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Scope

This policy applies to all directors, employees, volunteers, contractors and consultants in relation to their work with/for Pacific Link Housing (PLH).

For matters of fraud involving tenants or housing applicants such as failure to notify PLH of changed circumstances, changes in household members, changes in income or deliberately making false, incomplete or misleading statements about the income or assets of any household member may result in cancellation of the rental subsidy or more serious consequences. These matters are addressed in PLH tenancy management policies.

Purpose

Pacific Link Housing Ltd (PLH) acknowledges the NSW Public Sector Management Office, the NSW Premier's Department and Jobs Australia for parts of this document.

All organisations have a responsibility to take steps to guard against the fraudulent use of their resources. PLH has an additional responsibility to ensure that government money is spent and accounted for in accordance with the terms of the funding contracts. While this has always

been the case the demands from government to demonstrate adequate fraud control measures have increased recently and we can expect this trend to continue.

Of course any fraudulent activity relating to government contracts represents a significant risk to the good name of the organisation but it also endangers the ongoing relationship with the government itself. Clearly then, well-managed organisations will want to ensure that their fraud management measures are robust, current and well-understood across all levels of their staff.

This Fraud Control Policy and Management Plan is designed to assist PLH in ensuring that it has thorough, up-to-date policies and procedures in place to manage the risk of fraud occurring in the organisation.

Why have a Fraud Control Policy and Management Plan?

Trust is an essential component of our organisation, but sometimes trust is not enough.

Fraud does happen and often when and where it is least expected. Fraud is not only a serious breach of trust, it is also a criminal offence. Fraud can occur in any layer of our business, not just the areas where money is receipted.

Those who commit fraud:

- break the law;
- become subject to disciplinary action, including the likelihood of immediate termination of employment;
- bring our organisation into disrepute by tarnishing our reputation as sound managers of our, and the community's, resources;
- create trauma within their own family and circle of friends; and
- in extreme cases will cause our organisation to close down.

We rely on the support of government, community and business to do the things we do. The financial assistance we receive from them is dependent on many factors. Two of the most crucial are our reputation and our record for delivering our services in an ethical and accountable manner. A single instance of fraud will tarnish that good name.

The Fraud Control and Management Plan demonstrates that we are committed to achieving effective fraud control and details the practical steps we will regularly undertake to achieve this.

What is fraud?

Australian Standard 8001–2008 defines fraud as:

> *'dishonest activity causing actual or potential financial loss to any persons or entity including theft of moneys or other property by employees or persons external to the entity and whether or not deception is used at the time, immediately before or immediately following the activity. This also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal business purpose or for improper use of information or position.'*

Fraud can occur in a variety of ways and it is important for everyone in our organisation to have a good understanding of what constitutes fraud so that they can recognise it and take action to prevent it.

The opportunity to commit fraud requires knowledge of our organisation's systems, or those of other organisations, combined with the willingness to exploit any weakness in those systems for direct personal benefit or for the benefit of others. It uses deceit, trickery, sharp practice or sometimes simply a belief that the ends justify the means.

Our organisation's policy on fraud

At PLH we recognise that fraud is inherently wrong. It is against our values and we intend to work actively to avoid it occurring.

We aim to foster an organisational culture which will ensure that the effective prevention of fraud and corruption is an integral part of our operating activities. We will identify and promptly investigate any suspicion of fraudulent or related dishonest activities. When appropriate we will pursue legal remedies available under the law.

All our employees are accountable for, and have a role to play in, fraud and corruption control. We encourage a positive culture within our staff to disclose actual or suspected fraudulent activity. We will investigate all reports thoroughly. Where this is the appropriate course of action we will protect the anonymity of anyone reporting these activities. Any employee who suspects that such activity is occurring is to follow the procedures outlined in CP55 - Whistleblower Policy.

What the Fraud Control Policy Plan seeks to do

The plan aims to put the following principles into practice:

- the prevention, detection and investigation of fraud;
- the prosecution of offenders, including those involving routine or minor instances of fraud where appropriate;
- the application of appropriate civil, administrative or disciplinary penalties;
- the recovery of the proceeds of fraudulent activity;
- the training of all employees in ethics, privacy and fraud awareness activities;
- the specialised training of all employees involved in fraud control activities; and
- the external scrutiny of our fraud control activities.

To do this we will establish a number of measures that together will constitute our fraud control strategies. We will clearly delineate the role of the person/s responsible for fraud control. We will review the various policies and codes of practice we have that relate to fraud and the timelines we establish for carrying out our fraud management processes. We will undertake staff training for fraud awareness.

The role of the Fraud Control Officer

The CEO has primary responsibility for overseeing the implementation and review of our Fraud Control Policy and Management Plan and for ensuring that this is well understood and actively upheld by staff at all levels of our organisation.

The Finance Risk and Audit Committee of the Board has responsibility for policy setting in relation to fraud control. Membership of the Committee will be regularly rotated to avoid complacency; however the frequency will not be such that it runs the risk of losing expertise in the identification, conduct and completion of investigations. The Fraud Control Officer is the Manager, Governance & Compliance.

Who else has responsibilities for fraud control?

Fraud control is the responsibility of everyone in the organisation.

More specifically, the Board, CEO, the Fraud Control Officer and senior management should be aware of circumstances that may indicate the possibility of fraud. These can include:

- Discrepancies in the accounting records;
- Conflicting or missing evidence and documentation;

- Problematic or unusual relationships between the auditor and management;

- Unwillingness by management to permit the auditor to meet privately with those charged with the organisation's governance (e.g. Board, Finance Risk Audit Committee);

- Accounting policies that appear to be at variance with industry norms;

- Frequent changes in accounting estimates that do not appear to result from changes in circumstances;

- Tolerance of violations of the code of conduct

- Large proportions of remuneration for senior management being dependent on bonuses and these being driven by achieving unusually successful results;

- Payments of significant bonuses and incentives as a means of increasing performance;

- Domination by a single person or small group without compensating controls.

Becoming fraud aware

It is important that all employees have a general awareness of fraud and corruption and how they should respond if this type of activity is detected or suspected.

We will regularly communicate to employees a clear definition of the types of action, particularly those that are specific to our business, that constitute fraudulent or corrupt practice, the fraud detection measures that are in place and an unequivocal statement that fraudulent and corrupt practices will not be tolerated.

Who assesses the fraud risks in our organisation?

The CEO has ultimate responsibility (and reports to the Board) to assess the risk of fraud occurring and implement the appropriate preventative measures. He or she does this with the direct support of the Fraud Control Officer, our auditors and all employees.

The Risk Register

As part of our Fraud Risk Assessment, PLH lists the identified potential fraud and corruption risks that our organisation faces within our Risk Management Plan and the Internal Control Checklist. Risk Plan factors include the following areas:

a) **misappropriation of assets**, including theft, 'temporary borrowing', control over handling of cash and recording its use;

b) **misuse of assets**, such as unauthorised personal use of organisational assets including motor vehicle, computers, portable devices, stationery; Refer Policy CP04 Motor Vehicles and CP05 Portable Devices.

c) failure by staff to adhere to **delegations of authority** relating to the value of assets or contracts they can sign for;

d) **lack of supporting documentation**;

e) **lack of a mandatory vacation policy** (or its enforcement) for employees performing key control functions;

f) **fraudulent financial reporting**, including intentional distortion of financial statements, capitalising revenue items, fictitious asset register items, arguments with auditors, calculated avoidance of auditor involvement or restrictions in access to, or availability of, staff;

g) **high turnover** of management, legal or accounting advisors or Board members;

h) continued employment of **ineffective accounting**, IT or internal audit staff;

i) **hiring of friends** and relations;

j) attitudes of and financial **pressures affecting employees** handling assets that are susceptible to misappropriation, such as:

- **Long-term, trusted employees**: These individuals know the systems and processes in detail. This knowledge allows them to more easily circumvent controls and conceal fraud. These employees often do not take annual leave, resent questioning, and often are unable to find records or files.

- **Life crisis of employee**: e.g. divorce, death in family, or other matters that creates a need for substantial sums of money.

- **Lifestyle changes**: e.g. employees who are living beyond their means.

- **Rule breaker mentality**: i.e. employees who ignore rules or regulatory requirements.

- **Unappreciated workaholic**: This includes employees who believe they are not adequately compensated for the long, hard hours they work.

k) **inventory characteristics** such as small size and high volume;

l) **fixed assets and plant** and equipment characteristics such as storage off-site, portability of assets;

m) security of and access to **offices** including multiple keys, lack of video surveillance in danger areas;

n) **exploitation of incentives** and bonuses in contracts with customers (e.g. government contracts);

o) engagement of building contractors, development consultants, **trade contractors, subcontractors or other consultants** who have inappropriately close relationships with staff; and

p) **Management characteristics** and the degree of influence management exerts.

Audits

As part of the regular audit process our auditor will undertake:

- procedural data analysis;

- visits to different locations and surprise visits where necessary;

- an altered audit approach where necessary e.g. direct oral contact with major customers and suppliers rather than by more traditional letter/written communication;

- personal interviews where necessary;

- data mining to test the integrity of computer-based records;

- comparison of management estimates/budgets with actuals; and

- review of all payments to the Board.

In addition, our auditor is expected to report on situations involving potentially irregular items including:

- unusual transactions;

- checks on employment contracts e.g. incentives;

- examination of large and/or unusual expenses e.g. expense reports/claims by senior management; and

- Related party authorisations.

Our Internal Auditor

- maintains a schedule of areas of the organisation to be audited, the frequency and the date of last audit;

- reports all audit outcomes to the CEO;

- assists in the implementation of procedural changes to address any shortcomings identified.

Fraud Control Activities

We conduct the following activities on a daily, weekly, monthly and/or annual basis to assist in ensuring accurate financial reporting:

- Bank reconciliations are prepared and independently reviewed;

- Fixed asset registers are reconciled to the general ledger and depreciation is charged where appropriate. Physical inventories are performed against asset registers;

- At year end, accruals are left open until the latest possible moment to ensure transactions are recorded in the appropriate period;

- Provisions are generally only made to cover specific costs to be incurred;

- Bad debts, where appropriate, are written off after being approved by the Executive Manager, Tenancy and Executive Manager, Finance and co-signed by CEO according to the company delegation;

- General journals are sequentially numbered, supported by narration and proper authorisation;

- All supporting documentation is appropriately filed;

- Asset sales are recognised in the period in which the sale takes place;

- Payroll transactions are effected on Thursday fortnightly with resulting PAYG payments made in accordance with ATO guidelines; and

- The Payroll officer securely maintains information and records relating to payroll matters.

Management uses the following methods to also minimise fraud and corruption:

- Adequate segregation of duties and use of verification procedures;

- Use of exception reports and the authorisation process with respect to the maintenance, adding to or deletion from master files such as clients, suppliers, data address changes, new advances.

- Use of online tender portals for large maintenance or development contracts to ensure probity of tender processes;

- Maintain a policy of not accepting cash receipts from tenants;

- Review and reinforcement of computer security measures, including requiring user-identification passwords for access to computer systems. (Routinely changing passwords will improve computer system security);

- Conduct of internal reviews and audits on a surprise basis; and

- Mailing of all statements from the administrative office rather than home offices.

Key features of our Compliance Program include:

- Review and update of Policy Manual and Instrument of Delegation;

- Staff empowerment through training, recognition and participation;

- Regular systems and process reviews by appropriate staff members;

- Having appropriate channels for employees to report possible non-compliance or system errors;

- Regular audit of the organisation's overall compliance effort;

- Formulation of corrective plans to address any instances of non-compliance; and

- Pre-employment screening to consider the following:

  - Verification of identity;

  - Previous criminal history and Working With Children check;

  - Reference check with at least the two most recent employers (this will normally require telephone contact);

  - A consideration of any gaps in employment history and reasons for those gaps;

  - Verification of formal qualifications claimed; and

  - A more thorough screening process for employees applying for particularly sensitive positions.

Regular assessments of Fraud risks and control strategies

We will carry out a comprehensive Fraud Risk Assessment every two years as required by Registrar of Community Housing or as otherwise required (eg in the event of failure or a significant change in the business). Assessments may be conducted by the Executive Manager - Finance, Compliance Manager, auditors or other consultants, as appropriate. The CEO will provide the findings of the assessment to the Board at the first Board meeting after its completion and similarly to the next staff meeting.

The Fraud Risk Assessment system comprises the

- quarterly Risk Register review that is overseen by the Finance Risk Audit Committee, and

- the biennial Internal Controls Checklist review that documents the internal checks and controls for human resources, administration, security of assets, segregation of duties, finance (including checklists for accounts receivable, accounts payable, payroll, petty cash and grants received), reporting and systems.

Ongoing review and improvement of fraud control strategies will be achieved through:

- keeping abreast of best practices, both locally and overseas;

- employing people who have experience and commitment to the continuous improvement of fraud and corruption control; and

- encouraging innovation in fraud and corruption control development, procedures and processes.

Detecting fraud

In the event that our fraud preventative systems fail, we will aim to detect fraud as soon as possible by:

- conducting internal reviews and branch audits on a surprise basis;

- the development of specific detection strategies for action by appropriate sectional management; and

- periodic management reviews instigated by the organisation's management team.

We will continually develop a fraud detection system which will include:

- a program for the strategic analysis of management accounts to identify trends that may be indicative of fraudulent conduct; and
- ongoing assessment of internal risk factors, particularly as these relate to the culture of our organisation, to the susceptibility of certain assets to misappropriation and to staff internal and external pressures; and
- a program for post-incident review.

How and when to report fraud

Reports of behaviour involving possible fraud should be communicated to senior management through:

(a) the normal reporting channels including the following details;

- the name and address of the person to whom the report is directed;
- the procedure once the report is received; and
- when and how the reporter will be informed of the progress/action taken in light of the report e.g. to the Manager who forwards to Senior Manager/Fraud Control Officer.)

(b) the PLH Whistleblower Policy

The Whistleblower Policy is designed to encourage and facilitate the disclosure of improper conduct, provide anonymity for staff that make those disclosures, provide protection for staff who may suffer reprisals in relation to such disclosures and for the matters disclosed to be properly investigated and dealt with. Please refer to CP55 Whistleblower Policy for reporting details.

In almost all cases the best time to report a suspected fraud or suspicious activity is immediately. The Chairman and Board of directors should be informed immediately of any report of fraud. Staff should be made aware of this general rule and be encouraged to have confidence that the organisation will deal with the matter in a timely manner. It is preferable to have the matter be investigated appropriately and according to standard procedures authorised by the Board. It is not desirable to simply undertake your own informal investigation.

In addition to internal reporting, the CEO will address each of the following reporting issues and where necessary enlist the support of others, including the Finance Risk and Audit Board Committee (generally people external to an organisation) to consider:

- protection of staff reporting suspected fraud;
- external anonymous reporting e.g. to Australian Tax Office (ATO);
- reports to the police;
- reports to external parties such as Registrar of Community Housing, NSW Department of Communities & Justice, Centrelink and other government departments;
- administrative remedies for the recovery of the proceeds of fraudulent conduct; and
- legal reporting obligations e.g. to authorities such as Australian Federal Police, state police, ATO, ACNC, ASIC, or to government departments in relation to contracts held with them.

When there's an investigation

In the event that fraud is detected, reported or suspected an investigation will be conducted by appropriately skilled and experienced personnel who are independent of the section in which the alleged fraud has occurred.

This independent party may include:

- an external law enforcement agency;

- a manager or other senior person;

- a director of PLH; or

- an external consultant operating under the direction of an independent senior person within the organisation.

The investigation should comply with all relevant legislation. Adequate records must be made of all investigations. These records are to be kept in accordance with legal, best practice and privacy management guidelines.

In conducting an investigation into allegations for fraud we will ensure that information arising from or relevant to, the investigation is not disseminated to any person not required by their position description to receive the information.

An investigation will potentially involve the following investigative activities:

- Interviewing of relevant witnesses, both internal and external, including obtaining statements where appropriate;

- Reviewing and collating of documentary evidence;

- Forensic examination of computer systems as per our E-mail & Internet Policy

- Examination of telephone records;

- Enquiries with banks and other financial institutions;

- Enquiries with other third parties;

- Data search and seizure;

- Expert witness and specialist testimony;

- Tracing funds, assets and or goods;

- Personal Emails sent through organisations system as company can be held responsible for their content, as per PLH's E-mail & Internet Policy

- Preparing briefs of evidence;

- Liaison with the police or other law enforcement or regulatory agencies;

- Interviewing persons suspected of involvement in fraud and corruption; and

- Report preparation.

Any investigation into improper conduct will be subject to an appropriate level of supervision having regard to the seriousness of the matter under investigation. In serious cases, it is contemplated that the Board will be the relevant supervisors.

Post Investigation

In each instance where fraud is detected the CEO and the Fraud Control Officer should reassess the adequacy of the internal controls in conjunction with the Finance Risk and Audit Board Committee (particularly those directly impacting on the fraud incident and potentially allowing it to occur), and amend and improve controls where necessary.

Where improvements are required, these should be implemented as soon as possible and any amendments to internal controls should be effectively communicated to personnel appropriate to their level of responsibility and position description.

February 2021

Appendix A – More Information

Types of Fraud Risk

Various risk factors for fraud require ongoing management of:

- **Accounting risks**: The need to assess attitudes to the application of accounting standards, and to ensure that correct procedures are followed in the case of third parties involved in the assessment of the organisation's performance e.g. auditors and government departments;

- **Personal risks**: The need to assess risks in an environment where there is an autocratic management style, unusual behaviour, expensive lifestyles, untaken holidays, poor quality staff, low morale or high staff turnover;

- **Cultural risks**: The need to be aware of the risks in a culture that requires results at any cost or has a poor commitment to internal controls and demands unquestioning obedience from staff;

- **Structural risks**: The need to understand that fraud is made easier when there are complex corporate structures and when remote locations are poorly supervised; and

- **Business risks**: The need to be alert to the risks that arise when business strategies are poor, profits exceed industry norms, the organisation has a poor corporate reputation or when it is facing liquidity problems.

Fraud Control Techniques

An awareness of the risk of fraud control techniques and our attitude to control of fraud will be fostered by strategies that:

- ensure all employees receive training in our code of conduct at induction and throughout the period of their employment;

- ensure all employees receive regular fraud awareness training appropriate to their level of responsibility;

- ensure updates and changes to fraud-related policies, procedures and the code of conduct are effectively communicated to all employees, including publishing the fraud control policy and Whistleblower Guide on the PLH website

- ensure all staff are aware of the alternative ways in which they can report allegations or concerns regarding fraud or unethical conduct, for instance the PLH Whistleblower Guide.

- encourage staff to report any suspected incidence of fraud; and

- promote fraud awareness and standards of conduct through regular meetings, staff newsletters or other internal publications, and through the overt, ongoing commitment demonstrated by senior management in all aspects of their relationships.

Characteristics that can influence Fraud

Management characteristics and the degree of influence that management has in controlling the working environment and the organisation's activities can be subtly powerful influences that create the risk of fraud. However, the nature of the work PLH does as a non-profit organisation means that we do not display some characteristics that represent a fraud risk in for-profit organisations. Where this positive situation exists it is important to guard its continuation and integrity. The following are some relevant considerations:

1. As part of the community and the non-profit sector, PLH employees are not under pressure to maintain or increase the organisation's stock/share price or

earnings trend through the use of inflating or deflating cash flows. On the other hand the pressure to achieve results (e.g. renewal of contract), improve ratings for key performance indicators as required in performance-based contracts do contain fraud-related risks.

2. A significant portion of management remuneration is not represented by bonuses or incentives which are dependent on the manager's division having to achieve unduly aggressive targets for operating results, financial position or cash flows.

3. There are no other third parties providing undue pressure to inflate or deflate earnings or cash flows.

4. There is no undue influence from the organisation's owners or management to pursue inappropriate tax minimisation strategies.

Desirable characteristics that will reduce the risk of fraud include the following organisational behaviour:

*   The organisational structures in place provide for the effective communication of directives across the whole organisation to ensure that appropriate values and ethics are maintained; such as regular staff and departmental meetings with the CEO.

*   Known control weaknesses are addressed immediately once they become known;

*   Management overtly displays and upholds respect for the law and regulatory authorities;

*   Management employs effective and adequately qualified staff and utilises such external expertise as is required in the circumstances that have arisen;

*   Employment of a Compliance Manager with responsibility for internal audit; and

*   There is no history of contravention of the Corporations Act or other securities laws.

Examples of Fraud

There are basically two categories of fraud:

*   Fraud which results in the loss of funds; and

*   Fraud which results in the misuse of assets or the loss of an advantage.

Within the PLH working environment there are a number of areas where potential frauds could occur. These are grouped under three headings, with examples, below.

Examples - People outside the Organisation

Invoices for goods and services not received:

*   Invoices from the organisation's maintenance contractor for services not performed.

*   Repairs to computers, or software support which are unnecessary.

Provision of goods and services by or to friends or family of staff:

*   Tenders being awarded to people who have inside information about other bids or assessment criteria.

*   Purchases being made from friends or family businesses at non-commercial prices. Refer PLH CP48 Conflict of Interest Policy.

*   Allocation of tenancy outside of government guidelines.

Offers of incentives:

- Offers of gifts to staff in return for their directing business to the supplier. Refer PLH CP49 Gifts policy.

Preferential payment terms given:

- Family and friends paid earlier than the normal commercial payment period and discounts offered not deducted

- Unnecessary prepayments or deposits given

- individuals or organisations given the opportunity to purchase assets at less than fair market value or on terms more favourable than those commercially available

Fraud by employees and others using an organisation's funds

False Expense Claims:

- Claims for reimbursement of out-of-pocket expenses for supplies or consumables, supposedly purchased for the organisation's use and substantiated with receipts for purchases for personal use.

False Travel Claims:

- To claim travel allowances when they are not due, or failing to return allowances for travel not undertaken. It may also be possible to claim accommodation allowances for provider-paid training or conferences.

False Time Sheet Claims:

Claims on time sheets for hours worked when these are not accurate.

Ghosting:

- Paying by cheque for the services of non-existent casual employees. These cheques are subsequently endorsed for payment to another bank account.

Use of signed blank cheques to make payments for non-organisation purposes:

- Cheque signatories should **never under any circumstances** sign cheques which are blank and should only sign any cheque if it is accompanied by complete documentation (usually an invoice and a cheque requisition).

Fraud by employees and others using an organisation's property

The use of organisation facilities for personal gain:

- The use of the organisation's computers for after-hours training or tuition or the use of space and equipment for a personal business. (These actions do not incur losses for the organisation, but are an abuse of its facilities by an employee.)

- The use of the GST exemption to purchase goods or services for use by a person or an organisation for purposes other than for the lawful use of the organisation. (This action represents a serious breach of the Commonwealth tax laws. It may also incur personal liability - civil or criminal.)

- Motor vehicles, such as the use of organisation vehicles for unauthorised personal travel or by members of an employee's family, unless authorised under PLH's motor vehicle policy.

Fraud by employees and others to improve personal property

- The use of an organisation's training programs for the improvement of personal property or the supply of services to an employee's premises.

- Individuals or organisations are given the opportunity to purchase assets at less than fair market value, or on terms more favourable than those commercially available.

Fraud arising from staff, management, or Board of Directors or Management Committee bodies due to a failure to perform their duties

Examples include:

- Deliberate failure to record or identify a false statement by a client where the client gains a payment or an advantage from that payment.
- Authorising or recording of data that is known not to be true so that the organisation, Board of Directors, Management or individual gains a benefit from the fraud,
- Providing inside or confidential information to others outside the organisation for their personal gain.
- Deliberately destroying the organisation's records.
- Manipulating or falsifying statistics to avoid criticism or a reduction in funding.
- Manipulation of data to falsely present successful organisation outcomes.

Fraud arising from staff, management, or Board of Directors or Management Committee bodies due to a failure to perform their duties