





# Vonya Global: Executive Survey - Strategic Plan for the Prevention and Detection of Fraud

Final Report  
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## Executive Summary

Vonya Global surveyed Executives and Internal Auditors from private, public, and not-for-profit organizations, spanning many industries to gather opinions on strategic planning for fraud prevention, detection, and deterrence. Historically, there have been several studies conducted about fraud and fraud statistics, but none that deal directly with the strategic plans to manage fraud risks. The timing of this study is appropriate due to the heightened sensitivity to fraud due to the economic conditions. It seems more groups, including regulatory bodies, investors, clients, and suppliers are increasingly concerned about the ability to demonstrate effective fraud prevention and detection strategies.

The results of this study were compared to the results of the Association of Certified Fraud Examiner's (ACFE) 2008 Report to the Nation<sup>1</sup>. The ACFE report compiled information from all fraud investigations conducted over a two year period. The report is a bi-annual document, providing information on fraud statistics. More information about this report can be found by visiting <http://www.acfe.com/documents/2008-rttn.pdf>.

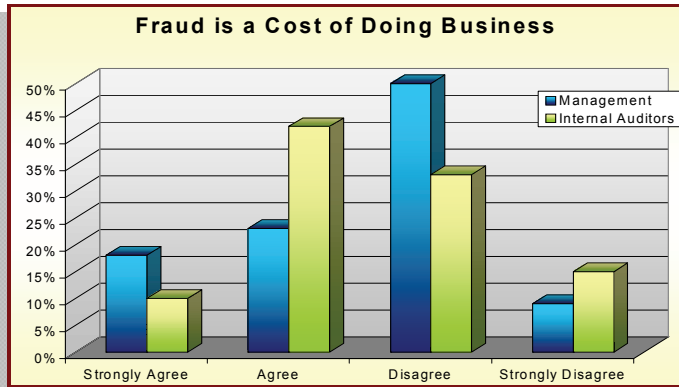
These two studies were conducted independent of each other. Vonya Global and the ACFE are in no way related parties, nor did either party consult with the other during these studies. Vonya Global is an international consulting firm specializing in assessing risk, evaluating internal controls and enhancing corporate governance with a specialized practice which provides fraud prevention and investigative services to its clients. The results of this survey are intended to provide benchmarking information to companies interested in fraud prevention, detection, and deterrence strategies.

In the results, we have contrasted opinions of Internal Auditors with those of Executives and the opinions of one demographic group with those of other demographic groups. Some of the results were predictable but others were quite revealing. The expectation of this survey was to highlight divergent opinions and explore potential gaps. This methodology was followed in an earlier study conducted by Vonya Global on the Strategic Role of Internal Audit.

We have provided quotes from the survey responses throughout this report. These quotes are the opinions of the respondents, are included to provide clarity in the analysis, and in no way reflect the opinion of Vonya Global.

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<sup>1</sup> - 2008 Report to the Nation on Occupational Fraud and Abuse, ©2008 Association of Certified Fraud Examiners, Inc.



*"I do not believe that fraud (defined as deliberate manipulation of resources leading to adverse consequences for the company) is an inherent business risk."*

*Executive Response*

*"With a strong code of ethics and good management "tone at the top," no fraud should be considered "acceptable" which is what "cost of doing business" implies."*

*Internal Auditor Response*

*"It may be a reality but to call it a cost of doing business makes it likely to be a part of normal operations and therefore acceptable at some level."*

*Executive Response*

*"Preventing fraud is a cost, the liability of unchecked fraudulent activity includes market image and reputation."*

*Executive Response*

*"Fraud will always exist at some level and in some form throughout any organization that employs people to fulfill its mission."*

*Internal Auditor Response*

*"With proper controls and hiring procedures you can mitigate the risk (not eliminate it). With functioning systems the risk is lower."*

*Executive Response*

## Section 1 - Evaluating Fraud Risk

According to the ACFE 2008 Report to the Nation, the risk of fraud is present in almost every business regardless of size, shape, and complexity. The risk could materialize itself in an employee, a vendor, a client, or in the boardroom. It could be "detrimental" by bleeding company assets or "beneficial" by artificially inflating company financial statements. These frauds could play out in scenarios that are quite varied, and be concealed by strategies that are sophisticated and complex. This combination is making it far more challenging to prevent fraud and catch a perpetrator.

While certain frauds might not be material from an overall financial perspective, others can create significant financial statement errors and, any fraud that occurs will have an adverse impact on profit margins, requiring additional revenue to make up for the loss. Fraud also carries with it significant reputational risk.

So, fraud risk is undeniable in business. However, it doesn't mean that fraud occurs in every business nor does it imply that the risk is significant in every business. Just simply that the risk is present, should not be ignored and strategies need to be employed to enhance prevention, detection, and deterrence.

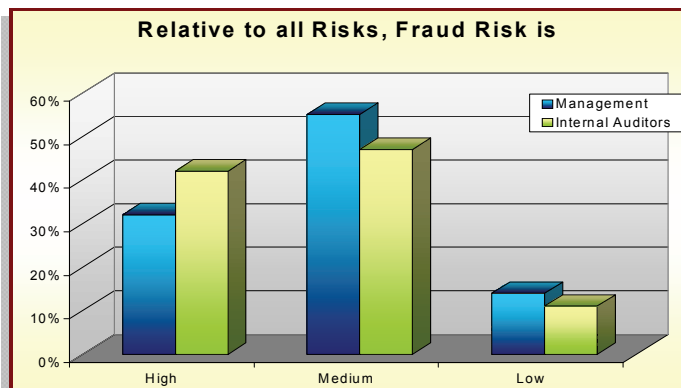
One of the goals of this report is to have you, the reader, begin to evaluate your investment in fraud prevention, detection, and deterrence to determine if there are more effective ways to manage the risk. Ask yourself the questions, "How do I evaluate fraud risk?" and "Are my current procedures finding fraud?"

Many companies evaluate business risk on a regular basis and develop strategies, create systems, and employ people to monitor or manage the significant risks. Obviously there is a cost to the risk management process both direct in the form of systems and employees and indirect in the form of time. Most of us would agree that risk in all its forms is a cost of doing business. We wondered if people consider fraud risk as part of the risk management investment. The survey simply asked if fraud was a cost of doing business.

*"Fraud is a direct result of not applying the business and audit basics - internal controls, coupled with regular audits to those controls. A contributing factor, when fraud is present, overwhelmingly is lack of "tone at the top".*

*- Executive Response*

In evaluating the results of the survey, it appeared that fraud risk and the investment in risk management may be considered separate. The majority of Executives (59%) generally do not believe that fraud is a cost of doing business; in fact, some were vehemently opposed to the premise. On the other hand, Internal Auditors generally believe (52%) that fraud *is* a cost of doing business. The difference between the two groups may not seem overwhelming but we found it interesting considering that based on the results of this survey (as shown later)



*"'Fraud' takes many forms. The fraud that involves cheating the company out of goods / services / money is not a big risk for my company due to the nature of the company (healthcare). Reporting fraud - any falsification of records (financial or otherwise) - is a bigger risk due to the potentially significant effects of such behavior. The blending of these types of fraud is why I have chosen the "medium" level."*

*Executive Response*

*"My company is very decentralized, thus giving more power at the branch-level. They procure goods, pay their employees and track the local costs. This decentralization greatly increases the risk of fraud occurring."*

*Internal Auditor Response*

*"It is my opinion the deterrents to committing fraud (e.g., criminal penalties, social ostracizing) reasonably mitigate a good portion of the risk. Not all risk is eliminated, of course, but enough that a corporation does not need to commit all its resources to the single risk factor."*

*Internal Auditor Response*

Executives believe their companies are making a 20% bigger investment into anti-fraud strategies than do Internal Auditors. In fact, 100% of Executive respondents stated that their companies are investing in multiple anti-fraud strategies.

The responses to this question were interesting and identified a slight gap between Executives and Internal Auditors but did not tell a story, at least not an obvious one. It appeared as though a trend was materializing but in a different form than what was being evaluated. In taking the analysis a step further, we evaluated the answers based on company size and company type instead of comparing Executive responses to Internal Auditor responses. The results were far different.

#### Fraud is a Cost of Doing Business

- Large Cap 59%
- Mid Cap 73%
- Small Cap 29%
- Private 32%
- Not-for-Profit 44%



Based on these responses, there is polarity in the opinions between large and small companies and public and private/not-for-profit organizations.

While the survey didn't explore specifically why this was the case it could be for several reasons. One, large public companies have a fiduciary responsibility to shareholders that is arguably more public than that of small or private companies. Also, large multinational companies are prone to more regulation specific to ethical business conduct such as the Foreign Corrupt Practices Act than those with only domestic based operations.

These responses would indicate that the perceived risk of fraud by larger companies would dictate a larger investment in anti-fraud strategies. However, the results of the survey indicate that the not-for-profit organizations are employing more anti-fraud strategies than any other group - nearly 30%.

In addition to the investment in anti-fraud strategies, there are considerable losses each year from fraud. To determine the significance of the cost of fraud, we referenced ACFE's 2008 Report to the Nation<sup>1</sup>. According to report, U.S. organizations lose an estimated 7 percent of annual revenues to fraud, which equates to roughly \$994 billion among organizations. If this report is accurate, even partially, there is a significant cost associated with the risk of fraud.

*"Companies should do more to deter and detect fraud. Costs go far beyond the simple dollars someone steals or gains through materially misstated financial statements. Loss to employees and stockholders can be substantial."*

*- Internal Auditor Response*

*"Even though we are a small company, we have a number of staff spread out over 6 countries in 10 main locations along with a number of home office based employees. The control process required for this dispersed group is substantial for a small company and we do not always have the resources to track and maintain all assets (including people's time they spend with customers etc)."*

*Executive Response*

*"Fraud is generally immaterial, while fixing our main business processes is very material. Our organization is somewhat immature from a process perspective so lots of improvement opportunities to address."*

*Internal Auditor Response*

*"Risk of Fraud may be higher or lower depending on type of business, economic environment, and robustness if internal controls"*

*Executive Response*

*"In today's business climate there are larger strategic risks to the business model than fraud. However, if the recession extends beyond 2009 the pressures on people and businesses to survive will increase the risk of fraud significantly."*

*Internal Auditor Response*

*"Fraud risk in this particular company is low due to our good tone at the top and control culture."*

*Internal Auditor Response*

*"I view fraud risk as high as many times it will be based on non-systematic issues and is dependent on judgment by the individuals involved."*

*Executive Response*

With this in mind, the respondents were asked relative to all other risks how significant is fraud risk. As before, there were slight differences in the responses from Executives and Internal Auditors but not material enough to draw conclusions. We then looked at the responses by company type and as expected, the results were different. Generally speaking, public companies rated fraud risk higher than private and not-for-profit companies.

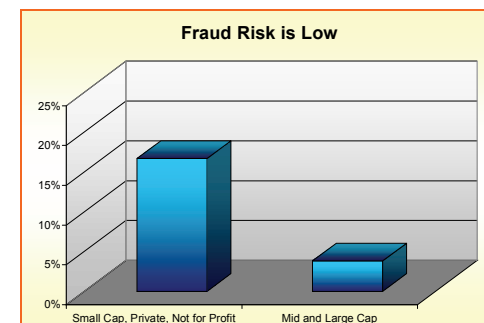
Relative to all risks, Fraud Risk is high:

- Large Cap 47%
- Mid Cap 37%
- Small Cap 46%
- Private 35%
- Not-for-Profit 33%

This statistic becomes more interesting when compared to the ACFE study.

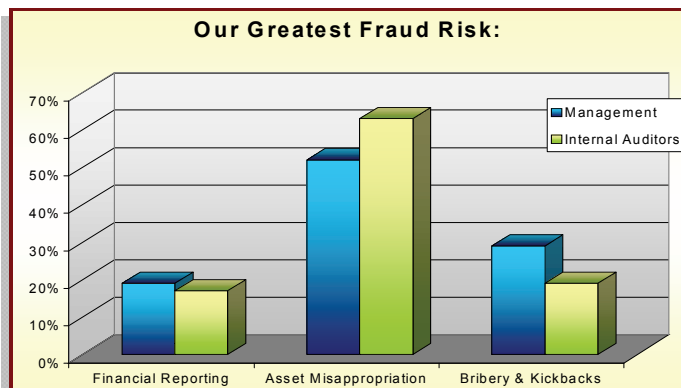
More cases of fraud each year are identified at small companies than large companies and more at private companies than public companies.

The following are statistics from the ACFE study:



2008 ACFE Study - Fraud by Company Type	
Private companies	39.1% of all fraud investigations \$278,000 average loss
Public companies	28.4% of all fraud investigations \$142,000 average loss
Small companies (<100 employees)	38.2% of all fraud investigations \$200,000 average loss
Medium companies (101-999 employees)	20.0% of all fraud investigations \$176,000 average loss
Large companies (1000-9,999 employees)	23.0% of all fraud investigations \$116,000 average loss
X-Large companies (>10,000 employees)	18.9% of all fraud investigations \$147,000 average loss

These results are almost the exact inverse of the previous graphic about fraud being a cost of business. Those companies who rated fraud risks as the lowest are in the category of



*"In the current economic climate, there is a greater risk of manipulation of financial reporting to cover up poor performance."*  
Executive Response

*"In a not-for-profit arena I think bribery and kickbacks are more likely to bring the kind of gain individuals seek at the management, executive and board level. For the other levels, it is probably asset misappropriation."*  
Internal Auditor Response

*"In the software industry, there is still an unwritten "pay to play" approach to cultivation of distribution channels among software mfg and resellers/VARs and integrators. Separately there is a high level of corporate piracy/espionage in this field with disgruntled workers selling trade secrets."*  
Executive Response

*"Our Traditional controls in the FR area are more developed. We store a portion of our inventory (building materials) outside which makes it more difficult to control."*  
Internal Auditor Response

*"In governmental agencies, vendors must find creative methods to please the keepers of the supply chain. It can even be at departmental level, where orders are placed bypassing purchasing channels. The invoice shows up and the PO must then be created."*  
Internal Auditor Response

companies that actually have the highest occurrence of fraud in addition to the highest loss per incident.

*"There will always be "bad apples" in the ranks whether hired in or "developed" after hire. Good controls still keep honest people honest and identifying and prosecuting offenders still send the right message and prevents other companies from being harmed by the same individual. In many respects these fraud and fraud-related costs are part of doing business. However, beyond this there is the more concerning level of fraud which is that committed at the Board and Executive level. This should not be a cost of doing business."*

- Internal Auditor Response

The respondents were then asked about the greatest fraud risk their organization faced and according to the results of this survey their response was asset misappropriation which directly coincides with the results of the ACFE study.

#### Highest Fraud Risk

	Asset Misappropriation	Bribery/Corruption	Financial Statement
Large Cap	47%	18%	35%
Mid Cap	50%	21%	29%
Small Cap	62%	15%	23%
Private	67%	29%	5%
Not-for-Profit	70%	20%	10%
All Cases*	89%	27%	10%
Avg. Loss*	\$150,000	\$375,000	\$2,000,000

\*from ACFE 2008 Report to Nation

Large Cap respondents were more concerned with Financial Statement fraud than any other group, which based on the results of the ACFE Study carries the greatest financial loss. Inherently this makes sense due to a variety of factors, not the least of which is the need to access investments from the capital markets.

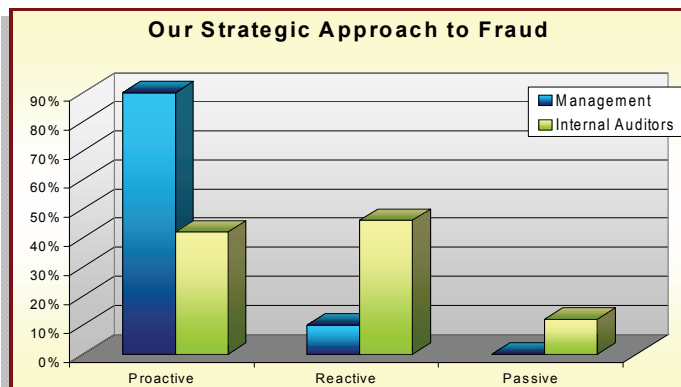
## Section 2 - Strategic Plan for Preventing, Detecting, and Deterring Fraud

There are 3 general strategies for preventing, detecting, and deterring fraud.

*Passive - Reliance is placed on internal controls to prevent, detect and deter fraud*

*Reactive - Reliance is placed on investigation after fraud occurs*

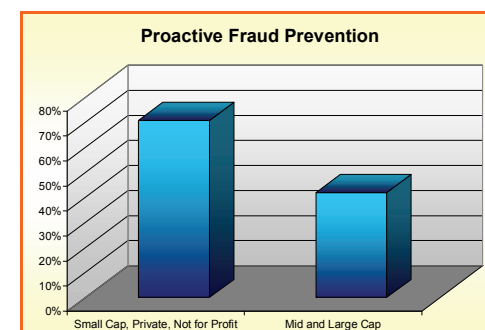
*Proactive - Reliance is placed on tools and methods to routinely search for fraud indicators*



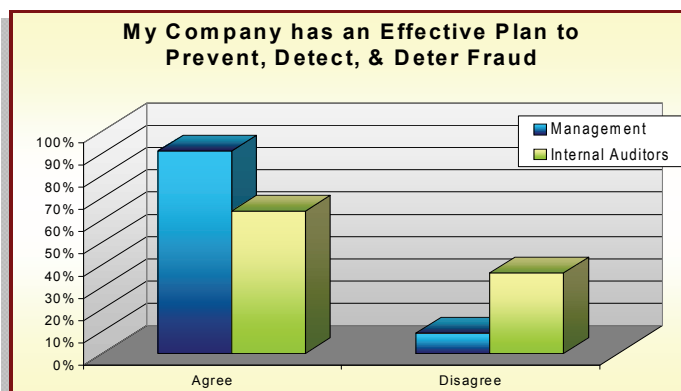
*"We do not do "pay to play" in any way. No employees can give nor receive gifts/dinners/etc from any customer and/or prospective customer, distributor, etc. We have solid NDAs and Employment agreements in place. We also have a nice patent portfolio that rewards employees for protecting company assets."*  
*Management Response*

*"While proactive in many respects given the use of fraud awareness training and the extent of compliance related training programs, we are still largely reactive and our investigative resources could be better coordinated to improve both our proactive and reactive approaches."*  
*Internal Auditor Response*

A good Anti-Fraud plan will incorporate elements of each; however, most companies typically classify themselves in one of the three. With this in mind, we asked the question about the strategic approach to fraud prevention. When looking at the entire population of Executive responses, the vast majority believe their company is Proactive in anti-fraud strategies, while less than half of the Internal Auditors agreed. Less than 10% of Executives stated that their approach to fraud was Reactive, compared to over 40% of Internal Auditors. In fact, the Internal Auditors were fairly evenly split between Proactive and Reactive. This gap appears to be quite significant and certainly highlights an area that should be explored in conversations between Executives and Internal Auditors. The opinions of two groups of key internal stakeholders probably shouldn't be this divergent.

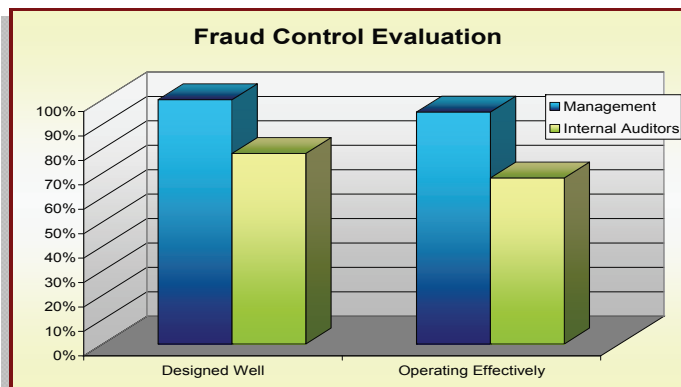


More important than the type of plan in place, is the effectiveness of the plan. The respondents were asked whether their Fraud Prevention, Detection, and Deterrence Plan was effective. Yet again there was a gap between the two groups. It was not as drastic as in the previous question, but does cause more alarm. If a plan is not effective, there is unmitigated fraud risk. As before, this topic should be a key conversation point between the two groups.



Interestingly enough 43% of respondents who stated their strategic approach is Passive also stated that their anti-fraud program is Effective. This demonstrates the previous point that regardless of the plan, it is critical for the plan to be effective. The basis for this could be good business processes and sound internal controls.

*"No formal strategic plan, but we do have good implemented controls."*  
*- Internal Auditor Response*



Without internal controls, most frauds are easier to both conduct and conceal. However, for internal controls to provide the foundation, they must be designed correctly and operate effectively and balance prevention with detection. When investigating fraud, all too often it was because of a breakdown in either the design or effectiveness of internal controls. When asked the question, Executives almost unanimously agreed in the effectiveness of their internal control system. These results were expected in light of requirements of Sections 302 and 404 of the Sarbanes-Oxley Act of 2002. However, there was far more skepticism in the Internal Auditor responses. Roughly 20% of Internal Auditors don't trust the design effectiveness and nearly 30% don't trust the operating effectiveness.

*"We are now focusing on putting a strategic plan in place. Prior to, there were only minimal controls in place that only detected fraud."*

*- Internal Auditor Response*

*"The size and structure of our company allows for effective detection of significant fraudulent activity and a plan is in place to affect culture, minimize significant opportunity and monitor indicators of fraud."*

*Internal Auditor Response*

*"[Fraud Risk Assessment is] embedded within the broader risk assessment process."*

*Executive Response*

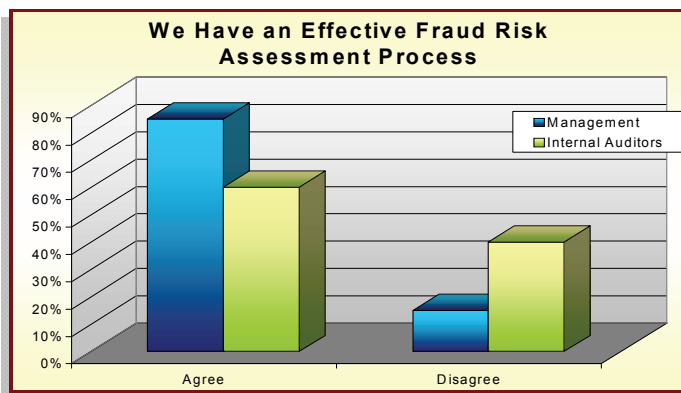
*"Upper Management makes an assessment of fraud each year; however, I do not know the exact detail evolved in the process."*

*Internal Auditor Response*

Relative to the requirement of Sarbanes-Oxley, often times the fraud controls were identified from the population of "key" internal controls. Key controls are designed for the accuracy of financial reporting; whereas fraud controls are specifically designed to prevent or detect fraud. Due in large part to resource constraints during the first years of the Sarbanes-Oxley era, basic controls were made to look like fraud controls even though they were not originally designed or intended as such. Many Internal Auditors have recognized this and have begun improving the Sarbanes-Oxley process by identifying and/or enhancing the anti-fraud controls. In addition, since Sarbanes-Oxley is narrowly focused on Financial Reporting, fraud risks in operations are not evaluated.

*"The plan is only as good as the people who enforce it and can easily be circumvented through collusion."*

*- Executive Response*



In most cases, internal controls are not enough and most companies employ multiple methods for fraud prevention, detection, and deterrence. Understanding this, we asked about the Fraud Risk Assessment. Over 80% of Executives stated that they have an effective fraud risk assessment process while nearly 60% of Internal Auditors agreed. While both groups in this study generally believe in the effectiveness of their fraud risk assessment process, there is still a gap between the two groups.

*"Fraud Risk Assessment is only conducted via the annual [Sarbanes-Oxley Section] 404 work by Internal Audit."*

*- Internal Auditor Response*

As with the previous questions in this section, the divergent opinions between the two groups highlight a need for increased conversation about fraud risks. While the gaps could be bridged through communication, it may require formalized training or potentially even a thorough evaluation of the Fraud Prevention, Detection, and Deterrence Plan.

*"Even though the fraud risk assessment is a separate process, we still rely heavily on the annual global risk assessment as well. Also the brainstorming session around potential fraud schemes is pretty comprehensive."*

*Internal Auditor Response*

We then asked the respondents to list any other elements of the plan; the following highlights a few additional gaps between the groups.

**Monitoring Key Fraud Indicators**

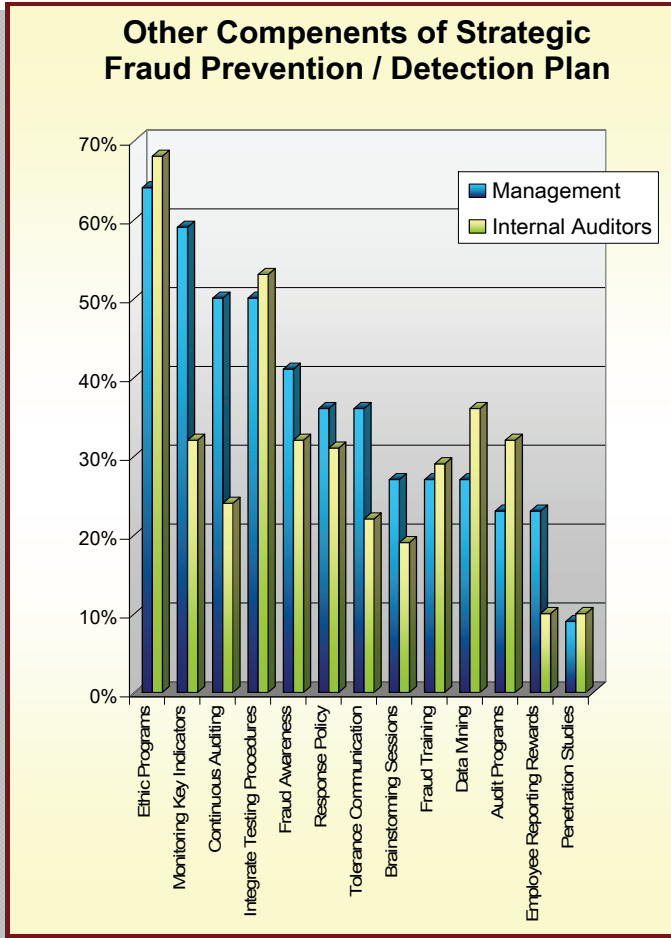
*Nearly 60% of Executives state their companies are regularly monitoring Key Fraud Indicators, compared to slightly more than 30% of Internal Auditors.*

**Continuous Auditing**

*Roughly 50% of Executives stated their companies are have incorporated some form of Continuous Auditing for fraud, compared to less than 25% of Internal Auditors.*

**Rewards for Employee Reporting**

*Compared to Internal Auditor responses, over twice as many Executives stated that their companies have programs which reward employees for reporting instances of fraud.*

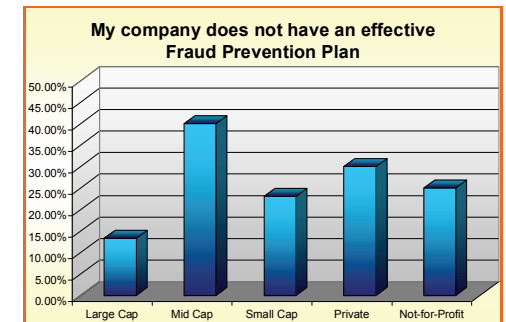


**Fraud Penetration Studies**

Less than 10% of respondents in both groups state that their company is conducting Fraud Penetration Studies. Both groups are consistent with each other rating this as the least used strategy. We find this result ironic because the Fraud Penetration Study is one of the few anti-fraud strategies which provide an immediate return on investment and an immediate validation of the overall anti-fraud program. The Fraud Penetration Study investigates data to identify evidence of fraud concealment strategies currently in use. When completed on a regular basis, fraud perpetrators can be caught prior to inflicting significant damage. In addition, when done properly by an experienced Fraud Auditor, a Fraud Penetration Study should only take a couple of weeks. It is our opinion that this is one of the best strategies a company can employ for proactive fraud detection.

**Company Size and Type**

The largest disparity in responses was found in the Mid-Caps companies. For example, the graphic to the right shows that Mid-Caps are the least confident in the effectiveness of their Fraud Prevention Plan. In addition, less than half of the Mid Cap responses were confident in their Fraud Risk Assessment approach; while all other respondents were relatively confident in the Fraud Risk Assessment. Small Caps, Private Companies, and Not-for-Profit Organizations generally rated their anti-fraud strategies as proactive; compared to less than half of the Mid Cap. When it came to internal controls, the Small Caps are the most confident and are therefore possibly the most reliant on internal controls, while the Not-for-Profit organizations were the least confident in their internal controls.

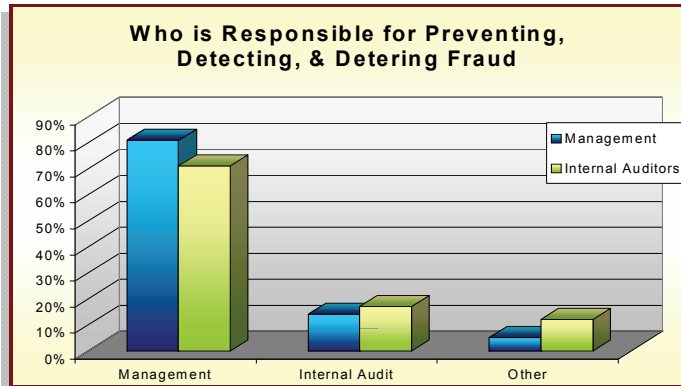


Based on the responses, the opportunity for enhancing the anti-fraud programs seems to be the greatest with the Mid Caps due to the fact most have rated fraud risk relatively high but the effectiveness of the anti-fraud programs as low.

The following table represents the top responses from the survey on Fraud Prevention and Detection strategies.

Top 5 Strategies for Fraud Prevention and Detection				
Large Cap	Mid Cap	Small Cap	Private	Not-for-Profit
1 <i>Business Ethic Programs</i>	<i>Business Ethic Programs</i>	<i>Integrate Fraud Audit Procedures into Testing of Internal Controls</i>	<i>Business Ethic Programs</i>	<i>Integrate Fraud Audit Procedures into Testing of Internal Controls</i>
2 <i>Integrate Fraud Audit Procedures into Testing of Internal Controls</i>	<i>Data Mining Tools and/or Techniques</i>	<i>Business Ethic Programs</i>	<i>Monitoring Key Fraud Indicators</i>	<i>Business Ethic Programs</i>
3 <i>Monitoring Key Fraud Indicators</i>	<i>Fraud Audit Program</i>	<i>Monitoring Key Fraud Indicators</i>	<i>Continuous Auditing Tools and/or Techniques</i>	<i>Monitoring Key Fraud Indicators</i>
4 <i>Fraud Awareness: Communicating Fraud Schemes and Red Flags</i>	<i>Integrate Fraud Audit Procedures into Testing of Internal Controls</i>	<i>Fraud Training</i>	<i>Integrate Fraud Audit Procedures into Testing of Internal Controls</i>	<i>Fraud Awareness: Communicating Fraud Schemes and Red Flags</i>
5 <i>Fraud Audit Program</i>	<i>Fraud Awareness: Communicating Fraud Schemes and Red Flags</i>	<i>Fraud Response policy</i>	<i>Fraud Awareness: Communicating Fraud Schemes and Red Flags</i>	<i>Continuous Auditing Tools and/or Techniques</i>
	<i>Monitoring Key Fraud Indicators</i>			<i>Fraud Training</i>
	<i>Fraud Training</i>			<i>Fraud Audit Program</i>
	<i>Fraud Response policy</i>			

### Section 3 - Fraud Detection Skills



While it is important to have a plan to prevent, detect, and deter fraud, it is essential to have the skills to locate fraud or locate the “red flags” of fraud. Locating fraud “red flags” is part intuition such as sensing when something just doesn’t look right, and part science, knowing the fraud schemes/scenarios and understanding which concealment strategies could be at play and when they are being used. Many have the intuitive capability to know when something doesn’t pass the “sniff test” but few have the training in the science. With this in mind, we asked the respondents about the fraud detection skills within their companies.

*“Internal Audit certainly has a role, but it is management’s job to set the tone and institute the controls and programs to mitigate the risk.”*

*- Executive Response*

*“It is the specific line of business management’s responsibility to prevent potential fraud through education and awareness.”*

*- Internal Auditor Response*

*“I think scenarios cannot be discussed enough. There are way too many classes on why it’s important but not on the “how to,” which helps uncover how to detect.”*

*Internal Auditor Response*

*“Internal audit’s role is to test the controls or act as a consultant to management in the creation of controls.”*

*Executive Response*

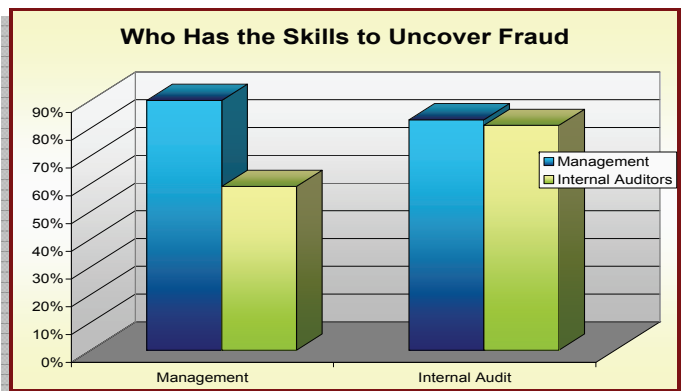
*“All employees have a responsibility to prevent and detect fraud.”*

*Internal Auditor Response*

In the responses from the survey, Executive Management and Internal Auditors share the opinion that it is generally Management’s responsibility to prevent, detect, and deter fraud. In addition, while Internal Audit may not have the primary responsibility to detect fraud, they have the skills to do so. As in the previous section, there is a slight disagreement between the two groups in assessing Management’s skill to detect fraud. Roughly 40% of Internal Auditors do not believe Management has the skill, compared to nearly 90% of Executives. We did not investigate the reasons why there was a significant gap in respondent opinions. It could be because Internal Auditors are taking a more scientific approach, while Executives are taking a more intuitive approach. Regardless, the responses have highlighted an additional area for further investigation and conversation between the two groups.

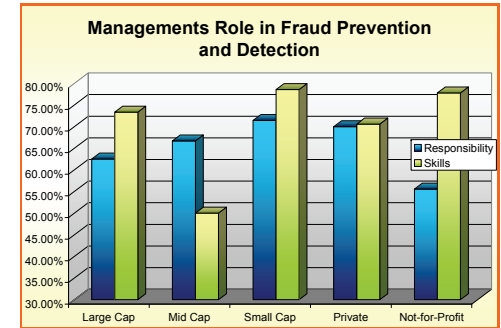
*“...our people have the skills and process to uncover fraud. However,...our resources are limited and we may not have the coverage to uncover all fraud.”*

*- Internal Auditor Response*



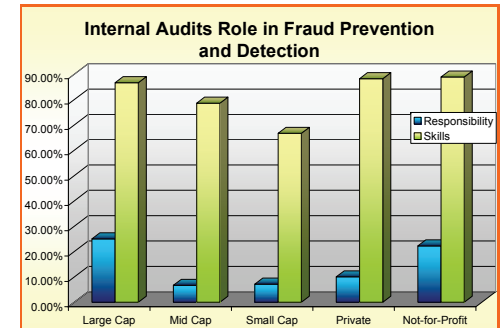
When looking at the responses by company type, Internal Audit has a larger role and responsibility for identifying fraud in the Large Cap companies. This could be based primarily on the fact that Large Cap companies are more likely to have larger internal audit departments than other companies. Large Cap respondents were also highly confident in internal audits ability to identify fraud.

An interesting statistic revealed itself in the Mid Cap companies. Well over 60% believe it is management's responsibility to identify fraud, but less than 50% believe management has the skills to do so. Also interesting in the Mid Cap responses was that over 25% of the respondents believe it is someone other than Management or Internal Audit who has the primary responsibility to identify fraud, which is the highest of any group and three times higher than that of Large Caps.



*“A sophisticated fraud scheme would be beyond the skill set of our audit department.”  
- Internal Auditor Response*

One other area we found interesting is the confidence placed on the ability of Internal Auditors to identify fraud. While some internal auditors are excellent fraud auditors, internal auditing and fraud auditing require different skill sets. Basically, internal auditing is the investigation of internal control effectiveness; whereas, the application of audit procedures in a manner to increase the propensity of detecting fraudulent transactions and the identification of strategies to circumvent internal controls or exploit internal control weaknesses. In order for an Internal Audit plan to identify fraud, the internal auditor must have the experience, knowledge, and methodology to locate and recognize fraudulent transactions.



## Methodology

In 2009, Vonya Global distributed a survey to a group of Executive Management, Operations Management, and Internal Auditors on the Strategic Plan for the Prevention and Detection of Fraud.

The demographic make-up of respondents includes:

Executive Management (22%)  
 Other Management (9%)  
 Chief Audit Executive (29%)  
 Internal Auditors (37%)  
 Other (2%)

Respondents reported the size of their company as:

Small-cap (20%)  
 Mid-cap (19%)  
 Large-cap (23%)  
 Private (25%)  
 Not-for-profit (13%)

Due to rounding, all percentages used in all questions may not add up to 100 percent.

## Conclusion / Methodology

While Internal Auditors and Executive Management who participated in this study generally agree on the relative fraud risk as described in Section 1, they seem to disagree on the strategic means for preventing, detecting, and deterring fraud as described in Section 2, and continue to disagree on the capacity to identify fraud as described in Section 3. The good news is that the gap is not insurmountable and can be bridged by more effective communication, more targeted training, and implementing sophisticated (and cost effective) anti-fraud strategies.

Based on the cumulative results, the majority of the respondents believe they have a proactive anti-fraud strategy. However, when comparing all the answers, the effectiveness of the anti-fraud strategy begins to come into question. Based on the results of our survey, only 23% of respondents truly believe they have a proactive and effective anti-fraud plan, leaving much room for improvement.

As shown in the ACFE Report to the Nation<sup>1</sup>, fraud risk holds no bias and all companies are susceptible. A good anti-fraud program has to address Prevention, Detection, and Deterrence. Prevention starts with a good Tone-at-the-Top and a good system of internal controls. Detection starts with having the capabilities to look for fraud. As described in Section 2, the easiest and most cost effective way to look for fraud is by conducting a Fraud Penetration Study. Finally, Deterrence starts with effective communication to employees. The investment in the anti-fraud program doesn't have to be enormous, it has to be intelligent. Fraud is a risk which needs to be mitigated. The annual losses to fraud are too great to ignore.

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<sup>1</sup> - 2008 Report to the Nation on Occupational Fraud and Abuse, ©2008 Association of Certified Fraud Examiners, Inc.