



# A STUDY ON FRAUD RISK ASSESSEMENT

Dr. KAVITA KALKOTI

Asso.Prof, Nagindas Khandwala College of Commerce, Arts and Management, Research Guide -  
Commerce (Banking and Finance), University of Mumbai

NIMISH CHODANKAR

Research Scholar, Nagindas Khandwala College of Commerce, Arts and Management

## ABSTRACT

All agencies are subject to fraud risks and are required to undertake a fraud risk assessment for their entity at every level. A detailed fraud risk assessment is to be performed by division and/or function. The search for Fraud seems to be like a daunting responsibility. However fraud in its simplest form should be easy to find. The key to finding fraud is looking where fraud is and has been. Fraud Auditing is a proactive audit approach designed to respond to the risk of fraud. By performing a fraud risk assessment, the identified fraud risk is associated with the core business systems. The audit procedures are designed to reveal the true nature of the transaction. Fraud risk assessments start with a definition of Fraud and the type of Fraud facing organizations. The assessments can be based on a legal definition, an accounting definition for fraud risk assessments. Fraud encompasses a range of irregularities and illegal acts characterized by intentional deception or misrepresentation, which an individual knows to be false or does not believe to be true.

**Keywords:** Fraud Risk, Fraud Auditing, Fraud Risk Assessment, Fraud Risk Management.

## INTRODUCTION

Since Enron and other frauds, there has been a significant focus on fraud, internal controls, and the concept of fraud risk management including risk assessment. The Committee on Sponsoring Organizations (COSO) has also made significant efforts in the area of risk assessment, producing its (X)S0 Model for enterprise risk assessment. None-theless, fraud statistics indicate relative consistency in the overall amount of estimated fraud and an increase in the amount of losses from fraud actually discovered.

The cornerstone and heart of effective corporate governance. internal controls. antifraud programs. or fraud investigations is a thorough risk assessment. Effective fraud risk assessment is known to be dependent on

knowledge of fraud concepts (the fraud triangle, red flags, fraud schemes, and accounting, information systems) all considered in the applicable fraud environment.

**Risk Factors :** The basic concepts of risk assessment are probability and impact. However it is not simple as those concepts are i.e. measuring and applying them. Few questions to be answered are What factors should be considered, What tools can aid in assessing risks, How can risks be precisely measured, Factors can be considered on many levels including entity, people, divisions, geographies, products or services, accounting or business processes, controls, or computerized systems. Factors are considered first on an entity level, as the probability of fraud, theft, or embezzlement in any work environment is a product of the personality of the employees, the working conditions, the effectiveness of internal controls, and the level of honesty therein.

**Fraud Factors:** Risk assessment shall consider the fraud schemes that are more likely to occur in order to guide the antifraud program. For asset misappropriation, an employee in a trusted position is likely to be the culprit, or corruption, it may be the same but it includes someone outside the entity working with someone inside—a unique characteristic of corruption schemes. For financial statement frauds, the executives of the entity are the most likely to be fraudster and thus a risk assessment would necessarily include those individuals.

Fraud risk assessments are important to effectively defend itself from those risks, or mitigate those risks for obvious reasons. In order to develop an effective risk assessment, management should take a conscientious, formal approach rather than an ad hoc approach.

## OBJECTIVES OF THE STUDY

The objective of this research paper will be as under:

1. To assess the vulnerable fraud risk functions.
2. To assess the motivation of a fraudster to commit fraud.
3. To assess the level of people likely to commit fraud.

## DATA ANALYSIS

The study will require detailed information about Fraud Risk Assessments. The study covers Mumbai region. Primary data was collected from respondents from Business Consulting Firms, Bank Auditing Firms, Forensic Consulting Companies, using a structured questionnaire. The total of 30 no of professional was approached for this research study.

A questionnaire is used to collect primary data. The researcher has prepared questionnaire covering vital aspects of Fraud Risk Assessments in line with the objective of the study. Questionnaire is in form of structured and undisguised type. Utmost precautions are taken to make the questionnaire simple and easily understandable, so that the respondents would not find any difficulty in answering questions. Great care is taken in working each question to avoid biasing the responses.

The Analysis of information collated from respondents is provided as below;

### Analysis 1;

#### Which process do you believe is the most vulnerable to Fraud Risks?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Customer service	1	3.3	3.3	3.3
	Logistics and transportation	7	23.3	23.3	26.7
	Supply chain management	7	23.3	23.3	50.0
	Loan/Equity financing activities	3	10.0	10.0	60.0
	Procurement	8	26.7	26.7	86.7
	Vendor/Partner selection and management	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

### Observation

Basis above test, it can be assessed that Procurement Function is most vulnerable to Fraud Risk.

### Analysis 2;

#### Who do you feel is most likely to commit a fraud?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Third Party Associates including Contractors, Vendors, Suppliers, Agents	14	46.7	46.7	46.7
	Senior Management	12	40.0	40.0	86.7
	Junior and Middle Management Employees	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that Third Party Associates including Contractors, Vendors, Suppliers, Agents are most likely to commit a fraud.

**Analysis 3;**

**In your opinion, what is the primary motivation for a Fraudster to commit Fraud?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ability to improve his/her financial position	10	33.3	33.3	33.3
	The confidence of not being caught in the act	8	26.7	26.7	60.0
	Dupe Bank to pocket public money	4	13.3	13.3	73.3
	Personal vested interest	6	20.0	20.0	93.3
	Revenge	1	3.3	3.3	96.7
	Arrogance	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that Primary Motivation for a Fraudster is the Ability to improve his/her financial position.

**Analysis 4;**

**How often do companies review fraud risk management measures?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Annually	14	46.7	46.7	46.7
	Once a month	1	3.3	3.3	50.0
	Once a quarter	5	16.7	16.7	66.7
	Once every 6 months	2	6.7	6.7	73.3
	Don't review measures unless they encounter an incident	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that Companies review fraud risk annually. Also a major number of people believe Companies do not review measures unless they encounter incident.

**Analysis 5;****Which Sector is in most stressed under IBC and are vulnerable to Fraud?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	6	20.0	20.0	20.0
	Real Estate Renting and Business Activities	13	43.3	43.3	63.3
	Wholesale & Retail Trade	3	10.0	10.0	73.3
	Electricity & Others	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that Real Estate Renting and Business Activities are under most stressed sector and are vulnerable to Fraud.

**Analysis 6;****Which Tool is most effective for Forensic Audit?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Benford Law	6	20.0	20.0	20.0
	Ratio Analysis	6	20.0	20.0	40.0
	SQL Analytics	9	30.0	30.0	70.0
	Financial Analysis Software	9	30.0	30.0	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that SQL Analytics and Financial Analysis Software are most effective tool for undertaking Forensic Audit.

**Analysis 7;****In your opinion why service of Forensic Auditor are required?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fraud Prevention & Detection	14	46.7	46.7	46.7
	Compliance and Regulatory Functions	7	23.3	23.3	70.0
	Evidence Collection and Analysis	3	10.0	10.0	80.0
	Court Systems	3	10.0	10.0	90.0
	Investigations	1	3.3	3.3	93.3
	Assignments with Regulatory Agencies like SEBI, RBI	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that service of Forensic Auditor is required for Fraud Prevention & Detection.

**Analysis 8;****In which of the following fields, there is scope of forensic auditor in India in future?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bank Frauds	5	16.7	16.7	16.7
	Business Risk Evaluation	15	50.0	50.0	66.7
	Investigation by Statutory Authorities	2	6.7	6.7	73.3
	Compliance verification	4	13.3	13.3	86.7
	Fraud Prevention	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

**Observation**

Basis above test, it can be assessed that going ahead Forensic Auditors shall be required for Business Risk Evaluation.

## CONCLUSION

It is important for Companies to undertake Fraud Risk Assessment as it helps strength the controls at the Company. Fraud Risk Assessments help early detect frauds and plug loop holes at right time. It is important to assess the vulnerable fraud risk functions, the motivation of a fraudster to commit fraud, and the level of people likely to commit fraud. In order to develop an effective risk assessment, management should take a conscientious, formal approach. Below are views of respondents on Fraud Risk Assessment;

1. Procurement Function is most vulnerable to Fraud Risk.
2. Primary Motivation for a Fraudster is the Ability to improve his/her financial position.
3. Companies review fraud risk annually. Also a major number of people believe Companies do not review measures unless they encounter incident.
4. Real Estate Renting and Business Activities are under most stressed sector and are vulnerable to Fraud.
5. SQL Analytics and Financial Analysis Software are most effective tool for undertaking Forensic Audit.
6. Service of Forensic Auditor is required for Fraud Prevention & Detection
7. Forensic Auditors shall be required for Business Risk Evaluation.

## SOURCE

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