Internal Auditors Role to Enhance Anti-Fraud Culture in Organization: Dos and Don’ts
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2018 Fraud Survey (1/2)

Exhibit 1: The reported rate of economic crime is on the rise

Companies today face a perfect storm of fraud risk - internal, external, regulatory and reputational

- 11% of companies have experienced a significant fraud in the last two years
- 11% of respondents stated it is common practice to use bribery to win contracts in their sector
- 38% of respondents stated bribery/corrupt practices occur widely in business in their country
- 13% of respondents would justify cash payments to win/retain business when helping a business survive an economic downturn

Q. Has your organisation experienced any fraud and/or economic crime within the last 24 months?
Source: PwC’s 2018 Global Economic Crime and Fraud Survey

Source: EY 15th Global Fraud Survey
Exhibit 2: The reported rate of economic crime has increased across all territories

- Africa: 57% in 2018 vs 62% in 2016
- Asia Pacific: 30% in 2018 vs 46% in 2016
- Eastern Europe: 25% in 2018 vs 25% in 2016
- Latin America: 20% in 2018 vs 24% in 2016
- Middle East: 20% in 2018 vs 23% in 2016
- North America: 20% in 2018 vs 21% in 2016
- Western Europe: 20% in 2018 vs 21% in 2016

Q. Has your organisation experienced any fraud and/or economic crime within the last 12 months?
Source: PwC’s 2018 Global Economic Crime and Fraud Survey

- Corruption: 51%
- Noncash: 25%
- Expense reimbursements: 17%
- Billing: 14%
- Financial statement fraud: 13%
- Cash on hand: 13%
- Check and payment tampering: 8%
- Cash larceny: 8%
- Skimming: 7%
- Payroll: 4%
- Register disbursements: 3%

Source: “2018 Report to the Nations. Copyright 2018 by the Association of Certified Fraud Examiners, Inc
Many parts of the Wells Fargo staff "scam" are mind-boggling.

It's not just that staff at Wells Fargo opened an estimated 2 million deposit accounts and applied for roughly 565,000 credit card accounts to meet sales goals.

It's not just that Wells Fargo was fined $185 million (including the largest ever fine by the CFPB).
Kasus Emirsyah Satar, KPK Panggil VP Internal Audit Garuda Indonesia

Kompas.com - 06/03/2018, 12:25 WIB
Anti Fraud Strategy

Legislation

Risk Management

Corporate Governance

Ethical Culture

Fraud Prevention

Fraud Deterrence

Fraud Detection

Fraud Response
What is Culture??

“Culture is a system of shared cognitions or a system of knowledge and beliefs.”
Rossi & O’Higgins (1980)

“Culture comprises the beliefs and values, attitudes and behaviors that are exhibited within an organization and its operations. It represents what an organization stands for and how it is seen from within and from without.

Corporate culture represents the personality of an organization and its shared beliefs, values, behaviors, the way things are done and it’s explicit and implicit rules”
Bouwman (2013)
Types of Organizational Cultures

- **Flexible**
  - Do things together
  - Long-term development

- **Internal**
  - Do things “right”
  - Incremental

- **Control**
  - Do things “first”
  - Breakthrough

- **External**
  - Do things “fast”
  - Short-term performance

- **Competition**
  - Compete

Anti-Fraud Culture Prerequisites

A program to develop an anti-fraud culture needs to be well planned and solidly constructed from the top down. It is important certain fundamental issues are addressed first.

These prerequisites are:

1. The Boards are committed to setting the right tone at the top and recognize that a fraud risk management strategy is an important way of adding value and effectively governing the organization.

2. The Board is keen to acquire an understanding of the fraud risks that are faced by the organization.

3. The organization has policies covering business ethics and fraud, which are known, communicated and, in general, fully supported.

4. Appropriate individuals within the organization are assigned roles and responsibilities for implementing the fraud risk management strategy.

Source: A Short Guide to Fraud Risk, Gower
Corporate Cultures and the Roles

Adapted from: Managing Cultures: a Good Practice Guide, IIA Australia 2017
Anti-Fraud Culture Elements

- **Prevention**: controls and visibility
- **Deterrence**: publicity, you will get caught
- **Detection**: whistleblowing, analytics
- **Investigation**: trained and skilled investigators
- **Sanctions**: prosecution or disciplinary
- **Redress**: get your money back!

**Anti Fraud Culture**: awareness training, creating an ethically robust culture

Source: Chartered Institute of Public Finance & Accountancy
Internal Audit and Anti-Fraud

Internal Auditors' role in enhancing anti-fraud culture can be done through *assurance* and *consulting activities*. 
Internal Audit Roles in Risk Management - adapted for Anti-Fraud

This diagram is taken from “Position Statement: The Role of Internal Audit in Enterprise-wide Risk Management”, reproduced with the permission of the Institute of Internal Auditors – UK and Ireland. For the full Statement visit www.iia.org.uk.

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Fraud Risk Management Process

1. Establish a fraud risk management policy as part of organizational governance

2. Perform a comprehensive fraud risk assessment

3. Select, develop, and deploy preventive and detective fraud control activities

4. Establish a fraud reporting process and coordinated approach to investigation and corrective action

5. Monitor the fraud risk management process, report results, and improve the process

Source: COSO Fraud Risk Management
There are four key ways in which internal audit can provide assurance relating to the anti-fraud culture in an organization.

- **Identify desired culture:**
  *has it been clearly articulated and communicated?*

- **Evaluate Embedment:**
  *has the desired culture been embedded into every part of the organization?*

- **Monitor and measure:**
  *How is the Board and Senior management monitoring the culture?*

- **Actual culture vs desired state:**
  *are behaviors in line with the desired culture, as articulated by the board and senior management?*

Adapted from: Managing Cultures: a Good Practice Guide, IIA Australia 2017
Internal Audit - Do

1. Know Stakeholders Expectation
2. Understand Company Strategies and Cultures
3. Consider Fraud in Audit Plan and individual engagements
4. Become a role model – I/O
5. Obtain Sufficient Knowledge and Skill in fraud examination/investigation
Internal Audit- Fraud Related Standards

Have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. (Standard 1210.A2)

Exercise due professional care by considering the probability of significant errors, fraud, or noncompliance. (Standard 1220.A1)

(In its reporting), include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board. (Standard 2060)

Evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. (Standard 2120.A2)

Consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives. (Standard 2210.A2)
Internal Audit- Don’t

Organizations should not expect internal audit’s skill set to include fraud investigation. Instead, internal audit should support the organization’s anti-fraud management efforts by providing necessary assurance services over internal controls designed to detect and prevent fraud.
Treating internal auditors as fraud detectives is a mistake

Treating internal auditors as the company's fraud police is to set up an expectations gap that can have unfortunate consequences for the business, as Steve Giles
Report: Nissan Head of Internal Audit Resigns in Frustration

On September 12, 2019  By IA360 Staff

Christina Murray, chief internal audit and global compliance at Nissan Motor Corp., resigned abruptly last week, after leading an investigation into improper compensation practices and other wrongdoing at the automaker.

Reports indicate that Murray resigned in frustration when the results of the investigation led to the ouster of only a few individuals at the company, including Nissan CEO Hiroto Saikawa who announced he would be resigning at a new conference Monday. The investigation found that Saikawa and others benefited inappropriately from a bonus plan at the automaker. Specifically, the audit found Saikawa was overpaid by more than $450,000 in stock options in 2013 while he was an executive vice president.
Reference

Ahmad, Mazar B., IIA Norway, (2017), Organizational Culture is Crucial to the Company Risk Management, but how it can be measured?.
Subagio Tjahjono

**Educational Background:**
1. First Degree in Economics majoring in Accounting – Petra Christian University Surabaya
2. Magister Management majoring in Strategic Management - Tarumanagara University, Jakarta

**Publication:**
1. Business Crimes and Ethics- Andi Publisher(2013)

**Professional Certifications:**
2. Certified Fraud Examiners - ACFE (2008)
5. Certified Public Accountant of Indonesia - IAPI (2017)
6. ASEAN Chartered Professional Accountant

**Working Experience:**
1. Internal Audit Division Manager (PT Solusi Bangun Indonesia, Tbk- formerly Holcim Indonesia)
2. Head Internal Audit (PT Holcim Indonesia, Tbk)
3. TQM-Business Process Improvement Department Manager (PT Chandra Asri Petrochemical, Tbk)
4. Internal Audit Non T&O Department Manager (PT Chandra Asri Petrochemical, Tbk)
5. Assistant Manager-Internal Audit Services (Ernst and Young Indonesia)