



Fraud against the Commonwealth

Report to Government 2010–11 to 2012–13

Penny Jorna & Russell G Smith





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Foreword

Public sector fraud continues to be of concern to the Commonwealth Government. Not only does it reduce funds available for government programs, but it also creates a negative and counterproductive atmosphere within affected workplaces. Fraud can destroy working relationships, reduce productivity and lead to loss of staff, with immeasurable direct and indirect harms being suffered both by the public sector and the community at large. Understanding the nature and extent of the problem is the first step in devising workable preventive strategies and effective solutions.

This report presents the results of a longitudinal census of fraud incidents experienced by Commonwealth entities and the ways in which fraud risk has been managed and controlled. Previous Commonwealth fraud surveys published by the Australian Institute of Criminology have presented data for single financial years. In this report, an opportunity has been taken to present trend information for the first time in respect of the three most recent years for which census data were available—2010–11 to 2012–13.

Of the 154 or more Commonwealth entities that responded to the Australian Institute of Criminology's census each year, almost 40 percent experienced one or more suspected incidents of fraud. Unfortunately, between 2010–11 and 2012–13, both the number of suspected incidents of fraud and the funds at stake increased.

In total, 265,866 incidents of suspected fraud involving losses of \$530m were reported over the three years. Each year, more than 1,000 defendants have been prosecuted for fraud against the Commonwealth in respect of charges involving, on average, approximately \$50m each year. Of those convicted, most received non-custodial sentences, with approximately 10 percent being sentenced to terms of immediate imprisonment. Only a small proportion of funds are recovered each year.

I am confident that the information presented in this report will assist in identifying emerging areas of risk and enabling new and effective fraud control measures to be constructed.

Dr Adam Tomison
Director (Chief Executive)
Australian Institute of Criminology

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Acknowledgements

This report would not have been possible without the provision of information and support from the fraud control staff within each of the Commonwealth entities that responded to the census questionnaires, as well as the sage guidance provided by officers within the Attorney-General's Department.

Executive summary

Summary of findings

Experience of fraud

- Over the last three financial years, 2010–11 to 2012–13, the percentage of Commonwealth entities experiencing fraud has remained relatively stable, varying from 40 percent in 2010–11 and in 2012–13, to 43 percent in 2011–12. This stability related to the proportion of entities experiencing both suspected internal, as well as external fraud incidents.
- Each year, entities with more than 1,000 staff experienced more fraud than smaller entities with 500 or fewer staff. The lowest numbers of suspected fraud incidents were experienced by medium-sized entities with between 501 and 1,000 staff. The relationship between entity size and experience of fraud accords with similar findings of business fraud victimisation surveys generally and is explained by the increased opportunities for fraud that arise in large organisations and the larger sums of money with which they deal.

Extent of fraud

- Over the three years, 265,866 incidents of suspected fraud were reported by Commonwealth entities.
- There has been a general decline in the number of incidents of suspected internal fraud—from 3,828 in 2010–11 to 2,296 in 2011–12, to 1,685 in 2012–13, representing a 56 percent decline over these three years. This was due to a large reduction in fraud incidents detected by a small cohort of entities, rather than across all Commonwealth entities.
- Each year, substantially greater numbers of external fraud incidents were detected than suspected internal fraud incidents. In 2012–13 for example, 133,969 incidents of external fraud were detected, as opposed to 1,685 incidents of internal fraud. Owing to different counting rules being adopted by respondents over the three years, there have been large fluctuations in reporting suspected external fraud, extending from 87,207 in 2010–11 and 36,759 in 2011–12, to the much higher figure of 133,969 in 2012–13. These changes are influenced more by different reporting practices than the underlying incidence of external fraud.
- In addition to these suspected incidents, which related solely either to internal or external fraud, a small number of incidents involved collusion between those working within entities and people outside (61 incidents over the 3 years). The number of these incidents involving collusion has also fluctuated greatly annually.
- A 60 percent reduction was found in the number of internal fraud suspects over the three year period. However, the ratio of incidents to suspects remained constant, with 1.2 incidents per suspect reported in 2010–11 and 1.3 incidents per suspect in both 2011–12 and 2012–13.

How fraud was committed

- Respondents were asked to indicate two main aspects of how the fraud incidents they detected had been committed—their ‘focus’ (the target of the alleged fraudulent activity, or the benefit to be derived from the suspected illegal conduct) and the ‘method’ used to carry out the alleged activity (such as misuse of technology, information, identity etc).

Internal fraud

- The largest number of entities reported suspected internal fraud incidents involving financial benefits (such as obtaining cash without permission, misuse of government credit cards etc), with almost one-quarter of respondents reporting this type of internal fraud incident each year. This type of fraud also accounted for the largest financial losses. In terms of number of incidents, internal financial benefit fraud decreased over the three years from 522 incidents in 2010–11 to 397 incidents in 2012–13.
- In relation to the methods by which internal fraud incidents had allegedly been committed, a decrease was found in the percentage of entities reporting misuse of information and communications technology (ICT), corruption and ‘other’ types of method, while misuse of identity and documents increased over the three years. In terms of the number of internal fraud incidents, however, the trends were different. Over the three years, the number of incidents of internal fraud committed by misuse of ICT and other methods declined, while the number of incidents of misuse of identity and documents, and corruption increased. In each year, the method of committing internal fraud that was most prevalent involved ‘accessing information or programs via a computer without authorisation’, although this showed a decline over time.

External fraud

- Fraud involving financial benefits was the most frequently reported category of external fraud over the three years, with the proportion of entities experiencing such frauds increasing from 18 percent in 2010–11 to 21 percent in 2012–13.
- The largest number of external fraud incidents related to government entitlements, with a large increase in 2011–12 of 170,756 incidents, followed by a decline to 90,773 incidents in 2012–13. This type of fraud most often involved three main types—revenue fraud, visa/citizenship fraud and social security fraud.
- In terms of the methods of committing external fraud, the largest percentage of entities reported experiencing misuse of documents, while only five percent of entities reported corruption in 2010–11 and 2011–12, decreasing to just four percent in 2012–13. Over the three years, however, the number of incidents of fraud-related corruption increased substantially from 37 incidents in 2010–11 to 163 in 2012–13. By way of contrast, the number of incidents of fraud involving misuse of ICT declined from 56 in 2010–11 to 19 in 2012–13. In relation to fraud involving the misuse of identity, both the proportion of entities affected and the number of incidents remained relatively stable over the three years. In 2010–11, for example, respondents reported 17,152 incidents involving allegations of identity misuse, which decreased by one percent to 16,967 in 2012–13.

Cost of fraud

- The total reported cost of fraud each year is likely to be an under-estimate of actual losses incurred for a number of reasons.
 - The research findings are limited to cases of suspected fraud that were detected or reported to entities and so no indication is available of the cost of fraud cases that have not been identified.
 - A number of entities failed to participate in the census. Each year, on average, 18 percent of those invited to participate failed to do so and, arguably, some of those would have experienced either internal or external fraud.



“Fraud involving financial benefits was the most frequently reported category of external fraud over the three years, with the proportion of entities experiencing such frauds increasing from 18 percent in 2010–11 to 21 percent in 2012–13.”

- Some types of fraud cannot be quantified in dollar terms, and fraud can entail many consequential financial impacts that are also difficult, or impossible to quantify. In addition, where investigations have not been finalised, the amount lost often may still to be determined. Accordingly, the present research was only able to provide an estimate of the cost of fraud to the Commonwealth based on what entities indicated in their responses to the questionnaire.
- Not all respondents were able to quantify the value of the losses experienced. Indeed, only 49 out of 61 entities (80%) that experienced an incident of any type of fraud were able to quantify the value of the loss in 2010-11. This compared with 44 out of 67 (66%) in 2011-12 and 51 out of 64 (80%) in 2012-13 that were able to quantify financial losses
- The present study asked respondents to indicate the total amount thought to have been lost from fraud incidents, prior to the recovery of any funds and excluding the costs of detection, investigation or prosecution. The responses indicated estimated losses at the time of reporting, as opposed to final losses determined once investigations or litigation had concluded. Separate questions enquired about amounts recovered.
- For the three years in question, entities reported fraud losses of approximately \$530m, increasing from \$119m in 2010-11 to \$204m in 2011-12, to \$207m in 2012-13. This represented an increase in cost of 74 percent over the three years.
- As a proportion of the total, internal fraud accounted for 1.7 percent of total reported fraud losses, or \$9.1m. External fraud cost \$521m over the three years.
- Over the three years, both internal fraud and external fraud losses increased, with internal fraud losses increasing by 14 percent between 2010-11 and 2012-13 and external fraud losses increasing by 75 percent over the same period. These increases were due, in the main, to changes in the number of external fraud incidents detected each year.
- In 2010-11, entities reported internal fraud losses of \$2,998,810 compared with \$116,148,022 for external fraud incidents. In 2011-12, the amount lost through internal fraud was lower at \$2,690,087, although the amount lost through external fraud rose substantially to \$201,724,438. For 2012-13, the financial losses experienced by entities were higher for both internal fraud (\$3,426,546) and for external fraud (\$203,270,364).
- Generally, the financial cost of fraud reflected the incidence of cases in terms of fraud typologies, with the highest losses falling into the category of financial benefits fraud such as misuse of government credit cards (internal fraud) or fraud relating to other allowances or benefits (external fraud). Losses in this category increased markedly in 2012-13.
- Entities were also asked to indicate how much had been recovered using various methods of recovery. The results reflected amounts recovered during the financial year in question and did not necessarily relate to amounts recovered in respect of fraud incidents that were reported during that same year. For the three years, \$3m was recovered in respect of internal fraud and \$53m in respect of external fraud, totalling \$56m for the three years, with the vast majority using administrative methods of recovery, as opposed to recovery through criminal or civil proceedings.

How fraud was detected

- Over the three years, internal and external fraud was increasingly detected through internal controls such as auditing or internal investigation. Larger numbers of incidents were detected through 'other' means such as 'tip lines' both within and outside entities. Detection of suspected incidents by staff within entities was also prevalent.
- External whistleblowers were responsible for detecting larger numbers of external fraud incidents than internal incidents, although external whistleblower detections of both types of fraud decreased substantially over the three years.

- Anonymous whistleblowers within entities were most often involved in reporting internal as opposed to external fraud detection.
- As might be expected, entities that had a dedicated fraud control section were more likely to report fraud incidents than entities without such a section. In general, it was the largest entities that had fraud control sections and these tended to be the same entities that managed, distributed or allocated the largest amounts of government funding, increasing their vulnerability to fraud.

Internal investigations

- The *Commonwealth Fraud Control Guidelines* (AGD 2011) required entities to investigate routine or minor instances of fraud, including disciplinary matters, themselves. As a result, more than 90 percent of both internal and external fraud incidents were investigated by the entity that experienced the suspected fraud.
- Respondents indicated the number of staff employed within their fraud control sections and the extent to which they held formal fraud-related qualifications. The largest numbers of staff worked in fraud investigations, as opposed to fraud prevention or other policy-related activities, and the number of investigation staff has increased each year from 1,165 in 2010-11 to 2,089 in 2012-13. However, the percentage of staff working in fraud investigation with fraud qualifications has declined from 81 percent in 2010-11 to 54 percent in 2012-13. In the case of fraud prevention staff, numbers have been less than half of those working in fraud investigation, while the percentage of fraud prevention staff with fraud qualifications has remained stable over the three years. These changes could be due to fraud control staff having their duties re-assigned from 'other' functions to 'prevention' and 'investigation', as there has been little change in the total number of fraud control staff over the three years.

Police investigations

- Over the three years, less than 4 percent of internal fraud incidents detected were referred to police or other organisations for investigation (297 incidents referred), with less than 2 percent of external fraud incidents referred on (5,344 incidents). More internal fraud allegations were referred to the AFP or CDPP for criminal action than to state or territory police, while more external fraud allegations were referred to state and territory police rather than the AFP.
- Over the three years, the AFP accepted 198 referrals and declined 55. Accepted referrals have increased during these years from 61 in 2010-11 to 65 in 2011-12 to 72 in 2012-13.

Prosecution of fraud

- Over the three years, 4,685 fraud-type cases were referred to the Office of the Commonwealth Director of Public Prosecutions (CDPP) for prosecution, the majority being direct referrals rather than via law enforcement agencies. The cases involved 6,146 defendants, as some cases had more than one defendant who was prosecuted.
- Over the three years, both the number of cases referred to the CDPP and the number of defendants prosecuted declined each year.
- The total amount initially charged in fraud-type prosecutions was \$78m in 2010-11, compared with \$30m in 2011-12 and \$37m in 2012-13.
- In each year, the most frequently imposed sentence for proved fraud offences was a recognizance order which was the most serious sentence given in approximately one third of cases each year. Other defendants received non-custodial sentences, including fully suspended terms of imprisonment, used in 23 percent of cases on average each year, and community service orders in 20 percent of cases. Fines were imposed as the most serious sentence in 10 percent of cases on average each year. The use of custodial sentences increased over the three years, from 9 percent of cases in 2010-11 to 13 percent in 2012-13.

Fraud prevention and control

- Over the three years, there has been a decline in the percentage of entities that reported having a dedicated fraud control section to deal with prevention, investigation and control of fraud risk—from 40 percent in 2010–11 to 35 percent in 2012–13. However, the number of staff employed in fraud control activities has increased overall from 3,097 in 2010–11 to 3,160 in 2012–13.
- Under the *Commonwealth Fraud Control Guidelines* (AGD 2011), a fraud risk assessment is required to be undertaken every two years. Over the three years examined, the percentage of entities complying with this has increased from 88 percent in 2010–11 to 94 percent in 2012–13. Each year, however, a small number of entities reported never having had a fraud risk assessment, doubling from two in 2010–11 to four in 2012–13. Four entities did not respond to this question.
- A high proportion of entities also reported having completed a fraud control plan within the preceding two financial years, increasing from 89 percent in 2010–11 to 94 percent in 2012–13. Again, a very small number reported never having had a fraud control plan (2 in 2011–12 and 1 in 2012–13).
- Of those entities that had never prepared a fraud control plan or ever undertaken a fraud risk assessment, only one reported having experienced fraud during the three years in question. The absence of a fraud control plan and risk assessment was due to the entity having been newly established and still completing its fraud control measures at the time of reporting to the Australian Institute of Criminology (AIC).
- In relation to training in fraud control, respondents increasingly felt that an online course should be implemented, while in 2012–13, 18 percent favoured whole-of-government training as opposed to training within individual entities.
- Finally, respondents indicated use of a wide range of best-practice fraud prevention approaches, the most frequently indicated type being the employment of entity-wide fraud awareness training.

Fraud risks for the Commonwealth

- In the Commonwealth, opportunities to behave dishonestly arise for both public servants and consultants working for the government, as well as for members of the public who have dealings with the government, such as when obtaining benefits or paying taxes. Other risks concern the provision of government services, such as aid and grants and fraud in connection with procurement activities.
- The principal fraud risks to address, in relation to internal fraud, relate to the need to continue to review and strengthen internal controls, recruitment practices and risk management generally. In relation to external fraud, risks to manage are connected with the provision of new benefits, the introduction of new taxes, procurement practices, government-funded programs and the use of consultants.
- An area of emerging risk that is apparent from the current research concerns corruption and collusion between external actors and those working within government. It was found that both the number and cost of collusion-related fraud has increased over the last three years, although relatively small numbers of incidents were involved.
- Fraud involving Commonwealth grant monies and aid programs are also areas of ongoing risk, particularly in view of the large amounts of money provided by the government each year for these purposes. Respondents were, however, only invited to report on grant-related fraud specifically in 2012–13.

How the information was gathered

- Each year, Commonwealth entities are asked to complete an online questionnaire that asks about their experience of fraud incidents and how they managed and responded to risks of fraud taking place.
- Under the *Commonwealth Fraud Control Guidelines* (AGD 2011: 7), fraud against the Commonwealth was defined as ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’. For present purposes, the AIC asked entities to provide information about all suspected incidents of fraud against the Commonwealth alleged against those employed by government entities, including staff and contractors (internal fraud), and also alleged against those who do not work for the government but who may be seeking to claim government benefits or to obtain some other financial advantage dishonestly (external fraud). Incidents of non-compliance with laws and government requirements that did not disclose evidence of suspected dishonesty were not examined in this study, as these could simply entail misunderstandings or confusion as to rules, without a potential for fraudulent conduct to be established. Instances of undetected fraud were also unable to be assessed.
- Information was provided by 154 entities in 2010–11, 157 (155 responses included in analysis) in 2011–12 and 163 (162 responses included in analysis) in 2012–13. Each year, this represents over 80 percent of those invited to participate responding to the census, with the response rate increasing annually.
- Respondents were asked to provide information by completing a secure, online questionnaire that recorded results anonymously (without naming individual entities), as the aim was to canvass the experience of fraud across the government as a whole, rather than by identifying what each individual entity had experienced.
- Further information on the investigation and prosecution of fraud incidents within the Commonwealth was also provided by the AFP and the CDPP for matters handled within each year (regardless of when they were committed).

Introduction

The current Commonwealth guidance (Resource Management Guide no. 201 Preventing, Detecting and Dealing with Fraud, issued by the Minister for Justice) notes that:

Fraud against the Commonwealth is a serious matter for all Commonwealth entities and for the community. Not only is it a criminal offence, but fraud reduces funds available for delivering public goods and services, undermines the integrity of and public confidence in the government and can place public safety at risk. The Australian community rightly expects that entities and officials acknowledge and fulfil their responsibilities as stewards of public funds and make every effort to protect public resources (Minister for Justice 2014: 5).

Fraud is a broad concept that covers a range of criminal conduct involving deception and dishonesty to obtain an advantage or unjust benefit. Dishonesty is the key attribute that distinguishes fraudulent from innocent conduct. Rather than defining dishonesty in legislation, it is usually a matter of fact to be determined at trial. Fraud against the Commonwealth is defined as ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’ ((Minister for Justice 2014: 8). Fraud against the Commonwealth may be committed by individuals who do not work for government entities (external fraud) who seek to claim benefits or to obtain some other financial advantage dishonestly, or by those employed by entities, including public servants and contractors (internal fraud).

The impact of fraud goes beyond financial loss, as victims of fraud may suffer social, emotional and psychological impacts. Non-individuals, such as businesses and government entities may also suffer from more than just financial losses—they may experience loss of information and harm to their integrity and reputation. In addition, there may be wider consequences of fraud that include risks to public safety and security. A recent survey reported that 28 percent of organisations that had experienced fraud also experienced damage to employee morale, while 19 percent of organisations noted that they had suffered reputational damage due to the fraud (PricewaterhouseCoopers 2012).

In the public sector, risk is increased because of poor risk management, inadequate internal controls and deficient recruitment practices that enable public servants and government contractors to act dishonestly (Lindley, Jorna & Smith 2012). Fraud risks can also increase when governments introduce new programs, provide new benefits, create new taxes or engage in procurement without the necessary controls being in place.

Higginson (2011), in a study of a sample of Commonwealth fraud cases referred to the AFP between July 2000 and June 2007 found that Commonwealth public sector entities offered vastly different opportunities for fraudulent behaviour from those existing in business environments, as public sector fraud can be perpetrated by anyone from any socioeconomic background and by those with or without specific skills and abilities.

Accordingly, it is necessary to have fraud control measures that relate to the specific functions and risks that Commonwealth entities demonstrate. In 2014, new Guidelines on preventing, detecting and dealing with fraud against the Commonwealth were introduced (Minister for Justice 2014). These seek to

protect public resources, including information and property, and protect the integrity and good reputation of entities and the Commonwealth. This includes reducing the risk of fraud occurring, discovering and investigating fraud when it occurs, and taking appropriate corrective actions to remedy the harm (Minister for Justice 2014: 8).

Prior to the introduction of the new Guidance, similar Guidelines were in place that entities had to follow between 2011 and 2014 (AGD 2011). These earlier Guidelines governed fraud control within the Commonwealth during the period covered by the present study and covered aspects such as risk assessment and the use of fraud control plans, fraud awareness and training, detecting, investigating and responding to fraud, and information management and reporting.

Part of the reporting requirements imposed on entities were obligations to collect information on fraud experienced each year and to provide it to the AIC for analysis and reporting. All incidents of suspected fraud, incidents under investigation and completed incidents, whether the fraud was proved or not and whether the incident was dealt with by a criminal, civil or administrative remedy, are required to be reported to the AIC on an annual basis. The present report contains the results of this reporting for the years 2010–11 to 2012–13. Details of the methodology used to gather the information, response rates and how the data were analysed are set out at the end of this report.

The information in this report is presented in five distinct sections covering:

- key trends in fraud incidents experienced by entities over the three year period;
- typologies of fraud incidents, descriptions of fraud targets and fraud modus operandi;
- the cost of fraud to entities, focusing on the amount initially lost due to fraud and amounts recovered;
- detection and investigation of fraud incidents; and
- prevention and fraud control measures employed by Commonwealth entities.

The results relate to suspected fraud incidents identified by reporting entities in the last three financial years 2010–11 to 2012–13.

“ Over the last three financial years, 2010–11 to 2012–13, the percentage of Commonwealth entities experiencing fraud has remained relatively stable, varying from 40 percent in both 2010–11 and in 2012–13, to 43 percent in 2011–12. ”



Trends in suspected fraud

This section presents data on entities' experience of fraud during the three years examined, in terms of the location of suspects, within or external to entities, the size of entities, the number of incidents detected and suspects involved. *Internal fraud* was defined as any incident of suspected fraud allegedly committed by an employee or contractor, while *external fraud* was defined as any incident of suspected fraud allegedly committed by a person other than an employee or contractor of the entity. Collusion occurred when an employee or contractor was alleged to have acted together with an external party in perpetrating fraud.

Experience of fraud

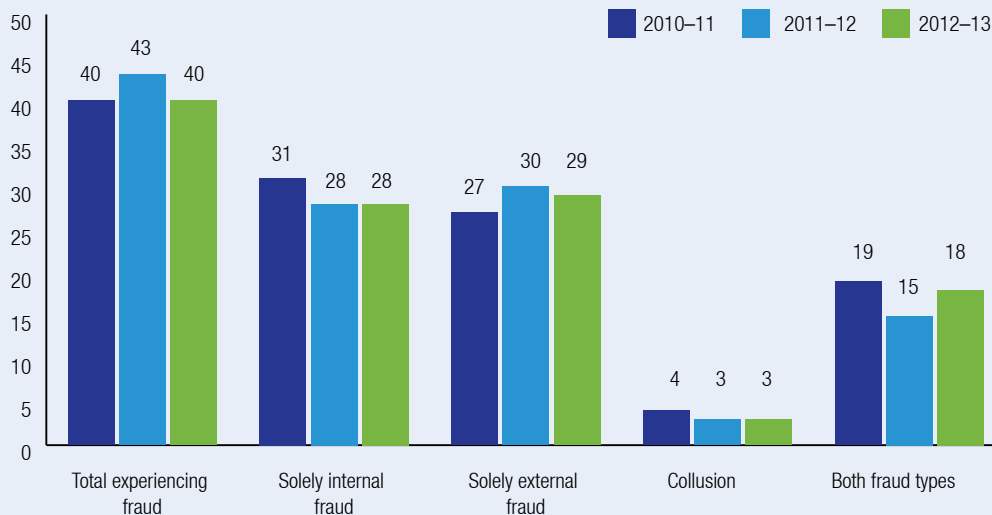
Over the last three financial years, 2010–11 to 2012–13, the percentage of Commonwealth entities experiencing fraud has remained relatively stable, varying from 40 percent in both 2010–11 and in 2012–13, to 43 percent in 2011–12 (see Table 1 and Figure 1). This stability related to the proportion of entities experiencing both suspected internal, as well as external fraud incidents, with the same largest entities reporting the vast majority of cases of external fraud. In addition, there were few changes in the small number of entities reporting collusion between staff and external parties in connection with suspected fraud.

Table 1 Entities experiencing fraud, 2010–11 to 2012–13

Year	Respondents	No fraud experienced			Fraud experienced		Internal fraud	External fraud	Collusion	Entities experiencing both types of fraud
		N	N	%	N	%				
2010–11	154	93	60	61	40	48	42	6	29	
2011–12	155	88	57	67	43	44	45	4	23	
2012–13	162	98	61	64	40	45	48	5	29	

Source: Commonwealth fraud survey 2010–11, 2011–12 and 2012–13 [AIC computer file]

Figure 1 Entities experiencing fraud by type, 2010–11 to 2012–13 (%)



Note: Total percentages exclude 'both fraud types' category

Source: AIC Commonwealth fraud surveys 2010–11, 2011–12, and 2012–13 [AIC computer file]

Extent of fraud

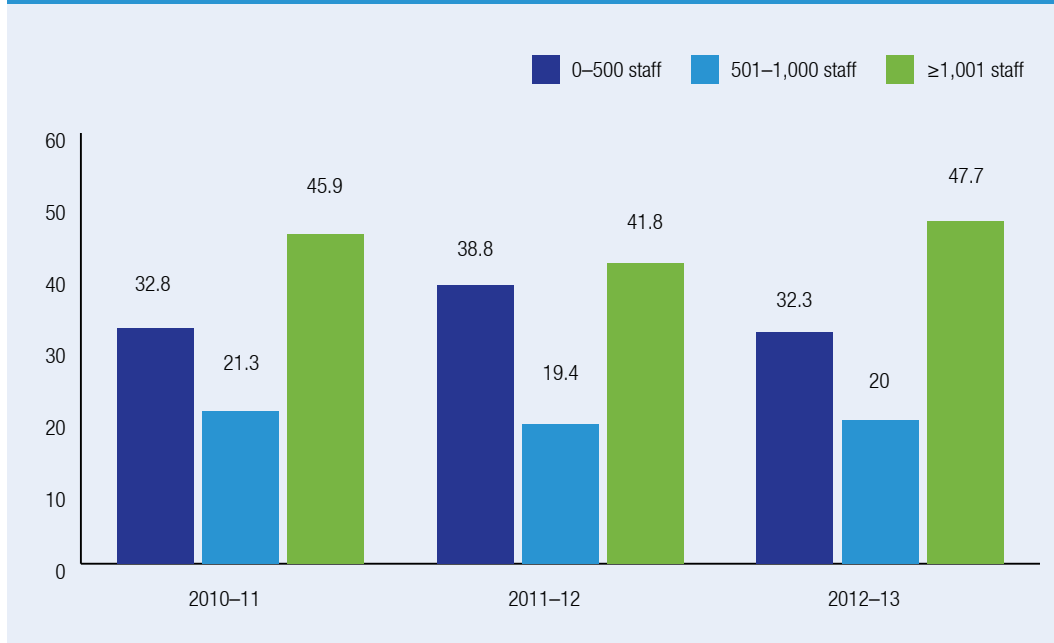
By way of contrast, there were wide fluctuations in the number of incidents identified by entities each year, as shown in Table 2. These variations were largely due to changes in the ways in which some entities classified and counted external fraud incidents each year.

Table 2 Incidents involving internal and external fraud, collusion and unclassified incidents (N)					
Year	Solely internal fraud	Solely external fraud	Collusion	Unclassified	Total
2010–11	3,828	87,207	9	48	91,092
2011–12	2,296	36,759	35	12	39,102
2012–13	1,685	133,969	17	1	135,672

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Entities' experience of fraud varied in terms of the number of staff employed, with entities with more than 1,000 staff experiencing more fraud than smaller entities with 500 or fewer staff (see Figure 2 and Table 3). The lowest numbers of suspected fraud incidents were experienced by medium-sized entities with between 501 and 1,000 staff. The relationship between entity size and experience of fraud accords with similar findings of business fraud victimisation surveys generally. For example, in 2011, PricewaterhouseCoopers (2012) in its *Global Economic Crime Survey* also found that larger organisations tended to experience more incidents of fraud. It found that 54 percent of respondent organisations that employed more than 1,000 employees had experienced fraud incidents in the preceding 12 months. This compares with the current findings that 48 percent of respondents experiencing Commonwealth fraud had more than 1,000 staff in 2012–13. PricewaterhouseCoopers (2012) argued that larger organisations were likely to be targeted because of their increased assets, more extensive business dealings and international operations. They might also be in a better position to detect fraud owing to more resources being devoted to fraud control and risk management.

Figure 2 Entities experiencing fraud by size, 2010–11 to 2012–13 (%)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Table 3 Entities that experienced fraud by entity size and year

Staff (N)	2010–11 (N=154)		2011–12 (N=155)		2012–13 (N=162)	
	N	%	N	%	N	%
0–500	20	32.8	26	38.8	21	32.3
501–1,000	13	21.3	13	19.4	13	20.0
≥1,001	28	45.9	28	41.8	31	47.7
Total	61	100.0	67	100.0	65	100.0

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Internal fraud trends

While the number of entities reporting internal fraud remained relatively stable (ranging from 44 to 48 entities), the number of incidents reported declined over the three years, with a 56 percent reduction in internal fraud incidents between 2010–11 and 2012–13 (see Table 4). This was largely due to a small number of entities reporting large reductions. Indeed, the highest number of internal fraud incidents reported by any one entity in 2010–11 was 2,059. In 2012–13, this figure declined to 633 incidents (see Table 4). Arguably, this reduction may have been due to enhanced fraud control procedures within entities, or the use of specialised fraud detection analytics in some years by some large entities.

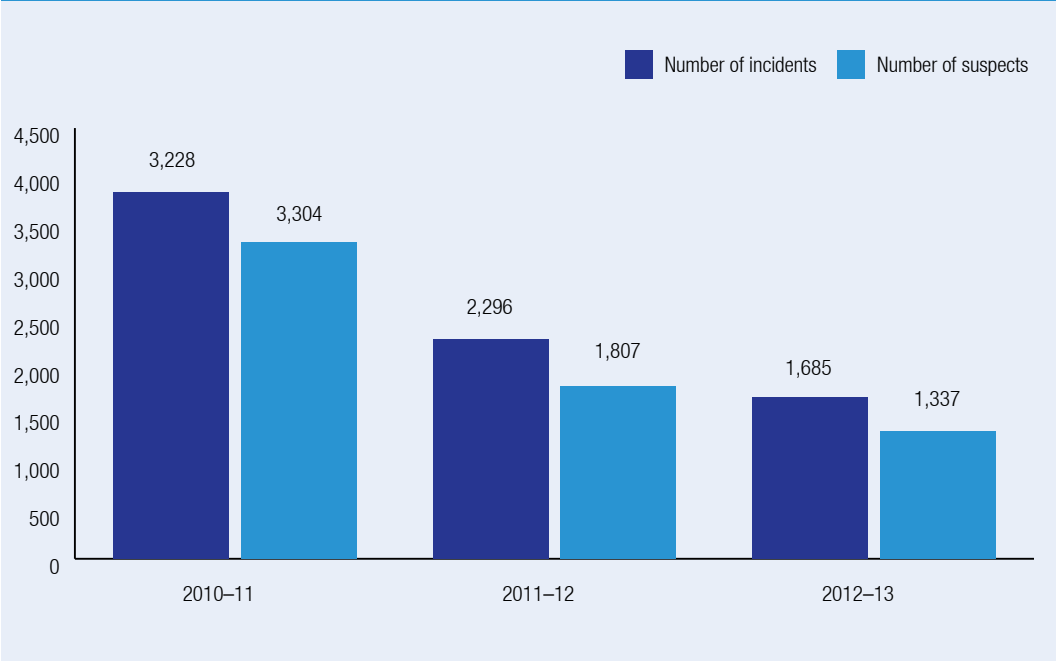
Table 4 Internal fraud summary results

Year	Entities (N)	Total incidents (N)	Mean incidents (N)	Median incidents (N)	Range for incidents (N)
2010–11	48	3,828	80	3	1–2,059
2011–12	44	2,296	52	3	1–946
2012–13	45	1,685	37	5	1–633

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Figure 3 shows that there was a corresponding reduction in the number of internal fraud suspects, declining by 60 percent over the three year period. However, the ratio of incidents to suspects remained constant, with 1.2 incidents per suspect in 2010–11 and 1.3 incidents per suspect in both 2011–12 and 2012–13.

Figure 3 Internal fraud incidents and suspects, 2010–11 to 2012–13 (N)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

External fraud trends

As with internal fraud, the number of entities reporting external fraud remained relatively stable, ranging from 42 to 48 entities. By contrast with internal fraud, there was a 54 percent increase in external fraud over the three year period. However, the difference resulted almost entirely from one entity reporting an additional 97,000 suspected incidents due to a change in the way it reported external fraud (see Table 5).

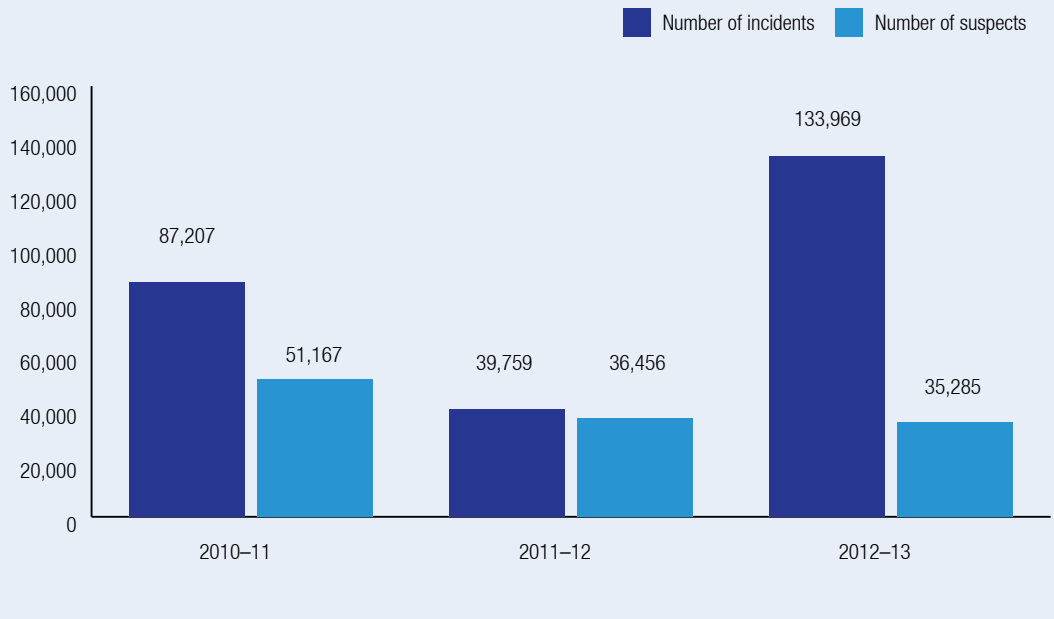
Table 5 External fraud summary results

Year	Entities (N)	Total incidents (N)	Mean incidents (N)	Median incidents (N)	Range for incidents (N)
2010–11	42	87,207	2,076	13	1–30,080
2011–12	45	36,759	817	13	1–30,748
2012–13	48	133,969	2,791	9	1–97,216

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

The increase in the number of reported external fraud incidents was not matched by an increase in the number of suspects (see Figure 4). As a result, the ratio of incidents to suspects ranged from 1.7 incidents per suspect in 2010–11 to 1.1 in 2011–12 and 3.8 in 2012–13.

Figure 4 External fraud incidents and suspects, 2010–11 to 2012–13 (N)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

How fraud was committed

The ways in which fraud can be committed are only limited by one's imagination, with methods varying from the simple and obvious to the sophisticated and obscure. This variation creates difficulties for conducting research, as it is not always possible to categorise individual incidents uniformly and discretely. In order to provide a clear set of categories to describe how fraud against the Commonwealth was undertaken, respondents were asked to indicate two main aspects of how the fraud incidents they detected had been committed—their 'focus' (the target of the alleged fraudulent activity, or the benefit to be derived from the suspected illegal conduct) and the 'method' used to carry out the alleged activity (such as misuse of technology, information, identity etc).

Five categories of focus were examined—equipment (such as computers or stock), entitlements (such as travel and expense claims), information (such as misuse of intellectual property or other information), financial benefits (such as misuse of petty cash or credit cards in the case of internal fraud, or welfare fraud in the case of external fraud) and other types (used for any incidents relating to a focus that did not fall into one of the 4 specified categories). Because fraud incidents could entail more than one type of focus, respondents were at liberty to provide multiple types of focus for each incident if appropriate. This meant that the focus totals exceeded the number of separate incidents.

Respondents were also asked to choose from among four methods by which the incidents took place—misuse of ICT, misuse of identity, misuse of documents or information and acts of corruption (such as paying or accepting bribes or kickbacks). In addition, a further 'other' option was provided for other unspecified methods. As was the case with the focus questions, respondents were also able to provide multiple responses for each fraud incident.

Aggregate data on both the focus of fraud and methods used in terms of the number of agencies and number of incidents are provided in *Appendix A*. For the purposes of the present discussion, select results are presented in respect of internal fraud incidents and then for external fraud.

Internal fraud

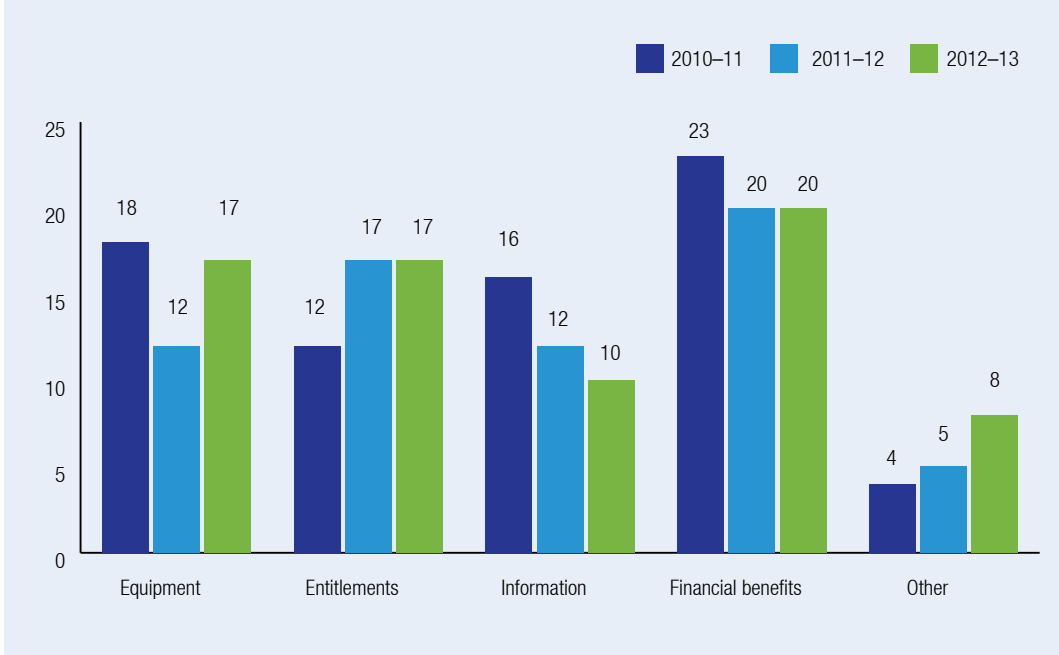
Focus

The largest number of entities reported suspected internal fraud incidents involving financial benefits (such as obtaining cash without permission, misuse of government credit cards etc) with almost one-quarter of respondents reporting this type of internal fraud incident each year (see Figure 5). There was an increase in the proportion of entities reporting entitlement fraud (such as those associated with payroll and expenses etc), while the proportion reporting fraud associated with information (such as obtaining or using information without permission) declined over the period.



“ *The largest number of entities reported suspected internal fraud incidents involving financial benefits (such as obtaining cash without permission, misuse of government credit cards etc), with almost one-quarter of respondents reporting this type of internal fraud incident each year.* **”**

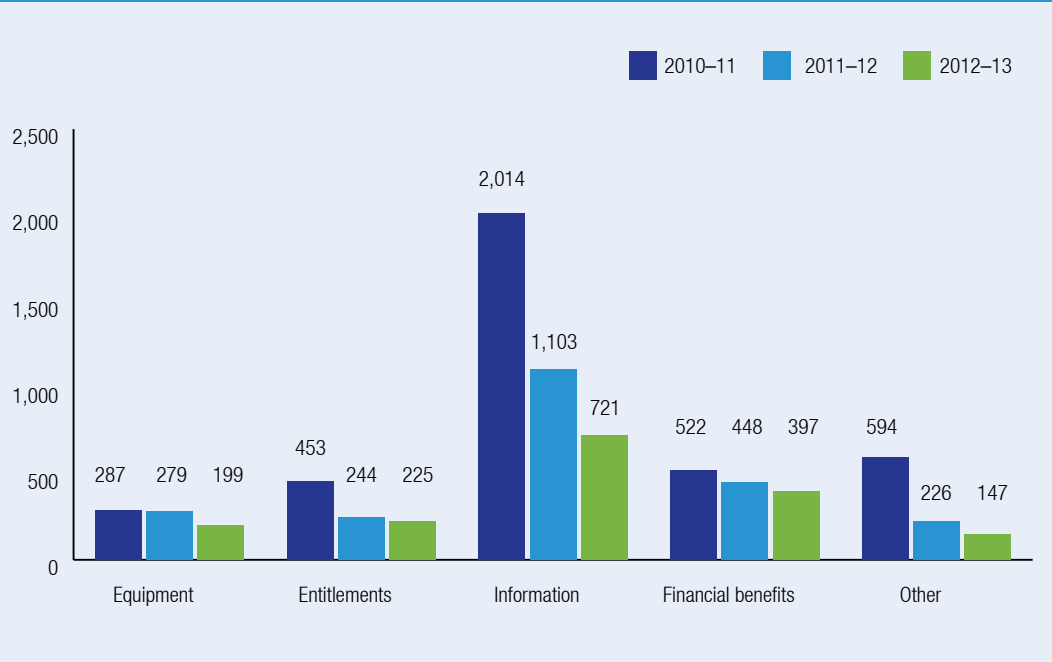
Figure 5 Internal fraud focus categories and entities affected, 2010–11 to 2012–13 (%)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

In terms of number of incidents, all categories of internal fraud focus decreased over the three years, with the largest decrease of 75 percent being reported in respect of the ‘other’ fraud focus category, followed by a 64 percent decline in fraud involving information (see Figure 6). More than 80 percent of information-related internal fraud incidents in each of the three years were concerned with obtaining or using personal information without authorisation. The second most frequently reported focus of internal fraud incidents in each year related to financial benefits, which decreased by 24 percent over the three years, from 522 incidents in 2010–11, to 397 incidents in 2012–13 see (see Figure 6).

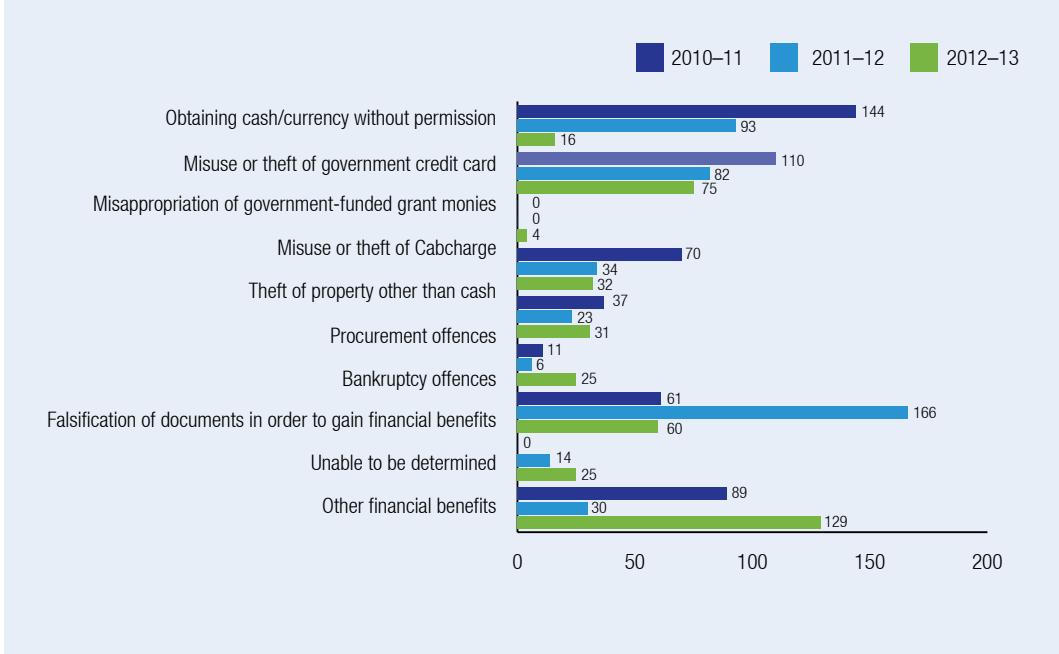
Figure 6 Internal fraud focus categories and alleged incidents, 2010–11 to 2012–13 (N)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

As indicated in Figure 7, there was no discernible pattern in the types of financial benefit being defrauded. Although misuse or theft of government credit cards, travel cards or other cash cards was prevalent each year, it declined by 32 percent between 2010-11 and 2012-13. The extent of payment card-related fraud is clearly related to the increasing use of such cards, although risk awareness and enhanced controls may have led to a decline in its incidence. Some of the large increases or decreases reported for categories such as ‘obtaining cash / currency without permission’, ‘falsification of documents in order to gain financial benefits’, and ‘other financial benefits’ were due to suspected fraud incidents being reported by two entities that dealt with transactions involving risks of this nature. Such fluctuations are, however, not unusual and have occurred in many entities over time as they detect and respond to emerging new fraud risks.

Figure 7 Internal fraud involving financial benefits subcategories and alleged incidents, 2010–11 to 2012–13 (N)



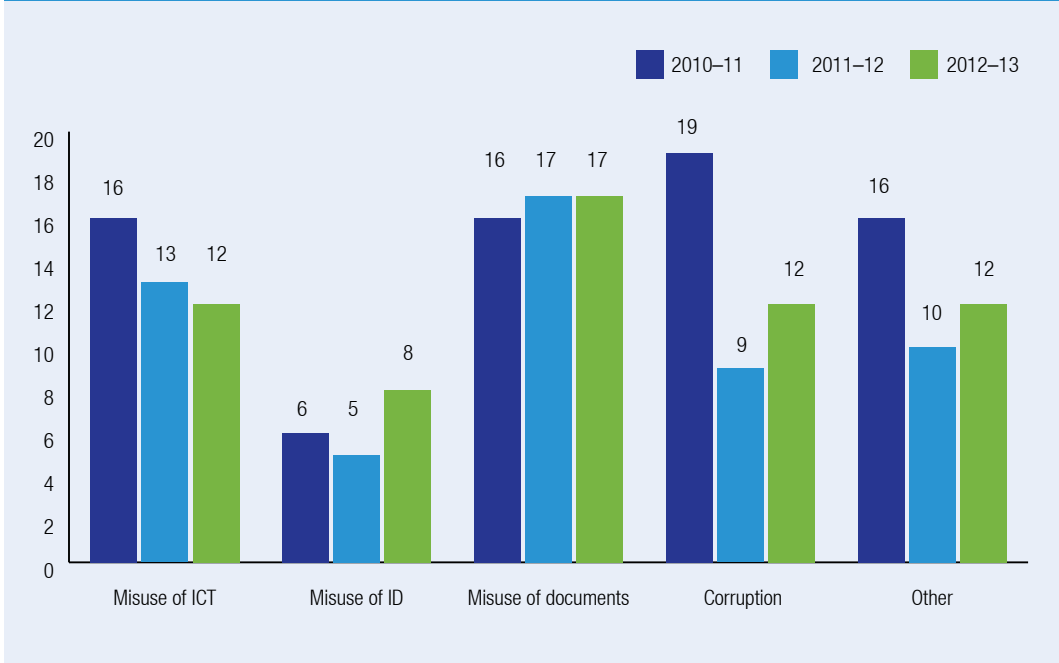
Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Method

In relation to the methods by which internal fraud incidents had allegedly been committed, a decrease was found in the percentage of entities reporting misuse of ICT, corruption and ‘other’ types of method, while misuse of identity and documents increased over the three years (see Figure 8). In terms of the number of internal fraud incidents, however, the trends were different. Over the three years, the number of incidents of internal fraud committed by misuse of ICT and ‘other’ methods declined, while the number of incidents of misuse of identity and corruption increased. In 2010–11, one respondent reported an unusually large number of incidents of internal fraud involving ‘other’ methods of various types, mainly relating to theft of petty cash or misuse of Cabcharge cards. In the case of corruption, the proportion of entities reporting corruption as a method decreased from 19 percent of entities in 2010–11 to 12 percent in 2012–13 (see Figure 8) and there was a corresponding increase in the number of incidents of internal fraud involving corruption, which increased by 71 percent, from 203 incidents in 2010–11 to 364 in 2012–13 (see Figure 9).

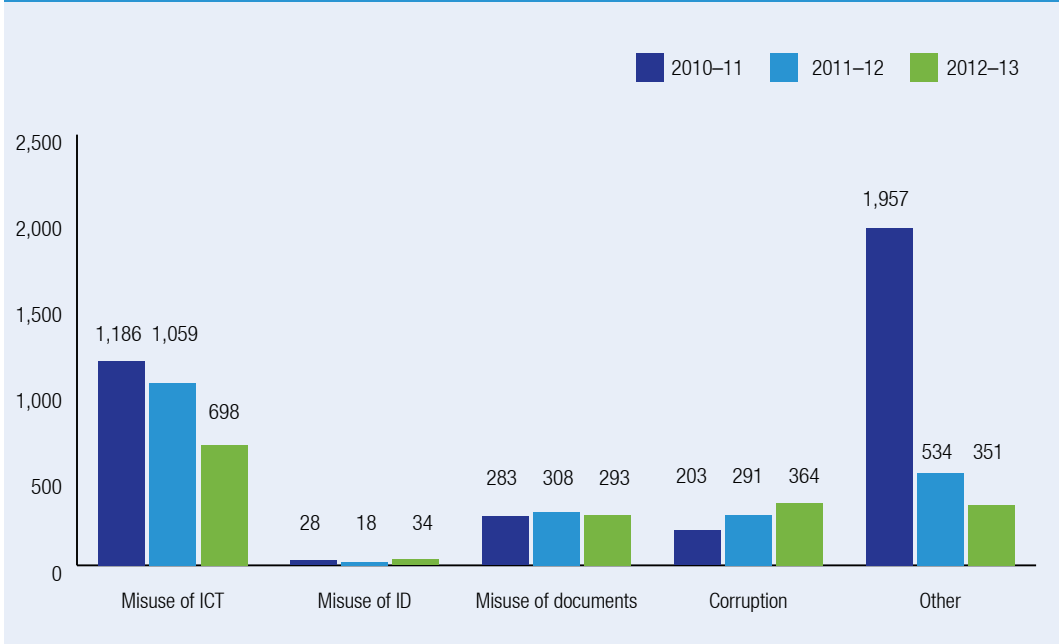
The number of incidents of misuse of documents fluctuated slightly over the three years. In each year, the method of committing internal fraud that was most prevalent involved ‘accessing information or programs via a computer without authorisation’, although this showed a decline over time (see Table 6).

Figure 8 Internal fraud method categories and entities affected, 2010–11 to 2012–13 (%)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Figure 9 Internal fraud method categories and alleged incidents, 2010–11 to 2012–13 (N)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Table 6 Internal fraud committed via misuse of ICT by alleged incident, 2010–11 to 2012–13 (N)

Misuse of ICT	Year		
	2010–11	2011–12	2012–13
Accessing information or programs via a computer without authorisation	991	964	612
Copying or altering data or programs without authorisation	18	14	26
Misuse of email	57	23	25
Manipulation of a computerised accounting system	n.p.	32	24
Insertion of malicious code	0	0	2
Interference with computer networks	0	0	0
Unable to be determined	1	3	3
Other misuse of IT	51	28	6

n.p. - category not provided

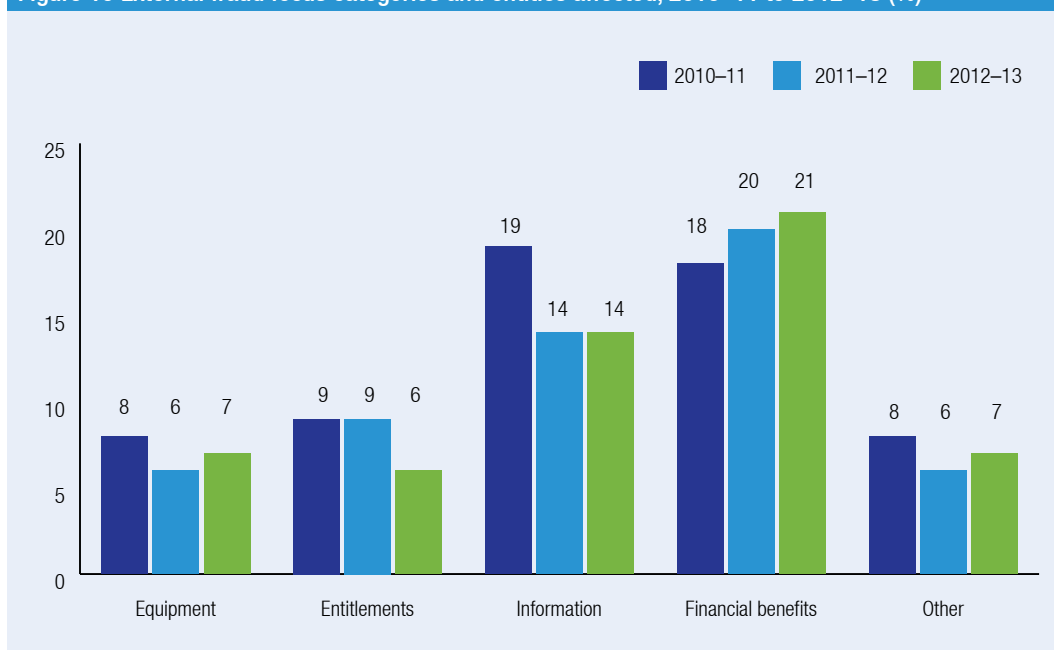
Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

External fraud

Focus

Fraud involving financial benefits was the most frequently reported category of external fraud over the three years (and reflects earlier findings eg Lindley, Jorna & Smith 2012), with the proportion of entities experiencing such frauds increasing from 18 percent in 2010–11 to 21 percent in 2012–13. The next most prevalent focus of external fraud was information-related, which affected 19 percent of entities in 2010–11, declining to 14 percent of entities in 2011–12 and 2012–13 (see Figure 10).

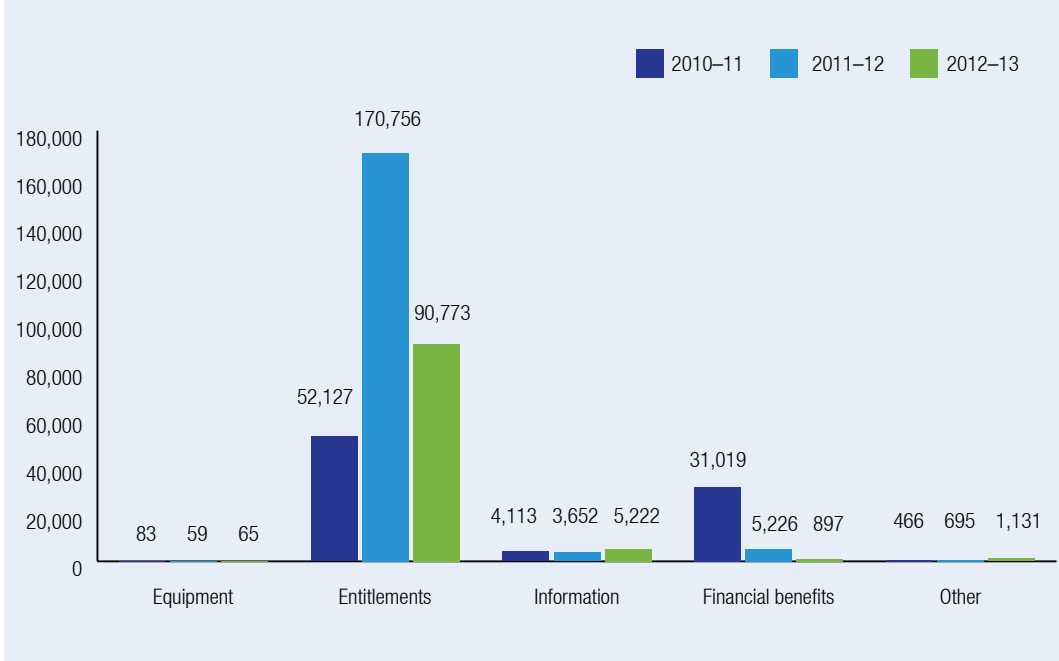
Figure 10 External fraud focus categories and entities affected, 2010–11 to 2012–13 (%)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

In terms of reported incidents of external fraud, however, the vast majority involved fraud relating to government entitlements with a large increase from 52,127 incidents in 2010–11 to 170,756 incidents in 2011–12, followed by a decline to 90,773 incidents in 2012–13 (see Figure 11). The substantial variation over these three years was due to changes in reporting by one large entity. Entitlement fraud most often involved three main types—revenue fraud visa and citizenship fraud, and social security fraud arising from the three large service provider entities (see Table 7).

Figure 11 External fraud focus categories and alleged incidents, 2010–11 to 2012–13 (N)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Table 7 Entitlement fraud subcategories and alleged incidents, 2010–11 to 2012–13 (N)

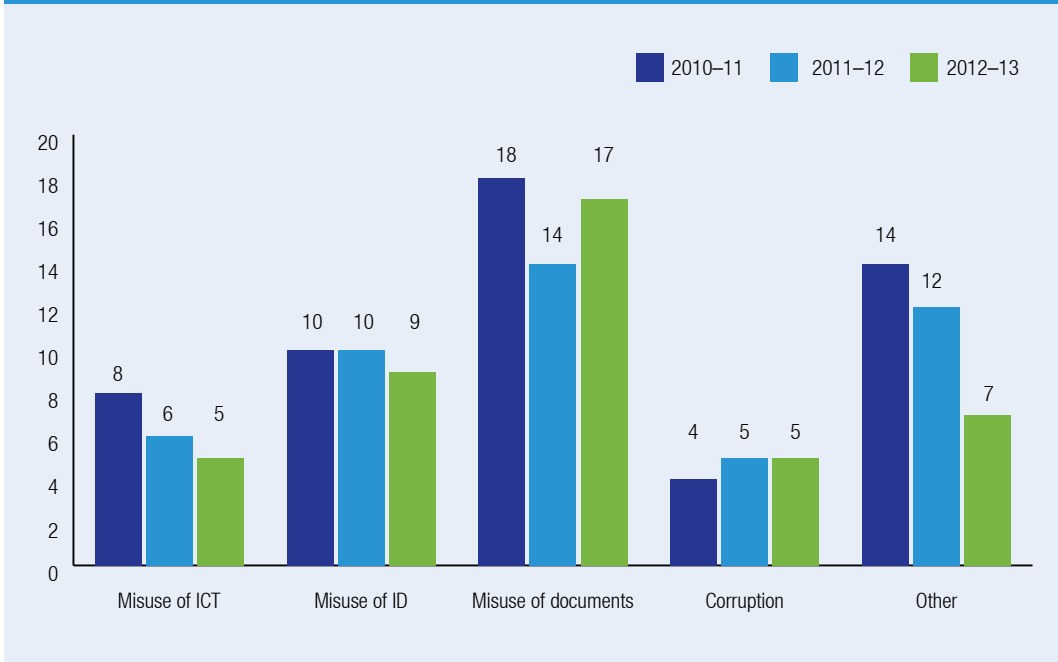
	2010–11	2011–12	2012–13
Entitlements relating to housing	1	4	0
Social security fraud	22240	71925	3254
Health benefit fraud	2095	977	390
Visa or citizenship fraud	27394	28229	28142
Child support entitlement fraud	1	199	232
Revenue fraud	169	69081	58364
Customs and Excise fraud	20	230	299
Unable to be determined	1	0	13
Other entitlements	206	111	79

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Method

In terms of the methods of committing external fraud, the largest percentage of entities reported experiencing misuse of documents, while only five percent of entities reported corruption in 2011–12 and 2012–13. There was a large reduction in the category of ‘other’ methods of committing external fraud from 14 percent of entities in 2010–11 to seven percent in 2012–13. Misuse of ICT also declined with eight percent of entities affected in 2010–11 to only five percent in 2012–13 (see Figure 12).

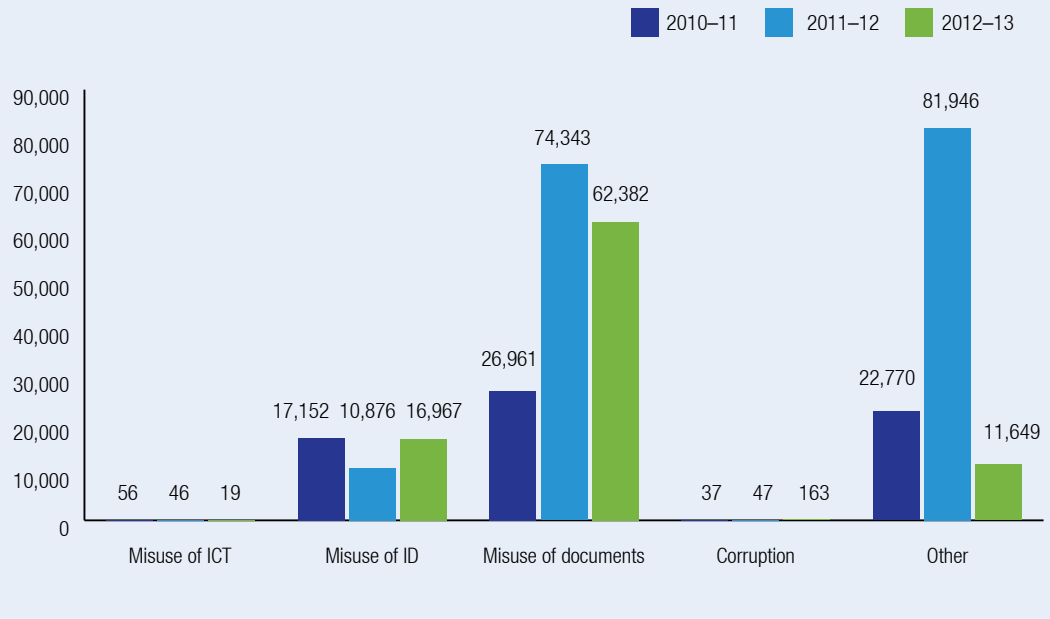
Figure 12 External fraud method categories and entities affected, 2010–11 to 2012–13 (%)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

In terms of the number of alleged incidents, however, over the three years the number of external fraud-related corruption incidents increased substantially from a low baseline of 37 in 2010–11 to 163 in 2012–13. By way of contrast, the number of incidents of fraud involving misuse of ICT declined from 56 in 2010–11 to 19 in 2012–13. In relation to fraud involving misuse of identity, both the proportion of entities affected and the number of incidents remained relatively stable over the three years. By far the most prevalent categories of external fraud methods were misuse of documents and ‘other’ types (see Figure 13). The large numbers of ‘other’ methods of external fraud were reported by two large service provider entities in 2011–12. Although in the case of many of these matters, the precise method of fraud was unable to be determined, large numbers appeared to involve the overpayment of benefits and false statements concerning information that members of the public provided to entities.

Figure 13 External fraud method categories and alleged incidents, 2010–11 to 2012–13 (N)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

The cost of fraud

What respondents were asked to report

Quantifying the cost of fraud against the Commonwealth raises a number of methodological challenges (Smith et al 2014). These include:

- the difficulties of defining the scope of fraud;
- determining whether to record the cost of suspected incidents as initially detected or those that have been substantiated in court;
- deciding whether to inflate the estimate to account for undetected and unreported incidents;
- deducting amounts recovered (sometimes long after investigations have been conducted);
- determining whether indirect costs associated with detection, investigation, prosecution and prevention should be included;
- accounting for indirect costs that entities suffer as a result of fraud, such as the dismissal and recruitment of staff, changing fraud control procedures and undertaking communication activities; and
- measuring intangible costs including reputational damage for the Commonwealth and the impact of undermining the financial stability of government (see Mayhew 2003).

Many of these costs are currently difficult to quantify in the absence of further research. In addition, a number of entities failed to participate in the census. Each year, on average, 18 percent of those invited to participate failed to do so and arguably, some of those would have experienced either internal or external fraud, the costs of which are excluded from reported figures.

Despite these issues, in order to provide a general indication of gross costs of fraud detected by Commonwealth entities, a number of approaches were adopted. Respondents were, at the outset, asked to indicate the total number of fraud incidents that had been identified or that the entity was informed of, how many persons were alleged to have committed the frauds and what financial losses were suffered as a result. Losses were defined as funds thought to have been lost by the entity prior to the recovery of any funds and excluding the costs of investigation or prosecution. Thus, respondents were asked to report the dollar value of suspected fraud, rather than fraud that had been substantiated following investigation or judicial proceedings. The results presented below, may therefore underestimate the actual losses if the scope of fraud is found to be more extensive after investigation, or overestimate the loss where fraud is not proved, or its extent less than originally reported.

Respondents were also asked to indicate any amounts recovered using criminal or civil proceedings or other administrative methods of recovery. This excluded money that was recovered by the Commonwealth that was not returned to the entity in question such as fines or the proceeds of confiscation orders that remain in consolidated revenue.

The results presented below examine the value of fraud in terms of incidents that solely involved internal fraud, incidents that solely involved external fraud, incidents that involved both types and any other incidents that could not be classified in this way. Further analyses examined the fraud costs for various focus categories described above.

Value by location category

Between 2010–11 and 2012–13, there was a 73 percent increase in the value of fraud, with a total value over the three years of approximately \$531m (see Table 8). Not all entities were however able to quantify the value of the fraud incidents they experienced. Indeed, in 2010–11, 12 out of 61 entities (20%) that experienced an incident of any type of fraud were unable to quantify a value. This compared with 23 out of 67 (34%) in 2011–12 and 13 out of 64 (20%) in 2012–13. Although it might be possible to inflate the reported values to account for the incidents that were unable to be costed, caution would be needed in ascribing a multiplier without undertaking further research to assess whether values were not reported because they had not yet been determined, or for other reasons. Similarly, it could be possible to inflate the costs reported to account for undetected fraud, or fraud not officially reported. Owing to the absence of baseline detection information, such an estimation has not been undertaken here. For present purposes, only the above raw data are presented.

Table 8 Dollar value of suspected fraud incidents by location, 2010–11 to 2012–13 (\$)

Year	Internal fraud	External fraud	Collusion	Unclassified	Total
2010–11	2,998,810	116,148,022	0	2,100	119,148,932
2011–12	2,690,087	201,724,438	2,200	8,750	204,425,475
2012–13	3,426,546	203,270,364	402,764	3,031	207,102,705
Total	9,115,443	521,142,824	404,964	13,881	530,677,112

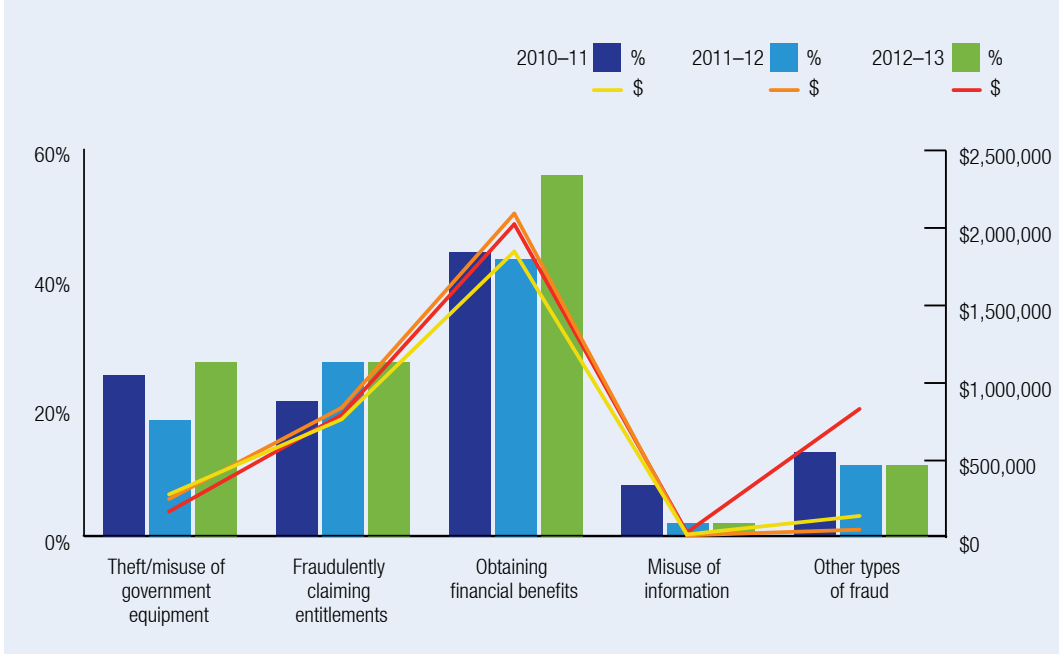
Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Over the three years, the reported value of internal fraud incidents increased by 14 percent, while the reported value of external fraud increased by 75 percent. These increases are due not only to changes in the value of individual incidents, but also changes in the number of incidents of each type that were detected during the years in question.

Value by focus category

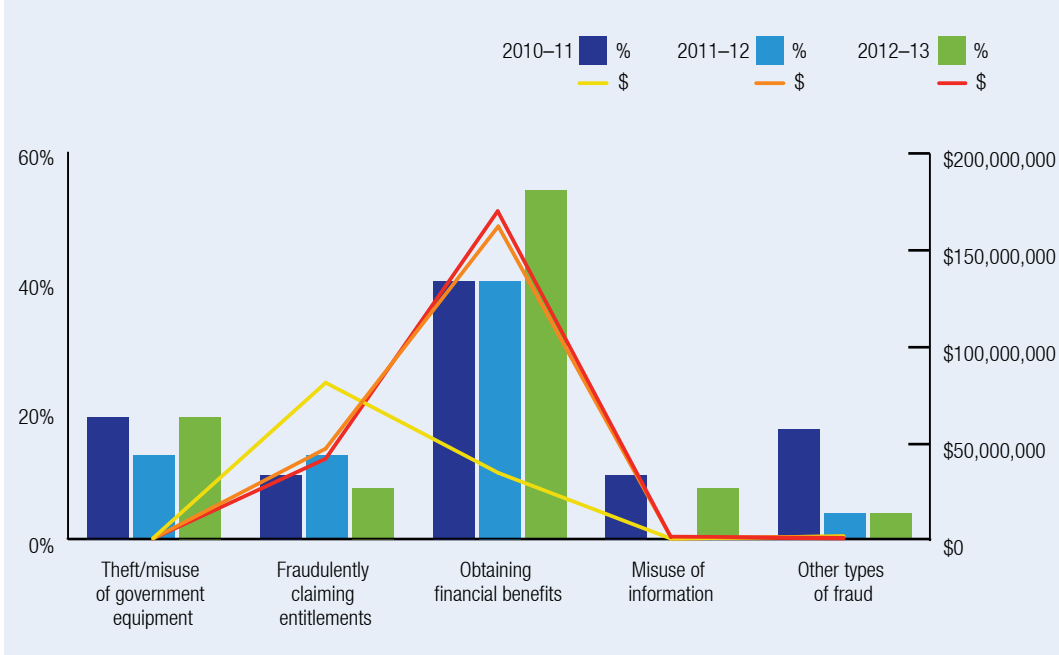
Figures 14 and 15 present data on the reported value of internal and external fraud, respectively, in terms of the proportion of entities experiencing such incidents and the focus of incidents. The value largely followed the distribution of entities' experience of fraud types, with the highest values involving fraud relating to obtaining financial benefits—both for internal as well as external fraud. For the purposes of this analysis, incidents involving collusion were merged with the reported incidents of internal fraud. The value of internal fraud incidents was, however, much smaller than external fraud incidents overall, as well as with respect to the various types of focus examined for internal and external fraud incidents.

Figure 14 Internal fraud focus categories by dollar value and percentage of entities affected, 2010–11 to 2012–13



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Figure 15 External fraud focus categories by dollar value and percentage of entities affected, 2010–11 to 2012–13



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Recovered funds

Respondents were asked to indicate the whole dollar amount that had been recovered in each financial year using various methods of recovery. This excluded money that was recovered by the Commonwealth that was not returned to the entity in question, such as fines or the proceeds of confiscation orders that remain in consolidated revenue. The amount recovered did not necessarily relate to the value of fraud detected in the same year as recovery of funds could have related to incidents committed or detected in previous financial years. Accordingly, it was not possible to indicate the net actual losses suffered in each year. The categories of how money was recovered included criminal prosecution, civil remedies, administrative remedies or by 'other' means of recovery. For the three years, \$3m in total was recovered in respect of internal fraud and \$53m in respect of external fraud, totalling \$56m for the three years.

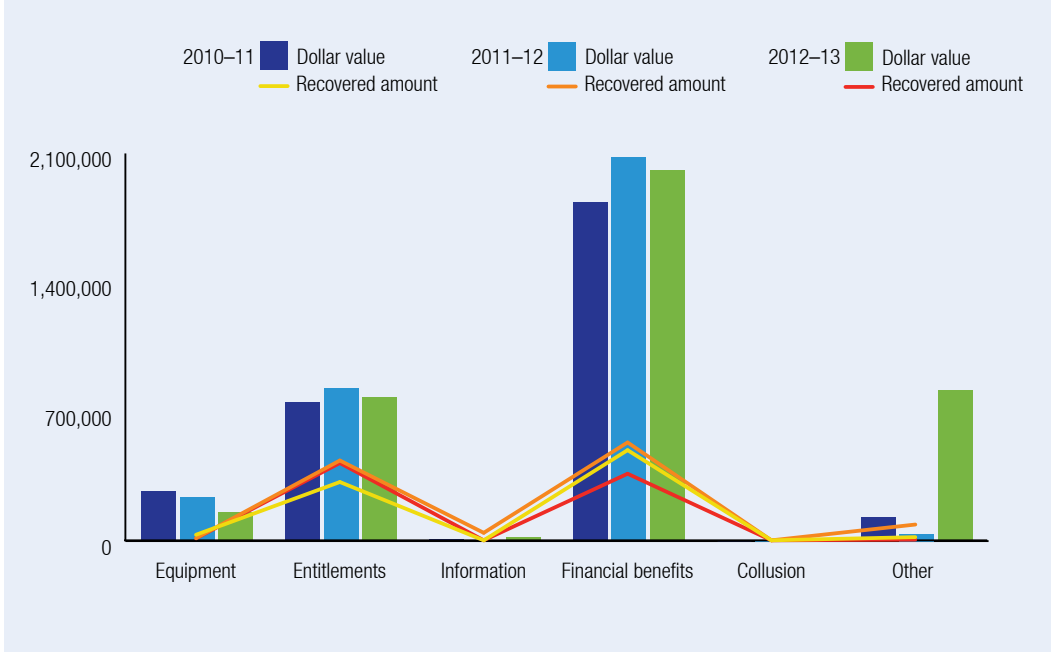
Amounts recovered by focus category

Table 9 shows the reported fraud value for each of the three years for each internal fraud focus category and also the amounts recovered during the year in question. The highest internal fraud values and the largest recovery amounts were in respect of financial benefit fraud followed by entitlement fraud. Between 2011–12 and 2012–13, there was a general decline in amounts recovered in all focus categories (see Figure 16).

Fraud focus	2010–11		2011–12		2012–13	
	Dollar value	Recovered amount	Dollar value	Recovered amount	Dollar value	Recovered amount
Equipment	266,524	30,154	236,385	11,807	155,384	10,594
Entitlements	750,645	315,897	825,098	432,547	780,008	418,836
Information	7,715	0	2,012	40,665	21,000	0
Financial benefits	1,832,800	488,639	2,077,427	530,322	2,008,764	360,780
Collusion	0	0	600	0	0	0
Other fraud	127,226	17,279	38,179	85,537	817,484	3,817

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Figure 16 Internal fraud focus categories by dollar value and amounts recovered, 2010–11 to 2012–13 (\$)



Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Table 10 shows the reported fraud value for each of the three years for each external fraud focus category and also the amounts recovered during the year in question. The highest external fraud values and the largest recovery amounts were in respect of financial benefit fraud and entitlement fraud. Over the three years, there has been a fluctuation in amounts recovered in all focus categories.

Table 10 External fraud focus categories by dollar value and amounts recovered, 2010–11 to 2012–13 (\$)

Fraud focus	2010–11		2011–12		2012–13	
	Dollar value	Recovered amount	Dollar value	Recovered amount	Dollar value	Recovered amount
Equipment	233,546	38,688	54,255	398,182	47,645	15,075
Entitlements	80,467,412	12,710,681	46,441,130	3,216,566	41,224,059	4,663,245
Information	6,326	0	0	5,081	731,027	10,377
Financial benefits	33,937,791	2,841,569	153,059,715	361,983	161,143,720	4,097,807
Other fraud	1,240,394	19,337,999	1,246,439	4,977,873	124,742	356,110

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Amounts recovered by method of recovery

Fraud losses are able to be recovered by Commonwealth entities in a variety of ways, including through the use of orders made during criminal proceedings, civil legal recovery, recovery using a variety of administrative means and other types. Respondents were asked to indicate amounts recovered during each financial year (regardless of when the fraud actually occurred or was detected) for each fraud focus category. These related both to suspected internal as well as external fraud. As is evident in Table 11, the largest amounts were recovered using administrative and other procedures. This was due to the extensive use of such avenues of recovery in connection with revenue and welfare fraud. In some years, criminal proceedings led

to recoveries, although civil action rarely led to entities receiving compensation payments. Amounts recovered were proportionally higher in respect of external fraud rather than internal fraud, as would be expected in view of the much higher fraud losses associated with external fraud.

Table 11 Monies recovered in 2010–11 to 2012–13 by method of recovery and focus category (\$)

Fraud focus	Criminal	Civil	Administrative remedy	Other	Total
Equipment	1,907	0	470,192	32,401	504,500
Entitlements	605,546	0	14,159,141	6,993,085	21,757,772
Information	15,458	0	0	40,665	56,123
Financial benefits	3,850,257	352,468	25,739,400	1,108,937	31,051,062
Other	21,926,689	0	652,289	2,199,637	24,778,615

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Over the three years, the recovery of funds in conjunction with criminal proceedings has fluctuated greatly in terms of the focus of fraud incidents, with criminal recoveries decreasing greatly with respect to entitlement fraud incidents and other fraud foci, while criminal recoveries with respect to financial benefit incidents increased substantially. These changes are largely due to criminal proceedings being taken in relation to relatively small numbers of high-value incidents.

Table 12 Monies recovered using criminal action by focus category by year recovered (\$)

Fraud focus	2010–11	2011–12	2012–13	Total
Equipment	0	1,907	0	1,907
Entitlements	547,076	47,645	10,825	605,546
Information	0	5,081	10,377	15,458
Financial benefits	19,411	188,174	3,642,672	3,850,257
Other	17,028,526	4,894,363	3,800	21,926,689

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Dealing with fraud

Fraud against the Commonwealth can come to light in a number of ways. On occasions, it will be disclosed through regular fraud risk management activities, while on other occasions it may be discovered inadvertently when a staff member leaves their employment or takes leave, allowing accounting inconsistencies to be discovered. Other staff, or external parties, may also report their suspicions, sometime anonymously, or through hotlines available in the workplace, or externally. The present study sought to explore how fraud was detected within entities and how fraud involving members of the public was identified. The aim was to understand how entities dealt with incidents through the processes of investigation, and referral to police and prosecution agencies. Data came not only from the annual census undertaken by the AIC, but also from reports provided to the AIC by the AFP and CDPP, which outlined their fraud-related investigations and prosecutions undertaken each year.

How fraud was detected

Respondents were asked to indicate the primary method by which incidents of internal and external fraud were detected. Nine categories were provided along with options for unknown and other methods of detection. The results for each year are shown in Figure 18 for incidents of internal fraud and Figure 19 for external fraud. Generally, internal controls were responsible for the highest proportion of detections of internal fraud, although the number of detections of this nature declined between 2010-11 and 2012-13. A large number of detections using internal controls were reported by two large entities in 2010-11, mostly due to the use of data analytics and data mining activities. Detected internal fraud by these entities declined in subsequent years. The large number of detections of internal fraud using 'other' methods in 2010-11 were due largely to whistleblowers who made reports to one large entity in that year.

“

Fraud losses are able to be recovered by Commonwealth entities in a variety of ways, including through the use of orders made during criminal proceedings, civil legal recovery, recovery using a variety of administrative means and other types.

”



Table 13 Methods of detecting internal fraud and incidents, 2010–11 to 2012–13 (N)

	2010–11	2011–12	2012–13
Credit card issuer	2	11	2
Media	15	1	2
External audit	n.p.	9	27
Offender self-reported	36	17	27
Not recorded/unknown	206	47	3
Notification by police	190	36	36
External whistleblower	n.p.	138	144
Internal anon whistleblower	107	181	70
Other	760	38	23
Staff member	609	855	507
Internal controls	1,663	958	862

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

In the case of external fraud, internal controls and other types of detections accounted for the largest number of incidents. Detections by other staff and internal anonymous whistleblowers, while prevalent in the case of internal fraud, were less so for external fraud. Indeed, there was a dramatic decline in the number of staff member detections of external fraud from 18,196 in 2011-12 to 2,019 in 2012-13 and a large decline in external whistleblower detections of external fraud from 25,299 in 2010-11 to 1,729 in 2012-13. This may be explained, in part, by the large number of responses in 'other' methods of detection of external fraud which include detection through the use of data mining and data analytics, and anonymous tip-offs from the public.

Table 14 Methods of detecting external fraud and incidents, 2010–11 to 2012–13 (N)

	2010-11	2011-12	2012-13
Credit card issuer	0	0	17
Media	20	5	5
External audit	116	19	7
Offender self-reported	4,934	8,342	2
Not recorded/unknown	3,142	949	36
Notification by police	348	86	60
External whistleblower	25,299	19,266	1,729
Internal anon whistleblower	17	19	27
Other	101,676	65,198	51,803
Staff member	17,304	18,196	2,019
Internal controls/audits	31,792	79,436	34,544

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Detection of fraud was also facilitated through the work of staff in dedicated fraud control sections who undertake fraud risk analysis and who investigate anomalies in accounting and other procedures. Of course, such sections are more likely to be present in the larger entities that experience more incidents of suspected fraud. Table 15 shows that over the three years, entities with a dedicated fraud control section were more likely to detect fraud incidents than those without.

Table 15 Detection of fraud by presence of a fraud control section (number of entities)

Presence of a fraud control section	Internal fraud			External fraud			Any fraud incident		
	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13
Yes	31	29	28	32	29	29	39	38	35
No	17	15	17	10	17	19	22	29	29

Source: Fraud against the Commonwealth surveys 2010–11 to 2012–13 [AIC computer file]

When asked to describe the measures implemented that have made a difference in the detection of fraud, respondents mentioned increased staff awareness and training as being beneficial in improving fraud detection. In 2010–11 and 2011–12, two entities also referred to the use of CCTV to monitor staff and property as assisting in the detection of fraud. In addition, the use of monitoring and review activities including data mining and data analytics by the largest Commonwealth entities also enabled large numbers of suspected incidents of fraud to be identified, which could then be further investigated (see Box 1).

Box 1 Detection methods used

The use of data mining, data analytics and forensics to detect fraud incidents was evident in all three years of survey data. The Australian National Audit Office (2011) described these techniques such:

Active fraud detection measures are controls or activities that require the assertive involvement of management.

These measures can be broadly categorised as:

- monitoring and review activities, focused on employees and customers at risk; and
- data mining and/or data matching (ANAO 2011: 56).

In 2010–11, one entity advised that changes within their entity that had led to a difference in the way they detected fraud was due to an 'increased level of systemic data mining and analysis of key corporate databases, to identify instances of fraud'. In 2011–12, an entity noted they had noted 'more use of forensic scripts', while another entity advised that their 'continued adoption of an intelligence-led approach to detection of fraud, for e.g. full implementation of the post payment monitoring and analysis program' was a factor that made a difference in 2011–12 to their fraud detection. In 2012–13, an entity noted that they had introduced 'data mining/data analytics capability over financial data to identify potential results which require further investigation and expansion of the Ethics Hotline to external parties', which made a difference to their fraud detection in that financial year.

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13

How fraud was investigated

Internal fraud control staff

In order to assess the resources allocated to fraud control within the Commonwealth, respondents were asked to specify the number of staff dedicated to various fraud control functions. Information was gathered on the number of staff working in fraud prevention, investigation and other fraud control tasks, and whether or not they possessed formal qualifications such as Certificates or Diplomas related to fraud investigation. Results are shown in Table 16.

Table 16 Fraud control staff and their qualifications, 2010–11 to 2012–13

Category	Fraud prevention			Fraud investigation			Other functions			Total ^a		
	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13
Staff in fraud section (N)	648	641	843	1,165	1,973	2,089	1,284	422	228	3,097	3,036	3,160
Staff with a qualification (N)	108	93	125	945	1,124	1,133	119	62	161	1,172	1,279	1,419
Fraud section staff with a qualification (%)	17	15	15	81	57	54	9	15	71	38	42	45

a:* Note that some staff may have been engaged in more than one type of function resulting in totals being in excess of actual staff numbers

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

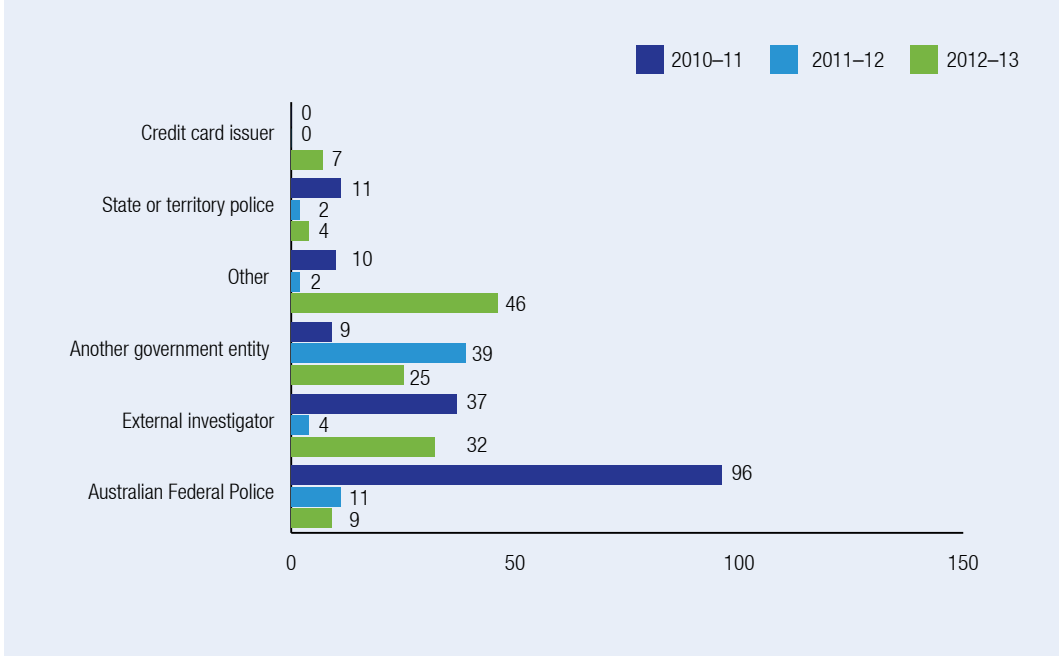
There were substantial changes to fraud control staffing levels and those with qualifications in fraud control over the three year period, although these changes tended to arise in two large entities with substantial fraud control responsibilities. Between 2010-11 and 2012-13 there were large increases in the number of staff employed in both prevention and investigation functions, by 30 percent and by 80 percent, respectively. During the same period, the number of fraud control staff engaged in other duties, such as policy-related functions declined by 82 percent. By way of contrast, however, the percentage of staff with formal qualifications working in both fraud prevention and in investigations declined, while the percentage of staff with formal qualifications working on other functions increased substantially from 9 percent in 2010-11 to 71 percent in 2012-13. Overall, it is apparent that the percentage of staff with formal qualifications increased by 18 percent over the three years, but that the total number of fraud control staff remained relatively constant from year to year. It seems that some large entities reassigned staff to work in investigations, as opposed to prevention and other functions, although further research would be needed to confirm this.

Who conducted investigations

The 2011 *Commonwealth Fraud Control Guidelines* state that ‘entities are responsible for investigating routine or minor instances of fraud, including investigating disciplinary matters’ (AGD 2011: 16). The present results proved to be the case in respect of both internal fraud and external fraud. Out of the 2,914 internal fraud incidents investigated or reviewed in 2010–11, 2,751 (94%) were undertaken internally by the entity that detected the alleged fraud incident. Similarly, high percentages of suspected internal fraud incidents were investigated or reviewed internally in 2011–12 (97%) and in 2012–13 (93%).

Respondents were also asked to indicate the number of incidents of alleged internal fraud that were investigated or reviewed externally, once an internal investigation or review had been completed. Figure 17 shows the number of incidents investigated primarily by various external organisations. In 2010–11, by far the largest number of external investigations, following internal entity review, were undertaken by the AFP or external investigators. However, in 2011–12 and 2012–13, the AFP were the external investigator employed for only very small numbers of alleged incidents of internal fraud. Since 2010–11, there appears to have been an increase in use by entities of external investigators other than the AFP or state and territory police for incidents of internal fraud. In each year, there were no external investigations undertaken by media organisations into allegations of internal fraud.

Figure 17 Alleged internal fraud by external investigating organisation, 2010–11 to 2012–13 (number of incidents)



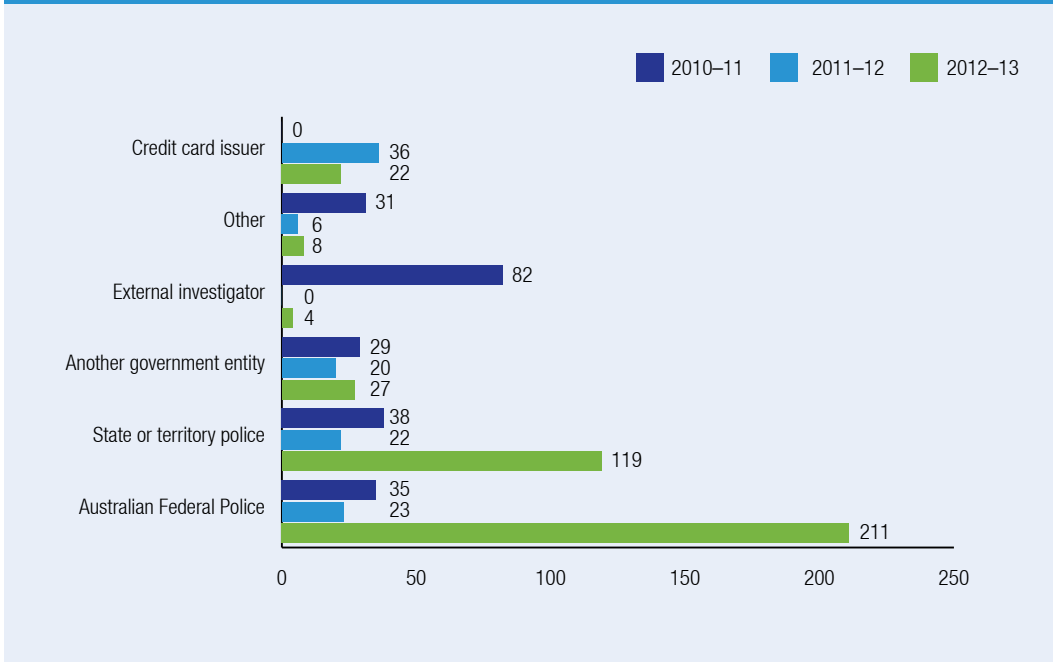
Note: These figures only relate to incidents investigated externally following an internal review by entities. In 2010–11, an additional 1,589 incidents of alleged internal fraud were reviewed by entities themselves; 2,101 in 2011–12 and 2,751 in 2012–13

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

As with internal fraud investigations, the vast majority of external fraud incidents were primarily investigated by entities themselves, accounting for over 99 percent of alleged external fraud incidents in 2010–11 and 2011–12, and 97 percent in 2012–13.

Figure 18 shows the number of external fraud incidents investigated primarily by various external organisations following internal review by the entities themselves. The AFP and state and territory police appear to have undertaken investigations in increasing numbers for external fraud matters over the three years. Other organisations were involved in the investigation of only a few incidents of external fraud each year. In each year, there were no external investigations undertaken by media organisations into allegations of external fraud.

Figure 18 Alleged external fraud by external investigating organisation, 2010–11 to 2012–13 (number of incidents)



Note: These figures only relate to incidents investigated externally following an internal review by entities. In 2010–11, an additional 82,751 incidents of alleged external fraud were reviewed by entities themselves; 178,781 in 2011–12 and 37,449 in 2012–13

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Referrals for criminal action

Respondents were asked to indicate how many and what type of incidents were referred directly to various specified organisations for criminal investigation or prosecution, including the AFP, state or territory police, the CDPD and other organisations in Australia or overseas. These were incidents that had not been dealt with by entities themselves and accordingly, represented more serious matters.

Table 17 shows the number of internal fraud incidents referred by entities for criminal action for each fraud focus category. In 2010–11, the option of ‘other organisation’ was not provided. Over the three years, 297 incidents were referred for criminal action, representing only four percent of all internal fraud incidents detected. Incidents relating to financial benefit fraud were most often referred for criminal action.

Table 17 Internal fraud incidents referred for criminal action by focus category, 2010–11 to 2012–13 (N)

Focus	AFP			State and territory police			CDPP			Other organisations		
	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13
Equipment	13	0	3	0	4	0	0	2	2	n.p.	2	0
Entitlements	16	1	28	0	0	0	0	3	3	n.p.	0	0
Information	29	3	3	1	0	0	2	4	2	n.p.	10	7
Financial benefits	4	10	7	16	6	0	35	34	13	n.p.	13	4
Other	2	0	1	0	0	2	0	1	4	n.p.	7	13

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

In the case of external fraud, Table 18 shows that the largest number of incidents referred for criminal action focused on 'entitlements'. Over the three years, 5,344 external fraud incidents were referred for criminal action, representing only two percent of all external fraud incidents detected.

Table 18 External fraud incidents referred for criminal action by focus category, 2010–11 to 2012–13 (N)

Focus	AFP			State and territory police			CDPP			Other organisations		
	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13
Equipment	13	4	1	29	18	17	0	0	0	n.p.	15	6
Entitlements	8	3	1	6	0	0	1,328	1,307	1,217	n.p.	3	1
Information	1	18	5	7	2	1	226	192	200	n.p.	6	4
Financial benefits	11	9	9	15	19	92	111	44	248	n.p.	10	24
Other	19	4	0	1	1	0	30	0	36	n.p.	2	20

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Australian Federal Police investigations

In addition to the information provided by respondents to the annual data collection, both the AFP and the CDPP provided data to the AIC concerning the investigation and prosecution of fraud against the Commonwealth. These data were provided in addition to information regarding their own experience of internal and external fraud and fraud control arrangements. The data were received in aggregate format and could not be attributed to any individual incidents reported by specific entities. Nor could the type of fraud investigated or prosecuted be categorised as internal fraud incidents or external fraud. Data collection practices within the AFP and CDPP also differed in various respects as described below.

Paragraph 12.5 of the 2011 Guidelines required the AFP to provide the AIC with the following information each year relating to fraud-related matters against the Commonwealth referred to, accepted or declined by the AFP during the previous financial year. Further information requested of the AFP consisted of:

- the type of offence;
- estimated financial loss investigated;

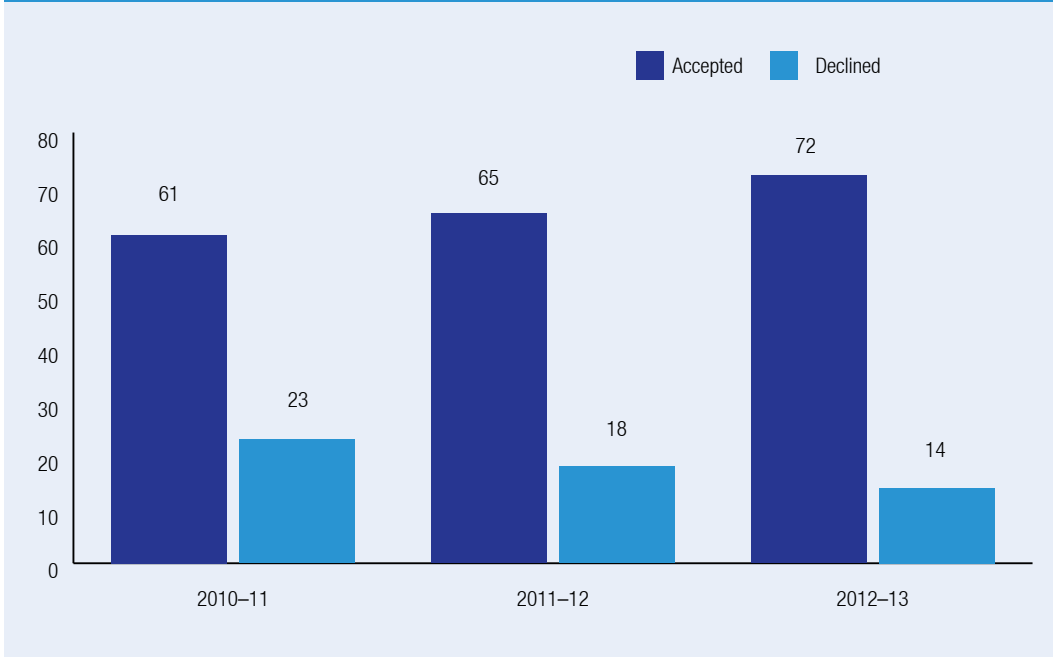
- fulfilment of AFP service standards relating to case handling; and
- results of the investigation quality assurance review process, with an analysis of best practice and deficiencies.

The Guidelines provide a list of matters that are considered to be of sufficient seriousness to warrant referral to the AFP:

- significant or potentially significant monetary or property loss to the Commonwealth;
- damage to the security, standing or integrity of the Commonwealth or an entity;
- harm to the economy, national security, resources, assets, environment or wellbeing of Australia;
- a serious breach of trust by a Commonwealth employee or contractor of an entity;
- the use of sophisticated techniques or technology to avoid detection that require specialised skills and technology for the matter to be successfully investigated;
- the elements of a criminal conspiracy;
- bribery, corruption or attempted bribery or corruption of a Commonwealth employee or contractor to an entity;
- known or suspected criminal activity against more than one entity;
- activities that could affect wider aspects of Commonwealth law enforcement (eg illegal immigration, money laundering); and
- politically sensitive matters.

Figure 19 shows the number of fraud matters accepted and rejected by the AFP each year. Between 2010–11 and 2012–13, there was an 18 percent increase in matters referred and a 39 percent decrease in matters declined for investigation. In addition, at the time of reporting to the AIC, a further two matters in 2011–12 and eight matters in 2012–13 were still under evaluation. Over the three year period, 73 investigations resulted in a criminal conviction. Of these, there were 29 in 2010–11, 20 in 2011–12 and 24 in 2012–13. Some of those investigations had been received by the AFP in previous financial years.

Figure 19 Fraud matters accepted and rejected by the AFP, 2010–11 to 2012–13 (N)



Source: AFP internal data supplied to the AIC 2010–11, 2011–12 and 2012–13 [AIC computer file]



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In addition to the information provided by respondents to the annual data collection, both the AFP and the CDPP provided data to the AIC concerning the investigation and prosecution of fraud against the Commonwealth.

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The AFP estimated that the financial loss attributable to the 61 matters accepted for investigation in 2010-11 was \$12,796,207 , which relates to the initial property value as reported by the referring agency. In 2011-12, the estimated loss for the 65 accepted matters was \$120,796,393 , and in 2012-13 the estimated loss for the 72 accepted matters was \$102,426,346. As at 30 June 2013, the AFP had 166 fraud-related matters still on hand that had an estimated loss value of \$1,053,185,683 . These estimates are based on the initial property value as reported by the referring entity, and may be subject to change following investigation.

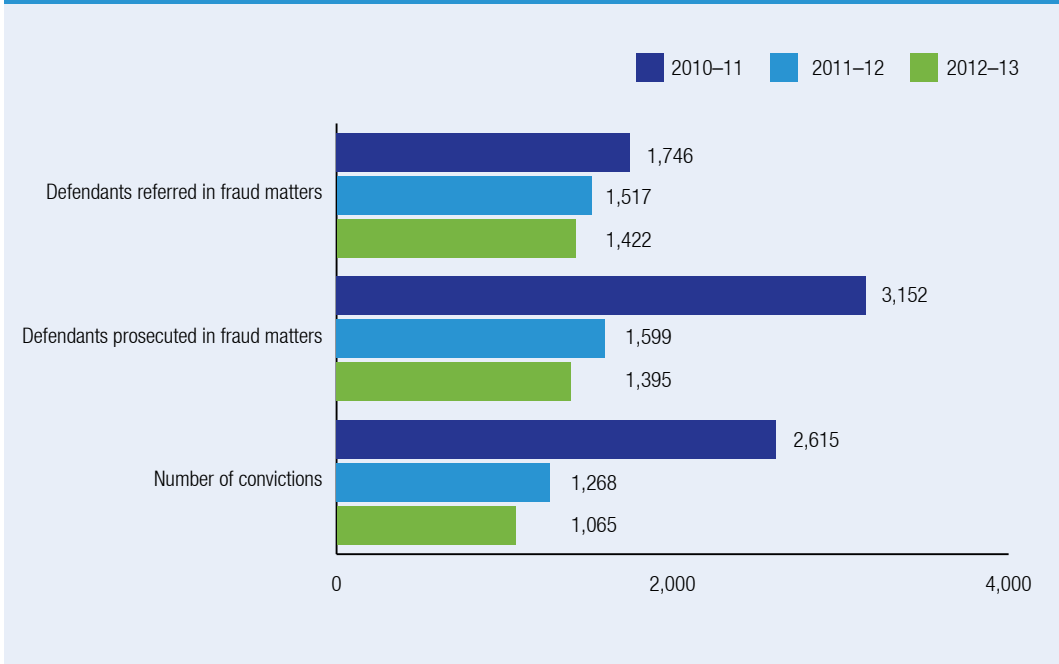
Fraud prosecutions by the CDPP

Statistics on Commonwealth fraud cases referred to the CDPP for prosecution and the outcomes of those cases, are provided to the AIC each year pursuant to the paragraph 12.6 of the 2011 *Commonwealth Fraud Control Guidelines*. For each financial year, individual state and territory statistics were provided on:

- the number of fraud type matters referred to the CDPP;
- the number of defendants and charges prosecuted;
- the amount initially charged in each fraud type prosecution;
- the outcomes of prosecutions including:
 - the number of convictions;
 - the number of acquittals;
 - the number of other outcomes;
 - amounts ordered by courts by way of reparation orders under the *Crimes Act 1914* and pecuniary penalty orders under the *Proceeds of Crime Act 1987*.
- the number of charges by offence;
- the number of charges by referring entity; and
- the number of proven offences by highest sentencing disposition.

Figure 20 shows changes in these statistics for the three financial years. It should be noted that statistics relate to matters referred or dealt with in the financial year in question, some of which may have originated in earlier years. Thus, the convictions do not necessarily relate to the same matters referred that year, as often prosecutions take more than 12 months to be concluded. Generally, over the three years, there has been a decline in the number of fraud matters referred, prosecuted and convictions obtained. This is largely due to the caseload referred to the CDPP changing, as well as the nature of the individual cases involved.

Figure 20 Fraud matters prosecuted by the CDPP, 2010–11 to 2012–13 (N)



Source: AFP internal data supplied to the AIC 2010–11, 2011–12 and 2012–13 [AIC computer file]

Further statistics on the CDPP's fraud caseload for each state and territory are shown in Table 19. The largest number of fraud cases came from the most populous states of New South Wales, Victoria and Queensland, with numbers in all jurisdictions declining generally over the three years. This follows national statistical trends in recorded dishonesty offences, which have also shown a decline in recent years (ABS 2011–13).

Table 19 Prosecution of fraud by jurisdiction, 2010–13 (N)

Year	Referrals	Defendants prosecuted	Convictions	Acquittals	Charges prosecuted
New South Wales					
2010–11	583	1,064	828	5	3,804
2011–12	511	454	375	7	1,770
2012–13	501	443	342	4	2,165
Victoria					
2010–11	397	587	528	0	1,369
2011–12	401	290	249	0	821
2012–13	311	323	245	1	692
Queensland					
2010–11	341	673	593	3	1,499
2011–12	267	364	275	1	1,108
2012–13	321	296	241	2	671
South Australia					
2010–11	118	291	235	0	1,783
2011–12	150	147	107	0	695
2012–13	76	120	103	0	644
Western Australia					
2010–11	138	232	191	1	515
2011–12	104	188	156	1	465
2012–13	111	111	66	1	313
Tasmania					
2010–11	76	110	92	2	635
2011–12	52	52	46	0	533
2012–13	48	59	42	0	527
Northern Territory					
2010–11	42	48	21	0	175
2011–12	10	41	12	0	115
2012–13	22	19	9	0	106
Australian Capital Territory					
2010–11	51	147	127	1	314
2011–12	22	63	48	2	97
2012–13	32	24	14	0	115
Total 2010–11	1,746	3,152	2,615	12	10,094
Total 2011–12	1,517	1,599	1,268	11	5,604
Total 2012–13	1,422	1,395	1,062	8	5,233

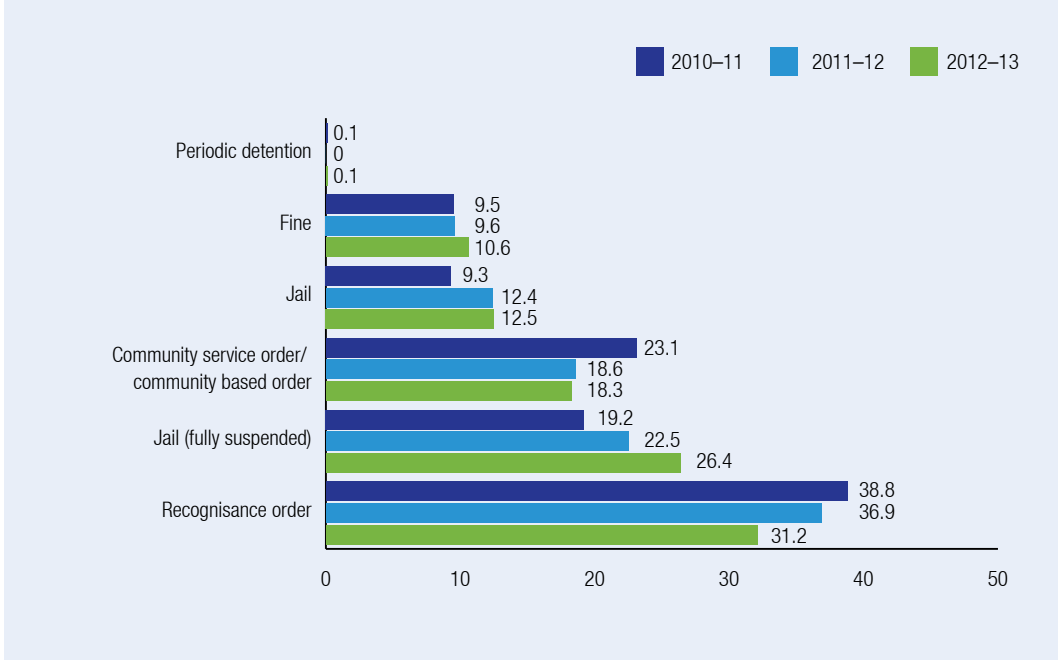
Source: CDPP internal data provided to AIC in 2011, 2012 and 2013

In 2010–11, the total amount initially charged in fraud-like prosecutions was \$77,960,259, decreasing to \$29,692,788 in 2011–12 and increasing to \$36,651,470 in 2012–13. These changes reflect the number of defendants prosecuted, as well as the nature of charges alleged that can vary considerably over time. Not all Commonwealth fraud offences are prosecuted by the CDPP, as some may be heard in state and territory courts, particularly where state and territory offences are alleged.

Sentencing dispositions

Each year, the CDDP also provides statistics on the highest sentencing disposition given for proven fraud-related offences. Again, the data relate to the years in which defendants were sentenced, rather than the year in which the CDDP received referrals from entities. Each year, the most frequently imposed sentence was a recognisance order, followed by a fully suspended term of imprisonment. There appears to have been a gradual increase in full-time custodial orders over the three years, with 12.5 percent of the highest sentencing disposition for proven offences being awarded in 2012–13.

Figure 21 Highest sentencing disposition for proven fraud offences, 2010–11 to 2012–13 (%)



Source: CDDP internal data provided to AIC in 2011, 2012 and 2013 [AIC computer file]

Preventing fraud

The *Commonwealth Fraud Control Guidelines* (AGD 2011) establish the fraud control policy framework within which entities determine their own specific practices, plans and procedures to manage the prevention and detection of fraudulent activities, the related investigation and where appropriate, prosecution of offenders. Fraud control is based on a thorough assessment of fraud risks particular to the operating environments of entities and of the programs they administer, as well as development and implementation of processes and systems to effectively prevent fraud from occurring. This includes training of all employees and relevant contractors in fraud awareness, and specialised training of employees involved in fraud control activities.

Staffing

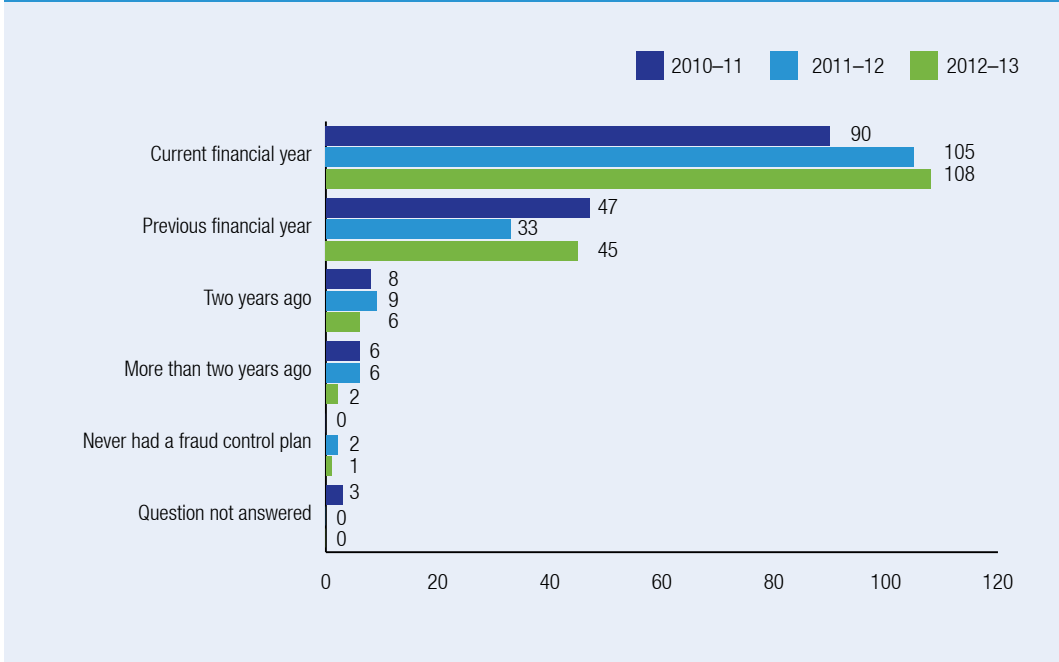
An important element of fraud control generally is to have trained staff dedicated to fraud risk management and prevention working within entities. Over the three years, approximately one third of respondents indicated that they had a dedicated fraud control section, decreasing from 40.3 percent in 2010-11 to 37.4 percent in 2011-12, to 35.2 percent in 2012-13. Despite this decline, as indicated in Table 13 above, between 2010-11 and 2012-13 there was a 30 percent increase in the number of staff employed within entities working specifically in the area of fraud prevention, although only a small percentage of these were identified as having formal qualifications in fraud control. Most of these changes were in two large entities that reassigned staff with 'other' fraud control functions to roles in 'prevention' and 'investigation'. Overall, the total number of fraud control staff remained constant over the three years.

Procedures

Each year, at least 90 percent of respondents indicated that their Chief Executives certified to the Minister or Presiding Officer, as required by the Guidelines, that their entity had adequate fraud control practices in place. Two essential elements of this include the preparation of a fraud control plan and the conduct of a fraud risk assessment. Generally, fraud control plans should be updated following changes in business processes, when new systems are implemented or if fraud has been experienced.

Respondents were asked to indicate when their most recent fraud control plan was developed. Respondents were advised that fraud control plans need not necessarily be standalone documents, but may be included within more general risk management plans. It was found that 89 percent of entities in both 2010-11 and 2011-12 reported completing a fraud control plan within the previous two financial years, while in 2012-13 this rose to 94 percent of entities (n=153; see Figure 22).

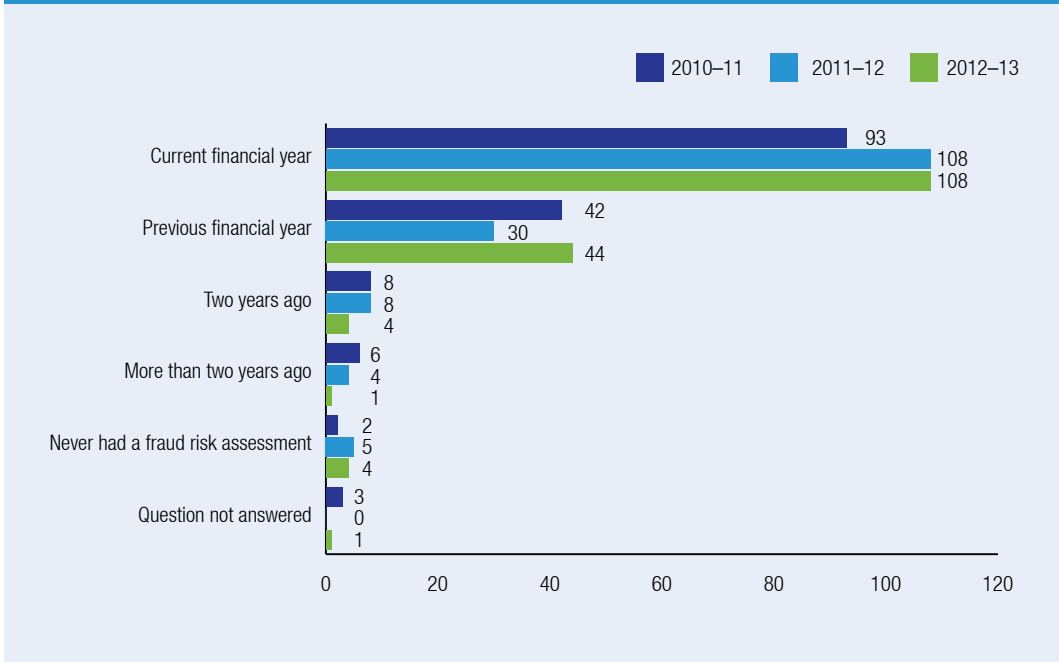
Figure 22 Year most recent fraud control plan was developed (number of respondents)



Source: Commonwealth fraud surveys 2010-11, 2011-12 and 2012-13 [AIC computer file]

Under the Guidelines, a fraud risk assessment is required to be undertaken by entities every two years. Over the three years examined, there has been an increase in the percentage of entities complying with this requirement. In 2010-11, 88 percent of entities (n=135) reported completing a fraud risk assessment within the previous two financial years, which was similar to the 89 percent (n=138) in 2011-12. In 2012-13, this had increased to 94.4 percent (n=152). There were, however, a small number of respondents who indicated that their entity had never undertaken a fraud risk assessment (see Figure 23).

Figure 23 Year most recent fraud risk assessment (number of respondents)

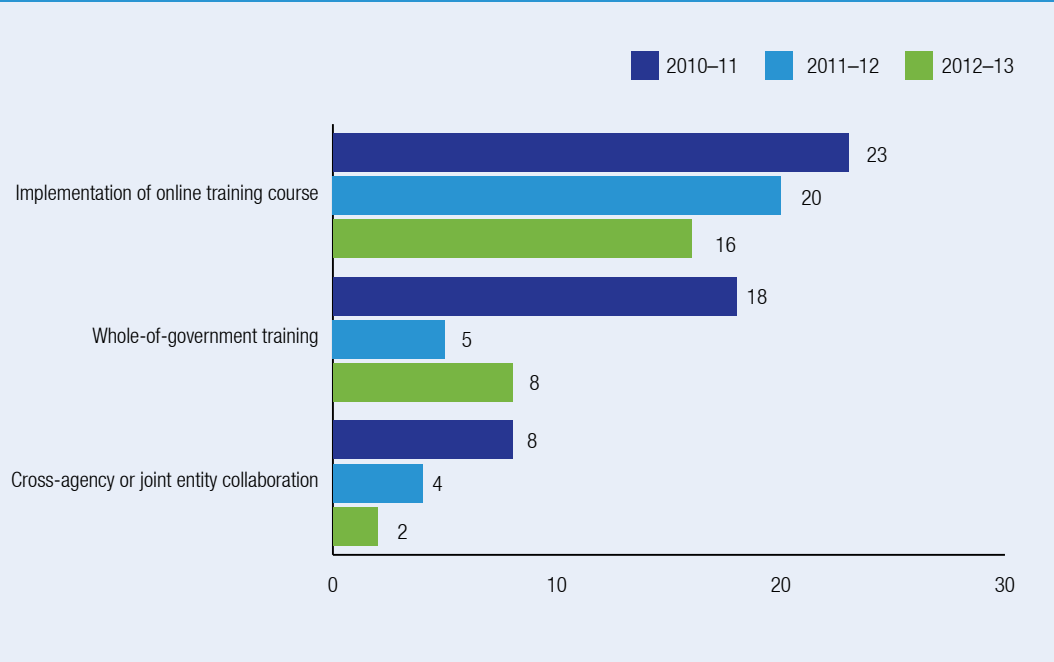


Source: Commonwealth fraud surveys 2010-11, 2011-12 and 2012-13 [AIC computer file]

Training

The Guidelines state that fraud awareness training should be included in all staff induction programs and that all entities should document their procedures and instructions to assist employees in dealing with fraud. Over the three year period, respondents agreed that regular and current training of staff was needed to reduce the impact of fraud. However, there were some differences of opinion as to who should have responsibility for administering training, particularly if this should be a whole-of-government undertaking. In 2010-11, 66 respondents, compared with 74 respondents in 2011-12 and 85 in 2012-13, suggested ways in which training of staff in the area of fraud control could be improved. The top three most frequent responses related to the implementation of online training courses for staff (see Figure 24). Some respondents said that their entity had or was implementing eLearning courses, while others felt that an online course should be made available to assist in training staff. In addition to a free online course, some respondents felt a whole-of-government approach to fraud awareness was required. Examples of how this could be operationalised included suggestions of best practice training sessions conducted by the AFP, the Attorney-General's Department, or the Australian National Audit Office being more beneficial than individual training courses.

Figure 24 Top three suggested ways of improving fraud control training (percentage of respondents)



Source: Commonwealth fraud surveys 2010-11, 2011-12 and 2012-13 [AIC computer file]

In addition, respondents were asked to provide their opinion as to what had made a difference to the prevention of fraud during the previous year. The most frequent response in each year concerned the use of fraud awareness training for staff, followed by the presence of fraud control plans and the implementation of fraud risk assessments (see Figure 25).

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Having accurate and policy-relevant data will provide an important evidence base that all Commonwealth entities can use in identifying new and emerging risks, and in planning how best to avoid financial losses and other impacts on government operations in the years ahead.

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Figure 25 Respondents' views as to what had made a difference to the prevention of fraud (percentage of respondents)



Source: Commonwealth fraud surveys 2010-11, 2011-12 and 2012-13 [AIC computer file]

In answering this question, the majority of respondents focused on factors that contributed to preventing internal fraud, with only a few specifically mentioning ways in which to prevent or reduce external fraud. In 2011-12, one respondent mentioned the creation of a fraud hotline for employees to report suspected fraud incidents, while in the same year, another respondent noted that a reassessment of fraud prevention processes had been undertaken following the occurrence of a fraud incident during that year. Many respondents also noted that the use of risk assessments and fraud control plans contributed to the prevention of fraud.

Fraud risks for the Commonwealth

In this report, findings of a census of Commonwealth entities regarding their experience of fraud and their responses to fraud against the Commonwealth are presented. Data were collected for three financial years from 2010–11 to 2012–13 regarding the type and cost of detected incidents, the number of incidents investigated and the prevention and control measures adopted by entities.

In the Commonwealth, opportunities to behave dishonestly arise for both public servants and consultants working for the government (internal fraud), as well as for members of the public who have dealings with the government, such as when obtaining benefits or paying taxes (external fraud). Each year, considerably larger numbers of suspected external fraud incidents are detected than internal fraud incidents.

In relation to internal fraud, the principal fraud risks to address relate to internal controls, recruitment practices and risk management generally. Over the three years examined, suspected internal fraud reports declined by 56 percent. This was due to a large reduction in fraud incidents detected by a small cohort of entities that experienced a substantial number of incidents, rather than across all Commonwealth entities. A large number of detections using internal controls were reported by two large entities in 2010–11, mostly due to the use of data analytics and data mining activities. Detected internal fraud by these entities declined in subsequent years.

In relation to external fraud, risks arise in connection with the provision of new benefits, the introduction of new taxes, procurement practices, government-funded programs and the use of consultants. While the risks relating to fraud involving welfare payments or visas may appear high due to the large number of incidents detected, these fraud types only affect the few entities that are involved in delivering these services. In addition, as a proportion of the number of transactions undertaken, the incidence of suspected fraud is relatively low in these areas. These large entities and others that administer revenue collection, have sophisticated fraud control measures in place to detect suspected instances of dishonesty.

A consistent trend over the years was that higher levels of fraud, both internal and external, were detected by larger rather than smaller entities. This finding has also been found in organisational fraud surveys conducted by KPMG (2013), PricewaterhouseCoopers (2012) and the ACFE (2014). Possible reasons for this are that larger organisations provide more opportunities for fraud, owing to the complexity of their operational structures, the larger sums of money with which they deal and the range of services provided, including those relating to taxation, welfare and immigration. It might also be the case that larger organisations are better able to detect fraud than smaller ones in view of the extensive fraud control activities they undertake.

An area of emerging risk that is apparent from the current research concerns corruption and collusion between external actors and those working within government. It was found that both the number and cost of collusion-related fraud has increased over the last three years, although the number of incidents was

relatively low. In 2010–11, entities reported nine incidents of collusion without financial impact. However, in 2011–12, entities reported 35 incidents of collusion, worth \$2,200; while in 2012–13, there were 17 incidents involving collusion, which cost \$402,764. Prior research has found that incidents that involve collusion are likely to result in greater financial losses, last longer and have greater impacts on morale within organisations (KPMG 2013). Corruption was the internal fraud method that affected the highest number of entities. Fraud involving Commonwealth grant monies and aid programs are also areas of ongoing risk, particularly in view of the large amounts of money provided by the government each year for these purposes. Further research is needed to explore these areas of fraud risk in more depth.

By contrast with the decline in the number of incidents of internal fraud, the costs associated with internal fraud incidents increased from just under \$3m in 2010–11 to just under \$3.5m in 2012–13. In particular, the costs associated with collusion and corruption rose sharply, with incidents of collusion costing entities \$402,764 in 2012–13. As was to be expected with the increase over the years of incidents of external fraud, the costs associated with external fraud increased from over \$116m in 2010–11 to over \$203m in 2012–13. Overall, the total amount lost to fraud in 2010–11 was \$119m and rose to \$204m in 2011–12; it continued to rise in 2012–13, with losses incurred by entities standing at over \$207m. This is reflected in the reported value of frauds accepted for investigation by the AFP each year.

The present research also found that the main focus of both internal and external fraud was on financial benefits received by individuals. In 2010–11, there were two distinct foci found for internal fraud incidents—information and financial benefits. In the case of external fraud, the specific focus that resulted in the highest number of incidents concerned ‘entitlements’, particularly to do with revenue, visas and citizenship applications, welfare payments and health benefits.

The results presented highlight the ongoing need for individual entities to be aware of the unique risks they face and to work continually to update fraud prevention strategies and control plans so they are tailored to the current risks. Further, the research provides important data on the areas of fraud risk that Commonwealth entities are faced with and how they prevent and respond to such risks. The tasks for the future lie in improving the quality of information that entities collect on fraud risks each year in order to enhance the utility of the current research. Having accurate and policy-relevant data will provide an important evidence-base that all Commonwealth entities can use in identifying new and emerging risks, and in planning how best to avoid financial losses and other impacts on government operations in the years ahead.

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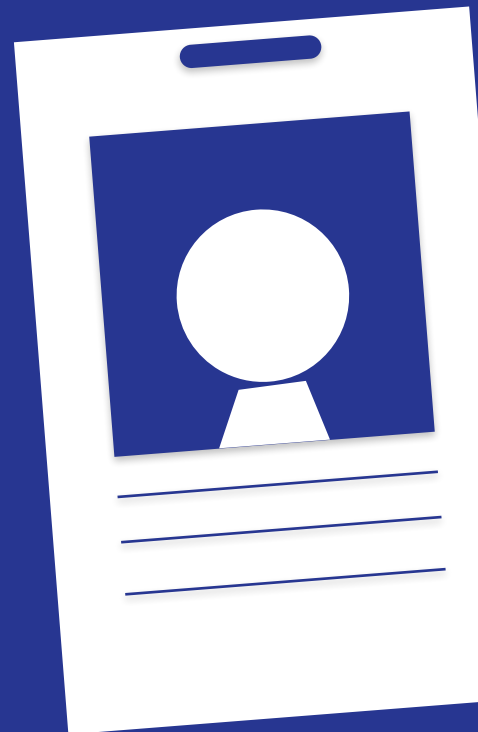
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In the case of external fraud, the specific focus that resulted in the highest number of incidents concerned ‘entitlements’, particularly to do with revenue, visas and citizenship applications, welfare payments and health benefits.

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Methodology

Each year, Commonwealth entities are asked to complete an online questionnaire, which asks about their experience of fraud incidents and how they managed and responded to risks of fraud taking place.

Under the *Commonwealth Fraud Control Guidelines* (AGD 2011: 7), fraud against the Commonwealth was defined as ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’. For present purposes, the AIC asked entities to describe all suspected incidents of fraud against the Commonwealth alleged against those employed by government entities, including staff and contractors (internal fraud) and also alleged against those who do not work for the government but who may be seeking to claim government benefits or to obtain some other financial advantage dishonestly (external fraud).

Information was provided by 154 respondents in 2010–11, 157 in 2011–12 and 163 in 2012–13 (see Table 20). Each year over 80 percent of those invited to participate responded to the census, with the response rate increasing annually. A small number failed to complete the questionnaire resulting in slightly smaller numbers being subject to analysis. Most respondents were governed by the *Financial Management and Accountability Act 1997* (Cth), as opposed to the *Commonwealth Authorities and Companies Act 1997* (Cth).

Table 20 Participating entities

	2010–11		2011–12		2012–13	
	N	%	N	%	N	%
Invited to participate	192	100	191	100	195	100
Responded	154	80.2	157	82.2	163	83.6
Included in analysis	154	80.2	155	81.2	162	83.1
-FMA Act entities	94	48.9	97	50.8	100	61.7
-CAC Act entities	60	31.2	58	30.4	62	38.3

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Changes in the number of respondents over the three years are due to the introduction of new compliance requirements and to changes in the number of entities present in the Commonwealth Public Service.

Respondents were asked to provide information by completing a secure, online questionnaire, which recorded results anonymously (without naming individual entities), as the aim was to canvass the experience of fraud across the government as a whole, rather than by identifying what each individual entity had experienced. In light of the revisions of the *Commonwealth Fraud Control Guidelines* and following extensive consultation with large Commonwealth entities, the Institute implemented some changes to the survey instrument in 2011. The changes were designed to improve the survey’s clarity and to remove problematic aspects that entities had identified in order to form a more comprehensive picture of the fraud incidents experienced by entities.

Further information on the investigation and prosecution of fraud incidents within the Commonwealth was also provided by the AFP and the CDPP for matters handled within each year (regardless of when they were committed).

Glossary

Allegation of fraud

An accusation made by a person or identified by an entity that an offence has or may have been committed. This does not require substantive proof of the offence or identification of suspects; however, allegations should only be included where there exists sufficient evidence to warrant an investigation by your entity.

Collusion

Any incident of suspected fraud allegedly committed by an employee or contractor of the entity in collaboration or association with a person external to the entity.

Commonwealth Entity

Formerly known as Commonwealth agencies, Commonwealth entities are departments of state, parliamentary departments, listed entities or bodies corporate established by a law of the Commonwealth. This terminology is used in this report despite the Commonwealth Fraud questionnaires referring to 'agencies', the term used in the *Commonwealth Fraud Control Guidelines 2011*.

Corruption

For the purposes of Commonwealth anti-corruption and fraud control policies, corruption can be defined as 'the dishonest or biased exercise of a Commonwealth public official's duty'. Entities may identify corrupt conduct engaged in by a public official (internal corruption), or conduct alleged against persons external to an entity in which they have sought to corrupt, or have actually corrupted, a Commonwealth public official (external corruption). An incident of corruption may involve both internal or external participants or both.

Duration of fraud

The amount of time the offender was committing fraud against the Commonwealth, from the time the commission of fraud commenced to the time the commission of fraud ceased, whether by choice or by detection.

Entitlements

A benefit or privilege that is assigned to an individual through an agreement.

Equipment

Any equipment or property belonging to a government entity.

External fraud

Any incident of suspected fraud allegedly committed against an entity by a person other than an employee (including contracted employees) of the entity.

Finalisation

Finalisation refers to the completion of the investigation, or referral to another entity, or the suspect leaving the employment of the entity.

Financial benefit

Gaining an advantage either financial or monetary through fraud, including offences relating to misuse of government finances or tools to gain an advantage, hiding income or assets and receiving or obtaining financial advantage.

Focus

The focus or target of the alleged fraud incident; that is, the benefit to be obtained.

Fraud

For the purposes of the *Commonwealth Fraud Control Guidelines*, fraud against the Commonwealth is defined as 'dishonestly obtaining a benefit, or causing a loss, by deception or other means' (AGD 2011: 7). The definition of fraud includes suspected fraud, incidents under investigation and completed incidents, whether the fraud was proved or not and whether the incident was dealt with by a criminal, civil or administrative remedy.

Fraud control

Any means undertaken by the entity to control fraud, including prevention and detection.

Incident

An incident refers to all counts alleged during one fraud investigation and may comprise a number of counts of offences that are actually prosecuted. An incident may take place on a single date or over a period of time and may involve one or more accused persons.

Information

Any information belonging to or stored by the entity including intellectual property, personal information either of employees or members of the public that is held by the entity.

Internal fraud

Any incident of suspected fraud allegedly committed by an employee or contractor.

Investigation

The minimum standards for investigations as set out in the Australian Government Investigation Standards.

Method

The methods used to carry out the alleged fraud incidents. Each incident can involve several methods and the same method can be used for different incidents.

Misuse of documents

Creation, use or theft of documents belonging to an entity, presentation of false documents or documentation to an entity. These include government documents, legal documents and personal documents.

Misuse of identity

Any unauthorised use of another person's personal information that may be used to identify that person when dealing with the Commonwealth. Personal information may include a person's name, address, date of birth, passport information, Medicare information, biometric information (eg fingerprint), Computer username and password, Tax File Number, telephone number and other pieces of information.

Misuse of information and communication technology

Any unauthorised use of computers, computer-related equipment or software to commit an alleged incident of fraud.

Losses

The total amount, in whole dollars, thought to have been lost to the entity from fraud incidents, prior to the recovery of any funds and excluding the costs of detection, investigation or prosecution.

Non-compliance

Non-compliance is the failure to meet conditions and obligations under laws and regulations. It may occur through a lack of understanding or awareness of obligations or because compliance is difficult. Alternatively, non-compliance may be deliberate. If evidence cannot establish the requisite degree of intention, recklessness or negligence in adhering to obligations, the conduct may be characterised as non-compliance, as opposed to fraud.

Recoveries

Whole dollars recovered by criminal prosecution, civil remedies, administrative remedies or other means. Does not include money recovered from fines if the money did not return to the entity.

Referrals

The number of incidents that were passed on to another entity after an investigation.

Review

Internal administrative process to determine whether fraud is occurring.

Suspect

The individual believed to have carried out the fraud incident.

Timeframe—reference period

The reference period for incidents is the 2012–13 financial year. The start date of an incident should be the date the entity was notified of or discovered the allegation.

Appendix A: Details of how fraud was committed

Internal fraud focus

Respondents were asked to indicate the number of alleged incidents of internal fraud that focused upon each of a number of specified resources, objects of benefit or targets of the alleged activity. Four main categories were provided that related to government equipment, entitlements, information or financial benefits. As incidents could involve more than one focus of fraud, respondents were asked to include multiple responses where applicable. Information was collected on both the number of entities that experienced fraud and the number of alleged incidents detected. The results are presented in Table 21.

Table 21 Internal fraud by focus of incidents, 2010–13

Focus category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Equipment						
Theft of telecommunications or computer equipment (including mobile devices)	10	45	6	35	8	35
Theft of other government equipment	10	77	10	118	11	91
Theft of consumable stock (office related)	5	10	2	7	2	5
Theft of consumable stock (other)	3	21	4	6	7	16
Misuse of government equipment	17	126	13	97	12	38
Unable to be determined	1	1	0	0	1	1
Other equipment	1	7	7	28	4	14
Entitlements						
Expenses (other than travel)	2	2	5	24	6	9
Travel claims	8	35	9	19	7	21
Payroll fraud	5	23	13	1,389	9	18
Leave and related entitlements	11	54	13	68	14	81
Unable to be determined	2	13	2	5	1	1

Table 21 Internal fraud by focus of incidents, 2010–13 cont.

Focus category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Entitlements						
Other entitlements	5	73	6	21	10	46
Information						
Obtaining or using information without authorisation (excluding personal information)	13	172	11	150	8	41
Obtaining or using personal information without authorisation	9	1,746	4	908	5	599
Providing false or misleading information, or failing to provide information when required to do so	10	68	8	16	7	53
Use of agency logo or name without authorisation	4	10	2	2	3	7
Misuse of agency intellectual property	1	1	0	0	4	7
Unable to be determined	2	2	1	5	3	5
Other information	3	15	1	3	3	6
Financial benefits						
Obtaining cash/currency without permission	13	144	11	93	9	16
Misuse or theft of government credit cards, travel cards or other cash cards	13	110	10	82	14	442
Misappropriation of government-funded grant monies or benefits	n.p.	n.p.	n.p.	n.p.	3	4
Misuse or theft of Cabcharge	7	70	9	34	5	32
Theft of property other than cash	8	37	4	23	5	31
Procurement offences	9	11	5	6	10	25
Bankruptcy offences (hiding or disposing of assets)	0	0	0	0	0	0
Falsification of documents in order to gain financial benefit	10	61	15	48	10	60
Unable to be determined	0	0	4	14	6	25
Other financial benefits	7	89	6	21	8	18
Other	6	547	7	28	14	105

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

External fraud focus

Respondents were also asked to indicate the number of alleged incidents of external fraud that focused upon each of a number of specified resources, objects of benefit or targets of the alleged activity. Four main categories were provided that related to government equipment, entitlements, information or financial benefits. As incidents could involve more than one focus of fraud, respondents were asked to include multiple responses where applicable. Information was collected on both the number of entities that experienced fraud and the number of alleged incidents detected. The results are presented in Table 22.

Table 22 External fraud by focus of incidents, 2010–13

Focus category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Equipment						
Theft of telecommunications or computer equipment (including mobile devices)	8	56	7	38	8	56
Theft of other government equipment	5	16	6	13	2	2
Theft of consumable stock (office related)	0	0	1	1	0	0
Theft of consumable stock (other)	1	6	2	3	1	1
Misuse of government equipment	1	2	2	3	2	4
Unable to be determined	1	1	0	0	0	0
Other equipment	1	2	1	1	2	3
Entitlements						
Misusing or claiming benefits without entitlement relating to housing	1	1	2	4	0	0
Misusing or claiming benefits without entitlement relating to social security	2	22,240	2	71,925	2	3,254
Misusing or claiming benefits without entitlement to health benefits	3	2,095	3	977	3	390
Misusing or claiming benefits without entitlement relating to visas/citizenship	2	27,394	2	28,229	1	38,142
Misusing, evading or claiming without entitlement relating to child support	1	1	1	199	1	232
Revenue fraud	2	169	1	69,091	1	38,364
Customs and excise fraud (evading excise)	1	20	1	230	1	299
Unable to be determined	1	1	0	0	2	13
Other entitlements	7	206	6	110	4	79
Information						
Obtaining or using information without authorisation (excluding personal information)	11	357	2	4	4	6
Obtaining or using personal information without authorisation	4	13	2	9	4	1,101
Providing false or misleading information, or failing to provide information when required to do so	19	3,610	18	3,601	19	4,100
Use of agency logo or name without authorisation	5	11	4	36	4	11
Misuse of agency intellectual property	2	2	1	2	0	0
Unable to be determined	2	2	0	0	1	4
Other information	4	118	0	0	0	0

Table 22 External fraud by focus of incidents, 2010–13 cont.

Focus category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Information						
Financial benefits						
Obtaining cash/currency without permission	6	89	5	193	7	99
Misuse or theft of government credit cards, travel cards or other cash cards	9	16	8	43	11	35
Misappropriation of government-funded grant monies or benefits	n.p.	n.p.	n.p.	n.p.	6	41
Misuse or theft of Cabcharge	7	26	6	6	3	4
Theft of property other than cash	2	7	2	16	0	0
Procurement offences	3	28	3	24	2	39
Fictitious claims/forgery	11	641	10	178	10	380
Unable to be determined	2	2	3	16	3	25
Other financial benefits	11	123	13	304,748	10	273
Other	11	436	9	695	1	274

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

Internal fraud method

Respondents were asked to indicate the number of alleged incidents of internal fraud that were carried out using a number of specified methods, such as misuse of ICT, identity, information or acts of corruption. As incidents could involve more than one method of commission, respondents were asked to include multiple responses where applicable. Information was collected on both the number of entities that experienced fraud and the number of alleged incidents detected. The results are presented in Table 23.

Table 23 internal fraud by commission, 2010–13

Method category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Misuse of ICT						
Accessing information or programs via a computer without authorisation	13	991	12	964	7	612
Copying or altering data or programs without authorisation	8	18	3	14	5	26
Misuse of email	9	57	6	23	7	25
Manipulation of a computerised accounting system	n.p.	n.p.	5	32	4	24
Insertion of malicious code	0	0	0	0	1	2
Interference with computer networks	0	0	0	0	0	0
Unable to be determined	1	1	2	3	3	3
Other misuse of ICT	11	119	7	28	4	6

Table 23 internal fraud by commission, 2010–13 cont.

Method category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Misuse of identity						
Creating and/or using a false identity	5	7	3	6	6	7
Use of another employee's or contractor's ID without knowledge	1	3	1	3	2	2
Fraudulently using another person's identity with permission	3	4	0	0	1	1
Unauthorised use of another person's password, PIN, or access pass	3	6	3	6	3	6
Unauthorised use of another person's Tax File Number or Australian Business Number	1	1	0	0	2	2
Unable to be determined	0	0	1	2	0	0
Other misuse of identity	4	12	1	1	4	7
Misuse of information						
Creating and/or using a false or altered agency document	9	95	13	119	13	69
Creating and/or using a false or altered document (not belonging to the agency)	7	27	9	28	14	51
Dishonestly concealing documents	3	6	3	75	4	5
Failing to provide documents when required to do so	7	41	4	5	6	97
Deliberately disclosing of sensitive information (in any form) for benefit	10	38	9	50	5	51
Unable to be determined	1	1	0	0	2	4
Other misuse of documents	2	75	9	45	7	25
Corruption						
Bribery of an employee	5	63	4	50	2	50
Accepting kickbacks and gratuities	6	8	6	9	6	24
Nepotism	2	2	0	0	1	1
Failure to disclose/abuse of conflict of interest	10	43	10	30	8	52
Collusion or conspiracy between internal and external parties	6	11	6	37	11	32
Abuse of power	n/a	n/a	9	136	9	169
Unable to be determined	3	13	4	18	2	4
Other corruption	15	63	3	11	6	16
Other	25	1,957	16	136	20	230

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13 [AIC computer file]

External fraud method

Respondents were asked to indicate the number of alleged incidents of external fraud that were carried out using a number of specified methods, such as misuse of ICT, identity, information or acts of corruption. As incidents could involve more than one method of commission, respondents were asked to include multiple responses where applicable. Information was collected on both the number of entities that experienced fraud and the number of alleged incidents detected. The results are presented in Table 24.

Table 24 External fraud by commission, 2010–13						
Method category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Misuse of ICT						
Accessing information or programs via a computer without authorisation	3	6	3	4	1	1
Copying or altering data or programs without authorisation	0	0	1	1	1	1
Manipulation of a computerised accounting system	1	1	0	0	1	8
Insertion of malicious code	2	2	0	0	1	1
Interference with computer networks	0	0	1	1	1	3
Unable to be determined	3	24	0	0	1	2
Other misuse of ICT	7	23	7	40	3	3
Misuse of identity						
Creating and/or using a false identity	9	340	7	299	8	625
Use of another employee's or contractor's ID without knowledge	4	12	5	5	4	23
Fraudulently using another person's identity with permission	4	6	1	1	3	8
Unauthorised use of another person's password, PIN, or access pass	0	0	1	22	3	7
Unauthorised use of another person's Tax File Number or Australian Business Number	1	16,271	3	10,548	1	16,079
Unable to be determined	1	322	0	0	4	214
Other misuse of identity	5	201	1	1	2	11
Misuse of information						
Creating and/or using a false or altered agency document	10	261	4	40	9	141
Creating and/or using a false or altered document (not belonging to the agency)	19	1,605	14	10,010	15	2,574
Dishonestly concealing documents	5	92	1	5	2	4
Failing to provide documents when required to do so	8	6,317	5	1,021	9	1,170

Table 24 External fraud by commission, 2010–13 cont.

Method category	2010–11		2011–12		2012–13	
	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)	Entities (N)	Incidents (N)
Misuse of identity						
Deliberately disclosing of sensitive information (in any form) for benefit	2	2	0	0	0	0
Unable to be determined	6	18,595	4	63,206	8	58,464
Other misuse of documents	7	89	6	59	2	29
Corruption						
Bribery of an employee	0	0	1	1	0	0
Paying kickbacks and gratuities	3	8	2	5	1	1
Failure to disclose/abuse of conflict of interest	2	5	1	1	3	5
Unable to be determined	2	11	1	2	3	12
Other corruption	3	14	6	38	5	145
Other	22	22,826	19	81,946	14	11,636

n.p. - Category not provided

Source: Commonwealth fraud surveys 2010–11, 2011–12 and 2012–13



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