NEW SOUTH WALES AUDITOR-GENERAL
BETTER PRACTICE GUIDE

Fraud Control Improvement Kit
Meeting Your Fraud Control Obligations
THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the Public Finance and Audit Act 1983.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial reports. We also audit the Total State Sector Accounts - consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial reports, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on agency compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament - Financial Audits.

We sometimes also develop guides to better practice. When we conduct performance audits on issues that are of broad relevance to agencies, the audit criteria that we develop and the knowledge that we obtain can be used to develop guidance material. We do this on a limited basis only, where agencies will derive value and central agencies are not intending to issue related guidance material.
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Foreword

Studies globally of fraud consistently show that it is not reducing as a key risk issue. The incidence of fraud within the Australian economy is increasing, as is the average financial loss associated with fraudulent conduct. No organisation can assume that its safeguards are adequate.

To assist organisations in the NSW public sector address their fraud control obligations we have published:

- a comprehensive guide to better practice (1994, updated in 2005)

However, fraud risks, and fraud control obligations, are growing at a rate which demands that more be done. Our 2005 report showed that still only 50 per cent of NSW public sector organisations had achieved an adequate level of performance in developing and implementing a fraud control strategy. In response to this, our 2005 report provided a range of recommendations for improving fraud control and urged that fraud control become a key item for attention by audit committees.

We recognise that organisations need a simple and effective way to review and monitor how effectively they are implementing fraud control strategies. This kit has been developed for precisely that purpose. Its development reflects an extended period of consultation, focus-group review and pilot-testing to ensure that the kit is simple to use, practical and flexible. The kit assists organisations to meet their fraud control obligations in a cost-effective manner, tailored to their situation and based on risk.

Maintaining an effective fraud control environment over the long term is a major challenge for all organisations. This kit provides a means to meet that challenge.

Bob Sendt
Auditor-General
July 2006
Is fraud still a major issue? Isn’t this now well controlled?

Studies globally of fraud consistently show that it is not reducing as a key risk issue. No country, sector, type or size of organisation is immune. The incidence of fraud within the Australian economy is increasing, as is the average financial loss associated with fraudulent conduct.

Experience shows that fraud can be perpetrated through every source imaginable: customers, suppliers, contractors, employees, managers, executives and boards. No organisation can assume that its safeguards are adequate.

For the business community, fraud presents a risk to a firm’s financial bottom-line and its reputation. Shareholders demand that firms protect their investments. Whilst profit and share value may not apply for most public sector organisations, community expectations demand the highest standards for stewardship of public resources, robust control and exemplary ethics.

What is the current situation with fraud control in the NSW public sector?

Effective fraud control has been a longstanding obligation for all organisations, and in 1990 the NSW Premier’s Department issued a specific requirement for NSW agencies to develop a formal fraud control strategy that addressed the risks of both internal and external fraud. To improve the performance of the sector in this area we have published:

- a comprehensive guide to better practice (1994, updated in 2005)

All of this material is available from our website at www.audit.nsw.gov.au

Our guide assisted agencies to design a holistic approach to fraud control, based upon “10 attributes of fraud control” that we developed. The attributes have received widespread recognition, extending into other jurisdictions, internationally and even the private sector.

Our 2005 performance audit found that some organisations have developed strong profiles for their fraud control work. And compared to our previous audits, the extent of poor performance has reduced. But overall, fifteen years on from the policy requirement we found that still only 50 per cent of organisations had achieved an adequate level of performance in developing and implementing their fraud control strategy.

Things have improved slowly, but not enough to keep pace with increasing fraud risk.

How does this kit help your organisation to improve fraud control?

To help organisations make greater progress on this issue, in our 2005 report we:

- updated our guide to better practice for the latest thinking and techniques for fraud control that organisations should be using
- recommended that fraud control become a standing item on the agenda of audit committees
- set out a series of actions that each agency should take as a matter of priority to improve its fraud control environment.
But whilst guidance on developing an effective fraud control strategy has been well received, we have seen that many organisations experience two chief problems:

1. effectively implementing its fraud control strategy in all of the work areas\(^1\) across the organisation
2. maintaining long-term awareness by staff in all work areas of the fraud control environment that the strategy is designed to generate.

This Fraud Control Improvement Kit directly tackles those implementation and maintenance issues.

By using this kit organisations can:

- assess whether, and where, the implementation of its fraud control strategy needs to improve
- develop a targeted plan for improving the implementation of its fraud control strategy
- monitor the ongoing extent of implementation of its fraud control strategy across all work areas within the organisation.

This kit augments, but does not replace, existing risk management, audit, compliance, control-assurance and corruption prevention activities.

Those activities, in concert with the organisation’s fraud control strategy and its range of policies, processes and procedures, constitute the organisation’s control framework.

This kit is a tool to assist the organisation to monitor how effectively its fraud control strategy has been, and continues to be, implemented in practice at each work area.

Your fraud control obligations have grown - can you meet them?

Organisations may not realise that their fraud control obligations have grown. A significantly wider range of expectations must now be addressed.

\(1\) a work area could be a business unit, division, branch, unit or a specific location.
Each of those sources has implications for what organisations are required to do to meet their obligations for fraud control.

A particularly significant new mandatory requirement applied from December 2004 for all organisations subject to external audit, regardless of sector. Australian Auditing Standard 210 requires the external auditor to obtain a written representation from management that the organisation has systems to deal effectively with fraud risks.

What should your organisation be doing to respond effectively to fraud risks?

As the external auditor for the NSW public sector, we consider that signoff by chief executives about fraud control (both for the purposes of AUS210 and to meet legislative requirements) should be supported by:

- regular testing of the organisation’s control framework (such as that undertaken via internal audit and other compliance and assurance functions)
- the existence of a comprehensive fraud control strategy (such as one based on our 10-attribute model)
- a process by which effective ongoing implementation of all aspects of the fraud control strategy is reviewed and monitored for all work areas across the organisation (such as this kit provides).

What is in this kit?

This kit provides guidance on how to use two new tools:

- a Fraud Control Health Check
- a Fraud Control Improvement Workshop.

These tools have been carefully designed to be simple and economical, and are used as follows.

The Fraud Control Health Check identifies:

- specific work areas where implementation of some elements of the organisation’s fraud control strategy may need refreshing or improvement
- elements of the fraud control strategy that may need attention across the entire organisation.

The Health Check consists of ten short and simple questions directed to staff. It should take an employee no more than five minutes to complete, and responses are anonymous.

Using a spreadsheet (available from our website), responses can be summarised and reported to the audit committee in a dashboard-indicator format which clearly shows staff perceptions about the fraud control environment for each work area surveyed.

More details can be found in Part 1 of this kit - Fraud Control Health Check.

The Fraud Control Improvement Workshop is a facilitated workshop for work areas that were identified in the Fraud Control Health Check as needing some attention.

Work areas flagged for attention by the Health Check may have systemic problems (as in control gaps, for example), or staff awareness of the fraud control environment may simply need refreshing.
The workshop is used to develop improvement actions suited to the specific needs and actual situations occurring in individual work areas. It provides:

- a considered assessment of the current situation
- a determination of what action is required to improve things
- an assessment of who would undertake these actions, and when.

The workshop takes about 3 hours and is designed to be run by an independent facilitator (a role often performed by internal auditors).

More details can be found in Part 2 of this kit - *Fraud Control Improvement Workshop*.

**Who should be responsible for initiating the use of this kit?**

This kit is designed to assist organisations through their audit committee (or equivalent). In organisations without an audit committee or similar, the executive management team would take responsibility.

In our 2005 report, we stated that fraud control must become a key item for attention by audit committees. Audit committees need a simple and effective way to review and monitor how effectively their organisations are implementing fraud control strategies. This kit has been developed for precisely that purpose.

Audit committees should initiate use of the Fraud Control Health Check on a regular basis. The frequency of use will depend on the nature of the fraud risks that the organisation faces in its internal and external environments.

If the organisation is exposed to significant levels of fraud risk overall, or if risk is high in particular work areas or functions, support for the annual signoff under AUS 210 may require annual use of the Health Check for areas presenting the greatest risks.

In other circumstances, we recommend that the Health Check be used at least once in all work areas across the organisation every 2-3 years.

Part 1 of this kit provides more detailed guidance about the frequency and logistics of using the Health Check.

The Fraud Control Improvement Workshop would be used only when and where this is suggested by the results shown in the management report generated from the Health Check.

In addition, for organisations exposed to moderate levels of fraud risk or greater, improving fraud control should be a standing item on the Audit Committee’s agenda.

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2 The Audit Office owns the intellectual property pertaining to all components of the Fraud Control Improvement Kit, and also to the 1994 and 2005 version of the fraud control better practice guide (the “ten attributes”). Copyright is reserved by the Audit Office. **Use of this material is permitted by NSW State and local government organisations. Use of any of this material by other organisations requires the agreement of the Audit Office.**

3 Some organisations have established related mechanisms or used other names, such as Risk / Ethics / Corruption Prevention Committees.
Part 1: Fraud Control Health Check
How does the Fraud Control Health Check work?

The Fraud Control Health Check enables audit committees\(^4\) or executive management\(^5\) to identify:

- specific work areas\(^6\) where implementation of some elements of the organisation’s fraud control strategy may need refreshing or improvement
- elements of the fraud control strategy that may need attention across the entire organisation.

The Health Check obtains the perceptions of staff about the fraud control environment in their specific work area. Based on that information improvement action can be targeted as necessary.

The questions used derive from the Audit Office’s “10 attributes of fraud control”, which we developed in 1994 and updated in 2005. Those attributes are the basis upon which most NSW public sector organisations have developed their fraud control strategy.

Who should take responsibility for implementing the Fraud Control Health Check?

Responsibility for implementing and maintaining effective fraud control must always remain the responsibility of line management. However, there are special responsibilities for audit committees.

Audit committees must ensure that the Fraud Control Health Check and Improvement Workshop(s) are appropriately implemented across the organisation. Specifically, they will need to:

- tailor how this kit is used to suit the circumstances of the organisation
- decide how often the Health Check needs to be used
- assess whether to use the Health Check across the organisation as a whole or break it down over a 2-3 year cycle
- recommend improvement action to the CEO as suggested by the Health Check report
- report the results of the Health Check and the Improvement Workshops to the CEO, CFO and the organisation generally
- monitor the implementation of improvement actions identified.

There is a need for a project manager to be designated to assist the Audit Committee. The project manager will need to take responsibility for:

- making sure that the necessary activities take place throughout the organisation at the right time
- distributing the Health Check through the organisation (in line with the approach determined by the Audit Committee)
- collecting the results of the Health Check and generating the report for the Audit Committee.

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\(^4\) Some organisations have established related mechanisms or used other names, such as Risk / Ethics / Corruption Prevention Committees.

\(^5\) In organisations without an audit committee or equivalent, the executive management team would need to take direct responsibility for this process.

\(^6\) A work area could be a business unit, division, branch, unit or a specific location.
How do you start?

The Health Check consists of ten short and simple questions directed to staff. The questionnaire should take an employee no more than five minutes to complete, and responses are anonymous.

The first decision required is, how often should the Health Check be used? This should be based on the nature and level of the fraud risks that the organisation faces in its internal and external environments.

To support the organisation’s annual signoff under Australian Audit Standard AUS 210, annual use of the Health Check may be required for those work areas exposed to significant levels of fraud risk (either internal or external). The Health Check has been designed to be simple, quick, targeted and inexpensive so that it is suitable for annual use if necessary.

As a minimum, we recommend that the Health Check be used at least once in all work areas of the organisation every 2-3 years.

Having determined the frequency to cover all work units, the second decision required is how many staff will be surveyed? Whilst responses from 10 to 20 per cent of total staff across the organisation would be sufficient, more views will provide greater insight. In small organisations, and in small work areas, it would be better to survey all staff.

The Health Check process is quick and simple enough to use quite broadly. Processing and analysis is also simple and inexpensive.

The project manager will need to set up suitable arrangements for distribution and collection of the Health Check. Online survey tools are available which may be of interest for large, dispersed organisations. Email is not recommended, as anonymity of responses is important.

What do you do with the results?

Questionnaire responses need to be entered into a spreadsheet (available to download from the better practice guides section of our website http://www.audit.nsw.gov.au/publications/better_practice/better_practice.htm).

The spreadsheet generates a Health Check report that flags areas for attention using simple colour coding.

The report’s format works in two ways. Firstly, it identifies particular work areas where staff perceptions of the fraud control environment suggest that some attention is warranted. Secondly, it flags specific attributes of the fraud control strategy that appear to warrant some attention across the organisation.

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7 A fraud risk assessment should already exist as it is one of the required ten elements for the organisation’s fraud control strategy. If it does not, then the organisation has not yet developed an adequate fraud control framework and should refer to our 2005 update of what is required.
Generating the Health Check report

Entering staff responses from the Health Check questionnaire into the spreadsheet is very straightforward. The colour coded fields and the “overall results” columns update automatically to reflect the entries made.

The Health Check report generated from the spreadsheet looks like this:

<table>
<thead>
<tr>
<th>Fraud Control Attribute</th>
<th>Overall Results for Individual Fraud Control Attributes</th>
<th>Results for Individual Work Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Work Area 1</td>
</tr>
<tr>
<td>1. Fraud Control Policy</td>
<td>green</td>
<td>green</td>
</tr>
<tr>
<td>2. Responsibility Structures</td>
<td>green</td>
<td>green</td>
</tr>
<tr>
<td>3. Fraud Risk Assessment</td>
<td>orange</td>
<td>green</td>
</tr>
<tr>
<td>4. Employee Awareness</td>
<td>red</td>
<td>orange</td>
</tr>
<tr>
<td>5. Customer &amp; Community Awareness</td>
<td>orange</td>
<td>green</td>
</tr>
<tr>
<td>6. Notification Systems</td>
<td>orange</td>
<td>green</td>
</tr>
<tr>
<td>7. Detection Systems</td>
<td>green</td>
<td>orange</td>
</tr>
<tr>
<td>8. External Notification Systems</td>
<td>red</td>
<td>green</td>
</tr>
<tr>
<td>9. Investigation Systems</td>
<td>green</td>
<td>green</td>
</tr>
<tr>
<td>10. Conduct &amp; Disciplinary Systems</td>
<td>green</td>
<td>green</td>
</tr>
<tr>
<td>Overall Work Area Results</td>
<td></td>
<td>green</td>
</tr>
</tbody>
</table>

Key

- **Good performance**: green
- **Action required**: orange
- **Urgent action required**: red

How do you interpret the results?

Work areas or aspects of the fraud control strategy that are flagged for attention by the Health Check report may have systemic problems (as in control gaps, for example), or staff awareness of the fraud control environment may simply need refreshing.

Either way, action is needed to ensure that ongoing implementation of the organisation’s fraud control strategy is effective.

The above sample report suggests that:

- staff in work area 4 have not sensed an active fraud control environment. The Fraud Control Improvement Workshop (Part 2 of this kit) should be run for that work area as a matter of priority
- staff in work areas 2 and 3 have mixed perceptions about the fraud control environment. Time and resources permitting, the Improvement Workshop should also be run in those work areas.
fraud control attributes 4 and 8 should be reviewed. Their implementation appears to be failing in some work areas. Those parts of the fraud control strategy may need improvement (perhaps circumstances have changed). Or staff awareness about them may need refreshing (staff turnover and organisational change makes this a frequent issue requiring attention)

fraud control attributes 3, 5 and 6 would also benefit from review if resources and time are available. There are signs that the effectiveness of their implementation may be weakening.

What do you do when there are improvements needed?

After considering the Health Check report, and making such further enquiries as felt necessary, audit committees should:

- recommend action to the chief executive
- monitor actions and progress.

Circumstances will vary for each organisation, however, action would normally be recommended where the Health Check report shows red or amber in the “overall results” section for:

- a particular work area
- a particular fraud control attribute.

For work areas that the Health Check has flagged for attention, recommended action would generally be for the work area to undertake the Fraud Control Improvement Workshop (Part 2 of this kit).

For attributes of the fraud control strategy that require attention, recommended action would generally be to assign them to a relevant “organisation owner” for action (such as a specific section of executive position, depending on the attribute of the fraud control strategy needing attention).

The Health Check report generator

A blank pro-forma of the Health Check questionnaire to be distributed to staff is provided on the next page.

The spreadsheet to be used to input responses from staff is available for download from our website (no agency data is captured or retained by the Audit Office).

The spreadsheet can accommodate 20 work areas, each with 30 staff. Organisations can modify the spreadsheet or the questionnaire to suit their individual circumstances - in terms of the number of work areas, staff to be surveyed, or additional questions to be asked.8

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8 Deletion of any questions, or modification of any of the underlying formulas and dashboard colour calibrations in the spreadsheet, is not permitted. Doing so would nullify any reliance that the Audit Office could place on the use of this kit to support the organisation’s signoff under AUS210.
Extending use of the Health Check for benchmarking purposes

As part of an organisation’s ongoing efforts to maintain and improve fraud control, it is recommended that the Fraud Control Health Check also be used for benchmarking purposes.

Internal benchmarking is the easiest to organise and could involve:

- benchmarking the performance of the organisation as a whole over time
- benchmarking the performance of individual work areas over time
- benchmarking across a number of individual work areas at a single point of time (where work areas share a common basis of operations but might be spread across different geographical areas)
- benchmarking across a number of individual work areas over time.

External benchmarking is harder to organise but has a range of significant benefits. In particular, the ability to learn from the experiences of other organisations has much to commend it.

External benchmarking could involve:

- benchmarking between similar organisations
- benchmarking between organisations that are in different fields.

Benchmarking syndicates could provide interested organisations the opportunity to measure performance against a common standard and to learn about performance differences.
The Fraud Control Health Check Questionnaire

Please put a tick in the most appropriate box

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Our fraud control policies and procedures tell us how to deal effectively with the fraud risks we face</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Most staff in my work area are aware of their responsibilities for minimising fraud in our workplace</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>The functions of my work area are regularly assessed to identify and address the fraud risks we face</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Our organisation conducts regular training in fraud control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>I am confident that our customers/clients, suppliers and contractors would understand that our organisation will not accept fraudulent dealings/transactions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Staff are encouraged to report alleged fraud or corruption in my organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>I am confident that my organisation systematically makes efforts to detect fraud and corruption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>I am confident that my organisation would report fraud and corruption to external organisations (eg. ICAC, Police) where it was required to do so</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>I am confident that internal investigations of alleged fraud and corruption would be carried out to high standards in my organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Most staff in my work area understand that staff will be disciplined for fraudulent or corrupt behaviour, and for breaches of our code of conduct/ethics</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Have you any general comments about the fraud control environment in your work area?

_________________________________________________________________________________

_________________________________________________________________________________

Name of your work area (not YOUR name - your response is anonymous)

_________________________________________________________________________________

Fax your completed form to or send it to
Part 2: Fraud Control Improvement Workshop
How does the Fraud Control Improvement Workshop operate?

The Workshop is used after the Fraud Control Health Check (see Part 1). It is used only for work areas where staff perceptions about the fraud control environment suggest that some attention is necessary. It will take the work area around 2-3 hours to run.

Work areas that are flagged for attention by the Health Check report may have systemic problems (as in control gaps, for example), or staff awareness of the fraud control environment may simply need refreshing. Either way, action is needed to ensure that ongoing implementation of the organisation’s fraud control strategy is effective.

The Improvement Workshop has been designed to:

- encourage structured, critical analysis and discussion about the current situation
- develop practical actions for implementation.

The Workshop gets staff to examine the fraud control environment, as they understand it, in some detail.

This is done in a structured fashion, using the Audit Office’s “ten attributes of fraud control”, which we developed in 1994 and updated in 2005. Those attributes are the basis upon which most NSW public sector organisations have developed their fraud control strategy.

How should the process be managed?

The decision about which work areas should run the workshop is made by the chief executive, following a recommendation from the Audit Committee9 or executive management team10 (how this is done is explained in Part 1 of this kit).

The Audit Committee will monitor to ensure that workshops are conducted and that suitable action is taken as determined by each workshop.

Consideration should be given to repeating the Fraud Control Health Check (which takes staff only five minutes) in the work areas where the workshops are held in, say, 12 months time to ensure that things have improved.

In setting up the workshops, the Project Manager designated by the Audit Committee (refer to Part 1) will assist work areas to make the necessary arrangements. This includes determining the most appropriate person to serve as facilitator for the workshop (a role sometimes allocated to internal audit).

The facilitator will lead the work area through the process of discussion at the workshop, but ownership of issues and responsibility for results remains with the work area. The facilitator will assist the work area to reach conclusions and to resolve a plan of action that suits the particular situation for that work area.

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9 Some organisations have established related mechanisms or used other names, such as Risk / Ethics / Corruption Prevention Committees.
10 In organisations without an audit committee or equivalent, the executive management team would need to take direct responsibility for this process.
Part 2: fraud control improvement workshop

What is needed to arrange the workshop, and how does it need to be run to be successful?

This workshop is a generic template that can be modified if an organisation desires\textsuperscript{11}. The basic resources required are:

- sufficient copies of the participant worksheets (attached)
- pencils and erasers for recording individual results (not pens)
- a room suitable for group discussions
- approximately 2–3 hours of time to complete the process.

The workshop is a directive from the CEO, so the work area manager should ensure that as many staff attend as possible - supervisory and management/executive staff included.

The facilitator will lead the workshop. The facilitator needs to ensure that:

- there is effective participation from all staff at the workshop
- the knowledge of those attending is shared and harnessed. Sometimes this may be the most important contribution of the workshop. Some staff may be aware of issues, or rules and controls, that others are not. Staff in management positions may have knowledge of policies and systems that operational staff do not
- particular individuals, or those in management positions, do not dominate the time or directions of the workshop
- the discussions lead to a set of practical actions that can be taken to improve the fraud control environment at the work area.

In particular, there is a need to ensure that participants have the opportunity to change their ratings through the discussion process. The aim of this process is to discuss, share information and to critically reflect on issues. As such, people changing their views or ratings is a sign of success! (hence why pencils and erasers are suggested)

Staff may not be aware that the organisation has a formal fraud control strategy, or of its various component parts (such as policies, rules, systems). But regardless of what staff know about specific corporate policies and systems, they will have developed perceptions about the fraud control environment that operates in practice at their work area. Those perceptions are very important. They are a reality-test for the effective implementation of the organisation's fraud control strategy.

The workshop will:

- make staff more aware of the things that the organisation has done to develop a fraud control environment that suits the risks it faces
- synthesise staff perceptions about the fraud control environment for their work area to identify how it can be improved.

This is done by systematically working through each of the elements of the fraud control strategy (using the Audit Office’s “ten attributes of fraud control”).

\textsuperscript{11} Modifications to the workshop materials should be limited to minor variations and tailoring to suit local conditions, terminology etc. Substantial modification could nullify reliance that the Audit Office would otherwise place on the use of this kit to support the organisation’s signoff under AUS210.
For each of the ten attributes, the workshop provides participants with:

- an understanding of what the attribute is trying to achieve
- questions to think about, to help them more fully understand the issues
- an opportunity to think about and assess what may have been done previously to address the aspects involved for that attribute
- indicators of how to tell if the things that have been done to address that attribute are contributing to creating the desired type of fraud control environment at this work area
- an analysis of what could be done to improve things
- an assessment of who would undertake these actions, and when.

This may generate too many suggestions to be practical, so the final step is to focus upon a small number of key actions as immediate priorities.

**Facilitator’s guide**

There are twelve mini-sessions in the workshop.

To start with, a general introduction and welcome is required to set the context. The previous sections of this document can be used as guidance material.

There is then a session for each of the ten fraud control attributes, and finally a summary session to prioritise a small number of key actions. Modules (worksheets) are attached to work through for each of these sessions.

For each module, the facilitator needs to:

- read through with the participants the aims of the attribute and issues to think about, and get them to make notes
- get participants to think about and makes notes of any previous improvement initiatives and useful future directions
- generate group discussion of the above
- move the group on to rating current achievements for the attribute.
  While it is important to read through the material together, it is important that the assessment is made individually
- generate discussion about ratings. Discussing reasons for the rating is most important. Perhaps individuals could be chosen and asked to explain their view, and then for each other module ask a different person their opinion. Or maybe an opportunity for a show of hands to indicate the views of the group which are then compared and contrasted?
- give participants an opportunity to re-think their rating in light of the discussion
- direct the group to the final question for each module, determining future actions. The group needs some time to answer this question individually and then to discuss their answers
- facilitate agreement about the actions required (if any), who will do them and when
- record the actions, who will do them and when for the group as a whole (there are many options here: everything from butcher’s paper to entering information into a word processing file/using a video projector).
This will be the pattern for each of the ten attributes.

At the end of the workshop, the facilitator will need to review the aggregated actions with the group so that they can be given one last review for practicality, robustness, final changes etc.

Finally, it is better to pick, say, six key tasks to be done rather than trying to achieve each and every improvement action identified. A worksheet is provided for this.

**What should be reported to management?**

The facilitator will prepare a report for the project manager.

This need not be a lengthy document: it is more about reporting the improvement actions to be taken, who will be undertaking them and when.

The project manager will provide this information to the Audit Committee, who will monitor ongoing progress of action is taken as determined by each workshop.

**What else?**

Reporting across the organisation of directions, strategies and actions to improve individual workplaces is vital.

This is often the loop that is missing in the performance improvement process: reporting on, and monitoring, the outcomes of all the work undertaken as part of this process.
Fraud Control Improvement Workshop
Participant Worksheets
Attribute 1

Fraud Control Policy

Just so you know

This is attribute no. 1 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- your organisation develops a tailored fraud control strategy by considering its position against each of the ten “attributes of fraud control” (this was once described as making sure that the fraud control strategy is holistic)
- your organisation develops the necessary policies, systems and procedures to address the level and nature of internal and external fraud risks that it faces
- your organisation ensures that all elements comprising or relating to the fraud control strategy pull in the same direction and don’t contradict or counter each other (this was once described as achieving an integrated macro policy)
- the fraud control strategy is a living element of your organisation’s culture and climate
- a tangible fraud control environment is apparent at all levels and in all work areas of your organisation.

Signs of success?

Please consider your own views about the following points. *People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:*

<table>
<thead>
<tr>
<th>Question</th>
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</thead>
<tbody>
<tr>
<td>do most staff in your work area know that the organisation has a fraud control strategy?</td>
<td></td>
</tr>
<tr>
<td>are most staff in your work area aware of the main policy elements involved with the fraud control strategy?</td>
<td></td>
</tr>
<tr>
<td>how relevant and up to date is the policy is its current form? Does it speak to the day-to-day issues in your workplace or for the organisation at this point of time?</td>
<td></td>
</tr>
<tr>
<td>is it your perception that the policy sits on a shelf or do you see that is it a living document that is used as a reference for dealing meaningfully with this issue?</td>
<td></td>
</tr>
<tr>
<td>how clear is the policy? Does it give clear directions, strategies and actions to drive fraud control at the level of your workplace?</td>
<td></td>
</tr>
<tr>
<td>does the policy adequately cover the risks for your workplace?</td>
<td></td>
</tr>
<tr>
<td>are there gaps or elements in need of improvement in the policy?</td>
<td></td>
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</tbody>
</table>
Fraud control improvement workshop participant worksheets

Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve fraud policies, systems and procedures, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?

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So that the group can discuss this, please make a few notes of the main reasons that have lead you to give this rating

Your workshop facilitator will get the group to discuss the various ratings that people came up with, and why. This may bring things to your attention that you were not aware of, or help you to clarify your thinking.

After discussion, if you want to reassess the rating that you made, this is fine.

The facilitator will seek to reach a group consensus on the rating, but this is not vital.
Determining Future Actions

For this attribute (only) of the fraud control strategy, does your workplace, and/or the organisation, need to do something to improve the situation NOW? (other things that you think may need to be done will be covered later under the other attributes)

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- who do you think should do it?
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The group will come back to these later, to work out a short-list of the top priority actions.
Attribute No. 2

Responsibility Structures

Just so you know

This is attribute no. 2 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- your organisation has defined who is responsible for implementing and monitoring the fraud control strategy, and in particular:
  - responsibilities at the corporate-level are clearly set out
  - responsibilities of line managers are well defined
- this responsibility framework has been made clear to staff at all levels and in all work areas
- there is a common understanding that everyone in the organisation has a role to play in effective fraud control.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

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<tr>
<td>do most staff in your work area know who within the organisation is responsible for implementing fraud control?</td>
<td></td>
</tr>
<tr>
<td>do most staff in your work area know who within the organisation is responsible for monitoring fraud control?</td>
<td></td>
</tr>
<tr>
<td>are most staff in your work area aware of responsibilities for fraud control at your work area?</td>
<td></td>
</tr>
<tr>
<td>Is fraud control covered in any position descriptions in your work area?</td>
<td></td>
</tr>
<tr>
<td>do most staff in your work area have an understanding of their own personal fraud control responsibilities?</td>
<td></td>
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</tbody>
</table>
Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve the clarity or workability of responsibility structures, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?

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After discussion, if you want to reassess the rating that you made, this is fine.

The facilitator will seek to reach a group consensus on the rating, but this is not vital.
Determining Future Actions

For this attribute (only) of the fraud control strategy, does your workplace, and/or the organisation, need to do something to improve the situation NOW? (other things that you think may need to be done will be covered later under the other attributes)

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The group will come back to these later, to work out a short-list of the top priority actions.
Attribute 3

Fraud Risk Assessment

Just so you know

This is attribute no. 3 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- your organisation undertakes regular assessments of its fraud risks
- fraud risk assessment quantifies the level, nature and form of the fraud risks to be managed
- your organisation takes actions to mitigate issues identified in the fraud risk assessment.

Signs of success?

*Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

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<tbody>
<tr>
<td>has your organisation assessed its fraud risks?</td>
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<tr>
<td>has fraud risk been assessed within the past 2-3 years?</td>
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<tr>
<td>have fraud risks been formally identified at your work area?</td>
<td></td>
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<tr>
<td>have fraud controls been discussed at your work area?</td>
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</tbody>
</table>
Previous fraud control performance improvement initiatives

*Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve fraud controls or the identification or fraud risks, either at your workplace or for the organisation generally? Jot down any that you can think of.*

Rating current performance

*Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?*

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*The group will come back to these later, to work out a short-list of the top priority actions.*
Attribute 4

Employee Awareness

Just so you know

This is attribute no. 4 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:
- all staff understand the ethical behaviours expected of them in the workplace
- contractors and suppliers understand that your organisation will not tolerate corruption, including fraudulent dealings
- training programs in ethical behaviours are in place across your organisation
- guidance material deals with the real-life situations, conflicts and fraud risks that staff face in their work areas.
- contractors and suppliers are encouraged to provide information if they suspect corruption is occurring.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

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<tbody>
<tr>
<td>do most staff in your work area understand their fraud control responsibilities? Have you seen actions by your colleagues that show they are clear about it?</td>
<td></td>
</tr>
<tr>
<td>has action been taken by corporate or local management to encourage staff to be active about fraud control?</td>
<td></td>
</tr>
<tr>
<td>do leaders in your organisation set a clear “tone at the top” concerning fraud control? Do they provide a good example?</td>
<td></td>
</tr>
<tr>
<td>do staff get mixed messages about the organisation’s values and expectations concerning fraud control?</td>
<td></td>
</tr>
<tr>
<td>has fraud control training been provided in the recent past?</td>
<td></td>
</tr>
<tr>
<td>are there visible reminders about corruption prevention and ethics in your work area?</td>
<td></td>
</tr>
<tr>
<td>are contractors and suppliers formally provided with material that indicates a strong anti-fraud stance by your organisation (such as a code of business ethics)?</td>
<td></td>
</tr>
<tr>
<td>is fraud control guidance material for staff available? Is it useful, up-to-date?</td>
<td></td>
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</tbody>
</table>
Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve employee awareness concerning fraud control, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?

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After discussion, if you want to reassess the rating that you made, this is fine.

The facilitator will seek to reach a group consensus on the rating, but this is not vital.
Determining Future Actions

For this attribute (only) of the fraud control strategy, does your workplace, and/or the organisation, need to do something to improve the situation NOW? (other things that you think may need to be done will be covered later under the other attributes)

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The group will come back to these later, to work out a short-list of the top priority actions.
Attribute 5

Customer and Community Awareness

Just so you know

This is attribute no. 5 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- the community (taxpayers) has confidence in the integrity of your organisation
- customers understand that your organisation will not tolerate corruption, including fraudulent dealings
- the community and customers are encouraged to provide information if they suspect corruption is occurring, and there are easy-to-use channels for them to do so.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

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<tbody>
<tr>
<td>is there highly visible information displayed for customers at your work area about your organisation having a strong anti-fraud stance?</td>
<td></td>
</tr>
<tr>
<td>does your organisation’s annual report contain a strong anti-fraud message?</td>
<td></td>
</tr>
<tr>
<td>does your organisation’s annual report contain details of its fraud control strategy, including its values, code of conduct, prevention/detection/investigation elements?</td>
<td></td>
</tr>
<tr>
<td>what do you think the community’s view would be of your organisation’s integrity?</td>
<td></td>
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Previous fraud control performance improvement initiatives

*Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve the awareness of customers and the community about your anti-fraud position, either at your workplace or for the organisation generally? Jot down any that you can think of.*

Rating current performance

*Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?*

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Attribute 6

Notification Systems

Just so you know

This is attribute no. 6 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- there is a clear culture operating that supports reporting of suspect actions and behaviour by staff, contractors, consultants and suppliers
- staff feel comfortable to report matters and are confident that the organisation will address complaints genuinely and protect them from reprisals (whistleblower protection)
- systems for reporting are simple to access and easy to use
- reports are received on non-trivial matters.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

| would most staff in your work area report suspect behaviours or actions that they knew about? |
| do most staff in your work area trust the organisation to deal genuinely with matters reported and to protect those who make genuine reports? |
| do most staff in your work area know about the systems and processes for reporting matters? |
| are the systems and processes for reporting matters simple and easy to use? |
| can matters be reported anonymously? |
Fraud control improvement workshop participant worksheets

Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve notification systems, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

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## Determining Future Actions

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*The group will come back to these later, to work out a short-list of the top priority actions.*
Attribute 7

Detection Systems

Just so you know

This is attribute no. 7 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- your organisation has established early warning systems to alert it to possible fraud problems
- your organisation undertakes regular reviews and checks to detect irregularities:
  - as a routine part of regular line management
  - independently of line management via the Audit Committee
- basic data mining tools are used routinely by line management
- advanced data mining tools are used by internal audit and investigation functions.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

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<th>Answer</th>
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<tbody>
<tr>
<td>Are routine checks of activities, processes, controls and transactions undertaken at your work area as part of local management and review?</td>
<td></td>
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<tr>
<td>Are any data mining tools used locally?</td>
<td></td>
</tr>
<tr>
<td>Has your work area been reviewed by internal audit within the past 3 years?</td>
<td></td>
</tr>
</tbody>
</table>
Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve detection systems, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?

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<th>Either:</th>
<th>Ok at best, but its not very clear to me that it is working well</th>
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<td></td>
<td>Score 4</td>
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</tbody>
</table>

So that the group can discuss this, please make a few notes of the main reasons that have lead you to give this rating

Your workshop facilitator will get the group to discuss the various ratings that people came up with, and why. This may bring things to your attention that you were not aware of, or help you to clarify your thinking.

After discussion, if you want to reassess the rating that you made, this is fine. The facilitator will seek to reach a group consensus on the rating, but this is not vital.
Determining Future Actions

*For this attribute (only) of the fraud control strategy, does your workplace, and/or the organisation, need to do something to improve the situation NOW? (other things that you think may need to be done will be covered later under the other attributes)*

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<th>No</th>
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*If “yes”, please make some notes below about:*
*• what are the things that need to be done?*
*• who do you think should do it?*
*• by when?*

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*The group will come back to these later, to work out a short-list of the top priority actions.*
Attribute 8

External Notification Systems

Just so you know

This is attribute no. 8 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- your organisation meets its obligations for reporting matters to external bodies, including the Police, Independent Commission Against Corruption, Auditor-General and others as appropriate
- external reporting is timely, accurate and complete
- staff are aware of the seriousness of fraud and the importance of instances of actual and suspected fraud being notified to external bodies.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>are most staff in your work area aware of the external reporting obligations that your organisation must meet?</td>
<td></td>
</tr>
<tr>
<td>are most staff aware of the purpose of external notification, and what happens when matters are reported to external bodies?</td>
<td></td>
</tr>
<tr>
<td>does your organisation’s annual report provide information to the community about instances of fraud reported to external bodies?</td>
<td></td>
</tr>
</tbody>
</table>
Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve external reporting arrangements, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?

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Your workshop facilitator will get the group to discuss the various ratings that people came up with, and why. This may bring things to your attention that you were not aware of, or help you to clarify your thinking.

After discussion, if you want to reassess the rating that you made, this is fine.

The facilitator will seek to reach a group consensus on the rating, but this is not vital.
Determining Future Actions

For this attribute (only) of the fraud control strategy, does your workplace, and/or the organisation, need to do something to improve the situation NOW? (other things that you think may need to be done will be covered later under the other attributes)

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The group will come back to these later, to work out a short-list of the top priority actions.
Attribute 9

Investigation Systems

Just so you know

This is attribute no.9 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- your organisation has instituted arrangements to ensure that matters can be investigated promptly and to the highest standards of quality
- staff are confident that investigations will be conducted to the highest standards
- prosecutions and disciplinary actions do not fail on the grounds of poor collection of evidence or other failures of the investigative process.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

| would most staff in your work area be confident that any fraud investigations were undertaken to required standards? |
| do most staff in your work area have confidence that identified perpetrators of fraud will be successfully prosecuted based on sound investigative work? |
Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve fraud investigation arrangements, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

Thinking about what this attribute is seeking to achieve, and the perceptions about those outcomes that you have developed through your experiences, how would you rate this aspect of the fraud control environment?

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After discussion, if you want to reassess the rating that you made, this is fine.

The facilitator will seek to reach a group consensus on the rating, but this is not vital.
Determining Future Actions

*For this attribute (only) of the fraud control strategy, does your workplace, and/or the organisation, need to do something to improve the situation NOW? (other things that you think may need to be done will be covered later under the other attributes)*

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*The group will come back to these later, to work out a short-list of the top priority actions.*
Attribute 10

Conduct and Disciplinary Systems

Just so you know

This is attribute no. 10 (of 10) in your organisation’s fraud control strategy.

It is one of a number of elements that contribute to establishing a fraud control environment for the organisation.

This specific attribute would be working well if:

- staff understand that fraud is a crime and will not be tolerated
- staff understand that those committing fraud will be prosecuted
- staff are clear about rules and requirements, and the values and behaviours expected of them
- the policies and actions of the organisation establish a clear and consistent approach to dealing with instances of fraud.

Signs of success?

Please consider your own views about the following points. People in different roles and at different levels may have different knowledge and different views about these matters - that is fine. Just say what you think, based on what you know:

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<thead>
<tr>
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<tbody>
<tr>
<td>are most staff in your work area clear about what fraud is, your</td>
<td></td>
</tr>
<tr>
<td>organisation’s stance on fraud, and the consequences of committing fraud?</td>
<td></td>
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<tr>
<td>is it clear to most staff that fraud is a crime and perpetrators will be</td>
<td></td>
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<tr>
<td>prosecuted?</td>
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<tr>
<td>do staff refer to examples where they feel that people were “let off”</td>
<td></td>
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<tr>
<td>lightly?</td>
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</tr>
<tr>
<td>In situations where substantive fraud is not established but breaches of</td>
<td></td>
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<tr>
<td>acceptable ethical behaviour are proven, are the disciplinary standards</td>
<td></td>
</tr>
<tr>
<td>and consequences clear to staff?</td>
<td></td>
</tr>
<tr>
<td>do most staff think that the organisation’s conduct and discipline policies</td>
<td></td>
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Previous fraud control performance improvement initiatives

Can you think of any actions that have been taken in recent times (say, in the past year or so) to improve the clarity or workability of its conduct and disciplinary standards, either at your workplace or for the organisation generally? Jot down any that you can think of.

Rating current performance

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*The group will come back to these later, to work out a short-list of the top priority actions.*
Facilitators Workshop Summary

Final Assessment

Actions and Priorities

Over the course of the workshop, a series of actions have been discussed.

Those actions should be consolidated into one place (maybe on a whiteboard, or using a computer and data projector) so they can be reviewed by the group.

A final brief discussion should then be held to determine whether there are some actions that are more important than others, duplications, overlaps, or simplifications that can be made.

The group will also need to determine how many actions are practical now (is it practical, for example, to have more than 5 or 6 key actions?)

For each final action, responsibility for implementation should be noted, together with a timetable.

Final Actions for Implementation

List below the final actions to be taken, together with responsibility for that action and the associated timetable:

<table>
<thead>
<tr>
<th>Action</th>
<th>Priority</th>
<th>Responsibility</th>
<th>Timetable</th>
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<tbody>
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This completes the Fraud Control Improvement Workshop for this work area.
Actions flowing from this workshop will be monitored by the Audit Committee.
Acknowledgements

The Fraud Control Improvement Kit project was conceived and controlled by Stephen Horne, Assistant Auditor-General, Performance Audit.

Under contract to the Audit Office, design and development of:

- the staff questionnaire and workshop materials featured in the kit was undertaken by John Watt of the Clarinda Group Pty Ltd
- the spreadsheet used to generate the dashboard-indicator report was developed by Michael Tunks of ImproMation Pty Ltd and John Watt (Clarinda Group).

Feedback was obtained from a lot of people during the course of this project, for which we are very grateful. In particular we would like to thank:

- the representatives from a wide range of State and local government organisations who attended one or more of the focus group sessions
- those organisations who provided feedback from pilot-testing, with special thanks to the responsible officers from the Roads and Traffic Authority and the Department of School Education
- the Corruption Prevention Network.

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The Audit Office of NSW owns the intellectual property pertaining to:

- all components of the Fraud Control Improvement Kit
- the 1994 and 2005 version of the fraud control better practice guide (the “ten attributes”).

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