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Nearly one half of companies in Thailand facing fraud – PwC

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Tougher measures to counter fraud prevention and corruption are needed, a PwC survey says 37% of Thai companies suffered economic crime over the past year.

89% of fraud in Thailand was carried out by insiders.

Asset misappropriation, procurement fraud, bribery, and corruption were the most common fraud types in Thailand. Economic crime cases in Thailand are on the rise, with more local companies facing fraud charges than ever before, according to PwC's latest 2014 Global Economic Crime Survey.

The top five types of fraud in Thailand – long considered a medium-to-high risk country for economic crime – include asset misappropriation (71%), procurement fraud (43%), bribery and corruption (39%), cybercrime (18%), and accounting fraud (18%).

PwC gathered insight from 5,128 business and non-profit sector leaders, and 37% of Thai respondents identified themselves as fraud victims.

The report revealed that, at 89%, the majority of fraud cases in Thailand stemmed from within organisations. Compare this to 61% in the Asia Pacific region and 56% globally.

Vorapong Sutanont, partner for PwC Forensics Advisory, said that the report shows an increase in fraud across the board for the second straight year.

"These findings are a wake-up call for all companies, NGOs, and organisations operating in Thailand," Vorapong said.

"Businesses need to be pro-active in preventing fraud – simply waiting for whistleblowers to come forward or for fraudsters to slip up isn't effective fraud protection."

In addition to the financial repercussions, the report found that fraud threatens company reputation, product quality, and employee morale. Vorapong highlighted manufacturing as an industry vulnerable to fraud.

"Fraud can jeopardise an entire supply chain – especially if quality control or purchasing managers are involved. This can translate to safety problems, recalls, and other unpredictable risks," he added.

Procurement fraud and bribery

Procurement fraud is a serious problem in Thailand and is also the second-most common type of fraud globally.

Vorapong explained that procurement fraud normally occurs in the early stages of the transaction process. It begins with the invitation of quotes and ends with payment.

"Interestingly, procurement fraud in Thailand is clearly most common at the early stages when potential vendors submit quotations.

"The threat appears to decrease throughout the process of vendor selection, quality review, vendor contracting, and payment. This could be because of heightened internal controls and oversight for these internal processes."

The findings in Thailand contrast with global responses, which show that fraud occurs fairly equally throughout the procurement process.

To stop this type of fraud, Vorapong suggested companies in Thailand tighten their criteria for selecting vendors and issuing contracts, in addition to performing background checks and due diligence on prospective vendors.

In other instances, it may be wise for companies to conduct self-assessments or hire outside experts to conduct forensic reviews.

Regarding bribery and corruption, Thais expect financial damage from these at a higher rate than global respondents, with 48% expecting losses versus 32% globally. The losses are mainly from the direct costs of paying bribes rather than from prosecution costs, the survey found.

Lack of knowledge about money laundering and anti-trust laws and regulations in Thailand is also seen as a major impediment to fighting bribery and corruption.

Thailand is less cybercrime aware

At an average of 39%, awareness of cybercrime in Thailand is lower than the 45% average for the Asia Pacific region as a whole.

That's an improvement from the previous year, however, when only 27% of Thais were aware of cybercrime. The regional average is lower than the global average of 48%.

Thirty-four percent of Thai respondents believed cybercrime threats would come from outside the company, and 18% from inside.

The increase in perception of outside threats is because many businesses have a growing presence online. Other factors include a number of serious fraud cases in recent years and public awareness campaigns by local banks.

As more companies outsource their email and data storage functions to cloud servers rather than maintaining in-house email servers, external hacking risks have also risen. More traditional cybercrime threats are also generating greater losses, particularly in the finance sector.

Based on their estimates, at least 20% of Thai respondents have suffered proven financial damages of less than 1.6 million baht (US\$50,000). At least one respondent reported damages of more than 3.2 billion baht (US\$1 million).

"Fraud often goes un-detected. So as companies become aware of the problem and open about the repercussions, we expect they'll come forward with more reports of fraud," Vorapong said.

The survey found there is an urgent need to institute anti-fraud measures to prevent fraud both from local perpetrators and international crime syndicates.

"Fraud cannot be treated lightly – especially in Thailand where the legal system is still developing and corruption is endemic."

Of internal fraudsters, Thai respondents said more than half (56%) were in middle management, in line with both regional (52%) and global (42%) responses.

"The highest-risk employees for fraud are middle managers who've been with the company for three to five years," Vorapong said. "They have more opportunities to commit fraud given their understanding of company processes and their access to system information."

When asked what factors under the Fraud Triangle model motivate people to commit fraud, Thai respondents dismissed rationalisation – the belief that the act can be justified – compared to opportunity at 76% and incentive at 24%.