

# TEMORA SHIRE COUNCIL



**TEMORA**  
*The Friendly Shire*

## FRAUD CONTROL POLICY

**ACTIVE**

<b>Review Details</b>
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**ABOUT THIS RELEASE**

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**REVIEW**

Revision Date	Revision Description		Date approved by Council	General Managers Endorsement
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**PLANNED REVIEW**

Planned Review Date	Revision Description		Review by
October 2021	General Review		Internal Audit Committee

## FRAUD POLICY STATEMENT

The NSW Audit Office in February 2015 adopted a Fraud Control Improvement Kit to assist organisations such as councils to manage their fraud control obligations.

This kit supports the efforts of Temora Shire Council in exercising its commitment to minimise the incidence of fraud through the development, implementation and regular review of a range of fraud prevention and detection strategies. The desired outcome of this commitment is the elimination of fraud.

Fraud prevention is about working and managing better to ensure honesty, professionalism and fairness in all our dealings. Fraud control is the responsibility of all staff; staff play an essential part in managing our potential exposure to fraudulent activity by ensuring that they behave in an ethical way consistent with the Code of Conduct, and reporting any incidents of suspected fraud.

The 2017 Temora Shire Council Fraud Control Plan contains a risk assessment of its identified fraud risks and outlines the activities that the Council is undertaking to ensure fraudulent activity is minimised.

Council has followed the Audit Office's fraud control framework from its Fraud Control Improvement Kit in developing its approach to ensure that its commitment to managing fraud risks is embedded in the organisation's culture and is integrated within the core business of the organisation.

The fraud control framework has ten key attributes, being:

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

Any person who reports a suspected incident of fraud can be assured that any information that they provide will be treated confidentially and followed up diligently.

I consider the act of committing a fraud within Temora Shire Council a very serious matter. Any such acts will be dealt with to the maximum extent possible within existing legislative arrangements. This includes reporting cases of fraud to the NSW Police and ICAC for investigation and prosecution under State legislation as appropriate.

I look forward to your individual commitment and support to ensuring that the incidence of fraud in Council is minimised. I encourage everyone to read the 2017 Fraud Control Plan. All instances of suspected fraud should be reported to the Fraud Control Officer without delay.

Gary Lavelle  
General Manager  
August 2017

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## BACKGROUND

Council is committed to a work environment that is resistant to fraud and is dedicated to implementing effective measures to minimise fraud risks. The Council does not tolerate fraudulent behaviour and will take appropriate action against employees and contractors who have participated in such behaviour and those who allowed it to occur.

This Plan conveys Council's approach to the deterrence and detection of fraudulent behaviour and documents strategies to assist managers to meet their fraud control responsibilities.

The fraud control framework used in this Plan is based on Standards Australia AS8001-2008 Fraud and Corruption Control and incorporates the ten attributes of fraud control contained in the NSW Auditor Office's Fraud Control Improvement Kit (February 2015).

## OBJECTIVES

The main objectives of this Plan are:

1. to demonstrate the commitment of the Councillors, General Manager, Directors and line managers to combat fraud.
2. to establish the responsibilities for managers and staff in relation to fraud control.
3. to ensure existing policies and procedures aimed at encouraging ethical behaviour and combating fraud are integrated in an holistic framework.

## DEFINITIONS

### Fraud

Council has adopted the Australian Standard AS8001-2008 definition of fraud which is

*"Dishonest activity causing actual or potential 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.

### Employee

Where used in this Plan, the term employee refers to:

- Councillors;
- Council staff;
- Individuals who are engaged as contractors working for the Council; and
- Other people who perform public official functions for the council such as volunteers.

## FRAMEWORK FOR FRAUD CONTROL PLAN

The fraud control framework has ten key attributes which sit within the themes of prevention, detection and response.

Details of these attributes and Council's strategy for implementing this framework to counter the identified fraud risks at Temora Shire Council are set out below.

### 1. Leadership

A successful fraud control framework is led by a committed and accountable leadership team to provide the organisation with a model to follow.

The General Manager and Directors at Temora Shire Council are both demonstratively committed to the organisation's fraud control activities and are directly accountable and responsible for fraud control.

### 2. Ethical framework

An organisation's fraud control framework is part of a much bigger ethical framework that guides the values of the organisation and provides standards of behaviour and decision-making.

Council's Code of Conduct guides employees in what is accepted practice and behaviour and sets our ethical standards at a level above the law.

Council's values also reinforce ethical behaviour and are set out in Council's Statement of Business Ethics.

Employees will always:

- Act with fairness;
- Act with honesty and integrity;
- Act openly.

Council recognises that fraud prevention requires the maintenance of an ethical climate which encourages all staff to be active in protecting Council's funds and assets, and in reporting any breaches of accepted standards.

Managers must be mindful of their responsibility to foster and develop in their areas the highest standards of ethical behaviour and commitment to a highly ethical workforce culture.

### 3. Responsibility structures

Council has introduced a structure that ensures that there is clear accountability and responsibility for the implementation and monitoring of the Fraud Control Plan, as well as all supporting policies, procedures and initiatives. It is also important that all staff know this accountability and that there is a common understanding that everyone in the Council has a key role to play in effective fraud control management.

The **General Manager** is responsible for the corporate governance of Council and has overall responsibility for fraud control. The General Manager is the Fraud Control Officer.

The **Audit and Risk Committee** is responsible for the ongoing monitoring and review of the fraud control framework, including the actions agreed to in this Fraud Control Plan.

**Management** must exhibit to staff and clients a genuine and strong commitment to fraud control, and to good practices. They are responsible for identifying and managing individual fraud risks across the organisation, and for implementing the treatments identified in this Fraud Control Plan.

Management must also adopt a firm approach to dealing with fraudulent activity and penalising unacceptable behaviours, to retain the commitment of honest staff and to deter those who may be tempted to commit fraud. With the risk of detection, the severity of punishment must be seen to outweigh the possible gains from fraud.

The Council's **Corporate Section** is responsible for ensuring that the appropriate processes are in place to ensure that the risk of fraud in Council is well managed.

**All Employees** have the responsibility of reporting any fraudulent activity within Council that they become aware of or suspect. Reporting can be done through line management or the Fraud Control Officer. All employees are encouraged to become familiar with the Fraud Control Plan and contribute to its effective implementation, thereby assisting in minimising the incidence of fraud against Council.

Fraud risk management will form part of the business planning cycle and will contribute to business performance through minimisation of Council risks. It provides senior management and the Audit and Risk Committee with solid evidence that fraud risk management is occurring within Council.

#### 4. Fraud Control policy

The Council's fraud control policy is included as the introduction to this Fraud Control Plan and is supplemented by the Council's Code of Conduct, Statement of Business Ethics and Internal Reporting Policy.

Council will ensure the currency of these policies by reviewing them regularly, with the Fraud Control Plan being reviewed every two years.

#### 5. Prevention systems

Council undertakes a separate Fraud Risk Assessment which will quantify the level, nature and form of the risks to be managed and leads to the identification of actions to mitigate the risks identified. These Fraud Risk Assessments will be undertaken at least once every two years.

The current Fraud Risk Assessment was undertaken in July 2017 and is attached. Fraud risks were reviewed and updated through interviews and control self assessments.

The risk ratings are in accordance with the Audit Office's risk assessment framework. The assessment of each individual risk has been undertaken in accordance within this framework.

Key controls have been listed against each individual risk. The list of controls is not intended to be an exhaustive list of the controls in place. The controls listed represent those

controls which together form the framework for controlling the sources of each individual risk.

Assessments regarding the effectiveness of each control in mitigating the risks have been determined based on the views of key staff and our experience with similar environments. Overall risk ratings have also been determined in this way.

Council will be constantly on the lookout for ways to enhance the way that it focuses on its fraud control activities including the regular review of both this Plan and the associated Risk Assessment as well as facilitating the employment of staff who possess values similar to those of the organisation and the means to ensure the protection of its information technology.

## 6. Fraud awareness

Council aims to ensure that all employees understand the ethical behaviour required of them in the workplace and that adequate training programs are in place and briefings are conducted covering ethical behaviour and fraud and corruption risks. The extent of training may relate to the duties performed by individual staff. Those in senior positions of operating areas considered more susceptible to fraud and corruption may receive training that is more involved.

The types of training and briefings would include

- Code of Conduct training and briefings to be included in Council induction programs for new staff, temporary staff, contractors etc
- Public interest disclosure training
- Emails from the General Manager highlighting relevant policy changes
- Fraud prevention training

Additionally, Council will also ensure that its customers, the community and its contractors understand that Council will not tolerate fraudulent or corrupt behaviour in its dealings with them and that they are aware of the consequences of such behaviour. In this regard, the Council's Fraud Control Plan and Statement of Business Ethics are available on Council's website to reinforce this message.

## 7. Third party management systems

With councils relying more and more on services being provided by third parties, this adds an additional level of complexity to fraud control with the need to ensure that there are clear lines of accountability to those with responsibility for managing fraud as well as raising awareness of fraud committed by and against third parties.

Council will therefore investigate:

- Provision of specific training for those staff responsible for dealing with contractors and third parties;
- Ways of ensuring that the contractors and third parties with which the Council conducts business, have the highest levels of fraud awareness including structured checking of third party processes; and

- Ways of communicating to contractors and third parties that Council will not tolerate fraudulent activities, including use and promotion of its Statement of Business Ethics.

## 8. Notification systems

Employees and those outside of the Council are encouraged to report any incidents of unethical behaviour including fraud.

Council will ensure that policies and procedures are in place to encourage the reporting of suspect behaviours and those employees who do so can have their identity protected and are protected from reprisals. This protection is legislated in the Public Interest Disclosures Act 1994.

Such disclosures can also be made externally to investigating authorities, the details of which are contained in the Council's Internal Reporting Policy.

## 9. Detection systems

Council will ensure that there are adequate detection systems to monitor data and identify irregularities and warning signals. In addition to management's own monitoring and review, the Council has established a plan of risk based internal audits to provide assurance on the effectiveness of internal controls established by management including those to prevent and detect fraud.

As part of this process:

- Available data will be thoroughly monitored and reviewed to ensure that irregularities and warning signals are picked up at a very early stage and flagged for further detailed review;
- Audits regularly examine samples of medium and high risk financial decision making across the organisation; and
- Outcomes of audits are reported to executive management on a regular basis.

## 10. Investigation systems

Council will appoint internal resources for the initial investigation of reported or detected instances of fraud against it. The internal fraud investigator will provide a report recommending further actions.

Where the initial investigation discloses a complex situation beyond Council's capability to investigate the matter will be referred to the Police and/or ICAC for further investigation. In this instance Council will have little control of the investigation process (including timing and resources) once the investigation has been handed over.

The Fraud Control Officer will be the operational liaison point with the relevant authority.



## FRAUD RISK ASSESSMENT

This risk assessment gives an overview of the fraud risk assessment process and contains examples of the type of fraud risks and internal controls. Different organisations and different areas within your business may have different fraud risks and the examples are not an exhaustive checklist. The risk assessment deliberately does not include actual ratings for the effectiveness of internal controls, the results of the risk analysis, the options for the residual fraud risk or further treatment plans. Each organisation needs to undertake its own risk analysis and determine its own risk appetite.

### 1. Type of fraud risk

This column should include the potential fraud risks your organisation may face. Please specify any additional risks in the relevant section.

### 2. Existing controls

Once the potential fraud risks are identified, identify what controls currently exist to reduce each fraud risk.

### 3. Effectiveness of the existing controls

Assess how well controls are operating and if they are mitigating fraud risks as intended. Only one rating should be made for each fraud risk taking into consideration all controls existing for that risk. A scale of 1 to 5 is used.

1	There is a very high exposure to fraud (almost certain)
2	There is a high opportunity for fraudulent activity (likely)
3	There is a moderate opportunity for fraudulent activity (possible)
4	There is a low opportunity for fraudulent activity (unlikely)
5	There is no apparent opportunity for fraudulent activity (rare)

### 4. Fraud risk analysis

After considering how effective the controls are in step 3 above, the consequence and likelihood of each risk is assessed. By progressing in this order, this framework intends to assess the identified fraud risks on a residual basis, that is, after existing controls.

Impact Probability	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	Medium	Medium	High	Extreme	Extreme
Likely	Low	Medium	High	Extreme	Extreme
Possible	Low	Low	Medium	High	Extreme
Unlikely	Low	Low	Low	Medium	High
Rare	Low	Low	Low	Low	High

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**5. Option for residual fraud risk**

After considering the internal controls, determine if the residual fraud risk is at an acceptable level. If the residual fraud risk is acceptable, then there is no need for further action.

However, if either:

- (a) properly designed controls are not in place to address certain fraud risks, or
- (b) controls identified are not operating effectively to sufficiently reduce the residual risk to an acceptable level then action must be taken.

**6. Further treatment/action necessary to address residual fraud risk**

Where further action must be taken, the response should be to change or enhance existing controls or to implement additional controls.