

LORD HOWE ISLAND BOARD POLICY

TITLE	Fraud and Corruption Prevention Policy		
DATE ADOPTED	September 2009	AGENDA ITEM	11(i)
CURRENT VERSION	August 2017	AGENDA ITEM	CEO Approval
REVIEW	Annually	FILE REFERENCE	ED17/1883
ASSOCIATED LEGISLATION	<i>Lord Howe Island Act 1953 (NSW)</i> <i>Public Interest Disclosures Act 1994 (NSW)</i> <i>Protected Disclosures Act 1994 (NSW)</i> <i>Public Finance and Audit Act 1993</i>		
ASSOCIATED POLICIES	Code of Conduct Protected Disclosures Policy Procurement Policy Risk Management Policy and Guidelines Secondary Employment of Board Staff Policy		

The Lord Howe Island Board’s (the “Board”) management of risk is a crucial component of its strategic management and corporate governance framework. The Board adopts a balanced approach to its management of risk. This means that although all risks are identified and addressed, the primary focus is on controlling those activities with a high and medium risk. In addition, the resources and controls applied to address risks are commensurate to the significance of those risks.

1. Introduction

1.1 Overview

This Fraud and Corruption Prevention Policy sets out the fraud and corruption prevention policies followed by the Board. It details the Board’s approach to the prevention, detection, reporting and investigation of fraud and corruption.

Effective implementation of this strategy will help ensure that public confidence in the integrity of the Board is maintained.

1.2 Policy and attitude to fraud and corruption

The Board promotes an organisational culture that will not tolerate any act of fraud or corruption. This Fraud and Corruption Prevention Policy is designed to put this principle into practice.

Apart from the legal consequences of fraud and corruption, improper acts have the potential to damage the Board's public image and reputation. Unresolved allegations can also undermine an otherwise credible position and reflect negatively on innocent individuals.

All staff must be above fraud and corruption. Sanctions will apply to those who are not. In addition, staff must act so they are not perceived to be involved in such activities. Through transparent and accountable decision-making, together with open discussion by staff and managers about the risks of fraud and corruption, the Board seeks to foster an organisational climate which does not tolerate fraud or corruption.

The Board will deal fairly with all parties in the course of investigating allegations of fraud or corruption. However, if fraud or corruption is proven, the Board will apply appropriate sanctions. Possible sanctions include suspension without pay, dismissal, and loss of accumulated employer superannuation contributions. Matters referred to the Independent Commission Against Corruption (ICAC) or NSW Police may lead to criminal proceedings.

The prevention of fraud and corruption requires that all staff members act ethically and professionally in accordance with the Code of Conduct for the Lord Howe Island Board.

1.3 Relationship with other policies

The Board's approach to fraud and corruption, as set out in this policy, is designed to comply with the Audit Office of New South Wales's *Fraud Control Improvement Kit* and the *Australian Standard for Fraud and Corruption Control, AS 8001 – 2008*.

In addition to the Code of Conduct, this policy has a close relationship with the following policies:

- Protected Disclosures Policy,
- Procurement Policy,
- Risk Management Policy and Guidelines, and
- Secondary Employment of Board Staff Policy.

2. Definitions of fraud and corruption

Fraud and corruption can be distinguished from other forms of unethical behaviour. The Board applies the following definitions, which are based on those contained in the *Australian Standard for Fraud and Corruption Control (AS 8001-2008)*:

Corruption: Dishonest activity in which a director, executive, manager, employee, contractor, volunteer or work experience student acts contrary to the interests of the Board and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or entity.

Fraud: Fraud is dishonest activity by Board employees, contractors, volunteers, work experience students or external persons, causing actual or potential financial loss to the Board, including the theft of moneys or other property. This includes the deliberate falsification, concealment, destruction or improper use of documentation used for a normal business purpose or the improper use of other information or position.

Examples of fraud and corruption are provided in Appendix 1.

3. Roles and responsibilities

3.1 The Board

The Board considers and approves or amends those policies relating to the control and investigation of fraud and corruption referred to it by the Chief Executive Officer (CEO).

3.2 Chief Executive Officer

The CEO is authorised to approve all policies relating to the control and investigation of fraud and corruption. However, if considered appropriate, the CEO may refer the policy to the Board for consideration.

Responsibilities of the CEO are:

- establishing and maintaining ethical policies, systems and procedures for all aspects of the Board's work,
- ensuring that staffing policies and practices are fair and equitable,
- ensuring that mechanisms for responding to potentially unethical circumstances are appropriate and effective (e.g. grievance and complaint handling systems),
- ensuring that areas of work that are of inherently higher risk in terms of ethics and corruption are identified and that preventive strategies are in place, and
- monitoring the ethical health and culture of the Board and responding to any problems identified.

All reasonable suspicions of fraud or corruption are reported to the CEO, who decides what action should be initiated to assess the concerns raised. All fraud and corruption investigation reports are referred back to the CEO, who then decides what action is necessary to address the investigation findings.

Any reasonable suspicions of fraud or corruption on the part of the CEO should be reported to the Chair of the Board.

3.3 Senior managers

Senior managers must ensure that effective fraud and corruption prevention risk management strategies and staff awareness programs are established in their workplaces.

3.4 All managers

All Board managers are responsible for:

- monitoring their workplaces to identify and address situations that are likely to raise ethical dilemmas (e.g. by establishing good procedural guidance for decision-making, particularly the exercise of discretion),
- ensuring that staff are not placed in potentially difficult or compromising situations (e.g. by working alone in the field where they may face compromising situations),
- being available and supportive to staff who require guidance on ethical dilemmas,
- fostering a work environment free of harassment, discrimination, victimisation, corruption, maladministration and waste,
- supporting and protecting staff who report, in good faith, instances of potentially unethical or corrupt practices, and
- ensuring that staff are treated fairly, equitably and in accordance with legislation and policy (e.g. access to training and other development possibilities).

3.5 All Board staff

All Board staff have a duty to:

- act ethically and lawfully, and
- report potentially unethical or corrupt practices via the established mechanisms.

4. Fraud and corruption risk management

An important part of fraud and corruption prevention is understanding where the areas of risk are in relation to the Board's responsibilities and functions. The Board systemically assesses its functions and responsibilities to identify all potential risk areas and to develop a risk management plan to control high and medium risk issues.

5. Conflicts of interest

5.1 What is a conflict of interest

A conflict of interest exists when it is possible that a staff member could be influenced, or perceived to be influenced, by a personal interest when carrying out their duties. Conflicts of interest are not limited to pecuniary (i.e. financial) interests.

The community, the Board's clients, stakeholders and colleagues expect all Board decisions to be impartial and not influenced by inappropriate considerations. It is corrupt behaviour to knowingly make a decision influenced by a conflict of interest.

5.2 Dealing with conflicts of interest

If a conflict of interest exists, could arise or could reasonably be perceived by third parties to exist, the issue should be raised in writing with the relevant manager, who must then inform the relevant senior manager. Employees and their managers have a joint responsibility to avoid or resolve conflicts of interest.

To resolve conflicts that arise, or could arise, staff, their managers and senior managers should consider the significance of the conflict and apply one of the following options:

- where the potential for conflict is minimal or can be eliminated by disclosure or effective supervision, record the details of the situation and take no further action,
- dispose of the conflicting personal interest (e.g. give up the second job),
- do not participate in the particular task which may, or may appear to, raise a conflict of interest (e.g. we should declare our interest and not participate in any way in the selection process for a position or a tender which has attracted an application from a friend or relative),
- consider whether the conflict is significant enough to require transfer, either on a permanent or temporary basis, from the area of work where the conflict exists.

6. Procedures for reporting fraud and corruption

Consistent with its strong commitment to ensuring an ethical workplace, the Board has developed and published a policy, the *Protected Disclosures Policy*, to facilitate the reporting of suspicions of corrupt conduct, maladministration, or serious and substantial waste of public money. This policy helps staff make protected disclosures in accordance with the *Public Interest Disclosures Act 1994*. It sets out:

- procedures for making disclosures to the Board,

- procedures for making disclosures to appropriate external agencies,
- procedures for dealing with anonymous reports,
- protection for people making protected disclosures from reprisals that might otherwise be inflicted on them because of their disclosures, and
- provisions for disclosures to be properly investigated and dealt with.

The *Protected Disclosures Policy* complements existing communication channels between supervisors and staff. Staff are encouraged to continue to raise appropriate matters at any time with their managers, but as an alternative they have the option of making a protected disclosure.

7. Procedures for fraud and corruption investigation

7.1 Internal investigations

All reasonable suspicions of fraud or corruption are reported to the CEO, who decides what action should be initiated to assess the concerns raised. All fraud and corruption investigation reports are referred back to the CEO, who then decides what action is necessary to address the investigation findings.

If there are any concerns about the behavior of the CEO, these should be reported to the Chair, who will decide that action to take.

7.2 External investigative resources

The Board may engage specialist external investigation and audit services to investigate fraud and corruption allegations when the circumstances suggest that it is appropriate to provide an additional level of 'arms length' independence to establish the facts.

The CEO has a statutory duty to report to ICAC any matters that she or he suspects, on reasonable grounds, may involve corrupt conduct, including fraud.

The Board notifies NSW Police in circumstances where criminal offences are suspected. The Board is subject to the *Public Finance and Audit Act 1983* and has an obligation to report certain matters of a serious nature to the Auditor-General. Matters may also be referred to the Crown Solicitor, Director of Public Prosecutions or the NSW Ombudsman. The CEO determines when such referrals occur.

8. Internal audit strategy

8.1 Internal audit capability

The Board allocates significant resources to its internal audit program to provide for in-depth auditing of functions and activities considered being of high risk. The Board engages external service providers to conduct internal audits.

8.2 Internal audit fraud control function

The Board's internal audit program includes items considered to be of high fraud and corruption risk, in particular, focusing on regulatory activities, financial transactions (including cash handling), procurement, and asset security.

9. Plan to enhance the Board's fraud and corruption controls

9.1 Management reporting of fraud and corruption control actions

The Board has developed a reporting system for senior managers to periodically report to the CEO on the management and control of those risks identified in the Risk Register. The Risk Register is presented to the Board annually for review.

Allegations of fraud or corruption, together with actions taken, are reported quarterly to the Audit and Risk Committee.

10. Review of fraud control arrangements

The Fraud and Corruption Prevention Policy will be subject to an on-going process of continuous improvement, monitoring and adjustment to ensure its viability in addressing all current fraud and corruption issues.

Examples of Fraud and Corruption

The following list is not exhaustive, but includes some of the more common examples of fraud and corruption in the public sector:

Theft of assets, such as:

- Equipment,
- Consumables or supplies,
- Cash, and
- Information

Unauthorised or illegal use of assets, information or services for private purposes, including:

- Computers, including email and the Internet,
- Motor vehicles,
- Clerical and other support,
- Confidential information,
- Equipment, including photocopiers, telephones and fax machines, and
- The Board's name or logo e.g. through use of letterhead.

Abuse of position and power for personal gain, such as:

- Seeking and obtaining bribes or other gifts in exchange for favourable treatment, and
- Nepotism in staff appointments.

Manipulation and misuse of account payments, such as:

- Fictitious employees on the payroll,
- Ordering equipment for private and personal use, and
- Favouring suppliers whose costs are not as competitive as other suppliers.

Falsification of records, including:

- Timesheets,
- Travel claims,
- Purchase orders, and
- Petty cash vouchers.

Manipulation of computer programs for improper purposes, such as:

- Unauthorised approval to pay,
- Diversion of proceeds, and
- Writing off debts.