



Building a more ethical business environment

Asia-Pacific Fraud Survey 2013



Building a better
working world

Contents

1. Foreword	1
2. Executive summary	2
3. Market landscape	4
Weak control environment	4
Tough times lead to shortcuts	5
Perception of fraud, bribery and corruption in Asia-Pacific	7
4. Prevention and detection tools	9
Using technology to detect fraud, bribery and corruption	9
Whistleblowing schemes	10
Regulations and enforcement	10
5. Conclusion – Take control and proactively mitigate risks	12
6. Market insights	14
Australia and New Zealand	15
China	16
Indonesia	17
Malaysia	18
Singapore	19
South Korea	20
Vietnam	21
7. Survey approach	22
8. Contact information	24

1

Foreword

There is little doubt in most people's minds that doing business in Asia-Pacific carries with it inherent risks, in particular those associated with fraud, bribery and corruption. As Asia-Pacific markets are expected to play a leading role in the global economy over the next decade, companies in these local markets need to develop and effectively deploy local compliance programs and tools that can meet global best practice and can deal with local challenges in order to mitigate the risks of fraud, bribery and corruption.

We surveyed 681 executives, senior managers and working-level employees across eight countries on their perceptions of fraud, bribery and corruption in the countries they are based and asked their opinions on what efforts are being taken successfully to mitigate those risks. All participants of our survey are employed at corporations with a turnover in excess of USD500 million equivalent and the industries covered range from industrial to financial services, from retail to natural resources.

The survey results provide interesting insights and highlight improvements that have been achieved over the last few years. It is clear that the majority of businesses surveyed have created or are in the process of creating policies and procedures to deal with fraud, bribery and corruption. However, too often we see a disconnect in the local application of these policies and tools.

Our Asia-Pacific Fraud Survey also echoes the findings in our most recent Europe, Middle East, India and Africa Fraud Survey¹ and our Global Fraud survey², that the challenging economic conditions in Asia-Pacific have increased the risk of unethical practices. A key question for companies in Asia-Pacific, given the climate of economic austerity, is how to effectively mitigate these risks in markets that are highly competitive and in which companies frequently suffer from weak control environments.

Developing and enforcing laws against fraud, bribery and corruption have been a key priority of governments throughout Asia-Pacific in recent years. Not surprisingly, we find that in markets where enforcement of anti-bribery/anti-corruption (ABAC) laws is more rigorous, the risks are perceived to be reduced. However, our survey highlights that companies' own efforts are lagging, since close to half of the respondents said that the policies are good in principle but do not work well in practice.

Finally, we observe in our survey that although some companies are aware of the methodologies and tools available to take proactive steps to minimize ABAC risks, only a small portion is actively utilizing them. The roll-out of effective whistleblower schemes, the consistent use of forensic due diligence in mergers and acquisitions, and the deployment of forensic data analytic techniques are examples of methods and tools that have proved to be successful in mitigating these risks in Asia-Pacific.

We hope that this survey provides a basis for discussion for companies undertaking or planning to undertake business in Asia-Pacific. Companies need to ensure they ask the difficult questions concerning fraud, bribery and corruption so that the potential threats are not overlooked.



Chris Fordham

EY Fraud Investigation & Dispute Services
Managing Partner of Asia-Pacific

¹ Navigating today's complex business risks – Europe, Middle East, India and Africa Fraud Survey 2013 (EY, 2013).

² Growing Beyond: a place for integrity – 12th Global Fraud Survey (EY, 2012).

2

Executive summary

Wake up call

Despite a decade-long period of high growth enjoyed by foreign and local companies in Asia-Pacific, we are beginning to see a slowdown in parts of the region. Companies are facing budget restrictions and are struggling to meet revenue targets. One in ten respondents told us that bringing forward recognition of revenue or reducing depreciation costs are common practice in the countries where they are based.

In addition, regulators in Asia-Pacific, as well as those in the United States and the United Kingdom, with the Foreign Corrupt Practices Act (FCPA) and UK Bribery Act enforcement, respectively, are adopting a more stringent approach on regulating fraud, bribery and corruption. Companies in Asia-Pacific are struggling to manage the additional regulatory burden. Compliance budgets are also under pressure given the need to invest in monitoring systems to improve risk management.

Our survey across the Asia-Pacific area comprises Australia, China, Indonesia, Malaysia, New Zealand, Singapore, South Korea and Vietnam and highlights three key messages:

- ▶ Weak systems and controls are exposing companies in Asia-Pacific to significant risks as internal controls and compliance programs are not implemented as thoroughly as they should be.
- ▶ The slower growth environment is putting management under pressure to take short cuts.
- ▶ Fraudulent practices are on the rise, and there is a disconnect between the policies that are in place and how they are applied in practice. Overall, one in five respondents considers bribery and corruption to be widespread in their home countries. Whereas if we isolate the rapid growth markets¹, where growth is relatively high but systems and procedures are typically less developed – such as China, Indonesia, Malaysia and Vietnam – the figure is closer to one in two.

In Australia

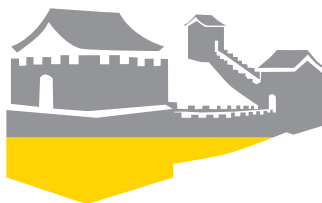
75% of respondents do not appear to operate a whistleblowing program



Read more about Australia and New Zealand market insights on page 15.

In China

34% still believe that company management is likely to take shortcuts when economic conditions are tough



Read more about China's market insights on page 16.

In Indonesia

36% of respondents say it is a commonplace to use bribes to win contracts in their industry



Read more about Indonesia's market insights on page 17.

¹ Rapid growth markets refer to China, Indonesia, Malaysia, South Korea, and Vietnam.



Call to action

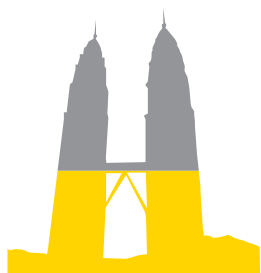
Although companies have communicated their compliance policies to employees, only 40% of our respondents are aware of their company's anti-bribery/anti-corruption (ABAC) policies, clearly there is work to be done.

We have identified the following top five calls to action applicable to companies that want to effectively manage the risks posed by fraud, bribery and corruption:

1. **Open two-way communication.** Senior management sets the tone from the top down, with a robust framework of rules, employee standards and a culture of compliance. From the bottom up, employees need to take the initiative and step forward when they observe unethical behavior.
2. **Share accountability.** Fraud should not be seen as a stand-alone compliance issue, but is a reflection of the organization from top to bottom. Businesses need to have a strong code of ethics and to be able to implement disciplinary procedures for breaches of the code.
3. **Localize solutions.** Ensure local compliance policies are relevant to global best practices, taking account of local customs and cultures. Providing policies and procedures in local languages will improve their application in practice.
4. **Conduct regular assessments.** Undertake regular ABAC risk assessments by local independent parties to ensure that subsidiaries adhere to local, as well as any relevant overseas, regulations.
5. **Invest in resources and tools.** Plan ahead by investing in resources and tools today, to effectively detect and deal with the fraud risks of tomorrow.

In Malaysia

39% say bribery and corruption practices happen widely



Read more about Malaysia's market insights on page 18.

In Singapore

59% of respondents say that their anti-bribery and corruption policy is good in principle but does not work well in practice



Read more about Singapore's market insights on page 19.

In South Korea

86% of respondents tell us that policies are good in principle but do not work in practice



Read more about South Korea market insights on page 20.

In Vietnam

52% of companies are concerned about money laundering in the next 12 months



Read more about Vietnam market insights on page 21.

3

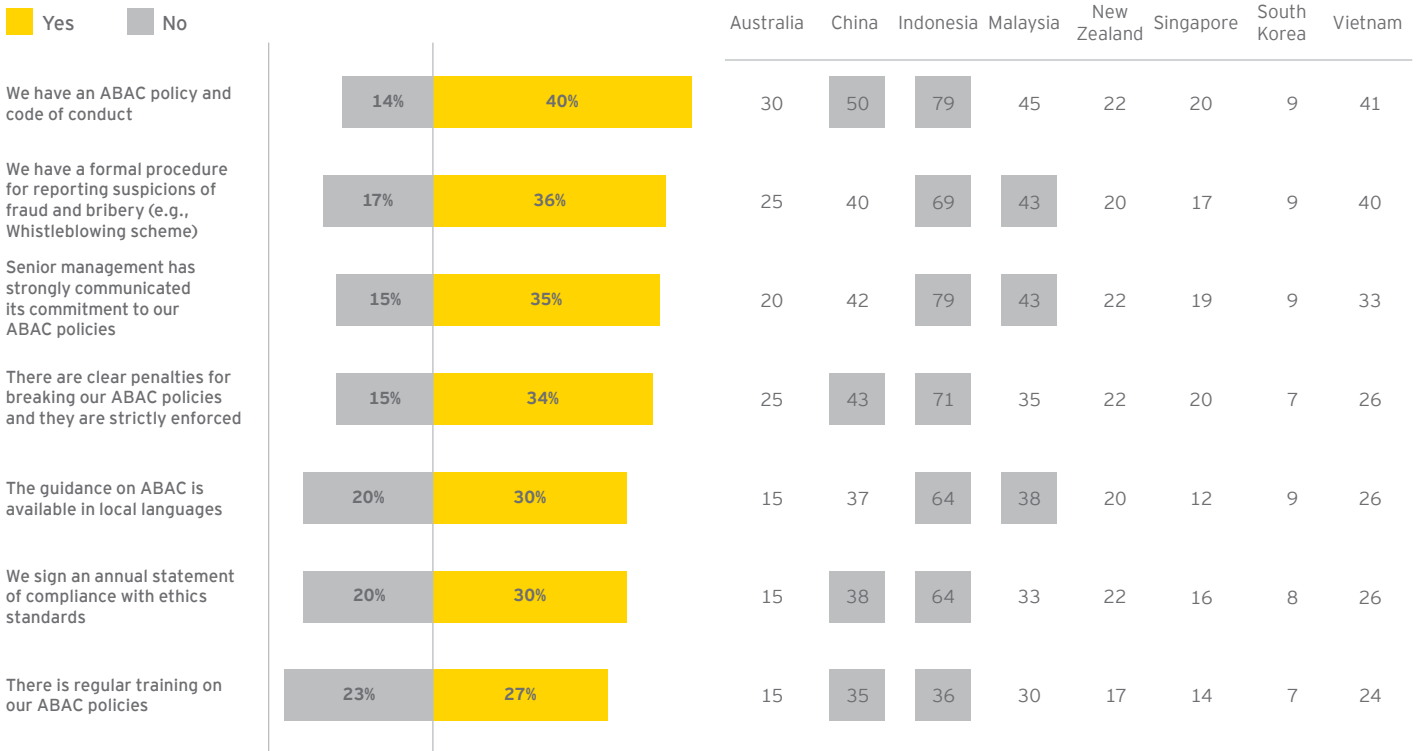
Market landscape

Weak control environment

We found that the risk of fraud, bribery and corruption is greater in rapid growth markets¹. This may be due to a weak control environment that results in policies and procedures being implemented differently from global compliance frameworks. Companies operating in local markets may also feel compelled to operate in line with local business culture, resulting in conflicts with global compliance regimes.

Forty percent of respondents said their companies have an ABAC policy or code of conduct in place and 35% confirmed that their senior management has communicated its commitment to these principles. However, compared with our Global Fraud Survey² (81% and 84%, respectively) and our Europe, Middle East, India and Africa (EMEIA) Fraud Survey³ (57% and 50%, respectively), these Asia-Pacific Fraud Survey figures indicate that companies here are still well behind the rest of world.

Figure 1
Perception of compliance policies



Q: For each of the following statements, please tell me whether it applies, or does not apply, to your organization, or whether you don't know?

Base: All respondents (681)

The "Don't know" percentages have been omitted to allow better comparison between the given responses.

¹ Rapid growth markets refer to China, Indonesia, Malaysia, South Korea, and Vietnam.

² 12th Global Fraud Survey (EY, 2012).

³ EMEIA Fraud Survey 2013 (EY, 2013).



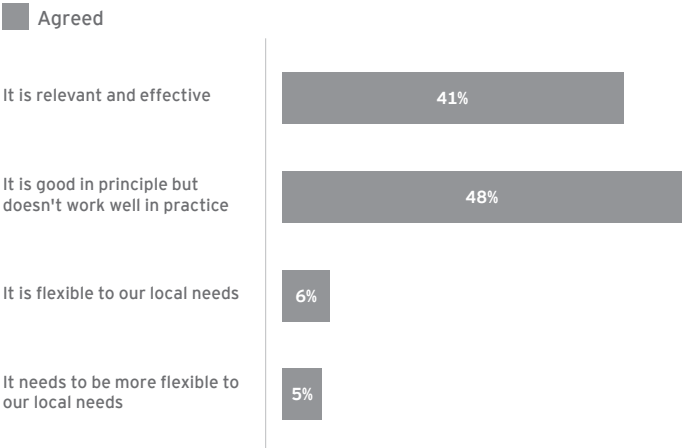


However, employees remain unconvinced of the effectiveness of these policies, with almost half the respondents tell us that while their companies' ABAC policy is sound in principle it does not work well in practice. This is especially the case for respondents in Australia (75%), New Zealand (62%) and South Korea (85%).

Tough times lead to shortcuts

Companies are often under pressure to show positive results to stakeholders regardless of market conditions. This can create a higher fraud risk in volatile markets. Twenty-seven percent of survey respondents say that company management is likely to take shortcuts to meet targets when economic times are tough and 19% of respondents reported that bribery and corruption practices have increased because of tough economic times and increased competition.

Figure 2
Effectiveness of company policy



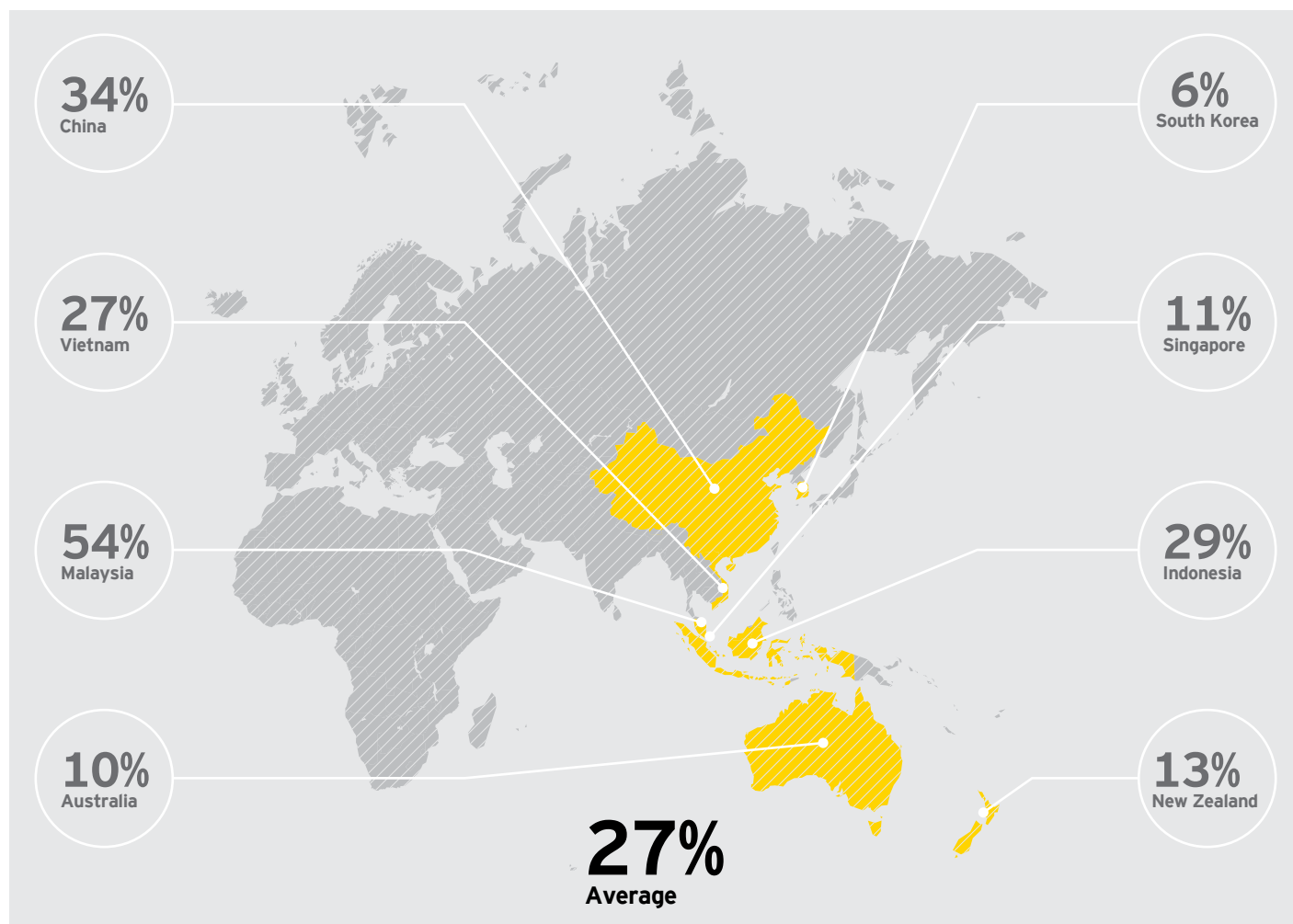
% of respondents who agreed with the statement								
Australia	China	Indonesia	Malaysia	New Zealand	Singapore	South Korea	Vietnam	
20	47	50	55	32	33	14	38	
75	37	50	35	62	59	85	51	
5	10	0	5	5	4	2	6	
0	7	0	5	2	4	0	4	

Q: Which, if any, of the following apply to your company's ABAC policy?
Base: All respondents (681)





Figure 3
Likely to take shortcuts to meet targets when economic times are tough



Q: %Strongly agree and tend to agree: Company management is likely to take shortcuts to meet targets when economic times are tough
To what extent do you agree or disagree with each of the following statements?
Base: All respondents (681)





A number of recent fraud cases in Asia-Pacific highlight the potential danger of companies intentionally misstating their financial statements. Eleven percent of respondents said that bringing forward recognition of revenue or reducing depreciation costs is a common practice in the countries in which they are based. Regular local anti-fraud assessments and persistent top-down commitment to monitoring can act as a deterrent to reduce the risk of intentional financial misstatement occurring.

Perception of fraud, bribery and corruption in Asia-Pacific

The risk of fraud, bribery and corruption in one form or another continues to expose companies to monetary and reputational losses. Developing compliance programs to counter fraud, bribery and corruption within companies has been a key focus for several years, especially in Asia-Pacific's rapid growth markets.

Figure 4
Perception of fraud, bribery and corruption

Agreed

Bribery/corrupt practices happen widely in the country where you are based

21%

In your industry, it is common practice to use bribery to win contracts

9%

Bribery/corrupt practices have increased because of tough economic times and increased competition

19%

Government efforts against bribery have had a substantial impact on the level of bribery in the country you are based

26%

% of respondents who agreed with the statement								
Australia	China	Indonesia	Malaysia	New Zealand	Singapore	South Korea	Vietnam	
0	21	79	39	8	1	2	36	
0	9	36	15	3	0	0	26	
5	19	36	29	7	6	4	39	
15	35	50	56	12	15	9	13	

Q: For each of the following statements, can you tell us whether you think it applies, or does not apply or whether you don't know?

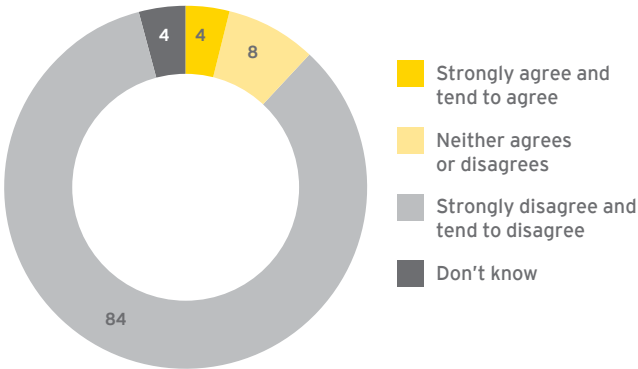
Base: All respondents (681)



Our survey indicates a large variation in the perceived risk of fraud, bribery and corruption between different countries in Asia-Pacific. Not surprisingly, we find that in markets where enforcement of ABAC laws is more stringent and has been in place for a longer time, the perceived risk is lower. However we also find that the perception of risk of fraud, bribery and corruption in some countries has increased since our 2012 Global Fraud Survey. In China, for example, 21% of respondents agree that bribery and corruption happen widely, compared with 14% in the Global Fraud Survey.

When economic conditions are tough, there is pressure on management to meet sales targets, which can increase the risk of bribery and fraud. There is a clear understanding of the illegitimacy of cash payments to win or retain business, with only 4% of our respondents saying that it is acceptable. However, giving gifts and entertainment to win and retain business continues to be common practice, especially in rapid growth markets such as China (20%), Indonesia (29%) and Vietnam (22%).

Figure 5
Is it ok to offer cash payments to win or retain business (%)



	% of respondents who agreed with the statement where they are based
Australia	0
China	3
Indonesia	7
Malaysia	5
New Zealand	3
Singapore	0
South Korea	1
Vietnam	9

Q: Is it ok to offer cash payments to win/retain business?
To what extent do you agree or disagree with each of the following statements?
Base: All respondents (681)



4

Prevention and detection tools

Using technology to detect fraud, bribery and corruption

When asked what tools are proactively used to detect fraud within an organization, the majority of respondents still indicate that technology is only used as a reactive fraud investigation tool. This means that companies are already one step behind fraudsters when instead they could take proactive measures to minimize the risk of unethical acts before they take place.

Companies need to invest in specialist supported technology tools to proactively detect and reduce the risk of fraud, bribery and corruption. Although businesses are collecting and generating large volumes of data, often referred to as 'big data,' this valuable information is not being used effectively.



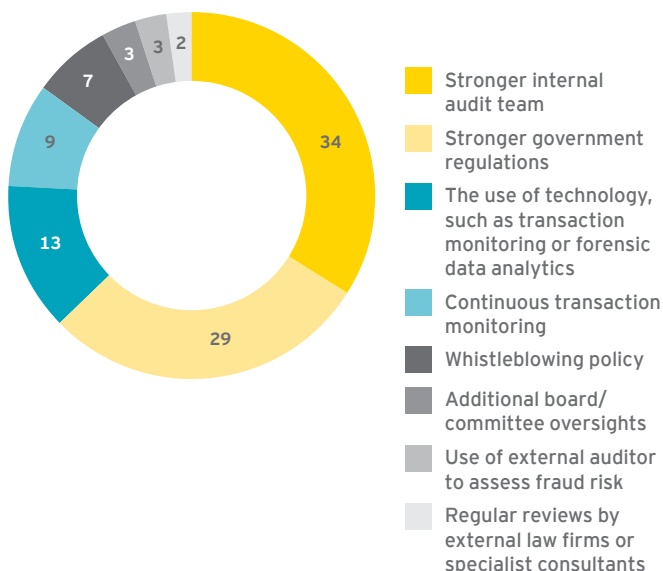
78%

agree that the use of technology to examine all transactions across the company would result in better fraud detection and more effective prevention of corruption

The majority of respondents surveyed (78%) agree that the use of technology to examine all transactions across the company would result in better fraud detection and more effective prevention of corruption. However only 53% of respondents indicate that their companies use technology to monitor activities at higher risk for bribery and corruption. Especially for rapidly expanding organizations, the use of forensic data analytics enables companies to transform a large volume of transactional data into valuable business intelligence within a short period of time. It also assists internal audit and compliance teams to focus on potentially anomalous transactions and enhance their focus of reviews in times where costs are being heavily scrutinized. Nevertheless, companies are beginning to see that the investment in prevention and detection tools often outweighs potential fines from regulators.

"What you still find is that IT investment in most Asia-Pacific countries is seen as a cost and burden rather than as a tool to create valuable insight into an organization's operations," says EY Fraud Investigation & Dispute Services Partner of Greater China, Torsten Duwenhorst, who focuses his work around forensic technology and discovery services. "That is what separates the developed markets from the rapid growth markets. Big data is about companies realizing that if you combine the data from your various systems, you can recycle very simple transactional data that may not mean anything on its own, into business intelligence. This requires a shift in thinking."

Figure 6
Best ways to proactively detect fraud (%)



Q: What do you believe is the best way to proactively detect fraud?
Base: All respondents (681)



Whistleblowing schemes

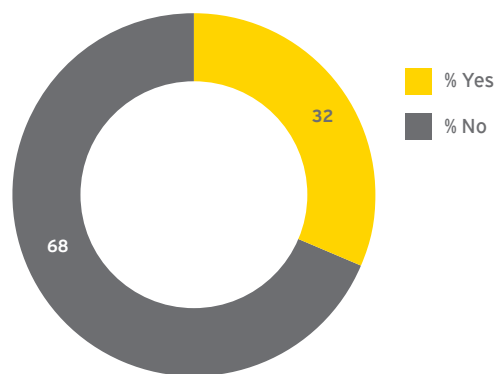
Companies may place an over-reliance on their internal procedures while overlooking the role of whistleblowing schemes that provide channels for employees to discreetly report unethical behavior. Our Asia-Pacific Fraud Survey noted that only 32% of respondents, compared with 53% in our Global Fraud Survey, reported their companies having a whistleblowing scheme, whereas 81% of respondents said that they would be prepared to use this procedure. This suggests a disconnect between the availability of whistleblowing schemes as a means to prevent fraud and employees' ease of access and willingness to use the scheme in practice. A large difference in the attitudes toward the actual use of whistleblowing schemes can also be found across Asia-Pacific. For example, 100% of our respondents in New Zealand said that they would be prepared to use a scheme, compared with only 18% in South Korea.

We also find that respondents in the surveyed countries have different concerns over whistleblowing schemes. Respondents in Vietnam are concerned over the lack of legal protection; in Indonesia, they are concerned over the lack of independence of the person receiving the complaint; and in China, Singapore and South Korea, respondents are concerned that reports would not be treated confidentially.



81%
of those polled said they would be prepared to use whistleblowing scheme

Figure 7
Companies with whistleblowing schemes



Q: Does your company have a whistleblowing scheme?
Base: All respondents (681)

We note that very often companies do not have the latest investigative procedures or enforcement actions in following up whistleblower reports. The lack of a clear follow-up course of action could deter an employee from reporting an unethical act. We therefore recommend companies have a clear written policy in the local language to guarantee whistleblowers protection from retribution.

Regulations and enforcement

A robust regulatory framework, the rule of law, government effectiveness, a culture of compliance and an effective judicial system: things that many companies in the West take for granted; yet in Asia-Pacific, some of these elements are absent. Twenty-six percent of our respondents believe that government efforts against bribery are working, however, companies still want governments to do more.

Increasingly there is an acceptance that enforcing regulation is not perceived to slow down economic growth. This perception has changed over the last few years as companies have come to realize that the cost of regulation is less than the financial impact of fraud, bribery and corruption. Potential fines from regulators and reputational damage stemming from a fraud or bribery investigation are generally seen to be far more expensive than implementing an effective ABAC program. Respondents

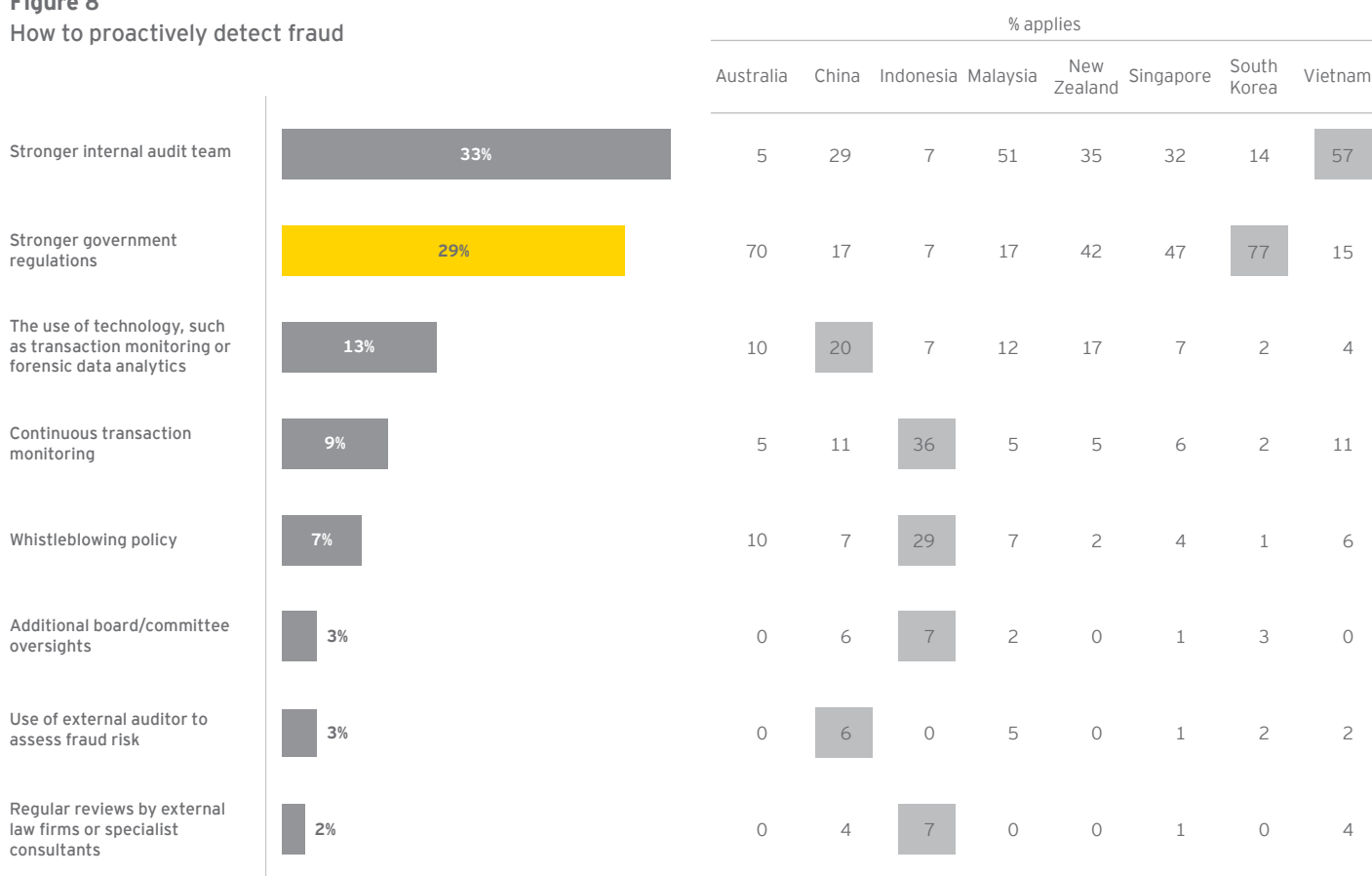


are also keen to see increased regulation to complement company efforts, with 29% stating that more should be done by governments to reduce fraud.

As the global economy becomes more interdependent, companies continue to expand their geographical presence and face a daunting task of staying in compliance with a multitude of local rules and regulations. In the wake of the financial crisis, those regulations appear to be growing as their enforcement becomes more aggressive and extra-territorial as well.

"Educating senior executives is key," says EY Fraud Investigation & Dispute Services Partner of Australia & New Zealand, Paul Fontanot. "Multinational companies in Asia-Pacific need to be mindful of what impact regulations such as the US's FCPA and UK's Bribery Act may have on senior management brought in from overseas. For example, an Australian company with a subsidiary in Indonesia might have a UK citizen as a general manager. If that UK citizen commits bribery, the company could be charged under the UK Bribery Act," says Fontanot.


Figure 8
How to proactively detect fraud



Q: What do you believe is the best way to proactively detect fraud?
Base: All respondents (681)

5

Conclusion – Take control and proactively mitigate risks



In assessing the viability of a new venture, companies have to weigh the inherent risks versus potential reward. Asia-Pacific's rapid growth markets clearly present a unique opportunity to reap significant revenues, yet companies are exposing themselves to unnecessary risks of fraud, bribery and corruption by overlooking the importance of proactive measures, localizing policies and communicating top-down commitments.

We have seen throughout the survey results that there is a disconnect in the perception of fraud, bribery and corruption and between the policies in place and their application. Though companies have come a long way in reducing the risk of fraud, bribery and corruption, they should continue to focus on specific proactive measures when battling unethical practices. Five calls to action have been identified to effectively manage these risks.

Open two-way communication

Strong communication is vital in the fight against fraud, bribery and corruption. Senior management has to set the tone from the top down with a robust framework of rules, employee standards and a culture of compliance.

From the bottom up, employees need to take the initiative and step forward when they observe unethical behavior. An effective whistleblowing scheme empowers employees to take action and encourages an open dialogue between senior management and employees. We found that even developed markets such as Australia could benefit further from this approach.

Share accountability

Across all markets, compliance programs are not as effective as they could be and employees are not convinced management is serious about the issues. Companies should encourage greater employee input on fraud, bribery and corruption policies. Fraud should not be seen as a stand-alone compliance issue, but as a reflection of the organization from top to bottom. Businesses committed to a code of ethics are not only good at controlling behavior, but also excel at communicating the risks of unethical conduct and in implementing related disciplinary procedures. Punishment of unethical conduct sends a strong message to employees.

Call to action

Localize solutions

Making compliance relevant to local teams does not mean diluting the program or bending the rules. It means engaging local teams to manage specific requirements while retaining a robust and consistent approach. This requires significant investment in terms of training at the local level.

Conduct regular assessments

Companies with robust approaches to fraud, bribery and corruption regularly engage in consultation with independent parties, as well as internally, to formulate a game plan to deal with new issues that arises in the course of doing business. The key for companies to conduct assessment in a robust manner, update regularly, share the findings with the board and use the findings to design the related internal controls. Furthermore, companies with subsidiaries in Asia-Pacific must adhere to both local and overseas regulations and undertake regular ABAC assessments by local independent parties.

Invest in tools and resources

Operating in rapid growth markets presents challenges due to different business customs and having fewer safeguards and procedures in place, compared with more developed markets. Compliance functions are often unable to cope with the volume of data generated internally and from third parties. This is due to a lack of understanding about which data is relevant or a lack of technology to facilitate data collection and analysis. Companies need to think ahead, by investing in resources and tools today to effectively detect and deal with the fraud risks of tomorrow.

6

Market insights



Countries across Asia-Pacific have different approaches to dealing with fraud, bribery and corruption. Though there may be nuances between different countries, most have implemented ABAC legislation and have some form of whistleblowing framework in place.

Australia and New Zealand

Australian legislation on fraud is robust, with clear definitions and appropriate laws in place. Levels of perceived fraud and corruption are also relatively low. None of our Australia respondents, and only 8% of respondents in New Zealand, said that bribery and corruption practices occur widely. When asked whether it is common practice to use bribery to win contracts, the perception was also the same.

Strikingly, for both Australia (70%) and New Zealand (42%), companies told us that the best way to proactively detect fraud is with stronger government regulations. This suggests that local authorities are successful in enforcing rules, something that does not resonate to the same extent in the other Asia-Pacific jurisdictions included in our survey. It is encouraging that although Australia and New Zealand businesses generally believe that their home markets have relatively low levels of fraud, bribery and corruption, they acknowledge the increasing risks in the countries they are looking to grow in.

The culture of whistleblowing in Australia and New Zealand may be evolving, with employees being willing to step forward and speak out about instances of misconduct – 60% for Australia and 100% for New Zealand. Surprisingly, however, 75% of companies in Australia and 87% in New Zealand do not appear to operate a whistleblowing program.

This disconnect between the willingness of using whistleblowing scheme and the existence of these schemes could be because whistleblower protection exists only in the public sector. There is no specific legislation in the private sector, such as guarantees of anonymity or job security, to protect those who blow the whistle. Even so, we believe that in line with best practice, firms should nevertheless self regulate and institute a program as a deterrent against misdeeds to protect whistleblowers as government regulation continues to improve.

There is an increasing focus from senior management and the boards within private corporations on how to combat fraud, bribery and corruption, especially given the cross-border

impact of overseas regulation such as the UK's Bribery Act and the US's FCPA. Companies need to be more aware of the local and overseas regulations to minimize the threat from within to take actions according to those regulations to strengthen their internal control environment. Companies should also take steps to monitor the activities undertaken by staff.

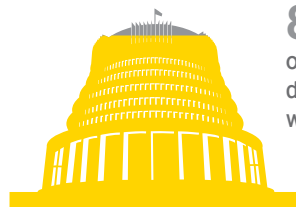
The four main proactive and reactive pillars that companies should implement to minimize risk are:

- ▶ Set the tone in tackling fraud, bribery and corruption. This starts at the top with senior management and is fostered through education of employees on the behavior that is expected of them.
- ▶ Implement proactive tools and a system to monitor and prevent fraud through the use of forensic data analytics. Effectively use large amounts of transactional data and focus on compliance and internal audit reviews.
- ▶ Establish whistleblowing policy and procedure within the organization to provide anonymity reporting and job protection for whistleblower, as well as a clear course of action to investigate allegations.
- ▶ Develop an escalation protocol so that once a fraud is detected, companies have the correct procedures in place to properly investigate and report to the relevant authorities as required. Establishing the root cause(s) of the control failure is critical, and improvements to the control environment should be implemented by the organization.

"Australian companies have not implemented all four pillars. We have done a lot of work with companies on the reactive side, on policy setting and educating senior company officials. However there still needs to be more focus on the monitoring and use of forensic data analysis to mitigate fraud risk," says EY Fraud Investigation & Dispute Services Partner of Australia & New Zealand, Paul Fontanot.



70%
of respondents in Australia say the best way to proactively detect fraud is with stronger government regulations



87%
of companies in New Zealand do not appear to operate a whistleblowing program

China

Within China, regulators appear to be effectively improving their efforts to tackle fraud and corruption, with 35% of our survey's respondents believing that government efforts against bribery have had a substantial impact. In addition, only 9% of companies said that using bribery to win contracts is common practice within their business, which is the second lowest among the rapid growth markets surveyed.

"In the last year, the mainland Chinese government, in addition to the Hong Kong government, has been extremely vocal on the urgent need to fight corruption and we have seen a significant impact in the market. This is a watershed moment; the leadership is pushing reform because they see it as a major threat to the country's growth and prosperity," says EY Fraud Investigation & Dispute Services Partner of Greater China, John Auerbach.

The government's commitment to fight corruption is a significant stride in the right direction. However, it appears that within some companies the commitment from the top is lagging behind, as 34% still believe that company management is likely to take shortcuts when economic conditions deteriorate.

"What companies need to realize is that a short-term gain, such as winning a contract or meeting targets, through unethical practices, exposes them to enormous regulatory problems, and represents a time bomb sitting on the books," says Auerbach.

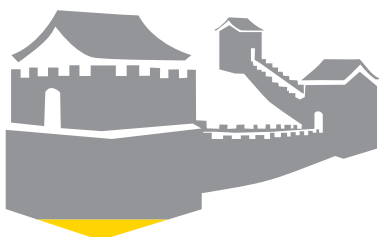
In tackling fraud, bribery and corruption in China, top management needs to set the tone and communicate that the company is committed to doing business with integrity and transparency. Control measures need to be implemented in order to take those general principles and put them into an enforceable policy. Implementation of technology such as fraud detection systems supports the policy goals. The challenge in China is that with rapid expansion, many companies do not have the time and resources to implement a company-wide solution to address fraud risks.

"A large proportion of fraud, bribery and corruption cases in mainland China arise from poor cash management and contractual payment systems. Organizations need to establish transparency of how payments are approved and how cash is paid to employees and vendors. Even if you have these controls in place, because of the vast size of organizations in mainland China, regular forensic audits are essential to prevent the systemic risk of fraud," says Auerbach.

Well trained local teams are better suited to dealing with problems and often come up with solutions that may not have been envisioned by their head office. A different legal system and business culture to commonwealth countries means that rules are frequently interpreted differently to how they appear, thus reinforcing the need for a strong local presence.

As mainland China's economy adjusts to a relatively slower growth rate of around 7.5%, companies may also find the incidence of fraud increasing to compensate for potentially lower profits. Nineteen percent of respondents in China said that fraud, bribery and corrupt practices have increased because of tough economic times and greater competition. It is worth noting, however, that this is a trend among all rapid growth countries.

"Open communication from senior management about the importance of maintaining an ethical culture, along with a credible whistleblowing scheme, can help to prevent fraud from increasing in a downturn," says EY Fraud Investigation & Dispute Services Managing Partner of Asia-Pacific, Chris Fordham.



9%
of companies said that using bribery to win contracts is common practice within their business



34%
still believe that company management is likely to take shortcuts

Indonesia

As a rapid growth market with a population of nearly 250 million, Indonesia's business potential is huge. Within this competitive environment, it may come as no surprise that 79% of those surveyed said that bribery and corruption is widespread, with 36% saying it is a commonplace to use bribes to win contracts for short and long term business.

Despite the clear challenge in reducing unethical practices, 50% of companies told us that government efforts have had a substantial impact on the level of bribery. However, 79% noted that there should still be more supervision by regulators and government in the future, to try to reduce the triple threat of fraud, bribery and corruption.

A decentralized system of government where regional bureaucrats often solicit bribe payments to assist companies in the normal course of their duties is a major obstacle. Lacking regulation on the bribery of private individuals in the commercial sphere – unless there are ramifications for the state – is another barrier. The key issue in these cases is the lack of allocated resources to fight fraud, bribery and corruption nationally.

"Although the legislative requirements are not as strict on companies operating in Indonesia as compared to developed markets, we believe companies should proactively implement the same systems and controls in their subsidiaries as in their parent company as this leads to greater stability for the company in the long run," says EY Fraud Investigation & Dispute Services Partner of Indonesia, Amien Sunaryadi.

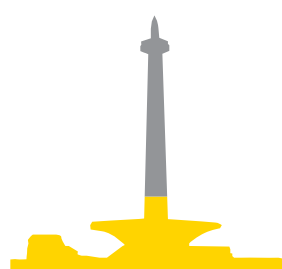
Indeed, survey respondents noted that weak controls also exist when it comes to financial reporting. Twenty-nine percent of those polled said that bringing forward recognition of revenue or reducing depreciation costs is common practice. This is the highest among all of the surveyed markets.

Additionally, 31% of respondents said the use of technology such as transaction monitoring or forensic data analytics to comply with ABAC laws is not being applied; whereas 54% strongly agreed that the use of technology to look at company transactions would have more success in detecting fraud, bribery and corruption.

We have identified a clear gap that could be addressed by using technology to detect unethical behavior. For rapid growth markets like Indonesia, companies need to invest in substantial local resources to implement a dedicated compliance and monitoring function. In addition, education and training of local managers is also key to fostering a local culture of fraud detection and prevention.



79%
noted there should be more supervision by regulators and government in the future to try to reduce the triple threat of fraud, bribery and corruption



29%
of those polled said that bringing forward recognition of revenue or reducing depreciation costs is common practice

Malaysia

Our survey finds that bribery and corrupt practices are prevalent in Malaysia. Thirty-nine percent of respondents say that bribery or corrupt practices happen widely in Malaysia, which is nearly double the Asia-Pacific average of 21%. In addition, 29% of respondents say that bribery or corrupt practices have increased due to tough economic times and increased competition, which is the third highest amongst the countries surveyed.

In contrast, respondents are satisfied with their companies' ABAC policy, with 55% indicating that it is relevant and effective. This clearly shows even though policies are in place and are perceived acceptable, they are not enforced effectively as fraud, bribery and corruption activities continue to be common practice.

According to the survey results, companies in Malaysia have a strong reliance on the established methods to detect fraud, with 51% of those polled stating that internal audit is the best way to proactively detect fraud; second highest among the countries surveyed. However, 21% of respondents indicate they are not confident of the company's existing internal procedures to detect fraud. Only a small portion of those polled considers tools other than the established methods. For example, only 12% of the respondents said that the use of technology, such as forensic technology, is a good method of detecting fraud.

A large proportion of companies in Malaysia have whistleblowing schemes in place, with over 77% of those polled indicating that having a whistleblowing hotline in their companies, which is the highest amongst the Asia-Pacific markets surveyed. However, our respondents expressed concerns over the use of whistleblowing schemes. The top concerns are the lack of

independence of the person receiving the complaints and the fear that reporting unethical behaviors would have a negative impact on their career. With laws against bribery and money laundering, as well as the Whistleblower Protection Act, there is an expectation to see improvements as Malaysia facilitates protected disclosures and shields for whistleblowers against retaliatory action from employers through criminal sanctions. Companies could benefit from a well-instituted scheme governed by clear rules and protections, and raise the awareness of the existence of whistleblowing schemes.

"The role of whistleblowers in the fight against corporate fraud is becoming more apparent and key to curbing corruption. The Whistleblower Protection Act will enable whistleblowers to be protected and we expect that more will come forward to raise issues relating to corruption, misconduct, breach of trust and irregular activities," says EY Fraud Investigation & Dispute Services Partner of Malaysia, Joyce Lim.



Singapore

Compared with other Asia-Pacific markets surveyed, Singapore appears well placed structurally to deal with fraud, bribery and corruption. The Lion City has a robust regulatory framework and a culture of compliance. Singapore is typically perceived as one of the least corrupt countries in the world and our survey echoed this. Only a few of our respondents said that bribery and corrupt practices are widespread in their country and none polled said that it is common practice to use bribery to win contracts in their industry.

However, our survey finds a disconnect between the existing robust regulatory framework and the effectiveness of companies' efforts to implement their own compliance frameworks, together with some naivety to overseas risks. Over 59% of the respondents say that their ABAC policy is good in principle but does not work well in practice, compared to the Asia-Pacific regional average of 48%. Only 17% respondents in Singapore, compared to over 35% in Asia-Pacific, acknowledged that planned investments in new markets will expose the company to new risks.

Furthermore, our survey shows that only 18% of respondents, compared to 35% on average across Asia-Pacific, believe that senior management has strongly communicated its commitment to their ABAC policies. Training also appears to be a concern, with only 14% of respondents reporting that they have received annual training on their ABAC policies, compared to the Asia-Pacific average of 27%.

Our survey clearly suggests that companies in Singapore need to review the effectiveness of their existing ABAC framework. As part of this review, it is important that employees see senior management is committed to the policies and regular training is provided.

"While bribery and corrupt practices may not be widespread in Singapore," says EY Fraud Investigation & Dispute Services Partner of Singapore, John Tudorovic, "companies must not become complacent. We have seen a number of cases recently where Singapore companies and individuals have been involved in alleged bribery cases overseas, and Singapore would need to address such behaviors so as not to taint its image as one of the least corrupt countries in the world."

Meanwhile, our survey also highlights a disconnect in the use of whistleblower schemes. Although below the average of Asia-Pacific (81%), 71% of respondents said that they would be prepared to use a whistleblowing scheme to report unethical behavior, while only 17% reported that their company currently operates such a scheme.

"Our survey clearly demonstrates the need for companies in Singapore to establish effective whistleblower schemes," says EY Fraud Investigation & Dispute Services Partner of Singapore, Lawrance Lai. "Singapore-based respondents have shown their willingness to use such schemes, provided their confidentiality is protected and the whistleblowing reports are handled in an independent manner."

Finally, in keeping with many parts of Asia-Pacific, companies in Singapore still maintain a strong reliance on internal audit to detect fraud. While this remains an effective channel to detect fraud, bribery and corruption, our survey highlights there is a growing acceptance in Singapore that more proactive approaches, such as the use of forensic data analytics, should also be considered.



59%
of respondents say that their
anti-bribery and corruption policy
is good in principle but does not
work well in practice

South Korea

South Korean corporations have enjoyed tremendous success in economic growth over recent years with an expectation of 4.1% real GDP growth in 2014 according to the July edition of the EY Rapid-Growth Markets Forecast¹. Against this backdrop, Korean companies tell us that incidences of fraud, bribery and corruption are not prevalent, yet tougher economic conditions in Asia-Pacific are starting to have an impact. Only 2% of Korean respondents say bribery and corruption happen widely in their country.

Recent cases of bribery within state-owned enterprises suggest that more needs to be done to proactively manage bribery risks. A former chief of the national tax agency is currently being investigated on charges he allegedly accepted bribes in return for favors, and an executive at a state-run nuclear power company is also under a similar investigation. While these cases relate to state-owned enterprises, actions need to be taken by all organizations.

The majority of respondents in Korea (77%) said that the best way to proactively detect fraud is with stronger government regulations. This echoes government's actions as legislation are currently being considered that will make provision for custodial sentences for officials that accept bribes. At present, officials found to have taken bribes can do so with impunity if prosecutors fail to link the bribe to a favor in return.

Companies need to take more action in implementing their ABAC policies with 86% of respondents tell us that policies are good in principle but do not work well in practice.

Strengthening compliance messages from senior management and applying a code of ethics that runs through the very fabric of the organization, will bridge the disconnect between the policies that are in place and how they are enforced.

"The use of forensic data analytics adds weight to a policy, identifies incidences of potentially fraudulent activity and can act as a deterrent to would-be perpetrators," says EY Fraud Investigation & Dispute Services Director of South Korea, Hee Dong Yoo.

Whistleblowing schemes can also support companies' efforts but trust in whistleblowing schemes appears to be low in South Korea. Nearly three quarters of respondents said that they would not be prepared to use the company scheme because they didn't believe their report would be treated confidentially. Management needs to ensure that the procedures put in place ensure that employees feel protected and able to confidently in speak out without fear of repercussion. As South Korean companies continue to grow, they must put in place clear practices to address fraud, bribery and corruption.



86%
of respondents tell us
that policies are good in
principle but do not work
well in practice



77%
say the best way
to proactively detect
fraud is with stronger
government regulations

¹ EY Rapid-Growth Markets Forecast (EY, July 2013).

Vietnam

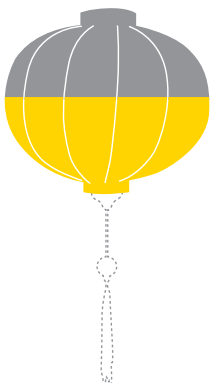
Companies operating in Vietnam, as with the other rapid growth markets, are at a higher risk of exposure to fraud, bribery and corruption. More than a third of respondents reported that bribery and corruption is widespread throughout Vietnam, with 26% saying that it is common practice to use bribes to win contracts.

“Some established mechanisms to mitigate against fraud, bribery and corruption risks are not as developed in Vietnam, as well as in some of the other rapid growth markets in Asia-Pacific. For example in Vietnam, bribery of foreign public officials is not yet a specific offense and there is no corporate liability for acts of subsidiaries, employees and third parties. This means that it is down to individual companies to develop and implement their own local measures to address fraud, bribery and corruption by looking to examples of overseas best practices,” says EY Fraud Investigation & Dispute Services Partner of Vietnam, Saman Bandara.

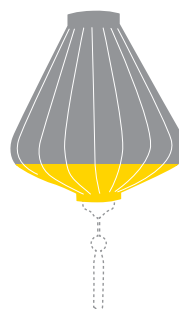
Our survey highlighted that more than half of the companies interviewed are concerned about money laundering during the next 12 months. The Vietnamese banking sector is partly privatized but the state maintains an interest in five banks, which represents half of the assets within the banking system. This means both privatized and state-controlled banks need to implement tools and procedures, if not already, to monitor the risk of money laundering through false declarations, including fictitious investment transactions.

One of the most striking survey results from Vietnam was that 20% of those interviewed said it was justified during times of distress to misstate financial statements, compared to the Asia-Pacific average of 5%. This huge disconnect between Vietnam and the rest of Asia-Pacific indicates that companies in Vietnam need to proactively implement measures to reduce the risks of fraud, bribery and corruption. Whistleblowing schemes combined with training to ensure staff understand the implications of unethical behavior and when to report it would be a step in the right direction to address this disconnect.

Investment in tools and technology, such as forensic data analytics, to mitigate the risk of financial statement fraud and money laundering would address the risks of today and help to build a more ethical working business environment.




52%
of companies are concerned
about money laundering in the
next 12 months



20%
said it was justified in
times of stress to misstate
financial statements

7

Survey approach



The Asia-Pacific Fraud Survey is commissioned by EY and carried out by Asia Risk, which polled 681 executives, senior managers and working level employees from March to May 2013 across the Asia-Pacific area comprises Australia, China, Indonesia, Malaysia, New Zealand, Singapore, South Korea and Vietnam. The polling sample was designed to elicit the views of staff with responsibility for tackling fraud, bribery and compliance matters at multinational corporations, domestic companies and state-owned enterprises across sectors including Oil & Gas, Financial Services, Technology, Private Equity, Retail, Hospitality, and Mining & Minerals.

Number of respondents	
Australia	78
China (Including Hong Kong)	104
Indonesia	100
Malaysia	103
New Zealand	23
Singapore	105
South Korea	68
Vietnam	98
Did not specify	2
Total	681

Role within organization	%
Working level employees	58%
Senior managers	29%
Executives	13%

Number of employees in Asia-Pacific	%
500 +	32%
101-500	35%
51-100	23%
< 50	10%

Sector	%
Oil & Gas	14%
Financial Services	21%
Technology	17%
Private Equity	15%
Retail, Hospitality	10%
Mining & Minerals	13%
Automotive Products	7%
Other	3%

8

Contact information

EY Fraud Investigation & Dispute Services practice has a global reach. Listed below are our country and territory leaders. For more information, visit www.ey.com/fids.

Local contact	Name	Telephone
Global and EMEA Leader	David Stulb	+ 44 20 7951 2456
Americas Leader	Brian Loughman	+ 1 212 773 5343
Asia-Pacific Leader	Chris Fordham	+ 852 2846 9008
Afghanistan/Pakistan	Shariq Zaidi	+ 92 21 3568 6866
Argentina	Andrea Rey	+ 54 1145 152 668
ASEAN	John Tudorovic	+ 65 6309 8778
Australia/New Zealand	Paul Fontanot	+ 61 2 8295 6819
Austria	Andreas Frohner	+ 43 1 211 70 1500
Brazil	Jose Compagño	+ 55 11 2573 3215
Canada	Mike Savage	+ 1 416 943 2076
Chile	Ricardo Gameroff	+ 56 2676 1414
China	John Auerbach	+ 86 21 2228 2642
Colombia	Liudmila Riano	+ 57 148 473 51
Czech Republic/Slovakia/Slovenia/Serbia/Croatia	Dan Bican	+ 420 225 335 849
France	Philippe Hontarrede	+ 33 1 46 93 62 10
Germany	Stefan Heissner	+ 49 211 9352 11397
Hungary	Ferenc Biro	+ 36 1451 8684
India	Arpinder Singh	+ 91 22 6192 0160
Indonesia	Amien Sunaryadi	+ 62 21 5289 5000
Ireland	Julie Fenton	+ 353 1 221 2321
Italy	Fabrizio Santaloia	+ 39 02 8066 9733
Japan	Naoki Matsumura	+ 81 3 3503 1334
Kenya	Peter Kahi	+ 254 20 2715300

Local contact	Name	Telephone
Luxembourg	Gérard Zolt	+ 352 421 241
Malaysia	Joyce Lim	+ 60 374 958 847
Mexico	José Treviño	+ 52 55 5283 1450
Middle East	Bob Chandler	+ 971 4701 0765
Namibia	Hans Hashagen	+ 26 461 28 9 1162
Netherlands	Angelique Keijzers	+ 31 88 40 71812
Nigeria	Linus Okeke	+ 234 1 463 0479 80
Norway	Elisabeth Roscher	+ 47 24 002 907
Philippines	Roderick Vega	+ 63 2 894 8342
Poland/Baltic States	Mariusz Witalis	+ 48 225 577 950
Portugal	Pedro Cunha	+ 351 217 912 043
Romania/Bulgaria	Burcin Atakan	+ 40 21 402 4056
Russia/Commonwealth of Independent States	Andrey Novikov	+ 7 495 648 9618
Singapore	Lawrance Lai	+ 65 6309 8848
South Africa	Charles de Chermont	+ 27 11 772 3000
South Korea	Hee Dong Yoo	+ 82 2 3787 6833
Spain	Ricardo Noreña	+ 34 91 572 5097
Sweden	Erik Skoglund	+ 46 8 520 599 39
Switzerland	Michael Faske	+ 41 58 286 3292
Turkey/Greece	Dilek Çilingir	+ 90 212 368 5172
United Kingdom	John Smart	+ 44 20 7951 3401
Vietnam	Saman Bandara	+ 84 4 3831 5100

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Fraud Investigation & Dispute Services

Dealing with complex issues of fraud, regulatory compliance and business disputes can detract from efforts to succeed. Better management of fraud risk and compliance exposure is a critical business priority – no matter what the industry sector is. With our more-than-2,000 fraud investigation and dispute professionals around the world, we assemble the right multidisciplinary and culturally aligned team to work with you and your legal advisors. We work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide.

© 2013 EYGM Limited.
All Rights Reserved.

APAC no. 00000027

EMEIA Marketing Agency
1000032

ED None



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com