

The background features a dark blue gradient with scattered binary code (0s and 1s) in a lighter blue. On the left side, a stream of small, multi-colored dots (pink, blue, and purple) flows downwards, resembling a particle stream or data flow. The bottom right corner is accented with diagonal stripes in shades of purple and red.

# ASEAN Corporate Fraud Landscape 2023



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# Executive Summary

BDO published its inaugural Mid-Market Corporate Fraud Landscape based on input collected during 2021. As the world and the ASEAN region settle into a new normalcy post COVID-19, we have updated the Corporate Fraud Landscape for the ASEAN region through a survey conducted in the first half of 2023 and with input from a wide range of respondents across the region.

In the short period between early 2022 and today, the landscape has changed significantly - asset misappropriation and procurement related fraud have overtaken Cyber related fraud as the most commonly experienced fraud events. This is exactly in line with predictions for the post COVID-19 environment that businesses' efforts to tweak business processes and controls more digitally could and would go awry. Internal control environments have struggled to evolve in line with the expected and actual evolution of business processes.

This is borne out by a significant majority of respondents indicating that their primary remediation action has been improvement to internal controls. Deficient internal controls and/or deficient management supervision of internal control were significantly identified as the primary contributors of the frauds identified in the preceding 12 months.

Other key shifts that have come to light are increased perception that a lack of ethical culture from the top has caused fraud, and an increased instance of fraud perpetrated by Directors and/or shareholders. The pressures placed on business and individuals by the effects of COVID-19 and the global economic situation have combined to alter the landscape of corporate fraud in a manner that corporate leadership needs to be alert to, and to address.

Finally, whistleblowing mechanisms have emerged, in line with expectations, as a key tool not only in the identification and reporting of fraud, but also as a demonstration of ethical culture and leadership commitment to ethics and transparency. Our survey shows that organisations that have formal whistleblower mechanisms have employees who appear to be more empowered and willing to speak up, resulting in quicker identification and resolution of fraud events, and a resultant lower overall loss to the organisation.

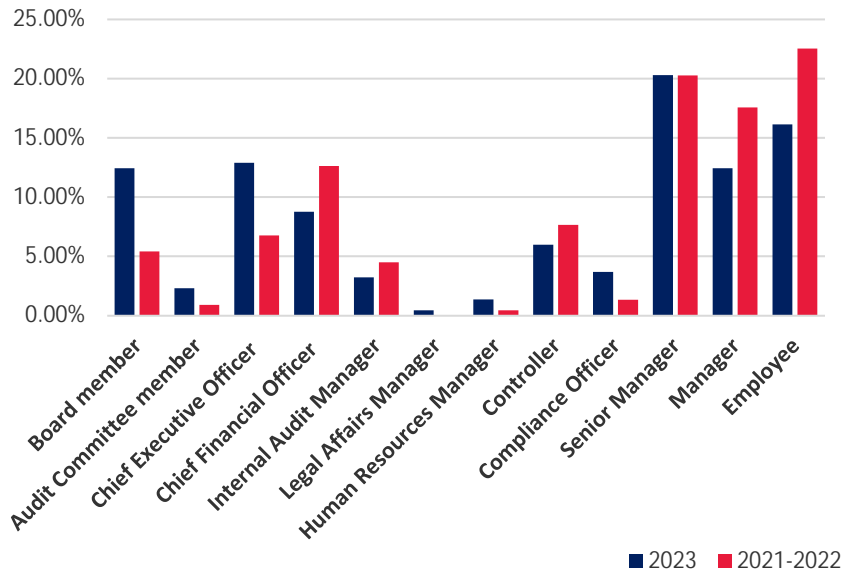


# Profile of Participants

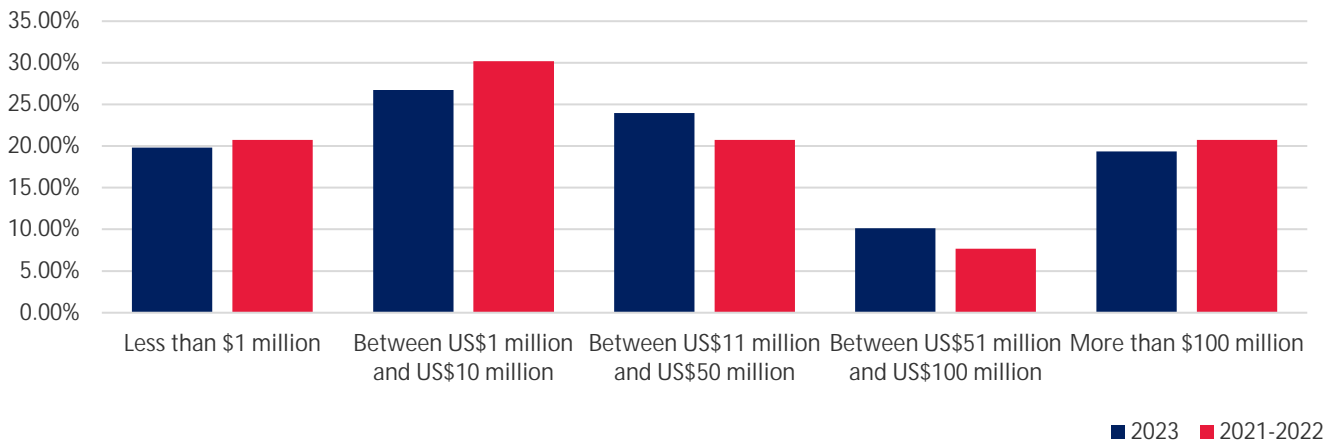
The participants in this year's survey represent a wide cross-section of seniority and industry:

- ▶ 48% represent privately held companies that operate in only one country or geography
- ▶ 24% represent listed entities that operate in only one country or geography
- ▶ 10% represent unlisted multinational companies
- ▶ 13% represent listed multinational companies
- ▶ 3% represent Government or state-owned entities
- ▶ 2% represent NGO and other non-profits

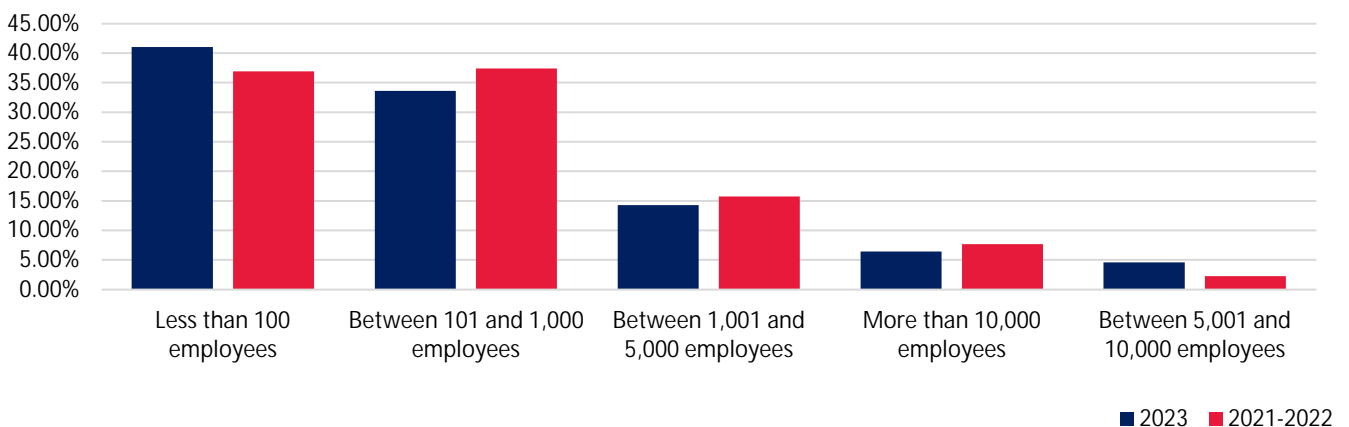
Participants position



Participants organizations' annual revenue



Manpower count in participants organisation



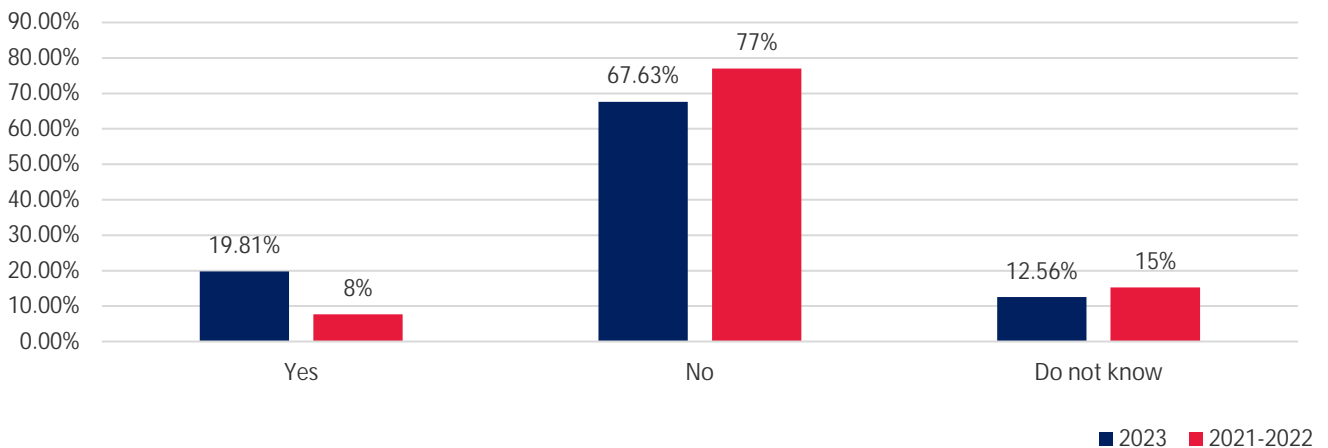
# The Incidence of Fraud

20% of respondents indicated that their organisation had been a victim of fraud in the past 12 months, a significant increase from the 8% who reported encountering fraud in 2021/22. This represents an expected increase in the incidence of fraud experienced in view of a number of factors, namely:

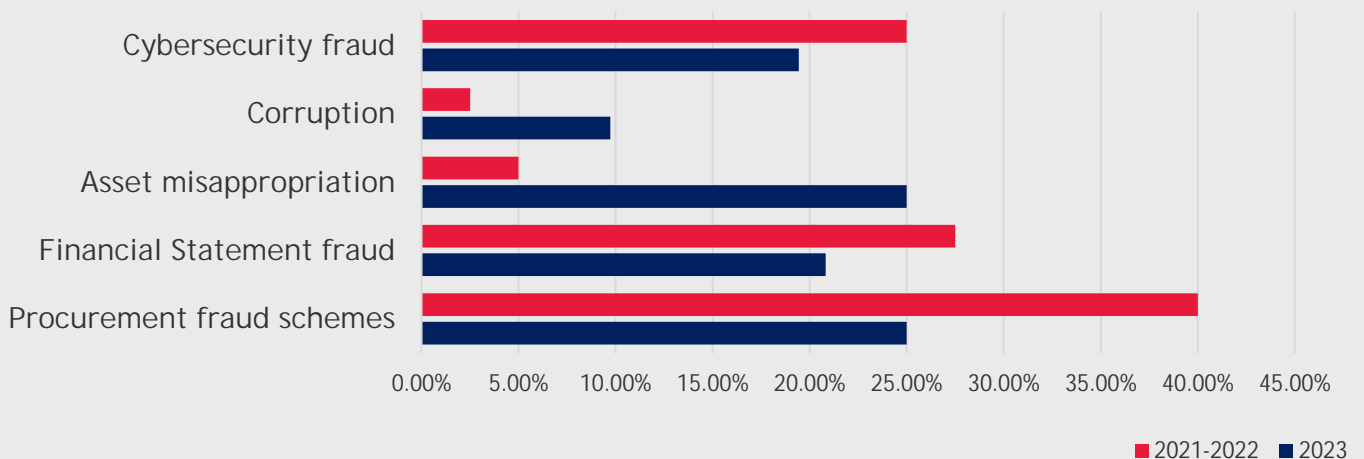
- ▶ Changes to business processes and controls to allow for more remote working
- ▶ Increased economic pressures on organisations as well as individuals
- ▶ Increased financial reporting/performance reporting pressures

The nature of fraud encountered by organisations has also evolved, most likely in line with the factors described above.

Participants who are fraud victims in the past 12 months

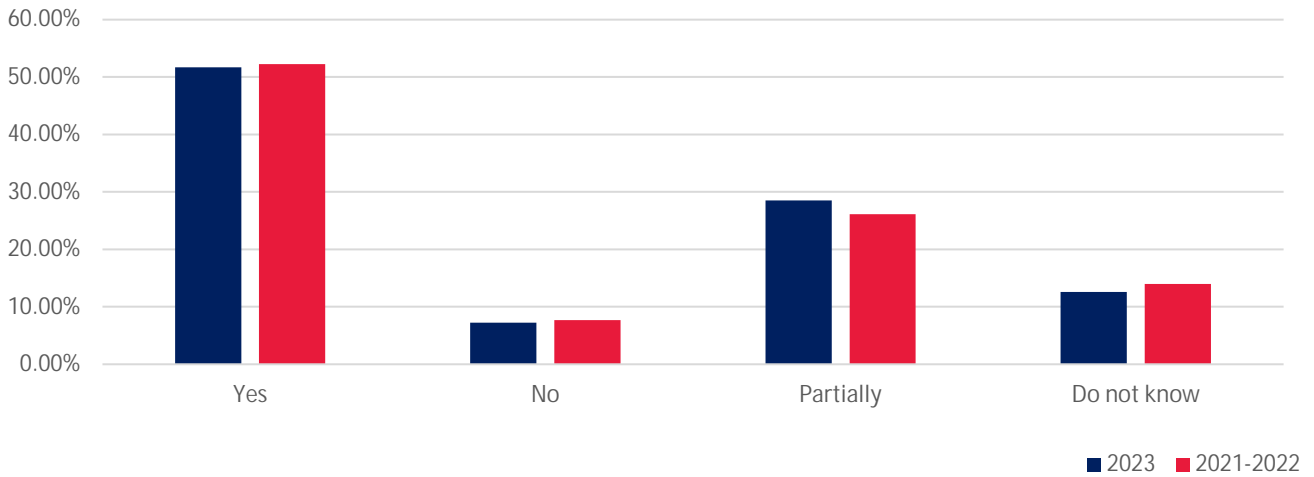


The nature of fraud also appears to have evolved. While cyber security fraud, asset misappropriation and procurement fraud remain the top three areas of fraud experienced, organisations have experienced a significant shift in the relative incidence of these elements of fraud. Likely in line with the factors described above, asset misappropriation now accounts for 25% of frauds experienced, up from 5% in 2021/22. The incidence of cyber security fraud has remained at a similar level, demonstrating the continued and persistent threat posed by this element of fraud.



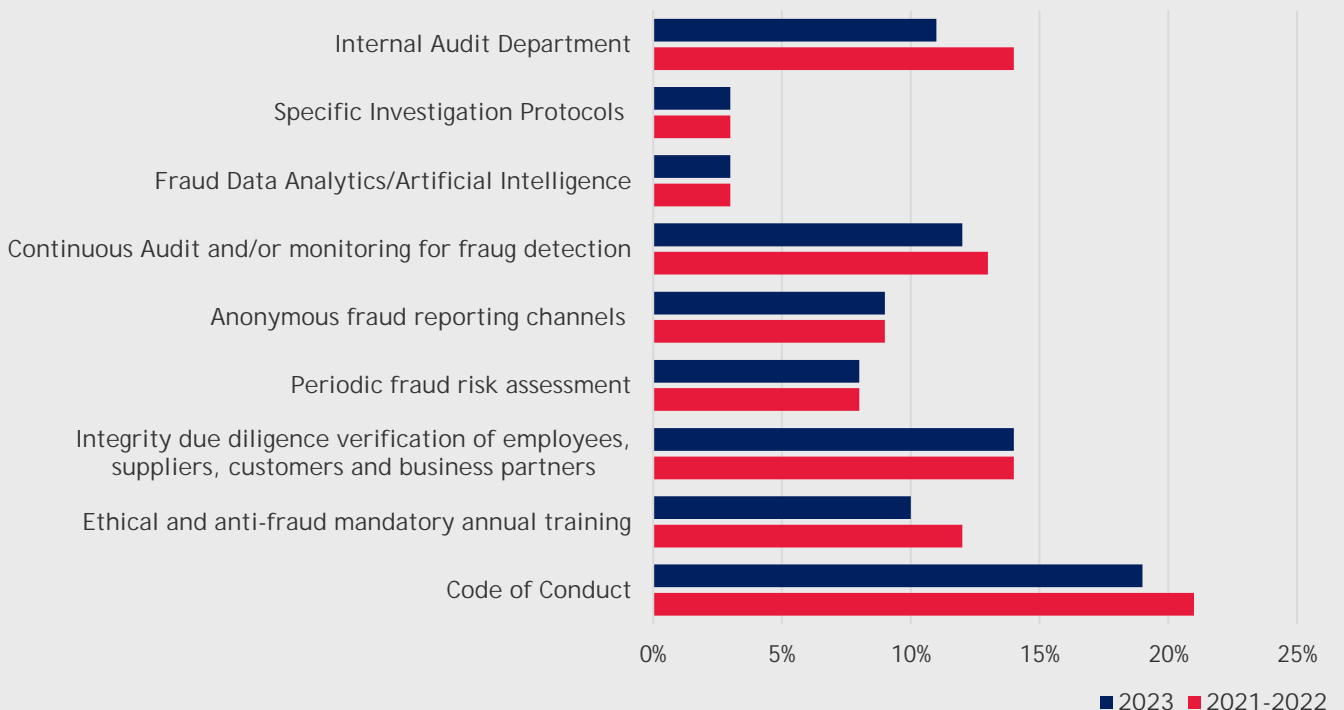
# Organisational Readiness

52% of respondents believe that their organisation is prepared to prevent, detect and deter fraud. The other side of the coin is the 8% who feel their organisation is not prepared at all, and the 28% who believe that their organisation is only partially prepared. This profile of response has not changed since 2021/22, suggesting that organisations have not fully responded to the risk landscape as it has evolved.



Preparedness to prevent and counter fraud is achieved through a range of means, with a significant majority of respondents having at least a Code of Conduct in place. Conversely, only 34% of respondents perform periodic fraud risk assessments, and only 12% of respondents actively employ data analytics mechanisms to detect fraud.

The proportion of respondents that had conducted background checks on staff who were subsequently identified as a lead fraudster increased from 33% to 67%. This again points towards an increase in the incidence of smaller-scale, opportunistic fraud, identified above.





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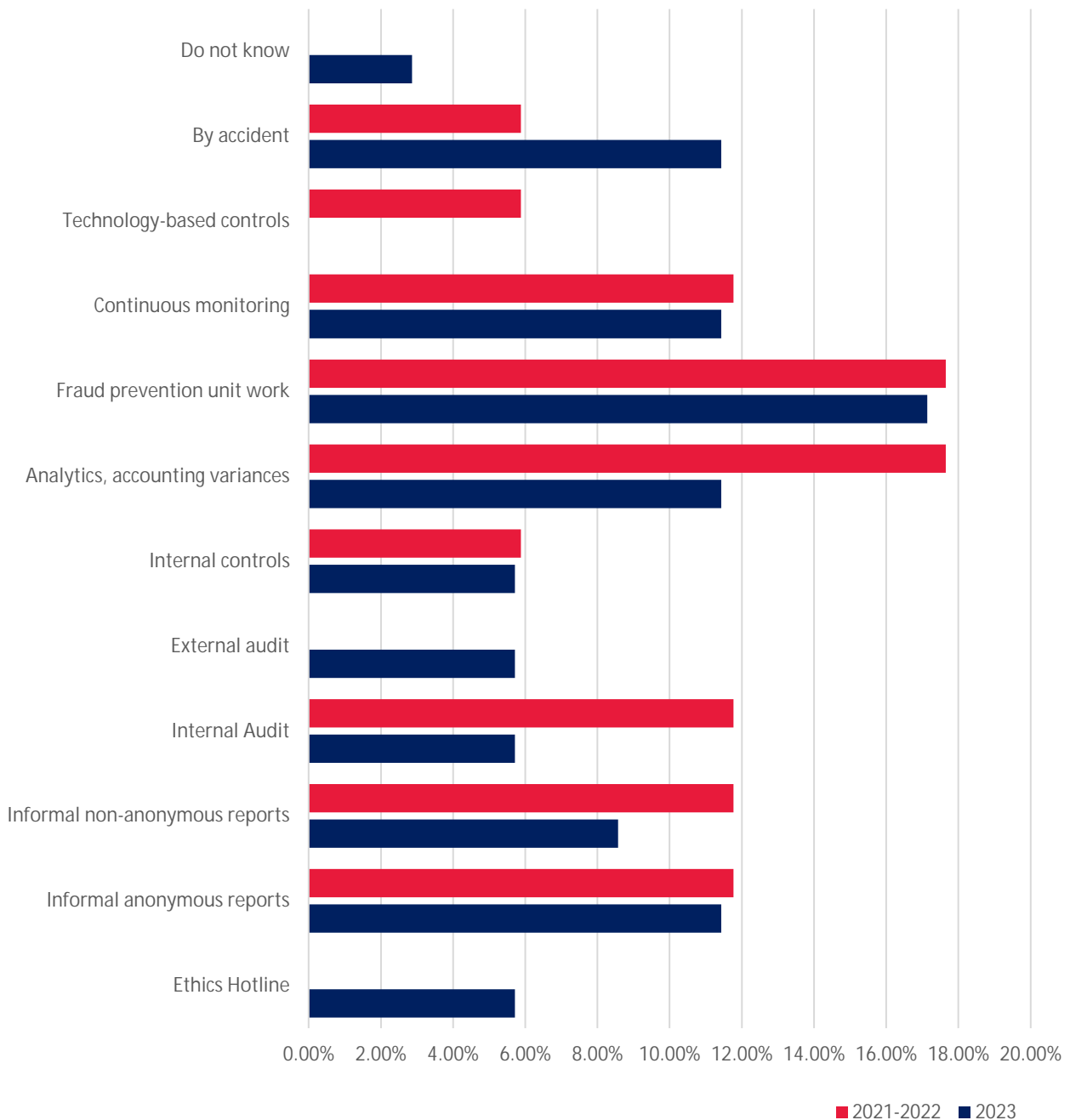
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Key Findings:

# Fraud Detection

Fraud detection reported by respondents occurred almost equally through a number of means, namely the work of fraud prevention units, informal anonymous reports (albeit not through a formal whistleblowing channel or mechanism), continuous monitoring and analytics. Alarming however is the fact that an almost equal amount of fraud detection is reported as having occurred by accident.

The number of respondents reporting the use of a defined and formal protocol for responding to fraud once detected has increased from 60% in 2021/22 to 89%. This suggests that organisations are more ready to respond to fraud in an organised manner.

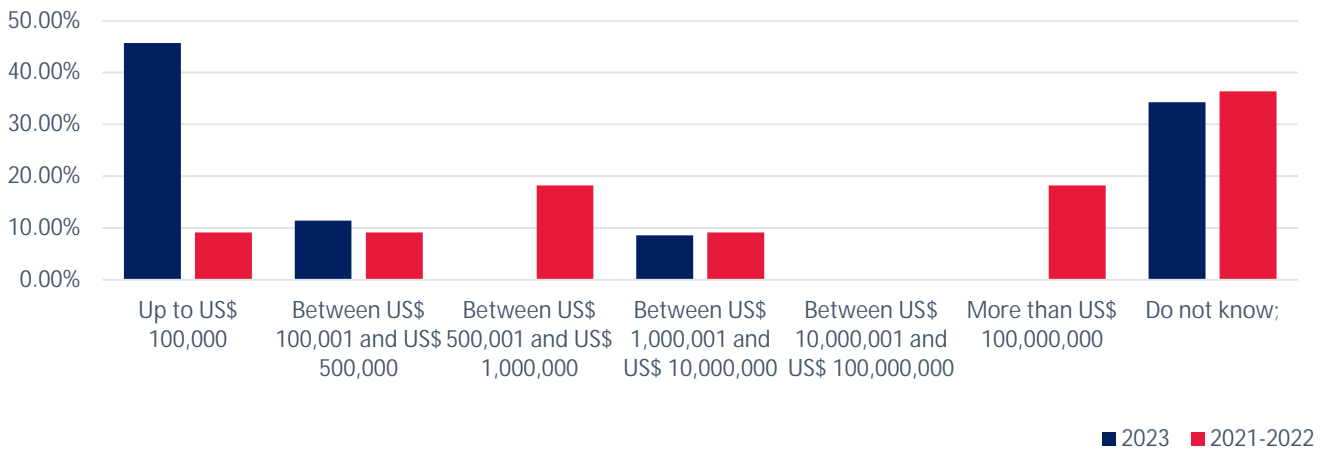




# The Impact of Fraud

A key change experienced by respondents in this survey has been a reduction in the average loss experienced per incidence of fraud; 40% of fraud cases detected by respondents have involved losses of less than US\$100,000. In all, 57% of cases identified by participants in this year’s survey involved losses of under US\$1 million, an increase from 36% previously.

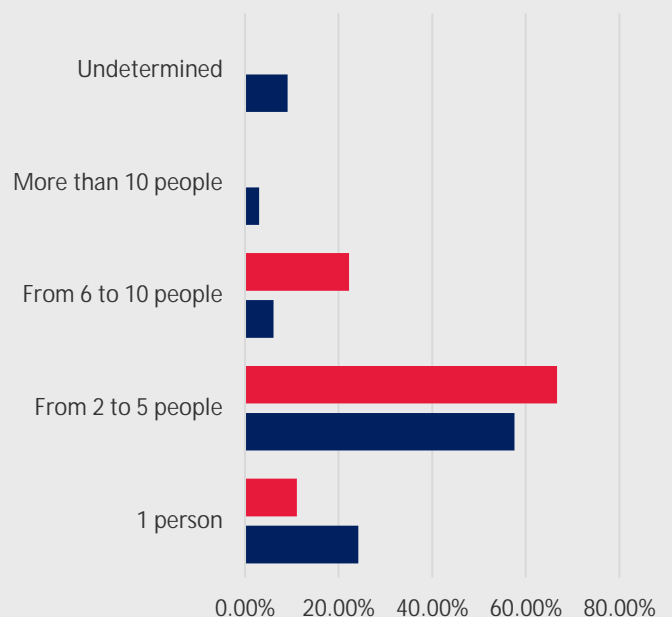
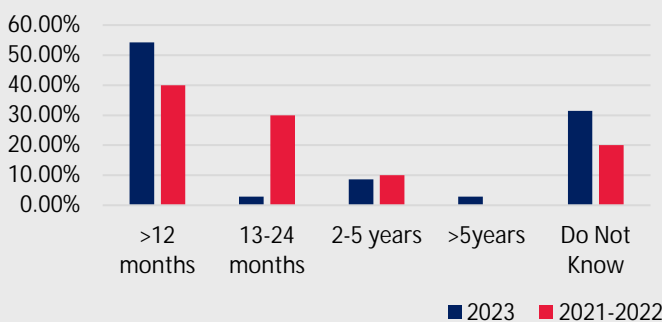
This is exactly in line with expectations in fraud trends, particularly post COVID-19. It points towards an increase in smaller-scale and opportunistic fraud, which is also in line with the observed increase in asset misappropriation and procurement related fraud experienced by organisations.



In line with the observed shift in the type and financial size of frauds encountered, the majority of fraud cases experienced lasted less than 12 months. While the incidence of long term (over 12 months) fraud reduced overall from 40% to 14%, 5% of respondents encountered fraud that lasted over five years. The economic and governance impacts of such occurrences may be far-reaching for organisations.

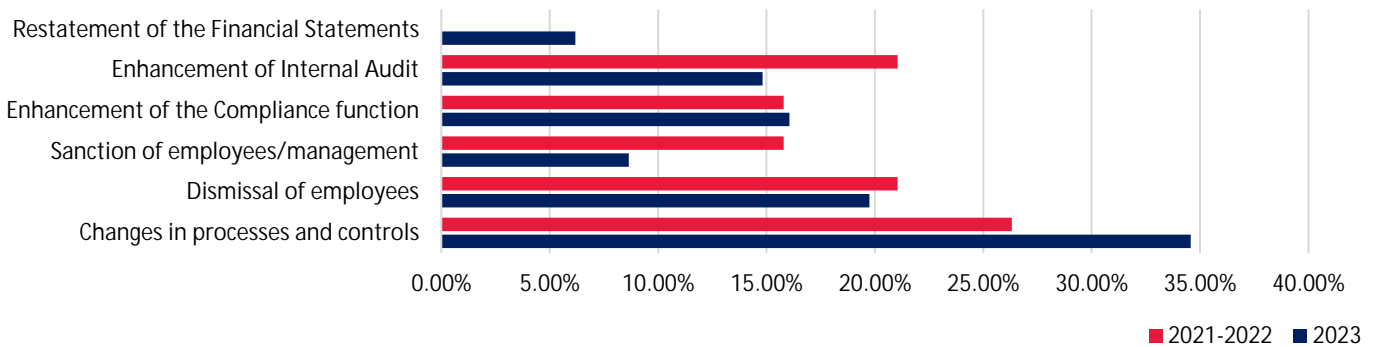
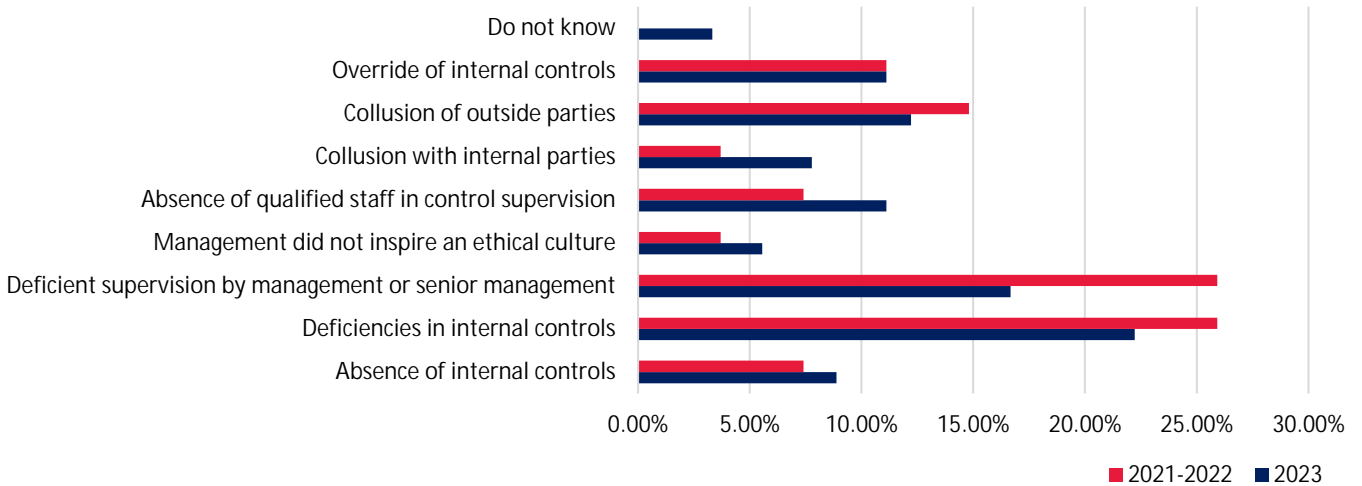
Also in line with the observed shift in the type and financial size of fraud encountered has been an increase in the percentage of fraud perpetrated by single individuals, and a reported reduction in more complex schemes involving five or more people.

How long did the most significant fraud last?



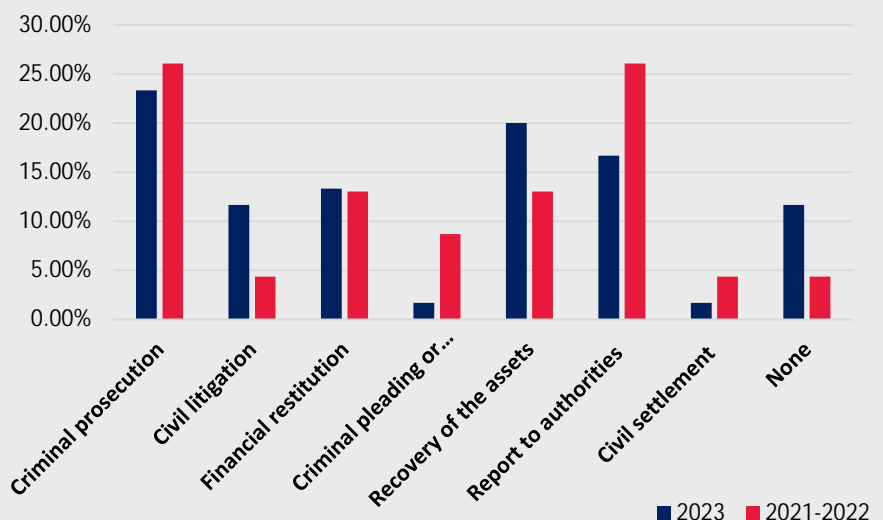
# Root Causes and Remediation

Deficient internal controls remain the most significant contributing factor towards the frauds experienced by respondents. This is further reflected in the remedial action taken by respondents as a result of their investigations into the most significant frauds experienced.



Organisations have become more litigious in attempting to recover losses from the perpetrators of fraud, with an increase in the level of civil litigation entered in to, and a consequent increase in the incidence of asset recovery. Civil settlements with wrongdoers have fallen, in line with a greater push to demonstrate accountability for fraud and recover losses from those involved.

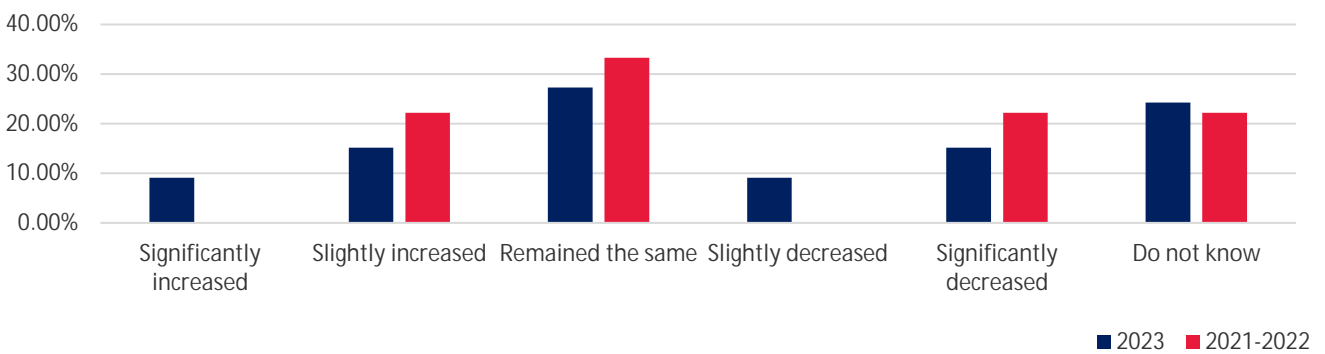
Which of the following occurred as a result of the most significant fraud detected?



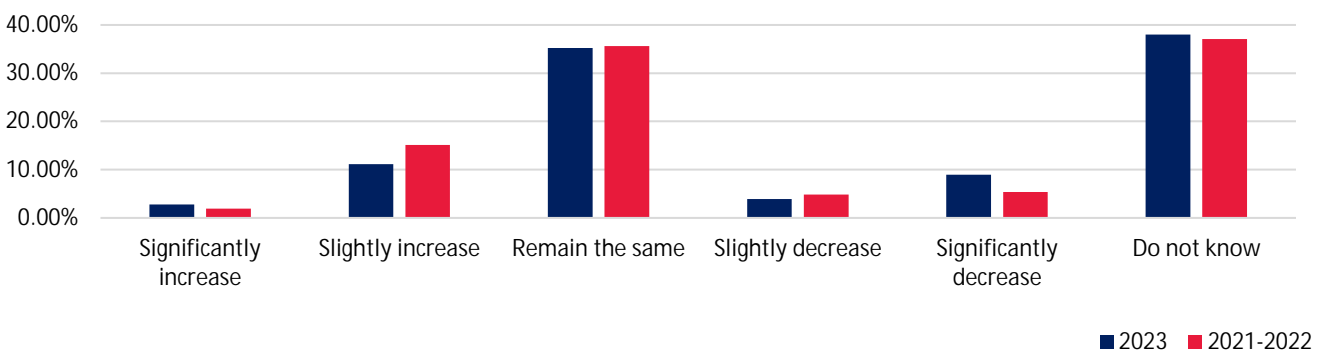
## Expected Trends in Fraud

In direct contrast to the reported lower average loss per incidence of fraud, 9% of respondents have indicated that the monetary loss encountered in the past 12 months as a result of fraud has increased significantly. For the vast majority of respondents however, the expectation of potential loss from fraud in the next year is expected to be largely the same.

During the last 12 months, the monetary amount of the financial fraud in or against the participants organization has:

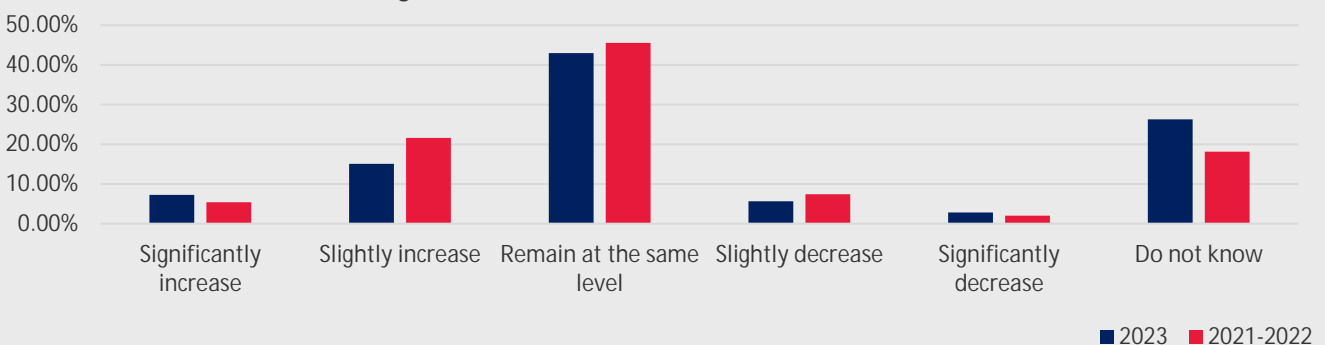


In the next 12 months, participants anticipate the monetary amount of the financial fraud will:



In line with this, the majority of organisations expect their investment in anti-fraud resources to remain largely unchanged.

Participants believe that because of the COVID-19 Pandemic, their organization's anti-fraud resources will:





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Organisations with whistleblowing channels in place have employees who are more empowered to speak up and consequently discover and react to fraud more quickly, ultimately suffering lower losses than their peers without such channels.

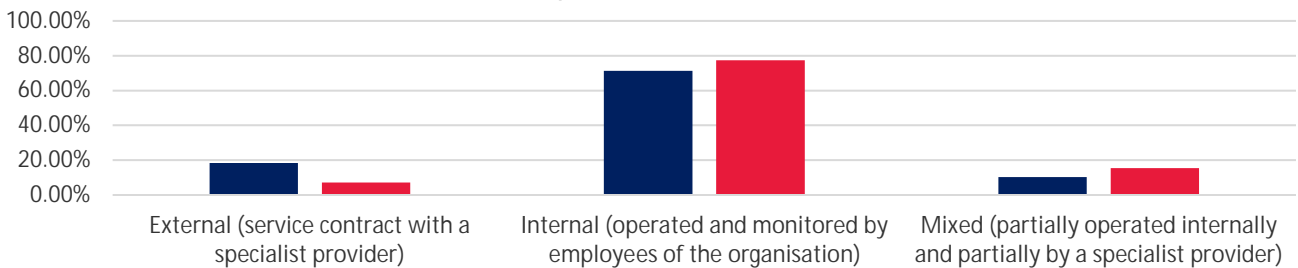
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# Whistleblowing Channels - A Differentiator

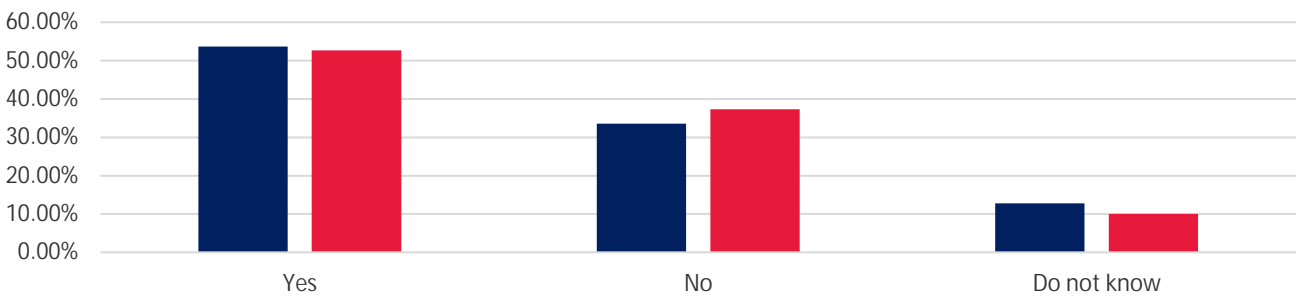
53% of respondents indicated that a formal whistleblower mechanism in place, with a majority of these being operated internally, and without outside assistance.

The organisations that have whistleblower mechanisms in place have however persistently received a small number of communications through this mechanism, despite the fact that, for the respondents that have whistleblowing mechanisms in place, the vast majority of staff are aware of the existence and use of these mechanisms.

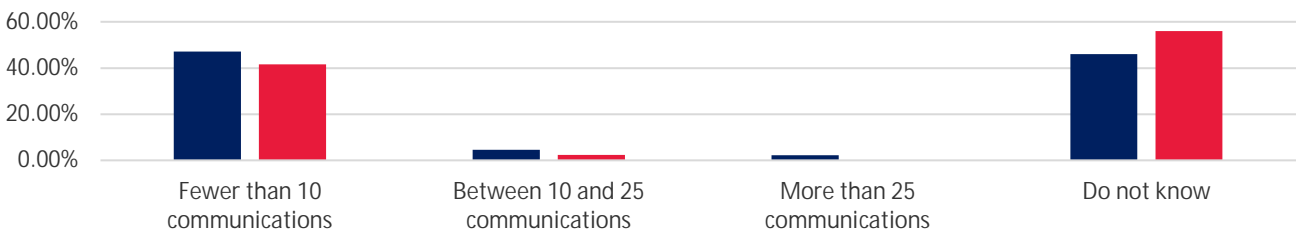
Hotline Operation Mechanism



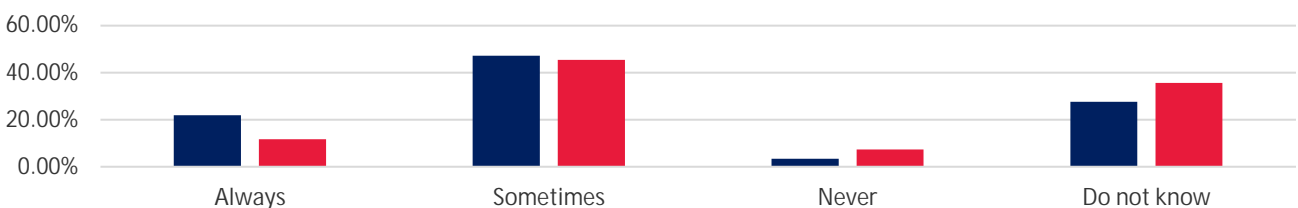
Existence of a Whistleblower Hotline



Financial fraud whistleblowing alerts during the past 12 months



The likeliness of employees in the participants organization that will report suspected financial or other fraud through the hotline

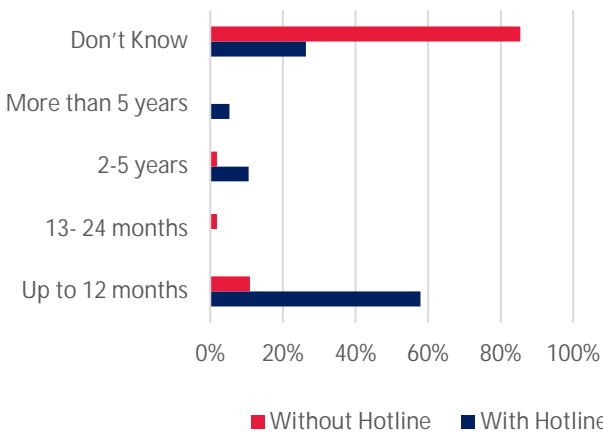


Responses to this year’s survey have demonstrated the effectiveness of having whistleblowing channels in place as:

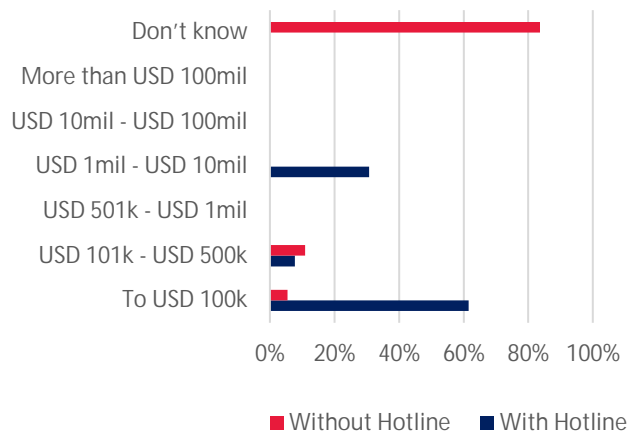
- ▶ Respondents were more aware of fraud events where whistleblowing channels exist, and appear to have dealt with fraud more quickly; 58% of events lasted less than 12 months.
- ▶ The average size of fraud identified was also lower at organisations with whistleblowing mechanisms.

This suggests, in line with expectations, that the presence of whistleblowing channels will contribute to the quicker identification of fraud, allowing quicker response and a better containment of loss.

Duration of Frauds Identified

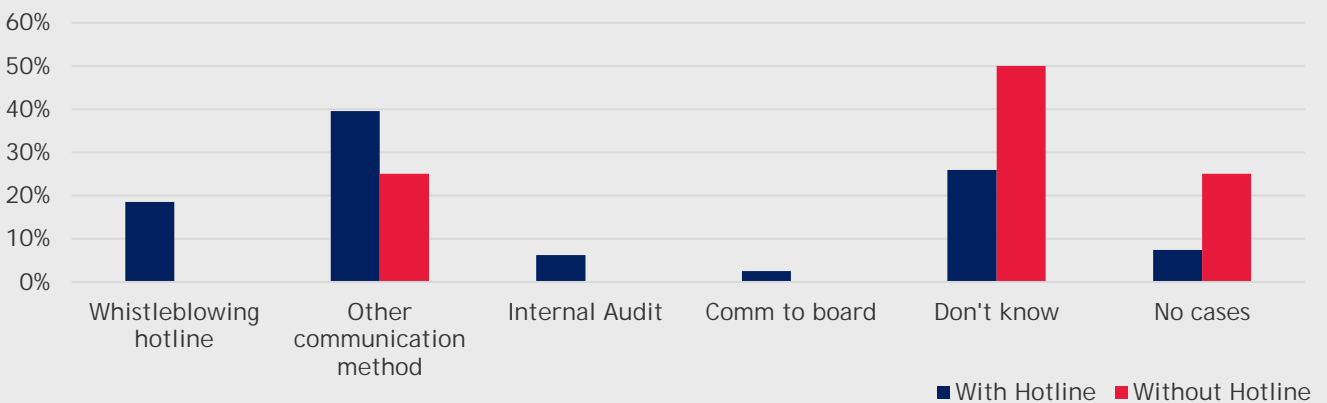


Size of Fraud Identified



The presence of whistleblowing mechanisms appears to have also created a greater awareness and empowerment in employees to speak up. 60% of respondents who have whistleblowing channels in place indicated that frauds were identified by some form of reporting or approach to leadership, compared to only 25% at organisations without a whistleblowing channel.

How Frauds Were Identified



In summary, organisations with whistleblowing channels in place have employees who are more empowered to speak up and consequently discover and react to fraud more quickly, ultimately suffering lower losses than their peers without such channels.

# Recommendations

The persistence and evolving nature of corporate fraud underlines the need for constant vigilance and enhanced preparedness and agility in preventing, identifying and addressing fraud. The age-old triumvirate of people, process and technology remains the basis for a holistic approach toward fraud prevention and detection.

The responses to our survey clearly indicate a number of steps that organisations must take to ensure they are better prepared for the challenges associated with corporate fraud. These include:

- ▶ Control environments and control mechanisms need to be strengthened. The incidence of fraud reported due to breakdowns in internal controls, non-existence of expected controls and failure to monitor controls that are in place collectively represented 48% of the basis for fraud detected by respondents. The use of strong controls, supplemented by data analytics and cybersecurity protocols should be considered.
- ▶ Risk assessments should be performed regularly and, to the extent possible, enhanced. It is important for organisations to be aware of gaps that exist in their environments, and to anticipate market and other changes that may require adaptation of response mechanisms or even the institution of new control measures.
- ▶ Systems and control assessments are a key element to ensuring that all lines of defence are in place and operating effectively to prevent and/or detect fraud. Thorough reviews of existing policies and procedures, as well as the planning and execution of compliance and other monitoring programs could reveal areas for improvement.
- ▶ Training staff in an organised and sustained manner is critical to ensuring their awareness of policies and procedures, regulations, their responsibilities to the organisation, and their avenues for raising the flag if the need arises. Employees knowledgeable in these areas will be more vigilant, and will be empowered to be more responsive in relation unusual activity that they see or encounter.
- ▶ Remain vigilant to the ever changing landscape of fraud. The pressures upon organisations and individuals continues to grow and, with that, so will the propensity for fraudulent activity. Changing business and technology landscapes can also present new and previously not considered avenues for fraudulent activity, and it is essential that organisations understand these and respond to them with the appropriate preventive, monitoring and response mechanisms.

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## BDO FORENSIC SERVICES

ANALYTICS APPLIED TO CORPORATE FRAUD  
ANTI-CORRUPTION COMPLIANCE &  
INVESTIGATION  
COMPLIANCE MONITORING SERVICES  
CORPORATE INVESTIGATIONS  
DISPUTE RESOLUTION  
DUE DILIGENCE

FINANCIAL REPORTING DISPUTES  
FORENSIC ACCOUNTING AND FRAUD  
INVESTIGATIONS  
FORENSIC TECHNOLOGY SERVICES  
FRAUD PREVENTION  
PREVENTION OF MONEY LAUNDERING