

FRAUD DETECTION AND PREVENTION

CORPORATE CULTURE

Each person at [company name] is responsible for detecting and preventing fraud. With that said, the corporate culture of [company name] must be one that is transparent; willing to listen to comments, concerns and recommendations from all employees; and committed at all times to detecting and preventing fraud.

Fraud can have a devastating effect on our company because it could result in significant financial loss and other long-term business repercussions such as loss of public trust. Any allegations of fraud will be taken seriously, with no exceptions. All individuals—regardless of position, title, or tenure with [company name]—are expected to remain vigilant and report any suspicious activity.

[Company name] is doing much more than just stating the necessity of preventing, detecting, and ultimately, fighting fraud: Rather, it consists of creating a culture founded on awareness and accountability and operating within a comprehensive framework of internal controls complete with documented and formalized policies, procedures, processes and other supporting safeguards as needed.

AWARENESS AND ACCOUNTABILITY

A vital component of detecting and preventing fraud is creating a message of awareness and accountability.

- **Awareness:** Employees thoroughly understand the concept of fraud; what it is; resources available for identifying, understanding and reporting it; and other essential components.
- **Accountability:** Employees thoroughly understand the severe ramifications that will result if they are involved in any type of fraudulent activity.

INTERNAL CONTROLS

The fundamental goal of a viable, scalable and comprehensive system of internal controls is that [company name] is able to perform daily operations efficiently and in a timely manner while also establishing the necessary safeguards and supporting policies, procedures and processes for the organization. Therefore, [company name] has provided examples of generally accepted language for the meaning of *internal controls*:

- *The system of practices, procedures and policies intended to safeguard the assets of the organization from fraud or error and ensure accurate recordkeeping*
- *The control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse*
- *The various methods and policies designed to prevent fraud, minimize errors, promote operating efficiency and achieve compliance with established policies*
- *The means through which an organization's resources are directed, monitored and measured; through which the organization plays an important role in preventing and detecting [fraud](#); and through which the organization's resources are protected.*

Thus, [company name] has hereby adopted the most widely accepted and utilized framework for internal controls, known as the COSO framework. In 1985, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) set forth a comprehensive internal control framework consisting of the five (5) following categories:

CONTROL ENVIRONMENT

The control environment sets the tone of an organization and is essentially the foundation for all other components of internal controls. Known commonly as the “tone at the top,” the control environment provides structure for the organization. Management’s integrity, ethical values, operating style, delegation of authority and the processes and procedures for effective management are also relevant factors within one’s control environment.

RISK ASSESSMENT

Every organization faces numerous risks, some of them being market risk, business risk and other risk factors that could significantly affect an entity as a whole. Risk assessment can only be understood by establishing objectives, the supporting directives and methods of risk management for any organization. By identifying, understanding, managing and responding to risk, organizations have effectively embraced the concept of risk assessment.

CONTROL ACTIVITIES

Control activities are the policies, procedures, processes and supporting initiatives that help ensure that management’s goals are met. They also help ensure that any risks that may affect

the objectives of the organization are addressed. Control activities occur throughout the entire organization and include a wide range of functions such as the following:

- Approval mechanisms
- Authorizations for various activities
- Verifications
- Reconciling for accuracy and completeness
- Reviewing of operating performance in order to ensure the stated objectives are met
- Security of assets throughout the organization
- Rigid segregation of duties and compensating controls as needed

INFORMATION AND COMMUNICATION

Information systems are a vital component of any organization, as they are a critical part of a comprehensive internal control framework. Information systems have the ability to generate valuable data such as reports, and they can help the organization run more efficiently. Thus, information must be transparent and communication must be thorough in order to ensure open access to organization-wide resources and clear lines of communication that enable the dissemination of information in a timely manner to all parties.

MONITORING

Internal controls and their supporting systems must be monitored on a daily basis, which must be conducted in the course of normal operations such as daily management and supervisory activities. Moreover, any internal control deficiencies are to be reported immediately to management, which is where corrective action is prescribed. Matters of a more serious nature are reported to top-level management, whereby immediate action is to be taken. An internal control framework is only as effective as the monitoring over these elements themselves.¹

THE FRAUD FRAMEWORK

By combining the three (3) elements of Corporate Culture, Awareness & Accountability and the concept of Internal Controls, [company name] has thus implemented a documented Fraud Framework for which all employees are to acknowledge and implement in order to detect and prevent fraud. The Fraud Framework is the overarching platform that creates a sustainable

¹ http://www.coso.org/documents/COSO_Guidance_On_Monitoring_Intro_online1_002.pdf

model for [company name] in understanding the various facets of fraud while implementing a broad-based corporate culture complete with policies, procedures and processes for combating fraud at all times.

