

# The 20 Critical Questions Series

## What Directors should ask about Ethics and Fraud Control

### Ethical foundations

1. Is there a code of conduct for the organisation that aligns with the corporate values? Is this complemented by a board code of conduct and a statement of business ethics for suppliers? Is there a transparent procedure for reporting, addressing and recording conflicts of interest? Does this include gifts, benefits and entertainment?
2. Does the organisation have a fraud and corruption control policy communicated to all employees, contractors, consultants and suppliers? Does this include a meaningful whistleblower policy and program (see also question 13)?
3. When designing, assessing or monitoring controls, undertaking probity activities, or conducting internal audits, is the organisation cognisant of the indicators of fraud? Is this informed by a meaningful assessment of customer complaints?
4. Does the organisation have a fraud and corruption control framework? Is there a specified well-credentialed person responsible for ethics and fraud control?
5. Is there an investigation and discipline process for alleged unethical and corrupt behaviour? Are there processes that ensure sanctions are applied fairly and consistently where allegations are substantiated? Is there a charter of rights for employees who are the subject of investigation?
6. Is there a fraud investigation service to investigate suspected fraud and corruption, with a specified well-credentialed person responsible for investigating allegations?
7. Does the audit committee oversight fraud and corruption control arrangements, including the investigations activity and its resourcing capability? Does the audit committee ensure management considers corruption risks in decision-making?
8. Are pre-employment screening and police checks performed for new hires before they commence work at the organisation? Does the organisation perform background checks on major suppliers?
9. Is the organisation in conformance with laws and regulations in respect of whistleblower protection, anti-money laundering (AML), know your customer (KYC), breach reporting, international bribery and corruption, and modern slavery?

### Fraud control planning

10. Is there a periodic employee engagement survey that includes questions on ethics and fraud control? Are employee responses to the engagement survey analysed to determine and action any systemic issues or themes in relation to ethics and fraud?
11. Has a fraud risk assessment been performed and documented? Is the fraud risk assessment reviewed annually to assess whether risks have changed and whether risk ratings are lowered or increased? Is the audit committee apprised of fraud risk assessment results?
12. Is mandatory ethics and fraud awareness training given to employees, contractors, consultants and suppliers periodically? Do employees know what to do if they suspect a fraud has occurred?
13. Is there a whistleblower hotline facility available for employees, contractors, consultants, public, customers and

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suppliers to report suspected fraud? Is there whistleblower confidentiality and protection for those who report suspected fraud?

14. Does the organisation have a mandatory leave policy for employees working in sensitive positions from a fraud perspective, requiring them to take a minimum leave break of 10 consecutive working days each year? Is compliance with the mandatory leave policy monitored, with the results reported to the audit committee at least annually?

## Reporting

15. Does the organisation maintain a gift, benefits and entertainment register? Does the organisation maintain a register of interests containing employee pecuniary interests? Are these registers published on the organisation's website for transparency?
16. Is there a process for reporting adherence to ethical requirements and divulging conflicts of interest for both specific incidents and also annually?
17. Does the organisation keep records of frauds, thefts and other illegal behaviour? Is there a fraud register to record reports of suspected fraud, and action taken to investigate?
18. Is there a process to take 'lessons learned' from fraud at the organisation and across the business world more broadly, and use it to improve controls to prevent it occurring again?
19. Are details of fraud reported to executive management, audit committee and the board of directors?

## Independent Insights

20. Does the internal audit function periodically assess the organisation's ethics and fraud control arrangements? Do internal audit engagements include an assessment of soft controls? Does the internal audit plan include periodic assessments of culture?

## The killer question

**How does management, the audit committee and board clearly know that ethics are strong, and fraud and corruption prevention arrangements are operating effectively?**

The IIA–Australia website contains a series of White Papers, including:

- Conducting Fraud and Corruption Investigations
- Corruption-related Risks in Decision-making
- Fraud and Corruption Risks Assessments
- Fraud Risk Indicators
- Whistleblower Program
- Fraud Prevention – 10 Action Steps
- Audit Committee Oversight of Fraud and Corruption Investigations Activity