

Motivational Speaker, Avenue Q and Environmental Fraud: It's all About Purpose

A speaker at a conference I attended recently encouraged attendees to find ways to align their work with their own purpose. I attended a local theatre production of Avenue Q – an offbeat show featuring puppets and music – where a leading character is struggling to find his purpose. Everybody is searching for a **purpose**.



But what if an important **purpose is searching** for someone? Or a function in your organization? Doesn't every purpose deserve a home? Preventing and detecting environmental fraud deserves a home. Let's talk about **fraud detection and auditing**.

Detection of (Environmental) Fraud: If Not (Environmental) Auditing – then Who?

Internal Audit – a “third line of defense function” must evaluate fraud risk, consider probability of fraud in engagements, and report to the Board on fraud¹. In short, one of Internal Audit's role is to try to detect fraud in every audit – wherever they go, and whatever they look at in the organization.



Environmental audit is a special type of “second line of defense” (2LOD) function, authorized by Management as a risk mitigation measure for a high-risk area. The purpose of “detecting environmental fraud” is an essential one in today's world; what organization would dare to not give this **purpose** a home? Environmental Audit is the logical home. If not there – then who?

Environmental Auditing Programs: Missing in Action



Environmental auditing programs have typically grown up to check for compliance, or to evaluate conformance to a designated standard (often ISO 14001 – Environmental Management Systems). Neither considers the possibility of fraud.

There's no “action” in Environmental Auditing programs to detect environmental fraud because it's not in any environmental auditing standard. Many environmental professionals have entered the field with the commitment to good for the environment, for their organizations, and for the planet. The possibility of fraud may simply have not occurred to them, let alone structuring systems and controls to detect it.

¹ See The Institute of Internal Auditors' International Professional Practices Framework, 2017 edition, Sections 1210.A1, 2021.A1, and 2020.A2; available at www.theiia.org.



Making Environmental Auditing the “Home” for Detection of Environmental Fraud

Good systems and controls should help prevent fraud – of any kind, including environmental fraud. Environmental frauds can be detected by enforcement authorities, independent testers, investigative reporters, or calls to whistleblower hotlines. Many of these mechanisms involve external parties, who begin with a head start on the organization to understand the extent of the issues. Moreover, they begin with control of the message.

Management authorizes (2LOD) auditing in high risk areas as a risk mitigation measure. Environmental fraud is exactly the type of event that can have significant impact, and should be a primary objective of Environmental Auditing programs.

How to make **detection of environmental fraud** a PURPOSE of your environmental auditing program?

- ✓ ☒ Add “detecting environmental fraud” to the charter of your Environmental Auditing function.
- ✓ ☒ Designate a core team of environmental auditors to learn about fraud and fraud detection.
- ✓ ☒ Get appropriate training on standards, tools, techniques, and documentation practices.
- ✓ ☒ Consider ways to include this new focus area in your Management Reporting.

Contact doug@douglashileman.com to start or improve fraud detection in environmental auditing programs.

For more useful blogs, see:
www.douglashileman.com
www.environmentalfraud.com