

## Litigation Support Services Newsletter

# Assessing Your Company's Fraud Risk

By David Gannaway, MBA, CFE, CAMS, Principal

Is cash flow tight? Could “trusted” employees be dipping their hands in the cookie jar? Over the past several months there has been an uptick of company management and frontline employees getting caught diverting funds for their own use. Is this going on under your watch? Conducting a **Fraud Risk Assessment** may be what you need to find misappropriations and — more importantly — send a message to employees that theft of company assets will not be tolerated.

The following steps are integral in evaluating your company's vulnerabilities to theft, waste and abuse.

### Fraud Fundamentals

The elements of fraud are based in:

- Financial reporting
- Misappropriation of assets
- Other (bribery, corruption, kickbacks)

Financial risk assessment and anti-fraud programs have dual roles:

1. Financial Reporting  
Misappropriation of Assets & Foreign Corrupt Practices Act (FCPA)
2. Anti-Fraud  
FCPA audits should be stand-alone audits

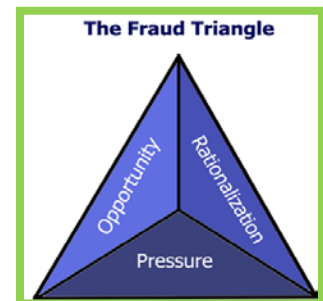
### Fraud Risk Assessment: Step 1

In evaluating fraud risk factors, consider prior fraud incidents committed within the company (if any), identify trends and locations, assess prior and potential fraud within the fraud triangle (opportunity, pressure, rationalization), and identify business process owners.

### Fraud Risk Assessment: Step 2

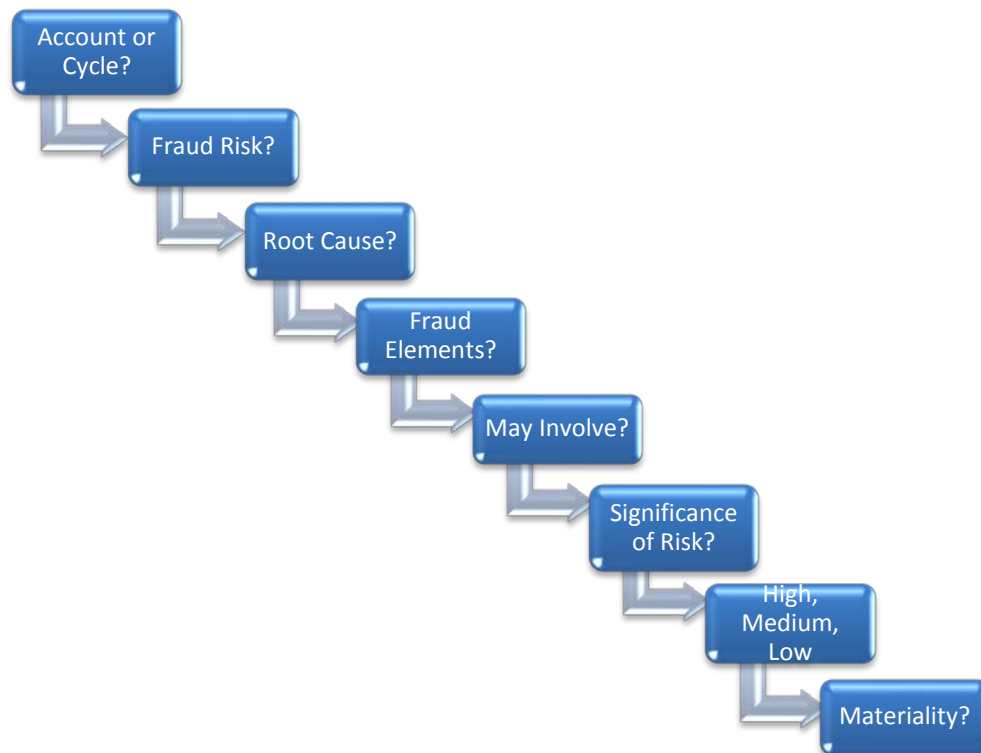
Identify possible fraud schemes within end-to-end operational processes, such as:

- Concept to Product
- Market to Order
- Plan to Deliver
- Order to Cash
- Procure to Pay
- Record to Report
- Hire to Retire
- Acquire to Dispose



### Fraud Risk Assessment: Step 3

Prioritize identified fraud risks:



### Fraud Risk Assessment: Step 4

Evaluate whether mitigation controls exist or are effective:

- Is additional emphasis on existing controls needed?
- Design, implement, measure and evaluate new anti-fraud controls to address fraud risks.
- Map identified fraud risks to existing internal controls and document mitigating anti-fraud control activities related to fraud risks.

### Fraud Risk Assessment: Step 5

Clearly communicate the company's Zero Tolerance Policy (in English and local language as applicable) to:

- Attorneys, Accountants, Brokers, Consultants, HCPs, Suppliers, Vendors and Third Parties (included in contracts, purchase orders, agreements, etc.). Web-based training should be completed annually and a signed certification of receipt and acknowledgement obtained in connection with the Zero Tolerance Policy.
- Mergers & Acquisitions (Pre & Post Acquisition Due Diligence)
- Company Employees:
  - Include in Code of Conduct;
  - Obtain signed annual certification that employees are in compliance;
  - Ongoing training for current employees;
  - Include in on-boarding process for new employees; and
  - Appropriate and timely disciplinary actions with communication of violations of codes of conduct and company's responses to such violations.

## Fraud Risk Assessment: Step 6

Monitor the program and periodically re-assess risk factors (modify as needed):

- Consider new fraud schemes uncovered or locations where a scheme is being exploited.
- Internal Audit should test the effectiveness of the risk assessment process and internal controls.
- Re-assess periodically.

### Deterrence

There must be a resounding message that corruption/fraud will not be tolerated at the company. The commitment to deterrence will be achieved through:

- Implementation of a Prevention Analytical tool;
- Internal Audit and the Global Compliance Officer's proactive approaches to detect and investigate potential fraudulent schemes/transactions;
- Code of Conduct and enhanced due diligence upon outside HCP's/vendors;
- Anti-Fraud Audits send a message that senior management is committed to compliance and constantly checks to make sure it is achieved.

Appropriate follow-up and disciplinary action are crucial to creating an anti-corruption culture.

### Business Vigilance

No one wants to be taken advantage of – especially in a business situation. The consequences of fraud are enormous. You owe it to your board and your employees to ensure that controls are tight and that incidents are dealt with swiftly.

### Contact Us

For more information about assessing fraud risk in your business, please connect with [David Gannaway](#), Principal – Litigation & Forensic Services via [LinkedIn](#), by email [dgannaway@pkfod.com](mailto:dgannaway@pkfod.com) or contact your PKF O'Connor Davies' business advisor.

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