

The Digital Accounting and Assurance Board (DAAB) of The Institute of Chartered Accountants of India (ICAI) invites comments on a new Forensic Accounting and Investigation Standard (FAIS) on – Understanding Fraud Risk

Comments are most helpful if they indicate a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be Submitted at
<https://forms.office.com/Pages/ResponsePage.aspx?id=DOHFOzhjoU6NJ-O1tggEOvuF6SRz25pIvVExBjm2K8JUNDFCV1JLUkNQWVBNTjFMRVN RV1YxV01NTy4u>

Last date for sending comments is October 18, 2020.

FORENSIC ACCOUNTING AND INVESTIGATION STANDARD No. 120

UNDERSTANDING FRAUD RISK

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This Forensic Accounting and Investigation Standard 120, on “Understanding Fraud Risk,” issued by the Council of the Institute of Chartered Accountants of India (ICAI) should be read in conjunction with the “Preface to the Forensic Accounting and Investigation Standards”, the “Framework Governing Forensic Accounting and Investigation Standards” and “Basic Principles of Forensic Accounting and Investigations” issued by the Institute.

1 Introduction and Scope

- 1.1 This Financial Accounting and Investigating Standard (FAIS or “Standard”) deals with the Professional’s responsibility to understand Fraud Risk concepts and how these may apply to their engagements.
- 1.2 Forensic Accounting and Investigation (FAI) engagements generally involve the possibility of fraudulent events or suspicious transactions. Typical characteristics of a “Fraud” involve an incentive or pressure to commit fraud, a perceived opportunity to do so, and some rationalization of the act. Therefore, the question of intent becomes critical as part of the engagement objectives.
- 1.3 The concept of “Risk” is defined as the possibility of an unfavourable event or outcome, such as the presence of a fraud. Risk applied in a fraud scenario, helps the Professional to focus and prioritise his work on areas of importance and with greater vulnerability to fraud.

2 Objectives

- 2.1 The main objectives of this Standard on Understanding Fraud Risk are to ensure that:
 - (a) the concepts of fraud risk are recognised, when undertaking engagements;
 - (b) engagement risk is ascertained, prior to accepting the engagement;
 - (c) high risk and vulnerable areas of fraud are identified for prioritising work and assigning appropriate skill sets; and
 - (d) fraud risk-based evaluations are undertaken to establish the extent of emphasis required for reporting.

3 Requirements

- 3.1 The Professional shall undertake a preliminary fraud risk understanding of the areas and processes relevant to the subject matter of engagement to understand the nature and complexity of the engagement and to assign appropriate skills.
- 3.2 In the preliminary fraud risk study, the Professional shall also identify any possible risks which may jeopardize a fair conduct of the engagement for reasons such Code of Conduct issues (e.g., conflict of interest or Scope limitations, etc.) or the risk of other FAIS compliance issues. This shall be conducted in line with FAIS 210 “Appointment and Acceptance of Engagement”. (refer Para 4.1).
- 3.3 During the course of the engagement, the Professional shall prioritize the work to help identify Fraud Risk Factors. Given the sensitive nature and time constraints of

the engagement, the Professional needs to focus on areas most vulnerable to fraud. This shall be conducted in line with FAIS 330 "Executing Assignments". (refer Para 4.2).

- 3.4 The Professional shall give due consideration to matters indicating fraud risk when reporting findings of the work completed. This shall be conducted in line with FAIS 370 "Reporting Results".

4 Explanatory Comments

- 4.1. Engagement Risk (refer Para 3.2): Apart from ensuring that no undue risk is assumed by the professional in the proper conduct of the engagement (such as those that may result in misreporting), the Professional shall evaluate the possibility of other risks. Engagements with possibilities of fraud carry risks which can take many forms, including risk to life and limb. Due diligence of all such risks may be required depending upon the objectives of the engagement.
- 4.2. Fraud Risk Factors (refer Para 3.3): The fact that fraud is usually concealed can make it very difficult to detect. Nevertheless, the Professional may identify events or conditions that indicate an incentive or pressure to commit fraud (the motive) or provide the situations to perpetrate one (the opportunity) For example, frauds are generally driven by a motive to gain, combined with the exploitation of a weakness in the system and rationalised as acceptable, based on the psychology of the fraudster.

5 Documentation

- 5.1 A written document which explains the understanding of fraud risk and how it is applicable to the engagement shall be maintained. Notes shall include any engagement risk or fraud risk factors observed, and how these may be relevant to the engagement.

6 Effective Date

- 6.1 This Standard is applicable for all engagements beginning on or after ... (a date to be notified by the Council of the ICAI).