CP 4 Fraud Prevention Policy

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Introduction

The following fraud prevention and management plan is derived to limit the prevalence of fraud and corruptive behaviour within the Benalla Rural City Council. Recent studies and events, Australia wide have revealed a strong connection between fraudulent behaviour and fundamental governance at senior levels.

Whilst not every entity has this such behaviour it is critical to have such a prevention and management plan ready for use, should the problem arise or the consequences may be dire and long lasting.

Policy Objective

The purpose of this policy is to give clear notice to persons within and outside Council that fraud against Benalla Rural City Council will not be tolerated and will be dealt with to the maximum extent of the law. It is the objective of Council to provide a broad framework for establishment of an effective fraud prevention program across Benalla Rural City Council.

Purpose

Council staff have to be trusted and permitted to operate autonomously if Council is to operate efficiently. Council believes in the integrity and honesty of their staff. There will, however, be instances where advantage will be taken of the trust that is conferred. Implementation of effective Fraud Prevention Procedures as described in the Fraud Prevention Plan will assist in minimising the risks that result from the empowerment of staff.

The basic elements of the Fraud Prevention Plan are careful recruitment of staff, a culture of integrity and loss prevention within the organisation and accountability through a documented fraud review process.

Council's fraud prevention plan raises the awareness of fraud and its prevention and gives guidance to both the reporting of suspected fraud and how the investigation of that report will proceed. The plan focuses on improving systems and procedures, changing the attitudes of staff and improving the overall integrity and performance of Council.

Scope of Procedure

These procedures apply to all staff and Councillors of the Benalla Rural City Council.

Procedure

Background

Fraud is generally defined as wilful deceit or trickery. It covers a wide range of activities from such minor transgressions as the misappropriation of office stationery by a staff member to more serious crimes such as misrepresentations by senior management and misuse of confidential information. Along with this corruption is defined as dishonest activity in which a director, executive, manager, employee or contractor of an entity acts in an unethical way, without the best interests of the entity, thus abusing their positional power.

There are three main types of fraud and corruption. Those which benefit the:
- organisation, perpetrated by management
- individual, perpetrated by the employee
- vendor, supplier or client.

Typical fraud techniques include: theft of inventory, false invoicing, credit card abuse, payroll fraud, theft of equipment, theft of cash, kickbacks, assets purchased for personal use, improper use of position or information and forgery of documents and cheques. Approximately 79 per cent of detected fraud is exposed by internal resources.

Fraud prevention is about changing organisational features that allow these events to occur and possibly go unnoticed or unreported. Fraud control is an essential element of sound corporate governance and is integral to internal risk control.

The need for entities to develop and to implement effective fraud control policies has been affirmed with the publication of Australian Standard No. AS 3806-98 Compliance Programs, which provides guidelines for both private and public-sector organisations on the establishment, implementation and management of effective compliance programs.

Other Council policies which should be used in conjunction with the Fraud Prevention Policy include Council's Staff Code of Conduct, Counselling and Discipline Policy, which details staff disciplinary actions and Council's Protected Disclosure Policy. The General Manager Corporate (GMC) is Council's delegated Protected Disclosure (PDC) Coordinator under the Protected Disclosure Act.

The PDC's role is to receive reports of improper conduct and determine whether they should be referred to IBAC as potential protected disclosure complaints. PDCs play an important role in instilling confidence and providing guidance and support to those who may be considering reporting improper conduct.

Fraud Prevention Plan

The Fraud Prevention Plan includes the following sections:

1. Risk Management

2. Staff Training/Promoting an Ethical Culture

3. Audit and Detection

4. Investigation

5. Enforcement

6. Responsibility and Reporting

This plan is used to define how the entity controls fraud and corruption within the Council, with the hope that this will help minimise the overall prevalence of these unethical behaviours as much as possible.

1. Risk Management

Risk management is about the identification, evaluation and minimisation of identifiable risks. Council's fraud risk assessment process will be on-going, iterative and be sufficiently robust to enable all key fraud risks to be identified.

Risk assessments will address both the internal and external environments of Council and they will cover all functions and operations to establish the level, nature, form and likelihood of risk exposure.

To accomplish the above Council's Leadership Team is responsible for the:

▪ identification of specific fraud risks that may be present within each department (some examples of fraud risks are presented in the Appendix A)

▪ assessment of the effectiveness of internal controls in force that would tend to impact on the risks identified

▪ determination of an overall risk rating for each risk identified

▪ development of strategic measures to counter the impact of each fraud risk in light of the risk ratings.

Step 1

The GMC is to oversee the compilation of fraud risk assessments agreed by Department Managers. The GMC is to assist Managers in identifying and rating the exposures and risk factors relevant to systems, functions and operations in their department.

Step 2

Department Managers are to review their area of responsibility to identify risks in their systems, functions and operations. One Fraud Risk Assessment Score Sheet (Refer Appendix B) is to be completed for each risk identified. Each identified risk is then rated using the Risk Matrix (Refer Appendix C).

Major fraud risks are those risks that are either very likely to occur or have a high consequence. Moderate risks are either likely to occur or could have a medium impact on Council. Minor risks are both unlikely to occur and have a low consequence. Minor fraud risks are usually accepted or ignored.

Suitable control strategies need to be developed by department managers for major and moderate risks. The completed fraud risk assessment highlights the main vulnerabilities of Council and recommends any additional controls required to minimise the risk of fraud becoming a reality. Management should not rely on relatively brief, periodic visits of auditors to identify areas where controls are not in place or where exposure to the risk of fraud remains.

Whilst the overall responsibility lies with the Chief Executive Officer and General Manager Corporate, department managers have the responsibility to identify and rate these risks according to the impact they may have on the council and then pass this information on to the appropriate authorities.

An example of a fraud risk assessment score sheet is detailed below.

Theft of Council Assets

This involves the theft of Council assets which may include computers, vehicles, tools, stationery.

Existing Controls in Place

Items of computer equipment are recorded in the asset register. A code device is attached to each asset. A register of lap top computers is maintained and any overnight borrowing is recorded. Regular asset inventory checks are undertaken by Unit Managers.

When staff terminate their employment with Council a check is carried out to ensure equipment is returned and accounted for. Tools are labelled with Council's name and random stock takes of selected items are conducted.

Likelihood of Fraud Occurring: Likely

Consequence of Fraud Occurring: Medium

Direct cost burden in the replacement of the asset. Indirect cost of increased insurance premiums if claims against Council's insurance policy are made. Reflects poorly on Council image.

Overall Fraud Risk Rating: Moderate

Proposed Additional Fraud Prevention Controls

The stationery room and tool cabinet should be kept locked.

Step 3

The completed fraud risk assessment sheets are to be returned to the GMC who is to collate and then forward fraud risk assessments to the Risk Management Working Group for their review. The Risk Management Working Group is to review the identified areas of risk to ensure that they appear complete and reasonable. The Risk Management Working Group will also review proposed additional risk controls for appropriateness.

Step 4

This process and the outcomes are to be fully documented by the GMC. A three-month timeframe from the start to the end of the review should be set every two years.

2. Staff Training/Promoting an Ethical Culture

The Fraud Control Policy of the Commonwealth Government states:
"The Government recognises that fraud prevention goes beyond monitoring the effectiveness of financial control. It also requires the maintenance of an ethical climate Chief Executives must foster and develop within agencies the highest standards of ethical behaviour".

The CEO, GMC and department managers have a responsibility, through their words and actions, to set ethical standards in their work area and provide their staff with guidance and support. If that support is not evident it could severely affect the implementation and effectiveness of any fraud strategy.

There will be a combination of both internal and external fraud and corruption training. Staff training will be periodically conducted by the managers for their teams and to further improve this training a qualified external provider will hold sessions for staff every two years.

Staff must be trained in their roles in the risk management process and instructed on the extent they will be accountable for their actions. Accountability is the key to providing a deterrent to fraud and theft. Training conveys the organisational culture to the staff and gives them sufficient confidence and direction to implement the policies and procedures. Training also limits the opportunity for staff to claim ignorance when policies are being enforced.

Simply sending a message is inadequate. Repeated reinforcement in a variety of ways is required. Unless actual attitudes and behaviours change then success cannot be claimed.

Council conducts induction training that includes information on values and ethical conduct for all new staff and some continuing training that is directed to fraud awareness. Council will ensure that the fraud awareness information, introduced during the induction process, is effective and records are maintained of the training provided. All new employees must complete fraud awareness training and review this policy during induction.

Before staff perform this training an employment screening test is necessary. Employment screening involves verifying, with consent, the identity, integrity and credentials of an individual within the firm. This needs to be within relevant legislation and should be performed on all new employees to the entity, along with all employees that have gained a promotion or been transferred.

With consent of the individual, the following may be checked and investigated:

- professional references
- National Police check
- educational credentials
- employment history.

Once these are investigated, it can then be determined whether or not the individual is a fraudulent or corruptive risk to the entity.

The provision of training for managers in relation to fraud control is important because of the supervisory responsibilities they must exercise and the example that is set by managers to other employees. All managers must complete fraud control training periodically.

Fraud awareness training should also be provided to existing staff periodically. The training will be specific to identified high risk tasks. Every staff member should have a general awareness of unethical behaviour and how they should react to the situation. On this basis, the Council needs to ensure that the message about fraudulent or corrupt behaviour is unacceptable.

Staff need to also be aware in the authenticity of the suppliers and customers of the Council, both the current and the new. If the result of this inquest results in a high fraud risk associated, it would be within the Council's best interest to end this relationship.

Council's performance reviews include the requirement that all staff be involved in risk management.

What Training?	Who Undertakes?	Why?	How Often?
Roles and Accountability	All staff	Staff must be trained in their roles in the risk management process and instructed on the extent they will be accountable for their actions. Accountability is the key to providing a deterrent to fraud and theft. Training conveys the organisational culture to the staff and gives them sufficient confidence and direction to implement the policies and procedures. Training also limits the opportunity for staff to claim ignorance when policies are being enforced.	

Values and Ethics	All Staff	Council conducts induction training that includes information on values and ethical conduct for all new staff and some continuing training that is directed to fraud awareness. Council will ensure that the fraud awareness information, introduced during the induction process, is effective and records are maintained of the training provided. All new employees must complete fraud awareness training and review this policy during induction.	
Employee Screening	New, promoted or transferred staff	Before the staff perform this training however, an employment screening test is necessary. Employment screening involves verifying, with consent, the identity, integrity and credentials of an individual within the firm. This needs to be within relevant legislation and should be performed on all new employees to the entity, along with all employees that have gained a promotion or been transferred. With consent of the individual, the following may me checked and investigated: ▪ professional references ▪ National Police check ▪ educational credentials ▪ employment history. Once these are investigated, it can then be determined whether or not the individual is a fraudulent or corruptive risk to the entity.	
Fraud supervision	Managers	The provision of training for Managers in relation to fraud control is important because of the supervisory responsibilities they must exercise and the example that is set by Managers to other employees. All Managers must complete fraud control training periodically.	
Communication and Awareness	All Staff	Fraud awareness training should also be provided to existing staff periodically. The training will be specific to identified high risk tasks. Every staff member should have a general awareness of unethical behaviour and how they should react to the situation. On this basis, the Council needs to ensure that the message about fraudulent or corrupt behaviour is unacceptable.	

Supplier and customer vetting	All Staff	Staff need to also be aware in the authenticity of the suppliers and customers of the Council, both the current and the new. If the result of this inquest results in a high fraud risk associated, it would be within the Council's best interest to end this relationship.	

3.   Audit and Detection

In-house audit and detection act as a deterrent to fraud. Appropriate use of exception reporting available from the computer system, monitoring activities and staff rotation are some of the techniques to ensure that policies and procedures are adhered to.

Management's role is to implement appropriate monitoring or checking mechanisms, both overtly and covertly, to ensure compliance with the policies and to detect fraud at the earliest opportunity. Management needs to ensure they understand the operations they are reviewing. They need to question responses from staff and they should seek further documentation for support.

Most monitoring processes focus on asset records and financial records – as fraud usually affects assets and Council's financial result. Listed below are monitoring activities that include a focus on asset records, financial records and personnel behaviour. Managers also need to monitor any other operating activity reports to identify unfavourable trends or anomalies.

Monitoring ensures that the system is operating as expected. Monitoring activities include:
- investigating and following up on complaints, rumours or allegations
- spot checks of transactions to ensure compliance with policies and procedures
- review of financial reports
- review of ledger and related reconciliations
- review of outstanding money owed
- review of high risk accounts or records
- evaluation of trends
- identifying where assets are and what condition they are in
- review supporting documentation.

When reviewing procedures or documentation management need to be aware of 'red flags'. These are details that alert management that more investigation than usual may be necessary.

Some 'red flags' are:

- income decreasing, operating costs increasing
- excessive inventory
- excessive year-end adjustments
- break in sequential numbering system of receipts and other control documents
- missing documents
- excessive refunds
- no supporting documentation.

As well as reviewing procedures, management need to be aware of staff behaviour which may indicate problems. There are several early warning signs to be aware of relating to potential fraudulent behaviour. These include:

- staff refusing to take leave
- staff resigning suddenly or failing to attend work for no apparent reason
- drugs or alcohol abuse
- an unusual interest in certain elements of the organisations business
- staff who override internal controls
- excessive complaints from the public or other staff members
- habitual gambling
- persistent anomalies in work practices
- excessive generosity towards other staff
- borrowing from other staff
- character changes.

Internal fraud controls should be proactive – meaning they should be in place from the beginning, before an incident occurs, rather than after – and they should be cost effective. A good system of internal fraud controls will lessen the chance of misuse of funds and resources, through appropriate documentation and procedures and will help to identify the cause of a problem.

4.   Investigation

Correct investigation techniques ensure that any matters highlighted through stakeholder reporting, or through audit and detection methods are handled in an unbiased, professional manner. Matters need to be handled having regard to Industrial Relations guidelines to minimise the risk of claims for unfair dismissal should this course of action be taken. The requirements of the Protected Disclosure Act 2012 must also be considered.

All suspicions or complaints are to be documented or reviewed by a General Manager or the Chief Executive Officer. Similar instances or patterns will then be recognised.

Management must ensure that staff members are aware that all suspected frauds being committed against Council are to be reported. The staff member making the complaint should put that complaint in writing or provide sufficient detailed information to enable a comprehensive summary to be prepared.

All complaints should be made to the staff member's Department Manager or directly to their general manager.

The GMC must be informed immediately of all cases of suspected fraud and act as the action officer. An action officer ensures that all documentation is maintained and the issues are being investigated by a manager, general manager or the CEO.

The reporting of each issue to the GMC by the investigating party not only provides the opportunity to retain relevant documentation of the issue, but also to analyse the causes of it and its wider implications.

The GMC will analyse the issue to identify similar instances or patterns of behaviour. It is important that these instances are discussed, as even if the suspected fraud is not substantiated, the fraud risk has been identified. The identification of the risk and actions taken to improve controls to minimise the fraud risk, may be useful to other Department Managers in their relevant work areas.

The GMC is to establish a fraud risks register. The register should be periodically examined by the Risk Management Working Group to identify trends and obtain strategic information.

In order to avoid damaging the reputations of innocent persons initially suspected of wrongful conduct and to protect Council from the potential civil liability, the results of investigations will be disclosed or discussed only with those persons who require knowledge of the investigation. Where possible privacy will be observed at all times.

Council's policies will also adhere to the *Protected Disclosure Act of 2012*, which states that if an individual encourages or facilitates the disclosures of any improper conduct by public officers, bodies or other persons, they will be protected against any detrimental retaliation. If any unethical behaviour has been spotted by one of the employees, it is expected that they report the incident they have seen to the appropriate authorities and as such no detrimental actions will be enforced upon them.

If initial investigations by management, internal or external auditors, or other consultants, confirms that a significant fraud against Council has been committed, the matter must be referred to the Victorian Police.

When a fraud is detected and referred to police, the following is required:
- accurate reconstruction of where the fraud has taken place
- accounting schedules indicating the 'money trail'
- details of time, dates, places and misappropriation
- preservation of original documents including computer hard drives and disks
- suspect documents should be preserved in a plastic sheet as soon as possible.

In the event of a significant loss, the GMC is to identify the controls required to mitigate the risk of a similar fraud occurring again. This analysis is to be reported to Risk Management Working Group for review.

5. Enforcement

After the matter is investigated fully and evidence obtained there must be a fair, consistent and visible application of the policy to deal with staff who commit fraud. Without this application, staff will realise they can breach policies with relative immunity. Council's discipline actions are detailed in Council's Counselling and Discipline Policy.

Proving criminal intent in relation to fraudulent behaviour is often difficult. Consequently, the availability and use of remedies, other than prosecution, is in many cases appropriate and can be more cost-effective than undertaking criminal proceedings for minor offences. When deciding on the action that is to be taken, a balance needs to be maintained between the costs of the action and the deterrent effects that prosecution can achieve.

Given the difficulties in prosecuting fraud, there has been increasing reliance in recent years placed on civil remedies as a complement, or as an alternative to criminal prosecution. In contrast to the criminal law, which requires proof beyond reasonable doubt on intent to defraud, civil remedies only require proof on the balance of probabilities.

When conducting initial investigations into fraud allegations, where a prima facie case of fraud is found to exist, the most appropriate course of action should be determined using guidance provided in this Policy and legal advice.

If an individual is proved to have committed fraudulent or corruptive behaviour and the correct procedures have been followed, the individual will be immediately dismissed from their roles and duties within Council and the matter reviewed to the Victorian Police

If in the case that the entity loses a significant amount of money, Council is covered by Crime insurance.

6. Responsibility and Reporting

Fraud prevention strategies must be generated by management. The CEO, GMC and department managers must have a commitment to fraud prevention and understand how it may be achieved; this will provide a foundation for other employees to support the notion of fraud control.

All serious fraud matters that they are aware of should be reported to the Council through the Audit Advisory Committee.

The GMC is responsible for overseeing Council's Fraud Prevention Strategy.

All suspected fraud is to be reported to the GMC whose role includes the following objectives:

- coordinate the overall approach to fraud control
- formulate fraud control strategies and reporting procedures
- managers to identify major areas of risk
- recommend how investigations should be handled
- recommend to managers fraud control initiatives
- ensure such initiatives are promulgated throughout Council
- receive reports of fraud, review and report in accordance with the Policy stated at section 4, with recommended disciplinary action if appropriate
- develop policies to protect staff reporting fraud or subject to allegations of fraud
- approve documentation on fraud control.

The GMC is responsible for updating the key objectives of the Fraud Prevention Policy for review by the Risk Management Working Group.

EXAMPLES OF COMMON FRAUD RISKS

1. Assets
- Unauthorised use of Council assets.
- Theft of tools, IT equipment, consumables or inventory.
- Misappropriation of cash.
- Cancellation/alteration of debtors.
- Failure to raise an invoice for services provided.

2. Information and Confidentiality

Confidentiality of information is critical. Not only is confidentiality important from a privacy perspective, but misuse of information could enable an officer (including Councillors) or an employee to obtain an inappropriate economic benefit. Similarly, misrepresentation of information can be fraudulent in its intent. Areas of risk include:
- tendering
- planning
- obtaining/presenting information in a selective manner, thereby misleading decision makers, with the objective of supporting a proposal that may present benefits to Council officers or staff
- inflating favourable financial or operating performance indicators to obtain bonuses or favourable salary reviews
- inappropriate provision of database information to others.

3. Purchasing
- Purchasing products/services/assets for private use.
- Inappropriate relationships with particular suppliers providing favours or kickbacks.
- Tendering and quotation objectivity.
- Credit card misuse.
- Payment of forged or altered invoices.

4. Personnel/Payroll
- Inappropriate use of sick leave provisions.
- Unauthorised amendment of payroll rates, tax deductions, superannuation contributions, FBT calculations.
- Phantom employees on the payroll.
- Terminated employees retained (even for a short time) on the payroll.

5. Other
- Amending rate records of family/associates.
- Staff access to residents' properties (supervised or not) presents opportunities for theft from residents.
- Siphoning interest from investment accounts.
- Taking or giving bribes.
- Falsifying log books, timesheets etc.
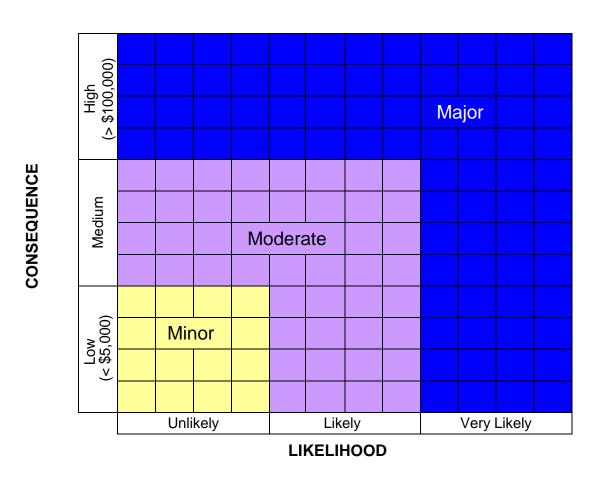
Fraud Risk Assessment Score Sheet

Fraud Risk

Insert a description of how a fraud may occur

Existing Controls in Place

Describe the controls currently in place which mitigate the risk of fraud occurring

Likelihood of Fraud Occurring:	Very Likely/Likely/Unlikely

Insert level of likelihood the fraud will occur

Consequence of Fraud Occurring:	High/Medium/Low

Insert the impact of the fraud to Council

Overall Fraud Risk Rating:	Major/Moderate/Minor

Insert the level of risk of fraud to Council

Proposed Additional Fraud Prevention Controls

List the proposed controls required to minimise the recognised risk of a fraud occurring

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Risk assessment of the Likelihood and Consequence of Fraud

Risk matrix chart. Vertical axis: CONSEQUENCE — High (> $100,000), Medium, Low (< $5,000). Horizontal axis: LIKELIHOOD — Unlikely, Likely, Very Likely. Labelled regions: Major (blue), Moderate (purple), Minor (yellow).

Legend:
Additional risk controls are required if the risk of a fraud occurring is Likely or Very Likely and of Medium to High consequence.