

Fraud Control Arrangements in the Department of Home Affairs

Department of Home Affairs

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Canberra ACT
22 June 2020

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Home Affairs. The report is titled *Fraud Control Arrangements in the Department of Home Affairs*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Audit snapshot

Auditor-General Report No.43 2019–20

Fraud Control Arrangements in the Department of Home Affairs



Why did we do this audit?

- ▶ Fraud against the Commonwealth makes less money available for public goods and services.
- ▶ All Commonwealth entities are required to have arrangements in place to prevent, detect and deal with fraud.
- ▶ This audit is part of a series of three audits intended to provide assurance to Parliament on the selected entities' fraud control arrangements and assist other entities to consider the effectiveness of their fraud control arrangements



What did we find?

- ▶ Fraud control arrangements in the Department of Home Affairs are effective.
- ▶ The department's arrangements comply with the mandatory requirements of the Commonwealth Fraud Control Framework.
- ▶ The department has also implemented arrangements that are consistent with the whole of government better practice fraud guidance.
- ▶ The accountable authority has promoted a fraud aware culture.



Key facts

- ▶ The Australian Government has set out its requirements for fraud control in the 2017 Commonwealth Fraud Control Framework.
- ▶ All non-corporate Commonwealth entities are required to follow the framework's fraud policy and should implement better practice fraud guidance, as relevant.
- ▶ As the accountable authority, the department's Secretary is required to take all reasonable measures to prevent, detect and deal with fraud against the department.



What did we recommend?

- ▶ The Auditor-General made one recommendation to the Department of Home Affairs to provide a higher level of assurance to the Parliament about its fraud control arrangements.
- ▶ The Department agreed to the recommendation.

80%

The proportion of staff that have completed mandatory fraud awareness training.

124

The number of finalised fraud investigations in 2018–19.

72 (58%)

The number of finalised investigations first identified from a tip off from staff or the public.

Summary and recommendations

Background

1. The Australian Government (the government) defines fraud as:
Dishonestly obtaining a benefit or causing a loss by deception or other means.¹
2. Fraud requires intent, and is more than carelessness, accident or error. Without intent, an incident may indicate non-compliance rather than fraud.²
3. Fraud against the Commonwealth can be committed by Commonwealth officials or contractors (internal fraud) or by external parties such as clients, service providers, members of the public or organised criminal groups (external fraud).³ In some cases fraud against the Commonwealth may involve collusion between external and internal parties, and can include corrupt conduct such as bribery. However, not all corrupt conduct meets the definition of fraud.⁴
4. Australian Government entities have long been required to establish arrangements to manage fraud risks. The government's requirements for fraud control are contained in the 2017 Commonwealth Fraud Control Framework⁵ (the Framework) pursuant to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The Framework comprises three tiered documents — the fraud rule, fraud policy and fraud guidance — with different binding effects for corporate and non-corporate Commonwealth entities.⁶ The Attorney-General's Department is responsible for administering the Framework.
5. As non-corporate Commonwealth entities, Australian Government departments must comply with the fraud rule and fraud policy. While the fraud guidance is not binding, the government considers the guidance to be better practice and expects entities to follow it where appropriate.⁷
6. This audit is one in a series of three performance audits reviewing fraud control arrangements in selected departments — the Department of Home Affairs, the Department of Foreign Affairs and Trade and the Department of Social Services. The focus of this audit report is the Department of Home Affairs.

Rationale for undertaking the audit

7. This audit series is intended to provide assurance to the Parliament regarding the fraud control arrangements of selected Australian Government departments. All Commonwealth entities are required to have fraud control arrangements in place because preventing, detecting and responding to fraud against the Commonwealth is necessary to ensure the proper use of public resources, financial and material losses are minimised, and public confidence is maintained. In addition, this audit series aims to assist all Commonwealth entities to consider the

1 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, para. viii, p. B1.

2 *ibid.*, para. 16, p. C7.

3 *ibid.*, paras 18–19, p. C7.

4 *ibid.*, para. 21, p. C7.

5 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017.

6 Entity types are discussed in footnote 19.

7 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, p. IV.

effectiveness of their fraud control arrangements, including areas where additional effort would improve consistency with whole of government better practice fraud guidance (discussed in paragraph 5) and the take-up of whole of government advice on new and emerging fraud risks (discussed in paragraph 10).

Audit objective and criteria

8. The objective of the audit was to assess the effectiveness of the Department of Home Affairs' fraud control arrangements. The high level audit criteria were that the department:

- complies with the mandatory requirements set out in the Commonwealth Fraud Control Framework and arrangements are consistent with the government's better practice guidance; and
- promotes a fraud aware culture.

9. The ANAO did not assess whether specific controls are in place or the effectiveness of such controls in the selected entity.⁸

10. The ANAO reviewed fraud control arrangements in place within the department during the period of audit fieldwork, September 2019 to early February 2020. On 18 February 2020 the Australian Government activated the *Emergency Response Plan for Novel Coronavirus (COVID-19)*.⁹ On 27 March 2020 the Australian Federal Police's Operation Ashiba and the Commonwealth Counter Fraud Prevention Centre in the Attorney-General's Department established the Commonwealth COVID-19 Counter Fraud Taskforce intended to support Commonwealth agencies to prevent fraud against the COVID-19 economic stimulus measures.¹⁰ The Commonwealth Fraud Prevention Centre circulated the *Fraud Control in COVID-19 Emergency and Crisis Management* fact sheet to Commonwealth entities, with information about key fraud risks related to COVID-19 response efforts.

11. The Department of Home Affairs was invited by the ANAO to make a representation in relation to its current or planned arrangements to address increased fraud risks resulting from the COVID-19 response. The department advised the ANAO in May 2020 that:

Existing fraud control mechanisms, including fraud and corruption risk assessments continue to be undertaken. Fraud control staff are available to business areas to look for fraud and guide the review of existing plans, this includes the identification of new threats and risks. The Department also has a number of historical risk assessments that identify a broad range of risks that could arise from a situation similar to COVID-19. The risk assessments include treatments to mitigate the risks. Many of these activities have been implemented as part of the Department's risk management to minimise the impact of risks against the Department in the current environment.

8 As discussed in paragraph 1.12, the ANAO assesses the effectiveness of entity internal controls as they relate to the risk of misstatement in the financial statements on an annual basis.

9 Department of Health, *Australian Health Sector Emergency Response Plan for Novel Coronavirus (COVID-19)* [Internet], Department of Health, available from <https://www.health.gov.au/resources/publications/australian-health-sector-emergency-response-plan-for-novel-coronavirus-covid-19> [accessed 6 April 2020].

10 Department of the Prime Minister and Cabinet, *Senate Select Committee on COVID-19 Whole-of-Government submission, Attachment 1* [Internet], PMC, available from https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/COVID-19/COVID19/Submissions [accessed 3 June 2020].

Conclusion

12. Fraud control arrangements in the Department of Home Affairs are effective. The department's arrangements comply with the mandatory requirements of the Commonwealth Fraud Control Framework, are consistent with the whole of government better practice fraud guidance, and the accountable authority has taken steps to promote a fraud aware culture. Further attention is required to provide the expected level of assurance in the department's annual fraud certification.

13. The department has developed and implemented a fraud control plan, conducted fraud risk assessments and has guidance and procedures to assist officials to understand what constitutes fraud and to carry out their fraud prevention responsibilities.

14. The department has put in place controls to detect fraud, including reporting channels for use by staff and members of the public. The department's fraud investigation procedures are consistent with the Australian Government Investigations Standards.

15. The department has taken steps to promote a fraud aware culture and met the reporting requirements set out in the framework. The department's fraud certifications in the three most recent annual reports provided a lower level of assurance to Parliament than is expected under the PGPA Rule.

Supporting findings

Risk management, planning and prevention

16. The department considers fraud risk in the context of its overall risk management framework and policy. The department has identified nine strategic risks and nine enterprise risks, with eight of these risks cross-referenced in the department's fraud risk register. Departmental staff are required to consider these 18 risks when undertaking fraud risk assessments.

17. The department's fraud control plan does not contain a summary of its fraud control risks as suggested in the fraud guidance. Having this summary would assist staff to fulfil their responsibilities under the fraud control plan to understand fraud and report suspected fraud by providing a departmental-level overview of the risks to be aware of.

18. As required by the fraud rule, fraud risks are identified and assessments are conducted at regular intervals, including when there is a substantial change in the department's structure, functions or activities. The department uses a rolling program set out in its fraud risk schedule, to prioritise business areas requiring fraud risk assessments.

19. Staff undertaking fraud risk assessments have appropriate qualifications in fraud control, in line with the fraud guidance, or are awaiting training to be delivered.

20. Fraud risks are assessed and addressed through the department's fraud risk assessment process. The department identified 25 fraud risks through fraud risk assessments conducted during 2019. A risk register is used to record the department's fraud risks and the department monitors the implementation of treatments following a decision by a risk owner that a risk is to be reduced by tracking the implementation date and subsequent review dates.

21. The department has a range of preventive controls in place to prevent fraud and tests its controls to ensure they are effective. There is a 'line of sight' in the fraud risk register from the fraud risk through to the control and any treatment. Details of the fraud risk owner, control owner and treatment owner are recorded. This approach allows for clear identification of: each control intended to mitigate each fraud risk; and individual responsibilities.

22. Responsibilities and accountabilities for the assessment of enterprise and strategic risks, and associated controls, are clear and the department has developed assurance mechanisms between risk and control owners and its executive.

Detection, investigation and response

23. The department has processes for departmental staff and members of the public to report allegations of fraud. The public reporting channel could more clearly indicate that it is to be used for suspected fraud in addition to other types of misconduct.

24. The department's main source of fraud detection is tip offs from within the department (for allegations of external fraud) and from staff member detection (for allegations of internal fraud). The department also detects fraud through other detective controls. These include internal audits and identity matching services.

25. Detective controls are listed in the department's fraud risk register. They are allocated to individual fraud risks and have a control owner who is responsible for the control's effectiveness in managing fraud risk.

26. The department's investigation procedures are consistent with the Australian Government Investigations Standards. The department has up-to-date procedures for managing internal and external investigations and clear guidance to assist officials to assess and prioritise cases. The Australian Border Force's procedures for case referral and investigation quality assurance were in effect until 2016 and 2017 respectively, and a review of these procedures remains underway. The department should ensure that future reviews are completed in a timely manner, within the date of effect of the procedures.

Culture, assurance and reporting

27. The department has set expectations and promotes a fraud aware culture through the Secretary's Instructions, its fraud control plans, fraud awareness week activities and an integrity framework that includes mandatory reporting of suspected serious misconduct. The department's audit and risk committee charter allows the committee to review the department's fraud risks, and it has done so.

28. The department supports its staff to be fraud aware through mandatory training and a suite of guidance materials and advice. Relevant materials have included case studies, videos and departmental communications. As at September 2019, the reported completion rate for the department's mandatory fraud awareness training was around 80 per cent. The department has arrangements in place to monitor compliance.

29. In its 2016–17, 2017–18 and 2018–19 annual reports, the department provided a lesser level of assurance to the Parliament than is expected by the PGPA Rule. The Secretary's certification in those annual reports did not meet the expectations of the PGPA Rule because it

did not state that all reasonable measures had been taken to deal appropriately with fraud relating to the entity, or identify what, if any, further measures needed to be implemented.

30. The department has complied with the mandatory reporting obligation in the Commonwealth Fraud Control Policy to provide information to the Australian Institute of Criminology annually, and has briefed its Minister on specific fraud risks and issues on an as needs basis.

Recommendations

Recommendation no.1

Paragraph 4.26

The Department of Home Affairs accountable authority's annual report certification prepared pursuant to subsection 17AG(2) of the PGPA Rule 2014 should certify that all reasonable measures have been taken to deal appropriately with fraud relating to the entity, or indicate what further measures need to be implemented.

Department of Home Affairs response: *Agreed.*

Summary of entity response

The Department of Home Affairs (the Department) welcomes the ANAO's findings that fraud control arrangements in the Department are effective; that the Department's current fraud prevention arrangements comply with the requirements of the Commonwealth Fraud Control Framework 2017; and that the Department is implementing fraud control arrangements consistent with the Australian Government's better practice fraud guidance.

These findings are directly reflective of the level of commitment the Department has to fostering and maintaining an ethical culture of fraud awareness and prevention, and the proactive approach we promote to managing fraud risks across the Department. We recognise the important role all officials play in protecting valuable public resources.

In particular, we welcome the following positive findings from the ANAO:

1. Fraud expertise: Departmental staff undertaking fraud risk assessments have appropriate qualifications in fraud control, and the majority have additional qualifications in risk assessment and/or intelligence to effectively carry out their fraud prevention duties.

2. Fraud detection, investigation and reporting: The Department has reporting channels and processes to detect fraud and our investigation procedures are consistent with the Australian Government Investigations Standards. The Department has up-to-date procedures for managing internal and external investigations and clear guidance to assist officials to assess and prioritise cases.

3. Promoting a fraud aware culture: Governance and other arrangements have been implemented in the Department to promote a fraud aware culture. This is evidenced through my audit committee regularly discussing and engaging with fraud risk during committee meetings; the Department's three year integrity program; and fraud awareness week embedding a positive integrity culture through education and training on fraud and integrity awareness and ethical decision making.

The Department notes the ANAO's recommendation that the 'accountable authority's annual report certification prepared pursuant to subsection 17AG(2) of the *Public Governance, Performance and Accountability Rule 2014* (the Rule) should certify that all reasonable measures

have been taken to deal appropriately with fraud relating to the entity, or indicate what further measures need to be implemented.'

The report acknowledges that the Secretary as accountable authority, did certify that '*he has taken reasonable measures to minimise the incidence of fraud within the Department and the Australian Border Force (ABF), and to investigate and recover the proceeds of fraud against the Department*'. The Secretary's letter of transmittal within the Department of Immigration and Border Protection and Department of Home Affairs Annual Reports from 2016-17 to 2018-19 also certify that the Department complied with the requirements of section 10 of the Rule. Section 10 requires the accountable authority of a Commonwealth entity to take **all** reasonable measures to prevent, detect and deal with fraud relating to the entity.

The Department is of the view that the absence of the word 'all' had no impact on the level of assurance provided to the Parliament between 2016–17 and 2018–19, particularly in the absence of prescribed wording for the certification in the Rule or in guidance provided by the Department of Finance.

The Department will ensure that future annual reports are consistent with the ANAO recommendation within this report when providing certification under section 17AG(2)(b)(iii) of the Rule.

Key messages from this audit for all Australian Government entities

31. This audit is one in a series of three performance audits reviewing fraud control arrangements in selected non-corporate Commonwealth entities:

- the Department of Home Affairs;
- the Department of Foreign Affairs and Trade; and
- the Department of Social Services.

32. Key messages from this audit series will be outlined in an ANAO Insights product available on the ANAO website.

Audit findings

1. Background

Introduction

1.1 Fraud against the Commonwealth causes financial and material loss, reducing the amount of money available for public goods and services and impacting on government's ability to achieve its objectives. Fraud can also damage trust in government. Managing fraud risk is a responsibility shared by all Commonwealth officials, with ongoing effort commensurate to the scale of fraud risk required to effectively prevent, identify and respond to fraud. Fraud threats are constantly evolving, meaning responses need to be dynamic.

1.2 The Australian Government (the government) defines fraud as:

Dishonestly obtaining a benefit or causing a loss by deception or other means.¹¹

1.3 Fraud requires intent, and is more than carelessness, accident or error. Without intent, an incident may indicate non-compliance rather than fraud.¹² Fraud against the Commonwealth may include (but is not limited to):

- theft;
- accounting fraud (for example, false invoices, misappropriation);
- misuse of Commonwealth credit cards;
- unlawful use of, or unlawful obtaining of, property, equipment, material or services;
- causing a loss, or avoiding and/or creating a liability;
- providing false or misleading information to the Commonwealth, or failing to provide information when there is an obligation to do so;
- misuse of Commonwealth assets, equipment or facilities;
- cartel conduct;
- making or using, false, forged or falsified documents; and/or
- wrongfully using Commonwealth information or intellectual property.¹³

1.4 Fraud against the Commonwealth can be committed by Commonwealth officials or contractors (internal fraud) or by external parties such as clients, service providers, members of the public or organised criminal groups (external fraud).¹⁴ In some cases fraud against the Commonwealth may involve collusion between external and internal parties, and can include corrupt conduct such as bribery. However, not all corrupt conduct meets the definition of fraud.¹⁵

The Australian Government's fraud control framework

1.5 Australian Government entities have long been required to establish arrangements to manage fraud risks. At the time of this audit, the government's requirements for fraud control are

11 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, para. viii, p. B1.

12 *ibid.*, para. 16, p. C7.

13 *ibid.*, para. 15, p. C7.

14 *ibid.*, paras 18–19, p. C7.

15 *ibid.*, para. 21, p. C7.

contained in the 2017 Commonwealth Fraud Control Framework¹⁶ (the Framework) pursuant to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). A desktop review conducted by the ANAO of state and territory and international fraud control frameworks is presented at Appendix 2.

1.6 The Framework is intended to: allow Commonwealth entities to manage their fraud risks in a way which best suits the individual circumstances of the entity; and support the accountable authority¹⁷ to effectively discharge their responsibilities under the PGPA Act. The Framework comprises three tiered documents with different binding effects:¹⁸

- **Section 10 of the Public Governance, Performance and Accountability Rule 2014 (the fraud rule):** A legislative instrument binding all Commonwealth entities and setting out the key requirements of fraud control.
- **The Commonwealth Fraud Control Policy (the fraud policy):** An Australian Government policy binding non-corporate Commonwealth entities¹⁹ setting out procedural requirements for specific areas of fraud control such as investigations and reporting.
- **Resource Management Guide No. 201 — Preventing, detecting and dealing with fraud (the fraud guidance):** A better practice document setting out the government's expectations in detail for fraud control arrangements within all Commonwealth entities.

1.7 As non-corporate Commonwealth entities, Australian Government departments must comply with the fraud rule and fraud policy. While the fraud guidance is not binding, the government considers it to be better practice and expects entities to follow it where appropriate.²⁰

1.8 The Attorney-General's Department (AGD) administers the Framework. The Australian Government is providing \$16.4 million over two years from 2019–20 to AGD (\$6.6 million) and the Australian Federal Police (AFP) (\$9.8 million) to pilot and continue measures to strengthen Commonwealth counter-fraud arrangements.²¹ The AGD established the Commonwealth Fraud Prevention Centre, and is piloting measures to improve the sharing of data, information and knowledge across government. The AFP established Operation Ashiba to lead a Commonwealth multi-agency taskforce intended to support and strengthen whole of government efforts to detect, disrupt and respond to serious and complex fraud.

Responsibilities of accountable authorities

1.9 The PGPA Act and the PGPA Rule contain specific duties and requirements for the accountable authority of a Commonwealth entity pertaining to internal control arrangements, including for fraud control and relevant reporting (Table 1.1).

16 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017.

17 Under subsection 12(2) of the PGPA Act, the accountable authority for the Department of Home Affairs is the Secretary of the Department.

18 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, p. III.

19 A non-corporate Commonwealth entity, such as a department of state, is not a body corporate. A corporate Commonwealth entity is a body corporate which may, among other things, enter into contracts and acquire property in its own name.

20 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, p. IV.

21 Australian Government, *Budget Paper No. 2 Budget Measures 2019–20* [Internet], 2019, available from <https://budget.gov.au/2019-20/content/bp2/index.htm> [accessed 13 November 2019].

Table 1.1: Responsibilities of accountable authorities (PGPA Act and PGPA Rule)

Reference	Duty or requirement
Section 15 PGPA Act	<p>Duty to govern the Commonwealth entity</p> <p>1. The accountable authority of a Commonwealth entity must govern the entity in a way that:</p> <ul style="list-style-type: none"> • promotes the proper use^a and management of public resources for which the authority is responsible; and • promotes the achievement of the purposes of the entity; and • promotes the financial sustainability of the entity. <p>2. In making decisions for the purposes of subsection (1), the accountable authority must take into account the effect of those decisions on public resources generally.</p>
Section 16 PGPA Act	<p>Duty to establish and maintain systems relating to risk and control</p> <p>The accountable authority of a Commonwealth entity must establish and maintain:</p> <p>a) an appropriate system of risk oversight and management for the entity; and</p> <p>b) an appropriate system of internal control for the entity;</p> <p>including by implementing measures directed at ensuring officials of the entity comply with the finance law.</p>
Section 10 PGPA Rule	<p>Preventing, detecting and dealing with fraud</p> <p>The accountable authority of a Commonwealth entity must take all reasonable measures to prevent, detect and deal with fraud relating to the entity, including by:</p> <p>a) conducting fraud risk assessments regularly and when there is a substantial change in the structure, functions or activities of the entity; and</p> <p>b) developing and implementing a fraud control plan that deals with identified risks as soon as practicable after conducting a risk assessment; and</p> <p>c) having an appropriate mechanism for preventing fraud, including by ensuring that:</p> <p>i) officials of the entity are made aware of what constitutes fraud; and</p> <p>ii) the risk of fraud is taken into account in planning and conducting the activities of the entity; and</p> <p>d) having an appropriate mechanism for detecting incidents of fraud or suspected fraud, including a process for officials of the entity and other persons to report suspected fraud confidentially; and</p> <p>e) having an appropriate mechanism for investigating or otherwise dealing with incidents of fraud or suspected fraud; and</p> <p>f) having an appropriate mechanism for recording and reporting incidents of fraud or suspected fraud.</p>

Reference	Duty or requirement
Subsection 17AG(2) PGPA Rule	<p>Information on management and accountability</p> <p>The annual report must include the following:</p> <ul style="list-style-type: none"> a) information on compliance with section 10 (which deals with preventing, detecting and dealing with fraud) in relation to the entity during the period. b) A certification by the accountable authority of the entity that: <ul style="list-style-type: none"> i) fraud risk assessments and fraud control plans have been prepared for the entity; and ii) appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with and recording or reporting fraud that meet the specific needs of the entity are in place for the entity; and iii) all reasonable measures have been taken to deal appropriately with fraud relating to the entity.

Note a: In respect to 'proper use', section 8 of the PGPA Act provides that '**proper**, when used in relation to the use or management of public resources, means efficient, effective, economical and ethical'.

Source: PGPA Act and PGPA Rule.

Extent of fraud against the Commonwealth

1.10 The Australian Government has reported that the extent of fraud against the Commonwealth, including the exact cost and impact, is unknown.²² Fraud can be hidden, difficult to detect or remain unreported. The Australian Institute of Criminology (AIC) produces an annual report measuring levels of fraud detected and investigated across the Commonwealth on the basis of data self-reported by Commonwealth entities via an online questionnaire.²³ The *Commonwealth fraud investigations 2017–18 and 2018–19* report²⁴ stated that of 155 entities with responses, 30 (19 per cent) commenced internal fraud investigations and 37 (24 per cent) commenced external fraud investigations. In total, 52 (34 per cent) different entities commenced investigations. In 2018–19, 27 (17 per cent) entities finalised internal fraud investigations and 34 (22 per cent) entities finalised external fraud investigations. In total, 44 (28 per cent) different entities finalised fraud investigations in the 2018–19 financial year. The AIC estimated fraud losses during 2018–19 of \$149,680,728 (\$2,775,917 from internal fraud; \$146,904,811 from external fraud), on the basis of completed investigations where fraud could be quantified.²⁵

22 Attorney-General's Department, *About fraud in Australia* [Internet], AGD, available from <https://www.ag.gov.au/Integrity/counter-fraud/fraud-australia/Pages/about-fraud-australia.aspx> [accessed 24 February 2020].

23 In accordance with the Commonwealth Fraud Control Policy, all non-corporate Commonwealth entities are required to collect information on fraud and complete an online questionnaire by 30 September each year. Corporate Commonwealth entities are not formally required to complete the questionnaire, however the Australian Government considers that collection of fraud information by these entities is best practice and expects they will complete the questionnaire by the due date. In 2019, 156 entities participated out of the 188 entities invited to participate, an 83 per cent participation rate..

24 C Teunissen, R Smith and P Jorna, *Commonwealth Fraud Investigations 2017–18 and 2018–19*, Statistical Report No.25, Australian Institute of Criminology, Canberra, 2020.

25 Respondents were asked to provide their best estimate of the total amount that perpetrators were found to have dishonestly obtained from the Commonwealth, according to the findings of the finalised investigations. Note that not all respondents could quantify loss amounts for investigations.

1.11 The results of a desktop review by the ANAO of international research to estimate fraud losses is presented in Appendix 2.

Previous audits

1.12 The interim audit phase of the ANAO's annual program of financial statements audits includes an assessment of the effectiveness of each entity's internal controls as they relate to the risk of misstatement in the financial statements. Auditor-General Report No.46 2018–19 *Interim Report on Key Financial Controls of Major Entities* (the controls report) reported that at the completion of the ANAO's interim audits for the 26 major entities included in that report, the key elements of internal control were operating effectively for 19 entities²⁶, including the three departments selected for this performance audit series.²⁷ In the context of the ANAO's review of entity internal controls, the controls report included a focus on and an analysis of, payment card and fraud control policies together with a continued review of compliance with the Commonwealth's finance law.²⁸

1.13 Australian Government fraud control arrangements have also been the subject of previous ANAO performance audits. The most recent relevant audit was tabled in 2018–19 and examined the fraud control arrangements of the National Disability Insurance Agency (NDIA). The audit found that while the NDIA was largely compliant with the requirements of the Commonwealth Fraud Rule²⁹ there was scope to improve: fraud prevention strategies; measures to detect potential fraud; and the effectiveness of fraud control governance and reporting arrangements.³⁰ A key learning for other government entities arising from the audit was that the Commonwealth Fraud Control Framework (not just the Fraud Rule) provides a robust framework for all government entities to manage fraud risk. In the absence of it being mandatory for corporate entities to comply with all elements of the framework, corporate entities should see its implementation as good practice.³¹

1.14 An ANAO audit tabled in 2014–15 of the fraud control arrangements of selected entities³² found that overall these entities were generally compliant with the applicable requirements of the 2011 Fraud Control Guidelines (the Guidelines) that were in effect during the course of the audit. The audit included one recommendation:

To facilitate the timely preparation of the annual *Fraud Against the Commonwealth Report* and the annual *Compliance Report to Government*, the ANAO recommends that the Attorney-General's Department formalises its business arrangements with the Australian Institute of Criminology.³³

26 Auditor-General Report No.46 2018–19, *Interim Report on Key Financial Controls of Major Entities*, para. 3.

27 See paragraphs 1.16–1.17 of this performance audit report.

28 Auditor-General Report No.46 2018–19, *Interim Report on Key Financial Controls of Major Entities*, para. 6 and para. 1.21.

29 The objective of the audit was to examine the effectiveness of the NDIA's fraud control program and its compliance with the Commonwealth Fraud Rule.

30 Auditor-General Report No.50 2018–19 *National Disability Insurance Scheme Fraud Control Program*.

31 *ibid.*, p. 13.

32 The selected entities were Comcare, the Australian Trade Commission and the Department of Veterans' Affairs.

33 Auditor-General Report No.3 2014–15 *Fraud Control Arrangements Across Entities*. Fraud control was also reviewed in Auditor-General Report No.42 2009–10 *Fraud Control in Australian Government Agencies*.

1.15 From 1 July 2014, the Guidelines were replaced with the Commonwealth Fraud Control Framework pursuant to the PGPA Act. The fraud policy was reissued in August 2016, with new provisions implementing the ANAO recommendation detailed in paragraph 1.14 by formalising the requirement for entities to provide information to the AIC to facilitate the AIC annual fraud report.³⁴ The fraud guidance was reissued in August 2017.³⁵

Selected entities in this audit series

1.16 This audit is one in a series of three performance audits reviewing fraud control arrangements in selected departments — the Department of Home Affairs, the Department of Foreign Affairs and Trade and the Department of Social Services. The focus of this audit report is the Department of Home Affairs.

1.17 Other audits in the series are:

- Auditor-General Report No.42 2019–20 *Fraud Control Arrangements in the Department of Foreign Affairs and Trade*; and
- Auditor-General Report No.44 2019–20 *Fraud Control Arrangements in the Department of Social Services*.

1.18 Contextual information about the Department of Home Affairs is provided at Table 1.2.

Table 1.2: Contextual information about the Department of Home Affairs

Element	Contextual information
Entity mission/purpose	Work together with the trust of our partners and community to keep Australia safe and secure, and support a cohesive and united Australia open for global engagement.
Number of staff (as at June 2019)	14,055 staff — 1,043 locally engaged staff employed by DFAT ^a on behalf of Home Affairs in international locations.
Number of staff dedicated to fraud related duties ^b (as at June 2019)	153
Total resourcing (\$'000) (for 2018–19)	6,428,755
Geographic location	Major office in Canberra, offices in every state and territory and in 114 locations around the world.

Note a: Department of Foreign Affairs and Trade.

Note b: 'Fraud-related duties' as defined within the 2018–19 AIC fraud questionnaire, could include work in fraud control policy, fraud risk management, prevention, detection, investigation, delivery of training and/or fraud reporting

Source: ANAO, drawing on the Department of Home Affairs 2018–19 Annual Report, 2019–20 Portfolio Budget Statements and entity response to the 2018–19 AIC fraud questionnaire.

34 AGD and the AIC entered into a memorandum of understanding in May 2017 that sets out the 'agreed role, responsibilities and timeframes for the preparation and annual submission' of the AIC's annual fraud report.

35 Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, para. 14(a), p. B3.

Rationale for undertaking the audit

1.19 This audit series is intended to provide assurance to the Parliament regarding the fraud control arrangements of selected Australian Government departments. All Commonwealth entities are required to have fraud control arrangements in place because preventing, detecting and responding to fraud against the Commonwealth is necessary to ensure the proper use of public resources, financial and material losses are minimised, and public confidence is maintained. In addition, this audit series aims to assist all Commonwealth entities to consider the effectiveness of their fraud control arrangements, including areas where additional effort would improve consistency with whole of government better practice fraud guidance (discussed in paragraphs 1.6 and 1.7) and the take-up of whole of government advice on new and emerging fraud risks (discussed in paragraph 1.22).

Audit approach

Audit objective, criteria and scope

1.20 The objective of the audit was to assess the effectiveness of the Department of Home Affairs' fraud control arrangements. The high level audit criteria were that the department:

- complies with the mandatory requirements set out in the Commonwealth Fraud Control Framework and arrangements are consistent with the government's better practice guidance; and
- promotes a fraud aware culture.

1.21 The ANAO did not assess whether specific controls are in place or the effectiveness of such controls in the selected entity.³⁶

1.22 The ANAO reviewed fraud control arrangements in place within the department during the period of audit fieldwork, September 2019 to early February 2020. On 18 February 2020 the Australian Government activated the *Emergency Response Plan for Novel Coronavirus (COVID-19)*.³⁷ On 27 March 2020 the Australian Federal Police's Operation Ashiba and the Commonwealth Counter Fraud Prevention Centre in the Attorney-General's Department established the Commonwealth COVID-19 Counter Fraud Taskforce intended to support Commonwealth agencies to prevent fraud against the COVID-19 economic stimulus measures.³⁸ The Commonwealth Fraud Prevention Centre circulated the *Fraud Control in COVID-19 Emergency and Crisis Management* fact sheet to Commonwealth entities, with information about key fraud risks related to COVID-19 response efforts.

36 As discussed in paragraph 1.12, the ANAO assesses the effectiveness of entity internal controls as they relate to the risk of misstatement in the financial statements on an annual basis.

37 Department of Health, *Australian Health Sector Emergency Response Plan for Novel Coronavirus (COVID-19)* [Internet], Department of Health, available from <https://www.health.gov.au/resources/publications/australian-health-sector-emergency-response-plan-for-novel-coronavirus-covid-19> [accessed 6 April 2020].

38 Department of the Prime Minister and Cabinet, *Senate Select Committee on COVID-19 Whole-of-Government submission, Attachment 1* [Internet], PMC, available from https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/COVID-19/COVID19/Submissions [accessed 3 June 2020].

1.23 The Department of Home Affairs was invited by the ANAO to make a representation in relation to its current or planned arrangements to address increased fraud risks resulting from the COVID-19 response. The department advised the ANAO in May 2020 that:

Existing fraud control mechanisms, including fraud and corruption risk assessments continue to be undertaken. Fraud control staff are available to business areas to look for fraud and guide the review of existing plans, this includes the identification of new threats and risks. The Department also has a number of historical risk assessments that identify a broad range of risks that could arise from a situation similar to COVID-19. The risk assessments include treatments to mitigate the risks. Many of these activities have been implemented as part of the Department's risk management to minimise the impact of risks against the Department in the current environment.

Audit methodology

1.24 The audit methodology involved:

- assessing entity arrangements against the mandatory requirements of the Commonwealth Fraud Control Framework;
- reviewing entity records;
- reviewing entity procedures for planning, prevention, detection, investigation and responding to fraud and allegations of fraud, against the fraud guidance; and
- discussions with relevant entity staff.

1.25 To assess the department's compliance with the Commonwealth Fraud Control Framework, the ANAO has read the fraud rule in conjunction with the fraud guidance, and has based its assessment and findings on the suite of documents produced by the department to support fraud control planning.

1.26 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$215,000.

1.27 The team members for this audit were Tracy Cussen, Ailsa McPherson, Michael Fitzgerald, Hannah Climas and Michelle Page.

2. Risk management, planning and prevention

Areas examined

This chapter examines whether the department has complied with the mandatory requirements set out in the Commonwealth Fraud Control Framework as they relate to fraud prevention and the extent to which these arrangements are consistent with the Australian Government's fraud guidance.

Conclusion

The department has developed and implemented a fraud control plan, conducted fraud risk assessments and has guidance and procedures to assist officials to understand what constitutes fraud and to carry out their fraud prevention responsibilities.

Areas for improvement

The ANAO has suggested that the department include a summary of fraud risks in its fraud control plan to provide greater transparency to its staff of department-level fraud risks.

2.1 Section 10 of the Public Governance, Performance and Accountability Rule 2014 (the fraud rule) requires the accountable authority of a Commonwealth entity to take all reasonable measures to prevent fraud relating to the entity.³⁹ In order to prevent fraud, entities must understand their fraud risks and ensure arrangements are in place to prevent fraud from occurring.

2.2 The ANAO examined entity compliance with the mandatory requirements of the Commonwealth Fraud Control Framework and the extent to which entity arrangements are consistent with *Resource Management Guide No. 201 — Preventing, detecting and dealing with fraud* (the fraud guidance), to assess:

- whether the entity has considered fraud risk management within the context of its overall risk management process, including the content of the entity's fraud control plan;
- how fraud risks are identified and whether these assessments are conducted at regular intervals;
- how identified fraud risks are assessed and addressed; and
- whether preventive controls to manage fraud risks have been identified and are being adequately assessed.

Is fraud risk considered within the context of the overall risk management process?

The department considers fraud risk in the context of its overall risk management framework and policy. The department has identified nine strategic risks and nine enterprise risks, with eight of these risks cross-referenced in the department's fraud risk register. Departmental staff are required to consider these 18 risks when undertaking fraud risk assessments.

The department's fraud control plan does not contain a summary of its fraud control risks as suggested in the fraud guidance. Having this summary would assist staff to fulfil their

39 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, p. A1.

responsibilities under the fraud control plan to understand fraud and report suspected fraud by providing a departmental-level overview of the risks to be aware of.

2.3 As a non-corporate Commonwealth entity, the Department of Home Affairs (Home Affairs or the department) is bound by the Australian Government's Commonwealth Fraud Control Policy (fraud policy), which states that:

Non-corporate Commonwealth entities must ensure that their fraud control arrangements are developed in the context of the entity's overarching risk management framework as described in the Commonwealth Risk Management Policy.⁴⁰

2.4 In addition, the fraud guidance states that:

It is important to avoid looking at fraud in isolation from the general business of the entity. Entities are strongly encouraged to develop dynamic fraud risk assessment procedures integrated within an overall business risk approach rather than in a separate program.⁴¹

2.5 To assess whether fraud risk is considered within the context of Home Affairs' overarching risk management process, the ANAO reviewed how fraud is considered in the department's risk management guide and assessed whether the contents of the department's fraud control plan contained the components suggested in the fraud guidance.

Home Affairs' risk management framework and policy

2.6 In 2018 the Secretary⁴² and the Australian Border Force (ABF) Commissioner⁴³ signed the department's Organisational Risk and Compliance Commitment, a document that binds the department 'to proactive risk management and a compliance-conscious culture'. The department's risk management framework was updated on 24 August 2019 and 'outlines the organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management' within the department.

2.7 The framework includes the department's risk management policy, which defines the department's approach to risk management, including its risk appetite and risk tolerance. The scope of the risk management framework and policy are outlined in Table 2.1.

40 Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, para. v. p.B1.

41 *ibid.*, para. 31, p. C10.

42 The Secretary is the accountable authority for Home Affairs.

43 ABF is part of the department. It is responsible for offshore and onshore border control enforcement, investigations, compliance and detention operations in Australia. It exercises its functions under the *Migration Act 1958*, *Customs Act 1901*, *Maritime Powers Act 2013* and the *Australian Border Force Act 2015*. The ABF investigates alleged offences, including external fraud, related to its functions.

Table 2.1: Scope of Home Affairs' risk management framework and policy

Risk management framework	Risk management policy
<p>Details the department's:</p> <ul style="list-style-type: none"> • overarching risk management policy; • approach to managing risk; • approach to reporting risk to internal and external stakeholders; • attributes of risk management culture and the mechanisms employed to encourage this culture; • approach to embedding risk management into business processes; • approach to managing shared or cross jurisdictional risks; and • approach to measuring, reviewing and continuously improving risk management performance and capability. 	<ul style="list-style-type: none"> • Defines the department's approach to the management of risk and how this approach supports the department's strategic plans and objectives. • Defines the department's risk appetite and risk tolerance. • Outlines key departmental responsibilities and accountabilities for managing and implementing the department's risk management framework. • Applies to all departmental staff members.

Source: ANAO analysis of departmental documentation.

2.8 The department uses four risk categories to categorise risks.

- **Strategic risks** — risks posed by external threats.
- **Enterprise risks** — internal risks that can affect the delivery of the department's objectives.
- **Operational risks** — risks that result from the day-to-day activities of a business.
- **Shared risks** — operational risks influenced by the activities of organisations outside of the department.

2.9 The department has identified nine strategic risks (risks posed by external threats) and nine enterprise risks (internal risks that can affect the delivery of the department's objectives). Out of these 18 risks, eight are cross-referenced in the department's fraud risk register. Risk Stewards (at the Senior Executive Service Band 3 level) manage strategic and enterprise risks, supported by control owners who are at the Senior Executive Service Band 1 or 2 level.

2.10 Responsibility and accountability for day to day management of risk as detailed in the department's risk management policy has been allocated to departmental staff, who are also responsible for knowing when and how to escalate risk. The department's approach for staff to identify, assess, evaluate and treat operational risks is detailed in the risk management framework. Staff are required to continually identify risks across every stage of all business activities and decision-making. The risk assessment and treatment process detailed in the department's risk management framework is to be followed by staff while undertaking fraud risk assessments. The fraud risk assessment and treatment process is examined in more detail from paragraph 2.20.

Home Affairs' fraud control plan⁴⁴

2.11 Subsection 10(b) of the fraud rule states that the accountable authority must develop and implement 'a fraud control plan that deals with identified risks as soon as practicable after conducting a risk assessment'.⁴⁵

2.12 A strict interpretation of the fraud rule would require the department to undertake a linear process: first conduct a risk assessment and then, as soon as practicable, develop and implement a fraud control plan that specifically addresses the identified risks. To assess the department's compliance with the Commonwealth Fraud Control Framework, the ANAO has read the fraud rule in conjunction with the fraud guidance, and has based its assessment and findings on the suite of documents produced by the department to support fraud control planning (rather than whether the department strictly adheres to the linear process identified in the fraud rule).

2.13 The fraud guidance suggests that fraud control plans can:

Document the entity's approach to controlling fraud at a strategic, operational and tactical level, and encompass awareness raising and training, prevention, detection, reporting and investigation measures.⁴⁶

2.14 The department's fraud control plan contains most of the components suggested by the fraud guidance, with the exception of a summary of the fraud risks and treatment strategies (Table 2.2). The department's fraud risks and the treatment strategies to manage these risks are: identified and assessed through the department's risk assessment process; detailed in the fraud risk assessments; and recorded in the department's fraud risk register (discussed in paragraphs 2.26 to 2.30).

Table 2.2: Content of Home Affairs' fraud control documentation

Fraud guidance suggested areas	Home Affairs fraud control documentation
A summary of fraud risks and vulnerabilities associated with the entity	Yes ^a
Treatment strategies and controls put in place to manage fraud risks and vulnerabilities	Yes ^a
Information about implementing fraud control arrangements within the entity	Yes
Strategies to ensure the entity is meeting its training and awareness needs	Yes
Mechanisms for collecting, analysing and reporting fraud incidents	Yes
Protocols for handling fraud incidents	Yes

⁴⁴ The Department has two fraud control plans — the *Department of Home Affairs Fraud and Corruption Control Plan* and the *Australian Border Force Fraud and Corruption Control Plan*. The documents are largely identical except for some additional operational controls documented in the ABF Fraud Control Plan that apply to the ABF's functions. This report uses the term 'the department's fraud control plan' to refer to both documents.

⁴⁵ Attorney-General's Department, *Commonwealth Fraud Control Framework*, AGD, 2017, p. A1.

⁴⁶ *ibid.*, para. 38, p. C11.

Fraud guidance suggested areas	Home Affairs fraud control documentation
An outline of key roles and responsibilities for fraud control within the entity ^b	Yes

Note a: Fraud risks and treatments are documented in the department's fraud risk assessments, rather than within the fraud control plan.

Note b: Appendix 3 of this audit report outlines roles and responsibilities for fraud control within Home Affairs as detailed in the department's fraud control plan.

Source: Commonwealth Fraud Control Framework and ANAO analysis of Home Affairs documentation.

2.15 The department could more closely align to the fraud guidance requirements for the content of fraud control plans by including a summary of its fraud risks, and the treatments and controls in place to manage these risks, in its fraud control plan. Including this summary would assist staff to fulfil their responsibilities under the fraud control plan to understand fraud risks and report suspected fraud, by providing a departmental-level overview of such risks.

Are fraud risks identified and are assessments conducted at regular intervals?

As required by the fraud rule, fraud risks are identified and assessments are conducted at regular intervals, including when there is a substantial change in the department's structure, functions or activities. The department uses a rolling program set out in its fraud risk schedule, to prioritise business areas requiring fraud risk assessments.

Staff undertaking fraud risk assessments have appropriate qualifications in fraud control, in line with the fraud guidance, or are awaiting training to be delivered.

2.16 Subsection 10(a) of the fraud rule requires the accountable authority of a Commonwealth entity to conduct 'fraud risk assessments regularly and when there is a substantial change in the structure, functions or activities of the entity.'⁴⁷ The fraud guidance encourages entities to conduct fraud risk assessments at least every two years.⁴⁸

2.17 The fraud policy requires that:

Entities must ensure officials primarily engaged in fraud control activities possess or attain relevant qualifications or training to effectively carry out their duties.⁴⁹

2.18 The fraud guidance identifies that relevant training can include a Certificate IV in Government (Fraud Control) or equivalent qualification for officials implementing fraud control, or a Diploma of Government (Fraud Control) or equivalent qualification for officials managing fraud control.⁵⁰

2.19 The ANAO reviewed when fraud risk assessments had been undertaken and examined the department's process for identifying fraud risks, including whether staff conducting these assessments are appropriately trained.

47 Attorney General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, p. A1.

48 *ibid.*, para. 28, p. C9.

49 *ibid.*, para. 2, p. B2.

50 *ibid.*, paras. 55–58, p. C14.

2.20 The department's procedures require fraud risks assessments to be conducted every two years, and when there is a substantial change in the structure, functions or activities of the department. The department draws from a number of sources to identify divisions and business areas⁵¹ requiring fraud risk assessments, including:

- audit work plans and prior audit outcomes;
- the *Fraud in Home Affairs* report (see also paragraph 2.23);
- prior fraud risk assessments;
- substantial changes to the department's organisational structure;
- new functions, programs or activities undertaken by the department;
- requests by business areas or departmental committees; and
- meetings with external fraud and corruption allegation and investigation areas.

2.21 The department has developed comprehensive procedures for conducting fraud risk assessments that are consistent with the fraud rule and fraud guidance requirements. These assessments are facilitated and coordinated by the department's fraud control section, and involve a four step process:

- **Step 1: Establish the context** — by identifying the business area; gathering information about the area's functions, activities and key responsibilities; identifying existing risk, treatment and control owners; identifying the business area representatives; and preparing the fraud risk assessment template.
- **Step 2: Undertake the risk assessment** — by conducting a fraud risk assessment workshop with the business area, focusing on *identification* of fraud risks; *analysis* to understand the fraud risk, identify controls and determine the fraud risk rating; *evaluation* to assess whether the fraud risk rating is acceptable or if further action is required to reduce the risk rating; and fraud risk *treatment*, to reduce the likelihood and/or consequence of the risk occurring to reduce the risk rating to a more acceptable level. The department has prepared guidance to assist the facilitation of workshops. The department's procedures require that fraud risk assessments consider the department's 18 strategic and enterprise risks identified through the department's risk management process.
- **Step 3: Endorsement** — the fraud control section completes the fraud risk assessment template in consultation with the business area representatives and then seeks endorsement, including endorsement from the fraud risk owners and the control owners identified in the fraud risk assessment.
- **Step 4: Monitor and review** — once the fraud risk assessment has been endorsed, the information is entered into the department's fraud risk register. The fraud control section is required to maintain, monitor, review and report on fraud risks, controls and treatments through the fraud risk register.

2.22 The department's fraud control section uses a fraud risk schedule to prioritise the completion and review of fraud risk assessments of business areas. The department currently has

51 Fraud risk assessments are generally conducted at the divisional level unless a broader scope is required. The department advised the ANAO that a 'business area' is a branch/command responsible for a particular function that the fraud risk assessment relates to.

25 fraud risk assessments, including 11 functions transferred to the department through machinery of government changes. The department's risk schedule indicates that fraud risk assessments will commence for an additional 21 business areas based on their priority rating. The need for these assessments was identified from the sources outlined in paragraph 2.20.

2.23 The fraud control section prepares a quarterly *Fraud in Home Affairs* report for the department's audit committee and enterprise operations committee that is intended to capture and report on all fraud and corruption activities within the department during the quarter.⁵²

2.24 Departmental staff undertaking fraud risk assessments have appropriate qualifications in fraud control in line with fraud guidance, or are awaiting training to be delivered. A majority of these officers also have additional qualifications in risk assessment and/or intelligence.

Are fraud risks assessed and addressed?

Fraud risks are assessed and addressed through the department's fraud risk assessment process. The department identified 25 fraud risks through fraud risk assessments conducted during 2019.

A risk register is used to record the department's fraud risks and the department monitors the implementation of treatments following a decision by a risk owner that a risk is to be reduced by tracking the implementation date and subsequent review dates.

2.25 In order for entities to effectively respond to fraud risks it is important for the significance of the risks to be assessed and to determine whether treatments are required. The ANAO examined how the department assesses its risk exposure and identified the mechanisms the department uses to address fraud risks.

2.26 The department's fraud risk assessment procedural instructions detail that once a fraud risk has been identified, a risk analysis will be undertaken to determine a risk rating. The department's risk matrix is used for fraud risk assessments. It addresses the likelihood of the fraud risk occurring and the consequence if the fraud risk does occur (see Table 2.3).

52 The *Fraud in Home Affairs* report was developed in response to recommendations made in Auditor-General Report No.24 2017–18, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2017*. That audit report identified weaknesses in the department's fraud and integrity reporting. In Auditor-General Report No.19 2018–19, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2018*, the ANAO reported that the department's remediation activities had progressed sufficiently to downgrade the issue to a minor audit finding and the matter was therefore considered closed.

Table 2.3: Risk matrix of fraud risks to determine fraud risk exposure rating

		Consequence of risk occurring				
		Insignificant	Minor	Moderate	Major	Critical
Likelihood of risk occurring	Almost Certain	Medium	High	High	Extreme	Extreme
	Likely	Medium	Medium	High	High	Extreme
	Possible	Low	Medium	Medium	High	Extreme
	Unlikely	Low	Low	Medium	Medium	High
	Rare	Low	Low	Low	Medium	High

Source: ANAO analysis of departmental documentation.

2.27 Once a risk rating has been determined, the next step in the department's process is to assess whether the fraud risk rating is acceptable or if further action is required to reduce the risk rating. The decision to accept or further reduce the fraud risk is required to be considered in accordance with the department's risk appetite and risk tolerances as detailed in the department's Risk Management Policy and Framework. A deliberate decision to accept a fraud risk must be taken, and a recommendation to accept the fraud risk is to be provided to the fraud risk owner, who will make the final decision. If the risk is not accepted, then risk treatments are to be implemented in accordance with a risk treatment plan.

2.28 The department's fraud risk register documents 25 fraud risks identified from fraud risk assessments undertaken during 2019, with each fraud risk allocated a fraud risk owner.⁵³ The department's risk register also documents the risk owner's decision to accept a risk or the treatment identified by the business area to reduce the risk, as relevant.

2.29 The department has assessed the 25 fraud risks as follows:

- Four fraud risks were assessed as 'high' — three high fraud risks have a risk response of 'accept' and one high fraud risk has a risk response of 'reduce' and identifies treatment actions.
- 11 fraud risks were assessed as 'medium' — 10 medium fraud risks have a risk response of 'accept' and one medium fraud risk has a risk response of 'reduce' and identifies treatment actions.
- 10 fraud risks were assessed as 'low' — nine low fraud risks have a risk response of 'accept' and one low fraud risk has a risk response of 'reduce' and identifies treatment actions (the residual rating for this risk remains 'low' as this is the lowest rating that can be assigned to a risk).

2.30 Additional fields in the risk register — such as 'treatment owner', 'implementation date' and 'review date' — are intended to enable the department's Fraud Control section to monitor the progress of risk treatments. The ANAO reviewed evidence that these fields are complete and updated.

⁵³ The fraud risk owner is identified by position.

Does the department's internal control environment include preventive controls and are these adequately assessed?

The department has a range of preventive controls in place to prevent fraud and tests its controls to ensure they are effective.

There is a 'line of sight' in the fraud risk register from the fraud risk through to the control and any treatment. Details of the fraud risk owner, control owner and treatment owner are recorded. This approach allows for clear identification of: each control intended to mitigate each fraud risk; and individual responsibilities.

Responsibilities and accountabilities for the assessment of enterprise and strategic risks, and associated controls, are clear and the department has developed assurance mechanisms between risk and control owners and its executive.

2.31 Preventive controls can help entities prevent fraud from occurring in the first place or reduce the consequences when it occurs. The fraud guidance states that:

Controls and strategies outlined in fraud control plans are ideally commensurate with assessed fraud risks. Testing controls may indicate that not all controls and strategies are necessary or that different approaches may have more effective outcomes. Controls can often be reviewed on a regular basis to make sure they remain useful.⁵⁴

2.32 The ANAO examined whether Home Affairs has documented preventive controls to manage its identified fraud risks and whether it has established mechanisms to assess and provide assurance over the control's effectiveness. The ANAO did not test the design or operational effectiveness of individual controls.⁵⁵

Preventive controls

2.33 The Australian Government's Risk Management Policy defines an internal control as:

Any process, policy, device, practice or other actions within the internal environment of an organisation which modifies the likelihood or consequences of a risk.⁵⁶

2.34 Broadly, there are two types of controls — preventive controls which are put in place to prevent fraud before it occurs, and detective controls which are put in place to identify when fraud has occurred (detective controls are discussed in chapter three).

2.35 The department's fraud risk assessment procedures include definitions for different types of controls, and each control in the department's fraud risk register has the control type clearly identified. The departmental procedures list the following definitions:

Fraud controls are key processes, policies, practices or actions taken by the department to manage fraud risks. The fraud risk assessment process aligns with the Framework and consequently categorises its controls as preventative, detective and responsive.

Preventative controls are an effective way to minimise the opportunity for fraud risks to occur. Examples of preventative controls include: fraud and awareness training; integrity framework

54 Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, para. 39, p. C11.

55 See paragraph 1.12.

56 Department of Finance, *Commonwealth Risk Management Policy*, DOF, 2014, page 1.

policies and procedures; and decision making procedures that require multiple levels of review or approval.

Detective controls inform the department that fraud has occurred. These controls are aimed at detecting fraud and corruption as soon as possible so that the department can respond appropriately. Examples of detective controls include: reporting suspected fraud and corruption, system audits, and supervisory oversight.

Responsive controls are applied to reduce the consequence of the fraud risk where it has eventuated and deter future fraud from occurring. Examples of responsive controls include: investigations, disciplinary measures, and recovery of proceeds.

2.36 The ANAO's review of Home Affairs' fraud risk assessments indicated that all assessments contained a suite of all control types (preventive, detective and responsive). There is a 'line of sight' in the fraud risk register from the fraud risk through to the control and any treatment (with details of the fraud risk owner, the control owner and the treatment owner). This allows for clear identification of each control intended to mitigate each fraud risk.⁵⁷

2.37 For the 25 fraud risks assessed and addressed during 2019, the department has 191 preventive controls, 105 detective controls and 52 responsive controls (348 controls in total) listed against these fraud risks in the fraud risk register. All controls listed in the fraud risk register have a designated control owner, and the status of each control is recorded as 'proposed', 'implemented' or 'ongoing'. The department's procedures state that controls with a status of 'proposed' need to be implemented before they can be counted as operational controls.

Assessment of controls

2.38 The department's procedural instructions for completing fraud risk assessments identify that control owners are responsible for assessing and testing control effectiveness and risk owners are responsible for evaluating their effectiveness.

2.39 The ANAO viewed evidence that control owners are assessing and testing the effectiveness of the operational controls they are responsible for.⁵⁸ The department has developed a mechanism to facilitate the evaluation by risk owners of control effectiveness at the enterprise and strategic risk level.

2.40 As noted at paragraph 2.21, for each of the department's fraud risks a corresponding enterprise or strategic risk is documented. The department maintains a centralised register to record all controls that are used across the strategic and enterprise risks. This register records the control title, owner, which risks the control influences and the control effectiveness rating.

2.41 Strategic and enterprise risk control owners conduct performance reviews quarterly. These reviews are used by risk owners to prepare a quarterly risk dashboard for the department's senior executive governance committees that shows the: schedule of deep dive reviews for each risk; spread of control effectiveness ratings for that risk; overall confidence rating; and trends in overall risk confidence. In respect to managing the department's identified enterprise and strategic risks,

58 This excludes controls listed in the risk register with a status of 'proposed' as they are not considered to be operational by the department (see paragraph 2.37).

guidance has been developed on: the components of a risk management plan; roles and responsibilities; and review, reporting and governance requirements.

3. Detection, investigation and response

Areas examined

This chapter examines whether the department has complied with the mandatory requirements of the Commonwealth Fraud Control Framework as they relate to the detection, investigation and response to fraud and the extent to which these arrangements are consistent with the Australian Government's fraud guidance.

Conclusion

The department has put in place controls to detect fraud, including reporting channels for use by staff and members of the public. The department's fraud investigation procedures are consistent with the Australian Government Investigations Standards.

Areas for improvement

The ANAO has suggested that the Australian Border Force review of procedures for case referral and investigation quality assurance be finalised in a timely way to address outstanding expectations.

3.1 Section 10 of the Public Governance, Performance and Accountability Rule 2014 (the fraud rule) requires the accountable authority of a Commonwealth entity to take all reasonable measures to detect and deal with fraud.⁵⁹ In order to detect and deal with fraud, entities must take active steps to find fraud when it occurs and investigate or otherwise respond to it.

3.2 The ANAO examined the department's compliance with relevant mandatory requirements of the Commonwealth Fraud Control Framework and the extent to which arrangements are consistent with *Resource Management Guide No. 201 — Preventing, detecting and dealing with fraud* (the fraud guidance) to assess whether:

- detective controls are identified; and
- the department's investigations procedures are consistent with the Australian Government Investigations Standards.

Are detective controls identified?

The department has processes for departmental staff and members of the public to report allegations of fraud. The public reporting channel could more clearly indicate that it is to be used for suspected fraud in addition to other types of misconduct.

The department's main source of fraud detection is tip offs from within the department (for allegations of external fraud) and from staff member detection (for allegations of internal fraud). The department also detects fraud through other detective controls. These include internal audits and identity matching services.

Detective controls are listed in the department's fraud risk register. They are allocated to individual fraud risks and have a control owner who is responsible for the control's effectiveness in managing fraud risk.

59 Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, p. A1.

3.3 Detective controls are used to manage fraud risks and find fraud. Detecting fraud in an entity can highlight any vulnerabilities in existing preventive controls.

3.4 Subsection 10(d) of the fraud rule requires entities to have ‘a process for officials of the entity and other persons to report suspected fraud confidentially’.⁶⁰

3.5 The fraud guidance notes that reporting suspected fraud is a common means of detection, and therefore it is important for entities to appropriately publicise fraud reporting mechanisms. Under the fraud guidance entities should encourage and support reporting of suspected fraud through proper channels, and this can include measures to protect those making such reports from adverse consequences.⁶¹

3.6 The ANAO examined the controls the department has in place to detect fraud with reference to the requirements of the Commonwealth Fraud Control Framework.

Detective controls

3.7 The department has channels for suspected illegal or criminal immigration, visa, customs and trade activity to be reported by the general public, and advertises these channels on the department’s website. The website includes:

- an online referral form⁶²;
- a telephone number; and
- a postal address and fax number.⁶³

3.8 While suspected illegal and criminal activity can include fraud activity, and the department has examples of fraudulent activity in its list of ‘what to report’⁶⁴, the department could more clearly identify these reporting channels as being available for the general public to report allegations of suspected fraud.

3.9 The department also has channels for its staff to report suspected fraud, with details available in the fraud control plan and advertised on the intranet. The available channels are via phone, in person, by email and the post. The department’s integrity framework also establishes a mandatory reporting requirement for staff. If a staff member witnesses fraudulent or corrupt activity and fails to report it, this may be considered a breach of the Code of Conduct.

3.10 Public Interest Disclosures are allegations made by public officials (disclosers) under the *Public Interest Disclosure Act 2013* to an authorised officer because they suspect wrongdoing within

60 Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, p. A1.

61 *ibid.*, paras. 62–63, p. C15.

62 Department of Home Affairs, *Border Watch Online Report* [Internet], Home Affairs, available from <https://www.homeaffairs.gov.au/help-and-support/departmental-forms/online-forms/border-watch> [accessed 26 February 2020].

63 Department of Home Affairs, *Reporting* [Internet], Home Affairs, available from <https://www.homeaffairs.gov.au/about-us/what-we-do/borderwatch/reporting> [accessed 26 February 2020].

64 Under the heading ‘what to report’ the department’s website includes ‘[have] committed identity fraud, entered into a fake marriage or relationship, provided fraudulent documents or lied to obtain a visa or other benefit from the Department’. Department of Home Affairs, *Reporting* [Internet], Home Affairs, available from <https://www.homeaffairs.gov.au/about-us/what-we-do/borderwatch/reporting> [accessed 26 February 2020].

the Commonwealth public sector.⁶⁵ The department advertises information about making a Public Interest Disclosure on its website⁶⁶ and provides information to its staff through the intranet.

3.11 The department's website includes an Information Protection Statement advising that the department operates in accordance with the *Privacy Act 1988* (Cth) and that information can be provided anonymously. The Information Protection Statement further advises that the department 'may be authorised to provide information regarding the source of information received ... to another agency, including for law enforcement purposes'.⁶⁷

3.12 The Australian Institute of Criminology's (AIC) annual fraud questionnaire asks entities to identify the detection method for finalised fraud investigations using categories provided by the AIC. In its response to the 2018–19 questionnaire the department reported that it had 32 finalised internal fraud investigations. The main source of detection for internal fraud was via staff member detection, with 22 (69 per cent) detected through this method. The other source of detection for internal fraud was tip-offs from staff members (5 investigations), or from the general public (4 investigations). One investigation did not have the detection method recorded.

3.13 Of the 92 external fraud investigations finalised in 2018–19, 53 (58 per cent) were detected via tip offs external to the department. Other sources of fraud detection for external fraud investigations finalised during 2018–19 include:

- staff member detection: 11 (12 per cent);
- tip-offs within the entity: 10 (11 per cent);
- not recorded/unknown: 9 (10 per cent);
- detection within department's business areas: 4 (4 per cent);
- law enforcement notification to the entity: 3 (3 per cent); and
- data analytics: 2 (2 per cent).

3.14 The department has in place other detective controls, including:

- internal audits; and
- identity matching services.

3.15 The department is developing an 'active detection program' underpinned by data analytics, intended to 'proactively' detect instances of potential fraud, corruption and serious misconduct by departmental staff.

65 Commonwealth Ombudsman, *Public Interest Disclosure* [Internet], Commonwealth Ombudsman, available from <https://www.ombudsman.gov.au/Our-responsibilities/making-a-disclosure> [accessed 13 February 2020].

66 Department of Home Affairs, *Public Interest Disclosure Scheme* [Internet], Home Affairs, available from <https://www.homeaffairs.gov.au/access-and-accountability/our-commitments/privacy/public-interest-disclosure-scheme> [accessed 26 February 2020].

67 Department of Home Affairs, *Information Protection Statement* [Internet], Home Affairs, available from <https://www.homeaffairs.gov.au/about-us/what-we-do/borderwatch/reporting/information-protection-statement> [accessed 26 February 2020].

Are the department's investigation procedures consistent with the Australian Government Investigations Standards?

The department's investigation procedures are consistent with the Australian Government Investigations Standards. The department has up-to-date procedures for managing internal and external investigations and clear guidance to assist officials to assess and prioritise cases. The Australian Border Force's procedures for case referral and investigation quality assurance were in effect until 2016 and 2017 respectively, and a review of these procedures remains underway. The department should ensure that future reviews are completed in a timely manner, within the date of effect of the procedures.

3.16 Once fraud is detected it is necessary to take action. Taking action shows that incidences of suspected fraud are not only identified but are responded to. Any investigation undertaken needs to be handled in a manner that will gather evidence to allow for subsequent responses, including criminal prosecution.

3.17 The Commonwealth Fraud Control Policy (the fraud policy) requires entities to have investigation processes and procedures consistent with the Australian Government Investigations Standards (AGIS) (see details in Box 1).⁶⁸

Box 1: The Australian Government Investigations Standards (AGIS)

The AGIS establish the minimum standards for Australian Government agencies conducting investigations, and apply to all stages of an investigation.

AGIS defines an investigation as:

A process of seeking information relevant to an alleged, apparent or potential breach of the law, involving possible judicial proceedings. The primary purpose of an investigation is to gather admissible evidence for any subsequent action, whether under criminal, civil penalty, civil, disciplinary or administrative sanctions. Investigations can also result in prevention and/or disruptive action.

AGIS lists standards the agency must have (mandatory), as well as standards the agency should have (not mandatory).

The most recent review of the AGIS was in 2011 through a working group commissioned by the Heads of Commonwealth Operational Law Enforcement Agencies, chaired by the Australian Federal Police. The PGPA Act, and the Commonwealth Fraud Control Framework 2017 pursuant to the PGPA Act, are not referenced in the AGIS. The AGIS states that it is mandatory for all agencies required to comply with the *Financial Management and Accountability Act 1997*, legislation that has been replaced by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

68 The fraud policy procedural requirements for investigations encapsulates the standards set out in the AGIS, and also includes the requirement for entities to take all reasonable measures to recover financial losses caused by illegal activity through proceeds of crime and civil recovery processes or administrative remedies (para. 10). Therefore this audit examined whether the department's investigation procedures were consistent with the AGIS and whether entities have a process to recover financial losses.

Appendix 4 of this audit report maps the AGIS requirements to the requirements set out in the fraud policy.

Note: Australian Government, *Australian Government Investigations Standards 2011* [Internet], Attorney-General's Department, available from <https://www.ag.gov.au/Integrity/counter-fraud/fraud-australia/Documents/AGIS%202011.pdf> [accessed 12 February 2020]. Following a machinery of government change in 2017, responsibility for the AGIS transferred to the Home Affairs portfolio.

3.18 The ANAO examined whether the department's investigation procedures for internal and external fraud met the mandatory requirements listed in the AGIS (Table 3.1).

Table 3.1: Department of Home Affairs investigation procedures and the AGIS mandatory requirements

AGIS requirement	Internal fraud	External fraud
A clear written policy in regard to its investigative function	✓	✓
A procedure governing the manner in which complaints concerning the conduct of its investigations are handled	✓	✓
Written procedures regarding liaison with the media and the release of media statements in regard to investigations	✓	✓
Exhibit handling procedures	✓	✓
A written procedure covering the initial evaluation and actioning of each matter that has been received or identified	✓	✓
Investigation management procedures	✓	✓
Written procedures relating to finalising the investigation	✓	✓
Investigator qualifications	✓	✓

Source: ANAO analysis of departmental documentation.

3.19 Details of the ANAO's assessment against the AGIS requirements are set out below — grouped as written procedures, case selection and referral, and investigation management. Departmental responses to the 2018–19 AIC fraud questionnaire are also included.⁶⁹

AGIS requirements for written procedures

3.20 The department has standard operating procedures to assist departmental officials carry out their duties as investigators of allegations of potential internal and external fraud, in accordance with the AGIS requirements.

Case selection and referral

3.21 The department has up-to-date procedures (dated October 2019) to assess and prioritise reports of misconduct by departmental employees (including potential cases of internal fraud). The factors taken into account when making a decision to investigate are detailed in the procedures, and include whether:

- there is sufficient information or detail to substantiate the allegation;

⁶⁹ Entities are required to report to the AIC annually as described in footnote 23.

- the alleged conduct is more appropriately managed informally;
- the alleged conduct, if substantiated, would constitute a breach of the APS Code of Conduct; and
- the alleged conduct is serious in nature and warrants a referral to the department's integrity investigations section or to another entity (such as the Australian Federal Police).

3.22 The department has procedures, including a case priority model, to assess alleged external fraud. The factors taken into account when determining the priority for investigation include:

- the complexity and size of the potential case; and
- any risks and/or threats, and the seriousness of the potential case.

3.23 These procedures are maintained by the Australian Border Force (ABF)⁷⁰ for the department and were published in 2014, with an 'end of period of effect' date of December 2016. As discussed in paragraph 3.32, the department advised the ANAO that these procedures are under review.

3.24 In its response to the 2018–19 AIC fraud questionnaire, the department reported that all fraud cases met the threshold to warrant an investigation.⁷¹

3.25 The department has processes for referring matters to the Australian Federal Police and state/territory law enforcement bodies, the Australian Commission for Law Enforcement Integrity, and other agencies such as the Australian Taxation Office.⁷² In its response to the 2018–19 AIC fraud questionnaire Home Affairs identified that: 75 of the 124 internal and external fraud investigations finalised in 2018–19 were handled solely by the department; one external investigation was referred to an external agency; and the remaining 48 fraud investigations (one internal and 47 external) involved an investigation led by Home Affairs 'preceded or followed by an external investigation' by one or more external agencies.

Investigation management

3.26 As required by the AGIS, the department has procedures⁷³ for investigating allegations of suspected fraud (both internal and external). These procedures cover all steps in the investigation management process from receiving an allegation through to finalising an investigation, and include preparing briefs of evidence for the Commonwealth Director of Public Prosecutions.

70 See footnote 43.

71 The data presented in Tables 3.2–3.4 of this audit report was sourced from the department's questionnaire response.

72 Auditor-General Report No.8 2018–19, *Management of the Tourist Refund Scheme*, examined governance arrangements for that scheme between the ATO and Home Affairs, including a memorandum of understanding. The audit found that: the governance processes and procedures largely support effective administration; procedural guidance and performance information could be improved; and the entities had determined that compliance was a low priority compared with their other responsibilities. The entities had done so in the context of an inappropriate risk assessment process and evidence suggesting a large level of non-compliance from Australian citizens and residents and significant revenue leakage over the life of the scheme.

73 The department's procedures for internal fraud investigations are dated October 2019. The ABF also has a suite of investigation procedures approved in 2018 and 2019.

3.27 The ANAO reviewed records from the separate electronic investigation case management systems established for internal fraud and external fraud, and found records of all steps undertaken in an end-to-end investigation process.⁷⁴

3.28 The department's response to the AIC questionnaire reported that it commenced a total of 143 investigations during 2018–19, the majority of which were investigations of external fraud (Table 3.2).

Table 3.2: Number of investigations commenced in 2018–19

	Internal fraud	External fraud	Fraud involving collusion between internal and external individuals
Investigations commenced	20	109	14

Source: ANAO analysis of departmental documentation.

3.29 The department records the outcomes of investigations. In 2018–19, 28 per cent of internal and external fraud investigations had allegations substantiated in full or in part (Table 3.3).

Table 3.3: Outcomes of investigations finalised in 2018–19

	Internal fraud	External fraud
Allegation substantiated (in full or in part)	9	26
All allegations not substantiated	19	11
Allegation referred to another agency and outcome currently unknown	0	55
Other (held for information)	4	0
Total	32	92

Source: ANAO analysis of departmental documentation.

3.30 For those investigations of internal fraud finalised in 2018–19, where allegations were substantiated (in full or in part), the most common result of the investigation was resignation of the official. There were a range of results for investigations of external fraud where allegations were substantiated (in full or in part), the most common being a criminal court conviction (Table 3.4).

Table 3.4: Result of investigations finalised in 2018–19 where allegations were substantiated (in full or in part)

	Internal fraud	External fraud
No further action taken	0	4
Matter referred to police or another agency	0	2 ^a
Termination of employment or contract by dismissal	2	0
Resignation of official	6	0
Administrative sanctions	1	3
Criminal court conviction outcomes	0	10

⁷⁴ Including receipt of an allegation, initial evaluation and actioning/referral, investigation management, and case finalisation.

	Internal fraud	External fraud
Seizure of illegal import	0	7
Total	9	26

Note a: Includes matters commenced as an investigation within ABF that are referred to other agencies as the matter is not within ABF's remit, and matters where elements relevant to the ABF are investigated and then referred to other agencies for subsequent investigation.

Source: ANAO analysis of departmental documentation.

3.31 The department advised the ANAO that it is developing an additional standard operating procedure for internal fraud investigations involving the review of case closure processes. It is intended to identify potential issues/integrity risks and is a means of communicating those findings. The ABF also has a procedural instruction focusing on quality assurance for investigations. It is intended to facilitate review of:

- the accuracy and timeliness of investigations;
- whether objectives were identified and met;
- consistency of decision making;
- compliance with legislation, policy and procedures;
- cost and benefits of a course of action; and
- the adequacy of the process.

3.32 The ABF procedural instruction was published in February 2014, with an 'end of period of effect' date of December 2017. The department advised the ANAO in May 2020 that this instruction has been drafted and is currently under internal review. The department should ensure that its review of procedures occurs in a timely way, within effective dates.

Recovery of financial losses

3.33 The fraud policy states that:

... entities must take all reasonable measures to recover financial losses caused by illegal activity through proceeds of crime and civil recovery processes or administrative remedies.⁷⁵

3.34 The 2018–19 AIC annual fraud questionnaire asked entities to estimate the recoveries over the time period, regardless of when the fraud was committed, when the losses were incurred, or when the investigation was completed. In its response to the questionnaire, the department estimated recoveries of \$3,727 for internal fraud through administrative action and 'through other means of recovery — reduction in salary'. The department did not quantify the estimated recovery amount for external fraud.⁷⁶

3.35 The department has a standard operating procedure to facilitate a request to raise a debt in circumstances where an employee is required to pay a debt following an investigation, as determined by a court or tribunal.

⁷⁵ Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, para. 10, p. B2.

⁷⁶ The AIC's guidance to support completion of the fraud questionnaire advises entities to enter 'NQ' if recoveries were 'unable to be quantified, or recovery action has not been completed'. In its response to the 2018–19 questionnaire, Home Affairs reported 'NQ'.

3.36 The department advised the ANAO that customs compliance may identify instances of revenue loss in many ways and it may not be classified as fraud. Whether deliberate or inadvertent attempts are made to reduce the amount of revenue paid, the department issues a notice of assessment and demands for outstanding revenue under legislative mechanisms such as section 35A of the *Customs Act 1901*.

4. Culture, assurance and reporting

Areas examined

This chapter examines whether the department promotes a fraud aware culture and has complied with mandatory reporting requirements in the Commonwealth Fraud Control Framework.

Conclusion

The department has taken steps to promote a fraud aware culture and met the reporting requirements set out in the framework. The department's fraud certifications in the three most recent annual reports provided a lower level of assurance to Parliament than is expected under the PGPA Rule.

Areas for improvement

The ANAO has recommended that the accountable authority's annual report certification on fraud control provide the level of assurance expected by the PGPA Rule.

The ANAO has suggested that the department ensure staff awareness of external fraud risks is maintained by amending the content of the eLearning module or ensuring sufficient supplementary information is available on its intranet.

The ANAO has also suggested that the department consider providing an annual fraud control report to the responsible Minister that includes the suggested content detailed in the whole of government fraud guidance.

4.1 Under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) the accountable authority must promote the proper use and management of public resources (section 15).⁷⁷ The accountable authority must also establish and maintain an appropriate system of risk oversight and management for the entity, and an appropriate system of internal control for the entity, including by implementing measures directed at ensuring officials of the entity comply with the finance law (section 16).⁷⁸

4.2 Preventing, detecting and dealing with fraud requires an ongoing effort. That effort will be more effective in an environment with a fraud aware culture that includes transparent reporting because staff will be alert to fraud and better able to develop dynamic responses based on evidence.

4.3 To inform the ANAO's review of the effectiveness of Home Affairs' fraud control arrangements, the ANAO considered whether:

- the department promotes and supports a fraud aware culture; and
- the department provides assurance about entity fraud control arrangements through reporting.

⁷⁷ In respect to proper use, section 8 of the PGPA Act provides that: '*proper*, when used in relation to the use or management of public resources, means efficient, effective, economical and ethical'.

⁷⁸ *Public Governance, Performance and Accountability Act 2013* [Internet], available from <https://www.legislation.gov.au/Details/C2017C00269> [accessed 23 March 2020].

Does the department promote and support a fraud aware culture?

The department has set expectations and promotes a fraud aware culture through the Secretary's Instructions, its fraud control plans, fraud awareness week activities and an integrity framework that includes mandatory reporting of suspected serious misconduct. The department's audit and risk committee charter allows the committee to review the department's fraud risks, and it has done so.

The department supports its staff to be fraud aware through mandatory training and a suite of guidance materials and advice. Relevant materials have included case studies, videos and departmental communications. As at September 2019, the reported completion rate for the department's mandatory fraud awareness training was around 80 per cent. The department has arrangements in place to monitor compliance.

4.4 *Resource Management Guide No. 201 — Preventing, detecting and dealing with fraud* (the fraud guidance) states that:

Accountable authorities play a key role in setting the ethical tone within their entities, and fostering and maintaining a culture of fraud awareness and prevention.⁷⁹

Fraud prevention involves ... fostering an ethical culture that encourages all officials to play their part in protecting public resources. Establishing an ethical culture is an important factor in preventing and detecting fraud. Accountable authorities are strongly encouraged to foster this culture in their senior leadership specifically, as well as across staff more generally.⁸⁰

4.5 Culture in the context of this audit is the set of shared attitudes, values and behaviours that characterise how an entity considers fraud risk in its day-to-day activities.⁸¹ Evidence of certain behaviours and practices operating in the organisation can indicate that a particular type of culture is being promoted.⁸²

4.6 To assess whether the department promotes a fraud aware culture the ANAO examined departmental governance arrangements, departmental activities and completion rates for mandatory fraud awareness training.

79 Attorney-General's Department, *Preventing, detecting and dealing with fraud, Resource Management Guide No. 201*, AGD, 2017, para. 24, p. C9.

80 *ibid*, para. 43, p. C12.

81 These are the hallmarks of a positive risk culture articulated in the Commonwealth Risk Management Policy. Department of Finance, *Commonwealth Risk Management Policy*, 2014, paragraph 17, available from <https://www.finance.gov.au/comcover/risk-management> [accessed 19 February 2020].

82 The ANAO has previously conducted performance audits that have examined an aspect of the entity's culture. See: Auditor-General Report No.6 2017–18 *The Management of Risk by Public Sector Entities*; Auditor-General Report No.53 2017–18 *Cyber Resilience*; Audit Insights May 2019 *Board Governance*; and Auditor-General Report No.1 2019–20 *Cyber resilience of Government Business Enterprises and Corporate Commonwealth Entities*.

Departmental governance arrangements to promote and support a fraud aware culture

4.7 The Secretary's Instructions⁸³ set expectations by requiring all staff to comply with the Commonwealth Fraud Control Framework and act in accordance with the department's fraud control plan.⁸⁴

4.8 The Secretary and Australian Border Force (ABF) Commissioner launched, through a joint executive message, the Home Affairs and ABF fraud and corruption control plans on 3 July 2019.⁸⁵ These plans are the framework for managing fraud risk within the department. The fraud control plans are available to all staff on the department's intranet.

4.9 The Secretary has set the following expectations in the fraud control plan:

- staff⁸⁶ are responsible for understanding the particular fraud and corruption risks relating to their business area; and
- senior executives are responsible for: championing a zero tolerance attitude to fraud; modelling the behaviours expected of staff; encouraging reporting and early intervention; and ensuring staff complete mandatory training on fraud and corruption awareness.

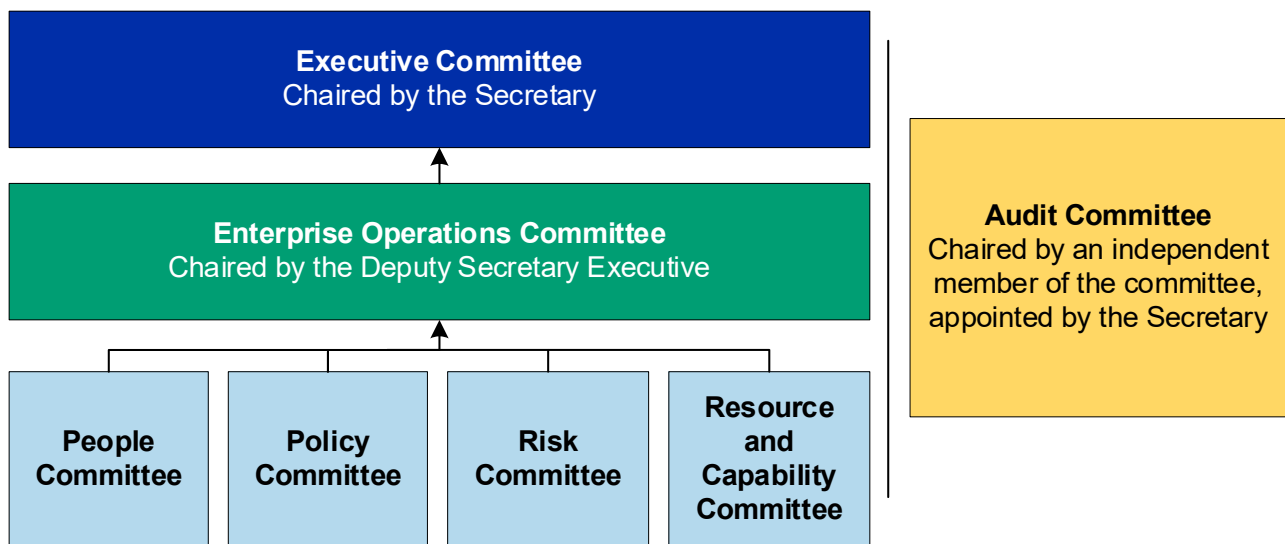
4.10 The Secretary has established departmental governance arrangements intended to provide leadership and strategic direction to the department, and to facilitate the flow of information from the department to the executive. These arrangements are summarised in Figure 4.1.

83 The Secretary's Instructions are issued under section 20 of the *Public Governance, Performance and Accountability Act 2013*.

84 Section 10 of the Public Governance, Performance and Accountability Rule 2014 (the fraud rule) states that the accountable authority of a Commonwealth entity must take all reasonable measures to prevent, detect and deal with fraud relating to the entity. The accountable authority for the Department of Home Affairs is the Secretary, and the term 'Secretary' is used throughout this chapter. Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, p. A1.

85 The Home Affairs and ABF fraud and corruption control plans were published on the intranet on 24 September 2018 and 1 July 2019 respectively. See also footnote 44.

86 Includes Immigration and Border Protection Staff employed under section 4 of the *Australian Border Force Act 2015*.

Figure 4.1: Departmental governance arrangements

Note: The department's Enterprise Operations Committee 'oversees enterprise-wide issues concerning the effective management and performance of the department'.

Source: ANAO analysis of departmental documentation.

4.11 The structure of the department's governance arrangements support a fraud aware culture as they allow for:

- executive oversight of risks, including fraud, and regular reporting on fraud related matters; and
- review of fraud control arrangements and advice to the Secretary on these arrangements, by the department's audit and risk committee.

4.12 The whole of government fraud guidance suggests that the outcome of fraud risk assessments can be provided to an entity's audit committee for consideration.⁸⁷ Entities are also encouraged to ensure appropriate monitoring and evaluation of fraud control plans.⁸⁸

4.13 The department's audit committee charter allows for the review of the appropriateness of the system of risk oversight and management, including: providing written advice to the Secretary on whether the process for developing and implementing fraud control arrangements is sound, and whether there are appropriate processes and systems in place to detect, capture and effectively respond to fraud risks. The committee has regularly discussed and engaged with fraud risk during committee meetings. The audit and risk committee has reviewed the department's fraud risk assessments and fraud control plan, and reviews the department's quarterly *Fraud in Home Affairs* report about fraud vulnerabilities and recommended controls.

Departmental activities to promote and support a fraud aware culture

4.14 Home Affairs has taken steps to promote and support a fraud aware culture within the department by implementing a range of activities in accordance with the fraud rule and fraud guidance (Table 4.1).

⁸⁷ Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, para. 29, p.C10.

⁸⁸ *ibid.*, para. 87, p. C19.

Table 4.1: Activities undertaken to promote and support a fraud aware culture

Commonwealth Fraud Control Framework reference	Details
The fraud rule requires the accountable authority to ensure that officials in the entity are made aware of what constitutes fraud. ^a	<p>The Secretary has communicated with staff about fraud risk and their responsibilities to prevent and detect fraud, including through a fraud control plan and integrity framework.</p> <p>The department publicises information on integrity matters internally through a number of mechanisms. These have included de-identified case studies.</p> <p>The Australian Border Force publishes information on significant cases, including fraud-related investigations through media releases.</p>
The fraud guidance advises that a widely distributed fraud strategy statement can assist in raising fraud awareness. ^b	The department has not developed a stand-alone fraud strategy statement but its intranet includes fraud awareness resources that contain all elements specified in the fraud guidance.

Note a: Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, p. A1.

Note b: *ibid.*, para. 44, p. C12.

ibid., para 43, p. C12. This paragraph states that Fraud Control Statements can include: the definition of fraud; a statement of the entity's commitment to preventing and controlling fraud; a statement of officials' and contractors' responsibilities; a summary of the consequences of fraud; an assurance that allegations and investigations will be handled confidentially; directions on how allegations and incidents of fraud are to be reported and managed; and advice on where further information can be found.

Source: ANAO analysis of departmental documentation.

4.15 In August 2017 the department commenced Operation Arete as a three year integrity operation⁸⁹ intended to embed a positive integrity culture through education and training on integrity awareness and ethical decision making. Summary statistics on the activities associated with Operation Arete have been provided to the audit committee and are published on the department's intranet.

4.16 The department has also promoted fraud awareness by participating in International Fraud Awareness Week.⁹⁰ In 2019 the department's activities included a range of internal events and provides regular communications to staff on fraud and integrity matters, including videos, news articles and executive messages.

Completion rates for mandatory fraud awareness training

4.17 The fraud rule requires the accountable authority to ensure that officials in the entity are made aware of what constitutes fraud.⁹¹ The fraud guidance states that:

Entities are encouraged to have all officials take into account the need to prevent and detect fraud as part of their normal responsibilities. Appropriate mechanisms could include fraud awareness

89 Department of Home Affairs, Annual Report 2017–18, 2018, p. 181, available from <https://www.homeaffairs.gov.au/reports-and-pubs/Annualreports/2017-18/01-annual-report-2017-18.pdf> [accessed 24 February 2020].

90 International Fraud Awareness Week is an initiative of the Association of Certified Fraud Examiners and is held in November each year.

91 Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, page A1.

and integrity training in all induction programs and a rolling program of regular fraud awareness and prevention training for all officials.⁹²

4.18 All staff are required to complete annual online fraud and corruption awareness training. New staff are required to attend an induction program, including this training, within three months of starting with the department. Face-to-face integrity training is also provided as part of the induction program.

4.19 Updated eLearning training was released in September 2019. The new module combines the fraud and corruption awareness training with information on the department's integrity framework and ethical decision-making.

4.20 Direct line managers are responsible for monitoring training completion compliance for ongoing employees on a monthly basis. Compliance with mandatory training is calculated based on due dates for completion of training. Upon commencement with the department, staff are assigned mandatory training to be completed within 90 days. Once completed, the due date is set for another year or two years, depending on the frequency required for the training. If the due date for completion of mandatory training has not yet passed, staff are considered to be compliant. If the due date has passed, training is overdue and staff are considered to be non-compliant.

4.21 Non-compliance is escalated to the executive via an executive dashboard. Quarterly training completion rates are included in the *Fraud in Home Affairs* report that is provided to the department's audit committee and enterprise operations committee (see also paragraph 2.23).

4.22 As at September 2019, reported completion rates for fraud and awareness training were 80 per cent. Reported completion rates for integrity training were 79 per cent.⁹³

Is assurance about the department's fraud control arrangements provided through reporting?

In its 2016–17, 2017–18 and 2018–19 annual reports, the department provided a lesser level of assurance to the Parliament than is expected by the PGPA Rule. The Secretary's certification in those annual reports did not meet the expectations of the PGPA Rule because it did not state that all reasonable measures had been taken to deal appropriately with fraud relating to the entity, or identify what, if any, further measures needed to be implemented. The department has complied with the mandatory reporting obligation in the Commonwealth Fraud Control Policy to provide information to the Australian Institute of Criminology annually, and has briefed its Minister on specific fraud risks and issues on an as needs basis.

Annual report requirements

4.23 Accountable authorities are required, under subsection 17AG(2) of the Public Governance, Performance and Accountability Rule 2014, to include information in their annual report on

⁹² *ibid.*, para. 46, p. C13.

⁹³ The department advised the ANAO that in some instances, exemptions for mandatory training may be made but have not yet been applied in the learning system, resulting in lower recorded levels of compliance than is accurate.

compliance with section 10 of the Rule, which deals with preventing, detecting and dealing with fraud. The accountable authority is also required to certify in the annual report that:

- fraud risk assessments and fraud control plans have been prepared for the entity;
- appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place for the entity; and
- all reasonable measures have been taken to deal appropriately with fraud relating to the entity.

4.24 The ANAO's review of Home Affairs' annual report for the past three years⁹⁴ (Table 4.2) indicates that the department has not fully satisfied the annual report expectations of the PGPA Rule. In particular, there is an expectation to certify that 'all reasonable measures have been taken to deal appropriately with fraud relating to the entity'. The Secretary's certification, in the 2016–17 to 2018–19 annual reports, uses different wording and omits the word 'all', providing a lower level of assurance to the Parliament than is expected by the PGPA Rule (Table 4.2, Note a).

Table 4.2: Compliance with subsection 17AG(2) of the PGPA Rule 2014

Requirement	2016–17	2017–18	2018–19
Information on compliance with section 10 (which deals with preventing, detecting and dealing with fraud) in relation to the entity during the period	✓	✓	✓
An explicit certification that:			
• fraud risk assessments and fraud control plans have been prepared for the entity, and	✓	✓	✓
• appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place for the entity, and	✓	✓	✓
• all reasonable measures have been taken to deal appropriately with fraud relating to the entity. ^a	✗	✗	✗

Note a: In the 2018–19 annual report the Secretary certified that: 'I have taken reasonable measures to minimise the incidence of fraud within the Department and the ABF, and to investigate and recover the proceeds of fraud against the Department'.

Source: Department of Immigration and Border Protection, Annual Report 2016–17, DIBP, 2017; Department of Home Affairs, Annual Report 2017–18, Home Affairs, 2018; Department of Home Affairs, Annual Report 2018–19, Home Affairs, 2019.

4.25 For future annual reports, the annual report certification should meet the expectations of the PGPA Rule and indicate whether all reasonable measures have been taken to deal appropriately with fraud relating to the entity, or identify what measures have not been implemented.

94 Department of Immigration and Border Protection, Annual Report 2016–17, DIBP, 2017; Department of Home Affairs, Annual Report 2017–18, Home Affairs, 2018; Department of Home Affairs, Annual Report 2018–19, Home Affairs, 2019.

Recommendation no.1

4.26 The Department of Home Affairs accountable authority's annual report certification prepared pursuant to subsection 17AG(2) of the PGPA Rule 2014 should certify that all reasonable measures have been taken to deal appropriately with fraud relating to the entity, or indicate what further measures need to be implemented.

Department of Home Affairs response: *Agreed.*

4.27 *The Department will ensure that future annual reports are consistent with this recommendation when providing certification under section 17AG(2)(b)(iii) of the PGPA Rule 2014.*

Information provided to the Australian Institute of Criminology

4.28 The fraud policy requires entities to provide information to the Australian Institute of Criminology (AIC) in the form requested, to facilitate the AIC's annual report to the Attorney-General's Department on fraud against the Commonwealth and fraud control arrangements.⁹⁵

4.29 Home Affairs has provided the information requested by the AIC, in the form requested, by the required due date. The department has developed a standard operating procedure to facilitate the extraction, review and sign-off of data to the AIC.

Informing the Minister about the entity's fraud control arrangements and significant issues

4.30 The fraud guidance states that:

... while there is no specific mention of reporting fraud matters to an entity's Minister in the Fraud Rule or Fraud Policy, section 19 of the PGPA Act requires an accountable authority to keep their Minister informed about the activities of the entity and significant issues that may affect the entity.⁹⁶

4.31 The department briefs the Minister on specific fraud risks or issues as required.

4.32 The department could usefully consider providing an annual fraud control report to the responsible Minister that includes the suggested content detailed in the fraud guidance (Table 4.3).

⁹⁵ Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017, para. 14(a), p.B3. Following a machinery of government change in 2017, the AIC is now within the Home Affairs portfolio. The Commonwealth Fraud Control Framework has not yet been updated to reflect this change.

⁹⁶ *ibid.*, para. 94, p.C19.

Table 4.3: Suggested content for reporting to the responsible Minister

Suggested content
Fraud initiatives undertaken by the entity in the reporting period, including an evaluation of their effectiveness
Planned fraud initiatives not yet in place
Information regarding significant fraud risks for the entity
Significant fraud incidents which occurred during the reporting period.

Source: Attorney General's Department, Commonwealth Fraud Control Framework 2017, AGD, 2017, para. 94, p.C19.



Grant Hehir
Auditor-General

Canberra ACT
22 June 2020

Appendices

Appendix 1 Entity response



Australian Government
Department of Home Affairs

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Mr Hehir

Thank you for the opportunity to provide feedback and comments on the Australian National Audit Office's (ANAO) proposed report on *Fraud control arrangements in the Department of Home Affairs*. The Department of Home Affairs (the Department) welcomes this ANAO performance audit and acknowledges the valuable role the ANAO plays in providing independent insights into potential areas of improvement.

We also welcome the ANAO's findings that fraud control arrangements in the Department are effective; that the Department's current fraud prevention arrangements comply with the requirements of the *Commonwealth Fraud Control Framework 2017*; and that the Department is implementing fraud control arrangements consistent with the Australian Government's better practice fraud guidance.

These findings reflect the level of commitment the Department has to fostering and maintaining an ethical culture of fraud awareness and prevention, and the proactive approach we promote to managing fraud risks across the Department. We recognise the important role all officials play in protecting valuable public resources.

In particular, the Department welcomes the following positive findings from the ANAO:

1. **Fraud expertise:** Departmental staff undertaking fraud risk assessments have appropriate qualifications in fraud control, and the majority have additional qualifications in risk assessment and/or intelligence to effectively carry out their fraud prevention duties. Qualified departmental staff provide ongoing consideration of fraud risks within the context of the Department's overall risk management framework and policy in accordance with mandatory requirements under the Commonwealth Fraud Control Framework.
2. **Fraud detection, investigation and reporting:** The Department has reporting channels and processes to detect fraud and our investigation procedures are consistent with the Australian Government Investigations Standards. The Department has up-to-date procedures for managing internal and external investigations and clear guidance to assist officials to assess and prioritise cases.

We also note the ANAO's finding that there is a 'line of sight' in the fraud risk register from the fraud risk through to the control and treatment, allowing for clear identification of each control intended to mitigate each fraud risk, with a range of preventative controls in place that are tested to ensure effectiveness in preventing fraud. Responsibilities and accountabilities for the assessment of enterprise and strategic risks, and associated controls, are clear and the Department has developed assurance mechanisms between risk and control owners and its executive.

3. **Promoting a fraud aware culture:** Governance and other arrangements have been implemented in the Department to promote a fraud aware culture. This is evidenced through the audit committee regularly discussing and engaging with fraud risk during committee meetings; the Department's three year integrity program; and fraud awareness week embedding a positive integrity culture through education and training on fraud and integrity awareness and ethical decision making.

The Department notes the ANAO's recommendation that the 'accountable authority's annual report certification prepared pursuant to subsection 17AG(2) of the *Public Governance, Performance and Accountability Rule 2014* (the Rule) should certify that all reasonable measures have been taken to deal appropriately with fraud relating to the entity, or indicate what further measures need to be implemented.'

The report acknowledges that as accountable authority, the Secretary did certify that '[he has] taken reasonable measures to minimise the incidence of fraud within the Department and the Australian Border Force (ABF), and to investigate and recover the proceeds of fraud against the Department'.

The Secretary's letter of transmittal within the Department's Annual Report 2018–19 also certified that:

'...the Department has prepared fraud and corruption risk assessments and a fraud and corruption control plan that comply with the requirements of Section 10 of the Rule. The Department and the ABF have fraud prevention, detection, investigation, reporting and data collection procedures and processes in place that align with the requirements of the Commonwealth Fraud Control Framework 2017.'

Section 10 of the Rule requires the accountable authority of a Commonwealth entity to take all reasonable measures to detect and deal with fraud. The above statement certifies compliance with the requirements of section 10 of the Rule and the *Commonwealth Fraud Control Framework 2017*.

We also note that where specific wording is required in an entity's annual report, the Rule and Department of Finance *Resource Management Guide No. 135* includes the required text in quotation marks, and specifies 'a statement that ...' must be included. There is no prescribed wording for compliance with section 17AG(2) within the Rule or in Department of Finance issued guidance, thus we consider this a matter of interpretation rather than non-compliance. It is the Department's view that the absence of the word 'all' had no impact on the level of assurance provided to the Parliament between 2016-17 and 2018-19, and no further measures were needed to deal appropriately with fraud.

Notwithstanding this, we will ensure that future annual reports are consistent with the ANAO recommendation when providing certification under section 17AG(2)(b)(iii) of the Rule and the Department will also consider the ANAO's suggestions throughout the report. We would like to thank the ANAO for their collaborative approach throughout the audit process.

Yours sincerely



Penny McKay
Chief Audit Executive

18 May 2020

Appendix 2 Desktop review: fraud control frameworks, estimates of fraud losses and fraudster personas

Fraud control frameworks

1. The ANAO conducted a desktop review of the fraud control frameworks for New South Wales; Victoria; Queensland; South Australia; Tasmania, the Australian Capital Territory; and the Northern Territory. International counterparts examined included the United Kingdom, New Zealand, South Africa and the United States of America.

2. The comparison of the current Commonwealth Fraud Control Framework⁹⁷ with arrangements applying in other jurisdictions identified common approaches to some key aspects, including the requirement for:

- regular fraud risk assessments;
- a fraud control plan with an emphasis on fraud prevention;
- clearly documented roles and responsibilities with an explicit statement that fraud prevention is the responsibility of all staff;
- all staff to complete fraud awareness training (this is encouraged, but not a mandatory requirement for all jurisdictions);
- clear reporting channels for reporting suspected fraud and agreed responses for dealing with detected fraud; and
- policies and processes for detecting, investigating and responding to suspected fraud.

3. The comparison identified six key differences to the Commonwealth Fraud Control Framework (which is broadly consistent with other Australian jurisdictions):

- Publicising antifraud efforts and successfully resolved cases to raise awareness about program integrity and antifraud efforts (USA).
- The requirement for a fraud control policy to reflect the conditions associated with fraud, including incentives/pressure, opportunities, and attitudes, to assist employees to identify potential fraud (the 'fraud triangle' discussed in more detail in paragraph 10) (South Africa and NZ).
- Distinguishing between the government's fraud policy and other government policies such as the public servant code of conduct, noting the policies can be closely aligned, often overlap and may operate concurrently (NZ).
- Setting clear requirements for separate documents to meet strategic and operational purposes. For example, a fraud control strategy can communicate a commitment to combatting fraud and present the entities' strategic approach to fraud control (the 'why' of fraud control); separate and distinct from fraud control plans which can take a more operational view (the 'how' of fraud control) (South Africa, UK and USA).
- The use of outcome based metrics summarising what the organisation is seeking to achieve and, for those organisations with 'significant estimated' fraud loss, metrics with a financial impact (UK).

97 Attorney-General's Department, *Commonwealth Fraud Control Framework 2017*, AGD, 2017.

- Focusing on finding fraud, including through the use of data analytics (UK and USA).

Estimating fraud losses — survey responses

4. Estimates of fraud losses against the Australian Government developed by the Australian Institute of Criminology (AIC) are based on responses by Commonwealth entities to its annual online questionnaire.⁹⁸

5. The AIC publishes an estimate of fraud losses on the basis of completed investigations where fraud could be quantified. In 2018–19 (the most up-to-date data available from the AIC reports), the AIC estimated fraud losses of \$149.7m on this basis.⁹⁹

6. The AIC notes there are a number of limitations associated with developing estimates of fraud losses on the basis of entity responses:

- Not all entities invited to respond to the online questionnaire provided a response. In 2018–19, 156 (83 per cent) of invited entities provided a response. One of these entities however did not provide data to the AIC due to security reasons.
- Undetected or unreported fraud is excluded, as is fraud that was detected but written off, either due to the low value of the fraud, or because resources were not allocated to undertake an investigation.
- Incomplete survey responses; a respondent may be unable or unwilling to answer a question, or the relevant information was not collected during the investigation and therefore cannot be provided to the AIC.
- Fraud losses include intangible costs such as reputational damage. Intangible costs are not captured in the AIC estimates of fraud losses.¹⁰⁰

7. The Association of Certified Fraud Examiners (CFEs) publishes an annual *Report to the Nations* on the basis of survey responses by CFEs in 125 countries.¹⁰¹ The 2020 report contains an analysis of 2,504 cases of occupational fraud investigated between January 2018 and September 2019 by CFEs.¹⁰² The survey respondents were asked the percentage of revenue they believe a typical organisation loses to fraud each year, with the median response being 5 per cent of annual revenues.

98 In accordance with the Commonwealth Fraud Control Policy, all non-corporate Commonwealth entities are required to collect information on fraud and complete an online questionnaire by 30 September each year. Corporate Commonwealth entities are encouraged, but not required, to do so.

99 C Teunissen, R Smith and P Jorna, *Commonwealth Fraud Investigations 2017–18 and 2018–19*, Statistical Report No.25, Australian Institute of Criminology, Canberra, 2020.

100 *ibid.*

101 Association of Certified Fraud Examiners, *Report to the Nations 2020 Global Study on Occupational Fraud and Abuse* [Internet], ACFE, 2020, available from <https://www.acfe.com/report-to-the-nations/2020/> [accessed 3 June 2020].

102 Occupational fraud is defined as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organisation's resources or assets.

Estimating fraud losses — cost measurements

8. Since 2014 the UK Government's Counter Fraud Centre of Expertise has been building its evidence base of public sector fraud¹⁰³ and error loss estimates for central government spending¹⁰⁴ by developing cost measurement estimates.¹⁰⁵ To develop a cost measurement estimate, the level of irregularity (fraud and error) in an area of government spending is tested. The UK Government has undertaken 53 cost measurement exercises in various categories of government expenditure, and on the basis of these estimates the fraud and error loss for government expenditure is 0.5 to 5.0 per cent.

9. The *Financial Cost of Fraud* report published in the UK by Crowe and the Centre for Counter Fraud Studies at the University of Portsmouth updates research first undertaken in 2009 to collate information from around the world on the financial cost of fraud and error. Analysis of 690 loss measurement exercises from 10 countries undertaken between 1997 and 2018 found that losses are usually in the range of 3 per cent to 10 per cent, with a likely average of 6.05 per cent.¹⁰⁶

The fraud diamond and fraudster personas

10. The seminal 'fraud triangle' was developed in the 1950s on the basis of in-depth interviews with those convicted of trust violations. The fraud triangle posits that individuals are motivated to commit fraud when three elements come together: some kind of perceived pressure; some perceived opportunity; and some way to rationalise the fraud.¹⁰⁷

11. The fraud triangle was expanded in 2004 to include a fourth element, the individual's capability; those personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements from the fraud triangle (Figure A1).¹⁰⁸ The personal traits and abilities identified by the research that are key for the capability to commit fraud include:

- a position or function in the organisation that furnishes the ability to create or exploit an opportunity for fraud;
- the person is smart enough to understand and exploit internal control weaknesses and to use position, function or authorised access to the greatest advantage;

103 The UK government departments report fraud against a civil test definition of fraud. They consider on the balance of probabilities whether or not an action or inaction was likely to have been taken with the intention of defrauding the taxpayer. Cases do not need to be proved to a criminal standard to be reported as fraud.

104 Outside of the tax and welfare system.

105 UK Cabinet Office, *Cross-Government Fraud Landscape Annual Report 2019*, UK Cabinet Office, 2020.

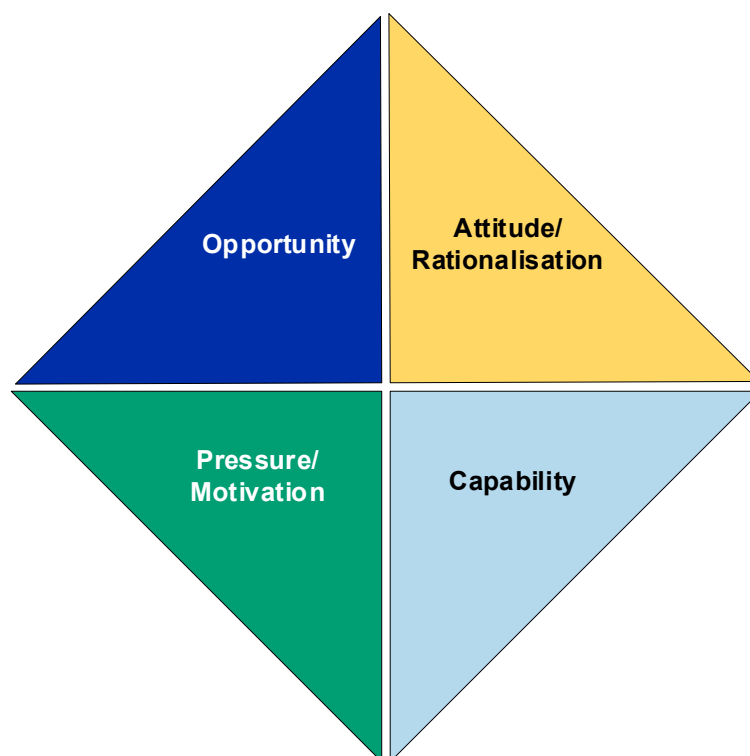
106 The exercises included had: a statistically valid sample; sought or examined information indicating the presence of fraud, error or correctness in each case within that sample; have been completed and reported; were externally validated; had a measurable level of statistical confidence; had a measurable level of accuracy.

107 Association of Certified Fraud Examiners, *Iconic Fraud Triangle endures* [Internet], ACFE, 2014, available from <https://www.fraud-magazine.com/article.aspx?id=4294983342> [accessed 11 March 2020].

108 Wolfe, D., and Hernanson, D., *The Fraud Diamond: Considering the Four Elements of Fraud* [Internet], Kennesaw State University, 2004, available from <https://digitalcommons.kennesaw.edu/cgi/viewcontent.cgi?article=2546&context=facpubs> [accessed 11 March 2020].

- the person has a strong ego and great confidence that they will not be detected, or they believe they could easily talk themselves out of trouble if caught; and
- the person can coerce others to commit or conceal fraud.¹⁰⁹

Figure A.1: The fraud diamond



Source: Wolfe, D., and Hernanson, D., The Fraud Diamond: Considering the Four Elements of Fraud.

12. One focus of international research concerns the key characteristics of those who commit fraud, with these characteristics identified and distilled by undertaking case study analysis.

13. The AIC's annual report to government includes more detailed questions about the one matter that resulted in the greatest financial loss or impact to the responding entity.¹¹⁰ In the 2018–19 report, 19 entities provided details about the most costly internal frauds. The AIC reported that the most costly internal fraud perpetrators were most commonly aged between 25 and 34 years, with 8 men and 7 women (not every entity which provided details about the most harmful fraud was able to provide this demographic information). Seven of the 16 internal fraud perpetrators (44 per cent) had been employed by the entity for 85 months or longer. In contrast to other international research discussed below, the AIC reported that internal fraud perpetrators were employed at more junior levels (APS1–4) rather than at the senior executive level. The principal target for internal fraud was financial gain, either through employee entitlements or internal financial fraud.

¹⁰⁹ *ibid.*

¹¹⁰ The fraud matter was for a completed investigation in which the allegation was substantiated, either in full or in part, and the investigation was finalised in 2018–19, regardless of when the fraud was committed or when the investigation commenced.

14. The KPMG 2016 report *Global profiles of the fraudster* is based on analysis of 750 fraudsters with data collected from KPMG forensic professionals in response to a questionnaire about the fraudsters they investigated between March 2013 and August 2015. KPMG reported:

- a perpetrator of fraud tends to be male between the ages of 36 and 55, working with the organisation for more than six years and holds an executive position;
- 44 per cent of perpetrators had unlimited authority in their company and were able to override controls; and
- in 62 per cent of frauds, the perpetrator colluded with others.¹¹¹

15. The Association of Certified Fraud Examiners (ACFE) *2020 Report to the Nations* found — on the basis of 2,504 cases of occupational fraud investigated between January 2018 and September 2019 — that the ‘typical fraudster’ is more likely to be:

- in the 36 to 45 year age group, but those aged over 60 cause the largest median losses;
- male, with males causing much larger median losses than females;
- employed within the organisation for between one and five years;
- working in the accounting and operations areas of the organisation; and
- a low-level employee. However, if they are in an executive position, they will cause a median loss that far exceeds the losses caused by managers and staff-level employees.¹¹²

16. The PwC’s 2020 *Global Economic Crime and Fraud Survey* report compiled over 5,000 survey responses from organisations about who has perpetrated fraud against them. The report highlights that:

- third party providers committed 19 per cent of fraud, with only half of organisations surveyed having a third-party risk program in place;
- senior management committed 26 per cent of fraud, in part because of their ability to override internal controls.¹¹³

17. In 2018, PwC drew out key findings for Australia from the 158 Australian respondents to the 2018 global survey in the *PwC 2018 Global Economic Crime and Fraud Survey: Australian Report*. The report shows that ‘frenemies’, or those close to the organisation committed 60 per cent of economic crime in Australia. ‘Frenemies’ are defined as employees, customers, suppliers, consultants and agents.¹¹⁴

111 KPMG, *Global profiles of the fraudster* [Internet], KPMG, 2016, available from <https://assets.kpmg/content/dam/kpmg/pdf/2016/06/profiles-of-the-fraudster-au.pdf> [accessed 11 March 2020].

112 Association of Certified Fraud Examiners, *Report to the Nations 2020 Global Study on Occupational Fraud and Abuse* [Internet], ACFE, 2020, available from <https://www.acfe.com/report-to-the-nations/2020/> [accessed 3 June 2020].

113 PwC, *2020 Global Economic Crime and Fraud Survey* [Internet], PwC, 2020, available from <https://www.pwc.com/gx/en/services/advisory/forensics/economic-crime-survey.html> [accessed 16 March 2020].

114 PwC, *Global and Economic Crime and Fraud Survey: Australian Report* [Internet], PwC, 2018, available from <https://www.pwc.com.au/consulting/assets/gecs-report18.pdf> [accessed 16 March 2020].

18. The Attorney-General's Department Commonwealth Fraud Prevention Centre has used recent case studies of those found guilty of fraudulent acts to develop a series of eight fraudster personas on the basis of the methods they commonly employ to commit fraud. The aim is to assist Commonwealth entities to:

- evaluate exposure to the methods of these types of fraudsters; and
- assess current capability in countering these types of fraudsters.¹¹⁵

115 Attorney-General's Department, *Fraudster personas* [Internet], AGD, available from <https://www.ag.gov.au/Integrity/counter-fraud/fraudster-personas/Pages/default.aspx> [accessed 11 March 2020].

Appendix 3 Department of Home Affairs: Roles and responsibilities for fraud control as detailed in the fraud control plan

Role	Responsibilities
Secretary	The Secretary of the Department is the accountable authority under the Public Governance Performance and Accountability Act 2013 (PGPA Act) and must ensure the proper use and management of public resources, the achievement of the Department's purposes, and its financial sustainability. As the Accountable Authority, the Secretary must establish and maintain an appropriate system of risk oversight and management and an appropriate system of internal controls. This includes ensuring fraud risk assessments are conducted in accordance with better practice and that a Fraud and Corruption Control Plan is developed.
Executive Committee	The Executive Committee (EC) is the Department's premier strategic forum focused on future facing enterprise-wide issues, priorities and direction. The primary responsibilities of the EC are to consider, discuss and decide strategic issues likely to affect the Department and the Portfolio in the coming years. Decisions around setting enterprise-level direction for risk management, including the risk roadmap, risk appetite and new controls are made by the EC.
Enterprise Operations Committee	The Enterprise Operations Committee (EOC) provides advice and oversight, and makes decisions concerning the enterprise-wide effective management and performance of the Department. This includes matters relating to risk and assurance.
Risk Steering Committee	The Risk Committee (RSC) advises the Secretary, through the EC on all aspects of risk management within the Department.
Audit Committee	Under section 45 of the PGPA Act, the Secretary must ensure the Department has an audit committee. The Department's Audit Committee (AC) provides independent advice and assistance to the Secretary and Executives concerning the Department's risk oversight and management, system of internal controls, financial reporting and performance reporting. The AC reviews the Risk Management Framework and provides advice that the Department has appropriate processes and systems in place to prevent, detect and effectively respond to fraud and corruption. The AC oversees the implementation of the Plan.
Integrity and Professional Standards Branch	The Integrity and Professional Standards (I&PS) Branch has responsibility for developing, implementing and maintaining the Plan. They coordinate and provide advice on fraud and corruption risk assessments to the Department's risk, control and treatment owners. The Branch also receives and assesses allegations of fraudulent and corrupt conduct, referring allegations for investigation as necessary. I&PS Branch produces a series of regular reports on fraud against the Department.
Senior Executives	Senior Executives are responsible for championing a zero tolerance attitude toward fraud. Senior Executives must model the behaviours they expect of staff, encourage reporting and early intervention, and ensure staff complete mandatory training on fraud and corruption awareness. They must support staff to undertake fraud and corruption risk assessments, and ensure that business areas are compliant with administrative controls and appropriately record decisions.

Role	Responsibilities
Risk owners	Risk owners are officials who have been assigned authority and accountability for managing a particular risk. They are responsible for monitoring and reporting on the risk and evaluating the effectiveness of controls and treatments. Where deficiencies are discovered, they must work with control owners to improve existing controls or develop risk treatments.
Control and treatment owners	Control owners are officials who have been assigned responsibility for maintaining, monitoring and reporting on existing controls. Where controls are identified as 'inadequate' or having 'room for improvement', control owners must work with the relevant risk owner to improve the control. Treatment owners are officials who have been assigned responsibility for implementing a particular risk treatment to reduce the likelihood or consequence of a risk's occurrence. They must monitor and report on the treatment's implementation and work with the risk owner if adjustments are needed. Treatment owners can become control owners once a treatment is fully implemented.
Australian Public Service Staff (employed under the Public Service Act 1999)	All APS staff in the Department (those employed under the Public Service Act 1999) must complete annual eLearning on fraud and corruption awareness and understand the particular fraud and corruption risks relating to their business areas. APS staff must comply with the APS Code of Conduct, the Department's Integrity and Professional Standards Frameworks and all departmental policies relevant to staff such as leave, credit card and social media policies. APS staff must report any suspected fraud.
Immigration and Border Protection (IBP) workers (defined under section 4 of the Australian Border Force Act 2015 and the Secretary Determination on IBP workers)	All IBP workers must comply with the Department's Integrity and Professional Standards Frameworks. They are responsible for understanding the fraud and corruption risks relating to their business areas and reporting any suspected incidents of fraud.

Appendix 4 Commonwealth Fraud Control Framework procedural requirements for investigations mapped to the Australian Government Investigations Standards

The Commonwealth Fraud Control Policy (fraud policy)¹¹⁶ details procedural requirements for investigations. The ANAO has mapped these requirements to the Australian Government Investigations Standards (AGIS) for the purpose of ensuring that by undertaking an assessment of whether a department's investigation procedures are consistent with the AGIS, all procedural requirements for investigations detailed in the fraud policy have also been assessed.

Fraud policy procedural requirement	AGIS ^a
Entities must maintain appropriately documented procedures setting out criteria for making decisions at critical stages in managing a suspected fraud incident.	<p>3.1 Investigation management.</p> <p>Agencies must employ investigation management procedures which are based on project management principles of managing resources, processes, work to be undertaken, time and outcomes [...] Agencies are to incorporate the following concepts into investigation management procedures:</p> <p>3.2 Investigation commencement.</p> <p>3.3 Planning phase.</p> <p>3.4 Risk management.</p> <p>3.5 Implementation phase.</p> <p>3.6 Investigation closure.</p>
Entities must have in place investigation and referral processes and procedures that are consistent with the AGIS.	<p>2.1 Receiving and recording alleged, apparent or potential breaches.</p> <p>2.2 Evaluation of referrals or conduct identified as allegedly, apparently or potentially breaching the law.</p> <p>2.4 Referral of matters to the AFP.</p> <p>2.5 Referral to Australian Commission for Law Enforcement Integrity (ACLEI).</p> <p>3.1 to 3.6 Investigation management.</p>
Entities must appropriately document decisions to use civil, administrative or disciplinary procedures, or to take no further action in response to a suspected fraud incident.	<p>3.6.2 Finalising investigation.</p> <p>Agencies are to have written procedures relating to finalising the investigation following legal proceedings, disruption or prevention actions or decision to take no further action.</p>
An entity is responsible for investigating instances of fraud or suspected fraud against it, including investigating disciplinary matters, unless the matter is referred to and accepted by the Australian Federal Police (AFP) or another law enforcement agency.	<p>2.2 Evaluation of referrals or conduct identified as allegedly, apparently or potentially breaching the law.</p> <p>2.4 Referral of matters to the AFP.</p> <p>2.5 Referral to Australian Commission for Law Enforcement Integrity (ACLEI).</p>

¹¹⁶ The fraud policy is binding for all non-corporate Commonwealth entities.

Fraud policy procedural requirement	AGIS ^a
Where a law enforcement agency declines a referral, entities must resolve the matter in accordance with relevant internal and external requirements.	2.3 Accepting matters for investigation.
<p>The AFP has the primary law enforcement responsibility for investigating serious or complex fraud against the Commonwealth. Entities must refer all instances of potential serious or complex fraud offences to the AFP in accordance with the AGIS and AFP referral process, except in the following circumstances:</p> <p>a) where entities:</p> <ul style="list-style-type: none"> i. have the capacity and the appropriate skills and resources needed to investigate potential criminal matters; and ii. meet requirements of the AGIS for gathering evidence and the Commonwealth Director of Public Prosecutions in preparing briefs of evidence, or <p>b) where legislation sets out specific alternative arrangements.</p>	<p>2.3 Accepting matters for investigation.</p> <p>2.4 Referral of matters to the AFP.</p>
Fraud investigations must be carried out by appropriately qualified personnel as set out in the AGIS. If external investigators are engaged, they must as a minimum meet the required investigations competency requirements set out in the AGIS.	1.5 Investigator qualifications.
Entities must take all reasonable measures to recover financial losses caused by illegal activity through proceeds of crime and civil recovery processes or administrative remedies.	Not covered by the AGIS. Assessed separately by the ANAO.
Where an investigation discloses potential criminal activity involving another entity's activities or programs, the investigating entity must report the matter to that entity to the extent possible subject to relevant requirements of any Australian law.	1.7 Information sharing.

Note a: Extracts of the relevant wording from the AGIS is provided.

Source: Commonwealth Fraud Control Framework and the Australian Government Investigations Standards.