



Australian Government

Australian Institute of Criminology

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**Abstract** | This Statistical Bulletin presents the results from the AIC's 2019–20 Fraud Against the Commonwealth census.

Compared with the previous year, there were more allegations of internal fraud but fewer allegations of external fraud in 2019–20. The number of internal fraud investigations commenced was similar in 2019–20 to 2018–19, but fewer external fraud investigations commenced.

The primary internal fraud target was information and the primary external fraud target was Commonwealth benefits. There were greater overall losses and lower overall recoveries observed in 2019–20 compared to 2018–19.

## Fraud against the Commonwealth 2019–20

Coen Teunissen

Fraud is a crime where someone dishonestly obtains a benefit or causes a loss by means such as deception (Attorney-General's Department 2017). Fraud against government entities can impact everyone in Australia by reducing available funds for public goods and services as well as causing financial and reputational damage to the agencies themselves (Attorney-General's Department 2017; Teunissen, Smith & Jorna 2020). It can include crimes such as the theft and the misuse of Commonwealth credit cards, the misuse of assets, providing false or misleading information, or making or using falsified or forged documents (Teunissen, Smith & Jorna 2020).

The detection of fraud usually results in negative media and public attention (UK Cabinet Office 2018) yet the failure to effectively detect fraud may be worse and lead to larger losses (Association of Certified Fraud Examiners 2018) and have significant reputational impact. The absence of detected fraud does not mean that fraud is not occurring (National Audit Office 2016).

This Statistical Bulletin presents the results from the AIC’s annual Fraud Against the Commonwealth census for the period 1 July 2019 to 30 June 2020. Note that this includes fraud allegations for which investigations were finalised during this period; fraud may have started or ended outside of this period. Data from 1 July 2017 until 30 June 2019 are provided for comparison where possible. Data were collected from Commonwealth entities between 3 August 2020 and 31 December 2020.

A total of 153 entities completed the census for 2019–20. For security reasons, the responses from one entity were unable to be analysed, so this analysis is based on the responses from the remaining 152. Table 1 shows the breakdown of these entities by size, based on the number of employees. Most entities (61%) were either extra-small ( $n=32$ ), small ( $n=30$ ) or medium ( $n=31$ ). Where *Public Governance, Performance and Accountability Act* status was concerned, most responding entities were either non-corporate ( $n=89$ , 59%) or corporate Commonwealth entities ( $n=53$ , 35%). Only a small number of responding entities were Commonwealth companies ( $n=10$ , 7%).

Entity size (number of employees)	Number of entities	%
Micro (<20)	25	16
Extra-small (20–100)	32	21
Small (101–250)	30	20
Medium (251–1,000)	31	20
Large (1,001–10,000)	28	18
Extra-large (>10,000)	6	4

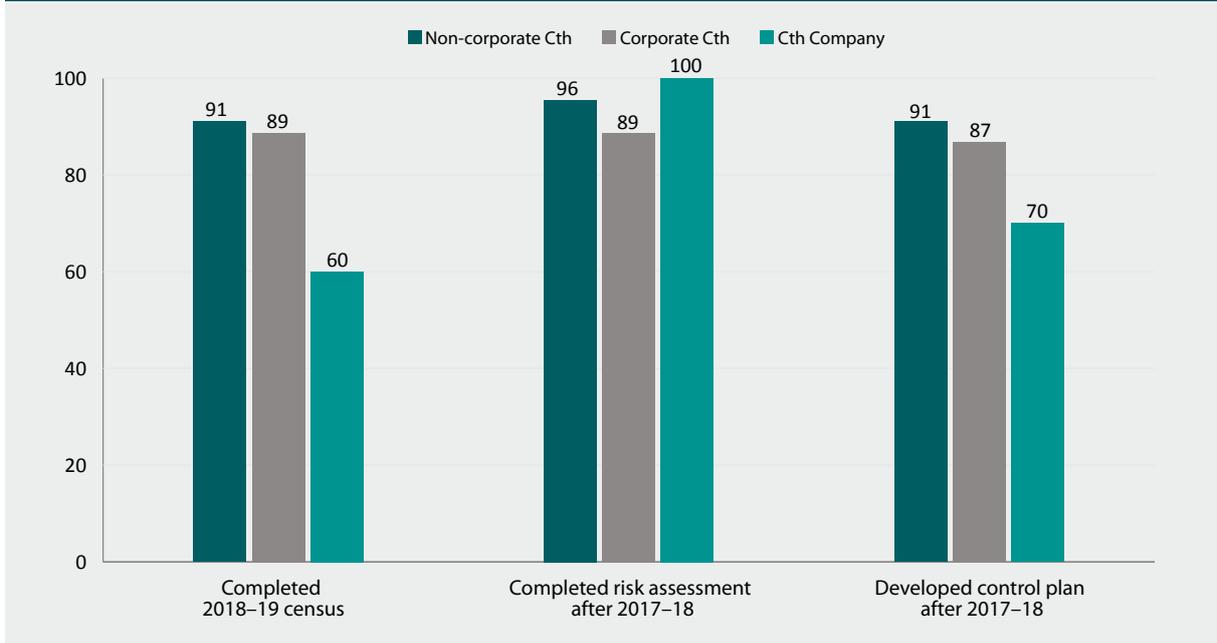
Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

Note: Percentages may not total 100 due to rounding

The Fraud Rule (Attorney-General’s Department 2017) states that all entities must take ‘reasonable measures to prevent, detect and deal with fraud relating to the entity’, including by conducting risk assessments regularly and developing and implementing a fraud control plan that deals with identified risks as soon as practicable after conducting a risk assessment. This is referred to as the Fraud Rule (Attorney-General’s Department 2017) and is binding for non-corporate and corporate Commonwealth entities but not for Commonwealth companies.

Most non-corporate, corporate and company entities had completed a fraud risk assessment and fraud control plan in the previous two years. The vast majority of non-corporate and corporate Commonwealth entities had completed the 2018–19 census, although only 60 percent of Commonwealth companies did so (see Figure 1).

**Figure 1: Compliance with Commonwealth Fraud Control Framework, 2019–20 (%)**



Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

### Innovations and limitations

A total of 88 entities (44%) detailed suggestions about improving the training of staff in the area of fraud investigation and control. The top three suggestions were for standardised training implemented by the Commonwealth that entities could then receive ( $n=14$ , 16%), for training to be more relevant/specific to the entity ( $n=13$ , 15%) and for ongoing refresher courses ( $n=12$ , 14%).

The 2019–20 census also asked entities to summarise innovations that were implemented for fraud prevention, detection and investigation, as well as what aspects limited such innovations (see Table 2).

**Table 2: Innovations and limitations for fraud prevention, detection and investigation, 2019–20**

	Innovations	Limitations
Fraud prevention	<ul style="list-style-type: none"> <li>• Updating existing frameworks or implementing new frameworks for fraud prevention (<i>n</i>=51, 50%)</li> <li>• Updating policies and procedures to better address fraud prevention (<i>n</i>=43, 43%)</li> <li>• Increasing staff training and fraud knowledge across the entity (<i>n</i>=42, 42%)</li> </ul>	<ul style="list-style-type: none"> <li>• Resourcing issues (<i>n</i>=21, 38%)</li> <li>• Changing priorities, for example due to COVID-19 (<i>n</i>=14, 25%)</li> <li>• Limitations within the entity’s internal frameworks/systems (eg cultural issues such as staff or the executive being unwilling to report fraud or unwilling to undertake or implement fraud prevention activities) (<i>n</i>=9, 16%)</li> </ul>
Fraud detection	<ul style="list-style-type: none"> <li>• Updating/improving the existing frameworks/policies or implementing new frameworks/policies to detect fraud (<i>n</i>=28, 36%)</li> <li>• Developing/using artificial intelligence tools and technology to detect fraud (<i>n</i>=22, 28%)</li> <li>• Using audits to detect fraud (<i>n</i>=20, 26%)</li> </ul>	<ul style="list-style-type: none"> <li>• Resourcing issues (<i>n</i>=14, 36%)</li> <li>• Issues with implementing detection mechanisms (<i>n</i>=11, 28%)</li> <li>• Finding that the current policies/frameworks were not working efficiently to detect fraud (<i>n</i>=10, 26%)</li> </ul>
Fraud investigation	<ul style="list-style-type: none"> <li>• Upskilling and ensuring investigators were appropriately trained (<i>n</i>=10, 33%)</li> <li>• Updating or improving policies and processes of the entity (<i>n</i>=9, 30%)</li> <li>• Updating and improving the specific investigation capabilities of the entity (<i>n</i>=9, 30%)</li> </ul>	<ul style="list-style-type: none"> <li>• Resourcing issues (<i>n</i>=11, 39%)</li> <li>• Limitations due to the existing policies/frameworks (<i>n</i>=6, 21%)</li> <li>• The strategic priorities of the entity not sufficiently including fraud investigation (<i>n</i>=5, 18%)</li> </ul>

Notes: Innovations *n*=101, *n*=78, *n*=30 for prevention, detection and investigation respectively. Limitations *n*=56, *n*=39, *n*=28 for prevention, detection and investigation respectively

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

## Fraud allegations

For the purposes of the census, fraud was classified as internal fraud (fraud perpetrated against an entity by officials/contractors of that entity) and external fraud (fraud perpetrated against an entity by individuals who were not officials/contractors). Allegations were defined as courses of alleged fraudulent conduct which concerned one or more suspects. Information on allegations was not collected in 2018–19, so year-on-year comparisons were not possible.

Table 3 shows the total number of allegations received broken down by entity size and type (internal, external, collusion and other/unclassified frauds). In 2019–20, 40 of 152 entities (26%) reported receiving fraud allegations. Most (79%) of the fraud allegations were associated with the six entities described as extra-large. Small, extra-small and micro entities accounted for 57 percent of entities but four percent of fraud allegations. External frauds accounted for 93 percent of all fraud allegations in 2019–20, while internal frauds accounted for four percent.

**Table 3: Fraud allegations by entity size and method, 2019–20 (n)**

Entity size (number of staff)	Solely internal fraud	Solely external fraud	Collusion between internal and external individuals	Other/ unclassified
Micro (<20)	3	6	0	0
Extra-small (20–100)	0	4	0	0
Small (101–250)	3	723	0	0
Medium (251–1,000)	41	236	14	0
Large (1,001–10,000)	65	2,663	16	0
Extra-large (>10,000)	574	12,964	9	549
Total	686	16,596	39	549

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

## Fraud investigations

Table 4 shows the number of investigations commenced, the number of persons subject to investigation and the number of cases that did not meet the threshold for investigation for both internal and external fraud allegations. These are broken down by the size of the entity. Micro, extra-small, small and medium entities accounted for 77 percent of all responding entities but only 20 percent ( $n=965$ ) of commenced investigations ( $n=28$ , 2% internal;  $n=937$ , 25% external). Across the 4,884 ( $n=1,202$  internal;  $n=3,682$  external) fraud investigations that were commenced, there were 4,991 persons investigated ( $n=1,435$  internal,  $n=3,556$  external).

**Table 4: Commenced fraud investigations by entity size, 2019–20 (n)**

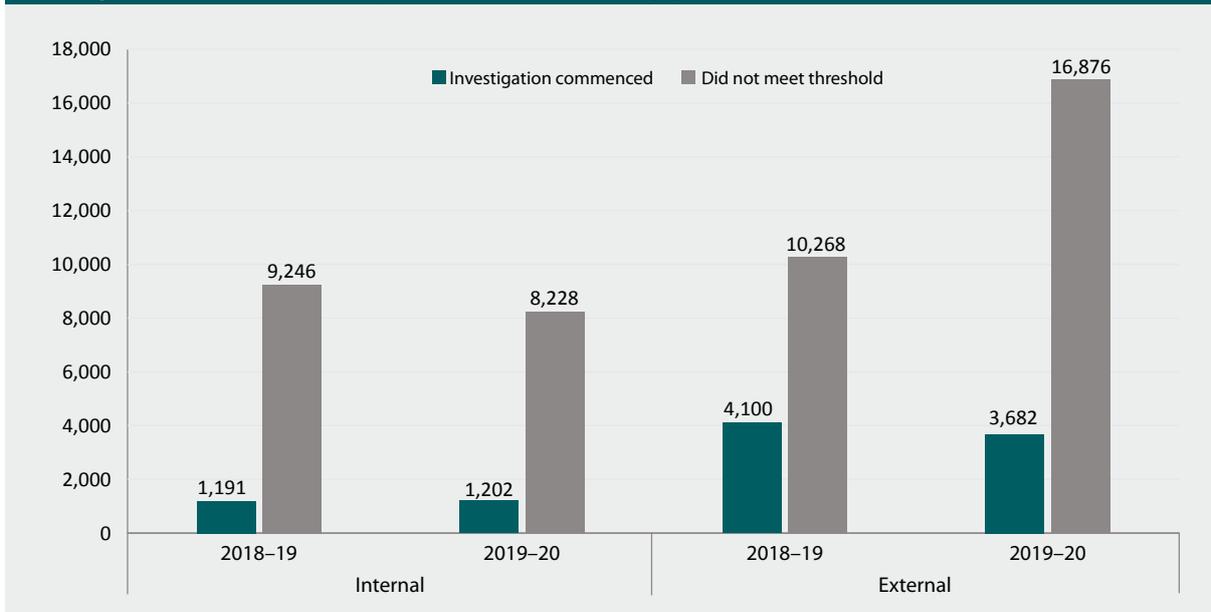
Entity size (number of staff)	Solely internal fraud		Solely external fraud	
	Investigations commenced	Cases that did not meet the threshold	Investigations commenced	Cases that did not meet the threshold
Micro (<20)	2 (2)	1	3 (4)	4
Extra-small (20–100)	0 (0)	0	4 (2)	0
Small (101–250)	2 (5)	1	796 (933)	254
Medium (251–1,000)	24 (27)	16	134 (137)	87
Large (1,001–10,000)	27 (30)	31	545 (370)	2,094
Extra-large (>10,000)	1,147 (1,371)	8,179	2,200 (2,110)	14,437
Total	1,202 (1,435)	8,228	3,682 (3,556)	16,876

Note: Numbers in parentheses indicate the number of persons subject to investigation  
Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

A case was defined as an investigation into an allegation or group of allegations that relate to one suspect or group of suspects concerning a single course of alleged fraudulent conduct. Figure 2 displays the total numbers of commenced investigations and the total number of cases which did not meet the threshold for investigation for both internal and external fraud for 2018–19 and 2019–20. The numbers of internal fraud investigations commenced did not greatly differ between 2018–19 and 2019–20, but there were fewer cases that did not meet the threshold in 2019–20 ( $n=8,228$ ) than in 2018–19 ( $n=9,246$ ).

There were 10 percent fewer external fraud investigations commenced in 2019–20 ( $n=3,682$ ) than in 2018–19 ( $n=4,100$ ), but the number of cases which did not meet the threshold was 64 percent higher in 2019–20 ( $n=16,876$ ) than in 2018–19 ( $n=10,268$ ). In 2018–19, the vast majority of external fraud cases that did not meet the threshold related to one entity ( $n=9,093$ , 89%). This same entity was also responsible for the majority of external fraud cases that did not meet the threshold in 2019–20 ( $n=14,221$ , 84%). Excluding this entity, there were 5,275 external fraud cases (combining both investigations commenced and those not meeting the threshold for investigation) in 2018–19 and 6,337 cases in 2019–20. This represents a 20 percent increase in total external fraud cases among these entities.

**Figure 2: Internal and external fraud cases where investigations commenced or the threshold for investigation was not reached, 2018–19 to 2019–20 ( $n$ )**

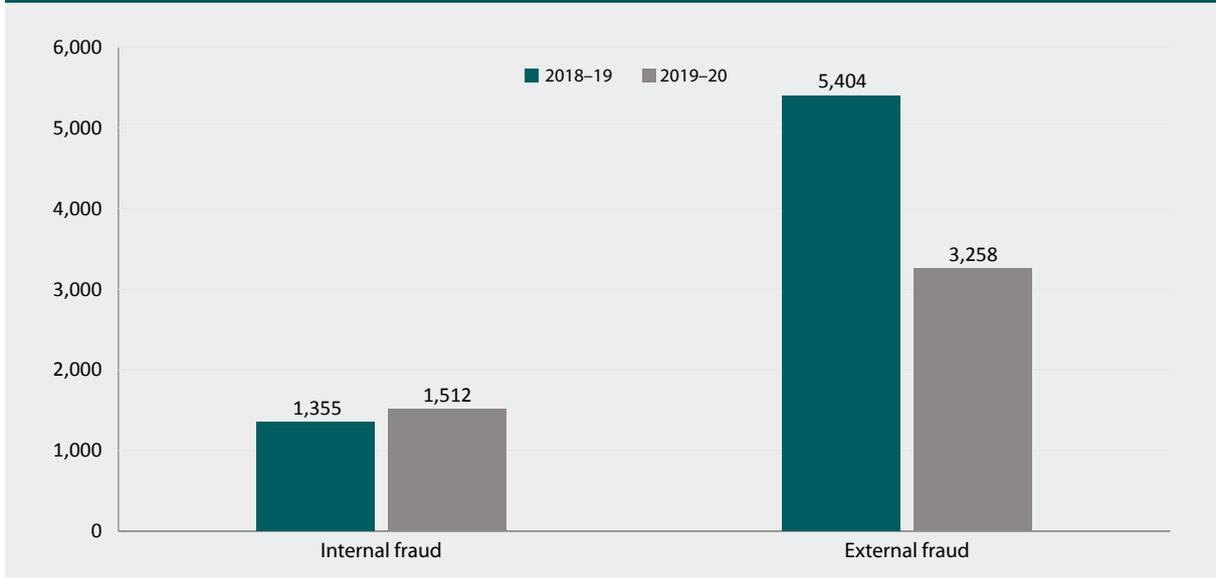


Source: AIC Fraud Against the Commonwealth census 2018–19; 2019–20 [computer file]

In 2019–20, 45 (30%) of 151 entities reported finalising an investigation (one entity did not provide a response). There were 4,770 fraud investigations finalised in 2019–20 across both internal and external fraud types (Figure 3). Slightly more internal fraud investigations were finalised in 2019–20 ( $n=1,512$ ) than in 2018–19 ( $n=1,355$ ). However, there were substantially fewer external fraud investigations finalised in 2019–20 ( $n=3,258$ ) than in 2018–19 ( $n=5,404$ ).

A similar number of entities reported finalising external fraud investigations in 2018–19 ( $n=34$ ) and in 2019–20 ( $n=32$ ), and a similar median number of investigations per entity was reported (2018–19: median=7.5; 2019–20: median=8.5). However, the average number of investigations per entity in 2019–20 ( $M=102$ ) was lower than in 2018–19 ( $M=159$ ). These statistics suggest there may have been fewer external fraud investigations finalised across the board in 2019–20.

**Figure 3: Investigations finalised, 2018–19 to 2019–20 ( $n$ )**



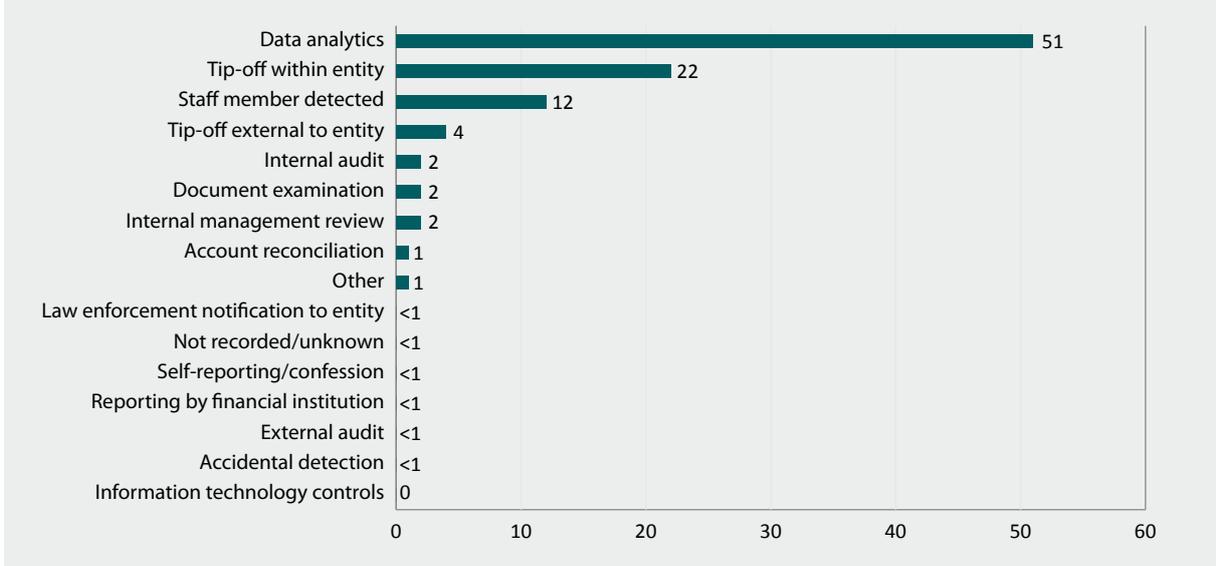
Source: AIC Fraud Against the Commonwealth census 2018–19; 2019–20 [computer file]

### How alleged fraud cases were detected

Figure 4 shows how internal fraud cases finalised in 2019–20 were detected. The top three methods of detection were by data analytics ( $n=970$ , 51%), tip-offs within the entity ( $n=422$ , 22%) and detected by staff members ( $n=235$ , 12%; Figure 4). These three methods were responsible for detection in 85 percent of finalised investigations.

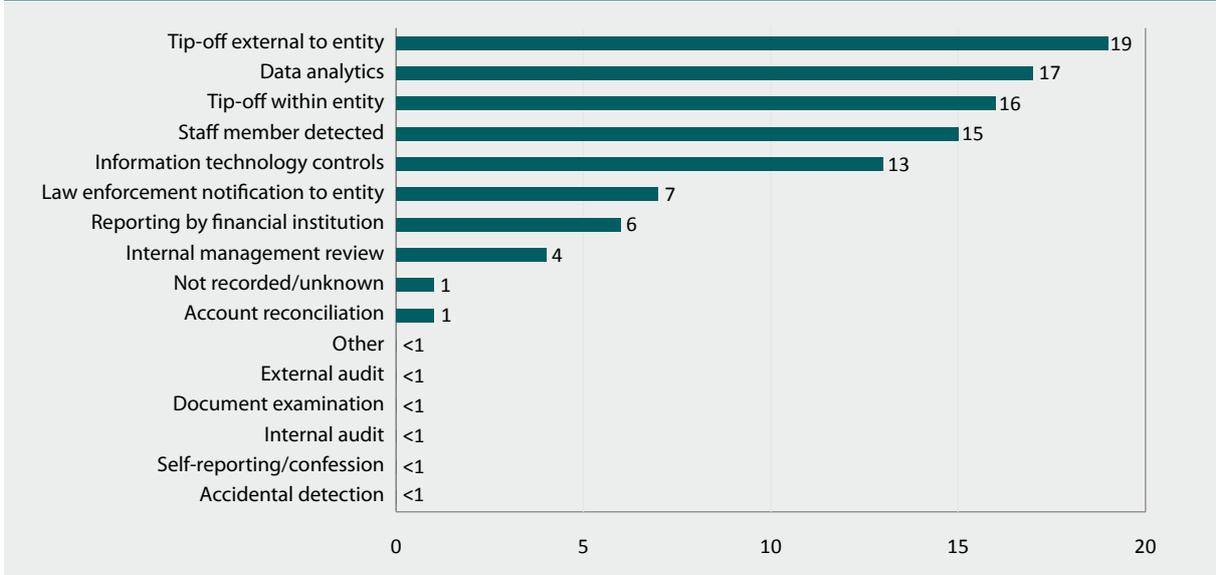
In 2019–20, the top three methods of detection for external fraud cases finalised were tip-offs external to the entity ( $n=631$ , 19%), data analytics ( $n=572$ , 17%) and tip-offs within the entity ( $n=531$ , 16%). These three methods were responsible for the detection of just over half (52%) of external fraud cases where investigations were finalised in 2019–20 (Figure 5).

**Figure 4: Methods of detection in finalised internal fraud investigations, 2019–20 (%)**



Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

**Figure 5: Methods of detection in finalised external fraud investigations, 2019–20 (%)**



Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

## Who conducted investigations?

In 2019–20, almost all internal fraud investigations were solely internal investigations by the entity ( $n=1,474$ , 97%). Much smaller numbers were investigated solely by consultant investigators ( $n=10$ , <1%) or state/territory police ( $n=7$ , <1%).

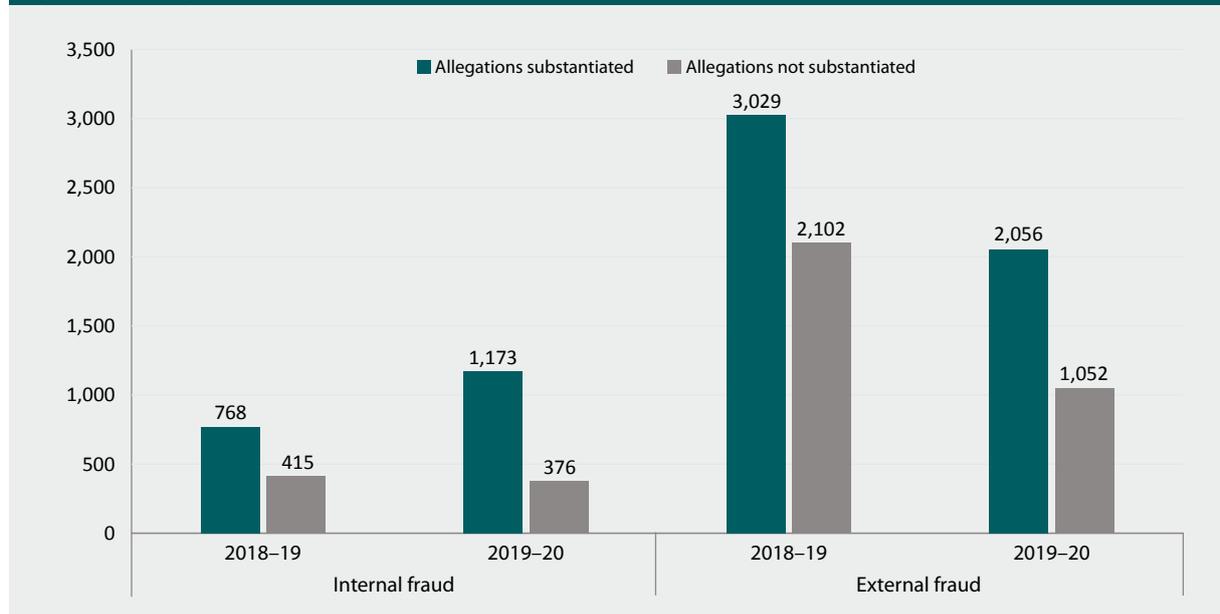
External fraud investigations in 2019–20 were most commonly conducted solely within the entity ( $n=2,806$ , 88%), followed by solely external investigations by other organisations ( $n=208$ , 6%), and internal entity investigations preceded or followed by an external investigation by financial institutions ( $n=98$ , 3%). ‘Other organisations’ included other government entities involved in joint task forces.

## Were allegations substantiated?

Figure 6 shows the number of allegations substantiated and not substantiated from 2018–19 to 2019–20. In 2019–20, more internal fraud ( $n=1,173$ ) but fewer external fraud allegations ( $n=2,056$ ) were substantiated compared to the previous year ( $n=768$  internal fraud and  $n=3,029$  external fraud respectively).

In 2018–19, one entity accounted for over half ( $n=1,563$ , 52%) of all external allegations that were substantiated and the majority ( $n=1,766$ , 84%) of allegations that were not substantiated. This same entity accounted for over half ( $n=1,122$ , 55%) of external allegations that were substantiated in 2019–20, but less than half ( $n=510$ , 48%) of those that were not substantiated.

**Figure 6: Allegations substantiated and not substantiated, 2018–19 to 2019–20 ( $n$ )**



Source: AIC Fraud Against the Commonwealth census 2018–19; 2019–20 [computer file]

## Results of investigations

Among the most common results of the 1,173 internal fraud allegations that were substantiated in 2019–20, the top three were administrative sanctions (eg APS Code of Conduct sanctions, suspensions, reassignment of duties;  $n=282$ , 24%), or the termination of employment/contract by dismissal ( $n=143$ , 12%). Forty percent ( $n=468$ ) of substantiated internal fraud allegations led to ‘other’ results, such as formal warnings or the retraining of staff.

Among the most common results of the 2,056 external fraud allegations that were substantiated in 2019–20, the top three were administrative sanctions ( $n=728$ , 35%), the matter being referred to police ( $n=104$ , 5%) or no further action being taken ( $n=252$ , 12%). Another 602 (29%) had ‘other’ results, such as cautions and infringement notices, or a referral to other government agencies such as the Commonwealth Director of Public Prosecutions.

## Targets of fraud

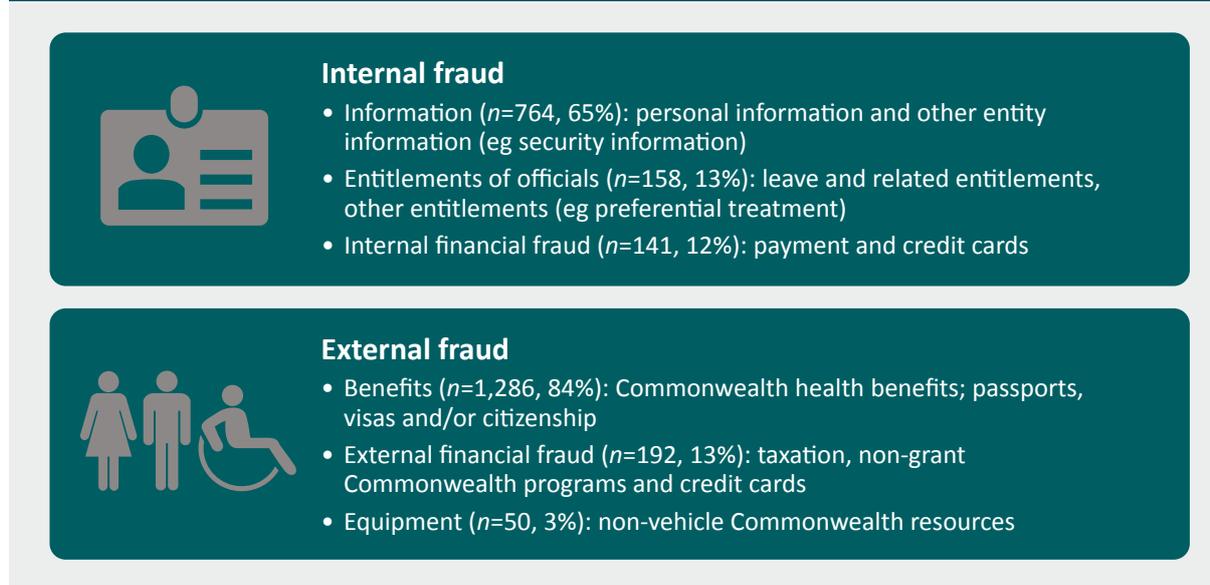
### *Internal fraud*

Entities were prompted to indicate the principal fraud target for each finalised investigation where allegations were substantiated either in full or in part. The top three targeted areas for internal frauds in 2019–20 were information ( $n=764$ , 64%), entitlements of officials ( $n=158$ , 13%) and financial fraud ( $n=141$ , 12%; Figure 7). A closer examination of the type of information targeted showed that personal information ( $n=607$ , 79%) and other entity information ( $n=115$ , 15%) such as security information were the most commonly targeted. Where entitlements of officials were concerned, leave and related entitlements ( $n=73$ , 46%) and other entitlements such as preferential treatment ( $n=55$ , 35%) were most commonly targeted. The main target of internal financial fraud was payment cards (eg credit cards;  $n=135$ , 96%).

### *External fraud*

The top three targeted areas for external frauds in 2019–20 were benefits ( $n=1,286$ , 84%), external financial fraud ( $n=192$ , 13%) and equipment ( $n=50$ , 3%; Figure 7). The benefits most often targeted were Commonwealth health benefits ( $n=1,032$ , 80%); passports, visas or citizenship ( $n=105$ ; 8%); and other benefits ( $n=120$ , 9%) such as subsidies and early access to superannuation. The top targets for external financial fraud were taxation ( $n=47$ , 24%), other non-grant Commonwealth programs ( $n=42$ , 22%) and other financial benefits ( $n=33$ , 17%) such as credit card fraud external to the entity. The top external fraud target for equipment was non-vehicle Commonwealth resources ( $n=49$ , 98%).

**Figure 7: Top three targets of internal and external fraud, 2019–20**



Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

## Methods

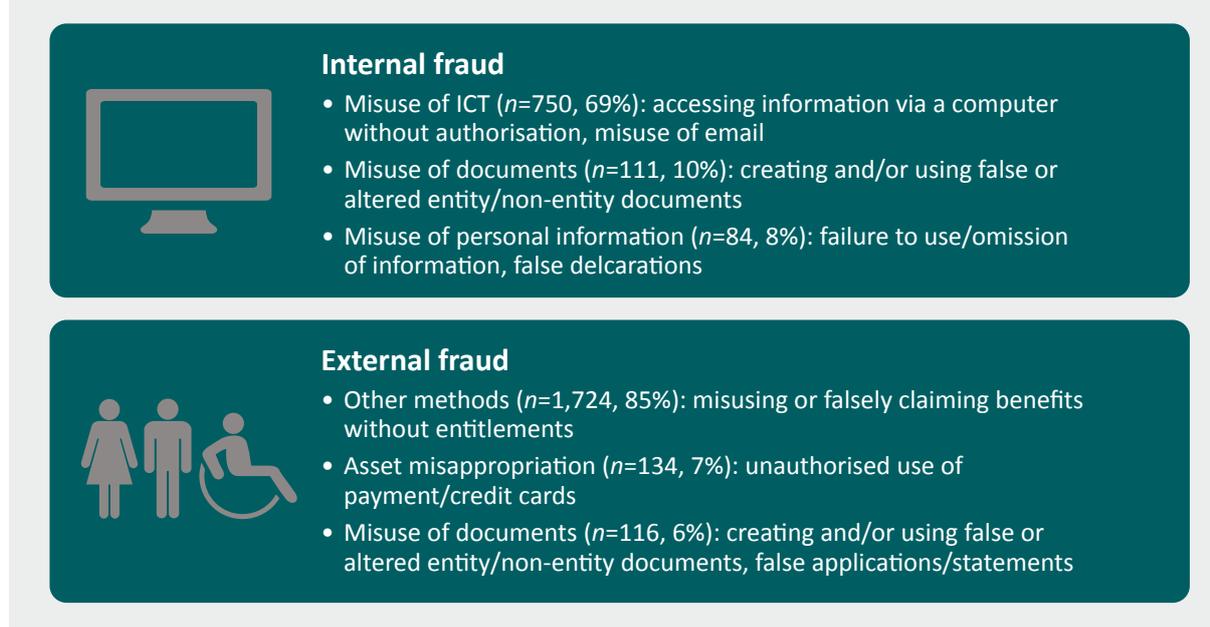
### *Internal fraud*

Entities were asked about the principal fraud method for each finalised investigation where allegations were substantiated either in full or in part. The top three methods by which internal frauds were perpetrated in 2019–20 were the misuse of information and communications technology (ICT;  $n=750$ , 69%), the misuse of documents ( $n=111$ , 10%) and the misuse of personal information ( $n=84$ , 8%; Figure 8). The top methods for misuse of ICT were accessing information or programs via a computer without authorisation ( $n=462$ , 62%) and misuse of email ( $n=270$ , 36%). The top methods for the misuse of documents were creating and/or using a false or altered document either belonging ( $n=32$ , 29%) or not belonging ( $n=54$ , 49%) to the entity and the other misuse of documents ( $n=17$ , 15%), including false time sheets and misuse of pay slips. The top methods for the misuse of personal information were the failure to use or omission of information ( $n=11$ , 13%) and other misuse of personal information ( $n=64$ , 76%), including falsely declaring personal information such as income and marital status.

### *External fraud*

The top three methods by which external frauds were perpetrated in 2019–20 were overwhelmingly by 'other' methods ( $n=1,724$ , 85%), asset misappropriation ( $n=134$ , 7%) and misuse of documents ( $n=116$ , 6%; Figure 8). Entities rarely described the 'other' methods used, but they included misusing or claiming health or welfare benefits without entitlements, taking natural resources and illicit excise activity. The top method for asset misappropriation was the unauthorised use of payment/credit cards ( $n=114$ , 85%). The top methods for misuse of documents were creating and/or using a false or altered document either belonging ( $n=51$ , 44%) or not belonging ( $n=36$ , 27%) to the entity and other misuse of documents ( $n=27$ , 20%) such as false applications and statements.

**Figure 8: Top three methods of internal and external fraud, 2019–20**



Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

### Corruption and collusion

Among the 3,229 investigations finalised in 2019–20 in which allegations were substantiated either in full or in part (1,173 internal fraud, 2,056 external fraud; see Figure 6), 141 involved corruption. The form of corruption was unable to be determined in most cases ( $n=102$ , 72%). When a type was able to be determined, it was most commonly an ‘other’ form of abuse of official power or position ( $n=11$ , 8%).

Of the investigations finalised in 2019–20 in which allegations were substantiated either in full or in part, 606 involved collusion. Again, the form of collusion was unable to be determined in most cases ( $n=588$ , 97%). When a type of collusion was able to be determined, it most often involved an official or contractor conspiring with an external ( $n=8$ , 1%) or internal ( $n=8$ , 1%) party for the purposes of committing fraud.

### Amounts lost and recovered

The internal and external fraud losses and recoveries for 2019–20 are shown in Table 5. A test to analyse variances (Kruskal–Wallis) indicated the amount lost to internal fraud in 2019–20 (\$2,977,152) was not significantly different to the amount lost to internal fraud in 2018–19 (\$2,775,917) ( $H(1)=0.087$ ,  $p=0.767$ ). Similarly, the amount lost to external fraud in 2019–20 (\$191,523,951) did not differ significantly from the amount lost to external fraud in 2018–19 (\$146,904,811) ( $H(1)=0.023$ ,  $p=0.881$ ). The amounts recovered in 2019–20 also did not differ significantly from the amounts recovered in 2018–19. For internal fraud, \$495,912 was recovered in 2019–20 compared with \$1,319,818 in 2018–19 ( $H(1)=2.227$ ,  $p=0.136$ ). For external fraud, \$2,242,907 was recovered in 2019–20 compared with \$49,953,813 in 2018–19 ( $H(1)=1.132$ ,  $p=0.287$ ). Although the differences appear large, the lack of statistical significance is likely due to the small number of entities able to quantify the amount recovered.

Despite no significant differences between years in the overall losses or recoveries, the median amounts lost to external fraud and the recoveries appear to be increasing (Figure 9). The internal fraud median losses and recoveries appear to have decreased from 2018–19 to 2019–20, but the median amount recovered from internal fraud in 2018–19 may have been strongly influenced by the small number of entities reporting recoveries.

	Total (\$)	Average per entity (\$)	Median per entity (\$)	Number of entities	Average per fraud <sup>a</sup> (\$)
Internal fraud loss	2,977,152	270,650	15,257	11	2,538
Internal fraud recovery	495,912	82,652	5,032	6	423
External fraud loss	191,523,951	12,768,263	193,130	15	93,154
External fraud recovery	2,242,907	149,527	39,650	15	1,091

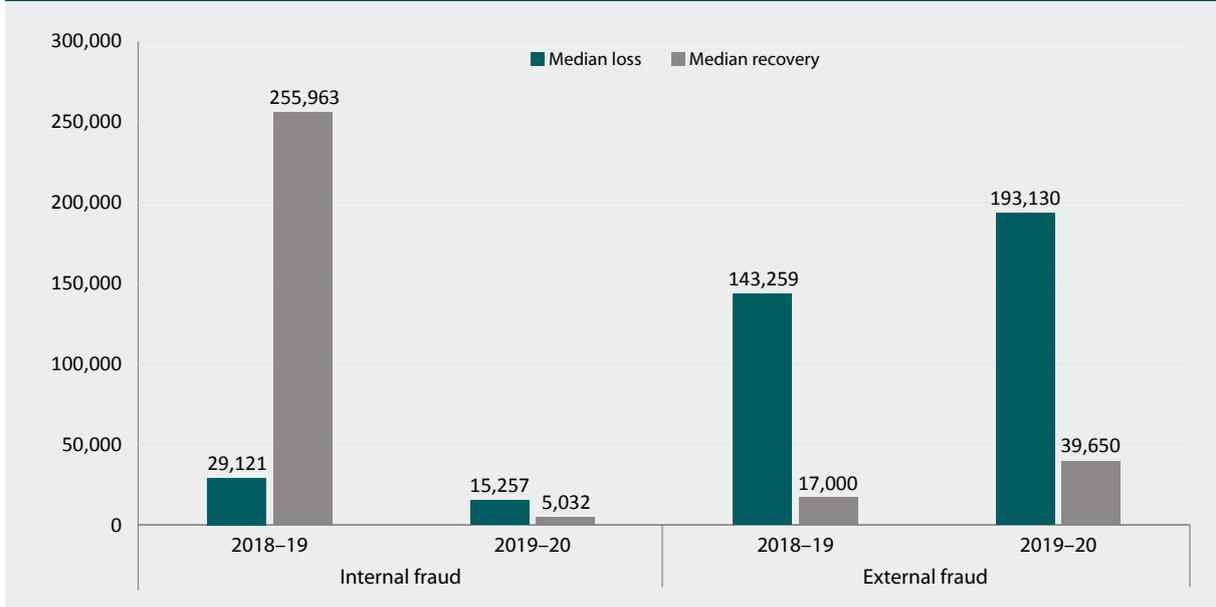
a: Total losses and recoveries were divided by the number of substantiated frauds for investigations finalised in 2019–20 ( $n=1,173$  internal;  $n=2,056$  external). 2018–19 statistics: internal fraud loss=\$2,775,917 (11 entities); internal fraud recovery=\$1,319,818 (4 entities); external fraud loss=\$146,904,811 (20 entities); external fraud recovery=\$49,953,813 (11 entities)

Note: Recoveries may be due to frauds experienced in earlier years due to length of time involved in the recovery process and hence may not reflect the total that will be recovered or the amount recovered due to frauds experienced only in 2019–20. Numbers rounded to the nearest whole number

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

In 2018–19, 11 entities quantified the amount lost to internal frauds, but only four entities could quantify the amount recovered. Similarly, in 2019–20, 11 entities quantified internal fraud losses, but only six entities reported quantifiable recoveries. This was also the case for external frauds in 2018–19, when 20 entities quantified losses and only 11 entities quantified recoveries. Only for external fraud in 2019–20 were equal numbers of entities observed to report quantified losses ( $n=15$ ) and recoveries ( $n=15$ ). Not every entity that quantified the amount lost could quantify the amount recovered, and vice versa. This may explain the large discrepancy between the median loss and median recovery for internal frauds in 2018–19, as observed in Figure 9. However, it must also be noted that due to the length of time involved in the recovery process, the recoveries in 2018–19 and 2019–20 may not reflect recoveries associated with the frauds experienced in these years and may in fact be recoveries relating to frauds occurring in earlier years. Consequently, these recoveries may not reflect the full amount that will be recovered from frauds experienced in these years.

**Figure 9: Median internal and external fraud losses and recoveries per entity, 2018–19 to 2019–20 (\$)**



Note: In 2018–19,  $n=11$  entities reported an internal loss ( $n=4$  reported recoveries);  $n=20$  reported an external loss ( $n=11$  reported recoveries). One entity reported internal fraud recoveries almost twice the value of its reported losses to internal fraud in 2018–19

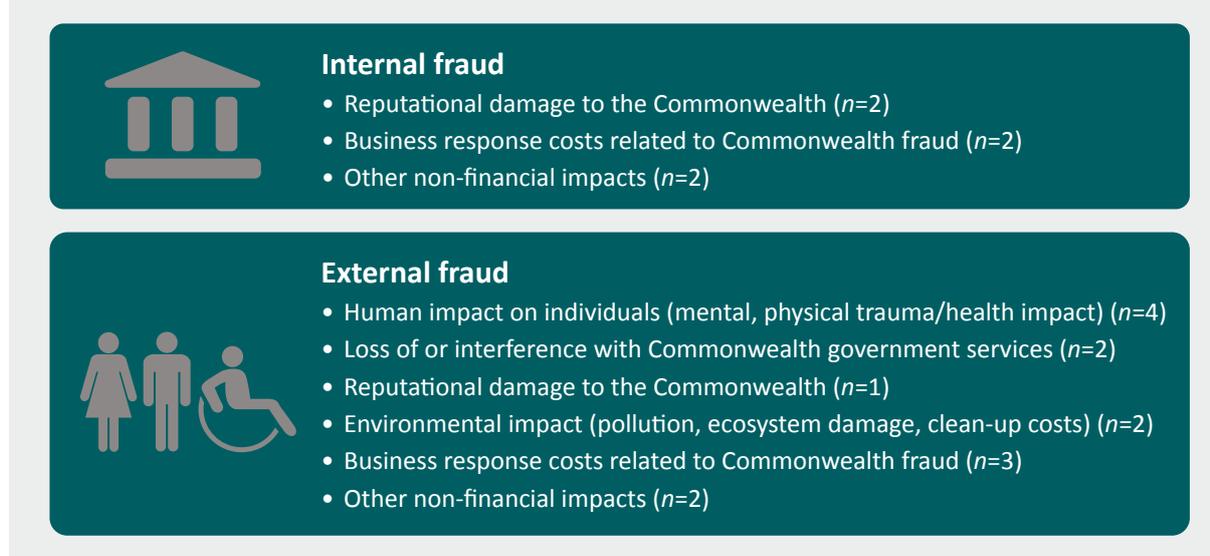
Source: AIC Fraud Against the Commonwealth census 2018–19; 2019–20 [computer file]

## Non-financial impacts

In the 2019–20 census, entities were asked to provide details of the non-financial impacts resulting from the frauds they experienced (see Figure 10). Five entities reported non-financial impacts as a result of internal frauds. Two entities briefly described the non-financial impacts as a result of the internal frauds experienced, which included impacts on resources available to staff, and the varied multi-entity and unquantifiable impacts of passport fraud.

Regarding fraud cases in which investigations were finalised in 2019–20, there were greater non-financial impacts associated with external fraud than internal fraud. Eleven entities reported non-financial impacts from external frauds. These entities mainly incurred human impacts ( $n=4$ , 36%), including members of the public being unable to access their benefits, or further adverse effects such as identity theft. Two entities also reported non-financial impacts but did not specify the type of non-financial impact experienced.

**Figure 10: Non-financial impacts of internal and external fraud, 2019–20**



Note: Numbers in parentheses indicate the number of entities who reported this impact. Some entities reported multiple impacts

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

## Most harmful frauds

Entities that finalised investigations in 2019–20 involving fraud that was substantiated either in full or in part elaborated on details pertaining to the most harmful instance of internal and/or external fraud. Detailed information was provided on 16 of the most harmful internal fraud cases and 27 of the most harmful external fraud cases.

### Most harmful internal frauds

Among the 16 detailed most harmful internal fraud cases, almost half were detected by staff members ( $n=7$ ). The majority of cases were investigated solely internally by the entity where the fraud occurred ( $n=11$ ). The main targets of the most harmful cases were entitlements/benefits of officials ( $n=9$ ), but equipment ( $n=4$ ) and internal financial fraud ( $n=4$ ) also emerged as primary targets. Note that some entities provided two or more principal targets for the fraud. The Australian Taxation Office agreed to their response being published as a case study (see Table 6). Also provided is a de-identified case study of the most harmful internal fraud experienced by a large non-corporate Commonwealth entity.

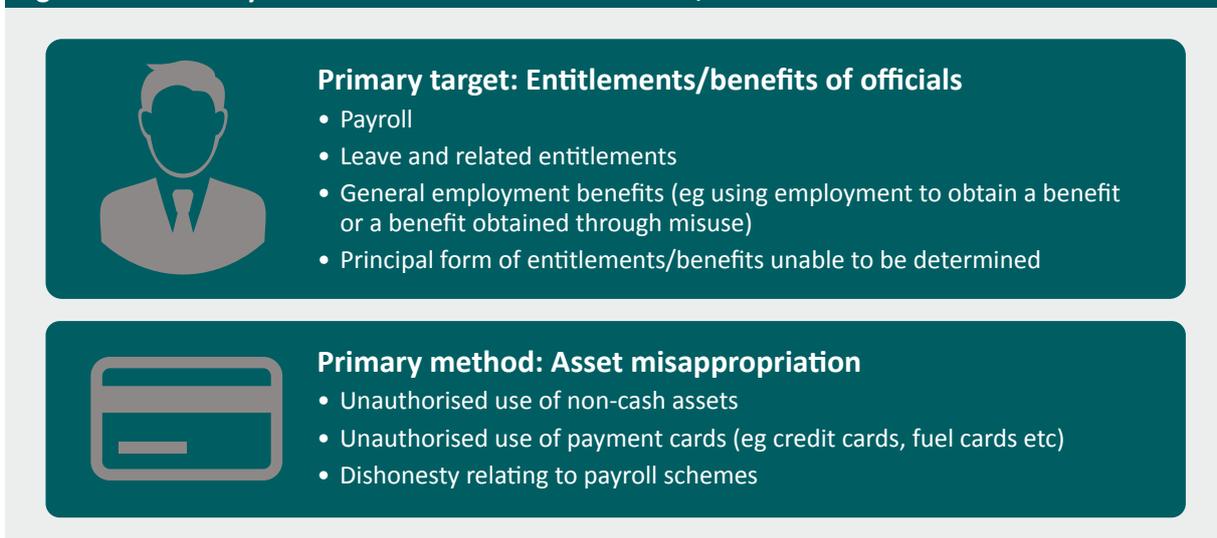
**Table 6: Case studies of the most harmful internal frauds, 2019–20**

Entity	Summary of most harmful internal fraud
Australian Taxation Office (ATO)	Fraud administration and unauthorised use of another person’s access pass – subject presented 38 fraudulent medical certificates to various management over an 18-month period. A document with the false medical certificate template was stored on the subject’s local area network storage and was discovered by the ATO’s internal fraud detection capability during targeted monitoring of integrity risk. The subject was also in possession of a stolen access building pass and attempted to enter a secure area using the stolen pass, but access was declined due to deactivation from internal security controls.
A large entity (1,001–10,000 staff) involved in welfare and health services	Employee awarded contract to close personal friend without taking steps to avoid a conflict of interest and without following Commonwealth Procurement rules. Employee’s actions risked damaging the reputation and integrity of [the entity] and the APS [Australian Public Service]. The amount that was able to be obtained by the offender in this instance was \$4,170, however a timeframe was unable to be determined for the duration of the fraud.

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

The primary method by which the most harmful internal frauds were perpetrated was through asset misappropriation ( $n=8$ ) and other methods ( $n=6$ ), such as the failure to follow correct directions and procedures (see Figure 11 for a summary). The median duration of the most harmful internal frauds in 2019–20 (217 days) surpassed that observed in 2018–19 (123 days). However, the associated median amount obtained by the offender was less in 2019–20 (\$11,721) than in the previous year (\$30,799; Figure 13). A Kruskal–Wallis test found no statistically significant difference between the total amounts lost to the most harmful internal frauds in 2018–19 and 2019–20 ( $H(1)=2.369$ ,  $p=0.124$ ) or the durations ( $H(1)=0.006$ ,  $p=0.940$ ).

**Figure 11: Summary of the most harmful internal frauds, 2019–20**



Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

## Most harmful external frauds

Of the 27 most harmful external fraud cases for which details were given, most were detected either by staff members ( $n=9$ ) or by tip-offs external to the entity ( $n=7$ ). Akin to the most harmful internal frauds, the majority of the most harmful external frauds were investigated solely internally by the entity that experienced the fraud ( $n=17$ ). The primary targets for the most harmful external frauds were external financial fraud ( $n=18$ ) and benefits ( $n=9$ ). The main methods by which the most harmful external frauds were perpetrated was by the misuse of documents ( $n=10$ ) and personal information ( $n=7$ ), and asset misappropriation ( $n=8$ ). The Department of Education, Skills and Employment (formerly the Department of Education) agreed to their response being published as a case study (see Table 7). Also provided is a de-identified case study of the most harmful external fraud experienced by a small non-corporate Commonwealth entity. A brief summary of the targets and the methods for the most harmful external frauds is displayed in Figure 12.

**Table 7: Case studies of the most harmful external frauds, 2019–20**

Entity	Summary of most harmful external fraud
A small entity (101–250 staff) involved in environmental science, regulation or planning policy or administration	A vessel was harvesting Commonwealth environmental resources despite not being nominated to do so. This had the potential (if not detected) to not declare the resources it obtained and avoid any quota decrementation. The value of the resources harvested was approximately \$20,704.
Department of Education, Skills and Employment	<p>An investigation was conducted into a criminal group who operated a child care service. The investigation found that the service had a silent director who was orchestrating the defrauding of the government behind the scenes. Along with the silent director, coordinators and educators were also involved in the scheme which involved submitting false timesheets for Child Care Subsidy claims where care never took place, to financially benefit the criminal group members. This scheme also involved defrauding the government during the height of the COVID-19 pandemic.</p> <p>Between April 2020 and October 2020, \$575,119.76 was deposited into the bank account of the family day care by the Reserve Bank of Australia as a result of false information supplied by the group to the Department. This money was then filtered through to the coordinators and educators for playing their part in the fraud. Thirteen people were ultimately arrested for their part and the service has now been cancelled.</p>

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

The median duration and amount lost to the most harmful internal and external frauds is displayed in Figure 13. Both the median duration (36 days) and the amount obtained by the offender (\$83,155) were lower in 2019–20 than observed in 2018–19 (128 days and \$122,942 respectively). A Kruskal–Wallis test found no statistically significant difference between the total amounts lost to the most harmful external frauds in 2018–19 and 2019–20 ( $H(1)=0.415$ ,  $p=0.519$ ) or the durations ( $H(1)=0.501$ ,  $p=0.480$ ).

**Figure 12: Summary of the most harmful external frauds, 2019–20**



**Primary target: Finances**

- Non-grant Commonwealth programs
- Payment cards (eg credit cards, fuel cards)
- Other external financial fraud (eg unapproved banking and paying supplier invoices)

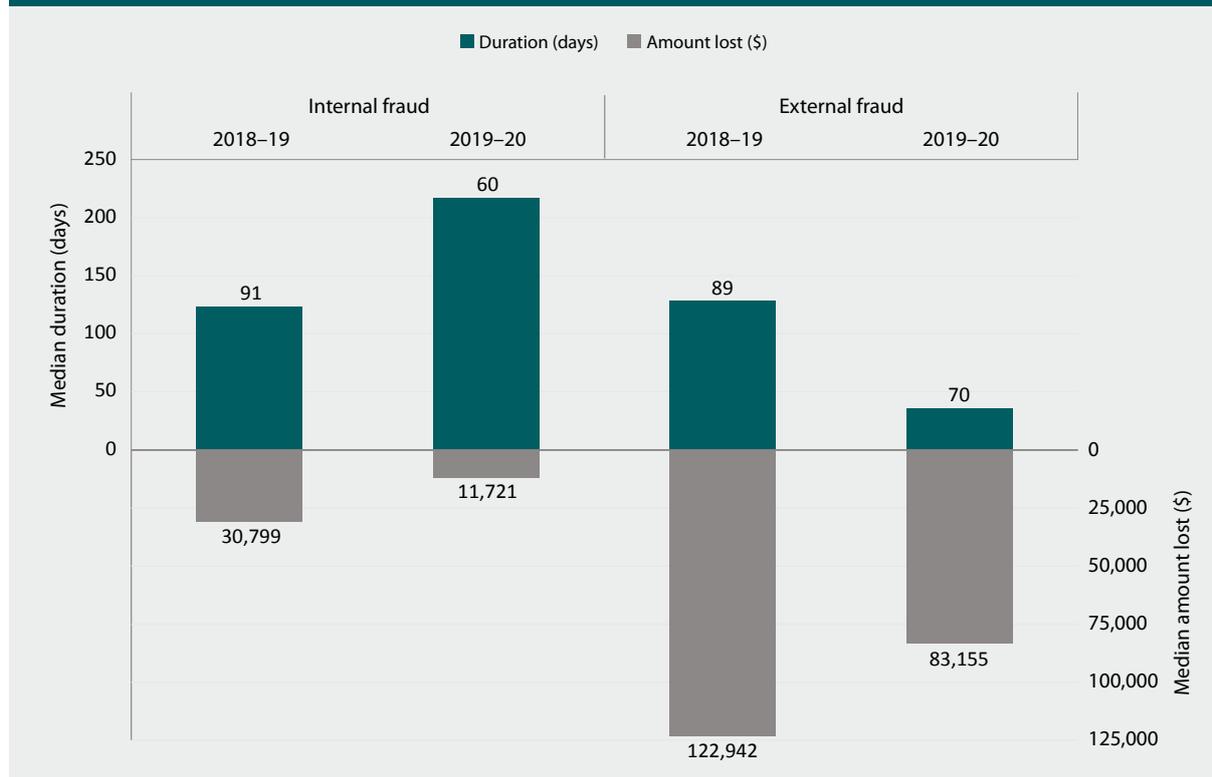


**Primary methods: Misuse of documents and personal information**

- Creating and/or using a false or altered entity document
- Creating and/or using a false or altered document not belonging to the entity
- Fraudulently obtaining and/or using a person’s personal information without their permission

Source: AIC Fraud Against the Commonwealth census 2019–20 [computer file]

**Figure 13: Median duration of and amount lost to most harmful internal and external fraud cases, 2018–19 to 2019–20**



Note: Median internal fraud duration: 2018–19,  $n=10$ ; 2019–20,  $n=10$ . Median external fraud duration: 2018–19,  $n=10$ ; 2019–20,  $n=14$ . Median internal fraud loss: 2018–19,  $n=12$ ; 2019–20,  $n=14$ . Median external fraud loss: 2018–19,  $n=11$ ; 2019–20,  $n=16$ . Statistics displayed are those per most harmful fraud case and not per entity

Source: AIC Fraud Against the Commonwealth census 2018–19; 2019–20 [computer file]

## Summary

This Statistical Bulletin presents the results from the AIC's annual Fraud Against the Commonwealth census, whereby Commonwealth entities provide data about their internal and external fraud experiences throughout the last financial year. The median time taken to complete the 2019–20 census was two hours and 15 minutes.

### Allegations and investigations

In 2019–20, more internal fraud ( $n=1,173$ ) but fewer external fraud allegations ( $n=2,056$ ) were substantiated when compared to the previous year ( $n=768$  internal and  $n=3,029$  external). A total of 45 (30%) out of 151 entities reported finalising an investigation in 2019–20. (One entity did not provide a response.) This is a similar proportion to that observed in 2018–19 ( $n=44$  of 154 entities; 29%).

### Finalised internal fraud investigations

The top three methods of detection for internal frauds for which investigations were finalised in 2019–20 remained the same as in 2018–19: data analytics, tip-offs within the entity or detection by staff members. Data analytics and tip-offs within the entity were responsible for the detection of 63 percent of alleged internal frauds. The Association of Certified Fraud Examiners (2020) report indicated that occupational fraud is detected by tip-offs in 43 percent of cases—by far the leading method. The data from the 2019–20 Fraud Against the Commonwealth census also emphasises the strength of tip-offs in conjunction with data analytics to detect internal fraud. Most investigations into internal frauds were conducted internally by the affected entity, and 76 percent ( $n=1,173$ ) of allegations were substantiated. This often resulted in administrative sanctions or the termination of the perpetrator's employment. The most common targets for internal frauds were information, entitlements of officials and finances. Internal frauds were most commonly perpetrated through the misuse of ICT, documents and personal information.

The total financial loss resulting from internal frauds in 2019–20 was \$2,977,152. This loss was larger than the amount observed in 2018–19 (\$2,775,917) yet the median loss in 2019–20 (\$15,257) was approximately half of that observed in 2018–19 (\$29,121). Additionally, the total amount recovered from internal fraud (\$495,912) and the median recovery (\$5,032) in 2019–20 were lower than those observed in 2018–19 (total recovery \$1,319,818; median=\$255,963). None of these differences were statistically significant, yet it is recognised that the small sample sizes have an influence on the findings and power of these statistical tests (Cohen 1992). Five entities reported non-financial impacts as a result of the internal frauds they experienced, including impacts on resources available to staff and unquantifiable impacts resulting from passport fraud.

### *The most harmful internal frauds*

Sixteen entities detailed the most harmful internal fraud they experienced. The case studies presented illustrate the effects of frauds involving false medical certificates, stolen access passes, and not following correct procedures to avoid conflicts of interest and giving contracts to friends. The most harmful internal frauds primarily targeted the entitlements of officials and were performed through asset misappropriation. This target is similar to the primary target observed from the rest of the finalised internal fraud investigations. The median duration of the most harmful internal frauds was 217 days and offenders obtained a median amount of \$11,721. These data, despite being limited in generalisability due to small sample sizes, suggest that the entitlements of officials may be a vulnerability for internal fraud and have the potential to result in the most harmful internal frauds experienced.

### **Finalised external fraud investigations**

The principal methods of detecting external frauds for which investigations were finalised in 2019–20 were tip-offs external to the entity, data analytics and tip-offs within the entity. These methods were responsible for the detection of 52 percent of external frauds where an investigation was finalised in 2019–20. This is a change from the principal detection methods in 2018–19, which were reporting from financial institutions, data analytics and staff members. Most of the investigations finalised in 2019–20 were carried out either internally by the entity or externally by other organisations such as joint agency taskforces. These investigations most often resulted in administrative sanctions, cautions and infringement notices and referral to law enforcement or other government agencies. External frauds in 2019–20 primarily targeted benefits, entity finances and equipment. They were mainly perpetrated through methods such as misusing or claiming health/welfare benefits without entitlement, as well as asset misappropriation and the misuse of documents.

The total and median amounts lost to external fraud (\$191,523,951; median=\$193,130) in 2019–20 were both larger than the total and median amounts lost in 2018–19 (\$146,904,811; median=\$143,259). Additionally, the total amount of external fraud recoveries in 2019–20 (\$2,242,907) was much lower than observed in 2018–19 (\$49,953,810); however, the median external fraud recovery in 2019–20 (\$39,650) was more than double that in 2018–19 (\$17,000). Again, none of these differences were statistically significant, possibly due to the small numbers of entities who could quantify the losses and recoveries they had experienced.

Eleven entities reported experiencing non-financial impacts resulting from the external frauds they experienced in 2019–20. These impacts were mainly the human cost (mental, physical trauma/health impact) associated with identify theft and being unable to access benefits, but also included business response costs such as staff time. Additional impacts were environmental damage and lowered confidence in Government benefit systems.

### *The most harmful external frauds*

Twenty-seven entities described the most harmful external fraud case for which they had finalised an investigation in 2019–20. Two such case studies are presented, outlining how the most harmful external frauds experienced by entities can range from criminal syndicates obtaining very large sums of money by fraudulently claiming government benefits, to the taking of Commonwealth natural resources without authorisation.

As described above, among the external fraud cases where investigations were finalised in 2019–20, most were perpetrated by falsely claiming benefits. In contrast, the primary targets of the most harmful external frauds were finances such as non-grant Commonwealth programs and payment cards, perpetrated by the misuse of documents and personal information. This suggests that the most harmful external frauds may not be the most common external frauds experienced.

## Acknowledgements

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The Commonwealth Fraud Prevention Centre within the Attorney-General's Department provided guidance and assistance with the annual census and with the preparation and review of this report.

### **Commonwealth Fraud Prevention Centre**

Fraud against the Australian Government undermines the government's ability to deliver services to the Australian community. The scale of the problem is underestimated. People who commit fraud are capable and committed and the Government has acknowledged the need to take more action to prevent, find and fight fraud. To lead this effort, the Commonwealth Fraud Prevention Centre was established within the Attorney-General's Department in June 2019 as a two-year pilot to equip, enable and empower agencies to improve their fraud prevention capabilities. In the 2021–22 budget, the Government extended the centre for an additional four years.

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