

## Fraud and Corruption Framework

		Directorate:	City Strategy and Integrity
Approval by:	Audit and Risk Committee; Council	Responsible Officer:	Manager Governance
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SHORT DESCRIPTION:	This Framework documents Council’s approach to controlling fraud and corruption risk.
RELEVANT TO:	All Workers, Contractors, Consultants, Volunteers and Councillors
RELATED DOCUMENTS:	<p>Knox City Council Fraud and Corruption Control Procedure</p> <p>Employee Code of Conduct</p> <p>Councillor Code of Conduct</p> <p>Councillor Gift, Benefits and Hospitality Policy</p> <p>Risk Management Framework</p> <p>Risk Management Strategy</p> <p>Procurement Policy</p> <p>Disciplinary Policy &amp; Procedure</p> <p>Selection for Excellence Policy</p> <p>Public Interest Disclosure Procedures</p> <p>Audit and Risk Committee Charter</p> <p>Australian Standard AS 8001-2021 Fraud and Corruption Control</p> <p>AS/NZ ISO 31000:2009 Risk Management Principles and Guidelines</p> <p>Employment screening (AS 4811-2006; HB 323-2007)</p> <p>Fraud Control in Australian Government Entities Better Practice Guide (Aust National Audit Office)</p>
RELATED LEGISLATION:	<p>Local Government Act 2020</p> <p>Public Interest Disclosures Act 2012 (Vic)</p> <p>Public Interest Disclosure Regulations 2019 (Victoria)</p> <p>Independent Broad-based Anti-Corruption Commission Act 2011 (the IBAC Act)</p> <p>Charter of Human Rights and Responsibilities Act 2006 (Victoria)</p> <p>Crimes Act 1958 (Victoria)</p> <p>Ombudsman Act 1973 (Victoria)</p> <p>Audit Act 1994 (Victoria)</p> <p>Privacy and Data Protection Act 2014 (Victoria)</p>

# Knox City Council - Fraud & Corruption Control Framework

## Policy Statement

Knox City Council has a zero-tolerance approach to fraud and corruption and is committed to effective fraud and corruption risk management. Council will ensure all staff are aware of the Fraud and Corruption Framework, Policy and Procedures. All staff are actively encouraged to report suspected incidents of fraud and corruption. Fraud and corruption against the Council is a serious offence under various provisions of legislation. Council is willing and able to report suspected instances of fraud and corruption to the appropriate legal and regulatory authorities. Any failure by staff to comply with the Fraud and Corruption Framework, Policy and Procedures may result in disciplinary action in accordance with Council's Staff Disciplinary Policy and Procedure.

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## 1. *Executive Summary*

Knox City Council has zero tolerance for corrupt conduct or fraudulent activities. Council is committed to preventing, deterring, and detecting fraudulent and corrupt behaviour in the performance of Council activities.

This Fraud & Corruption Control Framework clearly documents Council's approach to controlling fraud and corruption at both strategic and operational levels and is to be read in conjunction with the Knox Fraud and Corruption Control Procedure, Risk Management Strategy and relevant legislation.

### **1.1. Introduction**

Council is the custodian of significant public funds and assets therefore it is important that the community has assurance that these are adequately protected from fraud and corruption. Council has developed a structured framework and approach to the implementation and review of fraud and corruption prevention, detection, monitoring and reporting. This Framework is based on the Australian Standard for Fraud and Corruption Control (AS8001-2021) and has been endorsed by EMT and the Audit and Risk Committee.

The desired outcome of this commitment is the elimination of fraud and corruption throughout Council operations both internally and externally. Employees may face disciplinary action under the Disciplinary Policy and restitution of money or property lost through fraudulent activity will be pursued through legislative means. Council may prosecute people identified as committing fraud or undertaking corrupt behaviour.

Fraud and corruption control forms part of Council's risk management framework. It is a risk that Council actively seeks to identify and limit its exposure to, by reducing the potential opportunity (risk likelihood) for fraud and corruption to occur.

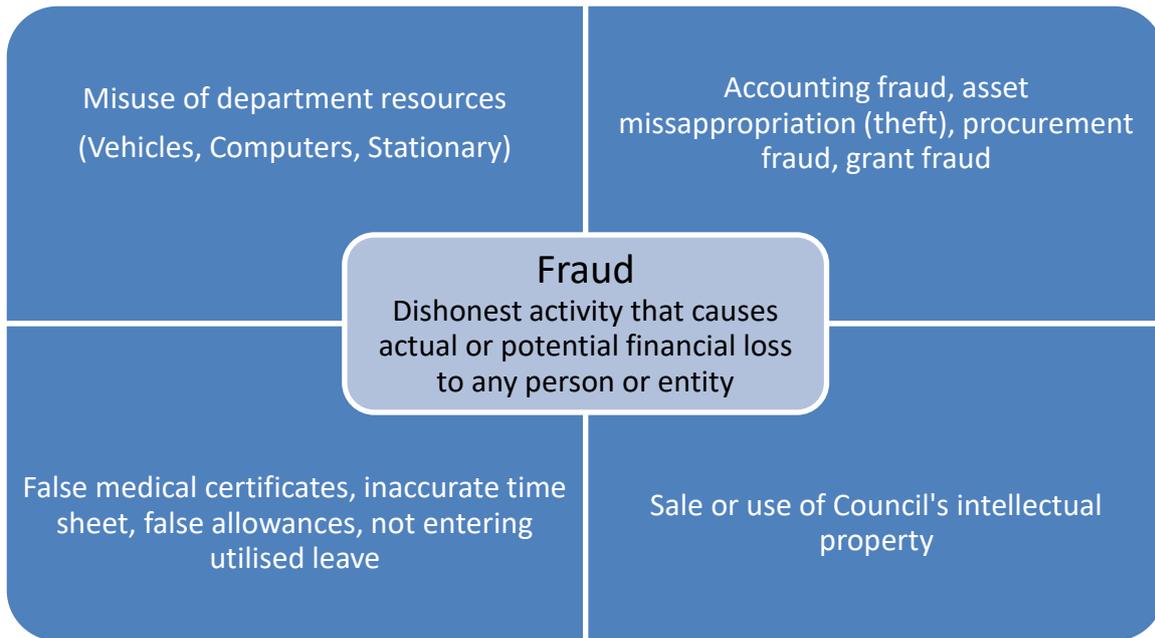
This Framework applies to Councillors, employees, contractors, sub-contractors, consultants, temporary staff, persons employed through a third party agency and volunteers of Knox City Council.

### **1.2. Definitions**

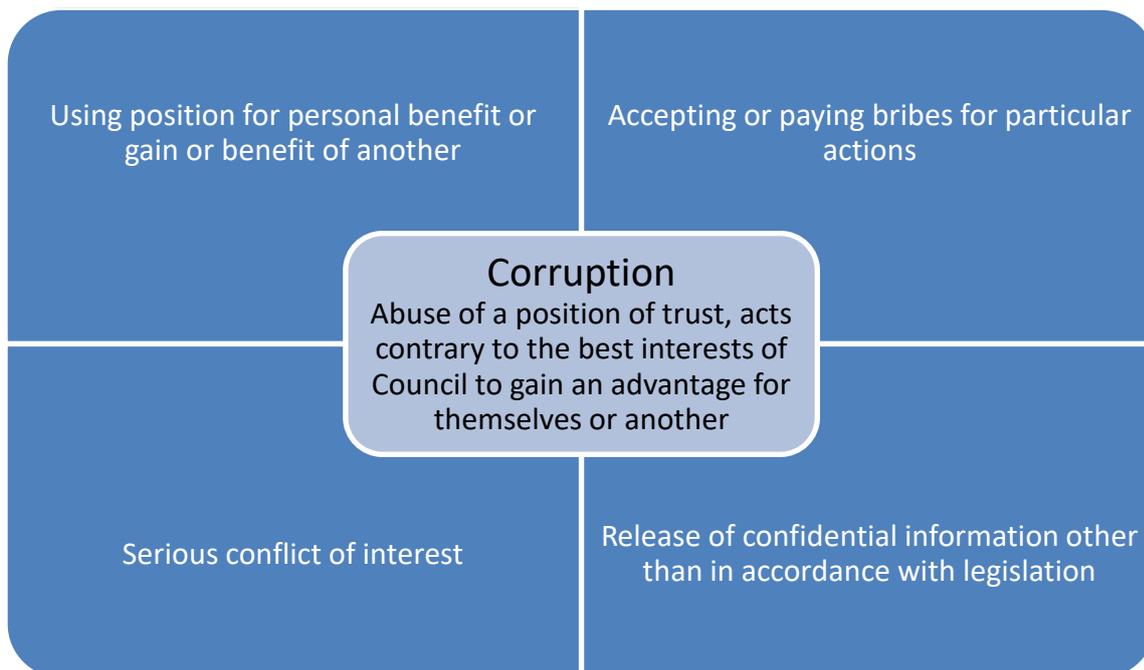
AS 8001-2021 Fraud and Corruption Control defines fraud and corruption as:

**Fraud** is dishonest activity causing actual or potential loss to the Council (including theft of money or other property) and where deception is used at the time, immediately before or following the activity.

This also includes the deliberate falsification, concealment, destruction or use of (or intention to use) falsified documentation and the improper use of information or position for personal financial benefit.



**Corruption** is dishonest activity in which a person to whom the Policy applies acts contrary to the interests of Council and abuses their position of trust in order to achieve some personal gain or advantage for themselves or for another person or entity or to disadvantage Council.



**Conflict of Interest** - a conflict between the public duty and personal interests of a Councillor, Council employee, council volunteer or council contractor that may or be perceived to improperly influence the performance of their duties. A conflict can be actual, potential or perceived.

**Disclosure** – is a report about improper conduct or detrimental action of Knox City Council or its officer(s) made by an individual or group. The conduct may have occurred in the past, is currently occurring or may happen in future. It is not a disclosure if the complaint or allegation is already in the public domain.

**Fraud and Corruption Control Framework** – the process of planning, organising leading and controlling activity, in order to direct and control the organisation with regard to the implementation of anti-fraud and anti-corruption strategies.

**Improper Conduct** – at its lowest threshold level, is either criminal or serious enough to result in a person’s dismissal. It may include taking or offering bribes, dishonestly using influence, committing fraud, theft, misusing information or material acquired at work, conspiring or attempting to engage in the above corrupt activity. It can also arise from the inaction of an individual or group.

### **1.3 Code of conduct**

Council’s Fraud & Corruption Control Framework, Fraud and Corruption Control Procedure, Employee Code of Conduct and Councillor Code of Conduct are important documents for clearly articulating Council’s objectives and expected outcomes in managing fraud and corruption. The Fraud & Corruption Control Framework and Fraud and Corruption Control Procedure establishes Council’s attitude and approach to fraud and corruption control, while the Employee Code of Conduct and the Councillor Code of Conduct set out the high standards of ethical behaviour required in delivery of Council’s commitment to these outcomes.

### **1.4 Related policies and procedures**

The policies and procedures listed on the cover page set out expected practices and behaviours and should be read in conjunction with this Framework.

### **1.5. Related legislation and guidelines**

The *Local Government Act 2020* now requires Council Audit and Risk Committees to monitor and provide advice on risk management and fraud prevention systems and controls. Council’s Audit and Risk Committee supports Council’s oversight of this policy, and assigns specific duties and responsibilities to the Committee in its Charter.

The Public Interest Disclosures Act 2012 requires Council to establish written procedures for handling of any public interest disclosures.

This Fraud Control Framework operates within an existing legislative and strategic framework. The diagram below shows the interdependency of a good Framework with complimentary programs and processes.



### **1.6. Australian Standard for Fraud and Corruption Control (AS8001-2021)**

A new revised Australian Standard AS8001:2021 - Fraud & Corruption Control was released on 11 June, 2021. This Standard is considered the benchmark when it comes to how organisations can mitigate fraud and corruption risks.

This third edition of the standard recognises and responds to an increase in cyber-attack and technology-enabled fraud and provides upgraded guidance on the accountabilities of Councils and senior management in controlling organisational fraud and corruption risk.

This Standard is the foundation for Council's revised Fraud and Corruption Control Framework resulting in the continuance of a contemporary, practical and effective framework supported by the guidance contained in the Standard. This includes ICT measures to address cyber fraud as part of Council's Fraud and Corruption Control Framework.

This Framework is consistent with the following legislation and standards:

- The Local Government Act 2020
- The Public Interest Disclosures Act 2012 (Victoria)
- AS 8001:2021 Fraud and Corruption Control
- AS/NZS ISO 31000:2009 Risk Management Principles & Guidelines

This Framework and associated policy and procedures has also been assessed as being compatible with the Charter of Human Rights and Responsibilities Act 2006.

## 2. Framework and resourcing

### 2.1 Program for fraud and corruption control framework and review

Council operates under a distributed assurance model in accordance with the Risk Management Framework. This model provides that the following groups are all involved in effective risk management.



### 2.2 Fraud control resources and external assistance

The Manager Governance with the assistance of the Executive Manager Strategy, People and Culture has overall responsibility for implementing and overseeing the fraud and corruption control program.

Where specialised skills are required, such as forensic accounting, computer forensic analysis, data analytics, and/or complete investigations, an external party may be enlisted to assist. Costs associated with engaging external service providers are borne by the Directorate where the work is necessary to be undertaken.

### 2.3 Internal audit activity in fraud and corruption control

Under this Framework the primary responsibility for the identification of fraud and corruption rests with management, however, it is also recognised that internal audit activity can also be an effective part of the overall control environment to identify fraud and corruption.

The Internal Audit program is a key independent governance tool that oversees and conducts a series of reviews, which incorporates the detection and prevention of fraud and corruption throughout the organisation. Internal Audit operates under the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors in Australia.

Internal Audit is obligated to look out for and consider potential fraud risks to Council and the adequacy of Council's fraud risk controls. If an internal auditor locates a fraud or identifies a potential fraud risk, they will report this to the CEO or delegate or the Audit Committee Chair.

If deemed necessary Council will utilise the role of the internal auditor in the investigation and reporting of any suspected fraud or corrupt activity.

### ***3. Fraud and corruption prevention***

#### ***3.1 Implementing and maintaining our integrity framework***

The Codes of Conduct are key enablers in delivering the sound and ethical culture required in the prevention of fraud and corruption throughout the organisation.

Line Managers shall set the example with regard to exercising and demonstrating high levels of integrity in the execution of their roles and functions by regularly reminding employees of the importance of complying with Council's Employee Code of Conduct and the Fraud & Corruption Control Framework.

Clear behavioural expectations, and clear consequences for fraudulent or corrupt behaviour, will be communicated at commencement of employment or engagement with Council.

Councillors' responsibilities are articulated in the Local Government Act and the Councillors Code of Conduct.

#### ***3.2 Line Managers commitment to controlling the risk of fraud and corruption***

Management will not be complacent and will treat fraud and corruption risks as a serious threat to the organisation

The Executive Management Team (EMT) and Managers will regularly be briefed on the following:

- Council's current fraud and corruption control framework;
- Information on the program and robustness of the internal control environment in regards to preventing and detecting fraud;
- The types of fraud and corruption common with the sector;
- Incidence of fraud and corruption generally in Australia;
- Information on the types of fraud and corruption that have been detected at Council over the previous five years; and
- Information of new or emerging trends in this area.

#### ***3.3 Fraud and corruption risk assessment***

Risk assessments will be undertaken for all identified fraud and corruption risks in accordance with Council's current Risk Management approach.

As a minimum, the following risks will be assessed:

- Theft of cash
- Theft/misuse of assets
- Misuse of confidential corporate information
- Conflict of Interest

- Accounts payable
- Payroll practices
- Procurement
- Grant fraud
- IT and information security including cyber fraud
- Recruitment
- Misuse of credit cards

Additional risks will be identified through normal business unit operations and through the regular review of the risk register in accordance with the Risk Management Framework.

### ***3.4 Maintaining strong internal control systems and internal control culture***

Knox has an existing culture of continuous improvement. The implementation of effective systems of internal control is an integral part of this program, particularly for activities assessed as having a high predisposition to the risk of fraud and corruption.

Well planned and documented internal controls will be a major defence for avoiding fraud and corruption. When undertaking projects or reviewing existing practices into the future, consideration will be given to appropriate fraud and corruption controls in the development of outcomes.

Internal controls will be:

- Appropriately documented
- Accessible
- Reviewed and amended regularly
- Communicated effectively
- Subject to review of adherence
- Reported to Knox Audit and Risk Committee.

### ***3.5 Communication and awareness of fraud and corruption***

It is important that fraud and corruption is identified and reported at an early stage and that workers and Councillors have understanding and confidence in the system.

Workers will be provided with information on the Fraud & Corruption Control Framework so that they have confidence in knowing how to respond if this type of activity is detected or suspected.

The awareness of Council's risk of fraud and corruption controls will be made available through the following:

- Copy of the Employee Code of Conduct and Fraud & Corruption Control Framework will be included in packs for all new staff;
- A dedicated page will be maintained on the Council intranet in regards to fraud and corruption, this will include links to all relevant documents in particular the process for reporting allegations;
- Fraud and Corruption awareness training will be conducted in accordance with frequency identified through a risk assessment by way of the Learning and Development Program;
- Fraud and Corruption awareness will be conducted with Councillors at the beginning of their term with a refresher annually; and
- Any substantive changes in the framework or procedure will be communicated to all workers and Councillors.

### **3.6 Employment screening**

Employment screening will be undertaken for all new positions. This screening process will reduce the risk of a potential security breach and will provide a high level of assurance as to the integrity, identity and credentials of prospective employees.

The following screening shall be undertaken with the express consent of the individual concerned for all prospective employees:

- Verification of identity requiring at least two forms of identity (passport, birth certificate, drivers licence, rate certificate, at least one must include photo identification);
- Police criminal history check for relevant positions;
- Working with children check – relevant identified positions;
- Reference checks with two most recent employers;
- Consideration of any gaps on employment history and the reasons for the gaps; and
- Verification of formal qualifications claimed where required for the position.

### **3.7 Job rotation and excess annual leave**

Individual Service Units will regularly consider job rotation for positions where there are multiple officers undertaking the same or similar functions and the position is deemed a high risk from a fraud or corruption perspective - local law enforcement, parking enforcement, planning officers, contract management, cash handling, for example.

Excess annual leave will be monitored on a quarterly basis to ensure excess leave is managed.

### **3.8 Supplier vetting**

Council will continue to undertake supplier vetting for new and ongoing suppliers in accordance with existing practices. Financial and/or Performance assessments are to be undertaken where the contract poses a key financial risk to Council or where it is a new contractor that has never been used by Council before and the risk of poor performance or financial collapse is likely to adversely affect Council. Financial and Performance assessment checks may also be undertaken where Council wishes to understand the financial and previous contract performance of the contractor or if no security is in place.

### **3.9 Cyber Fraud**

Council acknowledges the emergence of cyber fraud as a significant fraud risk and particularly phishing campaigns. Phishing campaigns infiltrate corporate networks by sending authentic-looking fraudulent emails to users in an organization and tricking them into performing actions such as downloading attachments or clicking on links.

Council uses Mimecast as our secure email gateway, which is the first line of defence, and in combination with Microsoft's Defender for O365 (Threat Protection) as a secondary and additional level is used to detect and filter out malicious emails and phishing.

Council has additionally added the protection provided by DMARC (Domain-based Message Authentication, Reporting and Conformance) by integrating with The Victorian Government Cyber Security Unit (CSU) DMARC program which utilises ProofPoint's Email Fraud Defence for identifying and rejecting emails from spoofed 'knox.vic.gov.au' email addresses.

Additionally, KCC has introduced a Cyber Awareness Education module that has a focus on Phishing and is mandatory for all KCC users to undertake.

## *4. Fraud and corruption detection*

### **4.1. Fraud and corruption detection program**

Council's detection program includes the annual internal audit plan, annual financial statement, external audit, Audit Committee oversight, annual compliance plan, review of risk strategies and various reporting avenues. Other detection programs may also include:

- Post transactional reviews - a review of transactions after they have been processed. This option may identify or uncover altered documents or missing documentation, falsified or altered authorisations or inadequate documentary support.
- Acquittal and monitoring programs for grants to ensure recipients use funds as intended and according to prescribed conditions, and leftover or misspent funding is recovered.
- Data mining - the application of sophisticated (and sometimes unsophisticated) software applications and techniques where a series of suspect transactions can be identified and then investigated which can identify anomalies at an early stage.
- Analysis of management accounting reports - using relatively straight forward techniques in analysing management accounting reports, trends can be examined and investigated which may be indicative of fraudulent or corrupt conduct.

### **4.2. External auditor's role in the detection of fraud**

As required under the Audit Act 1994 and the Local Government Act 2020, the Victorian Auditor-General's Office (VAGO) is local government's external auditor. VAGO is required to consider the risk of material misstatement in Council's financial statements, due to fraud when performing their audit (via appointed agent). The Audit Committee take an active role in considering VAGO's Closing Report and Management Letter. VAGO ultimately issue their findings in an Independent Auditor's Report, published in Council's annual report.

## *5. Responding to detected fraud and corruption incidents*

### **5.1. Procedures for the investigation of detected or suspected incidents**

The Knox Fraud and Corruption Control Procedure provides direction with regard to the procedures for dealing with suspected fraud or corruption. The procedure provides:

- Appropriate measures for the comprehensive investigation of such matters based on the principles of independence, objectivity and fair due process (rules of natural justice);
- Systems for internal reporting of all detected incidents;
- Process for reporting the matters of suspected fraud and corruption to the appropriate enforcement agency; and

- For the recovery of stolen funds or property.

The procedure will be reviewed biennially to ensure that it continues to meet these objectives.

## **5.2. Internal reporting**

The Manager Governance is the custodial owner of the Incident and Near Miss Register and ensures all incidents or near misses are recorded in the register. Incident and Near Miss Summary Reports for high or above rated fraud and corruption related incidents will be tabled at an Executive Management Team meeting.

Pursuant to its Charter, the Audit and Risk Committee will receive reports regarding actual or suspected instances of fraud or corruption, serious misconduct, or breaches of ethical standards, including:

- Analysis of action taken to address such matters;
- Actions taken to report such matters to the appropriate integrity bodies; and
- Any findings and examinations by regulatory or external agencies, and internal or external audit.

## **5.3. Disciplinary policy**

Council's disciplinary policy outlines the potential disciplinary outcomes that apply in regards to the application of this Framework and associated policy.

## **5.4. External reporting**

The Knox Fraud and Corruption Control Procedure provides direction in regard to reporting any suspected fraudulent or corrupt conduct to any external enforcement agencies including:

- Independent Broad-based Anti-Corruption Commission (IBAC) 1300 735 135
  - Victoria Police – 131 444 (Police Assistance Line for non-urgent crimes or events)

Council is committed to ensuring that all allegations, breaches of the Code of Conduct or this policy which are considered to be prima facie cases supported by evidence of fraudulent or corrupt conduct are notified to the appropriate law enforcement or regulatory agency for investigation.

For the purposes of compliance with the relevant provisions of the Independent Broad-Based Anti-Corruption Commission Act 2011, Council's CEO is a "Relevant Principal Officer". The relevant principal officer must notify the IBAC of any matter which the person suspects on reasonable grounds involves corrupt conduct occurring or having occurred. (Section 57).

## **5.5. Policy for civil proceeding to recover the proceeds of fraud and corruption**

Council will pursue recovery of any losses due to fraud or corruption where there is clear evidence of fraud and corruption and where the likely benefits of such recovery will exceed the funds and resources required to be invested in the recovery action.

## **5.6. Internal control review following discovery of fraud**

Where fraud or corruption is detected, the relevant service unit Manager with Director will be responsible to assess the adequacy of the relevant internal control environment and provide a report to the Executive Management Team on any recommended improvements identified.

Service unit managers will also be responsible for ensuring that recommendations arising out of the assessment are to be clearly allocated in the report with an associated time frame.

### **5.7. Maintaining and monitoring adequacy of Commercial Crime insurance and other insurance related policies dealing with fraudulent or improper conduct**

Council will maintain a Commercial Crime insurance policy that insures the risk of loss arising from internal fraudulent conduct. The level of the policy will be determined as part of Council's annual insurance renewal program. This will be reported annually to the Executive Management Team alongside Council's other insurance policies.

Insurance for external fraud and corruption, in particular theft of Council property, will also be maintained and reviewed annually by staff in conjunction with the normal annual reassessment of insurance policy cover and limits.

## *6. Reporting Fraud and Corruption*

### **6.1 Procedures for reporting suspected fraud and corruption**

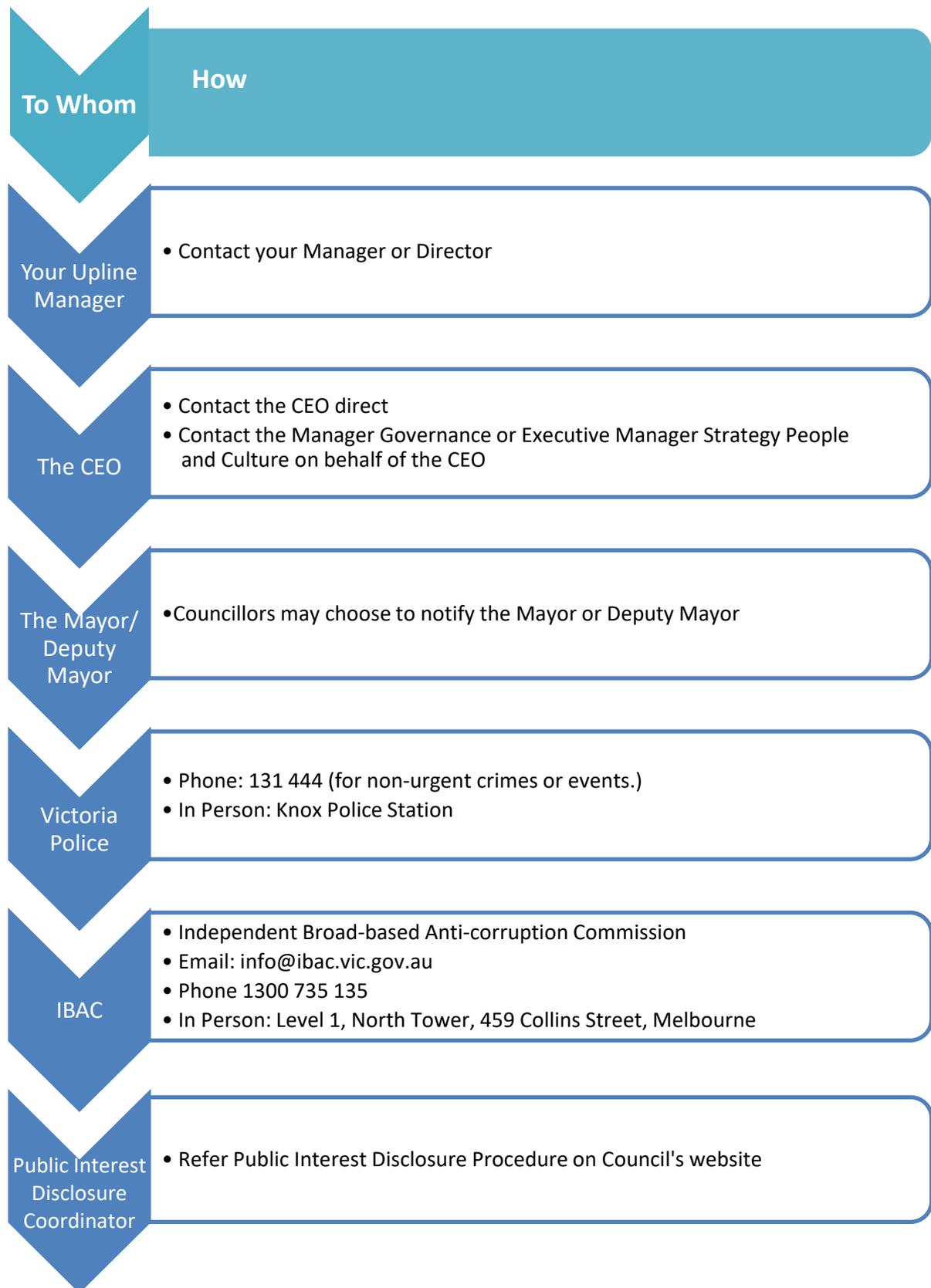
The Knox Fraud and Corruption Control Procedure is to provide clear direction in regards to the procedure for staff and other relevant parties to report suspicious or known illegal or unethical conduct.

### **6.2 Implementing a public interest disclosures program**

Council is committed to encouraging staff, customers and community to report suspicious activity at the first available opportunity, to an appropriate reporting point within the Council or where necessary to an outside authority.

The Public Interest Disclosures Act 2012 protects persons who report improper conduct by public officers against reprisals. To support this process, Council has adopted Public Interest Disclosure Procedures. These procedures can be found on the Council's website. (This section previously section 4.4)

## 6.3 How to report fraud and corruption



## 7. Commonly asked questions

### Questions and answers



- Yes

- The person I made it to
- Manager and/or Director
- Chief Executive Officer
- Police or IBAC (depending on seriousness)

- It may be initially investigated by your Manager or Director then referred to CEO
- Manager Governance or Executive Manager Strategy, People and Culture may investigate depending on nature of report
- It may be referred to Police or IBAC

- Whistleblower legislation provides for 'public interest'.
- Contact the Public Interest Disclosure Coordinator