

E-MATERI



BUILDING RESILIENCE IN TUNA WORLD:

“Control Your Future
or Someone Else Will”

HOTEL TENTREM YOGYAKARTA

5-6 JULI 2023

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5th July 2023

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Fraud in Southeast Asia – How can Internal Audit Step to the Challenge?

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Role of IA in Fraud Risk Management

Four key questions:

- 1) To what extent is internal audit involved in the fraud risk management process and how does internal audit involvement impact the perceived effectiveness of the fraud risk management process
- 2) Where does responsibility for strategic fraud risk management lie within the organization and who is responsible operationally for prevention, detection and investigation of fraud?
- 3) What are the challenges and barriers to internal audit's involvement in fraud risk management?
- 4) What are the recent investment trends in fraud risk management?



What is Kroll's experience?

Impact of internal audit engagement on fraud risk management

- Deeper engagement of internal audit teams leads to a stronger fraud risk management program
- More effective fraud risk management processes exist in organizations where internal audit is part of strategic management
- Internal audit teams who take the lead on enterprise-wide fraud risk assessments rate their organizations fraud risk management programs as good or better



What is Kroll's experience?

What were the challenges and barriers to internal audit involvement in fraud risk?

- Common barriers include:
 - Inadequate resources
 - Lack of mandate
 - Potential conflict of interest
 - Lack of adequate skills to undertake such work

The Corporate Governance environment in APAC

- **Corporate governance standards are still evolving**
 - Lack of segregation of duties, absence of code of conduct, limited whistle blowing mechanism, and weak internal audit functions in many companies
 - Close nexus between politicians, bureaucracy and business
 - Several cases of investors facing 'bad faith' practices from local partners, subsidiaries and competitors
- **Local accounting and auditing practices have not fully matured**
 - Over-reliance on management representations
 - Auditing tools are not customized to the local operating environment (e.g., family-owned businesses, SOEs)
 - ERP systems are often ineffective in driving transparency
- **Poor regulatory oversight**
 - Regulatory systems are complex and ever-changing (tax, environmental, competition laws)
 - The local judicial systems are often complex, which makes it difficult for companies to enforce agreements and punish non-compliance
 - Cannot rely on courts or arbitration to resolve disputes in a timely manner

The result:

1. Lack of good quality information on business practices
2. Key accounting and performance related data can be manipulated relatively easily
3. Exposure to reputation-related and regulatory risks

Covid-19 has created additional stress



Severe Impact on Economic Growth in 2020/21 which is continuing in 2022/2023

- World economy expected to contract by 5% (IMF, April 2020)
- Asian economies expected to witness 20 year lows
- Recovery in 2021 was strong but mainly due to a weak base; 2022 witnessing new supply chain challenges and slowdown continues in 2023
- There is permanent loss in GDP



Corporates and Financial Institutions Exposed to Risks Due to COVID-19

- Willful delay and defaults with respect to payment of debt
- Contractual breaches - commercial and employee contracts
- Use of force majeure risk clause in contracts
- Frauds by companies in financial reporting
- Third party frauds and employee frauds
- Cyber frauds



This has impacted the fraud landscape

- Uptick in cyber attacks / social engineering
- Exploitation of particular social vulnerabilities – fear factor
- New opportunities for internal fraud from changing working practices
- Disconnect and weakening of core controls
- Lack of visibility over supply chains – increased third party risk



How are companies responding to the changing risk landscape?

- Tightening of key controls
- Increased cybersecurity focus
- Innovative ways to “connect” with all layers of the business
- Reconsideration of training methods and needs
- Enhanced focus on data
- Pandemic in many ways a catalyst for existing trends

Food for thought....

- In your organization, how has internal audit responded to the changing fraud risk landscape and the other challenges in the current fraud landscape?
 - Internal audit has taken a more strategic role in fraud risk management
 - Internal audit has taken on new more diverse roles
 - There has been a trend towards more “continuous assurance”
 - The role of internal audit has not really changed



The impact we are hoping to see on internal audit

- More strategic involvement in governance and fraud prevention structures
- Investment in data analytics
- Greater flexibility and strategic business partner approach
- Ongoing assurance
- Heightened skepticism
- Continued investment in fraud risk management and internal audit



Lasting impact

- Adaption to hybrid working – advantages and disadvantages
- Use of technology in auditing and fraud risk management
- Consideration of additional skillsets required – more diversity of skills
- Data analysis at core of audit and fraud prevention

Parting thought....

- How have the barriers to internal audit taking on a more “business partner” strategic approach evolved in the last 2 years:
 - The barriers remain the same as prior to the pandemic
 - There is more flexibility in approach which has reduced the barriers
 - The barriers have increased as a result of the pandemic and the changed ways of working

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