www.pwc.com/bg
April 2016

Global Economic Crime Survey 2016 – Bulgaria Country report

Armed and ready for battle? (your opponents are!)

36%

of Bulgarian respondents believe that their organisation had lost business opportunities to competitors they believe to have paid bribes

37%

of Bulgarian companies do not have a response plan for cyber threats

38%

of companies reported suffering one or more economic crimes in the past two years

pwc

www.pwc.com/crimesurvey

Foreword

Per A. Sundbye
Partner, Forensic Leader
in South East Europe (SEE)

Reneta Mamassian
PwC Bulgaria Forensic Leader

Welcome to our 2016 Global Economic Crime Survey, covering the period from our last survey in 2014 to 2016. It is the largest survey of its kind with 6,337 participants from 115 countries.

In Bulgaria, we are proud to say that as many as 77 leading companies shared their experience with economic crime and how it impacts on doing business in Bulgaria. This provides us with a unique insight into the current state of economic crime in the country as a whole and the real life impact witnessed by each individual organisation. It also allows us to identify trends and perception of future risks.

Four in ten organisations report that they have been the victim of fraud in the past two years, with 31% reporting losses in excess of USD 100,000. This is significantly higher than the global average and also higher than Bulgaria's own results from 2014. Hence, economic crime appears to be on the rise, both in frequency and in loss value.

Equally frustrating is that asset misappropriation, bribery and corruption are still considered key threats, and that these "old school" crimes are still not better contained.

The fact that there is an increased number of economic crime incidents can be a double-edged sword. It can easily build an impression that there is more fraud than before. On the other hand, however, it can be a result of improved detection tools and stronger determination to deal with the problem. In Bulgaria's case, we have reason to believe that it is a combination. We see some improvements in the governance models and tools that are implemented. Efforts still appear too fragmented to yield convincing results, however.

The fact that as many as 34% of the incidents were perpetrated by internal people, and mainly by members of junior and middle management, is a clear warning that the compliance and internal control systems are not effective. Since 90% of the respondents insist that they have clearly communicated organisational values, this represents a serious disconnect between policies and actual practices.

Bulgarian organisations overall could clearly benefit from a more systematic approach to fraud risk management. One in four respondents have not performed or updated their fraud risk assessments in the past two years.

We know that economic crime is dynamic and that organisations continuously face new threats in new arenas, and in particular in the overlap between new services, new markets and new technology. Although cybercrime is reported as a key future threat, Bulgarian companies remain largely unprepared. We believe that this is also reflected in the relatively small number of Bulgarian businesses, which report having been the victim of cybercrime. This, unfortunately, may be evidence of poor detection tools and that such crimes are left undetected.

On the positive side, fewer incidents are now discovered by chance. We also learn that more Bulgarian businesses employ, for example, data analytics in order to identify anomalies and that its significance in detecting fraud is on a par with the global level.

The level of confidence in local law enforcement remains low, including in comparison with other countries in the region. It is of grave concern that businesses do not feel that law enforcement would be in a position to support them, should they become the victim of economic crime. Local law enforcement is perceived to be inadequately resourced and trained. This is, in our experience, a frustration, which is often shared by actual members of the law enforcement bodies themselves.

By regional contrast, our results from Romania show a significant boost in the businesses' assessment of law enforcement, likely as a result of high profile prosecutions in the past couple of years.

We would like to thank those individuals and organisations that took the time to respond to our survey. Without your support this report for Bulgaria would not be possible. We invite all business leaders to use the results of this survey and we would also encourage an exchange of best practices between organisations. We trust you will find it a useful tool for yourself and your respective organisations to assist in your battle with fraud risks and to help improve the Bulgarian market overall.

Contents

Key Findings on the State of Economic Crime in Bulgaria

1 *Economic crime is a persistent threat, but business responses are not keeping pace*

- More fraud reported in Bulgaria in 2016 vs. 2014 – 38% of companies reported suffering one or more economic crimes in the past two years - a 13% increase from our previous survey.
- Asset misappropriation, bribery & corruption and procurement fraud are the most common types of fraud reported in Bulgaria.
- A distinctive feature of the local environment relates to cybercrime, which ranks only 5th in Bulgaria, while it is considered 2nd most common globally.
- The number of respondents having suffered cybercrime has increased over the last two years, which reiterates our observation from 2014 that such crime will continue to evolve during the few next years.
- In view of this, it is most worrying that 37% of Bulgarian companies do not have a response plan for cyber threats, including 14%, which do not intend to implement such a plan.

2 *Cases detected by chance dropped remarkably*

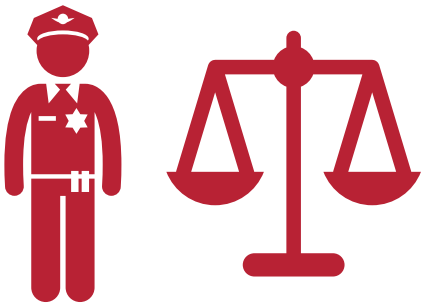
- Only 7% of reported economic crimes in Bulgaria have been detected by accident, which is a remarkable drop from the 20% reported in 2014.
- Bulgarian companies have started employing a risk-based approach in outlining their economic crime risks – the number of companies performing annual fraud risk assessments has increased by 2% vs. 2014.
- However, there is still room for improvement, with 1 in 4 of the surveyed organisations never having carried out such assessments.

3 *Disconnect between tone at the top and reality on the ground is observed*

- 21% of Bulgarian entrepreneurs reported that their organisation had been asked to pay a bribe in the last 24 months, with 36% of our local respondents believing that their organisation had lost business opportunities to competitors they believe to have paid bribes.
- This indicates that the Bulgarian market is a challenging one and companies operating within it should carefully consider the risks of fraud and bribery & corruption, as well as ways for mitigating these risks.
- Employee morale (54%) and business relations (39%), followed by reputational damage (24%), are cited as top forms of collateral damage.

4 *Confidence in law enforcement remains low*

- 58% of surveyed Bulgarian organisations reported that they did not have confidence in law enforcement being adequately resourced and trained to investigate and prosecute economic crime.
- This indicates that there is a strong need for law enforcement and organisations to work more closely together in the fight against economic crime.



About GECS 2016

The eighth Global Economic Crime Survey 2016 was carried out by PwC during the period between July 2015 and September 2015. It is the largest survey of its kind with 6,337 survey participants from 115 countries.

The survey is intended not only to describe the current state of economic crime but also to identify trends and perception of future risks. It is comprised of 42 questions divided into six sections: Organisation Profile; Economic Crime Trends; Technology and Economic Crime; Fraudster Profile and Detection Methods; Business Ethics and Compliance Programmes; and Anti-Money Laundering & Combatting the Financing of Terrorism (AML & CFT). To ensure the complete confidentiality of responses, all survey data is separated from the organisation name and responses are associated only with the industry, organisation size and other demographic data. No references to individual organisations are made in the results or analysis of the survey data.

Bulgarian Participation Statistics

In Bulgaria, 77 leading companies shared their experience and perception of economic crime on doing business in Bulgaria and worldwide. Organisations represented in the survey come from various industry sectors but predominantly from Financial Services, Retail and Consume and Energy, Utilities and Mining.

Figure 1 below shows the breakdown of industry sectors represented in Bulgaria in comparison to the global industry representation.

Figure 1: Surveyed industries in Bulgaria and globally

1% / 4% Aerospace and Defence	4% / 3% Automotive	1% / 4% Agriculture	2% / 5% Chemicals	3% / 1% Communications	1% / 0% Education	9% / 12% Energy, Utilities and Mining	5% / 4% Engineering and Construction
2% / 0% Entertainment and Media	20% / 18% Financial Services	4% / 1% Government / State Owned Enterprises	1% / 0% Healthcare	3% / 1% Hospitality and Leisure	4% / 3% Insurance	11% / 8% Manufacturing	4% / 6% Pharmaceuticals and Life Sciences
6% / 3% Professional Services	7% / 14% Retail and Consumer	5% / 6% Technology	4% / 5% Transportation and Logistics	3% / 1% Other			

Base global: 6.337
Base Bulgaria: 77

Predominantly CEOs, Presidents and Managing Directors participated in the survey (32%), followed by Chief Financial Officers (19%), Heads of Departments (14%) and Managers (8%) (Figure 2).

Figure 2: Participants in the survey in Bulgaria

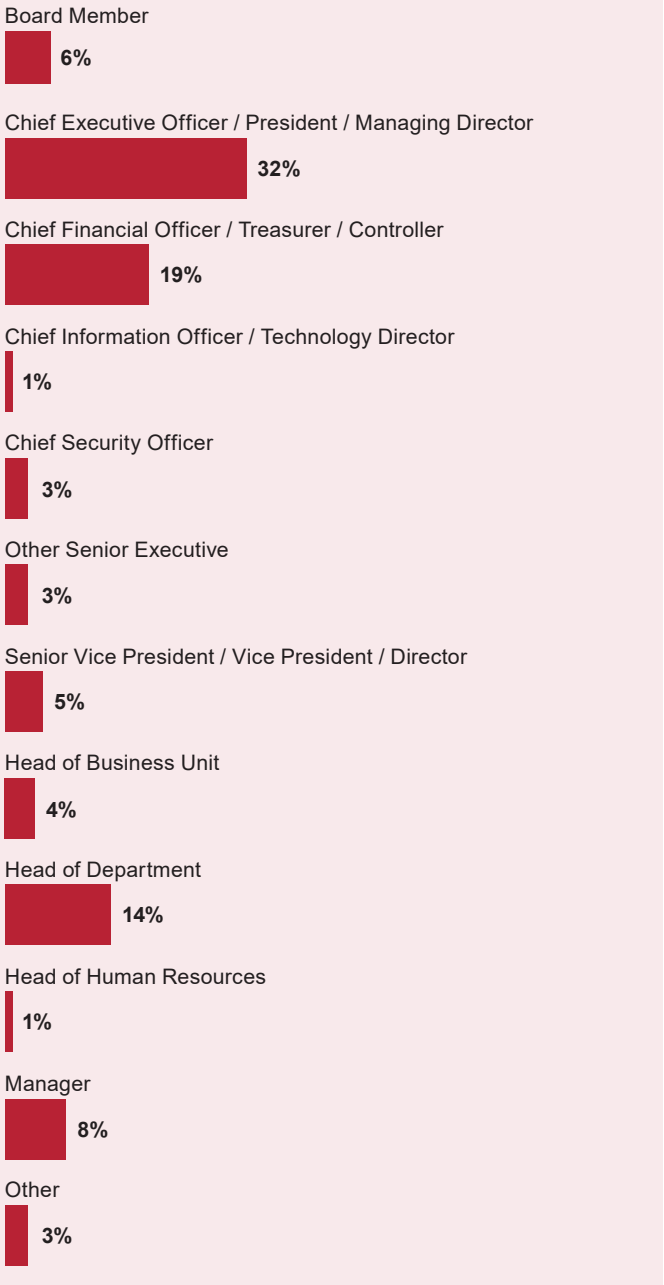


Figure 3 shows the ownership of these companies surveyed in Bulgaria. Two thirds are privately-owned companies (66%), followed by publicly traded (29%) and other (5%). Nearly half of all companies (47%) have offices only in Bulgaria, and further 19% have additional offices in up to nine other countries. (in Figure 4).

Figure 3: Company ownership in Bulgaria

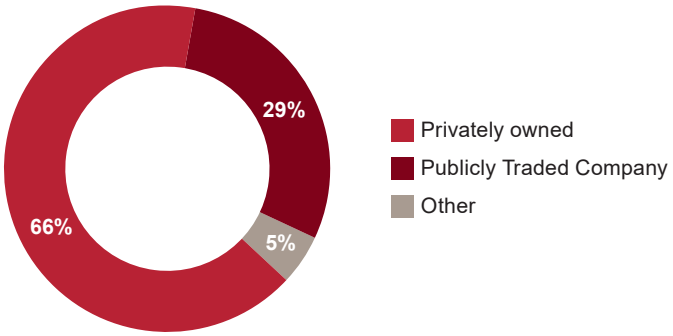
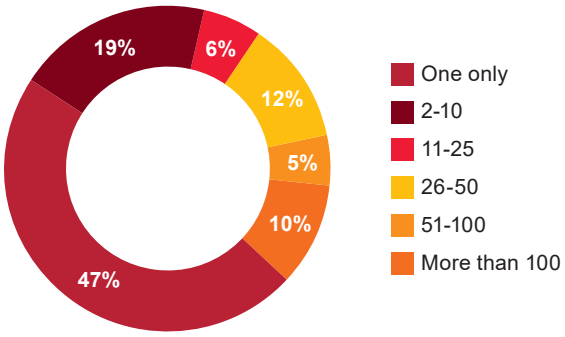


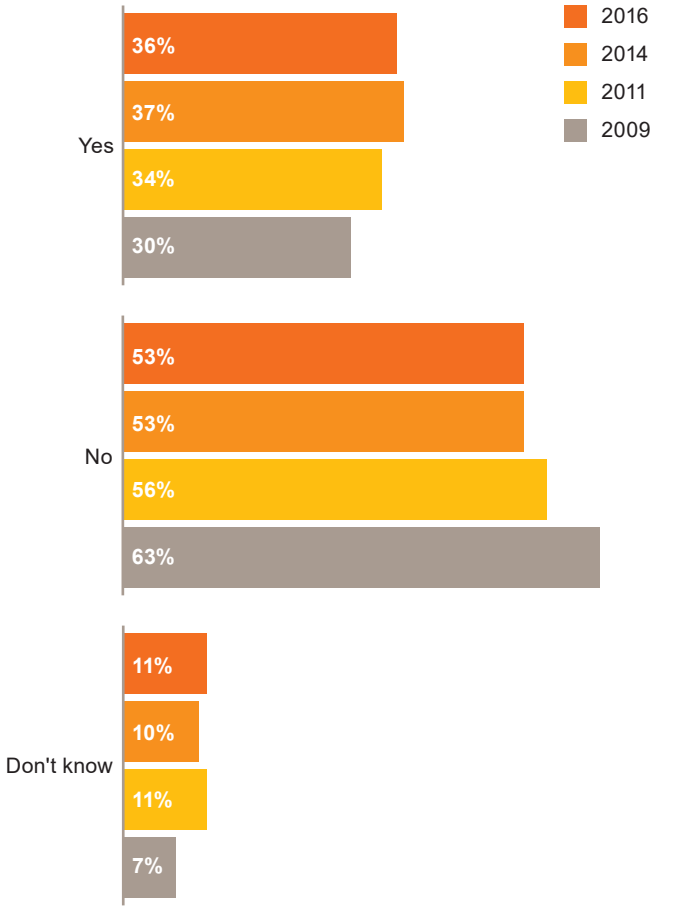
Figure 4: Number of countries where Bulgarian companies have offices



State of Economic Crime in Bulgaria

GECS 2016 shows that bribery and corruption, money laundering, accounting fraud – to name but a few – and other such crimes continue to threaten economic and social justice worldwide. Indeed, we see a slight decrease in economic crime in 2016 compared to 2014; however, it is worrying that more than a third of organisations worldwide were still experiencing economic crime in the period surveyed (Figure 5).

Figure 5: Reported rate of economic crime globally



Note: The number of participants surveyed globally in 2015 was 6,337, in 2013 - 5,128, in 2010 - 3,877 and in 2008 - 3,037. The number of participants has more than doubled in eight years.

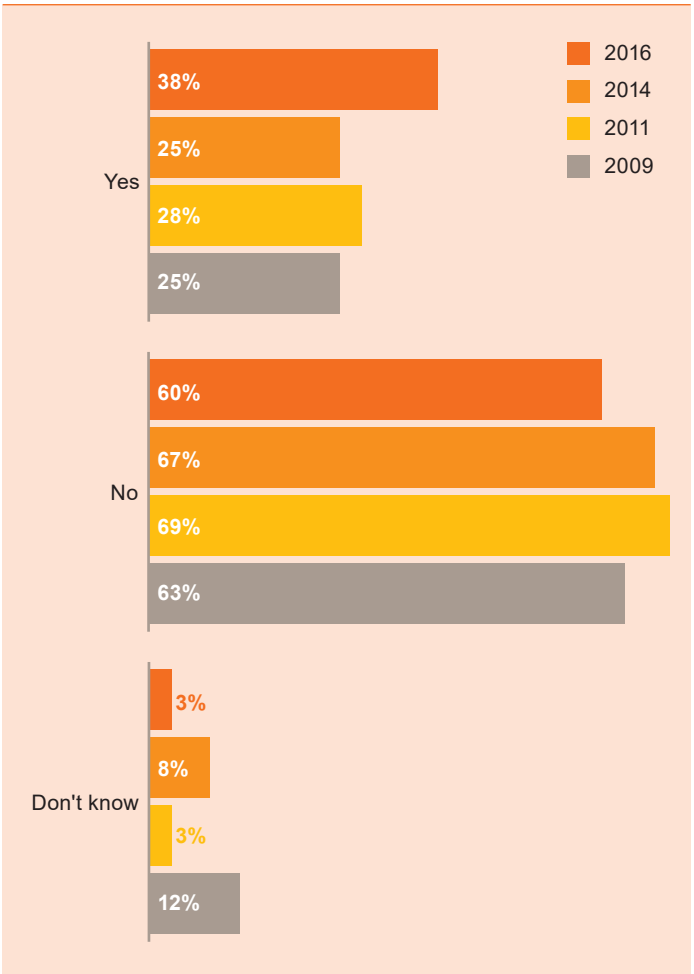
Reported incidents of economic crime in Bulgaria have increased from 25% to 38% over the last 24 months (vs. a global rate fall from 37% to 36% in reported crimes). Does this mean that economic crime in Bulgaria has increased in the period since our last survey?

Economic crime comes in many flavours, each with its own characteristics, threats and consequences.

While an actual increase in economic crime may be one of the reasons for the observed increase, we believe that the following factors may also have played a role:

- A greater awareness of economic crime within organisations and, therefore, a corresponding increase in its reporting;
- A growing desire for transparency;
- A decrease in the stigma attached to reporting fraud, which may now be perceived as less of a taboo subject; and
- Introduction of more stringent controls and risk management systems, which enable companies to detect more cases of fraud.

Figure 6: Reported rate of economic crime in Bulgaria



Prevailing Types of Economic Crime

The perennial leader among economic crimes continues to be asset misappropriation, both globally and in Bulgaria. It is by far the most common economic crime experienced by organisations reporting any fraud, with over half of the respondents suffering from it. The amount is more than double than the second highest occurring type of economic crime. While in other regions, levels of bribery and corruption have declined over the last two years, in Bulgaria this type of crime has increased by 23%, making it the second most prevalent economic crime in Bulgaria. Though not reported among the top 3 most common types of crime, cybercrime remains a threat to Bulgarian organisations, with an increase of 14% in the last two years. Figure 7 below breaks down the degree of exposure by type of economic crime.

Figure 7: Top 3 economic crimes in Bulgaria

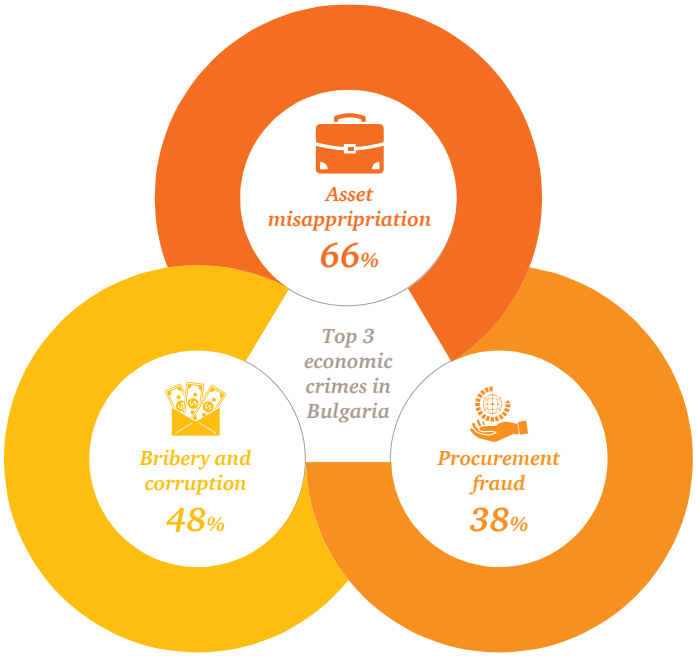
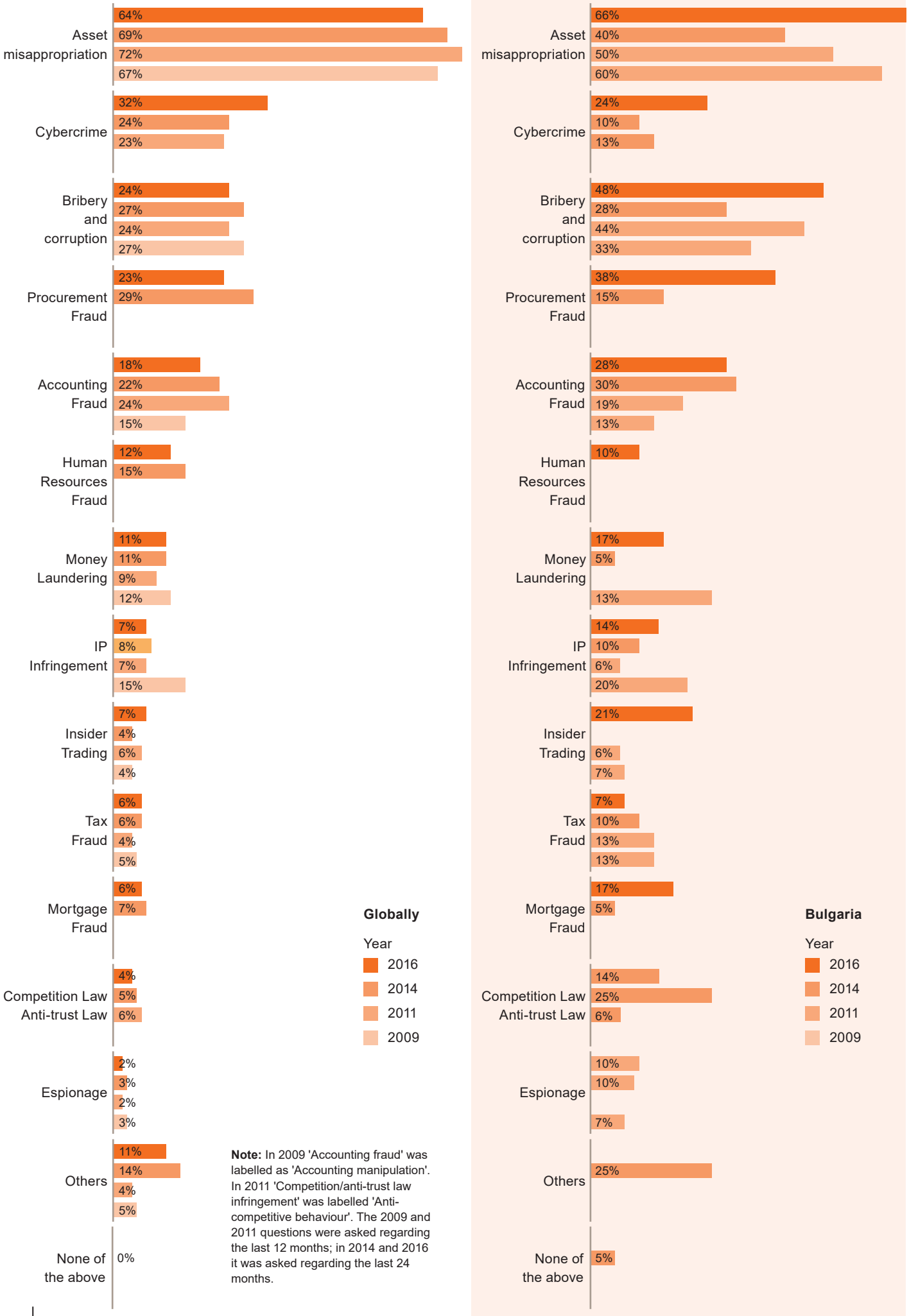


Figure 8: Types of economic crimes experienced



Note: In 2009 'Accounting fraud' was labelled as 'Accounting manipulation'. In 2011 'Competition/anti-trust law infringement' was labelled 'Anti-competitive behaviour'. The 2009 and 2011 questions were asked regarding the last 12 months; in 2014 and 2016 it was asked regarding the last 24 months.

#1 Economic Crime in Bulgaria - Asset Misappropriation

The leading position of asset misappropriation is somehow predictable as it is considered the easiest to detect. In Bulgaria, the relative share of this type of fraud is gradually increasing, indicating that organisations still have to tighten up their preventive controls over traditional types of crime. It also suggests that local fraudsters prefer simpler ways of getting money from organisations to utilising more sophisticated and higher-impact types of fraud, including cybercrime.

#2 Economic Crime in Bulgaria – Bribery and Corruption

In recent years, bribery and corruption has become a topic of public discussion in Bulgaria, for good reason. Bribery and corruption are among the most serious economic crimes, seen by participants as the greatest risk in doing business globally, both in terms of reputational and monetary loss. In terms of occurrence, it is the 2nd most noted type of economic crime in Bulgaria (48%) and the 3rd globally (24%). What is the true incidence of corruption and bribery? Part of the difficulty in assessing the real levels of corruption and bribery relates to the nature of this crime. It is much more in the public eye than other types of economic crime, thereby potentially increasing the perception of its incidence versus other, less publicised types of crime, such as asset misappropriation and financial accounting fraud. On the other hand, corruption and bribery can be very difficult to prove, thereby potentially reducing the number of reported cases.

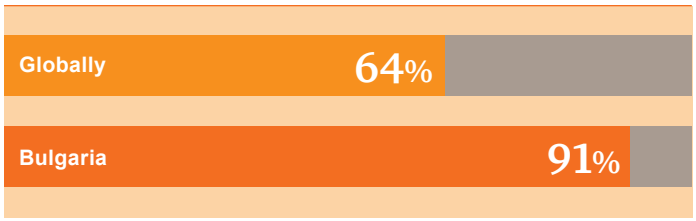
#3 Economic Crime in Bulgaria – Procurement Fraud

For the second time, our 2016 survey includes procurement fraud as a separate economic crime category, which ranks as the 3rd most commonly reported type of fraud. Procurement fraud can go undetected for long periods of time; in fact, experience suggests that the typical procurement fraud lasts two years before it is detected. In view of this, the actual incidents of procurement fraud might be underreported.

Procurement fraud methods usually include: costs / labour mischarging, inadequate pricing, defective goods, services, works, parts or maintenance, price fixing, conflicts of interest, bid rigging or lack of compliance with tender processes. It also includes non-conforming goods or services provided to organisations.

The most vulnerable area, both globally and in Bulgaria, is the vendor selection process. In combination with the fact that external fraudsters are prevalent in Bulgaria, this underscores even more the importance of knowing your business partners prior to entering into any cooperation with them.

Figure 9: Procurement fraud has primarily occurred in vendor selection



The scale of procurement fraud requires attention. Organisations must check "the health status" of their procurement systems on a regular basis, with the aim of detecting unusual and potentially fraudulent accounting transactions, and risky vendors, based on a set of predefined analytical tests.

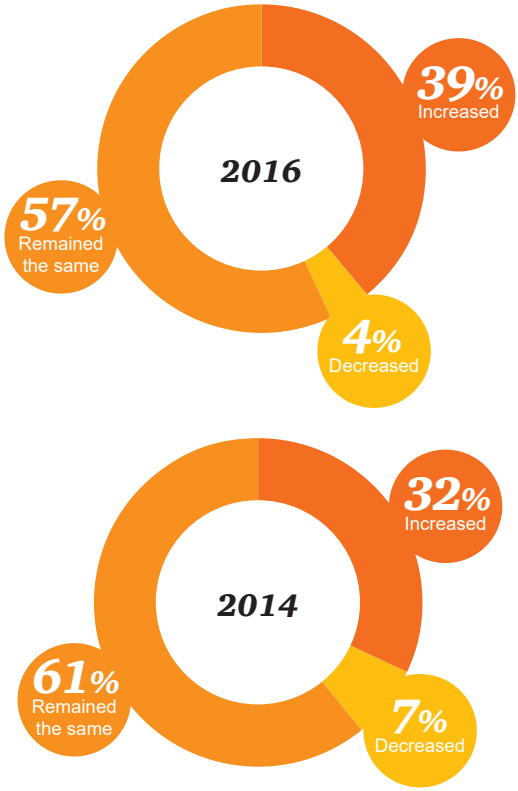
Cybercrime – Is Risk Awareness Sufficient?

Though introduced as a new distinct survey classification for Bulgarian respondents in our 2014 survey edition, cybercrime immediately emerged among the top six reported economic crimes. This year's survey reaffirms that cybercrime is not just a technology problem. It is a business strategy problem.

The advancement of technology in business services, combined with the explosive growth in social media and data connectivity, are enlarging the perimeter that needs protection, as organisations are dealing with environments not fully under their control. What should companies consider in relation to cybercrime? Is it sufficient just to be aware of the risk of cybercrime (96% of Bulgarian and 94% of all respondents stated their perception of the risk of cybercrime had either increased or remained the same over the last 24 months) to defend your organisation?

It will surprise few to learn that the answer is "No". Nowadays, preparedness to respond cybercrime should be considered carefully at the very top of the organisation.

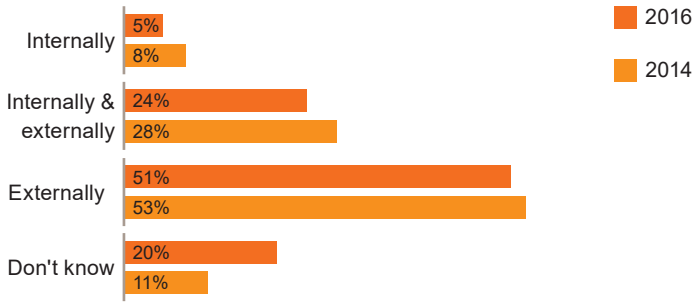
Figure 10: Level of awareness of cybercrime risk in Bulgaria



In view of this, it is a bit worrying that most organisations (73% globally and 74% in Bulgaria) allocate the role of first responders entirely to their IT teams. Companies successful in fighting fraud, however, assign responsibilities to everyone in the organisation – from the board and C-suite to middle management and hourly workers.

Another finding of this year's survey, which brings into question the state of readiness of local organisations to deal with cyber incidents, is the fact the 4 in 10 respondents reported their companies do not have a response plan in place. Further, 21% of the surveyed companies were not aware of the existence of such practices. As in our previous survey, the results of this year's survey reveal that approximately half of the Bulgarian respondents considered the cybercrime threat to be mainly external.

Figure 11: Where do Bulgarian companies see the greatest cybercrime threat to their organisation coming from in the next 24 months



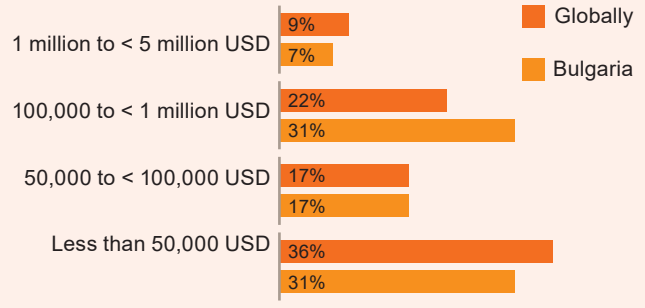
The decreasing percentage of those, which believe cybercrime could be an internal threat to companies, combined with the "don't know" response rate almost doubling, again raises worrying questions:

- Do Bulgarian companies fully understand the nature of this growing risk?
- Are they proactive and adequately armed for battle?

Effects of Economic Crime

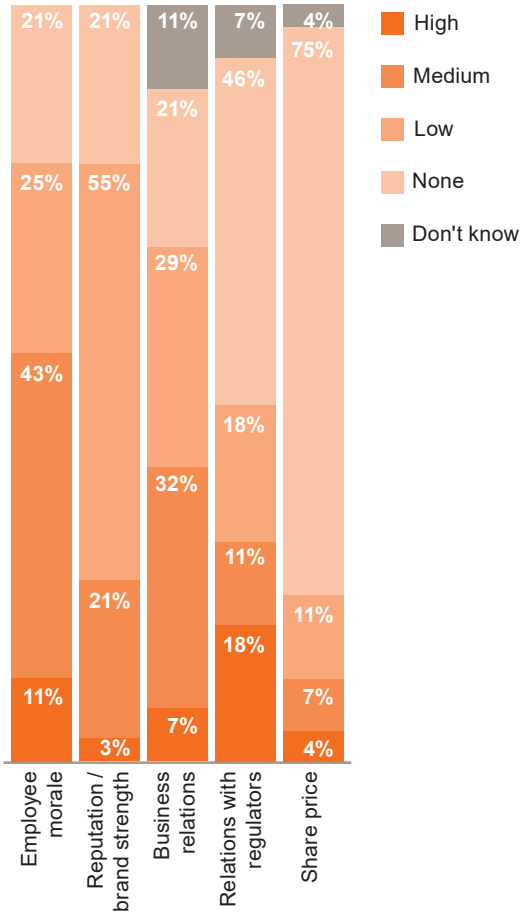
There is no doubt that fraud is costly to any business and its impact should be seen and quantified in two different dimensions – one being pure financial loss and the other being collateral damage.

Figure 12: Financial impact of economic crime in Bulgaria and globally



It is true that it is sometimes difficult to assess the direct losses resulting from fraud, but it is often even more difficult to estimate the indirect impact of fraud. Employee morale seems to be most at risk. Incidences of economic crime lead to employees questioning the company's corporate governance, ethics and work environment.

Figure 13: Collateral damage suffered by companies in Bulgaria

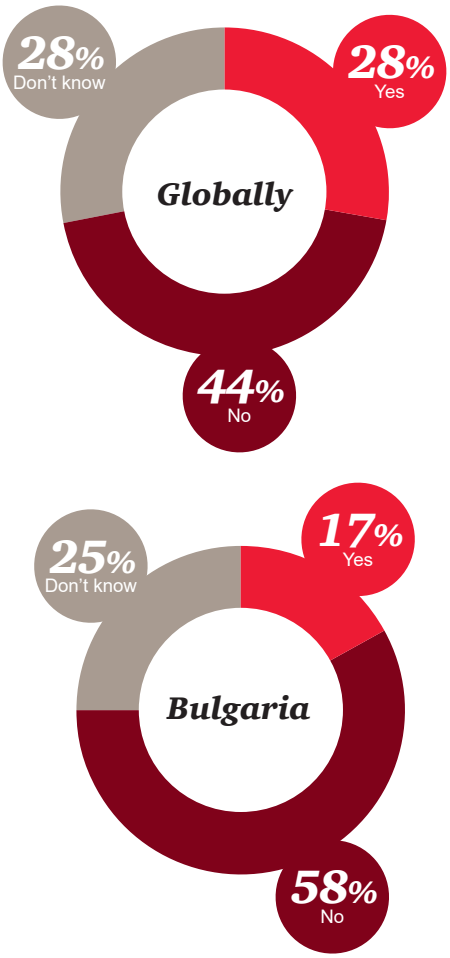


One case study from our experience in this area highlights an important point. In order to achieve their own targets, a few of the sales team of a retail company employed the following scheme to meet their monthly sales targets: they stated a higher price to clients for some of the components of a product and then, for the difference between the actual sales price and the amount received from the client, realised sales of items of lower value. As you can see, in this particular case, the company did not suffer any direct losses, but the management was concerned about potential reputational damage.

Combatting economic crime

We asked respondents to give us their views on whether they believe local enforcement was adequately resourced and trained to investigate and prosecute economic crime. A vast majority – 44% globally and 58% locally – expressed doubts on this point. Figure 14 shows how law enforcement is perceived as being incapable of combatting economic crime in Bulgaria and globally.

Figure 14: Levels of confidence in local law enforcement

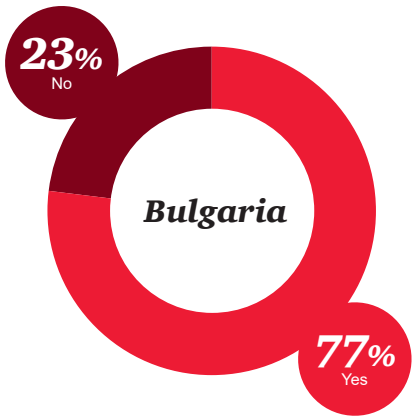


This could result from divergent factors such as general fraud rate, the extent to which law enforcement publicises its expertise in certain areas or the extent to which law enforcement is perceived to be above political interference. Lack of confidence in law enforcement capabilities means, however, that in their fight against economic crime businesses should rely mostly on their own awareness of the topic and their skills. 83% of our Bulgarian respondents stated that they expect government to take an unbiased approach to the enforcement of anti-corruption law. Results for Bulgaria indicate that local authorities still have a long way to go in order to convince organisations that national regulators are adequately resourced and skilled enough to combat fraud, bribery and corruption practices.

Companies also have an important role in this arena. Attitudes and practice with regard to ethics and compliance is changing. The survey results reveal that the majority of Bulgarian organisations have established formal compliance programmes in place.

Having a recognised code of ethics is a starting point, but this is not enough. For the purpose of mitigating the risk, employees should know how to use the existing policies in their day-to-day decision making. In other words, policies dealing with ethics and compliance should be fully integrated through training, regular communication, reward and recognition, and disciplinary procedures where needed.

Figure 15: Established formal compliance programmes



The survey also identifies areas where there is a gap between the set tone-at-the-top and realities on the ground, as a significant portion of incidents of fraud are still perpetrated by internal fraudsters (46% at global level and 34% in Bulgaria), involving mainly middle and junior management.

The above results suggest that, though it is a "must", the setting of a proper tone at the top is not a sufficient fraud preventative mechanism in itself. It should be supported by effective promotion of ethics & compliance policies throughout the entire organisation.

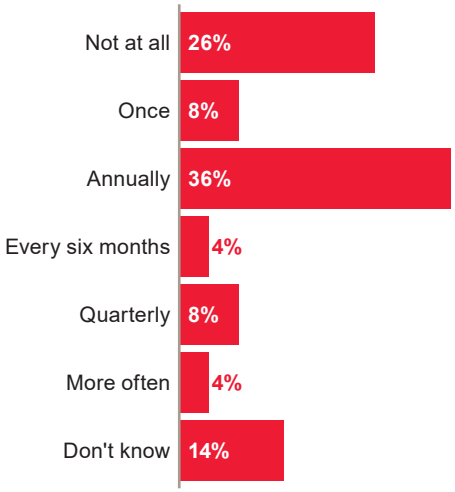
This means that every single employee should be empowered with the knowledge of how to make the right decisions in certain circumstances and why it is important from the corporate perspective. It is all about communication, involving explanation of the relevance of compliance to each employee's function, while outlining their respective role and responsibility.

Our survey results show that not only is the number of economic crime risks increasing, but so is the complexity of those risks. This requires ability of organisations to identify and mitigate compliance risks to evolve at a rapid pace. Using a risk-based approach would allow companies to outline their economic crime risks and their compliance weaknesses. Once risks are defined, effective programmes for mitigating those risks could be created.

It is encouraging that 44% of Bulgarian organisations that report occurrence of fraud detected it through the utilisation of corporate controls (48% globally). Our survey reveals that local business have started paying more attention to factors which are under management control by implementing new corporate controls like data analytics and rotation of personnel.

Our experience with businesses in Bulgaria has proven that the key pre-requisite for effective fraud prevention and detection is the knowledge of what type of fraud risks an organisation faces in each of its areas of operation.

Figure 16: Performed fraud risk assessment over last two years in Bulgaria



It is a very positive sign that the number of local organisations, which have not performed fraud risk assessments, has gone down by 9% in 2016 as compared to 2014. In the same period, the percentage of companies performing such annual assessments has increased by 2%. However, there is still room for improvement, as 26% or around 1 in 4 of all surveyed organisations in Bulgaria have never performed a fraud risk assessment (vs. 22% globally).

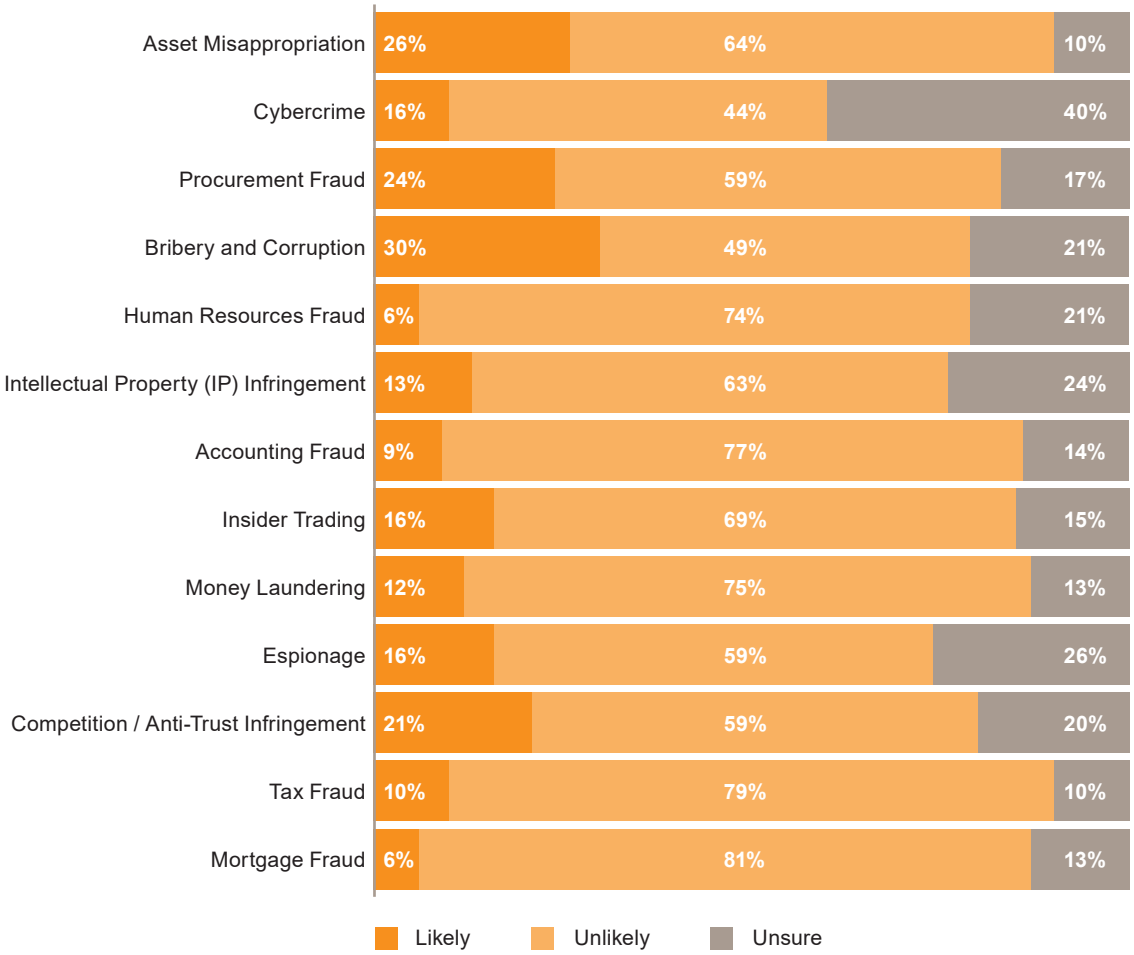
Another area where organisations should build an understanding of benefits is the availability of means for raising concerns. While the vast majority of the Bulgarian respondents (70%) stated having confidential channels for raising concerns, including a clear whistleblowing policy, only 4% (vs. 7% in 2014) of reported incidents of fraud were detected through the involvement of this detection tool.

Thinking ahead

When asked how likely and unlikely is it that an organisation will experience different economic crimes, Bulgarian organisations responded that bribery and corruption will either most likely or maybe happen (51%), followed by procurement fraud (41%) and asset misappropriation (36%).

Overall, surveyed companies in Bulgaria feel it is less likely that their organisation is at risk from economic crime over the next two years, which contradicts the global trend. This may well just be an illusion of safety. Our experience has shown that companies with a higher level of risk awareness, vigilance and preparedness will uncover more offences and minimise damage to a greater extent than those companies that consider themselves relatively safe.

Figure 17: Future economic crimes in Bulgaria over next two years



Global Participation Statistics

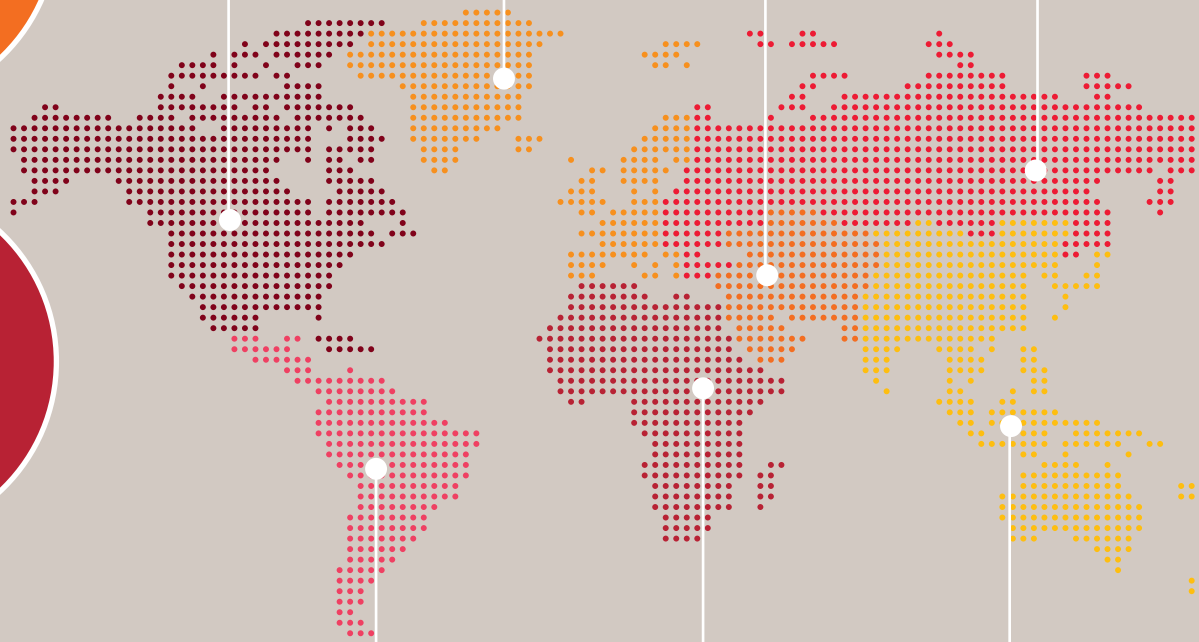
Participation statistics

6,337 completed surveys

Across **115** countries

Surveyed in **17** different languages

Participation by region



- **8%** North America
- **22%** Western Europe
- **5%** Middle East
- **17%** Eastern Europe
- **18%** Latin America
- **10%** Africa
- **20%** Asia Pacific

Respondents

70%
of respondents were managing the Finance, Executive Management, Audit, Compliance and Risk Management Functions

54%
of respondents employed by organisations with more than 1,000 employees, with

48%
of these participants having more than 10,000 employees

37%
of the survey population represented Publicly Traded Companies, and

59%
of respondents were from multinational organisations

Industry sectors

35% Industrial

24% Financial Services

14% Consumer

7% Technology

6% Professional Services

13% Other

Forensic Contacts for Bulgaria

Per A. Sundbye, CFE
Partner, Head of Forensic Services in SEE
per.sundbye@si.pwc.com
Phone: +386 1 583 6000
Mobile: +386 51 687 079

Albena Markova
Partner, Consulting Services, Bulgaria
albena.markova@bg.pwc.com
Phone: +359 2 9355 200
Mobile: +359 897 921 094

Reneta Mamassian
Assistant Manager, Forensic Services, Bulgaria
reneta.mamassian@bg.pwc.com
Phone: +359 2 9355 200
Mobile: +359 896 693 485

Forensic Services

The PwC forensic services network is comprised of forensic accountants, economists, statisticians, former regulators and law enforcement, fraud examiners, and forensic technologists. We help organisations tackle the major financial and reputational risks associated with economic crime. We identify financial irregularities, analyse complex business issues, and mitigate the future risk of fraud.

www.pwc.com/crimesurvey