

**Date:** 2023-05-31

**Subject:** **Corporate Fraud Governance Structure**

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**Report Number:** CAO's Office-2023-500

**Recommendations:**

1. That the report titled: **Corporate Fraud Governance Structure** to the Audit Committee Meeting of June 12, 2023, be received.
2. That the updated **Corporate Fraud Governance Structure** and the **Corporate Fraud Prevention Policy**, as set out in **Appendix 1**, be approved.

**Overview:**

- The purpose of this report is to communicate and obtain approval for the proposed changes to the Corporate Fraud Governance Structure and Corporate Fraud Prevention Policy. The changes are necessary to:
  - Separate management's responsibility (Fraud Prevention Framework) from the Internal Audit function (Investigative Process and Reviews);
  - Outlining the handling of fraud allegations implicating identifiable senior positions; and
  - Defining and outlining the purpose of the reporting hotline.
- The scope of the changes includes:
  - Transferring Corporate Fraud Prevention Policy ownership to the City Legal Services.
  - Renaming the "Fraud Reporting Hotline" to "Ethics Hotline" to reflect the scope of reports the Hotline receives.
- A copy of the updated Corporate Fraud Prevention Policy is included in **Appendix 1**. The previous Corporate Fraud Prevention Policy, GOV-110, dated September 1, 2019, is set out in **Appendix 2**. The process for handling allegations received via the Hotline is detailed in **Appendix 3**.

## **Background:**

As part of the City of Brampton's ("City") commitment to safeguarding its financial viability and reputation, a Fraud Framework was established to prevent, detect, and report incidents of fraud, waste, and ethics violations (hereafter collectively called "fraud") as well as outlining the related investigative processes. On July 4, 2016, the City launched the Corporate Fraud Prevention Hotline ("Fraud Hotline"), which allows City employees to report alleged incidents of fraud. The Fraud Hotline enables employees to report incidents of suspected fraud anonymously and confidentially 24 hours a day, seven days a week. Employees can submit a report through a secure third-party website or phone through a third-party dedicated toll-free number. Employees should feel empowered to report incidents of suspected fraud to ensure the City's assets are protected.

The current Corporate Fraud Prevention Policy took effect on September 1, 2019. It established the requirements and responsibilities for the prevention, detection, and reporting of fraud, the conduct of fraud investigations, and the consequences when fraud is found to have occurred.

### Who Can Use Reporting Hotline?

The Fraud Prevention Hotline, to be renamed "Ethics Hotline," is open to current employees and contractors of the City of Brampton and is not available to residents. Residents can report potential fraud and waste in the City through Service Brampton or by following the Public Complaints Process.

At the request of the Audit Committee, Internal Audit delivered a *Staff Information Report Regarding the Fraud Hotline Expansion to Brampton Residents* at the December 7, 2021, meeting of the Audit Committee. The report was received by the committee under motion AU036-2021. Click [here](#) to see a copy of the report. The Committee or City Council has taken no further action, and the Ethics Hotline remains restricted to current employees and contractors.

It should be noted that concerning staffing the hotline, Internal Audit was not resourced to manage the hotline, or other related support functions, such as information campaigns. Internal Audit currently handles allegations reported through the hotline on a best-effort basis. The December 7, 2021, information report concludes that additional staff is required should the Ethics Hotline be expanded to City residents.

## **Current Situation:**

The experience gained from managing the Fraud Hotline reporting process since the last policy update, a renewed focus on meeting the IIA practice standards, a review of the City of Brampton Audit Charter, and benchmarking work with other cities have

highlighted areas where the fraud governance structure, policies and procedures need to be clarified and strengthened.

The changes presented in this report will enhance existing corporate policies and procedures.

### The Policy Changes: What has changed and Why?

1. The ownership of the Corporate Fraud Prevention Policy is moving from Internal Audit to the office of the Chief Administrative Officer (“CAO”)

#### 1.1. Ownership of the Corporate Fraud Prevention Policy: City Legal Services

Ownership of the Corporate Fraud Prevention Policy is moving to the CAO’s office. The CAO has delegated responsibility for revising and maintaining the Policy to the City Solicitor.

#### 1.2. Responsibility for Investigations: Internal Audit

Internal Audit will continue to manage the Hotline Operations. This includes coordinating and managing the allegations received via the Hotline and the related investigations, providing advisory services on the associated inquiries, and regularly updating the City Audit Committee on the allegations received and their disposition.

### Why did we change?

Managing fraud risk and responsibility for managing the Hotline and investigating fraud allegations are incompatible roles and should be segregated. Management is responsible for managing corporate risk, including fraud risk, while Internal Audit is responsible for assessing the City’s Fraud Prevention Policy and practices objectively and independently, as well as coordinating/conducting/managing investigations of detected fraud and fraud allegations.

Finally, the current structure does not comply with the City of Brampton Audit Charter: *“Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.”*

2. Investigations of allegations implicating certain identifiable senior positions will be outsourced to third-party investigators.

Internal Audit will outsource the investigation of all fraud allegations implicating identifiable senior positions (the CAO, Department Heads, City Clerk, City Solicitor, Director of Human Resources, Director of Internal Auditor, and City Treasurer) to a third-party investigator.

The new process will remove Internal Audit from handling the allegations and related investigations of the identifiable senior positions.

### 3. Renaming the Fraud Hotline: Ethics Hotline

The name “Ethics Hotline” better reflects the mix of allegations coming through the Hotline, including violations of ethics and the Code of Conduct, waste, and fraud.

### Operational Prerequisites

Specific processes and services are required to implement the policy changes effectively. The operational approach described in **Appendix 3** was designed with the following objectives:

- Minimizing staff involvement in investigations that involve identifiable senior positions;
- Retaining a third-party investigator as quickly as possible after an allegation implicating identifiable senior positions has been submitted to the Ethics Hotline; and,
- Clarifying the handling of allegations that can best be directed toward the Accountability Officers defined under the *Municipal Act, 2001*.

Internal Audit, in collaboration with Purchasing, is creating a roster of pre-qualified third-party investigators with standardized agreements to meet these objectives. The RFP to build the roster is open and will close on June 22, 2023.

### **Corporate Implications:**

#### Financial Implications:

IA staff will continue to manage the Fraud Hotline on a best-effort basis in 2023. Any increase to the operating budget will be assessed during the 2024 budget process.

#### Other Implications:

N/A

### **Term of Council Priorities:**

This report fulfills the Council Priority of “Brampton is a well-run city” by enhancing the Corporate Fraud Prevention Policy and Fraud Governance Structure, which promotes corporate accountability, our values, and governance best practices.

### **Conclusion:**

The policy changes, operational approach, and funding requirements identified in this report will achieve the objectives of segregating management functions (Fraud Prevention Framework) from Internal Audit functions (investigative process), clarifying the purpose of the reporting hotline, clarifying the handling of fraud allegations involving identifiable senior positions and minimizing Internal Audit staff involvement in those investigations.

**Jointly Authored by:**

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**Attachments:**

Appendix 1: Updated Corporate Fraud Prevention Policy 2023  
Appendix 2: Corporate Fraud Prevention Policy GOV-110- v September 2019  
Appendix 3: Operational Approach