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*Quality In Everything We Do*

# A Survey into Fraud Risk Mitigation in 13 European Countries



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# Introduction

The program for a comprehensive approach to fraud risk control can be seen to deliver real economic benefit to all stakeholders – including employees.

Fraud remains an underestimated risk. The consequences of fraud and all related unethical behavior, including bribery and corruption, can be devastating to a company, its top executives and other stakeholders. In this Survey, Ernst & Young details findings that suggest that, contrary to broadly held assumptions, employees welcome an assertive approach to the mitigation of fraud risk. The challenge, however, is that many employees appear concerned that their employers have yet to embrace such an approach in practice. There are clear implications for best practice in risk management.

Managing risk is a business imperative. If done well, risk management will make a business better. At a minimum, a company's efforts need to be directed at keeping the organization out of trouble with regulators, law enforcement and stakeholders. Looking specifically at the risk of fraud and unethical behavior, companies can certainly take steps to mitigate this risk. Companies can set the expectation of conduct by employees, and should communicate that expectation clearly and repeatedly. Establishing a corporate code of conduct that employees are aware of, understand and agree to, is an important step. Training and awareness need to be maintained, and providing channels for employees to confidentially report unethical behavior is critical. Breaches of ethical behavior must be dealt with appropriately and, where needed, reactive investigation must take place. Collectively, these efforts form an integral part of effective anti-fraud programs.

The cost of fraud can be significant. If this can be reduced, even marginally, then the program for a comprehensive approach to fraud risk control can be seen to deliver real economic benefit to all stakeholders – including employees. Because the result of reducing corporate fraud directly and positively impacts the profitability of the company, fraud risk management should be seen as a saving or investment, rather than a cost.

The causes and reasons for fraud and related unethical behavior are, like all human behavior, complex. And the key here is that it is human behavior: fraud, bribery and corruption are committed by people, independent from processes and policies. An effective anti-fraud program concentrates on more than putting up barriers designed to prevent fraud, it looks at how best to encourage employees and third parties to work with the company to mitigate fraud.



**Telephone interviews of 100 employees of multinationals were conducted in March 2007 in each of 8 countries in Western Europe (Austria, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom) and 5 countries in Central & Eastern Europe (Czech Republic, Hungary, Poland, Russia and Slovakia). This report deals with the overall results of our Survey. In addition to this report, each country involved in the Survey has a summary report which focuses on the key findings in that particular country. For a full set of reports, please see [www.ey.com/fraud](http://www.ey.com/fraud).**

Essentially, an effective anti-fraud program has a number of components, including:

- setting the proper tone in the company, which covers the code of ethics or code of conduct, fraud prevention policies and optimizing awareness;
- proactive anti-fraud measures such as fraud risk assessment and fraud controls monitoring; and
- a fraud response plan which details how allegations of unethical behavior should be dealt with.

This Survey focuses on those aspects of anti-fraud programs which, broadly, can be expected to have an impact on the workforce as a whole.

It matters what employees know and think about anti-fraud programs since it is their awareness, attitudes and behaviors that major sections of these programs seek to address. While human nature cannot be changed, human behavior can. Our Survey found that employees are not hostile to corporate anti-fraud measures and would welcome clarity and encouragement to act positively in the best interests of the company.

Considerable research by Ernst & Young and other organizations has been done into management's perceptions and experiences of unethical behavior and fraud in their companies. Relatively little, however, is known about employees' perceptions, yet these are central to understanding the effectiveness of any program designed to positively impact employee behavior. These perceptions are particularly important where the program is driven by regulators who – together with other stakeholders – fully expect such programs to be effective and successful in doing what they are designed to do – in this case, manage fraud risk so as to reduce the amount of fraud.

Ernst & Young has commissioned research into employee perceptions of the effectiveness of fraud risk mitigation in 13 European countries. This Survey provides insights into the views of the workforce with respect to fraud-related unethical behavior in their own companies and their own countries: perceptions of the incidence of fraud in their companies, the propensity of colleagues to report suspicions of fraud and their expectations regarding corporate follow-up on reported incidents.

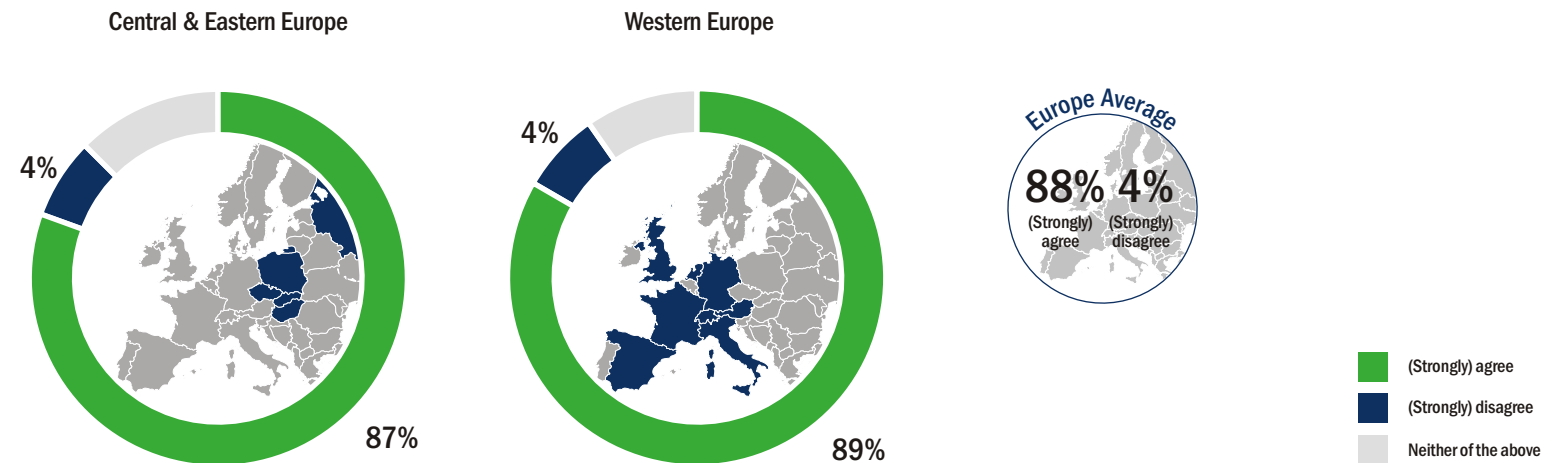
This is the second of a series of Ernst & Young pan-European Surveys focusing on employee perceptions of ethical issues in the international business environment. The outcomes are intended to benefit our clients with new insights and new information on evolving best practices.

# 1. Companies Miss Out on the Fraud Controls that Employees Expect

We asked respondents for their opinions on whether companies should have a code of conduct, then identified whether or not their companies actually had one in place.

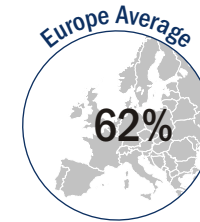
Figure 1. Need for a code of conduct and Incidence of code in companies

All big companies should have a code of conduct



For corporates, there are many benefits to an effective code of conduct. A code of conduct helps employees make better choices when they find themselves in situations where they experience an ethical dilemma. In addition, employees are also better able to account for those choices, both to the company and to third parties such as vendors or clients. It is clearly much easier for employees to challenge unethical demands from others if they are supported or guided by a clear, written, corporate code of conduct.

### My company has a code of conduct



A clear majority, 88% of respondents, believes companies should have a code of conduct, and this is consistent for both Western Europe and Central & Eastern Europe. However, reality falls somewhat short of opinion – only just over half of respondents in Central & Eastern Europe, and almost two thirds of those in Western Europe work for companies that have a code of conduct or where they are aware of the code of conduct. Awareness is the pre-requisite of effectiveness. A company cannot claim to have a successful code of conduct if its employees do not know about it, or do not identify with it.

### The benefits to the company of a code of conduct

Our research indicates that most people would prefer to work in an environment which has a code of conduct. Most respondents believe that people in their companies need a unified and agreed set of guidelines on what is right and wrong in the company. This promotes compliance with a consistent set of ethical behaviors throughout the multinational company, in all countries and in both emerging and developed markets. Without a code of conduct, employees are left to work it out for themselves, and there is no clear set of standards – other than their own personal ethics - against which behavior can be measured.

Consider national legislation, for example: a country can only promote positive behavior amongst its citizens, and prosecute those who break the law, if there is an effective law in place to start with. Similarly, companies with a code of conduct are better able to encourage and insist on desired behavior from their employees, and to deal with the consequences of unethical behavior. This not only decreases the number of fraud-related incidents, but also helps limit the subsequent potential expense and corporate time required to deal with the consequences of fraud, from conducting an investigation, to terminating an employment contract, to instituting criminal proceedings.



**It is essential to have an appropriate employee awareness program around the hotline, and to make sure that there are clear guidelines on when and why to use it, and on whistleblower protection policies in the company.**

## The value of whistleblower hotlines

Having a code of conduct is one thing, reporting on the suspicious behavior of a colleague is something else. Hotlines prove to be one of the most effective ways of obtaining input on undesirable behavior. Recent research suggests that at least 25% of the frauds which are discovered come to light because of reports made via hotlines.<sup>1</sup> And the Association of Certified Fraud Examiners reports that over 34% of fraud comes to light as a result of tips.

These figures are clear evidence that in general, hotlines are an extremely valuable tool in a corporate's anti-fraud program. In particular, anonymous hotlines (using external hotline providers, for example) mean that potential whistleblowers need not be afraid of reprisals from within the company.

However, having a whistleblower hotline is not sufficient to ensure that it is used effectively and to the company's best advantage.

## Awareness a pre-requisite for success

A good awareness program should also take the national culture into consideration. In our 2006 Survey into Unethical Behavior and Fraud<sup>2</sup>, respondents in Hungary, for example, were very clear that they perceive that management sets different standards for themselves than for employees. And in the Netherlands, the same 2006 Survey found that - far more than in other European countries - employees are not perceived to stick to corporate rules on ethical behavior. These types of findings are indicative of differences in national culture that, if taken into consideration as part of a quality whistleblower hotline program, could have a real influence on employee acceptance in those countries.

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<sup>1</sup> KPMG Fraud Survey 2007

<sup>2</sup> Ernst & Young's Survey into Unethical Behaviour and Fraud in 8 European Countries: 2006

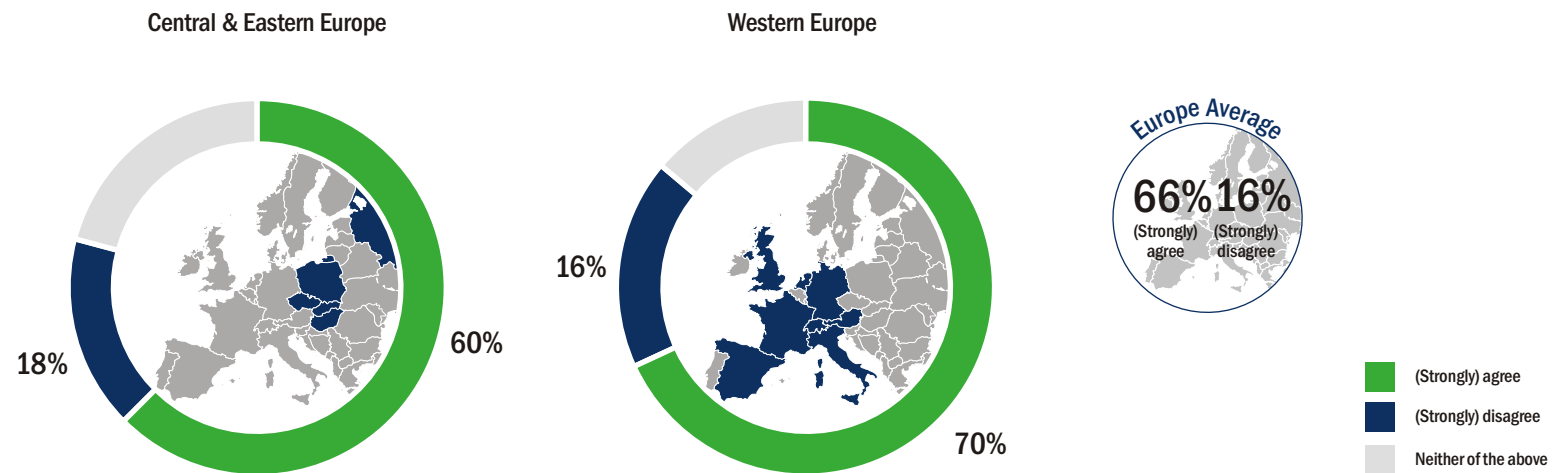


## 2. A Code of Conduct is Considered Effective in Fraud Control

Having established whether or not respondents felt their company should have a code of conduct, we asked them for their views on the usefulness of a code of conduct in preventing and detecting fraud and corruption. Where there is a code of conduct, between 60% (Central & Eastern Europe) and 70% (Western Europe) believe that it is effective in preventing and detecting fraud. They believe that, broadly, people at their company comply with the code. Only 9% (14% Central & Eastern Europe, 7% Western Europe) of respondents across Europe believe that their colleagues would not comply with the code.

**Figure 3. Value of code of conduct in preventing and detecting fraud, bribery and corruption**

The Code is useful in preventing and detecting fraud, bribery and corruption



Base: respondents with a code of conduct in their company n=802 (CEE: 263, WE: 539)

## The code of conduct as fraud risk mitigator

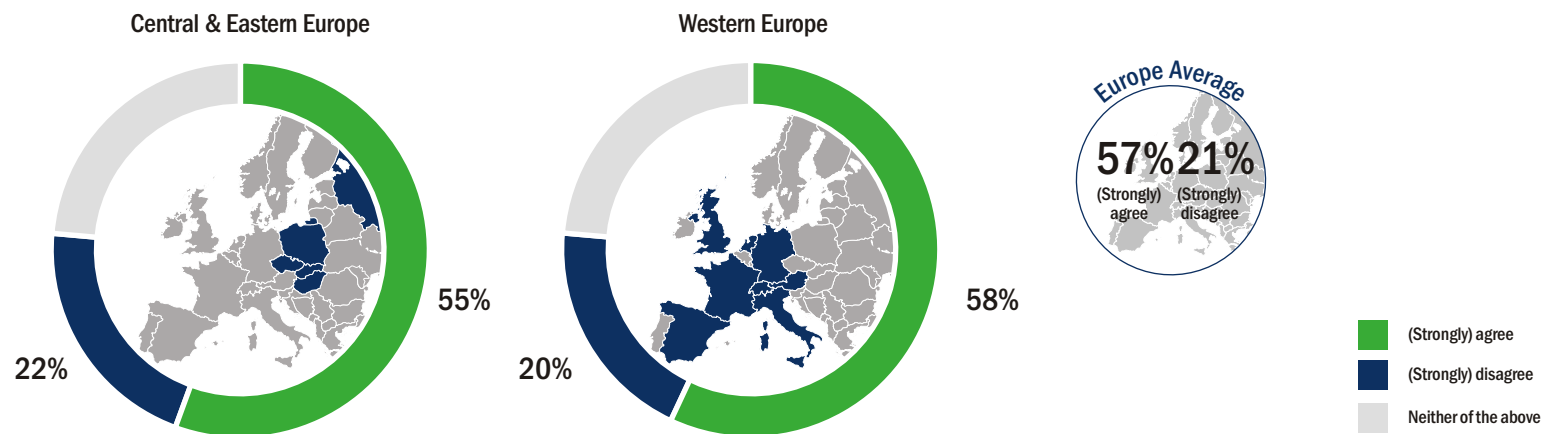
A company that does not have an effective code of conduct is missing a key opportunity to set the proper tone for the organization which significantly undermines corporate efforts to mitigate fraud risk. Our Survey shows that most employees are happy to have a code and are happy to comply with it. They understand a code's value in deterring unethical behavior.

While a code of conduct does not prevent fraud – it cannot and does not create a virtual or physical barrier to wrongdoing – respondents were clear that it is effective as a deterrent. Good reason for companies to carefully consider their code of conduct policies and practices.

Companies should ensure that their code of conduct describes desired or required behavior, rather than listing what is undesirable. To effectively promote desired behavior, a code of conduct should focus on what it means to do the right thing. And the right thing includes being able to report suspected incidents of fraud bribery or corruption.

### Figure 4. Freedom to report suspicions of fraud, bribery or corruption

People in my company feel free to report a case of suspected fraud, bribery or corruption





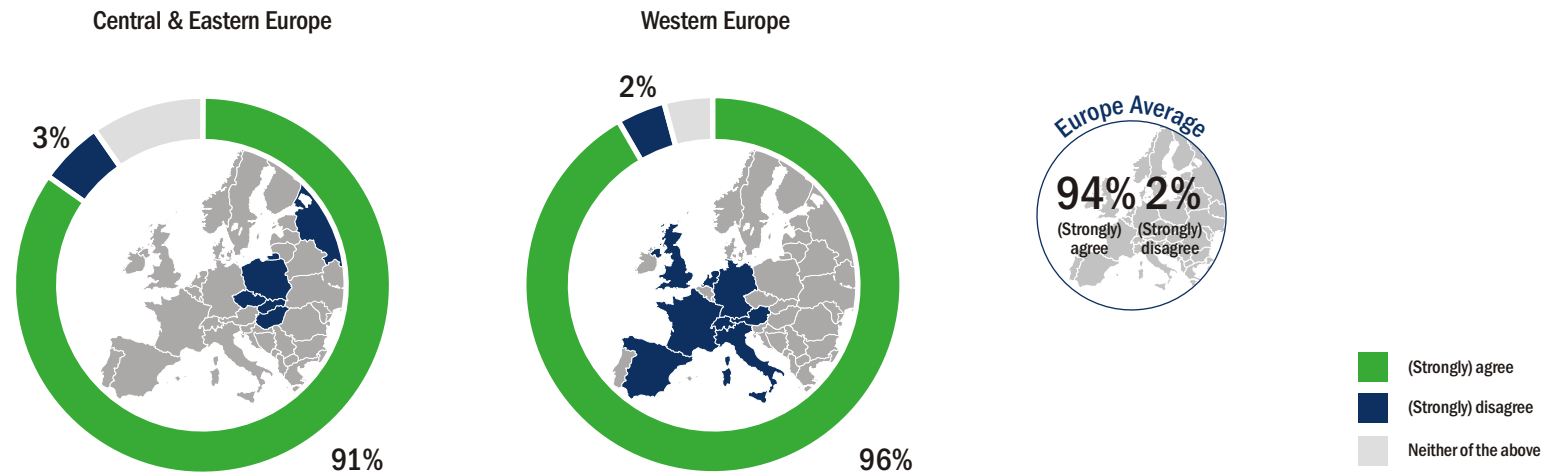


### 3. Consistent, Europe-wide Views on Whistleblower Protection

We asked respondents for their views on whether the rights of an employee who reports someone suspected of fraud, bribery or corruption should be protected. There was almost complete agreement with this statement – 94% of respondents (91% in Central & Eastern Europe and 96% in Western Europe) think the rights of a whistleblower should be protected.

Figure 7. The rights of someone reporting fraud should be protected

In general, if an employee reports someone suspected of fraud, bribery or corruption their company should protect the reporting employee's rights





**Whistleblower protection:  
real cause to pause for thought.**

## Whistleblower hotlines benefit the company

Because employees fear reprisals from their bosses and/or colleagues if they blow the whistle, it is essential for companies (and legislators) to consider formal protection for whistleblowers and to promote means of anonymous reporting. However, a number of companies seem to be having some difficulties with these solutions. And in European countries, legislators appear hesitant to introduce laws that facilitate whistle blowing.

## Cause and effect

Instead of respecting the whistleblower for their loyalty and courage in stepping forward, many whistleblowers fear reprisals from within the company – some with good cause. In our experience, there are companies where the consequence of whistle blowing can be job loss for the whistleblower. This gives real cause to pause for thought: after all - it's not the whistleblower who has done something wrong, but the potential perpetrator. To be encouraged to work with the company to identify and deter unethical behavior, whistleblower rights should be properly protected, and perhaps whistleblowers should even, in justified circumstances, be rewarded for their loyalty.

Some employees prefer to remain anonymous when reporting fraudulent behavior.<sup>3</sup> However, when it comes to investigating an alleged incident of fraud, bribery or corruption, companies naturally expect to be told the identity of the whistleblower. For investigative reasons, it can be a benefit to be able to confer with the whistleblower in order to understand all the details which led up to the report being made. In addition, the company's desire to know the whistleblower's identity may stem from a fear of having the company's reputation damaged.

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<sup>3</sup> See, for example, the ACFE *Implementing Hotlines to Detect and Deter Fraud*, which indicates that half of hotline callers are anonymous.

**While the absence of a proper reporting facility will not deter malicious whistleblowers, it may well deter those who want to make a report in good faith, the loyal employees who care about the company. And deterring the honest employee would be to the cost of the company.**

## **Malicious whistleblowers remain an issue**

All companies understandably fear malicious whistleblowers – individuals who report colleagues without any evidence to support their accusations, or who intentionally report even non-existing events so as to damage a person or the company. Some use this as an argument against promoting whistle blowing or introducing proper reporting systems. However, practice proves that malicious whistleblowers will act anyway, irrespective of the corporate culture and/or the existence of a code of conduct and reporting systems.

The objectives of a whistleblower are to help the company, to report unethical behavior so that this can be dealt with and corrected. A malicious whistleblower, however, has precisely the opposite intention, namely to deliberately damage the person or the company. For corporates, the most effective defense against malicious whistle blowing is a clear process for appropriate reporting, including the possibility of anonymous or confidential reporting, through easily accessible and well-publicized channels, and including corporate and legal protection for the whistleblower. Should a malicious whistleblower avoid the hotline and go public, the company can rightly point out that by not using the in-house whistleblower reporting system, this is an indication of malicious intent.





**Who would respondents turn to if they wanted to make a report about a suspected case of fraud, bribery or corruption? Throughout Europe, their immediate boss – more than any other possibility – was the first, spontaneous, response of those surveyed.**

#### **Central & Eastern Europe**

- Immediate boss (40%)
- Whistle-blowing hotline (10%)
- Higher management (5%)
- Company counselor (4%)
- HR/legal counsel (2%)

#### **Western Europe**

- Immediate boss (42%)
- HR/legal counsel (10%)
- Whistle-blowing hotline (9%)
- Higher management (8%)
- Company counselor (8%)

When asked where they would go to report an incident, more respondents first mentioned going to their boss rather than doing anything else (40% Central & Eastern Europe and 42% Western Europe). In total 63% (Central & Eastern Europe) and 79% (Western Europe) mention going to the boss as a likely route for reporting an incident.

56% mentioned that they would make use of the company hotline, while 55% considered going to higher management.

There are some regional differences on this question. In Western Europe, more respondents mentioned going to HR or legal counsel (56%) and the company counselor (54%) than in Central & Eastern Europe (23% and 35% respectively). Very few respondents in either region (4%) would talk directly to those they think are involved.

## **Corporate response to employee reports**

The range of responses to this question suggests that an effective anti-fraud program requires that every channel needs to be properly available and bosses, management and all potential confidants need to be properly trained in what to do when someone raises a suspicion.

It is reassuring that few people would talk directly to those involved. One of the key aspects of an investigation is securing the evidence before taking any other action. If the employee, or the relevant boss/HR/management person they go to, first discusses the alleged incident with the person concerned, this could seriously and perhaps fatally taint the investigation. Again, this suggests that potential confidants need to be properly trained if companies want to maximize the efficiency and effectiveness of their anti-fraud program. An effective program needs both incentives and opportunities for employees to do the right thing, as well as communicated procedures and examples of what happens to those who are found to have acted unethically to the detriment of the company.<sup>4</sup> By communicating the consequences to employees of doing wrong, other employees are further encouraged to do right.

<sup>4</sup> It is not necessary for names to be named, should national privacy laws advocate against this. Case studies from within the company can be very effective without naming and shaming those involved.

**Best practice for corporates means having a range of options for employees to select from in order to report an incident of suspected fraud, bribery or corruption. However, the success of this part of a corporate anti-fraud program rests fundamentally on a proper, continuous, training and awareness program for those who will be approached first with an incident report.**

## **Corporate training and awareness are essential**

From the corporate perspective, it is reassuring to see that most people are willing to go to their bosses with reportable events, because it suggests trust. However, to justify that trust in situations of wrongdoing, the management concerned has to know how to act. This is true for all receivers of reports on incidents. Being familiar with the company's fraud response policy, knowing how to protect the position of the whistleblower and knowing what appropriate actions to take, and in what order, is mandatory to control the reported situation.

Employees clearly support the well-recognized need to have a range of reporting routes within a company. It is in the company's interest to funnel the reporting to an appropriate channel, which can handle the report with the necessary objectivity while not being part of the operational organization of the company. This also offers more protection from the feared reprisals that possibly threaten the whistleblower. Increasingly, companies appoint ethics and compliance officers, corporate counselors or legal counsels to deal in the first instance with whistleblower allegations. Also, to safeguard utmost professionalism, discretion and objectivity, specialized third parties become involved.

Some respondents considered going directly to the police. Experience shows that companies often consider this too, and a number of them actually do go to the police. When there is indisputable evidence and the objective of reporting is to punish the alleged perpetrator, the police might prove the best choice. When terminating employment, collecting losses or taking remedial action is at stake, the police cannot and should not be expected to deal with these topics effectively, and should therefore not be consulted as a first step.

In all situations, companies should think twice before talking directly to the suspected perpetrator. Without a good understanding of what has happened, and without having first secured all relevant data, talking to the suspected perpetrator only serves to tip them off.





**It has been demonstrated that by keeping to the highest investigative standards, the quality of the outcome of investigations can be improved and – importantly – the outcomes are significantly less likely to be disputed.**

## **Best practice for corporate investigations**

One of the keys to success in dealing with issues of fraud, bribery and corruption is the system a company has for reporting and investigating alleged incidents. In addition, people need to have confidence in the system if it is to be effective, and the views on what should be done to investigate any alleged incident are very consistent across all respondents. Again, however, there is a real gap between what employees see as best practice, and the expectations around the actions taken by their employers.

In addition to falling short of employee expectations, conducting an undercover investigation may be illegal in some jurisdictions. And even if not illegal, it can be considered unethical. If such practice becomes public knowledge, it can lose corporate leaders their jobs. The same applies to not advising the person involved that they are under investigation. In the Netherlands, for example, this is professionally unethical and investigators who do this can be sued.

From a best practice perspective, involving the subject of the investigation can be seen as increasing the standards of the investigation. It has been demonstrated that by keeping to the highest investigative standards, the quality of the outcome of investigations can be improved and – importantly - the outcomes are significantly less likely to be disputed.

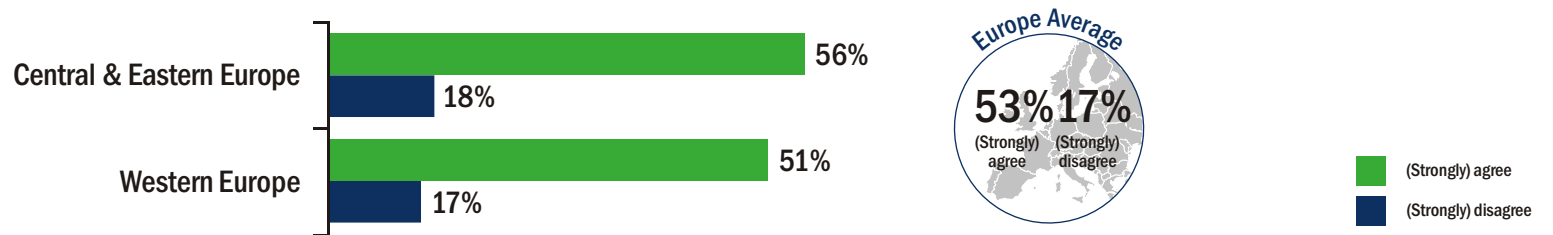
Employee expectations, honesty, experience, and best practice combine to suggest that companies should inform the subject(s) of investigation of their position, after the initial phase of the investigation. At best, it can make the investigation far more effective and efficient if these people are prepared to provide the investigators with essential information and explanations that could not otherwise be obtained. The worst that could happen is that the subject is not willing to cooperate, which is in itself a useful fact for the investigator.

**Figure 11. The right to respond to an investigation: overall view vs company practice**

In general, if an employee is investigated their company should allow that employee to respond to reports made about them



In my company, if I was being investigated my company would allow me to respond to reports made about me



**As an added benefit to the company in a corporate investigation into alleged unethical behavior, offering the subject of investigation the right to respond to the allegations demonstrably improves the quality and usefulness of the outcome.**

## **The employee's right to respond to allegations against them**

Some companies are initially reluctant to consider the idea of providing the subject of investigation the right of response. The right of response gives a person the opportunity to defend themselves against the allegations in much the same way as they would be allowed to do in a court of law, or in the same way as the press is legally compelled to allow people named in a published article the right to comment on what is being said about them.

In some countries, the Netherlands for example, the right of response in a corporate investigation has been established. During this process, prior to the investigation report being issued to the principal, the alleged perpetrator is given the opportunity to respond to, and make corrections to, the investigator's report. From a corporate perspective, the question is frequently: Why should the person being investigated be made familiar with the report on the investigation before the company's management? The answer is simple: the company's judgments in a given situation must be based on all the facts and circumstances, including the input of the subject – and earlier, partial disclosure can predispose the assessment of those concerned.

Fundamentally, everyone under law is presumed innocent until proven guilty, and everyone is entitled to defend themselves if a case is brought against them.

While the process of correcting errors, and adding to and elaborating on the facts and circumstances may slow the speed of concluding the investigation, it significantly improves the advantages to the company of the final report. A final report, one which has been properly offered to all relevant parties to exercise their right of response, protects against liability claims based on unfounded or maybe even slanderous counter-allegations, even if the accused has refused to cooperate. In addition, including right of response in the process demonstrably increases the credibility of the findings, and therefore the chances of success for the company, if and when the report is made public or needs to be used in a court of law.

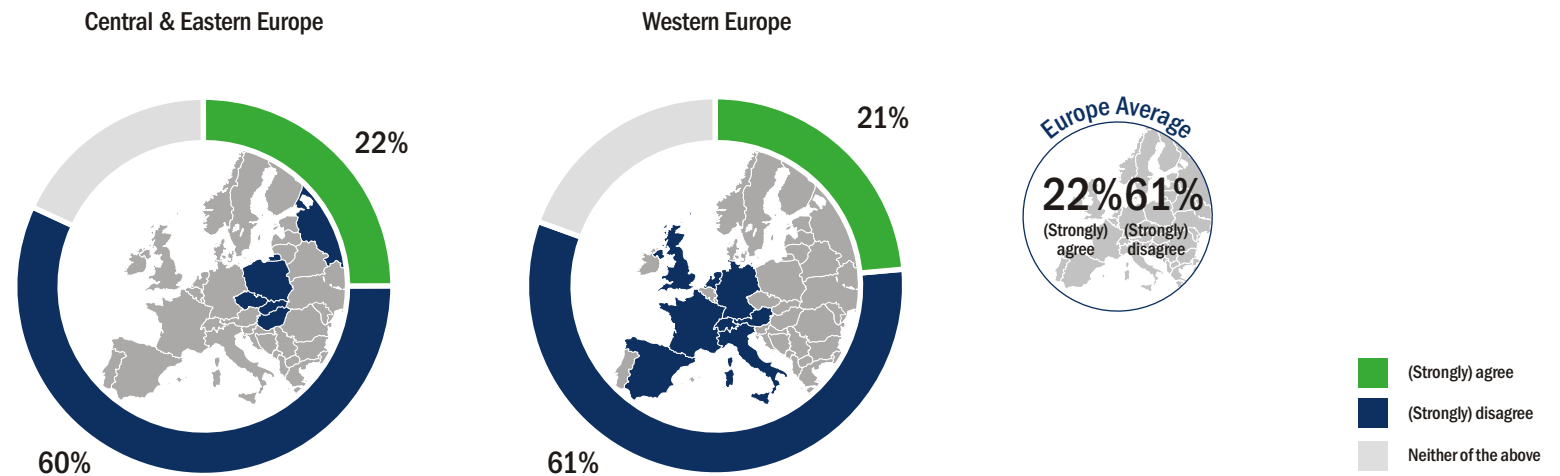


# 6. Fraud is a Fact of Corporate Life

The findings from this Survey support the concept that fraud is widespread. 1 in 5 respondents believe there was an incident of suspected fraud bribery or corruption in their company in 2006: 22% in Central & Eastern Europe and 21% in Western Europe.

**Figure 12. Cases of suspected fraud, bribery or corruption**

In 2006, there was a case of suspected fraud, corruption or bribery in my company



Ernst & Young's 9th Global Fraud Survey, conducted amongst corporate management and published in 2006, revealed that almost 20% on a global basis thought there had been such an incident in the past two years, though it should be noted that country deviations on this point can be significant. Reasons for country differences include different national norms of perceived ethical behavior, and recent media coverage on high profile fraud, bribery or corruption cases which can also influence national perceptions.

**To properly manage the risks of fraud and other unethical behavior, companies need to develop, maintain and optimize an appropriate anti-fraud program.**

## **Research consistently indicates fraud is a constant**

These results are also consistent with corporate experience (based, for example, on the number of summary dismissals) which suggests that on average, each year 1 in 1000 employees is found to have committed fraud, or a serious breach of ethical behavior. The number of undiscovered serious breaches of integrity can only be guessed at.

While the word 'incident' suggests an exceptional situation, companies need to learn to accept that fraud is everywhere, and is here to stay. Employing people intrinsically implies accepting a certain risk of fraud and other wrongdoing. People are frequently driven by success, status or money, and because not all are motivated by honesty, a corporate code of conduct, and a whistleblower system, is clearly needed. Studies like this Survey, and those done by other organizations, repeatedly prove that fraud is a real and constant threat to companies, a threat not to be underestimated.

In our 9th Global Fraud Survey, one of the major concerns highlighted was that 42% of companies do not have formal, anti-fraud policy. This Survey indicates that the workforce of multinationals support the need for, and understand the benefits of, robust anti-fraud programs. There is a lot to gain from establishing such a program, and even more to lose by not acting.

In a comprehensive approach to fraud risk mitigation, providing multiple channels through which to report fraud, clear policies on protecting the whistleblower and an appropriate policy on when to advise an individual that they are being investigated, are all important success factors.

# Conclusion

This Survey confirmed that employees welcome robust anti-fraud measures in their work environments. Employees accept that fraud is a fact of corporate life, and they support the need for comprehensive anti-fraud programs. The gap, however, between employee perceptions of the right thing, and what they perceive to be the practice at their companies, is considerable. Employees want codes of conduct and good incident reporting channels, and they make high ethical demands on the companies as to how investigations into suspected fraudulent incidents should be carried out.

Like their employees, companies and their stakeholders should have the same – or even greater – acknowledgment of the risk of fraud and other unethical behavior. Companies in the post-Sarbanes-Oxley world are realizing that there is a lot to be gained from an effective anti-fraud program.

The components of a full anti-fraud program can be illustrated quite simply.



In all companies, developing anti-fraud policies and procedures that specifically address fraud risks is essential. Communicating the company's approach through all levels of the organization is imperative if these programs are to be successful.

**Investing in comprehensive anti-fraud programs will ultimately improve the bottom line and enhance a company's reputation. Fundamentally, it's good business.**

Proactively prioritizing fraud risks, and having the experience and knowledge to identify company-level monitoring controls (including IT applications, analytic procedures and other internal controls), is critical to mitigating fraud risks. But tightening corporate preventive measures is only part of the solution. Companies need to move beyond this to optimizing the way in which the proper tone is set and communicated, and actively engage the workforce in striving to mitigate fraud and unethical behavior.

Lastly, being ready to respond to allegations of fraud requires the development of investigation protocols which increase the likelihood that investigations will be conducted both effectively and ethically, meeting the expectations of employees, regulators and other stakeholders.

The employees of international companies across Europe that participated in this Survey clearly want to work in an ethical environment. They would welcome a code of conduct, and associated awareness programs. Respondents clearly expressed a perceived gap between what they think companies should do, and what they think is happening in their own work environments. In their view, there is definite room for improvement. The course of action suggested here represents a way forward for companies. Investing in comprehensive anti-fraud programs will ultimately improve the bottom line and enhance a company's reputation. Fundamentally, it's good business.

# Contacts

The Ernst & Young Fraud Investigation & Dispute Services practice has global reach.

See below for the list of country leaders in those European countries which are included in this Survey. For more information, visit [www.ey.com/fraud](http://www.ey.com/fraud).

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