

FINANCIAL MANAGEMENT AND FRAUD CONTROL

Pacific Girl Inception Workshop
22nd October 2019

Outline

Financial Management
Fraud Control Strategy

Financial Management

What is Financial Management?

Not just accounting!

Planning, organising, controlling and monitoring the financial resources of an organisation to achieve objectives

Financial Management

Concept of *Financial Control*

Where the financial resources of an organisation are being correctly and effectively used

When strong and relevant financial policies are in place

Able to report to donors effectively on performance

Financial Management

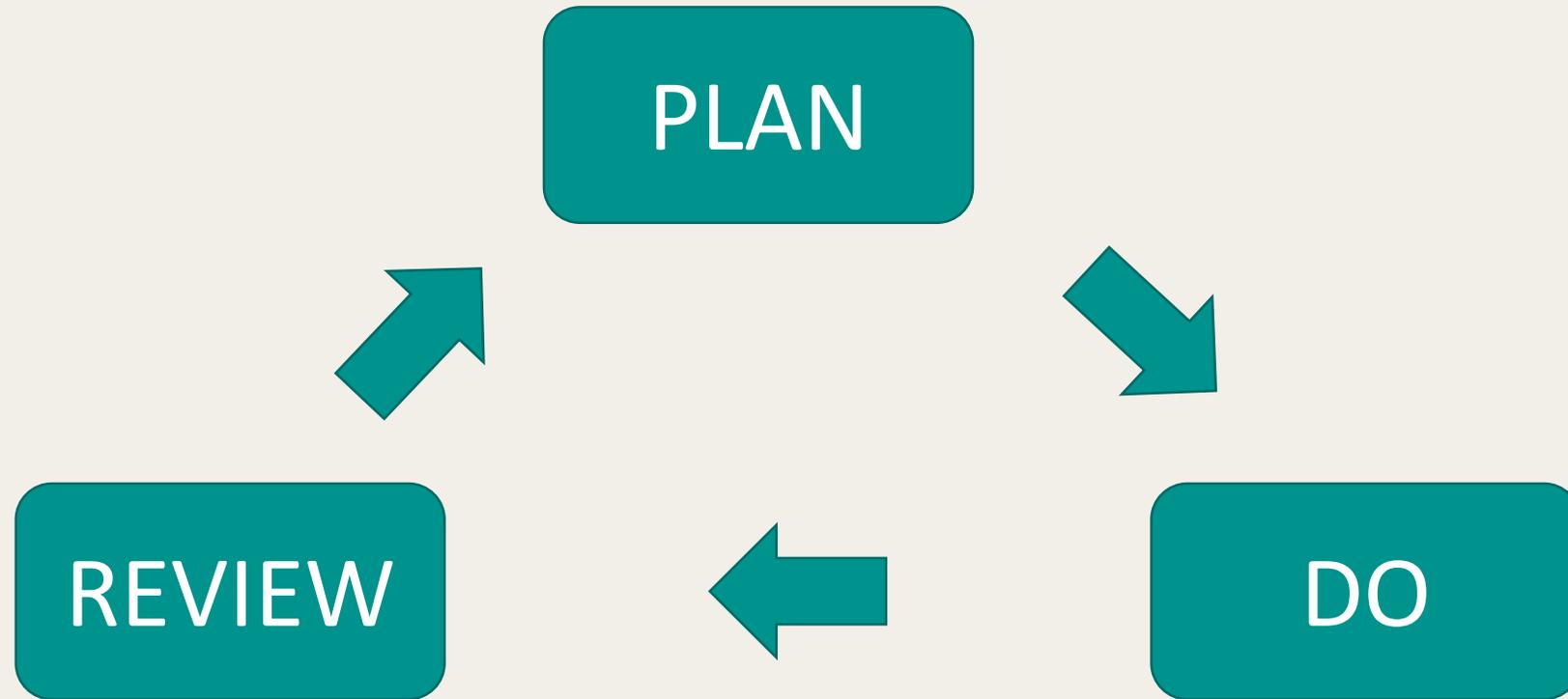
Poor Financial Control means that

- Organisation's assets could be at risk (fraud)
- Funds may not be spent in accordance with the Program objectives
- Organisation competence could be questioned

Financial Management Process

- **Managing scarce resources.** Funds are used properly, and for the reason they were provided.
- **Managing risk.** Identify risks, and manage in an active and organised way
- **Managing strategically.** Think of the Big Picture, and of the longer-term objectives
- **Managing Objectives.** Close attention to the Project objectives. Plan, Do, Review.

Financial Management Process



Financial Management Process

- **Plan.** Set objectives, plan activities. Prepare a financial plan to achieve the objectives
- **Do.** Implement activities, achieve your program goals
- **Review.** What happened compared to the plan. On target? Learn from the 'doing', reassess (plan) and start the cycle again

Why Good Financial Management?

- To be accountable to the donors
- To be accountable to the communities we work with
- To be able to produce financial reports according to our contracts
- To reduce fraud risk
- To plan for the future
- To achieve program goals
- To get better value for money

Good Financial Management Framework

- Consistency. Policies and procedures; coding expenses
- Accountability. Ability to explain how funds are used
- Transparency. Openness in their activities and plans; timely reports
- Viability. Spending according to plan, meeting obligations
- Integrity. Honesty and propriety; accuracy and complete records
- Stewardship. Taking care of resources provided
- Accounting Standards. Good financial records.

Fraud Control Strategy

Fraud Strategy

DFAT does not tolerate fraudulent or dishonest behaviour and is committed to preventing, detecting and responding to fraud in all aspects of its business.

Fraud Strategy

Fraud undermines the ability of DFAT to achieve its objectives and reduces the effectiveness of the programs administered by DFAT. It is the responsibility of DFAT and its stakeholders to prevent funds, assets and information from being misused.

Fraud Control Framework

1. Fraud is prevented by proactively identifying fraud risk and developing, implementing, and continually reviewing fraud control measures

Fraud Control Framework

2. Ensures that fraud losses incurred are minimised

Fraud Control Framework

3. Where fraud occurs, it is promptly detected, effectively investigated and where appropriate sanctions are applied.

Definition of Fraud

DFAT uses the Australian Government's definition of fraud against the Commonwealth:

Definition of Fraud

“Dishonestly obtaining a benefit, or causing a loss, by deception or other means”.

Definition of Fraud

“Dishonestly...”

- Dishonesty shows a *mental* or *fault* element to fraud.
- Requires more than carelessness, accident or error.
- Extends beyond legally defined offences to include any acts where improper benefit is gained or loss created.

Definition of Fraud

“...obtaining a benefit...”

- Allows for the benefits obtained to be either tangible or intangible.
- Covers activities or behaviors broader than misuse or misappropriation of funds or assets
- May also be obtained by a third party.

Definition of Fraud

“...obtaining a benefit...”

- Tangible benefits include any real, concrete or physical benefit.

For example:

misappropriated funds or a theft of an asset.

Definition of Fraud

“...obtaining a benefit...”

- Intangible benefits are benefits which are not concrete or physical (like power, status, or information)

For example:

- improper access to or dissemination of data or proprietary information.
- unauthorised and improper use of program assets such as unauthorised personal use of an program vehicle.

Definition of Fraud

“...or causing a loss...”

- Theft.
- Accounting fraud (false invoices, misappropriation, etc).
- Unlawful use of, or obtaining property, equipment, material or services.

Definition of Fraud

“...or causing a loss...”

- Causing a loss or avoiding and/or creating a liability.
- Providing false or misleading information to the Commonwealth or failing to provide it when there is an obligation to do so.
- Making, or using false, forged or falsified documents.

Definition of Fraud

“...by deception or other means”

- Thought and planning goes into the fraud; the mental or fault element.
- ‘Any other means’ – catch all phrase to cover anything else.

Why is Fraud Control Important?

We operate in challenging environments.

- Governance
 - Security
- Outside influence
 - Risk

Why is Fraud Control Important?

- Proactive control and policies
- Finances Protected
- Programs delivered
- Trust and confidence maintained
- Maximise performance

Fraud Control Steps

Step 1: Conduct Fraud Risk Assessment

Step 2: Develop Fraud Control Strategy

Step 3: Implement, Test, and Review Controls

Step 4: Report Fraud

Step 5: Correct and Investigate

Fraud Control Steps

Step 1: Conduct Fraud Risk Assessment

- Risk assessments help organisations identify fraud risks.
- Part of broader financial governance and business improvements
- Should contain project/country specific context
- Should contain prevention and detection procedures

Fraud Control Steps

Step 1: Conduct Fraud Risk Assessment - Identify your fraud risks

- Your operating environment and associated risks
- Possible methods for committing fraud
- What existing policies or treatments are in place already
- Consider how your current policies might be passed by

Fraud Control Steps

Step 1: Conduct Fraud Risk Assessment – Key Fraud Risks

- Theft and/or misuse of funds
- False documents
- Facilitation payments
- Conflicts of interest / Collusion
- Bribery
- Theft and/or misuse of assets
- Funds spent on items not allowed or budgeted

Fraud Control Steps

Step 1: Conduct Fraud Risk Assessment – Detecting and Preventing

- Keep financial records
- Avoid conflicts of interest
- Value for money
- Review and monitoring
- Ensure separation of duties
- Maintain management compliance
- Staff training

Fraud Control Steps

Step 1: Conduct Fraud Risk Assessment – Controls

- Prevention controls (training, procedures, etc)
- Detection controls (regular reporting, checks, audit)
- Correction controls (plans, insurance, monitoring)

Fraud Control Steps

Step 2: Develop Fraud Control Strategy

- Summary of identified risks
- Strategies and controls designed to manage risks
- Organisation context
- Training and awareness strategies
- How to handle a fraud incident
- Key responsibilities of staff

Fraud Control Steps

Step 2: Develop Fraud Control Strategy

- Fraud doesn't happen in isolation
- Lack of governance or procedures
- Good governance – all activities
- Integrity, ethics and conduct
- Oversight

Fraud Control Steps

Step 3: Implement, Test, and Review Controls

- ‘Trust’ is not a control
- Awareness of policies
- Training in policies
- Review of policy regularly

Fraud Control Steps

Step 4: Report Fraud

- Develop a 'Reporting Culture'
- Fraud can occur – better to report than try and cover up
- Not penalised for reporting
- Reporting within **5 business days**
- Fraud Referral Form

Fraud Control Steps



Australian Government
Department of Foreign Affairs and Trade



SUSPECTED OR DETECTED EXTERNAL FRAUD

Fraud Referral Form:

The Department of Foreign Affairs and Trade (DFAT) has a zero tolerance attitude towards fraud and maintains the highest standards of prevention, detection and correction. All DFAT personnel (including contracted personnel) are responsible for ensuring strong, robust and effective fraud control. This responsibility extends to Australian Government partners, commercial contractors, non-government organisations (NGOs), other implementing partners and recipient governments.

Any case of suspected or detected fraud must be reported within 5 working days from discovery to the Fraud Control Section (FCS).

Please provide as much detail as possible on the form below (noting that information gaps can be filled at a later date):

GENERAL DETAILS	YOUR ANSWERS
Please provide a brief overview of the case.	<i>Please ensure that all acronyms are spelled out in the first instance, i.e. Fraud Control Section (FCS).</i>
In which country did the suspected or detected fraud occur?	
On what date did the suspected or detected fraud occur?	(DD/MM/YYYY)
On what date did the suspected or detected fraud become known to the funding recipient?	(DD/MM/YYYY)

Fraud Control Steps

Step 5: Investigate and Correct Fraud

- Investigation – confirmed by DFAT
- Specific qualifications and expertise
- Reporting to Police
- Potential security or safety issue
- Exemptions – in rare circumstances (DFAT direction)

Financial Management And Fraud Control

Questions?

