



Proactive Fraud Risk Assessment (FRA)



The focal point...

In the wake of high profile scandals and amendments in antifraud regulations, companies are increasingly becoming aware of the need to create specific antifraud measures to address fraud and misconduct.

Key changes brought in under the Companies Act 2013 has increased the focus on fraud risk mitigation measures. The 'directors responsibility statement' is now required to include a confirmation regarding proper and sufficient care for the maintenance of adequate accounting records aimed at safeguarding the assets of the company and for preventing and detecting fraud and

other irregularities. Establishing fraud risk management procedures would thus be of importance for preventing fraudulent situations and enabling due monitoring and oversight by the directors.

Companies now focus on understanding fraud risks that impact their efforts to achieve key business objectives. Considering the exposure to various penal actions under multiple laws and regulations, companies now want to protect their interests through governance structures that demand highest standards of business integrity and transparency.



Key root causes of frauds / misconduct in an organisation

1. Malafide intentions of employees and third parties
2. Absence of adequate due-diligence and verification of employees and key management personnel
3. Inadequate internal controls in place for prevention and detection of frauds
4. Periodic risk assessment not conducted to identify processes susceptible to frauds
5. Increased outsourcing and offshoring of processes to third parties
6. Fraud awareness training sessions were either inadequate or not conducted for employees.

Why take up a FRA?

A dynamic approach to fraud risk management aims to achieve the following objectives:

Fraud prevention

having adequate measures in place to reduce occurrence of fraud or exposure to fraud risks

Fraud detection

being equipped to detect a fraud/misconduct when it happens

Fraud response

developing an ability to take corrective actions to mitigate the impact of fraud or misconduct

Fraud Risk Assessment (FRA) as a pro-active preventive action may be conducted to highlight major fraud vulnerabilities in key processes and recommend steps for mitigation. FRA can help the management to ascertain effectiveness of designed processes and controls to

identify susceptible areas, manage and mitigate frauds. Further, a dashboard of anti-fraud controls can be implemented, which can then be monitored via control testing on an on-going basis.

How we can help you

Our approach for conducting a proactive fraud risk assessment is detailed below:



Planning and process study

- Obtain a preliminary understanding of the processes to be reviewed.
- Review standard operating procedures/ process documentation to develop an in-depth understanding of the processes under review.
- Assess availability, quality and retrievability of data for conducting data analytics.
- Collect ERP/other related system data pertaining to the processes under review.
- Interview the management and head of departments to understand the 'as is' process flow and control framework.
- Discuss with process coordinators to gain an in-depth understanding of the processes.
- Conduct walkthroughs of existing processes as per the discussion with process coordinators.
- Document flowcharts for each process and corresponding sub-processes.



Risk assessment

- Identify pervasive fraud risks prevalent at an industry level.
- Identify fraud risks specific to the client's business processes.
- Rate the identified fraud risks based on likelihood and significance of occurrence.
- Conduct data analysis to identify red flags and perform a root cause analysis of such red flags to obtain a basis of absence/ overriding of controls.
- Formulate fraud scenarios for risks identified.
- Map existing controls to the identified fraud scenarios/risks.



Gap assessment

- Identify desired controls to detect improvement opportunities in the existing processes.
- Carry out detailed transaction testing for a sample size to ascertain the effectiveness of existing controls.
- Conduct discreet interview of various persons as considered necessary.
- Perform a gap assessment by evaluating results of transaction testing and effectiveness of existing controls based on desired controls identified.



Recommendations

- A discussion based risk assessment with process owners to communicate gaps identified.
- Suggest recommendations and jointly develop anti-fraud controls along with process owners by incorporating leading practices to mitigate residual risks.
- Prepare a road map and fix responsibilities in consultation with the management of the company.

Potential benefits

- Fraud risks relevant to the key functional areas are identified and mitigated.
- Implement practical recommendations that can help improve fraud related controls in the existing systems and processes in place for the company.
- Develop a continuous monitoring mechanism for prevention/early detection of fraud.

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