



Survey of risk management and fraud at Japanese companies operating in Asia
2022 edition

Deloitte Touche Tohmatsu LLC

January 2023

Survey Summary

Purpose of the survey and surveyed companies, etc.

■ Purpose of the survey

- ✓ Understand the status of risk management initiatives and fraud initiatives of Japanese companies operating in the Asian region (Indonesia, Singapore, Thailand, Philippines, Malaysia, Vietnam, Myanmar, China, Taiwan and India), and obtain basic data on the current situation.
- ✓ To contribute to the management of Japanese companies expanding in Asia by raising awareness of "risk management" through the conduct of surveys and disclosure of results.

■ companies surveyed

- ✓ Affiliates (including regional headquarters) of Japanese companies operating in Indonesia, Singapore, Thailand, Philippines, Malaysia, Vietnam, Myanmar, China and Taiwan
Number of responses (2019 to 2021 are from previous surveys)

	Thailand	Singapore	Indonesia	Malaysia	Vietnam	Myanmar	Philippines	China	Taiwan	Other	Total
2019	103	74	69	69	49	53	15	99	39	32	602
2020	130	88	79	73	45	63	35	61	42	38	654
2021	160	104	103	54	66	8	38	123	48	13	717
2022	168	106	104	70	30	31	28	129	53	1	720

■ Survey method

- ✓ Web survey (From October 10th to November 18th in 2022)

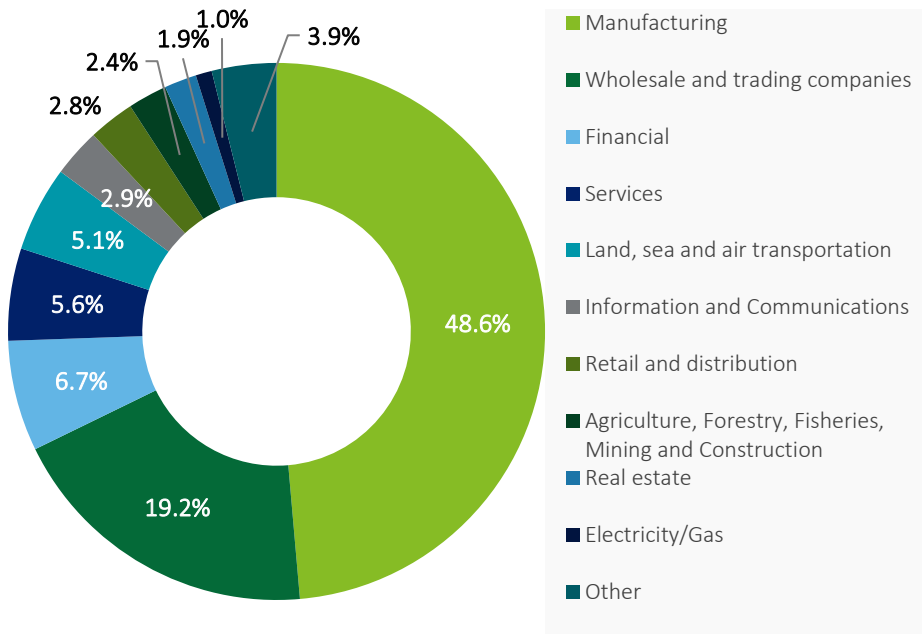
■ Survey Items

Part 1: Overview of risk management in Asia

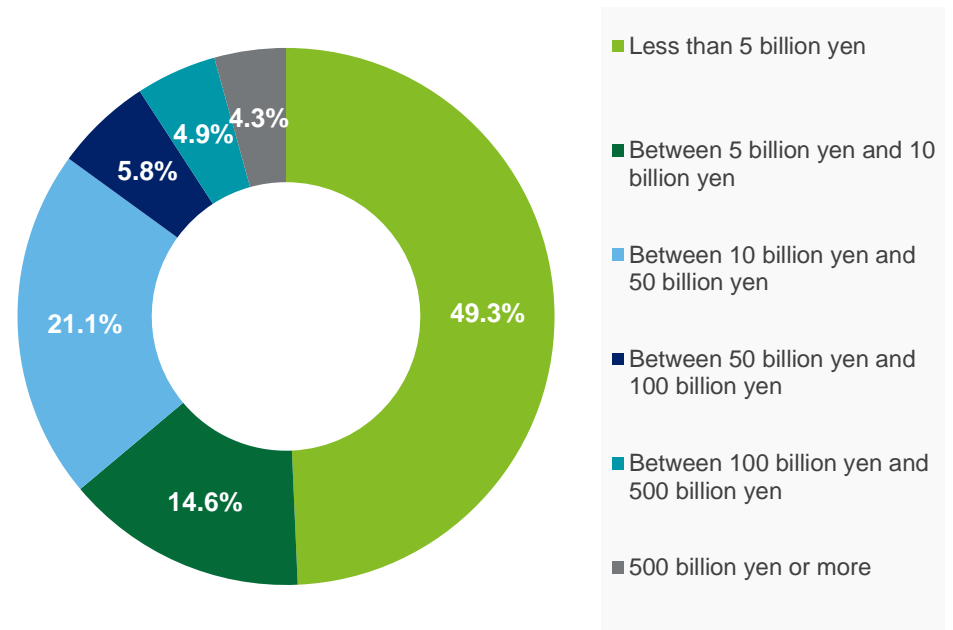
Part 2: Occurrence of fraud in Asia

Survey respondents (1/2)

Number of responses by industry

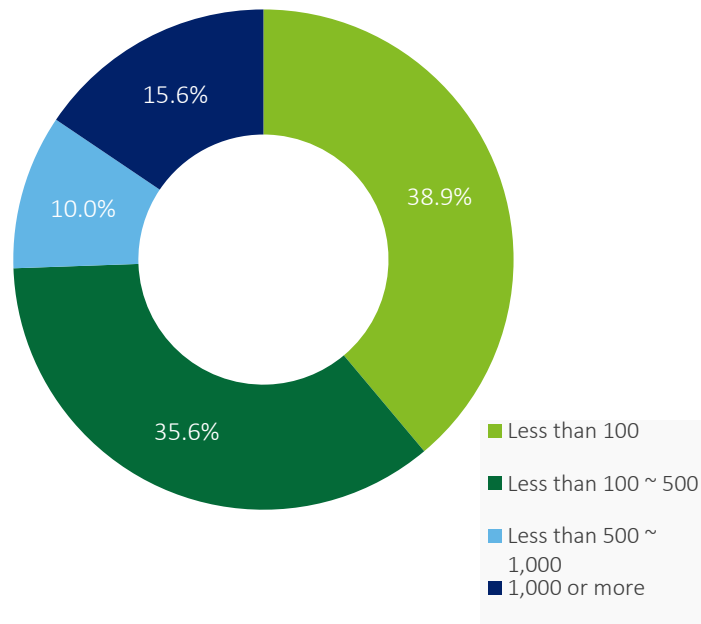


Sales size of respondent companies

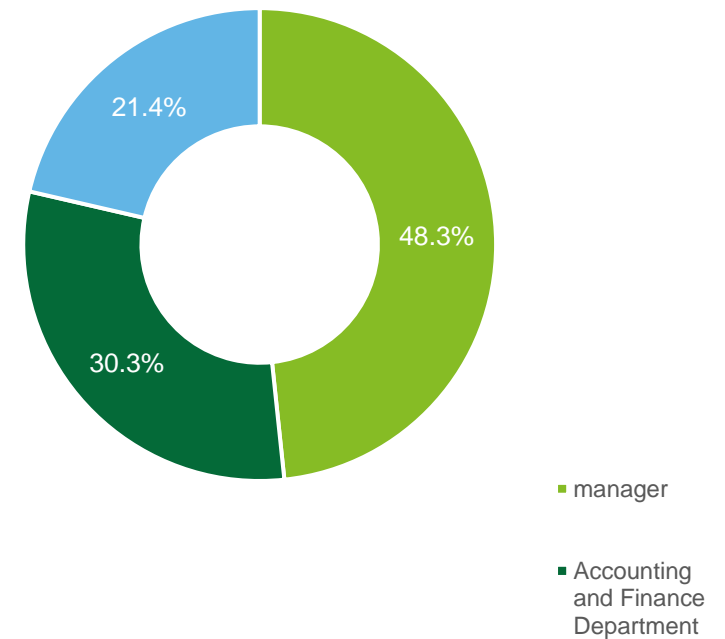


Survey respondents (2/2)

Number of employees at responding companies



Respondent's department

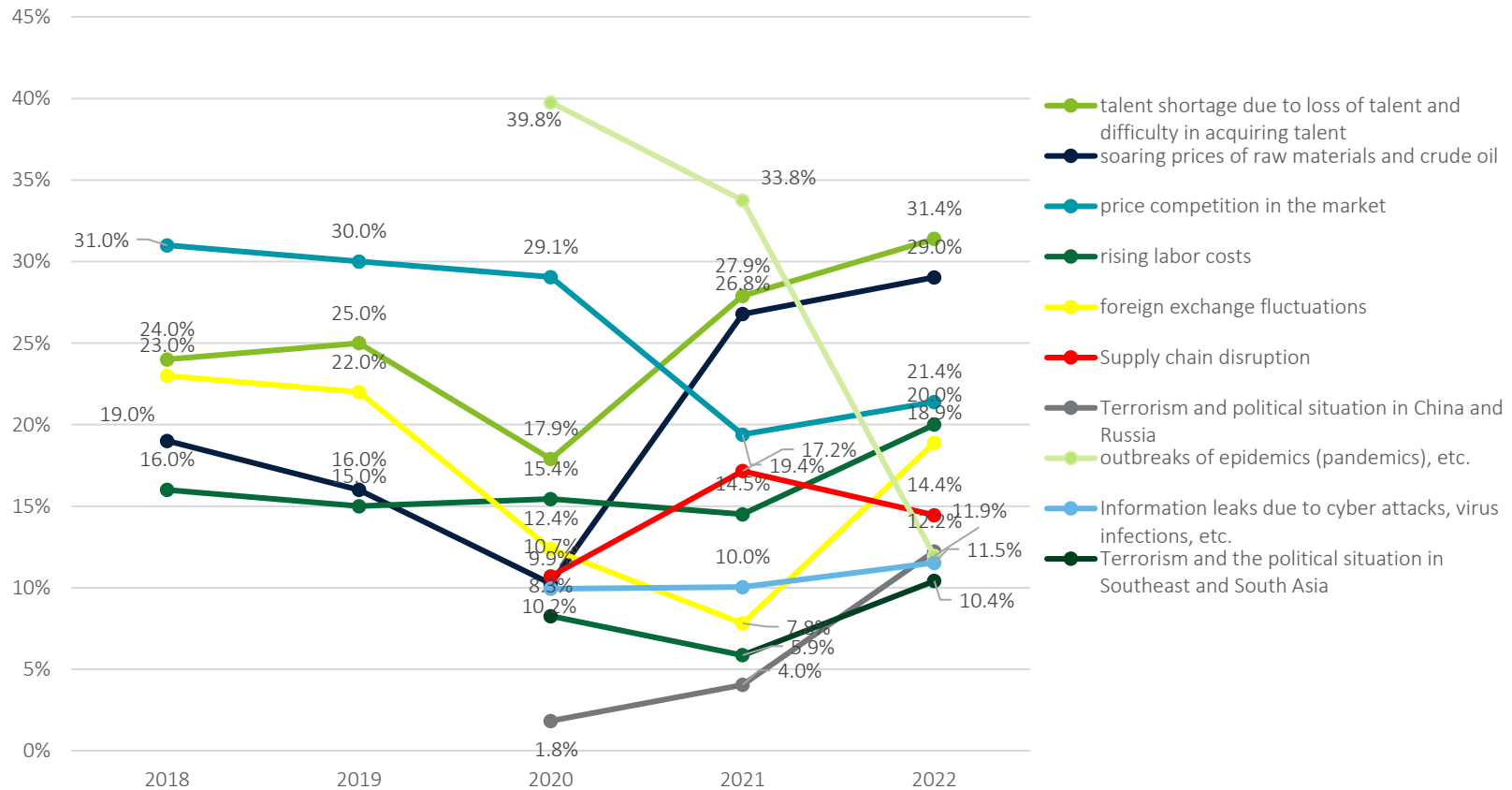


Summarizing the results of the survey

With the convergence of COVID-19, risks related to the outflow and shortage of human resources took the top spot, while inflation-related risks, such as Soaringraw material and crude oil Prices and Price competition in the market, rose to the top

- ✓ "Soaringlabor costs" and "currency fluctuations" are also recognized as high risks.
- ✓ “terrorism and the political situation” (including China, Russia, Southeast and South Asia) move up the list, and geopolitical risks are recognized

Top 3 Prioritized Risks to Initiate (Asia, by risk classification)

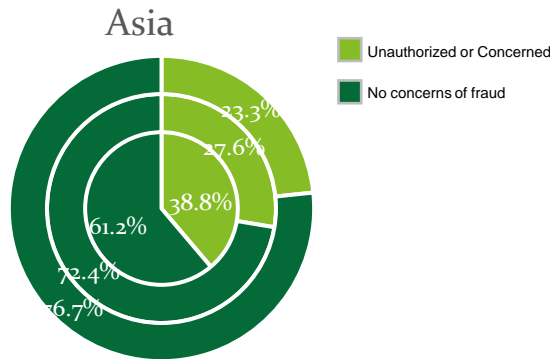


Although this trend is down from the previous year, just under 1/4 of respondents are still aware of the emergence of fraud or its concerns

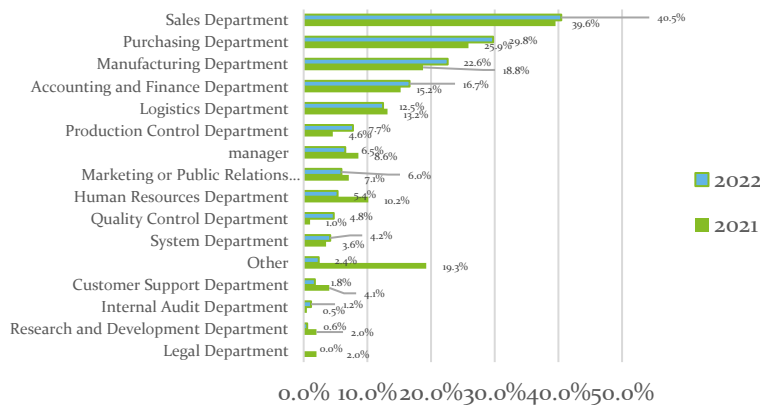
- ✓ Revelations or concerns have continuously decreased from the past (Table 1)
- ✓ The trend of departments found to have committed fraud remains the same, the sales department is leading the pack (Table 2)
- ✓ Among the types of fraud, embezzlement of inventory and other assets and fraudulent payments related to purchasing and expenses are prominent, but bribes, theft of cash and deposits, and misuse and misreporting of information have particularly increased compared to last year (Table 3)

(Table 1) Revelations of fraud in the past three years

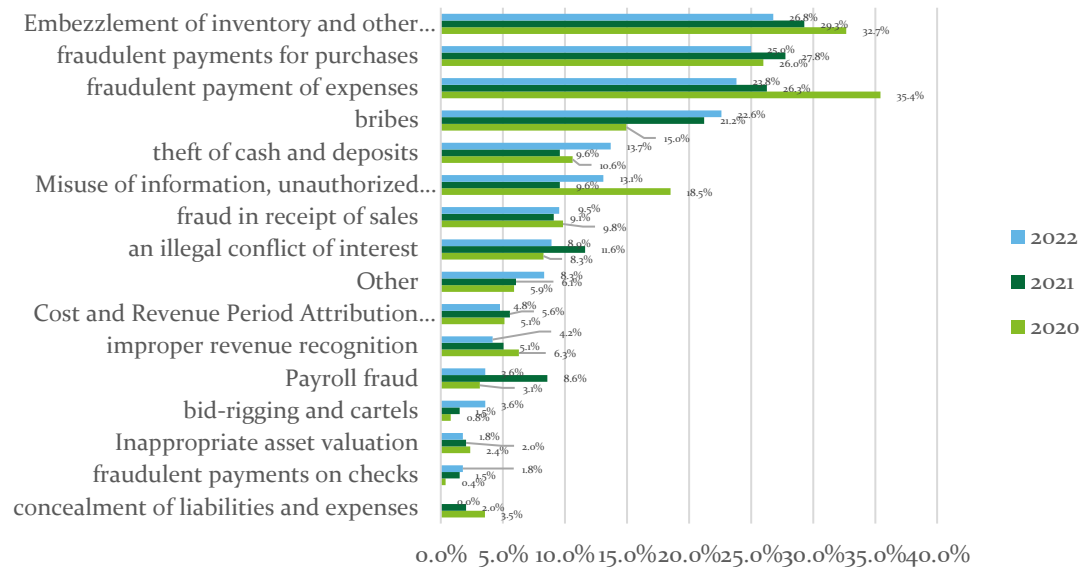
(From the inside: 2020 years, 2021 years, 2022 years)



(Table 2) Departments in which fraud was discovered



(Table 3) Types of fraud



(Part 1)

Overview of Risk Management in Asia

- 1. Top 3 Risks That Should Be Prioritized and Initiated**
- 2. Risk measures needed in the next year or so**
- 3. Features currently lacking and being worked on to improve**

In this survey, the types of risks were listed below and a method of selecting each item was adopted

Types of risks used in this study (Numbers (1) through (11) in the results of this investigation are intended to be classified as follows:)

① Politics and geopolitics

- 1 Situation on the Korean Peninsula
- 2 Terrorism and political situation in China and Russia
- 3 Terrorism and the political situation in Southeast and South Asia
- 4 Terrorism and political situations in North and South America
- 5 Terrorism and the political situation in Europe
- 6 Terrorism and political situations in Africa
- 7 Intensifying trade friction between the US and China

② Related to environmental and natural disasters

- 8 Extreme weather (floods, storms, etc.), large-scale natural disasters (earthquakes, tsunamis, volcanic explosions, geomagnetic storms)
- 9 Failure to mitigate and adapt to climate change
- 10 Massive biodiversity loss and ecosystem collapse
- 11 Man-made environmental damage and disasters
- 12 Outbreaks of epidemics (pandemics), etc.
- 13 Transition to a resource-recycling society

③ Economic and Environmental Related

- 14 Financial crisis
- 15 Financial difficulties
- 16 Foreign exchange fluctuations
- 17 Price competition in the market
- 18 Soaring Prices of raw materials and crude oil

④ Related to social issues

- 19 Human rights violations
- 20 Declining birthrate and aging population
- 21 The gap between the rich and the poor (poverty problem)
- 22 Concentration of population in cities
- 23 Health and safety issues
- 24 Security problem
- 25 Corruption of public officials

⑤ Related to technology trends

- 26 Technology transformation impacting business

⑥ Legal and regulatory

- 27 Violation of environmental laws and regulations
- 28 Violations of intellectual property laws and regulations
- 29 Violation of labor laws and regulations
- 30 Violations of accounting and tax laws and regulations
- 31 Business specific violations of laws and regulations
- 32 litigation damage

⑦ Governance related

- 33 Dysfunctional management
- 34 Failure of group governance
- 35 Post-acquisition business integration failure

⑧ fraud-related

- 36 Financial crime
- 37 Misstatement of Financial reporting
- 38 Organizational irregularities such as cartel bid-rigging
- 39 Officer fraud, bribery, etc.
- 40 Employee fraud, bribery, etc.

⑨ Product/Service/Operations Related

- 41 Supply chain disruption
- 42 Recall
- 43 Poor product/service quality check system
- 44 Equipment accident
- 45 Inadequacies in dealing with customers
- 46 Significant losses incurred due to operational errors

⑩ System-related

- 47 Information leaks due to cyber attacks, virus infections, etc.
- 48 Major system outages due to cyber attacks, virus infections, etc.

⑪ Human resources and labor

- 49 Talent shortage due to loss of talent and difficulty in acquiring talent
- 50 Rising labor costs
- 51 Incidence of labor problems such as death from overwork, mental health, harassment and long working hours
- 52 Labor-management problem

While the risks related to the outflow and shortage of human resources have increased sharply, “Soaringraw materials and crude oil Prices” and “Price competition in the market the country remains” have remained high on the list

Q 1.1 Risks that should be prioritized and initiated (top 3 answers)

	Risks Considered by Asian Base	FY 2020	FY 2021	FY 2022
1	Talentshortage due to loss of talent and difficulty in acquiring talent	17.9%(3)	27.9%(2)	31.4%
2	SoaringPrices of raw materials and crude oil	10.2%(11)	26.8%(3)	29.0%
3	Price competition in the market	29.1%(2)	19.4%(4)	21.4%
4	Rising laborcosts	15.4%(5)	14.5%(7)	20.0%
5	Foreign exchange fluctuations	12.4%(6)	7.8%(11)	18.9%
6	Supply chain disruption	10.7%(9)	17.2%(5)	14.4%
7	Terrorism and political situation in China and Russia	1.8%(30)	4.0%(24)	12.2%
8	Outbreaks of epidemics (pandemics), etc.	39.8%(1)	33.8%(1)	11.9%
9	Information leaks due to cyber attacks, virus infections, etc.	9.9%(12)	10.0%(9)	11.5%
10	Terrorism and the political situation in Southeast and South Asia	8.3%(16)	5.9%(17)	10.4%

*The figures in parentheses show the rank of each annual tally.

- "Higher labor costs" and "currency fluctuations" are higher in the rankings than in the previous year.
- "Outbreaks of epidemics (pandemics), etc." also continued to be ranked in the top 10, although it was a step back.
- (Both Southeast and South Asia and China and Russia) "terrorism and the political situation" made a big jump in this year's survey.

Lack of human resources due to loss of Talent and difficulty in acquiring Talents are a common issue across the board, but information leakage is recognized as a 2nd major issue in the Financial sector

Q 1.2 Industry comparison of priority risks that need to be undertaken (Manufacturing, Wholesale and Trading Companies, Finance)

	Asia as a whole		Manufacturing		Wholesale and trading companies		Financial	
1	Talent shortage due to loss of talent and difficulty in acquiring talent	30.8%	Soaring Prices of raw materials and crude oil	39.7%	Talent shortage due to loss of talent and difficulty in acquiring talent	30.4%	Talent shortage due to loss of talent and difficulty in acquiring talent	43.8%
2	Soaring Prices of raw materials and crude oil	28.5%	Talent shortage due to loss of talent and difficulty in acquiring talent	26.0%	Soaring Prices of raw materials and crude oil	26.8%	Information leaks due to cyber attacks, virus infections, etc.	31.3%
3	Price competition in the market	20.8%	Rising labor costs	22.9%	Foreign exchange fluctuations	26.8%	Group governance failure	22.9%
4	Rising labor costs	19.4%	Price competition in the market	22.3%	Price competition in the market	23.9%	Terrorism and political situation in China and Russia	20.8%
5	Foreign exchange fluctuations	18.3%	Supply chain disruption	20.0%	Rising labor costs	15.2%	Financial crisis	20.8%
6	Supply chain disruption	13.9%	Foreign exchange fluctuations	16.3%	Supply chain disruption	15.2%	Business specific violations of laws and regulations	18.8%
7	Terrorism and political situation in China and Russia	11.7%	Outbreaks of epidemics (pandemics), etc.	12.0%	Terrorism and political situation in China and Russia	14.5%	Price competition in the market	14.6%
8	Outbreaks of epidemics (pandemics), etc.	11.4%	Terrorism and political situation in China and Russia	11.4%	In Southeast and South Asia terrorism and the political situation	11.6%	In Southeast and South Asia terrorism and the political situation	14.6%
9	Information leaks due to cyber attacks, virus infections, etc.	11.0%	Poor product/service quality check system	11.1%	Outbreaks of epidemics (pandemics), etc.	9.4%	Extreme weather (floods, storms, etc.), large-scale natural disasters (earthquakes, tsunamis, volcanic explosions, geomagnetic storms)	12.5% (tied for 9)
10	In Southeast and South Asia terrorism and the political situation	9.9%	affect the business Technology transformation	10.0%	Extreme weather (floods, storms, etc.), large-scale natural disasters (earthquakes, tsunamis, volcanic explosions, geomagnetic storms)	8.7% (tied for 10)	affect the business Technology transformation	
					Group governance failure			Financial crime

Cost reduction and a review of corporate strategy have been recognized as continuing priorities, while risk measures such as strengthening internal controls and crisis management systems have also been emphasized

Q 2.1 Risk measures needed in the next year or so (top three answers)

	Risk Measures Considered by the Asian Base	FY 2020	FY 2021	FY 2022
1	Cost reduction	38.7%(1)	28.9%(2)	27.9%
2	Review of corporate strategy	33.5%(2)	32.1%(1)	26.8%
3	Strengthening internal controls	10.7%(8)	26.1%(3)	23.1%
4	Development of new products and services	13.6%(6)	18.1%(6)	19.7%
5	Review of human resource development plan	5.4%(-)	16.5%(8)	19.2%
6	Standardization of business processes	20.2%(3)	17.2%(7)	17.5%
7	Strengthening the crisis management system	19.1%(4)	19.0%(5)	17.2%
8	Review of salary and treatment	9.8%(9)	13.5%(9)	17.1%
9	Cyber Security enhancements	16.7%(5)	19.7%(4)	13.5%
10	Fund optimization	11.8%(7)	6.0%(-)	11.5%

*The figures in parentheses show the rank of each annual tally.

Note)Yearly totals do not add up to 100% because multiple answers are allowed

Overall, strengthening internal controls is recognized as an important risk measure, in addition to the emphasis on Cost reduction in the manufacturing sector and review of corporate strategies in the wholesale and trading sectors and the Financial sector

Q 2.2 Comparison of risk measures by industry (Manufacturing, Wholesale and Trading Companies, Finance)

	Asia as a whole		Manufacturing		Wholesale and trading companies		Financial	
1	Cost reduction	27.9%	Cost reduction	37.4%	Review of corporate strategy	34.1%	Strengthening internal controls	41.7%
2	Review of corporate strategy	26.8%	Review of human resource development plan	19.1%	Strengthening internal controls	29.0%	Review of corporate strategy	37.5%
3	Strengthening internal controls	23.1%	Strengthening internal controls	18.6%	Development of new products and services	22.5%	Development of new products and services	29.2% (tied for 3)
4	Development of new products and services	19.7%	Diversification of sources of raw materials	18.3%	Strengthening the crisis management system	20.3%	Strengthening the crisis management system	
5	Review of human resource development plan	19.2%	Review of corporate strategy	17.7%	Cost reduction	18.8%	Cyber Security enhancements	22.9%
6	Standardization of business processes	17.5%	Development of new products and services	16.3%	Standardization of business processes	18.1%	Standardization of business processes	16.7% (tied for 6)
7	Strengthening the crisis management system	17.2%	Strengthening the crisis management system	16.0%	Review of salary and treatment	17.4%	Business process automation	
8	Review of salary and treatment	17.1%	Increased manufacturing process/plant flexibility (e.g., substitute manufacturing at other plants in case of emergency)	15.1%	Fund optimization	16.7%	Review of salary and treatment	14.6%
9	Cyber Security enhancements	13.5%	Standardization of business processes	14.9%	Review of human resource development plan	15.2%	Review of human resource development plan	12.5% (tied for 9)
10	Fund optimization	11.5%	Review of salary and treatment	14.3% (tied for 10)	Reorganization	13.8% (tied for 10)	Promotion of paperless operation	
			Factory automation		Cyber Security enhancements		Review and introduce systems	

The composition functions of the TOP 3 have not changed since last year, and the enhancement of digital propulsion, Regional strategy planning, and new business development continue to be promoted

Q 3.1 Features currently lacking and being worked on to improve (Asian multiple answers)

	Features currently lacking and being worked on to improve	FY 2021	FY 2022
1	Digital propulsion	40.0%(1)	39.0%
2	Regional strategy planning function	28.5%(3)	37.2%
3	New business development function	29.4%(2)	28.3%
4	Compliance promotion function	27.5%(4)	27.4%
5	Security Promotion Functions	20.6%(7)	23.5%
6	Integrated risk management function	24.3%(6)	21.3%
7	Internal audit function	24.8%(5)	19.0%
8	Third-party risk management (Suppliers, dealers, etc.) capabilities	15.5%(8)	15.3%
9	ESG, Sustainability promotion Functions	14.4%(9)	15.0%
10	Other	2.6%(10)	4.0%

Note)Yearly totals do not add up to 100% because multiple answers are allowed

Overall, digital propulsion and Regional strategy planning are top priorities, while the manufacturing and Financial sectors are promoting compliance, and the wholesale and trading sectors are working to improve new business development

Q 3.2 Comparison of functions currently lacking and improving by industry (Manufacturing, Wholesale and Trading Companies, Finance)

	Asia as a whole		Manufacturing		Wholesale and trading companies		Financial	
1	Digital propulsion	39.0%	Digital propulsion	38.9%	Regional strategy planning function	39.9%	Digital propulsion	47.9%
2	Regional strategy planning function	37.2%	Regional strategy planning function	34.9%	Digital propulsion	37.0% (tied for 2)	Regional strategy planning function	35.4% (tied for 2)
3	New business development function	28.3%	Compliance promotion function	27.1%	New business development function		Compliance promotion function	
4	Compliance promotion function	27.4%	Security Promotion Functions	24.3%	Compliance promotion function	30.4%	New business development function	31.3%
5	Security Promotion Functions	23.5%	Integrated risk management function	23.4%	Security Promotion Functions	21.7%	Security Promotion Functions	27.1%
6	Integrated risk management function	21.3%	New business development function	22.0%	Integrated risk management function	19.6% (tied for 6)	Integrated risk management function	22.9%
7	Internal audit function	19.0%	Internal audit function	21.7%	Internal audit function		ESG, Sustainability propulsion function	16.7%
8	Third-party risk management (Suppliers, dealers, etc.)	15.3%	Third-party risk management (Suppliers, dealers, etc.) capabilities	19.4%	ESG, Sustainability Propulsion machine	14.5%	Third-party risk management (Suppliers, dealers, etc.) capabilities	14.6%
9	ESG, Sustainability Propulsion machine	15.0%	ESG, Sustainability propulsion function	17.4%	Third-party risk management (Suppliers, dealers, etc.)	13.0%	Internal audit function	12.5%
10	Other	4.0%	Other	3.4%	Other	5.1%	Other	6.3%

Even at the top and non-top levels, although order is different, their awareness is nearly identical

Q 3.3 Comparison of currently lacking and improving functions by job class

Necessary functions considered by management and executives	
Regional strategy planning function	39.9%
Digital propulsion	37.1%
New business development function	27.0%
Compliance promotion function	24.1%
Security Promotion Functions	23.9%
Integrated risk management function	19.5%
Internal audit function	17.8%
ESG, Sustainability promotion Functions	15.5%
Third-party risk management (Suppliers, dealers, etc.) capabilities	13.5%
Other	2.6%

Necessary functions considered by regular employees (managers), regular employees (non-managers) and others	
1	Digital propulsion 40.9%
2	Regional strategy planning function 34.7%
3	Compliance promotion function 30.4%
4	New business development function 29.6%
5	Security Promotion Functions 23.1%
6	Integrated risk management function 22.8%
7	Internal audit function 20.2%
8	Third-party risk management (Suppliers, dealers, etc.) capabilities 16.9%
9	ESG, Sustainability promotion Functions 14.5%
10	Other 5.4%

Part 2

Incidence of fraud in Asia

1. Revelations of fraud in the past three years
2. Types of fraud
3. Departments exposed to fraud
4. How the fraud was discovered
5. Position of the offender involved in the fraud

Although most of the countries reported that there had been a decrease in the number of cases of fraud or concerns about fraud from the previous year, with the exception of some countries, just under 1/4 of respondents were aware of fraud or concerns about fraud

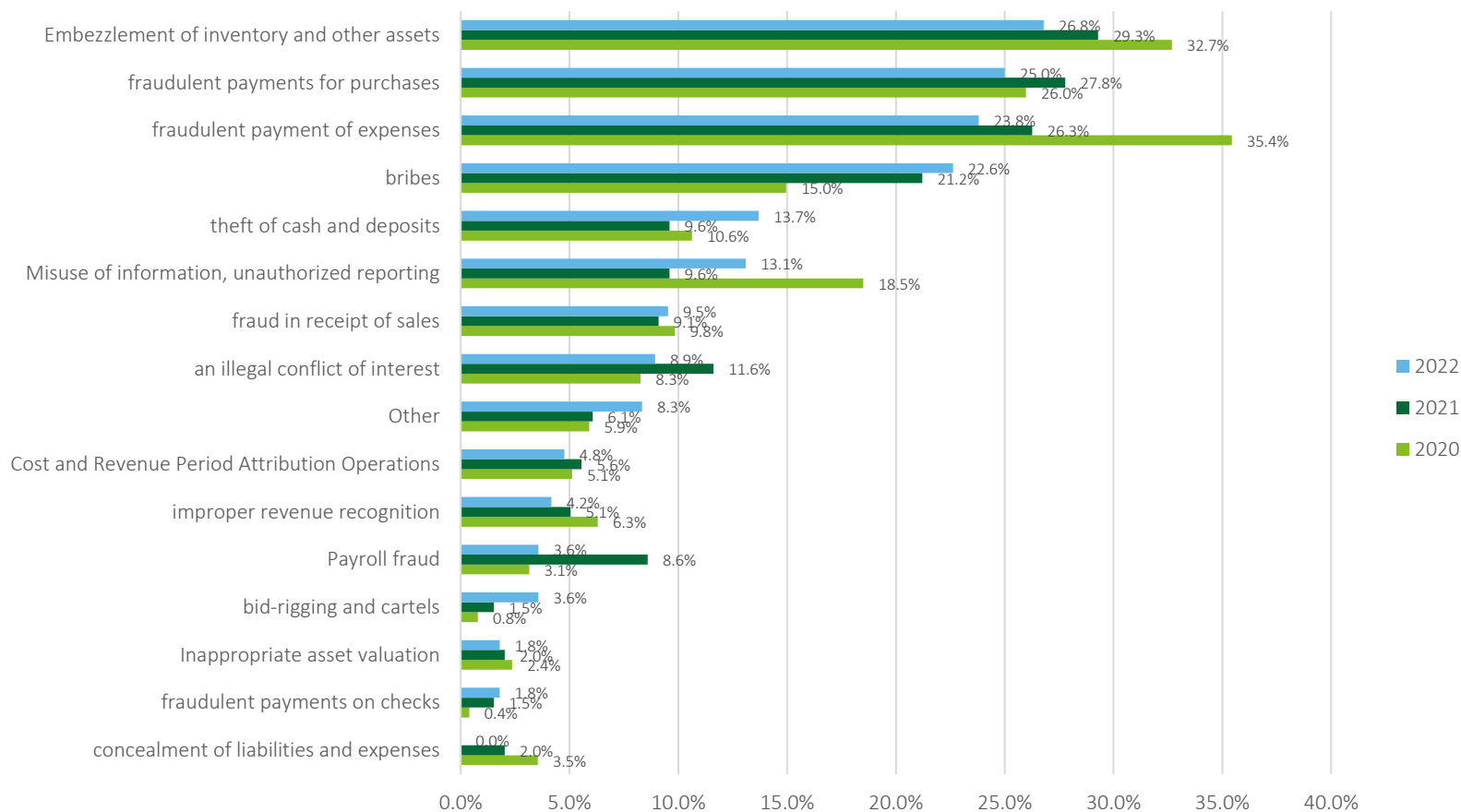
Q1 Existence of fraud or concerns thereof in the past three years



*Results for 2020, 2021, and 2022, from the inside of the pie chart.

Misappropriation of inventory and other assets and fraudulent payments related to purchasing and expenses are down compared to last year, but bribes, theft of cash and deposits, and misuse and misreporting of information are up compared to last year

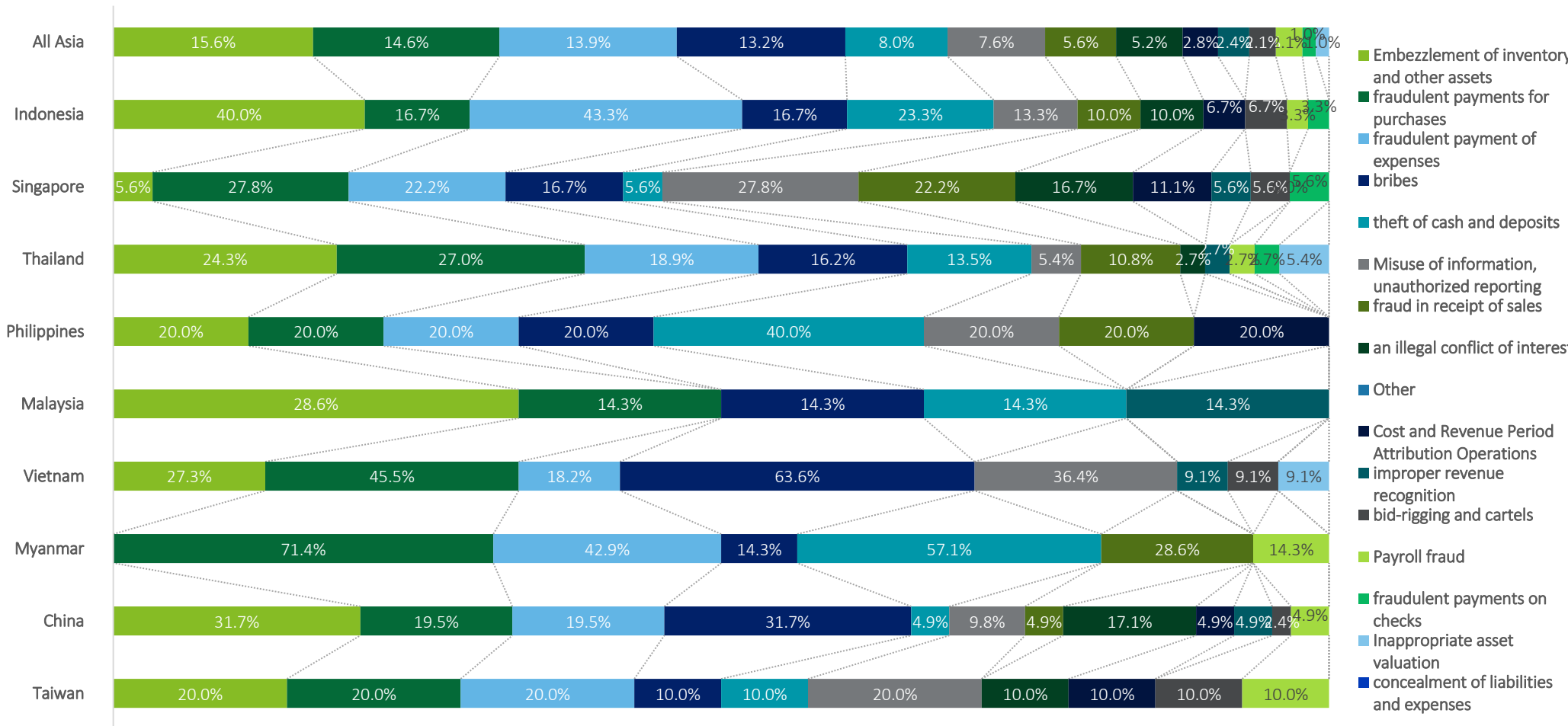
Q 2.1 Types of fraud (Asia/multiple answers compared to previous year)



Note)Year does not add up to 100% because multiple answers are allowed

Although the percentage varies from country to country and region to region, there are many cases of fraud directly linked to individual interests, such as asset embezzlement, fraudulent payments, bribes and theft

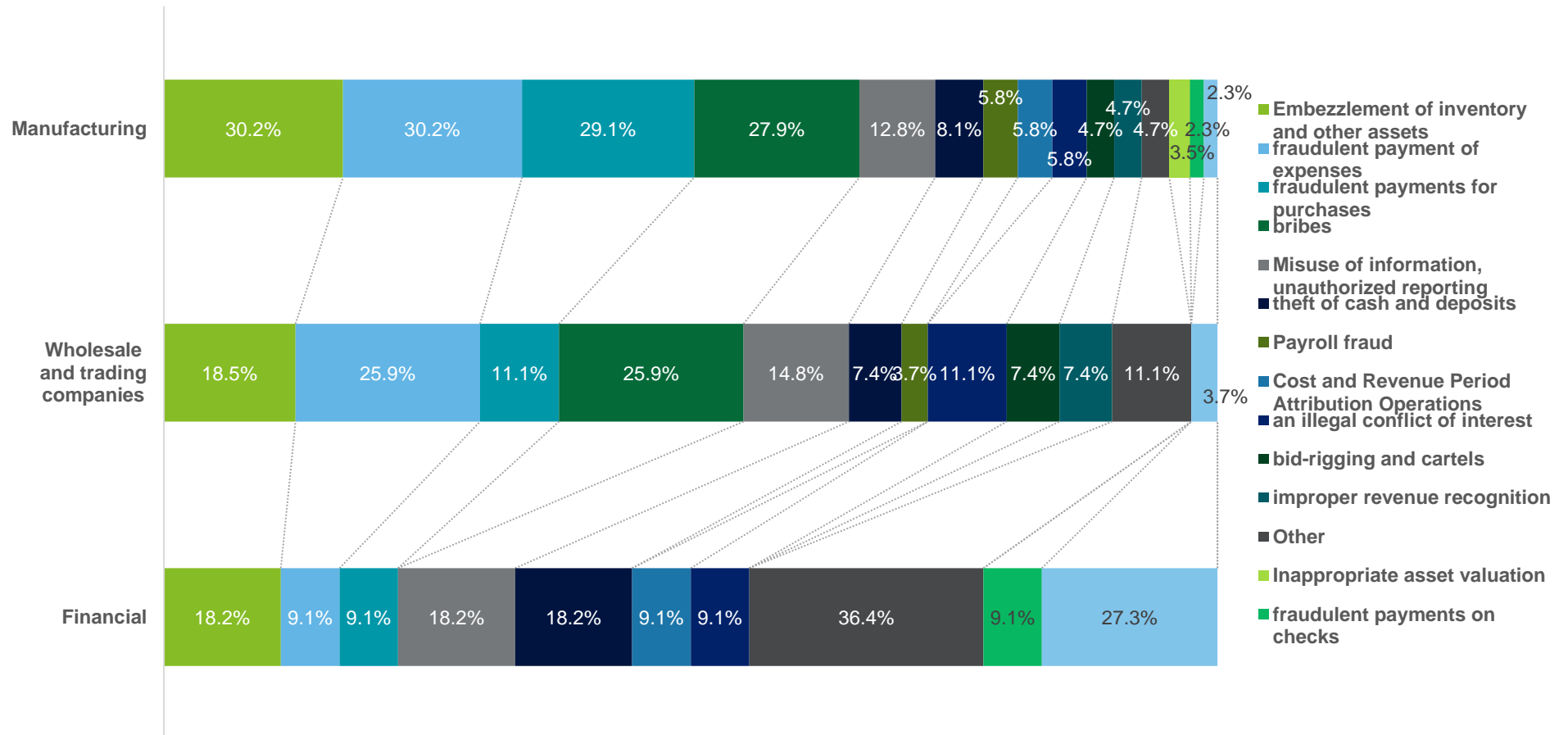
Q 2.2 Revealed fraud by country (multiple answers)



Note)The order of risks is in line with the ranking in All Asia

In the manufacturing sector, inventory and other assets are embezzled, in the wholesaling and trading companies, mispayments and bribes related to expenses, and in the finance sector, others are in first place

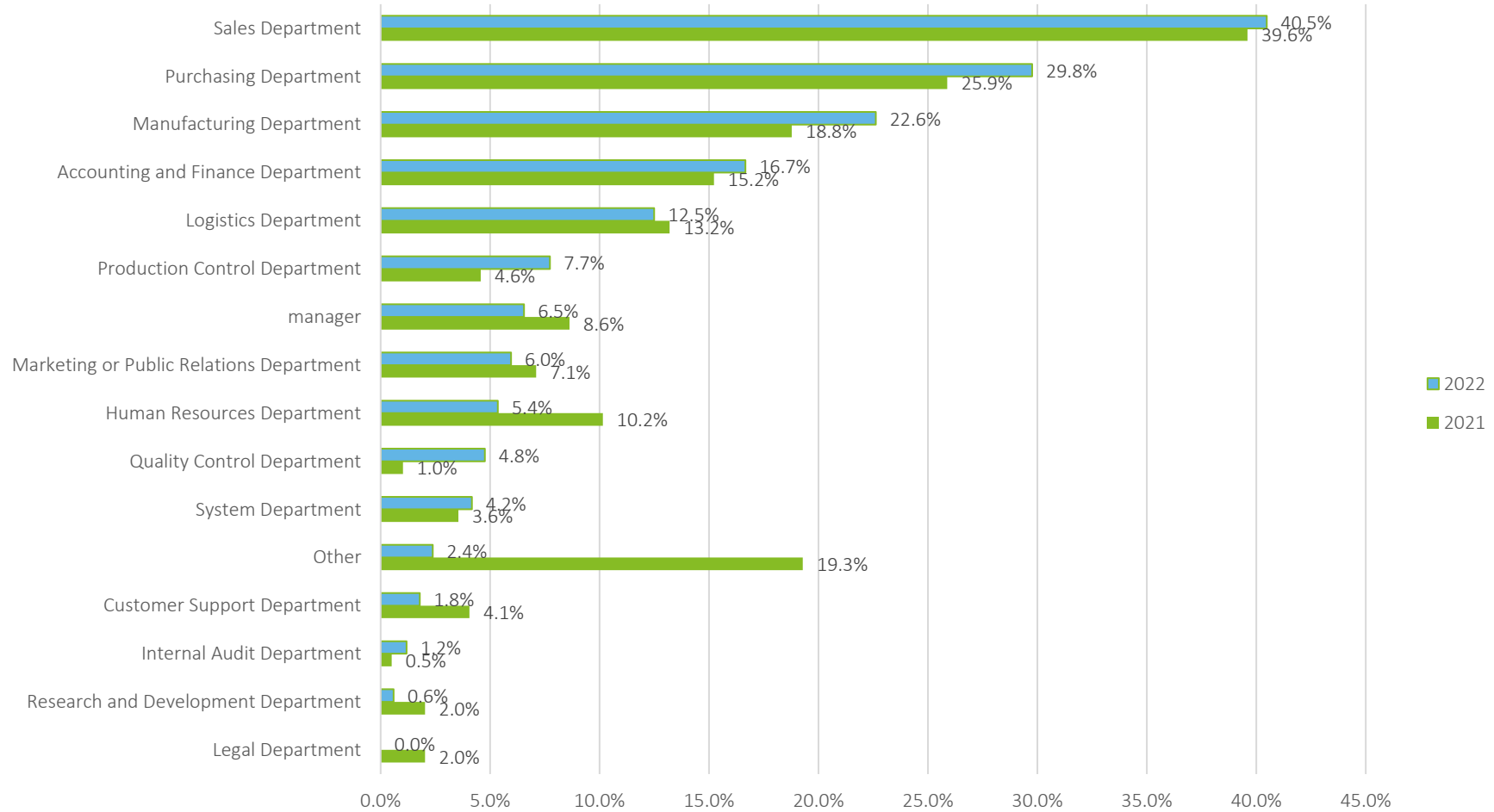
Q 2.3 Revealing irregularities by industry (manufacturing/wholesaling/trading/finance) (multiple responses)



Note)the order of risks is in line with the order in which they are ranked in manufacturing

The sales department, which was the top in the previous year, continued to be the top, the result shows the high risk of fraud in the sales department and the need for controls to prevent and detect fraud

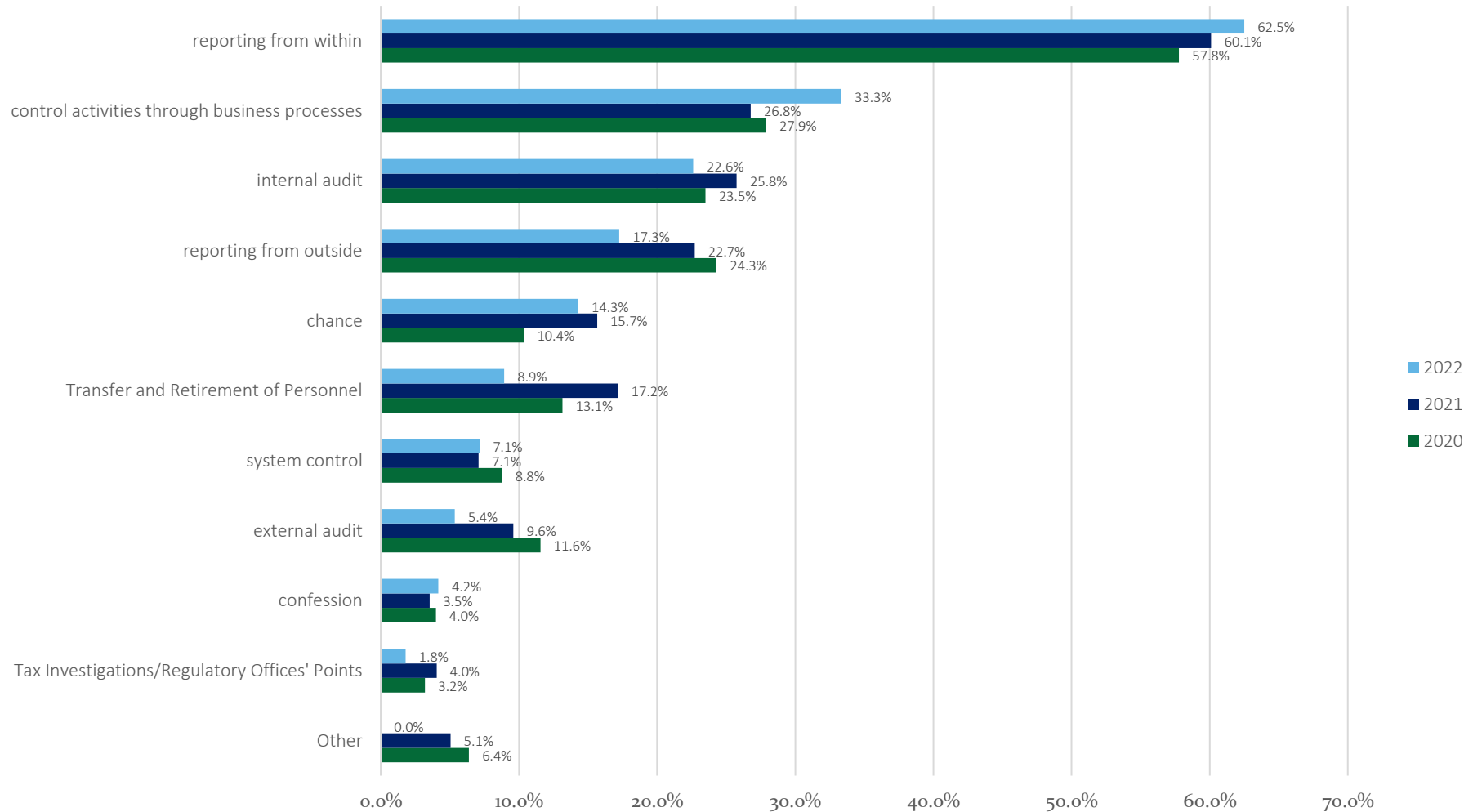
Q 3.1 Departments exposed to fraud (multiple Asian respondents)



Note) Total does not add up to 100% because multiple answers are allowed

Internal reporting fraud continues to rank high as last year, and business process control activities also has risen in rank

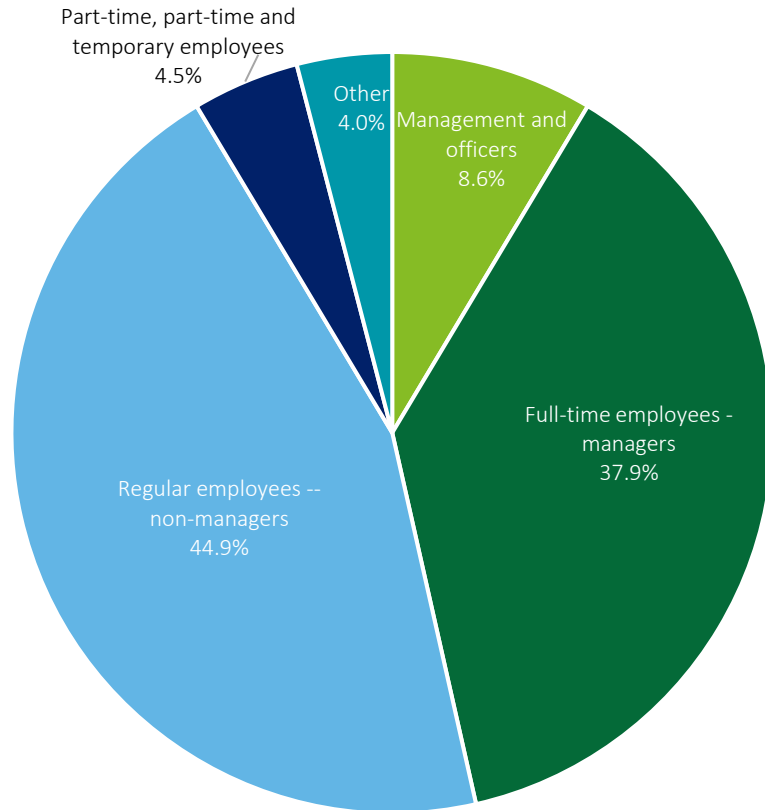
Q4 How the fraud came to light (Asian multiple answers)



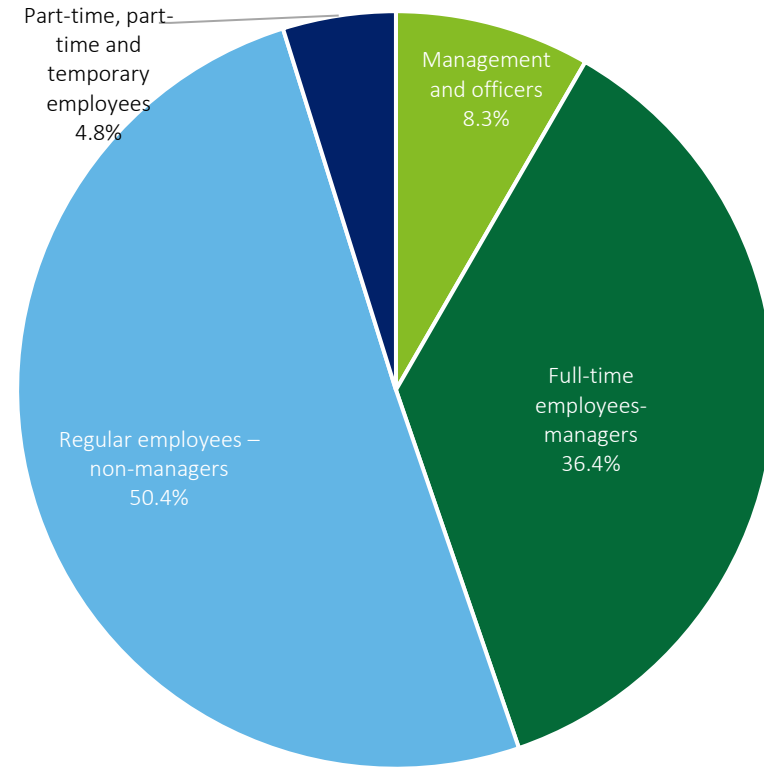
Note) Yearly totals do not add up to 100% because multiple answers are allowed
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As in the previous year, the number of cases of misconduct involving managers and above has been relatively high, and it is necessary to pay attention to the state of control not only to non-managers but also to executives and managers

Position of the offender involved in the fraud (FY 2021)



Position of the offender involved in the fraud (FY 2022)



Note) Yearly totals do not add up to 100% because multiple answers are allowed

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