

I·C·A·C

INDEPENDENT COMMISSION
AGAINST CORRUPTION
NEW SOUTH WALES



Operation Ricco: Overwhelming corruption, systemic failures and lessons for change

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The facts: Scale

- Over \$6.6Mil misappropriated between June 2009 to Oct 2015
 - Over \$5.5Mil in invoicing by Mr Goodman alone
 - In 2014-15:
 - \$2.3Mil \approx 3.7% revenue \approx 12.0% net surplus
- Current estimate of total misappropriation > \$16Mil (Bayside Council)

How did this happen?

1. Absence of internal and financial controls

2. Failures in the Council's governance mechanisms

- Internal audit
- External audit
- Audit committee
- General manager

3. Inadequate oversight of local government

1. Absence of internal/financial controls

- Critical lack of role segregations
 - No 3-way match between purchase order/invoice/receipt of goods
 - No controls on vendor master file (VMF)
 - End-to end control of numerous financial processes
- Few controls on other high risk processes
 - E.g. Procurement

1. Absence of internal/financial controls

- Inability to access financials or monitor expenditure
- Unqualified staff in many high risk positions

How did this happen?

1. Absence of internal and financial controls

2. Failures in the Council's governance mechanisms

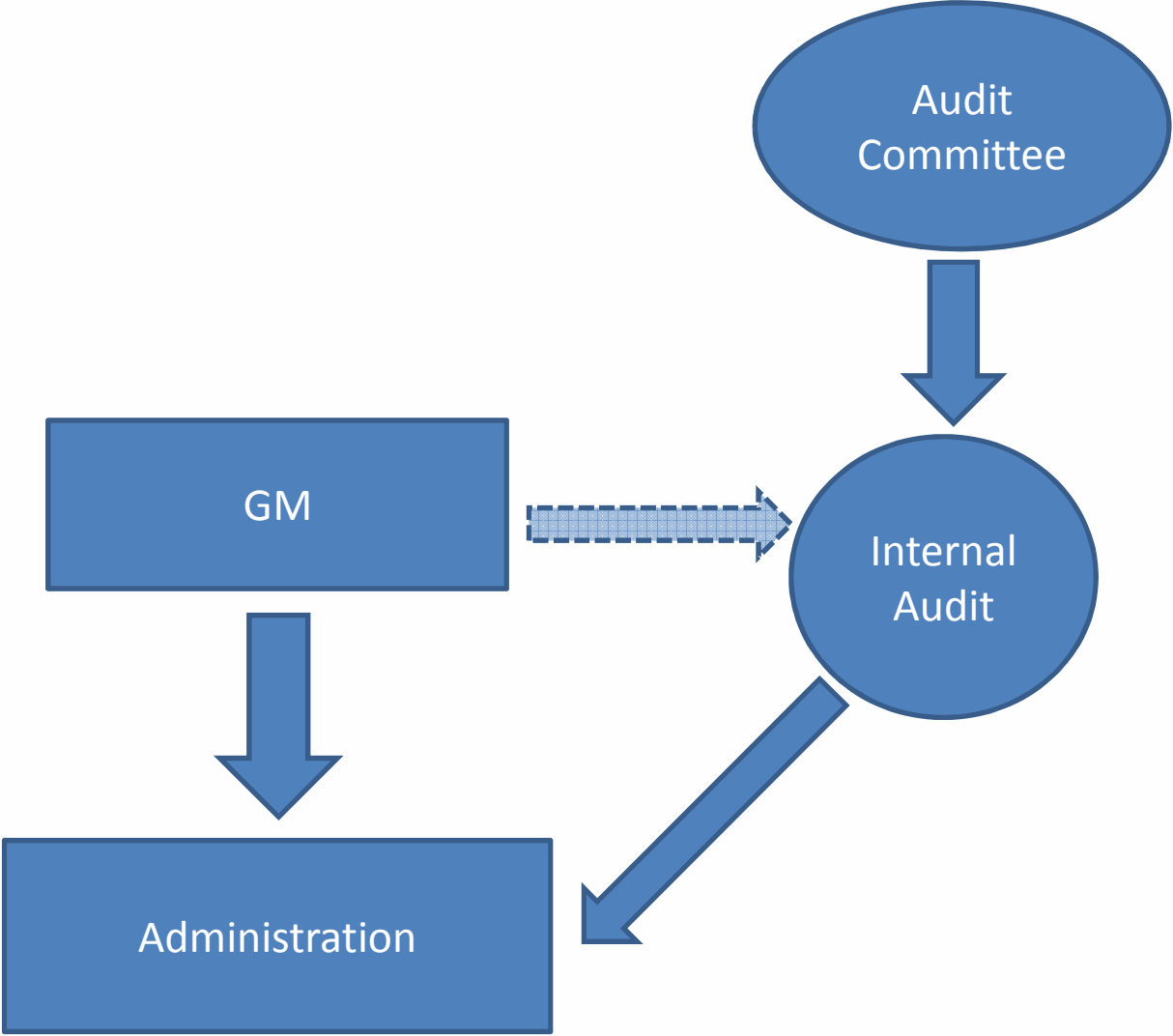
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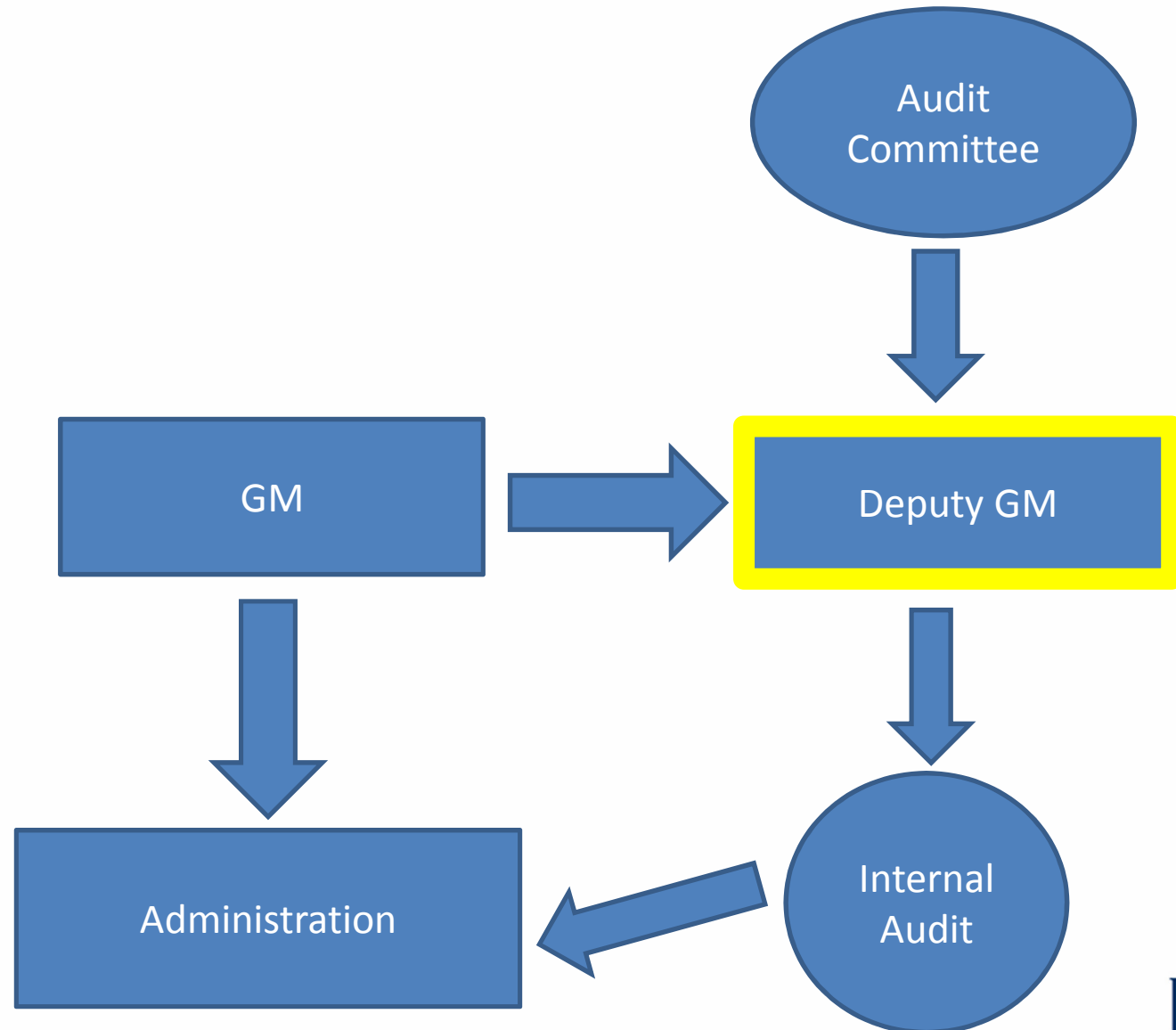
2. Governance failures: Internal audit

- Lack of independence
- No system for implementing recommendations

2. Governance failures: Internal audit



2. Governance failures: Internal audit



2. Governance failures: Internal audit

- Internal audit of the Business Unit (2013):
 - *“non-compliance with the purchasing process and... an overall breakdown in the purchasing process...gives rise to the risk of fraudulent behaviour”*
- No system for implementing recommendations

2. Governance failures: External audit

■ Found numerous serious recurrent control weaknesses

- payments authorised beyond delegations and without legally required tender process (2012-2015)
- inadequate documents to support invoice payments and lack of independent review of such payments (2009-2012, 2014-2015)
- No independent review of VMF and no regular reports of changes (2009-2015)
- bank reconciliations not done on a timely basis, not independently reviewed, not reconciling by substantial amounts (2009-2015)
- Management letters not finalised in 2014 & 2015

2. Governance failures: External audit

- Auditor never reported the issues to the Audit Committee or the elected body
 - expected committee to ask and Goodman to pass information on
- Audit Committee never asked for this information
- GM expected auditor to bring significant matters to her attention

2. Governance failures: External audit



2. Governance failures: Audit committee

Should have	Done
Examined external audit management letters	✘
Met with internal and external auditor independent of management	✘
Ensured the internal audit function was independent of management	✘
Monitor implementation of internal audit recommendations	✘
Reported to the Council on the management of risk and internal controls	✘
Meet four times per year	✘
Agree to an audit plan	—
Reviewing the audited financial statement	✓

2. Governance failures: General manager

- Local Government (General) Regulation (2005) (clause 209) requires council general managers to **ensure** that:
 - *(c) authorising and recording procedures are established to provide effective control over the council's ... revenue and expenditure and secure the accuracy of the accounting records, including a proper division of accounting responsibilities among the council's staff...*

2. Governance failures: General manager

- Since GM commenced (2011):
 - instigated or reviewed 25 policies including:
 - Credit card policy
 - Fraud and corruption prevention
 - Organisational values
 - Required staff to attend training on a number of policies including the procurement policy

2. Governance failures: General manager

Policy + training

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Practice

Enforcement + frequent independent assurance also needed

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Overview: 3 key areas

1. Absence of internal and financial controls
2. Failures in the Council's governance mechanisms
 - Internal audit
 - External audit
 - Audit committee
 - General manager
3. Inadequate oversight of local government

3. Oversight of Local Government

- Who is responsible?
 - “Ultimately the responsibility for ensuring good governance practices in a council lies with the governing body of council”
(Tim Hurst, CEO, OLG)

- However:
 - Realistic?
 - OLG’s role?

3. Oversight of Local Government

- Realistic?

- Compared to a board:
 - Limited visibility of administration
 - Limited ability to obtain information
 - May not have skills
 - Less incentive to ensure good governance

3. Oversight of Local Government

- OLG:

- Limited ability to detect poor governance
- Limited capacity to investigate

State vs Local Government oversight

	State Government	Local Government
Mandatory governance directives	✓	✗
Mandatory audit committee	✓	✗ ✓
Prequalified panel for audit committee members	✓	✗
External audit done by Auditor General	✓	✗ ✓
Subject to performance audits by Auditor General	✓	✗ ✓

Recommendations

- Internal and financial controls:
 - Ensure appropriate role segregations and process controls
 - Ensure that all staff responsible for managing budgets can view and monitor expenditure against budgets
 - Ensure staff appropriately qualified, skilled, and selected via a genuine merit-based selection process

Recommendations

■ Internal Audit

- Operates and reports independently of management
- Is directed by a risk-based audit plan
- Has robust means for implementing recommendations.

Recommendations

- External audit:
 - Provides management letters to audit committee and council
 - Meets with ARC independently of management each year
 - Meets with internal auditor to discuss risks

Recommendations

■ Audit Committee

- Reviews management letters and internal audit reports and ensures recommendations are enacted
- Actively seeks information on the risk exposure of the council
- Meets with internal and external auditors at least annually independently of management
- Reports regularly and thoroughly to the elected body

Recommendations

- Oversight of local government sector
 - Mandatory ARCs
 - prequalified members
 - Operation attested to by GM
 - Mandatory administration and governance directives

Conclusion



Image courtesy A Current Affair (Nine Network)