



The Institute of
Internal Auditors
Indonesia

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**Anti-Corruption
and Fraud Risks Mitigation**

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Economic Governance**



Anti-corruption / Fraud Risk Mitigation Dealing with The Enemy Within

- **Human behaviour – seek to enhance the positive and control (or, eliminate options for) the negative**
- **Past behaviour – good and ‘not so good’ – may be a predictor of future behaviour and workplace performance**
- **Begin at the beginning. Do not ‘open the front door’ and give admittance to new employees - unless you have a clear picture of their antecedents**
- **Pre-employment Screening – if possible, professional vetting process. Verify - until satisfied**



Anti-corruption / Fraud Risk Mitigation Dealing with the Enemy Within

- **Staff entry and orientation – introduced to and made familiar with Vision Mission Values**
- **Business and Service Ethics – define and explain. Aim for clear understanding by all staff. Provide examples ‘ the good the bad ... and the ugly ’**
- **Case Studies – illustrate/s clearly where people previously lost their way. Bridge the gap by using ‘emotions’ to genuinely connect and affect staff**
- **Code of Conduct – ensure it is signed / adopted by staff as having been explained and understood**



Anti-corruption / Fraud Risk Mitigation Dealing with The Enemy Within

- **Integrity Assurance framework – establish and explain components. Policies? Leadership? Code of Conduct?**
- **Implemented integrity assurance processes? Monitoring and evaluation? Reporting and response? Different business units and processes**
- **Information technology? Communication channels and systems? Performance review – conduct and misconduct? Code of Conduct – Ethics with 3rd Parties? Compliance and audit fully explained**
- **‘Whistleblower’ ‘Hotline’ system / internal external**



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- **Anti-Corruption and Counter Fraud Plan. Risk assessed - evidence based. High risk areas targeted. Use of audit committees / Splitting of roles / separate decision making powers**
- **Problem areas: 'The usual suspects' – debt assessment / debt collections & 'cash' / procurement purchasing payments / Expenditure Authority / IT - leverage off information from audits, access to information and capacity to alter data**
- **Incentive / Rewards system – employee provided sourced information for workplace change**



Anti-corruption / Fraud Risk Mitigation 'Dealing with The Enemy Within'

- **Policy and practice for - Conflict/s of Interest**
- **Decision – Approvals recording / Decision Review and Decision Change rationale - recording**
- **Gifts, Benefits and Financial Advantage Policy and Practice Statement**
- **Secondary Employment Policy – Practice Statements regarding Unsuitable roles, work and positions / Request procedure / Approvals / Refusal / Objection and Appeals**



Anti-corruption / Fraud Risk Mitigation 'Dealing with The Enemy Within'

- **Leadership Group, whether public or private sector, must set the example - be genuine role models – Integrity Ambassador/s or 'Champions of Business Ethics'. Seen and Heard 'tone from the top'**
- **Accountable and Transparent**
- **Integrity and Compliance Officer (ICO) – does your department, organisation or company need one?**
- **Fraud and Anti-Corruption Specialists for
Prevention and Education Detection and
Response with Sanctions Recovery and Change**



Anti-corruption / Fraud Risk Mitigation Dealing with The Enemy Within

- **IT software – numerous programs now available to suit different settings in government provided public services or commercial business operations**
- **‘Rules’ ‘limits / thresholds’ and ‘red flag’ indicators suspected fraud events, can be adjusted for specific organisations and / or business purposes**
- **Corruption, collusion and nepotism remain challenging areas for prevention or eradication**
- **Robust organisation culture, positive values ‘ethically sound’ minds remains a needed goal**



Anti-corruption / Fraud Risk Mitigation 'Dealing with The Enemy Within'

- **Integrity Working Groups – needed and must work across different portfolios / business units**
- **Clear lines of communication and trust with key stakeholders; stakeholder ownership of proposed changes or implemented changes to any enhanced risk assessments - compliance and controls monitoring evaluation audit – corrective actions**
- **Integrity Networks – with internal (and external) linkages to ensure currency with new developments and counter measures**



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- **Frauds may be detected by taking a sample from journal entries and testing for supporting documents to validate and/or show rationale for the entries. Unusual or large entries, driven out of senior management and at certain times in the accounting period, may suggest need for further validation**
- **Useful questions: purpose - business rationale, timing, observing correct management controls and end validation**



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- **Fraud or Corruption detected – next steps. Is it fraud, mistake or negligence - inexperience**
- **Second opinion? Malicious intent for illicit personal enrichment or, the enrichment of others**
- **Practice Statements / Standard Operating Procedures to address various scenarios – report to relevant internal personnel (Legal) with liaison to law enforcement**
- **Preservation of information or evidence (electronic or hard copy)**



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- **Estimate as to realised \$\$\$ losses and/or forecast losses**
- **Law enforcement agency involvement requires accuracy in initial value placed on the detected financial loss and time lines, dates – duration**
- **Person involved or potential number of people involved? Employees or external parties?**
- **E-records will be ‘imaged’ (copied) either by consent or via Court order. Hard copy documents seized and preserved in original form**



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- **Law enforcement may assess and collect fingerprint evidence, signature/s, hand writing, saliva DNA from relevant hard copy documents to progress the investigation and later prosecution**
- **E-evidence may require the collection of additional information regarding Passwords (current & history) / access Log-on log-offs data / attendance records / CCTV coverage office access or computer use / control systems**



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- **E-evidence – information collected and reviewed ... data creation / data amendments / data transfer or receipt / data download / internet activity / cache storage / keyword search used to target evidence**
- **Interviews with senior and middle managers (if relevant) / those with authority or delegated authority / Managers and Supervisors / colleagues and subordinates**
- **Other associates, friends and 3rd parties (family)**



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- **Behaviours suggestive of a 'fraudster' ...**
- **Keeps certain files and work to themselves - 'secretive' / restricts or prohibits IT data access / isolated and secure hard copy documents / seeks to only reveal final reports or financial statements**
- **Holidays – taken rarely / short duration / firm opinion about working files and source docs remaining 'untouched not worked on' whilst absent**
- **Working hours – may start before other staff and frequently 'works back' long late hours**



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- **Behaviours suggesting a person is engaged in corrupt activities – uses ‘influence’, directly interferes in or uses gentle persuasion to ensure service delivery, or a procurement contract or similar expenditure is awarded to certain company or provider**
- **Corrupt civil servants, politicians, court officials or business people will tend to favour meetings and agreements re illegal activities take place outside of their office or business; frequently ‘after hours’**



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- **Behavioural traits of an employee engaged in corruption or fraud may also include sudden displays of or, generally ‘unexplained wealth’, such as luxury brand name watches, jewelry and other personal accessories**
- **New or late model motor vehicles (imported or domestic production) – including motor cycles**
- **Frequent use of quality restaurants or entertainments venues, weekend travels and so forth; improved ‘quality of life’**



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- **Director Legal with Director HR to coordinate and advise on internal response and management of employee subject to potential internal sanctions / criminal investigation (with potential prosecution)**
- **On-going cooperation and communication 'loop' with law enforcement agencies helpful to all; relationship maintenance both sides necessary**
- **Reputation / brand damage priority consideration along with financial losses or 'share price'**



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- **Disclosure - full and relevant and at the right time - as many facts as is comfortable for organisation or company, will ultimately serve all interests**
- **Illustrates to management strengths and weaknesses in established fraud risk controls and systems for detection, response and recovery**
- **Where improvement is required and change needs to be implemented to further limit potential opportunities for fraud**

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- **Focus on Human Behaviour – emphasis on shaping thinking; applied and ‘whole of life’ Values and Ethics, in combination formal Code of Conduct**
- **Remember: Motivated Offender + Opportunity + Lack of Capable Gatekeepers ‘controls’ = crime**
- **Ensure controls / gatekeepers present or, awareness by employees of potential for detection by systems or intervention from people**
- **Limit or, eliminate, the opportunities to commit crime by those who may be motivated**



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QUESTIONS

