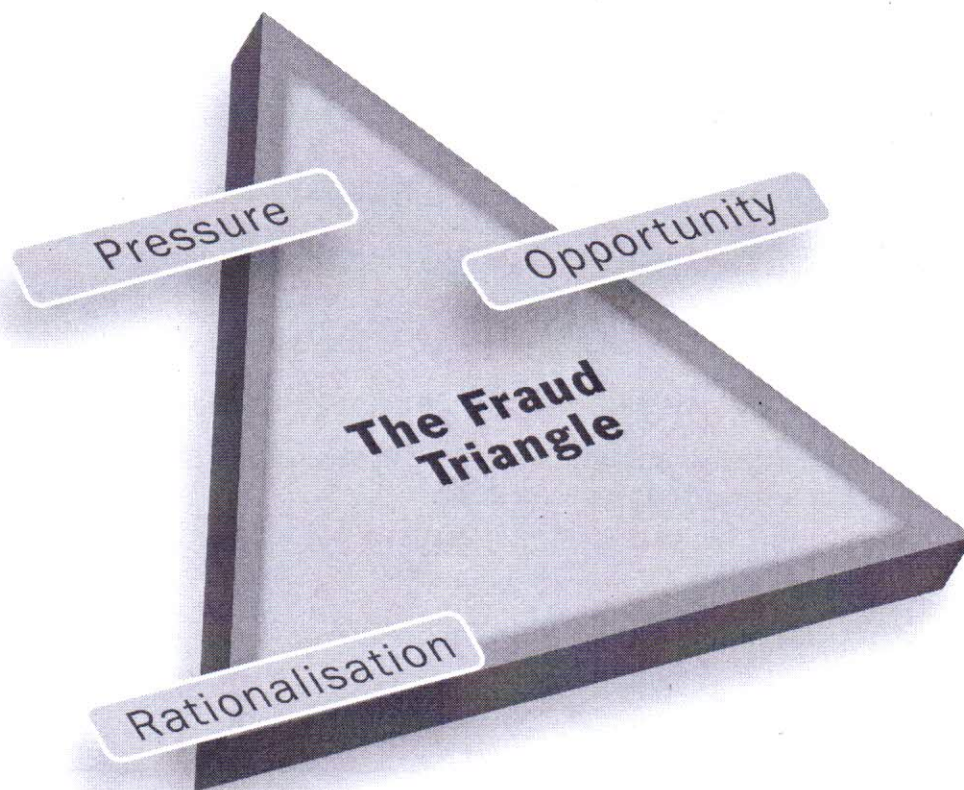


Northern Ireland Audit Office

Managing Fraud Risk in a Changing Environment

Self-assessment Checklists



Published 17 November 2015

Fraud risk in a new or merged organisation – aide memoire

The aide memoire and self-assessment checklists in this document are reproduced from *Managing Fraud Risk in a Changing Environment: A Good Practice Guide*, which is available on the NIAO website. The Guide and Checklists should be used in conjunction.

Yes No

- Has our organisation included counter fraud arrangements in the change management process, so they are not overlooked?
- Have we allocated clear responsibility to a designated senior manager for overseeing the establishment of a counter fraud strategy in the new/merged organisation?
- Does that designated manager have access to, and the full support of, the Audit Committee?
- Have we secured counter fraud expertise to provide guidance on fraud-proofing any new systems and processes?
- Have we fully considered the impact of significant staff reductions on our internal control environment? Controls may need to be reprioritised to ensure that key fraud risks continue to be addressed.
- Have we considered, as a priority, the fraud risks associated with a period of change and the mitigating controls highlighted in Figure 8 of *Managing Fraud Risk in a Changing Environment: A Good Practice Guide*?
- Have clear channels been established for staff to raise concerns during the transition period?
- Have any changes to established whistleblowing arrangements and points of contact been made clear and communicated to all staff?

Preventing fraud – Self-assessment checklist

Consider each statement and determine whether it should be assessed as:

Red: The area needs significant strengthening and improvement to reduce fraud risk.

Amber: The area needs some strengthening and improvement to reduce fraud risk.

Green: The area is strong and fraud risk has been reduced to an acceptable level.

Red	Amber	Green	
Organisational Culture:			
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our organisation has a zero tolerance approach to fraud and corruption that is communicated to all staff in a policy. All staff are aware of their role in relation to fraud prevention.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	There is clear commitment from senior management and the Board that fraud will not be tolerated.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We have communicated our zero tolerance of fraud to all staff, contractors and other third parties with whom we do business. They know what to do if they become aware of possible fraud.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	A designated senior manager has responsibility for counter fraud work, sufficient resources for this work and direct access to the Audit Committee.
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	There is a code of conduct which sets out clearly for employees which behaviour is acceptable or unacceptable. All staff are required to sign up to this annually. The code highlights that unethical behaviour will lead to disciplinary proceedings.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	There are arrangements in place for reporting and addressing conflicts of interest, including a register of interests. Staff are made aware of the need to declare potential conflicts of interest.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our organisation maintains a register of gifts and hospitality. Staff are aware of the need to register any gifts and hospitality received.
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	All staff attend regular fraud and ethics awareness training. The effectiveness of the training is confirmed through testing. New staff receive fraud and ethics awareness training at induction.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our organisation undertakes pre-employment screening by risk assessing posts and undertaking checks to minimise the risk of employing dishonest and unethical staff.
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Leavers and retirees are subject to an exit interview which is designed to identify any vulnerability to fraud. The Audit Committee is notified of any relevant concerns.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our organisation has a counter fraud strategy in place, which applies to all aspects of the business, is communicated across the organisation and is overseen by those charged with governance.

Red

Amber

Green

Fraud Risk Assessment:

- | | | | |
|-------------------------------------|--------------------------|-------------------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | Our organisation considers fraud risk as part of the overall risk management process. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Our organisation has carried out a rigorous fraud risk assessment in the last two years (more recently if a new or merged organisation). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Our assessment of fraud risk is based on known fraud risks, benchmarking with similar organisations and internal brainstorming with frontline staff. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Our fraud risk assessment has been reviewed and agreed by the Audit Committee and/or Board. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | Counter fraud staff and/or internal audit have a role in fraud-proofing new policies, strategies and initiatives across our organisation to minimise fraud risks. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Our fraud risk assessment is reviewed at regular intervals, and particularly when our organisation changes, to ensure that any new fraud risks are identified and addressed. |

Audit Committee:

- | | | | |
|--------------------------|--------------------------|-------------------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | Our Audit Committee takes a proactive role with respect to fraud prevention. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | Our Audit Committee is totally independent of management and includes members with financial expertise. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | Our Audit Committee meets at least quarterly and devotes sufficient time to providing assurance on our counter fraud strategy. |

Sources: Adapted from 'Fighting Fraud Locally' voluntary checklist for local authorities, April 2011, *Fraud Control Frameworks: Best Practice Guide*, UAE State Audit Institution, January 2011 and *Managing the Business Risk of Fraud: A Practical Guide*, ACFE and IIA, June 2008

Detecting fraud – Self-assessment checklist

Consider each statement and determine whether it should be assessed as:

Red: The area needs significant strengthening and improvement to reduce fraud risk.

Amber: The area needs some strengthening and improvement to reduce fraud risk.

Green: The area is strong and fraud risk has been reduced to an acceptable level.

Red	Amber	Green	
			Internal Control Environment:
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our internal controls have been designed to address identified fraud risks and help prevent fraud occurring. The controls are proportionate to the identified fraud risks.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our internal control environment includes a range of complementary controls (directive, preventive, detective and corrective).
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	All staff, contractors and other stakeholders are made aware that there are controls in place to prevent and detect fraud, as a deterrent.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our fraud risk controls have been reviewed by internal audit and the Audit Committee.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Internal audit has a direct role in reviewing any new or amended policies and programmes to ensure that fraud risk is minimised at the outset.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Internal audit tests controls to mitigate fraud risks as part of its annual programme of work.
			Data Mining and Data Matching:
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We regularly use data analysis to detect potentially fraudulent activity.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our IT and information systems include controls (such as reconciliations, physical counts and analyses) designed to detect potentially fraudulent activity.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our data analysis controls include review of journal entries, unusual transactions and period-end transactions, where fraud may be concealed by management override.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We share data and participate in data matching exercises (e.g. the National Fraud Initiative) to help in the prevention and detection of fraud.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We act promptly on any issues of concern identified through data mining and data matching.

Red	Amber	Green	
			Whistleblowing Arrangements:
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our organisation has an internal whistleblowing policy and procedures in place which are known to all staff. Staff are regularly reminded of the policy and procedures.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our whistleblowing arrangements are endorsed by senior management and the Board, and include an assurance that all concerns raised will be welcomed and treated seriously.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	The policy and procedures make clear how, and with whom, staff should raise concerns about possible fraud. A range of internal and external reporting options is given.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	The policy and procedures make clear how we will handle any concerns raised.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our whistleblowing policy provides reassurance that employees will not be victimised or suffer detriment for raising concerns. We monitor to ensure this commitment is borne out in practice.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our whistleblowing policy provides assurance about confidentiality. Confidentiality is respected as far as possible in practice.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Our whistleblowing policy allows for anonymous disclosures, which will be treated seriously, but points out the disadvantages of anonymous disclosures.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	There is a clear process by which contractors, third parties and members of the public can raise concerns about possible fraud in our organisation, for example a fraud hotline. Details are easily accessible on our website.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We review our whistleblowing arrangements periodically to ensure their continued effectiveness. We seek views from employees as to their level of trust and confidence in the arrangements.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We maintain confidential case files on all concerns raised and analyse the caseload for indications of systemic control weaknesses.
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We report on whistleblowing caseload to the Audit Committee.

Sources: Adapted from 'Fighting Fraud Locally' voluntary checklist for local authorities, April 2011, *Fraud Control Frameworks: Best Practice Guide*, UAE State Audit Institution, January 2011 and *Managing the Business Risk of Fraud: A Practical Guide*, ACFE and IIA, June 2008

Responding to fraud – Self-assessment checklist

Consider each statement and determine whether it should be assessed as:

Red: The area needs significant strengthening and improvement to reduce fraud risk.

Amber: The area needs some strengthening and improvement to reduce fraud risk.

Green: The area is strong and fraud risk has been reduced to an acceptable level.

Red	Amber	Green
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Fraud Response Plan

- | | | | |
|--------------------------|--------------------------|-------------------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | Our organisation has a comprehensive fraud response plan in place. The plan is approved by the Audit Committee and Board. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The fraud response plan makes clear that all allegations of fraud will be investigated and appropriate action taken. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | All allegations of fraud, including anonymous allegations, are assessed in line with the fraud response plan. |

Fraud Investigations

- | | | | |
|--------------------------|--------------------------|-------------------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The fraud response plan clearly documents the procedures for fraud investigations. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | All fraud investigations are carried out in accordance with the fraud response plan. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are arrangements in place for securing fraud investigation expertise from outside the organisation, if required. |

Sanctions and Redress

- | | | | |
|--------------------------|--------------------------|-------------------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | In responding to proven fraud, we consider the full range of possible sanctions – disciplinary, regulatory, civil and criminal. Where appropriate we consider parallel sanctions. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The fraud response plan makes clear that we will seek to recover any losses incurred due to fraud. |

Fraud Reporting and Case Review

- | | | | |
|--------------------------|--------------------------|-------------------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | All frauds are brought to the attention of the Board and Audit Committee. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | We review and strengthen systems and controls in light of proven frauds. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | We report annually to the Board and Audit Committee on fraud caseload. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | We report all frauds to external third parties as required. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | We publicise proven frauds, and action taken in response to the frauds, both internally and externally as appropriate, as a deterrent. |

Source: Adapted from 'Fighting Fraud Locally' voluntary checklist for local authorities, April 2011, *Fraud Control Frameworks: Best Practice Guide*, UAE State Audit Institution, January 2011 and *Managing the Business Risk of Fraud: A Practical Guide*, ACFE and IIA, June 2008