WEDDIN SHIRE COUNCIL

FRAUD AND CORRUPTION

PLAN

Contents

1. INTRODUCTION

This document sets out for Council the strategic approach to be taken with regard to Fraud and Corruption by the organisation. DLG circular 06-46 as well as ASA 240 points to Council's requirements to have a strategic and effective approach to managing these significant risks which provides the foundations of good "Civic Leadership" and instils community trust and faith in Council to deliver ethical services.

2. PURPOSE

The purpose of the plan is to;
- Provide clear direction and clarity to Council's approach to this important issue
- Provide an environment and organisational culture that supports the integrity, security and reputation of Weddin Shire Council Staff
- Ensure appropriate levels of oversight of Council's funds and resources to ensure they are protected
- Ensure Council continues to provide the optimum service levels to the Weddin Shire Community.

3. BUILDING A FRAUD RESISTANT CULTURE

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

It is vital for any public organisation to maintain public confidence to ensure the organisation has the credibility to carry out its function with the authority of its stakeholders. Weddin Shire Council must deal with any Corruption or Fraud related issue, whether perceived or realised, in the following manner to maintain such public confidence:
- Any matter is to be dealt with expediently with no undue delay
- Any matter is to be dealt with as transparently as practicable with accountabilities and responsibilities clearly defined
- Any matter must be dealt with thoroughly to ensure all possible elements of Corruption or Misconduct have been considered and examined

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

4. FAIRNESS AND DUE PROCESS

Whilst it is important to be diligent in dealing with any allegation of Fraudulent or Corrupt conduct by staff, it is equally important to ensure that the basic civil rights and welfare of Council staff involved are not inappropriately managed. This means that all staff must be presumed innocent until sufficient proof is found to establish otherwise. Staff under investigation will continue to be given support in particular with regard to welfare if they find themselves subject to such an investigation or inquiry. Equally, however, Council will take all steps to ensure a vigorous and thorough examination is carried out within the legal and ethical parameters available.
In a similar vein, Council staff who find themselves as "Whistle Blowers" to Corrupt or Fraudulent behaviour and/or witnesses to such incidents will also be given every support reasonably available to them as they are entitled to under present legislation. Confidentiality for all involved parties will be protected as much as is practicable in any given circumstance by Council.

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

5. DEFINITIONS

Fraud –
The definition of fraud found in (Australian Standard AS 8001-2008) is;
"Dishonest activity causing actual or potential financial loss to any person or entity including theft of monies 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.

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

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

External Fraud –
Is fraud committed against Council by non-Council staff such as by; customers, suppliers or contractors.
Examples of External Fraud perpetrated on Councils
- Theft of money or goods from Council
- Obtaining benefits by use of false identity or false qualifications
- Supplying goods or services of a lower standard or quality than promised

Internal Fraud -
Is fraud that is also known as "workplace fraud". It is fraud that is committed by Council staff in the workplace of Council
Examples of Internal Fraud perpetrated on Councils
- Unauthorised use of Council plant and equipment
- Claiming un-worked hours on time sheets

- Theft of money or goods from Council or its customers
- Allowing contractors to not fully meet contract requirements
- Deliberate transfer or miscoding of financial transactions to achieve favourable reported budget outcomes in a performance bonus environment

NB: Fraud in its own right occurs predominately when governance systems in place fail. i.e. fraud is possible when systems in place are deficient and an organisations resistance to fraud is ultimately found within the structures of the organisation.

AREAS WITHIN COUNCIL WHERE FRAUD AND CORRUPTION MAY OCCUR:

- Managing people – delegations, recruitment, supervision of staff, secondary employment.

- Managing external relationships – conflicts of interest, procurement, commercial activities, joint ventures, sponsorship.

- Managing services and products – client relationships, community affiliations, regulatory functions, resource allocation.

- Managing money – accounts management, cash handling, credit cards, grants and program funding, payroll, ticket vending.

- Managing information – confidential information, electronic transactions, IT systems.

- Managing assets – disposal of goods and property, intellectual property, management of resources, use of resources.

SOME EXAMPLES OF FRAUD AND CORRUPTION INCLUDE:

- Theft (from Council or its customers) of assets, such as equipment, consumables, supplies, cash, information.

- Unauthorised or illegal use of assets, information or services for private purposes including: vehicles, human resource support, computers (including email and internet), confidential information, equipment (including photocopiers, telephones, fax), Council logo or stationary.

- Abuse of position and power for personal gain for example obtaining gifts or benefits in exchange for favourable treatment, nepotism in staff appointments, non-compliance with procurement processes by favouring one tenderer over another.

- Manipulation or misuse of delegations, such as ordering equipment for personal use, over ordering for private use, favouring suppliers whose costs are not as competitive as other suppliers, deliberate miscoding or transfer of financial transactions to achieve favourable reported budget outcomes.

- Falsification of records or services, including timesheets, travel claims, purchase orders, petty cash vouchers, allowing contractors to under-deliver on goods or services below their contracted arrangements.

- Conflict of interest eg: where a councillor or employee acts in their own self-interest rather than the interests of Council.

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6. CORRUPT CONDUCT

Defined in Section 8 of NSW Independent Commission Against Corruption Act as follows:

1) Corrupt conduct is:
a. any conduct of any person (whether or not a public official) that adversely affects, or that could adversely affect, either directly or indirectly, the honest or impartial exercise of official functions by any public official, any group or body of public officials or any public authority, or
b. any conduct of a public official that constitutes or involves the dishonest or partial exercise of any of his or her official functions, or
c. any conduct of a public official or former public official that constitutes or involves a breach of public trust, or
d. any conduct of a public official or former public official that involves the misuse of information or material that he or she has acquired in the course of his or her official functions, whether or not for his or her benefit or for the benefit of any other person.

2) Corrupt conduct is also any conduct of any person (whether or not a public official) that adversely affects, or that could adversely affect, either directly or indirectly, the exercise of official functions by any public official, any group or body of public officials or any public authority and which could involve any of the following matters:
a. official misconduct (including breach of trust, fraud in office, nonfeasance, misfeasance, malfeasance, oppression, extortion or imposition)
b. bribery
c. blackmail
d. obtaining or offering secret commissions
e. fraud
f. theft
g. perverting the course of justice
h. embezzlement,
i. election bribery
j. election funding offences
k. election fraud
l. treating
m. tax evasion,
n. revenue evasion
o. currency violations
p. illegal drug dealings
q. illegal gambling
r. obtaining financial benefit by vice engaged in by others
s. bankruptcy and company violations
t. harbouring criminals
u. forgery
v. treason or other offences against the Sovereign
w. homicide or violence
x. matters of the same or a similar nature to any listed above
y. any conspiracy or attempt in relation to any of the above.

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

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

5) Conduct may amount to corrupt conduct under this section even though it occurred outside the State or outside Australia, and matters listed in subsection (2) refer to:
a. matters arising in the State or matters arising under the law of the State, or
b. matters arising outside the State or outside Australia or matters arising under the law of the Commonwealth or under any other law.

6) The specific mention of a kind of conduct in a provision of this section shall not be regarded as limiting the scope of any other provision of this section.2

7. AREAS OF FRAUD RISK

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

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

8. FRAUD AND CORRUPTION CONTROL

Fraud and corruption control requires the implementation of a number of key strategies which contribute to an effective control framework

Planning and Resourcing

Council's Fraud and Corruption Framework is an integral part of its overall risk management system and details its approach to fraud and corruption prevention, detection, response and monitoring and evaluation initiatives.

The Framework will be monitored regularly by the Audit, Risk and Improvement Committee and reviewed every four years by Council, or as considered necessary, taking into account any changes to Council's business and operating environment, including the impact of fraud and corruption risks.

Roles and Responsibilities

General Manager
- Provide leadership and direction with regard to good governance in the organisation and actively promote the Code of Conduct
- Report to the ICAC any matter that is suspected on reasonable grounds to concern or may concern corrupt conduct
- Production of fraud and corruption policies, procedures and training proposals
- Liaising with internal and external investigators
- Ensure that Fraud and Corruption risks are recorded in the Risks Register
- Assigning responsibilities in relation to fraud and corruption risk management
- Ensuring staff receive support, training and resources to fulfil their responsibilities in identifying, analysing, evaluating and treating fraud and corruption risks

Fraud Review Panel
Providing there are no conflicts of interest evident, this panel will be made up of four permanent members being the General Manager, Director Engineering, Director Corporate Services and the Director Environmental Services. A fourth temporary member may be present, again providing no conflict of interest exists to assist the panel with advice from a specific area or function. (This may be for example Overseer, Engineers, Team Leaders, Gangers etc.).

Depending on the matter being reviewed, a Councillor or independent may also be asked to sit on the panel if deemed appropriate by the General Manager. The panel will meet on a needs basis, any decision made by this panel is advisory in nature. Ultimate decision making authority rests with the General manager.

This panel will:
- Develop and maintain best practice for the prevention and detection of fraud and corruption and ensuring due consideration is given to confidentiality, natural justice and procedural fairness pertaining to any reported incidents.
- Review evidence and allegations of Corruption, Fraud or Serious Misconduct that comes to the notice of Council

- Determine the risks posed and the appropriate treatment options and referrals to be made to external review or policing organisations
- Provide direction and guidance to any internal or external investigator or group conducting enquiries at the request of the panel
- Ensure decision making is transparent and that meetings are appropriately minuted and outcomes clearly recorded

Directors
- Encourage and maintain a culture and working environment that fosters personal responsibility, integrity and accountability
- Provide leadership and a point of reference with regards to good governance in their Department and actively promote the Code of Conduct
- Have effective fraud and corruption prevention strategies and staff awareness packages for their respective departments

Managers and Supervisors
- Provide leadership with regards to good governance in their area and actively promote the Code of Conduct
- Ensure that corruption and fraud resistant practices are in place and in line with Council's strategies. Monitor these strategies and ensure their effectiveness and report issues promptly to their Director if they occur

All Staff
- Must act ethically, lawfully and in accordance with the principles contained in the Code of Conduct
- Must report potentially unethical or corrupt practices via the established mechanisms in place.
- Contribute to the development of improved systems, policies and procedures to enhance the Council's prevention of fraud and corruption.
- Undertake awareness training and education.

Audit, Risk and Improvement Committee
- Oversight of risk management, including fraud and corruption control
- Provide advice to the General Manager, including potential fraud and corruption matters and recommendations
- Review governance processes to ensure all matters relating to alleged fraud and corruption or unethical conduct are dealt with appropriately
- Review the Council's Risk Management Framework for identifying, monitoring and managing business risk, including risks associated with fraud and corruption
- Review Council's Internal Audit Plan annually to ensure it covers fraud and corruption risks

External parties or contractors
All external parties or contractors who become aware of any suspected fraud and or corruption within Council should contact the General Manager or Council's Public Officer with relevant information.

Prevention

Robust internal controls and systems are a prime defence mechanism against fraud and corruption. Council demonstrates these by:

- Adopting and encouraging a workplace culture based on Council's Statement of Values, Statement of Business Ethics and the general principles of official conduct prescribed by the Local Government Act 1993.
- Endorsing a workplace Code of Conduct which reinforces a commitment to promoting a high standard of integrity and accountability by demonstrating professional behaviours that are consistent with the Council's role and values.
- A commitment from senior management to be role models and demonstrate ethical and accountable behaviour by their actions.
- Ensuring all employees participate in and complete an Induction Process that covers ethical behaviour and Councils Fraud and Corruption Framework
- Involving employees in a Performance Review Process, a process which provides clarity to employees about what is expected of their behaviour and work performance, required outcomes, and how they contribute to the team and Council strategies.
- Ensuring effective management of conflict of interests as per the Councils policies and procedures.
- Establishing effective reporting mechanisms and protection for employees making disclosures about fraud and corruption activities.
- Promoting, practising and adhering to risk management policies and procedures, ensuring risk assessments are conducted and treatment plans developed to address identified risks as required.
- Pre-employment screening to verify qualifications, suitability and experience of a potential candidate for employment. Techniques used can include confirmation of qualifications, verification of employment background, referee and criminal history checks.
- Supplier and customer screening to verify credentials

Detection

Council has the following measures in place to identify and detect incidents of fraud and/or corruption:

Observation and awareness by all employees

Through Council's Code of Conduct staff have knowledge and understanding of how to respond if fraud and corrupt activity is detected or suspected. Detection of fraud or corruption often requires specialised and knowledge of the business area where the activity may be perpetrated. However, the presence of indicators of fraud does not necessarily mean that fraud is occurring; they may be the result of other factors.

Risk Management System

Council has a Risk Management system in place for the identification, analysis, evaluation and treatment of risk, including fraud and corruption, and a process to monitor and review on a regular basis.

The application of risk management principles and techniques in the assessment of the risk of fraud and corruption must be carried out within the Risk Management Framework as adopted by the Council.

Audit, Risk and improvement Committee

Council's Audit, Risk and Improvement Committee Provides an independent evaluation and assurance activity that assists Council to improve the effectiveness of its risk management, control and governance processes.

External audit

External auditors are responsible for planning and performing an audit to obtain reasonable assurance that the Council's financial statements are free of material misstatement, whether caused by fraud or error.

The 'Australian Auditing Standard ASA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report' details the external auditor's responsibilities in relation to fraud and ensuring an attitude of professional scepticism is maintained throughout the audit, considering the potential for management override of controls and recognising the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

Mechanisms for reporting

It is mandatory to report known or suspected fraud and/or corruption through one or more of the channels outlined below:

- Reporting should, in the first instance, be to a staff member's immediate manager, or the next level manager if more appropriate.
- However, a staff member may feel more comfortable reporting their suspicions to the General Manager or Council's Public Officer.
- Staff may also report directly to NSW ICAC if desired.

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

Employees are sometimes reluctant to become involved in a matter of suspected fraud and corruption by a co-worker. Employees should be mindful that such behaviour is likely to continue and become substantially worse the longer it occurs. The failure to take action to stop, or to report suspected fraud and corruption may place employees in breach of Council's Code of Conduct.

Consistent with its strong commitment to ensuring an ethical workplace, Council has developed the Protected Disclosures Act 1994 Policy, which facilitates the reporting of suspicions of corrupt conduct, mal-administration, or serious and substantial waste of public money.

This guidance material helps staff make protected disclosures in accordance with the Protected Disclosures Act 1994 and sets out:

- procedures for making disclosures to Council
- procedures for making disclosures to appropriate external agencies
- procedures for dealing with anonymous reports
- protection for people making protected disclosures from reprisals that might otherwise be inflicted on them because of their disclosures
- provisions for disclosures to be properly investigated and dealt with

The Protected Disclosure Policy and the protected disclosure reporting system complement existing communication channels between supervisors and staff. Staff are encouraged to continue to raise appropriate matters at any time with their managers, but as an alternative they have the option of making a protected disclosure.

Council's Public Officer (Director Corporate Services) is able to accept reports from the general public.

The function of reporting an incident of fraud or corruption is quite separate from investigating, and not all reports will result in an investigation.

Response – Investigation of Allegations

The responsibility for determining the means and methods by which an allegation will be investigated rests with the General Manager. Generally this decision will be made in consultation with the Fraud Review Team. A flow diagram of the processes to be undertaken once an allegation is formally made follows on the next page.

A formal written complaint is received or file formally generated regarding allegations

The document is registered as "CONFIDENTIAL" by records officer and the General manager is advised.

Is the matter appropriate for the Fraud Review Panel?

No → GM deals with matter in consultation with appropriate external statutory authority

Yes ↓

The GM tasks a panel member to collect all available documentation relating to the matter. The matter is reviewed including a risk assessment of controls

Is it a protected disclosure?

Yes → Process in accordance with Protected Disclosure Guidelines

No ↓

Does it require referral to an external body?

Yes → Refer matter as per guidelines and advise Complainant

No ↓

Does it need further investigation?

No → Matter finalised and Complainant advised

Yes ↓

Investigation conducted with findings and recommendations

Do recommendations require action by Council regarding an individual or system?

No → Matter finalised and Complainant advised

Yes → Appropriate action taken with regard to identified process/system or individual (Ongoing monitoring/review if required)

9. DISCIPLINARY PROCEDURES

Appropriate disciplinary action will be taken against officers involved in any misconduct incident in accordance with the Council's relevant policies and procedures for misconduct.

Council may seek to recover any money or assets lost due to incidents of fraud and corruption; and undertake criminal or civil actions as deemed appropriate.

10. MONITOR, REVIEW AND EVALUATION

The effective monitoring, review and evaluation of the Framework is a mechanism by which Council can demonstrate accountability and provide assurance that legislative and governance requirements are being met.

- A Fraud and Corruption Register will be used to capture all instances of suspected fraud and corruption.

- Following an incident or investigation where fraud or corruption was substantiated, the Fraud Review Panel will conduct a review to determine the failure of internal controls and corrective measures to be taken.

- Regular review of the fraud and corruption control plan for adequacy and effectiveness of controls and the analysis of trends.

- A review of the Framework will be performed every two years to identify systemic control weaknesses and to take into account changes to business operations, legislation or any other significant development.

11. PERFORMANCE INDICATORS

There are performance indicators as follows:
- Total number of incidents and the number of open incidents
- Percentage of current staff with training
- Percentage of new staff receiving induction training
- Level of perceived risk of fraud and corruption

12. STAFF EDUCATION AND AWARENESS

Council uses a variety of education and awareness strategies to foster an accountable and ethical organisational culture and strengthen resistance to fraud and corruption:
- Code of Conduct and Fraud Framework form part of the staff induction process and are available to all staff and indeed the public on Council's website.
- The Executive Director Corporate Services has delegated authority and acts as 'sponsor' of the risk management process, including fraud and corruption.
- Council's zero tolerance to fraud and/or corruption is regularly communicated to all staff and contractors and demonstrated by prompt response to any incidents.

13. STAKEHOLDER/COMMUNITY AWARENESS

The Fraud and Corruption Framework is communicated externally by publishing on Council's website, making it accessible for all stakeholders, clients and community members.

14. HISTORY

Version	Details
16.15.1	Adopted 19 November 2020