Fraud Mitigation Checklist

Use this checklist to understand the opportunity, motivation, and rationalization for fraudulent activity in your not-for-profit organization. While this is not an exhaustive checklist, it can help form a basis for consideration. By empowering your employees to identify fraud, you can help mitigate your organization's exposure.

YES	NO	**OPPORTUNITY:** *the circumstances that allow fraud to occur*
		Complicated organizational structure. Lack of clearly defined roles.
		High turnover of senior management staff.
		Domination of management by the founder or executive director.
		Ineffective or inadequate reporting, communication, accounting and information technology systems.
		Large amounts of cash on hand or processed.
		Lack of fraud response plan or investigation policy.

Prevention measures:

- Ensure proper governance, competent, and engaged staff.
- Audit all procurement processes and financial controls at appropriate intervals and diligently maintain an audit trail.
- Use accounting software that can send automated alerts when discrepancies appear.
- Deploy the most up-to-date computer security software and limit the amount of sensitive data the organization retains.
- Ensure segregation of duties with personnel who are handling and counting cash.
- Develop a formal anti-fraud policy and code of conduct and undertake regular assessments of the types of fraud that could occur within your not-for-profit organization.

YES	NO	**MOTIVATION:** *the incentive or pressure to carry it out*
		The organization is facing operational losses, recurring negative cash flows, and an inability to pay their debts as they fall due.
		Sudden change in organizational behaviour due to new accounting, statutory or regulatory requirements, economic or environmental factors.
		The organization is facing increased pressure to use or lose donations to sustain future funding levels.
		Adverse relationships exist between the organization and its employees with access to cash and other assets.

Prevention measures:

- Consider a credit check and probation period for staff or trustees with high financial responsibility. Give them slow access to financial controls under supervision.
- Implement rigorous accounting policies and procedures to prevent the exploitation of any loopholes.
- Regularly monitor and enforce compliance with policies, procedures, and best practices for bookkeeping, payroll, accounting, recruitment, information technology, and human resources.

YES	NO	**RATIONALIZATION:** *the justification for committing fraud*
		Employees who are dissatisfied, disgruntled, or unhappy with their job. (e.g., recently demoted or reprimanded or employees who consider themselves underpaid).
		Recent or anticipated changes to employee compensation or benefit plans.
		Lack of regard for internal controls by overriding existing ones or failing to correct known internal control deficiencies.
		Recurring attempts by management to justify marginal and inappropriate accounting.

Prevention measures:

- Address employee discontent as quickly as possible, and document all conversations, meetings, and outcomes. Be prepared to have the employee move on if the issue is unresolvable.
- Demonstrate integrity and ethics in all policies and correspondence relating to individual accountability and best practices. (e.g., establish and implement conflict of interest policy).
- Create a structured process for reporting fraud and anti-fraud activities to senior management and board members, to influence and drive change throughout the organization.
- Consider implementation of a whistle-blower policy.