Policy Title:	**FRAUD PREVENTION AND MANAGEMENT POLICY**
Policy Subject:	Governance
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Directorate:	Organisational Services
Department:	Governance & Customer Service
Section:	Audit & Risk
Responsible Officer:	Executive Manager Governance & Customer Service
Authorised by:	Director Organisational Services
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PURPOSE

The purpose of this policy is to demonstrate Fraser Coast Regional Council's (FCRC) commitment to the identification and management of fraud risk. Council has a zero tolerance for fraud and corruption. As part of its corporate responsibility and obligation to all stakeholders, Council will ensure that systems, procedures and management practices are in place to prevent, detect, respond and monitor fraudulent activity.

SCOPE

This policy applies to any fraud, or suspected fraud, involving Council employees, elected members, contractors, consultants, volunteers, vendors or any other party with a business relationship with the FCRC.

ROLES AND RESPONSIBILITIES

Role of Council

Council as a whole will act with integrity, honesty and transparency when managing council operations and services to the community.

Council is responsible for ensuring that appropriate measures are in place and tested for the prevention and detection of fraud.

Role of Councillors

Councillors are to carry out their responsibilities in accordance with the requirements of Section 4 (2) of the *Local Government Act 2009* (Queensland) and the Fraser Coast Regional Council Code of Conduct for Councillors.

Councillors should approve, support and endorse any policy or process that helps prevent (includes deter, detect, resolve allegations of or instances of fraud) within council.

Role of the Chief Executive Officer
The CEO shall ensure that there are appropriate practices, measures and systems in place to manage fraud prevention and management within council.

Role of Management
Management under the direction of the CEO are responsible for ensuring that there are appropriate practices, measures and systems in place to manage fraud prevention and management, especially in the area over which they have responsibility.

Role of Council Employees
Council Employees are responsible for the detection and prevention of fraud within their areas of responsibility and are encouraged to report any suspected case of fraud.

Role of the FCRC Audit Committee
The Fraser Coast Regional Council audit committee plays an integral role in monitoring and reviewing the effectiveness of fraud control activities. The audit committee is also responsible for ensuring that appropriate processes and systems are in place to capture and effectively investigate fraud related information.

REPORTING SUSPECTED FRAUDLENT ACTIVITY

Employees are encouraged to report suspected unethical behaviour and play a crucial role in controlling fraud and corruption.

If an employee suspects that another employee or a Councillor is involved in fraudulent behaviour, it should be reported to their Supervisor or Manager who will refer as necessary for investigation to People Development, the Chief Executive Officer (CEO) or the Mayor.

People Development manage an internal reporting system to record all complaints and allegations of fraud received both internally and externally through agencies like Crime and Corruption Commission and Ombudsman, including how they were addressed.

Various legislation sets out the requirements for Council to report matters of fraud and corruption to the Crime and Corruption Commission (CCC), Queensland Police Service and Queensland Audit Office. All allegations of fraud are assessed by an appropriate staff member to determine Councils obligations for reporting them to the relevant external agency.

RESPONDING TO FRAUD ALLEGATIONS

All suspicions of fraud and allegations made by employees, contractors, and members of the public will be investigated. All investigations will be handled confidentially and dealt with appropriately either by criminal, disciplinary or administrative mechanisms suitable to the particular case.

Stakeholders can be reasonably assured that perpetrators of fraudulent behaviour will be identified and the appropriate action taken to promote an environment in which fraud is not tolerated.

RELATED LEGISLATION:

1.   Local Government Act 2009
2.   Financial Accountability Act 2009
3.   Crime and Corruption Act 2001 (the CC Act)
4.   Public Interest Disclosure Act 2010

RELATED DOCUMENTS (LOCAL LAWS, POLICIES, DELEGATIONS, ETC):

1.   Fraser Coast Regional Council Risk Management Policy
2.   Fraser Coast Regional Council Code of Conduct
3.   Fraser Coast Regional Council Code of Conduct for Councillors
4.   Fraser Coast Regional Council Administrative Action Complaints Process

REFERENCES:

1.   ANAO, Better Practice Guide – Fraud Control in Australian Government Entities
2.   LGAQ Local Government Fraud Prevention and Management Guide
3.   QAO Fraud risk management Report to Parliament 9 : 2012-13
4.   Corruption in Focus: a guide to dealing with corrupt conduct in the Queensland public sector

ATTACHMENT TO POLICY:

1.   Fraud Control Strategy

DEFINITIONS:

Fraud

Fraud is characterised by intentional deception to facilitate or conceal the misappropriation of assets or a false representation or concealment of material fact for the purpose of inducing another party to act upon it to their financial injury.

Fraud also includes corruption or a breach of trust or confidentiality in the performance of official duties in order to achieve some personal gain or advantage for themselves or another person or entity.

A basic test for fraud could include the following questions:

•   Was deceit used?
•   Was the action unlawful?
•   Did it result in money or other benefits being received to which the person was not entitled?
•   Was a deliberate attempt made to do this?

Misconduct

Conduct which is not serious misconduct, but which is nonetheless conduct which is unsatisfactory.

Official Misconduct

Official Misconduct is defined as any misconduct connected with the performance of an officer's duties that:

- Is dishonest or lacks impartiality,
- Involves a breach of trust, or
- Is a misuse of officially obtained information.

To be considered official misconduct, the conduct must constitute a criminal offence or be serious enough to justify dismissal.

<u>Corruption</u>

Corruption is the misuse of one's powers to gain personal advantage.

The behaviour need not necessarily be criminal. The Australian Standard on Fraud and Corruption Control defines corruption as dishonest activity in which a director, executive, manager, employee or contractor of an entity acts contrary to the interests of the entity and abuses their position of trust in order to achieve some personal gain or advantage for themselves or for another person or entity.

<u>Corrupt Conduct</u>

Under section 15 of the *Crime and Corruption Act 2001* corrupt conduct means conduct of a person, regardless of whether the person holds or held an appointment, that;

(a)   adversely affects, or could adversely affect, directly or indirectly, the performance of functions or the exercise of powers of;

    (i)   a unit of public administration; or

    (ii)   a person holding an appointment; and

(b)   results, or could result, directly or indirectly, in the performance of functions or the exercise of powers mentioned in paragraph (a) in a way that;

    (i)   is not honest or is not impartial; or

    (ii)   involves a breach of the trust placed in a person holding an appointment either knowingly or recklessly; or

    (iii)   involves a misuse of information or material acquired in or in connection with the performance of functions or the exercise of powers of a person holding an appointment; and

(c)   is engaged in for the purpose of providing a benefit to the person or another person or causing a detriment to another person; and

(d)   would, if proved, be;

    (i)   a criminal offence; or

    (ii)   a disciplinary breach providing reasonable grounds for terminating the person's services, if the person is or were the holder of an appointment.

Under the CC Act, conduct includes:

- neglect, failure and inaction;
- conspiracy to engage in conduct; and
- attempt to engage in conduct.

Examples of Corrupt Conduct

The CC Act provides examples of conduct that could be corrupt conduct, including:

- abuse of public office;
- bribery, including bribery relating to an election;
- extortion;
- obtaining or offering a secret commission;
- fraud, stealing or forgery;
- perverting the course of justice;
- an offence relating to an electoral donation;
- loss of revenue of the state;
- sedition;
- homicide, serious assault or assault occasioning bodily harm or grievous bodily harm;
- obtaining a financial benefit from procuring prostitution or from unlawful prostitution engaged in by another person;
- illegal drug trafficking;
- illegal gambling.

ATTACHMENT 1 – Fraud Control Strategy

PURPOSE

The purpose of the Fraud Control Strategy is to:

- demonstrate Fraser Coast Regional Council's commitment to a zero tolerance attitude towards fraud and corruption;
- provide guidance on how FCRC will manage the prevention of fraud;
- Minimise opportunities for fraud through effective internal controls, promoting ethical leadership and culture and staff awareness;
- assist in the detection of all instances of fraud and corruption against Council;
- establish procedures for appropriate reporting and investigation of fraud;
- assist compliance with statutory obligations;
- encourage ethical dealings at all levels of the organisation; and
- protect the reputation of Council.

PROVISIONS

The following elements constitute Council's Fraud Control Strategy:

1. Fraud Control

2. Fraud Prevention

   2.1 *Internal control environment*
   2.2 *Ethical leadership and culture*
   2.3 *Employee recruiting and contractors*
   2.4 *Staff awareness and education*

3. Fraud Detection

   3.1 *The role of Internal audit*
   3.2 *Reporting suspected fraud*
   3.3 *Fraud and corruption register*

4. Fraud Response

   4.1 *Recording and reporting allegations of fraud*
   4.2 *Duty to notify the CCC about corrupt conduct*
   4.3 *Fraud investigation*

5. Fraud Monitoring

6. Exposure to Fraud Risk

7. Possible Indicators of Fraud

1. FRAUD CONTROL

Fraud control refers to the integrated set of activities to prevent, detect, investigate and respond to fraud and to the supporting processes such as staff training and the prosecution and penalisation of offenders.

The Australian National Audit Office recognises four key strategies to achieve an effective fraud control framework:

- Fraud prevention;
- Fraud detection;
- Fraud response; and
- Fraud monitoring, reporting and evaluation

2. FRAUD PREVENTION

Fraud prevention involves those strategies designed to prevent fraud from occurring in the first instance. Strategies to prevent fraud at Council include:

- Adopting appropriate internal controls;
- Promoting Ethical leadership and culture;
- Ensuring employee recruitment policy and practice underpins Fraud and Corrupt Conduct prevention; and
- communication and education programs to raise and maintain awareness of employees.

2.1 Internal Control Environment

Council will ensure that the following internal control mechanisms are in place to prevent and reduce the likelihood of fraudulent behaviour:

- A periodic review of Council operations and an assessment of Council's exposure to risk through an ongoing internal audit process;
- External audit review and the focus on the accuracy of financial systems and the reporting process;
- Accountability of management for the results and deviations from budget in the reporting for their respective departments;
- The accurate recording of Council assets and regular checks performed to ensure significant items are present;
- Adopted recruitment policies, based on merit selection process, are adhered to and include the confirmation of all relevant employee details and the thorough checking of references;
- Managers regularly review work practices that are open to collusion or manipulation and those clear duties where segregation cannot be achieved;
- Procedures in relation to the private use of Council assets by staff;
- Regular review by Managers of staff access levels to corporate systems and controlled areas;
- A delegations register to be maintained and reviewed on a regular basis;
- A Register of Interests established for elected members, Chief Executive Officer (CEO), Senior Executives and other employees which is reviewed on a regular basis;
- A Gift Register which is promoted in employee Code of Conduct training whereby employees are informed of instances they should be registering gifts that have been given to them;
- Informing complainants of the consequences for making false or vexatious claims.

2.2   Ethical Leadership and Culture

Council expects its elected members and staff to maintain a high standard of ethical conduct in all activities, in particular with respect to resources, information and authority. The community rightly expects Council to conduct its business in a fair and honest manner.

All staff are expected to develop, encourage, insist upon and implement sound financial, legal and ethical decision making within their responsibility levels. Fraser Coast Regional Council has a robust Code of Conduct that promotes an ethical environment and culture. The code of conduct provides all employees with ethics principles, values and standards of conduct to guide behaviour in the workplace. Staff should be familiar with and act in accordance with the Fraser Coast Regional Council Code of Conduct and elected members are to comply with the Code of Conduct for Councillors.

Decision making should be open and transparent. It is in the best interests of fraud prevention for decision making to be visible and unambiguous to staff, elected members and the public.

Executive Managers and Managers at all levels of the organisation need to lead by example, to demonstrate integrity and fairness in decision making and an open honest relationship in their dealings with others. Specific fraud prevention strategies must be implemented that are consistent with overall Council strategies such as:

- Defining clear lines for supervisory responsibilities and accountabilities;
- Reinforcing the need for disciplinary measures when required;
- Adopting preventative measures to deter and detect instances of fraud – this places primary responsibility for deterrence and detection with each Executive Manager.

2.3   Employee Recruiting and Contractors

Recruitment policy and practice must underpin fraud prevention. Management at all levels must support recruitment strategies aimed at Fraud and Corrupt Conduct prevention. FCRC conducts employment screening of prospective staff which generally includes referee checks and employment history checks.

Annual performance reviews are also conducted for all staff.

Council has several options when selecting contractors:

- Request quotes/tenders;
- Utilise local buy listing;
- Preferred supplier list.

The last two options have gone through a rigorous process of selection thereby negating the need for Council to pre-screen their choice of contractor.

Any contractor that is successful for a tender is screened for financial stability and references are sought.

2.4   Staff Awareness and Education

Employees are provided with Code of Conduct training at the commencement of their employment. The code of conduct training provides a component on Fraud Control and prevention outlining their responsibilities and how to report a suspected fraud case.

Periodic refresher courses are available to staff if requested that will assist in ensuring that employees are aware of their responsibilities in relation to fraud control.

3.   FRAUD DETECTION

Fraud detection includes strategies to discover fraud as soon as possible after it has occurred. Strategies to detect occurrences of fraud include;

- Conducting internal audits;
- Ensuring reporting mechanisms are established and clearly communicated;
- providing guarantees to employees of their protection for protected disclosures; and
- maintaining a Fraud and Corrupt Conduct incident register to analyse trends

3.1   The role of Internal Audit

Internal audit activities assist Council to manage fraud control by advising on the risk of fraud and the design or adequacy of internal controls. It can also assist in detecting fraud by considering fraud risks as part of audit planning and being alert to indicators that fraud may have occurred.

3.2   Reporting Suspected Fraud

Organisations can detect fraud through encouraging employees, contractors, service providers and members of the public (where relevant) to report their suspicions of fraud. Employees should be provided with a visible process and guidance material to enable them to easily report suspicions of fraud.

Reports of alleged fraud could be received via:

- Verbally from members of the public;
- In writing from members of the public via mail or email;
- The online Administrative Action Complaints Process;
- The Ombudsman Office, Crime & Corruption Commission (CCC) or other external agency referring a matter to Council;
- External or internal Public Interest Disclosures;
- Internal complaints lodged by Council staff.

Any person who suspects fraudulent behaviour or wrongdoing is encouraged to report the matter. Reports may be made to the Mayor, CEO, Elected Members, Directors, Executive Manager, Manager or Team leader. Instances of suspected fraud or wrongdoing should be reported promptly and without delay.

Council would prefer that reports of fraud are not made anonymously; as such reports cannot be pursued if further information is required. Additionally, the results of any investigation cannot be communicated to the reporting officer. However, anonymous complaints will receive due and proper consideration.

A staff member reporting the matter is encouraged to provide sufficient detailed information to enable a comprehensive summary to be prepared. All summaries should identify and include, where possible, the following:

- Section and/or location of the alleged incident;

- Key person(s) involved;
- Nature of the alleged incident;
- Time period over which the alleged incident has occurred;
- Value associated with the alleged incident; and
- Any documentary evidence in support of the alleged incident.

Council will ensure that appropriate documentation of the facts has been achieved in order to permit:

- appropriate personnel action;
- protection of innocent persons;
- appropriate civil or criminal actions;
- preservation of the integrity of any criminal investigation and prosecution; and
- avoidance of any unnecessary litigation.

Council will treat all cases of reported or suspected fraud with seriousness and confidentiality. Employees who make complaints will not be victimised or disadvantaged and the person against whom the complaint is made will be treated with procedural fairness.

Depending on the severity of the allegations, the Police may be involved in the investigation process. The decision to call the Police will be made by the CEO.

3.3   Fraud and Corruption Register

People development manage an internal reporting system to record all complaints and allegations of fraud, received both internally and externally through agencies like the Crime and Corruption Commission and Ombudsman. The register includes the type fraud and how the allegation was addressed. A central database enables trends and analysis of fraud types to be undertaken by management and profiles to be developed based on systemic types of fraud cases.

4.   FRAUD RESPONSE

Fraud Response covers the systems and processes that assist an entity to respond appropriately to alleged fraud when it is detected.

4.1   Recording and Reporting Allegations of Fraud

It is good practice for an organisation to record every allegation of fraudulent conduct that is reported to it, preferably in a central database. This enables proactive analysis of potential fraud hot spots and it can be used to direct the activities of internal audit.

According to the Australian Standard AS 8001-2008 Fraud and Corruption Control, a fraud incident register should include:

- date and time of report;
- date and time of incident detection;
- how the incident was reported to management (anonymous report, line management etc.);
- nature of the incident;
- value of the loss to the entity (if any); and
- action taken following detection.

Council maintains a central database to keep record of all complaints and reports of fraud made and how they were addressed. The database is managed by People Development.

Once aware of a reported incident (alleged fraud) the relevant officer or Manager within council must be notified. In turn, this officer must notify the Crime and Corruption Commission, if required. It is also important to immediately notify the CEO that an incident has been reported and that a report has or will be been made to the CCC.

The highest degree of confidentiality will be a feature of reporting and investigating fraud. Confidentiality of employees who report fraud is guaranteed and the reputation of those potentially involved must also enjoy the highest level of protection.

In order to avoid damaging the reputations of innocent persons initially suspected of wrongful conduct, and to protect Council from potential civil liability, the results of any investigations will be disclosed or discussed only with those persons who require knowledge of such investigation in the performance of their office or function.

4.2   Duty to Notify the CCC about Corrupt Conduct

The CCC must be notified if there is reasonable suspicion that corrupt conduct has occurred, in accordance with section 38 of the CC Act. There does not need to be a formal complaint from an aggrieved person. Other information or matter may give rise to a reasonable suspicion. For example, a reasonable suspicion of corrupt conduct might arise through the findings of an internal audit report, or in the course of resolving a grievance.

The CCC does not need to be notified if there is no reasonable suspicion. For example, the CCC does not need to be notified if there is something about the allegation, including any direct knowledge an officer might have, which shows beyond doubt that it is not correct.

4.3   Fraud Investigation

The purpose of a fraud investigation is to gather evidence relating to specific fraud allegations to determine the facts relating to the matter and to assist in deciding what, if any, action should be taken in relation to the matter(s).

When alleged cases of fraud are reported, a fact finding inquiry will be conducted based on the principles of natural justice and procedural fairness. The CEO needs to ensure all fraud related matters are assessed to determine Council's obligations and/or need for reporting them to external agencies. If the inquiry uncovers fraud, a criminal investigation may commence through the Queensland Police or the CCC in cases related to "official misconduct".

If an inquiry uncovers misconduct other than fraud, the matter is to be referred to the Executive Manager People Development.

The officers appointed to carry out investigations, must be rigorously impartial, sensitive to the rights of individuals and ensure that the purpose of any investigation, for cases of suspected fraud, is to discover all relevant facts and not just those that are suggestive of guilt.

The investigating officer has the authority to isolate the area of investigation, to prevent destruction or manipulation of evidence and to prevent further damage. In consultation with the Executive Manager for People Development, the investigating officer can recommend to the CEO that staff be suspended from duties during investigations.

It is vital that instances of alleged misconduct are thoroughly investigated and the employee is made aware of the allegations and provided with a reasonable opportunity to respond. No disciplinary action will be taken against an employee until the case has been fully investigated. It is also important to ensure staff who report fraud are advised that their concerns have been investigated and appropriate action taken.

The status or results of any investigations will be disclosed or discussed only with those persons who require knowledge of such in the performance of their office or function.

At the conclusion of any investigation, the investigating officer in charge must submit a written report to the CEO.

5.   FRAUD MONITORING

An effective fraud monitoring, evaluation and reporting regime provides assurance that legislative responsibilities are being met, as well as promoting accountability by providing information that demonstrates compliance with specific fraud control strategies.

Fraud control monitoring should ensure that: control weaknesses are identified and addressed by the relevant business unit, results of investigations are fed back into the overall fraud control program and the audit committee is provided with information consistent with its charter.

It is the ongoing responsibility of the Chief Executive Officer, Directors, Executive Managers and managers to promote, monitor and review fraud control measures.

Fraud control monitoring activities at Council include:

- Annual review of Fraud policy and fraud control strategy;
- Consultation with management to verify the integration of the fraud control processes within day to day operational activities;
- Internal audit function to assist in detecting fraud by considering fraud risks as part of its audit planning and being alert to indicators that fraud may have occurred;
- Discussions with external auditors during annual audit;
- The audit committee overseeing the process of developing and implementing the fraud control plan, to provide assurance that the entity has appropriate processes and systems in place to prevent, detect and effectively respond to fraud-related information; and
- Use of fraud data to inform ongoing development of fraud control programs.

6.   EXPOSURE TO FRAUD RISK

The risk of fraud may be *internal* (perpetrated by an employee or contractor of an organisation) or external (perpetrated by a customer or an *external* service provider or third party). In complex fraudulent activity there may be collaboration between employees, contractors and/or external service providers.

The following are presented to illustrate some of the key areas where Council could potentially be exposed to internal fraudulent behaviour. They are presented to assist FCRC employees in maintaining awareness of potential circumstances where such behaviour may occur.

- Grant Programs - This could involve a community group receiving favourable treatment in the grant allocation process by comparison with another group. The potential for grants received by Council to be misappropriated must be protected against;

- Misuse of fuel cards - This would involve a staff member using or allowing a fuel card to be used for an unauthorised purpose;
- Travel and other allowances - This may relate to illegal claims being submitted seeking reimbursement for expenditure that was not incurred or did not relate to Council business.
- Kickbacks, gifts and bribes - This would typically involve a member of staff or an elected member accepting a reward in return for doing a favour;
- Accounts Payable - This could occur whereby a Council officer falsified or prepared erroneous invoices/claims for goods or services which were not supplied to Council;
- Theft of Council assets - This could involve the theft of Council assets which may include computers, stationery, tools, cameras, vehicles, etc;
- Theft of Cash - This could involve the theft of rates revenue and other cash collected by Council employees or Contractors responsible for collecting cash on Council's behalf;
- People Development/Payroll - This may relate to individuals claiming they have qualifications which they do not hold, falsifying claims for leave entitlements and attendance records and "dummy" names on payroll records;
- Termination of employment - This could involve staff not returning keys, fuel cards or other equipment when they cease their employment with Council;
- Misuse of Council data - This could involve staff releasing to the public or others information that they become aware of to gain a pecuniary advantage for themselves or someone else or releasing information to discredit another person's reputation;
- Tendering irregularities - This may involve situations where one contractor may be given preferential treatment at the expense of another operator;
- Computer security - This may relate to theft of equipment and the manipulation of data within the computer to gain an advantage for self or someone else. It may relate to a computer virus being introduced to the organisation;
- Private Use of Council assets & equipment - This may involve staff using Council assets such as motor vehicles, computers, items of plant, etc. when unauthorised;
- Release or use of misleading information for the purposes of deceiving, misleading or to hide wrongdoing.

Typically, the principal opportunities for internal fraud occur arise from poor internal controls.

External fraud, on the other hand, is where the threat of fraud comes from outside the organisation, that is, from external parties. Examples of external fraud include:

- customers deliberately claiming benefits from government programs that they are knowingly not eligible for;
- external service providers making claims for services that were not provided.

7.   POSSIBLE INDICATORS OF FRAUD

There are a number of 'red flags' or possible indicators of fraudulent activity which can be used to help profile possible internal perpetrators. They are presented to increase employee awareness of potential control gaps that make an environment more susceptible to fraud. The early warning signs are summarised below;

Early warning signs: employee behaviour	Early warning signs: work practices
Unwillingness to share duties	Excessive variations to budgets or contracts, missing expenditure vouchers and official records unavailable.
Personnel refusing to take leave, resigning suddenly or failing to attend work for no apparent reason.	Trends and results not meeting agreed expectations.
The replacement of existing suppliers upon appointment to a position or unusually close association with a vendor or customer	Account reconciliations not balancing or not properly maintained.
Failure to keep records and provide receipts	Unauthorised changes to systems or work practices.
Chronic shortage of cash or seeking salary advance	Large or long outstanding debtor accounts and bad or doubtful debts.
Past legal problems (including minor previous theft)	Lowest tenders passed over without explanations being recorded.
A lifestyle above apparent financial means	Small cash discrepancies over a period of time
The provision of gifts to other staff members	Lost assets, absence of controls and audit trails.
Internal controls being overridden and ongoing anomalies in work practices.	
Managers bypassing staff or staff bypassing Managers.	
Unusual working hours or excessive overtime.	