Driving Ethical Growth: New Markets, New Challenges

11th Global Fraud Survey

Ernst & Young

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Executive Summary (Taken directly from the survey):

The 11th Global Fraud Survey has challenged those responsible for leading the response to corporate fraud and corruption to look back over two of the most difficult years in the economic cycle in living memory. The feedback has been both candid and revealing in an area of business risk that is always more sensitive to economic decline. Once again, the global reach of this survey provides a unique insight into how different economic regions compare. Moreover, the decision to target CFOs and heads of legal, internal audit and compliance functions has provided fresh insight into the challenges faced by executives in these pivotal roles.

While these findings specifically relate to the private sector, our experience suggests that they are also relevant to the public sector and non-governmental organizations, both of which encounter many of the same fraud and corruption issues.

• Proactive measures to manage the risk of fraud were also not universally contemplated:
  • One in seven of those interviewed have never conducted a formal fraud risk assessment.
  • Despite the massive organizational changes that tend to follow financial slowdowns, which often themselves create unique and unforeseen fraud risks, just over a quarter of respondents admitted to not having updated their fraud risk assessment in the past year.
  • Measures to mitigate corruption and bribery exposure are still not standard practice for companies, including those looking to drive growth through acquisitions.
  • More than half of respondents will be looking for opportunities for growth in the next 12 months, particularly those in Latin America and the Far East, regions that are perceived to pose ethical challenges.
  • However, two in five of our respondents rarely perform fraud or corruption due-diligence, despite the inherent risk that could lead to enforcement action and potential successor liability.

The experiences of the key stakeholders in the fight against corporate fraud raise a unique set of issues. The following important findings were provided by our respondents:

• CFOs report that board members are now concerned about their personal liability but that they are not sufficiently informed to manage their company’s fraud and corruption risks.
• More than three-quarters of CFOs interviewed report that their boards are concerned about personal liability.
• Half of the CFOs interviewed think their boards need a better understanding of the business to effectively manage fraud and corruption risks.
• Only 4 out of 10 of our CFOs have been asked by the board to perform a review of anti-fraud and corruption controls in the last 12 months.
A substantial number of respondents reported suffering a significant fraud in the past two years. As most forecasters anticipated, this confirms there has been a small but noticeable increase during the recent economic turmoil. Respondents in Western Europe note a striking rise — twice as many respondents as before suffered a significant fraud. Despite the increased incidents of fraud, corporate entities’ responses to fraud allegations appear to be ad hoc and inconsistent:

While more than 60% of respondents in North America demonstrate what might be considered leading practice, having adopted well-defined reporting and investigatory policies, other parts of the world demonstrate a marked lag. Worryingly, 14% of those interviewed in Central and Eastern Europe admit to not being aware of any documented response plan.

More than half of all respondents outside of North America do not have a documented response plan involving parts of the business with investigative skills. It is our experience that this will seriously undermine the success of investigations into fraud and corruption.

Legal departments are under mounting budgetary pressure and are concerned about the level of regulatory scrutiny they face, especially given the increasingly international nature of the businesses they serve:

- 38% of legal respondents said they are worried that their function is a target for regulators and law enforcement.
- 48% of chief legal officers interviewed see competition law as a significant legal risk in mergers and acquisitions (M&A).
- Less than a quarter believe they are very well-prepared for cross-border litigation, intellectual property theft and data privacy laws.
- 21% of the chief legal officers interviewed report that their budgets fell last year, and a third state that they are looking to cut legal costs further.
- Compliance is a new function in many companies, and there seems to be a significant gap in the levels of adherence to internal compliance policies between the different regional units of international businesses.
- 53% of compliance officers interviewed have been in a compliance role for fewer than five years.
- Even in North America, which has a relatively mature compliance regime, 75% of our dents said they struggled to demonstrate the value their function brought to the wider organization.
- The majority of European and American respondents are apparently very confident in the level of adherence to internal compliance policies, but this contrasted sharply with the opinions of respondents from the rest of the world, where the majority thought adherence varied widely by geography and business unit.
- Internal auditors are also under increasing budget pressure and have less confidence in their ability to counter fraud than the other functions interviewed.
• Consistent with previous global fraud surveys, internal auditors are still seen as the first line of defense against fraud by 65% of our respondents.

• Almost a third of respondents from other functions have confidence in internal audit’s ability to identify fraud versus less than one in five of the internal auditors interviewed.

• Internal audit has significantly reduced in-person visits to key markets, despite 80% of internal auditors telling us that these formed a very important part of the fraud risk management process.

Despite confidence that companies readied themselves against the threat of fraud during the benign economic years of the prior decade, several high-profile cases have exposed significant shortcomings. In addition, management is starting to realize that fraud is an ongoing issue and cannot be resolved by any “quick fixes.”

As the world comes to terms with the changes resulting from the past economic slowdown, our respondents have revealed that their employers are well aware of the threat of fraud and corruption but are still not managing the attendant risks effectively. More work needs to be done, and we hope the findings in this survey provide useful insights to those charged with taking up this challenge.

Full Report