Template 33: Fraud Risk Assessment Checklist

The purpose of this Template is to assist the internal auditor's assess the risk of fraud during engagement planning and to develop audit procedures to address fraud risks on internal audit engagements.

The following IIA standards underpin how the role of internal audit relates to fraud.

- IIA Standard 1200: Proficiency and Due Professional Care -1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the entity, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
- IIA Standard 1220: Due Professional Care 1220.A1 – Internal auditors must exercise due professional care by considering the:
    - Extent of work needed to achieve the engagement's objectives.
    - Related complexity, materiality, or significance of matters to which assurance procedures are applied.
    - Adequacy and effectiveness of governance, risk management, and control processes.
    - Probability of significant errors, fraud, or noncompliance.
    - Cost of assurance in relation to potential benefits.
- IIA Standard 2060: Reporting to Senior Management and the Board - The Head of Internal Audit (HIA) must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
- IIA Standard 2120: Risk Management 2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the entity manages fraud risk.
- IIA Standard 2210: Engagement Objectives 2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

Fraud Risk Assessment Template

Conducting timely and appropriate discussions about fraud with all levels of the entity, including the audit committee, demonstrates the proactive role the internal audit activity is taking in this area. Document management understanding of the risk of fraud and whether or not they have knowledge of any fraud (other than that which is “clearly inconsequential”) that has been perpetrated on or within the entity. Some fraud risk indicators that internal auditors may ask about fraud during planning include:

Category	Yes / No/N/A	Record of Work Done
1. Pressure to meet expenditure limits;		
2. Pressure on accounting personnel to complete financial information within an unreasonably short period;		
3. Transactions especially near year end, that are unusual and/ or not at arm’s length (“window dressing”);		
4. Excessive number of differences between accounting records and third party confirmations, conflicting audit evidence and inability of management to explain changes in accounting balances;		
5. Unauthorized and improperly recorded transactions;		
6. Incomplete or inadequate accounting systems;		
7. Assets readily susceptible to misappropriation;		
8. Excessive authority vested in a senior officer or other potential management override;		
9. Inadequate / lack of segregation of duties;		
10. Incompetent personnel and mismatch of competencies with job requirements;		
11. Excessive control of accounting staff by operational management;		
12. Inadequate support of transactions with appropriate records due to incomplete files, excessive		

Category	Yes / No/N/A	Record of Work Done
adjustments to books and supporting documents not available;		
13. Inability to extract information from computer files due to inadequate documentation of program contents;		
14. Large number of computer program changes that are not documented, approved and tested;		
15. Unnecessary delays by management in providing audit evidence and information;		
16. Casualness by management in effecting internal control and unnecessary delays in correcting identified internal control weaknesses;		
17. Domination of management by one person without effective oversight by the board of directors or equivalent governing body;		
18. Significant and prolonged understaffing of the accounting department;		
19. Known unusual changes in behavior or lifestyle of employees with access to assets susceptible to misappropriation;		
20. Known personal financial pressures affecting employees with access to assets susceptible to misappropriation.		
21. Inexperienced or ineffective accounting personnel, or a high turnover rate of key accounting and financial personnel.		
22. Management attempts to reduce the scope of the audit (directly, for example, by limiting access to people or information, or indirectly, for example, by unreasonable fee or time constraints) or imposes unreasonable deadlines.		
23. Relevant contract terms with major customers/group of customers safeguard the entity against malpractices.		

Category	Yes / No/N/A	Record of Work Done
24. Substance and the financial strength to support related party transactions.		
25. Domination of management by one person (or a small group) with no effective oversight board or committee.		
26. Lack of appropriate controls to prevent, detect, and investigate fraud?		
27. Fraud investigation work papers and supporting documents not appropriately secured and retained?		
28. Fraud policy and hot line not in place?		

Summary and Conclusions

Document the following in the applicable section of the Audit Strategies Memorandum:

- Results of our inquiries of management regarding fraud or significant error.
- Our audit response(s), if any, to the identified risk factors that are not sufficiently mitigated by the client's controls or other factors.