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1. Purpose

The purpose of the Fraud and Corruption Control Plan (this Plan) is to:

- Provide an overview of the governance arrangements within Council relating to fraud and corruption control.
- Outline key fraud and corruption risk areas relevant to Council.
- Raise awareness of fraud and corruption risks, and thereby influence the culture of Council to encourage employees to be vigilant in responding to them.
- Communicate Council's expectation of management, employees, consultants/ contractors, industry stakeholders and service providers to assist in preventing and detecting fraud and corruption.
- Document fraud and corruption prevention, detection and response initiatives adopted by Council to manage fraud and corruption.

2. Objectives

The primary objective of this plan is to protect resources, including information, and safeguard the integrity and reputation of Council.

The Plan supports Council's *Fraud and Corruption Control Policy*, which states that Council has a zero tolerance for fraud and corrupt conduct and is committed to preventing, detecting and responding to corruption. Further, the Plan sets out arrangements for the overall management of the risks and any instances of fraud and/or corruption.

Recent studies and events Australia wide have revealed a strong connection between fraudulent behaviour and fundamental governance at senior levels.

Whilst not every entity has this behaviour it is critical to have a prevention and management plan ready for use should the problem arise, or the consequences may be dire and long lasting.

3. Background

The operational, financial, social and reputational impact of fraud and corrupt conduct on Council and the community can be significant.

Fraud and corrupt conduct can:

- Disrupt business continuity.
- Waste resources, including management time.
- Reduce the quality and effectiveness of critical services.
- Threaten the financial stability of Council.
- Damage Council's public image and reputation.

Council's approach to fraud and corrupt conduct is specified in its *Fraud and Corruption Control Policy.*

4. Scope

This Plan applies to all Councillors, all categories of staff, volunteers, contractors, consultants and outsourced service providers of the Warrumbungle Shire Council.

5. Legislation and Associated Documents

ASSOCIATED POLICIES	• Fraud and Corruption Control • Code of Conduct • Grievance and Dispute Resolution • Public Interest Disclosures
ASSOCIATED LEGISLATION	• *Crimes Act 1900* (NSW) • *Independent Commission Against Corruption Act 1988* (NSW) • *Local Government Act 1993* (NSW) • *Public Interest Disclosures Act 1994* (NSW)
ASSOCIATED DOCUMENTS	• WSC employment screening procedures • WSC *Public Interest Disclosures Procedure* • WSC *Risk Management Strategy, Framework and Plan* documents • Australian Standard AS/ISO 19600:2015 Compliance Management Guidelines • NSW Government *Public Service Industrial Relations Guide*

6. Definitions

Term	Definition
Corrupt conduct	Broadly defined as conduct by anyone that adversely affects a public agency or public official so that the performance of their functions or the exercise of their powers is not honest or impartial, or knowingly or recklessly breaches public trust, or involves the misuse of agency-related information or material. Corrupt conduct is engaged in for the purpose of providing a benefit to the person or another person, or causing detriment to another person. In addition, the conduct must be serious enough that, if proved, would constitute a criminal offence or a disciplinary breach providing grounds for dismissal.
Corruption	Defined at ss 8–9 of the *Independent Commission Against Corruption Act 1988* (NSW) and is broadly: (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, (b) Any conduct of a public official that constitutes or involves the dishonest or partial exercise of any of his/her official functions, (c) Any conduct by a public official or former public official that constitutes or involves a breach of public trust,
Corruption (cont.)	(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.
Council	Warrumbungle Shire Council
Council official	Includes Councillors, Council staff, Council Committee members, conduct reviewers and delegates of Council including, but not limited to, volunteers and contractors.
Crimes Act	The *Crimes Act 1900* (NSW)
Employee	All employees of Council, whether employed on a permanent, temporary, or part-time basis and includes volunteers and employees of businesses and entities contracted to provide services to, or on behalf of, Council.
Executive Leadership Team (ELT)	The General Manager and Directors of Warrumbungle Shire Council.
Fraud	Defined at s192E of the *Crimes Act 1900* (NSW) as: *"192E Fraud* *1. A person who, by any deception, dishonestly:* *(a) obtains property belonging to another; or* *(b) obtains any financial advantage or causes any financial disadvantage,* *is guilty of the offence of fraud.* *Maximum penalty: Imprisonment for 10 years.* *2. A person's obtaining of property belonging to another may be dishonest even if the person is willing to pay for the property.* *3. A person may be convicted of the offence of fraud involving all or any part of a general deficiency in money or other property even though the deficiency is made up of any number of particular sums of money or items of other property that were obtained over a period of time.* *4. A conviction for the offence of fraud is an alternative verdict to a charge for the offence of larceny, or any offence that includes larceny, and a conviction for the offence of larceny, or any offence that includes larceny, is an alternative verdict to a charge for the offence of fraud."*
Internal Audit Committee	The Committee of Warrumbungle Shire Council overseeing internal audit, risk and compliance.
Manager/s	Refers to a person or persons employed at a Manager level by Warrumbungle Shire Council.
Material loss	For an asset, means: • For money – a loss of more than $500.00; or • For any other asset – a loss valued by the General Manager at more than $1,000.00.
Organisation	Includes the Council and all councillors and employees.
Plan	Council's Fraud and Corruption Control Plan

Reportable loss	For an asset, means a loss resulting from:
	• The commission of an offence (the act of doing or perpetrating an offence) under the Crimes Act 1900 or another Act; or • The corrupt conduct of a councillor or employee.

7. Fraud and Corruption Control Plan
7.1 Plan Statement
This Plan is designed to give clear notice to persons within and outside Council that fraud against Warrumbungle Shire Council will not be tolerated and will be dealt with to the maximum extent of the law. It is the objective of Council to provide a broad framework for establishment of an effective fraud prevention program across the organisation.

7.2 Fraud and Corrupt Conduct
7.2.1 Examples
Fraud can generally be described as wilful deceit or trickery. It covers a wide range of activities from minor transgressions, such as the misappropriation of office stationery by a staff member, to more serious crimes such as misrepresentations by senior management and misuse of confidential information.

Corruption can be described as dishonest activity in which a Councillor, General Manager, director, manager, employee, volunteer or contractor of a Council acts in an unethical way, without the best interests of the Council, thus abusing their positional power.

There are three main types of fraud and corruption. Those which benefit:
- The organisation, perpetrated by management;
- The individual, perpetrated by the employee; or
- The vendor, supplier or client.

Typical fraud and corruption techniques include theft of inventory, false invoicing, credit card abuse, payroll fraud, theft of equipment, theft of cash, kickbacks, assets purchased for personal use, improper use of position or information, and forgery of documents and cheques. Approximately 79% of detected fraud is exposed by internal resources.

7.2.2 Fraud and Corruption Control
Fraud and corruption prevention is about changing organisational features that allow these events to occur and possibly go unnoticed or unreported. Fraud control is an essential element of sound corporate governance and is integral to internal risk control.

The need for entities to develop and to implement an effective fraud and corruption control policy has been affirmed with the publication of Australian Standard AS/ISO 19600:2015 Compliance Management Guidelines, which provides guidance for both private and public-sector organisations on the establishment, implementation and management of effective compliance programs.

The General Manager has ultimate responsibility for maintaining the internal reporting system, culture and legislative compliance.

The Manager Organisation Development is the Disclosures Co-ordinator. The Disclosures Co-ordinator is responsible for looking after the general welfare of a person who makes a disclosure of fraud or corruption, or any person who is the subject of a disclosure. The Disclosures Co-ordinator will protect their identity, advise on legislative and administrative requirements and respond to concerns of harassment, intimidation or victimisation.

7.3 Fraud Prevention Plan

The Fraud Prevention Plan includes the following sections:
- Risk Management
- Staff Training/Promoting an Ethical Culture
- Audit and Detection
- Investigation
- Enforcement
- Responsibility and Reporting

This Plan is used to define how Council controls fraud and corruption, with the aim that this will help minimise the overall prevalence of these unethical behaviours as much as possible.

7.3.1 Risk Management

Risk management is about the identification, evaluation and minimisation of identifiable risks. Council's fraud risk assessment process will be ongoing, iterative, and be sufficiently robust to enable all key fraud risks to be identified. Risk assessments will address both the internal and external environments of Council and they will cover all functions and operations to establish the level, nature, form and likelihood of risk exposure.

To accomplish the above Council's Executive Leadership Team (ELT) and Managers are responsible for the:
- identification of specific fraud risks that may be present within each Department (some examples of fraud risks are presented in the Appendix A),
- assessment of the effectiveness of internal controls in force that would tend to impact on the risks identified,
- determination of an overall risk rating for each risk identified, using the risk matrix at Appendix C of this Plan, and
- development of strategic measures to counter the impact of each fraud risk in light of the risk ratings.

Step 1

The Manager Corporate Services oversees the compilation of fraud risk assessments agreed by Directors and Managers. The Manager Corporate Services is to assist Directors and Managers in identifying and rating the exposures and risk factors relevant to systems, functions and operations in their Departments.

Step 2

Directors and Managers review their area of responsibility to identify risks in their systems, functions and operations. Fraud Risk Assessments (Appendix B) should be completed for each risk identified. Each identified risk is then rated using the Risk Matrix (Appendix C).

Major fraud risks are those risks that have been rated at a likelihood of 'likely' or 'almost certain' to occur or have a consequence of 'major' or 'catastrophic'.

Moderate fraud risks are 'possible' to occur or could have a 'moderate' consequence. Minor risks have a likelihood of 'unlikely' or 'rare' and a consequence of 'low' or 'insignificant'. Minor fraud risks are usually accepted with no further action.

Suitable control strategies are developed by Directors and Managers for 'major' and 'moderate' fraud risks. The completed fraud risk assessment highlights the main vulnerabilities of Council and recommends any additional controls required to minimise the risk of fraud becoming a reality. Management should not rely on relatively brief, periodic visits of auditors to identify areas where controls are not in place or where exposure to the risk of fraud remains.

Whilst the overall responsibility lies with the Executive Leadership Team and particularly the Director Corporate and Community Services, all Directors and Managers have the responsibility to identify and rate these risks according to the impact they may have on Council and then pass this information on to the appropriate authorities.

An example of a fraud risk assessment is detailed over:

> ### Theft of Council Assets
> This involves the theft of Council assets which may include computers, vehicles, tools, stationery.
>
> ### Existing Controls in Place
> Items of computer equipment are recorded in the Asset Register. A code device is attached to each asset. A register of lap top computers is maintained and any overnight borrowing is recorded. Regular asset inventory checks are undertaken by Unit Managers.
>
> When staff terminate their employment with Council a check is carried out to ensure equipment is returned and accounted for. Tools are labelled with Council's name and random stock takes of selected items are conducted.
>
> ### Likelihood of Fraud Occurring
> Likely
>
> ### Consequence of Fraud Occurring
> Moderate
>
> Direct cost burden in the replacement of the asset. Indirect cost of increased insurance premiums if claims against Council's insurance policy are made. Reflects poorly on Council image.
>
> ### Overall Fraud Risk Rating
> High 17
>
> ### Proposed Additional Fraud Prevention Controls
> The stationery room and tool cabinet should be kept locked.

Step 3
The completed fraud risk assessments are to be maintained in the relevant Risk Register, with oversight by the Manager Corporate Services. The Manager Corporate Services is to collate and then forward the fraud risk assessments to the Internal Audit Committee for their review.

The Internal Audit Committee is to review the fraud risk assessments to ensure that they appear complete and reasonable. The Internal Audit Committee will also review proposed additional risk controls for appropriateness.

Step 4
This process and the outcomes are to be fully documented by the Manager Corporate Services. A three-month timeframe from the start to the end of the review should be set every two years.

7.3.2 Staff Training/Promoting an Ethical Culture
The NSW Audit Office publication "Fraud controls in local councils" (22 June 2018) states:

> *"Fraud can directly influence council's ability to deliver services, and undermine community confidence and trust. ICAC investigation, such as the recent Operation Ricco into the former City of Botany bay Council, show the financial and reputational damage that major fraud*

can cause. Good fraud control practices are critical for councils and the community."

The Executive Leadership Team of Council have a responsibility, through their words and actions, to set ethical standards in their work area and provide their staff with guidance and support. If that support is not evident it could severely affect the implementation and effectiveness of any fraud strategy.

Staff must be trained in their roles in the risk management process and instructed on the extent they will be accountable for their actions. Accountability is the key to providing a deterrent to fraud and theft. Training conveys the organisational culture to the staff and gives them sufficient confidence and direction to implement the policies and procedures. Training also limits the opportunity for staff to claim ignorance when policies are being enforced.

Simply sending a message is inadequate. Repeated reinforcement in a variety of ways is required. Unless actual attitudes and behaviours change then success cannot be claimed.

Council conducts induction training that includes information on values and ethical conduct for all new staff and some continuing training that is directed to fraud awareness. Council will ensure that the fraud awareness information, introduced during the induction process, is effective and records are maintained of the training provided. All new employees must complete fraud awareness training and review Council's Fraud and Corruption Control Policy during induction.

However, before the staff perform this training, an employment screening test is necessary. Employment screening involves verifying, with consent, the identity, integrity and credentials of an individual within Council. This needs to be within relevant legislation and should be performed on all new employees to the entity, along with all employees that have gained a promotion or been transferred.

With consent of the individual, the following may be checked and investigated:
- Professional references
- National Police Check
- Educational credentials
- Employment history

Once these are investigated, it can then be determined whether or not the individual is a fraudulent or corruptive risk to the entity.

The provision of training for Directors and Managers in relation to fraud control is important because of the supervisory responsibilities they must exercise and the example that is set by these officers to other employees. In particular, all Managers must complete fraud control training periodically.

Fraud awareness training should also be provided to existing staff periodically. The training will be specific to identified high risk tasks. Every staff member should have a general awareness of unethical behaviour and how they should react to the situation. On this basis, the Council needs to ensure that the message about fraud or corrupt behaviour is unacceptable.
Staff also need to be aware of the authenticity of the suppliers and customers of the Council, both the current and the new. If the result of this inquiry results in a high

fraud risk associated, it would be within the Council's best interest to end this relationship.

Council's Performance Appraisals include the requirement that all staff be involved in the management of risk.

7.3.3 Audit and Detection

In-house audit and detection act as a deterrent to fraud. Appropriate use of exception reporting available from the computer system, monitoring activities and staff rotation are some of the techniques to ensure that policies and procedures are adhered to.

The role of ELT is to implement appropriate monitoring or checking mechanisms, both overtly and covertly, to ensure compliance with the policies and to detect fraud at the earliest opportunity. ELT needs to ensure they understand the operations they are reviewing. They need to question responses from staff and they should seek further documentation for support.

Most monitoring processes focus on asset records and financial records, as fraud usually affects assets and Council's financial result. Listed below are monitoring activities that include a focus on asset records, financial records and personnel behaviour. Managers also need to monitor any other operating activity reports to identify unfavourable trends or anomalies.

Monitoring ensures that the system is operating as expected. Monitoring activities include:
- investigating and following up on complaints, rumours or allegations,
- spot checks of transactions to ensure compliance with policies and procedures,
- review of financial reports,
- review of ledger and related reconciliations,
- review of outstanding money owed,
- review of high-risk accounts or records,
- evaluation of trends,
- identifying where assets are and what condition they are in, and
- review supporting documentation.

When reviewing procedures or documentation, ELT need to be aware of 'red flags'. These are details that alert ELT that more investigation than usual may be necessary. Some 'red flags' are:
- income decreasing, operating costs increasing,
- excessive inventory,
- excessive year-end adjustments,
- break in sequential numbering system of receipts and other control documents,
- missing documents,
- excessive refunds, and
- no supporting documentation.

As well as reviewing procedures, ELT need to be aware of staff behaviour that may indicate problems. There are several early warning signs to be aware of relating to potential fraudulent behaviour. These include:

- staff refusing to take leave; a minimum of 2 weeks leave should generally be taken in each annual leave application,
- staff resigning suddenly or failing to attend work for no apparent reason,
- drug or alcohol abuse,
- an unusual interest in certain elements of the organisation's business,
- staff who override internal controls,
- excessive complaints from the public or other staff members,
- habitual gambling,
- persistent anomalies in work practices,
- excessive generosity towards other staff,
- borrowing from other staff, and
- character changes.

Internal fraud controls should be proactive – meaning they should be in place from the beginning, before an incident occurs, rather than after – and they should be cost effective. A good system of internal fraud controls will lessen the chance of misuse of funds and resources, through appropriate documentation and procedures and will help to identify the cause of a problem.

7.3.4 Investigation

Correct investigation techniques ensure that any matters highlighted through stakeholder reporting, or through audit and detection methods are handled in an unbiased, professional manner. Matters need to be handled having regard to Industrial Relations guidelines to minimise the risk of claims for unfair dismissal should this course of action be taken. The requirements of the *Public Interest Disclosures Act 1994* (NSW) must also be considered.

All suspicions or complaints are to be documented or reviewed by the General Manager, Director or the Disclosures Coordinator. Similar instances or patterns will then be recognised.

ELT must ensure that staff members are aware that all suspected frauds being committed against Council are to be reported. The staff member making the complaint should put that complaint in writing or provide sufficient detailed information to enable a comprehensive summary to be prepared.

All complaints should be made to the staff member's Director or Manager or directly to the General Manager or Disclosures Co-ordinator.

The Disclosures Co-ordinator must be informed immediately of all cases of suspected fraud and act as the action officer. An action officer ensures that all documentation is maintained and the issues are being investigated by a Manager, Director or the General Manager.
The reporting of each issue to the Disclosures Co-ordinator by the investigating party not only provides the opportunity to retain relevant documentation of the issue, but also to analyse the causes of it and its wider implications.

The Disclosures Co-ordinator will analyse the issue to identify similar instances or patterns of behaviour. It is important that these instances are discussed, as even if the suspected fraud is not substantiated, the fraud risk has been identified. The identification of the risk and actions taken to improve controls to minimise the fraud risk, may be useful to other Directors and Managers in their relevant work areas.

The Manager Corporate Services is to ensure that fraud risk assessments are recorded in relevant departmental risk registers. The registers should be periodically examined by the Internal Audit Committee to identify trends and obtain strategic information.

In order to avoid damaging the reputations of innocent persons initially suspected of wrongful conduct and to protect Council from the potential civil liability, the results of investigations will be disclosed or discussed only with those persons who require knowledge of the investigation. Where possible privacy will be observed at all times.

Council policies will also adhere to the *Public Interest Disclosures Act 1994* (PID Act); one of the objects states:

> *"protecting persons from reprisals that might otherwise be inflicted on them because of those disclosures".*

Part 3 of the PID Act deals with protections and offences related to reprisals against persons making public interest disclosures.

If initial investigations by ELT, internal or external auditors, or other consultants, confirms that a significant fraud against Council has been committed, the matter must be referred to the Independent Commission Against Corruption (ICAC) if committed internally or NSW Police if an external party against Council.

When a fraud is detected and referred to the ICAC or NSW Police, the following is required:
- accurate reconstruction of where the fraud has taken place,
- accounting schedules indicating the 'money trail',
- details of time, dates, places and misappropriation,
- preservation of original documents including computer hard drives and disks, and
- suspect documents should be preserved in a plastic sheet as soon as possible.

In the event of a significant loss, the Director Corporate and Community Services and the Chief Financial Officer are to identify the controls required to mitigate the risk of a similar fraud occurring again. This analysis is to be reported to Internal Audit Committee for their review.

7.3.5 Enforcement
After the matter is investigated fully and evidence obtained there must be a fair, consistent and visible application of the policy and this Plan to deal with staff who commit fraud. Without this application, staff will realise they can breach policies with relative immunity. Council's disciplinary actions are detailed in Discipline provisions of the Award.

Proving criminal intent in relation to fraudulent behaviour may be difficult. Consequently, the availability and use of remedies, other than prosecution, is in many cases appropriate and can be more cost-effective than undertaking criminal proceedings for minor offences. When deciding on the action that is to be taken, a balance needs to be maintained between the costs of the action and the deterrent effects that prosecution can achieve. Given the difficulties in prosecuting fraud, there

has been increasing reliance in recent years placed on civil remedies as a complement, or as an alternative to criminal prosecution. In contrast to the criminal law, which requires proof beyond reasonable doubt on intent to defraud, civil remedies only require proof on the balance of probabilities.

When conducting initial investigations into fraud allegations, where a prima facie case of fraud is found to exist, the most appropriate course of action should be determined using guidance provided in this Plan and legal advice.

7.3.6 Responsibility and Reporting

Fraud prevention strategies must be generated by ELT. The General Manager and Directors and Managers must have a commitment to fraud prevention and understand how it may be achieved; this will provide a foundation for other employees to support the notion of fraud control.

Council should report all serious fraud matters that they are aware of to the Internal Audit Committee.

The Director Corporate and Community Services, assisted by the Manager Corporate Services, is responsible for overseeing Council's Fraud and Corruption Control Policy and Plan. All suspected fraud is to be reported to those officers or the Disclosures Co-ordinator. The Manager Corporate Services role includes the following objectives:

- co-ordinate the overall approach to fraud control;
- formulate fraud control strategies and reporting procedures;
- assist Managers to identify major areas of risk;
- recommend how investigations should be handled;
- recommend to the Managers fraud control initiatives;
- ensure such initiatives are promulgated throughout Council;
- develop policies to protect staff reporting fraud or subject to allegations of fraud; and
- approve documentation on fraud control.

The Manager Corporate Services is responsible for updating the key objectives of the Fraud and Corruption Control Plan for review by the Internal Audit Committee.

8.   Getting Help

The staff member/s who can assist with enquiries about this Plan:

Position: Manager Corporate Services
Department: Corporate and Community Services

9.   Version Control

Policy Name	ID No and Version	Resolution	Date Adopted
Fraud and Corruption Plan	1	370/2021	17 June 2021
Next Review Date		By September 2022	

Appendix A – Examples of Common Fraud Risks

1.   Assets
- Unauthorised use of Council assets.
- Theft of tools, IT equipment, consumables or inventory.
- Misappropriation of cash.
- Cancellation/alteration of debtors.
- Failure to raise an invoice for services provided.

2.   Information and Confidentiality

Confidentiality of information is critical. Not only is confidentiality important from a privacy perspective, but misuse of information could enable an officer (including Councillors) or an employee to obtain an inappropriate economic benefit. Similarly, misrepresentation of information can be fraudulent in its intent. Areas of risk include:

- Tendering.
- Planning.
- Obtaining/presenting information in a selective manner, thereby misleading decision makers, with the objective of supporting a proposal that may present benefits to Council officers or staff.
- Inflating favourable financial or operating performance indicators to obtain bonuses or favourable salary reviews.
- Inappropriate provision of database information to others.

3.   Purchasing
- Purchasing products/services/assets for private use.
- Inappropriate relationships with particular suppliers providing favours or kickbacks.
- Tendering and quotation objectivity.
- Credit card misuse.
- Payment of forged or altered invoices.

4.   Personnel/Payroll
- Inappropriate use of sick leave provisions.
- Unauthorised amendment of payroll rates, tax deductions, superannuation contributions, FBT calculations.
- Phantom employees on the payroll.
- Terminated employees retained (even for a short time) on the payroll.

5.   Other
- Amending rate records of family/associates.
- Staff access to residents' properties (supervised or not) presents opportunities for theft from residents.
- Siphoning interest from investment accounts.
- Taking or giving bribes.
- Falsifying log books, timesheets etc.

Appendix B – Fraud Risk Assessment Template

<u>Name of Risk</u>
Brief description of the risk

<u>Existing Controls in Place</u>
Detail current controls in place to minimise the risk

<u>Likelihood of Fraud Occurring</u>
Rare to Almost Certain (refer to Risk Matrix, Appendix C)

<u>Consequence of Fraud Occurring</u>
Insignificant to Catastrophic (refer to Risk Matrix, Appendix C)

<u>Overall Fraud Risk Rating</u>
Refer to Risk Matrix, Appendix C

<u>Proposed Additional Fraud Prevention Controls</u>
Recommendation for additional controls.

Appendix C - Risk Matrix

Likelihood	Consequences				
	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	Moderate 8	High 16	High 20	Extreme 23	Extreme 25
Likely	Moderate 7	Moderate 12	High 17	High 21	Extreme 24
Possible	Low 4	Moderate 10	High 15	High 18	High 22
Unlikely	Low 2	Low 5	Moderate 11	Moderate 13	High 19
Rare	Low 1	Low 3	Moderate 6	Moderate 9	High 14