



## Fraud and Corruption Control Policy and Plan

<b>Policy</b>	2F
<b>Officer Responsible</b>	Director Corporate Services
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# POLICY

## INTRODUCTION

Council is committed to preventing fraud at its origin and believes that an emphasis on prevention and detection is the best way to deal with fraud. The focus of Council's policy and plan on fraud control is to encourage the public and staff to understand that fraudulent and corrupt acts against Council are unacceptable, may constitute a criminal offence and will be prosecuted.

This is required as Council is entrusted to manage its assets and resources in a responsible, ethical and efficient manner.

It is therefore important that all Councillors, Council staff, delegates, volunteers, contractors, consultants, committee members and customers have clear direction and an understanding of the expected behaviours and actions that they must abide by.

This policy has the following objectives:

- To ensure that councillors, staff and council representatives are aware of their responsibilities for identifying possible exposures to fraudulent activities and for establishing controls and procedures for preventing such fraudulent activities and or detecting such fraudulent activity when it occurs.
- To provide guidance as to the action which should be taken where fraudulent activity is suspected.
- To provide clear guidance as to the process of investigating fraudulent activities, and provide a suitable environment to report such matters.

This policy should be read in conjunction with Council's Code of Conduct and Business Ethics Statement and the Internal Reporting System.

## DEFINITIONS

**AS8001 – 2008** is the Fraud and Corruption Control Standards by Standards Australia.

**Corruption** – corruption and corrupt conduct are defined in the ICAC Act 1988 (s.7, 8, 9) as:

- Conduct of a person (whether or not a public official) that adversely affects, or could affect the honest and impartial exercise of public official functions, or
- Conduct of a public official that involves the dishonest or partial exercise of any of his or her public official functions, or
- A breach of public trust, or
- The misuse of information or material acquired in the course of a public official's functions.

Additionally, corrupt conduct can also be the conduct of any person (whether or not a public official) that adversely affects or could affect the exercise of official functions and involves conduct such as bribery, blackmail, fraud, forgery and various other crimes.

For conduct to be corrupt it must be covered by one of the conditions above and also any one of the following:

- A criminal offence;
- A disciplinary offence; and/or
- A situation where there are reasonable grounds for dismissal or dispensing or terminating the Councillor or a public official.

Fraud - Council has adopted the definition of fraud contained in the Australian Standard 8001-2008 on fraud and corruption control, which defines it as:

Dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity 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.

**Fraud Control Improvement Kit** - The kit that has been developed by the Audit Office of NSW to help organisations deal with fraud.

**Public Official** - includes Councillors, Council staff, contractors, volunteers, Council committee members and delegates of Council.

## **FRAMEWORK**

The administration of this policy is based around a holistic approach to fraud, and involves actions on the following fronts:

- Prevention – to establish and maintain a good governance framework through well established procedures that reduce the chances of fraud;
- Detection – sound auditing and checking procedures to deal with any transactions or activities that do not align with the expected procedures, and
- Response – detailed reporting and investigation procedures to deal with any potential fraud. A sound response system includes appropriate action to deal with any fraudulent activity.

The Audit Office has established a 10 attribute framework to deal with fraud as follows:

- Leadership;
- Ethical framework;
- Responsibility structures;
- Fraud control policy;
- Prevention systems;
- Fraud awareness;
- Third party management systems;
- Notification systems;
- Detection systems; and
- Investigation systems.

The Council's fraud framework is built around the above 10 attributes, as detailed in the Fraud Control Improvement Kit.

### **1 Leadership**

A successful fraud control framework is led by a committed and accountable executive. The Council, General Manager and Directors will lead the organisation in the development of the fraud framework.

### **2 Ethical Framework**

The Council has adopted and established the following documents in delivering the sound and ethical culture and behaviour required of public officials in the prevention of fraud and corruption throughout the organisation:

- The Model Code of Conduct as developed by the Office of Local Government, and
- The Council's established set of Values.

Senior staff shall set the example in regards to exercising and demonstrating high levels of integrity in the execution of their roles and functions by regular training of and reinforcement through internal communications to staff of the importance of complying with Council's Code of Conduct and the Internal Reporting Policy and Procedure.

### **3 Responsibility Structure**

The General Manager and Directors are authorised to receive reports of fraud. If the suspected fraud relates to the General Manager, then the matter can be reported to the Mayor, as per the reporting mechanism for the Model Code of Conduct.

Reports regarding suspicious and/or illegal activities can also be reported directly to external agencies including:

- NSW Police Force
- Office of Local Government
- The NSW Independent Commission Against Corruption (ICAC)
- The NSW Ombudsman.

All staff are expected to report known or suspected fraud to the Mayor, General Manager or Directors as soon as possible.

### **4 Fraud Control Policy**

The Fraud and Corruption Control policy sets out the Council's system of fraud control and covers the responsibilities for managing fraud.

### **5 Audit, Risk and Improvement Committee**

The Audit, Risk and Improvement Committee (ARIC) has been established and assists in reviewing the effectiveness of Council's fraud and corruption control strategies and plan.

### **6 Prevention Systems**

The Council's prevention system consists of the following features:-

- Fraud Risk Assessments – as detailed in the Risk Framework;
- Fraud Control Plan;
- Fraud Database – register established to record all incidents;
- Ethical workforce – pre-employment screening to ensure staff employed are of the highest ethical behaviour;
- Separation of duties – to ensure no one staff member controls a process entirely;
- Delegations of authority – to ensure measures are in place to control activities;
- Position descriptions, Charters for Committees – limit the level of activity public officials can undertake;

### **7 Third Party Management Systems**

The Council establishes appropriate controls, segregation of duties and delegations of authority to deal with third parties.

The Council has established a Statement of Business Ethics Policy to reinforce the expected standards of behaviour for public officials and any third parties dealing with Council.

### **8 Reporting**

Although audits and reviews may be undertaken to detect incidence of fraud and corruption, most incidences are identified by staff members or the public. All staff are encouraged to promptly report any suspicions of fraud and corruption that they become aware of.

Consistent with its strong commitment to ensuring an ethical workplace, Council has developed an Internal Reporting Policy, in accordance with the Protected Disclosures Act 1994, which facilitates the reporting of suspicions of corrupt conduct, maladministration, or serious and substantial waste of public money. This guidance material helps staff and the public make protected disclosures and complements existing communication channels between supervisors and staff.

Staff and members of the public can make a Public Interest Disclosure and protect their identity, if they so desire.

Reporting directly to Council is an option for staff and the community. Reporting to an external entity as detailed under the “Responsibility Structure” is also available.

## **9 Detection Systems**

Various internal control measures have been established to help detect fraud and these include:

- segregation of duties
- approvals and authorisation
- verification
- reconciliations
- management reviews
- risk assessments
- physical security
- job rotation
- internal and external audits.

## **10 Investigation Systems**

When an allegation of fraud is made against an employee, the General Manager and / or Director(s), will discuss the matter with the person making the allegation. This person may be asked to make a written statement regarding the allegations.

The staff member alleged to have committed the fraud may be interviewed during this preliminary stage. Staff members can be accompanied during the interview by their manager or other nominated member of staff.

The applicable Director will organise a preliminary assessment of the allegation and provide details to the General Manager on the findings. If the allegation is serious enough and / or the evidence is compelling, then the matter may warrant a full investigation. In the event that the General Manager is the subject of a suspected fraud, the matter must be reported to the Mayor and the Mayor is responsible for investigating the suspected fraud with the assistance of appropriate staff (consistent with the Procedure for the Administration of the Code of Conduct or the Public Interest Act 1994 – Procedure for Assessing Disclosures and Investigations).

If a full investigation is to be followed, the General Manager / Mayor will need to determine whether the matter is referred to an external agency such as the NSW Police, ICAC or the NSW Ombudsman. The General Manager / Mayor may wish to refer it to the Code of Conduct Complaints Coordinator and have the matter referred to using the Code of Conduct Investigation procedures.

Investigations are to use appropriate and legal data gathering and analysis mechanisms to come to valid conclusions. (Refer Public Interest Act 1994 – Procedure for Assessing Disclosures and Investigations).

Table 1 Assessing Disclosures and Flowcharts, from Council's Procedure for Assessing Public Interest Disclosures and Investigations, provides an overview of the process.

## **TRAINING AND COMMUNICATION**

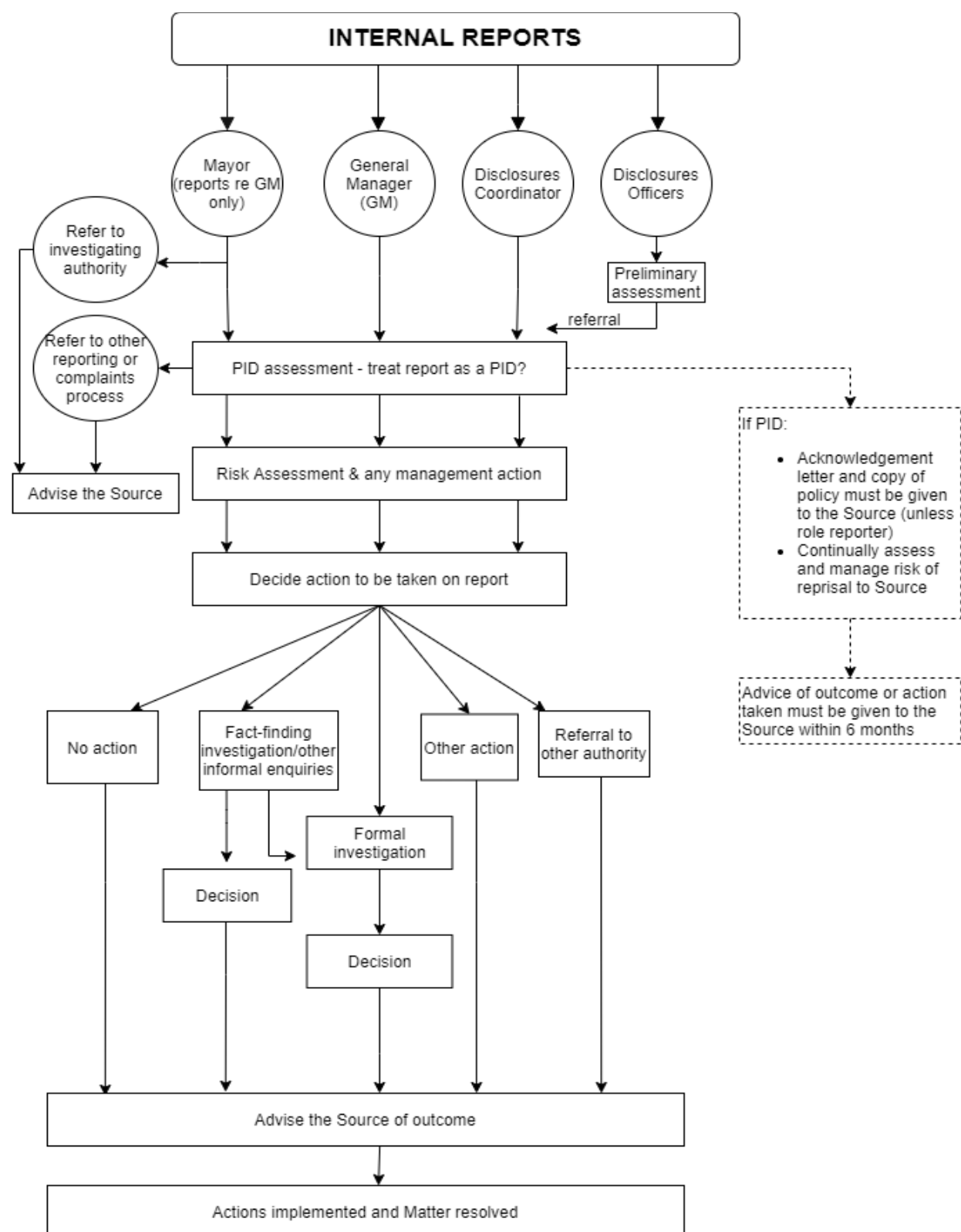
This Policy will be communicated to staff through Council's Internal Communication methods.

## **DISCIPLINARY ACTION**

Where internal investigations confirm fraud has occurred, appropriate disciplinary action will be recommended having regard to Council's Code of Conduct, the relevant industrial instrument and other relevant legislative provisions.

Pursuant to section 440D of the Local Government Act 1993, the General Manager may temporarily suspend a member of staff in connection with serious corrupt conduct. Serious corrupt conduct is defined as corrupt conduct that may constitute a serious indictable offence done in connection with the exercise of the staff member's duties.

Table 1: Assessing Disclosures and Flowcharts





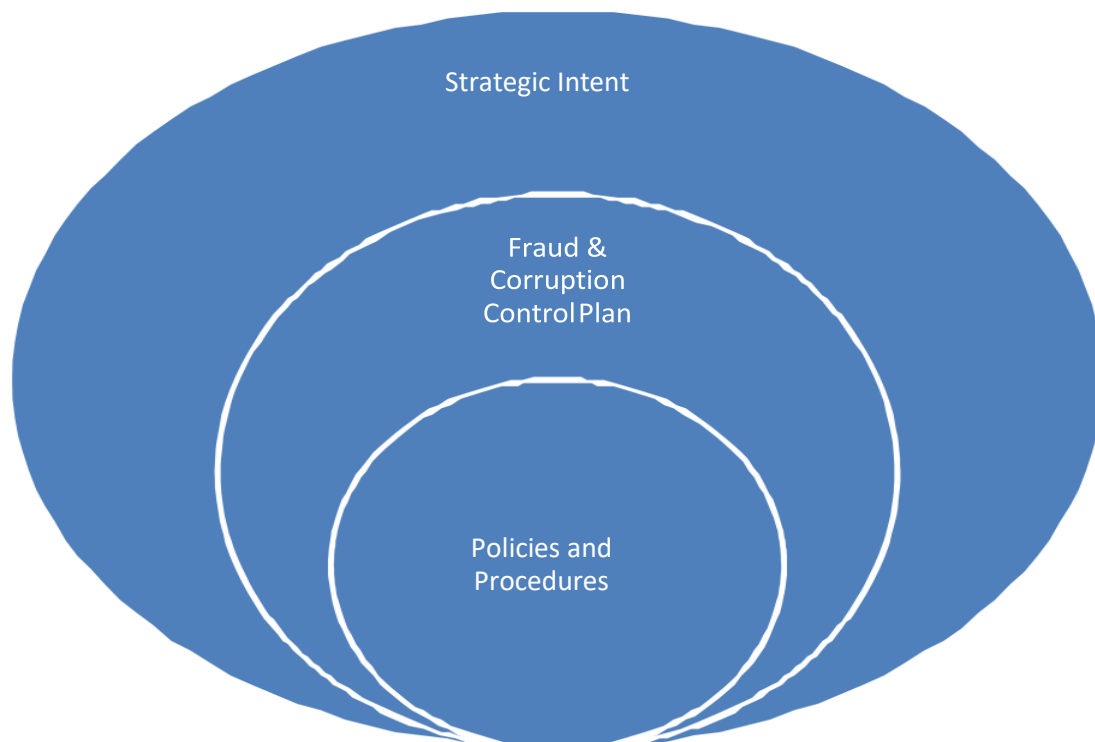
# FRAUD AND CORRUPTION CONTROL PLAN

## INTRODUCTION

This plan 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
- Fraud and Corruption Control Policy
- Code of Conduct
- 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 Fraud and Corruption Control Policy.

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.

## STATEMENT

Blayney Shire Council is committed to a work environment that is resistant to fraud and corruption and is dedicated to implementing effective measures to minimise fraud and corruption risks.

Blayney Shire Council does not tolerate fraudulent or corrupt behaviour and will take appropriate action against Council officers, contractors and elected members who have participated in such behaviour, and those who allowed it to occur.

## SCOPE

The Fraud and Corruption Prevention Plan applies to:

- Councillors
- Council Officers
- Contractors working for Blayney Shire Council
- Other people who perform public official functions on behalf of Council, such as volunteers

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- Conduct of a public official that involves the dishonest or partial exercise of any of his or her public official functions, or
- A breach of public trust, or
- The misuse of information or material acquired in the course of a public official's functions.

Additionally, corrupt conduct can also be the conduct of any person (whether or not a public official) that adversely affects or could affect the exercise of official functions and involves conduct such as bribery, blackmail, fraud, forgery and various other crimes.

For conduct to be corrupt it must be covered by one of the conditions above and also any one of the following:

- A criminal offence;
- A disciplinary offence; and/or
- A situation where there are reasonable grounds for dismissal or dispensing or terminating the Councillor or a public official.

**Fraud** - Council has adopted the definition of fraud contained in the Australian Standard 8001-2008 on fraud and corruption control, which defines it as:

Dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity 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.

**External Fraud** - Fraud committed against Council by non-Council staff such as by customers, suppliers or contractors.

**Internal Fraud** - Fraud that is also known as "workplace fraud". It is fraud that is committed by Council staff in the workplace of Council.

Whilst internal fraud forms part of corrupt conduct, it is delineated here as a separate entity due to the fact that internal fraud can be perpetrated by an individual acting alone, also fraud in its own right occurs predominately when governance systems in place fail. i.e. that fraud is possible when systems in place are deficient and an organisation's resistance to fraud is ultimately found within the structures of the organisation.

## **AREAS WITHIN COUNCIL WHERE FRAUD AND CORRUPTION MAY OCCUR**

Fraud and corruption may occur in Council in the following areas:

- Managing people – delegations, recruitment, supervision of staff, secondary employment.
- Managing external relationships – conflicts of interest, procurement, commercial activities, joint ventures, sponsorship.
- Managing services and products – client relationships, community affiliations, regulatory functions, and resource allocation.
- Managing money – accounts management, cash handling, credit cards, grants and program funding, payroll.
- Managing information – confidential information, electronic transactions, IT systems.
- Managing assets – disposal of goods and property, intellectual property, management of resources, use of resources.

## **CORRUPT CONDUCT**

In addition to the above definition, corrupt conduct is also any conduct of any person (whether or not a public official) that adversely affects, or that could adversely affect, either directly or indirectly, the exercise of official functions by any public official, any group or body of public officials or any public authority.

Conduct may amount to corrupt conduct under this section even though it occurred before the commencement of this policy, and it does not matter that some or all of the effects or other ingredients necessary to establish such corrupt conduct occurred before this policy was adopted and that any person or persons involved are no longer public officials.

Conduct committed by or in relation to a person who was not or is not a public official may amount to corrupt conduct under this section with respect to the exercise of his or her official functions after becoming a public official.

Conduct may amount to corrupt conduct even though it occurred outside the State or outside Australia, and matters listed in subsection (2) refer to:

- matters arising in the State or matters arising under the law of the State, or
- matters arising outside the State or outside Australia or matters arising under the law of the Commonwealth or under any other law.

The specific mention of a kind of conduct in a provision of this section shall not be regarded as limiting the scope of any other provision of this section.

## **AREAS OF POSSIBLE RISK**

Based on studies by ICAC the following public sector operational areas and functions are perceived to have high fraud and corruption risk ratings:

- Financial functions – such as the receipt of cash, revenue collection and payment systems, salaries and allowances, and entertainment expenses
- Construction, development and planning functions – ranging from land rezoning or development applications to construction and building activities
- Regulatory functions – involving the inspection, regulation or monitoring of facilities and operational practices, including the issue of fines or other sanctions
- Licensing functions – such as the issue of qualifications or licences to indicate proficiency or enable the performance of certain activities
- Demand driven or allocation-based functions – where demand often exceeds supply, including the allocation of services, or the provision of subsidies, financial assistance, concessions or other relief
- Procurement and purchasing functions – including e-commerce activities, tendering, contract management and administration
- Other functions involving the exercise of discretion, or where there are regular dealings

between public sector and private sector personnel (especially operations that are remotely based or have minimal supervision).

## DETECTION

Local Government is susceptible to fraud and no system of preventative controls can provide absolute assurance. As such, Council has systems established through the Fraud and Corruption Control Plan to assist with the detection of fraud as soon as possible after it has occurred, in the event that the Council's preventative systems fail.

The source of fraudulent activity may be:

- Internal:** perpetrated by an employee or contractor of an organisation;  
**External:** perpetrated by a customer or an external service provider; or  
**Complex:** involve collaboration between employees, contractors, and external service providers.

Measures to detect internal, external, and complex fraud fall into two main categories, passive measures and active measures:

Passive measures	Active measures
Include controls or activities that do not require the active and ongoing involvement of management, but exist as a means by which fraud is detectable within an organisation.	Include controls that require the assertive involvement of management and by their nature are designed to detect or assist in detecting fraud within an organisation.

Key elements of fraud and corruption detection will include:

### Compliance with policies and procedures

Management and staff are required to ensure that Council policies for which they are responsible or administer are implemented in accordance with not only the policy but also the associated procedural framework.

### Integrity Reviews

The Director Corporate Services will lead a program of integrity reviews in the application and administration of key Council policies, where fraud or corruption is identified as a risk. This may include:

- post transactional reviews of payroll
- post transactional reviews of payments
- procurement practices
- strategic information analysis

### Annual Fraud Review

The Director Corporate Services will lead an annual Fraud Review, reported to Manex and subsequently the Audit, Risk and Improvement Committee, including assessment against the following categories:

- Prevention
- Detection (passive measures)
- Detection (active measures)

### Warning signs (red flags)

Awareness of warning signs (red flags) for possible fraud or corruption is a useful method of detection. Often fraud indicators are inter-related and in some situations, evidence of one indicator may imply a potential risk but may not constitute fraud or corruption. The more inter-related indicators identified, the higher the risk of potential fraud or corruption.

### **Internal fraud**

Examples of Internal Fraud perpetrated on Councils include:

- Unauthorised use of Council plant and equipment
- Claiming un-worked hours on time sheets
- Theft of money or goods from Council or its customers
- Allowing contractors to not fully meet contract requirements
- Deliberate transfer or miscoding of financial transactions to achieve favourable reported budget outcomes in a performance bonus environment

Early warning signs: people

- Unexplained and/or sudden sources of wealth
- Unwillingness to share duties, refusal to take leave
- A lifestyle above apparent financial means; the provision of gifts to other staff members
- Failure to keep records and provide receipts
- Refusal to implement internal controls
- The replacement of existing suppliers upon appointment to a position or unusually close association with a vendor or customer
- Employees who are aggressive or defensive when challenged, and/or controlling of certain colleagues
- Poorly reconciled cash expenses or customer accounts
- Employees known to be under external financial pressure
- Employees under apparent stress without identifiable pressure
- Employees making procedural or computer enquiries inconsistent or not related to their normal duties
- Managers/Staff who avoid using established procurement processes (e.g. Purchases with credit cards to purchase items outside the procurement framework or established practices)
- Employees who appear to make a large number of mistakes, especially those leading to financial loss
- Employees with competing or undeclared external business interests
- Employees (especially managers) with too much hands-on control
- An unusual number of customer complaints, and/or customers or suppliers insisting on dealing with just one individual

Early warning signs: areas and activities

- Financial information reported is inconsistent with key performance indicators
- High overheads
- Reconciliations of subsidiary ledgers to general ledger not up to date
- Abnormally high and increasing costs in a specific cost centre function
- Inadequate segregation of duties

### **External fraud**

Examples of External Fraud perpetrated on Councils include:

- Theft of money or goods from Council
- Obtaining benefits by use of false identity or false qualifications
- Supplying goods or services of a lower standard or quality than promised
- Client applications for government assistance with inconsistent signatures, mismatched fonts or handwriting on different pages of the same document
- Invoices which look different to previous invoices issued by the same provider
- Lack of supporting evidence, or falsified supporting evidence, that eligibility criteria for grant or community funding has been met
- Expenditure has exceeded approved budgets for grant funding but there is not adequate information to explain the variance
- A high volume of transactions from one service provider, such as a registered training

organisation, used to support a licence, may indicate collusion between applicants and the provider

- A high volume of attempts to obtain sensitive information such as usernames, passwords and credit card details (e.g. Phishing emails, whaling attacks).

### **Corruption**

- Taking or offering bribes (this could be in the form of cash, vouchers, gifts, free tickets, merchandise, product or services)
- Awarding contracts to family or friends
- Using or leaking privileged information for personal benefit
- An employee seeking or being offered a discount from a council supplier for a personal purchase / contract, where there may be a perceived or actual conflict.
- Continued use of suppliers or contractors that do not meet required performance standards
- Intentional steering or preference toward a particular supplier through a tender evaluation process by a panel member

## **BUILDING A FRAUD AND CORRUPTION RESISTANT CULTURE**

Council will at all times promote an organisational culture that demonstrates complete intolerance of corrupt behaviour or misconduct. The foundation of these principles is to be found in the Model Code of Conduct that each member of the organisation must adhere to. The Fraud Control Plan is framed to build upon the Code of Conduct and translate the emphasis on the individual to include the organisation and the systems by which it operates.

It is vital for any public organisation to maintain public confidence to ensure the organisation has the credibility to carry out its function with the authority of its stakeholders. Council must deal with any corruption or fraud related issue, whether perceived or realised, in the following manner to maintain such public confidence:

- Any matter is to be dealt with expediently with no undue delay
- Any matter is to be dealt with as transparently as practicable with accountabilities and responsibilities clearly defined
- Any matter must be dealt with thoroughly to ensure all possible elements of corruption or misconduct have been considered and examined

All levels of the organisation must remain vigilant and committed to maintenance of a resistant culture to unethical behaviour. Ultimately the General Manager and Directors are to provide leadership and direction at all times in exemplifying the principles of Council's Code of Ethics.

## **FAIRNESS AND DUE PROCESS**

Whilst it is important to be diligent in dealing with any allegation of fraudulent or corrupt conduct by staff, it is equally important to ensure that the basic civil rights and welfare of Council staff involved are not inappropriately managed. This means that all staff must be presumed innocent until sufficient proof is found to establish otherwise. Staff under investigation will continue to be given support in particular with regard to welfare if they find themselves subject to such an investigation or inquiry. Equally however, Council will take all steps to ensure a vigorous and thorough examination is carried out within the legal and ethical parameters available.

In a similar vein, Council staff who report fraudulent or corrupt behaviour and/or are witnesses to such incidents, disclosed under the Public Interest Disclosures: Internal Reporting Policy, will also be given every support reasonably available to them as they are entitled to under present legislation. Confidentiality for all involved parties will be protected as much as is practicable in any given circumstance by Council.

Staff will have the Council's support if mistakes or omissions arise whilst the officer is acting in good faith. This plan and Council's associated policy should not be construed as a departure from this approach.

## **RELATED INFORMATION**

### Legislation

Local Government Act (LGA) 1993  
Local Government (General) Regulation 2005  
Independent Commission Against Corruption Act 1988  
Public Interest Disclosures Act 1994  
NSW Audit Office Fraud Control Guidelines  
Australian/New Zealand Standard on Risk Management  
Workplace Video Surveillance Act 1998  
Ombudsman Act 1974  
Public Finance and Audit Act 1983  
Police Integrity Commission Act 1996  
Government Information (Public Information) Act 2009

### Council Policies

1A Payment of Expenses and Provision of Facilities to Mayor and Councillors Policy  
1B Code of Conduct  
2C Complaints Management Policy  
2D Internal Reporting Policy  
2D Internal Reporting Policy  
2E Gifts and Benefits Policy  
2H Business Ethics Policy  
2I Enterprise Risk Management Policy & Plan  
3G Procurement of Goods and Services Policy  
4C Corporate Credit Card Policy  
8A Internet and Email and Internet Policy  
8C Information Technology Security and Usage Policy  
8G Information Security Policy  
11C Privacy Management Plan

**End of Policy**

<b>Adopted:</b>	<b>11/08/2008</b>	<b>08/209</b>
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