Fraud Control and Prevention Plan

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| 26/7/2017 | FINAL DRAFT | JLT Consulting | Revisions as per Council structure and inclusion of Council fraud risks. |
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|  | Audit Committee draft | Audit Committee | Additional details included regarding* refresher training for staff
* ‘Whisleblower’ protection
* investigation procedures
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#  Statement of Purpose

Cardinia Shire Council has a firm commitment towards maintaining the highest ethical standards & there is zero tolerance (i.e. no risk appetite) for fraud.

The desired outcome of this commitment is to avoid fraud - prevention is the most important component of the plan, in which all Council officers have a role to play.

The purpose of this plan, in relation to fraud control, is to:-

 Promote awareness of potential high risk areas;

 Develop effective, appropriate strategies to minimise losses; and

 Draw together all prevention, reporting & investigation requirements.

 Promote a culture that encourages where all fraudulent activities, once noticed or legitimately suspected, are reported, investigated and resolved in a timely and fair manner.

To be effective, fraud prevention controls & risk management form part of Council culture & ownership of the Plan rests with all levels of staff and management.

It is a summary of the strategic and operational fraud risks to Council’s operations and the control measures that have been established, or are being developed, to minimise and combat those risks. Additionally, the Plan clearly set out prescriptive measures in response to any failures of existing controls to continue to limit the effects of fraud on the wider Council.

Council adopted a Fraud Control and Prevention Policy (the Policy) in 2014, in addition to its Risk Management Policy, which both clearly articulates a zero tolerance stance in respect to dishonest or fraudulent behaviour, and underlines the Council’s strong commitment to reducing the risk and incidence of fraud, deception, theft or corruption.

In line with our zero tolerance to fraud, deception and corruption, all reports of fraud and misconduct are taken extremely seriously within Council. Support for full and appropriate disclosure in line with the *Protected Disclosure Act 2012* and open disclosure Policies are in place and we are committed to undertaking prompt and fair investigations of all allegations and, where appropriate, taking legal action against offenders.

In addition to the internal Polices which formulate Council’s Fraud and Corruption Control Framework, this Fraud Control Plan is built upon the requirements and principles of:

* Local Government Act 1989
* Fraud and Corruption Control Policy
* Employee Code of Conduct
* Risk Management Policy
* Protected Disclosures Act 2012
* Independent Broad-based Anti-corruption Commission Act 2011
* Crimes Act 1958
* Australian Standard on Fraud and Corruption Control (AS 8001: 2008);
* Fraud Prevention Strategies in Local Government - VAGO Report 2012.

Existing risks, along with new and emerging risks, have been identified and assessed as at the writing of this Plan. As an organic process, the effectiveness of this Plan relies upon the commitment of all employees to ensuring that instances of or risks of fraud are identified, reported, addressed and monitored.

Council’s Fraud Control Plan is a core element of the overall fraud prevention framework, in line with the best practice approach, outlined below:

*Diagram - Fraud Prevention Framework*


# Context

**Definition**

For the purposes of Council’s Fraud Control Plan, the definition of fraud is:

***‘Wrongful or dishonest activity in which an employee acts contrary to the interests of Council or abuses their position of trust in order to achieve personal gain or advantage for themselves, another person or entity.’***

This definition covers a range of actions including:

* Theft
* Obtaining property, a financial advantage or any other benefit by deception
* Causing a loss, or avoiding or creating a liability by deception
* Providing false or misleading information to Council, or failing to provide information where there is an obligation to do so
* Making, using or possessing forged or falsified documents
* Bribery, corruption or abuse of position/role
* Unlawful or inappropriate use of Council computers, vehicles, telephones and other property or services
* Any offences of a like nature to those listed above.

The benefits referred to can be either tangible or intangible.

Examples include:

* Unauthorised access to Council systems and data and misuse of information there within
* Using fraudulent tertiary qualifications to gain employment or promotion within Council
* Claiming hours that have not been worked
* Charging the Council for goods or services that are incomplete or not delivered.

Fraud against Council includes:

* Fraud perpetrated by an employee against Council, its agents or its programs at any level
* Fraud perpetrated by a Council client or external individual against such an agent or its programs
* Fraud perpetrated by a contractor or service provider against an agent or its programs; or
* Fraud that is committed by third party providers who are non Council / Government organisations, the private sector or other levels of Government or related agencies.

Fraud control within the Cardinia Shire Council is based on the following principles:

* Prevention, detection and investigation of fraud
* Action against all offenders, including routine or minor instances of fraud
* Application of appropriate civil, administrative or disciplinary processes and penalties
* Recovery of proceeds of fraudulent activity
* Training of all employees in fraud awareness activities
* Fraud Risk Assessments of operational procedures and services
* Audit programs

# Roles and Responsibilities

All levels of management are accountable for setting the appropriate tone of intolerance for fraudulent and corrupt acts by displaying the proper attitude towards complying with laws, regulations and policies, including Council’s code of conduct.

**Chief Executive Officer (CEO)**

The CEO has ultimate responsibility for establishing a fraud control framework and additional operational responsibility for:

* Receiving and reviewing reports of fraudulent activity
* Determining the appropriate course of action for each reported case in regard to communication and investigation
	+ - As the Principle Officer under the *Independent Broad-based Anti-corruption Commission* (IBAC) *Act 2011* is obliged to report any known or suspected activities of fraud or corrupt behaviour to IBAC as soon as practicable.

**The Audit Committee**

The Audit Committee plays a vital role in enhancing Council’s corporate governance, risk management and control framework and in providing guidance on Council’s external accountability and other legislative compliance responsibilities. One of its specific functions is to “review the risk management strategy and fraud control plans of Council to ensure they remain current and focus on areas of high risk.”

As such, the Audit Committee has an oversight responsibility for the Plan.

**Senior Leadership Team**

Senior managers have an ongoing requirement to be vigilant in relation to the possibility of fraud and to respond accordingly. In undertaking their duties managers should:

* Ensure that fraud risk and general fraud awareness practices in their areas are regularly reviewed to ensure a satisfactory level of risk management
* Advise the Co-ordinator Risk, Health & Safety of any significant changes in functional area responsibilities that result in new fraud risks
* Inform new staff, including contractors and temporary staff, of the fraud control measures that are to be observed in their area and where applicable, the broader Council

**Protected Disclosure Co-ordinator**

All correspondence, phone calls and emails from internal and external whistle-blowers will be referred to Council’s nominated Protected Disclosure Coordinator, Manager Governance

The Manager Governance is responsible for ensuring the fraud risk assessment remains up to date and relevant and monitoring implementation of the fraud control strategies throughout Council.

### Managers, Team Leaders & Coordinators

Managers, Team Leaders and Coordinators have a high degree of responsibility for managing, detecting and minimising fraud risks within their areas. They must also inform new staff, volunteers and temporary staff, including contractors, of the fraud control measures that are to be observed in their areas.

Additionally, their roles may include managing the following functions that have fraud risks associated with them:

* People and Culture Management
* Financial Management
* End of Month/Year Reporting Requirements (EOM)/(EOY)
* Budget Management
* Compliance & Enforcement Management
* Capital Budgets and Assets Management
* Cash Management;
* Property Management;
* Information Technology
* Communications Issues
* Records Management
* Procurement

### All Employees

All staff has responsibility to:

* Seek to promote professional and ethical practice by other staff and clients by setting an appropriate example and recognising the contributions of others;
* Not condone, or fail to take appropriate action in relation to, suspected fraudulent or improper conduct within their area of responsibility;
* Implement fraud risk management strategies and participate fully in activities relating to fraud control;
* Immediately advise their General Manager or Manager, Team Leader Coordinator (in accordance with Section 7 of the Policy) where they hold any concern, suspicion or information of any example of fraudulent, corrupt, or improper conduct and encourage others to do the same;
* Assist with all reports of fraud or improper conduct in a professional and prompt manner;
* Not knowingly make a false or misleading report of suspected fraud;
* Not act in a retaliatory, discriminatory or otherwise adverse manner in regard to a person, on account of that person making a genuine report or providing assistance in a relevant inquiry; and
* Not hinder or impede an investigation, and give every courtesy and assistance to any person authorised by management to conduct an investigation.

# Prevention, Mitigation & Detection Strategies

### Council’s Approach to Fraud Control

In managing its operating environment, Council operates fraud control using a comprehensive three-tiered approach. This approach consists of:

* Fraud and Corruption prevention training (through a range of training courses)
* Fraud and Corruption risk controls (checks, systems controls and audit measures)
* Prompt and fair investigation of fraud and corruption allegations
* Enforcing Codes of Conduct and associated employee policies

### Fraud and Corruption Risk Controls – Internal Controls

Council has established and maintained a strong internal control environment in order to prevent the opportunity for fraud, including:

* Appropriate segregation of duties
* Suitable recruitment procedures
* Internal checking
* Security (including both physical and computer security)
* Documentation and communication of policies and procedures
* Establishing delegations of authority
* Internal Audit

Internal controls are the organisational system of checks and balances which help to:

 Ensure accuracy and completeness of data & records

 Guard against errors, omissions & fraud, by prevention or detection

 Secure/safeguard Council’s assets (equipment, cash, buildings, people, reputation)

 Ensure compliance with Legislation and Council policies/procedures.

Council will continue to promote a strong internal control environment by expecting management to lead by example with their attitude towards internal controls, regular communication to staff and oversight of the compliance with the control environment by internal audit.

Internal controls may be either hard or soft and can be applied with either detective or preventative tools. For example:

* **Soft** control could be the ethical “tone at the top”;
* **Hard** control might be a Risk Policy, Fraud Policy or other instruction;
* **Detective** control might be the checking of a budget report ; and
* **Preventative** control may be a delegated financial limit in a system for an ‘approver’.

**Fraud Risk Assessment**

Fraud risk assessments completed in accordance with the principles of AS/NZ ISO 31000:2009 *Risk Management* enables Council to identify and assess potential areas of fraud risk throughout its operations.

Remedial actions and strategies required post-assessment will be priorities in accordance to risk ratings in line with the standard Council risk matrix (refer Risk Management Framework). Further detail can also be found in section six of this Plan.

**Fraud Awareness Training**

Council recognises that the primary purpose of education and training in the area of fraud is to raise the general awareness amongst staff of fraud, that it is not tolerated and to encourage reporting of any suspicion of fraud.

The awareness of fraud and corruption is promoted through Council by:

* Provision of training as part of Council induction program
* Ensuring all new staff receive a briefing on the relevant policies and practices employed by Council to prevent fraud and corruption.
* Ensuring that relevant staff requiring specific fraud training receive such training
* Ensuring periodic refresher training for all staff on fraud and corruption awareness
* Ensuring staff are aware of the ways in which they can report allegations or concerns regarding alleged fraud or unethical conduct
* Continually encouraging staff to report any suspected incidents of fraud
* Ensure training is provided to the elected Council both as part of the induction process and on an ongoing basis

**Detection**

**Indicators of Potential Fraud and Corruption**

The identification of early warning signs of fraudulent or corrupt activity is an important part of early fraud detection. The key to an early warning capability is staff awareness on how to respond appropriately to fraud and corruption signs or red flags.

Signs of potential fraud and corruption may include:

* Illogical excuses and reasons for unusual events or actions
* Senior staff involved in routine process work
* Staff appearing to live beyond their means
* Excessive staff turnover
* Staff who do not take holidays for extended periods (i.e. at least one week)
* Potential conflicts of interests not declared
* Lack of segregation of duties
* Undue secrecy or excluding people from available information
* Evidence of failure to comply with stated control activities
* Blind approvals – where approver does not sight supporting documentation
* Alterations of key documents (e.g. timesheets)

An example of everyday detection operationally is ‘pre-employment screening’ process, whereby a number of credential checks (i.e. qualification, employment, etc.) will be required for all staff.

# Reporting and Investigation

**Reporting**

All suspicions of fraud are to be reported. Instances of fraud can be reported by internally by persons employed or contracted by Council, or externally by members of the public. Internally employees are required to maintain strict confidentiality on any suspected fraud matter of which they may have knowledge.

Employees who have knowledge of any suspected fraud matter should in the first instance report the matter to their Manager. If for any reason an employee feels that reporting the matters to a Manager, alternative reporting mechanisms are available both internal (refer to *Fraud and Corruption Control Policy*) and external (i.e. direct to IBAC)

Members of the public are encouraged to report any suspicions of fraud direct to the Chief Executive Officer (CEO).

The Coordinator Risk, Health & Safety will maintain a fraud register which will be used as the basis for reporting incidents of suspected or actual fraud and outcomes of any investigations to the Audit Committee, Victorian Auditor-General and annual reporting purposes.

Fraud matters deemed major are to be reported to the Police. The reporting to police of fraud matters deemed minor is at the discretion of the CEO.

All proven fraud matters must be reported to the Victorian Auditor General on Council letterhead and signed by the CEO. The letter of notification should address:

* Financial impact
* Circumstances surrounding fraud
* Actions taken by Council
* Assessment of control weakness and any improvements implemented.

**Investigation**

Council investigates allegations of fraud and misconduct fairly and expeditiously. Investigations are conducted in accordance with its Fraud and Corruption Control Policy & Procedure and Risk Management Policy to effectively determine any breaches of the Codes of Conduct or any relevant Policy, guideline, direction or statute.

A clear process and separation of powers exists to ensure that the investigation and reporting process is robust to ensure that the opportunity to interfere with the process, evidence or outcome is minimised.

Under the provisions of Section 57 of the Independent Broad-based Anti-corruption Commission Act 2011, from 2nd December 2016 all incidents of suspected fraud or corruption must be reported to IBAC.

The Fraud Control and Prevention Policy stipulates that:

* Depending on the nature of the allegations investigations will be undertaken in accordance with sound investigative practices.
* All potential instances of fraud will be referred to an independent third party for investigation.
* Where external investigation is required, for example the Victoria Police or other independent investigators, they will be in charge of such investigation.
* Where the allegation has arisen through a protected disclosure, then the investigation will be in accordance with Council’s Protected Disclosure Guidelines and Procedures.
* In all cases confidentiality and the principles of natural justice will be maintained

**Protected Disclosures**

Protected disclosures are to be investigated in accordance with Whistle-blower Protection procedures and co-ordinated by the Manager Governance, Council’s Protected Disclosures Coordinator. Reports of behaviour involving possible fraud or corruption can be made by making a protected disclosure under the Protected Disclosure Act.

As detailed in the Process and Procedures for handling protected disclosures the Council is committed to the aims and objectives of the Protected Disclosure Act 2012 and does not tolerate improper conduct by its employees, officers or Councillors, nor the taking of reprisals against those who come forward to disclose such conduct.

The Council will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure.

Further details can be obtained by contacting the Manager Governance or by consulting Council’s Process and Procedure for Handling Complaints lodged under the Act.

**Non-protected Disclosures**

All such disclosures must be reported to the Chief Executive Officer who will then implement the following procedures:

* The CEO will initially assess the information provided and make any other discreet enquiries as deem appropriate to verify the veracity of the allegations
* Where the allegation cannot be substantiated, advise the person who made the allegation to either request more information or to advise no further action to be taken
* Where there is evidence to support the allegation, the CEO will assess whether the reported matter is minor or major and deem the appropriate course of action.
* The scope of any investigation will be developed in conjunction with the Manager Governance and relevant management. This may include seeking advice from our insurer, police, internal auditors or legal advisors

Any fraud investigations will be undertaken within legal and procedural fairness so as to not compromise the process. Adequate records must be maintained of the investigation process.

**Prosecution of Offenders**

Council will actively pursue the recovery of any monies or property lost through fraud, provided there is a reasonable probability of recovery. Any action to recover misappropriated assets will be at the discretion of the CEO.

As well as criminal proceedings, prosecution in the civil court may be taken against employees or others involved in recovering any financial loss incurred by Council.

Where a matter is considered minor and the CEO deems it appropriate that the matter not be referred to the police, Council reserves the right to pursue other remedies including dismissal, reprimand or loss of seniority as detailed in the Code of Conduct.

**Post-incident Review**

In each instance where a fraud has been detected the Coordinator Risk, Health & Safety and/or the contracted internal auditor will conduct a review of the relevant controls associated with the fraud as part of existing incident analysis procedures.

The results of this review are to be reported to the CEO and the Audit Committee and consideration given for relevant staff communications or revisions of policy or procedure.

# Fraud Risk Assessments

A fraud risk assessment completed in accordance with the principles of AS/NZ ISO 31000:2009 *Risk Management* enables Council to identify and assess potential areas of fraud risk throughout its operations.

It is therefore essential for developing fraud prevention and control strategies. Specifically, the purpose of the fraud risk assessment is to:

* Identify and assess the inherent risk of fraud throughout its operations
* Determine the effectiveness of existing control measures
* Enable judgements to be made on any required additional fraud mitigation strategies

Fraud risks are assessed in line with Council’s risk appetite and rated using the standard risk matrix, outlined in the Risk Management Policy.

The information below outlines a selection of fraud and corruption risks which Council has assessed as a part of this procedure and are documented on risk registers as at July 2017:

## Assets and Services

|  |  |
| --- | --- |
| **Risk** | **Risk Rating** |
| Fraudulent billing or completion of works | Moderate |
| Inadequate off-site safety and security due to theft of equipment | Moderate |

## Community Wellbeing

|  |  |
| --- | --- |
| **Risk** | **Risk Rating** |
| Recreation - Unauthorised access to/ misuse of Council facilities | Moderate |

## Corporate Services

|  |  |
| --- | --- |
| **Risk** | **Risk Rating** |
| Weakness in payroll system | Moderate |
| Exposure to losses through commercial crime | High |
| Weakness in financial systems enabling fraud | Moderate |
| Internal compromise of Corporate software environment | High |
| Loss of IT Hardware | Moderate |
| Internal theft from cashiering system | Moderate |
| Loss of money from petty cash system | Low |

## Planning and Development

|  |  |
| --- | --- |
| **Risk** | **Risk Rating** |
| Unauthorised planning permits being issued | Low |
| Unauthorised planning advice or permits issued | Moderate |