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## **Commonwealth fraud investigations 2015–16**

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# Foreword

Fraud in the public sector involves ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’ (AGD 2014: 4.1). It can be perpetrated by public servants, who may abuse their privileges for personal gain, or by other members of the public or corporations who may seek to obtain benefits or payments from government entities unlawfully. 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 2015–16 financial year.

Fraud has far-reaching and long-lasting consequences. It can lead to a loss of revenue, damage to morale and destruction of trust in government services that can last for years after incidents occur (Cross, Richards & Smith 2016).

The AIC has been conducting its Commonwealth fraud census since 2006, prior to which the Attorney-General’s Department (AGD) gathered data each year from 1995. In 2016, following the enactment of the Commonwealth *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the release of the report of the independent Review of Whole-of-Government Internal Regulation (Belcher Red Tape Review 2015), the AIC sought and obtained feedback from previous respondents and undertook consultations with stakeholders, including the Attorney-General’s Department concerning improvements to the census questionnaire. This led to substantial revisions being made that improved the ability of respondents to answer questions consistently and to ensure that the findings would be more useful for policy development. Efforts were also made to reduce the burden on government entities in completing the census each year.

The most substantial change to the questionnaire was to alter the unit of measurement from ‘suspected, alleged or proved fraud incidents’ to ‘fraud investigations’. This will help to increase the ability of respondents to provide complete responses to questions regarding investigations into alleged fraud. In the past, some respondents were unable to provide information owing to fraud investigations not yet being finalised. Limiting questions to finalised investigations means it is much more likely that respondents will have almost all of the relevant information at hand. As a result, some of the findings in this new report may not be comparable with those of previous years, when ‘incidents’ of fraud were counted rather than fraud ‘investigations’. The change also affects the estimated dollar values lost to fraud and recovered following investigations. Future reports will, however, be able to track changes more consistently than in the past.

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# Acronyms and abbreviations

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
ATO	Australian Taxation Office
CDPP	Commonwealth Director of Public Prosecutions
CEO	chief executive officer
FTE	full-time equivalent
ICT	information and communication technology
MoG	machinery of government
NAO	National Audit Office (United Kingdom)
NFA	National Fraud Authority (United Kingdom)
OECD	Organisation for Economic Co-operation and Development
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
SES	Senior Executive Service

# Executive summary

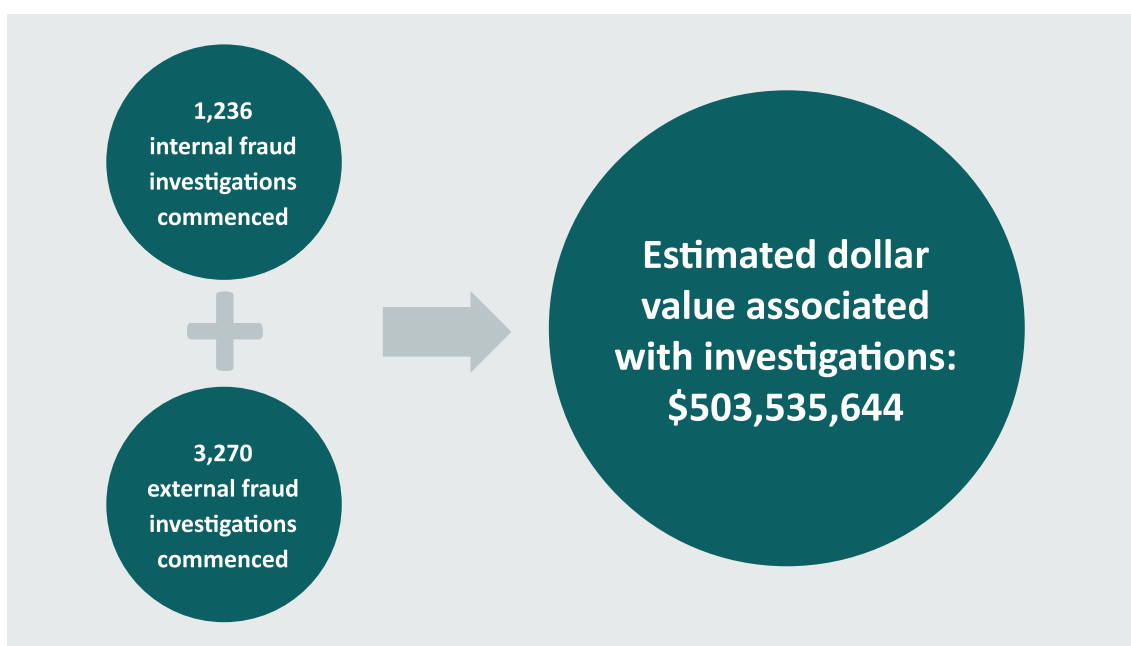
## What this report covers and how the information is presented

This report provides information on fraud investigations undertaken by 148 participating Commonwealth entities during the period 1 July 2015 to 30 June 2016.

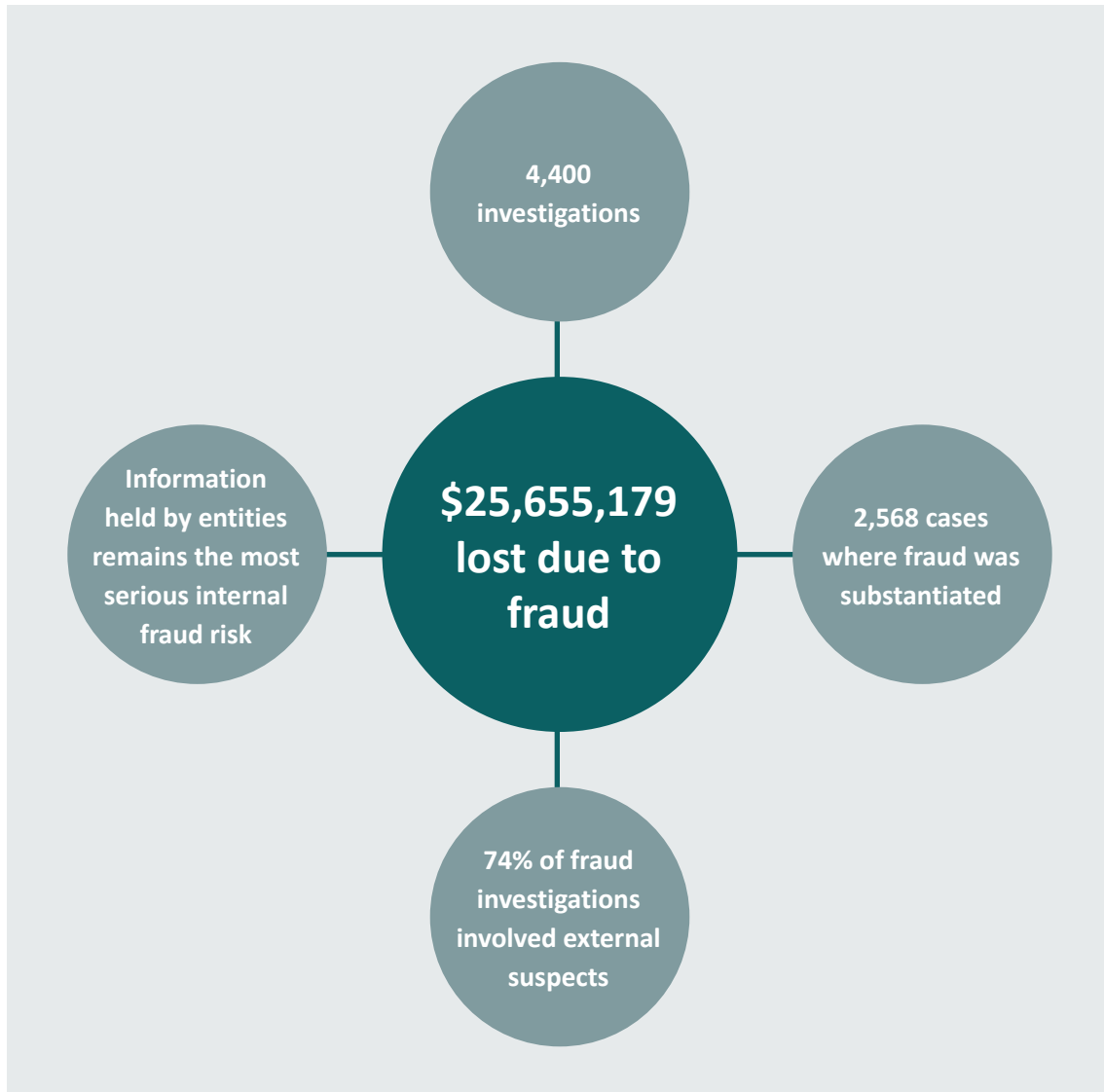
In 2015–16, information on fraud was gathered differently from previous years:

- The unit of measurement was changed to ‘investigations’ in 2015–16 from ‘incidents of fraud’ in previous years. This was designed to enable respondents to provide more consistent and useful data than in previous years and to make reporting easier.
- Data were also collected on the ‘most costly external fraud investigation’ undertaken by entities. Questions in this section mirrored the questions on the ‘most costly internal fraud investigation’.
- As a result, some results may not be comparable with results from earlier years.

## Investigations commenced: summary



## Investigations finalised: summary



## Investigations commenced

- Thirty-three entities commenced at least one internal fraud investigation in 2015–16, totalling 1,236 investigations.
- The estimated dollar value of all internal frauds that respondents could quantify and that were the subject of investigations commenced in 2015–16 totalled \$3,490,093.
- Forty entities commenced at least one external fraud investigation in 2015–16, totalling 3,270 investigations.
- The estimated dollar value of all external frauds that respondents could quantify and that were the subject of investigations commenced in 2015–16 totalled \$500,045,551.



## Investigations finalised

- A fraud investigation was considered to be finalised if during 2015–16 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 2015–16.
- In 2015–16 there were 1,275 internal fraud investigations finalised, by 28 entities.
- Thirty-four entities finalised 3,125 fraud investigations involving external fraud.
- Almost 90 percent of all finalised investigations into internal fraud and external fraud were conducted by the victim entity only.
- Fraud was substantiated (either in full or in part) in 674 of the finalised investigations into internal fraud (53%).
- Fraud was substantiated (either in full or in part) in 2,031 of the finalised investigations into external fraud (65%).

## Cost of fraud against the Commonwealth

The amount estimated to have been lost to internal frauds, the subject of investigations *commenced* in 2015–16, was \$3,490,093, whereas the amount lost due to internal frauds the investigations into which were *finalised* in 2015–16 was under \$1m (\$907,657). The amount estimated to have been lost to external frauds, the subject of investigations *commenced* in 2015–16, was \$500,045,551, whereas the amount lost due to external frauds the investigations into which were *finalised* in 2015–16 was \$24,757,522.

### Fraud targets

#### Internal fraud

- The most common primary internal fraud target present in finalised investigations was 'employee entitlements' (N=14), although the largest number of investigations involved 'information' (434 investigations).

#### External fraud

- The most common primary external fraud target present in finalised investigations was 'external financial fraud' (16 entities) but the largest number of external fraud investigations involved 'benefits' (1,479 investigations by 9 entities).

### Fraud methods

#### Internal fraud

- The primary method of committing internal fraud experienced by the largest number of entities was 'asset misappropriation' (N=13), although the largest number of finalised investigations involved 'misuse of ICT', with three entities indicating the primary method for committing fraud to be 'accessing information or programs via a computer without authorisation' (388 investigations in total).

### *External fraud*

- The primary method of committing external fraud experienced by the largest number of entities (N=15) was ‘misuse of documents’ (534 investigations), although the largest number of investigations involved ‘other methods’ (1,224 investigations, by 4 entities). The bulk of the finalised investigations that involved ‘other methods’ were related to ‘claiming benefits without entitlement’.

## **Investigations into corruption and collusion finalised in 2015–16**

- Corruption remains an ongoing concern for all Commonwealth entities. The type of corruption most evident in finalised fraud investigations was ‘bias or dishonesty in the exercise of official functions’. Respondents reported 76 such investigations conducted by five entities in 2015–16.
- The most frequently reported category of collusion was ‘unable to be determined’ with three entities finalising 57 investigations involving this category. The next most common category of collusion involved conspiracy between an entity’s employee and another (internal) entity employee. Four entities finalised 13 investigations involving this type of collusion.

## **Most costly internal fraud**

- Fraud relating to employee entitlements or benefits was the most common category of fraud target included in the most costly internal fraud data, with 12 investigations involving misuse of entitlements or benefits. Within that category, five investigations involved suspects alleged to have defrauded ‘leave and related entitlements’.
- Asset misappropriation was the most common method involved in the most costly internal fraud investigations (11 investigations).
- The most common age of suspects was 35–44 years (N=9 suspects), and more suspects in that age category were women than men (N=5 women and N=4 men).
- As with previous census findings, no employees at the Senior Executive Service (SES) level were investigated for the most costly incidents of internal fraud, although there was one non-APS employee at a position equivalent to SES level who was found to have committed internal fraud.
- The most frequent employment level for internal fraud suspects was Australian Public Service (APS) level 1–4 (N=9 suspects).
- Total losses incurred in the most costly internal frauds were \$613,406 and the amount recovered in respect of the most costly internal frauds at the time of data collection was \$15,972, although some investigations were still awaiting prosecution.

## Most costly external fraud

- External ‘financial fraud’ was the primary target of the largest number of most costly external fraud incidents, with 14 suspects targeting Commonwealth monies or resources in this way.
- The most common primary method of committing the most costly external frauds involved the misuse of documents, with 13 people suspected of committing fraud using that method.
- The most common method of detecting the most costly external frauds was through a tip-off external to the entity (N=8).
- In nine investigations, it was revealed the suspect was a customer or client of the entity they defrauded.
- Thirty-two percent (N=10) of external fraud incidents investigated lasted less than a month.
- Losses relating to the most costly external frauds investigated were \$1,566,057 and the amount recovered at the time of data collection for the year 2015–16 was \$312,041.
- The amounts recovered in 2015–16 might not relate directly to the frauds investigated during 2015–16, as recovery action would often extend beyond 12 months and would be included in subsequent census data.

## Policing and prosecution activity in 2015–16

- At 30 June 2016, the Australian Federal Police (AFP) had 128 fraud-related matters still on hand, with an estimated dollar value of \$1.2b (some of which were long-running investigations that commenced in previous years). This represents a reduction from the 160 fraud-related matters on hand at 30 June 2015, with an estimated dollar value, as at 30 June 2015, of \$1.8b.
- There were some differences in trends in individual jurisdictions, with referrals to the Commonwealth Director of Public Prosecutions (CDPP) decreasing in all jurisdictions except Tasmania and the Australian Capital Territory. All states except for Western Australia saw an increase in the number of charges prosecuted and convictions obtained between 2014–15 and 2015–16.
- Over the three-year period there was an increase in the use of imprisonment (either fully suspended or an actual period in custody) as the most severe sentence imposed on defendants convicted of fraud, from 40.8 percent of sentences in 2013–14, to 49.4 percent in 2015–16.

## Fraud compliance and prevention

### *CEO certification*

- Fifty-seven percent of respondents said their Accountable Authority had reported to their minister or presiding officer regarding their fraud control measures for 2015–16. Medium-sized and large entities were more likely to have reported this than smaller entities.

#### *Risk assessment*

- 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 2015–16, 90 percent of entities had completed a fraud risk assessment within the previous two years, a slight reduction from the 92 percent in 2014–15.
- Of the 90 non-corporate entities participating in the 2015–16 census, 84 entities (93%) had completed a fraud risk assessment in the previous two financial years.

#### *Fraud control plan*

- In 2015–16, 133 responding entities (90%) reported completing a fraud control plan in the previous two financial years (compared with 91 percent in 2014–15).

#### *Fraud control staff*

- Almost all entities (95%, N=140) had at least one employee who dedicated some of their time to fraud control.
- Entities with fewer than 1,000 employees commonly had fewer than five employees working in fraud control, while large entities with over 1,000 employees had between six and 10 fraud control staff, on average.
- In 2015–16, entities considered the most important aspect of fraud control training to be collaboration with other entities (31% of respondents who answered the question).

## Conclusions

In the Commonwealth, fraud may be perpetrated by employees or contractors of an entity (internal fraud) as well as by members of the public who have dealings with the government (external fraud), such as when they obtain benefits or pay taxes. Fraud risk factors are diverse and may arise through third-party contractual arrangements, procurement processes, provision of government-funded grants, or even overseas cyber attacks.

Due to the changes made in the data collection process, there are limited comparisons that can be made with previous AIC fraud reports. However, consistent with previous reports is the finding that the largest number of internal fraud investigations involved the misuse of information and that the most frequent method of committing internal fraud involved misuse of information and communication technology (ICT). The principal risks of internal fraud arose from inadequate or outdated internal controls, poor recruitment practices, and insider threats (where staff are compromised or groomed by external parties).

# Part 1: Introduction

Commonwealth entities are attractive targets for people who want to commit fraud, as they have extensive resources, including equipment, property, money and information, to name a few. The *Resource management guide no. 201: Preventing, detecting and dealing with fraud* (AGD 2014: 4:1) defines fraud against the Commonwealth as ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’. Proving dishonesty is necessary when establishing criminal liability, with conduct that is accidental, inadvertent, or involving mere carelessness not meeting acceptable standards of proof.

Fraud may be committed by those external to the Commonwealth or those employed by a Commonwealth entity. Perpetrators may not always be located in Australia, especially in cases involving online transactions. The diversity of the functions of the Commonwealth means a ‘one-size-fits-all’ style of fraud assessment is not useful due to the range of targets available that would have a value or benefit to someone, somewhere.

Every dollar lost to fraud reduces the amount of money available for governments to spend on health, education, infrastructure, national security and, importantly, social welfare. The Australian public expects that public servants are accountable for expenditure in the public interest and entities must do everything necessary to minimise risks of fraud and to ensure that adequate and effective fraud control measures are in place (AGD 2017).

Discovering fraud, and detecting fraud quickly, is of critical importance, as the longer a fraud goes undetected the larger the financial and other impacts (ACFE 2016). Conversely, an organisation reporting an absence of fraud does not necessarily mean that fraud has not occurred—simply that it has not been uncovered (National Audit Office 2016). When fraud is detected, it can provide an opportunity for organisations to reassess their fraud risks and prevention strategies.

By its nature, fraud is difficult to detect. Unless entities have a rigorous approach to both fraud risk assessment and investigation, it is impossible to understand fully the scale and costs of the problem (NFA 2013). The annual fraud against the Commonwealth census provides an effective tool to measure how much fraud is detected across the Commonwealth and to compare risks across sectors. Understanding the nature of risks helps to ensure that fraud control measures are effective in detecting new fraud typologies and to minimise the financial harm that they entail.

## Commonwealth Fraud Control Framework

The *Commonwealth Fraud Control Framework* 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 re-issued 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).

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 for the 2015–16 financial year. The report identifies the level of fraud risk affecting the Commonwealth and how entities approach their task of preventing fraud and responding to acts of dishonesty that have been detected.

## Changes to the census collection

In March 2015, the Commonwealth Secretaries Board, which coordinates policy for departmental secretaries of central Commonwealth agencies, established by the *Australian Public Service Act 1999* (Cth), commissioned a former senior public servant, Barbara Belcher, in response to a perceived burgeoning of regulation within the Commonwealth, to conduct an independent Review of Whole-of-Government Internal Regulation.

The Belcher review identified a number of ways in which the collection of fraud control information from Commonwealth entities could be streamlined and duplication of collection activities reduced.

While the review was being conducted, the AIC undertook extensive consultation with major Commonwealth entities to discuss ways in which the collection of information could be improved so as to reduce the burden on respondents. Based on the feedback obtained, a revised draft questionnaire was distributed to key stakeholders for testing. After further amendment and approval from AGD, a new questionnaire was distributed to all entities to ensure their data collection processes would align with the changes implemented, and support the aims of the Belcher review.

The key changes to the questionnaire were:

- a change in the unit of measurement away from allegations relating to fraud ‘incidents’ to fraud ‘investigations’ undertaken by entities each year;
- a re-organisation of the questionnaire to have questions about fraud control at the start of the questionnaire;
- an increase in conditional response questions that enable those for whom a section is not applicable to proceed quickly to remaining sections without having to provide responses that are unnecessary;
- adding a new section that examines entities’ most costly external fraud investigation in addition to the previous questions about entities’ most costly internal fraud investigation;
- enabling respondents to respond both to internal and external aspects of questions in the one location; and
- changing the categories of fraud ‘focus’ and ‘methods’ of committing fraud to ensure the categories are mutually exclusive and as exhaustive as possible.

In addition, reporting has been consolidated, with census results and compliance information gathered in one report.

## What the report covers

This annual census covers, in separate sections, information concerning all fraud investigations that were commenced and all fraud investigations finalised by entities in 2015–16. Details of the methodology used to gather the information, response rates and how the data were analysed are available from the AIC website along with supplementary data tables.

Separate sections present information on the most costly internal fraud and external fraud investigations undertaken in 2015–16, details of Commonwealth fraud investigations undertaken by the AFP and prosecutions conducted by the CDPP in 2015–16. The remaining sections deal with fraud control arrangements and compliance activities within reporting entities.

## About participating entities

In 2016, 149 entities participated in the annual fraud census. One entity did not complete all required questions and was therefore excluded from analysis, leaving 148 entities whose responses were subject to analysis.

Feedback from entities suggested a useful way of presenting the findings of the census based on the size of entities that would enable entities to compare their responses with comparably-sized others. This would also allow entities to benchmark their fraud control practices and investigations against those of like-sized entities.

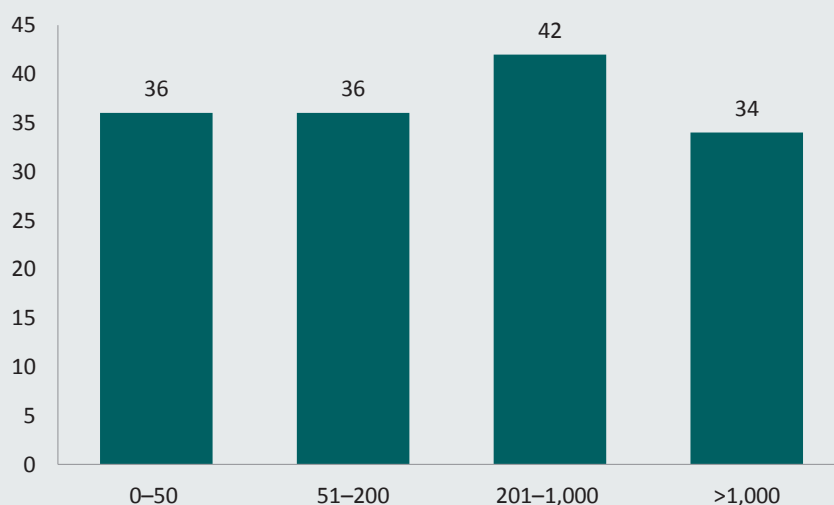
Entities were categorised, based on total full-time equivalent (FTE) employee data, into four groups:

- Micro-entities: 0–50 employees (36 entities)
- Small entities: 51–200 employees (36 entities);
- Medium-sized entities: 201–1,000 employees (42 entities); and
- Large entities: more than 1,000 employees (34 entities).

The size classifications are based on the Australian Public Service Commission's (APSC) categories (APSC 2017), noting that the AIC census included more than just Australian Public Service (APS) entities, as all Commonwealth entities were invited to participate in the census. The APSC divides agencies into six categories, but to ensure data remained sufficiently de-identified, the AIC collapsed these categories into four groups.

Figure 1 shows the number of participating entities grouped by size, based on the reported number of employees at 30 June 2016. Three entities did not provide any details about the number of staff employed and so information was taken from relevant annual reports for 2015–16.

**Figure 1: Entity size based on full-time equivalent (FTE) employees, year ending 30 June 2016 (N)**



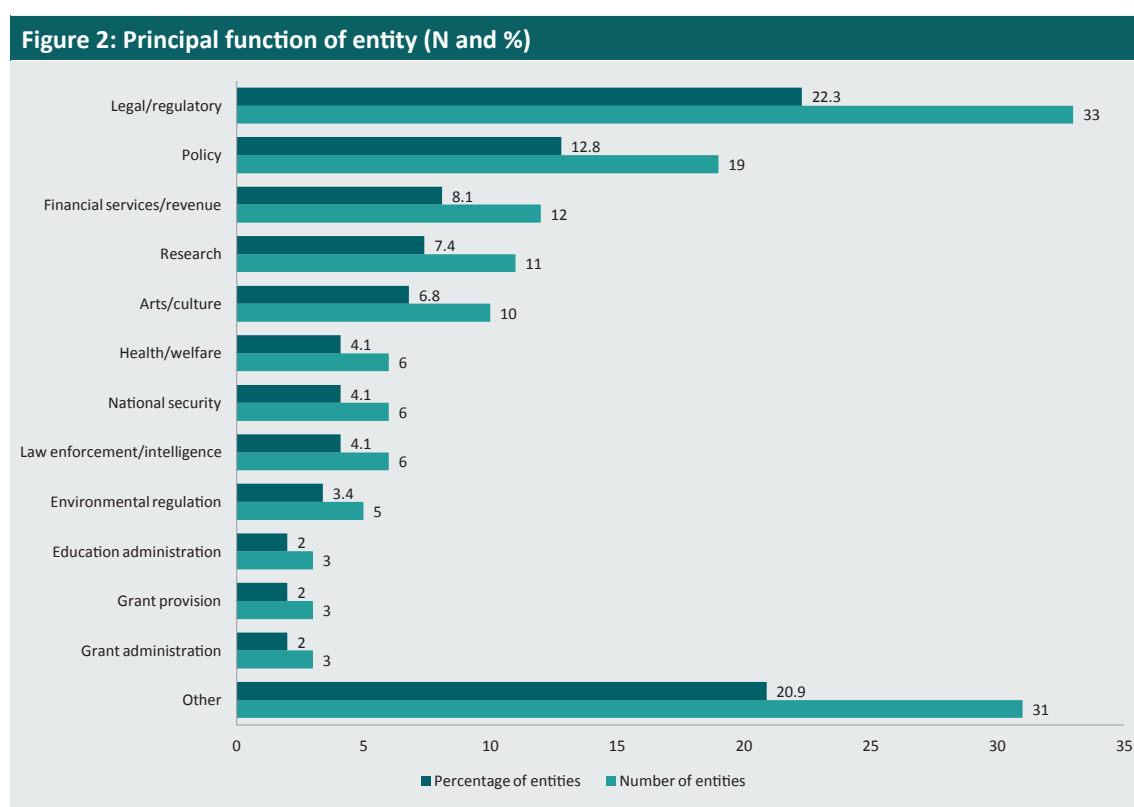
Note: The questionnaire asked respondents about the total number of FTE staff employed by their entity on 30 June 2016; however, some respondents could only provide a headcount of employees as of 30 June 2016. Where FTE was not provided, headcount data were used

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

The 2016 questionnaire sought, for the first time, information about 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 Commonwealth entities' functions contributes to difficulties in ensuring adequate fraud control in the Commonwealth. Each entity faces different and unique fraud risks ranging from the administration of grant programs to the different legal and regulatory functions numerous entities provide.



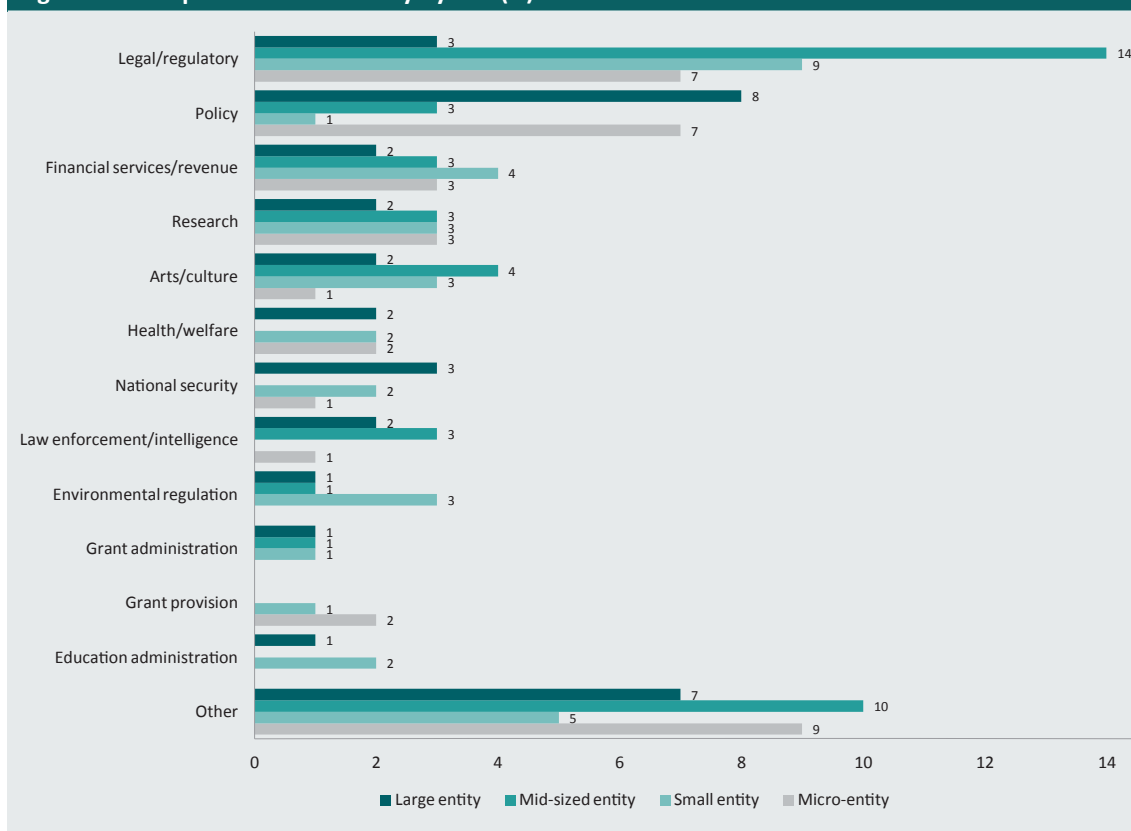
Figure 2 presents information on the number of entities by their principal function as determined by respondents. Aside from the ‘other’ category (in which respondents could not classify the principal function of their entity), the most common function reported was ‘legal and/or regulatory’ functions. Policy was the next most common function. Following a review of the responses in the ‘other’ category, additional categories of ‘arts and culture’ and ‘environmental science, regulation and planning’ have been included as categories, and will be used for the future censuses.



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

Figure 3 presents data on the principal function of entities by the size of the entity. The micro-entities’ most common principal functions involved either ‘policy’ or ‘research’. Large entities, those employing more than 1,000 employees, also had the most common principal function of policy. The largest numbers of mid-sized entities had principal functions involving legal and/or regulatory activities. Three respondents reported their entity’s principal function involved the administration of grants, and these entities ranged from large to small entities. These similarities in entity functions indicate that they face similar fraud risks due to the nature of their work, irrespective of their size.

**Figure 3: Principal function of entity by size (N)**



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

## Part 2: Investigations commenced

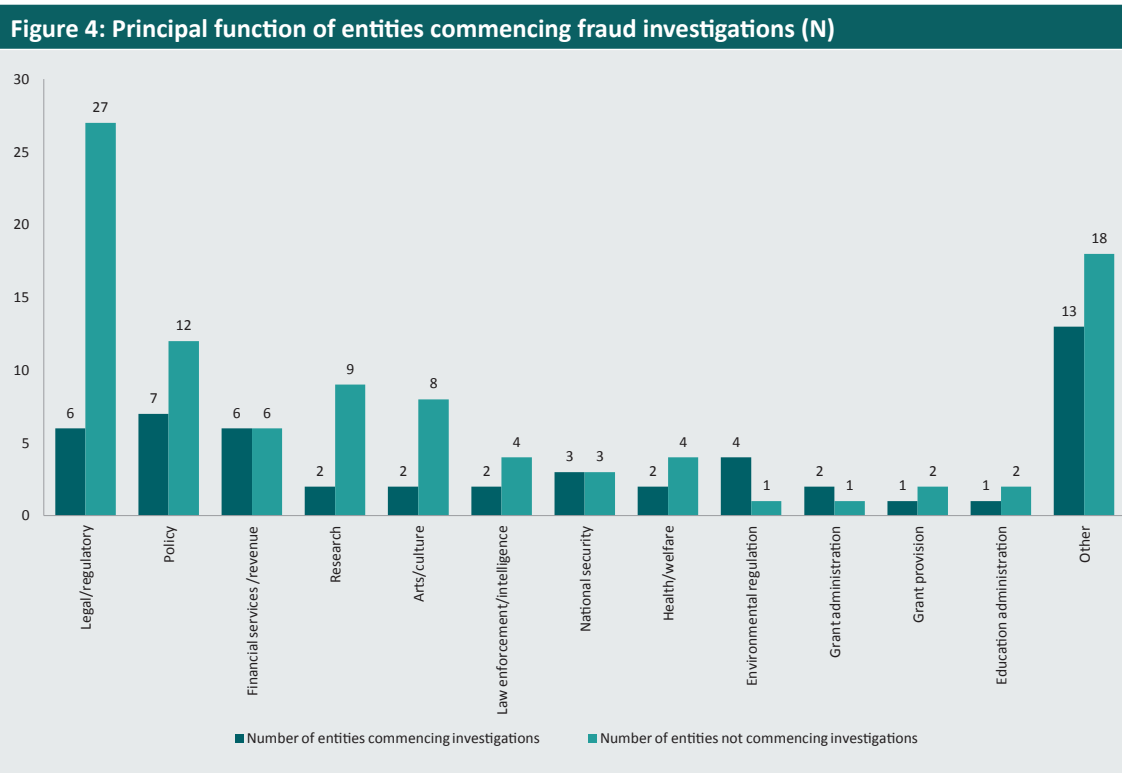
This section presents data on fraud investigations commenced by participating entities during 2015–16. A fraud ‘investigation’ was defined as ‘a separate inquiry into allegations of fraud undertaken by an entity, or by a law enforcement or external consultant’. A single investigation could relate to one or more suspects and involve one or more allegations of fraud that are 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 how the investigation should be conducted (AGD & AFP 2011). The Australian Federal Police and other members of the Heads of Commonwealth Operational Law Enforcement Agencies established the Australian Government Investigations Standards, which outline the minimum standards for entities conducting investigations relating to the programs and legislation they administer (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. Excluded were trivial or vexatious allegations and allegations that were unable to be substantiated or could not be further investigated.

Information on 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. Where an employee or contractor was alleged to have committed fraud in collaboration with an external party, this was categorised as collusion—for counting purposes, this was included within internal fraud rather than external fraud.

Because commenced investigations often did not have complete information about the fraud or the suspect 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 and, accordingly, these dollar values should be treated as initial estimates only.

Figure 4 shows the number of entities commencing investigations in 2015–16, and the principal function of the entities.



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

Aside from those entities listing their principal function as ‘other’, entities whose principal function was ‘policy’ (N=7) commenced the largest number of investigations in 2015–16. Six entities whose principal function was ‘legal and/or regulatory functions’ and another six whose principal function was ‘financial service delivery, provider of funds and revenue collection’ commenced fraud investigations in 2015–16. There was not one principal function category in which a fraud investigation had not been commenced, demonstrating that all Commonwealth entities face some risk of fraud. Entities whose principal functions were ‘research’ or ‘legal and/or regulatory’ commenced the least number of investigations.

### *Internal fraud investigations commenced*

Respondents were asked if their entity had commenced any internal fraud investigations in 2015–16. During this period no micro-entities (with 50 or fewer employees) commenced fraud investigations into employees or contractors, as shown in Figure 5. As expected, based on previous Commonwealth fraud research (Smith & Jorna 2017), larger entities commenced more internal fraud investigations than any other size category.

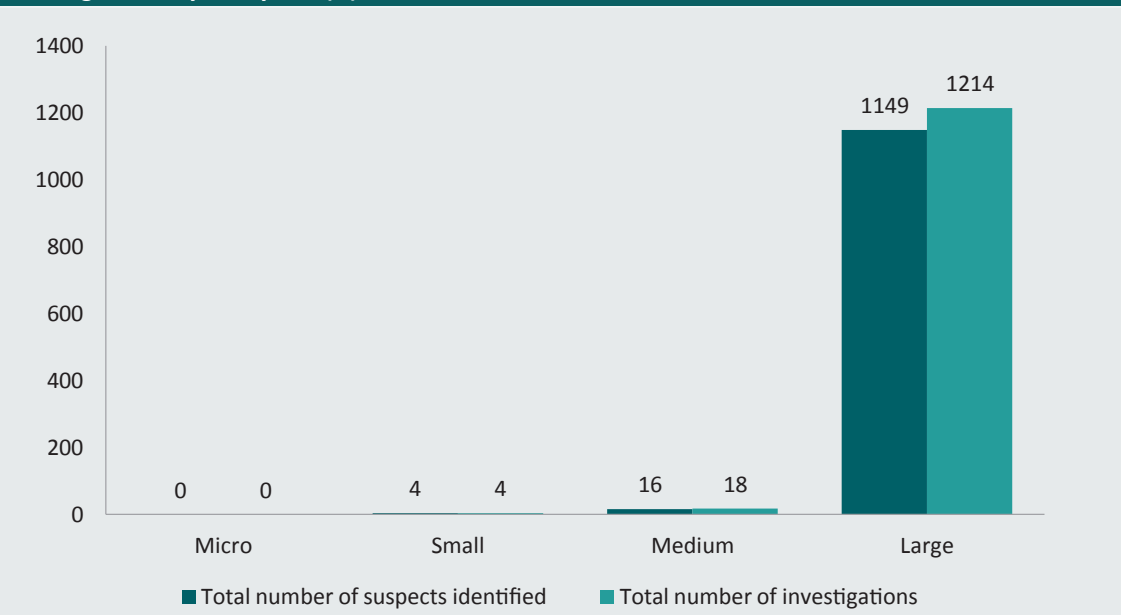
**Figure 5: Internal fraud investigations commenced by entity size (N)**



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

Figure 6 presents findings of the number of suspects involved in investigations commenced by small, medium and large entities. As indicated in Figure 5, there were no investigations of employees suspected of internal fraud by entities with fewer than 50 staff ('micro-agencies'). Two small entities commenced four internal fraud investigations involving, at the time of the census, four suspects. Two medium entities commenced 16 investigations involving 18 suspects. Two large entities commenced 1149 investigations involving 1214 suspects.

**Figure 6: Internal fraud investigations commenced and number of suspects identified from investigations, by entity size (N)**



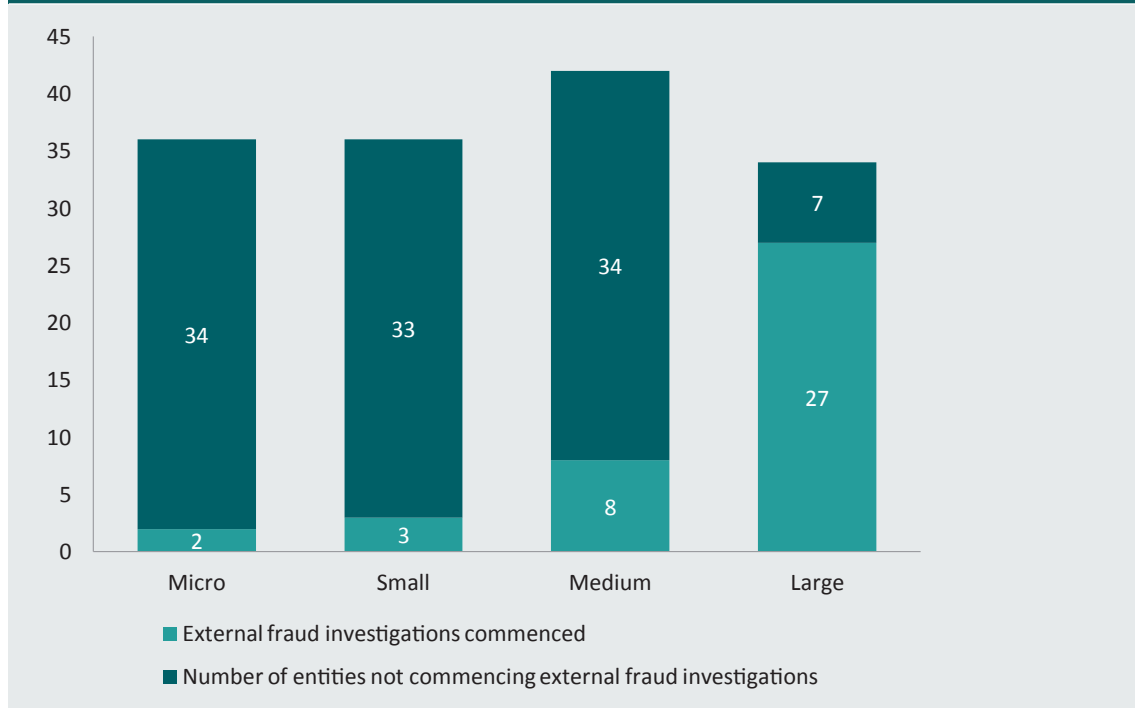
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *External fraud investigations commenced*

Respondents were also asked if their entity had commenced any external fraud investigations in 2015–16. External fraud was defined as fraud incidents carried out by individuals who were not employees of the respondent’s entity. In addition, contractors to entities were included within the definition of internal rather than external fraud.

Entities commenced considerably more investigations relating to external fraud than internal fraud (Figure 7). Consistently, over the past four years, there have been much higher numbers of external fraud incidents and investigations reported by entities compared with internal fraud incidents (see Jorna & Smith 2018; Smith & Jorna 2017). These findings differ from non-government organisations, which generally report more internal than external fraud (see KPMG 2016). All size categories of entity commenced at least one external fraud investigation in 2015–16.

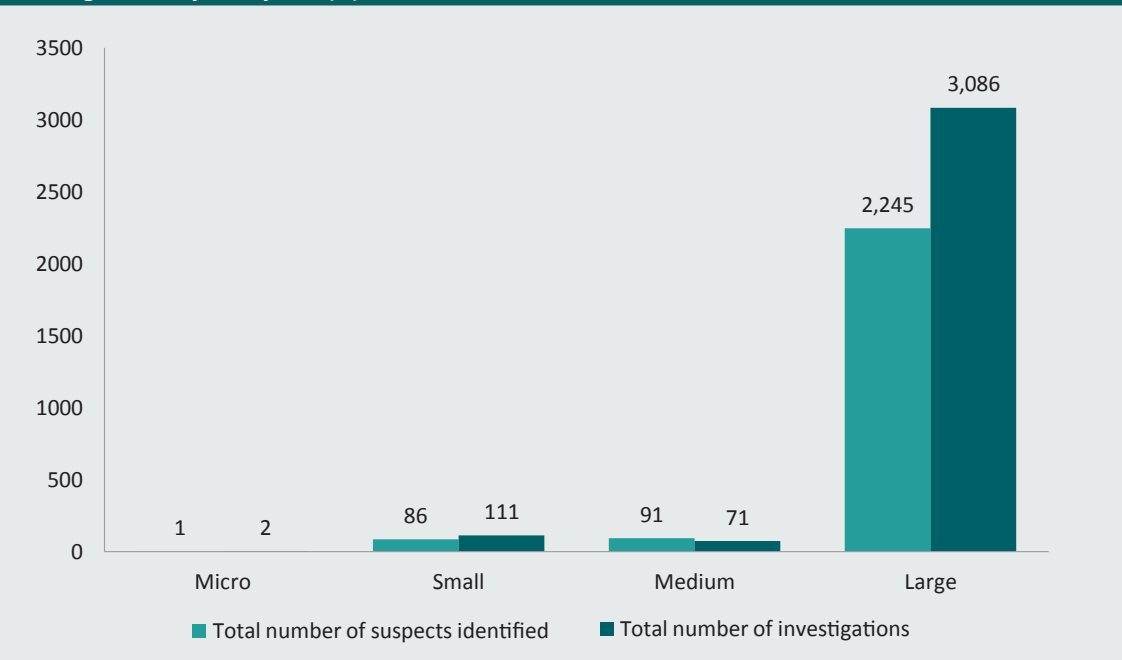
**Figure 7: External fraud investigations commenced, by entity size (N)**



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

Figure 8 shows the number of suspects involved with investigations commenced by size category of the entity. Although two entities in the micro-sized group had commenced external fraud investigations at the time of the census, only one suspect had been identified. In the case of medium-sized entities, multiple suspects were identified for each investigation. For example, there were 71 investigations commenced by eight medium-sized entities involving 91 suspects. The three small entities (entities with 51–200 employees) commenced more investigations (N=111) than the eight medium-sized entities (N=71).

**Figure 8: External fraud investigations commenced and number of suspects identified from investigations, by entity size (N)**



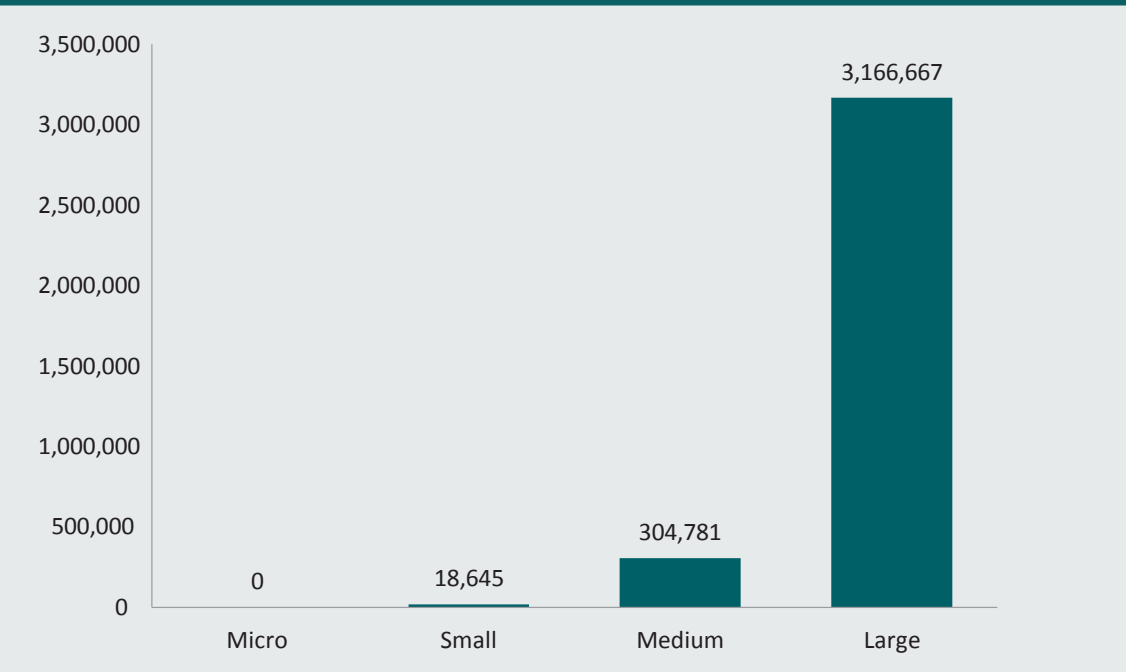
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Estimated fraud losses from investigations commenced*

Respondents were asked to estimate the financial losses suffered as a result of frauds whose investigations commenced in 2015–16. 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 the losses that had been substantiated following investigation. To illustrate that point, one entity could not estimate the dollar amount involved any further than ‘\$30,000 to \$100,000’. To err on the side of caution, only the lowest amount in the range was included in the estimated loss amounts. In 2015–16, the total amount estimated to be involved in internal frauds whose investigations commenced in 2015–16 was \$3,490,093.

Figure 9 presents the results based on entity size for the estimated loss related to internal investigations commenced in 2015–16. Although larger entities commenced fraud investigations with much higher estimated total dollar losses, as well as commencing more investigations than entities of other sizes, medium-sized entities had higher average losses per investigation (\$16,932 per investigation for medium-sized entities compared to \$2,608 per investigation commenced by large entities).

Figure 9: Estimated dollar value of internal fraud losses by entity size (\$)



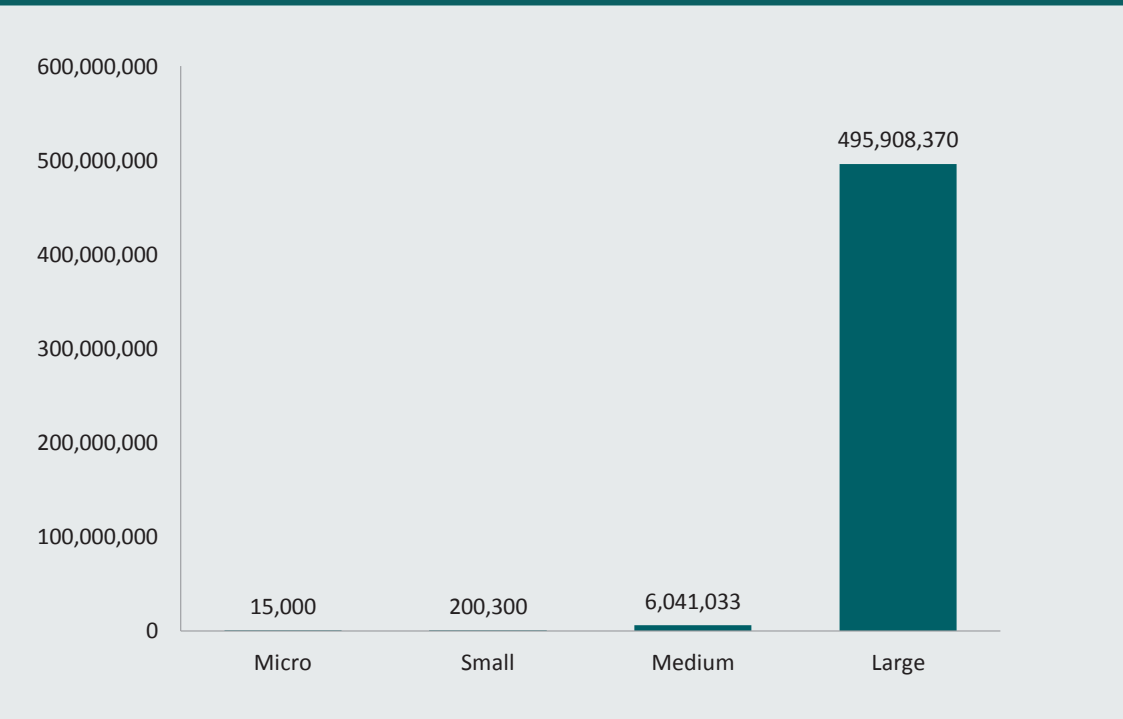
Source: Commonwealth fraud census 2015–16 [AIC computer file]

As the number of external fraud investigations commenced was so much larger than the number of internal fraud investigations commenced, so were the estimated losses associated with the commenced external fraud investigations. The total external fraud losses estimated during investigations commenced in 2015–16 were approximately half a billion dollars (\$500,045,551).

Similar to the findings with commenced internal fraud investigations, entities with the highest numbers of staff reported higher estimated total losses than other groups (see Figure 10). It should be noted, however, that once a full investigation has been undertaken, actual losses can change from those estimated when investigations first began. In many cases, the amounts reported as having been involved in finalised investigations are dependent on advice from the CDPP as to which allegations could reasonably be proved in a prosecution. This is also borne out in the data from the AFP, below, in relation to amounts involved in actual prosecutions. The 20 cases accepted for investigation in 2015–16 had an estimated total financial loss of \$180,791,525, which was the initial property value as reported by the referring agency. A further \$308,260,321 was involved in investigations in which the AFP assisted other agencies.



Figure 10: Estimated external fraud losses by entity size, 2015–16 (\$)



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

# Part 3: Investigations finalised

In addition to fraud investigations commenced in 2015–16, the AIC asked respondents to report on all fraud investigations finalised in 2015–16. A finalised fraud investigation was defined as an investigation in which one 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.

## Box 1: An example of a finalised investigation into internal fraud, 2015–16

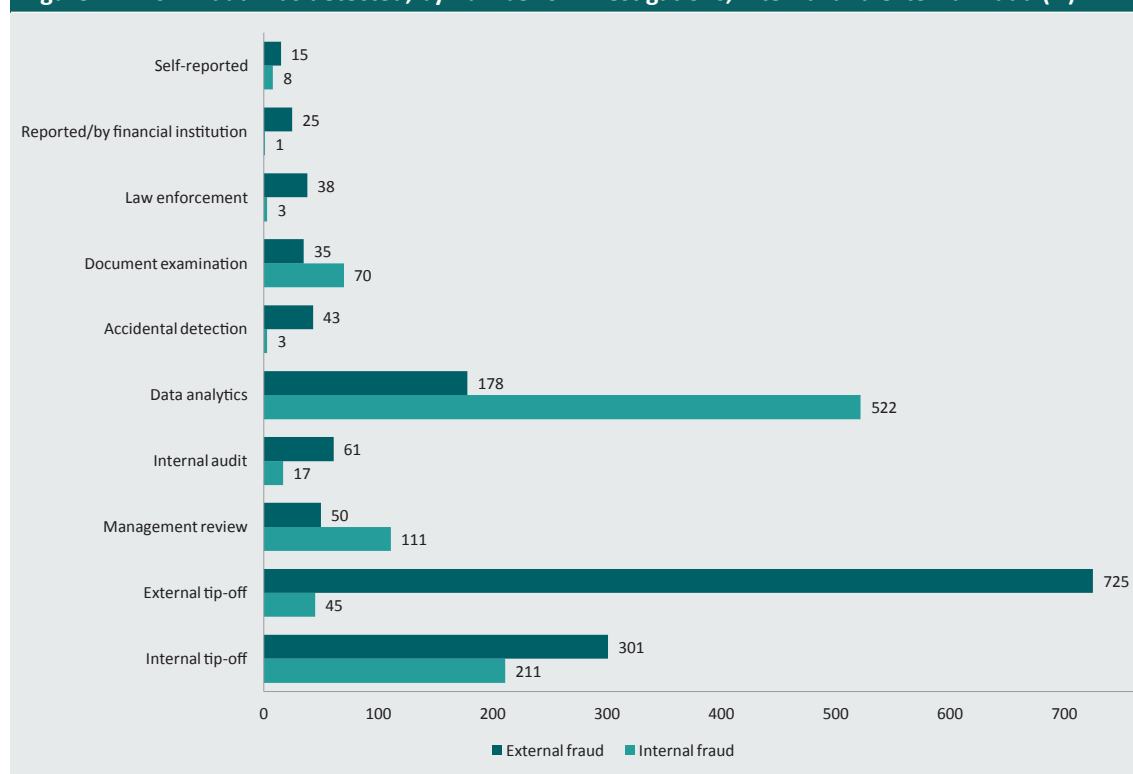
The employee, at the time of the fraud, had been employed by the Commonwealth for between 25 and 36 months. He was a full-time employee, aged between 45 and 55 years, and held a baseline security clearance. At the time the fraud was detected he was residing in England, and was a non-APS employee employed at the equivalent of the Senior Executive Service (SES) level. He had postgraduate level qualifications. He was found to have committed the fraud by engaging in 'invoicing fraud' (asset misappropriation) and sought to gain a financial advantage through misuse of employee entitlements/benefits—namely, 'expenses not related to travel'. The fraud occurred in November 2013, and only lasted one day. The fraud was detected in February 2016, via a tip-off from a person external to the entity. The entity conducted an internal investigation and the amount lost due to the fraud was \$8,500. The suspect acted alone and the assessed motivation for committing the fraud was 'greed or desire for financial gain'. The respondent noted the fraud occurred due to a lack of internal controls, specifically a 'lack of reviews or checks and audits'. The respondent also noted the suspect had been observed to 'make complaints about the entity's administration, pay or management' (potentially a red flag for misconduct). An investigation commenced as soon as the fraud was detected, but the employee had already left his employment with the Commonwealth at the time the investigations commenced. The suspect repaid the entity in full at the end of the 2015–16 financial year. No further outcomes were provided.

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

## Fraud detection in finalised investigations

Respondents were asked to indicate, in respect of all fraud investigations undertaken and finalised, the principal method by which the fraud had been detected. Figure 11 presents select findings for the most common detection methods. For the first time in the 2015–16 questionnaire respondents were asked if any fraud incidents were detected via data analytics. Data analytics is the process of examining large datasets to detect patterns, correlations or anomalies in transactions. For analytics to be successful, the data should come from multiple sources, such as payment transaction information, invoices, details of payments received, names, email addresses, telephone numbers and bank account details. Data analytics can then be used to prevent, detect or investigate both internal and external fraud (IBM Software 2014). Once patterns have been detected, organisations can then use that information to draw conclusions or inferences about the potential for fraud to be present. The 2015–16 census found that a large number of internal frauds were detected using data analytics (N=522), compared to 178 external frauds that were detected using data analytics. The most common method used to detect external fraud was a tip-off by a source external to the entity (N=725) such as through an anonymous hotline. A tip-off from within an entity was the second most frequent way in which internal fraud had been detected, after data analytics.

**Figure 11: How fraud was detected, by number of investigations, internal and external fraud (N)**



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

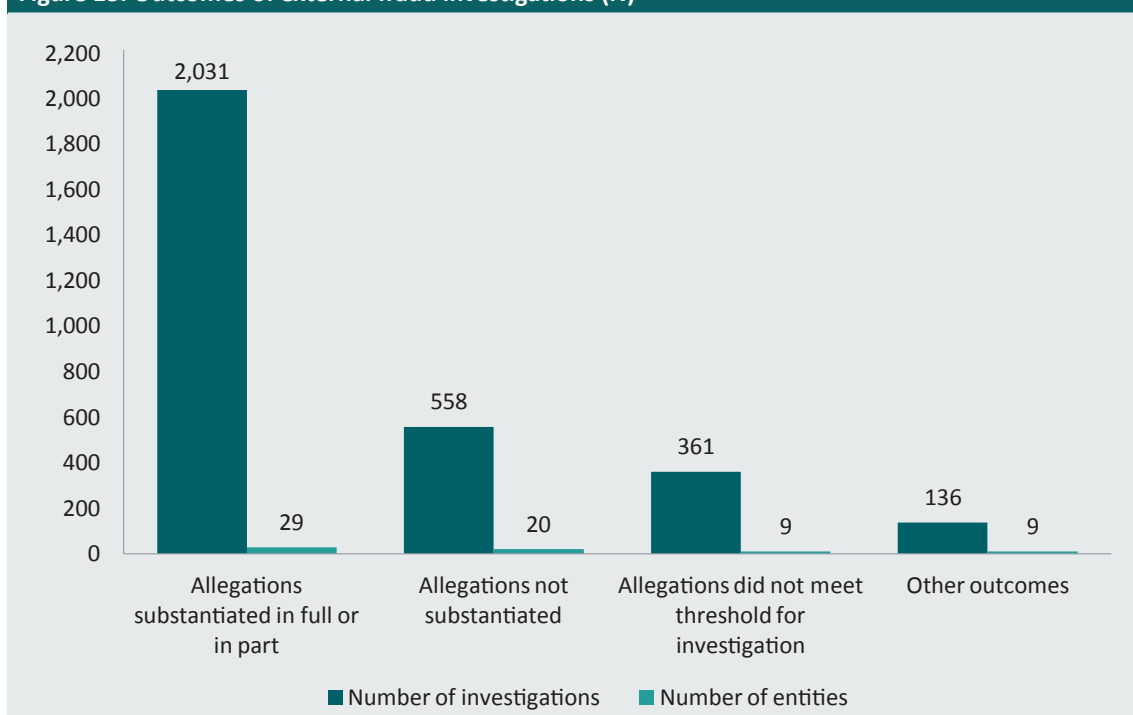
For the first time in 2015–16, respondents were asked to indicate in how many of the allegations of fraud investigated were and were not substantiated, either in full or in part, and how many allegations did not meet the entity’s threshold for investigation (such as where it was found that the investigation was not warranted for some reason). In all, allegations were substantiated in full or in part in 53 percent of internal fraud investigations (N=674; Figure 12), and in 61 percent of external fraud investigations (N=2,031; Figure 13). In an additional 361 external fraud investigations and another 48 internal fraud investigations, the allegations failed to meet thresholds for investigation.

**Figure 12: Outcomes of internal fraud investigations (N)**



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

**Figure 13: Outcomes of external fraud investigations (N)**



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

## Cost of fraud in finalised investigations

Assessing the scale of loss due to fraud is an important component in developing approaches for reducing the impact of fraud on Commonwealth entities. A number of limitations and difficulties are associated with quantifying the value of fraud against the Commonwealth. These include:

- determining whether to quantify the cost of suspected incidents as initially detected or only those that have been substantiated through investigation or court proceedings;
- determining whether to include the costs of prevention, investigation and prosecution;
- determining how to quantify the time lost due to fraud investigations, the costs of replacing staff dismissed due to committing fraud, reinstatement and repair of systems;
- determining the indirect and intangible costs of fraud such as loss of productivity and morale in the workplace, personal and emotional harms that could include suicide by suspects; and
- fraud, like other crime types, is not detected 100 percent of the time; there are always unknown or unreported incidents that are unable to be costed (Smith et al. 2014).

For all fraud investigations finalised in 2015–16 in which allegations were substantiated either in full or in part, respondents were asked to provide their best estimate of the amount all suspects/offenders attempted to obtain from the Commonwealth, and then the total amount all suspects/offenders were found to have dishonestly obtained from the Commonwealth, for both internal and external fraud investigations. Respondents were also asked to quantify the number of investigations associated with the amount lost.

The results presented below include the value of fraud incidents that solely involved internal fraud, and those that solely involved external fraud. Aggregate details of the losses experienced by entities are provided in Table 1. Losses were defined as funds thought to have been lost by the entity prior to the recovery of any funds and excluding the costs of investigation or prosecution. From the 130 finalised investigations involving internal fraud, 16 entities quantified the amount lost as more than \$0, and nine entities said the amount lost was \$0. For losses relating to external fraud investigations, three entities advised the amounts lost could not be quantified (these 3 entities account for 120 investigations), six entities advised \$0 in losses and 19 entities reported losing more than \$0.

**Table 1: Internal and external fraud losses**

Loss details	Internal fraud				External fraud	
	Number of investigations where fraud was substantiated	( $\$$ )	Number of investigations with quantified loss	Number of investigations where fraud was substantiated	( $\$$ )	Number of investigations with quantified loss
Total amount that all suspects/offenders dishonestly attempted to obtain from the Commonwealth	674	787,668	202	2,031	60,291,899	204
Total amount that all suspects/offenders were found to have dishonestly obtained from the Commonwealth	674	907,657	130	2,031	24,757,522	1,573

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

Respondents reported different loss amounts in respect of what suspects/offenders attempted to obtain and what they were found to have obtained, for both internal and external fraud investigations. In the case of internal fraud, the amount they attempted to obtain was less than what was actually substantiated (by \$119,989). This could be because some offenders lose track of the amounts they were defrauding or because investigators were able to quantify other losses not originally identified.

In the case of external fraud, the reverse was the case, with respondents reporting that suspects/offenders attempted to obtain \$35.5m more than what was eventually found to have been defrauded.

This could be because a proportion of the alleged acts of dishonesty were unable to be substantiated during investigations. Prenzler (2012), for example, found this to be the case with welfare fraud, in which some alleged frauds were found to be errors in accounting or misunderstandings by members of the public concerning their legal obligations to the Commonwealth.

Respondents were also asked to indicate the whole dollar amount that had been recovered in each financial year using various methods. This excluded money that was recovered by the Commonwealth that 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 often recovery action takes many years to finalise.

Table 2 shows that in 2015–16, with regard to internal fraud, more entities recovered funds via administrative action than other means, with \$200,429 recovered by six entities using that method. No monies were recovered using civil court action, reimbursement from a financial institution or through insurance payments for internal fraud investigations.

With regard to external fraud, entities were able to use a range of methods to recover monies lost due to fraud. Although only two entities recovered funds using ‘other’ means of recovery, they did recover over \$884,000 in that way.

**Table 2: Monies recovered in 2015–16 by method of recovery, dollar amount recovered and number of entities using that method (\$ & N)**

Recovery method	Internal fraud		External fraud	
	Dollar amount recovered	Number of entities	Dollar amount recovered	Number of entities
Amounts recovered through criminal court proceedings	96,572	2	89,357	2
Amounts recovered through civil court action	0	0	22,430	1
Amounts recovered through reimbursement from a financial institution	0	0	59,516	5
Amounts recovered through administrative action	200,429	6	24,019	3
Amounts recovered through insurance payments	0	0	103,827	2
Amounts recovered through other means of recovery	41,392	4	884,317	2
Total amount recovered in any way during 2015–16	338,393	9	1,413,935	12

Note: One entity included amounts from fines and as such those amounts were not included in the above totals. Monies recovered through fines may not be returned to the entity; therefore these amounts are not included in the totals for monies recovered. If the money was returned to the entity in question, an additional amount of \$27,900 would be included in recovered monies for external fraud finalised investigations

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

For the first time, respondents to the 2015–16 questionnaire were asked what percentage of monies recovered above were from investigations finalised in the current (2015–16) financial year. With regard to internal fraud finalised investigations, five respondents reported 100 percent of the monies recovered related to investigations finalised in 2015–16. One other respondent reported that 20 percent of the monies recovered in 2015–16 were from internal fraud investigations finalised in the same year. This indicates that \$94,122 (28% of total amount recovered) of funds recovered during 2015–16 related to fraud investigations finalised that financial year. As some respondents failed to answer questions about what percentage of funds related to the current financial year, the funds recovered relating to fraud investigations finalised that year may be higher.

There were 10 respondents who provided details about the percentage of recovered monies attributed to external fraud investigations finalised in 2015–16. One respondent reported that 29 percent of the monies recovered related to investigations finalised that year, another respondent reported 88 percent of monies recovered related to investigations finalised that year and, finally, eight respondents reported that 100 percent of the monies recovered in 2015–16 related to investigations finalised the same financial year. In total, \$1.2m or 84 percent of monies recovered due to external fraud in 2015–16 related to frauds where the investigations were finalised in 2015–16.

## Internal fraud investigations finalised

This section examines a number of variables relating to internal fraud investigations finalised during 2015–16. In addition to examining the findings in terms of the size of entities, information was obtained on who conducted the investigations, and how the frauds were committed.

### *Entity size and internal fraud*

Just as micro-entities (those entities with 50 or fewer employees) did not commence any internal fraud investigations in 2015–16, entities of this size did not finalise any internal fraud investigations (Figure 14). While it is expected that entities of different sizes will have different fraud risks, it is somewhat surprising that micro-entities failed to commence or finalise any internal fraud investigations in the previous financial year. Fifty-six percent (N=19) of large entities finalised an internal fraud investigation in 2015–16, along with 8 medium-sized and one small entity. Due to the changes in questions asked of respondents in 2015–16, comparisons with the number of entities finalising fraud investigations in previous years is not possible.



**Figure 14: Number of entities finalising internal fraud investigations (N)**



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

Entities finalised numerous internal fraud investigations in 2015–16, as presented in Figure 15. There were 1,254 internal fraud investigations finalised by 19 large entities, ranging from one internal fraud investigation finalised by one entity to 555 internal fraud investigations finalised by another entity. Few investigations were finalised by medium and small entities.

**Figure 15: Number of internal fraud investigations finalised, by entity size (N)**



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

### *Investigators for internal fraud*

An important requirement of both the Fraud Rule and the Australian Government Investigation Standards (AGD & AFP 2011) is that, where fraud is considered minor or routine, the entity must initially investigate the fraud internally. The present census asked respondents how their finalised internal fraud investigations were undertaken. Thirteen categories were provided from solely an internal investigation to an internal investigation preceded or followed by an investigation undertaken by another organisation. As presented in Figure 16, 89 percent of investigations were conducted by the victim entity only. Ten percent of investigations were conducted by the Australian Commission for Law Enforcement Integrity (ACLEI) only.

The role of the Integrity Commissioner and ACLEI is to detect, prevent and investigate suspected corrupt conduct in designated entities (ACLEI 2017). See the Online Appendix for the full list of how internal fraud incidents were investigated and examples of ‘other’ types of investigations. Predominately investigations were conducted by the entity at which the suspect worked and against whom the fraud was perpetrated.

**Figure 16: Select findings for how internal fraud investigations were conducted (%)**



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

### *Internal fraud targets*

An important aspect of fraud control for entities is understanding the nature of their principal fraud risks, the types of fraud likely to be perpetrated against them, how long fraudulent conduct lasts and the financial losses that could be incurred. Providing information of this nature is one of the principal aims of the present research, so that Commonwealth entities will be well placed to understand fraud risks and to respond effectively.

Previous AIC censuses found the most prevalent target of fraud affecting the largest number of Commonwealth entities was reported to be financial benefits, such as obtaining cash without permission or misuse of government credit cards (Smith & Jorna 2017).

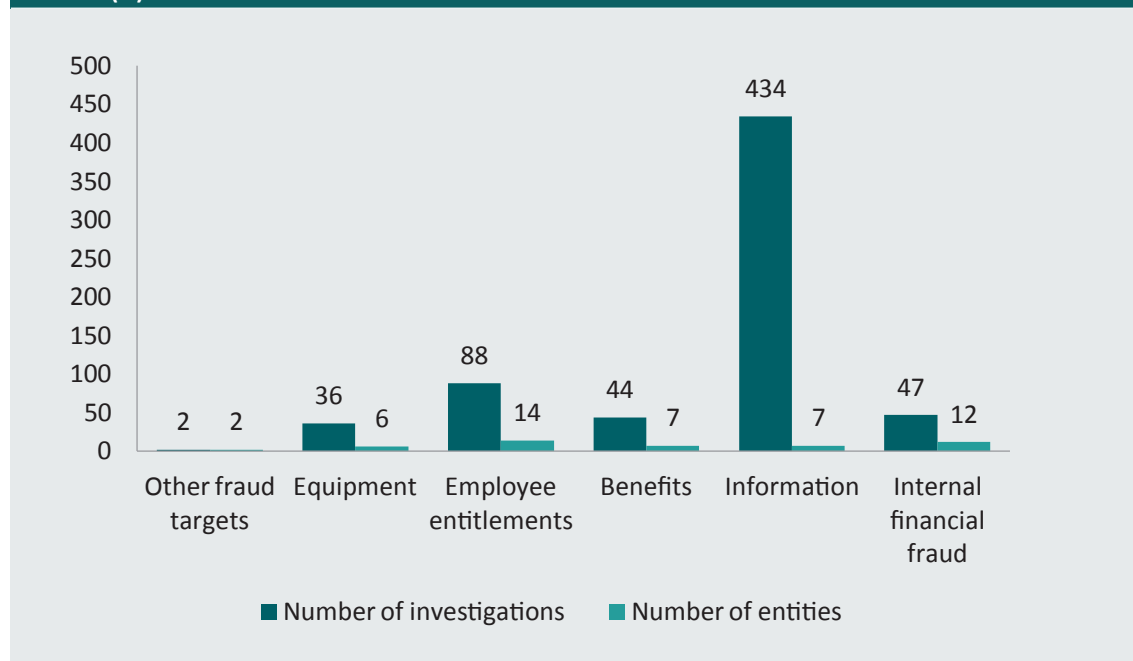
The census asked respondents to indicate two main aspects of how the fraud incidents they detected had been committed—the target of the alleged fraudulent activity and/or the benefit to be derived from the suspected illegal conduct; and the method used to carry out the alleged activity (such as misuse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

Full lists of all targets and methods, including details of investigations, detection methods and outcomes, are available in the Online Appendix.

For all finalised internal fraud investigations, respondents were asked to provide information concerning the principal target of the fraud in terms of the 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 multiple targets of fraud were present (see Figure 17).

The largest number of entities reported internal fraud investigations that examined fraud relating to employee entitlements, although the largest number of incidents targeted various types of information. Examples of fraud involving employee entitlements include dishonestly claiming expenses, misuse of travel entitlements and payroll fraud. The next most common target was internal financial fraud, such as theft of cash, misuse of credit cards and fraud involving procurement payments. Fraud targeting equipment affected the least number of entities. Similar to previous years' findings on the specific targets of internal fraud (Smith & Jorna 2017), the largest number of investigations involved the misuse of information, with the primary target of 434 investigations involving misuse of information to obtain a financial advantage.

**Figure 17: Primary target of internal fraud investigations, by number of investigations and number of entities (N)**



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

Table 3 shows the number of entities, by size, that finalised an internal fraud investigation, the fraud target of those investigations and how many investigations were undertaken. No micro-entities finalised internal fraud investigations in 2015–16. One small entity finalised two internal fraud investigations where fraud was substantiated and in each case the target of the fraud was internal financial fraud. Medium-sized entities experienced fraud targeted at all categories except for information and only large entities experienced internal fraud where the target of the fraud was information.

Table 3: Targets of internal fraud by entity size (N)					
Fraud target		Micro-entities	Small entities	Medium entities	Large entities
Equipment	No. of entities	0	0	1	5
	No. of investigations	0	0	1	34
Employee entitlements	No. of entities	0	0	2	12
	No. of investigations	0	0	3	85
Benefits	No. of entities	0	0	1	6
	No. of investigations	0	0	1	43
Information	No. of entities	0	0	0	7
	No. of investigations	0	0	0	434
Internal financial fraud	No. of entities	0	1	2	9
	No. of investigations	0	2	2	43
Other targets	No. of entities	0	0	1	1
	No. of investigations	0	0	1	1

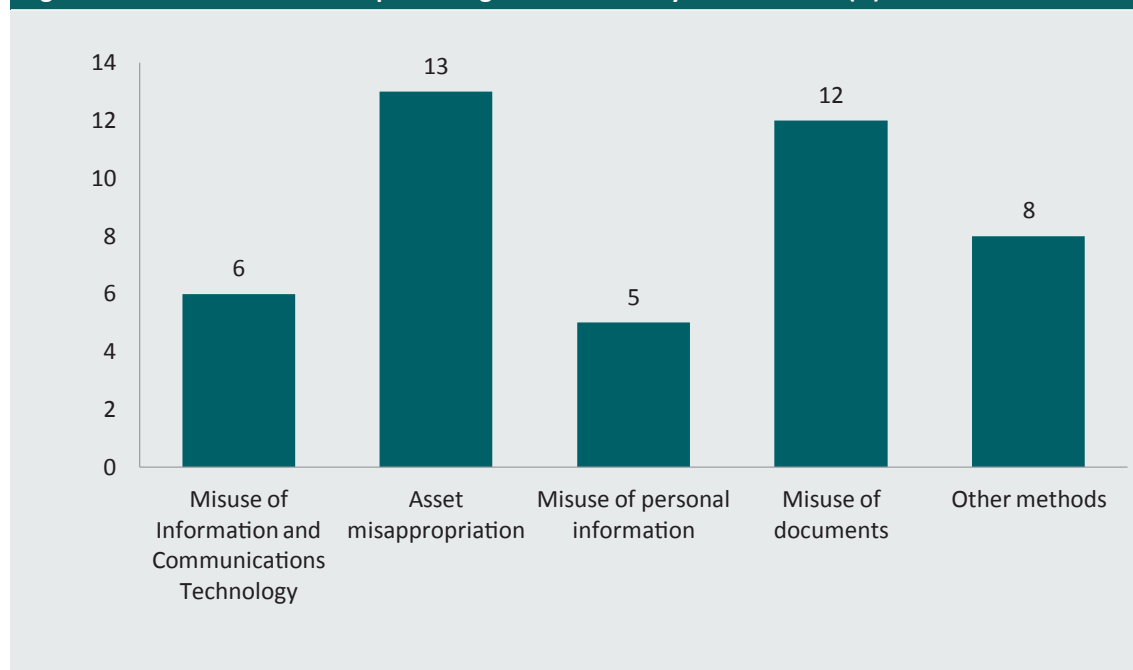
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Internal fraud methods*

Previous Commonwealth fraud census results showed misuse of information and communications technology as the most frequently-cited method used to commit internal fraud (Smith & Jorna 2017). Misuse of ICT can include a range of activities such as theft of hardware or software that can lead to various forms of financial fraud, often involving misuse of personal information to obtain an advantage.

The most commonly reported means of committing fraud identified in the 2015–16 census involved asset misappropriation (54% of entities), followed by misuse of documents (50% of entities). These results follow closely the findings of the global survey conducted by the Association of Certified Fraud Examiners (ACFE) in 2016, which also found the most common primary target of fraud was asset misappropriation, which occurred in 83 percent of the cases examined (ACFE 2016). In the current 2015–16 questionnaire, theft of ICT equipment was classified as ‘asset misappropriation’. Asset misappropriation was a new category in the 2015–16 questionnaire and included fraud targets such as ‘unauthorised use of cash’, ‘unauthorised use of non-cash assets’, ‘unauthorised use of payment cards (eg credit cards)’, ‘refund fraud’ and ‘theft of assets’, to name a few. When respondents were asked to state the primary method by which fraud was committed, asset misappropriation was the most frequently cited method (N=13; Figure 18).

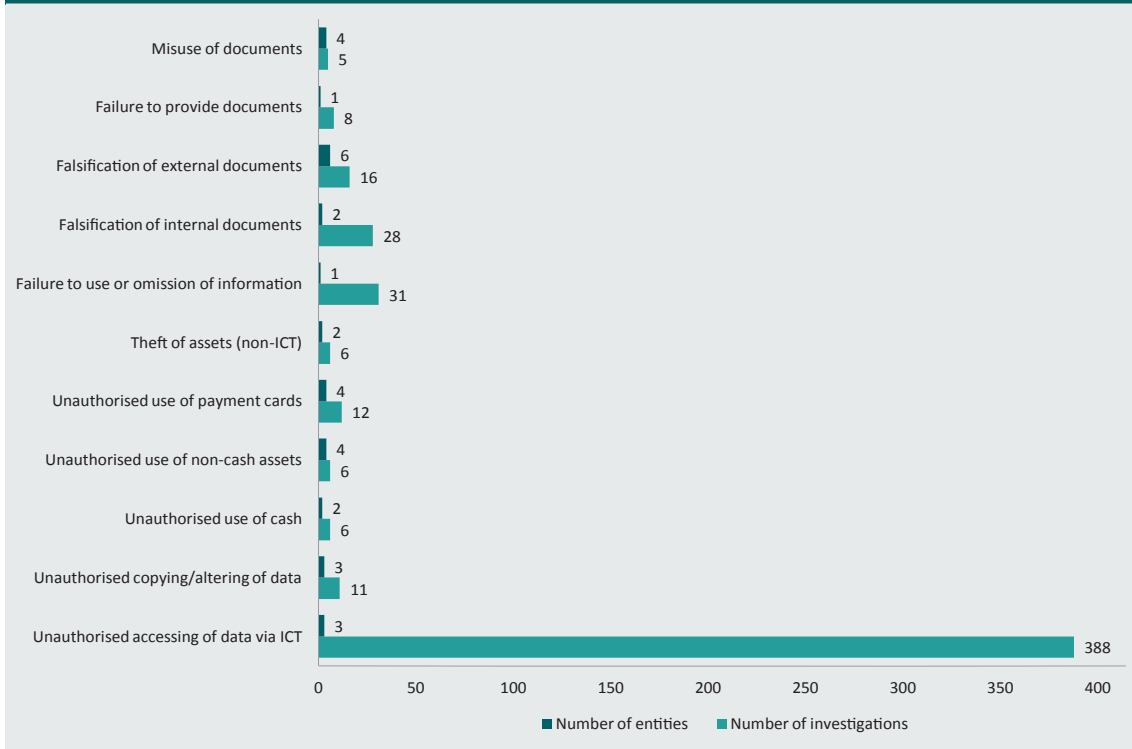
**Figure 18: Number of entities experiencing internal fraud by fraud method (N)**



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

Although asset misappropriation was the method that affected most entities, the category involving the largest number of incidents was misuse of ICT (Figure 19). Specifically, accessing information or programs via a computer without authorisation was the method present in the greatest number of investigations, although only three entities cited fraud involving that method. Three different entities reported 11 investigations of employees suspected of ‘copying or altering data or programs without authorisation’. One entity reported 31 investigations in which the method was described as ‘failure to use or omission of information’.

**Figure 19: Fraud methods used, by number of internal investigations (N)**



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

## External fraud investigations finalised

This section provides a similar range of findings to those presented for internal fraud, but relating to external fraud investigations finalised during 2015–16.

### *Entity size and external fraud*

External fraud has always been a more extensive problem for Commonwealth entities because the substantial funds involved in revenue collection and payment of benefits are an attractive target for fraud (Jorna & Smith 2018). As Figure 20 shows, 23 out of 34 large entities (68%) finalised an external fraud investigation in 2015–16. There was one micro-entity, and two small entities that finalised external fraud investigations in 2015–16.

**Figure 20: Number of entities finalising an external fraud investigation, by entity size (N)**



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

In 2015–16 there were 3,125 external fraud investigations finalised by all entities. Figure 21 shows 2,945 (94%) of those investigations were undertaken by large entities. Although only two small entities finalised an external fraud investigation, the number of investigations (N=110) was more than the total number of investigations finalised by medium-sized entities (N=69).

**Figure 21: Number of external fraud investigations finalised, by entity size (N)**

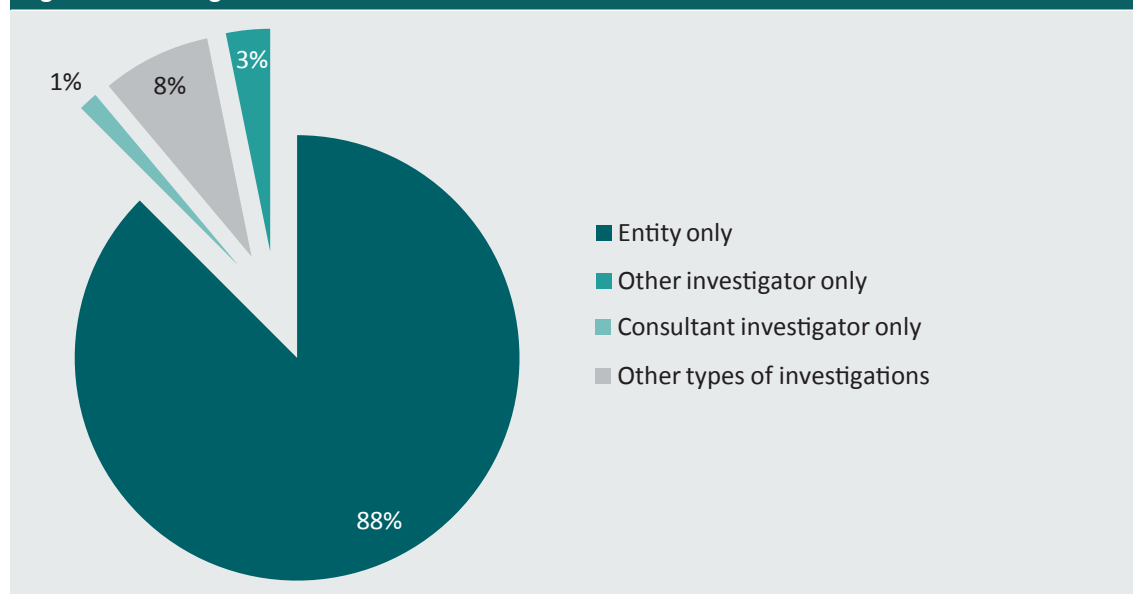


Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Investigators of external fraud*

As with internal fraud investigations, respondents were asked how and by whom the finalised external fraud investigations were undertaken. The same 13 categories that were provided for internal fraud investigations were provided in respect of external fraud investigations. A full list of categories and responses are provided in the Online Appendix. Similar to the internal fraud findings, a high percentage of entities conducted investigations involving external fraud themselves (Figure 22).

**Figure 22: Investigators of external fraud**



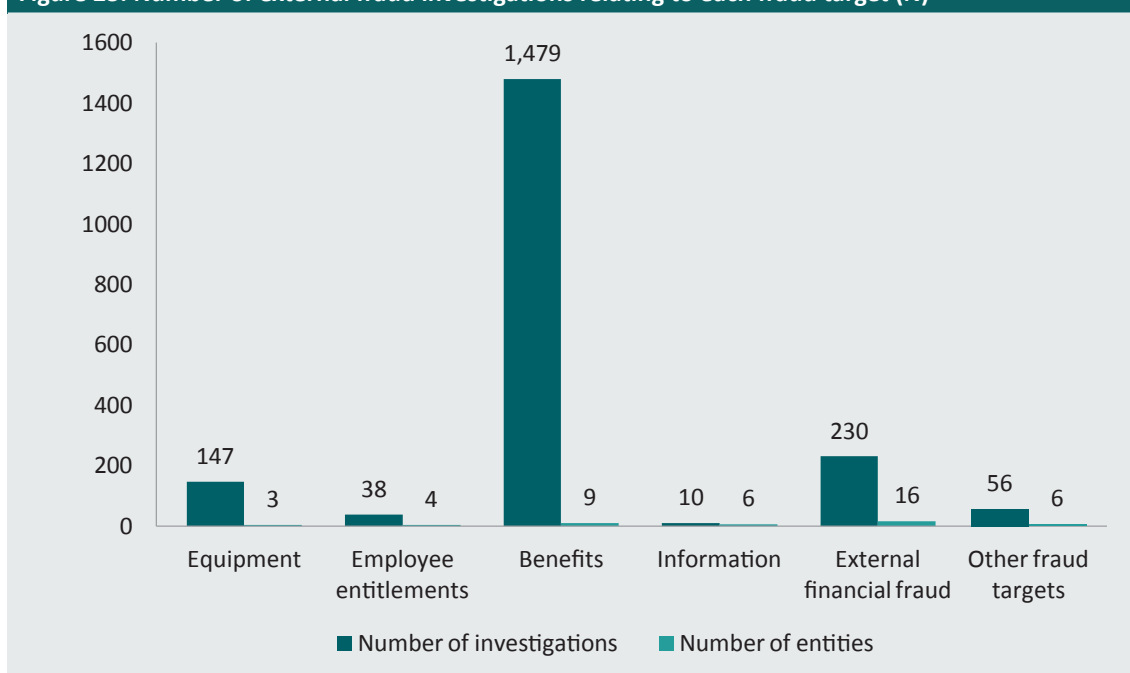
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *External fraud targets*

For all finalised external fraud investigations, respondents were asked to provide information on the principal target of the fraud in terms of the resource, object or benefit targeted by the perpetrator. As entities may have finalised multiple external fraud investigations with multiple targets, the number of principal targets was greater than the number of entities finalising external fraud investigations (see Figure 23). Although more entities finalised an external fraud investigation involving external financial fraud, the greatest number of investigations related to 'benefits' such as social security benefits, health benefits, passports, visas and citizenship and child support benefits.



**Figure 23: Number of external fraud investigations relating to each fraud target (N)**



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

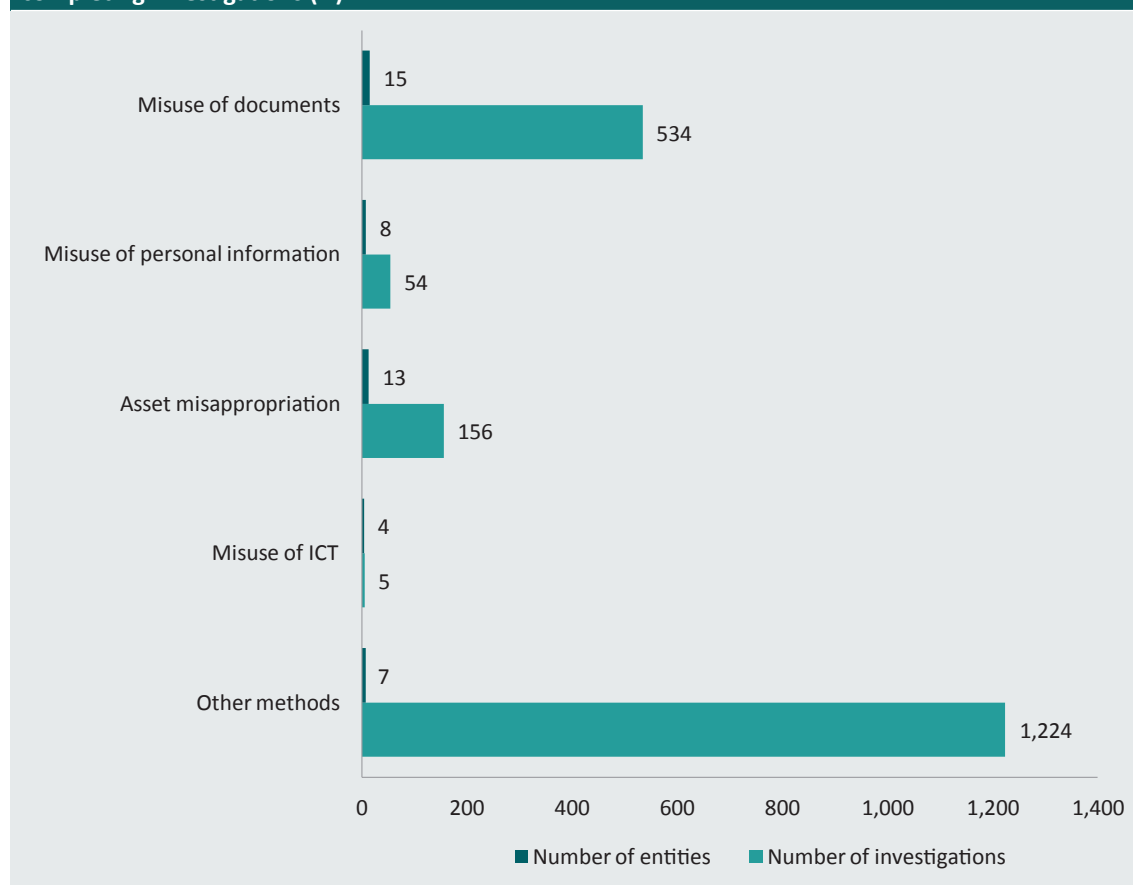
### *External fraud methods*

Respondents were also asked how the external fraud was committed. The fraud methods were updated in the 2015–16 census to ensure there was adequate separation between target and method. As the method categories available to respondents changed after the 2014–15 census, comparisons are unable to be made between the 2015–16 results and those of earlier years. Although respondents were asked to include only the principal method used to commit the fraud, multiple methods were sometimes included, thus resulting in the totals exceeding 100 percent.

Figure 24 shows the total number of external fraud investigations for each fraud method and the number of entities experiencing fraud committed using that method. Differing from internal fraud findings, only a few external fraud investigations involved misuse of ICT as the principal method. Aside from ‘other’ methods, the method of fraud experienced by the largest number of entities and leading to the most investigations was ‘misuse of documents’. Specific methods of committing fraud in the category of ‘misuse of documents’ included ‘creating and/or using a false or altered entity document’ and ‘creating and/or using a false or altered document (not specifically victim entity document)’.

A large number of external fraud investigations also involved ‘other’ fraud methods. One large entity was responsible for the bulk of these investigations, with 1,170 investigations relating to ‘misusing or claiming benefits without entitlement’. As this was all the information that was provided by the entity, it is unknown if this was due to false or altered documents, or misuse of personal information. This may need future investigation to determine if a specific method category can be included for this type of external fraud.

**Figure 24: External fraud method categories, number of investigations and number of entities completing investigations (N)**



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

## Finalised corruption and collusion investigations

Corruption in the Commonwealth is difficult to measure, because there is no one entity that collects data about corruption incidents or investigations. Only one Commonwealth entity, ACLEI, was created to oversee integrity and corruption issues relating to federal law enforcement and other prescribed areas within some departments (ACLEI 2017). For members of the public, and even Commonwealth employees, knowing where to report or how to deal with suspected incidents of corrupt behaviour can be difficult, as there is no obvious contact or public access point to report corruption at the Commonwealth level at present (Senate Select Committee on a National Integrity Commission 2017).

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). It may include instances of:

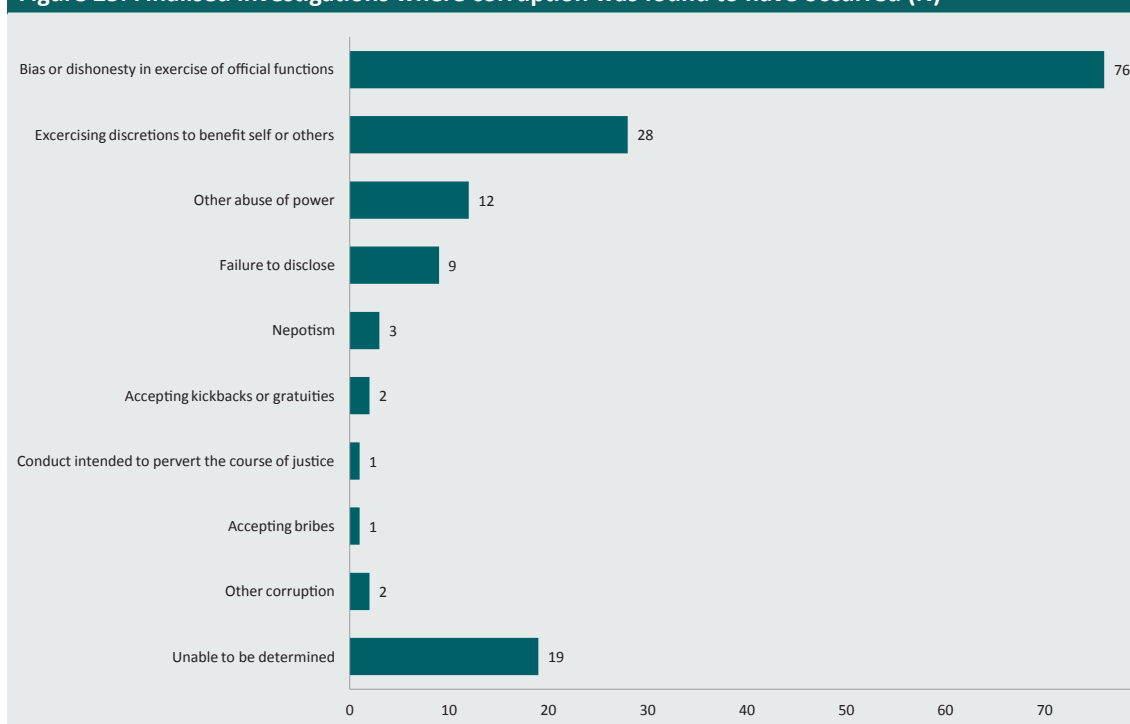
- bribery;
- embezzlement;
- extortion;
- trading in influence;
- perverting the course of justice; and
- exchanging goods for money or information (ACIC 2017: np).

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 if the corruption emanated from internal or external sources.

### *Corruption*

Figure 25 presents the findings of all finalised investigations that were determined to involve aspects of corruption. The type of corruption most evident in finalised fraud investigations was 'bias or dishonesty in exercise of official functions', with respondents reporting 76 investigations (from 5 entities) involving that form of corruption. An example of how this type of corruption might occur became apparent in April 2017 when two Sydney tax agents were sentenced to imprisonment for fraud after being convicted of dishonestly attempting to influence a Commonwealth official (ATO 2017). Further details on the number of entities experiencing corruption are available in the Online Appendix.

**Figure 25: Finalised investigations where corruption was found to have occurred (N)**



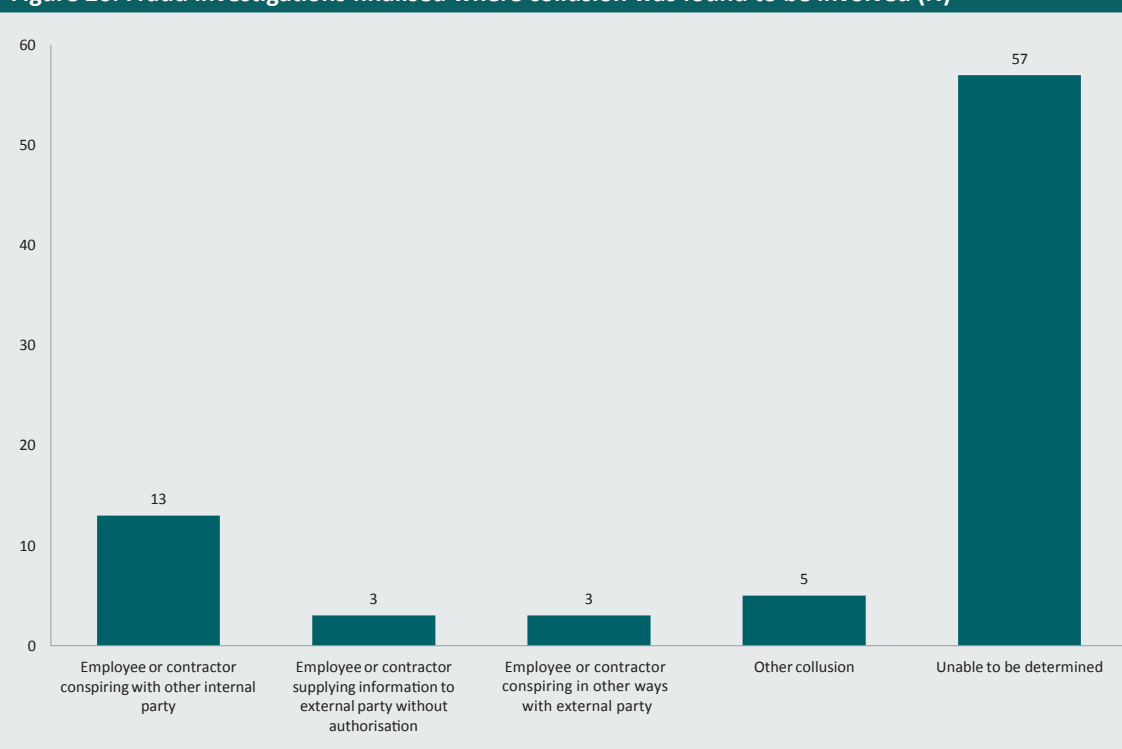
Source: Commonwealth fraud census 2015–16 [AIC dataset]

The Commonwealth Ombudsman is another Commonwealth entity to which Commonwealth employees and members of the public can make complaints about the integrity of Commonwealth employees (Commonwealth Ombudsman 2016). In 2015–16 the Commonwealth Ombudsman received 612 public interest disclosures from 69 out of 175 agencies (Commonwealth Ombudsman 2016). A public interest disclosure is a report made by public officials if they suspect wrongdoing in the Australian Public Service. Not all such disclosures relate to corruption or collusion as some involve allegations of conduct falling outside the types of behaviour mentioned specifically in the AIC's census.

### *Collusion*

The Organisation for Economic Co-operation and Development stated that corruption and collusion are two separate issues, but often occur in tandem (OECD 2010). Collusion involves a relationship between bidders in 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). In the 2015–16 questionnaire respondents were given four types of collusion, and an 'other' category to cover miscellaneous types of collusion. Figure 26 shows that the most frequent category of collusion was 'unable to be determined' (involving 57 investigations by 3 entities) followed by 'entity employee conspiring with another internal employee to commit fraud' (13 investigations finalised by 4 entities).

**Figure 26: Fraud investigations finalised where collusion was found to be involved (N)**



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

Another source of data concerning the extent of corruption in the Commonwealth comes from the annual *State of the Service Report* published by the Australian Public Service Commission (APSC 2016). The APSC conducts both a census of all APS employees asking if they have witnessed corrupt behaviour within their entity, and a survey of agencies to find out how many investigations the entity had conducted and how many breaches of the Code of Conduct had occurred. The 2015–16 report found that 106 of the 717 finalised Code of Conduct investigations involved corrupt behaviour (APSC 2016).

The types of corrupt behaviour included in the APSC report (2016) related to inappropriate recording of flex-time credits, misuse of personal leave to undertake paid employment, conflicts of interest on selection panels, theft, and misuse of duties to gain a personal benefit. These examples of corruption differed from those identified in the AIC fraud census, in which providing false information on a flex/attendance record was considered as a form of entitlement fraud. Most of the APSC breaches were of lower levels of seriousness than those recorded in the AIC's census. Differences between the AIC's findings and those of the APSC arise principally from the nature of the questions asked in each data collection.

# Part 4: Most costly frauds

## Most costly internal frauds

In order to provide more fine-grained data, respondents who had completed investigations into both internal and external frauds in which allegations were substantiated were asked to select one matter that 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 2015–16. 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.

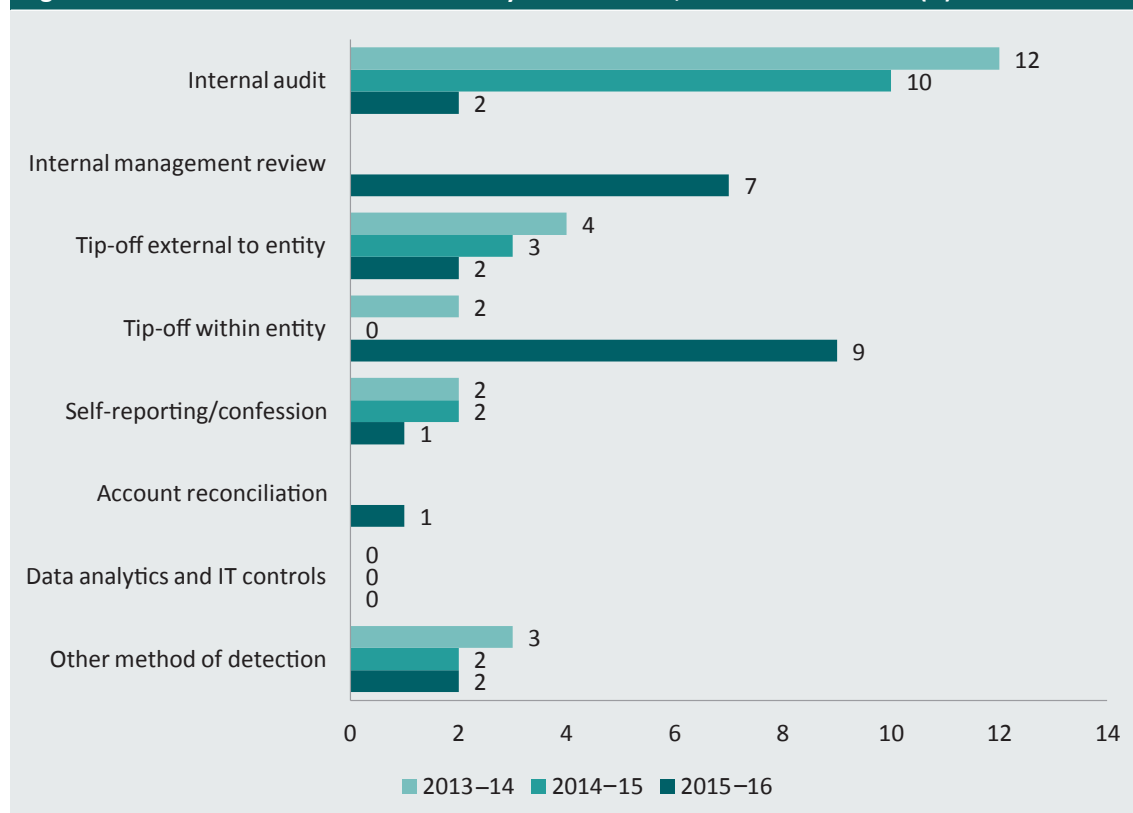
This section of the report focuses on internal fraud committed by Commonwealth officials, as opposed to fraud committed by members of the public, external to the Commonwealth—that is examined in the next section. Twenty-five internal fraud investigations were identified, although one entity did not provide any responses to questions posed in the most costly internal fraud investigation section. Accordingly, this investigation was excluded, leaving 24 investigations concluded in 2015–16 for analysis.

As the results presented below show, a number of respondents were unable or unwilling to answer some questions. Often the relevant information had not been collected during the investigation or could not be retrieved for the purpose of answering the questions, possibly because the person completing the census had not been involved in investigating the incident. Nonetheless, the study provides a comprehensive indication of how and why fraud within the Commonwealth takes place and by whom it is committed.

### *Detection of most costly internal frauds later investigated*

Respondents were asked to indicate the principal method by which the alleged fraud was detected. Comparison with previous years was possible as this question remained the same in 2015–16 as in previous years. From Figure 27 it is apparent that, although data analytics was cited as the most common method of detecting internal fraud, no respondents reported data analytics as the principal method by which the most costly internal frauds were detected in 2015–16. (Data analytics was not provided as a response category in previous censuses.)

**Figure 27: Detection methods for most costly internal fraud, 2013–14 to 2015–16 (N)**



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

### *Length of investigations*

The length of time a most costly internal fraud investigation took varied from seven days in one case to eight months in two cases. The most frequent category of time taken to finalise an investigation was four to five months (N=4 respondents; Figure 28).

**Figure 28: Length of investigation by number of investigations, most costly internal fraud (N)**



Note: Not all respondents provided details about the length of investigations; therefore, details of 20 investigations are included in the above figure

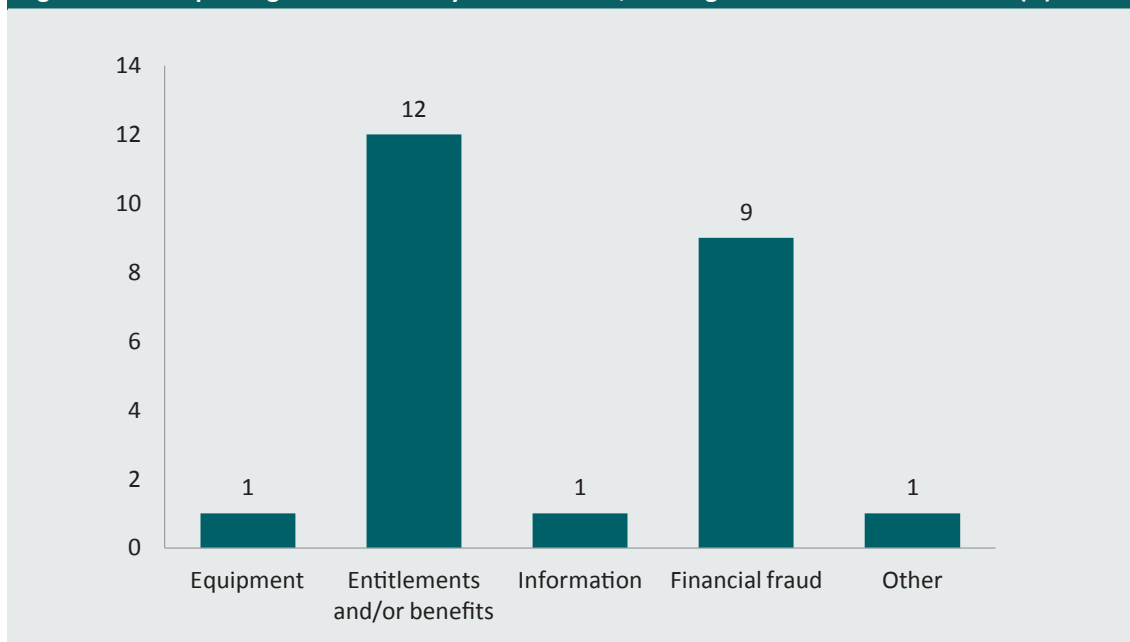
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Targets of the most costly internal fraud*

Respondents were asked to identify the principal target of the most costly internal fraud, meaning the resource, object or benefit targeted by the perpetrator. The most frequently cited principal target was 'entitlements', reported by 12 entities (50% of entities finalising an internal fraud investigation and completing this section of the questionnaire; see Figure 29). As in previous years, the second most cited target or focus was fraud involving financial benefits, reported by nine entities (37.5% of entities) in 2015–16. A global study into employee fraud conducted by the Association of Certified Fraud Examiners (ACFE 2016) found 83 percent of cases involved asset misappropriation, the subcategories of which included theft of cash, skimming and other financially-directed frauds. One respondent to the AIC's census categorised the target as 'other', explaining that the target of the fraud was benefits, but it was not part of their entity's employee entitlements and therefore was categorised as 'other'.



**Figure 29: Principal target of most costly internal fraud, investigations finalised in 2015–16 (N)**



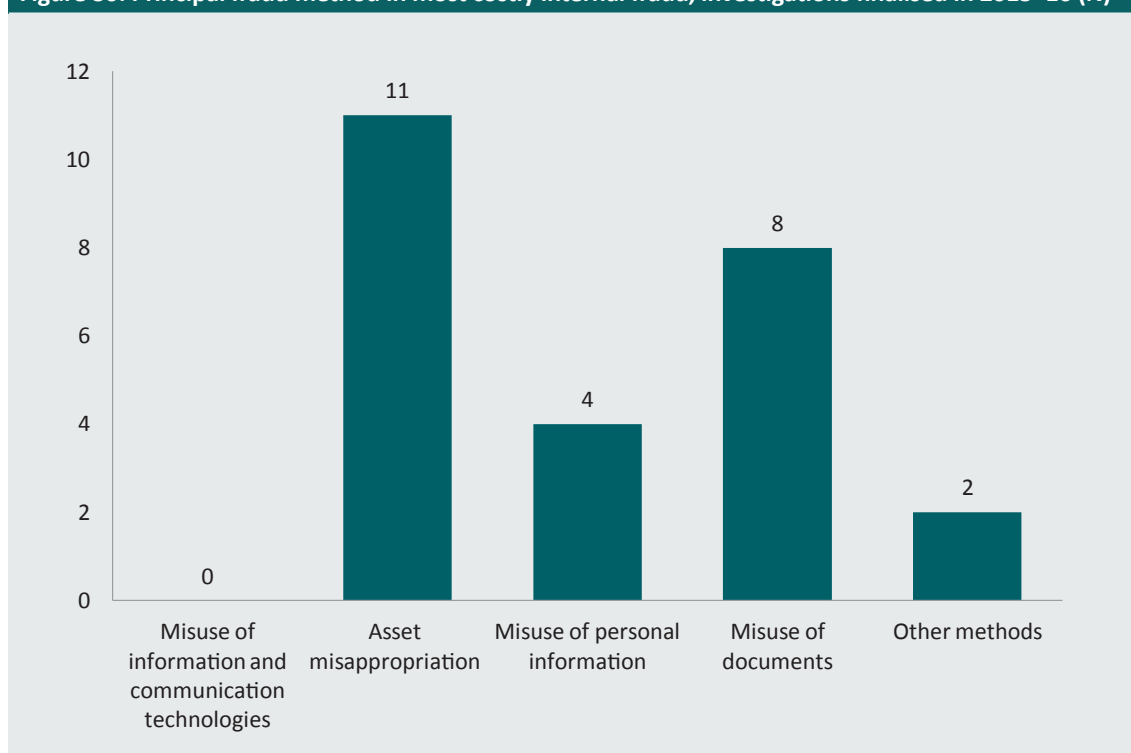
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Methods of the most costly internal fraud*

Respondents were also asked to identify the principal method by which the fraud was committed. The range of fraud methods was updated in 2016 to clarify the difference between targets and methods. Some overlap is expected—for example, misuse of credit card is both a target of fraud and a method of commission. As the method categories available to respondents in this year's report changed from the 2014–15 questionnaire, comparisons are unable to be made. Although respondents were asked to include only the principal method used to commit the fraud, multiple methods could be reported, thus resulting in the total exceeding 100 percent.

Asset misappropriation was the most common method for committing the most costly internal fraud, with the most common categories of asset misappropriation listed as 'unauthorised use of cash' and 'invoicing fraud' (eg altered payees, fictitious expenses; see Figure 30).

**Figure 30: Principal fraud method in most costly internal fraud, investigations finalised in 2015–16 (N)**



Note: Respondents were asked to include only the principal method; however, some indicated more methods, and therefore the total exceeds 24

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

### *Co-offending*

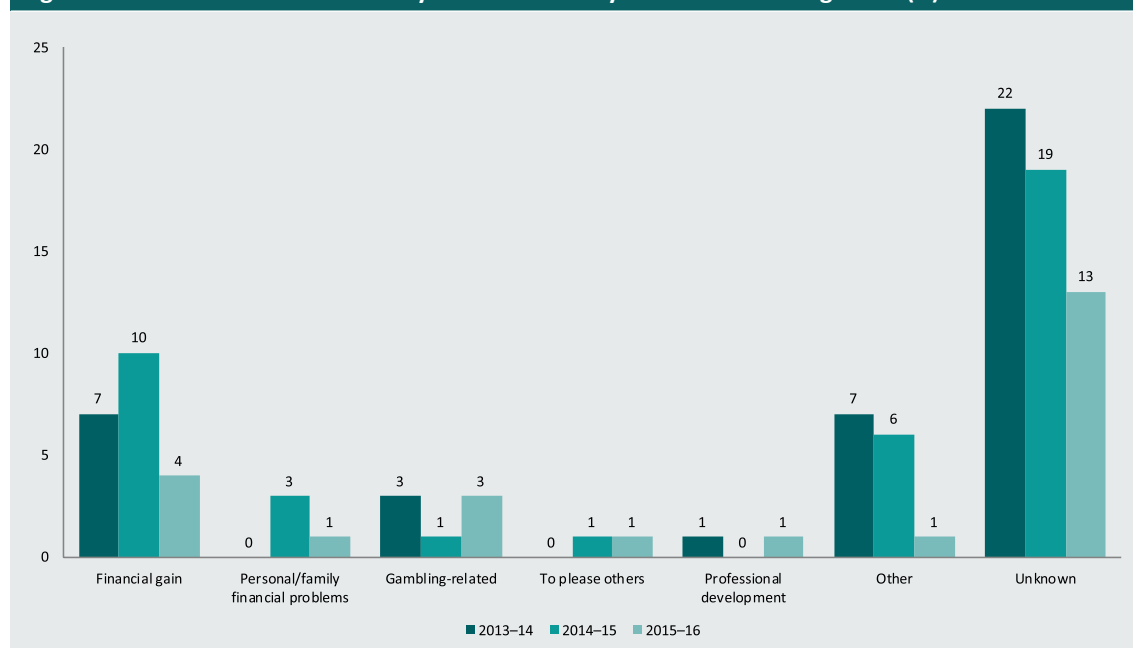
To gain an insight into whether the most costly internal frauds were committed alone, or in collaboration with other persons, respondents were asked to identify the presence of co-offenders and how many co-offenders there were. Figure 26 presented findings on collusion in which 13 investigations finalised by four entities involved an ‘entity employee conspiring with another internal employee to commit fraud’. In the case of most costly internal fraud, there was little evidence of widespread co-offending occurring. Only one respondent reported the suspect committed the fraud in collaboration with others, and that person committed the fraud in collusion with three other people. Because the questionnaire only sought information about the principal suspect, no further information was obtained about the three co-offenders.

### *Motivations*

To gain an insight into why fraud occurs, respondents were asked to indicate the principal motivation the suspect had for committing the fraud (see Figure 31). A large percentage of respondents were unable to provide information on this, and that provided could not be independently verified. Responses were based on the information available to respondents at the time of the census and, although the information was based on completed investigations, the reason why fraud was committed was unknown in numerous cases. The most common principal motive for the fraud, as cited over the three years examined, was ‘greed or desire for financial gain’ (N=4 entities in 2015–16, 10 entities in 2014–15 and 7 entities in 2013–14).

Some of the motives listed as ‘other’ included ‘to help out with a family business’ (2015–16 census), ‘embarrassment about potential illness’ (2014–15 census) and ‘involved in a sexual relationship with another employee’ (2013–14 census).

**Figure 31: Motivation for most costly internal fraud by number of investigations (N)**



Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

### *Demographics of most costly internal fraud suspects*

Demographic questions in the 2015–16 questionnaire were similar to those asked in 2014–15 and earlier years. Therefore, where applicable, comparisons between the current census results are made with 2013–14 and 2014–15 findings. For most questions, respondents were asked to provide information current at the time the fraud was detected.

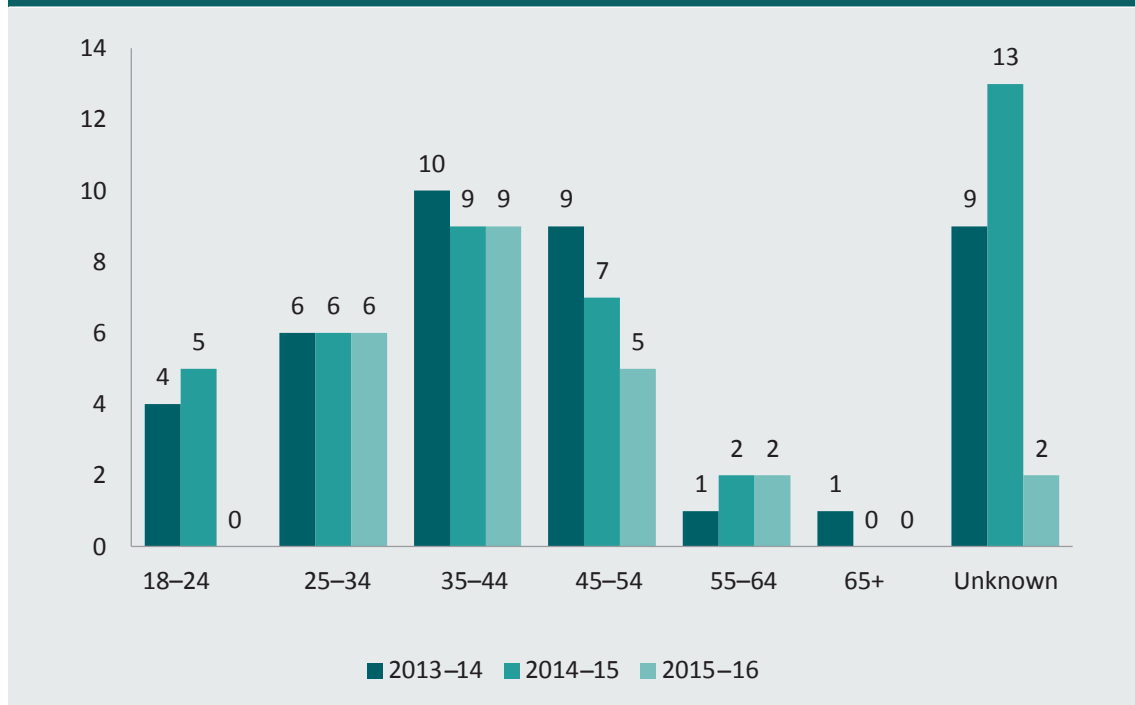
#### *Age and gender of suspects*

Figure 32 shows suspects’ age categories for the years 2013–14 to 2015–16. Some findings were consistent each year—for example, six investigations involved suspects aged 25 to 34 years. In 2015–16 there were no suspects aged 18 to 24 years. Over the three years the number of suspects aged 45 to 54 declined markedly.

In 2015–16 suspects aged 35 to 44 years accounted for the largest age category of suspects, and this was consistent with findings from previous years. KMPG (2016) surveyed its own forensic professionals from around the world about 750 fraud investigations undertaken between March 2013 and August 2015. The findings from the survey were similar to present research, where the most frequently occurring age of suspects was between 36 and 45 years old.

Although respondents were asked to include details about finalised investigations, there were a number of investigations in which the age of the suspect was unknown. This is problematic as entities should all have access to personnel records containing employees' ages. An alternative explanation for the lack of age information could be that, even though an investigation was finalised, no suspect had been identified. However, as internal fraud involves an employee or contractor to the entity it is expected this information would be known.

**Figure 32: Number of suspects by age category and year, 2013–14 to 2015–16 (N)**



Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

In 2015–16, male suspects tended to be older, with two male suspects aged 55 to 64 years old, whereas there were no female suspects aged over 54 years. More female suspects (55.6%) fell into the 35 to 44 year category than males (28.6%), which generally reflects the distribution of women in the APS in 2016 in this age category (61.4% female in this age category: APSC 2016).

Figure 33: Age group and gender of suspects, most costly internal fraud 2015–16 (N)

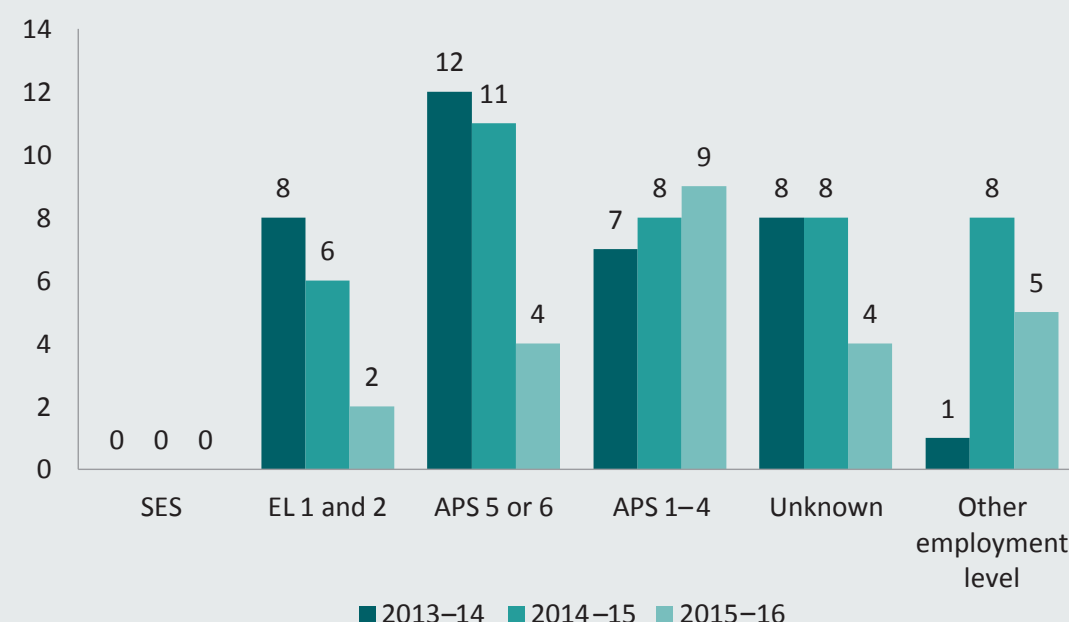


Source: Commonwealth fraud census 2015–16 [AIC computer file]

### Employment level

Prior organisational fraud survey research has found offenders in managerial positions were responsible for the highest financial losses arising from fraud incidents (ACFE 2016; KPMG 2013). KPMG (2016) found 26 percent of fraud perpetrators were either executives or directors of the organisation against which they committed fraud. The current research found different results, with no suspects employed at the Senior Executive Service level over the three years examined. As shown in Figure 34, employees at the APS 5–6 level or those employed at APS 1–4 levels were alleged to have committed more of the most costly frauds than staff at other levels.

Figure 34: Number of suspects by employment level, most costly internal fraud 2013–14 to 2015–16 (N)



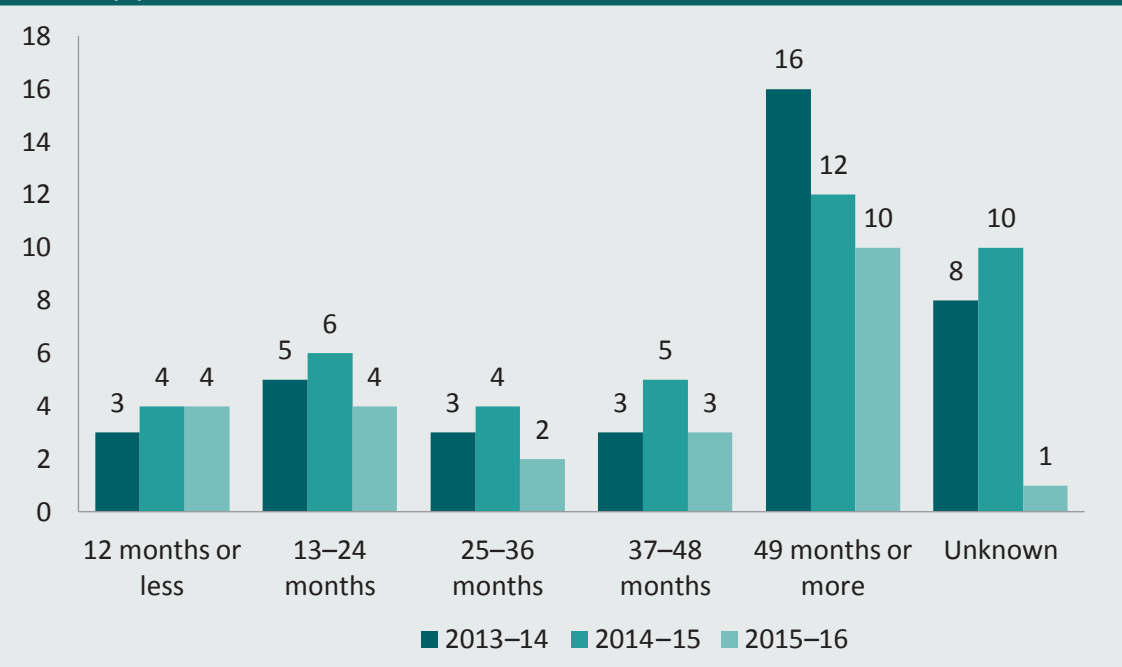
Source: Commonwealth fraud census 2015–16 [AIC computer file]

Although there were no SES level employees identified as suspects in the 2015–16 census findings, in the ‘other’ employment category one respondent noted that the suspect was the equivalent of an SES level employee. In the six years of data collected by the AIC about internal fraud, not one suspect has been employed at the highest levels of the APS. This finding remains at odds with other research. The ACFE (2016) survey, for example, found that the median amounts lost as a result of fraud perpetrated by people employed as executives or as owners of organisations were over seven times higher than for those classified as employees. The present findings are therefore unusual, particularly as this section of the census deals with the most costly internal frauds, which, based on prior research, senior managers would tend to have committed more than lower level employees.

#### *Duration of employment*

Figure 35 presents data showing that, consistently over the three years examined, the majority of suspects had been employed by the entity for more than four years. Each year there are a number of respondents who report not knowing how long the suspect had been employed by the entity, although in 2015–16 only one respondent could not answer this question. This finding is consistent with research into internal fraudsters conducted by KPMG (2016), which found 38 percent of fraudsters had been employed by the victim organisation for more than six years.

**Figure 35: Number of suspects by duration of employment, most costly internal fraud 2013–14 to 2015–16 (N)**

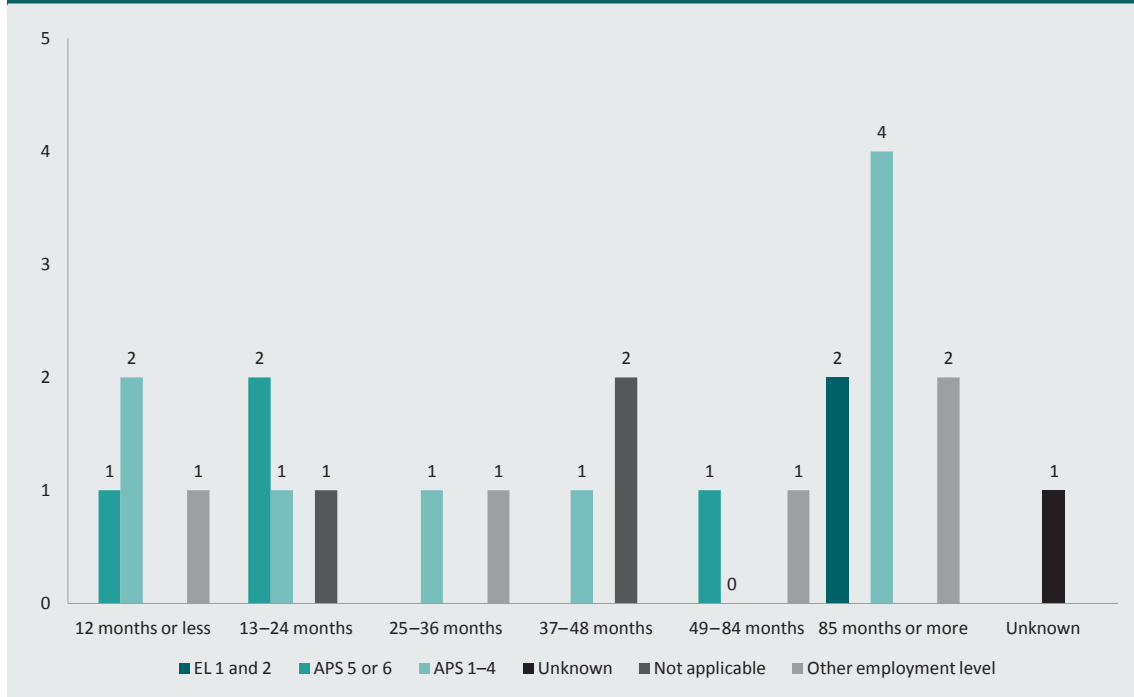


Note: In 2013–14 and 2014–15 the longest duration of employment category was 49 months or more, but in 2015–16 the longest was 85 months and over. For the purpose of displaying the data, these categories have been collapsed into the '49 months or more' category

Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

Looking solely at the 2015–16 findings (Figure 36), the largest number of the suspects had been employed by the entity for 85 months (over 7 years) or longer. More than 50 percent of internal fraud suspects who had been employed by the entity for 85 months or longer were at the APS 1–4 level. There were two suspects employed at the Executive Level (1 or 2) and both had been employed by their entities for 85 months or longer at the time the fraud was detected.

Figure 36: Employment level of suspect and duration of time with entity, 2015–16 (N)



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

### Security clearances

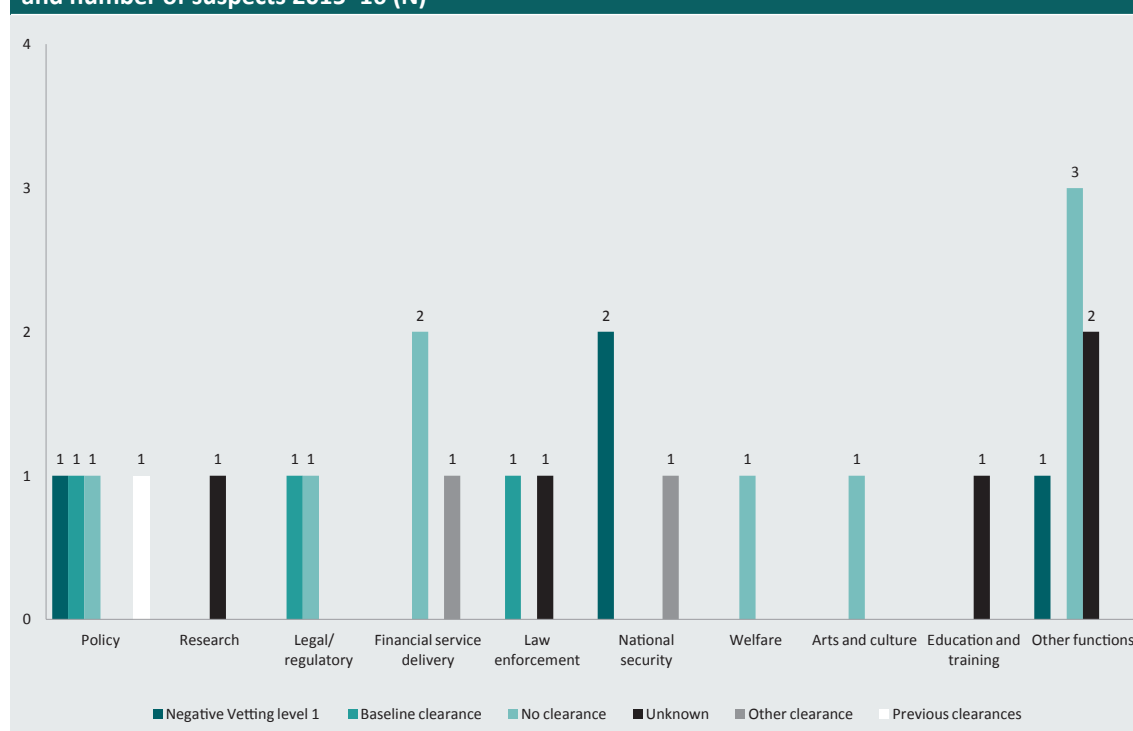
Respondents were asked to indicate the highest level of security clearance held by suspects at the time the most costly internal fraud incident was detected. In the Commonwealth, the majority of security clearances are issued by the Australian Government Security Vetting Agency (AGSVA). Security clearances, while not undertaken specifically as a fraud prevention measure, do assess a person's background, character and values. However, because most fraud offenders do not have a criminal history, the utility of having a satisfactory security clearance report is unclear. The latest ACFE (2016) research, for example, found only five percent of fraud offenders had a prior fraud conviction, and only eight percent had previously been let go from employment due to fraud. This finding indicates that a satisfactory security clearance report does not always indicate that an individual is not at risk of offending. However, a security clearance does provide information about an employee's character, which may indicate a predisposition to acting dishonestly in some cases.

Suspects employed in roles involving national security or law enforcement are more likely to hold high level security clearances. In the 2015–16 census findings, there were no suspects who held a security clearance at the Positive Vetting level or Negative Vetting Level 2—the two highest classifications.



Figure 37 presents the number of security clearances held by internal fraud suspects and the principal function of the entity they were employed by. Suspects working in national security held higher security clearances than those in other entities, with two suspects holding Negative Vetting Level 1 clearances. A third suspect did not hold a security clearance but had undergone a police check. The largest number of internal fraud suspects held no security clearances (N=9). For the first time in five years of comparable data, no internal fraud suspects held clearances higher than the Negative Vetting Level 1 clearance (Smith & Jorna 2017).

**Figure 37: Security clearances of most costly internal fraud suspects, by principal function of entities and number of suspects 2015–16 (N)**



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

As public servants who hold security clearances have had their character assessed to some extent it might be reasonable to suppose that the motive for security clearance holders to commit fraud may differ from that of other public servants. Table 4 shows the principal motivation for those internal fraudsters who held security clearances and those who did not hold any clearance. There were no notable differences between the fraud perpetrators, although out of the five suspects whose principal motivation for committing fraud was ‘gambling related’ three held a Negative Vetting Level 1 clearance.

**Table 4: Security clearances held by internal fraud suspects and principal motivations by number of suspects 2013–14 to 2015–16 (N)**

Security clearances	Principal motivation for commission of fraud					
	Greed	Professional financial problems	Personal and family financial problems	Gambling related	Drugs and alcohol addiction	Other
Positive vetting						2
Negative Vetting Level 2						1
Negative Vetting Level 1	1			3		2
Baseline clearance	7					4
Previous clearances						10
Other clearance	2			1		3
No clearance	7		2	1		4
Unknown	1					1
Total	18		2	5		14

Note: Some respondents did not answer some questions; as such, not all cases are included

Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

### *Behavioural indicators*

In addition to looking at the motivation for offending, the 2015–16 questionnaire asked respondents if there were any behavioural changes or personality changes identified in suspects which may have indicated they were at risk of committing 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.

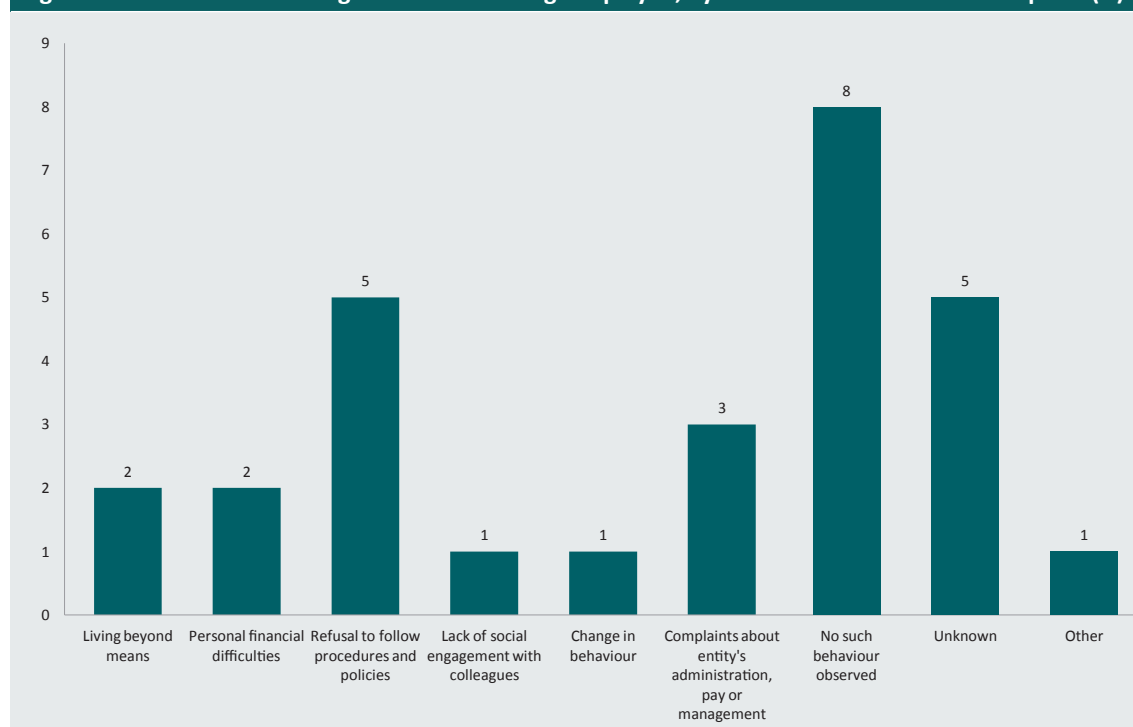
Surveys conducted by the ACFE have found commonalities in the types of behavioural 'red flags' displayed by perpetrators of fraud, the most common being 'living beyond one's means' (ACFE 2016). Other common red flags identified by ACFE (2016) include:

- financial difficulties;
- an unusually close relationship/association with vendor or customer;
- having a 'wheeler-dealer' attitude;
- control issues and an unwillingness to share duties; and
- family problems such as divorce.

In its global survey of fraudsters, KPMG (2016) found it was difficult to identify fraud risk indicators as 38 percent of suspects were perceived to be well respected by peers, while only 10 percent were not considered favourably by peers.

Respondents were provided a list of 11 behavioural indicators (including an 'other' option) that may have been exhibited by the suspect prior to the fraud being detected. Respondents were asked to choose all options that applied. Figure 38 shows that for 2015–16 the most common red flag observed was a 'refusal to follow procedures and policies', followed by 'complaints about entity's administration, pay or management'.

**Figure 38: Behavioural and organisational red flags displayed, by number of internal fraud suspects (N)**



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

### *Impact, costs and recoveries of most costly internal frauds*

Assessing the scale of loss due to fraud is an important component in developing approaches to reducing the impact of fraud on Commonwealth entities. Respondents were asked to provide their best estimates of:

- the total amount that the offender dishonestly attempted to obtain from the Commonwealth;
- the total amount that the offender was found to have dishonestly obtained from the Commonwealth; and
- any other non-financial impact.

The estimates were for the most costly internal fraud incident whose investigation was finalised in 2015–16, regardless of when the fraud was committed, and excluding the costs of investigation and recovery action.

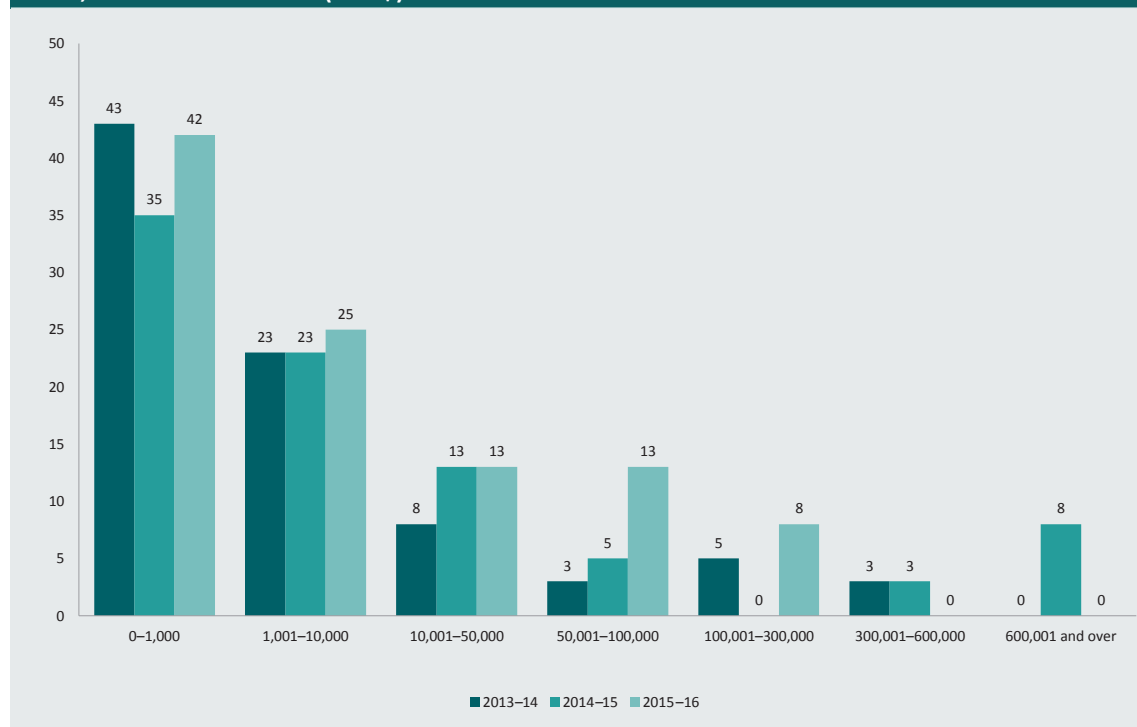
*Amounts that suspects attempted to dishonestly obtain in most costly internal frauds*

Twelve respondents provided estimates of the total amount that the suspect attempted to obtain dishonestly from the Commonwealth, three respondents advised the amount was not quantifiable and five respondents reported the amount lost was zero. The total amount the suspect attempted to defraud was \$501,807.

*Amounts that offenders were found to have dishonestly obtained in most costly internal frauds*

Seventeen respondents quantified an amount that the suspect was found to have dishonestly obtained from the Commonwealth, one respondent indicated that the total amount lost due to the most costly internal fraud incident could not be quantified and three respondents stated that the actual amount lost was \$0. Figure 39 presents distribution of estimated dollar losses by the number of finalised investigations for the most costly internal fraud. Between 35 and 43 percent of the most costly internal fraud incidents incurred losses of \$1,000 or less. In 2014–15, eight percent of cases involved losses of over \$600,000; however, in 2015–16, the highest amount lost was less than \$300,000.

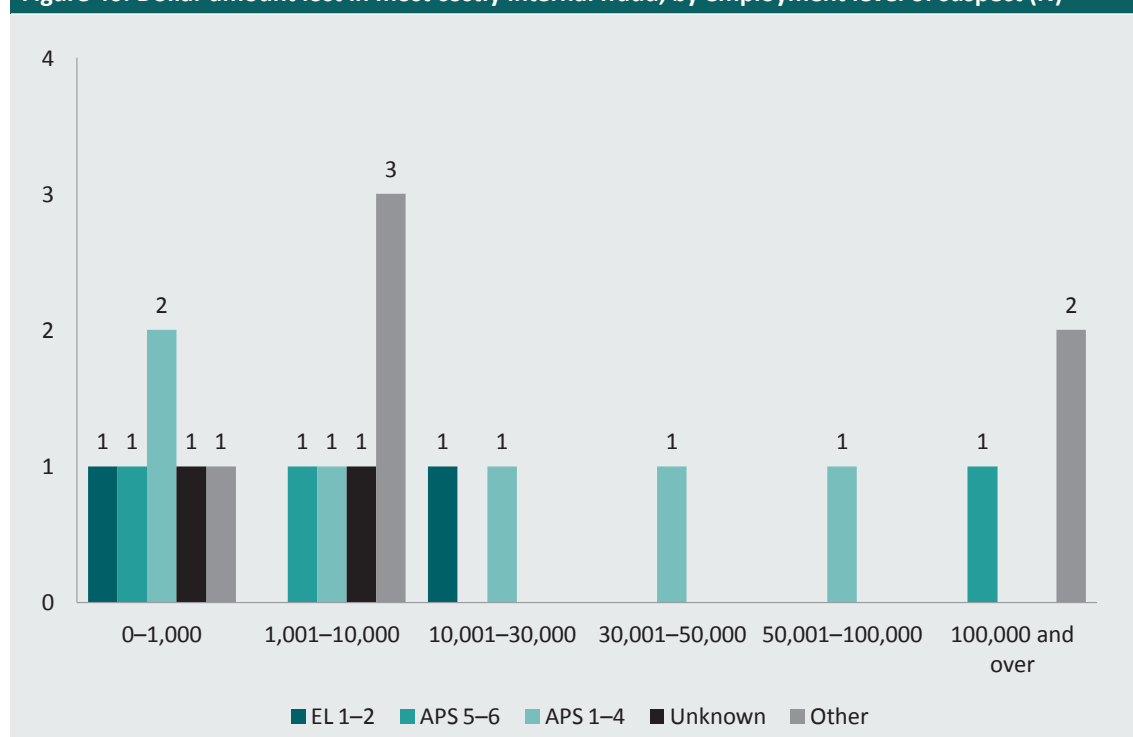
**Figure 39: Percentage of investigations finalised by financial loss category for most costly internal fraud, 2013–14 to 2015–16 (% & \$)**



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

Prior organisational fraud survey research has found offenders in managerial positions were responsible for the highest financial losses arising from fraud incidents (ACFE 2016; KPMG 2013). The present census, however, did not find such a clear distinction, with an employee at the APS 5–6 level and another employee (in the ‘other’ category) at the equivalent of an EL 1 level alleged to have committed more costly frauds than staff at other levels (see Figure 40). The most common APS level of staff involved in fraud losses was APS 1–4 levels.

**Figure 40: Dollar amount lost in most costly internal fraud, by employment level of suspect (N)**

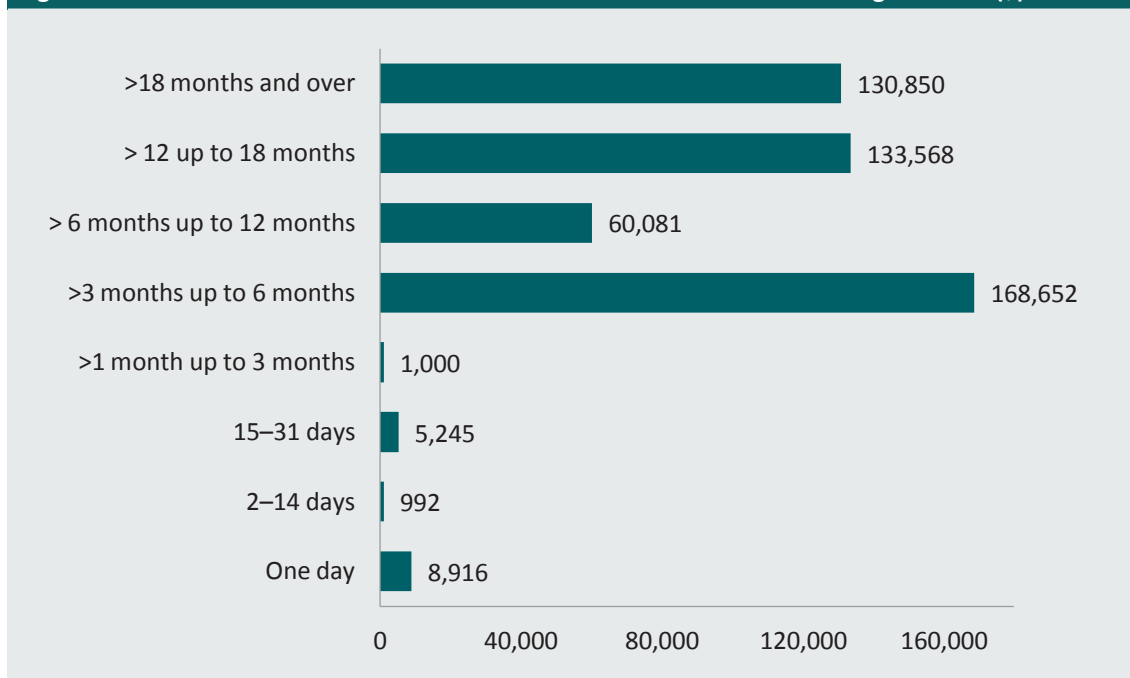


Note: In five investigations, respondents could not quantify loss amounts or did not answer that question; these were excluded  
Source: Commonwealth fraud census 2015–16 [AIC computer file]

The ACFE (2016) found the longer the duration of a fraud, the higher the loss sustained. The ACFE (2016: 17) also found the highest percentage of cases experienced the lowest median losses and lasted for the least amount of time.

The present research found a relationship between the duration of a fraud and total losses, but the relationship was not as linear as the one found by the ACFE (2016). The AIC’s census found that internal frauds lasting between three and six months were the most costly, incurring total losses of over \$168,000 (Figure 41). The maximum duration of an internal fraud in 2015–16 was approximately 18 months (beginning in May 2013 and ending in November 2014) and involved a loss of \$130,850. ACFE (2016: 17) found that ‘the longer perpetrators are able to go undetected, the more financial harm they are able to cause’, with the highest median losses occurring with fraud of more than 60 months duration (US\$850,000).

**Figure 41: Total losses based on the duration of the internal fraud before being detected (\$)**



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

#### *Non-financial impacts of most costly internal frauds*

Respondents were asked if their entity had experienced any non-financial impact as a result of the fraud. Three respondents provided details of impacts experienced such as ‘reputational damage’, and ‘Breach of the Code of Conduct and Breach of the *Public Governance, Performance and Accountability Act 2013*’. The final respondent noted the organisation was paying for something it was unable to use for operational purposes (in this case a car park).

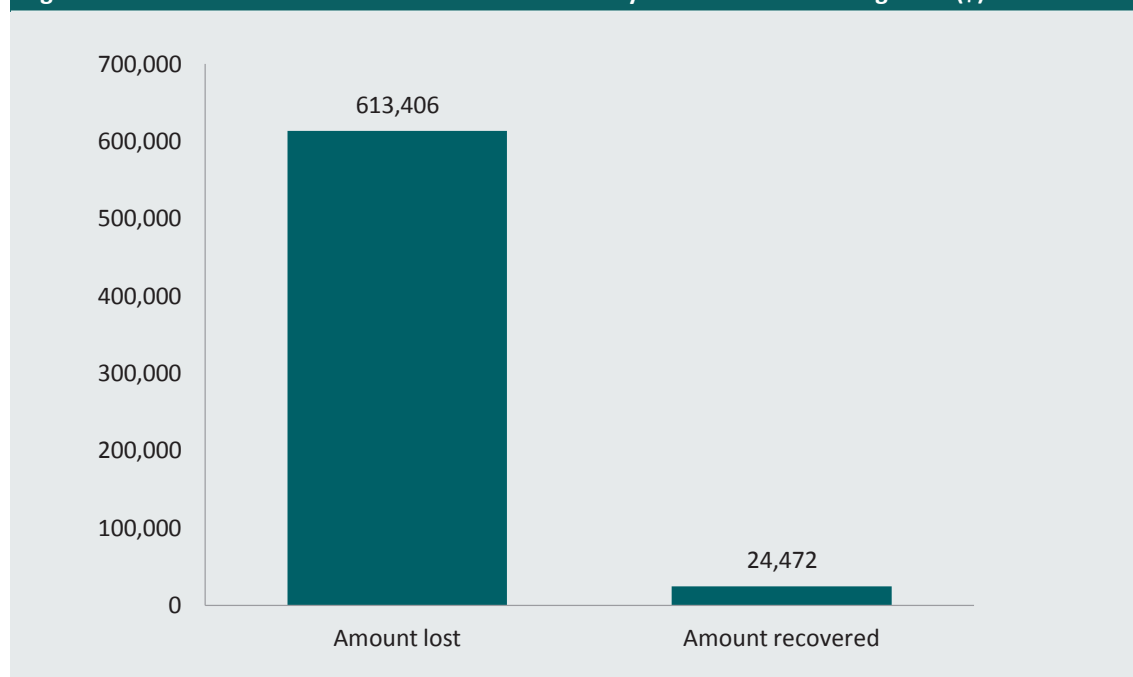
#### *Recoveries for most costly internal frauds*

Respondents were asked to provide their best estimate of the amount actually recovered from the identified suspects who had committed the most costly internal frauds. Respondents were advised to include all amounts recovered in 2015–16, regardless of when the fraud was committed, when the losses were incurred or when the investigation was completed. Respondents were also asked to exclude monies not returned to entities such as fines or proceeds of crime recoveries.

The most common methods used by entities to recover monies from internal fraud suspects were through administrative action and voluntary repayments.

Figure 42 presents the amount lost due to the most costly internal fraud and the amount recovered through the various means. Of the 17 entities where a dollar loss above zero was experienced, only seven respondents provided the amount recovered through various methods. In understanding the small amount recovered, it must be kept in mind that some recovery action was still pending, such as in cases still before the courts or awaiting prosecution. Accordingly, it is not possible to indicate the net actual losses suffered by entities in 2015–16. Nor is it possible to say that the amounts recovered in 2015–16 all related to investigations finalised that year, as some recovery action was in respect of investigations undertaken in earlier years.

**Figure 42: Amounts lost and recovered from most costly internal fraud investigations(\$)**

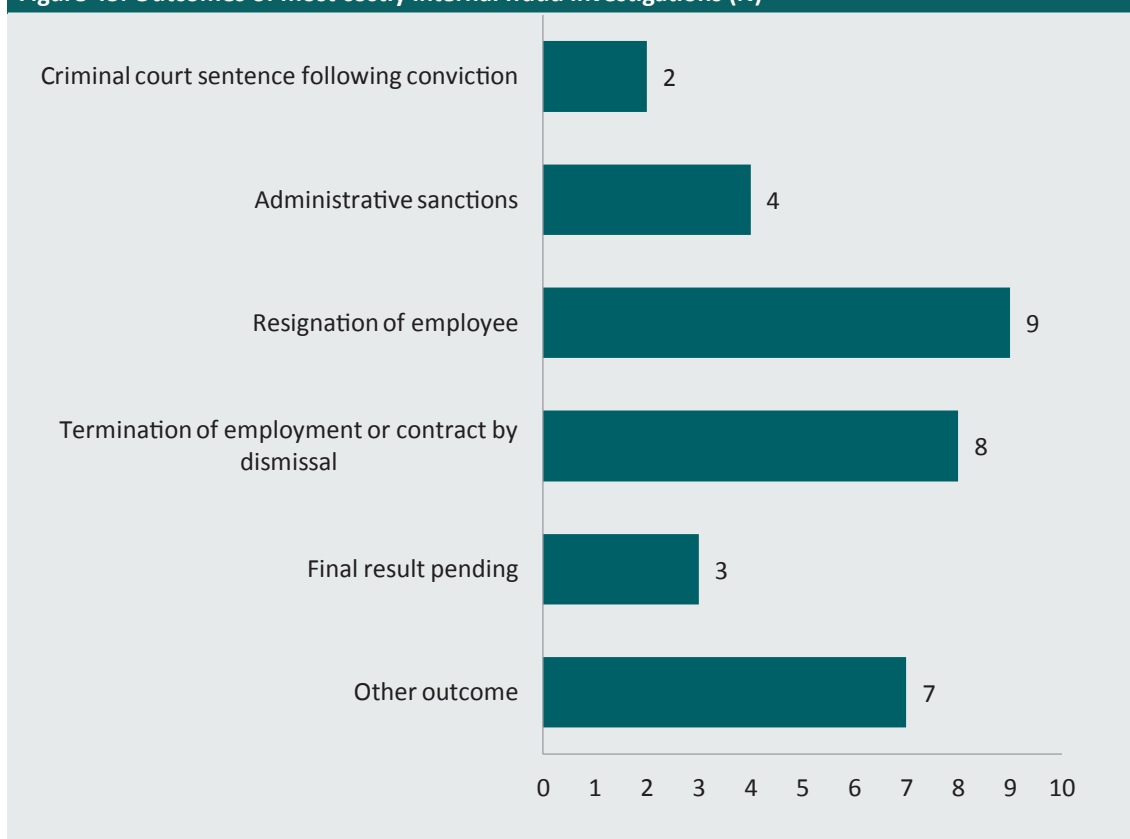


Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Outcomes of finalised investigations for most costly internal fraud*

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 43 presents the categorised outcomes of internal fraud investigations in which respondents were able to choose all outcomes applicable.

**Figure 43: Outcomes of most costly internal fraud investigations (N)**



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

When asked to provide examples of what administrative sanctions were imposed on suspects, respondents indicated the following:

- withholding pay;
- \$1,000 fine and a reprimand;
- Code of Conduct action (entity-specific); and
- recovery of \$415.97 in addition to termination of employment.

The details of the two criminal court sentences following conviction were:

- as at 9 February 2016, eight months imprisonment, to serve two months and a good behaviour bond of three years; and
- as at 8 December 2015, 20 months imprisonment, to be released after serving three months with a recognisance in the sum of \$1,000 conditional on being of good behaviour. A reparation order pursuant to s.21B Crimes Act was made in the sum of \$71,862.

Other results of investigations included the following:

- a matter was referred to AFP;
- advice was provided to AGSVA and ACLEI;
- advice was received from CDPP that there would be no referral for criminal prosecution due to the insufficient likelihood of conviction;



- an employee who had already left when the investigation commenced subsequently paid the entity in question back in July 2016 (outside of the 2015–16 financial year);
- a new conflict of interest policy was created, and training was provided to the procurement team and staff involved in the incident;
- a prosecution brief was referred to the Commonwealth Director of Public Prosecutions, with the matter currently under assessment; and
- a referral was made for a Code of Conduct Investigation to commence. The referral was accepted; however, no further action was taken and the Code of Conduct matter was closed.

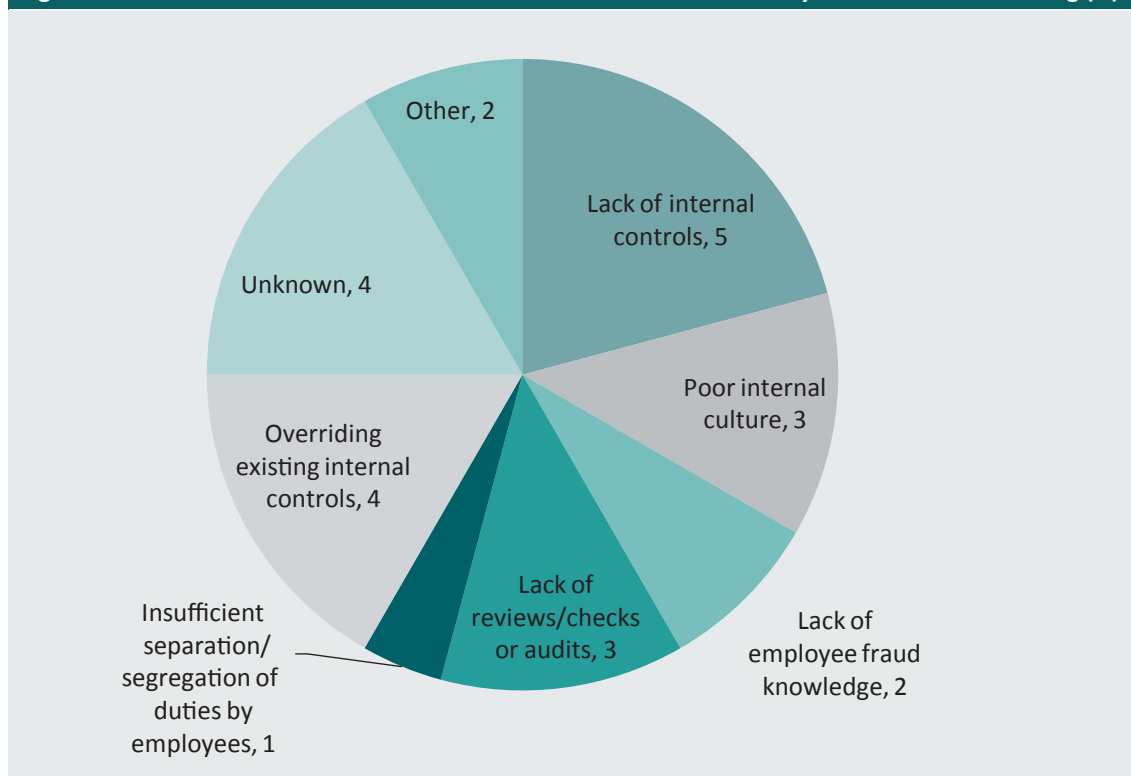
#### *Death of suspect in most costly internal frauds*

Finally, respondents reported no instances of internal fraud suspects having died at the time the census was completed, although one respondent reported not knowing if the suspect was alive or not.

#### *Fraud control weaknesses involving most costly internal fraud*

Respondents were asked to list the principal fraud control weakness that contributed to the most costly internal fraud occurring. Figure 44 presents the fraud control weaknesses and the number of investigations in which it was found that weakness contributed to the fraud occurring. A lack of internal controls was most frequently cited. Similar results were found by KPMG (2016), where weak internal controls were a contributing factor in 61 percent of frauds occurring. An example of an internal fraud in which a poor internal culture was given as a reason why the fraud occurred is provided in Box 2.

**Figure 44: Fraud control weaknesses that contributed to the most costly internal fraud occurring (N)**



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

Two respondents provided additional details about the ‘other’ response category in Figure 44. The first respondent indicated that there were no fraud control weaknesses identified as their controls did identify the issue and the second respondent stated their entity’s ‘internal controls [were] not sufficient’.

#### Box 2: Example of a most costly internal fraud

The suspect was employed as a full-time employee who had been with the entity for between 37 and 48 months and she was employed at APS level 1–4. The fraud was detected on 6 July 2015 and it was estimated that it had commenced in June 2014. The target of the fraud was employee entitlements/benefits, related to misuse of travel entitlements. The suspect committed the fraud by misusing documents, creating a false or altered entity document and defrauding the entity of \$10,029 over a period of 20 months. (The fraud did not cease until 7 February 2016.) At the time the fraud was detected, the suspect was aged between 25 and 34 years and they lived in the Northern Territory. The suspect's highest educational level was unknown and they did not hold a security clearance. The suspect acted alone in committing the fraud. The respondent noted one of the reasons the fraud was able to be committed was a poor internal culture within the entity. There were no behavioural indicators or red flags that the suspect might be at risk of committing fraud. The entity conducted an internal investigation as soon as the fraud was detected and the investigation was finalised on 17 February 2016. Administrative sanctions were imposed on the employee, including a fine of \$1,000 and a reprimand. At the time of the census no monies had been recovered from the fraud.

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

## Most costly external frauds

For the first time, the 2015–16 questionnaire asked respondents whose entity had finalised an investigation into the most costly external fraud that was substantiated in full or in part to answer further questions about the matter. ‘Most costly’ 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.

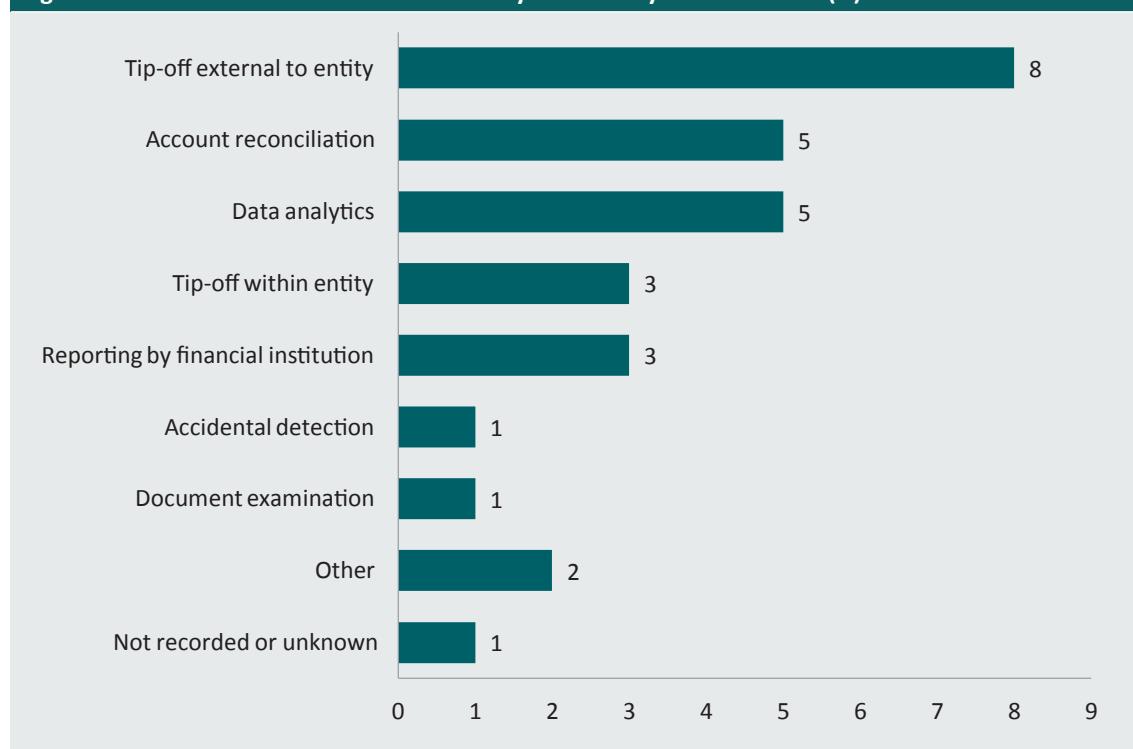
The Australian Commonwealth fraud census findings are markedly different from other industry and public sector surveys of fraud. Over 90 percent of fraud investigations involving Commonwealth entities relate to incidents perpetrated by individuals external to the entity. This finding differs from other research into fraud occurring in organisations, in which the perpetrator is generally an employee of the organisation (see for example: Audit Office of NSW 2016; KPMG 2016). After consultation with select entities, it was decided to ask further questions about entities’ experience of external fraud to help Commonwealth entities understand the fraud risks they face and the characteristics of those alleged to have committed the most costly incidents of fraud who were not employed by, or contacted by the Commonwealth.

### *Detection of most costly external frauds*

Respondents were asked how the alleged fraud was detected. In its global survey, Kroll (2016) found that 41 percent of cases were detected through internal whistleblowers, followed by external audits (31%) and then internal audits (25%). KPMG (2016) found, in its review of 750 fraudsters, the most common ways in which frauds were detected were as a result of a tip-off, complaint or formal whistleblowing hotline. The present research found 11 (38%) of the most costly external fraud incidents were detected as a result of a tip-off, either from within the entity or from an external source.

Respondents were asked about the use of data analytics to detect external fraud. Five respondents reported the use of data analytics to detect the most costly external fraud (Figure 45). PricewaterhouseCoopers' (2016) global economic crime survey found only eight percent of respondents reported using programs such as data or predictive analytics. The global survey found that in Australia it is mostly only financial services sector clients that make use of these, often expensive, systems (PwC 2016). The ACFE (2016) found 36.7 percent of organisations that used proactive data monitoring and analysis techniques (data analytic programs) as part of their anti-fraud program suffered fraud losses. In such cases, losses were 54 percent less than in cases detected through other means, and that frauds were detected in half the time compared with cases detected without the use of data analytics.

**Figure 45: Detection methods used to identify most costly external fraud (N)**

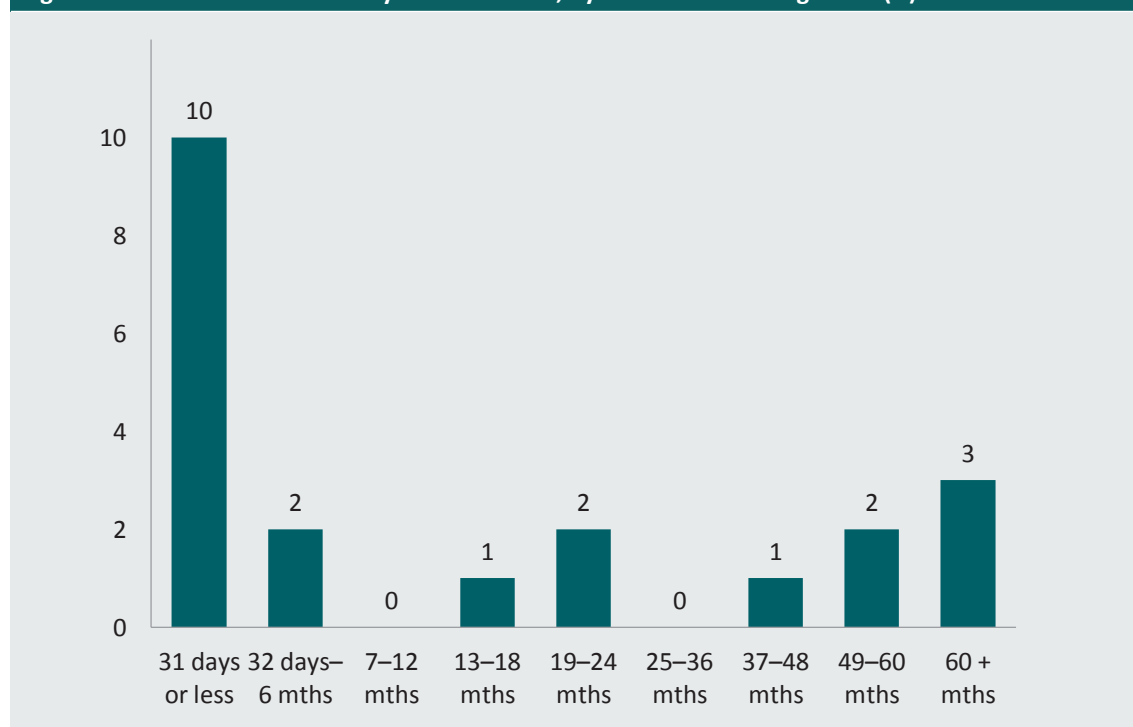


Note: Respondents advised 30 entities finalised external fraud investigations into the most costly external fraud, but one entity did not provide any details of the investigation. Figure 45 is based on the responses provided by only 29 entities  
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Duration of most costly external frauds*

Twenty-one out of the 29 respondents provided details of the duration of the most costly external fraud whose investigation was finalised in the 2015–16 financial year. The largest number of cases lasted one month or less, with five cases lasting just one day (17%; Figure 46). One entity did not provide any responses to the questions in this section about the most costly external fraud.

**Figure 46: Duration of most costly external fraud, by number of investigations (N)**

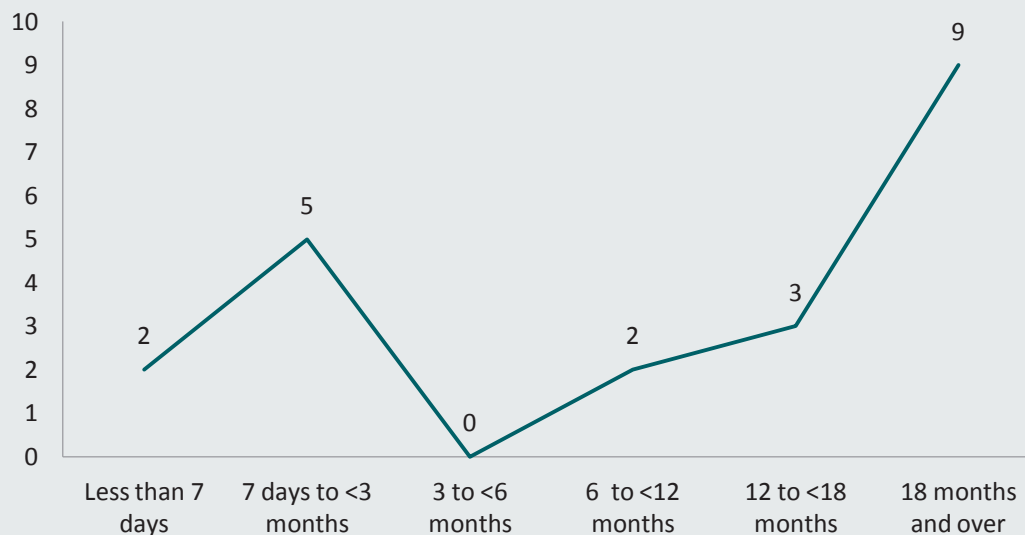


Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Length of investigations of most costly external frauds*

Figure 47 shows the length of time that investigations of the most costly external frauds took, with nine investigations taking 18 months or longer to finalise.

**Figure 47: Length of investigations of most costly external frauds, by number of investigations (N)**



Note: Details of the length of investigation could be determined for only 21 of the 29 entities; this was due to issues with the online questionnaire

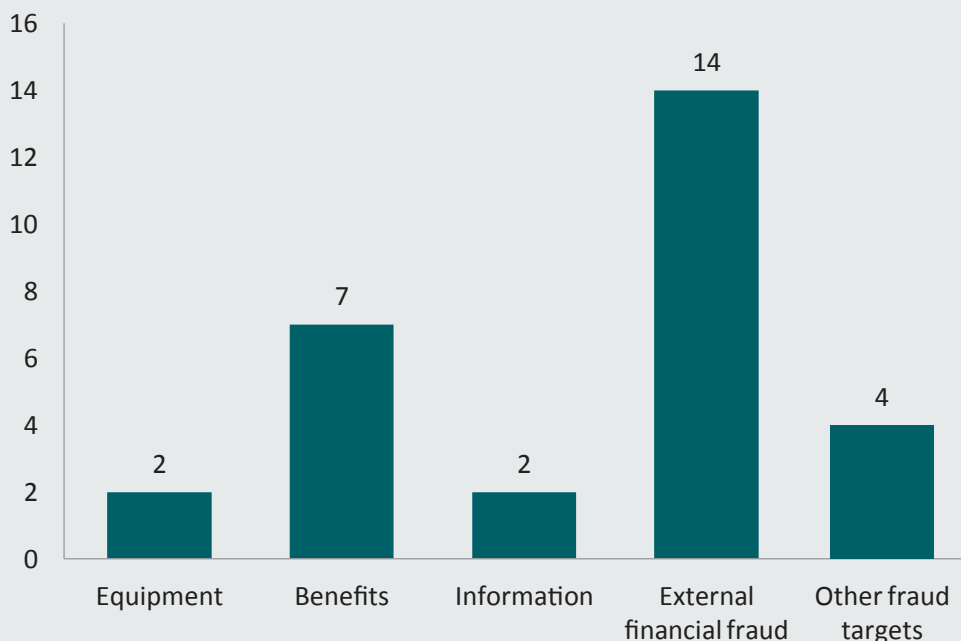
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Targets of most costly external fraud*

Respondents were asked a number of questions about how the frauds were committed, including what the target or focus of the incident was and how the fraud was committed. The most frequently reported target was financial fraud (14 out of 29 finalised investigations, or 48%; see Figure 48).

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

**Figure 48: Primary target of most costly external fraud, by number of investigations (N)**



### *Methods of most costly external frauds*

Respondents were also asked to identify the principal method by which the most costly external fraud was committed. Respondents were provided with a range of options that fell within four general categories:

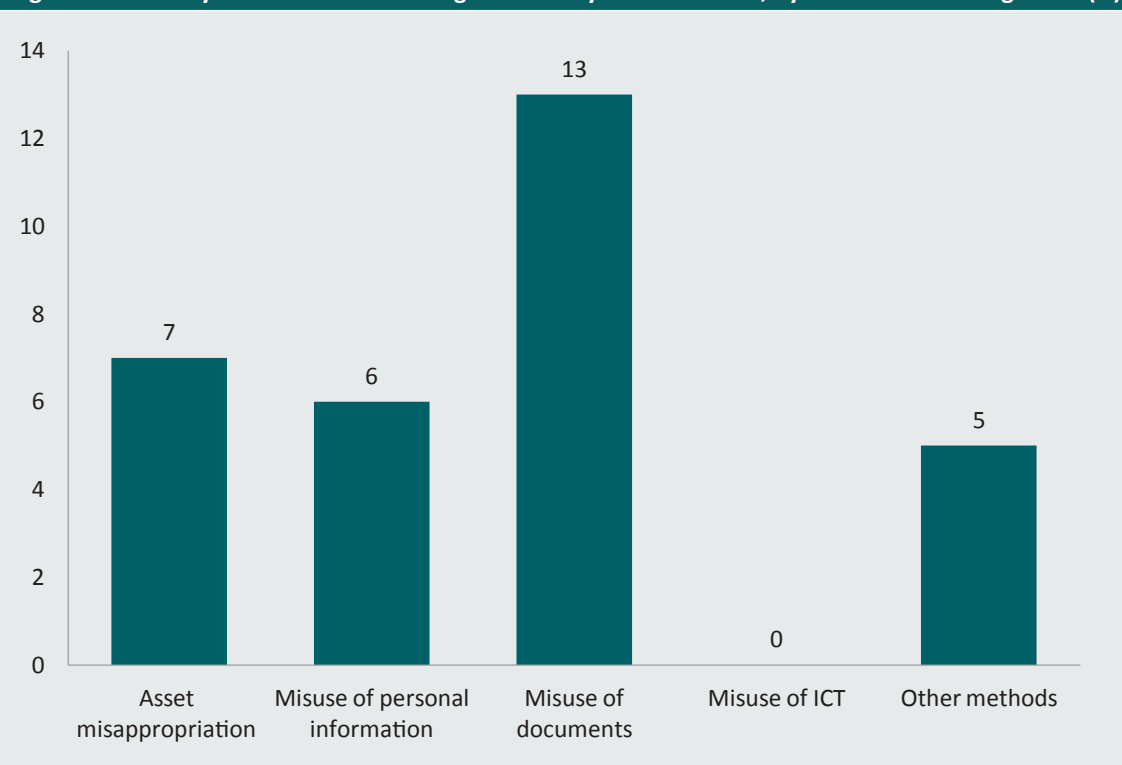
- misuse of ICT;
- asset misappropriation;
- misuse of personal information; and
- misuse of documents.

In addition, an 'other' option could be selected where the method of fraud was not specified.

Twenty-nine respondents provided information in response to this question, with none reporting misuse of ICT and the most frequent response relating to misuse of documents (N=13, 45%; Figure 49).

Nine out of those 13 incidents in which misuse of documents was identified involved 'creating and/or using a false or altered document (not belonging to the victim entity)'. Examples of the other methods of committing external fraud included 'break and enter', 'the Department not being notified of a client's death and benefits continuing to be paid', 'fabrication of publication track record in CV' and 'various methods'. The full results are contained in the Online Appendix.

**Figure 49: Primary method of committing most costly external fraud, by number of investigations (N)**



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

An example of an external fraud investigated in 2015–16 that involved the misuse of documents is presented in Box 3.

#### Box 3: Case study of a most costly external fraud

A fraud was detected through data analytics on 18 November 2014 and investigated by the AFP. The suspect was aged between 25 and 34 years of age at the time of the investigation and lived in Victoria. The target of the fraud was Commonwealth benefits—specifically, dishonestly receiving Commonwealth benefits by creating a false or altered document (not belonging to the entity) and attempting to obtain \$15,800,000 from the Commonwealth. The entity was unable to quantify how much was actually lost as a result of the fraud and at the time of completing the census had not recovered any money, with the matter still being before the courts.

The fraud commenced on 6 August 2012 and ceased on 5 December 2015. The respondent did not know the educational level of the suspect, whose occupation was stated to be ‘manager’. The accused was a customer or client of the entity at the time of the fraud and had acted alone. Their motivation was categorised as greed or a desire for financial gain. The respondent noted that the fraud occurred because its existing IT controls were unable to prevent the submission of inappropriate claims, although the respondent noted that the entity had since developed new IT systems with protocols to flag such inappropriate claims. The data analytics program that detected the fraud also identified high risk behaviours in the suspect’s claims for other benefits. The investigation was finalised on 16 December 2015, with the final outcome still pending before the courts. Administrative sanctions had been imposed, including a fine of \$1,000, and the suspect had all approved services cancelled.

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

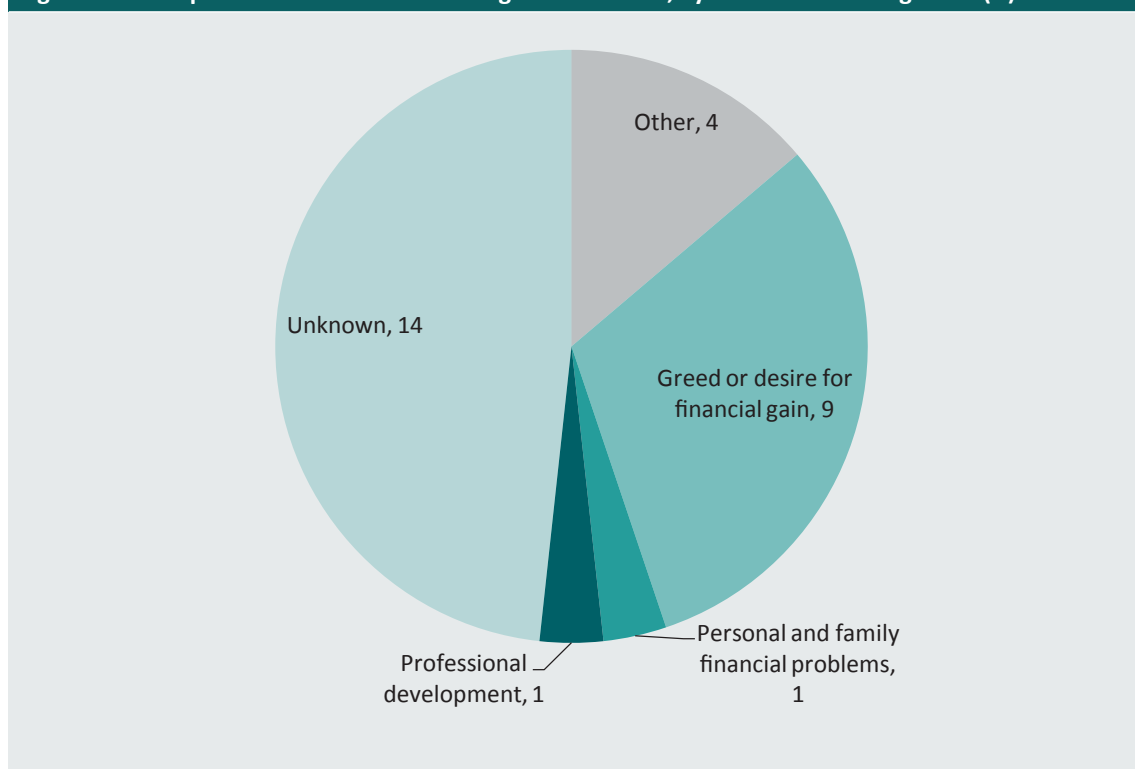
#### *Co-offending in most costly external frauds*

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. Figure 26, above, presented findings on collusion in which three investigations involved an ‘entity employee or contractor conspiring with an external party for the purposes of committing fraud’, and a further three investigations involved an ‘entity employee or contractor supplying information to an external party without authorisation for the purposes of committing fraud’. In the case of most costly external fraud, there was only one entity that reported that the suspect had colluded with another to commit the fraud.

### *Motivations of most costly external fraud suspects*

To gain an insight into why fraud occurs, respondents were asked to indicate the principal motivation or other reason the suspect had for committing the fraud (see Figure 50). A large percentage of respondents were unable to provide details of the suspect's motivation (48%; N=14). Responses were based on information available to respondents at the time of completing the questionnaire. For example, one respondent noted that the suspect 'refused to be interviewed', so the motive was 'unknown'. Of the known motives identified, 'greed or desire for financial gain' was the most commonly cited, present in 31 percent of investigations.

**Figure 50: Principal motivation for committing external fraud, by number of investigations (N)**



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

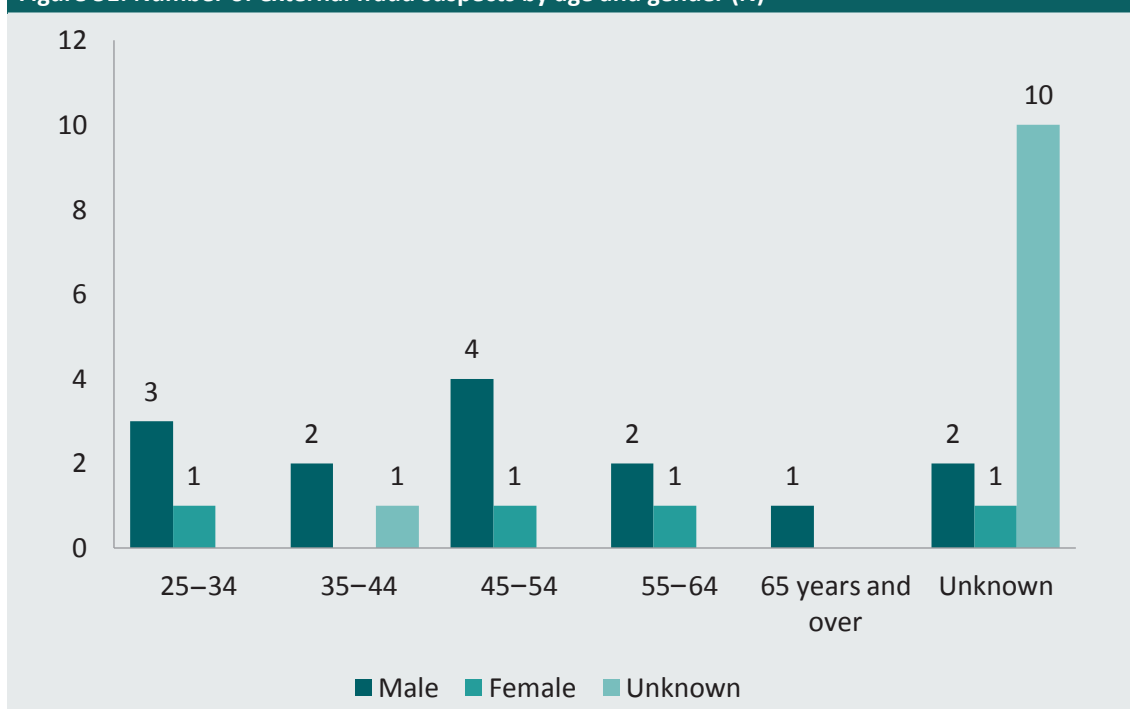
### *Demographics of most costly external fraud suspects*

#### *Age and gender*

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. For example, in the case of age and gender, a third of respondents (N=10; 34%) could not provide those details (Figure 51). This is somewhat surprising, as entities' personnel records would clearly have this data. Of the suspects whose gender was known, most were male (N=14; 48%), while only four suspects were female. The largest number of suspects was aged 45 to 54 years, and they were mostly males with just one female suspect in that age category.



**Figure 51: Number of external fraud suspects by age and gender (N)**



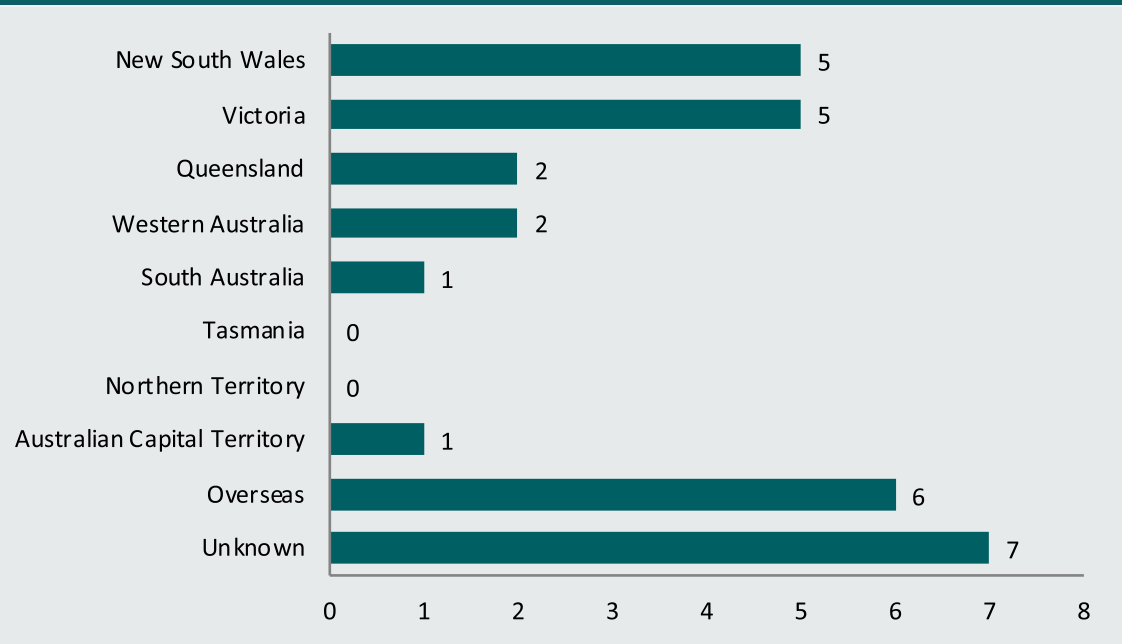
Source: Commonwealth fraud census 2015–16 [AIC computer file]

### Residence

While Commonwealth entities are predominately located in the Australian Capital Territory, their services are provided throughout Australia (eg taxation, welfare, social security, defence and health agencies) and overseas (eg entities administering grant and aid programs, defence procurement, trade arrangements and even cybersecurity). The location of an external fraud perpetrator can have a substantial impact on the ability to conduct investigations and mount prosecutions. Figure 52 shows the locations of suspects who committed the most costly external fraud incidents. The location of around a quarter (N=7; 24%) of suspects was unknown, and six suspects (21%) were located overseas—two in the United States of America and others in the United Kingdom, Nigeria, Cambodia and the United Arab Emirates.

Within Australia the two most common locations for external fraud suspects were New South Wales (NSW) and Victoria (Vic), with 17 percent of suspects located in each location (N=5 in both NSW and Vic). No suspects involved in the most costly external fraud investigations were from the Northern Territory.

**Figure 52: Residential locations of most costly external fraud suspects, by number of investigations (N)**



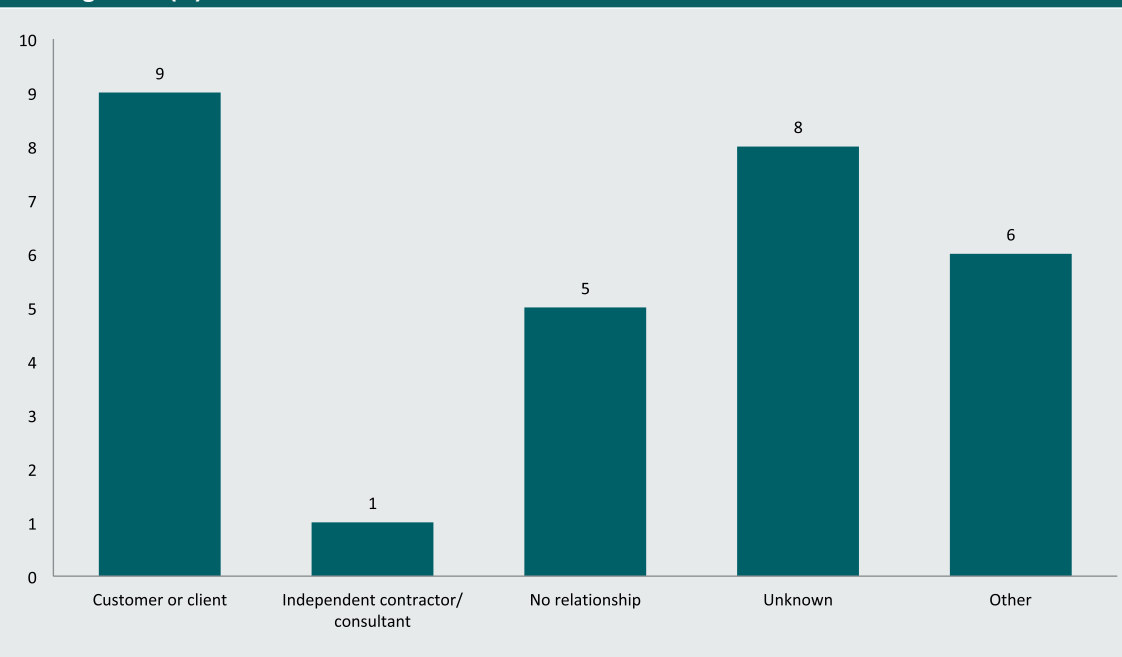
Source: Commonwealth fraud census 2015–16 [AIC computer file]

#### *Relationship of suspect to Commonwealth entity*

Respondents were asked what relationship the suspect had to the entity against whom they committed the fraud. Figure 53 shows that 31 percent (N=9) of most costly external frauds involved suspects who were clients or customers of the entity they committed fraud against, while five investigations found there was no relationship. This may have involved fraudulent use of an entity's credit card through skimming etc.

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

**Figure 53: Relationship of external fraud suspect to Commonwealth entity, by number of investigations (N)**



Respondents were asked to indicate the methods by which the most costly incidents of external fraud were dealt with and by whom (Figure 54). A large number of these investigations were conducted internally (N=17; 59%). Examples of investigators classified as 'other' included 'internal investigations and AFP/state police and international police' and 'internal entity investigation followed by an external investigation by a financial institution (credit card provider)'.

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

**Figure 54: Investigators of most costly external fraud incidents, by number of investigations (N)**



### *Impact, costs and recoveries of most costly external frauds*

As with the investigation of the most costly internal frauds, respondents were also asked to provide their best estimates of:

- the total amount that the offender attempted to dishonestly obtain from the Commonwealth in most costly external frauds;
- the total amount that the offender was found to have dishonestly obtained from the Commonwealth in these investigations; and
- any other non-financial impact.

The estimates were for the most costly external fraud investigated in 2015–16, regardless of when the fraud was committed, and excluding the costs of investigation and recovery action.

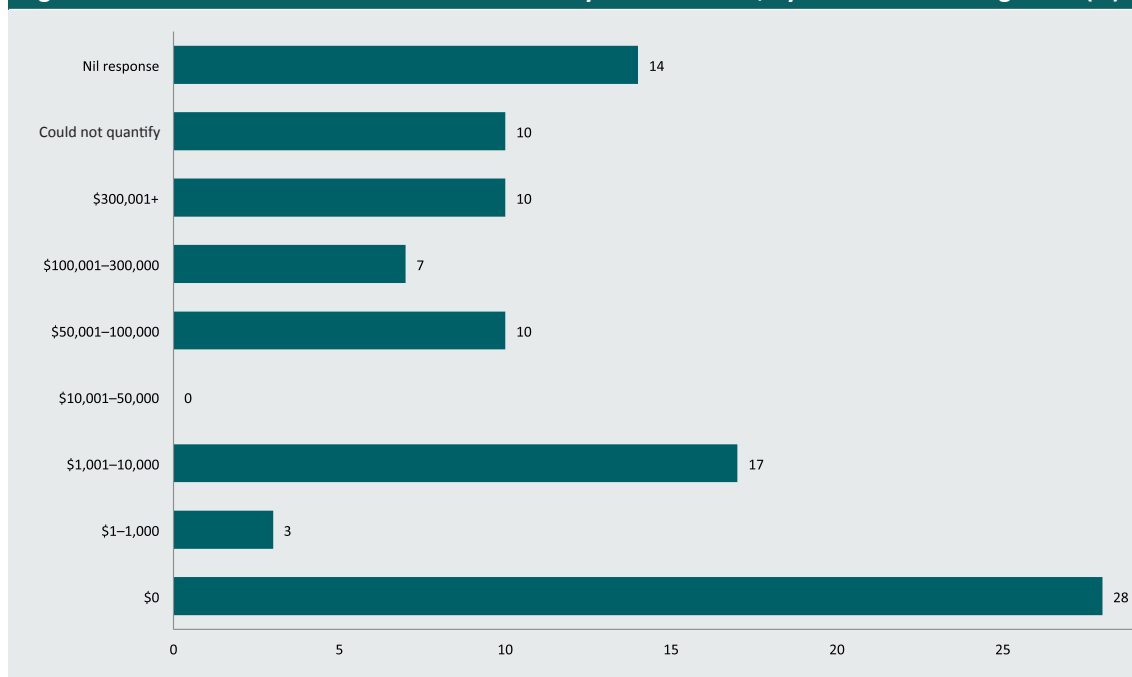
### *Amounts that offenders attempted to dishonestly obtain in most costly external frauds*

Respondents were asked to quantify the amount that the offender attempted to obtain dishonestly from the entity—that is, what the losses would have been had the fraud not been detected. Seventeen respondents were able to provide an estimate in response to this question, with the amounts lost totalling \$28.8m. Six respondents reported that the loss would have been zero and three respondents reported the potential amount lost could not be quantified.

*Amounts that offenders were found to have dishonestly obtained in most costly external frauds*

Seventeen respondents quantified an amount that the offender was found to have dishonestly obtained from the Commonwealth, three respondents indicated that the total amount lost due to the most costly external fraud could not be quantified and in over 50 percent of investigations no financial losses were suffered by entities. From Figure 55, it is apparent that, of the investigations with quantified losses, most fell into the category of \$1,001 to \$10,000 lost, with 10 percent involving losses of more than \$300,000.

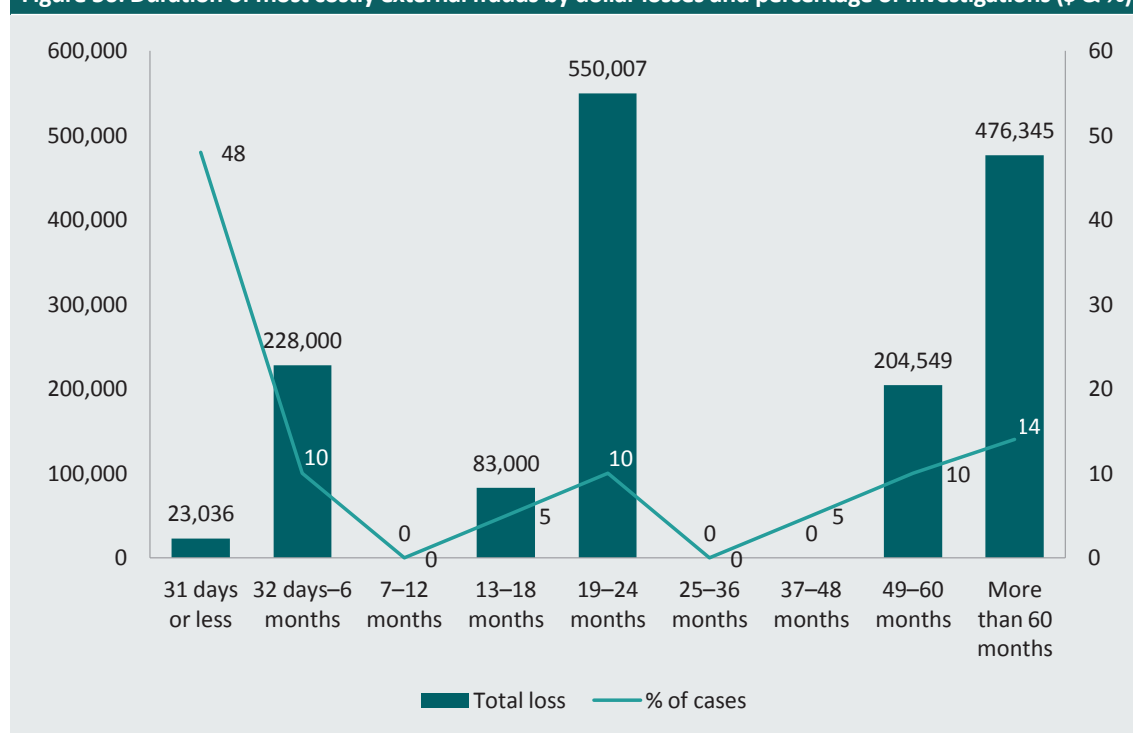
**Figure 55: Substantiated amounts lost in most costly external fraud, by number of investigations (%)**



Note: 52 percent of respondents reported zero losses, failed to answer the question or advised the amount lost was unquantifiable  
Source: Commonwealth fraud census 2015–16 [AIC computer file]

Further analyses of the costs associated with the most costly incident of external fraud included the relationship between the duration of the fraud and the amount lost. Consistent with prior organisational fraud research (ACFE 2016), the highest percentage of cases were of relatively short duration and involved small losses, while cases involving high losses tended to last longer, but were fewer in number. The exception with the current census findings for 2015–16 is that fraud lasting between 19 and 24 months (10% of investigations) involved the largest losses (a total of \$550,007; Figure 56). This finding could be the result of specific high-value frauds that, in 2015–16, lasted 19 to 24 months.

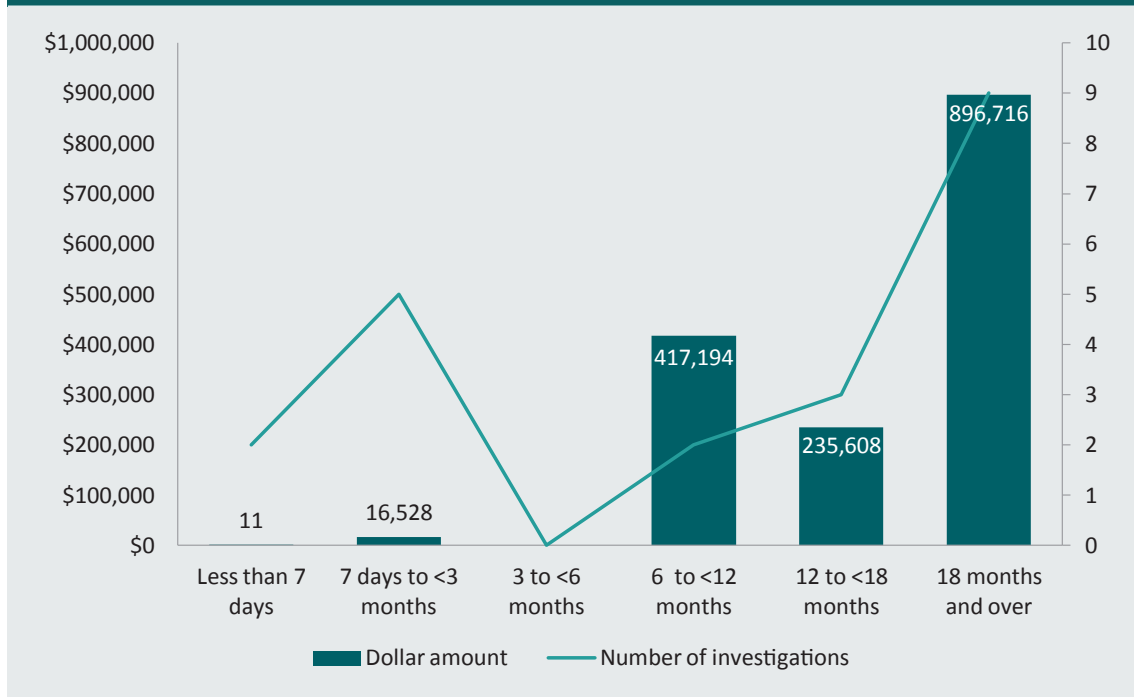
**Figure 56: Duration of most costly external frauds by dollar losses and percentage of investigations (\$ & %)**



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

Logically, it is to be expected that the length of an investigation would be affected by the complexity of the case and the amount lost. Frauds involving a higher dollar value may involve more targets and methods, thus adding to the complexity of the investigation and the time needed to carry it out. Figure 57 shows the number and duration of investigations and the associated value of the fraud involved. Not all investigations resulted in a financial impact for entities and therefore only the responses that included an investigation time frame and financial loss were included. In matters where the duration was known, it was found that the investigations that took 18 months or longer to finalise were also the most costly, with the total value of these being approximately \$896,700.

**Figure 57: Dollar amount lost by duration and number of investigations (N & \$)**



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

#### *Non-financial impacts of most costly external frauds*

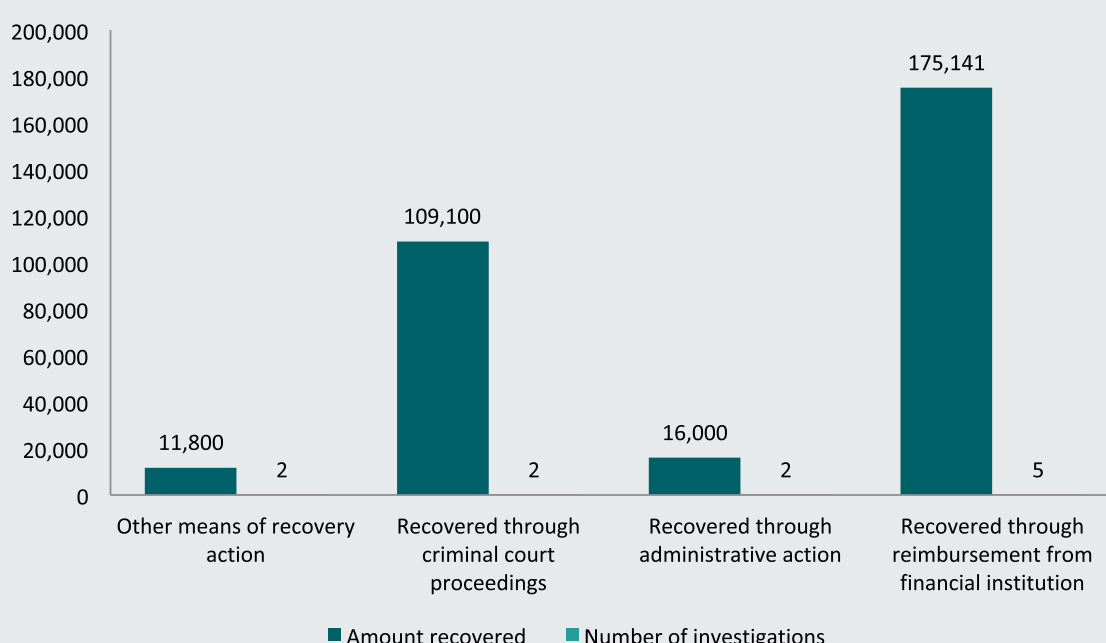
Respondents were asked about any non-financial impacts their entity experienced due to the most costly external fraud. Five respondents provided information about potential reputational damage to the entity if the fraud had continued. Three respondents advised they could not provide details of any non-financial impacts experienced by their entity.

#### *Recoveries for most costly external frauds*

Following detection of Commonwealth fraud, entities have a responsibility to attempt to recover any outstanding losses from those responsible. Respondents were asked to indicate how much money or other property was recovered from suspects in the year of reporting. Amounts recovered might not relate to the losses sustained in the most costly incidents in any given year, as recovery action often continues after an investigation has concluded. Respondents were asked only to include amounts that related to the most costly external fraud whose investigation was finalised in 2015–16, regardless of when the fraud was committed or detected. Respondents were able to specify if the amount lost could not be quantified (for example, if the fraud was the result of a data breach or loss of information) and were asked not to include the costs of investigation or recovery.

Figure 58 presents the findings for how much money was recovered via different recovery methods and how many entities recovered monies via those means. The most frequently cited method of recovering money after an investigation was reimbursement from a financial institution. This was also the way in which the most money was recovered: \$175,141 in 2015–16. However, on average, per fraud investigation, more money was recovered through criminal court proceedings than through other methods. In 2015–16, criminal court action led to \$109,100 being recovered by two entities, with a mean recovery of \$54,550 per fraud investigation.

**Figure 58: Amounts recovered relating to most costly external fraud incidents, by recovery method and number of investigations (N & \$)**

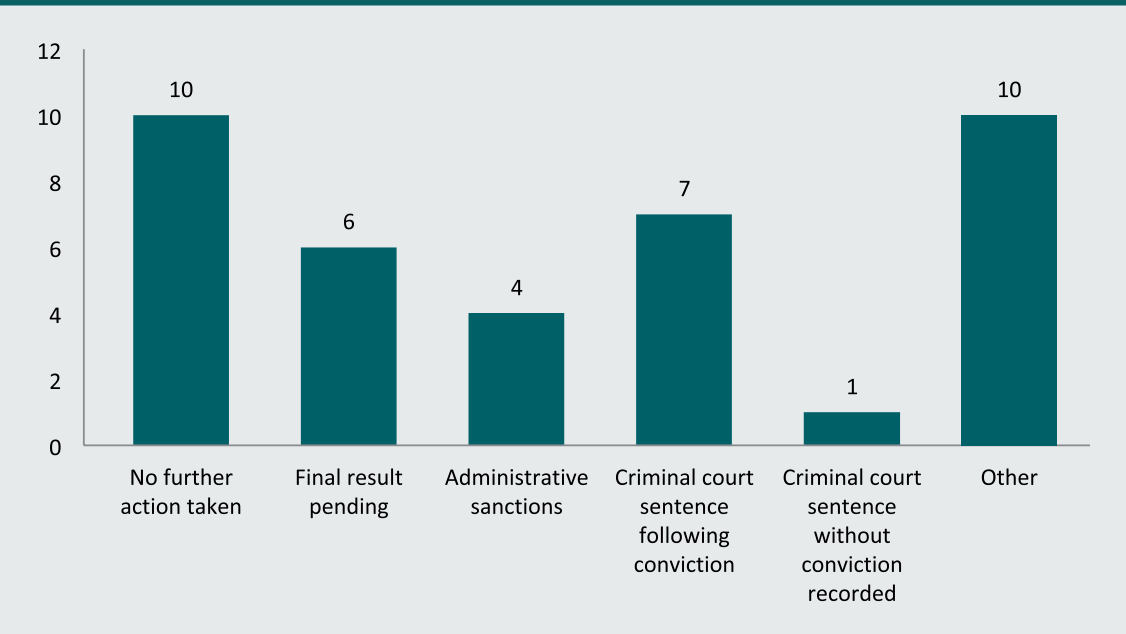


Source: Commonwealth fraud census 2015–16 [AIC computer file]

### *Investigation outcomes of most costly external frauds*

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 59).

**Figure 59: Investigation outcomes of most costly external fraud cases (N)**



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

#### *Final result pending*

Six respondents noted the final results of the investigations were still pending. Generally, this related to the matter being referred to the CDPP and, at the time of the data collection, it was still waiting to be heard. In one case, for example, the respondent indicated that the ‘brief of evidence was with the CDPP’. Other matters had been referred to the AFP and the entity was waiting to hear if the matter would be accepted or rejected.

#### *Administrative sanctions*

Respondents were also asked to supply further details on the four investigations that resulted in administrative sanctions being imposed. Three of these resulted in cessation of services or withdrawal from programs and the other investigation resulted in ‘overpayments being raised and recovery action commenced’.

#### *Criminal court sanctions*

Seven of the investigations into most costly external frauds resulted in criminal court sanctions being imposed, with penalties including good behaviour bonds, community corrections orders, suspended sentences and terms of imprisonment. One respondent provided no further details other than ‘4 November 2015’, potentially indicating a court verdict or sentence was imposed on that date. Other outcomes included fines, restitution or reparation orders such as:

- 19 months imprisonment fully suspended with a fine of \$20,000;
- 2 years imprisonment with a reparation order of \$64,419;
- 4 years imprisonment with 12 months to serve and a restitution order of \$200,000 to the impacted entity (note: this outcome was edited to protect the identity of the entity); and



- 16 months imprisonment, to be released after eight months on a recognisance order of \$1,000, to be of good behaviour for eight months, and an \$83,000 restitution order payable to the Commonwealth.

#### *Other outcomes*

Respondents provided additional details for 10 investigations in which the outcome did not involve administrative sanctions, criminal or civil court outcomes. Some of these involved credit card fraud in which the matter was dealt with by financial institutions.

Other outcomes included:

- police and the bank were notified of the fraudulent transaction;
- final outcome still before the courts;
- the financial institution cancelled the affected card and issued a new card;
- the matter was referred to the WA Police;
- two suspects appeared in Melbourne Magistrates' Court in December 2015 and in March 2016 the Department of Public Prosecutions withdrew charges against the alleged offenders;
- \$3,600 was refunded by a financial institution;
- a matter was referred to the CDPP but the entity was still awaiting a CDPP decision;
- the recovery of \$3,338 out of the \$7,608 stolen, with the remaining \$4,270 unrecoverable. In this matter, the suspect was outside Australia's jurisdiction with no prospect of further action;
- money was refunded by a financial institution; and
- an entity recovered the money remaining in the deceased client's account (the entity was not notified of the death). As the suspect was unable to be identified due to lack of evidence, the rest of the money was not recovered.

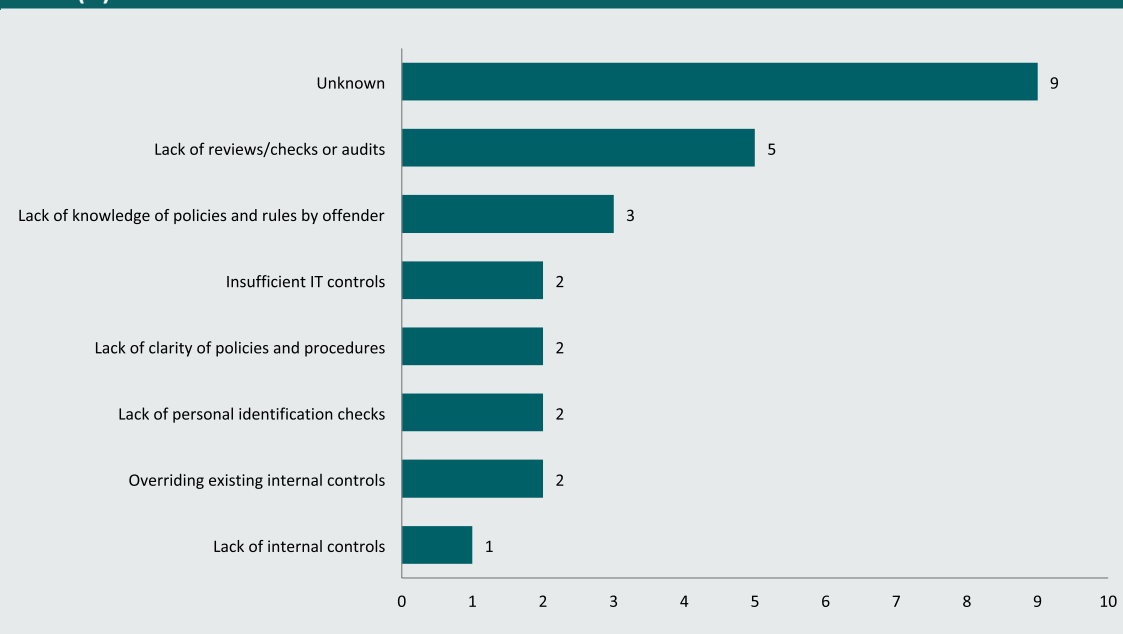
#### *Death of suspect in most costly external frauds*

Finally, respondents reported no instances involving most costly external fraud suspects having died at the time the census was completed. Sixteen respondents advised the suspect was still living, 13 respondents did not know if the suspect was deceased or not and one respondent did not answer the question.

#### *Fraud control weaknesses involved in most costly external fraud*

The ACFE (2016) report notes 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 if weaknesses in entities' fraud control measures contributed to the most costly external frauds occurring, respondents were asked to identify the principal fraud control weakness that contributed to the fraud occurring. In addition to the findings shown in Figure 60, other responses included 'break and enter' and 'false and misleading information provided to entity'.

**Figure 60: Fraud control weaknesses that contributed to the commission of most costly external fraud (N)**



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

An example of a most costly fraud investigated in 2015–16 that arose through a number of fraud control weaknesses is presented in Box 4.

**Box 4: Example of a most costly external fraud incident whose investigation was finalised in 2015–16**

The suspect at the time the fraud was committed, was aged between 25 and 34 years of age. The suspect had attempted to defraud an unknown amount from the entity through the misuse of documents, creating a false document in an attempt to claim Commonwealth grant monies they were not entitled to. The entity could not quantify the actual amount lost and no monies were recovered. The fraud lasted for 4½ years. The suspect was a customer or client of the entity and his occupation was listed as ‘company director’. The suspect lived in New South Wales, but no details about their education were known. The suspect committed the fraud alone and their motivation for committing the fraud was reported to be ‘greed or desire for financial gain’. The respondent pointed to a lack of internal controls in the Commonwealth entity, including the ability to override existing internal controls, a lack of personal identification checks, a lack of clarity about policies and procedures, a lack of knowledge of policies and rules by the offender and a lack of reviews/checks or audits. No behavioural indicators of fraud were observed in the suspect’s behaviour. The investigation commenced on 11 February 2011 and was finalised on 21 September 2015—four years and seven months in total. The defendant was convicted of fraud and a suspended sentence of 19 months imprisonment was imposed, in addition to a fine of \$20,000.

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

# Part 5: Policing and prosecutions

In addition to the AIC's questionnaire, the *Commonwealth Fraud Control Framework 2017* requires the AFP and CDPP to provide the AIC with information each year regarding Commonwealth fraud investigations and prosecutions, respectively. 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 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's 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 fraud incidents against the Commonwealth referred to, accepted or declined by the AFP during the previous financial year, in a form requested by the AIC.

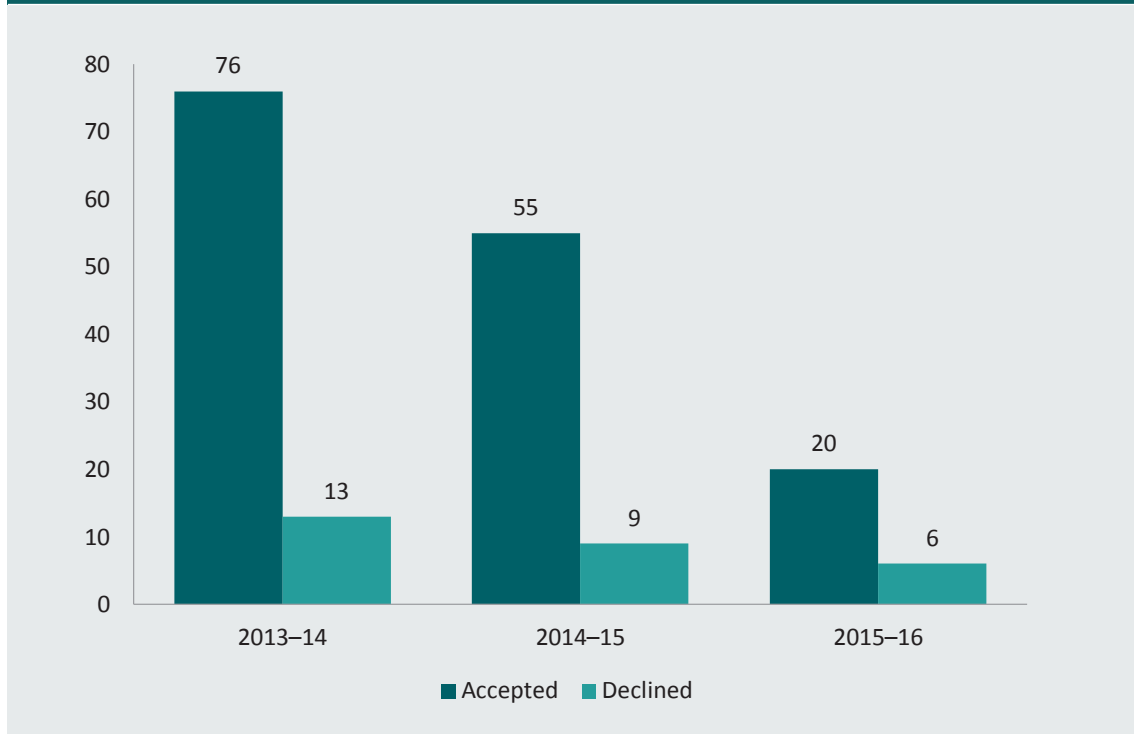
The current Framework (AGD 2017) provides the following list of matters that are considered to be of sufficient seriousness and complexity to warrant referral to the AFP:

- significant or potentially significant monetary or property loss to the Commonwealth;
- damage to the security, standing or integrity of the Commonwealth or an entity;
- harm to the economy, national security, resources, assets, environment or wellbeing of Australia;
- a serious breach of trust by a Commonwealth employee or contractor of an entity;
- the use of sophisticated techniques or technology to avoid detection, that require specialised skills and technology for the matter to be successfully investigated;
- the elements of a criminal conspiracy;
- bribery, corruption or attempted bribery or corruption of a Commonwealth employee or contractor to an entity;

- known or suspected criminal activity against more than one entity;
- activities which could affect wider aspects of Commonwealth law enforcement (eg illegal immigration, money laundering); and
- politically sensitive matters.

The changes to the questionnaire and the units of measurement in 2016 did not affect the data provided by the AFP, thus enabling data for 2015–16 to be compared directly with those from earlier years (see Figure 61).

**Figure 61: Referrals accepted and declined by the AFP, 2013–14 to 2015–16 (N)**



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

The AFP's Fraud and Anti-Corruption Centre has, in the last year, provided training to Commonwealth entities in how to conduct investigations and gather evidence. In addition to the 20 referrals accepted, the AFP also provided assistance to 18 other Commonwealth entities in the conduct of their own investigations. Another six referrals were under evaluation by the AFP at the time of the data collection. The 20 cases accepted for investigation in 2015–16 had an estimated financial loss of \$180,791,525, based on the value of the loss reported by the referring agency. A further \$308,260,321 was involved in cases in which the AFP assisted other agencies.

At 30 June 2016, the AFP had 128 fraud-related matters still on hand (some of these being ongoing cases from long-running investigations that commenced in previous years). This represents a reduction from the 160 fraud-related cases on hand as at 30 June 2015. At 30 June 2015, fraud cases on hand were valued at \$1,802,084,653, while on 30 June 2016 on hand cases were worth an estimated \$1,223,904,356, including an amount of \$116,184,505 from the fraud cases the AFP assisted others with.

## CDPP prosecutions

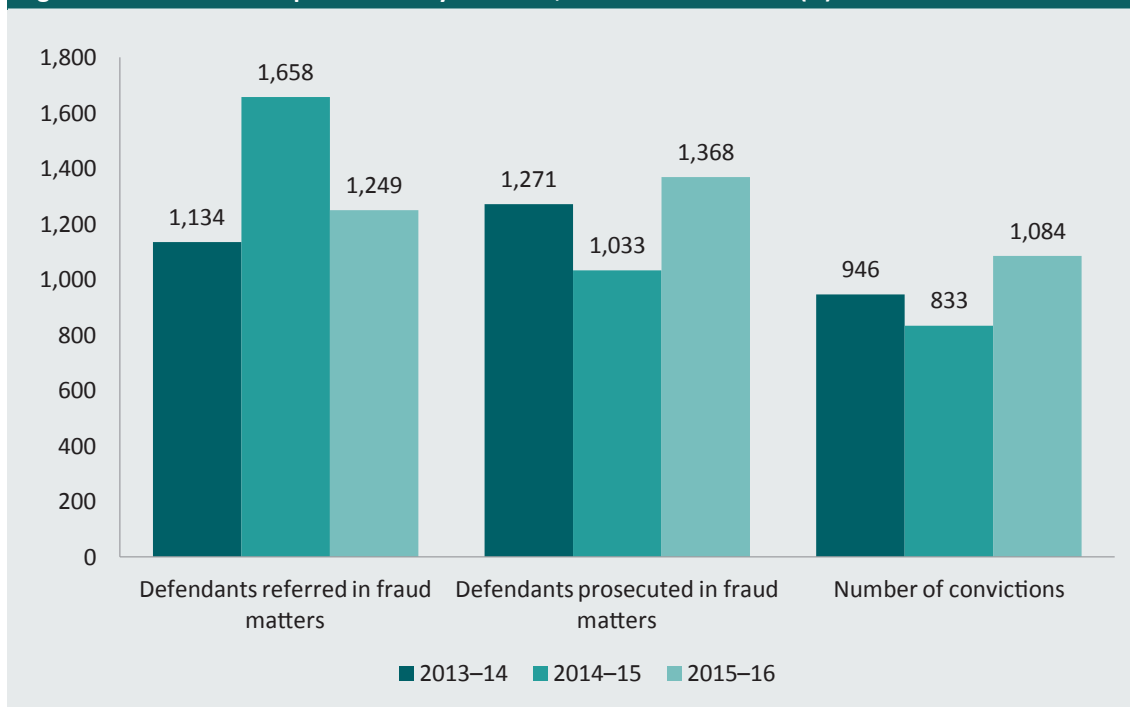
Statistics on Commonwealth fraud cases referred to the CDPP for prosecution, and the outcomes of those cases, are provided to the AIC each year pursuant to paragraph 14 of the 2017 Framework (formerly paragraph 9 of the 2014 Framework).

For each financial year, individual state and territory statistics are provided on:

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

Figure 62 presents CDPP data on the numbers of defendants referred and prosecuted, and the number of fraud prosecutions obtained each year. As similar questions were asked in previous censuses, data for 2015–16 can be compared with previous years' data. It was found that there was an increase in the number of convictions obtained from prosecutions between 2013–14 and 2015–16.

**Figure 62: Fraud matters prosecuted by the CDPP, 2013–14 to 2015–16 (N)**



Source: CDPP internal data provided to AIC in 2014, 2015 and 2016

The CDPP assesses each brief 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. Table 5 shows corresponding statistics on referrals, defendants, convictions, acquittals and charges in fraud-type prosecutions handled over the three years for each state and territory. There were some differences in trends in individual jurisdictions, with referrals decreasing in all jurisdictions except Tasmania and the Australian Capital Territory. All states except for Western Australia saw an increase in the number of charges prosecuted and convictions obtained between 2014–15 and 2015–16. A total of \$34,322,547 was the amount initially charged by the CDPP in fraud type prosecutions in 2015–16.

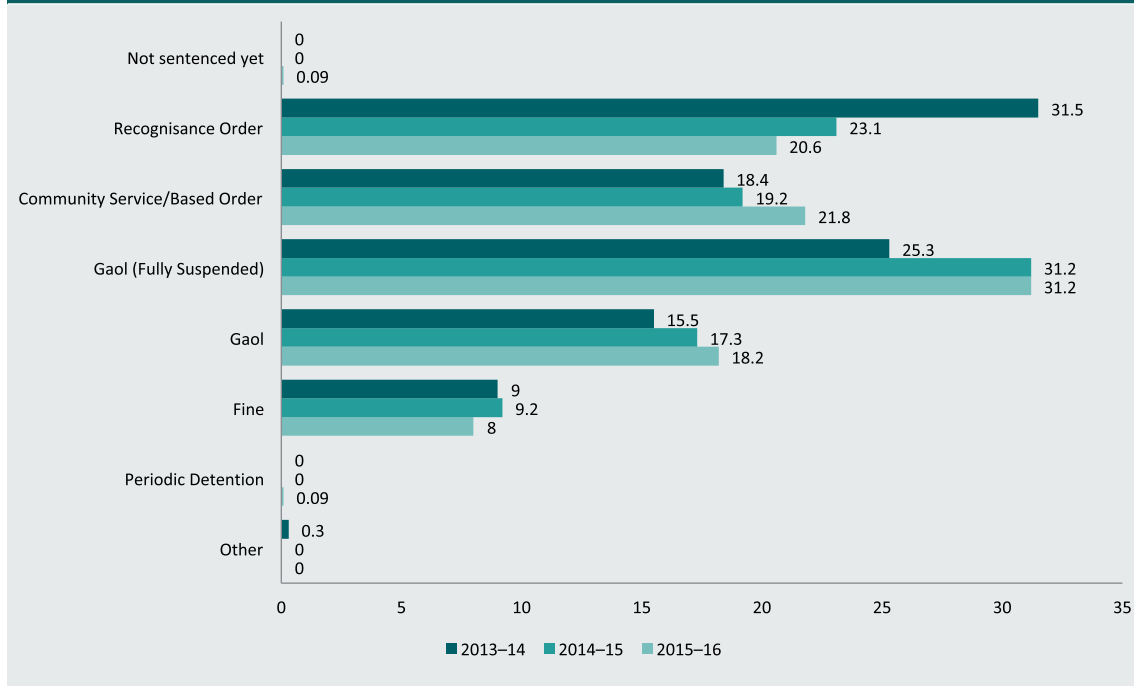
Table 5: Prosecutions of fraud by jurisdiction, 2013–14 to 2015–16 (N)					
Year	Referrals	Defendants prosecuted	Convictions	Acquittals	Charges prosecuted
<b>New South Wales</b>					
2013–14	235	299	233	7	1,395
2014–15	397	126	95	3	736
2015–16	288	337	249	5	1,294
<b>Victoria</b>					
2013–14	236	373	261	1	855
2014–15	355	266	216	0	524
2015–16	257	345	249	1	637
<b>Queensland</b>					
2013–14	378	340	276	0	1,018
2014–15	444	375	308	1	1,009
2015–16	298	393	345	1	1,053
<b>South Australia</b>					
2013–14	76	81	51	0	467
2014–15	178	83	74	0	494
2015–16	91	102	97	0	567
<b>Western Australia</b>					
2013–14	114	73	58	1	271
2014–15	161	105	81	0	349
2015–16	94	65	42	0	165
<b>Tasmania</b>					
2013–14	46	72	49	4	731
2014–15	52	48	39	0	261
2015–16	54	52	42	0	264
<b>Northern Territory</b>					
2013–14	19	19	8	0	84
2014–15	17	16	8	0	33
2015–16	9	26	14	0	80
<b>Australian Capital Territory</b>					
2013–14	30	17	10	0	141
2014–15	54	14	12	0	34
2015–16	58	48	46	0	93
<b>Totals</b>					
Total 2013–14	1,134	1,271	946	13	4,962
Total 2014–15	1,658	1,033	833	4	3,440
Total 2015–16	1,249	1,368	1,084	7	4,153

Source: CDPP internal data provided to AIC in 2014, 2015 and 2016

### Sentencing dispositions

Each year the CDPP also provides statistics on the highest sentencing disposition given for fraud-related offences that were proved (Figure 63). These data relate to the years in which defendants were sentenced, rather than the years in which the CDPP received referrals from entities.

**Figure 63: Highest sentencing disposition by percentage of cases, 2013–14 to 2015–16 (%)**



Source: CDPP internal data provided to AIC 2016

Over the three-year period there was an increase in the use of imprisonment (either fully suspended or to be actually served) as the highest sentence imposed on defendants convicted of fraud matters. This move to more severe sentencing may reflect the changes in the types of fraud coming before the courts, the value of those frauds, or community and government views on the damage economic crime may cause to the public (Senate Economics References Committee 2017). Community service orders/community based orders also increased as the highest sentence imposed for frauds between 2013–14 and 2015–16.



## Part 6: Fraud control management

Fraud control is based on a thorough assessment of fraud risks particular to the operating environments of entities and of the programs they administer, as well as development and implementation of processes and systems to prevent fraud from occurring. This includes training of all employees and relevant contractors in fraud awareness, and specialised training of employees involved in fraud control activities. The *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. On 30 August 2016 the Minister for Justice issued a revised Fraud Policy which reflected the recommendations of the Belcher review. The data in this report are based on the Fraud Policy issued in 2014.

Under paragraph 20 of the Fraud Policy 2014 (AGD 2014), the AGD was tasked with providing an annual compliance report to the government, through the Minister for Justice, on whole-of-government compliance with the Fraud Rule. Following a recommendation from the Belcher Red Tape Review (Belcher 2015), information on compliance with the Framework is now contained in the current report.

**Table 6: Entities invited to participate in the census and responding entities (N & %)**

Responding entities	Year					
	2013–14		2014–15		2015–16	
	N	%	N	%	N	%
Non-corporate entities invited to participate	109	56.2	96	53.6	96	53.6
Non-corporate entities participating	104	53.6	91	50.8	90	50.3
Corporate entities invited to participate	85	43.8	83	46.4	68	54.7
Corporate entities participating	62	32.0	63	35.2	54	30.2
Commonwealth companies invited to participate	na	na	na	na	15	8.4
Commonwealth companies participating	na	na	na	na	4	2.2
Total participation	166	85.6	154	86.0	148	82.7
Total Commonwealth entities	194	100	179	100	179	100

Note: 'na' indicates that the category was not applicable that year

Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

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.

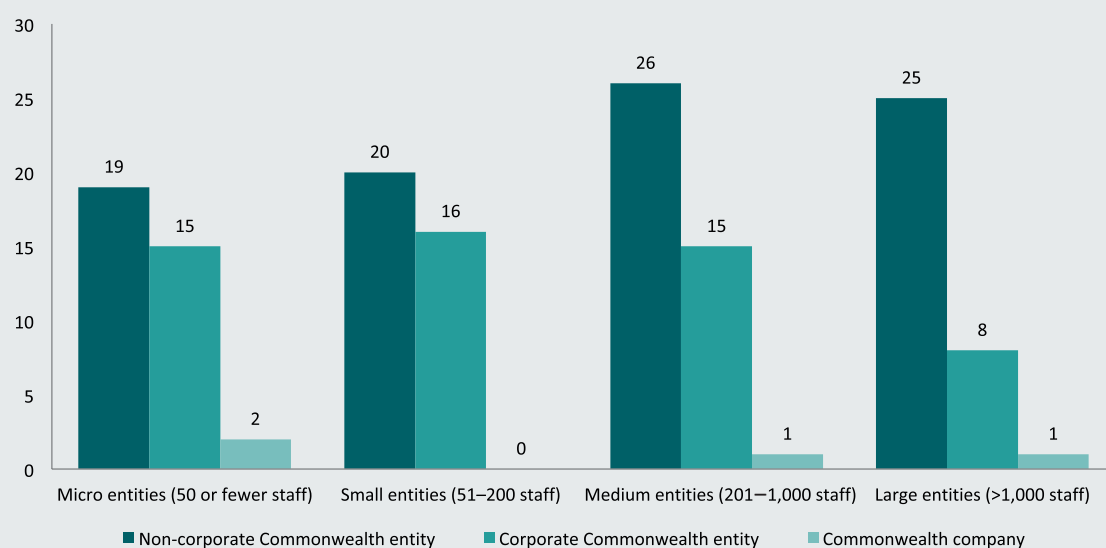
The Fraud Policy was specifically designed to enable non-corporate entities to fulfil their responsibilities under the PGPA Act 2013. The Fraud Policy is also considered best practice for corporate entities and Commonwealth companies.

Although the annual fraud census was not compulsory for corporate entities or Commonwealth companies, the participation rate for corporate entities was also quite high, with 79.4 percent of those organisations completing the census in 2015–16, a slight increase on the 75.9 percent of corporate entities who participated in 2014–15 (Table 6). Each year a small number of non-corporate entities fail to participate in the census. A range of reasons for not participating are given by the entities, such as matters of national security and having adequate fraud control arrangements in place.

## Entity governance and entity size

The majority of entities participating were non-corporate entities, as seen in Figure 64. Over 73 percent of entities with over 1,000 employees were non-corporate entities.

**Figure 64: Entity status under the *Public Governance, Performance and Accountability Act 2013* (Cth), by entity size (N)**



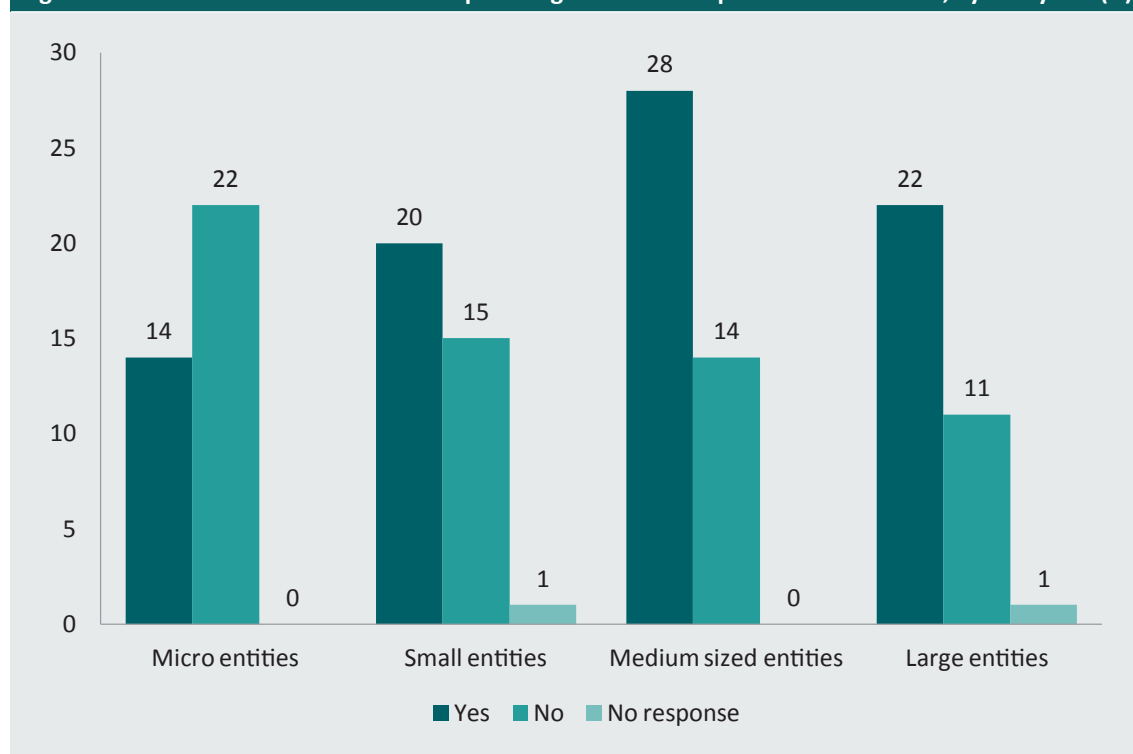
Source: Commonwealth fraud census 2015–16 [AIC computer file]

## 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, which includes 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 by certifying their entity had adequate fraud control measures for the relevant financial year. The only options available to respondents were 'yes' or 'no'. Fewer micro-entities reported their CEO had certified to their minister or presiding officer their entity had adequate fraud control than other sized entities (Figure 65).

**Figure 65: CEO certification to minister or presiding officer of adequate fraud measures, by entity size (N)**



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

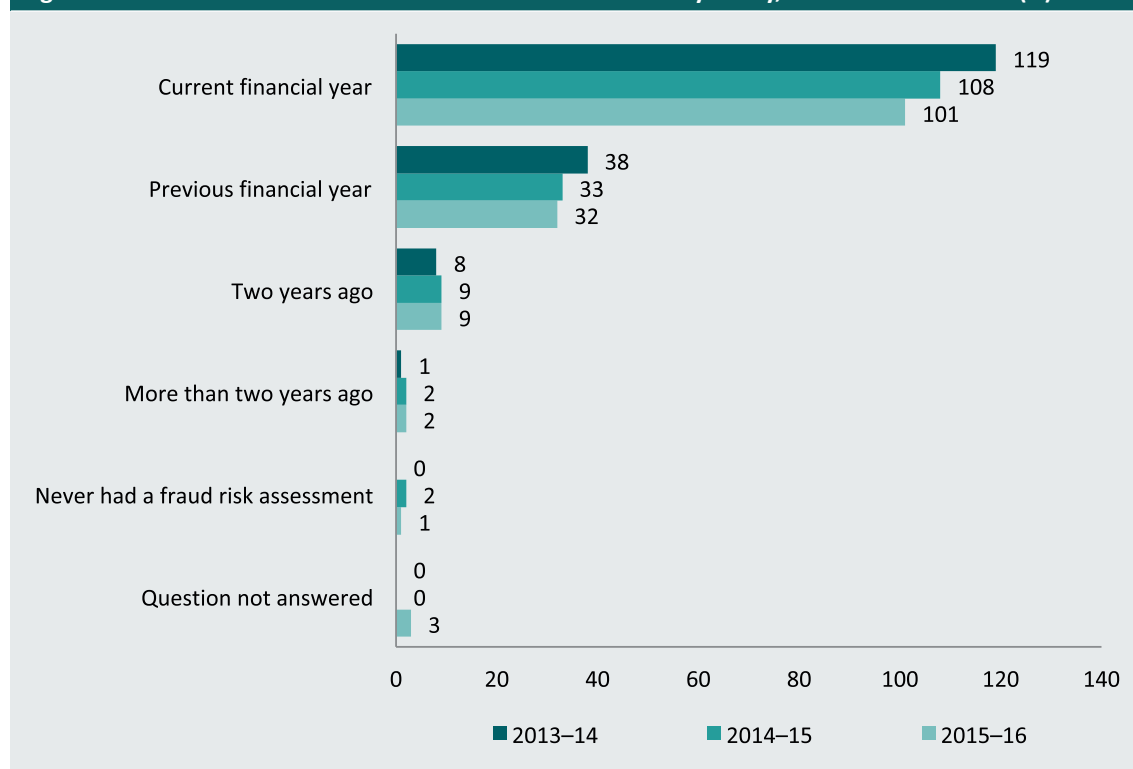
## Fraud control arrangements

Two essential elements of maintaining adequate fraud control include the preparation of a fraud control plan and conducting regular fraud risk assessments. 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 Framework (AGD 2014) requires that fraud risk assessments must be conducted regularly and when there is a substantial change in the structure, functions or activities of the entity. It is recommended that, at a minimum, fraud risk assessments are conducted biennially (AGD 2014). However, depending on an entity's risk environment, it may be appropriate to conduct risk assessments more often. 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 to ensure that those undertaking risk assessments have access to the range of skills, knowledge and experience necessary to appropriately cover all categories of risk that might be applicable.

### *Fraud risk assessments*

When comparing results from 2015–16 on the frequency of fraud risk assessments to the results from earlier years (2013–14 and 2014–15), the number of respondents who reported their entity had completed a fraud risk assessment within the previous two financial years remained high (Figure 66). In 2014–15, 91 percent of respondents reported their entity had completed a fraud risk assessment in the previous two years. In 2015–16, a similar result was found, with 90 percent of respondents reporting fraud risk assessments had been conducted in the previous two years.

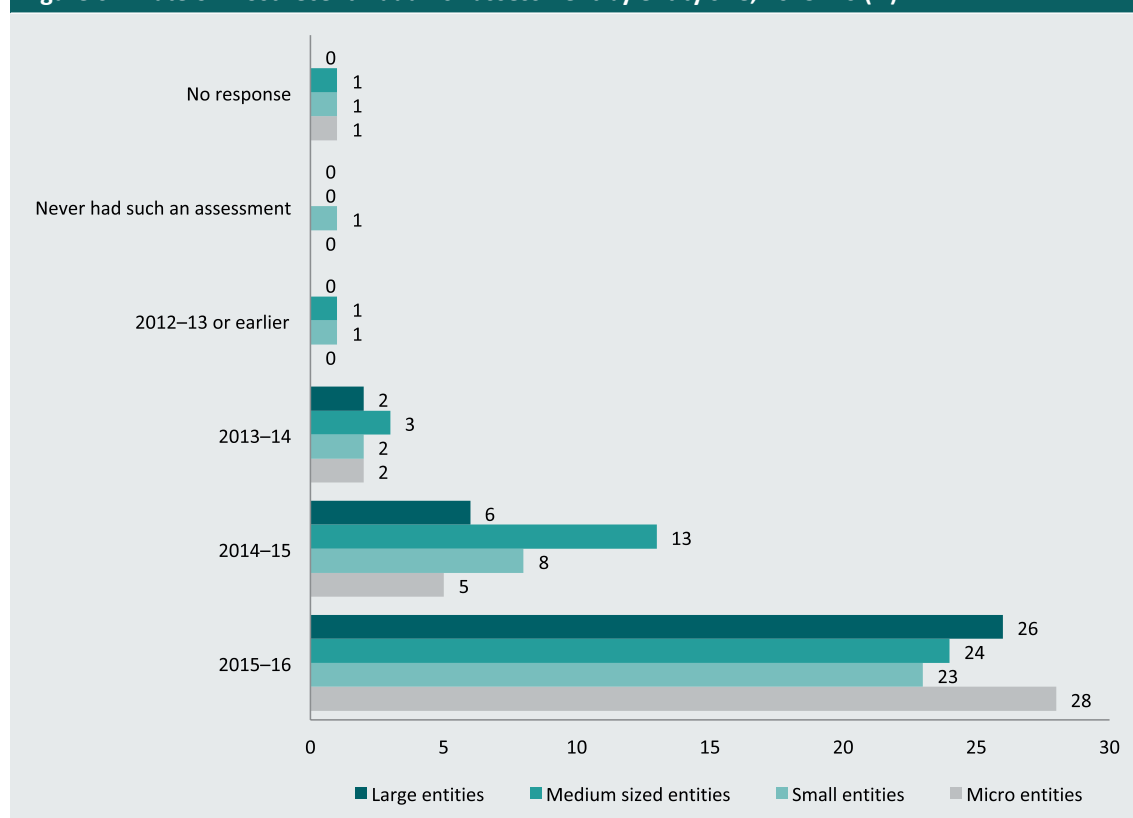
**Figure 66: Year most recent risk assessment was conducted by entity, 2013–14 to 2015–16 (N)**



Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

Looking in detail at findings from the 2015–16 census, Figure 67 presents the findings for the size of the entity and when the most recent fraud risk assessment was completed. More micro-entities (those with 50 or fewer employees) had completed a risk assessment in the 2015–16 financial year than larger entities. There was only one respondent who reported their entity had never conducted a risk assessment and it was one of the smaller entities (51–200 employees). Three respondents did not provide a response.

**Figure 67: Date of most recent fraud risk assessment by entity size, 2015–16 (N)**



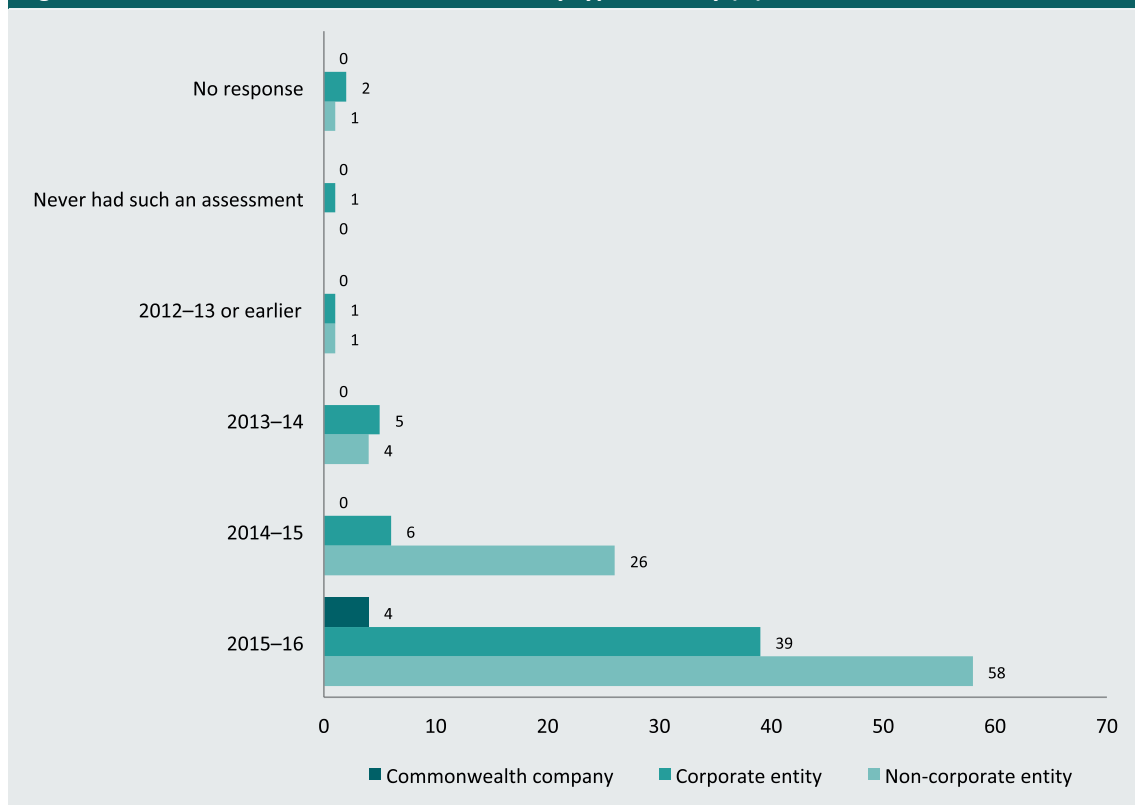
Source: Commonwealth fraud census 2015–16 [AIC computer file]

The 2015–16 census asked respondents whether their entity had undergone a Machinery of Government (MoG) change or any other substantial changes in structure, function or programs, or had undergone a transfer of functions to another entity in the financial year. This question was asked because fraud risk assessments need to be updated or substantially changed with any change of organisational function. In 2015–16, 31 respondents reported their entity had undergone a MoG change. Of those 31 entities, 11 reported a new risk assessment had not been conducted in the 2015–16 financial year. Two of those respondents reported their entity had not conducted a new risk assessment in the last two years. One entity commenced and finalised internal fraud investigations in 2015–16, with fraud substantiated, in part, in one of the finalised investigations. The other entity had commenced an external fraud investigation in 2015–16. Twenty entities completed risk assessments at the time the MoG change occurred.

When looking specifically at non-corporate entities, a high number of entities had conducted risk assessments within the previous two years. Of the 90 non-corporate entities participating in the 2015–16 census, 84 entities (93.3%) had completed a fraud risk assessment in the previous two financial years. Four entities (4.4%) had completed fraud risk assessments in 2013–14 and one respondent did not provide a response on behalf of their entity.

All four participating Commonwealth companies reported completing a fraud risk assessment in the 2015–16 financial year. In 2015–16 one corporate entity, at the time of the census, had never conducted a fraud risk assessment (Figure 68), and six had conducted risk assessments more than two years previously. While the Fraud Policy and Fraud Guidance (including the Framework) are considered best practice for corporate entities, the Fraud Rule is binding for all Commonwealth entities. The Fraud Rule states that entities ‘must take all reasonable measures to prevent, detect and deal with fraud’, and one such measure is regularly conducting fraud risk assessments. Further analysis of the entity which had never conducted a fraud risk assessment showed that the entity did not commence or finalise a fraud investigation in 2015–16.

**Figure 68: Year of most recent risk assessment, by type of entity (N)**



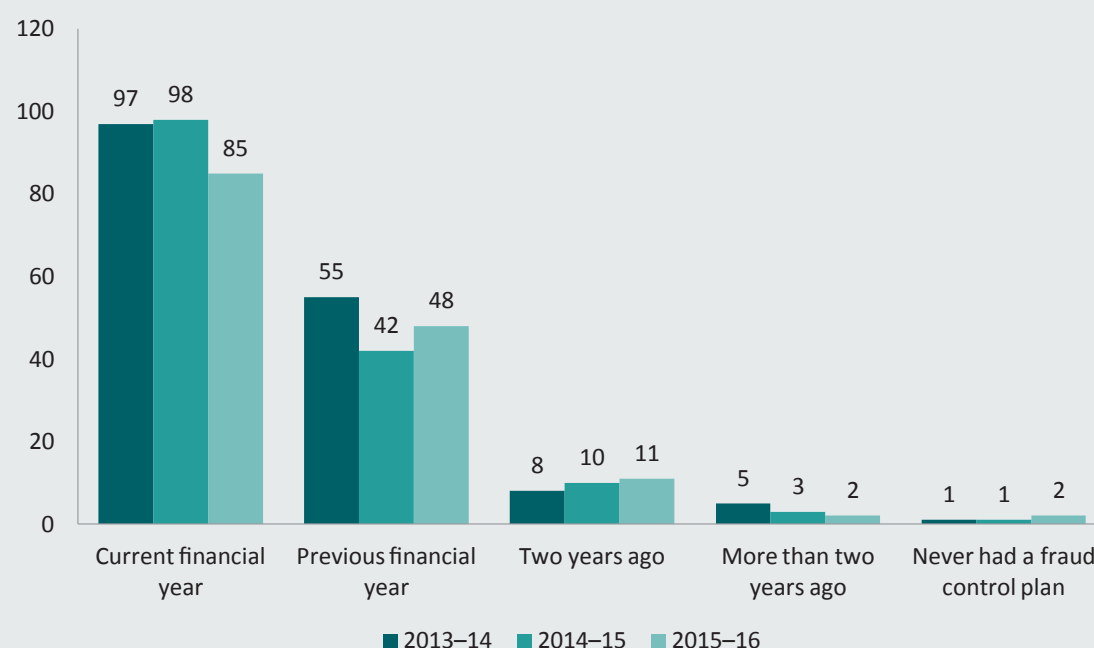
Source: Commonwealth fraud census 2015–16 [AIC computer file]

## Fraud control plans

In addition to fraud risk assessments, another component of maintaining adequate fraud control is for entities to develop fraud control plans after a risk assessment has been conducted. Fraud control plans identify how fraud risks will be mitigated and how fraud prevention, detection, investigation, reporting and response will be handled. 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 2014).

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. In 2015–16, 133 responding entities (89.9%) reported completing a fraud control plan in the previous two financial years (2015–16 and 2014–15). This was a slight decline from the 91 percent (N=140) in 2014–15, although it is in line with the previous findings, which showed a reduction in entities completing fraud control plans in the two most recent financial years (see Figure 69).

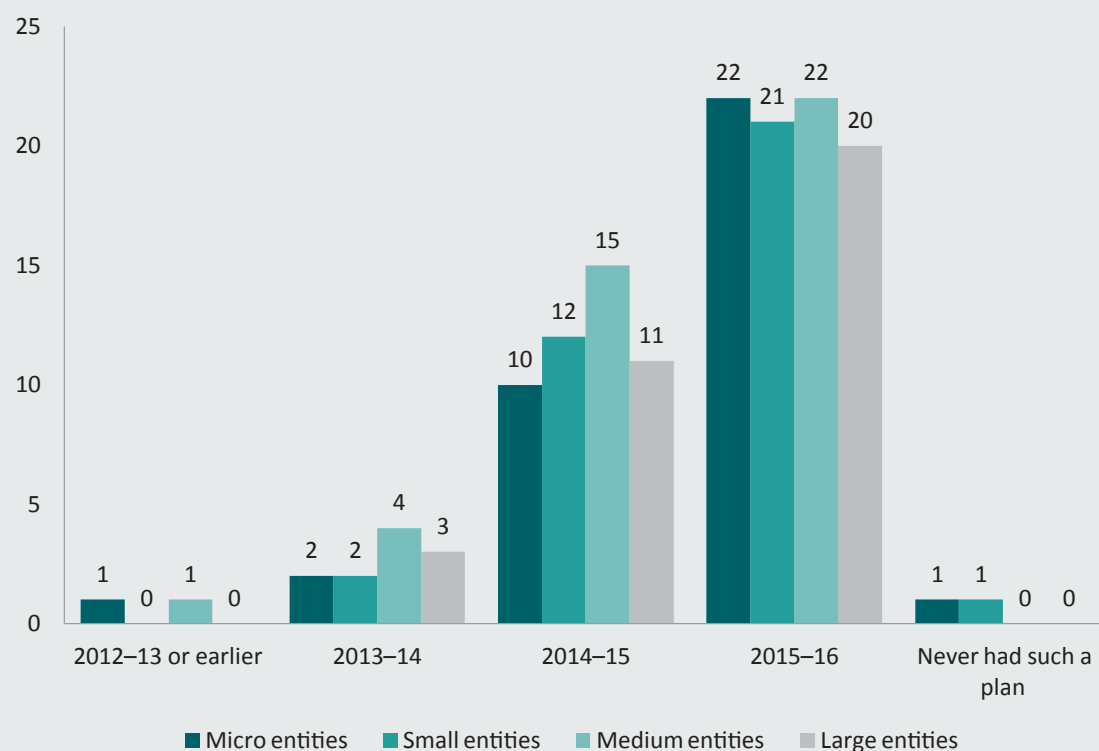
**Figure 69: Year most recent fraud control plan was developed, 2013–14 to 2015–16 (N)**



Source: Commonwealth fraud census 2013–14, 2014–15 and 2015–16 [AIC computer file]

As can be observed in Figure 70, there was no real relationship between the size of the entity and the date when the latest fraud control plan was developed for the entity. However, it should be noted that, of the two entities reported never to have had a fraud control plan, one entity was a micro-entity and the other was a small entity. This finding suggests smaller entities need to be aware of fraud risks within their specific business areas.

**Figure 70: Year most recent fraud control plan was developed, by entity size (N)**

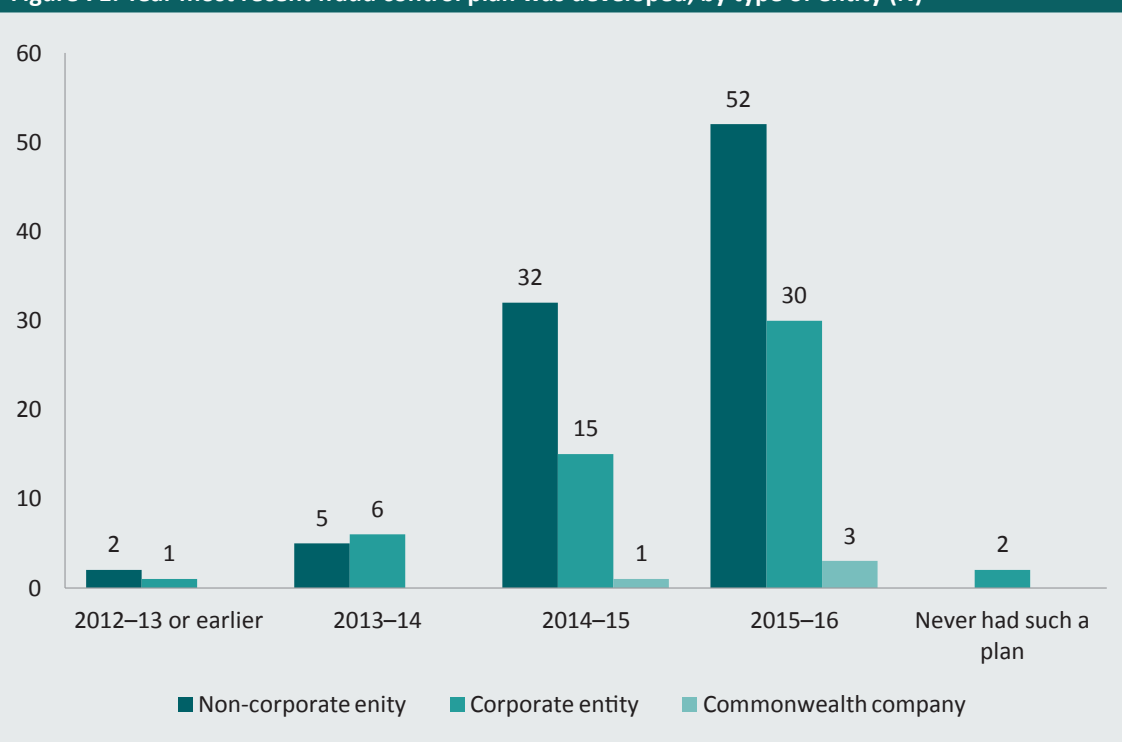


Source: Commonwealth fraud census 2015–16 [AIC computer file]

Figure 71 presents data on the number of non-corporate entities, corporate entities and Commonwealth companies and the year their latest fraud control plan was developed. No non-corporate entities reported in 2015–16 never having a fraud control plan. All four Commonwealth companies participating in the census had completed fraud control plans within the last two financial years. However, there were two non-corporate entities and one corporate entity that reported their last fraud control plan was developed in 2012–13 or earlier. Of particular concern were the two corporate entities that reported they had never had a fraud control plan. While the Framework (AGD 2014) does not specify a time frame for conducting fraud control plans, it does stipulate that whenever a risk assessment is conducted a fraud control plan should follow. As it is recommended that risk assessments be conducted at least every two years, it would be expected that entities should also have completed fraud control plans within the preceding two years.



**Figure 71: Year most recent fraud control plan was developed, by type of entity (N)**



Source: Commonwealth fraud census 2015-16 [AIC computer file]

## Fraud control staff

Fraud control is based on a thorough assessment of fraud risks specific to the operating environment of entities and of the programs they administer, as well as the development and implementation of processes and systems to prevent fraud from occurring. This includes training of all employees and relevant contractors in fraud awareness and specialised training of employees involved in fraud control activities. An important element of fraud control generally is to have appropriately trained staff dedicated to fraud risk management and prevention working within entities.

**Table 7: Number of fraud control staff employed by entities, by entity size, 2015-16 (N)**

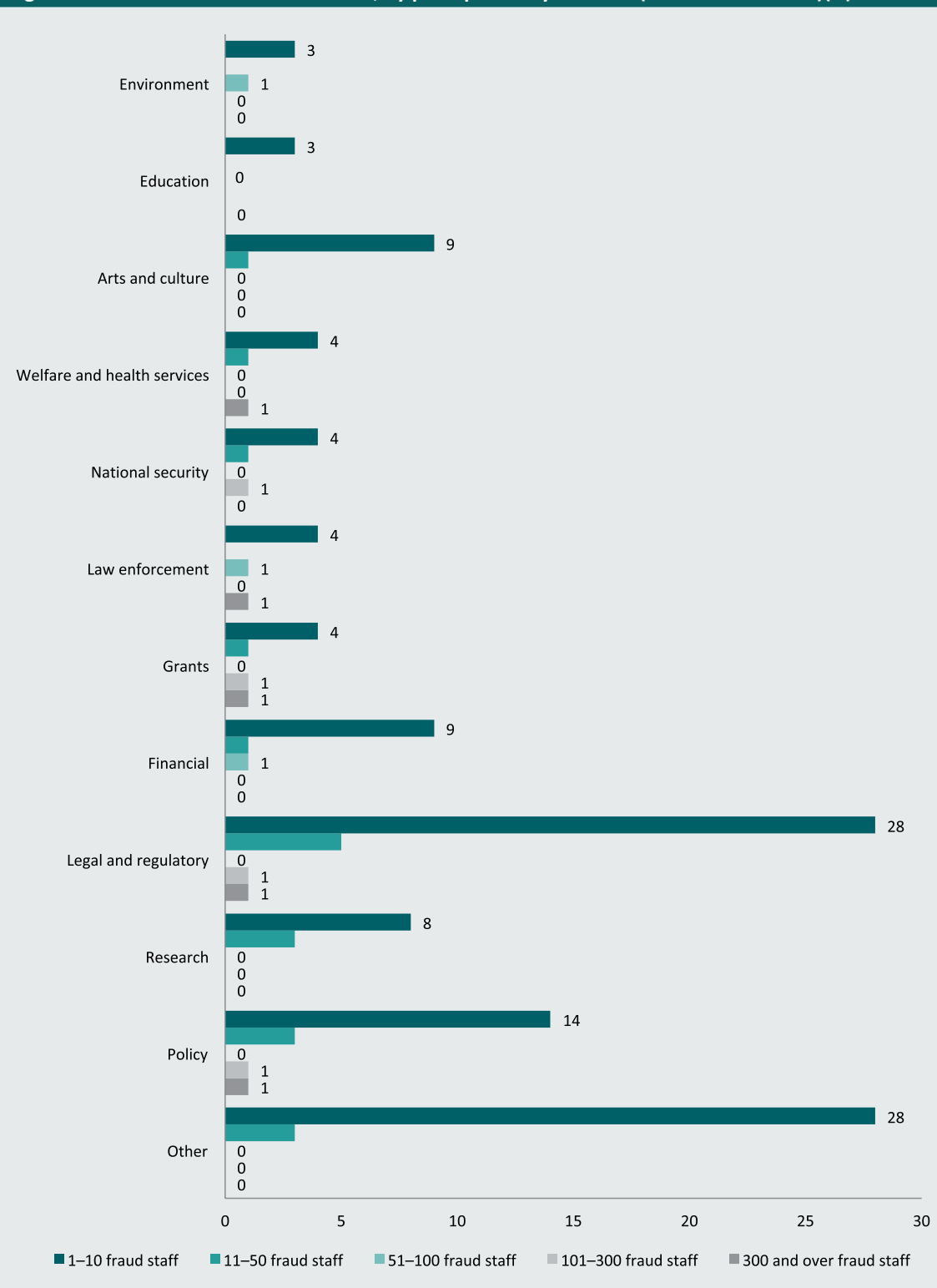
Number of fraud staff	Micro-entities	Small entities	Medium-sized entities	Large entities
5 or fewer	30	28	29	6
6-10	3	5	7	10
11-15	1	0	2	1
16-20	2	2	2	5
21-50	0	0	1	4
51-100	0	1	0	2
101+	0	0	1	6

Source: Commonwealth fraud census 2015-16 [AIC computer file]

Table 7 presents the number of fraud control staff employed by entities by entity size. As shown, entities with 1,000 or fewer employees (micro, small and medium-sized entities) mostly had five or fewer staff dedicated to fraud control, whereas large entities (those with over 1,000 employees) more often had between six and 10 employees in a dedicated fraud control role. In total, 140 entities (94.6%) had at least one employee who spent time in a fraud control role (prevention, investigation or some other function around fraud control). The number of employees dedicated to fraud control in each entity ranged from 0.1 to 661, and the median number of staff employed in that capacity per entity was four employees. There was one respondent who reported that their employee dedicated to fraud control only represented 0.1 of a full-time equivalent position. There were eight respondents who reported their entity (5.4%) had zero staff employed in a fraud control area. Further analysis of those entities found only one of the entities had commenced a fraud investigation in 2015–16 and none of the eight had finalised a fraud investigation during the financial year.

The entity with the largest number of fraud control staff (N=661 employees) advised the principal function of their entity was law enforcement and/or intelligence (Figure 72). Seven respondents indicated their entity had more than 100 staff employed in a dedicated fraud control capacity. The principal functions listed by those entities were: policy functions, administration of grants, education and training, national security, environmental science, regulation or planning, and welfare. There was a large variation in the number staff dedicated to fraud control between entities with similar primary functions—for example, the majority of entities with legal and/or regulatory functions had fewer than 10 employees dedicated to fraud control.

**Figure 72: Number of fraud control staff, by principal entity function (number of entities)(N)**



Source: Commonwealth fraud census 2015-16 [AIC computer file]

### Qualifications of fraud control staff

The *Commonwealth Fraud Control Framework* 2014 (AGD 2014) 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 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. The questionnaire asked if fraud control staff had no formal qualifications, Certificate IV in Government, any other certificates, Diploma of Government or other diplomas, Bachelor degree, Graduate Diploma or Graduate Certificates, Postgraduate Degrees or any fraud-related experienced from law enforcement.

Initial analysis of the qualifications held by fraud control staff examined the percentage of entities that had at least one employee who had one of the qualifications specified (dichotomised as either having a qualification or not). As presented in Figure 73, the most common qualification held by fraud control staff was a Bachelor degree (74%), while the least common qualification held was Diploma of Government (Fraud Control) (17%). Respondents noted the lack of the Certificate IV in Government (Investigations) as an option in the questionnaire and therefore a large proportion of the 'Other Certificates' category represents the Certificate IV in Government (Investigations), a required qualification for fraud investigators.

**Figure 73: Percentage of entities with fraud control staff with specific qualifications (%)**



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

## Prevention, detection and investigation: What helped and what didn't?

Respondents were asked to give their opinions as to what had made a difference to the prevention of fraud (either helping or hindering fraud prevention) during the previous year. Fraud training was of particular use to entities, with 15 respondents noting the importance of training, either online training or face-to-face training (Figure 74).

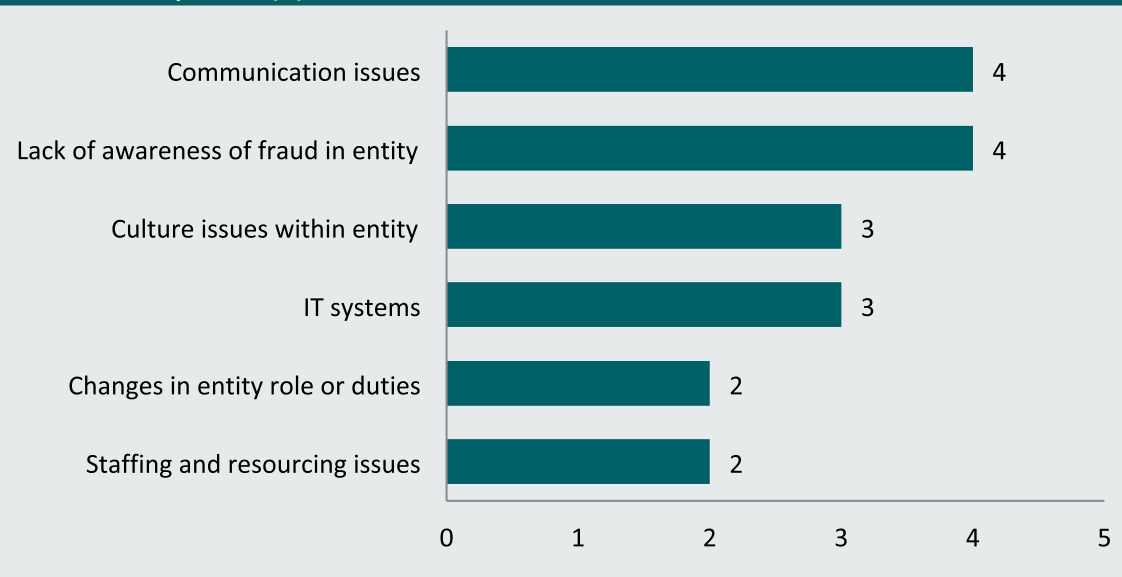
**Figure 74: Factors that helped with fraud prevention in 2015–16, by number of respondents who answered the question (N)**



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

Lack of awareness of fraud in the entity, communication issues, culture within the entity and ICT systems were the top factors that some respondents noted as factors that hindered their fraud prevention in 2015–16 (Figure 75).

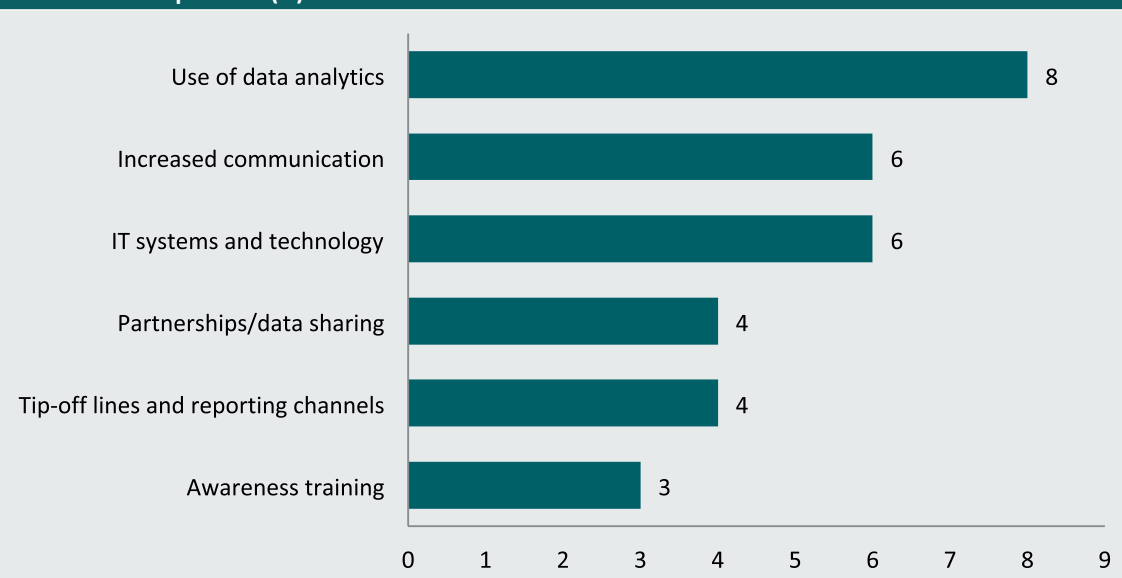
**Figure 75: Factors that hindered fraud prevention in 2015–16, by number of respondents who answered the question (N)**



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

Respondents were asked to provide their opinions as to what had made a difference to the detection of fraud within their entity during the previous year (either helping or hindering). Figure 76 presents the most commonly cited factors that helped in the detection of fraud.

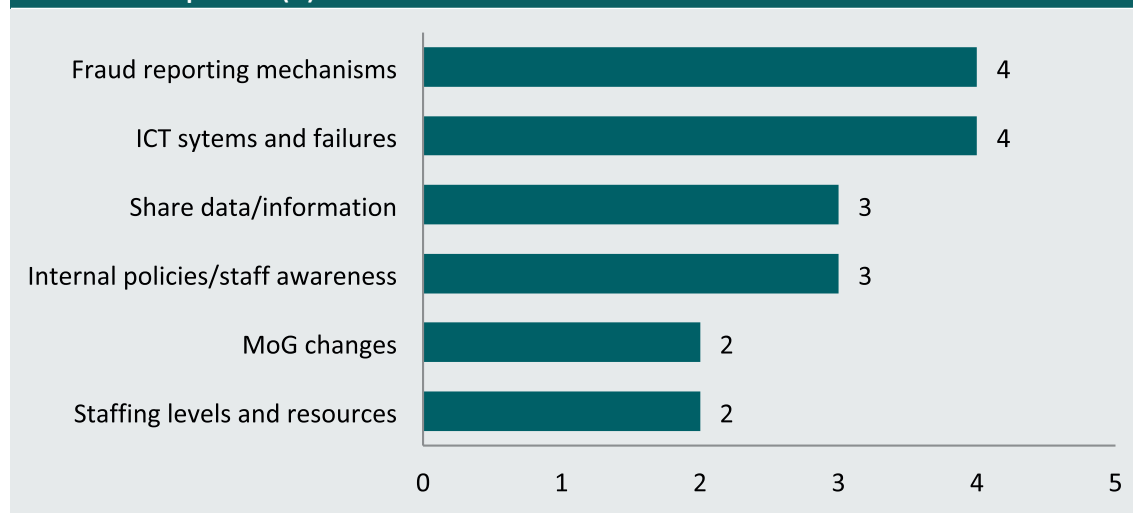
**Figure 76: Factors that helped with fraud detection in 2015–16, by number of respondents who answered the question (N)**



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

Figure 77 presents the most commonly cited factors that respondents felt hindered their entity's ability to detect fraud in 2015–16.

**Figure 77: Factors that hindered fraud detection in 2015–16, by number of respondents who answered the question (N)**



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

The *Commonwealth Fraud Control Framework* (AGD 2014) states that fraud awareness training should be included in all staff induction programs and that all entities should document their procedures and instructions to assist employees in dealing with fraud. Respondents were asked each year what changes they would suggest for improving the training of staff around fraud control within their entity. A range of responses were received, from 64 respondents (in addition, 4 respondents said their entities had already implemented adequate training). Responses were analysed to determine common themes or similar measures that respondents believed would assist with fraud control.

Figure 78 presents the four most frequently cited suggestions for improving training and fraud control. Respondents were encouraged to provide multiple examples or views (with totals able to exceed 100 percent). The most frequently cited method, not already in place, was entities collaborating and sharing resources (31% of respondents). Sixteen percent of those who suggested more cross-entity collaboration specifically mentioned sharing of case studies for education purposes or scenarios based on frauds that have been perpetrated would be a useful learning tool.

A common response referred to online training. In recent years the AGD, with the assistance of other government entities, developed a whole-of-government fraud awareness e-learning training package. The package is designed for Commonwealth entities (corporate and non-corporate) and can be requested by contacting the AGD's Security and Integrity Reform Branch. It was uncertain, from the majority of responses received in the last two years (when the package was available), if entities wanted to implement an online training package or had recently implemented the AGD's training package. However, over the three years, online fraud training remained an area respondents felt could help improve staff training in fraud and fraud control.

**Figure 78: Suggestions for improving training of staff in the area of fraud control and fraud investigations, as a percentage of respondents who answered the question (%)**



Source: Commonwealth fraud census 2015–16 [AIC data source]

## Attitudes towards reporting

Respondents were asked to complete a secure online questionnaire that recorded results anonymously (without naming individual entities or people), as the aim was to canvass the experience of fraud across the government as a whole, rather than to identify what each individual entity had experienced. One of the main reasons for changing the questionnaire in 2015–16 was to make it easier for respondents to access the information necessary to complete the questionnaire. This was done asking questions related to investigations already finalised, in the hope the entity had a case file management system to store information about cases for future reference.

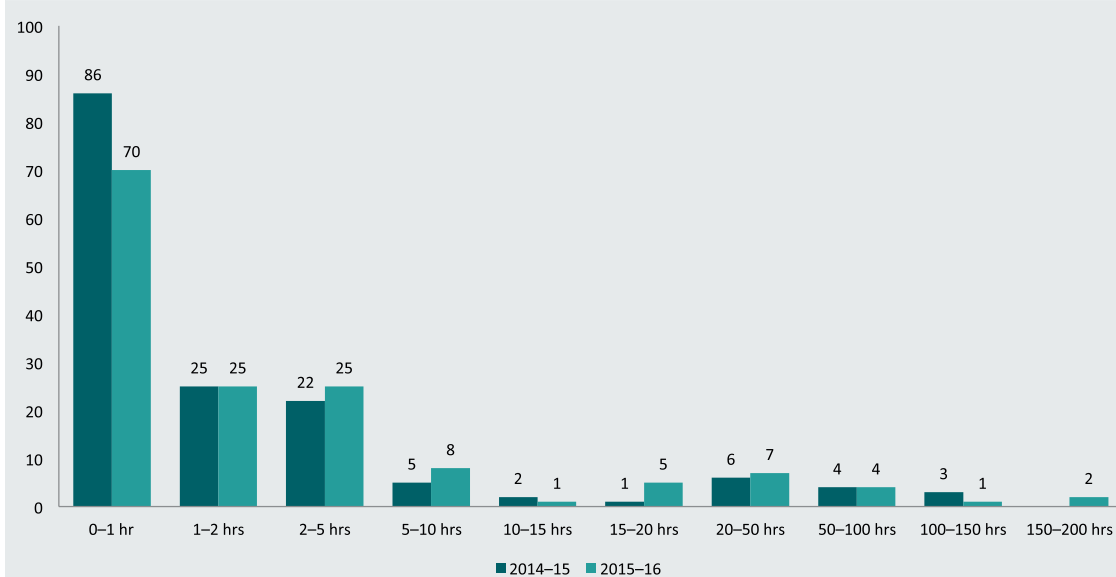
Figure 79 shows 64 percent of respondents (N=94) took two hours or less to collate the information necessary to complete the census. This resulted in a median collation time of 1.3 hours (this included three respondents who took over 100 hours to collate the necessary information). Comparing the time taken to collate the information for the census in 2015–16 with the time taken in 2014–15, (median time of 1 hour), there was little change. However, as the 2015–16 questionnaire was substantially different from previous years' questionnaires and included an entirely new section, it was reasonable for it to take longer to complete. It is expected that the time taken to collate the information required for the census will decrease over time.



Respondents were also asked to indicate the time taken to enter the information into the online questionnaire. Again, this varied depending on the number of fraud investigations completed. The median data entry time was 30 minutes, with reported times ranging from five minutes to 15 hours.

In addition to questions around the time taken to compile and enter the data, the questionnaire gave respondents the opportunity to provide feedback or comments on the questionnaire or additional context for their responses. Thirty-six respondents provided comments or additional feedback, and 22 percent of those respondents (N=8) commented positively on the new questionnaire, noting the simplified structure and that the questionnaire was easier to complete than in previous years. However, two respondents noted that they felt a questionnaire was not the best option for gathering the information required. Three respondents noted the importance of the information gathered from the census and how the reports can influence fraud control policy. Other responses included suggestions to simplify questions and consideration will be given to how implementing the suggestions could further improve the questionnaire in future years.

**Figure 79: Hours taken to complete fraud questionnaire, 2014–15 and 2015–16 (N)**



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

# Part 7: Conclusions

The changes made to the 2015–16 questionnaire meant that some comparisons could not be made between the 2015–16 results and those of previous years. The change in the unit of measurement from ‘fraud incident’ (suspected or alleged fraud) to ‘finalised fraud investigation’ resulted in large differences in what was reported by entities. In 2014–15, for example, 155,843 incidents of fraud were reported in the census, 99 percent of them relating to external fraud (Jorna & Smith 2018). In 2015–16, however, entities finalised 4,379 fraud investigations and fraud was found to have occurred, or rather could be substantiated, in just 2,568 cases (74 percent of which entailed external fraud). These findings may indicate the difficulty that entities have in investigating fraud and in proving that fraud occurred. Fraud investigations are becoming more complex and time intensive, as PricewaterhouseCoopers (2016) found in its recent global survey. Australian organisations spent more than the global average on fraud investigations, and it was suggested these costs might be related to data and evidence gathering.

Of note in 2015–16 was the difference between estimated fraud losses involved in ‘commenced’ investigations and ‘finalised’ investigations. Entities commenced 4,506 fraud investigations in the 2015–16 financial year, a similar number to the investigations that were finalised. However, when asked to estimate the losses from the commenced fraud investigations, entities indicated losses of \$503,535,644, while losses involved in finalised investigations were only 5.1 percent of that figure (\$25,665,179). Potential reasons for this could be that entities over-estimate the financial impact of fraud once it has been detected but, once it has been investigated, much smaller sums are found to be involved. Alternatively, investigations may not be able to substantiate all allegations of fraud and therefore only smaller dollar losses can be attributed to the fraud. Future census findings may help to explain this further.

## Principal findings and trends 2015–16

Fraud against the Commonwealth may involve public servants or consultants working for Commonwealth entities engaging in acts of dishonesty (internal fraud) or members of the public seeking to derive welfare, taxation or other Commonwealth benefits improperly (external fraud).

In relation to internal fraud, the principal fraud risks related to manipulation of internal controls, compromise of employee entitlements and avoidance of risk management procedures. In 2015–16, entities found the most common target of internal fraud—that is, the fraud experienced by the highest number of entities—was related to employee entitlements, with 14 entities experiencing this type of fraud. Employee entitlements include employee expenses such as travel expenses, payroll and leave and related entitlements. The most affected entitlement is leave and related entitlements, with public servants most commonly committing fraud via that method.

In relation to external fraud, risks arose in connection with the provision of new government-funded programs, changes to management practices within entities and the services they deliver, procurement practices, and the tax and welfare benefits available to the public. These findings were similar to previous years' fraud censuses (Smith & Jorna 2017). While a larger number of entities experienced external financial fraud (16 entities), the fraud target resulting in the most investigations was Commonwealth benefits (1,479). This was not an unexpected finding and was the same in earlier censuses (Smith & Jorna 2017).

In relation to the methods by which fraud was found to have been committed, the 2015–16 questionnaire changed the categories of fraud to ensure they were mutually exclusive and as exhaustive as possible. A new category, 'asset misappropriation', was created that included categories such as theft of assets and theft of ICT. Finalised internal fraud investigations found the most common primary method of committing internal fraud was 'asset misappropriation', with 13 entities experiencing fraud via that method. The majority of those investigations (N=12) related to unauthorised use of payment cards (eg government credit cards). However, the largest number of investigations related to 'misuse of ICT', with three entities finalising 388 investigations into public servants accessing information or programs via a computer without authorisation. This type of fraud was found to involve the largest number of incidents of internal fraud in 2014–15 also (Jorna & Smith 2018) and remains an ongoing problem due to the nature and type of information held by entities. Inappropriate access to or release of information relating to national security or personal information about citizens and residents of Australia (such as Medicare or taxation) could be harmful for all Australians.

In relation to external fraud, the largest number of entities (N=15) found the primary method of committing external fraud involved 'misuse of documents' (534 investigations), although the largest number of investigations involved 'other methods' (1,224 investigations, by 4 entities). The bulk of the 'other method' investigations (96%; N=1,170) involved claiming benefits without entitlements and no further details of how this was done were provided. Potentially, with the large number of investigations included in the 'other methods' category, more work needs to be done with entities to find out how the frauds occurred, such as falsifying documents or not providing information when required. This information is essential in understanding where fraud risks for the Commonwealth lie.

## Fraud costs

It has always been difficult and complex to estimate the amounts entities lose from fraud. Earlier reports asked respondents to estimate the costs of ‘incidents’ that had not yet been fully investigated, and, as noted above, these are often considerably different to the costs estimated after investigations have been finalised (Smith & Jorna 2017). The new questionnaire sought to avoid some of those quantification issues by asking respondents about losses two ways. Respondents were initially asked to estimate the losses that were associated with fraud investigations commenced, and then to report the losses found after an investigation was finalised.

The amounts reported varied widely. The amount estimated to have been lost to internal fraud investigations commenced in 2015–16 was \$3,490,093, whereas the amount lost due to internal fraud substantiated in finalised fraud investigations was 26 percent of this (\$907,657). This was much lower than the \$4,225,288 estimated to be lost due to internal fraud incidents in 2014–15. However, the estimated internal fraud loss from finalised investigations is likely to be more accurate as it is based on information concerning substantiated matters.

Similar to the pattern identified with internal fraud losses, the estimated dollar losses for external fraud differed substantially from the dollar value estimated after investigations were finalised. The amount estimated to have been lost from external fraud relating to investigations commenced in 2015–16 was \$500,045,551, whereas the amount lost due to external fraud substantiated in finalised investigations was just five percent of this (\$24,757,522). The estimated external fraud losses of \$500m in commenced investigations were similar to incident losses found in previous years (eg \$325m in 2014–15), indicating that previous years’ respondents probably based their estimates on information from early stages of investigations.

These findings are not consistent with the reported value of fraud incidents accepted for investigation by the AFP. For example, at 30 June 2016, the AFP had 128 fraud-related matters still on hand (some of which were ongoing cases from long-running investigations that commenced in previous years), with an estimated dollar value of \$1,223,904,356, including an additional value of \$116,184,505 from the cases the AFP assisted with. Even if one were to look only at the value of cases the AFP provided assistance with, it is over four times larger than the value of the finalised external fraud reported in 2015–16. Again, it would be reasonable to assume that the AFP’s estimate of the value of accepted matters on hand would be far in excess of losses found once investigations had been finalised. Amounts actually prosecuted by the CDPP would also be smaller than un-investigated estimates.

It will remain to be seen after several years of data collection with the new questionnaire if the changes in reported dollar losses are consistent and reflect a more accurate measurement of fraud losses. Having consistent data collection practices will allow for greater trend analysis and the identification of emerging fraud risks.

## Final observations

Fraud remains an ongoing concern for Commonwealth entities. Findings from the 2015–16 census show, irrespective of entity size, that fraud risks faced by entities are universal due to the nature of the functions and roles of Commonwealth entities. Consistent with previous censuses, larger entities detected and investigated more fraud, while micro-entities and small entities with similar primary functions as the larger entities commenced and finalised far fewer investigations.

The questionnaire used by the AIC in 2015–16 was substantially revised from earlier years, and although respondents indicated the format of the new questionnaire made it easier to complete, further refinement of the questions is still needed, particularly concerning fraud control. For example, the responses of entities to questions concerning the qualifications of staff employed in fraud control produced variable results that seemed to be inconsistent with the size and nature of the entities in question. One reason for this may be that training of fraud control staff is inconsistent among Commonwealth entities, but another reason may be the way questions were asked. Further work is required to ensure questions around how many people work in a fraud control role, and how many have a formal qualification, are understood by respondents and include all relevant training courses applicable to fraud investigation and prevention.

Fraud control within the Commonwealth is vital to minimise waste of government resources and to ensure that adequate funds are available for schools, health, social welfare and other government-funded services. Another important reason for entities to establish and demonstrate adequate fraud control is to show responsibility for the disbursement of taxpayers' money. The information collected from entities in the AIC's annual census provides an important tool for demonstrating that appropriate care and responsibility is taken with citizens' money. The findings of the current census also provide entities with the ability to compare the performance of like-sized entities or entities with similar functions to their own in terms of fraud risks and investigations commenced and finalised. Future censuses using the new questionnaire will provide more consistent and precise trend data to entities for comparison purposes. Consideration may also be given to enabling sector-specific, function-specific and size-specific individual reports for entities to use.

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