

### An example of a fraud risk assessment (Payroll Function)

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| **Process/Opportunity** | Payroll |
| **Fraud Exposure** | Total amounts flowing through the payroll system annually (£57,429,000). To include deductions paid to authorities, along with employer related payments. |
| **Comment on Fraud Risk** | An internal risk of fraud associated with any payroll related payments including tax driven deductions. Specific risks are:   * The creation of fictitious employees; * Payment in excess of entitlement to connected parties; * Payments directed to fraudulent bank accounts; |
| **Current Fraud Mitigation** | * All changes to ‘Standing data’ are signed off by the payroll manager. * Quarterly reconciliation of tax and national insurance deductions to outgoing payments (to the relevant authority). * Listing of new employees uploaded to standing data reconciled to HR new starter listing, confirmed outside the payroll function. * Check totals of all outgoing payroll payments, reconciled to expenditure reports sent to budget owners. * Quarterly reconciliation of reported staff costs to payment listing. All discrepancies reported outside payroll unit. |
| **Possible further action** | * Changes to ‘Standing data’ are reconciled to the forms signed by the payroll manager outside the Payroll department (Monthly). * Vetting of all payroll staff prior to appointment. |
| **Operation** | Fraud controls operate according to the parameters set above and detailed in ‘Current Fraud Mitigation’. Management last tested these operate as stated in April 2003. At that time all process checks listed above were confirmed by Internal Audit. |

**Generic Fraud Risk and Controls**

1. It is a basic tenet that **line management at all levels has to have the prime responsibility for deterring and detecting fraud.**
2. The development of an overarching **anti-fraud environment** where fraud is not tolerated, perpetrators expect to be caught and punished and staff reporting fraud expect it to be properly dealt with, is as important as the control system itself. **To this end managers should remind staff of their responsibilities under the Commission’s Fraud Policy and Response Plan.**
3. It is management’s responsibility to ensure their staff fully understand and apply controls. Any supervisor or management checks should be clearly **evidenced**
4. The organisation itself is going through a period of growth and structural change. This may result in a **higher than usual turnover** of permanent staff and the employment of a number of **temporary, untrained staff**. One consequence of this may be a **shortage of qualified or experienced personnel** to fill important posts. Provide **adequate supervision** of all staff particularly new, inexperienced or temporary staff.
5. Many frauds are initially opportunistic and follow a breakdown in internal control or a failure to apply quite straightforward procedures. A **sound system of control is essential.** This could include some (or all) of the following:

* **Separation of duties** at key stages of the process
* appropriate **delegation of authorities**
* regular **and random** line management checks of key decisions
* **Rotate staff** in sensitive posts
* Provide **clear instructions** about procedures
* Conduct Quality Control to see if procedures are followed (particularly around key controls).
* Ensure management and staff clearly understand their responsibilities
* Budgetary and other **financial control**
* Monitoring of **management information**
* **Independent reviews**.

1. Situations involving expenditure including purchasing, presents a number of risks. Over reliance on one person and poor physical control over computers and purchasing documents compound the risks.