

Module # 2 – Management/Key Employee Assessment

The management/key employee assessment questions are designed to assess the probability of a fraudulent event occurring within the organization based on:

- Internal controls.
- Internal control environment.
- Resources available to prevent, detect, and deter fraud.

Questionnaire Key

1. Is the board of directors composed of mainly officers of the company or related individuals?

The board of directors should include independent board members that are not associated with or employed by the company. In theory, independent directors are not subject to the same pressures as management and, therefore, are more likely to act in the best interest of shareholders.

2. Is there an independent audit committee?

Independent audit committee members with financial and accounting expertise can be instrumental in preventing and detecting financial fraud.

3. Has there been high turnover of managers and members of the board of directors?

Management should investigate the reasons for high turnover and implement measures to reduce it.

4. Have an unusually high number of key employees left the company recently?

Management should investigate the reasons for their departure and implement measures to reduce turnover.

5. Is the company involved in any litigation?

Management should determine the reason for the litigation, monitor the filings, and take corrective action where necessary.

6. Does the company have offshore activities or bank accounts?

Management should determine the reason for the offshore activities and accounts, ascertain compliance with U.S. laws, and monitor activity closely.

7. Do any of the senior managers have offshore bank accounts or business interests?

The organization should require senior managers to file annual financial disclosure reports and explain the purpose of any offshore bank accounts or business interests.

8. Are any key employees experiencing financial pressures, such as debts, gambling, medical bills, or divorce?

Key employees who are experiencing financial pressures represent a potential fraud risk to the company and should be monitored by management. Employee assistance programs can be made available to help employees with alcohol, drug, and other problems.

9. Do any key employees appear to be living beyond their means?

Management should be observant of signs of employees spending far more than they are earning. It is common for employees who steal to use the proceeds for lifestyle improvements, including expensive cars, extravagant vacations, or expensive clothing.

10. Do any key employees have civil judgments or bankruptcies on record?

Key employees who have civil judgments or bankruptcies on record represent a potential fraud risk to the company and should be monitored by management.

11. Do any key employees have a criminal conviction?

Key employees with known criminal convictions should be subjected to increased review by management for compliance with internal controls and other policies and procedures.

12. Do one or two key employees appear to dominate the company?

If control is centered in the hands of one or two key employees, then those individuals should be under heightened scrutiny for compliance with internal controls and other policies and procedures.

13. Do any key employees have friends or relatives reporting directly to them?

Organizations should prohibit key employees from having friends or relatives report directly to them.

14. Do any of the key employees appear to have a close association with a vendor?

Key employees who have a close association with a vendor should be monitored for potential conflict of interest.

15. Do any key employees have outside business interests that might conflict with their duties at the company?

Key employees should be required to provide annual financial disclosures that list outside business interests. Interests that conflict with the organization's interests should be prohibited.

16. Do any key employees own a portion of any company that does business with this company?

Organizations should require key employees to disclose any potential conflicts of interest and should closely monitor any such conflicts of interest.

17. Has any key employee failed to take vacation?

Requiring key employees to take annual vacations can aid an employer in detecting an ongoing fraud scheme because the employer is more likely to discover a perpetrator running such a scheme when the perpetrator is removed from the scene.

18. Do any key employees have a significant amount of their net worth invested in the company?

Management should subject key employees with a significant amount of their net worth invested in the company to increased review for compliance with internal controls, especially those controls related to financial reporting.

19. Does the company have unusually high debts?

Management should determine the reason for debt levels and monitor internal controls for financial reporting.

20. *Is key employee compensation primarily based on company performance?*

Organizations should monitor employees whose compensation is based primarily on company performance for compliance with internal controls, especially controls related to financial reporting.

21. *Is there an incentive to use inappropriate means to minimize earnings for tax reasons?*

Companies should remove any incentive to use inappropriate means to manipulate financial information.

22. *Is there excessive pressure to increase the company's stock price?*

Excessive pressure to increase the company's stock price can result in management manipulating financial results in order to meet expectations.

23. *Has the company recently experienced large operating or investment losses?*

Large operating or investment losses can place undue pressure on management to manipulate results in order to cover up the losses.

24. *Does the organization have sufficient working capital?*

Insufficient working capital can place undue pressure on management to manipulate financial results.

25. *Does the organization have sufficient credit?*

A lack of sufficient credit can place undue pressure on management to manipulate financial results in order to obtain credit.

26. *Is the organization under pressure to report favorable earnings?*

Excessive pressure to report favorable earnings can result in management committing fraudulent acts in order to meet expectations.

27. *Does the company depend heavily on only a limited number of products or customers?*

Dependence on only a limited number of products or customers places a company at greater risk for fraudulent acts to occur.

28. Has the company experienced difficulty in collecting receivables?

Cash flow problems, which are a warning sign of possible fraud, can arise when a company experiences difficulty in collecting receivables.

29. Has the company recently expanded rapidly into new business or product lines?

Rapid expansion into new business or product lines can place tremendous financial pressure on a company.

30. Has the company experienced a reduction in sales volume?

A reduction in sales volume can place undue pressure on management to manipulate financial results.

31. Does the company have strong competitors that are outperforming?

Strong competition can place a company at greater risk for fraudulent acts to occur.

32. Is the company under pressure to sell or merge with another company?

Situational pressures that may lead to fraudulent acts can arise when a company is under pressure to sell or merge with another company.

33. Does the company change auditors often?

A frequent change in auditors is a red flag of fraud.

34. Does the company delay or avoid supplying auditors with the information necessary to complete the audits?

Delaying or avoiding supplying auditors with the information necessary to complete audits is an indicator of fraudulent activity.

35. Does the company have problems with regulatory agencies?

The company should determine the reasons for the problems with regulatory agencies and implement measures to encourage compliance with regulations.

36. Does the company have poor accounting records?

The company should implement proper accounting records.

37. Does the accounting department appear to be inadequately staffed?

The accounting department should be adequately staffed to allow for proper segregation of duties.

38. Does the organization fail to disclose questionable or unusual accounting practices?

Questionable or unusual accounting practices should be disclosed.

39. Does the company have a number of large year-end or unusual transactions?

Large year-end or unusual transactions should be investigated.

40. Does the organization lack an adequate internal audit staff?

The internal audit department should be adequately staffed.

41. Does the organization lack an internal control system, or does it fail to enforce the existing internal controls?

Organizations should establish and enforce an internal control system.



Management / Key Employee Assessment			
	Yes	No	N/A
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<p>Is there an independent audit committee?</p> <p>Comments:</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Has there been high turnover of managers and members of the board of directors?</p> <p>Comments:</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Have an unusually high number of key employees left the company recently?</p> <p>Comments:</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Is the company involved in any litigation?</p> <p>Comments:</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



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Do any of the senior managers have offshore bank accounts or business interests? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are any key employees experiencing financial pressures, such as debts, gambling, medical bills, or divorce? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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