



FRAUD AND CORRUPTION CONTROL PLAN

<u>1.0 Introduction</u>	1
<u>1.1 The need for Fraud Control Strategies</u>	3
<u>1.2 Leadership and Ethical Culture</u>	3
<u>2.0 Purpose</u>	3
<u>3.0 Understanding Fraud and Corruption Risks in Local Government</u>	4
<u>4.0 Fraud Control Strategies</u>	5
<u>5.0 Fraud Control - Prevention</u>	6
<u>5.1 Roles & Responsibilities</u>	7
<u>5.2 Fraud Risk Management</u>	8
<u>5.3 Fraud and Corruption Control Policy - Council Policy</u>	8
<u>5.4 Preparation of a Fraud Control Framework</u>	8
<u>5.5 Code of Conduct</u>	8
<u>5.6 Conflict of Interest</u>	9
<u>5.7 Employment Screening</u>	9
<u>5.8 Fraud Awareness</u>	9
<u>5.9 Screening of Service Providers</u>	9
<u>5.10 Specific Fraud Controls for High Risk Activity</u>	9
<u>6.0 Fraud Control - Detection</u>	10
<u>6.1 Passive Detection Measures</u>	10
<u>6.1.1 Effective Internal Controls</u>	10
<u>6.1.2 The Process to Report Alleged Fraud</u>	11
<u>6.1.3 Allegations made by Employees</u>	11
<u>6.1.4 Allegations made by External Parties</u>	11
<u>6.1.5 Public Interest Disclosures</u>	11
<u>6.2 Active Detection Measures</u>	11
<u>6.2.1 Monitoring and Review Activities to detect Internal Fraud</u>	11
<u>6.2.2 Analysis of Management Accounting Reports</u>	12
<u>6.2.3 Hotspot Analysis</u>	12
<u>6.2.4 Data Mining – Post Transactional Review</u>	12
<u>6.2.5 Detecting Fraud by Contract Providers</u>	13
<u>6.2.6 The Role of Internal Audit</u>	13
<u>7.0 Fraud Control – Response</u>	13
<u>7.1 Fraud Reporting</u>	13
<u>7.2 Fraud Investigations</u>	13
<u>8.0 Fraud Control - Monitoring, Evaluation and Reporting</u>	14
<u>8.1 Completion of Fraud Control Framework Checklist</u>	14
<u>Appendix A</u>	15
<u>Appendix B</u>	17

1.0 INTRODUCTION

1.1 The need for Fraud Control Strategies

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.

Council is responsible for administering significant levels of revenue, expenditure and fixed assets, and because these activities involve contact with a broad range of customers there is an increasing reliance on the use of technology to deliver services and operate Council. The prevention and detection of fraud is therefore critical.

Increasingly, effective fraud control strategies are an integrated response led by the executive of an organisation, and embedded in its governance structures, program design and management frameworks. Such a proactive approach assists organisations to manage fraud risk whilst being mindful of the changing landscape, source and types of fraud risk that must be assessed and managed.

The risk of fraud can come from outside an organisation, that is, external parties such as clients, consultants, service providers or other members of the public, or from inside an organisation, that is, from its employees or contractors. Council has an obligation to be alert to the risk of fraud and corruption.

In June 2015 the Auditor-General tabled the document '*Report 19: 2014-2015 Fraud Management in Local Government*' which included recommendations that:

All councils assess themselves against the findings of the report as a priority and where needed develop, revise or update their:

- *Policies and procedures for fraud and corruption management;*
- *Fraud and corruption control plans;*
- *Fraud risk assessments;*
- *Data analysis capabilities for fraud detection.*

The report to Parliament did highlight a number of issues that needed to be addressed by Western Downs Regional Council. This document seeks to address the issues raised by the Auditor-General.

1.2 Leadership and Ethical Culture

There has been renewed focus on strong executive and management leadership to support effective fraud control mechanisms within organisations, particularly in the public sector. Poor leadership can lead to a culture of complacency within organisations, notably with respect to fraud control, fraud management and general risk management practices.

Managers and Executives are required to demonstrate an observable level of commitment to the control of fraud. This Fraud Control Framework is designed to build on a strong governance framework and is a complimentary document supporting the *Fraud and Corruption Control Policy - Council Policy*.

Maintaining a strong values based culture is a key element of good governance, playing an important role in preventing fraud and corruption, and assisting to detect these behaviours should they occur.

2.0 PURPOSE

This plan aims to:

1. strengthen and support a culture within the Council that seeks to prevent fraud and corruption.
2. reduce the potential for fraud and corruption within and against Council.
3. explain how Council will use risk management practices to prevent and control fraud and corruption.
4. provide guidance on how any suspected instances of fraud or corruption within the organisation will be dealt with by the Council.
5. support the *Fraud and Corruption Control Policy - Council Policy*.



3.0 UNDERSTANDING FRAUD AND CORRUPTION RISKS IN LOCAL GOVERNMENT

The QAO report (*Report 19: 2014-15 Fraud Management in Local Government*) provides an insight in the extent of fraud within Local Government in Queensland. The risk of fraud can relate to the functions and services that Local Government deliver, and the following table highlights the potential fraud and corruption risks faced by Western Downs Regional Council.

Table A: Types of Council services exposed to fraud and corruption risk:

Type of Fraud/Corruption	Examples of related risks
Rate revenue fraud - fraudulent manipulation of rates to receive a personal benefit.	<ul style="list-style-type: none"> • Incorrectly claiming discounts (such as pensioner discounts) to benefit employees, friends, family and colleagues; • Making changes to rates details to benefit employees, friends, family and colleagues.
Development applications and rezoning - frauds relating to development applications and rezoning of land.	<ul style="list-style-type: none"> • Misuse of commercially sensitive information; • Providing kickbacks to Councillors or Council staff for favourable decisions; • Undeclared conflicts of interest involving Councillors and/or Council staff.
Service delivery fraud - fraud relating to the use of Council-provided services to which the citizen would not normally be entitled.	<ul style="list-style-type: none"> • • Oversupplying goods or services to benefit third parties; • Undersupplying to 'skim' goods or services (or time that would normally be devoted to the service); • Collusive practices between supplier and Council officer.
Compensation fraud - fraud relating to falsely claiming Council responsibility for incidents and accidents and attempting to falsely claim compensation.	<ul style="list-style-type: none"> • Falsely claiming pedestrian accidents on footpaths or Council premises; • Falsely claiming road quality-related accidents; • Falsely claiming storm water or drainage-related Accidents; • Fraudulent workers compensation claims.
Grants fraud -frauds relating to grant funds not being used for the intended purpose.	<ul style="list-style-type: none"> • Overpaying of grants, duplicating payments of grants or having grants claimed multiple times; • Redirecting grant funds to personal accounts; • Poor record keeping for grants, resulting in mis-statement.



Table B: Types of Council business functions exposed to fraud and corruption risk:

Type of Fraud/Corruption	Examples of related risks
<p>Procurement fraud - fraud relating to the process of acquisition of goods, services and project delivery from third parties.</p>	<ul style="list-style-type: none"> • Unauthorised use of corporate credit or fuel cards; • Paying claims for goods or services that were not delivered; • Receiving of kickbacks or being involved in bribery, corruption or coercion related to manipulation of the procurement process; <ul style="list-style-type: none"> • Staff with a personal/pecuniary interest in purchase or contract.
<p>Travel and allowances fraud - Fraud relating to falsely claiming reimbursement of costs or allowances for which there is no entitlement.</p>	<ul style="list-style-type: none"> • Making claims for journeys not made or overstating the distance; • Reimbursing expenses not related to Council business.
<p>Payroll and salary fraud— Fraud relating to claiming pay that doesn't match work performed or conditions of employment.</p>	<ul style="list-style-type: none"> • Creating 'ghost' employees to receive additional pay; <ul style="list-style-type: none"> • Fraudulent recording of attendance; • Falsely claiming overtime payments.
<p>Employment fraud— Fraud relating to applicants falsely claiming qualifications and skills above their ability.</p>	<ul style="list-style-type: none"> • Misrepresenting skills, capabilities or qualifications to obtain employment; <ul style="list-style-type: none"> • Unauthorised appointments • Forgery of reference documentation.
<p>Asset fraud— Using Council assets for other than official purposes or for gaining personal benefit.</p>	<ul style="list-style-type: none"> • Manipulation of asset value or fraudulent asset divestment process for personal gain; • Stealing assets; • Using Council assets without authorisation.
<p>Exploiting council information— Using confidential or commercially sensitive information for personal gain.</p>	<ul style="list-style-type: none"> • Falsifying official records; • Providing confidential and sensitive information to others for personal gain; • Using confidential and sensitive information for personal benefit.

4.0 FRAUD AND CORRUPTION CONTROL STRATEGIES

Fraud and corruption control requires the implementation of a number of key control strategies which are used to contribute to an effective fraud and corruption control framework. These strategies are closely related, and are subject to a cyclic process of review and continuous improvement. The strategies are grouped across four key areas:

1. Fraud and corruption prevention - strategies designed to prevent fraud and corruption from occurring in the first instance;
2. Fraud and corruption detection - strategies to uncover fraud and corruption as soon as possible after it has occurred;
3. Fraud and corruption response - systems and processes that assist in responding appropriately to an alleged fraud or corruption when it is detected;
4. Fraud and corruption monitoring, reporting and evaluation - strategies to provide assurance that legislative and policy responsibilities are being met, in addition to promoting accountability by providing information that demonstrates compliance with specific fraud and corruption control measures.

For these strategies to be effective in the context of an overarching fraud and corruption control framework, each strategy must be actively managed. Executive oversight should be applied to ensure that each strategy does not operate in isolation from other control and monitoring elements within the fraud and corruption control framework.



5.0 FRAUD AND CORRUPTION CONTROL - PREVENTION

Fraud and corruption prevention strategies provide the most effective method of controlling fraud and corruption within an organisation. To be effective, fraud and corruption prevention requires a number of contributory elements. These include an ethical organisational culture, a strong awareness of fraud and corruption types and the potential for fraud and corruption among employees, suppliers and customers, and an effective internal control framework.

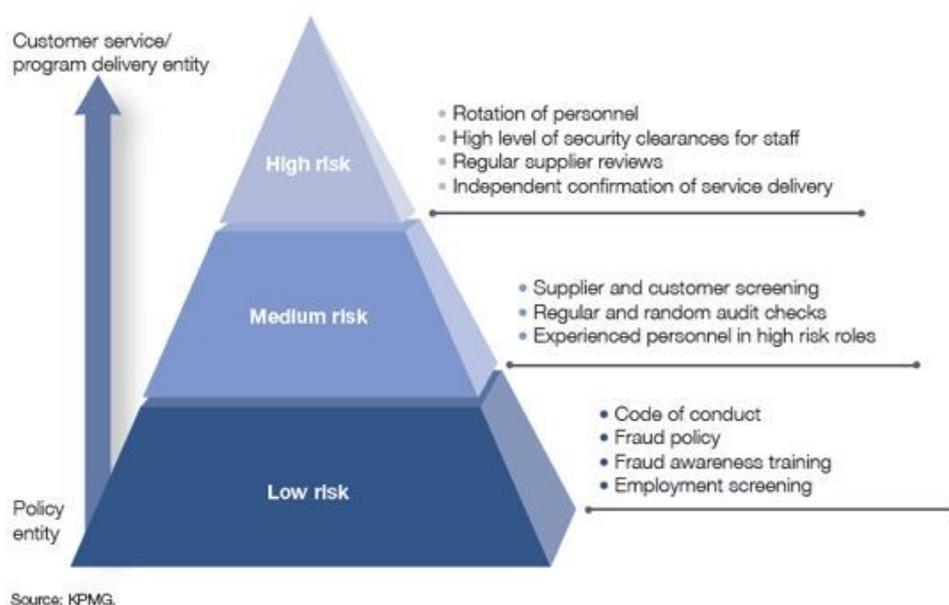
Key elements of effective fraud and corruption prevention include:

- A robust fraud and corruption control policy;
- Staff Code of Conduct;
- Effective fraud risk and corruption management processes;
- A comprehensive fraud and corruption control framework;
- Prudent employees;
- Regular awareness training;
- Identification of activities with high fraud and corruption risk exposure, and the application of appropriate controls to those activities;
- System controls in place that provide timely and reliable data;
- Proactive demonstration within the organisation that allegations and incidences of fraud and corruption are treated seriously and are appropriately addressed.

Figure C illustrates a range of preventative strategies and measures that Council could consider to manage its fraud and corruption risks. The identified strategies are mapped on a continuum of resource intensity and fraud risk exposure. The preventative measures contained at the base of the triangle generally represent those preventative measures that would need to be implemented to have an effective fraud and corruption control framework. Strategies at the apex of the triangle are more appropriate if an entity has a significant fraud and corruption exposure and/or significant resources to introduce the control.

In determining a 'fit for purpose' approach to managing fraud and corruption risks, the resources devoted to preventative strategies and controls should be proportionate to the fraud and corruption risk profile as indicated by, for example, the materiality, scope, complexity, and sensitivity of possible fraudulent activities. The controls identified and their associated costs should be considered with respect to the nature and scale of the fraud and corruption risks they are designed to address.

Figure C - Fraud and Corruption Prevention Measures



5.1 Roles & Responsibilities

Fraud and corruption control is the responsibility of everyone in the organisation.

The Customer Support & Governance Manager is the Fraud Control Officer. The Fraud Control Officer has primary responsibility for the implementation and review of the *Fraud and Corruption Control Policy - Council Policy*, and the *Fraud and Corruption Control Plan*.

It requires all public officers to abide by Western Downs Regional Council's Code of Conduct, which prescribes standards of ethical conduct.

In general, all Councillors, employees, contractors, affiliates and volunteers will assist in preventing fraud and corruption within Council by:

- Understanding the responsibilities of their position;
- Familiarising themselves with, and adhering to, Council policies, procedures and relevant legislation;
- Understanding what behaviour constitutes fraudulent and/or corrupt conduct;
- Maintaining an awareness of Council strategies implemented to minimise Fraud and Corruption;
- Being continuously vigilant to the potential for fraud or corruption to occur; and
- Reporting suspected or actual occurrences of fraud or corruption.

5.2 Specific Responsibilities

Role	Responsibilities
Councillors and Executive	<p>Collectively, as the decision making body and Executive arm of the Council , Councillors and the Executive are responsible for ensuring that Council:-</p> <ul style="list-style-type: none"> • promotes community awareness of Council's commitment to the prevention of fraud and corruption; • provides adequate security for the prevention of fraud and corruption, including the provision of secure facilities for storage of assets, and procedures to deter fraud or corruption from occurring; • provides mechanisms for receiving allegations of fraud or corruption, including ensuring a responsible officer is appointed; • ensures that, where appropriate, proper investigations are conducted into allegations that involve fraud or corruption; • makes reports of suspicions of fraud and facilitates cooperation with any investigation undertaken by an external authority (such as Queensland Audit Office or the Crime and Corruption Commission); • ensures that all employees are provided with appropriate and regular training to raise awareness of their responsibilities in relation to fraud and corruption • promotes a culture and environment in which fraud and corruption is actively discouraged and is readily reported should it occur; and • undertakes a fraud and corruption risk assessment on a regular basis.
Managers	<p>Managers are responsible for:</p> <ul style="list-style-type: none"> • the oversight of the conduct of any employees whom they supervise; • any property under their control and will be held accountable for such; • reporting suspicions of fraud; • creating an environment in which fraud and corruption is discouraged and readily reported by employees. This should be fostered by the manager's own attitude and behaviours to fraud and corruption and, by the accountability and integrity they both display and encourage from other employees; • ensuring that new employees for whom they are responsible are aware of

	<p>their responsibilities in relation to fraud and corruption and, of the standard of conduct expected from all employees as outlined in the Code of Conduct and Fraud Policy;</p> <ul style="list-style-type: none"> • identifying potential fraud and corruption risks; and • leading by example to promote ethical behaviour.
Employees	<p>Employees are responsible for:</p> <ul style="list-style-type: none"> • performing their functions and duties with care, diligence, honesty and integrity; • conducting themselves in a professional manner at all times; • adhering to these guidelines and other Council procedures that have been established to prevent fraud or corruption; • taking care of Council's property which includes avoiding the waste or misuse of Council resources; • maintaining and enhancing the reputation of Council: • remaining scrupulous in the use of Council information, assets, funds, property, goods or services; and • reporting suspicions of fraud.

5.2 Fraud and Corruption Risk Management

Risk management is a crucial element to fraud control which guides the development of effective actions.

Council has a comprehensive Enterprise Risk Management framework. This system will be used as a tool to identify and manage fraud and corruption risks in line with Council policy and this control plan. Appropriately, fraud and corruption risk will be reviewed across Western Downs Regional Council on a regular basis. The fraud and corruption risk review will focus on the following elements:

1. impact of change in organisational structure or functional requirements;
2. the operating environment, and the organisations relative exposure to external and internal fraud;
3. exposure to ongoing and emerging fraud and corruption risks;
4. the effectiveness of current treatment measures and controls.

The detail around fraud and corruption risks identified, including treatments and controls, will be incorporated into the Enterprise Risk Register.

5.3 Fraud and Corruption Control Policy - Council Policy

As part of fostering an environment that encourages fraud and corruption prevention and control a *Fraud and Corruption Control Policy - Council Policy* exists to assist employees and elected representatives to understand what fraud and corruption is, Council's attitude to fraud and corruption, and what to do if they find an incidence of suspected fraud and corruption.

Council has zero tolerance towards fraudulent and corrupt conduct and is committed to the prevention and detection of these activities, and to high standards when dealing with breaches and wrongdoing.

The key purpose of the *Fraud and Corruption Control Policy - Council Policy* is to detail the prevention, detection and response strategic framework that underpins Council's fraud and corruption management processes.

5.4 Preparation of a Fraud Control Framework

The fraud control framework contained in this document outlines the strategies and the process for reducing the risk of fraud throughout Council. The details of controls and actions relating to individual fraud risks will be contained in the Enterprise Risk Management system.

4.5 Code of Conduct

A robust Code of Conduct is integral in establishing an ethical culture and Council's *Code of Conduct* reinforces the need for honest and ethical behaviour. The induction process for new staff includes training to ensure that new



employees gain an understanding of the *Code of Conduct*, and the behaviour expected of all Council employees in the performance of their duties.

5.6 Conflict of Interest

The management of conflicts of interest is an integral component in the establishment of an ethical culture. Of primary concern within any public sector body is the need to provide balance between private and public interests, and the need to be effectively managing conflicts of interest. Conflict of interest is addressed in Council's Code of Conduct.

5.7 Employment Screening

The pre-employment screening of potential employees is an integral part of any organisation's fraud and corruption prevention strategy.

Where appropriate, practical steps should be taken in the screening of potential staff members. These steps can include:

1. verification of identity, including presentation of two different forms of identity documents;
2. Police criminal history checks, where appropriate to the position, in all states and in any country where the individual has previously resided;
3. reference checks with the two most recent employers;
4. checks with any relevant professional licensing or registration board to determine the professional membership status of the prospective employee. e.g. Institute of Chartered Accountants or CPA Australia;
5. consideration through interview and any necessary further analysis of any employment history gaps, and the reasons for those gaps;
6. verification of qualifications through an independent source, e.g. calling the relevant tertiary institution awarding the qualification rather than relying on information or documentation provided by the prospective employee.

5.8 Fraud and Corruption Awareness

All staff members should have a general awareness of fraud, know how they should respond to alleged fraud, and be aware of Council's processes if this type of activity is detected, or suspected, within the workplace. Fraud awareness training is an effective method of ensuring that all employees are aware of their responsibilities for fraud control and of the expectations around ethical behaviour in the workplace.

5.9 Screening of Service Providers

Confirming the identity and reputation of service providers is an important element in fraud and corruption control within an organisation. The vetting of service providers is tailored to the materiality of the transaction involved, and relative risk the individual or organisation represents to Council.

Depending upon the assessment of the relative importance, and risk, presented by the service provider, practical steps should be taken to verify their bona fides on both an initial and periodic basis. This assessment should include:

1. checking that the organisation's trading address and telephone listing matches its contact details;
2. conducting a search of the company register (if the supplier is incorporated);
3. confirming with the ATO that the organisation's Australian Business Number (ABN) corresponds to its company register ACN;
4. verifying the personal details of the organisations Directors, including conducting a Bankruptcy search and Disqualification search (where applicable);
5. confirming if there are any current legal proceedings pending and judgments entered.

5.10 Specific Fraud Controls for High Risk Activity

Certain processes or activities have a higher fraud exposure than others. These high-risk areas should be analysed to determine whether they need to be the subject of more specific fraud controls. It is important that the controls established to manage these high-risk areas are actively monitored and are understood by staff. Examples of processes with a higher inherent fraud risk include: accounts payable; handling cash (particularly by post); pre-payments; travel and non-standard allowances; works contracts; and grant programs.

Examples of specific preventative fraud controls that can be applied to one or more identified fraud risks can include:



1. segregation of duties;
2. hard coded IT system controls (e.g. access restrictions or transaction limits);
3. management oversight, or process and procedural controls;
4. physical security measures, including the use of strong rooms/safes and physical access restrictions;
5. the deterrent effect of regular and random quality assurance checks and internal audit;
6. regular supplier reviews and the maintenance of a register of non-compliance/breaches of contractual conditions and reporting requirements;
7. job rotation of personnel in high-risk positions (requiring staff to take regular annual leave and not allowing leave balances to accrue to high levels).

6.0 FRAUD CONTROL - DETECTION

Local Government is susceptible to fraud. No system of preventative controls can provide absolute assurance against fraud. As such, Council has implemented systems aimed at assisting 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 Council); external (perpetrated by a customer or an external service provider); or complex (for example, involve collaboration between employees, contractors, and external service providers).

Measures to detect internal, external, and complex fraud fall into two main categories, active measures and passive measures, as illustrated in *Table D*:

Table D: Passive and Active Fraud and Corruption Detection 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 and corruption within an organisation.

In determining an appropriate approach to managing fraud risk, the resources devoted to detection strategies and control should be proportionate to the fraud and corruption risk profile (as indicated by, for example, the materiality, scope, complexity, and sensitivity of possible fraudulent activities). The controls identified and their associated costs should be considered with respect to the nature and scale of the fraud and corruption risk(s) they are designed to address.

6.1 Passive Detection Measures

6.1.1 Effective Internal Controls

Internal controls are an effective detector of fraud and corruption. Examples of detective internal controls include:

- regular independent reconciliation of accounts;
- independent confirmation of service delivery where suppliers are paid in advance for services;
- physical security, for example: security cameras;
- staff who know their jobs (people who are familiar with their jobs are more likely to be able to identify anomalies);
- job rotation/mandatory leave;
- comparisons between budgeted and actual figures and the follow-up of discrepancies;
- regular review of audit trails and system access logs;
- exception reporting;
- quality assurance;
- random audits;
- management review.

The frequency and scope of management review activities will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring activities.



6.1.2 The Process to Report Alleged Fraud and Corruption

Allegations made by employees, contractors, and members of the public can often lead to the uncovering of fraud and corruption. Council should ensure that it provides an environment that encourages employees, contractors, service providers and, where relevant, members of the public to report suspected fraud and corruption.

6.1.3 Allegations made by Employees

Fraud is a criminal offence and as such comes under the provisions of criminal law administered through the Queensland Police Service or Federal Police. Where an employee has some evidence or suspicion of fraud there are a number of avenues for reporting alleged fraud:

- Code of Conduct for Employees - where a matter particularly relates to an alleged breach of the Code of Conduct provision is made in that policy for employees to report the matter directly to their Supervisor, Manager or where appropriate, the Chief Executive Officer.
- Suspicion of Fraud - where an employee suspects that a Council employee or contractor may be involved in fraudulent or corrupt activity, the matter should be raised with the employees' immediate supervisor or if that is not appropriate the next most senior officer. Council's Human Resources Department is also available to provide advice and assistance where possible.

By virtue of their office or position, Council recognises the important role Councillors and Council employees can play in the identification of cases of maladministration, corrupt conduct and the misuse of public resources. Council has established a *Public Interest Disclosure - Council Policy* which supports Councillors and employees in making appropriate disclosures.

Council's response to reporting of suspected fraud and corruption is dealt with in Section 6 of this document.

6.1.4 Allegations made by External Parties

Members of the public (including Council's customers, suppliers and other stakeholders) can play an important role in reporting suspected fraud and corruption. These parties may be aware of fraud occurring within Council, or being committed against Council by an outside party.

Allegations made by external parties need to be in writing or translated into a written form as soon as reasonably possible. The contact officer for such allegations will be the Information Management Complaints Officer.

6.1.5 Public Interest Disclosures

Council is committed to the disclosure, in the public interest, of information about wrongdoing in the public sector and to provide protection for those who make disclosures. *Public Interest Disclosure - Council Policy* and the *Public Interest Disclosure (PID) Management Plan and Procedure*, set out the relevant steps associated with the disclosure of reportable conduct including disclosure processes, investigation and discloser protection.

6.2 Active Detection Measures

Active fraud detection measures are controls or activities that require assertive involvement of management.

These measures can be broadly categorised as:

- monitoring and review activities, focused on employees and customers at risk;
- data mining and/or data matching.

6.2.1 Monitoring and Review Activities to detect Internal Fraud

There are a number of 'red flags' or early warning signs of fraudulent activity which can be used to help profile possible internal perpetrators. These early warning signs are summarised in Table E:



Table E: Early warning signs for staff and/or workplaces at risk of fraud

Early warning signs: people	Early warning signs: areas or activities
Unwillingness to share duties; refusal to take leave.	Financial information reported is inconsistent with key performance indicators.
Refusal to implement internal controls.	Abnormally high and increasing costs in a specific cost centre function.
The replacement of existing suppliers upon appointment to a position or unusually close association with a vendor or customer.	Dubious record keeping.
A lifestyle above apparent financial means; the provision of gifts to other staff members.	High overheads.
Failure to keep records and provide receipts.	Bank reconciliations not up to date.
Chronic shortage of cash or seeking salary advances.	Inadequate segregation of duties.
Past legal problems (including minor previous thefts).	Reconciliations not performed on a regular basis.
Addiction problems (substance or gambling).	Small cash discrepancies over a period of time.

6.2.2 Analysis of Management Accounting Reports

The analysis of management accounting reports can reveal anomalies which may be indicative of fraud and corruption. Monthly actual versus budget comparison reports for individual cost centres, reports comparing expenditure against prior periods and reports highlighting unusual trends in bad or doubtful debts, may reveal items that warrant further investigation.

6.2.3 Hotspot Analysis

Allegations of unethical behaviour raised through the organisation's reporting mechanisms can be 'mapped' to show hot spots of potential fraud and corruption throughout Council. Multiple allegations about an area or individual, potentially highlight an issue of either fraud or system control weakness.

Hotspot areas may also be identified via an assessment under Council's Enterprise Risk Management Framework. It is proposed that each area review fraud risk across Council and identify such risks within the Council's enterprise risk register.

It is recognised that the open nature of the duties performed in certain positions make them especially vulnerable to fraud. For these positions, mechanisms to detect irregularities and potential fraud could focus on:

- regular performance appraisals, mandatory disclosure of interests, assets, hospitality and gifts;
- close monitoring in relation to existing computer data-mining to draw attention to transactions that appear to depart from established norms.

6.2.4 Data Mining – Post Transactional Review

Indicators of fraud, misconduct and error can often be found within an organisation's financial and operational data. The use of data mining/analysis techniques and tools can assist with the identification of such indicators.

The benefits of using data analysis include:

- analysis of suspicious transactions;
- identification of unusual relationships, e.g. employee bank account matches a vendor bank account;



- assessing the effectiveness of internal controls, e.g. password sharing, employees remaining on the payroll after termination/resignation;
- identification of irregular trends over periods of time;
- the ability to analyse large volumes of transactions over periods of time;

Compared with manual or routine record checking, technological advances in data processing allow for efficiencies in detecting potential fraud and corruption. Where relevant information is held by other organisations, data mining/matching provides significant benefits including:

- uncovering and reducing fraud and corruption;
- encouraging better compliance; and
- improving the quality of data held on the systems of participating organisations.

Organisations need to ensure that any data mining/matching activities conform to legislative and privacy requirements.

6.2.5 Detecting Fraud by Contract Providers

External fraud includes the fraudulent conduct of service providers who charge Council for goods or services that are not delivered, or delivered in an incomplete way.

Most cases of external service provider fraud are discovered through day-to-day contract management and associated controls.

Council's financial systems are underpinned by Council's Procurement Policy. Many Council officers have financial delegations and with these delegations come a responsibility to be vigilant and alert to potential fraud on the part of contract or service providers.

6.2.6 The Role of Internal Audit

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

Internal audit also has a critical role in reviewing Council's fraud and corruption control systems to identify improvement opportunities.

7.0 FRAUD CONTROL – RESPONSE

Fraud response is a key element of the overall Fraud Control Framework. As fraud is a criminal offence the primary responsibility for investigating fraud rests with the Police Service.

However, Council needs to be responsive and vigilant in undertaking preliminary investigations to determine whether allegations have sufficient grounds to be taken further.

7.1 Fraud Reporting

Fraudulent behaviour can also be closely connected to corrupt conduct which is particularly dealt with under the provisions of *the Crime and Corruption Act 2001*. This legislation has a clear process for reporting and investigating and in many cases this will override allegations of fraudulent behaviour.

Anyone who knows of, or has a reasonable suspicion of, any maladministration or fraudulent, corrupt, criminal or unethical conduct must report it immediately to the Chief Executive Officer. Alternatively, employees have the right to report the matter to public entities such as the, Queensland Police Service, Crime & Corruption Commission Queensland, the Queensland Ombudsman or Member of Parliament.

7.2 Fraud Investigations

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).

In most situations fraud investigations would be undertaken by the Police, however there may be some situations where aspects of the investigation can be undertaken by Council staff or external investigators appointed by the Council.



8.0 FRAUD CONTROL - MONITORING, EVALUATION AND REPORTING

Effective monitoring and evaluation of Council's fraud control strategies assist in:

- a) assessing the continued relevance and priority of fraud strategies in the light of current and emerging risks;
- b) test whether fraud strategies are targeting the desired population;
- c) determine if there are more cost-effective ways of combating fraud.

Evaluations also have the capacity to establish causal links and, over time, an evaluation strategy has the potential to provide insights into:

- the appropriate balance between fraud prevention and detection strategies;
- the relative weighting of incentives that focus on reducing the potential losses from fraud in the first instance, as opposed to discovering fraud after it has occurred.

8.1 Completion of Fraud Control Framework Checklist

A checklist is outlined in Appendix A, it is proposed that the Internal Auditor completes the checklist on an annual basis and forwards the document to the Chief Executive Officer. The Checklist outlines a summary of activities and evidence of compliance regarding the Fraud Control Plan.

APPENDIX A**Fraud Control Plan - Check List**

A. Prevention	Actions	% Compliance	Tick if Complete
Identification of Fraud Risks in Council Risk Registers	Conduct Annual Review		
Fraud Policy in Place	Approved by Council - 3 year review		
Code of Conduct in Place	New Employee Induction		
Conflict of Interests Register	Conflict of Interest fully disclosed		
Employment Screening	Completed for new employees		
Fraud Awareness Training	Completed by all staff		
Screening of Council's Service Providers	Completed prior to use of service providers		

B.1 Detection- Passive Measures	Actions	% Compliance	Tick if Complete
Job Rotation in high risk areas (where identified)	Completed		
Regular independent reconciliation of accounts	Completed by Finance, quarterly		
Exception Reporting	Reports to management prepared by Finance		
Quality assurance	Reviews completed for high risk areas		
Public Interest Disclosures	Process established and managed		

B.2 Detection- Active Measures	Actions	% Compliance	Tick if Complete
Monitoring and review activities	Completed by Finance high risk areas		
Data mining and/or data matching, including- <ul style="list-style-type: none"> Analysis of suspicious transactions, for example, duplicate payments or claims; Identification of unusual relationships for example, employee bank account matches a vendor bank account; Assessing the effectiveness of internal controls, for example password sharing, employees remaining on the payroll after termination/ resignation; Identification for regular trends over period of time, for example, supplier favouritism, As ability to analyse large volumes of transactions over periods of time rather than relying on sampling techniques. 	Completed by Finance and reviewed by Management.		

C. Response	Actions	% Compliance	Tick if Complete
Fraud Investigations			
Referral to the Police			

D. Monitoring, Evaluation & Reporting	Actions	% Compliance	Tick if Complete
Formal evaluation completed annually and	Completed		

submitted to the Chief Executive Officer			
Report fraud losses to the Auditor General and Minister for Local Government as per Local Government Regulation 2012.			

Internal Auditor _____ Date _____

Signed by CEO _____ Date _____

Reviewed by
Audit Committee _____ Date _____



APPENDIX B

Fraud Control Self-Assessment:

Completed: [Insert Date]

Fraud Control Attribute	Assessment Criteria	Yes	No	In Development	Note
Fraud Control Strategy: The Fraud control strategy should be holistic and should establish the council's policy as well as a plan that sets clear actions and targets.	<ul style="list-style-type: none"> Has the Council developed a fraud control policy, implementation plan and associated procedures? Do the fraud control policy and plan establish clear objectives and assign specific actions? Is the fraud control program subject to regular review and updates? 				
Senior Management Commitment: Commitment is required from senior management to establish fraud control expectations and to sustain momentum for planned activities.	<ul style="list-style-type: none"> Does the Council clearly set the tone at the top and communicate a zero-tolerance approach to fraud? Has the Council designated a fraud control officer with responsibility for implementing the fraud control plan? Has management provided adequate resources to implement the planned fraud control initiatives? 				
Ethical Framework: An ethical framework consisting of the code of conduct and ethics and integrity documentation is central to establishing a culture that resists fraud.	<ul style="list-style-type: none"> Has the Council developed and delivered a code of conduct and ethics awareness and education program? Are ethical considerations including staff performance reviews? Does the Council regularly assess its culture (e.g. through staff surveys)? 				

Fraud Control Attribute	Assessment Criteria	Yes	No	In Development	Note
Fraud Awareness: Awareness initiatives contribute to staff and third party alertness to fraud and their ability to identify and report it.	<ul style="list-style-type: none"> Does the Council deliver tailored fraud control training to relevant staff? Is there regular and ongoing communication with all Council staff about fraud control initiatives and activities? Are staff encouraged to report suspicions of fraud? 				
Fraud Risk Assessment: Fraud Risk Assessments can identify weaknesses in controls and enable the agency to focus detection resources to high risk areas.	<ul style="list-style-type: none"> Does the Council conduct an annual fraud risk assessment with more regular reviews for areas considered high risk? Have fraud risk registers been developed and are they regularly monitored and reviewed? Are the results of fraud risk assessments used to improve internal control weaknesses? 				
Internal Controls: Internal Controls should specifically address the identified fraud risk and should be regularly reviewed, particularly in times of rapid organisational change.	<ul style="list-style-type: none"> Are the internal controls matched to specific risks and is their effectiveness regularly reviewed? Are internal policies and procedures documented and promoted to relevant staff? Are internal controls reviewed in times of rapid organisational change or restructure? 				

Fraud Control Attribute	Assessment Criteria	Yes	No	In Development	Note
Line Manager Responsibility: Line Managers set the tone within their teams and should communicate to staff the importance of fraud prevention, detection and response.	<ul style="list-style-type: none"> Are line managers aware of their responsibilities for fraud control and for ensuring adherence to internal controls? Has the Council established an appropriate delegations framework and is it promoted to relevant staff? Do line managers hold regular discussions with staff about ethical dilemmas that include fraud case studies? 				
Responsibility Structures: There must be clarity in the roles performed by staff responsible for fraud control and they need to be held accountable for implementation of the plan.	<ul style="list-style-type: none"> Are there clear accountabilities for implementation of all aspects of the fraud control strategy across operations? Have staff responsible for fraud prevention, detection and response been adequately trained (e.g. in investigations)? Does the fraud control officer monitor the performance of staff responsible for implementation of the fraud control plan? 				
Internal Audit: Internal Audit performs an important role in testing the effectiveness of fraud controls and ensuring exposures to fraud are limited.	<ul style="list-style-type: none"> Is the internal audit function adequately resourced and does it have access to executive management and the audit committee? Are fraud risk registers subject to internal audit and are audit findings used to inform and improve the fraud control strategy? Are internal audits designed and conducted with consideration of potential fraud risks? 				

Fraud Control Attribute	Assessment Criteria	Yes	No	In Development	Note
Employment Screening: Agencies can limit the potential for fraud by employees by ensuring that prospective staff meet the agency's ethical profile.	<ul style="list-style-type: none"> Does the Council conduct criminal history and disciplinary checks on prospective employees? Does the Council conduct reference and qualifications checks on prospective employees? Does the Council conduct screening on existing employees periodically, or upon promotion? 				
Third Party Due Diligence: Due Diligence enables an agency to protect itself from external parties that could potentially damage its reputation.	<ul style="list-style-type: none"> Is there an adequate risk assessment process when the Council intends to contract with third parties (including how the third party was identified)? Does the due diligence process include reference and finance checks are third parties provided information about the agency's conduct standards? 				
Fraud Detection Program: The strategic use of information systems to detect suspected fraud is an efficient and effective fraud control measure.	<ul style="list-style-type: none"> Does the Council employ a range of detection mechanisms? Does the detection program prioritise areas based on thorough fraud risk assessments? Does the Council employ strategic and proactive data analysis techniques that enable wide coverage across high risk areas? 				

Fraud Control Attribute	Assessment Criteria	Yes	No	In Development	Note
Fraud Reporting Systems: There must be formal and well promoted internal and external reporting mechanisms to enable and encourage staff and external parties to report suspected fraud.	<ul style="list-style-type: none"> • Has the Council established and promoted internal and external fraud reporting processes? • Is there a dedicated process to manage Public Interest Disclosures and has this been widely promoted to staff? • Does the Council provide various reporting channels such as online, face to face, in written form and via telephone hotlines? 				
Investigations: Once a fraud is detected it must be investigated professionally and with regard to potential future legal proceedings and evidentiary requirements.	<ul style="list-style-type: none"> • Is there a process to receive, assess, investigate, prosecute, monitor and record allegations of fraud? • Does the Council have access to qualified and experienced investigators? • Does the Council review and communicate investigation outcomes and implement lessons learned? 				
Insurance: Each council should have a level of fraud cover commensurate with its fraud risk profile.	<ul style="list-style-type: none"> • Does the Council's insurance policy cover against fraudulent losses? • Is there an annual review of the Council's insurance coverage? 				

Notes:

