

## **FMM 02.7 Fraud**

### **7.1 Authority and Prescribed Requirements**

- Organic Law on the Independent Commission Against Corruption (OLICAC) 2020
- Public Finances (Management) Act 1995 (PFMA)
- Criminal Code Act - Defines offences related to fraud and corruption, including bribery, embezzlement, and misappropriation of funds.
- Whistleblower Act 2020 to provide protections for individuals reporting corrupt activities, safeguarding them from occupational detriment.
- Anti-Money Laundering and Counter-Terrorist Financing Act 2015 establishes measures to detect and prevent money laundering and terrorism financing activities in Papua New Guinea.
- Proceeds of Crime Act 2005 provides the legal framework for confiscating and recovering assets derived from criminal activities

### **7.2 Relevant Standards and Supporting Documentation**

- National Anti-Corruption Strategy (and associated action plan) 2010–2030 is a strategic framework guiding the government’s efforts to combat corruption.

### **7.3 Minimum Responsibilities**

Departmental Heads are to implement robust fraud control frameworks, including policies, procedures, and training. They are to ensure internal audits and risk assessments focus on identifying and mitigating fraud risks. Under the PFMA Section 5(1)(d) a departmental head is required to develop and implement an annual plan to reduce the risk of fraud.

Heads of Finance are to ensure adherence to internal controls and report suspected fraudulent activities. They are to conduct reconciliations and other checks to identify irregularities in financial transactions.

Internal audit units are to regularly audit systems and processes to identify vulnerabilities to fraud and the departmental head may assign responsibility to investigate suspected cases of fraud and recommend corrective actions.

The Department of Finance is responsible for the establishment of the FAID and maintain a centralised reporting and investigation mechanisms for agencies on suspected fraud.

Governance in agencies includes arrangements for preventing, countering, and dealing with fraud.

#### **7.4 Mandated Policy**

- 1. All agencies are required to have fraud and corruption controls in place and a Fraud Control Plan.**
- 2. Agencies must conduct fraud and corruption risk assessments regularly and when there is a substantial change in the structure, functions or activities of the agency.**
- 3. Agencies must have an ongoing cycle of ensuring all controls are identified and prioritised through a risk based assessment specific to the agency.**
- 4. Agencies must have governance structures, processes and officials in place to oversee and manage fraud and corruption risks. Agencies must keep records of those structures, processes and officials.**
- 5. Where an investigation has reasonable evidence of fraud or corruption, the departmental head is required to report their findings (see external units below) regardless of whether it relates to either public funds or the corrupt conduct of a Public Officer. There are no exceptions to this direction.**
- 6. An agency department head must have appropriate training and awareness and system to ensure that agency employees and their agents are aware of what constitutes fraud and corruption and what the agency's risks of fraud and corruption are.**
- 7. A department head is required to ensure that the protections under the *Whistleblower Act 2020* are captured as part of the fraud controls.**

**8. Government of PNG has a zero tolerance for fraud and any evidence of fraud must be lodged with the appropriate authorities for formal investigation.**

### **7.5 Non-mandatory Guidance**

In broad terms, managing the risk of fraud involves:

- Assessing an agencies overall vulnerability to fraud
- Identifying the areas most vulnerable to fraud risk
- Evaluating the scale of fraud risk
- Responding to fraud risk
- Detecting fraud
- Measuring the effectiveness of the fraud control plan
- Reporting fraud

An agency fraud control plan should capture the following:

#### **7.5.1 Definitions of fraud, corruption and dishonest dealings**

**“Fraud”** is the use of deception with the intention of obtaining personal gain for the perpetrator or for someone else, avoiding an obligation or causing loss to another party. Fraud can be used to describe a wide variety of dishonest behaviour including forgery, false representation and the concealment of material facts. The fraudulent use of IT resources is included in this definition, where its use is a material factor in carrying out a fraud.

**“Corruption”** is an activity in which a person acts contrary to the interests of the Office and abuses his/her position of trust in order to achieve some personal gain or advantage for themselves, or provide an advantage/disadvantage for another person or entity.

**“Dishonesty”** the quality of being untruthful or deceitful.

**“Whistleblower Occupational Detriment”** refers to any unfair treatment or harm an employee suffers as a result of reporting misconduct, fraud, or corruption (commonly known as whistleblowing). It is a form of retaliation aimed at discouraging or punishing individuals who expose unethical or illegal behaviour within an organisation.

### **7.5.2 Policy Statement and Governance**

- Establishes the agency's zero-tolerance approach to fraud and corruption.
- Defines the roles and responsibilities of senior management, audit committees, and other stakeholders.
- Assigns oversight of fraud risk management to a designated "Fraud Control Officer" or equivalent position.
- Identifies the points in an investigation where reporting to authorities is required and there is implementation and enforcement of investigation recommendations.

### **7.5.3 Fraud Risk Assessment**

- Identifies and evaluates potential fraud risks in the entity's operations.
- Considers both internal and external fraud risks, such as employee theft, procurement fraud, or vendor collusion.
- Recommend risk mitigation strategies tailored to high-risk areas.

### **7.5.4 Prevention Strategies**

Prevention is the most cost-effective method of managing fraud risks. Key strategies include:

- A strong system of internal controls through clear policies and procedures for financial transactions, asset management, and procurement.
- Segregation of duties to ensure no single individual has control over all aspects of a financial process.
- Maintain accurate and up-to-date supplier/vendor records, with due diligence checks for legitimacy.
- Strong emphasis on complying with an agency's procurement procedures.
- Promote an organisational culture that emphasises integrity and accountability.

### **7.5.5 Detection Mechanisms**

Even with strong preventive measures, fraud can still occur. Effective detection mechanisms include:

- Strong system of monthly and annual reconciliations, particularly for bank account reconciliations.
- Conduct regular audits to verify compliance with policies and detect irregularities.
- Encourage reporting of suspicious activities by providing anonymous and protected reporting channels.
- Train staff to recognise warning signs, such as employees living beyond their means or frequent changes in vendor bank details.

### **7.5.6 Response and Investigation**

The plan should outline clear procedures for responding to suspected fraud, including:

- Define how and to whom fraud allegations should be reported (e.g., Fraud Control Officer, ICAC, the Police).
- Establish protocols for internal investigations or engaging external investigators.
- Ensure evidence is secured and handled appropriately to support legal or disciplinary action – ensure proper training in investigations for any members of investigation teams, audit and risk committees and HR or disciplinary committees.
- Implement measures to address control weaknesses and prevent recurrence, particularly in ensuring that investigations document clearly any recommendations for improvement and enforcement of findings.

### **7.5.7 Implementation and Enforcement of Investigation Outcomes**

Departmental heads must have clear fraud investigation processes and methods and processes to enforce investigation outcomes.

Fraud often reoccurs because there is no enforcement of investigation outcomes.

Public entities must adopt a systematic approach to follow through on investigation recommendations and report evidence of fraud.

Where there is evidence of fraud uncovered during investigations, it must be reported promptly and appropriately. There is no discretion by a departmental head or a board not to report evidence of fraud and the governance mechanisms available are:

### **7.5.8 Internal Reporting**

Senior Management and Audit Committee are usually the internal reporting mechanisms.

### **7.5.9 External Reporting**

#### **7.5.9.1 *Independent Commission Against Corruption (ICAC)***

ICAC is the authority established under the Independent Commission Against Corruption Act 2020 as the key body to investigate and address corruption in Papua New Guinea, including fraud involving public funds.

- ICAC independently investigates reports of fraud involving public funds, ensuring impartiality and transparency.
- Works alongside other entities with legal powers to ensure a unified approach to combating fraud.
- After investigations, ICAC may recommend disciplinary actions, policy reforms, or refer cases for prosecution.
- Protects individuals who report fraud from retaliation, fostering an environment where fraudulent activities can be reported without fear.

#### **7.5.9.2 *Financial Analysis and Supervision Unit (FASU)***

FASU is established under the Anti-Money Laundering and Counter-Terrorist Financing Act 2015, serves as PNG's financial intelligence unit.

- Collects, analyses, and disseminates financial intelligence on suspicious transactions.
- Monitors compliance with AML/CTF regulations.
- Collaborates with domestic and international counterparts to combat financial crimes.

#### *7.5.9.3 Fraud and Anti-Corruption Directorate (Police)*

A specialised unit within the Royal Papua New Guinea Constabulary, tasked with investigating serious fraud and corruption.

- Investigates crimes such as embezzlement, bribery, and misuse of public funds.
- Works with other agencies, including the ICAC and Auditor-General, to bring perpetrators to justice.
- Supports prosecution to uphold law and order in financial governance.

#### *7.5.9.4 Financial Audits and Investigation Division (FAID)*

FAID operates within the Department of Finance and focuses on ensuring financial accountability and integrity within government entities through inspections and investigations.

- Conducts inspection audits and investigates financial mismanagement or fraud in public sector entities under the PFMA.
- Recommends improvements to internal financial controls.
- Refers cases of fraud to law enforcement agencies for prosecution.

#### *7.5.9.5 Ombudsman Commission*

An independent constitutional body established to promote good governance and enforce the Leadership Code.

- Monitors public officials, ensuring their compliance with the leadership code, financial and ethical standards.

- Investigates complaints of misconduct of leaders which are not limited to misuse of public funds but also address possible administrative breaches or systemic failures.
- Reports findings and makes recommendations to the leadership tribunal.

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