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Performance Audit

## **Survey of Fraud Control Arrangements in APS Agencies**

Australian National Audit Office

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Canberra ACT  
20 June 2000

Dear Madam President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an across-agency performance audit in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Survey of Fraud Control Arrangements in APS Agencies*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—  
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett  
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. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations/Glossary

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ABS	Australian Bureau of Statistics
AFP	Australian Federal Police
ANAO	Australian National Audit Office
APS	Australian Public Service
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CAC	Commonwealth Authority or Company
CEI	Chief Executive Instruction
CEO	Chief Executive Officer
CFTAC	Commonwealth Fraud Training Advisory Committee
CLEB	Commonwealth Law Enforcement Board
DPP	Director of Public Prosecutions
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GBE	Government Business Enterprise
MIS	Management Information Systems





# **Summary and Recommendations**



# Audit Summary

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1. The prevention and management of fraud are not new issues in the Australian Public Service (APS) and, indeed, considerable attention has been given to this area over a number of years. The Commonwealth demonstrated its ongoing commitment to the protection of its revenue, expenditure and property from fraudulent activity through the release of its first Fraud Control Policy in 1987. This policy was updated to its present form in 1994 (hereinafter referred to as the Policy).<sup>1</sup> Fraud is defined in the Policy as:

*...inducing a course of action by deceit or other dishonest conduct, involving acts or omissions or the making of false statements, orally or in writing with the object of obtaining money or benefits from or evading liability to the Commonwealth.*<sup>2</sup>

2. An expected outcome of this policy was that agencies would develop fraud control mechanisms aimed at the prevention, detection and investigation of fraud. A recent review of the Policy led to the release of a Consultation Draft in 1999<sup>3</sup> by the Attorney-General's Department. This draft seeks to update the current Policy and, among other things, encourages agencies to integrate the management of fraud risks into general risk management processes. The draft is currently being circulated for comment.

3. The current Policy has been given legislative support through provisions in the *Financial Management and Accountability Act 1997* (FMA Act). Under the FMA Act, Chief Executive Officers (CEOs) are responsible for the implementation of a fraud control plan and for reporting to the Portfolio Minister on fraud control within their agencies. Budget funded Commonwealth Authorities and Companies (CAC bodies) are also required to adhere to the fraud control policy.

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<sup>1</sup> Fraud Control Policy of the Commonwealth in *Best Practice for Fraud Control*, Commonwealth Law Enforcement Board (CLEB), AGPS, Canberra, 1994.

<sup>2</sup> *Ibid.*, p. 1.

<sup>3</sup> The Fraud Control Policy of the Commonwealth, Consultation Draft No. 1 (21 June 1999).

4. While issues relating to fraud control may not have varied a great deal over time, the APS has experienced a decade of significant change. These changes have included the following:

- the use of a range of service delivery options, particularly the increasing use of third party providers, which raise new concerns about transparency and accountability;
- the focus on outcomes, which while appropriate in guiding program objectives can increase pressures on agencies and lead to the view that the end justifies the means; and
- the increasing use of technology and links with communications infrastructure that have provided many benefits in terms of process efficiency, but can also make it easier to commit fraud through, among other things, the creation of false identification documentation and in the diversion of payments.

5. Against this background the ANAO has undertaken a survey that provides an overall view of arrangements across the APS to manage fraud. As well, a series of fraud control audits is currently underway in a number of APS agencies. These agencies include the Departments of Industry, Science and Resources, Health and Aged Care and Defence as well as the Australian Taxation Office. Further audits are planned in other APS agencies.

### **Audit objective, scope and focus**

6. The overall objective of the audit was to assess key aspects of fraud control arrangements in place across the APS against Commonwealth Law Enforcement Board (CLEB) guidelines. This assessment aimed to provide assurance to Parliament that agencies had a suitable framework in place to assist in effectively preventing and dealing with fraud and to indicate to APS agencies areas for improvement identified in the survey.

7. The ANAO sought information from APS agencies on:

- the definitions of fraud used by agencies and the nature and level of fraud;
- agency specific fraud control policies;
- risk assessments undertaken by agencies to determine their exposure to fraud;
- fraud control plans, including any specific plan to address identified fraud risks;
- procedures and guidelines;

- the existence of management information systems (MIS);
- awareness-raising for all staff and training for targeted groups in high risk areas, including investigations staff;
- the conduct of investigations; and
- quality assurance systems.

## Audit methodology

8. The audit was undertaken using a survey approach. The questionnaire for the survey was designed with the assistance of the Australian Bureau of Statistics (ABS). Input was also provided by a Reference Group (listed at Appendix 1) having people with particular expertise in fraud related matters, including a detailed understanding of the Fraud Control Policy of the Commonwealth, State based approaches to managing fraud and broader experience in business management and ethics.

9. The survey questionnaire, (at Appendix 2), was sent to 150 APS agencies covered by the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). In addition, a number of Government Business Enterprises (GBEs) also provided input to the survey. Responses were received from 114 agencies, which represented a response rate of 76 per cent<sup>4</sup>. As well, 11 agencies came under the auspices of government departments that responded to the survey and the former therefore did not provide a separate response. Taking this factor into account the response rate was 83 per cent which was very satisfactory. Comments are made only on the arrangements in place in those agencies that responded to the survey.

10. As well as completing the questionnaire, agencies were asked to attach a range of documents with their response to the survey, for example: a copy of their risk assessment methodology; their fraud control plan; guidelines and procedures; and a sample of reports to management on fraud matters. A sample of this documentation has been analysed against requirements of the Policy and better practice generally and is discussed in the relevant sections of the report.

11. To provide assurance on the accuracy of survey responses, the ANAO required the questionnaire to be signed-off by an officer with appropriate authorisation. As well, documents provided as attachments to the questionnaire were used to verify responses.

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<sup>4</sup> A more detailed break-down of the responses is at Appendix 3.

## Overall conclusion

12. The ANAO concluded that the majority of APS agencies had a framework in place that contained key elements for effectively preventing and dealing with fraud in line with Commonwealth Policy.

13. The extent of these arrangements ranged from the majority of agencies having undertaken fraud-awareness-raising activities, to a lesser proportion having specific fraud policies and fraud control plans in place and having undertaken risk assessments.

14. This clearly indicated that the majority of agencies took their responsibilities for fraud control seriously. However, in a number of areas a significant proportion of agencies did not have appropriate fraud control arrangements in place. A particular issue that the survey results highlighted was the fact that many agencies (about one third) had not undertaken a recent risk assessment to identify the existing risks and those emerging as a result of the changing environment and methods of service delivery.

15. For CAC and FMA bodies this indicates a lack of adherence to the principles of sound corporate governance. As well, a number of agencies had not developed fraud control plans, of which seven were FMA bodies. The latter agencies were therefore not meeting the requirements under Section 45 of the FMA Act to have a fraud control plan. The ANAO has written separately to these agencies bringing this matter to their attention.

16. These gaps in governance arrangements have occurred despite a reported high level of awareness of the 1994 Fraud Control Policy of the Commonwealth (93 per cent). A lesser proportion of agencies (79 per cent) indicated awareness of the Consultation Draft. While the conduct of the ANAO survey may have served to raise the level of awareness of the Consultation Draft, agencies will need to heighten their awareness and take action to ensure that their future arrangements meet policy guidelines.

17. The survey highlighted that 85 per cent of fraud committed occurs in less than 10 per cent of agencies. These agencies tended to be the ones with comprehensive fraud control systems in place. This does not mean that other agencies can assume an absence of fraud. It may only be that they have no systems to detect fraud or other losses to the Commonwealth.

18. The level of fraud reported for 1998–99 by agencies responding to the survey was \$146 million. This figure must be seen as only the minimum level of fraud because varying definitions of fraud are used across the APS. In essence, the measurement of the actual level of fraud is difficult. As well, the nature of fraud is changing as the APS adopts new approaches to deliver government services and makes greater use of e-commerce, including the Internet. To allow for a better understanding of the type and scale of response required to control fraud, agencies will need to make greater efforts to clearly define (using the Fraud Control Policy definition wherever possible) and measure fraud.

# Key Findings

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## Defining and measuring fraud

19. Agencies are using a variety of definitions for fraud, for allegations of fraud and cases of fraud. This is not a new issue but one that, along with other factors, has an impact on measuring the level of fraud on the Commonwealth. The problems of definition and measurement are not easy to solve but agencies should work towards using a common definition to improve the collection of information.

20. As well as attempting to improve the measurement of the level of fraud so that the scale and type of response can be determined, agencies needed to be aware of the changing nature of fraud arising from, for example, the greater use of purchaser/provider arrangements, new technology and e-commerce, including the Internet. These, and other issues that emerge over time, could pose significant business risks that agencies need to assess and treat.

## Fraud control planning

21. Awareness of the 1994 Commonwealth Fraud Control Policy was high, with 93 per cent of agencies reporting that they knew of it. However, about one quarter of agencies were not aware of the Consultation Draft that would, upon implementation, guide their management of fraud.

22. As well as reported high awareness of the 1994 Commonwealth Policy, the position of agencies responding to the survey is illustrated as follows:

- 70 per cent of agencies had a specific fraud control policy in place. As well, some agencies had set out their policy in other documentation, such as Chief Executive Instructions (CEIs);
- at least 70 per cent of agencies either had their own code of conduct/ethics or relied on the APS-wide code;
- 64 per cent of agencies had undertaken fraud risk assessments over the last two years; and
- 72 per cent of agencies had developed a fraud control plan. Of the agencies that had not developed fraud control plans, seven were FMA bodies. As the development of a fraud control plan is required under section 45 of the FMA Act, these seven agencies were not meeting their legislative requirements. An examination of the plans provided



by agencies with the survey response indicated that some of the plans had a number of weaknesses, for example not addressing the risks identified by the risk assessment, or not allocating responsibility for the development, implementation and review of the plan.

**23.** While this indicates that the majority of agencies had established suitable fraud control arrangements in line with the Commonwealth Policy, a substantial number had not. A particular concern that the survey raised was that one third of agencies had not undertaken a recent risk assessment. Given the changing nature of fraud this is likely to mean that agencies are not identifying emerging risks in a timely manner. As well, 13 per cent of agencies had developed a fraud control plan that was not based on a current risk assessment, raising questions regarding the usefulness of these plans.

**24.** Importantly, 24 agencies had not established fraud control plans or strategies to treat fraud risks. This fact combined with the weaknesses identified in fraud control plans provided to the ANAO means that a substantial proportion of agencies do not have appropriate arrangements in place. Those agencies should address these issues promptly.

## **Fraud awareness-raising and training**

**25.** More than 90 percent of responding APS agencies reported having undertaken fraud awareness-raising activities. The main activities reported were induction training and the wide circulation of documents such as the fraud control plan. More than half of the surveyed agencies had undertaken awareness-raising activities in relation to ethics/conduct.

**26.** However, only 30 agencies had established formal policies and procedures to ensure that consultants, suppliers and other third-party providers were aware of, and complied with, agency fraud control policy. Given the widespread use of contracting arrangements, agencies should take steps so that contractors fully understand the importance of fraud control and ethical behaviour.

**27.** Many agencies that had reported fraud provided general fraud training, with a lesser proportion of agencies without fraud providing such training. As well, 22 per cent of agencies that had experienced fraud did not provide general training, but the level of fraud experienced by these agencies was minimal.

**28.** In relation to specific training for investigations staff, the majority of agencies (with such staff) had met, or exceeded, the requirements of the current policy for providing relevant training.

## Fraud control operations

29. The majority of responding agencies had established appropriate management structures for fraud control with the most common structure being the Audit Committee. As well, the majority of agencies had developed procedures and guidelines, either separately or as part of documents such as CEIs, setting out action to be taken in relation to fraud matters.

30. About two-thirds of all agencies had a system for staff to report fraud, but only 20 per cent of agencies had systems to encourage the community to report fraud. While agencies with the highest levels of reported fraud were more likely to have established such systems, agencies with medium levels of reported fraud, mostly committed by external parties, did not have such mechanisms in place.

31. Another important contribution to fraud prevention is to have a suitable management information system to assist in identifying systemic issues or control weaknesses and to manage cases of fraud expeditiously once they have occurred. Only 17 per cent of agencies reported having such a system in place. These were agencies that had experienced high levels of fraud.

## Future directions

32. This report raises some important issues for the management of fraud in the APS. While the report makes no recommendations, agencies should take into account suggestions for improvement contained in the report so that their fraud control arrangements adequately meet policy guidelines and are in line with the principles of sound corporate governance.

33. At the completion of the series of audits being undertaken by the ANAO a better practice guide will be developed to assist agencies further improve fraud control arrangements. Results presented in this report will provide valuable input to this guide.

# **Audit Findings and Conclusions**



# 1. Introduction

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*This chapter describes the background to the audit and provides an outline of the history and current status of fraud control policy and arrangements for Australian Public Service agencies. As well, it sets out the objective and methodology for this audit.*

## Background

**1.1** The prevention and management of fraud are not new issues in the Australian Public Service (APS) and, indeed, considerable attention has been given to the issue of fraud control over a number of years. The House of Representatives Standing Committee on Banking, Finance and Public Administration, in its Report on the Inquiry into Fraud on the Commonwealth *Focusing on Fraud*<sup>5</sup> commented:

*Fraud control in the Commonwealth has always been a complex activity involving such basic problems as definition, determination of its scale and type, and detection as well as the complex interrelationship between agencies involved in investigation and prosecution.*<sup>6</sup>

**1.2** In the report *Focusing on Fraud* the Committee outlined the main findings of a previous report (1987)<sup>7</sup> which eventually led to, among other things, the establishment of the current area within the Attorney-General's Department with overall responsibility in relation to the Commonwealth's Fraud Control Policy and support for the Commonwealth Law Enforcement Board (CLEB).

**1.3** The Commonwealth demonstrated its ongoing commitment to the protection of its revenue, expenditure and property from fraudulent activity through the release of its Fraud Control Policy in 1987. This was revised and released in its present form in 1994. The Policy also contains the Interim Ministerial Direction on Fraud Control. An expected outcome of this policy was that agencies would develop fraud control mechanisms aimed at the prevention, detection and investigation of fraud. A recent review of the Policy led to the release of a Consultation Draft in 1999<sup>8</sup>. Key elements of the proposed new Policy include encouraging a holistic

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<sup>5</sup> Standing Committee on Banking, Finance and Public Administration, *Focusing on Fraud: Report on the Inquiry into Fraud on the Commonwealth*, Canberra 1993.

<sup>6</sup> *Ibid.*, p. 1.

<sup>7</sup> *Review of systems for dealing with fraud on the Commonwealth*, March 1987.

<sup>8</sup> The Fraud Control Policy of the Commonwealth, Consultation Draft No. 1 (21 June 1999).

approach to the management of risks in line with modern corporate governance and the importance of staff achieving fraud prevention, detection and investigation competence. Further details on the proposed new Policy are set out in Appendix 4 of this report. The draft is currently being circulated for comment.

**1.4** The current Policy has been given legislative support through provisions in the *Financial Management and Accountability Act 1997* (FMA Act). Under the FMA Act, Chief Executive Officers (CEOs) are responsible for the implementation of a fraud control plan and for reporting to the Portfolio Minister on fraud control within their agencies. Budget funded Commonwealth Authorities and Companies (CAC bodies) are also required to adhere to the fraud control policy.

**1.5** While issues relating to fraud control may not have varied a great deal over time, the APS has experienced a decade of significant change. These changes have included the following:

- the use of a range of service delivery options, particularly the use of third party providers to supply services directly to the public. Purchaser/provider arrangements are the basis for most contractual and commercial transactions. Such contractual arrangements have implications for transparency and accountability, including for fraud control. It is important when establishing purchaser/provider arrangements that tender processes are handled appropriately and that contracts are sufficiently robust (and are monitored) to assist fraud prevention;
- the focus on outcomes which, while appropriate in guiding program objectives, can increase pressures on agencies and lead to the view that the end justifies the means. Procedures and guidelines should ensure that the processes or means used do not include unethical or fraudulent practices; and
- the increasing use of technology and links with communications infrastructure that has provided many benefits in terms of processing efficiency and assisted in preventing and detecting fraud. By the same token, technology can provide more opportunities to commit fraud, particularly in the creation of false identification documentation and diversion of payments.

**1.6** In the early 1990s the ANAO undertook a series of performance audits of fraud control arrangements in APS agencies (listed in Appendix 5). A more recent audit of fraud control arrangements in Employment, Education, Training and Youth Affairs was undertaken in 1998–99 and Report No. 4 1999–2000 was tabled on 22 July 1999. An examination of these reports reveals that many of the issues raised by

those earlier audits remain relevant today. For example, the importance of fraud control plans being underpinned by appropriate risk assessments, the use of performance standards against which various aspects of fraud control can be assessed and the development of adequate quality assurance arrangements.

**1.7** The ANAO has therefore undertaken a survey that provides an overall view of arrangements across the APS to manage fraud. As well, a new series of fraud control audits is currently underway in a number of APS agencies. These agencies include the Departments of Industry, Science and Resources, Health and Aged Care and Defence as well as the Australian Taxation Office. Further audits are also planned in other APS agencies.

**1.8** The survey is the subject of this report. At the completion of the detailed audits, the ANAO will prepare a Guide setting out practical examples to assist agencies achieve better practice.

## Audit objective

**1.9** The overall objective of the audit was to assess key aspects of fraud control arrangements in place across the APS against CLEB guidelines.<sup>9</sup> This assessment aimed to provide assurance to Parliament that agencies had a suitable framework in place to assist in effectively preventing and dealing with fraud and to indicate to APS agencies any areas for improvement identified in the survey.

**1.10** The ANAO sought information from APS agencies on:

- the definitions of fraud used by agencies and the nature and level of fraud;
- agency specific fraud control policies;
- risk assessments undertaken by agencies to determine their exposure to fraud;
- fraud control plans, including any specific plan to address identified fraud risks;
- procedures and guidelines;
- the existence of management information systems (MIS);
- awareness-raising for all staff and training for targeted groups in high risk areas, including investigations staff;
- the conduct of investigations; and
- quality assurance systems.

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<sup>9</sup> *Ibid.*

## Audit methodology

**1.11** The audit was undertaken using a survey approach. The questionnaire for the survey was designed with the assistance of the Australian Bureau of Statistics (ABS). Input was also provided by a Reference Group (listed at Appendix 1) having people with particular expertise in fraud related matters, including a detailed understanding of the Fraud Control Policy of the Commonwealth, State based approaches to managing fraud and broader experience in business management and ethics.

**1.12** The survey questionnaire, (at Appendix 2), was sent to 150 APS agencies covered by the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). In addition, a number of Government Business Enterprises (GBEs) also provided input to the survey. Responses were received from 114 agencies, which represented a response rate of 76 per cent (Appendix 3 provides more information on the profile of these agencies). As well, 11 agencies came under the auspices of government departments which responded to the survey and the former therefore did not provide a separate response. Taking this factor into account the response rate was 83 per cent which was very satisfactory. Comments are only made on the arrangements in place in those agencies that responded to the survey.

**1.13** As well as completing the questionnaire, agencies were asked to attach a range of documents with their response to the survey, for example: a copy of their risk assessment methodology; their fraud control plan; guidelines and procedures; and a sample of reports to management on fraud matters. A sample of this documentation has been analysed against CLEB requirements and better practice generally and is discussed in the relevant sections of this report.

**1.14** To provide assurance on the accuracy of survey responses, the ANAO required the questionnaire to be signed-off by an officer with appropriate authorisation. As well, documents provided as attachments to the questionnaire were used to verify responses.

**1.15** The ANAO was aware that the Attorney-General's Department requests some similar information in its annual survey on fraud. The ANAO survey sought more detailed information from a wider range of agencies in order to allow a more complete understanding of the fraud control arrangements in the APS. The Attorney-General's Department was consulted throughout the design and conduct of the survey and was represented on the Reference Group.



## Presentation of results

**1.16** It is important to note that not every agency answered every question in the survey. Most commonly, this was because administrative changes in recent years meant that agencies were no longer able to report statistics from previous years as they were recorded on information systems that were no longer accessible. Therefore, the statistics in this report are a reflection of the results for those agencies that responded to each particular question. The tables in the report should be interpreted taking this into account.

**1.17** Where relevant, comments on GBE arrangements are included in the report. GBE responses are included in aggregate figures, except in those tables in which data are presented by FMA and CAC bodies.

## This report

**1.18** Chapter 2 of this report examines the definitions of fraud used by agencies and draws together information on the nature and level of fraud across the APS. Chapter 3 discusses awareness of Commonwealth fraud policy and the planning framework present in the agencies surveyed. It covers agency policy and codes of ethics/conduct, fraud risk assessments and fraud control plans and assesses these against the requirements of the Commonwealth Fraud Control Policy. Chapter 4 discusses fraud awareness and training measures undertaken by agencies. Chapter 5 examines fraud control operations, including management structures, procedures and guidelines for operational matters such as fraud reporting, fraud investigations and information systems.

**1.19** The audit findings in this report draw attention to examples of better practice, both where these are strengths of many APS agencies, and where individual agencies have provided examples that the ANAO believes to represent sound practice. The report also highlights areas of general weaknesses across the APS. The findings of this report are applicable to all APS agencies.

**1.20** The audit was conducted in conformance with ANAO auditing standards at a total cost of \$142 000.

## 2. Defining and Measuring Fraud

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*This chapter examines the definitions of fraud used by APS agencies, issues associated with the measurement of fraud and possible changes to the type and level of fraud.*

### Introduction

**2.1** The Commonwealth Policy promulgated in 1994 and the 1999 Consultation Draft set out a definition of fraud. Fraud is defined in the Policy as:

*inducing a course of action by deceit or other dishonest conduct, involving acts or omissions or the making of false statements, orally or in writing, with the object of obtaining money or benefits from, or evading liability to, the Commonwealth.<sup>10</sup>*

**2.2** The expectation was that this definition would be adopted by Commonwealth agencies. With a common definition being used across the APS it would then be possible to collect and collate data from government agencies in order to allow an accurate assessment of the nature, level and value of fraud committed against the Commonwealth.

**2.3** Previous audits and discussions with key stakeholders in relation to fraud control have indicated that there are a number of problems with the collection and collation of data on fraud matters. The view was that the collection of APS-wide data was problematic because of the different definitions of what constitutes fraud, as well as the different applications and interpretations of the stated definition.

**2.4** The ANAO therefore sought to gain an understanding of:

- the definition(s) of fraud agencies are using;
- the nature and level of fraud being committed; and
- possible changes to the level of fraud against the Commonwealth.

**2.5** Each of these matters is discussed under separate headings below.

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<sup>10</sup> *Op cit.*, Taken from the Interim Ministerial Direction on Fraud Control in *Best Practice for Fraud Control*.

## Defining fraud

**2.6** The ANAO asked agencies to state the definition of fraud that they used. Of the agencies that responded, 68 indicated that they used the definition included in the Commonwealth Policy (as set out in paragraph 2.1). However, an examination of other information provided by each agency showed that some agencies interpreted this definition more narrowly than suggested by the Policy. For example, one agency stated that it had ‘expanded’ on the Commonwealth definition in order to include corrupt behaviour, although the Commonwealth Policy in fact lists corruption as a form of fraud falling within the scope of the definition.<sup>11</sup> This indicates that while on the surface the agency appeared to be using the Commonwealth definition, in practice it was using a variation based on its interpretation of the Policy.

**2.7** Approximately 20 agencies indicated they used a different definition. Examples of the variety of definitions are set out below.

### Examples of definitions of fraud

- theft or improper use of the [agency’s] resources;
- false representation made knowingly or without concern to truth. It may be done through full or partial misrepresentation;
- criminal deception, use of false representation to gain unjust advantage;
- a deceitful course of action taken with the intention of gaining an unfair or unjust advantage;
- unauthorised representations or actions designed to achieve inappropriate personal gain; and
- (an employee’s) improper use of inside information, or their duties, status, power or authority in order to gain, or seek to gain, a benefit or advantage for themselves or any other person.

**2.8** Other agencies did not supply a definition or indicated that a definition of fraud was not applicable to their operations.

**2.9** It is not only with the overall definition that there are variations across agencies. At the lower level, defining what constitutes an allegation of fraud, when allegations become a case of fraud requiring investigation and at what stage fraud is proven to have occurred and for what amount, are treated differently across the APS.

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<sup>11</sup> See Interim Direction p. 34–35.

**2.10** As well as these problems in defining fraud there is a major difficulty in proving criminal intent before a matter can be treated as fraud. A trend has been for agencies to respond to this by classifying, treating and reporting matters resulting in losses to the Commonwealth as something other than fraud.

**2.11** These issues are not new to the APS. In the report *Focusing on Fraud* the Committee stated that ‘*although it would be desirable to have a common definition of fraud used throughout the APS this would be difficult to achieve*’. They continued on to say ‘*It would be virtually impossible to have agencies use the same definition, however, each agency should make it clear what definition it is using...*’<sup>12</sup>

**2.12** The ANAO considers that agencies should work towards using a common definition both for overall fraud and for allegations and cases of fraud to assist agencies manage all losses against the Commonwealth appropriately. However, given the difficulty in bringing this about quickly, agencies should clearly set out the definitions they are currently using (at the overall and lower levels) and ensure that staff, and the community where relevant, are aware of and apply the definition in day-to-day operations. This would encourage appropriate action in relation to fraudulent activity within each agency. More broadly, when individual agencies reported fraud (discussed further below), the definitions being used could be taken into account in collating the data to provide information on the amount of Commonwealth funds lost to fraud.

## Measuring fraud

**2.13** Measuring fraud against the Commonwealth is ‘*important in determining the type and scale of the response*’<sup>13</sup>. The ANAO therefore asked agencies to provide information for the financial years 1997–98 and 1998–99 on the:

- number of fraud allegations received;
- number of fraud cases handled; and
- total value of fraud cases.

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<sup>12</sup> *Op cit.*, Focussing on Fraud: Report on the Inquiry into Fraud in the Commonwealth, p. 8.

<sup>13</sup> *Ibid.*, p. 8.

**2.14** Results are provided in Table 1 with associated commentary.<sup>14</sup> The value of fraud included in this table represents only the minimum level of fraud because of a number of issues related to reporting fraud. These issues are discussed in paragraph 2.15.

**Table 1**

**Extent of fraud reported by surveyed APS agencies<sup>a</sup>**

	<i>Number of fraud allegations</i>		<i>Number of fraud cases</i>		<i>Value of fraud cases<sup>b</sup> (\$'000)</i>	
	<i>1997–98</i>	<i>1998–99</i>	<i>1997–98</i>	<i>1998–99</i>	<i>1997–98</i>	<i>1998–99</i>
<b>Internal<sup>c</sup></b>	1 310	1 220	352	348	1 039	9 289
<b>External<sup>d</sup></b>	5 775	5 257	3 510	3 702	152 137	136 573
<b>Total</b>	<b>7 085</b>	<b>6 477</b>	<b>3 862</b>	<b>4 050</b>	<b>153 176</b>	<b>145 862</b>

<sup>a</sup> A total of 106 agencies responded to this question. Two agencies were only able to provide data for the financial year 1998–99. One agency only provided information on external fraud.

<sup>b</sup> Ninety-nine agencies were able to provide a dollar value of fraud cases. Of these, six were unable to provide all the relevant data.

<sup>c</sup> Internal fraud generally refers to fraud committed by people employed by Commonwealth agencies.

<sup>d</sup> External fraud generally refers to fraud committed by parties external to Commonwealth agencies.

**2.15** Issues to be considered when interpreting the results in Table 1 are as follows:

- 17 per cent of agencies did not return their survey questionnaire so there is no information available on the level of fraud experienced by those agencies;
- of those agencies that did respond, a number could not provide data for the two financial years because of changes to administrative arrangements<sup>15</sup>. For example, 16 respondents did not provide information on the value of fraud cases in their agencies;
- the varying definitions used mean that data from different agencies is not strictly comparable. As well, agencies may classify matters as something other than fraud<sup>16</sup>;
- individual agencies have different data collection and reporting practices;

<sup>14</sup> It was beyond the scope of the survey for the ANAO to undertake extensive testing of the actual level of fraud experienced by agencies compared to the amount reported by agencies in the survey. As outlined in para. 2.14 there are a number of reasons that the actual level of fraud may vary from the reported level of fraud.

<sup>15</sup> Administrative Arrangements Order of 21 October 1998.

<sup>16</sup> Agencies can classify matters as, among other things, overpayments, over-servicing and losses.

- there are problems in determining how the dollar value of fraud should be measured. For example, it is not clear whether the amount quoted is the amount that the offenders sought to obtain, the amount the offender received or the amount quoted in an allegation. Quantifying the cost of fraud based on prosecutions is also not accurate because the Director of Public Prosecutions (DPP) may lay charges for only part of the fraud; and
- activities that fall within the Commonwealth definition are not always prosecuted under the category of fraud, falling instead under other sections of the *Crimes Act 1914* and other relevant legislation.<sup>17</sup>

**2.16** The most frequently occurring internal fraud was the inappropriate use of Commonwealth petty cash and other negotiable instruments, including cheques, cab charges and purchase orders. Improper use of Commonwealth property and the inappropriate use of travel funds were also more frequent than other forms of fraud. Other forms of internal fraud reported by agencies included misuse of office, disclosure of information, overtime fraud, misuse of allowances, bribery and corruption.

**2.17** For external fraud reported in the survey, the most frequent form was inappropriate claims for benefits and payments by the community. This was also the form of fraud that cost the Commonwealth the most in cash terms.

**2.18** Detailed analysis of the responses provided by agencies indicated that:

- only 40 per cent of the agencies reported that they had experienced some fraud in the last two years; and
- more than 85 per cent of the fraud is committed against less than 10 per cent of the agencies.

**2.19** It has been accepted by key stakeholders that determining the extent of fraud against the Commonwealth is difficult. As stated in paragraph 2.15, at least part of the problem is related to different definitions being used across the APS. In response to such difficulties, the new Policy proposes that key Commonwealth agencies meet three to four times a year to exchange information about the extent of fraud against their agencies, and the Commonwealth. This will assist in understanding overall levels of fraud and provide a picture on the changing nature and scope of fraud over time.

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<sup>17</sup> These issues have also been identified by the Australian Institute of Criminology as creating problems in the identification and measurement of fraud in both the public and private sector. See Smith. R. G., *Measuring the Extent of Fraud in Australia*, Australian Institute of Criminology Trends and Issues Paper No. 74, Canberra, 1997.

## Changes to the level of fraud

**2.20** In the survey questionnaire, the ANAO asked agencies to comment on whether they expected the level of fraud to increase, decrease or remain unchanged over the next two years. In response, 67 indicated that there would be no change, eight indicated that it would decrease and 12 agencies indicated that fraud would increase. The ANAO noted that those agencies that reported that they did not anticipate the level of fraud to increase had experienced either no fraud or only isolated incidents. This suggests that they were basing their responses on past experience and may not be taking into account the changing operating environment.

**2.21** The following reasons were given by agencies for likely increases in fraud:

- changing business delivery methods and business processes, such as a move to self-regulation and increased outsourcing; and
- increasing use of e-commerce, including the Internet, as a vehicle for doing business with the Commonwealth.

**2.22** The increased use of purchaser/provider arrangements with third parties may mean that what was previously judged to be fraud against the Commonwealth may be more appropriately considered within the context of contract management arrangements. Increasingly, agencies may need to seek alternative remedies for dealing with losses in these cases, such as through contract law provisions or other Commonwealth, State and Territory legislative provisions.

**2.23** The use of information technology and e-commerce, including the Internet, has significant benefits for service delivery. It may not change the level of fraud experienced but it is changing the nature of the fraud committed. Agencies need to be conscious of these, and other emerging risks, and take them into account when undertaking risk assessment and developing appropriate treatment strategies.

## Conclusion

**2.24** Agencies are using a variety of definitions for fraud, and for allegations of fraud and cases of fraud. This is not a new issue but one that, along with other factors, has an impact on measuring the level of fraud on the Commonwealth. The problems of definition and measurement are not easy to solve but agencies should work towards using a common definition to improve the collection of appropriate information.

**2.25** As well as attempting to improve the measurement of the level of fraud so that the scale and type of response can be determined, agencies needed to be aware of the changing nature of fraud arising from, for example, the greater use of purchaser/provider arrangements, new technology and e-commerce, including the Internet. These, and other related issues which are likely to emerge over time, could pose significant business risks that agencies need to assess and treat.



## 3. Fraud Control Planning

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*This chapter examines the framework agencies had developed for preventing and managing fraud, including an agency-specific fraud policy, codes of ethics/conduct, fraud risk assessment and related fraud control planning.*

### Introduction

**3.1** Key elements of sound corporate governance for fraud control include the need for each agency to have an overall policy and planning regime in place. These elements are set out in the Interim Ministerial Direction on Fraud Control of 1994 (the Interim Direction). In establishing their fraud control arrangements, agencies should be aware of the Fraud Control Policy and Consultation Draft. The ANAO therefore sought information on:

- agency awareness of the requirements of the policy;
- a specific policy on fraud control relevant to the agency's business operations. To support this policy and to foster an ethical climate, codes of ethics and conduct should also be developed;
- a risk assessment undertaken on a regular basis to underpin planning; and
- an agency-wide fraud control plan based on the fraud risk assessment and reflective of agency (and overall Commonwealth) policy in relation to fraud control. This should include treatment for those areas of higher risk identified by the risk assessment.

**3.2** Each of these matters is discussed under separate headings below.

### Awareness of the Fraud Control Policy of the Commonwealth

**3.3** The first two survey questions sought information from agencies regarding their awareness of the Fraud Control Policy of the Commonwealth and the Consultation Draft of the revised policy circulating for comment at the time the survey was being conducted. Responses to the questions are summarised in Table 2.

**Table 2****Awareness of Commonwealth fraud policy**

	No. of FMA Bodies		No. of CAC Bodies		Total <sup>1</sup>	
	Aware	Not aware	Aware	Not aware	Aware	Not aware
<b>Commonwealth policy</b>	44	1	54	7	98	8
<b>Consultation draft</b>	39	7	45	16	84	23

<sup>1</sup> 106 CAC and FMA bodies responded to the question about awareness of the current Commonwealth policy. 107 CAC and FMA bodies responded to the question regarding awareness of the consultation draft.

**3.4** The ANAO found that most agencies reported being aware of the Commonwealth's Fraud Control Policy released in 1994. Responses to later questions indicated whether agencies had been translating this awareness into practice by developing appropriate arrangements for fraud control.

**3.5** Awareness of the Consultation Draft was not as widespread as that for the 1994 Policy, with just under 25 per cent of agencies responding that they were not aware of the new draft. It is important that agencies make themselves aware of the new approach to fraud control the Consultation Draft promotes as it provides a framework within which agencies are expected to manage and make appropriate decisions on fraud control in the future.

**3.6** While GBEs are not legislatively bound by the specifics of the Commonwealth policy, the majority of GBEs that responded to the survey indicated that they are aware of both the 1994 Policy and the Consultation Draft.

**3.7** From comments on questionnaires returned to the ANAO and telephone calls from a number of agencies to obtain advice on completing the questionnaire, it has become apparent that many agencies, as a result of the survey, are now seeking further information regarding the Fraud Control Policy with a view to putting appropriate arrangements in place.

## Agency-specific fraud policy

**3.8** The Commonwealth Fraud Control Policy states that:

*Chief Executives are responsible for fostering an environment within their agencies which makes active fraud control a major responsibility for all public sector staff, for articulating clear standards and procedures to encourage minimisation and deterrence of fraud, and for the detection and prosecution of offences should they occur.*<sup>18</sup>

<sup>18</sup> *Op cit.*, Fraud Control Policy of the Commonwealth, p. 7.

**3.9** As part of fostering an environment which encourages fraud prevention and control, agencies should clearly state their specific position on fraud. Therefore, the ANAO asked agencies *‘Does your agency have a written fraud control policy in place?’* Table 3 sets out the responses to this question.

**Table 3**

**Existence of agency-specific fraud control policy**

	<i>FMA bodies</i>	<i>CAC bodies</i>	<i>Total<sup>1</sup></i>
<b>Yes</b>	34	41	75
<b>No</b>	11	20	31

<sup>1</sup> 106 FMA and CAC bodies responded to this question.

**3.10** The table shows that about one third of agencies did not have a specific fraud control policy in place for their agency. However, many agencies set out their policies and requirements in other documentation, such as Chief Executive Instructions (CEIs) or procedures and guidelines for fraud control. In total, 75 CAC and FMA bodies, that is 70 per cent of respondents, indicated that they had a fraud control policy, either available separately or included in other documentation. Most GBEs that responded to the survey also had agency-specific fraud control policies.

**3.11** Fraud control policies varied in both format and content. A large number simply reproduced the Commonwealth Policy. Others, however, were tailored to meet the specific needs and circumstances of the agency more fully. Nevertheless, most policies contained common elements, including:

- the agency’s definition of fraud and a statement of its position on fraud and the protection of revenue;
- a statement about staff members’ responsibilities to prevent and report fraud, and the means of reporting fraud;
- responsibilities of staff to assist fraud investigations and to provide documentation where required;
- an outline of the way in which an investigation should be conducted (that is, in-house, by a consultant, or by the AFP); and
- an assurance that allegations and investigations would be handled confidentially.

## Case study 1

### Examples of better practice in fraud control policies

#### A. GBE

One GBE presented its fraud control policy in a short pamphlet aimed at raising and maintaining staff awareness. The pamphlet summarised not only the agency's attitude towards fraud, but also clearly and simply spelled out individuals' responsibilities to maintain high standards of ethical behaviour and to report suspected fraud. The pamphlet was written in a personal style. It used phrases such as '*Fraud damages our business*' and '*We all want to work with people we trust and we all want people to show their trust in us*'. This encouraged staff members to adopt the policy as part of the way they did their job by making them feel that the policy was relevant to them.

The pamphlet gave specific examples of common types of practices that the agency considers to be fraud.

These included:

- the use of a corporate credit card to entertain friends not directly related to advancing the interests of the corporation;
- altering a doctor's certificate to increase the number of sick days;
- clocking off colleagues' time-cards *after* they had left work; and
- use of official mail envelopes to send out local sporting club newsletters.

The personal style, the examples given and clear format made it more accessible than the policy by itself, and was a relatively simple method of reinforcing the policy's message and raising staff awareness of fraud-related issues. This method of promoting and circulating an agency's fraud control policy would be able to be adapted for use by smaller agencies, as such a pamphlet could be produced relatively inexpensively in-house.

#### B. Government Department

In a government department, the fraud control policy was used to publicise the CEO's 'open door' attitude towards fraud. The CEO made it clear to staff members that if they felt uncomfortable reporting fraud to their supervisors, they were able to report their suspicions to the Deputy Secretary or directly to the CEO. This gave staff confidence that fraud was taken seriously and that the CEO was committed to maintaining an ethical climate within the department.

**3.12** Whatever approach agencies use to establish a policy in relation to fraud control, they need to ensure that the policy statement is widely circulated and understood to encourage fraud prevention as well as detection.

## Codes of ethics/conduct

**3.13** The Fraud Control Policy of the Commonwealth states that:

*the Government recognises that fraud prevention goes beyond monitoring the effectiveness of financial controls. It also requires the maintenance of an ethical climate.... Chief Executives must...foster and develop within agencies the highest standards of ethical behaviour....*<sup>19</sup>

**3.14** The development of a code of ethics/conduct is an important step in creating an ethical climate by setting corporate values, standards of behaviour for staff and defining accepted practice. The ANAO asked agencies whether they had a specific code of ethics or conduct. The responses are summarised in Table 4.

**Table 4**

**Agency specific codes of ethics/conduct**

	<i>FMA bodies</i>	<i>CAC bodies</i>	<i>Total<sup>a</sup></i>
<b>Yes</b>	20	32	52
<b>No</b>	23	26	49

<sup>1</sup> A total of 106 FMA and CAC bodies responded to this question.

**3.15** The ANAO found that just over half of the agencies that responded to the question on code of conduct/ethics had a specific code of ethics/conduct. As well, 22 agencies indicated in their responses that they relied on the APS-wide code of conduct. The APS code was designed to be applicable to all APS agencies and employees. The use of this code by agencies is appropriate, especially in smaller agencies, where it may not be practical or necessary to produce a specific code of ethics. This means that at least 70 per cent of all agencies that responded have in place some form of code which sets out the standards of behaviour expected from staff.<sup>20</sup>

**3.16** The majority of the GBEs that responded to the survey had a code of ethics/conduct in place. One GBE noted that '*ethics in the workplace is the most effective fraud control of all*'.

<sup>19</sup> *Op cit* p. 8.

<sup>20</sup> For information on better practice in codes of conduct, see Independent Commission against Corruption, *Ethics: the key to good management*, 1998, available [online] at <http://www.icac.nsw.gov.au>

3.17 The case study below provides some practical examples on the type of issues that could be included in a code of ethics/conduct.

### **Case Study 2**

#### **Codes of ethics/conduct**

The ANAO examined a number of agency-specific codes of ethics/conduct. Two approaches were identified, that is principles-based and more prescriptive approaches.

**The principles-based** approach aimed to shape the ethical climate of an agency and provide a framework in which employees would make ethical decisions about their actions and their conduct.

Guidance was provided on a wide variety of issues, including:

- agency values, honesty, integrity and ethical behaviour;
- outside activities, such as acting as consultants in other relevant industries, and post-separation employment;
- use of agency resources and equipment;
- use of information and position, including the need for confidentiality;
- solicitation and acceptance of gifts and sponsorship;
- improper influences, receipt of bribes, kick-backs and pay-offs;
- discrimination and harassment;
- obeying the law; and
- political associations.

**Prescriptive codes** covered issues similar to those outlined above, but provided more detailed guidance on whether something staff intend doing would be considered the right thing by the agency, situations likely to occur and outlined steps for handling these situations. For example:

- some agencies defined what was an acceptable gift, often detailing the steps to be taken depending on the dollar value of the gift (for example, having it registered in a gift register or having it placed in the organisation's display cabinet);
- one agency used the code to outline its policy on using frequent flyer points;
- one agency specified the circumstances in which it was acceptable to retain personal payment for services; and
- several codes outlined the steps to be taken in order to resolve conflict of interest situations, for example, disclosing the conflict, divesting oneself of interests that are real, apparent or potential areas of conflict or changing one's role to avoid the conflict.

**3.18** Agencies should choose the approach that best suits their needs. It is also important that policies and codes are not only put in place but that staff are aware of them. In short, they should be part of the way things get done. Training and awareness-raising sessions for staff is one means of ensuring staff are aware of the standards of conduct expected of them. This issue is discussed further in Chapter 4.

## Fraud risk assessment

**3.19** The fraud control policy states '*the core of the Commonwealth's fraud prevention approach is acceptance of the value of risk management*'<sup>21</sup>.

**3.20** One of the requirements of the Interim Direction is that fraud control arrangements be reviewed every two years as a minimum with recognition that the process of risk assessment should be ongoing and iterative. Risk assessments should take into account, among other things, the introduction of new programs and changes to the structure or means of delivery of existing programs. Undertaking risk assessments can serve to raise staff awareness of fraud risks and fraud issues.

**3.21** The ANAO therefore sought to establish whether:

- agencies had conducted a fraud risk assessment within the last two years;
- consultants had been used in the preparation of risk assessments; and
- risk assessments provided by agencies with the response to the survey met the requirements of the Policy.

**3.22** Each of these issues is discussed under separate headings below.

### Fraud risk assessments conducted in the last two years

**3.23** Table 5 shows the number of agencies that had undertaken fraud risk assessments within the last two years.

**Table 5**

**Fraud risk assessments conducted in the last two years<sup>1</sup>**

	<i>FMA</i>	<i>CAC</i>	<i>Total<sup>2</sup></i>
<b>Yes</b>	32	36	68
<b>No</b>	14	25	39

<sup>1</sup> Recognising that the assessment and planning process can take some time from its commencement until the approval of the plan by CLEB, the ANAO included agencies that had conducted risk assessments after mid-1997 as having conducted a risk assessment within the last two years.

<sup>2</sup> A total of 107 FMA and CAC bodies responded to this question.

<sup>21</sup> *Best Practice for Fraud Control*, p. 17.

**3.24** As can be seen from Table 5, 36 per cent of agencies had not undertaken a fraud risk assessment within the last two years (even with the ANAO’s broad interpretation of time frames) as required by the Commonwealth Policy. Without an up-to-date risk assessment it would be difficult for agencies to plan effectively or treat risks appropriately. Links between the risk assessment process and fraud control plans are discussed in paragraph 3.34.

**3.25** The Consultation Draft of the new policy indicates that the Australian Standards/New Zealand Standards (AS/NZS) 4360:1999 standard on risk management should be adopted to streamline fraud risk management with other risk management within agencies.<sup>22</sup> This should allow agencies to tailor their approaches to suit their individual circumstances. Notwithstanding this new approach, agencies must be committed to the timely conduct of risk assessments to underpin fraud control planning and to ensure robust controls are in place.

### Use of consultants

**3.26** A number of agencies reported that their risk assessments had been wholly or partly undertaken by consultants. Table 6 shows the number of agencies that used consultants in the preparation of risk assessments.

**Table 6**  
**Outsourcing of risk assessments<sup>1</sup>.**

	<i>FMA bodies</i>	<i>CAC bodies</i>
<i>Completely or partly outsourced</i>	28	31
<i>Conducted in-house</i>	19	22

<sup>1</sup> A total of 100 FMA and CAC bodies responded to this question.

**3.27** In examining a number of assessments provided by agencies, the ANAO found that they basically reflected a standardised approach and did not take account of different program risks faced by individual agencies. While consultants with appropriate expertise provide a valuable resource, particularly for guidance, it is important that risk assessments involve relevant staff to ensure that the risk assessment is based on knowledge of the program and activities being assessed. Better practice would suggest that undertaking risk assessment should not be completely outsourced.

<sup>22</sup> As well as the AS/NZS standard on risk management, MAB/MIAC also provides guidance on establishing an appropriate risk assessment approach.



## Review of risk assessments

**3.28** The ANAO examined a sample of the risk assessment documentation provided by agencies responding to the survey. These covered both FMA and CAC bodies and those that had reported fraud and those that had not. The majority of the risk assessments met the CLEB requirements<sup>23</sup>.

**3.29** However, inappropriate use of standard methods had caused some problems with the risk assessments examined including:

- imprecise assessments of both internal risk and control ratings using the ‘green fields’<sup>24</sup> method, reducing the effectiveness of the assessment and subsequent risk ranking;
- criteria that were neither defined nor weighted, raising concerns about both the consistency and accuracy of the assessment process; and
- criteria that were not relevant to all areas being used to assess all programs. The application of criteria that are not applicable to an area will skew results, as they will still be taken into account when generating a quantitative rating, thus providing an inaccurate reflection of risks.

### Case study 3

#### Better practice approaches to conducting fraud risk assessments

**A.** In conducting its risk assessment, one smaller agency designed a questionnaire to be used by managers to assess risk. The questionnaire included a discussion of the question and its purpose, detailed examples of ratings, and where applicable, a range against which to rate criteria (for example, a material risk was rated highly if it could result in a loss of more than \$1.5 million). By providing detailed guidance, the agency was able to increase its chance of consistent ratings being applied across its various programs.

**B.** In a large agency, trained personnel spent time in each program area, and provided guidance on the completion of the risk assessment. This was designed to obtain consistency in responses and achieve comparable results across the many different programs in the agency. A validation process was also carried out.

<sup>23</sup> The criteria against which the risk assessments were reviewed are at Appendix 6.

<sup>24</sup> A ‘green fields’ methodology is a quantitative approach to measuring risk.

## Fraud control planning

**3.30** The fraud control plan is an important part of the framework for effective fraud control and is aimed at addressing the overall fraud risk within an agency. The matters to be covered in the fraud control plan (as prescribed) are that it should:

- reflect risks identified in the fraud risk assessment;
- include strategies to rectify shortcomings; and
- provide a timetable and nominate action areas for the implementation of these strategies.

**3.31** Some agencies chose to develop separate action plans to set out strategies to rectify shortcomings in areas assessed as having a higher risk of fraud. These are also discussed below.

**3.32** The results of the ANAO's question on fraud control plans are presented below for both FMA and CAC bodies. As well, the ANAO reviewed a sample of actual fraud control plans provided by agencies with their response. These are discussed under a separate heading below.

**Table 7**  
**Fraud Control Plan**

	<i>FMA bodies</i>	<i>CAC bodies</i>	<i>Total<sup>1</sup></i>
<b>Yes</b>	41	38	79
<b>No</b>	7	23	30

<sup>1</sup> A total of 109 CAC and FMA bodies responded to this question.

**3.33** Table 7 shows that 85 percent of FMA bodies had developed a fraud control plan. Under section 45 of the FMA Act, CEO's are required to implement a fraud control plan for their agency. The responses to this question indicate that at the time the survey was conducted, 15 per cent of agencies (that is, seven agencies) had not met this legislative requirement. While the development and implementation of a fraud control plan is not a requirement for CAC bodies, 62 per cent had developed a fraud control plan.

**3.34** It is not only important that agencies have a fraud control plan, but it should also be based on a risk assessment undertaken within the last two years. An analysis of the responses to the survey relating to whether a risk assessment had been undertaken and a fraud control plan developed showed that 13 per cent of the fraud control plans developed by agencies were not based on a recent risk assessment. It would be difficult for an agency to develop an effective plan with appropriate strategies to treat risks if they had not been identified through a recent risk assessment.

## Use of consultants in developing fraud control plans

**3.35** Responses indicated that a large number of agencies used consultants to assist in the preparation of fraud control plans. The results are shown in Table 8 for agencies with and without reported fraud.

**Table 8**

### Use of consultants in the preparation of fraud control plans

	<i>Agencies with reported fraud</i>	<i>Agencies without reported fraud</i>	<i>Total<sup>1</sup></i>
<b>Yes</b>	28	29	57
<b>No</b>	19	30	49

<sup>1</sup> A total of 106 agencies responded to this question.

**3.36** The ANAO found that a large number of agencies outsourced the development of their fraud control plan. Agencies that did not outsource the development of their plan were, on the whole, large agencies with high levels of reported fraud. Several smaller agencies (both with and without reported fraud) commented that consultants provided expertise that was not found within these agencies.

**3.37** As with risk assessments, agency input into, and oversight of, the formulation of its fraud control plan is extremely important. Agencies should ensure that the plan is tailored to meet the specific needs of the agency, and reflects the findings of its risk assessment. Agencies should not accept a generic plan that does not identify treatments for its specific risks. Such risks need to be identified by agency managers at all levels, as necessary with guidance from consultants.

## Review of fraud control plans

**3.38** The ANAO reviewed 10 fraud control plans against both Policy requirements and better practice. The sample of plans assessed represented a cross-section of agencies, including both those that had and those that had not reported fraud, and covering both FMA and CAC bodies. Findings of this assessment are presented in Table 9.

**Table 9****Assessment of fraud control plans**

<b>Criteria<sup>1</sup></b>	<b>Percentage of sample which complied with each criterion</b>
A plan should be linked to the risk assessment.	70
A plan should address all areas of high risk in the agency.	60
A plan should address both internal and external risks.	70
A plan must rectify shortcomings identified in the risk assessment.	60
A timetable for taking action for each strategy should be prepared and include realistic deadlines.	40
A plan should mention the need for review.	80
Responsibility for the development, implementation and review of the Fraud Control Plan should be allocated.	60
A plan should simply and clearly spell out what each staff member needs to do in his or her area to prevent fraud.	60

<sup>1</sup> The criteria were drawn from the CLEB Guide, as well as from identified sound corporate governance practice.

**3.39** As can be seen from the Table 9, fraud control plans met the range of criteria to a varying degree. Of note is that only two plans met all the criteria. Particular issues which were identified for those that did not meet the criteria include:

- risks identified by the risk assessment process were not addressed and strategies to rectify shortcomings were not included;
- a timetable for implementation and a designated area/officer responsible for implementation should be identified; and
- arrangements to monitor implementation needed to be included.

**3.40** Without these elements the usefulness, and thus credibility, of fraud control plans to prevent and manage fraud will be significantly reduced.

### **Action plans/treatment strategies**

**3.41** The ANAO asked if agencies had developed specific action plans for areas where risks had been ranked as medium to high. These plans are usually program-specific and address risks in greater detail than that found in fraud control plans. In total, 56 per cent of agencies had developed such action plans. As well, the majority of the agencies that reported having undertaken risk assessments (see Table 5) had also developed such action plans.

**3.42** An examination of responses to questions asking whether agencies had fraud control plans and/or action plans indicated that 24 agencies did not have either fraud control plans or action plans. While the ANAO recognises that action plans may not be appropriate for all agencies, it is important to have strategies in place to treat identified risks, whether they are included in fraud control plans or separate action plans, to assist with fraud prevention, control and detection.

## Conclusion

**3.43** Awareness of the 1994 Commonwealth Fraud Control Policy was high, with 93 per cent of agencies reporting that they knew of it. However, about one quarter of agencies were not aware of the Consultation Draft which should guide their management and operations in the future.

**3.44** As well as reported high awareness of the 1994 Commonwealth Policy, the position of agencies responding is illustrated as follows:

- 70 per cent of agencies had a specific fraud control policy in place. As well, some agencies had set out their policy in other documentation, such as CEIs;
- at least 70 per cent of agencies either had their own code of conduct/ethics or relied on the APS-wide code;
- 64 per cent of agencies had undertaken risk assessments over the last two years; and
- 72 per cent of agencies had developed a fraud control plan. Of the agencies that had not developed fraud control plans, seven were FMA bodies. As the development of a fraud control plan is required under section 45 of the FMA Act, these seven agencies were not meeting their legislative requirements. The ANAO has written separately to these agencies to bring this matter to their attention. An examination of the plans provided by agencies with the survey response indicated that some of the plans had a number of weaknesses, for example not addressing the risks identified by the risk assessment, or not allocating responsibility for the development, implementation and review of the plan.

**3.45** While this indicates that the majority of agencies had established suitable fraud control arrangements in line with the Commonwealth Policy, a substantial number had not. A particular concern which the survey raised was that only two thirds of agencies had undertaken a recent risk assessment. Given the changing nature of fraud this is likely to mean that agencies are not identifying emerging risks in a timely manner. As well, 13 per cent of agencies had developed a fraud control plan that was not based on a current risk assessment, raising questions regarding the usefulness of these plans.

**3.46** Importantly, 24 agencies had not established either fraud control plans or strategies to treat fraud risks. This fact, combined with the weaknesses identified in fraud control plans provided to the ANAO, means that a substantial proportion of agencies do not have appropriate arrangements in place. Those agencies should address these issues promptly.

## 4. Fraud Awareness and Training

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*This chapter discusses awareness-raising and training provided by agencies to assist in preventing and managing fraud. Training which also addresses ethics/conduct, training for third party providers and specific investigations training are also discussed.*

### Introduction

**4.1** One of the key elements in assisting staff to understand, prevent and identify fraud is by encouraging awareness of fraud and ethical behaviour throughout an agency. As well as ensuring that staff are aware of their broad responsibilities in relation to fraud prevention and control, agencies need to provide appropriate training, particularly to those staff who work in higher risk areas. Specific training is also necessary for those staff directly involved in investigating fraud.

**4.2** The ANAO sought information on the following:

- fraud awareness-raising, including for contract staff;
- ethics awareness-raising;
- general fraud training;
- training for investigations staff; and
- outsourcing of the provision of training.

**4.3** As well, given that there is an increasing use of consultants, contractors and other third parties to deliver services on behalf of the government, the ANAO asked agencies what arrangements were in place to make third party providers aware of fraud policies and their need to comply with them.

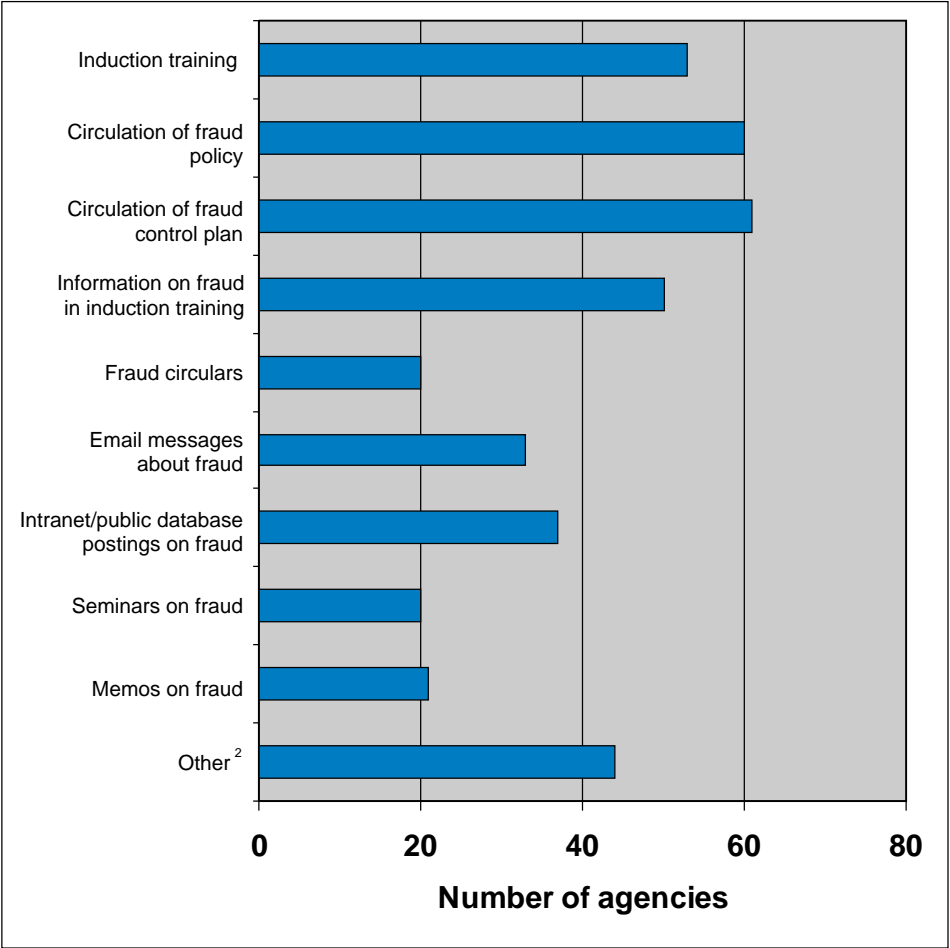
**4.4** Each of these areas is discussed under separate headings below.

### Fraud awareness-raising

**4.5** The CLEB Guide indicates that all staff have a responsibility to make themselves aware of fraud and its implications for their day-to-day activities. To facilitate this, agencies should provide information to staff through awareness-raising activities.

**4.6** The ANAO asked agencies to provide details on the measures undertaken to raise staff awareness of fraud control. The results are provided in Figure 1.

**Figure 1**  
**Measures to raise staff awareness of fraud control<sup>1</sup>**



<sup>1</sup> 111 agencies responded to this question. In responding to this question, agencies could indicate that they used more than one measure.

<sup>2</sup> Examples of the other methods used by agencies to raise staff awareness included distribution of board policy statements and corporate policy and procedure manuals, distribution to staff of Comfraud bulletins and other external information, messages in staff newsletters and other internal publications, posters, video workshops and general briefings.

**4.7** Overall, more than 90 per cent of agencies indicated that they provided some form of fraud awareness-raising activity. Only 11 agencies reported that they did not have any sort of fraud awareness-raising activity in place.



**4.8** The major forms of fraud awareness initiatives undertaken by agencies include induction training and circulation of fraud control policies and/or fraud control plans. The use of information technology systems for raising staff awareness is widespread, with over 30 per cent of all agencies reporting that they either use e-mail messages or intranets/public databases to raise awareness.

**4.9** The ANAO found that agencies that had experienced fraud in the last two years reported (in the survey) a greater range of awareness-raising activities. An examination of responses to survey questions cannot, of course, indicate the effectiveness of awareness-raising activities in practice. However, the following case study provides a strong indication of the benefits for agencies of raising staff awareness of fraud.

#### **Case study 4**

##### **The value of fraud awareness-raising<sup>1</sup>**

The Australian Taxation Office (ATO) implemented a new awareness-raising program in 1999. The program—‘*Judge for Yourself*’—used humour as a means of conveying its message and was designed to make participants question themselves, their colleagues and their managers. The aim was to promote discussion about what fraud was and what should be done if someone suspected fraud. The program also aimed to address a fundamental issue identified by the ATO’s fraud prevention unit, namely a lack of staff confidence that allegations made to management would be acted on.

The ATO conducted research on the impact of the program on staff awareness of fraud issues. This research found that staff awareness of measures operated by the ATO to control both internal and external fraud had increased significantly. Awareness of internal fraud control measures rose from 40 per cent to 65 per cent, while awareness of measures to control external fraud rose from 54 per cent to 86 per cent. The research also found that staff understanding of the concept of fraud from both external and internal sources had increased.

Another important area in which awareness had been raised was in the classification of specific actions as fraud. Research indicated that the following increases in disclosures were a result of the program:

- receiving gifts or personal benefits to give favourable treatment: 60 per cent in 1998 to 73 per cent in 1999;
- taking home ATO stationery for personal use: 39 per cent to 69 per cent;
- making false claims on flex time sheets: 79 per cent to 89 per cent;

*continued next page*

- removing ATO assets for personal use: 64 per cent to 80 per cent;
- breaching taxpayer privacy: 64 per cent to 80 per cent;
- using ATO funds for non-official purposes: 88 per cent to 93 per cent; and
- leaking information: 62 per cent to 70 per cent.

This is an indication of the effectiveness of fraud awareness-raising measures, especially given that there was a related 35 per cent increase in the number of cases reported to the internal investigation section following the program.

The program of awareness-raising is ongoing. The ATO has produced a further program, as it sees that fraud prevention and ethics are keys to promoting the ATO as an integrity-based organisation.

<sup>1</sup> This information is taken from the paper *Effective fraud awareness is no laughing matter! Or can it be so?* presented at the conference 'Linking Ethics and Accountability to Minimise Fraud in the Public Sector', presented by Graeme Waters, Sydney 29 February 2000. Permission was obtained from the ATO to use this information in this report.

## Awareness of ethical requirements

**4.10** The changing APS environment involving, among other things, a focus on outcomes, budgetary pressures and new forms of service delivery, is creating a range of new pressures for management and staff. This means that staff members need to understand and implement the values that underpin the public service. By providing clear standards of behaviour, appropriate training and supervision, the community can be confident that the public sector decision-making processes meet the ethical expectations of the community<sup>25</sup>. One GBE noted that *'the primary issue is one of prevention and ultimately the most important factor to achieve success is based on the commitment and attitude of all employees'*. Ethical behaviour therefore, needs to be integral to the way public servants operate. This will involve taking into account the public service values that are contained in the *Public Service Act 1999*.

**4.11** Responses to the question regarding ethics awareness training indicates that more than half of the agencies have undertaken code of ethics/conduct training. Of the agencies that reported having experienced fraud in the last two years, 30 agencies (65 per cent) had conducted such training. As well, 29 agencies (43 per cent) that did not report any fraud in the last two years had conducted code of ethics/conduct awareness training.<sup>26</sup> This type of training and awareness-raising can assist in

<sup>25</sup> Chair, NSW Ethics Working Party, [online] [www.ethics.nsw.gov.au](http://www.ethics.nsw.gov.au).

<sup>26</sup> The use of codes of conduct by agencies is discussed at paragraph 2.12–2.15.

preventing fraud by developing ethical workplace cultures where fraud and unethical behaviour is neither considered nor tolerated by agency staff.

### **Third party providers**

**4.12** The ANAO asked agencies whether they had established formal policies and procedures for ensuring that consultants, suppliers and other third party providers were aware of, and complied with, their fraud control policy. Only 30 agencies (26 per cent) that responded to this question indicated that they have formal policies and procedures in place for this purpose.

**4.13** Agencies should take steps to ensure that contractors fully appreciate the issues of accountability and public duty and the implications that these concepts embody<sup>27</sup>. Some measures that could assist agencies to ensure that third party providers meet the standards of accountability that are expected of them in relation to fraud control include:

- appropriate contract conditions and access provisions to ensure performance and financial requirements are met;
- agencies providing their fraud control policy to third party providers; and
- monitoring and reporting arrangements providing an adequate flow of information so that agencies are able to assess performance under contractual arrangements.

**4.14** Whatever the method of service delivery, a government agency remains accountable for the effective performance of the functions delegated to it by Government<sup>28</sup>. This is a sentiment that has been repeatedly endorsed by various Parliamentary Committees and individual Members and Senators.

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<sup>27</sup> The Audit Office of New South Wales, 'Contracting Out Review Guide', 1999, p. 4.

<sup>28</sup> Commonwealth Industry Commission Report No. 48, *Competitive Tendering and Contracting by Public Service Agencies*, Melbourne, 1996, pp. 4–5.

## Training

**4.15** Training is an important mechanism to ensure that all staff, most particularly those in areas of higher risk and in areas with direct responsibility for fraud control, are well equipped to prevent and manage fraud. For in-house staff who are responsible for fraud investigations, specific training in this area is also necessary and is discussed at paragraphs 4.18 to 4.24. Table 10 provides information on training conducted by agencies with and without reported fraud.

**Table 10**  
**Training for fraud control**

<i>Type of training undertaken</i>	<i>Percentage of all agencies that reported fraud in last 2 years</i>	<i>Percentage of all agencies agencies that reported no fraud in last 2 years</i>
<b>General fraud training</b>	54	21
<b>Code of ethics/conduct training</b>	65	43
<b>Specific fraud training in high risk areas</b>	26	0
<b>Training on fraud prevention</b>	35	1
<b>No training provided</b>	22	45

**4.16** The results as seen in Table 10 indicate that those agencies that reported having experienced fraud in the last two years were more likely to provide training than those who had not. Fifty per cent of those agencies that had reported fraud within the last two years had provided staff with more than one form of fraud-related training.

**4.17** Table 10 also shows that 22 per cent of agencies with fraud did not provide any form of relevant training to staff. However, the level of fraud against these agencies was minimal.

## Fraud investigations training

**4.18** The Fraud Control Policy states that agencies should accept responsibility for investigating 'routine' or 'minor' instances of fraud against them with complex or large scale cases only being referred to the Australian Federal Police (AFP).<sup>29</sup>

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<sup>29</sup> Review of systems for dealing with fraud on the Commonwealth, Recommendations 1 and 2.

**4.19** Although agencies have been given a level of responsibility for investigations under the Commonwealth's Fraud Control Policy, the ability and capacity to investigate fraud varies widely between individual agencies. The nature and extent of fraud against an agency, as well as resource constraints, are two factors that can have a significant impact on the ability of an agency to undertake investigations in-house.

**4.20** Overall, the survey responses indicate that there are 846 in-house investigators across the APS. Over 85 per cent (738) of these investigators were employed by agencies that reported fraud in the last two years. The majority of these investigators are employed by agencies with investigation units that have significant caseloads.

### **Skills of investigation staff**

**4.21** In submissions to the 1993 Inquiry into Fraud, the ANAO, the AFP and the DPP identified problems with in-house investigation staff and their skills.<sup>30</sup> To rectify these deficiencies the Inquiry recommended that a national training program for fraud investigation be developed. As a result, training competencies for fraud investigators were established by the Commonwealth Fraud Training Advisory Committee (CFTAC).

**4.22** Agencies reported that 459 of the 846 in-house investigators have been trained and deemed competent in Certificate IV training<sup>31</sup>. This standard reflects requirements outlined in the Consultation Draft and exceeds the standard imposed by the current policy. In addition, several agencies reported that their investigators were former police officers whose skills exceeded those prescribed by the Certificate IV training. Other agencies reported that their staff had been trained through other methods to levels in excess of Certificate IV.

**4.23** Several agencies also reported that, while their investigators were not Certificate IV trained, they were trained to the level prescribed by the current Policy which was adequate to meet the needs of the agency. Furthermore, these agencies reported that they will upgrade staff skills when the new Policy (being developed currently through the circulation of the Consultation Draft) is finally implemented.

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<sup>30</sup> *Ibid.*, No.1 at pp. 50–51.

<sup>31</sup> This is the standard of competency prescribed by the new consultation draft. These competency standards are established on the Australian National Training Register.

**4.24** These results indicate that agencies recognise the importance of having appropriately trained in-house investigators who can effectively handle fraud cases. Agencies are ensuring that the skill levels of personnel engaged in the investigation of fraud cases are maintained at a high standard and that members of staff receive appropriate training. The majority of agencies responded that training on fraud investigation has been wholly or partly outsourced.

## **Outsourcing of fraud related training**

**4.25** Where in-house skills are not available, it can be valuable for agencies to have training provided by those with specific expertise in the area of fraud and ethics.

**4.26** The survey sought to determine the extent to which agencies have outsourced particular training functions. Table 11 provides details of fraud related training and the means by which it was provided.

**Table 11**

### **Outsourcing of fraud related training<sup>1</sup>**

<i>Type of training</i>	<i>Number</i>			
	<i>Agencies that reported fraud fraud in last 2 years</i>		<i>Agencies that reported no fraud in last 2 years</i>	
	<i>Outsourced<sup>2</sup></i>	<i>In-house</i>	<i>Outsourced</i>	<i>In-house</i>
<i>General fraud awareness training</i>	4	18	6	8
<i>Specific fraud training in high risk areas</i>	1	11	1	1
<i>Training on fraud prevention</i>	3	14	3	1

<sup>1</sup> A total of 36 agencies responded to the question on general fraud awareness training; 14 to the question on specific training in high risk areas and 21 agencies to the question on training on fraud prevention. The low response rate reflects the fact that not all agencies provide these forms of training.

<sup>2</sup> Outsourced in full or in part by agencies.

**4.27** Agencies that have experienced fraud in the last two years are more likely to provide fraud related training in-house. Furthermore, those agencies that accounted for more than 85 per cent of the fraud in the last two years responded that they provided such training in-house. As well, they did not consider that they would outsource the function because these agencies thought it was important that they maintain a high level of expertise in-house.

**4.28** On the other hand, agencies that reported no fraud in the last two years showed a greater tendency to outsource fraud related training.

## Conclusion

**4.29** More than 90 per cent of responding APS agencies reported having undertaken fraud awareness-raising activities. The main activities reported were induction training and the wide circulation of documents such as the fraud control plan. More than half of the surveyed agencies had undertaken awareness-raising activities in relation to ethics/conduct.

**4.30** However, only 30 agencies had established formal policies and procedures to ensure that consultants, suppliers and other third-party providers were aware of, and complied with, agency fraud control policy. Given the widespread use of contracting arrangements, agencies should take steps so that contractors fully understand the importance of fraud control and ethical behaviour.

**4.31** Many agencies that had reported fraud provided general fraud training, with a lesser proportion of agencies without fraud providing such training. As well, 22 per cent of agencies which had experienced fraud did not provide general training, but the level of fraud experienced by these agencies was minimal.

**4.32** In relation to specific training for investigations staff, the majority of agencies (with such staff) had met, or exceeded, the requirements of the current policy for providing relevant training.

## 5. Fraud Control Operations

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*This chapter discusses whether agencies had established operational structures responsible for managing fraud as well as fraud control procedures and guidelines. Mechanisms for recording and reporting fraud should also be in place. Fraud control operations should be supported by quality assurance arrangements to ensure, in particular, that allegations and investigations are being handled appropriately.*

### Introduction

**5.1** At the operational level, agencies should have arrangements in place which assist with the implementation of their fraud control framework (that is, policy and planning) and guide the day-to-day activities of staff involved directly with fraud control.

**5.2** The operational arrangements should include:

- operational structures responsible for managing fraud;
- procedures and/or guidelines relating to fraud control in the specific agency;
- mechanisms for recording and reporting fraud, including matters related to fraud investigations; and
- a quality assurance system to ensure appropriate and timely action is taken in relation to allegations, cases of fraud and investigations.

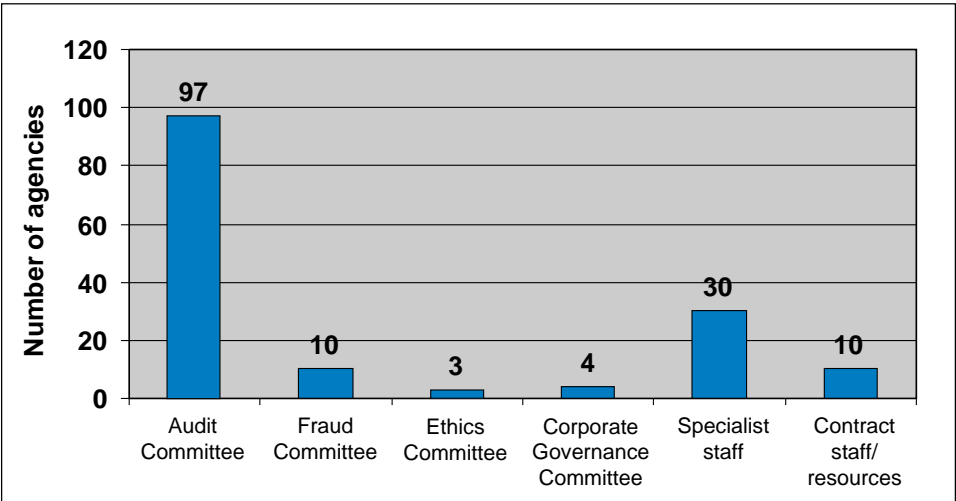
**5.3** Each of these areas is discussed under separate headings below.

### Management structure

**5.4** In order to ensure effective implementation of policy and plans, agencies need to establish structures with responsibility for fraud issues. The survey therefore asked whether agencies had management structures in place with direct responsibility for fraud control. The responses are provided in Figure 2.



**Figure 2**  
**Management Structures with responsibility for fraud control<sup>1</sup>**



<sup>1</sup> A total of 107 agencies responded that they had at least one of these structures in place. Agencies were able to indicate that they allocated responsibility to more than one structure.

5.5      Ninety-seven agencies reported that the Audit Committee was the main body responsible for fraud control. Forty-nine agencies indicated that they had a structure in place other than those listed in Figure 2, most commonly assigning responsibility to an officer within corporate services or internal audit areas. This officer generally had other responsibilities. Only three of the agencies that responded to the survey indicated that they did not have a structure of any kind in place.

## Procedures and guidelines

5.6      Procedures and guidelines that assist staff to deal with fraud are an important element of an effective framework for fraud control. These should be available to all staff, particularly staff with direct responsibilities for managing fraud. Staff awareness of fraud matters can also be raised through such procedures and guidelines.

**5.7** The ANAO asked agencies whether they had developed specific guidelines or procedures that encompassed all fraud matters. Responses indicated that more than 70 per cent of agencies had developed procedures that covered all fraud related matters. Of the agencies that reported having been exposed to fraud in the last two years, more than 85 percent<sup>32</sup> had established such procedures (compared to only 50 per cent of agencies that reported no fraud in the last two years).

**5.8** As well as having a specific set of procedures, agencies could also provide directions for staff in CEIs or other material, such as the fraud control plan or a code of conduct, which are widely available to all staff. For example, a number of agencies outlined procedures for staff to report alleged cases of fraud in their fraud control plan and others identified what constitutes fraudulent behaviour and how to deal with such matters in their codes of conduct.

### **Case study 5**

#### **Matters addressed in procedures and guidelines**

The following is an example of the matters covered by a typical set of guidelines and procedures for managing allegations of fraud:

- legislation and powers relating to fraud investigations, including legislation under which fraud can be prosecuted, such as the *Crimes Act 1914*, but also the legislation under which investigations can and should be conducted. This can include agency-specific legislation;
- interagency relationships, including relationships with other Commonwealth agencies, the AFP and the DPP, outlining the way these relationships should be handled and the existence of any memoranda of understanding;
- initial assessment of fraud allegations and subsequent action, including reporting and recording any action taken (a list of factors that should be taken into account when considering allegations was given);
- investigation management methodologies and support. This covers ethical behaviour, activity recording, file and case management, the use of technical equipment, and case prioritisation;
- operational practices. This covers issues such as the use of compulsory powers such as search and seizure warrants, methodologies for the seizure and control of documents and other evidence, informants and contacts, obtaining surveillance, contacting and interviewing witnesses,

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<sup>32</sup> These 85 per cent of agencies accounted for all but \$200 000 of the fraud reported in the last two years.

- conducting cautioned interviews with suspects, and the use of technical equipment;
- investigation reports or briefs of evidence, including procedures for the completion of investigations, referrals to the AFP and DPP, and internal reporting;
- investigation results and review, covering matters such as the recording of investigation results, the disposal of exhibits, internal review of investigations and external quality assurance; and
- recovery actions. This includes information on making a decision to recover, reparation orders, prosecution costs, criminal assets, the role of the investigator and of the DPP, other civil recovery and superannuation benefits.

### Mechanisms for reporting fraud

5.9 Another important part of the overall framework for fraud control are the mechanisms to facilitate reporting of fraud by both staff and, where relevant, the community. These mechanisms need to be visible and accessible so that people will use them. As well, people wishing to report fraud have to be sure that information provided will be treated in strict confidence, otherwise they are less likely to report suspected fraud.

5.10 The ANAO sought to establish whether agencies had reporting mechanisms in place which encourage reports from staff and the community. Responses are presented in Table 12.

**Table 12**  
**Mechanisms for reporting fraud<sup>1</sup>**

	Agencies with reported fraud (Number)		Agencies with no reported fraud (Number)		Total all agencies (Number)	
	Yes	No	Yes	No	Yes	No
<b>Formal fraud reporting system</b>	45	4	31	34	76	38
<b>Community reporting system</b>	20	29	3	62	23	91

<sup>1</sup> 114 agencies responded to each of these questions.

**5.11** Overall, 65 per cent of agencies reported that they had a formal fraud reporting system in place. These systems usually involved a central reporting point and stressed that information would be treated confidentially. Many agencies also provided alternative avenues for reporting, for example, directly to the CEO. Agencies that have been exposed to fraud are more likely to have systems in place to encourage reports on suspected fraud (over 90 per cent) than agencies which have not.

**5.12** Answers to the survey question indicated that systems to encourage reports from the community were not widespread (only 20 per cent of agencies). Further analysis of the results indicated that those agencies that had significant dealings with the community and very high levels of fraud had established such systems.

**5.13** However, many agencies with medium-level fraud did not have suitable mechanisms in place. This was a matter of particular concern for those agencies that reported that much of the fraud committed against them was committed by parties external to the agency.

## Fraud investigations

**5.14** The investigation process is a critical component in effective fraud control. When fraud is discovered, an agency must be able to act quickly and effectively to investigate and deal with an offender.<sup>33</sup>

**5.15** The Commonwealth Policy states that agencies should investigate routine or minor allegations of fraud against their programs. For serious or complex and larger scale matters, the Policy assigns responsibility for investigation to the AFP. The Policy provides criteria for matters that are referred to the AFP and encourages effective liaison between agencies, the AFP and DPP for the investigation and prosecution of fraud against the Commonwealth.

**5.16** The effectiveness of fraud investigations is dependent upon ensuring that administrative procedures have been established to guide operational practices including, the exercise of powers and authority, evidence handling and maintaining confidentiality.

**5.17** Attachments returned with the completed ANAO questionnaire indicated that many agencies that had accepted responsibility for the investigation of routine matters had standardised procedures in place to ensure, as much as possible, compliance with the Fraud Control Policy of the Commonwealth, other relevant legislation and directions including the *Prosecution Policy of the Commonwealth*.

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<sup>33</sup> Fraud Control Policy p. 9.

**5.18** Responses to the survey indicated that agencies with significant fraud caseloads over the last two years mostly conducted investigations in-house, although there were some exceptions to this general rule. Overall, 41 per cent of agencies did not outsource their fraud investigation function compared with 21 per cent that wholly outsourced this function.

**5.19** For agencies where there is a low incidence or risk of fraud, it may be uneconomic to maintain an investigation unit that is responsible for conducting fraud investigations. Rather, it may be more appropriate to outsource fraud investigations and have a coordinating officer who is designated to handle fraud cases and manage the outsourcing.

**5.20** To gauge the level of fraud investigations conducted by Commonwealth agencies, the ANAO asked for information on the number of cases referred to the AFP and the DPP as well as the number of cases prosecuted. This information is summarised in Table 13.

**Table 13**  
**Fraud Investigations and Prosecutions<sup>1</sup>**

	<i>Financial Year</i>	
	<i>1997–98</i>	<i>1998–99</i>
<i>Number of fraud cases referred to the AFP or other law enforcement agency</i>	390	312
<i>Number of fraud cases referred to the DPP</i>	4 473	4 276
<i>Number of fraud cases prosecuted</i>	3 176	3 634
<i>Number of fraud cases prosecuted and proven</i>	3 076	3 516

<sup>1</sup> A total of 111 agencies responded to this question. Of these, four agencies only provided information for the financial year 1998–99.

**5.21** Table 13 shows that there was an increase in the proportion of cases referred to the DPP that were prosecuted (71 per cent in 1997–98 compared to 85 per cent in 1998–99). The number of cases that were prosecuted and proven remained constant at approximately 97 per cent over the two financial years.

**5.22** The ANAO also sought to determine the types of penalties imposed as a result of fraud investigations. The results are provided in Table 14.

**Table 14**  
**Penalties imposed<sup>1</sup>**

	<i>Internal Fraud</i>		<i>External Fraud</i>	
	<i>1997–98</i>	<i>1998–99</i>	<i>1997–98</i>	<i>1998–99</i>
<i>Administrative penalties</i>	172	143	4 323	1 469
<i>Criminal Penalties</i>	50	28	4 960	5 542

<sup>1</sup> A total of 111 agencies responded to this question. Of these, two agencies only provided data for the financial year 1998–99, while another agency was only able to provide information on the value of internal fraud cases.

**5.23** Care should be taken in interpreting the results contained in Table 14 as some agencies were unable to provide figures for each financial year. This explains the significant variation in administrative penalties that were applied for external fraud between 1997–98 and 1998–99.

**5.24** In relation to internal cases, where administrative penalties were more appropriate, reprimand of staff and termination of employment were the penalties most frequently applied. For external cases, recovery of debt and the imposition of penalties in accordance with specific legislation were the major forms of administrative penalties imposed.

**5.25** In relation to criminal penalties, agencies identified various forms of punishment including imprisonment, community service, reparation orders and the imposition of fines.

## **Management Information Systems**

**5.26** To support effective fraud control operations, agencies should have appropriate information to assess and monitor performance. Management Information Systems (MIS) can be used for the purpose of recording information and monitoring all aspects of fraud control. Of the 114 agencies that responded to this question, only 19 agencies indicated that they had MIS. These 19 agencies were the ones that, in later questions, reported higher levels of fraud.

**5.27** The ANAO requested a sample of reports from agencies with MIS in place. From these, the ANAO found that systems ranged in complexity from simple spreadsheets and tables to databases maintained specifically to record allegations and cases of fraud, while some agencies recorded fraud on corporate databases used for a variety of management information. MIS were used to record and report both internal and external fraud.

**5.28** Common elements found in a sample of reports included:

- the type of incident;
- its physical or program location;
- the method by which the incident was referred or detected;
- the status of the investigation;
- the duration of the investigation, or the date that the investigation started (and finished, when appropriate); and
- referrals to the AFP, the DPP or other relevant agencies.

**5.29** Information systems are important, as they can assist agencies to identify and address any systemic issues arising in relation to fraud. For agencies with a low incidence of fraud, a simple manual-based system may be sufficient.

**5.30** Responses indicated that agencies with MIS in place reported this information to agency executives and committees on a regular basis.

## Quality assurance

**5.31** The Fraud Control Policy of the Commonwealth states that quality assurance reviews of agency fraud investigations are the responsibility of the AFP. Ten agencies reported that they had participated in AFP quality assurance reviews. Each of these agencies had large caseloads and accounted for a significant proportion of the fraud investigated by the Commonwealth.

**5.32** A system of internal quality assurance that complements AFP reviews is also necessary. Such a system would assist in identifying any operational deficiencies through monitoring compliance with procedures and rules. Nearly half the agencies with reported fraud responded that they have processes in place to conduct their own internal quality assurance reviews. All of these agencies had significant fraud caseloads. Agencies reported that 295 such reviews have been conducted since 1 January 1998. Findings from these quality assurance reviews should be used to improve performance by highlighting problems with policies, planning, procedures and systems in a formal way.

## Conclusion

**5.33** The majority of responding agencies had established appropriate management structures for fraud control with the most common structure centered on the Audit Committee. As well, the majority of agencies had developed procedures and guidelines, either separately or as part of documents such as CEIs, setting out action to be taken in relation to fraud matters.

**5.34** About two-thirds of all agencies had a system for staff to report fraud, but only 20 per cent of agencies had systems to encourage the community to report suspected fraud. While agencies with the highest levels of reported external fraud were more likely to have established such systems, those with medium levels of reported fraud, mostly committed by external parties, did not have such mechanisms in place. The agencies in this latter category should establish suitable mechanisms to encourage reports from the community as soon as possible.

5.35 Another important contribution to fraud prevention is to have a suitable management information system to assist in identifying systemic issues or control weaknesses and to manage cases of fraud expeditiously once they have occurred. Only 17 per cent of agencies reported having such a system in place. These were agencies that had experienced high levels of fraud. Agencies need to have sound information to assist with fraud control and should establish cost-effective systems tailored to meet their information needs for fraud control as soon as possible.

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Canberra ACT  
20 June 2000

P. J. Barrett  
Auditor-General



# **Appendices**



## **Appendix 1**

### **Reference Group Members**

Mr Stephen Horne, Director Performance Audit, The Audit Office of New South Wales.

Mr Alan Snashall, Senior Director, Office of Law Enforcement Coordination, Attorney-General's Department

Associate Professor Anona Armstrong, Department of Management, Faculty of Business, City Campus, Victoria University

Mr Peter Jollie, Chairman, Fraud Advisory Council of the Institute of Chartered Accountants.

## Appendix 2

### Survey Questionnaire



# AUSTRALIAN NATIONAL AUDIT OFFICE

## SURVEY ON FRAUD CONTROL ARRANGEMENTS WITHIN AUSTRALIAN PUBLIC SERVICE AGENCIES

**26 NOVEMBER 1999**

## INTRODUCTION

This survey on Fraud Control Arrangements within Australian Public Service (APS) Agencies is being undertaken by the Australian National Audit Office (ANAO) as part of a performance audit being conducted under Part 5, Division 1 of the *Auditor-General Act 1997*. **A response to this survey is required under Sub-Section 32 (1) and (2) of the *Auditor-General Act 1997*.**

The survey has been forwarded to approximately 200 Commonwealth agencies that are covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

The ANAO is aware that the Attorney-General's office requests similar information in its annual survey on fraud. This questionnaire deals with similar issues but seeks detailed information from a wider range of agencies and will allow a more complete understanding of fraud control arrangements in the APS.

The overall objective of the survey is to assess key aspects of fraud control arrangements in place across the Australian Public Service (APS) against the Commonwealth Law Enforcement Board (CLEB) guidelines<sup>34</sup>, in order to provide assurance to Parliament on the preparedness of agencies to effectively prevent and deal with fraud.

More specifically, the survey has been designed to:

- identify and benchmark where practicable current practices in the management of fraud;
- document the lessons learned and better practice from different agencies; and
- assess compliance against CLEB guidelines.

The ANAO engaged the Australian Bureau of Statistics to assist with the survey design, implementation and statistical analysis.

If the space provided for any of the questions is insufficient, please give your answers on a separate sheet of paper attached to the back of this survey with the number of the question clearly indicated. Please also ensure that any additional documentation requested within the survey accompanies the completed questionnaire.

The survey results will be used to complement the result of specific performance audits in selected agencies. Agencies involved in the current detailed fraud audits have been advised.

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<sup>34</sup> The Fraud Control Policy of the Commonwealth, Consultation Draft No. 1 (21 June 1999)

As part of our quality control measures, the ANAO will validate a sample of responses to this survey.

Individual agencies will not be identified in the report of the survey which will be tabled in Parliament in mid 2000.

## INSTRUCTIONS

1. Please complete all of the questions in the questionnaire.
2. If you have any difficulties in answering any question, please call the contact officers listed below.
3. The completed questionnaire should be authorised. Each completed questionnaire should be signed by the officer responsible for fraud control as an authorised response from the agency.

Please return the completed questionnaire and accompanying documents by no later than **15 January 2000**.

Completed returns should be addressed to:

Ann Thurley  
Senior Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Electronic documents can be sent to email address:

[ann.thurley@anao.gov.au](mailto:ann.thurley@anao.gov.au)

## SUPPORT / HELP

If you have any questions about this questionnaire please contact:

- Ann Thurley, Senior Director, Performance Audit Services Group on (02) 6203 7635; or
- George Sotiropoulos, Director, Performance Audit Services Group on (02) 6203 7598.

## Commonwealth Fraud Policy

1. Are you aware of the Commonwealth Law Enforcement Board publication "Fraud Control Policy of the Commonwealth" (blue book)?
  - ☐ Yes
  - ☐ No
2. Are you aware of the recently issued Consultation Draft No.1 document on The Fraud Control Policy of the Commonwealth?
  - ☐ Yes
  - ☐ No
3. Does your agency have a written fraud control policy in place?
  - ☐ Yes (*Please send a copy to the ANAO*)
  - ☐ No

## Awareness of Fraud Control

4. What measures does your agency undertake to raise staff awareness of fraud control?
  - ☐ Induction training
  - ☐ Circulation of fraud control policy
  - ☐ Circulation of fraud control plan
  - ☐ Inclusion of information on fraud for induction of new staff
  - ☐ Fraud control circulars
  - ☐ Email messages about fraud control
  - ☐ Intranet / public database postings on fraud control
  - ☐ Seminars on fraud control
  - ☐ Memos on fraud control
  - ☐ Other (please specify) .....
  - ☐ None of the above
5. Please indicate whether your agency supplies the following to staff, including contract staff, with respect to fraud: (*Please send samples of the types of kits or documentation to the ANAO*)
  - ☐ General fraud awareness training
  - ☐ Code of conduct or ethics training
  - ☐ Specific fraud-related training in high risk areas
  - ☐ Training on fraud prevention

6. Does your agency have formal policies and procedures for ensuring that consultants, suppliers and other third parties are aware of, and comply with, its fraud control policy.
- ☐ Yes (*If yes, please send details to the ANAO – for example, extracts from tender documents which contain warnings on your agency's policy of fraud control*)
- ☐ No

### **Code of Conduct/Ethics**

7. Does your agency have an agency-specific code of conduct or code of ethics?
- ☐ Yes (*If yes, please send a copy to the ANAO*)
- ☐ No
8. Has your agency developed specific guidelines or procedures that would cover all fraud matters? For example guidelines or procedures which cover matters such as reporting suspected fraud and accepting gifts or gratuities.
- ☐ Yes (*If yes, please send a copy to the ANAO*)
- ☐ No

### **Management of Fraud Control**

9. Does your agency have any specific individual(s) or agency structure(s) responsible for fraud control?
- ☐ Yes
- ☐ No (Go to Q11)
10. What are they?
- ☐ Audit committee
- ☐ Fraud committee
- ☐ Ethics committee
- ☐ Corporate Governance committee
- ☐ Specialist staff (eg Fraud Prevention Unit, Fraud Investigation Unit,)
- ☐ Specialist contract staff/resources
- ☐ Other (please specify)



11. Has your agency undertaken steps to integrate its fraud control and security responsibilities? For example, are there linkages in the fraud control plan or in fraud management arrangements to security arrangements?

☐ Yes. If yes, please provide details .....

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.....

☐ No

### **Fraud Risk Assessment**

12. Has your agency undertaken a fraud risk assessment for any of the programs it administers in the last two years?

☐ Yes (*If yes, please send a copy of the risk assessment methodology used and a list of all programs that have been subject to a risk assessment in the last two years to the ANAO*)

☐ No. If no, when was the last fraud risk assessment undertaken?

.....

13. Has your agency developed action plans (ie. a plan to address identified risks) for those programs within the agency deemed to be of medium to high risk of fraud?

☐ Yes (*If yes, please send a list of all programs that have current action plans to the ANAO*)

☐ No

### **Fraud Control Plan**

14. Does your agency have a fraud control plan?

☐ Yes (*If yes, please send a copy to the ANAO*)

☐ No

### **Fraud Monitoring and Reporting**

15. Does your agency have a formal fraud reporting system in place?

☐ Yes

☐ No

16. Have procedures to report fraud been developed and distributed to all employees?

☐ Yes (*If yes, please send a copy of the procedures to the ANAO*)

☐ No

17. Have any mechanisms been developed to facilitate and encourage reports from the community of suspected fraud?

☐ Yes. If yes, please provide details of the types of mechanisms in place.

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☐ No

18. Does your agency have a Management Information System for the purpose of recording and monitoring all aspects of fraud control, such as the number of allegations, investigations, referrals, prosecutions etc.?

☐ Yes (*If yes, please send samples of the types of reports produced by this system to the ANAO*)

☐ No (Go to Q20)

19. How often is information from this system reported :

(a) to agency executives;

(b) to relevant committees; and/or

(c) through general reporting

Frequency (a) \_\_\_\_\_ (b) \_\_\_\_\_ (c) \_\_\_\_\_

### **Fraud Investigations**

20. Does your agency undertake fraud investigations itself?

☐ Yes

☐ No (Go to Q23)

21. How many staff in your agency are responsible for conducting fraud investigations?

Number \_\_\_\_\_

22. How many staff, responsible for undertaking fraud investigations, have been trained and are deemed competent in Certificate IV Fraud (Investigations)?

Number \_\_\_\_\_

23. For your agency, please supply the following information for the financial years 1997–98 and 1998–99. The ANAO understands that administrative changes may have occurred over this period that could have an impact on the comparability of information provided for the two financial years.

	1997–98	1998–99
Number of fraud cases referred to AFP or other law enforcement agencies		
Number of fraud cases referred to DPP		
Number of fraud cases prosecuted		
Number of fraud cases prosecuted and proven		

**Note:** If this information is available in another format, (for example, your agency's annual report data or reports to CLEB) please send a copy for both the 1997–98 and 1998–99 financial years to the ANAO.

### Quality Assurance

24. Does your agency have a Quality Assurance system in place?
- ☐ Yes
- ☐ No
25. Since 1 January 1998, has your agency conducted any of its own Quality Assurance Reviews of fraud investigations?
- ☐ Yes. If yes, how many were active in that period, including those that were started but not completed before 1 January 1998?
- Number \_\_\_\_\_
- ☐ No
26. Since 1 January 1998 has your agency participated in any Quality Assurance Reviews of fraud investigations conducted by the Australian Federal Police?
- ☐ Yes. If yes, how many were active in that period, including those that were started but not completed before 1 January 1998?
- Number \_\_\_\_\_
- ☐ No

**Outsourcing of Fraud Control Functions**

27. To what extent does your agency outsource any aspects of the following fraud control functions? *(Please tick appropriate boxes)*

Function	All	Part	None
Fraud awareness training			
Training on fraud prevention			
Specific fraud-related training in high risk areas			
Training on fraud investigation			
Fraud Risk Assessment			
Development of Fraud Control Plan			
Fraud Investigations			
Other <i>(please specify)</i>			

Comments

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28. Does your agency intend to increase or decrease the level of outsourcing of its fraud control functions over the next two years?

☐ Increase. If increase, which functions?

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☐ Decrease. If decrease, which functions?

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.....

☐ No change

**Information on Fraud Matters**

29. Please state your agency’s overall definition of fraud.

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30. Please state how your agency defines an allegation of fraud.

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31. Please state how your agency determines when an allegation of fraud becomes an actual case of fraud, including what checks are in place to ensure that allegations are appropriately actioned.

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32. Please state how your agency determines that a matter is an administrative irregularity, as opposed to fraud, and what procedures (including discretionary authority to write off debts) exist for the management and resolution of such matters.

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#### **Nature and Extent of Fraud**

33. Does your agency consider that fraud will increase, decrease or remain unchanged over the next two years?

☐ Increase      ☐ Decrease      ☐ Unchanged

34. What are the main reasons for your response at Question 33?

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35. Please complete the tables provided below for the financial years 1997–98 and 1998–99. The ANAO understands that administrative changes may have occurred over this period that could have an impact on the comparability of information provided for the two financial years.

<i>Fraudulent activities</i>	<i>No. of fraud allegations</i>		<i>No. of fraud cases</i>		<i>Value of fraud cases</i>	
<b>Internal</b>	<b>1997–98</b>	<b>1998–99</b>	<b>1997–98</b>	<b>1998–99</b>	<b>1997–98</b>	<b>1998–99</b>
Inappropriate use of Commonwealth credit cards						
Inappropriate use of Commonwealth petty cash and other negotiable instruments: Cheques: Cabcharge: Purchase orders:						
Manipulation of inventory control						
Improper use of Commonwealth property						
Inappropriate use of Commonwealth travel funds						
Other (please specify)						
<b>Total A</b>						
Please provide a break-up of the above information into the following categories						
Management (SOGC equivalent and above)						
Employee (non management)						
Other (ie. staff on contract)						
<b>Total B</b>						

<i>Fraudulent activities</i>	<i>No. of fraud allegations</i>		<i>No. of fraud cases</i>		<i>Value of fraud cases</i>	
External	1997–98	1998–99	1997–98	1998–99	1997–98	1998–99
Inappropriate claims for benefits/payments by the community						
Inappropriate payments to consultants, suppliers or other third parties (eg. False invoices)						
Inappropriate use of funds by consultants, suppliers or other third parties						
Other (please specify)						

36. Please indicate the number of cases of fraud that resulted in the following disciplinary actions being taken for the 1997–98 and 1998–99 financial years:

<b>ADMINISTRATIVE PENALTIES</b>	<i>INTERNAL FRAUD</i>		<i>EXTERNAL FRAUD</i>	
	1997–98	1998–99	1997–98	1998–99
<b>Suspension</b>				
<b>Demotion</b>				
<b>Termination of employment</b>				
<b>Recovery of debt</b>				
<b>Interest on debt</b>				
<b>Reprimand</b>				
<b>Other (please specify)</b>				
<b>CRIMINAL PENALTIES</b>				
<b>Imprisonment</b>				
<b>Community Service</b>				
<b>Fine</b>				
<b>Bond</b>				
<b>Suspended sentence</b>				
<b>Offence proven but no conviction recorded</b>				
<b>Reparation order</b>				
<b>Other (please specify)</b>				

**Note:** If the information requested in questions 35 and 36 is available in another format, (for example, your agency's annual report data or reports to CLEB) please send a copy for both the 1997–98 and 1998–99 financial years to the ANAO.

## CHECKLIST

Please check that you have included the following documents, where applicable, along with your completed questionnaire.

- ☐ Fraud Control Policy (Q3)
- ☐ Fraud Awareness Program material for agency (Q5 & 6)
- ☐ Agency Code of Conduct or Code of Ethics (Q7)
- ☐ Guidelines or Procedures to cover all fraud matters (Q8)
- ☐ Fraud Risk Assessment Methodologies (Q12)
- ☐ List of programs that have undergone risk assessments (Q12)
- ☐ List of programs that have current action plans to counter fraud (Q13)
- ☐ Fraud Control Plan (Q14)
- ☐ Procedures to report fraud (Q16)
- ☐ Sample reports from Fraud Management Information System (Q18)
- ☐ Information on fraud matters (Q23, 35 & 36)
- ☐ Breakdowns by type of fraud (Q35)
- ☐ Attachments for questions not answered in spaces provided
- ☐ Completed questionnaire.

### **Please Note:**

Alternatively, where your agency has any of the above information in previously published documentation (for example, Fraud Control Plan, Annual Report Data, information provided to CLEB etc), please send the ANAO a copy of that document, clearly identifying where specific information is located.

**THE SURVEY SHOULD BE RETURNED BY NO LATER THAN  
15 JANUARY 2000**



## CERTIFICATION

Each completed questionnaire should be signed by the officer responsible for fraud control as an authorised response from the agency. A contact officer should also be nominated.

Name of Agency: .....

Category of Agency

- ☐ covered by *Financial Management and Accountability Act 1997*
- ☐ covered by the *Commonwealth Authorities and Companies Act 1997*
- ☐ identified as a Government Business Enterprise under the *Commonwealth Authorities and Companies Act 1997*

Authorising Officer's signature: .....

Print Name: .....

Position Title: .....

Date: .....

Phone Number: .....

Contact Officer's Name: .....

Phone number: .....

Email address: .....

**PLEASE RETAIN:**

- **A COPY OF THE COMPLETED SURVEY FOR YOUR RECORDS;  
and**
- **DOCUMENTS AND CALCULATIONS THAT SUPPORT  
ANSWERS TO THIS SURVEY**

## Appendix 3

### Agencies that responded to the survey

A total of 114 agencies responded to the survey. A breakdown of agencies is presented in the following tables.

	<i><b>CAC</b></i>	<i><b>FMA</b></i>	<i><b>GBE</b></i>
<i><b>Number of agencies</b></i>	61	48	5

	<i><b>Agencies that reported fraud in last 2 years</b></i>	<i><b>Agencies with no reported reported fraud in last 2 years</b></i>
<i><b>FMA bodies</b></i>	22	28
<i><b>CAC bodies</b></i>	23	36
<i><b>GBEs</b></i>	4	1
<i><b>Total number of agencies</b></i>	<b>49</b>	<b>65</b>

## Appendix 4

### Key elements of the Consultation Draft

The *Fraud Control Policy of the Commonwealth Consultation Draft No 1* has been recently revised following a first round of consultations with agencies. The Policy has been updated in several key ways. Under the revised Policy:

- it is more clearly identified that agencies are responsible for all non-police investigations of crimes against Commonwealth laws;
- agencies are encouraged to take an holistic approach to managing the risks they face, including managing the risk of fraud alongside other risks;
- emphasis is given to the importance of staff, including contractors, achieving fraud prevention, detection and investigation competence. As well, not all staff will be required to complete a Certificate IV investigation course; and
- the option of outsourcing prevention and investigation activities is acknowledged and specific guidance in this area is provided.

## Appendix 5

### Previous ANAO performance audits on agency fraud control arrangements

Audit Report No.11, 1992–93

*Procedures for Dealing with Fraud on the Commonwealth*

Department of Administrative Services

Audit Report No.40, 1991–92

*Systems for the Detection of Overpayments and the Investigation of Fraud*

Department of Social Security

Audit Report No.15, 1991–92

*Procedures for Dealing with Fraud on the Commonwealth*

Department of Defence

Audit Report No.25, 1990–91

*Efficiency and Effectiveness of Fraud Investigations*

Australian Federal Police

## Appendix 6

### Criteria against which the ANAO reviewed risk assessments

These criteria are drawn from the guide, *Best practice for fraud control*. The risk assessment methodology should:

- be capable of being applied across all programs;
- be capable of supporting a rating of the risks of fraud;
- be capable of being replicated;
- be conducted using the 'green fields' approach. This means that risks should be considered as though there are no controls in place. The effectiveness of control measures currently in place should then be assessed, and the residual risk (that is, the difference between the inherent risk and the effectiveness of controls) should be calculated<sup>35</sup>.
- use defined criteria for assessing and rating risks;
- use weighted criteria;
- use a quantitative risk rating; and
- slice across programs, comparing like functions, in particular, travel allowance and other common functions, the use of Australian Government Credit Cards, purchasing, computer security, salaries, and property and other physical assets.

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<sup>35</sup> The consultation draft currently circulating will allow agencies to use either this method or the risk management approach outlined in AS/NZS 4360:1999 to conduct risk assessments.

## Appendix 7

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