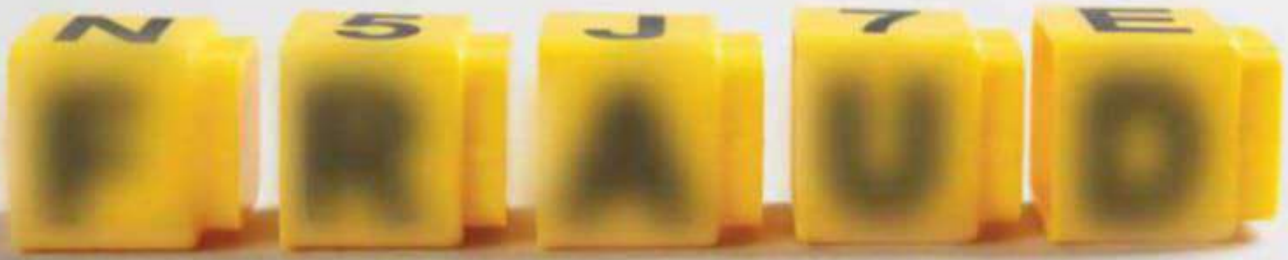


THE ROLE OF GOVERNANCE AND COMPLIANCE IN DEALING WITH EMERGING FRAUD RISKS

Written by **Raymon Ram**



In an era where the global business landscape is increasingly interconnected, the spectre of corporate fraud has emerged as a formidable challenge that knows no borders. This era is marked by a series of staggering corporate scandals, each unravelling with the dramatic impact of a cautionary tale. The audacious Wirecard financial fabrications, the bewildering deceptions at Theranos, the reckless account falsifications at Wells Fargo, Volkswagen's brazen emissions deceit, and the startling collapse of the FTX in the cryptocurrency sphere - these scandals are not just stories of individual failure but reflect a systemic vulnerability in corporate governance and compliance across the world.

These global narratives have a profound resonance in Malaysia, where similar governance and compliance lapses have been observed. The 1MDB scandal, a saga emblematic of financial mismanagement and corruption (Wright & Clark, 2021), along with the financial misreporting at Silverbird Group (The Edge Markets, 2012) and accounting irregularities at Transmile Group (The Star, 2007), mirror these international concerns in the Malaysian context. These instances underscore the necessity for robust governance and a stringent compliance framework to safeguard the corporate sector.

In response to these global challenges, there has been a significant move towards adopting internationally recognised standards, particularly the recent ISO standards, which mark a proactive effort to address these concerns at a global level. Standards such

as ISO 37001 for Anti-Bribery Management Systems and the latest ISO 37301 for Compliance Management Systems provide comprehensive guidelines for organisations to strengthen their anti-fraud and compliance frameworks. These standards, reflecting a global consensus on best practices, offer a roadmap for organisations, including those in Malaysia, to align with international norms and reinforce their governance structures.

Concurrently, Malaysia's efforts in enhancing corporate governance and compliance, such as the adoption of the Malaysian Code on Corporate Governance (MCCG) and the introduction of Section 17A in the Malaysian Anti-Corruption Commission (MACC) Act 2009, complement these international standards. The MCCG sets forth best practice guidelines for corporate governance, while Section 17A enforces corporate liability for corrupt practices, marking a significant legislative development in the fight against corporate fraud.

The convergence of these global standards with local reforms underscores a shared understanding of the challenges in today's corporate world. For Malaysian businesses, adhering to both international standards and local regulations is not just a compliance requirement but a strategic imperative in an era of heightened scrutiny and global interconnectivity. Embracing these standards is crucial for sustaining business integrity, maintaining stakeholder trust, and thriving in a global market increasingly vigilant against corporate misconduct.

Reflecting on the Malaysian Context

The Malaysian corporate landscape is characterised by a robust legislative framework that aims to mitigate fraud risks. Key legislations such as the Malaysian Anti-Corruption Commission (MACC) Act, the Companies Act, and the Personal Data Protection Act form the bedrock of this framework. Supplementing these are recently published ISO Standards, which provide international best practices and can significantly assist organisations in enhancing their governance and compliance systems.

The MACC Act 2009 and Adequate Procedures

The MACC Act's Section 17A introduces corporate liability for corruption, mandating companies to implement "Adequate Procedures" based on the TRUST principles. These principles - Top-Level Commitment, Risk Assessment, Undertake Control Measures, Systematic Review, Monitoring, and Enforcement, and Training and Communication - guide companies in developing a robust anti-corruption framework. The implementation of these principles can be augmented by ISO standards, particularly ISO 37001 (Anti-Bribery Management Systems), which offers guidelines for establishing, implementing, and maintaining an anti-bribery management system.

Companies Act 2016 and Beneficial Ownership Transparency

Amendments to the Companies Act 2016, with its emphasis on Beneficial Ownership Transparency, is aimed at enhancing corporate transparency and accountability. This legal requirement aligns with the ethos of ISO 37301 (Compliance Management Systems), which provides guidance on establishing, developing, implementing, evaluating, maintaining, and improving an effective compliance management system. This standard can help organisations in effectively managing their compliance obligations, including those related to beneficial ownership.

Personal Data Protection Act and Data Security

The Personal Data Protection Act's focus on data security is increasingly critical in the digital age. Here, ISO/IEC 27001 (Information Security Management Systems) becomes relevant. It outlines a framework for establishing, implementing, maintaining, and continually improving an information security management system. This standard can aid organisations

in ensuring the confidentiality, integrity, and availability of personal data, aligning with the requirements of the Personal Data Protection Act.

Critical Evaluation and Integration of ISO Standards

Enhancing Anti-Corruption Measures

ISO 37001 can be instrumental in enhancing the anti-corruption measures required under the MACC Act. By providing a globally recognised framework, it aids in the establishment of international best practices in anti-bribery and corruption policies.

Strengthening Compliance Management

The adoption of ISO 37301 can revolutionise how Malaysian companies approach compliance management. This standard helps in integrating legal requirements, like those in the Companies Act, into corporate governance frameworks, thereby fostering a culture of compliance.

Bolstering Information Security

ISO/IEC 27001's role in enhancing data security complements the objectives of the Personal Data Protection Act. Its implementation can help organisations in effectively managing risks to the security of information they hold, thereby safeguarding against data breaches and related fraud risks.

Continuous Improvement and Adaptation

A critical aspect of these ISO standards is their emphasis on continuous improvement and adaptation. They encourage organisations to regularly review and update their systems and processes, ensuring that they remain effective in a rapidly changing business environment.

Future Outlook and Challenges Ahead

While the integration of ISO standards with Malaysian legislative requirements presents an effective approach to fraud risk management, challenges in implementation persist. These include the need for tailored adaptation of these standards to fit the specific context of Malaysian organisations and the necessity for ongoing training and awareness programmes.

Moreover, the dynamic nature of both the legal landscape and business risks, particularly in the digital realm, necessitates a commitment to continuous learning and improvement. The future of corporate governance and compliance

in Malaysia will likely be defined by how well organisations can embed these international standards into their operational ethos, fostering a culture of integrity, transparency, and resilience.

The combination of Malaysian legislative frameworks and recently published ISO standards offers a comprehensive approach to managing fraud risks. This approach requires a strategic commitment from organisations to integrate these elements into their corporate governance and compliance practices, ensuring sustainable business operations and fostering trust among stakeholders in a globally connected economy.

Raymon Ram is an advocate against economic crime, having published numerous articles and case analyses on the subject matter. He is a Certified Fraud Examiner (CFE) and a Certified Anti-Money Laundering Specialist (CAMS) with a Master's degree in Economic Crime Management. Raymon is also the Founder/Managing Principal at Graymatter Forensic Advisory Sdn Bhd, a solution-based training and advisory specialising in Financial Forensics, Fraud

Risk Management and AML/CFT Compliance. He also holds the position of Secretary General at Transparency International Malaysia.

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