LODDON SHIRE COUNCIL

FRAUD AND CORRUPTION CONTROL PLAN

DOCUMENT INFORMATION

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Strategic documents are amended from time to time, therefore you should not rely on a printed copy being the current version. Please consult the Loddon Shire website to ensure that the version you are using is up to date.

This document is available in alternative formats (e.g. larger font) if requested.

ACKNOWLEDGEMENT OF COUNTRY

Loddon Shire Council acknowledges the Traditional Custodians of the land comprising the Loddon Shire Council area. Council would like to pay respect to their Elders both past and present.

# CONTENTS

EXECUTIVE SUMMARY

Fraud and corruption control requires a whole-of-Council approach to be truly effective. This *Fraud and Corruption Control Plan* is part of the Loddon Shire Council (Council) fraud and corruption framework. Other documents that complete the framework are:

- Fraud and Corruption Control Policy
- Fraud and Corruption Events Register
- Fraud and Corruption Risk Self-Assessment

This plan has been developed with reference to the *Australian Standard® - Council of Standards Australia - Fraud and corruption control (AS 8001:2021)*, and industry best practice, to prevent and manage fraud and corruption incidents within Council.

Leadership and culture are critical aspects of fraud and corruption control and require Council leaders to set the environment for an ethical culture that not only supports prevention of fraud and corruption, but promotes a willingness to report it if it is witnessed. Leadership and culture are supported by robust processes, and supporting legislation and policy.

Collectively these are underpinned by the Australian Standard AS8001-2008's approach to fraud and corruption control - Prevention, Detection, and Response.
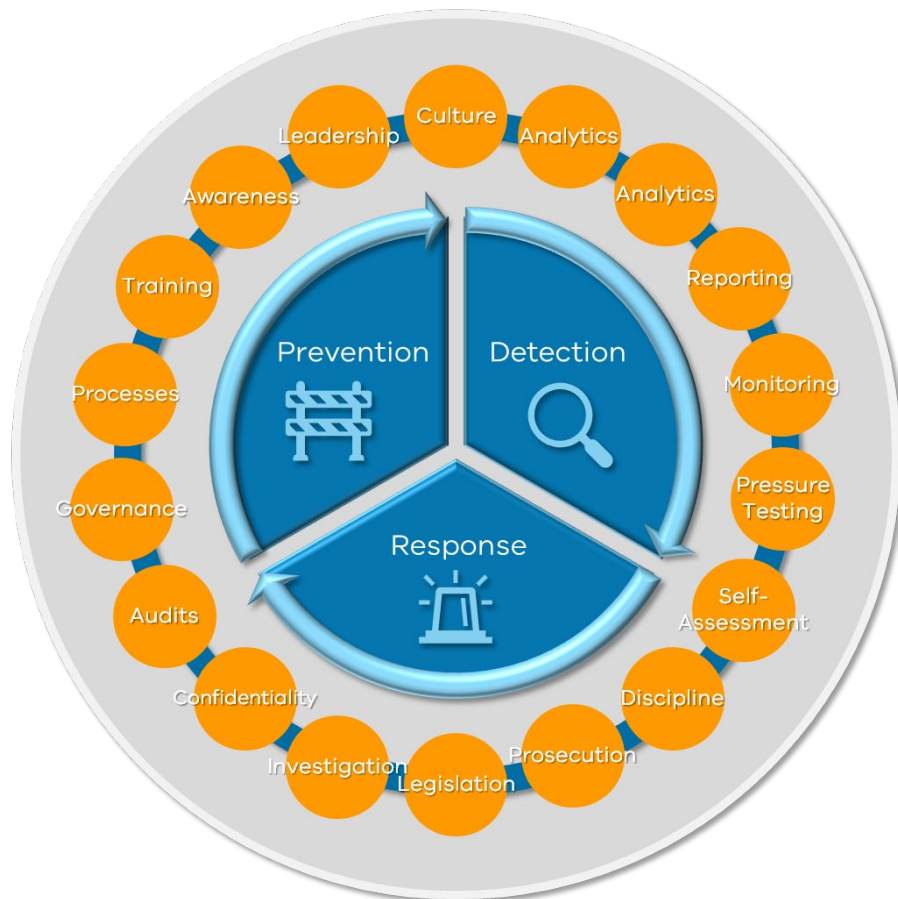
1   PURPOSE

Council has a duty of care in the prevention and management of fraud and corruption. The purpose of this plan is to manage Council's fraud and corruption exposure, and to demonstrate that Council is committed to the prevention, detection, and response of fraud and corruption events.

2   SCOPE

This policy applies to Councillors, staff, volunteers, suppliers, contractors, Audit and Risk Committee members and Community Asset Committees members.

3   DEFINITIONS

3.1   Fraud

> *fraud – dishonest activity causing actual or potential gain or loss to any person or organization including theft of moneys or other property by persons internal and/or external to the organization and/or where deception is used at the time, immediately before or immediately following the activity* [1]

3.2   Corruption

> *corruption – dishonest activity in which a person associated with an organization [...] acts contrary to the interests of the organization and abuses their position of trust in order to achieve personal advantage or advantage for another person or organization. This can also involve corrupt conduct by the organization, or a person purporting to act on behalf of and in the interests of the organization, in order to secure some form of improper advantage for the organization either directly or indirectly[1]* [2]

Examples of fraud and corruption can be found in the Fraud and Corruption Control Policy.

4   RISKS

Fraud and corruption risks are dependent on the individual characteristics of an organisation. However, Councils have particular exposures (outlined in the table below)[3]. Council will consider these risks when delivering this plan.

Councillors
Enduring
- poorly managed conflicts of interest   - improper influence over staff   - unauthorised disclosure of information   - increased bias   - electoral donations   - inadequate support and training
Emerging
emergency preparedness (grants, emergency relief & response)

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[1] Council of Standards Australia – Australian Standard® – Fraud and corruption control (AS 8001 :2021)
[2] Council of Standards Australia – Australian Standard® – Fraud and corruption control (AS 8001 :2021)
[3] https://ibac.vic.gov.au/corruption-and-misconduct-risks-local-government
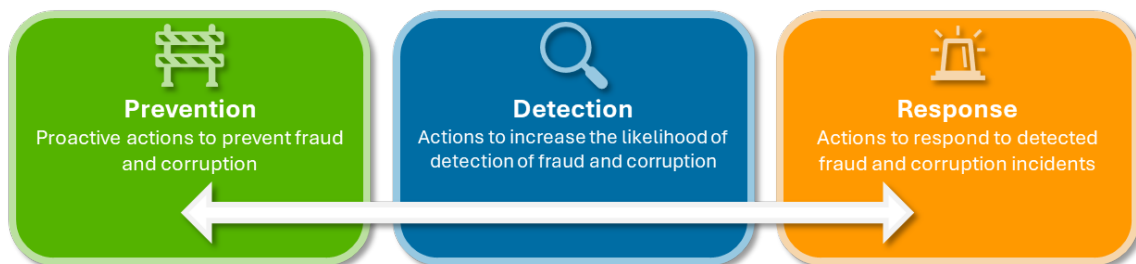
Staff & General

Enduring

- procurement
- misuse of council assets
- misuse of grant funding
- gifts, benefits, and hospitality
- licensing, permits, approvals and other delegated functions
- favouritism and nepotism
- organised crime groups cultivating relationships
- leadership experience & capability

Emerging

- information misuse due to work from home arrangements
- improper influence in and planning, rezoning and urban growth decisions (in particular a high risk for regional Councils)
- misuse of funding for personal gain
- high staff turnover (CEO & staff)

5 PLAN

Fraud and corruption are serious matters for Council and the community. Not only can they constitute a criminal offence, but fraud and corruption reduce funds available for delivering public goods and services, undermine the integrity of and public trust in government, and can place public safety at risk. A comprehensive plan to manage fraud and corruption involves three key pillars: prevention, detection, and response.

Prevention Proactive actions to prevent fraud and corruption	**Detection** Actions to increase the likelihood of detection of fraud and corruption	**Response** Actions to respond to detected fraud and corruption incidents

5.1 Prevention

An ethical culture and robust processes are the first line of defence in fraud and corruption control. Prevention is also the most efficient and cost-effective way to minimise the risk of fraud and corruption and can eliminate or reduce the harmful consequences to Council, including significant financial and reputational harm. Council will implement the following prevention measures.

- **ethical culture and work practices** – Council will foster a culture and implement work practices that display behaviour and decision making that is ethical, actively discourages dishonest or fraudulent behaviour, and fosters an environment where staff feel empowered to report suspected fraud and corruption. Council's Executive Management Group is committed to reducing the risk of fraud and corruption, and promotion of fraud and corruption awareness. Organisation Development staff will promote employee and Councillor codes of conduct.
- **fraud awareness** – Ongoing training on fraud and corruption prevention and detection for employees at all levels. Ongoing messaging to Councillors and staff on fraud and corruption. Communication of fraud and corruption policy to external parties where relevant (for example throughout procurement processes).
- **risk assessments & audits** – Fraud and corruption risk will be integral to ongoing risk reviews. Internal control reviews of functions with higher fraud potential - such as payroll, accounts payable, cash handling and procurement - will involve greater scrutiny. Internal

and external audits will be conducted as required. The Audit and Risk Committee will provide oversight of fraud and corruption policies and incidents.

- **transparent processes and decision making** – Council will create an environment where systems, standards and procedures are clear and are therefore not open to exploitation. Decision making processes will be as open and transparent as possible.
- **internal financial controls** – Internal financial controls, processes and procedures will be well documented, reviewed regularly and understood by all employees; examples include segregation of duties, supplier details, ABN registration checks, rotation and/or supervision of employees in high-risk processes, supplier vetting, auditing, additional measures to strengthen fraud prevention for processes on operations remote from central operations.
- **governance measures** – Maintaining strong governance controls through managing conflicts of interest, personal interests declarations, fraud and corruption register, and gifts, benefits and hospitality processes.
- **technology management** – Preventing technology-enabled fraud through Council's Cyber Security Policy. Reviewing and monitoring emerging fraud and corruption technology threats; including protecting client data.
- **people management** – Processes for workforce screening relative to the risk exposure of positions, including pre-employment checks, qualification checks, personal interests declarations, and exit interviews. Monitoring of excess leave, job rotation in high risk positions, and employee support programs.
- **physical assets** – Protecting physical assets (including plant and machinery) through anti-theft measures. Active management oversight, and equipment registers.
- **monitoring external risks** – Nominated employees, contractors or consultants will maintain awareness of common fraud and corruption incidents in the local government sector, and new or emerging trends in fraud and corruption.

5.2 Detection

Ongoing fraud detection techniques are crucial in managing fraud and corruption. Council recognises the importance of promptly identifying instances of fraud and corruption after they have taken place. This approach seeks to minimise the impact of fraud and corruption events as well as mitigate potential losses. Council will implement the following measures to detect fraud and corruption.

- **data analytics and technological tools** – Utilise data analytics and technological tools to identify anomalies and patterns indicative of fraud.
- **reporting** – Undertake both internal and external reporting to ensure transparency and accountability and possible detection (this includes Council reports, annual accounts, grant acquittals and information provided to the Australian Taxation Office, Australian Bureau of Statistics, and the Victorian Grants Commission).
- **finance** – Apply authorisation processes and financial reconciliations, perform post transactional reviews, conduct analysis of management accounting reports n.b. reviews should not be conducted by those responsible for processing.
- **human resources** – Monitoring tools in place to identify fraud and corruption indicators including accumulation of leave/not taking extended periods of leave, excessive staff turnover, alteration of timesheets, actioning discrepancies in pre-employment checks.
- **observation** – All staff are responsible for observing and reporting on fraud and corruption; indicators including senior staff undertaking process work, staff appearing to live beyond their means, secrecy or excluding people from information and processes, failure to comply with processes, illogical excuses for unusual events/actions (refer 7 REPORTING for reporting processes).
- **audits** – Participation in external audits – including Victorian Auditor-General's Office audits. Participation in internal audits – including internal audit programs that may identify actual or potential exposure risks to fraud and corruption. External audits may include assessments of overall fraud and corruption culture and awareness at Council.
- **pressure testing** – Evaluate the effectiveness of internal controls by simulating fraud and corruption scenarios to assess how well they can withstand potential breaches. This

involves introducing documents, data, or actions consistent with actual fraud or corruption incidents to determine if existing controls are operating as intended.

- **risk self-assessment** – Undertake fraud and corruption risk self-assessments to better identify areas for improvement and priority areas to focus improvement efforts on. Further information on risk-self assessments can be found in **APPENDIX 1: FRAUD AND CORRUPTION RISK SELF ASSESSMENT**.

5.3   Response

An effective fraud and corruption control system includes a range of appropriate response mechanisms. Effective responses provide assurance to Council, authorities, and the general public that suspected incidents of fraud and corruption are being appropriately managed. Council will utilise the following response measures to manage fraud and corruption incidents.

- **investigation** – Investigate all alleged or suspected acts of potential or actual fraud or corruption. Action will be taken regardless of the position, title, length of service or relationship with Council.
- **confidentiality** – Confidentiality for those who report fraud and corruption is guaranteed, and the reputation of those accused will be subject to the highest level of protection until a decision is reached. Employees who make complaints will not be victimised or disadvantaged. The person against whom the complaint is made will be treated with procedural fairness. There are significant penalties under the *Protected Disclosure Act 2012* for breaches of confidentiality, protecting those who report fraudulent activity.
- **public interest disclosures** – The *Public Interest Disclosures Act 2012*, provides protections for people who make disclosures about improper conduct in the public sector (also known as whistleblowers). Public interest disclosures will be managed in accordance with Council's Public Interest Disclosure Policy.
- **prosecution** – Where deemed appropriate Council, at the discretion of the CEO, will pursue the recovery of any losses as a result of fraud if there is a reasonable probability of recovery. As well as criminal proceedings, prosecution in the civil court may be taken against employees or others involved in recovering any financial loss incurred by Council.
- **disciplinary action** – Where a matter is considered minor and the CEO deems it appropriate that the matter not be referred to the police, Council reserves the right to pursue other remedies including dismissal, reprimand, or loss of seniority in accordance with provisions within the Code of Conduct.
- **non-public interest disclosures** – All disclosures must be reported to the CEO who will assess the information provided and make enquiries as deemed appropriate to verify the allegations, where the allegation cannot be substantiated, advise the person who made the allegation to either request more information or advise no further action will be taken. Where there is evidence to support the allegation, the CEO will assess whether the matter is minor or major and deem the appropriate course of action including reporting to Victoria Police, or relevant authority.
- **investigation** – Any required investigations will be conducted by the Director Corporate in conjunction with relevant managers, and may include seeking advice from Council's insurer, police, internal auditors or legal advisors.
- **review** – After a fraud and corruption incident Council will review the circumstances of the event, and make any relevant recommendations to reduce the likelihood of the event occurring again.
- **record** – Fraud and corruption events will be recorded in the *Fraud and Corruption Events Register*.

6   ROLES AND RESPONSIBILITIES

It is the responsibility of all Councillors and staff to have an awareness of the potential for fraud and corruption, and a willingness to report suspected fraud and corruption incidents. However, the following specific roles and accountabilities exist:

6.1 Council

- Lead an ethical culture by displaying behaviour and decision making that is ethical and actively discourages dishonest or fraudulent behaviour.
- Provide support to the CEO with any recommended actions in response to suspected fraud and corruption incidents.
- Abide by the Councillor Code of Conduct.

6.2 Audit And Risk Committee

- Receive a quarterly briefing from the CEO on fraud related incidents, including those reported to integrity bodies, and recommend any related actions.
- Review Councils fraud prevention policies and controls.
- Review Council's fraud control plan and awareness programme.
- When developing the internal audit plan, consider fraud and corruption risks and incorporate internal audit reviews that test the internal control environment around those risks.

6.3 Chief Executive Officer

- Lead an ethical culture by displaying behaviour and decision making that is ethical and actively discourages dishonest or fraudulent behaviour.
- Advise Council as soon as practicable should a fraud and corruption incident occur.
- Where appropriate, advise the Local Government Inspectorate, Independent Broad-based Anti-corruption Commission, Victorian Auditor-General, and/or Victoria Police of a fraud and corruption incident.
- Provide the Audit and Risk Committee with a quarterly briefing on fraud related incidents, including those reported to integrity bodies.

6.4 Director Corporate

- Review fraud and corruption framework documents in line with required cycles.
- Provide the Audit and Risk Committee with a report on Council's fraud control plan and awareness program.
- Enable opportunity for Audit and Risk Committee review of Council's fraud prevention policies and controls.
- Monitor fraud and corruption related declarations, incidents and registers to identify trends and anomalies that may indicate instances of fraud and investigate accordingly.
- Receive reports and manage investigations into allegations of fraud and corruption in accordance with Council's Fraud and Corruption Control policy, the Public Interest Disclosure Policy and Procedure and relevant legislation.
- Where allegations relate to conduct by Council staff, consult with the Manager Organisation Development and refer to Council's Staff Code of Conduct.
- Assist the Chief Executive Officer with the reporting of fraud and corruption incidents to relevant authorities.
- Assist the Internal Auditor with any audits and related recommendations required as a result of a fraud and corruption event.
- Support Organisation Development staff to facilitate fraud and corruption training for all staff, including refresher training every two years.

6.5 Management Executive Group

- Lead an ethical culture by displaying behaviour and decision making that is ethical and actively discourages dishonest or fraudulent behaviour.
- Support managers in ensuring the internal control environment protects Council from fraud and corruption opportunities.
- Following receipt of the quarterly Organisation Health Check (which includes excess leave balance information) follow up with relevant managers to understand the strategies in place to reduce the leave balances of team members who have excess leave.

6.6 Managers

- Lead an ethical culture by displaying behaviour and decision making that is ethical and actively discourages dishonest or fraudulent behaviour.
- Be diligent in understanding the internal control environment and processes within their team to ensure that fraud and corruption risks are managed. Where the environment and processes are not well managed recommend changes to the director.
- When advised of a suspected fraud or corruption incident, maintain strict confidentiality pertaining to the matter to protect all parties involved.
- Manage the leave balances of team members and ensure that team members are taking leave breaks no greater than annually.

6.7 Manager Financial Services

- Provide advice on and develop financial processes, procedures and reporting to proactively detect fraud and corruption.
- Provide advice on and develop financial processes to proactively detect emerging financial fraud and corruption threats.

6.8 Manager Information Technology

- Oversee the development and implementation of information security management systems in accordance with industry best practice.
- Provide advice on and develop information technology initiatives to proactively detect fraud and corruption, including emerging cyber fraud threats.

6.9 Manager Organisation Development

- Manage processes for workforce screening relative to the risk exposure of positions.
- Manage monitoring of excess leave, job rotation in high-risk positions, and employee support programs.
- Facilitate fraud and corruption training for all staff, including refresher training every two years.
- Provide advice and support where allegations of fraud and corruption relate to staff subject to Council's Staff Code of Conduct.

6.10 Public Interest Disclosure Coordinator

- Ensure appropriate communication, information, advice and support in relation to disclosure management is provided internally and externally in line with legal requirements.
- Ensure Council maintains secure information management systems for the receipt, storage, assessment and notification of potential public interest disclosures.
- Receive disclosures directly from internal and external individuals and indirectly through Council employees authorised to receive such disclosures.
- Review disclosures and refer those deemed an Assessable Disclosure directly to IBAC. Where disclosures are not found to be an Assessable Disclosure, or IBAC have determined it is not a Public Interest Disclosure, facilitate internal processes.

6.11 All other staff and contractors

- Understand the Fraud and Corruption Control Policy, Fraud and Corruption Control Plan, and other related policies that facilitate an ethical environment.
- Immediately report suspected incidents of fraud and corruption to Director Corporate, including incidents deemed to be a protected disclosure.
- Behave ethically and in accordance with the Staff Code of Conduct.
- Participate in required fraud and corruption prevention training.
- Maintain confidentiality pertaining to a suspected report of fraud and corruption.
- Use credit card and fuel cards for business purposes only, and in accordance with relevant policies.

7   REPORTING

In certain circumstances Council has legislative requirements to report fraud and corruption to relevant authorities. Fraud and corruption reporting also assists Council to identify and address potential risks, deter further wrongdoing, and improve transparency and accountability.

Any person to whom this policy applies, having knowledge of a fraud or corruption incident, or has reason to suspect that fraud or corruption has occurred, has an obligation to immediately report the matter.

Individuals must maintain strict confidentiality when reporting fraud or corruption.

Individuals must not knowingly make false allegations of fraud or corruption.

Council will manage reports of fraud or corruption in accordance with the *Public Interest Disclosure Policy*.

7.1   Reporting internally

- Incidents of actual or suspected fraud and corruption should be reported to a staff member's manager, or the manager of the person who is the subject of the incident.
- The manager will then bring the matter to the attention of the Public Interest Disclosure Coordinator and CEO for appropriate action.
- The CEO will report fraud and corruption matters deemed major to Victoria Police. The reporting to police of fraud and corruption matters deemed minor is at the discretion of the CEO.
- Incidents of fraud and corruption must be recorded in the *Fraud and Corruption Events Register*.

7.2   Public Interest Disclosure

The *Public Interest Disclosures Act 2012*, provides protections for people who make disclosures about improper conduct in the public sector (also known as whistleblowers).

All individuals engaged by the Council, Councillors or other persons who wish to make a Public Interest Disclosure may make that disclosure to:

- Public Interest Disclosure Coordinator (Director Corporate)
- CEO (the CEO must notify IBAC of any matter where they suspect on reasonable grounds corrupt conduct has occurred or is occurring https://www.ibac.vic.gov.au).

For further information refer to Council's *Public Interest Disclosure Policy and Procedure*.

7.3   Funded organisations or portfolio agencies

Some funding agencies, as a requirement of funding provided to organisations, require notification to the relevant Government department of any notification of suspected fraud or corruption within, or concerning, Council.

Any knowledge of suspected fraud or corruption related to funding will be notified as a priority to the relevant funding department.

8   REVIEW

The first review of this plan will be conducted one year following its adoption, following the first review it will be subject to a two to four year review period as determined by the first review.

Scheduled reviews will incorporate a review of the fraud and corruption control framework documents, providing an opportunity to assess the effectiveness of the framework for Council's needs.

APPENDIX 1: FRAUD AND CORRUPTION RISK SELF ASSESSMENT

Council will undertake fraud and corruption risk self-assessments to better identify areas for improvement and priority areas to focus their improvement efforts on.

The self-assessment tool enables Council to better understand where they need to improve their fraud controls and priority areas to focus their improvement efforts.

The self-assessment tool is a live document that will be adjusted according to the needs of the assessment.

The self-assessment tool can be found at DOC/25/XXXXX.