

Session 3A

ICAC Insights – Learnings from operation Ricco

Presented by

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INDEPENDENT COMMISSION
AGAINST CORRUPTION
NEW SOUTH WALES



Investigation into the former Botany Bay City Council:

**Overwhelming corruption,
systemic failures and lessons
for change**

Adam Shapiro

Senior Corruption Prevention Officer

Red flags



The facts: Scale

- Over \$6.6m misappropriated between June 2009 to Oct 2015
 - Over \$5.5m in invoicing by Mr Goodman alone
 - \$2.3m in in 2014-2015
 - 3.7% of overall revenue
 - 12.0% of net surplus

The facts: Breadth

- Credit cards (\$620,000 in 9 years)
- Cabcharges (\$49,000 in 17 months)
- Fuel and store charge cards
- Vehicles
- Mobile phones
- Superannuation
- Payroll
- CFO, Deputy GM, team leader, clerical assistant

The facts: Breadth

Corrupt conduct

Goodman - CFO

Cullinane - DGM

Foo – Team Leader

Baccam – Clerical Ast

Questionable conduct

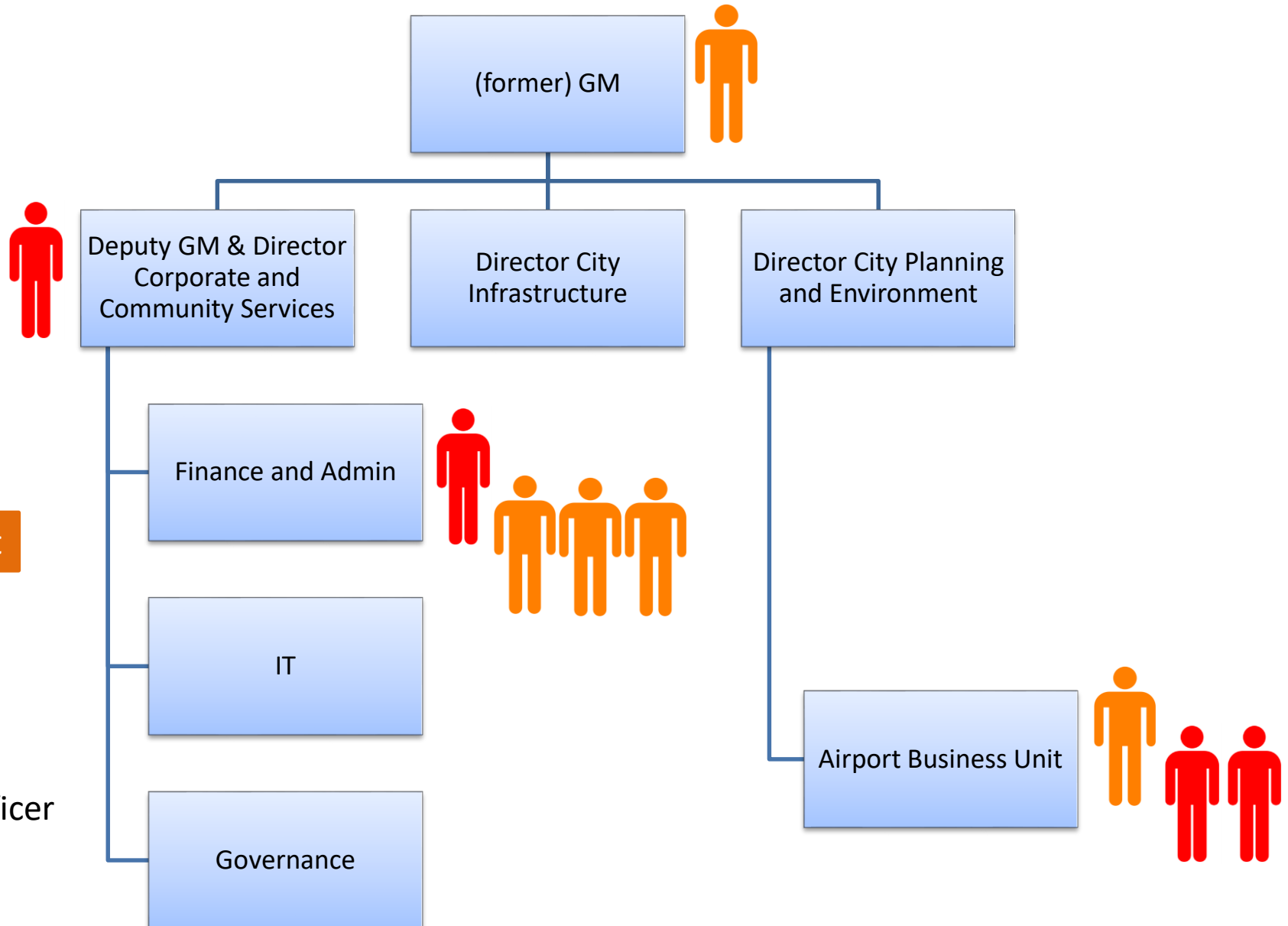
Former GM

Financial accountant
/ 2IC to Goodman

System Admin

Senior Accounting Officer

BU Manager



Context: the Corruption Prevention Division

■ Role:

- How and why not who, what and when
- Recommendations for change

■ Premise:

- Corruption is the result of systemic dysfunction in an organisation
- Fix dysfunction to reduce corruption risk

■ Principles:

- Efficiency, effectiveness, transparency, accountability

Overview: 3 key areas

1. Absence of internal and financial controls
2. Failures in the Council's governance mechanisms
 - Internal audit
 - External audit
 - Audit committee
 - General manager
3. Inadequate oversight of local government

1. Absence of internal/financial controls

- Critical lack of role segregations
 - No 3-way match between purchase order/invoice/receipt of goods
 - No controls on vendor master file (VMF)
 - End-to end control of numerous financial processes
- Few controls on other high risk processes
 - E.g. Procurement

1. Absence of internal/financial controls

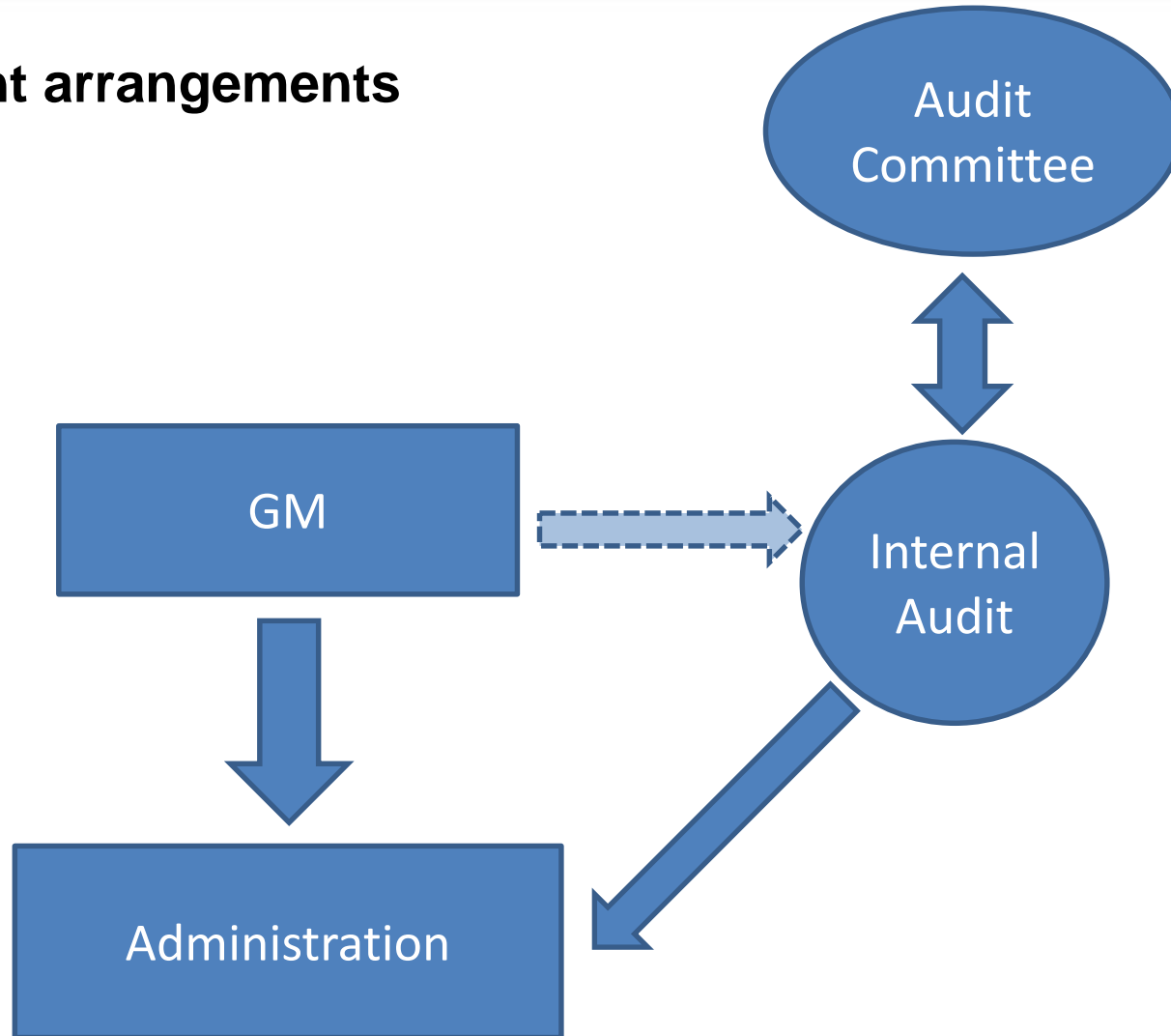
- Inability to access financials or monitor expenditure
- Unqualified staff in many high risk positions

2. Governance failures: Internal audit

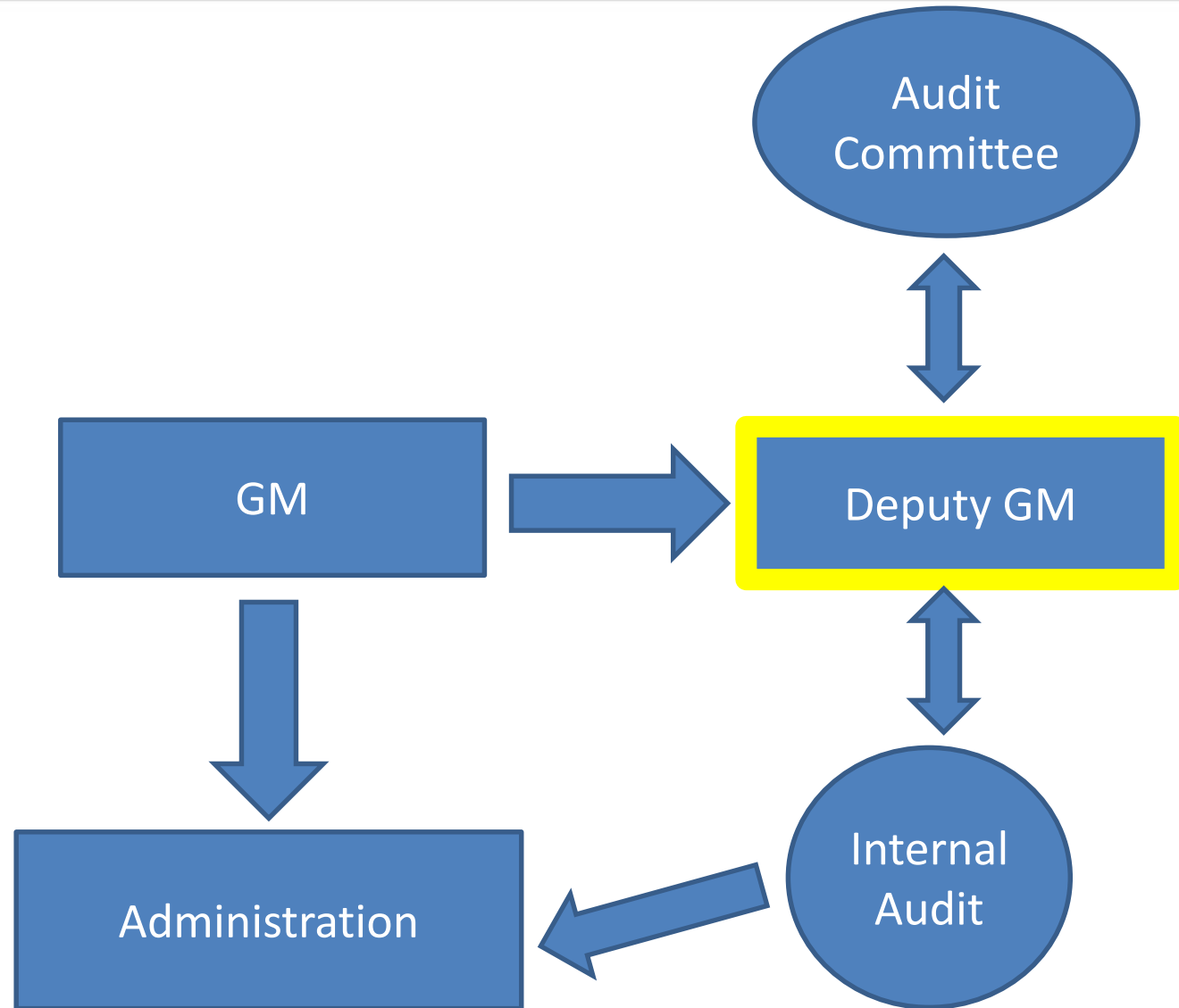
- Lack of independence
- No system for implementing recommendations

Governance failures: Internal audit

Oversight arrangements



Governance failures: Internal audit



Governance failures: Internal audit

- Internal audit of the Business Unit (2013):

“non-compliance with the purchasing process and... an overall breakdown in the purchasing process...gives rise to the risk of fraudulent behaviour”

2. Governance failures: External audit

■ Found numerous serious recurrent control weaknesses

- payments authorised beyond delegations and without legally required tender process (2012-2015)
- inadequate documents to support invoice payments and lack of independent review of such payments (2009-2012, 2014-2015)
- No independent review of VMF and no regular reports of changes (2009-2015)
- bank reconciliations not done on a timely basis, not independently reviewed, not reconciling by substantial amounts (2009-2015)
- Management letters not finalised in 2014 & 2015

2. Governance failures: External audit

- “fraud risk” / “serious” / “very unusual in my experience” (External auditor)
- “They’re critical issues” (ARC member, former auditor and Councillor)









2. Governance failures: External audit

- Auditor never reported the issues to the Audit Committee or the elected body
 - expected committee to ask and Goodman to pass information on
- Audit Committee never asked for this information
- GM expected auditor to bring significant matters to her attention

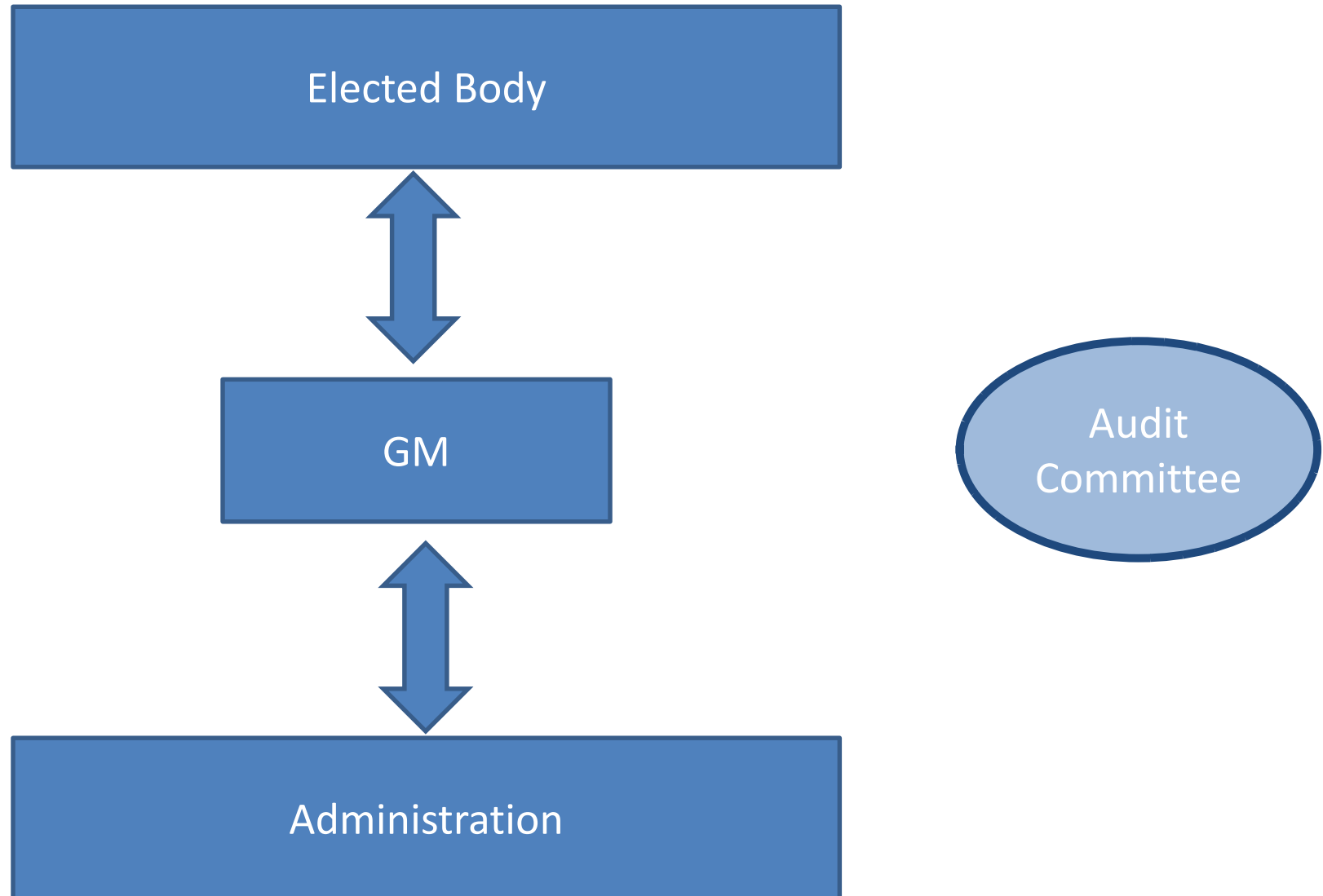
2. Governance failures: External audit



2. Governance failures: Audit committee

Should have	Done
Examined external audit management letters	
Met with internal and external auditor independent of management	
Ensured the internal audit function was independent of management	
Monitor implementation of internal audit recommendations	
Reported to the Council on the management of risk and internal controls	
Meet four times per year	
Agree to an audit plan	
Reviewing the audited financial statement	

2. Governance failures: Audit committee



2. Governance failures: General manager

- Local Government (General) Regulation (2005) (clause 209) requires council general managers to **ensure** that:
 - *(b) effective measures are taken to secure the effective, efficient and economical management of financial operations within each division of the council's administration, and*
 - *(c) authorising and recording procedures are established to provide effective control over the council's assets, liabilities, revenue and expenditure and secure the accuracy of the accounting records, including a proper division of accounting responsibilities among the council's staff,*

2. Governance failures: General manager

- Since GM commenced (2011):
 - instigated or reviewed 25 policies including:
 - Credit card policy
 - Fraud and corruption prevention
 - Organisational values
 - Required staff to attend training on a number of policies including the procurement policy

2. Governance failures: General manager

Policy + training

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Ensuring policy adherence

Need enforcement plus regular,
independent assurance that all working
as intended

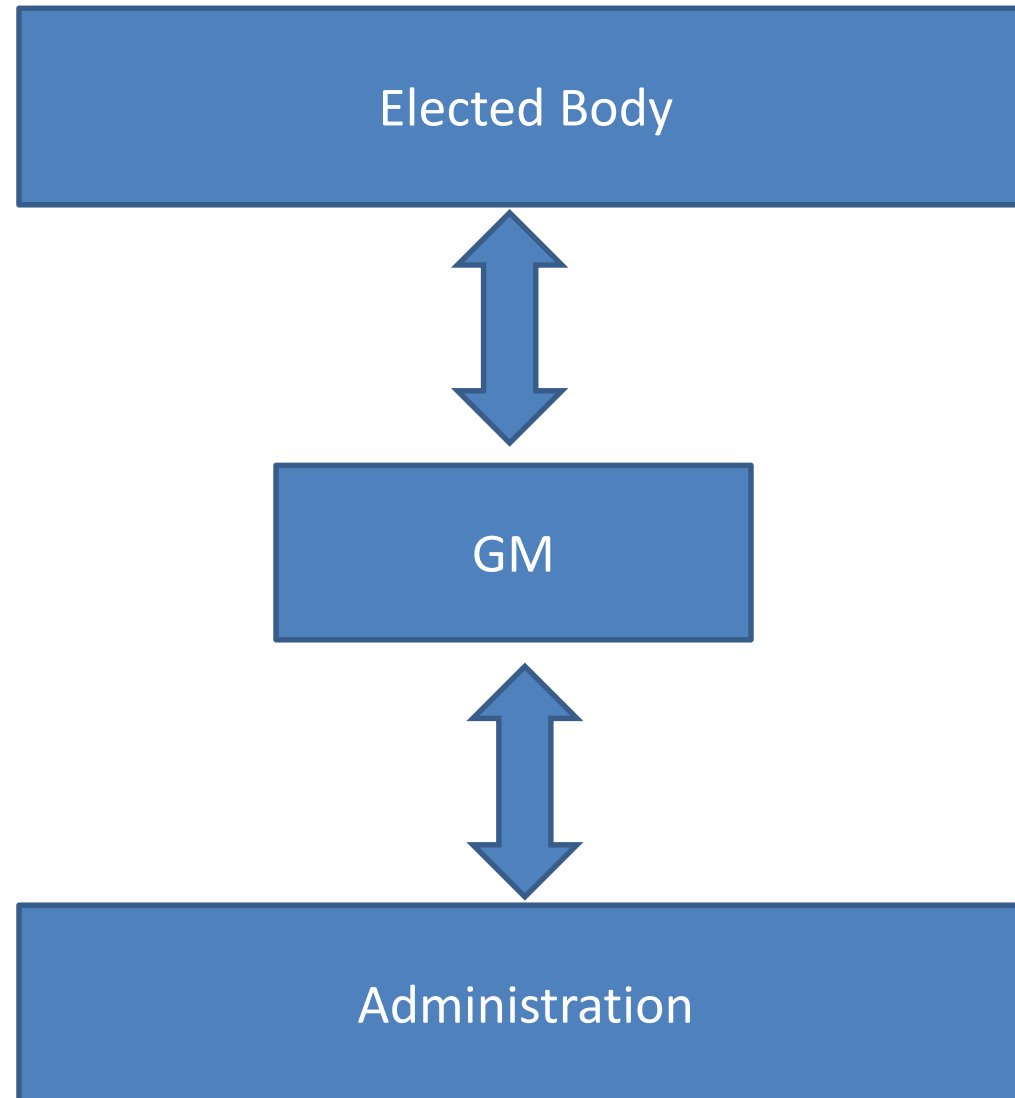
3. Oversight of Local Government

- Who is responsible?
 - “Ultimately the responsibility for ensuring good governance practices in a council lies with the governing body of council”
(Tim Hurst, CEO, OLG)
- Is this realistic?
- What is OLG’s role?

3. Oversight of Local Government

- Realistic that elected bodies responsible?
- Compared to a board:
 - Limited visibility of administration
 - Limited ability to obtain information
 - May not have skills
 - Less incentive to ensure good governance

3. Oversight of Local Government



3. Oversight of Local Government

■ Role of OLG

- To assist councils implement good practice
- May intervene if councils are unwilling to follow good practice
 - Investigations, performance improvement orders, appointing a CFO or administrator

■ So why didn't OLG intervene?

3. Oversight of Local Government

- Limited ability to detect poor governance
- Limited capacity to investigate.
- Result: status quo persisted.

State vs Local Government oversight

	State Government	Local Government
Mandatory governance directives	✓	✗
Mandatory audit committee	✓	✗ ✓
Prequalified panel for audit committee members	✓	✗
External audit done by Auditor General	✓	✗ ✓
Subject to performance audits by Auditor General	✓	✗ ✓

Conclusion and recommendations

- Internal and financial controls:
 - Ensure appropriate role segregations and process controls
 - Ensure that all staff responsible for managing budgets can view and monitor expenditure against budgets
 - Ensure staff appropriately qualified, skilled, and selected via a genuine merit-based selection process

Conclusion and recommendations

■ Internal Audit

- Operates and reports independently of management
- Is directed by a risk-based audit plan
- Has robust means for implementing recommendations.

Conclusion and recommendations

- External audit:
 - Provides management letters to audit committee and council
 - Meets with ARC independently of management each year
 - Meets with internal auditor to discuss risks

Conclusion and recommendations

■ Audit Committee

- Reviews management letters and internal audit reports and ensures recommendations are enacted
- Actively seeks information on the risk exposure of the council
- Meets with internal and external auditors at least annually independently of management
- Reports regularly and thoroughly to the elected body

Conclusion and recommendations

- Oversight of local government sector
 - Mandatory ARCs
 - prequalified members
 - Operation attested to by GM
 - Mandatory administration and governance directives

Questions



Image courtesy A Current Affair (Nine Network)