

**TABLE 1.2 RISK MANAGEMENT CHECKLIST**

Risk Management Checklist	Yes	No	NA	Ref
1. Does the organization have an adequate level of fraud awareness, and are appropriate policies in place to minimize fraud risk, specifically:				
a. Generic risk factors				
<ul style="list-style-type: none"> <li>● Has the organization assigned each employee a maximum "opportunity level" to commit fraud, that is, has management asked itself the question, "What is the maximum amount this employee could defraud the organization, and does this represent an acceptable risk?"</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● Has the organization set a catastrophic opportunity level; that is, has management asked itself the question, "Have we ensured that no single employee—or group of employees in collusion—can commit a fraud that would place the organization in imminent risk of survival?"</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● Does the organization have a policy of immediately dismissing any employee who has committed fraud?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● Does the organization have a policy of reporting all frauds to the authorities and pressing charges?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● For all frauds experienced by the organization in the past, has management evaluated the reasons that led to the fraud and taken corrective action?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
b. Individual risk factors				
<ul style="list-style-type: none"> <li>● Does the organization have a corporate mission statement, which includes an objective of good citizenship or the maintenance of good standing in the community?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● Does the organization have a written code of ethics and business conduct (see the checklist in Chapter 2 for details)?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● Does the organization conduct ethical and security training for new employees and periodic updates for existing employees?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>● Does management set the right example; that is, does it follow the organization's mission statement, code of ethics and business conduct, and other policies of the organization; and is it clearly seen to be doing so by employees?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

**TABLE 1.2 Risk Management Checklist** (continued)

Risk Management Checklist	Yes	No	NA	Ref
<ul style="list-style-type: none"> <li>Does the organization's culture avoid characteristics that promote unethical behavior, for example, high or even hostile competitive-ness within the organization that might push employees to the point of burnout; pointless rigid or petty policies, or both; over-centralization of authority?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Do the organization's hiring policies, to the extent possible, seek out individuals of high moral character and weed out those of low moral character?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization use screening and/or testing procedures for especially sensitive positions; for example, psychological tests, drug tests, or lie detector tests, or a combination of all three, where permitted by law?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization provide or encourage counseling, or both, for employees with personal problems, for example, alcohol and drug abuse?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization have fair policies in the area of employee relations and compensation, for example, salaries, fringe benefits, performance appraisal, promotions, severance pay; and do these policies compare favorably with those of competitors and promote an environment that minimizes disenchantment and other similar motives to commit fraud?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization have fair mechanisms in place for dealing with employee grievances?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization, as a feedback mechanism concerning employee relations' policies, conduct exit interviews with departing employees?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>c. Overall risk factors</b>				
<ul style="list-style-type: none"> <li>Does the organization exhibit an awareness of fraud and its possible manifestations, for example, signs of employee problems such as drug addiction, employees who are living beyond their means, etc.?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>2. Does the organization have an adequate system of internal controls, specifically:</b>				
<b>a. Internal control</b>				
<ul style="list-style-type: none"> <li>Has the organization explicitly considered the need for fraud prevention in the design and maintenance of the system of internal controls?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

**TABLE 1.2 Risk Management Checklist** (continued)

Risk Management Checklist	Yes	No	NA	Ref
<b>b. Control over physical and logical access</b>				
<ul style="list-style-type: none"> <li>Does the organization have a policy of locking doors, desks, and cabinets after hours and when unattended, especially in areas with valuable assets including files and records, for example, personnel and payroll, customer and vendor lists, corporate strategies, marketing plans, research?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization use IDs and passwords, for example, for computer files?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization state and enforce a policy that restricts access to those requiring it for job performance, including a strict policy against employees allowing access to unauthorized personnel, for example, by loaning keys or sharing passwords?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Has the organization installed, for especially sensitive areas, the computerized security or electronic surveillance systems, or both?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the workplace <i>appear</i> to an impartial observer to have adequate access controls?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>c. Job descriptions</b>				
<ul style="list-style-type: none"> <li>Does the organization have written, specific job descriptions?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Are job descriptions adhered to?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization have an organization chart that reflects and is consistent with the job descriptions of its employees?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Are incompatible duties segregated, for example, the handling of valuable assets—especially cash—and related records?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does the organization properly segregate the purchasing functions, that is, ensuring that one individual cannot requisition goods or services, approve and make the related payment, and access accounts payable records?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Are especially sensitive duties duplicated, for example, the double-signing of checks over a specified amount?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Do job descriptions specify that employees must take annual vacations?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

**TABLE 1.2 Risk Management Checklist** (continued)

Risk Management Checklist	Yes	No	NA	Ref
<ul style="list-style-type: none"> <li>Is the overall process of formulating job descriptions integrated with adequate consideration to the importance of fraud prevention?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>d. Regular accounting reconciliations and analyses</b>				
<ul style="list-style-type: none"> <li>Are all bank accounts reconciled?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Are all accounts receivable reconciled, for example, month to month, general ledger to subledger?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Are all accounts payable reconciled, for example, month to month, general ledger to subledger?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Has the organization performed a variance analysis of general ledger accounts, for example, budget to actual, current year versus prior year?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Has the organization performed a vertical analysis of profit and loss accounts, that is, as a percentage of sales against historical or budget standards, or both?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Has the organization performed an analysis of detailed sales and major expenses, for example, by product line or geographic territory?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>e. Supervision</b>				
<ul style="list-style-type: none"> <li>Do supervisors and managers have adequate fraud awareness, that is, are they alert to the <i>possibility</i> of fraud whenever an unusual or exceptional situation occurs, such as supplier or customer complaints about their accounts?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Do supervisors and managers diligently review their subordinates' work, for example, accounting reconciliations, and redo the work when appropriate?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Does close supervision adequately compensate against the increased risk of fraud in smaller businesses or where an inability to divide duties exists.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<ul style="list-style-type: none"> <li>Is supervisory or management override prohibited and are others within the firm alert to the fraud risks associated with management override?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>f. Audit</b>				
<ul style="list-style-type: none"> <li>Is there an internal audit function?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

**TABLE 1.2 Risk Management Checklist** (continued)

<b>Risk Management Checklist</b>	<b>Yes</b>	<b>No</b>	<b>NA</b>	<b>Ref</b>
<ul style="list-style-type: none"> <li>• Does the internal audit function perform regular checks to ensure that fraud prevention mechanisms are in place and operating as intended?</li> <li>• Are external audits performed on a regular basis, for example, quarterly for larger businesses?</li> <li>• Are the timing demands of management on external auditors reasonable?</li> <li>• Do external auditors receive full cooperation from management with respect to their work in general and fraud matters in particular, for example, through the audit committee?</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>3. Has the organization specifically addressed the following fraud prevention issues:</b>				
a. Ethical Environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
b. Risk Financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
c. Computer Security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

<b>Specific Risk Factors</b>	<b>Yes</b>	<b>No</b>	<b>NA</b>	<b>Ref</b>
<b>Fraudulent Financial Reporting</b>				
1. Is the organization's financial stability or profitability threatened by economic, industry, or entity operating conditions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
2. Is there excessive pressure on management or management incentives related to reaching earnings expectations or certain revenue benchmarks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
3. Are there significant balances in the financial statements which are based on subjective management estimates?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
4. Are there significant cash balances or significant transaction activity in overseas banks in tax havens such as the Cayman Islands or the Channel Islands?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
5. Does the entity have an overly complex organizational structure or a large number of complex subsidiaries?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
6. Does management consistently use materiality as a basis for justifying marginal or inappropriate accounting methods?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

**TABLE 1.2 Risk Management Checklist** (continued)

Specific Risk Factors	Yes	No	NA	Ref
<b>Misappropriation of Assets</b>				
1. Are there planned layoffs which have become known by employees throughout the company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
2. Are the company's assets easily convertible and are they physically available to employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
3. Is there insufficient segregation of duties related to check writing, wiring of funds, or cash?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
4. Are the controls over the accounting system or automated records inadequate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
5. Do certain employees exhibit a change in behavior to a disagreeable or discontent state?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

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