2.04 - FRAUD AND CORRUPTION PREVENTION POLICY

1. INTRODUCTION

This policy outlines the expected standards of ethical behaviour at Council and is aimed at ensuring appropriate mechanisms and processes are in place to prevent, detect and respond to fraud and corruption.

2. POLICY OBJECTIVE

This policy aims to educate and inform staff and Councillors about their responsibilities and obligations in preventing and reporting instances of fraud and corruption within Council, create awareness about what constitutes unethical conduct and reduce and prevent the risk of fraud and corruption.

The Fraud and Corruption Prevention Policy assists in building a corruption resistant culture at Council by promoting ethical behaviour and encouraging accountability and transparency in Council processes and dealings with external parties. Norfolk Island Regional Council will not tolerate corrupt conduct by employees, Councillors or external parties.

Norfolk Island Regional Council is committed to:

- Minimising the opportunities for corrupt conduct by employees, members of the public, Councillors, contractors and clients;
- Detecting, investigating and disciplining corrupt conduct;
- Reporting corrupt conduct to appropriate external authorities where appropriate; such as the Norfolk Island Police Force, Australian Federal Police for serious matters;
- Developing and implementing a fraud and corruption risk assessment strategy to assist in the identification and management of corruption risks across Council.

3. POLICY SCOPE

The Fraud and Corruption Prevention Policy is to apply to all Council employees, Councillors and external parties, including contactors, volunteers, community representatives and consultants.

Fraud and corruption may have a significant impact across Council activities and programs. Accordingly this policy has been developed to ensure that the risk of fraud and corruption is minimised.

Norfolk Island Regional Council is committed to preventing fraud and corruption across the organisation as such activities have an impact on Council resources and reputation. Senior Council employees and Councillors have a key ongoing role in the prevention of fraud and corruption and the fostering of an ethical and accountable environment at Council.

4. DEFINITIONS

What is fraud?

Fraud can be defined as:

- Dishonestly obtaining a benefit, or causing a loss, by deception or other means.
- Dishonest activity causing actual or potential financial loss to any person or Council including theft of moneys or other property by employees or Councillors or other persons external to the Council, and whether or not 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 the purpose of this Policy, fraud is not restricted to tangible benefits only and includes intangibles such as information which may not be in documentary form.

What is corruption?

Corruption is the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.

5. LEGAL AND POLICY FRAMEWORK

Norfolk Island Regional Council Code of Conduct
Local Government Act 1993 (NSW) (NI)

The Procedures for the Administration of The Model Code of Conduct for Local Councils in NSW, March 2013

Criminal Code 2007 (NI) - offences relating to official corruption and misuse of office by public officials and misuse of official information

Criminal Code 1995 (CTH) - offences relating to frauds upon the Commonwealth and misuse of federal funds or federal information

Crimes Act 1914 (CTH) - provisions relating to questioning and interviews for federal offences

Criminal Procedure Act 2007 (NI) - provisions relating to search warrants and questioning.

6. IMPLEMENTATION

6.1 Communication
Internal fraud can be detected by observation, investigation and reporting. A significant proportion of fraud remains undetected because of the inability to recognise the early warning signs of fraudulent activity, or because staff are unsure how, when and to whom they should report their suspicions.

An awareness of the risks and fraud control techniques are fostered by:
- Including notification of the Fraud Control Plan at induction;
- Ensuring updates and changes to related policies and procedures and other ethical pronouncements are communicated to all staff;
- Ensuring staff are aware of the mechanism to report allegations or concerns;

• Encouraging staff to report any suspicious activities;

6.2 Associated Documents

Commonwealth Statutory Declaration Act 1959
3.01 Access to Financial Management Systems Policy
3.03 Purchasing Procedures
3.03 Tendering Procedures
3.04 Investment Policy
3.05 Corporate Credit Card Policy

7. POLICY

7.1 Examples of Fraud and Corruption

The following list is not exhaustive, but includes some of the more common examples of fraud and corruption in the public sector:

Theft of assets, such as:

- Equipment;
- Consumables or supplies;
- Cash, and Information.

Unauthorised or illegal use of assets, information or services for private or business purposes, including:

- Computers, including excessive use of email and the Internet;
- Motor vehicles;
- Clerical and other support;
- Confidential information;
- Equipment, including photocopiers, telephones and fax machines, and
- The Council's name or logo e.g. through use of letterhead.

Abuse of position and power for personal gain, such as:

- Seeking and obtaining bribes or other gifts in exchange for favourable treatment, and Nepotism in staff appointments.

Manipulation and misuse of account payments, such as:

- Fictitious employees on the payroll,
- Ordering equipment for private and personal use, and
- Favouring suppliers whose costs are not as competitive as other suppliers.

Falsification of records, including:

- Timesheets,

- Travel claims,
- Approval of pay without delegation,
- Purchase orders, and Petty cash vouchers.

Manipulation of computer programs for improper purposes, such as:

- Unauthorised approval to pay,
- Diversion of proceeds, and Writing off debts.

7.2 Elements of controlling fraud and corruption risks

There are three (3) classification elements of controlling fraud and corruption risks into three categories:

1. **Structural Elements**: sound ethical culture, senior management commitment, periodic assessments of fraud and corruption risks, management and staff awareness, and fraud and corruption control planning.

2. **Operational Elements**: internal controls, fraud detection programs, mechanisms for reporting suspicions of fraud and corruption, dealing with detected or suspected fraud or corruption, line management accountability for the control of fraud and corruption risk, internal audit strategy, the protection of whistle blowers, allocation of resources to control fraud and corruption risks, insurance and pre-employment screening.

3. **Maintenance Elements**: review of the effectiveness of the fraud and corruption control strategies, ongoing monitoring of the ethical culture and review and adjustment of the fraud and corruption control plan.

7.3 Fraud and Corruption Actions and Signals

There are a number of potential fraud and corruption signals which Council Officials should be alert to in identifying fraud and corrupt activities. These actions/signals include but are not limited to:

Actions:

- Miss-appropriating Council's assets including use of Council assets for private purposes;
- Abuse of Council time;
- False invoicing for goods or services never rendered;
- Providing false or misleading information;
- Misuse of sick leave or carers leave, and
- Theft of cash, equipment or tools.

Signals:

- Illogical excuses and reasons for unusual events or actions;
- Senior staff involved in routine process work such as purchasing, ordering and receiving of goods;
- Staff evidently living beyond their means, who have access to funds or control or influence over service providers;
- Staff who do not take holidays for extended periods;

- Potential conflicts of interest not declared;
- Council Officials who treat controls, policies and procedures as challenges to overcome or be defied;
- Failure to conduct adequate reference checks on staff prior to employment;
- Unauthorised changes to systems or work practices;
- Missing documentation or a lack of record keeping;
- Duplicates only of invoices;
- Alteration of documents such as file notes and timesheets;
- Councillors directing or influencing, or attempting to direct or influence any member of staff or other Council Official in the exercise of their official functions;
- Council Officials attempting to influence other Council Officials to approve Development Applications which do not meet Council codes or policy or refuse Development Applications which do meet Council codes or policies.

7.4   Risks and Identification

Identified fraud and corruption risks are to be considered when Council reviews risks to the organisation as a whole. Fraud and corruption risk areas for Council which require specific attention include the following:

(a) **Conflicts of Interest:** Conflicts of Interest exist when Council Officials could be influenced, or a reasonable person would perceive that they could be influenced, by a personal interest when carrying out their public duty.

Mitigation: Council has dedicated Conflict of Interest form and annual Disclosure by Councillors and Designated Persons return are tabled at a Council meeting and available in a register for viewing by the public.

(b) **Bribes, including Gifts or Benefits**: Council Officials must never demand or request any gift, benefit or bribe in connection with their Council work or duties or status with Council.

Mitigation: Council has Gifts and Benefits Policy and this should be referred to for guidance.

(c) **Information Technology:** Council Officials are required to adhere to Council's information security requirements which protect the integrity of Council's information systems. The protection of confidential information is vital. Inappropriate use of Council's computer systems is not tolerated.

Mitigation: Council has an Internet, Email and Computer Usage Policy and this should be referred to for guidance.

(d) **Recruitment and Selection:** Independence, accountability and transparency in recruitment and selection processes is vital. By adhering to these principles, Council has the ability to attract and retain the right personnel to enhance its performance.

Mitigation: EEO Management Plan. Recruitment and selection procedure and training for panel members.

(e) **Purchasing and Tendering:** Council regularly contracts for the purchase and supply of a wide range of goods and services. Objectivity and impartiality in the assessment of goods and services to be purchased is vital. Council has a responsibility to ensure that physical security of the goods is maintained.

Mitigation: Council has policies and procedures for purchasing and tenders. Council also has a Statement of Business Ethics.

(f) **Development Applications:** The Development Application and assessment process can be contentious and high risk in terms of corrupt activity, whereby potential applicants or objectors may want to unduly influence Council Officials in the course of their duties.

Mitigation: Council has a Code of Conduct Policy and should be referred to for guidance.

(g) **Cash Handling:** Theft of cash is one of the most basic frauds. A number of areas of Council are involved in the handling of cash on a daily basis. All income is to be promptly entered into accounting records and immediately secured and all cheques immediately endorsed.

Mitigation: Cash handling procedure will guide staff who are required to handle cash, including petty cash.

(h) **Delegations:** There are a number of provisions relating to delegations in the Local Government Act and these must be followed. Delegations give people the authority to make certain decisions, perform certain functions or undertake certain activities. Delegations must be formally documented, granted and retained on file. Delegated authority should not be exceeded by any person and each staff member is responsible for ensuring they are aware of the level of their delegated authority. Delegated authority should only be used in the course of undertaking council business.

Mitigation: Delegations set up within business software and in delegations register.

(i) **Time Recording:** Staff time is a valuable resource. All staff time is to be accounted for in the course of work. Council staff are required to be accountable for, and accurately record their time whilst undertaking council duties.

Mitigation: All staff to fill out timesheets that need to be signed by the direct supervisor prior to any pay is processed. Group Managers and General Manager to check and sign off on fortnightly pay run. Overtime must have prior approval.

(j) **Use of Council Resources:** Council resources are anything which is paid for, owned or controlled by the Council. It includes financial, material and human resources.

Councillors and staff are expected to be efficient, economical and ethical in their use and management of Council resources. Council resources should only be used for Council purposes and in the public interest.

Mitigation: All staff provided with information on the importance of efficient, economical and ethical use and management of Council resources.

(k) **Stock Control:** Council has a significant quantity of stock of both low and high value. Council staff should ensure adequate controls are enacted to reduce fraudulent activity associated with stock.

Mitigation: A system of booking in and out items in place. Rolling stock take and end of year stores report.

(l) **Obtaining Personal Benefit by Provision of Additional Service:** Council provides a wide range of services to our community. In the provision of a service the situation may arise where a Council staff member is requested to provide additional services or carry out work that is not programmed or authorised by Council. This can provide opportunity for a staff member to seek or receive a personal benefit or payment for the provision of the additional service. Using Council staff time and Council resources to provide a staff member with a personal benefit deprives Council of that benefit or income.

Mitigation: Responsibility of all staff and community members to report any witnessing of any staff personal benefit for provision of additional services.

(m) Council's **Secondary Employment Policy** requires that all Council staff declare any work or employment additional to the duties required by Council.

Mitigation: Secondary Employment Policy and form distributed to all staff through pay roll on an annual basis in July.

7.5   Reporting

Under the Code of Conduct there is an obligation for each Council Official to report any improper conduct, which includes suspected fraudulent or corrupt behaviour or breaches of this Policy. An individual may report the matter either internally or externally as outlined in this Policy.

The Executive Manager Governance and Human Resources will ensure that the Incident Register and adequate reporting systems is maintained. A reporting system which records all allegations of fraud, any subsequent investigation actions and their outcomes, can provide an overview of the nature, extent and location of fraud. It also aids in the development of intelligence capability and risk profiles of potential fraud suspects.

Internal Reporting

Councillors, staff and delegates of Council must report as soon as possible any suspected fraudulent or corrupt behaviour, to their Manager, Group Manager, General Manager or Mayor if the matter relates to the General Manger. All instances of alleged fraud must be reported whether by the person making the allegation or by their relevant manager receiving the initial notification. The General Manager and/or Executive Manager Governance and Human Resources will arrange to investigate the matter based on the principles of independence, objectivity and the rules of natural justice.

The General Manager and/or Executive Manager Governance and Human Resources will make a determination based on the allegations, or the initial assessment whether the investigation should be conducted in-house or the matter referred to the NIPF and AFP for a comprehensive investigation.

Managers and Group Managers have an obligation to immediately pass on the reports of suspected fraudulent or corrupt behaviour or breaches of the Policy to the General Manager. The only exception to this is where the General Manager is suspected of conduct relating to fraud and corruption, in which case the matter should be reported to the Mayor or the relevant external agency.

In instances where the matter is of such gravity that it should not be handled at the local level then the matter will be referred to the General Manager for further referral to the NIPF and AFP.

In the event of an allegation involving the General Manager, the Mayor must then report to Council.

External Referral

In the event that a decision is made to refer allegations to the Norfolk Island Police Force for investigation and/or prosecution, the Norfolk Island Department of Public Prosecutions will do all that is reasonable in assisting the Norfolk Island Police Force and Australian Federal Police to conduct a full and proper investigation.

The Norfolk Island Department of Public Prosecutions/Crown Prosecutor will request the prosecutor to seek a reparation order on conviction, or actively pursue the recovery of any money or property where there is clear evidence of fraud and where the likely benefits of such recovery will exceed the funds and resources to be invested, or it is in the public interest to do so.

7.6 Responsibilities

Councillors

Councillors are elected representatives and comprise the governing body of Council. This governing body has the role of directing and controlling the affairs of the Council in accordance with the *Local Government Act 1993 (NSW) (NI),* ss222, 223.

As councillors are members of the Council's governing body, they are required to perform civic duties and fulfil a leadership role for the community. This includes an obligation to:

- Report possible fraud and corruption related activities to the General Manager or the Mayor or relevant external agencies; such as the Norfolk Island Police Force, Australian Federal Police for serious matters

- Promote Council's commitment to the prevention of fraud and corruption throughout the community and among Council employees; and

- Comply with the Norfolk Island Regional Council Code of Conduct by acting in an ethical manner.

General Manager

The General Manager is responsible for the efficient and effective operation of Council as an

organisation. The General Manager is to play a prominent role by taking a proactive stance on preventing fraud and corruption within Council by acting to, and through the promotion of, the high standard of ethical behaviour which is expected across Council. In this way, as part of this leadership role, the General Manager is responsible for ensuring that Council's Code of Conduct and associated policies are extended to all Council employees and Councillors and promoting Norfolk Island Regional Council's commitment to preventing fraud and corruption to the local community.

The General Manger is also responsible for the investigation of reported allegations of Fraud and Corruption and may utilise external expert professionals from Council's Code of Conduct Review panel for the conducting any such investigation.

Group Managers and Managers

Group Mangers and Managers are to actively promote Council's Fraud and Corruption Prevention Policy and lead by example by demonstrating ethical decision making and act with honesty and integrity in dealings with others. Group Managers and Managers are to promptly report instances of suspected or actual fraud.

The Group Managers and Managers have an integral role in the identification of fraud risks and the implementation of this Policy by providing input into fraud and corruption risk assessments.

Team Leaders sand Section Leaders

Team Leaders and Section Leaders are responsible for the proactive promotion and dissemination of this policy and the standards of ethical behaviour expected of employees as outlined in the Norfolk Island Regional Council Code of Conduct to employees in their area. Similarly, supervisors are to regularly reinforce to employees their role in preventing and detecting fraud and corruption within the organisation and promote an environment of compliance with this policy and other Council policies. Supervisors also have an important role in ensuring that the policy is operating effective and contributing to fraud and corruption risk assessments.

All Staff

Staff has a duty to ensure they adequately report any concerns they may have about the conduct of Council affairs including the use of Council assets and resources.
All staff are responsible for:
- Being aware of this Policy;
- Ensuring that they operate in accordance with Policy and legislative requirements to not participate in fraudulent or corrupt behaviour;
- Reporting in accordance with this Policy any suspicion of fraudulent or corrupt behaviour.

Audit Committee

The Audit Committee is an important element of internal control within the Council. The Committee has a role in monitoring any areas that may be susceptible to fraud and corruption related activities for possible audit review.

The Audit Committee's duties and responsibilities in relation to corruption prevention are as follows:
- Review internal controls, key corporate risks and all audit-related matters.
- Encourage adherence to, and continuous improvement of, Council's policies, procedures, and practices at all levels.
- Review audit results by receiving, discussing and endorsing the Internal Audit Reports.
- In consultation with the General Manager and the external auditors, consider the integrity of the Council's financial reporting processes, key corporate risks and organisational internal controls.
- Review steps management has taken to monitor, control, and report control exposures.
- Review significant findings reported by the external auditors together with management's responses and take appropriate action to ensure they are appropriately dealt with.
- To encourage continuous improvement and current industry best practice.
- Liaise with the General Manager on significant internal audit issues.

Members of the Public

In accordance with the Statement of Business Ethics, Council requires all suppliers of goods and services, applicants, consultants, contractors, and anyone doing business with Council to observe the following principles:
- Act ethically, fairly and honestly in all dealings with the Council;
- Respect the conditions set out in documents supplied by Council;
- Respect the obligations of Council staff to abide by Council's policies and procedures;
- Abstain from collusive practices and not act secretly or fraudulently;
- Provide accurate and reliable advice and information when required;
- Declare actual, potential or perceived conflicts of interest as soon as possible;
- Take all reasonable measures to prevent the disclosure of confidential Council information;
- Refrain from lobbying or canvassing Councillors or members of staff during any tender process;
- Refrain from offering Council employees or Councillors bribes or gifts of any financial or other inducement which may give any impression of unfair advantage;
- Refrain from discussing Council business or dealings in the media, except with Council's consent;
- Assist the Council to prevent unethical and fraudulent practices in our business relationships when discussing Council business or dealings in the media;
- Deliver value for money.

If you are not employed by Council, but you suspect fraud or corruption that involves Council in some way, please report your suspicions to the following:

- The General Manager Norfolk Island Regional Council;

- An appropriate external body such as the Norfolk Island Police Force, Australian Federal Police for serious matters

7.7 Monitoring

Council's commitment to fraud and corruption control will be met by actively investigating allegations of fraud or corrupt activity in a timely manner. As appropriate, Council will report fraudulent or corrupt activity to relevant authorities and/or initiate disciplinary action under the Code of Conduct.

The General Manager, Group Mangers, and the Audit Committee, will monitor fraud and corruption activities and identify and act on any trends that arise.

Regular analysis of reported incidents will be conducted to report trends to the Audit Committee. All incidents of fraud will be reported to the Audit Committee through the General Manager and/or Executive Manager Governance and Human Resources.

Following detection of fraud the General Manager and/or Executive Manager Governance and Human Resources will reassess the adequacy of the internal control environment and actively plan and implement improved controls.

7.8   Conducting Investigations

Investigations

On receipt of an allegation of suspected fraudulent or corrupt behaviour, the General Manager will determine if an investigation should be undertaken as well as its nature and scope. The General Manager will determine who will conduct the investigation and will give consideration to relevant legislation and council policies in making this determination.

Allegations of actual or suspected fraud or corrupt conduct can cause stress and disruption in the workplace. Information on investigations into allegations of this type should be on a strict 'need to know' basis.

Reporting of allegations should be based on evidence.

External Notifications

The General Manager to report suspected instances of corrupt conduct, including fraud to Norfolk Island Police Force, Australian Federal Police for serious matters.

The Federal Minister's office is to be notified by the General Manager or Mayor of the Council of any fraud and corruption investigation.

8.   REVIEW AND VERSION CONTROL

Policy Number	2.04		Responsible Officer	Executive Manager Governance and Human Resources
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