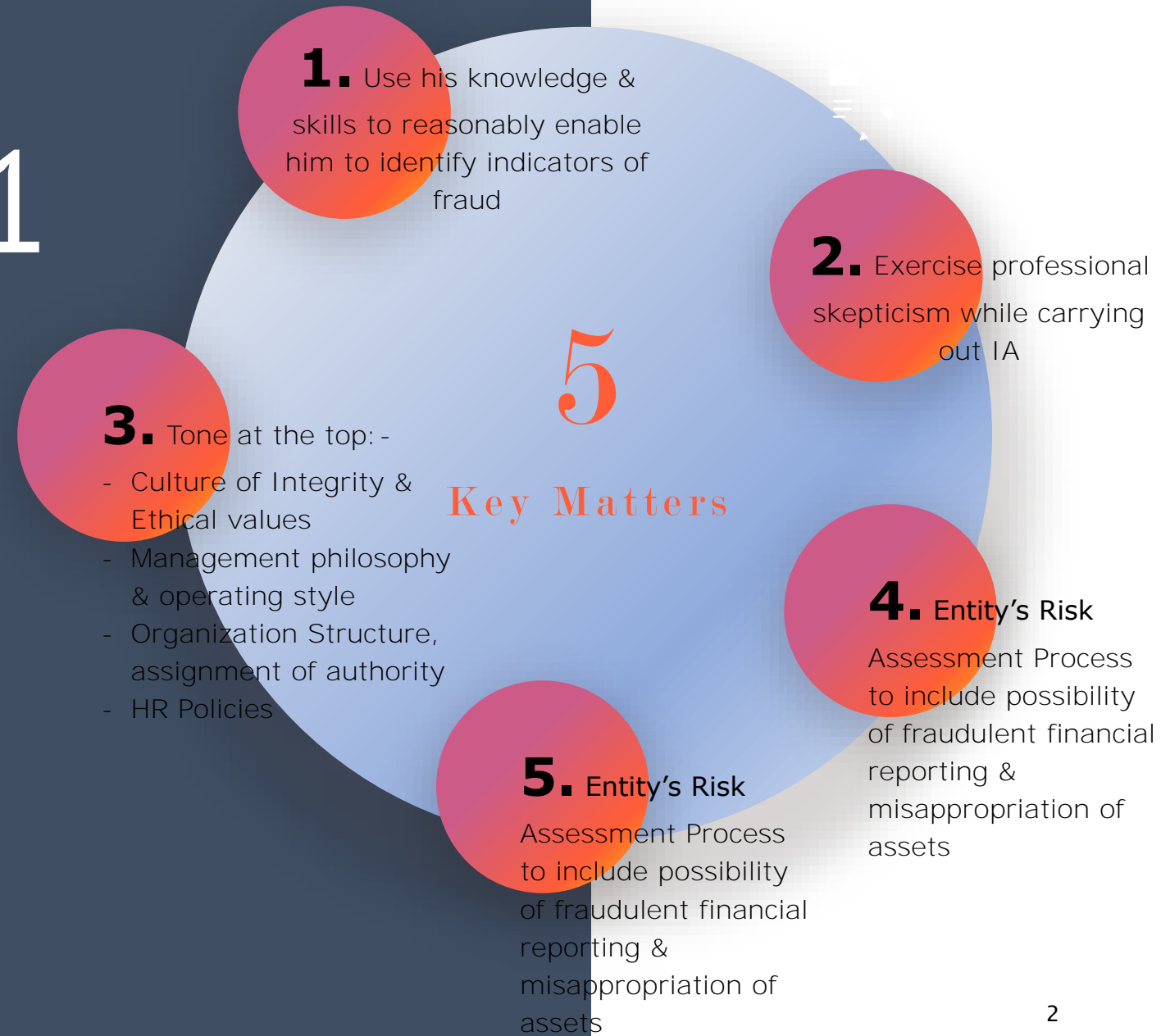


Standard on Internal Audit (SIA) 11

CONSIDERATION OF FRAUD IN INTERNAL AUDIT

BY HUZEIFA UNWALA

ICAI - SIA 11



ICAI SIA 11 – MEANING OF THE TERM FRAUD

An intentional act by one or more individuals among management, those charged with governance, or third parties, involving the use of deception to obtain unjust or illegal advantage. A fraud could take form of misstatement of an information (financial or otherwise) or misappropriation of the assets of the entity.

ROLE OF INTERNAL AUDITOR SIA 2 – BASIC PRINCIPLES GOVERNING INTERNAL AUDIT

“ The internal auditor should exercise **due professional care, competence and diligence** expected of him while carrying out the internal audit. Due professional care signifies that the internal auditor exercises due professional care in carrying out the work entrusted to him in terms of **deciding on aspects such as the extent of work** required to achieve the objectives of the engagement, **relative complexity and materiality** of the matters subjected to internal audit, assessment of risk management, control and governance processes and cost benefit analysis. **Due professional care, however, neither implies nor guarantees infallibility, nor does it require the internal auditor to travel beyond the scope of his engagement.** ”

ICAI FORENSIC ACCOUNTING & INVESTIGATION STANDARDS – MEANING OF THE TERM FRAUD

Fraud is any intentional or deliberate act to deprive another of property or money through deception or other unfair means.

SIA 11 - Control Activities

Policies & Procedures in the context of Fraud

set by the Management

The control activities refer to the policies and procedures established by the management to ensure that the risks identified are responded to as per the policy or the specific decision of the management. In the context of frauds, the control activities include actions taken by management to prevent or detect and correct the frauds or breach of internal controls.

The internal auditor should obtain an understanding of the policies and procedures adopted by the management to identify risks that can affect the achievement of the objectives of the entity and to distinguish risks from opportunities and evaluate the effectiveness of these policies and procedures. In the context of prevention of frauds, the internal auditor should specifically evaluate the policies and procedures established by the management to identify and assess the risk of frauds, including the possibility of fraudulent financial reporting and misappropriation of assets.

SIA 11 - Information & Communication Pointers

Policies & Procedures in the context of Fraud

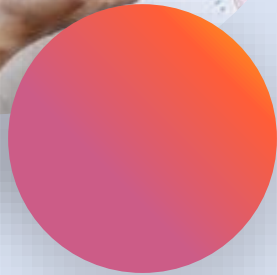
set by the Management

- **Whistle Blower Policies and mechanisms**
- **Ethics helplines and counselling**
- **Training of employees**

- **Internal auditor to identify & assess fraud risks identified by the management**
- **Internal auditor to assess operating effectiveness of the policies & procedures established by the management**

SIA 11 -Documentation

The internal auditor should document fraud risk factors identified as being present during the internal auditor's assessment process and document the internal auditor's response to any other factors. If during the performance of the internal audit fraud risk factors are identified that cause the internal auditor to believe that additional internal audit procedures are necessary, the internal auditor should document the same.



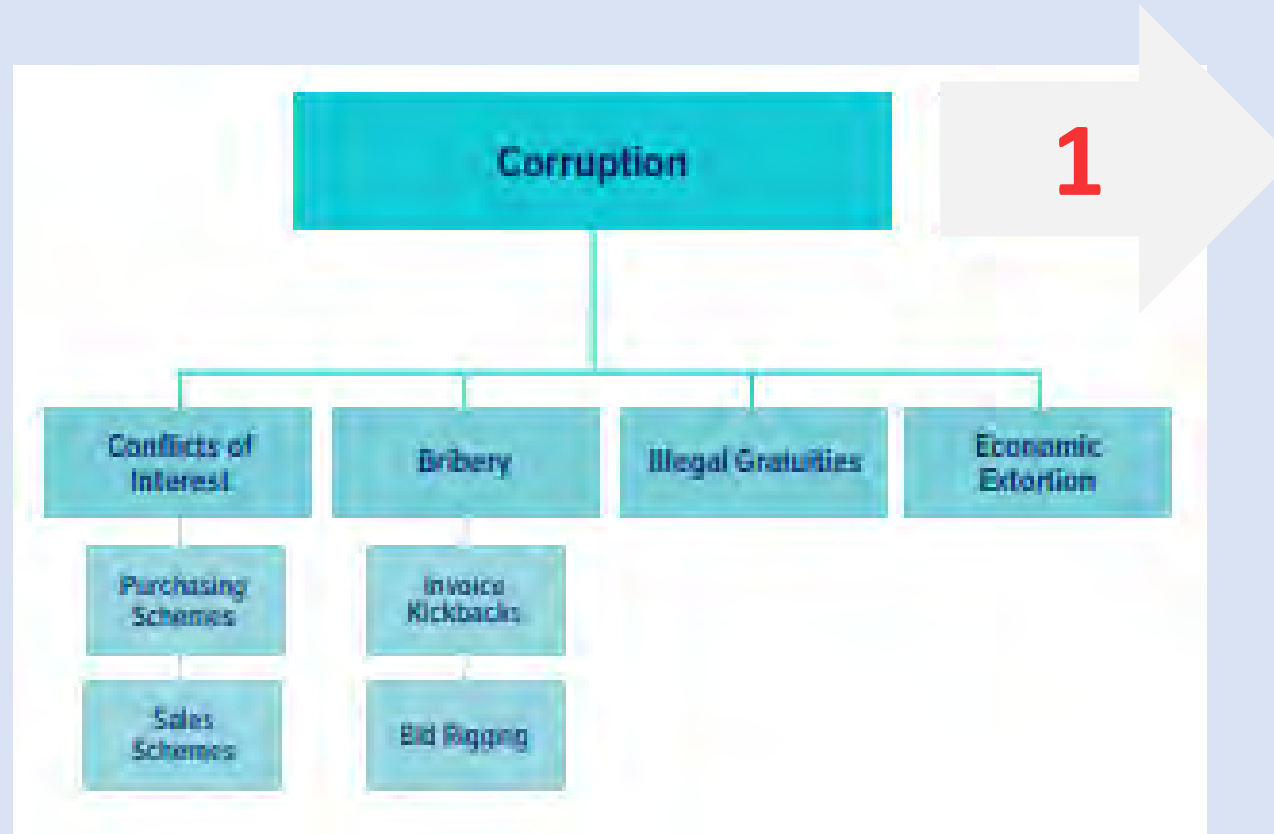
Communication of Fraud

The internal auditor should carefully review and assess the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report and suggest remedial action. However, **in case the internal auditor comes across any actual or suspected fraud** or any other misappropriation of assets, he should immediately bring the same to the attention of the management.

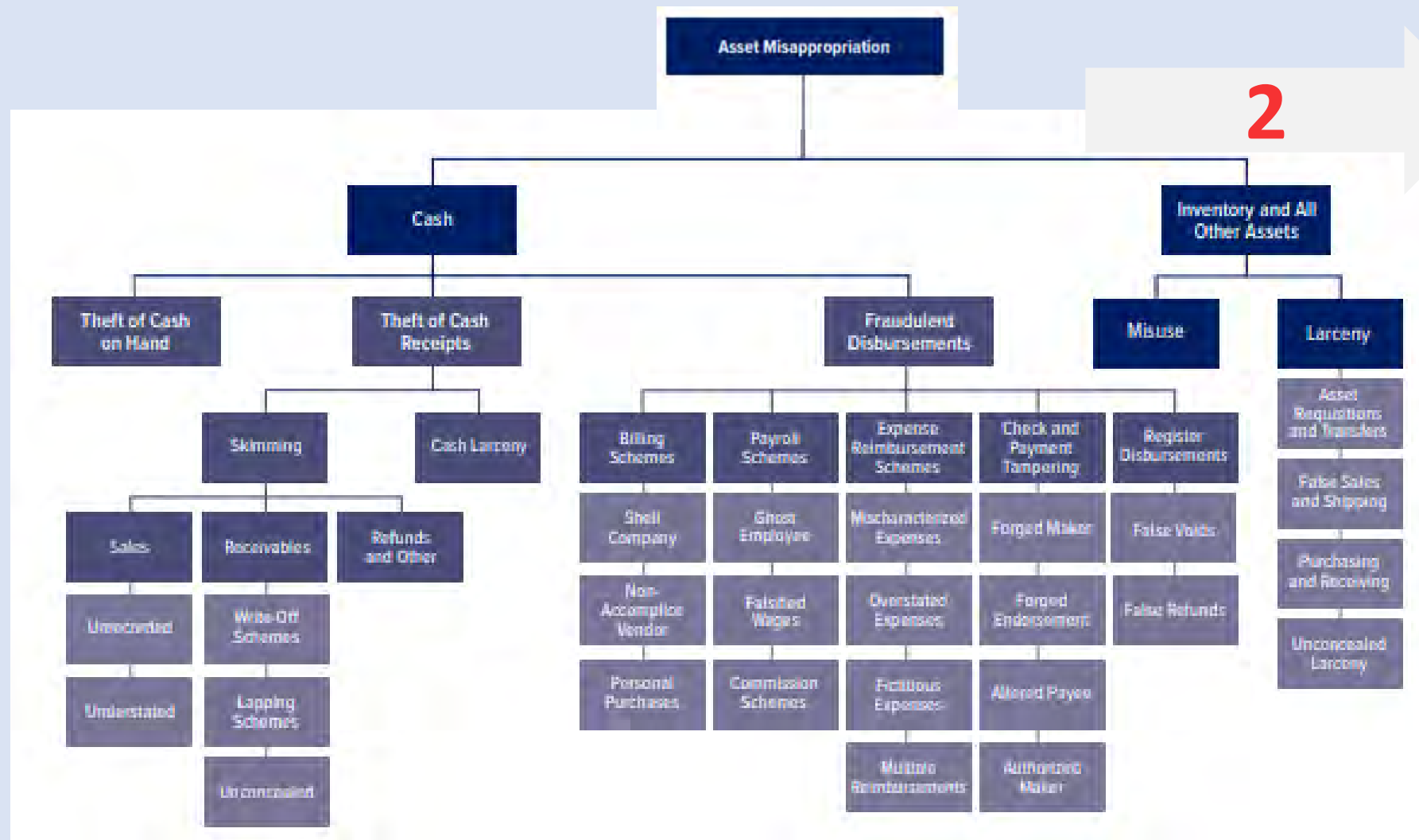


**RELEVANT
REFERENCES FOR
FRAUD RISK
IDENTIFICATION
FROM ACFE**

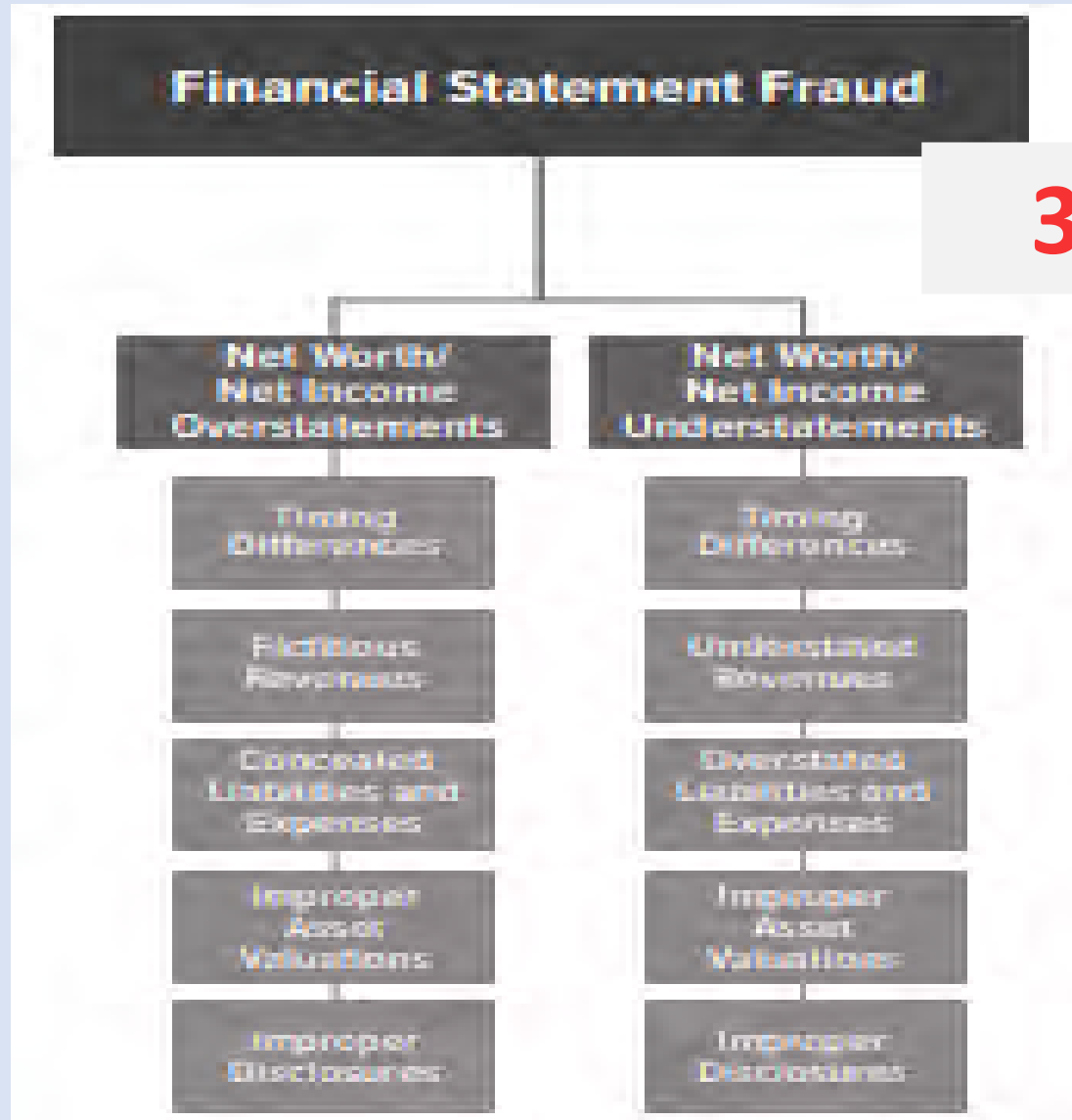
Identify Fraud Risks – Using ACFE's Fraud Tree



Identify Fraud Risks – Using ACFE's Fraud Tree



Identify Fraud Risks – Using ACFE's Fraud Tree



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ACFE's Occupational Fraud Report 2022

FIG. 35 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN HIGH-RISK DEPARTMENTS?

DEPARTMENT	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Operations	273	16%	7%	8%	11%	48%	9%	6%	16%	8%	1%	6%
Accounting	230	24%	15%	13%	29%	33%	10%	10%	7%	16%	3%	19%
Executive/upper management	206	31%	9%	10%	12%	65%	18%	22%	21%	13%	2%	12%
Sales	203	11%	6%	7%	2%	51%	8%	6%	18%	4%	2%	11%
Customer service	140	8%	10%	16%	11%	44%	6%	7%	17%	6%	3%	10%
Administrative support	131	23%	8%	15%	15%	37%	16%	5%	12%	12%	5%	10%
Purchasing	131	27%	1%	4%	2%	82%	5%	2%	14%	3%	0%	2%
Finance	95	26%	7%	11%	12%	48%	20%	14%	12%	7%	3%	12%





Thank You!

This Material is purely for educational purpose only

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Credit & Acknowledgement:- This presentation is compiled from ICAI & ACFE publications available as public resources.