



Fraud Risk Management

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Overview

The most recent study issued in May, by the Association of Certified Fraud Examiners (ACFE), “The Report to the Nations on Occupational Fraud and Abuse – 2014 Global Fraud Study”, indicates that organizations lose 5% of revenues each year to fraud.

Current economic conditions may motivate someone to act unethically. Organizations must make fraud management a priority: a thorough fraud risk assessment should be the first step to mitigate and manage fraud risks. An enterprise shouldn't lose money to manageable factors!

Fraud Risk Assessment

A fraud risk assessment workshop will assist organizations in determining their internal and external levels of exposure to fraud. This assessment will analyze potential gaps in, among others, the processes, operations, policies and procedures and controls that could result in fraudulent activity.

The fraud assessment also validates if processes are in place to effectively warn management of a potential fraud or to deter it. It's understood that each organization has a unique risk profile and, consequently, each risk assessment needs to be customized for the organization's “reality” and their industry.

Components of the Risk Assessment

We begin by prioritizing the organization's critical areas to better analyze the risks and controls and drafting the most effective prevention schemes.

The next step will pinpoint the organization's fraud risks in the critical areas determined in the previous phase. Risks (and/or gaps) in the control environment will be ranked from high to low (in regards to their respective impact and likelihood of occurrence).

The thorough analysis will result in detailing the potential of a fraud, possible impact of the fraud and recommendations on its mitigation. Finally, the final step for management will be to implement the suggested recommendations to reduce the threat of a fraud.

Anti-Fraud Program Development

Management is expected to implement, manage and maintain a strong framework to assess, mitigate and manage fraud risk. Although, independent auditors evaluate the organization's anti-fraud program's effectiveness during their annual audits, the Institute of Internal Auditors' (IIA) *Performance Standard 2120.A2* states “The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk”.

However, we don't believe there should be a “fraud management owner”. The efforts of managing fraud should be communicated to the organization, thus making everyone accountable and responsible in fraud mitigation activities.

Due to the omnipresent global acts of fraud and the heightened regulatory environment, board members, independent auditors and other stakeholders are asking executive management important questions about how the organization is responding to these risks. As such:

- Is there an appropriate fraud oversight activity and risk identification process?
- Are there internal controls that mitigate key fraud risks?
- Are there automated controls that can detect fraudulent activities?
- What are the fraud investigation protocols, once a fraud is perpetrated?

- What are the most common fraud in our industry?

Final Thought

A robust anti-fraud program will assist management in assessing each critical area within the organization, in identifying opportunities for improvement, in implementing durable solutions and in checking the anti-fraud program's effectiveness, going forward.

A robust anti-fraud program will provide concrete evidence of a culture of integrity, limit unpleasant surprises that may affect the organization's reputation and credibility, increase stakeholder's and shareholder's confidence and reduce potential lawsuits.

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