



**India Corporate Fraud
Perception Survey 2018**

Edition III

For Private circulation only

Section 1

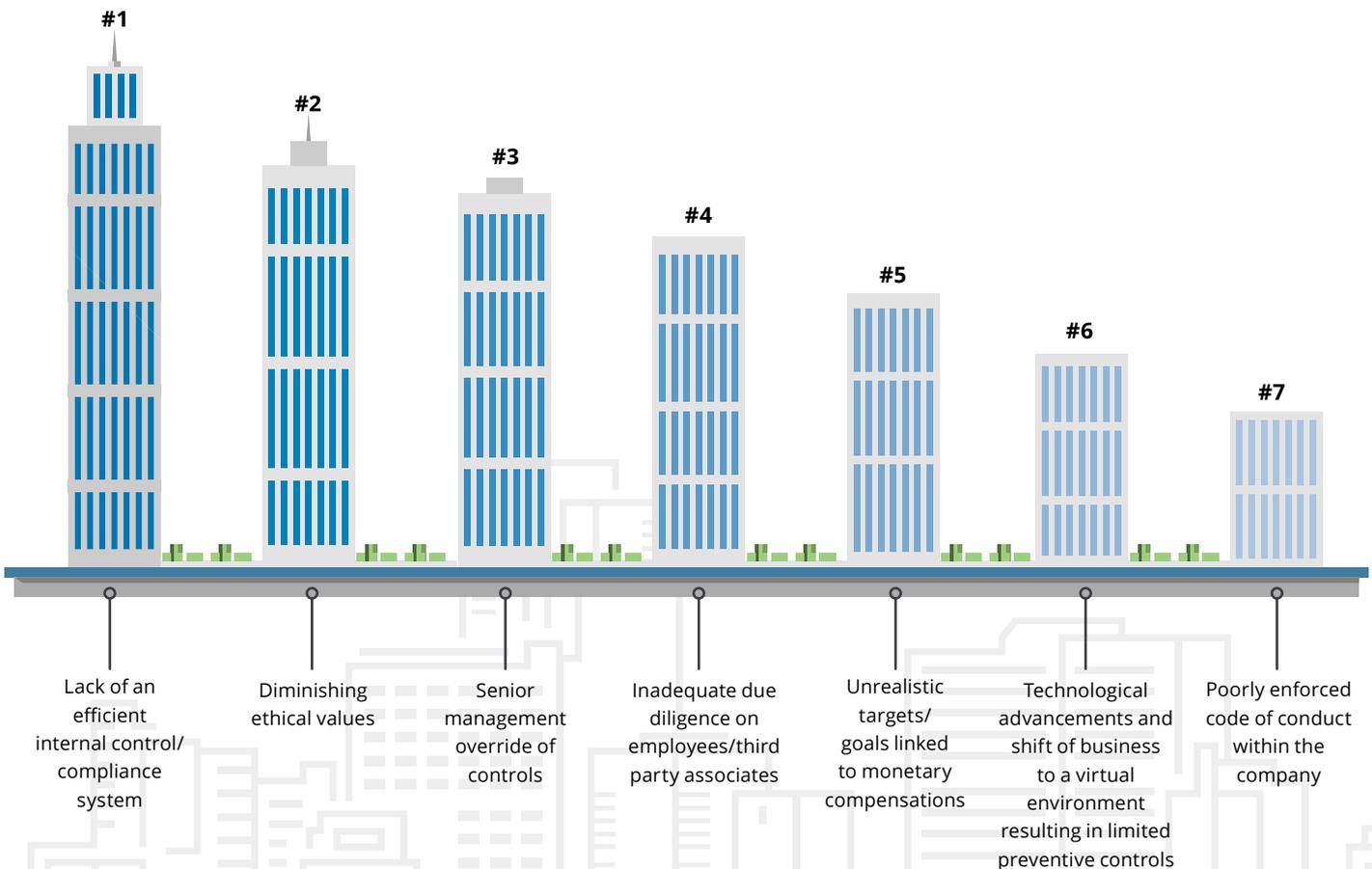
The state of corporate fraud

Key Findings

About 58% of survey respondents believe that incidents of fraud will rise in the next two years.

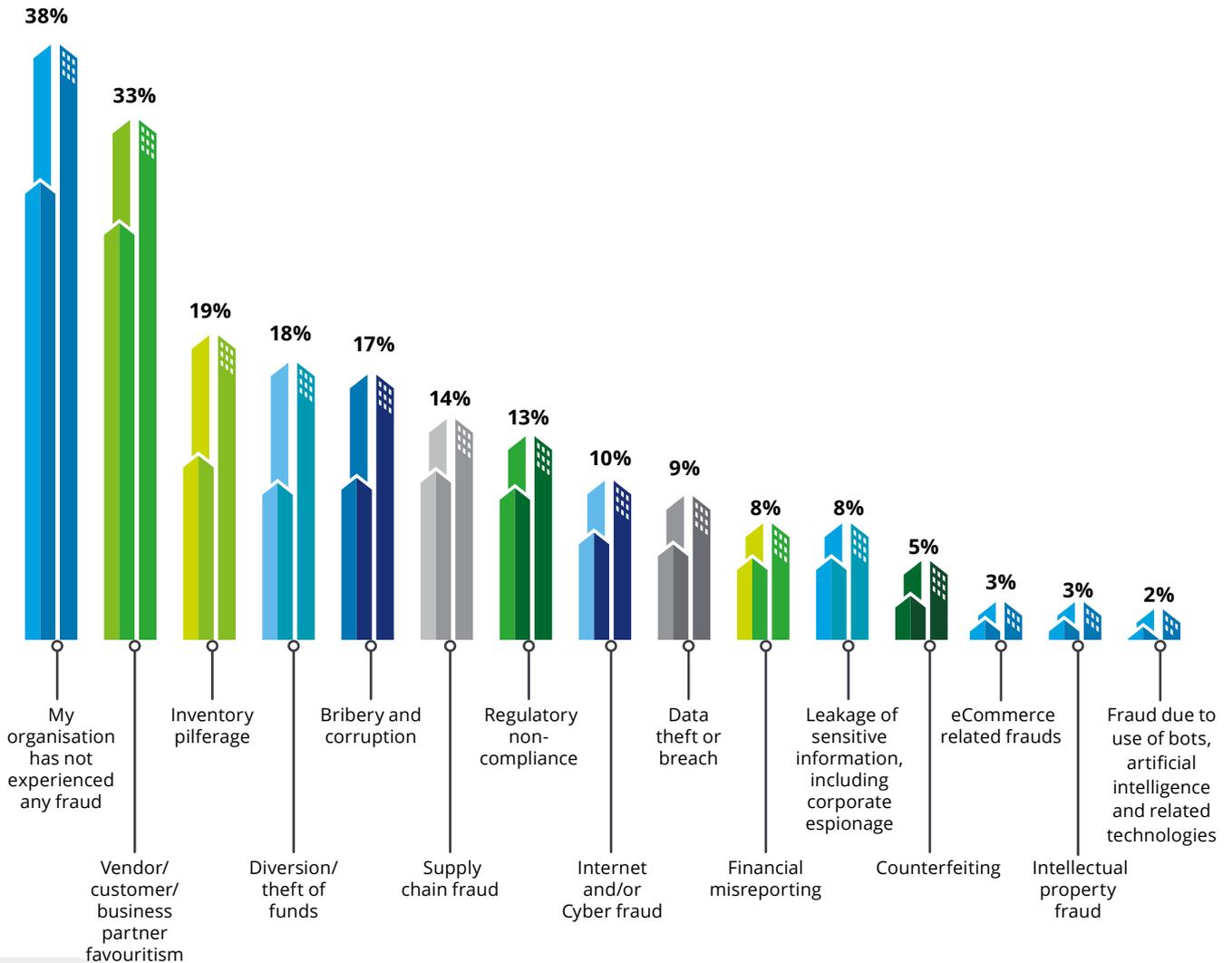


The top three reasons for fraud include (in that order): Lack of an efficient internal control/ compliance system, diminishing ethical values, and senior management override of controls



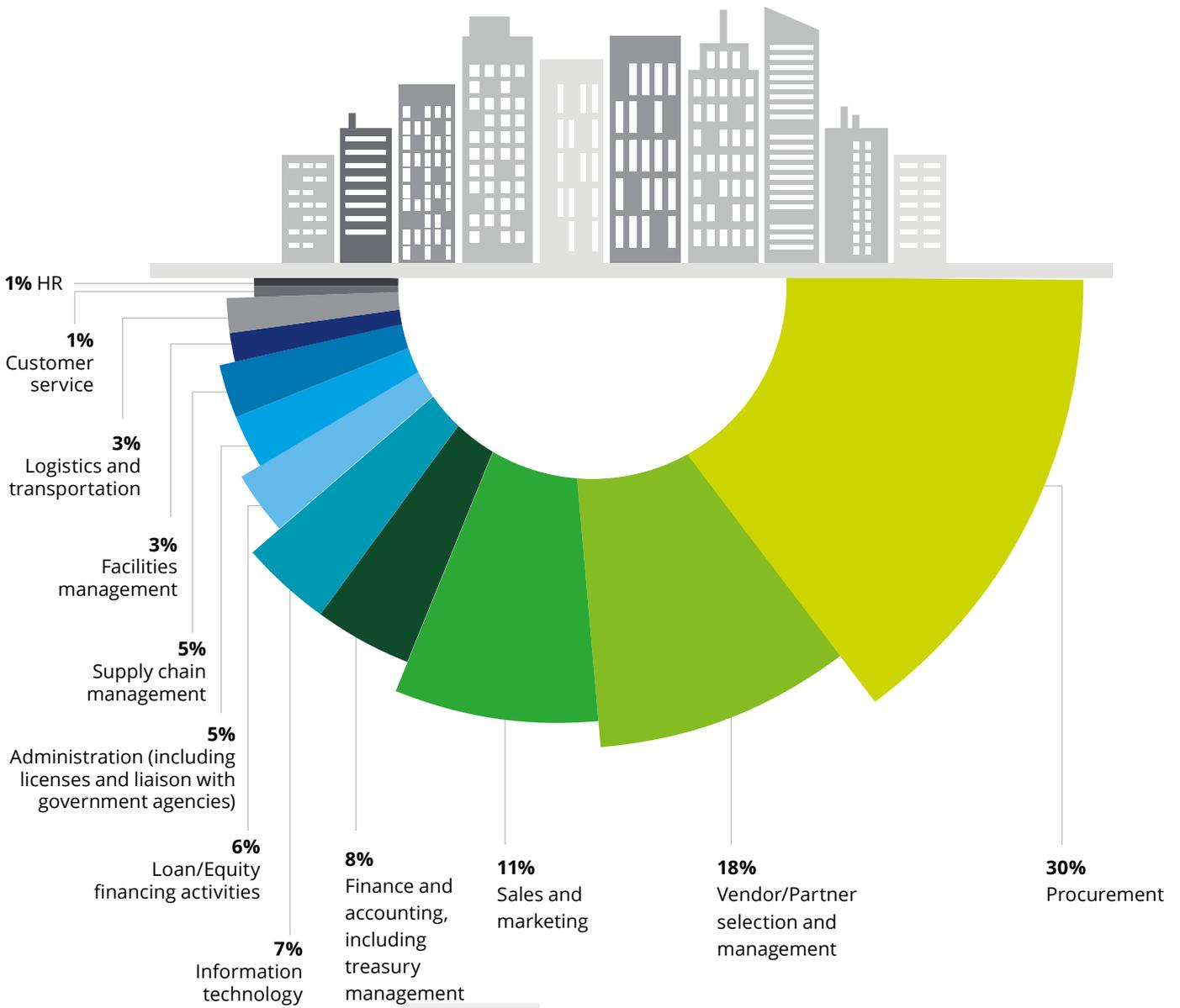
A majority of survey respondents indicated that their organisations had not experienced any fraud. Among those that did experience fraud, misconduct, and noncompliance, the top three schemes were: Vendor/customer/business partner favoritism, inventory pilferage, and diversion/theft of funds.

Which of the following types of fraud/misconduct/malpractice has your organisation experienced in the last two years?



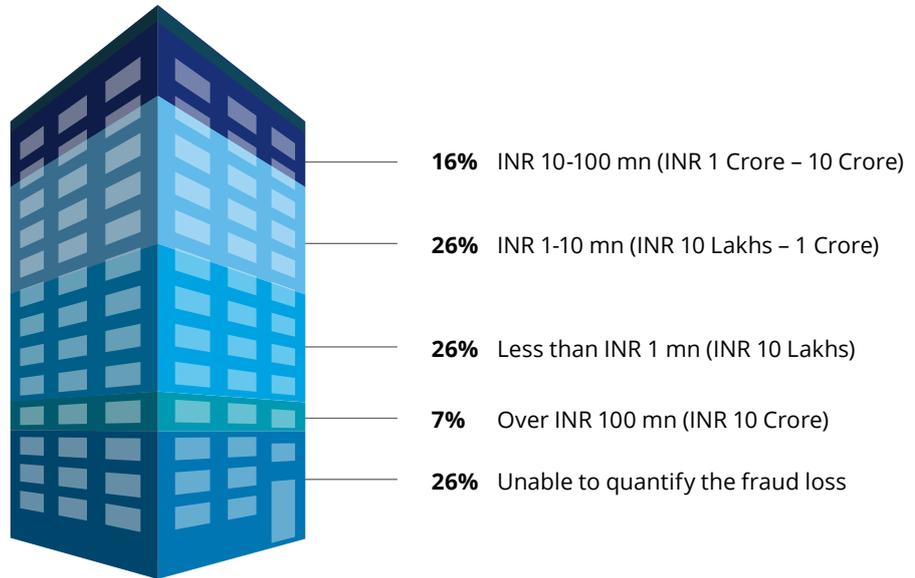
Procurement (30%), vendor selection (18%), and sales and marketing (15%) were identified as processes most vulnerable to fraud.

Which process do you believe is the most vulnerable to fraud risks?



About 49% of respondents indicated losing more than INR 10 Lakhs (INR 1 Million) in fraud losses in the recent past. A little more than a quarter of respondents indicated that they were unable to quantify their fraud loss.

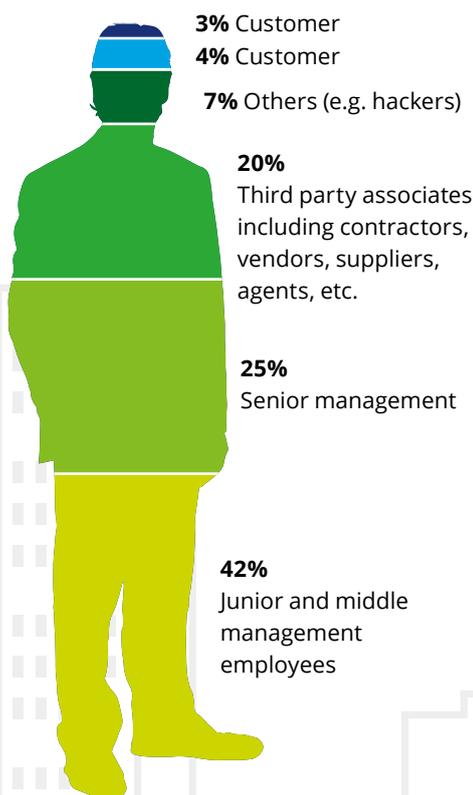
Over the last two years, what do you feel has been the extent of fraud loss suffered by your organisation?



Junior and middle management employees were identified as being most likely to commit fraud. The primary motivation to commit fraud was identified as the ability of the fraudster to improve his/her financial position (57%), and the confidence of not being caught in the act (23%). Hearteningly, the majority of respondents (64%) believe that suspicious behaviors in employees can be identified early on and dealt with appropriately to prevent fraud.

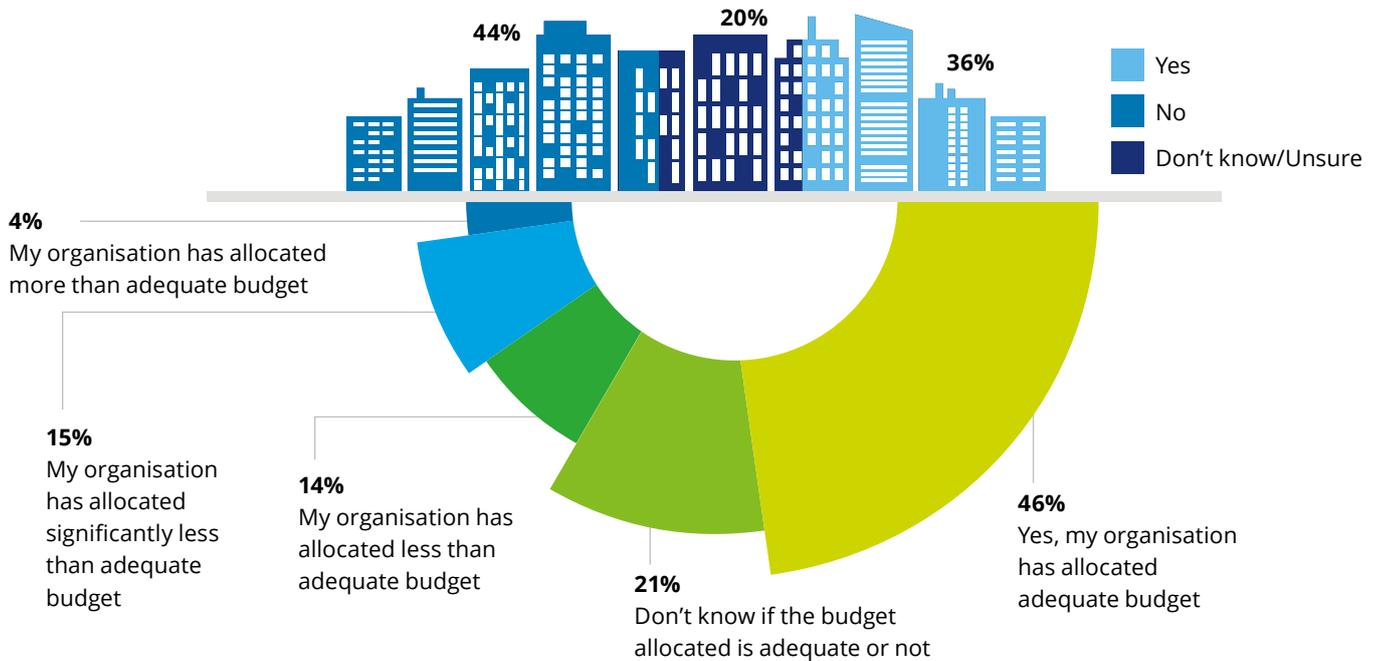
Who do you feel is most likely to commit a fraud?

In your opinion, what is the primary motivation for a fraudster to commit fraud?



Although the majority of respondents (50%) believed that their organisations had allocated adequate budget to deal with fraud-related risks, they felt there wasn't enough commitment from the business community at large to address fraud.

In your opinion, do you think there is enough commitment from the business community at large to address fraud?



Do you believe your organisation has allocated adequate budget and resources to deal with fraud-related risks?

Some questions allowed for respondents to provide multiple choices. For those questions, the total percentage will exceed 100%.

Our observations

Unlike the past two editions of the fraud survey where there was pessimism on the state of corporate fraud and its continued prevalence in the future (with over 80% of past survey respondents indicating fraud would persist), responses to this edition of the fraud survey indicate a rising confidence in organisations' abilities to manage fraud. This can possibly be attributed to the changing fraud landscape and responses to fraud by the regulatory ecosystem.

There is greater sensitivity to the reputational damage that corporate fraud, misconduct, and noncompliance can cause, thanks to actions taken by regulatory bodies (in India and overseas) in the recent past – whether by introducing new anti-fraud and related legislations or through stronger enforcement action on existing provisions. The government too has

undertaken several initiatives to improve India's perception among the global investor community and one of its focus areas is to reduce opportunities for fraud and corruption.

Organisations are also increasingly recognising that fraud is not only a result of a macroeconomic trend of diminishing ethical values, but also of internal systemic loopholes that can be plugged by better controls and limited overrides. As fraud schemes get sophisticated, they are aware that there needs to be greater focus on preventive controls, necessitating adequate investments in these areas.

The top fraud schemes identified remain consistent with our past survey findings, despite the prevalence of automated systems and additional controls to manage the concerned fraud risks that

have been adopted by corporates in the last three to four years in India. We believe better integration of data from varied systems could help further limit the possibility of such frauds in the future. In addition, organisations need to focus on better identification and management of conflicting relationships.

A significant trend indicated in this survey appears to be the ability of respondent organisations to estimate fraud losses more accurately than they have in our past surveys. Respondents also appeared to have significant knowledge of the behaviour of fraudsters, and optimism towards identifying suspicious behaviours in employees with a view to prevent fraud. All these factors point to a maturity in fraud prevention efforts that may likely be a result of investments made towards building a better anti-fraud ecosystem.

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