on assessing the situation of anti-fraud control systems in the organizations.

We would like to thank all individuals and organizations that took part in this survey and contributed their time and answers towards creating this unique report. Without your help we would never have been able to carry out this survey.

We believe that this report will be an inspiring source of information for you, will help you or your organization build an effective control system and will contribute to eliminating the risk of fraudulent behavior.

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ACCA

Summary of survey results

- 86% of the survey participants named bribery and corruption as the type of fraud most harmful to our society.
- Two-thirds of the participants indicated inefficient judiciary, insufficient ethical culture and lack of moral role models as the most serious factors of increase in fraud.
- 52% of the survey participants encountered fraud incidents in the last two years.
- Almost 47% of organizations suffered losses of up to EUR 100,000, almost 12% suffered losses of EUR 100,001 to 250,000.
- Inadequate or non-existing controls were the most frequent circumstance contributing to fraud occurrence.
- Only 26% of the respondents already have anti-fraud control system in place, while 14% do not have and are not planning to introduce such a system.
- The controls most frequently used in organizations include procedures related to supplier selection and procurement, conflict of interest and segregation of duties, monitoring of employee work, and introduction of IT security measures.
- The most frequent manner of fraud detection in organizations is information from employees.
- The most effective controls include whistleblowing, i.e. anonymous reporting of misconduct. Although almost 40% of the respondents confirmed using it, only 32% of the survey participants said that they have adequately trained and familiarized their employees with whistleblowing procedures.
- 53% of the survey participants named financial losses as the most frequent impact of fraudulent behavior. Other negative impacts included disruption of business relations, deterioration of employee morale and damage to the organization's reputation.
- Theft of property is the most frequent type of internal fraud. The most frequent external fraud is bid rigging.
- The most frequent fraud offender is the rank-and-file employee, followed by the supplier.
- Fraud occurs most frequently in procurement and stock-keeping.
- One-third of the survey participants used their own resources to trace and recover assets, only 5% used a specialized external agency.
- 41% of the survey participants were partly successful in asset recovery, 10% did not recover any losses.

Survey participants

The 2009 Fraud Survey in Organizations in Slovakia took place in June and July 2009. The survey was strictly anonymous. We contacted 1,300 organizations operating in Slovakia, selected based on their size and business segment. The invitation to complete the questionnaire was addressed to a manager in the organization who has knowledge about the occurrence of fraud and about the organization's controls. Invitations were sent by mail, and by e-mail if an e-mail address was available. Seventy-four organizations took part in the survey and sent us their responses.

The survey was only accessible on-line, in the form of a web-based questionnaire. It contained 54 questions divided into two parts. The first part of the survey included questions concerning fraud incidence and impacts of fraudulent behavior. The second part was focused on assessing the situation of anti-fraud control systems in the organizations.

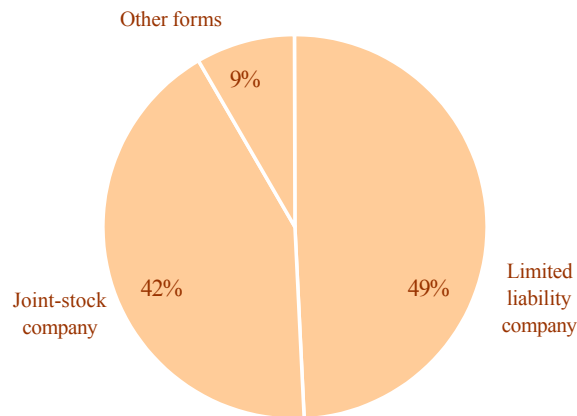


Fig. 1: Survey participants by legal form of organization

According to the statistics „Economic entities by selected legal form and size category by number of employees as of 31 December 2008“, released by the Slovak Statistical Bureau, a total of 5,227 entities with the legal form of a joint-stock company and 106,017 with the legal form of a limited liability company operated in Slovakia as of 31 December 2008.

The survey covered a higher ratio of joint-stock companies than is the ratio indicated by the above statistical report.

Specifically, almost one-half of the organizations that participated in the survey had the legal form of a limited liability company. The second largest group consisted of organizations with the legal form of a joint-stock company (42% of the organizations). Nine percent had another legal form.

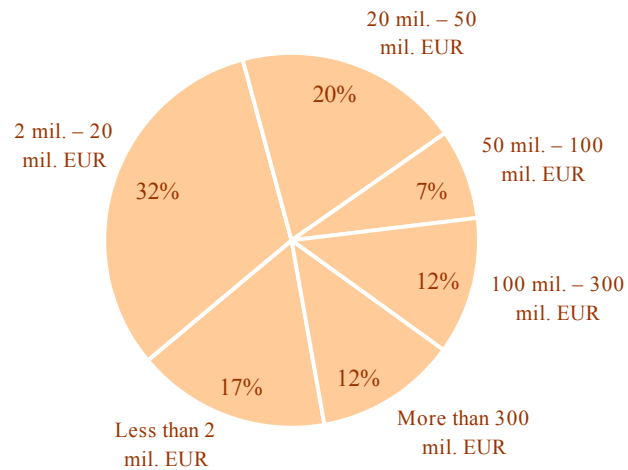


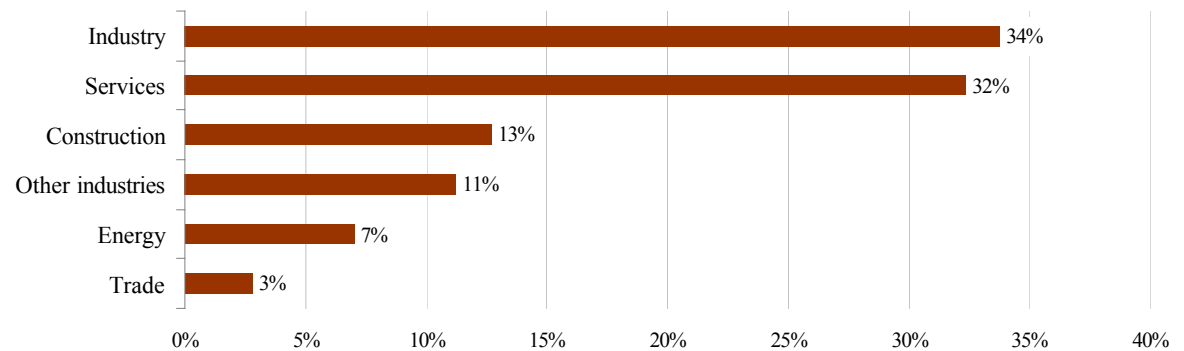
Fig. 2: Survey participants by sales

Ninety percent of the survey participants were organizations without a state-owned interest and only less than 5% of the organizations were partly or fully state-owned.

Almost 42% of the organizations were fully owned by Slovak owners, 35% were fully owned by foreign owners. Twenty-four percent of the organizations had mixed local and foreign ownership.

The most numerous group of organizations participating in the survey (42.2% of the total number of respondents) was organizations with 101 to 500 employees. Small and medium-sized organizations with up to 100 employees accounted for 28.2% of the participants. Large organizations with more than 500 employees had 29.6% participation.

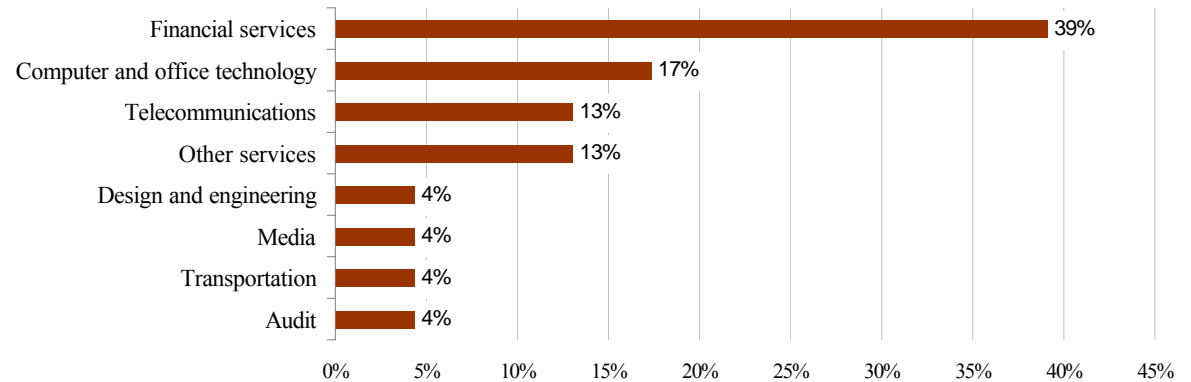
Organizations from a broad spectrum of sectors participated in the survey. Industry had the strongest representation, followed by services, each with about one-third of the survey participants. Third in the number of participating organizations was construction with 13%.



Survey participants by type of industry and services

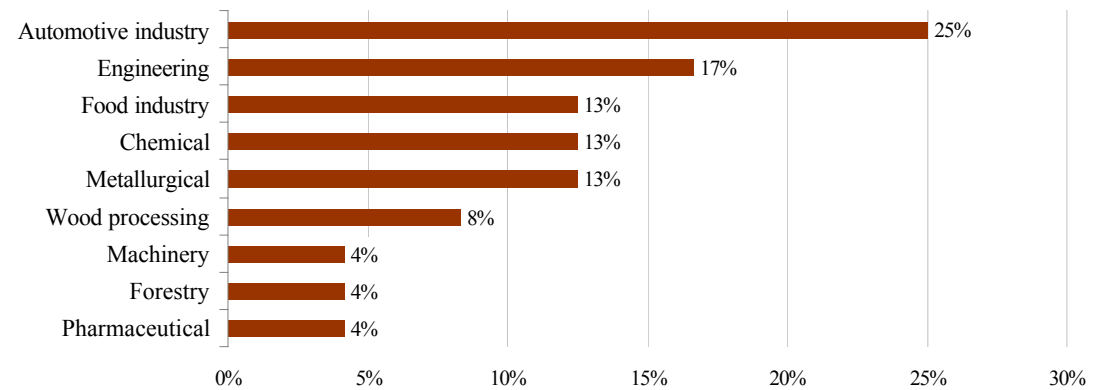
The automobile industry and engineering had the largest representation in the industry segment.

Services segment



Financial services prevailed in the services segment.

Industry segment



Note

Respondents' answers in the following parts of the survey are presented in graphical form. In many questions, respondents could choose more than one answer or add their own answer. As a result, the total sum of the answer percentage values in some charts is more than 100%.

Fraud incidence at organizations

Quick survey facts:

- 52% of organizations encountered fraud
- 8% of those that encountered fraud had more than 25 fraud incidents
- 26% organizations encountered no fraud
- 49% of those that encountered fraud investigated fraud incidents
- 22% of those that encountered fraud did not successfully investigate any of the fraud incidents

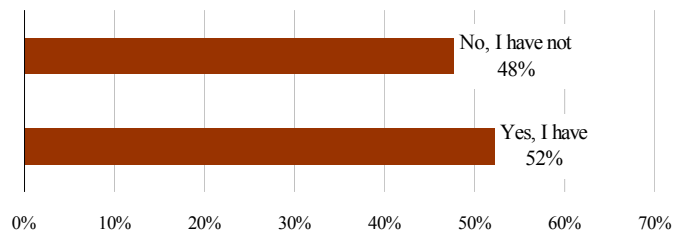


Fig. 6: *Fraud incidence in organizations – has the person completing the questionnaire encountered fraud in his/her organization in the last two years?*

People commit fraud. Organizations don't. That is why wherever people work there is a risk of misconduct. A frequent answer by many company representatives as to whether fraud may exist in their organization is simply – no. However, the awareness of fraud in one's own organization is often in conflict with the real situation. Therefore, we were interested in organizations' awareness of the occurrence and frequency of fraud in their operations.

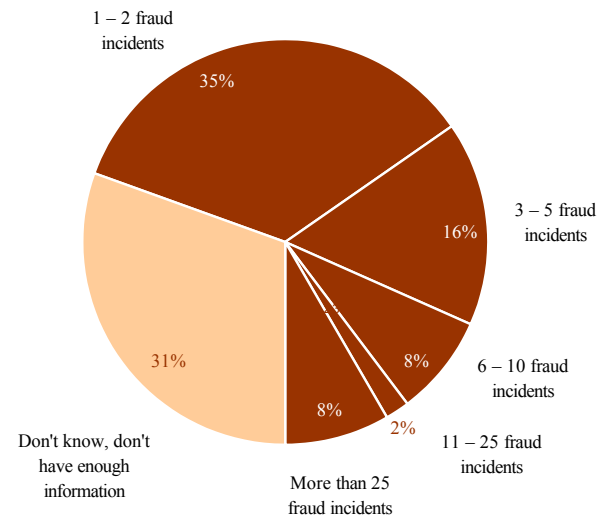
The survey participants' answers indicate that almost 48% of the representatives of the organizations involved in the survey (individuals who completed the questionnaire) encountered no fraud incidents in the last two years. However, we find this number very optimistic, especially in light of the organizations' answers in the other parts of the questionnaire where only about 35% of the organization representatives regularly confirmed that no fraud occurred in their organization. Of the organizations where fraud occurred, almost 35% of the respondents noted one to two fraud incidents in the last two years. More than 25 fraud incidents for the period were noted in 8% of the organizations.

The survey confirmed that the organizations tried to investigate identified fraud. However, according to their answers, the results of such investigations generally were not very satisfactory. Of the organizations where fraud occurred, up to 22% of them did not resolve any fraud incidents and only 19% resolved more than three-quarters of the fraud incidents detected.

Approximately one-third of the respondents did not have sufficient information about fraudulent behavior in their organizations. This fact may have been either due to the respective individuals' incomplete knowledge of the situation in their organization or due to their reluctance to provide information.

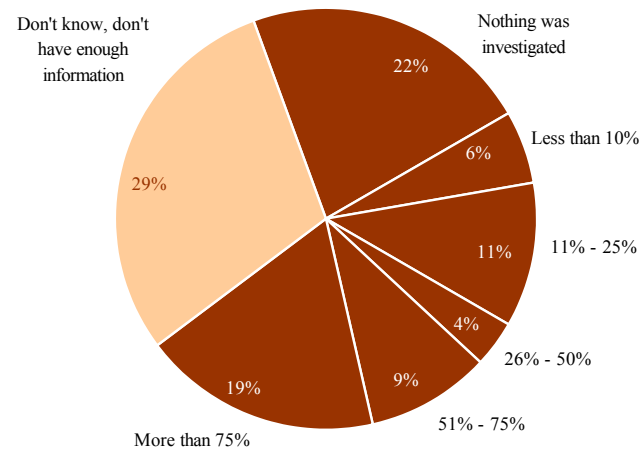
...8% of organizations where fraud occurred had more than 25 fraud incidents during the last two years ...

If the respondent encountered fraud, what was the number of fraud incidents in the last 2 years



...only 19% of organizations which experienced fraud investigated more than three-quarters of the fraud incidents in the last two years...

If the respondent encountered fraud, what was his/her percentage estimate of fraud incidents resolved during the last 2 years



Methods of fraud commission and detection

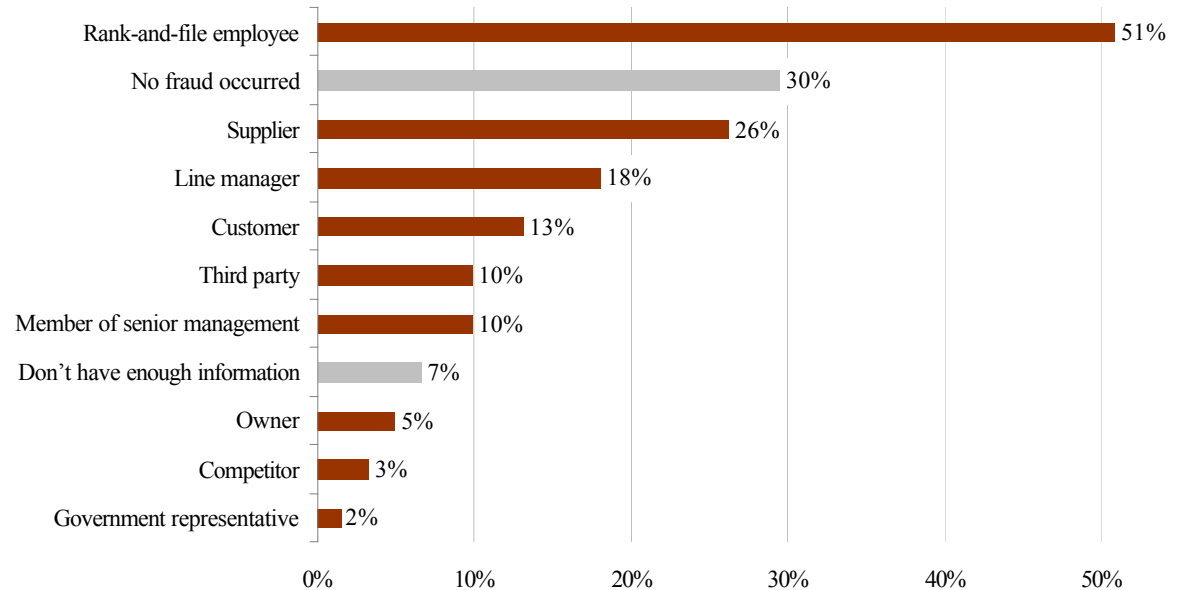
Quick survey facts:

- 32% of organizations experienced theft of property
- Just 5% of organizations encountered bribery
- 40% of organizations detected fraud through information from employees
- 13% of organizations did not investigate detected fraud incidents
- 10% of organizations used an external company to investigate fraud incidents

... ranking of offenders in organizations by frequency of occurrence: rank and file employee, manager, member of senior management, owner...

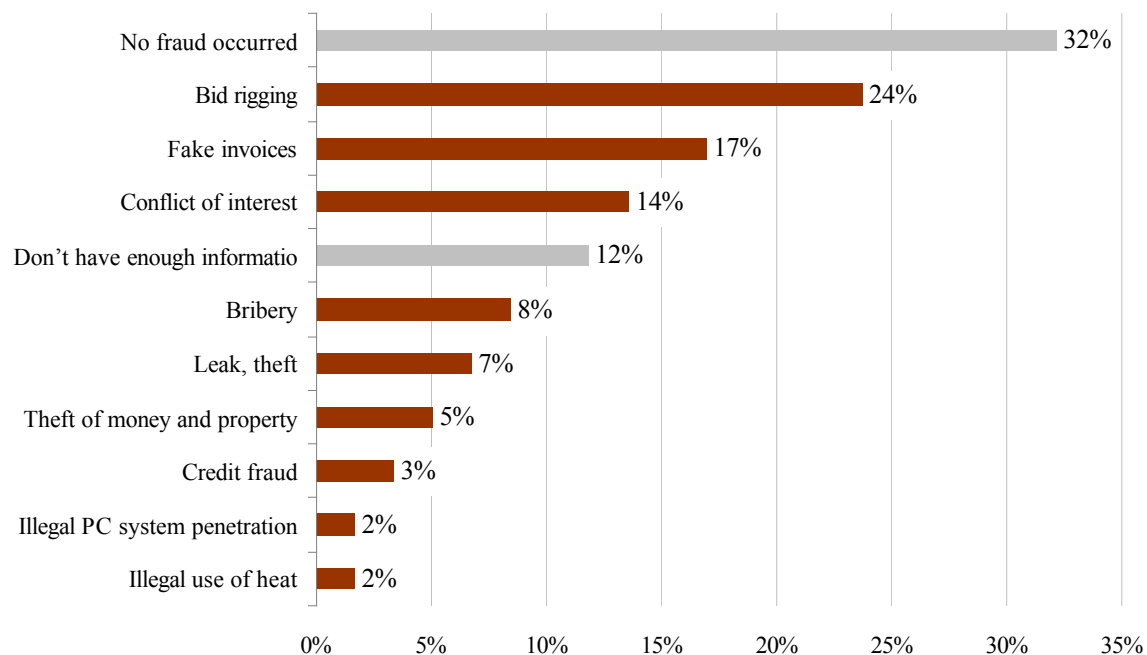
According to the respondents' answers, theft of property is the most frequent type of internal fraud. The most widespread external fraud is bid rigging. The respondents confirmed a fact known from international surveys that information from employees is the most frequent way of detecting fraud in organizations. The rank-and-file employee is the most common fraud offender, followed by suppliers. The function showing the highest risk of fraud in an organization is procurement and stock-keeping. If a fraud was detected the organizations initiated investigation using their own resources. Most often such activity would be conducted by a management member of the organization or by internal audit. Only 10% of the organizations used an external company to investigate fraud.

1. Who committed fraud?



...it is a positive fact that organizations can recognize conflict of interest and view it as fraudulent behavior...

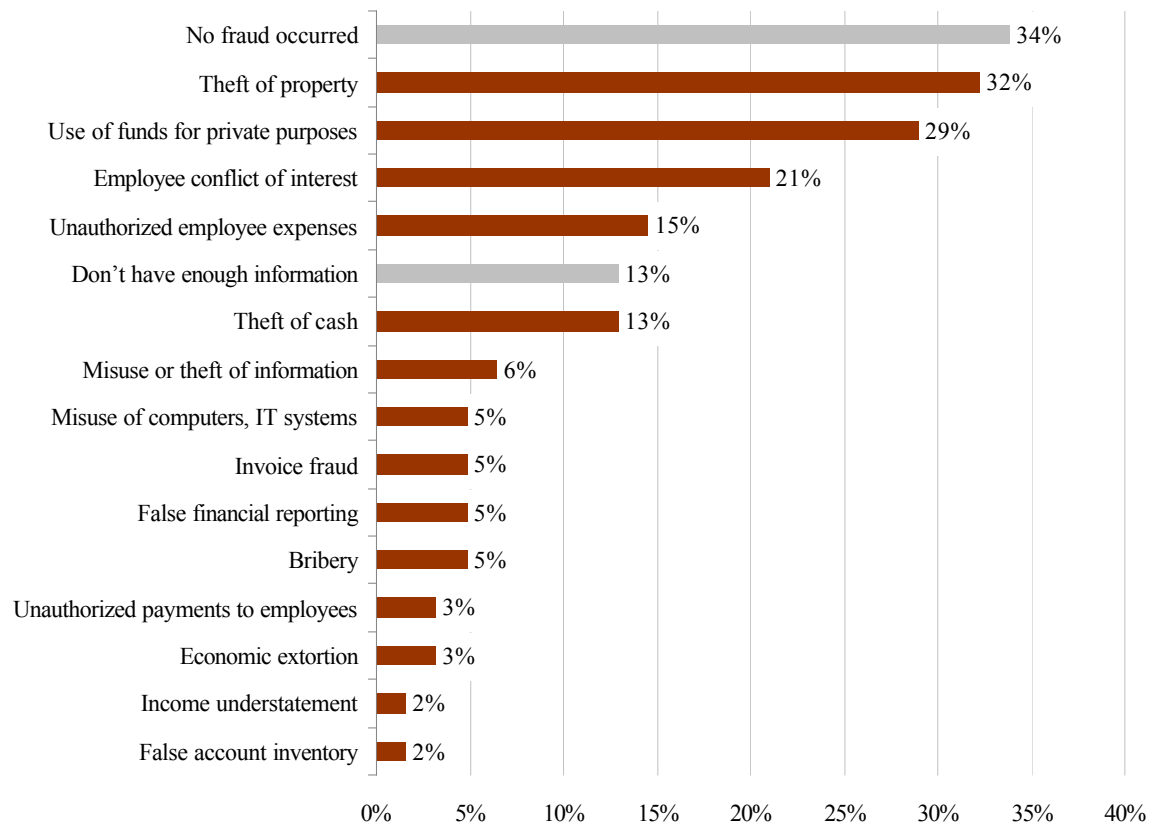
2. External fraud, i.e. committed by third parties, during the last two years



Bid rigging was named as the most frequent external fraud. This type of fraud, linked to corruption, was also indicated as one of the most serious and most harmful types of fraud in other parts of the survey. Fake invoices generally constitute a very common type of fraud, and the survey results confirmed the ability of organizations to discern it.

...more sophisticated fraud was found to be less frequent, thefts and misuse of company funds dominate...

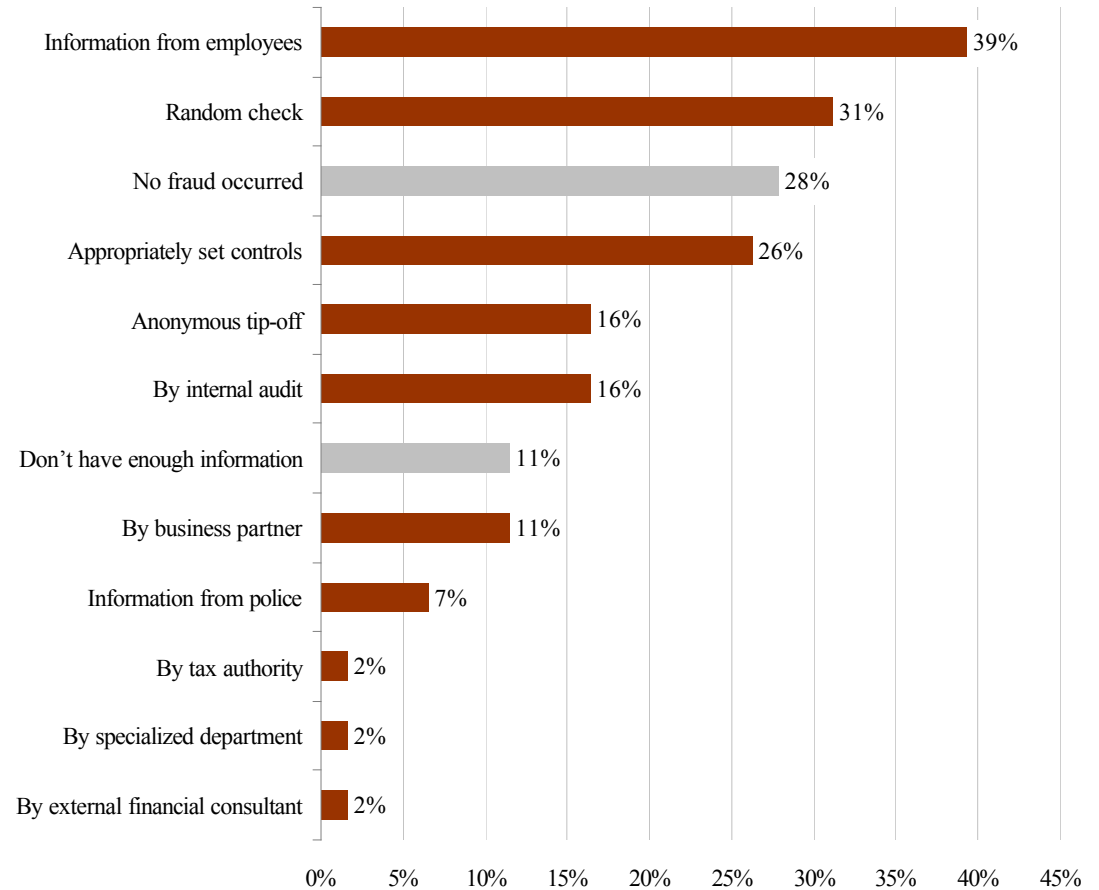
3. Internal fraud, i.e. committed by employees, for the last two years



Theft of property and use of organization resources for private purposes dominated among the main internal frauds identified. Surprisingly, bribery, indicated as one of the most harmful types of fraud in the survey, was only checked by less than 5% respondents.

4. Methods of fraud detection in organizations

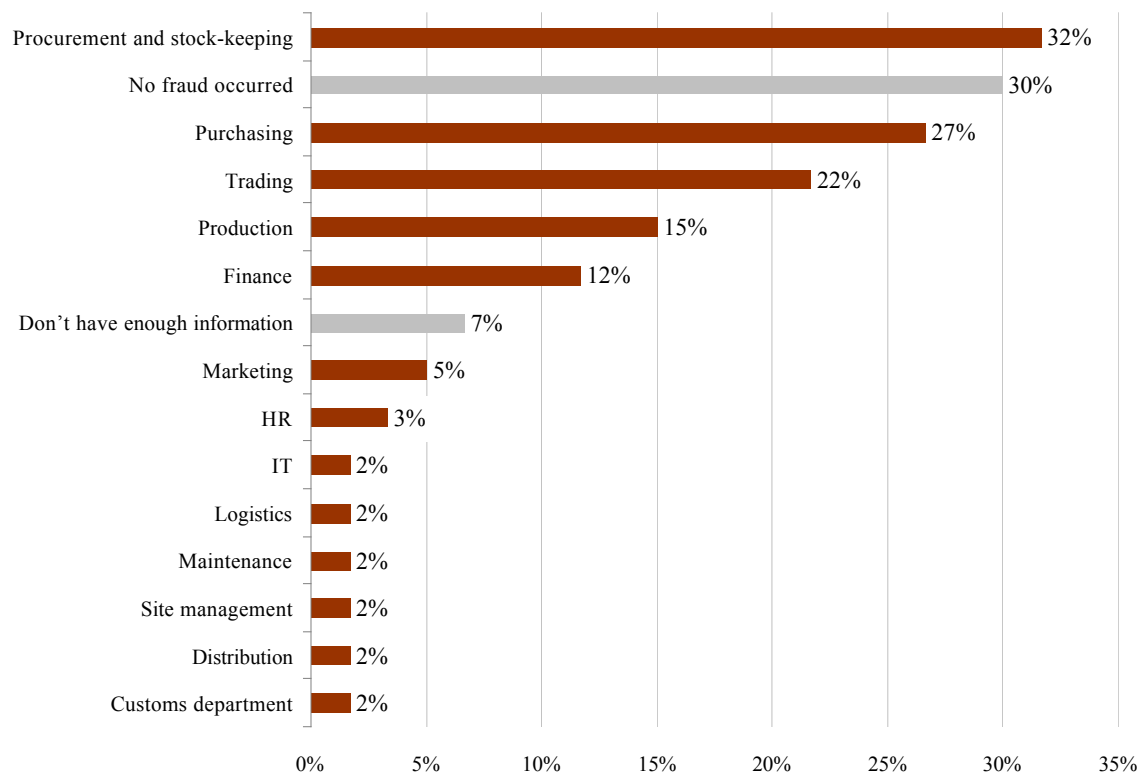
...a very effective way of getting information is by supporting fraud reporting by employees...



The respondents' answers regarding fraud detection in their organizations confirm the results of similar surveys conducted abroad. The primary way of identifying fraud is information from own employees, use of the control system and random reviews.

...lower fraud incidence at financial department, high frequency in procurement and purchasing...

5. Area/department where fraud occurred in organizations



Like in other countries, our survey respondents confirmed that the functions most susceptible to fraud in an organization include procurement, stock-keeping and purchasing.

The respondents' answers presented in the chart confirm that fraud can occur in all departments or functions of an organization.

A surprising result is the lower than expected rate of fraud identified in the financial department.

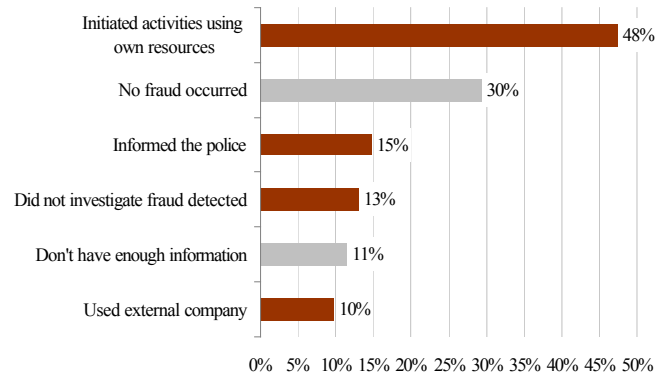
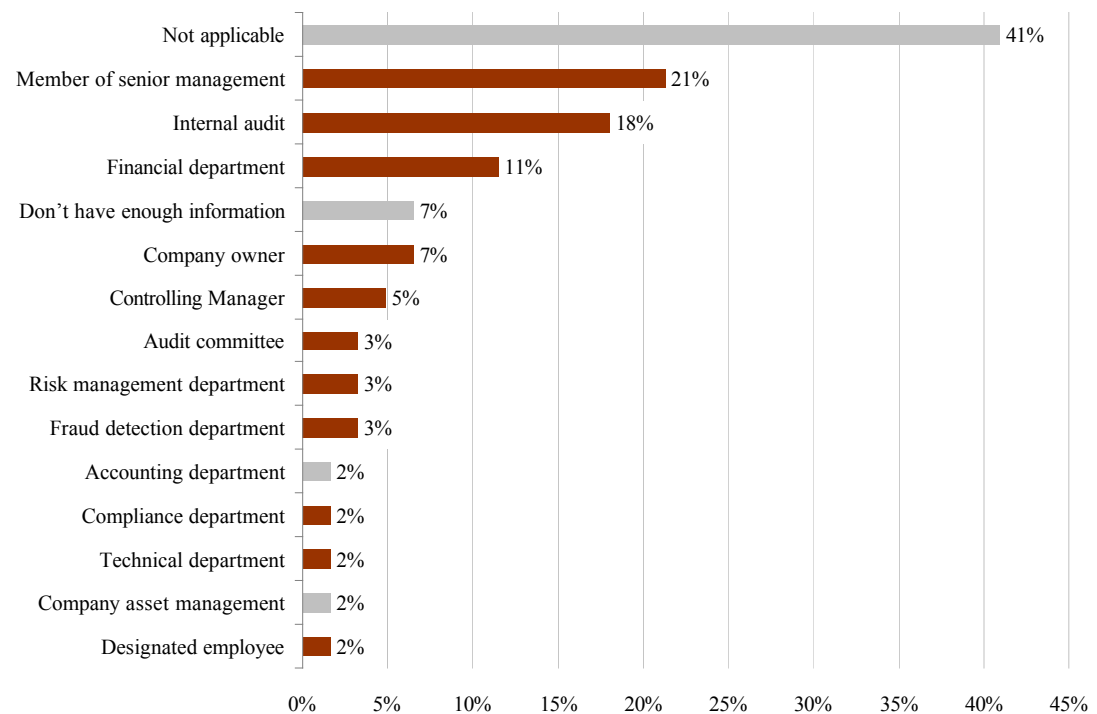


Fig. 14: Organization's action following detection of fraud

6. Further steps after fraud is detected

After identifying a fraud, almost one-half of the organizations initiated further activities using their own resources, only less than one-tenth used an external company. Management and internal audit were indicated as those responsible for managing internal fraud investigations.

The following chart presents individuals or departments that led the investigation where the organization decided to investigate identified fraud internally:



The answers indicate that besides a member of management, it is also the organization's internal audit that assumes an important role in investigations. A surprising result is the use of the financial department for leading investigations.

Impacts of fraudulent behavior

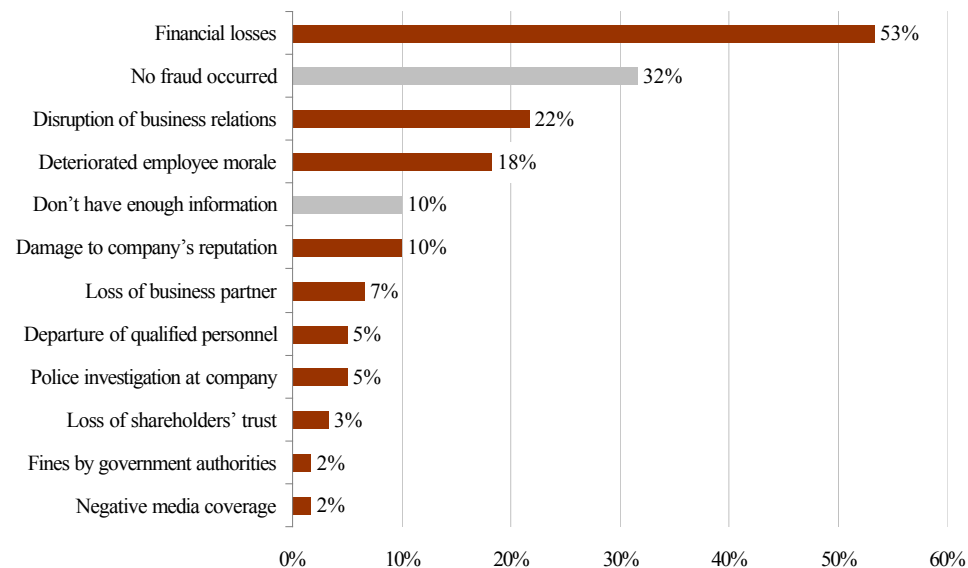
Quick survey facts:

- 53% of organizations have financial losses due to fraud
- 10% of organizations damaged their reputation
- 22% of organizations had losses from EUR 0 to 10,000
- Up to 38% of organizations without fraud
- Only 8% of organizations took legal action
- 29% of organizations did not take legal action as they punished the offender internally

...financial losses are the most frequent negative impact of fraud...

Undetected fraud may persist in an organization and keep causing great damage for years. The attitude of an organization towards introduction of an anti-fraud control system often depends on its experience with fraud in the past. The fact that no fraud occurred or was detected in such an organization in the past may imbue the management with a false feeling of security and reluctance to introduce control measures. Underestimating the incidence of fraudulent behavior exposes an organization to a high risk of losses and other negative impacts. The impacts of fraudulent behavior are described in the following chapter.

Negative impacts of fraudulent behavior in organizations



According to the respondents' answers, financial losses were the most frequent impact of fraudulent behavior. Other negative impacts included disruption of business relations, deterioration of employee morale and damage to the organization's reputation.

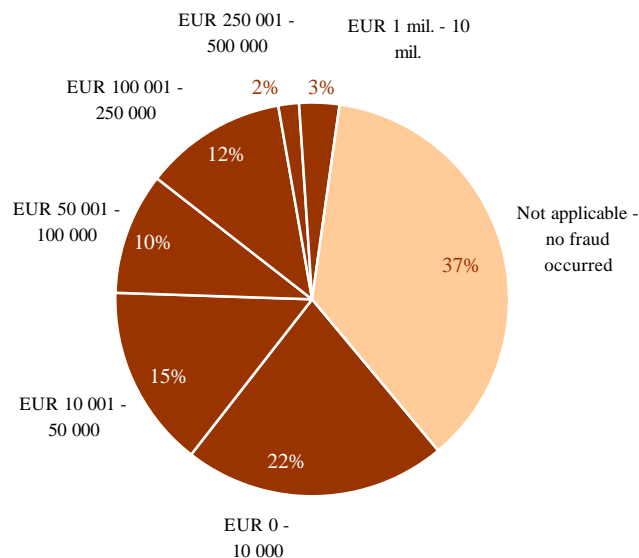


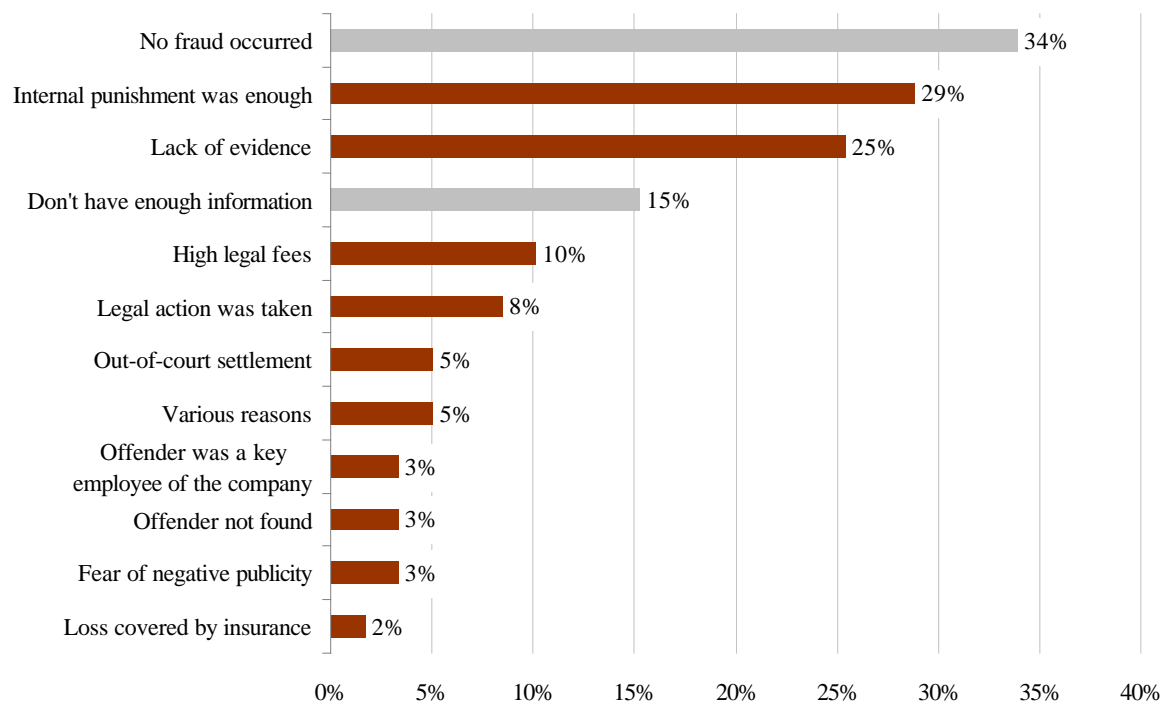
Fig. 17: Financial losses of organizations due to fraud by loss value

Financial losses caused by fraud (EUR)

Fifty-three percent of the respondents named financial losses as the most frequent impact of fraudulent behavior. Almost 47% of the organizations suffered losses of up to EUR 100,000, almost 12% of the organizations suffered losses of EUR 100,001 to 250,000. Three-percent of the organizations suffered large losses over EUR 1 million.

Reasons why organizations did not take legal action against the offender

Where fraud was detected and investigated in an organization, up to 25% of the respondents did not take any legal action against the fraudster due to lack of evidence. Almost 29% of the organizations thought their own punishment was sufficient and 10% did not take legal action due to high legal fees. Only less than 8% took legal action against the offender.



Asset recovery and compensation for losses

Quick survey facts:

- 37% of organizations claimed damages themselves
- 49% of organizations did not have information on recovery or did not encounter fraud
- 7% of organizations recovered more than 75% of funds
- 10% of organizations did not recover any funds

Professionally conducted fraud investigation is a basic precondition for asset recovery and compensation for loss. However, successful asset tracing, claiming and recovery is usually limited by available resources. In particular, such resources include sufficient time, finance and, especially, experienced and qualified fraud investigators. It seems that these factors may have caused that 41% of the organizations were only partly successful in recovering their funds and that 10% of the organizations received no compensation for loss.

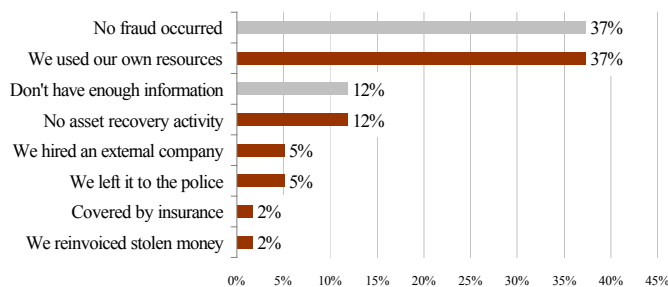
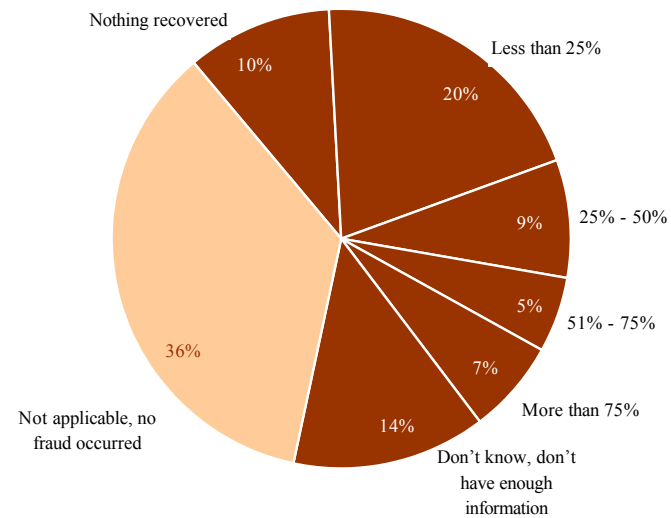


Fig. 20: Action in asset recovery and/or claiming of damages



The survey indicates that one-third of the respondents used their own resources in asset tracing and recovery. Only 5% of the respondents used a specialized external company to trace assets, which is even less than the number of respondents who used an external company to investigate fraud (a total of 10%, see previous parts of the survey).

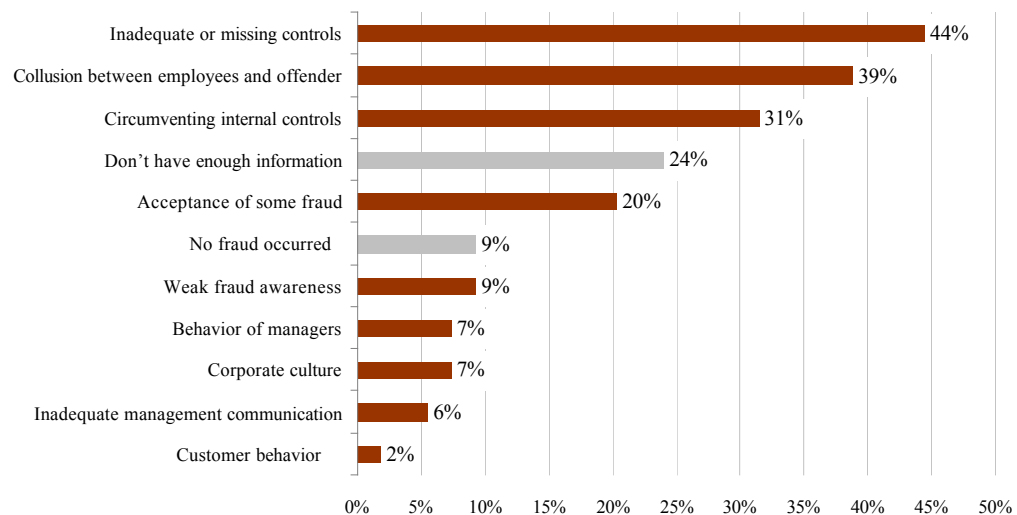
Existence of anti-fraud control systems

Quick survey facts:

- 44% of organizations said inadequate controls contributed to fraud occurrence
- 3% of organizations without anti-fraud controls
- Internal communication took place in 50% of organizations
- 40% of organizations allow whistleblowing
- 55% of organizations do not describe whistleblowing procedures in any internal documents
- 41% of organizations do not adequately educate their employees about whistleblowing
- 13% of organizations plan to introduce an anonymous line
- 62% of organizations introduced partial or full anti-fraud control system
- 24% of organizations do not plan to introduce any controls

Controls, policies and procedures should be an integral part of a functioning system protecting an organization against the occurrence and spread of fraudulent behavior. In the survey, we were interested in organizations' awareness of existing controls and their use in practice. Specifically, we focused on the use of anonymous whistleblowing.

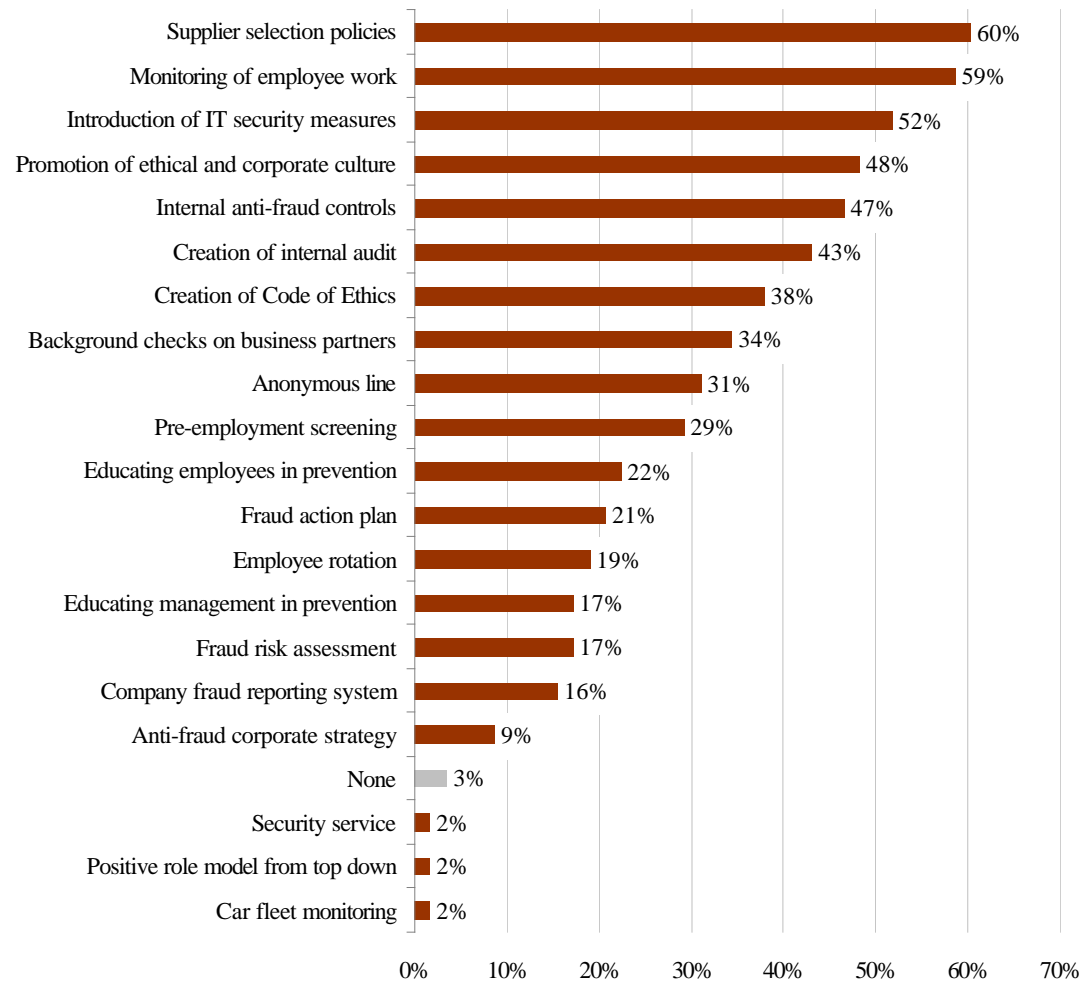
1. Circumstances that contributed to the occurrence of fraud in the organization



Inadequate or non-existing controls were the most frequently cited reason for the occurrence of fraud. A significant number, almost one-third, of the respondents also named circumvention of internal controls which may have resulted from an ineffective or inadequately used control system. Only 9% of the organizations said they had experienced no fraud and as many as 24% said they did not have enough information. In preceding answers, about one-third of the respondents said that they had experienced no fraud. We assume that this time respondents chose the answer "I do not have enough information" even when they experienced no fraud.

...just 3% of organizations said they do not use any anti-fraud controls...

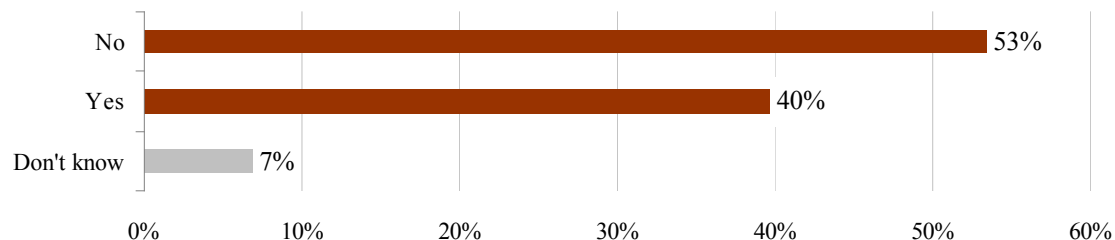
2. Anti-fraud controls and procedures used in organizations for the last two years



Policies and procedures related to supplier selection, purchasing, conflict of interest or segregation of duties are the anti-fraud measures used most frequently. It is a positive fact that 48% of the organizations promote ethical culture. One-third of the organizations use an anonymous whistleblowing line.

...40% of organizations use whistleblowing for reporting of misconduct...

3. Whistleblowing



Whistleblowing is among the most effective controls. Almost 40% of the respondents confirmed that they use it. This result is consistent with the respondents' answers to preceding questions where information from one's own employees was the most frequent way of detecting fraud (almost 39% marked it).

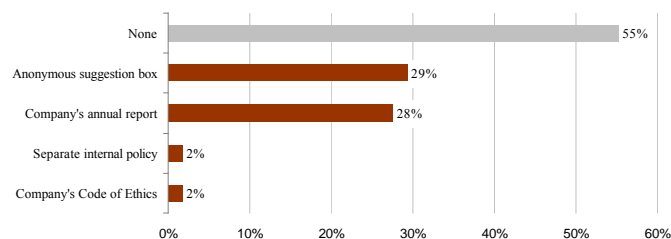


Fig. 24: Internal documents including information about whistleblowing procedures

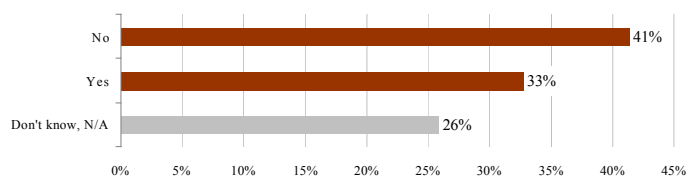


Fig. 25: Are employees adequately familiarized with and trained in whistleblowing procedures?

Internal documents including information about whistleblowing procedures

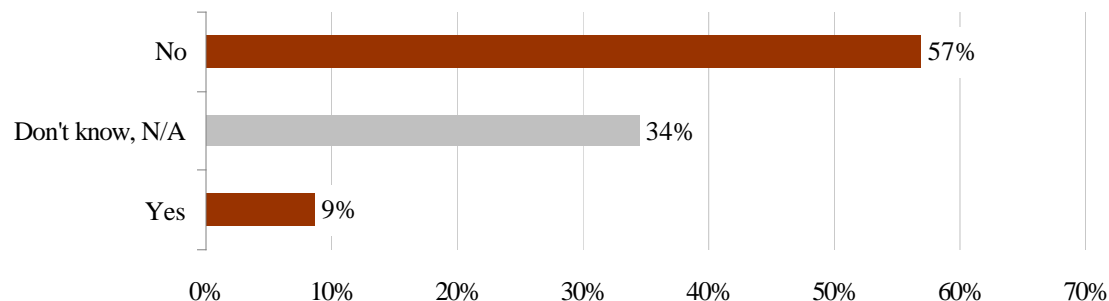
Information about the existence, procedures and results of protected reporting of misconduct are most frequently included in policies describing rules for using anonymous suggestion boxes. Another document often describing such rules is the organization's code of ethics. More than 55% of the respondents replied that they do not have such rules described in any internal document.

Employee training in whistleblowing

Although almost 40% of the respondents confirmed the use of whistleblowing, only 33% said they had adequately trained and familiarized their employees with whistleblowing procedures. Less than 26% of the respondents chose the option „I don't know, not applicable“. We assume that these organizations either do not use whistleblowing or do not train or inform their employees about the relevant procedures.

...57% of organizations do not reward reporting of fraud...

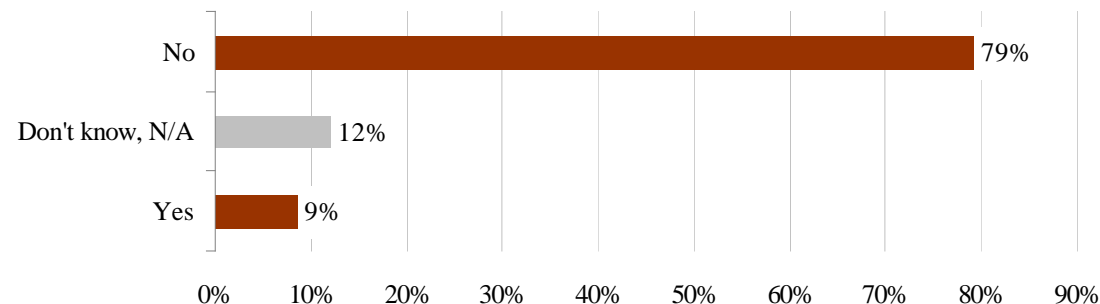
Existence of whistleblowing rewards in organizations



Motivating employees to report fraud is one of the important factors in the successful use of whistleblowing in practice. Only less than 9% of the respondents confirmed that their organization had some sort of reward for reporting of misconduct.

...9% of organizations use an external company to process reports...

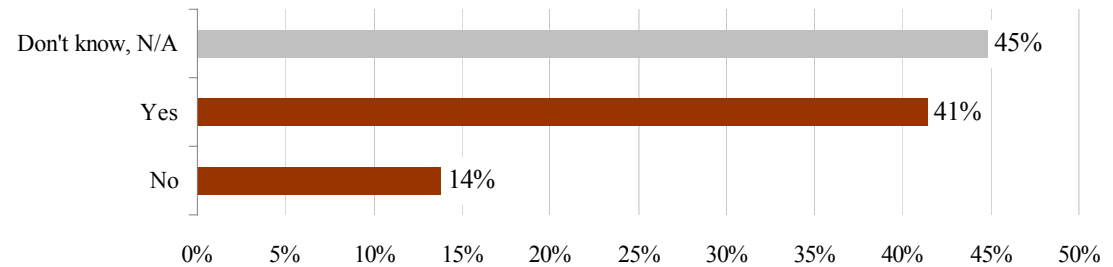
Existence of an external mechanism for protected whistleblowing



Providing protection and anonymity for the person who reports fraud is a priority and must in a successfully functioning whistleblowing program. An external mechanism, such as using a company specializing in report evaluation and sorting, is an option for ensuring effective protected whistleblowing. Just less than 9% of the survey respondents asserted the existence of such a mechanism.

...in 41% of organizations the personnel examining reports are independent and have sufficient resources...

Is the staff examining fraud reports independent and do they have adequate resources?



Another key factor in the successful functioning of a whistleblowing program is that the received information is adequately processed, evaluated and passed on to the experts in charge for further action. Less than 42% of the survey respondents confirmed that the staff who examines whistleblowing reports is independent and has adequate resources for their activities. On the other hand, almost 14% of the respondents said the opposite.

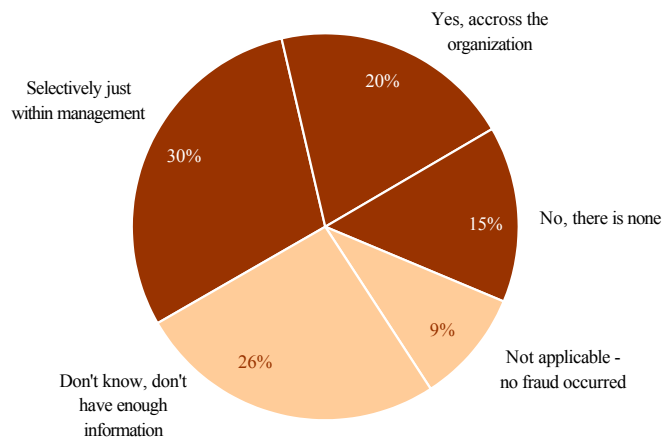


Fig. 29: *Communication in organizations during occurrence of fraud*

4. Communication about fraud detection and prevention when fraud occurs

One-half of the respondents confirmed that there was communication about fraud detection and prevention within the organization at times when fraudulent behavior occurred. Only one-fifth of the respondents confirmed communication across the whole organization, almost one-third did so only selectively – i.e. just within the organization’s management.

...37% of organizations plan to introduce internal anti-fraud controls...

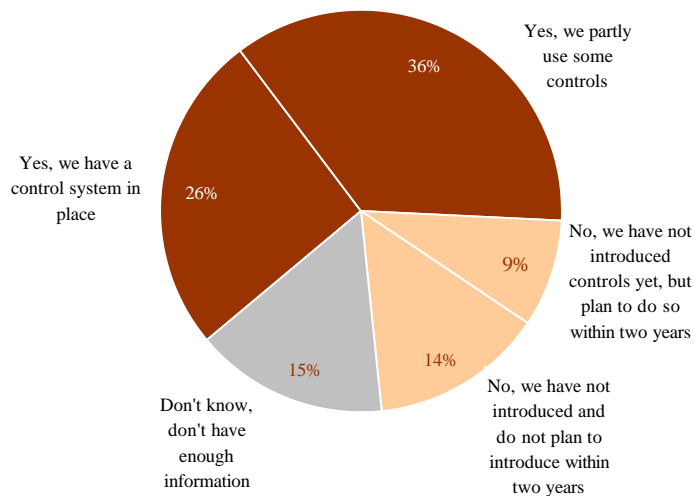
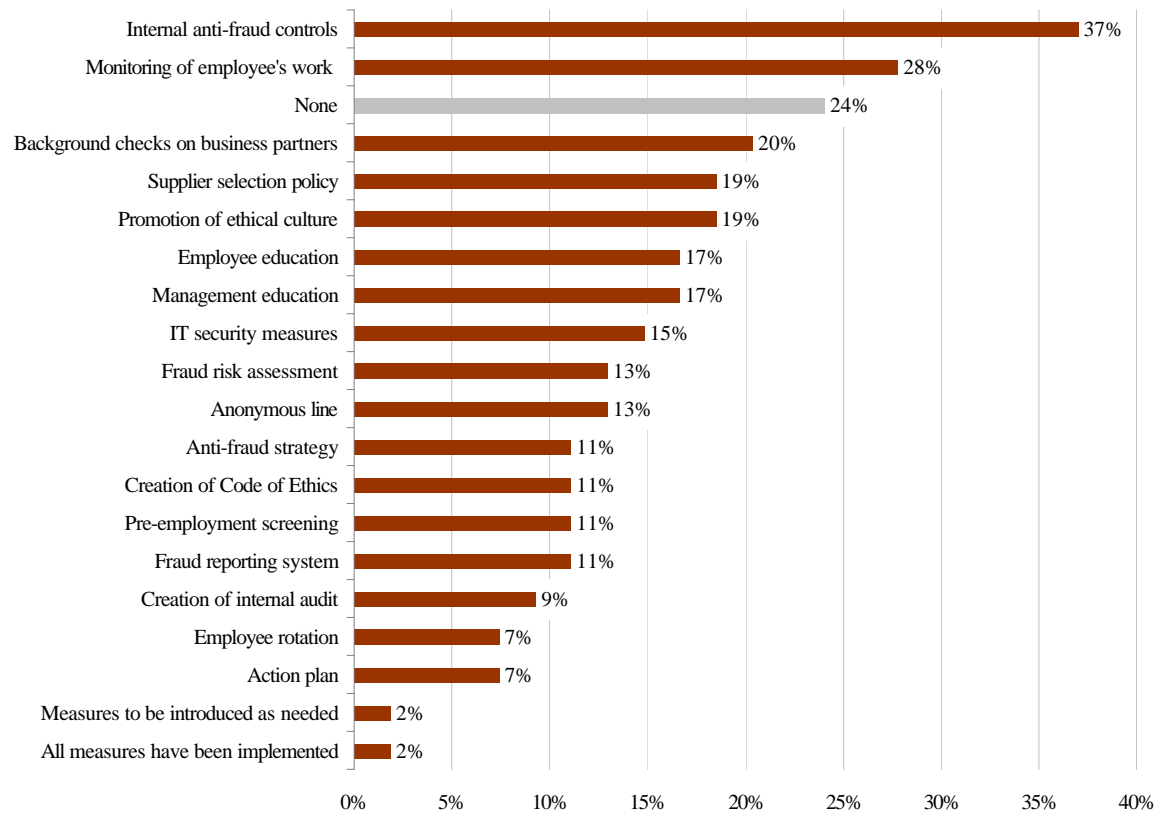


Fig. 31: Use of anti-fraud controls now and in next two years

5. Planned introduction of anti-fraud procedures and measures within two years



The three most popular controls that organizations plan to introduce within two years are internal anti-fraud controls, monitoring of employee work, and business and financial background checks on business partners. Twenty-four percent of the organizations do not plan to introduce any anti-fraud controls or measures. Such organizations may include companies that already have implemented controls and feel sufficiently protected or companies that do not plan to use controls. Only 26% of the respondents confirmed that they already have a control system in place, while 14% do not have and are not planning to introduce such a system.

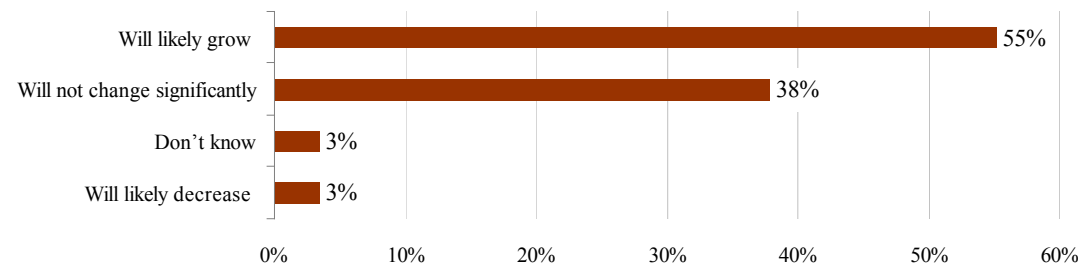
Expected future development of fraud

Quick fraud facts:

- 55% of organizations expect fraud to grow due to recession
- 86% of organizations named corruption as the most harmful type of fraud
- 48% of organizations said tolerance to fraud from previous regime was reason for growing fraud
- 67% of organizations think the risk of fraud in their organization is low

In the last part of the survey, we focused on how organizations perceive the influence of the situation in the society in which they operate on their business. We tried to find out how organizations perceive fraud development in terms of the current economic recession, which types of fraud are most dangerous to the society and which factors contribute the most to the occurrence and growing incidence of fraud in the society.

Fraud development as influenced by economic recession



The majority of the organizations expect that the current economic recession will have a negative influence on the growth in fraud in the society, i.e. fraud incidence will probably increase. For organizations, it will be crucial how these negative expectations will be reflected in actual practice and how they will manage to improve their current control systems and eliminate the expected increase in fraud in the future.

Fraud risk in organizations

The survey participants are optimistic about the quality of their control systems. As many as two-thirds of the respondents believe the risk of fraud in their organization is very or rather low. Only 7% of the respondents think the risk is rather or very high.

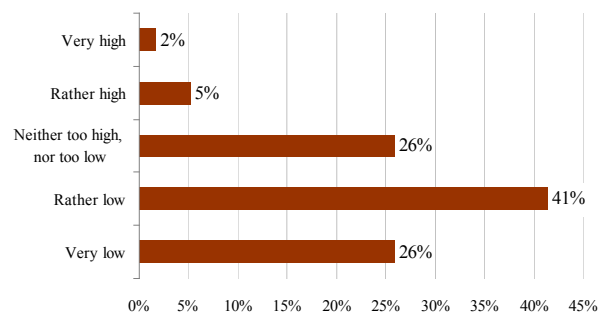
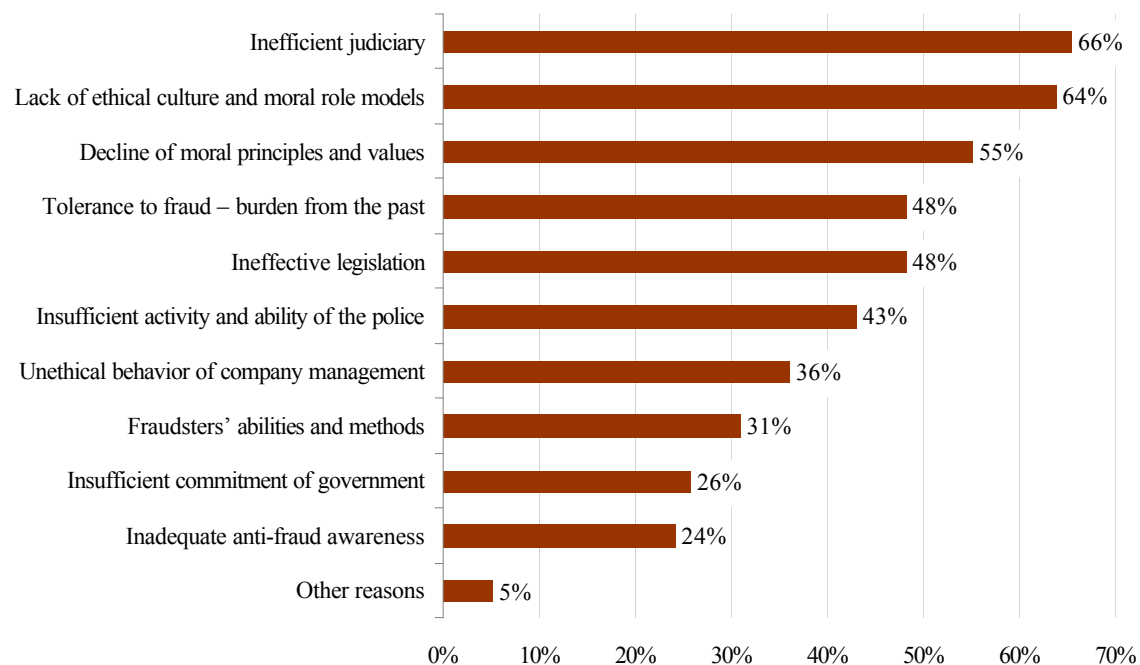


Fig. 33: Risk of fraud in organizations

...66% of organizations said inefficient judiciary was the most significant factor contributing to fraud occurrence...

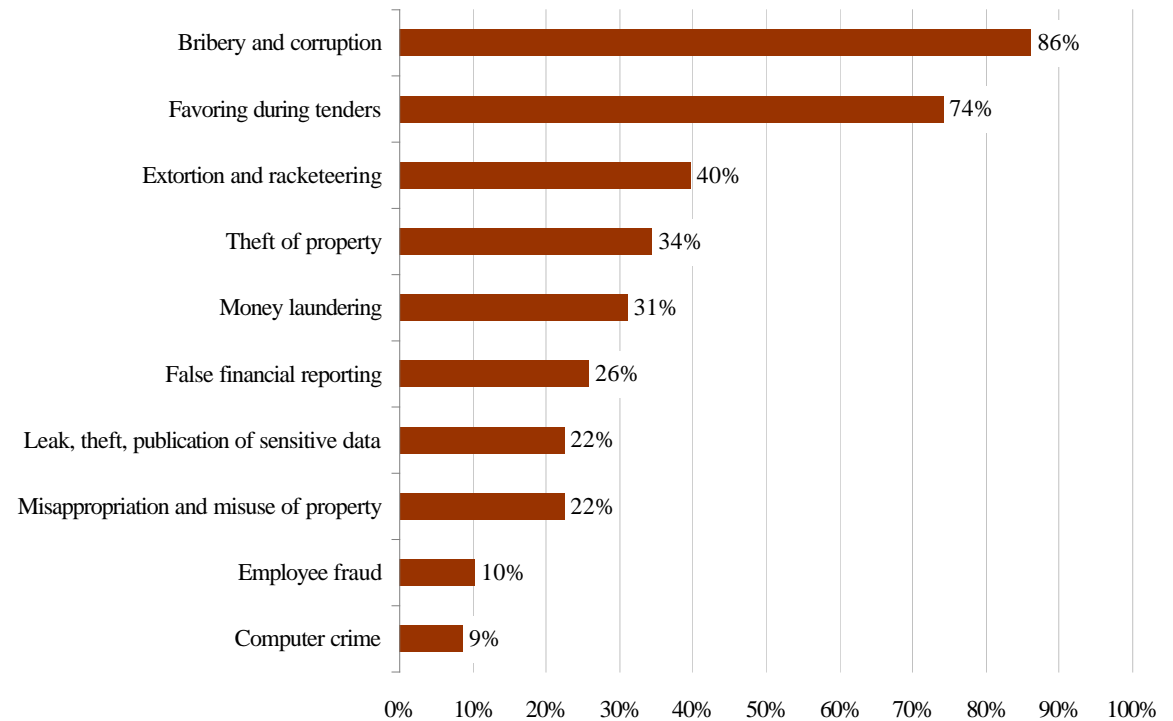
Factors contributing the most to occurrence and growing incidence of fraud



Almost two-thirds of the respondents named inefficient judiciary, lack of ethical culture and lack of moral role models in the society as the most serious factors in the growth in fraud in the society. Less than half of the organizations believe that tolerance to fraud, surviving as an aftereffect of the previous political regime, also contributes significantly to fraud occurrence. Surprisingly, insufficient awareness of fraud detection and prevention in organizations is at the very end of the notional chart of the most significant fraud growth factors.

...86% of organizations view bribery and corruption as the type of fraud most dangerous to the society...

Types of fraud most harmful to our society



The issue on which the respondents agreed the most within this survey concerned the types of fraud most dangerous to our society. A total of 86% of the survey participants named bribery and corruption as the most dangerous type of fraud. This result confirms that not only ordinary citizens, but also organizations pay a lot of attention to this issue and that it is a key factor for them in building a transparent and ethical business.

Survey organizers

The survey was conducted by the following organizations (in alphabetical order):



ACCA

ACCA (The Association of Chartered Certified Accountants) is one of the largest and fastest growing global professional accountancy associations, with more than 362,000 students and 131,500 members in 170 countries worldwide. In Slovakia ACCA has 1,100 members and students, with their number growing every year. ACCA was the first professional association to test on IAS/IFRS (International Accounting Standards/International Financial Reporting Standards). The ACCA qualification syllabus has been recognized by the United Nations as a benchmark for global accountancy qualifications. The main focus in the new, so-called main ACCA qualification, is on professional values, ethics, and governance. ACCA has provided accounting and finance qualifications for more than 100 years. The professional ACCA qualification is offered to all those who seek a rewarding career in finance and accountancy.



Surveillance [sər-vā-lə-jən(t)s] is a specialized company focused on fraud detection, investigation and prevention. Its key services include forensic audits to detect fraudulent schemes, preparation of investigative background check reports, and development and implementation of fraud prevention programs. Surveillance associates are forensic experts who have working experience from both major global corporations and local companies in the Czech and Slovak Republics. Surveillance experts are members of the respected Association of Certified Fraud Examiners and The Czech Institute of Internal Auditors.



The audit and consulting firm TPA Horwath is a member of Crowe Horwath International, a global network of auditors and consultants that rank among the world's TOP 10 professional audit and consulting firms. Crowe Horwath International offices are located in all big cities and regions, and the company has 433 branches and more than 20,000 employees in 105 countries around the world. It provides its clients with high-quality and professional services in the area of audit, accounting and tax consultancy, corporate finance and corporate governance consultancy. The Slovak practice of the Central European TPA Horwath Group has been in operation since 2001, when TPA Horwath Group entered the market by taking over a Slovak audit firm that existed since 1993. With more than 900 employees in Central Europe, TPA Horwath ranks among the leaders in consulting and audit firms. TPA Horwath has more than 80 employees in Slovakia, including two licensed auditors, four tax advisors, and three employees with ACCA qualification obtained in the United Kingdom.

Contacts

The 2009 fraud survey in Slovakia was prepared by the forensic team of Surveillence, s.r.o. and TPA Horwath A&A, s.r.o., which specializes in fraud detection, investigation and prevention. The key members of this team are Ján Lalka, Managing Director of Surveillence, s.r.o. and Ivan Paule, Audit Partner of TPA Horwath A&A, s.r.o.

Should you have any questions or be interested in fraud detection and prevention services, please contact us at the following addresses:



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As the survey respondents could provide answers according to their belief and knowledge Surveillence, s.r.o. and TPA Horwath A&A, s.r.o. cannot be responsible for any errors, misstatements or misrepresentations that may have appeared in this survey.

The responses by each respondent, i.e. assessment of the situation in the survey participant's company, may have been the subjective view of the specific person who completed the questionnaire. Another person at the company may have held a different view and may have given different answers to the questions included in the survey questionnaire.

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