

City of Saskatoon Fraud Risk Program Assessment

Internal Audit Project



Report to SPC Finance Public

Presented for information March 9, 2020

Background:

In today's environment, all organizations - regardless of size, sector, and location - are susceptible to fraud risk, which continues to be on the rise. Municipalities commonly operate in a decentralized manner - approaching compliance, ethics and enterprise risk management as separate functions. The segments of an organization that manage the risk of fraud, that investigate fraud, and that report fraud to governance committees and regulators can become disjointed, in which case they are not always able to add up to a strategic whole.

In a recent Global Economic Crime and Fraud Survey¹, 52% of the primary perpetrators of the most disruptive fraud were internal actors, while 40% were external actors². Most organizations' anti-fraud efforts in recent years have been focused on reducing the opportunities for fraudulent acts by expending a high degree of effort in building up business processes, such as internal controls, that target opportunities to commit fraud.

The City of Saskatoon (the "City") is expending effort in this area through the implementation of a fully integrated enterprise resource planning solution. However, experience shows that internal technology-driven controls alone cannot be relied on as a sole source of fraud prevention and detection. A culture that promotes and verifies individual employees' ethical decision-making can help mitigate the risk that fraud will result from the intersection of human choices with system failures.

As organizations move to reduce silos in functions like compliance, ethics, risk management and legal – and enable a culture that is more positive, cohesive and resilient - there is a need to first centralize fraud risk management activities. Centralization through the establishment of a dedicated program allows for the creation of a process, policy and responsibility framework that is well known and enforced. Central oversight of the implementation of effective internal controls to negate risk exposure through technology enablement and process efficiency is equally important, eventually allowing for integration of the fraud risk management program throughout the organization.

Objectives:

The City's governing committees and administrative leadership are aware that good governance principles require an understanding of the level of fraud risk exposure, and that it must be given an appropriate level of attention by setting tone at the top and implementing a system of internal controls for fraud risk detection, prevention and management. On May 13, 2019, the SPC on Finance approved the engagement of PwC to conduct an assessment of the City's Fraud Risk Program.

From May through July of 2019, PwC conducted the assessment activities to meet the following objectives of this internal audit engagement:

- Obtain a thorough understanding of responsibilities, processes, and internal controls;
- Identify fraud risks and vulnerabilities, both inherent and residual; and
- Formally report on our findings and related recommendations.

¹ [PwC Global Economic Crime and Fraud Survey 2018](#)

² Remaining 8% were not identified in the survey

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Assessment activities:

During the course of this internal audit, PwC assessed the City's maturity in designing and implementing an effective fraud risk management program. We also considered the City's exposure to fraud risk by assessing fraud management policies, culture and awareness, risk assessment and response, investigation and remediation, and reporting and monitoring.

Fraud risk assessments are considered to be an integral step towards fraud prevention. To support the City in improving their fraud risk management program, a detailed Fraud Risk Register that identifies potential fraud scenarios and mitigating controls across the in-scope areas of assessment was provided to the Administration.

We identified a number of potential fraud scenarios that any organization, including the City, could be exposed to. These scenarios were identified for each in-scope area based on common practice. For each identified scenario, we assessed the controls the City has put in place to mitigate the risk of fraud, as presented below.

| In-scope area | Number of potential fraud scenarios assessed |
|---------------------------------------------------------------------|----------------------------------------------|
| Corporate revenue, receivables and cash management | 16 |
| Procurement, expenses and payables (including inventory management) | 25 |
| Payroll and supporting human resource activities | 17 |
| General information technology | 2 |

Outcomes:

Recommendations to improve the City's Fraud Risk Program have been provided to the Administration and SPC Finance. All recommendations have been agreed with and a plan of action to address the recommendations has been developed.

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