

# Statement of Work

Fraud Risk Assessment Internal Audit Project

**Submitted on:**

May 2, 2019 for SPC on Finance meeting on May 13, 2019





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City of Saskatoon SPC on Finance  
222 Third Avenue North  
Saskatoon, Saskatchewan S7K 0J5

### Statement of Work - Fraud Risk Assessment Internal Audit Project

#### Recommendation

**That the enclosed Statement of Work for the Fraud Risk Assessment Internal Audit Project be approved and that SPC on Finance allocate \$63,600 and 400 hours for this project, which is an increase of 10% from the \$58,000 and 365 hours estimated in the approved 2019 Internal Audit Plan.**

Please find enclosed the Statement of Work for the above referenced project. Note that the total proposed scope of the project is 400 hours and \$63,600. Detailed planning and preparation for the project has been ongoing since February 2019 and detailed fieldwork efforts on the project will continue upon approval of the Statement of Work by SPC on Finance with reporting planned for Q4 2019.

Yours truly,

A handwritten signature in black ink, appearing to read "Jesse Radu".

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# 1. Background

Fraud can be defined as any illegal act characterised by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Combating fraud is a shared responsibility across the City. Leadership has responsibility for setting tone at the top and City staff need to understand fraud risks, and follow policy and procedure when fraud is discovered.

The Institute of Internal Auditors (IIA) has developed generally accepted International Standards for the Professional Practice of Internal Auditing (the Standards). These standards suggest that each internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. According to the Standards internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has issued a Fraud Risk Management Guide (the Guide) that is intended to be supportive of and consistent with the 2013 Internal Control — Integrated Framework. The five Fraud Risk Management principles outlined in the Guide are built around the following components: control environment, risk assessment, control activities, information & communication and monitoring activities.

In practice, many organizations find that the most efficient and cost effective way to deal with the threat of fraud is to be proactive, focus resources on prevention and let intelligent automated systems shoulder the burden of detection. This can help to minimize losses and prevent a need for costly reactive investigations.

This project will assess the City's maturity in designing and implementing an effective fraud risk management program. It will also consider the City's exposure to fraud risk by assessing fraud management policies, culture & awareness, risk assessment and response, investigation and remediation, and reporting and monitoring.

# 2. Scope of Work

## Areas of Focus / Business Cycles - In Scope

### Enterprise Wide

#### Governance & Culture

- Tone at the top
- Culture of honesty and ethics
- Existence of sound policies and guidance

#### Anti-Fraud Regime & Investigative Protocol

- Anti-fraud policies
- Whistleblower programs
- Prevention, detection and response to fraud
- Response plans / investigative protocols

#### General Infrastructure & Technology (IT)

- Firewalls and patches
- User access restrictions & built-in system approvals
- Data backups / restoration plans
- Cyber security awareness & training (e.g. phishing)

### Corporate Financial Services & Human Resources

#### Corporate Revenue, Receivables & Cash Management

- Segregation of duties
- Bank reconciliations
- Customer due diligence
- Write-off approvals
- Corporate cash handling & site audits
- Daily revenue remittance/cash reconciliations
- Cheque management
- Billing practices

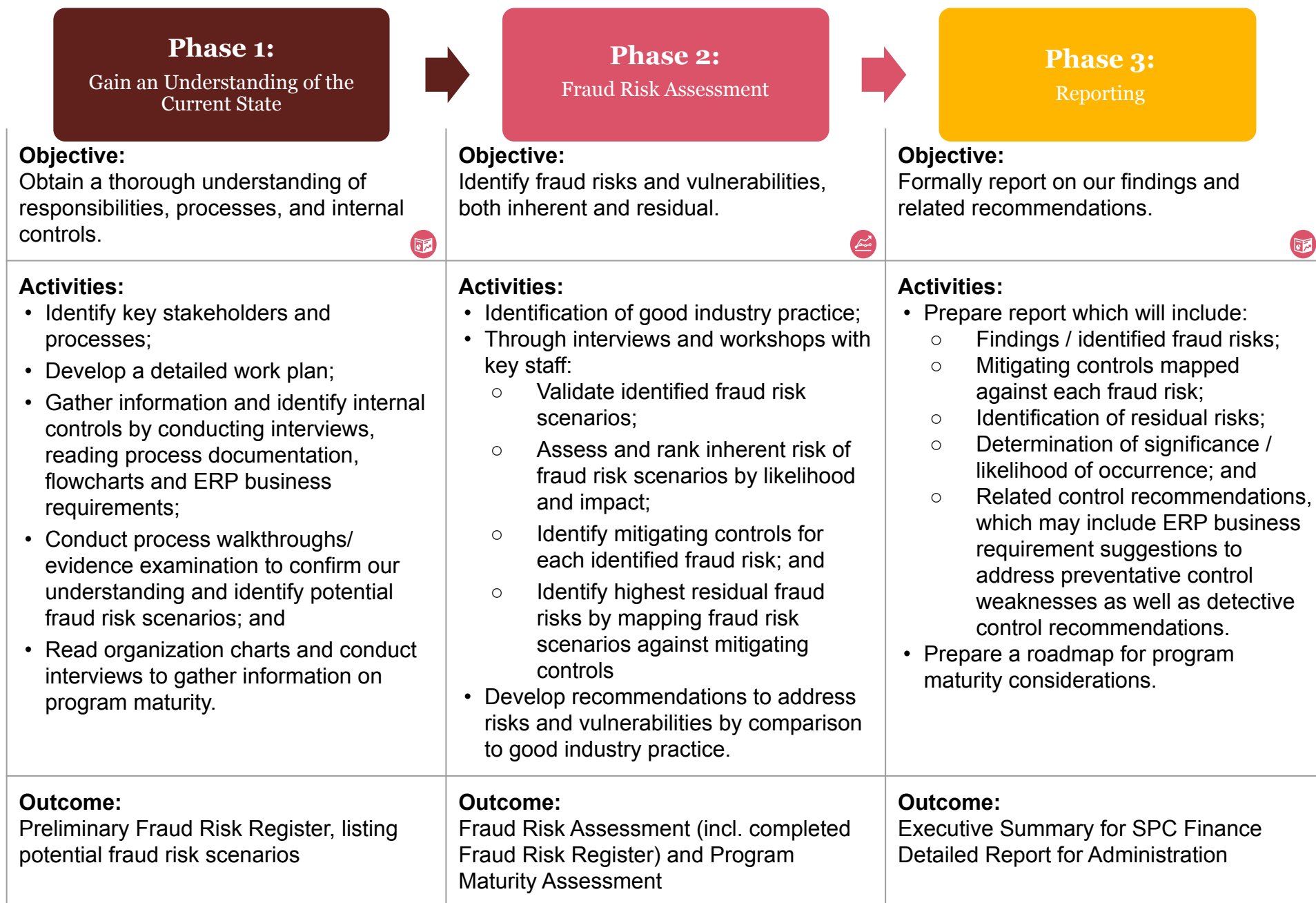
#### Supply Chain Management & Finance (Procurement, Expenses, Payables)

- Non-competitive bidding process
- Conflicts of interest
- Vendor due diligence
- Invoice, cheque & wire approvals
- Automatic Payment Vouchers (APVs)
- Standard POs, DPOs, and Payment Recs
- Corporate credit cards
- Inventory management & disposal
- Budget and variance analysis

#### Payroll & Human Resources

- Employee background checks & due diligence
- Onboarding & training
- User access controls
- Approval of employee additions/removals
- Payroll processing
- Timesheet management & tracking
- Hourly rate approvals
- Executive compensation arrangements

# 3. Approach



## 4. Stakeholders

The key stakeholders of the project from the City include the Chief Financial Officer, Corporate Risk Manager, and Finance, Corporate Revenue, Supply Chain Management teams; Chief Human Resources Officer; and Chief Strategy & Transformation Officer and Information Technology team.

## 5. Budget

Our fees are based on actual hours incurred at the agreed upon hourly billing rates in the “Internal Audit Services Agreement” dated January 1, 2015. Specifically, sections 6(4) and 6(6) of the “Internal Audit Services Agreement” specify hourly rates to be charged. We estimate our fees for the completion of our services under this Statement of Work will be \$63,600 plus out of pocket expenses and applicable taxes, which will be charged on an actual basis. We estimate out of pocket expenses to be \$6,400.