

Economic crime: people, culture & controls

The 4th biennial Global Economic Crime Survey
2007 Thailand Report

Global Economic Crime Survey 2007 Thailand Report

Background

We take great pleasure in presenting the fourth biennial Global Economic Crime Survey 2007. This survey was conducted on behalf of PricewaterhouseCoopers and the Economic Crime Research Centre at Martin-Luther University in Halle-Wittenberg, Germany by international research agency TNS-Emnid. The research was conducted in 40 countries, consisting of 5,428 companies around the world, including 894 in the Asia Pacific region.

The Thailand participants in the survey consisted of 78 companies, covering a variety of industries: 14% in financial services, 10% in industrial manufacturing, 9% in entertainment and media, 9% in insurance, 8% in technology, 8% in energy, utilities and mining, 6% in engineering and construction, 5% in communication, 4% in healthcare and pharmaceuticals, 3% in chemicals, 3% in government services, 3% in aerospace and automotive, and 18% from other industries.

The company sizes based on the number of employees were as follows:

- Less than 200 staff members, 44%
- 201-1,000 staff members, 32%
- 1,001-5,000 staff members, 16%
- More than 5,000 staff members, 8%

Of the respondents, 44% were from the finance department whilst a further 24% were from risk management and compliance departments.

Fraud – A Most Problematic Business Risk

Our 2007 survey reveals that fraud remains one of the most problematic issues for businesses, with no abatement since 2005, no matter what a company’s country of operation, industry sector or size.

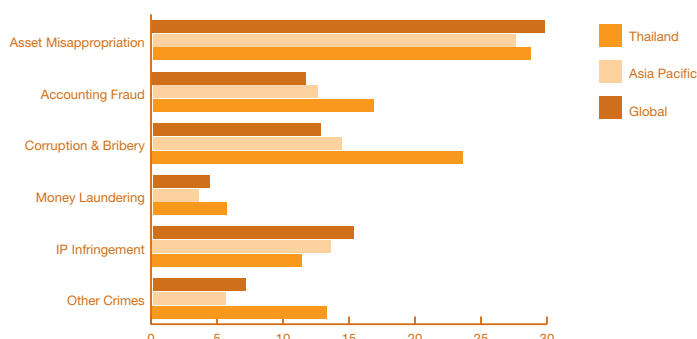
Of all the Thai companies surveyed, 51% had fallen victim to fraud in the past two years. This is higher than the Global and Asia Pacific percentages of 43% and 39%, respectively, and shows no improvement when compared to our 2005 survey.

One reason for this may be due to a “fraud control paradox”: the notion that when controls are implemented in an organisation, the number of frauds detected increases almost immediately. However, their deterrent effect takes time to become visible.

Most Prevalent Types of Fraud

Thai companies that reported at least one incident of economic crime also stated that they were victimised on average 11 times over the last two years. The corresponding figures for Global and Asia Pacific were 8 and 7 times each, respectively. Whilst incidents of asset misappropriation were the highest across the world, the incidents of corruption and bribery (24%) and accounting fraud (17%) were significantly higher in Thailand than the corresponding figures for Global (13% and 12%) and Asia Pacific (14% and 13%), respectively. (see graph 1)

Graph 1 Type of Fraud Experienced



The Cost of Economic Fraud

Direct Financial Losses

Globally, respondents estimated that the average estimated loss per incident was US\$2,420,700, a 40% increase on the average estimated loss per incident of US\$1,732,253 reported in our 2005 survey. Thai companies reported an average estimated loss per incident of US\$547,843, a 442% increase on the average estimated loss per incident of US\$123,917 reported in 2005. (see graph 2)

The highest average individual loss reported in Thailand of US\$2,750,000 was reported in the intellectual property infringement category. Intellectual property infringements also accounted for the highest average individual loss globally (US\$1,896,785) whilst incidents of accounting fraud reported the highest average individual loss (US\$1,734,759) for Asia Pacific.

Average Managing Cost of Economic Crime

Thai companies on average incurred costs of US\$65,559 to manage an incident of economic crime whilst the corresponding figures for Global and Asia Pacific were US\$550,356 and US\$416,393 respectively.

The average cost (US\$) of managing cases of economic crime (including legal costs, investigation costs, stakeholder management, etc.) by type of crime is summarised in see graph 3.

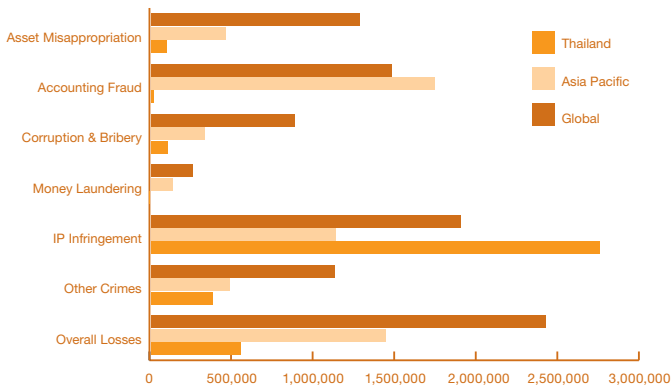
Collateral Damage

Whilst direct financial losses from incidents of fraud can be substantial, it is the collateral damage from fraud that can potentially have a crippling impact. These are costs that derive from “collateral damage” to a company’s brand and customer trust; to the share price and shareholder trust; to the company’s relationship with suppliers; and to staff morale, which can precipitate a loss of productivity.

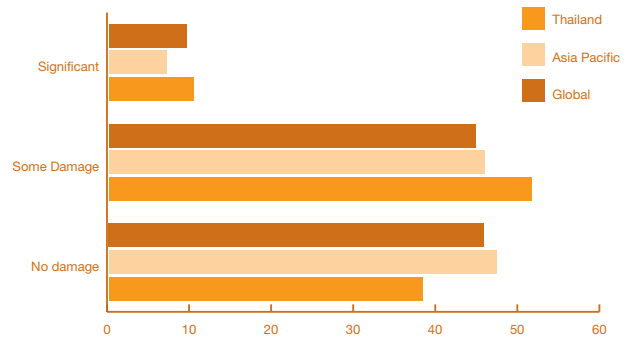
62% of Thai companies who were victims of at least one case of economic crime in the past two years reported either significant or some intangible damages in addition to financial damages suffered. The corresponding figures for Global and Asia Pacific were 54% and 53% respectively. (see graph 4)

It is also apparent that the level of collateral damage is directly proportional to the seniority of the perpetrator: the higher the management position, the greater the trust that is bestowed, and any breach of that trust can have a dramatic impact, not only on relations with company staff, but also with customers and other stakeholders.

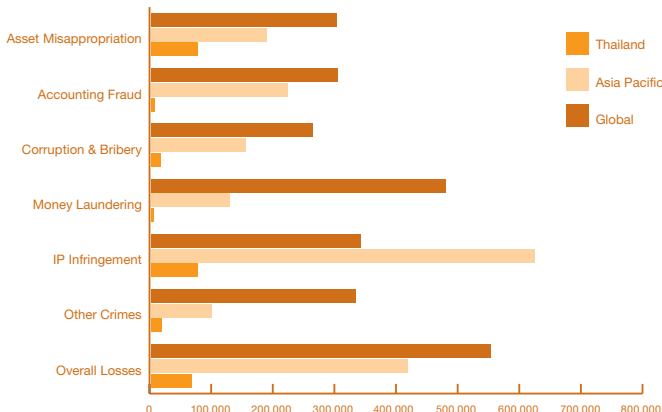
Graph 2 Average Monetary Value in (US\$) per fraud type



Graph 4 Collateral Damage



Graph 3 Average Managing Cost of Economic Crime in (US\$)



The Typical Perpetrator

Profile

Our 2007 study reveals that the demographics of a typical fraudster remain unchanged from our previous research in 2005. In the case of Thailand, 75% were male and 54% were in the age range of 31-40 years old.

The number of female perpetrators in Thailand (25%) was significantly higher than the number reported globally (15%) and in Asia Pacific (21%). 69% of the perpetrators in Thailand were graduates or post graduates which is significantly higher than reported globally (50%) and in Asia Pacific (54%).

50% of incidents of fraud in Thailand were perpetrated by employees and this was consistent with the globally reported figure (50%) but lower than Asia Pacific's (59%). However, 45% of the incidents of fraud in Thailand were perpetrated by customers and/or suppliers, and this was significantly higher than those reported globally (19%) and in Asia Pacific (26%). (see graph 5)

Position

45% of the internal perpetrators were middle to senior managers of the company, which is higher than those seen globally (40%) and in Asia Pacific (40%). (see graph 6)

Driver for Fraud

The opportunity to commit fraud, the incentive to commit fraud, and the perpetrator's ability to rationalise his/her actions must be present for the fraudster to set to work.

Insufficient internal controls (32% of cases), low temptation threshold (33% of cases), lack of clarity about company ethics (32% of cases), and financial/materialistic incentive (20% of cases) were the main reasons cited for frauds committed in Thailand. (see graph 7)

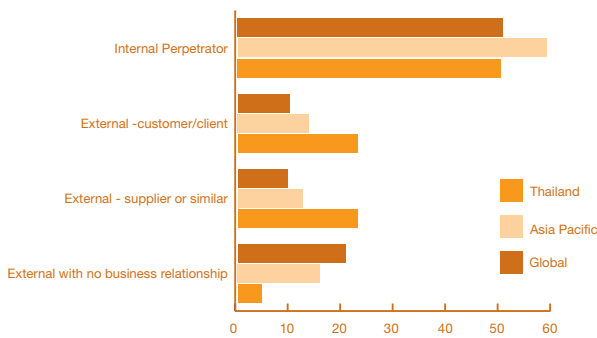
The Effectiveness of Fraud Controls

Detecting Economic Crime

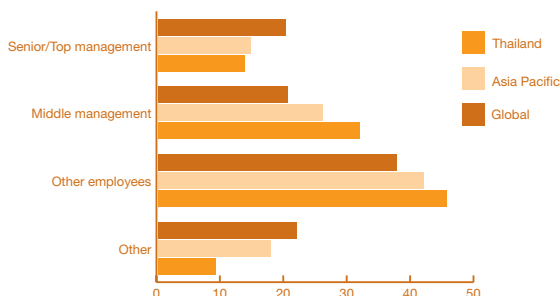
The 2007 survey once again shows the correlation between a higher number of fraud risk management activities and a higher chance of detecting fraud – more controls not only detect more fraud but also enable companies to more accurately assess associated losses.

In Thailand, the major sources of detection were internal tip offs (15% of cases), external tip offs (19% of cases), internal audit (12% of cases) and fraud risk management (8% of cases).

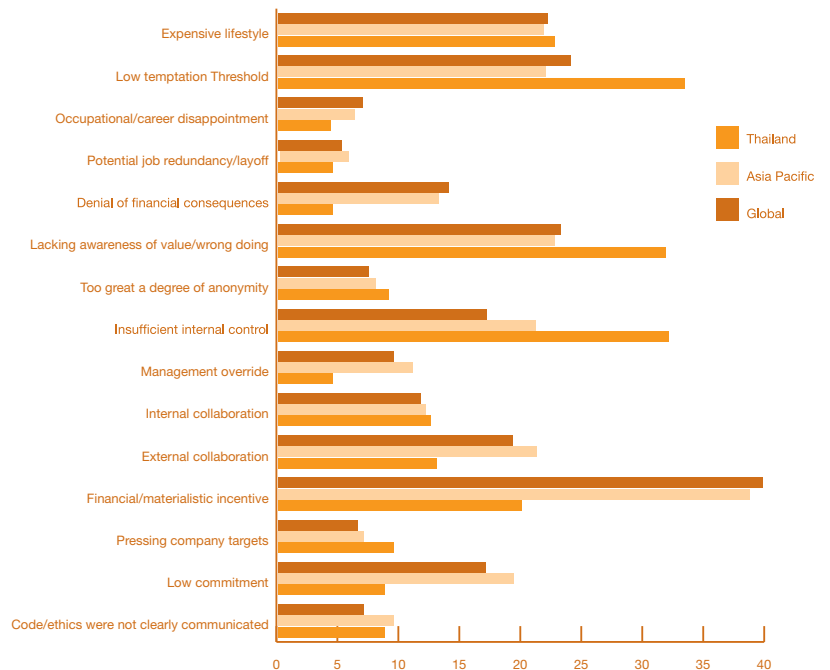
Graph 5 Category



Graph 6 Position



Graph 7 Motivations for Offences Committed by Internal Perpetrators



Discovery & Prevention Measures present in companies

Respondents from Thai companies rated internal controls (31%), audit committees (31%), forensic analysis (29%), external audit (28%), and internal audit (27%) as the most effective measures to combat economic crime.

The regulatory environment, advice from external consultants, public discussions, and incidents of economic crime were the main reasons for introducing measures for combating economic crimes according to the respondents. (see graph 8)

Investigating and dealing with fraudsters

Investigating practice and experience

In Thailand, the majority of investigations were undertaken by internal audit or compliance departments. (see graph 9)

Thai companies officially reported most of the offences to the Board, including the Audit Committee (58%) and executive management (73%). The corresponding figures globally were 67% and 82%, and for Asia Pacific were 72% and 78%, respectively.

Recovery of Losses

83% of the Thai companies reported that they did not recover any of the losses at all. This is significantly higher than those reported globally (58%) and in Asia Pacific (57%). 96% of the Thai

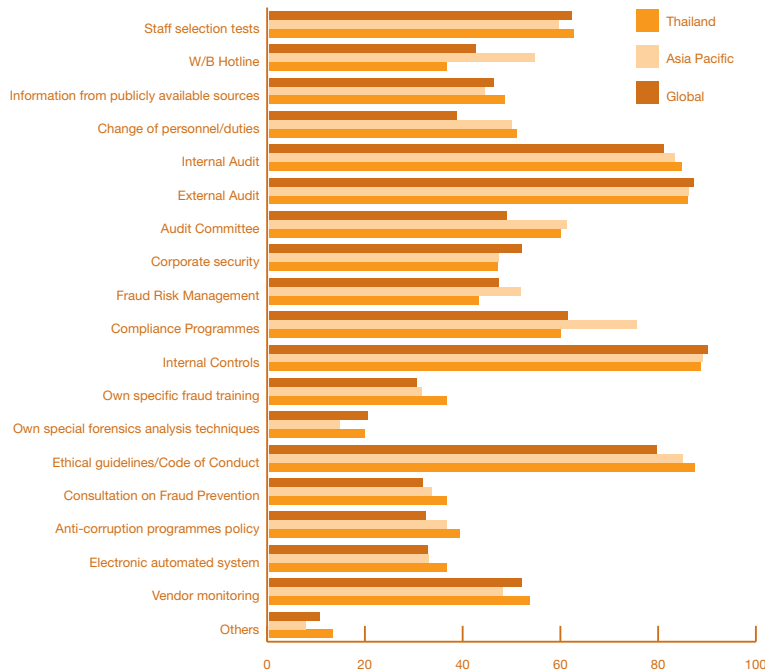
respondents also reported that they did not recover any losses from insurance. The corresponding figures globally and for the Asia Pacific region were both 86%.

Disciplinary Action

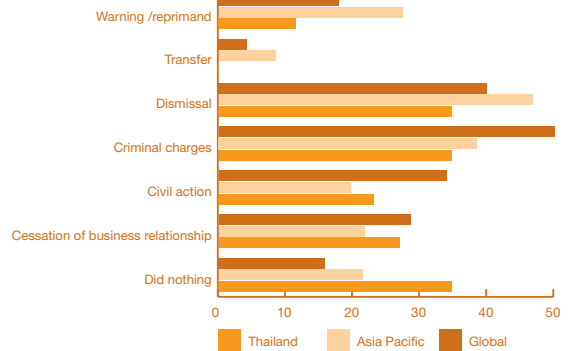
An important step in creating a corporate culture that does not tolerate fraud is consistency of action when an economic crime is detected. When staff understand the consequences of their potential foray into fraud, and that its detection is inevitable due to the sophisticated and effective risk management systems, this serves to deter most criminals.

Responses received from Thai companies indicate that no disciplinary action was taken in 35% of the cases. This was considerably higher than the 16% reported globally and the 21% reported for Asia Pacific. (see graph 10)

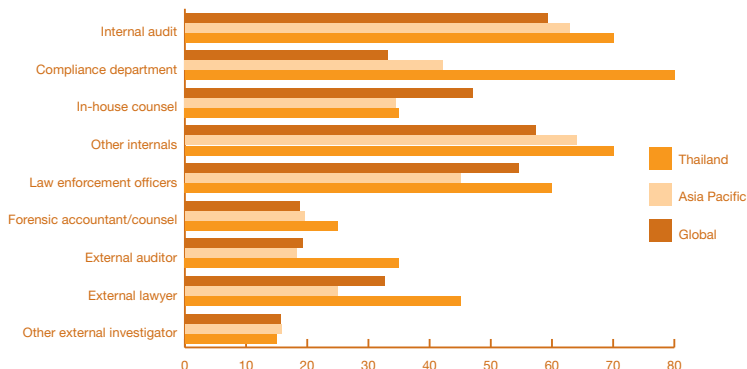
Graph 8 Fraud discovery and prevention measures present



Graph 10 Action taken against the main perpetrator



Graph 9 Investigation undertaken by



Conclusion

Corporate culture is a vital element in whatever fraud risk management programmes a company employs. Given this backdrop we recommend that companies give due consideration to the following when developing fraud control programmes and strategies:

- Replace one-off risk mitigation programmes with comprehensive compliance programmes that are fully integrated into all components of business operations.
- Pro-actively monitor vulnerabilities to fraud.
- Develop a strong ethical culture that is clearly evident to all employees.
- Be sensitive to issues that individual employees might be faced with, such as the wrongdoing of a colleague.
- Take all precautionary steps to deter fraudsters.
- Have a comprehensive understanding of fraud risks and controls when making informed decisions on building businesses.

Contact

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