

# Fraud and Corruption Control

Tabled 29 March 2018

**VAGO**

This presentation provides an overview of the Victorian Auditor-General's report Fraud and Corruption Control.

## Background

**Fraud**—involves deception that causes actual or potential financial loss

**Corruption**—where an employee abuses his or her position to achieve advantage for themselves or others

Fraud and corruption can:

- undermine trust
- damage reputation
- waste public resources

The community expects, and the law requires, that public sector employees act with integrity and in the public interest. Fraud or corruption wastes valuable resources, undermines trust and damages the public sector's reputation.

## Focus of this audit



### What we looked at

Did agencies have the right fraud and corruption controls?

Were these controls working?



### Who we looked at

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

1. Major Projects Victoria (MPV)—business unit
2. Melbourne Metro Rail Authority (MMRA) — administrative office
3. Public Transport Victoria (PTV)—statutory authority

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We examined whether agencies had the right fraud and corruption controls and whether they were working.

We examined procurement and human resources practices at the Melbourne Metro Rail Authority (MMRA), Public Transport Victoria (PTV) and the now defunct Major Projects Victoria (MPV) as examples of an administrative office, a statutory authority, and a business unit of the Department of Economic Development, Jobs, Transport and Resources (DEDJTR).

We also considered whether PTV had addressed issues identified by the Independent Broad-based Anti-corruption Commission's (IBAC) Operation Fitzroy investigation.

## What we found

Agency senior executives are endeavouring to build the right culture

However, this intention is undermined by:

- delays in implementing key controls
- missed opportunities to promote the desired culture through policies, good documentation and training

Inconsistent compliance

Increased risks of fraud and corruption

Agency executives are endeavouring to build the right culture, however, this intention is undermined by:

- delays in implementing key actions to prevent fraud and corruption, and
- missed opportunities to promote the desired culture through policies, good documentation and training.

This has resulted in inconsistent compliance, and reduced assurance that major fraud and corruption cannot occur, or will be detected.

## Policies and plans



- DEDJTR only recently finalised its Fraud, Corruption and Other Losses Policy
- MMRA and MPV developed their own policies
- MPV's plan remained in draft form
- PTV developed a Fraud and Corruption Control Plan—met requirements

A Fraud, Corruption and Other Losses policy has been mandatory for agencies since 1 July 2017.

DEDJTR only recently finalised its policy and control plan. The delay meant DEDJTR was missing an opportunity to set clear and consistent expectations of staff. In the absence of an overarching DEDJTR policy, MPV and MMRA developed their own policies, though MPV's remained in draft form and was incomplete.

PTV's policy met requirements.

## Training and staff awareness



- Training is important to promote a culture of integrity
- Training was provided at all agencies
- DEDJTR unsure who has received training due to poor records

Organisations can promote a culture of integrity through training.

We found that training was provided to staff across the areas we audited.

However, DEDJTR does not consistently maintain records of attendance at training to demonstrate that staff exposed to higher risks of fraud and corruption have received training.

## Employment screening



- Employment screening policies and procedures were not being fully implemented and existing employees are not screened
- Not responding appropriately when checks highlighted problems

We found deficiencies in employment screening, including failures to complete and document police checks, reference checks and qualification checks—or respond appropriately when checks highlighted problems.

## Conflicts of interest



Certain employees must annually declare their private interests.

We found:

- conflicts were not being managed
- action plans were not enforced
- conflicts of interest not being consistently declared by hiring staff when undertaking recruitment

We identified instances where individuals had declared conflicts of interest, but these conflicts were not actively managed, and action plans were not enforced.

Human resources functions were also not consistently requiring staff making hiring decisions to declare any conflicts of interest when undertaking recruitment.



## Gifts, benefits and hospitality



- Policies in place, but not always operating as intended
- MPV accepted a high proportion of offers from suppliers
- DEDJTR has advised that it has strengthened its processes in relation to gifts, benefits and hospitality

Gifts, benefits and hospitality policies were in place, but they were not always operating as intended.

MPV staff had accepted a high proportion of offers from suppliers with the endorsement of management.

DEDJTR's Integrity Services Unit oversaw MPV's processes and did not take action, despite knowing about these practices. DEDJTR has advised that it has since strengthened its processes to address this.

## Procurement



- Lack of supplier vetting guidelines or consistent implementation
- Poor record keeping to demonstrate compliance
- Limited monitoring of procurement data for fraud and corruption indicators

While procurement controls did exist, poor record keeping meant agencies could not always demonstrate compliance. We also found the audited areas were not consistently vetting potential suppliers.

There is also limited monitoring of procurement data for indicators of fraud and corruption. DEDJTR is currently trialling a data analytics program at MMRA.

## Reporting fraud and corruption



- Missing, inaccurate and outdated information in DEDJTR's fraud and corruption register
- Losses due to fraud and corruption were not always reported as required
- Suspected corruption not reported to IBAC

We found missing and inaccurate information in DEDJTR's fraud and corruption register.

There were instances where losses due to fraud and corruption were not reported as required, and suspected corruption was not reported to IBAC.

Mandatory reporting to IBAC came into effect in December 2016, after these examples occurred.

We also identified examples where decision-making processes about whether to attempt to recover funds lost to fraud were not appropriately documented.

## PTV's progress following Operation Fitzroy



- Considerable progress in implementing many of its initiatives
- However, gaps remain—particularly for procurements under \$25 000

Operation Fitzroy was an investigation into allegations of serious corruption in the former Department of Transport and PTV.

PTV has made considerable progress in implementing many of its initiatives to address the investigation's findings.

However, gaps remain in certain areas, particularly for procurements under \$25 000.

## Recommendations

### 11 recommendations for DEDJTR

- Implement its Fraud and Corruption Policy and Control Plan
- Target training and track attendance
- Increase oversight of compliance with policy requirements
- Improve information capture, record keeping, reporting and documentation of decisions
- Support portfolio entities to improve fraud and corruption controls
- Develop appropriate fraud and corruption indicators for procurement monitoring
- Develop and implement supplier vetting guidelines

### 6 recommendations for PTV

- Finalise guidance for procurements less than \$25 000 and increase scrutiny in this area
- Finalise and implement supplier vetting guidelines
- Perform regular and effective fraud and corruption lead indicator reporting with procurement data
- Document decision-making regarding efforts to recover losses
- Improve controls to detect and prevent over-expenditure on contracts, including processes to reconcile accounts payable and contract management system expenditure

We made a total of 17 recommendations, all of which have been accepted.

For further information, please view the full report on our website:  
[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

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