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ACFE FRAUD PREVENTION CHECK-UP ©

ACFE Fraud Prevention Check-up (www.acfe.com)

- The seven levels preventative and detective risks which are addressed:
 - 1) Fraud risk oversight
 - 2) Fraud risk ownership
 - 3) Fraud risk assessment
 - 4) Fraud tolerance and risk management policy
 - 5) Implementing anti-fraud controls/re-engineering
 - 6) Implementing entity level controls (Soft vs. Hard controls)
 - 7) Proactive fraud detection

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- Fraud risk oversight
 - To what extent has the organization established a process for oversight of fraud risks by the Board of Directors or others charged with governance?
 - 0 – 20 points

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- Fraud risk ownership
 - To what extent has the organization created “ownership” of fraud risks by identifying a member of senior management as having responsibility for managing all fraud risks within the organization and by explicitly communicating to business unit managers that they are responsible for managing fraud risks within their area>
 - 0 – 10 points

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- **Fraud risk assessment**
 - To what extent has the organization implemented an ongoing process for regular identification of the significant fraud risks to which it is exposed?
 - 0 – 10 points

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- **Fraud tolerance and management policy**
 - To what extent has the organization prioritized it's tolerance for fraud risk, and
 - To what extent developed a policy for managing fraud risk?
 - 0 – 10 points

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- **Implementing anti-fraud controls/reengineering**
 - To what extent has the organization implemented measures to reduce fraud risks, and
 - To what extent has the organization implemented measures to prevent, deter and detect the significant fraud risks?
 - 0 – 10 points

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- Implementing entity level controls
 - To what extent has the organization implemented a process to promote ethical behavior, deter wrongdoing and facilitate 2-way communication on difficult issues?
 - 0 – 30 points

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- Proactive fraud detection
 - To what extent has the organization established a process to detect, investigate and resolve potentially significant fraud?
 - 0 – 10 points

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Overview

“Internal control is a process – effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, ..., and internal control over safeguarding of assets ...” (SAS 109)

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Duties

- Effective oversight of the entity's financial reporting and internal controls
- Approval of accounting principles
- Meeting with the auditors
- Monitoring of anti-fraud programs and controls

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Resources

- AICPA Audit Committee Effectiveness Center at <http://www.aicpa.org/audcommctr/homepage.htm> and for non-profits <http://www.aicpa.org/AudCommCtr/toolkitsnpo/homepage.htm>
- And specific to non-profits <http://nonprofitrisk.org/about/board.shtml>
- Major accounting firm's websites
- www.Google.com Board of Directors, Audit Committee, etc

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Fraud Risk Management for Auditors

- Communicate client responsibilities as stated in engagement letter
 - Limitations of audit detecting fraud
 - Client responsibility for accounting matters, especially estimates
 - Auditor and client responsibility for fraud matters, both financial statement and theft
- Increase professional skepticism
 - Focus on during planning meeting
 - Focus on during review process
 - Believe but verify

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Fraud Risk Management for Auditors

- Communicate your fraud risk assessment to Management and Governance
 - Have a conversation with top management
 - Accumulate Management Letter Points as audit progresses
 - Review for MWs/SDs
 - Discuss all with Management
 - Issue comprehensive SAS 115 letter
 - Document in written agenda

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Fraud Risk Management for Auditors

- Consider use of Benford's law software, and communicate results to client
- Avoid “engagement creep” (performing work not in an engagement letter)

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Fraud Risk Management for Reviewers and Compilers

- Communicate client responsibilities as stated in engagement letter
 - Discussion of “may”
 - Client responsibility for accounting matters, especially estimates
 - CPA and client responsibility for fraud matters, both financial statement and theft
- Increase professional skepticism

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Fraud Risk Management for Tax Preparers

- Consider the records furnished to you to prepare return
 - If you have any accounting responsibilities, use an engagement letter and include your fraud responsibility
 - Discuss letter with management
- Increase professional skepticism

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Fraud Risk Management for CPAs in Industry

- Increase professional skepticism
- Educate employees to the Organization's compliance policies
- Be on constant lookout for fraudulent behavior
- Take precautions if involved in criminal or civil investigation
- Develop and use an Organizational Ethics Policy

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Fraud Risk Management for CPAs in Industry

- For larger organizations, facilitate a Fraud Hotline
- Consider use of Benford's law software

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AUDITORS-WHERE DO YOU GO FROM HERE

- Know the industry
- Know your client
- Identify risks
- Develop expectations
- Investigate exceptions
- Think straight, talk straight
- Healthy skepticism

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CPAs-WHERE DO YOU GO FROM HERE

- Know your client's business
- Know your client's accounting processes
- Identify fraud risks at each client
- Develop expectations
- Look at the numbers
- Healthy skepticism
- Communicate with your staff
- Investigate exceptions
- Think straight, talk straight
- Communicate with your client

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FRAUD IN SMALL BUSINESSES

In Conclusion

Check out the AICPA Fraud Resource Center

<http://fvs.aicpa.org/Resources/Antifraud+Forensic+Accounting/>

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FRAUD IN SMALL BUSINESSES

Bon-Audit Petite!!!

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