

Asia-Pacific Fraud Survey 2015

Fraud and corruption – Driving away talent?

A China Perspective



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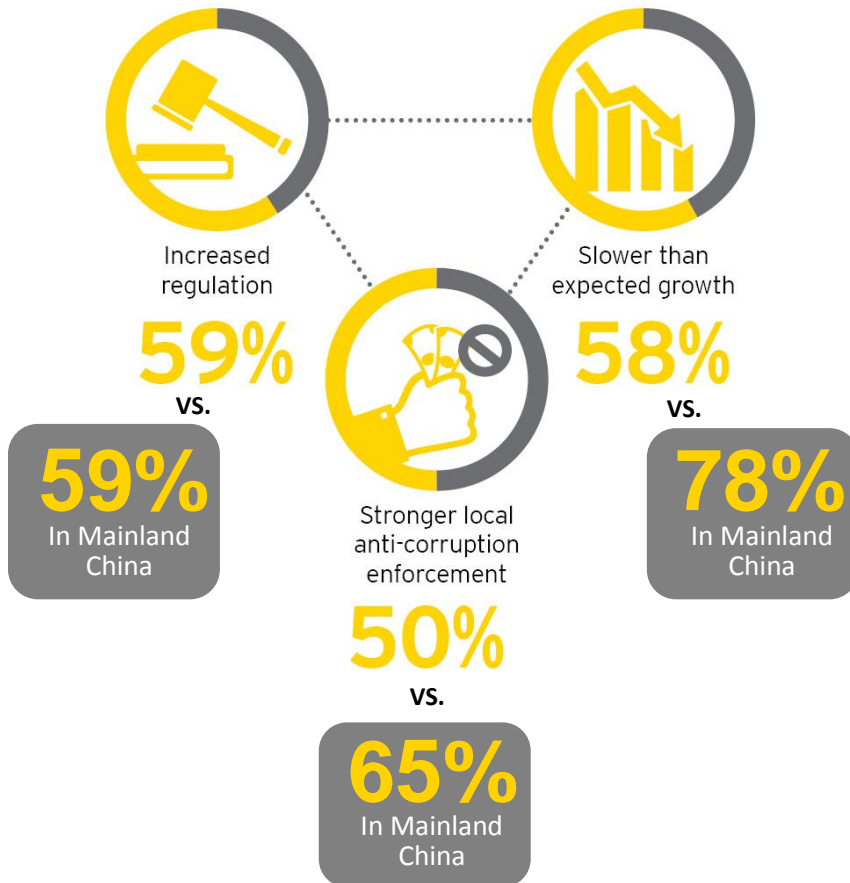
Fraud Investigation & Dispute Services

Agenda

- ▶ Compliance becomes increasingly complex
- ▶ Ethics – vital in the war for talent?
- ▶ Internal policies, processes and procedures – are they working?
- ▶ Value chain – ethically aligned?
- ▶ Key messages
- ▶ Call to Action
- ▶ Q&A

Compliance becomes increasingly complex

Top 3 challenges to Asia-Pacific companies

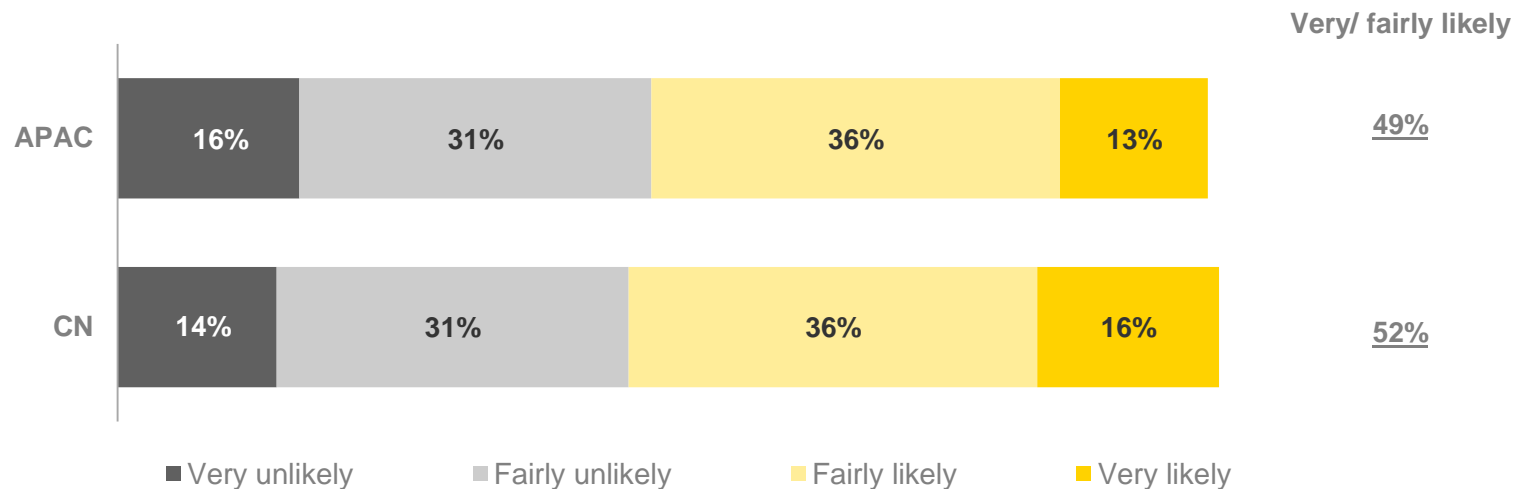


- ▶ Respondents report business success is being challenged by these 3 key factors the markets they operate in.
- ▶ Increased regulatory demands are requiring companies operating in APAC to look at increasing numbers of financial transactions and relationships in greater depth.
- ▶ At the same time, the talent pool for qualified compliance professionals is limited with APAC companies finding it difficult to recruit and retain such talent.

Compliance becomes increasingly complex

Local management's stance on unethical behaviors during difficult times

49% of Asia Pacific and 52% of Mainland China respondents say when their organization operates in a difficult market or experiences a slowdown in business, local management would act in an unethical or questionable manner to improve its market position



Ethics – vital in the war for talent?

Workforces highly aware of bribery and corruption



60%

of respondents believe bribery/corrupt practices happen widely in their country

vs. 80%
In Mainland China

Bribery and corruption remain prevalent throughout APAC, with 6 out of 10 respondents agreeing that corruption happens widely in their countries. **Over half attribute this to tough economic times and competition.** This jumps to a much larger percentage of **80% within Mainland China agreeing that corruption happens widely in their industries.**



1 in 4

respondents say their colleagues are aware of but do not report fraudulent activities.

vs. 30%
In Mainland China

27% say that, even though their colleagues are aware of fraudulent activities, they do NOT report them. For Mainland China, it is higher at 30%.

Ethics – vital in the war for talent?

Respondents unwilling to work for companies involved in bribery and corruption

78% of Asia-Pacific and 72% of Mainland China respondents say if an organization was involved in bribery and corruption it would affect their willingness to work for that company



78%

of respondents say if an organization was involved in bribery and corruption, it would affect their willingness to work for that company

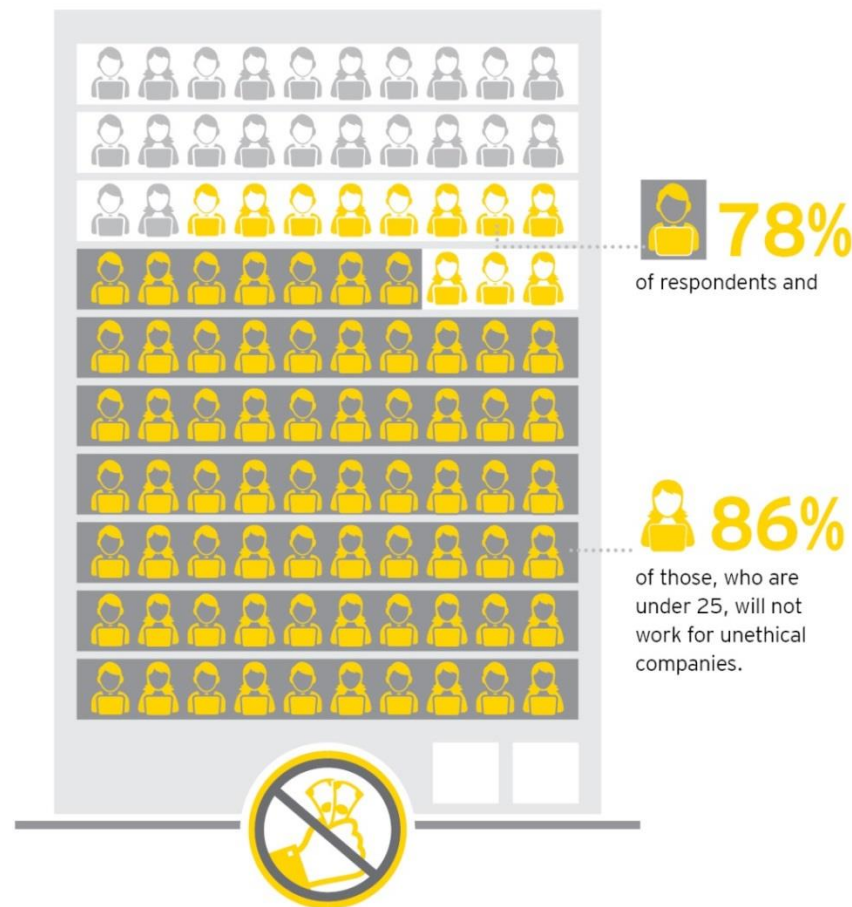
vs. 72%
In Mainland China

Compliance has always been about protecting value – avoiding financial loss and reputational risk. But it also encompasses talent: the very core of an organization, essential for its survival.

Ethics – vital in the war for talent?

Respondents unwilling to work for companies involved in bribery and corruption

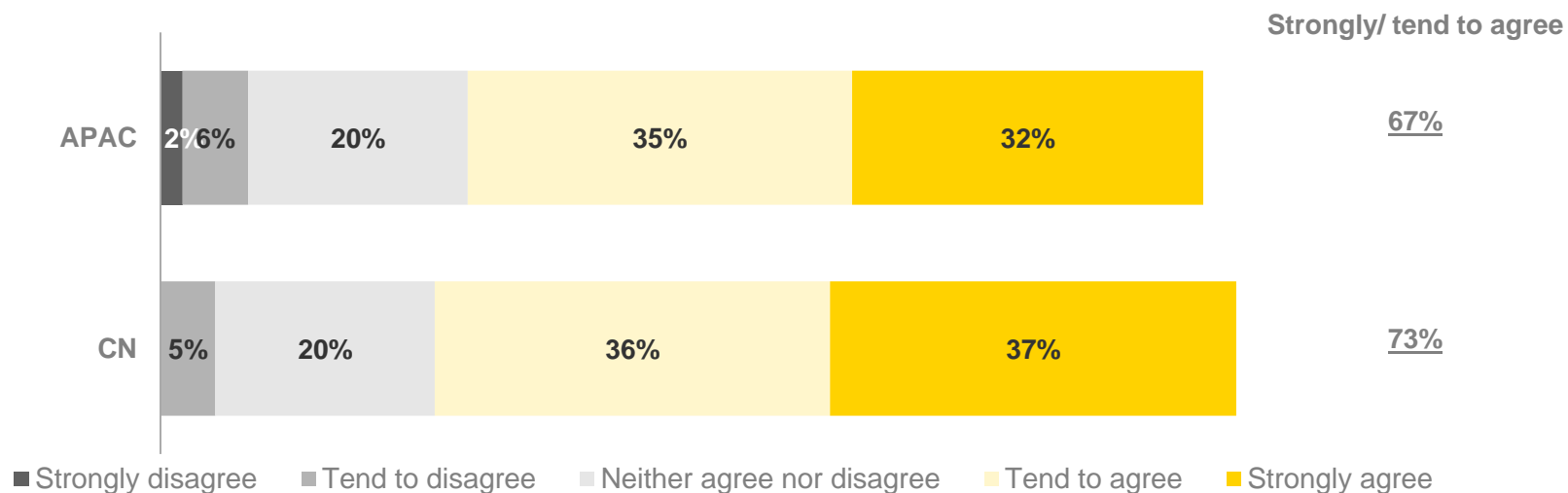
- ▶ **An overwhelming 86% of total respondents aged under 25 (Millennials) say they are unwilling to work for, or would leave an organization involved in bribery or corruption.**
- ▶ For Mainland China, 18% would be willing to work for such employers, but would “need” reassurance about the organization’s actions to address the problem. **And only 10% say it would “make no difference to their willingness to work for them.”**



Ethics – vital in the war for talent?

Strong reputation for ethical behavior is a commercial advantage

Two-thirds of APAC respondents think having a good reputation for ethical behavior is a commercial advantage vs. an even higher **73% of Mainland China** respondents think it's a commercial advantage



Our findings demonstrate that this advantage now includes talent retention, providing a new and powerful imperative for more robust compliance.

Internal policies, processes and procedures – are they working?

Work needed to make ABAC policies more relevant and effective

Since the last APAC Fraud Survey conducted in 2013, many more APAC organizations have established codes of conduct, ABAC policies, training, and whistleblower hotlines. Yet, not all of these initiatives are achieving their objectives.



1 in 2

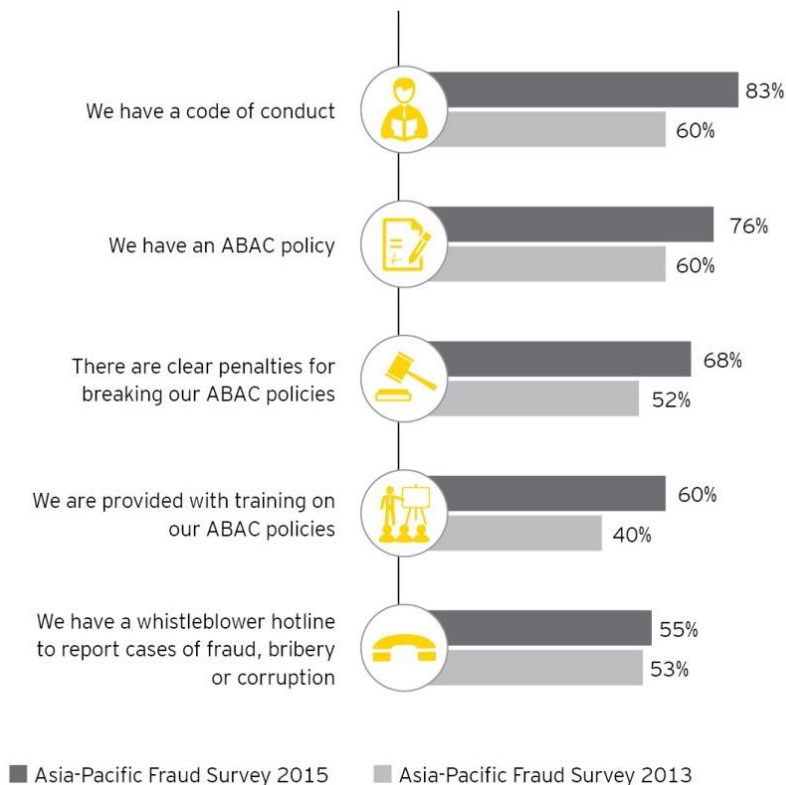
respondents say ABAC policies are irrelevant and ineffective

vs. 59%

In Mainland China

In Mainland China, respondents agree more than the Asia-Pacific average that the relevance and effectiveness of ABAC policies need improvement.

Increased uptake of fraud prevention initiatives in 2015 compared to 2013



Q: For each of the following, please indicate whether it applies, or does not apply, to your organization; or whether you don't know.

2015 Base: All respondents (1,508)

2013 Base: All respondents (681)

Internal policies, processes and procedures – are they working?

Codes of conduct in place but not always followed

2 in 5 respondents say their code of conduct has little impact on how people actually behave



More than 80% of Mainland China respondents say their organization has a code. But 39% believe it has little impact on how people actually behave. A quarter of all respondents report that their colleagues do not comply with their organization's code of conduct.



1 in 4

respondents say that their colleagues do not comply with their organization's code of conduct.

vs. 1 in 5
In Mainland China

Internal policies, processes and procedures – are they working?

Whistleblower hotlines underused

Only around half of the respondents said that they would be prepared to use their company's whistleblower hotline, and this compared with more than 80% of respondents in our 2013 APAC Fraud Survey.

Decrease in the number of respondents prepared to use a whistleblower hotline



Only **43%** of Mainland China respondents would be prepared to use a whistleblowing hotline

Q: Which, if any, of the following would characterize your willingness to use a whistleblower hotline?

2013 Base: Respondents whose companies have a whistleblower hotline (245)

2015 Base: Respondents whose companies have a whistleblower hotline (828)

This drop appears to be **due to respondents being increasingly concerned about the insufficient legal protection and the lack of confidentiality for whistleblowers**. Whether there are protections in law or not, the whistleblower policies need to reassure employees that they will get the protection and confidentiality they need.

Value Chain – ethically aligned?

Due diligence required to manage third-party risk



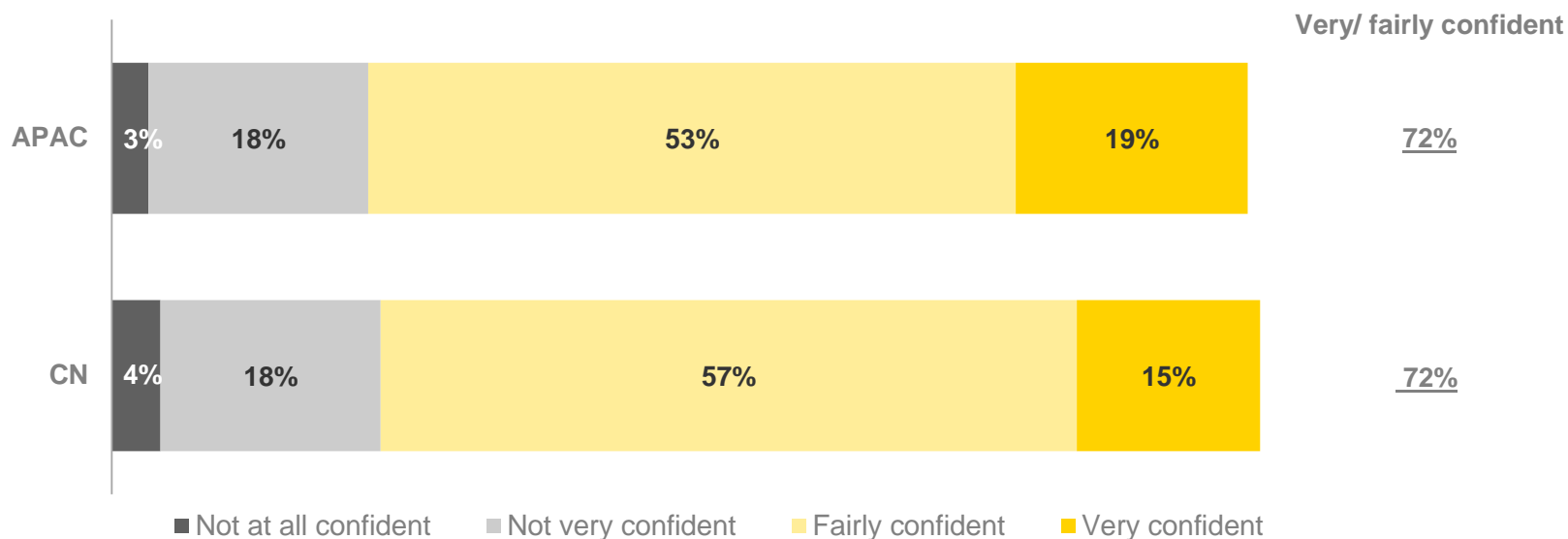
- ▶ More than 50% of all respondents think third-parties are a significant risk to their business in relation to ABAC compliance. However, **Mainland China averages were 5-10% higher than the APAC averages**
- ▶ Entering into joint ventures requires as much due diligence as an acquisition given the legal and reputational exposure it creates. At times, JV's are more risky, as companies may have less transparency and operational control over their partners.

Value Chain – ethically aligned?

Due diligence required to manage third-party risk

72% of survey respondents in Asia-Pacific and Mainland China

are confident that their organization is effectively managing the fraud, bribery and corruption risks associated with third parties (joint venture partners, distributors, agents and vendors)



Value Chain – ethically aligned?

Economic and trade sanctions poorly understood

The consequences of being found guilty of breaching economic and trade sanctions are serious with fines and settlements with regulators for such breaches that total in the billions of US dollars.



Yet around **40% of respondents don't understand the importance and impact of sanctions or the consequences of dealing with parties on the sanctions lists and 1 in 3 wouldn't consider the risks of doing business with parties that may be on sanctions lists.**

Key messages from the survey

Ethics – Vital in the war for talent?

- ▶ Workforces highly aware of bribery and corruption
- ▶ Respondents unwilling to work for companies involved in bribery and corruption
- ▶ Ethical business key to talent retention

Internal policies, processes and procedures – are they working?

- ▶ Compliance becomes increasingly complex
- ▶ Work needed to make ABAC policies relevant and effective
- ▶ Codes of conduct in place but not always followed
- ▶ Whistleblower hotlines absent or underused
- ▶ Risk-based approach to fraud mitigation using Forensic Data Analytics (FDA)

Value chain – ethically aligned?

- ▶ Risk from third parties underestimated
- ▶ More due diligence required to manage third-party risks
- ▶ Economic and trade sanctions are poorly understood
- ▶ Integrity diligence on investments required

Cyber threats – underestimated?

- ▶ Lack of spear-phishing training puts data at risk
- ▶ More connectivity leads to more vulnerability

Call to action

1. Stronger ethical leadership
2. Strong, effective ethics policies and guidelines
3. Third-party due diligence
4. Forensic data analytics and big data
5. Whistleblower hotlines

Talent retention
+
A more sustainable compliance program

Take control and proactively mitigate risks

Strong ethical leadership

Leadership is vital to embedding a high level of compliance activity across an organization. It is not enough to launch a program and just show support at the start. Executives and senior managers must continuously set the example of ethical behavior and communicate proactively about it. At the board level, non-executive directors should set a challenging plan, ask tough questions and hold senior management accountable for the results.

Strong, effective ethics policies and guidelines

Many companies now have ABAC policies and code of conduct, but now they need to embed ethical behavior into business as usual. This will require strong leadership and proactive communication, such as including a “compliance moment” in every meeting as well as ongoing training. Employees must have greater awareness of cyber threats such as spear-phishing, which seeks either to steal specific commercial data or to wipe data completely, crippling an organization. They also need to understand their responsibilities when it comes to third-party risks and economic and trade sanctions.

Third- party due diligence

To avoid being associated with fraud, bribery and corruption, APAC organizations need to improve their integrity diligence and monitoring of all third parties. They need a consistent, practical diligence process. This should be tiered to ensure that scrutiny increase as higher risks are detected, and to include regular compliance health checks and fraud risks assessments. Companies that lack the necessary scale to resource this process should consider leveraging decision management tools. For companies involved in M&A, risk based ABAC due diligence is also essential pre-and post-acquisition.

Call to action

Big data and forensic data analytics

Large companies create millions of transactions. APAC organizations should leverage FDA, which integrates statistical analysis, anomaly detection, data visualization and text mining to analyze large numbers of transactions. Deployed over large datasets from multiple sources, FDA can help to identify unusual transactions or anomalies, learning from each finding to identify potential unethical behavior or suspicious transactions. By focusing in-house resources on high risk areas, FDA can help APAC companies initiatives, while improving the effectiveness of internal investigations.

Whistleblower hotlines

Whistleblower hotlines are an essential part of a broader fraud, bribery and corruption risks management framework. They are often the first channel of complaint for employees and other stakeholders. But they will only be used if employees are confident that their reports will be dealt with in a transparent and confidential manner and that they will be protected from retaliation. Given most employees would prefer to deal with someone from outside the company, APAC organizations should consider using an independent third party to receive and investigate whistleblower complaints.

Q&A



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APAC no. 03002315

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