



Grant Thornton

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FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

THE IDENTIFICATION AND EVALUATION OF RISK

FREDERICK J KOHM

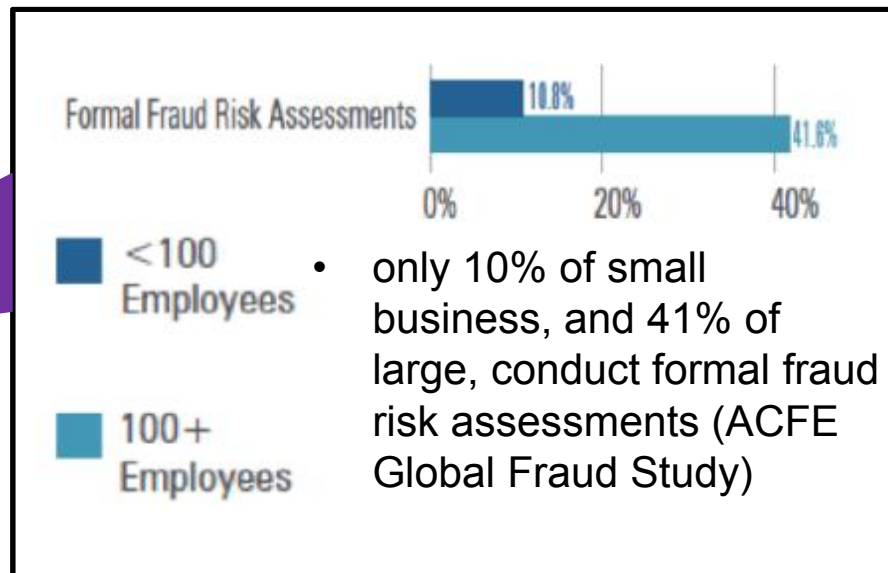
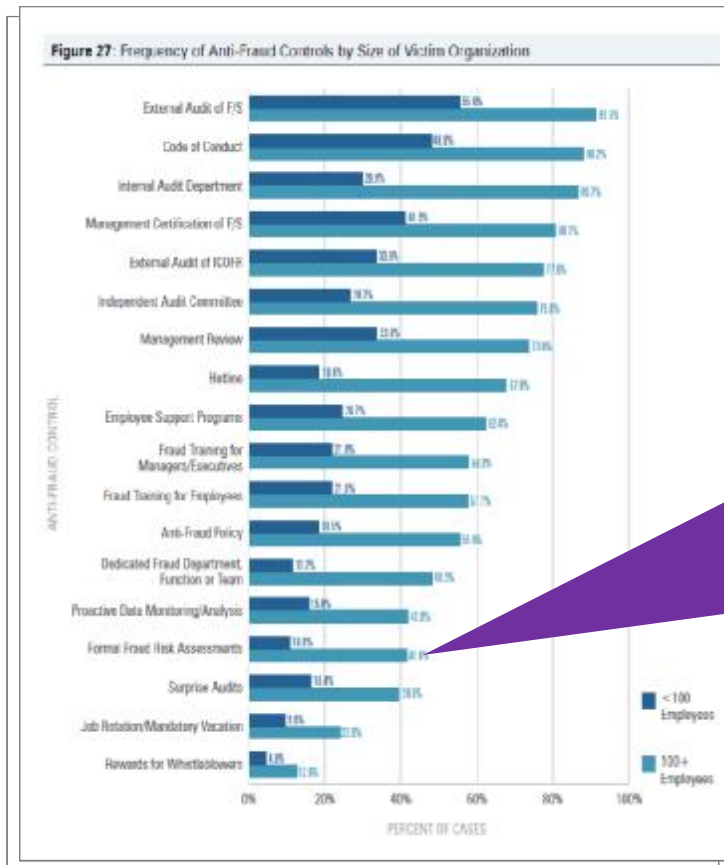
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SEPTEMBER 24, 2015

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION



FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

Figure 37: Median Loss Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Proactive Data Monitoring/Analysis	34.6%	\$13,000	\$181,000	93.3%
Employee Support Programs	52.4%	\$80,000	\$200,000	55.0%
Management Review	62.6%	\$100,000	\$209,000	52.1%
Code of Conduct	77.4%	\$100,000	\$239,000	58.6%
Internal Audit Department	70.8%	\$100,000	\$244,000	59.4%
Formal Fraud Risk Assessments	33.5%	\$94,000	\$168,000	44.0%
Surprise Audits	33.2%	\$83,000	\$164,000	43.3%
External Audit w/ ICDFR	65.2%	\$103,000	\$180,000	42.8%
Fraud Training for Managers/Executives	47.6%	\$100,000	\$169,000	40.5%
Hotline	54.1%	\$100,000	\$169,000	40.5%
Dedicated Fraud Department, Function or Team	38.6%	\$100,000	\$164,000	39.0%
Fraud Training for Employees	47.6%	\$100,000	\$164,000	39.0%
Anti-Fraud Policy	45.4%	\$100,000	\$155,000	35.5%
Management Certification of F/S	70.0%	\$120,000	\$184,000	34.8%
Job Rotation/Mandatory Vacation	19.6%	\$100,000	\$150,000	33.3%
External Audit w/ F/S	81.4%	\$125,000	\$185,000	32.6%
Rewards for Whistleblowers	10.5%	\$100,000	\$135,000	25.9%
Independent Audit Committee	62.0%	\$120,000	\$150,000	20.0%

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Formal Fraud Risk Assessments	33.5%	\$94,000	\$168,000	44.0%

- Median loss based on presence of fraud controls. For those conducting formal fraud risk assessments, there was a 44% decrease (\$94k v \$168k) in the value of the median loss. (ACFE Global fraud study)

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

Figure 38: Median Duration of Fraud Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Surprise Audits	33.2%	12 months	24 months	50.0%
Proactive Data Monitoring/Analysis	34.3%	12 months	24 months	50.0%
Dedicated Fraud Department, Function or Team	38.3%	12 months	24 months	50.0%
Anti-Fraud Policy	45.4%	12 months	24 months	50.0%
Fraud Training for Employees	47.3%	12 months	24 months	50.0%
Hotline	54.1%	12 months	24 months	50.0%
Formal Fraud Risk Assessments	33.5%	12 months	23 months	47.8%
Management Review	32.3%	13 months	24 months	45.8%
Independent Audit Committee	32.3%	14 months	24 months	41.7%
Internal Audit Department	70.3%	14 months	24 months	41.7%
Job Rotation/Mandatory Vacation	19.3%	12 months	20 months	40.0%
Fraud Training for Managers/Executives	47.3%	13 months	21 months	38.1%
External Audit of ICOPR	35.2%	15 months	24 months	37.5%
Management Certification of F/S	70.3%	15 months	24 months	37.5%
Rewards for Whistleblowers	10.5%	12 months	18 months	33.3%
Code of Conduct	77.4%	18 months	24 months	33.3%
External Audit of F/S	31.4%	18 months	24 months	25.0%
Employee Support Programs	52.4%	14 months	18 months	22.2%

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Formal Fraud Risk Assessments	33.5%	12 months	23 months	47.8%

- Median duration of loss based on presence of fraud controls. For those conducting formal fraud risk assessments, there was a 48% decrease in the duration of the loss. (ACFE Global fraud study)

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

- Internal Corporate Fraud (Purchase Schemes)

Ex-Texas Fruitcake Executive Sentenced for \$16.6 Million Fraud - NBC News
 SEP 18 2015, 1:27 AM ET Article by NBCNews

For 15 years, Sandy Jenkins was an accountant for an institution of a bakery in Central Texas, the 119-year-old, family-run fruitcake producer Callan Street Bakery.

On Wednesday, Jenkins, 66, was sentenced to a decade in federal prison for fleeing the bakery of nearly \$17 million and using the proceeds to support an extravagant lifestyle that included private jet trips to Aspen and Santa Fe, the purchase of luxury cars and a \$400,000 wine collection, according to a release from the U.S. Attorney's office for the Northern District of Texas.

Jenkins and his wife, Kay, spent some of it at a Texas Neiman Marcus — \$1.2 million, the U.S. Attorney said — that they each had a nickname.

Sandy was "Fruitcake." Kay was "Cupcake."

"Jenkins stopped shopping at Neiman Marcus when Neiman's ran out of things to sell them," the release said.

Kay, who pleaded guilty to participating in the scheme earlier this year, was sentenced to five years of probation and 100 hours of community service. She will also be required to send a letter of apology to the bakery.

The scheme began in December, according to the indictment. Sandy Jenkins had a 400 client bakery credits to personal creditors. Over an eight-year period, he produced 388 checks totaling \$16.6 million.

When bakery managers suspected fraud, they reported Sandy Jenkins to the authorities.

"We were blindsided," a bakery partner, Hayden Crawford, told the Associated Press in 2013. "We were so focused on every other part of the business, and so confident in the integrity of our people, that we overlooked the elephant in the room."

In September 2013, Sandy Jenkins was indicted on 10 counts of mail fraud, eight months later he pleaded guilty to the fraud, as well as conspiracy to conceal money laundering and making a false statement to a financial institution.

His lawyer, Brent Staley, did not respond to an interview request. Kay Jenkins' attorneys did not respond either, but in a news release last year, they attributed her role to family infatuation. She didn't know about her husband's scheme, the release said, and

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FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

- External Corporate Fraud (Email Fraud)

Bloomberg

Xoom Says Criminal Fraud Costs \$30.8 Million, CFO Departs

By David Frank, 11/11/11

[Xoom Corp. \(XOOM\)](#), the provider of internet money transfer services, said its fourth-quarter costs did to a unexpected criminal fraud loss.

"The incident involved employee impersonation and fraudulent requests targeting the company's finance department, resulting in the transfer of \$30.8 million in corporate cash to overseas accounts," San Francisco-based Xoom said in a regulatory filing yesterday after U.S. markets closed.

Xoom contacted federal law-enforcement authorities who are pursuing a criminal investigation, according to the filing. The company said it doesn't believe that customer data or money were involved in the fraud.

Former CEO Ronzo Bigazzi will fill that role on an acting basis after the departure of Matt Ehlward, Xoom said in the filing. The company said Ehlward's exit wasn't the result of a disagreement with the company.

"While the company has internal controls in place and has implemented additional internal procedures, its audit committee and advisers are reviewing these controls and processes as part of the investigation" into the fraud, according to the filing. "While this matter will result in some additional near-term expenses, the company does not expect this incident to otherwise have a material impact on its business."

Xoom fell 7 cents to \$16.82 at 11:21 a.m. in [New York](#), after dropping as low as \$15.66 earlier in the day. The company said fourth-quarter revenue was probably \$23.1 million to \$23.6 million, compared with its previous forecast of \$21 million to \$22 million. Xoom plans to report complete results for the period on Feb. 17.

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FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

- **Tone at the top – Financial Statement fraud**

Toshiba CEO quits over \$1.2 billion accounting fraud

Toshiba President Quits Over \$1.2 Billion Accounting Scandal
Masashi Miromachi, incoming chairman, president and chief executive officer of Toshiba Corp., left, and Hisao Tanaka, outgoing president and chief executive officer, attend a news conference in Tokyo, Japan, on Tuesday, July 21, 2015. Photographer: Akio Kon/Bloomberg (Akio Kon)
Bloomberg News By Bloomberg News
on July 21, 2015 at 11:35 AM

Toshiba's CEO and eight other executives resigned Tuesday to take responsibility for declared losses that inflated profits at the Japanese technology manufacturer by 152 billion yen (\$1.2 billion) over several years.

Toshiba Corp. acknowledged a systematic cover-up, which began in 2006. Various parts of the Japanese company's sprawling business including computer chips and personal computers were struggling financially, but top managers set unrealistic earnings targets under the banner of "challenges," and subcontracted fiscal results.

On top of its struggles in electronics, Toshiba's prospects in nuclear power, one of its core businesses, were shaken after the 2011 Fukushima disaster set off public fears about reactor safety, leading new nuclear plants unlikely in Japan. 80% of the nation's working reactors are now offline.

Boying deeply before facing cameras at a news conference, CEO Hisao Tanaka kept his head bowed for nearly half a minute in a gesture meant to convey deep shame and contrition. Tanaka's predecessor, home Suzuki, now a vice chairman, and Akio Kon, an adviser, also gave up their seats along with all other executives.

"We have a serious responsibility," Tanaka said reporters. "The company will need to "build a new structure" to reform itself, he said.

The company said that the fraud continued through the fiscal year that ended in March, and work on revising the accounts to show the complete and true financial picture is not yet finished. It promised an emergency stockholder meeting for September, when it plans to deliver a genuine financial report.

The scandal highlights how Japan is still struggling to improve corporate governance despite recent steps to increase independent oversight of companies.

In 2011, Olympus Corp., which makes medical equipment and cameras, was embroiled in a scandal after its president Richard Woodford, a Briton, blew the whistle on a long-running cover-up of losses at the company.

Toshiba CEO quits over \$1.2 billion accounting fraud

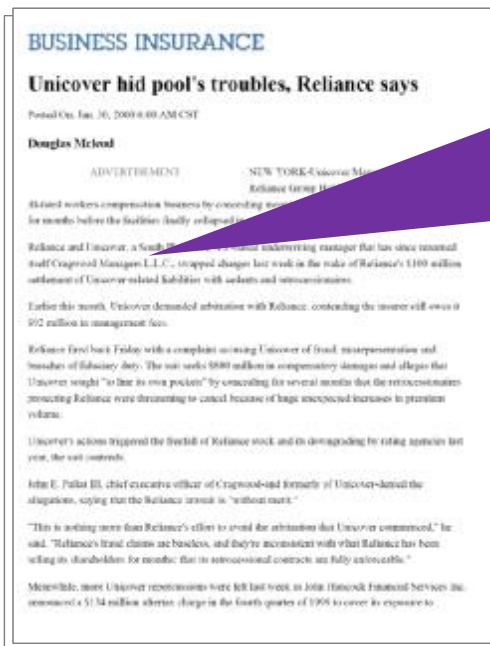
Toshiba President Quits Over \$1.2 Billion Accounting Scandal

Masashi Miromachi, incoming chairman, president and chief executive officer of Toshiba Corp., left, and Hisao Tanaka, outgoing president and chief executive officer, attend a news conference in Tokyo, Japan, on Tuesday, July 21, 2015. Photographer: Akio Kon/Bloomberg (Akio Kon)

Bloomberg News By Bloomberg News
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FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

- Alleged Financial Statement fraud, misrepresentation



Unicover hid pool's troubles, Reliance says

Reliance fired back Friday with a complaint accusing Unicover of fraud, misrepresentation and breaches of fiduciary duty. The suit seeks \$800 million in compensatory damages and alleges that Unicover sought "to line its own pockets" by concealing for several months that the retrocessionaires protecting Reliance were threatening to cancel because of huge unexpected increases in premium volume.

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

- **Purpose of Fraud Risk Assessments:**
 - Avoid these examples, and other fraud, occurring in your organization
 - **Fraud risk assessments will:**
 1. Act as a Fraud Deterrence
 2. Educate your staff / your organization
 3. Identify the greatest risks to your organization

HOW?

FRAUD RISK ASSESSMENTS **PURPOSE, PLANNING AND** **EXECUTION**

Agenda

- 1. Purpose of Fraud Risk Assessments**
 - A. What is fraud risk and what factors influence fraud risk

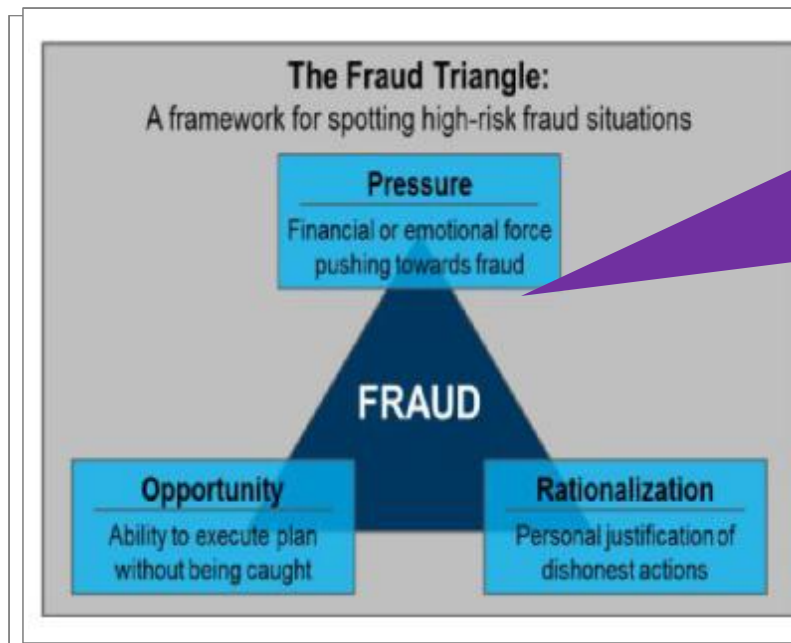
2. Planning an the assessment of Fraud Risk at your company
 - A. How to develop an effective fraud risk assessment

3. Execution of Fraud Risk Assessments
 - A. Sample Frameworks

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

1. Purpose of Fraud Risk Assessments

A. There are three interrelated elements that enable someone to commit fraud



- Motive or pressure
- Opportunity
- Rationalization

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

1. Purpose of Fraud Risk Assessments

A. Process:

- 1) A fraud risk assessment is
 - a) a process aimed at **proactively addressing** an organizations vulnerabilities to both internal and external fraud.
 - b) Identification of fraud risk / prioritization of fraud risk that exist in a business.
 - c) Drive results - provide education, communication, organizational alignment and action around effectively managing fraud risk and identifying new fraud risk as they emerge

FRAUD RISK ASSESSMENTS

PURPOSE, PLANNING AND EXECUTION

1. Purpose of Fraud Risk Assessments

B. Compliance with professional guidance, standards and Regulators

- 1) AICPA Statements on auditing standards**
 - a) SAS Nos. 104 – 111**
- 2) PCAOB has issued eight auditing standards specifically addressing the auditors assessment of and response to risk during audits**
 - a) AS Nos. 8 - 15**
- 3) COSO 2013 Principles describe four specific areas of concern for fraud risk assessments**
 - a) Principle 8**

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

Agenda

1. Purpose of Fraud Risk Assessments
 - A. What is fraud risk and what factors influence fraud risk
2. **Planning an the assessment of Fraud Risk at your company**
 - A. **Developing an effective fraud risk assessment**
3. Execution of Fraud Risk Assessments
 - A. Approach should be structured, rational and tailored to an organization

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

2. Planning of Fraud Risk Assessments

A. **Relevance:** must be current and relevant

- 1) enables procedures which will improve communication and fraud awareness
 - a) assess compliance with professional standards and regulators
- 2) identify who, and what activities put the company at greatest risk
 - a) recognize what makes it most vulnerable to fraud.
- 3) the process will help with the develop techniques to investigate and determine if fraud has occurred in high risk areas
 - a) assess internal a plan to help mitigate fraud risk

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

2. Planning of Fraud Risk Assessments

B. Identification: for an organization to effectively manage its fraud risks, the risks must first be identified

- 1) fraud risk before and after management of a company respond to known risks are called inherent risk, and residual risk.
- 2) factors that influence fraud risk include
 - a) the nature of the business and environment in which it operates
 - b) the effectiveness of internal controls
 - c) ethics and values of the company and its employees

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

2. Planning Fraud Risk Assessments

C. Approach: Consider a different mix of procedures:

- 1) picking the right method or mix of procedures to best meet the cultural fit for your organization is of utmost importance
 - a) interviews can be a productive way to conduct candid one on one conversations
 - b) focus groups enable to auditor to observe the interaction of the group.
 - c) surveys can be anonymous or directly attributable to individuals
 - d) Anonymous feedback mechanisms can be effective in an environment where people are less likely to be open and honest through other methods

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

Agenda

1. Purpose of Fraud Risk Assessments
 - A. What is fraud risk and what factors influence fraud risk
2. Planning an the assessment of Fraud Risk at your company
 - A. Developing an effective fraud risk assessment
3. **Execution of Fraud Risk Assessments**
 - A. **Approach should be structured, rational and tailored to an organization**

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

A. Fraud risk assessments can be executed in many ways. To ensure the assessments success, the approach should be structured, rational and tailored to the organization.

- 1) **Sample Framework: it is helpful to use a "framework" for performing, evaluating and reporting the results of your work**
- 2) **Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework**
- 3) **Results and Reporting: if the team does not use a specifically tailored fraud risk assessment approach, the team may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.**

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

1) Sample Fraud Risk Assessment Framework

a) Identify potential inherent fraud risks

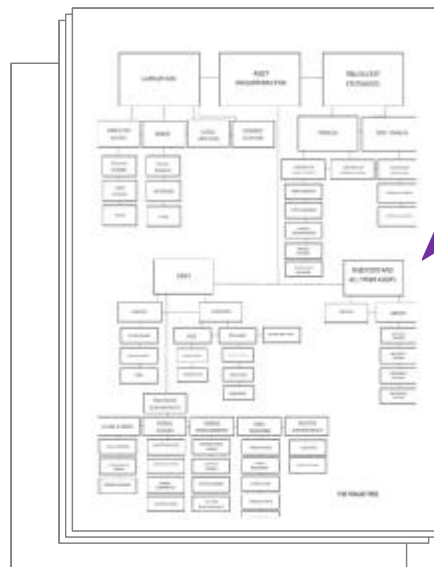
1. Inherent fraud risks are risks that are present before management takes action
2. The fraud risk assessment team should brainstorm to identify the fraud risks that could apply to the organization, and should include:
 - i. **incentives, pressures** and opportunities to commit fraud
 - ii. risk of management **override of controls (or intervention)**
 - iii. population of fraud risks
 - iv. risk of regulatory and legal misconduct
 - v. risk to information technology

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

1) Sample Fraud Risk Assessment Framework

- Incentives, pressures and opportunities to commit fraud



The Fraud Tree:

Corruption / Asset misappropriation /
fraudulent financial statements

Inventory and other assets

- misuse
- asset req. / transfers
- false sales / shipping
- purchasing / receiving
- unconcealed larceny

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

1) Sample Fraud Risk Assessment Framework

b) Assess the likelihood of occurrence of the identified risks and its significance to the organization.

1. the likelihood of occurrence of each fraud risk can be classified as remote, reasonable possible, or probable
2. the fraud risk assessment team should consider the following inherent factors in assessing the likelihood of occurrence of each of the fraud risk:
 - i. prevalence of the fraud risk in the organizations industry
 - ii. number of individual transactions involved / complexity of fraud risk
 - iii. number of people involved in approving and reviewing the relevant process
 - iv. information from fraud surveys such as ACFE report to nations

FRAUD RISK ASSESSMENTS

PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

1) Sample Fraud Risk Assessment Framework

b) Assess the likelihood of occurrence of the identified risks and its significance to the organization.

3. in addition, the team should evaluate the likelihood of identified risk based on organization specific factors such as:

- i. the organization internal control environment**
- ii. management ethical standards**

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

Identify Fraud Risk Process	Identify Risk, Assess, Plan, & Mitigate				Control Effectiveness Assessment	Mitigation Plan	Fraud Risk Register
	Identify Risk	Assess Risk	Plan Mitigation	Mitigate Risk			
Process of Reporting							
Identification of Assets							
Compliance							
Internal Controls							

Identify Potential Internal Fraud Risks
One of the first steps in a fraud risk assessment involves identifying potential fraud risks relevant to the organization. The first of the assessments should be to identify the areas that would apply to the organization. Identifying fraud risks involves identifying the areas that would be the following sections:

IDENTIFY, ASSESS, PLAN, AND MITIGATE FRAUD RISK
When assessing, reviewing, preparing, and approving to conduct fraud, the fraud risk assessment team should evaluate:

- Opportunities to commit fraud that are (a) person-person (i.e., grant for requisition and funding)
- Activities (person-to-person) that may affect employees' behavior when conducting business or requiring professional judgment

3. Execution of Fraud Risk Assessments

1) Sample Fraud Risk Assessment Framework

c) Evaluation of which people and departments are most likely to commit fraud and identify the methods they are likely to use

1. Using the information gained during the process of identifying risk, the team should identify the individuals and departments most likely to commit fraud.

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

A. Fraud risk assessments can be executed in many ways. To ensure the assessments success, the approach should be structured, rational and tailored to the organization.

- 1) Sample Framework: it is helpful to use a "framework" for performing, evaluating and reporting the results of your work
- 2) **Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework**
- 3) Results and Reporting: if the team does not use a specifically tailored fraud risk assessment approach, the team may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

- a) Identify and map existing preventative and detective controls to the relevant fraud risks**
- b) evaluate whether the identified controls are operating effectively and efficiently**
- c) identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls**

FRAUD RISK ASSESSMENTS

PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

a) Identify and map existing **preventative controls** to the relevant fraud risks

1. Preventative Controls:

- i. bringing awareness to fraud risk management program
- ii. performing background checks
- iii. reviewing third party and related party transactions
- iv. segregating duties
- v. conducting exit interviews
- vi. reviewing proper alignment between an individuals authority and his level of responsibility

FRAUD RISK ASSESSMENTS

PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) **Analysis:** fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

a) Identify and map existing **detective controls** to the relevant fraud risks

2. Detective Controls:

- i. Establishing and marketing the presence of a confidential reporting system, such as a whistleblower hotline
- ii. Implementing proactive controls for the fraud detection process, such as independent reconciliations, reviews, physical inspections / counts, analysis and audits
- iii. Implementing proactive fraud detection procedures such as data analysis and continuous auditing techniques
- iv. Performing surprise audits

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

- a) Identify and map existing preventative and detective controls to the relevant fraud risks
- b) Evaluate whether the identified controls are operating effectively and efficiently**
- c) Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

b) Evaluate whether the identified controls are operating effectively and efficiently, that there are adequate controls in place, that the controls are mitigating fraud as intended, and that the benefit of the controls exceeds the cost.

1. such an assessment requires

- i. review of the accounting policies and procedures in place
- ii. consideration of the risk of management override of controls
- iii. interviews with management and employees
- iv. observation of control activities

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

b) Evaluate whether the identified controls are operating effectively and efficiently, that there are adequate controls in place, that the controls are mitigating fraud as intended, and that the benefit of the controls exceeds the cost.

1. such an assessment requires (continued)

v. sample testing of controls compliance

vi. review of previous audit reports

vii. review of previous reports on fraud incidents, shrinkage, and unexplained shortages

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

- a) Identify and map existing preventative and detective controls to the relevant fraud risks
- b) Evaluate whether the identified controls are operating effectively and efficiently
- c) **Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls**

FRAUD RISK ASSESSMENTS

PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

c) Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls

1. Consideration of the internal control structure might reveal certain residual fraud risks, including managements override of established controls, that have not been adequately mitigated due to:

- i. lack of appropriate prevention and detection controls
- ii. noncompliance with established prevention and control measures

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

2) Analysis: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework

c) Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls

2. The likelihood and significance of occurrence of these residual fraud risks should be evaluated by the fraud risk assessment team in the development of the Fraud Risk Response

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

A. Fraud risk assessments can be executed in many ways. To ensure the assessments success, the approach should be structured, rational and tailored to the organization.

- 1) Sample Framework: it is helpful to use a "framework" for performing, evaluating and reporting the results of your work
- 2) Analysis considerations: fraud risk can be analyzed both qualitatively and quantitatively using consistent framework
- 3) Results and Reporting: if the team does not use a specifically tailored fraud risk assessment approach, it may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

3) Results and Reporting: If the team does not use a specifically tailored fraud risk assessment approach, it may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.

- a) Organization must establish an acceptable level of risk
- b) Through ranking and prioritizing risk, an organization may better understand the cost of a risk.
 - i. determine its risk tolerance and cost benefit analysis

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

3) Results and Reporting: If the team does not use a specifically tailored fraud risk assessment approach, it may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.

c) Estimating likely cost of a risk involves determining a quantitative value for the expected loss based on the risk's potential cost and likelihood of occurrence.

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

3) Results and Reporting: If the team does not use a specifically tailored fraud risk assessment approach, it may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.

d) Responding to Residual Risk

- i. Avoid the risk
- ii. Transfer the risk
- iii. Mitigate the risk
- iv. Assume the risk

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

3) Results and **Reporting**: If the team does not use a specifically tailored fraud risk assessment approach, it may encounter the risk of missing valuable information or obtaining unreliable or meaningless results.

e) Key considerations when **communicating results**:

- i. Keep it objective
- ii. Focus on what really matters
- iii. Identify actions that are clear and measurable to drive results
- iv. Recommendations should clearly reduce the risk of fraud

FRAUD RISK ASSESSMENTS PURPOSE, PLANNING AND EXECUTION

3. Execution of Fraud Risk Assessments

B. To make an impact with the Fraud Risk Assessment, Management should

- 1) Look for fraud in high risk areas
- 2) Hold responsible parties accountable for progress
- 3) Keep the assessment process alive and relevant
- 4) Monitor key controls
- 5) Must be openly promoted by the right people and looked upon as important to the well being of the organization (tone at the top)

Q & A

Thank you

Contact Information

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