

REPORT TO THE NATIONS

ON OCCUPATIONAL **FRAUD** AND **ABUSE**

2016 EASTERN EUROPE AND WESTERN/CENTRAL ASIA EDITION



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Introduction



Fraud is a global issue, but the way it affects organizations in different geographical regions can vary. While the ACFE's *2016 Report to the Nations on Occupational Fraud and Abuse* contains several comparisons of fraud data based on region, we wanted to provide a more robust

analysis of occupational fraud trends in these areas. Consequently, we present this regional report that provides a closer view of the cases from Eastern Europe and Western/Central Asia that were included in our global study.

Introduction

For this report, we looked at 98 cases of occupational fraud against victim organizations in Eastern Europe and Western/Central Asia that were investigated between January 2014 and October 2015. Figure 1 shows the breakdown of these cases by the country in which the fraud occurred.

Figure 1: Breakdown of Cases by Country

Country	Number of Cases
Albania	1
Armenia	3
Bulgaria	5
Czech Republic	8
Hungary	2
Kazakhstan	5
Kosovo	1
Montenegro	2
Poland	8
Romania	11
Russia	21
Serbia	4
Slovakia	8
Slovenia	2
Turkey	15
Ukraine	2

This report contains information on the specific fraud schemes, victim organizations' demographics and controls, detection techniques, fraud perpetrators, and case results.¹ (Readers should note that analyses involving fraud losses are presented in terms of U.S. dollars [USD], which is how respondents reported this information in our *Global Fraud Survey*.) Our hope is that readers will use this and our other regional reports to help tailor fraud prevention, detection, and investigation strategies to the risks in their respective regions.

¹For a glossary of terms used in this report, please see page 90 of the [2016 Report to the Nations on Occupational Fraud and Abuse](#).

How Occupational Fraud Is Committed



Frequency and Median Loss of Occupational Fraud Schemes

Occupational fraud schemes can be broken down into three primary categories: asset misappropriation, corruption, and financial statement fraud. Of these, asset misappropriation schemes were the most common form of occupational frauds among the cases in Eastern Europe and Western/Central Asia, which is consistent with both our previous findings and our global data for 2016. Nearly 75% of the

cases in this region involved the misappropriation of organizational assets; these schemes caused a median loss of USD 131,000. Corruption schemes were the next most common, occurring in approximately 55% of cases, and causing a median loss of USD 200,000. Financial statement frauds were the least common form of occupational fraud in the region, occurring in 17.3% of the reported cases; these cases were also the costliest, with a median loss of USD 530,000.



How Occupational Fraud Is Committed

Figure 2: Occupational Frauds by Category—Frequency

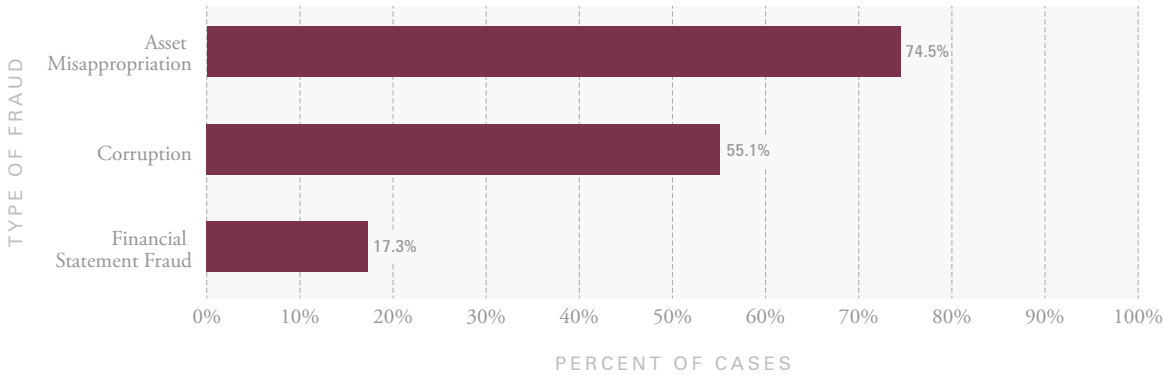
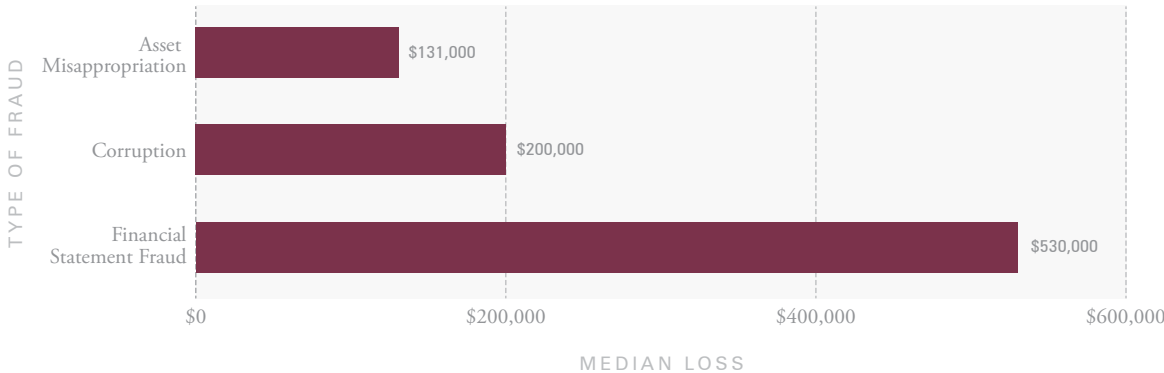
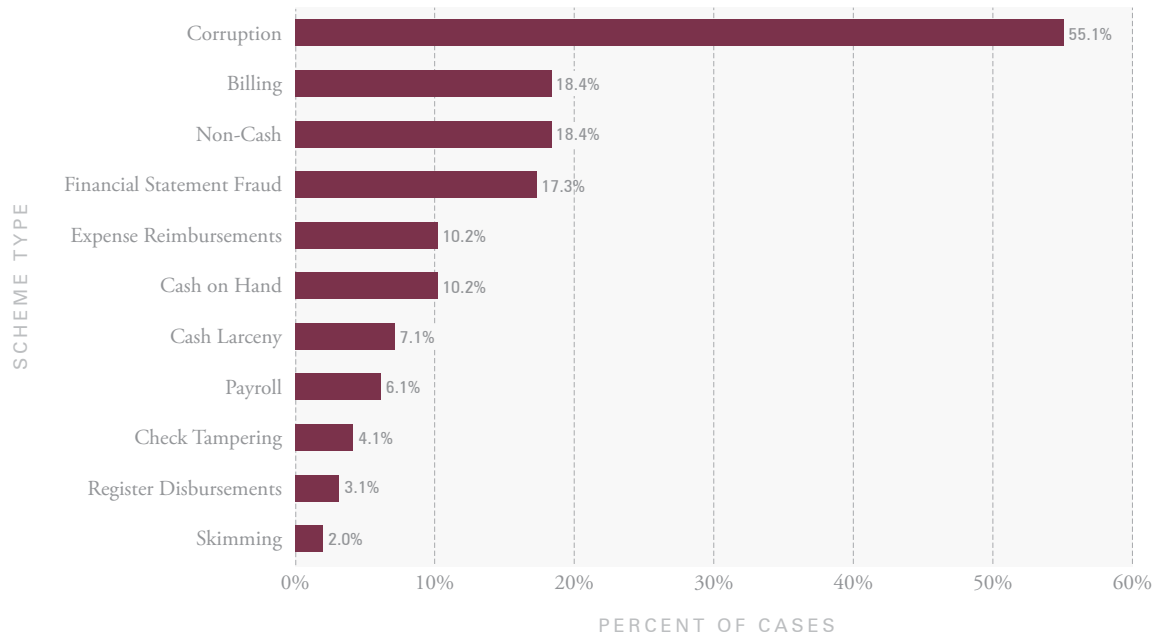


Figure 3: Occupational Frauds by Category—Median Loss



To expand the analysis of the types of occupational frauds that affect organizations in Eastern Europe and Western/Central Asia, we further broke down the asset misappropriation cases into nine sub-categories; [Figure 4 on page 7](#) illustrates the frequency of these fraud schemes along with the other two primary categories (corruption and financial statement fraud) for comparison purposes. When examined in this way, our data illustrates the relatively high risk of corruption for organizations in the region; corruption was almost three times as common as any other sub-scheme type among the cases from Eastern Europe and Western/Central Asia in our study.

Figure 4: Frequency of Fraud Schemes



Concealment of Fraud Schemes

In addition to gathering information about how the frauds were perpetrated, we also asked survey respondents how the perpetrators attempted to conceal their schemes. While the sample size of cases from Eastern Europe and Western/Central Asia in which concealment methods were provided was quite small, illustrated below are the four most common methods used by the perpetrators in our study.



**CREATED FRAUDULENT
PHYSICAL DOCUMENTS**



**FORCED/ALTERED
ACCOUNT
RECONCILIATIONS**



**ALTERED TRANSACTIONS
IN THE ACCOUNTING
SYSTEM**



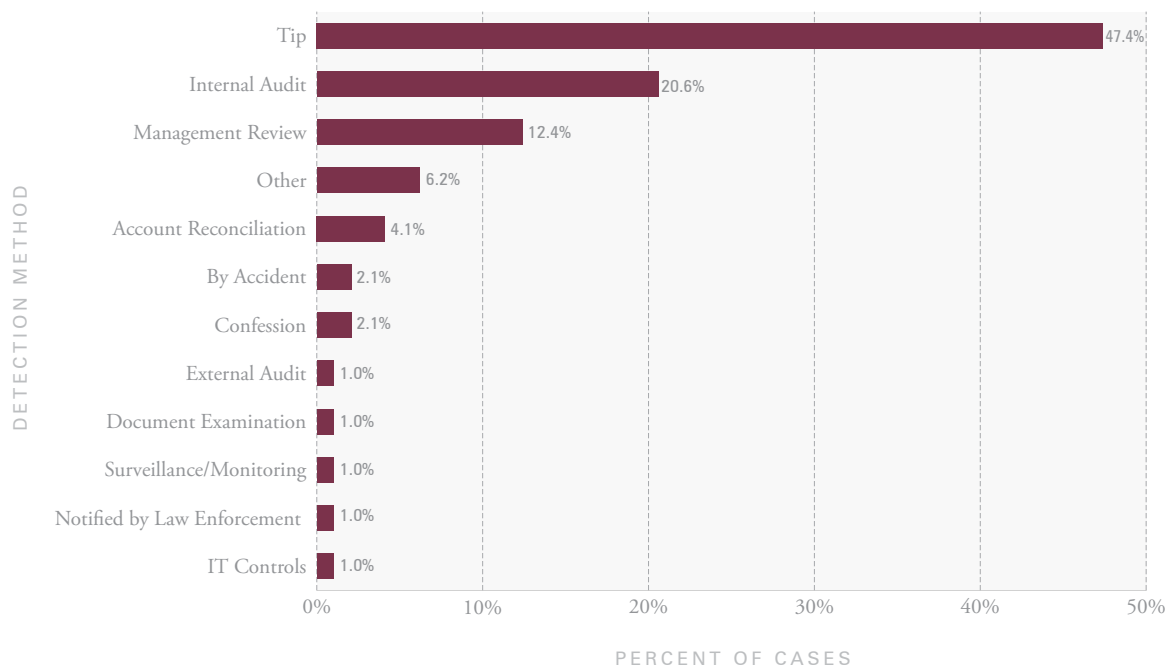
**ALTERED PHYSICAL
DOCUMENTS**

Detection of Fraud Schemes

Initial Detection of Occupational Frauds

We asked respondents to identify how the occupational fraud schemes were initially detected, and the results are shown in Figure 5. The most common detection method among cases in Eastern Europe and Western/Central Asia was tips (47.4%), followed by internal audit (20.6%). Management review was the initial detection method for 12.4% of cases. These were also the three most common methods of detection in our global study.

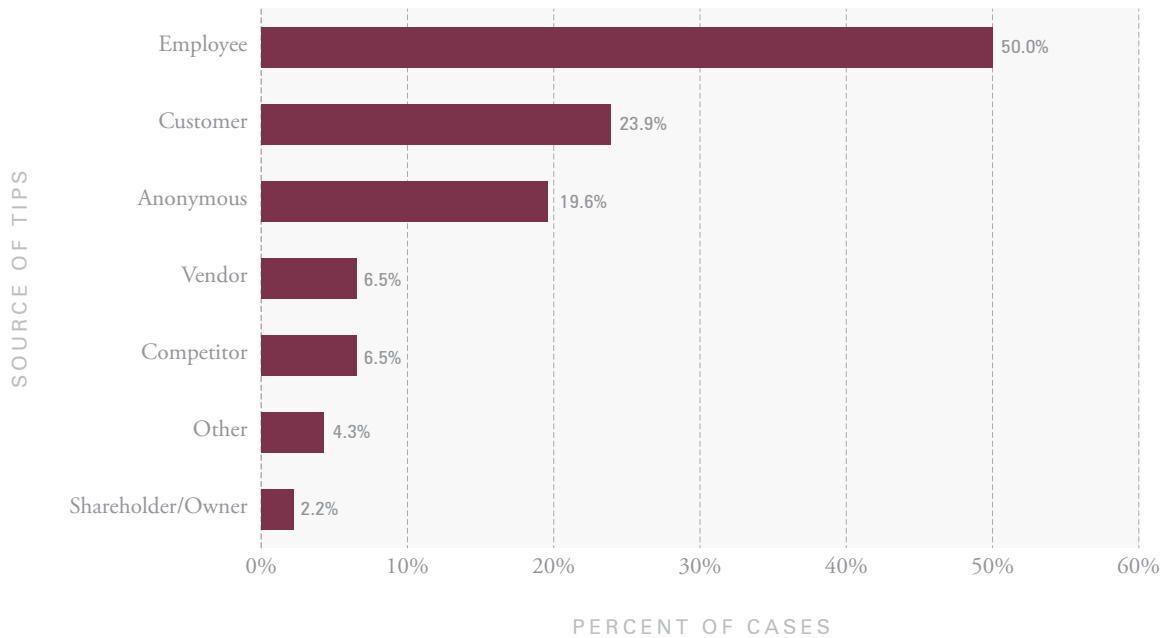
Figure 5: Initial Detection of Occupational Frauds



Source of Tips

Understanding where tips of fraudulent conduct tend to originate helps organizations tailor their anti-fraud reporting and training programs to be more effective. In cases that were detected by tip, we asked survey respondents to identify the source. In Eastern Europe and Western/Central Asia, employees accounted for half of all tips. Customers (23.9%) and anonymous parties (19.6%) were also common sources.

Figure 6: Source of Tips



Formal Reporting Mechanism Used by Whistleblower

In cases where the fraud was detected by tip, we asked respondents to identify the reporting mechanism used by the whistleblower. Below are the three most common methods in Eastern Europe and Western/Central Asia.



EMAIL



WEB-BASED/ONLINE FORM



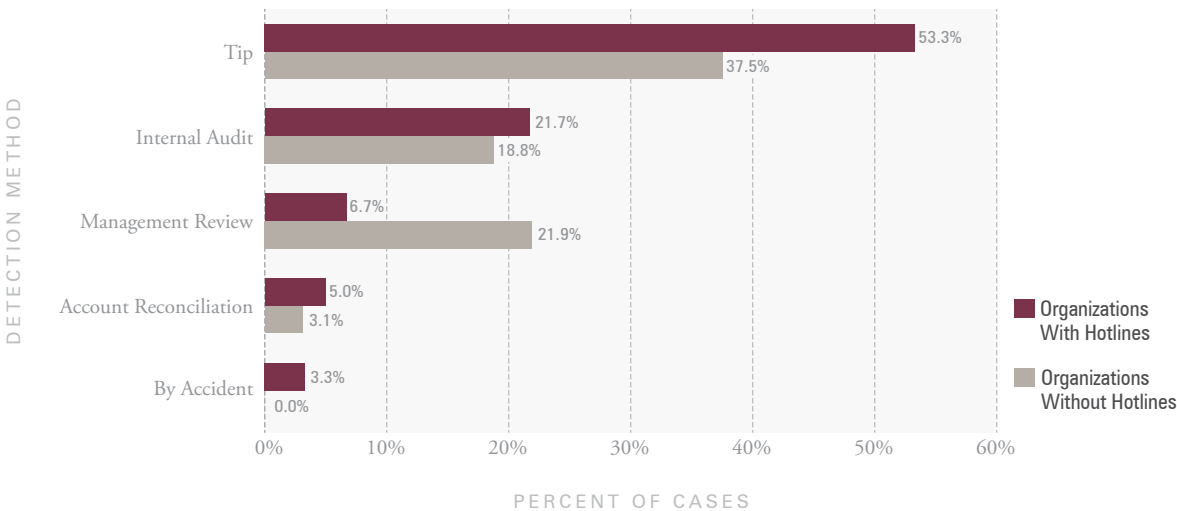
MAILED LETTER/
FORM

Detection of Fraud Schemes

Impact of Hotlines

We also analyzed how the presence of a reporting hotline affected the method by which fraud was initially detected; the results are shown in Figure 7. In organizations that had hotlines, more than 53% of cases were initially detected by tip, compared to 37.5% of such cases in organizations without hotlines. In contrast, management review was a substantially more common method of detection at organizations without hotlines (21.9%) than at organizations with them (6.7%).

Figure 7: Impact of Hotlines on the Top Five Detection Methods



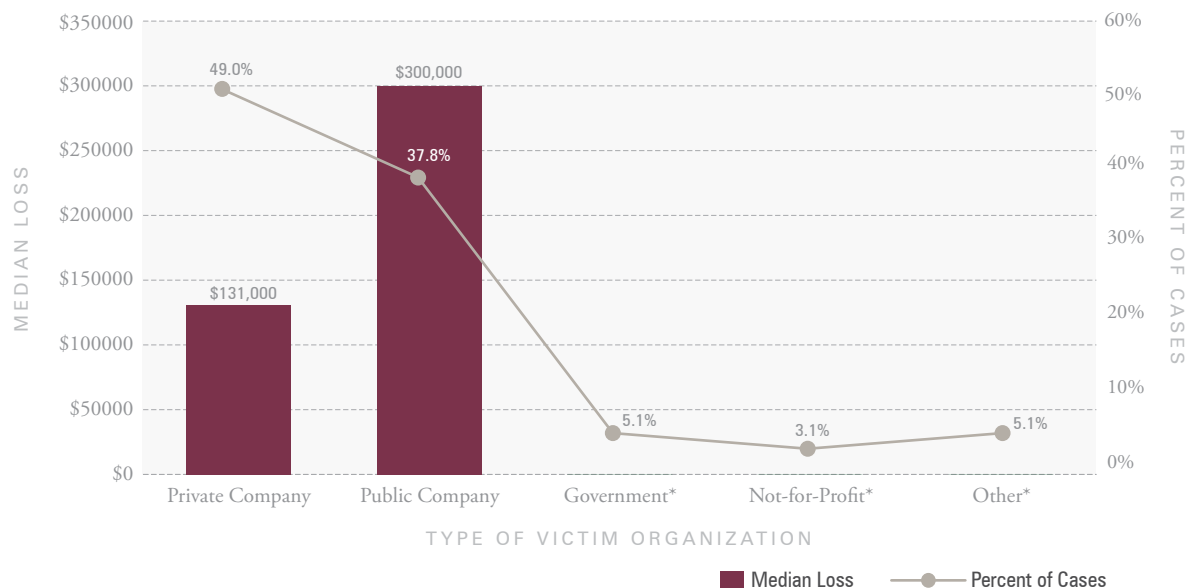
Victim Organizations

As part of our survey, we asked respondents to provide information about the victim entity's type, size, and industry, as well as the mechanisms the organization had in place to help prevent and detect fraud.

Type of Organization

Figure 8 illustrates both the median loss and percent of cases based on the type of organization that was victimized. Privately held companies represented the highest reported number of cases, at 49%, and had a median loss of USD 131,000. Publicly held organizations represented approximately 38% of the cases and suffered a median loss of USD 300,000.

Figure 8: Type of Victim Organization—Frequency and Median Loss

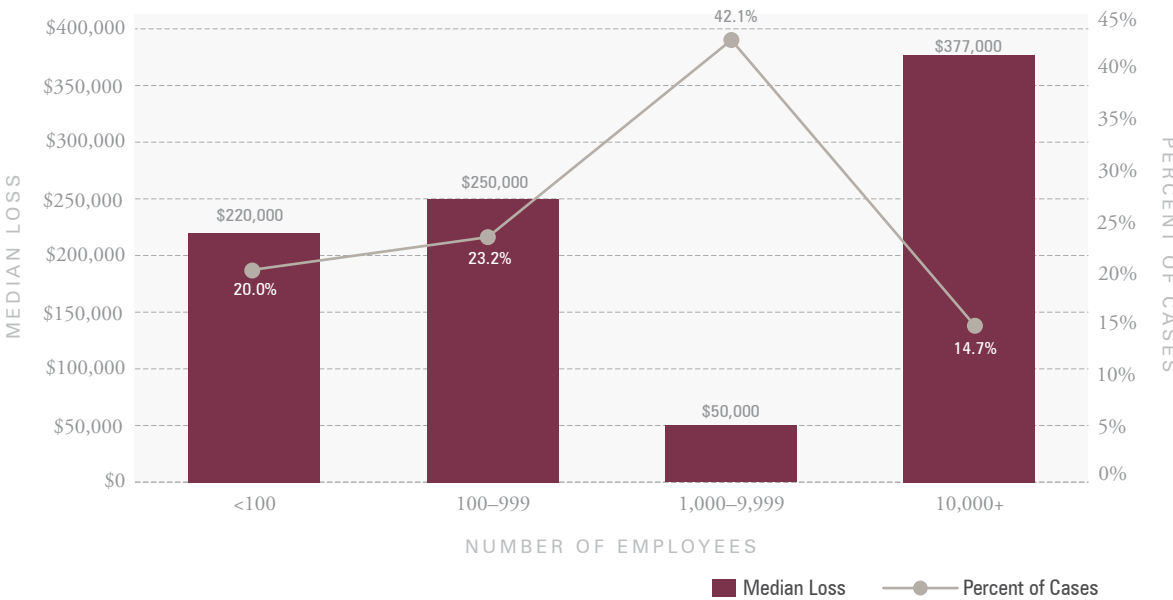


Victim Organizations

Size of Organization

Organizations with 1,000 to 9,999 employees represented the highest number of cases reported in Eastern Europe and Western/Central Asia (42.1%); they also suffered the lowest median loss of USD 50,000. Organizations with more than 10,000 employees experienced the greatest median loss of USD 377,000, followed by entities with 100 to 999 employees at USD 250,000. Small organizations (those with fewer than 100 employees) represented 20% of cases reported and suffered a median loss of USD 220,000. It is important to consider that small businesses would likely feel the impact of such a loss much more than larger organizations.

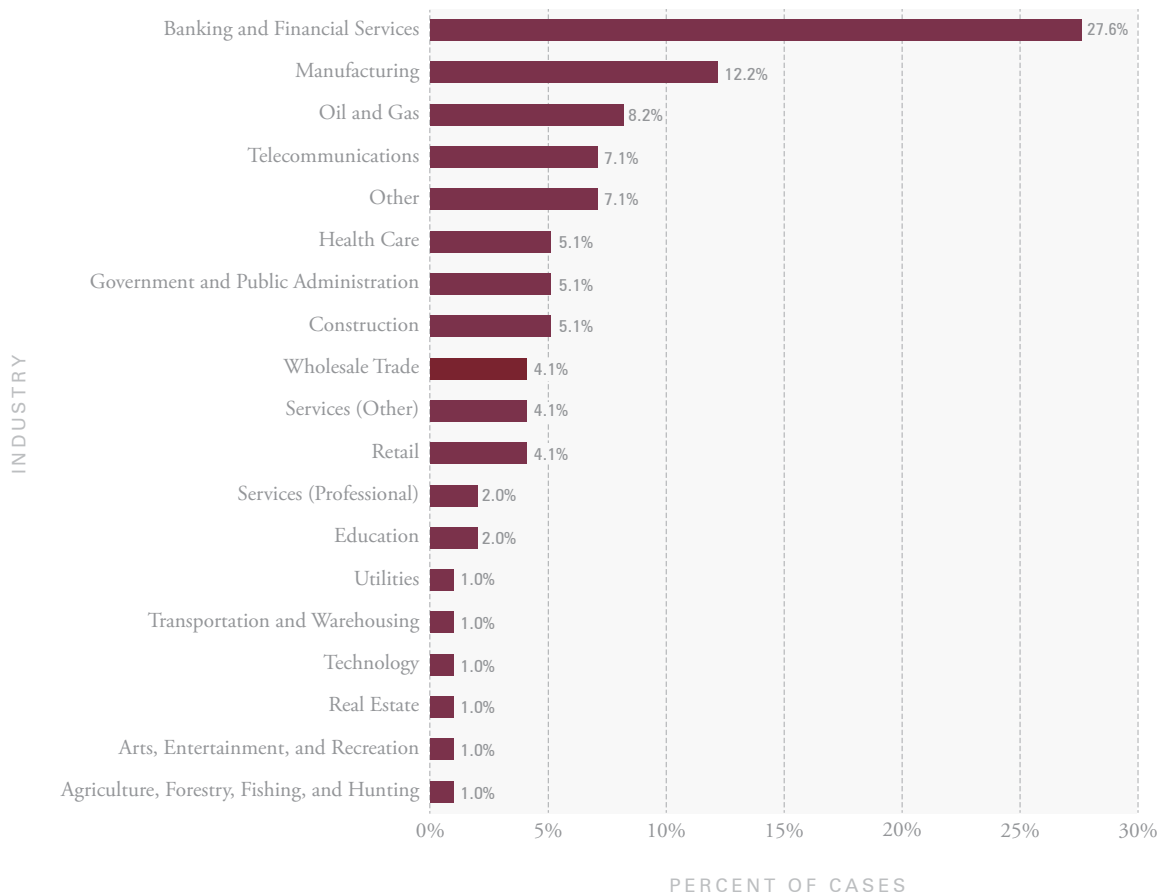
Figure 9: Size of Victim Organization—Frequency and Median Loss



Industry of Organization

Figure 10 categorizes the cases reported to us by industry of the victim organization. Banking and financial services, manufacturing, and oil and gas were the most represented sectors in the fraud cases examined. Banking and financial services represented 27.6% of the cases and suffered a median loss of USD 200,000. Manufacturing reported 12.2% of the cases and suffered a median loss of USD 75,000. (All other industries had insufficient responses for a median loss calculation.) It is important to note that our data was collected through a survey of Certified Fraud Examiners (CFEs), so this distribution primarily reflects the industries for which CFEs typically provide services; therefore, this data does not necessarily suggest that these industries are more at risk of fraud than others.

Figure 10: Industry of Victim Organization

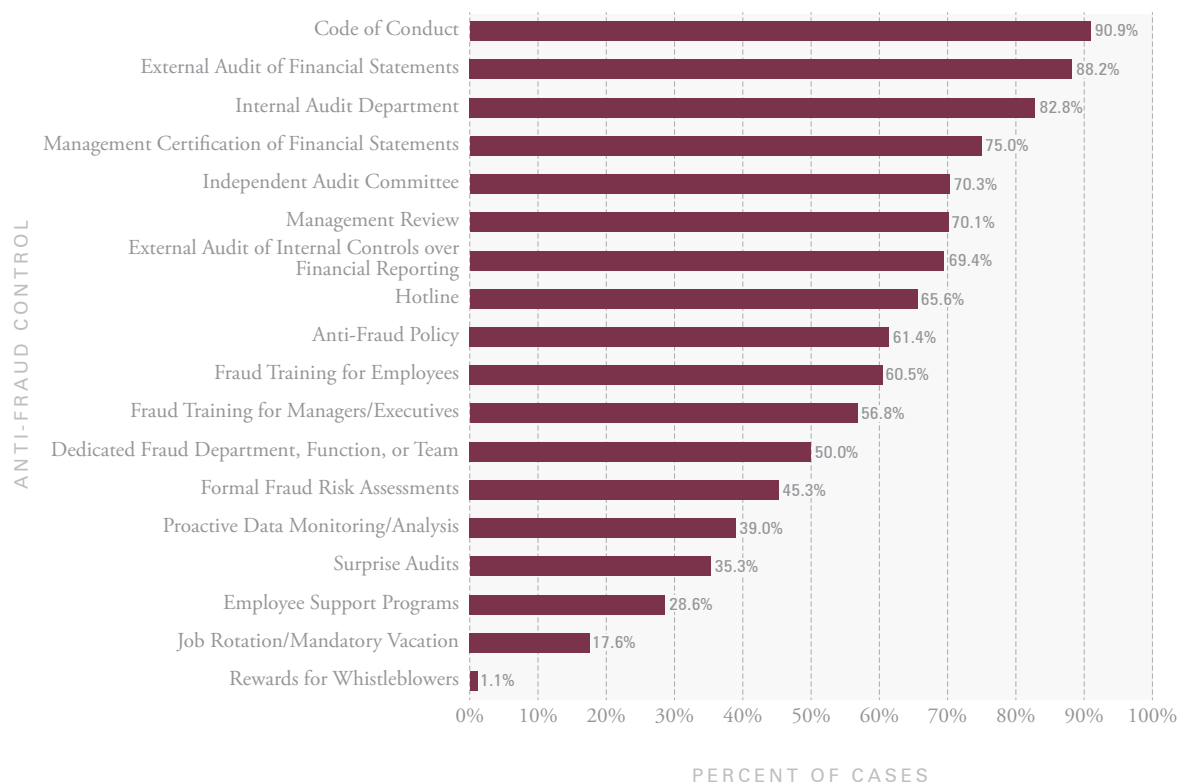


Victim Organizations

Anti-Fraud Controls at the Victim Organization

We asked survey respondents which, if any, of several anti-fraud controls were in place at the victim organization at the time the fraud occurred. A code of conduct was the most commonly implemented control. As reflected in Figure 11, more than 90% of victim organizations in Eastern Europe and Western/Central Asia in our study had a formal code of conduct in place. Other common controls among these organizations included external audits of the financial statements and an internal audit department.

Figure 11: Frequency of Anti-Fraud Controls



Effectiveness of Controls

To explore the effectiveness of various anti-fraud controls, we compared cases where a certain control had been in place at the time of fraud against cases where the control was not in place. We then measured the size of the loss and the duration of the fraud in each group. As shown in Figure 12, the presence of most controls was associated with a lower median loss. Similarly, many controls corresponded with quicker fraud detection (see Figure 13).

Figure 12: Median Loss Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Independent Audit Committee	70.3%	\$100,000	\$1,100,000	90.9%
Management Certification of Financial Statements	75.0%	\$100,000	\$925,000	89.2%
Hotline	65.6%	\$112,000	\$850,000	86.8%
Dedicated Fraud Department, Function, or Team	50.0%	\$79,000	\$500,000	84.2%
Management Review	70.1%	\$107,000	\$675,000	84.1%
Fraud Training for Managers/Executives	56.8%	\$113,000	\$700,000	83.9%
Fraud Training for Employees	60.5%	\$106,000	\$550,000	80.7%
Surprise Audits	35.3%	\$60,000	\$240,000	75.0%
Anti-Fraud Policy	61.4%	\$100,000	\$375,000	73.3%
Job Rotation/Mandatory Vacation	17.6%	\$74,000	\$275,000	73.1%
Employee Support Programs	28.6%	\$67,000	\$215,000	68.8%
Proactive Data Monitoring/Analysis	39.0%	\$100,000	\$270,000	63.0%
Formal Fraud Risk Assessments	45.3%	\$114,000	\$300,000	62.0%
External Audit of Internal Controls over Financial Reporting	69.4%	\$132,000	\$270,000	51.1%
Internal Audit Department	82.8%	\$141,000	\$265,000	46.8%
External Audit of Financial Statements	88.2%	\$150,000	\$150,000	0.0%
Code of Conduct	90.9%	\$150,000	*	
Rewards for Whistleblowers	1.1%	*	\$200,000	

*Category had insufficient responses for median loss calculation.

Figure 13: Median Duration of Fraud Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Surprise Audits	35.3%	13 months	20 months	35.0%
Employee Support Programs	28.6%	13 months	20 months	35.0%
Hotline	65.6%	17 months	26 months	34.6%
Internal Audit Department	82.8%	18 months	26 months	30.8%
Independent Audit Committee	70.3%	18 months	25 months	28.0%
External Audit of Internal Controls over Financial Reporting	69.4%	18 months	25 months	28.0%
Job Rotation/Mandatory Vacation	17.6%	17 months	23 months	26.1%
Management Certification of Financial Statements	75.0%	18 months	24 months	25.0%
Management Review	70.1%	18 months	24 months	25.0%
Dedicated Fraud Department, Function, or Team	50.0%	18 months	24 months	25.0%
Formal Fraud Risk Assessments	45.3%	18 months	24 months	25.0%
Proactive Data Monitoring/Analysis	39.0%	18 months	24 months	25.0%
Anti-Fraud Policy	61.4%	18 months	22 months	18.2%
Fraud Training for Employees	60.5%	20 months	24 months	16.7%
Fraud Training for Managers/Executives	56.8%	20 months	24 months	16.7%
External Audit of Financial Statements	88.2%	20 months	16 months	-25.0%
Code of Conduct	90.9%	20 months	*	
Rewards for Whistleblowers	1.1%	*	20 months	

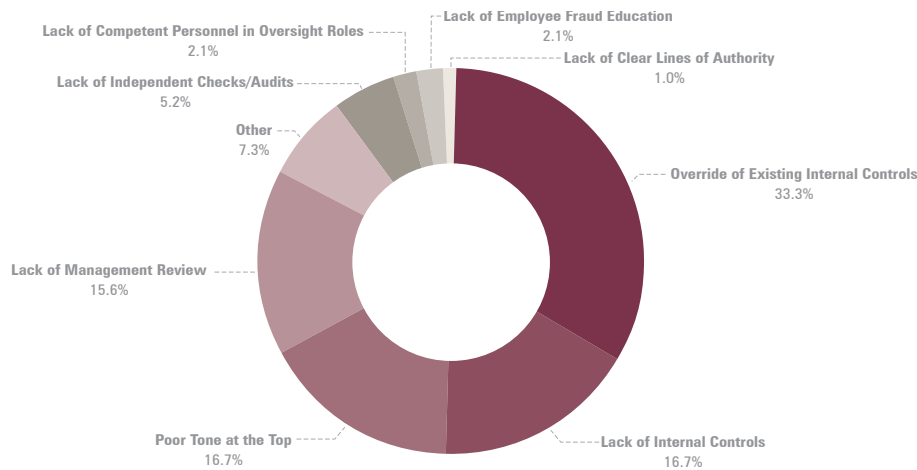
*Category had insufficient responses for median duration calculation.

Victim Organizations

Internal Control Weaknesses That Contributed to Fraud

Survey respondents also provided information about the internal control breakdowns that contributed to the fraud. An override of existing controls was primarily to blame in one-third of cases in Eastern Europe and Western/Central Asia, making this the top contributing factor. Additionally, a straightforward lack of internal controls and a poor tone at the top were each the main contributing factor in 16.7% of the frauds.

Figure 14: Primary Internal Control Weakness Observed by CFE



Perpetrators



We asked survey respondents to provide information about the fraud perpetrators they investigated, including the fraudster's level of authority, the department where he or she worked, the perpetrator's gender, and the behavioral warning signs that the fraudster had exhibited prior to or during commission of the fraud.²

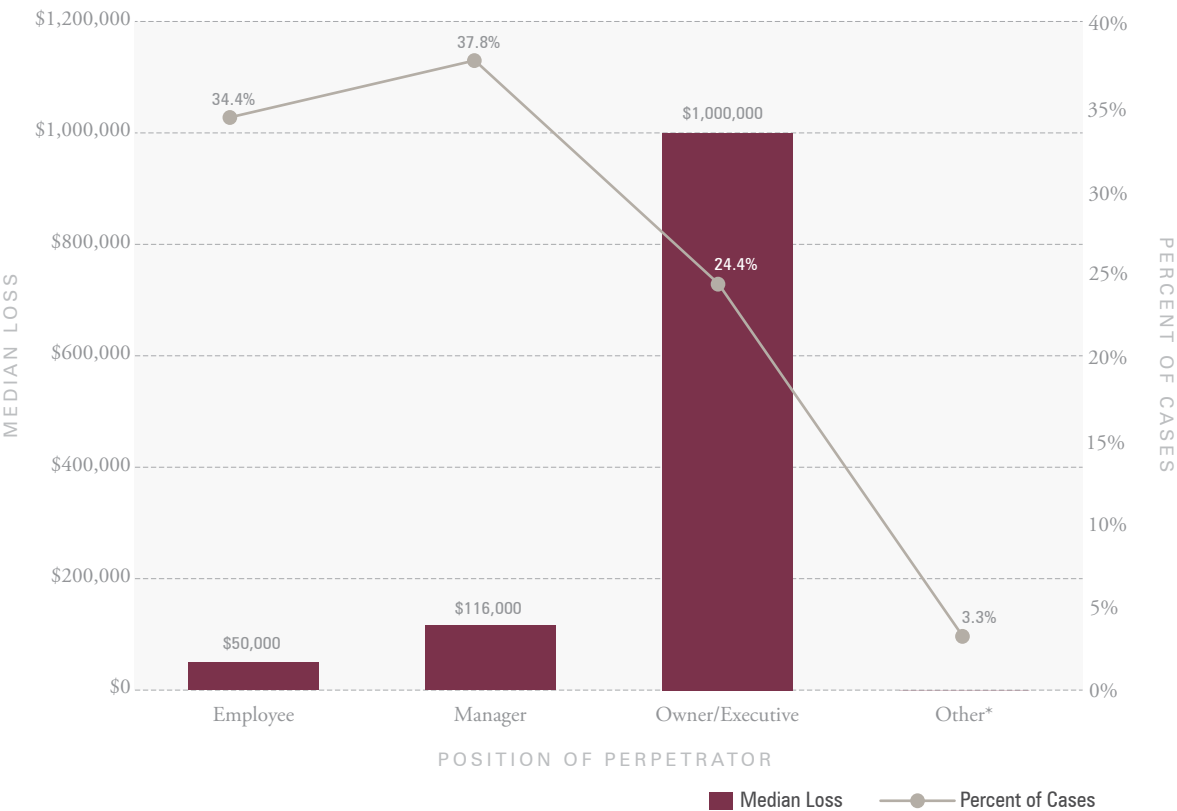
² In cases where more than one perpetrator was involved, the data on perpetrators relates to the *principal perpetrator*, which we define as the person who worked for the victim organization and who was the primary culprit.

Perpetrators

Perpetrator's Position

The highest-level fraudsters tend to be associated with the largest fraud losses, as shown in Figure 15. Only 24.4% of occupational frauds in our Eastern Europe and Western/Central Asia cases were committed by owner/executives, but these cases resulted in a median loss of USD 1,000,000. This was significantly higher than losses caused by managers or employees. This finding is consistent with our global data and with prior studies, all of which have shown a correlation between the fraudster's level of authority and the financial loss resulting from the fraud. High-level fraudsters tend to have greater ability to override internal controls and greater access to organizational resources, both of which may help explain this correlation.

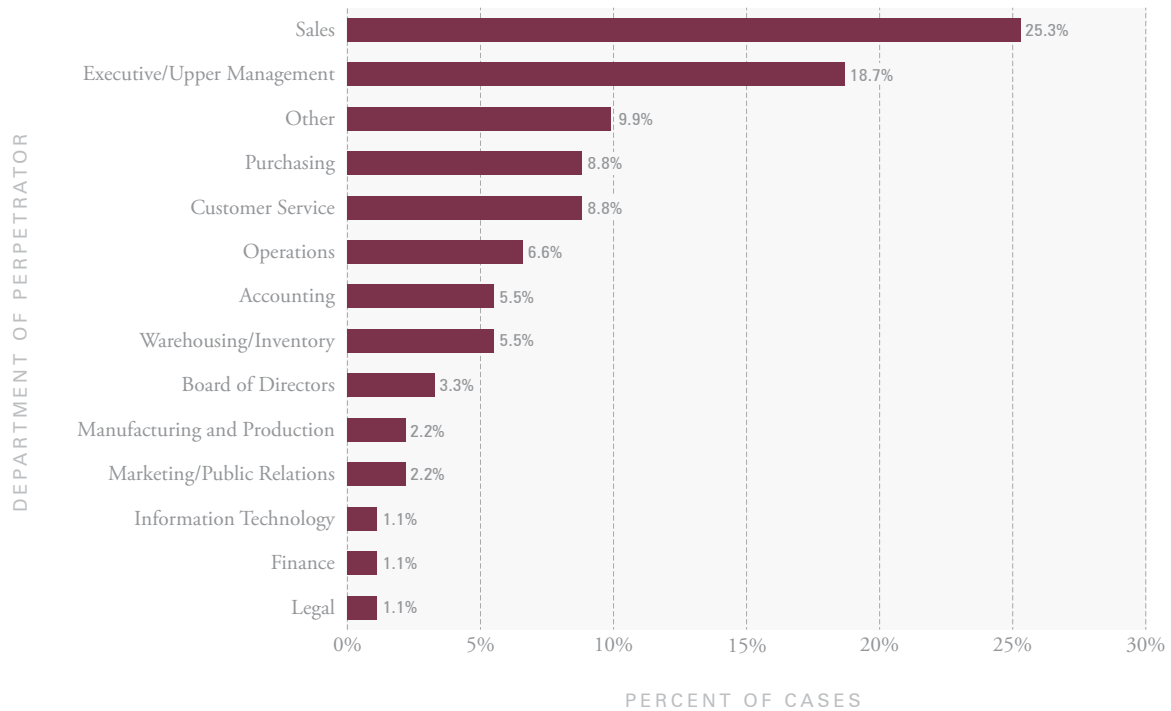
Figure 15: Position of Perpetrator—Frequency and Median Loss



Perpetrator's Department

Figure 16 shows the departments where fraudsters in Eastern Europe and Western/Central Asia worked within their organizations. The six departments with the greatest percentage of occupational fraud cases were sales, executive/upper management, purchasing, customer service, operations, and accounting. Combined, these six departments accounted for approximately 74% of frauds in the region. These were also the six most common departments in our global study.

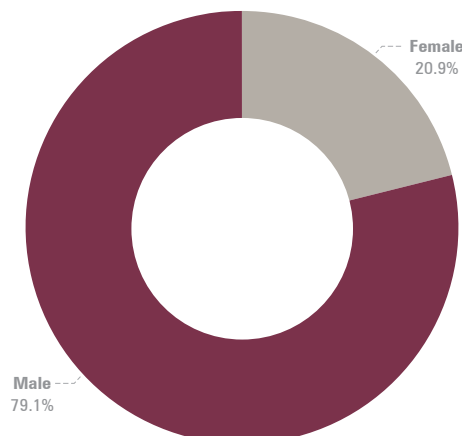
Figure 16: Department of Perpetrator—Frequency



Perpetrator's Gender

Approximately 79% of occupational frauds in Eastern Europe and Western/Central Asia were committed by males, which was higher than the 69% rate for males in our global study.

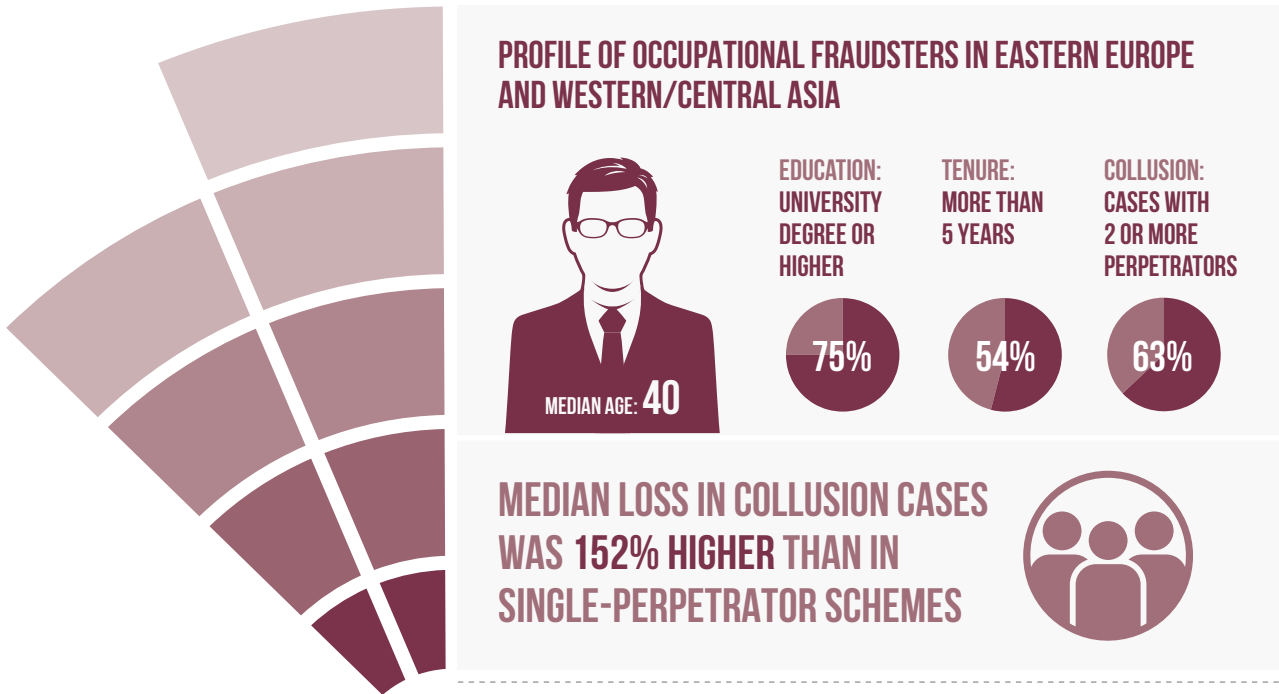
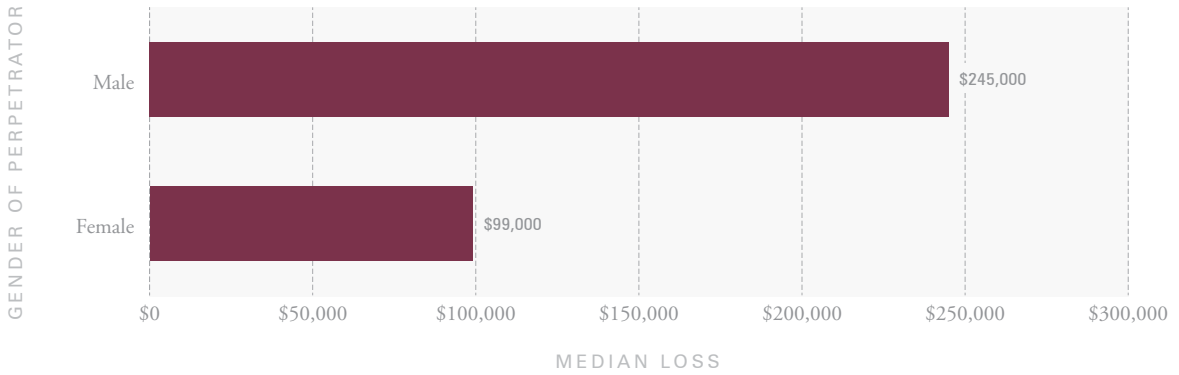
Figure 17: Gender of Perpetrator—Frequency



Perpetrators

Losses caused by male fraudsters (USD 245,000) were also significantly higher than those caused by females (USD 99,000), as shown in Figure 18. The disparity in median loss based on gender has been consistent since we began tracking this data in 1996.

Figure 18: Gender of Perpetrator—Median Loss

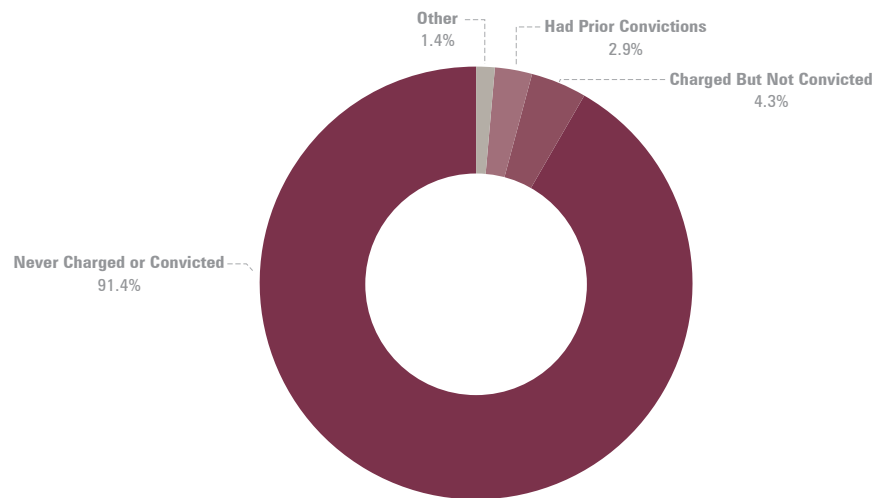


Perpetrator's Criminal and Employment History

Perpetrator's Criminal Background

Only 2.9% of occupational fraudsters in Eastern Europe and Western/Central Asia had been previously convicted for a fraud-related offense (see Figure 19). Historically, we have found that very few occupational fraud perpetrators have prior fraud convictions.

Figure 19: Criminal Background of Perpetrator

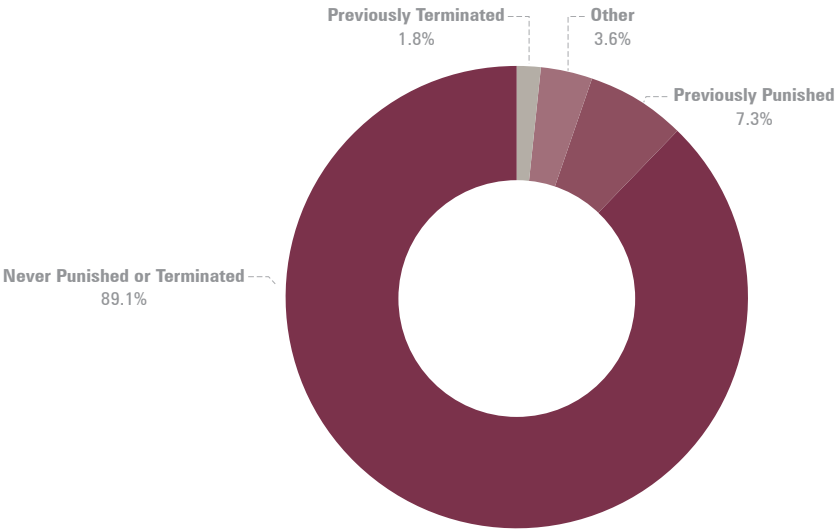


Perpetrators

Perpetrator's Employment History

Only 1.8% of fraud perpetrators in Eastern Europe and Western/Central Asia had been previously terminated by an employer for fraud-related conduct, and only 7.3% had previously received some other form of punishment such as a suspension or reprimand for fraud-related activity.

Figure 20: Employment Background of Perpetrator



OCCUPATIONAL FRAUD PERPETRATORS OFTEN EXHIBIT CERTAIN BEHAVIORAL CHARACTERISTICS ASSOCIATED WITH THEIR CRIMES.

THE FOLLOWING BEHAVIORAL RED FLAGS WERE IDENTIFIED IN AT LEAST 20% OF EASTERN EUROPE AND WESTERN/CENTRAL ASIA FRAUD CASES IN OUR STUDY:

UNUSUALLY CLOSE ASSOCIATION
WITH VENDOR/CUSTOMER



33%

LIVING BEYOND MEANS



31%

FINANCIAL DIFFICULTIES



22%

WHEELER-DEALER
ATTITUDE



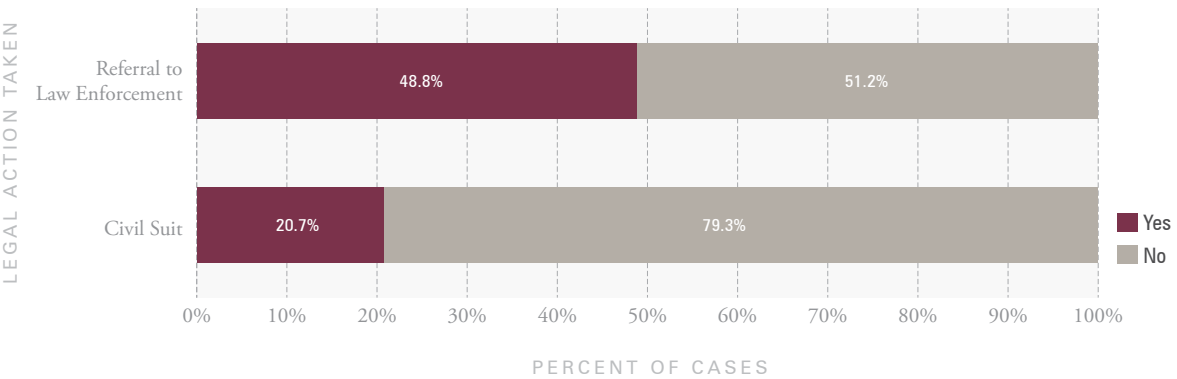
21%

Case Results

Criminal Prosecution and Civil Suits

We asked respondents about the outcome of their fraud cases, including whether the cases were referred to law enforcement for criminal prosecution or pursued in civil court. Figure 21 shows that almost half of organizations in Eastern Europe and Western/Central Asia referred cases to law enforcement, while about one-fifth of organizations sought civil litigation.

Figure 21: Cases Resulting in Referral to Law Enforcement or Civil Suit

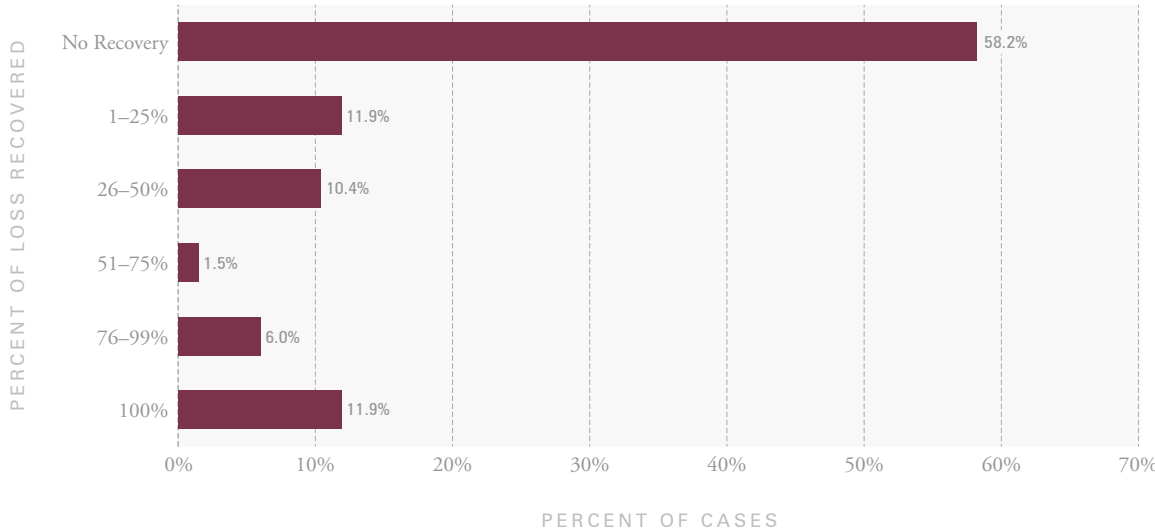


Case Results

Recovery of Losses

Detecting and investigating fraud is crucial to mitigate current losses and to serve as a deterrent against future frauds. However, our study suggests that organizations usually do not fully recover fraud losses, even when the perpetrator is identified. More than 58% of organizations in Eastern Europe and Western/Central Asia were unable to recover any losses resulting from the fraud, while just 11.9% of organizations obtained a full recovery.

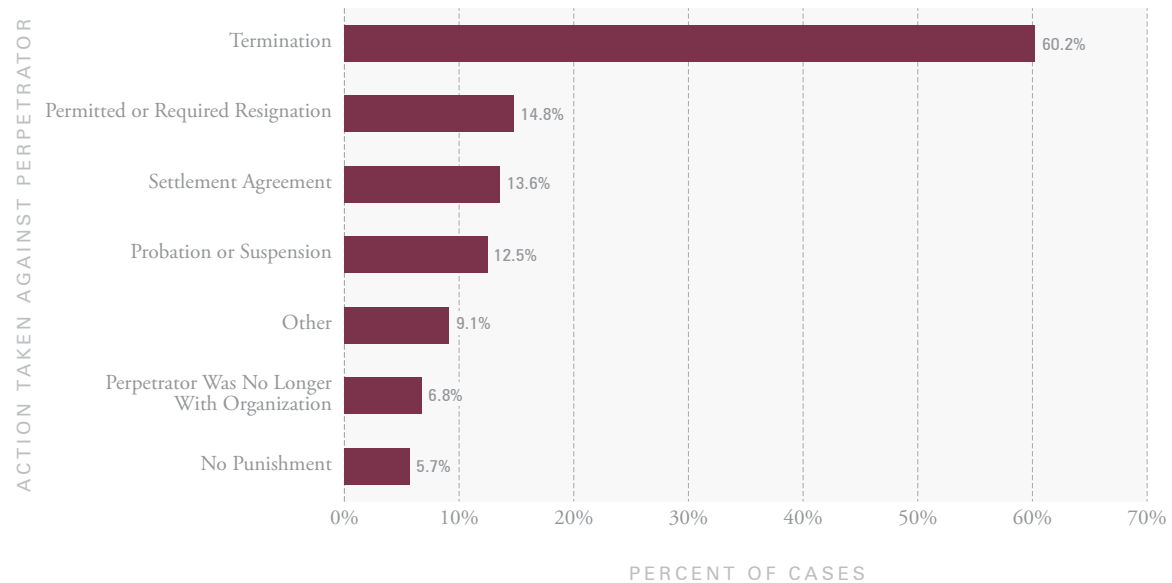
Figure 22: Recovery of Victim Organization's Losses



Action Taken Against Perpetrator

Recovering assets is not the only goal of a fraud examination. It is also important to identify perpetrators at the organization and take appropriate disciplinary action against them. As shown in Figure 23, termination was by far the most common disciplinary action (60.2% of cases) taken by victim organizations in Eastern Europe and Western/Central Asia.

Figure 23: Action Taken Against Perpetrator



Methodology



This report is based on the results of the 2015 *Global Fraud Survey*, an online survey opened to 41,788 Certified Fraud Examiners (CFEs) from July 2015 to October 2015. As part of the survey, respondents were asked to provide a detailed narrative of the single largest fraud case they had investigated since January 2014. Additionally, after completing the survey the first time, respondents were given the option to submit information about a second case that they investigated. Cases submitted were required to meet the following four criteria:

1. The case must have involved occupational fraud (defined as internal fraud, or fraud committed by a person against the organization for which he or she works).
2. The investigation must have occurred between January 2014 and the time of survey participation.
3. The investigation must have been complete at the time of survey participation.
4. The respondent must have been reasonably sure the perpetrator(s) was (were) identified.

Respondents were then presented with questions regarding the particular details of the fraud case, including information about the perpetrator, the victim organization, and the methods of fraud employed, as well as fraud trends in general. We received 7,497 total responses to the survey, 2,410 of which were usable for purposes of our [global study](#). Of these usable responses, 98 involved occupational fraud cases perpetrated against organizations in Eastern Europe and Western/Central Asia; the data contained in this report is based solely on the information provided in these 98 responses.

Analysis Methodology

In calculating the percentages discussed throughout this report, we used the total number of complete and relevant responses for the question(s) being analyzed. Specifically, we excluded any blank responses or instances where the participant indicated that he or she did not know the answer to a question. Consequently, the total number of cases included in each analysis varies. In addition, several survey questions allowed participants to select more than one answer. Therefore, the sum of percentages in certain figures throughout the report exceeds 100%. Additionally, all charts throughout the report include only those categories for which we received at least one response from survey participants.

All loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Additionally, we excluded median loss calculations for categories for which there were fewer than ten responses.

Because the direct losses caused by financial statement frauds are typically spread among numerous stakeholders, obtaining an accurate estimate for this amount is extremely difficult. Consequently, for schemes involving financial statement fraud, we asked survey participants to provide the gross amount of the financial statement misstatement (over- or under-statement) involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts.

About the ACFE

Founded in 1988 by Dr. Joseph T. Wells, CFE, CPA, the ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with nearly 80,000 members in more than 160 countries, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively.

The ACFE provides educational tools and practical solutions for anti-fraud professionals through initiatives including:

- Global conferences and seminars led by anti-fraud experts
- Instructor-led, interactive professional training
- Comprehensive resources for fighting fraud, including books, self-study courses and articles
- Leading anti-fraud publications, including *Fraud Magazine*™, *The Fraud Examiner* and *FraudInfo*
- Local networking and support through more than 170 ACFE chapters worldwide
- Anti-fraud curriculum and educational tools for colleges and universities

The positive effects of anti-fraud training are far-reaching. The best way to combat fraud is to educate anyone engaged in fighting fraud on how to effectively prevent, detect and investigate it. By educating, uniting and supporting the global anti-fraud community with the tools to fight fraud more effectively, the ACFE is inspiring public confidence in the integrity and objectivity of the profession.



CERTIFIED FRAUD EXAMINER

Membership

Immediate access to world-class anti-fraud knowledge and tools is a necessity in the fight against fraud. Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals and educators, all of whom have access to expert training, educational tools and resources. Members from all over the world have come to depend on the ACFE for solutions to the challenges they face in their professions. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, anti-fraud professionals turn to the ACFE for the essential tools and resources necessary to accomplish their objectives. To learn more, visit [ACFE.com](https://www.acfe.com) or call (800) 245-3321 / +1 (512) 478-9000.

Certified Fraud Examiners

The ACFE offers its members the opportunity for professional certification. The Certified Fraud Examiner (CFE) credential is preferred by businesses and government entities around the world and indicates expertise in fraud prevention and detection.

Certified Fraud Examiners (CFEs) are anti-fraud experts who have demonstrated knowledge in four critical areas: financial transactions and fraud schemes, law, investigation, and fraud prevention and deterrence. In support of CFEs and the CFE credential, the ACFE:

- Provides bona fide qualifications for CFEs through administration of the CFE Exam
- Requires CFEs to adhere to a strict code of professional conduct and ethics
- Serves as the global representative for CFEs to business, government and academic institutions
- Provides leadership to inspire public confidence in the integrity, objectivity and professionalism of CFEs



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