

Fraud perfect storm – Lessons learned from Ipswich City Council case study

Bringing about change – making a difference

Freddy Beck - 12 November 2020

Topics asked to discuss - Fraud perfect storm – Lessons learned from Ipswich City Council case study

- *Why organisational processes can create the perfect fraud environment*
- *Understanding a fraudster – Typical traits and what they try and get away with*
- *Uncovering red flags – What do they look like?*
- *Managing a fraud investigation – The fine line between gathering evidence and keeping business as usual*
- *Understanding the role of internal audit in the process*
- *Lessons learned and what has changed at Ipswich City Council*

The issues and dilemmas you will face

- Life is complex and does not work in a straight line
- With many variables in situations and in people's behaviour - creates or provides opportunity - due to temptation or pressures to commit fraud - is not straightforward to interpret
- It is normally a combination of factors or just something in a person's rationalisation, justification or upbringing
- It might be something as simple as somebody leaving money unguarded – our selfish nature is one of the main reasons.
- What difficulties will you face - strengths and weakness in situations and how to use what regulators and others have to offer to help

WHAT'S
IN IT FOR
ME



While ignoring
the consequences
for others

It gets really
difficult when
fraud becomes
institutionalised

Some early history - well know we had problems

- 2005 Started using individual and highly experienced contract auditors/investigators
- 2007 First presentation in Australia, CPA Sydney – Asked how I was going to fix ICC
- 2008 Stolen Goods – only got warrant after saying - Ok to put up rates to cover losses?
- 2008/2009 Relationship Chart – I sat under a tree.....
- 2008/09 Porn Gate – 14 dismissed/resigned, 1 demoted, 67 warned
- 2009 Contractors, Gifts, all expenses paid trips etc., Threatened witness
- 2010 Appointed Conrad Medequiso – government investigator/auditor/security
- 2012 **Appointed Jamie Townsend – experienced investigator, ex-police**
- 2012 Tree services – Over charged/no work, Water supply – Over charged/no supply
- 2013 Sports Club \$1,2 M, Units - \$1 B project, Controlled entities to circumvent etc.



20 year lease of sports fields as parking?? paid in advance and over paid by \$650,000 due to time value calculation not done



Crime and Corruption Commission (CCC) Report

As at 30 June 2019, 16 people, including council employees, two mayors, two CEOs and one Chief Operating Officer - charged with 91 criminal offences, including official corruption

- Carl Wulff pleaded guilty to two counts of official corruption and one count of attempting to pervert the course of justice, and was sentenced to a total of five years imprisonment, to be suspended after 20 months
- Mr Wulff's wife, pleaded guilty to two counts of official corruption and was sentenced to three years imprisonment, to be suspended after nine months
- Council contractor Claude Walker pleaded guilty to one count of official corruption, and was sentenced to three years imprisonment, to be suspended after nine months
- Businessman Wayne Myers pleaded guilty to a single count of official corruption, and was sentenced to 2½ years imprisonment, to be suspended after six months
- Contractor Wayne Innes pleaded guilty to charges including corruption, forgery and attempted fraud in the District Court in Brisbane and was sentenced to four years imprisonment, to be suspended after 12 months
- Former Ipswich Mayor Andrew Antonioli was convicted on 12 fraud offences and one attempted fraud in the Ipswich Magistrates Court. On 9 August he was sentenced to six months imprisonment, wholly suspended
- On 12 June 2019 Troy Anthony Byers was found not guilty of fraud charges
- On 24 July 2019 former Ipswich Mayor Paul Pisasale was found guilty of two counts of extortion, and was sentenced to two years imprisonment, to be suspended after 12 months

Latest news - Disgraced former Ipswich mayor Paul Pisasale
jailed for 7.5 years on 35 charges

Courier Mail

Some criminal matters
are still ongoing.



Fallout has been significant and cost of this is near impossible to calculate



Ipswich City Council's corruption scandals and the jailing of Carl Wulff and Wayne Myers can serve as a warning to others

Ipswich CEO Carl Wulff was caught out by businessman Wayne Myers wearing a wire



Culture and corruption risks in local government

Lessons from an investigation into Ipswich City Council (Operation Windage)

August 2018

Hello Everyone,

It is with great sadness I must advise you that our friend and colleague Michael McMahon, Council's Human Resource Manager, passed away suddenly yesterday. Michael was a long time and valued employee who was known across the organisation and had developed close friendships with many. I knew Michael for only a few months but respected his professionalism and was grateful for his wise counsel on all aspects of human resource management and industrial relations.



The problem is that those who should watch this, probably won't



CCC Chairperson and task force made the difference

Ipswich council staff complaints to hotline lead to sackings [brisbane-news](#)

Disgraced former Ipswich mayor Paul Pisasale jailed for 7.5 years on 35 charges - The Courier-Mail

Claim \$50,000 found in Paul Pisasale's plane luggage was for friend barrister [BRISBANE TIMES](#)

REGIONAL NEWS 25/6/2019 Queensland Times
Criminal 'stench' remains at council, MP declares

QN IPSWICH NEWS 2/7/2020 Ipswich Queensland Times
Revealed: Where council's millions have been spent

CRIME & JUSTICE 13/9/2017 The Courier-Mail
Dirt contract at centre of CCC charge

ABC News: Ipswich City Council former CEO sentenced to five years in jail for corruption

Anti-corruption campaigners recall Ipswich 'mafia culture' as disgraced former mayor Paul Pisasale pleads guilty to fraud, corruption - ABC News

'Poor old developers' needed to fund election campaigns, Ipswich Mayor Paul Pisasale tells CCC inquiry - ABC News

QLD POLITICS 21/8/2018 The Courier-Mail
Laws to sack Ipswich Council passed

NATIONAL 3/5/2018 SKY
Ipswich City Council sacked as former Mayor faces fraud scandal

CRIME & JUSTICE 17/8/2017 The Courier-Mail
Fresh Pisasale claims trigger raids

QLD NEWS 24/1/2016 The Courier-Mail
Paying dearly so they can keep quiet

REGIONAL NEWS 8/4/2019 Queensland Times
CCC charge developer with corruption after Ipswich probe

REGIONAL NEWS 9/1/2020 Queensland Times
Theft, racism and sexual harassment rife before sacking

QLD NEWS 25/9/2017 The Courier-Mail
Report reveals council's veil of secrecy

CRIME & JUSTICE 6/10/2017 The Courier-Mail
Former CEO's wife on corruption charge

Administrator appointed at Ipswich Council after mayor stands down

CCC charge contractor over Ipswich council investigation

POLITICS QUEENSLAND COUNCIL CONTROVERSY
This was published 1 year ago
Fraud rife at Ipswich council, Queensland court told
Former Ipswich mayor Paul Pisasale pleads guilty to sexual assault, perverting the course of justice - ABC News

POLITICS
Council CEO referred to Crime and Misconduct Commission

CRIME & JUSTICE 17/1/2018 Queensland Times
Senior Ipswich council officers resign

QLD NEWS 9/12/2019 NewsDNARaw
Carl Wulff - The Inside Story (CCC)

CRIME & JUSTICE 15/9/2017 The Courier-Mail
Ex-cop in Ipswich CCC probe

Most (Everybody) have lied – do you agree?

The challenge is to fight this and not accept it

- To protect, avoid pain, elude threats, embarrassment, conflict, insult, exposure, turn a blind eye, make a sale or not to give the game away
- We are conditioned in training to trust our fellow colleagues
- But we are paid to manage and not trust – over time some level of trust develops but we still have to check
- Dishonest, unethical, weak managers create breeding ground where fraud and corruption grows and thrives
- Frank and forthright honesty should be encouraged, revered and rewarded
- Nobody wants to be called an idiot – is it not better to know, if it is true?

May not say someone is fat but can say they are obese?

It means the same...

Flattery does not really help anybody

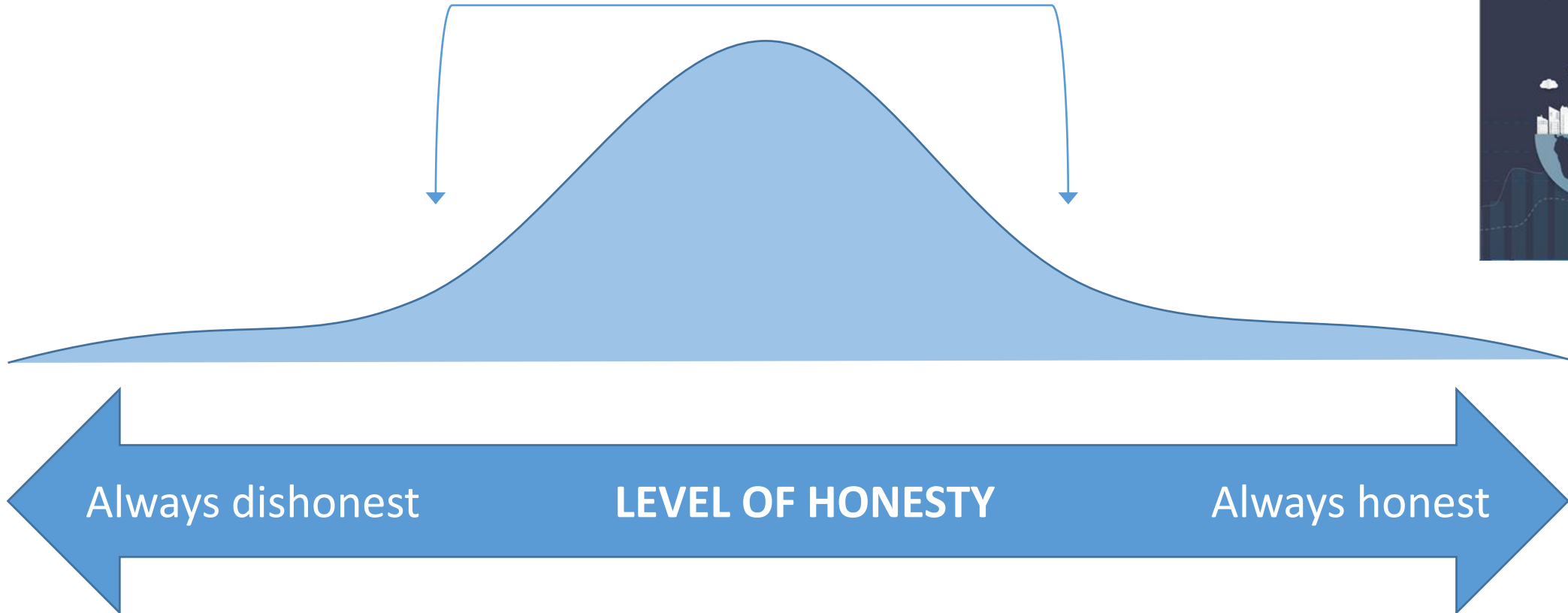
Flattery does not really help anybody

The more you learn from hardship and adversity, the more you are equipped to face the future.

— Dr T.P. Chio

Purely an illustration of peoples inclination

Majority of people are somewhere in the middle
and can go either way depending the controls



Why organisational processes can create the perfect fraud environment

- Pressures to succeed and ego's
- Pressure to deliver on time and within budget
- Poor process design that leads to workarounds
- Weak controls and temptations – understand the Psychology
- Politics, favouritism, enemies etc. distorts decisions
- Political affiliation vs what is really right and best for the community
- Group Think and Consensus Management
- Gain loyalty through lowered requirements and appointing under qualified staff
- Collusion at the top discourages reporting on it and it circumvents controls



RELAX...
I Am A Hydrologist

subtle persuasion

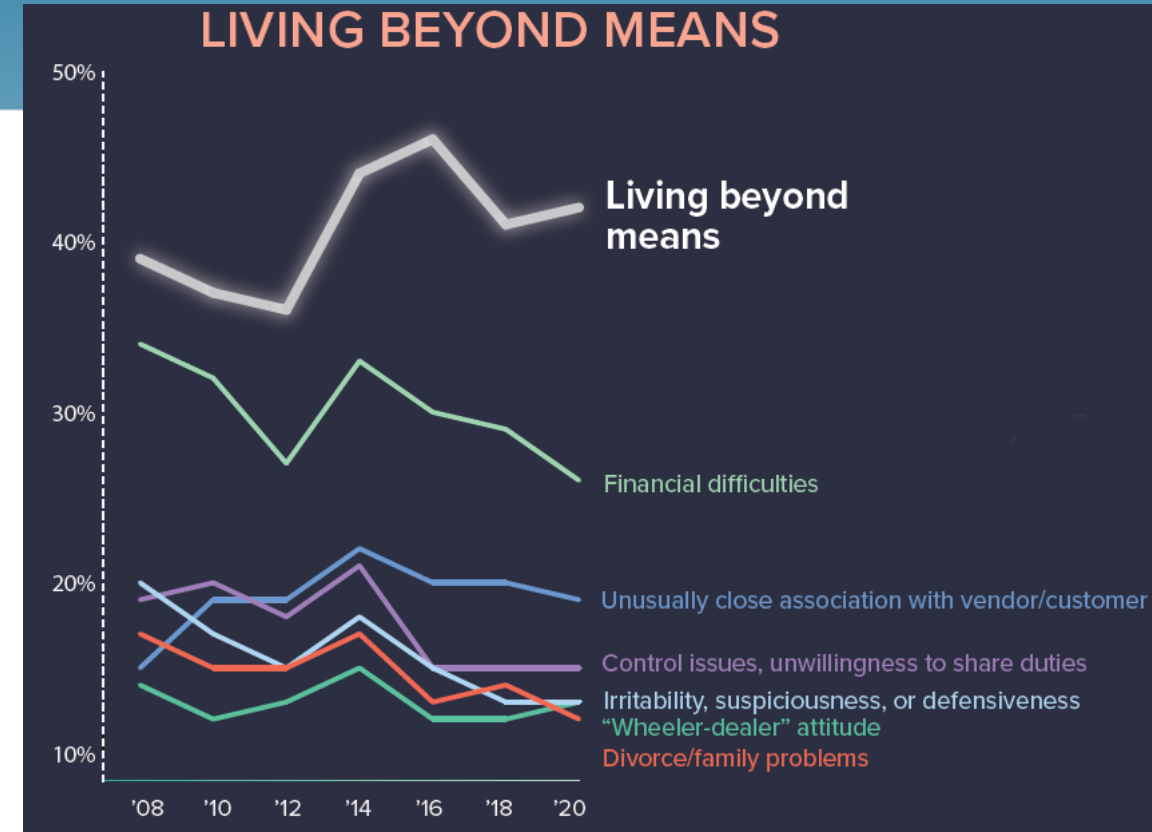
Understanding a fraudster = Typical traits and what they try and get away with

They have many different traits. Some:

- Love themselves too much and can provide indicators how they dress and what they drive
- Are the nicest people you will meet
- Tell you how crooked others are
- Try to manipulate you from day one
- Will explain why it is justified to lie, *“for the sake of the sale or the organisation”*
- Lack in ethical values in keeping up appearances
- Highly defensive and speak in absolutes

Absolutes:
Definitely, never, always, I will be there no matter what

Mary Wright



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Narcissist (n.)
The narcissist does have a need to love and to be loved. They love their reflection after all. So, they have a capacity to love something.



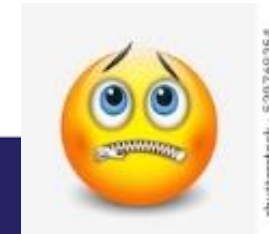
42%
Living beyond means



26%
Financial difficulties

Uncovering red flags – What do they look like?

- Lack of transparency in their actions – “bucket accounting”
- Justification in reasoning why we can or can’t do something
- Compensatory behaviours – handing out gifts, “flaunt it”
- Watch out for favours as they will be called in at some stage
- Allowing people to resign that should have been dismissed
- Over use of confidentiality clauses and terms as “commercial in confidence”
- Using a number of different mobile phones and separate email systems
- Staff in a local government are in many instances a reflection of its society
- Demanding loyalty and secrecy - no matter what



Managing a fraud investigation – The fine line between gathering evidence and keeping business as usual **Important**

- Audit and investigations processes are actually two sides of the same coin
- Investigations do not really create conflict, but stay out of decisions
- Start small and initially be a conduit in reporting and then gradually build
- Understand legislation and the letter of the law versus the intent
- Different levels of proof required – need to be able to interpret legislation
- Understand when it is an investigation versus disciplinary process
- Investigation versus disciplinary interviews – natural justice provisions
- Powers, jurisdiction, experience, knowledge etc. determines who investigates
- Confidentiality is more about maintaining the integrity of the investigation



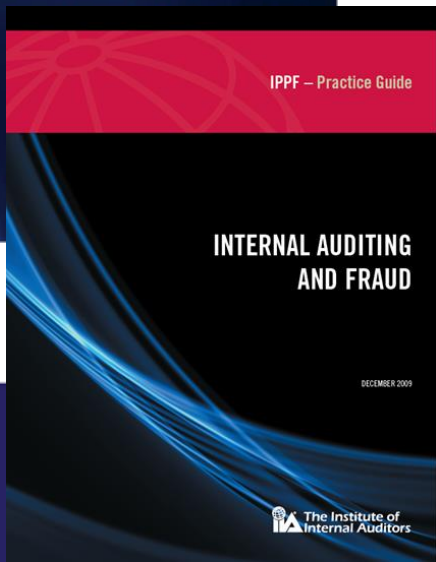
Record interviews and less about opinion
More about breaches of legislation etc.

Understanding the role of internal audit in the process

- It might just be looking for indicators, gathering evidence, reporting corruption and supporting investigations
- If responsible for corrupt conduct/ fraud investigations then separate process



Auditing anti-bribery and anti-corruption programs requires a team of auditors with collective skills, knowledge, and expertise in compliance, fraud, investigations, regulatory affairs, IT, finance, culture, and ethics.



1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, **but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud**

The role of the internal audit activity in investigations needs to be defined in the internal audit charter, as well as in the fraud policies and procedures. For example, **internal auditing may have the primary responsibility for fraud investigations, may act as a resource for investigations, or may refrain from involvement in investigations.** Internal auditing may refrain from involvement because it is responsible for assessing the effectiveness of investigations or it lacks the appropriate resources to be involved in investigations. Any of these roles can be acceptable as long as the impact of these activities on internal auditing's independence is recognized and handled appropriately.

Lessons learned & what changed at Ipswich City Council

- Still a long process as the culture, staff, processes, relationships have been established to support the behaviour and all of that has to change
- It is painful as both the good people and the bad people fall over
- Do not turn a blind eye or go along as you will pay for it somehow
- Do not be afraid to stand up to people as it is good for the soul
- Contradiction - what seems bad for you at the time is good in the end
- If you have a high profile then force change by resigning but
- Trust your gut and neck hairs. If it sounds too good to be true.....
- Know your limits, jurisdiction – do not bite off more than you can chew



Transformation needs to be effective – focus on what will make you successful or make you fail – you cannot change everything immediately

Logic – What and who has to do it?

- “**Bad men** need nothing more to compass their ends, than that good men should look on and do nothing.” John Stuart Mill said in 1867
- If nobody does something, bad things will continue
- **I did not say good people**.....somebody/all have to do something
- Most people has lied.....including you. Therefore we are paid to manage and not trust. Trust is earned and built up over time, you still have to check
- If society losses its compass, that society produces the police and the criminals. If it produces more bad police it is not a solution to defund the police but rather fund it better as to fix the morals of society to restore good values. Remember a strong stance deters

What to do?

- Transparency – Sunlight is the best disinfectant - bring it into the open
- Grow a spine and stand up against bad practice and behaviour, first time the hardest
- Seek for help, make contact with different authorities and professional bodies
- Document and report matters as much as you can and learn to sell it
- Make sure to **hire the best staff available** and check their backgrounds
- You cannot be a private business and government – Partnerships okay
- **Paid to check**, verify, manage and not to trust
- Push as hard as you can for solid legislation and policy – did not say harsh legislation
- Do not just declare conflicts but manage them – and then stay out of decisions
- Avoid being emotional about the matters you deal with – stay calm no matter what



Do not believe everything – Verify and Validate

IN-CONFIDENCE

16 August 2018

Mr Freddy Beck
Internal Audit Manager
Ipswich City Council
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Administration Building
45 Roderick Street
Ipswich QLD 4305

Hand Delivery

Dear Mr Beck

Letter of Appreciation

The Crime and Corruption Commission (CCC), as you are aware, has completed its two-year investigation code-named 'Windage' into corrupt conduct and breaches of discipline within the Ipswich City Council.

During those two years I have been closely briefed on the progress of that investigation, which included frequent favourable comments by CCC investigators of your dedicated assistance to the Commission.

I appreciate the often difficult decisions you would have had to make in order to perform your role as an employee of the Ipswich City Council as well as providing information to the Commission to investigate corrupt conduct at the highest levels of management within your own agency. I have been informed that your conduct in this regard displayed strength of character and ethical behaviour.

I take this opportunity to personally thank you and your Internal Audit and Investigations Team at Ipswich City Council for your discrete and tireless efforts to provide assistance to the CCC in its endeavour to reduce the incidence of corruption in Queensland and provide for safer communities by supporting fair and ethical public institutions.

Congratulations and best wishes in your future endeavours.

Yours sincerely



A J MacSporran QC
Chairperson

This is to certify that this is a true copy
of the original / copy / download which I
have sighted.

Date: 17/08/18
Signed: [Signature] JP (QUAL)
Name: VICKI LUKRITZ



Gratiam Dei – The end

- Remember it is about winning the war and not every battle
- Difficult enough to stay on the straight and narrow
- International standards has helped me a lot – IIA
- Incredibly difficult if ethics and honesty is not high on your list
- Prevention is better than cure - even harder to turn lives around
- It has taken 15+ years for it to work through and more to get rid of the stain
- You need a moral compass - Mine is my faith
- It helped me stay composed during difficult and challenging times

