

Creating a Genuine
Anti-Fraud Environment

BDO Consulting Critical Anti-Fraud Program



BDO Consulting
A division of BDO Seidman, LLP

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The BDO Consulting Critical Anti-Fraud Program

Creating A Genuine Anti-Fraud Environment

The BDO Consulting Critical Anti-Fraud Program (“CAP”) fosters a genuine anti-fraud environment with the goal of helping organizations to comply with regulatory requirements and maximize stakeholder value.

With full support from an organization and proper implementation, CAP can serve to significantly reduce the risk of fraud at an organization and increase the likelihood that, if fraud does occur, it will be detected at an early stage. The program is based on the skills and insights of seasoned fraud investigators regarding the nature and causes of financial fraud. CAP can help an organization with identification, remediation and monitoring of the specific risk factors that set the stage for fraud.

In our investigative experience, we have identified certain conditions within organizations which can create a fertile environment for fraud, including:

- lack of awareness by management of the organization’s fraud risk factors
- inadequate organizational structures, policies and procedures
- insufficient emphasis on, and understanding of, ethical duties throughout the organization
- insufficient knowledge of the warning signs of fraud
- ineffective mechanisms for reporting, investigating and remediating fraud
- inadequate screening practices and misaligned employment evaluation criteria
- inadequate control activities for identified fraud risks
- ineffective board and audit committee oversight
- weak or nonexistent monitoring of anti-fraud programs and controls

By identifying and addressing the above conditions, CAP is designed to promote a genuine anti-fraud environment, so that an organization can proactively manage its fraud risks.

Many organizations have developed compliance initiatives that are analogous to – or complementary with – some of the CAP elements. CAP, however, has been developed by experienced fraud investigators and is a customized process enabling organizations to adopt individual CAP elements as needed, request assistance in modifying existing policies and procedures, or implement the complete program.

CAP Elements

Fraud Risk Assessment

Control Activities

Organizational Structures, Policies and Procedures

Ethics Awareness and Education

Fraud Education

Effective Mechanisms for Reporting, Investigating and Remediating Fraud

Background Investigations and Effective Employment Practices

Effective Board and Audit Committee Oversight

Monitoring of Anti-Fraud Programs and Controls

BDO Consulting's Critical Anti-Fraud Program

CAP Program Elements	Objective	Services Provided
Fraud Risk Assessment	to identify the organization's susceptibility to specific types of fraud and the likelihood and significance of those frauds	<ul style="list-style-type: none"> • identify fraud risk factors • evaluate pertinent fraud scenarios • assess likelihood of occurrence and resultant impact on the organization
Control Activities	to assess effectiveness of anti-fraud controls and implement or improve control measures to appropriately manage identified fraud risks	<ul style="list-style-type: none"> • map existing controls • test existing controls • identify control gaps • implement control enhancements
Organizational Structures, Policies and Procedures	to enable an organization to best structure its policies and procedures so that fraud will be detected if it occurs, and ascertain that its anti-fraud policies and procedures are well constructed, properly communicated and followed	<ul style="list-style-type: none"> • recommend compliance structures and policy and provide procedural guidance • test employees' understanding of, and compliance with, policies and procedures
Ethics Awareness and Education	to promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law	<ul style="list-style-type: none"> • provide advice on code of ethics • provide ethics education • establish and evaluate ethics helpline
Fraud Education	to enable an organization's employees, officers, directors and agents to identify and respond appropriately to the signs of fraud	<ul style="list-style-type: none"> • provide training on potential fraud scenarios, detecting fraud, regulatory guidance and implications of fraud
Effective Mechanisms for Reporting, Investigating and Remediating Fraud	to help an organization respond to reports of fraud promptly and appropriately	<ul style="list-style-type: none"> • assess whistleblower hotline options and effectiveness • establish investigation protocol • remediate control deficiencies
Background Investigations and Effective Employment Practices	to make appropriate hiring, promotions and partnering decisions about employees and business partners based on a full understanding of their backgrounds and relationships	<ul style="list-style-type: none"> • research relevant records, interview knowledgeable individuals and analyze relationships and risks • provide advice on aligning employee evaluation criteria with ethics and anti-fraud goals
Effective Board and Audit Committee Oversight	to assist Boards and Audit Committees in fulfilling their corporate governance responsibilities through awareness of best practices and available professional resources	<ul style="list-style-type: none"> • recommend proper organizational and departmental charters • provide policy advice on oversight of whistleblower hotline, internal investigations and fraud education
Monitoring of Anti-Fraud Programs and Controls	to provide continuing confidence that anti-fraud programs and controls are operating effectively	<ul style="list-style-type: none"> • develop and implement monitoring plans for the anti-fraud program • recommend changes as the organization evolves • provide ongoing advice regarding advances in fraud prevention practices

Promoting Regulatory Compliance and Best Practices

Laws and auditing pronouncements aimed at preventing fraud have produced a more complex landscape for organizations to navigate. Forward-thinking organizations seek to maximize stakeholder value through regulatory compliance and the implementation of best practices.

The legal requirements and authoritative guidance for anti-fraud programs include the following:

- The Sarbanes-Oxley Act
- SEC regulations and enforcement policy
- Organizational Sentencing Guidelines
- National Exchange Listing Rules
- PCAOB and other Auditing Standards
- COSO's Internal Control and Enterprise Risk Management – Integrated Frameworks

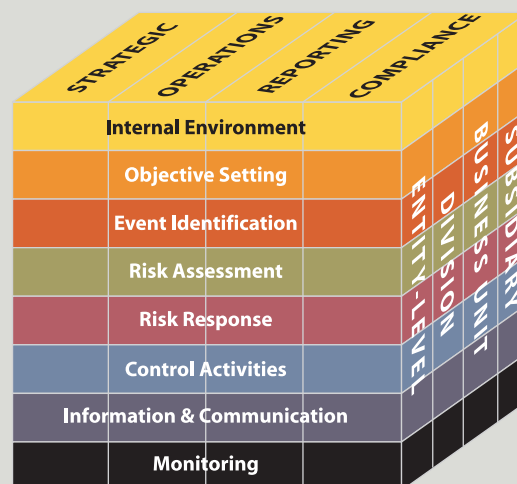
CAP is designed to satisfy these requirements and promote best practices. Adopting CAP can help give CEOs, CFOs and others the confidence necessary to certify the effectiveness of their companies' internal controls.

The Benefits of a Genuine Anti-Fraud Environment

In addition to compliance, an organization with an effective anti-fraud program can reap tangible, long-term benefits, including the following:

- increased transparency and accuracy of financial reporting
- reduced misappropriation of assets
- fewer adverse findings by auditors and regulators
- reduced exposure to stock price volatility
- reduced litigation burden
- easier access to capital
- enhanced investor confidence
- heightened reputation

Left unchecked, fraud can spell disaster for an organization. Financial fraud can have a negative effect on a public company's market value by a significant multiple amount of the fraud. Conversely, implementation of a genuine anti-fraud environment can help an organization reap operational and strategic benefits and maximize stakeholder value.



Source: Enterprise Risk Management – Integrated Framework published by AICPA as Paperback Product #990015. Copyright © 2004 by the Committee of Sponsoring Organizations of the Treadway Commission. Reproduced with permission from the AICPA acting as authorized copyright administrator for COSO.

The Integrated Frameworks on Internal Controls and Enterprise Risk Management of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides the authoritative guidance and foundation for evaluating the internal controls relating to an organization's anti-fraud program. BDO Consulting's Critical Anti-Fraud Program can enable organizations to meet and exceed their obligations under each of the elements of the COSO framework.

A Proactive Approach By Seasoned Professionals

At the heart of CAP is a fraud risk assessment. This process identifies and evaluates fraud risk factors relating to an organization's operations, industry, structure, size, environment and general economic conditions.

Our assessment process focuses on the kinds of fraud risks to which an organization is vulnerable, their significance and likelihood, and how effectively those risks are currently managed. Based on our extensive experience in investigating and remediating fraud and our comprehensive database of fraud scenarios, we help to identify organizations' fraud risks and to implement appropriate anti-fraud detection and control measures.

Integrating these controls into the infrastructure and operations of an organization fosters an environment resulting in significant deterrence of fraud and early detection of attempted fraud. Early detection enables an organization to address potential frauds internally before they have affected employee morale or external perceptions.

Adoption of the elements of CAP is designed to produce well-educated employees who are aware of their ethical obligations. These employees are also alert to the warning signs of fraud and have access to a means of reporting their concerns.

Implementation of CAP and the resulting genuine anti-fraud environment shows a proactive focus on achieving organizational objectives by directors, senior management, in-house counsel, financial reporting personnel and employees at all levels. As a result, organizations demonstrate their commitment to complying with regulatory requirements and maximizing stakeholder value.

The BDO Consulting Advantage

As a division of BDO Seidman, LLP, the U.S. Member Firm of BDO International, BDO Consulting has broad industry experience, technical resources and geographic reach. Our Critical Anti-Fraud Program professionals consist of certified fraud examiners, certified public accountants, former internal auditors, former federal law enforcement professionals, and practitioners experienced in regulatory compliance, corporate governance, ethics and information technology. Our practice is supported by the firm's highly respected National SEC Department that closely monitors the latest accounting regulations and releases.

About BDO Consulting

BDO Consulting, a division of BDO Seidman, LLP, provides litigation, investigation, restructuring and risk advisory services to major corporations, law firms, insurance companies, financial services entities, and government organizations. Our highly experienced and well-credentialed professionals draw upon a range of industry knowledge and completed consulting engagements throughout the United States and internationally to provide clients with unparalleled service. BDO Consulting leverages the global industry and accounting knowledge of the BDO International network, providing rapid, strategic advice to assist our clients with dispute resolution, risk management, mergers and acquisitions, financial solvency and regulatory compliance issues.



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About BDO Seidman

BDO Seidman, LLP is a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including, competence, honesty and integrity, professionalism, dedication, responsibility and accountability for almost 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

BDO Seidman serves clients through 35 offices and more than 300 independent alliance firm locations nationwide. As a Member Firm of BDO International, BDO Seidman, LLP serves multi-national clients by leveraging a global network of resources comprised of 620 Member Firm offices in more than 100 countries. BDO International is a worldwide network of public accounting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country.



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