



Corporate integrity in turbulent times

EY Forensic & Integrity Services

9 July 2020

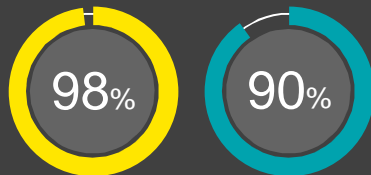
Restriction of use and liability

EY Global Integrity Report 2020

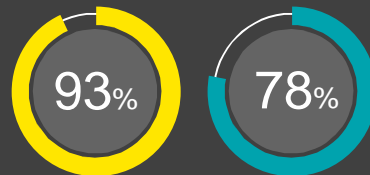
Spotlight on India

- ▶ The **COVID-19** crisis has magnified the risk of unethical conduct in corporate India as businesses face severe and widespread disruption in operations, supply chains and workforce
- ▶ As tough decisions are being taken amid the crisis, the risk of unethical behaviour and compliance infractions has increased and can weigh heavily on organizations
- ▶ Turbulent times like these can have corporate integrity becoming a true differentiator
- ▶ Organizations should concentrate on encouraging ethical conduct, building trust in third party partnerships, protecting data and circumnavigating the risks present now, next and beyond

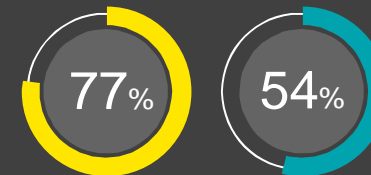
● India ● Global



According to the report, disruption, as a result of COVID-19, poses a risk to ethical business conduct



It is very important to demonstrate that your organization operates with integrity



Respondents agree that standards of integrity have improved in their organization in the past two years.

The report highlights several risks to ethical business conduct in India because of the pandemic

37%

Declining financial performance

36%

Disruption to traditional working patterns

20%

Weakening compliance processes and controls

*Source: EY's Global Integrity Report 2020

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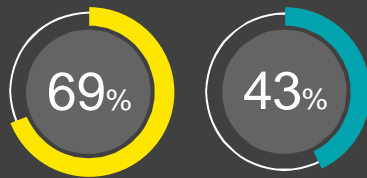


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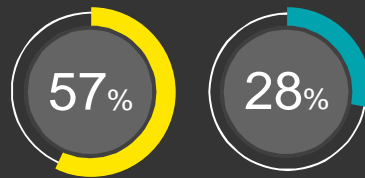
Spotlight on India

- ▶ The prevailing uncertainties because of **COVID-19** may lead to individuals both within and outside the organization resorting to unethical or fraudulent practices
- ▶ Responding to the current crisis with a focus on maintaining trust and continuity of business operations would be paramount

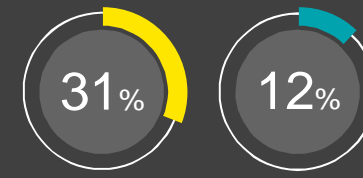
● India ● Global



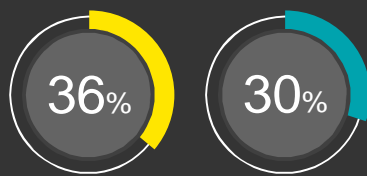
At the height of the COVID-19 pandemic, managers in the organization would sacrifice integrity for short term financial gain



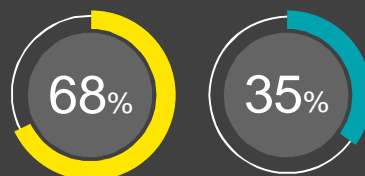
They would be prepared to act unethically to improve their career progression or remuneration package



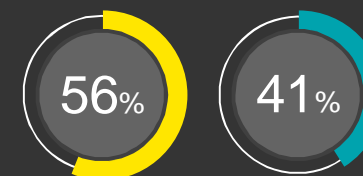
Many would ignore unethical conduct by third parties



Cyber attacks and ransomware pose the greatest risk to the long-term success of the organization



Data protection and privacy legislation is a barrier to success



Training provided to employees on applicable data privacy regulations (GDPR, local legislation)

*Source: EY's Global Integrity Report 2020

Companies (Auditor's Reporting) Order, 2020

Why amend CARO ?	Date of applicability?	Guidance notes issued ?	Are these all the changes ?
Default In Repayment Of Loans/Borrowings Or Payment Of Interest <ul style="list-style-type: none"> • Wilful Defaulters? Default in repaying ? • Were term loans used for the purpose which they were taken? • Short term loans used for long term purposes? • Borrowings to meet subsidiary obligations? • Loan through pledge of securities held by subsidiary? 		Scenarios <ul style="list-style-type: none"> • Bank accounts outside the books • Does RPT cover these aspects of subsidiary • Whether regularised loans escape reporting • How can you know all pledging of securities 	
Proceedings Against Company For Holding Benami Property <ul style="list-style-type: none"> • What is a Benami Transaction and Benami Property? • Any proceedings of Benami transactions? • Disclosures made? 		Scenarios <ul style="list-style-type: none"> • Promoter contracts outside the direct purview of business 	
Fraud And Whistle Blower Complaints <ul style="list-style-type: none"> • Any fraud on the company? • Any fraud by the company? • Any fraud by third parties? • Any report by the auditor filed with the central government? • Whistle-blower complaints considered? 		Scenarios <ul style="list-style-type: none"> • What will construe a WB complaint – media news, random emails, etc.. • What if company says there is no complaints in the given year • Should auditor check operational aspects of WB process 	
Investments, Guarantees, Loans And Advances <ul style="list-style-type: none"> • Investments/guarantees/securities are not prejudicial to the company's interests? • Renewal/extension of loans fallen due during the year? • Any fresh loans granted to settle overdues of existing loans? 		Scenarios <ul style="list-style-type: none"> • Impact of no evergreening of loans • Can arms length transaction still be prejudicial • What scenarios loan extension has happened 	
Additional CARO Clauses	<ul style="list-style-type: none"> ▶ Resignation by Statutory Auditors ▶ Internal Audit System and Internal Audit Reports ▶ Reporting by NBFCs 	<ul style="list-style-type: none"> ▶ Reporting on Cash losses ▶ Non-Cash transactions (Directors / Connected) ▶ Unrecorded income disclosed with Income Tax 	

Source: Ministry of Corporate Affairs http://www.mca.gov.in/Ministry/pdf/Orders_25022020.pdf

Key highlights

EY survey “CSR in India: re-engineering compliance and fraud mitigation strategies”



75%

shared that their businesses **did not have a governance** structure or a definite policy to address any ethical lapses or fraud in CSR programs



65%

did not have a defined due diligence policy for CSR implementation partners



50%

did not have a case management workflow or governance structure for reported or identified violations related to CSR projects



33%

financial misrepresentation of CSR funds as the most **critical unethical practice demonstrated by implementation partners.**



37%

regular monitoring and evaluation of CSR projects was a key challenge



20%

of respondents **did not have any mechanism to track any project**, assess gaps and handle any anomalies

Low involvement of management and limited monitoring over the implementation process

Weak governance in identifying vulnerabilities

High dependence on third parties to lead and execute programs with limited creds and background

There is a strong need to integrate ethics within their CSR programs, encompassing practices and processes in the engagement of execution partners to mitigate financial and reputational risks

**Source: EY' survey 'Corporate Social Responsibility in India: re-engineering compliance and fraud mitigation strategies' captured the responses of 100+ CSR professionals in India.*

Cyber security: Trends and updates

3rd

India ranked 3rd most vulnerable country in terms of risk of cyber threats in 2017*

188 days

The mean time to identify a data breach*

US\$3.62m

The average cost of a data breach in 2018*

6,95,000

Number of cyber attacks identified in India between January-June 2018*

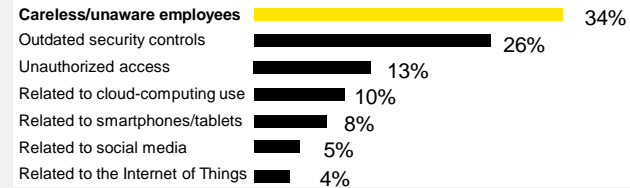
1st

India tops globally with the highest number of detected spam-bot*

6.4 billion

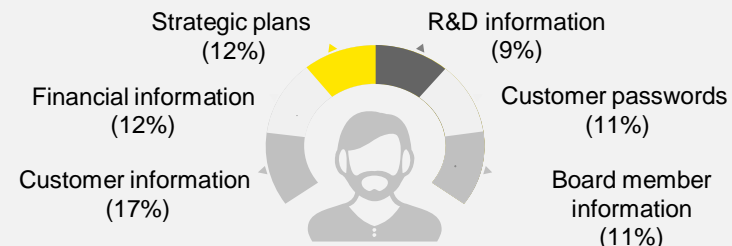
Number of fake emails sent worldwide-every day*

Vulnerabilities with the most increased risk exposure over the past 12 months



Source: EY GISS 2018-19

Top 6 most valuable information to cyber criminals



Source: EY GISS 2018-19



55%

of organizations do not make "protecting" part of their strategy



53%

have no cyber program – or an obsolete one



38%

would be unlikely to detect a sophisticated breach

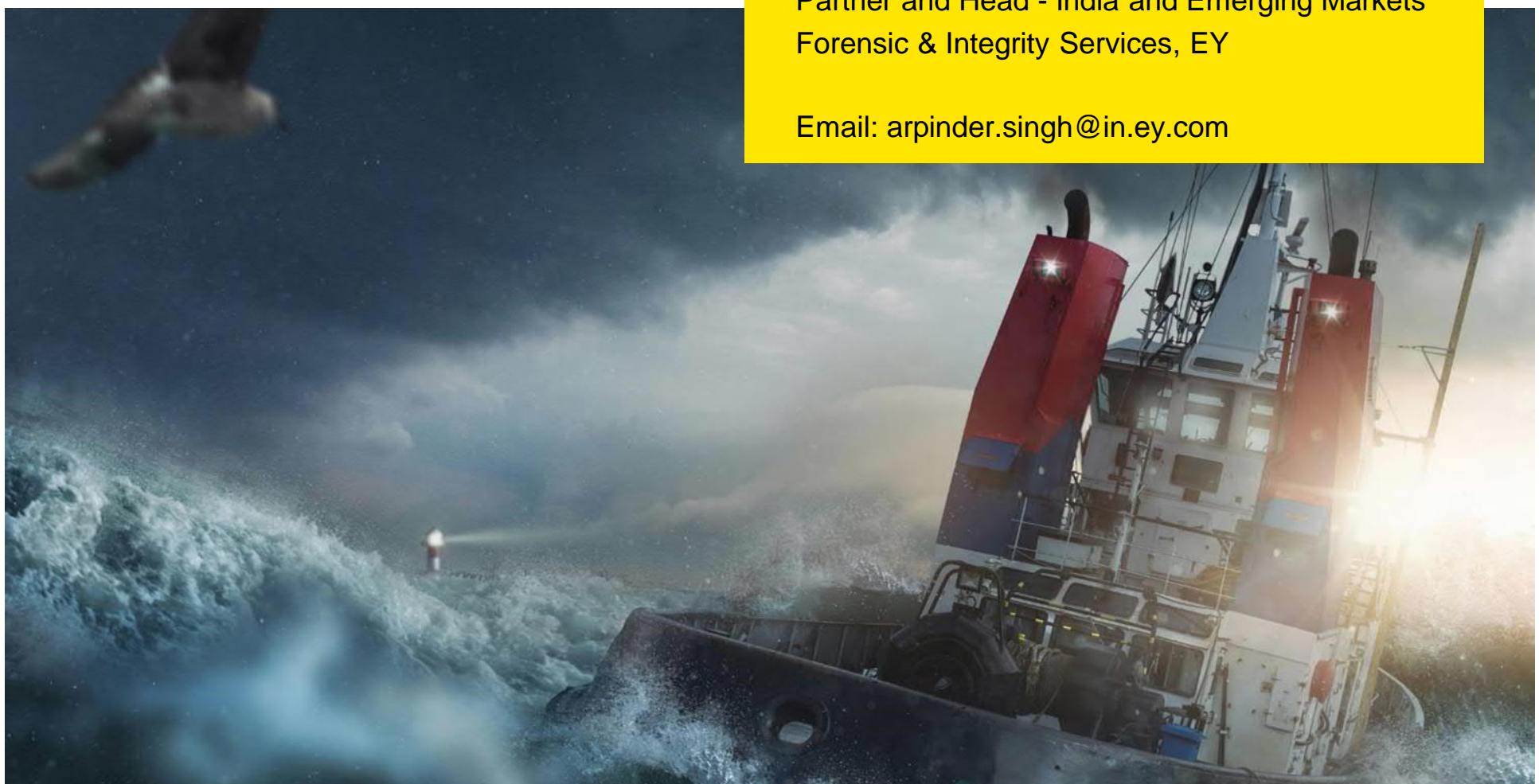
*Source: EY's 21st Global Information Security Survey captured the responses of 1,735 C-suite leaders and Information Security and IT executives/managers, representing many of the world's largest and most recognized global companies.

Thank you

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