

Fraud Case Study

The Stonnington Experience

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I'd like to talk about...

- How we thought we were protected
- What happened
- Why it happened
- The impact and outcome
- Lessons learned

Fraud

“In life, the only two things that are certain are death and taxes.”

- Benjamin Franklin

The only thing certain about fraud is it will happen sometime.



Lines of defence



Business operations
& risk ownership

Risk and control functions

Audit & risk assurance

Fraud/Corruption
Control Framework

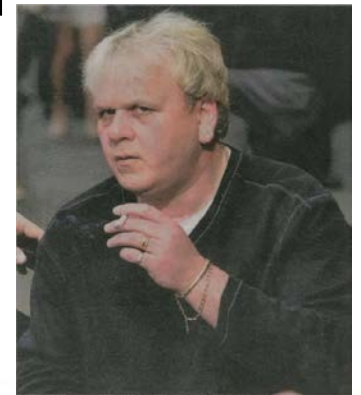
What does fraud look like?

- Misappropriation of funds
- Altering documents
- Falsifying signatures
- Theft of assets
- Misuse of assets
- Providing false information



What happened...

- Theft of goods by Facilities/Events Coordinator
- Over 5 years
- 899 invoices of wrongly purchased alcohol
- Miscoded invoices to avoid detection
- Coerced employees and suppliers
- He was the 'Go To' man



Former Stonnington Council employee Shazun Bhatia faces 899 charges.

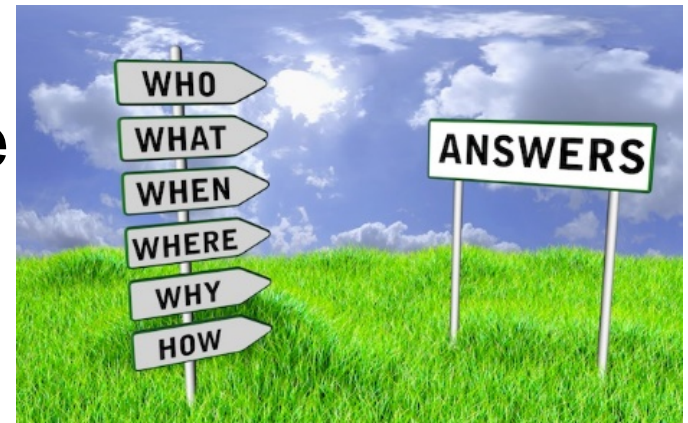
And then...

- Suspicion and reporting
- Investigations
- Advising our insurer
- Fraud confirmed
- Confrontation with perpetrator
- Subsequent reactions by organisation and staff

Manager begins asking questions (Apr '12)	Miscoded invoices arouses GM suspicions (Jan '13)	Internal investigation (Feb '13)	PwC confirm fraud (Apr '13)	Police & insurers notified (Apr '13)	Advise Councillors, Audit Committee, internal auditors, VAGO, IBAC & all staff (May '13)
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Then the examination of what happened..

- Forensic investigators
- Auditors & Audit Committee
- Police
- Insurers & Loss Adjustors
- Media
- Lawyers



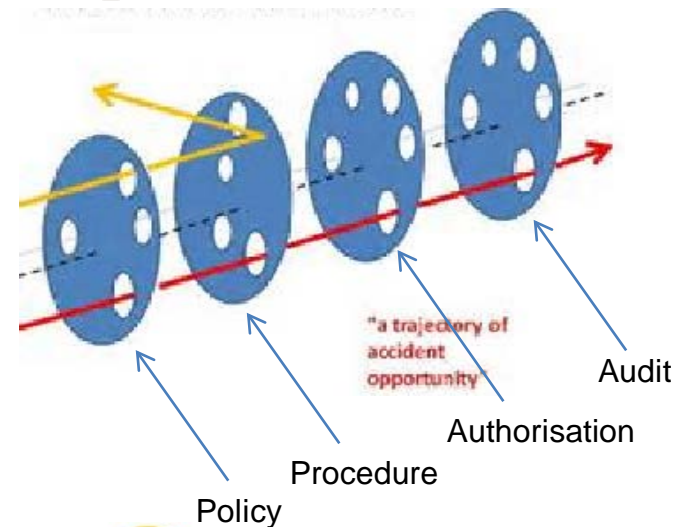
<p>Advise Councillors, Audit Committee, internal auditors, VAGO, IBAC, staff (May '13)</p>	<p>PwC Interviews Events & Finance staff (May-Dec '13)</p>	<p>Insurer interviews & requests information (Nov'13 – Jan '14)</p>
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Why it happened – the findings...

- Lack of rigour in budget setting and review
- Inadequate stock controls
- Diluted segregation of duties
- Insufficient supervision of transactions
- Poor management review of financials
- Inadequate procurement spend analysis
- Organisational culture

Controls

- Holes need controls
- Opportunity through error
- Trial and error
- Consistency of process
- Efficiency vs control



The impact on Stonnington

- \$620K loss + \$250K investigation/legals
- Reputation & credibility loss, media attention
- Relationships and trust damage
- Innocent parties implicated and investigated
- Negative staff morale
- Management distraction

Perception and reality



In the end...

- Perpetrator – employment terminated, imprisonment, criminal record, loss of assets, bankruptcy, personal loss
- Recovery of evidenced financial losses

The lessons we learnt

- Regularly provide Policy Framework training
- Understand the human issues & costs of fraud
- Check on our contractors & our employees
- Follow up issues & concerns
- Build a culture where everyone is accountable
- Communication from the top-down deliberately controlled but there can always be more!

What we did from our learnings

- Reinforced separation of duties in Events area
- Enhanced finance system controls
- Implemented stock controls for liquor
- Improved fraud detection program
- Embedding a risk culture
- Implementing an Events Management system

Assisting Law Enforcement

- Case summary
- List of witnesses
- Witness statements/affidavits
- Interview transcripts
- List and copies of exhibits
- Diagrammatic representation of the evidence

Key messages

- Fraud is going to happen – no one is immune
- Treat possibility of fraud as an everyday business risk
 - Probability vs consequence; controls ownership & testing, training and communication strategies
- Call it out – if it doesn't feel right, it probably isn't
- Balancing trust and control
- Cost of controls is always less than the damage from fraud that can happen

Useful resources

- Fraud Control in Australian Government Entities Better Practice Guide (Aust National Audit Office)
- AS/NZ ISO 31000:2009 Risk Management Principles and Guidelines
- Australian Standard AS 8001-2008 Fraud and Corruption Control
- Employment screening (AS 4811-2006; HB 323-2007)
- A review of integrity frameworks in six Victorian councils (IBAC)
- If you wish to contact me - smoore@stonnington.vic.gov.au