

Economical Frauds in Romania

In Romania, the economical fraud phenomenon is growing through a process of negative maturing. Although the number of companies that are reporting this kind of matters is decreasing compared to 2005, the amounts embezzled per company have doubled. A study made by Price Waterhouse Coopers concerning economical breaches reveals important aspects:

In Romania, the costs of economical frauds have doubled in the last two years

Over 36% of the Romanian companies have declared that they were victims of economical frauds in the last two years. In average, every Romanian company that reported fraud was the victim of over seven incidents of fraud during the last two years. The average losses caused by economical breaches have doubled in the same amount of time. The Romanian companies that took part in the study reported forfeits of 13, 7 million dollars caused by economical fraud, meaning an average loss of 405.000 dollars for each company, amount twice larger than in 2005.

The companies most affected by this phenomenon are the large ones, with over 5.000 employees (62%), while the ones with less than 200 employees have been less affected (36%).

Fraud in various industries varies, the figures fluctuating from 57% in the insurance and sales business, 44% in the automobile industry, to 27% in the pharmaceutical industry.

The most frequent fraud methods reported by the Romanian companies are the undue appropriation of money (23%), copyright or royalty fraud (15%), accounting fraud (15%) and corruption (10%).

Corruption and bribe : *is the perception of the phenomenon closer to the truth than the reality ?*

Corruption and bribe **are perceived** to be the most common economical transgressions. Despite this perception, of the total cases of declared economical fraud in Romania, only 9, 7% have been cases of bribe or corruption. The question is: what is the real extent of corruption and bribe? Is it possible and probable that the perception of the companies is more valid than the low rates of corruption and bribe declared by the companies? About 31% of the Romanian companies state that they have been asked in the last two years, under one form or

another, **to give bribe**. Likewise, over 50% of the local companies believe they have lost business opportunities because a rival company gave bribe (52%).

The typical profile of a fraudster is according to Romanian responders, man (88, 5%), with ages between 41 and 50 (36, 4%), part of the top management (48, 3%).

Although most of the economical frauds declared by the Romanian companies in the last two years were committed by external entities (clients or business partners), an enlarging proportion of fraud was committed by inside personnel (19, 4% in 2007 compared to 13% in 2005). It is worrisome that **almost half of the perpetrators belong to the top management**.

Three of the most frequent reasons for frauds are not realizing the gravity of the deed, expensive life style and inability to resist the temptation.

The reaction of the victims: almost 20% of the victims don't take any measures to prevent fraud. The Romanian companies that took part in the survey managed to retrieve about 33% of the lost amounts.

The measures taken against the perpetrators vary from one case to the other, so that 60% of the companies have terminated the perpetrator's employment and 53% of the companies have filed charges. Most of the authors of serious fraud have been prosecuted, in civil or criminal court. Nevertheless 41% have not been convicted, making it evident that, during the investigation, the companies have to find adequate evidence of the fraud.

Frauds cost

In the last two years companies have spent a total of 5, 5 million dollars managing economical fraud cases. Further more, added to the direct costs of fraud, almost 90% of the ones affected by it declare the suffered collateral damage, like loss of reputation or a negative effect on the employees' moral.

Methods of detection: usually only 6% of the cases are discovered thanks to the company's control system, most of the cases being uncovered accidentally (12, 9%) or with the help of external resources (35,5% of the cases).

As for the efficiency of the fraud prevention measures, the Romanian companies consider internal audit and controls the most efficient, followed by audit

committees, fraud-risk management and standard programs.

Economical frauds can be detected easily with the help of specialized firms.

Specialists say that the companies which use professional services for identifying the market threats and operational risks are in an advantage.

Bank Fraud In Romania

In 2005 the most complex case of bank fraud was registered. The prosecution of Bucharest company administrators and bank personnel was finalized in July; the accusation was of illegal creditation and the failure to follow their destination by the Romanian Commercial Bank, Romanian International Bank and the Romanian Bank. The estimated prejudice was of over 243, 1 million RON (about 70 million Euros). The file was elaborated pursuant to the fraud intimation reported against BCR- the Novaci (Gorj) branch during 2002-2003, concerning illegal creditation or transgression of the bank regulations, all worth 78, 8 million RON (788 billion lei). The fraud was possible because of the implication of BCR, RIB and the Romanian Bank employees, who were in charge of the analysis, instrumentation, documentation, granting and approval of over 350 credits, worth 192,6 million RON (1.926 billion lei).

In January 2008 the 26 year old manager of a Bancpost branch in Bucharest evaded over 100.000 euros from the bank's safe. He lost more than half of the amount gambling and then threw himself out of a window of an apartment building. He owed big debts to loan sharks, from which he borrowed constantly so he could gamble. The fraud was possible because of the transgression of the bank's internal statute which stipulated that inside a branch, the manager and another employee have access to the safe, but never one without the other. Nevertheless the manager imposed his own statute: he would be the only one to hold the keys to the safe and he would be able to use them whenever he wanted.

In February 2008 took place another incident concerning the illegal transfer of money at a branch of BRD, Craiova. A desk clerk was arrested after the DIICOT Timis prosecutors discovered what could have turned into one of the biggest Romanian bank frauds. On the 1st of February desk clerk, Mihaela Bitu, who used to work at the Royal Casino unrightfully used the manager's access password and transferred the amount of 8000000 RON (about 2.200.000 euros) from the account of CEZ Oltenia in the bank accounts of accomplices in Bucharest and Timisoara. BRD announced the fraud two hours after

the transfer: due to the internal control systems, BRD could block the accounts in which the CEZ Oltenia sums were transferred. The amount was almost entirely retrieved, leaving the rest of 30000 euro from the total 2, 2 million to be reclaimed. Four individual were arrested and charged and three more were accused and the charge of crime organization is being investigated.

The most frequent frauds with witch the Romanian banks are confronted are **bank cards fraud**. There are the cases when the cards are copied and forged, PIN codes are stolen and banking operations made. It is a well known phenomenon and all the Romanian banks face it.