



Smart decisions. Lasting value.

Fraud Awareness



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March 2021

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Today's Agenda – Fraud Awareness



- **Policy**
- **Defining Fraud and Corruption**
- **Fraud Triangle**
- **Case Studies – V Line, Sports Rort**
- **Why does Fraud occur & what does it look like?**
- **Fraud RED flags and how is Fraud detected?**
- **Typical Fraudster**
- **Key Internal Controls**
- **What is the impact of Fraud?**
- **The mechanics & dynamics of fraud prevention**
- **What do I do if I suspect Fraud?**

Fraud Prevention Policy

-
- Purpose
 - Responsibility - accountability
 - Definitions
 - Statement on tolerance to fraud and corruption
 - Prevention
 - Detection
 - Reporting
 - Investigation
 - Links to suite of supporting documents
 - e.g. COI, GBH, Code of Conduct, Public Interest Disclosures, Risk

Defining Fraud and Corruption

Fraud

is the **dishonest** activity involving **deception** that causes actual or potential financial **loss**

Corruption

is the **dishonest** activity in which an employee acts **against the interests** of their employer and **abuses** their position to achieve **personal gain** or advantage

*Corrupt practices **do not** include mistakes or un-intentional acts*

Fraud Triangle



Case Studies

V-Line / Transclean - Sports Rort



\$100,000,000 Sports grants corruption goes all the way to the PM's Office



Why does Fraud Occur?

-
- Poor internal controls
 - Override of internal controls
 - Lack of management review
 - Collusion between employees (internal) & third parties (external (e.g. contractors))
 - Lack of accountability
 - Greed
 - Poor organisational culture & 'Tone at the Top'
 - Poor hiring practices

What does fraud look like?



Procurement

- Collusion with suppliers/contactors – grooming
- Undisclosed conflict
- Undeclared GBH
- Bribery/Kick backs
- PO Splitting
- Self authorisation
- Contract variations



Theft

- Cash
- Petty cash claims
- Overstated Reimbursements
- Manipulation of EFT
- Skimming receipts
- Sale/removal of assets
- Services provided without fee
- Misuse of credit / fuel cards
- False creditors/invoices

What does fraud look like?

Employee/ Contractor Screening

- Identity fraud
- Falsification of qualifications
- Falsification of employment record
- Overstating prior experience & achievements

Payroll and Payables

- Unauthorised master file amendments
- False overtime claims
- False KM claims
- Invalid variations
- False casuals
- Failure to submit leave forms
- Creation of ghost employees / vendors
- Manipulation of 'terminated' employees and dormant creditors

What does fraud look like?



Misuse of Assets

- Private use of assets
- Use of 'surplus' materials
- Theft of consumables for resale
- Misuse of vehicles
- Inappropriate use of buildings/ facilities
- Appropriation of intellectual property



Information

- Sale of data (client lists, credit card numbers)
- Manipulation of data
- Corruption of data (aggrieved staff)
- Theft of client records

Fraud **RED** Flags/Warning Signs

Culture Red Flag

- Lack of supporting documentation
- Failure to detect and report minor fraud
- Failure to implement internal controls / desire not to implement controls
- Requests for system access not commensurate with role
- Bypassing procurement processes
- Accepting close relationship with customers, suppliers or contractors
- Incomplete Gifts/Benefits/Hospitality register
- Failure to reconcile

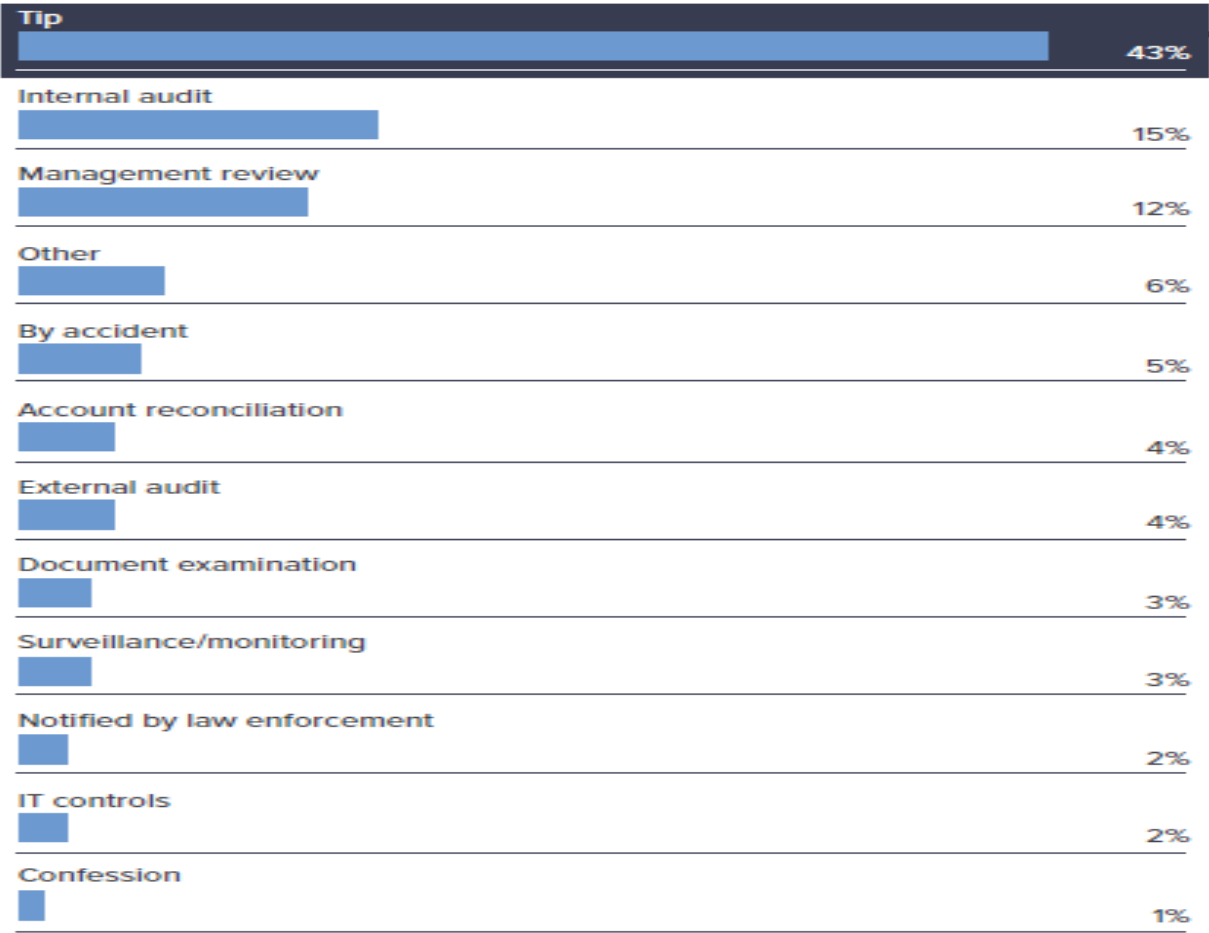
Individual Behavioural Red Flag


- Staff who do not take holidays
- Signs of excessive wealth or spending – living beyond means
- Unusually close relationship with customers, suppliers or contractors
- Failing to declare potential conflicts of interest or gifts
- Staff unwilling to share duties
- Staff insisting on having annual leave paid
- Wheeler-dealer attitude
- Financial difficulties/family problems

Job performance **RED** flags



How is fraud detected?



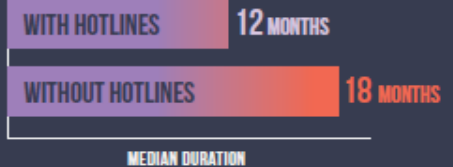
 **64%** OF
VICTIM ORGANIZATIONS
had hotlines

MEDIAN LOSSES WERE NEARLY
DOUBLED AT ORGANIZATIONS
WITHOUT HOTLINES

\$100,000
with hotlines

\$198,000
without hotlines

Organizations with hotlines
detect frauds **MORE QUICKLY**
than those without hotlines



Effect of EMPLOYEE FRAUD AWARENESS TRAINING on hotlines and reporting

Training increases the
likelihood of detection by tip

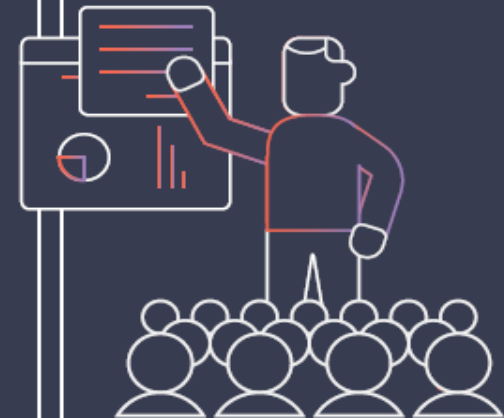
48% of cases detected
by tip with training

36% of cases detected by
tip without training

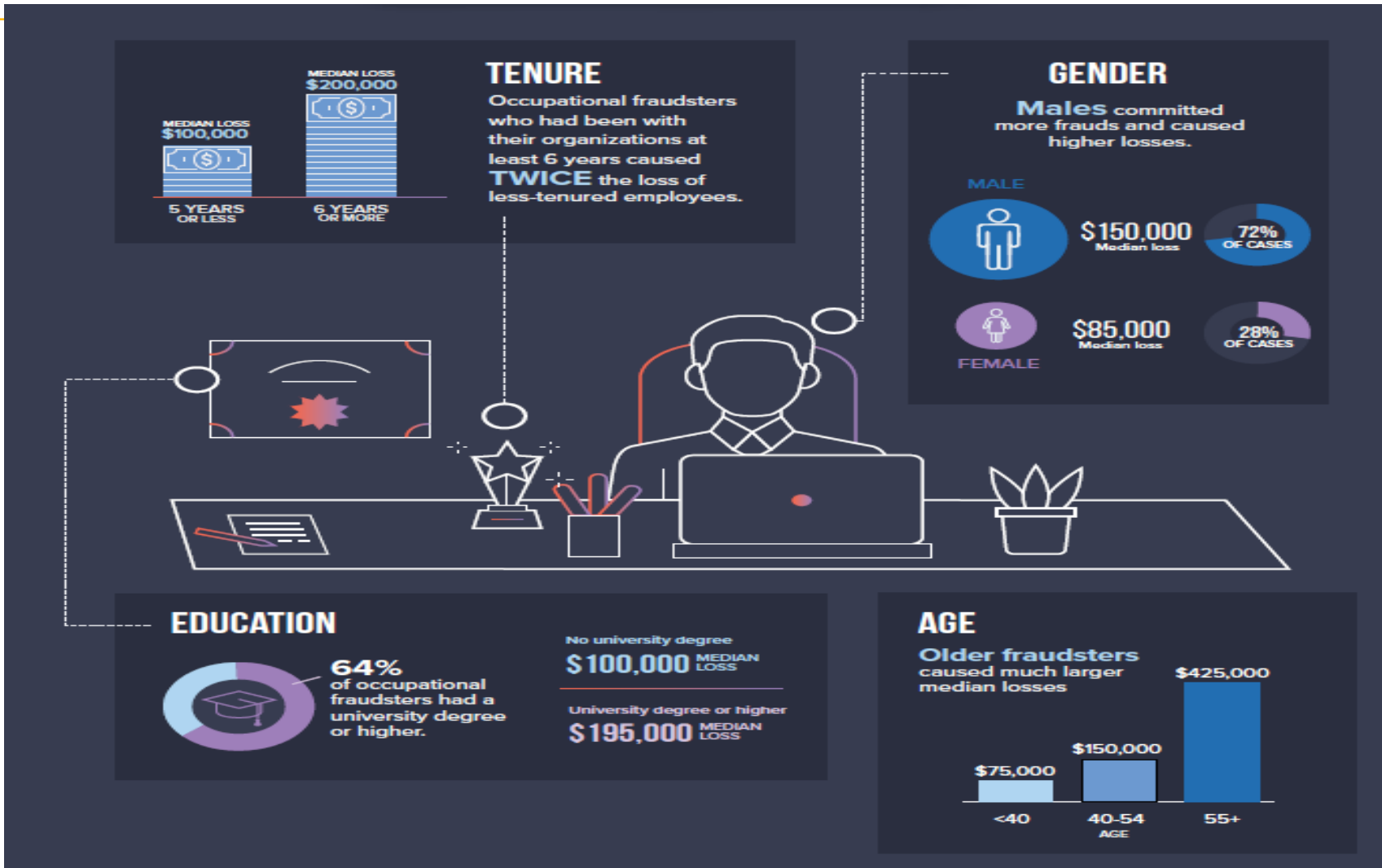
Tips are more likely to be
submitted through reporting
mechanisms with training

tips with
training **56%**

tips without
training **37%**



Typical Fraudster



Examples of Key Internal Controls

Employee / Contractor Screening

- **Mandatory police criminal checks/WWCC**
- **Reference checks**
- **Verify qualifications & experience**
- **Integrity of recruitment/selection process**

Accounts Payable & Payroll

- **Segregation of duties – separate set up & maintenance of vendors/payroll master files**
- **Separate data entry from payment duties**
- **Independent review**
- **Exception reporting - master file changes**
- **Supporting documentation authorising changes to master file data**
- **Monitor annual leave balances**
- **‘Lockdown’ payment data files**

Key Internal Controls



Asset Management

- Regular Stocktakes
 - Existence and maintenance of Asset Register
 - Assign a unique asset number to each asset
 - Record keeping v capitalisation
 - Monitoring and review
 - Clear statement on acceptable use
 - Disposal via auction house
-
- Limit access to databases
 - Regular review of access – commensurate with job
 - Confidentiality agreements
 - Mandate password complexity
 - Frequency of password changes
 - Don't share passwords



Data & Information

Key Internal Controls



Conflict of Interest

- **COI & confidentiality declarations (TEP)**
- **Centrally managed register**
- **Checklist**
- **Stand alone Policy**
- **Enforcement officer rotation**



GBH

- **Transparent GBH register**
- **Record gifts offered, accepted and declined**
- **Prohibit certain functions from receiving GBH (e.g. contract managers, enforcement officers)**
- **Communication to suppliers**
- **Monitor for trends/grooming**

Key Internal Controls



Procurement

- **Policy and procedures (Procurement, Contract Management, Tendering)**
- **Message in RFT/RFQ**
- **Dual authorisations of PO before incurring costs**
- **Consultants excluded from tendering where they have helped develop specifications**
- **Declare COI**
- **Established criteria and weighting**
- **Assess compliance with policy – (spot checks, DA)**
- **Cross check vendor and staff databases**
- **Defined contract variation process**
- **Clear financial delegations**
- **Separate Credit Card policy**

What is the impact of fraud?

Financial	Compliance	Culture
<ul style="list-style-type: none">➤ Financial costs can be significant and the size variable.	<ul style="list-style-type: none">➤ Compliance breaches➤ Insurance costs	<ul style="list-style-type: none">➤ Staff members are devastated➤ A collaborative approach is difficult to maintain➤ Managers unsure of how to manage➤ Damage to reputation

Organisational Culture

Facilitates Fraud

- **Avoidant**
- **Impersonal**
- **Inconsistent**
- **Unstable**
- **Cynical**
- **Immoral**
- **Unclear**

Reduces the risk of Fraud

- **Open and honest**
- **Personal**
- **Empowered**
- **Accountable**
- **Accepting of failure**

Mechanics of Fraud prevention



Australian Standard
AS8001-2008

Fraud and Corruption
Control

What do I do if I suspect Fraud?

- Don't ignore it
- Due process to be followed
- Refer to Policy
- Confidentiality/Discretion
- Possible Fraud Investigation
- Possible disciplinary action

What if I suspect that Senior Management is committing Fraud?

Report to Audit Committee Chair / IBAC / Auditors /Police

If something is not right, who do I complain to?

<https://www.youtube.com/watch?v=lsYaTNHhx-8>

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