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**LA FORCE DE LA COLLABORATION
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June 12-14 juin

**Conducting a Fraud Risk
Assessment**

Presenters

- Chad Schulz, University of Alberta
- Ran Lewin, York University



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What exactly is a fraud risk assessment?

- Identify where and how fraud can occur
- Identify who may be in a role where they could commit fraud
- Identifies potential fraud schemes
- Identifies controls to mitigate fraud
- Assesses residual risk



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Why complete a fraud risk assessment?

- Key part of an anti-fraud framework
- Proactive approach to preventing fraud
- Strengthens entity's understanding of fraud and fraud prevention
- Costs associated with fraud
- Fraud is a risk to be managed



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Why complete a fraud risk assessment (cont.)?

- Beyond monetary concerns, it also impacts an institution's reputation
- Because it can actually be fun! People love to talk about fraud!



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University of Alberta Approach

- Internal Audit as facilitator
- Use of external consultant – PricewaterhouseCoopers
- Part 2 of a 2-part project
- Heavy consultation with management and senior management



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Part 1

- External evaluation of U of A anti-fraud program
- Completed entirely by PWC
- Internal audit served as client and provided all documentation (policies, processes, etc.) in relation to anti-fraud program



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Part 2 – Fraud Risk Assessment

- Objectives
 - Development of an entity-wide fraud risk assessment
 - Fraud focused on financial issues (i.e. academic fraud not included within scope)
- PWC only assisted in preparation and facilitation of portion of management consultations



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Part 2 – Fraud Risk Assessment (cont.)

- Definition of fraud
 - Fraud, for the purpose of the review, was restricted to financial issues and includes deliberate and/or unlawful deception, misrepresentation or concealment of facts practiced to secure financial advantage, benefit or gain and/or to cause loss to another.



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Fraud Risk Assessment Scope

- Workshops and interviews with management and senior management
- President, Vice-President's, Directors and unit management
- Purchasing, Financial Reporting, Advancement, Research, Treasury, Human Resources, Etc.



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Fraud Risk Assessment Scope (cont.)

- Focused on identification of inherent fraud risk including scenarios, mitigating controls and residual risk
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Fraud Risk Assessment Scope (cont.)

- Reference material
 - “Managing the Business Risk of Fraud: A Practical Guide” issued by the IIA (Institute of Internal Auditors), AICPA (American Institute of Certified Public Accountants) and ACFE (Association of Certified Fraud Examiners) organizations.



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Fraud Risk Assessment Completion

- Results of consultations
 - Identifications 31 areas, schemes or processes with medium-high to high vulnerability to fraud (inherent risk)
 - Developed heat map with 110 areas, schemes or processes
 - Further analysis by Internal Audit (risk and related controls) noted inly 7 areas where residual risk was medium (remaining was medium-low or lower)



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Fraud Risk Assessment Completion (cont.)

- Work product
 - Report including heat map, detailed discussion of higher risk areas including compensation controls and residual risk
 - Provided detailed risk register for all participating areas specific to their area



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York University Approach

- Objective
 - Define a fraud universe
 - Prioritize fraud risks (likelihood and impact)
 - Identification of potential fraud schemes, compensating controls and residual fraud risk



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York University Approach (cont.)

- Objective
 - Identification improvement to the internal control framework
 - Expansion of continuous audit program in high risk areas
- Work performed by Internal Audit with input from management and external auditors (Ernst & Young)



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York University Results

- Identification of 6 university functions with highest inherent exposure to risk
- Within these functions, a number of activities were identified as being potentially susceptible to fraud
- Within the high-risk activities, 130 potential fraud schemes were identified



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York University Results

- Each potential fraud scheme assessed by management in terms of likelihood and impact – high, medium or low
- Around 45 schemes assessed as medium or high-risk (inherent)
- Fraud risks rated medium to high were analyzed further



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York University Results (cont.)

- Working with management, any noted control gaps were reviewed and remedied wherever possible
- Refinement of the Internal Audit continuous auditing program to assist in addressing areas of high risk



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Fraud Risk Assessment

- Let's see what it's like to participate in fraud risk assessment brainstorming session



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