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Fraud within and against the Commonwealth: The most harmful frauds, 2016–17 to 2018–19

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Abstract

Fraud threats facing the Commonwealth arise principally from two areas: individuals employed by the Commonwealth or contractors (internal fraud); and customers/clients of the Commonwealth, third-party providers, vendors, or members of the public, in Australia or overseas (external fraud).

The current report presents the information about the most harmful internal and external frauds committed against the Commonwealth in 2018–19, compared with those reported in 2016–17 and 2017–18. Data come from finalised fraud investigations that were reported by Commonwealth entities in response to the Australian Institute of Criminology’s annual fraud census.

The findings show that losses from both the most harmful internal and external frauds were lower in 2018–19 than in 2017–18. In 2018–19, 44 percent of respondents identified the most harmful internal fraud perpetrator as having been employed with the entity for longer than seven years. The majority of the most harmful internal frauds were committed by individuals with either no security clearance or an unknown clearance status. In 2018–19, a higher proportion of perpetrators received a sentence of imprisonment following conviction for the most harmful external frauds than internal frauds. In 2018–19, the most common fraud control weaknesses identified were perpetrators overriding existing internal controls and the lack of knowledge concerning fraud risks.

Introduction

Public sector agencies around the globe continue to be affected by fraud, a hidden crime that can inflict financial harm, damage the reputation of the wider government and erode the morale of the workforce it employs. Each year, the economic impact of fraud in Australia amounts to billions of dollars (Smith 2018); this includes fraud perpetrated against the Commonwealth by its staff and contractors and by members of the public. Fraud against the Commonwealth covers a range of criminal conduct that entails ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’ (Attorney-General’s Department 2017).

In order to understand the nature and size of the problem, each year Commonwealth entities are requested to provide details regarding the internal and external fraud they have experienced. The results of the latest annual fraud census are published in Teunissen, Smith and Jorna (2020). To provide more detailed information about these frauds, each Commonwealth entity is also asked to identify the single most harmful internal fraud they experienced after the investigation has been finalised, along with the most harmful external fraud experienced. Each entity reports information about the perpetrator, how the fraud took place, its impact and the criminal justice and other outcomes that followed the investigation. The most harmful internal and external frauds were defined as those causing the greatest financial loss to or impact on the responding entity. Each fraud was chosen irrespective of when it was committed or when the investigation commenced, as long as the investigation had been finalised during the relevant preceding financial year: 2016–17, 2017–18 or 2018–19. If the investigation involved more than one perpetrator, responses were confined to information regarding the principal internal and external perpetrator only. This provided an opportunity to gather data on the demographics of the individuals, how the fraud occurred and the outcome of the investigations.

Although fraud covers a wide range of offences, and the personal backgrounds and socio-demographic characteristics of offenders can differ considerably, both offences and offenders display enduring features that act as red flags or indicators of dishonesty taking place (Grabosky & Duffield 2001). Internal fraud can be just as diverse as fraud perpetrated by external actors. Internal fraud may involve identity crime, when staff members claim to be people they are not or to hold qualifications they do not; it may involve theft of cash or information belonging to government; or it may entail bribery and corruption (Cifas 2017).

Perhaps the least well-known type of perpetrator is the individual who is external to the entity they commit fraud against. These perpetrators can be located anywhere in Australia or the world. Industry research has found that fraud is less often perpetrated by external actors than internal actors or groups of internal and external actors working together (KPMG 2016). Kroll (2018) also found perpetrators were most likely to be insiders or ex-employees; however, their survey also found vendors and suppliers were fraud risks to organisations. There is also evidence to suggest some perpetrators of fraud against certain Commonwealth entities are members of organised crime groups (Australian Criminal Intelligence Commission 2017).

Prior research into organisational fraud has tended to focus on internal fraud risks, and frauds perpetrated against private sector businesses (ACFE 2018; KPMG 2016). As such, this study presents findings that are unique in the sense they examine in detail the characteristics of the people who commit fraud against Commonwealth entities, either internally or externally, and the types of frauds they commit.

The information collected on investigations into the most harmful frauds reported by respondents for the three years fell into four categories:

- the cost of internal and external fraud;
- the nature of offending;
- the discovery, investigation and outcomes of investigations; and
- the demographic and other characteristics of perpetrators.

The results should be interpreted with some caution, as response rates for some variables were low, owing to information being either not collected or unavailable. The total sample comprises:

- 2016–17: 72 investigations (33 internal, 39 external);
- 2017–18: 155 investigations ($N=68$ internal, $N=87$ external) and;
- 2018–19: 47 investigations ($N=19$ internal and $N=28$ external).

Despite the reduced sample size in 2018–19, this is consistent with prior research showing increased instances of external than internal fraud. As examples of the most harmful frauds detected, they are, however, worthy of scrutiny and analysis.

Most harmful internal fraud

Fraud within Commonwealth government entities, perpetrated by Commonwealth officials or contractors, harms the public sector in a variety of ways. It depletes government resources, causes reputational damage to the government, attracts negative media attention and lowers the morale and productivity of staff. Fraud against the public sector also impairs government systems, industry, the environment, national defence and security, in addition to causing costs and impacts on business (International Public Sector Fraud Forum 2020). The human cost of fraud goes beyond financial loss to an individual, and can include psychological damage which could affect individuals and their families, and have additional costs to the public and the government through medical and welfare services which may otherwise have not have been needed. Additionally, members of the public may experience reduced trust in government and not engage with government services. Government entities themselves can also experience reputational damage.

Cost of internal fraud

Respondents were asked to indicate the extent of the financial loss arising from the most harmful internal fraud. Specifically, respondents were asked about the total financial loss or other impact suffered by the entity as a result of the fraud. Total losses from internal fraud were lower in 2018–19 than in 2017–18 but more than in 2016–17, both for all internal fraud and for the most harmful internal fraud incidents (Table 1). However, both the total losses for internal fraud, and the losses associated with the most harmful internal fraud were both greater than in 2016–17. Additionally, the proportion of all internal losses associated with the most harmful internal frauds was the greatest in 2018–19, almost double the percentage observed in 2017–18.

Table 1: Number of internal fraud investigations and dollars lost, 2016–17 to 2018–19

Year	Substantiated internal fraud incidents (N)	Dollars lost to all internal fraud	Most harmful internal fraud incidents (N)	Dollars lost to most harmful internal frauds	% lost in most harmful incidents
Jurisdiction					
2016–17	1,786	1,860,103	23	196,555	10.6
2017–18	998	6,753,747	21	1,375,059	20.4
2018–19	314	2,775,917	19	1,062,208	38.3

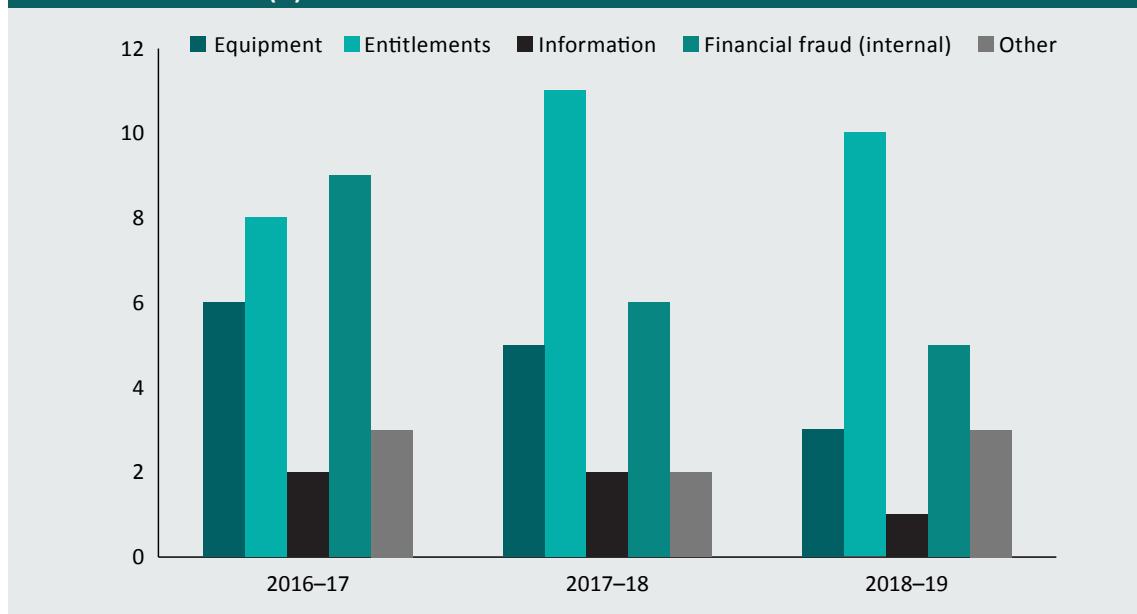
Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Nature of offending

Targets

Respondents were asked to identify the principal target of the most harmful internal fraud, meaning the principal resource, object or benefit targeted by the perpetrator. In 2018–19, the most common target of internal frauds was entitlements or employee benefits (Figure 1). For each of the three years reviewed, the most common target of internal fraud perpetrators was either entitlements or financial fraud.

Figure 1: Principal target of the most harmful internal fraud, investigations finalised between 2016–17 and 2018–19 (N)



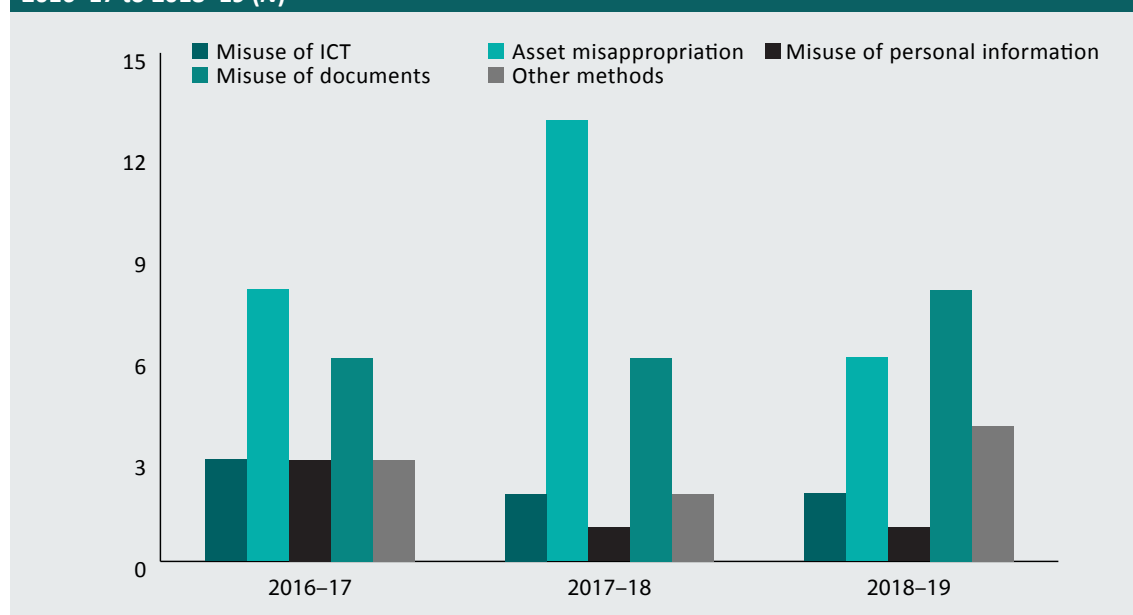
Note: Although respondents were asked to include only the principal target of the fraud, some respondents included all targets where a principal target could not be ascertained. The number of targets therefore exceeds the 23 investigations in 2016–17, the 21 investigations in 2017–18, and the 19 investigations in 2018–19

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Methods

Respondents were also asked to identify the principal method by which the internal fraud was committed. Although respondents were asked to include only the principal method used to commit the fraud, multiple methods could be reported, resulting in totals greater than the number of entities finalising internal fraud investigations. As shown in Figure 2, in 2016–17 and 2017–18 the most common method of committing the most harmful internal fraud involved asset misappropriation, and the next most common method involved the misuse of documents, which was the most common method in 2018–19.

Figure 2: Principal fraud method in the most harmful internal frauds, investigations finalised in 2016–17 to 2018–19 (N)



Note: Although respondents were asked to provide only the principal method used to commit fraud, some respondents included all methods where a principal method could not be ascertained. The number of methods therefore exceeds the 21 investigations in 2017–18 and the 19 investigations in 2018–19

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Duration

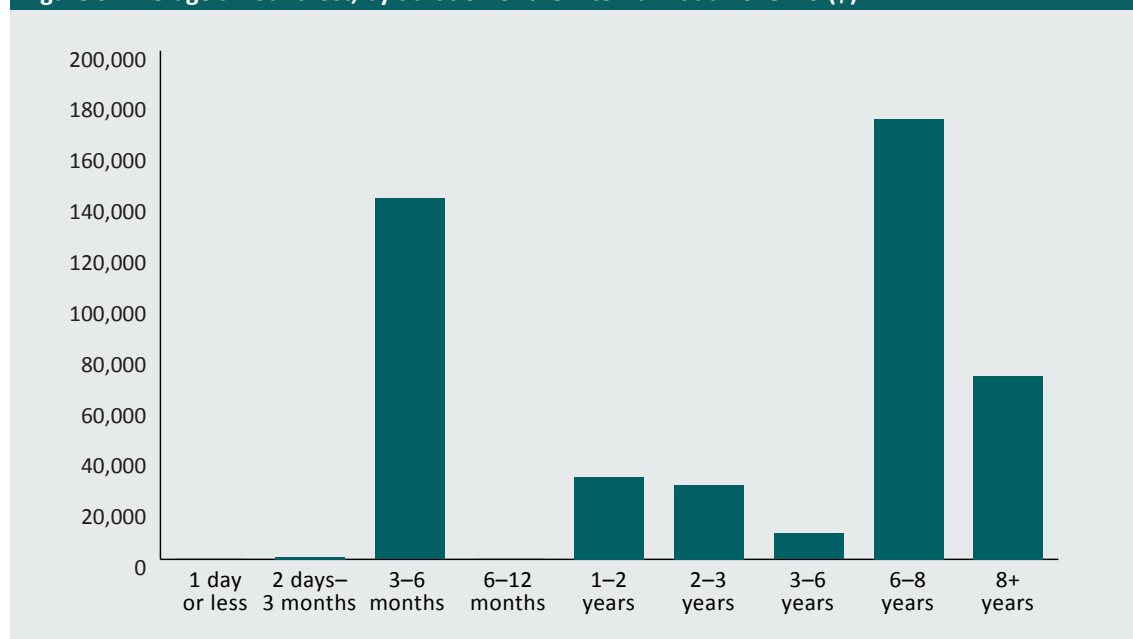
Where both start and end dates of the most harmful fraud that was investigated were able to be provided, over 60 percent (N=8) persisted for longer than 100 days (or over 3 months). In 2018–19:

- the average duration was 725 days, or nearly two years;
- the median duration was 135 days, or approximately 4.4 months; and
- the shortest duration was reported to be one day (ie the fraud commenced and ended on the same day); and
- the longest duration was 2,495 days, or nearly seven years.

A Spearman correlation analysis revealed a significant relationship between the amount lost (after accounting for amounts recovered) and the duration of the internal fraud, ($r(5)=0.90$, $p=0.037$). This suggests that the longer an internal fraud endures, the more money is lost by the defrauded entity (see Figure 3).

The total loss was calculated as the total amount the offender obtained, minus the amount recovered by the entity.

Figure 3: Average amount lost, by duration of the internal fraud 2018–19 (\$)



Note: Excludes two respondents who could not quantify a loss amount for the most harmful internal fraud, three who could not specify duration, and 10 who did not report the amount recovered

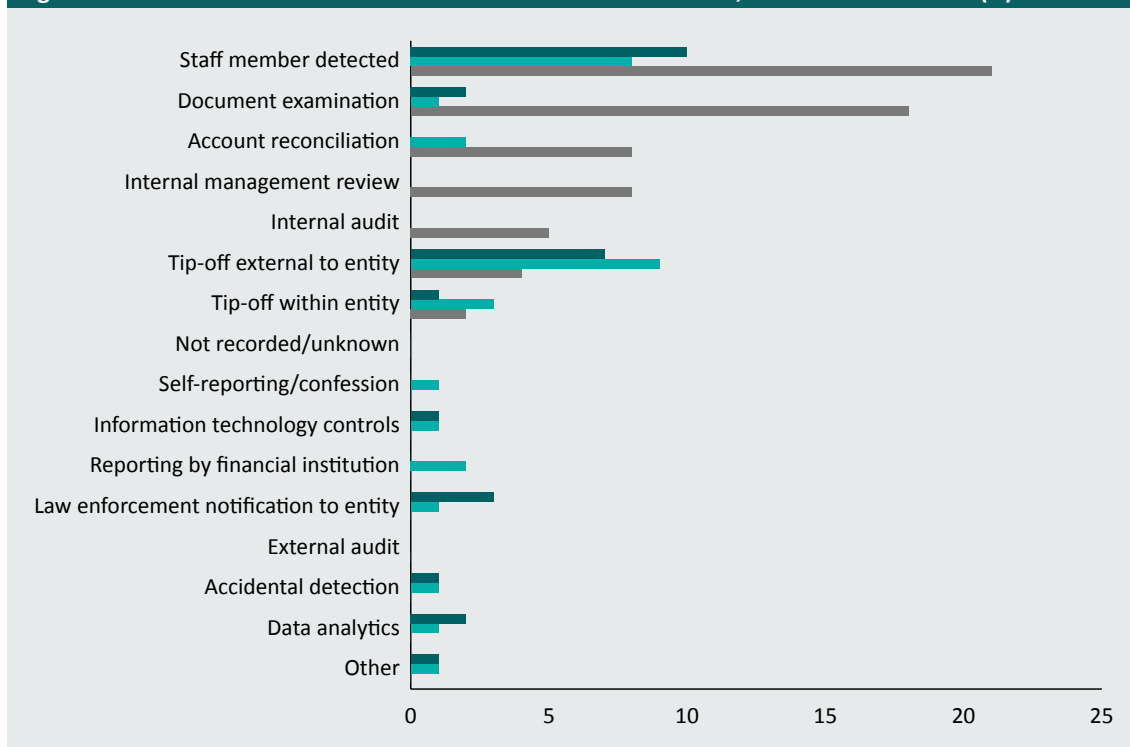
Source: Commonwealth Fraud Census 2018–19 [AIC data file]

Discovery and investigation

How fraud was discovered

Respondents were asked how the alleged internal fraud was detected. In 2018–19, most internal fraud was detected through document examination or a staff member detecting the fraud, in addition to tip-offs, which were common in all three financial years (see Figure 4). A full list of detection methods is available in the *Appendix* to the companion report (Teunissen, Smith & Jorna 2020).

Figure 4: Detection methods for the most harmful internal frauds, 2016–17 to 2018–19 (N)



Source: Commonwealth Fraud Census 2016–17, 2017–18, and 2018–19 [AIC data file]

Who investigated fraud

In 2018–19, the number of entities engaging external consultants to conduct investigations remained approximately the same as in other years ($N=2$, 2016–17; $N=4$, 2017–18; $N=4$, 2018–19). Other investigations involved law enforcement agencies, such as the Australian Federal Police, state and territory police and the Australian Commission for Law Enforcement Integrity. In 2018–19, the latter agency conducted only one fraud investigation.

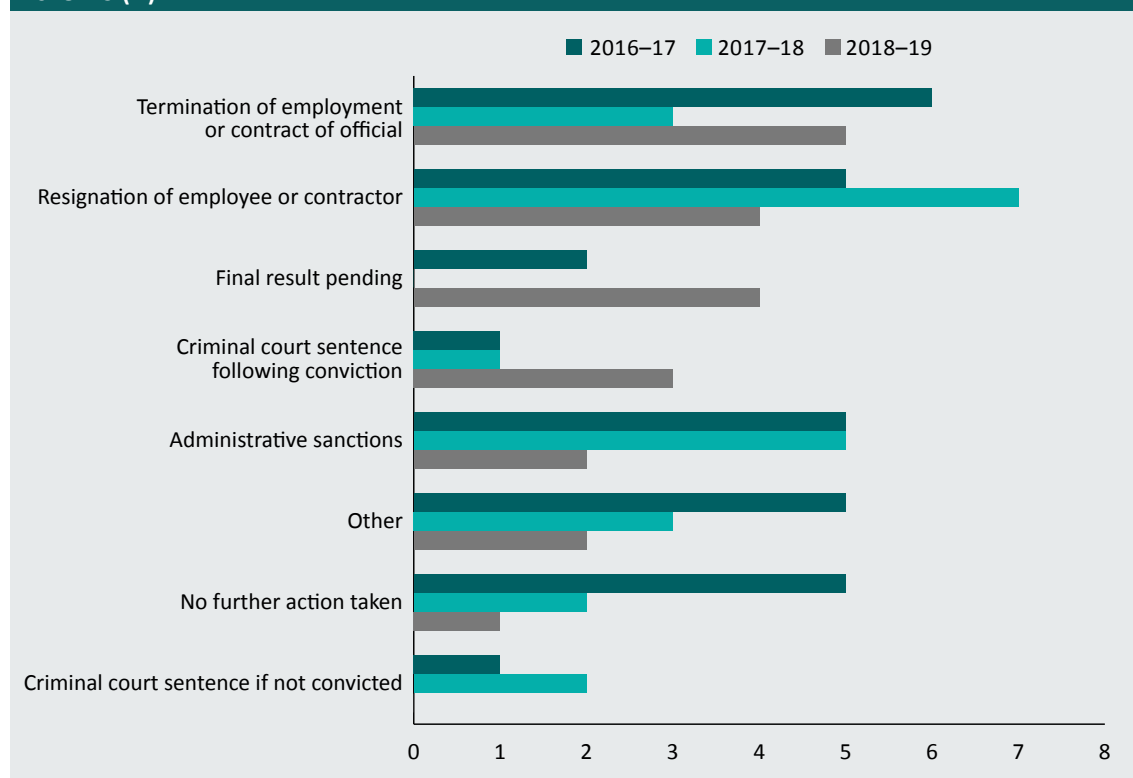
Length of investigations

The length of an investigation varies considerably depending on the complexity of the fraud, its duration and the number of perpetrators. Respondents were asked to provide the date the investigation of the most harmful fraud experienced by their entity commenced and the date the investigation was finalised. Almost 94 percent ($N=15$) of respondents were able to provide the dates of their investigations. These responses suggested that in 2018–19, the average duration of an investigation was just over one year (380.5 days), with a range from one day to 2,011 days (5½ years). Forty-seven percent of respondents reported finalising investigations under six months and a further 47 percent in under 12 months.

Outcomes of investigations

Respondents were also asked to provide details about the results of the investigation, and, if there were more than one result, all the results obtained (Figure 5). In 2018–19, the most frequently cited outcome of the investigation into the most harmful internal fraud was the cessation of the perpetrators' employment, either through termination ($N=5$) or resignation ($N=4$).

Figure 5: Outcomes from finalised investigations of the most harmful internal frauds, 2016–17 to 2018–19 (N)



Note: In Australian jurisdictions, courts have the discretion to impose a sentence without recording a conviction if certain conditions are met (see, for example, Sentencing Advisory Council (Tasmania) 2014)

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Characteristics of internal fraud perpetrators

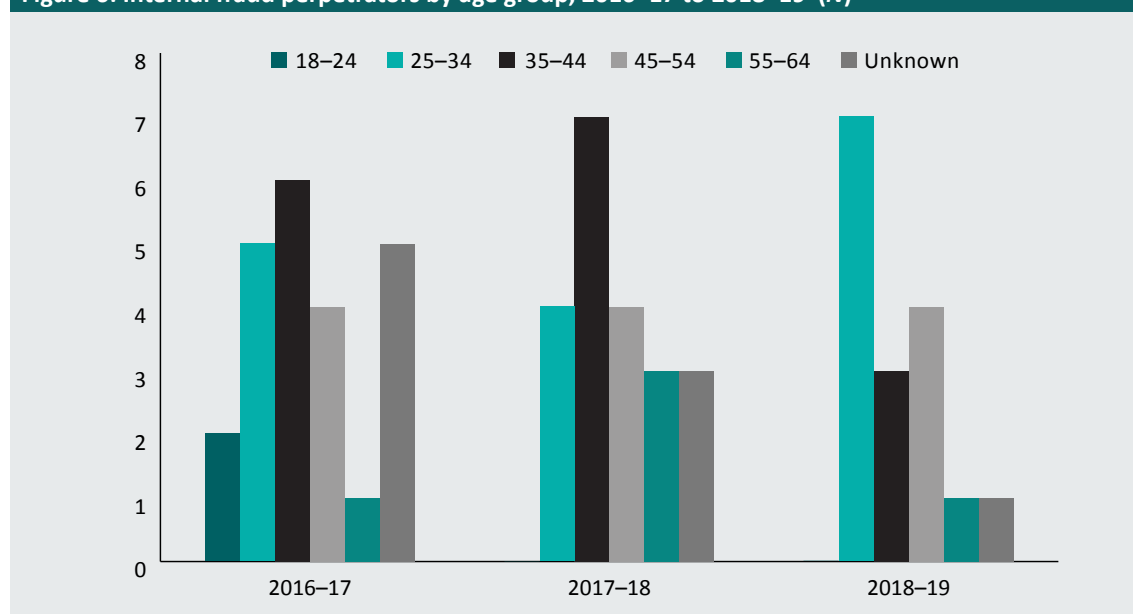
Respondents were asked a range of questions about the personal characteristics and demographic details of the perpetrators of the most harmful internal fraud within their entity. Prior research has found demographic similarities among those who commit internal fraud as well as similarities in how they commit fraud (Smith 2015). In a number of instances, only partial information was collected and able to be reported. Of the 19 entities that finalised internal fraud investigations in 2018–19, 16 (84%) identified the perpetrator.

Age

Compared to previous years, the age of the perpetrator was better captured by the entity upon finalising an investigation of the most harmful internal fraud. Since 2016–17, there have been no instances where the perpetrator was under 25 years old, and in the three years of data none were aged 65 years or over.

Of the 16 identified perpetrators, seven were aged 25–34, three aged 35–44, and four aged 45–54 (see Figure 6). In sum, over 88 percent of the most harmful internal fraud incidents whose investigations were finalised in 2018–19 were perpetrated by an individual aged between 25 and 54 years.

Figure 6: Internal fraud perpetrators by age group, 2016–17 to 2018–19 (N)



Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Gender

Figure 7 shows the gender breakdown of internal fraud perpetrators for 2016–17 to 2018–19. In 2018–19, eight were men, seven were women, and one was unknown—very different to 2017–18, when 15 were men, four were women, and two were unknown. In 2016–17, there were equal numbers of men and women (N=10).

Further analysis examined perpetrators by age and gender. Of the seven female fraudsters identified in 2018–19, five were aged 25–34. Among the male fraud perpetrators identified in 2018–19, two were aged 25–34, two were aged 35–44, and three were aged 45–54. This distribution suggests that men were generally older when committing internal fraud than women.

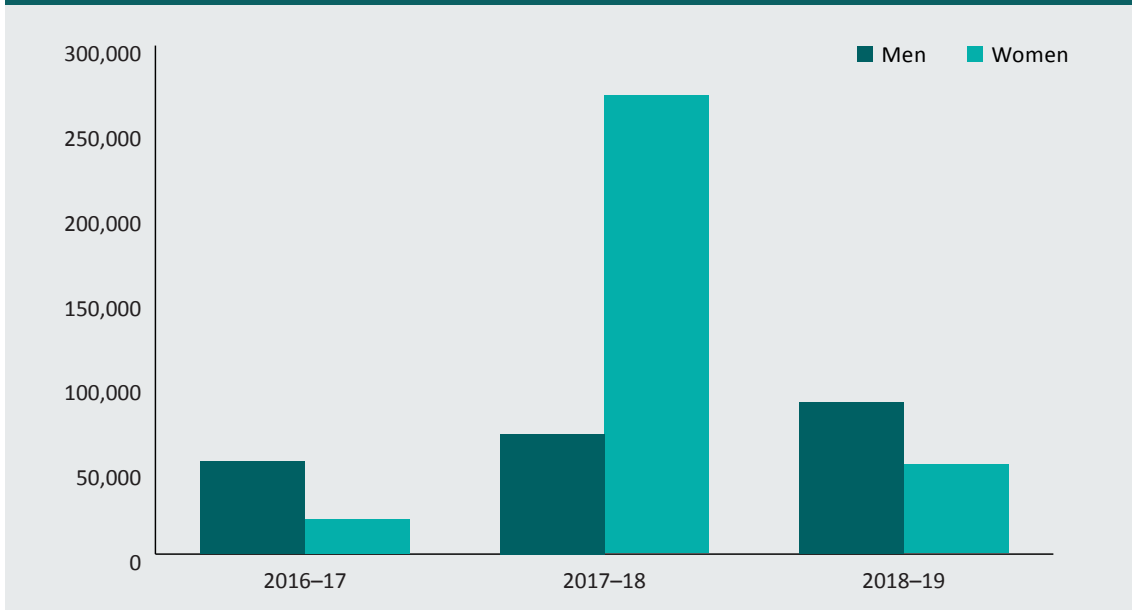
Figure 7: Internal fraud perpetrators by gender, 2016–17 to 2018–19 (N)



Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Figure 8 shows the mean fraud losses recorded by entities for 2018–19 by gender of perpetrators. In 2017–18, only two female fraud perpetrators were identified but the total loss was over \$540,000, compared to the loss of just under \$780,000 attributed to the 11 male fraud perpetrators. This contrasts with 2018–19, when a total loss of \$178,504 could be attributed to two men, compared to a loss of \$157,102 attributed to two women.

Figure 8: Mean losses from internal fraud by gender of perpetrator, 2016–17 to 2018–19 (\$)



Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Education

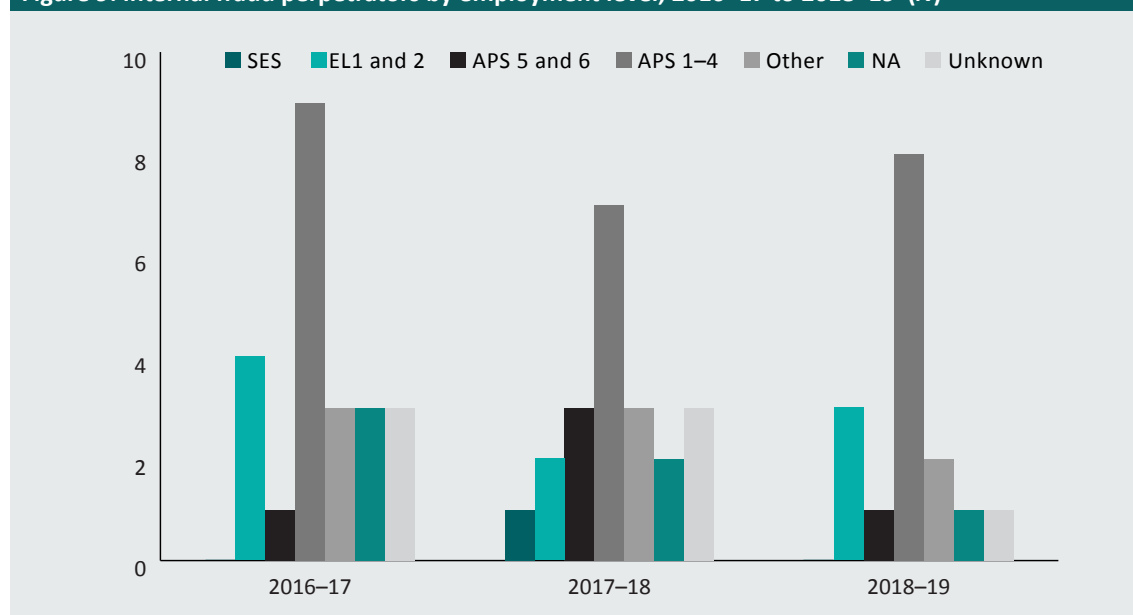
Respondents were asked about the highest level of education perpetrators had attained. Only five respondents were able to provide this information. One perpetrator had completed a bachelor's degree, two had completed a Certificate III or IV, and the remaining two had completed Year 12.

Employment level

In 2018–19, 10 of the 16 identified internal fraud perpetrators were employed as full-time officials by the entity against which they committed fraud. Of the remaining six perpetrators, three were contractors or third-party officials engaged by the entity, one was a part-time official, and two were of unknown employment status. No internal fraudsters identified in 2018–19 were employed casually, compared to a single casual employee in each of 2016–17 and 2017–18.

Despite no data indicating internal fraudsters at the Senior Executive Service level committing the most harmful internal fraud in 2018–19, the data suggest that increasing numbers of employees at the EL1 and EL2 levels are being identified as committing the most harmful internal fraud. This finding is important as research conducted by private industry indicates managers and high-level employees commit more harmful frauds and cause more damage to organisations than employees at lower levels (ACFE 2018; KPMG 2016). Over the three-year period, the largest numbers of perpetrators were employed at the APS 1–4 level (see Figure 9). This is unusual, as employees at lower levels are expected to have more oversight of their role and daily duties.

Figure 9: Internal fraud perpetrators by employment level, 2016–17 to 2018–19 (N)

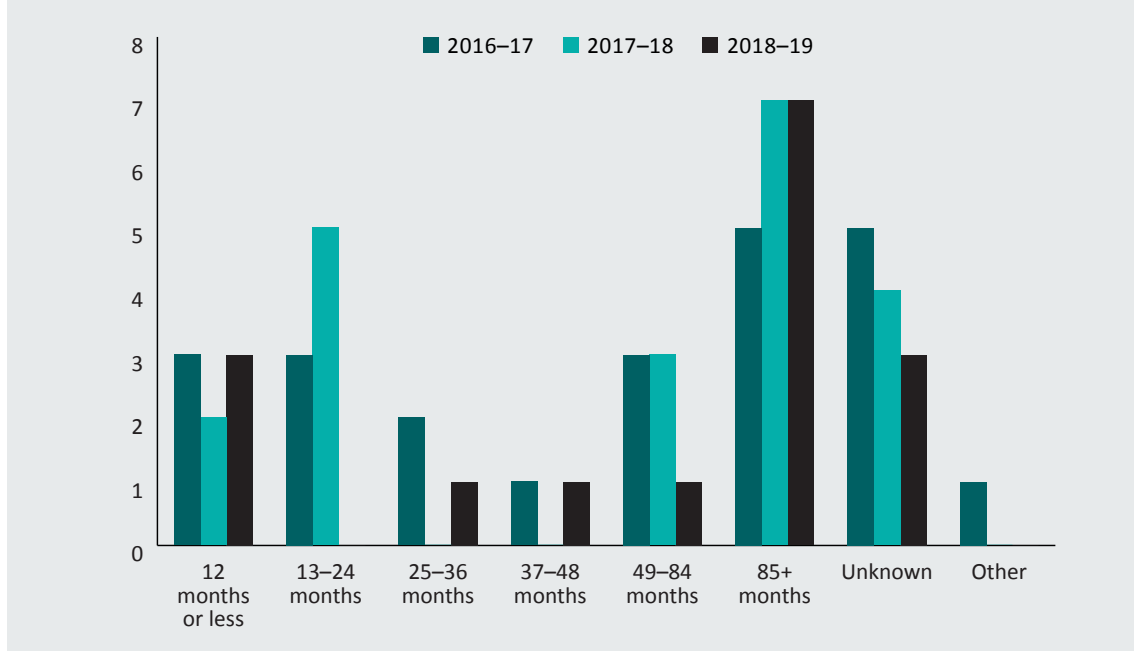


Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Length of time with entity

The length of time a perpetrator has been with the entity has been identified as a red flag associated with both risk of acting dishonestly and economic loss sustained (ACFE 2018). People who commit fraud within a short time of starting with an entity may have specifically joined that entity in order to commit fraud. In contrast, perpetrators who have worked with an entity longer may have discovered fraud control weaknesses and determined how to work around those controls. For example, KPMG (2016), when examining the profile of fraud offenders, found 38 percent of offenders had been with the organisation for more than six years, which is generally supported by the current research. Figure 10 shows the length of time perpetrators had been employed with the entity at the time the fraud was detected. In 2018–19, 44 percent ($N=7$) of respondents identified the most harmful internal fraudster as having been employed by the entity for longer than seven years.

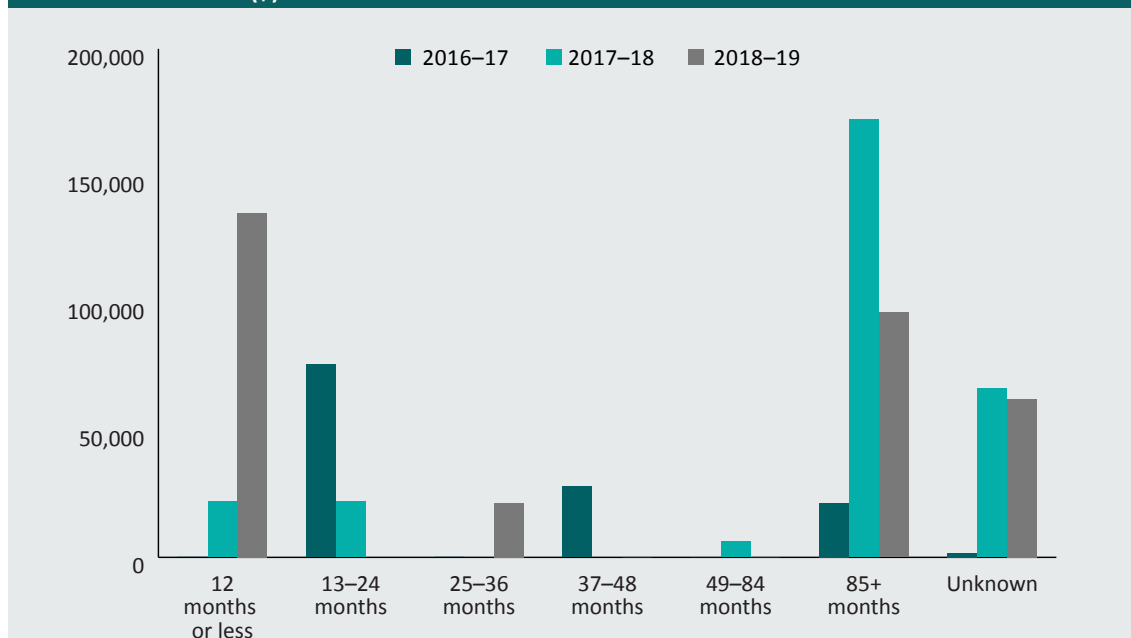
Figure 10: Internal fraud perpetrators by duration of employment, 2016–17 to 2018–19 (N)



Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Figure 11 shows the relationship between the length of employment and the total dollar loss caused by the internal fraud. As most internal fraud perpetrators had been employed by the entity for longer than 85 months, the largest losses were associated with employees who had been employed for long periods.

Figure 11: Average amounts obtained by internal fraud perpetrators, by employment duration, 2016–17 to 2018–19 (\$)



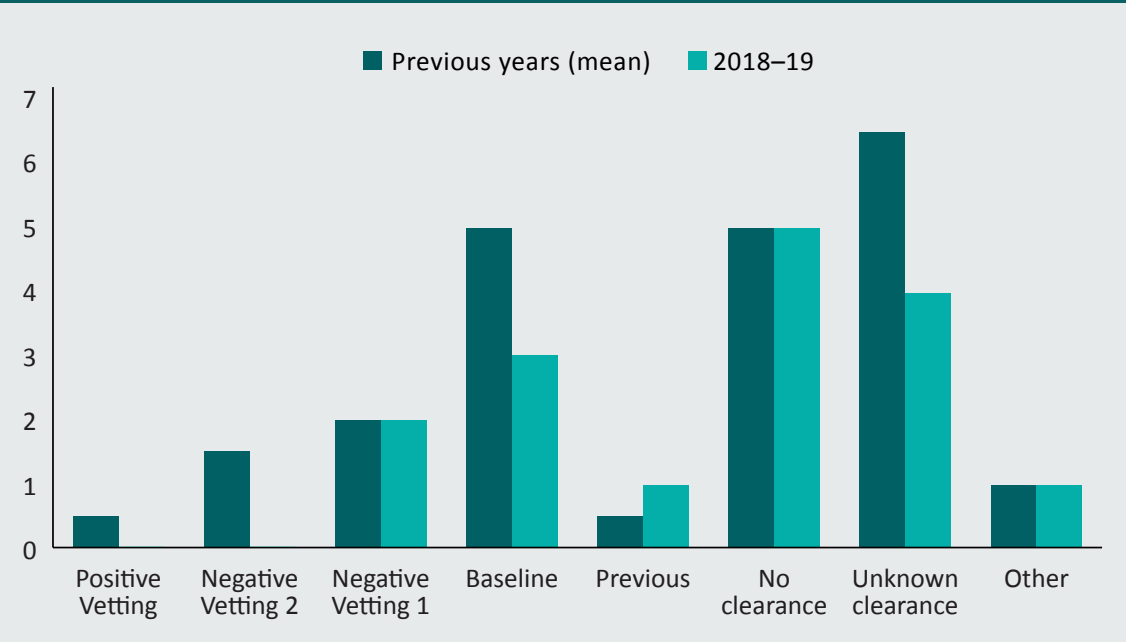
Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Security clearances

Respondents were asked to indicate the level of security clearance held by perpetrators at the time the most harmful internal fraud incident was detected (see Figure 12). In the Commonwealth, the majority of security clearances are issued by the Australian Government Security Vetting Agency. While security clearances are not undertaken specifically as a fraud prevention measure, they assess a person's background, character and values, and at higher levels consider financial behaviour. However, while a security clearance assesses a Commonwealth official's previous criminal history and offending history, the latest ACFE (2018) research found only four percent of fraud offenders had a prior fraud conviction, and only six percent had previously been charged with fraud offences.

In 2018–19, none of those suspected of committing the most harmful internal frauds held security clearances at the highest two levels, positive vetting and negative vetting 2. The data suggest that the majority of the most harmful internal frauds were committed by individuals with either no clearance or an unknown clearance. This was similar to 2016–17, when six perpetrators had no clearance and seven had unknown clearances, and to 2017–18, when four had no clearance and six had unknown clearances.

Figure 12: Security clearances held by perpetrators in the most harmful internal frauds, 2016–17 to 2018–19 (N)



Source: Commonwealth Fraud Census 2016–17, 2017–18, 2018–19 [AIC data file]

Further analysis examined security clearances and the duration of the fraudster’s employment at the entity. As indicated earlier, seven of the 16 identified fraudsters had worked at the entity for 85 months or longer. Of these seven, only one had a current security clearance (baseline), while the others had no clearance ($N=2$), a previous clearance ($N=1$), an unknown clearance ($N=2$), or other ($N=1$).

Motivation

Respondents were asked to indicate the principal motivation for the fraud. For the most part, respondents did not know why the employee had committed fraud, because such information was not sought from the perpetrator or documented during the investigation. Where a motivation was reported, the most common response was ‘greed or desire for financial gain’ for all three years ($N=5$, 31% in 2018–19). This finding is similar to KPMG’s (2016) findings in their Global profiles of the fraudster study, which found 66 percent of fraud perpetrators committed the fraud for personal financial gain and greed. Other studies have indicated that financial pressures are often associated with fraud cases (ACFE 2018; Albrecht, Hill & Albrecht 2006), and this motivation was also present in this survey.

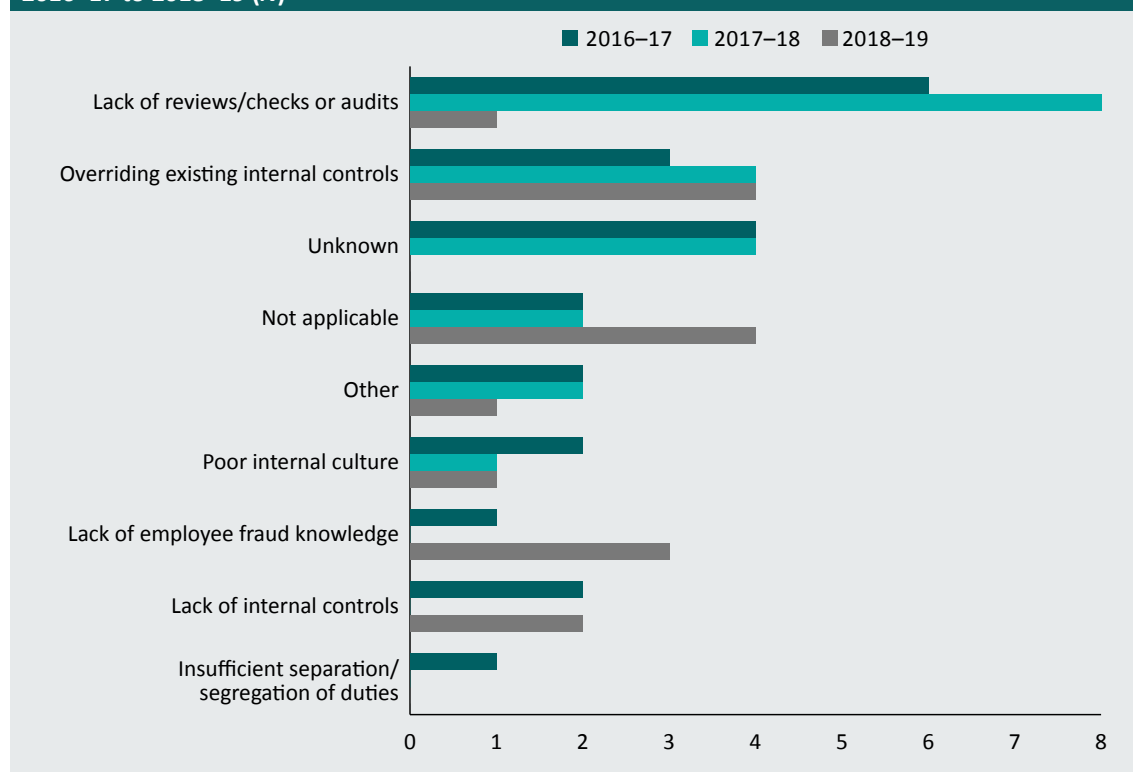
Behavioural indicators (red flags)

Prior research (ACFE 2018; Grabosky & Duffield 2001) has demonstrated people who commit fraud will often display previously identified behavioural indicators or ‘red flags’ of fraud. These indicators do not mean the person will necessarily commit fraud, just an increased likelihood of fraud occurring (Grabosky & Duffield 2001). Respondents were asked about a range of behavioural patterns demonstrated by fraudsters which may have alerted colleagues to the presence of a fraud risk. In almost two-thirds of cases (63%, $N=10$), no behavioural indicators were identified, or these were unknown. Of the known indicators reported in 2018–19, the most common were refusal to follow procedures and policies, as well as personal financial difficulties ($N=3$ for each).

Fraud control weaknesses

Respondents were asked about perceived weaknesses in their entity’s fraud control that led to fraud occurring (Figure 13). In 2018–19, the most common fraud control weaknesses identified were the perpetrators overriding existing internal controls ($N=4$) and the lack of employee/official fraud knowledge ($N=3$). Interestingly, these factors indicate that, on the one hand, the perpetrators knew of the fraud controls in place and purposefully exploited them to their gain, while on the other hand some individuals were unaware of fraud controls and so were undeterred by the risk of detection.

Figure 13: Fraud control weaknesses that contributed to the most harmful internal fraud occurring, 2016–17 to 2018–19 (N)



Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Function and demographics of defrauded entities

Analysis was undertaken of the incidence of the most harmful frauds and the primary function of the entity. It was observed that 19 percent ($N=3$) of the most harmful internal fraud investigations occurred in an entity whose primary function was policy, with another 19 percent ($N=3$) occurring within an entity whose primary function was legal and/or regulatory activities. Therefore, in both instances, over a third of the most harmful internal frauds occurred within these kinds of entities, suggesting that extra personnel checks may be warranted in entities with these functions.

Most harmful external fraud

Respondents whose entity had finalised an investigation into the most harmful external fraud that was substantiated in full or in part were asked to answer further questions about this matter. Research has found that fraud experienced by private sector organisations is most likely to be committed by someone employed by the organisation, either alone or in collusion with another insider (KPMG 2016; Kroll 2018; PricewaterhouseCoopers 2018). In contrast, the majority of fraud affecting Commonwealth entities is perpetrated by external actors. The concept of ‘fraud control’ has largely arisen from employees committing fraud and the need to reduce the impact of that insider activity (Levi & Burrows 2008). Little is known about external perpetrators of fraud against Commonwealth entities, so in 2015–16 the Commonwealth Fraud Census introduced questions about the most harmful external fraud an entity had experienced. These questions have been asked of respondents in each annual census since that year.

Cost of external fraud

Respondents were asked to indicate the extent of the financial loss arising from the most harmful external fraud each year. Specifically, respondents were asked about the total financial loss or other impact actually suffered by the entity as a result of the fraud. The losses associated with the most harmful external frauds in 2018–19 were lower than those reported in 2017–18 (Table 2).

Table 2: Number of external fraud investigations and dollars lost, 2016–17 to 2018–19 (N)

Year	Substantiated external fraud incidents (N)	Dollars lost to all external fraud	Most harmful external fraud incidents (N)	Dollars lost to most harmful external frauds	% lost in most harmful incidents
Jurisdiction					
2016–17	345,674	91,920,748	28	2,757,356	3.0
2017–18	6,930	84,797,032	30	15,640,155	18.4
2018–19	2,698	146,876,658	28	4,598,468	3.1

Source: Commonwealth Fraud Census 2016–17, 2017–18, and 2018–19 [AIC data file]

Amounts recovered

Ten respondents provided details of monies recovered by their entity in the 2018–19 financial year as a result of the most harmful external fraud they experienced. The total amount recovered by entities for the most harmful fraud was \$11,450. The largest individual amount recovered was \$8,900, recovered via administrative action and constituting the entirety of the loss associated with the fraud. This is far less than the total of \$564,239 recovered in 2016–17, but in that year a single entity recovered \$416,700, contributing a large proportion of the total. In 2017–18, \$387,745 was recovered, but once again most of this total relates to one entity which recovered \$319,489.

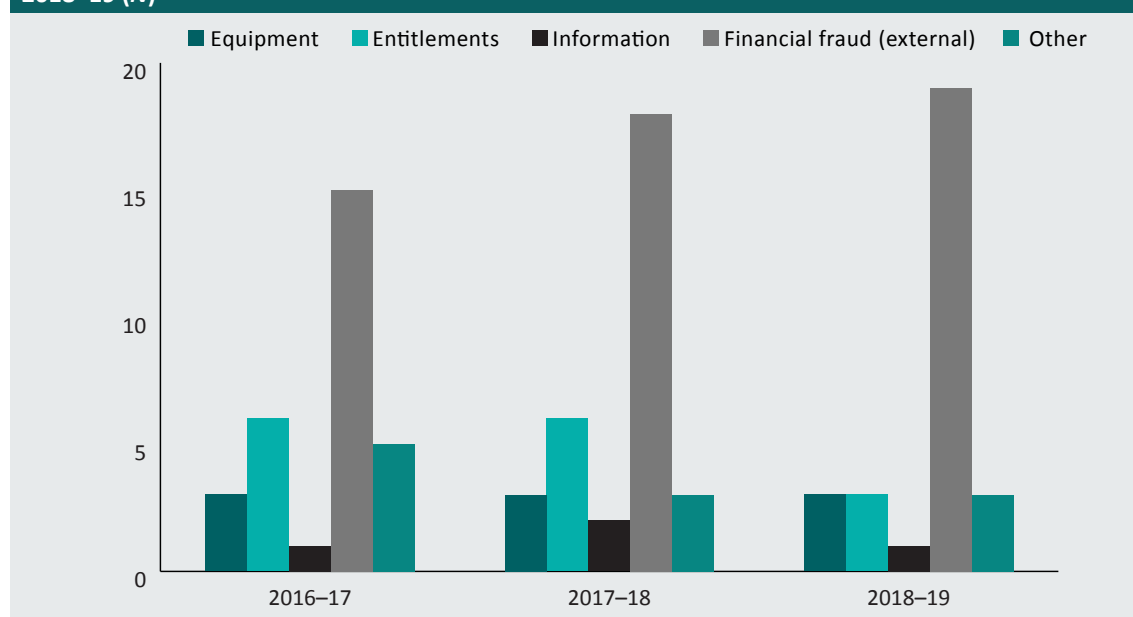
Follow-up questions asked respondents if they expected monies to be recovered. Six respondents in 2018–19 indicated they had not recovered money from the perpetrator as yet, five respondents advised they did not expect their entity would recover any money from the perpetrator and four advised no monies were expected to be recovered as their entity did not experience a financial loss or they had already recovered monies in full or in part.

Nature of offending

Targets

Respondents were asked to identify the principal target of the most harmful external fraud, meaning the principal resource, object or benefit targeted by the perpetrator. In the three years examined, the most common target was financial fraud, generally relating to payment cards (see Figure 14). Full details are available in Teunissen, Smith and Jorna (2020). As displayed in Figure 14, the extent of reported external financial fraud increased in 2018–19 compared to previous years.

Figure 14: Principal target of most harmful external fraud, by number of investigations, 2016–17 to 2018–19 (N)

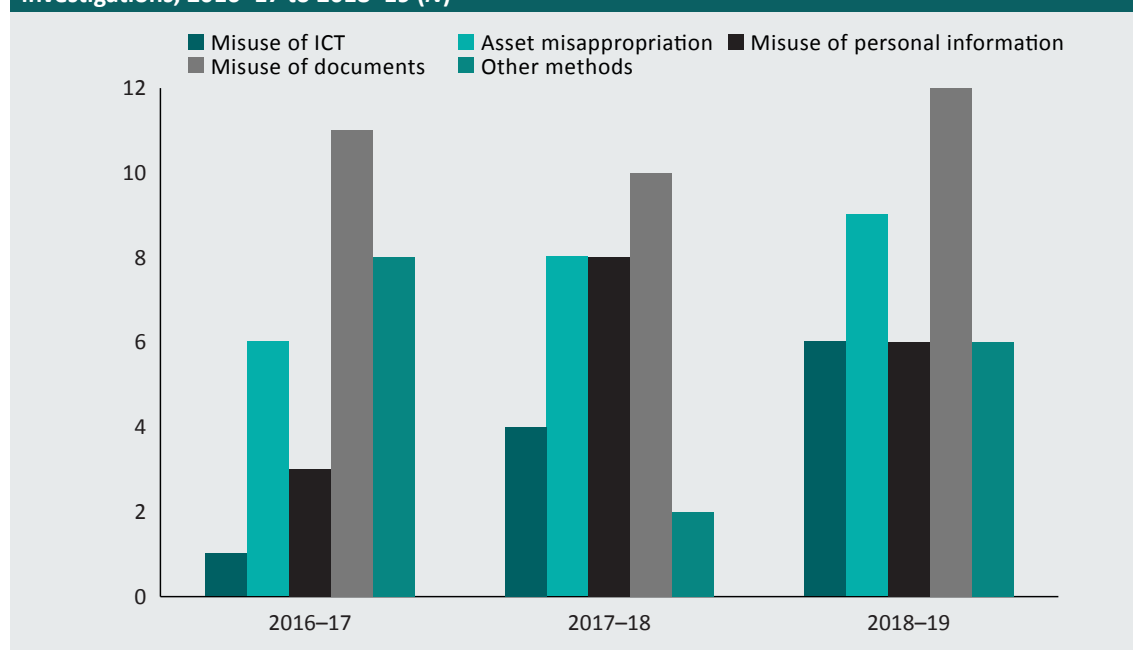


Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Methods

Respondents were also asked to identify the principal method by which the external fraud was committed. Although respondents were asked to include only the principal method used to commit the fraud, multiple methods could be reported, resulting in totals greater than the number of entities finalising external fraud investigations. In 2018–19 there was an increase in the number of entities reporting the most harmful external fraud involving all methodologies listed in the census. The largest increase was in connection with asset misappropriation, which includes the unauthorised use of cash, assets and payment cards (Figure 15).

Figure 15: Principal method of committing the most harmful external frauds, by number of investigations, 2016–17 to 2018–19 (N)



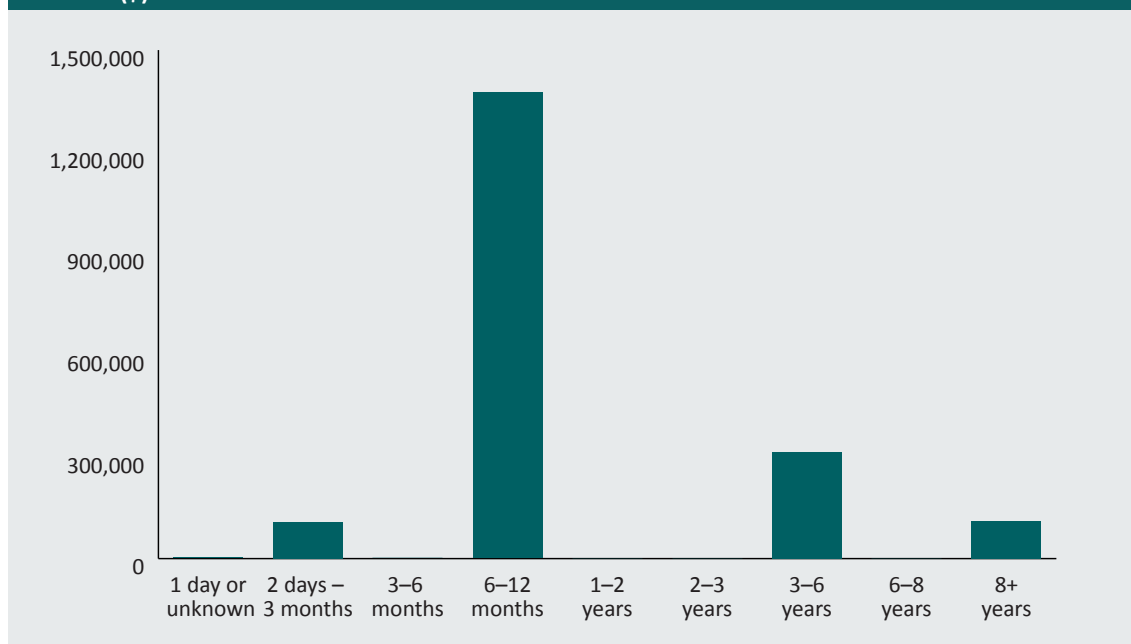
Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Duration

In 2018–19, respondents reported that the most harmful external frauds had an average duration of 24.6 months (longer than internal fraud), and a median duration of 53 days (shorter than internal fraud). The shortest duration was one day (ie the fraud commenced and ended on the same day) and the longest was 9,517 days, or just over 26 years.

These statistics, combined with a skewness of 3.73, suggest that most external frauds that prove to be most harmful to a Commonwealth entity have a substantial duration. A Spearman correlation analysis revealed a significant relationship between the amount lost (after accounting for recovery) and the duration of the external fraud, ($r(9)=0.70$, $p=0.037$). This suggests that the longer an external fraud endures, the greater the amount lost by the defrauded entity. Total losses were calculated as the total amount the offender obtained after accounting for the amount recovered by the entity in that instance.

Figure 16: Average amounts obtained by external fraud offenders by duration of the fraud, 2018–19 (\$)



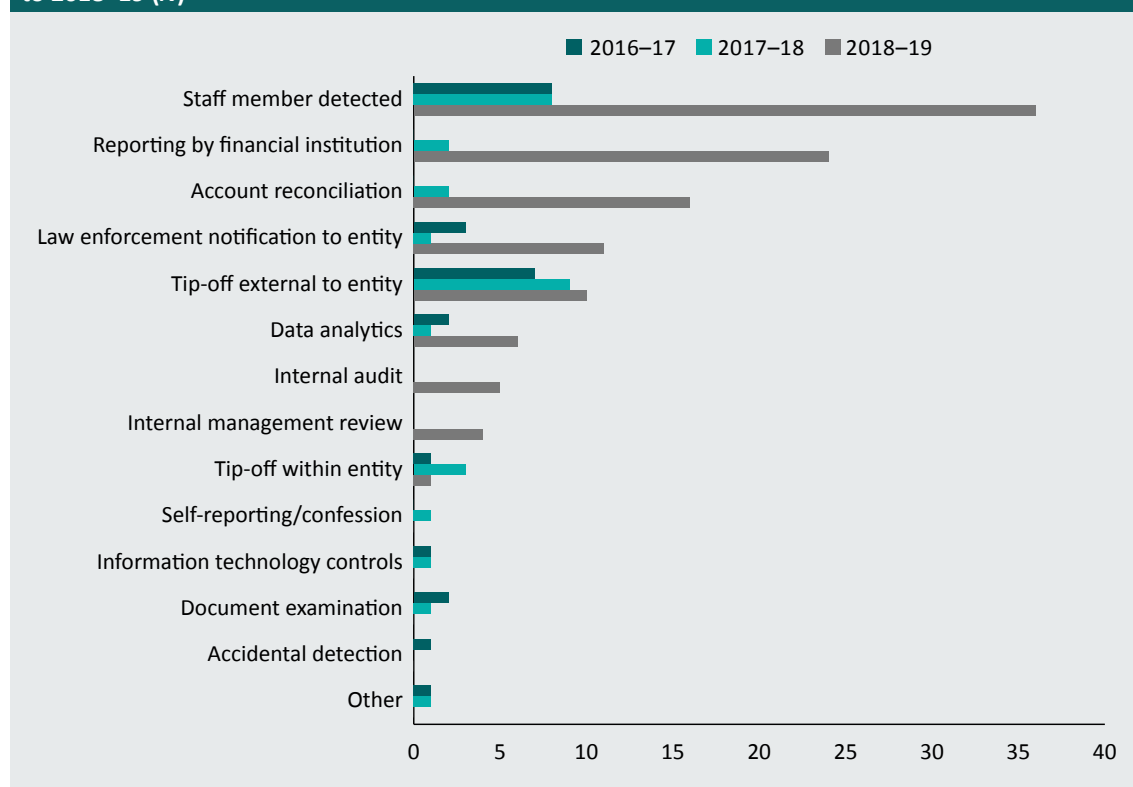
Source: Commonwealth Fraud Census 2018–19 [AIC data file]

Discovery and investigation

How fraud was discovered

Respondents were asked how the most harmful external fraud had been detected. In 2018–19 these frauds were most commonly detected by a staff member or reported by a financial institution (Figure 17).

Figure 17: Detection methods used to identify the most harmful external frauds, 2016–17 to 2018–19 (N)



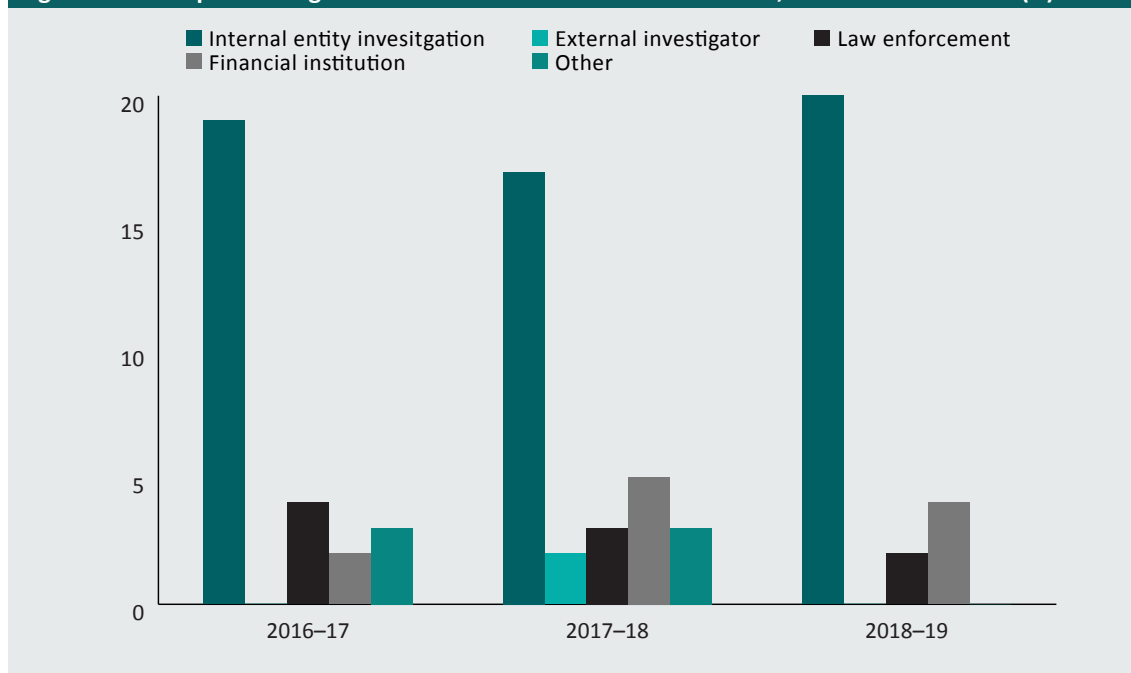
Note: In all three years, no respondents indicated either 'external audits' or 'not recorded/unknown' as detection methods for the most harmful external fraud and consequently these variables are omitted from the figure

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Who investigated fraud

Most entities (77%) conducted their own investigations of the most harmful external fraud, as required by the Fraud Framework; however, two entities referred the matter to police for investigation (Figure 18). Due to the extent of credit card fraud, financial institutions also conducted multiple investigations in each of the three years.

Figure 18: Principal investigators of the most harmful external frauds, 2016–17 to 2018–19 (N)



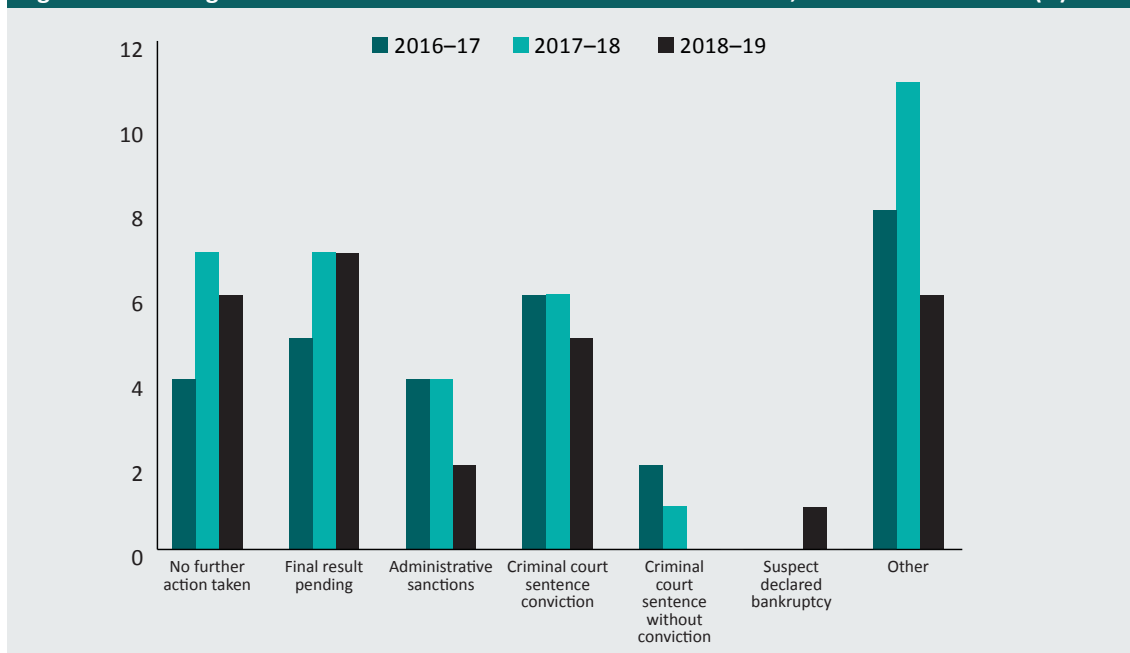
Source: Commonwealth Fraud Census 2016–17, 2017–18, and 2018–19 [AIC data file]

Outcomes of investigations

Respondents were asked about the outcome of investigations into the most harmful external frauds. In 2018–19, six investigations resulted in no further action being taken (Figure 19). A further seven investigations had a final result pending, and in five investigations criminal sanctions had been imposed, ranging from fines to terms of imprisonment. Six investigations had other outcomes, including:

- losses being refunded by a financial institution;
- the matter being referred to law enforcement, the Commonwealth Director of Public Prosecutions or the Australian Cybercrime Online Reporting Network (ACORN—now ReportCyber); and
- the seizure of goods.

Figure 19: Investigation outcomes of the most harmful external frauds, 2016–17 to 2018–19 (N)



Note: 'Other' responses for 2016–17 include one investigation which involved a civil court determination. In 2017–18, the criminal court sentence without conviction related to the alleged perpetrator being found not guilty of the fraud offence and the entity being ordered to pay the defendant's costs. 'Other' responses for 2018–19 included seizure and destruction of illegal imports, partial recoveries, and briefs being prepared for prosecution

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

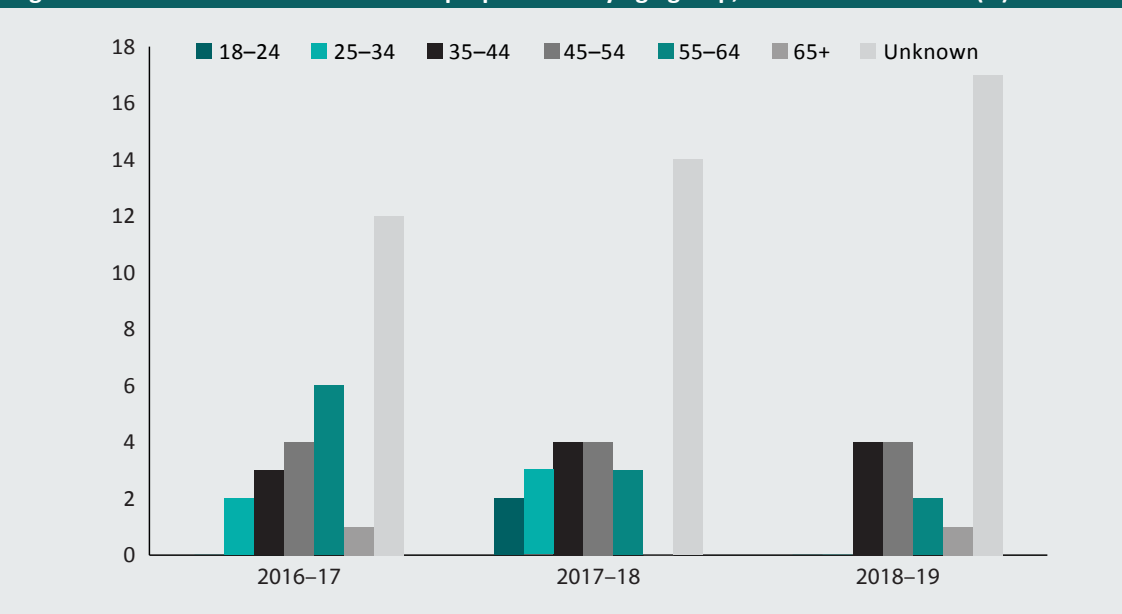
Characteristics of external fraud perpetrators

Respondents were asked to provide demographic and other details about perpetrators and the circumstances of their offending. In a number of instances, only partial information was provided. Of the 28 investigations into the most harmful external frauds of 2018–19, only half (N=14) were able to identify a perpetrator.

Age

In 2018–19, none of those suspected of the most harmful external frauds was aged under 35 years; this was the first time since 2016–17 that this was observed. Consistently, over the three years, respondents did not know the age of the perpetrators of the most harmful external fraud (Figure 20).

Figure 20: Most harmful external fraud perpetrators by age group, 2016–17 to 2018–19 (N)

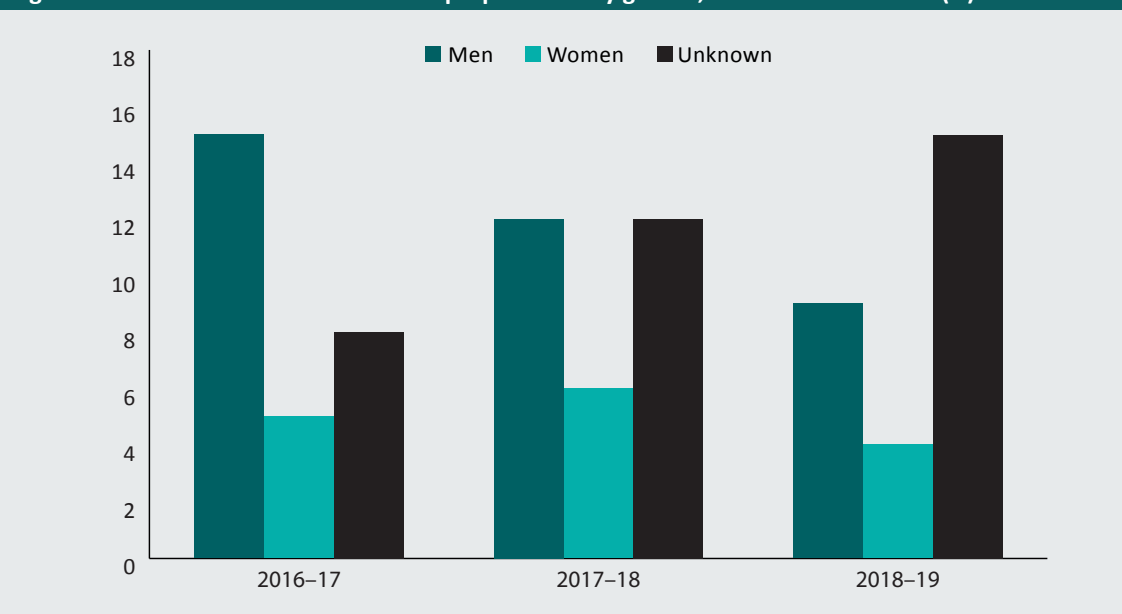


Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Gender

Over the three years of data collection, those suspected of the most harmful external frauds were predominately men, but this trend appears to be changing. Respondents are increasingly reporting that perpetrators are of unknown gender (Figure 21).

Figure 21: Most harmful external fraud perpetrators by gender, 2016–17 to 2018–19 (N)

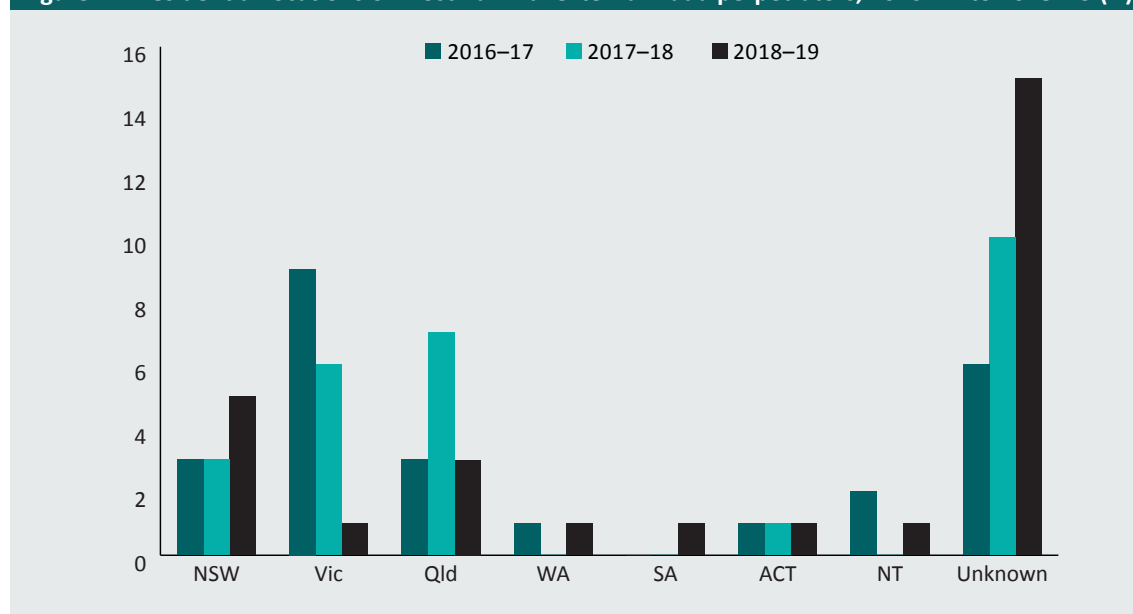


Source: Commonwealth Fraud Census 2016–17, 2017–18, and 2018–19 [AIC data file]

Residence

Those suspected of the most harmful external frauds are more geographically dispersed than internal fraud perpetrators. In 2017–18, the largest number of external fraud perpetrators resided in Queensland and Victoria at the time their fraud was detected, while in 2018–19 the largest proportion lived in New South Wales and Queensland (Figure 22).

Figure 22: Residential locations of most harmful external fraud perpetrators, 2016–17 to 2018–19 (N)

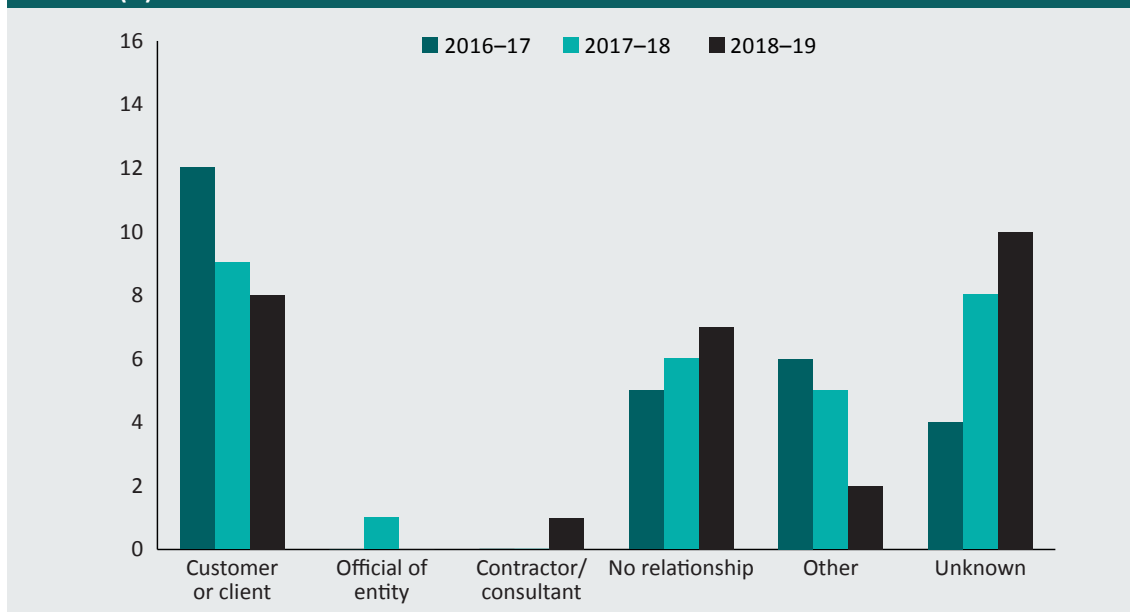


Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Occupation and relationship with entity

Few details were known about the occupations of the most harmful external fraud perpetrators. In most instances in 2018–19, the entity did not know the occupation of the perpetrator. However, among the cases where occupations were known, ‘Unemployed’ ($N=3$) and ‘Manager’ ($N=2$) were the most frequent responses. Details of perpetrators’ relationships with the defrauded entity are shown in Figure 23.

Figure 23: Relationship of external fraud perpetrators to Commonwealth entity, 2016–17 to 2018–19 (N)



Note: Some respondents in 2016–17 and 2017–18 did not provide a response, so the total presented is lower than the total number of most harmful external fraud investigations. Note that the ‘official of the entity’ observed in 2017–18 accessed their computer systems externally without permission—hence being counted as external fraud rather than internal fraud

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

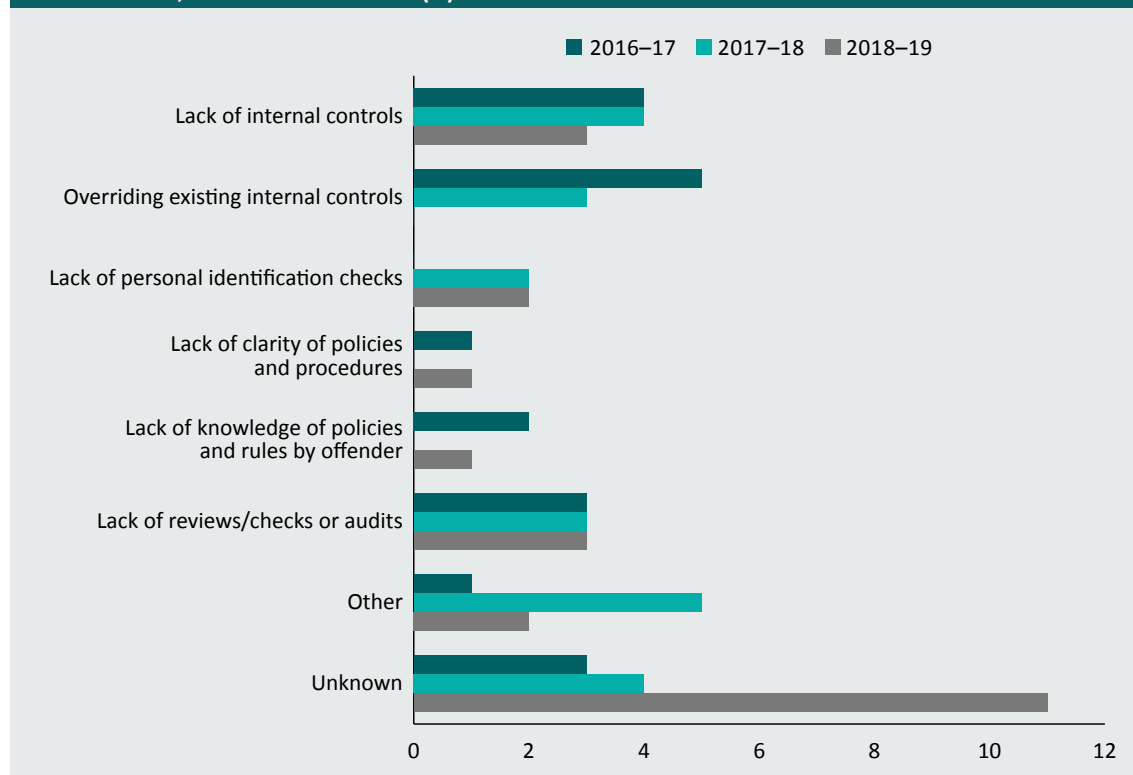
Motivation

Respondents were asked about the perpetrator’s motives for committing the fraud. In 2018–19, six respondents listed the motive as ‘greed or desire for financial gain’, 16 respondents did not know the motive for the fraud, three respondents did not provide a response, and one respondent indicated psychiatric illness or mental disorder as the motive.

Fraud control weaknesses

Respondents were asked to name the principal fraud control weakness that contributed to the most harmful external fraud occurring. Figure 24 shows the principal weaknesses identified by respondents; full responses are available in Teunissen, Smith and Jorna (2020).

Figure 24: Fraud control weaknesses that contributed to the commission of the most harmful external fraud, 2016–17 to 2018–19 (N)



Note: In 2018–19, five respondents advised there were no fraud control weaknesses present at the time of the fraud, compared to the nine reported in both 2017–18 and 2016–17. No respondents indicated 'insufficient IT controls' as a weakness in any of the three years and so this variable has been omitted from the figure

Source: Commonwealth Fraud Census 2016–17, 2017–18 and 2018–19 [AIC data file]

Discussion

This report examines the most harmful internal and external fraud incidents investigated by Commonwealth entities in 2017–18 and 2018–19. Where applicable, the findings from 2018–19 were compared with findings from the two previous years to examine trends. 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 payments, taxation or other Commonwealth money improperly (external fraud).

In relation to internal fraud, the principal fraud risks relate to the perpetrator overriding existing internal controls, meaning they are aware of fraud control requirements and willing to overcome them for personal gain. Respondents reported few risks associated with external fraud other than the lack of reviews and audits and poor personal identification checks concerning members of the public when making financial claims from the government.

Fraud control within the Commonwealth is vital to minimise the waste of government resources and to ensure that adequate funds are available for schools, health, social welfare and other government-funded services. As evident from the total amounts lost to both internal and external fraud, these crimes also have an impact on Australia's national security. In fact, the total losses due to fraud against the Commonwealth in 2018–19 alone are enough to pay the salary of 439 APS4 staff for five years, according to the average salary (\$68,065 in 2016) published by the Australian Public Service Commission (2018).

The report highlights the importance of entities knowing who their employees are and maintaining adequate fraud control. From an external fraud perspective, knowing who your entity does business with and who those business partners are doing business with is important. For example, PricewaterhouseCoopers (2018) found in their Global Economic Crime and Fraud Survey that 68 percent of perpetrators of external fraud were connected to the organisation they committed fraud against, whether as vendors of the organisation, shared service providers or customers.

While it is unlikely a 'profile' of a fraud offender can be created from these data, KPMG (2016) did acknowledge that while there was no single unchanging profile of a person who commits fraud, it was good for organisations to be aware of fraud patterns and trends when developing prevention and response measures. Interestingly, the majority of the most harmful internal frauds were committed by individuals who had undergone no background or security clearance checks or whose clearance, if any, was unable to be identified. Further, most of the internal fraud perpetrators identified had worked at the entity for over seven years. This finding was also observed in previous fraud censuses.

It must, however, be stressed that it is difficult to understand all of the factors and variables that would need to be understood in order to predict how employees would act in any given situation (Padgett 2015). The best that fraud survey research can do is to identify common traits or behavioural characteristics that are present among offenders, which could indicate fraud vulnerabilities in the workplace.

To that end, there are still many unknown elements about who commits fraud against the Commonwealth. Although this is to be expected in the case of external fraud perpetrators, entities must be aware of threats from insiders. While this report found an increase in the total number of fraud incidents detected compared with previous years, this may simply reflect an increased rate of detection through the use of data analytics and enhanced fraud controls.

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