Deloitte.

Together makes progress

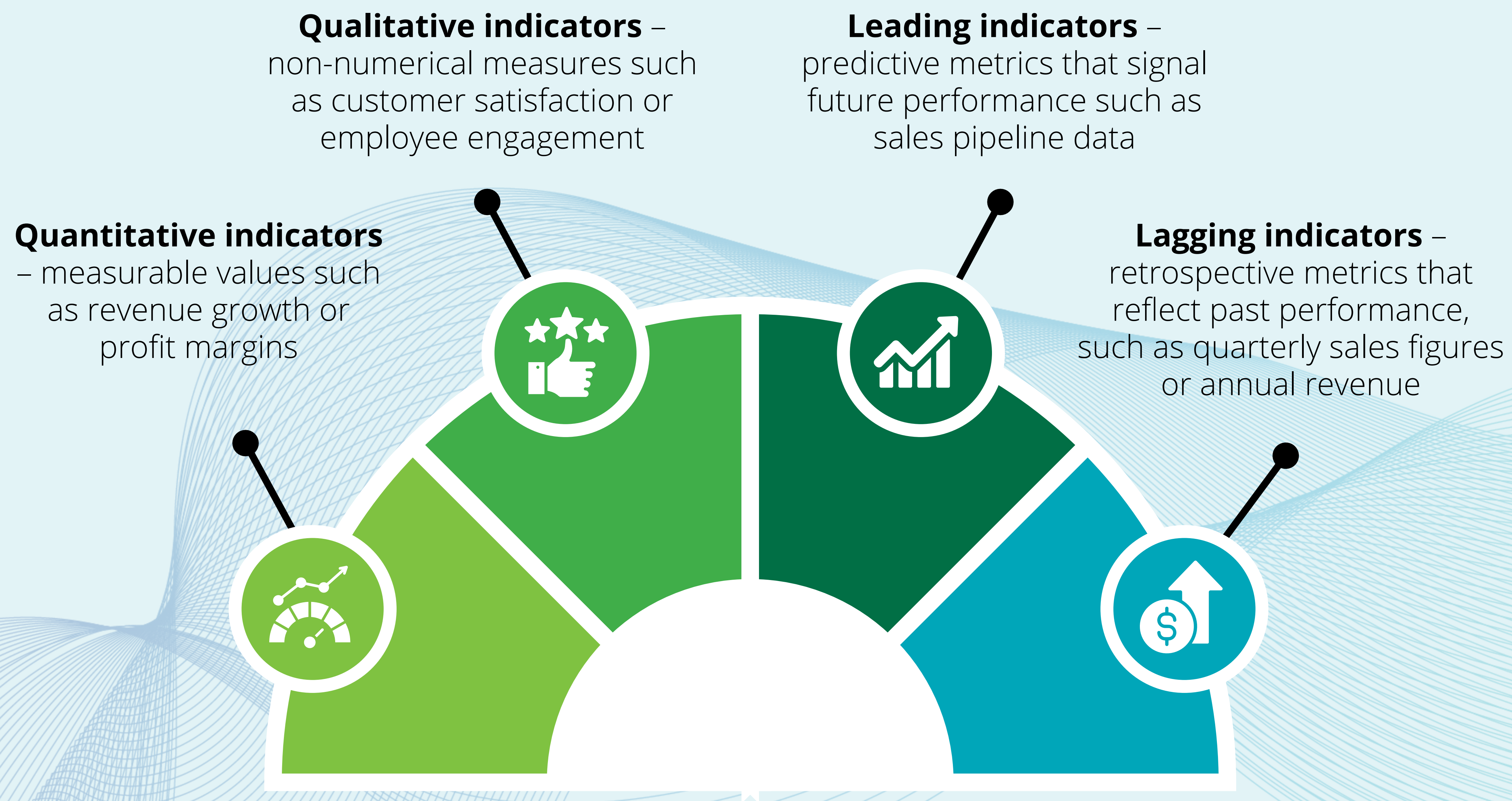
Fraud and Corporate Misconduct Watch

Managing fraud risks arising from Key Performance Indicators

February 2026

Financial Key Performance Indicators (KPIs) are metrics used by stakeholders — including management, investors, regulators, and creditors to assess an organisation's financial health and performance. These KPIs guide strategic decisions and management actions in maximising value and advancing corporate social responsibility initiatives. However, when pressure intensifies to meet certain KPIs, there is an inherent risk that individuals may resort to unethical practices or accounting fraud. Such fraud can manifest in various forms, including inflation of revenue, manipulation of expenses, and incomplete or non-disclosure of liabilities. These actions erode investor trust, damage corporate reputation, and expose the organisation to significant legal and financial consequences.

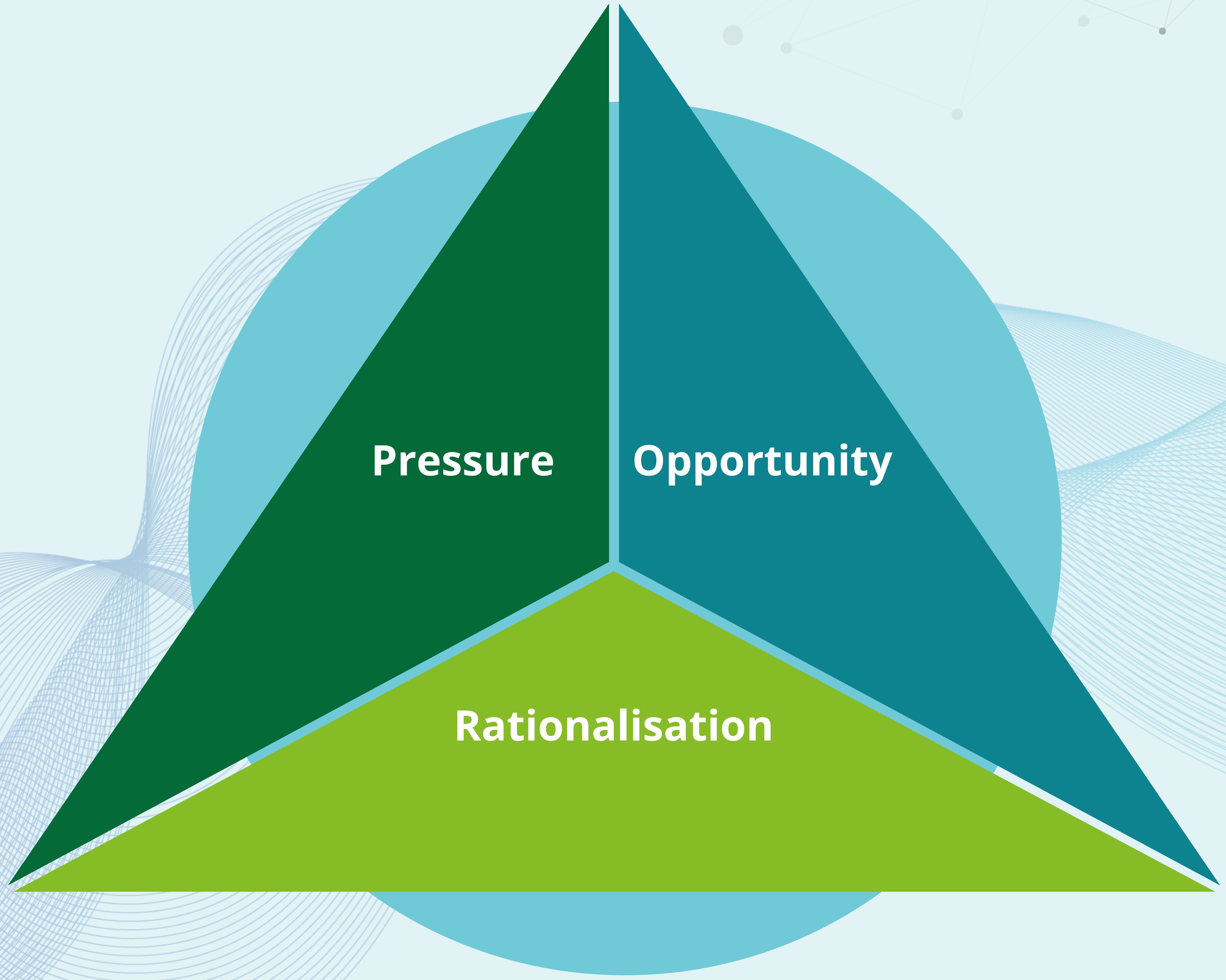
KPIs are quantifiable measures that reflect how effectively an organisation is achieving its objectives. They provide a benchmark for assessing the performance of an organisation, department, or individual in meeting targets and driving strategic goals.



Understanding how KPIs can drive unethical behaviour and fraud is critical to safeguarding organisational integrity and stakeholder trust. By examining fraudster motivations and tactics, organisations can design effective strategies to mitigate risks and promote ethical performance.

This document explains how KPIs may be exploited, highlights red flags and unusual behaviours linked to KPI misrepresentation, and outlines preventive and detective measures to manage fraud-related KPI risks — helping preserve the integrity of performance measurement systems.

KPI risks - at the heart of the fraud triangle



The Fraud Triangle offers a widely accepted framework for understanding how occupational fraud occurs and was first introduced in the 1950s by criminologist Dr. Donald Cressey.

According to the Association of Certified Fraud Examiners, the Fraud Triangle hypothesises that if all three components are present — unshareable financial need, perceived opportunity and rationalisation — a person is highly likely to pursue fraudulent activities.

While KPIs are powerful tools for measuring progress and driving performance, they can also create vulnerabilities. When individuals and teams face mounting pressure to deliver ambitious targets, the temptation to seize opportunity by cutting corners or breaching policy grows. In such high stakes environments, rationalisation often follows—convincing people that bending the rules is justified.

KPIs can create fertile ground for fraud for several reasons:

Manipulation opportunities
Metrics can be distorted to misrepresent actual performance, misleading stakeholders and concealing illicit activities.

Incentive structures
Organisations often link bonuses, promotions, and other incentives to KPI achievement. This can create an environment where individuals feel pressured or tempted to rationalise unethical or fraudulent activities as necessary steps to hit their targets and secure their rewards.

Lack of oversight
Without regular monitoring KPIs can shift from being a performance tool to becoming a vulnerability. Poor oversight can result in misalignment with organisational objectives, unethical or unhealthy behaviours, and weaken accountability. When KPIs are not closely reviewed or audited, they create opportunities for manipulation and fraud to go undetected.

Pressure to perform
Employees, particularly those in sales and finance often face intense pressure to meet KPIs. This pressure can drive unethical behaviour, such as falsifying data or inflating results.

Enabling unethical behaviour
When KPIs focus solely on outcomes and not how those results were achieved, they can encourage undesirable practices. Leaders may embellish figures or exert undue pressure on team members to meet targets, fostering a culture of fear and mistrust.

Focus on short-term gains
KPIs often emphasise immediate performance, encouraging behaviours that prioritise immediate results over long-term sustainability. This narrow focus may lead individuals to engage in unethical or fraudulent practices to meet short-term targets without considering broader implications.

Are your KPIs driving sustainable success or pushing performance at any cost?

Managing fraud risks arising from Key Performance Indicators is no different from 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.

Beyond the numbers: Detect KPI-driven red flags

- **Consistently meeting targets without clear rationale:** There should be a clear correlation between operational activities and achievement of targets. Consistently meeting targets without credible explanation may indicate that performance metrics are being manipulated.
- **Frequent changes to KPI definitions or metrics:** Regular alterations to how KPIs are defined, measured or reported may be an indicator of misrepresentation. Such changes may obscure genuine performance trends and may be used to selectively inflate or deflate results.
- **Lack of transparency in KPI calculations:** Limited visibility into how KPIs are calculated or which data sources are used, may make verification of results difficult. Such opacity may conceal manipulation of inputs or calculation methods, presenting a misleading picture of performance.
- **Overemphasis on a single KPI:** Excessive focus on one or a few KPIs can undermine a balanced view of performance. This tunnel vision prioritises achieving certain targets over overall organisational health, potentially encouraging unethical behaviour to achieve those numbers.
- **Incentive structures heavily linked to KPIs:** Bonuses, promotions or other rewards that are tied closely with KPI outcomes, may create pressure for employees to manipulate data or prioritise KPI achievement over broader organisational goals.
- **Discrepancies between KPI data and other performance indicators:** When KPIs sing a different tune from other key metrics (i.e. stand-alone balance sheet and income statement), it raises questions about data integrity. Such inconsistencies may indicate manipulation or selective reporting to present favourable performance.
- **Inconsistencies with sector performance:** When a sector is experiencing a performance decline, companies reporting KPIs that significantly deviate from this trend may raise concerns. Such inconsistencies may indicate selective reporting or manipulation to appear favourable against peers. This may also reflect a misalignment with industry benchmarks, potentially masking underlying performance issues.

Accurate representation of KPIs is essential for maintaining trust, enabling informed decision-making, and safeguarding the overall health and success of an organisation.

Misrepresentation can have far-reaching consequences, undermining financial performance, eroding organisational culture and damaging stakeholder relationships

Accuracy and reliability of Key Performance Indicators are critical for quality reporting, effective performance measurement and sound decision making. Implementing robust controls is essential in detecting and deterring unethical behaviours, standardising KPI definitions and calculations, and aligning performance metrics with the organisation's strategic goals. Strong controls also enable consistent monitoring and reporting, enabling timely interventions when discrepancies or irregularities arise.

Element 01:
Governance, organisation, and leadership

- Define roles and responsibilities for KPI management and reporting
- Build a culture that promotes and values transparency and honesty
- Implement soft controls to monitor leadership behaviour and team dynamics
- Set up independent committees to review and validate KPI data

Element 02:
Regulatory obligations and risk assessment

- Ensure KPIs align with relevant regulations and industry standards and regularly review compliance requirements
- Identify and assess likelihood and impact of KPI misrepresentation risks
- Develop and implement strategies to mitigate identified risks, such as data validation processes
- Conduct thorough assessments to detect and address risk of management override of controls

Element 03:
Policies and control activities

- Establish clear policies outlining the procedures for setting, measuring and reporting KPIs
- Ensure segregation of duties across KPI setting, measuring and reporting
- Use reconciliation procedures and automated checks to ensure accuracy and consistency
- Require multiple-level approvals before KPI reports are disseminated

Element 04:
Communications, awareness, and training

- Evaluate KPIs by assessing both behaviours ("how") and outcomes ("what")
- Establish clear channels for reporting concerns and encourage open dialogue about KPI integrity
- Monitor workplace culture to proactively identify and address unhealthy competition
- Provide clear guidelines and templates to ensure consistent KPI reporting

Element 05:
Due diligence and third-party risk management

- Carefully select KPIs for inclusion in contracts and partnerships, ensuring they reflect organisational priorities
- Conduct comprehensive due diligence before engaging third parties, verifying their reliability and data integrity
- Establish ongoing monitoring of third-party performance and data quality to promptly address any issues or risks

Element 06:
Detection and reporting mechanisms

- Set up alerts to identify unusual patterns or deviations from expected values
- Establish confidential channels for employees to report suspected KPI misrepresentation, ensuring whistleblower protection
- Verify the accuracy and completeness of reported KPIs
- Develop reports that highlight exceptions or outliers in KPI data, and promptly investigate and address the root causes

Element 07:
Incident management and response

- Establish clear protocols for responding to KPI-related incidents, ensuring swift and structured action
- Initiate thorough investigations when discrepancies or issues arise from KPI reporting
- Communicate transparently with relevant stakeholders about incidents and actions taken, maintaining trust and accountability

Element 08:
Monitoring, testing, and continuous improvement:

- Use dashboards and key metrics to track the integrity of KPIs
- Periodically test controls to prevent and detect KPI misrepresentation
- Benchmark KPI practices against industry standards and best practices to identify improvement opportunities
- Foster a culture of innovation and adaptability, ensuring KPI processes evolve with business needs and risk

Contacts

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

Doddy Ashraf Zulma
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 8 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.