Fraud and corruption control: guidance factsheets

Guidance materials to support governance and integrity staff with fraud and corruption control communications

These factsheets can be adapted for an integrity communications plan to raise awareness of fraud and corruption control in public entities

About this document

This series of factsheets has been developed to support fraud and corruption control communications within portfolio entities. Each factsheet contains information on a specific topic with key messages that are recommended for all-staff communications within entities.

The factsheets are intended to build knowledge and awareness of key themes and obligations in fraud and corruption control. Governance and integrity staff are encouraged to adapt and tailor these materials for distribution to entity staff as part of a fraud and corruption control awareness program.

Factsheets

1. Understanding Fraud and Corruption Control
2. Identifying and managing risks of fraud and corruption
3. Creating a Speak Up! culture
4. PESTLE scan
5. Key integrity areas – conflicts of interest and gifts, benefits and hospitality.

These factsheets should be read in conjunction with the FCC model policy and implementation guide.

Enquiries

Any questions regarding fraud and corruption control from portfolio entity staff may be directed to your entity's governance and integrity area as appropriate.

Governance and integrity staff seeking advice on their communications strategies are encouraged to contact their relationship manager, integrity@delwp.vic.gov.au or governance@delwp.vic.gov.au.

1. Understanding Fraud and Corruption Control

Fraud and Corruption Control is a shared responsibility

Fraud and corruption can pose serious risks to the operation, reputation and culture of an organisation. Fraud and corruption control is a shared responsibility, and everyone can play a part in building a culture of integrity within organisations.

Definitions

The Australian Standard for Fraud and Corruption Control was revised in 2021 to include the following definitions of fraud and corruption:

Fraud is dishonest activity causing actual or potential gain or loss to any person or organisation (including theft of money or other property) by employees or persons external to the organisation, and/or where deception is used at the time, immediately before or immediately following the activity.

Fraud also includes the deliberate falsification, concealment, destruction, or use of falsified documentation used or intended for use for a normal business purpose or the improper use of information or position for personal benefit.

Corruption is the misuse of public power or position. It includes where a public officer abuses their position of trust to achieve personal advantage or advantage for another person or organisation and acts contrary to the interests of the organisation.

Corruption also occurs where a person adversely affects the honest performance of a public officer or public body in the exercise of public functions or powers. For example the manipulation of documents for a permit application may lead to unfair selection.

Examples of fraud

Fraud and corruption may include, but is not limited to:

- Theft of any kind, including theft of cash, supplies, equipment, tools, data and records
- Accounting fraud, for example the manipulation, falsification or alteration of financial information
- Undisclosed and/or unmanaged conflicts of interest between one's public duties and private interests
- Misuse of credit cards, assets, equipment or facilities
- Wrongfully using information or intellectual property
- Unlawful procurement of property, equipment, materials or services
- Providing false or misleading information
- Failing to provide information when there is an obligation to do so
- Making or using false, forged or falsified documents
- Abusing a position of power for personal gain
- Falsifying timesheets or leave balances

Obligations for staff

Employees and other workplace participants have a duty to act in the public interest and must not engage in fraud or corruption. Employees and other workplace participants who suspect or have knowledge of fraudulent activity or corrupt conduct have an obligation to immediately report the matter to the Independent Broad-based Anti-corruption Commission (IBAC).

Employees and other workplace participants may refer to [organisation name]'s Fraud and Corruption Control [Framework or System] and Policy for further information.

2. Identifying and managing fraud and corruption risks

Fraud and corruption can take many forms and may occur in a wide range of areas

Finance

Fraud and corruption can occur during the purchasing, procurement and contract management process, or while arranging program funding and grants management. Major programs and large investments can also present fraud and corruption risks.

The arranging of payments, particularly crisis payments, pre-payments, or travel and hospitality payments can also give rise to fraud and corruption risks. Effective financial management systems are essential to managing these risks.

Employee entitlements such as expenses, leave, travel reimbursements and attendance records may also present fraud and corruption risks.

Employment

Employment, recruitment and human resources are also high-risk areas for fraud and corruption. Fraud and corruption may occur during the recruitment and selection of employees or other workplace participants. It is important that all staff involved in the recruitment process are aware of their obligations to declare and manage conflicts of interest, to ensure a fair, impartial and merit-based selection process.

Staff with privileged system access, such as administrator access, or staff undertaking activities that require access to sensitive data may also be targets of fraud and corruption. These staff should be aware of how to identify and respond to suspected incidents of fraud and corruption when they occur.

Exercise of powers and decision-making

Employees or workplace participants who carry out a statutory function on behalf of the entity should also be aware of fraud and corruption risks. The issuing and renewal of licenses or permits, or offering exemptions, waivers or penalties in relation to statutory obligations may also represent high-risk areas.

### Early warning signs of potential fraud and corruption

All staff should learn to recognise the red flags that may represent fraud and corruption. These may include issues of control, for example having excessive control issues over processes, or demonstrating an unwillingness to share duties or take leave. Staff that frequently override internal controls or show an unusually close association with suppliers or customers may have an undisclosed conflict of interest. Failing to keep accurate records or receipts, or seeking access to areas that they should not be able to access may also indicate fraud and corruption.

Personal characteristics that can lead to fraud and corruption include significant personal stress, past legal or compliance problems, financial hardship, addiction and gambling problems, unhappiness with their employer or a strong sense of entitlement. If staff notice any significant behavioural changes in an individual and any suspicious behaviour they may report these to their manager or the organisation's governance/integrity area.

The fraud triangle

The fraud triangle is a longstanding theory that proposes that individuals are more likely to engage in fraud and corruption when three elements are present. These are: pressure, opportunity and rationale. Understanding different contributing factors and the methods employed to commit fraud helps to design prevention measures.
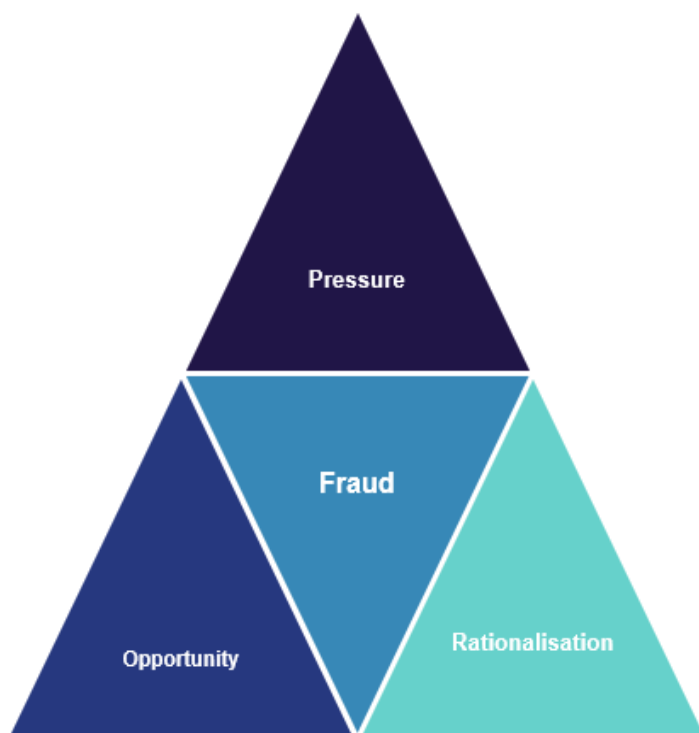
Pressure: personal circumstances such as financial difficulties, greed, loss of employment, gambling addictions, health problems or debts

Opportunity: enabled by weak internal controls, poor oversight and procedural gaps. Some people take advantage of opportunities and others are actively looking for programs or situations to exploit. These can start small and increase once the opportunity is confirmed.

Rationalisation: people find a way to make fraud activity acceptable in their own minds. Some examples are: "I'll pay it back later", "No one will notice', "Others do the same thing", "I deserve it", "I'm doing it for my family"

Consequences of fraud and corruption:

Fraud and corruption require intent and are more than non-compliance, carelessness, accidents or errors. These incidents have serious consequences including:

• Long term psychological impacts for individuals involved, including witnesses, victims and perpetrators

• Reputational damage and loss of employment for individuals who are found to have committed fraud

• Reduced morale in business units or causing staff to leave

• Reduced capacity for government to deliver services and support for Victorian communities

• Funding not being available for important public services, such as health and education

• Resource-intensive and lengthy investigations

• Reduced public trust in the agency or government more broadly

• Damage to related industries, security and the environment.

3. Creating a Speak Up! culture

Building a culture of integrity

A strong, effective and appropriate culture is central to good governance, and every employee has a part to play in demonstrating the seven core public sector values, and behaving according to the Code of Conduct for Victorian Public Sector Employees.

Embedding a culture of integrity ensures that all staff can Speak Up! if they see something that doesn't look right. All managers should ensure that their teams feel safe and supported to report their concerns through the appropriate channel – whether to their manager directly, the organisation's governance and integrity area, or external bodies including the Independent Broad-based Anti-corruption Commission.

Stress and job dissatisfaction may increase the risk of fraud and corruption occurring. Public entities are encouraged to consider implementing wellbeing initiatives aimed at reducing workplace stress to build a constructive and supportive workplace culture.

Section 2.7 of the Australian Standard for Fraud and Corruption Control requires organisations to implement a program aimed at ensuring that the board, senior management, specialist fraud and corruption resources, line management and all other personnel are aware of the organisation's fraud and corruption risks and how they should respond if they suspect fraud or corruption. Under the Standard, overall responsibility for ensuring that this program is implemented rests with the board and senior management, however the day-to-day elements may be delegated to expert business areas.

Setting the tone from the top with ethical leadership

The board and senior management have a significant responsibility in creating a culture of integrity and leading by example. Communications or newsletters from the organisation's leaders should include reminders for staff on how to report something that doesn't look right, and how staff can contribute to a culture of integrity by acting in the public interest with ethics and accountability. The board and senior management should role model ethical behaviour and create a positive, open and supportive environment for staff.

Including a Speak Up! reminder

Governance and integrity staff may wish to include the following banner, or some adaption of it when developing communications for staff:

> **If you see something that doesn't look right, you can discuss your concerns with your manager. For serious matters, you can also consider making a public interest disclosure under the *Public Interest Disclosure Act 2012*. Contact IBAC to make a report or call their hotline on 1300 735 135.**

4. PESTLE scans

External environmental scan

Section 2.9 of the Australian Standard for Fraud and Corruption Control (FCC) requires organisations to systemically scan and monitor the external environment to identify fraud and corruption risks. Understanding the external operating environment can help to design policies and communications that address risks and prevent incidents from occurring before they arise. These environmental scans must occur at least every two years as part of a review of the entity's FCC system or framework. All staff may benefit from undertaking PESTLE scans to take 'the big picture' into account when designing projects.

The PESTLE model:

Area	Details and examples
Political environment	To identify the political situation of the environment in which the organisation operates, including the stability and leadership of the government, whether there is a budget deficit or surplus, lobbying interests and international political pressure.
Economic environment	To determine the economic factors that could have an impact on the organisation, including interest rates, inflation, unemployment rates, foreign exchange rates and monetary or fiscal policies
Social environment	To identify the expectations of society by analysing factors such as consumer demographics, significant world events, integrity issues, cultural, ethnic and religious factors, and consumer opinions.
Technological environment	To identify how technology, including technological advancements, social media platforms and the role of the internet more broadly, is affecting or could affect the organisation. For example, a scan could reveal a fake account purportedly registered to prominent individuals who has been dealing with the organisation.
Legal environment	To identify how specific legislation, including industry specific regulations, and case law are affecting or could affect the organisation's future operations. For Victorian Public Sector agencies this includes the Public Administration Act, Standing Directions and VPSC requirements. For example, a search of recent court judgements could expose specific instances of fraud and corruption that a competitor of the organisation was exposed to and the legal ramifications of that fraud and corruption on the competitor
Environmental factors	To identify how national and international environmental issues are affecting or could affect the organisation. These issues could include environmental laws, the geographical location of the organisation, climate change and interested party views on environmental issues.

The Standard recommends monitoring these areas when conducting environmental scanning:

- Newspapers and news sites
- Websites
- Social media platforms and blogs
- Podcasts

- Industry journals, magazines and books
- Reports and surveys
- Interviews
- Presentations

5. Key integrity areas –
conflicts of interest and gifts, benefits and hospitality

About this factsheet

This factsheet provides guidance on two key integrity topics: conflicts of interest, and gifts, benefits and hospitality. Public sector employees have important obligations to declare any conflicts of interest or offers of gifts, benefits and hospitality, and agencies are required to have processes in place to ensure effective management and record-keeping. The department will provide further information on these topics in 2022. This factsheet serves as a starting point to complement your communications strategy and key messages for staff.

Conflict of interest

Conflicts of interest occur when a public officer has private interests that may influence, or could be seen to influence, their ability to act impartially and in the public interest. Conflicts of interests can be actual, potential or perceived, with all types carrying risks and requiring declaration and management. Conflicts of interest can be direct – relating to a public officer's own interests – or indirect – relating to the interests of others, such as friends or family members. They can also be financial or non-financial.
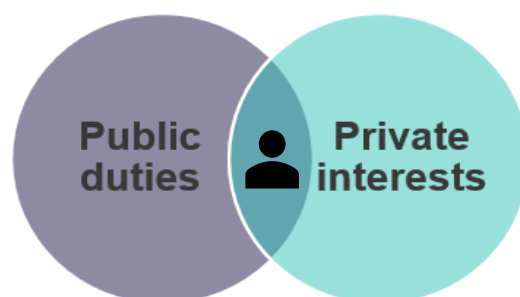
Encountering a conflict of interest is not uncommon and isn't necessarily a problem, so long as it is declared and managed effectively. Having a conflict of interest does not automatically mean that corruption is involved, and most can be managed without changing roles or functions. The VPSC has a model policy and declaration form that your agency should adapt and implement if processes are not already in place.

Conflicts of interest can occur in any area of an organisation. Some examples include:

• In the **Finance** area, particularly during the procurement or grants management process. A public officer may have an existing relationship with a supplier or contractor which could lead to biased decision-making and allocation of public funds

• In **Employment**, including recruitment, or staff engaging in outside work

• **Offers** of gifts, benefits and hospitality, or sponsorship offers

• **Relationships** with family friends and associates, or a consensual personal relationship in the workplace.

• **Exercise of powers and decision-making** through the exercise of a statutory function on behalf of the entity, for example the issuing of licenses or permits.

Undisclosed conflicts of interest can have serious consequences – including legal, reputational and financial – for both the individual and the public entity. As the most common underlying feature of integrity breaches, good conflict of interest management is a key prevention and detection mechanism. It is important for all staff to feel safe and supported in declaring conflicts of interest as they arise to ensure they can be managed effectively.

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Gifts, benefits and hospitality

Both offers of, and provision of gifts, benefits and hospitality can create integrity risks. VPSC requires that employees must never seek or solicit gifts, benefits or hospitality, and must refuse all offers of gifts, benefits and hospitality that:

• Are money, or items that are used in a similar way to money such as vouchers

• May give rise to an actual, potential or perceived conflict of interest

• May adversely affect their standing as a public official or which may bring their public sector employer or the public sector into disrepute; or

• Are non-token offers without a legitimate business benefit.

Staff must declare all non-token offers (valued at $50 or more) of gifts, benefits and hospitality, whether accepted or declined. These declarations must be included in the organisation's register. Written approval from the employee's manager or organisational delegate is required to accept any non-token offers that have a legitimate business benefit.

There are further obligations for the provision of gifts, benefits and hospitality, and for heads of public sector organisations. Staff are encouraged to refer to the VPSC's suite of resources for further guidance.

The department's default position is that staff should decline all offers of gifts, benefits and hospitality on the basis that 'thanks is enough'. Portfolio entities may wish to adopt a similar approach.

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