



Tasmanian
Audit Office



**Report of the Auditor-General
No. 1 of 2013-14**

Fraud control in local government

August 2013

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The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (Audit Act).

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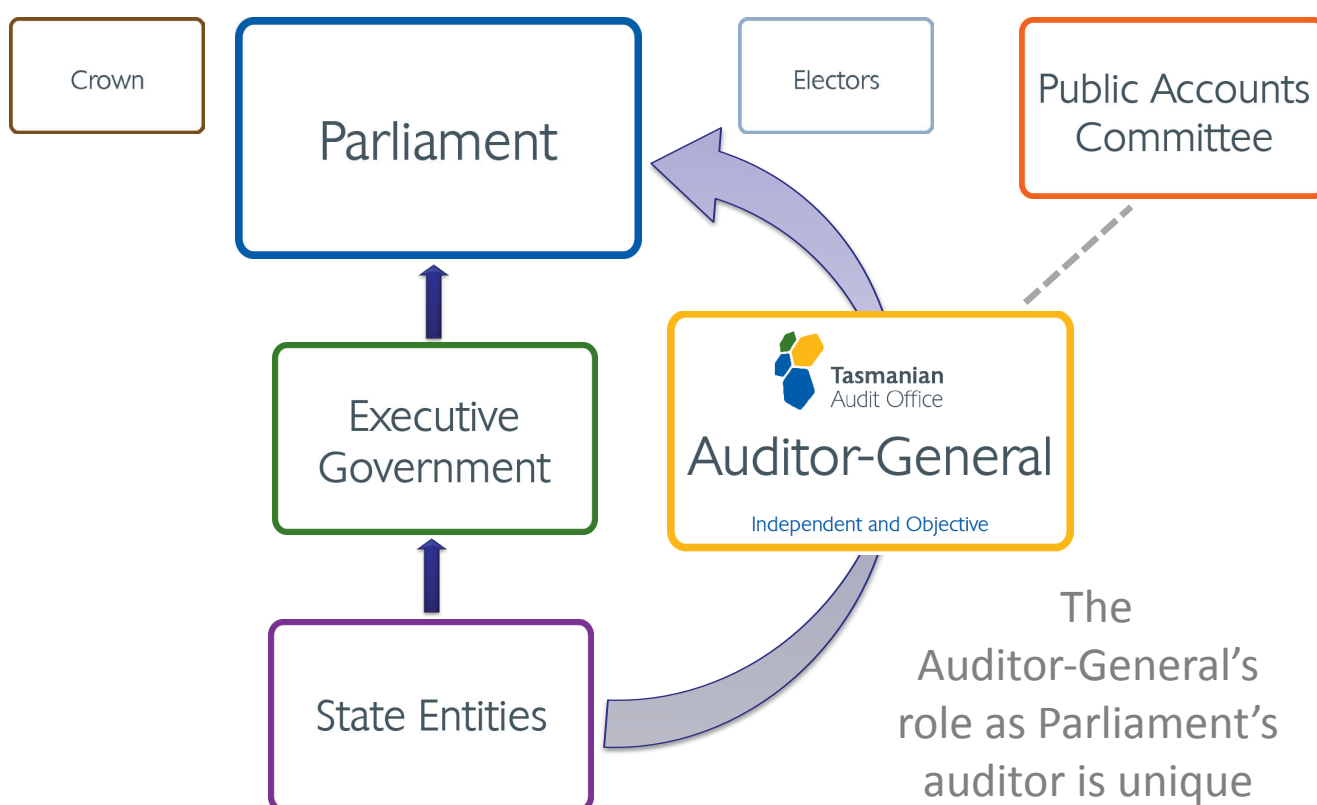
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The Auditor-General's Relationship with the Parliament and State Entities



2013

No. 14



2013

PARLIAMENT OF TASMANIA

**REPORT OF THE
AUDITOR-GENERAL
No. 1 of 2013–14**

Fraud Control in Local Government

August 2013

Presented to both Houses of Parliament in accordance with the provisions of Audit Act 2008

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Auditor-General's reports are available from the Tasmanian Audit Office, Hobart, although in limited supply. This report, and other Special Reports, can be accessed via our home page (<http://www.audit.tas.gov.au>).

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20 August 2013

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

REPORT OF THE AUDITOR-GENERAL
No. 1 of 2013–14: Fraud Control in Local Government

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The performance audit assessed whether key aspects of fraud management strategies in Local Government enabled the six councils selected for audit to effectively prevent, detect and respond to fraud.

Yours sincerely

H M Blake
AUDITOR-GENERAL

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Foreword

In February 2011 we completed and tabled a performance audit report assessing the effectiveness of fraud controls in four general government sector entities and University of Tasmania. Recent frauds in the local government sector indicated to us a similar audit within this sector was needed resulting in this Report.

As with the 2011 project, our focus, as a means to limiting and reducing incidences of fraud and corruption, was on both the existence of internal controls and implementation and maintenance of a sound ethical culture although we noted the latter concept as relatively new. To facilitate our assessment, we applied audit criteria derived from Australian Standard 8001-2008 *Fraud and Corruption Control*.

Perhaps understandably we found reasonably high levels of compliance with selected internal controls but lower levels with elements tested relating to the existence of an anti-fraud culture. Disappointing was that half of the anti-fraud elements tested were absent including absence of fraud control plans and staff training on fraud awareness. Existence of an anti-fraud culture and internal controls relevant to an organisation's unique circumstances are essential to combating fraud. Importantly, existence of an anti-fraud culture will include, or result in, staff having the confidence that, when raising genuine fraud-related concerns internally, appropriate management action will follow.

While this audit focussed on six of our 29 local government councils, those charged with governance in the remaining 23 councils are encouraged to read this Report and to carry out internal assessments by applying the frameworks we adopted here. Doing so will assist management of all councils to better manage fraud-related risks.

H M Blake

Auditor-General

20 August 2013

Executive summary

Executive summary

Background

Fraud is a fact of life for many commercial organisations and that situation is also reflected in the public sector. Despite the increasing sophistication of business processes and the greater reach of e-commerce, the rates of fraud and associated financial losses are also on the rise.

Extrapolating information recently reported by the Association of Certified Fraud Examiners that organisations lose five per cent of their annual revenue to fraud; Tasmanian councils would be at risk of losses of the following order in 2011–12:

- \$0.6m per year for a small council
- \$4.8m per year for a large council.

The Australian Standard 8001-2008 *Fraud and Corruption Control (AS8001)* was created with a view to assisting entities to reduce the incidence of fraud and corruption. Fraud and corruption contemplated by the Standard fall into three main categories:

- misappropriation of assets
- manipulation of financial reporting
- corruption involving abuse of position for personal gain.

In addition to prescribing good systems of internal control, the standard calls for implementation and maintenance of a sound ethical culture as a central element to prevent and detect fraud. Our audit focused on both these elements.

The objective of this audit was to assess whether key aspects of fraud management strategies in local government enable councils to effectively prevent, detect and respond to fraud. The two audit criteria that we applied to support our conclusions against that objective, were:

1. Organisational culture: are fraud management strategies effective?
2. Internal controls: are policies and procedures current, comprehensive and consistently applied?

With respect to anti-fraud culture, we based audit testing on elements of the Australian standard.

In relation to internal controls, we audited these business systems:

- assets
- contracts
- receipts
- payments
- payroll
- information technology (IT).

We chose six local government councils (based on a number of factors including geography, survey responses, relative size and recent exposure to audit). The councils that we selected were:

- Burnie City
- Clarence City
- George Town
- Hobart City
- Tasman
- West Coast.

Audit conclusions

These audit conclusions are based on criteria that we developed to support the audit's objective and are aligned to the chapter structure of the Report.

Anti-fraud culture

Our expectations for this audit criterion were lower than for internal control. Anti-fraud culture is a more recent concept and has understandably received less attention in the past. Nonetheless, we rated three councils as having a lower level of implementation than we would have expected with half the elements that we tested being completely absent. Common omissions included:

- Fraud Control Plan (reviewed within the last two years)
- Fraud Control Officer (adequately resourced) and defined roles and accountabilities
- regular training provided in respect of fraud awareness
- statement of compliance with Code of Conduct and fraud policies signed annually
- fraud control incorporated into performance management system

- Fraud Control Officer or alternate line of reporting
- enforced leave and job rotation.

Internal controls

We found reasonably high levels of compliance with our selected internal controls. However, there were some controls that had consistently low rates of implementation, namely:

- registers for portable and attractive items
- declaring and recording conflicts of interest or gifts
- stocktakes
- reviews of changes to supplier master files.

The absence of each of these items has the potential to significantly increase the likelihood that fraud will occur or remain undetected.

Individual council ratings

Our conclusions with respect to individual councils are presented in tabular form. To derive the star ratings, we calculated numerical ratings based on compliance with internal controls and with elements of anti-fraud culture. We have used star ratings rather than our calculated numbers in Table ES1 because of a degree of subjectivity in our assessments.

Table ES1: Overall ratings for compliance

Council	Anti-fraud culture	Internal control*
Burnie City	★ ★	★ ★
Clarence City	★	★ ★ ★
George Town	★	★ ★ ★
Hobart City	★ ★ ★	★ ★ ★ ★
Tasman	★	★
West Coast	★ ★	★ ★ ★

*Key:

★	Needs improvement
★ ★	Reasonable
★ ★ ★	Good
★ ★ ★ ★	High

Recommendations

We recommended in the Report that each council implement the internal controls and elements of anti-fraud culture that we identified as missing or deficient.

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Audit Act 2008 section 30 — Submissions and comments received

Audit Act 2008 section 30 — Submissions and comments received

Introduction

In accordance with section 30(2) of the *Audit Act 2008*, a copy of this Report was provided to the six councils subject to audit.

A summary of findings, with a request for comments or submissions, was also provided to the Minister for Local Government.

Comments and submissions provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response or comment.

Burnie City Council

Whilst Council does not have a dedicated resource for minimising the risk of fraud, management take comfort in the findings of this audit including the fact that Burnie had one of the better anti-fraud cultures of those Councils that were audited. While Council's internal controls and anti-fraud culture have been found to be reasonable, management will continue to work towards improving its controls, by reviewing the recommendations made by the Tasmania Audit Office and implementing those that are considered the highest risk and practicable within our resource capability. Council has an Audit Committee in place and management will work with this committee when reviewing the findings of the Tasmanian Audit Office.

The Australian Standard 8001-2008 *Fraud and Corruption Control* (AS8001) provides government entities with assistance by prescribing methods for reducing the risk of fraud and corruption. Whilst compliance with the standard is not mandated, it is not unreasonable for the community to expect a best practice approach to the governance of local government operations. Implementation of controls need to be assessed against the practicality (including cost) and the potential consequence of a fraud event occurring.

Andrew Wardlaw
General Manager

Clarence City Council

Recommendation 2.1

Council will refer the recommendation to its Audit Committee for consideration of the matters raised.

Recommendation 2.2

Council will refer the recommendation to its Audit Committee for consideration of the matters raised.

However, Council believes several areas of the audit under-state the effectiveness of its control environment.

In particular, Tables 2.7 and 2.8 point to segregation of duties being assessed as “non-compliance” due to the controls in place being “considered ineffective”. It is accepted that several staff have access to both payables and receivables systems. The report itself notes that other controls are in place to mitigate this risk and that the risk is low. However, the report does not detail the additional controls in place, which include a strong segregation of duties and an independent system for the processing of monies received. Both of these controls provide significant strength to the internal control environment under the fraud scenarios considered as part of this audit.

Management therefore does not agree with the negative assessment of these items.

This matter is again raised in 2.4.2 of the report as a “notable finding”. For the reasons stated above, management does not agree with the report’s assessment that there is a “lack of effective access controls to enforce segregation of duties in the financial area”.

Table 2.8 also points to “partial compliance” in respect of bank signatories, noting that there is capacity to manipulate an electronic file after it has been prepared. Council is aware of this risk, and notes that the same file may equally be manipulated during its preparation. However, the report does not detail the additional controls in place to mitigate this risk. These controls include use of a secure payment/transmission environment within which all authorisations take place and within which no amendments may be made. They also include physical checking of payment details by an independent officer.

Management therefore considers that the controls in place are significantly stronger than detailed in the report.

Other matters in respect of which management wishes to make specific comment include:

- It is agreed that job rotation (Table 2.4) is not mandated. This is a known risk with judgement being exercised in balancing the recommended control with impracticalities associated with the small number of employees engaged in the areas in question.
- The report states in 2.4.2 that “seven controls were absent”. Of the seven controls considered absent, three relate to precisely the same control, suggesting this number is overstated.

Andrew Paul
General Manager

George Town Council

George Town Council recognises the importance of identification and control of fraud, and is currently reviewing its systems in the following areas:

- review of policies to incorporate reference to fraud and control mechanisms.
- communication of updated financial delegations annually
- review of position descriptions to include risk management roles (including fraud) responsibilities.

This has already been recognised in the update and enhancement of Council’s risk management system, together with a new employee Code of Conduct document which has been developed, including sections relating to identification and reporting of:

- a. conflicts of interest
- b. bribery — personal gifts and benefits
- c. fraud and corruption
- d. notification of criminal charges and convictions
- e. use of council:
 - facilities
 - funds
 - equipment
 - staff
 - intellectual property
- f. security/appropriate use of equipment/communications
- g. corporate credit cards

- h. handling and use of information
- i. right to information
- j. record keeping
- k. procurement
- l. inappropriate conduct.

This document will be communicated to all staff, and will be required to be signed by all employees, and reviewed and signed on an annual basis as part of performance appraisals.

Issues raised in the Report — Section 3.3 ‘Were there internal controls to prevent and detect fraud?’ — have either:

- already been addressed at the time of review by Tasmanian Audit Office
- implemented in ‘Employee Code of Conduct Handbook’
- included in Officers’ roles and responsibilities within position descriptions.

Stephen Brown
General Manager

Hobart City Council

Recommendation 4.1:

The Hobart City Council is proactive in managing its risks including fraud and corruption. Council’s Fraud and Corruption Control Plan was created using the Australian Standard 8001-2008 *Fraud and Corruption Control* as a reference. The document was approved in 2011 and updated in late 2012. Council has an existing strong internal control environment and will continue to do so. However, Council believes the implementation and maintenance of a sound ethical culture to be a central element to prevent, detect and respond to fraud.

To this end in 2012 approximately 100 employees from across Council attended Ethical Decisions and Actions training run by the Tasmanian Integrity Commission. These employees were deemed to be in ‘higher risk’ positions. Council’s Fraud and Corruption Control Plan formed part of this training. In late 2012 Council’s Executive Leadership Team resolved for fraud awareness sessions to be provided to all staff. A program has now been established and will be implemented during the September to November period. In relation to the specific issue of a fraud register, Council’s plan indicates incidents of any

fraud and corruption would be recorded using Council's Public Interest Disclosure processes and systems. It has since been agreed that Council will create a separate Fraud Control Register.

Council is pleased its efforts toward establishing an anti-fraud and corruption culture have been evident during this Tasmanian Audit Office review and will continue to review its Fraud and Corruption Control Plan and AS 8001-2008 for improvement opportunities.

Recommendation 4.2:

Recommendation accepted. Council's ICT Unit is implementing a new logging system that will enable quick and easy review of all server logon events. The system is due to be in place by the end of August 2013. The events in the system will be reviewed monthly.

Conclusion

Thanks very much for the TAO's approach and flexibility in this review. The nature of the subject at hand is emotive, but we have found that your Office's approach, and staff, have helped to make this review run very smoothly.

Nick Heath
General Manager

Tasman Council

Since early 2011, Council has undertaken the task of continual improvement with regard to a variety of key local government practices and processes. The role of the Tasmanian Audit Office ("TAO") has been vital in identifying both statutory and best practice areas requiring attention. This collaborative process has resulted in the effective implementation of a significant number of necessary organisational change management outcomes that have satisfied both the formal reporting requirements of the TAO and importantly, provided Council with the clarity, direction and stability to achieve financial sustainability.

Whilst the outcomes of the fraud control performance audit were sobering, as was apparent with the outcomes of the 11/12 (and subsequent) financial audits, they have again identified the organisational impacts of frequent turnover of Senior Management roles in the few years prior to 2011.

Consistent with Council's response to the TAO financial audit results over the past two years, we will commit during 13/14 to investigating and implementing a suite of anti-fraud culture and internal controls based on the report recommendations. This implementation will be based on a pragmatic approach cognisant of our modest organisational structure that has been continually refined over the past two years as we implement a local government common service model. Council's commitment to minimising administration and operational costs will remain and as was encountered with our response to the financial audits, a sensible, effective and robust balance for a small rural council will need to be achieved.

The fraud control performance audit report has again provided Council the clarity and direction to establish a process of organisational improvement.

Robert Higgins
General Manager

West Coast Council

West Coast Council appreciates the value of the Fraud Control Audit and welcomes the Auditor-General's report in contributing to improvements in fraud control. WCC offers the following responses.

Recommendation 6.1

The financial delegation within our electronic purchase order system is consistently reviewed, additional steps have been applied to manual purchases.

A fraud register has been implemented. WCC to date has not experienced any fraud, therefore no associated costs to record. All employee position descriptions will be updated to reflect fraud risk management.

Recommendation 6.2

Information session scheduled for all staff and elected members in October 2013.

Communication of our fraud and whistle blower policy will be re-enforced during the session with each attendee signing a statement of attendance. Further sessions to be provided annually to staff.

All applicable policies will be signed off annually by all staff and management, with internal controls communicated within regular team meetings throughout the year.

Recommendation 6.3

WCC undertakes to increase the general level of fraud awareness and undertakes to increase employee confidence that Council will support them if they report a suspected fraudulent activity.

With regards to those employees who had reservations attached to whom they might report, positive reinforcement has been put in place to alleviate this concern. This has been done throughout the organisation and of course with extra emphasis in our works department where the concern existed.

Recommendation 6.4

WCC will review its current risk management process to ensure all documentation includes relevant risk control measures applicable to fraud control.

WCC considers current fraud measures and compliance to be sufficient, due to the size limits and the resources available. WCC does not consider it to be economical to have a specialist internal auditor.

WCC has staff trained to allow for rotations in some areas. However, due to resources and the size of the organisation this needs extending and has become ongoing as we seek opportunities to cover key positions.

WCC is seeking assistance from our IT Consultants with regards to data mining and trend analysis.

Recommendation 6.5

The deficiencies of lighting, fencing and security will be attended to by our Civil Works Manager.

Following the audit, Council was able to locate the two items in question. Their absence was due to them being in use.

WCC performs stocktakes for retail annually. With regards to works, consumables are expensed upon receipt with any surplus under lock and key allowing limited access. This is attributed largely to our size and of course there exists a just-in-time purchasing activity with little in reserve.

WCC has a conflict of interest register for Councillors which complies with [LGA] Section 55 (2) (b). WCC will roll this out to all employees and include a gifts register.

WCC has actively introduced the asset disposal form and it is in use. The vehicles referred to during the audit were simply traded in on new vehicles. The transactions were transparent. Forms have now been filled in.

Recommendation 6.8

Supplier master files will be reviewed.

Recommendation 6.10

WCC-contracted IT consultants will formalize a security IT policy, with server logs also reviewed for outside hours activity as touched on in 6.4.

Temporary hard drive backups will move back to tape drives in the coming weeks due to the tape drive equipment now being again available. WCC had temporary measures following a server crash. Our IT department will test data to ensure the integrity is maintained and accessible to reinstate.

Timeout feature to be applied to all computers.

Paul Lockwood
General Manager

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Introduction

Introduction

Background

In Australia, the rate of fraud and the associated financial loss is increasing¹. In part, that increasing rate of fraud reflects reduced accountability in pursuit of greater efficiency and rapid operational change associated with e-business.

A recent report by the Association of Certified Fraud Examiners estimated that organisations lose five per cent of their annual revenue to fraud². To put this into perspective, for 2010–11, five per cent of annual revenue of Tasmanian councils equalled:

- \$0.6m per year for a small council
- \$4.8m per year for a large council.

The Australian Standard 8001-2008 *Fraud and Corruption Control (AS8001)* was created with a view to assisting entities to reduce the incidence of fraud and corruption. The Standard applies to all businesses operating in Australia including government sector entities. The extent of applicability depends on size, turn over, business diversity and other factors.

Fraud and corruption was defined as ‘financial loss including theft of money or property which involves deception’ and includes:

- misappropriation of assets
- manipulation of financial reporting
- corruption involving abuse of position for personal gain.

The Standard identifies 12 distinct processes which we have broadly categorised as maintenance of good systems of internal control and of a sound ethical culture. Our audit focused on both these elements.

Similarly, the New Zealand Auditor-General found in a 2012 audit report that both internal controls and management commitment to an ethical culture are effective in reducing the incidence of fraud.

¹ *AS8001: Fraud and corruption control*. Statistics maintained by the Australian Institute of Criminology suggest that the rate of fraud reported to Australian police services per 100 000 head of population has doubled on average every ten years since the mid-1950s.

² *2012 Report to the Nations*, Association of Certified Fraud Examiners.

Accordingly, we have adopted a two-part approach in framing this audit.

Audit objective

The objective of this audit was to assess whether key aspects of fraud management strategies in Local Government enable councils to effectively prevent, detect and respond to fraud.

Audit criteria

The audit criteria developed for this audit were aimed at addressing the following effectiveness aspects:

- Are fraud management strategies effective?
- Are policies and procedures current, comprehensive and consistently applied?

Audit scope

As part of the audit's planning phase, we surveyed all local government councils in order to:

- determine the general approach to fraud risk management
- understand the scope of work already performed by individual councils
- identify councils for which an audit on fraud control would provide value.

Results of the initial survey are given in Appendix 1 and were a factor in selecting councils to be subject to this audit.

The audit encompassed activities undertaken by council employees:

- within six local government councils, namely:
 - Burnie City (BCC)
 - Clarence City (CCC)
 - George Town (GTC)
 - Hobart City (HCC)
 - Tasman (TC)
 - West Coast (WCC)
- in all programs and service lines
- between July 2011 and June 2012

in relation to prevention, detection and response to fraud.

The following factors were considered in selecting the councils to participate in the audit:

- Geographical coverage — all regions are represented.

- Size — small, medium and large councils are represented.
- Survey result — were considered in making our choices for auditees.
- Timeliness of response to survey — councils that responded to the survey after the deadline were more likely to be selected than those that provided timely responses.
- Elapsed time since the council was involved in a performance or compliance audit — selection was less likely for those councils that were recently involved in performance or compliance audits.

The selections did not result from any allegation of fraud.

Audit approach

In line with the two audit criteria that we developed, the audit employed a two-pronged approach: anti-fraud culture and internal controls.

With respect to anti-fraud culture, we derived elements for testing from the Australian Standard 8001-2008 *Fraud and Corruption Control (AS8001)*. The elements used are outlined in Appendix 2. We recognise that anti-fraud culture is a relatively new concept and our expectations that all elements would be present were not high. However, our belief is that this is an area where substantial gains can be made in the fight against fraud and corruption.

Secondly, we tested for the existence and effectiveness of internal controls in mitigating the risk of fraud in business systems, namely:

- assets
- contracts
- receipts
- payments
- payroll
- IT.

Internal controls are selected from routine testing by external auditors. Our selection was not exhaustive but included major internal controls that we would expect any reasonable size commercial entity to have implemented. An argument sometimes heard is that fewer controls are needed in a small organisation. In the main, we disagree. To the extent that it is

true, the onus is on management to explain how the control is achieved in the absence of standard controls.

Testing that we conducted allowed us to ascertain the extent of compliance with our model anti-fraud and internal control criteria.

We sought appropriate audit evidence by:

- applying survey instruments³
- examining policies, procedures and other documentation
- interviewing staff
- observing processes.

Timing

Planning for this audit began in November 2012. Fieldwork was completed in June 2013 and the report was finalised in August 2013.

Resources

The audit plan recommended 1168 hours and a budget, excluding production costs, of \$168 370. Total hours were 1449 and actual costs, excluding production, were \$212 690, which was in excess of our budget.

³ We used a survey instrument to determine the level of employees' awareness of fraud risk and policies implemented at their respective councils. At each council, we made a judgement selection of employees across a range of business units.

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1 Burnie City Council

1 Burnie City Council

1.1 Background

Burnie is Tasmania's most westerly city, located on the North West Coast. With an area of 610 km², the municipality has just over 20,000 residents. Burnie City Council is classed as medium-sized with 189 FTEs and reported total revenue of \$43.5m for 2011–12.

We reviewed whether:

- An anti-fraud culture existed:
 - Does a high-level fraud control framework exist?
 - How is the framework communicated?
 - Is reporting of fraud encouraged?
 - Miscellaneous fraud control measures.
- Internal controls of particular business systems prevented and detected fraud:
 - assets
 - contracts
 - financial management
 - human resources
 - IT management.

Throughout the Report, and this Chapter in particular, we rated the controls using the following scores:

✓ = full compliance

✘ = non-compliance⁴

P = partial compliance (supported by explanatory notes).

1.2 Did an anti-fraud culture exist?

1.2.1 Does a high-level fraud control framework exist?

Table 1.1 shows our assessment of elements of a fraud control framework.

⁴ This rating includes the case where some elements of the control may exist but the control is considered ineffective.

Table 1.1: BCC — elements of a high-level anti-fraud framework

Audit test	Rating
High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated)	P1
Fraud Control Plan (reviewed within the last two years)	✘
Internal controls and delegations (reviewed within the last two years)	P2
Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment	P3
Fraud register	✘
Losses due to fraud are costed to the responsible business unit?	✓
Individual manager position statements that encompass fraud risk management responsibilities.	✘
Fraud Control Officer (adequately resourced) and defined roles and accountabilities	✘

¹ The Public Interest Disclosure Policy deals with the investigation of detected or suspected fraud, but it needs to be clearer in terms of what is expected from the employee.

² Internal controls are documented but not recently updated.

³ There was a Code of Conduct but it did not mention fraud.

1.2.2 *How is the framework communicated?*

Table 1.2 shows our ratings for some aspects of communicating with staff.

Table 1.2: BCC — how is the framework communicated?

Audit test	Rating
Regular training provided in respect of fraud awareness?	✘
Code of Conduct communicated at induction?	✓
Statement of compliance with Code of Conduct and fraud policies signed annually?	P1
Updates to fraud-related documents communicated effectively (fraud survey)	✓
Fraud control incorporated into performance management system	✘
Internal controls communicated effectively?	P2

¹ Only some employees re-sign the Code of Conduct each year.

² Processes are documented and understood by staff but are not updated regularly. Also, not all staff were aware of where to find the documentation.

1.2.3 *Is reporting of fraud encouraged?*

Table 1.3 shows our ratings for various aspects related to mechanisms for encouragement of fraud reporting.

Table 1.3: BCC — is reporting of fraud encouraged?

Audit test	Rating
Documented procedure for reporting suspicions?	x
Procedures for dealing with suspected fraud?	✓
Fraud Control Officer or alternate line of reporting?	x
Employees would report a suspected fraud? (from staff survey)	✓
Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey)	✓

1.2.4 *Miscellaneous fraud control measures*

Table 1.4 shows our ratings for various controls that support an anti-fraud culture.

Table 1.4: BCC — miscellaneous fraud control measures

Audit test	Rating
Council has a risk management process that includes fraud risk and relevant control measures	✓
Internal audit function	x
Pre-employment checks of police record, background, qualifications	✓
Enforced leave and job rotation	P ¹
Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)?	P ²
Fraud-related insurance cover	✓

¹ The requirement is written into the Leave Management Policy but not enforced. We found 13 employees with more than two years' annual leave entitlements.

² Trend analysis is conducted while data mining is not.

1.3 *Were there internal controls to prevent and detect fraud?*

1.3.1 *Assets*

In testing internal controls around assets, we made the following findings.

Table 1.5: BCC — internal control: assets

Internal controls	Rating
Preventive controls:	
building access permissions	✓
physical security (e.g. alarms, locks)	✓
portable and attractive items register	✗
movements of equipment accounted for	✗
termination checklist (including keys, personal use items)	✗ ¹
declare and record conflicts of interest, gifts	P ²
Monitoring controls:	
stocktakes	✗ ³
acquisition and disposal reviews	✓

¹ No formal record that council equipment had been returned and computer system access had been removed.

² Lack of clarity about some gifts and reasons for allowing their personal retention.

³ There is no formal stocktake process although informal reviews of plant lists are performed by the depot manager.

1.3.2 Contracts

In testing internal controls around contracts, we made the following findings.

Table 1.6: BCC — internal control: contracts

Internal controls	Rating
Preventive controls:	
transparent processes	✓
variation approval	✓
exclude bidders with prior breaches of Council guidelines or poor performance	✓
Monitoring controls:	
performance reviews	✓

1.3.3 Receipts (including rates)

In testing internal controls around receipts, we made the following findings.

Table 1.7: BCC — internal control: receipts

Internal controls	Rating
Preventive controls:	
completeness of cash receipts (budgetary control, cash registers)	✓
reconciliation of subsidiary records (e.g. rates, Olympic Pool, childcare centres)	✓
segregation of duties (including system access controls)	✗ ^{1,2}
Monitoring controls:	
bank reconciliations	P ³
bad debt reviews	✓
budgetary oversight	✓

¹ An Accounts Payable Officer had access to the rates and accounts receivable modules.

² Duties nominally segregated but we noted that a staff member was using their manager's userID password.

³ No evidence of review of two of four bank reconciliations tested.

1.3.4 Payments

We made the following findings in respect of payments.

Table 1.8: BCC — internal control: payments

Internal controls	Rating
Preventive controls:	
check of supporting documents	✓
certification and authorisation	✓
bank signatories (access to accounts, electronic transfers)	P ¹
segregation of duties (e.g. access restrictions)	✗ ^{2, 3}
termination checklist (return of credit cards, removal of system access)	✗
Monitoring controls:	
bank reconciliations	P ⁴
supplier master file reviews	✗ ⁵
budgetary oversight and review of large payments	✓
reconciliation of credit card statements	P ⁶

¹ Two people required for electronic bank transfers but control potentially compromised by capacity to manipulate the file after approval.

² An Accounts Payable Officer had access to the rates and accounts receivable modules. In addition, 13 employees had access to both payables and receivables modules.

³ Duties nominally segregated but we noted that a staff member was using their manager's userID password.

⁴ No evidence of review of two of four bank reconciliations tested.

⁵ There was no evidence that changes to the supplier master file had been reviewed.

⁶ On credit card monthly statements, there was no evidence in two that they had been certified by an authorising officer.

1.3.5 Payroll

In testing internal controls around payroll management, we made the following findings.

Table 1.9: BCC — internal control: payroll

Internal controls	Rating
Preventive controls:	
control over 'ons and offs' in the payroll system	✓
timesheet approval	✓
authorisation of variations (including allowances, overtime, rates of pay, leave)	✓
segregation of duties (including system access restrictions)	✓
Monitoring controls:	
management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis)	✓

1.3.6 IT

In testing internal controls around information technology management, we made the following findings.

Table 1.10: BCC — internal control: IT

Internal controls	Rating
Preventive controls:	
ICT security policy	✓
Password security (unique userIDs, password strength, time-out)	✓
system access restrictions	✓
termination checklist (system access)	✗ ¹
physical system security (of servers)	✓
Monitoring controls:	
back-up quality reviews	P ²
server access automatically logged and subject to periodic review	P ³

¹ Two terminated employees with access privileges still existing.

² Backups are performed but there is no routinely scheduled testing that data could be successfully retrieved.

³ Server access is logged but logs are not reviewed.

1.4 Burnie City Council — conclusions

1.4.1 Anti-fraud culture

In regard to anti-fraud culture, Burnie was one of the better councils that we audited. Most elements of an anti-fraud culture were at least partially evident, although few were present in their entirety.

Also indicative of a positive anti-fraud culture, we noted that all employees surveyed would be prepared to report suspicious behaviour and were confident of management support should they do so.

However, there were notable omissions, including the lack of:

- fraud awareness training
- documented procedure for reporting suspicions
- internal audit function.

Recommendation 1-1

We recommend that Burnie City Council address the areas of non- or partial compliance shown in Tables 1.1–1.4.

1.4.2 Internal controls

Our assessment of internal controls at Burnie City Council was that there was a reasonable level of compliance although nine controls were absent and seven were only partially effective⁵.

The asset system was a particular concern with a lack of stocktakes, recording of portable and attractive items, and checks that security passes and keys are retrieved from terminating employees.

⁵ Although nine controls were absent, three of them were associated with the lack of an employee termination checklist.

Other notable findings included the lack of:

- effective access controls to enforce segregation of duties in the financial area
- supplier master file reviews
- review of bank account reconciliations.

Recommendation 1-2

We recommend that Burnie City Council address the areas of non- or partial compliance shown in Tables 1.5-1.10.

2 Clarence City Council

2 Clarence City Council

2.1 Background

Clarence is a city in the greater Hobart area in southern Tasmania. The municipality, with an area of 377 km², has almost 53,000 residents. Clarence City Council is classed as large with 212 FTEs and for 2011–12 reported total revenue of \$56.8m.

We reviewed whether:

- An anti-fraud culture existed:
 - Does a high-level fraud control framework exist?
 - How is the framework communicated?
 - Is reporting of fraud encouraged?
 - Miscellaneous fraud control measures.
- Internal controls of particular business systems prevented and detected fraud:
 - assets
 - contracts
 - financial management
 - human resources
 - IT management.

Throughout the Report, and this Chapter in particular, we rated the controls using the following scores:

✓ = full compliance

✗ = non-compliance⁶

P = partial compliance (supported by explanatory notes).

2.2 *Did an anti-fraud culture exist?*

2.2.1 *Does a high-level fraud control framework exist?*

Table 2.1 shows our assessment of elements of a fraud control framework.

⁶ This rating includes the case where some elements of the control may exist but the control is considered ineffective.

Table 2.1: CCC — elements of a high-level anti-fraud framework

Audit test	Rating
High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated)	✘
Fraud Control Plan (reviewed within the last two years)	✘
Internal controls and delegations (reviewed within the last two years)	P ¹
Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment	✓
Fraud register	✘
Losses due to fraud are costed to the responsible business unit?	✓
Individual manager position statements that encompass fraud risk management responsibilities.	✘
Fraud Control Officer (adequately resourced) and defined roles and accountabilities	✘

¹ Internal controls are documented but not recently updated.

2.2.2 *How is the framework communicated?*

Table 2.2 shows our ratings for some aspects of communicating with staff.

Table 2.2: CCC — how is the framework communicated?

Audit test	Rating
Regular training provided in respect of fraud awareness?	✘
Code of Conduct communicated at induction?	✓
Statement of compliance with Code of Conduct and fraud policies signed annually?	✘
Updates to fraud-related documents communicated effectively (fraud survey)	✘
Fraud control incorporated into performance management system	✘
Internal controls communicated effectively?	✓

2.2.3 *Is reporting of fraud encouraged?*

Table 2.3 shows our ratings for various aspects related to mechanisms for encouragement of fraud reporting.

Table 2.3: CCC — is reporting of fraud encouraged?

Audit test	Rating
Documented procedure for reporting suspicions?	✓
Procedures for dealing with suspected fraud?	P ¹
Fraud Control Officer or alternate line of reporting?	P ²
Employees would report a suspected fraud? (from staff survey)	P ³
Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey)	✗ ⁴

¹ No fraud control policy but had an audit committee, requirement for incidents to be reported to management and guidelines on conduct of an investigation.

² Lines of reporting were not defined but most employees were aware of reasonable options to report suspicions.

³ A relatively high 25 per cent of surveyed employees stated that they would not report suspicions.

⁴ Of employees that we surveyed, 42 per cent were not confident that they would have Council's support in all cases.

2.2.4 *Miscellaneous fraud control measures*

Table 2.4 shows our ratings for various controls that support an anti-fraud culture.

Table 2.4: CCC — miscellaneous fraud control measures

Audit test	Rating
Council has a risk management process that includes fraud risk and relevant control measures	✗ ¹
Internal audit function	✓
Pre-employment checks of police record, background, qualifications	✗
Enforced leave and job rotation	P ²
Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)?	✗
Fraud-related insurance cover	✓

¹ An assessment of fraud and corruption risks had not been performed although some risks had been identified in a fraud discussion paper.

² Leave is enforced, but not job rotation.

2.3 Were there internal controls to prevent and detect fraud?

2.3.1 Assets

In testing internal controls around assets, we made the following findings.

Table 2.5: CCC — internal control: assets

Internal controls	Rating
Preventive controls:	
building access permissions	✓
physical security (e.g. alarms, locks)	✓
portable and attractive items register	P ¹
movements of equipment accounted for	✓
termination checklist (including keys, personal use items)	✗
declare and record conflicts of interest, gifts	P ²
Monitoring controls:	
stocktakes	✓
acquisition and disposal reviews	✓

¹ Listings existed for depot and IT items, but no register providing control over all portable and attractive items.

² Pecuniary interests are declared but there was no gift register.

2.3.2 Contracts

In testing internal controls around contracts, we made the following findings.

Table 2.6: CCC — internal control: contracts

Internal controls	Rating
Preventive controls:	
transparent processes	✓
variation approval	✓
exclude bidders with prior breaches of Council guidelines or poor performance	✓
Monitoring controls:	
performance reviews	✓

2.3.3 Receipts (including rates)

In testing internal controls around receipts, we made the following findings.

Table 2.7: CCC — internal control: receipts

Internal controls	Rating
Preventive controls:	
completeness of cash receipts (budgetary control, cash registers)	✓
reconciliation of subsidiary records (e.g. rates, Clarence Pool, childcare centres)	P ¹
segregation of duties (including system access controls)	✗ ²
Monitoring controls:	
bank reconciliations	✓
bad debt reviews	✓
budgetary oversight	✓

¹ Most subsidiary systems reconciled to receipts. However, reconciliations of property valuations and changes to rating valuations were not evidenced as checked.

² We noted three employees who had more than enquiry-access to the receivables and payables modules. However, all payments were checked by at least one other signatory and additional system controls result in this being viewed as low-risk.

2.3.4 Payments

In testing internal controls around payments, we made the following findings.

Table 2.8: CCC — internal control: payments

Internal controls	Rating
Preventive controls:	
check of supporting documents	✓
certification and authorisation	✓
bank signatories (e.g. access to accounts)	P ¹
segregation of duties (including system access restrictions)	✗ ^{2, 3}
termination checklist (return of credit cards, removal of system access)	✗
Monitoring controls:	
bank reconciliations	✓
supplier master file reviews	✗ ⁴
budgetary oversight and review of large payments	✓
reconciliation of credit card statements	✓

¹ Two people required for electronic bank transfers but control potentially compromised by capacity for manipulation after files are prepared temporarily residing in an unsecure drive.

² In 2011–12, six invoices lacked documented authorisation and two where delegations could not be determined.

³ We noted three employees with access to the receivables and payables modules. However, all payments were checked by at least one other signatory and additional system controls result in this being viewed as low-risk.

⁴ There was no evidence that changes to the supplier master file had been reviewed.

2.3.5 Payroll

In testing internal controls around payroll management, we made the following findings.

Table 2.9: CCC — internal control: payroll

Internal controls	Rating
Preventive controls:	
control over 'ons and offs' in the payroll system	✓
timesheet approval	✓
authorisation of variations (including allowances, overtime, rates of pay, leave)	✓
segregation of duties (including system access restrictions)	✓
Monitoring controls:	
management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis)	P ¹

¹ Reports are produced but for one of four periods tested were not evidenced as checked.

2.3.6 IT

In testing internal controls around information technology management, we made the following findings.

Table 2.10: CCC — internal control: IT

Internal controls	Rating
Preventive controls:	
ICT security policy	✓
password security (unique userIDs, password strength, time-out)	✓
system access restrictions	✓
termination checklist (system access)	✗
physical system security (of servers)	✓
Monitoring controls:	
back-up quality reviews	✓
server access automatically logged and subject to periodic review	P ¹

¹ The system automatically creates access logs but these are not routinely reviewed.

2.4 Clarence City Council — conclusion

2.4.1 Anti-fraud culture

At Clarence City Council most elements of an anti-fraud culture were not present and few existed in their entirety. In addition, a relatively high 25 per cent of employees interviewed stated that they would not report suspicions and only 42 per cent were confident that they would have Council's support in all cases.

Notable elements not found included:

- fraud awareness training
- annual employee statements of compliance with the Code of Conduct
- pre-employment checks
- job rotation.

Recommendation 2-1

We recommend that Clarence City Council address the areas of non- or partial compliance shown in Tables 2.1–2.4.

2.4.2 Internal controls

Our assessment of internal controls at Clarence City Council was that there was a good level of compliance although seven controls were absent and six were only partially effective⁷.

Notable findings included the lack of:

- effective access controls to enforce segregation of duties in the financial area
- checklists to ensure that security passes or keys are retrieved from terminating employees.

Recommendation 2-2

We recommend that Clarence City Council address the areas of non- or partial compliance shown in Tables 2.5–2.10.

⁷ Although seven controls were absent, three of them were associated with the lack of an employee termination checklist.

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3 George Town Council

3 George Town Council

3.1 Background

George Town lies in Tasmania's north-east. The municipality, with an area of 653 km², has just over 6900 residents. George Town Council is classed as small with 45 FTEs and for 2011–12 reported total revenue of \$10.4m.

We reviewed whether:

- An anti-fraud culture existed:
 - Does a high-level fraud control framework exist?
 - How is the framework communicated?
 - Is reporting of fraud encouraged?
 - Miscellaneous fraud control measures.
- Internal controls of particular business systems prevented and detected fraud:
 - assets
 - contracts
 - financial management
 - human resources
 - IT management.

Throughout the Report, and this Chapter in particular, we rated the controls using the following scores:

✓ = full compliance

✗ = non-compliance⁸

P = partial compliance (supported by explanatory notes).

3.2 *Did an anti-fraud culture exist?*

3.2.1 *Does a high-level fraud control framework exist?*

Table 3.1 shows our assessment of elements of a fraud control framework.

⁸ This rating includes the case where some elements of the control may exist but the control is considered ineffective.

Table 3.1: GTC — elements of a high-level anti-fraud framework

Audit test	Rating
High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated)	✘
Fraud Control Plan (reviewed within the last two years)	✘
Internal controls and delegations (reviewed within the last two years)	✘ ¹
Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment	✓
Fraud register	✘
Losses due to fraud are costed to the responsible business unit?	✓
Individual manager position statements that encompass fraud risk management responsibilities.	✘
Fraud Control Officer (adequately resourced) and defined roles and accountabilities	✘

¹ Documentation of controls was described as a 'work in progress'.

3.2.2 *How is the framework communicated?*

Table 3.2 shows our ratings for some aspects of communicating with staff.

Table 3.2: GTC — how is the framework communicated?

Audit test	Rating
Regular training provided in respect of fraud awareness?	✘
Code of Conduct communicated at induction?	✓
Statement of compliance with Code of Conduct and fraud policies signed annually?	P ¹
Updates to fraud-related documents communicated effectively (fraud survey)	P ²
Fraud control incorporated into performance management system	✘
Internal controls communicated effectively?	✘ ³

¹ Only some employees re-sign the Code of Practice each year.

² Only relevant document — Code of Practice — not updated since 2000.

³ Employees surveyed were vague and inconsistent in their responses.

3.2.3 *Is reporting of fraud encouraged?*

Table 3.3 shows our ratings for various aspects related to mechanisms for encouragement of fraud reporting.

Table 3.3: GTC — is reporting of fraud encouraged?

Audit test	Rating
Documented procedure for reporting suspicions?	x
Procedures for dealing with suspected fraud?	x
Fraud Control Officer or alternate line of reporting?	x ¹
Employees would report a suspected fraud? (from staff survey)	✓
Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey)	P ²

¹ Employees were not aware of reporting options other than their supervisor.

² One response in a small sample indicated that the employee would not feel supported based on a previous incident. Although other responses were positive, the adverse comment was of sufficient strength to raise concerns.

3.2.4 *Miscellaneous fraud control measures*

Table 3.4 shows our ratings for various controls that support an anti-fraud culture.

Table 3.4: GTC — miscellaneous fraud control measures

Audit test	Rating
Council has a risk management process that includes fraud risk and relevant control measures	x
Internal audit function	x
Pre-employment checks of police record, background, qualifications	✓
Enforced leave and job rotation	x
Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)?	x
Fraud-related insurance cover	✓

3.3 Were there internal controls to prevent and detect fraud?

3.3.1 Assets

In testing internal controls around assets, we made the following findings.

Table 3.5: GTC – internal control: assets

Internal controls	Rating
Preventive controls:	
building access permissions	✓
physical security (e.g. alarms, locks)	✓
portable and attractive items register	✗
movements of equipment accounted for	✓
termination checklist (including keys, personal use items)	✓
declare and record conflicts of interest, gifts	✗ ¹
Monitoring controls:	
stocktakes	✗
acquisition and disposal reviews	✓

¹ Staff are required to declare gifts to the General Manager but there is no register of pecuniary interests or gifts.

3.3.2 Contracts

In testing internal controls around contracts, we made the following findings.

Table 3.6: GTC – internal control: contracts

Internal controls	Rating
Preventive controls:	
transparent processes	✓
variation approval	P ¹
exclude bidders with prior breaches of Council guidelines or poor performance	✗ ²
Monitoring controls:	
performance reviews	✓

¹ Policy is for contract variations to be approved, but we noted a price variation that was not picked up.

² Information on past performance is not captured and therefore may not impact on future tenders.

3.3.3 Receipts (including rates)

In testing internal controls around receipts, we made the following findings.

Table 3.7: GTC — internal control: receipts

Internal controls	Rating
Preventive controls:	
completeness of cash receipts (budgetary control, cash registers)	✓
reconciliation of subsidiary records (e.g. rates, swimming pool, childcare centres)	✓
segregation of duties (including system access controls)	✓
Monitoring controls:	
bank reconciliations	✓
bad debt reviews	✓
budgetary oversight	✓

3.3.4 Payments

In testing internal controls around payments, we made the following findings.

Table 3.8: GTC — internal control: payments

Internal controls	Rating
Preventive controls:	
check of supporting documents	✓
certification and authorisation	✓
bank signatories (access to accounts, electronic transfers)	P ¹
segregation of duties (including system access restrictions)	✓
termination checklist (return of credit cards, removal of system access)	✓
Monitoring controls:	
bank reconciliations	✓
supplier master file reviews	✗ ²
budgetary oversight and review of large payments	✓
reconciliation of credit card statements	✓

¹ Two people required for electronic bank transfers but control potentially compromised by capacity to manipulate the file after approval.

² There was no evidence that changes to the supplier master file had been reviewed.

3.3.5 Payroll

In testing internal controls around payroll, we made the following findings.

Table 3.9: GTC – internal control: payroll

Internal controls	Rating
Preventive controls:	
control over 'ons and offs' in the payroll system	✓
timesheet approval	✗
authorisation of variations (including allowances, overtime, rates of pay, leave)	✓
segregation of duties (including system access restrictions)	✓
Monitoring controls:	
management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis)	✓

3.3.6 IT

In testing internal controls around information technology, we made the following findings.

Table 3.10: GTC — internal control: IT

Internal controls	Rating
Preventive controls:	
ICT security policy	✓
password security (unique userIDs, password strength, time-out)	P ¹
system access restrictions	✓
termination checklist (system access)	✓
physical system security (of servers)	✓
Monitoring controls:	
back-up quality reviews	✓
server access automatically logged and subject to periodic review	P ²

¹ No enforced password changes and no policy on password strength.

² Server access is logged but logs are not reviewed.

3.4 *George Town Council — conclusion*

3.4.1 *Anti-fraud culture*

At George Town Council most elements of anti-fraud culture were not present and few existed in their entirety.

Although all employees interviewed indicated that they would report suspicions, one interviewee expressed a strong view that he or she would not feel confident of support based on a previous incident.

Notable elements not found included:

- fraud awareness training
- documented procedure for reporting suspicions
- enforced leave and job rotation
- internal audit function.

Recommendation 3-1

We recommend that George Town Council address the areas of non- or partial compliance shown in Tables 3.1–3.4.

3.4.2 *Internal controls*

Our overall assessment of internal control at George Town Council was that it was good. Nonetheless, of thirty-nine controls that we audited, six were absent and another four were deficient to some extent.

The asset system was a particular concern with a lack of stocktakes and no recording of portable and attractive items.

Other notable findings included the lack of:

- adequate supervisory authorisation of timesheets
- a gift register.

Recommendation 3-2

We recommend that George Town Council address the areas of non- or partial compliance shown in Tables 3.5-3.10.

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4 Hobart City Council

4 Hobart City Council

4.1 Background

Located in the south of Tasmania, Hobart is the state's capital. The municipality, with an area of 78 km², has more than 50,000 residents. Hobart City Council is classed as large with 615 FTEs and for 2011–12 reported total revenue of \$110.0m.

We reviewed whether:

- An anti-fraud culture existed:
 - Does a high-level fraud control framework exist?
 - How is the framework communicated?
 - Is reporting of fraud encouraged?
 - Miscellaneous fraud control measures.
- Internal controls of particular business systems prevented and detected fraud:
 - assets
 - contracts
 - financial management
 - human resources
 - IT management.

Throughout the Report, and this Chapter in particular, we rated the controls using the following scores:

✓ = full compliance

✗ = non-compliance⁹

P = partial compliance (supported by explanatory notes).

4.2 Did an anti-fraud culture exist?

4.2.1 Does a high-level fraud control framework exist?

Table 4.1 shows our assessment of elements of a fraud control framework.

⁹ This rating includes the case where some elements of the control may exist but the control is considered ineffective.

Table 4.1: HCC — elements of a high-level anti-fraud framework

Audit test	Rating
High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated)	✓
Fraud Control Plan (reviewed within the last two years)	✓
Internal controls and delegations (reviewed within the last two years)	✓
Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment	✓
Fraud register	✗
Losses due to fraud are costed to the responsible business unit?	✗ ¹
Individual manager position statements that encompass fraud risk management responsibilities.	✗
Fraud Control Officer (adequately resourced) and defined roles and accountabilities	P ²

¹ No policy for allocation of fraud costs.

² Noted that this role was to be assigned to the General Manager.

4.2.2 *How is the framework communicated?*

Table 4.2 shows our ratings for some aspects of communicating with staff.

Table 4.2: HCC — how is the framework communicated?

Audit test	Rating
Regular training provided in respect of fraud awareness?	P ¹
Code of Conduct communicated at induction?	✓
Statement of compliance with Code of Conduct and fraud policies signed annually?	✗
Updates to fraud-related documents communicated effectively (fraud survey)	P ²
Fraud control incorporated into performance management system	✓
Internal controls communicated effectively?	✓

¹ Awareness training was being rolled out to all staff throughout the council. Staff in high-risk positions had already received training.

² Updates were communicated to staff by email but the majority of surveyed employees preferred face-to-face meetings for such information.

4.2.3 *Is reporting of fraud encouraged?*

Table 4.3 shows our ratings for various aspects related to mechanisms for encouragement of fraud reporting.

Table 4.3: HCC — is reporting of fraud encouraged?

Audit test	Rating
Documented procedure for reporting suspicions?	✓
Procedures for dealing with suspected fraud?	✓
Fraud Control Officer or alternate line of reporting?	P ¹
Employees would report a suspected fraud? (from staff survey)	✓
Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey)	P ²

¹ Of employees interviewed, 42 per cent identified that they would 'talk to someone in HR or Finance'.

² Twenty per cent of employees interviewed were not confident that they would have Council's support.

4.2.4 *Miscellaneous fraud control measures*

Table 4.4 shows our ratings for various controls that support an anti-fraud culture.

Table 4.4: HCC — miscellaneous fraud control measures

Audit test	Rating
Council has a risk management process that includes fraud risk and relevant control measures	✓
Internal audit function	✓
Pre-employment checks of police record, background, qualifications	✓
Enforced leave and job rotation	✗
Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)?	✗
Fraud-related insurance cover	✓

4.3 *Were there internal controls to prevent and detect fraud?*

4.3.1 *Assets*

In testing internal controls around assets, we made the following findings.

Table 4.5: HCC — internal control: assets

Internal controls	Rating
Preventive controls:	
building access permissions	✓
physical security (e.g. alarms, locks)	✓
portable and attractive items register	✓
movements of equipment accounted for	✓
termination checklist (including keys, personal use items)	✓
declare and record conflicts of interest, gifts	✓
Monitoring controls:	
stocktakes	✓
acquisition and disposal reviews	✓

4.3.2 *Contracts*

In testing internal controls around contracts, we made the following findings.

Table 4.6: HCC — internal control: contracts

Internal controls	Rating
Preventive controls:	
transparent processes	✓
variation approval	✓
exclude bidders with prior breaches of Council guidelines or poor performance	✓
Monitoring controls:	
performance reviews	✓

4.3.3 Receipts (including rates)

In testing internal controls around receipts, we made the following findings.

Table 4.7: HCC — internal control: receipts

Internal controls	Rating
Preventive controls:	
completeness of cash receipts (budgetary control, cash registers)	✓
reconciliation of subsidiary records (e.g. rates, Aquatic Centre, childcare centres)	✓
segregation of duties (including system access controls)	✓
Monitoring controls:	
bank reconciliations	✓
bad debt reviews	✓
budgetary oversight	✓

4.3.4 Payments

In testing internal controls around payments, we made the following findings.

Table 4.8: HCC — internal control: payments

Internal controls	Rating
Preventive controls:	
check of supporting documents	✓
certification and authorisation	✓
bank signatories (access to accounts, electronic transfers)	✓
segregation of duties (including system access restrictions)	✓
termination checklist (return of credit cards, removal of system access)	✓
Monitoring controls:	
bank reconciliations	✓
supplier master file reviews	✓
budgetary oversight and review of large payments	✓
reconciliation of credit card statements	✓

4.3.5 Payroll

In testing internal controls around payroll, we made the following findings.

Table 4.9: HCC — internal control: payroll

Internal controls	Rating
Preventive controls:	
control over 'ons and offs' in the payroll system	✓
timesheet approval	✓
authorisation of variations (including allowances, overtime, rates of pay, leave)	✓
segregation of duties (including system access restrictions)	✓
Monitoring controls:	
management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis)	✓

4.3.6 IT

In testing internal controls around information technology management, we made the following findings.

Table 4.10: HCC — internal control: IT

Internal controls	Rating
Preventive controls:	
ICT security policy	✓
Password security (unique userIDs, password strength, time-out)	✓
system access restrictions	✓
termination checklist (system access)	✓
physical system security (of servers)	✓
Monitoring controls:	
back-up quality reviews	✓
server access automatically logged and subject to periodic review	P ¹

¹ Server access is logged but logs are not reviewed.

4.4 *Hobart City Council — conclusion*

4.4.1 *Anti-fraud culture*

In terms of elements of anti-fraud culture, Hobart City Council was the stand out with a higher level of implementation than any other council with 14 of 25 elements fully implemented. However, twenty per cent of interviewed employees expressed reservations that management would support them should they report a fraud.

Notable elements not found included:

- annual employee statements of compliance with the Code of Conduct
- enforced leave and job rotation.

Recommendation 4-1

We recommend that Hobart City Council address the area of partial compliance shown in Table 4.1—4.4.

4.4.2 *Internal controls*

Our overall assessment of internal control at Hobart City Council was that it was of a high standard. Of thirty-nine controls that we audited, none were absent and only one was partially deficient (namely, server access logs were not reviewed).

Recommendation 4-2

We recommend that Hobart City Council address the area of partial compliance shown in Table 4.10.

5 Tasman Council

5 Tasman Council

5.1 Background

Tasman Municipality is located on the south-east coast of Tasmania. The municipality has an area of 659 km², with almost 2500 residents. Tasman Council is classed as small with 20 FTEs and for 2011–12 reported total revenue of \$6.8m.

We reviewed whether:

- An anti-fraud culture existed:
 - Does a high-level fraud control framework exist?
 - How is the framework communicated?
 - Is reporting of fraud encouraged?
 - Miscellaneous fraud control measures.
- Internal controls of particular business systems prevented and detected fraud:
 - assets
 - contracts
 - financial management
 - human resources
 - IT management.

Throughout the Report, and this Chapter in particular, we rated the controls using the following scores:

✓ = full compliance

✘ = non-compliance¹⁰

P = partial compliance (supported by explanatory notes).

5.2 Did an anti-fraud culture exist?

5.2.1 Does a high-level fraud control framework exist?

Table 5.1 shows our assessment of elements of a fraud control framework.

¹⁰ This rating includes the case where some elements of the control may exist but the control is considered ineffective.

Table 5.1: TC — elements of a high-level anti-fraud framework

Audit test	Rating
High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated)	✘
Fraud Control Plan (reviewed within the last two years)	✘
Internal controls and delegations (reviewed within the last two years)	✓
Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment	P ¹
Fraud register	✘
Losses due to fraud are costed to the responsible business unit?	✘ ²
Individual manager position statements that encompass fraud risk management responsibilities.	✘
Fraud Control Officer (adequately resourced) and defined roles and accountabilities	✘

¹ While the Code of Conduct stated that commercial bribery and unauthorised use of council resources for private purposes would not be tolerated, there was no general anti-fraud message.

² No policy for allocation of fraud costs.

5.2.2 *How is the framework communicated?*

Table 5.2 shows our ratings for some aspects of communicating with staff.

Table 5.2: TC — how is the framework communicated?

Audit test	Rating
Regular training provided in respect of fraud awareness?	✘
Code of Conduct communicated at induction?	✘
Statement of compliance with Code of Conduct and fraud policies signed annually?	P ¹
Updates to fraud-related documents communicated effectively (fraud survey)	✓
Fraud control incorporated into performance management system	✘
Internal controls communicated effectively?	P ²

¹ Only some employees re-sign the Code of Conduct each year.

² Not all surveyed respondents demonstrated awareness of internal controls.

5.2.3 *Is reporting of fraud encouraged?*

Table 5.3 shows our ratings for various aspects related to mechanisms for encouragement of fraud reporting.

Table 5.3: TC — is reporting of fraud encouraged?

Audit test	Rating
Documented procedure for reporting suspicions?	✘
Procedures for dealing with suspected fraud?	✘
Fraud Control Officer or alternate line of reporting?	✘
Employees would report a suspected fraud? (from staff survey)	✓
Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey)	✓

5.2.4 *Miscellaneous fraud control measures*

Table 5.4 shows our ratings for various controls that support an anti-fraud culture.

Table 5.4: TC — miscellaneous fraud control measures

Audit test	Rating
Council has a risk management process that includes fraud risk and relevant control measures	P ¹
Internal audit function	✘
Pre-employment checks of police record, background, qualifications	✘
Enforced leave and job rotation	✘
Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)?	✘
Fraud-related insurance cover	✓

¹There was a risk register with some fraud-related risks identified but it lacked thoroughness.

5.3 Were there internal controls to prevent and detect fraud?

5.3.1 Assets

In testing internal controls around assets, we made the following findings.

Table 5.5: TC — internal control: assets

Internal controls	Rating
Preventive controls:	
building access permissions	✓
physical security (e.g. alarms, locks)	✓
portable and attractive items register	P ¹
movements of equipment accounted for	✗
termination checklist (including keys, personal use items)	✗
declare and record conflicts of interest, gifts	P ²
Monitoring controls:	
stocktakes	✗
acquisition and disposal reviews	✓

¹ Listings existed for depot items, but there was no register to control all portable and attractive items.

² Pecuniary interests register is used but no gift register existed.

5.3.2 Contracts

In testing internal controls around contracts, we made the following findings.

Table 5.6: TC — internal control: contracts

Internal controls	Rating
Preventive controls:	
transparent processes	✓
variation approval	✓
exclude bidders with prior breaches of Council guidelines or poor performance	✓
Monitoring controls:	
performance reviews	✓

5.3.3 Receipts (including rates)

In testing internal controls around receipts, we made the following findings.

Table 5.7: TC — internal control: receipts

Internal controls	Rating
Preventive controls:	
completeness of cash receipts (budgetary control, cash registers)	✓
reconciliation of subsidiary records (e.g. rates)	P1
segregation of duties (including system access controls)	x ²
Monitoring controls:	
bank reconciliations	✓
bad debt reviews	✓
budgetary oversight	✓

¹ Value of properties is reconciled to Valuer-General's records but there was no regular review of changes to property valuations in the rates module.

² Duties were nominally segregated but segregation was not enforced through system access controls.

5.3.4 Payments

In testing internal controls around payments, we made the following findings.

Table 5.8: TC — internal control: payments

Internal controls	Rating
Preventive controls:	
check of supporting documents	✓
certification and authorisation	✓
bank signatories (accounts access, electronic transfers)	✓
segregation of duties (incl. system access restrictions)	x ¹
termination checklist (return of credit cards, removal of system access)	x
Monitoring controls:	
bank reconciliations	✓
supplier master file reviews	x ²
budgetary oversight and review of large payments	✓
reconciliation of credit card statements	P3

- ¹ Duties were nominally segregated but segregation was not enforced through system access controls.
- ² There was no evidence that changes to the supplier master file had been reviewed.
- ³ Monthly credit card statements were reconciled. However, errors were noted by audit and the General Manager had checked his own statement.

5.3.5 Payroll

With payroll internal controls, we made the following findings.

Table 5.9: TC — internal control: payroll

Internal controls	Rating
Preventive controls:	
control over 'ons and offs' in the payroll system	✓
timesheet approval	✓
authorisation of variations (including allowances, overtime, rates of pay, leave)	✓
segregation of duties (including system access restrictions)	✗ ¹
Monitoring controls:	
management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis)	✗

- ¹ Duties were nominally segregated but segregation was not enforced through system access controls. We recognise that segregation is hard to achieve in such a small council. Nonetheless, the control was not effective and it is therefore important that alternative controls exist.

5.3.6 IT

In testing internal controls around information technology, we made the following findings.

Table 5.10: TC — internal control: IT

Internal controls	Rating
Preventive controls:	
ICT security policy	x
Password security (unique userIDs, password strength, time-out)	✓
system access restrictions	x
termination checklist (system access)	x
physical system security (of servers)	x ¹
Monitoring controls:	
back-up quality reviews	P ²
server access automatically logged and subject to periodic review	P ³

¹ Two terminated employees with access privileges still existing.

² Backups are performed but there is no routinely scheduled testing that data could be successfully retrieved. Also, the backups are not held off site.

³ Server access is logged but logs are not reviewed.

5.4 Tasman Council — conclusion

5.4.1 Anti-fraud culture

At Tasman Council most elements of anti-fraud culture were not present and few existed in their entirety. On the other hand, we noted that all employees surveyed would be prepared to report suspicious behaviour and were confident of management support should they do so.

Notable elements not found included:

- fraud awareness training
- pre-employment checks
- enforced leave and job rotation
- internal audit function.

Recommendation 5-1

We recommend that Tasman Council address the areas of non- or partial compliance shown in Tables 5.1–5.4.

5.4.2 Internal controls

Our overall assessment of internal control at Tasman Council was that improvement was needed; of thirty nine controls that we audited, 13 were absent and another six were deficient to some extent¹¹.

The asset system was a particular concern with a lack of stocktakes, no recording of portable and attractive items, and no checklists to ensure that security passes and keys are retrieved from terminating employees. Also, Council had not developed an IT security policy.

Other notable findings included the lack of:

- effective access controls to enforce segregation of duties in the financial area
- supplier master file reviews
- adequate testing and security of system backups.

Recommendation 5-2

We recommend that Tasman Council address the areas of non- or partial compliance shown in Tables 5.5–5.10.

¹¹ Although 13 controls were absent, three of them were associated with the lack of an employee termination checklist.

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6 West Coast Council

6 West Coast Council

6.1 Background

The West Coast Council covers a large area on Tasmania's west coast. The municipality comprises an area of 9575 km², with just over 4900 residents. West Coast Council is classed as small with 56 FTEs and for 2011–12 reported total revenue of \$12.6m.

We reviewed whether:

- An anti-fraud culture existed:
 - Does a high-level fraud control framework exist?
 - How is the framework communicated?
 - Is reporting of fraud encouraged?
 - Miscellaneous fraud control measures.
- Internal controls of particular business systems prevented and detected fraud:
 - assets
 - contracts
 - financial management
 - human resources
 - IT management.

Throughout the Report, and this Chapter in particular, we rated the controls using the following scores:

✓ = full compliance

✗ = non-compliance¹²

P = partial compliance (supported by explanatory notes).

6.2 Did an anti-fraud culture exist?

6.2.1 Does a high-level fraud control framework exist?

Table 6.1 shows our assessment of elements of a fraud control framework.

¹² This rating includes the case where some elements of the control may exist but the control is considered ineffective.

Table 6.1: WCC — elements of a high-level anti-fraud framework

Audit test	Rating
High level policies discuss fraud (including definitions and explicit statement that fraud will not be tolerated)	✓
Fraud Control Plan (reviewed within the last two years)	✓
Internal controls and delegations (reviewed within the last two years)	✗
Code of conduct providing an anti-fraud message explicitly and implicitly by disallowing variety of unethical behaviours such as receiving gifts, secondary employment	✓
Fraud register	✗
Losses due to fraud are costed to the responsible business unit?	✗
Individual manager position statements that encompass fraud risk management responsibilities.	✗
Fraud Control Officer (adequately resourced) and defined roles and accountabilities	✓

6.2.2 *How is the framework communicated?*

Table 6.2 shows our ratings for some aspects of communicating with staff.

Table 6.2: WCC — how is the framework communicated?

Audit test	Rating
Regular training provided in respect of fraud awareness?	✗
Code of Conduct communicated at induction?	✓
Statement of compliance with Code of Conduct and fraud policies signed annually?	✗
Updates to fraud-related documents communicated effectively (fraud survey)	✓
Fraud control incorporated into performance management system	✗
Internal controls communicated effectively?	✗

6.2.3 *Is reporting of fraud encouraged?*

Table 6.3 shows our ratings for various aspects related to mechanisms for encouragement of fraud reporting.

Table 6.3: WCC — is reporting of fraud encouraged?

Audit test	Rating
Documented procedure for reporting suspicions?	✓
Procedures for dealing with suspected fraud?	✓
Fraud Control Officer or alternate line of reporting?	✓
Employees would report a suspected fraud? (from staff survey)	✓
Employees confident that Council would support them if they reported suspected fraudulent activity? (from staff survey)	P ¹

¹ One third of employees interviewed stated that council support would depend on who had committed the fraud.

6.2.4 *Miscellaneous fraud control measures*

Table 6.4 shows our ratings for various controls that support an anti-fraud culture.

Table 6.4: WCC — miscellaneous fraud control measures

Audit test	Rating
Council has a risk management process that includes fraud risk and relevant control measures	✗
Internal audit function	✗
Pre-employment checks of police record, background, qualifications	✓
Enforced leave and job rotation	✗
Fraud detection activity by management (e.g. computer-assisted data mining, trend analysis)?	✗
Fraud-related insurance cover	✓

6.3 Were there internal controls to prevent and detect fraud?

6.3.1 Assets

In testing internal controls around assets, we made the following findings.

Table 6.5: WCC — internal control: assets

Internal controls	Rating
Preventive controls:	
building access permissions	✓
physical security (e.g. alarms, locks)	P ¹
portable and attractive items register	P ²
movements of equipment accounted for	P ²
termination checklist (including keys, personal use items)	✓
declare and record conflicts of interest, gifts	✗
Monitoring controls:	
stocktakes	✗ ³
acquisition and disposal reviews	P ⁴

¹ No security alarms existed for depots and equipment buildings and there were deficiencies with fencing and lighting.

² A register existed but auditors had difficulty in finding two randomly selected items.

³ There is no formal stocktake process although some informal reviews are performed.

⁴ A disposal procedure had been developed but had not yet been used for subsequently disposed items.

6.3.2 Contracts

In testing internal controls around contracts, we made the following findings.

Table 6.6: WCC — internal control: contracts

Internal controls	Rating
Preventive controls:	
transparent processes	✓
variation approval	✓
exclude bidders with prior breaches of Council guidelines or poor performance	✓
Monitoring controls:	
performance reviews	✓

6.3.3 Receipts (including rates)

In testing internal controls around receipts, we made the following findings.

Table 6.7: WCC — internal control: receipts

Internal controls	Rating
Preventive controls:	
completeness of cash receipts (budgetary control, cash registers)	✓
reconciliation of subsidiary records (e.g. rates)	✓
segregation of duties (including system access controls)	✓
Monitoring controls:	
bank reconciliations	✓
bad debt reviews	✓
budgetary oversight	✓

6.3.4 Payments

In testing internal controls around payments, we made the following findings.

Table 6.8: WCC — internal control: payments

Internal controls	Rating
Preventive controls:	
check of supporting documents	✓
certification and authorisation	✓
bank signatories (access to accounts, electronic transfers)	✓
segregation of duties (including system access restrictions)	✓
termination checklist (return of credit cards, removal of system access)	✓
Monitoring controls:	
bank reconciliations	✓
supplier master file reviews	✗ ¹
budgetary oversight and review of large payments	✓
reconciliation of credit card statements	✓

¹ There was no evidence that changes to the supplier master file had been reviewed.

6.3.5 Payroll

In testing internal controls around payroll, we made the following findings.

Table 6.9: WCC — internal control: payroll

Internal controls	Rating
Preventive controls:	
control over 'ons and offs' in the payroll system	✓
timesheet approval	✓
authorisation of variations (including allowances, overtime, rates of pay, leave)	✓
segregation of duties (including system access restrictions)	✓
Monitoring controls:	
management reports (summaries, variation reports, employee listings, counts or 'ons and offs', budget analysis)	✓

6.3.6 IT

In testing internal controls around information technology, we made the following findings.

Table 6.10: WCC — internal control: IT

Internal controls	Rating
Preventive controls:	
ICT security policy	✘
Password security (unique userIDs, password strength, time-out)	P ¹
system access restrictions	✓
termination checklist (system access)	✓
physical system security (of servers)	✓
Monitoring controls:	
back-up quality reviews	P ²
server access automatically logged and subject to periodic review	P ³

¹ We were unable to confirm that the time-out feature was applied to all employees.

² Backups are taken home by relevant employees. We did not consider that to be a reliable control. In addition, the backup procedures are not tested.

³ Server access is logged but logs are not reviewed.

6.4 West Coast Council — conclusion

6.4.1 Anti-fraud culture

In regard to anti-fraud culture, West Coast Council was one of the better councils that we audited. Approximately fifty per cent of the elements of anti-fraud culture were present but the remainder were not even partially implemented.

Employees interviewed were all prepared to report suspicious behaviour. However, one third of the employees stated that, in their view, council support would depend on who had committed the fraud.

Notable elements not found included:

- fraud awareness training
- annual employee statements of compliance with the Code of Conduct
- enforced leave and job rotation.

Recommendation 6-1

We recommend that West Coast Council address the areas of non- or partial compliance shown in Tables 6.1–6.4.

6.4.2 Internal controls

Our assessment of internal controls at West Coast Council was that there was a good level of compliance although four controls were absent and seven were only partially effective.

A particular concern was that Council had not developed an IT security policy.

Other notable findings included the lack of:

- process for declaring and recording conflicts of interest or gifts
- supplier master file reviews.

Recommendation 6-2

We recommend that West Coast Council address the areas of non- or partial compliance shown in Tables 6.5–6.10.

Independent auditor's conclusion

Independent auditor's conclusion

This independent conclusion is addressed to the President of the Legislative Council and to the Speaker of the House of Assembly. It relates to my performance audit of fraud control in selected local government councils.

Audit objective

The objective of this audit was to assess whether key aspects of fraud management strategies in Local Government enable selected councils to effectively prevent, detect and respond to fraud.

Audit scope

The audit encompassed activities undertaken by council employees at the following:

- Burnie City
- Clarence City
- George Town
- Hobart City
- Tasman
- West Coast.

At each of these entities, I assessed their internal controls and the extent to which they had implemented and maintained elements of a sound ethical culture by benchmarking these controls and elements against Australian Standard 8001-2008 *Fraud and Corruption Control*.

My audit covered the period November 2012 to July 2013.

In developing the scope of this audit and completing my work, all six councils provided me with all of the information that I requested. There was no effort by any party to the audit to limit the scope of my work. This Report is a public document and its use is not restricted in any way by me or by any other person or party.

Responsibility of the General Managers of the Councils selected for audit

Respective council General Managers are responsible for establishing and maintaining appropriate internal controls and sound ethical cultures within their councils that are effective in reducing the incidence of fraud. Also, they are responsible for designing, implementing and maintaining systems that prevent, detect and respond to fraud.

Auditor-General's responsibility

In the context of this performance audit, my responsibility was to express a conclusion on whether or not the councils selected for audit adequately managed the risk of fraud within their respective organisations.

I conducted my audit in accordance with Australian Auditing Standard ASAE 3500 *Performance engagements*, which required me to comply with relevant ethical requirements relating to audit engagements. I planned and performed the audit to obtain reasonable assurance whether the councils' fraud management strategies enable them to effectively prevent, detect and respond to fraud.

My work involved obtaining evidence of management applying internal controls and sound ethical cultures by applying the audit approach outlined on Page 20 of this Report.

I believe that the evidence I have obtained was sufficient and appropriate to provide a basis for my conclusion.

Auditor-General's conclusion

Based on the audit objective and scope and for reasons outlined in the remainder of this Report, it is my conclusion that, regarding the need for existence of:

1. An anti-fraud culture, three of the six councils were rated as needing improvement in the level of implementation of elements of an effective anti-fraud culture, two were rated as reasonable in such implementation and one was rated as good.
2. Effective internal controls, one council was rated as needing improvement, one as have reasonable internal controls, three as good and one as having high internal controls.

Pages 3 and 4 of this Report highlight common areas of omission or consistently low levels of implementation with Page 4 detailing my overall ratings by council.

My Report resulted in only one recommendation which is that each council implements the internal controls and elements of anti-fraud culture identified as missing or deficient.

H M Blake

Auditor-General

20 August 2013

Recent reports

Recent reports

Tabled	No.	Title
Nov	No. 6 of 2011–12	Volume 4 Part I — Local Government Authorities 2010–11
Dec	No. 7 of 2011–12	Volume 5 — Other State Entities 30 June 2011 and 31 December 2010
Mar	No. 8 of 2011–12	The assessment of land-use planning applications
Jun	No. 9 of 2011–12	Volume 6 — Other State Entities 30 June 2011 and 31 December 2011
Jun	No. 10 of 2011–12	Public Trustee: Management of minor trusts
Jun	No. 11 of 2011–12	Updating the Motor Registry System
Jun	No. 12 of 2011–12	Follow up of Special Reports 75–81
Jul	No. 1 of 2012–13	Sale of TOTE Tasmania
Oct	No. 2 of 2012–13	TasPorts: benefits of amalgamation — October 2012
Nov	No. 3 of 2012–13	Volume 3 — Government Business Enterprises, State Owned Companies and Water Corporations 2011–12
Nov	No. 4 of 2012–13	Volume 4 Parts 1 & 2 — Local Government Authorities 2011–12
Nov	No. 5 of 2012–13	Volume 1 — Analysis of the Treasurer’s Annual Financial Report 2011–12
Nov	No. 6 of 2012–13	Volume 2 — Executive and Legislature, Government Departments, other General Government Sector State entities, other State entities and Superannuation Funds 2011–12
Dec	No. 7 of 2012–13	Compliance with the <i>Tasmanian Adult Literacy Plan 2010–15</i>
Mar	No. 8 of 2012–13	National Partnership Agreement on Homelessness
Mar	No. 9 of 2012–13	Royal Derwent Hospital: site sale
May	No. 10 of 2012–13	Hospital bed management and primary preventive health
May	No. 11 of 2012–13	Volume 5 — Other State entities 30 June 2012 and 31 December 2012

Current projects

Current projects

Performance and compliance audits that the Auditor-General is currently conducting are as shown below:

Title	Audit objective is to ...	Annual Plan of Work 2013-14
Royal Hobart Hospital redevelopment	... assess the effectiveness of the governance, project management and initial implementation of the RHH redevelopment project.	Page 11, Topic No. 5
Alcohol, Tobacco and Other Drug Services: five-year plan	... examine whether the Department of Health and Human Services has implemented the strategies listed in the <i>Alcohol, Tobacco and Other Drug Services, Tasmania: Future Service Directions — a five year plan, 2008/09 – 2012/13</i> .	Page 10, Topic No. 4
Radio communication networks	... assess the efficiency and effectiveness of the current radio communications networks used by police and other emergency service personnel.	Page 10, Topic No. 2
Police response to serious crime	... assess the effectiveness of police investigations into serious crime, including preparation of prosecution briefs and actions undertaken to reduce the incidence of serious crime.	Page 12, Topic No. 5
Security of Information and Communications Technology (ICT) infrastructure	... assess the effectiveness of security measures for ICT infrastructure and its functionality.	Page 11, Topic No. 3
Motor vehicle fleet usage and management	... determine whether use by selected government departments of vehicles is effective, efficient and economic. The audit will also consider allocation and use of motor vehicles complies with government guidelines and whether fleets are properly managed.	Page 13, Topic No. 2

Appendices

Appendices

Appendix 1: Overall survey results

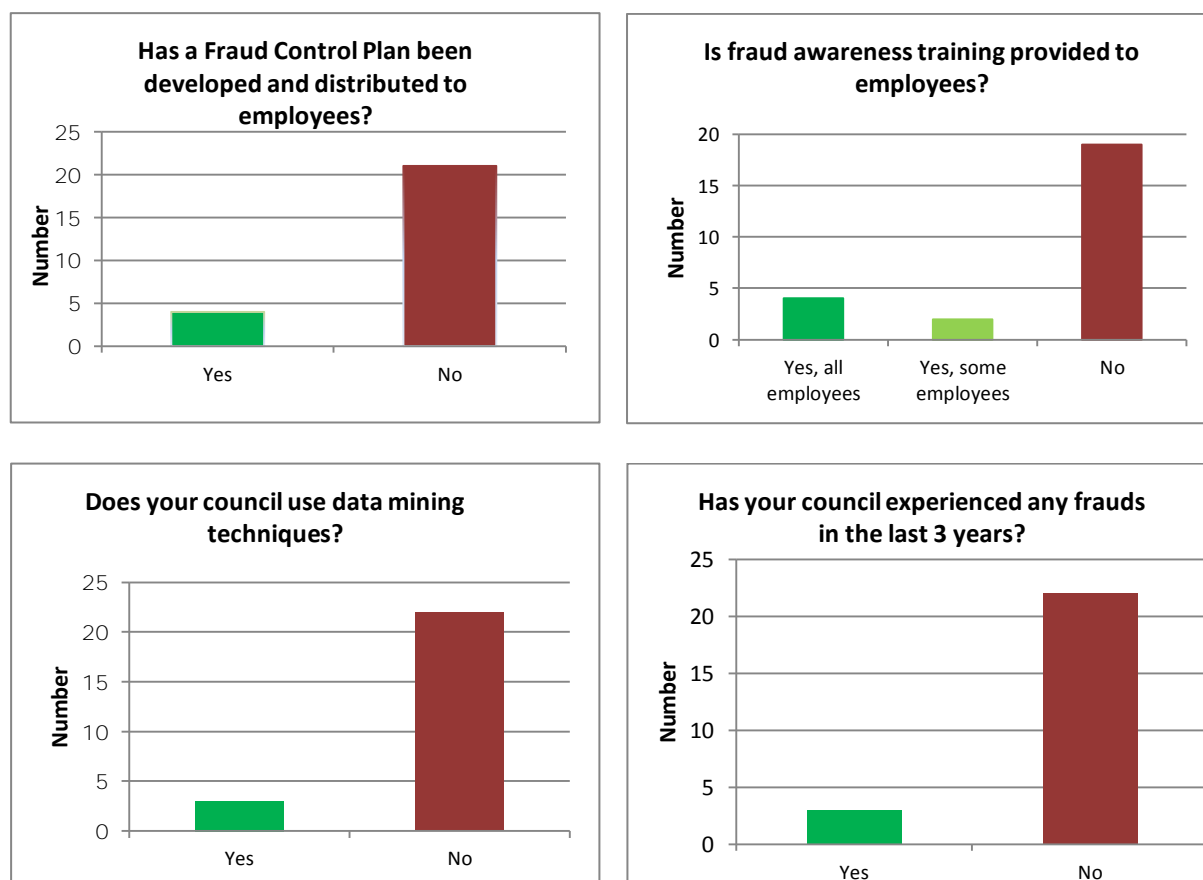
In the planning phase of the audit, we surveyed all Tasmanian councils to obtain an overall view of local government’s commitment to fraud control. Out of 29 councils, we received 25 survey responses, representing a response rate of 86 per cent.

The main results are:

- 16 per cent of councils had developed a Fraud Control Plan and distributed that Plan to employees.
- 24 per cent of councils provided fraud awareness training to employees.
- 12 per cent of councils used computer-assisted data mining techniques to help identify fraud risk transactions.
- 12 per cent of councils had experienced a fraud in one of the past three financial years (July 2009 to June 2012).

These results are graphically displayed in Figure 1.

Figure 1: Selection of Fraud Control Survey results



We were not confident to include this information in the body of the report because the underlying data has not been audited. It was, however, a factor in selection of auditees to be included in the scope.

Appendix 2: Explanation of elements of an anti-fraud culture

The following tables reproduce those used in Chapters 1–6 of this report. They provide a rationale for the elements of an anti-fraud culture used in the audit. We based the cultural elements on the Australian Standard 8001-2008 *Fraud and Corruption Control (AS8001)*

Table x.1: Elements of a high-level anti-fraud framework

Cultural element	Purpose
High level policies	Indicates corporate attitude towards fraud
Fraud Control Plan	Documents the entity's approach
Internal controls and delegations	Documents the internal control framework and provides a schedule for review
Code of conduct	Provides an explicit and implicit anti-fraud message by disallowing a variety of unethical behaviours
Fraud register	Is a medium for capturing, reporting and analysing detected fraud incidents
Fraud losses costed to responsible business unit	Reinforces line management's responsibility for frauds occurring within their business unit.
Manager position statements include fraud risk responsibilities.	
Fraud Control Officer	Responsible officer (full-time or part-time) coordinates resources, point of contact for suspicions, keeps up to date.

Table x.2: How is the framework communicated?

Cultural element	Purpose
Regular training provided in respect of fraud awareness	Should be performed sufficiently often to maintain a reasonable level of awareness amongst <u>all</u> employees. We stress 'all' since fraud and corruption can occur anywhere.
Code of Conduct communicated at induction	Establishes an initial understanding of the entity's stance on ethical conduct.
Statement of compliance with Code of Conduct and fraud policies signed annually	Provides a regular reminder of the entity's ethical standards and requires a signed commitment.
Updates to fraud-related documents communicated effectively	Communication should be active rather than just updated documents being made available for viewing (e.g. staff information sessions). We noted that many surveyed employees complained that e-mail was not an effective medium because of the tendency to be 'flooded' with spam and low-priority messages.

Fraud control incorporated into performance management system	Line management needs to be made fully aware that managing fraud and corruption is as much part of their responsibility as managing other types of enterprise risk.
Internal controls communicated effectively	Knowledge of internal controls increases the likelihood that the controls will be applied effectively and increases their deterrent effect.

Table x.3: Is reporting of fraud encouraged?

Cultural element	Purpose
Documented procedure for reporting suspicions	Any lack of clarity can deter potential reporters of a suspected fraud or suspicious behaviour.
Procedures for dealing with suspected fraud	
Fraud Control Officer or alternate line of reporting	Reporting options —other than reporting to direct supervisors — need to be clearly identified since supervisors can also engage in or condone fraudulent behaviour.
Employees would report a suspected fraud	Whistleblower protection, statements of zero tolerance, modelling of ethical behaviour by managers. (This goes to the heart of anti-fraud culture and is something that we specifically tested in the employee survey.)
Employees confident of Council support if they reported suspected fraudulent activity	

Table x.4: Miscellaneous fraud control measures

Cultural element	Purpose
Council has a risk management process with fraud risk and relevant control measures	Risk-conscious entities manage enterprise risk by a targeted and strategic process of identifying and prioritising, developing responses and monitoring. fraud risk should also be treated within that framework.
Internal audit function	Should be part of the overall control environment to identify the indicators of fraud as well as to deter fraudulent activity.
Pre-employment checks of police record, background, qualifications	A process should be developed that provides for effective employment screening including police checks of entrusted persons.
Enforced leave and job rotation	Many frauds have come to light during periods when another employee occupies the usual job of the perpetrator. For this reason, a policy of enforced leave and job rotation increase the likelihood of detection and have a deterrent effect, too.
Fraud detection activity (e.g. data mining, trend analysis)	Through the use of software applications and techniques, patterns of suspect transactions can be identified. Subsequent investigation can potentially detect fraud at an early stage.
Fraud-related insurance cover	As part of management’s treatment of risk, reflects and increases awareness of fraud.

Audit Mandate and Standards Applied

Mandate

Section 17(1) of the *Audit Act 2008* states that:

‘An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.’

Under the provisions of section 18, the Auditor-General:

- ‘(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).’

Under the provisions of section 19, the Auditor-General:

- ‘(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards
- (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.’

Standards Applied

Section 31 specifies that:

‘The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity;
- (b) the Australian Auditing and Assurance Standards.’

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



Tasmanian Audit Office

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