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| |  |  |  | | --- | --- | --- | | News release | | | | Contact: | Anastasiya Khutko | 20 May 2015 | | Company: | EY | | | Tel: | + 7 (495) 755 9700 | | | Email: | [Anastasiya.Khutko@ru.ey.com](mailto:Anastasiya.Khutko@ru.ey.com) | | |

**Fraud and corruption risks impact corporate international expansion; pressure for revenue and earnings growth driving illegal conduct**

* **61% of respondents in key rapid-growth markets say corruption is widespread**
* **20% of businesses believe that their anti-bribery/anti-corruption policies make them less competitive**
* **37% of respondents agree that companies often overstate their financial performance**

*LONDON, MOSCOW, 20 MAY 2015*. EY’s Europe, Middle East, India and Africa (EMEIA) Fraud Survey, *Fraud and corruption – the easy option for growth?,* has found that greater pressure on businesses to grow revenues together with market volatility is creating increased risk in expansion opportunities. Challenges, including geopolitical instability, commodity and currency price volatility, as well as economic sanctions, are pushing companies and their executives toward high-risk behavior.

The survey, which polled 3,800 employees of large businesses[[1]](#footnote-1) in 38 countries, found that nearly 33% of survey respondents report that management is under increased pressure to expand into higher risk markets. In these markets, 61% of respondents see corruption in companies as widespread, and 37% of respondents report that companies often overstate their financial performance.

The risk of fraud, however, is not limited to rapid-growth markets[[2]](#footnote-2). 26% of senior management respondents said they have heard of early recognition of revenue occurring in their organization in the past year – the type of behavior that has been at the center of numerous high-profile frauds. In addition, 21% of respondents report that bad news about financial performance is not being shared openly.

David Stulb, Global Leader of EY’s Fraud Investigation & Dispute Services (FIDS) practice, says: “The risks of fraud, bribery and corruption are real. Businesses are facing complex restrictions in the way they conduct business with evolving sanctions regimes and new risks, such as cybercrime, having the potential to significantly disrupt operations. Businesses need to have their eyes wide open in their pursuit of high-risk growth strategies.”

**Are fraud and corruption the easy options for growth?**

While senior management may be tempted to take risks to accelerate short-term growth, the survey shows a clear correlation in companies that are growing and are taking compliance seriously. Respondents whose business has experienced revenue growth in the last two years are:

* More likely to rate their company’s ethical standards as “very good”
* More likely to have or know about their company’s anti-bribery/anti-corruption policy
* More likely to see operations across markets meeting the same ethical standards

Stulb continues, “Our survey shows that 20% of employees believe anti-corruption policies will hold them back from growing their business. Our view is this shouldn’t be the case. To grow in a high-risk market you need the right controls and processes. You need your teams to be trained to make the right choice when asked to pay a bribe or ‘cook the books’, and you need the right tools to monitor activity so these risks can be addressed in a timely manner.”

**Businesses are still not protecting themselves enough**

Our survey shows that many businesses still do not have even the basic building blocks in place for effective compliance.

* 42% of respondents say that their company does not have an anti-bribery/anti-corruption policy, or are unaware of them
* 36% of respondents have not had anti-bribery/anti-corruption training
* 24% say their company does not have a whistleblowing hotline

The results also confirm that financial services organizations have responded to the intense pressure that they have been under from regulators, customers and others. Compared with other sectors, they are doing more to focus on compliance and the behaviors of their staff. But there are still gaps: there are respondents in the financial services sector who report that their business does not have an anti-bribery/anti-corruption policy or a whistleblowing hotline. Also, there are senior managers who are perceived as showing little attention to anti-money laundering rules, unauthorized trading or misselling issues.

**Leadership’s commitment is critical**

Not all senior management is communicating its commitment to high ethical standards. Furthermore, there is a disconnect between their view and that of more junior staff: 44% of senior management said they frequently communicate the importance of high ethical standards but only 30% of employees agree.

Stulb concludes, “Businesses remain under intense pressure to grow and, in this market, operating in the gray area between legal and illegal may appear to some as a viable option. But our survey results show that this is a false choice, and that growth can be achieved while appropriately managing the risks of fraud and corruption. Effective compliance is not a barrier to growth; it is a requirement for sustained success.”

**Analysis of the research data relating to Russia**

**Alexander Ivlev, EY Managing Partner for Russia**, notes: “Despite existing challenges, Russia is actively fighting fraud and corruption at the country level: the Presidential Council for Countering Corruption convenes regularly; the National Plan for Countering Corruption and the Anticorruption Education Program are being implemented. But one should understand that fighting bribery is not the prerogative power of the state. On the contrary, business should take an active part in anticorruption measures and adopt a tough stance on this issue. Only combined efforts by business and the authorities can drive positive changes in this sphere and it would be unwise to count on immediate results: corruption has existed for ages and continues to thrive in a number of countries all over the world, not only in Russia, as our survey shows. This survey is especially interesting for companies, allowing them to identify the essence of anticorruption risks in the corporate sector and find out which instruments ensure the highest efficiency in fighting fraud and bribery. This information is urgent for senior managers who choose high-risk strategies striving for quick profits to please shareholders. Our survey confirms that it is possible to secure good performance working in accordance with the law and with business ethics”.

The survey in Russia found that challenges, including slower than expected economic growth, geopolitical instability, as well as economic sanctions, are pushing companies and their executives toward high-risk behavior. The survey showed that 43% of the survey respondents report that management is under pressure to create revenue opportunities and 31% of the respondents agree that managers are under the pressure to expand into higher risk markets.

These challenges increase risks of improper practices a business might be willing to exercise to deliver the expected results. As such, 41% of the Russia respondents report that their companies overstate the financial performance.

The following misstatements are considered by management to be justifiable if they help a business to survive:

* Negotiating retrospective rebates with suppliers (55% of respondents)
* Booking revenue from rebates with suppliers early (20 of respondents)
* Requesting suppliers delay invoicing (25% of respondents)
* Deliberately misstating financial performance (8% of respondents)
* At least one of the above (70% of respondents, which ranks Russia the second in the list of the reviewed countries)

Corruption risks are also deemed high. The Russia market has been historically prone to significant corruption risks. Although the market has recently seen improvements in regulations and methods of combatting corruption, 60% of respondents still consider that corruption is a wide-spread phenomenon.

Even among the Russia respondents there was no unity in not tolerating corruption. 20% of respondents feel that offering personal gifts, cash payments or entertainment can be justified to help a business survive.

Our survey shows that many businesses still do not have even the basic building blocks in place for effective compliance to mitigate corruption risks.

* 49% of respondents say that their company does not have an anti-corruption policy and/or code of conduct, or are unaware of them
* 62% of respondents stated that there are no clear penalties for breaking an anti-bribery/anti-corruption policy
* Only 29% of respondents reported that the company has taken action against employees for breaching an anti-bribery/anti-corruption policy
* 39% of respondents did not attend any anti-corruption training and only 27% consider anti-bribery trainings useful in helping them to make appropriate decisions in the role they perform for their companies
* 32% of respondents say their company does not have a whistle-blowing hotline; only 17% believe the issues raised through this channel would be always followed up by senior management compared to an average of 32% for all the reviewed countries.

It has also become more typical to enhance the compliance program with third party review procedures to know who your third parties are and what they are doing. Russian businesses have been recently adopting many good practices; however, there is still room for improvement:

* Only 33% of respondents say their company performs background checks on suppliers and only 18% refer to use of specialized software
* Only 25% maintain an approved supplier database
* Less than 20% agree their company checks the ownership of third parties
* 21% of respondents say their company exercises audit rights or performs regular audits of third parties
* Only 7% engage external service providers for background screening

Our survey also shows that many companies still have some way to go in achieving a strong ethical culture. 23% of respondents believe that ethical standards have got better in their company in the last two years and only 10% rate their company’s ethical standards as “very good”.

Our survey demonstrates that 43% of respondents say that senior management display high ethical standards in the way they conduct business and only 28% of respondents state that, in the last 2 years, senior management frequently communicated about the importance of maintaining high ethical standards when conducting business.

Only 56% of respondents feel their management team understands the business environment that they face in their market. Simple steps, such as site visits, can help. However, less than half of respondents report that the senior management team visits local facilities at least once every six months. Moreover, 62% of respondents agree that unethical practices often go unnoticed by head office and only 46% of respondents agree that negative information about financial performance is being shared in an open and transparent way with management at head office.

**View the report online at:** <http://www.ey.com/Publication/vwLUAssets/ey-emeia-fraud-survey/$FILE/ey-emeia-fraud-survey.pdf>

**About the Survey**

Between December 2014 and January 2015 EY conducted its Fraud Survey “*Fraud and corruption – the easy option for growth?”* for the Europe, Middle East, India and Africa (EMEIA) market. 3,800 employees of different businesses in 38 countries were interviewed, including board directors, senior management, other management, and other employees. Survey included the Russian market and polled 100 employees of large businesses[[3]](#footnote-3) in Russia. Interviews were conducted on an anonymous basis using local language in all countries.

**About EY**

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1. Large companies are defined as those with more than 150, 250, 1,000 or 1,500 employees globally, depending on the country, or as quoted on a stock exchange or are multinationals. [↑](#footnote-ref-1)
2. For the purposes of this report, “developed” countries include Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK. The “rapid-growth” countries, taken from our *Rapid-Growth Markets Forecast: July 2014,* include Czech Republic, Egypt, India, Nigeria, Poland, Russia, Saudi Arabia, South Africa, Turkey, UAE and Ukraine. [↑](#footnote-ref-2)
3. Large companies are defined as those with no less than 500 employees globally [↑](#footnote-ref-3)