Fighting corporate fraud. Key stages and elements

1. Recording and detecting facts of fraud or fraudsters

What can happen?

- Commercial bribery (74 per cent)
- Using corporate property for personal advantage (52 per cent)
- Misappropriation of assets (44 per cent)
- Misstatement in primary accounting (33 per cent)

Where can it happen?

- Investment projects
- Capital construction
- Any procurement
- Financial operations

How to detect?

- Economic security department (35 per cent)
- Occasional detection (21 per cent)
- Reported by employees (16 per cent)
- Internal audit (12 per cent)

97 per cent of companies have no unified procedure for response to the incident

Frauds exceeding 1 million USD are committed by senior executives vested with high confidence on the part of directorate

Hazard area is trade secret and cyber-crimes

2. Investigation methods

Detection methods

- By one's own efforts
- Involving law enforcement agencies
- Engaging external experts

Difficulties during investigation

- Impossibility to collect, record and/or legalize evidence (45 per cent)
- Inactivity of law enforcement authorities during investigation (41 per cent)
- Dynamic counteraction by suspects (38 per cent)
- Unreasonable delays in considering the applications by law enforcement authorities (31 per cent)

By one's own efforts

72 per cent

28 per cent

Engaging external experts

If there is any "foreign element", companies are more eager to engage external experts, instead of relying on their own efforts

3. Obtaining evidence

Instruments for collecting evidence

- Study of primary documents (67 per cent)
- Search in open sources (41 per cent)
- Study of other information contained on the electronic media of the suspects (39 per cent)
- Study of corporate mail of the suspects (33 per cent)

Attorney's investigations

4. Choosing liabilities for the fraudster

Liabilities

- Dismissal of the guilty
- Reporting of the crime to the law enforcement authorities
- Suspension from work
- Recovery of losses

In 8 per cent of cases no liabilities are applied to guilty persons

5. Recovery of loss

Losses partially restored

Solely the damage restored

No compensation

Asset recovery methods:

- Voluntary compensation
- Holding guilty person financially liable
- Court proceedings for recovery of loss
- Interim measures

10 per cent of companies do not take any measures aimed at assets recovery

According to the respondents, assets are siphoned out into foreign jurisdictions in nearly 20 per cent of cases, however, we believe this figure to be substantially understated

Preventive measures

- Providing hotline 24/7, ensuring security and confidentiality for information suppliers
- Establishing commercial confidentiality
- Managing corporate data flows
- Conducting independent anti-corruption audit of key business processes
- Conducting legal anti-corruption expert evaluation and due diligence of corporate procedures and documents
- Implementing HR policies

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