# Fraud and the Changing Work Environment
## August 2022

**CAE '60 Second' Survey**

In July 2022, the Chartered Institute of Internal Auditors (UK) reported that:

*In the past two years, the Covid-19 pandemic has created the perfect environment for fraud to thrive. While organisations went into survival mode and faced immense pressures and economic uncertainty, a combination of financial and health threats have made people feel vulnerable – meaning that all the elements of the fraud triangle[1] have been heightened.*

*(Chartered Institute of Internal Auditors, 2022, p. 9)*

The report also pointed out that other pressures such as changed business operations and environmental disruptions have added to the risk of fraud.

The Institute of Internal Auditors – Australia surveyed Chief Audit Executives (CAEs) to explore the effects of the changed business environment on the fraud risk profile of Australian organisations. 48 responses were received across a wide section of the economy (Exhibit 1).
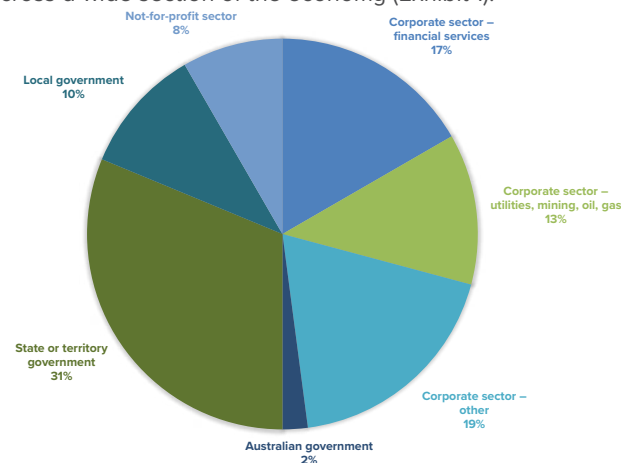


*Exhibit 1 – Economic sector of respondents*

### COVID-19

CAEs were asked whether they had considered the effects of the pandemic on fraud risk within their organisation. Most (90%) had considered this and 75% had discussed these impacts with their board and senior management. (See Exhibit 2).
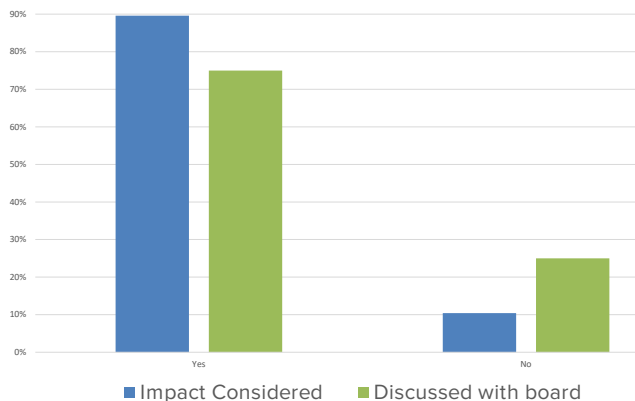


*Exhibit 2 – Impacts of COVID-19 on fraud risk*

Only 10% of respondents had seen an increase of fraud attempts in their organisation over the period of the pandemic. These organisations reported that as a result they had improved controls and procedures: in cyber controls, identity checks and high-risk fraud areas such as cash handling and asset management. Respondents also reported that the level of internal audit surveillance of operations had increased.

### Other Environmental Factors

Other environmental factors have not been so thoroughly considered. Only 35% of respondents have considered the effects of changes in cost of living on fraud risk; 63% have considered other changes in context such as remote working, the rise in inflation or the changing regulatory landscape. (See Exhibit 3).
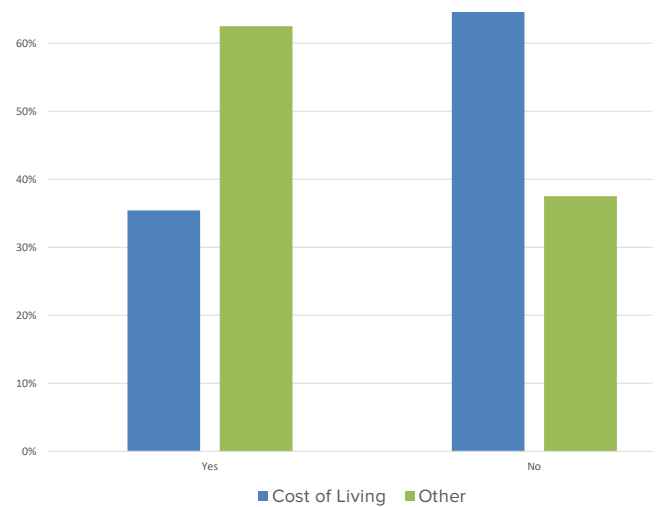


*Exhibit 3 – Changing context considered in fraud risk*

90% of CAEs report that the results of fraud risk assessments have been considered during internal audit planning.

### Responsibility for Coordination of Fraud Prevention

While internal audit is expected to contribute to improved control in an organisation and this improved control would cover the risk of significant errors, fraud, or noncompliance. (Standards 2120 *Risk Management* and 2130 *Control*), we would consider the active management of fraud risk to be a management responsibility and the coordination of fraud risk management to be a Line 2 responsibility (The Institute of Internal Auditors, Inc, 2020).

Internal audit can take on Line 2 responsibilities provided appropriate safeguards of independence and objectivity are in place. (Standard 1112 *Chief Audit Executive Roles Beyond Internal Auditing*).

In most organisations the responsibility for coordination of the fraud prevention activities lies with officers other than the CAE (Exhibit 4). One organisation reported having a specialist unit for the purpose. A number of those that reported "other" had a "governance, risk and compliance" function with this responsibility.

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1  The fraud triangle is a model for explaining the factors that cause someone to commit occupational fraud. It consists of three components which together lead to fraudulent behavior:
›        Perceived unshareable financial need.
›        Perceived opportunity.
›        Rationalisation
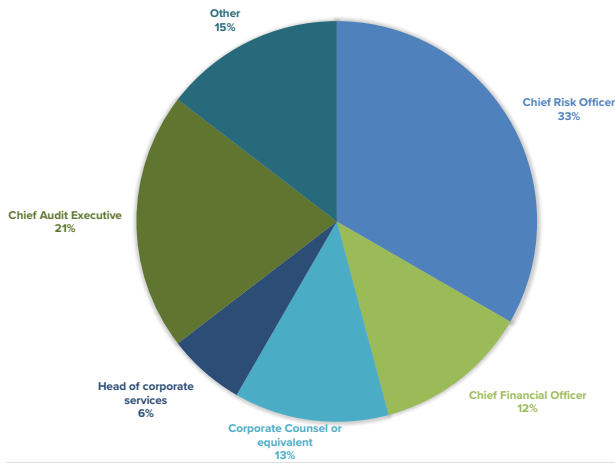(The Institute of Internal Auditors - Australia, 2021)

*Exhibit 4 – Responsibility for coordination for fraud prevention*

### Internal Audit Role

92% of respondents believe that they have sufficient knowledge of fraud prevention to be able to challenge board and/or senior management assessments of fraud risk. They also believe that the internal audit activity can add value to the organisation by applying their skills and experience in:

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| Facilitation/assistance with Fraud Risk Assessments |
| Review of Fraud Control Framework |
| Data analysis |
| Process monitoring |
| Awareness raising |
| Control analysis and process design |

*Exhibit 5 – Internal Audit Value-add*

### Summary

Recent changes in the internal and external context of organisations has caused most organisations to update their fraud risk assessments. These assessments have been reflected in most internal audit programs.

As expected, the primary responsibility for fraud prevention does not ordinarily reside with the internal audit activity. However, CAEs believe that they have the knowledge and skills necessary to challenge fraud risk assessments and to contribute to management of fraud within their organisations.

### Useful References

Chartered Institute of Internal Auditors, 2022. *Fraud is on the rise: Step up to the challenge*. [Online] Available at: https://www.iia.org.uk/policy-and-research/research-reports/fraud-report/

International Internal Auditing Standards Board, 2016. *International Standards for the Professional Practice of Internal Auditing*, Lake Mary, FL, USA: Internal Audit Foundation.

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The Institute of Internal Auditors, Inc, 2022. *Internal Auditing and Fraud*. [Online] Available at: https://www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/practice-guide-internal-audit-and-fraud-2nd-edition/

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