



THE MAP OF CORPORATE FRAUD IN LATIN AMERICA 2018/2019

The Corporate Fraud shows specific characteristics in our region that need to be analyzed by companies, to prevent, detect and respond to the types of fraud that have an impact on their business.

From BDO we have developed the **"Map of Corporate Fraud in Latin America"** with the aim of understanding this phenomenon, through a survey conducted in 18 countries of the region during 2018.

WHY YOUR ORGANIZATION MUST FIGHT CORPORATE FRAUD?

Organizations underestimate the impact of fraud, as only 31% confirm to have detected fraud cases during the past year, and only 17% believe they are adequately prepared to fight corporate fraud.

Organizations experience losses, on average, of 1.5 million dollars per year due to Corporate Fraud.

In Latin American countries, which already have anti-corruption regulations, including: Argentina, Brazil, Mexico, Colombia, Peru, and Chile; only 38% of organizations have incorporated these anti-corruption regulations into their compliance programs.

58% of Latin American companies believe that Corporate Fraud will be equal or greater in 2019 compared to 2018.



INSTITUTIONAL FRAMEWORK

Based on joint studies between the OECD, ECLAC and CAF, the LATAM region is characterized by:

- Growing disconnection between citizens and public institutions.
- Decline in the level of confidence of citizens towards the government institutions.
- Weakness in the nexus between the State, the Citizens and the Market.
- Deterioration of governance structures, allowing greater levels of impunity.

CORRUPTION PERCEPTION INDEX

- According to the latest report published by Transparency International in 2019, the average Latin American score is 44/100.
- The worst positions in the region are occupied by Nicaragua (25), Haiti (20) and Venezuela (18).
- Ecuador and El Salvador increased their score by two points since the 2017 edition. Argentina increased its score one point since 2017, and eight points since 2015.

LEGAL FRAMEWORK

The OECD and the OAS signed a memorandum of understanding in 2007 to establish a cooperation framework for

anti-corruption initiatives. This agreement supports modernization of the State, prevention and repression of corruption, and promotion of the application of the 1996 OAS Inter-American Convention against Corruption and the 2003 United Nations Convention against Corruption.

In 2009, the OECD issued "Recommendation of the Council for Further Combating Bribery of Foreign Public Officials in International Business Transactions". These recommendations had a great impact on the Development of Anti-Corruption Standards, which are having a strong impact in Latin America, especially in countries that have Anti-corruption Laws.

ECONOMIC FRAMEWORK

After five years of economic slowdown and a two years recession in 2015 and 2016, the macroeconomic context at regional level has improved and is currently going through the recovery phase. The gross domestic product in 2017 reached a growth of 1.3%, in 2018 of 2.2%, and there is projected growth of 1.7% for 2019. It is extremely important to understand the macroeconomic variables of the region, since it has been historically observed that there is an increase of fraud in organizations during periods of crisis or slower economic growth.

COUNTRIES IN LATIN AMERICA WITH ANTI-CORRUPTION LAWS

	Chile
	Brazil
	Mexico
	Colombia
	Peru
	Argentina

"According to the most recent report of the Association of Certified Fraud Examiners (ACFE), 'Report to the Nations', 51% of occupational fraud schemes are linked to typologies related to corruption. In such fraud schemes, the companies lose, on average, \$193,000 US dollars for each case of fraud that occurred".

ORGANIZATIONS THAT PARTICIPATED IN THE MAP OF CORPORATE FRAUD IN LATIN AMERICA

Participation statistics



Respondents



18

Countries

Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.

▼ ORGANIZATIONS

67% come from companies with headquarters in Latin America.

67%

Private national or domestic companies

18%

Private multinational companies

6%

Public Bodies

2%

NGOs

1%

















Cooperatives

1%

Trade Union / Union of Workers

▼ INDUSTRIES

65% come from Financial Services and Insurance, Manufacturing, Construction, Retail Sales and Services.

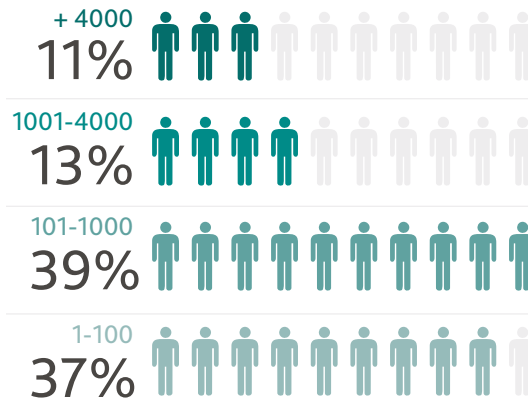
-  **14%** Banks and Insurance
-  **12%** Industry
-  **3%** Health
-  **4%** Food
-  **6%** Construction
-  **5%** Communications
-  **13%** Commerce
-  **2%** Hospitality and Tourism
-  **3%** Logistics
-  **5%** Government and Public Sector
-  **2%** Oil and Gas
-  **1%** Mining
-  **1%** Public Services
-  **5%** NGO
-  **4%** Agroindustry
-  **20%** Services

ORGANIZATIONS THAT PARTICIPATED IN THE MAP OF CORPORATE FRAUD IN LATIN AMERICA

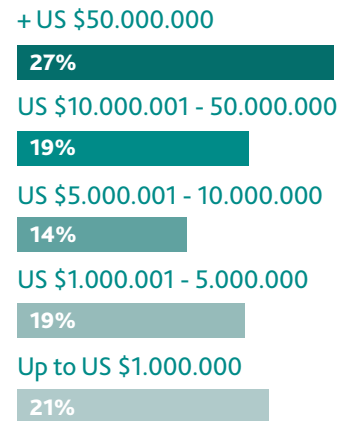
TARGET OF THE ORGANIZATIONS WHICH WERE SURVEYED

76% of companies have up to 1,000 employees, and **54%** have sales of up to 10 million dollars per year.

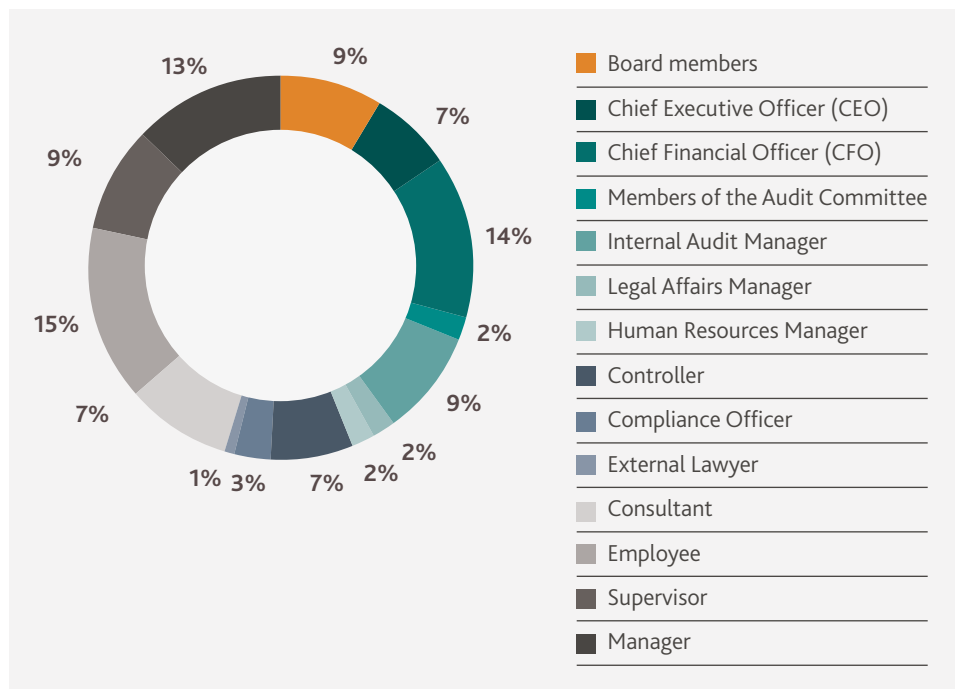
▼ EMPLOYEES



▼ SALES



52% of the surveyed individuals have managerial roles in their organizations.



CHARACTERISTICS OF CORPORATE FRAUD IN LATIN AMERICA

31%

of the organizations

claimed to have been victims of some type of fraud during 2018.

17%

of the organizations

believe they are prepared to prevent, detect and respond to corporate fraud.

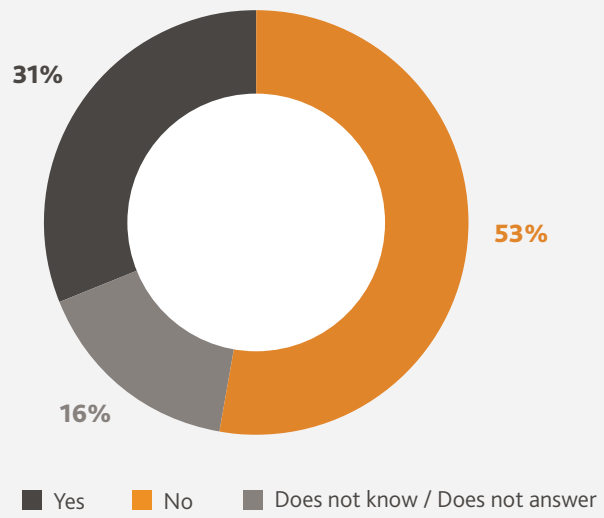
13

cases of fraud

on average, were detected within surveyed organizations.

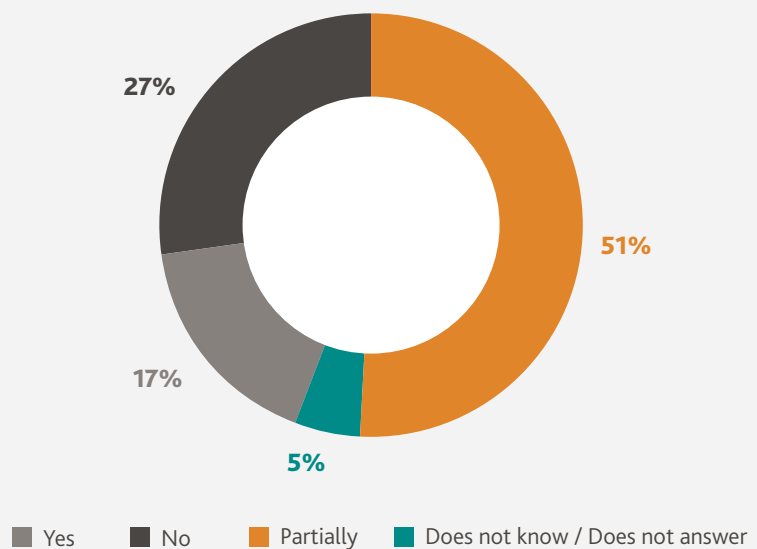
WAS YOUR ORGANIZATION A VICTIM OF ANY TYPE OF FRAUD IN THE LAST YEAR?

Corporate fraud, as an organizational phenomenon, affects all organizations but in Latin America, **69% of respondents ignore the impact of corporate fraud on the organizations they work for.** The losses generated by fraud cases, in addition to directly impacting the companies involved, are also transferred to investors, suppliers, the financial system, and the communities in which such cases occur.



IS YOUR ORGANIZATION SUFFICIENTLY PREPARED TO PREVENT, DETECT AND RESPOND TO FRAUD?

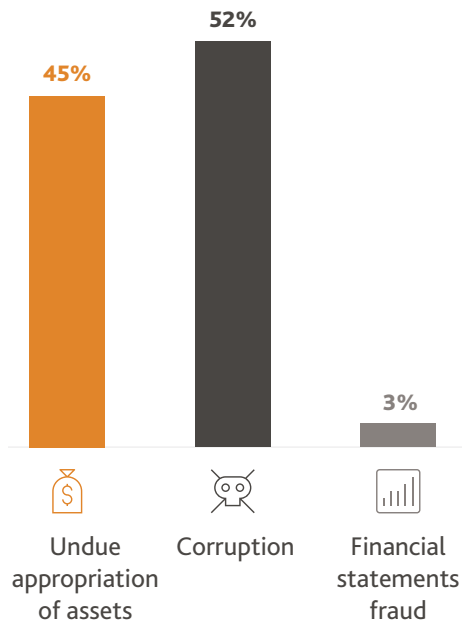
51% of organizations consider themselves partially prepared to prevent, detect and respond to fraud.



CHARACTERISTICS OF CORPORATE FRAUD IN LATIN AMERICA

RADIOGRAPHY OF FRAUD

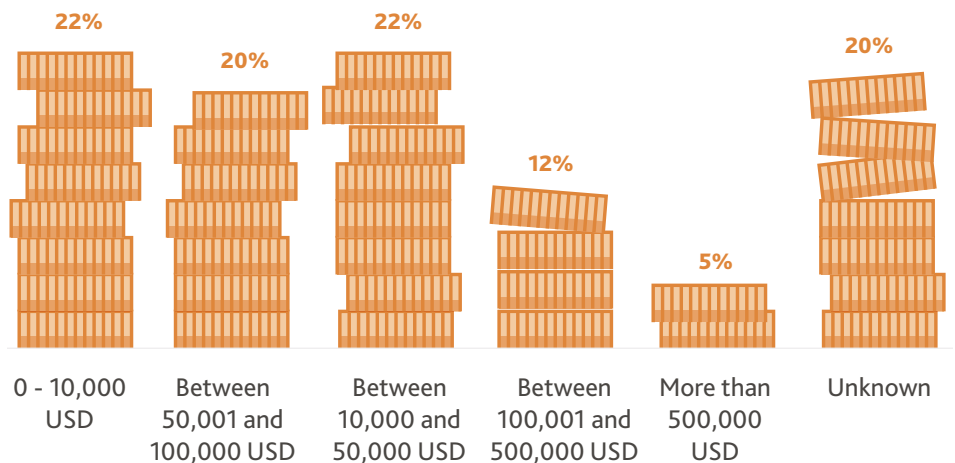
▼ DISTRIBUTION OF FRAUD



▼ COST OF THE FRAUD

What is the cost of suffering fraud?

39% of fraud cases involve losses greater than 50 thousand us dollars and 20% involve losses that could not be determined. During 2018, each Corporate fraud incident generated an average loss of \$ 1.5 million for the company.



HOW WERE THE FRAUDS DETECTED?

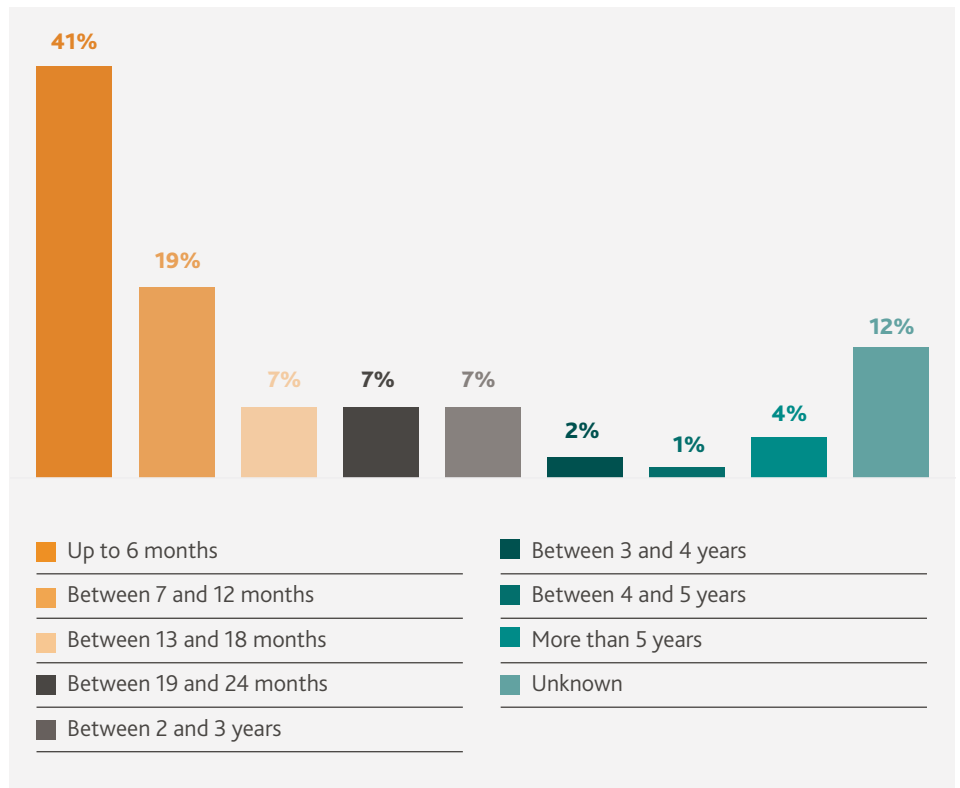
32% of the fraud schemes were detected as a result of whistleblower reports, despite the fact that the reporting systems in the region are not yet widely utilized.

Answers Options	Answers
Reports without using Fraud Hotlines	23%
Reports using Fraud Hotlines	9%
Internal audit procedures	18%
By accident	17%
Management controls	11%
Continuous monitoring	7%
Fraud prevention unit	4%
Compliance Analysis	2%
External audit	2%
External Controls to the organization	2%
Other	5%

CHARACTERISTICS OF CORPORATE FRAUD IN LATIN AMERICA

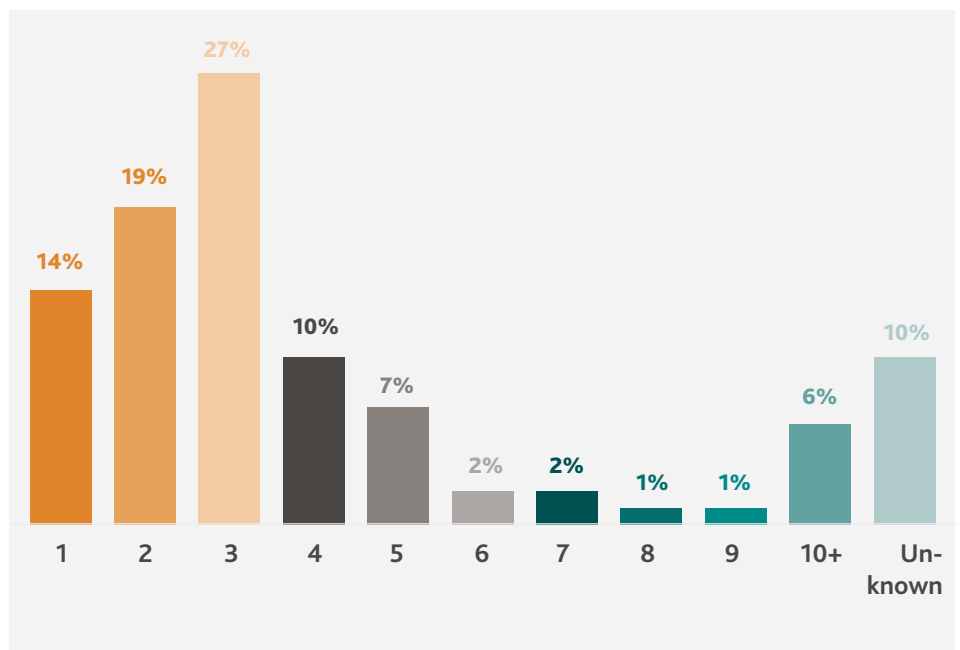
WHAT WAS THE AVERAGE DURATION OF THE IDENTIFIED FRAUD SCHEMES?

60% of the fraud schemes identified have a maximum duration of 1 year, 40% correspond to long-term development schemes.



WHAT IS THE AVERAGE NUMBER OF PEOPLE WHO PARTICIPATED IN THE DETECTED FRAUD SCHEMES?

86% of the cases were committed by more than one person. In 10% of cases it was not possible to determine the total number of perpetrators.



CHARACTERISTICS OF CORPORATE FRAUD IN LATIN AMERICA

WHAT ELEMENTS CONTRIBUTED TO THE OCCURRENCE OF FRAUDS?

Immature internal control environments are very common for companies in Latin America, in addition to a combination of the described factors.

Learned lessons

1. Organizations underestimate the impact of fraud, as only 31% confirm to have detected fraud cases during the past year, and only 17% believe they are adequately prepared to fight corporate fraud.
2. Companies, on average, have total losses of \$1.5 million per year due to fraud.
3. 59% of fraud cases are economically significant for organizations.
4. 40% of fraud cases correspond to fraud schemes lasting over one year.
5. Corruption is the most prevalent type of fraud in Latin America.
6. Lawsuits are the main reason organizations begin to investigate fraud cases; 32% of investigations start from lawsuits.
7. Immaturity is a significant characteristic of the internal control environment of organizations in Latin America.
8. External experts only participated in 13% of the investigations, but 73% of the surveyed organizations affirm that the external experts add more objectivity to investigations. Also in 40% of the cases, more technical expertise was needed to investigate.
9. The lawsuits against fraudsters are growing in accordance with the new anti-corruption regulations.

Answers Options	Answers
Absence of internal controls	42%
Internal control deficiency	61%
Deficient supervision by management or senior management	50%
Executives who did not inspire an ethical culture	32%
Absence of qualified personnel in control supervision	42%
Absence of independent auditors	16%
Unclear hierarchy	15%
Inadequate Report of Information to Management Roles	25%
Unknown	4%
Other	6%

FEATURED RESULTS

55% of fraud investigations were not based on a previously established research protocol.

Internal Audit carries out the greatest amount of research: it is in charge of **1 out of every 3 investigations**.

60% of the investigations were successful. We must also highlight that in 40% of the cases the technical skills were not sufficient to discover the appropriate evidence.

73% of respondents believe that involving external professionals ensures the objectivity of a fraud investigation.

26% of the assets stolen in corporate fraud cases were recovered after successful investigations.

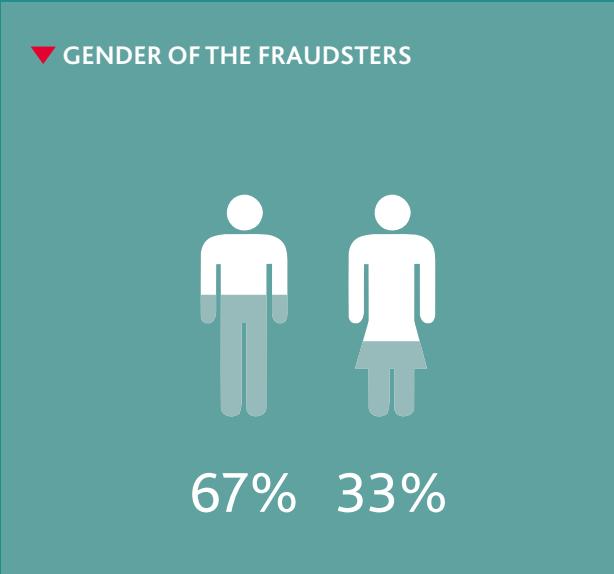
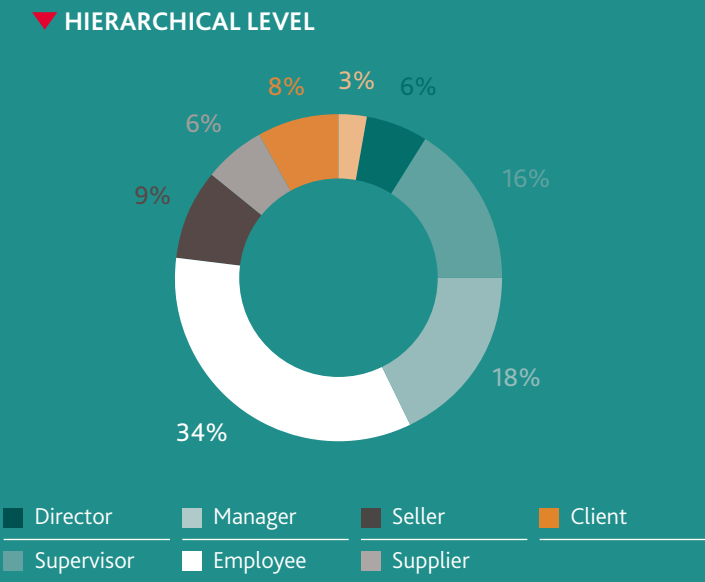
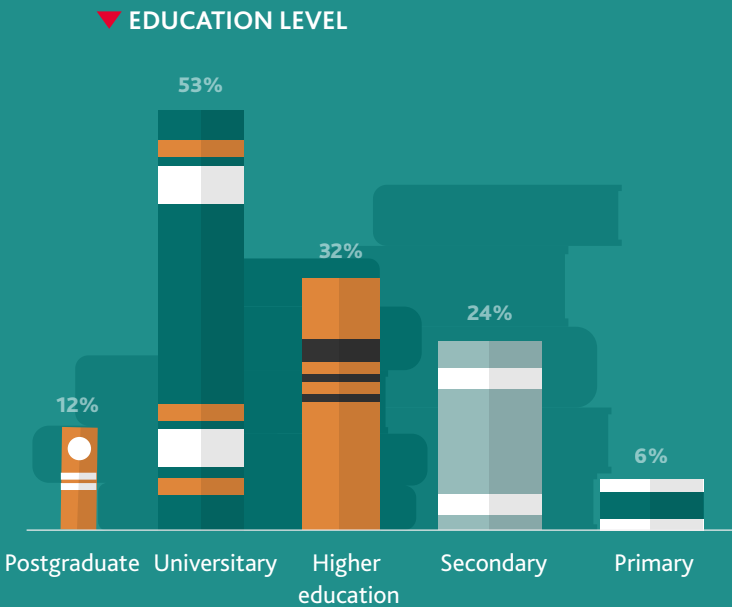
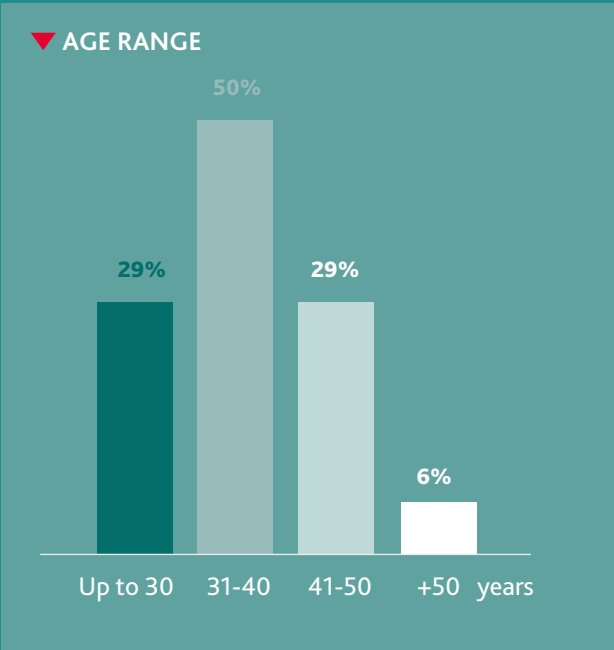
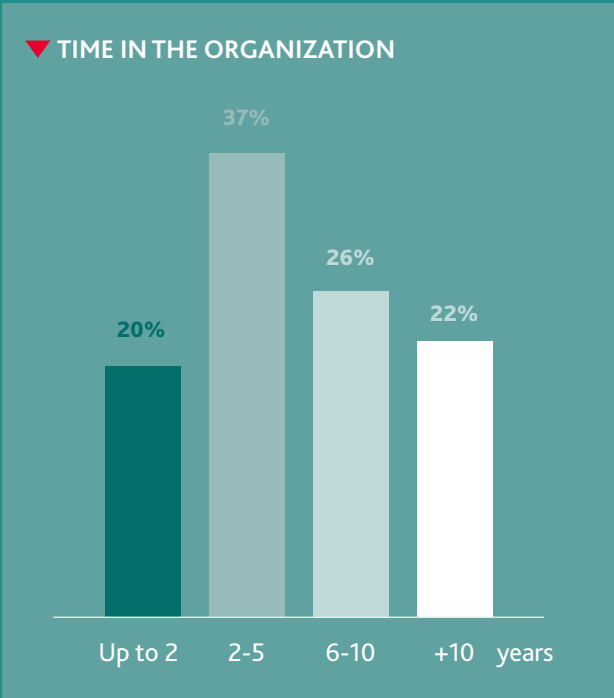
CONSEQUENCES OF THE INVESTIGATIONS

The most common consequences of fraud are "personnel firings" and "changes in business processes", but according to the recent anti-corruption regulations in the region, there has been a significant growth in the legal action taken against fraudsters.

Answers Options	Answers
Dismissal	69%
Judicial / police / before a public prosecutor lawsuit	45%
Changes in processes and their controls	59%
Internal sanctions	32%
Attempt to recover the goods	18%
None	5%
Unknown	5%
Other	2%

Profile of the perpetrators

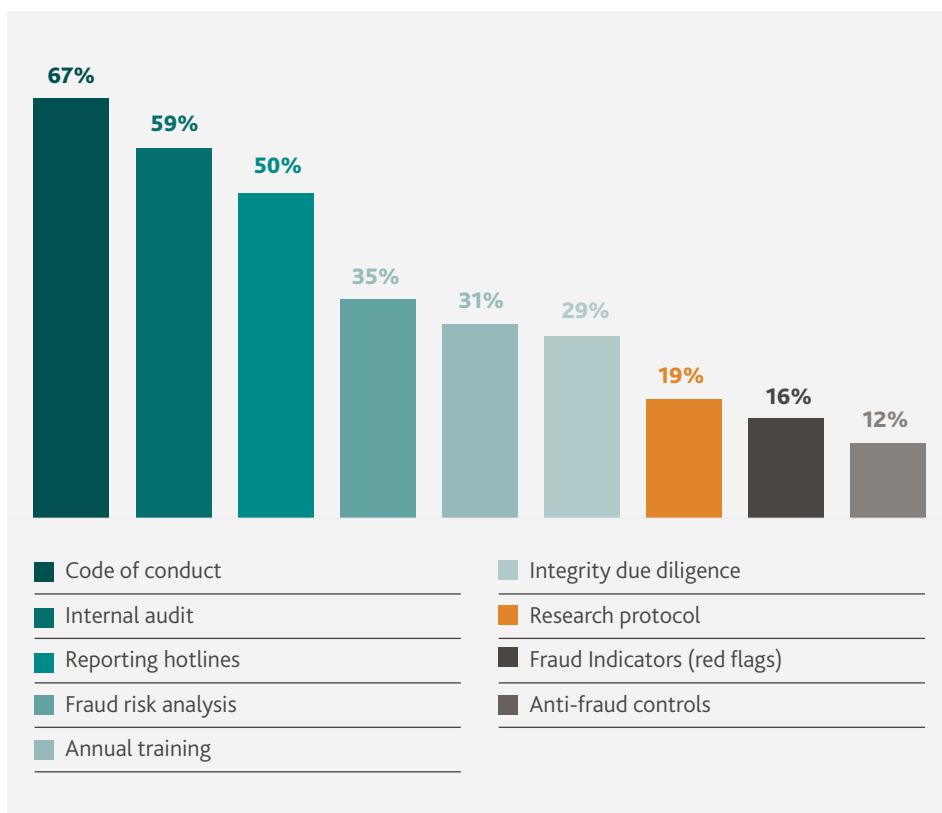
In Latin America, three consolidated kinds of fraudsters are identified. The most significant characteristics are; that they are people from 31 to 40 years of age, with 2 to 5 years in the organization, who have a university degree and are mostly men. There is a strong correlation between the hierarchical level of the fraudster and the magnitude of the fraud committed, as well as the duration of the fraud.



TYPICAL ELEMENTS OF ANTI-FRAUD AND ANTI-CORRUPTION PROGRAMS IN LATIN AMERICA

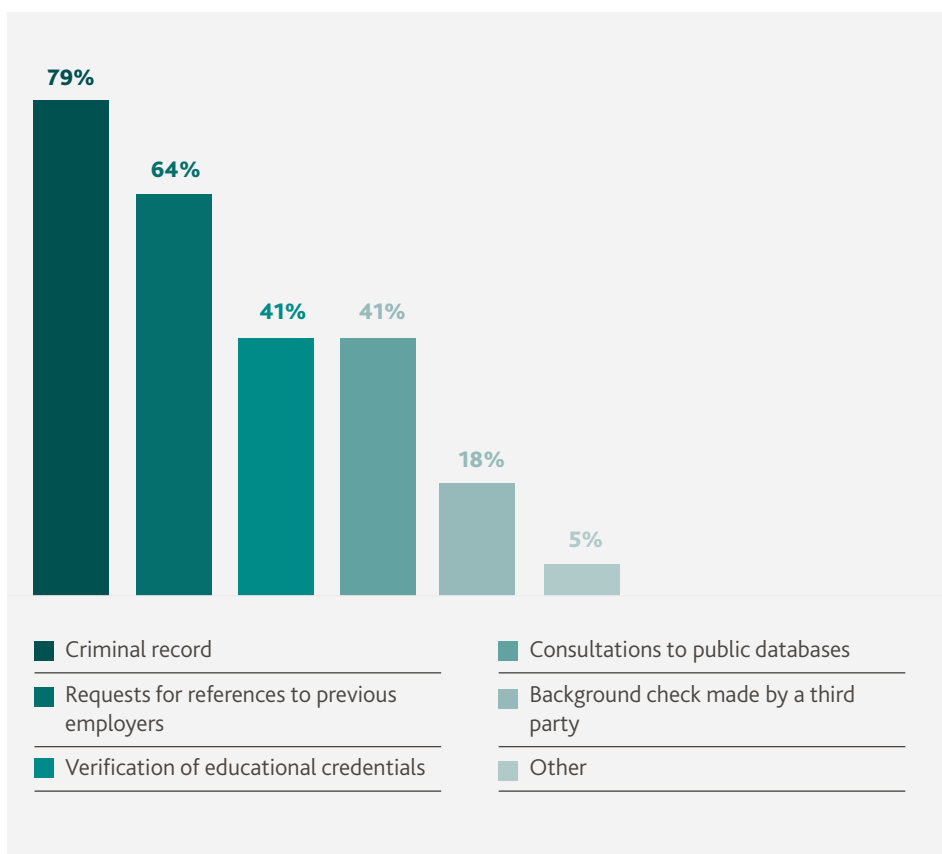
Types of controls

Anti-fraud and anti-corruption programs in Latin America must be updated to face the new challenges that are emerging from the strong focus on the fight against corruption, an increasingly important issue in the region. The presence of a robust system of anti-fraud controls can be a powerful deterrent, as well as a mechanism for prevention, detection, and response to Corporate Fraud.



Background Check

In 59% of the cases, reputational Due Diligence was not carried out on employees who were involved in fraud cases. In the cases in which they were performed, they were through the methods illustrated in the graph.



TYPICAL ELEMENTS OF ANTI-FRAUD AND ANTI-CORRUPTION PROGRAMS IN LATIN AMERICA

Learned lessons

1. Anti-fraud and anti-corruption programs are in their early stages of development in Latin America, with multinational companies having greater experience in these practices, than local companies.
2. Cultural transformation, to reinforce transparent businesses, is fundamental in order to maintain the sustainability of organizations.
3. The companies do not have an adequate understanding of the anti-corruption environment in Latin American countries, which puts the sustainability of the businesses at risk.
4. Third party and key personnel integrity due diligence is one of the biggest challenges for most organizations in the region.
5. The Fraud Reporting Hotlines must be significantly extended in the market, following the best international practices, in order to increase the number of cases detected.
6. In countries that already have anti-corruption regulations, including: Argentina, Brazil, Mexico, Colombia, Peru, and Chile; only 38% of organizations are aware of the impact generated by these standards in their companies.
7. 58% of Latin American companies believe that corporate fraud will be equal to or greater in 2019 than in 2018.



IMPLEMENTATION OF ANTI-CORRUPTION PROGRAMS AND FRAUD HOTLINES



50% of the organizations have reporting hotlines, but only 20% of the companies implemented them following the best international practices.



30% of the organizations implemented internal reporting hotlines that do not follow international practices, thereby creating difficulties in guaranteeing anonymity and confidentiality to whistleblowers.



62% of the companies that implemented ethical guidelines received less than 10 complaints on their telephone line during 2018.

DIRECTORS OF THE MAP OF CORPORATE FRAUD IN LATIN AMERICA



ROLF STERN
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Role in BDO

Rolf Stern is a member of the Global Leading Group of Forensic Practices; which is the BDO group that leads the forensic practice around the world and co-directs its center of excellence in Latin America and the Caribbean Region. Rolf

is a Partner and General Director of the BDO Ecuador Group that includes auditing, consulting, tax and outsourcing.

Relevant experience

Since the founding of BDO ECUADOR in 1973, Rolf Stern has been involved in business valuations, forensic litigation support, and has helped make decisions related to improvements in corporate performance, strategic planning, organization, financial management, internal controls and hundreds of reports for public and private companies, as well as NGOs.

For the past ten years, Rolf Stern has been deeply involved in more than a dozen cases of forensic litigation support, ranging from allegations of fraud, contractual disruption, bad faith, mergers and acquisitions, business interruption and evaluation and quantification of problems for financial and economic damages. Some of these cases include reports and expert witness testimony at the International Court of Arbitration of the Miami International Chamber of Commerce and the Mediation and Arbitration Center of the Chamber of Commerce of Quito. Rolf has worked closely with law firms in Ecuador and the United States of America.

Studies

Rolf is a Mechanical Engineer from the Lehigh University and a Master of Business Administration from The American University.



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Role in BDO

Fernando Peyretti is a member of the Global Leading Group of Forensic Practices; which is the BDO group that leads the forensic practice around the world and co-directs its center of excellence in Latin America and the Caribbean

Region. In addition, Fernando is a leader in the practice of Fraud, Investigations and Disputes of BDO Argentina.

Relevant experience

During the last five years, Fernando has been committed to the development of forensic practice in Argentina and Latin America; working actively in investigations of fraud, business interruption, Integrity Due Diligence for third parties, implementations of Compliance Programs and application of technology to strengthen the cultural change in companies. Since June 2016, Fernando has been appointed Director of the Corporate Fraud Management Committee of the Argentine Association of Ethics and Compliance, one of the most prestigious associations in Latin America. In the academic field, Fernando is a professor at the CEMA University and has several degrees in subjects of his specialty.

Studies

Fernando is a Public Accountant from the University of Buenos Aires (UBA); International Certificate in Ethics and Compliance - UCEMA, IFCA (International Federation of Compliance Associations) and AAEC (Argentine Association of Ethics and Compliance); Graduated from the Social Responsibility program "Amartya Sen" - scholarship from the UBA and Diploma in prevention of money laundering and financing of terrorism - UCEMA.

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Analytics applied to Corporate Fraud

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