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Commonwealth fraud investigations 2016–17

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Foreword

Public sector fraud involves ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’ (AGD 2017: 3.14). It can be perpetrated by public servants, who may abuse their privileges for personal gain (internal fraud), or by other members of the public or corporations, who may seek to obtain benefits or payments from government entities unlawfully (external fraud). For those who want to commit fraud, Commonwealth entities are attractive targets as they have extensive resources including equipment, property, money and information, to name a few.

Members of the Australian public, as taxpayers, expect public servants to be accountable for expenditure in the public interest, and Commonwealth entities must do everything necessary to minimise risks of fraud and to ensure that adequate and effective fraud control measures are in place. The Australian government is committed to tackling fraud against the Commonwealth by supporting research into the extent of the problem and promoting the development and use of fraud control practices to reduce risks and to detect and deal with fraud in a timely and effective manner.

Each year, the Australian Institute of Criminology (AIC) conducts a census of Commonwealth entities to document their experience of fraud during the preceding year and to examine the fraud control measures that they employ. This report presents information gathered in respect of the 2016–17 financial year.

At the heart of prevention and deterrence is the need to detect fraud as early as possible. The findings of the 2016–17 census show that less than 40 percent of Commonwealth entities detected fraud in that financial year. This is the proportion of entities that detected fraud, not necessarily the proportion of entities that experienced fraud.

Fraud losses from matters whose investigations were completed in 2016–17 were found to be \$93.8m, which was 0.02 percent of total government expenditure of \$447.8b in 2016–17 (Commonwealth of Australia 2018: Table D6). Comparable research on fraud against private sector organisations suggests that the losses reported by Commonwealth entities are, proportionally, much lower than might be expected (ACFE 2018). For example, the United Kingdom Cabinet Office (2018) concluded that potential losses arising from unknown fraud and error ranged between 0.5 and 5.0 percent of government expenditure. This means that either levels of fraud against Commonwealth entities are much lower than in other organisations, or Commonwealth entities are not detecting fraud at comparable rates.

Although the present findings indicate that relatively low levels of fraud against the Commonwealth are detected, it is not known with certainty how much fraud goes undetected and, thus, what proportion comes to light. Public sector fraud results in less money being available for public expenditure, such as health programs, education and social welfare. The longer fraud is allowed to persist, the higher the losses incurred, and the greater the damage to efficiency of government operations, morale of public officials, and loss of confidence in government operations through adverse media attention.

The annual *Fraud against the Commonwealth* census measures levels of fraud actually detected and investigated across the Commonwealth and compares risks across different Commonwealth sectors. It also shows the extent to which Commonwealth entities make use of various fraud control measures to minimise risks and to deal with detected fraud.

The government is acting to increase understanding of the scale of fraud against the Commonwealth. New approaches to research will uncover the extent of fraud that has taken place but not yet been detected, and fraud risks that have not yet been acted upon. Armed with such new information, the Commonwealth will become a less attractive target for fraud as detection measures improve, new risks are identified and potential losses avoided.

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Key terms and definitions

Case: An investigation into fraud in relation to one or more individuals who are alleged to have caused a loss or other harm to the reporting entity.

Fraud: Fraud means ‘dishonestly obtaining a benefit, or causing a loss to the Commonwealth, by deception or other means’.

- Fraud must be intentional. It excludes conduct involving carelessness, accident, or error.
- ‘Dishonesty’ means ‘known by the defendant to be dishonest according to the standards of ordinary people’.
- Fraud includes acts and omissions, whether tangible or intangible.
- Perpetrators can be internal staff, contractors, or persons external to the Commonwealth entity such as members of the public.
- Fraud can involve dishonesty in connection with breaches of criminal law or a Commonwealth entity’s own legislation.

Internal and external fraud: For the purposes of this study, fraud investigations have been divided into ‘internal fraud’ (carried out by individuals who were employees or contractors of the entity), and ‘external fraud’ (carried out by individuals who were not employees or contractors of the entity). Where it is unclear whether an investigation concerned internal or external fraud, or where it principally involved collusion between internal and external actors, the investigation was to be treated as internal fraud only.

Investigation: A fraud investigation is a separate inquiry into allegations of fraud undertaken by an entity, or by a law enforcement or external consultant. A single investigation may relate to one or more suspects and involve one or more allegations of fraud that are handled together.

Commenced investigation: A fraud investigation commences when allegations of sufficient merit to warrant further inquiry are made and inquiries have begun, excluding trivial and/or vexatious allegations that are unable to be substantiated or cannot be further investigated.

Finalised investigation: A fraud investigation is finalised when any of the following has occurred:

- (a) the entity’s investigation of the allegations has been concluded;
- (b) the allegations have been referred to a law enforcement or prosecution entity for further action (whether before or after the individual the subject of allegations has left the employment of your entity);
- (c) debts or liabilities arising from the investigation have been written-off as being incapable of further recovery action; or
- (d) the individual the subject of allegations has died.

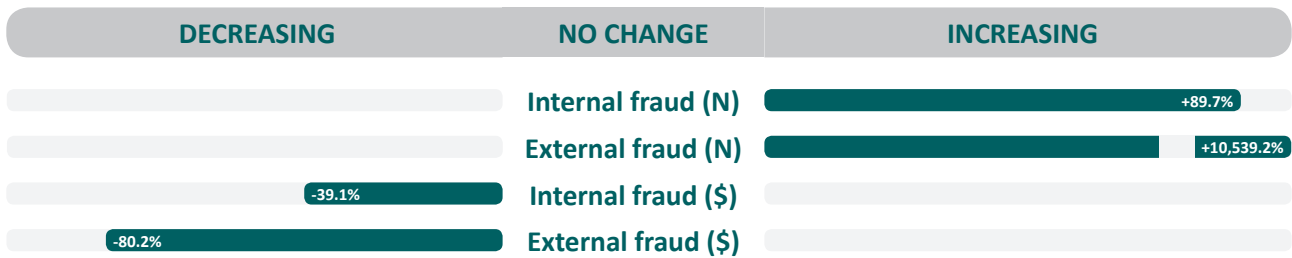
Reporting (reference) period: 1 July 2016 to 30 June 2017.

Acronyms and abbreviations

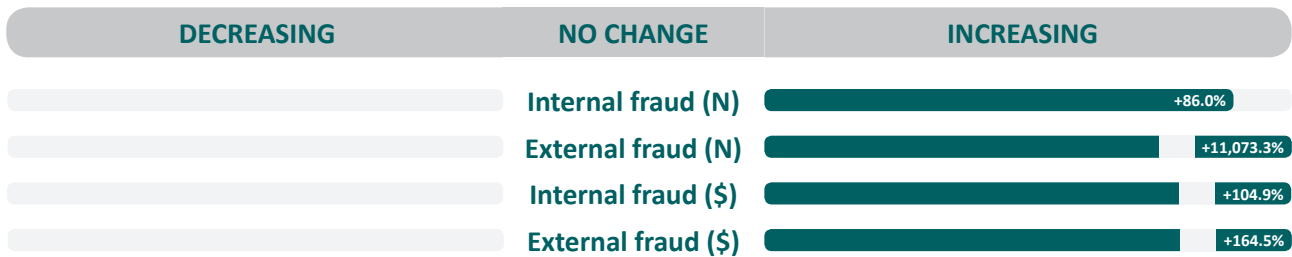
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|----------|---|
| ACFE | Association of Certified Fraud Examiners |
| ACLEI | Australian Commission for Law Enforcement Integrity |
| AFP | Australian Federal Police |
| AGD | Attorney-General's Department |
| AGSVA | Australian Government Security Vetting Agency |
| AIC | Australian Institute of Criminology |
| APS | Australian Public Service |
| APSC | Australian Public Service Commission |
| CDPP | Commonwealth Director of Public Prosecutions |
| CEO | chief executive officer |
| FTE | full-time equivalent |
| ICT | information and communication technology |
| NAO | National Audit Office (United Kingdom) |
| PGPA Act | <i>Public Governance, Performance and Accountability Act 2013</i> |
| SES | Senior Executive Service |

Key trends

COMMENCED INVESTIGATIONS



FINALISED INVESTIGATIONS



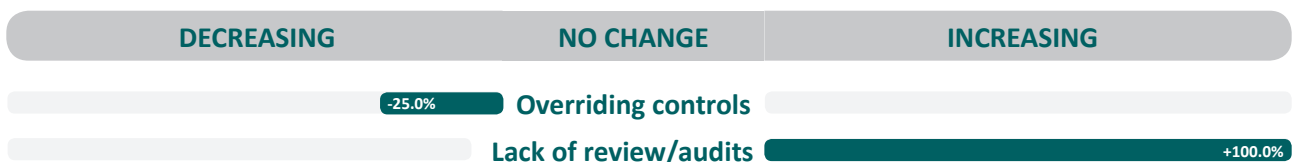
AFP/CDPP cases



CORRUPTION



WEAKNESSES IN INTERNAL FRAUD CONTROL



Abstract

Fraud against the Commonwealth is a serious matter for all Australian Commonwealth entities and the Australian public. It prevents taxpayer dollars from reaching intended targets and affects the government's ability to deliver key services. In accordance with the *Public Governance, Performance and Accountability Act 2013* (Cth) and s 10 of the Public Governance, Performance and Accountability Rule 2014, all non-corporate Commonwealth entities are required to provide the AIC with information concerning their experience of fraud during the preceding year and the fraud control measures that they employ. This report presents information gathered in respect of the 2016–17 financial year. The Australian government is committed to tackling fraud against the Commonwealth by supporting research into the extent of the problem and promoting the development and use of fraud control practices to reduce risks and to detect and deal with fraud in a timely and effective manner.

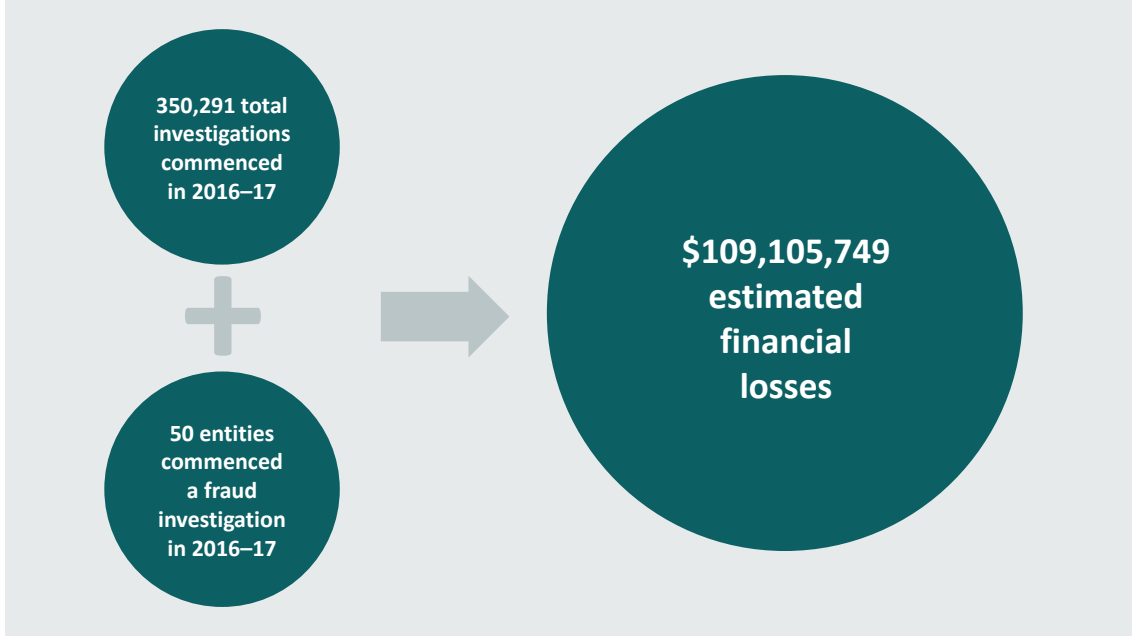
Executive summary

This report provides information on the fraud investigations undertaken by 131 participating Commonwealth entities during the period 1 July 2016 and 30 June 2017.

Investigations commenced: Summary

- Thirty-three entities (out of the 131 participating entities) commenced at least one internal fraud investigation in 2016–17, totalling 2,345 investigations, an increase from the 1,236 investigations commenced by 33 entities in 2015–16.
- The estimated dollar value of all internal frauds that respondents could quantify and that were the subject of investigations commenced in 2016–17 totalled \$2,126,594, a substantial decrease from the estimated losses of \$3,490,093 in 2015–16.
- Thirty-six entities commenced at least one external fraud investigation in 2016–17, totalling 347,902 investigations. These findings differ from those in 2015–16, where 40 entities commenced 3,270 external fraud investigations.
- The estimated dollar value of all external frauds that respondents could quantify and that were the subject of investigations commenced in 2016–17 totalled \$99,006,782, a substantial decrease from the estimated value of external fraud investigations in 2015–16 of \$500,045,551.
- In addition, nine entities commenced 17 investigations involving collusion, and four entities commenced 27 investigations in which fraud was unclassified (as either internal or external fraud). The dollar losses for investigations involving collusion were unable to be quantified and the estimated dollar value of unclassified/other investigations commenced was \$7,972,373.

Commenced fraud investigations (internal fraud, external fraud, collusion and unclassified fraud) and dollar losses, 2016–17



Investigations finalised: Summary

A fraud investigation was considered to be finalised if, during 2016–17, the entity's investigation into the allegation of fraud had been concluded; or the entity had referred the matter to a law enforcement or prosecution agency for further action; or debts or liabilities from the suspected fraud incident had been written off as being unable to be recovered. Some finalised investigations may have commenced in years prior to 2016–17. Of the 131 participating entities, only 50 entities (just over a third of all entities) finalised at least one fraud investigation during 2016–17.

- In 2016–17 there were 2,371 internal fraud investigations finalised by 27 entities, an increase from the 1,275 internal fraud investigations finalised in 2015–16.
- Thirty-nine entities finalised 349,166 fraud investigations involving external fraud, compared with 34 entities finalising 3,125 external fraud investigations in 2015–16. The substantial increase in external fraud investigations was due to fraud involving a retail payment card system that permitted cardholders to conduct transactions using stolen cards resulting in a loss to the Commonwealth. Once the frauds had been identified and the vulnerability resolved, the payment card system was again made available for use. The majority of these investigations involved one large entity.
- Over 95 percent of all finalised investigations into internal fraud and external fraud were conducted by the victim entity only, compared with just under 90 percent of investigations in 2015–16.
- Fraud was substantiated (either in full or in part) in 1,786 of the finalised investigations into internal fraud (75%).
- Fraud was substantiated (either in full or in part) in 345,674 of the finalised investigations into external fraud (99%).

Highlights of finalised fraud investigations, 2016–17



Investigations finalised: Key findings

Fraud targets

Internal fraud

- Information was the most frequently recorded target in 452 internal fraud investigations undertaken by six entities in 2016–17 (the largest number of investigations, aside from 1,000 investigations in the 'other' category). Financial fraud was the internal fraud target in investigations undertaken by the largest number of entities (13 entities) in 2016–17.

External fraud

- Financial fraud was also the most commonly recorded target in external fraud investigations (342,342) in 2016–17, with 18 entities conducting these investigations. The majority of the external fraud investigations (over 95%) were attributable to one large entity and involved payment card fraud.

Fraud methods

- The most common method by which fraud was committed for both internal and external fraud investigations was asset misappropriation. There were 999 internal fraud investigations by 12 entities in which asset misappropriation was the primary method, and 342,072 external fraud investigations by eight entities involving asset misappropriation. However, while this fraud method was found in the largest number of external fraud investigations, the method cited by the largest number of entities (13) was misuse of documents.

Losses and recoveries

- Eight respondents provided dollar loss amounts for 1,112 internal fraud investigations undertaken in 2016–17. The total known losses due to internal fraud in 2016–17 amounted to \$1,860,103. This was an increase from the \$907,657 in internal fraud losses recorded in 2015–16.
- Fourteen respondents provided dollar loss amounts for external fraud investigations undertaken in 2016–17. The total known losses due to external fraud in 2016–17 amounted to \$91,920,748, compared with \$34,757,522 in known external fraud losses in 2015–16. This substantial increase was due to the large increase in the number of finalised investigations involving external fraud.
- Five respondents provided details on amounts recovered from internal fraud losses in 2016–17. The total amount recovered was \$767,771, an increase from the \$338,393 in total losses recovered by the nine entities in 2015–16.
- Sixteen respondents provided details on the amount recovered through various means from external fraud losses in 2016–17. The total amount recovered was \$4,430,731, which is over three times the amount recovered in 2015–16 (\$1,413,935 recovered by 12 entities) for external fraud losses.

Corruption and collusion

- The number of finalised fraud investigations involving corruption was lower in 2016–17 than in 2015–16 (98 investigations compared with 153 investigations), although there were 2,942 investigations in 2016–17 in which respondents were unable to say whether corruption was involved.
- In 2016–17, three entities finalised 28 fraud investigations that involved collusion between internal and external parties. This finding was less than the 81 fraud investigations that involved collusion in 2015–16. However, there were 2,938 investigations in 2016–17 in which respondents were unable to say whether collusion occurred.

Most costly frauds

As is the case each year, respondents were asked to select one finalised fraud investigation that resulted in the greatest financial loss or impact. The fraud was chosen irrespective of when the fraud was committed or when the investigation commenced, as long as the investigation was finalised in 2016–17. If the investigation involved more than one suspect, responses were confined to the principal suspect only. This provided specific data on the demographics of the offender, how the fraud occurred and what the outcome of the investigation was. The following data relate to the most costly internal frauds reported by all responding entities.

Most costly internal frauds

The most common fraud targets in the most costly internal frauds related to internal financial fraud, (9 investigations) followed by fraud involving employee entitlements or benefits (8 investigations).

Asset misappropriation (8 investigations) was the most common method of committing fraud in the investigations of the most costly internal frauds.

The most common age category of suspects in the most costly internal frauds was 35–44 years (N=6 suspects), the same as in previous years. In 2016–17, there was an even number of male and female suspects (N=9 of each gender).

As reported in previous census findings, no suspects were employed at the Senior Executive Service (SES) level of the Australian Public Service (APS). In 2016–17, the largest losses (\$75,838) were in respect of a non-APS employee.

Total losses incurred in the most costly internal frauds amounted to \$196,555, a substantial reduction from the \$613,406 reported in 2015–16, although in 2016–17 only nine respondents could quantify a loss amount.

Most costly external frauds

For all of the most costly external frauds, ‘financial fraud’ was the most frequently reported primary target. It was the primary target in 15 investigations in 2016–17 and 14 investigations in 2015–16.

Similar to findings from 2015–16, ‘misuse of documents’ was the most common primary method used to commit the most costly external frauds. This was the method used in 11 investigations in 2016–17 and 13 investigations in 2015–16.

In 2016–17, the most common method used to detect the most costly external frauds involved a staff member detecting the fraud (10 investigations).

In 2016–17, more males (N=15) than females (N=5) committed the most costly external frauds reported. The most common age group of suspects was 55–64 years (N=6) in 2016–17.

Total losses relating to all of the most costly external frauds investigated in 2016–17 were \$2,757,356. The single most costly external fraud investigated reported a loss of \$1,064,000.

Policing and prosecution activity in 2016–17

- At 30 June 2017, the Australian Federal Police (AFP) had 140 fraud-related matters still on hand, with an estimated dollar value of \$2.4b, double the comparable sum at 30 June 2016. Of those matters still on hand, 42 were cases accepted by the AFP in 2016–17.
- There were 1,399 defendants prosecuted in fraud-type matters by the Commonwealth Director of Public Prosecutions (CDPP) in 2016–17. This resulted in 1,121 convictions. The amount initially charged in fraud type prosecutions in 2016–17, was \$35.3m. This represents a small increase on the \$34.3m initially charged in fraud-type prosecutions in 2015–16.

Fraud compliance and prevention

Chief executive officer (CEO) certification of fraud control measures

- Fifty-five percent of respondents said their Accountable Authority had reported to their minister or presiding officer regarding their fraud control measures for 2016–17. Non-corporate entities were more likely to have reported this than corporate entities.

Fraud risk assessments

- The *Commonwealth Fraud Control Framework* (AGD 2017) requires a fraud risk assessment to be conducted by entities regularly or when there has been a substantial change to the activities or functions of the entity.
- In 2016–17, 90 percent of entities had completed a risk assessment within the previous two years, the same percentage as in 2015–16.

Fraud control plans

In 2016–17, 111 responding entities (85%) reported completing a fraud control plan in the previous two financial years (compared with 90% in 2015–16).

Fraud control staff

- Almost all entities (N=128) had at least one employee who dedicated some of their time to fraud control. However, 77 percent of entities (N=101) reported having no staff employed *solely* in fraud-related duties in 2016–17.
- When asked about aspects that helped their entity prevent fraud throughout the year, 52 percent of respondents (N=41 out of 79 completing the section) advised ‘education about fraud and fraud awareness training’ of employees provided the greatest benefit.
- When asked what aspects hindered their entity’s ability to prevent fraud, the most common response was ‘lack of resources and lack of staff’ (7 respondents out of 24 completing the question).

Conclusions

Fraud remains an ongoing concern for Commonwealth entities. Entities are attractive targets for people willing to commit fraud targeting the programs funded by the government, the payments made by service providers, the information held or the resources administered by different entities. Fraud threats may come from employees or contractors employed by the entity (internal fraud) or from members of the public who are customers of entities or have no connection to the entity (external fraud). The Australian Commonwealth faces a greater number of fraud threats from those external to the entity than from employees (349,166 external fraud investigations compared with 2,371 internal fraud investigations in 2016–17). This should not, however, lead to complacency concerning internal fraud, as, in 2016–17, internal fraud investigations increased by 86 percent from the number in 2015–16. This increase was not attributable to any one entity. There was also a substantial increase in the number of external fraud investigations between 2015–16 and 2016–17, although much of this was due to a specific fraud risk identified and resolved by the entity within the financial year.

Risks to entities from staff members arise primarily from the information that entities hold. In 2016–17, 19 percent of internal fraud investigations involved information as the primary target of the fraud. For external fraud, the primary risks are financial, and must be combated through adequate resourcing and trained employees to detect and investigate fraud. The main take-home message from the 2016–17 census is that having adequate resources to actively look for fraud, to encourage fraud prevention and to have trained investigators will allow entities to have a greater understanding of where their fraud risks lie and how they may counter those risks.

Part 1: Introduction

What is fraud against the Commonwealth?

The Australian government, unlike some other international governments (UK Cabinet Office 2018), has had a consistent definition of fraud over many years. The *Commonwealth Fraud Control Framework* (AGD 2017: 3:14) currently defines fraud against the Commonwealth as ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’. Fraud requires a criminal intention to commit fraud with conduct that is accidental, inadvertent, or involves mere carelessness not meeting acceptable standards of proof. However, in the Commonwealth, this definition covers a wide range of conduct. In the private sector, for example, theft of information and communication technology (ICT) equipment would generally not be considered fraudulent but simply misappropriation of a business asset. In the Commonwealth, however, this is considered a form of fraud against the Commonwealth.

Having such a broad definition of what constitutes fraud has led to confusion among employees as to what should be classified as fraud. An ongoing concern expressed by multiple entities (see *Part 7* for more detail) is that staff are unaware of what behaviour may be fraudulent and, as a result, are uncertain as to the best ways to prevent and respond to potentially fraudulent conduct they encounter. Another area of concern in the public sector is the rise in employee application fraud (Cifas 2017). A recent NSW Independent Commission Against Corruption (ICAC) report (2018) found between 20–30 percent of job applications contained some form of false information. ICAC (2018) found that much corrupt conduct in the NSW public sector may have been attributable to inadequate screening employment processes (see Box 1 for an example of application fraud in Australian Commonwealth entities).

Box 1: Example of fraud involving application fraud from the 2016–17 fraud census

A respondent reported that their entity's most costly internal fraud involved an employee who was hired in 2011 and was employed at the APS Executive Level 1 to 2. At the time the fraud was detected, the suspect was aged between 35 and 44 years and lived in New South Wales. The target of the fraud was reported to be 'employment using false information'. The woman had created a false or altered document (not belonging to the entity) and had used it dishonestly to misrepresent her qualifications. The woman had been employed for between 49 and 84 months before her fraudulent qualifications were detected. No other person was involved in the fraud. The fraud was detected on 31 March 2017, by 'recruitment agency control processes'. The respondent believed the reason the fraud had occurred was due to 'lack of review and/or checks or audits'. As the fraud had occurred as part of the hiring process, there was not a time during which to observe any red flag behaviour that might have suggested a fraud risk. The suspect's motive was identified as 'greed or desire for financial gain'. The respondent also advised that the entity did not incur any financial losses—although the suspect was paid a salary for over four years that she may not have been technically entitled to. The fraud investigation conducted by the entity began on the day the fraud was detected, and the investigation was finalised on 8 June 2017 (over two months later), the day the employee resigned from the entity. The entity took no further action against the employee.

Source: Commonwealth fraud census 2016–17 [AIC data file]

Why is fraud against the Commonwealth measured?

In the public sector, the primary responsibility for fraud prevention and detection, and even the initial investigation of fraud, lies with the victim agency (Levi & Burrows 2008). Within Commonwealth agencies specifically, the Commonwealth Fraud Control Framework (2017) stipulates that each agency is responsible for investigating routine or minor instances of fraud. As a result, it is only the most serious instances of fraud that are dealt with by law enforcement. This means that official police statistics on fraud against the Commonwealth under-represent the true extent of the problem. For example, in 2016–17, the AFP accepted only 42 cases for investigation, while entities reported commencing 350,291 investigations.

In 2016–17, Australian Government agencies spent \$439.6b on operating activities, purchases of nonfinancial assets, and net acquisition of assets under finance leases (The Treasury 2018: Appendix A). With such a substantial amount of public money expended by the Commonwealth, the Australian public has a right to expect transparency in how entities protect these funds against fraud. When fraud is committed against the public sector it results in less money being available for community programs, services and aid. The Commonwealth will always be a target of fraud; however, by detecting fraud early and better understanding how fraud occurs, Commonwealth entities are better equipped to minimise financial losses through acts of dishonesty. Knowledge of this kind also allows prevention strategies to be improved and defences against fraud enhanced.

Previous Commonwealth fraud reports (Jorna & Smith 2018a, 2018b, 2015; Lindley, Jorna & Smith 2012; Lindley & Smith 2011; Smith & Jorna 2017) have shown a disjunction between the level of fraud reported by Commonwealth entities and the level of fraud documented in industry surveys (eg ACFE 2018; KPMG 2016; Kroll 2018). The disparity between what is recorded by public sector agencies (not just the Australian Public Service) and other estimates has also been observed by the UK Cabinet Office (2018), which found the level of fraud and error reported in data collections was lower than expected based on international comparisons and from estimates within the UK (CCFC 2017). Entities must therefore remain vigilant in detecting fraud. The present census is a mechanism for entities to obtain the latest evidence on fraud risk so that they can review their fraud controls and develop effective and current prevention strategies.

How is fraud against the Commonwealth measured?

Fraud is a hidden crime—people who commit fraud often go to great lengths to remain anonymous and to conceal their conduct. As a result, detected fraud, like the tip of an iceberg, is only a small proportion of the fraud that actually takes place (see Audit Office NSW 2016; United Kingdom Cabinet Office 2018). In addition, of the frauds detected, only a small number will be reported to the police or prosecuted in court, making reliance on official crime statistics of limited use in estimating the actual prevalence of fraud. In order to understand the fraud landscape more fully, the Australian Institute of Criminology conducts an annual census of Commonwealth entities to determine their experience of fraud in the preceding year and how they responded to fraud risks.

The Commonwealth fraud census differs from the UK Cabinet Office quarterly data collections (mentioned above) in that the AIC census asks solely about fraud investigations, whereas the UK data collection asks about fraud, error and loss incidents, whether investigated or not (United Kingdom Cabinet Office 2018). The AIC's data are much more accurate because the information is reported by entities following the completion of investigations each year. In the United Kingdom, estimates are made about matters that have not been fully investigated, with loss estimates subject to higher error rates than in the AIC's census. However, notification of suspected fraud and error in the United Kingdom is beneficial for the development of fraud risk profiles and prevention strategies. The AIC previously collected data on suspected fraud but found it to be unreliable, which led to the focus on completed fraud investigations. Accordingly, comparisons should not be made between the findings of the AIC's fraud census and the information reported by the UK Cabinet Office.

The Commonwealth Fraud Control Framework 2017 was developed in line with the change in Commonwealth resource management introduced by the Commonwealth *Public Governance, Performance and Accountability Act 2013* (PGPA Act), which moved from a compliance approach to a principles-based framework. In 2017 the framework was reissued by the Attorney-General's Department (AGD) with the same content as the 2014 version.

The current framework consists of:

- section 10 of the Public Governance, Performance and Accountability Rule 2014 (Fraud Rule);
- Commonwealth Fraud Control Policy (Fraud Policy); and
- Resource management guide no. 201: Preventing, detecting and dealing with fraud (Fraud Guidance).

Together, these provisions seek to protect public resources, including information and property, and the integrity and good reputation of entities and the Commonwealth.

Part of the framework requires all entities to ensure they have adequate fraud control measures in place. Each year, a census is conducted of Commonwealth entities to document their experience of fraud during the preceding year and to examine the fraud control measures they have in place. This report presents information gathered about the 2016–17 financial year. The report identifies the level of fraud risk affecting the Commonwealth, and reports on how entities approach their task of preventing fraud and responding to acts of dishonesty that have been detected.

What the report covers

Separate sections of this annual census cover information concerning all fraud investigations that were commenced and all fraud investigations finalised by entities in 2016–17. Details of the methodology used to gather the information, response rates and how the data were analysed are presented in the accompanying *Appendix*.

It then presents separate sections with information on the most costly internal fraud and external fraud investigations undertaken in 2016–17; and details of Commonwealth fraud investigations undertaken by the AFP and prosecutions conducted by the CDPP in 2016–17. The remaining sections deal with fraud control arrangements and compliance activities within reporting entities.

About participating entities

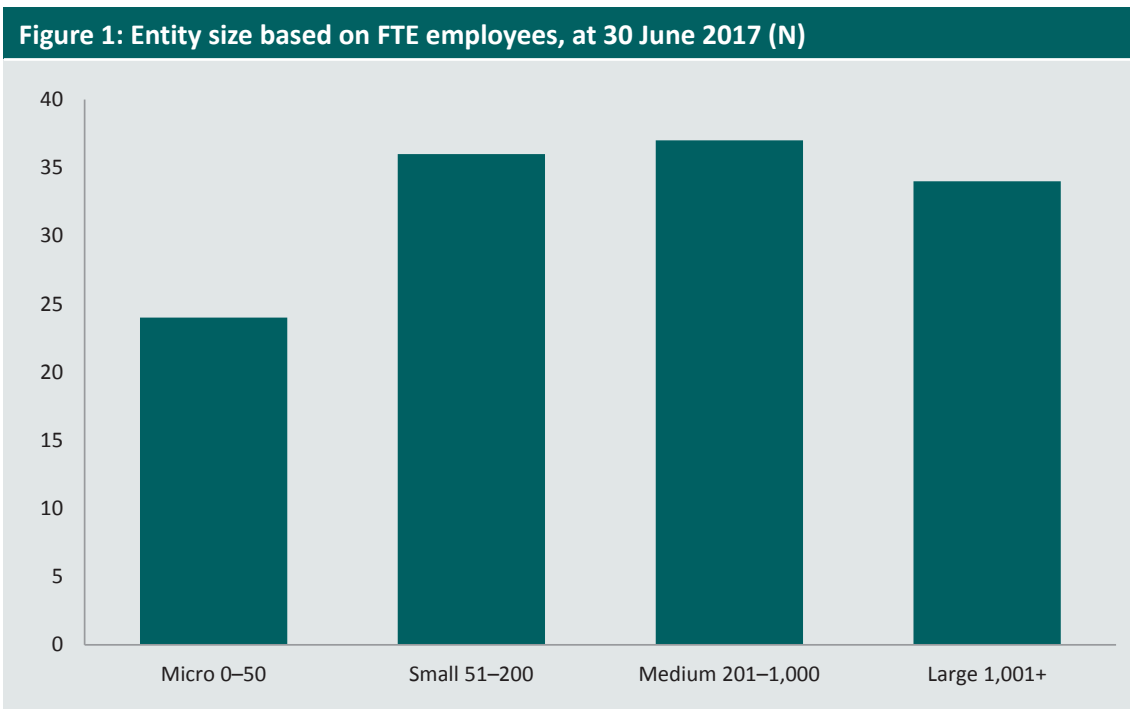
In 2017, 131 entities participated in the census out of the 179 entities invited to participate, resulting in a 73 percent participation rate.

Entities were categorised, based on total full-time equivalent (FTE) employee data, into four groups:

- micro entities: 0–50 employees (24 entities);
- small entities: 51–200 employees (36 entities);
- medium-sized entities: 201–1,000 employees (37 entities); and
- large entities: more than 1,000 employees (34 entities).

These size classifications were based on the Australian Public Service Commission’s (APSC) categories (APSC 2017), noting that the AIC census included more than just APS entities, as all Commonwealth entities were invited to participate. A Commonwealth entity is defined as ‘a department of state, a parliamentary department, a listed entity or a body corporate established by a law of the Commonwealth’ (AGD 2017: C3).

Details of the number of participating entities grouped by size, based on the reported number of employees at 30 June 2017, are presented in Figure 1.

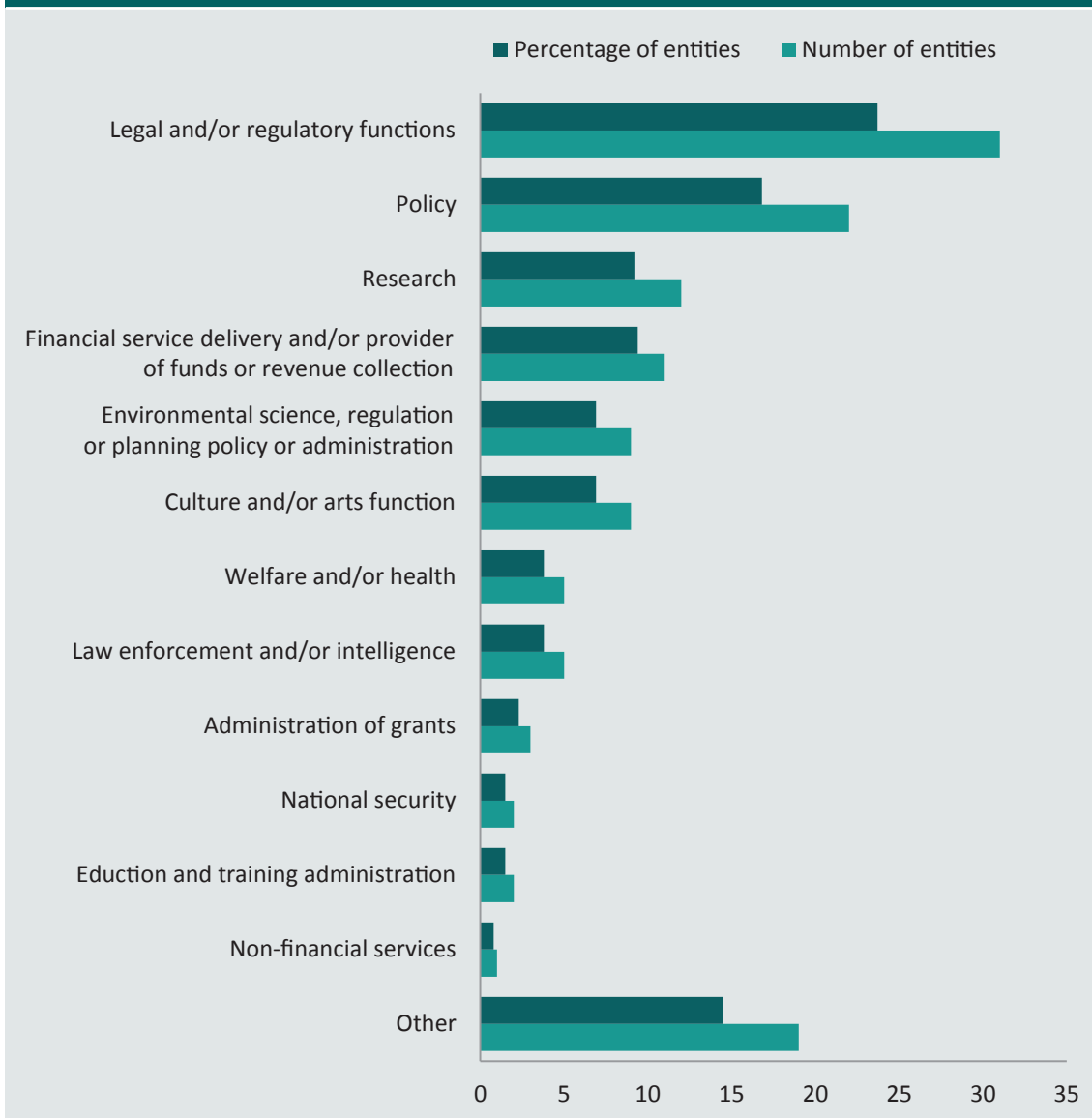


Source: Commonwealth fraud census 2016–17 [AIC data file]

The 2017 questionnaire asked respondents to identify the principal function of the entity’s core business (with ‘core business’ referring to the primary area or activity that the entity focuses on). The diversity of functions performed by Commonwealth entities contributes to difficulties in ensuring adequate fraud control in the Commonwealth.

Details of the number of entities by their principal function as determined by respondents are presented in Figure 2. The most frequently reported function reported was ‘legal and/or regulatory’, with ‘policy’ the next most common function.

Figure 2: Principal function of entity, 2016–17



Source: Commonwealth fraud census 2016–17 [AIC data file]

Part 2: The fraud landscape: Investigations commenced

This section presents data on fraud investigations commenced by participating entities during 2016–17. A fraud investigation was defined as ‘a separate inquiry into allegations of fraud undertaken by an entity, or by a law enforcement or external consultant’. A single investigation could relate to one or more suspects and involve one or more allegations of fraud that were handled together. Respondents were also asked to include details of any ‘reviews’, ‘inquiries’, ‘compliance activities’ or ‘evaluations’ undertaken as a response to allegations of fraud or fraud incidents detected. When an entity decides an investigation or review is required, there are minimum standards set by the government for the conduct of the investigation (AGD & AFP 2011).

A fraud investigation was considered to have commenced when allegations were of sufficient merit to warrant further inquiry and this was begun. Allegations that were trivial or vexatious were excluded, as were allegations that were unable to be substantiated or could not be further investigated.

Information collected about commenced investigations included whether suspects were located within or external to an entity, the size of the entity, the number of incidents detected, and information about the suspects involved. Internal fraud was defined as any incident of fraud or suspected fraud allegedly committed by an employee or contractor of an entity, while external fraud was defined as any incident of fraud or suspected fraud allegedly committed by a person other than an employee or contractor of the entity.

Because complete information about the fraud or the suspect in commenced investigations was often not available, the data fields relevant to this section were restricted. In the case of the estimated cost of fraud, this would be somewhat speculative, in some cases, at the time the investigation was commenced. Accordingly, these dollar values should be treated as initial estimates only.

Number of investigations commenced

Respondents who advised that their entity had commenced an investigation (N=50), were asked for further details, such as the types of fraud and the number of investigations involving each type—internal fraud, external fraud, collusion and any other undetermined fraud type (Table 1).

| Fraud type | Number of investigations | Number of entities | Minimum number of investigations (per entity) | Maximum number of investigations (per entity) | Median number of investigations for entities commencing investigations |
|----------------------|--------------------------|--------------------|---|---|--|
| Internal fraud | 2,345 | 33 | 1 | 982 | 2 |
| External fraud | 347,902 | 36 | 1 | 341,977 | 6 |
| Collusion | 17 | 9 | 1 | 6 | 1 |
| Other fraud | 27 | 4 | 1 | 24 | 1 |
| Total investigations | 350,291 | 50 | 1 | 342,959 | 5 |

Source: Commonwealth fraud census 2016–17 [AIC data file]

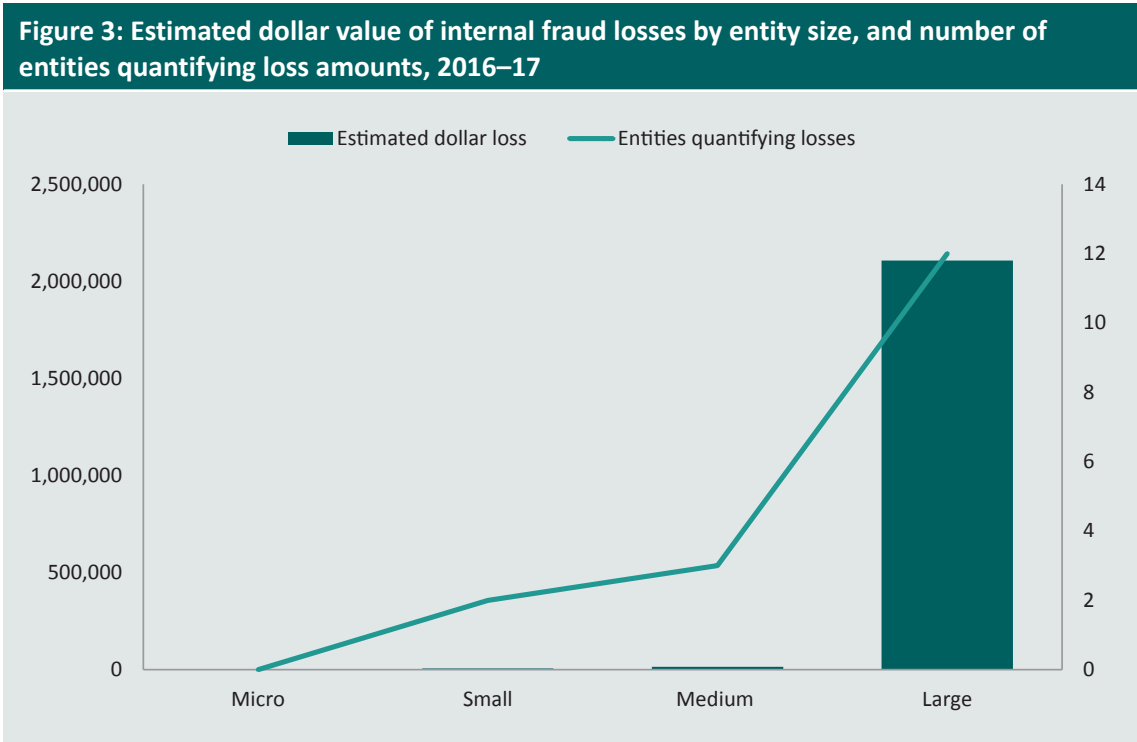
Estimated fraud losses from investigations commenced

Respondents were asked to estimate the financial losses suffered as a result of frauds whose investigations commenced in 2016–17. Losses were defined as funds thought to have been lost to 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 losses that had been substantiated following investigation.

There are some important limitations to consider when assessing losses from investigations that have recently commenced. First, investigators will not have had a chance to assess the scale of the fraud, or to determine whether the allegations can be substantiated. Secondly, at the beginning of a fraud investigation, investigators will assume the fraud is against an entire contract, program or grant. As a result, the maximum value of the fraud will be applied until it can be determined otherwise. Accordingly, the estimated fraud losses recorded are generally higher than the actual losses that may be established on completion of the investigation.

In 2016–17, the estimated total losses attributable to commenced internal fraud investigations were \$2,127,593. This amount is the total of figures supplied by 17 entities, indicating that just over half (51.5%) of entities could estimate losses, although 16 entities were either unsure as to whether the fraud involved losses or could not estimate what the losses involved.

Estimated losses in respect of commenced internal fraud investigations based on size of entity for 2016–17 are presented in Figure 3. Consistent with findings in previous years, larger entities reported higher estimated losses associated with internal frauds.

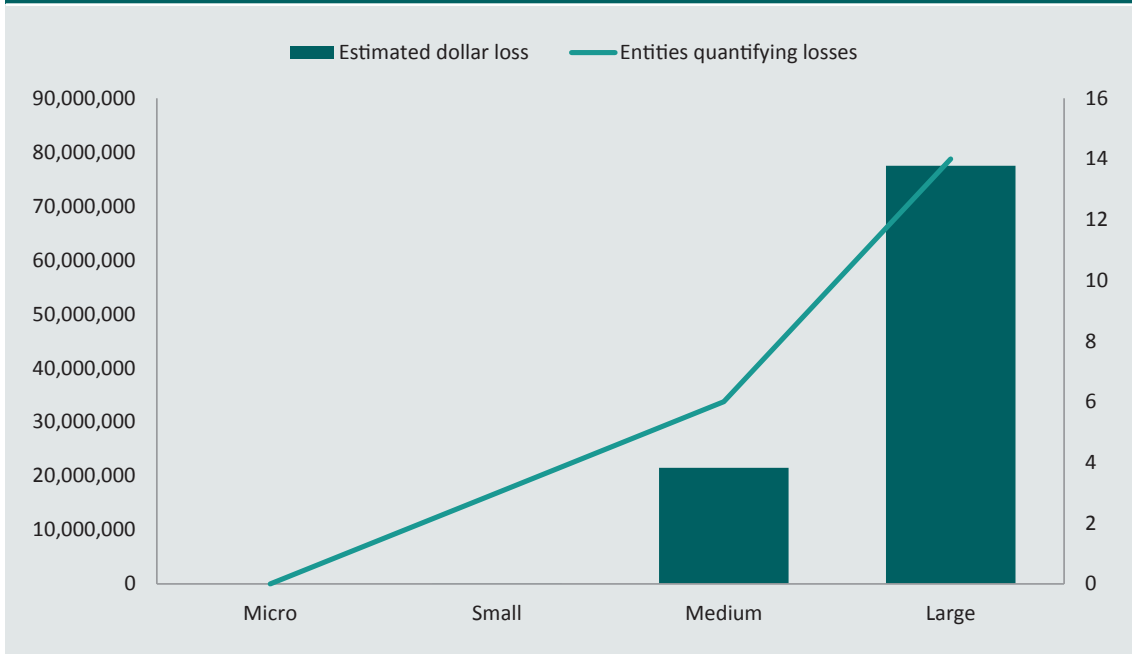


Source: Commonwealth fraud census 2016–17 [AIC data file]

In line with the number of commenced external fraud investigations (347,902) being so much larger than the number of commenced internal fraud investigations (2,345), the estimated losses associated with commenced external fraud investigations were also much higher. The total losses estimated for external fraud investigations commenced in 2016–17 were \$99,006,782 (Figure 4). This represented a substantial decrease from the \$500m reported for 2015–16. Estimated losses associated with commenced investigations can be quite volatile, owing to the fact that at this stage the full extent of the fraud has not yet been determined. Also, it is often the case at this stage that estimates are given for losses assuming that an entire contract, program, grant or claim is involved. Following the completion of an investigation, the financial losses involved can be more accurately estimated.

In addition to the internal fraud losses and external fraud losses for commenced investigations, nine entities commenced 17 investigations involving collusion, and four entities commenced investigations where the fraud was unclassified (ie as either internal or external fraud). The dollar losses of investigations involving collusion were unable to be quantified. The losses associated with the other investigations were \$7,972,373.

Figure 4: Estimated dollar value of external fraud losses by entity size, and number of entities quantifying loss amounts, 2016–17



Source: Commonwealth fraud census 2016–17 [AIC data file]

In a review of fraud control in government agencies, the United Kingdom Cabinet Office (2018) found that only a few areas had the capacity to estimate losses due to fraud. It is therefore not surprising that not all Commonwealth entities could quantify a loss amount at the commencement of an investigation.

Part 3: Finalised fraud investigations

In addition to questions about fraud investigations commenced, the AIC asked respondents to report on all fraud investigations finalised in 2016–17. A fraud investigation was defined as being finalised when the first in time of the following has occurred:

- the entity’s investigation of the allegations has been concluded;
- the allegations have been referred to a law enforcement or prosecution entity for further action (whether before or after the individual the subject of allegations has left the employment of your entity);
- debts or liabilities arising from the investigation have been written-off as being incapable of further recovery action; or
- the individual the subject of allegations has died.

Number of fraud investigations finalised

In 2016–17, 50 entities finalised 351,537 fraud investigations (either internal or external or both). However, one large entity was responsible for 342,959 of those 351,537 investigations. These largely involved external frauds targeting ‘unauthorised use of payment cards’, accounting for 97.6 percent of all investigations. This type of fraud was due to a specific fraud risk associated with a new payment card system that involved individuals using stolen cards to conduct unauthorised transactions, resulting in a loss to the Commonwealth. The responsible entity was notified of the frauds by an external party and reviewed each transaction to determine whether the fraud was linked to the payment card scheme and the extent of individual losses involved. Although each fraud involved a similar modus operandi, they were counted as separate investigations owing to the presence of separate individual offenders in each matter.

Table 2 provides the details of the number of investigations, including the number of entities conducting investigations and the range and median number of investigations. The median is reported due to the large variations in the number of investigations reported by entities.

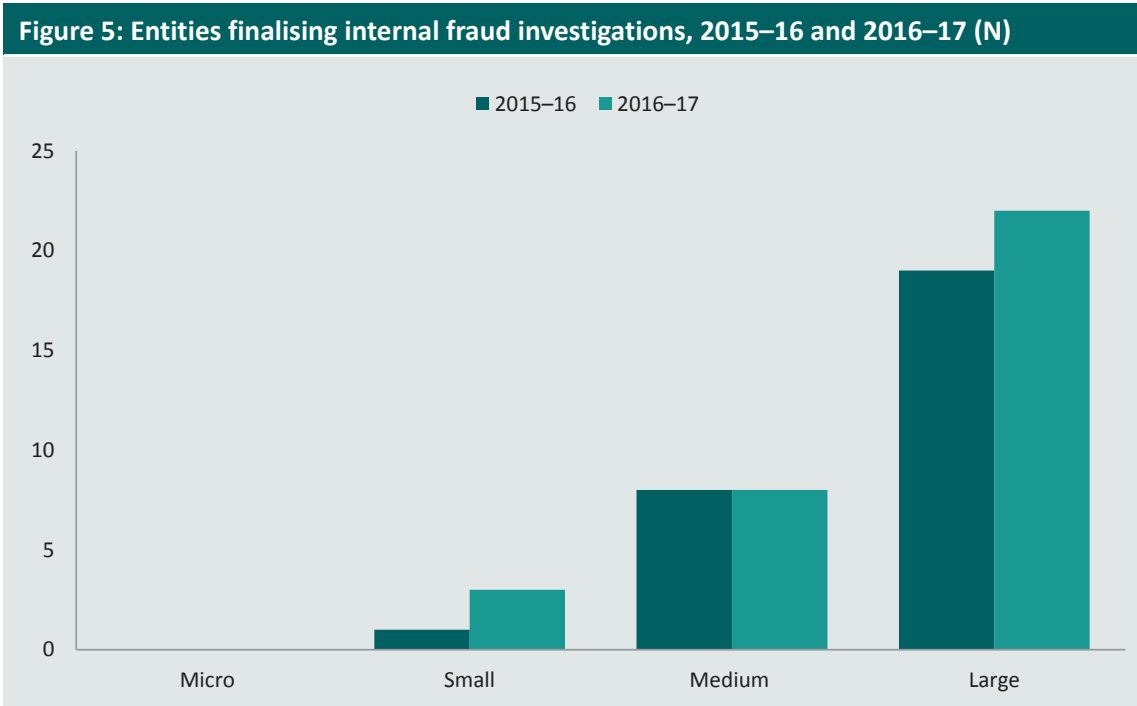
| Fraud type | Number of investigations | Number of entities | Minimum number of investigations | Maximum number of investigations | Median number of investigations for entities finalising investigations |
|-----------------------------|--------------------------|--------------------|----------------------------------|----------------------------------|--|
| Internal fraud | 2,371 | 33 | 1 | 982 | 2 |
| External fraud ^a | 349,166 | 39 | 1 | 341,977 | 6 |
| Total | 351,537 | 50 | 1 | 342,959 | 6 |

a: The substantial number of external fraud investigations relate to one entity's use of a new payment card scheme. This scheme allowed individuals to use stolen cards to conduct transactions without authorisation, thus resulting in losses to the Commonwealth. The average transaction per fraud was below \$50, and as soon as the fraud risk was identified the cards were temporarily withdrawn. Once the vulnerability had been removed, the payment card scheme was again reinstated. As a result, a large number of reviews were conducted to determine the fraudulent nature of the transactions and dollar amounts involved in 2016–17.

Source: Commonwealth fraud census 2016–17 [AIC data file]

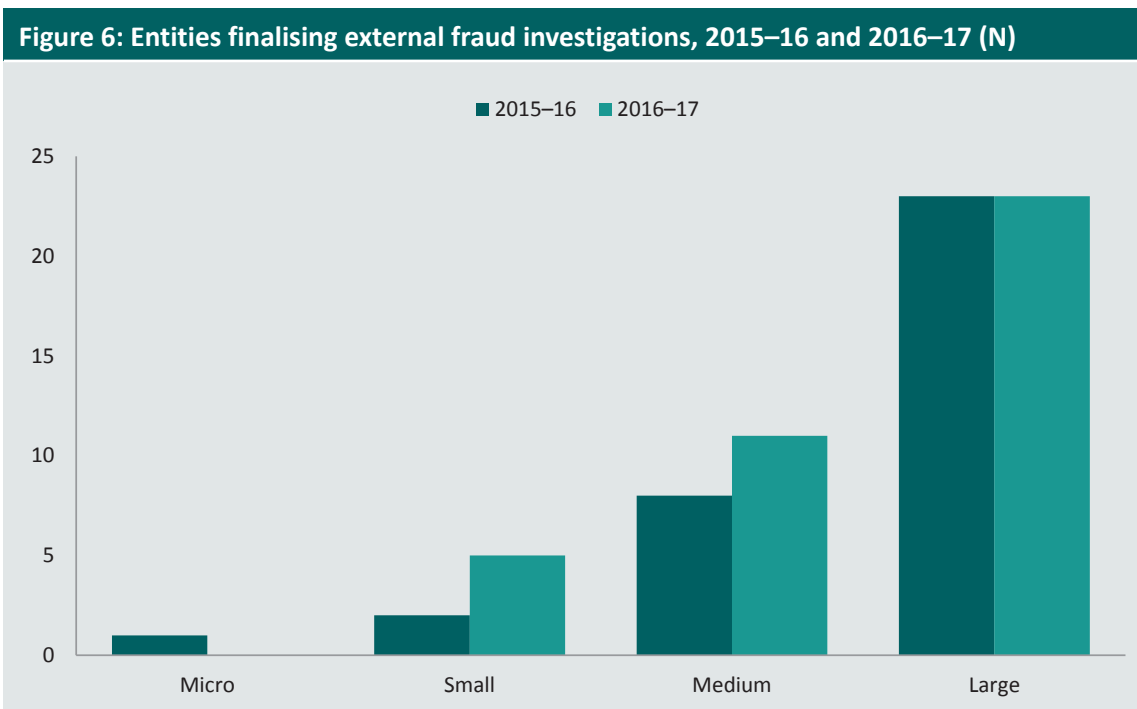
No micro entities finalised any fraud investigations in 2016–17 (Figure 5). This might be due to entities of this size simply not experiencing fraud, or, as is more likely to be the case, not detecting fraud, or failing to report it in the census. It is likely that all Commonwealth entities of any size would be at some risk of fraud and hence it is unlikely that no investigations would be undertaken. To understand this finding more fully, further research, specifically with smaller entities (those with 200 or fewer employees), could explore the various factors involved, such as a lack of resources or dedicated fraud control staff, or if smaller entities do not have the same risks as larger entities.

Of the 50 entities finalising fraud investigations, 33 of these involved internal fraud. When comparing the number of entities finalising internal fraud investigations in 2015–16 with the number in 2016–17, it can be seen more small entities finalised internal fraud investigations (1 entity in 2015–16 compared with 3 entities in 2016–17) and more large entities finalised investigations (19 entities in 2015–16 compared with 22 entities in 2016–17).



Source: Commonwealth fraud census 2015–16 and 2016–17

Figure 6 compares the number of entities finalising external fraud investigations in 2015–16 with those in 2016–17. One noteworthy difference is that in 2015–16 one micro entity finalised one external fraud investigation, contrasting with no micro entities finalising any investigations in 2016–17.



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

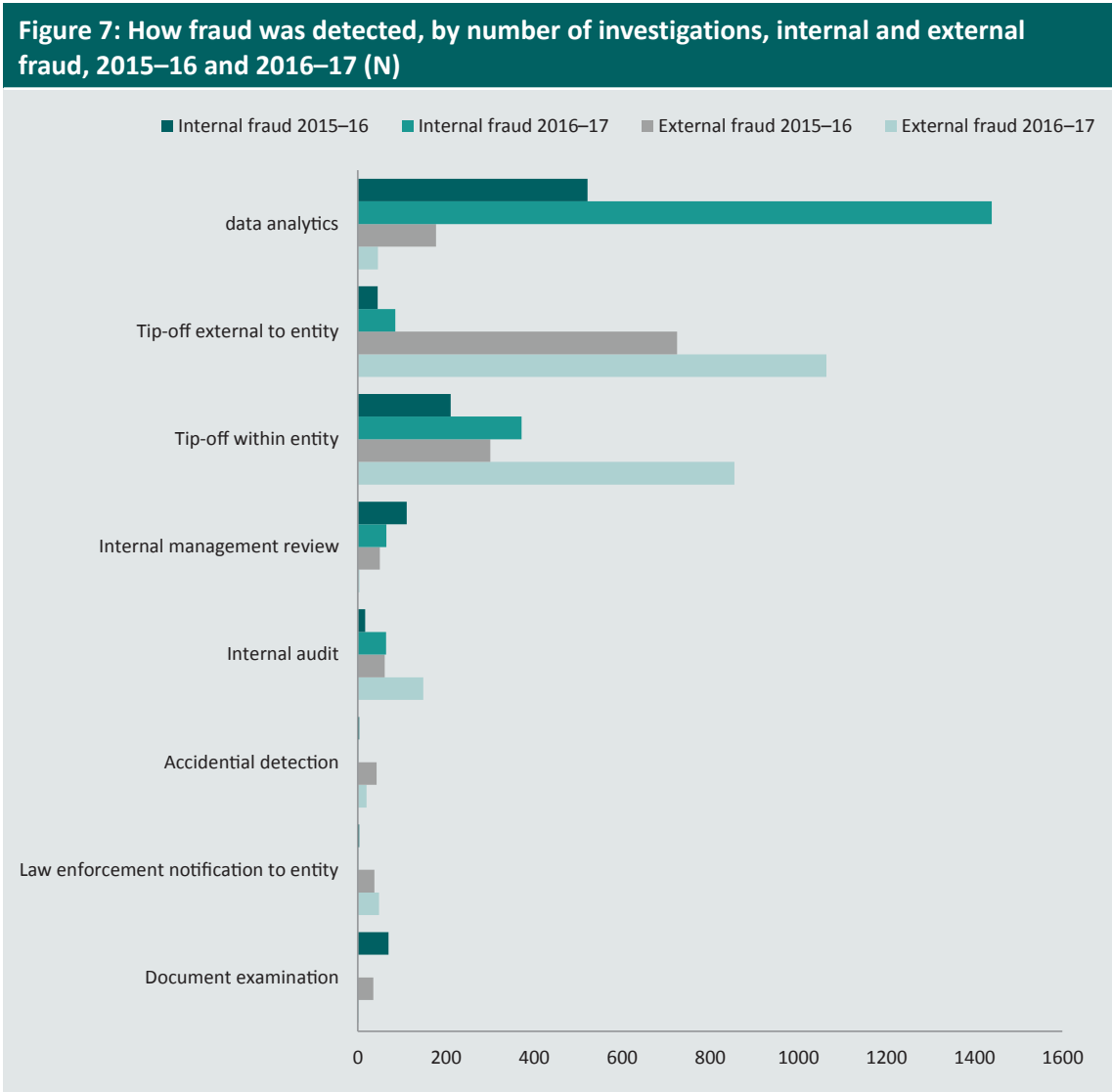
How the alleged frauds were detected

For all fraud investigations undertaken and finalised, respondents were asked to indicate the principal method by which the principal allegations of fraud had been detected.

Differences in the principal means of detection between 2015–16 and 2016–17 for both internal fraud and external fraud are presented in Figure 7. In 2016–17 there was a substantial increase in the number of internal frauds detected using data analytics (up from 522 investigations in 2015–16 to 1,440 investigations in 2016–17). By way of contrast, the number of external frauds detected via data analytics decreased from 178 in 2015–16 to just 46 investigations in 2016–17. The reasons for this were not able to be determined from the questions asked, but could be explored more in further research.

The largest number of external fraud investigations reported by entities involved detection via ‘reporting by financial institution’ (not represented in Figure 7 owing to its outlier status). In 2016–2017 there were 343,651 external frauds detected (by three entities) via that method, although 99.5 percent of those investigations were from one entity (see the companion *Appendix* for full details and numbers of investigations). Not all methods of detection are shown in Figure 7. A full list of all fraud detection methods is available in the *Appendix*.

Analysis was undertaken to examine any differences between small entities and medium-sized and large entities in their detection methods; however, due to only a few small entities and no micro entities finalising a fraud investigation, there were no meaningful differences.



Note: An additional 343,651 alleged external fraud incidents were detected via reporting from a financial institution
Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Conducting investigations

Fraud may be investigated by the entity in a variety of ways, ranging from conducting its own internal investigation to seeking police, consultant or other specialist assistance, either to help with the investigation or to conduct the investigation fully.

In 2016–17 the overwhelming majority of investigations were conducted solely by the entity experiencing the fraud. Entities conducted 2,347 internal fraud investigations (99%, N=2,371) and 348,766 external fraud investigations (99.9%, N=348,766) by themselves (see accompanying *Appendix* for a full list of other examples of how investigations were conducted).

Outcomes of internal fraud investigations

Details of the number of entities that substantiated at least one allegation of fraud, by the size of the entity, are presented in Figure 8. More small and medium-sized entities substantiated external fraud compared with internal fraud. However, more large entities substantiated internal fraud compared with external fraud.

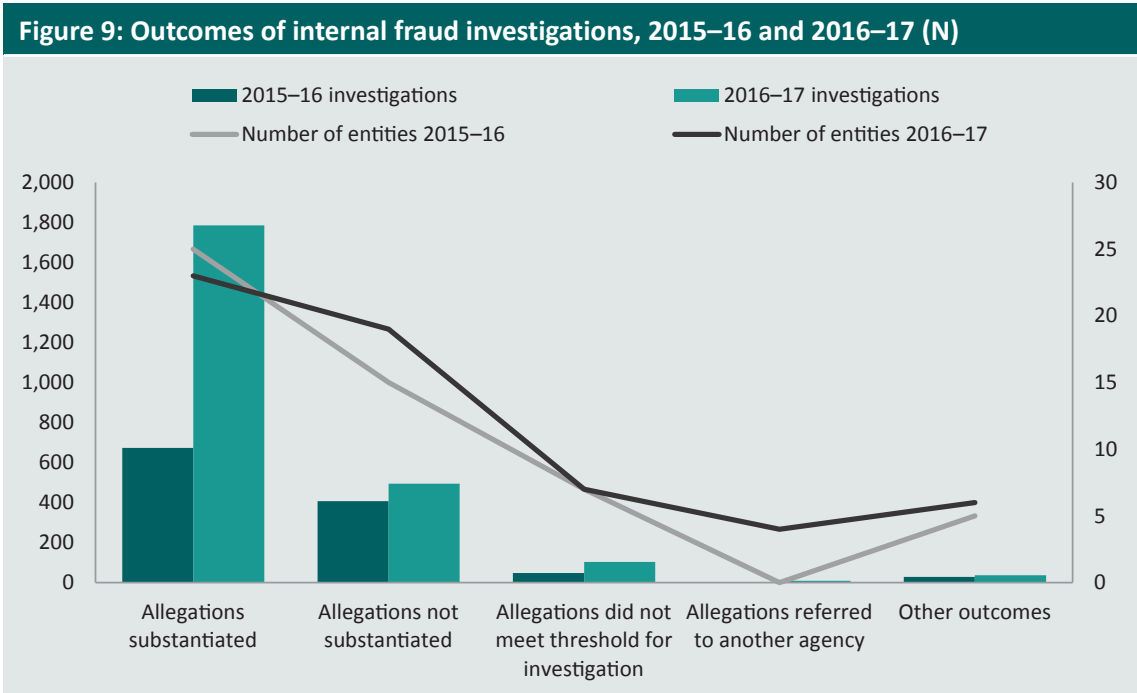
Figure 8: Entities substantiated internal and external fraud, by entity size, 2016–17 (N)



Source: Commonwealth fraud census 2016–17 [AIC data file]

Respondents were asked to indicate how many of the allegations of fraud investigated were or were not substantiated, either in full or in part, and how many allegations did not meet the entity’s threshold for investigation (eg where it was found that the investigation was not warranted for some reason). Details of these findings are presented in Figures 9 and 10.

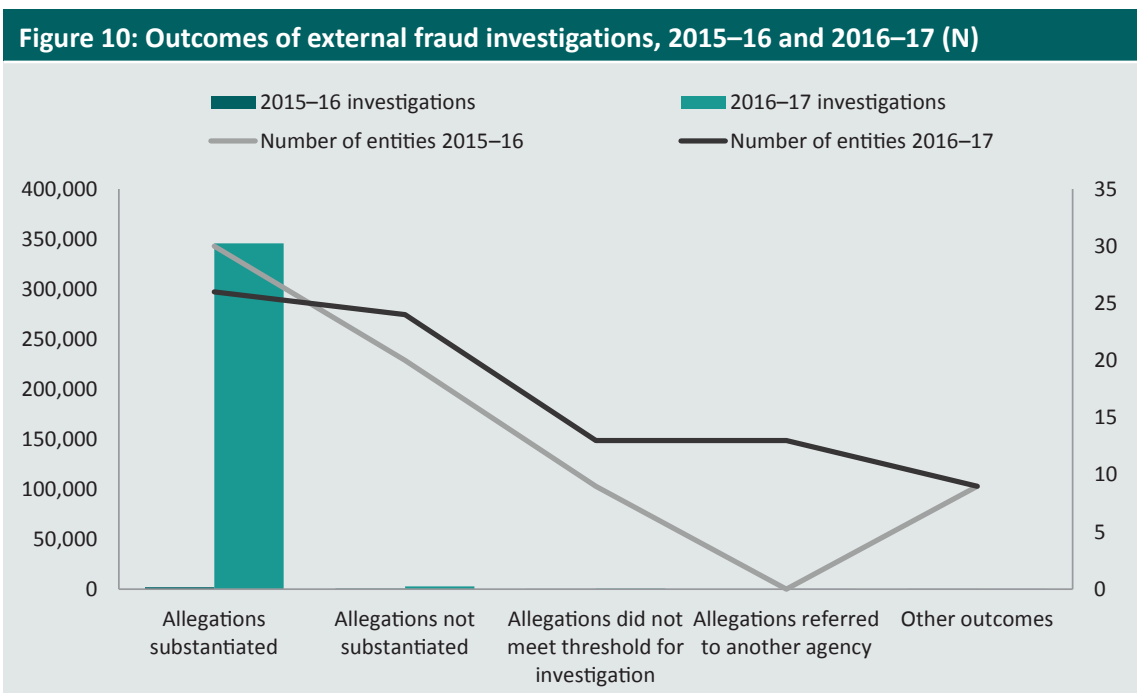
As indicated in Figure 9, there were more internal fraud investigations in which fraud was substantiated in 2016–17 (1,786 investigations) than in 2015–16 (674 investigations). There was also an increase between 2015–16 and 2016–17 in both the number of internal fraud investigations in which fraud was not substantiated (from 407 to 494), and the number of fraud allegations not meeting the threshold for investigation (from 48 to 103). In 2016–17, respondents were asked for the first time to indicate the number of allegations of fraud referred to another agency for investigation. Figure 9 shows that four entities referred nine matters to another agency for investigation in 2016–17.



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Outcomes of external fraud investigations

Due to one entity finalising the vast majority of external fraud investigations involving payment card fraud in 2016–17, comparisons with the findings for 2015–16 are inappropriate (see Figure 10). However, even if that one large entity’s fraud investigations are excluded, there were still three times as many fraud investigations finalised in 2016–17, compared with those finalised in 2015–16, across all categories.



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Fraud typologies

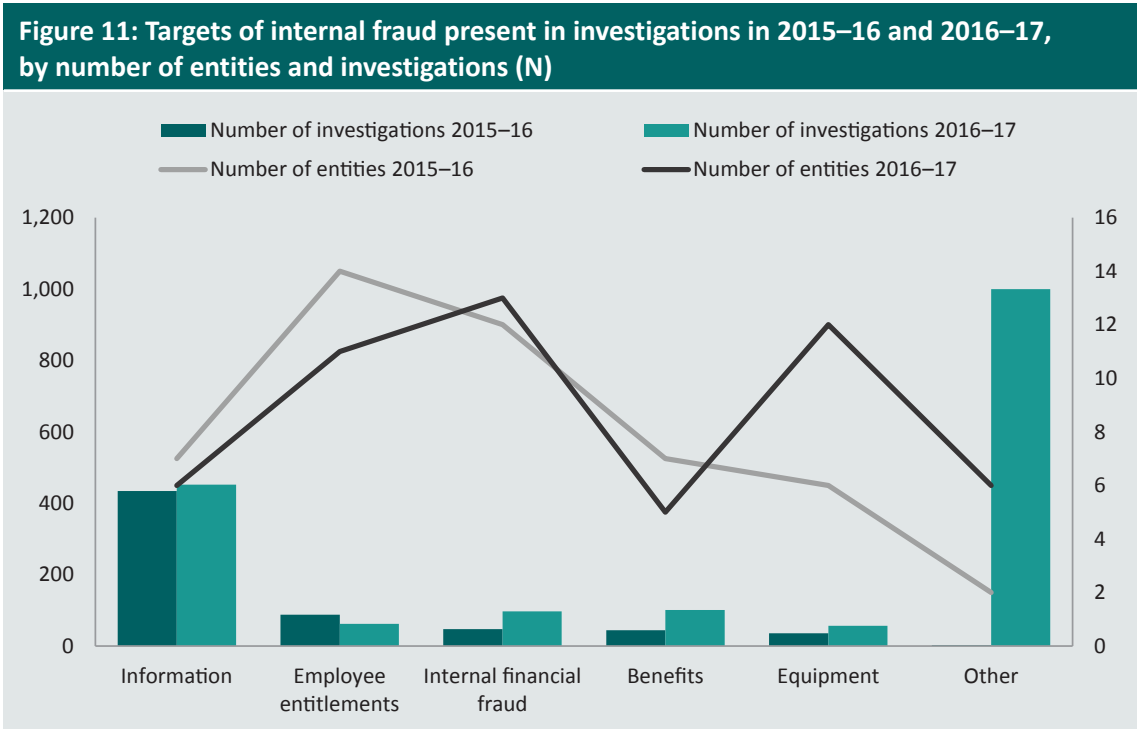
The census asked respondents to indicate two main aspects of how the fraud incidents they detected had been committed: the target of the alleged fraudulent activity and/or the benefit to be derived from the suspected illegal conduct; and the method used to carry out the alleged activity (misuse of technology, information, identity etc).

Targets of internal fraud

For all finalised internal fraud investigations, respondents were asked what the principal target of the fraud was—that is, the principal resource, object or benefit targeted by the perpetrator. Although entities were asked about the principal target, some provided information regarding more targets than investigations, indicating that there were sometimes multiple targets. Full lists of all targets and methods, including details of investigations, detection methods and outcomes, are available in the companion *Appendix*.

In 2016–17, there was a substantial increase in the number of internal fraud investigations where the target was not able to be classified: from only two investigations in 2015–16 to 1,000 investigations in 2016–17 (Figure 11). The majority (903) of those investigations involved one entity, with the respondent indicating a range of fraudulent behaviour that included ‘mobile telephones, sales misuse and the manipulation of payment codes/invoices’ as the targets. However, this respondent provided no further details on the number of frauds for each fraud type, which meant the frauds could not be classified into categories. There was an increase in the number of investigations involving information, internal financial fraud, benefits and equipment in 2016–17, compared with finalised investigations in 2015–16.

In 2016–17, the largest number of entities reported frauds targeting internal financial fraud, followed by equipment. There were six entities which reported 452 internal fraud investigations where the target of the fraud was information. For more details about the specific targets and number of investigations involved with each fraud target see the companion *Appendix*.

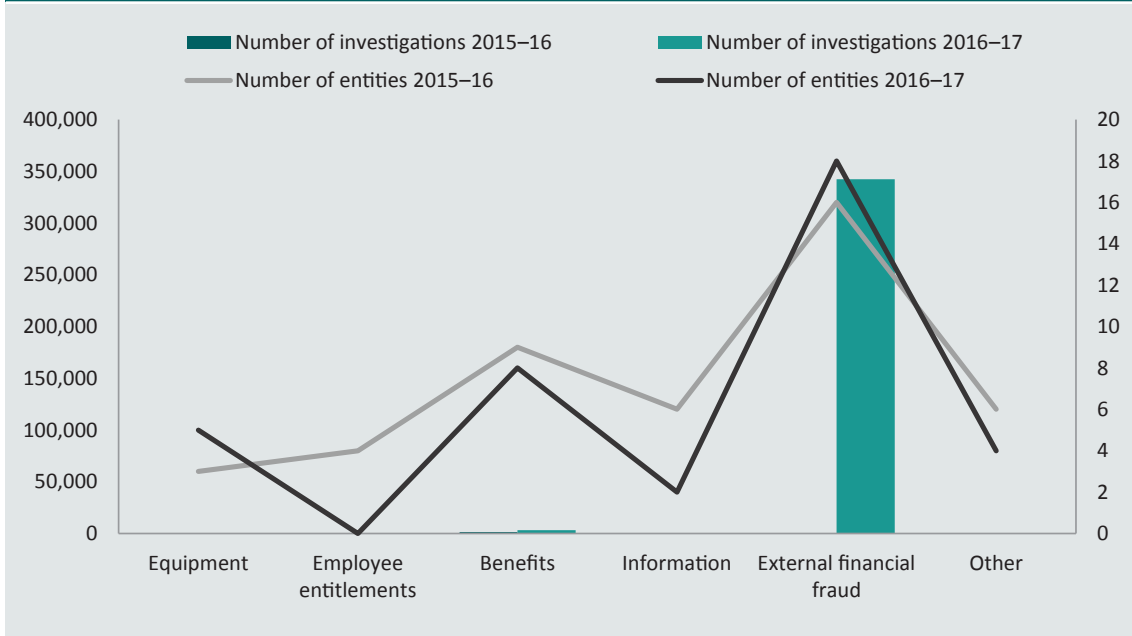


Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Targets of external fraud

In the case of finalised external fraud investigations, in 2016–17 the largest number of entities and the largest number of investigations involved fraud targeting ‘external financial fraud’. Examples of this include taxation, customs and/or excise fraud, Commonwealth contracts, Commonwealth programs and Commonwealth grants. The largest number of external financial fraud investigations related to the misuse of a payment card scheme that impacted one large entity. There was an increase in the number of external fraud investigations involving benefit fraud, from 1,479 investigations in 2015–16 to 3,105 in 2016–17.

Figure 12: Targets of external fraud present in investigations in 2015–16 and 2016–17, by number of entities and investigations (N)

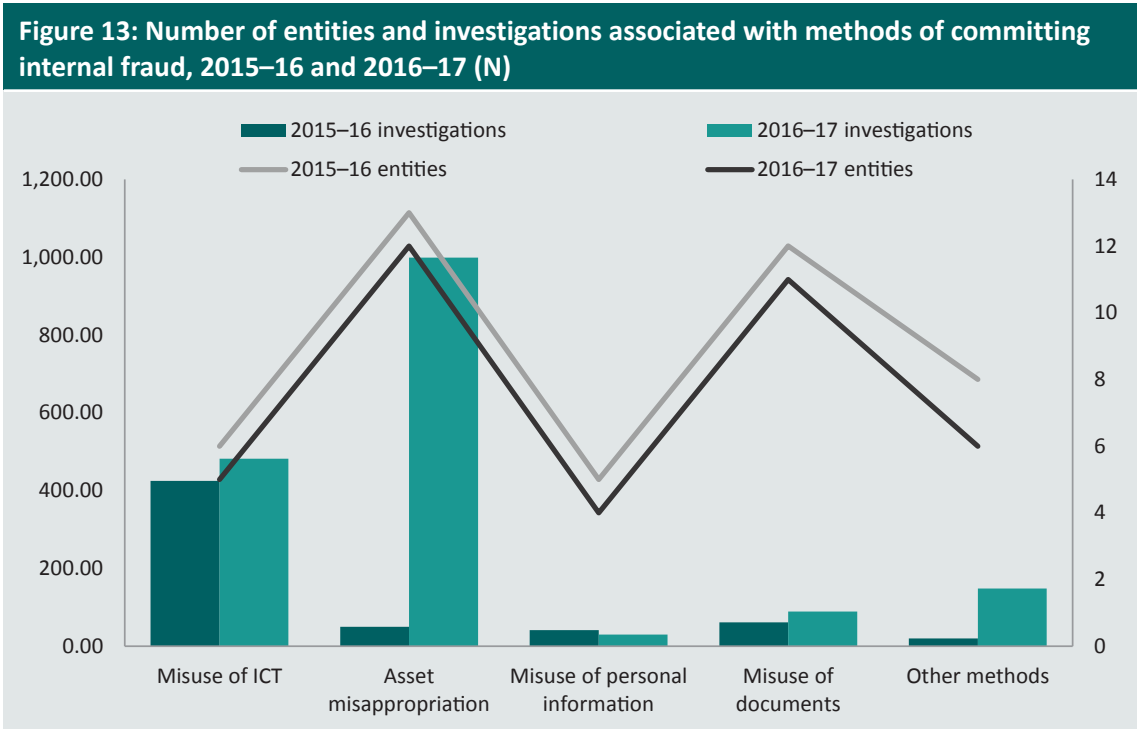


Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Internal fraud methods

Respondents were also asked how the fraud was committed. Four primary categories were provided: misuse of information and communications technologies (ICT); asset misappropriation; misuse of personal information; and misuse of documents, also included was an ‘other methods’ category for frauds not easily categorised. A full list of the subcategories and investigations is provided in the *Appendix*.

Details of the methods of committing internal fraud are presented in Figure 13. In 2016–17, there was a substantial increase in frauds involving asset misappropriation. Although to a lesser extent (57% in the AIC census), this is similar to the findings of the global organisational fraud study by the Association of Certified Fraud Examiners (ACFE 2018) in which ‘asset misappropriation’ accounted for 89 percent of fraud cases examined. Of the 999 investigations pertaining to asset misappropriation, 903 related to one entity and the frauds identified above involving mobile telephones and manipulation of payment codes/invoices.



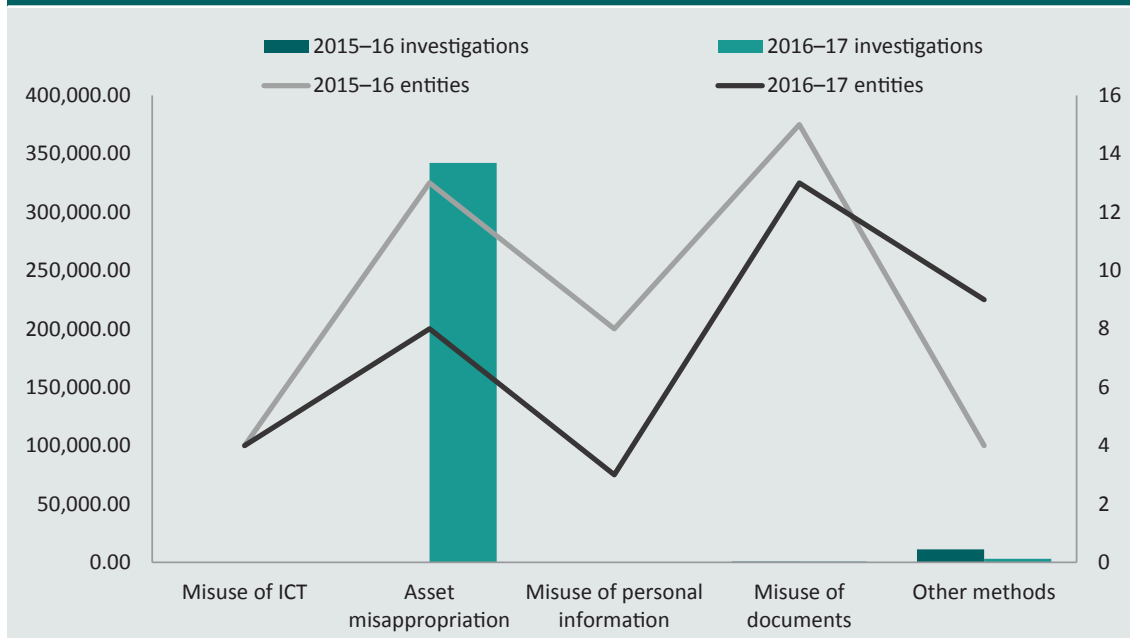
Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

External fraud methods

The same four primary categories were provided for respondents to characterise how their entity’s external frauds were committed, as well as the ‘other methods’ category. Again, a full list of the subcategories and number of investigations are available in the companion *Appendix*.

Figure 14 compares the number of investigations and the number of entities conducting investigations by the methods of commission for 2015–16 and 2016–17. As with internal fraud, in 2016–17 there was a substantial increase in the number of external fraud investigations where the principal method identified for committing the fraud was ‘asset misappropriation’. As noted above, the vast majority of these investigations, (341,977 out of 342,072) were attributable to one entity and involved ‘unauthorised use of payment cards’.

Figure 14: Number of entities and investigations associated with methods of committing external fraud, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

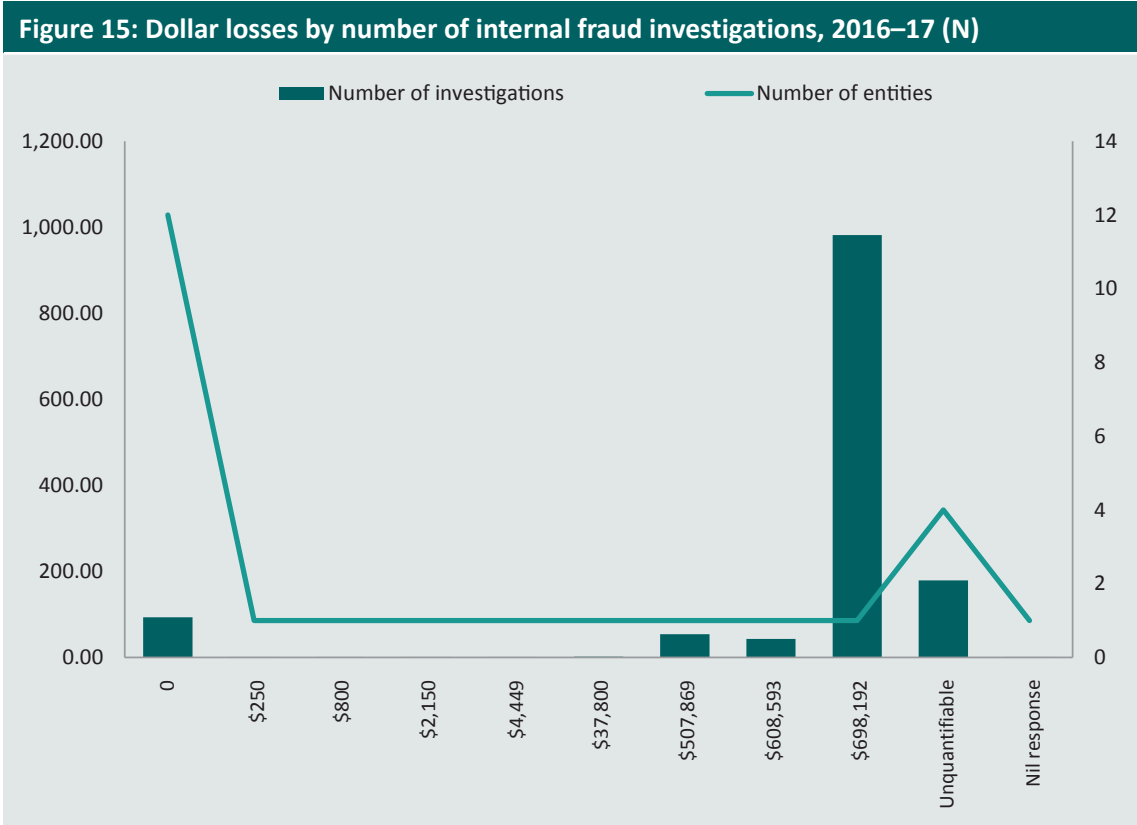
Economic and other impacts

Numerous impediments exist to the precise assessment of the financial cost and impact of fraud (ACFE 2018; Smith et al. 2014). The primary challenge in estimating the cost of fraud against the Commonwealth is that much fraud goes undetected or unreported each year. This means that the impact of these unknown events must be estimated (ACFE 2018). Some other frauds are also unable to be quantified in monetary terms, such as where the impact mainly involves reputational damage or other intangible costs like damage to morale within an entity after a fraud event has taken place (Jorna & Smith 2018b). In addition, not all financial losses may be able to be quantified during an investigation, for example, where losses are written off, or not investigated fully in order to minimise further costs. Finally, it is necessary to take into account any sums recovered or compensation obtained. It is recognised, however, that the losses detailed below are likely to underestimate the true losses associated with fraud against Commonwealth entities due to the amount of fraud that goes undetected, as well as the potential for some matters to be classified as non-compliance rather than fraud.

Internal fraud losses

Respondents were asked to provide their best estimate of the total amount that suspects (or offenders if convicted) were found to have dishonestly obtained from the Commonwealth, according to the findings of the completed investigation. In 2016–17, although 33 entities finalised internal fraud investigations, only 25 involved substantiated allegations, and in only eight of those could losses be quantified. Details of these matters are presented in Figure 15.

The total losses in these eight matters amounted to \$1,860,103. This total amount is considerably lower than findings in comparable research. For example, the ACFE (2018) study found that the median loss experienced by national government agencies was US\$200,000.



Source: Commonwealth fraud census 2016–17 [AIC data file]

External fraud losses

In the case of external fraud, 39 entities finalised investigations, of which 32 had substantiated allegations. Of these, 14 respondents were able to quantify fraud losses, as indicated in Tables 3 and 4.

Larger total losses were reported in 2016–17 compared with 2015–16, although the average loss per fraud investigation was \$267 in 2016–17, compared with \$15,739 in 2015–16 (Table 3). However, this low average loss per investigation relates to the large number of fraud investigations (N=341,977) which reduced the total average. If that entity’s investigations and loss amounts are excluded from the total, the average loss per fraud investigation for 2016–17 would be \$10,970.

| Year | Total number of frauds (fraud substantiated) | Number of frauds with dollar losses | Total values of dollar losses (\$) | Average value of frauds (\$) |
|---------|--|-------------------------------------|------------------------------------|------------------------------|
| 2016–17 | 349,382 | 344,849 | 91,920,748 | 267 |
| 2015–16 | 1,894 | 1,573 | 24,757,522 | 15,739 |

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

The largest number of investigations in 2016–17 involved losses with a value between \$10m and \$30m. The mean value in this category was, however, low (\$31). Again, this was due to the payment card fraud experienced by one large entity (Table 4).

| Fraud losses category (\$) | Number of investigations | Average value ^a (\$) |
|----------------------------|--------------------------|---------------------------------|
| 21,000,000 and over | 2,690 | 26,901 |
| 10,000,000–20,999,999 | 341,977 | 31 |
| 1,000,000–9,999,999 | 163 | 48,879 |
| 500,000–999,999 | 0 | 0 |
| 250,000–499,999 | 4 | 95,531 |
| 100,000–249,999 | 4 | 91,240 |
| 50,000–99,999 | 1 | 90,000 |
| 10,000–49,999 | 9 | 7,046 |
| Less than 10,000 | 1 | 140 |

a: Not all respondents provided the number of investigations involved with the dollar loss amount, so the average values may be lower than those in the table

Source: Commonwealth fraud census 2016–17 [AIC data file]

Recoveries

Respondents were also asked to indicate the whole dollar amount that had been recovered in each financial year using various methods. This excluded any money that was recovered by the Commonwealth but had not been returned to the entity in question, such as fines or the proceeds of confiscation orders that remained in consolidated revenue. The amounts recovered did not necessarily relate to the value of the fraud detected in the same year, as recovery of funds could have related to incidents investigated, committed or detected in previous financial years. Accordingly, it was not possible to indicate the net actual losses suffered each year, as recovery action often takes many years to finalise.

Internal fraud

With regard to internal fraud, more entities recovered funds in 2016–17 via administrative action than other means, with \$562,273 recovered by five entities using that method.

Table 5: Monies recovered by method of recovery and number of entities using that method of recovery for internal fraud investigations, 2015–16 and 2016–17

| Recovery method | 2015–16 | | 2016–17 | |
|--|------------------------------|--------------------|------------------------------|--------------------|
| | Dollar amount recovered (\$) | Number of entities | Dollar amount recovered (\$) | Number of entities |
| Amounts recovered through criminal court proceedings | 96,572 | 2 | 177,227 | 1 |
| Amounts recovered through civil court action | 0 | 0 | 0 | 0 |
| Amounts recovered through reimbursement from a financial institution | 0 | 0 | 0 | 0 |
| Amounts recovered through administrative action | 200,429 | 6 | 562,273 | 5 |
| Amounts recovered through insurance payments | 0 | 0 | 0 | 0 |
| Amounts recovered through other means of recovery | 41,392 | 4 | 28,271 | 1 |
| Total amount recovered in any way | 338,393 | 9 | 767,771 | 5 |

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

External fraud

With regard to external fraud, entities were able to use a range of methods to recover monies lost due to fraud (Table 6). In 2016–17, the method which recovered the most money was ‘other means of recovery’, accounting for \$3,355,824 of the total of \$4,430,731 recovered. No further details were provided about the other means of recovery.

| Table 6: Monies recovered by method of recovery and number of entities using that method of recovery for external fraud investigations, 2015–16 and 2016–17 | | | | |
|---|------------------------------|--------------------|------------------------------|--------------------|
| Recovery method | 2015–16 | | 2016–17 | |
| | Dollar amount recovered (\$) | Number of entities | Dollar amount recovered (\$) | Number of entities |
| Amounts recovered through criminal court proceedings | 89,357 | 2 | 101,000 | 4 |
| Amounts recovered through civil court action | 22,430 | 1 | 6,380 | 2 |
| Amounts recovered through reimbursement from a financial institution | 59,516 | 5 | 13,286 | 3 |
| Amounts recovered through administrative action | 24,019 | 3 | 954,241 | 5 |
| Amounts recovered through insurance payments | 103,827 | 2 | 0 | 0 |
| Amounts recovered through other means of recovery | 884,317 | 2 | 3,355,824 | 6 |
| Total amount recovered in any way | 1,413,935 | 12 | 4,430,731 | 16 |

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

As recoveries could be from frauds occurring in earlier years, respondents were asked to indicate the percentage of the recoveries that related to the 2016–17 financial year. Eleven of the 16 entities recovered some financial losses from this period, with 10 entities recovering all external fraud losses in respect of matters investigated in the current financial year. One entity advised only nine percent of its external fraud recoveries related to losses from the 2016–17 financial year. Two respondents could not quantify whether the recoveries related to the current financial year or earlier.

A different picture was evident with recoveries related to internal fraud, as only one respondent indicated that all monies recovered in 2016–17 related to investigations finalised in the current financial year. Three other respondents advised that between 26 and 33 percent of recoveries related to monies lost in 2016–17, with the majority of recovered monies relating to frauds from earlier years.

Part 4: Corruption and collusion

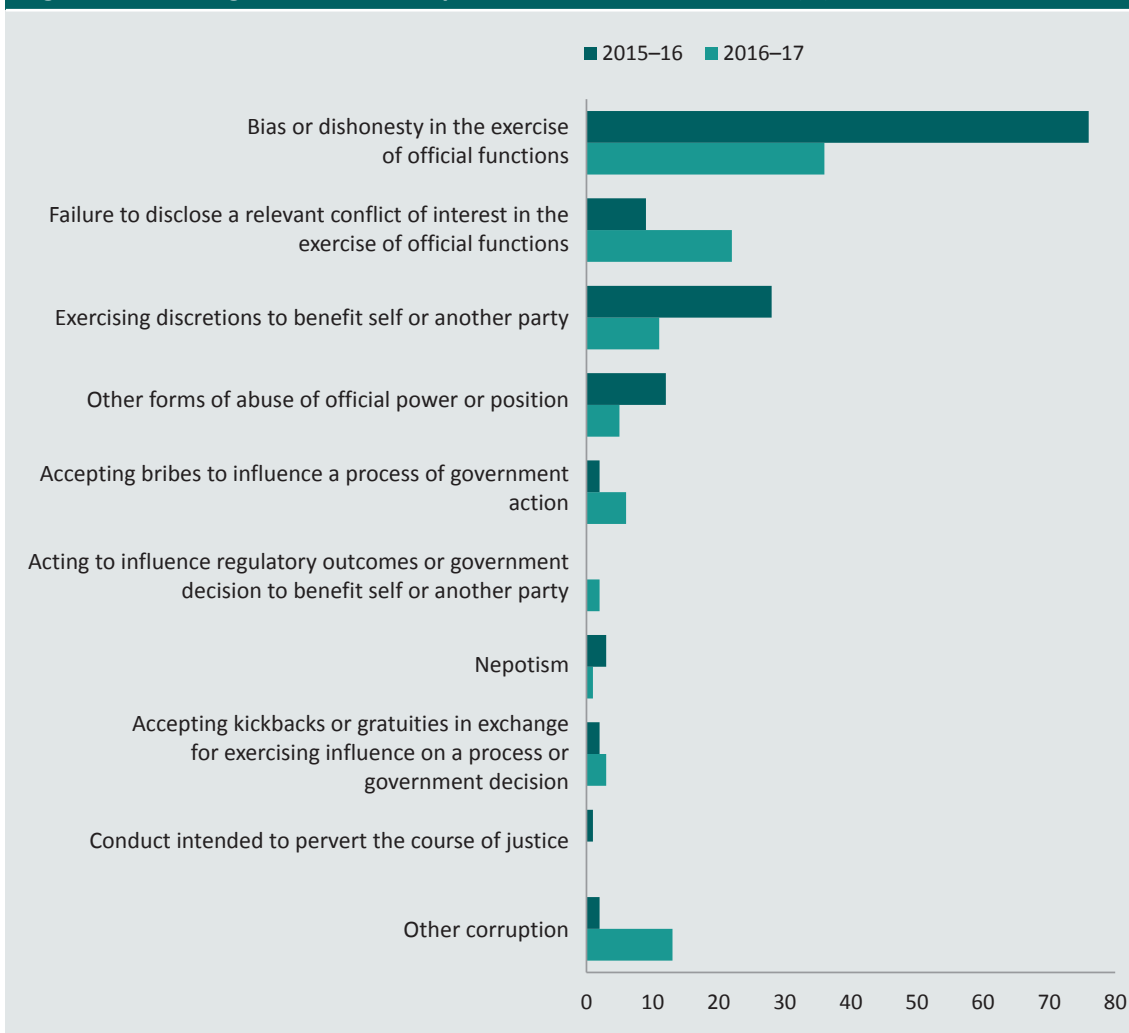
The Organisation for Economic Co-operation and Development has argued that corruption and collusion are two separate issues, but often occur in tandem (OECD 2010). Collusion involves a relationship between bidders in a public procurement who conspire with parties either internal or external to the entity to remove the element of competition from the procurement or tender processes (OECD 2010). Public sector corruption refers to the misuse of public power or position with an expectation of undue private gain or advantage (for self or others).

Corruption

Corruption affecting Commonwealth entities can be difficult for respondents to classify, as the boundaries between fraud and corruption are unclear. To try to reduce the difficulty in classifying cases involving corruption, respondents were asked about specific types of corrupt behaviour rather than being asked to determine whether the corruption emanated from internal or external sources.

Eleven entities conducted 3,040 investigations found to involve corruption. Figure 16 compares the types of corruption investigated in 2015–16 and in 2016–17. While there seem to have been more investigations involving corruption in 2015–16, in 2016–17 there were 2,942 investigations where entities found that corruption might have been present but where the type of corruption was unable to be determined (compared with 19 such investigations in 2015–16). These are not included in Figure 16 (see *Appendix* for full details).

Figure 16: Investigations into corruption, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Collusion

For the purposes of the Commonwealth fraud census, respondents were asked to indicate the number of investigations that involved one of five specified types of collusion as set out in the *Appendix*. These related to employees or contractors of Commonwealth entities supplying information to external parties, allowing access to premises, conspiring with external parties to commit fraud, or consorting with criminals to commit fraud. In 2016–17, there were only 28 investigations that were known to have involved collusion (details are in the *Appendix*). There were 2,938 investigations conducted by two entities in which it was unable to be determined if collusion was present or not. Further research is needed to determine if this is due to lack of understanding of the relationship between fraud and corruption and/or collusion, a lack of awareness of collusion being present, or potentially because frauds involving corruption and/or collusion are pursued as fraud matters only, which are easier to investigate.

Part 5: Fraud perpetrators: The most costly frauds

In order to provide more fine-grained data about completed investigations into either internal or external frauds in which allegations had been substantiated, respondents were asked to select the one matter that had resulted in the greatest financial loss or impact to the responding entity. The fraud was chosen irrespective of when the fraud was committed or when the investigation commenced, as long as the investigation was finalised in 2016–17. If the investigation involved more than one suspect, responses were to be confined to the principal suspect only. Accordingly, this provided an opportunity to gather data on the demographics of the offender, how the fraud occurred and what the outcome of the investigation was.

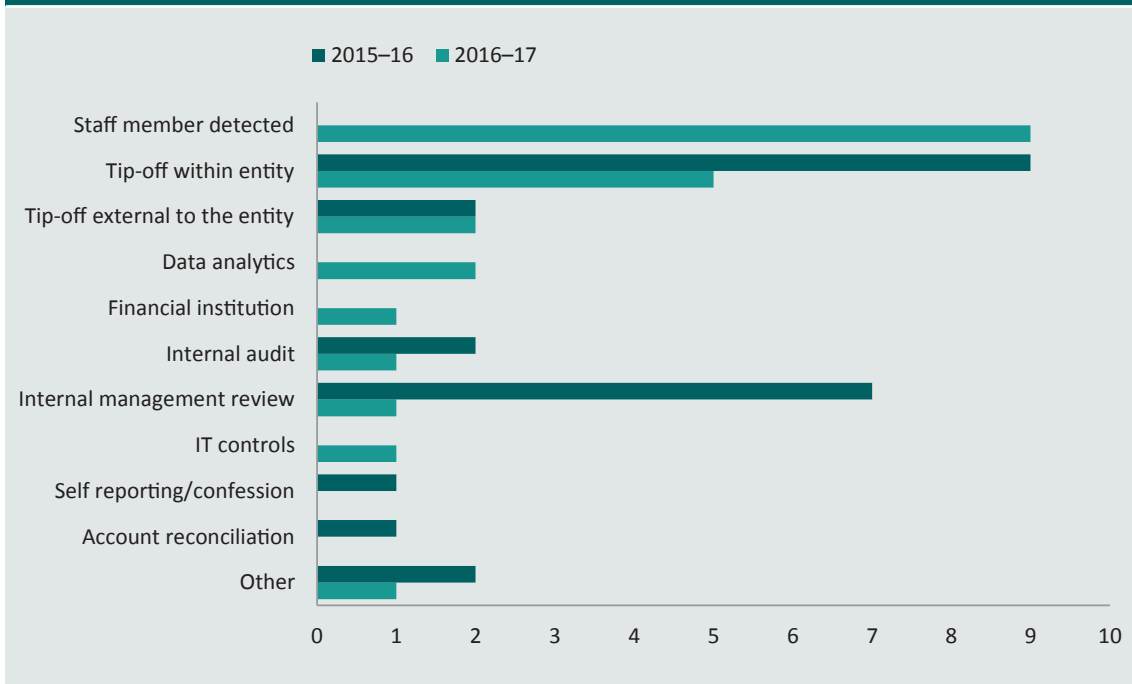
Most costly internal frauds

This section focuses on the most costly internal frauds committed by Commonwealth officials, as opposed to frauds committed by members of the public—external to the Commonwealth—that are examined in the next section. In 2016–17, 23 entities (18%) finalised an internal fraud investigation in which fraud was substantiated, either in full or in part.

Detection

Details of how the fraud was first detected are presented in Figure 17. In 2016–17, the most frequently cited detection method was by a ‘staff member’. A full list of detection methods is available in the *Appendix*.

Figure 17: Detection methods for most costly internal fraud, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

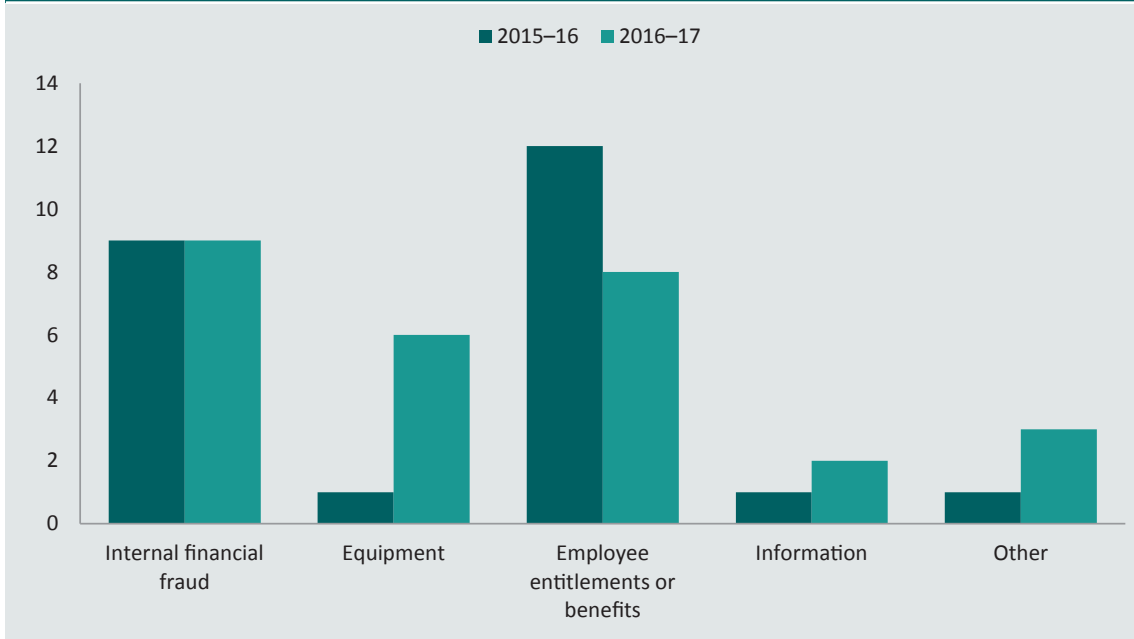
Conduct of investigations

Over 80 percent (N=19) of entities investigated the most costly internal frauds internally. Two entities sought the services of external consultant investigators, and one referred the matter to state or territory police. One respondent advised the matter was referred to the Merit Protection Commissioner for review. Further details are available in the *Appendix*.

Targets

Respondents were asked to identify the principal target of the most costly internal fraud, meaning the principal resource, object or benefit targeted by the perpetrator. In 2016–17, the two most common targets of fraud both involved financial gain, either through employee entitlements or internal financial fraud (Figure 18).

Figure 18: Principal target of most costly internal fraud, investigations finalised in 2015–16 and 2016–17 (N)



Note: Although respondents were asked to include only the principal target of the fraud, some respondents included all targets where a principal method could not be ascertained. The number of targets therefore exceeds the 23 investigations in 2016–17

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Methods

Respondents were also asked to identify the principal method by which the fraud was committed. Although respondents were asked to include only the principal method used to commit the fraud, multiple methods could be reported, resulting in the total exceeding 100 percent. As shown in Figure 19, the most common method of committing the most costly internal fraud involved ‘asset misappropriation’ in each of the two years observed.

Figure 19: Principal fraud method in most costly internal fraud, investigations finalised in 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Co-offending

International research has shown that organisational fraud committed in collusion with other offenders is becoming more prevalent (KPMG 2016; ACFE 2018), and that frauds involving more than one perpetrator entail substantially higher losses (ACFE 2018).

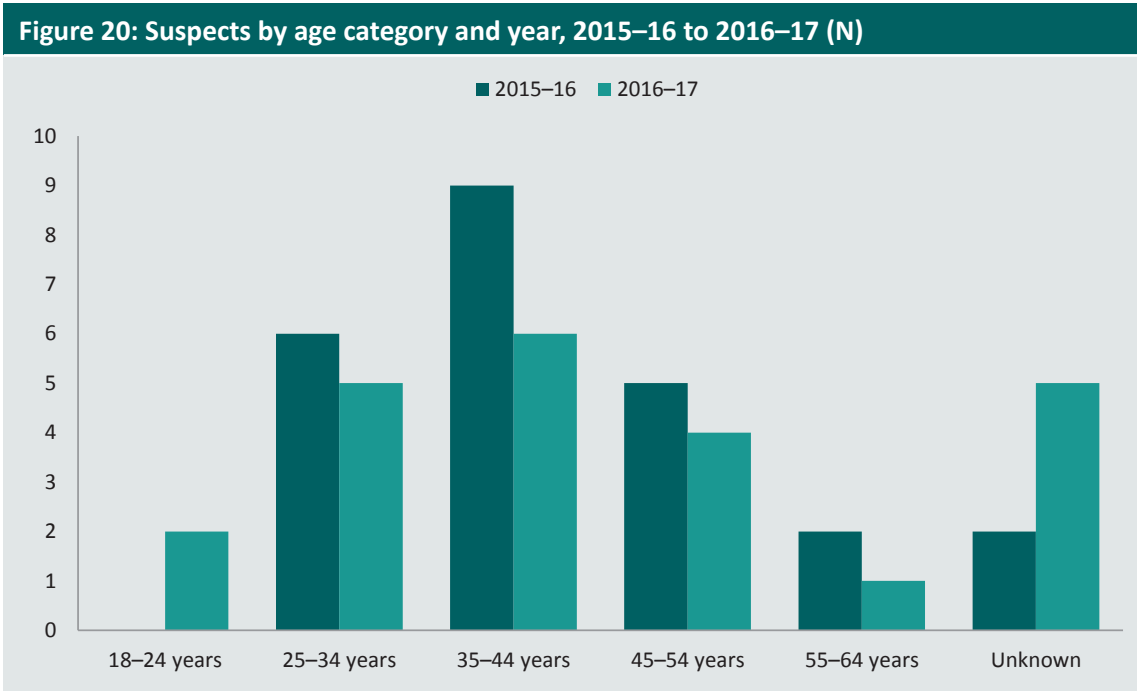
To gain an insight into whether the most costly internal frauds were committed alone or in collaboration with other persons, respondents were asked to identify the presence of co-offenders and how many co-offenders there were. Interestingly, in 2016–17, none of the most costly internal frauds were committed in collaboration with another person.

Characteristics of fraudsters

Demographic questions in the 2016–17 questionnaire were similar to those asked in 2015–16 and earlier years. Where applicable, comparisons have been made between the current census results and those from earlier years. For most questions, respondents were asked to provide information current at the time the fraud was detected.

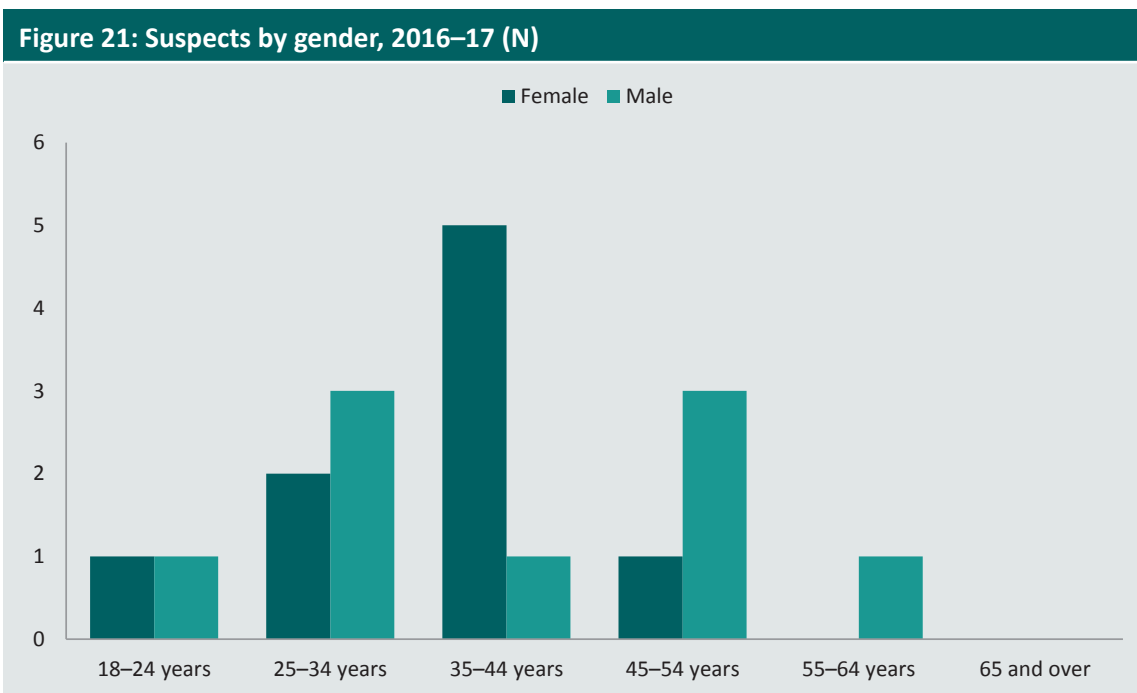
Age and gender

Figure 20 shows suspects' age categories for 2015–16 and 2016–17. Some findings were consistent each year—for example, between five and six investigations involved suspects aged 25 to 34 years. In 2015–16, there were no suspects aged 18 to 24 years. No suspects were older than 64 years in either year.



Source: Commonwealth fraud census 2014–15, 2015–16 and 2016–17 [AIC data file]

The number of suspects by age and gender are presented in Figure 21. There was an even distribution of male and female suspects in 2016–17, although there were three suspects whose demographic details were unknown. Women suspects were more likely to be aged 35–44 years, while men most often fell into the categories 25–37 years or 45–54 years.

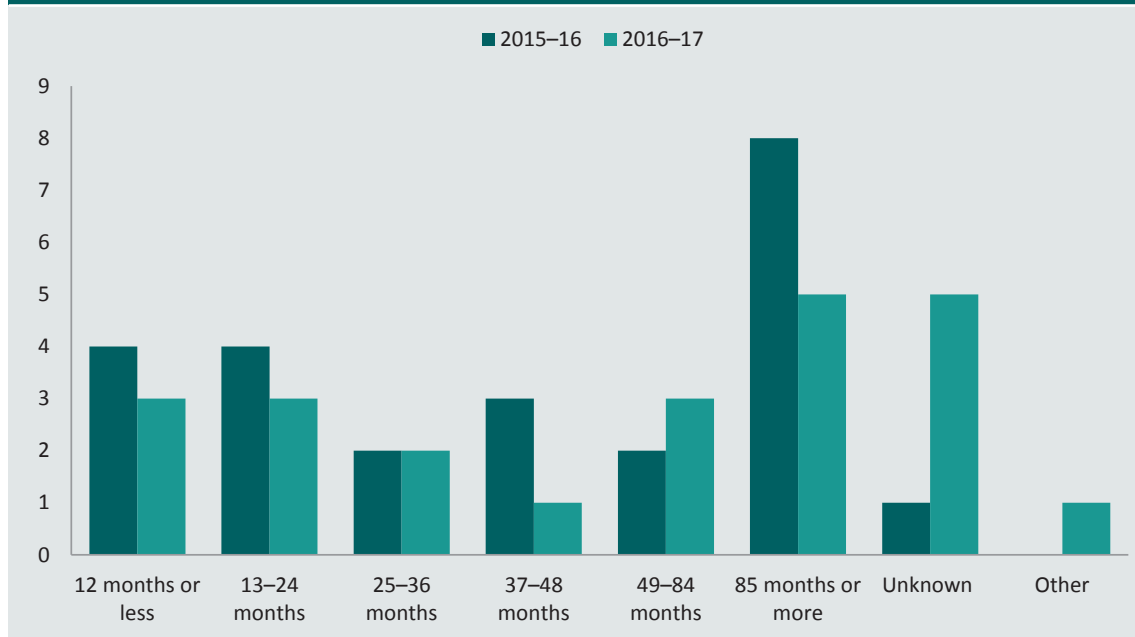


Source: Commonwealth fraud census 2016–17 [AIC data file]

Duration of employment

Industry research has consistently found that suspects who commit internal fraud have been employed by the organisation for a substantial amount of time: over six years on average (KPMG 2016; ACFE 2018). Similar results were found in the current research, with a large proportion (38% of all internal fraud suspects; N=18) employed by the entity for over four years, and 16 percent (N=13) of the entire sample employed by the entity for over seven years.

Figure 22: Suspects by duration of employment, most costly internal fraud, 2015–16 and 2016–17 (N)



Note: The ‘other’ response in 2016–17 represents one suspect who was identified within a month as part of a security clearance process

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Financial impact

In 2016–17, the largest fraud losses were caused by employees who were not members of the APS. The greatest loss amount caused by an internal suspect was \$75,838. In that case, the suspect had been employed by a corporate Commonwealth entity in a position of trust. In the seven years of fraud data collected by the AIC, not one internal fraud suspect has been employed within the SES, at the highest levels of the APS. This finding remains at odds with other research. For example, the ACFE (2018) survey found that the median amounts lost as a result of fraud that was perpetrated by people employed as executives or by owners of organisations were 17 times higher than the amounts lost as a result of fraud perpetrated by those classified as employees. Research by KPMG (2016) that examined profiles of fraud perpetrators found 34 percent of fraudsters were executive or non-executive directors, while only 20 percent had less senior roles.

Table 7 shows the amounts lost in the most costly internal frauds, totalling \$196,555, noting that only nine respondents could quantify a loss amount.

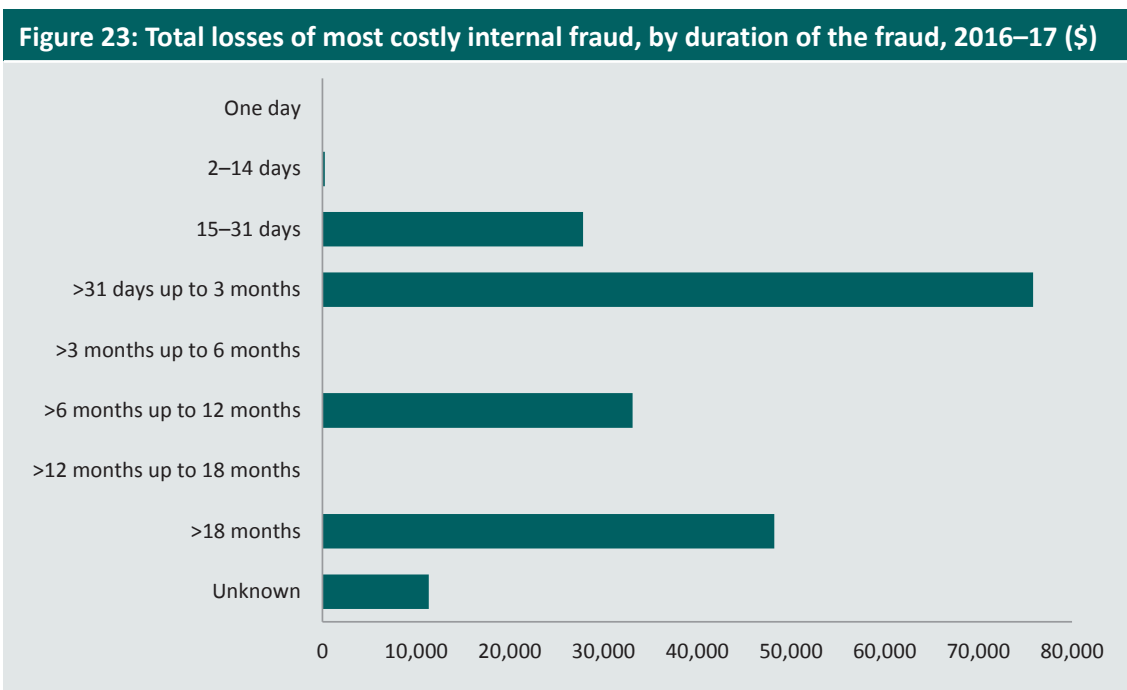
| Table 7: Number of suspects by dollar loss amount and employment level, 2016–17 | | | |
|---|----------------------------------|------------------|--|
| Employment level | Number of suspects at that level | Amount lost (\$) | Number of suspects where loss amount quantified ^a |
| SES | 0 | 0 | |
| EL 1&2 | 4 | 4,449 | 1 |
| APS 5&6 | 1 | 0 | |
| APS 1–4 | 9 | 82,110 | 3 |
| Other level | 3 | 103,646 | 2 |
| Not applicable | 3 | 2,500 | 1 |
| Unknown | 3 | 3,850 | 2 |
| Total | 23 | 196,555 | 9 |

a: Respondents advised there were five frauds that incur financial losses, but the losses could not be quantified

Source: Commonwealth fraud census 2016–17 [AIC data file]

Duration of offending

Comparable industry research has demonstrated that the longer a fraud goes undetected, the higher the loss sustained (ACFE 2018). The present research did not find such a distinct pattern (Figure 23); however, this difference may have been due to the number of frauds with no financial losses or where the respondent could not quantify the loss involved. In 2016–17, 14 respondents advised either that they had experienced zero financial losses or that they could not quantify the dollar losses.



Source: Commonwealth fraud census 2016–17 [AIC data file]

Protective factors and internal fraud control

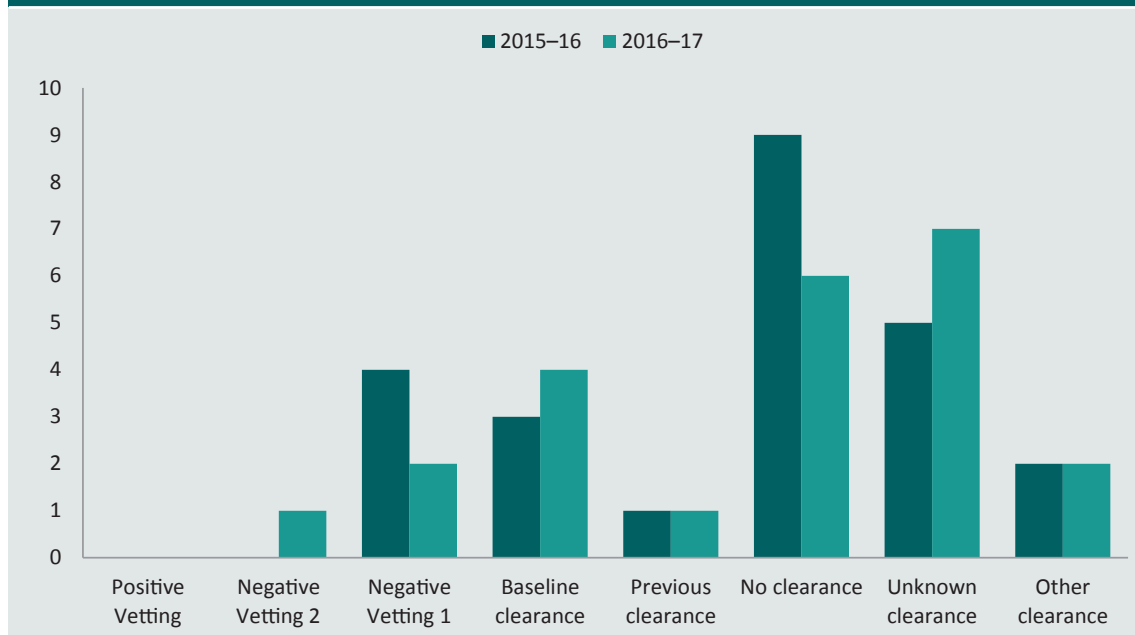
All entities, to varying degrees, have fraud control practices in place to manage the risk of fraud. This section examines the processes put in place by entities in two areas: knowing who they are hiring; and the types of fraud control weaknesses that contributed to the fraud taking place. Respondents were also asked if they had observed the employee displaying any behavioural ‘red flags’ while committing the fraud. Grabosky and Duffield (2001) identified three types of anomalies organisations should look for in employees to ensure they are not at risk of misconduct: behavioural changes, such as an employee living beyond their means, or changes in a person’s normal behaviour; statistical anomalies, such as excessive travel expenses or unusual charges on credit cards; and finally organisational anomalies, where the culture in the organisation differs from best practice, such as a lack of internal communication. See below for details.

Security clearances

While not undertaken specifically as a fraud prevention measure, security clearances do, to some extent, assess a person’s background, character and values. Respondents were asked to indicate the highest level of security clearance held by suspects at the time the most costly internal fraud incident was detected. In the Commonwealth, the majority of security clearances are issued by the Australian Government Security Vetting Agency (AGSVA). However, because most fraud offenders do not have a criminal history, a satisfactory security clearance report is unlikely to be an adequate fraud control measure to prevent internal fraud.

Figure 24 shows that out of 23 internal fraud suspects in 2016–17, 10 held either a formal security clearance or an entity clearance check of some level. The ‘other’ clearances listed were a pre-employment engagement check conducted by the entity, and a national security check for a locally engaged staff member in an overseas office.

Figure 24: Security clearances held by suspects in the most costly internal frauds, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Security clearances for suspects in the most costly internal frauds for 2016–17 were examined to determine whether people with security clearances committed different types of frauds or used different methods to commit fraud compared with those employees without clearances. Table 8 shows that suspects holding security clearances were no more likely to commit fraud targeting information than other suspects. The majority of the most costly internal frauds involved frauds targeting entitlements/benefits or financial fraud, and the most common methods involved misuse of documents and asset misappropriation.

Table 8: Suspects holding security clearances and targets/methods used to commit fraud, 2016–17 (N)

| Target/Method | Negative Vetting 2 | Negative Vetting 1 | Baseline ^a | Confidential | No clearance | Unknown | Other |
|--------------------------------|--------------------|--------------------|-----------------------|--------------|--------------|---------|-------|
| Equipment | | | 2 | | 2 | 3 | |
| Entitlements or benefits | | 1 | 2 | 1 | 3 | 1 | |
| Information | | | | | 1 | | 1 |
| Financial fraud | 1 | 1 | 2 | | 1 | 3 | 1 |
| Other | | | | | | | |
| Misuse of ICT | | | 2 | | | | 1 |
| Asset misappropriation | | 1 | 1 | | 1 | 6 | |
| Misuse of personal information | | | 1 | 1 | | 1 | |
| Misuse of documents | | 1 | | | 4 | | 1 |
| Other | 1 | | | | 2 | | |

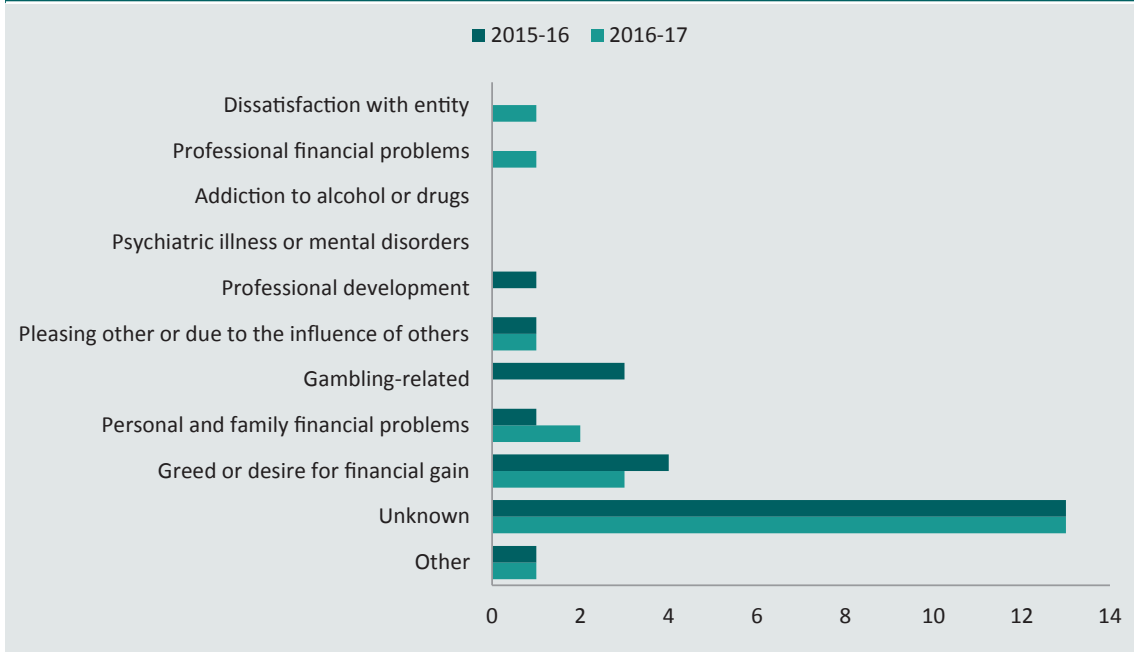
a: There were four suspects with Baseline clearances; however, multiple targets (not just a primary target) of fraud were supplied by the respondents, and only the primary method (ie one method) for each fraud was supplied

Source: Commonwealth fraud census 2016–17 [AIC computer file]

Motivation

To gain insight into why fraud occurs, respondents were asked to indicate the principal motivation the suspect had for committing the fraud (Figure 25). Each year, a large number of respondents were unable to provide details of the suspect’s motivation. Greed or desire for financial gain was the most common motive supplied where known.

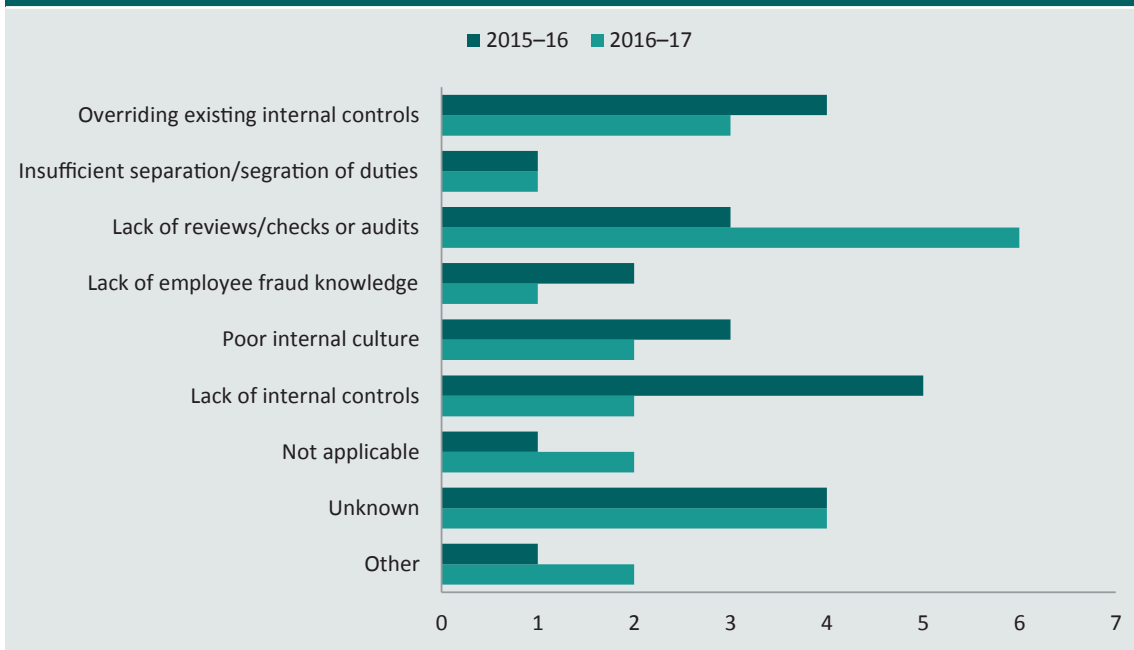
Figure 25: Principal motivations of suspects for the commission of the most costly internal frauds, 2015–16 and 2016–17 (N)



Fraud control weaknesses

Respondents were asked to list the principal fraud control weakness contributing to the most costly internal fraud occurring. Figure 26 presents the fraud control weaknesses and the number of investigations in which that weakness was found to have contributed to the fraud occurring for 2015–16 and 2016–17.

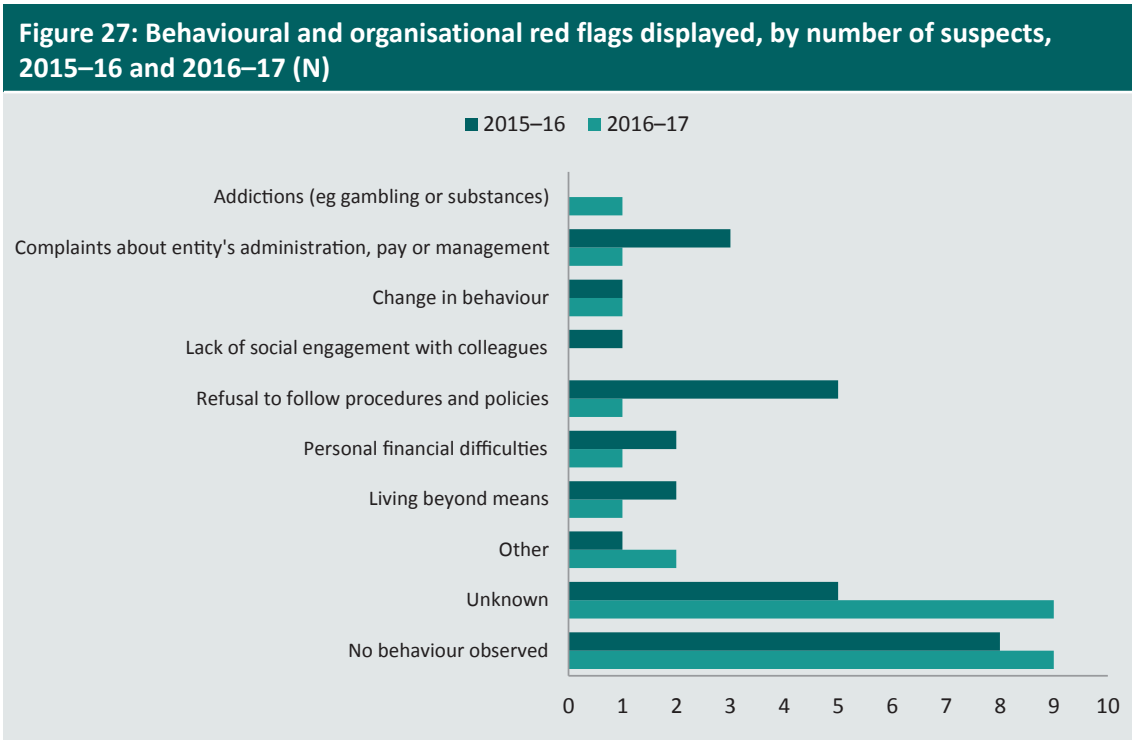
Figure 26: Fraud control weaknesses that contributed to the most costly internal fraud occurring, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC computer file]

Behavioural indicators

Research has shown there may be common behavioural indicators or ‘red flags’ (ACFE 2016; Duffield & Grabosky 1999) that may assist in detecting employees engaging in occupational fraud. Figure 27 shows some of the most frequently displayed red flags by internal fraud suspects identified in the current census findings.



Note: Respondents could select multiple responses

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Outcomes and recoveries

Respondents were asked to describe the outcome of investigations and any associated legal proceedings. Depending on the length and complexity of the investigation, some respondents were able to supply details of matters referred for prosecution. Figure 28 presents the categorised outcomes of internal fraud investigations in which respondents were able to choose all outcomes applicable. For full details see *Appendix*.

Figure 28: Outcomes from finalised investigations of the most costly internal frauds, 2015–16 and 2016–17 (N)



a: In all Australian jurisdictions, courts have a discretion to impose a sentence without recording a conviction (Sentencing Advisory Council Tasmania 2014)

Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

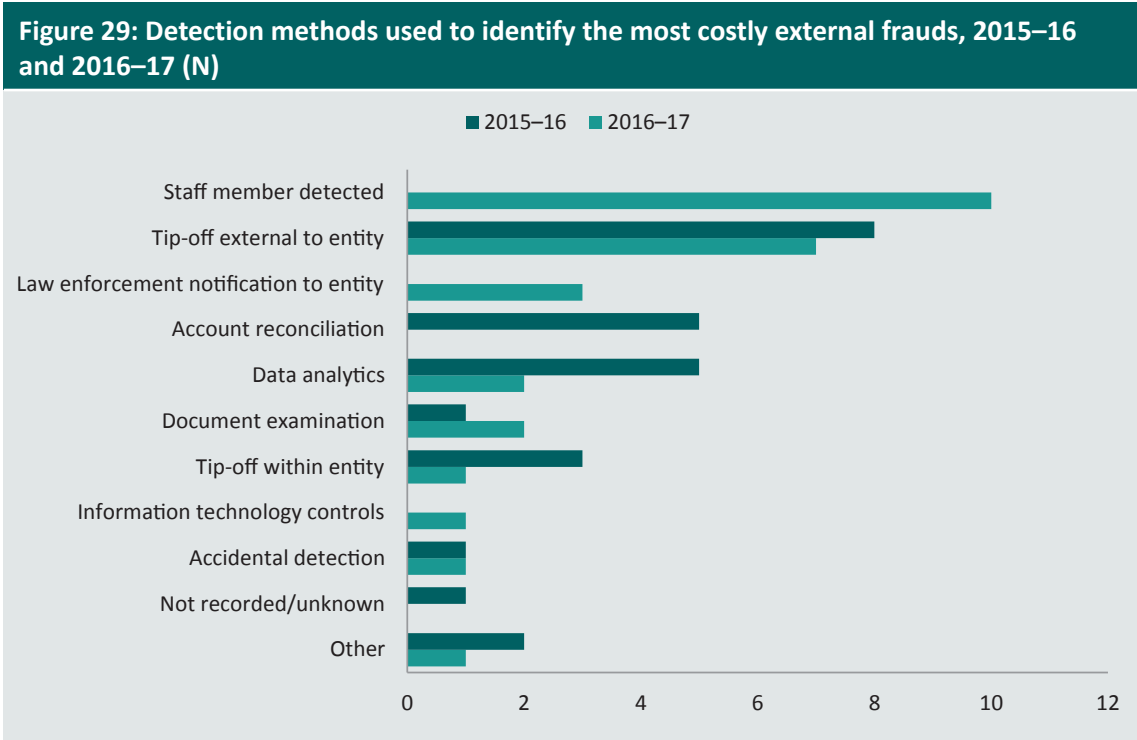
Most costly external frauds

Respondents whose entity had finalised an investigation into the most costly external fraud that was substantiated in full or in part were asked to answer further questions about the matter. The ‘most costly’ fraud was defined as either the fraud resulting in the largest financial loss or the fraud causing the greatest impact on their entity. If the fraud involved multiple suspects, respondents were asked to answer the questions with respect to the principal suspect only.

Twenty-eight respondents completed questions about their entity’s investigations of the most costly external fraud where fraud was substantiated. There is little comparable research when dealing with external fraud, as most studies focus on internal occupational fraud risks (ACFE 2018; KPMG 2016). As such, this study presents some unique findings.

Detection

Details of how the alleged most costly external frauds were detected are presented in Figure 29.



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

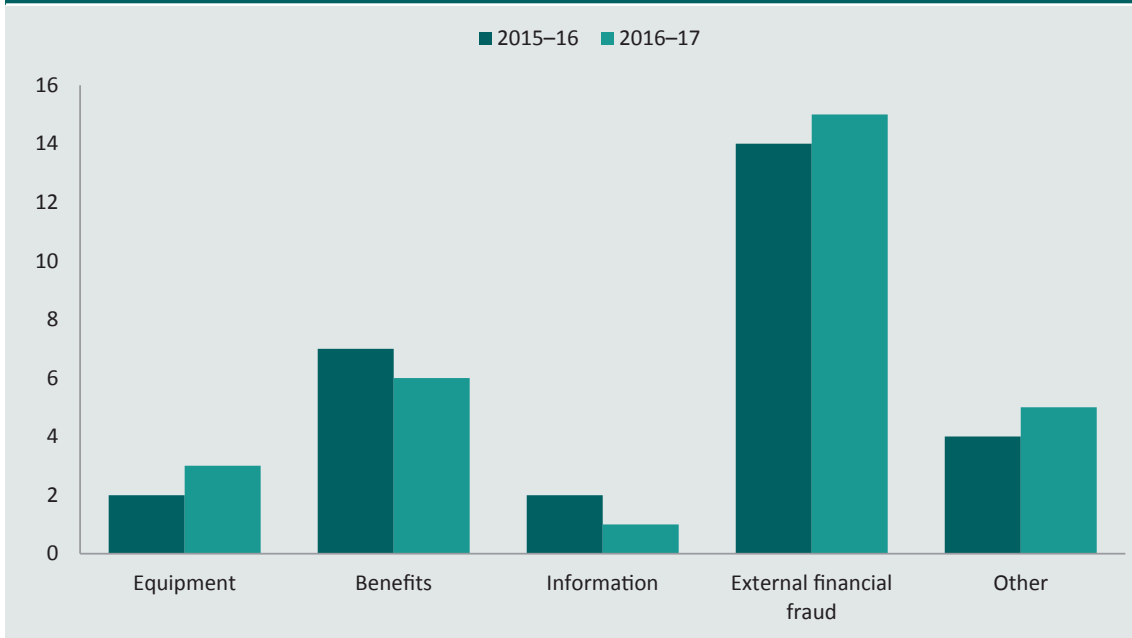
Conduct of investigations

Entities conducted 68 percent (N=19) of all investigations into the most costly external frauds, somewhat lower than the 80 percent of investigations conducted into the most costly internal frauds. Police (either state or AFP) conducted a further 14 percent (N=4) of the most costly external fraud investigations. A further 11 percent (N=3) were conducted by financial institutions.

Targets

Respondents were asked a number of questions about how the most costly external frauds were committed, including what the target of the incident was and how the fraud was committed. Details of the principal targets over the two years of data collection are presented in Figure 30, which shows external financial fraud to be the most frequently reported principal target.

Figure 30: Principal target of most costly external fraud, by number of investigations, 2015–16 and 2016–17 (N)

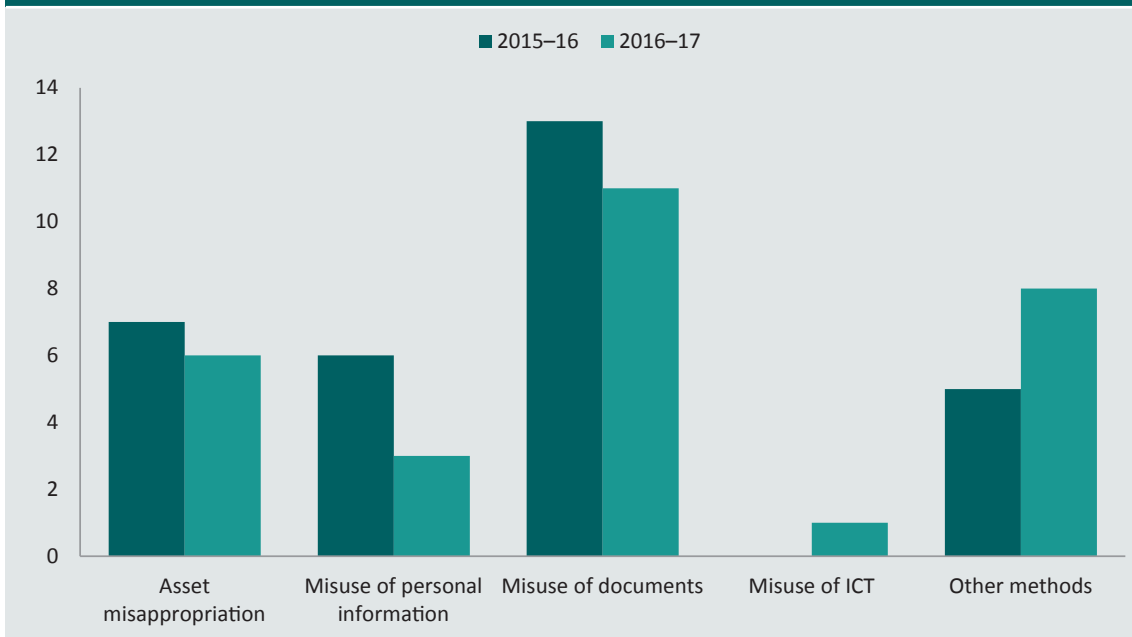


Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Methods

Respondents were also asked to identify the principal method by which the most costly external fraud was committed. In both 2015–16 and 2016–17, misuse of documents was the most common method of commission for the most costly external frauds (Figure 31). See *Appendix* for full details.

Figure 31: Principal method of committing most costly external fraud, by number of investigations, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

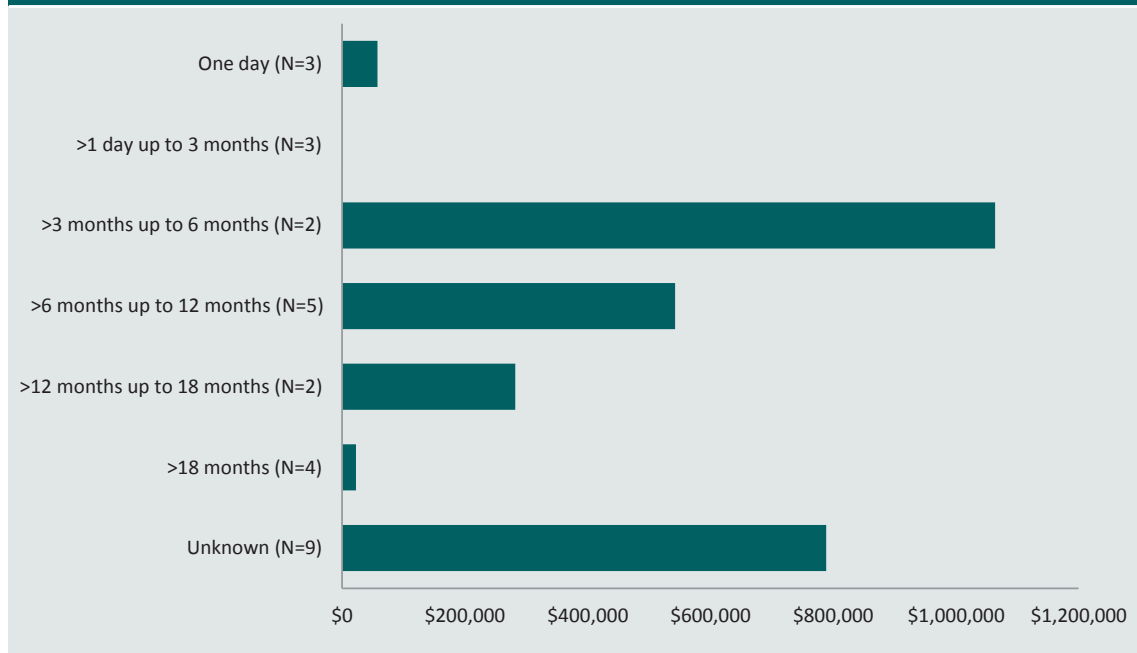
Financial impact

In 2016–17, the total dollar losses involved with all the most costly external frauds was \$2,757,356, with only 14 of the 28 respondents able to quantify a loss amount. The minimum loss was \$90 and the maximum was \$1,064,000. The median loss for the most costly external frauds was \$35,692.

Length of investigation and losses

Does the dollar amount lost impact on the length of an investigation? Looking at the most costly external fraud investigations reported in 2016–17, there does not seem to be a link between the dollar amount lost due to the fraud and the length of the investigation. Out of the 28 respondents who provided details of their entity’s most costly external fraud, eight provided details of the length of investigation, but not loss amounts. A further three could estimate loss amounts, but could not provide the length of the investigation, and six respondents provided no details of either the length of the investigation or the financial impact. In total, only 11 respondents had details of both the length of the investigation and the financial impact. As a result, the details in Figure 32 are comprised of details from 14 respondents, not including the ‘unknown’ data.

Figure 32: Dollar value losses from most costly external fraud, by length of investigation, 2016–17 (\$)



Source: Commonwealth fraud census 2016–17 [AIC data file]

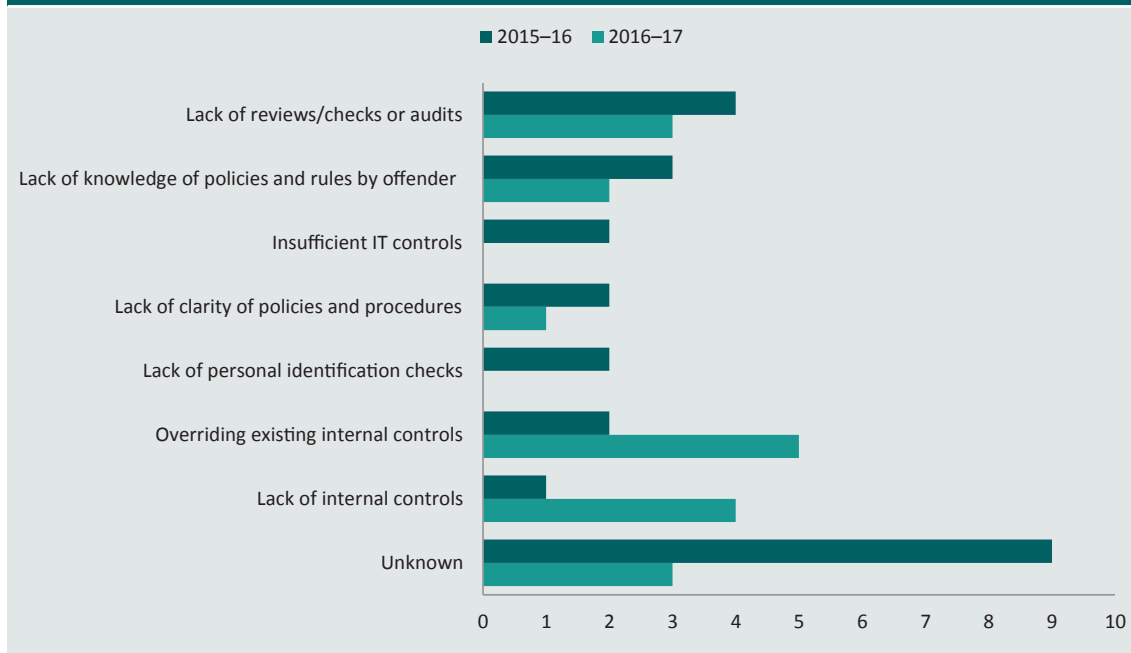
Co-offending

To gain an insight into whether the most costly external frauds were committed alone or in collaboration with other persons, respondents were asked to identify the presence of co-offenders and how many co-offenders there were. As with the most costly internal fraud findings, respondents reported that no suspects had committed the alleged offences with other individuals. However, there were nine respondents who did not know if more than one suspect had been involved in the commission of the fraud.

Fraud control weaknesses

The ACFE (2016) report noted that, while the presence of internal controls does not act as a panacea for fraud, those organisations with strong fraud control measures in place can mitigate the impact of fraud incidents, especially financial impacts and reputational damage. To determine whether weaknesses in entities' fraud control measures had contributed to their most costly external frauds occurring, respondents were asked to identify the principal fraud control weakness that contributed to the fraud occurring. The findings are shown in Figure 33, with further details provided in the companion *Appendix*.

Figure 33: Fraud control weaknesses that contributed to the commission of the most costly external fraud, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

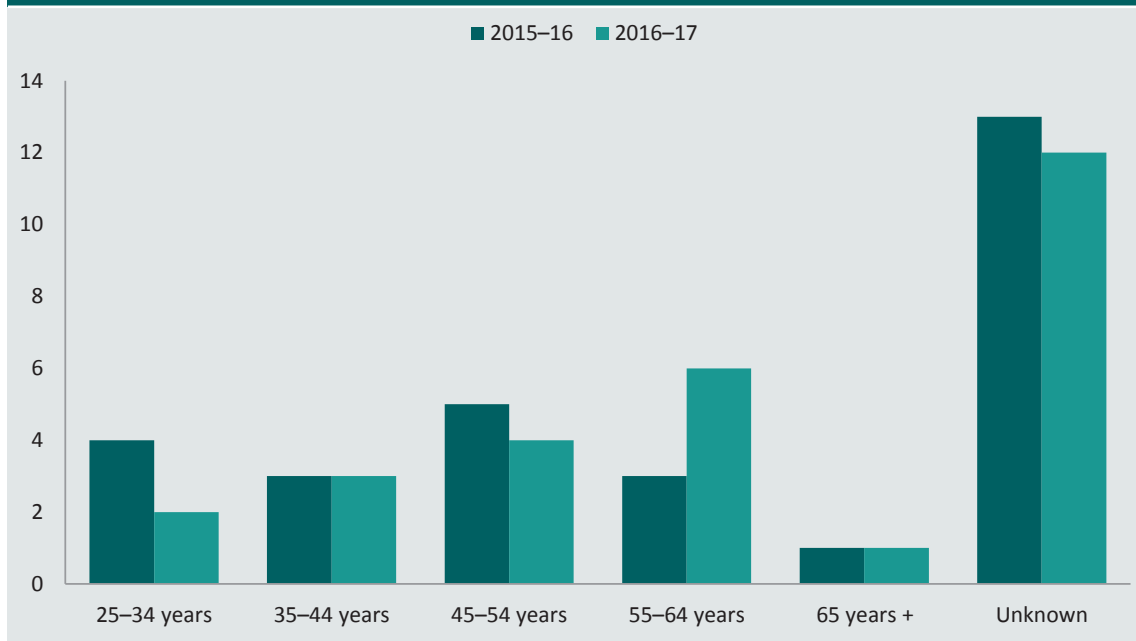
Characteristics of fraudsters

Respondents were asked to provide information concerning a wide range of demographic and other details about suspects and the circumstances of their offending. In a number of instances, only partial information was provided in response to these questions.

Age

In both 2015–16 and 2016–17 none of the suspects in the most costly external fraud were aged under 25 years. The age of most external fraud suspects was unknown: see Figure 34.

Figure 34: External fraud suspects by age, 2015–16 and 2016–17 (N)

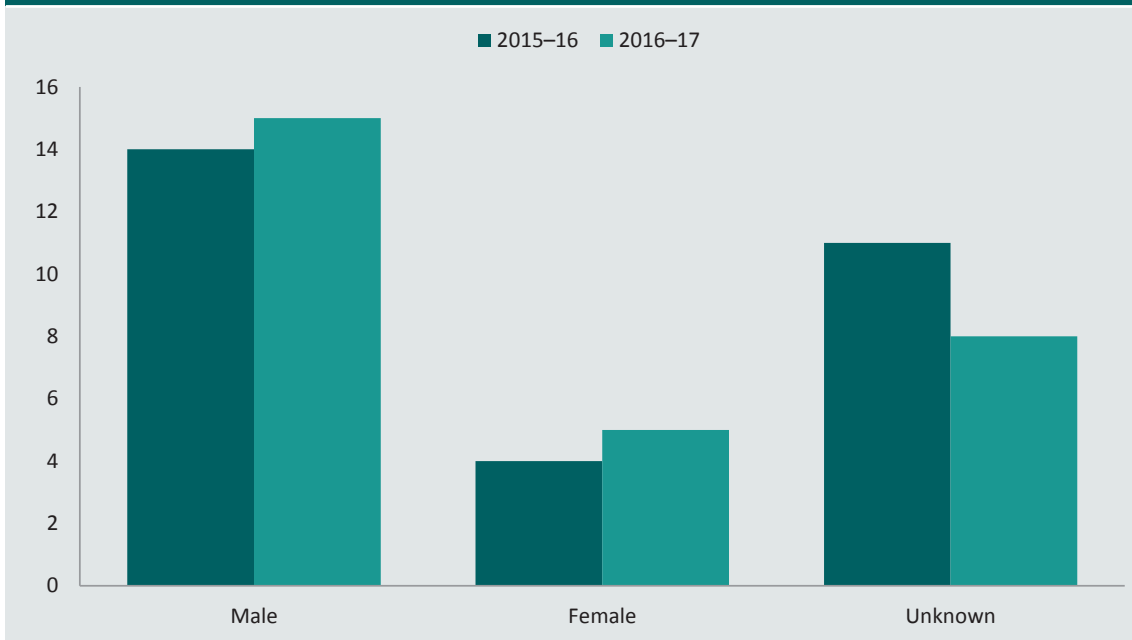


Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Gender

In contrast to the suspects identified in investigations of the most costly internal frauds, it was predominantly men who committed the most costly external frauds (Figure 35).

Figure 35: External fraud suspects by gender, 2015–16 and 2016–17 (N)

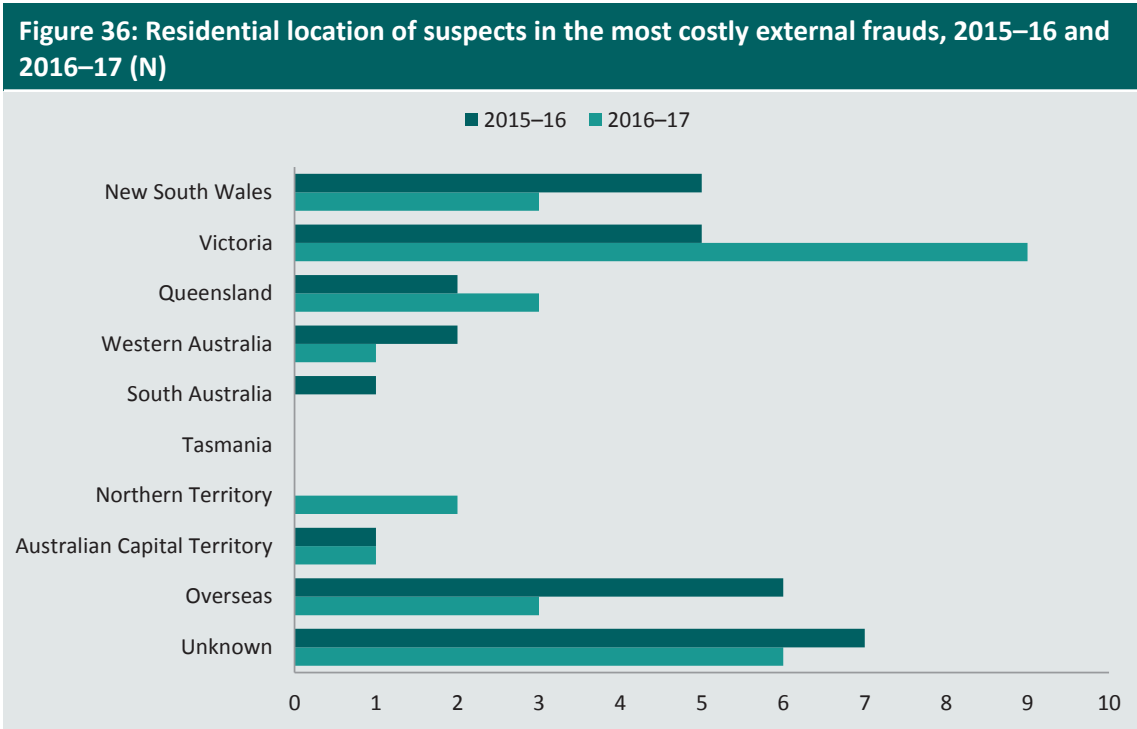


Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Residence

While Commonwealth entities are predominantly located in the Australian Capital Territory, their services are provided throughout Australia (taxation, welfare, social security, defence and health agencies etc) and overseas (eg entities administering grant and aid programs, defence procurement, trade arrangements and even cybersecurity). When suspects are based overseas, this can create substantial difficulties for the conduct of investigations and prosecutions.

Details of the state, territory or overseas location at which the suspect resided at the time each of the most costly external frauds was detected are presented in Figure 36.



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Relationship of suspect to Commonwealth entity

Respondents were asked what relationship the suspect had to the entity against whom they had committed the fraud. Where known, the most common relationship between suspect and entity was that the suspect was a ‘customer or client’ of the entity (N=12). In five investigations there was no relationship between the entity and the suspect, and in a further five the relationship was unknown. Respondents indicated that the relationship had not previously been categorised for six suspects, including for example an applicant for a Commonwealth program, an employee of a contracted service provider and a manager of an organisation receiving Commonwealth grant monies.

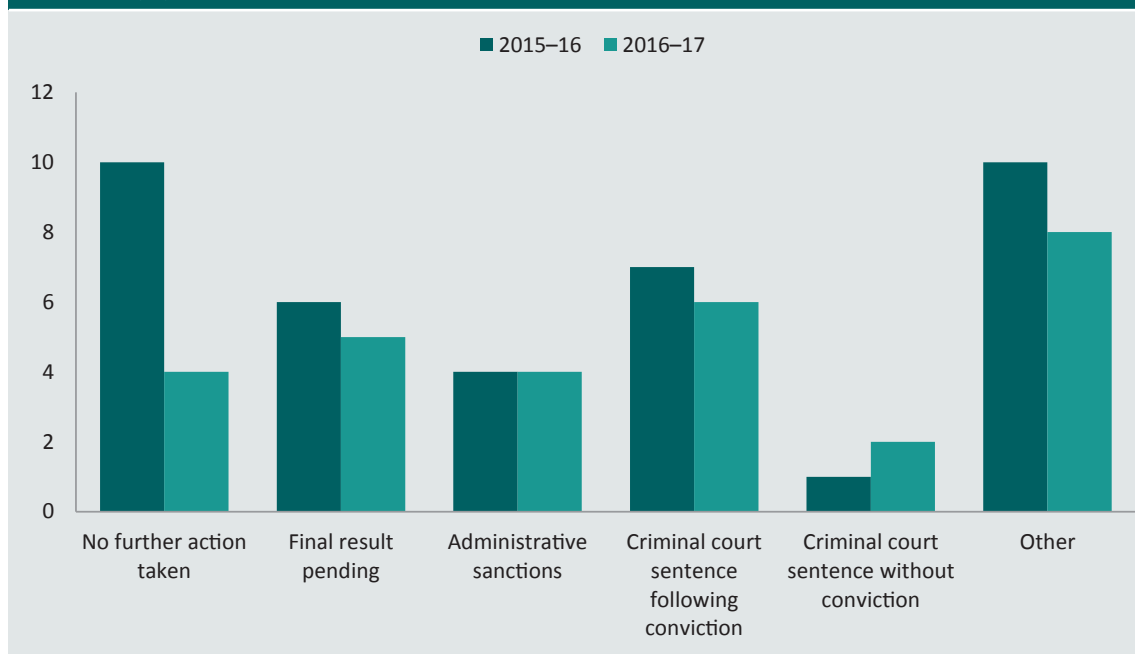
Occupation

Few details were known about the occupation of the suspect involved in the investigation of the most costly external frauds. Where this information was available, the most common occupation in 2016–17 was ‘professional’ (N=6). Further details are available in the *Appendix*.

Outcomes and recoveries

Respondents were also asked to describe the outcome of investigations and any associated legal proceedings. Depending on the length and complexity of the investigation, some respondents were able to supply details of matters referred for prosecution but could not indicate how some investigations were finalised, owing to criminal action not having been concluded (Figure 37). Full details of the other outcomes, details of convictions and other information are available in the *Appendix*.

Figure 37: Investigation outcomes of the most costly external frauds, 2015–16 and 2016–17 (N)



Source: Commonwealth fraud census 2015–16 and 2016–17 [AIC data file]

Part 6: Action taken against fraud perpetrators: Policing and prosecutions

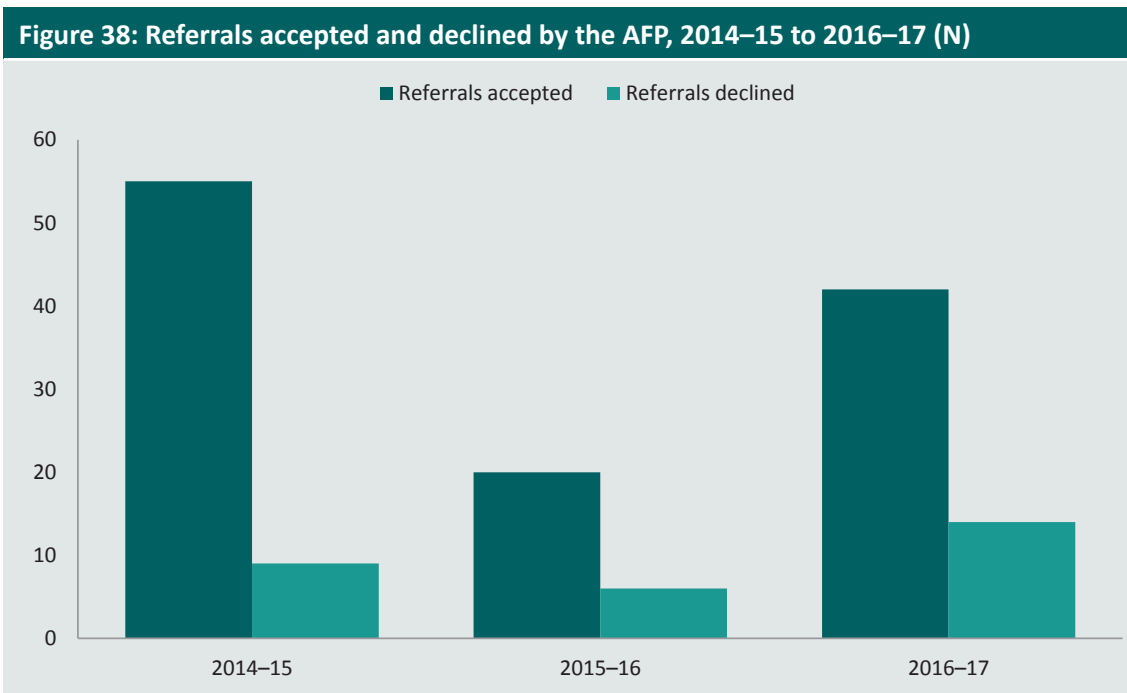
In addition to information derived from the AIC census, the Commonwealth Fraud Control Framework 2017 requires the AFP and CDPP to provide the AIC with additional information each year regarding Commonwealth fraud investigations (AFP) and prosecutions (CDPP). This section presents a summary of the information provided by these two authorities. The data were received in aggregate form and could not be attributed to any individual incidents reported by specific entities to the AIC, nor could the type of fraud investigated or prosecuted be categorised as either internal or external fraud. Data collection practices within the AFP and CDPP also differed in various respects, as described below. These statistics cannot be compared with the number of incidents reported by entities in response to the annual census, as reporting periods and counting rules employed by the AFP and CDPP differ from those used in the AIC census.

AFP investigations

- Paragraph 14 of the 2017 framework (formerly paragraph 18 of the 2014 framework) requires the AFP to provide the AIC with information on all incidents of fraud against the Commonwealth that were referred to, accepted or declined by the AFP during the previous financial year, in a form requested by the AIC. Full details of the information requested of the AFP are set out in the *Appendix*.

In the last year, the AFP's Fraud and Anti-Corruption Centre has provided training to Commonwealth entities in how to conduct investigations and gather evidence.

Details of referrals accepted and declined by the AFP between 2014–15 and 2016–17 are presented in Figure 38. In addition to the referrals indicated in this figure, another nine referrals were under evaluation by the AFP at the time of the data collection. In addition to the 42 cases accepted by the AFP in 2016–17, there were 140 cases from prior years still on hand as of 30 June 2017. The estimated fraud value of the 42 cases accepted by the AFP in 2016–17 was \$705,088,573. The estimated value was determined by the referring entity in each case. The total estimated fraud value for all 140 cases on hand as of 30 June 2017 was \$2.4b (\$2,381,123,205).

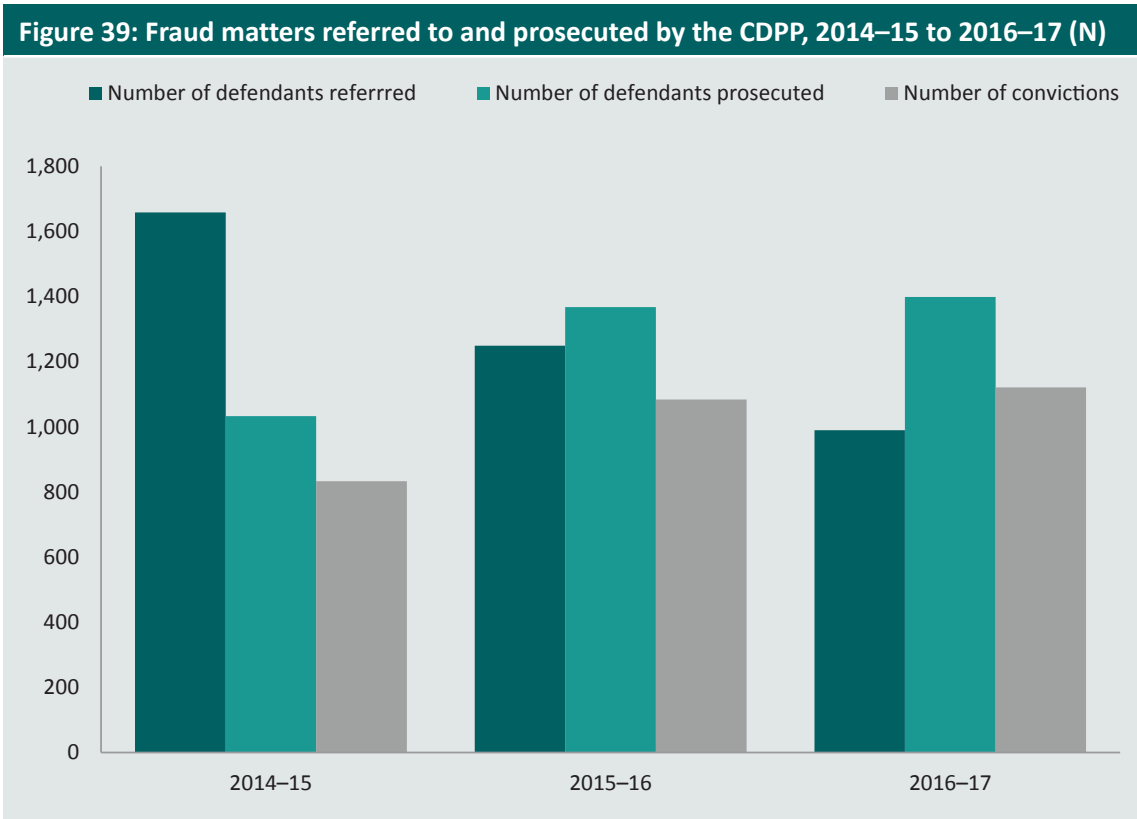


Source: AFP unpublished data provided to AIC in 2015, 2016 and 2017 [AIC data file]

CDPP prosecutions

Statistics on Commonwealth fraud cases referred to the CDPP for prosecution, including the outcomes of those cases, are provided to the AIC each year pursuant to paragraph 14 of the 2017 framework (formerly paragraph 9 of the 2014 framework) (Figure 39). Full details are available in the *Appendix*.

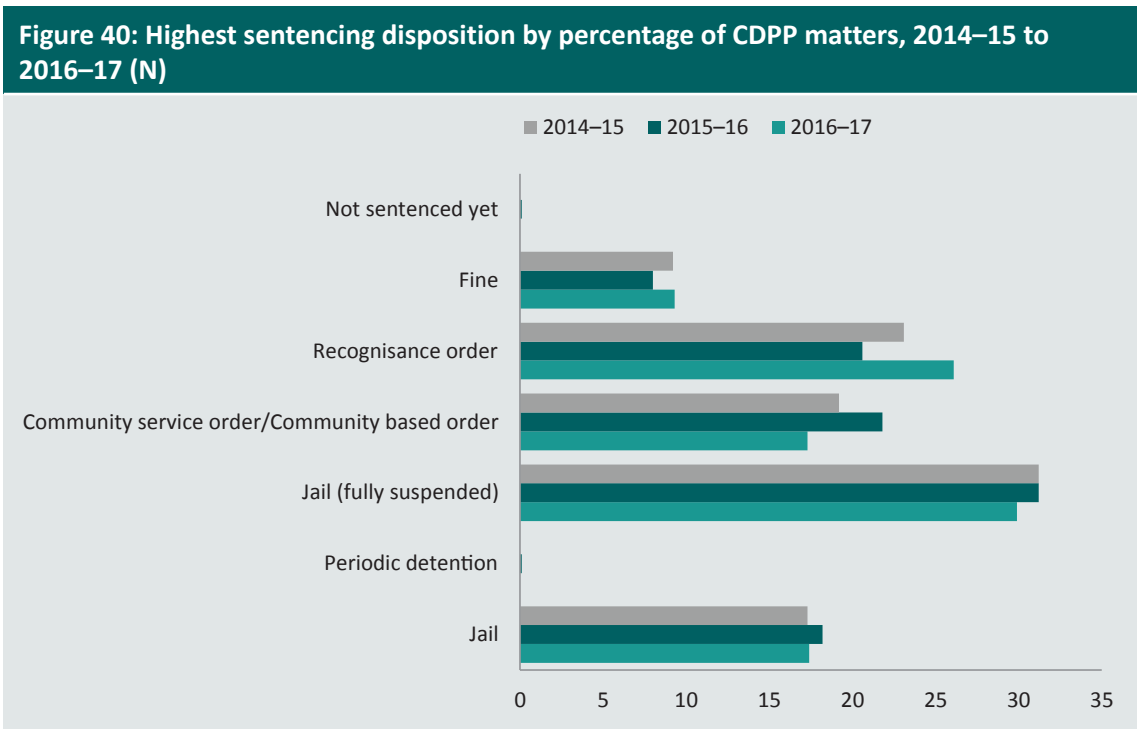
Each year, the CDPP assesses briefs of evidence referred to it in accordance with the Prosecution Policy of the Commonwealth. The CDPP makes a decision to prosecute where there is a reasonable prospect of conviction and prosecution is in the public interest. In 2016–17 the amount initially charged in 4,439 fraud-type prosecutions was over \$35m. For a full summary of defendants referred from each state and territory see the companion *Appendix*.



Source: CDPP internal data provided to AIC in 2015, 2016 and 2017 [AIC data file]

Sentencing dispositions

Each year the CDPP also provides statistics on the highest sentencing disposition given for fraud-related offences that were proved (Figure 40). These data relate to the years in which defendants were sentenced, rather than the years in which the CDPP received referrals from entities.



Source: CDPP internal data provided to AIC in 2015, 2016 and 2017 [AIC data file]

Part 7: How do we combat fraud? Entities and fraud control

Fraud control is based on a thorough assessment of fraud risks particular to the operating environment of an entity and to the programs it administers, as well as on the development and implementation of processes and systems to prevent fraud from occurring. The 2017 Commonwealth Fraud Control Framework was developed to reflect the change from a compliance-based approach to a principles-based framework established under the PGPA Act.

The Fraud Rule and accompanying framework (AGD 2014) came into effect on 1 July 2014. Section 17 of the Fraud Policy 2014 requires all entities to:

Collect information on fraud and provide it to the Australian Institute of Criminology (AIC) by 30 September each year to facilitate production of an AIC annual report on fraud against the Commonwealth and fraud control arrangements.

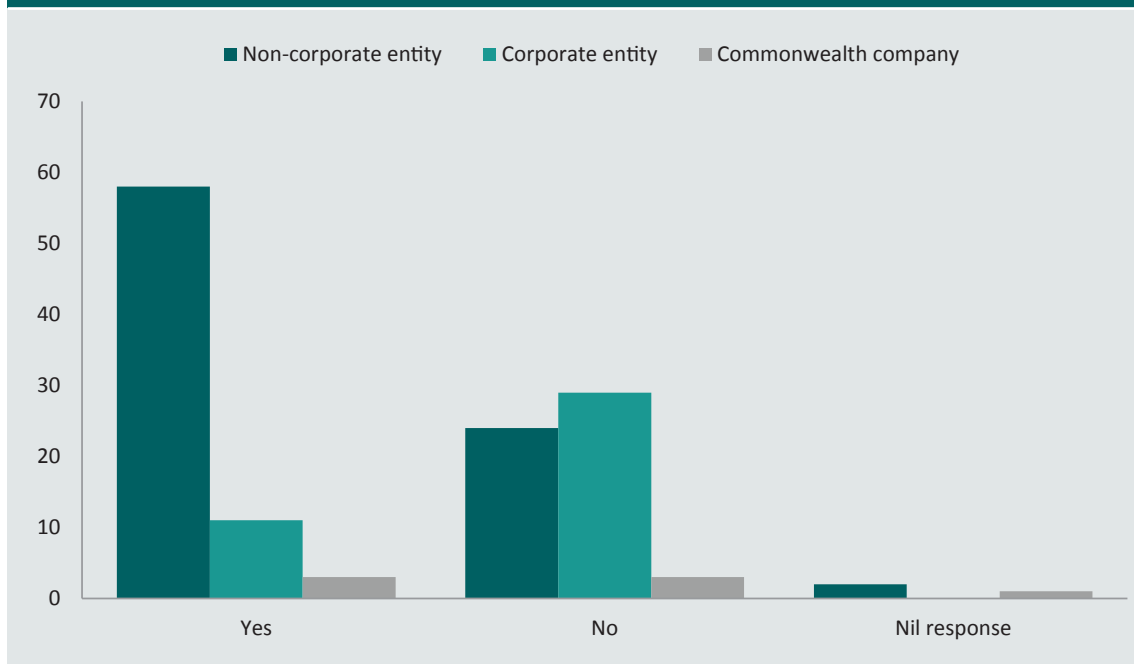
The Fraud Policy was specifically designed to enable non-corporate entities to fulfil their responsibilities under the PGPA Act 2013. The Fraud Policy is also considered best practice for corporate entities and Commonwealth companies.

Compliance with Commonwealth Fraud Control Framework

Responsibility for fraud control arrangements for each entity rests with its accountable authority—for example, its chief executive officer (CEO) or head. The accountable authority has a duty to keep the responsible minister informed of the activities of the entity, including any fraud occurring against the entity and the entity's fraud control measures.

In the *Fraud against the Commonwealth* census, respondents are asked to indicate if their accountable authority had reported to either their minister or their presiding officer certifying their entity had adequate fraud control measures for the relevant financial year. The only options available to respondents were ‘yes’ and ‘no’; however, in 2016–17 three entities failed to complete the question and did not provide any additional information (Figure 41).

Figure 41: CEO certification to minister or presiding officer of adequate fraud measures, by entity governance, 2016–17 (N)



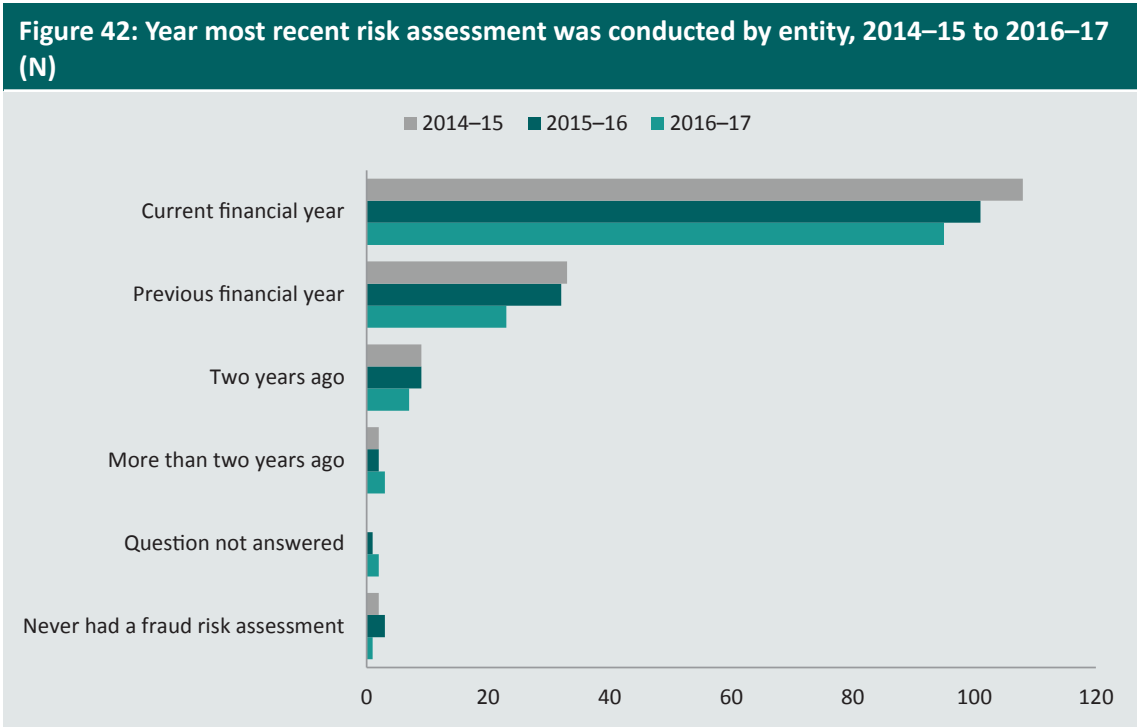
Source: Commonwealth fraud census 2016–17 [AIC data file]

Fraud control arrangements

Two essential elements of maintaining adequate fraud control are conducting regular fraud risk assessments and the preparation of a fraud control plan. It should be noted that this report does not comment on the adequacy of entities’ risk assessments or fraud control plans, only whether they have occurred. The purpose of this section is to show entities’ compliance with the Commonwealth Fraud Control Framework. As such, details about the content of entities’ fraud control arrangements are not included in this report.

Fraud risk assessments

Risk assessments are an important tool in fraud control as they assist entities to identify and address fraud risks. Risk assessments require specific expertise, and it is important that those undertaking risk assessments have access to the range of skills, knowledge and experience necessary to cover all categories of risk that might be applicable. As shown in Figure 42, a large number of entities completed risk assessments in the current financial year.



Source: Commonwealth fraud census 2014–15, 2015–16 and 2016–17 [AIC data file]

Fraud control plans

Fraud control plans identify how fraud risks will be mitigated, how fraud prevention, detection, investigation and reporting will be handled, and how fraud will be responded to. A fraud control plan is a document that explains an entity’s approach to controlling fraud at a strategic, operational and tactical level and should document how the entity will prevent, detect, investigate and report fraud (AGD 2017).

Respondents were asked to indicate when their most recent fraud control plan was developed. The census noted that fraud control plans need not necessarily be standalone documents but may be included within more general risk-management plans. Part 6 of the Commonwealth Fraud Control Framework (AGD 2017), states that a fraud control plan must be conducted after a fraud risk assessment has been conducted. The number of fraud control plans conducted each year should therefore follow a pattern similar to the number of fraud risks assessments conducted.

Figure 43 shows the number of fraud control plans undertaken by entity governance for participating entities in 2016–17. There were fewer fraud control plans undertaken than fraud risk assessments conducted in 2016–17. Perhaps of more concern was that one non-corporate entity and three Commonwealth companies reported that their entity had never had such a plan. The difference between the number of risk assessments and number of fraud control plans created indicates there may be a lack of understanding about how some entities deal with fraud if and when it occurs.

Figure 43: Fraud control plans and entity governance, 2016–17 (N)



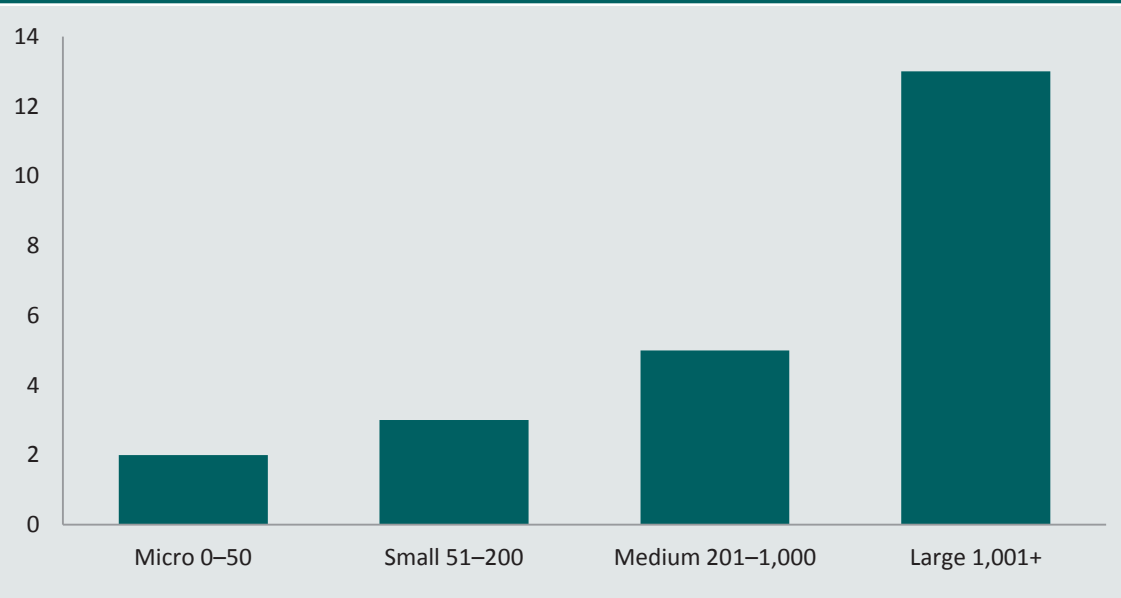
Source: Commonwealth fraud census 2016–17 [AIC data file]

Fraud control staff

An important element of fraud control generally is to have appropriately trained staff dedicated to fraud-risk management and prevention working within entities. This includes the training of all employees and relevant contractors in fraud awareness and the specialised training of employees involved in fraud control activities.

In 2016–17, there were 128 (out of 131) entities that had at least one employee who spent some of their time undertaking fraud-related duties—a total of 3,218 people. Figure 44 shows the median number of staff undertaking some fraud-related duties by entity size. As expected, entities with more employees in total had more who spent time on fraud-related duties. The median number of staff employed who spent some time undertaking fraud-related duties for large entities was 13, compared with two employees for micro entities (0–50 employees). However, as shown in Table 9, the number of staff who spent any time on fraud-related activities differed substantially between entities of different size.

Figure 44: Median number of employees per entity who spent time undertaking fraud-related duties, by entity size, 2016–17 (N)



Source: Commonwealth fraud census 2016–17 [AIC data file]

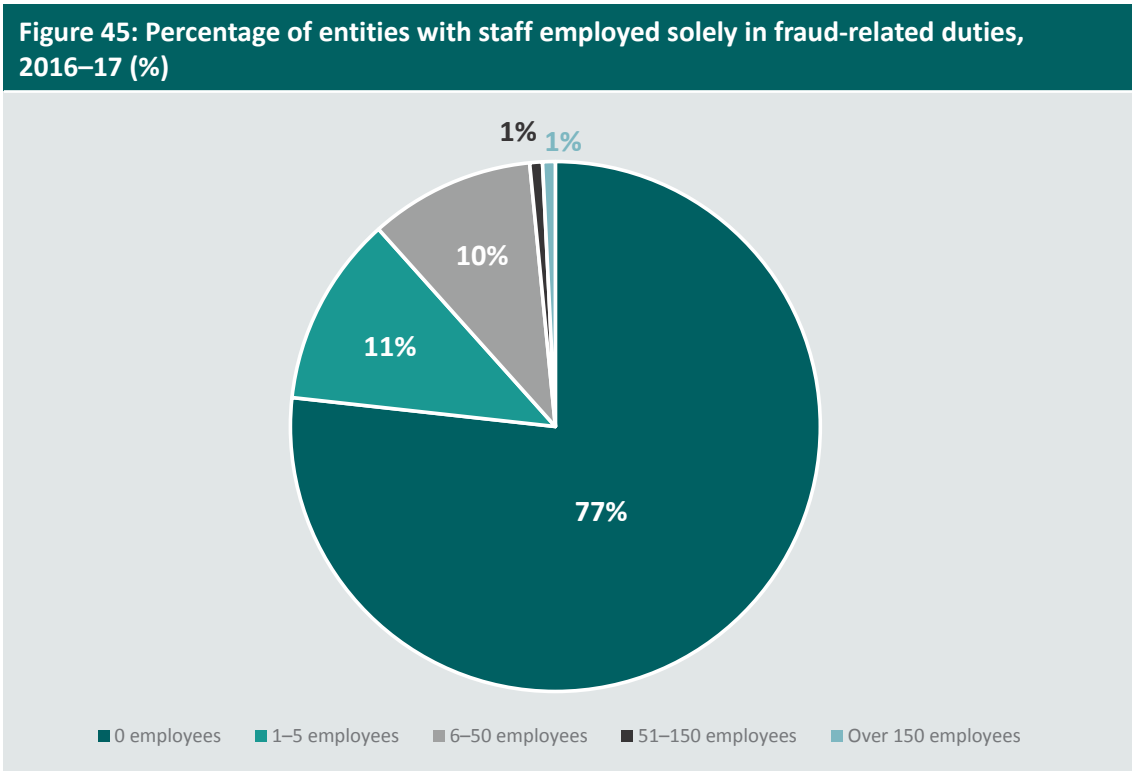
Table 9: Total number of employees who spent time on fraud-related duties, by entity size, 2016–17 (N)

| Number of fraud staff | Micro entities (N=23) | Small entities (N=35) | Medium entities (N=36) | Large entities (N=34) |
|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
| 1 or less | 7 | 4 | 1 | 1 |
| 2–5 | 15 | 21 | 19 | 11 |
| 6–10 | 0 | 4 | 10 | 4 |
| 11–15 | 1 | 1 | 2 | 3 |
| 16–20 | 0 | 1 | 0 | 6 |
| 21–50 | 0 | 1 | 2 | 1 |
| 51–100 | 0 | 2 | 0 | 2 |
| 101+ | 0 | 1 | 2 | 6 |
| Total | 61 | 396 | 567.25 | 2,194 |

Source: Commonwealth fraud census 2016–17 [AIC data file]

When respondents were asked about employees who worked solely in fraud-related duties, only 30 entities (23%) reported having at least one employee engaged in that capacity—a total of 1,035 employees working solely on fraud-related duties. Of those 30 entities that employed at least one person in a fraud-related role, 21 (70%) were large entities with over 1,000 staff. Two entities with staff employed solely in fraud-related roles were micro entities (50 or fewer staff).

No small entities (51–200 staff) reported having employees who worked solely in fraud-related areas. Figure 45 shows the percentages of staff in Commonwealth entities employed solely in fraud-related duties, and the number of staff in those roles. Most entities (77%) did not have a single employee in a dedicated fraud-related role.



Source: Commonwealth fraud census 2016–17 [AIC data file]

Qualifications of fraud control staff

The Commonwealth Fraud Control Framework 2017 (AGD 2017) stipulates that officials and contractors who are primarily engaged in detecting or investigating fraud should be appropriately skilled and experienced. Appropriately skilled staff are necessary to ensure the integrity of the investigation process and the evidence collected, and fairness for the person being investigated. Respondents were asked to indicate the percentage of their staff employed in a dedicated fraud capacity who held relevant qualifications (Figure 46).

The most common qualification held by staff undertaking fraud-related duties was a bachelor’s degree, rather than a specific fraud qualification. In 2016-17, 103 entities reported that their entity had an employee who held that degree and who undertook fraud-related duties. However, it should be noted that the qualification categories were not mutually exclusive, meaning people could hold a bachelor’s degree and as well as another type of qualification. In relation to specific fraud-related qualifications, less than 32 percent (41 out of 131 entities) of entities had an employee with a Certificate IV in Government (Investigations), the minimum standard for fraud investigation.

One entity advised that it could not provide any responses to questions asking about qualifications as data were not available.

Figure 46: Number of entities with at least one employee undertaking fraud-related duties and qualifications held, 2016–17 (N)



Source: Commonwealth fraud census 2016–17 [AIC data file]

Prevention, detection and investigation: What helped and what did not help?

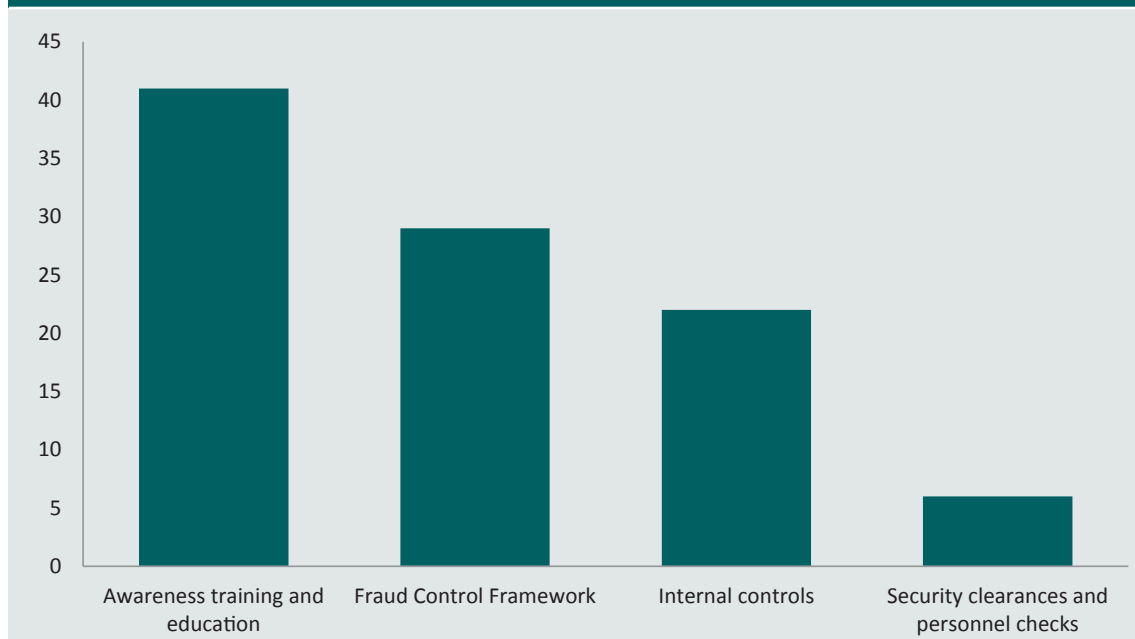
The previous sections show that entities have adequate fraud control practices in place, in the sense that most entities have up-to-date fraud risk assessments, and almost all entities have a fraud control plan in place. A large number of entities (128 out of 131) have at least one staff member who spends some of their time working on fraud-related duties. These duties may involve developing fraud risk assessments or fraud control plans, planning fraud awareness programs, and/or investigating suspected frauds.

However, it is important to ask how these fraud control practices are working for entities. The 2016–17 questionnaire asked respondents to comment on aspects or issues that helped or hindered their efforts in fraud prevention, fraud detection and fraud investigations. A wide range of responses were provided by respondents. Select responses are included below.

Fraud prevention

Respondents were first asked about what had helped with their entity’s prevention of fraud in 2016–17. Seventy-nine respondents provided responses to this question, and the responses could be grouped into three main aspects of fraud prevention. These were: fraud awareness training and ongoing education about fraud (52% of respondents); the implementation of the Commonwealth Fraud Control Framework (37% of respondents); and internal controls (22% of respondents). Figure 47 shows the four primary aspects identified by respondents. It is worth noting that two respondents spoke of the creation of a fraud advice hotline for employees and the need for strong internal collaboration and communication. Collaboration with other government agencies was identified by three respondents as aiding the prevention of fraud in their entity, along with the addition of specialist fraud staff. One respondent spoke about the media attention given to a fraud prosecution, and how that would have had a deterrent effect on others who may have been contemplating committing fraud.

Figure 47: What helped with entities’ fraud prevention in 2016–17 (N)



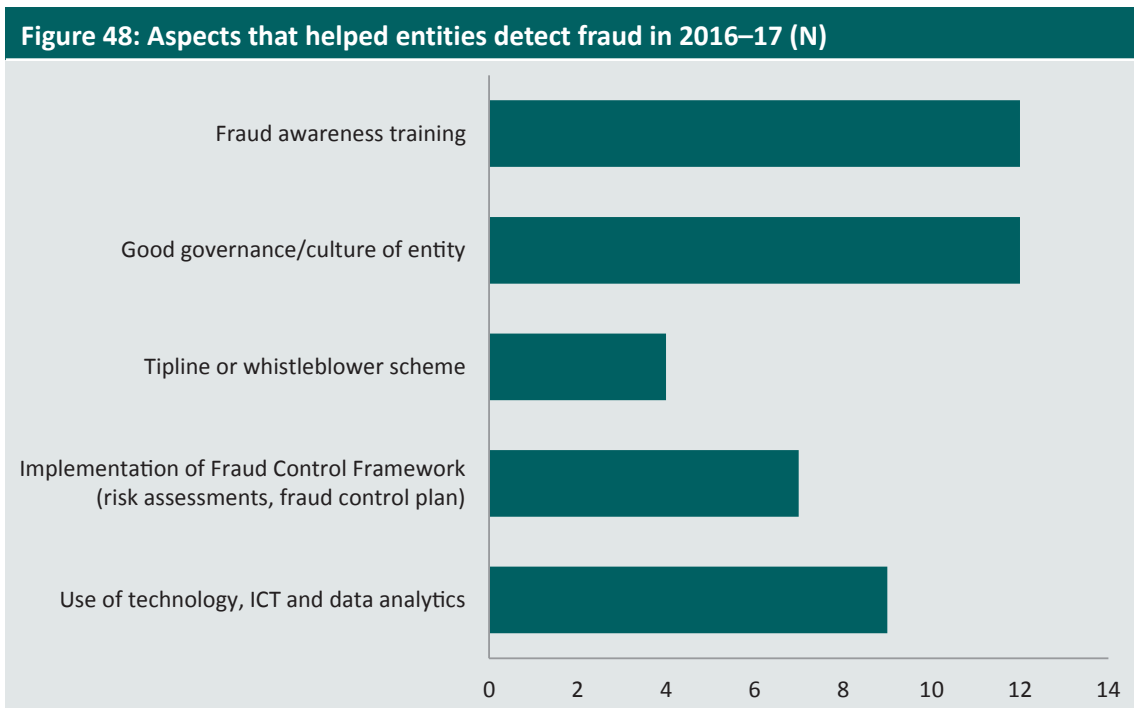
Source: Commonwealth fraud census 2016–17 [AIC data file]

Only 24 entities (18% of total participating entities) provided insight on what hindered their ability to prevent fraud throughout the financial year. The primary aspect hampering fraud prevention was the entity being understaffed or having insufficient resources to properly prevent fraud (7 respondents). The next most common aspect hindering fraud prevention was inaccurate/missing documentation or receiving delayed documentation (5 respondents), followed by an overall lack of understanding of what fraud against the Commonwealth is by employees and clients/customers (4 respondents). Other respondents commented on the lack of information-sharing between Commonwealth entities (2 respondents), and on issues around third-party providers and contractors (2 respondents).

No micro entities detected fraud in 2016–17, and only a small number of small entities finalised fraud investigations, which means that a large proportion of respondents had no comments to make about what hindered their ability to prevent fraud. This may be due to entities not having detected fraud and therefore considering there were no factors hindering their ability to prevent fraud. On the basis of overseas research (ACFE 2018; Kroll 2018; UK Cabinet Office 2018) it is likely that fraud was simply not being detected.

Fraud detection

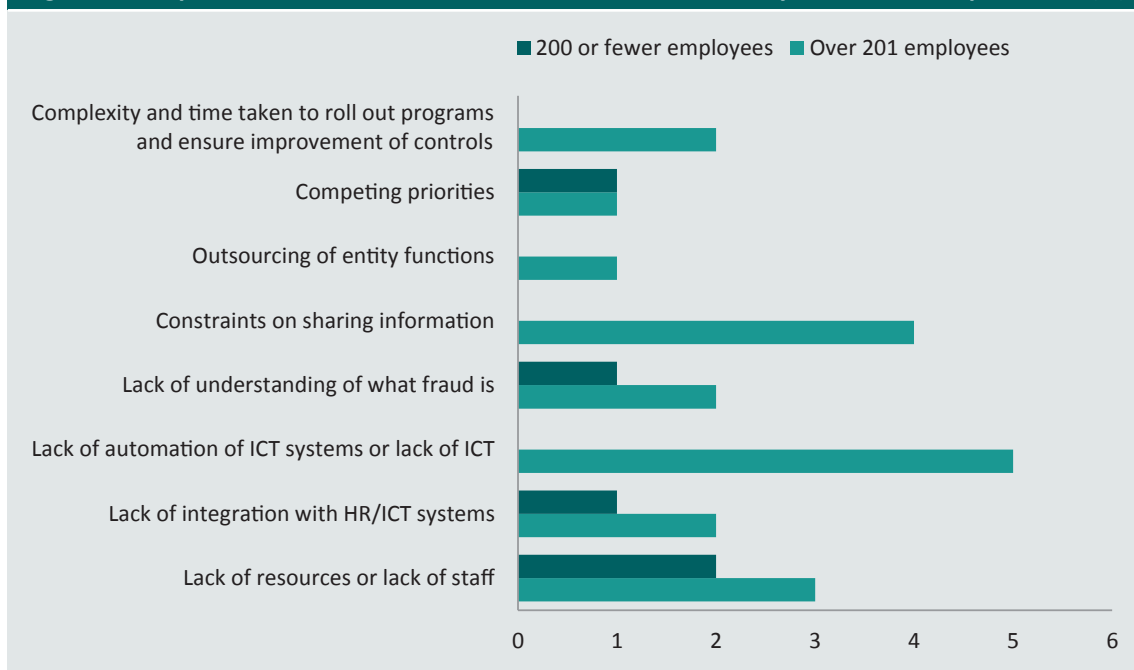
Responses about what helped entities with fraud detection in 2016–17 were received from 56 respondents. The most frequently occurring aspect that helped entities detect fraud was the implementation of fraud awareness training and good governance or culture of the entity (12 respondents for each aspect) the use of sophisticated data analytics software or a greater use of technology (9 respondents). There were also some unique responses received. For example, one respondent suggested a review of financial literacy across the entity had helped employees better understand fraud. Another three respondents reported that improved information-sharing between entities had also aided with fraud detection. Figure 48 presents the top common responses received from respondents.



Source: Commonwealth fraud census 2016–17 [AIC data file]

Again, since few micro or small entities detected fraud throughout 2016–17, not many respondents from those smaller entities provided information on what hindered their ability to detect fraud. Figure 49 shows the differences between smaller (small and micro) and larger (medium and large) entities in the factors that hindered their ability to detect fraud throughout the year. Respondents concerned about the use of data analytics or advanced ICT software were almost entirely from medium or large entities. Similarly, only larger entities reported concerns about constraints on information sharing and related impacts on their ability to detect fraud.

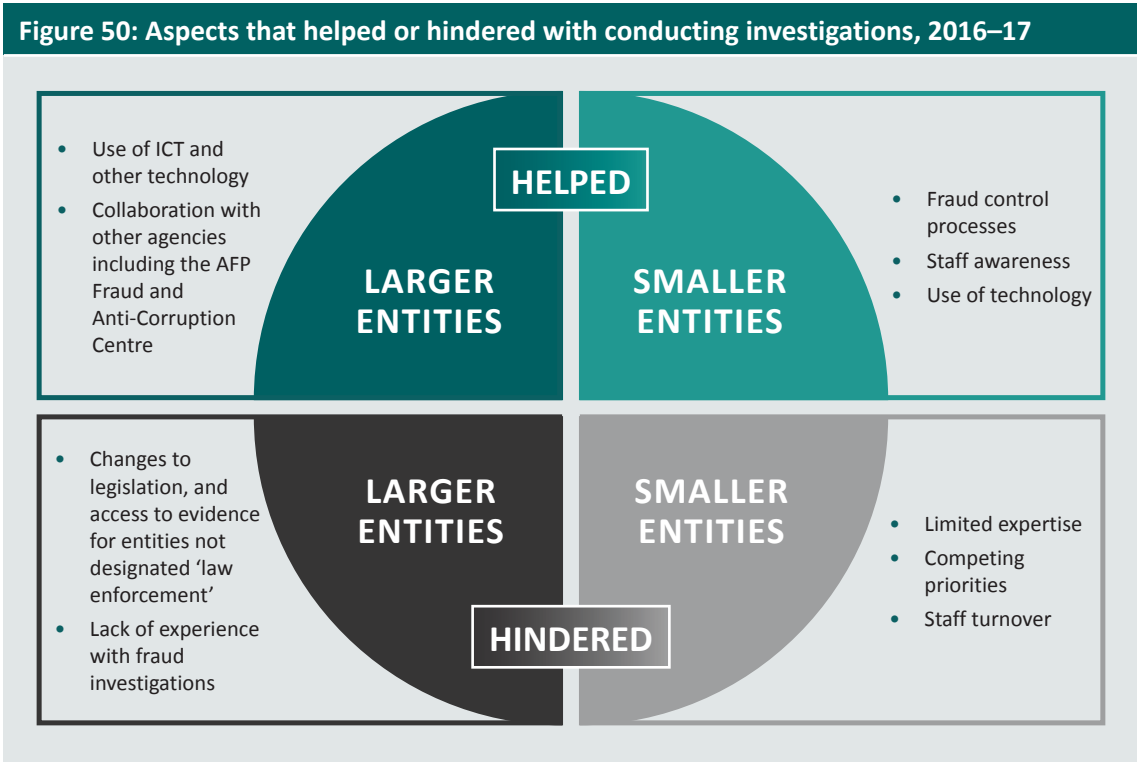
Figure 49: Aspects that hindered fraud detection in 2016–17, by number of respondents (N)



Source: Commonwealth fraud census 2016–17 [AIC data file]

Investigation of fraud

There were only 49 entities that finalised a fraud investigation in 2016–17, which means that only a small number of respondents commented on aspects that helped or hindered with completed fraud investigations in that year. There were no responses from micro entities, and only a few from small entities. Nonetheless, the main responses received from entities of all sizes are presented in Figure 50.



Source: Commonwealth fraud census 2016–17 [AIC data file]

There were five respondents (from large entities) who specifically mentioned the lack of access to telecommunications data as a major aspect hindering their ability to conduct investigations. See Box 2 for further details.

Box 2: Changes to the *Telecommunications (Interception and Access) Act 1979*

An important aspect of a fraud investigation is access to evidence. In the 2016–17 census, five respondents advised that one aspect which hindered their ability to conduct investigations were the changes to the *Telecommunications (Interception and Access) Act 1979* (Cth) (TIA Act). Prior to the changes, a range of entities including police and law enforcement agencies had access to data held by a range of entities on the production of a stored communications warrant. However, in a report to parliament on the proposed changes, it was recommended that the law be amended to provide that only criminal law enforcement agencies would be able to access stored communications (Parliament of Australia 2015).

The *Telecommunications (Interception and Access) Amendment (Data Retention) Act 2015* is a Commonwealth law that amends the TIA Act. Section 176A of the *Telecommunications (Interception and Access) Amendment (Data Retention) Act 2015* (Cth) alters the definition of ‘enforcement agency’ in subsection 5(1) of the TIA Act to limit the authorities and bodies that can access telecommunications data (metadata) to only ‘criminal law enforcement agencies’ and certain other authorities and bodies declared under s 176A to be an ‘enforcement agency’.

With fraud investigations becoming more complex, and sophisticated frauds involving organised criminals becoming more frequent, entities may have a greater need to access stored communications data. Currently the process of accessing that information is limited to law enforcement agencies, for good reasons. However, this may be at odds with the Commonwealth Fraud Control Framework (2017), which stipulates that entities should conduct internal investigations before referring investigations to the AFP, if relevant.

Source: Parliament of Australia 2015

Part 8: Conclusions

This report is the second to be released after substantial changes were made to the fraud questionnaire in 2015–16. The current report covers 351,537 fraud investigations finalised by entities in 2016–17. It examines, in depth, details of 23 internal fraud investigations and 28 external fraud investigations. Comparisons are made between the 2015–16 findings and the 2016–17 findings, where applicable. The questionnaire was used to identify the main areas of fraud risk for entities and to better understand how frauds might occur, to aid in strengthening fraud control policies and better targeting of resources. Analysis of the findings has identified several concentrated areas of fraud risk for Commonwealth entities. Hence, these are areas where resources and attention could be directed to improve fraud control across entities.

Areas of fraud risk

The fraud threats facing the Commonwealth arise principally from two areas: those people or contractors employed by a Commonwealth entity (internal fraud); and those who are external to the entity, such as customers/clients, third-party providers, vendors, or members of the public from Australia or overseas (external fraud). With regard to internal fraud, the primary area of risk lies in the information held by entities and in the access that staff have to IT systems. In 2016–17, aside from the ‘other’ category, entities reported that the largest number of investigations (452 investigations) involved the target of ‘information’ held by the entity. However, the most common target of internal fraud—that is, the fraud experienced by the largest number of entities—was related to internal ‘financial fraud’, such as misuse of government credit cards, misuse of procurement payments and misuse of entity cash.

The most common fraud risk with regard to external fraud, resulting in the largest number of investigations *and* experienced by the largest number of entities, was external financial fraud—a total of 342,342 investigations, 99 percent of which were attributable to one entity. Subcategories within external financial fraud included fraud targeting taxation; welfare; customs/excise; and Commonwealth programs and grants. Aside from micro entities, which did not finalise any fraud investigations, all other sized entities experienced external fraud where the target of the fraud was external financial fraud, although large entities experienced this type of fraud more commonly than small and medium-sized entities. If the single large entity investigation which accounted for 99 percent of all external financial fraud investigations is excluded, the greatest risk to external agencies was ‘benefits’, which included health, social security, and visa/passports and citizenship benefits.

In relation to the methods used to commit fraud, investigations of both internal fraud (999 investigations) and external fraud (342,072 investigations) most often related to asset misappropriation. Again, this was mainly attributable to one large entity. Asset misappropriation includes the subcategories of unauthorised use of cash; unauthorised use of non-cash assets (mostly internal fraud); and unauthorised use of payment cards. Although this method of fraud was experienced by the largest number of entities for internal fraud, this was not the case with regard to external fraud investigations. The external fraud method experienced by the largest number of entities was misuse of documents (549 investigations; 13 entities). The main subcategories of misuse of documents were: creating or using a false or altered entity document; and creating and/or using a false document or a document not belonging to the entity. Since most Commonwealth grants, procurement, payments and benefits (a high fraud-risk area, as noted above) all rely on paperwork or forms, this area requires ongoing attention to ensure that documents have not been altered and are correct and that the identity of people dealing with the entity has been established.

Detecting fraud

Although the detection of fraud is often associated with negative attention and criticism from the public, media and ministers (UK Cabinet Office 2018), the failure to detect fraud is, arguably, worse, as the absence of fraud does not necessarily mean that fraud is not present (UK NAO 2016), and the failure to detect fraud early can lead to greater losses, more reputational damage and a toxic workplace culture (ACFE 2018). In the United Kingdom, government agencies made a concerted effort to increase the detection of fraud. This resulted in the number of agencies that did not detect fraud decreasing, from six agencies in 2014–15 to just one agency in 2015–16 (United Kingdom Cabinet Office 2017). In 2016–17, the Australian Commonwealth fraud census found only 50 out of 131 entities commenced a fraud investigation in that financial year, with only 50 entities finalising a fraud investigation. This means there were 81 entities in which either fraud was not detected or fraud investigations were not finalised in 2016–17. No micro entities and only seven small entities finalised fraud investigations in 2016–17. It is not known whether this means that fraud occurred in these entities but was not detected or that these entities did not experience fraud. Comparable international research would suggest, however, that it is unlikely fraud was not present at all (ACFE 2018; UK Cabinet Office 2018).

Internal threats

Between 2015–16 and 2016–17, the number of investigations that involved internal fraud increased by 89.9 percent. Although there was a greater increase in the number of external fraud investigations, the vast majority of those came from one entity, while the increase in internal fraud investigations was across all entities. A surprisingly consistent finding from the most costly internal fraud data is the length of time that employees had been with the entity prior to offending. In 2016–17, it was found that individual cases of fraud generally occurred after more than four years of employment with the entity (35% of suspects).

This may indicate either that people may be gaining the knowledge to commit fraud over time, or—as in the case of one suspect in 2016–17—that the motive for the fraud was dissatisfaction with the entity which relates to long periods of employment with the same entity.

Of ongoing concern is the consistent finding over the last five years of census results that the most costly internal frauds had no suspects employed at the SES level and few at middle management level (EL 1 or 2). This finding is in direct contrast to industry survey findings that frauds with higher value losses are more often committed by people who are owners or executive managers (ACFE 2018). The absence of public servants at these levels being represented in the data about suspects of the most costly internal frauds does raise questions as to whether such senior managers are not offending or rather not being detected, with their activities therefore not resulting in investigations. Further research is needed to explore this anomaly.

In general, entities need to ensure there are adequate checks and processes in place when people claim employee entitlements and benefits, as these remain areas of high fraud risk for multiple entities. Although these fraud risks did not result in the largest number of investigations finalised, they were more often associated with the most costly internal frauds than other fraud risks. As with previous census findings, the internal fraud target involved in the largest number of investigations (aside from the ‘other’ fraud category) was misuse of information. Although this type of fraud only affected a small number of entities (N=6), the average number of investigations for misuse of information was 75 per entity (452 investigations conducted by six entities).

Estimated costs of fraud

It has always been difficult to estimate financial losses arising from a fraud incident. These difficulties have been discussed in previous fraud reports (Jorna & Smith 2018a, 2018b), which have noted the importance of undetected fraud being excluded from cost estimates and some consequences of fraud being unable to be quantified, such as loss of information or intellectual property. Respondents were initially asked to estimate the losses that were associated with frauds at the time investigations commenced, and also after investigations had been finalised. As further and more precise information becomes available during an investigation, so the accuracy of estimates of loss improves—sometimes increasing, but more often decreasing. This is borne out in the findings concerning estimated financial losses in 2016–17:

- The cost of internal frauds estimated when investigations commenced was \$2.1m, but when investigations were finalised the cost was estimated as only \$1.8m.
- The cost of external frauds estimated when investigations commenced was \$99m, but when investigations were finalised the cost was estimated as only \$92m.

Of course, not all of the investigations of frauds would be finalised in the same year as they had commenced, but it is likely that, in most cases, thorough investigation would result in initial estimated losses being higher than when investigations are finalised and evidence is obtained as to actual losses sustained.

Final observations

Fraud has far-reaching and long-lasting consequences. It can lead to a loss of revenue, and to damage to morale and destruction of trust in government services that can last for years after incidents have occurred. Findings from the 2016–17 census show that less than 40 percent of entities detected fraud and that, consistent with the findings from the 2015–16 census, larger entities detected and finalised more fraud investigations than smaller entities. No micro entities finalised fraud investigations in 2016–17. This may in part be due to the findings that over three-quarters of entities do not have a single employee employed solely in a fraud-related role. However, all entities are at risk of fraud. Given that many entities have similar principal functions, if one entity detected fraud occurring, it is likely that others face the same risks. Fraud can occur in any entity, and fraud control staff must be prepared to detect it.

Adequate resourcing is essential if entities are to maintain and improve the level of fraud control necessary for the modern public sector. The most commonly cited tool that helped entities detect fraud in 2016–17 was the use of sophisticated data analytics programs. Conversely, the most commonly identified weaknesses in detecting fraud were a lack of statistical and data analytics programs. Respondents in 2016–17 also had concerns about their ability to access different sources of evidence (N=5) and about their ability to share information with other entities (N=4). While only representing a small proportion of total respondents, these respondents were from large entities investigating complex frauds. The introduction of the Crimes Legislation Amendment (Powers, Offences and Other Measures) Bill 2018 should help entities to share information for the purposes of preventing, detecting, investigating and dealing with fraud against the Commonwealth.

This is the second report using the new questionnaire focusing on fraud investigations instead of fraud incidents, and already some consistent findings have emerged with results from the 2015–16 census. Over time, further trends will become apparent that will allow comparisons to be made between different entities. These data will also assist in establishing what has helped certain entities with fraud control, prevention and detection and what may work for other entities. Ultimately, the annual fraud census provides transparency for the Australian public and shows that Commonwealth entities are acting responsibly with public funds entrusted to them for public purposes.

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