

Business Processes: Safety and Reputation



In April, the Eurasia Business Forum was held in Kazakhstan. As its strategic partner, Deloitte presented current data on market loss due to fraud and inefficient management and suggested instruments to prevent them.

While presenting the subject «Business Losses Due to Internal and External Fraud», Alexandr Sokolov, Head of the Financial Investigation Group, Deloitte CIS, reported that according to official data from the Kazakh financial police, total damage from the economic crimes in the country had increased by more than 50% in 2013 (\$1.7 billion compared to \$0.9 billion in 2012).

According to Deloitte estimates, the construction industry remains one of the most vulnerable (losses reach up to 50% due to kickbacks and stealing) as well as the sales sector (from 5 to 20%). According to Sokolov's experience, efficiency of

investment in fraud prevention is 1 to 10, i.e. one dollar invested may save \$100.

The expert told the participants about anti-fraud systems, which allow analyzing, preventing and detecting fraud in business processes. Advanced technologies and social networks can be used as preventive measures in order to detect affiliated persons and build a social profile of an employee. In order to detect fraud on later stages, the Forensic method can be used to collect data on economic crimes. This service is new for the Kazakh market; however, it is of current interest in the context of active construction of large facilities.

Oleg Shvyrkov, Corporate Governance Director, held a master class on Profile of Corporate Governance Practices in Russian and Kazakh Companies. He noted that considering the fact that long-term equity capital deficit in emerging markets had exceeded \$8 trillion in 2011 (McKinsey Global Institute, 2011),

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system improvements of standards in corporate management were required to increase the appeal of investment in shares and increase the capacity of the global financial markets.

According to Shvyrkov's estimates, there is an obvious lack of procedures for both independent and internal assessment of the board of directors (more than 45% of companies in Kazakhstan and 50% in Russia, respectively, do not perform any assessment procedures at all) in dynamics of the procedures for the board of directors in Russian and Kazakh companies. We can also observe a lack of mentoring events and trainings. Though in this case, Kazakh companies demonstrated better results – more than 60% hold welcome trainings using their own resources while in Russia such number is just 23%.

According to results of the surveys performed by Deloitte in 2012 jointly with National Association of Corporate Secretaries, Corporate Secretaries Council of SWF Samruk-Kazyna and

Corporate Secretaries Club of Kazakhstan, the best efficient instrument to improve the corporate management standards is external independent assessment, and rating making. It is interesting that according to majority opinion (68.3%), a key initiator of such events is a corporate secretary. Among reasons for corporate management improvement, the most efficient were as follows: sustaining a positive business image and business reputation of the company (59% of respondents); aiming of major shareholders at improvement of management efficiency (42.6%) and compliance with the legislation (31.1%). Among the least efficient reasons there was a pressure from minority shareholders (1.6%).

Shvyrkov also noted a need in severization of government requirements for state companies in Kazakhstan: initiative of state holdings and role of market-based incentives, including improvement of standards for stock market governance of corporate management.