Fraud incident handling management
Meeting the challenges of fraud
Recently, more companies are becoming more aware of the financial and reputational damage that fraud can cause to a company. Especially those with corporate governance responsibilities should be asking themselves what can be done to assess, tackle and mitigate the associated risks. Risks faced as a result of fraud can be severe and include criminal prosecution, large fines, reputational damage and competitor litigation leading to loss of share value and investor confidence. Companies have to be alert. There must be effective ways to ensure the security and integrity of the enterprise and its value.

**Understanding the challenges**

Countering fraud issues may be a formidable challenge for many reasons, such as:

- Improper payments may be seen as “the way of doing things” in some sectors, deeply rooted in many cultures and not condemned loudly and widely enough in many of the world’s leading economies.

- A policy of not engaging in official bribery can place an organization in a difficult competitive position in relation to both domestic entities and countries with weaker anti-bribery regimes.

- Countries with higher perceived fraud risk include the emerging markets where future earnings potential is greatest and pressure to gain market share is at its most intense.

- The definition and perception of what constitutes a bribe versus normal business practices differs around the world.

- The participants may go to great lengths to conceal fraud - for example, by using intermediaries or cash payments or by fabricating documentation.

- It raises real challenges in defining legitimate business practices whilst allowing sufficient flexibility to motivate staff and generate profit - for example, networking and entertaining.

- At times due to a close relation, a conflict of interest may arise, which may result in conducting improper business practices.

Fraud is a fact in the business life. What thoughts will be on the minds of top management or those responsible for corporate governance when such fraudulent acts are costing the company severely?

How can you afford not to know, how much the company is possibly losing? Studies show that businesses can lose up to 6% of revenues to fraud. That’s a massive number.
The “fraud triangle”

Many studies suggest that employees who commit fraud generally do so because there is opportunity, pressure and rationalization.

A perceived **opportunity** for fraud exists when a employee believes they can override anti-fraud controls, for example, because the individual is in a position of trust or is aware of weaknesses in the control environment. Fraudsters can often **rationalize** their actions because they can justify to themselves the circumstances that allow them to commit a dishonest act. And even otherwise honest individuals can commit fraud in an environment that imposes sufficient **pressure** on them, whether this originates from sources inside or outside the organizations.

This framework is a useful tool for those seeking to understand and manage fraud risks. It has been generally accepted by the auditing profession in its consideration of an auditor’s responsibility for fraud detection.
Ernst & Young's Global Fraud Survey asked senior decision makers from developed and emerging markets to identify where the greatest risk of fraud was in their organizations, by operations in a market.

**Question asked:**
Which of the following types of fraud do you consider to be the greatest risk to your organization? (% of respondents)

<table>
<thead>
<tr>
<th>Type of Fraud</th>
<th>Developed Countries</th>
<th>Emerging Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal fraud in collusion with third parties</td>
<td>20</td>
<td>31</td>
</tr>
<tr>
<td>Corruption and bribery</td>
<td>20</td>
<td>48</td>
</tr>
<tr>
<td>Financial statement fraud</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Misappropriation of assets</td>
<td>10</td>
<td>18</td>
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**Sample base:**
Operations in developed Countries (475), operations in emerging countries (520)

Other and non-responses not shown

In view of these challenges and the rising trend in regulatory activity, an organization needs to implement and demonstrate a strategic approach to countering fraud.

It is clear from the results of recent surveys that fraud continues to present challenges in many jurisdictions around the world. The adoption and implementation of an ongoing counter-fraud strategy to assist in mitigating the serious risks presented is an essential requirement. Those with corporate governance responsibilities would be well advised to deal with the challenges of fraud.

One of the keys to success in dealing with issues of fraud is the system a company has for reporting and investigating allegations of misconduct. If the subsequent investigation is perceived by stakeholders to be biased or not competently managed, negative consequence could ensure. Trust in senior management to do the right thing will be eroded and disillusioned employees will think twice about future cooperation.

A robust investigation helps safeguard a company’s reputation. A key aspect in having an experienced and independent investigating team that has the ability to discover the relevant facts and secure the relevant documentary and electronic evidence. Many companies, boards and independent auditors insist on a competent and thorough investigation performed by an independent investigative team with experience in forensic accounting and leading investigation practices.
How Ernst & Young can help

Uncover the facts
Perhaps you are responding to a regulatory inquiry, or seeking answers to stakeholder questions or whistleblower allegations. Perhaps you have concerns about unusual patterns of financial activity, or you want to review financial reports that have been called into question. Our Fraud Investigation & Dispute Services practice can help. Experienced in forensic accounting, financial and securities regulation, electronic discovery, and risk management, our multidisciplinary professionals investigate situations where you suspect you have a problem. We understand your need for sensitive and time-critical corporate investigations.

Develop expert solutions
Working with you or your outside counsel, we can help determine what happened, how much is at risk, who is involved, and what opportunities exist for recovery. Through a fraud risk assessment, we can help you identify your most significant risk areas so they can be better managed and mitigated.

We can help you:
- Occupational fraud investigations
- Financial statement misrepresentation investigations
- Investigation and analysis of compliance with regulatory requirements
- Internal investigation and fact finding
- Examine financial and source documents for fraud – including false reporting, manipulated records, forgery, or electronic tampering
- Look into alleged fraud or illegal acts, including money laundering, embezzlement and corrupt acts that violate local law

- Conduct insolvency and bankruptcy fraud investigations
- Analyze suspect vendor relationships or activities
- Provide integrity risk review solutions

In addition, we can also provide the following solutions:
- Anti-fraud control and policy
- Provide fraud risk management solutions
- Assist in fraud risk assessment
- Ethics, compliance and anti-fraud programs
Why choose Ernst & Young?

1. We have a considerable track record in delivering Fraud Incident Management services on a local and global basis.
2. Our team to serve you has been carefully selected both to ensure appropriate experience, and to bring the right interpersonal skills.

Ernst & Young Indonesia has been providing Business Integrity Risk & Forensic Services related assistances to local and multinational companies across several industries in Indonesia such as:

- Government agencies
- State-owned companies
- Manufacturing and finished products
- Distribution
- Oil and gas
- Construction
- Financial services
- Retailing
- Hospitality
- Telecommunications
- Entertainment
- Pharmacy & health care
- Foundation and NGOs

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