

*Fraud Risk Assessment  
& Methodology*



# Agenda

- a) Understanding Fraud Risks
- b) Fraud Risk Assessment (FRA)
- c) Qualities of a good FRA
- d) Techniques of FRA
- e) Methodologies of FRA
- f) Responding to Fraud Risk (FR)



# Fraud Risk

- Cressey's fraud triangle with elements of ***Motive, Opportunity*** and ***ability to rationalize***
- Types of fraud risks being, *inherent* and *residual*
- **Inherent** is that which is present before management action
- **Residual** is that which remains after the action by management

# Fraud Risk factors

- i. The nature of the business operations
- ii. The business environment which has a direct bearing on the risk vulnerability index
- iii. The effectiveness of its internal controls
- iv. The ethics and values of the company and its employees



# Fraud Risk Assessment (FRA)

- Process aimed at proactively identifying and addressing an organization's vulnerabilities to both internal and external fraud.
- **Core objectives**
  - Improve communication and awareness
  - Identify where the company is most vulnerable in terms of business operations
  - Develop plans to mitigate the risk
  - Develop techniques to investigate and determine the occurrence of fraud
  - Assess the internal controls



# Qualities of a good FRA

- i. Collaborative effort of management and auditors
- ii. Independence or objectivity of the person conducting the exercise
- iii. Having the right sponsor
- iv. A good working knowledge of the business
- v. Access to people of all levels of the organisation
- vi. The ability to think of the unthinkable
- vii. Plan to keep it alive and relevant



# How to conduct FRA

- Assemble the right team to lead and conduct the exercise
- Determine the best techniques to use
- Obtain the ToR (Terms of Reference)
- Educate the employees and openly promote the process

# Techniques of FRA

- i. Interview
- ii. Use of Focus groups
- iii. Surveys
- iv. Use of Anonymous feedback mechanisms. That is tips through whistleblowing (Refer to the Whistleblowers Protection Act 2010)



# FRA Methodologies/frameworks

## A. Framework #1

- i. Identify the potential inherent fraud risk
- ii. Assess the likelihood of occurrence of the identified risks
- iii. Assess the Fraud Risk significance
- iv. Evaluate the people or departments likely to commit the fraud
- v. Identify and map existing preventive and detective controls
- vi. Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls

# Framework #1

Fraud Risk Assessment Framework <sup>2</sup>							
Identified Fraud Risks and Schemes	Likelihood	Significance	People and/or Departments	Existing Anti-Fraud Controls	Controls' Effectiveness Assessment	Residual Risks	Fraud Risk Response
Financial Statement Fraud:							
Asset Misappropriation:							

# Framework #2 – Fraud Risk Index

This is an overall assessment of fraud risk for the organisation based on:-

- ❑ Environment risk index
  - ✓ Pressure on the business
  - ✓ Internal controls quality
  - ✓ Tone at the top



# Framework #2 – FRI

- ❑ Culture Quotient
  - ✓ Levels of tolerance
  - ✓ Entitlement levels
  - ✓ Notification levels
  
- ❑ Prevent/Detect index
  - ✓ Leadership styles
  - ✓ Operating behaviours
  - ✓ Decision-making practices

# Heat Map illustration



# Responding to Fraud Risks

- i. Avoid
- ii. Transfer
- iii. Mitigate
- iv. Assume
- v. Combination approach (transfer 50% and mitigate 50%)

# Our *values* for your success!

Thank you!



We take pride in doing the **right thing**, rather than what is right for **the profitability** of SCL.