

# Deloitte.

*Together makes progress*

## Fraud and Corporate Misconduct Watch

Managing fraud risks in related  
party transactions

December 2025





**Related party transactions** pose heightened fraud risks as they allow control over both sides of a deal, creating opportunities for manipulation and concealment. In today's corporate landscape, interconnected business relationships are common, and ill-intentioned employees may exploit these transactions to misappropriate assets or bypass internal controls. High-profile scandals, both globally and regionally, underscore the importance of vigilance. By understanding how fraudsters misuse related party arrangements, organisations can identify vulnerabilities and strengthen governance frameworks. In this edition of Fraud and Corporate Misconduct Watch, we examine these risks and share strategies to help organisations stay resilient and compliant.

Related party transactions involve the exchange of resources, services, or obligations between entities with pre-existing relationships. These relationships often include individuals and their families, subsidiaries, affiliates, or entities under common control. Common examples include:



**Group entities:** Transactions between entities within the same corporate group such as parent and subsidiaries.



**Entities under common control:** Transactions between entities controlled by the same individual, group, or holding company.



**Key management personnel:** Transactions involving senior executives or board members of the organisation.



**Closely related parties and family members:** Transactions with close relatives, such as spouses, children, or siblings. Risks of nepotism, cronyism and patronage remain prevalent.



**Entities with significant influence:** Transactions where one entity exerts significant influence, but not full control, over another.

While related party transactions are not inherently fraudulent, they can be manipulated to mislead stakeholders or obscure the true nature of financial dealings. Financial reporting standards require disclosure of such transactions in financial statements for transparency.

Challenges in identifying related parties and related party transactions include:



Layered or indirect ownership;



Limited availability of related party information due to privacy and sensitivity; and



Weak internal controls for authorising, recording, and monitoring related party transactions.

# The ideal cover for fraudulent activity

Even though compliance professionals, internal control specialists, supervisory boards, banks, and auditors are aware of the fraud risks associated with related party transactions, warning signs often slip through the cracks. Whether it's financial reporting fraud, bribery or asset misappropriation, related party transactions remain a fraudster's favorite tool. Here's why:

- **Design and control transactions:** Related party transactions present opportunities for fraudsters as they can manipulate both sides of a transaction, while disguising their true nature. By dictating the terms, documentation and execution, fraudsters can design schemes to achieve their fraud objectives, such as misappropriating assets or inflating revenues. For instance, a CEO might arrange a transaction with a seemingly independent third party that is in fact, under their control.
- **Earnings management:** Fraudsters can use related party transactions to fabricate sales and inflate revenues. This often involve recording fictitious sales to a related entity to meet performance targets, followed by creative accounting to manage the resulting receivables.
- **Concealing liabilities:** Related party transactions can be used to shift liabilities off the books by transferring debt obligations to an entity under management's control. This might involve formally assigning debt or creating arrangements to shift servicing responsibilities.
- **Round-tripping:** Fraudsters can circulate funds through related parties to simulate "legitimate" business activities. By orchestrating transactions including but not limited to sales and purchases, they create the illusion of normal operations.
- **Asset stripping:** Fraudsters can exploit related parties to transfer valuable assets at below-market prices, benefiting the related party at the organisation's expense. Assets may also be used for personal benefit, such as being pledged as collateral for private loans.
- **Complex structures:** Fraudsters often create complex structures to obscure illicit activities. This complexity acts as a smokescreen, making it challenging for auditors and governance bodies to trace transactions and detect fraudulent behaviour.
- **Manipulation opportunities:** The lack of independence in related parties creates opportunities for collusion and transaction manipulation. Fraudsters may establish entities solely for fraudulent purposes, presenting them as independent while maintaining control behind the scenes.
- **Facilitating bribes:** Related party transactions can serve as a channel for illicit payments, such as routing business through related entities to bribe public officials.



Managing fraud risks in related party transactions is akin to managing other types of fraud or corporate misconduct risks. Deloitte's **Fraud Risk Management** framework provides a structured approach to designing and implementing an effective system of controls to manage fraud risks.



## Look out for red flags, unusual patterns and behaviours

- **Hiding close relationships:** Weak or lack of internal controls and oversight with a narrow focus on formal related parties, while overlooking informal ties such as friendships, family connections or nepotistic arrangements.
- **Undisclosed related parties:** Failure to disclose related parties can signal attempts to hide conflicts of interest or fraudulent activities.
- **Management involvement in related parties:** Close ties between key management personnel and related parties involved in transactions may indicate potential conflicts of interest and biased decision-making.
- **Non-arm's length transactions:** Transactions that are not conducted at market terms, where the related parties may receive preferential treatment.
- **Unusual terms:** Non-standard terms, such as interest-free loans, extended repayment periods, or other atypical conditions warrant careful evaluation.
- **The "not a related party" confirmation:** Extra scrutiny is warranted when confirmations assert that transactions are not with related parties; these are often used to mislead auditors and stakeholders.
- **High value amounts:** Related party transactions involving substantial amounts warrant heightened scrutiny as they can materially impact the organisation's financial statements.
- **Overly complex structures:** Excessive complexity in the corporate structure or related party relationships may be a deliberate tactic to obscure the true nature of transactions.
- **Lack of substantiation:** Inadequate documentation or lack of supporting evidence for related party transactions is a significant red flag, as proper documentation is essential for transparency and accountability.
- **Timing of transactions:** Transactions recorded late, backdated or occurring just before the end of a reporting period may suggest manipulation of financial statements via related party transactions to alter reported performance or conceal true financial position.
- **Frequent changes in related parties:** Regular or unexplained changes in related party relationships can indicate attempts to conceal true affiliations or manipulate financial outcomes.
- **Unexplained variances in financial results:** Significant discrepancies in financial performance that cannot be explained by normal business operations or not in line with market trends may suggest manipulation through related parties.
- **Use of shell companies:** Large transactions involving newly incorporated entities or entities with no apparent business purpose can be red flags for money laundering or asset misappropriation.

More importantly, when looking at transactions always ask yourself:  
What is the business rationale? Does the transaction make sense?



# Contacts

## Jarrold Baker

Forensic & Financial Crime Partner  
Deloitte Southeast Asia  
jarbaker@deloitte.com

## Doddy Ashraf

Forensic & Financial Crime Partner  
Deloitte Indonesia  
dzulma@deloitte.com

## Oo Yang Ping

Forensic & Financial Crime Partner  
Deloitte Malaysia  
yoo@deloitte.com

## Eiichi Yoshikawa

Forensic & Financial Crime Director  
Deloitte Thailand  
eyoshikawa@deloitte.com

## Hanh Do Thi Hong

Forensic & Financial Crime Director  
Deloitte Vietnam  
hanhdo@deloitte.com

## Chey Zheng Feng

Forensic & Financial Crime Senior Manager  
Deloitte Singapore  
zchey@deloitte.com

# About Deloitte Forensic & Financial Crime

## Treating potential business threats today to help protect you against risk tomorrow

With increasing regulation and technology-fueled financial crime, threats to the reputation and value of your business are widespread.

That's why we are ready to help you address issues related to financial crime, fraud, and corporate misconduct. Our world-class team of specialists leverage the depth and breadth of Deloitte's global presence alongside innovative technology and tools, like GenAI, to deliver tailored solutions that support discovery services through litigation and regulatory matters, investigation management around data and disputes, fact-finding services, business disputes, and claims management.

From resolving business crises, controversies, and transactions to treating potential business threats today, we protect brands, reputations, and communities around us by proactively advising on exposure to fraud, corruption, money laundering and other financial crime issues. By working with us, be empowered to drive progress and champion the unexpected.

## Our Southeast Asia team

Across Southeast Asia, our integrated team consists of 7 partners and over 200 forensic professionals covering fraud and investigation services, discovery and computer forensic, data analytics and financial crime advisory. Our local team has extensive experience in performing prominent and challenging engagements across industries and in many countries. In countries where we do not have dedicated forensic professionals, we team with the local Deloitte office to provide local language and cultural expertise.







Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which is a separate and independent legal entity, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Bengaluru, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Mumbai, New Delhi, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

This communication contains general information only, and none of DTTL, its global network of member firms or their related entities is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication.