



Report at a glance

Why we did this work

- As auditors of the Province of B.C.'s summary financial statements, we must assess the risk of material misstatements due to fraud or error.
- The risk of material misstatements due to fraud depends on potential exposure and preventing, detecting, and responding to fraud.
- This year, we sent a fraud risk management questionnaire to 23 significant public sector organizations to help us plan our audit of the province's 2022/23 summary financial statements.

About our report

- We outline public sector organizations' responsibility for fraud prevention and detection, and the auditor's role in assessing the risk of misstatements due to fraud.
- A summary of fraud risk management questionnaire responses is included, offering MLAs insight on fraud risk management in the public sector.
- Questionnaire responses are unaudited and do not identify specific organizations.
- Responses were provided to auditors to aid financial statement audit planning.
- This report is focused on Crown organizations, post-secondary institutions, school districts, health authorities and associations. Another report this year will look at ministries.

Financial statements

Management's responsibilities

- Prepare financial statements in accordance with Canadian generally accepted accounting principles.
- Establish and maintain effective internal controls to ensure the integrity of financial information.
- Identify and ensure compliance with relevant laws and regulations.

Auditor's responsibilities

- Obtain reasonable, but not absolute, assurance about whether financial statements are:
 - Prepared in accordance with Canadian generally accepted accounting principles.
 - Free of material misstatements resulting from fraud or error.

Fraud

Management's responsibilities

- Prevent and detect fraud.
- Determine appropriate responses to identified frauds, including whether to contact external authorities (e.g., police, regulatory bodies).

Auditor's responsibilities

- In audit planning, assess the risk of material misstatement in the organization's financial statements.
- Consider the impact of the assessed risk of material misstatement due to fraud on the audit approach.
- Evaluate the audit evidence and determine how the audit is affected by any material misstatement due to fraud.
- Communicate suspected fraud to the appropriate level of management.
- Communicate suspected fraud involving management to the organization's board of directors (or similar body).

Report at a glance *(continued)*

Fraud risk questionnaire highlights

Understanding fraud risk

- 61 per cent of organizations were affected by at least one type of fraud in the past year, most commonly:
 - Theft of physical assets (43 per cent)
 - Misappropriation of company funds (22 per cent)
 - Information theft (17 per cent)
 - Regulatory or compliance breach (17 per cent)
 - Internal financial fraud (17 per cent)
- Only 17 per cent said they had a high vulnerability to any type of fraud.
- 74 per cent described their organization's vulnerability to theft of physical assets as low despite 43 per cent having reported this type of loss in the past year.

Fraud risk governance

- 9 per cent of organizations said they had not assigned responsibility for fraud risk management to a member of senior management.
- 35 per cent of organizations said they did not have a policy devoted to fraud risk management but had other policies that referred to fraud risk management.
- One organization did not have any fraud risk management policies.
- 22 per cent of organizations said they have not assessed the need for fraud risk management training for staff.

Assessing fraud risk

- 39 per cent of organizations said they do not have processes to identify and document ongoing fraud risks.

Fraud prevention, detection, and investigation

- 17 per cent of organizations said that they had not established a compliance monitoring and reporting function.
- 17 per cent of organizations said that they had not assessed the need for a fraud hotline to report incidents of non-compliance or fraud.
- 9 per cent of organizations said that they had not established policies and procedures to follow when potential incidents of fraud are identified.

Monitoring and evaluating fraud risk management

- One organization said that they did not have all incidents of fraud and corrective actions reviewed by senior executive and senior management.
- 43 per cent of organizations said that they had not established a schedule to perform fraud risk management evaluations.

After reading the report, you may want to ask the following questions of government:

1. What are government's expectations for fraud risk management within public sector organizations?
2. How does government monitor, manage and respond to fraud risk within public sector organizations?
3. For organizations that have said they do not have one or more elements of fraud risk management in place, how will government assess the impact on the summary financial statements?