

Fraud and Corruption Newsletter

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Welcome to this issue of the KPMG *Fraud and Corruption Newsletter*.

The Newsletter is an electronic bulletin providing its readers with an overview of mass media articles relating to the fight against bribery, corruption, and fraud in Russia, Ukraine, the CIS and CEE.

One of the articles reported in this issue highlights a recent construction industry study in Slovakia, which found that nearly one in five respondents believed that it was not possible to secure a public tender without paying a bribe.

Clearly, construction companies face big corruption risks. Many of the largest construction projects are publicly funded and – as any regular reader of this newsletter will know – it is unfortunately common for those with influence over the decision-making process to seek to sell that influence for financial gain. Even companies working purely for private sector clients are not immune from such pressures.

While the temptation may be strong to give in to the pressure and pay bribes to

win work, the short-term gain must be weighed against the potential long-term costs. Besides the obvious risks of fines or prison sentences for those involved, many countries have blacklisting mechanisms that preclude a company found to have been involved in bribery from applying for public contracts in future. For a company dependent on public contracts such a blacklisting could present an existential threat.

Simply having an anti-bribery policy in place is not sufficient to mitigate the risks. Such policies can only be effective when they're communicated clearly throughout the organisation and backed up by appropriate controls. The urge that a sales director may have to achieve the financial targets set, can override respect for compliance, especially if there is a perception that the likelihood of discovery is low.

I wish you pleasant reading.

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Russia

Head of Anti-Bribery Department jailed for accepting a bribe

The Head of the Anti-Bribery Department in a regional capital city has been jailed for accepting bribes. The official was shown to have accepted a payment in order to not take action against a director of a local orphanage. The director was not entitled to hold her position, as she lacked the necessary qualifications.

The orphanage director's situation came to light after a formal investigation. However, prosecutors say that the government official was willing to look the other way in exchange for a payment of RUB 400,000 (EUR 8,300), which was subsequently reduced to RUB 250,000 (EUR 5,200).

The government official was convicted on charges of accepting a bribe, while the orphanage director was found guilty of acting as an intermediary. Both individuals were sentenced to 7 years' imprisonment and were fined RUB 15 million (EUR 313,000).

Request to halt tender over allegations of bid rigging

A public organisation has filed a complaint with the Russian competition authorities regarding a tender for the construction of a medical facility. It is alleged that several government officials colluded to rig the tender by altering the technical requirements for equipment to favour a particular supplier and by grouping together unconnected work – such as construction, furnishings, and medical equipment – that it would have been more appropriate to split into separate lots.

The potential damage to the state budget is estimated at EUR 56 million.

Nanotechnology executives under investigation for large fraud

The CFO and a number of board members of Rusnano – a state-owned company dedicated to the development of nanotechnology – are being investigated for embezzlement.

It is alleged that the executives chose to needlessly outsource certain business services to third-party entities in which the board members had financial interests.

The damage to the state budget is estimated at approximately EUR 6.25 million.

Ukraine

Kiev bank employee embezzles over UAH 38 million from customer accounts

A Prosecutor's Office in Kiev has referred for prosecution a case involving an employee of one of the capital's banks, who has allegedly misappropriated more than UAH 38 million (around EUR 2.4 million).

An investigation revealed that over a six-year period the employee deposited funds onto dummy accounts. For each such transaction, the nominees of the dummy accounts received UAH 500 (around EUR 32), and then subsequently the funds were returned to the employee.

The case is currently under consideration by a court.

Embezzlement of state property: Ukraine General Prosecutor's Office opens criminal proceedings

The General Prosecutor's Office has opened criminal proceedings related to the embezzlement of state property by officials of the state enterprise Tavriyskoe. Potential losses could reach UAH 2.8 million (more than EUR 160,000).

The officials disposed of UAH 2.3 million worth of fixed assets without the permission of the Ukrainian Ministry for Agrarian Policy. In addition, an inventory reconciliation revealed a shortfall of UAH 0.5 million.

Abuse of power: General Prosecutor's Office begins proceedings against parliamentary group head

According to information from the General Prosecutor's Office, the head of a

parliamentary group, when a member of parliament, put pressure on the employees of a state-owned enterprise to make equipment purchases from two companies owned by his relatives.

Potential losses have been put at over UAH 100 million (EUR 6.2 million), due to the prices for the equipment being inflated by almost 250%.

Belarus

Corruption on the grapevine

The deputy general director of production, maintenance and procurement for a large wine producer has been charged with bribery.

The findings of an investigation indicate that this person accepted a bribe of USD 5,000 (EUR 3,700) for favourable decisions in tenders and extending existing contracts for freight forwarding and the supply of raw materials.

The defendant faces a potential sentence of up to 10 years' imprisonment and the forfeiture of property.

Banker arrested on theft charges

The former head of business banking for one of the major banks in Belarus has been arrested and charged with theft of EUR 300,000. The defendant allegedly misused his position within the bank to orchestrate a series of funds transfers without payment orders.

After cashing the funds the defendant went on the run. After nearly 4 years on an international wanted list, he was arrested by Russian police in February 2014 and extradited to Belarus.





Chickenfeed fraud causes losses of EUR 285,000

The former General Director of a chicken farm appointed a foreign company as the sole provider of feed and feed additives to the farm. Feed was purchased at inflated prices for several years, resulting in financial losses to the farm of approximately EUR 285,000.

Suspicious arose when the former General Director built a luxury cottage in the countryside and purchased a number of other high value items. He has been arrested and charged with abuse of power.

Czech Republic

Tender manipulation at a Prague hospital

The anti-corruption police have arrested four individuals on charges of manipulating a tender for digitising historical medical records. A former hospital director, his deputy and two former representatives are among the accused.

It is alleged that the accused rejected a number of tender proposals and awarded the tender to a firm in which they had financial interests. The losses to the hospital are estimated at approximately CZK 50 million (EUR 1.8 million).

Fuel tax fraud caught by 'Kobra'

The Kobra financial crime unit has prevented tax fraud by a fuel company in the Czech Republic. The potential loss to the state is estimated as EUR 23.5 million.

The company imported large volumes of fuel into the Czech Republic without declaring or paying taxes. Furthermore, the company charged VAT to their customers, but did not declare it and used the additional 'income' to import more fuel. The two managers of the company had previous convictions for tax fraud.

The company owes EUR 108,000 on taxes due to the state. If the company has the funds to pay the taxes due, the individuals will not be prosecuted and will be allowed to continue with their operations.

Development in solar fraud case

As part of an ongoing investigation into the renewable energy sector, Czech police have arrested four individuals for falsification of documentation which brought forward the date when construction of a solar power plant was apparently completed.

The falsification was motivated by an expiring subsidy: plants entering into operation before 2010 received a significantly higher guaranteed purchase price for electricity than those completed after 2010. The owners of the solar power plant allegedly gained EUR 7. 2 million as a result of the misrepresentation.

The owners of the power plant, the owner of the construction company and the building inspector all face charges of up to 10 years' imprisonment.

Hungary

Beach photos land "conference attendees" in hot water

Photos posted on social networking sites of city officials and executives from city-owned companies sunbathing, fishing and sipping cocktails on the beaches of Florida while supposedly attending an energy conference there are likely to lead to an investigation for misappropriation of assets.

In addition to the incriminating photos – which were posted by the relevant officials themselves – it has come to light that other conference participants were not aware that a Hungarian delegation was even attending the conference.

Poland

Supreme Audit Office publishes report into wind power irregularities

The Polish Supreme Audit Office (NIK) has issued a report into the circumstances surrounding the establishment of wind farms in Poland during the period 2009-2013, highlighting various irregularities and shortcomings.

Among other findings, NIK's report indicates that the way in which wind farms were given planning approval by local authorities often lacked transparency and were tainted by conflicts of interest and corruption. It found that planning decisions were sometimes swayed by donations from developers to the local authority, or that land plots used for wind farms were connected to those with influence over the decision-making process.

Bitcoin enjoys attention from Polish regulators

The General Inspector of Financial Information has launched Poland's first proceedings concerning money laundering using the virtual currency 'Bitcoin'.

The Polish Financial Supervision Authority strongly discourages Bitcoin transactions. However, this has not prevented the installation of the country's first ATM which 'dispenses' Bitcoins. By the end of this year, it is estimated that there will be over 30 such ATMs in Warsaw.

Bitcoin can already be used in Poland to pay for a range of goods and services. Taxi rides, takeaway pizza, medical services, furniture and holidays can all be purchased using Bitcoin through certain operators.

Romania

Public official charged with tax evasion and money laundering

The former president of the National Agency of Fiscal Administration (ANAF) and a number of accomplices have been sent to trial for tax evasion and money laundering.

According to prosecutors, the suspects sold approximately 90,000 tonnes of diesel fuel, disguised as other oil products during 2011 to 2012. The activities were allegedly supported by the former president, his ex-chief of cabinet and five others.

The damage to the state budget is estimated as RON 242 million (EUR 56 million). Prosecutors obtained seizure orders on real estate and other assets owned by the defendants.

Mayor to be tried for accepting bribes

A city mayor has been sent to trial on five charges of bribery. The bribes, which were allegedly given between 2008 and 2011, are estimated at approximately RON 2.3 million (EUR 523,000).

According to prosecutors, the bribes were requested by the mayor from various companies. They were allegedly provided

in exchange for the mayor guaranteeing the outcomes of tenders and for issuing various certificates and permits.

The bribes were concealed through several commercial contracts with shell companies and sports associations.

A seizure order was issued for real estate and properties owned by the mayor.

County Council President charged with abuse of office and conflicts of interest

Prosecutors have charged the President of Braila County Council with abuse of office and conflicts of interests.

It is alleged that in 2009 and 2010, the President and two other individuals breached their legal duties by conspiring to rig tenders under their control to ensure they were always awarded to one of three favoured companies. In cases where other companies entered bids, one of the three firms would offer an abnormally low price, or the qualification conditions were set such that the three firms were the only ones to meet the criteria.

It was later found that the suspects had interests in one of the three favoured construction companies. The damage to the public purse is estimated at approximately EUR 700,000.

Former MP and media magnate sentenced to 10 years' imprisonment

The Bucharest Court of Appeal sentenced a former MP and businessman to 10 years' imprisonment in a case involving the privatisation of the Food Research Institute (ICA). The ruling cannot be appealed.

The prosecutors proved that the privatisation process was fraudulent, due to the undervaluing of the Institute's real estate property by over EUR 7.7 million. According to prosecutors, the total loss to the state amounts to over EUR 60 million.

Serbia

Arrests at Belgrade Land Development Public Agency

The police arrested senior officials at the Belgrade Land Development Public Agency on suspicion that they were involved in the rigging of a tender for the construction of a sewage tunnel near Belgrade back in 2006.

One of those arrested – chairman of the Tender Commission for the Agency – turned down the best offer under the tender calculation criteria, eventually accepting an offer that allegedly caused a loss to the State of EUR 12 million.



Multiple arrests in fertiliser trading corruption case

Several prominent businessmen have been arrested on suspicion of irregularities in fertiliser trading. The arrests are part of an ongoing investigation into 24 controversial privatisations by the Prosecutor's Office for Organised Crime.

The businessmen arrested bought large quantities of fertiliser from the plant at heavily state-subsidised prices only available to individual farmers. Furthermore, they provided no payment security, as would be the usual practice. The businessmen subsequently sold the fertiliser on for a large profit. They failed to repay the plant, resulting in losses of EUR 7 million to the plant and EUR 500,000 to the Tax Authorities.

Among those previously detained for questioning are a former Minister of Agriculture and former managers of the fertiliser plant.

Director of Transport Company arrested

The former Director of a state-owned transport company and five co-conspirators have been arrested on suspicion that they abused their official positions.

It is alleged that the company rented office space and bought office supplies at prices several times higher than market prices. The activity is believed to have started in 2007. The damage to the state budget is estimated at EUR 1.12 million.

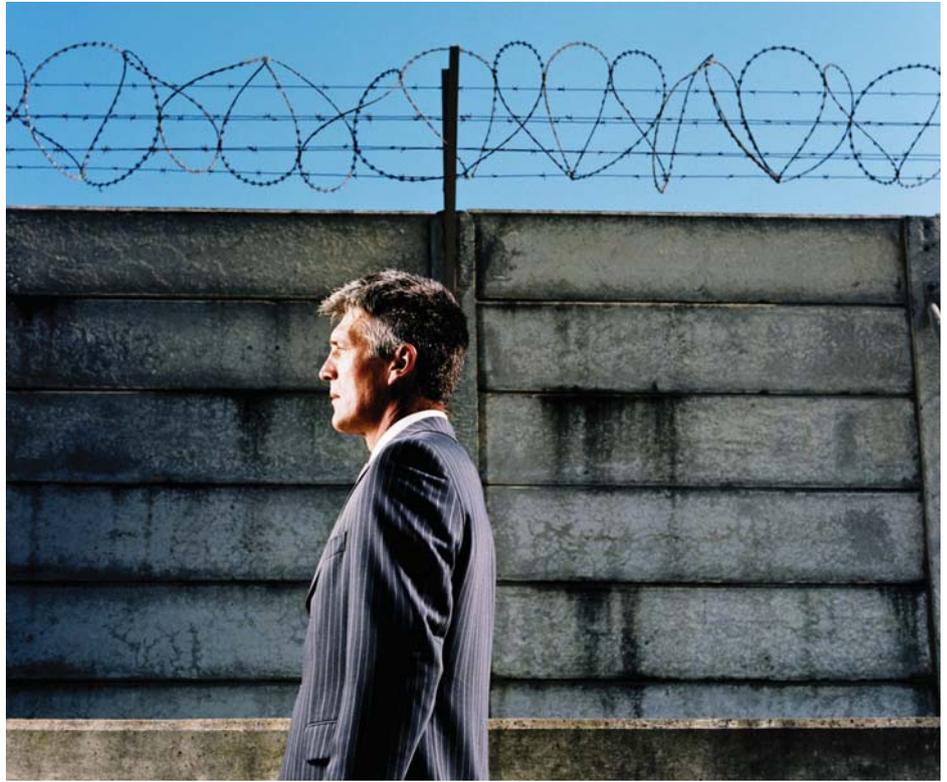
Slovakia

Public tenders and paying bribes goes hand-in-hand

According to a recent survey by CEEC Research, 18% of respondents from Slovak construction companies indicated that they believe that it is not possible to secure a public tender without paying a bribe: a 3% increase over last year.

A further 19% of respondents believe that corruption occurs in public tenders for construction, but are not completely confident about it.

The number of respondents who declined to comment on corruption grew to 23%, up from just 10% in 2013. "Those who do not want to comment probably have some experience with corruption", noted Gabriel Šipoš from the anti-corruption watchdog Transparency International Slovakia.



The fight against corruption continues

Two high-profile businessmen have launched a website – "Stop Corruption" (www.zastavmekorupciu.sk) – where individuals can safely report suspicions of corruption, fraud and the misuse of public money.

The main aim of the initiative is to limit corruption in the handling of public finances, as it is estimated that corruption costs Slovak taxpayers billions of euros per year. Along with the new website, they have also initiated the "Stop Corruption Foundation", which aims to support and protect whistleblowers.

Cabinet approves measures to protect whistleblowers

The Slovak Cabinet approved the Interior Ministry's proposal to protect whistleblowers and others who report illegal activities to the authorities.

The measures – intended to bring Slovakia into line with OECD recommendations – provide legal assistance and financial rewards for those blowing the whistle on corruption and other illegal activities. The Act requires state institutions and companies with more than 50 employees to create an internal whistleblower mechanism.

The new Act should take effect from 1 January 2015.

Transparency International: 'Corruption in Slovakia going unpunished'

According to a recent study by Transparency International Slovakia, corruption in Slovakia goes almost unpunished. The NGO found that courts punish bribery amounting to an average of EUR 120,000 each year, although the estimated value of bribes paid in the country is one thousand times higher, says a spokesman.

The study looked at the outcomes of corruption cases heard by the Specialised Criminal Court over the past 2 years: 239 rulings in total. The results reveal that approximately 50% of the punished corruption cases related to small bribes of up to EUR 20. Furthermore, only 25% of the reviewed cases were tried in open court, with the rest being settled by court order or admission of guilt. The study also found that state officials are acquitted more often than ordinary citizens.