



# FINANCIAL STATEMENT RISK MANAGEMENT

Looking at fraud and related risks  
Beyond the Bottom Line 2024  
Round Rock, TX



# Objectives

---

- Review the church's emphasis on Transparency and Accountability
- Understand meaning and requirements for fraud risk management
- Identify inherent risks and possible risks
- Understand the 5 components for managing risk
- Develop skills to formulate own risk management policy
- Perform risk assessment



**TRANSPARENCY  
AND  
ACCOUNTABILITY**

A Global Commitment of  
Seventh-day Adventist Church Leaders

# Transparency

---

To see through, nothing hidden, and is associated with honesty, openness, and trustworthiness

# Accountability

---

Capable of being explained; a statement explaining one's conduct (account)

Miriam-Webster.com

# Report to Governance (RTG) extract

SIGNIFICANT DEFICIENCY	DEFICIENCY IN		REPORTED PRIOR YR?	POTENTIAL IMPACT	RECOMMENDATION
	DESIGN	OPERATION			
No controls ensuring fraud risk assessment procedures performed periodically	✓	-	Yes	Fraud could occur without timely detection	<ul style="list-style-type: none"><li>- Design and implement fraud assessment protocol, and prevention and detection controls</li><li>- Develop response strategies for unpreventable frauds</li></ul>
Inadequate controls requiring risk assessment procedures performed related to financial statement presentation and the potential for fraud	✓	-	Yes	Fraud could occur without timely detection	<ul style="list-style-type: none"><li>- Design and implement controls requiring periodic risk assessment</li><li>- Design and implement internal controls to address identified risks</li></ul>

# Why fraud risk management so important?

---

- Administrator used own bank account to receive organizational funds
- Treasurer opened bank account but did not record the account in the books
- Accountants colluded with supplier to include tax on non-taxable goods for kickback
- Student accountant issued fake receipts and pocketed the money received
- Construction project budget quadrupled but building was incomplete



# Fraud

Misappropriation of assets

Fraudulent financial reporting

Fraud is any **intentional** act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain

COSO Fraud Risk Management Guide Executive Summary



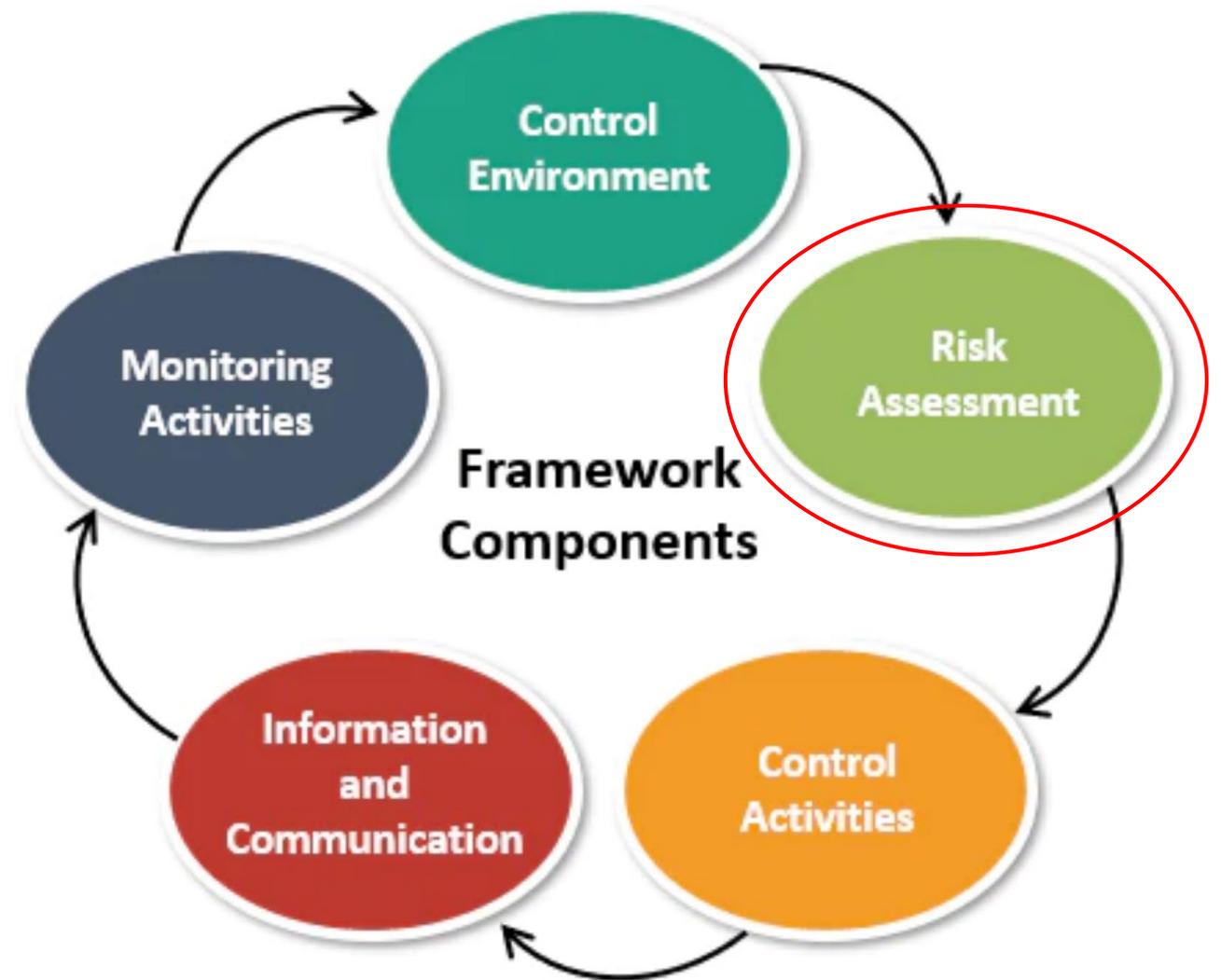
## Who is responsible for managing fraud risk?

See it. Say it. Do it

The board of directors and top management and personnel at all levels of the organization — including every level of management, staff, and internal auditors — have responsibility for managing fraud risk.

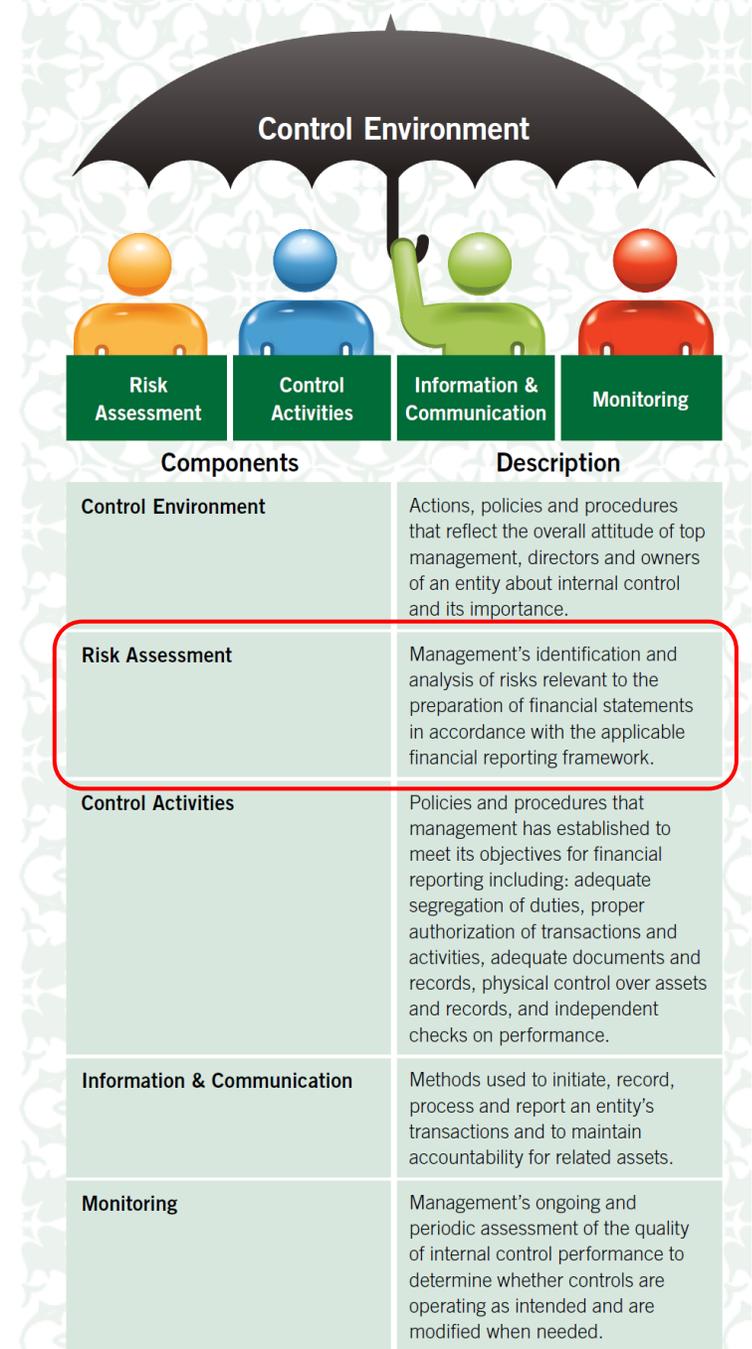
COSO Fraud Risk Management Guide Executive Summary

# COSO Framework



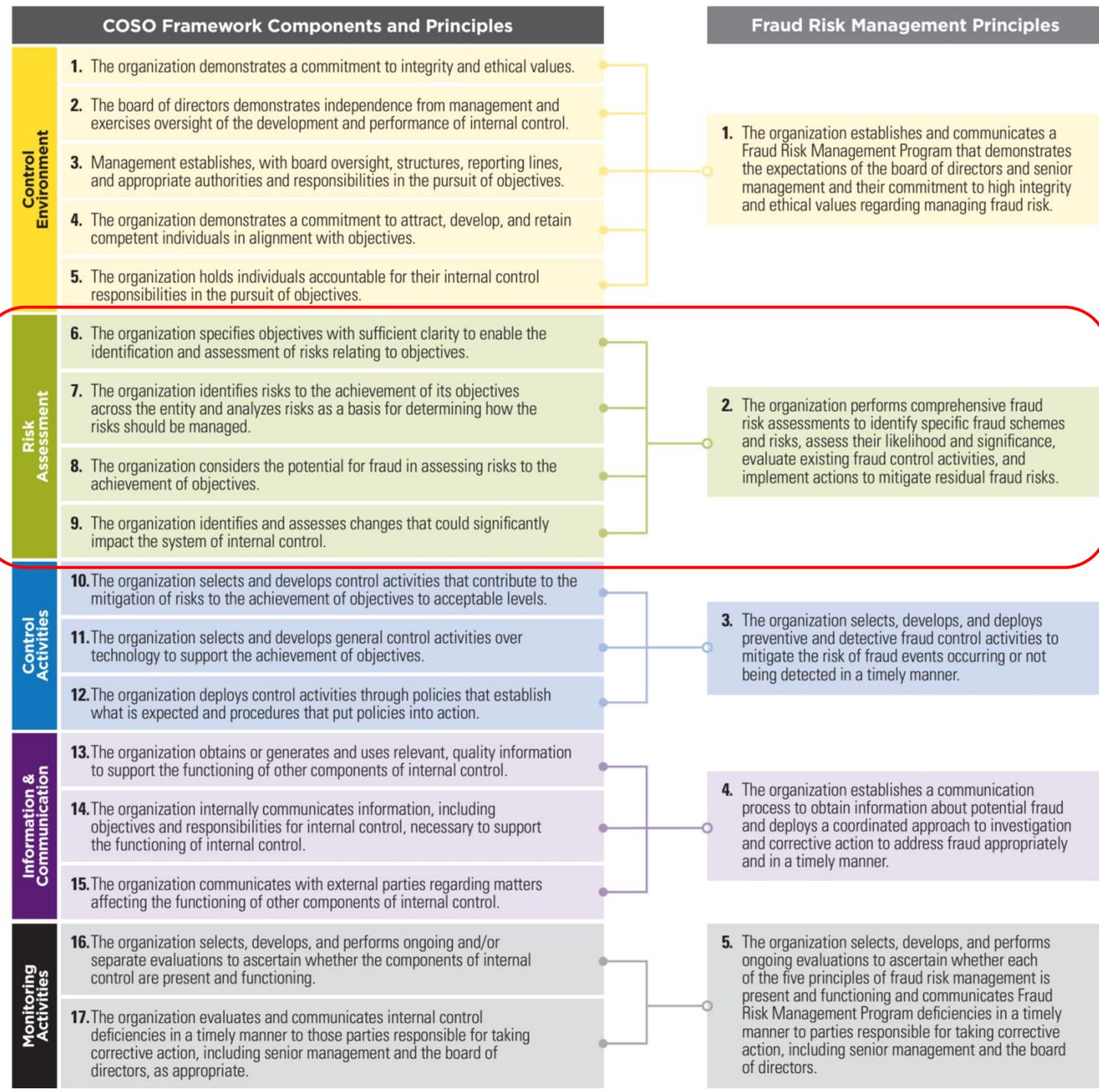
# Transparency and Accountability

page 126



# COSO Framework Components and Principles

COSO Fraud Risk Management Guide



# COSO Risk Assessment

## Risk Assessment

- 6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- 7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- 8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- 9. The organization identifies and assesses changes that could significantly impact the system of internal control.

2. The organization performs comprehensive fraud risk assessments to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.

# Key principles: Managing fraud risk

Establish a fraud risk management program	Control Environment
Perform comprehensive fraud risks assessments	Risk Assessment
Select, develop, and deploy preventive and detective fraud control activities	Control Activities
Establish a communication process to obtain information about potential fraud	Information & Communication
Select, develop, and perform ongoing evaluations of fraud risk assessment	Monitoring Activities

# Who uses the Fraud Risk Assessment?

---

- Governing committees, including audit committee
- Senior management
- Other management and other personnel
- Internal auditors
- Independent audits/GCAS
- Other professional organizations
- Educators

# What does GCAS look for?

---

- Present – Has management and the governing committee developed a fraud risk assessment?
  - This should be formally documented, reviewed and approved by the governing committee, and reviewed/updated regularly for changes in operating environment
- Functioning – Is it working as it was designed?

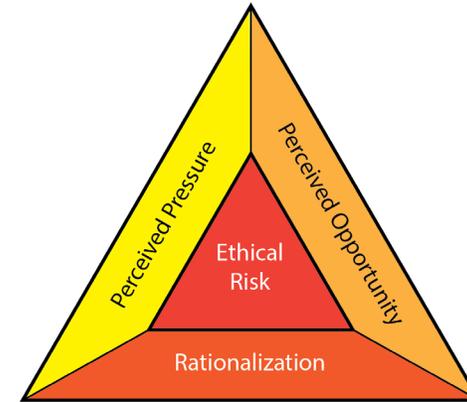
# Where do I start?

---



# Where do I start?

- Fraud Triangle
- Areas of risk
  - Known
  - Possible
- Brainstorming risks with ALL levels
- Other risks
  - Cyber security
  - Bribes/corruption
  - Legal misconduct
  - Reputational



# Why brainstorm?

---

- Improve communication and awareness about fraud
- Identify where the organization is vulnerable to fraud and what activities put it at the greatest risk
- Know who puts the organization at risk
- Develop plans to mitigate risk
- Develop techniques to investigate and determine if fraud has occurred in risk areas
- Assess anti-fraud controls
- Comply with regulations and professional standards

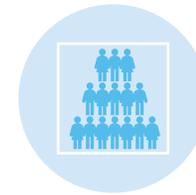
# Risk management in action



What is the likelihood of the risk?



What is the significance of the risk?



What are the departments or people involved?



What is the Fraud risk score (likelihood \* significance)?



What are the detective and preventive controls in place?



What is the Response plan?

# Risk Assessment : Likelihood

<b>Likelihood</b>				
<b><u>Rating</u></b>	<b><u>Based on Annual Frequency</u></b>		<b><u>Based on Annual Probability of Occurrence</u></b>	
	<b><u>Descriptor</u></b>	<b><u>Definition</u></b>	<b><u>Descriptor</u></b>	<b><u>Definition</u></b>
5	Very frequent	More than twenty times per year	Almost certain	>90% chance of occurrence
4	Frequent	Six to twenty times per year	Likely	65% to 90% chance of occurrence
3	Reasonably frequent	Two to five times per year	Reasonably possible	35% to 65% chance of occurrence
2	Occasional	Once per year	Unlikely	10% to 35% chance of occurrence
1	Rare	Less than once per year	Remote	< 10% chance of occurrence

# Risk assessment: Significance

Significance		
<u>Rating</u>	<u>Descriptor</u>	<u>Definition</u>
5	Catastrophic	<ul style="list-style-type: none"> <li>Financial loss to company in excess of \$xxxx</li> <li>International, long-term media coverage</li> <li>Widespread employee morale issues and loss of multiple senior leaders</li> <li>Required to report incident to authorities, resulting in significant sanctions and financial</li> </ul>
4	Major	<ul style="list-style-type: none"> <li>Financial loss to company between \$xxxx and \$xxxxx million</li> <li>National, long-term media coverage</li> <li>Widespread employee morale problems and turnover</li> <li>Required to report incident to authorities, resulting in sanctions against company</li> </ul>
3	Moderate	<ul style="list-style-type: none"> <li>Financial loss to company between \$xxxx and \$xxxx</li> <li>Short-term, regional or national media coverage</li> <li>Widespread employee morale problems</li> <li>Required to report incident to authorities and take immediate corrective action</li> </ul>
2	Minor	<ul style="list-style-type: none"> <li>Financial loss to company between \$xxxx and \$xxxx</li> <li>Limited, local media coverage</li> <li>General employee morale problems</li> <li>Incident is reportable to authorities, but no follow-up</li> </ul>
1	Incidental	<ul style="list-style-type: none"> <li>Financial loss to company less than \$xxxx</li> <li>No media coverage</li> <li>Isolated employee dissatisfaction</li> <li>Event does not need to be reported to authorities</li> </ul>

## Other considerations...

---

A SMALL fraud can have  
**CATASTROPHIC**  
results

# Control effectiveness and residual risk

---

<b>Control Effectiveness</b>	
<b>Control Risk Rating</b>	<b>Description</b>
5	Very effective (reduces 81–100% of the risk)
4	Effective (reduces 61–80% of the risk)
3	Moderately effective (reduces 41–60% of the risk)
2	Marginally effective (reduces 21–40% of the risk)
1	Not effective (reduces 0–20% of the risk)

# Dealing with residual risk - example

Control risk rating	Residual rating	Fraud risk response
5	low	Do nothing, controls are sufficient
4	low	Awareness of other lifestyle issues such as illness, bankruptcies Rotation of responsibilities of employees, check if bank reconciliations have signed by preparer and reviewer
3	medium	Background checks to look for relationships between vendors and management, review conflict of interests declarations, review contracts with lawyers
2	high	
1	high	Use data analytics, to identify anomalies, re-perform bank reconciliations

# Preventive vs. Detective Controls

---

- Preventive controls – Designed to avoid a fraudulent event or transaction at the time of initial occurrence
- Detective controls – Designed to discover a fraudulent event or transaction after the initial processing has occurred

# Risk assessment matrix

Fraud Risk Assessment as of [DATE]										
ID Numb	Identified Fraud Risks and Schemes	Likelihood [1-5]	Significance [1-5]	Fraud Risk Rating	People and/or Department	Existing Anti-Fraud Controls	Preventive [C] or Detective [D]	Controls Effectiveness Assessment [1-5]	Residual Risks	Fraud Risk Response
AM4	Fraudulent Disbursements Check Tampering & Expense Reimbursement Schemes	5	5	25	<p>Check tampering: Accounting &amp; Finance staff <i>(including Treasury)</i> Contracting Purchasing Operations managers Senior executives ( e.g. Sales, Marketing, IT, Legal, General managers of remote locations, CEO, CFO)</p> <p>Expense Reimbursement: All staff ( especially sales personnel and management at remote locations)</p>	<p>Physical access controls, dual signatures on checks, support for expenses, review by supervisor and requirement that any false statement made on any expense report could be grounds for dismissal</p> <p>Awareness of pressures/incentives at all levels that might drive inappropriate financial behavior as well as observation, inquiry, and other information that focus on lifestyle, family, and</p>	D	1	<p>Medium (if by senior mgmt)</p> <p>Low (if by other employees)</p>	<p>Rotation of responsibilities in Accounting &amp; Finance function, ( e.g. mandatory vacations )</p> <p>Awareness of lifestyle and other personal issues such as divorce, illness, bankruptcies, and disgruntled employees who might want to get back at the organization</p>

# Reporting process



A reporting process should be in place to solicit input on potential fraud, and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely



It is essential that any violations, deviations, or other breaches of the code of conduct or controls, regardless of where in the organization, or by whom, they are committed, be reported and dealt with in a timely manner. Appropriate punishment must be imposed, and suitable remediation completed. The board should ensure that the same rules are applied at all levels of the organization, including senior management



Receive the allegation, Evaluate the allegation, Investigation protocols available, conduct the investigation, report the results, corrective action



# Fraud risk management model

---



# Developing a Fraud Risk Assessment

---

- Executive Summary
- Summary of Fraud Control Strategies
- Fraud Risk Management
- Procedures for Reporting Fraud
- Employment Conditions
- Conflict of Interest
- Procedures for Fraud Investigation
- Review of Fraud Control Arrangements

# Conclusion

---

...It is imperative for leaders to promote and design the most appropriate systems that will safeguard the resources which are used to support the mission of the Church.

Transparency and Accountability, page 127



## ...Lastly

---

Finally, brothers, whatever is true, whatever is noble, whatever is right, whatever is lovely, whatever is admirable – if anything is excellent or praiseworthy – think about such things.

Philippians 4:8

Do nothing out of selfish ambition or vain conceit, but in humility consider others better than yourselves. Each of you should look not only to your own interests, but also to the interests of others.

Philippians 2:3, 4

# Questions?

---

**JoJean Birth**

**Associate Director**

**[BirthJ@gcasconnect.org](mailto:BirthJ@gcasconnect.org)**

**[www.gcasconnect.org](http://www.gcasconnect.org)**