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Is the introduction of new legislation enough to crack the world's fraud problem?

by Andrew Gordon

Recently, the United Kingdom (UK) government announced that it will be introducing a new bill to make "failure to prevent fraud" a criminal offense. The new provisions of the Economic Crime and Corporate Transparency Bill are going through parliament and are expected to be similar to the "failure to prevent" offenses for bribery and tax evasion.[1]

This is an important milestone in the UK's continued fight against fraud and making firms more accountable for the crimes committed within their organizations. It's not just the UK, as we are seeing more governments across Europe discussing similar legislation. But is it enough to discourage fraud?

Each year, EY Forensic & Integrity Services publishes its *Global Integrity Report*, and the findings continue to show that despite numerous high-profile cases, corporate collapses—and the significant increase in regulatory and legal enforcement actions—the level of fraud in organizations seems to have remained consistent over the last 10 years.[2]

There are many complex reasons behind this, but the key factors include:

- Increased opportunity due to organizations refocusing away from anti-fraud controls and on to other risks, such as corruption.
- Increased use of rapidly developing technologies to perpetrate fraud.
- Increased incentives and pressures for individuals—including corporate executives—to commit fraud as a result of market volatility and the rising cost of living.

It's fair to say that introducing new regulations will not necessarily be enough to encourage people to do the right thing. However, it will give firms an incentive to make sure that they are creating an ethical culture within their businesses and refocus on fraud controls, ensuring they have the right operations in place to make sure the opportunity to commit fraud is as low as possible.

Setting the tone from the top . . .

To build a strong corporate culture successfully, it is crucial that both boards and executive management define the culture they want to develop and then take action to engage and empower employees by clarifying both desired and undesirable behaviors within the organization.

Unless there is a clear tone from the top about what is required from employees, and unless senior management actively tries to influence and shape their desired culture, there is a serious risk that the process defaults to one of box-checking, which can easily lead to a static culture of "but this is the way we do business."

Corporate cultures are embedded the right way when conversations within the organization shift from "Is this allowed?" to "Is this right?" One of the biggest challenges is how the company exemplifies what is right so that all stakeholders understand that the organization's culture of integrity is more than just "integrity washing" to make the organization look good.