



# **Blackall-Tambo**

## **Regional Council**

# **Fraud Control Plan**

Version Number: Two	Effective Date: 17 March 2021
Procedure Compiled by: Director of Finance Corporate Community Services	Review Date:
Procedure Approved by: Chief Executive Officer	Resolution:

## **1. INTRODUCTION**

### **1.1. Commitment to Fraud Control**

The Council has a responsibility to develop, encourage and implement sound financial, legal and ethical decision-making and organisational practices.

This Fraud Control Plan represents the Council's commitment to effective fraud risk management and prevention. The desired outcome of this commitment is to minimise the potential for fraud against the Council whether by Council personnel or persons external to the Council.

### **1.2. Application of Fraud Control Plan**

The Plan aims to draw together its fraud prevention and detection initiatives into one document. It forms part of the Council's Risk Management Framework that has three major components:

- \* **Prevention** - initiatives to deter and minimise the opportunities for fraud;
- \* **Detection** - initiatives to detect fraud as soon as possible after it occurs; and
- \* **Response** - initiatives to investigate and deal with detected or suspected fraud.

For the purpose of this document the term "staff" refers to all employees, councillors, consultants and contractors. The term "Council" includes all the approved activities of Council.

The desired outcome of this commitment is the elimination of fraud against the Council involving employees and other persons external to the Council. While the elimination of all instances of fraud may not realistically be achievable, it remains the Council's ultimate fraud prevention objective.

### **1.3. Definition of Fraud**

The Council has adopted the following definition of fraud:

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*"Dishonestly obtaining or attempting to obtain a benefit or advantage for any person or dishonestly causing or attempting to cause a detriment to the Council."*

Fraud can be perpetrated by employees (internal fraud) or by persons external to the Council (external fraud), or by a combination of both. It can involve financial and non-financial incidents that have an impact upon the operations and reputation of the Council.

Fraud against the Council is an offence under State legislation.

#### **1.4. Examples of Fraud**

The following list, whilst not exhaustive, provides examples of the types of conduct that might amount to fraud:

- a) Theft of property e.g. inventory, cash and equipment.
- b) Dishonestly obtaining or using property that belongs to the Council.
- c) Causing a loss to the Council that is dishonest, or avoiding or creating a liability for the Council by deception.
- d) Knowingly making or using forged or falsified documents that is dishonest.
- e) Dishonestly falsifying invoices for goods or services.
- f) Dishonestly using purchase or order forms to gain a personal benefit.
- g) Receiving or giving kickbacks or secret commissions to or from third parties.

#### **1.5. Statement of Attitude to Fraud**

Fraud has the potential to damage the reputation of the Council and have a detrimental effect on the resources available to promote the Council's objectives.

Accordingly, the Council has adopted a zero tolerance to fraud and is committed to minimising the incidence of fraud through the development, implementation and regular review of fraud prevention, detection and control strategies.

Each strategy contributes to an environment where risk is managed, through sound internal controls, and ethical practices.

To achieve its fraud prevention objectives the Council will:

- a) Identify fraud risks and review and update the Fraud Control Plan every two years;
- b) Provide fraud awareness training to those personnel who are considered to be in positions that require fraud awareness training;
- h) Ensure all personnel are aware of the Council's Fraud Control Policy;



- i) Encourage and promote professional and ethical business practice;
- j) Aim to identify fraud through regular review of the Council's operations;
- k) Clearly communicate how suspected instances of fraud may be reported;
- l) Through the channels authorised in this policy, investigate alleged or suspected instances of fraud using qualified personnel and professionals with experience in investigation techniques;
- m) Take appropriate action to deal with actual, suspected or alleged fraud, including by referral to legal and regulatory authorities; and
- n) Use available avenues to recover money or property lost through fraudulent activity.

#### **1.6. Relationship with other Council Policies**

The Council has a number of documents that should be read in conjunction with this Fraud Control Plan. These policies include:

- \* Procurement policy
- \* Investment policy
- \* Revenue policy
- \* Borrowings policy

## **2. PREVENTION**

### **2.1. Integrity Framework**

A fundamental strategy in controlling the risk of fraud is the development and maintenance of a sound ethical culture, underpinned by effective and continuous communication and example-setting by management.

The Council's attitude to ethical conduct is outlined in the Code of Conduct which describes fairness, integrity and responsibility as the obligation for personnel to:

- \* Comply with standards of equity and justice;
- \* Behave with integrity;
- \* Act in a responsible manner in dealing with every member of the Council community; and



\* Ensure that bias or prejudice on unlawful grounds do not influence or override their objectivity in academic, research, administrative, business or management decisions and judgement.

## **2.2. Fraud Control Planning**

To maintain better practice in its fraud risk management practices, the Council is committed to the following:

- c) A consistent approach across all departments within Council - the plan is to be applied uniformly. All Directors or equivalent are to have an understanding of the Fraud Control Plan content and the responsibilities allocated under the Plan;
- d) Communication of senior management's strong commitment - to ensure there is regular communication to all personnel promoting compliance with the Fraud Control Plan and adherence to the Fraud Control Policy;
- e) Accessibility to the Fraud Control Plan - the Fraud Control Plan will be made available and accessible to all personnel.
- f) Application of the Fraud Control Plan - the Fraud Control Plan is formally adopted by the Council.
- g) Regular review of the Fraud Control Plan - the Council is committed to reviewing its Fraud Control Plan every two years to ensure that it remains up-to-date and relevant. Each review will entail:

- \* Consideration of the findings of the most recent Fraud Risk Assessments;
- \* Reviewing changes in the Council's operations and environment since the last review; and
- \* Developing a further two year program for fraud control that will identify and address residual shortcomings in existing procedures.

## **2.3. Fraud Control Responsibilities**

The responsibilities allocated within the Council for fraud-related matters are summarised at Appendix A.

The Chief Executive Officer is responsible for overseeing the development of fraud control strategies. The Director of Finance Corporate and Community Services is the appointed Fraud Control Officer and is responsible for overseeing investigations of alleged fraud. The Director of Finance Corporate and Community Services is also the central point of contact for reporting alleged fraud.

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#### **2.4. Fraud Awareness Training**

Generally, a significant proportion of fraud goes undetected because personnel do not recognise the early warning signs of fraudulent activity or because they are unsure how, when and to whom they should report their suspicions. Accordingly, the Council is planning fraud awareness training to assist in raising the general level of awareness amongst its personnel.

An awareness of the risk of fraud and fraud control techniques will be fostered by:

- a) Ensuring the Fraud Control Plan and Fraud Control Training are a mandatory part of induction;
- b) Ensuring all personnel that are considered to be in positions requiring training attend fraud awareness training;
- c) Ensuring updates and changes to fraud related policies and procedures and other ethical pronouncements are effectively communicated across the Council and its entities;
- d) Ensuring staff are aware of the ways in which they can report allegations or concerns regarding suspected fraud or unethical conduct; and
- e) Encouraging reports of suspected incidents of fraud.

#### **2.5. Fraud Risk Assessment**

The Director of Finance Corporate and Community Services is responsible for monitoring the implementation of the fraud risk assessment programs and reporting progress to the Chief Executive Officer to ensure that all timetabled strategies are implemented in the time and manner prescribed.

To maximise the effectiveness of the fraud risk assessment process, the assessment should:

- a) Be completed by a prioritised sample (with notations of Low, Moderate, High and Very High risk areas) of the functional areas on a rotational basis;
- b) Include assessment at local levels by agreed self-assessment criteria;
- c) Be relevant and comprehensive covering as far as possible, all potential fraud risks;
- d) Comply with AS 8001:2008- Fraud and Corruption Prevention;
- e) Separately consider inherent risk and internal control risk; and
- f) Achieve a prioritisation of fraud risks identified through a risk register.



All departments must ensure that the strategies developed during the course of the most recent Fraud Risk Assessment are reviewed for effectiveness and amended where necessary. The frequency of such reviews is to be determined by the Director of Finance Corporate and Community Services.

It is the responsibility of the Director of Finance Corporate and Community Services in consultation with the relevant Directors to ensure that the proposed actions are implemented.

### **2.6. Internal Controls**

Internal controls are often the first line of defence against fraud. The Council will ensure the maintenance of a strong internal control system and the promotion and monitoring of a robust internal control culture. The Council will continue to review internal controls and ensure all key internal controls are documented in a standardised format every two years.

The Council will promote an internal control culture through a process of:

- a) Example-setting by management;
- b) Regular communication of the importance of internal controls; and
- c) Including adherence to internal controls as part of the performance management framework.

### **2.7. Pre-employment screening**

Pre-employment screening is an effective means of preventing fraud, such as falsifying qualifications or employment history. It can also identify previous criminal convictions for offences of dishonesty. Directors should consider all appropriate checks having regard for any proposed appointment and the work area.

## **3. DETECTION**

The Council recognises that, despite a comprehensive fraud control program, it is possible that fraud may occur. Accordingly the following is aimed at detecting fraud as soon as possible after it has occurred.

The key elements of this program may include:

- a) Data analysis programs;
- b) Management accounting report reviews;
- c) Post transaction reviews; and
- d) Identification of early warning signs.



### **3.1. Data analysis program**

Data analysis is a powerful means of detecting fraud and other improper behaviours. It is a process of uncovering patterns and relationships in datasets that on face value appear unrelated, highlighting activity of fraud and irregular behaviour, or to explain what lies behind previously identified discrepancies. For example, this might include such tests as searching accounts payable data for repeated invoice numbers to identify duplicate payments, or analysing payroll data for duplicate bank account numbers to uncover a 'ghost employee' payroll fraud.

The Director of Finance Corporate and Community Services is responsible for an annual review of the possible need for a data analysis program. A data analysis program is aimed at strategic use of systems and processes in the identification of fraud indicators.

Data analysis programs are encouraged as part of the internal and external audit activities.

### **3.2. Management accounting reporting review**

Using relatively straightforward techniques in analysing the Council's management accounting reports, trends can be examined and investigated which may be indicative of fraudulent conduct.

Some examples of the types of management accounting reports that can be utilised on a compare and contrast basis are:

- a) Budget reports for each faculty and/or division;
- b) Reports comparing expenditure against appropriate benchmarks.

### **3.3. Post transaction review**

A review of transactions after they have been processed can be effective in identifying fraudulent activity. Such a review may uncover altered or missing documentation, falsified or altered authorisation or inadequate documentary support. In addition to the possibility of detecting fraudulent transactions, such a strategy can also have a significant fraud prevention effect as the threat of detection may be enough to deter a person who might otherwise be motivated to engage in fraud.

The Council's program of post-transaction reviews will identify a targeted sample of transactions for review with a particular focus on authorisation, adherence to guidelines on expenditure receipting, and missing documentation. This process will be conducted with direct reference to the findings of internal control reviews and fraud risk assessments.

### **3.4. Identification of early warning signs**

Identification and acting on early warning signs of fraudulent activity is an important part of early fraud detection. The key to achieving an early warning capability is awareness. The fraud awareness training program, referred to at Section 1.4 will therefore include the



identification of early warning signs or "red flags" for suspected fraud and how to respond if they are identified.

All personnel should be aware of their responsibility and are required to remain vigilant to identify and report any suspected fraudulent activity. Early Warning signs can include:

***Transactional Red Flags***

- Transactions occurring at an unusual time;
- Frequency of transaction is unusual;
- Place of transaction is unusual;
- Amount of transaction is unusual;
- Relationship between persons is unusual (e.g. related parties)
- Level of responsibility is unusual (e.g. management performing clerical)

***Behavioural Red Flags***

- Employee lifestyle changes;
- Significant personal debt problems;
- Creditors or collectors appearing at the workplace;
- Refusing vacations, sick leave or promotions;
- A strong desire to 'beat the system';
- Persistent or unnecessary control of records;
- Lack of strong code of personal ethics;
- Insistence on working unusual or non-standard hours when not required;
- Avoidance or delay in provision of documentation or evidence e.g. to audit

**3.5. Responsibilities**

The Director of Finance Corporate and Community Services is responsible for developing systems to detect fraud. The Director of Finance Corporate and Community Services will also consider the findings of any Fraud Risk Assessment to formulate effective responses and make improvements to fraud detection systems.

A summary of all responsibilities contained within this Fraud Control Plan are outlined in Appendix A

**3.6. Reporting instances of fraud**

**3.6.1. By Council Personnel**

Council personnel who become aware of suspected fraudulent conduct are required to report the matter in accordance with this Plan.

Personnel are also required to maintain strict confidentiality on any suspected fraud matter of which they have knowledge.

- a) In the first instance report the matter to the supervisor.





- b) If, for any reason, the staff member feels that reporting the incident through this channel would be inappropriate, he or she may report the matter directly to the Director in charge of the department. Such reports may be made confidentially, if desired.
- c) In the event of the allegation involving any of the Directors the matter should be referred directly to the Chief Executive Officer.
- d) Any Director receiving a report of alleged fraud must advise the Chief Executive Officer immediately.

The Council will ensure all personnel are aware of the fraud reporting procedures and actively encourage all personnel to report suspected cases of fraud through the appropriate channels.

### **3.6.2. By external parties**

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

If the allegation is made against the CEO, the matter shall be reported to the Mayor.

### **3.7. Whistle blower protection**

Whistle blower protection is available in accordance with that legislation.

### **3.8. External and internal audit**

The Council recognises that the external and internal audit functions have a role to play in the detection of fraud given the responsibilities of auditors under ASA240 'The Auditors' Responsibility to Consider Fraud in an Audit of a Financial Report'.

Audit activities support management's efforts to establish a culture that embraces ethics, honesty and integrity. Audit activities include an evaluation of internal controls used to detect or mitigate fraud, and may be involved in fraud investigations.

Internal audit may play a variety of consulting, assurance, advisory and investigative roles in Council's corruption and/or fraud management process.

External and internal audit activities can include the following process that may detect evidence of corruption or fraud:

- Examination of policy;
- Examination of accounting records;
- Examination of computer systems;
- Examination of corporate documentation; and
- Interviews with key employees, contractors and affiliates.



#### **4. RESPONSE**

##### **4.1. Investigation procedures**

All instances of alleged fraud must be reported to the Chief Executive Officer whether by the person making the allegation or by the Director receiving the initial complaint. The Chief Executive Officer shall refer the matter to the Director of Finance Corporate and Community Services who will then be responsible for overseeing and managing the investigation process, in consultation with other members of an investigation task force.

The task force will consider the application of the Enterprise Agreement and other legislative or regulatory requirements in assessing, investigating, managing and reporting any alleged fraud.

If the allegation is made against the Chief Executive Officer, the allegation should be made to the Mayor, who may refer the matter for independent investigation.

##### **4.2. Reporting to Law Enforcement Agencies**

The Council must act with exemplary standards. The standards of propriety that ought to be observed require it to act and to be seen to act in the public interest by reporting known or suspected acts of fraud. Therefore, all known or suspected acts of fraud will be reported to law enforcement agencies and other relevant bodies. Reports will be made notwithstanding any investigation by the Council under the Enterprise Agreement or otherwise.

##### **4.3. Reviewing systems and procedures (post fraud)**

In each instance where fraud is detected, the Council will reassess the adequacy of the internal control environment (particularly those controls directly impacting on the fraud incident and potentially allowing it to occur) and actively plan and implement improvements as soon as practicable.

##### **4.4. Recovery of money or property lost through fraud**

The Council will actively pursue the recovery of any money or property lost through fraud after considering all relevant issues.

##### **4.5. Provision of information to external agencies**

Procedures for the collection and recording of fraud information are in place to ensure that external agencies, such as the Auditor General's Department, are informed annually of Council's action taken in response to fraud committed during the year (such as information in relation to fraud incidents, fraud losses, offenders and Council responses and corrective actions). Information will be collected, classified and handled appropriately, having regard to privacy, confidentiality, legal professional privilege and the requirements of natural justice and procedural fairness.

##### **4.6. Communication protocol**

If fraud against the Council is detected the Mayor will make all decisions on the appropriate communications protocol to be adopted.



**5. CHANGES SINCE LAST REVISION**

Plan revised to reflect current procedures.

**6. RECORDS**

When completed and approved the original, signed hard copy of the policy is filed in the Master File. Electronic copies are saved in the appropriately labelled folder in Magiq.

**VERSION CONTROL**

Version 1	30 September 2016
Version 2	



Role	Fraud Control Responsibilities
Chief Executive Officer	<p>The Chief Executive Officer has principal responsibility for fraud control within the Council. This includes:</p> <ul style="list-style-type: none"><li>• developing an overall fraud control strategy for the Council, including operational arrangements for dealing with fraud;</li><li>• overseeing fraud awareness and control training;</li><li>• overseeing the Council fraud risk assessment process every two years;</li><li>• overseeing the follow-up of the fraud risk assessment by ensuring that all timetabled mitigation strategies are implemented in accordance with the Fraud Control Plan;</li><li>• facilitating a review of the Council's Fraud Control Plan every two years, or following any significant structural change to the Council;</li><li>• reporting to the Mayor on fraud control initiatives undertaken by the Council;</li><li>• ensuring that all fraud related policies and procedures are communicated and available to Council personnel;</li><li>• developing systems to prevent, detect and respond to fraud.</li></ul>



Role	Fraud Control Responsibilities
<p>Director of Finance Corporate and Community Services</p>	<ul style="list-style-type: none"> <li>• Act as a central referral point for allegations of incidents of fraud to be reported, including ensuring that all instances of suspected fraud are appropriately recorded, investigated, and satisfactorily resolved.</li> <li>• Ensure that the Chief Executive Officer is briefed on allegations of fraud.</li> <li>• Investigate or facilitate the investigation of allegations of fraud against the Council.</li> <li>• Convene and manage the Fraud Investigation Task Force as and when required.</li> <li>• Refer all known or suspected instances of fraud to law enforcement agencies.</li> <li>• Design, implement and oversee a fraud detection program incorporating data analysis, management accounting reviews and post transaction reviews.</li> <li>• Design and oversee fraud risk assessments.</li> <li>• Review the internal control environment after each detected occurrence of fraud.</li> <li>• Review annually the need for data analysis programs and consult with the Chief Executive Officer on proposed recommendations and timetables for same.</li> </ul>

Role	Fraud Control Responsibilities
<p>Human Resources Officer</p>	<ul style="list-style-type: none"> <li>• Ensure the Fraud Control Plan and Policy are incorporated in the Council induction program.</li> <li>• Ensure fraud awareness training is available to all relevant Council personnel where appropriate.</li> </ul>



Role	Fraud Control Responsibilities
All Managers and supervisors	<p>Managers and supervisors must be vigilant to the possibility of fraudulent behaviour and respond accordingly. Managers must ensure that:</p> <ul style="list-style-type: none"><li>• internal reviews of their business areas are undertaken on a regular (or at least annual) basis and that any material changes in responsibilities and inherent fraud risks are reported to the Director of Finance Corporate and Community Services;</li><li>• they monitor their business units for fraud red flags in terms of both unusual transactions or behavioural changes in individuals, and investigate where necessary; and</li><li>• they inform new staff of the fraud control policies and procedures to be observed.</li></ul>

Role	Fraud Control Responsibilities
Directors	<ul style="list-style-type: none"><li>• Foster and maintain the highest standards of ethical behaviour to comply with the Council's Code of Conduct and Fraud Control Policy and Plan.</li></ul>



Role	Fraud Control Responsibilities
All Council personnel	<p>All Council personnel are required to:</p> <ul style="list-style-type: none"><li>• promote professional and ethical practice by setting an appropriate example and recognising the contributions of others;</li><li>• take appropriate action in relation to suspected fraudulent or improper conduct within Council;</li><li>• assist in the implementation of fraud risk management strategies and participate fully in activities relating to fraud control;</li><li>• remain vigilant and report all instances of suspected fraud immediately to the supervisor where they hold any concern, suspicion, or information of any instance of fraudulent, corrupt or improper conduct and encourage others to do the same;</li><li>• deal with all reports of fraud or improper conduct in a professional and prompt manner in accordance with the Fraud Control Plan;</li><li>• not knowingly make a false or misleading report;</li><li>• not act in a retaliatory, discriminatory or otherwise adverse manner against a person, on account of that person making a genuine report or providing assistance in a relevant inquiry; and</li><li>• not hinder or impede an investigation and give every courtesy and assistance to any person authorised by the Council to investigate.</li></ul>