

# XYZ EXEMPT ORGANIZATION FRAUD RISK ASSESSMENT PROGRAM

## Introduction

A significant internal control process for any entity, whether for-profit or not-for-profit, is the process for assessing risk at the entity level. A well defined process for assessing risk, including risk of fraud, and responding to identified risks is one of the pillars of the overall entity internal control structure. A well defined risk assessment process may include the following elements:

- Management periodically assesses operating and reporting risks that are most likely to affect the Organization's operations, industry and operating environment.
- Management identifies and considers the likelihood and significance of such risks.
- Appropriate actions are taken when risks are identified, including risks of fraud, to mitigate them by developing appropriate policies and procedures.
- When operational policies and procedures or the personnel performing these procedures change, adequate consideration is given to matching changes in the related procedures for financial reporting.
- Internal controls are periodically monitored and tested to ensure they are adequate to cover current risks.

## Fraud Risk Assessment

A key element in the risk assessment process is the assessment of risk due to fraud. A well developed fraud risk assessment program is the responsibility of management with the oversight from the board of directors or audit committee. A fraud risk assessment program should include consideration of the vulnerability of the entity to fraud and whether those exposures could result in a material misstatement of the financial statements or material loss to the entity.

The following analysis can be used by management and boards of directors of not-for-profit entities to assess the robustness of the entity's fraud risk assessment program and to develop policies and processes to address deficiencies noted. Much of the material for the following checklist was adopted from the Association of Certified Fraud Examiners ***ACFE Fraud Prevention Check-up***.

<u>Fraud Risk Assessment Element</u>	<u>Yes/ No</u>	<u>If Yes, Formal or Informal</u>	<u>How and Where Documented</u>
<b>1. Fraud risk oversight</b>			
Has the entity established a process for oversight of fraud risks by the board of directors or others charged with governance (e.g. an audit committee)?			
<b>2. Fraud risk ownership</b>			
Has the entity created "ownership" of fraud risks by identifying a member of senior management as having responsibility for managing all fraud risks within the entity and by explicitly communicating to business unit managers that they are responsible for managing fraud risks within their part of the entity?			
<b>3. Fraud risk assessment</b>			
Has the entity implemented an ongoing process for regular identification of the significant fraud risks to which the entity is exposed?			
<b>4. Fraud risk tolerance and risk management policy</b>			
Has the entity identified and obtained board of director's approval of its tolerance for different types of fraud risks?			
Has the entity identified and obtained board of director's approval of a policy on how the entity will manage its fraud risks?			
<b>5. Process level anti-fraud controls/re-engineering</b>			
Has the entity implemented measures, where possible, to eliminate or reduce through process re-engineering each of the significant fraud risks identified in its risk assessment? Basic controls include segregation of duties relating to authorization, custody of assets and recording or reporting of transactions.			
Has the entity implemented measures at the process level designed to prevent, deter and detect each of the significant fraud risks identified in its risk assessment?			

<b>6. Environment level anti-fraud controls</b>			
Major frauds usually involve senior members of management who are able to override process-level controls through their high level of authority. Preventing major frauds therefore requires a very strong emphasis on creating a workplace environment that promotes ethical behavior, deters wrongdoing and encourages all employees to communicate any known or suspected wrongdoing to the appropriate person.			
Has the entity implemented a process to promote ethical behavior, deter wrongdoing and facilitate two-way communications on difficult issues?			
<b>7. Proactive fraud detection</b>			
Has the entity established a process to detect, investigate and resolve potentially significant fraud? Such processes should typically include proactive fraud detection tests that are specifically designed to detect the significant potential frauds in the entity's fraud risk assessment.			

## Resources

The following resources may provide additional information and tools to assist management and their Boards of Directors in implementing a fraud risk assessment program tailored to the organization's specific needs. The list is not all inclusive.

### ***AICPA Audit Committee Effectiveness Center***

<http://www.aicpa.org/forthepublic/auditcommitteeeffectiveness/pages/acec.aspx>

### **AICPA Not-for-Profit Audit Committee Toolkit Downloads (free)**

<http://www.aicpa.org/interestareas/businessindustryandgovernment/resources/notforprofitresourcecenter/pages/aicpanot-for-profitauditcommitteetoolkitdownloads.aspx>

### ***ACFE Fraud Risk Assessment Tool (membership)***

<http://www.acfe.com/frat.aspx?id=6797>

### ***ACFE Fraud Resources Library (free)***

<http://www.acfe.com/resource-library.aspx>

### ***ACFE Managing the Business Risks of Fraud: a Practical Guide***

[http://www.acfe.com/uploadedFiles/ACFE\\_Website/Content/documents/managing-business-risk.pdf](http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/managing-business-risk.pdf)

**XYZ EXEMPT ORGANIZATION FRAUD RISK ASSESSMENT AND CONTROLS TEST  
PLANNING DOCUMENT**

Use the accompanying Excel form to document fraud risks identified by management and the Fraud Risk Assessment Committee (Finance/Audit Committee), the specific internal controls designed and implemented to mitigate the identified fraud risk, how the organization intends to test the effectiveness of the internal controls put into place, and the frequency of those tests of controls.