

## News Release

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### **One in four Czech employees admits financial manipulation**

- ▶ ***A fifth of all respondents and 42% of board directors and senior managers in the EMEIA region admit to misrepresenting financial reporting***
- ▶ ***Companies in the Czech Republic ignore ethical principles***
- ▶ ***In the region, Czechs trust least in the importance of anti-corruption rules and their enforcement by management***

*Prague, 9 May 2013* – **Fraud and corruption continue to thrive in the Czech Republic. Indeed, 73% of Czechs believe corruption to be widespread in our country (vs. the European average of 57%). Citizens of other Central and Eastern Europe region countries feel similarly. For reference, the figures are 84% in Slovakia and at 96%, Slovenia was ranked first, ahead of Kenya. Neither Czech managers nor employees believe their companies attach great importance to observing ethical principles. One in four Czechs and a fifth of all respondents surveyed by Ernst & Young in its international survey of management and employee attitudes toward fraud and corruption are aware of financial manipulation (e.g. overstating sales or understating costs) in their own company in the last 12 months. The survey included 3,500 respondents in 36 countries in Europe, the Middle East, Africa and India, including the Czech Republic.**

Thirty-eight percent of survey respondents believe companies within their jurisdiction overstate their financial performance. This figure was even higher among board directors and senior managers (42%). Pressure to misreport is greatest in Nigeria, Slovenia, Russia and Spain; misreporting occurs least often in Scandinavia and Switzerland. One in four respondents in the Czech Republic admits to financial manipulation. Czechs are also pessimistic when it comes to any improvement in the market situation, which may be indirectly reflected in the use of unfair practices.

*“Given current challenging market conditions, companies face sustained pressure to increase profit at literally any price,”* says Magdalena Soucek, Country Managing Partner of Ernst & Young in the Czech Republic. *“In this environment, some inevitably succumb to unethical*

*behavior. Shareholders expect management to take responsibility for protecting the business by implementing comprehensive anti-corruption programs. It is up to boards to see that management takes the fight against fraud and corruption very seriously, focusing on those areas of greatest risk.”*

### **Corruption not limited to just a few economic sectors**

The survey shows the risks of misreporting are compounded by an unethical business environment. Seventy-three percent of Czech respondents and 57% of all respondents believe corruption is widespread in their country. Indeed, 31% of Czechs (26% of EMEIA respondents) feel it is common to use bribery to win contracts in their own sector.

*“To effectively tackle the risks from fraud and corruption, we need to acknowledge it could happen in our own organization and profession,”* says Daniel Bican, Executive Director of Ernst & Young’s Fraud Investigation and Dispute Services practice in Central Europe. *“Our survey reveals a worrying trend that employees see bribery and corruption happening widely in their country, but do not acknowledge it as a risk in their own business or sector. The results seem to say: ‘Everyone else is doing it, but not me or my business.’”*

### **Compliance perception gap between management and employees**

While the majority of respondents are aware that their company has anti-corruption rules in place, the survey shows many organizations have a significant perception gap between senior management and employees when it comes to the relevance and effectiveness of this policy. Sixty percent of directors and senior managers believe their company would support people who reported cases of suspected fraud or corruption, whereas only one third of other employees agree. In the Czech Republic, a mere 17% believe this to be true. Generally, Czechs have very little faith that the companies for which they work emphasize adherence to ethical principles.

*“A primary objective of anti-corruption rules is to guide sales staff and keep them from corrupt practices. According to the survey, half of respondents in the sales function do not consider their organization’s anti-corruption rules relevant to their role. This attitude should be a warning sign for management and its control functions,”* says Tomáš Kafka, Executive Director of Ernst & Young’s Fraud Investigation and Dispute Services practice in the Czech Republic.

*“Today, every organization is focused on controlling costs and compliance is an afterthought,” explains Tomáš Kafka. “Many incorrectly assume that the mere existence of anti-corruption rules is sufficient to mitigate fraud and corruption risk.”*

While two thirds of board members and senior managers believe they are doing a good job of communicating an anti-corruption stance, more than half of other employees disagree.

Nor do Czech respondents believe that bribery, fraud and corrupt practices are effectively prosecuted or regulated. Only 14% of Czechs (vs. 29% of EMEA respondents and 28% of Central and Eastern Europe respondents) report that state authorities have prosecuted their company or its employees in the past for noncompliance.

*“What is interesting is the differing views on adherence to ethical principles among rapid-growth markets. While the countries of Central and Eastern Europe undervalue adherence to ethical principles, in rapid-growth markets such as India, Kenya and Nigeria, anti-corruption processes and controls enjoy appreciable support. Nonetheless, in the view of respondents unethical behavior occurs quite often. Despite the existence of codes of conduct, the imposing of penalties and emphasis of management on enforcing internal policies, fraud and corruption remain widespread,”* adds Daniel Bican.

#### **About the survey**

Global market research agency Ipsos conducted 3,500 interviews by telephone, online or in person with employees of large companies across 36 countries in Europe, the Middle East, India and Africa to gauge their views on fraud and corruption. A sample of the largest companies in each country was chosen for the survey. The survey respondents were board directors, senior management, other management and employees. One hundred respondents were surveyed in the Czech Republic.

#### **About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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