



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 fraud exposure and preventing, detecting, and responding to fraud.
- We sent a fraud risk management questionnaire to 22 government of British Columbia ministries to help us plan the audit of the 2022/23 summary financial statements.

About our report

- A summary of ministry fraud risk management questionnaire responses is included, offering MLAs insight on fraud risk management in the B.C. government.
- Questionnaire responses are unaudited and do not identify specific ministries.
- Part 1 of this report, released in March 2023, focused on Crown organizations, post-secondary institutions, school districts, health authorities and associations.

Responsibilities for the financial statements and fraud risk management

Office of the Comptroller General's (OCG's) responsibilities

The OCG is responsible for:

- The overall quality and integrity of the government's financial management and control systems.
- Preparing and publishing the province's financial statements.
- Providing ministries with guidance and tools for the prevention, detection, reporting and mitigation of losses.
- Providing ministries with direction on management of loss incidents including conducting investigations, where appropriate.

Ministries' responsibilities

Ministries are responsible for:

- The design, implementation and operation of internal controls to ensure the accuracy and completeness of financial statement information, and to prevent and detect fraud and error.
- Disclosing to the OCG all significant facts relating to any fraud or suspected fraud, and any allegations known to management that may affect the province's financial statements.

Auditor's responsibilities

Auditors are responsible for obtaining reasonable, but not absolute, assurance about whether the ministry's financial statements are:

- Prepared in accordance with generally accepted accounting principles.
- Free from material misstatement (a significant error or omission that, if uncorrected, could mislead users of the financial statements), whether due to error or fraud.

Report at a glance *(continued)*

Fraud risk questionnaire highlights

Understanding fraud risk

- 45 per cent of ministries were affected by at least one type of fraud in the past year, most commonly:
 - Theft of physical assets (36 per cent)
 - Vendor, supplier or procurement fraud (14 per cent)
- 27 per cent said they had a high vulnerability to any type of fraud.
- 95 per cent described their ministry's vulnerability to theft of physical assets as low (while 36 per cent reported this type of loss in the past year).
- 50 per cent of ministries reported they needed to be highly vigilant to fraud.

Fraud risk governance

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

Assessing fraud risk

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

Fraud prevention, detection, and investigation

- All ministries but one said that they had established a compliance monitoring and reporting function.
- 23 per cent of ministries said that they had not assessed the need for a fraud hotline to report incidents of non-compliance or fraud. Of the 17 that had assessed the need, six ministries said they had established a fraud hotline.
- 18 per cent of ministries 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 report all incidents of fraud and corrective action to senior management.
- 23 per cent of ministries 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. How will government ensure that all ministries have the elements of fraud risk management in place to reduce the risk of fraud to an acceptable level?
2. What do inconsistent responses between ministries mean for government's overall level of fraud risk?
3. Why do only half of ministries say they need to be highly vigilant regarding fraud?