

Fraud Risk

Fraudulent Financial Reporting

Incentives/Pressures

1. Is the organization financially stable?
2. Have raises/bonuses been provided regularly to employees?
3. Is the organization declining profit/significant cash need?
4. Is there a threat of a major source of funding being terminated or significantly reduced?
5. Does the organization receive significant contributions based on allocation formulas tied to the organization's budgeted or actual revenues that may create an incentive for management to alter financial reports to maximize the contribution allocation?
6. Is the organization under significant pressure to obtain additional grants or contributions to fund major programs or expenditures?
7. Is organization is unusually dependent on debt financing or has a marginal ability to meet debt repayment terms?
8. Do the organization's financing agreements have debt covenants that are difficult to maintain?
9. Is organization is under significant pressure to meet budget?

Opportunities

10. Does the organization have assets, liabilities, revenues, or expenses based on significant estimates that involve unusually subjective judgments or uncertainties that are difficult to corroborate, or that could significantly change in the near term in a manner that may be financially disruptive to the organization?
11. Does the organization has diverse programs with multiple funding sources and complex compliance requirements (such as complex provisions of donor restrictions; statutes; or grant, trust, or contractual agreements)?
12. Is Management dominated by a single individual (such as the executive director, development director, or a program director) or a small group without compensating controls, such as effective oversight by a board of directors or audit committee?
13. Is there ineffective oversight over financial reporting and internal control by the board of directors or audit committee?
14. Has there been a high turnover in management-level employees, board members, or counsel?

Attitudes/Rationalizations

15. Does Management effectively define, communicate, implement, support, or enforce the organization's values or ethics?
16. Does Management communicates or demonstrates appropriate values or ethics?
17. Does Management continually attempt to justify marginal or inappropriate accounting on the basis of materiality?
18. Does Management frequently and inappropriately override the organization's control policies and procedures?
19. Does Management undervalue the importance of the accounting function and financial reporting?

20. Is there failure by management to respond to specific inquiries or to volunteer information regarding significant or unusual transactions, only providing the information reluctantly when specifically asked?
21. Other situations indicating a strained relationship between management or the board of directors and the current or predecessor auditor.

Misappropriation of Assets

Incentives/Pressures

22. Are there
 - Known or anticipated future employee layoffs?
 - Unfavorable recent or anticipated changes in employee compensation or benefit plans?
 - Failure to receive promotions or other expected rewards?
 - Conditions that indicate adverse relationships between the organization and its volunteers with access to assets susceptible to misappropriation, such as failure to receive proper recognition or other expected rewards for volunteer efforts?

Opportunities

23. Does the organization maintain or process large amounts of cash?
24. Does the organization receive numerous small dollar-value contributions for which the donors receive no acknowledgment?
25. Are cash and other contributed assets received by numerous departments, such as development, programs, administration, and accounting?
26. Is the organization's inventory easily susceptible to misappropriation (for example, due to small size, high value, or high demand)?
27. Does the organization have significant amounts of assets, such as cars, susceptible to personal, nonofficial use?
28. Is the organization susceptible to fraudulent, unauthorized disbursements (such as vendor, payroll, or subrecipient disbursements) being made in amounts that are material to the financial statements?
29. Is there a lack of appropriate segregation of duties that is not mitigated by other factors (such as effective management or board oversight)? Does the organization lack job applicant screening procedures when hiring employees with access to assets susceptible to misappropriation?
30. Does the organization lack screening procedures for volunteers with access to assets susceptible to misappropriation?
31. Does the organization have an appropriate system for authorizing and approving transactions (for example, in purchasing or payroll disbursements)?
32. Does Management have an inadequate understanding of IT that enables IT employees to perpetrate misappropriation? Is there a lack of adequate access control over automated records, including controls over and review of computer systems event logs (for example, the audit trail functionality of standardized accounting software packages is not used or can be turned off by employees)?
33. Is there a lack of an appropriate system for authorizing and approving the use of the organization's purchase cards or credit cards?

Attitudes/Rationalizations

34. Do employees or volunteers with access to assets susceptible to misappropriation disregard the need to adequately monitor and safeguard assets?
35. Do employees or volunteers with access to assets susceptible to misappropriation disregard internal controls designed to prevent or detect misappropriation, for example, by overriding controls or failing to correct known deficiencies in controls?