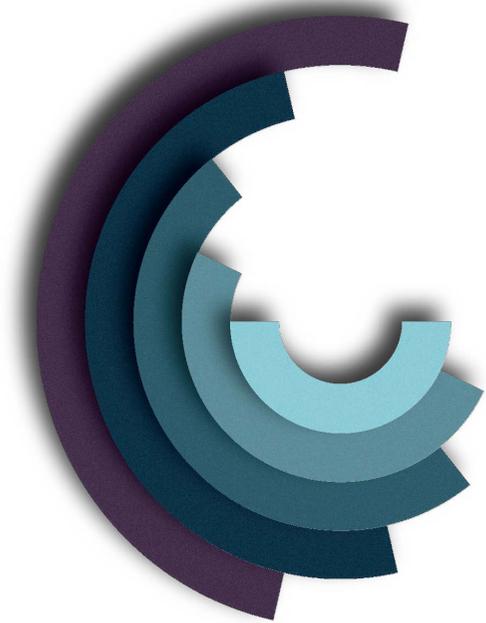# Fraud Prevention Check-up

Fraud is now so common that the occurrence is no longer remarkable, only its scale. Misconduct leads to brand damage, loss of market share and financial loss.

It's important that all business owners take a proactive approach to prevent fraud and corruption. You need a robust framework which allows you to detect, mitigate and respond if required.

Benefits of taking ESV's Fraud Prevention Check-up

1
Protecting your reputation

> You may survive a major fraud but will it damage your reputation so badly that you don't recover?

> Strong fraud prevention processes help increase the confidence of investors, regulators, audit committee members and the general public in the integrity of your company's financial reports.

> Help to attract and retain capital.

2
Saving you money

> Fraud is an expensive drain on financial resources. No one can afford to throw away the five percent of revenues that represent the largely hidden cost of fraud

> If your organisation is not identifying and tackling fraud costs, you become vulnerable to competitors.

3
Understanding your vulnerabilities

> Gain insight into the areas of your organisation which are vulnerable to the threat of fraudulent activity.

4
Developing a robust framework

> Identify your organisations risk of fraud and quickly move into designing a fraud management framework.

> This framework will be a blueprint to identify, prevent, mitigate and respond to fraud.

5
Establishing a relationship with a Certified Fraud Examiner (CFE)

> Gain insight into the areas of your organisation which are vulnerable to the threat of fraudulent activity.

Who should complete the check-up?

Completion should be a collaborative process between three parties:

> Objective party

> Independent specialist (such as a CFE)

> Internal individuals with extensive knowledge of business

Internal auditors bring extensive knowledge and a valuable perspective to such an evaluation. At the same time, the perspective of an independent and objective outsider is also important.

It is helpful to interview senior members of management as part of the evaluation process. It is also valuable to interview employees at other levels of the organisation, since they may sometimes provide a "reality check" that challenges the rosier view management might present(?)

How many points?

Zero Points

> Recommended process has not been implemented at all for that area.

Half Points

> Recommended process has been implemented but has not tested within the last year.

Maximum Points

> Recommended process has been implemented, tested within the last year and found to be operating effectively.

ESV's Fraud Prevention Check-up

Organisation: _____

Check-up date: _____

1. Fraud risk oversight

To what extent has the organisation established a process for oversight of fraud risks by the board of directors or others charged with governance (e.g. an audit committee)?

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Score:

Score from 0 (process not in place) to 20 points (process fully implemented, tested within the past year and working effectively).

2. Fraud risk ownership

To what extent has the organisation created "ownership" of fraud risks by identifying a member of senior management as having responsibility for managing all fraud risks within the organisation and by explicitly communicating to business unit managers that they are responsible for managing fraud risks within their area?

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Score:

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

3. Fraud risk assessment

To what extent has the organisation implemented an ongoing process for regular identification of the significant fraud risks to which it is exposed?

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Score:

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

4. Fraud risk tolerance and risk management policy

a. To what extent has the organisation identified and had approved by the board of directors its tolerance for different types of fraud risks? For example, some fraud risks may constitute a tolerable cost of doing business, while others may pose a catastrophic risk of financial or reputational damage.

b. To what extent has the organisation identified and had approved by the board of directors a policy on how it will manage its fraud risks? Such a policy should identify the risk owner responsible for managing fraud risks, what risks will be rejected (e.g. by declining certain business opportunities), what risks will be transferred to others through insurance or by contract, and what steps will be taken to manage the fraud risks that are retained.

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Score:

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

5. Process-level anti-fraud controls / reengineering

a.   To what extent has the organisation implemented measures to eliminate or reduce through process reengineering each of the significant fraud risks identified in its risk assessment? Basic controls include segregation of duties relating to authorisation, custody of assets and recording or reporting of transactions. In some cases, it may be more cost-effective to reengineer business processes to reduce fraud risks rather than layer on additional controls over existing processes. For example, some fraud risks relating to payroll can be eliminated or greatly reduced by centralising that function or outsourcing it to a reputable provider, where stronger controls can be more affordable.

b.   To what extent has the organisation implemented measures at the process level designed to prevent, deter and detect each of the significant fraud risks identified in its risk assessment? For example, the risk of sales representatives falsifying sales to earn sales commissions can be reduced through effective monitoring by their sales manager, with approval required for sales above a certain threshold.

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Score:

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

6. Environment-level anti-fraud controls

> Major frauds usually involve senior members of management who are able to override process-level controls through their high level of authority. Preventing major frauds therefore requires a strong emphasis on creating a workplace environment that promotes ethical behaviour, deters wrongdoing and encourages all employees to communicate any known or suspected wrongdoing to the appropriate person. Senior managers may be unable to perpetrate certain fraud schemes if employees decline to aid and abet them in committing a crime. Although "soft" controls to promote appropriate workplace behaviour are more difficult to implement and evaluate than traditional "hard" controls, they appear to be the best defence against fraud involving senior management.

> To what extent has the organisation implemented a process to promote ethical behaviour, deter wrongdoing and facilitate two-way communication on difficult issues? Such a process typically includes:
> – Having a senior member of management who is responsible for the organisation's processes to promote ethical behaviour, deter wrongdoing and communicate appropriately on difficult issues. In large public companies, this may be a full-time position, such as ethics officer or compliance officer. In smaller companies, this will be an additional responsibility held by an existing member of management.
> – A code of conduct for employees at all levels, based on the company's core values, which gives clear guidance on what behaviour and actions are permitted and which ones are prohibited. The code should identify how employees should seek additional advice when faced with uncertain ethical decisions and how they should communicate concerns about known or potential wrongdoing.
> – Training for all personnel upon hiring, and regularly thereafter, concerning the code of conduct, seeking advice and communicating potential wrongdoing.
> – Communication systems to enable employees to seek advice where necessary prior to making difficult ethical decisions and to express concern about known or potential wrongdoing. Advice systems may include an ethics or compliance telephone help line or email to an ethics or compliance office/ officer. The same or similar systems may be used to enable employees (and sometimes vendors, customers and others) to communicate concerns about known or potential wrongdoing. Provision should be made to enable such communications to be made anonymously, though strenuous efforts should be made to create an environment in which callers feel sufficiently confident to express their concerns openly. Open communication makes it easier to resolve the issues raised but protecting callers from retribution is an important concern.

– A process for promptly investigating (where appropriate) and resolving expressions of concern regarding known or potential wrongdoing, then communicating the resolution to those who expressed the concern. The organisation should have a plan that sets out what actions will be taken, and by whom, to investigate and resolve different types of concerns. Some issues will be best addressed by human resources personnel, some by general counsel, some by internal auditors and some may require investigation by fraud specialists. Having a prearranged plan will greatly speed and ease the response and will ensure appropriate persons are notified where potentially significant issues are involved (e.g. legal counsel, board of directors, audit committee, independent auditors, regulators, etc.).

– Monitoring of compliance with the code of conduct and participation in related training. Monitoring may include requiring at least annual confirmation of compliance and auditing of such confirmations to test their completeness and accuracy.

– Regular measurement of the extent to which the organisation's ethics/compliance and fraud prevention goals are being achieved. Such measurement typically includes surveys of a statistically meaningful sample of employees. Surveys of employees' attitudes towards the company's ethics/compliance activities and the extent to which employees believe management acts in accordance with the code of conduct provide invaluable insight into how well those components are functioning.

– Incorporation of ethics/compliance and fraud prevention goals into the performance measures against which managers are evaluated and which are used to determine performance-related compensation.

Score:

Score from 0 (process not in place) to 30 points (process fully implemented, tested within the past year and working effectively).

7. Proactive fraud detection

To what extent has the organisation established a process to detect, investigate and resolve potentially significant fraud? Such a process should typically include proactive fraud detection tests that are specifically designed to detect the potentially significant frauds identified in the organisation's fraud risk assessment. Other measures can include audit "hooks" embedded in transaction processing systems that can flag suspicious transactions for investigation and/or approval prior to completion of processing. Leading-edge fraud detection methods include computerised email monitoring (where legally permitted) to identify use of certain phrases that might indicate planned or ongoing wrongdoing.

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Score:

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

Interpreting your score

0 - 80	80-99	100
High Risk	Medium Risk	Low to no risk

A brief fraud prevention check-up provides a broad idea of your organisation's performance with respect to fraud prevention. The important information to take from the check-up is the identification of specific areas for improvement in your company's fraud prevention processes. The precise numerical score is less important and is only presented to help communicate an overall impression.

The desirable score for an organisation of any size is 100 points, since the recommended processes are scalable to the size of your organisation. Most companies should expect to fall significantly short of 100 points in an initial fraud prevention check-up. Significant gaps in fraud prevention measures should be reviewed and closed promptly.

If you would like to discuss your score or need some guidance on areas your
business should look at, please contact –

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