



FRAUD SURVEY 2002 REPORT

in collaboration with

MICG

Malaysian Institute of Corporate Governance
and



New Straits Times

FORENSIC

FOREWARD

Fraud is certainly not a new phenomenon. What is, however, is the increase in occurrences of such crimes in recent times. At KPMG, we see the current emphasis being placed upon the prevention and detection of fraud as part of good corporate governance.

The purpose of this biennial survey is to provide information on trends in the nature and incidence of fraud in today's business environment. Besides internal fraud, this survey addresses business ethics and internet security business issues. The escalating occurrences have been attributed to a general decline in social and moral values, which have had an ideal smokescreen effect as businesses grow and become more complex and employees assume more anonymity. These factors, added to ever-advancing technology, which, much as it assists in the smoother running of certain business processes, also has the reverse effect of facilitating corporate misdemeanors. Corporate scandals clearly indicate the potential for abuse and many managers lack the skills and expertise to deal with the associated risks.

While some people would never contemplate perpetrating a fraud, others may do so if they think they can get away with it. Fraudsters are usually alert and calculating. You can deter a fraudster who might want to take advantage of you personally, or your business, by being alert to the possibilities. Alertness and effective controls will increase the chances of being caught and will thus act as a deterrent.

The increasing complexity of financial structures and the intensity of business competition have made it more tempting to commit fraud and also more difficult to detect. In business, some frauds arise because of a system weakness. Other frauds are the result of failures to follow proper control procedures. It may be carelessness in carrying out a check or even too much trust being placed on one individual with no effective separation of duties. Frauds which result from collusion, may be more difficult to prevent. A computer can be instrumental in the perpetration of the fraud because of the absence of a manual review of transactions. The lack of human involvement may allow transactions to be processed which would have been queried in a manual system.

KPMG is proud to offer the 2nd Fraud Survey as part of our service to our clients in their endeavour to reduce costs and losses as a result of fraud. This survey could only be achieved through the willingness of businesses to participate and share their thoughts and experiences with us. For this, we thank those who have participated in our quest to promote fraud awareness in Malaysia.

EXECUTIVE SUMMARY

The findings summarised below are of particular importance.

- Fraud continues to be both an ever-present part of business and an ongoing problem. 50% of respondents acknowledged experiencing fraud in their organization. This was down by 12% from the percentage disclosed in the 2000 survey.
- 33% of companies suffered losses as a result of fraud in excess of RM1 million due to fraudulent conduct in the survey period from January 2001 to December 2002.
- Management investigation (44%), good internal controls (39%) and notification by employee (29%) rank highly as methods of fraud detection.
- The majority of frauds were perpetrated internally [non-management employees (76%) and management employees (21%).
- 56% of losses to the organization due to fraud were attributed to non-management employees.
- Collusion between employees and third party and poor internal controls were cited as the most common reason giving rise to fraud.
- Just as poor internal controls allowed frauds to take place, good internal controls were cited as one of the most effective preventative action in the fight against fraud.
- “Red Flags”, which should have alerted respondents to the fraud, were present in 38% of cases. Compared to the 2000 survey, there has been an increase of 16%. These signs were either ignored or not acted upon quickly enough by supervisory personnel or management.
- The main reason for not reporting fraud was fear of negative publicity (31%) followed by no chance of financial recovery (23%).
- The typical fraudster is male within the age group of 26-40 years and has an annual income of RM15,000-RM30,000. Most frauds reported by respondents were committed by individuals employed between 2-5 years.
- The three most common prevention methodologies being practised are improving internal controls, establishing a Corporate Code of Conduct and improvement in screening of new employees.
- 77% of respondents considered computer/information system to be a potential security risk.
- The most common security breaches in IT systems were caused by the abuse of passwords (52%).



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ABOUT THE SURVEY

In January 2003, KPMG Malaysia Forensic circulated a fraud survey questionnaire to the chief executives of all the public listed companies on the Kuala Lumpur Stock Exchange as well to the chief executives of Malaysia's top private companies as ranked by the MY 1000 report. The term "fraud" is used loosely throughout this survey and includes all offences which a dishonest representation or appropriation is an element. As it is sometimes difficult and often a sensitive subject, respondents were given the option to remain anonymous.

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

Participants in this survey were asked questions relating to:

- Their opinion as to the extent of fraud in business within their own company;
- Fraud experienced against their organization;
- Action taken when fraud is detected;
- Their company's vulnerability to fraud;
- How fraud is prevented or detected;
- Their opinion on information security within their company and the level of preventative measures in place; and
- Business ethics.

A total of 168 responses were received for this survey, of which 69% were attributed to companies listed on the Kuala Lumpur Stock Exchange and 31% from Malaysia's private companies as ranked by the MY 1000 report.



PROFILE OF RESPONDENTS

Survey respondents

The industry sector profile of the 2002 survey respondents as compared with those in the 2000 survey is as follows:

Industry	Percentage	
	2002	2000
Manufacturing	23%	22%
Construction and Engineering	13%	14%
Consumer Products	12%	12%
Industrial Products	7%	10%
Financial Services	6%	8%
Electronics/Technology	5%	2%
Transport	5%	3%
Real Estate	5%	7%
Management/Holding Company	3%	3%
Energy/Petroleum	2%	2%
Hospitality	2%	2%
Utilities	2%	1%
Publishing/Printing	1%	-
Others	14%	14%

Through this survey, senior management of Malaysia's top companies demonstrated their interest in the impact of fraud.

The survey questionnaires were, for the most part, completed by chief financial officers.

The profile of the 2002 participants as compared with those in the 2000 survey is as follows:

Position	Percentage	
	2002	2000
General Manager	4%	8%
Chief Operating Officer	5%	2%
Head of Internal Audit	19%	20%
Head of Security/Investigation	1%	-
Chief Financial Officer / Controller	37%	31%
Chief Executive Officer	10%	17%
Other	24%	22%

The table below indicates the number of people employed by the respondents. 74% of all respondents have between 1 and 1000 employees while 21% of respondents have employee numbers ranging from 1001 to 5000.

Number of Employees	Percentage	
	2002	2000
1 to 250	32%	28%
251 to 500	24%	19%
500 to 1,000	18%	22%
1,001 to 5,000	21%	24%
5,001 to 10,000	1%	4%
10,001 to 25,000	2%	1%
25,001 to 50,000	1%	1%
over 50,000	1%	1%

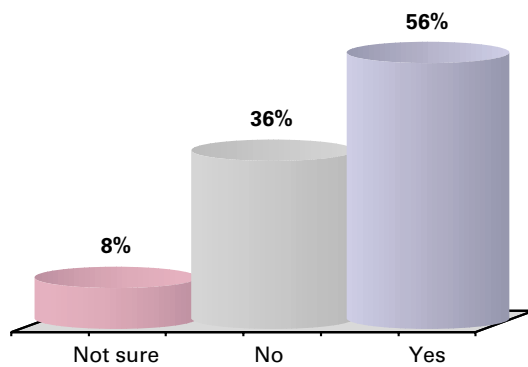


This survey included organizations with annual revenues ranging from less than RM5 million to revenues in excess of RM500million.

Type	Percentage	
	2002	2000
Under RM5 million	1%	2%
RM6 million to RM20 million	10%	6%
RM21 million to RM50 million	12%	11%
RM51 million to RM100 million	17%	18%
RM101 million to RM500 million	41%	41%
Above RM500 million	19%	19%
Unspecified	-	3%

Is fraud a major problem for business today?

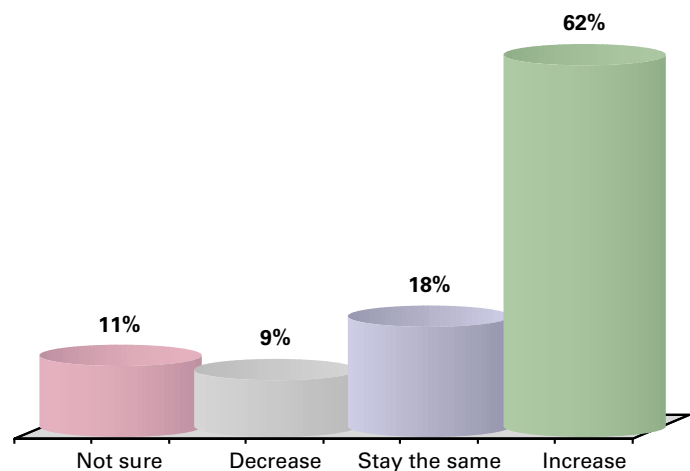
Respondents were asked if they thought fraud is a major problem for their business today. 56% of all respondents believed that fraud is a major problem, whilst 36% considered that it is not a major problem. This is an increase of 12% from the 2000 survey.



Will fraud increase, decrease or stay the same in the future?

Those respondents who did not believe that fraud is a major problem for their business generally attributed this to very good knowledge of the subject, effective security and good effective internal controls.

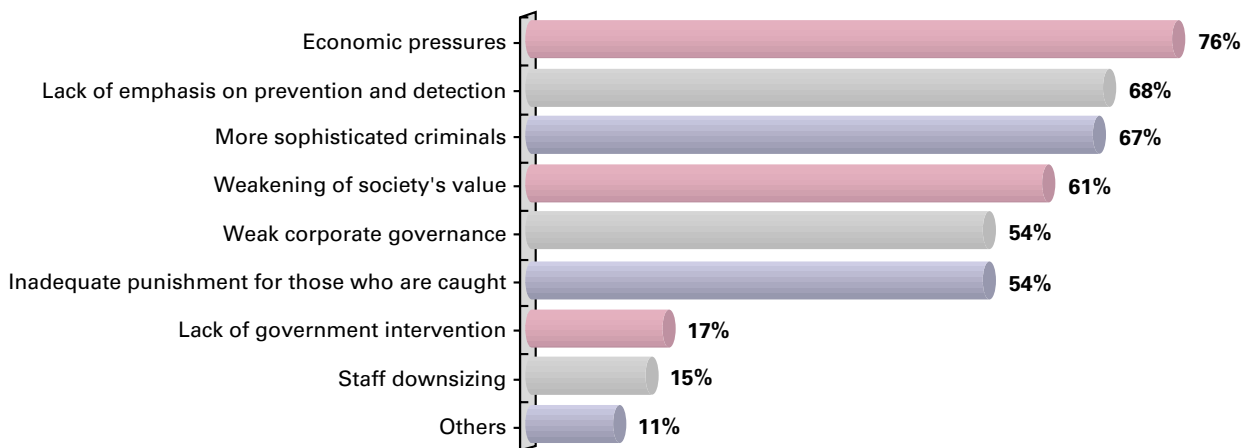
62% of these respondents felt that fraud will be on the increase in the future as opposed to 50% in the 2000 survey. The survey results reflect the increasing concern about fraud.





Reasons for expected fraud increase in the future?

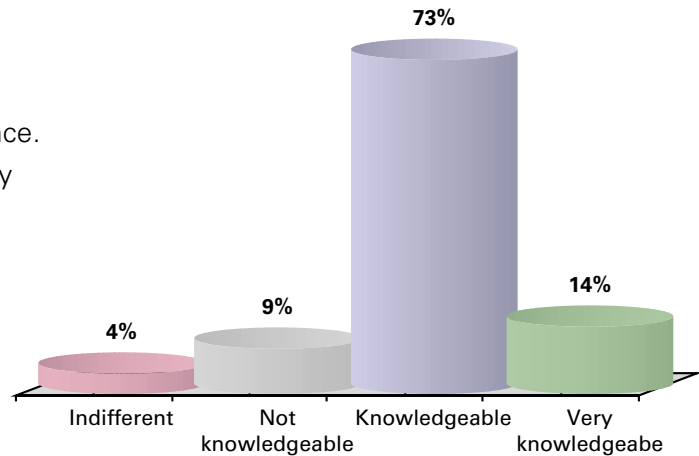
We went on further to ask the respondents who believed that fraud would increase in the future, what they thought to be the reasons for this increase. Economic pressures (76%), lack of emphasis on prevention and detection (68%) and more sophisticated criminals (67%) were the most common reasons cited for the expected increase in fraud. In addition to this, other major reasons cited were weakening of society's values (61%), weak corporate governance (54%) and inadequate punishment for those who are caught (54%).



Note that some respondents indicated more than one response.

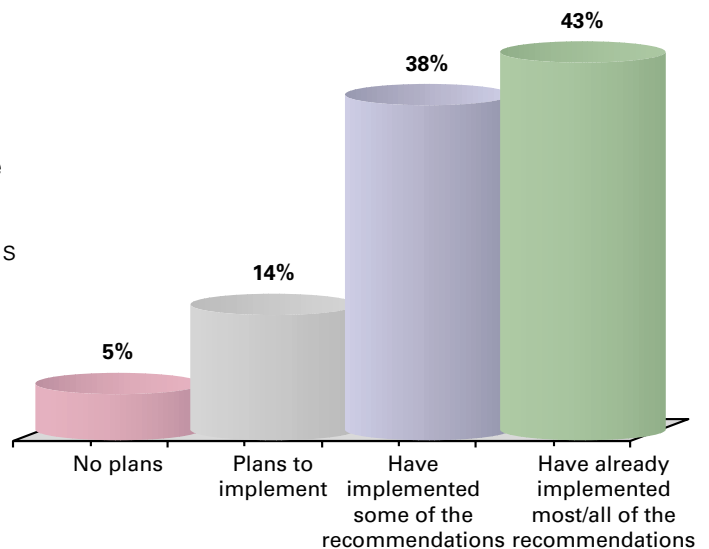
Awareness about corporate governance

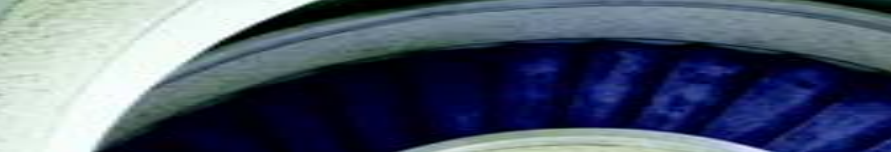
Survey participants were asked to indicate their level of knowledge or awareness regarding the Code of Corporate Governance. 14% of the respondents claimed to be very knowledgeable while 73% claimed to be knowledgeable.



Are there any plans taken to improve corporate governance?

Survey participants were also asked if their organization has taken or plans to take any action towards improving corporate governance. 43% responded that their organization have implemented most of the recommendations while 38% have implemented some of the recommendations towards improving corporate governance.

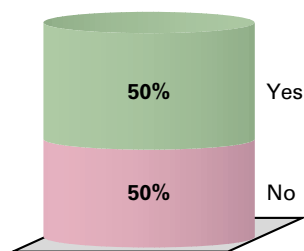




FRAUD EXPERIENCE

Awareness of fraud

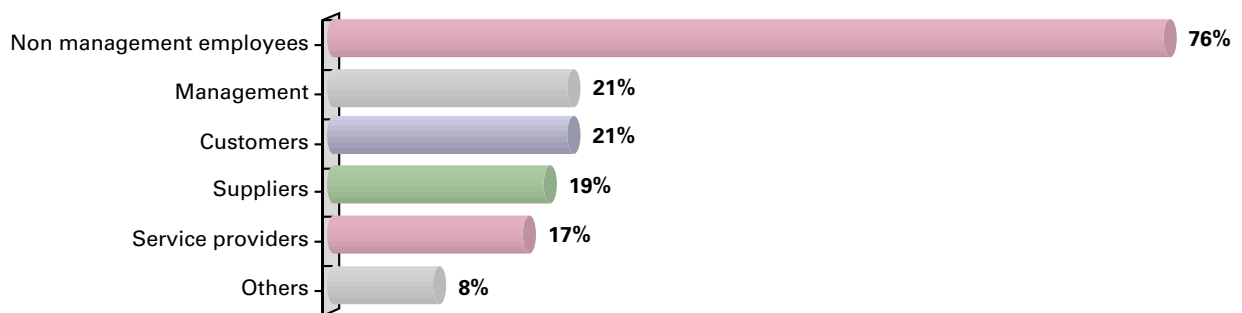
Respondents were asked if their companies had been affected by fraud. 50% of respondents indicated that their companies had been affected by fraud. This was down by 12% from the 2000 survey.



What was the source of fraud?

Respondents were also asked to identify the sources for the occurrences of these fraud.

Of the total 84 respondents, 76% claimed that their non-management employees were the most significant perpetrators of fraud whilst 21% claimed it was their management. On the other hand, respondents claimed that customer (21%), suppliers (19%) and service providers (17%) were the external sources of fraud perpetrators.

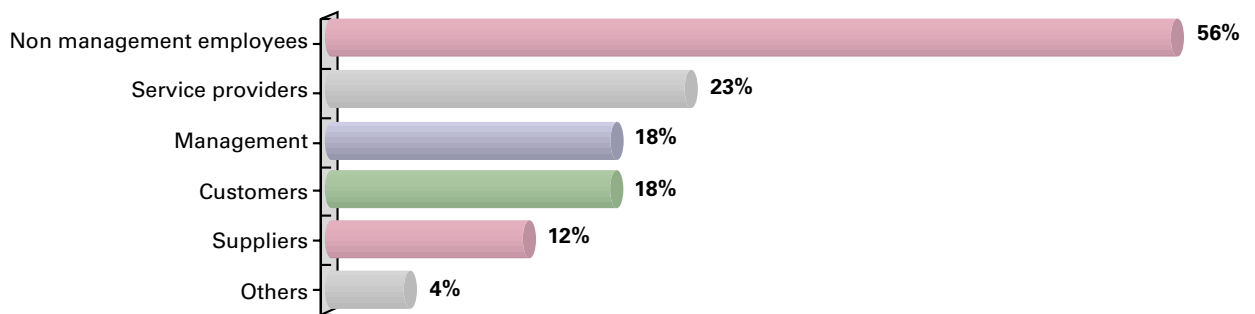


Note that some respondents indicated more than one response.

Sources of the largest financial losses due to fraud

To obtain an understanding of the impact of fraud and in which areas fraud risk was highest, we asked survey participants to comment on where losses were suffered as well as the value of these losses.

Of the sources identified, non management employees (56%) were the source of their largest financial loss, followed by service providers (23%), management (18%), customers (18%) and suppliers 12%.



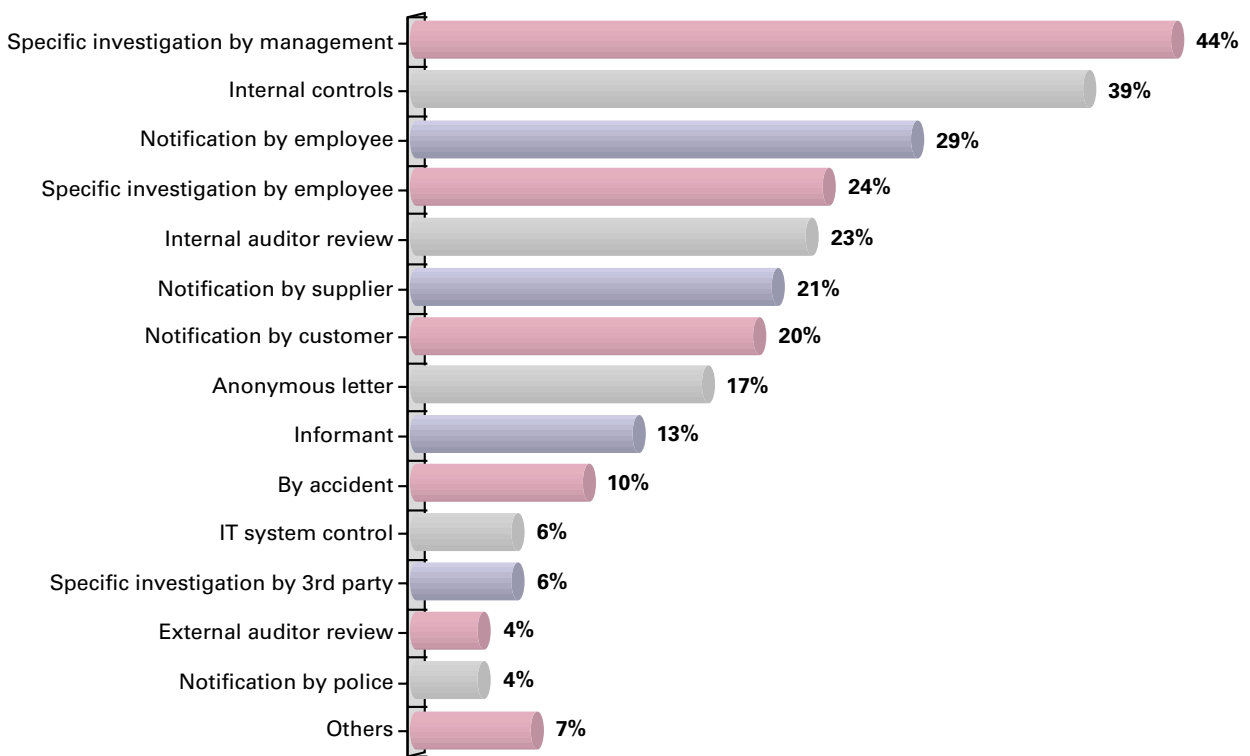
Note that some respondents indicated more than one response.



FRAUD DISCOVERY

How was the fraud discovered?

Survey participants were also asked to indicate how the frauds were discovered. In several cases, respondents discovered fraud by more than one method. The most common method of detecting fraud was through management investigation (44%), which increased 14% from the last survey. Internal controls (39%), notification by employee (29%), specific investigation by employee (24%) and internal auditor review (23%) were the other methods of fraud detection.

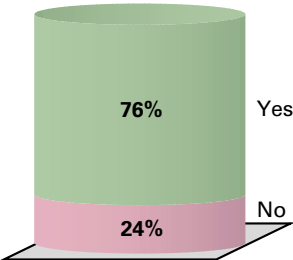


Note that some respondents indicated more than one response.

Overall, fraud was detected internally and these internal methods of detection were far more effective than any other external mechanisms. These findings highlights the importance of developing within organizations an effective internal control system, an ethics based corporate culture and anti fraud policy where stakeholders including staff are empowered to report any corporate misconduct or irregularity.

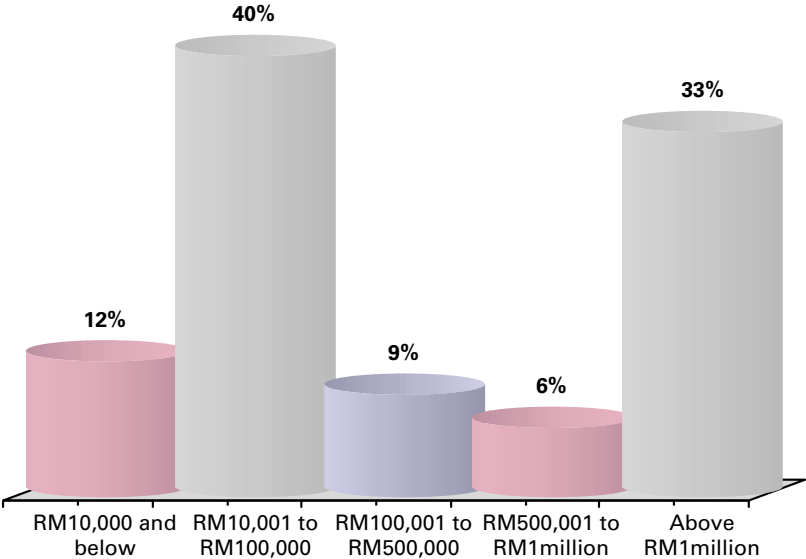
Are you aware of the amount of loss suffered due to fraud?

Out of these, 65 (76%) of the 84 businesses which have acknowledged experiencing fraud in the past were aware of the amount of losses their business suffered.



Estimated loss due to fraud?

40% of the companies suffered losses between RM10,001 and RM100,000 over the past years due to fraud. 33% of the companies suffered losses above RM1 million, while 12% reported incurring losses of RM10,000 and below as a result of fraud. These findings disclose the growing importance of fraud risk management within organizations today.

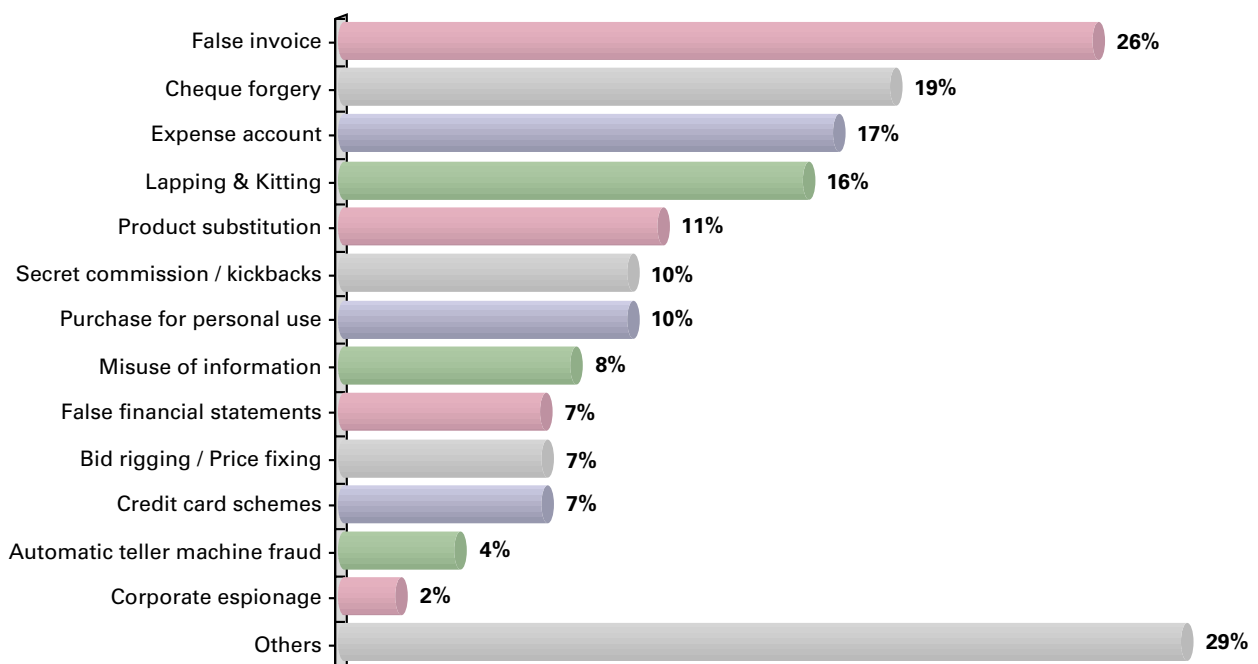




AREAS OF LOSSES DUE TO FRAUD

In which areas did the majority of losses due to fraud occur?

False invoices (26%) and cheque forgery (19%) were the two most common types of frauds encountered. Following closely behind were fraud relating to expense account (17%), lapping & kitting (16%), product substitution (11%), secret commission/kickbacks (10%) and purchase for personal use (10%). A comparison with the last survey showed a decrease of 33% in secret commission/kickbacks and 12% in expense account, which topped the list. These figures indicate that even in this age of information technology and electronic commerce, businesses should also maintain their guard against traditional frauds. Businesses, which overlook or ignore the physical aspects of security, take on an unnecessary risk.

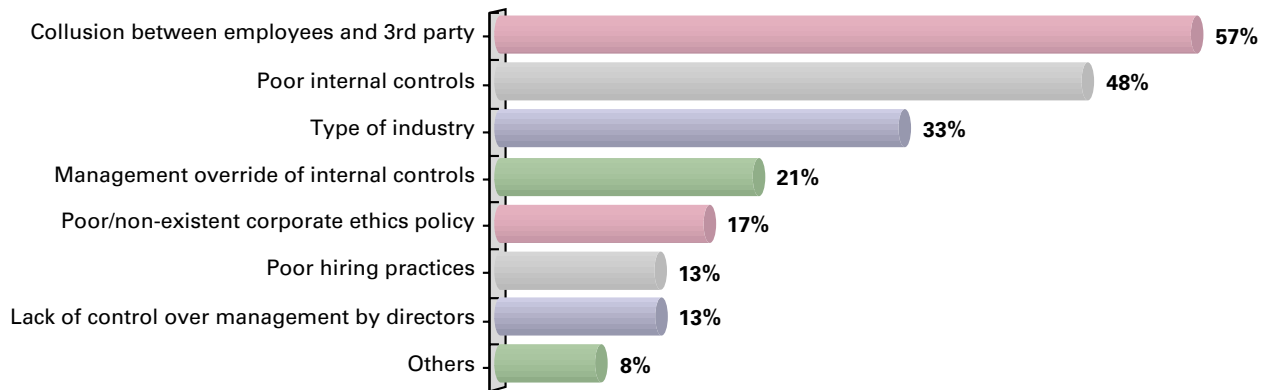


Note that some respondents indicated more than one response.

WHY THE FRAUD OCCURED

What allowed the frauds to take place?

The responses on the largest frauds indicate that the major factor, allowing the fraud to occur was the collusion between employees and 3rd party (57%), which is an increase of 30% compared to the 2000 survey. Poor internal controls (48%) was the second reason followed by type of industry (33%) and management override of internal controls (21%).

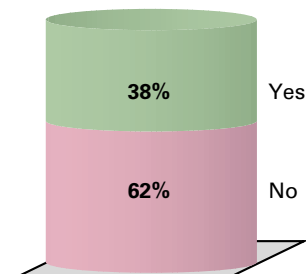


Note that some respondents indicated more than one response.

Were “Red Flags” or warning signs ignored?

“Red Flags” are early warning signs of the possibility that fraud has occurred. 38% of the respondents indicated that “red flags” or warning signs were ignored by either management or supervisory personnel. Compared to the 2000 survey, there has been an increase of 16%.

Early warning signs are important as indicators of possible fraud, thereby minimizing losses. In this regard, fraud awareness among employees and managers of an organization is a vital component of any anti-fraud strategy.

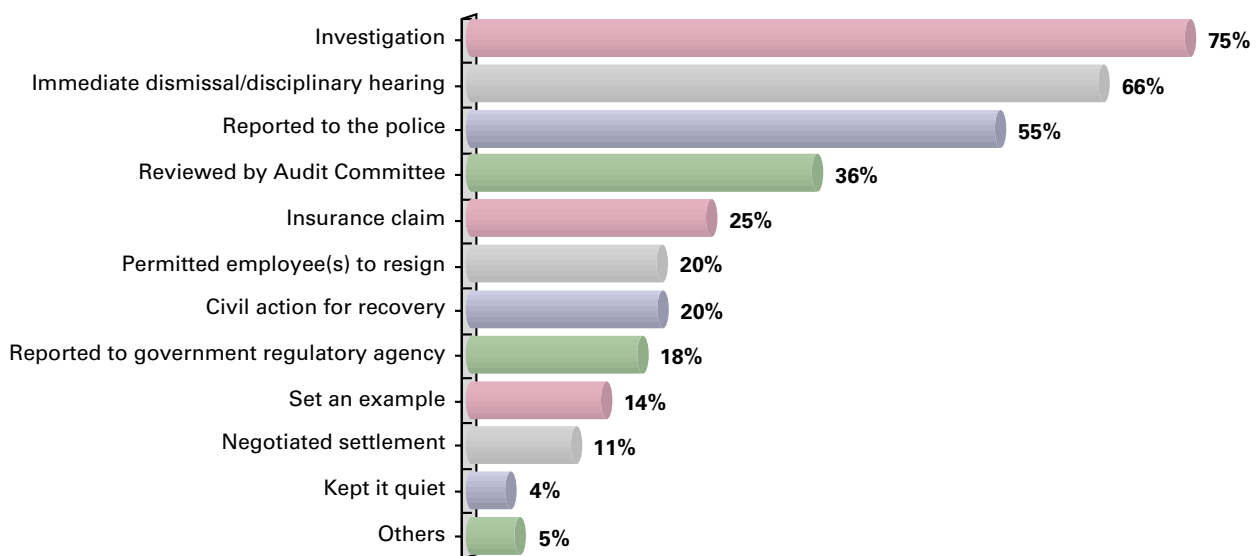


ACTIONS TAKEN

What did you do regarding the fraud?

More than half (75%) of the companies, responded to the detection of fraud with an investigation to find out what went wrong.

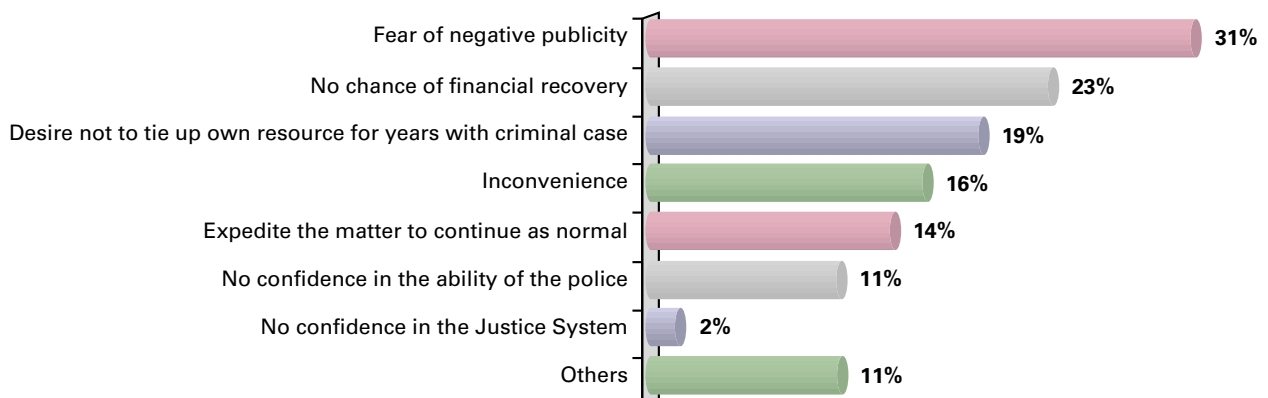
The other actions taken included immediate dismissal/disciplinary hearing (66%), reported to the police (55%), reviewed by audit committee (36%) and insurance claim (25%).



Note that some respondents indicated more than one response.

What would be the main reason for not reporting detected fraud within your organisation to the police?

Respondents were also asked the reasons for not reporting fraud to the authorities. Fear of negative publicity was cited as the most common reason for not reporting fraud.



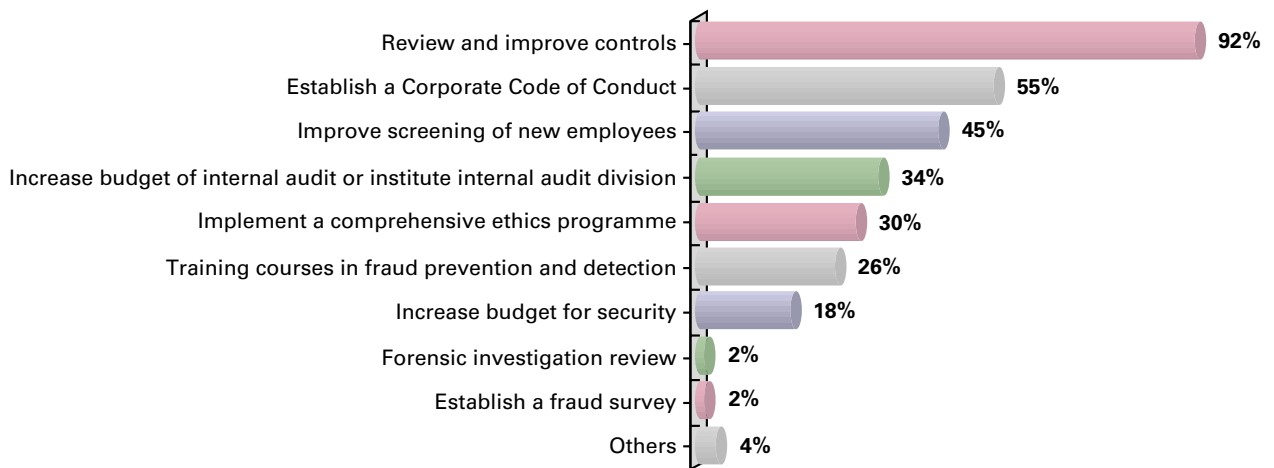
Note that some respondents indicated more than one response.

FRAUD DETECTION AND PREVENTION

What steps are planned to reduce the possibility of fraud?

Respondents were asked to identify the steps they have taken, or intend taking, to reduce the possibility of fraud in their organizations.

To prevent the occurrence of fraud, 92% of our respondents claimed that they have reviewed and improved their internal controls. In addition, establishing a Corporate Code of Conduct (55%), improving the screening of new employees (45%) and increasing their budget of internal audit or instituting an internal audit division (34%) are the most frequently cited actions taken for prevention of fraud.

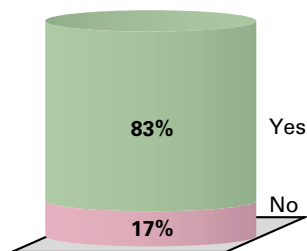


Note that some respondents indicated more than one response.

SCREENING PROCEDURES

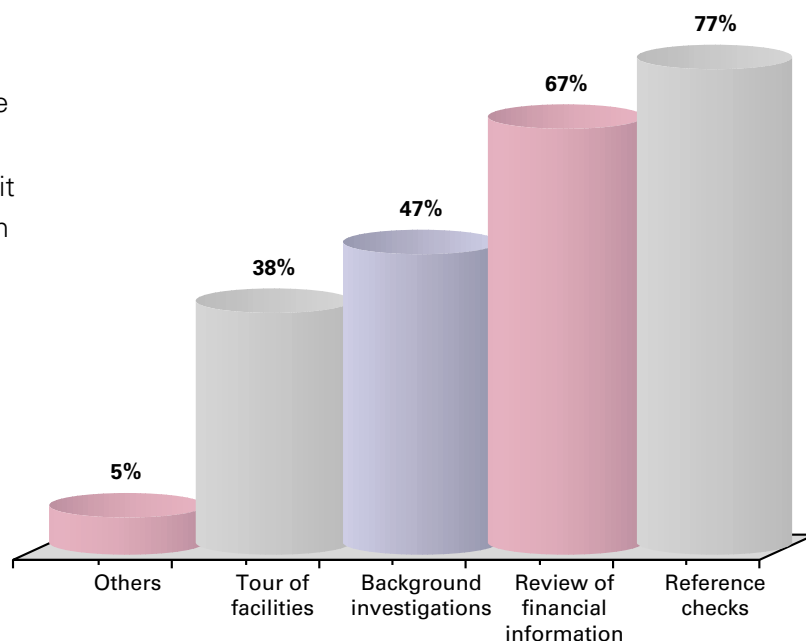
Does your organization have screening procedures in place?

83% of respondents indicated that they have screening procedures in place while 17% indicated that they have no such procedures. In the 2000 survey, 72% of respondent confirmed having screening procedures in place. Taking into consideration that most respondents indicated that employees were the main source of frauds and were also responsible for the largest financial losses, it would appear that employee screening is an important element in a comprehensive anti-fraud strategy.



What screening procedures are in place?

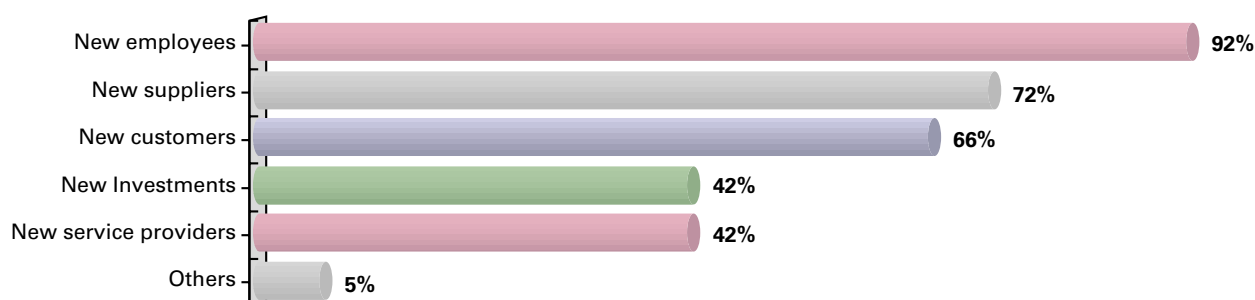
These respondents were then asked to identify screening procedures they have in place. 77% conduct reference checks while 67% review financial information.



Note that some respondents indicated more than one response.

In which areas have screening procedures been implemented?

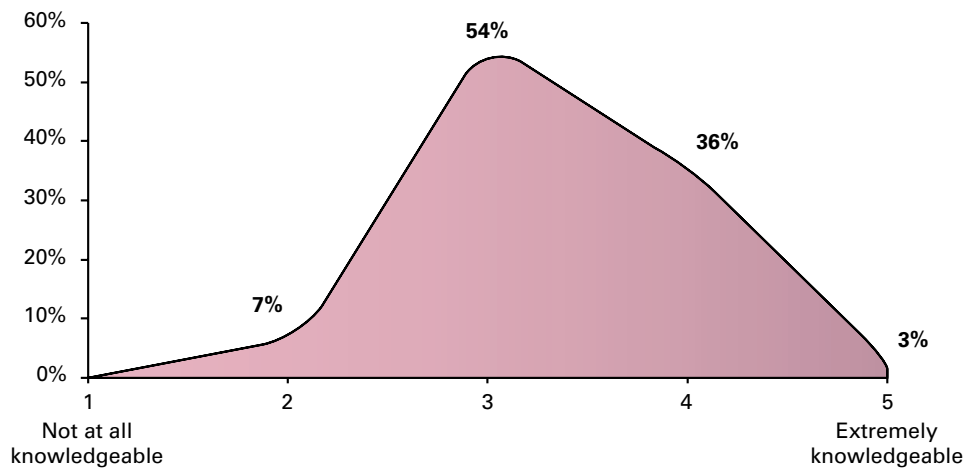
Of the 134 respondents who indicated that they have screening procedures in place, the majority (92%) indicated that these procedures are utilized primarily during the appointment of new employees.



Note that some respondents indicated more than one response.

FRAUD KNOWLEDGE

Survey respondents were asked how knowledgeable they were about the ways in which fraud could occur in an organization. 3% indicated that they were extremely knowledgeable while 54% indicated average knowledge.



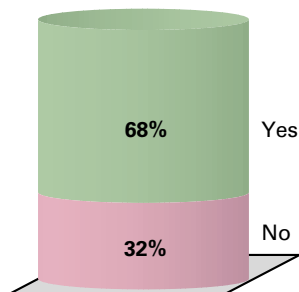
The above graph illustrates the respondents' order of ranking [1 (not at all knowledgeable) to 5 (extremely knowledgeable)] of how knowledgeable they were about the ways in which fraud can occur.



BUSINESS ETHICS

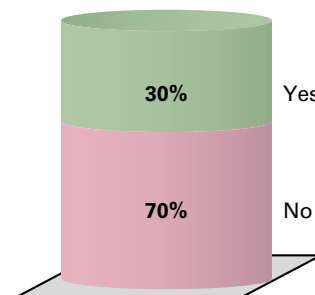
Does your organization have written guidelines on ethical behaviour?

It is evident from the responses that ethical standards are deemed to be important with 68% of respondents indicating that their organizations have written policy documents containing guidelines about acceptable ethical behaviour.



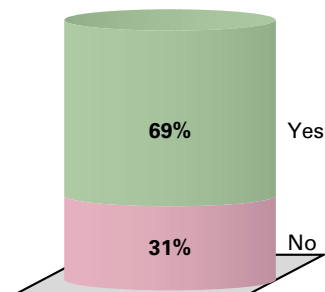
Is there an ethics officer in your organization?

70% of companies do not have an ethics officer or an ethics committee that can deal with the ethical issues in the organization.



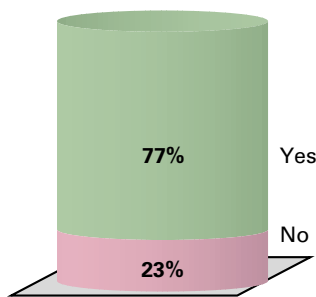
Do you communicate ethical standards to your employees, suppliers and customers?

69% of respondents communicate ethical standards to its employees, suppliers and customers.



Do you consider your computer/ information system as a potential security risk?

When asked on whether computer or information systems are considered as a potential risk in their organization, 77% of the respondents agreed to that statement while only 23% disagreed. This is a decrease of 8% from the 2000 survey.



Respondents indicated that the most common methods of transmitting sensitive material are as follows:

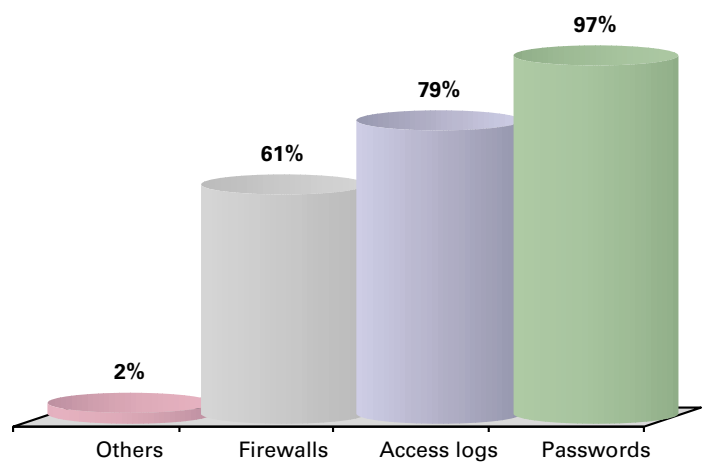
Type	Percentage
Courier	80%
Telephone	70%
Fax Machine	66%
E-mail	62%

Respondents further indicated that they believed the following methods provided inadequate security for the transmission of sensitive information:

Type	Percentage
Courier	46%
Telephone	35%
Fax Machine	32%
E-mail	20%

What procedures are in place to minimise security risk?

Respondents who consider their computerized information systems to be potential security risks were then asked to identify all the security procedures they have in place in their organization to minimize these risks. 97% use passwords, 79% have access logs while 61% have firewalls to minimise risk.



Note that some respondents indicated more than one response.

Awareness of security breaches

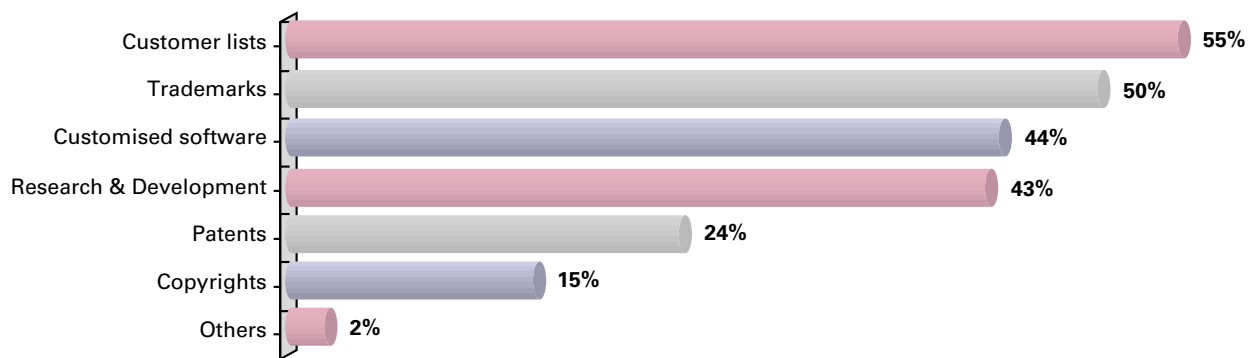
Survey participants were asked if they were aware of any security breaches involving their IT System. Only 14% of respondents indicated that security breaches had occurred. These breaches were caused by abuse of passwords/ privileges (52%), lack of segregation of duties (39%), manipulation of weaknesses in the current IT system (39%) and hacking (9%).



INTELLECTUAL PROPERTY

Does your organization have any form of intellectual property?

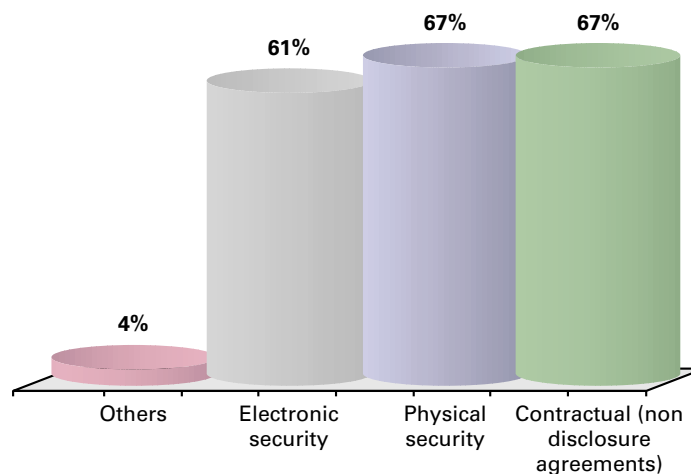
When asked if companies owned some form of intellectual property, 54% indicated that they have ownership of some form of intellectual property, as follows. Of the respondents indicating ownership of intellectual property, 43% considered it to be at risk for fraud while 57% considered to be at no risk.



Note that some respondents indicated more than one response.

Procedures to minimize intellectual property fraud?

Those respondents who considered their intellectual property to be at risk indicated that the following procedures are in place to minimize this risk:



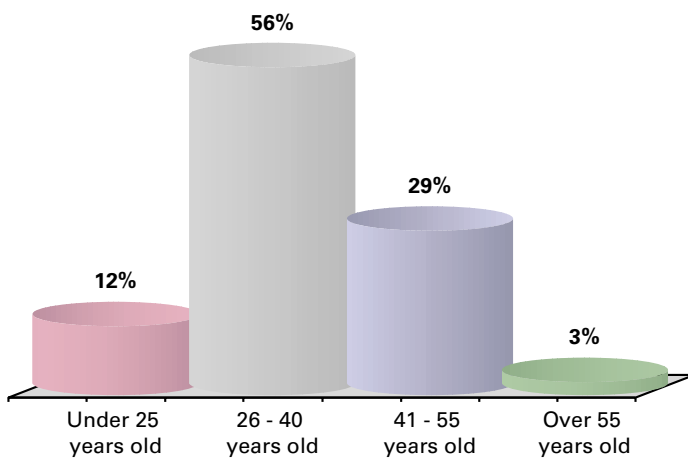
Note that some respondents indicated more than one response.

PROFILE OF FRAUDSTER

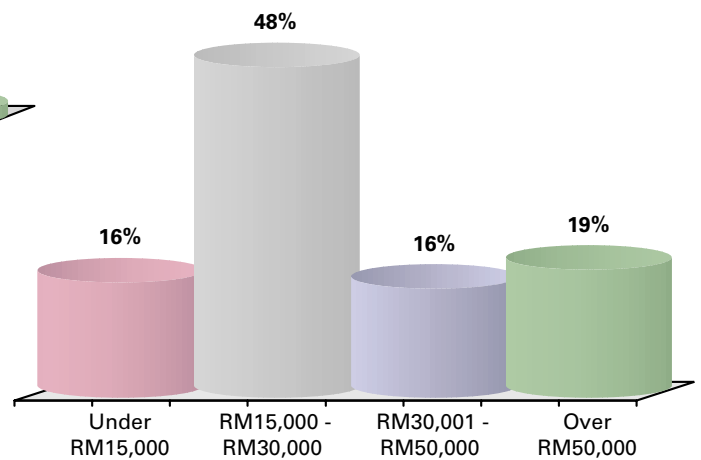
Respondents were asked to provide statistical information regarding the individual(s) committing fraud against their organization. Based on the responses provided, the profile of the typical fraudster is:

- Male (83%)
- 26-40 years old (56%)
- Income range RM15,000-RM30,000 (48%)
- Period of employment 2-5years (43%)

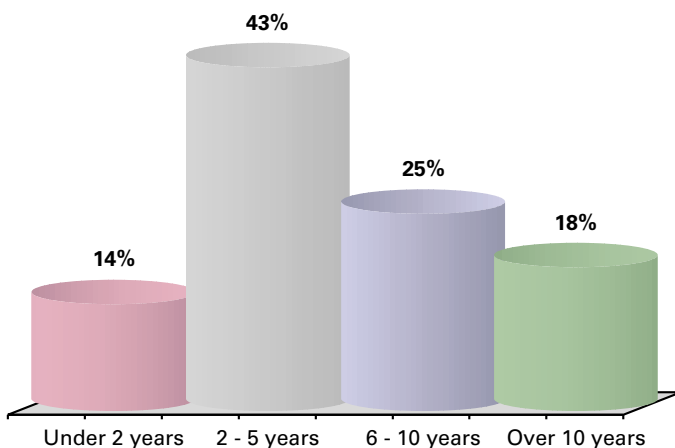
Age profile of the fraudster



Income profile of the fraudster



Period of employment of the fraudster





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 been not 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.

If you require additional copies of the KPMG Fraud Survey 2002 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) 2095 3388, by fax on +60 (3) 2095 2107 or by email.

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KPMG Forensic provides an independent, proactive and 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.

KPMG's Forensic team, comprising accountants, former police officers, forensic technology technicians and a lawyer, have the expertise, experience and enthusiasm to help you investigate any form of suspected fraud. From sole-practitioner to vast mutli-national conglomerates across all industry sectors, we have the capabilities to determine the nature and extent of potential fraud in your organisation.

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

- General fraud investigations
- Breach of contract investigations
- Quantification of damages
- Expert testimony in disputes
- Forensically focused due diligence investigations
- Corporate intelligence
- Forensic Technology Services
- Digital evidence recovery and preservation
- Expert determinations
- Professional negligence claims
- Intellectual property disputes/claims
- Assignments requiring objective factual determination for the purpose of dispute resolution
- Arbitration and mediation
- Insurance claims
- Fraud awareness training
- Fraud risk workshops
- Ethics Hotline

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