

## 04.10 Fraud and Corruption Control Policy

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### Purpose

The purpose of this Policy is to provide a framework for exposing and minimising the risk of fraud and corruption in the ministries and activities of the Lutheran Church of Australia ("the Church").

### Relevant to:

The policy and procedures apply to:

- All ministries and activities of the Church
- All pastors, church workers, employees and volunteers

### Objectives

The objectives of this policy are to:

- Promote trustworthiness and good stewardship;
- minimise fraudulent and corrupt behaviours;
- uncover such behaviour where it exists; and
- sanction perpetrators appropriately under internal policy and/or, when required, refer the matter to legal authorities.

### Definitions

#### Fraud

Fraud encompasses a wide variety of deceptive, dishonest or unethical behaviours. For fraud to exist there must be intentional deception.

For the purposes of this Policy the Church adopts the definition of fraud contained in AS 8001-2008 which defines it as:

*"Dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity and where 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 the improper use of information or position for personal financial benefit."*

The theft of property belonging to the Church and/or Church operated premises occupied, accessed or used by pastors, church workers, employees, volunteers, consultants, contractors, suppliers or other people external to the Church is also considered 'fraud' for the purposes of this Policy.

## **Corruption**

The Church considers corrupt behaviour by directors, board and council members, managers, pastors, church workers, employees, volunteers, consultants and contractors to be 'corruption'. For corruption to exist, there must be some personal gain to the person or another person or entity.

For the purposes of this Policy the Church adopts the definition of corruption contained in AS 8001-2008 which defines it as:

*"Dishonest activity in which a director, executive, manager, employee or contractor of an entity acts contrary to the interests of the entity and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or entity"*.

## **Policy Statement**

The Church is committed to conducting its mission with integrity, observing strict standards of honesty and by exercising good stewardship of God's gifts. The risk of fraud and corruption, which can affect lives, cause monetary and material loss, disruption to operations, attract regulatory sanctions and damage the Church's reputation, is minimised by upholding high standards of ethical behaviour and financial propriety.

Specifically the Policy seeks to:

- foster an environment that actively discourages fraudulent and corrupt activities and promote a culture of trustworthiness and stewardship;
- protect the Church's people and those who engage with the Church;
- protect the Church's assets, information and property;
- prevent reputational damage to the Church that can result from fraudulent and corrupt activity; and
- provide a transparent framework for reporting and investigating fraud and corruption should it occur.

It is the Church's policy that persons convicted of a criminal offence or dismissed for fraud or corrupt behaviour should not benefit from their activity. Accordingly, where permitted by law, the Church will seek to recover money or property such persons may have stolen or otherwise unlawfully obtained.

## **Responsible person/s**

All people involved in the life and work of the Church have a role to play in assisting it to prevent fraud and corruption.

Specific responsibilities are outlined below:

- The General Church Board (GCB) is responsible for setting the proper tone at the top in terms of ethical behaviour and must demonstrate rigorous commitment to controlling the risks of fraud and corruption both against the Church and by the Church. The GCB sets the policy framework of the Church and is responsible for implementing the policy and associated procedures across the Church.

- District Church Councils and Boards are responsible for implementing this policy and associated procedures within their respective Districts.
- Congregation/parish councils are responsible for implementing this policy and associated procedures within their congregations/parishes.
- Governance boards of all Church-related entities are responsible for implementing fraud control policies and procedures that meet their particular requirements, but are consistent with this policy and related procedures.

**Related policies**

- Standards of Ethical Behaviour
- Gift Acceptance policy
- Fixed Assets and Depreciation
- Audit policy
- Complaints Handling Policy
- Whistleblower Policy (in development)
- Church Worker Service Policy
- Employee Recruitment and Selection Policy
- Volunteer Recruitment and Selection Policy

**Relevant legislation**

- ACNC Governance Standards
- External Conduct Standards
- Anti-bribery and Anti-corruption legislation

**Document Controls**

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## 04.10

### Fraud and Corruption Control Procedures

#### Three Main Types of Fraud

According to AS 8001-2008 the three main types of fraud are:

- Type 1 – Wrongdoing perpetrated by an individual acting alone where the principal benefit goes to the individual;
- Type 2 – Wrongdoing perpetrated by more than one individual acting collusively, where the principal benefit goes to the individuals or the organisation; and
- Type 3 – Wrongdoing perpetrated by an outsider against the organisation, where the principal benefit goes to the third party.

#### Three Main Types of Corruption

Transparency International has identified three common forms of corruption:

- Type 1 – people demanding or taking money or favours in exchange for services;
- Type 2 – people misusing money or granting jobs or contracts to friends and families; and
- Type 3 – entities bribing individuals to get a contract.

#### Fraud and Corruption in the Context of the Church

Some examples of fraudulent and corrupt activity that must not be engaged in include:

- Use of petty cash floats for private expenditure;
- Using the Church's facilities, equipment and time to operate a private business;
- Using a Church issued credit card for private expenditure;
- Theft and/or unauthorised release of confidential/private information;
- Falsification of time attendance records;
- Exploitation of sick/family leave;
- Submission of exaggerated or wholly fictitious accident/incident, harassment or injury claims;
- Payment of fictitious employees or suppliers through the Church's payroll or finance systems;
- Creating and submitting false/inflated supplier invoices for payment of goods and services not delivered or provided;
- Theft of the Church's revenue or funds in the form of cash, cheques, Electronic Funds Transfer or other negotiable instruments;
- Inappropriate disposal of Church assets in contravention of the Church's Asset Management Policy;
- Theft of physical or intellectual property – includes all intellectual property and proprietary rights (whether registered or unregistered) owned or used by the Church or necessary for the conduct of the Church's business;

- Material and deliberate misstatement of accounting information;
- Falsifying job applications, qualifications or work safety qualifications;
- Nepotism (e.g. favouring relatives when hiring for a position); and
- The acceptance or offering of bribes, kickbacks and secret commissions to or from counterparts such as government officials, clients, contractors, vendors, or other persons providing or seeking to provide goods and services to the Church.

Note: Moderate gifts (not cash) and entertainment may be exchanged as a customary courtesy in accordance with the Church's Gift Acceptance Policy

### **Finance Audit and Risk**

The Finance Audit and Risk Committee (FAR) is a committee of the GCB charged with making policy recommendations to the GCB in relation to minimising the risk of fraud and corruption in the Church.

### **Executive Responsibilities**

As provided for in the policy, the governing bodies of districts, congregations/parishes and Lutheran-entities (referred to as responsible persons in the policy) have a primary responsibility for the implementation of the fraud and corruption control policy and procedures in their local contexts.

However, as these matters can have a churchwide impact (e.g. reputational and financial/implications for LCA Insurance) the Executive Officer of the Church (EOC) will be informed, consulted and involved, where appropriate, in the decision making process of responsible persons in relation to cases of fraud and corruption wherever it occurs in the Church.

#### *Recruitment*

The EOC or his/her delegated officers; equivalent positions in districts and related Lutheran-entities; and responsible officers in congregations and parishes, are responsible for following up character references for all church workers, employees and volunteers and performing checks for criminal records during the recruitment process for new church workers, employees and volunteers within their respective ministry areas. Ongoing checks of existing church workers, employees and volunteers, as required by policy, is delegated to the appropriate line manager.

#### *Training and Awareness*

Executives, managers and responsible officers will ensure all pastors, church workers, employees and volunteers for whom they are responsible have received awareness training or education regarding fraud and corruption at the time of induction and during service.

Such training or education or re-training or refresher education should occur periodically with the frequency of such training or education being appropriate taking into consideration the relative size and risk profile of the entity.

Executives, managers and responsible officers will promote an ethical culture within their area of responsibility and promote the prevention, identification and reporting of any actual or suspected instances of fraud and corruption.

### **Professional Standards Department**

For the same reason the EOC is involved, the Church's Professional Standards Department (PSD) will be informed, consulted and involved, where appropriate, in the decision making process by the responsible persons outlined in the policy concerning pastors, church workers, employees and volunteers in relation to cases of fraud and corruption.

The PSD will support efforts to minimise fraud and corruption through the ongoing development and maintenance of the Church's standards of ethical behaviour, and compliance with associated approved policies, standards and procedures.

The PSD communicates and, in cooperation with executives, managers and responsible officers, provides training in respect of the Church's standards of ethical behaviour and related policies, as well as supporting or carrying out, as requested by the relevant authorising body, the assessment and investigation of breaches of such standards.

### **Finance and Administration**

Finance and Administration personnel must be alert to the possibility of fraud and corruption when processing invoices or expense reimbursements, accepting requests to change employee or supplier bank account details, reviewing actual expenditure against budget and undertaking review work or special financial related projects.

#### *Information Technology*

Information technology should be utilised to support prevention and detection of fraud and corruption. As part of its role to implement, co-ordinate and monitor information security, the Church's Information Technology section will assist the responsible persons by recommending, making available and/or implementing technology and systems that minimise the risk of fraud and corruption, including the establishment of mechanisms to investigate information technology misuse.

### **Auditors**

The external auditor, or other person appointed as provided for by the LCA's Audit Policy, is responsible for ensuring that the risk of fraud and corruption is considered as part of the annual auditing of the responsible person's financial statements in accordance with ASA 240. 5

### **Individual responsibility**

Pastors, church workers, employees and volunteers are best placed to prevent and identify fraud and corruption, such as detecting dishonest practices by peers or colleagues. Individuals who have reason to suspect fraud and corruption are expected to inform their Manager or the responsible officer in the first instance.

If he/she is unavailable or if the allegation involves their Manager or responsible officer, the individual must submit a report to the Manager's direct report (e.g. EOC or equivalent position).

The Church prefers that reports be identifiable, but if an individual making the report has reason to be fearful if identified, the PSD can advise him or her with specific procedures to submit the report anonymously.

This includes a Whistleblowers Policy to enable anyone to report allegations without fear of reprisal.

Any person who deliberately makes a malicious or vexatious report of an allegation of fraud and or corruption against another person will be subject to discipline or action.

### **Reporting Allegations of Fraud and Corruption**

The Church promotes an environment where people are encouraged to initially report allegations of fraud and/or corruption to their immediate manager or through alternative established reporting channels.

Reports should be made using the sequence below.

- In the first instance, to their manager or responsible officer
- A senior executive, in the event that the disclosure relates to the manager or responsible officer;
- The LCA or District Bishop in the event that the disclosure relates to a senior executive reporting to that Bishop;
- Chairperson of the Church Council/Board, in the event that the disclosure relates to the Bishop or the senior executive reports to the Council/Board; and
- The LCA Bishop (as Chairperson of the GCB) in the event it relates to the District Church Council/Board

### **Church's Response Approach**

In the event of a detected fraud or corruption event, the response approach is critical to ensure that the Church minimises losses, recovers assets at risk of loss and undertakes an appropriate internal review to minimise the opportunity for a further fraud or corruption event to occur. The Church's fraud and corruption response approach includes:

- Notification to LCA Insurance
- Assessment
- Investigation;
- Internal reporting and escalation;
- External reporting;
- Civil action;
- Review of internal controls; and
- Review of Insurance cover.

## **When Will an Investigation Be Launched and What Will it Entail?**

Reports of allegations of fraud and or corruption will be assessed by the relevant authority within the entity (responsible person) that has suffered the potential fraud or corrupt act and will do this, as necessary, with the EOC and the PSD.

If the authority decides that, based on the available information, there is enough evidence to warrant further investigation a formal investigation will be launched. The Church's existing complaints handling policy and procedures (refer to **Policy 06.04**) should be referred to for general guidelines and principles to be followed by staff involved in investigating allegations of fraud and corruption.

In addition to the abovementioned guidelines, all investigations into apparent or suspected fraud and corruption will be conducted by appropriately skilled and experienced personnel who are independent of the entity in which the alleged fraudulent or corrupt conduct occurred.

The independent party may be an external law enforcement agency, a manager or other senior person within the entity, another part of the Church, or an external consultant operating under the direction of an independent senior person within the Church.

All investigations will observe the principles of natural justice and procedural fairness in that the investigation will be conducted without bias and following good process.

Any evidence obtained during the course of an investigation must comply with jurisdictional requirements in order to guarantee the admissibility of evidence should charges result.

Any investigation into improper conduct should be subject to an appropriate level of supervision, in consultation with the PSD as necessary, having regard to the seriousness of the matter under investigation.

Members of the investigation team will have:

- Free and unrestricted access to all relevant records and premises, whether owned or rented.
- The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of their investigation.

An investigation may potentially involve the following activities:

- Interviewing of relevant witnesses including obtaining statements, where appropriate, including witnesses internal and external to the entity;
- Reviewing and collating documentary evidence;
- Forensic examination of computer systems;
- Examination of telephone records;
- Enquiries with banks and other financial institutions (subject to being able to obtain appropriate court orders);
- Enquiries with other third parties;

- Document search and seizure;
- Expert witness and specialist testimony;
- Tracing funds/assets/goods;
- Preparing briefs of evidence;
- Liaison with the police and other law enforcement or regulatory agencies;
- Liaison with Insurers in respect to Policy coverage;
- Interviewing persons suspected of involvement in fraud; and
- Report preparation.

Regardless of the gravity of the fraud and/or corruption incident, information should be recorded to satisfy governance obligations. At a minimum this will include:

- Date and time of report;
- Date and time the incident was first detected;
- How the incident came to the attention of management (e.g. anonymous report, normal report, supplier report, audit work etc);
- The nature of the incident;
- The value of loss (if any); and
- The action taken following discovery of the incident.

All details of the investigation will remain with the person or body that commissioned the investigation until allegations are confirmed or found to be unproven. As appropriate the governing body (e.g. GCB) or senior executive (e.g. EOC) will be involved when it becomes clear that action will be taken including referring the matter to appropriate law enforcement or regulatory agencies and/or pursuing civil action against the perpetrator(s) to recover losses.

**NOTE:** It is intended that a flow chart is developed to provide a visual representation of the process