Integrity in the spotlight

The future of compliance

15th Global Fraud Survey

Building a better working world

Contents

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Foreword

As the new global leader of EY's Fraud Investigation & Dispute Services practice, I am delighted to share EY's 15th Global Fraud Survey. It contains insights from business leaders on the risks and challenges organizations face in fighting fraud and corruption in an era of significant technological advance. The survey also discusses how companies are addressing these risks through enhanced technologies and increased compliance efforts.

Between October 2017 and February 2018, we interviewed 2,550 executives from 55 countries and territories. The interviews show that fraud and corruption in business is not going away. We used the results to understand whether existing fraud prevention efforts by management and increased government enforcement are effective enough to fight fraud and corruption.

Organizations increasingly use digital technology to change the way they do business, which is heightening their exposure to fraud, corruption and other risks. In the era of changing technology, anti-corruption enforcement by agencies such as the Department of Justice (DoJ) and the Securities and Exchange Commission (SEC) in the US, the Serious Fraud Office in the UK, and prosecutors in countries including Brazil, Netherlands and France continues to accelerate. In this report, we consider the impact that recent enforcement has had on the prevalence of corruption and whether companies' compliance efforts are keeping up.

We found that many businesses have reached a certain level of maturity in their compliance programs, with the vast majority of executives interviewed aware of anti-corruption policies, procedures and intent from management. However, we see a mismatch between this awareness and employee behavior — and we continue to see ethical failures, business losses and consequent reputational damage.

So why integrity and why now?

The survey results suggest that the benefits of demonstrating organizational integrity go beyond the avoidance of penalties and can actually improve business performance. This makes sense: doing the wrong thing is a lost opportunity to do the right thing.

Finally, we explore the future of the compliance function. Advances in technology, particularly in artificial intelligence, machine learning and automation, can be used to transform legal and compliance functions. What is the new role of the compliance officer when monitoring is performed by data analytics and real time training is delivered by artificially intelligent robots?

> Do the right thing because it's the right thing to do and not just because the code of conduct says you should

What lessons have we learned for data protection compliance?

Increased global connectivity means that anyone with access to company data, anywhere in the world, can exploit weaknesses in data security. Companies' critical digital and physical assets are therefore at greater risk of theft, damage and manipulation by insiders than ever before.

Our survey was conducted against a backdrop of controversy regarding customer data breaches and the forthcoming implementation of the EU General Data Protection Regulation. The survey results suggest a significant gap in awareness of GDPR for countries both inside and outside of the EU. To ensure effective compliance with GDPR, business will need to consider the required organizational changes and not just the introduction of more "paper policies".

It will be interesting to see if companies with a reputation for integrity give more confidence to consumers and therefore make their customers less likely to request deletion of their personal data.

This report is intended to raise challenging questions for boards. It will, we hope, drive better conversations around fraud, corruption and integrity more broadly. We thank all those who participated in our survey for their contributions and insights.

We invite you to see our website, ey.com/fraudsurveys/global, which provides additional country — and industry-specific information based on responses to key survey questions.

Andrew Gordon
Global Leader
Fraud Investigation & Dispute Services

Executive summary

Changing regulation, increased enforcement and the adoption of new technologies are changing the risk landscapes that organizations must face. Our survey respondents see fraud and corruption among the greatest risks to their business and our results show there remains a significant level of unethical conduct.

No reduction in fraud and corruption

Our survey found that although there were some improvements in certain countries, fraud and corruption have not declined globally in the last two years. Although fraud and corruption remain more prevalent in emerging markets a significant minority of respondents reported widespread corruption in developed markets.

11% of companies have experienced a significant fraud in the last two years

11% of respondents stated it is common practice to use bribery to win contracts in their sector

38% of respondents stated bribery/corrupt practices occur widely in business in their country

13% of respondents would justify cash payments to win/retain business when helping a business survive an economic downturn

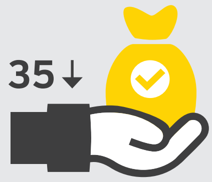
Base: 15th Global Fraud Survey (2,550)
Applies (%)

It appears that our younger respondents are more likely to justify fraud or corruption to meet financial targets or help a business survive an economic downturn. With increased pressure for individuals and businesses to succeed, the problems of fraud and corruption do not appear to be going away.

Justifying fraud and corruption

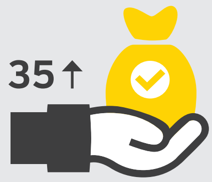
1 in 5

respondents aged under 35 justify cash payments



1 in 8

respondents aged 35 and over 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);
Under 35s (328), 35 and over (2,222)

The impact of enforcement

The last two years have seen an unprecedented level of fines from governments, with dramatically increased penalties being imposed by Brazil, the Netherlands, the UK and Switzerland, among others. We continue to see more governments across the world introducing and enforcing anti-corruption laws. However, our global results show that occurrences of fraud and corruption have not reduced since 2014. From our experience there is often a lag between the introduction of laws and real change being made by organizations.

Announced intentions vs. performance

The majority of respondents stated that management has introduced anti-corruption policies, whistleblowing hotlines and statements of ethics. However, we do not see a corresponding decrease in unethical conduct and business failures. Organizations should focus their efforts on improving the effectiveness of these programs by assessing the corporate culture, controls and governance from an integrity perspective, leveraging new technologies to provide better data insights.

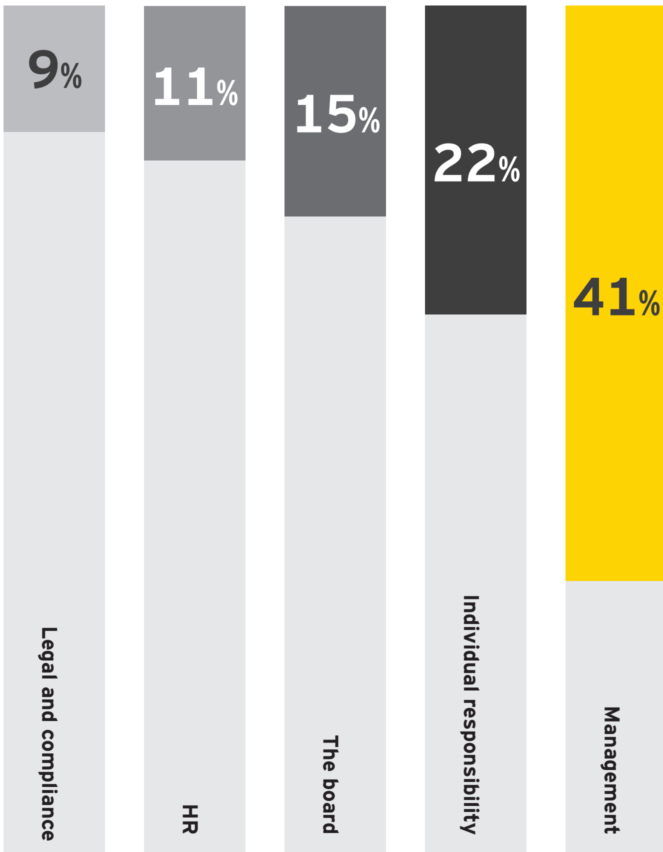
Operating with integrity

97%

of respondents recognize it is important to demonstrate that their organization operates with integrity

Q. How important do you think it is to be able to demonstrate that your organization operates with integrity?
Base: 15th Global Fraud Survey (2,550)

Employee integrity: Who is responsible?



Q. Who in your organization is responsible for ensuring that employees behave with integrity?
Base: 15th Global Fraud Survey (2,550)

It is our respondents' perception that the benefits of acting with integrity include improved customer and public perception and successful business performance, while the cost of non-compliance 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 of our respondents believe it is primarily an individual's responsibility. Businesses should set a clear expectation of their employees and third parties as to their responsibility for integrity.

The future of compliance

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

Compliance has a role in the first line of defense. It is important that compliance professionals embed themselves within the operational and strategic parts of business, sharing insight and promoting a culture of integrity.

1

The outlook for fraud and corruption

The digital disruption of business and increased data privacy legislation is increasing fraud, corruption and compliance risks.

The transformation of business models due to the rapid evolution of digital technology is making the landscape of fraud, bribery and corruption risk ever more complex.

We are in an era of digital transformation that continues to challenge how all aspects of business are conducted – and the implications for the legal, compliance and internal audit functions are significant.

Ninety-one percent of our survey respondents stated that their organization will be using advanced technology, such as digital payments, "Internet of Things" (IoT), robotics and artificial intelligence, regularly within the next two years. Organizations, of course, are embracing these technologies with differing levels of enthusiasm. It is worth noting that, while the majority of our respondents state that their organizations will soon be regularly utilizing digital payment systems, just 4% expect to be conducting business using cryptocurrencies.

However, digital transformation has also created new risks.

With ever expanding volumes of customer and employee data, the proliferation of digital technologies will create more complexity for companies regarding data privacy. Given the recent high profile data breaches and elevated levels of consumer concern regarding data privacy, as well as robust new regulation in this area, companies will be challenged as never before by information governance.

Open and connected business models are likely to result in increased exposure to cyber threats and ransomware. In the last two years, cyber attacks have been widespread and have included a global ransomware campaign that impacted over 45 countries. It is therefore not surprising that 37% of our respondents see cyber attacks as one of the greatest risks to their business.

The good news is that advances in technology, particularly in artificial intelligence, machine learning and automation, can be used to transform legal and compliance functions. Incorporating FDA into a company's digital strategy is an opportunity to enhance risk mitigation and improve business transparency.

Our recent Global FDA Survey "How can you disrupt risk in an era of digital transformation?"[1] demonstrated a strong recognition by respondents of FDA's effectiveness in managing various risks including corruption, financial statement fraud, data protection and data privacy compliance, and cybersecurity.

A growing digital footprint alters the traditional risk landscape for individual companies and entire industry sectors. Out-of-date risk assessments and antiquated policies, procedures and controls can result in companies missing opportunities to help employees comply with company policy. Worse yet, such gaps can be exploited by rogue employees intent on fraud, data theft or other illegal acts. It is important that the effectiveness and efficiency of compliance is improved. Failing to do so exposes the company to regulatory and law enforcement scrutiny.

Today's complex risk landscape
Percentage of respondents who believe that the following categories pose the greatest risks to their business

43% Changing regulatory environment

37% Cyber attack

42% Macroeconomic enviroment

36% Fraud and corruption

Q. Which of the following poses the greatest risks to your business?
Base: 15th Global Fraud Survey (2,550)

[1] *Global Forensic Data Analytics Survey 2018: How can you disrupt risk in an era of digital transformation?*, EY, 2018.

The survey found that more than one-third of business leaders see fraud and corruption as one of their greatest risks. Indeed the scale of fraud and corruption remains significant and we have seen no improvement in the results at a global level since 2012.

More than 1 in 10 of our respondents are aware of a significant fraud in their company in the last 2 years. In the Middle East, Latin America and Japan, this percentage is higher. The propensity of respondents who would justify fraud to meet financial targets has increased on a global level since 2016. We found that 12% of respondents would justify extending the monthly reporting period, 7% would backdate a contract and 7% would book revenues earlier than they should be to meet financial targets.

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

Scale of bribery and corruption

38% Global
20% Developed
52% Emerging
of respondents believe that bribery/ corrupt practices happen widely in business in their country

11% Global
5% Developed
16% Emerging
of respondents believe it is common to use bribery to win contracts in their sector

13% Global
6% Developed
19% Emerging
of respondents can justify cash payments to win/retain business when helping a business survive an economic downturn

Base: 15th Global Fraud Survey (2,550); Developed (1,100); Emerging (1,450)

The responses to this survey over the last eight years show that countries and organizations are moving too slowly to tackle corruption.

In 2018, 38% of our respondents stated that bribery/corrupt practices happen widely in business in their country, with no improvement since we first asked that question in 2012 (38%). We continue to see a trend that respondents perceive risk to be higher in their country than in their business, with only 11% of our respondents believing it is common to use bribery to win contracts in their sector.

A significant minority (13% globally) of our respondents would justify making cash payments to win or retain business. This increases to 22% of respondents in the Middle East and 29% of respondents in Far East Asia. Worryingly, 18% of our respondents in a financial position would justify these payments and even 6% of the heads of compliance surveyed.

We found that respondents under 35 years of age are more likely to justify fraud or corruption to meet financial targets or help a business survive an economic downturn, with 1 in 5 younger respondents justifying cash payments compared to one in eight respondents over 35.

We also found that the under-35 age group would be more likely to act unethically to meet financial targets than older respondents. This observation is consistent with the results of our 2017 EMEIA and Asia Pacific Fraud Surveys.

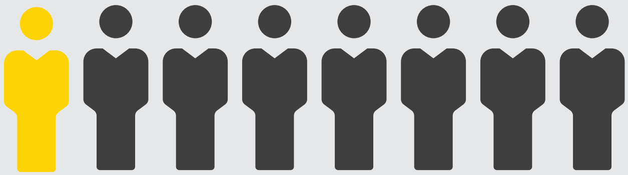
The fast-paced and competitive business environment might be a cause of this with more pressure on junior professionals to succeed. A 2018 study of 40,000 college students in the US, UK and Canada found that today's young adults feel significantly more pressure to measure up to their peers.[2]

By 2025, 75% of the global workforce will be comprised of millennials.[3] Born in the '80s and '90s, millennials have never known the world without internet, email or instant messages. As this tech-savvy generation take leadership roles, they will influence the behaviors and values of generations to come.

The responses of our interviewees indicate that younger generations are more likely to justify corruption. It would be interesting to see if organizations are cognizant of this indication from polling of employees within their organization and/or the root cause analysis of instances of misconduct.

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);
Under 35s 328, 35 and over (2,222)

Business is changing fast — and with that comes the challenge of influencing the behavior of diverse, dispersed employees and third parties amidst intense competitive pressures and increased regulation. With this pace of change, management and compliance functions need to evolve how they work to identify new fraud and compliance risks.

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[2] "Perfectionism Is Increasing Over Time: A Meta-Analysis of Birth Cohort Differences From 1989 to 2016," York St. John University. Psychological Bulletin, 28 December 2017.
[3] "A global study on work-life challenges across generations", EY Global generations.

Digitalization of compliance

There is an increased pressure for organizations to make acquisitions to both accelerate growth and profit from less familiar developed markets. With global M&A activity on the rise, companies are increasingly acquiring distribution networks and new relationships with third parties that can expose the parent company to additional or unfamiliar risks.

In many cases, the acquirer has relied on the anti-corruption due diligence performed by previous management. Higher-risk business practices, including substantial volumes of cash payments to third parties, could be common in the acquired company's operations, posing new and complex challenges to the acquiror.

Addressing these multiple challenges is often made more difficult by the budget pressures facing the compliance and internal audit functions. Sixty-six percent of heads of compliance surveyed stated that compliance spend needs to increase.

For many companies, there is an opportunity for compliance functions to better optimize their resources. A compliance program that more intensively leverages data analytics can lead to more effective risk management and increased business transparency.

Traditional classroom training and web-based learning are not inexpensive, including the cost to productivity. More importantly, the lessons provided to employees may have been long forgotten before they face a situation for which they had been trained previously.

Our experience also shows that most companies do not disaggregate employees based on risk factors. A "one-size-fits-all" approach is not the most efficient or effective way to deliver key compliance messages.

Extending FDA's benefits beyond basic risk functions can increase business transparency and improve operational efficiency. With the right level of investment and leadership support, data and technology will better address fraud and compliance risks while also offering business insight that can inform strategy.

Case studies

Our experience with a number of major corporations suggests that there are ways to increase both effectiveness and efficiency by more intensively leveraging FDA

Case study 1

Risk scoring in post-acquisition integration

Following a multi-billion dollar acquisition, EY assisted a client with its post-acquisition due diligence and compliance monitoring.

An analytics platform was developed that combines data from finance and other business systems to identify transactions and third parties that pose an elevated risk of fraud or corruption using risk scoring. Transaction risk scoring provides a repeatable, mathematical process for identifying higher-risk transactions.

The risk scoring was built into analytics dashboards for sales and payment transactions, and was automatically refreshed on a daily basis. This scoring was further integrated with information on third-party due diligence and results from investigations conducted by the company. These dashboards, which align to the key expectations expressed in the DoJ's recent guidance (see page 17), helped compliance professionals at the company to perform continuous transaction monitoring to better prevent and detect fraud.

Case study 2

Compliance guidance in near real time

A major challenge for organizations is to deliver effective compliance training and communications that engage the hearts and minds of employees in an effort to better deter fraud.

EY supported a Fortune 100 company in addressing these perennial challenges. Using FDA, the company's compliance function is now able to provide timely, tailored guidance to individual employees throughout the organization very close to the time at which the employee would likely encounter a challenging situation. To increase the effectiveness of this approach, we used behavioral insights to design and help deliver the content.

Data mined from enterprise resource planning (ERP) systems, investigation and due diligence case management tools, travel and entertainment systems, and others is used to determine which employees receive guidance, from whom and in what format. In the most serious situation, this may be a call from the global compliance officer directly.

Focus on GDPR

Are organizations ready for GDPR?

The EU General Data Protection Regulation (GDPR) will be in force from 25 May 2018. The GDPR will apply to any company that does business with residents of EU countries. Companies found to be non-compliant could face fines of up to 4% of their global turnover. The legislation also includes "the right to be forgotten" which entitles any individual to request a company to erase their personal data.

Each request to have personal data erased would require an organization to identify the relevant data, communicate with the customer and provide formal statements.

Alarmingly, one in four of respondents are likely to assert their right to have personal data erased. Even if only half of this percentage of respondents assert their right to be forgotten, the technology and administrative burden on companies will be immense.

Interestingly respondents in the under 35 age group are significantly more likely (30%) to assert their right to have personal data erased. This may be explained by under 35s more intensive use of e-commerce and social media and a greater concern for their data being put at risk by cybersecurity breaches.

Our survey suggests that many organizations are not prepared for this impact with just 40% of respondents globally knowing GDPR at least fairly well. Worryingly, over 1 in 10 of legal and compliance respondents within the EU do not know GDPR at least fairly well. The lack of awareness for global companies headquartered outside of the EU that hold EU citizens' data is a significant risk. Our recent Global Forensic Data Analytics Survey[4] found that only one in three of respondents had a plan to address GDPR compliance.

Time running out on GDPR compliance
Respondents who believe they know GDPR fairly or very well

Global

All respondents
(Base 2,550)

Legal and compliance respondents
(Base 312)

EU

All respondents
(Base 1,110)

Legal and compliance respondents
(Base 182)

Q. How well, if at all, would you say you know the EU General Data Protection Regulation?
Base: 15th Global Fraud Survey (2,550); Inside EU (1,100); Outside EU (1,450)

Time to get personal on data
Respondents who would assert their right to have their personal data erased

Global

Countries inside EU

Countries outside EU

Q. How likely or unlikely are you to assert your right to have your personal data erased?
Base: 15th Global Fraud Survey (2,550); Inside EU (1,100); Outside EU (1,450)

[4]Global Forensic Data Analytics Survey 2018: How can you disrupt risk in an era of digital transformation?, EY, 2018.

2

The effectiveness of anti-corruption efforts

With a significant minority of respondents still willing to justify unethical acts, is enforcement a deterrent and is management doing enough to tackle these challenges?

Is enforcement a deterrent?

Governments across the world continue to introduce and enforce corporate criminal liability laws. Despite over $11bn in fines being issued globally under the FCPA by the U.S. Department of Justice and the SEC, and the UK Serious Fraud Office since 2012, 38% of global executives still believe bribery and corrupt practices remain prevalent in business.

The last four years have seen the introduction of new legislation and greater levels of enforcement outside the US. What do our survey results tell us about the effectiveness of anti-corruption laws and enforcement?

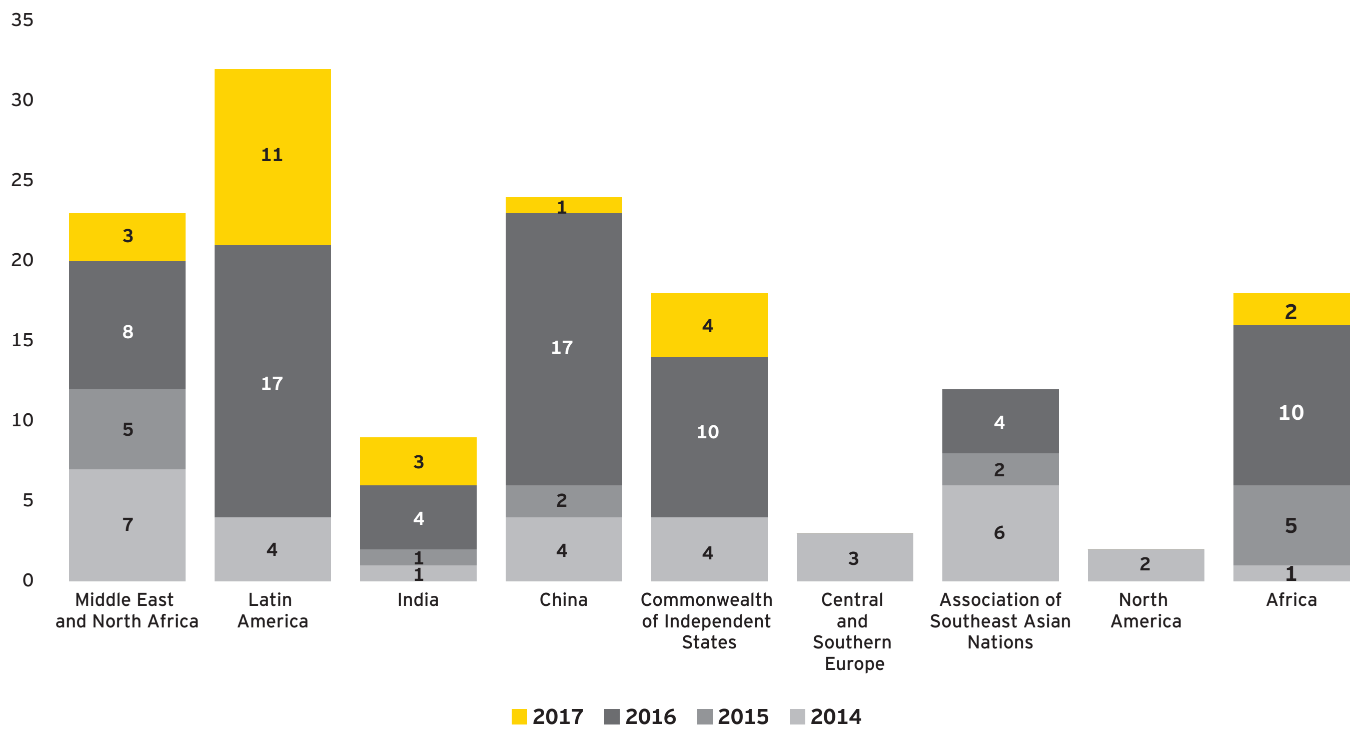
Analysis of the number of FCPA enforcements over the last four years shows a changing focus on countries in which corrupt payments are alleged to have been made. Over the four-year period, 30 of the 133 enforcement actions related to Latin America. In 2016, enforcement activity was dominated by China and Latin America with 16 enforcement actions in Latin America and 15 in China.

Twelve of the Latin American enforcement actions related to alleged corrupt activity in Brazil. The Clean Company Act in Brazil came into force in 2014 and over the last three years there has been a dramatic increase in anti-corruption enforcement. However, Brazilian respondents are yet to see any significant reduction in bribery and corruption, with 96% of respondents in 2018 stating that bribery/corrupt practices occur widely in business in their country, increasing from 70% in 2014.

The UK Bribery Act came into force in 2011, however, the percentage of respondents in the UK that stated corrupt practices happen widely increased from 18% to 34% from 2014 to 2017. It is worth noting that the first prosecution did not occur until 2016 and there has been significant enforcement activity in 2017.

The US FCPA was passed 40 years ago; however, significant enforcement began from the mid 2000s. Our survey found that 18% of respondents in the US stated that bribery/corrupt practices happen widely in business in their country: a reduction from 22% who believed this to be the case in 2014.

FCPA Enforcement Actions by region



Source: The U.S. Department of Justice website, https://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.

In our experience there is often 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 it seems is not enough; it is not until governments start enforcing laws and publicizing fines and penalties that management take legislation seriously and introduce real change. The views of respondents on the level of widespread corruption in their country therefore might initially increase.

In the chart below we have compared respondents' views on widespread corruption from 2014 to 2018. The survey results from Australia and New Zealand, Brazil, Saudi Arabia and the UK show increases in the percentage of respondents who believe corruption to be widespread. In these countries it is notable that there has been significant enforcement in 2017.

The survey results from China, Czech Republic, Romania and the US show decreases in the percentage of respondents who believe corruption to be widespread. In these countries enforcement agencies were active prior to 2014. So has the enforcement activity resulted in real change to compliance programs and company culture? Or is it simply that the perception of corruption decreased as enforcement has dropped?

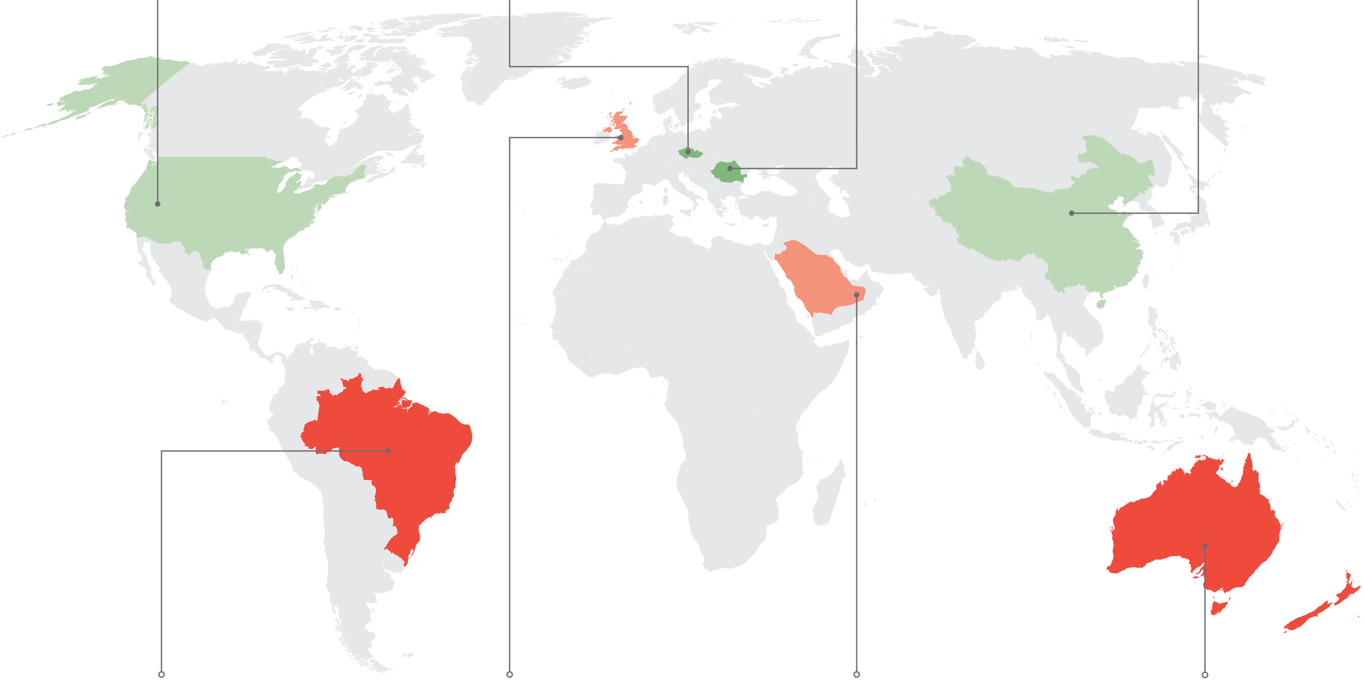
The impact of enforcement on widespread corruption

US **18**%
4 ▼
Foreign Corrupt Practices Act enacted in 1977
Significant enforcement increase from 2004

Czech Republic **56**%
13 ▼
Increase in enforcement in recent years. New regulation improving transparency such as the Act on Criminal Liability of Corporations

Romania **34**%
12 ▼
Significant enforcement from National Anti-Corruption Directorate in last 10 years

China (mainland) **16**%
8 ▼
Chinese anti-corruption campaign began in 2013 with significant enforcement to 2017



Brazil **96**%
26 ▲
Clean Company Act (2013), effective from 2014
Significant FCPA and local enforcement

UK **34**%
16 ▲
UK Bribery Act effective from 2010, first corporate prosecution in 2016
Significant corporate penalties in 2017

Saudi Arabia **46**%
20 ▲
Creation of anti-corruption committee and prominent arrests of individuals in November 2017

Australia and New Zealand **38**%
30 ▲
Major enforcement in the last two years by US regulators in the extractive and FS sectors with only modest levels of state level enforcement

Percentage Point Change (2014 - 2018)

-21 to -30	-11 to -20	-10 to 0	0 to 10	11 to 20	21 to 30

Q: Bribery/corrupt practices happen widely in business in this country. Applies % and % movement from 2014 results
Base 15th Global Fraud Survey: Australia and New Zealand 50, Brazil 50, China (mainland) 50, Czech Republic 50, Romania 50, Saudi Arabia 50, United Kingdom 50, US 50.
Base 13th Global Fraud Survey: Australia and New Zealand 51, Brazil 50, China (mainland) 50,Czech Republic 51, Romania 50, Saudi Arabia 50, United Kingdom 50, US 50.

Delivering compliance effectiveness

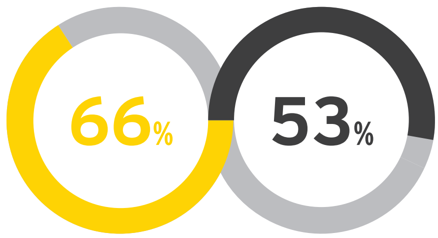
The key challenge for compliance professionals is to increase the effectiveness and efficiency of their anti-fraud and corruption program in a complex risk environment with challenging budget constraints.

Our survey found that the majority of organizations have implemented infrastructures, policies and high-level communications. Ninety-three percent of respondents stated that senior leaders demonstrate a commitment to compliance and 95% stated senior leaders set examples of good ethical behavior.

However, when asked specific questions on the implementation and effectiveness of the compliance programs, our survey highlighted a number of differences between management statements and conduct by their organizations.

1. When asked if their organization has an anti-corruption policy and/or a code of conduct, 97% of heads of compliance and 92% of heads of internal audit surveyed stated this was the case. This was significantly lower for sales and marketing respondents at 77%. This suggests that high level policies may be in place, but there are key employees within organizations that are still not sufficiently aware of them.
2. When asked if their organization had a tailored risk-based approach to due diligence that varies by country, industry or nature of activity of the third party, the results suggest a mismatch between the 66% of internal audit, compliance and legal respondents who felt this applied in their organization and the 56% of internal audit, compliance and legal who would generally be responsible for engaging a third party. More worryingly, 29% of sales and marketing and 20% of other management were not able to answer the question regarding the due diligence approach at their organization.
3. We found that management had often set clear intent regarding penalizing non-ethical conduct with more than three in four respondents stating that there are clear penalties for breaking their policies. However only 57% are aware of people actually being penalized.
4. More than one in four of respondents stated that people managing relationships with third parties are not required to complete fraud and compliance risk training.
5. Our research shows that only one-third of organizations have incentivized their third parties to act ethically.

Bespoke risk-based due diligence
Respondents who believe that their organization has a tailored risk-based approach to due diligence

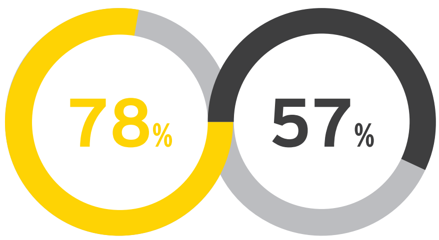


Head of internal audit, head of compliance, head of legal

Sales, marketing and other management

Q. We have a tailored risk-based approach to due diligence that varies by country, industry or nature of activity of the third party – Applies, does not apply, don't know
Base: 15th Global Fraud Survey (2,550); Head of internal audit, Head of compliance, Head of legal (337); Sales marketing and other operational management (299).

Doing the right thing or fear of enforcement?
% Applies



of respondents state that there are clear penalties for breaching policies

of respondents are aware that people have been penalized for breaching policies

Q. Does the following apply, or does not apply to your organization, or whether you don't know?
Base: 15th Global Fraud Survey (2,550)

In a March 2018 article, the Harvard Business School Professor Eugene Soltes and former DoJ compliance counsel commented that: "The DoJ recognized that firms might be spending a lot and creating all the components of compliance programs but actually producing hollow facades."[5] The DoJ has called for prosecutors "to determine whether a corporation's compliance program is merely a 'paper program' or whether it was designed, implemented, reviewed, and revised, as appropriate, in an effective manner."

We see a mismatch between the announced ethical intentions of an organization and the conduct of the organization.

[5]"Why Compliance Programs Fail and How to Fix Them," Harvard Business Review March-April 2018 issue, 2018.

"Anti-corruption compliance is not just a question of checking boxes and it shouldn't happen only when things go wrong. Taking a proactive approach to compliance by putting in place strong controls and making anti-corruption compliance part of one's corporate culture is the best way to prevent corrupt acts before they happen."

Angel Gurría,
Secretary-General, OECD

Evaluation of corporate compliance programs

U.S. DoJ 2017 guidance document

1 in 4

Heads of compliance say they know the U.S. Department of Justice's 2017 guidance document on the evaluation of corporate compliance programs

1 in 10

C-suite respondents say they know the U.S. Department of Justice's 2017 guidance document on the evaluation of corporate compliance programs

12%

of respondents say they know this guidance fairly or very well

Q. How well, if at all, would you say you know the United States Department of Justice's 2017 guidance document on the evaluation of corporate compliance programs
CFO (597); Head of compliance (163); Head of internal audit (189); Head of legal (158); Other (26); Other board members (242); Other finance (519); Other internal audit risk (252); Other senior management (404)

In 2017 the US DoJ released a guidance document consisting of a series of questions that prosecutors should consider when conducting an investigation of a corporate entity. But is management aware of this guidance? And, if so, is it making a difference?

The results from a DoJ investigation determine whether they will bring charges or be willing to negotiate an agreement with the organization. We found that globally only 12% of respondents knew this guidance fairly or very well; this increased to one in four for heads of compliance and decreased to only one in ten for the C-suite. In recent years, enforcement agencies are holding individuals and senior executives accountable for unethical actions; this lack of awareness is therefore worrying.

We asked our respondents 18 questions from the DoJ Evaluation of Corporate Compliance Programs guidance document. We found that, from an industry sector perspective, companies in financial services (FS) have the most mature compliance programs with the consumer products/retail/wholesale sector the relatively less mature.

Although FS appear to have the strongest compliance programs this does not correlate to reduced incidents of fraud and corruption.

Please refer to the website for a full interactive heat map, which includes the ability to analyze the survey results by sector, type of business, size of business and region.

Sectors in the spotlight
Contradiction in terms – strong compliance program vs. incidence of fraud and corruption

	In our sector it is common practice to use bribery to win contracts	Has your company experienced a significant fraud in the last two years?
Financial services	13%	14%
Consumer products/retail/wholesale	11%	9%
Global	11%	11%

Base: 15th Global Fraud Survey (2,550); Financial services (233); Consumer retail (626)

3

Putting integrity on the management agenda

In a world of changing business models, the explosion of data, increased regulation and enforcement, the integrity of an organization becomes the most important driver for ethical business.

Ninety-seven percent of respondents recognize it is important that their organization acts with integrity and rank "operating with integrity" at the top of their list of what they would like people to say about their organization.

Integrity: important to "walk the talk"

97%

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

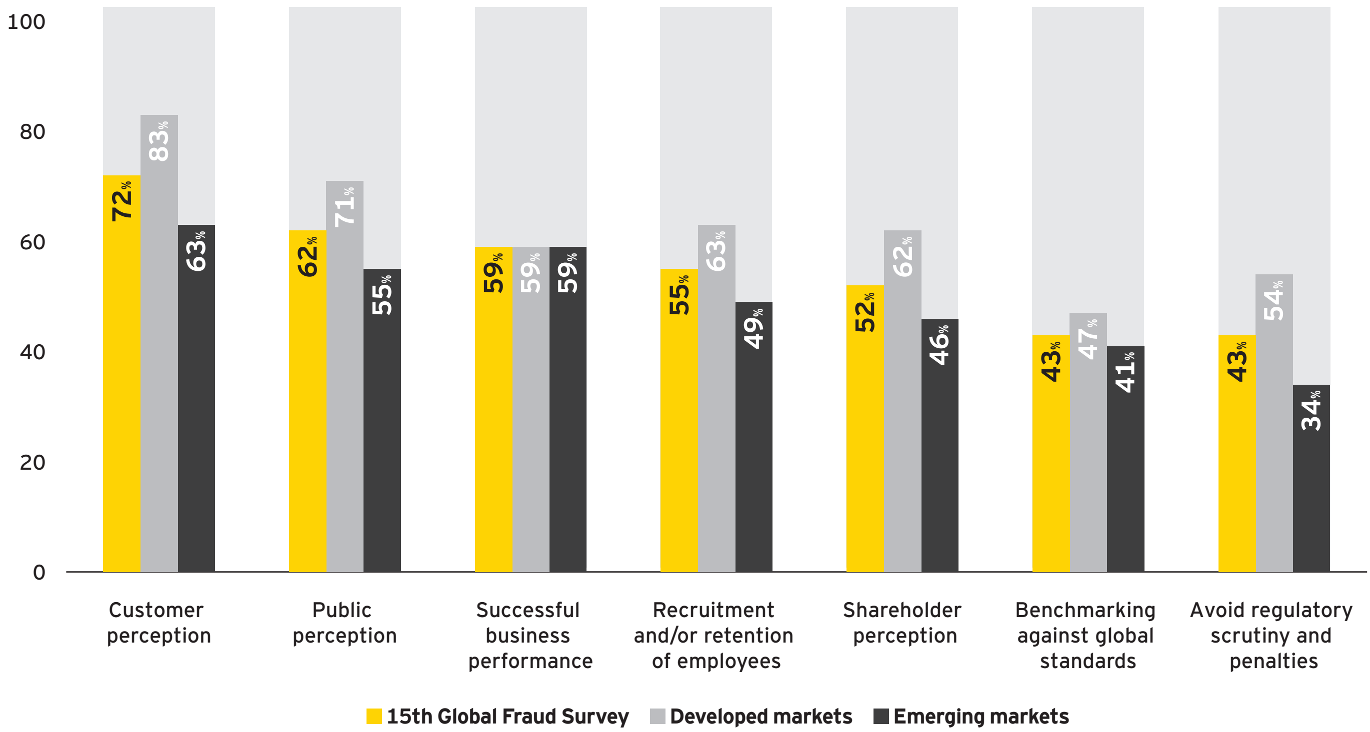
Q. How important do you think it is to be able to demonstrate that your organization operates with integrity?
Base: 15th Global Fraud Survey (2,550)

Interestingly, although 43% of respondents recognize the importance of demonstrating integrity to avoid regulatory scrutiny and penalties, they also see integrity as a business advantage. Customer perception, public perception, successful business performance, recruitment and retention of employees were deemed more important benefits than avoiding scrutiny and penalties. Respondents from developed markets saw a broader range of benefits than those from emerging markets of their organization demonstrating integrity.

The link between integrity and successful business performance is supported by research performed by Ethisphere Institutes, which found that the World's Most Ethical Companies outperformed the US large cap sector by over 10% over a five-year period.[6]

Acting with integrity makes it easier for organizations to operate, reducing scrutiny and fines, attracting the best employees and customers. It is therefore not surprising that respondents believe that successful business performance and improved customer and public perception are important benefits of integrity.

Demonstrating integrity — the customer is king



Q. Which if any of the following are the most important benefits of demonstrating integrity?
Base: 15th Global Fraud Survey (2,550) respondents who answered that operating with integrity is fairly or very important (2,484)

[6] "2018 world's most ethical companies," Ethisphere website, www.ethisphere.com/2018-worlds-most-ethical-companies", accessed 12 February 2018.

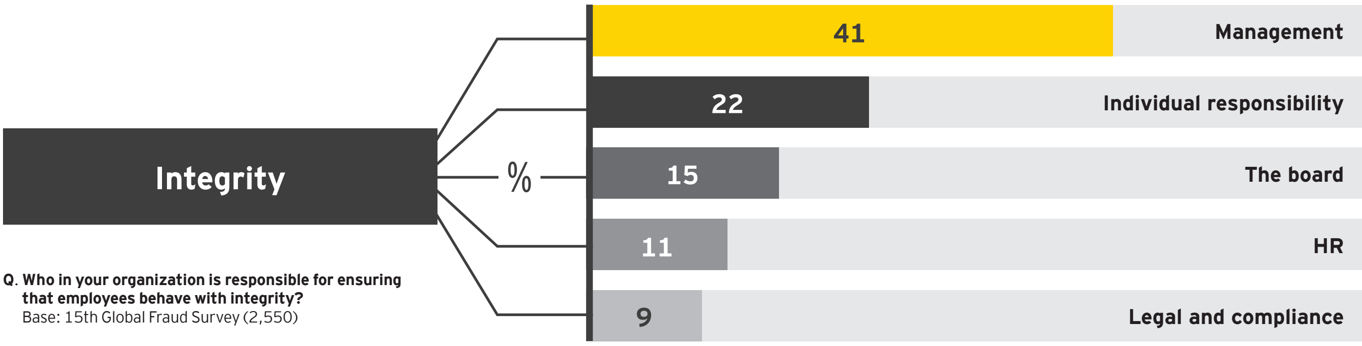
Despite respondents recognizing the importance of integrity, we continue to see a prevalence of fraud and corruption, as well as significant business failures.

The results show a mismatch between the 97% of respondents that believe it is important to demonstrate their organization acts with integrity and 13% who would still justify making a cash payment to win a contract.

A potential explanation for this mismatch is that there is little or no clarity as to who in the company is primarily responsible for ensuring that employees behave with integrity. This appears to be common across industry sectors and geographic regions.

We found that fewer than one in four respondents believe that individuals should take primary personal responsibility for behaving with integrity. On a regional level the outliers are Oceania at 38% and Japan at only 4% who believe that individuals should take personal responsibility. The remainder believe the primary responsibility for ensuring integrity sits with other groups in the organization such as human resources, compliance, legal, senior management and even the board.

Integrity: someone else's responsibility?

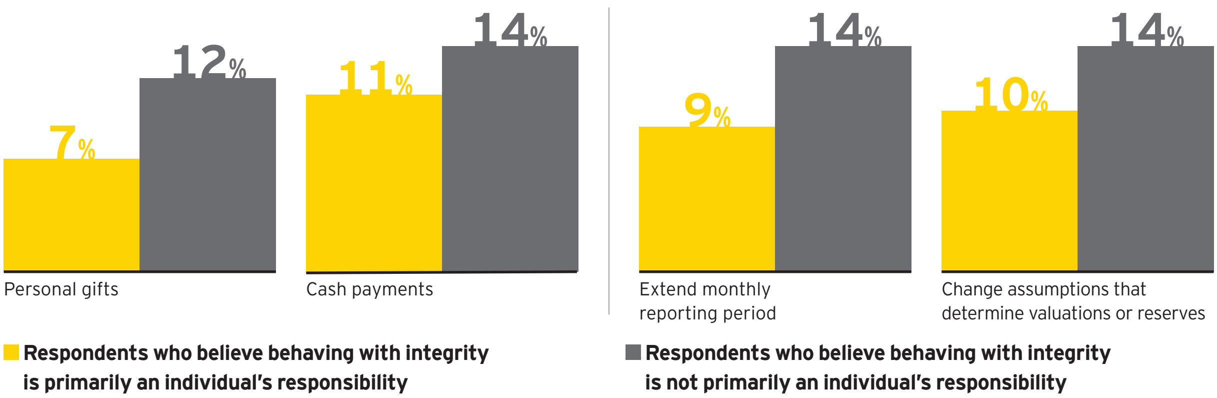


Q. Who in your organization is responsible for ensuring that employees behave with integrity?
Base: 15th Global Fraud Survey (2,550)

We also found that the group who did not believe it was primarily an individual responsibility to ensure that employees behave with integrity is significantly more likely to act inappropriately, including making cash payments to win or retain business. These same respondents are also more likely to extend the monthly reporting period or change assumptions that determine valuations or reserves in order to meet financial targets.

The importance of integrity in a changing business environment increases as compliance functions, regulators and enforcement agencies may struggle to keep up with the pace of change. Business leaders should focus on instilling the concept of employees taking individual responsibility for the integrity of their own actions.

Unethical behavior — individual integrity versus corporate agenda



Q. Which, if any, of the following do you feel can be justified if they help a business survive an economic downturn?
Base: 15th Global Fraud Survey (2,550)

Q. Given the pressure that often exists to meet financial targets, which, if any, of the following activities do you feel can be justified to meet those targets?
Base: 15th Global Fraud Survey (2,550)

Spotlight on the Integrity Agenda

The Integrity Agenda – intentions, conduct and measurement

The announced intentions of an organization may be clear: policies and codes of conduct are in place, senior leaders demonstrate commitment via formal and informal communications. Yet, recent high profile scandals at major corporations show that aberrational misconduct by executives has persisted and gone unnoticed for long periods of time. When the misconduct finally surfaced publicly, expensive investigations have ensued, fines have mounted, and individuals have been prosecuted, while market values have declined.

A successful organization stays true to its mission, keeps its promises, respect laws and ethical norms, and fosters public trust in the free enterprise system

Business leaders commit to do the right thing, but organizational failures persist

Closing the gap between intentions and behavior - the Integrity Agenda

Intentions	Mission and values statement	Code of conduct	Standards, policies and practices	Management communications
Actual behavior	Defined principles and behavioral standards	Verifiable data about organizational behavior and culture	Improved metrics and enhanced accountability	

The Integrity Agenda has four foundational elements that align an individual's actions with an organization's objectives. The core challenge is influencing behavior over diverse and dispersed employees and third parties amidst intense competitive pressures and rapid technological change.

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4

Conclusion – the future of compliance

Business models are changing and with that, compliance functions will also need to transform the way they better prevent, detect and respond to fraud and corruption.

The transformation of business models and the high profile scandals and consequent loss of reputation show a need to redefine the compliance function.

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

In the era of digital transformation, products and the business processes that bring them to market are changing rapidly, creating significant challenges for the compliance function to keep pace. How can the compliance function of companies that refresh their risk assessments just once every year or two play an effective role? Compliance professionals need to be much more involved in strategic and operational business decisions.

For some companies, therefore, management's existing efforts to tackle fraud and corruption are lagging behind business change. So what is the future of compliance?

Technological advances in compliance such as enhanced data analytics, combined with an employee-centric approach to providing guidance will result in compliance acting as a key driver of innovation in the use of forensic data analytics. Examples include the following:

1. The proliferation of data analytics as a management tool is likely to challenge the traditional monitoring role of the compliance function. Our 2018 Forensic Data Analytics Survey[7] shows that more and more companies are using advanced analytics technologies for continuous monitoring.
2. Advances in the predictive capabilities of "big data"[8] means that analytics can be used to make real-time decisions, helping to identify and prevent fraud and providing management with more effective oversight.
3. Leading companies are using artificial intelligence technology to replace classroom and web-based training with individualized risk-based communications in real time.

Our experience suggests compliance policies and procedures, backed up by training and consistently applied enforcement, are necessary but not sufficient to deliver effective compliance.

For many companies, there are substantial gains to be secured by better leveraging FDA which can significantly improve the effectiveness and efficiency of monitoring and reporting, strengthening the second line of defense.

The first line of defense has typically been the responsibility of operational management within the business and included management controls and internal control measures. Compliance should work with the business to reinforce front-line compliance 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 in the organization responsible for proactively safeguarding the corporation's reputation, not just helping it comply with laws and regulations.

For the future, digital disruption will significantly impact compliance programs evolving them from a reactive rules-based approach to proactive engagement with the business and promotion of the Integrity Agenda.

[7] *Global Forensic Data Analytics Survey 2018: How can you disrupt risk in an era of digital transformation?*, EY, 2018.
[8] Big data refers to the dynamic, large and disparate volumes of data created by people, tools and machines.

Survey approach

Between October 2017 and February 2018, our researchers - the global market research agency Ipsos MORI — conducted 2,550 interviews in the local language with senior decision makers in a sample of the largest companies in 55 countries and territories. The polling sample was designed to elicit the views of executives with responsibility for tackling fraud, bribery and corruption, mainly CFOs, CCOs, general counsel and heads of internal audit.

Participant profile - region and territory

Number of interviews	
Far East Asia	
China (mainland)	50
Hong Kong SAR	50
Indonesia	50
South Korea	50
Malaysia	50
Philippines	50
Singapore	50
Taiwan	50
Eastern Europe	
Bulgaria	50
Cyprus	25
Czech Republic	50
Hungary	50
Lithuania	25
Poland	50
Romania	50
Russia	50
Slovakia	50
Turkey	50
Ukraine	25
North America	
Canada	50
US	50
South America	
Argentina	50
Brazil	50
Chile	50
Colombia	50
Mexico	50
Peru	50

Number of interviews	
Japan	
Japan	50
Middle East, India and Africa	
India	50
Israel	25
Kenya	50
Middle East (Jordan and UAE)	50
Nigeria	50
Saudi Arabia	50
South Africa	50
Oceania	
Australia	40
New Zealand	10
Western Europe	
Austria	50
Belgium	50
Denmark	50
Finland	50
France	50
Germany	50
Greece	50
Ireland	50
Italy	50
Luxembourg	50
Netherlands	50
Norway	50
Portugal	50
Spain	50
Sweden	50
Switzerland	50
UK	50

For the purposes of this report, “developed” countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA.

“Emerging” countries and territories include: Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cyprus, Czech Republic, Hong Kong SAR, Hungary, India, Indonesia, Israel, Kenya, Lithuania, Malaysia, Mexico, Middle East – Jordan, Middle East – UAE, Nigeria, Peru, Philippines, Poland, Romania, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, South Korea, Taiwan, Turkey, and Ukraine.

Participant profile – job title, sector and revenue

Number of interviews		
Job title		
CFO/FD	597	23%
Head of compliance	163	6%
Head of internal audit	189	7%
Head of legal	158	6%
Other	26	1%
Other board member	242	9%
Other finance	519	20%
Other internal audit risk	252	10%
Other senior management	404	16%
Sector		
Automotive	125	5%
Consumer products/retail/wholesale	626	25%
Financial services	233	9%
Government and public sector	55	2%
Life sciences	122	5%
Manufacturing/chemicals	370	15%
Oil, gas and mining	180	7%
Other transportation	137	5%
Power and utilities	124	5%
Professional firms and services	116	5%
Real estate	154	6%
Technology, communications and entertainment	162	6%
Other sectors	146	6%
Revenue*		
More than US$5b	140	5%
US$1b–US$5b	467	18%
US$500m–US$0.99b	341	13%
US$100m–US$499m	863	34%
US$99m or less	713	27%
Above US$1b	607	24%
Below US$1b	1,917	75%

*21 respondents either refused to provide or did not know the annual turnover of their company

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