

PARTICIPANT COURSE MATERIALS

Operational Risk Management



CGAP CONSULTATIVE GROUP TO ASSIST THE POOR

NOTE The Participant Course Materials contain the main technical messages and concepts delivered in this course. It is not intended to substitute for the full information and skills delivered through the individual courses in the ***Skills for Microfinance Managers*** training series. During the actual courses, key concepts are presented with case studies, exchange of participant experiences, and other activities to help transfer skills. Users interested in attending a training course should directly contact CGAP hubs and partners for course dates and venues or visit the CGAP website at www.cgap.org/html/mfis_skills_microfinance_manag.html. CGAP would like to thank those who were instrumental to the development and design of the original course that led to this participant summary: Janis Sabetta, Joyce Lehman, Howard Brady, Michael McCord, Betty Sabana, Pamela Champagne, Steven Kelly, André Hue, Alex Silva, Jennifer Isern, Xavier Reille, Leslie Barcus, Tiphaine Crenn and all CGAP training hubs and partners. Copyright 2003, CGAP, the Consultative Group to Assist the Poor.

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Overview

Over the past 20 years, a microfinance industry has emerged in response to the lack of access to formal financial services for most of the world's poor. Like other financial service businesses, microfinance institutions (MFIs) are exposed to risk because they deal with money, often in cash. It is important to manage those risks to help reduce the likelihood that loss will occur and to minimize the scale of loss should it occur. Without effective systems and controls, the institutions can—and often do—undermine their ability to accomplish their goals.

This course was designed to help MFIs develop such a process for operational risk management. It provides guidelines to establish operational activities that will help MFI managers to identify vulnerabilities, to design and implements controls, and to monitor the effectiveness of those controls.

Risk management includes the prevention of potential problems as well as the early detection and correction of actual problems should they occur.

Goal of the course

To improve the quality of risk management in MFIs by:

- Understanding the importance of having an institutional culture of support for strong control systems
- Assessing the vulnerability of institutions to areas of risk
- Applying techniques for identifying and mitigating risks
- Monitoring the effectiveness of risk management strategies

Objectives of the course

- Define *risk management* as it applies to microfinance
- Identify risk areas (areas of vulnerability) for MFIs
- Educate stakeholders on the importance of risk management strategy to an MFI
- Learn how to develop internal controls for an MFI in conjunction with stakeholders
- Understand the role of internal audit for effective monitoring into an internal control system
- Understand the critical role of information systems in a risk management system
- Learn how to commission an external audit and use it effectively

Risk Management

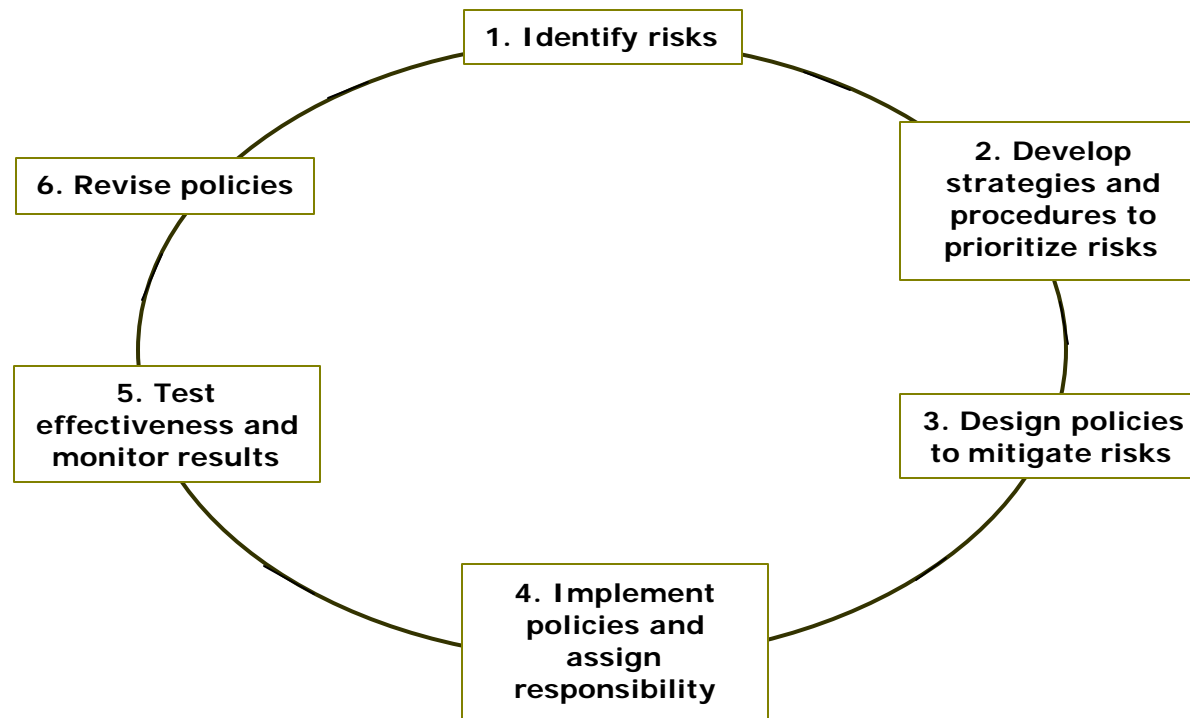


Most microfinance programs and institutions exist to fulfill a dual mission: the provision of financial services to poor people and financial sustainability. While there is an increasing number of industry success stories, the majority of programs are small and donor dependent, and often operate without proper systems to reduce their exposure to risk. However, in order for a microfinance institution to realize its mission, it must identify and mitigate the risks that pose the greatest threat to its financial health and long-term survival.

What is risk management?

It is not possible or even advisable, given the cost, to eliminate all the potential risks to an institution. Risk management is the process of taking calculated risks, a systematic approach that identifies and prioritizes the risks and implements strategies to mitigate the risks. This approach includes both the **prevention** of potential problems and the early **detection** of actual problems. It is a continuous process that involves staff at all levels of the organization (see Figure 1).

Figure 1. The Risk Management Process



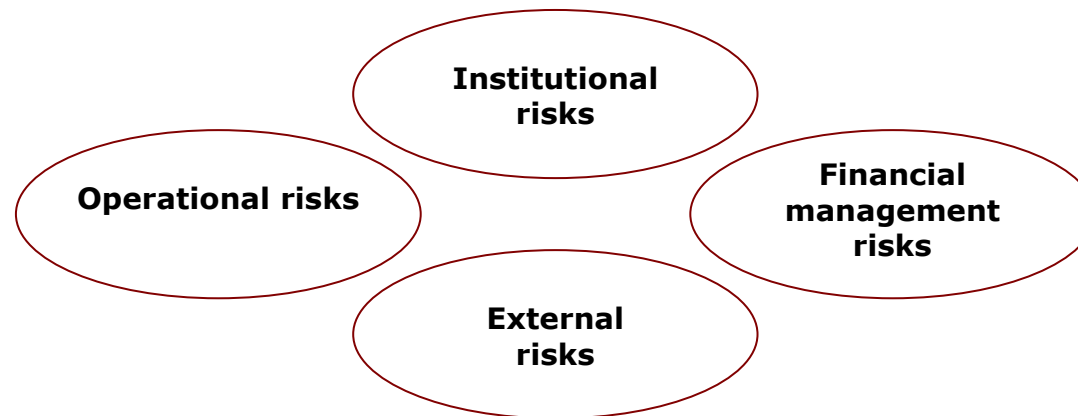
Source: Adapted from Anita Campion, *Improving Internal Control: A Practical Guide for Microfinance Institutions*, Technical Guide No. 1 (Washington D.C.: MicroFinance Network and GTZ, 2000).

Risk management is an ongoing process because vulnerabilities change over time.

Identifying MFI risks

The risks to microfinance institutions can be organized into four general categories.

Figure 2. Categories of Microfinance Risks



Source: Adapted from Craig Churchill and Dan Coster, *CARE Risk Management Handbook* (Washington D.C.: CARE and Pact Publications, 2001).

Institutional risks are those that threaten the loss of either the social or the commercial mission of the institution: change in the target client, continued donor dependency.

Operational risks are the vulnerabilities faced in daily operations: credit, fraud, inefficiency, security.

Financial management risks include asset-liability management issues, liquidity, system integrity.

External risks are more often out of the MFI's control but must be recognized and mitigated: regulatory, competitive, demographic, macroeconomic, etc.

For many institutions, operational risk is the most relevant type of risk because it is in this area that an MFI stands to lose the most.

Characteristics of an MFI

MFIs face operational risks unlike many other types of institutions and are particularly vulnerable to fraud because:

- MFIs grant a large number of small loans and so receive a large number of small payments, which can be harder to track.
- MFI operations are often decentralized and dispersed over a wide geographical area.
- Rapid growth puts pressure on systems.
- Managers are often trained more in social sciences than in business.
- There is often great pressure to cut costs, sometimes at the expense of adequate supervision and controls.
- Most MFIs do not have fully integrated MIS.
- MFIs dislike writing off problem loans—it can create problems with donors and reduce their income.

Operational Risk Management



Operational risk management can be defined as the process of controlling the likelihood and potential severity of an adverse event, and includes three mechanisms that are linked:

- **Internal controls**—the institution’s means to monitor risks before and after operations
- **Internal audit**—a systematic review of the operations to ensure that established policies and procedures are followed
- **External audits**—an outside evaluation of an institution’s controls and statements

An effective system of internal controls is an MFI’s primary mechanism to identify, measure, and mitigate operational risks.

Keys to Effective Risk Management

- Stated mission and core values
- Motivated and confident people
- Conducive environment
- Sound methodology
- Accountability and transparency
- Security
- Performance and efficiency
- Reliable management information systems

Effective operational risk management is:

- **Preventive**—designed and installed to prevent undesirable outcomes **before** they happen
- **Detective**—designed to identify the undesirable outcomes when they DO happen. They identify errors **after** they occur
- **Corrective**—designed to make sure that corrective action is taken to reverse the undesirable outcomes or to see that they do not recur

Internal Controls

An internal control system refers to all the policies and procedures adopted by MFI managers to help ensure, as far as is practical, the orderly and efficient conduct of its business. It is a process that allows the management and staff to be reasonably sure that the objectives of the institution are being met. An effective system can help detect inconsistencies that occur when people within an MFI (branch managers, for example) make autonomous decisions. Internal controls should be **preventive, detective, and corrective**.

Human resource management

Sound management of human resources is important to *prevent* operational risks in the first place.

People Are the Key

Every person in the institution, from the board to the most junior staff person, has a role in risk management.

- **Senior management** identifies and prioritizes risks, designs and adjusts policies and systems to minimize risks and provides clear instructions to implement policies.

- **Branch management** implements control procedures and monitors compliance within the branch.
- **Operating staff** complies with policies and informs management of points of risks or how policies could be more appropriate.
- **Internal audit staff** monitors compliance with policies throughout the institution and reports results to Board and management.
- The **board** reviews and approves management's risk analysis and operational policies, and monitors results.

Staff is the most critical factor for success and each person must understand the vision and mission of the institution and commit to those stated values in order for the risk management process to succeed.

Clarity of Mission and Values

A key to shaping strategic success is clarity of mission. To be successful, an MFI must recognize the importance of having organizational values and be committed to a process of developing those values. Individuals need to understand what business the company is in and how its values drive that business. Without such understanding employees will not

develop much commitment or loyalty to the organization and its success. The mission statement provides a sense of purpose and incorporates a vision of future accomplishment. Generally, a mission statement will include:

- **Purpose**—Why does the institution exist?
- **Clients**—Whom does the institution serve?
- **Service**—What will the institution do to fulfill this purpose?
- **Benefits**—How will the organization benefit its stakeholders?

It is much less common but equally important for an institution to develop and communicate a statement of core values or guiding principles that complements the mission statement. Values that are clearly stated lead to hiring people who are committed and to providing staff the training and equipping they need, which in turn keep staff committed to the mission of the institution.

Stated values ⇒ policies ⇒ goals, objectives, and strategies for implementation

When a Statement of Guiding Principles is agreed to, clearly stated, communicated, displayed, and most importantly, implemented, the institution has made real progress toward limiting the risks inherent in the human element of risk management.

Human Resource Policies

An MFI can dramatically reduce its vulnerability to most risks if it has well-trained and motivated employees. This can be accomplished with effective human resource policies that address hiring, training, remunerating, appraising, and terminating staff members.

Hiring

Are the hiring procedures designed to attract individuals who are honest and well motivated?

An MFI must follow solid and transparent recruitment practices and be willing to invest the time and resources to find the right people. In addition to the usual screening for technical skill requirements, one might employ methods such as psychological testing, asking former employer or other personal contacts whether they would entrust their money with this person, or hiring the person for a trial period to screen for character.

Training

Are new employees oriented to and reminded of the MFI culture of honesty and zero-tolerance for fraud?

Training often focuses on the tasks of the job, but to serve as an effective control, training should impart much more than just technical skills. For new staff, the orientation is the time to immerse them in the institutional culture, cultivate their commitment to the

missions and values of the organization, and to reinforce the zero-tolerance policy for fraud.

To retain quality people and to ensure that they grow and develop and remain motivated, as the organization evolves , it is necessary to provide regular in-service training

Remuneration

Are staff remuneration levels reasonable and competitive?

Even more than the amount of remuneration, most staff want the remuneration to be determined in a fair and transparent manner. The institution should regularly conduct market surveys to determine appropriate salary ranges and develop a salary scale that includes all job functions. Employees who do not feel fairly compensated are much less likely to carry out their job with the needed thoroughness and attention to detail and are also much more likely to take advantage of an opportunity to commit fraud.

Appraisal

Is there an objective system of regular employee performance appraisal?

Even more than salaries, factors that motivate employees include being given responsibility and opportunity for advancement, recognition for good work, and a sense of satisfaction in high quality performance. A well-designed formal appraisal process of performance for each employee provides an opportunity for two-way communication between every employee and their immediate supervisor.

Termination

Is there an immediate termination policy for staff fraud or dishonesty?

Employee awareness of potential negative consequences for inadequate job performance is also a preventive control, especially for fraudulent activity. There should be a clear message that staff members will be immediately terminated, lose their income and benefits, and may be subject to criminal charges if they perpetrate fraud. Swift and permanent action in response to even the least consequential fraudulent activity sends a clear message to employees that the MFI does not tolerate fraud or dishonesty of any type.

Policies and procedures

Clear and comprehensive policies and procedures are an integral part of **preventive** control of risks.

What Are Policies and Procedures?

Policies are the written guidelines that indicate the direction of the operations. Credit policies will include guidelines on eligibility of clients, description of products offered, etc.

Procedures are the written instructions that tell how to implement and follow the policies.

In order to be effective, policies and procedures must be:

- **Written**—Oral instructions are seldom consistent and easily misunderstood.
- **Simple and clear**—Keep straight and to the point; use diagrams to show the flow of operations.
- **Available**—Ensure that each staff has the policies applicable to their position.
- **Understood**—Provide training for all staff.
- **Relevant**—If a policy has been changed, be sure it is communicated and training provided.
- **Implemented**—Expect all staff to follow the policies and procedures as stated.

Information

Information and an information system are vital to the risk management process. You can't control what you don't know! Information is necessary to follow and mitigate risks—**to prevent and detect them**—not only accounting but in all facets of operations. Therefore MFIs need a system that manages and controls information content and flow.

Risks Associated with Lack of Information

- **Inability to prioritize risks**—A key part of the risk management process is prioritization of risk. This can be done by using a matrix to rank the likelihood that the event will occur (frequency) and estimate the potential cost (impact). Lack of good historic information will make this process more difficult.
- **Inability to detect fraud**—If fraud has occurred in an MFI, it most often has had an effect on the quality of the portfolio. If regular and accurate portfolio information is available, fraud related to loan disbursements and repayments can be much more easily detected.
- **Unclear employment procedures**—Each staff person should have a complete personnel file with employment agreements, remuneration decisions (with approvals), results of performance appraisals signed by both the employee and supervisor, and other documentation of issues related to the employee. To maintain a fair and transparent human resource system, the employee file information is critical.

- **Unmet statutory requirements**—Without proper and timely information, statutory reporting will be inaccurate or incomplete.
- **Inadequate control over assets**—It is important to keep log books for entering or taking supplies from stores, vehicle usage log, fixed asset register.
- **Non-compliance with budget**—A financial information system should include the comparison of actual results to the budget. If a manager is not able to check the reason for variances, system manipulation is less likely to be detected.
- **Inaccurate financial statements**—Sloppy bookkeeping and accounting procedures not only create an environment for fraudulent activity but ultimately leave managers and stakeholders with incorrect information for managing the company.

What Does It Mean to Manage Information?

The management of information involves much more than installing a computer system. The management of the institution needs to decide what reports they need in order to be able to make appropriate management decisions and to provide reports to stakeholders—board, donors, investors, regulators, etc. To enable the top managers to have the reports they need, information must be properly collected, recorded, and input into the system.

Timely and accurate reporting should be expected from all staff and made part of their performance appraisal.

Key Attributes of Good Information

A summary flow chart of reporting, including forms used, persons responsible, dates due of all internal reports can help ensure that the information provided meets the following criteria.

Is the information

- **Relevant**—Does it provide what is needed?
- **Used**—Does the recipient need all the information?
- **Timely**—Is it delivered in time to be useful?
- **Accurate**—Is the information correct?
- **Distributed to the correct people**—Do the reports go to the people who need the information?
- **Accessed by the correct people**—Is access to the reports limited to the users?
- **Well formatted**—Is it easy to read and understand?
- **Retrievable**—Are reports filed in standard formats and locations?
- **Traceable**—Is the information on the reports able to be audited?

Where are the key risks?

An institution needs to discover where the key operating risks are by examining current practices and processes. This formidable task can be done most effectively by using the logical divisions of operating processes, sometimes called business cycles. In an MFI, the major categories can include, but are not limited to, the following:

Financial Operations

- Credit—from application and approvals through disbursement and collection
- Savings—from approval for membership through deposits and withdrawals
- Portfolio quality review and provisioning
- Forecasting demand—marketing, monitoring and reporting demand/potential clients

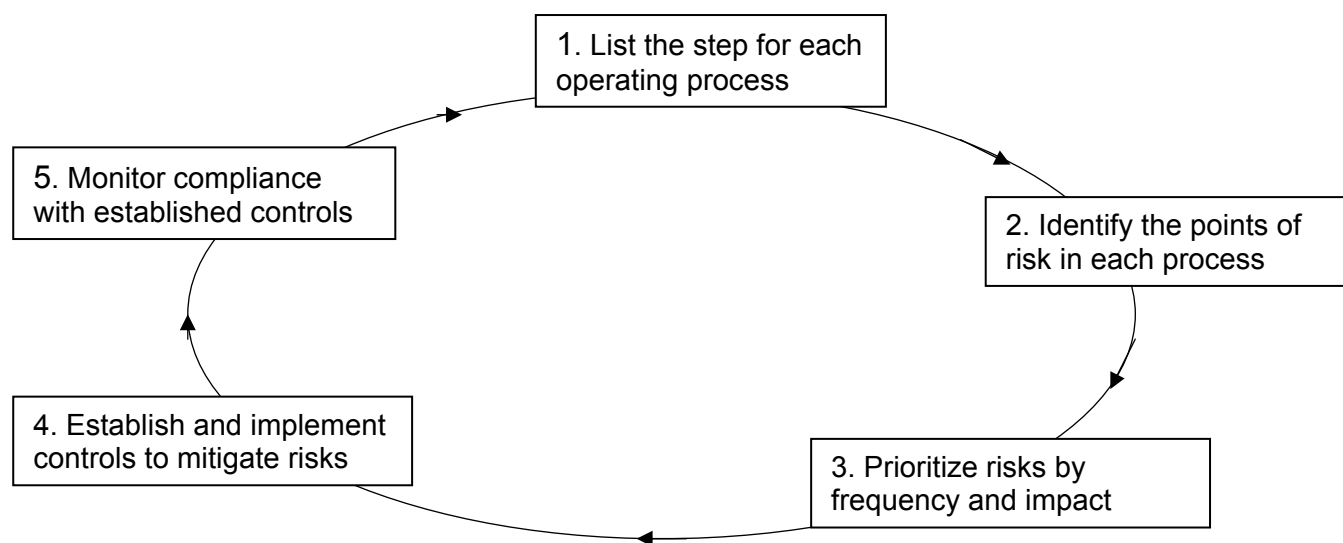
Procurement (purchases, payroll, fixed assets)

- Purchasing—from requisition through approval, purchase, receipt of goods or services, and payment
- Payroll—hiring, remuneration, statutory payroll deductions or other statutory obligations, personnel file documentation
- Fixed assets—budget request and approvals, purchase, use, security, depreciation policy, disposition

Treasury (cash, banking, investments, funding)

- Cash handling
- Banking—accounting opening, closing, deposit, transfers and withdrawals
- Investments
- Funding—donations, capital stock, debt
- Liquidity management

Figure 3. The Business-Cycle Approach to Identifying Risks and Appropriate Controls



Essentials of an effective system of controls

For a system of internal control to be effective ***all*** of the following must be present:

- **Control environment**—the tone of the organization at all levels, starting at the top with management philosophy and operating style
- **Honest and capable employees**—the most appropriate set of policies and procedures will not be effective if they are not properly implemented by the staff
- **Clear delegation of duties**—an organization chart and job descriptions should clearly state reporting lines and job function
- **Segregation of duties**—design the job functions to properly segregate tasks so that the same person does NOT record, approve and do
- **Procedures for processing all transactions**—written, communicated, and implemented
- **Suitable documents and accounting records**
- **Adequate physical control over assets and records**
- **Independent verification of performance**

What are the key challenges?

Effective controls will need to evolve as the organization grows. To maintain the effectiveness of internal control, management has to consider whether procedures are becoming burdensome or costs are excessive as the program grows. Growth can also adversely affect staff morale, culture and ethics. The entire staff needs to stay aware of new and more complex types of fraud as the MFI develops new products and becomes more sophisticated.

The Limitations of Internal Controls

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives will be achieved. Some limitations are inherent in all internal control systems.

- **Judgment**—The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on information at hand.
- **Breakdowns**—Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems. Controls may become obsolete with new systems and operations.
- **Management Override**—High-level personnel may be able to override prescribed policies or procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.
- **Collusion**—Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.
- **Costs**—It may be too costly to install certain controls based on the anticipated benefits of installing that control.
- **Human Error**—People can make mistakes, can be misdirected, irresponsible, can show poor judgment, or have high workloads. They might not know what to do, how to do it or where.

Internal Audit (Detective Control)



What is it?

An internal audit is a systematic and independent review of the operations and controls within an organization. (Table 1 lists the responsibilities of participants in an internal audit.) The primary goal of an internal audit is to determine if the risks to the organization are identified by verifying whether:

- Financial and operating information are accurate and reliable.
- Internal policies and procedures are being followed.
- Risks to the enterprise are identified and minimized.
- External regulations are followed.
- Satisfactory operating criteria are met.
- Resources are used efficiently and economically.
- The organization's objectives are effectively achieved.

Who should perform the audit?

If a small MFI cannot afford to hire a qualified full-time internal auditor, the internal audit function can be contracted out. If the services of an audit firm are required, it should **not**

be the same as the external firm that performs the annual audit. To do so would impair the independence of the annual audit.

Every MFI should have some form of internal audit.

Ideally, the auditor would hold a degree in accounting and be an experienced auditor, either external with an accounting firm, or internal within a financial institution, knowledgeable in audit techniques, standards, and computer processing. The auditor must possess excellent communication skills, both written and oral, with demonstrated managerial, organizational, and analytical skills. He or she must be an independent thinker, capable of forming sound conclusions and recommendations.

The internal auditor reports directly to the board of directors.

This permits the auditor to “tell it like it is” and report findings on an **objective and independent** basis without risk of dismissal. Independence also implies adequate resources for conducting the activities, for example, separate and fully equipped office space, vehicle, and travel budget.

Table 1. Responsibilities in an Internal Audit

Internal Auditor	General Manager	Board of Directors
<ul style="list-style-type: none"> • Develops a comprehensive annual work plan for board approval, including time schedule and budgets • Develops audit work programs that provide audit coverage of all MFI operations and adhere to audit standards • Designs work papers that clearly document the evidence of audit work performed and conclusions drawn • Maintains and develops a professional audit staff, requiring highly qualified candidates from within the MFI or through recruitment • Participates in field work as appropriate to ensure quality of staff work and procedures • Reports findings to the board of directors on a regular basis 	<ul style="list-style-type: none"> • Establishes policies and procedures in the MFI • Establishes an environment that says controls are important to the MFI • Facilitates access of the auditor to all areas of institution • Provides necessary resources • Receives copies of audit reports • Enforces response provision by affected departments and staff • Oversees correction and implementation of internal auditors' recommendations 	<ul style="list-style-type: none"> • Oversees internal audit function • Monitors risk • Ensures that an appropriate system of control is in place • Oversees job description preparation and internal audit hiring process • Finalizes selection of senior internal auditor • Establishes a functioning audit committee • Establishes procedures • Designates a person (audit committee chair) to act as board contact for internal auditor. • Ensures that the internal auditor reports to the audit committee • Ensures that reporting requirements are established

Internal Auditor	General Manager	Board of Directors
<p>and assists them in fulfilling their responsibilities relating to audits</p> <ul style="list-style-type: none"> • Follows up on previous findings to ensure that corrective actions has been taken • Manages the audit function independent of management but maintains appropriate communication with the general manager • Establishes and maintains professional ties with related professional groups 		<p>and followed</p> <ul style="list-style-type: none"> • Appraises the performance of the internal auditor and conducts salary assessments • Mediates issues between management and the auditor • Reviews internal audit report and directs management to make needed corrections • Approves annual internal audit work plan

External Audit (Detective Control)



What is it?

An external audit is a **formal, independent** review of an entity's financial statements, records, transactions, and operations, done by an outside party *for purposes of expressing an opinion of the MFI's Financial Statements.*

The benefits of an external audit to an MFI are:

- Lending credibility to financial statements and other management reports
- Ensuring accountability of investor's funds
- Identifying weaknesses in internal controls and systems

The scope of the work of the external auditor:

- Can differ significantly between institutions
- Includes specific objectives of the MFI

Why have MFI external audits not delivered the intended results?

MFIs are generally required to have annual audits by an independent, external accounting firm as part of the requirements of donors, creditors, investors, or regulators. The audits are often perceived to be of little value to the institution, and rather a costly and intrusive task to complete. Few external auditors have experience in microfinance and do not always understand that MFI portfolio risks and management techniques are different from those of conventional banks and traditional audit procedures are not sufficient. Additionally, there is no standard set of guidelines for MFI financial statements and MFIs often have weak internal controls and reporting systems, which adds to the difficulty of the auditor's task. The management, board, and donors of an MFI often do not understand the function of an external audit and do not know how to ensure that the audit is relevant and informative to them.

Managing the external audit process

To ensure that the institution gets value for the cost of the audit in addition to meeting compliance requirements, one person needs to be designated to manage the process from commissioning to receiving the final audit report. This could be the financial manager, but it is crucial for at least one member of the board to be involved at every step of the process as well as approving all the steps of the process. These steps include:

- **Establishing the Terms of Reference**—the document that lists the MFI’s requirements and on which the audit firms will base their proposal
- **Evaluating the proposals**—choosing auditors who are rigorous and objective, but also have the ability, judgment, and desire to understand the unique circumstances and challenges of microfinance
- **Negotiating a fee**
- **Reviewing the contract or engagement letter**—to ensure that the final agreement reflects the requirements outlined in the terms of reference
- **Preparing for the audit**—setting the dates, getting a list of the information required by the auditors, planning visits to the branches, etc
- **Assisting the auditors**—providing documents and other information requested, answering questions
- **Reviewing the draft reports**—carefully reviewing the draft documents submitted by the firm and making comments or asking questions before the final reports are submitted directly to the board
- **Following up**—if the auditor’s management letter has points for improvement, seeing that they are completed well before the next audit cycle

Scope of external audit work

The scope of an external audit can vary significantly depending on the objectives of the audit. The audit of financial statements is the most common, but there can also be management letters, special purpose audits and/or additional agreed-upon procedures for the conduct of the audit. (See Table 2.)

Table 2. Common External Audit Services for an MFI

Service	Purpose	Activities	Output
Annual financial statement audit	To confirm that the financial statements are free from material misstatement and fairly state the financial condition of the organization	Audit, on a test basis, key account balances and underlying evidence or procedures	Audit report, including an opinion, financial statements, and notes
Management letter	To obtain constructive comments that management can use to improve operations or internal controls	By-product of the annual financial statement audit	Management Letter
Special purpose audit	Generally to audit compliance with donor requirements, including use of funds	Review of specific issues as requested by the clients, usually on behalf of the donor	Special audit opinion and report
Agreed-upon procedures	To obtain detailed results of specific testing procedures for selected transactions or account balances, such as portfolio testing, review of internal controls or MIS evaluation	Performance of agreed-upon procedures	Report of results of procedures without opinion. Users draw their own conclusions

Corrective Controls



The internal and external audits each issue reports that note the weaknesses and vulnerabilities of the MFI. In many cases, these reports will suggest a need for changes to existing policy and procedures and will also point out previously unidentified risks. Part of an effective control system is to take corrective action when such weaknesses have been detected.

Who is responsible for taking corrective actions?

The general manager has the primary responsibility to ensure that corrective actions are taken. He or she must, with the appropriate person, design new risk control measures and oversee their implementation. When the internal auditor identifies problems, the person in charge of overseeing that area implements corrective action. If the problem occurs in the accounting function, for example, the accounting manager responds.

After the new controls are implemented the MFI tests their effectiveness and evaluates the results.

What are some possible corrective actions?

In general, weaknesses, once identified, can be corrected through one, or several, of the following actions:

- Personnel changes
- Changing procedures
- Identifying a person to be in charge of implementing changes
- Documenting and communicating changes to all affected personnel
- Requesting feedback from employees regarding the changes

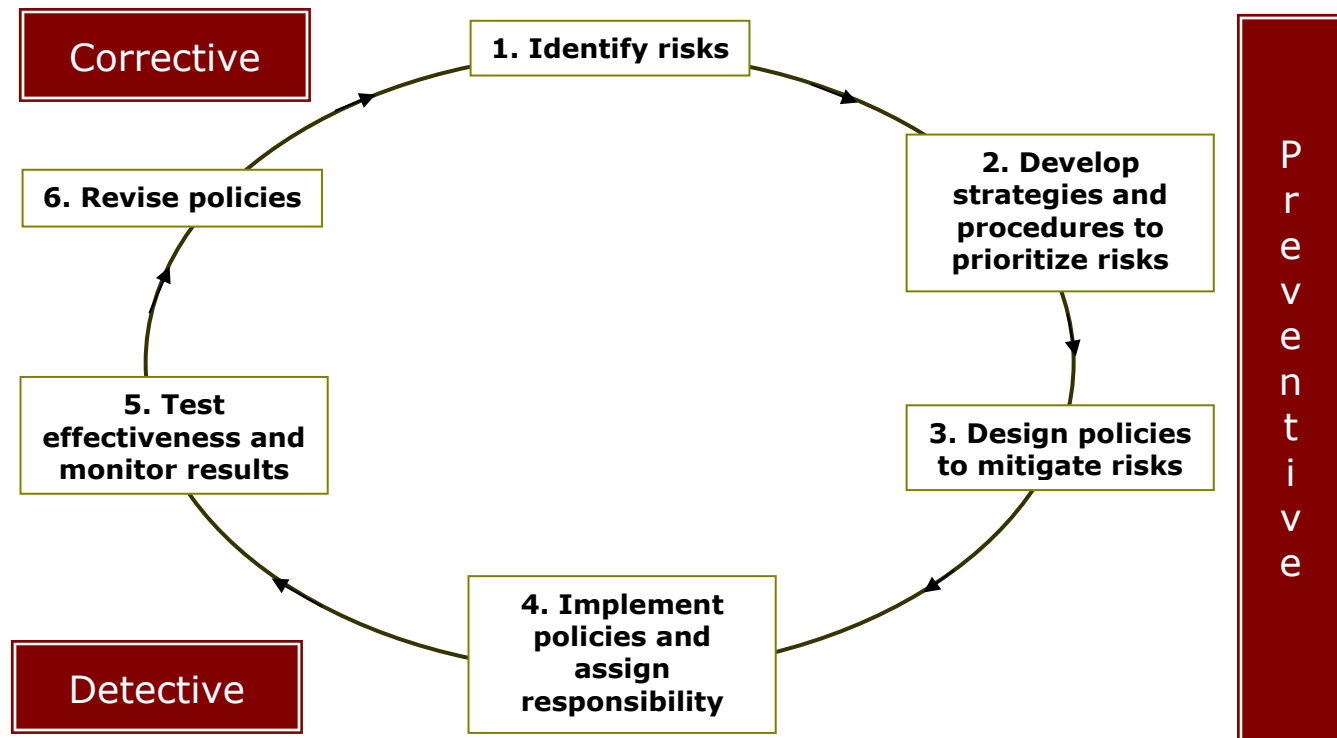
What if fraud has occurred?

Whatever the amount or scope of the fraud, it is most important to act quickly. Every MFI should have a plan in place to respond immediately to all incidences of fraud, whatever the size of the loss. Actions can include suspending or firing the employee who committed the fraud and engaging in legal proceedings. An MFI can also make efforts to recoup losses. Instances of fraud can also be explained and prevented through clear communication with the clients. In cases where knowledge about the incidence of fraud is widespread, an MFI may also have to address the problem with its donors and the public at large.

If an MFI responds quickly and decisively to occurrences of fraud, it will reinforce the existence of an environment that adheres to its core values and does not tolerate fraud. Prompt “corrective” action is also the best “preventive” measure to reduce future occurrences because of the clear message it gives to all stakeholders.

Figure 4. Risk Management Process

In summary, managing risk requires a continuous **cycle** of controls that are **preventive, detective and corrective**.



Resources

- Champion, Anita. *Improving Internal Control: A Practical Guide for Microfinance Institutions*. Washington, D.C.: Microfinance Network and GTZ, 2000 (available from Pact Publications at www.pact.com)
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- Audit Services Resource Centre, www.microfinancegateway.org/audit/index.htm