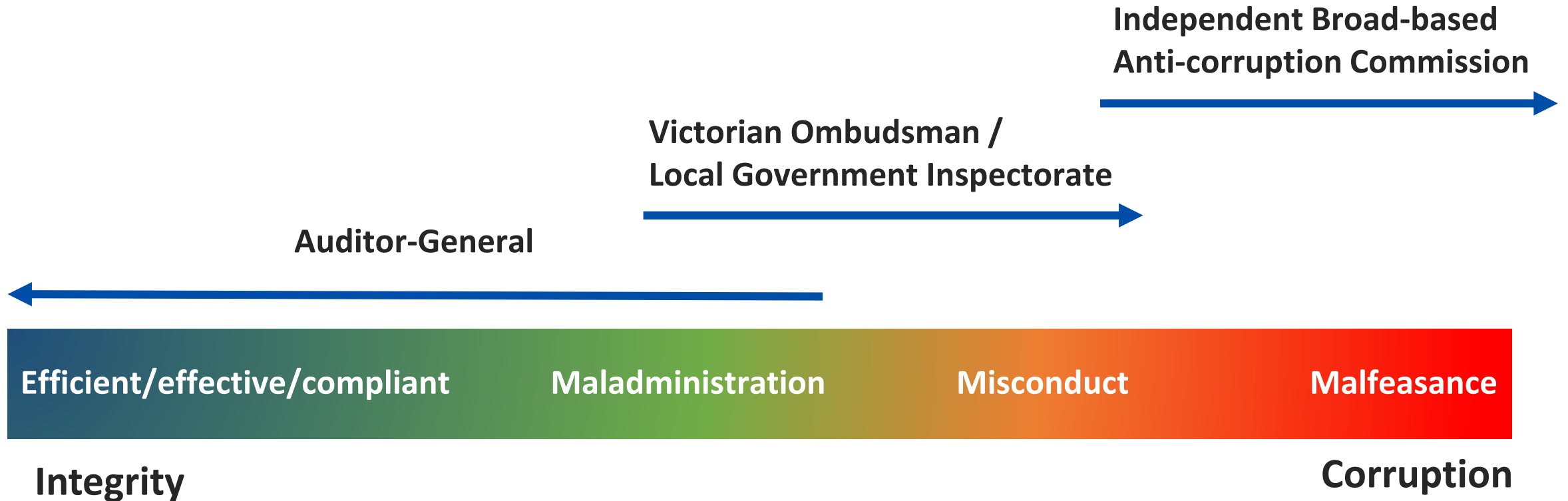


Learnings - Fraud and Corruption Control Audit Program

Trang Ho
Director, Performance Audit
16 October 2019

VAGO

Victoria's integrity system



VAGO's role in preventing and identifying fraud and corruption

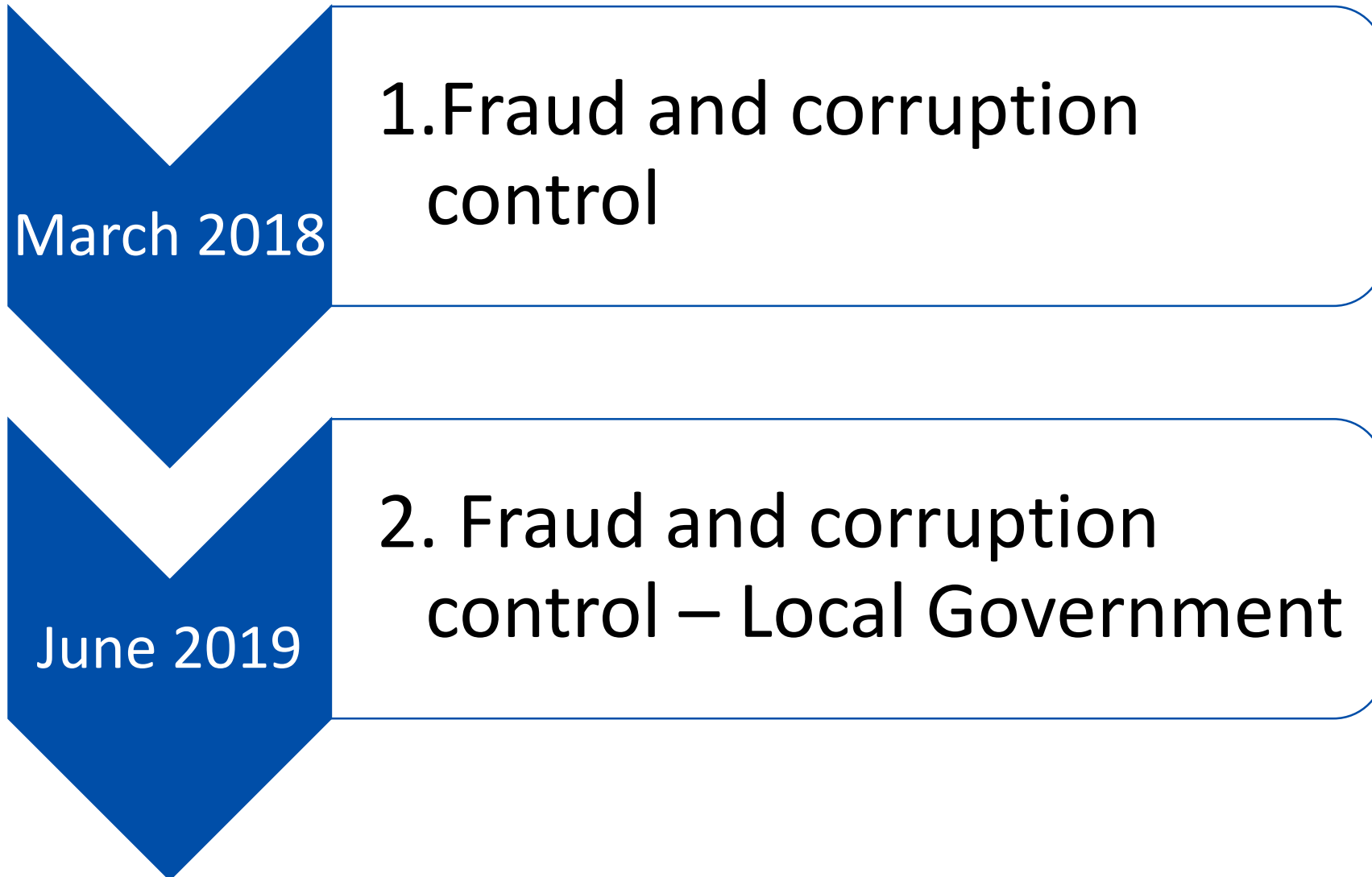


**Agencies reporting financial losses due to fraud to
VAGO**

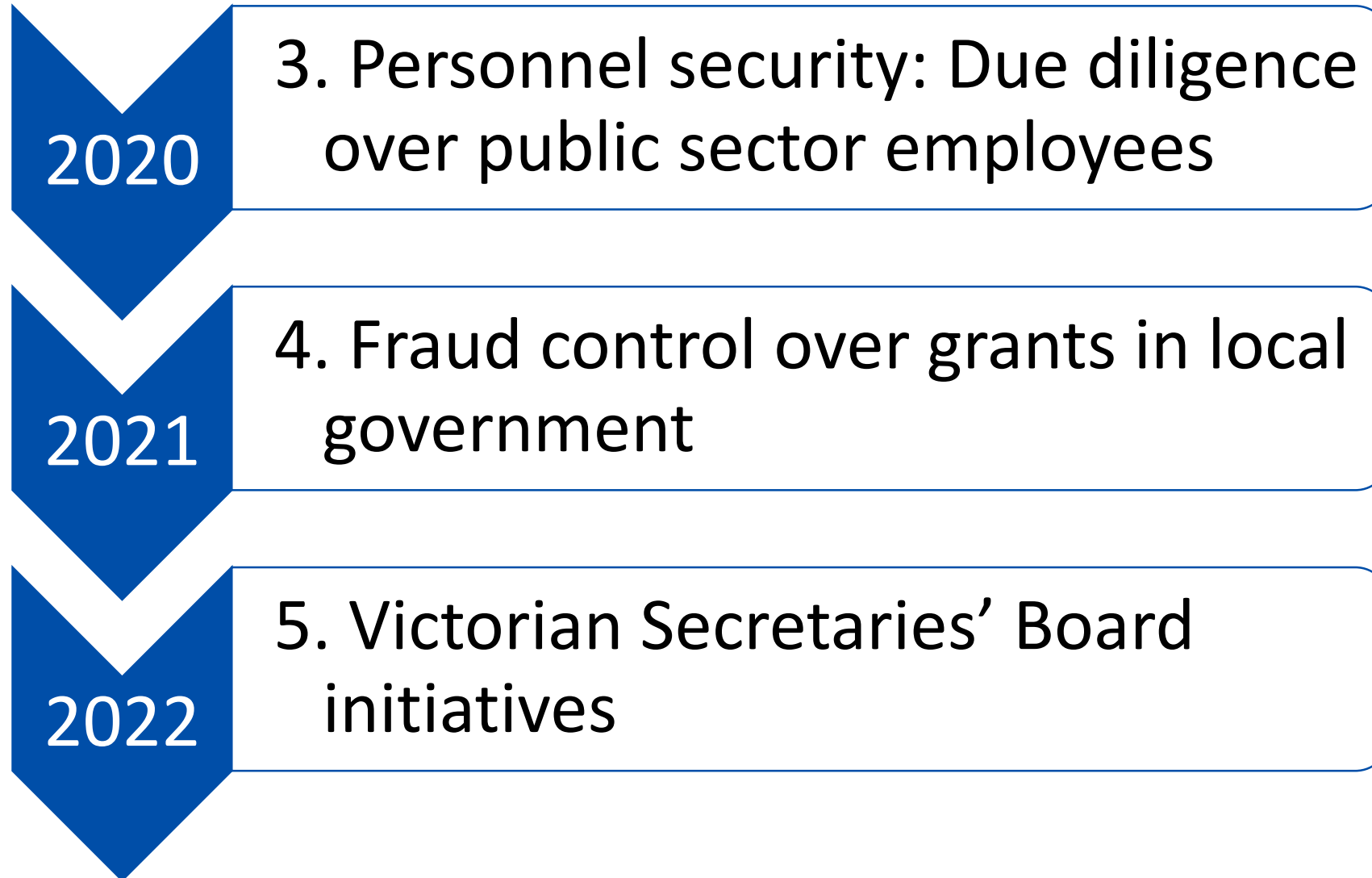
Testing fraud controls through financial audits

Performance audits of fraud and corruption risks

Rolling series of fraud and corruption control audits



Future fraud and corruption control audits



Focus of this audit

Examine whether local councils' fraud and corruption controls are well designed and operating as intended



What we looked at

- councillor and senior staff credit and fuel card use and reimbursements
- conflicts of interests
- responding to suspected fraud and corruption



Who we looked at

- Greater Shepparton City Council
- Strathbogie Shire Council
- Wellington Shire Council
- Wyndham City Council

Background – Fraud and Corruption (Local Government)

Fraud—
involves
deception that
causes actual
or potential
financial loss

Corruption—
where an
employee abuses
their position to
achieve advantage
for themselves or
others

Fraud and corruption can:

- undermine trust in local government
- damage the reputation of the sector
- waste public resources

What we found

Fraud and corruption controls are failing...



Councillor entitlements and expenditure



Supporting documentation

Reimbursement claims should be reasonable, 'bona fide' and incurred during official business

- We found that councils do not consistently require and adequately scrutinise supporting documentation
- Example: Mileage claims

Councillor entitlements and expenditure



Financial allowances

Councillors are entitled to be reimbursed for expenses incurred as part of official business

- **We found examples where there could be a perception of ‘double-dipping’ or excessive entitlements**
- **Example: Telephone and printing allowances**

Councillor entitlements and expenditure



Compliance with legislation and council policies

Councils are required to disclose in annual reports councillor expenses in five categories and comply with council policies

- **We found three councils did not detail councillor expenses in five categories**
- **We identified transactions that did not comply with council policies**
- **Example: Annual reporting of councillor expenses and hospitality expenditure**

Staff expenditure



Monitoring controls

Councils should design and implement a robust system of controls including monitoring controls

- **We found that councils do not have formalized processes to conduct data analytics over credit and fuel card transactions**
- **Example: Transaction anomalies**

Staff expenditure



Segregation of duties for transaction approvals

Require appropriate segregation of duties between the purchaser and approver

- We found examples where there was no segregation of duties between the person who incurred the expense and the person approving the expense
- Example: Credit card transactions

Staff expenditure



Controls over fuel cards

Councils should design and implement robust controls for fuel cards

- **We identified weak controls over fuel cards such as a lack of policies or guidelines, out-of-date policies or ones that do not detail consequences for misuse**
- **Example: Exception reporting**

Responding to suspected fraud and corruption



Protected Disclosures as a means to identify potential fraud and corruption

- We found varying levels of compliance with the Protected Disclosure Act by the audited councils
- Example: contact details for Protected Disclosure Coordinators not available

Maintaining public trust

Unclear how residents and ratepayers benefited including purchasing meals and alcohol

Providing or selling vehicles to staff under market value and failing to report total remuneration

Maintaining public trust

Failing to declare interests—referred to the Local Government Inspectorate

Poor responses to suspected fraud and corruption

Recommendations

10 recommendations to all audited councils

- require stronger evidence to support councillor reimbursement claims
- review fuel and credit card policies, strengthen controls and develop reporting
- increase scrutiny over CEO expenditure and ensure segregation of duties
- review council policies on meals and alcohol to ensure benefit to community

1 recommendation to Shepparton, Strathbogie and Wyndham

- publish councillor expenses for 2017-2018 on websites and comply in future

1 recommendation to Strathbogie

- stop selling and providing cars to staff

Background to first audit



Range of legislation and guidance material for agencies

Standing Directions of the Minister for Finance 2016

Require agencies to:

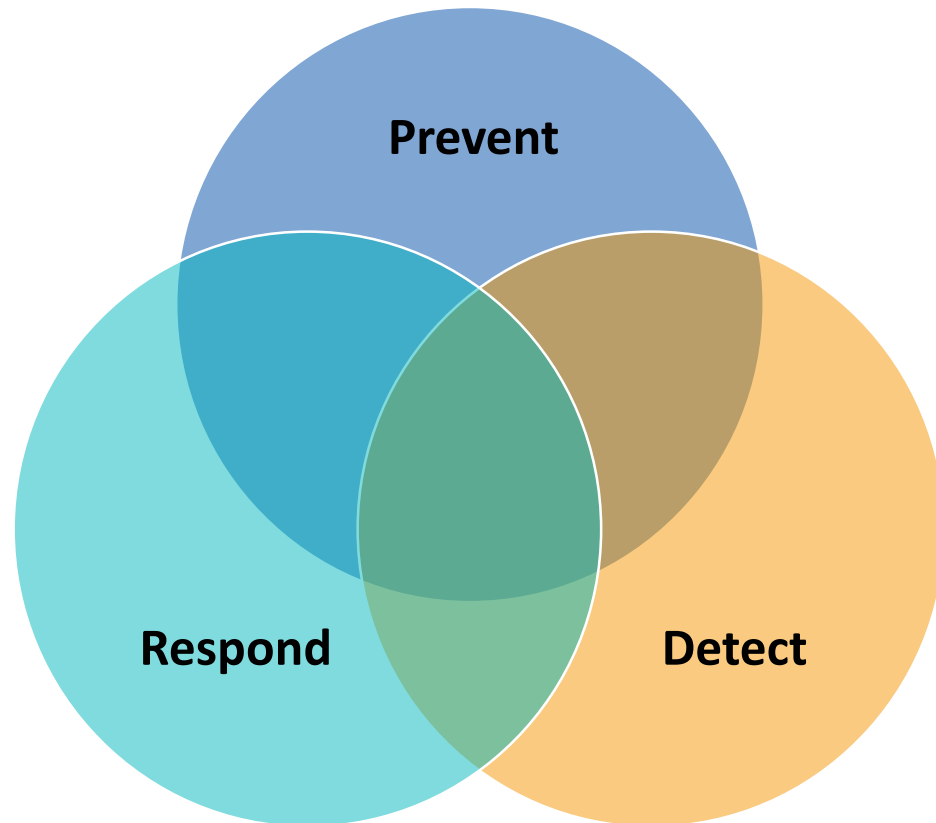
- minimise and manage risks
- establish a policy
- notify parties if fraud occurs
- conduct audits
- safeguard assets

Australian Standard 8001–2008 Fraud and Corruption Control

- better practice guidance
- describes key risk areas
- guidance for development and implementation of a control plan

Focus of first audit

Australian Standard divides activities into three main elements:



Focused on two high-risk areas:

- procurement
- human resources

Department of Economic Development, Jobs, Transport and Resources (DEDJTR)

Major Projects Victoria (MPV)—
business unit

Melbourne Metro Rail Authority
(MMRA) —administrative office

Public Transport Victoria (PTV)—
statutory authority

What we found

Agency senior executives are endeavouring to build the right culture

Intention undermined by:

- delays in implementing key controls
- missed opportunities to promote the desired culture

Inconsistent compliance with expectations

Increased risks of fraud and corruption

Controls for fraud and corruption

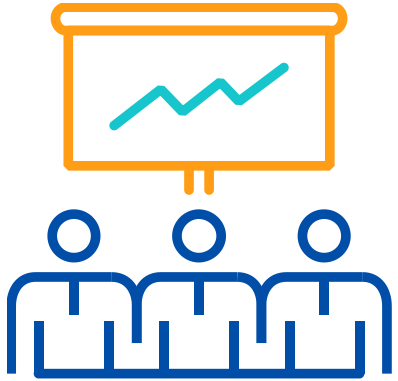
1. Fraud and corruption control framework

2. Human resources practices to prevent and detect

3. Procurement practices to prevent and detect

4. Responding to fraud and corruption when it is suspected or confirmed

Training and staff awareness of Protected Disclosures



- Train staff and ensure they know how to identify and respond to fraud and corruption
- DEDJTR staff reported lower promotion of processes for reporting improper conduct and protected disclosures

What needs to change:

Maintain records of training attendance and ensure training is appropriately targeted

Externally perpetrated fraud / attempt

Phishing attacks

March 2016

- Sought payment of invoice valued at \$400 000
- Successfully blocked as finance officer declined to process request
- Scam used 'masked' email address and information available on whole of government websites

April 2017

- Scam sought payments totalling \$294 000
- Scam was successful as finance officer processed a request to change bank account details without verifying information
- Scam was detected by supplier who alerted DEDJTR

Employment screening



- Identifies potential integrity concerns, and associated fraud and corruption risks, when hiring or promoting staff
- Employment screening policies and procedures were not being fully implemented and existing employees are not screened

What needs to change:

Improve record keeping and compliance with documented controls.

Employment screening case example

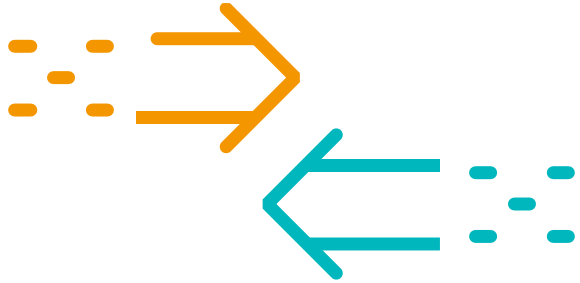
Candidate applied for a position as a technical specialist.

The position description stated: 'A degree qualification in engineering or related discipline is mandatory.'

Qualification check revealed the candidate did not hold the qualification they claimed on their CV.

Agency hired the candidate and offered financial assistance to complete required qualification.

Conflicts of interest



- Annual declaration of private interest process
- Panel member declarations during recruitment
- Declarations during procurement processes

We found:

- conflicts were not being managed appropriately
- action plans were not enforced

What needs to change:

Greater scrutiny of declared interests and improved record keeping to ensure compliance with requirements

Conflicts of interest case example

Agency executive is previous employee with a consulting firm and holds \$20 000 of shares.

Action plan: remain aware of the conflict and seek probity advice if they are to have ANY involvement with procurement involving the firm.

Executive approved a panel's recommendation for the firm as the preferred tenderer for a contract worth \$3.9 million.

Despite the conflict being declared, the agency's internal controls did not identify the inappropriate involvement of the executive in the procurement process.

Gifts, benefits and hospitality



- Public sector staff must not accept gifts, benefits and hospitality from suppliers
- Policies in place, but not always operating as intended
- We found acceptance of gifts, benefits and hospitality from suppliers

What needs to change:

Take a strong 'no' stance. Greater scrutiny of registers and action if non-compliance with requirements is identified.

Overall message

The control weaknesses we identified expose councils to the risk of fraud and corruption and may damage public trust and reduce transparency.

For further information please contact:

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