



2020

# Fraud and corruption

## Malaysia has its say

PwC's Global Economic Crime and Fraud Survey -  
Malaysia Report

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# Foreword

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I am pleased to present the Malaysian report of PwC's 2020 Global Economic Crime and Fraud Survey. For almost two decades, PwC has been biennially surveying companies in order to better understand fraud, corruption and other economic crimes. We have seen some trends change, some crimes, such as cybercrime, grow rapidly and the use of technology evolving to both combat and commit crime.

In the two years since our 2018 report, we have seen an increasing focus by Malaysian organisations in dealing with fraud and corruption. However, this year's report shows that the incidence of fraud and corruption in Malaysia remains high with almost half of our survey respondents being a victim.

When we look closely at corruption, however, it would appear that it has levelled off after rising significantly since 2014. On one hand this is pleasing, but on the other, corruption still remains high. Our latest survey results suggest that companies are not doing enough to deal with corruption risk in their organisations. Slightly less than half (49%) say that they have a dedicated programme to address bribery and corruption.

We expected to see a far higher number of organisations saying that they had a specific anti-bribery programme in place. This is

because the amended Malaysian Anti-Corruption Commission (MACC) Act 2009 to introduce corporate liability for corruption offences takes effect on 1 June 2020. Directors and management face severe personal risk with this legislative amendment.

But investing in an anti-fraud and anti-corruption programme would not be complete without considering how technology could assist you. Malaysian organisations may be using technology to address economic crimes. However, are they implementing it correctly and making full use of their data?

Preventing fraud and corruption is only one side of the equation. How an organisation responds when there is an incident, and identifying the root cause is just as important. Organisations must learn from such an unplanned crisis in order to emerge stronger.

I hope this report provides you with an understanding of the current fraud and corruption landscape in Malaysia, what organisations are doing about it and where they can improve. Fraud and corruption is not a zero failure game. Look at ways of reducing your risks but also be prepared to deal with an unplanned economic crime event so that you come out of it more resilient and in a better position to face any eventualities that may come your way.

# Respondents at a glance



**5,018** global respondents

**114**  
from Malaysia

**850** from South East Asia

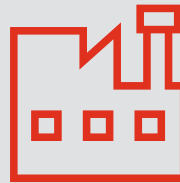
Survey conducted from 30 August to 7 October 2019

## For Malaysia



**50%**

are C-Suite or board members



**20%**

are from the industrial products  
and manufacturing industry



**50%**

represent companies with  
more than 1,000 employees



**53%**

of respondents say that they  
have extensive or high level  
insight into fraud, corruption or  
other economic crimes in their  
respective organisations



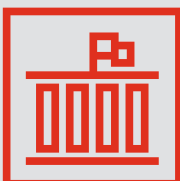
**54%**

have operations locally and  
around the world



**55%**

of respondents' companies  
have annual revenues in  
excess of USD100 million



**36%**

are publicly traded and  
7% are government or  
government-linked



## When fraud strikes

Since our last survey in 2018, the incidence of fraud in Malaysia remains high. In comparison, other South East Asian countries showed a decrease in fraud levels between 2018 and 2020.

Has your organisation experienced any fraud, corruption or other economic crime within the last 24 months?

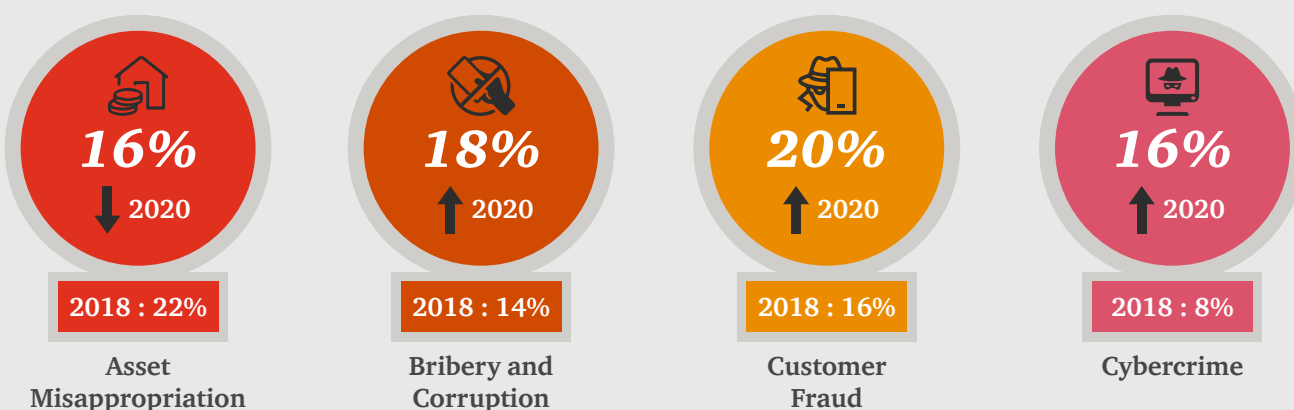


### Incidents of fraud

The top four most disruptive or impactful incidents of fraud experienced by Malaysian organisations in the last two years are asset misappropriation (16%), bribery and corruption (18%), customer fraud (20%), and cybercrime (16%). This is consistent with respondents across South East Asia.

Although **asset misappropriation** has decreased by 6% since 2018, the top four most disruptive economic crimes still account for **70%** of all economic crimes in Malaysia. **Cybercrime** has doubled to 16% in the last 2 years.

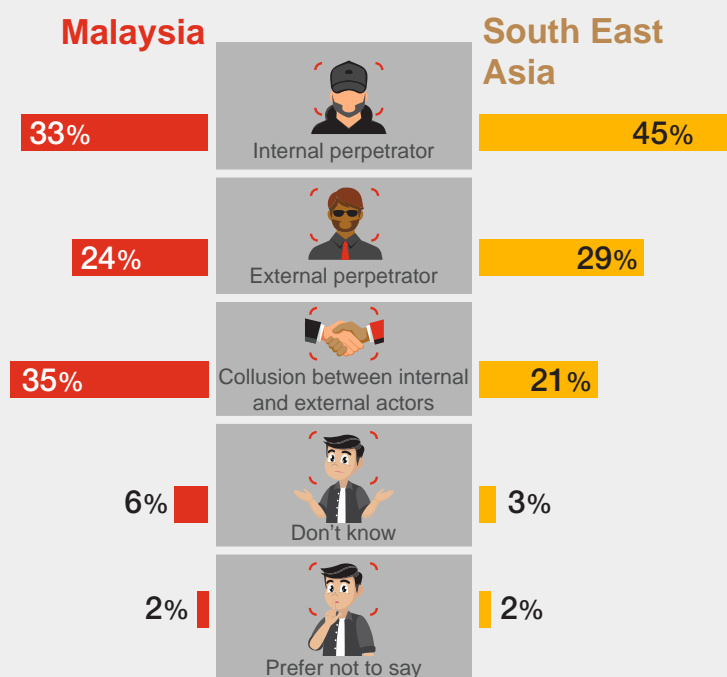
Of the fraud, corruption or other economic crimes experienced by your organisation in the last 24 months, which was the **most** disruptive/serious in terms of the impact on your organisation (monetary or otherwise)?



# When fraud strikes

We asked our respondents about the most serious or disruptive incident they had experienced in the last 24 months.

## Who was the main perpetrator of this incident?

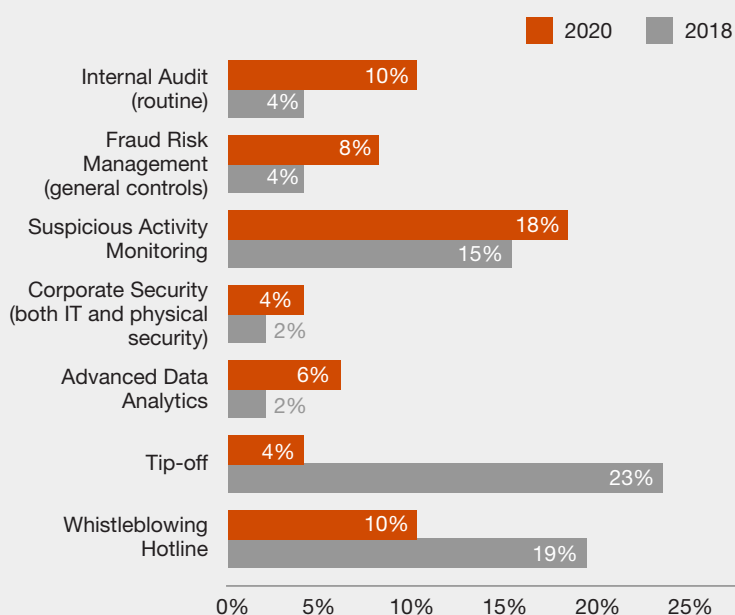


## Know the 'actors': Who's committing fraud?

Malaysia has seen a big fall in fraud committed solely by internal perpetrators. However, collusion between internal and external actors, which is a form of bribery, has risen and is much higher in Malaysia (35%) than the rest of South East Asia (21%).

In addition to having and enforcing clear policies and procedures, organisations should invest in stricter and more enhanced third-party due diligence. This will help mitigate risks arising from collusion between people operating within the organisations and external parties such as agents, vendors, and customers.

## How was the incident initially detected?



## Detection: How was the most disruptive fraud uncovered?

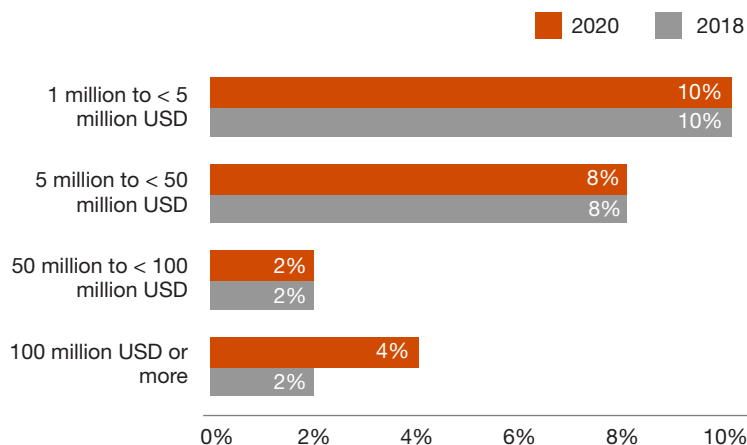
10% of our Malaysian respondents said their most disruptive fraud was detected through **internal audit**, up from 4% in 2018. This is encouraging and mirrors what we are seeing in the Malaysian market - companies have increased their investments to develop more robust and effective internal audit functions as part of their corporate controls.

However, it is disappointing to see that fraud detected through **tip-offs** and **whistleblowing hotlines** fell significantly from 42% in 2018 to 14% today. This is worrying because, based on our past research, whistleblowing is one of the most effective detection mechanisms to combat fraud and corruption.

## When fraud strikes



In financial terms, approximately, how much do you think your organisation may have directly lost through the incident over the last 24 months?



### Impact: The cost of fraud

Close to half of Malaysian respondents reported to have limited knowledge or basic insight into their organisation's economic crime. This could be a driving factor for the 24% of respondents that reported direct losses of USD1 million or more from their most serious incident in the last two years, which is 2% more than in 2018.



In Malaysia

**10%** of companies spent over USD1 million in responding to their most serious incident

**18%** spent over USD1 million in remediation activities



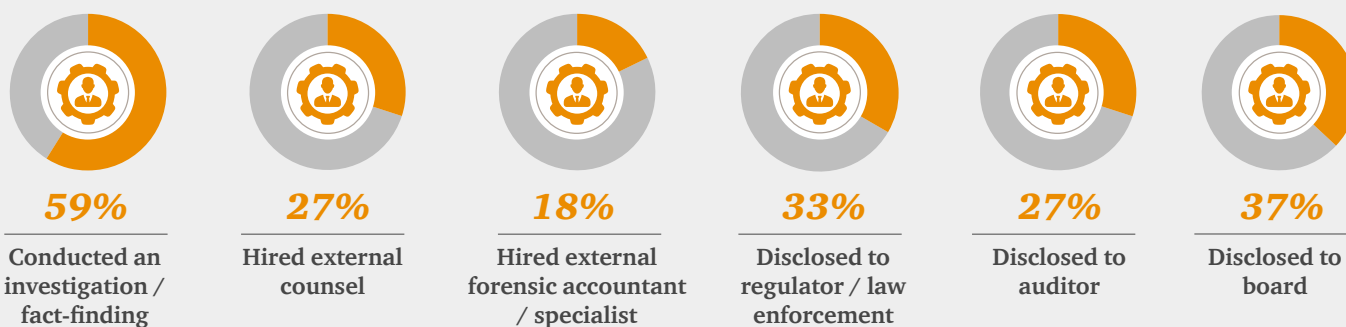
## When fraud strikes

### Response: How do organisations handle their most serious incidents?

We asked respondents how they dealt with their most serious or disruptive incidents of fraud occurring in the last two years. Only 59% conducted investigations or used fact-finding methods to gather factual information about the incident. There is also a low number of respondents who say that the incident was disclosed to the auditor or board.

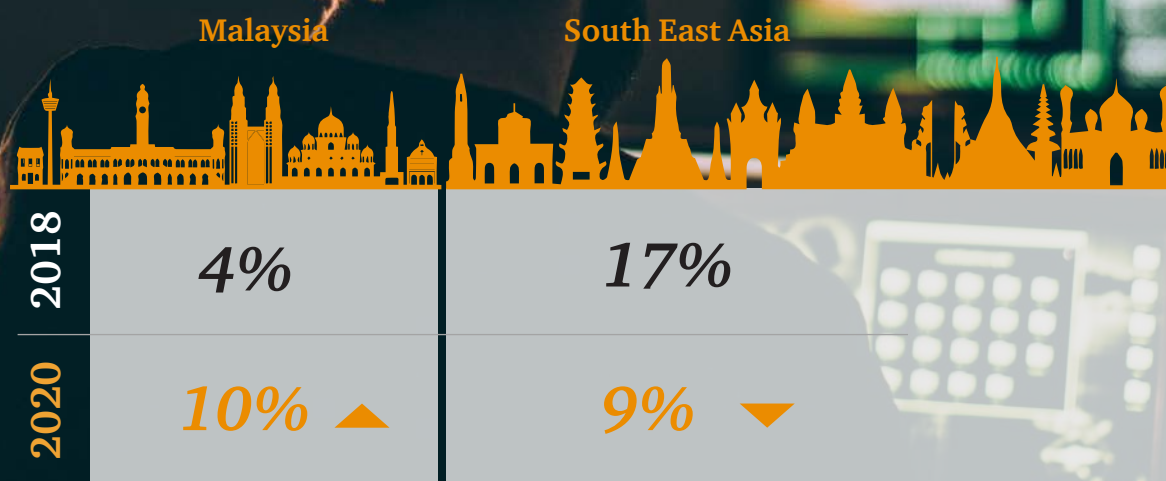
This is worrying as it suggests that many organisations in Malaysia may not have a proper understanding of the causes of the crisis that impacted them. Whilst dealing with an economic crime crisis can seem difficult and costly, it is important that organisations investigate properly so that they are able to identify any learnings in order to emerge stronger.

#### How did your organisation respond to the incident?



As indicated earlier, in 2020 more fraud was detected through internal audit than in 2018. Malaysian companies appeared to have increased the budget and resources for their internal audit function to help combat economic crimes. In the rest of South East Asia, internal auditors' detection of fraud fell by 8% (from 17% to 9%) over the same period.

#### Companies are increasing their budget and resources for internal audit





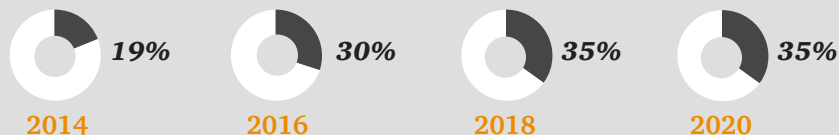
# Bribery and corruption

## Has bribery and corruption levelled off in Malaysia?

Our biennial survey shows that in Malaysia, corruption rose significantly from 2014 to 2018. However, this year's survey shows the same level of corruption as in 2018, indicating that the rise may have levelled off. But is it all good news?

### *Malaysian organisations are not doing enough to protect themselves*

Reported incidents of bribery and corruption continue to increase from



Corruption levels appear to have stabilised, but Malaysian organisations may still be ambivalent about addressing the risks of bribery and corruption.

In 2018, 11% of respondents said they were asked to pay a bribe. Two years on, this has risen significantly to 25%. Of further concern, in our latest survey, 11% said that they did not know if their companies had been asked to pay a bribe in the last two years. When we put this into perspective, in relation to the apparent low usage of whistleblower hotlines in Malaysia, this presents a level of corruption risk to businesses here.

In 2018, 11% of our respondents say that they lost business opportunities because competitors paid a bribe. In 2020, this rose significantly to 30%.

We believe that these responses point to two possibilities - either corruption has increased significantly since 2018, or the awareness of corruption has increased. From what we are seeing in the Malaysian market, since 2018 there has been a heightened level of anti-corruption awareness in general and more willingness to discuss and address the matter.

However, it is our experience that companies are not doing enough to link their fraud and corruption control initiatives to their corporate strategy.

As we describe in the next section, these findings have a significant impact on the ability of Malaysian organisations to comply with onerous anti-corruption legislation that will be in place from 1 June 2020.

### *Malaysian respondents that have been asked to pay a bribe*



### *Malaysian respondents that have lost business opportunities because competitors paid a bribe*





# Bribery and corruption



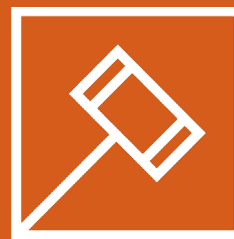
## Malaysia takes a stronger stance in fighting corruption

In the last two years, Malaysia has taken a number of steps to address bribery and corruption. This includes the release of the National Anti-Corruption Plan 2019 - 2023, and the amendment of the Malaysian Anti-Corruption Commission (MACC) Act 2009.

On 1 June 2020, section 17A of the MACC Act 2009 will take effect, introducing corporate liability for corruption offences. This means that if any commercial organisation commits corruption in order to obtain or retain business, its directors, those involved in the management of its affairs, officers or partners could be personally liable for the same offence.

It is a strict liability offence; that is, no fault needs to be proved. There is only one defence to this - that the person did not consent to the corrupt act - and they had exercised due diligence to prevent the corrupt act. This due diligence is known as 'Adequate Procedures' and all commercial organisations in Malaysia must implement these by 1 June 2020.

But will Malaysian organisations be ready for the new 'Adequate Procedures' regime by 1 June 2020? Our survey suggests that a significant number may not be ready.



The penalties for non-compliance to this new provision are severe and include a personal fine of a minimum

**RM1 million**  
and/or up to

**20 years'**  
imprisonment



# Bribery and corruption



## Corporate liability: More effort is needed to achieve compliance

These responses below paint an alarming picture - a significant number of Malaysian organisations will unlikely be compliant with the new section 17A requirements by the 1 June 2020 deadline, only a few months away. With the consequent severe personal liability to Board members and management, we expected these numbers to be much higher at this stage. This could be attributed to a lack of awareness among management, which begs the question: Why are so many Malaysian organisations seemingly unprepared for section 17A of the MACC Act especially considering how much publicity it has been given?



### Has technology helped in tackling fraud, corruption and economic crimes?

Technology is a double-edged sword that both advances businesses and empowers criminals that have an intent to cause harm. In this context, it is only apt to examine the use of technology in relation to the spread of cybercrime.

In both Malaysia and South East Asia, unsurprisingly, cybercrime is considered amongst the top 4 most disruptive economic crimes. Only 45% of Malaysian respondents said they have a **dedicated programme to address cybercrime**. Whilst this is 7% higher than respondents in South East Asia, one could ask why this figure is not higher considering the rate at which cybercrime is growing here in Malaysia and around the world.

64% of respondents say that they were able to implement technology to some degree to help combat economic crime.

A single tool or technology on its own will not amount to an effective anti-fraud programme. Companies would do well to consider: are they collecting the right data with the right rules and requirements? How are they analysing that data? Are they feeding findings back into their programme to make it more robust? Companies often fail to see the value in technology when they don't have the right resources with the expertise to manage technology.

Take Artificial Intelligence (AI) for instance. Although the adoption, knowledge and value from using AI is generally better in Malaysia than in the rest of South East Asia, it is still not on par with global standards. On average, 59% of respondents in Malaysia and 65% of respondents in South East Asia do not know about, or have no plans of using AI to combat/monitor economic crimes, as compared to 52% globally.

At the end of the day, technology adoption is only one part of the equation. Companies need to consider what they'd like to achieve in the long run from a particular investment into technology, and how that technology can complement their other anti-fraud measures to deliver tangible results to management.

#### *Incidence of cybercrime has increased*



#### *% who do not know about, or have no plans to use AI to combat/monitor economic crimes*

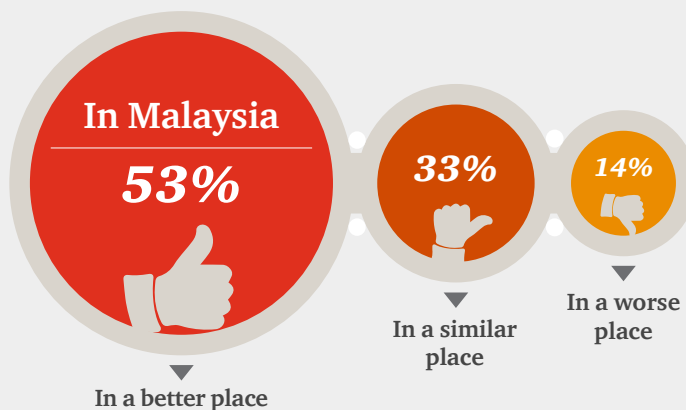


## Emerging stronger: Planning for the unplanned

### Post-incident sentiments

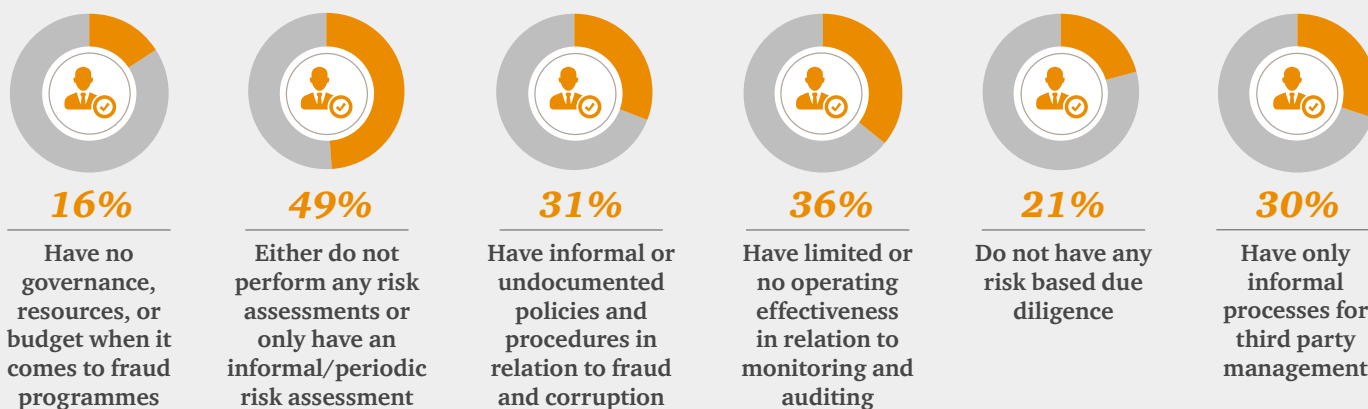
It is important that whenever an organisation suffers from fraud, corruption, other economic crimes or crisis, they learn from the experience and emerge stronger. This is not just for the organisation itself, but also for the benefit of stakeholders, regulators and market confidence. We asked our respondents to consider the most serious or disruptive incident of fraud that they had suffered in the last two years; 53% believe that they are in a better place based on their organisation's responses to such a crisis (50% in South East Asia).

*As a result of the incident that occurred, do you believe your organisation is...*



### Start building a fraud-resilient organisation

Our responses indicate a lack of maturity in many Malaysian organisations when it comes to adopting and managing ethics, and anti-fraud/corruption programmes.



Every organisation, be it a small or medium-sized enterprise, a public-listed company or even a private entity, is susceptible to a crisis at some point. It is not possible to eliminate fraud or corruption risk entirely. However, with the right proactive approach taken to prevent, detect and respond to economic crimes, companies should be well-positioned and equipped to deal with unplanned events and ultimately emerge stronger.





# 3 key takeaways

1

## **Be prepared for section 17A of MACC Act**

With 1 June 2020 just a few months away, directors and management must move now to ensure Adequate Procedures are in place in their respective organisations. Aside from the risk of severe personal penalties for failing to comply, implementing Adequate Procedures to address corruption risks is the right thing to do. We can help.

2

## **Promote a 'speak up' culture**

Employees need to be encouraged to speak up if they are aware of any fraudulent or corrupt practices in the workplace. This goes much wider than just having a whistleblower hotline. The right culture must be in place to allow them to have full confidence in speaking up, anonymously if necessary, and without fear of retribution.

3

## **Strengthen your defences, and move with the times**

Companies need to step up their efforts in combating these issues more proactively. Technology must be embraced - but it is only one tool. However, even the 'best' anti-fraud programmes need to be continually assessed and refined. Because as we have seen, the perpetrators and methods of crime evolve, and your defences must change to protect you.

## Our services

At PwC, our purpose is to build trust in society and solve important problems.

We have a dedicated Forensics team in Malaysia. Our experienced team comprises:

- Bribery, corruption, fraud, and misconduct investigators
- Certified forensic examiners
- Practicing accountants
- Former law enforcement officers
- Industry experts
- Global intelligence and research analysts
- Data scientists
- Litigation support specialists
- Digital forensics and e-discovery experts

### Investigations and litigation support

We help organisations respond to fraud, bribery, corruption, and misconduct allegations. We also specialise in forensic accounting, litigation support, regulatory compliance, and fraud and bribery and corruption risk assessments.

### Regulatory compliance

When organisations are facing challenges in meeting regulatory compliance, we are there to help. Section 17A of the MACC Act is one such area where we use our extensive experience to provide practical and commercial solutions.

### Global Intelligence Operations Centre (GIOC)

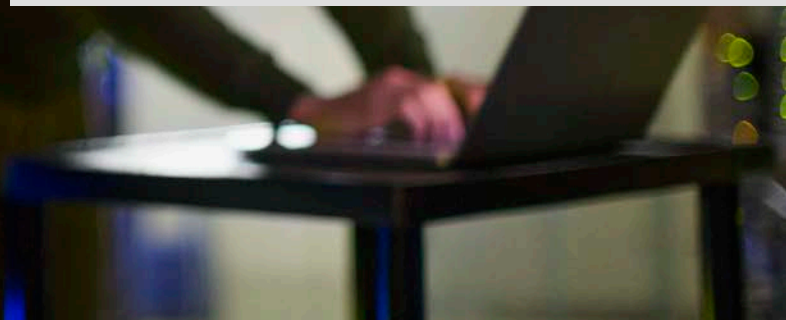
Leaders are empowered by information and intelligence to make informed business decisions. Our dedicated due diligence specialists, with multiple language capabilities, use a wide range of public and proprietary data sources and proven methodologies tailored to uncover red flag issues concerning suppliers, vendors, agents, and other third parties.

### Forensic data analytics

Our dedicated team analyses data to identify potential risk areas, fraudulent transactions, red flags, and unusual behaviour patterns. These same techniques can also be applied to other non-forensic services.

### Digital forensic & e-discovery

Our experts preserve and review electronic data from various sources including servers, laptops, mobile devices and the cloud. This can also be used to help respond to cybercrime and data breaches.



# Speak to us today



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