

REPORT TO THE NATIONS

2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

ASIA-PACIFIC EDITION



ACFE

Association of Certified Fraud Examiners

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INTRODUCTION

In April 2018, the ACFE released the 2018 *Report to the Nations*, which provided a global analysis of the costs and effects of occupational fraud (i.e., fraud committed against the organization by its own officers, directors, or employees). The 2018 *Report to the Nations*, which was based on 2,690 cases of occupational fraud reported from 125 countries, highlighted the tremendous impact occupational fraud has on organizations throughout the world.

With this report, we now focus more closely on how occupational fraud impacts organizations in the Asia-Pacific region. This study is based on the 220 cases of occupational fraud from Asia-Pacific countries that were reported in our 2017 *Global Fraud Survey*. Collectively, these cases, which accounted for 11% of all cases in our global study, caused a median loss of USD 236,000 and lasted a median 18 months before they were detected. Figure 1 shows the countries where these frauds occurred.

This report contains information on fraud losses in the Asia-Pacific cases we analyzed¹, along with the methods of fraud committed, the ways in which the frauds were detected, the characteristics of the victim organizations and their anti-fraud controls, the characteristics of the fraud perpetrators, and the results of the cases after the frauds had been discovered.² We hope this report will be of value to our readers in the Asia-Pacific region, helping them tailor fraud prevention, detection, and investigation strategies to the specific fraud risks faced by their clients and employers.

¹ Readers should note that all losses in this report are presented in U.S. dollars (USD), which is how respondents reported this information in our 2017 *Global Fraud Survey*.

² For a glossary of terms used in this report, please see pg. 78 of the 2018 *Report to the Nations*.

FIG. 1 Cases by country in the Asia-Pacific region

Country	Number of cases
Australia	38
Cambodia	2
China	49
East Timor	1
Hong Kong	10
Indonesia	29
Japan	4
Macau	1
Malaysia	14
Myanmar (Burma)	1
New Zealand	8
Papua New Guinea	1
Philippines	25
Singapore	17
South Korea	6
Taiwan	6
Thailand	3
Vietnam	5
Total cases:	220

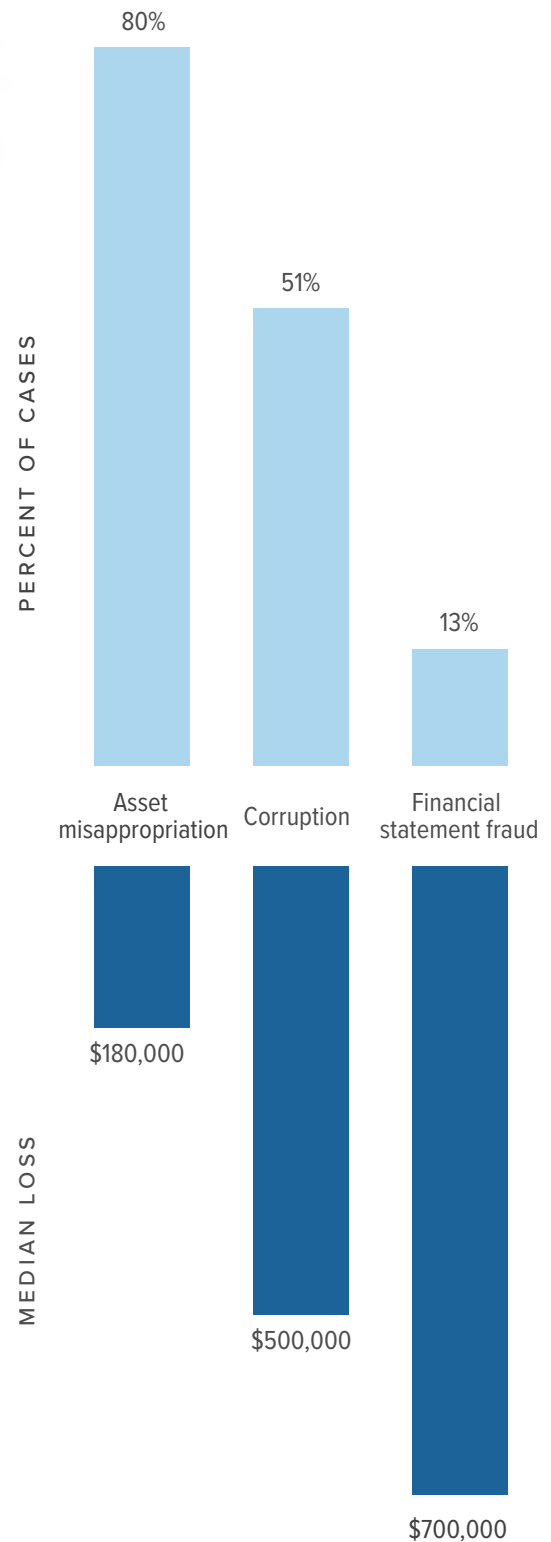
MEDIAN LOSS:
USD 236,000



HOW OCCUPATIONAL FRAUD IS COMMITTED

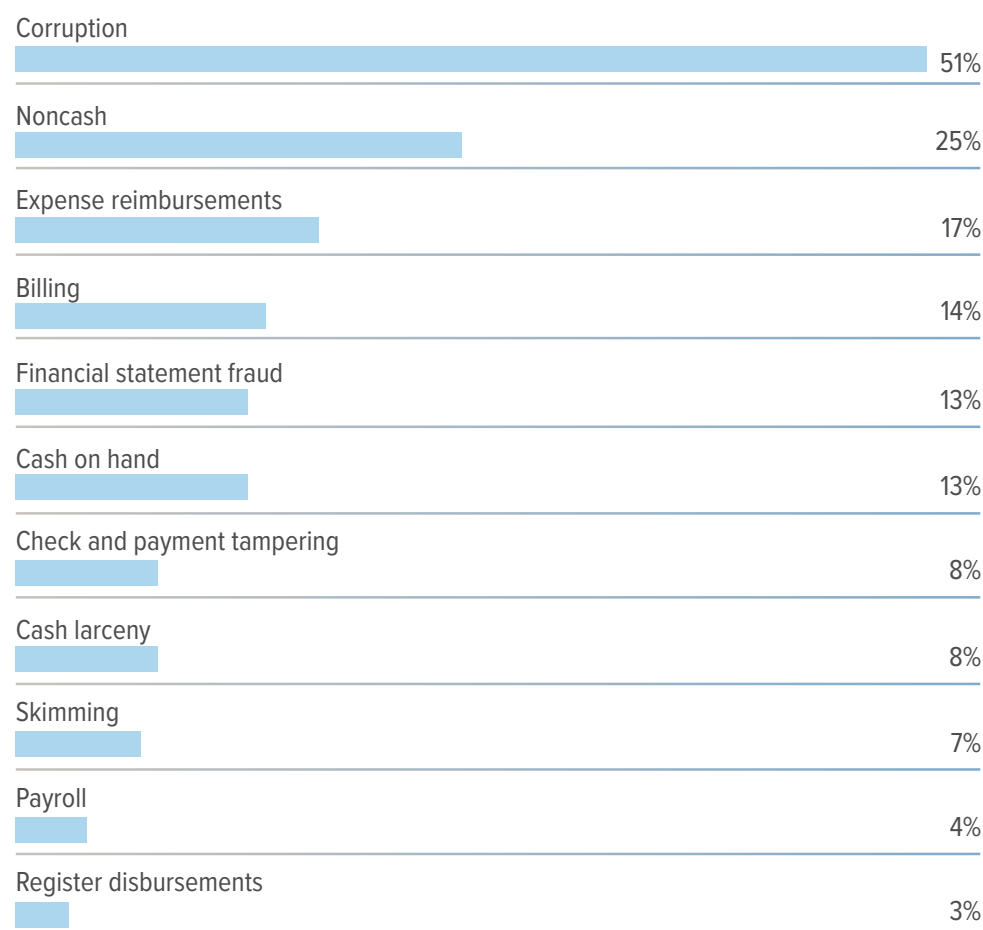
As part of our ongoing research, we examine the methods by which occupational fraudsters perpetrate their schemes. Our results have consistently shown that occupational fraud cases can be broken down into three broad categories. The most common of these is asset misappropriation; 80% of cases in the Asia-Pacific region involved the misappropriation of assets from the victim organization. These cases also are the least costly, causing a median loss of USD 180,000. On the other end of the spectrum in both frequency and median loss is financial statement fraud. This category accounted for 13% of cases in the region and had a median loss of USD 700,000. Corruption schemes fell in the middle in both respects, occurring in 51% of cases and causing a median loss of USD 500,000. Both the frequency and median loss of corruption in the Asia-Pacific region were notably higher than was found in our global data, which highlights the particularly high risk corruption presents in this region.

FIG. 2 How is occupational fraud committed in the Asia-Pacific region?



Because asset misappropriations account for such a large percentage of occupational fraud cases, we further divided that category into sub-schemes based on the specific mechanism used to misappropriate assets. Figure 3 shows the breakdown of the cases in the Asia-Pacific region among the nine sub-categories of asset misappropriation, along with corruption and financial statement schemes for comparison purposes. Corruption schemes were more than twice as common as any other scheme type, followed by the misappropriation of noncash assets, which occurred in one-quarter of the cases reported to us from the region.

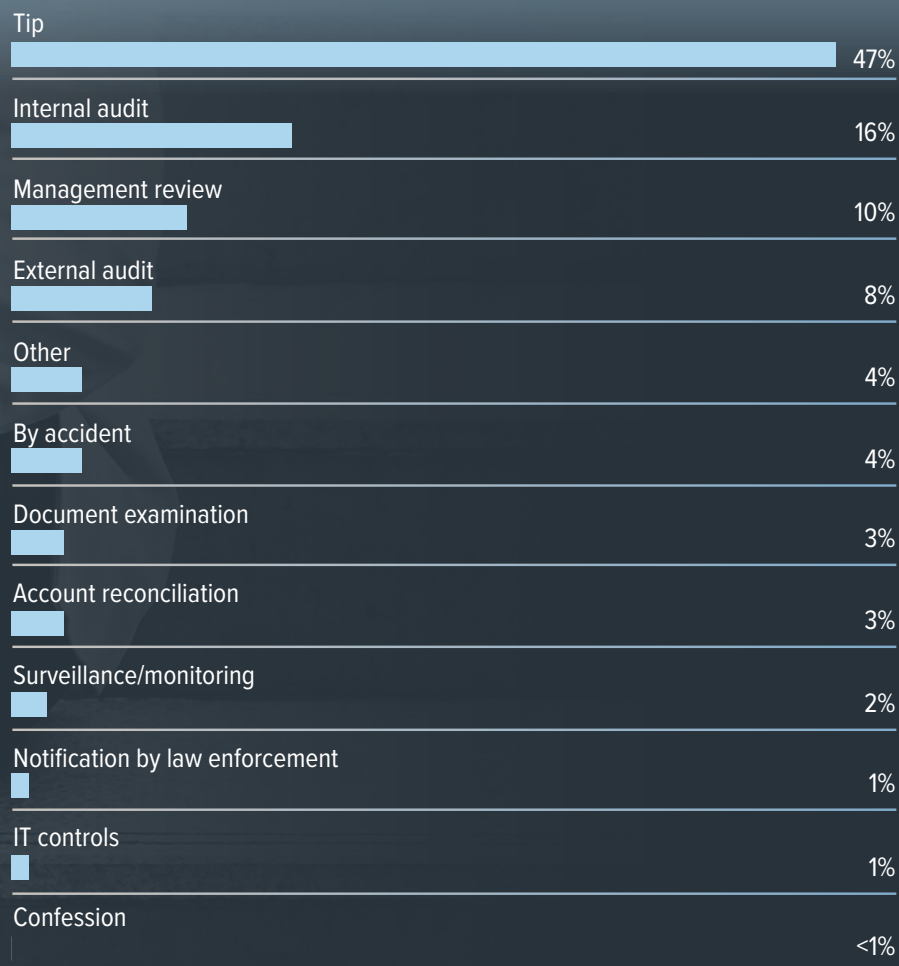
FIG. 3 What are the most common occupational fraud schemes in the Asia-Pacific region?



DETECTION

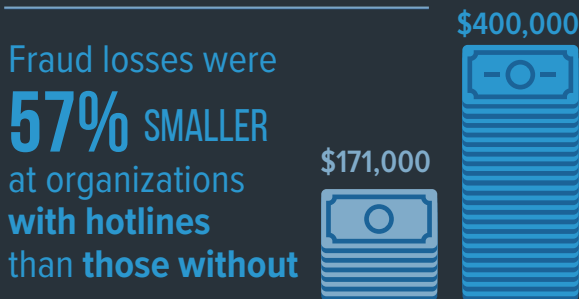
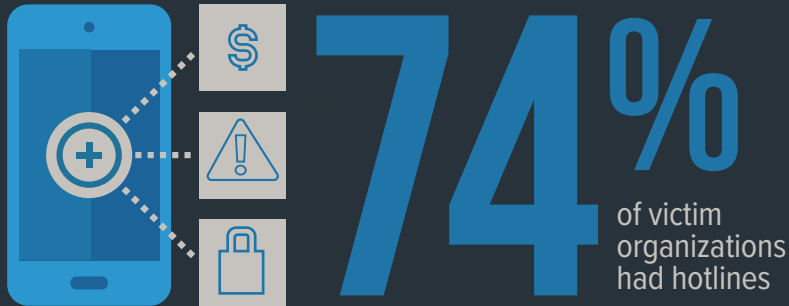
We asked respondents to provide information about how frauds were initially detected. The importance of tips as a fraud detection method is clear; Figure 4 shows that more cases were discovered this way in the Asia-Pacific region than the next six detection methods combined. Our data also shows that organizations can increase the amount of cases detected by tips by implementing hotlines—52% of cases were detected by tip when a hotline was in place, compared to 40% in organizations without one.

FIG. 4 How is occupational fraud initially detected in the Asia-Pacific region?



HOTLINES AND REPORTING MECHANISMS

Respondents provided information about hotlines and reporting mechanisms that can help us understand who is reporting fraud, how they are doing so, and how effective such mechanisms are in the Asia-Pacific region.



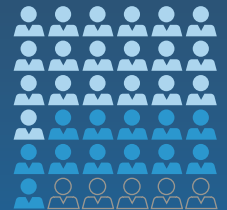
Organizations **without hotlines** were more than **TWICE AS LIKELY** to detect fraud by accident or by external audit

TIPS

are by far the most common initial detection method



EMPLOYEES provide over half of tips. About 1/3 come from OUTSIDE PARTIES.



Telephone and email hotlines are most popular, but whistleblowers use various reporting mechanisms

Telephone hotline



Email



Web-based/
online form



Mailed letter/form



Other



Fax



NOT ALL TIPS COME THROUGH HOTLINES

When a reporting mechanism is not used, whistleblowers are most likely to report to:

DIRECT SUPERVISOR 28%

EXECUTIVE 21%

COWORKER 13%

BOARD OR AUDIT COMMITTEE 13%

FRAUD INVESTIGATION TEAM 11%

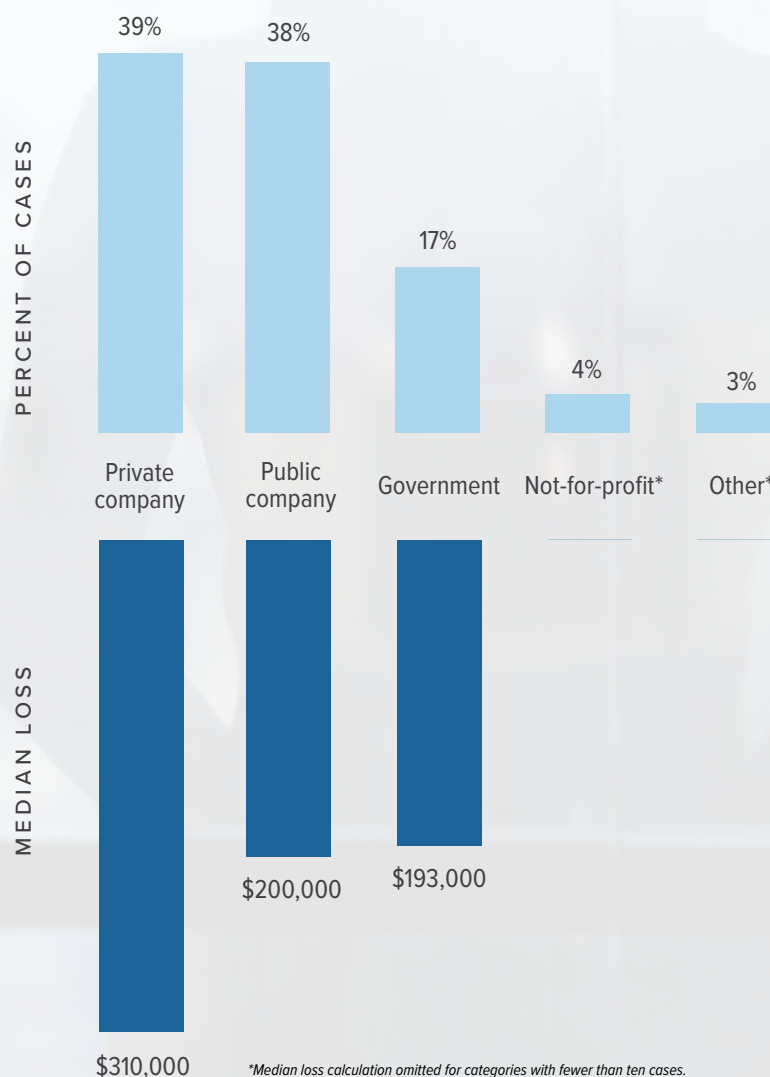
VICTIM ORGANIZATIONS

To gain a better understanding of the victim organizations in our study, we asked respondents to provide information about the victims' type, size, and industry. Participants also described the types of controls that were in place to prevent and detect fraud at the time the schemes occurred.

Type of Organization

As shown in Figure 5, more than 75% of the frauds in the Asia-Pacific region occurred at for-profit organizations, with 39% of the victim organizations being private companies and 38% being public companies. The private companies in our study suffered the greatest median loss, at USD 310,000. Government organizations were the victims in only 17% of frauds and had a median loss of USD 193,000.

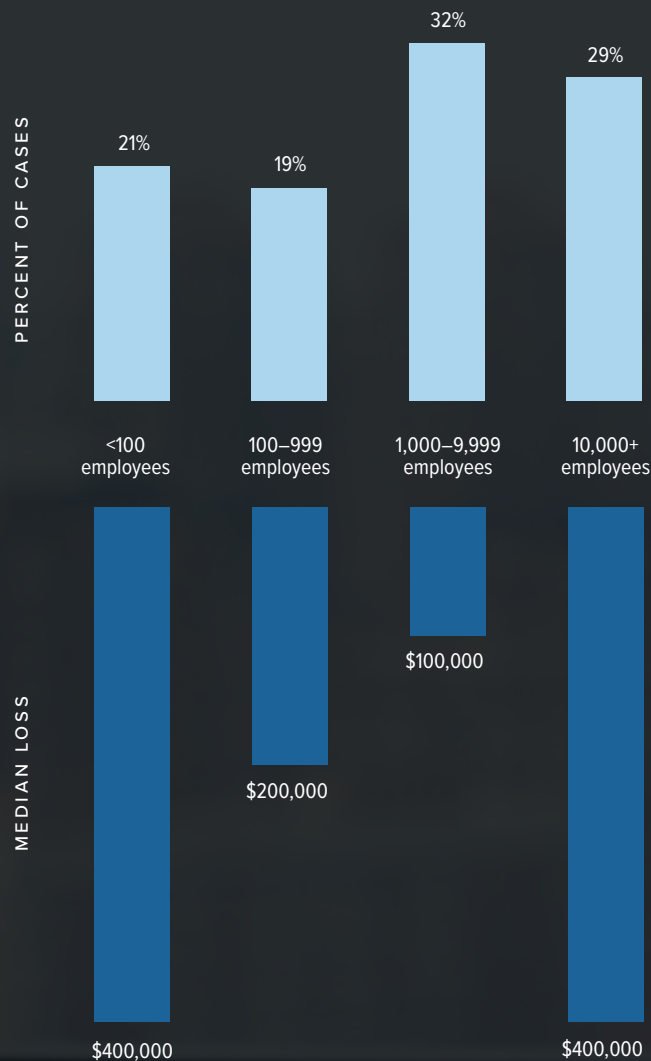
FIG. 5 What types of organizations are victimized by occupational fraud in the Asia-Pacific region?



Size of Organization

Figure 6 shows the frequency and median loss of fraud schemes in the Asia-Pacific region based on the size of the victim organization. Interestingly, the smallest organizations (those with fewer than 100 employees) and the largest (those with more than 10,000 employees) had equally large median losses. It is important to note that small organizations are likely to be more significantly impacted by losses of this size than their larger counterparts.

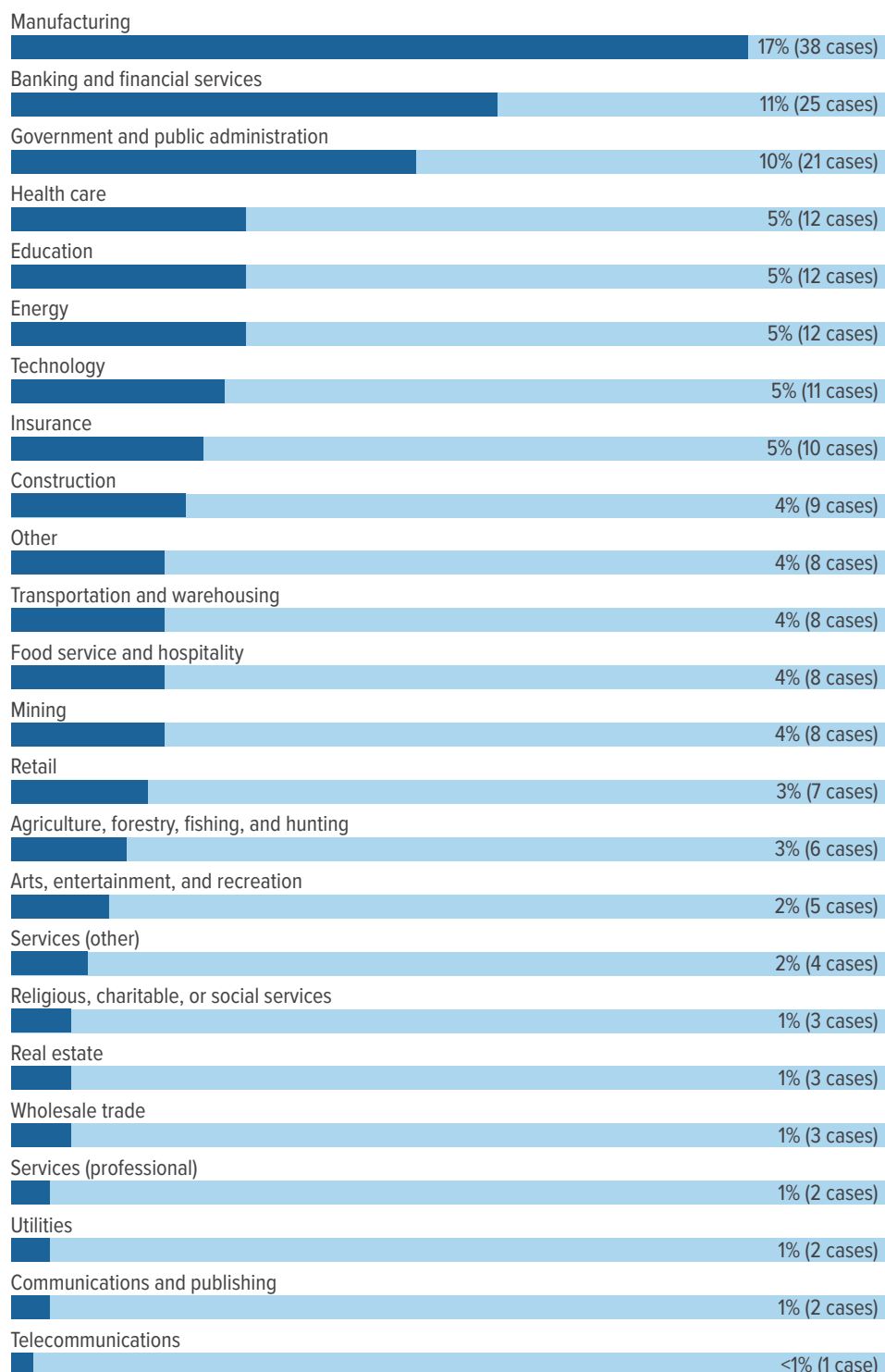
FIG. 6 How does an organization's size relate to its occupational fraud risk in the Asia-Pacific region?



Industry of Organization

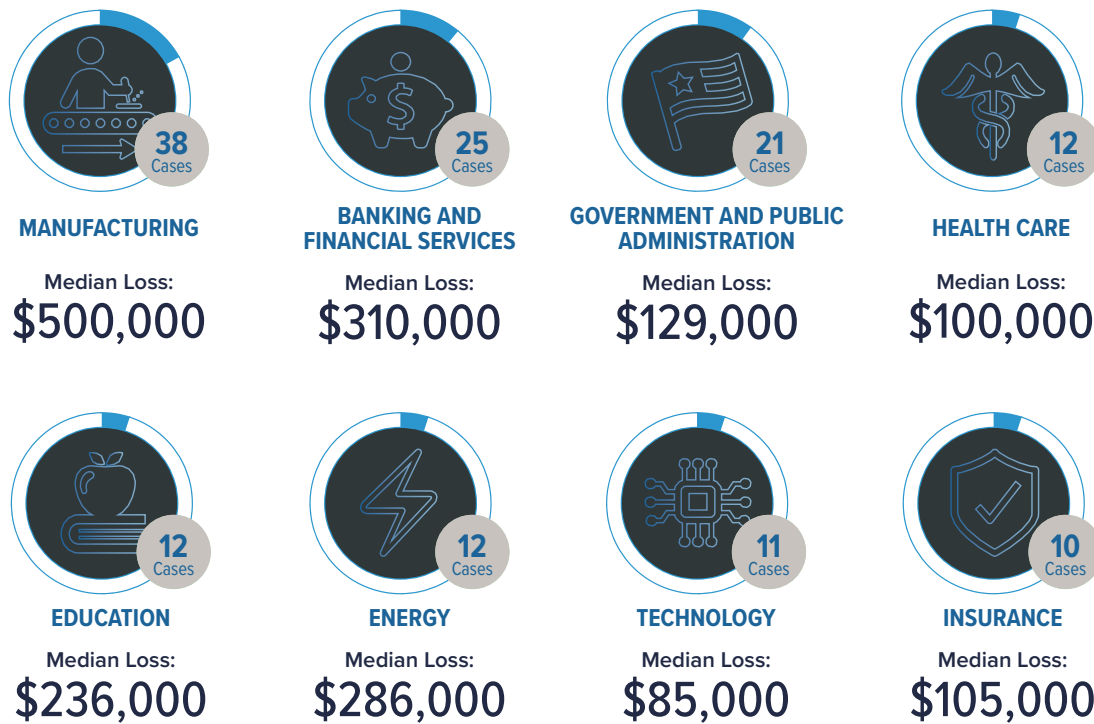
Figure 7 illustrates the breakdown of the cases reported to us based on the industry of the victim organization. The greatest number of cases in the Asia-Pacific region occurred in the manufacturing, banking and financial services, and government and public administration sectors. Readers should note that this data most likely represents industries that tend to employ the greatest number of CFEs, rather than the industries that are most susceptible to fraud.

FIG. 7 What industries were victimized by occupational fraud in the Asia-Pacific region?



To help organizations in the Asia-Pacific region benchmark their fraud risk and loss amounts, Figure 8 provides the median loss caused by the reported frauds in all industries for which we received ten or more cases.

FIG. 8 How does occupational fraud affect organizations in different industries in the Asia-Pacific region?



Anti-Fraud Controls in the Asia-Pacific Region

Internal controls play an important part in protecting organizations against fraud. As part of our research, we examined which anti-fraud controls the victim organizations in the Asia-Pacific region had in place at the time the fraud occurred, as well as what internal control weaknesses primarily contributed to the fraud.

FIG. 9 What anti-fraud controls are the most common in the Asia-Pacific region?

Control	Percent of cases
External audit of financial statements	93%
Code of conduct	87%
Internal audit department	80%
Management certification of financial statements	79%
Hotline	74%
External audit of internal controls over financial reporting	73%
Management review	71%
Independent audit committee	69%
Anti-fraud policy	60%
Fraud training for employees	59%
Fraud training for managers/executives	57%
Employee support programs	49%
Dedicated fraud department, function, or team	42%
Formal fraud risk assessments	37%
Surprise audits	34%
Proactive data monitoring/analysis	32%
Job rotation/mandatory vacation	16%
Rewards for whistleblowers	11%

We compared the median loss and median duration of fraud at victim organizations in the Asia-Pacific region based on whether they had specific anti-fraud controls in place. The presence of several controls was associated with notable reductions in both losses and duration of fraud (see Figure 10).

FIG. 10 How does the presence of an anti-fraud control relate to the median loss and duration of fraud in the Asia-Pacific region?

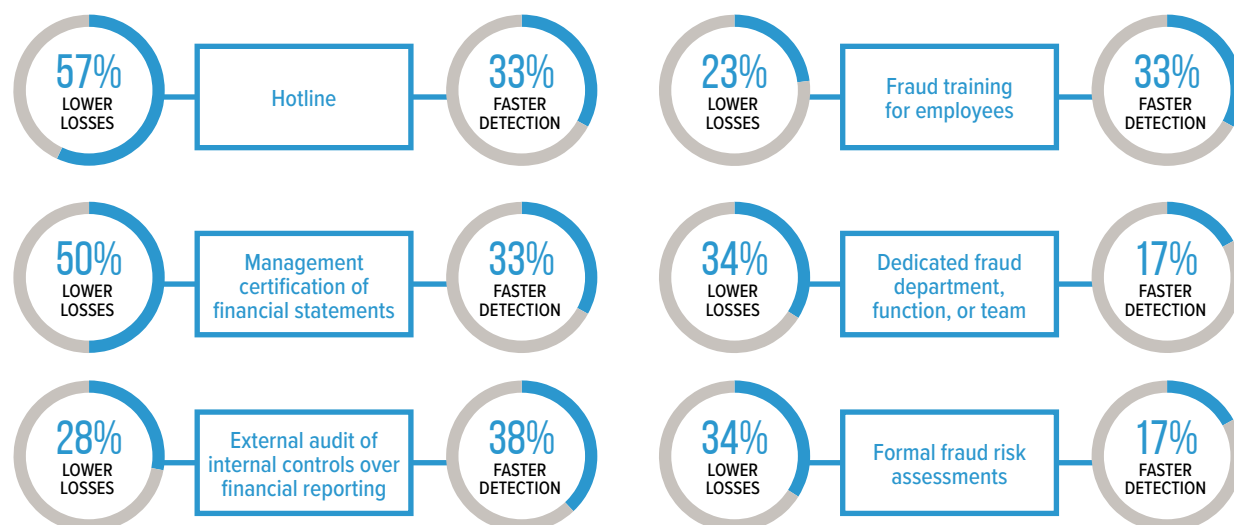
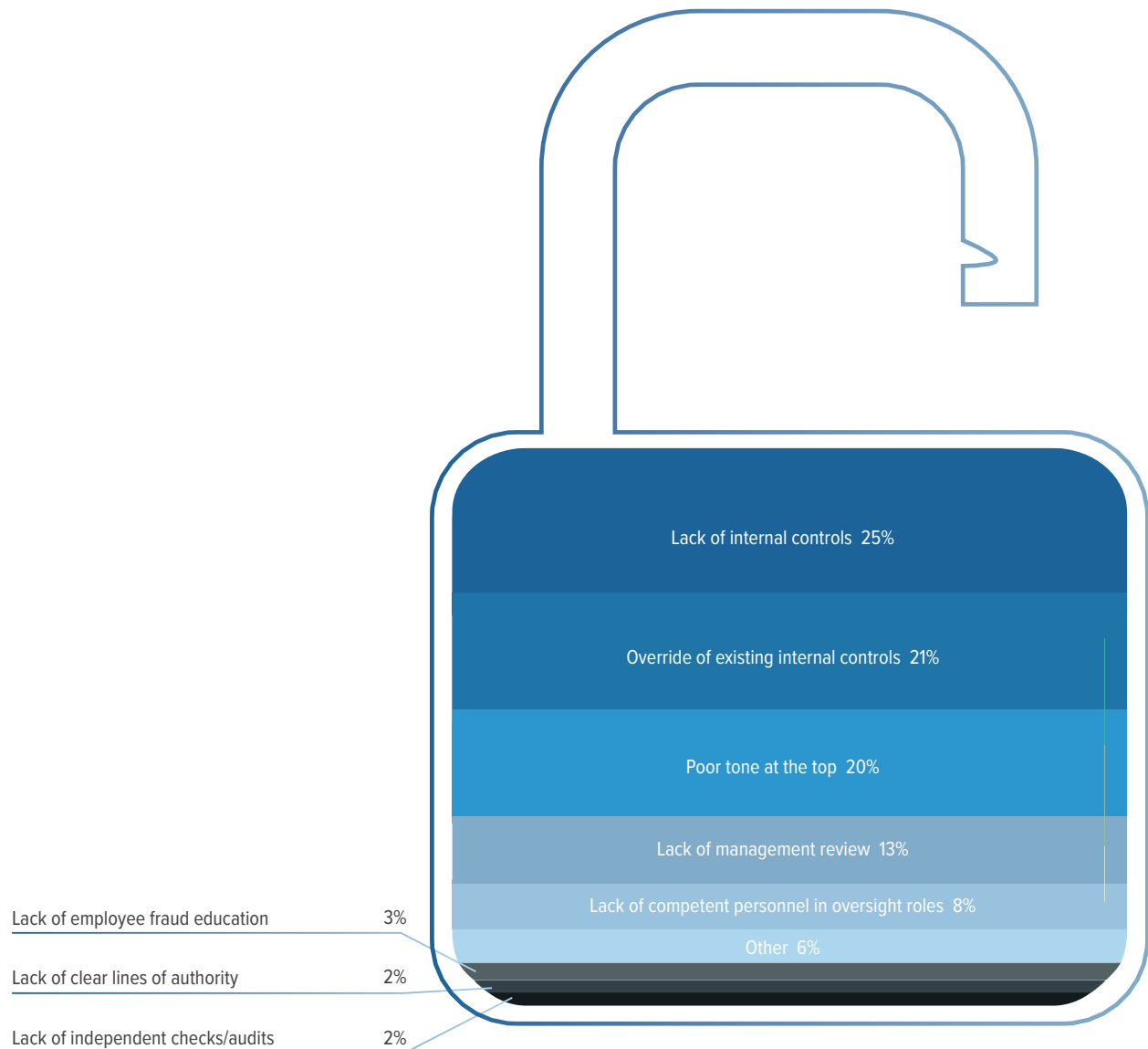
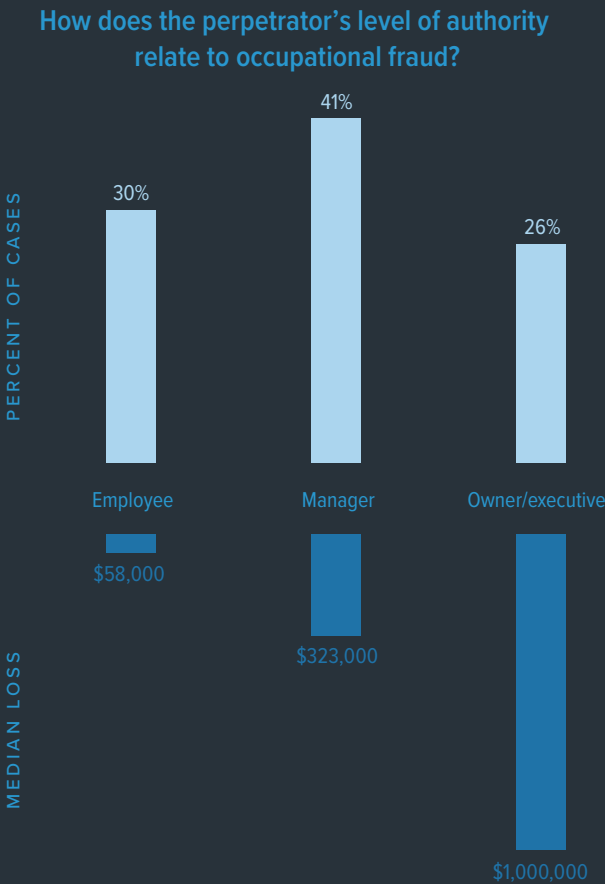


FIG. 11 What are the primary internal control weaknesses that contribute to occupational fraud in the Asia-Pacific region?



PROFILE OF A FRAUD PERPETRATOR

Understanding the common characteristics of fraud offenders can help organizations improve their ability to detect fraud and minimize their risk of loss. The following information is based on the perpetrators in our study of the Asia-Pacific region.



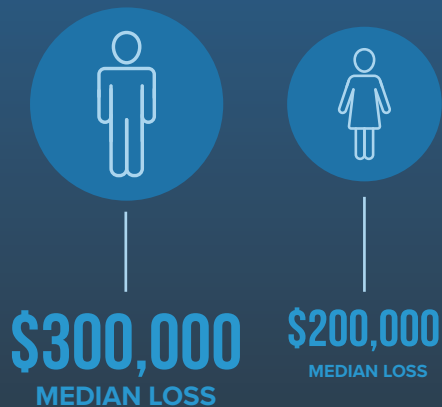
Median age for all fraudsters in the region was



LOSSES CAUSED BY FRAUDSTERS ABOVE THE MEDIAN AGE WERE MUCH LARGER THAN LOSSES CAUSED BY THOSE BELOW THE MEDIAN:



73% OF FRAUDS WERE COMMITTED BY MEN



LOSSES CAUSED BY MEN WERE 50% LARGER
than losses caused by women

MEDIAN LOSSES WERE FAR GREATER WHEN FRAUDSTERS COLLUDED



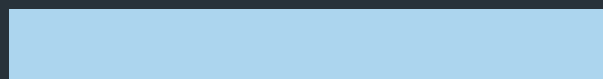
ONE PERPETRATOR



\$115,000 Median loss

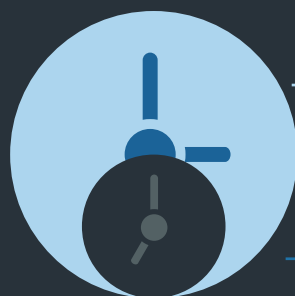


TWO OR MORE PERPETRATORS



\$400,000 Median loss

FRAUDSTERS WHO HAD BEEN WITH THEIR ORGANIZATIONS FOR MORE THAN FIVE YEARS STOLE FOUR TIMES AS MUCH



MORE THAN 5 YEARS' TENURE

\$400,000

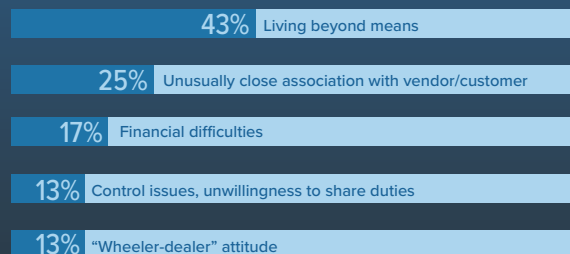
MEDIAN LOSS

5 YEARS' TENURE OR LESS

\$100,000

MEDIAN LOSS

In 81% of cases fraudsters displayed at least one behavioral red flag. The five most common red flags were:



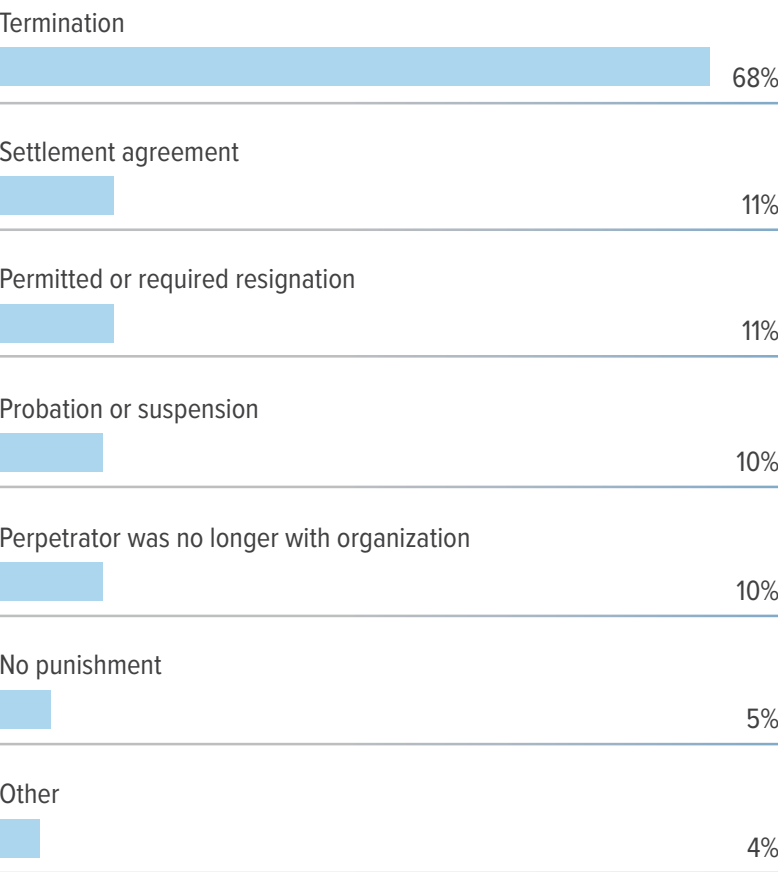
ONLY 5% OF PERPETRATORS HAD A PRIOR FRAUD CONVICTION



CASE RESULTS

We also asked respondents what actions the victim organizations took against the perpetrators after the frauds had been detected. Figure 12 shows that 79% of perpetrators in the Asia-Pacific region were either terminated or permitted or required to resign. However, some perpetrators remained at the organization, with 15% receiving probation, suspension, or no punishment.

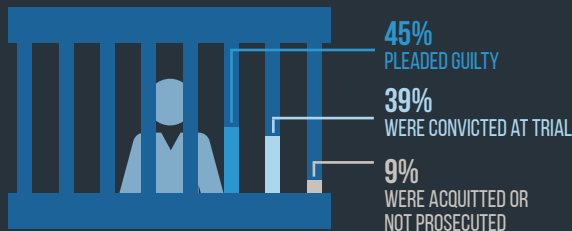
FIG. 12 How do victim organizations punish fraud perpetrators in the Asia-Pacific region?



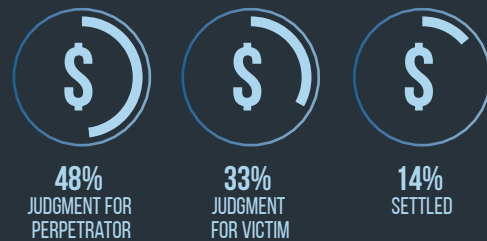
LITIGATION AND RECOVERY OF LOSSES

Victims might refer cases to prosecution or commence civil litigation to recover their losses. Our data indicates that while criminal cases in the Asia-Pacific region typically result in a conviction, civil suits and other attempts to recover losses are often unsuccessful.

51% OF CASES WERE REFERRED FOR CRIMINAL PROSECUTION



28% OF CASES RESULTED IN A CIVIL SUIT AGAINST THE FRAUDSTER



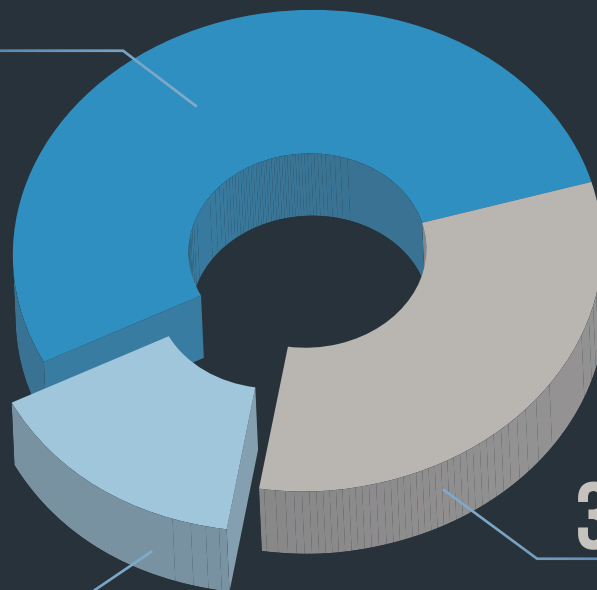
After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data shows that victims are rarely made whole.

54%

RECOVERED
NOTHING

15%

RECOVERED
ALL LOSSES



31%

MADE A
PARTIAL RECOVERY

METHODOLOGY

The 2018 *Report to the Nations* is based on the results of the 2017 *Global Fraud Survey*, an online survey opened to 41,573 Certified Fraud Examiners (CFEs) from July 2017 to October 2017. As part of the survey, respondents were asked to provide a narrative description of the single largest fraud case they had investigated since January 2016. Respondents were then presented with 76 questions to answer regarding the particular details of the fraud case, including information about the perpetrator, the victim organization, and the methods of fraud employed, as well as fraud trends in general. (Respondents were not asked to identify the perpetrator or the victim.) Additionally, after completing the survey the first time, respondents were provided the option to submit information about a second case that they investigated.

Cases submitted were required to meet the following four criteria:

1. **The case** must have involved occupational fraud (defined as fraud committed by a person against the organization for which he or she works).
2. **The investigation** must have occurred between January 2016 and the time of survey participation.
3. **The investigation** must have been complete at the time of survey participation.
4. **The respondent** must have been reasonably sure the perpetrator(s) was (were) identified.

We received 7,232 total responses to the survey, 2,690 of which were usable for purposes of our global study. Of these usable responses, 220 involved occupational fraud cases perpetrated against organizations in the Asia-Pacific region; the data contained in this report is based solely on the information provided in these 220 responses.

Analysis Methodology

In calculating the percentages discussed throughout this report, we used the total number of complete and relevant responses for the question(s) being analyzed. Specifically, we excluded any blank responses or instances where the participant indicated that he or she did not know the answer to a question. Consequently, the total number of cases included in each analysis varies.

In addition, several survey questions allowed participants to select more than one answer. Therefore, the sum of percentages in many figures throughout the report exceeds 100%. The sum of percentages in other figures might not be exactly 100% (i.e., it might be 99% or 101%) due to rounding of individual category data.

Unless otherwise indicated, all loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Average losses were skewed by a limited number of very high-dollar frauds. Using median loss provides a more conservative—and we believe more accurate—picture of the typical impact of occupational fraud schemes.

Additionally, we excluded median loss calculations for categories for which there were fewer than ten responses. Because the direct losses caused by financial statement frauds are typically spread among numerous stakeholders, obtaining an accurate estimate for this amount is extremely difficult. Consequently, for schemes involving financial statement fraud, we asked survey participants to provide the gross amount of the financial statement misstatement (over- or under-statement) involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts.



ABOUT THE ACFE

Founded in 1988 by Dr. Joseph T. Wells, CFE, CPA, the Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with nearly 85,000 members in more than 180 countries, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively. The ACFE provides educational tools and practical solutions for anti-fraud professionals through events, education, publications, networking, and educational tools for colleges and universities.

Certified Fraud Examiners

The ACFE offers its members the opportunity for professional certification with the Certified Fraud Examiner (CFE) credential. The CFE is preferred by businesses and government entities around the world, and indicates expertise in fraud prevention and detection. CFEs are anti-fraud experts who have demonstrated knowledge in four critical areas: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence.



Membership

Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals, and educators, all of whom have access to expert training, educational tools, and resources. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, the ACFE provides the essential tools and resources necessary for anti-fraud professionals to accomplish their objectives.

To learn more, visit [ACFE.com](https://www.acfe.com) or call (800) 245-3321 / +1 (512) 478-9000.

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