



FORENSIC

KPMG Malaysia Fraud Survey Report 2009

ADVISORY

FOREWORD



Corporate fraud is an ongoing reality and no organization is immune to the depredations of the fraudster. Its insidious nature seeps into and erodes the core elements that all business is built upon: confidence and trust.

In a time of fragile economic conditions, managers and employees face even tougher challenges than ever before in the form of personal, financial and workplace pressures coupled by fear and uncertainty. To some extent, these pressures can build on an individual, prompting him or her to commit a fraud.

Studies indicate that the pressure to do “whatever it takes” to achieve business goals continues as the primary driver behind corporate fraud and misconduct. Whilst organizations are actively seeking ways to reduce/ optimize costs in these challenging times, it is important to ensure that they do not materially weaken the operational effectiveness of the key fraud controls.

Business owners and executives must remain extremely vigilant to the threat of fraud by ensuring that their company’s anti-fraud measures and management checks and balances are efficient enough to prevent frauds from being committed as well as to unearth frauds that are being perpetrated.

Committed efforts to promote a culture of compliance, actively appreciating core values of integrity and honesty and setting the right example at senior levels are a few of the actions that should be implemented by top management to establish the right climate to reduce the risks of fraud.

Fraud is truly prevented when managers and employees understand and believe that ethics are a core management of a company’s business methods and must be willing to live it each day at work.

We take this opportunity to express our appreciation to the people and businesses who took the time and effort to participate in this survey and share their thoughts and experiences with us. Without their support, this report would not be possible.

Let us all hope that we have made a small step in the right direction to nip fraud in the bud by instilling a strong anti-fraud culture, combined with the highest standards of conduct and behaviour within our workforce.

EXECUTIVE SUMMARY



Fraud continues to hit the headlines and the bottom lines of organizations in Malaysia. The KPMG Malaysia Fraud Survey Report 2009 provides a comprehensive insight into contemporary fraud issues faced by companies in Malaysia and reviews how they manage the risks of fraud.

The findings set-out in this report are based on the responses received to a survey questionnaire that was distributed to a representative sample of Malaysia's companies across the public and private sectors. Usable responses were received from 175 organizations, representing just over 15.5% of the 1,125 survey questionnaires distributed.

KPMG's fourth fraud survey report show that a significant number of respondents believe that fraud is a major problem for businesses in Malaysia. 61% of respondents expect the level of fraud to increase over the next two years. In addition, 89% believe that the trend of fraud as well as financial statement fraud (78%) will significantly rise as a result of the current economic crisis.

The findings summarized below are of particular importance:

49% of all respondents experienced at least one fraud during the survey period with a total of 714 separate fraud incidences being reported. Similar fraud surveys conducted by other KPMG offices in 2008 indicate that the levels of incidence of fraud experienced by respondents in each of the countries surveyed are; India (60%), Thailand (46%), Australia (45%), the Arabian Gulf Cooperation Council countries (the GCC) (42%) and Singapore (23%).

The value of fraud reported in the survey period was RM63.95 million. Not all respondents disclosed information on the number of fraud incidents or the value of fraud detected (15% of the 85 respondents who said that they were victims of fraud were unsure of the number of incidents whereas 53% were unsure of the value of financial losses due to fraud). Hence, this suggests that losses may be far bigger than the disclosed amounts.

Of the 56% of respondents who reported some form of recovery of assets that were misappropriated, 43% reported partial recovery while 13% reported full recovery.

Consistent with the 2004 survey, internally perpetrated fraud (perpetrated by management and non-management employees) accounted for 87% of the total reported fraud value of RM63.95 million. In the GCC, Singapore and Thailand, internally perpetrated fraud made up more than 50% of responses.

Theft of cash (39%), theft of inventory (31%), fraudulent expense claims (26%) followed by kickbacks (25%) were the most common types of fraud perpetrated. Theft of physical assets appeared to be a popular category of fraud perpetrated among non-management level employees and external parties. Management level employees however are more prone to commit theft of funds (outgoing).

Overall most fraud was detected internally, with internal controls (55%) being the most common method followed by notification by employee (33%), internal audit review (30%), notification by customer/ supplier (25%) and anonymous letter/ informant/ whistleblower (25%).

Countries like Australia, the GCC and Thailand which were separately surveyed in 2008 also reported that internal methods of fraud detection were the more common fraud detection method.

Greed/ lifestyle (62%) and personal financial pressure (39%) were cited as the two most common motivations for fraud.

39% of respondents indicated that fraud "red flags" (early warning signs or indicators that fraud may have occurred) were not acted upon by management. Only 22% of respondents felt that their employees in their organization were adequately trained to recognize fraud "red- flags".

Poor internal controls (56%) followed by collusion between employees and third party (45%) and poor ethical practices (39%) were the three most important factors contributing to major frauds. These factors also played significant roles in fraud occurrences in Australia, Singapore and Thailand based on the surveys conducted in 2008.

Only 54% percent of respondents believed that their organization's anti fraud policies, procedures and controls are adequate to prevent, detect, and respond to fraud incidences.

62% of organizations are providing a means for employees to report allegations and incidents of fraud and unethical conduct of which only 49% said that they offered anonymous reporting to employees.

The most common steps taken by companies to mitigate the risks of fraud are reviewing and/or improving internal controls (93%), establishing a corporate code of conduct/ethics (74%), increased role of audit committee (63%) and pre-employment screening (62%).

Approximately 38% of respondents had experienced unethical behavior during the survey period with the most common occurrences were management employee's conflict of interest (49%), falsely claiming sick leave or absenteeism (46%) and conducting business transactions in a manner which derives an unwarranted personal advantage (32%).

Our overall finding is that organizations must further improve their fraud risk management strategies in response to the continued increase in the prevalence of fraud.

CONTENTS

■	ABOUT THE SURVEY	5
■	PROFILE OF THE RESPONDENTS	6
■	OPINIONS ON FRAUD	8
■	FRAUD EXPERIENCE	12
■	FRAUD DISCOVERY	21
■	PROFILE OF FRAUDSTER	30
■	FRAUD RISK MANAGEMENT	32
■	BUSINESS ETHICS	37
■	INFORMATION SECURITY	40
■	ACKNOWLEDGEMENT	43
■	ABOUT FORENSIC	44

■ ABOUT THE SURVEY



KPMG's Forensic practices across the globe have been undertaking fraud focused surveys for over a decade.

As one of the leading providers of forensic services in the region, KPMG believes that it is now timely to assess the trend, nature and extent of fraud in today's business environment and to review the fraud prevention, detection and response initiatives taken by businesses to mitigate the risks of fraud especially when organizations are facing major challenges that are brought about by the current economic crisis, increasingly sophisticated businesses and technological advances. With this backdrop, the risks of undertaking business have increased significantly and there is a need to manage and mitigate these risks more effectively especially when more companies are being engulfed in financial fraud scandals.

In May 2009, KPMG Forensic Malaysia distributed a fraud survey questionnaire to a total of 1,125 companies comprising all the companies listed on Bursa Malaysia as well as 100 private companies (this includes a selection of companies which are ranked as Malaysia's top 1,000 companies).

The survey covering the period from January 2006 to December 2008 (i.e. the "survey period") was conducted on a confidential basis on the undertaking that no information would be released on individual survey responses.

The 2008 survey provides an insight into contemporary fraud issues being faced by organizations in Malaysia including:

- How businesses have been affected by fraud
- The trend of fraudulent activities
- The extent and financial impact of fraud
- Motivations for fraud
- Who is most likely to commit fraud
- The impact of e-commerce enablers on fraud
- The steps taken to prevent, detect and respond to the risks of fraud
- The causes and effects of unethical behavior

The definition of fraud for the purpose of this survey was "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". A total of 175 responses were received for this survey.

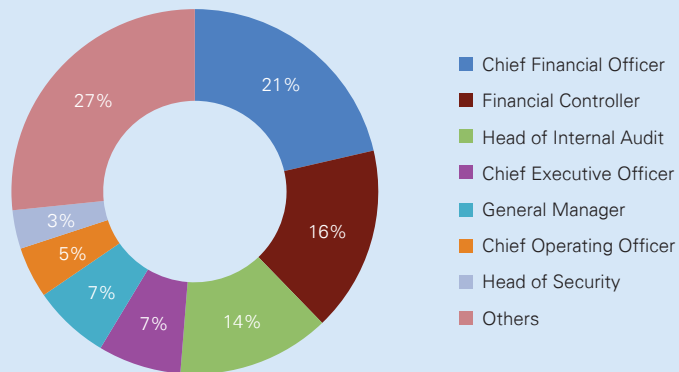
PROFILE OF THE RESPONDENTS

Role profile

Fraud is a major concern among CFOs, Financial Controllers, CEOs, COOs and Heads of Internal Audit who formed 63% of the respondents.

Majority of the respondents to the survey belonged to the top management category of their respective organization. 33% of the respondents comprised Chief Financial Officers (CFOs), Chief Executive Officers (CEOs) and Chief Operating Officers (COOs) followed by Financial Controllers (16%) and Heads of Internal Audit (14%).

Figure 1 - Position held by respondents within the organization



Organization profile

The greatest number of responses were from organizations in the manufacturing sector (18%), with annual revenues ranging from RM100 million to less than RM500 million (31%) and with employee numbers ranging less than 5,000 (89%).

Figure 2 - Annual turnover of respondents' organization

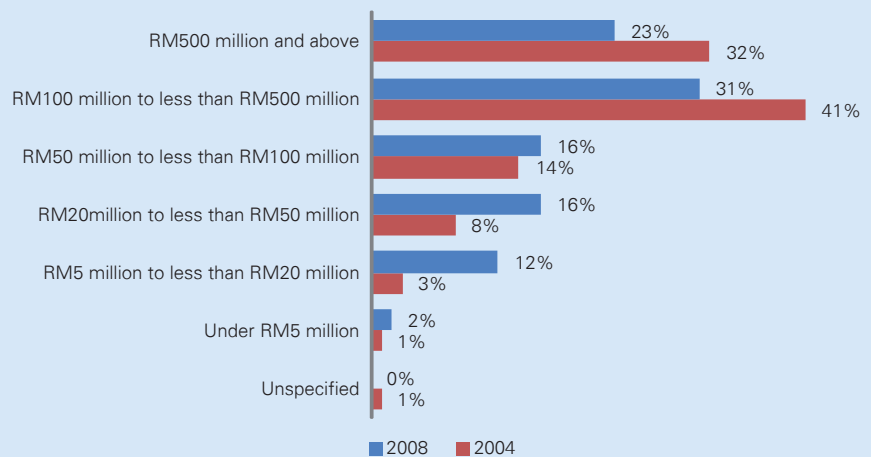


Figure 3 - Main line of business revenue contributor of the respondents' organization

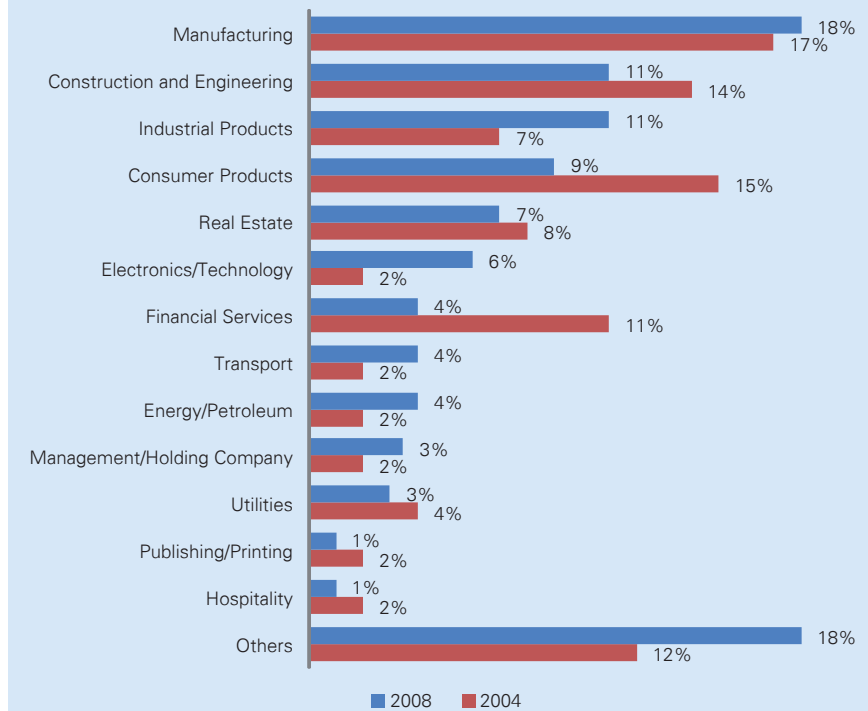
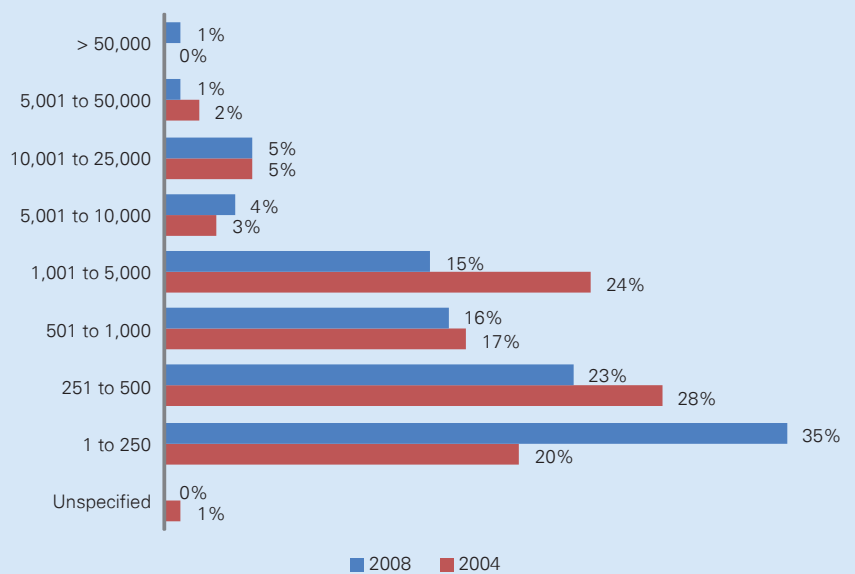


Figure 4 - Number of employees within the respondents' organization



■ OPINIONS ON FRAUD

In view of the challenges faced by businesses as a result of the current economic crisis coupled with the growing number of corporate financial scandals in recent years, we were interested to find out the general view of organizations toward fraud in Malaysia.

Is fraud a major problem in Malaysia today?

66% of respondents believed that fraud is a major problem in Malaysia.

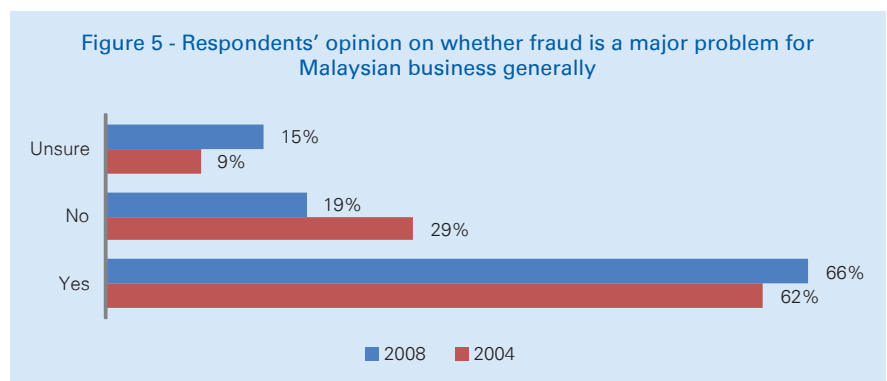
We asked the respondents two questions - whether fraud is a major problem in Malaysia generally and whether fraud is a major problem for their own respective organizations.

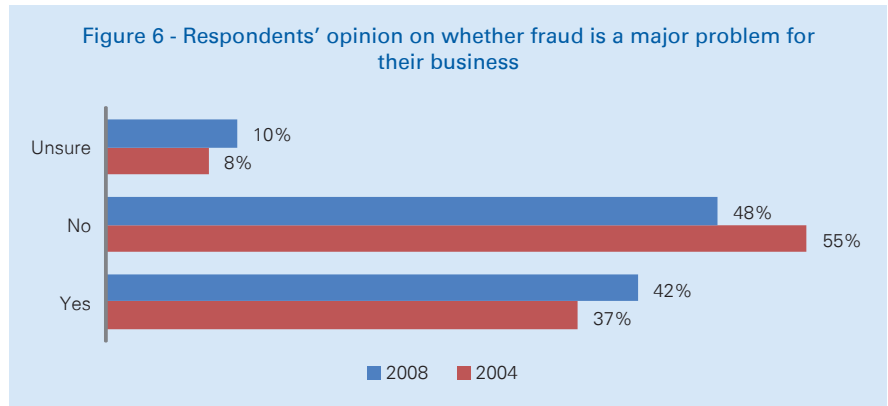
According to 66% of the survey respondents, fraud is perceived to be a major problem for businesses in Malaysia reflecting an increase of 4% from the 2004 survey.

This overall negative perception also holds true when it comes specifically to their own business, as 42% of respondents' (5% up from 37% in 2004) perceived fraud to be a major problem.

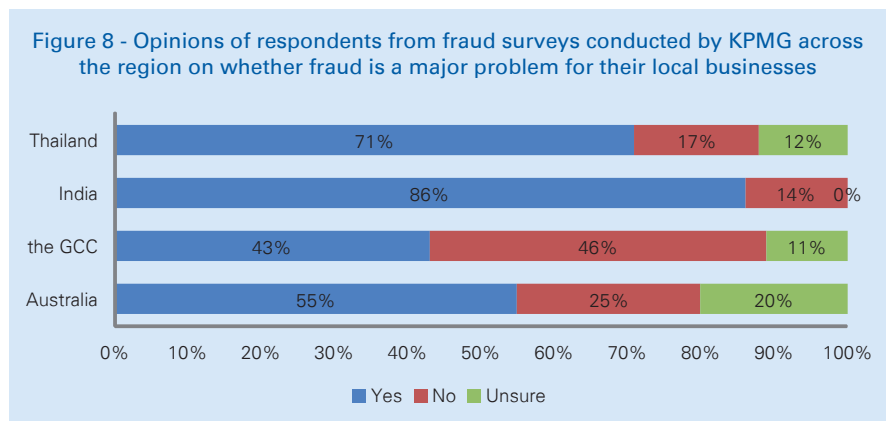
Those respondents who did not view fraud as a major problem generally attribute this to the effective security in place (69%) and the business (13%) or industry (9%) which is less prone to the risk of fraud.

As a comparison, respondents in Australia (55%), the GCC (43%), India (86%) and Thailand (71%) also regarded fraud as a major problem in their respective countries based on similar fraud surveys conducted by KPMG in 2008.





Fraud is also regarded as a major problem for businesses in countries like Australia, the GCC, India and Thailand.



How do you perceive the trend of fraud as a result of the current economic crisis?

Respondents were asked about how they perceived to be the trend of fraud as a result of the current economic crisis. 89% of all respondents are of the opinion that the occurrence of fraud will substantially increase as a result of the current economic crisis while 78% of respondents also expect a corresponding rise in financial reporting fraud. This statistic perhaps suggests that in the current period of adversity some people may resort to financial statement fraud to get through the challenges brought about by the current downturn.

89% of respondents believe that fraud will substantially increase as a result of the current economic crisis.

Figure 9 - Respondents' opinion on whether fraud incidences will rise due to the current economic crisis

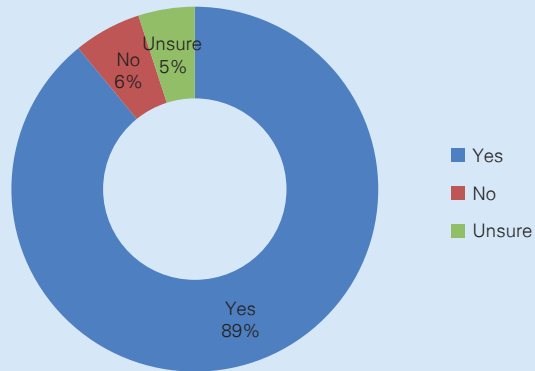
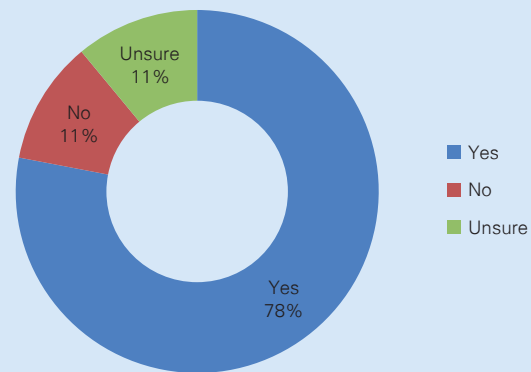


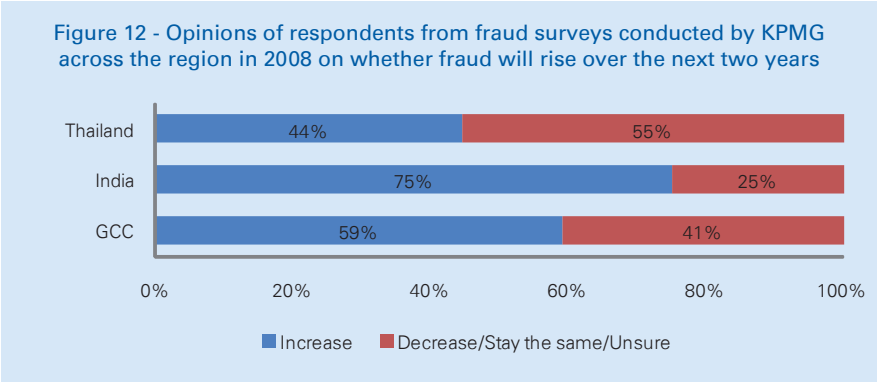
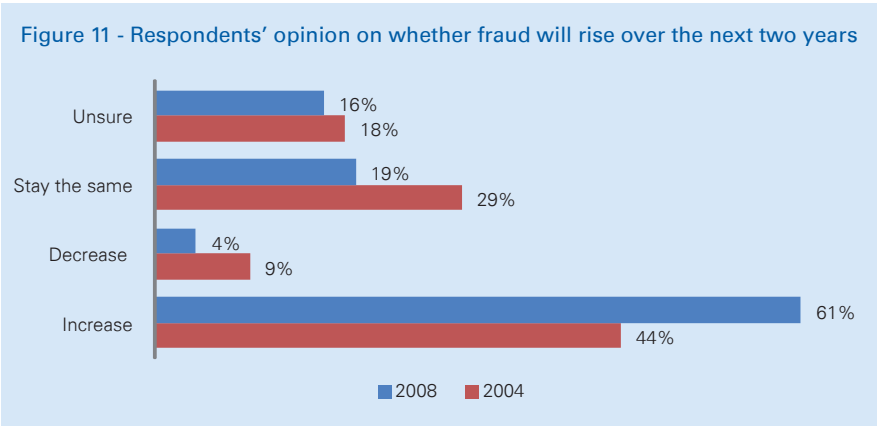
Figure 10 - Respondents opinion on whether financial reporting fraud will rise due to the current economic crisis



Is the problem of fraud set to increase?

When asked if the problem of fraud against Malaysian business is set to increase over the next two years, 61% of respondents believed that it will be on the increase which is substantially higher than the 44% that was reported in the 2004 survey. This reaction appears to suggest the increasing concern about fraud. This concern for fraud also resides in the GCC, India, and Thailand which were surveyed in 2008, with a majority of respondents indicating that fraud is set to increase in the next two years.

More than half of the respondents believe that the incidence of fraud is set to increase in the next two years.



FRAUD EXPERIENCE

In order to understand the impact of fraud, the factors that contribute to it, and the ways it is detected and dealt with, we asked respondents to tell us more about the nature of fraud detected in their organization during the period surveyed.

What levels of fraud have organizations experienced?

Almost half of the respondents have been victims of fraud over the past three years.

We asked the survey participants if they were aware of any fraud in or against their organization during the period from January 2006 to December 2008, 49% acknowledged that they had experienced fraud. Although this reflected a decrease of 34% from the 2004 survey, fraud is still regarded as a significant problem in their own businesses.

Similarly, fraud is also a problem in countries like Australia, the GCC, India, and Thailand. These countries were surveyed by the respective KPMG offices and more than 40% of respondents have indicated the occurrence of fraud in their organizations.

Figure 13 - Respondents who were aware of fraud occurring in their organizations within the period from January 2006 to December 2008

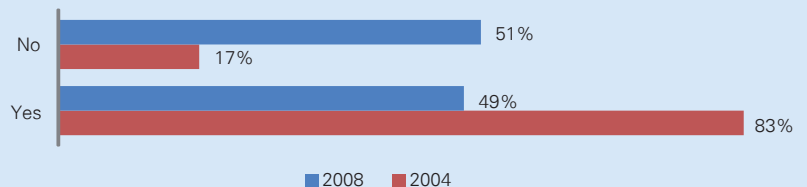
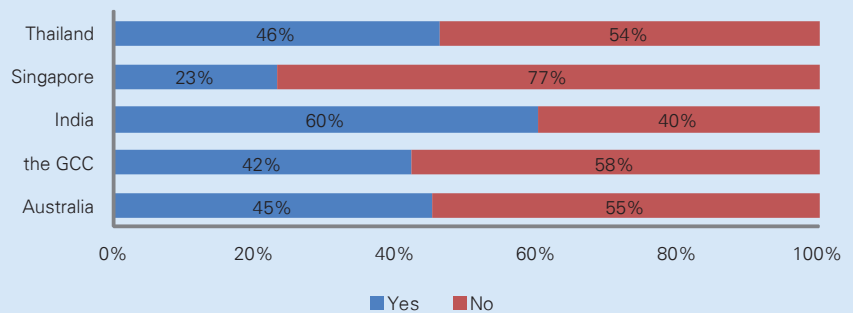
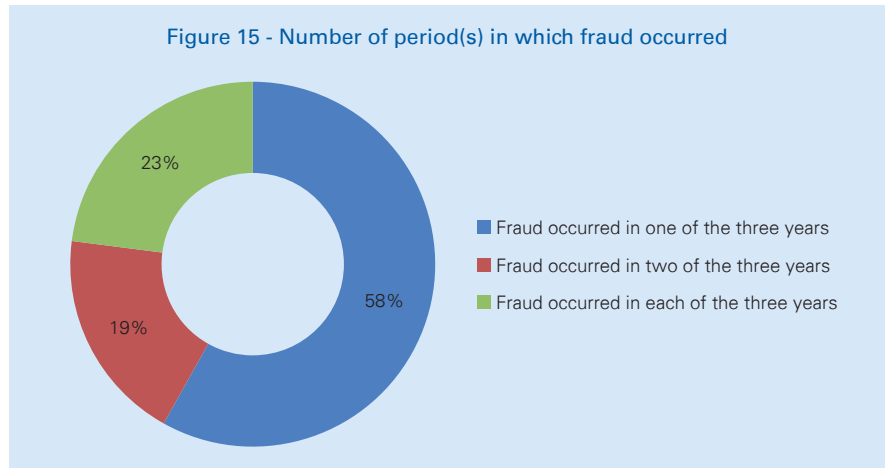


Figure 14 - Respondents of surveys conducted across the region who were aware of fraud occurring in their organisations in the respective countries



How frequently did fraud occur?

About 23% of respondents indicated that they had experienced fraud occurring in their organizations in all of the years from 2006 to 2008 while 19% of the respondents experienced fraud in two of the three years. 58% of respondents experienced fraud in only one of the said three years.



Fraud appears to be more rampant in the manufacturing, construction, engineering and consumer products industries.

Type and size of organizations experiencing fraud

Overall, 42% of the respondents who reported fraud came from organizations with manufacturing, consumer products or construction and engineering as the main lines of business. It is interesting to note that small and medium sized firms (differentiated by number of employees) appear to have higher instances of fraud. 81% of respondents who reported fraud came from organizations employing 1 to 5,000 employees. However, 75% of organizations that experienced fraud had an annual turnover exceeding RM50 million.

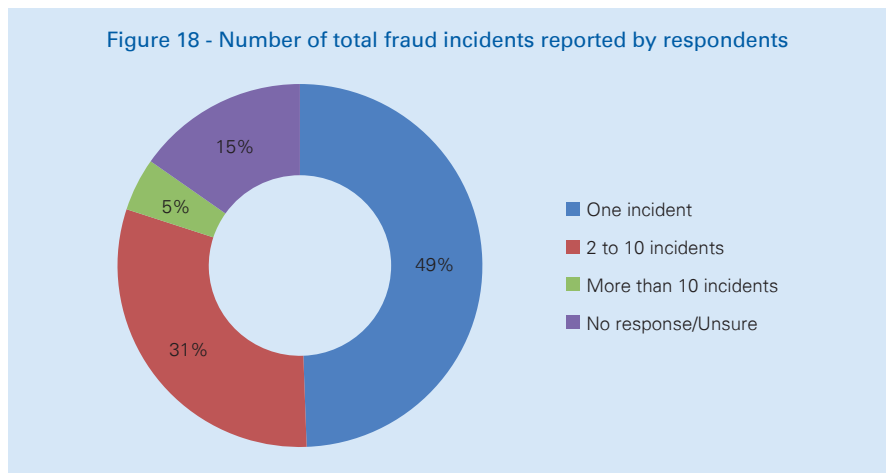




How many incidents of fraud experienced?

Out of the 85 respondents who were victims of fraud only 72 of them disclosed the number of fraud incidents experienced by their organization with 36% of them experiencing more than one incident of fraud from January 2006 to December 2008.

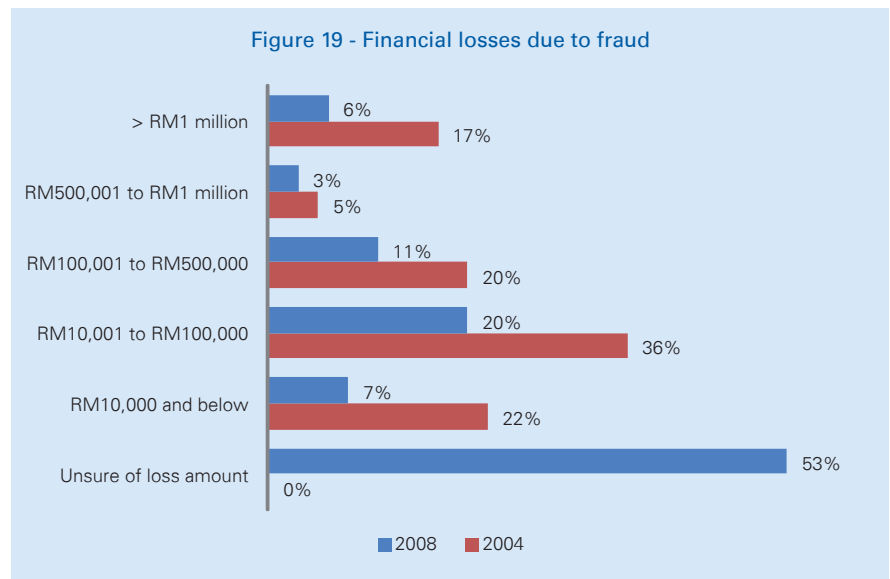
714 incidents of fraud have been reported, with 36% of the victims experiencing more than one incident of fraud over the past three years.



Financial losses faced by the 85 organizations that were victims of fraud exceeded RM60 million.

What was the total value of fraud experienced?

Only 40 out of the 85 respondents who experienced fraud disclosed the amount of losses suffered by their organization. The total value of fraud reported by the 40 respondents who experienced fraud amounted to RM63.95 million. Financial losses due to fraud within the range of RM10,001 to RM100,000 accounted for 20% of the fraud incidents reported. This is consistent with the 2004 survey results.



Number of fraud incidents and estimated financial losses attributed to various categories of fraud perpetrators

The very people organizations refer to as the “eyes and ears” to prevent and detect fraud accounted for a majority of internally perpetrated frauds.

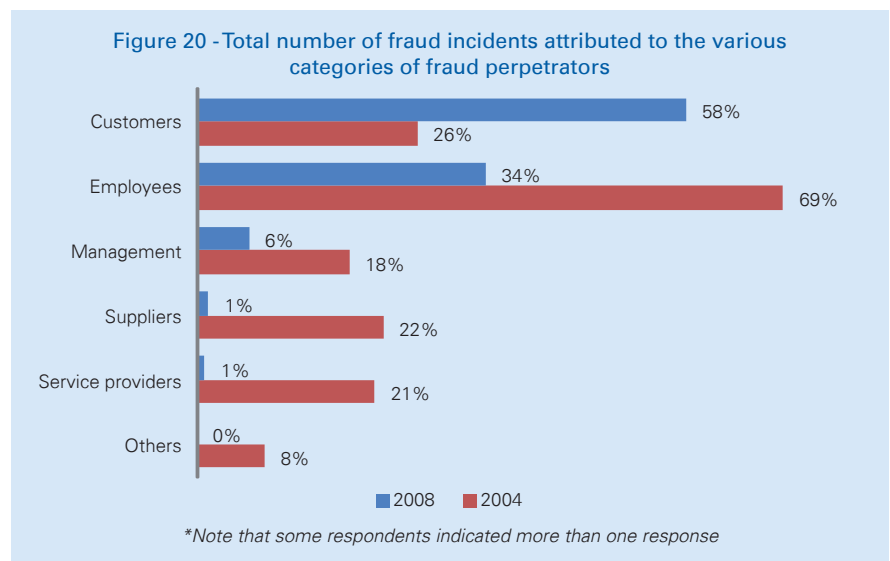
The survey considered the extent and financial impact of frauds committed by the following five categories of perpetrator:

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

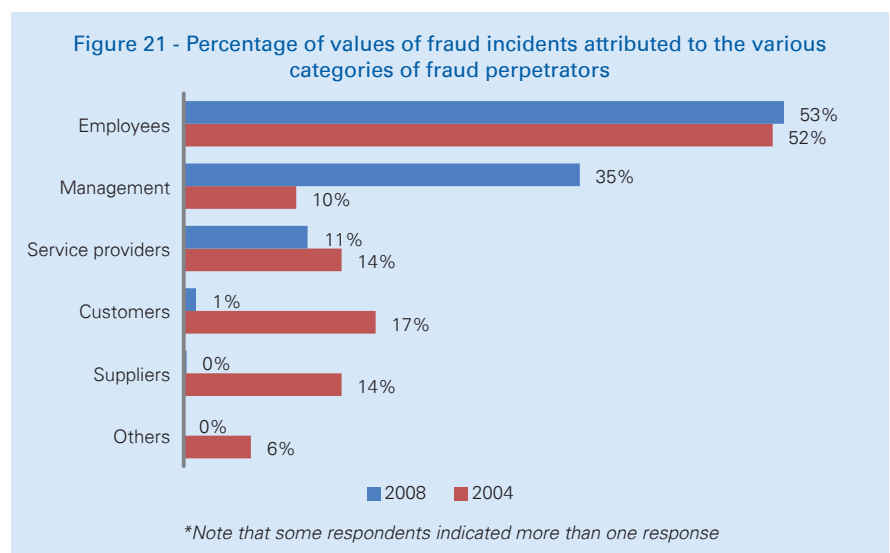
Consistent with our previous survey in 2004, internally perpetrated fraud still accounted for a majority of the value of frauds perpetrated although the number of fraud cases involving external sources was higher. It is certainly a cause for concern as the very people whom organizations consider are the “eyes and ears” to prevent and detect fraud actually end up committing fraud against their own organization.

Who are the fraud perpetrators?

In aggregate, 60% of the 714 reported fraud cases experienced by companies were perpetrated by various external sources namely customers, suppliers and service providers while 40% of the cases were perpetrated internally by management and non-management employees. There appears to be a sharp reduction in the portion of fraud cases perpetrated by non-management employees (35% down from 69% in 2004) while fraud perpetrated by customers increased from 26% in 2004 to 58% in 2008.



Of the total reported value of fraud which amounted to RM63.95 million, 53% were attributed to non-management level employees, 35% were attributed to management level employees while 12% were attributed to customers and service providers. Although the portion of fraud cases perpetrated by non-management employees appears to have decreased as compared to the 2004 survey, there was an overall increase in the value of this type of fraud (1% up from 52% in 2004) as the losses suffered were substantial.



Internally perpetrated fraud is also a major concern in Australia, the GCC, India, Singapore and Thailand.

A comparison of countries surveyed by KPMG in 2008 showed similar results with internally perpetrated fraud making up more than 50% of responses in Singapore, the GCC and Australia.

Figure 22 - Total number of fraud incidents perpetrated internally experienced by organizations in the respective countries

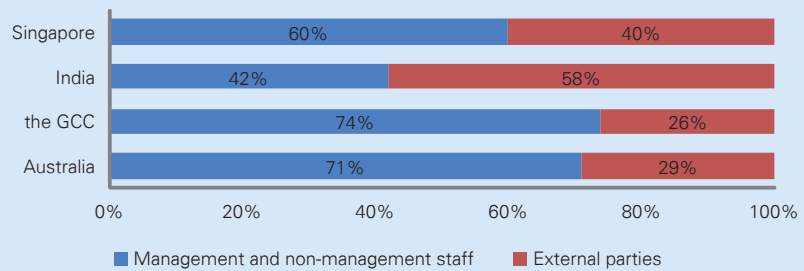
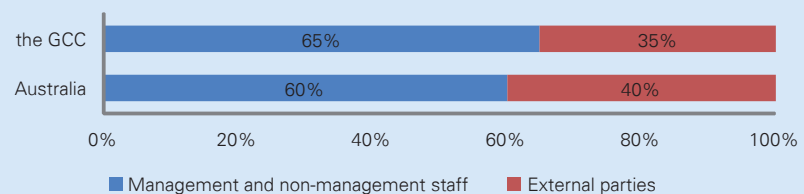


Figure 23 - Percentage of values of fraud incidents perpetrated internally experienced by organizations in the respective countries



What types of fraud are they committing?

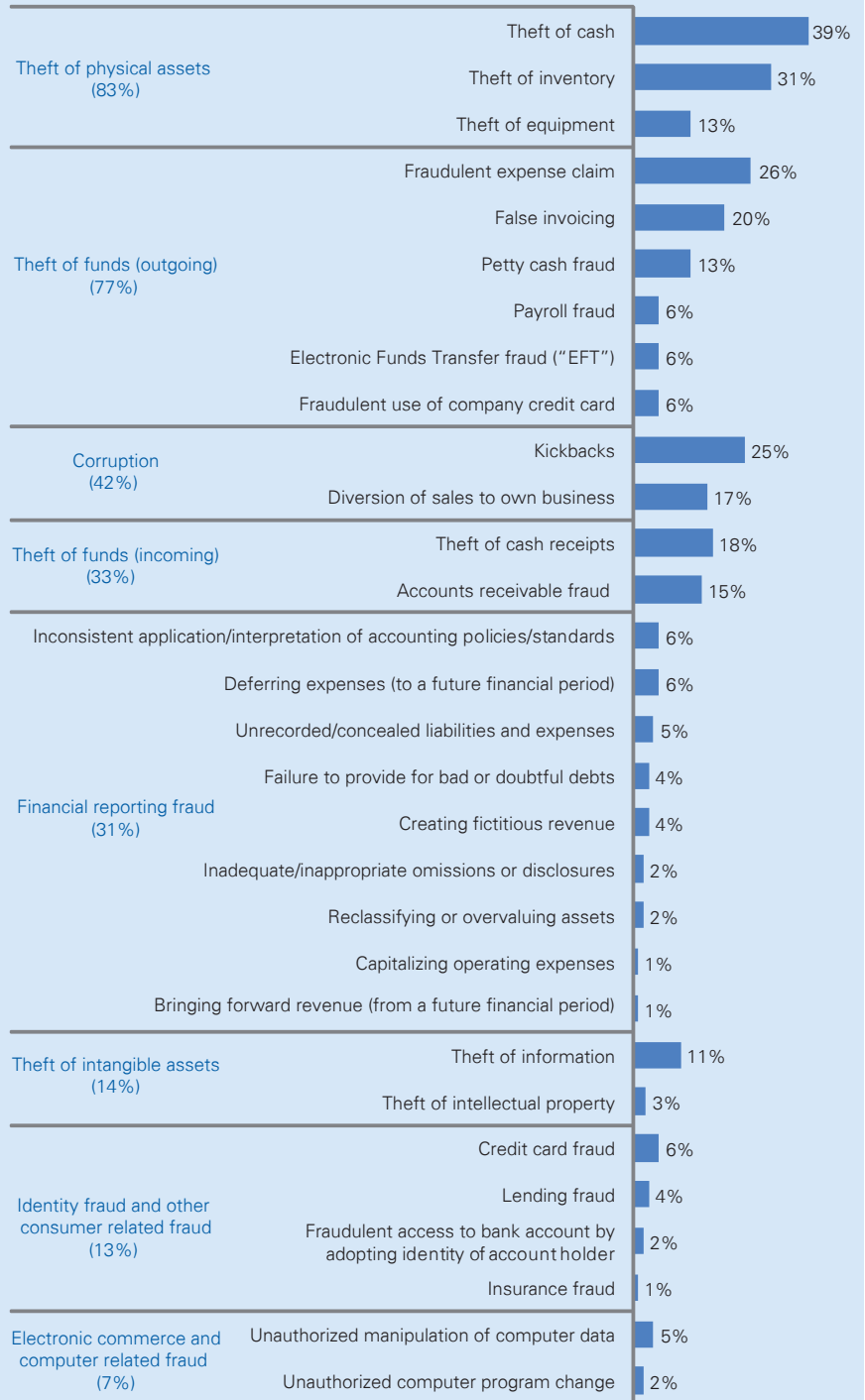
We asked respondents to classify the type of fraud encountered during the survey period in the following 8 base categories:

- 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

Theft of physical assets, specifically cash, is the most popular type of fraud perpetrated.

Theft of physical assets (83%) and theft of funds - outgoing (77%) led the most common categories of fraud. On an individual basis the most common type of fraud was theft of cash (39%), which was closely followed by theft of inventory (31%). A notable feature is that financial reporting fraud (31%) appears to be gaining prominence.

Figure 24 - Types of fraud perpetrated by respondents' organization segregated according to the 8 base categories



*Note that some respondents indicated more than one response



Types of fraud committed by specific categories of perpetrators

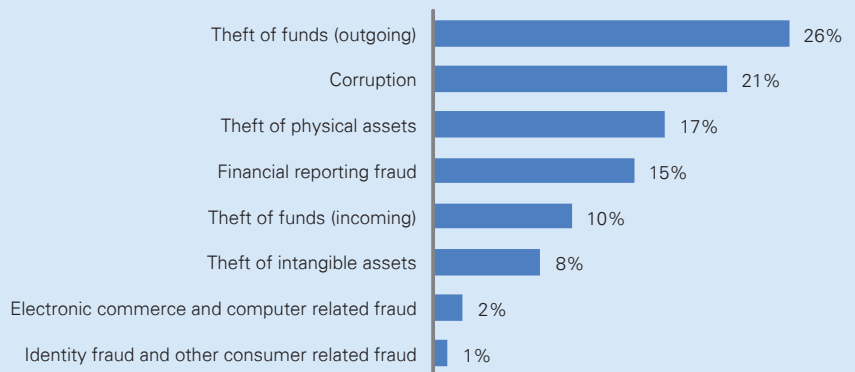
We analyzed the types of fraud committed by the following categories of perpetrators:

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

The main types of fraud committed by management level employees are theft of funds (outgoing) (26%) and corruption (21%). Theft of funds (outgoing) (26%) was also common among non-management level employees, but the more prominent type of fraud is theft of physical assets (31%). As for external parties, theft of physical assets (31%) and corruption (25%) are the more popular types of fraud.

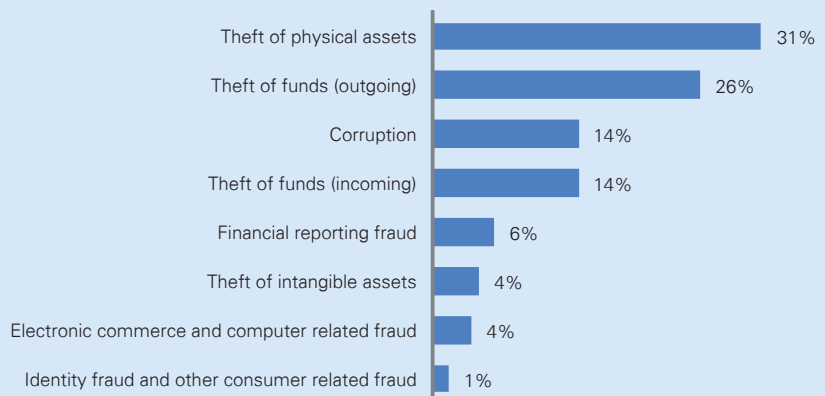
Management level employees

Figure 25 - Types of fraud committed by management level employees



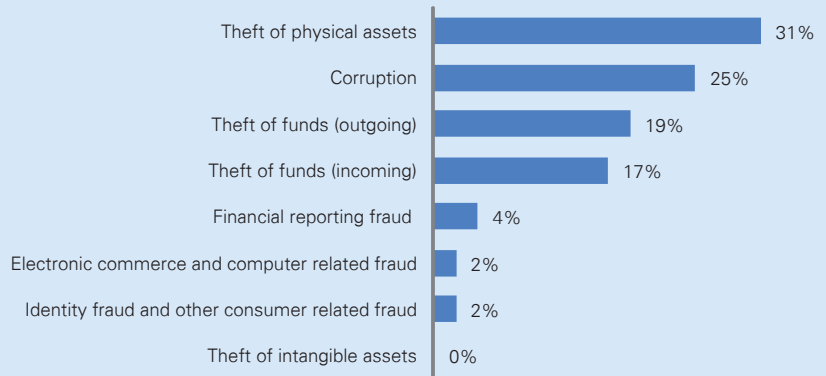
Non-management level employees

Figure 26 - Types of fraud committed by non-management level employees



External parties

Figure 27 - Types of fraud committed by external parties



FRAUD DISCOVERY

The majority of fraud incidents were detected by internal control procedures.

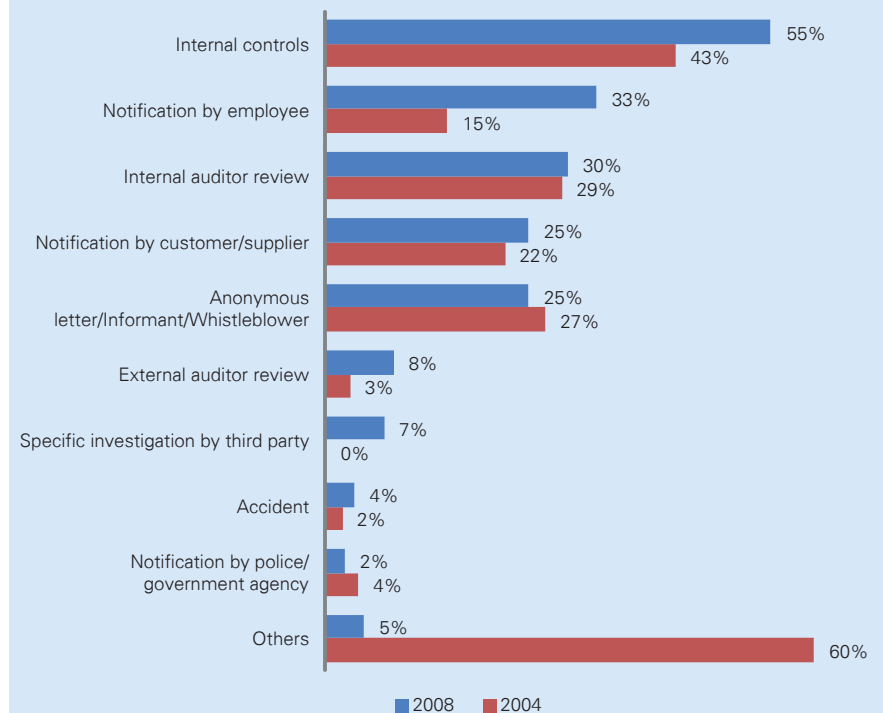
How was the fraud detected?

Survey respondents were also asked to indicate how the frauds were detected. In several cases, the frauds were detected by more than one method. Consistent with the results of the 2004 survey, internal control procedures (55%) were cited as the most common method of detecting fraud. This is followed by notification by employee (33%), internal audit review (30%), notification by customer/ supplier (25%) and anonymous letter/ informant/ whistleblower (25%).

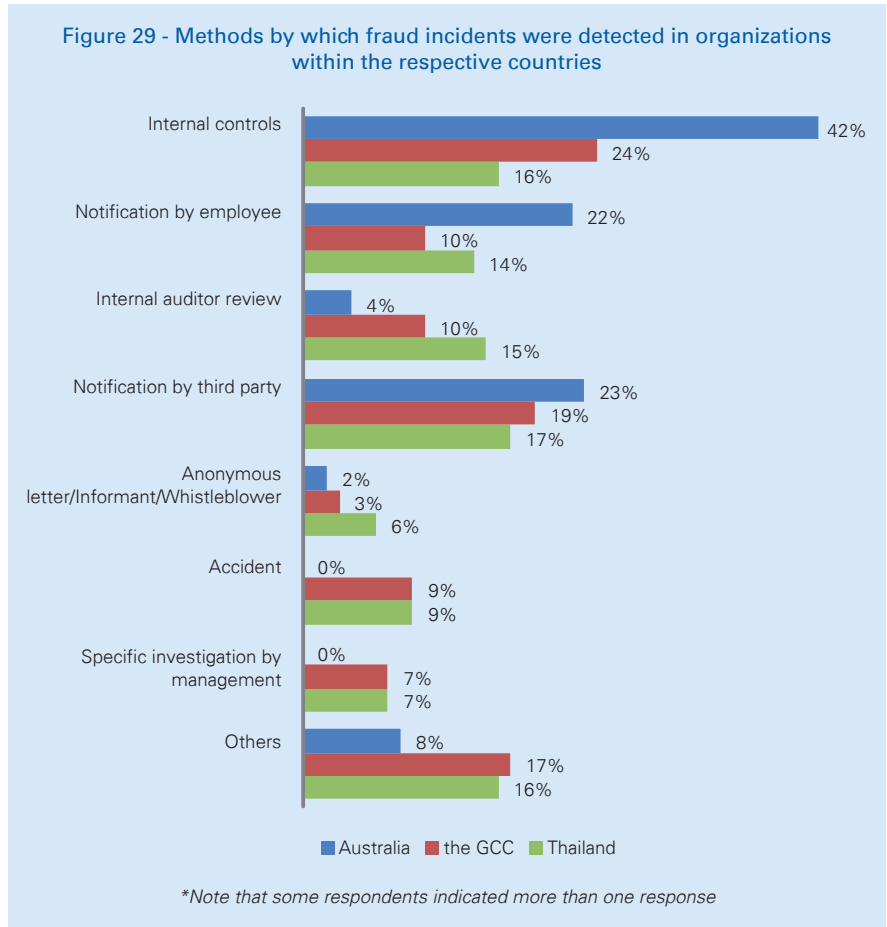
Overall fraud was detected internally and these internal methods of detection were far more effective than any other external mechanisms. This also appears to hold true for Australia, the GCC and Thailand which were surveyed in 2008 with internally detected fraud making up 68%, 44% and 45% of the survey respondents in the respective countries.

The findings highlight the importance of developing an effective fraud risk management system in every organization.

Figure 28 - Methods by which fraud incidents were detected in the respondents' organization



*Note that some respondents indicated more than one response



What allowed the fraud to take place?

Poor internal controls are the main contributor to fraud in most cases.

We asked survey respondents what were the factors that contributed to the incidence of fraud in their organization. The three leading responses were poor internal controls (56%) followed by collusion between employees and third party (45%), and poor ethical practices (39%). Poor internal controls and collusion between employees and third party were also leading responses in 2004.

Similar fraud surveys conducted by KPMG in Australia, Singapore and Thailand in 2008 showed that poor internal controls, collusion between employees and third parties and poor ethical practices were major contributors to fraud as well.

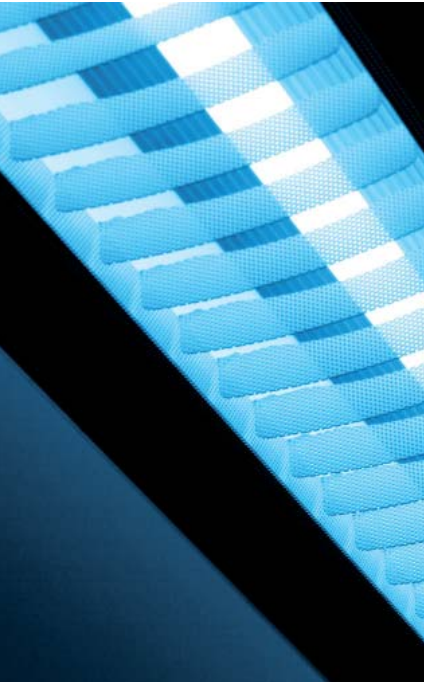
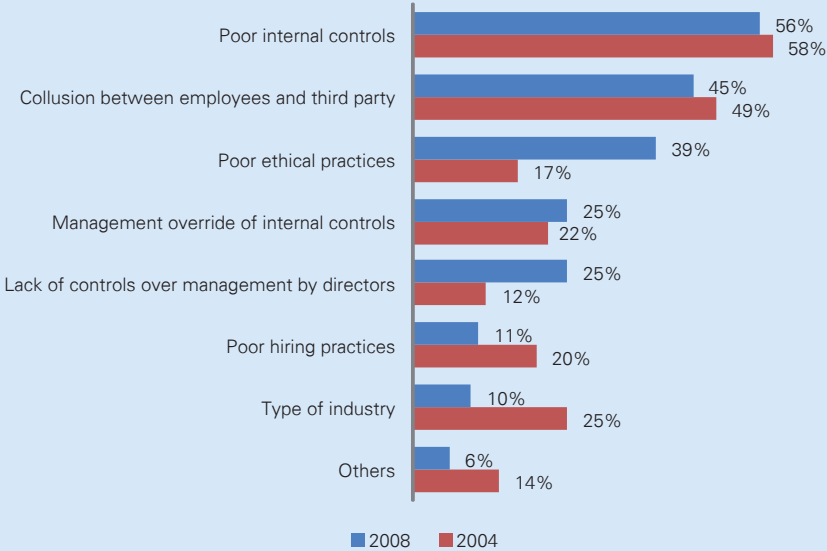
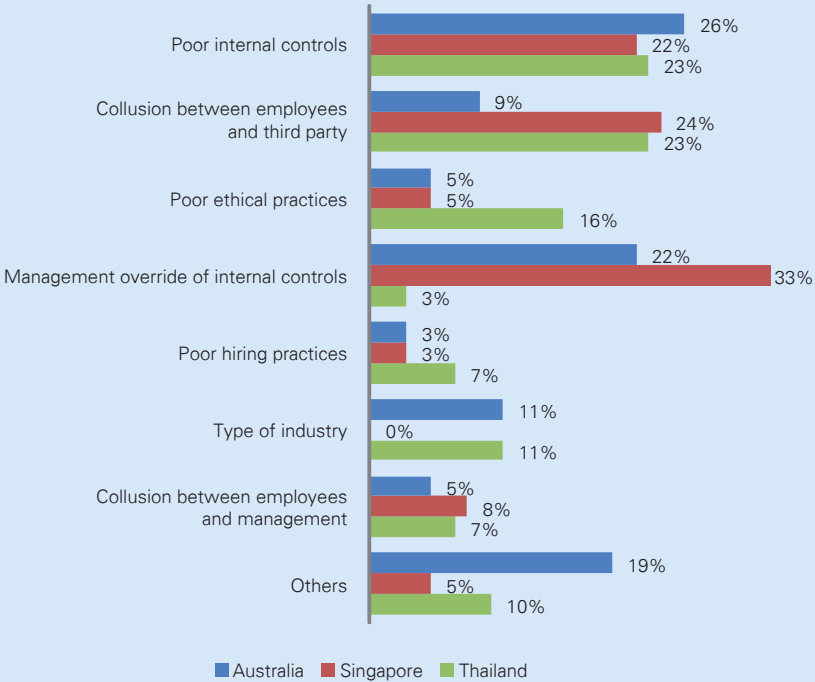


Figure 30 - Factors that allowed the incidence of fraud to take place in the respondents' organization



*Note that some respondents indicated more than one response

Figure 31 - Factors that allowed the incidence of fraud to take place in organizations within the respective countries

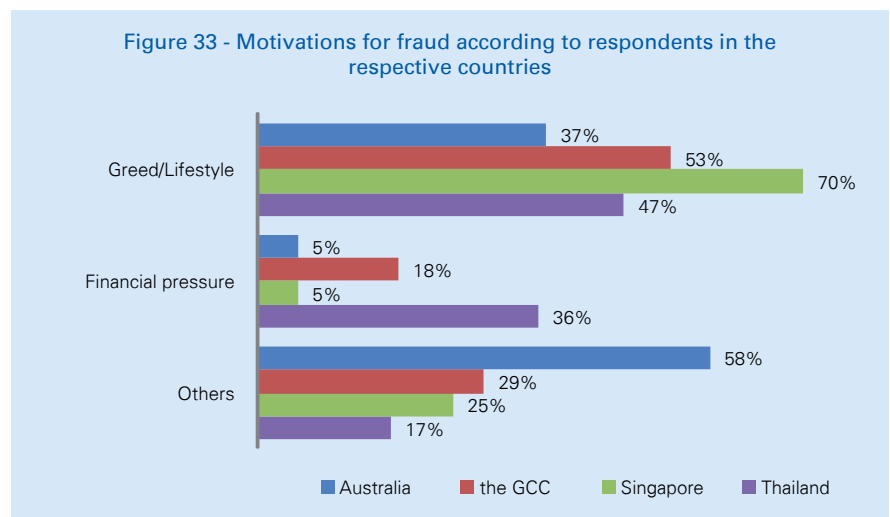
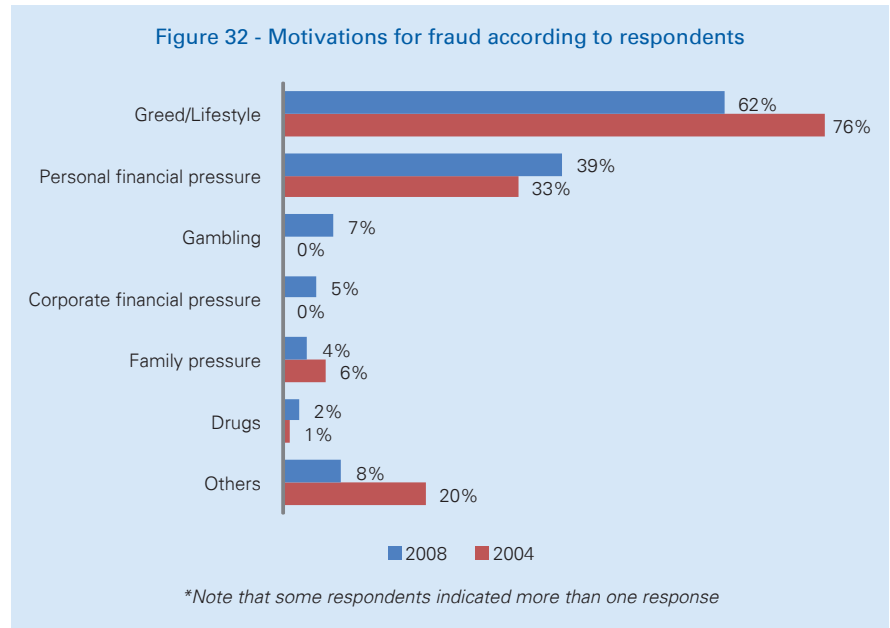


*Note that some respondents indicated more than one response

Fraud is more commonly motivated by greed/ lifestyle and personal financial pressure.

What was the motivation for fraud?

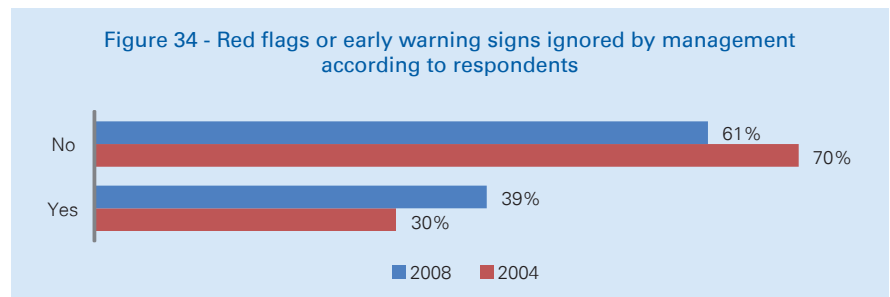
Understanding the motivation for fraud is important in developing an effective fraud prevention program. Our survey suggests that the two leading motivations for fraud are greed/lifestyle (62%) and personal financial pressure (39%). The results are consistent with the 2004 results.



Were fraud “red flags” or early warning signs ignored?

Compared to 2004, there is an increase in fraud incidents where red flags were present but not acted upon.

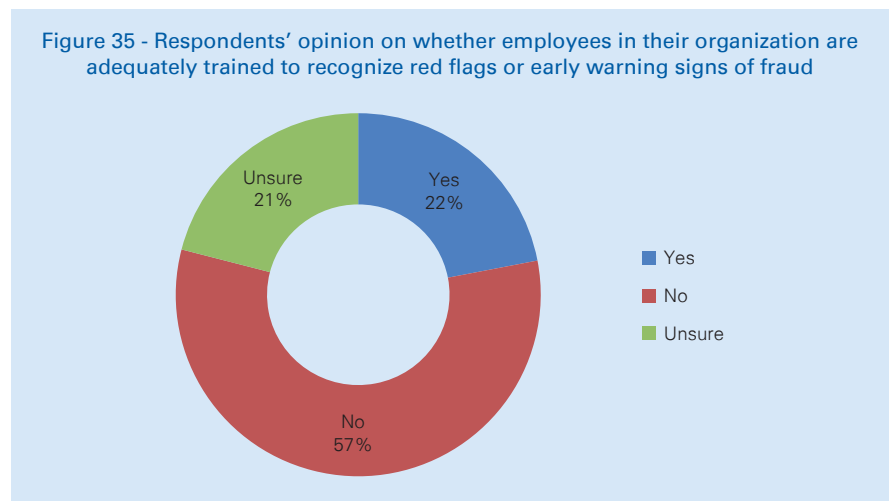
Fraud “red flags” are early warning signs or indicators that fraud may have occurred. Survey respondents were asked if there were any “red flags” or early warning signs for fraud that were not acted upon, which could have alerted the organization to the occurrence of fraud. 39% of the respondents indicated that “red flags” were ignored by management reflecting an increase of 9% from the 2004 survey.



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

Only 22% of respondents felt that their employees were equipped to recognize “red flags”

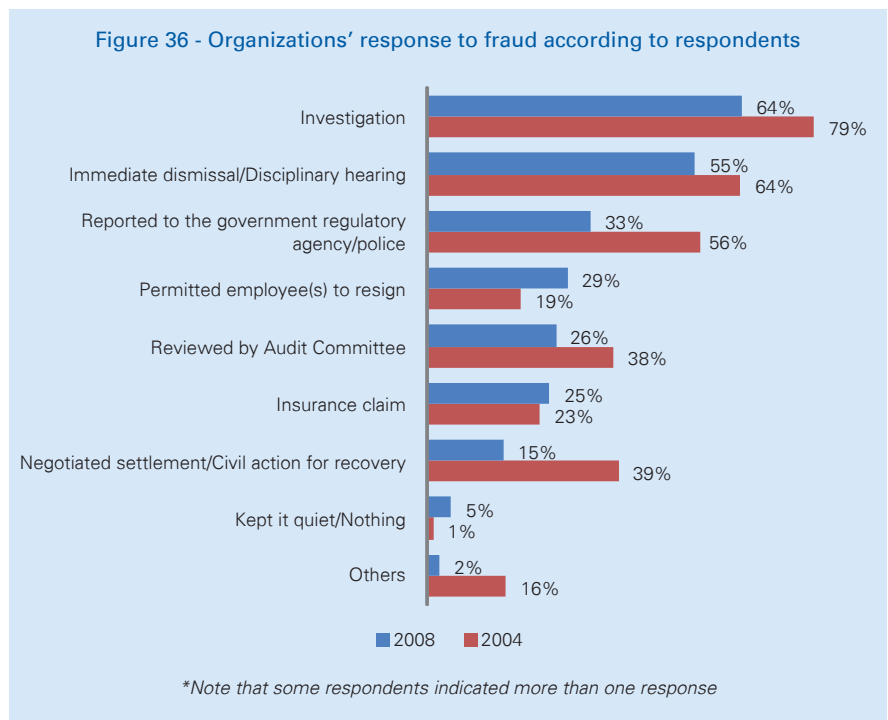
We also asked respondents if they consider their employees adequately trained to recognize fraud “red flags” or early warning signals of fraud. Only 22% of respondents felt their employees were equipped to recognise fraud “red flags” while 57% felt their employees were not adequately trained. The remaining 21% of respondents were unsure.



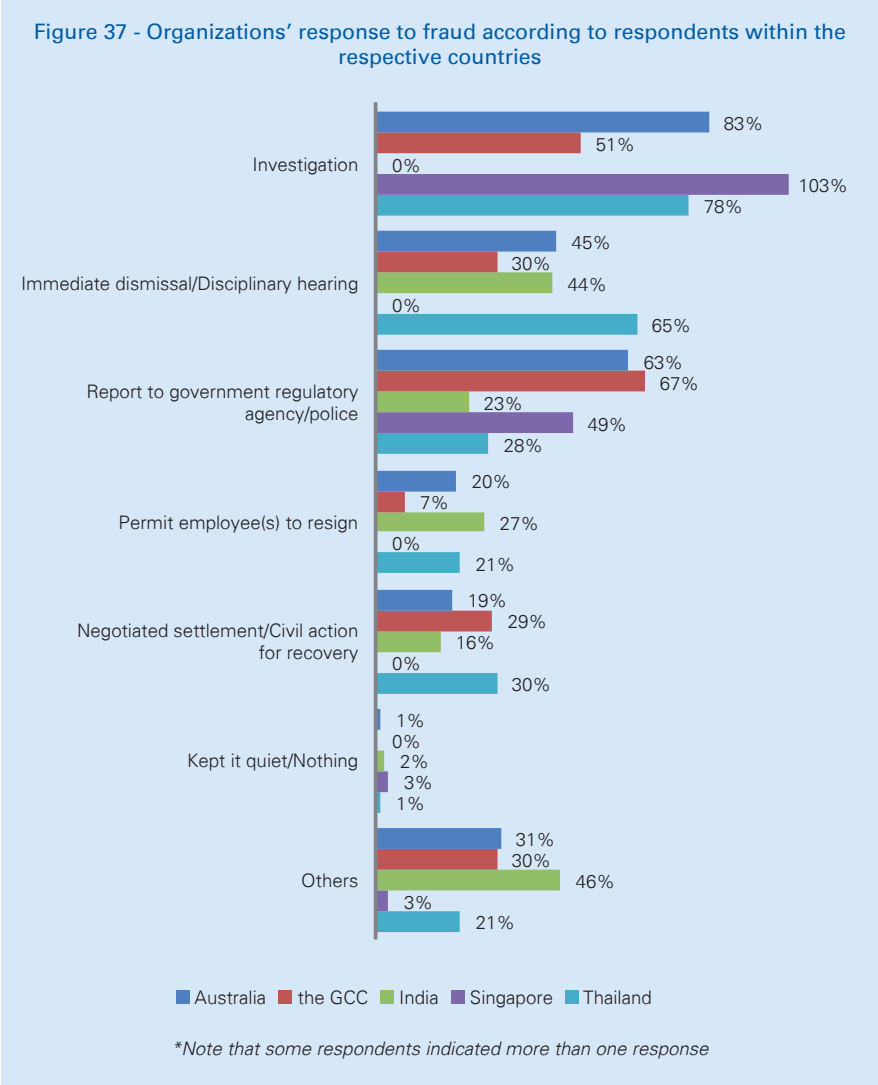
Fraud victims respond to fraud by investigating the said incident(s).

How do organizations respond to fraud incidences?

Response is a key element to fraud risk management as it can send a clear signal to help prevent future occurrences of fraud. Respondents were asked how their organization responded to identified cases of fraud. The most frequent response was investigation (64%). Immediate dismissal/disciplinary hearing (55%) was the second most frequent response. 33% of respondents reported the cases of fraud to government regulatory agency/ police.



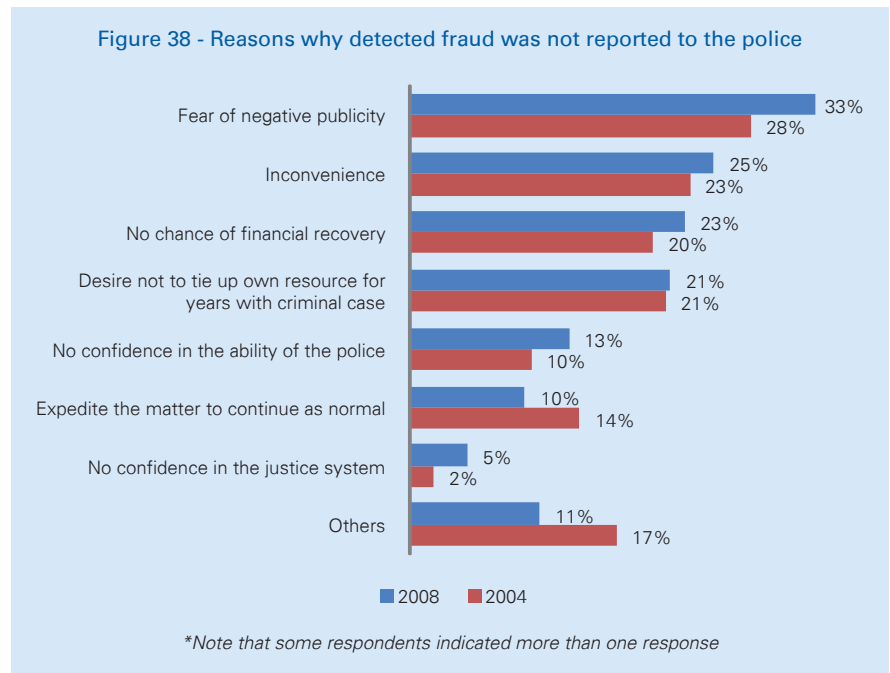
As a comparison of similar surveys conducted by KPMG in 2008, investigation and immediate dismissal were the leading responses in Thailand while investigation and reporting fraud to the authorities had the highest responses in Australia, the GCC and India respectively.



Why some entities did not report fraud incidences to the police?

Fear of negative publicity was cited as the leading reason for not reporting fraud incidents to the authorities.

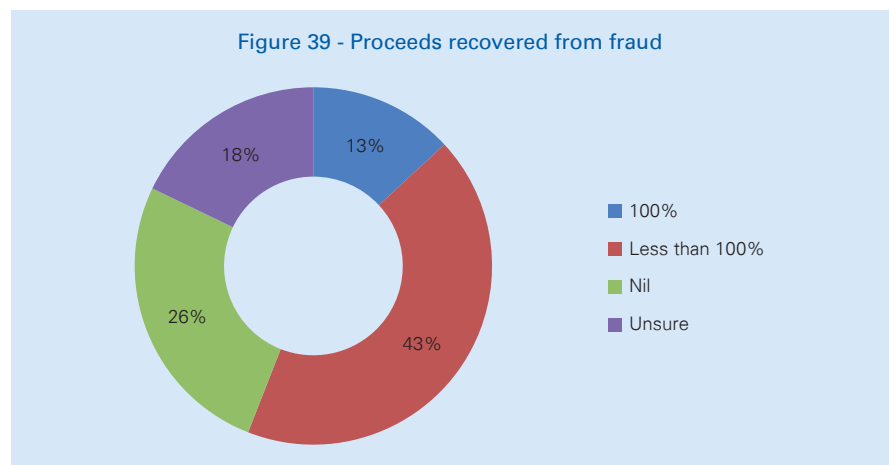
When asked why their organizations failed to report incidences to the authorities, the leading responses were fear of negative publicity (33%), inconvenience (25%) and no chance of financial recovery (23%), mostly consistent with the 2004 survey.

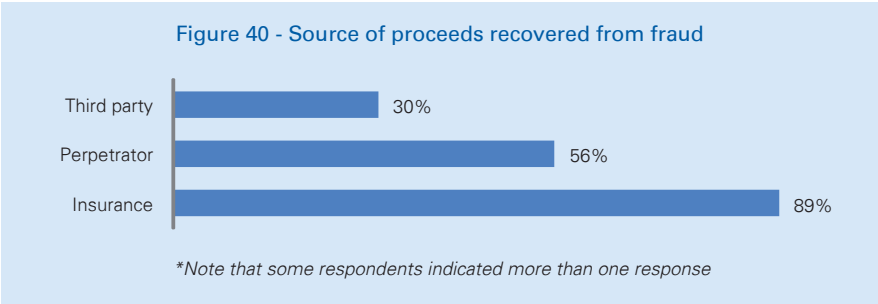


How much of the proceeds of fraud were recovered?

Only 13% of respondents were able to fully recover fraud proceeds.

43% of respondents reported partial recovery of the assets that were misappropriated while only 13% reported full recovery. Of these recovered funds, an average of 89% was recovered from insurance claims, 56% from the perpetrators and 30% from third parties.

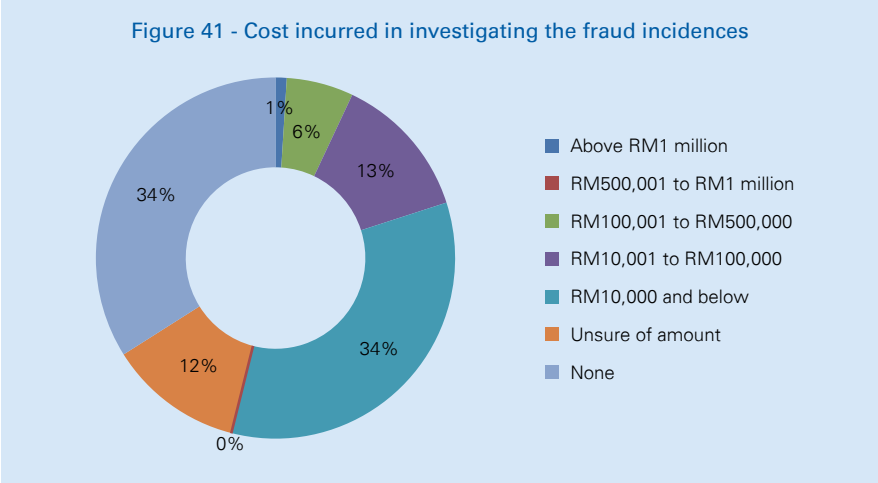




How much did it cost to investigate the fraud?

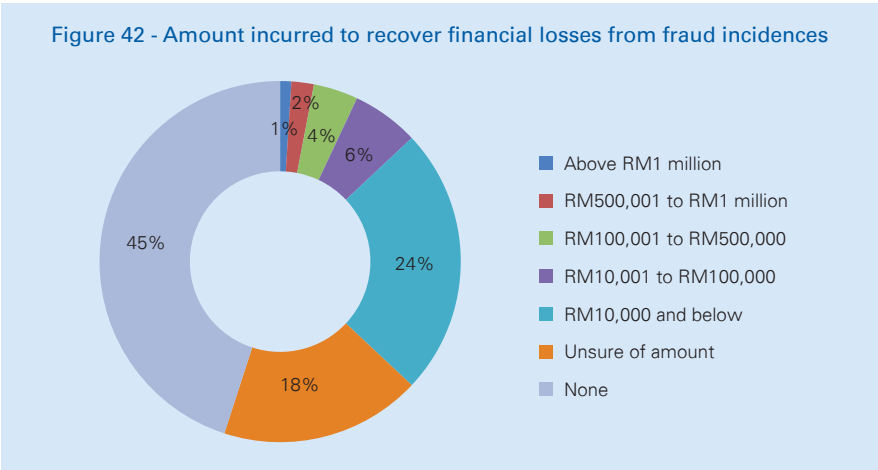
20% of respondents spent more than RM10,000 to investigate fraud.

Among the 49% of respondents who had reported fraud, 34% of the cases did not incur any cost for investigating the fraud, 34% reported spending RM10,000 and below while 20% reported spending more than RM10,000.



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. Most organizations indicated incurring some cost to recover financial losses. In 24% of cases it was less than RM10,000 while 45% incurred no cost.



PROFILE OF FRAUDSTER

It has become increasingly difficult to profile a typical fraudster as the responses showed that he could be of any age group, income level, any tenure of employment within the organization. However, the typical fraudster is likely to be a male rather than a female.

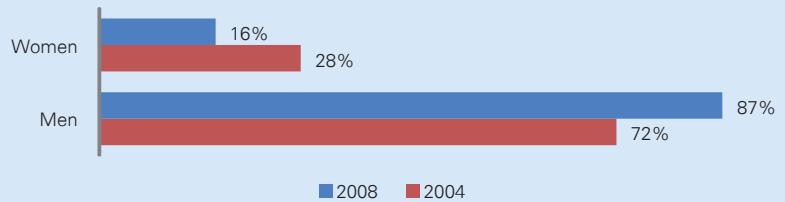
What is the profile of a typical fraudster?

We have developed a profile of the typical fraudster, based on the statistical information provided by respondents regarding the individual(s) committing fraud against their organization.

Whilst the 2004 survey showed that the typical fraudster was likely to be 26-40 years old, the latest survey shows that he could be of any age group, as noted in figure 44.

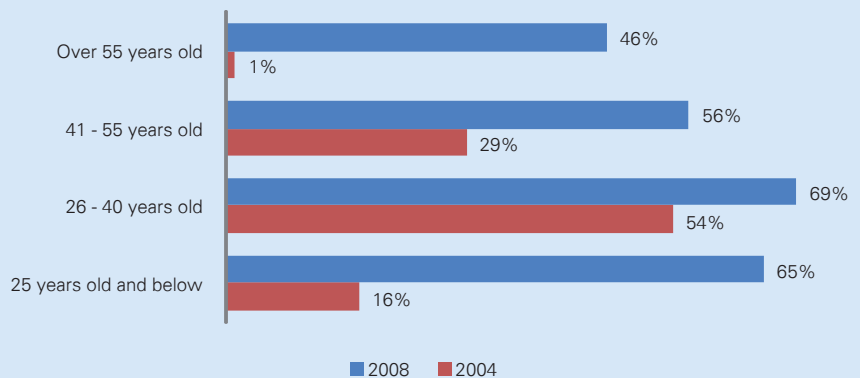
Unlike in the 2004 survey whereby the average annual income of a typical fraudster was RM30,000 and below, a typical fraudster now could come from any income level (Figure 45). In 2004, a typical fraudster was likely to be employed for between 2 to 5 years within the organization, now he could be from any employment tenure (Figure 46).

Figure 43 - Gender of a typical fraudster according to survey respondents

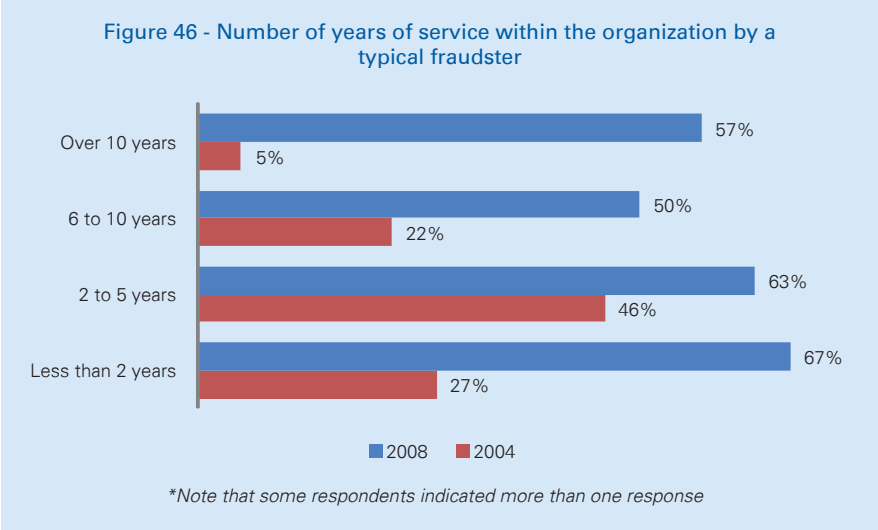
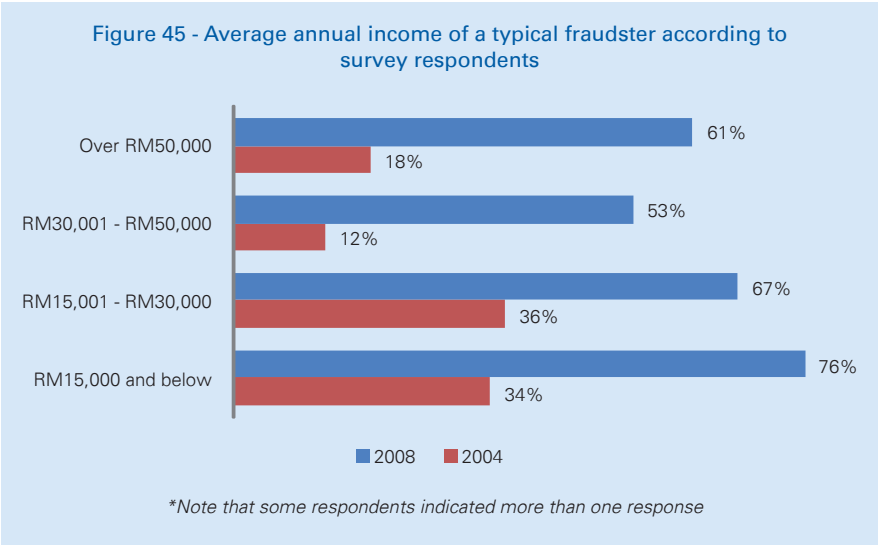


*Note that some respondents indicated more than one response

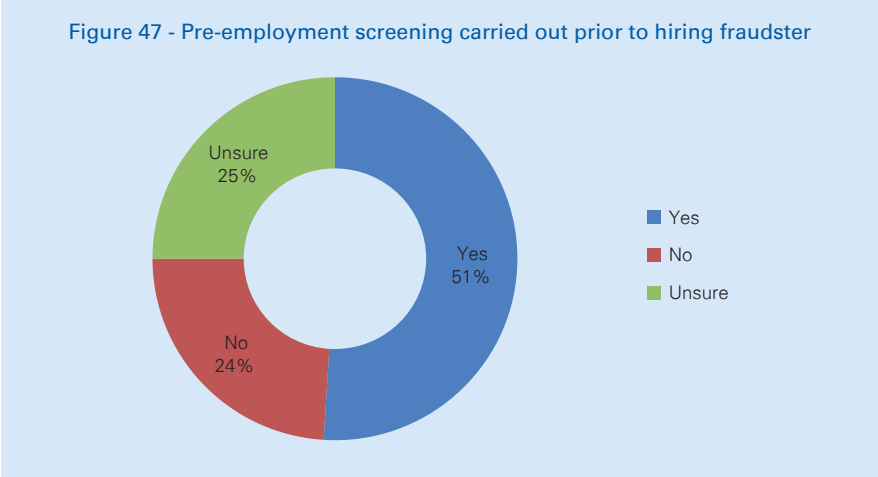
Figure 44 - Age of a typical fraudster according to survey respondents



*Note that some respondents indicated more than one response



In 24% of the time, the organization did not conduct pre-employment screening prior to hiring the fraudster, an increase of 12% compared to the 2004 survey.



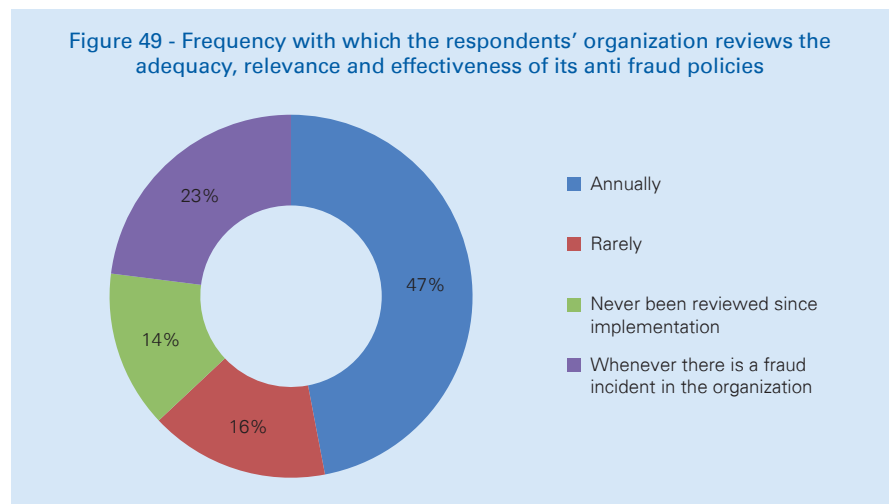
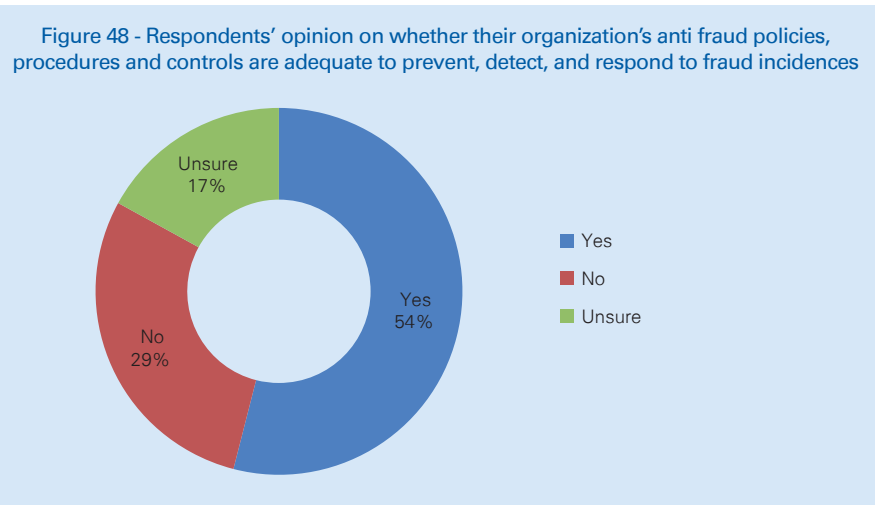
FRAUD RISK MANAGEMENT

Over half of the respondents believed that their organization's anti-fraud policies, procedures and controls are adequate to prevent, detect and respond to fraud incidents.

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.

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

54% of respondents believed that their organization's anti fraud policies, procedures and controls are adequate to prevent, detect, and respond to fraud incidences while 29% responded that theirs are not adequate. 47% of respondents reported that their organization reviews the adequacy, relevancy and effectiveness of its anti-fraud policies, procedures and controls annually.



Who are ultimately responsible for preventing, detecting and investigating fraud?

Respondents believed that the CEO and CFO are jointly responsible for fraud prevention whereas Internal Audit and line management are deemed responsible for fraud detection and investigation.

When there is a defined individual or a collective ownership of responsibility for managing fraud risk, an organization is more capable of actively:

- Anticipating and avoiding risk
- Implementing preventive and detection measures
- Taking control of the investigation of suspected fraudulent activities
- Dealing consistently and effectively with incidents of fraud or misconduct

For the majority of organizations, the CEO and CFO are jointly responsible for overall fraud prevention. Internal audit is responsible for both fraud detection and investigation.

Fraud Prevention



Fraud Detection



Fraud Investigation



What are organizations doing to control the risk of fraud?

Overall, there has been an increase in fraud risk management strategies implemented by organizations compared to 2004.

We asked respondents to identify the steps taken, or intended to be taken, by their organizations to mitigate the risk of fraud in their organization. The main step was reviewing and/or improving internal controls (93%).

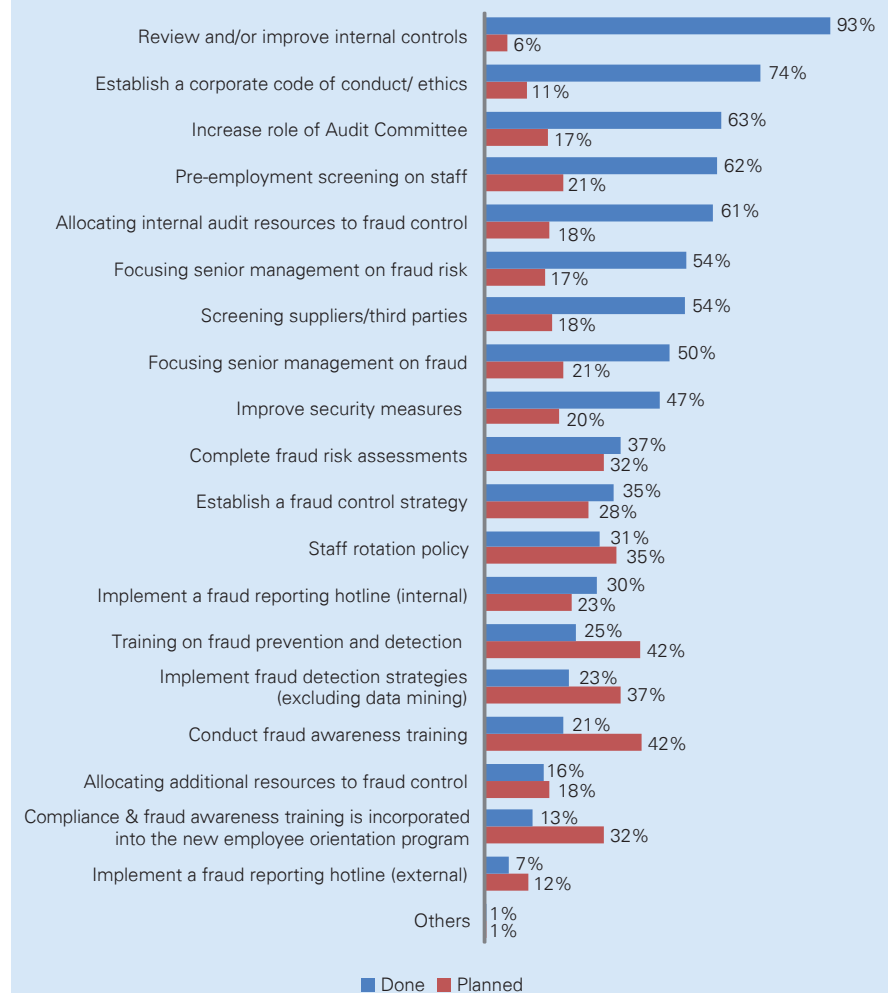


Other common steps included establishing a corporate code of conduct/ethics (74%), increased role of audit committee (63%), and pre-employment screening (62%).

It is interesting to note that although 159 respondents claimed that their organization had reviewed and/or improved internal controls, 73 (46%) of them have experienced fraud, out of which 39 (53%) listed poor internal controls as the main contributor to fraud.

Overall, there was an increase in fraud risk management strategies in place as compared to the 2004 survey.

Figure 53 - Steps taken by respondents' organization to reduce the risk of fraud



*Note that some respondents indicated more than one response

Only 49% of organizations had a system for the anonymous reporting of fraud in place.

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

Overall, 62% of respondents indicated that their organization had clear communication channels in place for the reporting of allegations and incidents of fraud and unethical conduct.

Of the respondents whose organization had a reporting system for fraud and misconduct, only 49% said that they had a system for the anonymous reporting of fraud.

Figure 54 - Respondents' organization that have a fraud and misconduct reporting channel in place

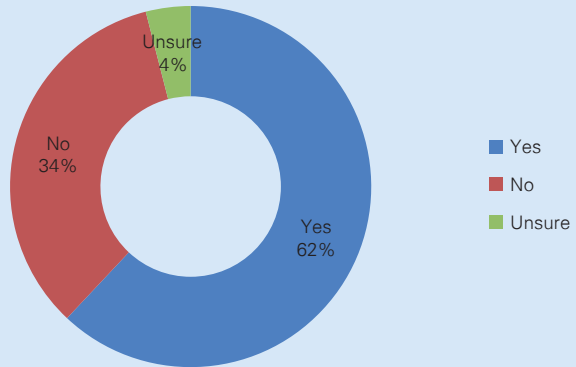
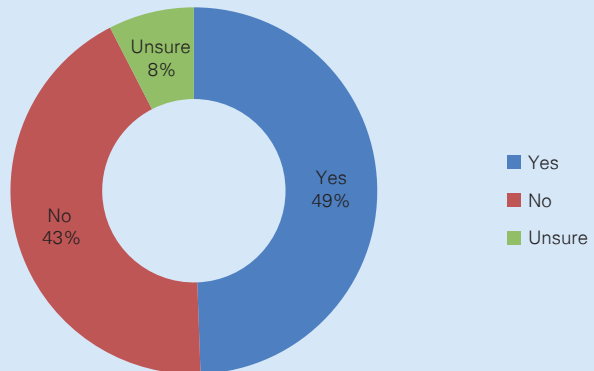


Figure 55 - Respondents' organization that has a system in place for the anonymous reporting of suspicions of fraud, corruption or unethical conduct



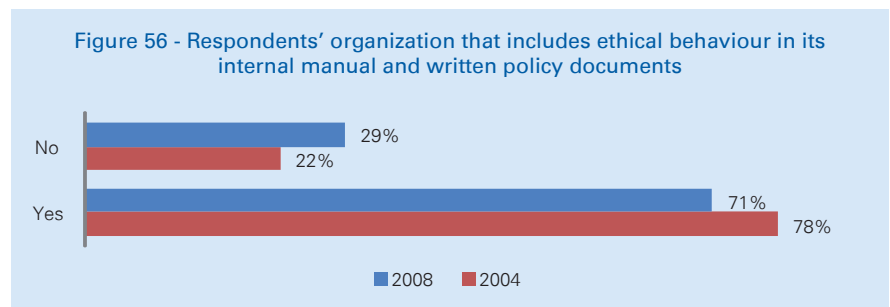
BUSINESS ETHICS

An organization’s culture of business ethics can have an important influence on the prevalence of fraud. 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?

Majority of respondents said that their organization’s internal manual and written policy documents include acceptable and ethical behaviour.

71% of respondents indicated that acceptable ethical behavior are included in their organization’s internal manual and written policy documents. This was a slight decline of 7% as compared to the 2004 survey.



How frequent are occurrences of unethical behavior within the organization?

Management employees’ conflict of interest feature as the most common occurrence of unethical behaviour.

Survey respondents were asked if their organizations had been subject to unethical conduct (other than fraud and corruption) in the survey period. Approximately 38% of respondents to our survey indicated their organization had experienced unethical behavior or misconduct during 2006 to 2008. The top three most common occurrences of unethical behavior of misconduct were management employees’ conflict of interest (49%), falsely claiming sick leave or absenteeism (46%) and conducting business transactions in a manner which derives an unwarranted personal advantage (32%).

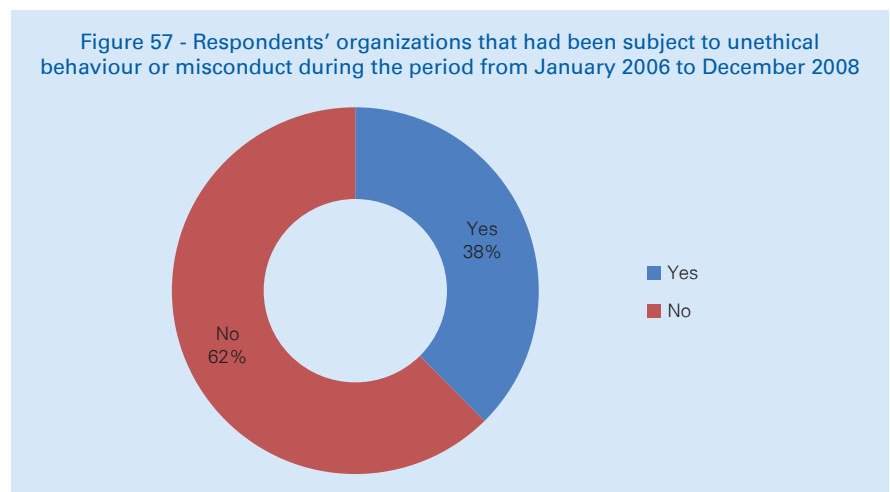


Figure 58 - Types of unethical behaviour or misconduct identified in the respondents' organization



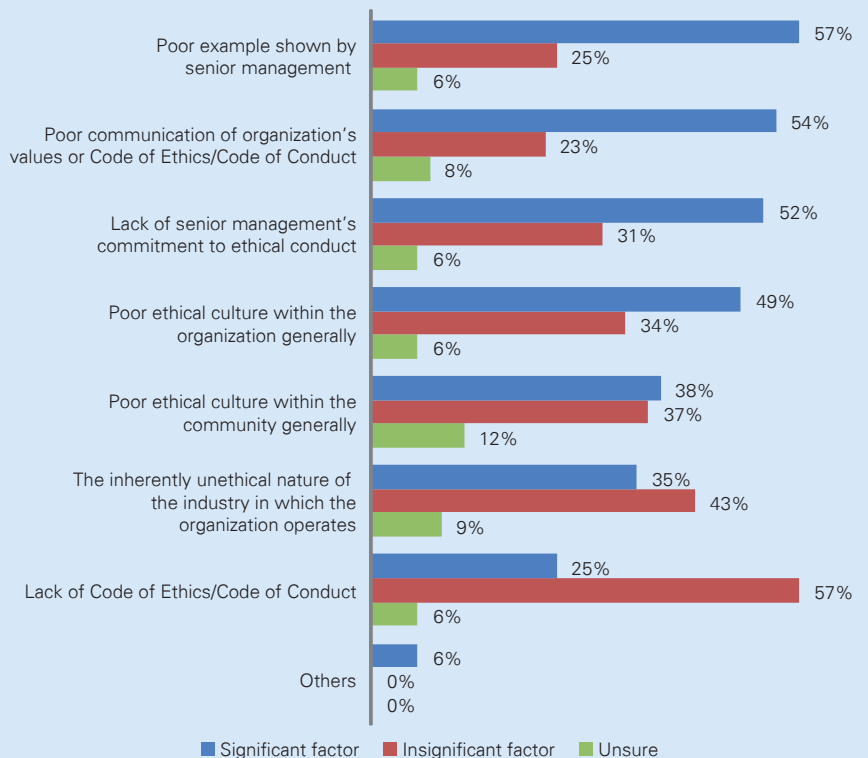
**Note that some respondents indicated more than one response*

Poor example by senior management is the leading factor contributing to unethical behaviour within the organization.

What factors are leading to unethical behavior?

For those respondents who had indicated that they had experienced unethical behavior or misconduct in their workplace, we asked them to indicate what they believed were the significant factors that contributed to the behavior. The leading answers included: poor example by senior management (57%), poor communication of the organizations code of ethics/ conduct (54%), lack of senior management commitment to ethical conduct (52%) and poor ethical culture in the organization generally (49%).

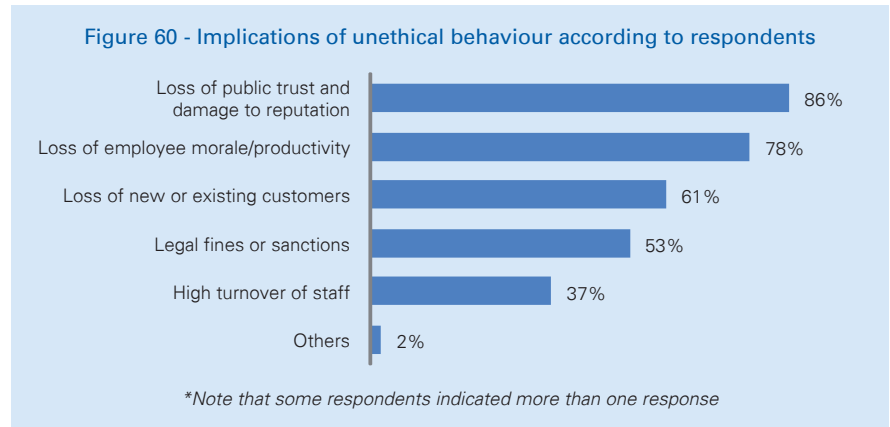
Figure 59 - Factors that contributed to the unethical behaviour occurring in the respondents' organization



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

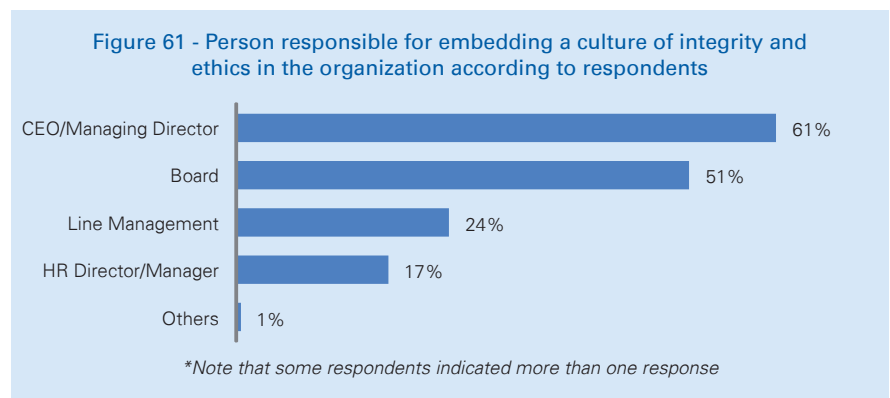
How organizations viewed the implications of unethical behavior?

The results reveal that loss of public trust and reputation damage (86%) and loss of employee morale or productivity (78%) are the main consequences of unethical behavior.



The CEO/Managing Director and the Board of Directors are identified as the main parties responsible for embedding a culture of integrity and ethics within an organization.

Survey recipients were also asked for their view on who should be responsible for embedding a culture of integrity and ethics in their organization. Majority of the respondents identified the CEO/Managing Director (61%) and the Board of Directors (51%) as the responsible parties.

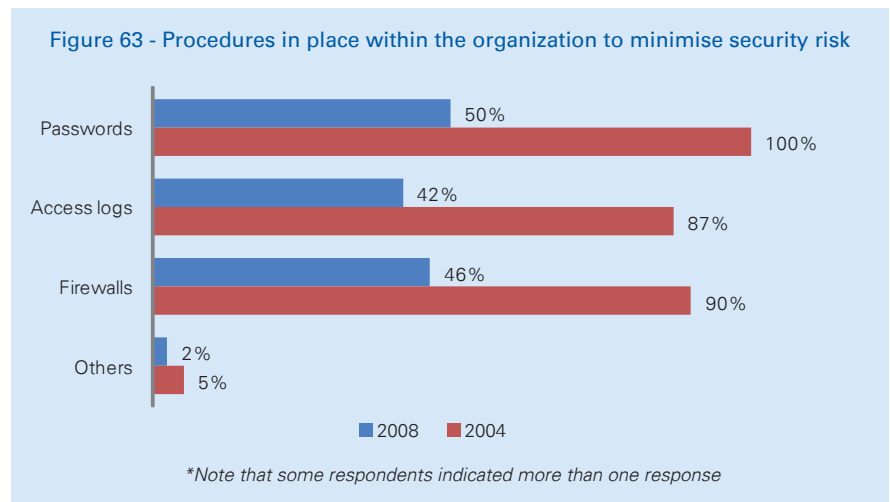
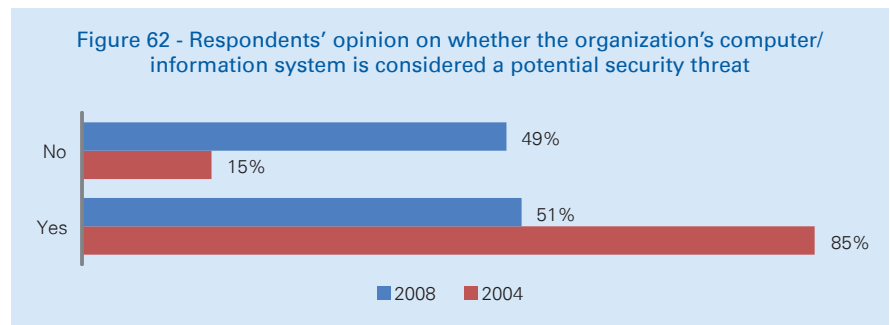


■ INFORMATION SECURITY

Do you consider your computer/information system as a potential security risk and what procedures are used to minimize the risk?

More than half of the respondents considered computer/ information system as a potential security threat.

When asked whether computer or information systems are considered as a potential security threat in their organization, 51% of the respondent agreed that it was a threat to their organization, which was a steep decline compared to the 85% response in 2004. Perhaps, today's IT systems have better security features that are able to ward off potential security risk. Of the respondents that agreed, password (50%) is the most common security procedure employed to minimize the risk, followed by firewalls (46%) and access logs (42%) which were consistent with the 2004 survey.



Did you experience any financial or information loss due to security breaches in your IT system?

Only 8% of respondents experienced financial or information loss due to a security breach of their IT system.

Survey participants were asked if they were aware of any financial or information loss due to security breach involving their IT system, only 8% of respondents experienced financial or information loss. Abuse of password or privileges (71%) and manipulation of the weakness in the IT systems (36%) were the main reasons cited for the breaches.

79% of the breaches were caused by normal users which reflected an increase of 29% compared to the 2004 survey. This was followed by IT staff with a 25% increase from 32% in 2004 to 57% and external hackers with a response rate of 36%.

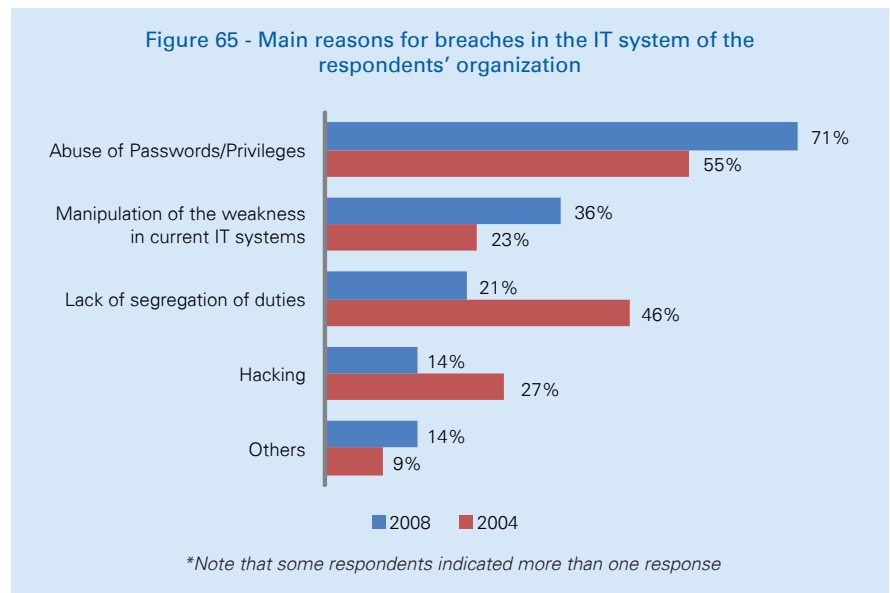
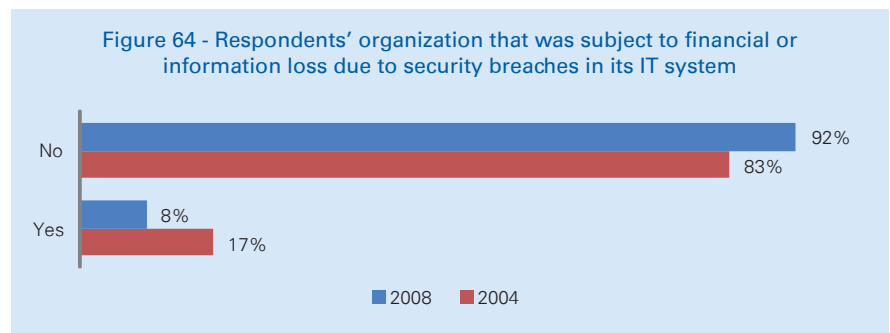
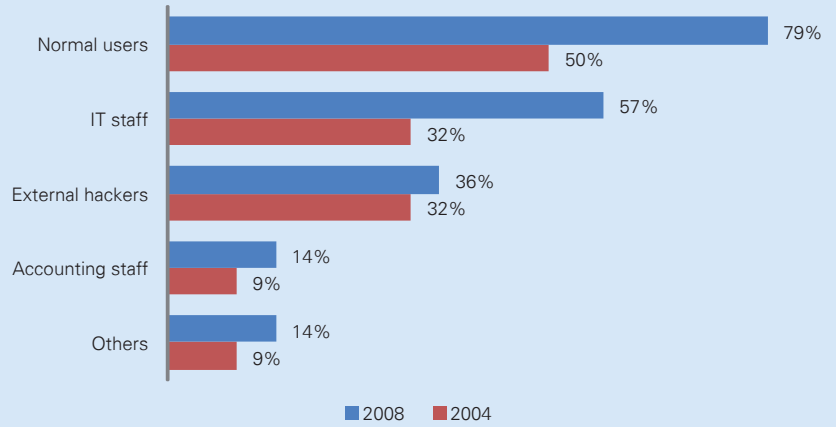


Figure 66 - Person(s) who caused the breach in the IT system of respondents' organization



*Note that some respondents indicated more than one response



■ 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 had experienced a 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 the Corporate world.

If you require additional copies of the KPMG Fraud Survey 2009 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 7699 or by email.

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■ KPMG FORENSIC



KPMG Forensic is in the business of dealing with issues where facts, people and organizations do not agree, or where financial or other business related behaviour may not comply with expectations.

KPMG Forensic provides an independent, proactive, responsive service, together with credible forensic results by applying accounting, financial and other specialized skill sets to the investigation of alleged fraud and in resolving commercial and legal disputes. Our core management team is innovative, flexible and quality conscious, placing great emphasis on value added benefits.

Our Forensic professionals are drawn from diverse backgrounds including accounting, auditing, investigations, law enforcement, information technology, and project management thereby bringing in extensive experience and specific skills sets to help you investigate any form of suspected fraud. From sole-practitioner to vast multinational conglomerates across all industry sectors, we have the capabilities to determine the nature and extent of potential fraud in your organization.

We are able to draw upon vast pool of more than 1,600 professionals from our global network of accredited forensic practices across the globe, each one being familiar with local business practices and forensic issues. Our teams of Forensic professionals have undertaken some of the world's largest investigations, helping clients to reduce the damage caused by fraud. We have an established track record of helping clients and law enforcement agencies to trace, restrain and recover lost money and assets.

Our products and services cover a wide spectrum of counter fraud and investigative activities which include:

- General fraud investigations
- Expert testimony in disputes
- Corporate intelligence
- Forensic technology services
- Royalty audits
- Intellectual property disputes / claims
- Fraud risk assessments
- Fraud awareness training
- Fraud risk workshops
- Ethics hotline

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