



Queensland Members Meeting

Fraud and corruption risk management – IIA Update

September 2015



Guidance

1. **Commonwealth Fraud Control Framework (2014) Fraud Rule, Fraud Policy and Fraud Guidance (RMG-201)**
2. **Fraud control improvement kit, NSW Audit Office (2015)**
3. Corruption in focus: A guide to dealing with corrupt conduct in the Queensland public sector, CCC (2014), Fraud and corruption (fact sheet), CMC (2014), Procurement and contracting (fact sheet) CMC (2014)
4. Safeguarding integrity: A guide to the integrity system in Victoria, VIC IBAC (2014)
5. A Framework for Managing Fraud Risks in Federal Programs, US GAO (2015)
6. Code of practice on managing the risk of fraud and corruption: Guidance Notes, UK CIPFA (2015)

Performance reports and stats.



1. **Fraud Management in Local Government – Report 19: 2014-15, QAO (2015)**
2. Fraud Control Arrangements: Across Entities, ANAO (2014)
3. Follow up of Managing Major Projects, VAGO (2015)
4. Counting the costs of crime in Australia: 2011 estimate. Research and Public Policy Series, AIC (2014)
5. Fraud against the Commonwealth: Reports to Government 2010-11 to 2012-13, AIC (2015)



Topical reports

1. **Integrity in Engaging Contractors: Guidance Note, VPSC (2015)**
2. Safeguarding Public Money: The importance of controlling invoice payments, NSW ICAC (2014)
3. A review of integrity frameworks in six Victorian councils, VIC IBAC (2015)
4. Report on Misconduct Risk in Local Government Procurement, WA CCC (2015)
5. Learning the Hard Way: Managing corruption risks associated with international students at Universities in NSW, NSW ICAC (2015)
6. Misuse of information and communications technology within the public sector, AIC (2015)
7. Fraud Risk Management. Prudential Practice Guide, APRA (2015)



QAO Performance reports

- While senior management is committed to fraud control, this is **not being supported by visible processes** to actively prevent, detect and respond to fraud. This means the risk of fraud occurring and going undetected is unacceptably high.

Fraud risk management (2013)

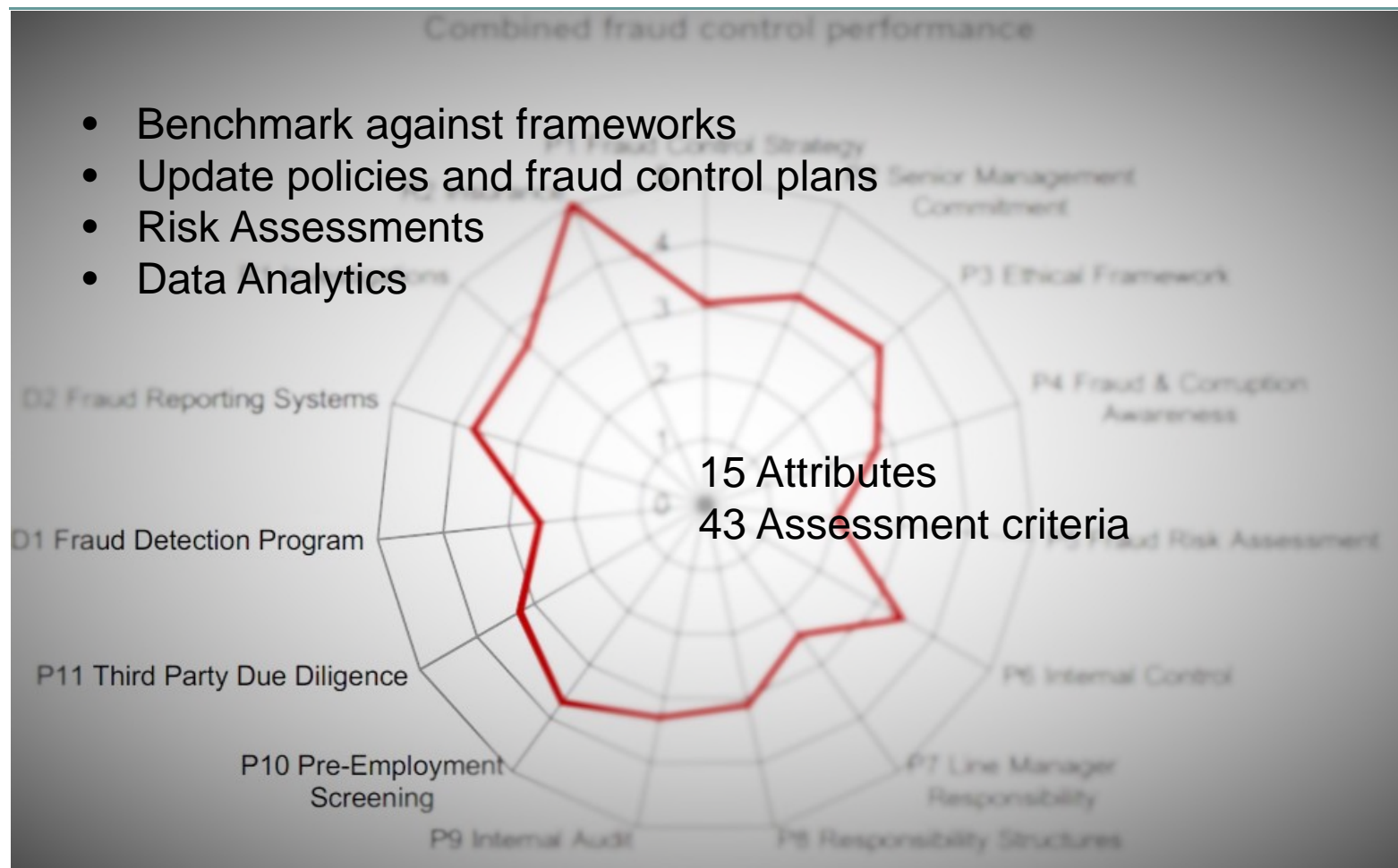
- Most councils are not effective in managing their fraud risks—fraud and corruption is happening in councils, but few understand sufficiently how widespread it is, or what it costs them. Their responses to known and potential fraud risks are, by and large, inadequate and **demonstrate a lack of leadership and a failure in governance.**

Fraud in local government (2015)



Recommendations

- Benchmark against frameworks
- Update policies and fraud control plans
- Risk Assessments
- Data Analytics





F.R.A.U.D. - Susceptibility

- **Financial** – Materiality of economic flows, Nature of transactions, Susceptibility to manipulation
- **Relationships** – Economic dependency, Market depth, Proximity to external parties, Related parties.
- **Attitudes** – Internal control commitment, Transparency/accountability
- **Use of assets** – Intrinsic value of physical assets, Intrinsic value of intangibles
- **Decision making** – Assignment of authority, Decentralisation of operations, Discretion, Supervision



NSW Audit Office Toolkit

1994

Fraud Control

Developing an Effective Strategy

2006

NEW SOUTH WALES AUDITOR-GENERAL
BETTER PRACTICE GUIDE

Fraud Control Improvement Kit
Meeting Your Fraud Control Obligations

2015



Fraud Control
Improvement Kit

February 2015

Managing your fraud control obligations



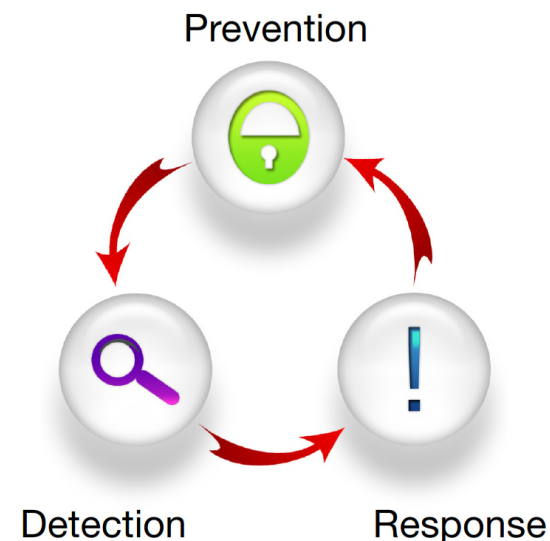
Issues identified

- The 2012 review of the NSW Audit office framework identified:
 - Fraud control was seen as a ‘tick and flick’ exercise by some agencies
 - There was a lack of risk assessment when agencies changed their role or function
 - There was growing fraud in outsourced functions
 - Procurement was the highest risk area for fraud

2015 – 10 Attribute framework



1. **Leadership (New)**
2. **Ethical framework (New)**
3. Responsibility structures
4. Fraud control policy
5. Prevention systems
6. Fraud awareness
7. **Third party management systems (New)**
8. Notification systems
9. Detection systems
10. Investigations systems



10 Attributes
38 Processes
78 Evidence items

Fraud Control Framework – Commonwealth 2014



- Consists of:
 - Fraud Rule - *section 10 of the Public Governance, Performance and Accountability Rule 2014*
 - Fraud Policy - *Commonwealth Fraud Control Policy*
 - Fraud Guidance - *Resource Management Guide No. 201, Preventing, detecting and dealing with fraud*



RMG - Guidance takeaways

“Fraud control plans and processes **do not have to be developed as standalone documents**. The fraud control plan should, where appropriate, be integrated into the entity’s strategic plan, business plan or risk management plan. When a fraud risk is assessed to be high due to the nature of an entity’s business, specific fraud control plans at the entity, enterprise or program level may be appropriate.” (7.2)

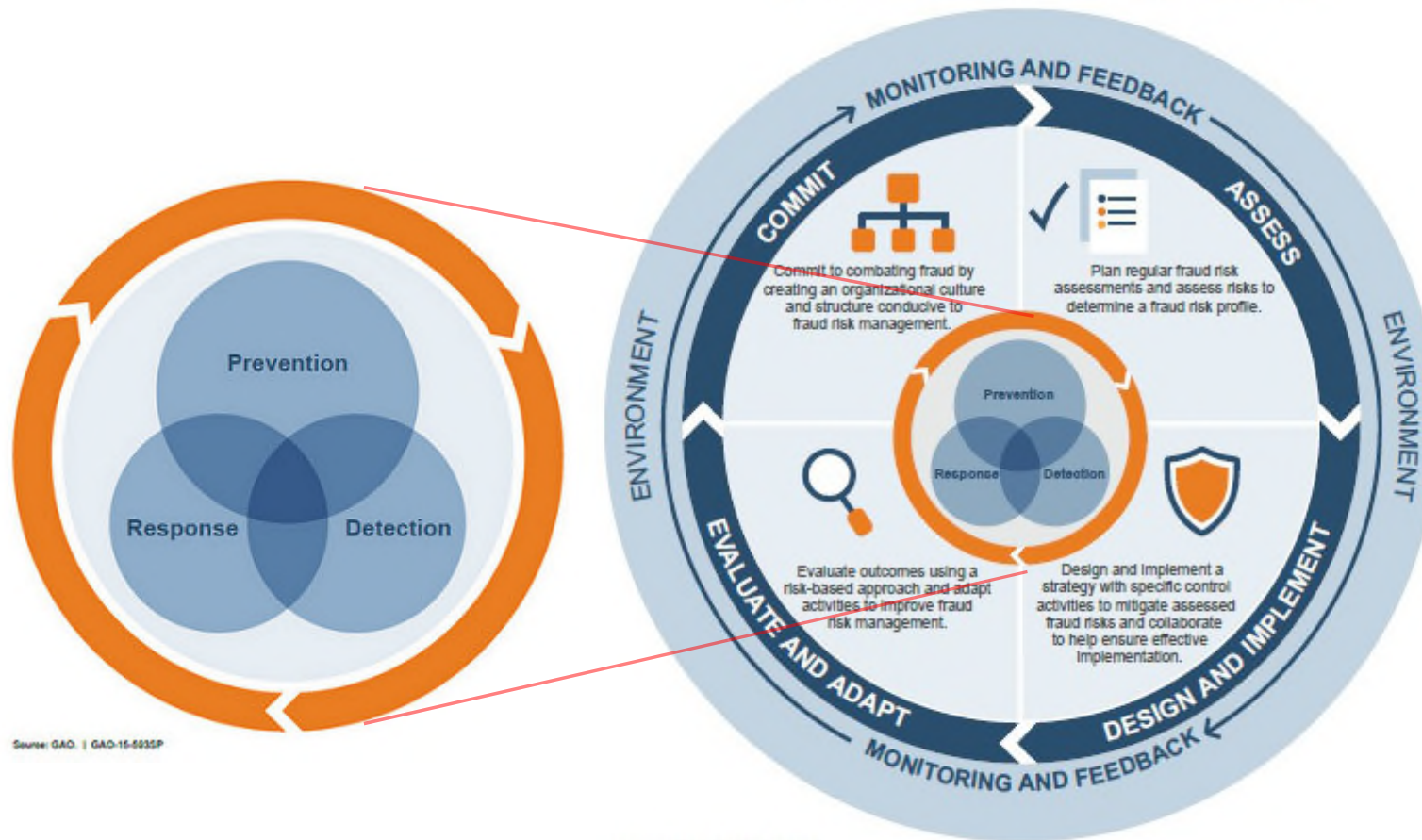
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“Controls and strategies outlined in fraud control plans should be commensurate with assessed fraud risks. Testing controls may indicate that not all controls and strategies are necessary or that different approaches may have more effective outcomes. **Controls should be reviewed on a regular basis to make sure they remain useful.**” (7.4)

US GAO Framework - 2015



Figure 2: The Fraud Risk Management Framework

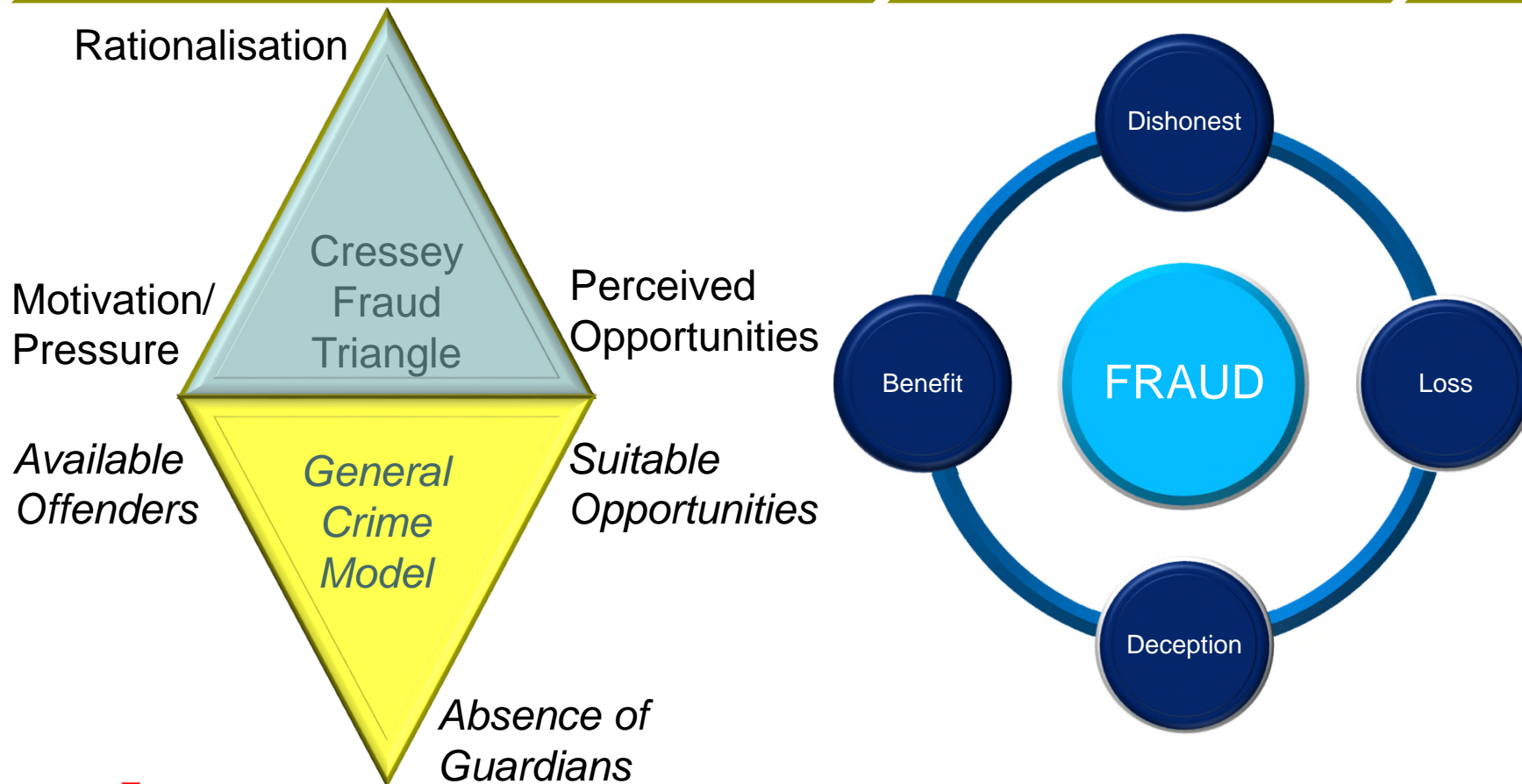


Problems with risk assessment VAGO review



- A fraud risk assessment was inadequate
 - a simple online 'fraud assessment' survey of MPV staff
 - tested some internal controls
 - it did not comprehensively assess risk across MPV's business
 - the methodology did not examine procurement.
 - did not examine any other issues found in the 2012 audit, such as master file changes and IT business rules.

Risk management and fraud control



Making fraud risks register



| Risk Title | | |
|--|---------------------|---------------|
| Corruption in the award of a major project | | |
| Risk Description | | |
| Officers deliberately management and/or stakeholders improperly overriding agency recommendation to select proponents for projects with the intention of improperly favouring | | |
| Consequences | | |
| Direct consequences: revenue, costs, operations, reputation, going concern | | |
| <ul style="list-style-type: none"> » Loss of increased costs under \$10m. (Major) » Loss of under \$100K. (Moderate) » Damaged and extended negative media coverage (Severe) | | |
| Causes/ sources of behaviour including situation opportunity and rationalisation | | |
| <ul style="list-style-type: none"> » Stakeholders for exercise of significant power over the agency and their career success. (Motivation) » Officers without strong public sector experience do not understand stakeholder conduct. (Opportunity) » Officers fail to identify and/or underestimate their responsibility to conduct by stakeholders. (Opportunity) » Officers are under pressure to resolve projects consistent with stakeholder timing and expectations. (Motivation) | | |
| Inherent Consequences | Inherent Likelihood | Inherent Risk |
| Severe | Unlikely | High |

From risk policy

From fraud triangle

From fraud triangle

From risk policy



Controls assessment

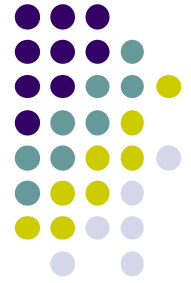
| Controls <i>(on sources, causes, consequences)</i> | | Control Effectiveness |
|--|--------------------|-------------------------|
| » Officers understand the standard of conduct established for Ministers and understand how to respond to inappropriate behaviour. (Substantially) » Officers are aware of and conduct themselves in line with their ethical obligations set out in the code of conduct (Substantially) » Improper behaviour is reported through internal and external reporting systems. (Substantially) » The responsibilities of stakeholders and the Agency are separately established according to conventions for appropriate conduct. (Substantially) | | Substantially Effective |
| Current Consequences | Current Likelihood | Current Risk |
| Severe | Unlikely | High |

From risk policy



Actions and treatments

| Actions/Treatments | | To add new or modify existing controls to further mitigate uncertainty | |
|--|--|--|----------------|
| <p>» Include information on the constraints on the conduct of stakeholders in the ethical training for senior decision makers.</p> <p>» Undertake fraud and corruption risk assessments of major projects to identify potential threats of management override and include appropriate controls of any high risk threats assessed.</p> | | | |
| Due Date | | | Responsibility |
| | | | |
| Target Consequences | | Target Likelihood | Target Risk |
| | | | |



Reviewing and refining

- Does the event describe possible dishonest or corrupt behaviour?
- Do the causes give a clear understanding of factors which make it more likely?
- Do the controls address the causes and impact the consequences?
- Are the controls stated as actions and behaviours?
- Do actions address controls?

Risk management looks forward



- Risk management is about anticipating uncertainty
- Fraud and corruption risk assessment need to be integrated appropriately into the planning activities of managers
- What planning processes for:
 - Risk owner risk assessments periodic
 - Senior manager annual reviews
 - Significant and major project risks

A focus on managers



“Managers set the tone and create the culture and structure of an organisation”

“Managers encourage employees to act with or without integrity. Integrity is a core competence of managers.”

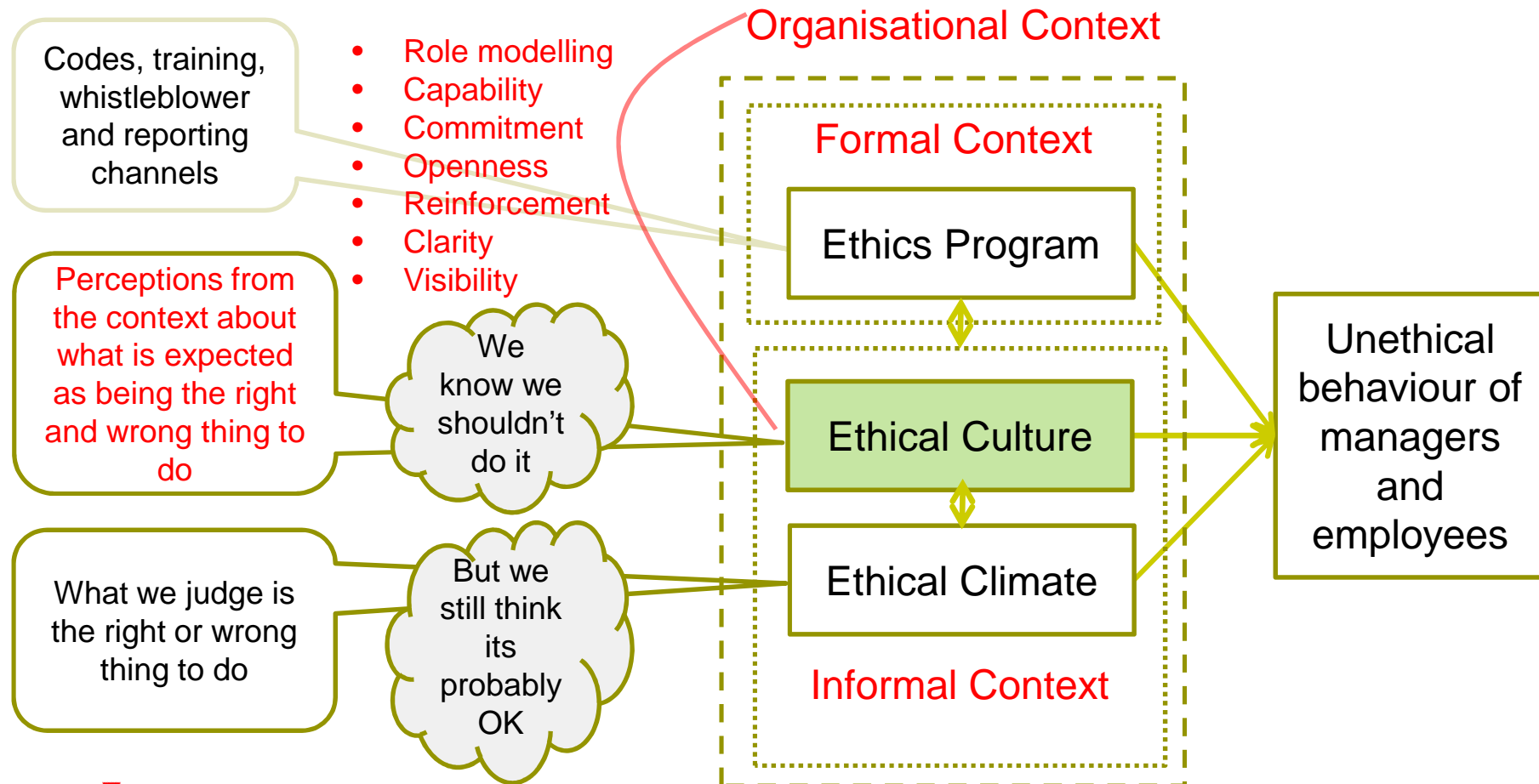
“Managers who set bad examples create a working space where dishonesty, fraud and corruption are more likely to manifest.”

“Too many overlook the fact that managers should manage, and that they should have the primary responsibility to ensure honest and proper dealings by those whom they manage and therefore supervise.”

Callinan & Aroney, 2013

Muel Kaptein, 2005

Enhancing ethical culture

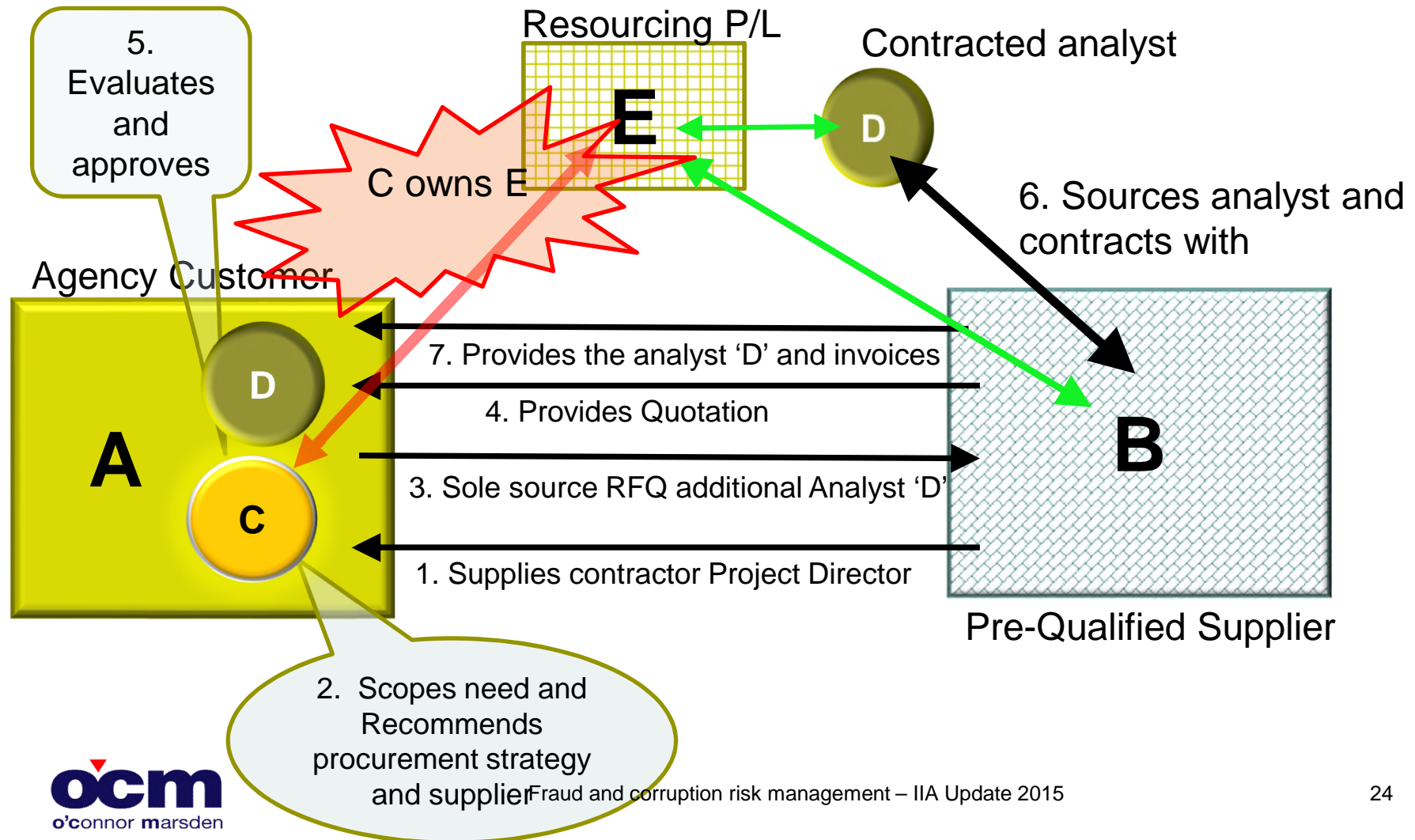


Actions to enhance ethical culture



| Influences on ethical culture | Action items |
|-------------------------------|---|
| Role modelling | <ul style="list-style-type: none">• Making staff aware of instances where a principled decision was made |
| Capability | <ul style="list-style-type: none">• Checking in with subordinates to ensure that deadlines do not lead to corner cutting |
| Commitment | <ul style="list-style-type: none">• Making an effort to discuss values and behaviours in team meetings.• Referring to values in decision discussions |
| Openness | <ul style="list-style-type: none">• Encouraging discussion about ethical aspects of decisions and challenging what is right and wrong |
| Reinforcement | <ul style="list-style-type: none">• Praising ethical behaviour and reminding staff of the sanctions for unethical behaviour |

Staff contractors – the risks



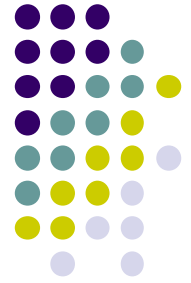


Deviant fraudster

This person is proactive for opportunities to commit fraud; possibly perceived as one of the company's hardest workers or best contractors; and carries a "veil of trust."

This fraudster will have a strong group of advocates within the organization who will deny any assertion that the fraudster was involved with any wrongdoing.

This person is sometimes described as a "wheeler-dealer."



Red flags

- Lack of supporting documentation for the decisions taken
- Bypassing standard processes
- Frequent payments just below delegation limits
- Apparent splitting of orders
- **Unusually close relationships with particular contractors**
- **Allocating work to a small number of contractors**
- Acceptance of gifts, benefits or hospitality from particular contractors
- **Undeclared private interests that potentially conflict with an employee's role**

Conclusion



Final questions

Contact:

OCM – Pat McCallum pmccallum@ocm.net.au