



cutting through complexity

FORENSIC

# KPMG Malaysia Fraud, Bribery and Corruption Survey 2013

# fraud

bribery

corruption

investigate

unethical

management

risk management

policy

theft

loss

compliance

money

phishing

deception

damage

conviction

cyber crime

piracy

violation

# FOREWORD

Corruption has detrimental effect on the economy. Corrupt practice also creates an unfavorable business environment, which promotes anti-competitive practices, unfair advantages and enables organized crime to flourish. Indeed, corruption is one of the most potent hindrances to the economic development of a country; it undermines the rule of law, weakens trust in public institutions and challenges democratic principles.

The Government Transformation Programme (GTP) that was unveiled on 28 January 2010 by our Honorable Prime Minister Datuk Seri Najib Tun Razak, is aimed at fighting corruption as one of its seven National Key Results Area (NKRA). Efforts have indeed been ongoing to wrestle this, with the Malaysian Anti-Corruption Commission (MACC) establishing a transformation program that is being implemented in phases throughout.

Developing from that, under the second phase of the GTP, companies can be punished if their employees are found guilty of graft. The emphasis now is on incorporating corporate liability provisions into the MACC Act 2009 that extends the liability to a company for individuals who are involved in bribery and corruption. The enactment of this provision will drive companies to strengthen their internal processes to fight corruption as the companies will be charged if their employees are found guilty.

With various initiatives stemming from this, we have taken steps that are in the right direction to reduce these occurrences; putting in place the relevant laws and programs such as MACC's transformation programme, which also focuses on a constructive approach to curb corruption in the private sector, to instil a strong anti-corruption culture, along with the highest standards of conduct and behavior amongst our citizens starting with the top-most rung of leadership to the man in the street.

In a rapidly changing business environment, it is vital to develop an integrated fraud and corruption strategy to address these risks. Implementing effective fraud and corruption measures is part of good governance and practice, but admittedly, there is still much to be done to increase confidence in the facilities that enforcement agencies provide in Malaysia in curbing corruption.

The MACC has, as part of its initiatives in fighting corruption signed the Corporate Integrity Pledge (CIP) with more than 300 corporate entities in the private and public sector. Whilst it is a great step in the right direction, this signing alone is not enough. The test is whether it is being applied in practice. It is widely recognised that what gets monitored, gets done. In this context, my expectation is that the Board of Directors should as part of their Corporate Governance responsibilities; prescribe that the compliance with the CIP be audited annually. Otherwise, it would be only akin to lip service after the fanfare of the signing ceremony.

My encounter with KPMG's Fraud, Bribery and Corruption Survey was a welcome addition to the Government's initiatives by not only looking at various fraud encounters but also preventive measures to address them. This survey is significant for organizations in analyzing perception of how companies view corruption in Malaysia, and we at MACC applaud this effort as we continue to share knowledge and strive for a corrupt-free Malaysia.

I would like to again express my appreciation to KPMG for its support and contribution to Malaysia's fight against corruption and fraud, reflecting a shared commitment towards a better corporate Malaysia.

**Tan Sri Abu Kassim bin Mohamed**

Chief Commissioner

Malaysian Anti-Corruption Commission (MACC)

## Welcome to the KPMG Malaysia Fraud, Bribery and Corruption Survey 2013.

Over the years, the KPMG Malaysia Fraud, Bribery and Corruption Survey has established a reputation as one of the most credible and widely quoted surveys of fraud in Malaysia. These surveys have focused not just on past fraud encounters, but also on mechanisms that organizations have implemented to prevent future occurrences of fraud, as well as systems to deal with them should they occur. On its fifth edition of this survey, the report takes a slightly different approach in comparison to its predecessors, as we have for the first time included questions about the perception of Malaysian companies towards bribery and corruption risks.

More than ever companies are operating in a complex global business environment. They are drowning in a sea of digital data, adapting to the perils of doing business in new markets, struggling to comply with increased regulation and trying to avoid costly enforcement actions and litigation. Managing the risk of fraud and misconduct has never been more challenging and has taken center stage in corporate boardrooms today. Many business leaders recognize the potential for significant reputational harm from public scandal, economic cost in the form of investigations, fines and penalties, and individual cost in the form of criminal prosecution. Many Malaysian companies are now beginning to focus on assessing the risks to which they may be exposed and developing appropriate anti fraud, bribery and corruption compliance initiatives.

The fallout from fraud, bribery and corruption can be significant including punitive damages, tarnished corporate and brand image, lost revenue, plummeting shareholder value, and inability to attract and retain human capital.

Recent corporate scandals have suggested that there is a strong nexus between fraud, bribery and corruption with weak corporate governance. The investor community and stakeholders now expect company boards and audit committees to take the onus of proactively monitoring their companies' efforts to understand and mitigate the risks of fraud, bribery and corruption. Non-executive directors are expected to play a major role in challenging management on the adequacy of their fraud risk identification and mitigation plans.

In such scenarios, it is useful to analyze the extant and extent of fraud and fraud risk management practices in corporate Malaysia. Multinational organizations must be vigilant and acutely aware that the extraterritorial reach of the US Foreign Corrupt Practices Act ("FCPA") and the UK Bribery Act ("Bribery Act") that may have significant impact on their operations, even if they have limited presence in the United States and/or the United Kingdom.

Essentially, implementing and maintaining an effective anti fraud, bribery and corruption program remains a prudent and recommended course of action to reduce the risk of violating anti-corruption statutes. This helps to prevent, detect and respond to improper conduct as well as to mitigate the risks of fraud.

We would like to thank and extend our appreciation to the people and organizations that took the time to respond to this survey. Without their support, this report would not have been possible. We believe this document is an essential read for business leaders and we trust that you will find it as a useful tool in helping you and your organization better manage the risks of fraud, bribery and corruption.

# EXECUTIVE SUMMARY

The KPMG Malaysia Fraud, Bribery and Corruption Survey 2013 provides a unique and thorough insight into contemporary fraud issues faced by companies, the recent trends as well as the pervasiveness of fraud in the corporate scene. The survey covered the period from January 2010 to December 2012 ("survey period")

The findings set-out in KPMG's fifth fraud survey report are based on the responses received to a survey questionnaire that was distributed to the chief executives of public listed companies on the Malaysian Bourse ("Bursa Malaysia"). Responses were received from organizations representing almost 10% of the total survey questionnaires circulated.

Some significant findings from the survey are summarized below:

## **Perception of fraud, bribery and corruption**

- 89% of the survey respondents felt that the quantum of fraud has increased over the past three years while 94% of them believed that frauds have become more sophisticated. 85% of the respondents opined that frauds are increasingly becoming industry aligned and more targeted to certain business processes. 80% of the survey respondents also felt that the incidences of bribery and corruption have increased in the last three years.
- Majority of respondents believe that fraud (83%), specifically bribery and corruption (90%) is a major problem for businesses in Malaysia. More than half of the respondents also admitted to fraud in general (52%) and bribery and corruption (65%) being a major problem in their organization.
- 90% of those who stated that fraud is a major problem in their organization felt that fraud is an inevitable cost of doing business. A whopping 71% of respondents also believed that bribery and corruption is an inevitable cost of doing business whilst 64% believed that business can't be done in Malaysia without paying bribes.

## **Extent of fraud, bribery and corruption**

- Nearly half of the respondents (48%) claim that their organizations were victims of fraud with a total of 62 separate fraud incidences being reported in the survey period.
- 46% of the respondents also state that they have received complaints of bribery and/or corruption in their organizations.
- 27% of the respondents have experienced unethical behavior in the workplace during the survey period.
- Only a small percentage of respondents (26%) who experienced fraud were able to state the exact quantum of the fraud loss experienced which amounted to RM2.407 million. The survey results indicate that 42% of the reported fraud incidents were within the range of RM10,001 to RM100,000.

## **The most common types of fraud, bribery and corruption experienced**

- Theft of outgoing funds (67%), theft of physical assets (58%) followed by theft of incoming funds (34%) were the most common types of fraud. Theft of cash (15%) and cash receipts (15%) were the most prominent categories of fraud among non-management level employees whilst false invoicing (13%), financial mismanagement (13%), management conflict of interest (13%) and lending fraud (13%) were the more common types of fraud amongst management level employees.
- Based on our survey results, cash payments (94%), entertainment (86%) and gifts (81%) were regarded as the most common forms of payment of bribery.
- The most common occurrences of unethical behavior experienced in the workplace are management conflict of interest (71%), unauthorized personal use of corporate assets (38%) and unauthorized disclosure of confidential or sensitive information (33%).

### **Factors that triggered fraud, bribery and corruption**

- Poor internal controls (68%) followed by lack of skill sets of the Internal Audit team to detect fraud (39%) and the lack of fraud awareness training which consequently resulted in the inability by staff to recognize glaring “red flags” or early warning signals of fraud (39%) were the three most prominent factors contributing to major frauds.
- The inherent nature of the industry in which the organization operates, was cited as the main factor contributing to bribery and corruption.
- The most common factors that contributed to unethical behavior were poor communication of organization’s values or code of ethics/ code of conduct (81%), poor example shown by senior management (43%) and poor ethical culture within the organization generally (38%).

### **Ways how fraud was detected**

- In its entirety, most fraud cases were detected internally, with internal controls (39%) being the most common method followed by internal audit review (24%), notification by employee/ internal tip-off through means other than the formal whistle blowing mechanism (24%), a report through the organization’s formal whistle-blowing mechanism (21%) and notification by customer/ supplier/ external tip-off through means other than the formal whistle-blowing mechanism (16%).

### **People most susceptible to committing fraud, bribery and corruption**

- Insider fraud is a major concern for organizations, where 68% of the reported fraud cases experienced by companies were perpetrated internally by management and non-management employees while 32% of the cases perpetrated by external sources namely customers, suppliers and service providers.

### **Most common motivators for fraud, bribery and corruption**

- Greed/ lifestyle (55%) and personal financial pressure (42%) were cited as the two most common motivators for fraud.
- Respondents revealed that the two most common underlying motivators for bribery and corruption were to win or retain business (82%) and to get routine administrative approvals from government agencies (81%).

### **Fraud, bribery and corruption prevention and detection strategies**

- Less than half of the respondents (48%) believe that their organization’s anti fraud policies, procedures and controls are adequate to prevent, detect, and respond to fraud incidences. An even smaller percentage of the respondents (26%) believe that their organization has adequate anti-bribery and corruption control measures. An alarming 61% of the respondents indicated that their company does not have adequate procedures to monitor the compliance of anti-bribery and corruption procedures/ steps.
- 76% of organizations are providing channels for employees to report allegations and incidents of fraud and unethical conduct of which only 50% said that they offered anonymous reporting to employees.
- Approximately 40% of respondents indicated that their organizations have yet to deploy modern data analytic tools to detect and monitor specific types of fraud.
- The top four common steps taken by companies to mitigate the risks of fraud, bribery and corruption are to review and/ or improve internal controls (91%), conduct pre-employment screening on staff (81%), establish a corporate code of conduct/ ethics (81%) and establish a fraud control strategy (73%).
- Despite the known compliance risks associated with business partners encompassing third parties, representatives and agents, only 18% of companies surveyed have “right to audit” clauses included in agreements with the said parties.
- Only 22% of the respondents require their business partners to attest their commitment to behave in accordance to the company’s Ethics and Compliance, Anti-bribery and Corruption Practices and Code of Conduct.

### **Awareness of anti-bribery and corruption laws**

- 33% of the respondents are largely unfamiliar with the Malaysian Anti-Corruption Commission Act 2009.
- More than half of the respondents were not aware if their organization was subject to the US Foreign Corrupt Practices Act 1977 (52%) and the UK Bribery Act 2010 (53%).

To sum up the findings of this survey, many enhancements are needed in respect to organizations’ fraud risk management strategies to combat frauds, bribery and corruption which are becoming increasingly prevalent.

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## ABOUT THE SURVEY



# ABOUT THE SURVEY

**KPMG Forensic Malaysia has been undertaking fraud focused surveys for more than a decade in Malaysia.**

In the first quarter of 2013, KPMG Forensic Malaysia distributed a fraud survey questionnaire to the companies listed on Bursa Malaysia. For the purpose of this survey, in instances whereby there was more than one listed company within the same group, only one survey questionnaire was sent to the group's ultimate holding company.

The objective of this survey was to determine the overall level of fraud, fraud awareness and fraud prevention measures amongst management.

The survey covering the period from January 2010 to December 2012 (i.e. the "survey period") was conducted on a confidential basis on the undertaking that no information would be released on individual survey responses. Respondents were given the option to remain anonymous given the sensitivity of the topic.

For the purpose of this survey, "fraud" is defined as a deliberate deceit planned and executed with the intent to deprive another of property or rights directly or indirectly, regardless of whether the perpetrator benefits for his/her actions.

The 2013 survey provides an insight into contemporary fraud issues being faced by organizations in Malaysia including:

- The types of fraud affecting organizations
- The trend of fraudulent activities
- The pervasiveness of fraud in recent times
- The financial consequences of fraud
- The motivators of fraud
- The perpetrators of fraud
- The steps taken to prevent, detect and respond to the risks of fraud
- The causes and effects of bribery and corruption
- The causes and effects of unethical behavior

Responses were received from companies coming from a broad range of industries, representing almost 10% of the total number of companies listed on Bursa Malaysia as at the end of 2013.

Not all respondents answered all sections and questions to the survey. The survey results have thus been derived from the population of respondents who answered that particular section/ question and not the total number of respondents who answered the overall survey.

There were also instances where respondents contributed more than one answer to a question.

Our survey and research was performed between March 2013 and August 2013. We have not undertaken to update our report for events or circumstances arising after that date.

The information contained herein is of general nature and is not intended to address the circumstances of any particular individual or entity.





# PROFILE OF THE RESPONDENTS

The information contained herein is of general nature and is not intended to address the circumstances of any particular individual or entity.



## PROFILE OF THE RESPONDENTS

### Role Profile

Through this survey the top management of respective organizations demonstrated a keen interest on the impact of fraud, whereby 22% of the survey respondents comprised of Chief Financial Officers (CFOs), 15% comprised of Chief Operating Officers (COOs) followed by Financial Controllers (14%) and Heads of Internal Audit (14%).

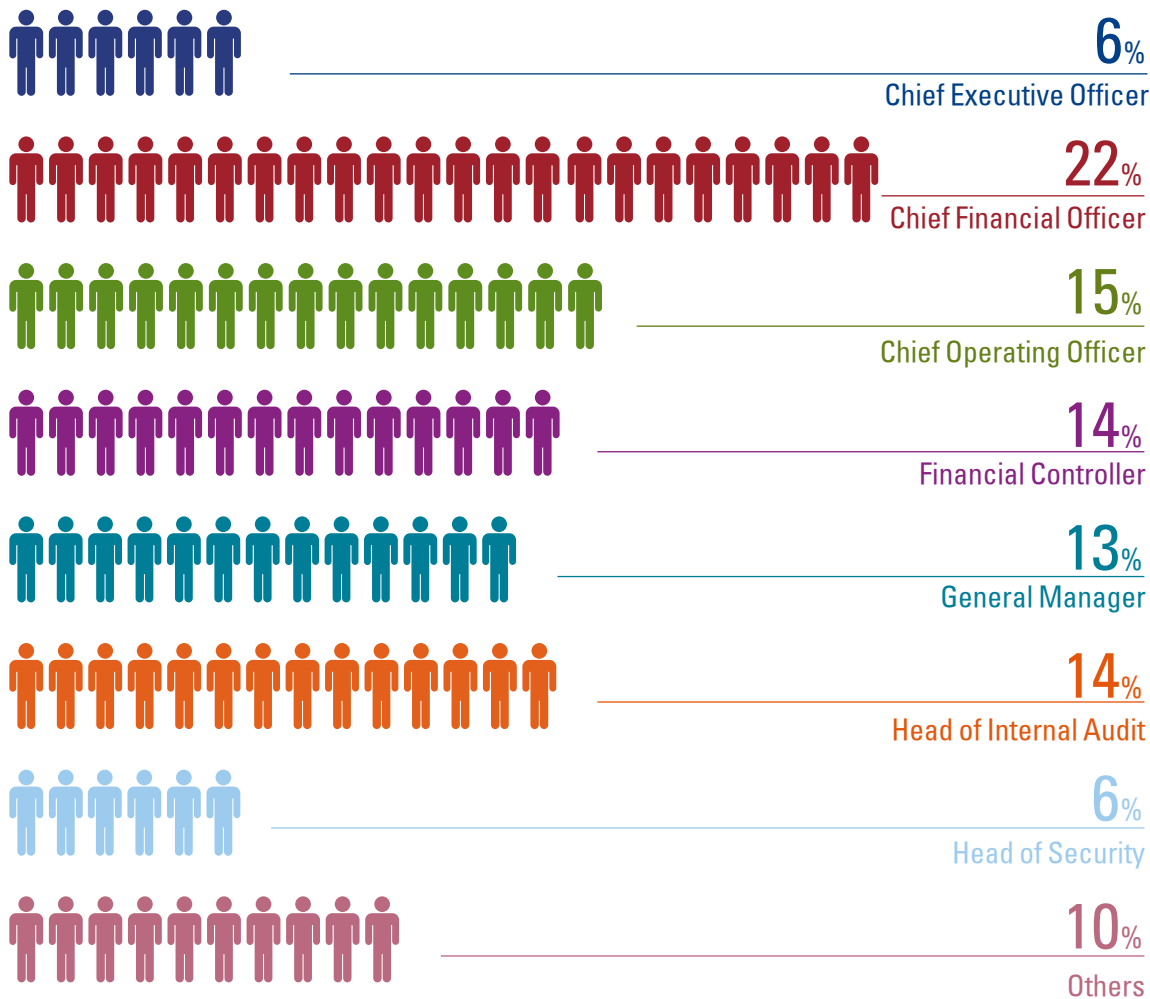
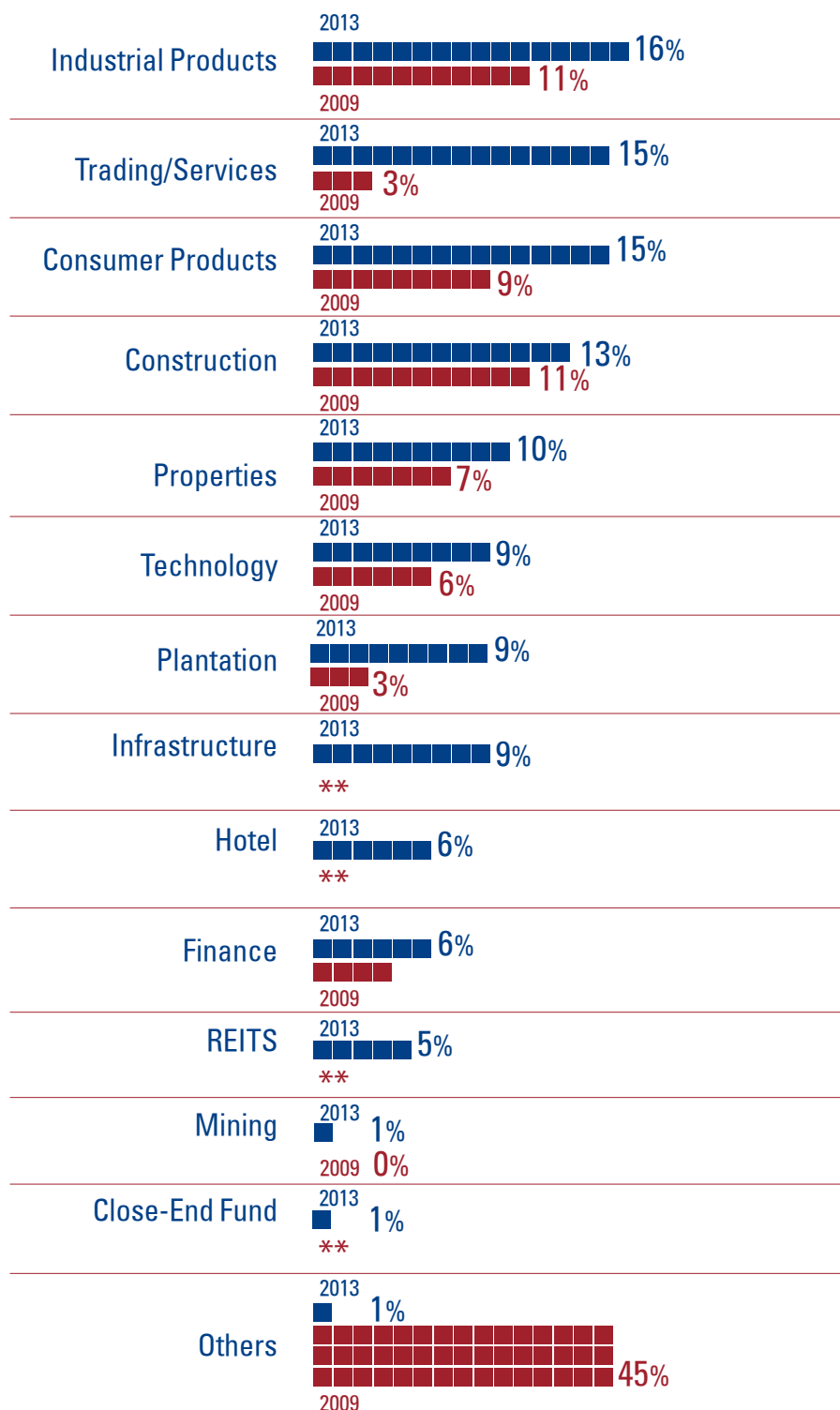


Figure 1 – Position held by respondents within the organization

## Organization Profile

A bulk of the responses came from organizations in the industrial products sector (16%), with annual revenues ranging from RM50 million to less than RM100 million (33%) and with employee numbers ranging 5,000 and below (94%).



\*Note that some respondents indicated more than one response

\*\*Note that this sector was not given as an option in the 2009 survey

Figure 2 – Main lines of business revenue contributor of the respondents' organization

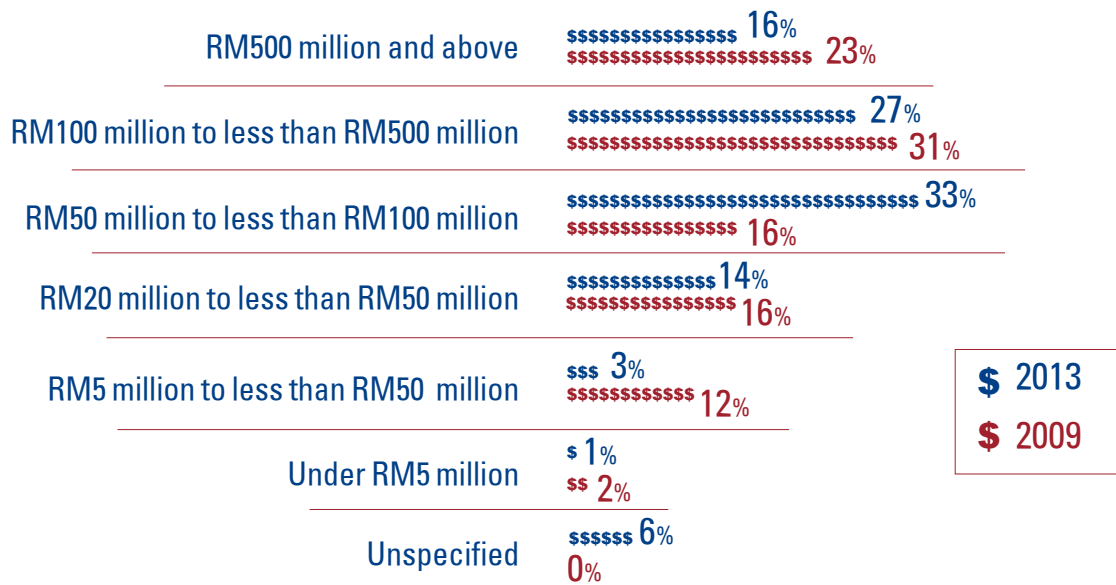


Figure 3 – Annual turnover of respondents' organization

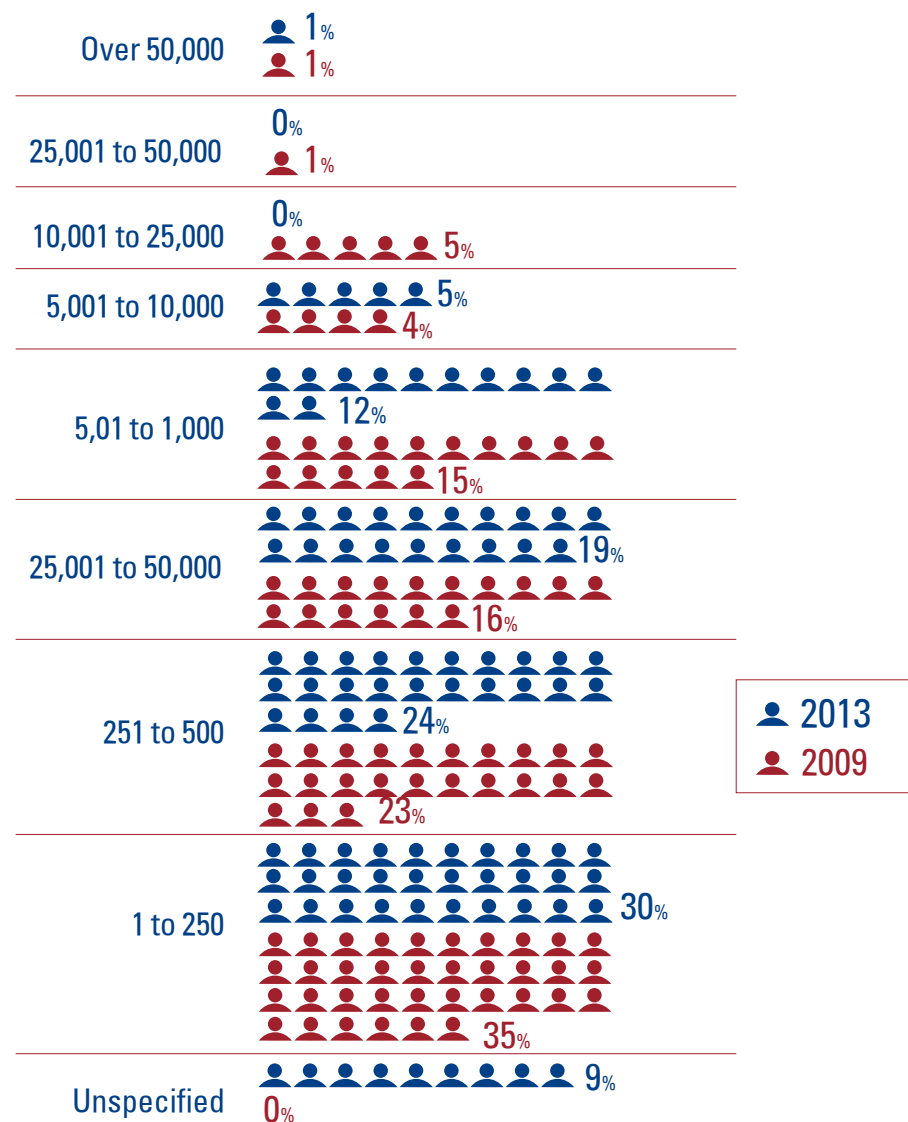
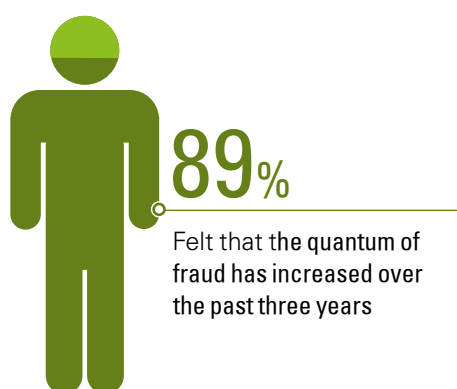


Figure 4 – Number of employees within the respondents' organization



# OPINIONS ON FRAUD

# OPINIONS ON FRAUD



## Fraud can be an organization's worst nightmare.

Significant fraud is likely to cause losses and damage to a company's reputation, or even leave organizations vulnerable to civil liabilities if third parties suffer losses from fraud. The well-publicized corporate scandals of recent years have brought the issue of fraud to the forefront of management's attention, particularly the threat of fraud occurring within the organization itself. We were interested to find out the general view of organizations towards fraud in Malaysia today.

## How has the fraud landscape changed in the past three years?

89% of the respondents felt that the quantum of fraud has increased over the past three years whereby 38% felt strongly about the spike in fraud incidents. 94% of the respondents also believed that frauds have become more sophisticated. 85% of the respondents opined that frauds are increasingly becoming industry aligned and more targeted to certain business processes.

In addition, respondents were asked to state what types of fraud and misconduct they believed would pose the biggest risk to their industry in the years to come. Respondents believed that Bribery & Corruption (including kickbacks) (84%) would pose as the biggest risk to their industry followed by money laundering (49%), theft of funds / goods (through false invoicing, misappropriation of funds, false claims) (39%), intellectual property fraud (counterfeiting, piracy) (35%), e-Commerce & computer related fraud (33%), financial statement fraud (27%), regulatory non-compliance (13%) and corporate espionage (12%).

Figure 5 – Respondents' opinion on the trend of frauds in the last three years



### Is fraud a major problem in Malaysia?

We note that 52% of the respondents state that fraud is a major problem in their organization, out of which 14% strongly agreed. 90% of those who stated the contrary were part of the 83% of respondents who felt that fraud is a major problem for Malaysian businesses in general.

It is interesting to note that 90% of those who stated that fraud is a major problem in their organization felt that fraud is an inevitable cost of doing business. This type of mindset that fraud is part and parcel of doing business is rather dangerous as it could result in the cultivation of a somewhat lenient and tolerant attitude towards the occurrence of fraud, with organizations merely reacting to fraud instead of taking proactive steps to nip it in the bud.

Figure 6 – Respondents' opinion on whether fraud is a major problem for their business and for Malaysian business generally



**FRAUD EXPERIENCE**



# FRAUD EXPERIENCE

To obtain a firmer grasp on the factors that contribute to the occurrence of fraud, the impact of fraud in organizations and the ways in which fraud is detected and dealt with, respondents were asked to share the fraud experiences within their organizations during the relevant period surveyed.

## What levels of fraud have organizations experienced?

Fraud is a pervasive and persistent threat in Malaysia with an impact that is widely felt despite positive efforts being made towards enhancing fraud prevention. Out of the total survey respondents, representing 14 industry segments, 48% admitted to having encountered fraud in their organizations during the period from January 2010 to December 2012. This reflected a meager decrease of 1% from the 2009 survey hence indicating that fraud is still regarded as a significant problem in their business.

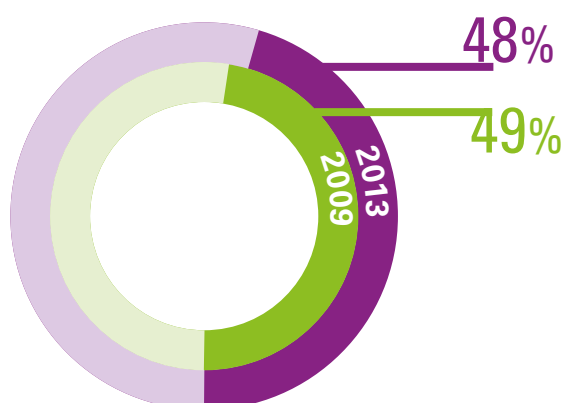


Figure 7 – Respondents who were aware of fraud occurring in their organization within the period from January 2010 to December 2012

Similarly, fraud is also a problem in countries like Argentina, Australia, Brazil, Chile, India, Mexico, New Zealand and Sri Lanka. These countries were surveyed by the respective KPMG member firms and more than 40% of respondents have indicated the occurrence of fraud in their organizations.

## Type and size of organizations experiencing fraud

A majority of 62% of respondents who reported fraud came from organizations with trading/ services, consumer products and construction as the main lines of business. Small to medium sized firms (differentiated by number of employees) appear to have higher instances of fraud as 50% of respondents who reported fraud came from organizations employing 500 employees and below. We also note that 37% of the organizations that have experienced fraud had an annual turnover of RM50 million to less than RM100 million.

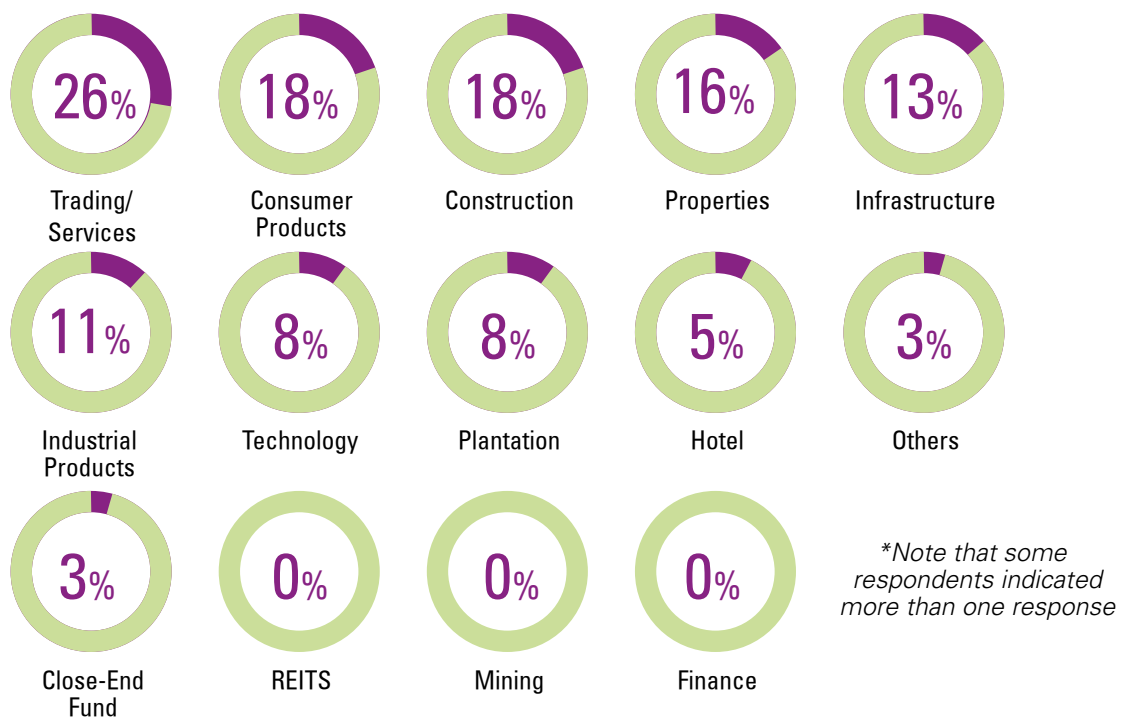


Figure 8 – Main line of business of respondents' organizations that experienced fraud



Figure 9 – Number of employees within respondents' organizations that experienced fraud

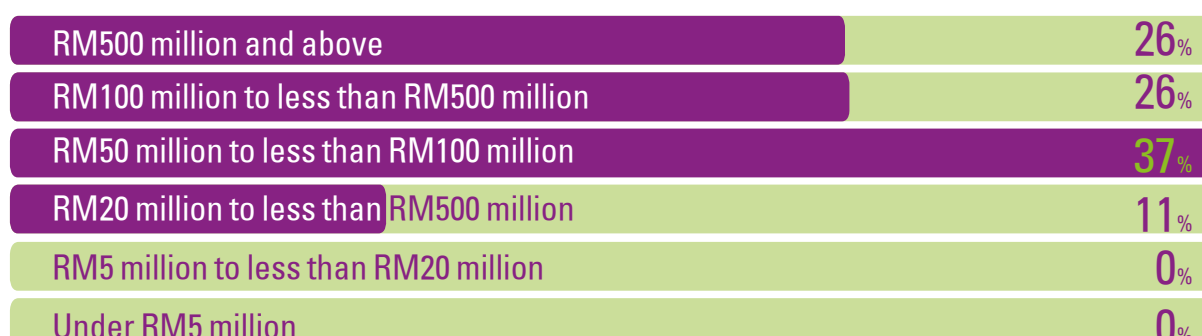


Figure 10 – Annual turnover of organizations experiencing fraud

### What was the total value of fraud experienced?

Of the total respondents who experienced fraud, 92% were able to indicate the range of the financial losses due to fraud whereas 8% were unsure of the amount. However, only a small percentage of respondents (26%) who experienced fraud were able to state the exact quantum of fraud loss experienced which amounted to RM2.407 million. The result indicate that 42% of the reported fraud incidents were within the range of RM10,001 - RM100,000.

These findings indicate that fraud remains an imminent threat for companies in Malaysia and this draws our attention to the growing importance of fraud risk management within organizations today.

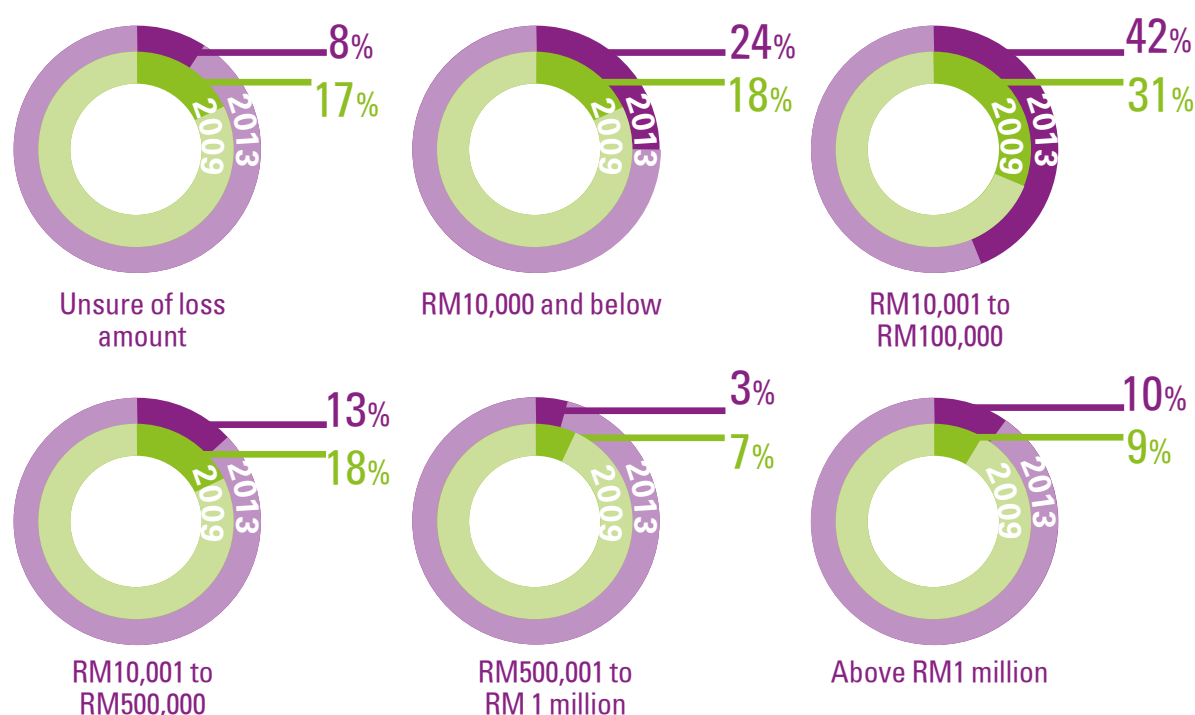


Figure 11 – Financial losses due to fraud

## Key perpetrators of fraud based on frequency of incidents and value of financial losses

To obtain an understanding of the prevalence of fraud among the various types of perpetrators, we asked survey participants to comment on the source of losses suffered segregated to the following five categories:

- Management
- Non-management employees
- Customers
- Suppliers
- Service providers

Consistent with our previous 2009 survey, the 2013 survey revealed that the damage to corporate is greater when perpetrated internally. Often, those who are entrusted with a company's resources can abuse their authority, overriding controls to perpetrate fraud. This trend clearly depicts the looming threat of the "enemy within" as the very people whom organizations consider the "eyes and ears" to prevent and detect fraud are instead adding to its statistics.

### Who are the fraud perpetrators?

The results show that 68% of the total reported fraud cases experienced by companies were perpetrated internally by management and non-management employees while 32% of these cases were perpetrated by external sources namely customers, suppliers and service providers. There appears to be a sharp increase in the incidents of fraud cases perpetrated by non-management employees (50% up from 34% in 2009) while fraud perpetrated by customers dropped significantly from 58% in 2009 to 18% in 2013.

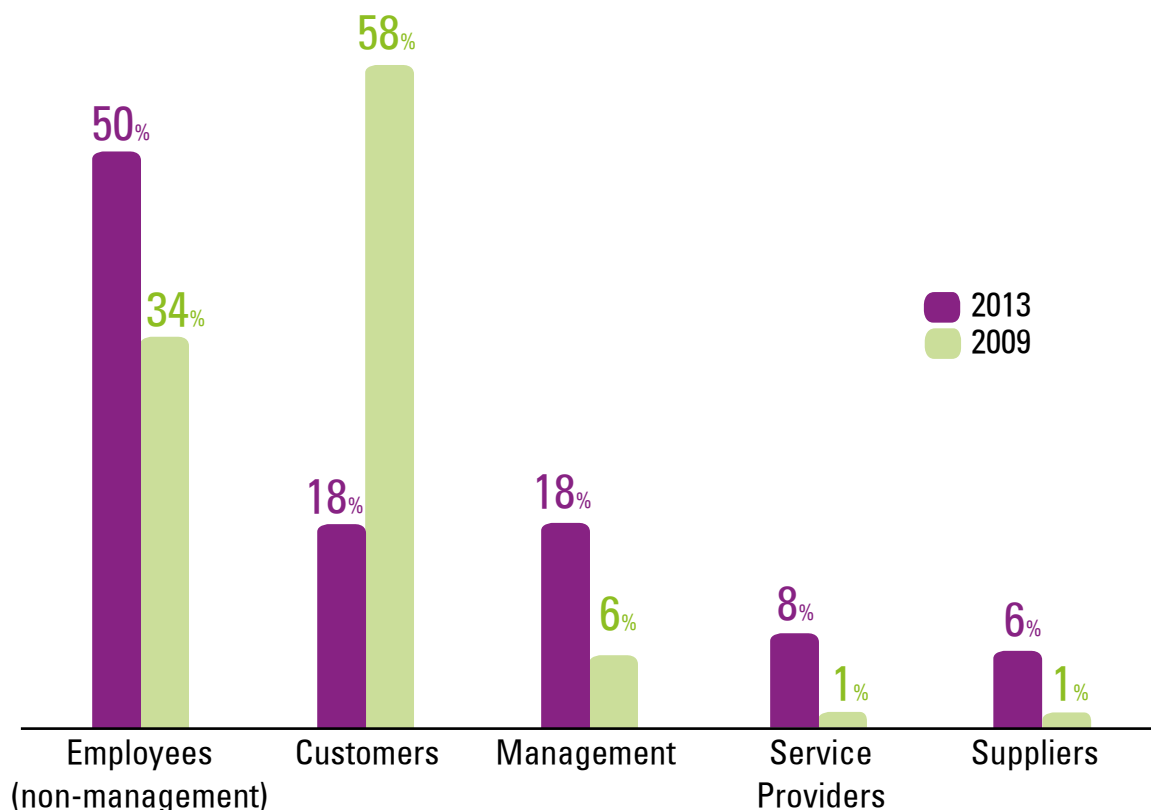


Figure 12 – Total number of fraud incidents attributed to the various categories of fraud perpetrators

Of the total reported value of fraud which amounted to RM2.407 million, 45% were attributed to customers, 32% were attributed to non-management level employees while 21% were attributed to service providers. Although the incidents of fraud cases perpetrated by non-management employees appears to have increased as compared to the 2009 survey, there was an overall decrease in the value of this type of fraud (32% down from 53% in 2009).

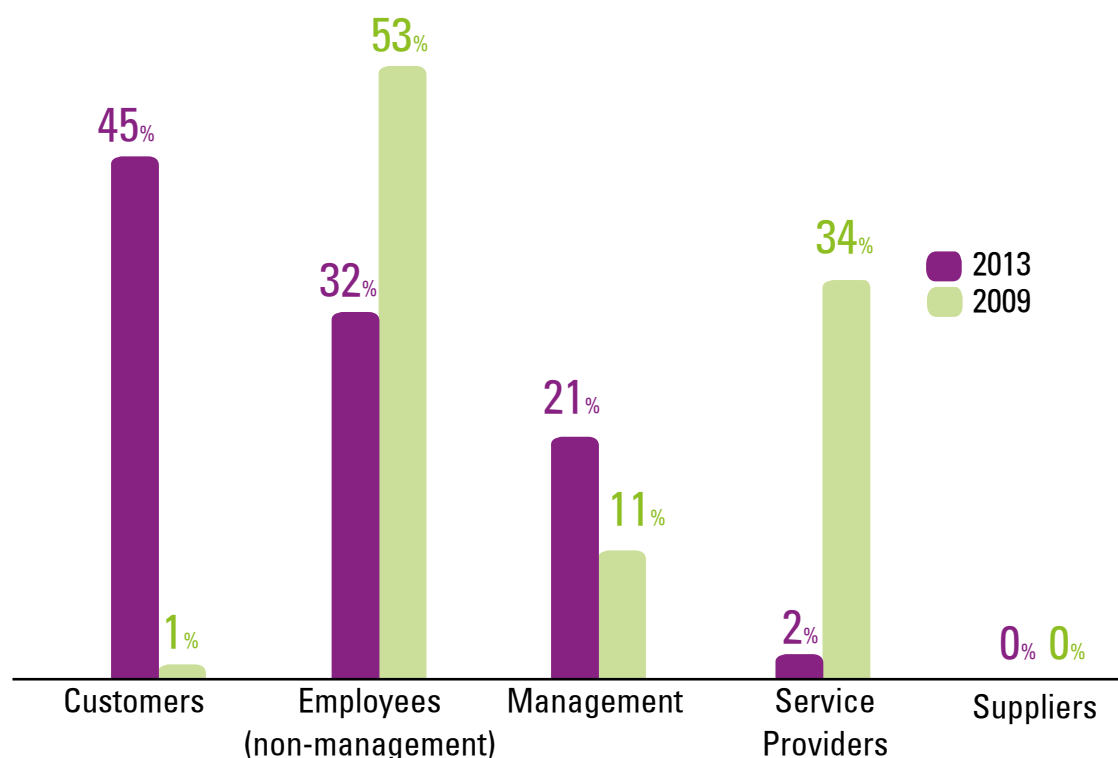


Figure 13 – Percentage of values of fraud incidents attributed to the various categories of fraud perpetrators

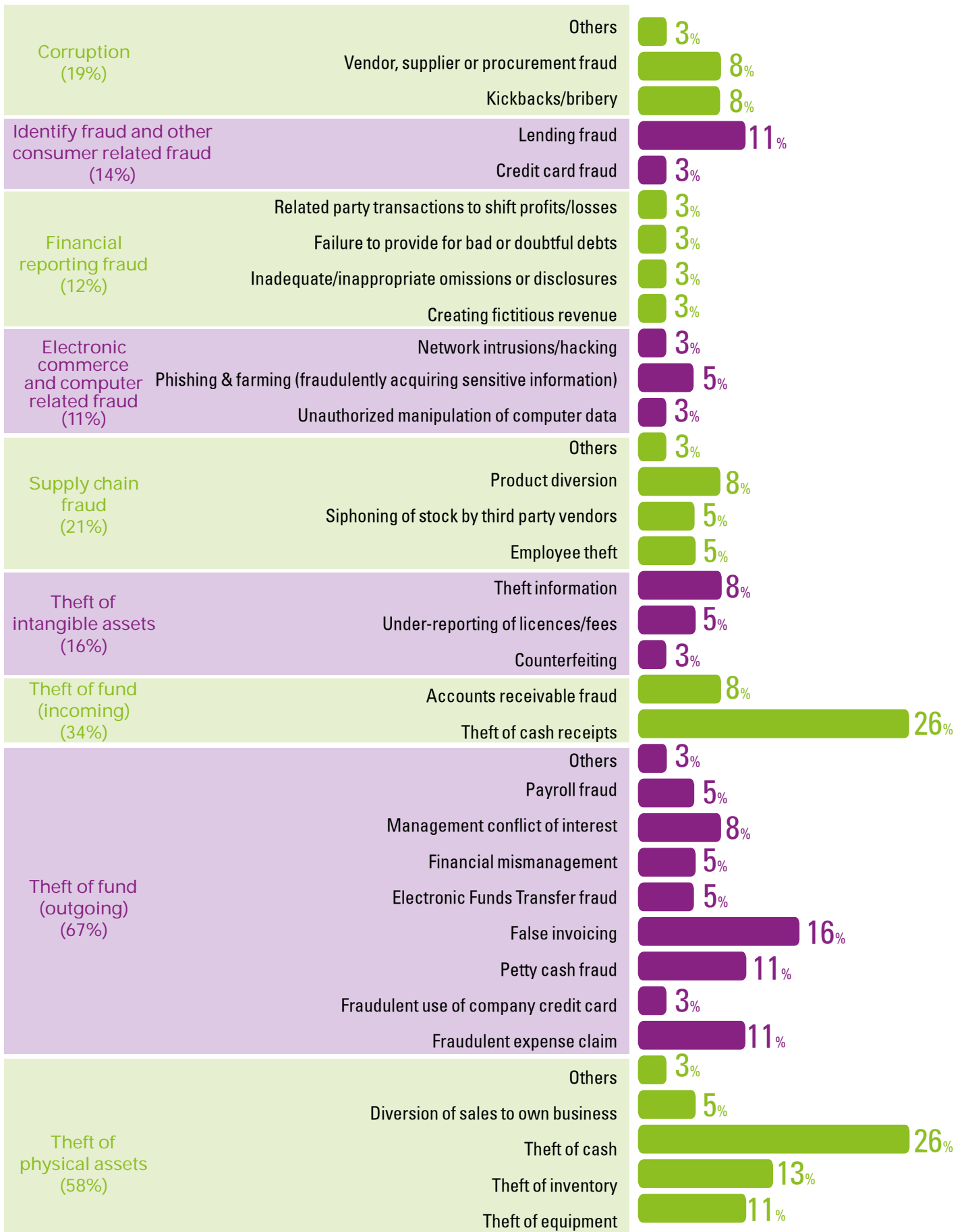
Recent surveys conducted by KPMG member firms also revealed that internally perpetrated fraud make up more than 50% of responses in Australia, Latin America, New Zealand and Singapore.

## What types of fraud are they committing?

We asked respondents to classify the type of fraud encountered during the survey period in the following 9 base categories:

- Theft of physical assets
- Theft of funds (outgoing)
- Theft of funds (incoming)
- Theft of intangible assets
- Corruption
- Electronic commerce and computer related fraud
- Financial reporting fraud
- Identity fraud and other consumer related fraud
- Supply Chain Fraud

Theft of outgoing funds was the highest reported category of fraud at 67%, a decrease however of 10% compared to the 2009 survey. Ranking second was theft of physical assets at 58% and in third place stood theft of incoming funds at 34%. On an individual basis, the most common types of fraud were theft of cash and cash receipts (26%), followed by false invoicing (16%) and theft of inventory (13%).



\*Note that some respondents indicated more than one response

Figure 14 – Types of fraud perpetrated by respondents' organizations segregated according to the 9 base categories

## Types of fraud committed by specific categories of perpetrators

We analyzed the types of fraud committed by the following categories of perpetrators:-

1. Management level employees
2. Non-management level employees
3. External parties (i.e. customers, service providers and suppliers)

The survey revealed that the main types of fraud committed by management level employees are false invoicing (13%), financial mismanagement (13%), management conflict of interest (13%) and lending fraud (13%).

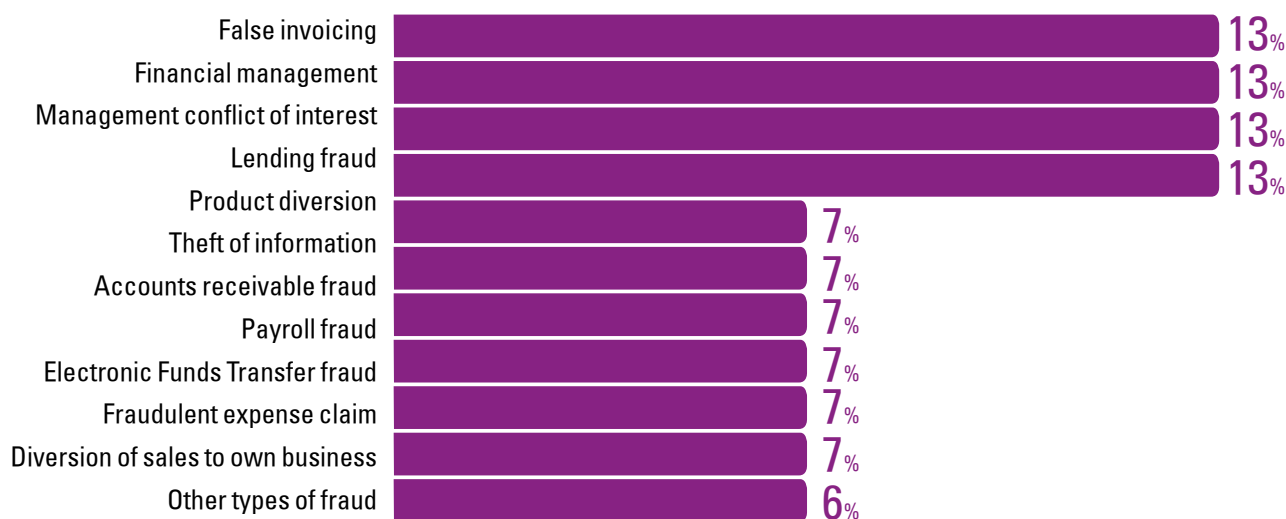


Figure 15 – Types of fraud committed by management level employees

A different scenario was observed for non-management level employees with theft of cash (15%) and cash receipts (15%) were in the lead. As for external parties, false invoicing (12%) was the most popular type of fraud.

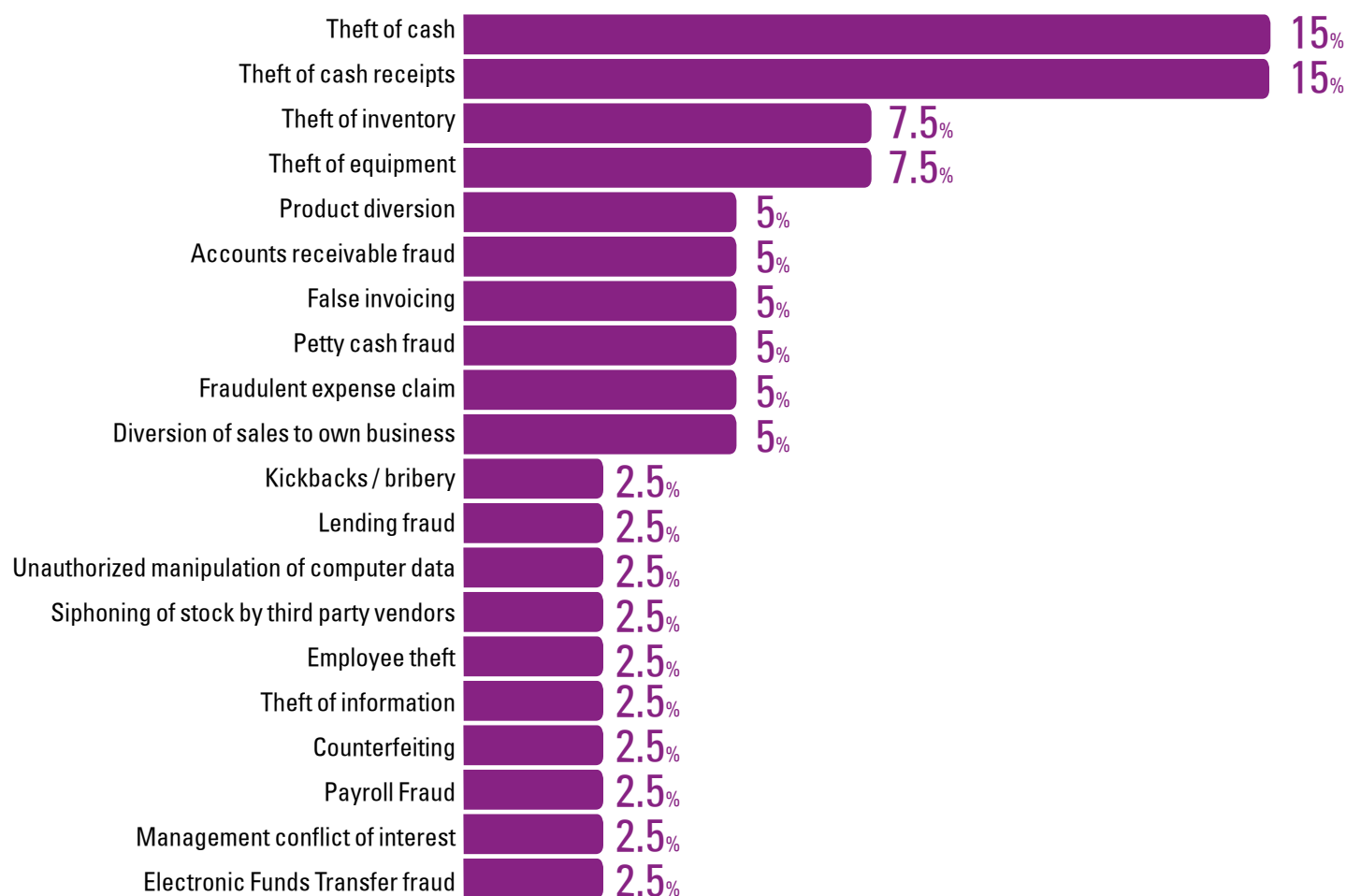


Figure 16 – Types of fraud committed by non-management level employees





Figure 17 – Types of fraud committed by external parties



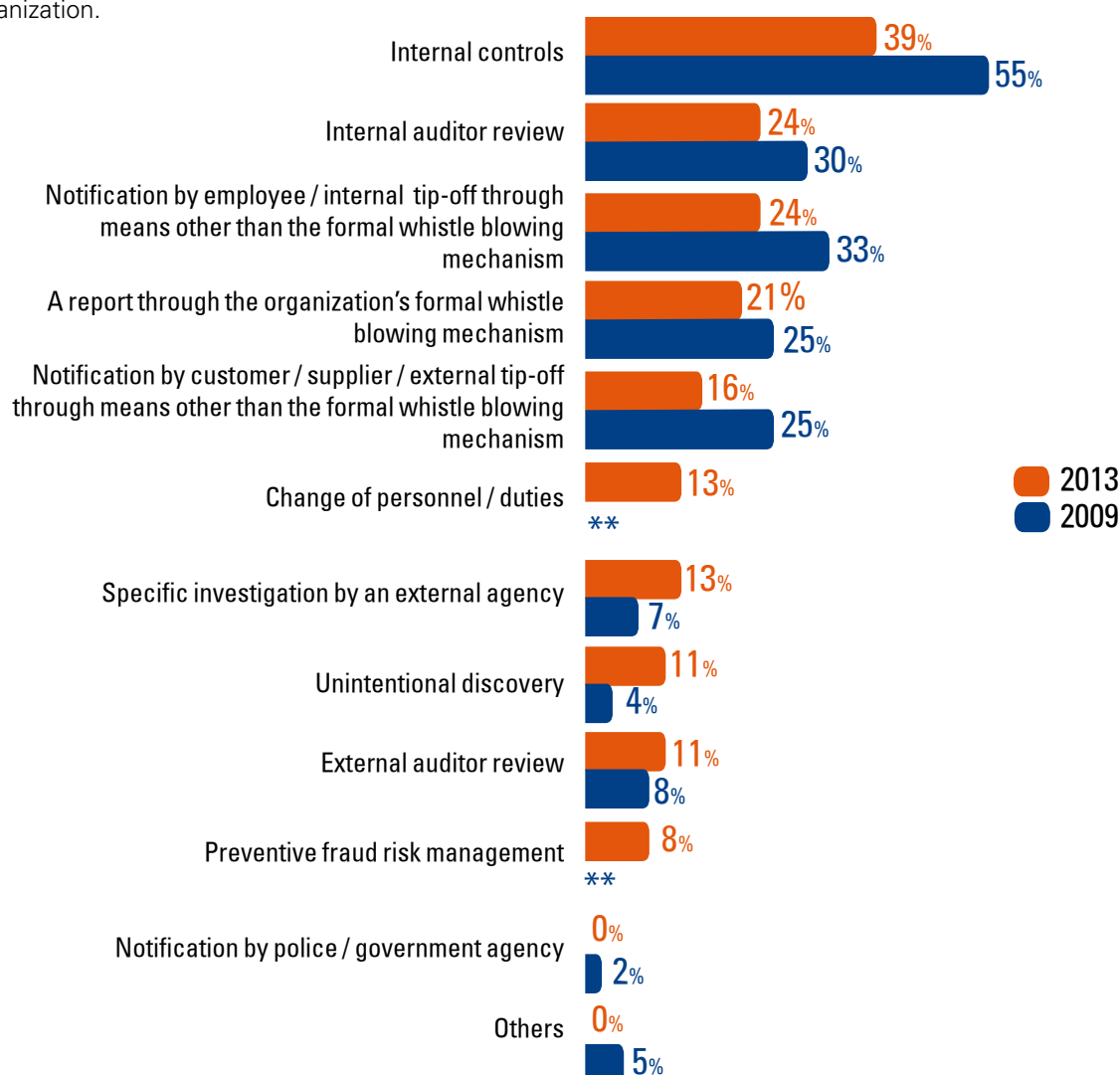
**FRAUD DISCOVERY**

# FRAUD DISCOVERY

## How was the fraud detected?

Fraud detection refers to all the methods employed by organizations to find out if fraud has been committed. In the past, our surveys have revealed that most of the fraudulent activities were predominantly detected by the application of internal controls. The 2013 survey mirrored the same results, with internal control procedures (39%) taking the lead in fraud detection. This is followed by internal audit review (24%), notification by employee/ internal tip-off through means other than the formal whistle blowing mechanism (24%), a report through the organization's formal whistle blowing mechanism (21%) and notification by customer/ supplier/ external tip-off through means other than the formal whistle blowing mechanism (16%). We note that in several cases the fraud was detected by more than one method.

Overall, the findings highlighted the importance of developing an effective fraud risk management system in every organization.



\*Note that some respondents indicated more than one response

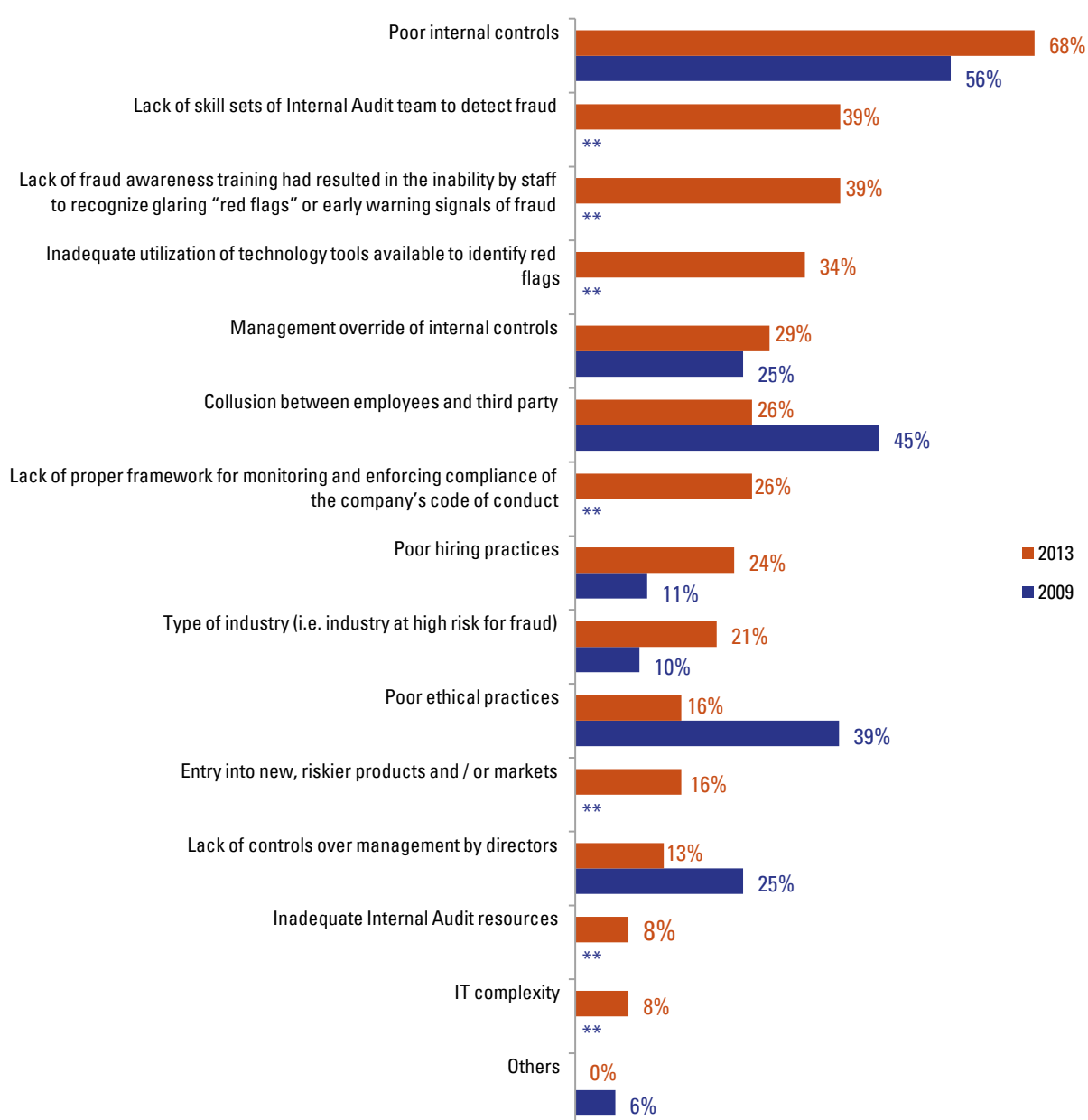
\*\*Note that this method was not given as an option in the 2009 survey

Figure 18 – Methods by which fraud incidents were detected in the respondents' organizations

## What allowed the fraud to take place?

We asked executives what factors may foster the occurrence of fraud in their organizations. Respondents cited poor internal controls (68%), lack of skill sets of Internal Audit team to detect fraud (39%) and lack of fraud awareness training which have resulted in the inability by staff to recognize glaring “red flags” or early warning signals of fraud (39%) as the three main factors allowing frauds to occur. Poor internal controls was also the leading response in 2009.

Similar fraud surveys conducted by KPMG member firms in Australia and New Zealand (28%), Argentina (28%), Chile (78%), Mexico (25%) and Uruguay (90%) respectively showed that poor internal controls was a major contributor to fraud as well.



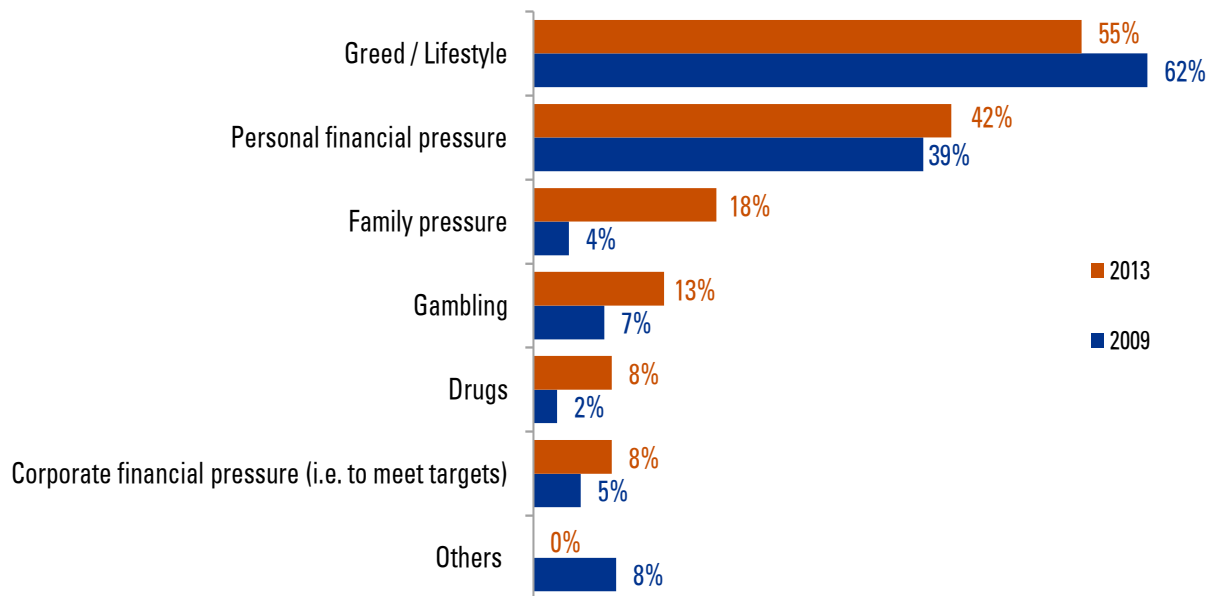
\*Note that some respondents indicated more than one response

\*\*Note that this method was not given as an option in the 2009 survey

Figure 19 – Factors that allowed the incidence of fraud to take place in the respondents’ organization

## What was the motivation for fraud?

Motivation is what drives the act of fraud and understanding it is pivotal in developing an effective fraud prevention program. Our survey suggests that the two leading motivations for fraud are greed/lifestyle (55%) and personal financial pressure (42%). Respondents also flagged family pressure (18%) and gambling (13%) as the third and fourth motivators of fraud in their organization. The results are somewhat consistent with the 2009 results.



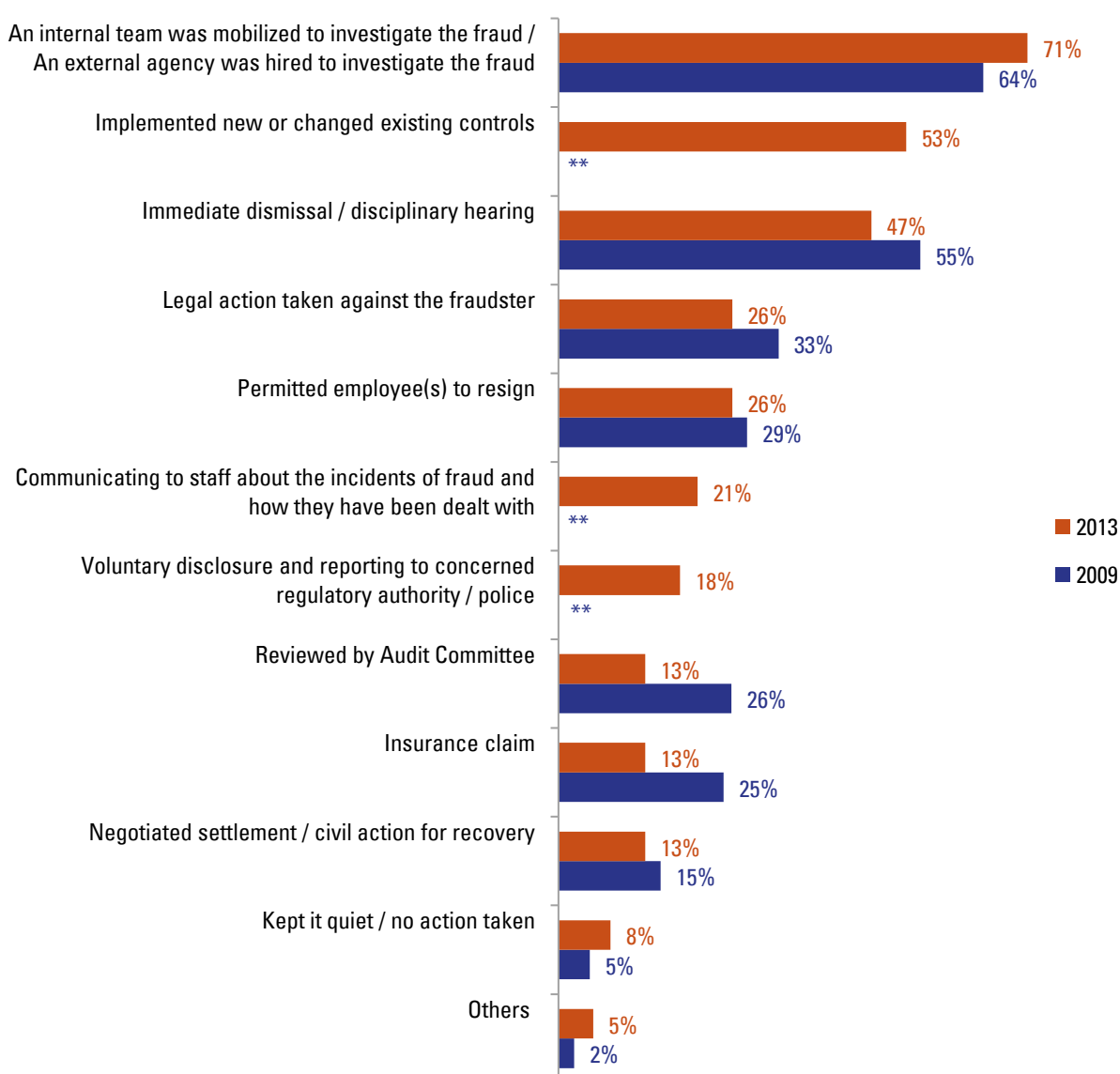
*\*Note that some respondents indicated more than one response*

Figure 20 – Motivations for fraud according to respondents

## How do organizations respond to fraud incidences?

An organization's response to fraud is crucial as it has the ability to help prevent future occurrences of fraud or unwittingly send the wrong signal to potential fraudsters. Respondents were asked how their organization responded to identified cases of fraud. The most common response was that an internal team was mobilized/ external team was hired to investigate the fraud (71%). Implementation of new/ change in existing controls (53%) was the second most frequent response followed by immediate dismissal / disciplinary hearing (47%).

The same leading responses were observed in similar surveys conducted by KPMG member firms in India and Singapore.



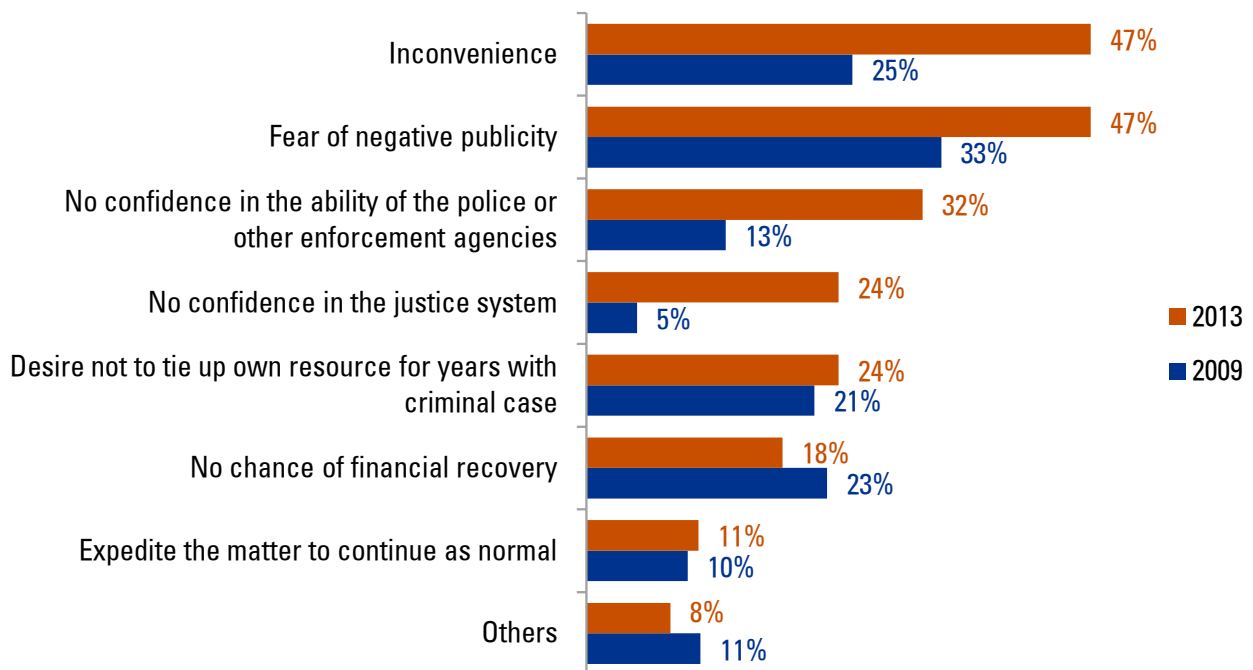
*\*Note that some respondents indicated more than one response*

*\*\*Note that this method was not given as an option in the 2009 survey*

Figure 21 – Organizations' response to fraud according to respondents

## Why some entities did not report fraud incidences to the enforcement agencies?

It is important to note that when investigations are not properly conducted, valuable evidence may be lost or unknowingly destroyed and the organization may fail to uncover other instances of fraud. Our survey suggested that the most common reason why organizations fail to report incidences to the authorities are fear of negative publicity (47%), inconvenience (47%) and no confidence in the ability of the police or other enforcement agencies (32%).



*\*Note that some respondents indicated more than one response*

Figure 22 – Reasons why detected fraud was not reported to the enforcement agencies

## How much of the proceeds of fraud were recovered?

The prospects of recovering monies lost to fraud are poor. 50% of respondents state that they were unlikely to recover 100% of the misappropriated assets. For misappropriated assets which were actually recovered, 56% of the value recovered was recovered from third parties whilst 11% was recovered from perpetrators.

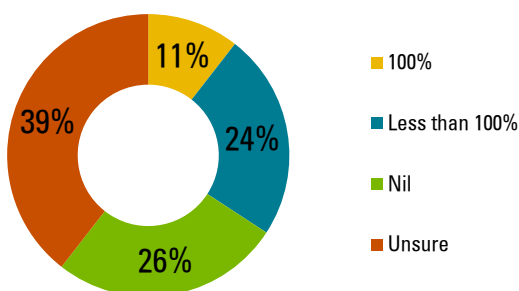


Figure 23 – Proceeds likely recovered from fraud

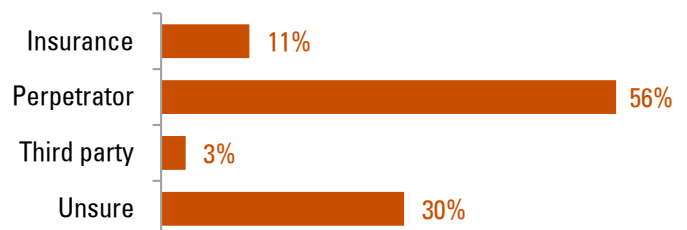


Figure 24 – Source of proceeds recovered from fraud

## How much did it cost to investigate the fraud?

We asked respondents how much it cost them to investigate the fraud and among the respondents who had reported fraud, 18% of them state that it cost their company RM100,001 to RM500,000, whilst 79% reported spending RM100,000 and below out of which 60% reported spending nothing at all.

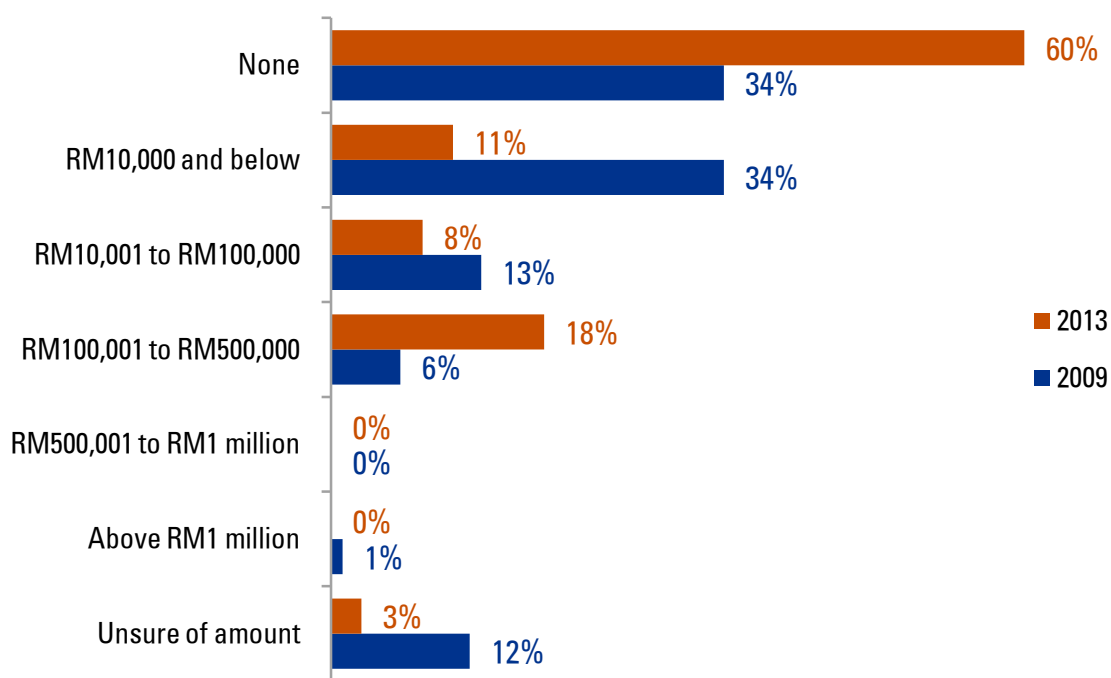


Figure 25 – Cost incurred in investigating the fraud incidences



## How much was incurred to recover financial losses from an incidence of fraud?

Respondents were also asked if they incurred any cost to recover financial losses from an incidence of fraud. Half of the organizations indicated incurring some cost to recover financial losses. In 92% of cases it was RM100,000 and below.

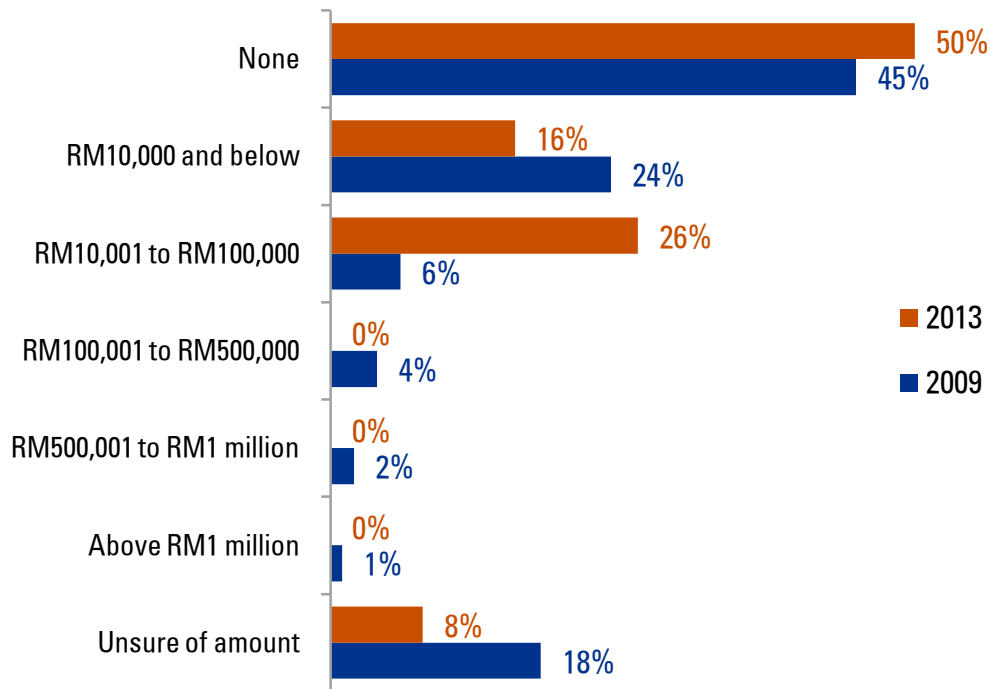


Figure 26 – Amount incurred to recover financial losses from fraud incidences



# PROFILE OF FRAUDSTER



## PROFILE OF FRAUDSTER

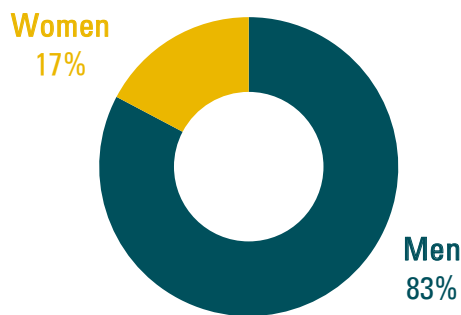


Figure 27 – Gender of a typical fraudster according to survey respondents

### What is the profile of a typical fraudster?

Typically a fraudster is perceived as someone who is greedy and deceitful by nature. However, as this analysis reveals, many fraudsters work within entities for several years without committing any fraud, before an influencing factor - financial worries, job dissatisfaction, aggressive targets, or simply an opportunity to commit fraud – tips the balance.

A profiling of the typical fraudster was conducted based on responses by survey participants regarding the individual(s) committing fraud against their organization. Here's what we found.

In general, a typical fraudster in the survey period exhibited the following characteristics:

- Typically is a male, as reported in 83% of cases
- 26 – 40 years old, in 58% of cases
- Earns an annual income of RM60,000 and below, in 76% of cases
- Has been with the organization for 5 years and below, in 72% of cases

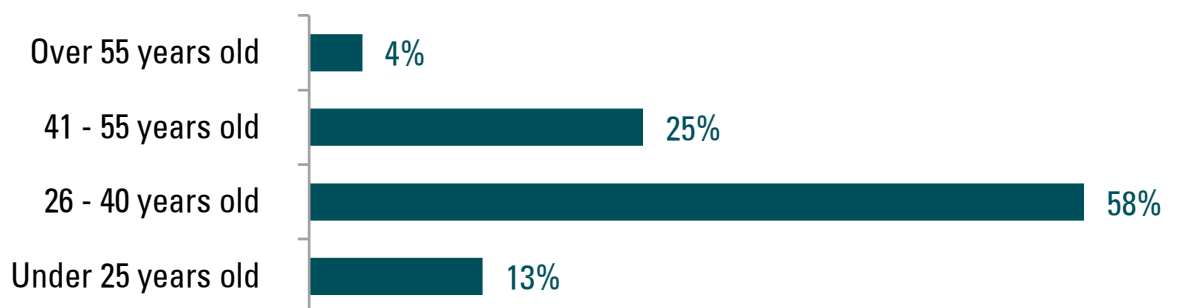


Figure 28 – Age of a typical fraudster according to survey respondents



Figure 29 – Annual income of a typical fraudster according to survey respondents

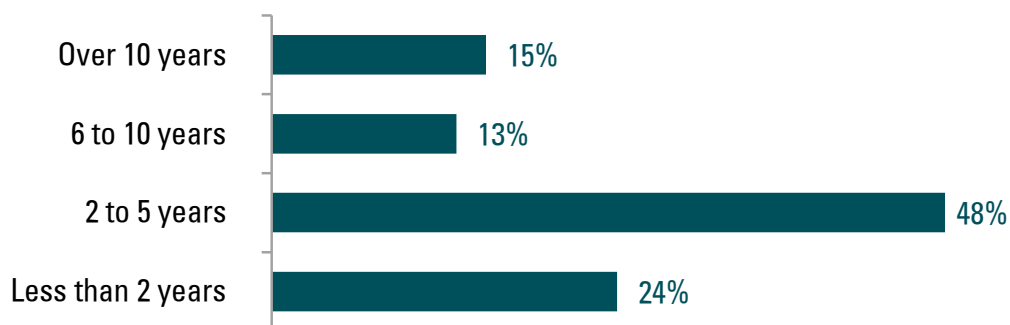


Figure 30 – Years of employment of a typical fraudster according to survey respondents

One of the most effective ways of reducing the risk from fraud is by ensuring that a thorough and robust recruitment process is implemented to prevent any fraudsters from joining the organization. Despite this, our survey revealed that 42% of the time; the organization did not conduct pre-employment screening prior to hiring the fraudster, an increase of 18% compared to the 2009 survey.

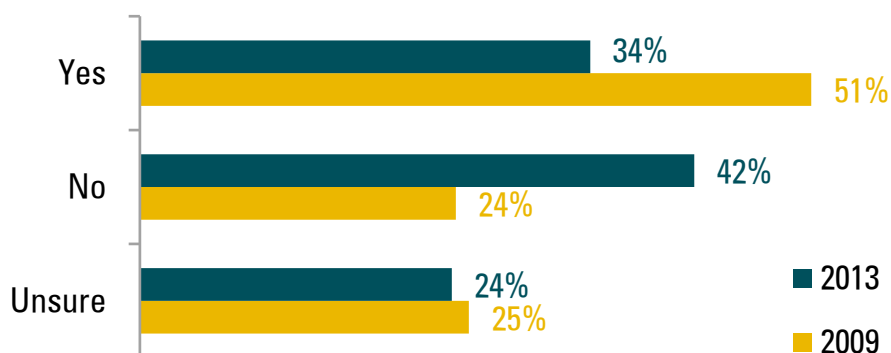


Figure 31 – Pre-employment screening carried out prior to hiring fraudster



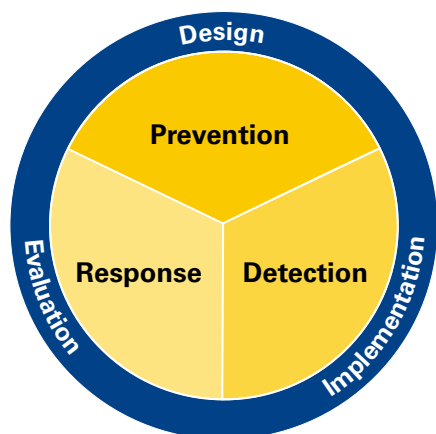
# FRAUD RISK MANAGEMENT



# FRAUD RISK MANAGEMENT

Fraud risk management refers to the systems and processes to identify an organization's exposure to fraud risk, and to implement controls, procedures and education to prevent, detect and respond to the key fraud risks. The development of a broad ranging fraud risk management program is an important step in managing the innumerable risks posed by fraud and misconduct and organizations that fail to develop a sound program imperil their future.

In KPMG's view, an effective approach to fraud risk management should focus on controls with the following three key objectives:



- **Prevention**  
controls designed to reduce the risk of fraud
- **Detection**  
controls designed to uncover fraud when it occurs
- **Response**  
controls designed to facilitate corrective action and harm minimization

Organizations will generally require a range of strategies to meet these objectives and mitigate the risk of fraud. Leading organizations will have a dynamic approach to fraud risk management which will be built in to their overall approach to governance, risk and compliance. Increasingly organizations are leveraging on IT to analyze data collected in the ordinary course of business to identify indicators of fraud. This combined with traditional strategies can substantially assist with managing the risk of fraud.

## Are employees required to declare potential or actual conflicts of interest?

As a mechanism to protect an organization against fraud and corruption, there should be a policy in place which requires all of its employees to declare their external business interests in particular notifying any potential or actual situations that give rise to conflicts of interest with an external party with whom the organization is doing business with.

The survey revealed that 34% of respondents' organizations required its employees to submit an annual written declaration of any potential or actual conflicts of interest whilst 18% required employees to submit an annual declaration of their financial interests and those of immediate family members in relation to any activities relating to its business. It is also noted that only 19% of respondents state that their organization required employees to declare annually that they are in compliance with the organization's Code of Conduct.

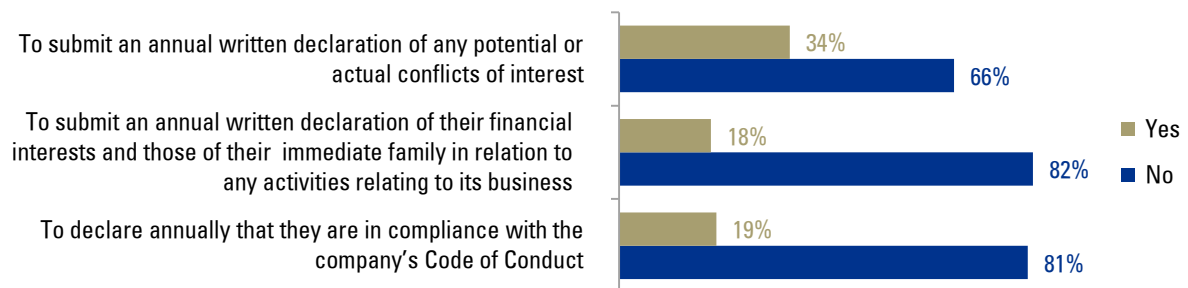


Figure 32 – Respondents' organizations that require an annual declaration by employees

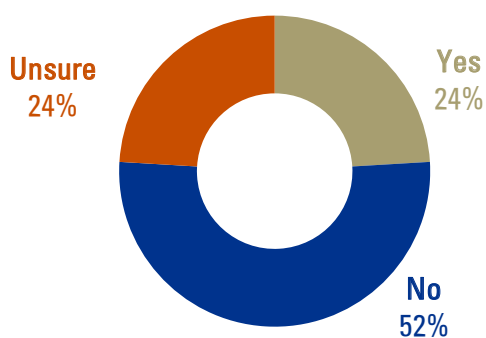


Figure 33 – Respondents' opinion on whether employees in their organization are adequately trained to recognize red flags or early warning signals

## Are employees adequately trained to recognize fraud red flags or early warning signs?

"Red flags" are early warning signs or indicators that fraud may have occurred. Our survey revealed that only 24% of respondents felt their employees were equipped to recognize fraud "red flags" while 52% felt their employees were not adequately trained. The remaining 24% of respondents were unsure.

## Are organizations' anti fraud policies, procedures and controls adequate to prevent, detect and respond to fraud incidences?

When questioned, 48% of the respondents were confident that their organization's anti fraud policies, procedures and controls are adequate to prevent, detect, and respond to fraud incidences while 29% believe that theirs are not adequate. This shows that generally companies are not adequately and appropriately equipped to deal with fraud. Only 32% of respondents reported that their organization reviews the adequacy, relevancy and effectiveness of its anti-fraud policies, procedures and controls annually.

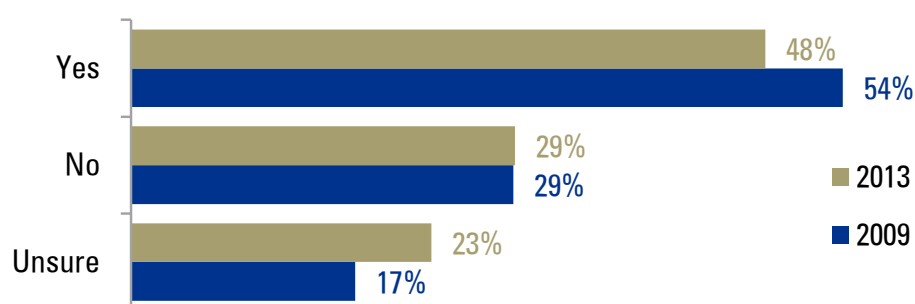


Figure 34 – Respondents' opinion on whether their organizations' anti-fraud policies, procedures and controls are adequate to prevent, detect and respond to fraud incidences

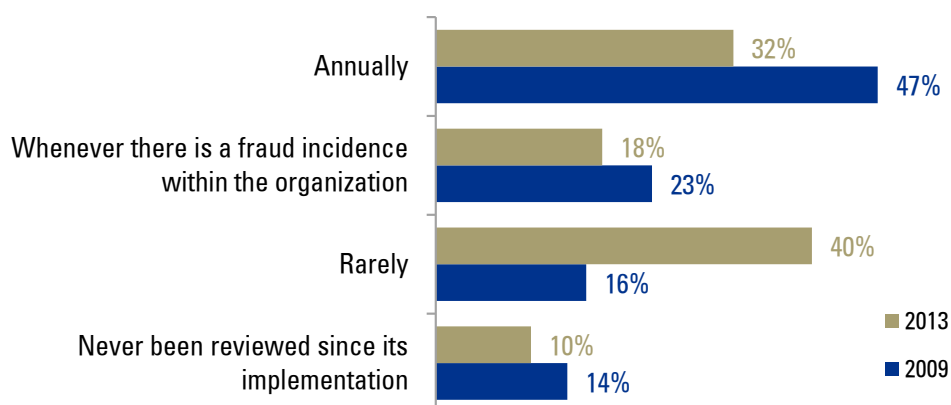


Figure 35 – Frequency at which respondents' organizations review the adequacy, relevancy and effectiveness of their anti-fraud policies, procedures and controls



## Are organizations' fraud controls effective in preventing fraud?

The survey questioned respondents' level of satisfaction in relation to the effectiveness of their organization's fraud controls. More than two-thirds (88%) of respondents said that they are not satisfied or only somewhat satisfied with measures taken to ensure that there is adequate knowledge of the ways in which fraud can occur within their organization.

We also note that a majority of respondents (82%) were not completely convinced of the effectiveness of the steps taken by their organization to ensure that management is familiar with the red flags of fraud.

86% of respondents also fell short of being completely satisfied with measures taken to ensure that employees are confident in the fraud reporting mechanisms in their organization.

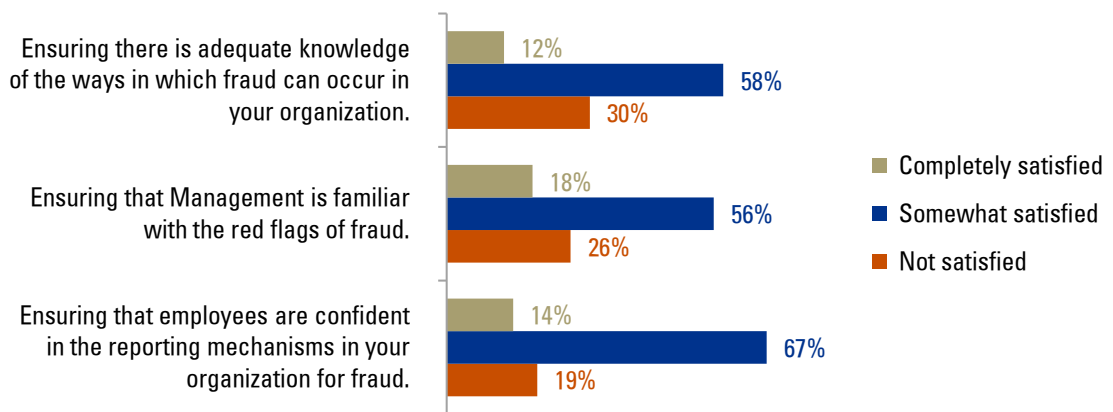


Figure 36 – Effectiveness of respondents' organizations' fraud control measures

The respondents were required to rate the control measures/ processes taken in their organization to mitigate various fraud risks. Majority of respondents felt that their organization had adequate controls/ processes in place to mitigate misappropriation/ theft of funds (78%) and misappropriation/ theft of physical assets (76%) whereas a fairly large number of respondents opined that improvement was needed in respect of control measures/ processes to mitigate bribery and corruption (62%), followed by identity fraud and other consumer related fraud (48%), electronic commerce and computer related fraud (46%), financial reporting fraud (43%) and theft of intangible assets (42%).

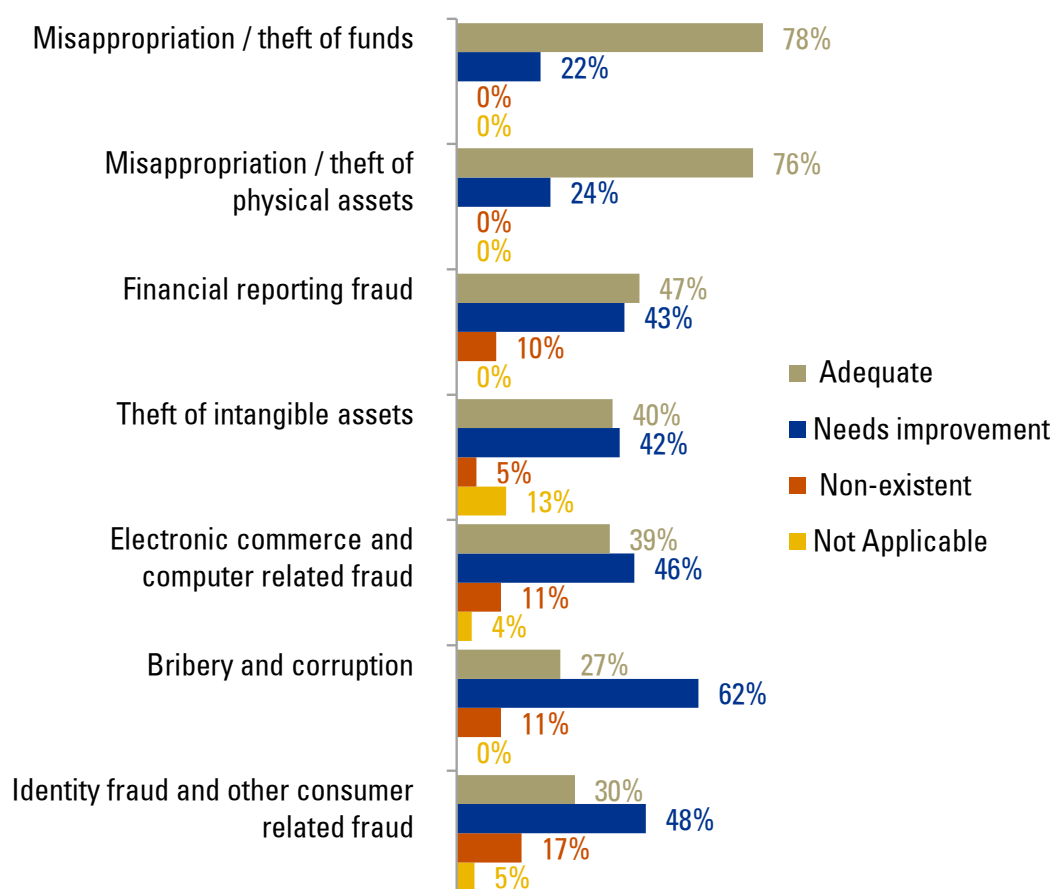


Figure 37 – Respondents' opinion on the adequacy of control measures/ processes in their organization to mitigate the various types of risks

## What are organizations doing to control the risk of fraud?

The survey required respondents to identify the steps taken, or intended to be taken, by their organizations to reduce the risk of fraud and misconduct in their organization. The most common step cited by respondents was review and/ or improve internal controls (91%).

It is interesting to note that although 72 respondents claimed that their organization had reviewed and/or improved internal controls, 38 (53%) of them have experienced fraud, out of which 26 (68%) listed poor internal controls as the main contributor to fraud.

Other common steps included the conduct of pre-employment screening on staff (81%), establish a corporate code of conduct / ethics (81%), and establish a fraud control strategy (73%). Overall, there was an increase in fraud risk management strategies in place as compared to the 2009 survey.

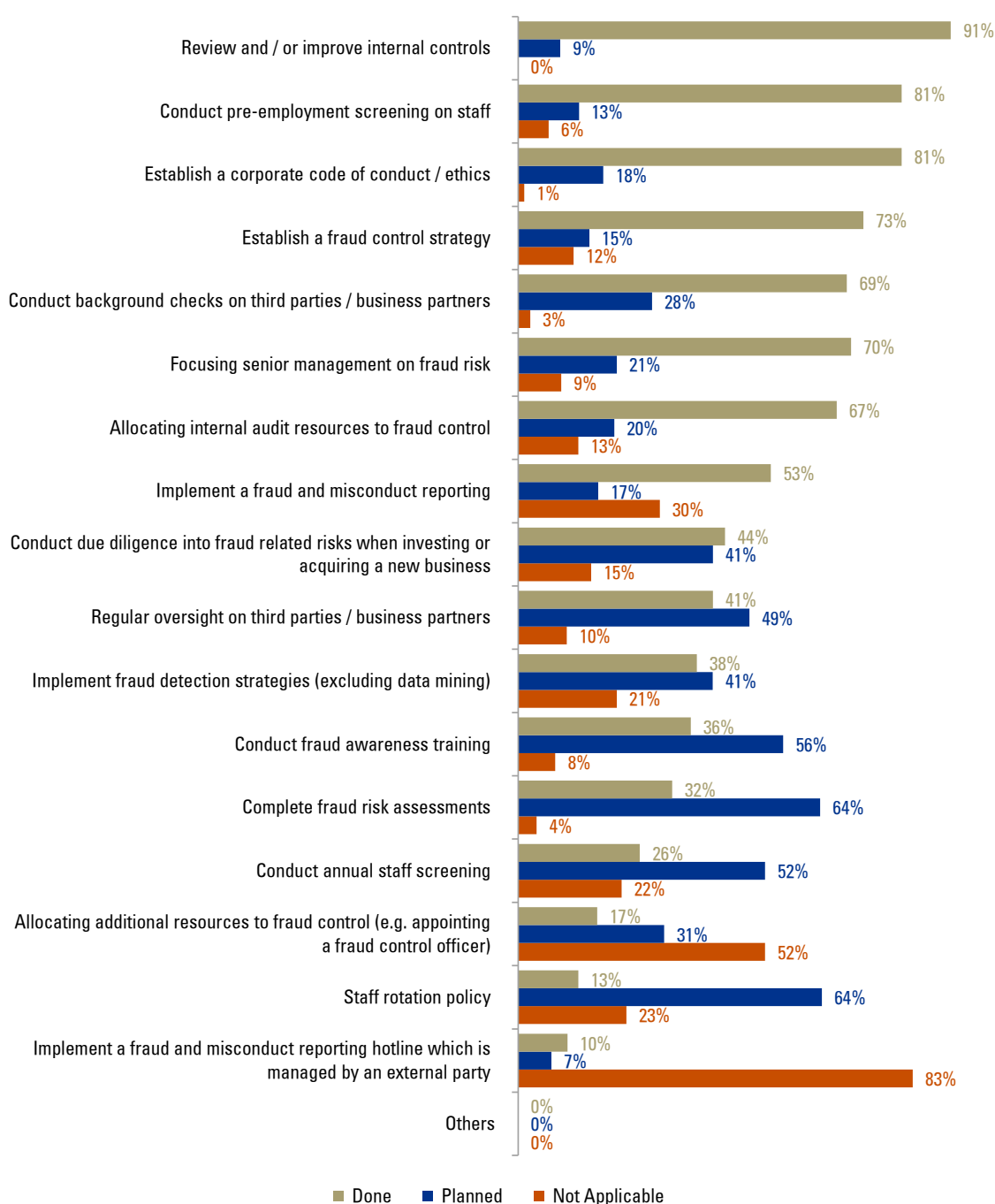


Figure 38 – Steps/ procedures taken by respondents' organization to reduce the risk of fraud and misconduct

## Does your organization have a fraud and misconduct reporting channel in place?

76% of respondents state that there is a fraud and misconduct reporting system within their organization for all allegations and incidents of fraud and unethical conduct.

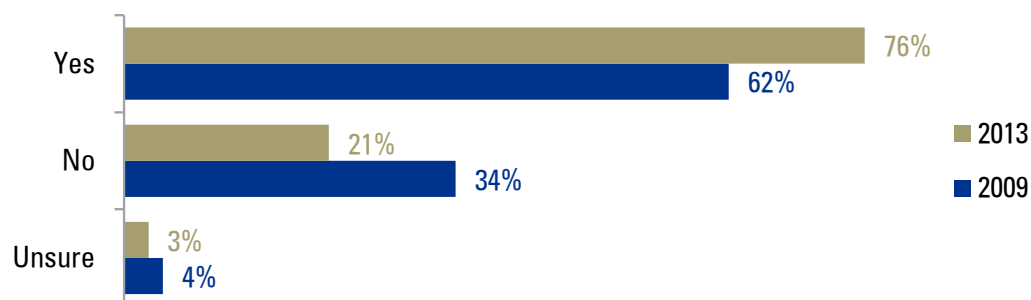


Figure 39 – Respondents' organizations that have a fraud and misconduct reporting channel in place

Only 50% of respondents however, said that they had a system for the anonymous reporting of fraud.



Figure 40 – Respondents' organizations that have a system in place for the anonymous reporting of suspicions of fraud, corruption and unethical conduct

## Do organizations run proactive technology tools such as data analytics to detect and monitor fraud?

Organizations can benefit by deploying modern data analytic tools in their efforts to detect and prevent fraud and misconduct. Proactive data analytic tools identify potential fraud and misconduct that would otherwise remain unnoticed by management, possibly for years.

Respondents were questioned if their organization ran proactive technology tools such as data analytics on processes to detect and monitor fraud. Approximately over half of the respondents state that their organization had implemented, partially or fully, proactive technology tools to detect and monitor fraud for the following processes:

- Payroll and reimbursements (61%)
- Receivables and collections (61%)
- Time and physical access controls (60%)
- Vendor and payments (58%)
- Sales and distribution (58%)
- Emails and external communications (52%)

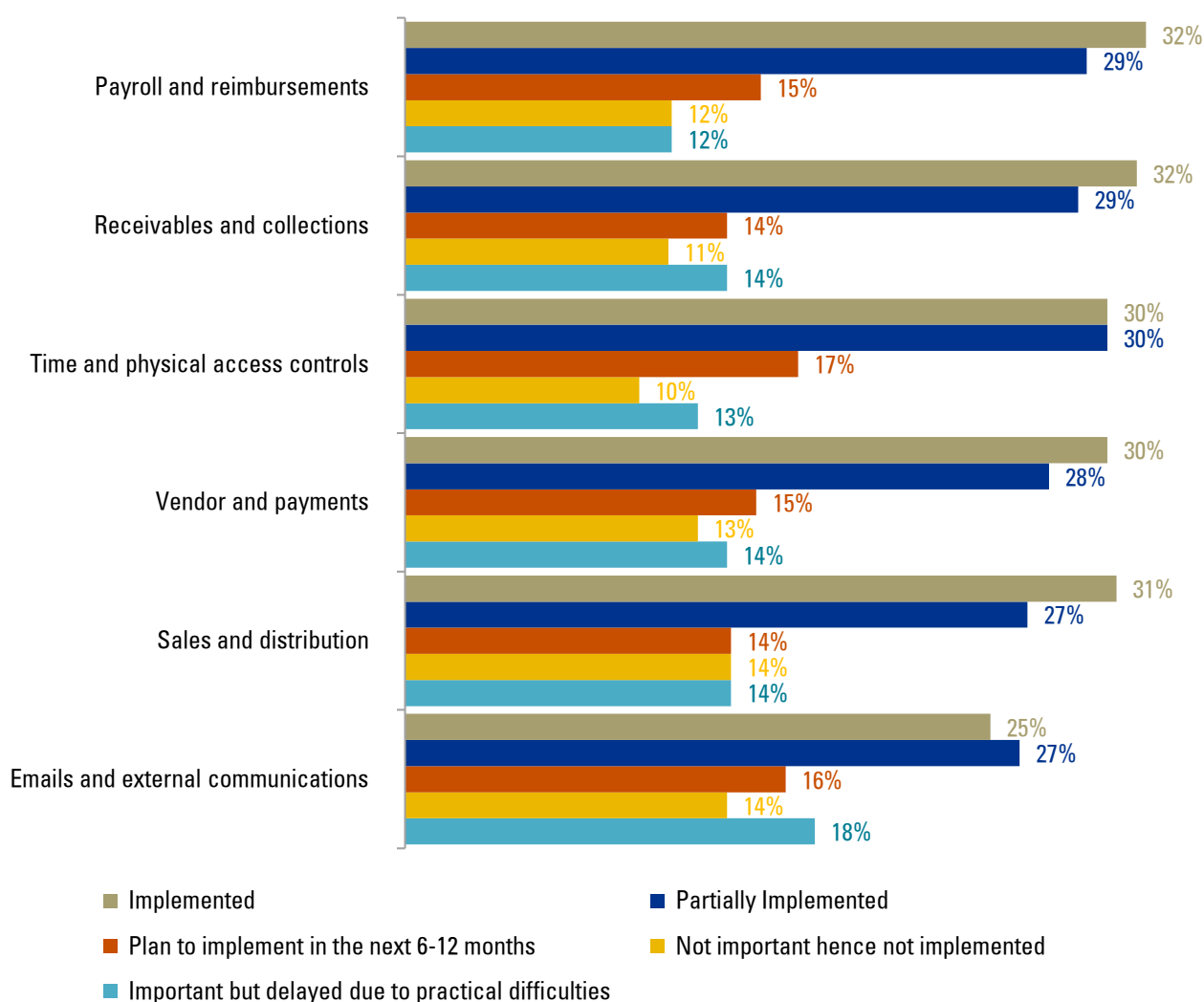


Figure 41 – Respondents' organizations that run proactive technology tools such as data analytics to detect and monitor

## What role do the Board/ Audit Committee play in fraud risk management?

When questioned, majority of respondents believe that their organization's Board/ Audit Committee reviews the functioning of the whistle blower or any other mechanism in place to obtain information on questionable accounting/ auditing matters (92%), reviews and discusses with internal and external auditors on the quality of the organization's anti-fraud programmes and controls (89%) and reviews and discusses issues raised during the organization's fraud and misconduct risk assessment (92%). A small percentage of respondents however (4%) were not sure about the independence of their organization's Board of Directors.

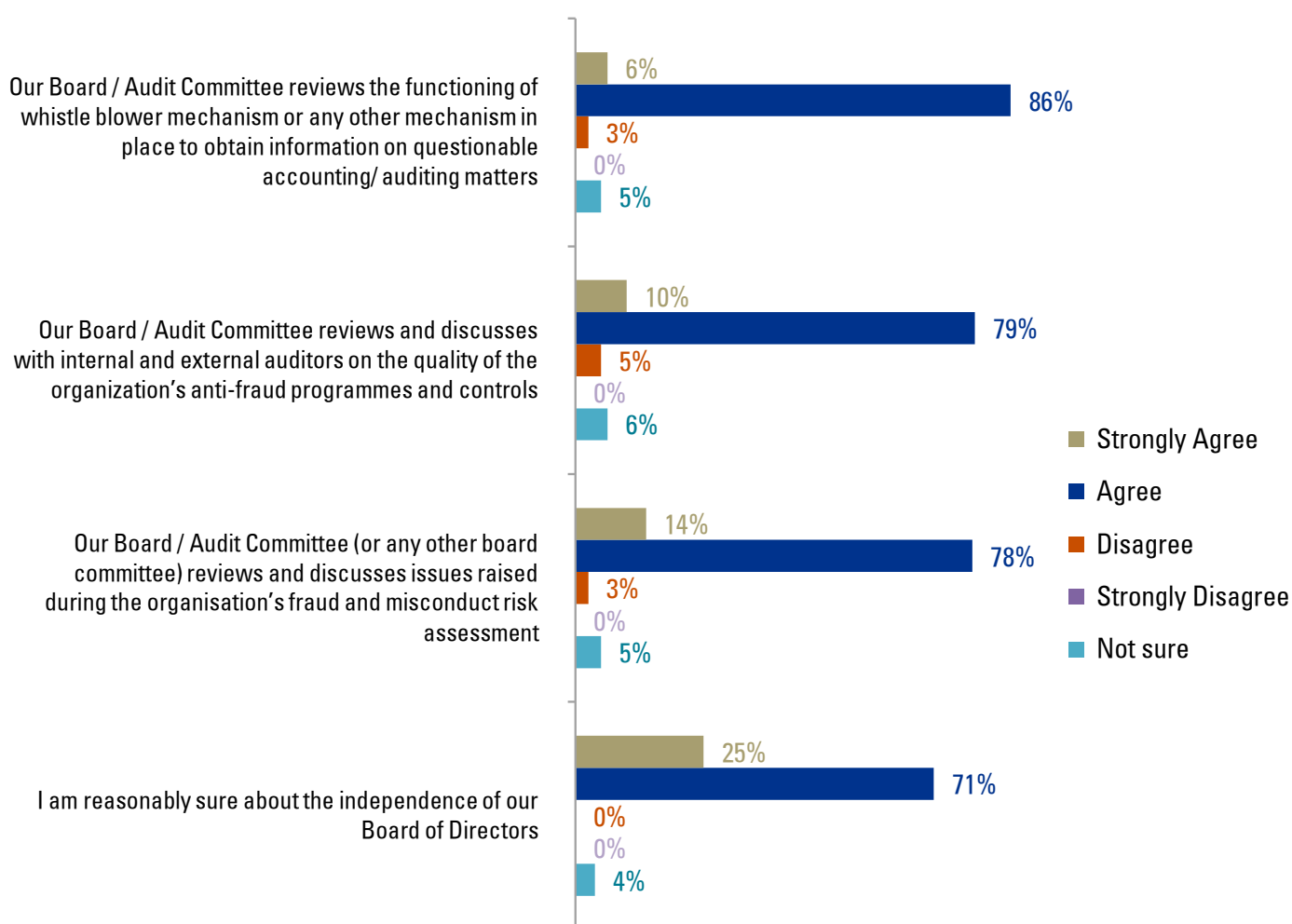


Figure 42 – Respondents' opinion on the role played by the Board/ Audit Committee in fraud risk management in their organization



# **BRIBERY AND CORRUPTION**

# BRIBERY AND CORRUPTION

Bribery and corruption poses a very real and significant risk to companies. It has gained the attention of regulators globally and has thus become a fast moving area of the law.

While our 2009 survey dealt with some issues related to bribery in a section regarding misconduct, the increasing importance of understanding and managing bribery and corruption warranted a more detailed treatment in 2013. As the leash of legislation tightens globally, Malaysian firms are under increasing pressure to implement more robust frameworks for detecting and managing bribery and corruption risk.

Although the last few years have seen publicized efforts by some corporations and the Government to create awareness about the ill effects of this malaise and discourage it, the industry by large remains reluctant to discuss this issue. We encourage organizations to consider the risk of bribery and corruption when developing fraud risk strategies.

## Opinions on bribery and corruption

We asked respondents their general view on bribery and corruption in Malaysia as well as within their organization. 99% of respondents were of the opinion that their organization has an ethical duty to stop bribery and corruption.

80% of them felt that the incidences of bribery and corruption have increased in the last three years.

It is interesting to note that 71% of respondents believed that bribery and corruption is an inevitable cost of doing business whilst 64% believed that business can't be done in Malaysia without paying bribes.

90% of respondents agreed that bribery and corruption are major concerns for Malaysian business generally, whilst 65% also believed that these are major concerns for their business as well.

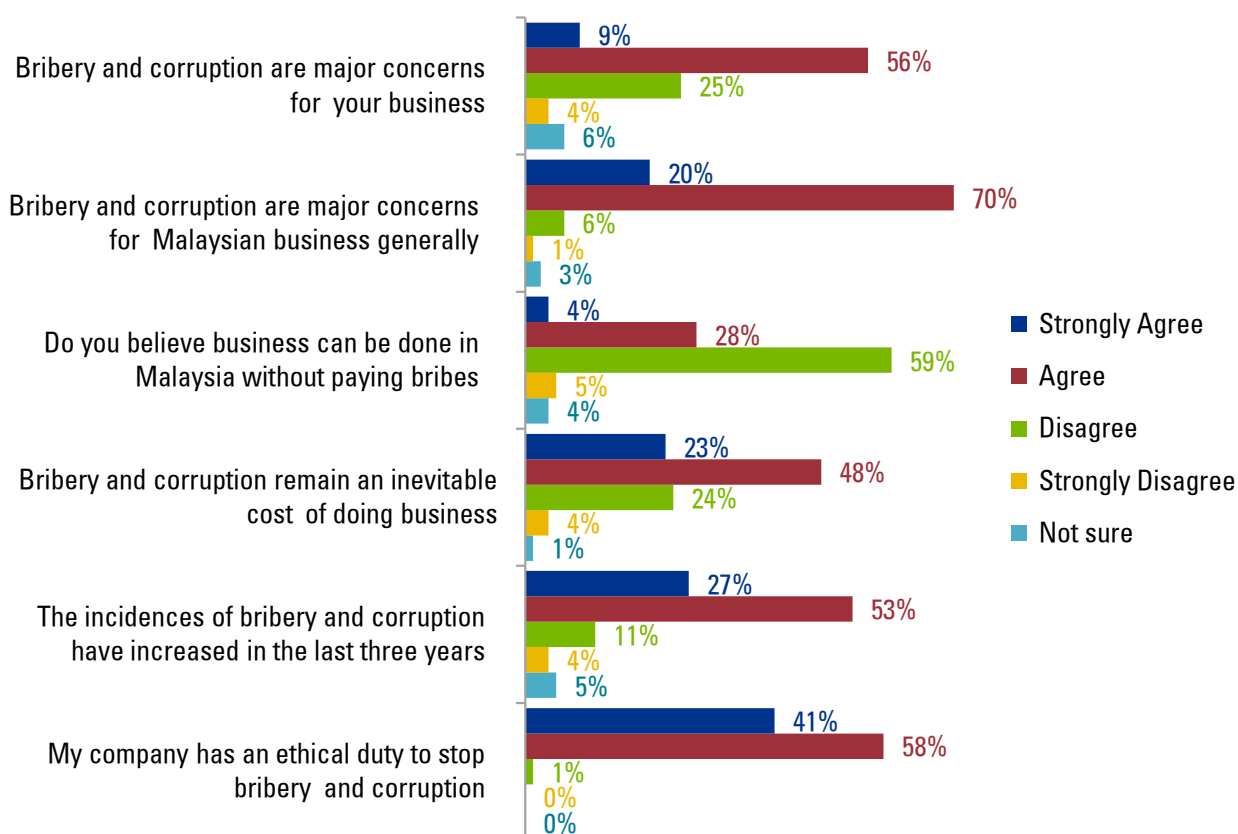


Figure 43 – Respondents' view on bribery and corruption in Malaysia as well as within their organization



## What levels of bribery and corruption have organizations experienced?

16% of the respondents reported that their organization has experienced behaviours that are defined as bribery or corruption.

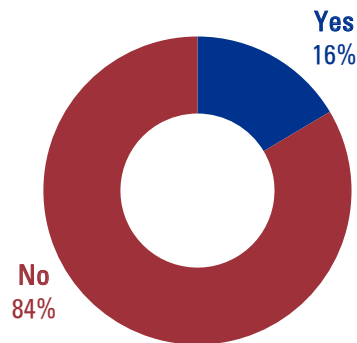


Figure 44 – Respondents' organizations that have experienced bribery and corruption

Out of this total, 15% reported instances involving foreign individuals/entities.

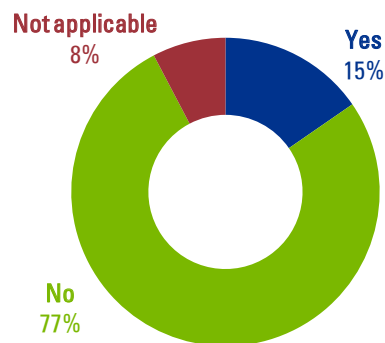


Figure 45 – Respondents' organizations that have experienced bribery and corruption involving foreign individuals/entities

46% of the respondents also reported receiving complaints of bribery and/ or corruption in their organization.

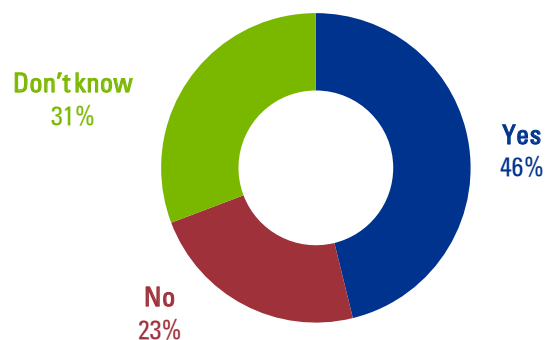


Figure 46 – Respondents' who received complaints of bribery and/ or corruption in or against their organizations

## How do organizations respond to complaints of bribery and corruption?

According to 85% of the respondents, organizations tended to conduct internal investigations in response to such complaints. However, we note that 15% of respondents also reported non-action by their organization.

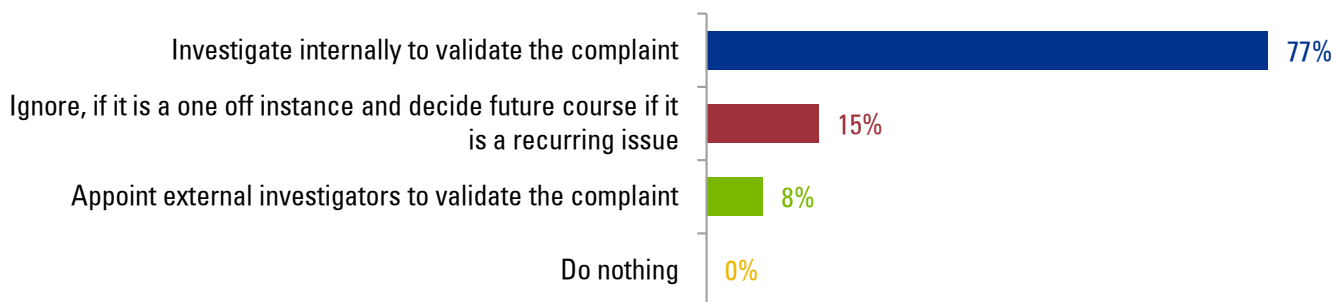


Figure 47 – Investigation of complaints of bribery and/ or corruption by respondents' organizations

## How have unethical business practices of competitors influenced organizations?

Whilst only 27% of the respondents believed that unethical business practices of competitors have influenced tender procedures when competing for a contract, it should be noted that more than half (53%) of the respondents cited that they might not have the knowledge if such influence existed.

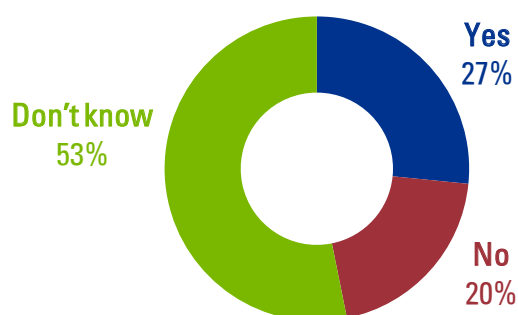


Figure 48 – Respondents' opinion on whether unethical business practices have influenced tender procedures when competing for a contract

## What facilitates bribery and corruption?

Respondents were asked to rank (from 1 to 6 with 6 being the most facilitating factor) the main factors that facilitate bribery and corruption. The top 3 factors facilitating bribery and corruption according to respondents are the inherent nature of the industry in which the organization operates, bribery and corruption being considered as acceptable behaviour and lack of awareness among employees.



Figure 49 – Main factors that facilitate bribery and corruption according to respondents

## Processes to address bribery and corruption compliance risk

The survey identified that majority of respondent organizations have taken steps to reduce the risk of bribery and corruption by mainly carrying out the following:

- Review and/ or improve internal controls (74%)
- Establish guidelines on payment/ acceptance of gifts, travel, and hospitality (49%)
- Establish an effective communication mechanism that expresses zero tolerance towards corrupt activities (39%)
- Prohibit cash payments, payments to numbered accounts, and payments to unrelated offshore accounts or third party accounts (34%)
- Allocating internal audit resources to bribery and corruption control (33%)

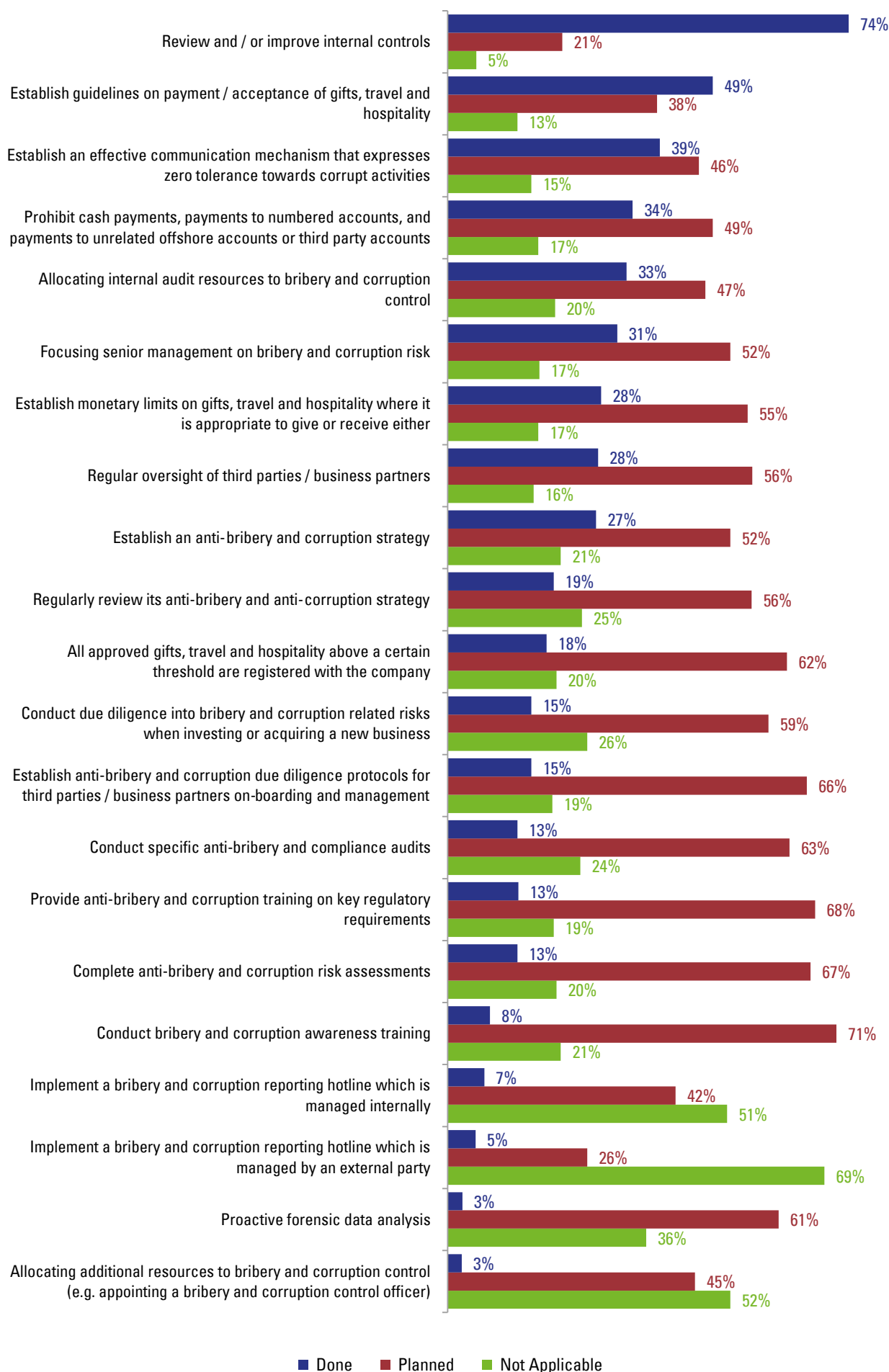


Figure 50 – Steps/ procedures taken by respondents' organizations to reduce the risk of bribery and corruption

## Do organizations have adequate policies and procedures in place to combat bribery and corruption?

It is noted that organizations which operate in challenging commercial environment and in cultures where bribery and corruption is widespread, understand their responsibilities and operate to the highest ethical standards. Therefore organizations need to put in place adequate policies and procedures to prevent bribery and corruption.

Beyond the initial on-boarding due diligence on its business partners, organizations should periodically revisit the process in light of ever-changing risks.

61 % of the respondents indicated that their company does not have adequate procedures to monitor the compliance of anti-bribery and corruption procedures/ steps.

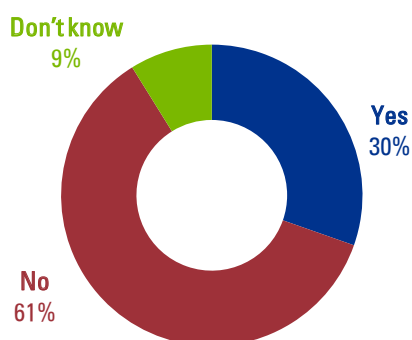


Figure 51 – Respondents' organizations that have adequate procedures to monitor the compliance of anti-bribery and corruption procedures/ steps

62% of the respondents also reported that their company does not have adequate procedures in place that facilitate a robust due diligence on their business partners.

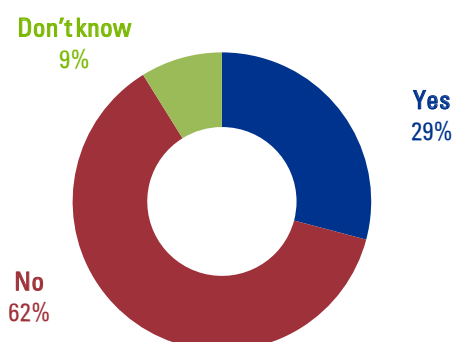


Figure 52 – Respondents' organizations that have adequate procedures in place that facilitate a robust due diligence on their business partners

In line with an organization's zero tolerance approach to bribery and corruption, its business partners must be required to strictly adhere to the organization's Anti-bribery and Corruption Policies and Code of Conduct.

Majority of the respondents (76%) state that it is not a requirement in their organization to compel business partners to strictly adhere to the company's Anti-bribery and Corruption Policies and Code of Conduct by including a specific clause/provision.

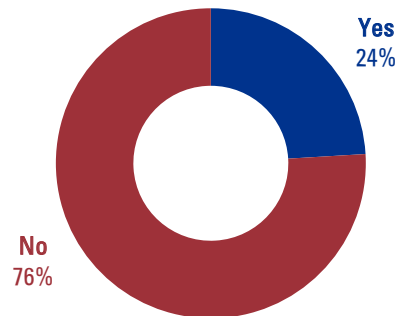


Figure 53 – Respondents' organizations that have a clause/ provision requiring adherence to the organizations' Anti-bribery and Corruption Policies and Code of Conduct in the contracts with business partners

Companies are seeing an increased focus on managing third party relationships by including anti-bribery clauses and "right to audit" clauses in new and re-negotiated agreements with third parties.

82% of the respondents state that they did not have a "right to audit" clause/ provision in their contracts with their business partners.

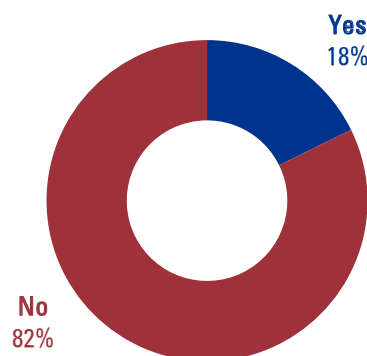


Figure 54 – Respondents' organizations that have a "right to audit" clause/ provision in the contracts with business partners

Only 22% of the respondents require their business partners to affirm their understanding, and to attest their commitment to behave in accordance to their company's Ethics and Compliance, Anti-bribery and Corruption Policies and Code of Conduct.

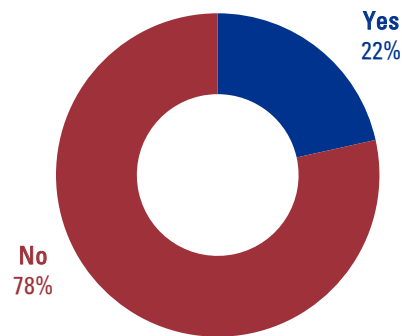


Figure 55 – Respondents' organizations that require their business partners to affirm their understanding, and to attest their commitment to behave in accordance to the organizations' Ethics and Compliance, Anti-bribery and Corruption Policies and Code of Conduct

35% of the respondents felt that the anti-bribery and corruption efforts made by their organization have influenced the attitudes against bribery and corruption in their company.

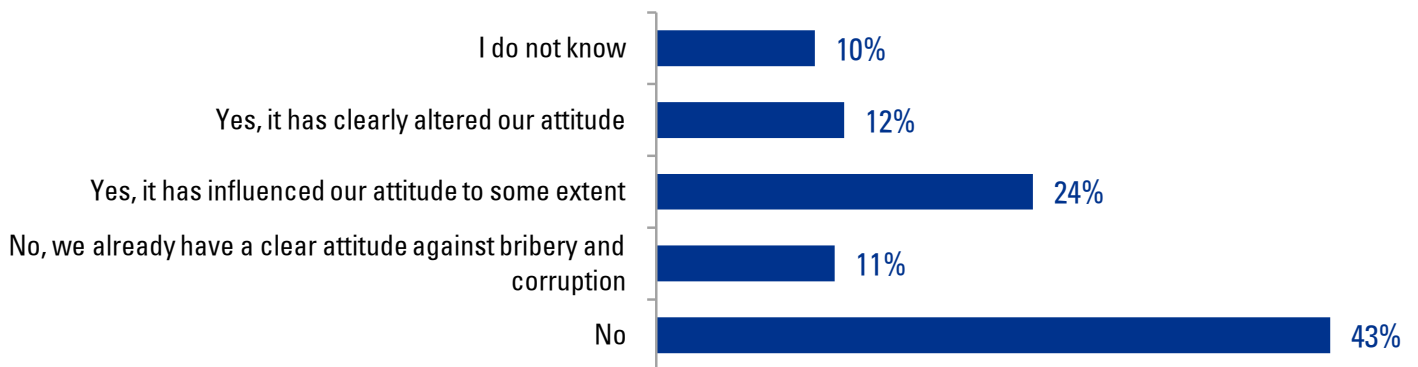


Figure 56 – Respondents' opinion on whether the anti-bribery and corruption efforts made by their organization have influenced the attitudes against bribery and corruption in their organization



A well established anti-bribery and corruption control measures can help prevent bribery and corruption, control and minimize damages should these activities occur, and build a company's reputation.

It is of concern that majority of the respondents believe that their organization (70%) does not have adequate anti-bribery and corruption control measures.



Figure 57 – Respondents' organizations that have adequate anti-bribery and corruption control measures

### Are organizations familiar with the Malaysia Anti-Corruption Commission Act 2009?

Despite the potential implications for their business, 33% of respondents reported being largely unfamiliar with the Malaysia Anti-Corruption Commission Act 2009. This finding suggests a need for greater education and awareness in this area.

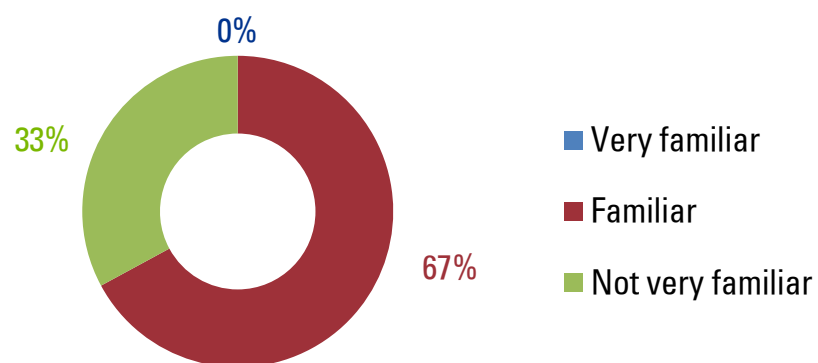


Figure 58 – Respondents who were familiar with the Malaysia Anti-Corruption Commission Act 2009

## Are organizations familiar with the US Foreign Corrupt Practices Act 1977 and the UK Bribery Act 2010?

It is worrying to note that respondents were generally not aware if their organization was subject to the US Foreign Corrupt Practices Act 1977 (52%) and the UK Bribery Act 2010 (53%). Given the broad jurisdictional reach of both Acts, this suggests that many organizations could be at a significant risk of non-compliance.

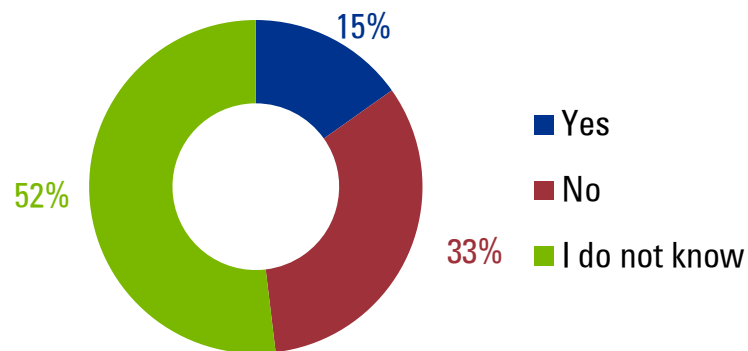


Figure 59 – Respondents who were aware if the US Foreign Corrupt Practices Act 1977 applies to their organization

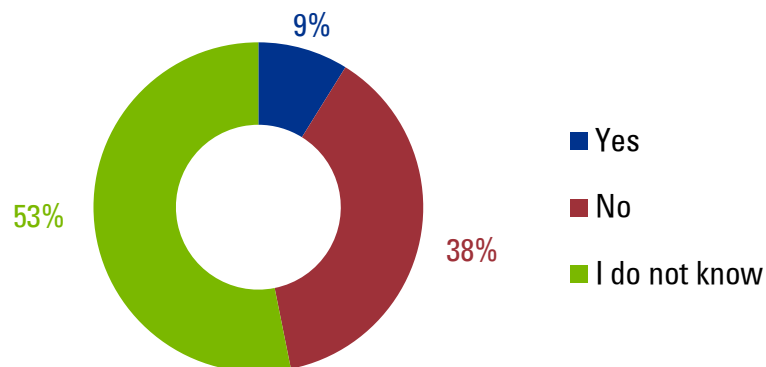


Figure 60 – Respondents who were aware if the UK Bribery Act 2010 applies to their organization

## UK Bribery Act 2010 vs US Foreign Corrupt Practices Act 1977

Countries such as the US and UK have stringent enforcement regulations to deter companies from indulging in bribery and corruption.

The US Foreign Corrupt Practices Act ("FCPA") came into force in 1977. The FCPA prohibits U.S. firms and individuals from paying bribes to foreign officials in furtherance of a business deal and against the foreign official's duties. It places no minimum amount for a punishment of a bribery payment. The FCPA also specifies required accounting transparency guidelines.

The UK Bribery Act ("Bribery Act") was enacted in April 2010 and came into force in July 2011. It prohibits bribing another person or being bribed as well as bribing government officials anywhere in the world. The Bribery Act, which is wider in scope than the FCPA, has been described as the most stringent anti-corruption legislation in the world.

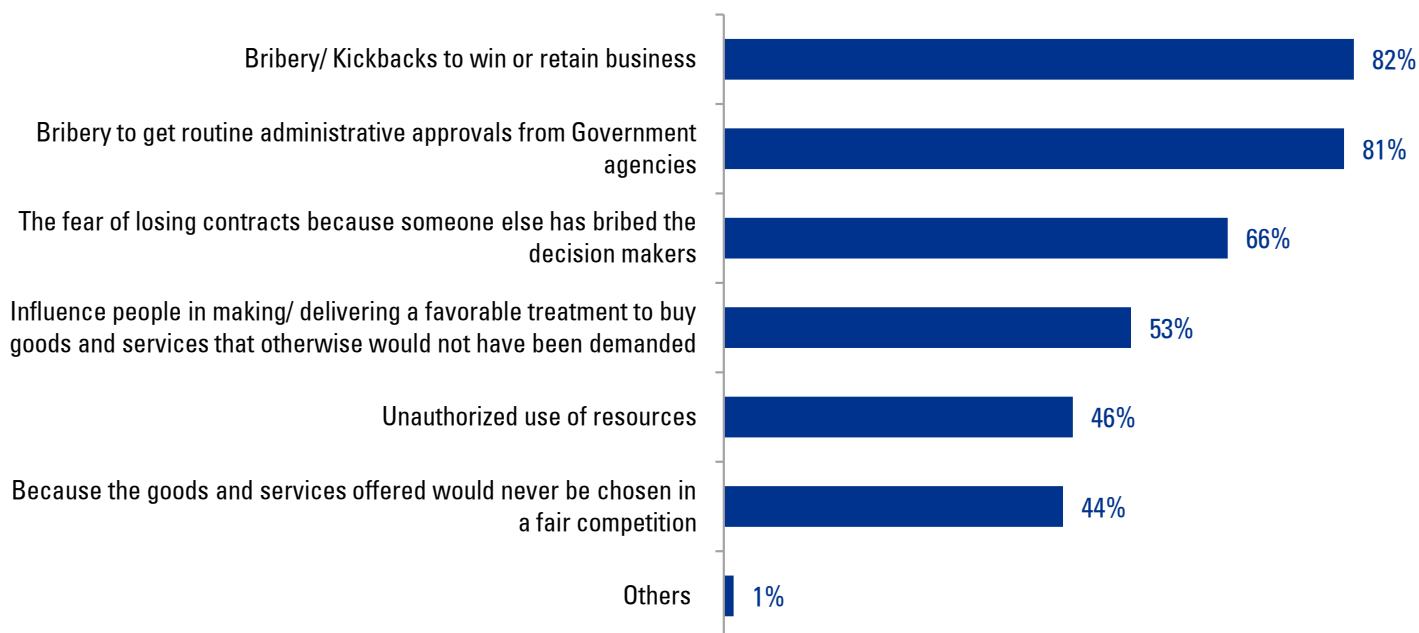
Because of the expansive reach of its jurisdiction, any company that conducts any part of its business in the US and UK should immediately re-examine its anti-bribery policies and prevention efforts. Failure to do so can result in fines and even imprisonment. The UK Bribery Act specifically provides that companies can be held liable if they failed to implement adequate bribery and corruption preventive measures. A comparison of the key elements of the Bribery Act and the FCPA is set out below.

US FCPA	Bribery Act
<ul style="list-style-type: none"> <li>• FCPA only applies to the bribery of a foreign official by any issuers, officer, director, employee or agent of such issuer.</li> <li>• Covers any offer or promise to give anything of value.</li> <li>• Covers US listed companies, foreign issuers and subsidiaries of US companies.</li> <li>• Facilitation payments made to foreign officials to secure routine governmental action are excepted from the FCPA's general prohibition of bribery.</li> <li>• Provides for extraterritorial jurisdiction.</li> <li>• Payer must have a corrupt intent to influence an official.</li> <li>• Recipient includes any foreign official or political party or third party knowing that it will go to such an official.</li> <li>• Purpose is to influence official action or to secure any improper advantage to obtain or retain business.</li> <li>• Affirmative defenses for payments that are legal under the written law of the country.</li> <li>• Issuers are required to adhere to prescribed standards of record keeping and maintain internal controls.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bribery Act catches bribes offered or given to any person. Bribery includes anything that induces or is intended to induce improper performance.</li> <li>• Both the company and individuals are liable. It does not apply to those accepting the bribe.</li> <li>• Covers all instances of corruption, whether in UK or other countries, by individuals as well as corporations, and private and public bribery.</li> <li>• Facilitation payments are not permitted. There are no exceptions under the Bribery Act.</li> <li>• Provides for extraterritorial jurisdiction. UK authorities can investigate and prosecute any British subjects, people ordinarily resident in the UK, or any companies conducting business in the UK, even if the alleged offence occurred beyond UK borders.</li> <li>• Associated person include anyone performing services on behalf of the company i.e. cover employees, agents and intermediaries.</li> <li>• Burden of proof is on the company to demonstrate that adequate procedures are in place to prevent bribery and corruption.</li> </ul>

## What was the motivation for bribery and corruption?

82% of the respondents revealed that the most common underlying motivator for bribery and corruption was to win or retain business. 81% of respondents also cited getting routine administrative approvals from Government agencies as a key motivator, while 66% state that the fear of losing contracts because someone else has bribed the decision makers also contributed largely to the occurrence of bribery and corruption in their industry.

Other reasons include influencing people in making/ delivering favorable treatment to buy goods and services that otherwise would not have been demanded, unauthorized use of resources and because the goods and services offered would never be chosen in a fair competition.



*\*Note that some respondents indicated more than one response*

Figure 61 – Motivations for bribery and corruption according to respondents

## What is extent of the influence that bribery and corruption have on decisions?

33% of the respondents believed that incidents of companies in their industry influencing the decisions of clients / decision makers through bribery and/ or corruption or similar unethical practices occurred in more than 10% of the cases.

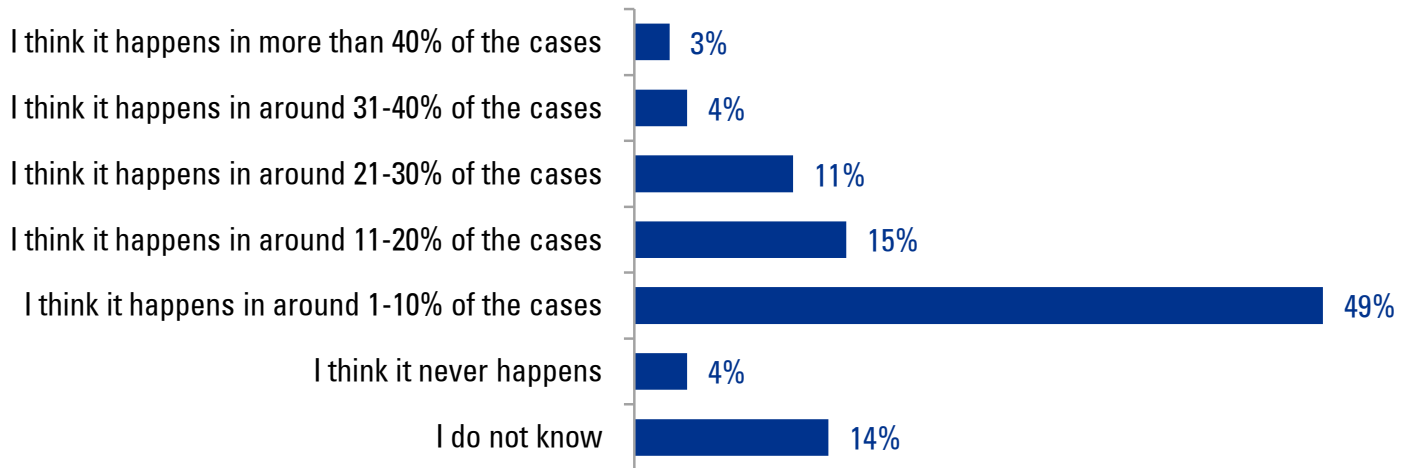
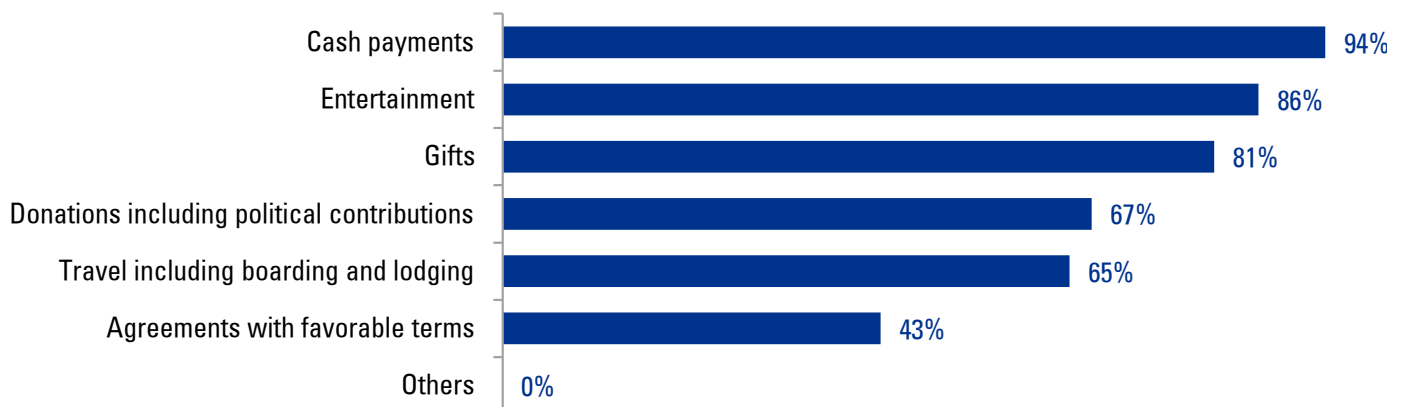


Figure 62 – Respondents' opinion on the extent that bribery and/ or corruption or similar unethical business practices have on organizations in the respondents' industry

## What are the most common forms of payment of bribery?

Based on our survey results, cash payments (94%), entertainment (86%) and gifts (81%) were regarded as the most common forms of payment of bribery, with cash payments leading the three.



*\*Note that some respondents indicated more than one response*

Figure 63 – The most common forms of payment of bribery according to respondents

## How significant is the impact?

We asked the respondents how important is the risk relating to bribery and corruption to their organization. 82% of the respondents said it does impact one way or another, with 4% stating that the impact is very significant.

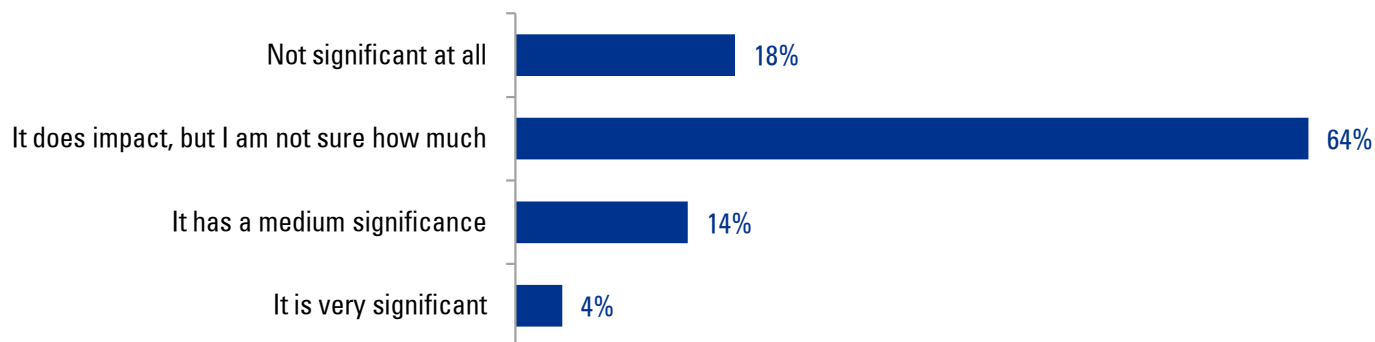


Figure 64 – Respondents' opinion on the importance of the risk relating to bribery and corruption in their organization

Majority of the respondents (73%) state that their Board/ Audit Committee reviews and discusses issues raised during the organization's anti-bribery and corruption risk assessment.

Majority of the respondents (73%) also state that their Board/ Audit Committee reviews and discusses with internal and external auditors on the quality of the organization's anti-bribery and corruption programmes and controls.

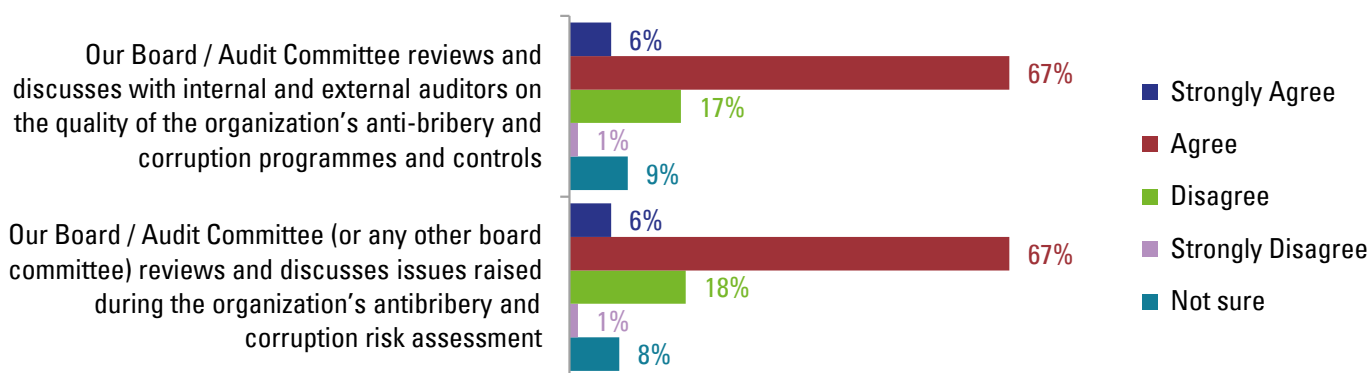


Figure 65 – Respondents' organizations with Board/ Audit Committees that review and discuss bribery and corruption issues



**BUSINESS ETHICS**

# BUSINESS ETHICS

An organization's culture of business ethics can have an important influence on the prevalence of fraud. Business ethics concern an individual's moral judgements about what is right and what is wrong. Decisions taken within an organization may be influenced by the culture of the company. The decision to behave ethically is a moral one; employees must decide what they think is the right course of action. This may involve rejecting the route that would lead to the biggest short-term profit.

To promote ethical conduct in the workplace, many companies have formulated internal policies pertaining to the ethical conduct of its employees. The policies are meant to identify the company's expectations of its employees and to offer guidance on handling common ethical problems in the workplace. In order to better understand how organizations deal with unethical behavior (other than fraud and corruption), we asked respondents about the frequency, causes and effects of unethical behavior experienced by their organization.

## Are there written guidelines regarding acceptable ethical behavior within the organization?

We asked respondents their views on how well fraud and ethics policies and operational procedures are documented and communicated within the organization.

87% of the respondents revealed that acceptable ethical behaviors are included in their organization's internal manual and written policy documents, an increase of 16% as compared to the 2009 survey.



Figure 66 – Respondents' organization that include ethical behaviour in its internal manual and written policy documents



### How frequent are occurrences of unethical behavior within the organization?

We asked if organizations had experienced unethical behavior (other than fraud) during the survey period. It is noted that 27% of the respondents indicated that they have experienced unethical behavior or misconduct within their respective organizations. The top three most common occurrences of unethical behavior or misconduct were management employees' conflict of interest (e.g. awarding contract or diverting sales to a company in which an employee holds a personal interest) (71%), unauthorized personal use of corporate assets (38%), and falsely claiming sick leave or absenteeism (38%).

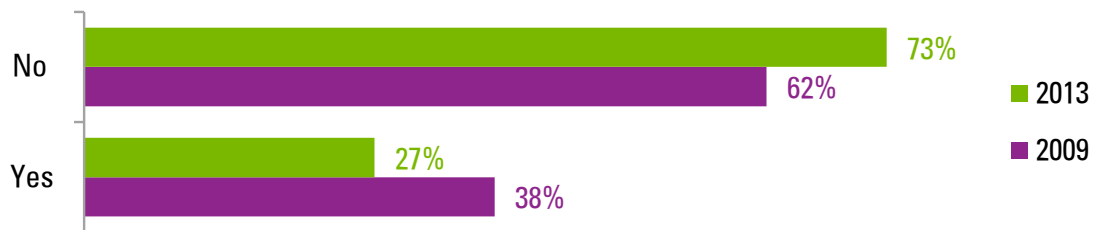
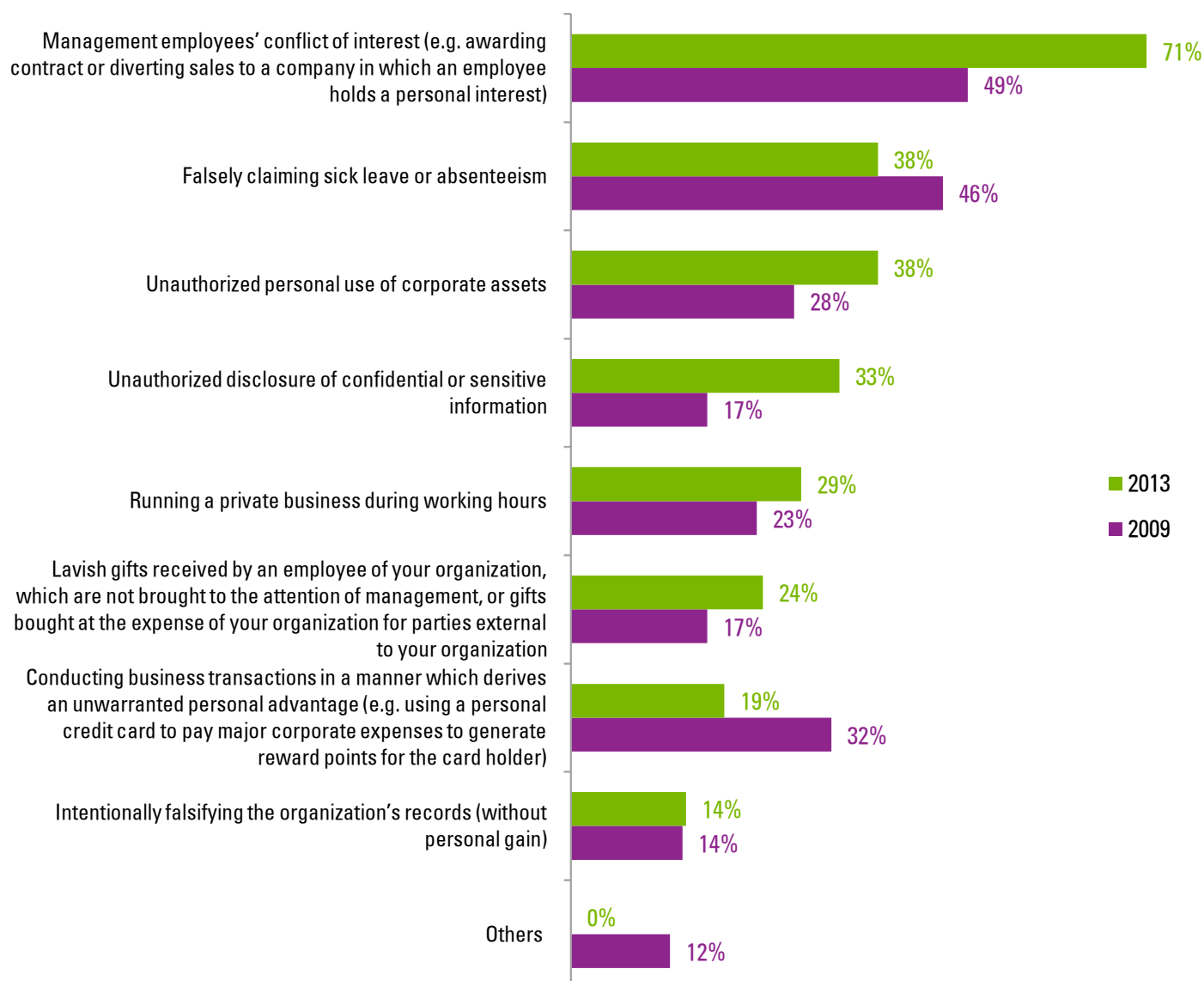


Figure 67 – Respondents' organizations that have been subject to unethical behaviour or misconduct during the period from January 2010 to December 2012



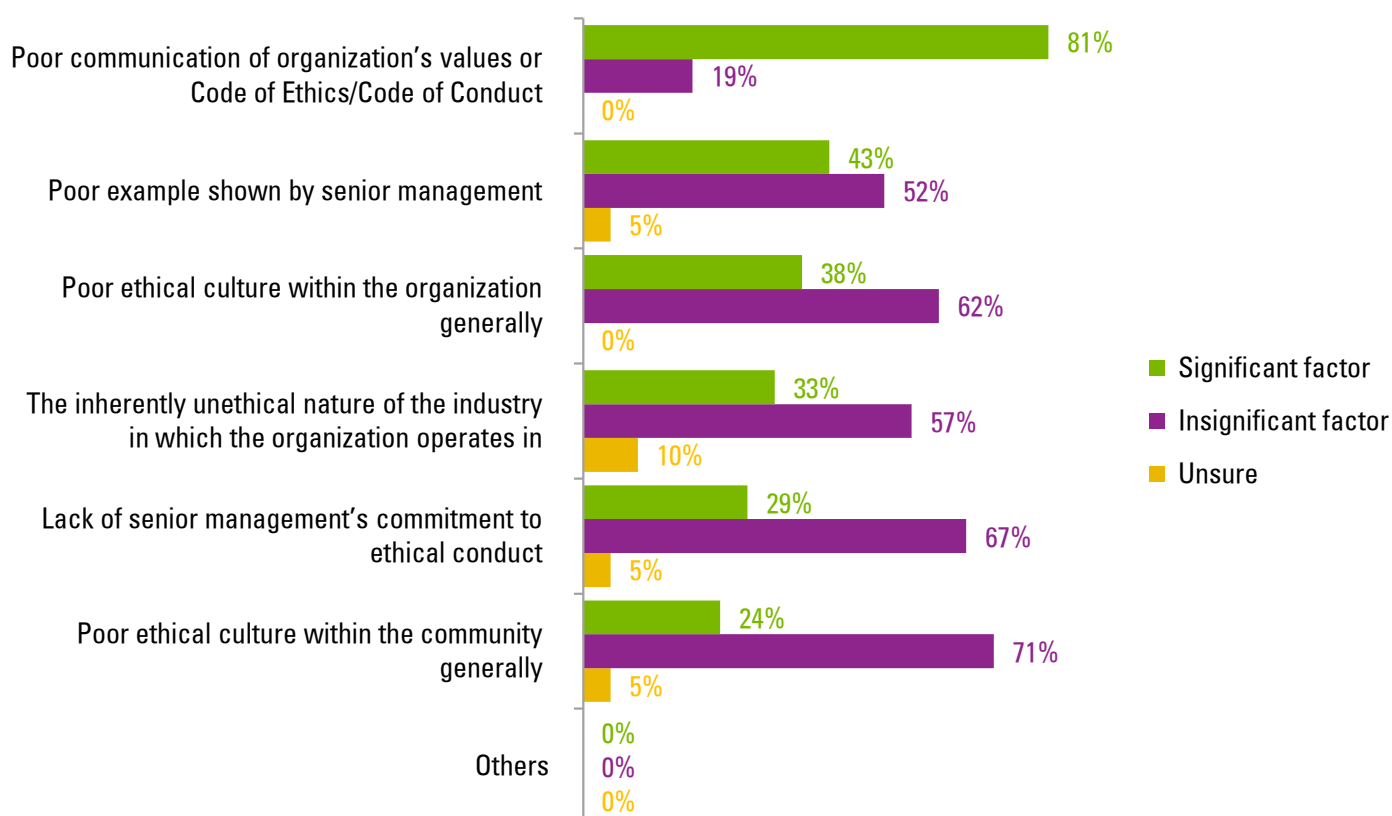
*\*Note that some respondents indicated more than one response*

Figure 68 – Types of unethical behaviour or misconduct identified in the respondents' organization

## What factors are leading to unethical behavior?

We asked survey respondents who had indicated that they had experienced unethical behavior or misconduct in their workplace, what they believed were the significant factors that contributed to the behavior.

The most common factors were poor communication of organization's values or code of ethics/ code of conduct (81%), poor example shown by senior management (43%), and poor ethical culture within the organization generally (38%).

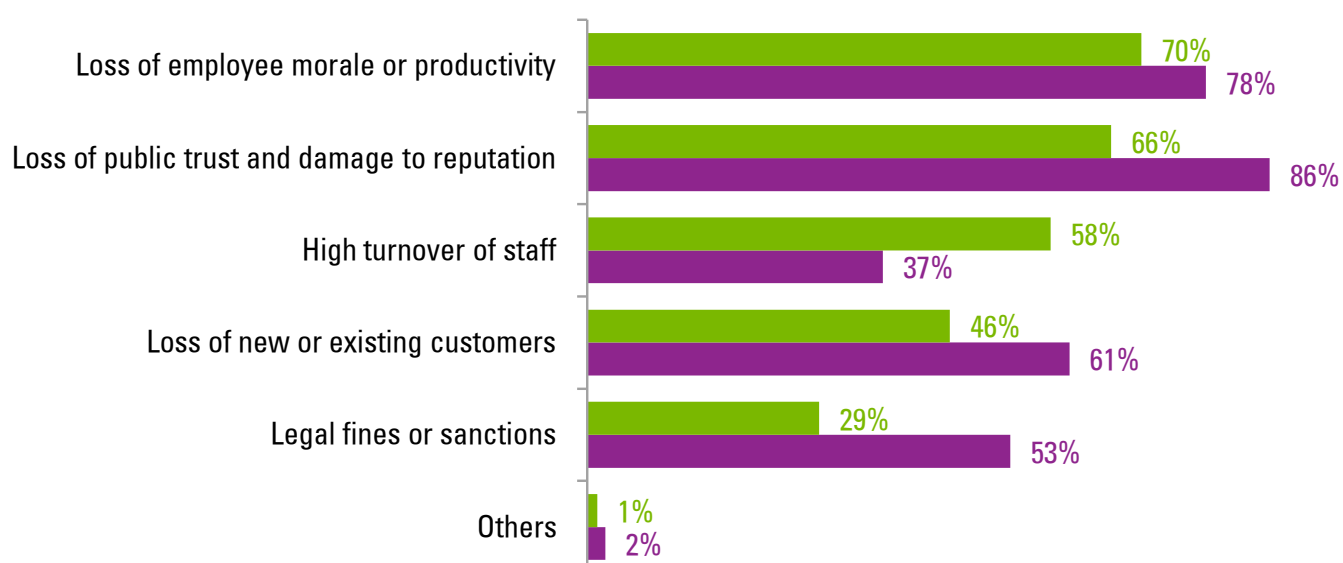


*\*Note that some respondents indicated more than one response*

Figure 69 – Factors that contributed to the unethical behaviour occurring in the respondents' organization

### How organizations viewed the implications of unethical behavior?

The survey questioned respondents on the implications of unethical behavior and the results revealed that loss of employee morale or productivity (70%), loss of public trust and damage to reputation (66%), high staff turnover (58%), and loss of new or existing customers (46%) are the main consequences of unethical behavior.



*\*Note that some respondents indicated more than one response*

Figure 70– Implications of unethical behaviour according to respondents



# ACKNOWLEDGEMENT



# ACKNOWLEDGEMENT

We hope you find the results of this survey as interesting and as insightful as we do. The response was extremely satisfying. It is probable, from a statistical point of view that of the sample of companies surveyed; those that have experienced fraud were more likely to complete the survey. It has not been possible to follow up on those companies that did not respond.

To those who participated and contributed their time towards this survey, we thank you, and for those who would like to utilize these results as a resource, we also wish to thank you for your interest in our survey concerning one of today's major issues affecting Corporate Malaysia.

If you require additional copies of the KPMG Malaysia Fraud, Bribery and Corruption Survey 2013 report or would like information on how KPMG can assist your organization to control the risk of fraud, please contact one of the following individuals on +60 (3) 7721 3388, or by fax on +60 (3) 7721 7998 or by email.

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