

FREE PRACTICAL GUIDE

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FRAUD RISK

How to Assess Fraud Risk in an Internal Audit

A practical guide to identifying where opportunity, pressure and weak oversight may create fraud exposure

Why this guide matters

How to Assess Fraud Risk in an Internal Audit

This guide is designed for internal auditors who need a concise, practical way to apply assess fraud risk in an internal audit in real engagements. It focuses on decisions, evidence and common failure points rather than theory.

THE OUTCOME YOU WANT

A practical guide to identifying where opportunity, pressure and weak oversight may create fraud exposure.

The six-step approach

- 1 Identify valuable assets, payment flows and decisions vulnerable to manipulation.
- 2 Map who can initiate, approve, change and conceal transactions.
- 3 Consider incentives, performance pressure and override opportunities.
- 4 Review prior incidents, whistleblowing, exceptions and unusual trends.
- 5 Design targeted tests around the most plausible fraud scenarios.
- 6 Discuss residual fraud risk and monitoring with management.

Steps 1-3: Build the foundation

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1

Identify valuable assets, payment flows and decisions vulnerable to manipulation.

Define the decision, risk or process question before collecting evidence. Write down what a good outcome would look like.

2

Map who can initiate, approve, change and conceal transactions.

Use actual transactions, system evidence, data and accountable owners to confirm how the process operates in practice.

3

Consider incentives, performance pressure and override opportunities.

Record assumptions, exceptions and boundaries early so later testing remains focused and reproducible.

AUDITOR PROMPT

Ask: "What evidence would convince another experienced auditor that this conclusion is reasonable?" If the answer is unclear, strengthen the planned work before moving on.

Steps 4-6: Turn work into assurance

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4

Review prior incidents, whistleblowing, exceptions and unusual trends.

Match the depth of work to the severity of the risk. High-risk conclusions need stronger evidence and clearer documentation.

5

Design targeted tests around the most plausible fraud scenarios.

Challenge exceptions for frequency, impact, root cause and management awareness before deciding what they mean.

6

Discuss residual fraud risk and monitoring with management.

Finish with an explicit conclusion and next action: no issue, improvement opportunity, finding, escalation or follow-up.

QUALITY CHECK

Before you finalize, ask whether the work directly answers the original audit question, whether evidence is sufficient, and whether a reader can understand the reasoning without being in the audit team.

SCENARIO

Fake vendor used to divert payments.

OPPORTUNITY

One user can create vendor and change bank data; verification evidence is not required.

TEST

New vendors with rapid first payment, shared bank accounts, employee/vendor matches, unusual addresses and bank changes before payment.

What makes the example useful?

- It starts from a specific risk or audit question.
- It connects evidence and testing to a conclusion.
- It avoids treating process description as proof of control effectiveness.
- It leaves a clear path for management action or follow-up.

Quick reference - use this on your next audit

How to Assess Fraud Risk in an Internal Audit

Five practical reminders

- Fraud risk assessment is scenario-based: ask how a scheme could work, not merely whether fraud is “possible”.
- Management override can defeat otherwise good controls.
- Focus on access, incentives and concealment opportunities together.

Mini self-check

- ☐ Have I linked the work to a clear audit objective or business risk?
- ☐ Is the evidence strong enough for the importance of the conclusion?
- ☐ Have I distinguished facts, explanations and assumptions?
- ☐ Have I considered root cause and recurrence, not only the immediate exception?
- ☐ Can management understand what decision or action is required?

RESOURCE NOTE

This is a practical learning resource, not formal professional guidance. Adapt the approach to your organization, applicable standards, regulation and audit methodology.