



Fraud and Corruption Control Plan

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Executive Summary

This document sets out the Ballina Shire Council's (the Council), Fraud and Corruption Control Plan (the Plan).

It provides the basis for various control strategies to address risk exposures associated with Fraud and Corruption. It also forms an integral part of the Corporation's integrity framework which consists of the following:

- Fraud and Corruption Control Plan
- Code of Conduct
- Corruption Prevention and Fraud Control Policy
- Statement of Business Ethics

The relationship of the above key drivers of integrity are presented in the following diagram:



A key element of the Fraud and Corruption Control Plan is the Corruption Prevention and Fraud Control Policy which is included at Appendix 1.

The Plan follows the guidelines of the Australian Standard 8001-2008, Fraud and Corruption Control (the Standard) and tailors the requirements of the Standard to the Council environment.

While it is recognised that even the most stringent of governance frameworks may not prevent all fraud and corruption, the Plan summarises the Council's framework for the prevention, detection, investigation and reporting of such activity.

1. Contextual Background

Ballina Shire Council is committed to building and sustaining an ethical, efficient and effective culture where opportunities for fraud and corruption are minimised. Council will change organisational features that are likely to allow corruption to occur or possibly go unnoticed or unreported.

Council recognises that its staff and Councillors understand what good conduct is and are committed to the highest standards of probity in management and operation of the Council.

This Plan aims to support Councillors and staff in achieving these standards.

2. Objective

The objective of the Plan is to outline our approach to controlling fraud and corruption against and by the Council.

It proposes an approach to controlling fraud and corruption through a process of:

- Establishing the Council's fraud and corruption control objectives and values;
- Setting the Council's anti-fraud and anti-corruption policies;
- Developing, implementing, promulgating and maintaining an holistic integrity framework;
- Fraud and corruption control planning;
- Risk management including all aspects of identification, analysis, evaluation treatment, implementation, communication, monitoring and reporting;
- Implementation of treatment strategies for fraud and corruption risks with a particular focus on intolerable risk;
- Ongoing monitoring and improvement;
- Awareness training;
- Establishing clear accountability structures in terms of response and escalation of the investigation;
- Establishing clear reporting policies and procedures;
- Setting guidelines for the recovery of the proceeds of fraud or corruption; and
- Implementing other relevant strategies.

Adoption of the Standard requires an appropriate level of forward planning and application of a structured risk management approach. The application of contemporary risk management principles is seen as fundamental to the prevention of fraud and corruption.

The objective of the fraud and corruption control program outlined by the Standard is:

1. The elimination of internally and externally instigated fraud and corruption against the Council;

2. The timely detection of all instances of fraud and corruption against the Council in the event that preventative strategies fail;
3. Recovery for the Council of all property dishonestly appropriated or secure compensation equivalent to any loss suffered as a result of fraudulent or corrupt conduct; and
4. The suppression of fraud and corruption by entities against other entities.

While 'elimination' of fraud and corruption will, for many entities be unachievable, it will nevertheless remain the ultimate objective of this fraud and corruption risk mitigation program which is subject to the appropriate cost-benefit analysis.

3. Referenced Documents

The Plan should be read, construed and applied in conjunction with the following Standards.

- AS 4811 – 2006 Employment Screening
- AS 8000 – 2003 Good governance principles;
- AS 8002 – 2003 Organisational Codes of Conduct;
- AS 8003 – 2003 Corporate social responsibility;
- AS 8004 – 2003 Whistleblower protection programs for entities; and
- ISO 31000 –2009 Risk Management Principles and guidelines.

The Plan within this document contains the detailed procedural requirements necessary to develop, implement and maintain a formalised approach to fraud and corruption risk in the Council in accord with the provisions of the Standard.

4. Definitions

The Standard provides the definition for a range of matters fraud and corruption related but the two key definitions in the Standard are as follows:

- **Corruption**

Dishonest activity in which a director, executive, manager, employee or contractor of an Council acts contrary to the interests of the Council and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or Council.

The concept of 'corruption' within this standard can also involve corrupt conduct by the Council, or a person purporting to act on behalf of and in the interests of the Council, in order to secure some form of improper advantage for the Council either directly or indirectly.

- **Fraud**

The dishonest activity causing actual or potential financial loss to any person or Council including the theft of moneys or other property by employees or persons external to the Council and where deception is used at the time, immediately before or immediately following the activity.

This also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal business purpose or the improper use of information or position for personal financial benefit.

The theft of property belonging to an Council by a person or persons internal to the Council but where deception is not used is also considered 'fraud' for the purposes of this Plan.

Note: The concept of fraud within the meaning of the Plan can involve fraudulent or corrupt conduct by internal or external parties targeting the Council or fraudulent or corrupt conduct by the Council itself targeting external parties.

5. Risk Management Principles in Fraud and Corruption Control

Fraud is inescapably a risk to all entities including the Council and can have a similar impact on the Council as other types of enterprise risk including:

- Financial loss;
- Reputational impact;
- Organisational morale; and
- Diversion of management energy.

The approach to managing this risk therefore is reflected in the Fraud and Corruption Control Plan and is the same as the Council has adopted in respect to its other operational risks.

Fraud and corruption risk is targeted by the strategic approach outlined in the standard AS 8001-2008, the specific framework of which is detailed below.

6. Standard Framework

The Standard is divided into five parts:

- Scope and General;
- Planning and Resourcing;
- Prevention;
- Detection; and
- Response.

7. Summary

The Plan embraces the principles of the Standard and provides the Council with an effective mitigation plan to address the relevant risk exposures of fraud and corruption.

It uses the principles of sound risk management, planning, monitoring and remedial action.

Fraud and Corruption Control Plan

1 Planning and Resourcing

1.1 Fraud and Corruption Control Planning

1.1.1 *Implementing a Fraud and Corruption Control Plan*

The Council has developed and implemented the following Fraud and Corruption Plan that documents the approach to controlling fraud and corruption exposure at strategic, tactical and operational levels.

The Plan details the Council's intended action in implementing and monitoring its fraud and corruption prevention, detection and response initiatives.

Accountability for the implementation and ongoing monitoring of the plan has been assigned to the Internal Audit function, under the direction of the Chief Executive with oversight by the Audit & Risk Management Committee.

1.1.2 *Monitoring the Operation of the Plan*

The operation of this Plan is monitored through the following processes:

- Internal audit reviews including
 - Review of the fraud control framework
 - Fraud awareness training
 - Fraud risk assessment
- Public Interest Disclosures and other complaints management procedures
- Review of actual incidents or allegations of fraud and corruption
- Employee assistance in the identification and reporting of suspected fraud and corruption

1.1.3 *Communicating the Fraud and Corruption Control Plan*

External communication

In accord with the standard, the Plan is to be communicated to external stakeholders by way of:

- a) An appropriate note in the Annual Report as part of a general declaration of integrity or corporate governance;
- b) Declarations in general terms and conditions of business dealings with external parties;
- c) Declarations in 'requests for tender' or similar invitations to propose to the Council; and
- d) On the Council's website.

It is considered that the requirement of the Standard for communicating with external stakeholders is addressed by comment in the governance statement in the Annual Report and a declaration within the requests for tender to external parties.

It also considered that the key stakeholders to whom this communication is addressed are suppliers and contractors who deal with the Council and may identify concerns of possible fraud or corruption.

Internal Communication

Regular internal communication is undertaken to ensure management and employees are informed of fraud and corruption control issues, policy and processes.

The Plan is to be accessible to all employees, via the Infonet and Induction program.

Key elements of the Plan are also communicated in the Corruption Prevention and Fraud Control Policy 2015, which is attached at Appendix 1 and available to employees on the infonet.

1.2 Review of the Fraud and Corruption Control Plan

1.2.1 Frequency of Review

The Plan is reviewed and amended at intervals appropriate to the Council but minimum, once every two years to take consideration of business and technological change.

1.3 Fraud and corruption control resources

1.3.1 Allocation of Resources

The Standard requires the Council to ensure that an appropriate level of resources is applied to controlling fraud and corruption risk.

The Council has demonstrated its commitment to fraud and corruption control by allocating overall responsibility for implementing and overseeing the fraud and corruption control program to the Internal Audit Committee.

1.3.2 Other Fraud and Corruption Control Resources

Other important resources within the Council in terms of managing fraud and corruption include—

- a) human resources/industrial relations;
- b) occupational health and safety personnel;
- c) compliance professionals;
- d) corporate counsel;
- e) quality assurance;
- f) records management;
- g) corporate risk management;
- h) insurance management
- i) information security specialists and consultants;
- j) regulatory affairs managers; and

- k) environmental impact practitioners.

The Internal Audit Committee has responsibility for ensuring that all of the Council's fraud and corruption control resources are coordinated so that they work together in a coordinated fashion in a way that achieves the objectives set out in the Plan.

The Internal Audit Committee has overall responsibility for ensuring that fraud and corruption control outcomes are delivered, including responsibility for ensuring that fraud and corruption control resources are effectively coordinated.

1.4 Internal Audit activity in the control of fraud and corruption

1.4.1 Application of Internal Audit Resource in controlling Fraud and Corruption

While primary responsibility for the identification of fraud and corruption within the Council rests with management, it is recognized that internal audit activity can be, in the context of addressing all business risks, an effective part of the overall control environment to identify the indicators of fraud and corruption.

The internal audit plan is in accordance with the fraud detection, deterrence and response provisions of The Professional Practices Framework (PPF) of the Institute of Internal Auditors.

1.4.2 Application of the Professional Practices Framework of the Institute of Internal Auditors

Experience has shown that internal audit activity can be effective in the detection of fraud and also in the prevention of fraud by ensuring due adherence to internal control systems.

The Council has considered the role of internal audit in the detection, prevention and investigation of fraud with regard to the PPF which provides:—

The Internal Auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Practice Advisory 1210.A2-1 and 1210.A2-2 issued on 5 January 2001 provide guidance in the interpretation of the International Standards for the Professional Practice of Internal Auditing.

1.4.3 Internal Auditor's Role in deterring Fraud

Practice Advisory 1210.A2-139 provides—

Internal Auditors are responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal control, commensurate with the extent of the potential exposure/risk in the various segments of the organisation's operation.

1.4.4 Internal Auditor's Role in responding to fraud detected or suspected

Practice Advisory 1210.A2-1 provides—

When an Internal Auditor suspects wrongdoing, the appropriate authorities within the organisation should be informed.

The Internal Auditor may recommend whatever investigation is considered necessary in the circumstances.

Thereafter the auditor should follow up to see that the internal auditing activity's responsibilities have been met.

Clauses 7 to 11 of the Practice Advisory deal with the role of the Internal Auditor in the investigation and reporting of detected fraud.

1.4.5 Internal Auditor's role in detecting fraud

Practice Advisory 1210.A2-2 provides—

Management and the internal audit activity have differing roles with respect to fraud detection. The normal course of work for the internal audit activity is to provide an independent appraisal, examination, and evaluation of an organisation's activities as a service to the organisation.

The objective of internal auditing in fraud detection is to assist members of the organisation in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

Management has a responsibility to establish and maintain an effective control system at a reasonable cost.

A well designed internal control system should not be conducive to fraud. Tests conducted by auditors, along with reasonable controls established by management, improve the likelihood that any existing fraud indicators will be detected and considered for further investigation.

Practice Advisory 1210.A2-1 provides—

Detection of fraud consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by auditors, and other sources both within and outside the organisation.

In conducting engagements, the Internal Auditor's responsibilities for detecting fraud are to—

- *Have sufficient knowledge of fraud to be able to identify indicators that fraud may have been committed.*
- *Be alert to opportunities, such as control weaknesses, that could allow fraud. If significant control weaknesses are detected, additional tests conducted by Internal Auditors should include tests directed toward identification of other indicators of fraud.*
- *Evaluate the indicators that fraud may have been committed and decide whether any further action is necessary or whether an investigation should be recommended.*
- *Notify the appropriate authorities within the organisation if a determination is made that there are sufficient indicators of the commission of a fraud to recommend an investigation.*

1.4.6 Accordingly the Council provides the Internal Audit function with sufficient knowledge, training, experience and resources in order to fulfill the role in deterring, detecting and responding to instances of fraud or suspected fraud in accordance with the PPF.

2 Prevention

2.1 Implementing and Maintaining an Integrity Framework

2.1.1 *Building an Ethical Culture*

A key strategy in managing the risk of fraud and corruption within the Council is the implementation and maintenance of a sound ethical culture.

The Council will aim to ensure that it has a healthy and sustainable ethical culture through the implementation of an integrity and process framework.

If the Council's observable ethical culture falls below acceptable levels, remedial action including a broad-based communication and training program will be undertaken as a matter of priority.

Councillors, Management, employees and others concerned with the Council's business operations in any capacity, are required to confirm in writing, annually, that they have, over the previous twelve months complied with the Council's Code of Conduct and fraud and corruption policies and that they will so comply over the ensuing twelve months.

2.1.2 *The Elements of an Integrity Framework*

The Council takes the view that promoting an ethical culture is achieved by issuing a code of expected behavior. Accordingly the Council has adopted the Code of Conduct (2013).

Recent research has shown that promulgating a code of conduct will be more effective if it is implemented as part of a coordinated approach. A Code of Conduct is an important element, but not the only element, of an effective integrity framework.

In the Council it is considered that commitment to the pillars of the Strategic Intent together with the employee and Councillor Codes of Conduct encapsulate the elements of the integrity framework required for compliance with the standard.

The fundamental elements of a sound integrity framework are set out in Table 1 below.

The Council has considered these concepts and will implement them where appropriate.

TABLE 1 –

Fundamental elements of an integrity framework

Element	Description
1. Integrity Framework	<p>An appropriate integrity framework developed using a participatory approach which builds commitment from all employees and is subject to ongoing monitoring and maintenance.</p> <p>Will include the development and promulgation of the other fundamental elements set out below.</p>
2. Example Setting	<p>Observable adherence to the Council's integrity framework by senior management.</p>
3. Senior Management	<p>Senior management group that recognizes the need for establishing and maintaining an ethical culture and actively promotes such a culture.</p>
4. Codes of Behaviour	<p>A comprehensive Statement of Business Ethics/Code of Conduct incorporating a high level aspirational statement of values with limited detail of unacceptable behavior.</p>
5. Allocation of Responsibility	<p>Responsibility assigned to a senior person for ensuring the Council's integrity initiatives are implemented and monitored.</p> <p>This person would have a direct line of reporting to the Internal Audit Committee or another senior management body with overall responsibility for the Council's ethical culture.</p> <p>In addition to allocation of specific responsibility for improving the Council's performance on this issue, it will be clearly communicated internally that every person associated with the Council has a role to play in driving integrity and ethical behaviour.</p>
6. Internal Audit Committee	<p>The Internal Audit Committee will be the final arbiter on issues of apparent misconduct and ethical dilemmas that cannot otherwise be resolved at line-management level.</p> <p>It is also the body charged with overseeing the operation and maintenance of the Council's entire integrity framework.</p>
7. Communication	<p>A program for communicating the Council's Statement of Business Ethics/Code of Conduct.</p> <p>Communication of the importance of ethical standards through regular dissemination of material via newsletters and web sites.</p>

Element	Description
8. Training	Specific ongoing training in the use of codes of behaviour and ethical tools for decision-making. Feature ethics components in all training.
9. Reinforcement	Incorporation of an integrated ethical standard into performance management, e.g. 360 degree feedback, performance appraisal systems and remuneration strategies.
10. Benchmarking	A program for continuous benchmarking of ethical standards aimed at identifying improvement in the Council's ethical standards over time and between different elements of the Council.
11. Reporting of Complaints	A mechanism for the communication of ethical concerns inside and outside the normal channels of communication.
12. Compliance	A policy requiring all personnel to sign an annual statement to the effect that they have complied with all necessary Council policies in connection with conflict of interest, disclosure of confidential information and other relevant ethics related issues.

2.2 Internal Audit Committee and Senior Management commitment to controlling the risks of Fraud and Corruption

2.2.1 Risk Consciousness

The Council will ensure a high level of risk consciousness for the risks of fraud and corruption are present across the senior management group and, if found to be absent, will be the subject of appropriate awareness training at senior levels.

This awareness training may include awareness of new types of technology that could be used for the commission of fraud and technological measures that can be used by an Council to minimize new types of fraud.

2.2.2 Consideration of fraud and corruption as a serious risk

The Council acknowledges that an important factor contributing to a fraud and corruption prone environment in Australian business is a fundamental failure of senior management to treat the risks as a serious threat to the Council and a consequent failure to allocate sufficient resources to managing the problem.

The Council ensures that the risks of fraud and corruption are treated seriously and appropriate steps taken to minimise the risks of fraud and corruption occurring, as demonstrated by various policies and procedures including the following:

- Fraud and Corruption Control Plan
- Code of Conduct
- Corruption Prevention and Fraud Control Policy
- Public Interest Disclosures Policy

2.2.3 Senior management awareness of fraud and corruption issues

The Council will endeavor to ensure that senior management will, as a minimum, have an understanding of the following fraud and corruption issues:

- a) The incidence of fraud and corruption generally in Australia;
- b) The types of fraud and corruption common within the industry sector in which the Council operates and the losses typically associated with conduct of this type;
- c) The robustness of the Council's internal control environment in terms of its ability to prevent and detect the types of fraud and corruption likely to occur;
- d) A knowledge of the types of fraud and corruption that have been detected by the Council in the last five years and how those matters were dealt with in terms of disciplinary action and internal control enhancement;
- e) The Council's own fraud and corruption prevention and control plan and processes; and
- f) Knowledge of new technology tools for detecting and preventing fraudulent activity.

The Council will ensure that Fraud Awareness is regularly communicated to employees to address these requirements.

2.3 Line Management Accountability

2.3.1 Accountability for prevention and detection of fraud

The management of fraud and corruption is imbedded into the contract provisions of each line manager contract (i.e. compliance with legislative provisions) and is managed via the compliance and measurement processes.

The Council considers that all employees have a responsibility for fraud and corruption control at the Council.

The Council ensures that line managers are aware of their accountabilities for the prevention and detection of fraud and corruption through the discussions held at performance evaluations.

2.3.2 The need for a "whole of business" approach to controlling fraud and corruption

Fraud and corruption control is often seen as a 'corporate' responsibility (i.e. the responsibility of central management at the corporate level) rather than as a responsibility for local or line management.

It is an underlying principle of the Plan that no one strategy by itself can be effective in managing the risks of fraud and corruption and it follows therefore that no one person or category of person can be fully effective in managing the risks.

2.3.3 Achieving line management awareness of their accountability for controlling fraud and corruption

Line management within the Council will continue to be made fully aware that managing fraud and corruption is as much part of their responsibility as managing other types of enterprise risk.

In order to reinforce this, the Council will develop maintain and deliver a training program to reinforce awareness at regular intervals as agreed by the Internal Audit Committee.

2.4 Internal control

2.4.1 *Implementing an effective system of Internal Control*

The Council will ensure that all business processes, particularly those assessed as having a higher predisposition to the risks of fraud and corruption, are subject to a rigorous system of internal controls that are well documented, updated regularly and understood by all personnel.

Note: There is a strong link between the incidence of fraud and corruption and poor internal control systems within Councils.

It follows that tight internal control is an effective weapon in protecting the Council against fraud.

2.4.2 *The role of the Internal Control system in preventing fraud and corruption*

The Council considers that whilst internal control is the first line of defense in the fight against fraud and corruption, management should take an active role in the internal control process.

2.4.3 *Issues for consideration in developing an internal control system that will be effective in preventing fraud*

The following are elements of the Council's internal control system that will assist it to protect itself against the risk of fraud and corruption:

- a) Internal controls that are, to an appropriate degree, risk focused, in other words, they have been developed taking into account the risks the Council faces and are aimed at mitigating those risks.
- b) Internal controls that are appropriately documented.
- c) A process of continuous improvement of internal controls that are reviewed and amended regularly.
- d) Internal controls that are communicated effectively to all personnel appropriate to their level of responsibility and position description.
- e) Internal controls that are accessible to personnel. The Council's personnel have ready access to the Council's infonet site and the most recent version of a given internal control system can be quickly and efficiently accessed.
- f) A strong internal control culture in which all personnel understand the importance of adhering to internal control this may include internal control adherence as an element of the regular performance review program.
- g) A program for assessing compliance with the Council's internal controls. This will be done by way of an online employee survey and Quality assurance audits.
- h) Senior management setting an example of internal control adherence.
- i) An internal audit program that incorporates a review of adherence to internal control.

2.5 Assessing Fraud and Corruption Risk

2.5.1 *Implementing a Policy for assessing the risk of fraud and corruption*

The Council has adopted a policy and process for the systematic identification, analysis and evaluation ('risk assessment') of fraud and corruption risk and periodically conducts a comprehensive assessment of the risks of fraud and corruption within its business operations.

The Council has considered that the frequency with which the Council should conduct an assessment of fraud and corruption risk is dependent upon factors such as the Council's size, diversity of business functions, geographic distribution, the extent to which the Council is monitored by other entities or regulators, the rate of technological change and the risks inherent within the industry sector in which the Council operates.

The Council has decided that such assessments are to be conducted every two years.

2.5.2 *Application of Risk Management principles to assessment of fraud and corruption risk*

The Council acknowledges that AS/NZS ISO 31000:2009 *Risk Management Principles and Guidelines* contemplates a seven stage process of risk assessment the main elements of which are:

- a) Communicate and consult - That is, communication and consultation with external and internal stakeholders should take place during all stages of the risk management process;
- b) Establish the context - That is, the organization articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process;
- c) Identify risks – That is, the organization should identify sources of risk, areas of impacts, events (including changes in circumstances) and their cause and their potential consequences;
- d) Analyse risks – That is, developing an understanding of the risks;
- e) Evaluate risks – That is, to assist decision makers, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation;
- f) Treat risks – That is, selecting one or more options for modifying risks, and implementing those options;
- g) Monitor and review – That is, this should be a planned part of the risk assessment process and involve regular checking or surveillance;

2.5.3 *Fraud and Corruption risk assessment process*

2.5.3.1 *Methodologies for assessing fraud and corruption risk*

It is noted that entities carrying out an assessment of fraud and corruption risk have traditionally used one of the following three alternative methodologies:

- a) Independent assessment of processes and procedures including a series of one-on-one interviews with relevant personnel and internal control documentation review.

- b) A survey of fraud and corruption risk by the issue and analysis of a questionnaire tailored for the Council or those business units or operational functions of the Council being assessed.
- c) A facilitated or consultative 'workshop' approach involving maximum input of personnel from the business unit being assessed wherein a 'risk assessment team' formed for each business unit identifies and assesses the risks relevant to the business unit.

The Council deploys each of these methods to facilitate compliance confidence and maintenance of awareness as follows:

- a) Fraud control framework review;
- b) Targeted fraud awareness training; and
- c) Fraud and corruption risk assessment.

2.5.3.2 Steps of the risk assessment process

The Council incorporates the following steps of the risk assessment process into the preparation of the Enterprise Risk Register having regard to the particular application of the process to the assessment of fraud and corruption risk:

- a) Risk identification;
- b) Risk analysis; and
- c) Risk evaluation.

2.5.4 Monitoring and Review

The Council will regularly monitor and review any changes to the context, its risk environment and the effectiveness and efficiencies of its controls as part of its overall risk management strategy.

2.6 Communication and Awareness

2.6.1 Awareness of fraud and corruption issues

The Council will ensure that every employee (management and non-management) will have general awareness of fraud and corruption and how he or she should respond if this type of activity is detected or suspected.

This is to be facilitated by the Fraud Awareness Program coordinated by the Internal Audit Committee every two years (unless deemed necessary earlier).

2.6.2 The need for fraud and corruption awareness

The Council acknowledges that the primary purpose of fraud and corruption awareness training is to assist in the prevention and control of fraud by raising the general level of awareness amongst all employees.

A significant proportion of fraud and corruption is not identified at an early stage because of the inability of Council's employees to recognize the warning signs, because they are unsure how to report their suspicions or they have a lack of confidence in the integrity of the reporting system or the investigation process.

2.6.3 *Fostering fraud and corruption awareness within the Council*

An awareness of the risk of fraud and corruption control techniques and the Council's attitude to control of fraud and corruption will be fostered by:

- a) Ensuring all appropriate employees receive training in the Council's Code of Conduct and other elements of its integrity framework at induction and throughout the period of their employment;
- b) Ensuring all employees receive regular fraud awareness training appropriate to their level of responsibility;
- c) Ensuring updates and changes to fraud-related policies, procedures, the Code of Conduct and other ethical pronouncements are effectively communicated to all employees;
- d) Ensuring employees are aware of the alternative ways in which they can report allegations or concerns regarding fraud or unethical conduct; and
- e) Encouraging employees to report any suspected incidence of fraud or corruption.

This is currently facilitated by the Fraud Awareness Program coordinated by the Internal Audit Committee.

2.7 Employment Screening

2.7.1 *Implementing a robust employment screening program*

The Standard suggests that the pre-employment screening process, based on the employment screening standard AS 4811-2006 is an effective way of reducing a Council's potential exposure to internally focused fraud and corruption.

The objective of the screening process is to reduce the risk of a potential security breach and to obtain a higher level of assurance as to the integrity, identity and credentials of personnel employed by the Council.

Pre-employment screening is undertaken by the Human Resource function for all new employees before commencing employment.

2.8 Supplier and Customer Vetting

2.8.1 *Verification of suppliers and customers*

The Council ensures the bona fides of suppliers by adhering to the Procurement Policy, Procedures and Practices developed in compliance with the Local Government Act (NSW) 1993 and Local Government (General) Regulations 2005.

The Council will consider its ongoing commercial relationship with the other party if the enquiry finds a heightened risk of fraud or corruption in continuing to deal with that party.

There is a constant requirement via the established processes to maintain an awareness to any contracted party manipulating the procurement process or soliciting the payment of secret commissions.

2.8.2 The case for vetting of suppliers and customers

While much fraud and corruption in Australia is instigated by persons internal to an organisation, the Council acknowledges that there is a growing sense that Australian business is becoming increasingly susceptible to externally instigated fraud.

In addition, there is growing evidence of the involvement of organized crime in external fraudulent attack on Australian corporations and government agencies.

Corruption typically perpetrated by external parties involves manipulation of the procurement process by paying or offering bribes.

The risk of fraud or corruption will be reduced if the Council knows who it is dealing with in all significant commercial transactions.

2.8.3 Enquiries to be undertaken

The Council has developed a process that provides for effective vetting of suppliers and customers which represents an extension of credit checks.

The Council acknowledges that if the customer or supplier is a corporation, the enquiries would typically include:

- a) Search of company register;
- b) ABN confirmation;
- c) Verification of the personal details of directors;
- d) Director bankruptcy search;
- e) Disqualified director search;
- f) Assessment of credit rating;
- g) Search of legal proceedings pending and judgments entered;
- h) Telephone listing verification;
- i) Trading address verification; and
- j) Media search.

Within the Council's procurement processes, various enquiries are made in respect to the bona fides of new suppliers.

It should be noted comprehensive review is undertaken of all proponents to contract and quotation award via the Procurement of Goods and Services Procedure.

2.9 Controlling the Risk of Corruption

2.9.1 Specific measures for countering the risk of corruption

The Council acknowledges that the following specific measures will be included in an anti-corruption program:

- A program for corruption resistance wherein the Council makes a strong anticorruption statement (in terms of both incoming and outgoing corrupt conduct) which is properly communicated and then consistently applied throughout the Council;
- Implementing a policy of personnel rotation so that improper relationships are less likely to develop;
- Consideration of requiring 'vendor audits' of 'high-risk' providers;
- Enhanced probity and contracting procedures;
- Opening channels of communication within the Council so that employees have a range of alternative avenues for reporting concerns in relation to possible corrupt conduct; and
- Opening channels of communication with customers, vendors and other third parties aimed at encouraging those parties to come forward if there is an indication of corrupt conduct involving the Council or any person associated with the Council.

The Council's procurement and tendering policies and procedures developed with reference to the requirements of the Local Government Act (NSW) 1993 and Local Government (General) Regulations 2005, are subject to regular continuous monitoring and improvement.

2.9.2 Other guidance

In developing the response to risks of corruption the Council has considered Transparency International's booklet titled 'Business Principles for Countering Bribery TI Six Step Process'. The booklet provides guidance on six anti-corruption fundamentals:

- Decide on a no-bribes policy;
- Plan the implementation;
- Develop the program content;
- Implement the program;
- Monitor the program; and
- Evaluate the program.

This document represented valuable guidance in establishing the Council's program specifically targeting corruption as contemplated by the Standard.

3 Detection

3.1 Implementing a Fraud and Corruption Detection Program

3.1.1 *Detection Systems*

The Council has implemented systems aimed at detecting fraud and corruption as soon as possible after it has occurred in the event that the Council's preventative systems fail.

These systems include the following:

- a) Whistleblowing procedures;
- b) Management system audits;
- c) Internal and external audit;
- d) Post-transactional review;
- e) Data mining and real-time computer system analysis to identify suspected fraudulent transactions; and
- f) Analysis of management accounting reports.

Note : Even in entities that have implemented a comprehensive fraud and corruption control program, it is possible that fraud or corruption will occur from time to time.

3.1.2 *Responsibility for the fraud and corruption detection program*

Responsibility for developing systems to investigate and detect fraud and corruption in the Council rests with the Internal Audit Committee.

A general awareness of the skills and techniques deployed in any detection program is considered of value at any opportunity including scheduled training sessions, management and Departmental meetings as appropriate.

3.1.3 *Post-transactional review*

A review of transactions after they have been processed can be effective in identifying fraudulent or corrupt activity.

Such a review conducted by personnel unconnected with the business unit in which the transactions were effected, 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 employees who would otherwise be motivated to engage in fraud and corruption.

3.1.4 *Data mining and real-time computer systems analysis*

The Council's information systems are an important source of information on fraudulent and, to a lesser extent, corrupt conduct.

By the application of sophisticated software applications and techniques, a series of suspect transactions can be identified and then investigated thus potentially detecting fraudulent and corrupt conduct at an early stage.

Strategic computer analysis may involve off-line and real-time techniques.

In off-line techniques, data is extracted from the computer system onto a personal computer system using appropriate software applications.

Real-time techniques will involve analysis of live data within the system.

3.1.5 *Analysis of management accounting reports to identify trends*

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

Some examples of the types of management accounting reports that can be utilized on a compare and contrast basis are monthly actual/budget comparison reports for individual cost centres, reports comparing expenditure against industry benchmarks and reports highlighting unusual trends in bad or doubtful debts.

3.2 Role of the External Auditor in the detection of fraud

3.2.1 *Working with the External Auditor in the detection of fraud*

As the Council's financial statements are audited by Thomas Noble Russell, it is familiar with the role and responsibilities of the auditor in detecting fraud.

Senior management and the Internal Audit Committee will undertake a discussion with the auditor in terms of the audit procedures that will be carried out during the audit that are aimed at detecting material misstatements in the Council's financial statements due to fraud or error.

3.2.2 *Leveraging from the external auditor fraud detection program*

- a) The Council takes a proactive position in relation to the external audit fraud detection program; and
- b) Offering such assistance as they may require to enable a more comprehensive examination of any issues arising.

3.3 Avenues for Reporting Suspected Incidents

3.3.1 *Implementation of a program for alternative reporting channels*

The Council will ensure that adequate means for reporting suspicious or known illegal or unethical conduct are available to all employees.

3.3.2 *The need for a formalised system of reporting*

Reports of behaviour involving possible fraud or corruption can be communicated to senior management through:

- a) The employees usual organisational structure (i.e. to senior management via the employee's immediate manager or supervisor); and
- b) To the Internal Auditor or Public Interest Disclosure Officer.

3.3.3 *Alternative avenues for reporting*

External alternative reporting channels are available and information can be obtained at Section 7 of the Public Interest Disclosure Policy.

3.3.4 *Implementing a whistleblowing procedure*

The Council has implemented a Public Interest Disclosure procedure for the active protection of disclosers and will ensure that the policy is well communicated and understood by all personnel.

3.3.5 *Further guidance on implementing a whistleblower protection program*

In order to encourage the prompt reporting of concerns and suspicions, the Council has adopted a policy of encouraging employees who have knowledge of fraudulent or corrupt conduct to come forward.

If employees do not feel able to report a fraud or corruption concern directly to their manager or supervisor they have alternative means of raising concerns and suspicions outside the usual channels.

Details of the alternative means of reporting suspicious or known illegal or unethical conduct are contained at Sections 6 and 7 of the Public Interest Disclosure Policy.

4 Response

4.1 Policies and Procedures

The Council has installed appropriate policies, procedures and awareness for dealing with suspected fraud or corruption detected through its detection systems or otherwise coming to their notice.

This has included the development and implementation of:

- a) Appropriate measures for the comprehensive investigation of such matters based on the principles of independence, objectivity and the rules of natural justice;
- b) Systems for internal reporting of all detected incidents;
- c) Protocols for reporting the matters of suspected fraud or corruption to the Police and/or other appropriate law enforcement agencies/regulatory bodies; and
- d) Policies for the recovery of stolen funds or property.

4.2 Investigation

Within the Council, the reporting channels for fraud or suspected fraud including the Public Interest Disclosure Procedures are clearly laid out in the Corruption Prevention and Fraud Control Policy. Investigations are undertaken independent of Internal Audit using appropriately qualified and experienced investigators.

4.3 Internal Reporting and Escalation

4.3.1 *Collating information in relation to fraud and corruption incidents*

The Council has considered whether it should establish a fraud and corruption incident register.

It is considered that the size of the Council does not warrant such a register being established as there is already reporting requirements of the NSW Ombudsman, Independent Commission Against Corruption and the Minister for Local for the various levels of fraud detected.

4.4 Disciplinary Procedures

4.4.1 *Disciplinary Procedures*

The Council have adopted the Disciplinary Policy of the NSW Local Government (State) Award 2014 which is available on the Council infont.

4.4.2 *Implementing a Disciplinary Procedures Policy*

The ultimate outcome of disciplinary proceedings may involve the admonition, termination, demotion, fining or reduction in seniority of an employee or other internal person.

An important element of the policy is the application of the rules of natural justice and fairness.

4.4.3 Separation of investigation and determination processes

It is important to separate the investigation and determination processes in relation to fraud or corruption incidents.

A description of the process followed in all disciplinary matters can be seen on page 72 of the NSW Local Government (State) Award 2014.

A decision relating to all disciplinary matters is made on the basis of the evidence and after applying the Disciplinary and Procedure of the NSW Local Government (State) Award 2014.

4.5 External Reporting

4.5.1 Implementing a policy dealing with external reporting of fraud and corruption

The Council has a zero tolerance to fraud and corruption.

Where evidence is established of fraud and/or corruption, involving the Council, either internally or externally, it will be reported to the authority deemed appropriate in the circumstances, including, but not limited to, NSW Police, NSW Ombudsman and the Independent Commission Against Corruption.

4.5.2 Format for reports to law enforcement agencies

Should it become necessary the Council will provide, as a minimum, the following items to the law enforcement agency in a manner required by the law enforcement agency to ensure minimal duplication of effort:

- a summary of the allegations.
- a list of witnesses and potential witnesses.
- a list of suspects and potential suspects.
- copies of all statements, depositions or affidavits obtained to that point including and in particular, any written statement made by the subject of the investigation.
- a copy of the transcript of any interview conducted with a person suspected of involvement in the matters alleged.
- a copy of any electronic media on which such interviews have been recorded.
- copies of all documentary evidence obtained to that point (ultimately the law enforcement agency will probably require the original documents, in which case copies should be retained by the Council).
- any charts or diagrammatical summaries of the allegations and evidence that the Council may have produced.

4.5.3 Commitment to assist law enforcement

In the event that a decision is made to refer the matter to the appropriate law enforcement agency, the Council will give an undertaking to the law enforcement agency that it will do all that is reasonable in assisting the law enforcement agency to conduct a full and proper investigation.

This may involve the Council committing financial and other resources to an investigation either for or independently of the law enforcement agency.

4.6 Civil action for recovery of losses – Policy for Recovery Action

The Council will initiate appropriate recovery action where there is clear evidence of fraud or corruption and where the likely benefits of such recovery will exceed the funds and resources invested in the recovery action.

4.7 Review of Internal Controls

4.7.1 Internal Control review following detection of a fraud or corruption incident

In each instance where fraud is detected, the Internal Auditor and line management 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 consider whether improvements are required.

Where improvements are required, these should be implemented as soon as practicable.

4.7.2 Accountability for undertaking internal control review

The responsibility for ensuring that the internal control environment is re-assessed and for ensuring that the recommendations arising out of this assessment are implemented will reside with the Internal Audit Committee and the Senior Management of the Council.

A summary of recommendations or requirements for the modification of the internal control environment should be provided to the manager of the department concerned.

4.8 Insurance – Consideration of the need for Fidelity Guarantee Insurance

The Council maintains an extensive Fidelity Guarantee Policy that insures the Council against the risk of loss arising from internal fraudulent conduct.

Appendix 1 Corruption Prevention & Fraud Control Policy