# 12th Global Fraud Survey

## Growing Beyond: a place for integrity: *Ernst & Young 2013*

### Priorities for boards - balancing growth and ethical conduct

Hard-pressed company bosses across much of the world are under so much pressure to deliver on growth that many have resorted to cooking the books, Ernst & Young says in its latest Fraud Survey published on Tuesday.
One in five of almost 3,500 staff quizzed in 36 countries in Europe, the Middle East, Africa and India said they had seen financial manipulation in their companies in the last 12 months, the accounting and consultancy firm said. In addition 42 percent of board directors and top managers surveyed said they were aware of "some type of irregular financial reporting".

Even allowing for a recent slowdown, the Indian economy continues to grow faster than many other G20 countries.

However, with Indian GDP growth rates below the trend of the last decade, pressure on companies to meet expectations is rising, increasing in turn, the risk of fraud, bribery and corruption. 70% of India respondents to our survey think that bribery and corruption are widespread in the country.

Although India continues to be a favored destination for foreign investment, with 71% of respondents to our 2012 India Attractiveness Survey keen to invest in the country, growth opportunities are constrained by regulation and bureaucracy.

A recent report from the World Bank ranked India 132nd out of 183 economies for ease of doing business, and as low as 181st for dealing with construction permits and 182nd for enforcing contracts. Similarly, the World Economic Forum Global Competitiveness Report for 2011–2012 ranked India 96th of 142 economies for burden of government regulation.

The combination of a market with significant investment potential and a high level of bureaucracy has resulted in many seeking to bypass, accelerate or influence decisions. Media coverage from India has featured a series of corruption scandals over recent years, including a number involving national and state government representatives.

Coverage intensified in 2011 following high-profile protests over the pervasiveness of corruption in the country. Given the extensive media coverage, it is not surprising that fraud, bribery and corruption are seen as significant risks in India. This is shown by the fact that 70% of India respondents to our survey think that bribery and corruption are widespread in the country and 72% believe that management is likely to cut corners to meet targets.

These findings are consistent with the decline in the ranking of India on the Transparency International Corruption Perceptions Index (down from 3.5 to 3.1 and from 72nd to 95th place in the rankings between 2007 and 2011).

With fraud, bribery and corruption risk so high on the domestic and international agenda, it is essential that companies with a presence in India actively address these risks.

Record levels of fines, penalties and profit disgorgements secured by the US DoJ and SEC in the past year certainly raise the perceived and actual cost of non-compliance.

Companies and their boards must weigh the upside and downside risks associated with varying degrees of compliance enforcement within their organizations.

Organizations need to make concerted, risk-focused efforts that target areas of potential exposure, and management needs to lead by example.
Moving into new markets, into rapid-growth markets, brings additional risk.

The survey findings show that boards and audit committees continue to face significant challenges in tackling the risks of fraud, bribery and corruption in their businesses. Many companies are failing to do enough. Meanwhile, boards struggle to effectively absorb the large volume of compliance information they are presented with.

## How can boards and those tasked with compliance respond to these challenges?

- First, they must ensure effective lines of communication with a broad range of roles within the business. This will enable the board to question the information that they are given.
- Second, improvements can be made to focus compliance reporting to the board.
- Third, boards must make sure that they are asking the right questions. These could include:
- Does management at headquarter level understand local risks and have strategies been developed to deal with these specific risks?
- Can management demonstrate the contemporaneous effectiveness of its anti-corruption compliance efforts to its stakeholders?
- Does the company know how many third parties and agents represent it, particularly in dealing with those that could be considered "government officials"?
- Is management making the best use of the latest forensic data analytics techniques to monitor compliance in real time?
- Assuming that contracts with third parties normally contain audit rights, how many times has the company conducted an audit principally to gain comfort around bribery and corruption risk?

- Does the company have clear criteria to guide it with respect to how extensive pre- or post-acquisition anti-corruption due diligence should be, or whether to conduct it at all?

Growing beyond, therefore, requires a nuanced view of individual markets and cultural norms balanced against the statutory language of a proliferating number of ABAC laws.

Indeed, changes to a company's culture to mitigate the risks of fraud, bribery and corruption cannot be made overnight. Organizations need to make concerted, risk-focused efforts that target areas of potential exposure, and management needs to lead by example.

Only then will companies be able to properly balance the priorities of growth and ethical business conduct while seizing opportunities in these highly adverse economic conditions.