

The Auditor-General
Audit Report No.6 2000–2001
Performance Audit

Fraud Control Arrangements in the Department of Health and Aged Care

Department of Health and Aged Care

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Canberra ACT
23 August 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Health and Aged Care 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 *Fraud Control Arrangements in the Department of Health and Aged Care*.

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

A&FCB	Audit and Fraud Control Branch
AFP	Australian Federal Police
ANAO	Australian National Audit Office
APS	Australian Public Service
ASO	Australian Service Officer
CEO	Chief Executive Officer
CEI	Chief Executive Instruction
CITSC	Commonwealth Investigation Technical Standards Committee
CLEB	Commonwealth Law Enforcement Board
CTGAU	Contracts, Tendering and Grants Advisory Unit
DHAC	Department of Health and Aged Care
DPP	Director of Public Prosecutions
FPI Section	Fraud Prevention and Investigation Section
FMA Act	<i>Financial Management and Accountability Act 1997</i>
HIC	Health Insurance Commission
IT	Information Technology
MOU	Memorandum of Understanding
OATSIH	Office of Aboriginal and Torres Strait Islander Health
PS Act	<i>Public Service Act 1999</i>
PSMPC	Public Service and Merit Protection Commission
PSU	Procurement Support Unit
RSC	Resident Classification Scale
SES	Senior Executive Service
TGA	Therapeutic Goods Administration

Summary and Recommendations

Audit Summary

Introduction

1. The Commonwealth Government 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).¹ An expected outcome of this Policy was that agencies would develop fraud control mechanisms aimed at the prevention, detection and investigation 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.*²

2. 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 reporting to their Portfolio Minister on fraud control within their agencies.

3. A review of the Policy led to the release of a Consultation Draft in 1999³ by the Attorney-General's department. The new *Consultation Draft* is a more principles-based policy that is designed to:

- encourage agencies to manage fraud risks alongside other risks they face;
- assist agencies to better deal with both the existing and new risks of fraud facing the public sector; and
- provide agencies with greater flexibility to choose and develop the fraud control arrangements best suited to them.

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

² Taken from the Interim Ministerial Direction on Fraud Control issued in 1994, which is included in the Commonwealth Law Enforcement Board (CLEB) Guide, *Best Practice for Fraud Control*, Canberra, 1994.

³ The Fraud Control Policy of the Commonwealth, Consultation Draft No.1 (21 June 1999). Following the receipt of comments from Commonwealth agencies, another Consultation Draft is expected to be released shortly.

4. The changing role of the public sector in the delivery of services, including the growing use of outsourcing and electronic service delivery, is introducing different risks for agencies in the management and protection of Commonwealth funds and resources. With the emphasis on public sector performance and accountability, an effective framework to protect public property, revenue, expenditure, rights and privileges from losses arising as a result of fraudulent activity is essential if agencies are to meet their responsibilities as stewards of the public purse. As previous audit reports on the subject have indicated, there should be a strong focus on prevention involving ongoing vigilance at all levels of an organisation.

5. This audit of fraud control arrangements in the Department of Health and Aged Care (DHAC) forms part of a series of performance audits on the management of fraud control in Commonwealth agencies. Fraud audits were completed in the then Department of Employment, Education, Training and Youth Affairs in 1999 and the Department of Industry, Science and Resources in 2000⁴. Audits are currently underway in the Departments of Family and Community Services and Defence, Centrelink and the Australian Taxation Office. At the completion of the detailed audits, the ANAO plans to prepare a guide setting out practical examples to assist agencies to achieve better practice in fraud control.

6. To complement these audits the ANAO conducted a survey of Australian Public Sector (APS) agencies to assess fraud control arrangements that had been established by such agencies. The survey provided an overall view of arrangements across the APS to manage fraud.⁵

Audit objective, scope and criteria

7. The objective of the audit was to assess the framework and systems that DHAC has in place to prevent, control, monitor, detect and investigate fraud. The audit criteria were developed from the Commonwealth Law Enforcement Board (CLEB) guidelines, criteria applied in earlier fraud control audits, the Australian/New Zealand Standards (AS/NZS) 4360:1999 standard on risk management and general better practice that has been identified.

⁴ Auditor General's Reports No.4, 1999–2000 and No.5, 2000–01 respectively.

⁵ Audit Report No.47, 1999–2000, *Survey of Fraud Control Arrangements in APS Agencies*, ANAO, Canberra, 20 June 2000.

8. The audit assessed the effectiveness of different aspects of DHAC's fraud control framework, which should include an agency-specific fraud control policy, fraud risk assessments, a Fraud Control Plan and satisfactory operational procedures and guidelines. Arrangements for assessing the performance of fraud control activities, including monitoring and reporting fraud, were also examined along with training and awareness raising. The latter are particularly important as a complement to the increasingly electronic based systems aimed at both preventing and detecting fraud.

Audit methodology

9. The audit fieldwork was undertaken between December 1999 and May 2000. Interviews with key staff and reviews of documents and files were undertaken at National Office in Canberra. Compliance issues were also addressed at National Office in relation to work undertaken by the Fraud Prevention and Investigation (FPI) Section against guidelines established for the conduct of fraud investigations.

10. In addition to this examination, the Australian National Audit Office (ANAO) visited two DHAC State Offices, in Queensland (Qld) and New South Wales (NSW). The main purpose of the visits was to determine the level of compliance with policies and procedures aimed at preventing fraud within State Offices and to test the robustness of reporting lines to ensure that governance arrangements for fraud control were operating effectively in practice throughout the department.

Overall audit conclusion

11. The ANAO concluded that DHAC had taken appropriate steps to protect Commonwealth resources under its administration from fraudulent misappropriation by developing a sound fraud control framework, the effectiveness of which is illustrated by the relatively low incidence of reported fraud in the department over the last few years. The framework also includes key elements for preventing and dealing with fraud in line with the Commonwealth's Fraud Control Policy. Nevertheless, this framework could be made more effective in a number of areas if DHAC is to continue to manage fraud adequately in an environment where the risks facing public sector agencies continue to change.

12. As a key fraud prevention measure, DHAC had widely communicated its commitment to fraud prevention and control to staff and provided guidance on public sector values and ethics through a range of awareness-raising and training activities. However, there is scope to

enhance the Department's approach in promoting awareness and encouraging appropriate commitment by external service providers to relevant public sector values and standards of conduct. To assist in preventing any misuse of Commonwealth funds by these parties, DHAC should build on its ongoing review of contracts to ensure that external service providers are more clearly aware of their contractual obligations and ethical responsibilities in the public sector environment. In addition, the Department should maintain its focus on ensuring that staff have appropriate contract management skills to minimise the possibility of both internal and external fraud. These are important issues for DHAC owing to its increasing use of purchaser/provider arrangements with third parties to deliver Government services.

13. To properly identify and treat fraud risks, DHAC has conducted fraud risk assessments and developed a Fraud Control Plan, based on its fraud risk assessment, every two years. Both the fraud risk assessment methodology used by DHAC and the Fraud Control Plan met the general requirements of the Commonwealth's Fraud Control Policy. However, the ANAO concluded that the Plan would have benefited by inclusion of a more explicit timetable for implementation of fraud control strategies by DHAC program areas. This would have assisted ongoing monitoring and review and enhance accountability for fraud prevention and detection.

14. DHAC had developed and followed sound operational arrangements for the conduct of fraud investigations and referral of cases for prosecution. The Department had also implemented sound practices for the treatment and recovery of losses that fall outside the scope of fraud. This included seeking remedies available under the *Public Service Act 1999* and specific legislative provisions relating to individual programs as well as imposing sanctions contained in grant agreements and contracts. Importantly, the ANAO found that serious offences, including fraud and breaches of contract and legislative provisions, had been dealt with by DHAC through criminal proceedings and not by using administrative or disciplinary measures.

15. While DHAC had developed a range of indicators to measure its performance in dealing with fraud, the ANAO concluded that the performance assessment framework was not sufficiently adequate to properly assess the performance of the fraud control function on an ongoing basis. In particular, performance benchmarks and targets were not being utilised in quarterly performance reports to the Audit Committee. Importantly, a number of performance indicators were not measurable as the terminology used had not been clearly defined.

16. As well, arrangements to monitor progress made by program areas in implementing fraud control strategies contained in Fraud Control Plans and recommendations in investigation reports were not systematic or formalised. This made it difficult for DHAC to ascertain whether fraud control arrangements were working in practice and to take early action to resolve any problems cost effectively.

17. The ANAO considers that the principles underlying better practice and lessons learned, as outlined in this report, will also be relevant to other Australian Public Service agencies and bodies developing and implementing fraud control systems.

Key Findings

Promoting an ethical workplace culture

18. The ANAO found that promoting an ethical workplace culture is a key element in DHAC's fraud control framework. In order to promote Australian Public Service (APS) values and ethics across the department, DHAC had:

- adopted the principles of the Fraud Control Policy of the Commonwealth;
- widely communicated to staff its commitment to fraud prevention and control;
- provided detailed guidance on public sector values and ethical standards to staff during ethics awareness campaigns; and
- undertaken a wide range of fraud awareness and other training activities, including specific training in areas of higher risk. In particular, the Department had taken steps aimed at improving the skills, knowledge and expertise of staff involved in contract management. Given DHAC's operating environment, this focus is appropriate and should be maintained to ensure staff skills continue to remain relevant.

19. However, DHAC's approach to promoting awareness and encouraging appropriate commitment by external service providers to relevant public service values and standards of conduct could be more effective. Given the increasing use of external service providers by the Department, the ANAO considers that DHAC should take steps to ensure that these parties are more clearly aware of their contractual obligations and ethical responsibilities when providing services under contract with the government. This would enable DHAC to more actively manage contractual relationships and the associated risks of fraud arising from the Department's changing operating environment.

Planning for effective fraud control

20. The ANAO found that DHAC's fraud risk assessment process was generally sound and met the requirements of the Fraud Control Policy of the Commonwealth. DHAC advised that it was seeking to change its fraud risk assessment methodology by incorporating fraud risk into a broader risk assessment process for the whole department. While some program areas had already adopted this broader approach, the

management framework required to coordinate this process across the Department had yet to be established. This could result in significant fraud risks not being appropriately identified and addressed by program areas and a lack of effective coordination of fraud control activities across the Department.

21. DHAC had developed an appropriate Fraud Control Plan that contained strategies to address the risks identified in their overall risk assessment. However, the ANAO found that the plan could have been improved by the inclusion of a more explicit timetable for implementation of fraud control strategies, thereby providing a suitable framework for the ongoing monitoring of progress made by DHAC program areas in implementing these strategies.

22. The Department had established direct links between the Fraud Control Plan and the Corporate Plan. However, links between the Fraud Control Plan and lower level business/operational plans were not as clear. Consequently, DHAC could not be certain that all program areas accounted for the strategies contained in the Fraud Control Plan when undertaking their business planning processes.

23. This occurred primarily because certain program areas had conducted their own risk assessments involving all business risks, including fraud, and incorporated the results of these assessments in their business/operational plans. As there is the potential for this broader approach to result in the management of fraud control to become fragmented and not consistently applied across the department, it is important that DHAC establish an effective management framework to coordinate its planning processes.

Operational arrangements for fraud control

24. The ANAO found that:

- there was a centralised point for reporting and recording allegations of fraud. As well, alternative channels were available for staff to report allegations of fraud;
- fraud investigations were conducted in a timely and professional manner and in accordance with the department's Fraud Investigations Manual and the Fraud Control Policy of the Commonwealth;
- investigation officers had completed the Australian Federal Police (AFP) course for APS investigators, meeting the standards as prescribed under current CLEB guidelines;
- procedures and delegations for determining breaches of the code of conduct had been established and complied with; and

- procedures for the referral of matters for prosecution had been developed and were formalised through a Memorandum of Understanding (MOU) with the Director of Public Prosecutions (DPP).

25. However, where allegations were made direct to supervisors or managers, there was evidence of inconsistency in dealing with such allegations, particularly where the matter involved performance by a third party under a contract or grant.

26. DHAC's reporting arrangements could be made more effective for the activities of specialist compliance units by providing greater consistency in internal and external fraud related reports.

27. DHAC pursues fraud and other losses both through criminal prosecution and a range of other avenues, including sanctions available under the *Public Service Act 1999*, as well as through contract law and State and Territory legislative provisions. DHAC had followed established procedures for determining the most appropriate course of action for pursuing fraud and other similar matters resulting in the loss of Commonwealth funds. In particular, serious offences, including fraud and breaches of contract and legislative provisions, had been dealt with by DHAC through criminal proceedings and not by using administrative or disciplinary measures.

Performance information and reporting

28. DHAC had developed a range of indicators to measure its performance in relation to fraud control. However, the current performance assessment framework could be strengthened by including meaningful indicators and relevant benchmarks and targets in quarterly performance reports to the Audit Committee. This, in turn, would allow the performance of the fraud control function to be assessed on an ongoing basis.

29. Arrangements to monitor progress made by program areas in implementing fraud control strategies contained in Fraud Control Plans and recommendations in investigation reports were not systematic or formalised. This made it difficult for DHAC to ascertain whether fraud control arrangements were working in practice and to take early action to resolve any problems cost effectively.

Recommendations

Recommendation No.1
Para. 5.12

To improve DHAC's performance assessment framework for fraud control and enable the performance of the fraud control function to be regularly assessed, the ANAO recommends that DHAC incorporate relevant benchmarks, targets and meaningful indicators, such as those suggested in the ANAO Better Practice Guide for Internal Audit, into quarterly performance reports to the Audit Committee.

DHAC response: Agreed

Recommendation No.2
Para. 5.26

The ANAO recommends that DHAC develop a sound, well documented and generally understood monitoring and reporting framework for fraud control to enable progress by program areas in implementing strategies identified in the Fraud Control Plan to be satisfactorily evaluated.

DHAC response: Agreed

Audit Findings and Conclusions

1. Introduction

Background

1.1 The Commonwealth Government 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).⁶ An expected outcome of this Policy was that agencies would develop fraud control mechanisms aimed at the prevention, detection and investigation 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.*⁷

1.2 Fraud was defined very broadly in the Policy to encompass, among other things, theft and corruption. In its broadest sense, fraud can vary from minor matters to serious issues such as large scale revenue and welfare fraud.

1.3 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 reporting to the Portfolio Minister on fraud control within their agencies.

1.4 A review of the Policy led to the release of a Consultation Draft in 1999⁸ by the Attorney-General's department. The new Consultation Draft is a more principles-based policy that is designed to:

- encourage agencies to manage fraud risks alongside other risks they face;

⁶ Fraud Control Policy of the Commonwealth in *Best Practice for Fraud Control*, Commonwealth Law Enforcement Board (CLEB), AGPS, Canberra, 1994.

⁷ Taken from the Interim Ministerial Direction on Fraud Control issued in 1994, which is included in the Commonwealth Law Enforcement Board (CLEB) Guide, *Best Practice for Fraud Control*, Canberra, 1994.

⁸ The Fraud Control Policy of the Commonwealth, Consultation Draft No.1 (21 June 1999). Following the receipt of comments from Commonwealth agencies, another Consultation Draft is expected to be released shortly.

- assist agencies to better deal with both the existing and new risks of fraud facing the public sector; and
- provide agencies with greater flexibility to choose and develop the fraud control arrangements best suited to them.

1.5 The changing role of the public sector in the delivery of services, including the growing use of outsourcing and electronic service delivery, is introducing different risks for agencies in the management and protection of Commonwealth funds and resources. With the emphasis on public sector performance and accountability, an effective framework to protect public property, revenue, expenditure, rights and privileges from losses arising as a result of fraudulent activity is essential if agencies are to meet their responsibilities as stewards of the public purse. As previous audit reports on the subject have indicated, there should be a strong focus on prevention involving ongoing vigilance at all levels of an organisation.

1.6 This audit of fraud control arrangements in the Department of Health and Aged Care (DHAC) forms part of a series of performance audits on the management of fraud control in Commonwealth payment agencies. Fraud audits were completed in the then Department of Employment, Education, Training and Youth Affairs in 1999 and the Department of Industry, Science and Resources in 2000⁹. Audits are currently underway in the Departments of Family and Community Services and Defence, Centrelink and the Australian Taxation Office. At the completion of the detailed audits, the ANAO plans to prepare a guide setting out practical examples to assist agencies to achieve better practice in fraud control.

1.7 To complement these audits the ANAO conducted a survey of Australian Public Sector (APS) agencies to assess fraud control arrangements that had been established by such agencies. The survey provided an overall view of arrangements across the APS to manage fraud.¹⁰

⁹ Auditor General's Reports No.4, 1999–2000 and No.5, 2000–01 respectively.

¹⁰ Audit Report No.47, *Survey of Fraud Control in APS Agencies*, ANAO, 20 June 2000.

Audit objective, scope and criteria

1.8 The objective of the audit was to assess the framework and systems that DHAC has in place to prevent, control, monitor, detect and investigate fraud.

1.9 The audit criteria were developed from the Commonwealth Law Enforcement Board (CLEB) guidelines, criteria applied in earlier fraud control audits, the Australian Standards/New Zealand Standards (AS/NZS) 4360:1999 standard on risk management and general better practice that has been identified.

1.10 The audit assessed the effectiveness of different aspects of DHAC's fraud control framework, which should include an agency-specific fraud control policy, fraud risk assessments, a Fraud Control Plan and satisfactory operational procedures and guidelines. Arrangements for assessing the performance of fraud control activities, including monitoring and reporting fraud, were also examined along with training and awareness raising. The latter are particularly important as a complement to the increasingly electronic based systems aimed at both preventing and detecting fraud.

Audit methodology

1.11 The audit fieldwork was undertaken between December 1999 and May 2000. Interviews with key staff and reviews of documents and files were undertaken at National Office. Compliance issues were also addressed at National Office in relation to work undertaken by the Fraud Prevention and Investigation (FPI) Section against guidelines established for the conduct of fraud investigations.

1.12 In addition to this examination, the ANAO visited two State Offices, in Queensland (Qld) and New South Wales (NSW). The main purpose of the visits was to determine the level of compliance with policies and procedures aimed at preventing fraud within State Offices and to test the robustness of reporting lines to ensure that governance arrangements for fraud control were operating effectively in practice.

Department of Health and Aged Care

1.13 DHAC has a diverse set of responsibilities, which include promoting good health, ensuring all Australians have access to key health resources and promoting quality aged care services. The Department's vision is to be *'the leader in promoting, developing and funding world class health and aged care services for all Australians'*. The Department aims to achieve this vision through its 10 portfolio outcomes that include¹¹:

- access to Medicare;
- quality health care;
- enhanced quality of life for older Australians; and
- Aboriginal and Torres Strait Islander health.

1.14 The total appropriation for the Department in 1999–2000 was approximately \$23 844 million. The major programs directly administered by DHAC include:

- Aged and Community Care (\$4063 million);
- Office of Aboriginal and Torres Strait Islander Health (OATSIH) (\$182 million); and
- Divisions of General Practice (\$208 million)¹².

1.15 As well, a range of other government programs are administered by the Health Insurance Commission (HIC) on behalf of DHAC, including Medicare, the Pharmaceutical Benefits Scheme (PBS), aspects of the 30 per cent Private Health Insurance rebate and payments to hearing service providers. Payments to HIC total approximately \$11.8 billion and represent nearly 50 per cent of DHAC's funding.

1.16 DHAC also provides a substantial amount of funding in the form of Specific Purpose Payments (SPPs) to the States and Territories. These payments total around \$7 billion of which the largest are Health Care Grants to the States (\$5851 million) and Home and Community Care (\$367 million).

¹¹ For a detailed description of the department's portfolio outcomes refer to the 1999–2000 Portfolio Budget Statements; Health and Aged Care portfolio.

¹² Divisions of General Practice are local networks of General Practitioners (GPs) operating within defined geographical areas. The main purpose of Divisions is to encourage GPs to work with other health professionals in order to improve the quality of health service delivery at the local level.

Departmental arrangements for fraud control

1.17 In accordance with the FMA Act, DHAC has prepared and issued Chief Executive Instructions (CEIs) and supporting Procedural Rules (PRs) that provide the policy for financial management, including fraud control, within the Department. These outline the roles and responsibilities of various parties in relation to fraud control, with primary responsibility being assigned to the Audit Committee and the Audit and Fraud Control Branch (A&FCB).

1.18 The Audit Committee is responsible for advising the CEO on departmental accountability, risk management, audit, fraud, waste, efficiency and effectiveness, and management and performance improvement issues. It also has a role in ensuring that these issues are appropriately linked with corporate planning processes, program and policy development, and the Government's Budget decision making process.

1.19 Operational responsibility for the provision of fraud control services and the monitoring and reporting of fraud control arrangements in DHAC is assigned to the A&FCB. To undertake and coordinate the fraud control function, a specialist Fraud Prevention and Investigation Section (FPI section) has been established within the A&FCB. The responsibilities and functions of the FPI section include:

- undertaking fraud risk assessments in the department;
- developing the department's Fraud Control Plan¹³ and fraud control handbook;
- investigating allegations of fraud consistent with professional standards and requirements;
- reporting fraud matters to the Audit Committee;
- promoting and managing fraud awareness and training in the department; and
- liaising with the Australian Federal Police (AFP), Director of Public Prosecutions (DPP) and CLEB regarding fraud related matters.

¹³ The CEIs require the Audit Committee to approve the Fraud Control Plan.

1.20 In addition, DHAC has established a number of specialist units to provide assistance and support to program areas in relation to various risks identified within the department, including, among other things, the loss and misuse of public funds and resources through fraud and other means. For example:

- the Protective Security Section is responsible for managing physical security within the department, including matters of theft;
- the Systems Security Team is a newly established unit created to manage DHAC's new information technology (IT) outsourcing contract¹⁴;
- the Procurement Support Unit (PSU) assists compliance with Commonwealth and departmental requirements by providing advice and guidance to officers involved in procurement activities¹⁵; and
- the Contracts, Tendering and Grants Advisory Unit (CTGAU) provides advice and guidance to officers involved in these activities to assist compliance and develop better practices for the department. This unit has an important role in assisting programs to better manage the different risks associated with increased outsourcing of service delivery by DHAC.

1.21 The role of these units, particularly the CTGAU and the PSU, is increasingly important given DHAC's move to a more contestable environment where, among other things, the use of external service providers through contractual arrangements is becoming more prevalent. The new and emerging risks associated with this changing operating environment have significant implications for the management of fraud and other losses to the department. For example, in many cases where contractual arrangements exist, it is no longer possible for DHAC to investigate cases involving the misappropriation of Commonwealth funds as fraud against the Commonwealth. Rather, the Department has to seek alternative remedies available under contract law or State and Territory legislative provisions.

¹⁴ From 1 July 2000, the Department's information technology infrastructure has been outsourced.

¹⁵ Purchasing Contact Officers are also available for assistance in each State and Territory office.

1.22 Two specialist compliance units have also been established within the Therapeutic Goods Administration (TGA) and the Aged and Community Care Division to deal with specific risks facing these programs¹⁶. No review of the work conducted by these units was undertaken as it was not directly fraud related and was, therefore, beyond the scope of this audit.

The Report

1.23 Chapter 2 discusses DHAC's fraud control policy and the importance of creating an ethical workplace culture through training and awareness-raising activities and the contribution this has in preventing fraud. Chapter 3 reviews fraud control planning, including risk assessment. As well, it examines supporting business plans for all responsible levels of administration relating to fraud to assess whether they support sound fraud control arrangements. Chapter 4 examines the operational arrangements in place for dealing with fraud against the department, including investigation and prosecution. The performance assessment and monitoring framework in relation to the fraud control function is discussed in Chapter 5 to determine if it adequately promotes accountability to key stakeholders.

1.24 The audit was conducted in accordance with ANAO auditing standards at a cost of \$194 000.

¹⁶ The TGA Surveillance Unit is responsible for conducting its own investigations of breaches of the *Therapeutic Goods Administration Act*. The Residential Care Accountability Section is responsible for managing and targeting the review of Resident Classification Scale (RCS) based claim forms submitted by aged care providers.

2. Promoting an Ethical Workplace Culture

2.1 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....¹⁷.

2.2 Section 44 of the FMA Act also states that CEOs are responsible for promoting efficient, effective and ethical use of Commonwealth resources. This clearly places the onus on CEOs to promote ethical behaviour in their agencies. It also recognises that leading from the top is important in establishing the ethical tone in an organisation.

2.3 In assessing the effectiveness of DHAC's approach to promoting ethical behaviour, the ANAO examined whether DHAC had:

- developed a statement of overall departmental policy on fraud prevention and control;
- established and communicated widely the standards of conduct and/or ethics expected of its officers and external service providers; and
- supported the development of an ethical workforce culture with appropriate awareness raising and training initiatives.

2.4 Each of these matters is discussed under separate headings below.

Fraud control policy

2.5 In creating its fraud control policy, DHAC had adopted the principles of the Fraud Control Policy of the Commonwealth. These are reflected in the departmental CEIs and other corporate documents, including the Fraud Control Plan.

2.6 The CEIs emphasise the role of management in the prevention of fraud and state that senior managers are responsible for ensuring internal controls are sufficiently rigorous to minimise errors and the possibility of fraud.

¹⁷ *Op cit* p.8.

2.7 DHAC has expanded on the CEIs in its Fraud Control Plan by highlighting that:

... all officers of the department must take personal responsibility, and are accountable, for their actions is the first step towards achieving an effective fraud prevention environment.

2.8 The Department's fraud control policy contained in the CEIs and Fraud Control Plan demonstrate DHAC's commitment to fraud prevention and control and has been made available to all officers throughout the agency.

Defining ethical standards of behaviour

2.9 Agencies should undertake activities aimed at increasing staff awareness and understanding of the high standards of conduct expected of the public sector. With the growing use of outsourcing, it is also important that agencies promote ethical behaviour among external service providers. The ANAO examined whether DHAC had:

- established and widely communicated the standards of behaviour expected of its staff; and
- implemented measures to ensure external service providers are aware of, and are committed to meeting where necessary, the high standards of probity expected of the public sector.

2.10 One particular concern facing DHAC, as well as other public sector agencies, is any conflict between public and private interests and action necessary to resolve it sooner rather than later. The ANAO therefore also examined DHAC's approach to managing conflict of interest issues.

Standards of behaviour for DHAC staff

2.11 DHAC's CEIs and Corporate Plan emphasise the importance of staff displaying the highest ethical and behavioural standards in performing their official duties. DHAC has provided access to these documents through the department's intranet to ensure that staff are aware of expected standards of behaviour, their responsibilities regarding fraud control and their role in the protection of Commonwealth resources and information. The department's Fraud Control Plan is also readily accessible by all staff and highlights to staff the importance of acting ethically in performing their official duties.

2.12 Detailed guidance on public sector values and ethics was provided to staff during recent fraud and ethics awareness campaigns which included the distribution of the Public Service and Merit Protection Commission (PSMPC) Guidelines on Official Conduct of Commonwealth Public Servants 1995 and a publication, entitled *'Fork in the Road Café'*¹⁸ that reproduced the APS Code of Conduct and provided guidance to staff on a range of practical issues such as:

- use of Australian Government Credit Cards;
- travel;
- gifts and private benefits; and
- use of Commonwealth vehicles.

2.13 These measures demonstrate DHAC's commitment to enhancing the standards of conduct of its officers. They have ensured that expected standards of conduct have been widely communicated to all staff in the department and have supported the department's goal of developing an ethical workplace culture.

Conduct of external service providers

2.14 An issue of growing importance for all APS agencies is to ensure that services delivered through external service providers are conducted in line with relevant public sector values and ethical standards¹⁹. This is particularly important for DHAC given the high level of its services that have been outsourced and their sensitivity for the Parliament, Government and citizens.

2.15 Currently DHAC includes various clauses in service level agreements and contracts that outline expected standards of behaviour in relation to matters such as protection of confidential information and conflicts of interest. However, given the increasing use of external service providers by the Department, the ANAO considers that DHAC could take further steps to ensure that these parties are more clearly aware of their contractual obligations and ethical responsibilities when providing services under contract with the Government.²⁰ These measures should also ensure that external service providers are aware of the different

¹⁸ This publication was released in conjunction with the conduct of a department wide ethics awareness program of the same title. This program is discussed at paragraph 2.15.

¹⁹ Values such as delivering services fairly, effectively, impartially and courteously to the Australian public and being accountable for their actions are equally important for external service providers.

²⁰ This issue is also discussed in ANAO Report No.47, 1999–2000, *Survey of Fraud Control Arrangements in APS Agencies*, 20 June 2000; and Commonwealth Industry Commission Report No.48, *Competitive Tendering and Contracting by Public Service Agencies*, Melbourne, 1996.

standards of accountability that are required when public money is involved. Examples of this could include:

- providing information regarding relevant APS values and standards of conduct in tender documentation;
- providing the agency fraud control policy to external service providers²¹;
- requiring service providers to execute deeds of confidentiality where they have access to Commonwealth material and information that is of a confidential nature;
- introducing outcomes based agreements/contracts more broadly across the department, which clearly specify the necessary level of service delivery and required quantitative and qualitative service standards and measures; and
- ensuring that agreements/contracts enable an adequate level of monitoring of service delivery to be undertaken.

2.16 The ANAO noted that DHAC aims to address some of the issues identified above through the ongoing review of its contracts and agreements as they expire and are renegotiated. DHAC should ensure that better practices, in relation to promoting awareness and encouraging appropriate commitment by external service providers to relevant public service values and standards of conduct, are adopted and applied consistently across all program areas. This would enable DHAC to more actively manage contractual relationships and the associated risks of fraud arising from their changing operating environment.

Conflicts of interest

2.17 The growing interaction between the public and private sectors in the development of policy and the delivery of government services is resulting in, among other things, greater potential for government agencies to be exposed to individuals or organisations taking unfair advantage of access to information in order to obtain benefits or gains at a cost to the Commonwealth, including damage to the reputation of the agency and the Government. Given the high level of industry and community liaison DHAC undertakes in developing policy and delivering services, the need to effectively manage situations that may involve actual or perceived conflicts of interest is particularly important.

²¹ Where external service providers have access to sensitive information and Commonwealth property it may also be appropriate to ensure they are aware of relevant legislation, such as the *Privacy Act 1988*, and the agency's security policy.

2.18 DHAC addresses conflict of interest issues in various internal documents²² and in agreements/contracts with external service providers. However, this information could be improved by:

- highlighting to staff and external parties that misusing confidential information for personal gain may be construed as fraud and subject to criminal prosecution;
- developing and implementing consistent procedures or arrangements that require staff and external parties involved in providing advice and/or decision-making to declare any actual or potential conflicts of interest; and
- providing consistency in agreements/contracts with external service providers and other funded organisations, across all program areas of the department, regarding conflicts of interest and the protection of confidential information.

2.19 The recently tabled ANAO report on the policy negotiation and development processes associated with improving access to Magnetic Resonance Imaging (MRI) services identified several important issues relating to conflicts of interest.²³ The lessons learned and better practices outlined in that report would enhance governance arrangements in DHAC, and other agencies, for managing conflicts of interest.

2.20 The ANAO noted that DHAC was planning to bring a more comprehensive and consistent approach to managing conflicts of interest across the department by developing a CEI to provide direction to staff on how to deal with such situations when they arise and implementing better practice procedures across all departmental committees.

Awareness and training

2.21 To facilitate staff involvement in fraud control, agencies should provide information and conduct awareness raising sessions on an ongoing basis in order to ensure that visibility and awareness of fraud issues is maintained. The ANAO assessed whether DHAC had:

- provided fraud awareness raising and training activities for all staff; and
- provided specific training and support mechanisms for officers working in high risk areas or areas where new and changing risks have been identified.

²² For example, the *Departmental Committee Servicing Manual* provides guidance to committees on managing conflicts of interest.

²³ Audit Report No.42, 1999–2000, *Magnetic Resonance Imaging Services—effectiveness and probity of the policy development processes and implementation*, ANAO, Canberra, 10 May 2000.

Awareness-raising

2.22 The ANAO found that DHAC had undertaken a range of activities aimed at raising staff awareness and understanding of fraud, emphasising the role of awareness in its prevention and detection. This included promoting an understanding of ethical issues and of the values that should guide the conduct of staff in performing their duties.

2.23 In late 1996, a nationwide fraud awareness campaign was conducted to reinforce DHAC's commitment to fraud prevention and control. This campaign was complemented by the release of a fraud information kit that informed staff about developments in the fraud control area and issues regarding general accountability, ethics and conflicts of interest. More recently, DHAC has conducted extensive workplace ethics awareness sessions, across the department, aimed at promoting DHAC values and standards, raising staff awareness of workplace ethical issues and dilemmas, and providing a framework for addressing and resolving such matters.²⁴ Importantly, these sessions incorporated case studies to provide staff with examples of ethical and unethical behaviour and practical examples of how to resolve ethical problems in the context of DHAC operations.²⁵ Both of these campaigns were endorsed by the Executive and recommended to all staff.

2.24 The ethics awareness sessions have been placed on the departmental training calendar to enable staff to have access to the sessions on an ongoing basis. The sessions should continue to be refined and updated in order to ensure that they remain relevant. The FPI Section also conducts fraud and ethics training and awareness sessions on request in high risk areas.

2.25 These large-scale training and awareness raising initiatives are supported by regular sessions conducted for participants in departmental training programs, such as for new starters and new managers. For example, during orientation sessions, a section on the department's fraud control policy, contact details for allegations of suspected fraud and other fraud related information is provided to new starters. This is an important mechanism to ensure that new starters are aware of the corporate culture and expected standards of conduct.

²⁴ This campaign was largely conducted during 1999 with approximately half of all DHAC officers attending these sessions. A formal evaluation conducted by DHAC showed that these sessions were well received across the department, with over 75 percent of staff giving positive feedback.

²⁵ Case studies provide an effective means of communicating to staff the wider implications of ethical and unethical conduct. (Refer to *"Ethical Standards and Values in the Australian Public Service"*, MAB/MIAC, No.19, AGPS, 1996; p. 33).

Training

2.26 Due to the increased involvement of the private sector in the delivery of DHAC services, particularly through contractual arrangements, the Department has placed considerable emphasis over the last few years on improving the skills, knowledge and expertise of staff involved in contract management and other related matters. Given DHAC's operating environment, this focus is appropriate and should be maintained to ensure staff skills continue to remain relevant.

2.27 Although many of the risks associated with outsourcing are not specifically fraud related, they do expose DHAC to the risk of loss of public funds and as a result, require an appropriate training and support framework to be developed. DHAC has centralised the development and provision of advice, support and training for contract management by ensuring that all officers have access to specialist technical assistance through the PSU and the CTGAU.

2.28 The ANAO found that DHAC had also developed specific training programs to address some of the other key risks that could potentially expose the department to fraud and other losses. Examples of recent initiatives are:

- development of the OATSIH induction kit for new starters, training on correct grant acquittal procedures and IT payment system training; and
- a train-the-trainer program in the Division of General Practice to broaden expertise in State and Territory offices and to improve compliance with legislative and policy requirements; and
- national training to support the review of the Residential Care Manual for officers in the Aged and Community Care program.²⁶

2.29 As well, security awareness sessions have been provided to staff, across the department, covering topics such as IT security and information security, particularly in relation to budget sensitive material.

ANAO conclusion

2.30 The ANAO concluded that DHAC had developed an appropriate fraud control policy by adopting the principles of the Fraud Control Policy of the Commonwealth in its CEIs and Fraud Control Plan. This

²⁶ These training programs were all contained in the department's 1999–2001 Fraud Control Plan.

demonstrated that the Department is committed to effectively managing fraud. An important aspect of DHAC's fraud control policy is to create an ethical workplace culture by enhancing the standards of conduct of its officers.

2.31 To support and reinforce its commitment to effective fraud control and the development of an ethical workplace culture, the Department has undertaken a wide range of fraud and ethics awareness raising activities as a key element of its fraud prevention strategy. These activities ranged from large-scale campaigns that were made available to all staff, to information and guidance provided to new starters during orientation sessions and specific training conducted in areas of higher risk.

2.32 Going forward, the ANAO considered that DHAC should build on its ongoing review of contracts to ensure that external service providers are more clearly aware of public service values and their contractual obligations and ethical responsibilities when providing services under contract with the government. DHAC should ensure that any arrangements put in place to address this issue are applied consistently across all program areas. This would enable DHAC to more actively manage contractual relationships and the associated risks of fraud arising from the Department's changing operating environment.

3. Planning for Effective Fraud Control

3.1 Key elements of sound corporate governance for fraud prevention and control include a comprehensive planning regime that is based on an appropriate risk assessment and complements an agency's policy direction regarding fraud control. In addition, the Fraud Control Policy of the Commonwealth requires that fraud control arrangements be reviewed every two years, including the conduct of a risk assessment and the development of a Fraud Control Plan.

3.2 The Fraud Control Plan should contain appropriate links to the broader objectives and directions of an agency as outlined in the agency's Corporate Plan and the activities specified in the business and operational plans of individual work areas.

3.3 The ANAO therefore examined whether DHAC had:

- undertaken appropriate fraud risk assessments;
- developed a Fraud Control Plan which identifies and addresses the key fraud risks faced by the agency; and
- effectively linked the Fraud Control Plan with other relevant plans.

3.4 Each of these issues is discussed separately below.

Fraud risk assessment

3.5 An agency's fraud risk assessment process should be sufficiently robust to enable all key fraud risks to be identified. Risk assessments should address both the internal and external environments for the agency and they should cover all functions and operations to establish the level, nature, form and likelihood of risk exposures.

3.6 The process of risk assessment should be ongoing and iterative and be:

- undertaken on a regular basis and as necessitated by changing conditions; and
- based on a sound methodology.

3.7 The ANAO examined DHAC's risk assessment against these criteria.

Timing and changing conditions

3.8 DHAC has undertaken an agency-wide fraud risk assessment every two years as prescribed by the Commonwealth's Policy. The most recent fraud risk assessments were conducted by DHAC between December 1998 and July 1999 and were used as the basis for the latest Fraud Control Plan. The time taken to complete the latest round of assessments reflects the large number of different program areas within the department that were assessed.

3.9 Measures have also been implemented by DHAC to respond to changing conditions. For example, a risk assessment of OATSIH was undertaken following the transfer of the program from the Aboriginal and Torres Strait Islander Commission (ATSIC) to DHAC.²⁷ This ensured that risks associated with this program were identified in a timely manner. More recently, a comprehensive risk assessment process was undertaken prior to the outsourcing of DHAC's IT systems. The conduct of a risk assessment in an area of significant change such as this reflects better practice and is an important element in active risk management.

Fraud risk assessment methodology

3.10 The fraud risk assessment questionnaire used by the agency for the last two rounds (in 1996 and 1999) was originally developed in 1994. The questionnaire was revised for the most recent round of fraud risk assessments, taking into account feedback received from program areas regarding the previous round of assessments. The questionnaire comprised a series of questions relating to inherent risk and control risk to allow a comparative quantitative measurement of the risk of fraud across the various program areas of the department to be calculated.²⁸ The original and revised questionnaires were both endorsed by CLEB.

3.11 The quantitative results obtained from the risk assessment methodology allowed DHAC to:

- identify the factors which contribute to the program's fraud risk and assess their relative importance; and
- compare the relative results obtained between the various programs and activities that were reviewed, including identifying any inconsistencies in risk between similar programs and activities.

²⁷ The then federal Government announced the transfer of responsibility for funding Aboriginal and Torres Strait Islander people's health services in the 1995–96 budget. Functional transfer to the then department of Human Services and Health took effect from 1 July 1995.

²⁸ Details on how these ratings are calculated as well as a detailed explanation of the process applied by DHAC in conducting its fraud risk assessments are provided in Appendix 1.

3.12 The ANAO found that the methodology adopted by DHAC during the latest round of risk assessments was generally sound and complied with CLEB requirements. In particular:

- the methodology was capable of being consistently applied across all programs that were assessed;
- the methodology was capable of 'green fields'²⁹ measurement of fraud risk; and
- staff with an operational knowledge of the program area being assessed were involved in the completion of questionnaires.

3.13 To ensure the risk assessment questionnaire was understood and approached in a consistent manner, fraud investigation staff worked through the forms with program staff during their completion. This approach of involving staff in the completion of the questionnaire was an effective way to promote ownership and encourage staff to become involved in fraud prevention strategies.

3.14 The results of all completed assessments were discussed in detail and cleared with the relevant program and State managers. This last step was undertaken to validate responses and confirm that all significant risks were properly identified.³⁰

Future direction for risk assessment methodology

3.15 During the course of the audit, DHAC advised that they intend changing their current fraud risk assessment methodology prior to the next round of assessments as part of a wider review of the department's risk management framework. Specifically, DHAC was seeking to develop a framework that would enable fraud risks to be assessed and managed alongside other business risks faced by the department rather than in isolation.

3.16 The ANAO found that certain program areas had already adopted this broader risk management approach. However, the management framework required to coordinate this broader process across the department had yet to be established. This is an important issue if DHAC is to ensure that:

- the new approach is applied consistently by all program areas;

²⁹ A 'green fields' methodology is a quantitative approach to measuring risk assuming no controls are in place.

³⁰ Information on the number of programs subject to fraud risk assessments and the resulting risk ratings is at Appendix 1.

- across-program risks, including fraud risks, are appropriately identified and addressed;
- there is adequate quality assurance of risk assessments undertaken by program areas; and
- a coordinated approach to the management of fraud is maintained.

3.17 Given the relatively low incidence of reported fraud in DHAC over the last few years, a broader risk management strategy may better suit the business needs of the department. In implementing a broader risk management approach DHAC should ensure that it remains vigilant in controlling its exposure to fraud. In particular, the relationship between identified control weaknesses and the potential for fraud, as well as links to losses and overpayments, should be recognised and addressed during relevant planning processes.

3.18 This broader approach is consistent with the policy direction contained in the *Consultation Draft No.1*.

Fraud Control Plan

3.19 A Fraud Control Plan is a specific requirement of both the Fraud Control Policy of the Commonwealth and the FMA Act³¹. The Fraud Control Plan provides a mechanism for outlining an agency's overall approach to fraud control and should:³²

- reflect the risks identified in the fraud risk assessment;
- present strategies to rectify shortcomings identified in the risk assessment;
- provide a timetable for implementation of the strategies; and
- nominate action areas responsible for implementing each strategy.

3.20 The results of the ANAO assessment of DHAC's Fraud Control Plan against these criteria are contained in Table 1.

³¹ Section 45 of the FMA Act requires CEOs to implement an agency wide Fraud Control Plan that includes and addresses fraud by external parties, as well as internal fraud.

³² Taken from Best Practice for Fraud Control, Fraud Control Policy of the Commonwealth, CLEB, 1994, p. 21–22.

Table 1
Fraud Control Plan assessment

Criteria	Met criteria		ANAO comments
	Yes	No	
Reflect risks identified in risk assessment	✓		The Fraud Control Plan was appropriately linked to the results of the fraud risk assessments.
Include strategies to rectify shortcomings identified in the risk assessment	✓		Program areas assessed as being 'medium' or 'high' risk through the risk assessment had strategies developed and included in the plan. The Plan contained a number of strategies to address risks identified during the risk assessment.
Provide timetable for implementation of strategies	✓		Several strategies contained in the plan had commenced or been completed by the time the Fraud Control Plan received CLEB endorsement. However, a number of strategies included in the Plan did not have required completion dates specified.
Nominate action areas responsible for developing and implementing each strategy	✓		Relevant program areas were identified as being solely responsible for developing and implementing strategies included in the Plan.

3.21 The ANAO found that DHAC's Fraud Control Plan met the requirements of the Fraud Control Policy of the Commonwealth and had been endorsed by CLEB.

3.22 However, the ANAO noted that a number of strategies included in the plan did not have required completion dates clearly specified. In response, DHAC advised that the plan covered a period of two years. Therefore, it was implied that this was the timeframe within which strategies were to be implemented.

3.23 The ANAO considers that a more explicit timetable for implementation could be used as a basis for prioritising strategies and enabling the progress in implementing strategies to be monitored on an ongoing basis during the term of the Plan.

3.24 The current monitoring arrangements for the implementation of strategies contained in the Fraud Control Plan are discussed further below and in Chapter 5.

Links to Corporate Plan and other business/operational plans

3.25 An agency's fraud control planning framework should aim to maximise the effectiveness of the fraud control function by promoting a coordinated approach to fraud control across the agency.

3.26 In particular, there should be clear links between the Fraud Control Plan and the Corporate Plan. As well, it is important that business/operational plans are linked to these higher level plans. The plans should be linked in a way that ensures that activities are directed to achieving the same goals in relation to fraud control. The ANAO examined DHAC's fraud control planning framework to determine whether key planning documents were appropriately linked.

3.27 The ANAO found that DHAC had provided suitable links in higher level planning for the fraud control function. In particular the Fraud Control Plan was linked to the Corporate Plan thereby recognising the importance of the fraud control function to the achievement of agency objectives. Similarly, the A&FCB Business Plan was linked to the department's Corporate Plan reflecting sound corporate governance principles in higher level planning arrangements.

3.28 However, in reviewing lower level plans the ANAO found that links to the Fraud Control Plan were not as clear and could be improved. For example, the ANAO considers that there could be a clearer link between the A&FCB Work Plan³³ and the Fraud Control Plan to closer align the activities of the FPI Section with the fraud risks identified through the risk assessment process. This is especially important given that program areas are responsible for implementing the strategies outlined in the Fraud Control Plan. Closer links between the Fraud Control Plan and the Work Plan would ensure that identified risks were addressed by relevant program areas in a timely and appropriate manner. Examples of this would be for the A&FCB Work Plan to include a strategy for:

- providing assistance to program areas responsible for implementing strategies contained in the Fraud Control Plan; and
- reviewing and monitoring the implementation of fraud control strategies by program areas.

3.29 Similarly, in reviewing the business/operational plans of program areas and State and Territory offices, no evidence was found of any explicit links to the Fraud Control Plan and the risks identified through the fraud risk assessment process.³⁴ However, the ANAO found evidence that certain program areas had conducted their own business risk assessments that, to varying degrees, identified and prioritised fraud risks alongside other business risks. Consequently, strategies contained in business/operational plans addressed key business risks.

³³ The FPI Section work program is contained in the A&FCB Work Plan.

³⁴ The ANAO did note, however, that OATSIH had liaised with the A&FCB in developing parts of its business plan and other action plans aimed at addressing systemic issues identified through a number of internal audit and investigation reports.

3.30 Where fraud was assessed to be a key risk it was explicitly addressed, otherwise the management of fraud was considered to be an implied responsibility of program managers and staff. The Department advised that this approach is more appropriate to its business needs. As there is the potential for this broader approach to result in the management of fraud control to become fragmented and not consistently applied across the department, it is important that DHAC establish an effective management framework to coordinate its planning process.

ANAO conclusion

3.31 DHAC conducts fraud risk assessments every two years in accordance with the current requirements of the Commonwealth's fraud control policy. The methodology adopted by DHAC for its risk assessments was generally sound and complied with CLEB requirements.

3.32 DHAC advised that it was seeking to change its fraud risk assessment methodology by incorporating fraud risk into a broader risk assessment process for the whole department. While some program areas had already adopted this broader approach, the management framework required to coordinate this process across the Department had yet to be established. This could result in significant fraud risks not being appropriately identified and addressed by program areas and a lack of effective coordination of fraud control activities across the Department.

3.33 DHAC had developed a Fraud Control Plan that contained strategies to address the risks identified in the risk assessment. However, the ANAO concluded that this Plan would have benefited from a more explicit timetable for implementation of fraud control strategies, thereby providing a suitable framework for the ongoing monitoring of progress made by program areas in the implementation of these strategies.

3.34 The Department had established direct links between the Fraud Control Plan and the Corporate Plan. However, links between the Fraud Control Plan and lower level business/operational plans were not as clear. Consequently, DHAC could not be certain that all program areas accounted for the strategies contained in the Fraud Control Plan when undertaking their business planning processes.

3.35 This occurred primarily because certain program areas had conducted their own risk assessments involving all business risks, including fraud, and incorporated the results of these assessments in their business/operational plans. As there is the potential for this broader approach to result in the management of fraud control to become fragmented and not consistently applied across the department, it is important that DHAC establish an effective management framework to coordinate its planning processes.

4. Operational Arrangements for Fraud Control

4.1 Procedures should be developed by agencies to provide detailed guidance on how to prevent and deal with instances of fraud, especially for those officers with direct responsibility for the fraud control function. The ANAO, therefore, examined whether:

- DHAC had developed a manual that contained procedures and guidelines to deal with all fraud related issues;
- processes for reporting and recording alleged instances of fraud had been established;
- fraud investigations complied with operational procedures, including referral to the AFP and State police; and
- procedures for administering penalties, or undertaking recovery action, where fraud or misconduct had been proven were developed.

4.2 Each of these is discussed under separate headings below.

Fraud manual

4.3 DHAC had developed a Fraud Investigations Manual (the Manual) that specifically explains procedures for detecting, reporting, investigating and prosecuting cases of fraud. The Manual was referred to the Commonwealth Investigation Technical Standards Committee (CITSC) for endorsement in 1997. CITSC recommended a number of amendments to the manual and suggested that it be printed as an interim document, pending finalisation of the revised Fraud Control Policy of the Commonwealth. DHAC advised that the content of the Manual will be updated following this process.

4.4 The DHAC Manual covers all aspects of the investigation process including:

- procedures for dealing with allegations of fraud;
- investigation management methodologies and support;
- operational practices for investigations;
- confidentiality of information requirements;
- preparing investigation reports or briefs of evidence; and
- procedures for undertaking recovery actions.

4.5 The Manual contains appropriate links to other documents including the Fraud Control Policy of the Commonwealth, the Prosecution Policy of the Commonwealth and the Department's Fraud Control Plan. The Manual is available for ready access by the investigation officers and provides comprehensive guidance for all staff involved with fraud control.

Reporting and recording allegations

4.6 Agencies should establish clear reporting arrangements for officers, specifying alternative reporting channels and have a system where all allegations reported to the area responsible for managing fraud are recorded. Such a system can assist in the prevention and detection of fraud by providing summary information on the nature, extent and location of fraud impacting on an agency and can therefore be useful in identifying systemic issues facing the agency.

4.7 The ANAO examined whether the department had:

- established a reporting and recording system for allegations and cases of fraud; and
- developed clear procedures for reporting all allegations of fraud.

Reporting and recording system

4.8 As required by the CEIs, the FPI Section provides a centralised reporting point where allegations can be reported by phone, through internal mail and to a secure email address. The ANAO found that all allegations received by the FPI Section were treated in strict confidence, in accordance with the Manual.

4.9 The Manual requires a register to be maintained to record allegations of fraud including anonymous allegations and reports from whistleblowers. Following discussions with the ANAO during the course of the audit, DHAC established such a register. The details recorded on the register include:

- the date and time of contact;
- the nature of the allegation and the alleged time or period of offence;
- the location of the offence; and
- details regarding action taken in response to the allegation.

4.10 If appropriately maintained, such a register should provide information to enable DHAC to monitor and identify trends in fraud and causes of fraud and to some extent predict future fraud risks.

4.11 In addition to specific allegations of fraud, the FPI Section received complaints, inquiries and concerns regarding administrative matters. These more general matters would in most instances be dealt with by a course of action other than a fraud investigation and as such are not recorded on the register.

Reporting lines

4.12 In line with better practice, DHAC has established alternative channels for reporting allegations of fraud. Staff who suspect fraud are able to report it to their managers/supervisors, directly to the manager of the A&FCB or the FPI Section.³⁵

4.13 Where a manager/supervisor receives an allegation they are required to report the matter to the A&FCB manager who is then responsible for deciding what further action should be taken on the matter, such as investigation or dismissal of the allegation. However, the ANAO found evidence of inconsistent approaches by managers/supervisors in reporting such allegations, particularly where the matter involved performance by a third party under a contract or grant. This may indicate either:

- a level of uncertainty by managers/supervisors as to whether these types of matters should be dealt with as fraud against the Commonwealth or through alternative means, such as breach of contract;³⁶ or
- a degree of reluctance by some managers/supervisors to report all suspected cases of fraud.

This may result in the FPI Section not being aware or informed of all actual or suspected cases of fraud within the Department. This has the potential to result in significant cases of fraud, as well as systemic issues, not being identified and addressed in an appropriate manner.

³⁵ Guidance for reporting allegations of fraud is provided in the CEIs, Fraud Control Plan, the Fraud Awareness Handbook and the Fraud Investigations Manual.

³⁶ This issue is discussed in more detail at paragraphs 4.23–4.29.

Fraud investigations

4.14 The Department's CEIs state that where practicable, the fraud control function is to be undertaken in a manner consistent with:

- the Fraud Control Policy of the Commonwealth;
- professional standards and requirements for fraud investigation;³⁷ and
- the Department's Fraud Control Plan and Fraud Control Handbook.

4.15 The ANAO reviewed the files of allegations and cases of fraud investigated by the FPI Section to assess compliance with these guidelines. The ANAO also sought to establish whether officers responsible for conducting investigations in DHAC were properly trained to meet prescribed requirements.

Investigation compliance

4.16 Overall, the ANAO found that investigations conducted by the FPI Section of routine or minor instances of fraud were undertaken in a timely and professional manner, meeting the investigation standards prescribed in the CEIs and the Manual.

4.17 The ANAO also found that serious and/or complex matters were referred to the AFP. In these cases, briefs of evidence provided to the AFP from preliminary investigations conducted by the FPI Section were considered by the AFP to be of an acceptable standard and supported further investigation and prosecution.

Fraud investigator training

4.18 The investigation officers in the FPI Section have completed the AFP course for APS investigators, meeting the standards as prescribed under the Policy. DHAC advised that its investigators will undertake further training as required to meet the new Fraud Control Policy of the Commonwealth when it is released.

4.19 As well, DHAC's investigators had skills in accounting and financial analysis. The ANAO found that these skills were necessary due to the high incidence of fraud allegations and investigations relating to funding provided to third parties through grant agreements and contracts. While many of these allegations did not involve fraud, they did involve the loss or misuse of Commonwealth funds as a result of

³⁷ The department's Fraud Investigations Manual states, for example, that assessment of allegations should be made in accordance with the *Prosecution Policy of the Commonwealth*.

poor administrative practices implemented by organisations in receipt of Government funding. The broader range of skills of DHAC investigators assisted them to determine whether fraud had occurred and in those cases where fraud was not involved, to identify and recommend improvements to the operations of funded organisations in order to minimise future losses.

Prosecution and other remedies

4.20 DHAC is responsible for conducting initial investigations into fraud allegations. Where, following preliminary investigation, a *prima facie* case of fraud is found to exist, decision-makers determine the most appropriate course of action to take based on guidance provided in the Manual. This may involve referral of the matter to the DPP for prosecution, or seeking compensation for minor offences and breaches of regulations through remedies other than criminal prosecution. Where further action is taken, appropriate processes should be followed to ensure consistency in treatment and remedy for incidents of fraud or related matters.

4.21 The ANAO examined whether the department had established procedures for:

- referral of cases to the DPP; and
- imposing alternative remedies for minor fraud and other related matters.

Referral to DPP

4.22 The Manual provides instruction for referral of cases to the DPP for prosecution, in accordance with the Prosecution Policy of the Commonwealth. DHAC had a Memorandum of Understanding (MOU) in place with the DPP that outlined the respective roles and responsibilities of both parties in relation to fraud investigation and prosecution. The ANAO found that, for cases investigated during 1997–98 and 1998–99, DHAC had followed appropriate procedures to enable timely assessment and prosecution of cases by the DPP.

Alternative remedies

4.23 As proving criminal intent on the part of a suspected fraudster is often difficult, the availability and use of administrative or other remedies is in many cases an appropriate avenue for recourse as they are often more cost-effective than undertaking criminal proceedings. In relation to this issue, the Federal Government's Review of Fraud noted:

*... the advantages of administrative sanctions as: they are simple and direct in operation; immediately available; less costly than court action; may offer greater flexibility; may be applied with consistency and equity (on the basis of appropriate guidelines); and can encourage compliance and have considerable deterrent effect.*³⁸

4.24 Three primary alternative remedies available to DHAC to pursue recovery of losses were:

- sanctions available under the *Public Service Act 1999* (PS Act);
- provisions contained in grant agreements and contracts; and
- specific legislative provision relating to individual programs.

4.25 The PS Act provides the authority for agency heads to impose various sanctions on APS employees who are found to have breached the Code of Conduct.³⁹ The CEO has endorsed DHAC's formal set of procedures and delegations for determining breaches of the code of conduct and appropriate remedial action. The ANAO found that, when required, DHAC had imposed sanctions available under the PS Act in accordance with established procedures in cases of minor fraud or misconduct.

4.26 DHAC's move to a more contestable environment involving, among other things, increased use of contractual arrangements with third party providers, is changing the nature of the risks of loss and misuse of Commonwealth funds. There is likely to be an increasing number of cases where the loss or misuse of what are essentially Commonwealth funds will not involve the committing of a Commonwealth offence and, therefore, will prevent DHAC from pursuing these matters as fraud against the Commonwealth. Increasingly, DHAC will need to seek alternative remedies for dealing with these losses, such as through contract law or State and Territory legislative provisions.

³⁸ Focussing on Fraud: Report on the Inquiry into Fraud on the Commonwealth, House of Representatives Standing Committee on Banking, Finance and Public Administration, November 1993, AGPS, p. 69.

³⁹ *Public Service Act 1999*, Section 15, (1).

4.27 In response to this changing environment, DHAC has placed increased emphasis on reviewing contracts and agreements for the delivery of services to ensure the Commonwealth's rights are adequately protected and improving contract management skills of staff. As well, DHAC has established a specialist legal advisory unit and the CTGAU to provide assistance and advice for officers involved in contract management.

4.28 Legislative provisions of individual programs administered by DHAC also provide the capacity to apply administrative remedies for defined breaches. For example, the *Aged Care Act 1997* gives DHAC authority to review the correctness of classifications of permanent residents in subsidised aged care services, change resident classifications and recover payments made to service providers.⁴⁰ In many cases the application of these administrative remedies does not imply that fraud has occurred. It is important that, where external providers deliver services, alternative avenues are available, other than prosecution, to deal expeditiously with breaches and to recover losses cost-effectively.

4.29 Alternative remedies should not, however, be applied where a serious offence has been committed. Importantly, the ANAO found that serious offences, including fraud and breaches of contract and legislative provisions, had been dealt with by DHAC through criminal proceedings and not by using administrative or disciplinary measures.

ANAO conclusion

4.30 The ANAO concluded that DHAC had:

- developed a manual that provided clear guidance on all aspects of the fraud investigation process, from receiving an allegation to undertaking recovery action;
- a centralised point for reporting and recording allegations of fraud;
- established alternative channels for staff to report allegations of fraud other than the FPI Section; and
- undertaken fraud investigations in a timely and professional manner and in accordance with its Fraud Investigations Manual and the Fraud Control Policy of the Commonwealth.

⁴⁰ Resident classifications are the basis upon which the level of Commonwealth funding is determined.

4.31 However, where allegations were made direct to supervisors or managers, there was evidence of inconsistency in dealing with such allegations, particularly where the matter involved performance by a third party under a contract or grant.

4.32 DHAC pursues fraud and other losses through criminal prosecution and non-criminal sanctions available, for example, under the PS Act and legislative provisions of specific programs as well as through contract law and State and Territory legislative provisions. DHAC had followed established procedures for determining the most appropriate course of action for pursuing fraud and other matters resulting in the loss of Commonwealth funds. In particular, serious offences, including fraud and breaches of contract and legislative provisions, had been dealt with by DHAC through criminal proceedings and not by using administrative or disciplinary measures.

5. Performance Information and Reporting

5.1 Performance assessment of fraud control activities is an essential element of an agency's accountability to key stakeholders, such as the Portfolio Minister, the Minister for Justice and Customs, clients, the Parliament and the general public. Legislative responsibilities imposed by the FMA Act on agency CEOs further increase the importance of monitoring performance.

5.2 The ANAO, therefore, examined whether DHAC had established mechanisms to assess the effectiveness of the fraud control function, including:

- key performance indicators against which fraud control activities can be assessed; and
- monitoring and reporting arrangements for fraud control activities, including the implementation of fraud control strategies identified in the Fraud Control Plan.

Performance indicators

5.3 In its 1999–2000 Business Plan, the A&FCB had developed a range of indicators that aimed to allow its performance to be measured and/or assessed. These indicators were endorsed by the Audit Committee and include:

qualitative measures

- Audit Committee and departmental Executive satisfaction;
- external relationships; and
- client satisfaction.

quantitative measure

- the extent to which the annual A&FCB work program is achieved.

5.4 Assessments are conducted periodically to provide information on the effectiveness of various aspects of the Department's fraud control function. For example, evaluations have been conducted of:

- workplace ethics awareness sessions conducted by FPI Section through a client satisfaction survey⁴¹; and

⁴¹ Over 75 per cent of staff who attended workplace ethics awareness sessions gave positive feedback on the sessions.

- fraud investigations and reports. The Audit Committee has an ongoing program of quality assurance reviews of investigations and reports undertaken by the A&FCB and FPI Section.

5.5 As well, the performance of A&FCB is subject to review by DHAC's Performance Assessment Committee every two to three years.⁴² The 1999 assessment of the A&FCB used results from an ANAO review of internal audit functions in Commonwealth public sector agencies⁴³ as a basis for its assessment.⁴⁴ Overall, the evaluation found that the A&FCB performed well in comparison to other organisations in a number of the areas identified by the ANAO as critical for better practice. Specific references to DHAC's fraud control functions found that, on average, the A&FCB had spent more time than other agencies on:

- fraud investigations (12 per cent compared with 3 per cent); and
- issues such as ethics training and awareness raising initiatives as well as supporting re-engineering processes (10 per cent compared with 3 per cent).

5.6 These figures reflected a strong demand from selected program areas for assistance in investigating suspected instances of fraud⁴⁵ and the time spent by fraud investigation officers preparing and conducting DHAC's ethics awareness program.

5.7 However, during its evaluation, the Performance Assessment Committee noted that:

- there was insufficient data available to assess whether projects were completed on time and within budget; and
- performance targets had not been set against measures of cost effectiveness, timeliness and quality.

5.8 Similarly, during the course of this audit, the ANAO found that indicators used in quarterly performance reporting to the Audit Committee did not provide sufficient information to allow an adequate assessment of the performance of the fraud control function on an ongoing basis. While the A&FCB work plan included quantitative performance

⁴² A report on the most recent evaluation was provided to the Audit Committee in June 1999.

⁴³ DHAC participated in this review and received a report on its performance.

⁴⁴ A quantitative assessment of the internal audit function was obtained using an international benchmarking database called the Global Audit Information Network (GAIN), and some additional questions developed by the ANAO for inclusion in the GAIN survey.

⁴⁵ During the audit, DHAC advised that a significant number of these investigations relate to probity issues in funding agreements entered between OATSIH and external service providers for the provision of services.

information for resource allocation and timing for completion of specific tasks,⁴⁶ targets and benchmarks for indicators had, in many cases, not been established. As well, a number of the performance indicators were not measurable as the terminology used had not been clearly defined.

5.9 The ANAO considers that improvements in the existing performance assessment framework can be made by:

- better defining terms such as Audit Committee satisfaction, external relationship and client satisfaction to ensure all performance indicators are able to be measured;
- incorporating relevant performance indicators into quarterly reports to the Audit Committee, such as those suggested in the ANAO Better Practice Guide for Internal Audit⁴⁷; and
- establishing benchmarks and targets for performance indicators where possible. For example, targets should be established for indicators such as the level of Audit Committee satisfaction with A&FCB performance, the number of reviews of planned and existing controls and procedures to be conducted per annum⁴⁸ and the percentage of these completed in accordance with timeframes and budgets.

5.10 DHAC has recognised the problems in the current performance assessment framework. To address this issue, the development of a strategy to better measure and monitor the performance of the A&FCB was included as a priority in its 1999–2000 Business Plan.

5.11 DHAC advised that they have a project management software package for auditing functions (titled Audit Pro), for recording and monitoring performance information such as time and cost of reviews and investigations. The ANAO noted that, since completion of the audit fieldwork, DHAC had increased its use of this system for recording and reporting performance information. Continued use of this system should enable the Department to measure various quantitative elements of the fraud control function, such as investigation costs and staff resource allocation, against targets and benchmarks once they are established. This will form an important aspect of DHAC's performance monitoring framework by allowing the cost effectiveness and timeliness of the fraud control function to be measured and assessed on an ongoing basis.

⁴⁶ Resource allocation is measured through the number of hours allocated to complete a task and timing is assessed against planned commencement and completion dates.

⁴⁷ *New Directions for Internal Audit; A Guide for Public Sector Managers*, ANAO, July 1998.

⁴⁸ These should be based on an assessment of fraud risks.

Recommendation No.1

5.12 To improve DHAC's performance assessment framework for fraud control and enable the performance of the fraud control function to be regularly assessed, the ANAO recommends that DHAC incorporate relevant benchmarks, targets and meaningful indicators, such as those suggested in the ANAO Better Practice Guide for Internal Audit, into quarterly performance reports to the Audit Committee.

DHAC response

5.13 Agreed.

Monitoring and reporting

5.14 An effective monitoring and reporting regime should provide assurance that agreed goals are being met as well as promoting accountability in responsible areas by providing information that demonstrates their contribution towards achieving corporate goals.

5.15 The ANAO undertook an assessment of DHAC's monitoring and reporting framework for the fraud control function to determine if:

- the implementation of strategies contained in the Fraud Control Plan, and recommendations from investigations and reviews undertaken by the FPI section, are monitored on an ongoing basis;
- internal reports provided a complete picture of fraud control activities undertaken in DHAC; and
- external reports met the requirements as specified in the Fraud Control Policy of the Commonwealth.

Monitoring arrangements

5.16 The ANAO found that DHAC does not periodically monitor the implementation of strategies identified in the Fraud Control Plan. For example, DHAC only reviewed the progress made on the implementation of strategies identified in the 1996–98 Fraud Control Plan as part of the development of its latest plan. Similarly, ongoing monitoring or reporting arrangements have not been developed or specified to assess the progress made in implementing strategies contained in the 1999–2001 Fraud Control Plan. This reduces accountability and has the potential to reduce the effectiveness of the Fraud Control Plan as a tool for managing fraud, by not emphasising the need for program areas to implement strategies in a timely and effective manner.

5.17 As well, the ANAO found that monitoring of the implementation of recommendations made in investigation reports was primarily undertaken on an informal basis. As a result, DHAC was unable to

provide information on the level of implementation and impact of recommendations made in these reports.

5.18 An internal assessment noted that there was a perception among audit staff that many findings from audits and investigations conducted during 1998–99 were very similar to findings identified in previous years. This raised questions internally about the impact of the audit function on changing behaviours in the organisation. The ANAO considers that enhancing its monitoring arrangements could assist DHAC to improve the overall effectiveness of the audit and fraud control function. Examples include:

- ensuring that recommendations made in audit and investigation reports were implemented in a timely and appropriate manner;
- providing guidance to program areas regarding proposed strategies to address recommendations; and
- measuring and/or assessing the impact of recommendations.

5.19 A formal monitoring framework would provide essential information to assist DHAC in identifying systemic issues across the agency as well as identifying better practices for the treatment of these risks. An example where this has occurred is in relation to the OATSIH where the FPI Section had identified systemic issues and trends in a number of investigation reports. A report on these issues was forwarded to the OATSIH and subsequently agreement was reached on a methodology involving both areas to address these issues. This demonstrates how improved monitoring arrangements can produce information that can be used to increase the effectiveness of the audit and fraud control function and enable a more targeted and better strategic approach to addressing risks across the agency.

Internal reporting

5.20 The ANAO found that the FPI Section provided quarterly reports to the Audit Committee on the status of fraud activities undertaken during each period.⁴⁹ This is the Audit Committee’s primary monitoring mechanism for the activities of the FPI Section. The information contained in the reports included:

- summaries of investigations and audits undertaken by the FPI Section;
- details of matters being investigated by the AFP; and
- details of remedies being administered for proven cases of fraud.

⁴⁹ Separate reports are provided to the Audit Committee and not included in the minutes of the meeting due to the confidential nature of the information contained therein.

5.21 However, the reports did not provide sufficient performance information to enable an assessment of the effectiveness of the fraud control function on an on-going basis. In undertaking improvements to the department's current performance assessment and monitoring framework, the ANAO considers that a review of internal reporting requirements for the FPI section should also be carried out with a view to including suitable performance information in fraud reports to the Audit Committee.

External reporting

5.22 The Fraud Control Policy of the Commonwealth require agencies to submit fraud control information annually to CLEB, including information relating to losses and overpayments.

5.23 The ANAO found that DHAC had provided annual reports to CLEB in a timely manner. These reports include information on whether particular fraud control activities had or had not been undertaken and the extent of fraud and losses against DHAC. This information indicates that there has been a low incidence of reported fraud in DHAC over the last few years. A summary of this information for the last two years is at Appendix 2.

5.24 An aspect of DHAC's fraud reporting arrangements that could be more effective is in relation to the activities of the TGA Surveillance Unit and the Residential Care Accountability Section. Currently, the results of these activities are included in the department's annual report to CLEB but are not reported to the Audit Committee or FPI Section on a regular basis. This occurred primarily because the activities of these areas were not considered to be fraud related.⁵⁰ Appendix 2 indicates that the activities of these areas are significant relative to fraud related issues. To provide consistency between internal and external fraud reporting arrangements, the Department should consider including these matters in reports to the Audit Committee or FPI Section.

5.25 As well, security matters including theft are not currently being reported to CLEB as suggested in the Fraud Control Policy of the Commonwealth⁵¹. The ANAO noted that serious matters of theft are being reported to the FPI Section for investigation, with most minor matters being managed by the Corporate Services Division. During the

⁵⁰ DHAC acknowledged, however, during discussions with the ANAO that there was scope for some of the work undertaken by these areas to involve fraud.

⁵¹ The Fraud Control Policy of the Commonwealth includes theft as one of the specific types of matters that should be recorded as part of an agency's overall fraud reporting requirements.

course of this audit, the Department advised that more information regarding losses through theft is now available and will be reported to CLEB this year.

Recommendation No.2

5.26 To improve DHAC's performance assessment framework for fraud control and enable the performance of the fraud control function to be regularly assessed, the ANAO recommends that DHAC incorporate meaningful indicators and relevant benchmarks and targets, such as those suggested in the ANAO Better Practice Guide for Internal Audit, into quarterly performance reports to the Audit Committee.

DHAC response

5.27 Agreed.

ANAO conclusion

5.28 The A&FCB had developed a range of indicators to measure its performance, including in relation to fraud control. As well, assessments are conducted periodically to provide information on the effectiveness of various aspects of DHAC's fraud control function. However, the current performance assessment framework could be strengthened by including meaningful indicators and relevant benchmarks and targets in quarterly performance reports to the Audit Committee. This, in turn, would allow the performance of the fraud control function to be assessed on an ongoing basis.

5.29 Arrangements to monitor progress made by program areas in implementing fraud control strategies contained in Fraud Control Plans and recommendations in investigation reports were not systematic or formalised. This is an important issue as an effective monitoring regime would allow DHAC to ascertain whether fraud control arrangements were working in practice, provide assurance that remedial action had been taken to address identified shortcomings and take early action to resolve any problems cost effectively.



Canberra, A.C.T.
23 August 2000

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Risk assessment methodology

This appendix expands on the discussion contained in Chapter 3 and provides a detailed description of DHAC's fraud risk assessment methodology. It also contains information on the number of programs subject to fraud risk assessments and their resulting risk ratings.

The first part of DHAC's risk assessment questionnaire required the assessor to score the inherent risks of the area being assessed using a scale of 1–9 (1 being low risk and 9 being high risk). A broad range of inherent risk factors were assessed⁵² covering all of the areas prescribed in the *Best Practice for Fraud Control*⁵³.

The second part of the questionnaire assessed the likelihood of internal controls failing to prevent or detect fraud. Control risk was scored differently to inherent risk, with specific controls assessed as being either fully effective, adequate, needs strengthening or not effective. An overall percentage figure was then attributed to the level of control risk identified as shown in Table 1.1.

Table 1.1.
Internal Control Risk Ratings

<i>Qualitative</i>	<i>Quantitative</i>
Not Effective	More than 30%
Need Strengthening	Between 10% and 30%
Adequate	Between 2% and 9%
Fully Effective	Less than 2%

Using the scores derived from the above process, a fraud risk rating was then calculated as follows:

$$\text{Fraud Risk} = \text{Inherent Risk} \times \text{Control Risk}.$$

Overall fraud risk ratings were determined as follows:

0.049 and below = Low Risk

0.05 to 0.099 = Medium Risk

0.10 and above = High Risk

The overall risk rating is significantly influenced by the percentage figure determined for internal control risk. This reflects the importance of effective internal controls in preventing and detecting fraud. Similarly,

⁵² A total of 28 specific inherent risk factors were assessed.

⁵³ Fraud Control Policy of the Commonwealth, CLEB, 1994.

it is equally important to assess control risk accurately to ensure that ‘under weighting’ does not occur, resulting in a lower risk assessment than would be expected.

To ensure all risks were identified and assessed during the assessment process, program staff were selected to participate in the risk assessment process using the following criteria:

- in depth knowledge of the program/sub-program being assessed;
- length of experience/employment in the function; and
- current position—most participants were at the Senior Officer level, although SES officers and a few experienced ASO staff were also chosen.

For 1999, 67 programs were subjected to risk assessments. The programs that were selected for assessment had previously been identified (from the 1996 series of risk assessments) as having a higher fraud risk, or significant change had occurred since the last risk assessments were conducted. In addition, two States, NSW and WA, were selected to be assessed across all functions and program areas. The State offices were considered to represent a reasonable sample of the risks within State and Territory Offices. This risk assessment approach was also endorsed by CLEB.

The following table shows the distribution across program areas of the risk assessments undertaken and the resulting risk ratings.

Table 1.2.
Summary of potential risk areas

<i>Division</i>	<i>Number of Questionnaires Completed</i>	<i>Rating</i>		
		<i>High</i>	<i>Medium</i>	<i>Low</i>
Aged and Community Care	18	4	1	13
OATSIH	10	1	3	6
Corporate Services Division	16	1	1	14
Health Services Division	5	-	1	4
TGA	6	-	-	6
Health Access & Financing Division	6	-	-	6
Portfolio Strategies Division	3	-	-	3
ONHMRC	2	-	-	2
Population Health Division	1	-	-	1

Appendix 2

Extent of fraud in DHAC

The ANAO analysed the annual reports on losses and overpayments provided by DHAC to CLEB for 1997/98 and 1998/99 in order to assess the scale of reported fraud perpetrated against the department. It should be noted that, for annual reporting purposes, the Attorney-General's department requests information on the level of losses and overpayments rather than just fraud.

Table 2.1 contains a summary of the information provided by DHAC to CLEB in its annual report for 1997/98 and 1998/99. The table highlights some of the practical difficulties associated with deriving an estimate of the level of fraud in DHAC. Issues to consider when interpreting the results in table 2.1 are as follows:

- the quality of reporting is not consistent across the department and as a result not all fields in the table can be completed;
- varying interpretations of fraud mean that different program areas may classify matters as something other than fraud; and
- there are problems in determining how to measure the number of allegations and cases of fraud as well as the dollar value of fraud.⁵⁴

⁵⁴ For a more detailed discussion of these matters refer to Audit Report No.47, 1999–2000, *Survey of Fraud Control Arrangements in APS Agencies*, ANAO, Canberra, 20 June 2000.

Table 2.1**Losses and Overpayments in DHAC**

<i>Responsible Area</i>	<i>1997/98</i>			<i>1998/99</i>		
	<i>No. of Allegations *</i>	<i>No. of Cases **</i>	<i>Value of Cases (\$'000)</i>	<i>No. of Allegations</i>	<i>No. of Cases</i>	<i>Value of Cases (\$'000)</i>
FPI Unit	30	5		91	2	166
<i>Specialised Compliance Units</i>						
TGA ¹	742	11	41	677	9	37
Aged and Community Care ²			5 200 ⁴		8	101
Family and Community Services ³		8	113 ⁵			

Notes:

** For the FPI Unit, the number includes allegations of fraud and mismanagement.
For TGA, the number includes breaches of the relevant legislation.

** Includes cases that were prosecuted, cases that are before the courts and cases under investigation by the AFP.

¹ For TGA the value of cases represents the value of fines imposed.

² In 1997/98 compliance activity was focused on the validation (audit) of payments of Commonwealth benefits to approved nursing homes for the residential care of the aged. The validation program was closed in June 1999, reflecting new funding arrangements for residential aged care.

³ The responsibility for making payments for Childcare Assistance (and for associated compliance activities) was passed to Centrelink on 1 July 1998.

⁴ This number relates to the value of fraud. It should also be noted that the validation of nursing home funding identified \$20.87 million in misclaimed funds during 1997/98.

⁵ This figure only relates to the value of cases before the court. Actual recoveries by the compliance units totalled \$8 million.

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