

THE CONTRIBUTION OF CERTIFIED FRAUD EXAMINER (CFE) IN RISK MANAGEMENT OF THE BANKING INDUSTRY IN INDONESIA

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Abstract

This research discusses the role of the Certified Fraud Examiner (CFE) in banking risk management in Indonesia. Using the literature study method, data regarding the adoption of contributions in preventing and detecting fraud were collected. The analysis results show that CFE has an important role in enterprise risk management, especially in fraud detection and fraud prevention. The Hexagon Fraud Theory, which elaborates on six factors that drive people to commit fraud, is analyzed in depth by considering the risk aspects that exist in the banking industry. This research proposes increasing the involvement of CFE-certified professionals in banking teams, as well as the need for collaborative research to evaluate the impact of CFE certification in more depth. It is recommended that banking companies continue to improve compliance with rules and regulations and build a corporate culture that supports effective risk management.

Keywords : *Banking Industry, Certified Fraud Examiner, Fraud Prevention, Hexagon Fraud, Risk Management.*

1. INTRODUCTION

Risk management, according to Sugiyanto and Rahayu (2018), is becoming increasingly important because the failure to manage risk can cause significant losses for organizations, individuals, and corporations that provide savings and loans. Risk management must ensure that the company complies with all such regulations and provides transparent information to shareholders and other interested parties. Risk management of public companies must systematically identify all risks that may affect the company's operations, finances, and reputation. These risks can be diverse, including financial, operational, legal, reputational, environmental, and social risks. Once the risks are identified, the company must evaluate the potential impact and the likelihood of each risk occurring. These evaluations assist companies in determining priorities, allocating resources, and designing effective risk management strategies.

The next step is to manage these risks by implementing appropriate mitigation strategies. This can include the use of insurance, portfolio diversification, operational process improvement, and contingency plan development. Risk management of public companies must be sustainable. Companies must continue to

monitor existing risks, identify new risks, and evaluate the effectiveness of the risk management strategies that have been implemented (Sebayang et al., 2024).

In addition, companies must also provide regular risk reports to shareholders and regulators. Effective risk management requires commitment from the board of directors, senior management, and the entire organization to adhere to the principles of effective corporate governance (GCG). This includes the development of a corporate culture that emphasizes the importance of risk management and compliance with rules and regulations. Effective operational risk management has been a key component in achieving competitive advantage for banks as investors look for indicators that demonstrate high-quality risk management practices that demonstrate the company's quality and sustainable financial performance (Grebe and Marx, 2023).

The prevalence of fraud in companies encourages management to utilize the knowledge and skills of a Certified Fraud Examiner, where companies can improve their ability to manage fraud risks and protect their assets, reputation, and business sustainability so that the position of a Certified Fraud Examiner (CFE) can be a very valuable element in a company's risk management. According to Ariyanto (2019), CFE certification is superior to various categories compared to Certified Forensic Auditor (CFrA) certification.

In terms of usability, the CFE certification is more beneficial than the CFrA certification in performing various jobs around the world. This is because the ability provided by CFE certification is more effective than CFrA certification (Ariyanto, 2019). The Certified Fraud Examiner (CFE) phenomenon refers to a significant growth in the number of professionals obtaining this certification and increased awareness of the importance of fraud prevention and detection in various sectors and organizations. In the midst of technological developments and business complexity, fraud cases are becoming more frequent and diverse. Companies and organizations are increasingly realizing the importance of having trained personnel to detect and prevent fraudulent activities. Regulators and government agencies in various countries have begun to implement stricter regulations related to fraud prevention and detection.

The CFE certification is often recognized as a standard that meets the requirements of such regulations. In the face of increasingly complex and diverse fraud, organizations need professionals with in-depth knowledge of investigation, audit, and data analysis techniques to uncover fraud cases and prevent them in the future. The CFE certification shows that a professional has passed a knowledge test and has relevant skills in the field. Certified Fraud Examiners are not only involved in fraud prevention and detection but also in helping organizations identify and recover losses caused by fraudulent acts. This capability is invaluable for companies looking to reduce the financial impact of corporate crime.

High-profile fraud cases and news of adverse corporate fraud have triggered increased public awareness of the importance of preventing fraud. This has prompted many individuals working in finance, auditing, investigations, and security to pursue CFE certification to enhance their credibility and skills. Overall, the Certified Fraud Examiner phenomenon reflects a response to the increasingly complex challenges of preventing, detecting, and tackling fraud across various business sectors and organizations. This certification helps to ensure that professionals have the knowledge, skills, and ethics necessary to effectively deal with these challenges. A Certified Fraud Examiner (CFE) is equivalent to a financial detective who has the responsibility to resolve fraud allegations, obtain evidence, take statements, write reports, testify to findings, and assist in the prevention and detection of fraud and white-collar crime (Barnes, 2020).

2. LITERATURE REVIEW

Theory of Stakeholder

There is a high degree of uncertainty in operational risk incidents, therefore, it is important to thoroughly analyze all sources and ways to mitigate and manage operational risk (Jadwani et al., 2024). Previous research conducted by Topyan et al., (2024) utilized data from bank holding companies in the United States to investigate the relationship between ownership structure and credit costs for bank holding in relation to conventional banks that are independent and under proper control.

Aysan et al., (2024) mentioned that inadequate risk management practices can lead to financial instability and overall performance decline, so banks must prioritize the establishment of a robust risk management framework to navigate the intricacies of the financial sector effectively. Banks can gain a competitive advantage by encouraging innovation in mobile banking services, which strengthens security measures to protect the privacy of bank consumers from potential cybersecurity threats and fraudsters (Sebayang et al., 2024). Risk management in banking is linear with the Stakeholder Theory which has

contributed to providing a useful framework for bank risk management by considering the interests of various parties involved and ensuring that risk decision-making is carried out by taking into account the interests of all parties involved.

The Stakeholder Theory is a view that encourages organizations to recognize and consider the interests of all related parties, both internal and external to the organization. In addition, the theory promotes a comprehensive understanding and handling of stakeholders' needs, wants, and demands, as well as providing a holistic and responsible framework for decision-making that goes beyond focusing solely on shareholders. With this approach, organizations can formulate strategies, increase value, and maintain long-term success and sustainability (Mahajan et al., 2023). Based on this theory, researchers who have a foundation in investigative audit education will examine the contribution of corporate auditors who have CFE certification to risk management practices in banking companies.

Certified Fraud Examiner

Joseph T. Wells, CFE, CPA in 1988 founded the Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud organization and a leading provider of anti-fraud training and education. Together with its more than 90,000 members, ACFE reduces business fraud worldwide and inspires public trust in integrity and objectivity in the profession (ACFE, 2024).

According to Ariyanto (2019), the Certified Fraud Examiner (CFE) is a certification given by the Association of Certified Fraud Examiners (ACFE) in the United States and shows someone who specializes in preventing and eradicating fraud. The CFE certification represents the highest standards set by the ACFE and demonstrates expertise in all aspects of anti-fraud work. CFE holders have the highest standards of knowledge set by ACFE (Association of Certified Fraud Examiners) and have extensive knowledge in all aspects of the anti-fraud profession.

The standards that must be met to obtain CFE certification are set by the ACFE Board of Regents, which is made up of the most experienced CFE members selected by ACFE members. The Certified Fraud Examiner (CFE) certification confirms a professional's knowledge and experience in the field of anti-fraud. By earning this certification, one demonstrates his or her professional expertise and dedication. Requirements to become a CFE include having high moral integrity, meeting the minimum academic and professional requirements, and agreeing to abide by the code of conduct set by the Association of Certified Fraud Examiners before registering for the CFE exam (ACFE, 2024).

3. RESEARCH METHODS

This research is included in a descriptive study with a qualitative approach. The chosen method, commonly known as a literature study or often referred to as literature research or literature research, is a research approach based on the collection and analysis of data sourced from published literature and reports that are relevant to the topic or research problem being researched. The method of data collection is by browsing the bank's annual report, which reveals the composition of employees or management who hold professional certifications and documentation about Certified Fraud Examiners (CFE). In the banking industry, which is the object of the study, several banks were selected whose Annual Reports revealed the composition of certified auditors, including BCA, BRI, BNI, BTN, CIMB Niaga, Danamon, and Maybank with disclosure in 2023. This study analyzes CFE's competence against all the complexities of risks that exist in the banking industry.

4. RESULT AND DISCUSSION

Certified Fraud Examiner (CFE) has an important role in assisting banking companies in managing operational risks and ensuring the sustainability of the company's business in the banking industry. With their knowledge, skills, and ethics, CFE can assist in the prevention and detection of fraud and financial crime, thereby protecting assets, reputation, and business sustainability.

The existence of CFE can improve a company's ability to manage fraud risk and make a significant contribution to banking risk management practices. The following table shows data related to banks that hire personal CFE:

Tabel 1. Indonesia's Banking Industry That Has CFE

| BANK | Year of AR | Information | Category of CFE | |
|------------|------------|---|----------------------------|----------------|
| | | | Level of Legal Risk/ Frauf | Percentage (%) |
| BCA | 2023 | Credit Card Fraud, Internal Fraud | Middle | 15 |
| BRI | 2023 | Credit Fraud, Internal Fraud | High | 25 |
| BNI | 2023 | Money Laundering, Regulatory Violations | High | 27 |
| BTN | 2023 | Credit Fraud, Money Laundering | High | 30 |
| CIMB Niaga | 2023 | Internal Fraud, Regulatory Violations | Low | 8 |
| Danamon | 2023 | Loss of Customer Data, Credit Fraud | Middle | 18 |

Source: Annual Report, Data Processed 2024

From the results of the analysis, it can be seen that various banks in Indonesia face various legal or fraud risks in their operations. Common legal or fraud risks in the banking industry include credit fraud, internal fraud, money laundering, credit card fraud, regulatory violations, and loss of customer data.

Bank BNI and BTN are seen to have significant money laundering cases with a relatively high legal risk (fraud) at 27% BNI and 30% BTN. Meanwhile, BRI is more vulnerable to credit fraud with a relatively high legal risk at 25%. Bank BCA, Danamon, and Maybank tend to face the risk of credit card fraud with moderate legal risk at 15% BCA, 18% Danamon, and 12% Maybank. As for CIMB Niaga bank, there is a risk of losing customer data that should be watched out for, which poses a serious threat to information security, although, with relatively low legal risk at 8%, it is very likely that the information must be kept safe. With a deep understanding of the risks and laws faced by each bank, the results of the data analysis show that the adoption of CFE certification in Indonesia's banking industry makes a positive contribution to risk management. Professionals who have this certification can be more effective in preventing, detecting, and overcoming fraud. This is in line with previous research that emphasizes the importance of risk management.

Risks in the banking sector are associated with the Stakeholder Theory which encourages organizations to consider the interests of various related parties. Corporate auditors who have CFE certification are expected to contribute to risk management practices in banking companies. In risk management, inadequate practices can lead to financial instability and an overall performance decline. Therefore, banks need to prioritize the establishment of a robust risk management framework to deal with operational risk uncertainty. Thus, this study highlights the importance of professional certifications, such as the CFE, in assisting banking companies in managing operational risks and ensuring business sustainability. In an increasingly complex era, the existence of CFE helps companies to manage risk effectively. With the skills and knowledge possessed, CFE can be a valuable asset in fraud prevention and detection efforts. A strong risk management framework is needed to ensure financial stability and a company's performance amid the dynamics of the financial sector.

All risks in a company that are due to deliberate factors from management and staff are a real form of fraud theory that has developed. Based on the Fraud Pentagon which is expanded from the Fraud Triangle in a company, fraud can occur due to five factors, namely: Pressure, Opportunity, Rationalization, Competence,

and Arrogance. As science develops, Vousinas (2019) states that the Fraud Pentagon model must be updated to adapt to the current increase in fraud incidents. In the Fraud Hexagon model found by Vousinas (2019), from the elements of pressure (stimulus), opportunity, rationalization, competence (capability), arrogance (ego), and a new element is added, namely collusion. The theory of fraud has been updated with the addition of the element of collusion. In the context of Fraud Hexagon, collusion refers to a situation where several parties such as management and related parties, work together to defraud financial statements. Confidentiality agreements, the use of internal information, or collaborations to alter accounting data to influence financial statements are some examples of collusion. For the most part, collusion in research is associated with unethical actions, such as breaking the law or violating a professional code of ethics. For example, a confidential agreement between management and related parties can indicate collusion, which can influence the company's decisions and prevent fraud.

The pressure factor can trigger cheating because there is an intention or drive in a person to cheat. These intentions and urges can come from urgent financial needs, an overly luxurious lifestyle, or personal traits (Supriyanto et al., 2022). To prevent acts of corruption motivated by pressure, written warnings, and strict punishments should be given to perpetrators in order to deter them. According to Febriyanti & Syarif (2023), another factor is opportunity, when corruption is driven by the belief that their fraudulent actions will not be known by the existing system. Opportunity is a circumstance that can trigger fraud, even when an individual initially has no intention to do so, but due to weak system supervision and control, the desire to commit fraud arises (Khoirunnisa & Aristi, 2023).

Knowing the motivational background, results in someone having the opportunity to prevent this from happening, namely by increasing the internal supervision that exists in organizations, companies, and institutions. Therefore, an organization must exercise effective internal controls that are expected to prevent fraud to suppress fraudulent acts. Competence is motivated by the ability to commit corruption that comes from oneself with a position or education in an organization. Efforts that can be made to prevent corruption are to improve morals in the work environment by improving work culture through increasing religious morals, so as to raise awareness that the competencies possessed should be used to improve organizational performance, not the other way around.

Rationalization, many organizations encourage fraudsters to use rationalization, which is thinking that fraud must be done because the organization pays a debt or service and the perpetrator of corruption feels unharmed. Therefore, preventive measures must be taken to improve the morale and ethics of each member of the organization to have good integrity (Andriyani & Tanjung, 2018). With good integrity, every employee is expected to have a sharp mind to distinguish between actions that can improve the performance of the organization and those that can harm the organization, so that there is no reason to commit corruption. Finally, arrogance is a form of greed caused by a person's belief that they have sufficient ability and power, and therefore have the right to act greedily. As a result, this mindset makes an individual feel unable to personally supervise and control the organization. Efforts that can be made to prevent corruption due to the arrogance factor are to give directions to every individual in the organization related to becoming a better person in the work environment. If a briefing has been carried out but corruption still occurs because of arrogance, the leader has the authority to change employees or dismiss employees.

Therefore, every action taken by the organization always carries uncertainty and risks, including the possibility of fraud. Therefore, risk management is responsible for managing the risks that will be faced (Sudarmanto, 2020). Risk management and internal control contribute to the implementation of Good Corporate Governance (GCG), especially in increasing the success of achieving organizational goals. Without risk management, internal control systems and GCG would become less effective. Increasing confidence in the organization's financial statements and reducing audit risk will demonstrate the importance of this risk management. According to Fasa (2016), by implementing risk management, banks can increase shareholder value, provide bank managers with an overview of possible losses that may occur in the future, improve systematic decision-making techniques and procedures based on available information, and build a solid risk management infrastructure to improve bank competitiveness (Riduwan & Andajani, 2023).

5. CONCLUSION

The role of Certified Fraud Examiner (CFE) is very important in banking risk management in Indonesia. The adoption of CFE certification has been proven to make a positive contribution to preventing and detecting fraud, as well as increasing the effectiveness of risk management and internal controls. The importance of compliance with rules and regulations, as well as a company culture that supports effective risk management, is also highlighted in this study. Further research is needed to further explore the implementation of the role of CFE in banking risk management practices in Indonesia. In the banking industry, commissioners to lower-level employees regularly sign integrity pacts, which is a form of actualizing a good corporate culture for the future. All levels of management are fully committed to complying with the Code of Conduct and actively participate in preventing and eradicating corruption, collusion, and nepotism. Furthermore, they will not engage in any other despicable acts prohibited by law. Fraud in the preparation of financial statements, misuse of assets, corruption, collusion, nepotism, gratuities, mark-ups, bribery, money laundering, embezzlement, extortion, and conflicts of interest can be easily identified because all employees realize that being part of the company is a way to have a mine.

The limitations of this study include the dependence on the data of the annual banking report and the relevance of CFE certification in the Indonesia banking industry, (i) this study is descriptive with a qualitative approach so it may not provide a comprehensive picture of the direct impact of CFE certification on risk management, (ii) there is room for further research involving concrete case studies to further explore the implementation of the role of CFE in risk management practices of the banking industry in Indonesia.

Given the importance of the role of Certified Fraud Examiners in risk management, it is recommended that: (i) banks in Indonesia encourage and involve CFE-certified professionals in their teams, (ii) further research be conducted in collaboration between banking industry practitioners and academics to evaluate the concrete impact of CFE certification on improving a company's risk management, and (iii) banking companies continue to improve their attention to compliance with rules and regulations and develop a corporate culture that promotes effective risk management.

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