

POLICY STATEMENT

FRAUD PREVENTION AND CONTROL

POLICY ADOPTED: 24 AUGUST 2010

Related Documents: to be read in conjunction with this policy

Document Name	Location
Code of Conduct	EDRMS - InfoXpert
Procurement Policy	EDRMS - InfoXpert
Delegations Register	EDRMS - InfoXpert
Protected Disclosure Policy	EDRMS - InfoXpert
Tenders & Contract Management Procedure	EDRMS - InfoXpert
Payment of Expenses & Provision of Facilities to Councillors	EDRMS - InfoXpert
Risk Management Policy	EDRMS - InfoXpert

***EDRMS**= Councils Electronic Document Records Management System

Policy Objective:

The objectives of this policy are to:

- (i) Protect council assets and reputation
- (ii) Ensure a sound ethical culture
- (iii) Ensure senior management commitment to identifying risk exposures to fraud and for establishing procedures for prevention and detection
- (iv) Ensure Councillors and staff are aware of their responsibilities in relation to ethical conduct

Fraud control is the protection of Council's assets from fraudulent exploitation. The desired outcome of this fraud control policy is elimination of cases of fraud involving staff and elimination, by all possible efforts, of fraud against Council generally.

Policy Statement:

This policy provides the framework to manage fraud controls in the performance of all Bland Shire Council's activities and relationships. To ensure the policy is to be effective, council must take steps to ensure that all staff and councillors know of their obligations in relation to fraud – including identification and reporting of suspected fraud.

Fraud should be addressed as both an ethical issue and as an organisational illness which impedes performance. Fraud wastes scarce funds and resources and causes embarrassment to the organisation, damaging reputation and competitiveness.

Message from the General Manager

There are a number of challenges for council in combating fraud and corrupt behaviour, and one of the major difficulties is in the varieties of ways it can occur. For that reason it is critically important that all employees and councillors are at all times aware of the possibility that fraud could happen in one form or another at Bland Shire Council.

As much as we all would like to think that it could only happen from external sources, evidence shows that fraud is often perpetrated from within an organisation. As an ongoing and pervasive risk, fraud is likely to breed in environments of ignorance and neglect. For this reason ongoing implementation and adjustment of Fraud Control Strategies is essential, where the consistent application of formal approaches can ideally prevent fraud, corruption and other opportunistic behaviour from occurring in the first instance.

The intention of this Policy is to bring an organisation-wide approach to managing the risks of fraud and corruption. This policy applies to all officials of Council and is to be read in conjunction with the related documents highlighted at the beginning of this policy.

While fraud control is an ongoing activity, the most important factor to ensure success is everyone's commitment, attitude and preparedness to take action – with the shared goal of prevention ahead of cure.

Commitment

Bland Shire Council is committed to the prevention, deterrence, and investigation of all forms of fraud. Council is committed to preventing fraud from occurring through active and consistent application of processes and display of behaviours that support a 'fraud free' culture.

Through constant refinement and deepening of fraud prevention and control processes, the likelihood of any fraudulent act going unnoticed is diminishing. Therefore it is also a commitment of Council to ensure that both staff and the public are aware that any fraudulent act is unacceptable, may constitute a criminal offence, and will be prosecuted.

Purpose and Value

Why do we need to implement a Fraud Prevention Policy?

In recent years, fraud control has become recognised as a key component of good governance. In the AS 8000 series of Standards produced by Standards Australia, fraud control and corruption prevention, codes of conduct and whistleblower systems all feature predominantly as essential building blocks of good governance.

It is good business practice to implement a fraud and corruption prevention strategy. The advantages of working in an ethical environment free from fraud and corruption are many and include benefits for both Council officials and the organisation.

Benefits include:

- Enhanced morale;
- Job satisfaction;
- Employment security;
- Reduced stress;
- Improved efficiency;
- Ability to meet commitments; and
- Improved profitability

“Research has shown that the ethical standards of an organisation impact on staff job satisfaction, commitment to the organisation, turnover and levels of stress experienced by staff” (ICAC, 1998).

Definitions:

1. Fraud

Fraud is not restricted to monetary benefits. For the purpose of this policy, fraud against Council is described as:

The deliberate and dishonest misuse of council's resources or using one's position and power for personal gain, or cause disadvantage to council.

The type of events include; acts of omission, misuse of resources, theft, the making of false statements, evasion, manipulation of information and numerous other actions of deception.

This can result in:

- (i) reduced public confidence in the council
- (ii) loss of council assets;

This can also cause damage to:

- (i) relationships with other government and private sector organisations,
- (ii) integrity,
- (iii) reputation,
- (iv) deprivation of resources;
- (v) reduced capability; and
- (vi) inability to meet the corporate objectives of the council.

Some examples of fraud include:

- (i) Unauthorised use of Council plant and equipment;
- (ii) Authorisation of invoices for goods or services that are incomplete, inadequate or have not been received by council
- (iii) Private use of Council's inventory and stores;
- (iv) Claiming un-worked overtime on time sheets;
- (v) Providing confidential Council information to unauthorised people or bodies;
- (vi) Allowing contractors to not fully meet contract requirements.

***Please see Appendix B for more detailed examples of fraud**

A basic test of fraud could include the following questions:

- (i) Was deceit employed?
- (ii) Was the action unlawful?
- (iii) Did it result in money/benefits being received to which the person was not entitled?

2. Risk

Australian Standard AS/NZS ISO 31000:2009 "Risk Management - Principles and guidelines" has defined *risk* as the "**effect of uncertainty on objectives**".

Risk is measured in terms of a combination of *consequences* (impact of something on objectives) and *likelihood* (chance it will occur).

3. Risk Management

Risk management is defined as "coordinated activities to direct and control an organisation with regard to risk". To make it simpler, risk management is when we understand the risk and manage it to minimise the possible problems that could occur.

Responsibilities:

Councillors, the General Manager, Directors and Managers are responsible for fostering an environment of active fraud prevention and control within their areas, which makes it the responsibility of all staff to issue clear standards and procedures to encourage the minimisation and deterrence of fraud.

It is the responsibility of the General Manager, Directors and Managers to ensure that the management decision making process is as open and public as possible. Fraudulent conduct breeds in an environment where systems, standards and procedures are not clear and are therefore open to exploitation. It is in the best interests of effective fraud control for decision making to be visible and unambiguous to staff, Councillors and the community as a whole.

Fraud control is concerned ultimately with the effective utilisation of resources and the minimisation of waste, mismanagement and fraud. Measures to prevent fraud should be continually monitored, reviewed and developed particularly as new systems or arrangements are introduced or modified.

COUNCIL FRAUD & CORRUPTION RESPONSIBILITY STRUCTURE

COUNCILLORS AND GENERAL MANAGER (Supported by the Audit & Risk Management Committees)	> Policy and Strategy > Corporate Governance > Business Risk > Compliance (legislative, regulatory, community) > Stakeholder value > Image > Culture				
	DIRECTORS	> Develop and implement fraud and corruption prevention strategies for Directorate > Identify and mitigate actual and potential corruption risks in the workplace > Monitor and review the effectiveness of mechanisms implemented to minimise and detect corruption > Demonstrate ethical conduct in all business dealings > Promote awareness of fraud and corruption prevention and ethical conduct in the workplace > Lead by example			
		<table border="1"> <tr> <td rowspan="2" style="writing-mode: vertical-rl; transform: rotate(180deg); text-align: center;"> MANAGERS </td> <td> > Promote awareness of ethical conduct and mechanisms to prevent fraud > Provide input to policies, procedures and instructions that relate to areas of risk > Drive the Fraud Prevention strategy > Provide ethical advice and support to staff > Monitor and review fraud and corruption prevention mechanisms in place > Monitor integrity of Fraud Prevention Strategy </td> </tr> <tr> <td> <table border="1"> <tr> <td style="writing-mode: vertical-rl; transform: rotate(180deg); text-align: center;"> STAFF </td> <td> > Ethical behaviour > Report suspected incidents of fraud and corruption > Compliance with fraud and corruption prevention controls including the Fraud Prevention & Control Policy </td> </tr> </table> </td> </tr> </table>	MANAGERS	> Promote awareness of ethical conduct and mechanisms to prevent fraud > Provide input to policies, procedures and instructions that relate to areas of risk > Drive the Fraud Prevention strategy > Provide ethical advice and support to staff > Monitor and review fraud and corruption prevention mechanisms in place > Monitor integrity of Fraud Prevention Strategy	<table border="1"> <tr> <td style="writing-mode: vertical-rl; transform: rotate(180deg); text-align: center;"> STAFF </td> <td> > Ethical behaviour > Report suspected incidents of fraud and corruption > Compliance with fraud and corruption prevention controls including the Fraud Prevention & Control Policy </td> </tr> </table>
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Application

There are two (2) elements in the application of Council's policy:

1. Prevent of losses through fraud by the implementation of fraud **prevention** procedures; and
2. A commitment to a policy of detection, investigation and prosecution of individual cases to **control** fraud.

Fraud Prevention

Bland Shire Council is committed to protecting its funds and assets from any attempt either by:

- (i) members of the public,
- (ii) contactors,
- (iii) elected members, or
- (iv) its own employees

The foundation of Council's policy on fraud prevention is to encourage the public and staff to understand that fraudulent acts against Council are unacceptable, may constitute a criminal offence and will be prosecuted.

Council is committed to preventing fraud at its origin. Fraud flourishes in an environment where there are insufficient controls to prevent waste, abuse and mismanagement.

Council believes that an emphasis on fraud prevention, rather than fraud investigation, will lead to a reduction of these opportunities for waste, abuse and mismanagement.

Fraud Control

Any effective fraud prevention strategy must recognise that prompt action needs to be taken when fraud is detected, both to bring the fraud to an end and to discourage others who may be inclined to commit similar conduct.

Fraud Detection

Detecting fraud depends upon constant monitoring of operations and the encouragement of reporting by employees and the public. This is facilitated by the active adherence to, and maintenance of systems and processes. Examples include:

- Procurement policy and processes
- Tendering and contracts
- Delegations register
- Financial reporting (Practical and periodic reporting)
- Information systems and correspondence (including payroll, timesheets and records)

Fraud Reporting

Reporting of suspected fraud and corruption, including the submission of a formal complaint, should be handled as outlined in the *Fraud & Corruption Reporting Process* (Appendix A). This is shown as a high level process flow displaying who does what, as well as the flow of information (internal & external) from initiation, investigation and action.

Fraud Investigation

As demonstrated in the *Fraud & Corruption Reporting Process* (appendix A), there are clear channels for the management of information relating to fraud reporting. This includes the distinctions between internal management and investigation of suspected fraud as well as the avenues that external disclosures may take, depending on the nature of the claims made and who is involved.

For example, a member of the public may on their own accord raise concerns directly with an agency external to council (ICAC, Ombudsman or Dept. Local Government), or with the General Manager, or both. Should a complaint concern the General Manager, then it must be referred to the Mayor.

Encouraging Disclosure

Council is committed to supporting and protecting complainants who report breaches or alleged breaches of the Code of Conduct from victimisation and discrimination. Council is committed to protecting the careers of employees who report suspected fraud, provided they are not involved in the fraudulent or corrupt activity.

Confidentiality is the foundation of encouraging disclosure, where council staff must act with due consideration for the people involved. Hearsay and rumour are most likely to result in people not trusting the system, and people suspected of committing fraud feeling that they have not been treated fairly.

Defamation to council or any individual, especially as a result of unsubstantiated claims, at a minimum will only deter future reporting of fraud.

*Please refer to councils' **Protected Disclosure Policy**, §4 through §6 and §9 for more details on which disclosures are protected, which disclosures are not protected, and the rights of any person who makes a disclosure.

Audit Committee

The Audit Committee will:

- a. Monitor the implementation of recommendations from Council's External Auditors.
- b. Report to Council annually on issues raised and actions taken during the preceding year.
- c. Play an active role in the development of fraud prevention and detection strategies.

External Auditing

External Audits are conducted as part of the regular cycle of reporting and audit as defined in the Local Government Act (1993).

External audit recommendations are implemented by council and may dictate any areas for improvement to assist in minimising fraud risk.

Fraud Correction

Once a fraudulent act has been identified and investigated, strategies will be implemented to ensure that the act will not be repeated. These may include:

- Disciplinary action and/or dismissal of employees, committee members or volunteers involved in fraudulent conduct
- Review and alteration of operating procedures
- Additional training for employees or volunteers
- Making other employees aware of the situation in general terms in order to discourage similar conduct in the future
- Improvements in physical and systems security

Non-Compliance with this policy

Failure to comply with the terms of this policy or any process, policy, system or program designed to prevent fraud may result in disciplinary procedures and/or dismissal.

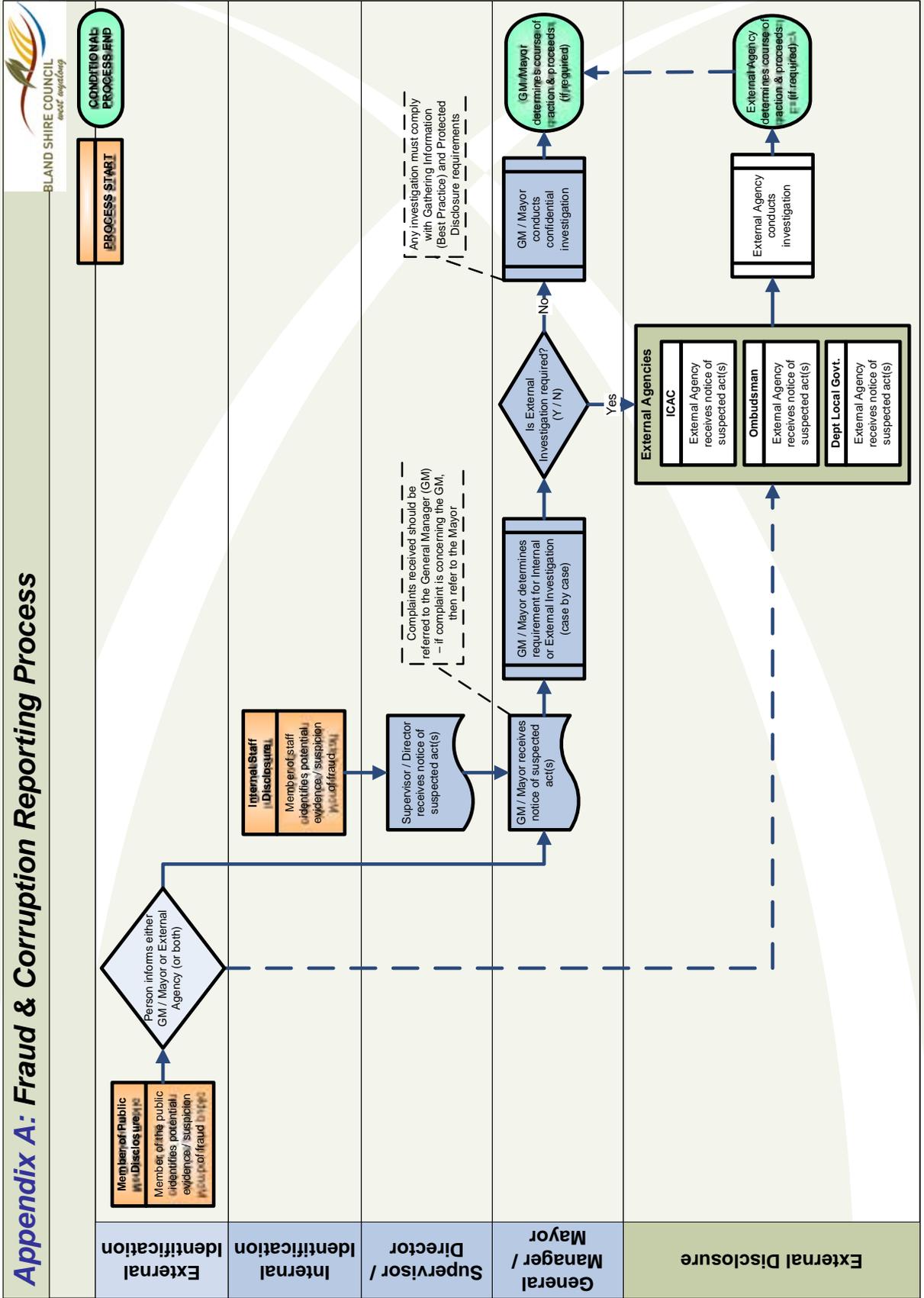
References:

- Local Government Act (1993)
- AS8000, Corporate Governance Series (2003)
- Australian Standard AS/NZS ISO 31000:2009 “Risk Management - Principles and guidelines”
- Zipparo, *Ethics, The key to good management*, Independent Commission Against Corruption (ICAC), (1998)

Related Council Documents:

- Protected Disclosure Policy
- Procurement Policy
- Delegations Register
- Tenders & Contract Management Procedure
- Risk Management Policy
- Payment of Expenses & Provision of Facilities to Councillors

Appendices: Appendix A – Examples of Fraud and Corruption



Appendix B – Examples of Fraud and Corruption

Some helpful examples of fraudulent and corrupt activity commonly identified include:

1. Theft

The most common types of property stolen include:

- stationary and supplies,
- construction and maintenance equipment and tools,
- lap top computers,
- technical equipment,
- mobile telephones,
- cash,
- intellectual property.

Theft also includes the unauthorised use of Credit cards, Petrol cards or vouchers and theft of documents and data for financial gain.

2. Misuse of council resources (including information and services for inappropriate private purposes)

The misuse of council resources for unofficial purposes and without proper authorisation is always a potential risk. In their publication "Preventing the Misuse of Council Resources Guideline 2" the ICAC lists a number examples of those they have encountered including:

- A curator of a sports oval runs a landscaping business using council equipment and materials and falsifies job sheets to cover up his private use.
- A number of examples of professional officers conducting private consultancies utilising council office equipment and materials.
- A swimming pool manager running a non authorised swimming school during work hours.
- Green-keeping staff using council materials and equipment to maintain cricket pitches on weekends for cash payment.
- A loader driver uses a council truck to deliver tonnes of gravel to a friend's property and remove a tree.
- A works team undertakes paid work for a builder on a construction site during work hours.
- A council employee takes advantage of council maintenance work at an airfield to have drainage and resurfacing work done around his hangar.
- Employees use council materials and a truck and back hoe to construct a motor cross bike track on private property during work hours.
- Five council employees spend a work day turfing an employee's rear yard.

3. Other forms of misuse which appear to be relatively common include:

- Staff utilising mobile phones excessively for private purposes without re-imburement of costs.
- Internet services being used extensively for non work purposes.
- Internet and intranet systems being used to distribute pornography and other offensive material.
- "left-over" materials and low value assets being claimed by staff.

4. Gifts, benefits and bribes

Gifts, benefits and bribes are usually intended to influence the way the recipient carries out official functions. The intention may be to encourage the recipient not to look too closely at a fraud or corrupt activity, to look away when it is identified or even to actively participate in fraud. Exposure to offers of gifts, benefits and bribes is almost inevitable among officials who:

- Approve or can influence decisions
- Provide customer or client service
- Procure goods or services
- Carry out regulatory work
- Carry out any work with the private sector.

5. Zoning and Development

- Coercions, intimidation and harassment of Council planners dealing with development applications.
- Various inducements from developers to modify approved DA or conditions imposed.

6. Regulatory Compliance

- Compliance officers accepting bribes and favours to allow illegal and or unauthorised activities.

7. Conflicts of Interest

A conflict of interest can be of two types:

Pecuniary - An interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person or another person with whom the person is associated. (*Local Government Act 1993 sections 442 and 443*).

Non-pecuniary - A private or personal interest the council official has that does not amount to a pecuniary interest as defined in the Act (for example; a friendship, membership of an association, society or trade union or involvement or interest in an activity and may include an interest of a financial nature).

- Regular contact between council officials and developers can lead to close personal relationships.
- Councillors pressured by key local constituents.
- Council use of consultants who may have conflicts of interest with external parties that they are negotiating with, regulating or investigating.

8. Procurement, Tendering and Contract Management

Activities associated with procurement, tendering and contract management have traditionally been very susceptible to fraud and corruption. They normally result from bribes, commissions and /or conflicts of interest mentioned previously. Examples of the type of fraud and corruption risk exposures include:

- Order splitting to avoid tendering or obtaining quotes
- Collusion with suppliers to provide dummy quotes
- Abuse of emergency orders
- Accepting late tenders without justification
- Approving fraudulent contract variations

9. Human Resources

- Applicants for positions falsifying career background details.
- Direct recruitment of friends and relatives to permanent and casual positions.
- Development of personal relationship with subordinate that can lead to favouritism.
- Creation of fictitious employees on the payroll.

10. Computer Fraud

There are six main areas of computer fraud, namely:

- unauthorised alteration of input data;
- misappropriation, destruction or suppression of output data;
- alteration of computerised data;
- alteration or misuse of software programs;
- electronic claims processing; and

- unauthorised and/or deceptive electronic transfers of funds.

11. Forgery or falsification of records to originate or conceal a fraud:

The falsification of records and processing of a false statement is fraud e.g.

- Falsifying data on expense claims and receipts, credit card reimbursements,
- invoices or time sheets,
- job application forms,
- leave records
- forgery of a signature on a cheque or document.

12. Provision of false or incomplete information:

- Provision of briefs or reports to management and to the public which are not objective,
- Reflect personal agenda and are not in the best interests of the council
- Persons claiming to be someone else in order to obtain confidential information.

13. Abuse of official position for private gain:

- Acceptance of secret commissions,
- bribery,
- blackmail,
- corruption,
- improper use or sale of confidential information,
- bias to suppliers or contractors
- bias in staff promotions or appointments.

14. Unauthorised sale or provision of information

- Unauthorised sale or provision of confidential information or the disposal of assets.

Such fraud may also apply to client information. Other frauds include corrupt procurement/ tendering practices.

Authorisation:

Status	Committee	N/A	
	Manex	N/A	
Owner	Director Corporate Services		
EDRMS Doc. ID	329286		
Superseded Policy			
Date of Adoption/ Amendment	Revision Number	Minute Number	Review Date
24 August 2010	0		August 2011

Related Council Policy / Procedure
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