



# Fraud Risk Management: Office of the Comptroller General

An independent audit report

March 2022





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The Honourable Raj Chouhan  
Speaker of the Legislative Assembly  
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report *Fraud Risk Management: Office of the Comptroller General*.

We conducted this audit under the authority of section 11(8) of the *Auditor General Act*. All work on this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook—Assurance*.

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March 2022

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# Audit at a glance

## Why we did this audit

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- The Association of Certified Fraud Examiners estimates organizations can lose up to five per cent of revenue to fraud.
- The comptroller general has legislated responsibility for the overall quality and integrity of financial management and control systems for government, including controls to mitigate the risk of fraud.
- An effective fraud risk management framework maximizes the likelihood fraud will be prevented or detected in a timely manner, and fraud allegations will be responded to appropriately.
- The B.C. government's fraud risk management framework is decentralized. Ministries are responsible for managing fraud risks in their organization, with oversight and support from the Office of the Comptroller General (OCG).
- In 2017, the OCG significantly changed the way it responds to reports of fraud by turning its focus to prevention and detection.

## Objective

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To determine whether the Office of the Comptroller General has established an effective framework to manage fraud risk in the B.C. public service.

## Audit period:

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April 1, 2020, to  
September 30, 2021

## Conclusion

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The Office of the Comptroller General (OCG) has established an effective framework to manage fraud risk in the B.C. public service, except for the incomplete government-wide fraud risk assessment.

Most components of the framework are in place but we found:

- The OCG had not completed a government-wide fraud risk assessment at the time of the audit. It is scheduled to be completed by March 31, 2022.
- The OCG's process to monitor and report on the components of the fraud risk management framework does not include monitoring and reporting on its government-wide fraud risk assessment.

We made three recommendations to improve government's fraud risk management framework.

**The Office of the Comptroller General has accepted all three recommendations.**

## What we found

### Fraud risk governance

- Government core policy establishes clear employee and ministry responsibilities.
- Ministries and other central agency investigation units understand the role and responsibilities of the OCG.
- The OCG understands its capacity to fulfill its responsibilities for fraud risk management.

#### RECOMMENDATION 1

### Fraud risk assessment

- The OCG has assessed fraud risk for certain types of transactions and some programs.
- The OCG had not completed an overall, government-wide fraud risk assessment.
- This assessment is scheduled to be complete March 31, 2022. Until the fraud risk assessment is complete, the OCG will not have a full understanding of current fraud risks and the likelihood and significance of those risks.

#### RECOMMENDATION 2

### Fraud control activities

- Ministries are responsible for establishing and monitoring their own fraud control activities.
- The OCG monitors ministry compliance with relevant core policies and ministry fraud control activities.
- The OCG has developed mandatory fraud awareness and prevention training for public service employees.

#### NO RECOMMENDATION

### Fraud investigation and communication

- The OCG has documented policies and procedures for investigating incidents of suspected fraud.
- The OCG has a process to ensure it receives reports of fraud identified within government.
- During the audit period, the OCG received 22 reports of suspected fraud.
- All reported suspected frauds were reviewed by OCG, but none led to a forensic investigation.

#### NO RECOMMENDATION

### Fraud framework monitoring

- The OCG has a process to monitor and report on the components of the fraud risk management framework currently in place.
- This process does not include monitoring and reporting on the effectiveness of its fraud risk assessment process and how the identified risks impact government's overall framework.

#### RECOMMENDATION 3

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

1. *What are government's plans to respond to the results of the government-wide fraud risk assessment and update it in the future?*
2. *In a decentralized model, how can the OCG ensure government has a robust process for identifying and appropriately responding to incidents of suspected fraud in all ministries?*
3. *What are the risks for government following the OCG's shift from focusing on investigations of reported fraud to a focus on prevention and detection?*

# Background

All organizations are at risk of loss due to fraud. The Association of Certified Fraud Examiners estimates that organizations lose up to five per cent of their revenue to fraud annually. Although there are differences between government and non-government entities, key elements of fraud risk management are the same.

In the Government of B.C., the *Financial Administration Act* establishes the authority and responsibility of the comptroller general for the overall quality and integrity of government's financial management and control systems, including controls to mitigate the risk of fraud. There is also a legal obligation for public service employees to report to the comptroller general any expenditure about to be authorized or payment about to be made that they consider to be in contravention of the *Financial Administration Act*.

The framework for fraud risk management in government is defined in the Treasury Board's *Core Policy and Procedures Manual*. It's a decentralized model where ministries are responsible for establishing internal processes and controls to manage fraud risks in their organization, with oversight and support from the Office of the Comptroller General (OCG). Within the OCG, the Corporate Compliance and Controls Monitoring Branch monitors financial transactions across government, testing compliance with financial controls and identifying unauthorized or unusual payments. The OCG also has a small team, Forensic Accounting Services, responsible for developing and delivering fraud risk management training, facilitating government's fraud risk assessment process, and coordinating the OCG's response to reported incidents of fraud, including coordinating with ministries and central agencies.

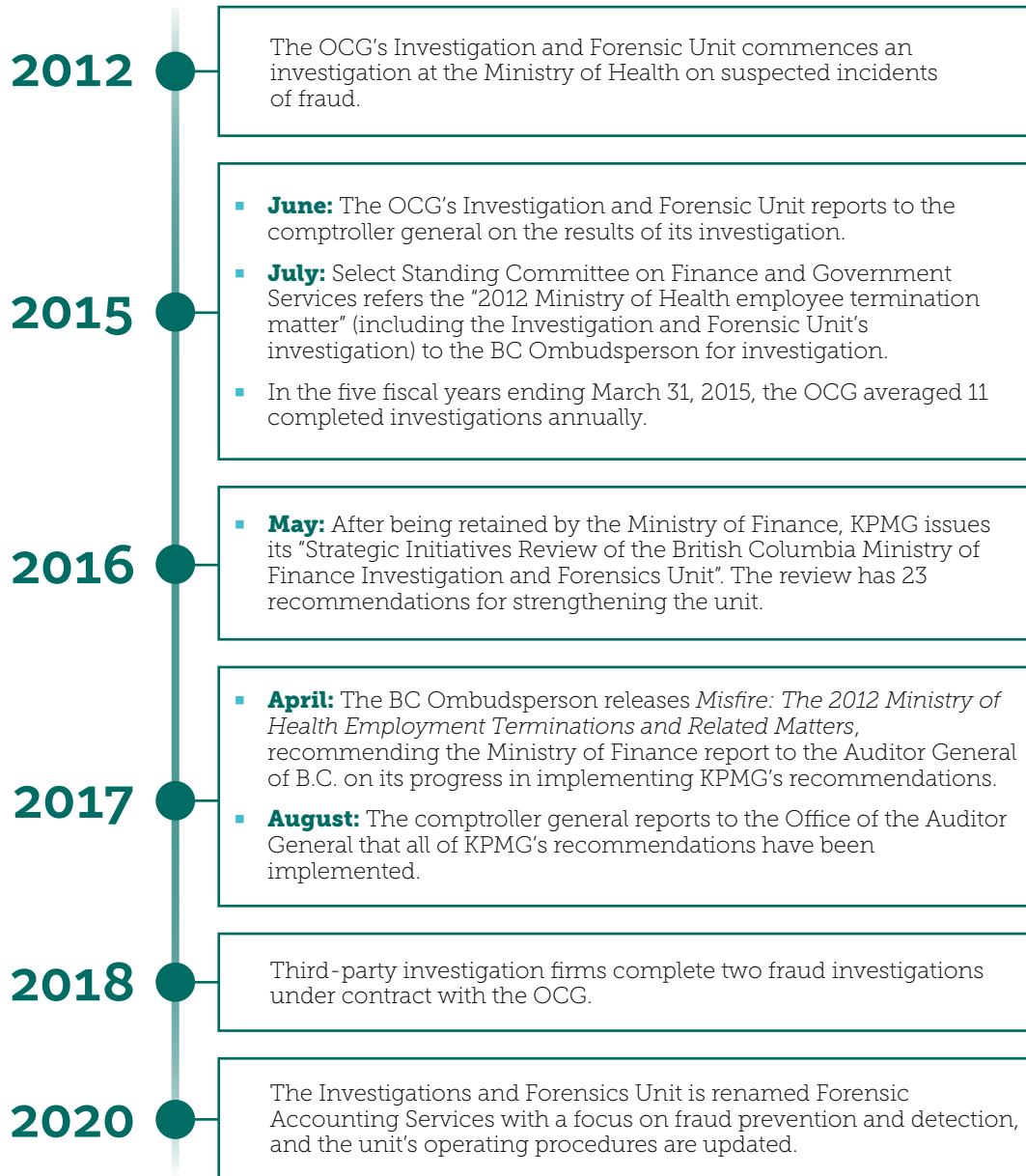
For the purposes of managing fraud risks within government, fraud is defined as any intentional act to deceive others, resulting in the government suffering a loss and/or the perpetrator achieving a gain.

Forensic Accounting Services was established in 2020, replacing the Investigations and Forensics Unit. The B.C. Ombudsperson's 2017 report, [\*Misfire: The 2012 Ministry of Health Employment Terminations and Related Matters\*](#) highlighted weaknesses with an investigation conducted by the former unit, and made recommendations to ensure investigations are fair, effective and accurate.

Between 2017 and 2020, the OCG addressed the concerns raised by the ombudsperson including making staffing changes, restructuring the investigations unit, and creating a procedural manual to support internal investigations. The OCG also began outsourcing forensic investigations rather than leading them internally to ensure that investigations were conducted by professionals with the appropriate skills and expertise. During the 18-month audit period,

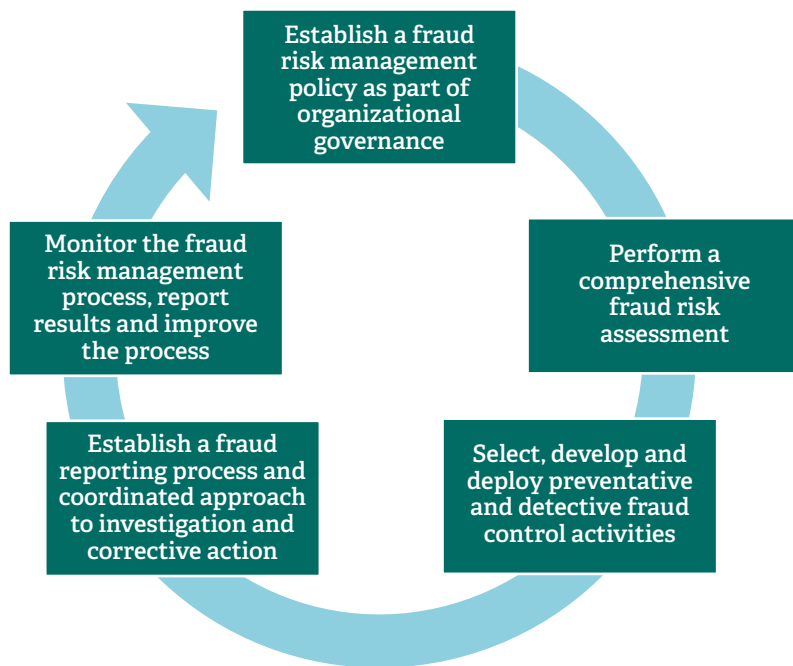
Forensic Accounting Services received 22 reports of suspected fraud. Each of these reports was reviewed and assessed by Forensic Accounting Services, but none of the reports resulted in a forensic investigation by the OCG.

## Fraud focus: From investigation to prevention and detection



The U.S.-based Committee of Sponsoring Organizations of the Treadway Commission (COSO) published best practices guidance for establishing an effective fraud risk management framework in its 2016 *Fraud Risk Management Guide*. The framework is based on five principles that need to be implemented for an ongoing, comprehensive fraud risk management process. We developed our audit criteria based on these principles and an understanding of the decentralized model for fraud risk management in the B.C. public service.

## Ongoing, comprehensive fraud risk management process



SOURCE: COSO Fraud Risk Management Guide



# Objective

The objective of the audit was to determine whether the Office of the Comptroller General has established an effective framework to manage fraud risk in the B.C. public service.

## Scope

The audit examined the Office of the Comptroller General's responsibilities for fraud risk management (including governance, risk assessment, prevention and detection, investigation and communication, reporting, and evaluation) in the B.C. public service.

The audit focused on the period from April 1, 2020, to Sept. 30, 2021 and included information from before April 1, 2020, as needed, to assess the Office of the Comptroller General's establishment of the fraud risk framework.

[Learn more about the audit criteria.](#)

[Learn more about how we did this audit.](#)

# Conclusion

We found that the Office of the Comptroller General (OCG) has established an effective framework to manage fraud risk in the B.C. public service, except for the incomplete government-wide fraud risk assessment.

We found that most components of a fraud risk framework are in place, including:

- policy that establishes clear direction on employee and ministry responsibilities
- staff training on fraud awareness
- fraud prevention and detection activities, and
- regular reporting on the losses due to fraud.

However, we found that the OCG had not completed an overall, government-wide fraud risk assessment. This assessment is scheduled to be complete March 31, 2022. Further, while OCG has a process to monitor and report on the components of the fraud risk management framework they currently have in place, this process does not include monitoring and reporting on the effectiveness of its fraud risk assessment process and how the identified risks impact the overall framework.

# Findings and recommendations

## Fraud risk governance

Fraud risk governance refers to organization-wide programs, policies, and procedures that demonstrate an organization's commitment to managing risks. It also outlines the overall roles and responsibilities across the organization.

The *Financial Administration Act* establishes the comptroller general's responsibility for the overall quality and integrity of financial management and control systems for the Government of B.C. Treasury Board's *Core Policy and Procedures Manual* (core policy) defines the comptroller general's responsibilities with respect to loss incidents, including fraud. These responsibilities include:

- Providing ministries with direction on loss management, including fraud.
- Ensuring employees can report losses due to illegal activities confidentially.
- Investigating a loss incident where appropriate.
- Monitoring loss investigations.
- Providing ministries with guidance and tools for the prevention, detection, reporting and mitigation of losses.
- Requiring that persons involved in an investigation have the necessary skills.

Core policy establishes ministry, central agency, and employee responsibilities for managing fraud risks.

## Roles and responsibilities for fraud risk management are clear

### What we looked for

We looked at whether the OCG has developed a government policy that clearly document roles, responsibilities, and accountabilities for fraud risk management.

### What we found

Treasury Board's *Core Policy and Procedures Manual* includes a fraud risk management policy. This policy establishes employee and ministry responsibilities for fraud risk management, and the OCG's responsibilities for loss management.

The policy is supported by procedures that describe the steps employees should take when a loss has occurred, including losses due to suspected illegal activities. Depending on the type of loss, the procedure also describes who should contact the police, and when. From discussions with four ministry chief financial officers (CFOs), we learned that, in cases where they have questions, they will reach out to the OCG for clarification.

Employee responsibilities defined in core policy are supported by mandatory training on fraud risk management, the Standards of Conduct for B.C. Public Service Employees, and by the fraud risk toolkit. The fraud risk toolkit is an online guide developed by the OCG for ministry employees to support appropriate reporting of fraud risks and frauds identified in ministries.

### Why this matters

Clear policies outlining the roles and responsibilities for the OCG, central agencies, ministries and employees provide the foundation for detecting, reporting and responding to frauds.

## Ministries and central agencies understand their responsibilities

### What we looked for

We looked at whether the OCG has verified that ministries and other central agencies understand their responsibilities with respect to the investigation of frauds.

### What we found

We found that ministries and central agencies understand their responsibilities for fraud risk management, but some documents need to be updated to reflect current practice.

Each year, ministry chief financial officers (CFOs) confirm their understanding of their responsibilities through a management representation letter sent to the OCG as part of the year-end summary financial statement audit. In this letter, ministries affirm that they are responsible for the design and implementation of controls to prevent and detect fraud, that they have a process to review, evaluate and report on the adequacy of these controls, and that they have reported all suspected frauds to the OCG.

Through discussions with four ministry CFOs we confirmed they understood their responsibilities as outlined in core policy. We also confirmed that they understood the role and responsibilities of the OCG.

There are also agreements in place for the OCG to ensure other central agencies (the B.C. Public Service Agency, the Office of the Chief Information Officer, and the Corporate Information and Records Management Office) have a common understanding of each of their responsibilities. One of these agreements is an investigation protocol, signed in 2017 by the heads of the investigation units in the OCG, the B.C. Public Service Agency, the Office of the Chief Information Officer, and the Corporate Information and Records Management Office. The protocol contains guidelines for coordinating investigations between government investigations units. Also in 2017, all four investigations units formed an investigations working group to “develop common standards and strategic approaches to internal investigations.” We noted some inconsistencies in how one of the common standards developed by the working group was being applied by different central agencies. Since 2017, two of the four signatories to the Investigations Working Group terms of reference and investigations protocol have changed, but the documents have not been updated.

### Why this matters

The shared understanding between ministries, the OCG, and other central agencies increases the likelihood that reports of suspected fraud will be communicated and addressed by the appropriate areas. The agreements with central agencies should be kept current.

### Recommendation

We recommend that:

- 1** The Office of the Comptroller General work with other central agencies to ensure that protocols and other shared tools continue to be relevant and reflect current practices.

[See the response from the auditee.](#)

## The OCG understands its capacity to fulfill its fraud risk management responsibilities

### What we looked for

We looked to see whether the OCG has assessed its capacity to fulfill its responsibilities under the fraud risk management framework.

### What we found

Following the *Misfire* report, the OCG took steps to assess the role and capacity of its Investigation and Forensics Unit (now known as Forensic Accounting Services, or FAS). Since 2017, OCG has outsourced forensic investigations to qualified contractors.

The OCG's other responsibilities under the fraud risk management framework include the compliance monitoring and risk-based reviews of government's payments by Corporate Compliance and Controls Monitoring Branch, and the work of Forensic Accounting Services to support employees in preventing fraud through training and guidance.

We found that the OCG looks at its capacity to fulfill its responsibilities during its business planning process and in its annual progress report to the deputy ministers' audit committee.

### Why this matters

The current framework to manage fraud risk in the B.C. public service can't be effectively implemented without a clear understanding of the resources required and an assessment of whether existing resources are sufficient.

## Fraud risk assessment

Fraud risk assessment is a dynamic and iterative process for identifying and assessing an organization's particular fraud risks. It addresses the risk of fraudulent financial reporting, fraudulent non-financial reporting, asset misappropriation, and illegal acts (including corruption).

The B.C. government has established a decentralized model for fraud risk management, with ministries responsible for day-to-day fraud management and control activities. The OCG's role in fraud risk assessment includes coordinating the fraud risk assessments throughout government, validating the results, and ensuring that any gaps identified by the assessment are addressed.

### Fraud risk assessment process designed but not yet implemented

#### What we looked for

We looked to see whether the OCG has established a process to assess fraud risk in government.

[Learn more about the audit criteria.](#)

#### What we found

The OCG has designed, but not yet implemented, a comprehensive process to assess fraud risk in government.

Since 2017, the OCG has taken steps to assess fraud risks associated with certain types of financial transactions (for example, purchase cards). The OCG also assesses some fraud risks through its monitoring activities, including regular communication with ministries. In addition, we found that the OCG proactively assessed fraud risks for certain payment programs (for example, COVID-19 relief programs).

In 2021, the OCG launched a comprehensive fraud risk assessment process to provide information on the potential exposures to fraud risks across government. The purpose is to proactively identify vulnerabilities to internal and external fraud and develop mitigation strategies to reduce the risk to an acceptable level.

The first phase of this process involved each ministry completing a self-assessment. These assessments are designed to provide the OCG with an overall view of fraud risks across all ministries. At the time of the audit, ministries were working on their self-assessments and the OCG planned to compile and validate the results.

Until this fraud risk assessment process is complete, the OCG will not have a full view of fraud risk across government.

### Why this matters

This government-wide understanding of fraud risks will enable the OCG to evaluate existing control activities in the context of identified risks, and determine whether changes to policies, training, guidance, or control activities are necessary.

### Recommendation

We recommend that:

- 2 The Office of the Comptroller General complete the implementation of its government-wide fraud risk assessment process, use the results to improve its fraud risk management program, and design and communicate a plan for updating fraud risk assessments in the future.

[See the response from the auditee.](#)

## Fraud control activities

Fraud control activities are specific procedures or processes intended either to prevent fraud from occurring or to detect fraud quickly when it occurs.

In the B.C. government, ministries are responsible for establishing control activities for managing fraud risks. The OCG's role includes monitoring the effectiveness of ministry fraud prevention and detection controls, and to ensure any gaps are identified and addressed.

## The OCG monitored compliance with control activities

### What we looked for

We looked to determine whether the OCG monitored ministry compliance with relevant core policies and ministry fraud control activities.

Core policy assigns ministries the responsibility to "establish, communicate, assess, and monitor internal processes for managing fraud risks including prevention, detection, reporting, investigation, and mitigation."

To fulfill its oversight responsibility, the OCG must take steps to gain assurance that the preventative and detective controls in the ministries are appropriate to mitigate known fraud risks.

[Learn more about the audit criteria.](#)

## What we found

The OCG monitors ministries' compliance with relevant core policies and ministry fraud control activities in a variety of ways. Multiple branches within the OCG have roles in this monitoring.

These include:

- Corporate Compliance and Controls Monitoring Branch performs analytics, document reviews, and monitoring of payments to identify instances of fraud and error.
- Internal Audit and Advisory Services Branch performs risk and control reviews for new or changed systems and processes including identifying potential fraud risks.
- Forensic Accounting Services provides intake and assessment services on reports of suspected fraud.

On an annual basis each ministry CFO provides a written representation to the comptroller general that they understand their responsibilities for preventing and detecting fraud, and that they have effective processes in place to prevent and detect fraud.

While the OCG has processes to monitor ministries' preventative and detective controls, information from the government-wide fraud risk assessment (in progress) will be important to inform whether the control activities are focused on key risks.

## Why this matters

The OCG's monitoring of ministry compliance with fraud control activities allows the comptroller general to fulfill his responsibilities for the overall quality and integrity of government's financial management and control systems.

## The OCG provided training to ministries

### What we looked for

We looked at whether the OCG provided training for ministry staff to prevent and detect incidents of fraud, as well as how to report them appropriately.

[Learn more about the audit criteria.](#)

### What we found

The OCG has developed mandatory fraud awareness and prevention training for public servants on how to prevent and detect incidents of fraud. The online training provides an hour-long overview of fraud risk management in the public service and verifies employees' understanding through a 10-question test. The OCG also developed a fraud risk awareness toolkit that was



emailed to all public servants and is available online. The toolkit includes information on who to contact if an employee detects a potential fraud. As of January 2022, 82.5 per cent of public servants had completed the training. The B.C. Public Service Agency reported that completion rates rarely go much higher than 90-95% for a variety of reasons (e.g. employees on leave, new hires not yet caught up).

### Why this matters

The mandatory training developed by the OCG will help to ensure that employees can identify a fraud and are aware of their responsibilities in the event they identify suspected fraud.

## Fraud investigation and communication

Organizations should establish a communication process to obtain information about potential fraud and deploy a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.

In the B.C. government, the OCG must be notified of all suspected frauds to protect the integrity of government's financial management and control systems. The OCG, through Forensic Accounting Services, receives reports of suspected fraud and coordinates government's response.

For each reported incident of suspected fraud, the Office of the Comptroller General must conduct an initial assessment to determine the appropriate course of action. The preliminary assessment must be completed for all reported incidents and requires approval by the comptroller general.

The OCG uses the following criteria to determine how to proceed with the allegations reported and information gathered. The criteria are also used to prioritize forensic engagements for multiple allegations on the same subject matter. The OCG defines its assessment criteria as:

- Type of financial impropriety
- An informant's credibility
- Magnitude, pervasiveness, and severity
- Significance or impact
- Available evidence

Source: Office of the Comptroller General procedures

## The OCG has established guidance for forensic accounting engagements

### What we looked for

We looked to see whether the OCG has documented policies and procedures for investigating incidents of suspected fraud and whether it followed its policies and procedures in response to reported incidents.

[Learn more about the audit criteria.](#)

### What we found

The OCG has documented policies and procedures for investigating incidents of suspected fraud in the Forensic Accounting Services (FAS) operating procedures. These operating procedures were developed in 2017, partly in response to the recommendations of the BC Ombudsperson's Misfire report. Since then, the FAS business model has changed. Where it once had a team to conduct forensic investigations it now outsources investigations to qualified fraud examiners.

While 22 suspected frauds were reported during the audit period (April 2020 through Sept. 2021), none of them led to a forensic engagement based on analysis from the preliminary assessment.

### Why this matters

While FAS conducted no investigations during the audit period, the investigation policies and procedures are important to ensure future investigations are conducted according to professional standards for investigations.

## The OCG has a process to ensure they receive reports of fraud

### What we looked for

We looked to see whether the OCG made sure they were receiving every report of suspected or actual fraud, as well as whether the OCG was reporting the ongoing status of potential fraud incidents to the deputy minister of finance.

[Learn more about the audit criteria.](#)

### What we found

We found that the OCG has a process for receiving reports on incidents of fraud identified in government.

The OCG formally receives reports of fraud in three main ways:

- Employees have an obligation to report suspected or actual fraud. This report can be made to the employee's supervisor, to the comptroller general, or under the *Public Interest Disclosure Act*. In addition, the employee must complete a general incident or loss report. These obligations are reinforced through training.
- Ministry chief financial officers sign an annual management representation letter confirming, among other requirements, that their ministry has reported all incidents of suspected fraud to the OCG.
- If the incident of fraud is reported to another central agency (such as the Public Service Agency) then the central agency is obligated through the investigation protocol to report it to the OCG.

We also found that OCG staff provide monthly written reports on the status of potential fraud incidents to the comptroller general. The comptroller general reports regularly to the deputy minister of finance and provides an annual written report to the deputy ministers' audit committee.

### Why this matters

The process established by the OCG allows them to obtain information about potential frauds and deploy a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.

## Monitoring the fraud risk management framework

Organizations monitor the effectiveness of their fraud risk management framework to ensure it functions as designed and that the organization identifies needed changes in a timely manner. Results of that assessment need to be reported to the appropriate decision makers who can then evaluate risks to the organization, manage limited resources and improve the process.

In the B.C. government, OCG reports on its response to frauds to the deputy ministers' audit committee.

## Monitoring and reporting on the effectiveness of government's fraud risk management framework is incomplete

### What we looked for

We looked to see whether the OCG has a process for monitoring and reporting on the effectiveness of government's fraud risk management framework.

[Learn more about the audit criteria.](#)

### What we found

The OCG has a process to monitor and report on the components of the fraud risk management framework they currently have in place:

- The OCG continuously monitors government's financial transactions to identify indicators of potential fraud and non-compliance with financial policies.
- The OCG has established processes to monitor and report on the effectiveness of its fraud risk management activities.
- In its annual report to the deputy minister of finance and to the deputy ministers' audit committee, the OCG reports on the nature and number of fraud incidents during the year. It also reports the results of its transaction monitoring and compliance activities and new initiatives undertaken to strengthen the fraud risk management framework. For example, the OCG proactively worked with ministries to develop approaches to monitor COVID-19 benefit and recovery payment programs for fraud risks.

However, the OCG needs to ensure its monitoring and reporting process includes all components of an effective fraud risk management framework. Until the government-wide fraud risk assessment is completed, the OCG's ability to monitor and report on the effectiveness of the overall fraud risk management framework will be limited. Monitoring the effectiveness of its fraud risk assessment process will be critical as it will provide information that the OCG

can use in evaluating the effectiveness of all other components of its framework. For example, the fraud risk assessment may identify potential fraud schemes that require additional control activities. A complete understanding of how all components of the framework are working could identify opportunities to strengthen control activities and provide insight into whether the OCG has the capacity to fulfill its fraud risk management responsibilities.

### Why this matters

A process to monitor and report on the effectiveness of all components of its fraud risk management framework provides information to support decisions about where to focus future efforts or adjust ongoing activities to improve fraud risk management.

### Recommendation

We recommend that:

- 3** The Office of the Comptroller General enhance its processes to monitor the overall effectiveness of government's fraud risk management framework, including monitoring and reporting on the results of its government-wide fraud risk assessment.

[See the response from the auditee.](#)

## About the audit

We conducted this audit under the authority of section 11(8) of the *Auditor General Act* and in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook—Assurance*. These standards require that we comply with ethical requirements and conduct the audit to independently express a conclusion against the objective of the audit.

A direct audit involves understanding the subject matter to identify areas of significance and risk, and to identify relevant controls. This understanding is used as the basis for designing and performing audit procedures to obtain evidence on which to base the audit conclusion.

The audit procedures we conducted include document inspection, enquiry, and observation (walk-throughs).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our office applies the Canadian Standard on Quality Control (CSQC 1), and we have complied with the independence and other requirements of the code of ethics issued by the Chartered Professional Accountants of British Columbia that are relevant to this audit.

**Audit report date:** February 22, 2022



Michael A. Pickup, FCPA, FCA  
Auditor General of British Columbia  
Victoria, B.C.

## Appendix A: Recommendations and auditee response

**RECOMMENDATION 1:** The Office of the Comptroller General work with other central agencies to ensure that protocols and other shared tools continue to be relevant and reflect current practices.

**RECOMMENDATION 1 RESPONSE:** **The auditee accepts this recommendation.**

The Office of the Comptroller General will continue to collaborate with central agencies on common approaches and protocols to ensure consistent and appropriate outcomes for government.

**RECOMMENDATION 2:** The Office of the Comptroller General complete its government-wide fraud risk assessment process, use the results to improve its fraud risk management program, and design and communicate a plan for updating fraud risk assessments in the future.

**RECOMMENDATION 2 RESPONSE:** **The auditee accepts this recommendation.**

The Office of the Comptroller General is committed to maintaining fraud risk management tools and practices as government's operating environment and risks evolve.

This includes, continuing to work with the finance community and other agencies within government to integrate fraud risk management as part of daily operations, and partnering with industry and other jurisdictions on common opportunities and challenges.

We have completed the first round of ministry level fraud risk assessment reports after the completion of the audit. This is an important milestone and baseline to build on and refine through further iterative fraud risk assessment activities.

**RECOMMENDATION 3:** The Office of the Comptroller General enhance its processes to monitor the overall effectiveness of government's fraud risk management framework, including monitoring and reporting on its government-wide fraud risk assessment.

**RECOMMENDATION 3 RESPONSE:** **The auditee accepts this recommendation.**

The Office of the Comptroller General prepares compliance monitoring reports on a monthly and annual basis, as well as assessment reports on separate analytical lines of inquiry.

The recently completed ministry level fraud risk assessment reports are the final element to be incorporated into our ongoing compliance monitoring and reporting process.



# Appendix B: Audit criteria

## Fraud Risk Governance

1. The Office of the Comptroller General (OCG) has developed government policy that clearly documents the roles, responsibilities, and accountabilities for fraud risk management.

Sub-criteria:

- a. The fraud risk management framework is documented in CPPM
  - b. Government policy is aligned with the responsibilities of the Comptroller General and Treasury Board as defined in the FAA
  - c. Government policy defines the OCG's responsibilities and authority for identifying, monitoring and responding to incidents of suspected fraud
  - d. Government policy defines ministry responsibilities and authority for identifying, monitoring and responding to incidents of suspected fraud
  - e. Government policy defines distinct roles and responsibilities for the OCG and other central agencies for investigating incidents of suspected fraud
2. The OCG has verified that ministries understand their responsibilities for fraud risk management.
  3. The OCG has verified that other central agencies understand their responsibilities with respect to investigation of suspected incidents of fraud.
  4. The OCG has assessed its capacity to fulfill its responsibilities under the fraud risk management framework.

Sub-criteria:

- a. The OCG has assessed its capacity to provide training and support to ministries
- b. The OCG has assessed its capacity to monitor ministry investigations into suspected fraud
- c. The OCG has assessed its capacity to investigate reports of fraud

## Fraud Risk Assessment

5. The OCG has established a process to assess fraud risk in government.

Sub-criteria:

- a. The process established by the OCG includes comprehensive fraud risk assessments to identify specific fraud schemes and risks
- b. The process established by the OCG includes an assessment of the likelihood and significance of identified fraud risks
- c. The process established by the OCG includes an evaluation of existing fraud control activities
- d. The process established by the OCG includes implementation of actions to mitigate residual fraud risks

## Fraud Prevention and Detection

6. The OCG has a process to monitor compliance with control activities established in government policy (CPPM chapter 20)
7. The OCG has provided ministries with training on how to prevent and detect incidents of fraud.

## Fraud Investigation and communication

8. The OCG has documented policies and procedures for investigating incidents of suspected fraud.
9. The OCG has responded to incidents of suspected fraud in accordance with its documented policies and procedures

Sub-criteria:

- a. The OCG (FAS) has initiated forensic engagements, based on preliminary assessments.
- b. The OCG has resolved incidents of suspected fraud in accordance with its documented policies and procedures.
- c. The OCG has referred concerns related to incidents of suspected fraud to the area responsible per policy (central agency)
- d. The OCG has followed-up with ministries to ensure their responses to reported incidents are in accordance with policy.

10. The OCG has a process to ensure that they are receiving reports on all incidents of fraud identified in government.
11. The OCG reports regularly to the DM Finance on fraud risks in government, incidents of identified fraud, and activities initiated to respond to identified fraud risks.

## **Fraud Monitoring and Reporting**

12. The OCG has a process to monitor and report on the effectiveness of their fraud risk management framework.



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