



## Anti-Fraud Governance Checklist

*By Laurie De Armond, CPA and Gerry Zack, CPA*

### To assess your organization's anti-fraud governance practices, ask the following questions:

- Does the organization have a clearly stated code of conduct that explicitly prohibits fraud and other unethical behavior?
- Does senior management openly discuss the importance of ethics and reporting suspected acts of fraud and other ethical breaches with the staff?
- Does senior management recognize the importance of setting an example for all staff by consistently abiding by the organization's code of conduct?
- Does the organization have a robust and readily available hotline/reporting system for employees to communicate suspected fraud?
- Does the organization have and consistently follow formal procedures for following up on and investigating allegations of fraud, noncompliance and other ethics breaches?
- Does the organization provide fraud awareness training (online or live) that all employees are required to participate in periodically (preferably annually)?
- Are management and the board aware of pressures associated with the achievement of the organization's objectives in the assignment of responsibilities and evaluation of performance?
- Are employees provided with a confidential means of discussing issues they are facing, such as work-related or personal pressures (for example, an Employee Assistance Program (EAP))?
- Does the organization perform periodic fraud and compliance risk assessments?
- Is the board of directors, or a committee of the board, formally charged with oversight of management's fraud risk management activities?
- Does the board (or audit committee) receive periodic updates regarding the nature of communications received by the hotline/reporting system and how these communications were resolved/investigated?
- Does the board (or audit committee) have formal authority to investigate allegations of fraud, including the ability to bring in outside investigators if deemed necessary?
- Does the board (or audit committee) hold discussions with the external auditors regarding the potential for management to override internal controls, and what the auditors do in response to this risk?
- When violations of the code of conduct are identified, is disciplinary action consistently enforced?
- Are fraud and compliance risks included as part of the board's discussions of new programs or other significant strategic changes under consideration?

### To Properly Separate Duties, Think Like a Thief

"We don't have enough people to properly segregate duties" is something we hear from many smaller organizations, and even some large ones. Proper separation of duties can certainly be a challenge. One way to simplify this challenge is by thinking like a thief. By that, we mean that organizations should consider that in order for crooks to perpetrate fraud, they need to be able to commit and conceal their crimes. If organizations can segregate the duties necessary to conceal the fraud from the duties necessary to commit the fraud, odds are that the person will not even attempt the scheme.

Sometimes, this means simply segregating a single step from the others. For example, many disbursement schemes in which perpetrators write checks to themselves or to personal vendors would easily be detected by having a separate person (e.g., a board member in the case of a small organization) reviewing the cancelled checks. Arranging for access to view cleared checks on the bank's website or receiving the bank statement directly from the bank creates a significant obstacle for a potential fraudster to overcome, and all that has been done is to segregate the critical concealment step necessary for the successful perpetration of the fraud.

Continue this process by thinking through each of the significant fraud schemes that your organization is exposed to and analyzing the most important duties necessary to conceal each scheme. Separate those duties so that a different person executes those steps.

Finally, if possible, separate the duties necessary to perpetrate the scheme. This often requires additional staff or volunteers, but it provides even stronger internal controls.