PRESENTED BY :

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ANALYSIS FRAUD VICTIM PROFILS IN VARIOUS REGION FOR ANTI-FRAUD CONTROL

INTRODUCTION

- Fraud as a global threat to economic stability and organizational integrity
- The risk of fraud increased post-COVID-19 pandemic due to worsening economic conditions and a lack of internal oversight, which opened up opportunities for fraudsters
- According to data from the Association of Certified Fraud Examiners (ACFE), although asset misappropriation is the most frequent type of fraud (86%), financial statement fraud causes the largest median loss ($954,000) among all forms of fraud (ACFE, 2020)
- Significant financial and non-financial losses due to fraud
- The need for a deep understanding of victim profiles for anti- fraud control

LITERATURE REVIEW

- Fraud Triangle Theory (Pressure, Opportunity, Rationalization)
- ACFE's definition of fraud: intentional deceit for personal gain
- Fraud typologies: Asset Misappropriation, Corruption, Financial Statement Fraud
- Internal control theory and corporate governance

RESEARCH METHOD

01

- Collecting Report to the Nations' from ACFE, from 2014 to 2024.

02

- Conducted through a systematic literature review of ACFE reports

03

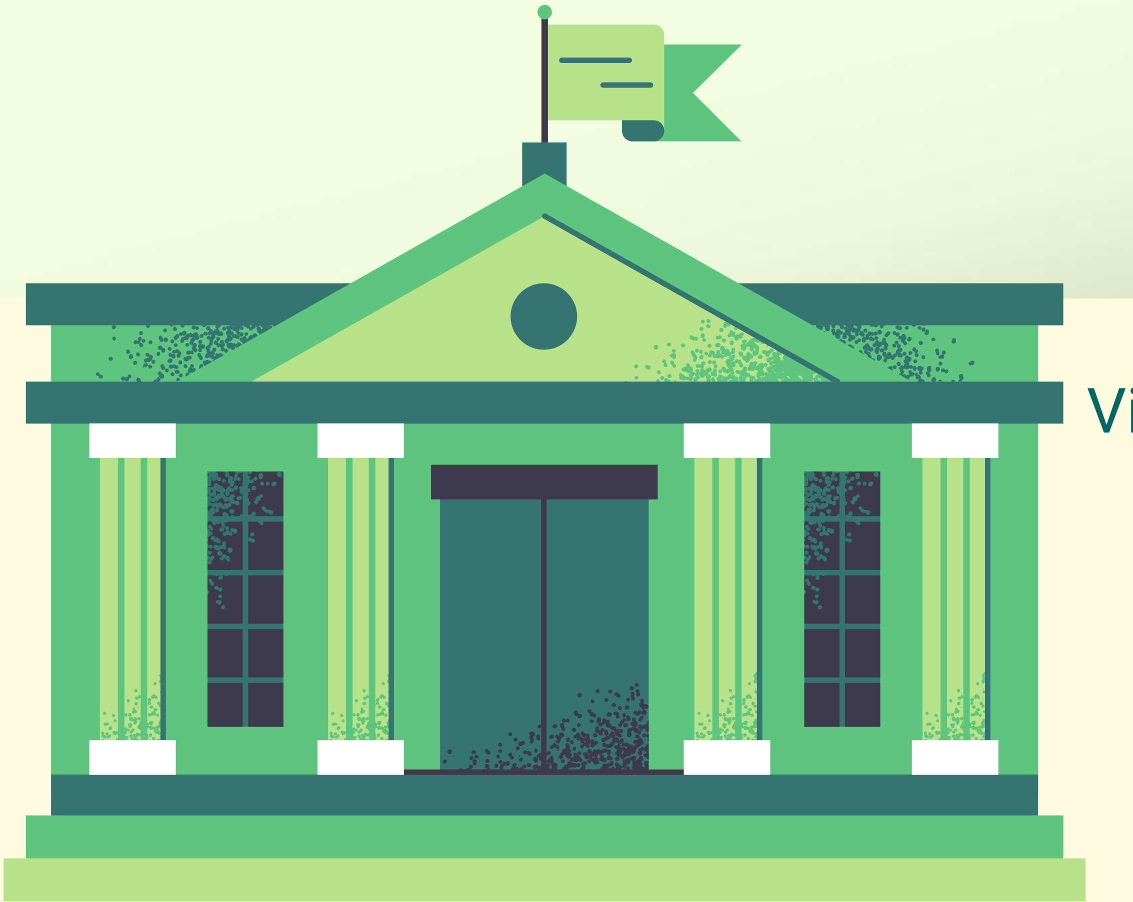
- Content analysis to identify themes and patterns, descriptive analysis to summarize frequency statistics of victim characteristics.

04

- Integrate appropriate anti-fraud controls to be implemented in each company based on established fraud victim profile trends

Research Type and Approach

- Descriptive qualitative to deeply understand the phenomenon of fraud and victim characteristics.
- Focuses on describing, explaining, and interpreting existing conditions and trends



RESULT AND DISCUSSION

Victim Profile Based on Organization Type :

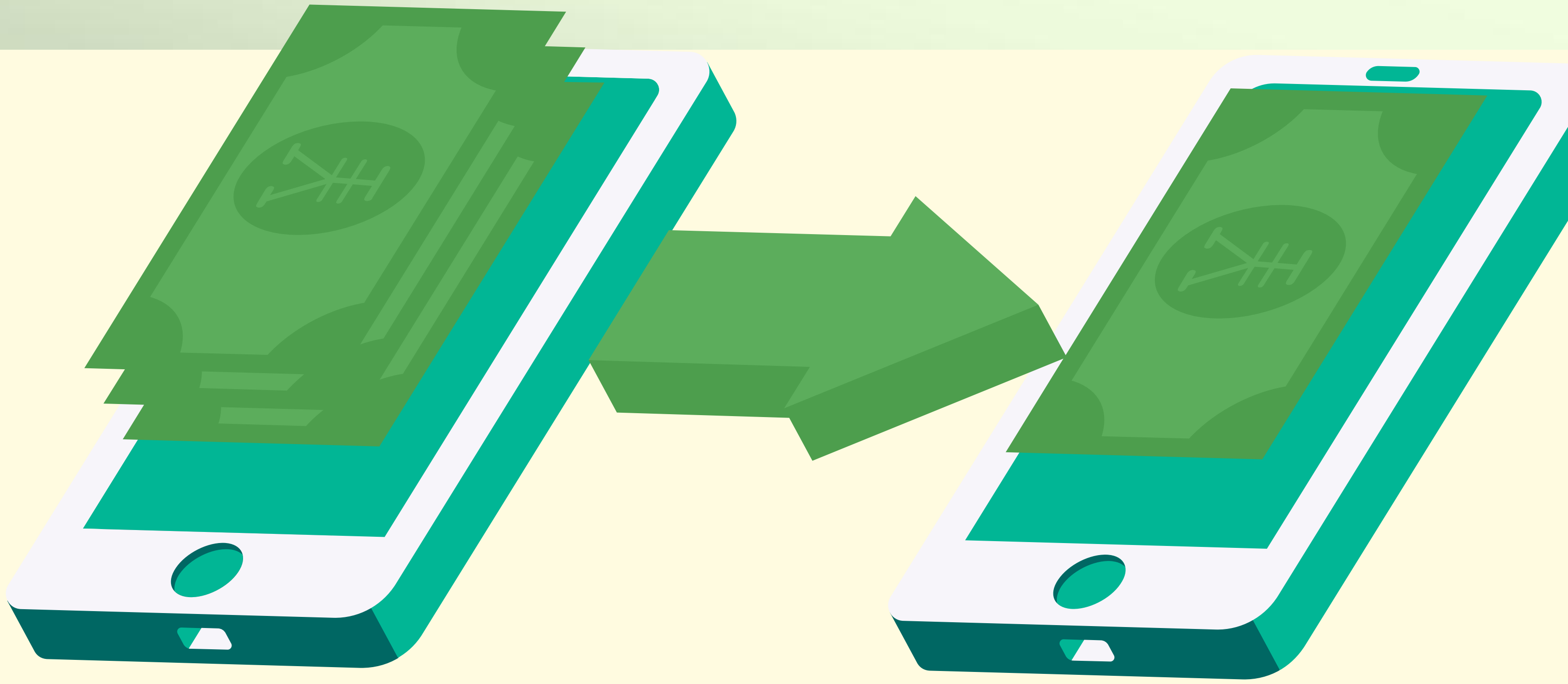
- Case Frequency: Profit-oriented organizations have experienced a higher frequency of fraud cases compared to non-profit organizations over the past ten years > Public and private companies are the most affected.
- Median Loss: Profit-oriented private and public organizations face the highest frequency of fraud cases and incur higher average losses. Private companies consistently report the highest average loss compared to other organization types.
- Factors Contributing to High Fraud in Profit Organizations:
- Pressure: Arises from setting unrealistic financial targets, prompting employees to commit fraud to achieve those goals.
- Opportunity: Stems from weak internal controls and collusion between internal and external parties.
- Employees in these organizations often possess better financial knowledge, making them more capable of committing fraud (based on the Fraud Diamond Theory).

RESULT AND DISCUSSION

Victim Profile Based on Organization Size

- Case Frequency: Smaller organizations with 100 employees or less are at a higher risk of fraud compared to larger organizations.
- Median Loss: Smaller organizations tend to incur the highest total average losses when considering median loss compared to larger companies.
- Factors Contributing to High Fraud in Small Organizations:
- Opportunity Factor: Considered the main contributor.
- Inadequate internal control systems: Limited human and financial resources hinder the implementation of effective control systems
- Excessive trust: Owners or executives often place excessive trust in employees, particularly if there is a personal relationship.
- The lack of proper internal control and supervision, and inadequate recruitment processes further increase the risk.

RESULT AND DISCUSSION



Victim Profile Based on Industry Type

- Highest Case Frequency: The financial and banking industries have consistently had the highest frequency of workplace fraud cases over the last decade.
- A significant threat includes internal corruption (an endogenous factor) related to the bank's main activity: capital distribution.
- Highest Median Loss: The mining industry has the highest median loss despite having the lowest frequency of workplace fraud incidents from 2012 to 2022.
- This industry faces a high risk of fraud, especially in the form of production data manipulation, asset misappropiation, bribes, and corruption.

RESULT AND DISCUSSION

Recommended Anti-Fraud Controls

- For the Financial and Banking Industries:
  - Suspicious transaction detection system (Fraud Detection System), utilizing technology such as real-time fraud detection, behavioral analytics, and transaction monitoring systems.
  - Implementation of Know Your Customer (KYC) and Anti-Money Laundering (AML).
- For the Mining Industry:
  - Application of a Risk-Based Internal Control system, focusing on key risks like managing mining output, logistics, and procurement.
  - Use of digital technology, including real-time IoT (Internet of Things) systems for long-distance production monitoring.
  - Strengthening whistleblower systems and work ethics, providing safe and easily accessible reporting channels, and offering ethics and integrity training.

RESULT AND DISCUSSION

Recommended Anti-Fraud Controls

- For Every Company (General Focus):
- Strengthening internal controls is a primary concern. This involves the Three Lines of Defense:
- First Line: Operational management (fully responsible for implementing internal control).
- Second Line: Compliance monitoring function (tasked with monitoring and maintaining compliance).
- Third Line: Internal auditor (tasked with providing an objective assessment and monitoring).
- Improving organizational culture to prevent fraud.
- Implementing reward and punishment systems.
- Anti-fraud socialization and education to build ethical decision-making ability and foster an organizational culture that does not tolerate fraudulent acts.

CONCLUSION

Based on the analysis of ACFE data from the last decade, this study concludes several key points regarding the profile of fraud victims and mitigation measures:

- Victim Profile

The profile of fraud victims is predominantly small organizations with weak internal controls, highlighting the need for strengthening internal oversight and prevention systems in this segment.

- Critical Sectors

The financial and mining sectors require special attention due to the high frequency of fraud cases and significant median losses, respectively.

- Recommendations

Key recommendations include strengthening internal controls, fostering an ethical culture, implementing anti-fraud education programs, and adopting advanced fraud detection technologies.

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