

Fraud Risk Assessment Process (FRAP)

This exercise allows the reviewers to discuss Fraud within the scope of the audit objectives (6.30). Utilizing the Association of Fraud Examiners (ACFE) occupational fraud and abuse classification system ([Fraud Tree](#)), you can narrow in the types of fraud that could be associated with elements within your scope. The sample local government department functions (LGDF) handout is to assist in the identification of areas with a heightened risk of fraud that are unique to government. I would encourage you to review your organization's functions and modify the form to best reflect your environment.

Conducted Prior to the Meeting (Scoping Phase):

Step 1: Gain an Understanding (6.15c)

- What is Organization's mission? What function do they perform?
- What are their responsibilities? Who performs them?
- Any special requirements?

Step 2: Review Defined Audit Objective

- What is the scope and objectives that pertain to the organization under review?

Conducted During the Meeting (Scoping Phase)

Step 3: ID Likely Types of Fraud (ACFE/Green Book 8.02)

- What elements within your audit objectives are relevant to the types of fraud?
- If needed utilize the local government department function form to select elements within the scope of the audit objectives. (Handouts)
- Cross reference the selected elements with the Fraud Tree classification system and identify the common fraud scheme(s) associated with the elements relevant to your scope and objectives.

Step 4: Evaluate Fraud Risk Factors (6.30, A.10)

- Gauging the organization's environment
- What is the current environment around the identified elements?
 - a. Pressure- Are employees under unique pressures that could incentivize fraud?
 - b. Rationalization- Do employees work under circumstances that could promote negative work attitudes?
 - c. Opportunity- What are Management's Internal Controls?

Step 5: ID Internal Controls (6.11b, 6.16, 6.11c, 6.23, 6.24)

- What are the internal controls around the elements identified?
- List the controls, lack of them and their strength (weak/strong)

Step 6: Put Your Fraud Googles On! (6.30)

- Of the elements with "none" or "weak" internal controls, become the perpetrator "The Perp"
- How would you perpetrate the fraud?
- Of the elements that have "strong" internal controls; become "The Perp"
- How would you overcome such controls to perpetrate the fraud?
- Keep in mind to note what paper trail the fraudsters could leave behind or what opportunities for direct observation detection would be present.

Step 7: Assess Risk (Update the Audit Plan)

- Of the scenarios developed, which ones would have a likelihood of occurring within the context of the audit objective? (6.31)
- How would you design you audit plan to obtain reasonable assurance of detecting any such fraud? (6.31)

Re-Assess Risk (Field Work)

Step 8: Re-Assess Risk

- Field work allowed you to get a firsthand look at the function, time to re-asses the fraud risk.
- Are there new areas to consider? (6.31)