

The poll: Global Fraud Survey

FRAUD AND CORRUPTION IN BUSINESS ARE NOT GOING AWAY. THAT'S THE MAIN FINDING OF EY'S LATEST *GLOBAL FRAUD SURVEY*, WHICH EXPLORES THE IMPACT OF ENFORCEMENT EFFORTS AND ASKS HOW COMPLIANCE CAN BE MADE MORE EFFECTIVE.

Increased regulation and enforcement, along with the adoption of new technology, are changing the risk landscape that organizations must face. Respondents to the 15th *EY Global Fraud Survey* (including interviews with 2,550 senior executives from 55 countries) see fraud and corruption as one of the greatest risks to their business, and the results suggest that unethical conduct remains a continuing problem.

38%

of respondents stated that bribery/corrupt practices occur widely in business in their country.

FRAUD AND CORRUPTION PERSIST

The survey found that, although there have been improvements in certain countries, fraud and corruption have not reduced globally since the equivalent survey in 2012. More than 1 in 10 respondents are aware of a significant fraud in their company in the past two years, and this figure is higher still in the Middle East, Japan and Latin America.

Fraud – a persistent global issue

11%
Global



14%
Latin America



16%
Middle East



16%
Japan



of companies have experienced a significant fraud in the last two years

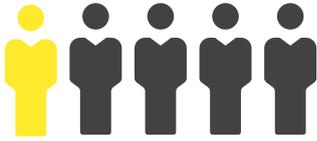
Q: Has your company experienced a significant fraud in the last two years?

Base: 15th Global Fraud Survey (2,550 respondents); Latin America (300), Middle East (50), Japan (50)

The percentage of respondents who would justify fraud to meet financial targets has increased on a global level since 2016; 12% would justify extending the monthly reporting period, 7% would backdate a contract and 7% would book revenues earlier than they should to meet financial targets.

Younger respondents are more likely to justify fraud or corruption to meet financial targets or help a business to survive an economic downturn; one in five respondents under 35 justified cash payments, compared with one in eight of those over 35. With increased pressure for individuals and businesses to succeed, the problems of fraud and corruption do not appear likely to disappear any time soon.

Younger generations: pressure to act unethically?



1 in 5

respondents under 35 years of age justify cash payments



1 in 8

respondents over 35 years of age justify cash payments

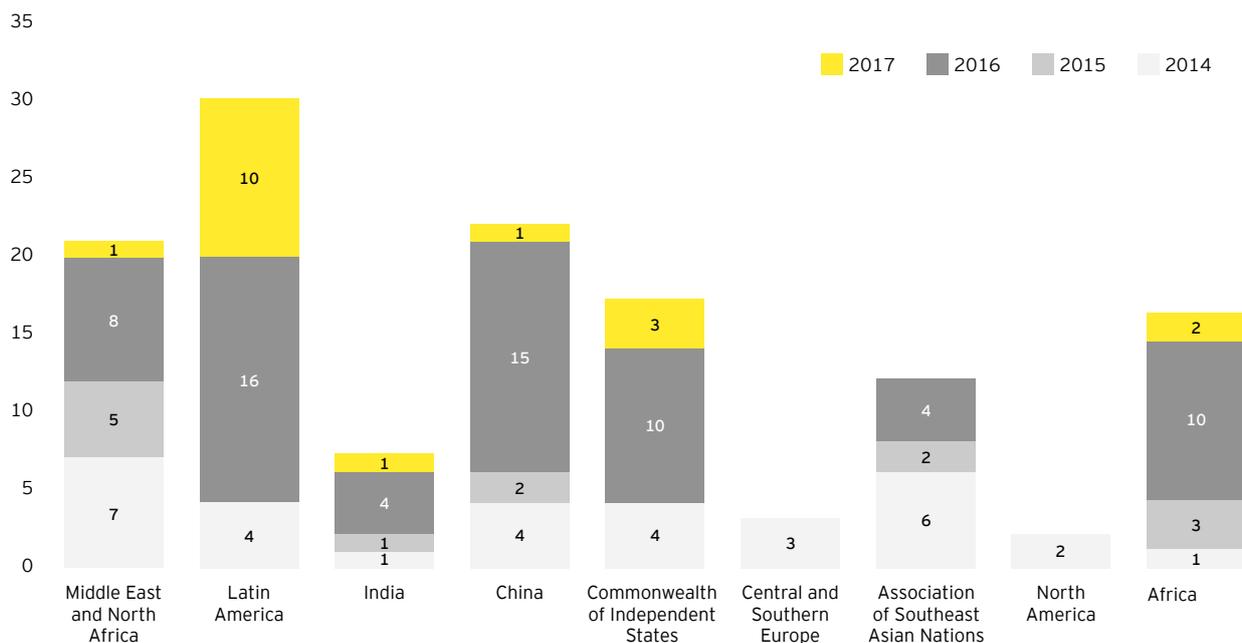
Q: Which of the following can be justified if they help a business survive an economic downturn?
 Base: 15th Global Fraud Survey (2,550 respondents); under 35 (328), 35 and over (2,222)

THE IMPACT OF ENFORCEMENT

Recent years have seen an unprecedented level of fines from governments; more than US\$11b of financial penalties have been imposed globally since 2012 by US- and UK-based authorities. Increasing numbers of governments across the world are introducing and enforcing criminal corporate liability laws.

Analysis of the number of Foreign Corrupt Practices Act (FCPA) enforcements over the past four years (see graph below) shows a changing focus on countries in which corrupt payments are alleged to have been made. Over the four-year period, 30 of the 130 enforcement actions related to Latin America. In 2016, China featured more prominently, with 15 enforcement actions – just one fewer than Latin America.

FCPA enforcement actions by region



Source: "Foreign Corrupt Practices Act," The United States Department of Justice website, www.justice.gov/criminal-fraud/related-enforcement-actions, accessed April 2018.
 The U.S. Securities and Exchange Commission website, <https://www.sec.gov/litigation.shtml>, accessed April 2018.

However, the survey results show that occurrences of fraud and corruption have not reduced. This may be because there is a lag between the introduction of anti-corruption laws and a response from management. The initial reaction of many organizations to the introduction of laws is for compliance functions to draft high-level policies or deliver training. Unfortunately, for some companies, regulation is not enough; it is not until governments start enforcing laws and publicizing fines and penalties that management takes legislation seriously and introduces real change. Because of this publicity, survey respondents might perceive corruption in their country to be more widespread than before – hence the lag seen in the survey results.

ANNOUNCED INTENTIONS VS. PERFORMANCE

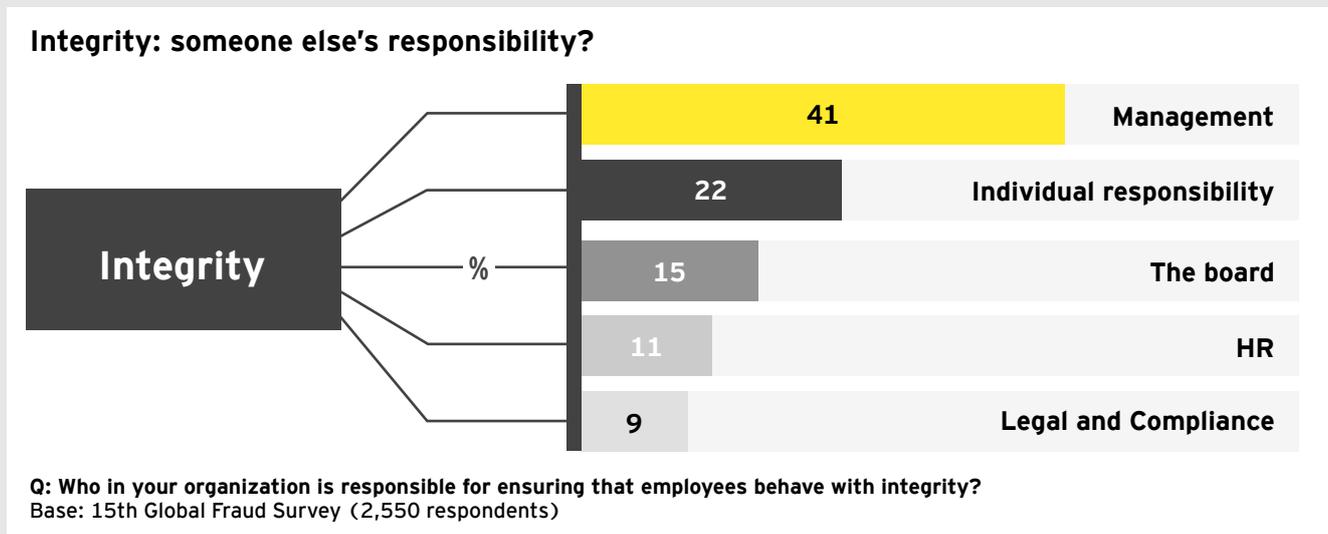
In the majority of cases, the survey suggests that management has introduced anti-corruption policies, whistleblowing hotlines and codes of conduct; moreover, 93% of respondents stated that senior leaders demonstrate a commitment to compliance and 95% stated that those leaders set an example of good ethical behavior.

However, there is not a corresponding decrease in unethical conduct and business failures. Organizations should focus their efforts on improving the effectiveness of these programs by increasing awareness, monitoring compliance and building a culture of integrity.

97% of respondents recognize that it is important that their organization operates with integrity.

The respondents believe that the benefits of acting with integrity include improved customer and public perception (named by 72% and 62% respectively) and successful business performance (59%), while the cost of noncompliance with laws continues to increase. So why do we still see unethical conduct?

One reason may be that it is not clear who within an organization is responsible for integrity. Fewer than one in four respondents believe it is primarily an individual's responsibility (see graphic, below), and the report suggests that business leaders should focus on instilling the concept of employees taking individual responsibility for the integrity of their own actions.



THE FUTURE OF COMPLIANCE

For some companies, the role of compliance has largely been reactive, working as the second line of defense to monitor and enforce relevant policies. In others, the role has also included managing legal and compliance risks without necessarily embedding compliance into the business.

With the introduction of digital compliance tools such as predictive analytics and real-time risk alerts, forensic data analytics can significantly improve the effectiveness and efficiency of monitoring and reporting, strengthening this second line of defense.

But the report concludes that compliance has a role in the first line of defense, too, working with the business by sharing insight from data analytics and promoting the integrity agenda. The Chief Compliance Officer role should be seen as a fully fledged management role, responsible for proactively safeguarding the organization's reputation, not just helping it to comply with laws and regulations.

For a copy of the full report, *Integrity in the spotlight: The future of compliance*, please go to ey.com/fraudsurveys/global.

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