

## Template 25: Fraud Risk Assessment

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 of the questions that internal auditors may ask about fraud on a regular basis include:

Category	Yes / No/N/A	Remarks
1. Does the entity have a fraud governance structure in place that assigns responsibilities for fraud investigations?		
2. Does the entity have a fraud policy in place?		
3. Has the entity identified laws and regulations relating to fraud in jurisdictions where it does business?		
4. Does the entity's fraud management program include coordination with internal auditing?		
5. Does the entity have a fraud hotline?		
6. Does the audit charter describe internal auditing' roles and responsibilities relating to fraud?		
7. Has responsibility for fraud detection, prevention, response, and awareness been assigned within the entity?		
8. Do management and the HIA update the audit committee on fraud?		
9. Does management promote fraud awareness and training within the entity?		
10. Does management lead fraud risk assessments and include internal auditing in the assessment process?		
11. Are the results of fraud risk assessments considered in the audit planning process?		
12. Are periodic fraud awareness and training programs provided to all employees?		
13. Are automated tools available to those responsible for preventing, detecting, and investigating fraud?		
14. Has management identified the types of potential fraud risks in its areas of responsibility?		

Category	Yes / No/N/A	Remarks
15. Do management and the HIA know where to obtain guidance on fraud from professional organizations?		
16. Do management and internal auditors know their professional responsibilities relating to fraud?		
17. Has management incorporated appropriate controls to prevent, detect, and investigate fraud?		
18. Does management have the appropriate skill sets in place to perform fraud investigations?		
19. Do management and the internal audit activity periodically assess the effectiveness and efficiency of fraud controls?		
20. Are fraud investigation workpapers and supporting documents appropriately secured and retained?		

Note: This list is not a checklist. It does not include all questions that may be needed to assess fraud risks in a given entity, nor contain necessary follow-up questions that depend on the answers to previous questions. Accordingly, auditors may use this as a start to create their own tools and to brainstorm fraud risks.

### 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.