

# OHIO AUDITOR OF STATE KEITH FABER



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## Auditor of State Advisory Memo

**To:** All Local Governments and Public Offices  
Independent Public Accountants

**From:** Keith L. Faber, Auditor of State

**Date:** May 18, 2023

**Subject: Fraud Risk Reporting and Responsibilities**

As you may be aware, fraud risk assessment is an essential process in ensuring the integrity of financial reporting and maintaining public trust in government operations. Auditing standards from the American Institute of Public Accountants (AICPA) outlined in AU-C 240, *Consideration of Fraud in a Financial Statement Audit*, discuss the responsibility for the prevention and detection of fraud, which lies with each government entity's management and those charged with governance.

AU-C 240.04 further indicates, "It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior, which can be reinforced by active oversight by those charged with governance."

Additionally, management and those charged with governance are not only responsible to design and implement programs and controls to prevent and detect fraud, but also to report to the auditors any fraud of which they are aware.

For governments, AU-C 240 requires auditors to understand the entity's fraud risk environment, then identify and assess the risks of material misstatement due to fraud, and respond to those risks. This includes obtaining an understanding of the entity's internal control system and assessing the effectiveness of its anti-fraud programs and controls.

Auditors also are required to obtain information to identify and assess the risks of fraud specific to the government sector. This includes understanding the nature and complexity of government transactions, identifying the risks associated with the use of public funds, and assessing the risks associated with compliance with laws and regulations.

Auditor of State (AOS) auditors use Fraud Risk Assessment Questionnaire (FRAQ) forms to obtain this understanding and identify and assess these risks. Independent Public Accountants may use a FRAQ or similar form to gather this information. These forms are sent via email or can be discussed in person or over the phone and are required of several entity representatives, including those in the chief executive officer and chief finance officer roles, all governing board members, internal auditors, and select other stakeholders, including one or more individuals randomly selected to incorporate a required element of unpredictability into our audit procedures. The importance of these forms and related responses cannot be overstated, as not only are the questions required by the AICPA's Generally Accepted Auditing Standards (GAAS), but they also allow AOS auditors to more accurately and efficiently plan audit procedures to be performed.

To comply with these requirements, those charged with governance in government entities must provide auditors with complete and accurate information about the government's fraud risk environment, including any specific risks related to government operations. They also must ensure that the entity has appropriate policies and procedures in place to prevent and detect fraud, and that those policies and procedures are being followed. While other entity representatives, such as the chief financial officer may have more understanding of the day-to-day operations at the government entity, those charged with governance have the overall responsibility for ensuring fraud risk is mitigated at their governmental entity, through the development of such policies and active involvement in the risk-assessment process.

It is important to note that fraud risk assessment is an ongoing process that requires regular monitoring and evaluation. Those charged with governance must continue to assess the entity's fraud risks, update anti-fraud programs and controls as necessary, and communicate any changes or updates to auditors.

In conclusion, fraud risk assessment is a critical component of ensuring the integrity of financial reporting in government entities. By complying with the guidelines set out in AU-C 240, those charged with governance can help auditors effectively identify and address fraud risks, ultimately promoting transparency and accountability in government operations.

Without appropriate responses to assist our understanding of fraud risks and your entity's fraud risk prevention and deterrence processes and procedures, our ability to complete our work is significantly challenged. The AOS will evaluate responses received from selected entity representatives on a case-by-case basis, including lack of response(s). The responses, or lack thereof, may warrant the AOS to perform additional procedures to address risks identified, and in some cases, issue a comment for an internal control deficiency. We ask that each requested entity representative complete the FRAQ forms to the best of their knowledge and ability, knowing that AOS auditors stand ready to assist all entity representatives as needed.

Thank you for your attention to this matter. If you have any questions, please contact your regional AOS office using the Contact Us resources at [ohioauditor.gov](http://ohioauditor.gov) ([www.ohioauditor.gov](http://www.ohioauditor.gov)).