
FRAUD - RISK PROFILE QUESTIONNAIRE

Management & Control Environment

1. After conducting a background investigation of senior management are there any motivational reasons that management may perpetrate a fraud, for example:

- a. Monetary – bonuses
- b. Stock options
- c. To meet analyst expectations
- d. Prevent loan covenants from being violated
- e. To achieve certain operating ratios
- f. Personal indebtedness
- g. Gambling
- h. Bad investments
- i. etc.

Yes No

2. Indirectly, does management communicate to its employees its lack of concern regarding internal controls and procedures relative to the preparation of financial reports?

Yes No

3. Is there a high turnover of management or any members of its board of directors?

Yes No



4. Is the relationship between you and the client strained or uneasy? For example:

- a. Frequent disputes with management
- b. Unreasonable demands placed upon the auditor
- c. Unreasonable restrictions placed upon the auditor
- d. Limited access to employees, board of directors or audit committee
- e. Domineering management behavior relative to dealing with the auditors

- f. Management tries to restrict the auditor's scope
 Yes No
5. Has the client been subject to securities violations?
 Yes No
6. Is the client currently subject to an SEC investigation?
 Yes No
7. Are any members of senior management subject to an SEC investigation?
 Yes No
8. Is management setting unduly aggressive financial targets and expectations?
 Yes No
9. Has it been a practice of management to commit to analysts and other third parties unduly aggressive or clearly unrealistic forecasts?
 Yes No
10. Is management overly concerned with maintaining or increasing the entity's stock price or earnings trend through the use of unusually aggressive accounting practices?
 Yes No
11. Has management pursued inappropriate means to minimize

reported earnings for tax-motivated reasons?

Yes No

Industry Conditions

1. Has there been any changes in accounting, statutory or regulatory requirements that would have a significant impact on the client's financial condition or profitability?
 Yes No
2. How is the client performing relative to the industry and current economic conditions?
 Yes No
3. Has the industry experienced a rapid decline?
 Yes No
4. Is there a high degree of competition?
 Yes No
5. Has there been an increase in business failures?
 Yes No
6. Has margins been declining?
 Yes No
7. Is the market becoming saturated?
 Yes No

8 .Has there been a rapid change in technology?

Yes No

9. Has there been a rapid change in product offerings?

Yes No

Conditions That Exert Unusual Pressure On The Client's Operating Results & Financial Stability

1. Are cash flows from operations greater than reported earnings?

Yes No

2. Is there competitive pressures to obtain capital necessary to stay competitive?

Yes No

3. Does the company report estimated financial results that may be deemed highly tentative, and the entity's stability could be compromised if the estimates are proved to be incorrect?

Yes No

4. Are there significant related party transactions that are either audited by another CPA or unaudited?

Yes No

5. Do operations exist in tax-haven jurisdictions for no apparent reason?

Yes No

6. Are there unusual or complex transactions executed toward the end of the accounting period that raise the concern of substance over form?

Yes No

7. Is the organizational structure unduly complex for no apparent reason?

Yes No

8. Can the client's operations be characterized by unusual growth or profitability?

Yes No

9. Is the client's stability dependent on pending transactions?

Yes No

10. Are sales or profitability incentive programs unrealistic?

Yes No

11. Is the stability of the client unusually sensitive to:

- a. Interest rates
- b. Debt service requirements
- c. Debt covenants

Yes No

12. Has any of the company's debts been personally guaranteed by management and is the financial condition of the company deteriorating?

Yes No

