

Most efficient way to detect fraud

With the increasing demand for listed entities and financial services in Indonesia on good corporate governance, it was demanded for our company to have a measure to detect fraud. With the current business condition, can you advise on the most efficient way to handle this?

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All organisations, regardless of size and industry, are subject to fraud risks. If the fraud is large, then it could hit the organisation to the bottom. Imagine the massive loss, huge legal costs, diminishing investor trust, destruction of brand and reputation. The place you work at might be gone in a split second.

You might think that if there was never a reported occurrence of large fraud, then fraud risk management should not be a priority. Is that really so? Actually, no report of occurrence does not mean that it never happened, and small fraud could lead to massive fraud – fraudsters do not limit themselves; they steal from employer wherever the opportunity presents itself.

There are 3 factors for an ordinary person to commit fraud: pressure, opportunity, rationalisation. Pressure is what motivates the person to commit fraud; opportunity is the method seen by the person that allow fraud to happen and not caught; rationalisation is the thought use to justify the conduct of fraud—rationalisation makes the weird feeling you have in your stomach when you know you do something bad, suddenly disappear.

A recent survey by ACFE launched in 2016 show that asset misappropriation is by far the most common occupational fraud (83%), compared to corruption (35%) and financial statement fraud. Though lower in number of occurrence, financial statement fraud caused a median loss of US\$975,000. In Asia-Pacific, top 5 fraud scheme includes corruption, non-cash, billing, expense reimbursements, and financial statement fraud, and top mostly happened in operations, sales, and purchasing.

Fraudster profile & method of concealment

Most fraudster are smart, which makes it more difficult to detect, and this is aligned with ACFE survey which revealed that 80% of fraudster in Asia Pacific have a university degree, and 42% were managers in their company.

The fraud concealment method in asset misappropriation usually involves creation of fraudulent physical documents, altering physical documents, creating fraudulent transactions or deleting transactions in the accounting system, altering document or files, altering account balances in the accounting system, altering and deleting journal entries, altering reconcilia-

tion, and creating fraudulent files.

Preventing & detecting fraud

Preventing is always better than detecting. To prevent, one need to create a culture that uphold ethics and integrity, and a sense that there will be always someone watching over you, you can build a fraud risk management framework to support the implementation.

The easiest and efficient way to create that sense is to facilitate a reporting system where people can report any wrongdoing occurred within the company. ACFE study also shows that 'Tip' is always on the top in initial detection of fraud, both in small and large organisation.

Ideally, to gain more trust, it would be better if the reporting system be managed independently from the company. This is to give greater assurance to the 'tipper' that their personal information will not leak. Tip received should then be followed up appropriately and measures need to be taken to improve the related process within the organisation – as this will also be one factor that boost employee's trust on management commitment on business ethics.

KEY POINTS

- Fraud risk management should be a priority for all organisations
- Fraudster are smart and have varied concealment methods, thus good control environment is crucial
- Most fraud were initially detected through 'tips'
- The easiest & most efficient way to detect fraud is to provide a reporting system that allow people to report on wrongdoing



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THE POWER OF BEING UNDERSTOOD

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