

The Auditor-General
Audit Report No.14 2003-04
Performance Audit

Survey of Fraud Control Arrangements in APS Agencies

Australian National Audit Office

© Commonwealth
of Australia 2003

ISSN 1036-7632

ISBN 0 642 80741 8

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth available from the Department of Communications, Information Technology and the Arts.

Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Intellectual Property Branch, Department of Communications, Information Technology and the Arts, GPO Box 2154 Canberra ACT 2601 or posted at

<http://www.dcita.gov.au/cca>



Canberra ACT
28 November 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Fraud Control Arrangements in APS Agencies*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

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.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team
Audrey Moffatt
Eric Turner
Fran Holbert

Contents

Abbreviations/Glossary	7
Summary	9
Summary	11
Background	11
Key findings	11
Overall audit conclusion	16
Audit Findings and Conclusions	19
1. Introduction	21
Background	21
Previous Australian National Audit Office (ANAO) audits	22
Audit objectives and methodology	22
This report	25
2. Defining and Measuring Fraud	27
Introduction	27
Defining fraud	28
Measuring fraud	31
Changes to the level of fraud	35
Conclusion	36
3. Fraud Control Planning	38
Introduction	38
Awareness of the Commonwealth Fraud Control Guidelines	38
Agency-specific fraud control policy	39
Codes of conduct/ethics	41
Fraud risk assessment	43
Outsourcing of risk assessments and fraud control planning	46
Fraud control plans	48
Conclusion	53
4. Fraud Awareness and Training	55
Introduction	55
Fraud awareness raising	55
Ethics awareness-raising	58
Ethics/Fraud awareness for third-party providers	59
General fraud control training	60
Fraud investigations training	61
Outsourcing of fraud-related training	62
Conclusion	64
5. Fraud Control Operations	66
Introduction	66
Structures for managing fraud	66
Procedures and guidelines	67
Mechanisms for reporting and recording fraud including fraud investigations	68
Management Information Systems	71

Quality assurance	73
Fraud related recoveries	73
Conclusion	74
6. Monitoring and Implementation of ANAO Recommendations	76
Introduction	76
Agency-specific Recommendations	76
Agency monitoring of ANAO Recommendations	77
Conclusion	83
Appendices	85
Appendix 1: Survey Questionnaire	87
Appendix 2: Criteria and core areas against which the ANAO reviewed risk assessments	104
Appendix 3: Bibliography	105
Series Titles	107
Better Practice Guides	108

Abbreviations/Glossary

ABC	Australian Broadcasting Corporation
ABS	Australian Bureau of Statistics
AFP	Australian Federal Police
AGD	Attorney-General's Department
ANAO	Australian National Audit Office
APS	Australian Public Service
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CAC	Commonwealth Authority or Company
CEIs	Chief Executive Instructions
CEO	Chief Executive Officer
DPP	Commonwealth Director of Public Prosecutions
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GBE	Government Business Enterprise
MIS	Management Information System

Summary

Summary

Background

1. In 1999, the ANAO conducted a survey of fraud control arrangements in Australian Public Service (APS) agencies, which revealed that although a majority of agencies had implemented relevant systems to prevent and deal with fraud, there was still a significant proportion of agencies that did not have appropriate arrangements in place.¹
2. In May 2002, the revised Commonwealth Fraud Control Guidelines (the Guidelines) were released by the Attorney-General. The May 2002 Guidelines included some significant changes from the previous Commonwealth Fraud Control Policy. APS agencies were made aware of these changes through the circulation of Consultation Drafts prior to the release of the revised Guidelines.
3. The ANAO decided to conduct another survey of fraud control arrangements in the APS to identify improvements made by agencies since the 1999 survey and in response to the revised Guidelines. One hundred and sixty agencies (including both FMA agencies and CAC bodies) were involved in the survey. Government Business Enterprises were not included.
4. The objective of the survey was to assess key aspects of the fraud control arrangements in place across APS agencies against the Commonwealth Fraud Control Guidelines 2002 (the Guidelines).

Key findings

Defining and Measuring Fraud (Chapter 2)

5. The survey responses revealed that agencies are using a variety of definitions for fraud, which impacts directly on the ability to measure the incidence and cost of fraud committed against the Commonwealth. In the absence of clear guidelines for agencies to follow in attributing a dollar value to a case of fraud, ANAO encourages agencies to report the value of fraud as estimated through their initial investigations.
6. Only 50 per cent of agencies that responded to the 2002 survey reported using the current Commonwealth definition set out in the Guidelines. Some 32 per cent advised they were still using the previous Commonwealth definition, 11 per cent advised they used an agency-specific definition and 7 per cent did not supply a definition to ANAO or indicated that they considered that a definition of fraud was not applicable to their operations.

¹ Audit Report No.47 1999-2000, *Survey of Fraud Control Arrangements in APS Agencies*, p.14.

7. ANAO appreciates that some agencies, particularly large agencies, have difficulty in applying the current Commonwealth definition in relation to all of their operations. For example, the provision of inaccurate information by applicants for Commonwealth benefits might constitute fraud within the quite broad Commonwealth definition. However, in practical terms, it can be very difficult to substantiate fraud if the actions of the applicant could also be considered to fall within the policy guidelines for the particular benefit. In these circumstances, agencies are more likely to seek to recover the Commonwealth funds involved through administrative recoveries than to categorise and pursue the matter as fraud (see paragraphs 5.33 to 5.38 for further discussion of administrative recoveries). ANAO notes that there is scope for future refinements of the Guidelines and/or other guidance to assist agencies by drawing out these issues further.

8. ANAO found that the lack of consistency was not limited to the overall definition of fraud used by an agency. Variations were also evident at other levels such as defining what constitutes an allegation of fraud and at what stage a case of fraud is considered proven. In addition, ANAO has identified, through various detailed performance audits on fraud control arrangements in selected agencies, that agencies often classify, treat and report matters resulting in losses to the Commonwealth as something other than fraud.

9. In response to ANAO's 2002 survey, agencies reported experiencing a total of \$1.69 million in internal fraud in 2000–01 and \$2.63 million in 2001–02. Agencies reported a total of \$115.13 million in external fraud in 2000–01 and \$90.7 million in 2001–02. However, these figures must be seen as only the minimum level of fraud because of a number of issues related to agencies' reporting of fraud, including the fact that a common definition of fraud is not used across the APS.

10. Accordingly, ANAO considers that agencies should work towards adopting the Commonwealth's current definition so that accurate data can be collected and analysed to provide accurate information about the level of fraud being perpetrated against the Commonwealth, the value of fraud, and emerging trends to inform fraud control activities across the Commonwealth.

11. Since the promulgation of the 1994 version of the Commonwealth Fraud Control Policy, agencies have been required to provide information on fraud matters to the Australian Federal Police (AFP) and the then Commonwealth Law Enforcement Board, which was part of the Attorney-General's Department (AGD). In addition, AGD also collected information on fraud matters from the AFP and the Director of Public Prosecutions (DPP). ANAO notes that the fraud data provided by agencies to AGD under the 1994 policy did not generate any outcome to agencies that would enable them to appreciate the context of their returns. In ANAO's experience, this can have implications for the quality of the data provided by agencies.

12. However, under the Guidelines introduced in May 2002, agencies are now required to report annually to AGD on an expanded range of information collected on fraud matters including suspected fraud, matters under investigation, completed matters, whether the fraud is proven or not, and whether the matter was dealt with by a criminal, civil or administrative remedy. In November 2003, AGD advised ANAO that, since the introduction of the current Guidelines, AGD has provided feedback to a number of agencies on their fraud control arrangements and reporting requirements. In addition, AGD noted that the Minister for Justice and Customs plans on writing to his Ministerial colleagues, on a portfolio by portfolio basis, detailing issues that have arisen out of the Fraud Annual Report to Government 2002–03, the first report to Government generated under the current Guidelines.

13. ANAO welcomes these developments and is jointly working with AGD on a Better Practice Guide for Fraud Control in the APS, expected to be released in the first half of 2004, that should provide further opportunities to improve data quality in agencies.

14. Detailed analysis of responses provided by agencies to the ANAO's 2002 survey indicated that there had been a slight increase in the percentage of APS agencies reporting having experienced fraud.² The 2002 survey also established that the bulk of fraud continues to be experienced by a small percentage of agencies with 99 per cent of the reported fraud committed against approximately 10 per cent of agencies as compared to 85 per cent of reported fraud committed against less than 10 per cent of agencies in the 1999 survey.

Fraud Control Planning (Chapter 3)

15. The survey showed that awareness of the current Guidelines was high among APS agencies, with 95 per cent reporting being aware. Some 80 per cent of agencies also reported having an agency-specific fraud control policy in place. In addition, more than half of the respondent agencies had also developed their own agency-specific code of conduct/ethics to complement the APS values and code of conduct prescribed by the *Public Service Act 1999*.

16. ANAO's analysis of agencies' responses to the 2002 survey indicated that fraud risk assessments had been undertaken by most agencies. However, only 69 per cent of respondents had undertaken such a risk assessment in the preceding two years, as required by the Guidelines. Given the changing nature of fraud, this could result in agencies not identifying emerging risks in a timely manner.

² Some 44 per cent of agencies responding to 2002 survey reported that they had experienced some fraud in the preceding two years as compared to 40 per cent of respondent agencies in the 1999 survey.

17. Some 70 per cent of respondent agencies reported that they had either developed or reviewed their fraud control plan in the preceding two years, in accordance with the Guidelines. Of the 30 per cent of agencies that reported not having reviewed their fraud control plan in the preceding two years, 11 were FMA agencies and 35 were CAC agencies. One FMA agency reported not having developed a fraud control plan at all, notwithstanding the requirement under section 45 of the FMA Act that the agency have a fraud control plan in place. Twenty-two CAC bodies also reported not having a fraud control plan in place.

18. ANAO's analysis of a sample of fraud control plans supplied by agencies in response to the survey identified a number of weaknesses, such as:

- plans not being based on recent risk assessments (that is undertaken in the preceding two years or on a rolling basis);
- plans not addressing the risks identified by the risk assessment; and
- responsibility not being allocated for development, implementation and review of the plans.

19. A particular issue ANAO noted was the tendency for agencies to comply with parts of the Guidelines rather than complying with them in full. For example, of the sample of 12 agency fraud control plans ANAO examined against the key features of an effective fraud control plan, as set out in the Guidelines, the *Australian/New Zealand Standard (AS/ANZS 4360:1999) Risk Management*, and *Guidelines for Managing Risk in the Australian and New Zealand Public Sector (HB143-1999)*, not one plan contained all of these key features.

Fraud Awareness and Training (Chapter 4)

20. Ninety-three per cent of responding APS agencies reported having undertaken some form of fraud awareness-raising activities. The main activities reported were the circulation of the fraud control plan and fraud control policy; inclusion of fraud-awareness in induction training; and the conduct of code of conduct/ethics training.

21. However, only 26 agencies had established specific policies and procedures to make consultants, suppliers and other third-party providers aware of and comply with, the agency fraud control policy. Given the widespread use of contracting arrangements, it is sound practice for agencies to take steps to effectively communicate to contractors the importance of ethical behaviour and the agency's approach to fraud.

22. There has been an increase in the number of agencies that provide some form of training to their staff in relation to fraud control. However, 2 per cent of the 47 agencies that reported fraud also reported that they did not provide any

form of relevant training to staff. This is a significant improvement on the previous survey where 22 per cent of agencies that had experienced fraud advised that they did not provide fraud control training to staff. While this is a welcome improvement, ANAO is concerned that at least 32 APS agencies (of the total 158 agencies that responded to this question) continue to omit providing any form of fraud control training to their staff.

23. A majority of agencies with staff responsible for fraud investigations reported they were in the process of getting their staff trained to the required competency level. Other agencies had put training plans in place to enable them meet the deadlines specified in the Guidelines for staff to achieve the required competency. One large agency recently advised ANAO that it had met 100 per cent of its training target as at 30 June 2003. There were a few other agencies that reported they had yet to put mechanisms in place to address this mandatory requirement as at the date of their survey response.

Fraud Control Operations (Chapter 5)

24. The majority of respondents reported having established appropriate management structures for fraud control, with the most common structure being the Audit Committee. Additionally, most agencies had developed and made available to staff, procedures and guidelines on the action to be taken in regard to fraud matters, including procedures for staff to report fraud. These guidelines were either independent documents or were part of documents such as agencies' Chief Executive's Instructions (CEIs). However, only a small number of agencies had systems that encouraged the community to report suspected fraud.

25. An important contribution to fraud prevention is to have a suitable management information system (MIS) that assists in identifying systemic issues or control weaknesses and helps to manage cases of fraud expeditiously once they have occurred. The ANAO asked agencies if they had an MIS in place for recording, monitoring and reporting all aspects of fraud control. Of the 157 agencies that responded to this question, only 48 agencies or some 31 per cent indicated that they had such an MIS in place. This reflected an increase of 14 per cent from the previous survey, in which only 17 per cent of respondents reported having such a system.

26. Of particular concern to the ANAO was that approximately 43 per cent of agencies that had reported having experienced fraud in the previous two years also advised that they did not have any form of fraud control MIS.

27. Agencies need to base their fraud control activities on sound information. However, ANAO also recognises the need for a fraud control MIS to be cost-effective for an agency. Accordingly, agencies need to tailor their MIS to meet

their individual needs. ANAO encourages all agencies to implement Guideline 8 and establish cost-effective systems tailored to meet their information needs for fraud control, recognising that for agencies with a low incidence of fraud a simple manual-based system may be sufficient.

28. ANAO's detailed performance audits on fraud control arrangements undertaken in various agencies revealed, among other things, that agencies were more often unable to identify a dollar value for the administrative recoveries effected internally by them, than for fraud-related recoveries. Agencies need to be able to identify this value to assist the Commonwealth estimate the amount of funds recovered in relation to the estimated amount lost to fraud. (See Chapter 5 for information on the level of fraud and administrative recoveries reported by agencies.)

Follow-up of ANAO Recommendations (Chapter 6)

29. The ANAO sought information from the agencies included in eight recent detailed performance audits on fraud control arrangements about their progress with implementing the recommendations included in these audit reports. Of the 35 recommendations, the audited agencies advised they had fully implemented 18 recommendations and were in the process of implementing a further 13. Of the remaining four recommendations, ANAO was advised that one had not been implemented but it was unclear to ANAO from the advice provided whether the other three were being implemented or not.

30. Some three quarters of respondent agencies reported that, in accordance with advice provided in Finance Circular No.2 of 1999, they were monitoring for general applicability ANAO recommendations made in performance audits of other agencies and were, as a result, implementing changes, where practical.³ Agencies that have not been monitoring the recommendations, are encouraged to do so, not only to enhance fraud control arrangements across the APS but, more generally, to ensure that all matters raised by ANAO that effect the agency are identified and satisfactorily addressed.

Overall audit conclusion

31. In comparison to the results from the previous survey, the ANAO concluded that a larger number of APS agencies had established suitable fraud control arrangements in line with the Commonwealth Guidelines. However, as

³ Finance Circular No.2 of 1999 on the *Follow-up of Auditor-General Matters*, recommended that agencies review all Auditor-General reports for applicability, identify matters that affect the entity and satisfactorily address the recommendations made.

described in paragraphs 16, 18 and 27, there are still a number of agencies that need to:

- undertake risk assessments on a regular basis to keep abreast of current trends and the changing nature of fraud;
- develop fraud control plans based on the most recent risk assessment, and to monitor and review the plans for effectiveness on a regular basis; and
- implement a cost-effective fraud control MIS to suit the needs of the agency.

32. The 2002 survey highlighted that 99 per cent of fraud against the Commonwealth is committed against approximately 10 per cent of the agencies. These agencies tended to be the ones with comprehensive fraud control systems in place. The other agencies that reported experiencing fraud, experienced relatively lower levels of it. This does not mean that those agencies that did not report fraud can assume an absence of it. It may mean that they either do not have the systems in place to detect fraud or that the systems already in place are ineffective or inadequate.

Audit Findings and Conclusions

1. Introduction

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

Background

1.1 The prevention and management of fraud are important issues for both the public and private sector. To demonstrate its commitment to the protection of its revenue, expenditure and property from fraudulent activity, the Commonwealth Government released its first *Fraud Control Policy* in 1987.

1.2 Since this first policy was issued, the Australian Public Service (APS) has experienced significant change. Emerging technologies and changes to the way the APS operates have changed the nature of the opportunities for fraud and have made its prevention, detection, and investigation more difficult. These changes have included new service delivery options, particularly the use of third party providers to supply services directly to the public; and an increasing use of information and communications technology.

1.3 In recognition of this dynamic environment, the Attorney-General's Department (AGD) conducted reviews of the Fraud Control Policy in 1994 and again in 1999. As a result of the 1999 review, the Minister for Justice and Customs issued new *Commonwealth Fraud Control Guidelines* (the Guidelines) under Regulation 19 of the *Financial Management and Accountability Act 1997* (FMA Act) in May 2002.⁴ In addition to FMA agencies, the Guidelines also apply to agencies operating under the *Commonwealth Authorities and Companies Act 1997* (CAC Act) that receive 50 per cent or more budget funding from the Commonwealth or Commonwealth Agencies.⁵

1.4 Under the FMA Act, agency Chief Executives are accountable to their Portfolio Minister(s) for the implementation of a fraud control plan and for reporting on fraud control initiatives undertaken within their agencies. The new Guidelines emphasise, among other things, the need for agencies to take a holistic and ongoing approach to the management of risks in line with modern corporate governance and the importance of staff achieving fraud prevention, detection, and investigation competence.

⁴ Regulation 19 of the FMA Act provides for the issue of fraud control guidelines and Regulation 20 requires that officials must have regard to the guidelines issued under Regulation 19.

⁵ *Commonwealth Fraud Control Guidelines*, May 2002, Guideline 1, paragraph 1.5, p.1.

Previous Australian National Audit Office (ANAO) audits

1.5 In recognition of the increasing risks APS agencies face in relation to fraud, the ANAO has undertaken a series of performance audits of fraud control arrangements in APS agencies. The main objective of these audits was to assess whether agencies had implemented fraud control arrangements in line with the then Fraud Control Policy of the Commonwealth and whether these arrangements were operating effectively in practice. The various fraud control audits undertaken are listed in Figure 1.1 below.

Figure 1.1

ANAO audits on Fraud Control

Fraud Control Arrangements in the Department of Education, Training and Youth Affairs, Auditor-General's Report No.4, 1999–2000;

Fraud Control Arrangements in the Department of Industry, Science and Resources, Auditor-General's Report No.5, 2000–01;

Fraud Control Arrangements in the Department of Health and Aged Care, Auditor-General's Report No.6, 2000–01;

Fraud Control Arrangements in the Australian Taxation Office, Auditor-General's Report No.16, 2000–01;

Fraud Control Arrangements in the Department of Defence, Auditor-General's Report No.22, 2000–01;

Fraud Control Arrangements in the Department of Family and Community Services, Auditor-General's Report No.45, 2000–01;

Fraud Control Arrangements in the Department of Agriculture, Fisheries and Forestry – Australia, Auditor General's Report No.20, 2001–02;

Management of Fraud and Incorrect Payments in Centrelink, Auditor-General's Report No.26, 2001–02;

Fraud Control Arrangements in the Department of Veterans' Affairs, Auditor-General's Report No.6, 2002–03; and

Fraud Control Arrangements in the Australian Customs Service, Auditor-General's Report No.35, 2002–03.

1.6 As well as the audits mentioned in Figure 1.1, the ANAO also undertook a survey of Fraud Control Arrangements in the APS in 1999, which provided an overall view of the arrangements in place to manage fraud across the APS.⁶

Audit objectives and methodology

1.7 Drafts of the current Guidelines had been circulating amongst agencies since July 1999. Consequently, agencies have been aware for some time of the main changes that were to occur and had the opportunity to consider the implications of the revisions to the Guidelines for their fraud control activities.

⁶ *Survey of Fraud Control Arrangements in APS Agencies, Auditor-General's Report No.47, 1999-2000.*

1.8 Following the release of the revised Guidelines in May 2002, ANAO decided to conduct a further survey of fraud control arrangements in the APS in order to identify what improvements agencies considered they had made since the 1999 survey and in response to the revised Guidelines.

1.9 The overall objective of the second ANAO survey was to assess, against the Guidelines, key aspects of APS agencies' fraud control arrangements in order to:

- provide a degree of assurance to the Parliament on the preparedness of agencies to effectively prevent and deal with fraud; and
- indicate to agencies any areas for improvement identified as a result of the survey.

1.10 The survey questionnaire was sent to 160 APS agencies covered by the FMA Act and the CAC Act, excluding Government Business Enterprises. The questionnaire used for the 1999 survey was revised for this audit to reflect the changes in the new Guidelines. The Australian Bureau of Statistics (ABS) provided advice on the design of the ANAO's questions aimed at ensuring that appropriate and full responses would be elicited, comparisons would be able to be drawn with the previous survey and robust results would be provided.

1.11 ANAO's second survey, which is replicated at Appendix 1, sought information from APS agencies on:

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

1.12 Responses were received from 158 agencies, which represented a response rate of 99 per cent, up from a response rate of 76 per cent in the previous survey.

Comments in the report only relate to the arrangements in place in those agencies that responded to the survey. Figure 1.2 below provides a breakdown of the agencies that responded to the survey.

Figure 1.2

Agencies that responded to the survey

	CAC Bodies	FMA Agencies	Total
Number of agencies surveyed	86	74	160
Number of agencies that responded	84	74	158

1.13 As well as completing the questionnaire, agencies were asked to provide a range of documents in support of their response to the survey. These included a copy of their most recent risk assessments, fraud control plans, guidelines and procedures for the management of fraud, and a sample of reports to management on fraud matters. A sample of this documentation was analysed against the requirements of the Guidelines and is discussed in the relevant sections of the report.

1.14 To provide assurance that the survey responses had been considered at a sufficiently senior level within agencies, the ANAO required the questionnaire to be signed-off by an officer with appropriate authorisation.⁷ In addition, the documents provided as attachments to the questionnaire were used to verify responses.

1.15 The survey also sought information from 8 of the 10 agencies that had been subject to detailed ANAO fraud audits, on the action taken by them to implement the agency-specific ANAO recommendations. The other two agencies that were subject to the detailed audits were not approached because one of them would not have had sufficient time to implement the ANAO recommendations and the audit of the other agency was completed after the commencement of the survey.

1.16 In addition, those agencies that had not been subject to detailed fraud audits were requested to provide information about whether they monitor all ANAO recommendations for applicability to their respective agencies and whether they had implemented the generally applicable recommendations included in the agency-specific fraud audits. The analysis of all of this information is provided in Chapter 6 of this audit report.

⁷ Such as the Director of Corporate Services, the Head of Internal Audit or a senior officer with responsibility for the audit and investigation function within the agency.

Presentation of results

1.17 It is important to note that not every agency answered every question in the survey. Accordingly, the reported results for each question relate only to the agencies that responded to the question. The tables in the report that set out the results of the survey questions each identify the total number of respondents for that particular question, as well as the break-down of agencies' responses.

1.18 As with any survey, the results should be taken as indicative rather than definitive, because they only represent the views of the person completing the survey. This is also true in comparing the results of this survey with the results obtained from the previous ANAO survey. Nevertheless, each of the two surveys had a sufficient response rate to ensure the results are indicative of the overall position in the APS.

This report

1.19 Chapter 2 of this report examines the definitions of fraud used by agencies and draws together information on the nature and level of reported fraud across the APS. Chapter 3 discusses awareness of the new Guidelines and the fraud control planning framework present in the agencies surveyed. It covers agency policy and codes of ethics/conduct, fraud risk assessments and fraud control plans and assesses these against the requirements of the Guidelines. Chapter 4 discusses fraud awareness and training measures undertaken by agencies. Chapter 5 examines fraud control operations, including management structures, procedures and guidelines for operational matters such as fraud reporting; fraud investigations and information systems; and administrative and fraud-related recoveries. Chapter 6 examines APS agencies' responses to the recommendations included in ANAO's detailed performance audits on fraud control arrangements in particular agencies.

1.20 The audit findings in this report draw attention to examples of better practice through case studies, both where these are strengths of APS agencies, and where individual agencies have provided examples that the ANAO considers represent sound practice. The report also highlights areas of general weaknesses across the APS.

1.21 Building on the two ANAO fraud control arrangements surveys and ANAO's agency-specific fraud control audit reports, the ANAO has commenced, in cooperation with AGD, the preparation of a Better Practice Guide on fraud control arrangements. The guide is expected to be available in the first half of 2004.

1.22 The audit was conducted in conformance with ANAO auditing standards at a total cost to the ANAO of \$181 000.

2. Defining and Measuring Fraud

This chapter examines the consistency of definitions of fraud used by APS agencies, issues associated with the measurement of fraud and possible future trends in the type and level of fraud.

Introduction

2.1 As previously stated the first *Commonwealth Fraud Control Policy* was promulgated in 1987 and this policy was updated in 1994. These policy documents both contained the following definition of fraud.

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 other benefit from, or of evading a liability to, the Commonwealth.

2.2 The definition in the May 2002 Guidelines was modified and states that fraud is:

Dishonestly obtaining a benefit by deception or other means.

2.3 The types of offences encompassed in this definition include:⁸

- theft;
 - obtaining property, a financial advantage or any other benefit by deception;
 - causing a loss, or avoiding or creating a liability by deception;
 - providing false or misleading information to the Commonwealth, or failing to provide information where there is an obligation to do so;
 - making, using or possessing forged or falsified documents;
 - bribery, corruption or abuse of office;
 - unlawful use of Commonwealth computers, vehicles, telephones and other property or services;
 - relevant bankruptcy offences; and
 - any offences of a like nature to those listed above.
- 2.4 The ANAO's 1999 survey sought to gain an understanding of:
- the extent to which agencies were using the Commonwealth definition of fraud applicable at the time;
 - the nature and level of fraud being committed; and

⁸ *Commonwealth Fraud Control Guidelines*, May 2002, p.4, paragraph 2.2.

- the possible changes to the level of fraud against the Commonwealth.
- 2.5 In this survey, the ANAO sought to establish:
- whether agencies had adopted the current Commonwealth definition of fraud;
 - whether there were any changes to the nature of fraud being detected; and
 - any changes to the identified level of fraud against the Commonwealth.

Defining fraud

2.6 The use of a common definition across the APS would make it possible to collect and collate consistent data from Australian Government agencies to allow an accurate assessment of the nature, level and value of fraud committed against the Commonwealth. Since the promulgation of the first *Commonwealth Fraud Control Policy* in 1987, the expectation has been that the definition of fraud used in the prevailing Policy would be adopted by all Australian Government agencies.

2.7 However, previous ANAO audits, and discussions with key stakeholders in relation to fraud control, have indicated a number of problems with the collection and collation of data on fraud matters. In particular, the collection of APS-wide data is problematic, because it was found that agencies interpreted and defined what constitutes fraud differently.

2.8 In both the 1999 and 2002 surveys, ANAO asked agencies to advise the definition of fraud that they used. Some 60 per cent of agencies that responded to the 1999 survey stated that they used the then applicable Commonwealth definition of fraud.

2.9 Only 50 per cent of agencies that responded to the 2002 survey reported using the current definition, introduced in May 2002. Some 32 per cent advised they were still using the previous Commonwealth definition, 11 per cent advised they used an agency-specific definition and 7 per cent did not supply a definition to ANAO or indicated that they considered that a definition of fraud was not applicable to their operations.

2.10 ANAO appreciates that some agencies, particularly large agencies, have difficulty in applying the current Commonwealth definition in relation to all of their operations. For example, the provision of inaccurate information by applicants for Commonwealth benefits might constitute fraud within the quite broad Commonwealth definition. However, in practical terms, it can be very difficult to substantiate fraud if the actions of the applicant could also be

considered to fall within the policy guidelines for the particular benefit. In these circumstances, agencies are more likely to seek to recover the Commonwealth funds involved through administrative recoveries than to categorise and pursue the matter as fraud (see paragraphs 5.32 to 5.37 for further discussion of administrative recoveries). ANAO notes that there is scope for future refinements of the Guidelines and/or other guidance to assist agencies by drawing out these issues further.

2.11 ANAO is also concerned that some agencies continue to consider that a definition of fraud is not applicable to their operations at all. There is an inherent risk of fraud, albeit to a greater or lesser extent, in all agencies receiving public funding. Accordingly, the risks of fraud need to be assessed and treated. A step in this process involves defining fraud. The Guidelines set out the Commonwealth's definition and these Guidelines apply to all FMA agencies and all CAC bodies receiving at least 50 per cent of funding for their operating costs from the Commonwealth. In addition, the Guidelines note that all other CAC bodies are also strongly encouraged to comply.

2.12 Agencies had been made aware of the proposal to introduce the current Commonwealth definition as long ago as May 2001 through the circulation of Consultation Draft No.2 of the Guidelines, in which it was first proposed, and through discussions and presentations, particularly at the Fraud Liaison Forum.⁹ Accordingly, ANAO is concerned that only half of the 160 FMA and CAC agencies surveyed reported implementing the current Commonwealth definition of fraud as specified in the May 2002 Guidelines.

2.13 The Commonwealth definition of fraud as specified by the Guidelines is very broad. Accordingly, there are potential benefits to be gained from agencies providing guidance to their staff on how the Commonwealth definition applies in the circumstances of the individual agency. However, ANAO's review of responses to the 2002 survey identified that some agencies, in interpreting the Commonwealth's definition in terms of their own business, actually changed and limited the scope of the definition.

2.14 For example, one agency stated that its definition of fraud was limited to the inappropriate or unauthorised use of credit cards. The ANAO notes that in reducing the scope of the Commonwealth definition of fraud, or in adopting an entirely different definition, agencies are not complying with the Guidelines and may not be considering the full range of emerging fraud trends and broader risks. It also means that comparable data on fraud will not be available for the APS as a whole.

⁹ The Fraud Liaison Forum is a meeting of Commonwealth agencies, organised three to four times a year at which issues such as the current fraud trends, agencies' experiences in relation to fraud, the changing nature and scope of fraud and other related issues are discussed.

2.15 The ANAO encourages all agencies, which are yet to adopt as a basis for their fraud control arrangements the Commonwealth definition of fraud (as specified in Guideline 2), do so as a matter of urgency.¹⁰

Other definition issues

2.16 The ANAO found that the lack of consistency was not limited to an agency's overall definition of fraud. For example, the way agencies reported the value of fraud also varied. Some agencies report the alleged total amount of the fraud as initially estimated by the agency while others report either the amount in respect of which the case was prosecuted by the Commonwealth Director of Public Prosecutions (DPP) or the amount for which the person was finally convicted. ANAO notes that there currently are no clear guidelines for agencies to follow in attributing a dollar value to a case of fraud. However, in reporting fraud, agencies are encouraged to report the value of fraud that they have estimated it to be through their initial investigations.

2.17 Variations were also evident at other levels such as defining:

- what constitutes an allegation of fraud—some agencies treat information about possible fraud as an allegation of fraud from the time it is reported, while others conduct preliminary investigations prior to treating the instance as an allegation of fraud; and
- at what stage a case of fraud is proven—some agencies consider that once an allegation is substantiated by sufficient evidence a case of fraud is proven; while others consider that a case of fraud is proven only when the person is convicted or a court otherwise rules that fraud is proven.

2.18 Through the various detailed performance audits on fraud control arrangements in the APS, the ANAO found that agencies often classify, treat and report matters resulting in losses to the Commonwealth as something other than fraud.¹¹ This is because it is easier and substantially cheaper to resolve such matters administratively rather than proving criminal intent and subsequently using the criminal justice system to investigate and prosecute fraud.

2.19 The ANAO is aware that, given the varying nature of businesses involved, getting agencies to adopt a common definition for fraud across the APS and to adhere to it for every instance of fraud is proving difficult to achieve. However, in developing the current Guidelines, the Commonwealth definition of fraud was reviewed and developed further to reflect the current environment and to take account of both the tangible and intangible benefits that can be obtained

¹⁰ *Commonwealth Fraud Control Guidelines*, May 2002, p. 4.

¹¹ Agencies have been known to classify potentially fraudulent matters as overpayments, over-servicing, administrative/customer errors and losses.

through fraud. In light of this, agencies should work towards adopting the Commonwealth's current definition so that accurate data can be collected and analysed to provide information such as, the level of fraud being perpetrated against the Commonwealth, the value of fraud, and emerging trends to inform fraud control activities across the Commonwealth.

Measuring fraud

2.20 Since the promulgation of the 1994 version of the Commonwealth Fraud Control Policy, agencies have been required to provide information on fraud matters to the Australian Federal Police (AFP) and the then Commonwealth Law Enforcement Board, which was part of the Attorney-General's Department (AGD). In addition, AGD also collected information on fraud matters from the AFP and the DPP. ANAO notes that the fraud data provided by agencies to AGD under the 1994 policy did not generate any outcome to agencies that would enable them to appreciate the context of their returns. In ANAO's experience, this can have implications for the quality of the data provided by agencies.

2.21 However, under the Guidelines introduced in May 2002, agencies are now required to report annually to AGD on an expanded range of information collected on fraud matters including suspected fraud, matters under investigation, completed matters, whether the fraud is proven or not, and whether the matter was dealt with by a criminal, civil or administrative remedy. In November 2003, AGD advised ANAO that, since the introduction of the current Guidelines, AGD has provided feedback to a number of agencies on their fraud control arrangements and reporting requirements. In addition, AGD noted that the Minister for Justice and Customs plans on writing to his Ministerial colleagues, on a portfolio by portfolio basis, detailing issues that have arisen out of the Fraud Annual Report to Government 2002–03, the first report to Government generated under the current Guidelines.

2.22 ANAO welcomes these developments and is jointly working with AGD on a Better Practice Guide for Fraud Control in the APS, expected to be released in the first half of 2004, that should provide further opportunities to improve data quality in agencies.

2.23 In order to attempt to measure the extent of fraud against the Commonwealth, the ANAO asked agencies to provide information for the financial years 2000–01 and 2001–02 on the:

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

2.24 The following Figure 2.1 provides a breakdown of the agencies that reported fraud and those that did not report fraud, by FMA agencies and CAC bodies.

Figure 2.1

Breakdown of agencies with and without reported fraud ^a

	Agencies that reported fraud in preceding two years		Agencies with no reported fraud in preceding two years		Agencies that did not respond
	Number	Percentage ^b	Number	Percentage ^b	Number
FMA Agencies	28	26%	3	3%	43
CAC Bodies	19	18%	56	53%	11
Total number of agencies	47	44%	59	56%	54

^a 106 agencies from a total of 160 agencies surveyed, responded to this question.

^b Percentage of responding agencies.

2.25 Figure 2.2 provides, with associated commentary in comparison to the results obtained in the 1999 survey, the results of the agencies' responses to the questions set out in paragraph 2.23. It was beyond the scope of the survey for the ANAO to undertake testing of the actual level of fraud experienced by agencies compared to the amount reported by agencies in the survey.

2.26 It should also be noted that the value of fraud included in Figure 2.2 represents only a minimum level of fraud because of a number of issues related to agencies' reporting of fraud, including the fact that a common definition of fraud is not used across the APS.

Figure 2.2**Extent of fraud reported by surveyed APS agencies in response to ANAO's 1999–2000 and 2002–2003 surveys ^a**

		Financial years	Number of fraud allegations	Number of fraud cases	Value of fraud cases ^b (\$'000)
Internal Fraud ^c					
1999 Survey	{	1997–98	1 310	352	1 039
		1998–99	1 220	348	9 289
2002 Survey	{	2000–01	2 271	1 605	1 690
		2001–02	2 782	1 540	2 629
External Fraud ^d					
1999 Survey	{	1997–98	5 775	3 510	152 137
		1998–99	5 257	3 702	136 573
2002 Survey	{	2000–01	7 328	4 002	115 127
		2001–02	8 380	4 971	90 700

Source: ANAO Surveys 1999 and 2002.

Note: The Survey in 1999 sought information from agencies for the preceding two financial years namely 1997–98 and 1998–99 and the survey in 2002 requested information for 2000–01 and 2001–02. Information for the year 1999–2000 was not collected.

^a 106 agencies responded to this question out of a total of 158 agencies who responded overall to the 2002 survey. A total of 160 FMA agencies and CAC bodies made up the total population of the 2002 survey. Only 14 agencies provided information for both financial years while other agencies provided information for one year only. Twenty-three agencies provided information on internal fraud alone, while 9 agencies provided information on external fraud only.

^b Thirty-nine agencies of the 160 included in the 2002 survey were able to provide a dollar value of fraud cases. Of these, not all agencies were able to provide all the relevant data.

^c Internal fraud generally refers to fraud committed by people employed by Commonwealth agencies.

^d External fraud generally refers to fraud committed by parties external to Commonwealth agencies.

2.27 In interpreting the results reported in Figure 2.2 relating to the 2002 survey, the following issues need to be taken into account:

- of those agencies that responded, a number could not provide data for the two financial years because of changes to departmental responsibilities and administrative arrangements;¹²
- eight respondents that reported fraud did not provide information on the value of fraud cases in their agencies. This was primarily because the particular cases were yet to be finalised;

¹² Administrative Arrangements Order of 26 November 2001.

- the varying definitions used by agencies mean that data from different agencies may not be strictly comparable. Also, agencies have indicated that they may classify matters as something other than fraud (see footnote 11);
- individual agencies have different data collection and reporting practices;
- activities that fall within the Commonwealth definition are not always prosecuted under the category of fraud, falling instead under other sections of the *Crimes Act 1914* and other relevant legislation;¹³ and
- there are problems in determining how the dollar value of fraud should be measured. For example, agencies were not sure which value to indicate—namely:
 - the detected value or the value quoted in an allegation;
 - the actual amount defrauded;
 - the estimated value; or
 - the value for which the offender is finally convicted.

2.28 Similar issues also apply to the results relating to the 1999 survey.¹⁴ In addition, it should also be noted that the response rate for the 2002 survey was 99 per cent in comparison to the 76 per cent for the previous survey.

2.29 Quantifying the cost of fraud based on the number/results of prosecutions is also not accurate because the Director of Public Prosecutions may lay charges for only part of the fraud and does not always accept all cases referred to it for prosecution. Accordingly, this measure does not allow an accurate assessment of the level of fraud committed.

2.30 The comparison of the figures in Figure 2.2 show an increase in the number of fraud allegations and cases of fraud and a decrease in the value of fraud cases reported by APS agencies since the last survey.

2.31 Likely factors in these changes in agencies' reported fraud experiences are that:

- APS agencies are more aware of their responsibilities in relation to fraud prevention and control and are putting in place arrangements to prevent and detect it;

¹³ These issues have also been identified by the Australian Institute of Criminology as creating problems in the identification and measurement of fraud in both the public and private sector. See Smith, R. G., 'Measuring the Extent of Fraud in Australia', Australian Institute of Criminology Trends and Issues Paper No.74, Canberra, 1997.

¹⁴ ANAO Report No.47, paragraph 2.15, p. 29,

- agencies are capturing incidents such as inappropriate internet activity, under the current broader definition of fraud. Such incidents may have previously been classified as something other than fraud; and
- the fraud prevention and control arrangements implemented by the agencies are effectively identifying more cases of fraud thereby deterring perpetrators of fraud and in turn, reducing the losses to the Commonwealth.

2.32 In the 1999 survey, the category of internal fraud reported as occurring most frequently was the inappropriate use of Commonwealth petty cash and other negotiable instruments. The 2002 survey shows an increase in the improper use of Commonwealth property. The other frequent forms of fraud identified in this survey included inappropriate use of Commonwealth petty cash, the improper use of travel funds and credit cards. Other, less frequent, forms of internal fraud reported by agencies in the 2002 survey included information leaks, misuse of position by a member of staff, overtime fraud, bribery and corruption.

2.33 As for the previous survey, the most frequent form of external fraud reported in the 2002 survey was fraudulent claims for Commonwealth benefits and payments. This form of fraud also had the greatest dollar value attributed to it, \$28 million in 2000–01 and \$42 million in 2001–02. The category that recorded the second highest level of external fraud involved breaches against administered legislation and excise fraud.

2.34 Detailed analysis of the responses provided by agencies to the 2002 survey indicate that there has been a slight increase in the percentage of APS agencies experiencing fraud and that the bulk of the fraud is still being experienced by a small percentage of agencies:

- 44 per cent of the respondent agencies reported that they had experienced some fraud in the previous two years as compared to the 40 per cent of respondent agencies in the 1999 survey; and
- 99 per cent of the reported fraud was committed against approximately 10 per cent of agencies as compared to 85 per cent of fraud being committed against less than 10 per cent of agencies in the 1999 survey.

Changes to the level of fraud

2.35 In the latest survey, the ANAO asked agencies to comment on whether they expected the level of fraud to increase, remain unchanged or decrease over the next two years. Agencies' responses to this question are set out below in Figure 2.3.

Figure 2.3

Agency predictions on future levels of fraud

No. agencies predicting an increase in fraud	No. agencies predicting a decrease in fraud	No. agencies predicting no change	No. agencies that did not respond
12	2	137	7

Note: 151 agencies responded to this question. 158 agencies from a total population of 160 agencies surveyed, responded overall.

2.36 Only two agencies advised ANAO that they anticipated a future reduction in the level of fraud. One of these agencies stated this on the basis that it was winding down. The other agency advised that it expected the level of fraud experienced by the agency to reduce because it had introduced a rolling fraud risk assessment to be conducted in-house.

2.37 The ANAO noted that those agencies that reported that they did not anticipate a change in the level of fraud they faced, stated the following reasons for doing so:

- the controls they had in place were effective and would prevent and detect fraud; and
- they had experienced either no fraud or only isolated incidents to date.

2.38 Some of the reasons given by agencies predicting increases in identified fraud were:

- better fraud control programs that increase the ability to detect fraud;
- changed legislative requirements and business processes with greater focus on preventing fraud; and
- increase in the use of electronic business, with information and communications technology and credit card exposure opening new opportunities.

Conclusion

2.39 Agencies are using a variety of definitions for fraud, with only 50 per cent of agencies that responded to the 2002 survey reporting using the current definition, introduced in May 2002. Some 32 per cent advised they were still using the previous Commonwealth definition, 11 per cent advised they used an agency-specific definition and 7 per cent did not supply a definition to ANAO or indicated that they considered that a definition of fraud was not applicable to their operations.

2.40 This has been an ongoing issue and one that has an impact on measuring the incidence and cost of fraud committed against the Commonwealth.

2.41 Agencies, in response to ANAO's 2002 survey, reported experiencing a total of \$1.69 million in internal fraud in 2000–01 and \$2.63 million in 2001–02. They reported a total of \$115.13 million in external fraud in 2000–01 and \$90.7 million in 2001–02. However, the reported value of fraud represents only a minimum level of fraud because of a number of issues related to agencies' reporting of fraud, including the fact that a common definition of fraud is not used across the APS.

2.42 Accordingly, ANAO considers that agencies should work towards adopting the Commonwealth's current definition so that accurate data can be collected and analysed to provide accurate information about the level of fraud being perpetrated against the Commonwealth, the value of fraud, and emerging trends to inform fraud control activities across the Commonwealth.

2.43 In addition, there may also be benefit in agencies further disaggregating the categories of losses currently required to be reported annually to AGD. This would assist in both understanding the nature of fraud experienced by the Commonwealth and in determining the most appropriate control measures.

3. Fraud Control Planning

This chapter examines agencies' frameworks for preventing and managing fraud, including an agency-specific fraud policy, codes of ethics/conduct, fraud risk assessment and related fraud control planning.

Introduction

3.1 Sound corporate governance for fraud control requires agencies to have an overall policy and planning regime in place to prevent, detect, and deal with fraud. The Guidelines set out what agencies need to do when establishing their fraud control arrangements. The ANAO's 2002 survey, therefore, sought information on:

- agencies' awareness of the requirements of the Guidelines;
- whether agencies had developed a specific policy on fraud control relevant to the agency's business operations;
- whether agencies had developed agency-specific codes of ethics and conduct;
- whether agencies regularly undertook risk assessments to underpin fraud control planning; and
- whether agencies had developed an agency-wide fraud control plan based on a fraud risk assessment and reflective of agency and Commonwealth policy in relation to fraud control.

3.2 Each of these matters are discussed under separate headings below.

Awareness of the Commonwealth Fraud Control Guidelines

3.3 The 1999 ANAO survey asked agencies whether they were aware of the Consultation Draft then circulating as part of the process for developing the May 2002 Guidelines. Only some 79 per cent of agencies that responded to the 1999 survey indicated they were aware of the Consultation Draft.

3.4 The ANAO's 2002 survey asked agencies for information about their awareness of the current Guidelines. Agencies' responses are summarised in the Figure 3.1 below.

Figure 3.1**Awareness of Commonwealth Fraud Control Guidelines 2002**

	FMA Agencies	CAC Bodies	Total ^a
Aware	72	78	150
Not aware	2	6	8

^a 158 agencies responded to this question about awareness of the revised Guidelines from a total of 160 agencies surveyed.

3.5 As noted earlier, 99 per cent of agencies responded to the ANAO's 2002 survey. The survey results show that 95 per cent of these agencies indicated they were aware of the revised Guidelines. In this circumstance, it is clear that agencies are now generally aware of the Commonwealth's current policy on this important area of risk.

Agency-specific fraud control policy

3.6 As part of fostering an environment that encourages fraud prevention and control, the Guidelines provide that 'agencies are to prepare and widely distribute ...a statement of their approach and policy towards fraud.'¹⁵ Accordingly, the ANAO asked agencies 'Does your agency have a written fraud control policy in place?' Figure 3.2 sets out the responses to this question.

Figure 3.2**Existence of Agency-specific fraud control policy**

	FMA Agencies	CAC bodies	Total ^a
Yes	68	57	125
No	6	26	32

^a 157 FMA agencies and CAC bodies responded to this question. 158 agencies of the total population of 160 agencies surveyed, responded overall.

3.7 Figure 3.2 indicates that some 20 per cent of respondent agencies advised that they did not have a specific fraud control policy in place in their agency. This is a nine per cent improvement on the results of the 1999 survey.¹⁶

3.8 As in the previous survey, many of the 80 per cent of agencies who advised they had a fraud control policy also indicated that they set out their policies and requirements in other documentation, such as Chief Executive Instructions (CEIs) or procedures and guidelines for fraud control.

¹⁵ *Commonwealth Fraud Control Guidelines*, May 2002, p. 8. For FMA agencies, the Guidelines are reflective of Section 45 of the FMA Act, which, requires CEOs to implement a fraud control plan for their agency... (and) have principal responsibility for fraud control within their agencies.

¹⁶ In the 1999 survey, 106 agencies responded to this question with 31 agencies (29 per cent) indicating that they did not have an agency-specific fraud control policy.

3.9 Agency fraud control policies provided to the ANAO varied in both format and content. A large number simply reproduced the Commonwealth fraud control policy as outlined in Guideline 1 of the current Guidelines. Others were tailored to meet the specific needs and circumstances of the agency more fully. A number of agencies also combined their fraud control policy with their fraud control plan. Nevertheless, most agencies' policies contained common elements, including:

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

Figure 3.3

Examples of better practice in fraud control policies

A. CAC Body

The Australian Broadcasting Corporation (ABC) presented its fraud control policy in a booklet that aimed at providing all staff with a guide to good ethical conduct and awareness of fraud and fraud prevention. The booklet not only summarised the agency's attitude towards fraud, but also clearly and simply spelt out individuals' responsibilities with relevant examples to maintain high standards of ethical behaviour and to report suspected fraud. The booklet was written in a personal style. It used phrases such as 'The unauthorised communication of the Corporation's activities, documents or even rumours hurts the ABC. It hurts our standing in the community and impacts on morale' and 'Unauthorised borrowing and use of equipment places ABC assets at greater risk and may not be covered by our insurance'. This personal style encourages staff members to adopt the policy as part of the way they did their job by making them feel that the policy was relevant to them.

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

- the unauthorised borrowing and use of agency equipment;
- misuse of confidential information;
- inappropriate claims; and
- misuse of agency property.

The personal style, the examples given and the explanation of why particular actions were wrong made the policy user-friendly. It was a relatively simple method of reinforcing the policy's message and raising staff awareness of fraud-related issues. This method of promoting and circulating an agency's fraud control policy would be able to be adapted for use by agencies, as such a booklet could be produced relatively inexpensively in-house.

B. FMA Agency

The Department of Foreign Affairs and Trade's fraud control policy outlines the Commonwealth's Fraud Control Policy described in Guideline 1 of the current Guidelines and then personalises it by attaching a message from the Secretary reinforcing to staff their obligation to report any suspected fraud. The message detailed the acceptable procedures for staff to follow in reporting an allegation, described the investigation process and then assured them of the Secretary's commitment to 'protecting concerned officers who, on reasonable grounds and in good faith, make an allegation of misconduct...' He also explained what was unacceptable and that spurious allegations would not be tolerated. This approach not only reinforces the Secretary's attitude towards fraud, but also gives staff the confidence that such matters would be dealt with impartially, expeditiously and methodically.

Source: ANAO analysis of responses and documentation provided by agencies in response to the October 2002 survey.

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

Codes of conduct/ethics

3.11 A code of conduct/ethics sets out the standard of conduct required of employees and is an important step in creating an ethical climate in any organisation. It describes corporate values, standards of behaviour for staff and defines accepted practice. Since November 1999, when the *Public Service Act 1999* commenced, the APS values and code of conduct have been set out in legislation.¹⁷

3.12 In addition, under section 44 of the *FMA Act*, CEOs are responsible for promoting efficient, effective and ethical use of Commonwealth resources. This responsibility is also reiterated in the Guidelines.¹⁸

3.13 In his foreword to the *APS Values and Code of Conduct in Practice—A Guide to Official Conduct for APS Employees and Agency Heads*, which was launched in August 2003, the Australian Public Service Commissioner indicated that while the Guide provides APS employees and Agency Heads with a useful summary of important legal requirements across the APS, it does not attempt to be comprehensive. The Commissioner noted that CEIs and other agency guidelines provide APS employees with agency-specific policies and guidelines.

3.14 The ANAO asked agencies in the October 2002 survey whether they had an agency-specific code of conduct or ethics. The responses are summarised in Figure 3.4 below.

¹⁷ Section 10 of the Public Service Act prescribes the APS values, which are supplemented by directions issued by the Public Service Commissioner under section 11 of the Act. The APS Code of Conduct is prescribed by section 13 of the Act and penalties for breaches of the APS Code of Conduct are set out in section 15 of the Act.

¹⁸ *Commonwealth Fraud Control Guidelines*, May 2002, p. 5, paragraph 2.8

Figure 3.4

Existence of agency-specific codes of conduct/ethics

	FMA agencies	CAC bodies	Total ^a
Yes	42	57	99
No	31	24	55

^a 154 FMA agencies and CAC bodies responded to this question. 158 agencies of the total population of 160 agencies surveyed, responded overall.

3.15 Some 64 per cent of agencies that responded to this question advised that they had an agency-specific code of ethics/conduct in place. Some of these were outlined in CEIs. A number of other agencies indicated that they relied on the APS code of conduct.

3.16 The case studies discussed in Figure 3.5 below provide some practical examples of the types of issues that could be included in an agency-specific code of ethics/conduct.¹⁹

Figure 3.5

Approaches to agency-specific codes of conduct/ethics

The ANAO examined a number of agency-specific codes of ethics/conduct and identified two key approaches - a principles-based approach and more prescriptive codes.

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

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

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

The Department of Defence (Defence) has used this approach and produced a handbook *'ethics matters in Defence Resource Management'* which outlines what ethics are about, why they matter in Defence and then describes ethical resource management and how to solve ethical dilemmas. The handbook uses a personal approach and outlines different scenarios, aided by humorous cartoons, which would be a breach of the Department's code of ethics. The handbook also provides guidance on obtaining more detailed advice on

¹⁹ For further information on better practice in codes of conduct, see Independent Commission against Corruption, *'Ethics: the key to good management'*, 1998, available [online] at <<http://www.icac.nsw.gov.au>>

various ethical concerns. It supports Defence values and is designed to be of use to personnel at all levels of the organisation.

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

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

Source: ANAO analysis of responses and documentation provided by agencies in response to the October 2002 survey.

Fraud risk assessment

3.17 The *Commonwealth Fraud Control Guidelines* include the following quote from the Australian/New Zealand Standard on Risk Management:

Risk management is ... an integral part of good management practice. It is an iterative process consisting of well-defined steps which, taken in sequence, support better decision making by contributing greater insights into risks and their impacts. To be most effective, risk management should become part of an organisation's culture and be integrated into its philosophy, practices and business plans rather than be viewed or practiced as a separate program.

3.18 The Guidelines go on to state that when risk management 'is integrated into the agency's practices, it becomes the business of everyone in the organisation'. The Guidelines recognise that the process of risk assessment is one of continuing improvement, wherein agencies refine their fraud risk assessments on an ongoing basis. They also provide that fraud control arrangements should be reviewed by agencies at least every two years.

3.19 The current Guidelines state that 'agencies are to conduct fraud risk assessments at least every two years' and 'where appropriate ... may introduce a rolling program of updating risk assessments'. The Guidelines state that risk assessments must consider fraud risks to the agency from both internal and external factors, as well as risks that may emerge in the future given the changing nature of fraud. Undertaking such risk assessments, with the use of emerging information and systems and the involvement of employees at all levels, can serve to raise staff awareness of fraud risks and fraud issues.

3.20 The ANAO's 2002 survey sought to establish whether:

- agencies had conducted a fraud risk assessment within the preceding two years;
- the risk assessments had been undertaken in-house or whether consultants had been used to undertake them; and
- the risk assessments provided to the ANAO by agencies met the requirements of the Guidelines.

3.21 Each of these issues is discussed under separate headings below.

Fraud risk assessments conducted in the last two years

3.22 The Guidelines state that:

agencies must implement fraud prevention and detection strategies that comply with the Guidelines using the:

- Australian Standards/New Zealand Standards (AS/NZS 4360:1999) Risk Management; and
- Guidelines for Managing Risk in the Australian and New Zealand Public Sector (HB 143-1999).²⁰

3.23 An important aspect of risk management is identifying and analysing risks. The timely conduct of risk assessments allows agencies to tailor their approach to suit their individual circumstances while underpinning the planning for fraud control.

3.24 Figure 3.6 below shows the number of agencies that reported having undertaken fraud risk assessments in the two years preceding October 2002.

Figure 3.6

Fraud risk assessments conducted in the last two years ^a

	FMA Agencies	CAC Bodies	Total ^b
Yes	63	44	107
No	10	38	48

^a Recognising that the Guidelines now state that agencies should continually refine their fraud risk assessment and undertake a risk assessment at least every two years, the ANAO included agencies that had conducted risk assessments in early 2000 as having conducted a risk assessment within the last two years.

^b 155 agencies responded to this question. 158 agencies of the total population of 160 agencies surveyed, responded overall.

3.25 The ANAO found that 31 per cent of agencies had not undertaken a fraud risk assessment within the preceding two years (even with the ANAO's broad

²⁰ *Commonwealth Fraud Control Guidelines*, May 2002, paragraph 3.5, p.9.

interpretation of time frames) as required by the current Guidelines. This represents an improvement since the last survey in which 36 per cent of agencies advised they had not undertaken a fraud risk assessment.

3.26 However, it is of concern to the ANAO that nearly a third of agencies had not complied with the requirement of the Guidelines to undertake a risk assessment at least every two years. The absence of an up-to-date risk assessment hampers agencies' capacity to undertake effective fraud control planning and risk treatments. The ANAO considers that it is important that agencies adhere to the requirement of the Guidelines and that they undertake risk assessments at least every two years. Links between the risk assessment process and fraud control plans are discussed in paragraph 3.48 below.

Review of risk assessments

3.27 The ANAO analysed a sample of 12 responses to establish whether the risk assessment undertaken by the agency met the requirements of the Guidelines. The sample included both FMA agencies and CAC bodies and included different agencies to those analysed in the 1999 survey. The sample also included agencies that had reported fraud and those that had not and represented large, medium and small agencies. The criteria against which the risk assessments were reviewed can be found at Appendix 2.

3.28 Most of the 12 selected agencies had undertaken a risk assessment in the preceding two years with others due to conduct their next round of risk assessments in the near future. Of the 12 agencies' risk assessments analysed, only three met all the criteria stated in the Guidelines. The ANAO found that in some cases, the standard methods used for undertaking risk assessments had not been appropriately applied thus giving rise to deficiencies with the risk assessments. The most common deficiencies identified included:

- agencies assessing both internal and external risks very broadly and using indefinable control ratings whilst using the 'green fields'²¹ method;
- criteria that were neither defined nor weighted, raising concerns about both the consistency and accuracy of the assessment process; and
- criteria that were not applicable to all areas and functions of the agency being used to assess all programs.

3.29 The deficiencies identified are significant in that they call into question the effectiveness of risk assessments undertaken by agencies to identify potential risks. The application of inappropriate criteria would not provide an accurate reflection of risks and would skew results.

²¹ A 'green fields' methodology measures risks as if there were no controls in place.

3.30 Figure 3.7 below provides two examples of better practice the ANAO noted in its analysis of the sample of agency risk assessments, one in a small agency and one in a large agency.

Figure 3.7

Examples of better practice approaches to conducting fraud risk assessments

A. Small agency

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

B. Large agency

A large agency, provided detailed guidance notes on how the various groups conducting a risk assessment should:

- establish the context for the risk assessment;
- identify the risks;
- analyse the risks by determining the consequences, likelihood and risk values;
- evaluate the risks; and finally
- treat the risks.

This was designed to obtain consistency in responses and achieve comparable results across the many different areas in the agency. A validation process was also carried out.

Source: ANAO analysis of agencies' risk assessments provided in response to the October 2002 survey.

Outsourcing of risk assessments and fraud control planning

3.31 Risk assessment and fraud control planning requires considerable expertise, particularly in the increasingly complex context in which APS agencies are operating. Accordingly, the decision, whether or not to conduct risk assessments, and/or the development of fraud control plans, in-house, or to outsource the work, is a matter for agencies to consider on a case-by-case basis. However, it is important to ensure that relevant corporate knowledge within the agency is appropriately captured and taken into account during the risk assessment and fraud control planning processes.

3.32 In both the 1999 and 2002 surveys, the ANAO sought to establish whether agencies undertook their risk assessments in-house or whether they partly or completely outsourced the activity. Figure 3.8 below shows the number of agencies that advised the ANAO in response to the 2002 survey that they used

consultants in the preparation of risk assessments and those that conducted them in-house.

Figure 3.8

Outsourcing of risk assessments ^a

	FMA Agencies	CAC Bodies	Total
Completely or partly outsourced	48	42	90
Conducted in-house	21	30	51

^a 141 FMA agencies and CAC bodies responded to this question. 158 agencies of the total population of 160 agencies surveyed, responded overall.

3.33 In the 1999 survey, of those agencies which advised they had undertaken risk assessments, some 59 per cent of these advised the ANAO that they had partly or completely outsourced the conduct of risk assessments. The 2002 survey identified that more agencies are outsourcing this activity, with 64 per cent of the agencies reporting that they had partly or completely outsourced risk assessments.

3.34 The ANAO reviewed the risk assessments provided by agencies in response to the 2002 survey. The ANAO found that a number of these assessments had been undertaken by consultants using a standardised approach that did not take into account the different program risks faced by individual agencies. Where consultants are engaged to undertake fraud risk assessments on behalf of agencies, it is important that the assessment is tailored to address the specific risks of the individual agency.

3.35 A problem identified by the 1999 survey, relating to the consultants undertaking risk assessments not involving relevant agency staff in the process, appears to have been addressed by agencies. The 2002 survey revealed that agencies using consultants are now generally involving relevant agency staff in the risk assessment process. The ANAO welcomes this development as it enhances the risk assessment process by improving access to expertise on the agency programs and activities being assessed.

Use of consultants in developing fraud control plans

3.36 The ANAO's 2002 survey also identified that more agencies are using consultants to prepare their fraud control plans with some 61 per cent of respondent agencies reporting that they used consultants to assist in the preparation of their fraud control plan. This compares to 54 per cent of respondent agencies in the last survey. Figure 3.9 below shows the number of agencies that used consultants to develop their fraud control plans, divided into those with and those without reported fraud.

Figure 3.9

Use of consultants in the preparation of fraud control plans

	Agencies with reported fraud that used consultants	Agencies without reported fraud that used consultants	Total ^a
Yes	29	58	87
No	14	42	56

^a 143 agencies responded to this question. 158 agencies of the total population of 160 agencies surveyed, responded overall.

3.37 Agencies that did not outsource the development of their plan were, on the whole, large agencies with high levels of reported fraud. Several smaller agencies (both with and without reported fraud) commented that they did not have the expertise within their agencies and hence contracted in consultants to provide the service.

3.38 As with risk assessments, agency input into, and oversight of, the formulation of its fraud control plan is extremely important if agencies are to ensure that the plan is tailored to meet the specific needs of the agency, and that it reflects the findings of the agency’s risk assessment.

3.39 The ANAO identified examples where agencies had been provided with a generic fraud control plan by the consultants they had engaged. This in itself is a risk because such a plan does not identify treatments for the agency’s specific risks. Involvement by agency managers at all levels in the identification of the agency’s risks is important even if consultants are engaged to provide expert guidance on the development of the actual fraud control plan.

Fraud control plans

3.40 Following the completion of a fraud risk assessment, the Guidelines state that ‘agencies must then develop a fraud control plan, to manage the risks identified...which may involve either producing a new one or reviewing an existing plan to ensure that it takes account of new or emerging risks.’²²

3.41 The Guidelines set out the key features to be covered in the fraud control plan and these include:

- an outline of the structure of the organisation;
- a statement of the agency’s attitude and approach to fraud control;
- a summary of the risks identified in the fraud risk assessment;
- details of the strategies to address the risks as well as ensure compliance with the Guidelines;

²² *Commonwealth Fraud Control Guidelines*, May 2002, p.10, paragraph 3.14.

- allocation of responsibility for the implementation of strategies, timeframes and mechanisms for monitoring;
- details of how employees, contractors and members of the public can report fraud against the agency; and
- a summary of the strategies and training in place to ensure compliance with related policies, such as the *Prosecution Policy of the Commonwealth*, the *Guidelines on Official Conduct for Commonwealth Public Servants*, the *Public Service Act 1999—APS Values and APS Code of Conduct* and the *Protective Security Manual*.

3.42 Some agencies chose to develop separate action plans, in addition to their fraud control plans, which set out strategies to rectify shortcomings in areas assessed as having a higher risk of fraud. These are also discussed at paragraph 3.59 below.

3.43 The results of the ANAO’s question on whether agencies had developed and/or reviewed a fraud control plan to reflect identified risks in the two years preceding the October 2002 survey are presented in Figure 3.10 below.

Figure 3.10

Agencies with Fraud Control Plans that were developed and/or reviewed in the preceding two years

	FMA Agencies	CAC bodies	Total ^a
Yes	62	47	109
No	12	35	47

^a 156 agencies responded to this question. 158 agencies responded overall, of the total population of 160 agencies surveyed.

3.44 All 74 FMA agencies responded to the question on fraud control plans. Of these, 84 per cent reported having developed and/or reviewed a fraud control plan in the preceding two years. This is generally equivalent to the results reported for this question in the 1999 survey.²³

3.45 Notwithstanding that section 45 of the FMA Act requires all FMA agencies to have a fraud control plan, one these agencies reported not having developed a fraud control plan to date.

3.46 Some 90 per cent of CAC bodies responded to the question on fraud control plans. Of these, 57 per cent reported having developed and/or reviewed their

²³ In the 1999 survey 85 per cent of respondent FMA agencies reported having developed and/or reviewed a fraud control plan in the preceding two years as compared to 84 per cent of respondent FMA agencies in the 2002 survey. However, it should be noted that both the number of agencies surveyed in the 2002 survey and the number of agencies that responded was greater than in the 1999 survey.

fraud control plans in the preceding two years, a 5 per cent drop from the 62 per cent that reported having done so in the last survey.

3.47 Of the CAC bodies that responded to this question, 57 per cent advised that they had a fraud control plan and 43 per cent advised that they did not have a fraud control plan at all.²⁴

3.48 It is not only important that agencies have a fraud control plan, but it should also be based on the most recent risk assessment undertaken by the agency. The ANAO identified that 12 per cent of the fraud control plans in use by respondent agencies were not based on a recent risk assessment. Fraud control plans need to identify the most appropriate way of dealing with current and emerging risks. Given the rapid rate of change in the APS and the private sector, it is important that plans keep pace with the resultant changes in agencies' risk profile.

Review of fraud control plans

3.49 The ANAO reviewed 12 agencies' fraud control plans against the requirements of the Guidelines. The sample of plans assessed represented a cross-section of FMA agencies and CAC bodies. They included large, medium, and small agencies that had reported fraud and those that had not.

3.50 It should be noted that the sample of agencies responses to the 2002 survey that were analysed, included different agencies from those that were analysed in the previous survey. In addition, given the small sample, the comparison should not be taken as being fully indicative of the APS as a whole.

3.51 The list of key features against which agencies' fraud control plans were assessed was taken from the Guidelines, the *Australian/New Zealand Standard (AS/ANZS 4360:1999) Risk Management*, and *Guidelines for Managing Risk in the Australian and New Zealand Public Sector (HB143-1999)*, and then compared with the results from the previous survey. It should be noted that the key features of an effective fraud control plan as outlined, include the criteria against which the results of the previous survey were analysed.

3.52 Comparing the results for all the key features is not possible as the previous survey assessed fraud control plans against criteria drawn from the Commonwealth Law Enforcement Board's Guide and other sound corporate governance practice documents. However, the results still provide information of the percentage of agencies' fraud control plans containing the key features

²⁴ The development and implementation of a fraud control plan is not a mandatory requirement for CAC bodies that receive less than 50 per cent budget funding for their operating costs. However, the Guidelines note that these bodies are strongly encouraged to comply with the minimum standards set out in the Guidelines, including the development and maintenance of a fraud control plan. *Commonwealth Fraud Control Guidelines*, May 2002, p.2, paragraph 1.6.

listed in the Guidelines, and the Australian/New Zealand Standards on Risk Management, and as a consequence, point to their effectiveness. Findings of this assessment are presented in Figure 3.11 below.

Figure 3.11

ANAO assessment of a sample of fraud control plans

Number	Key Features ^a	% of sample which complied with each criteria	Results from previous survey %
1	Outline of the structure of the organisation.	33	-
2	Provide a statement of the agency's attitude and approach to fraud control.	75	-
3	The plan should be linked to the risk assessment.	75	70
4	Provide a summary of risks identified in the fraud risk assessment.	50	-
5	A plan should address all areas of high risk in the agency.	58	60
6	A plan should address both internal and external risks.	25	60
7	A plan must rectify shortcomings identified in the risk assessment.	42	-
8	A timetable for taking action for each strategy should be prepared and include realistic deadlines.	50	40
9	A plan should mention the need for review.	25	80
10	Responsibility for the development, implementation and review of the Fraud Control Plan should be allocated.	67	60
11	A plan should simply and clearly spell out what each staff member needs to do in his or her area to prevent fraud.	67	60
12	Provide details of how employees, contractors and members of the public can report fraud against the agency.	67	-
13	Provide a summary of the strategies and training in place to ensure compliance with related policies.	58	-

Source: ANAO analysis of a sample of responses and documentation provided by agencies in response to the October 2002 survey.

^a Key features 5 and 9 were taken from the *Australian/New Zealand Standard (AS/NZS 4360:1999) Risk Management and Guidelines for Managing Risk in the Australian and New Zealand Public Sector (HB143-1999)*. The remaining key features were taken from the Guidelines.

3.53 As can be seen from Figure 3.11, the individual key features identified in the Guidelines were only included in some plans and not in others. It is of particular note that no plan in the sample of 12 reviewed contained all of the key features of an effective fraud control plan.

3.54 Particular weaknesses identified in individual plans, which have the potential to significantly reduce the usefulness of the plans to prevent and manage fraud, included the following:

- risks identified by the risk assessment process had not been addressed and strategies to rectify shortcomings had not been included;
- the timetable for implementation of strategies was vague;²⁵
- a designated area/officer responsible for implementation of the strategies was not identified; and/or
- arrangements to monitor implementation were not included.

3.55 The results of the 2002 survey, as compared to the 1999 survey, show an increase in compliance with some key features and a decrease in others.

3.56 There has been a slight decrease (2 per cent from the previous survey) in the proportion of agencies implementing Key Feature No.5, namely that a fraud control plan should address all areas of high risk. While agencies appear to have addressed areas of identified risk through their plans, they did not explicitly outline what the areas of high risk were and how they were treated. As this is a requirement of the current Guidelines, agencies need to ensure that all areas assessed as high risk are clearly addressed in their fraud control plans.

3.57 In the sample of plans examined in the 2002 survey, there were significantly fewer agencies that addressed both internal and external risks (Key Feature No.6) than the ANAO found in its 1999 sample. In the 1999 sample, 7 out of 12 agencies' plans contained this key feature in comparison to only 3 out of 12 in the current survey. The remaining 9 agencies' plans in the 2002 sample only addressed internal risks. This is clearly an incomplete risk assessment and agencies need to ensure that both internal and external risks are appropriately identified and treated.

3.58 A fraud control plan should also identify the need for review (Key Feature No. 9). Compliance with this feature also dropped significantly in the sample of 12 plans examined in this survey as compared to the 1999 survey. Only 3 agencies were found to be complying in comparison to 8 in the previous survey. With agencies required to conduct fraud risk assessments at least every two years and develop a fraud control plan to manage the risks identified by that

²⁵ For example one agency identified completion dates as Year 1, Year 2 and Year 3. Even though the years specified can be related to the duration of the plan, it is neither specific nor clear.

assessment, they are consequently required to review their fraud control plans at least every two years. However, the current Guidelines state that ‘agencies may introduce a rolling program of updating risk assessments’ and in view of this it is possible that agencies have also implemented mechanisms to review the effectiveness of their fraud control plans on an ongoing basis. Nevertheless, this is not made clear in the 9 of the 12 plans examined by the ANAO.

Action plans/treatment strategies

3.59 The ANAO asked agencies if they had developed specific action plans for areas where risks had been ranked as medium to high. These plans are usually program-specific and address risks in greater detail than a fraud control plan does. Sixty seven per cent of respondent agencies had developed such action plans, an 11 per cent increase since the last survey. The majority of the agencies that reported having undertaken risk assessments (see Figure 3.6) had also developed such action plans.

3.60 It is important to have strategies in place to treat identified risks, whether they are included in fraud control plans or separate action plans, to assist with fraud prevention, control and detection.

Conclusion

3.61 The 2002 survey results indicated that awareness among agencies of the Commonwealth Fraud Control Guidelines was high, with 95 per cent reporting being aware. The survey also showed that:

- 80 per cent of agencies had a specific fraud control policy in place. Some of these agencies had set out their policy in other documentation, such as CEIs;
- 64 per cent of agencies had developed their own code of conduct/ethics to complement the APS values and code of conduct set out in the *Public Service Act 1999*;
- 69 per cent of agencies had undertaken risk assessments in the two years preceding the October 2002 survey;
- 70 per cent of agencies had either developed or reviewed their fraud control plan in the preceding two years; and
- the ANAO’s examination of a sample of plans, provided by agencies with their survey responses, indicated a number of weaknesses. These weaknesses included plans not addressing the risks identified by the risk assessment underpinning the particular plan and responsibility not being allocated for the development, implementation and review of the plans.

3.62 While the 2002 survey results indicate that the majority of agencies had established suitable fraud control arrangements, in line with the Guidelines, a substantial number had not.

3.63 Of the 30 per cent of agencies that reported having not reviewed their fraud control plan in the preceding two years, 11 were FMA agencies. One FMA agency reported that it had not developed a fraud control plan at all at the time of the survey, despite its obligation under the FMA Act to do so.²⁶ Twenty-two CAC bodies reported not having a fraud control plan in place and an additional 13 had not reviewed their fraud plan in the preceding two years.

3.64 Only 69 per cent of agencies reported having undertaken a recent fraud risk assessment. Given the changing nature of fraud, this could result in agencies failing to identify emerging risks in a timely manner. Additionally, 12 per cent of agencies had developed a fraud control plan that was not based on a current risk assessment, raising questions regarding the usefulness of these plans.

3.65 A particular issue the ANAO noted was the tendency for agencies to comply with parts of the Guidelines rather than complying with them in full. For example, of the sample of 12 agency fraud control plans that the ANAO examined against the key features of an effective fraud control plan, as set out in the Guidelines, not one plan contained all of these key features.

²⁶ Section 45 of the FMA Act provides that Chief Executives must implement a fraud control plan for their agency. The section also requires that fraud for this purpose include fraud by persons outside the agency in relation to activities of the agency.

4. Fraud Awareness and Training

This chapter discusses awareness-raising and training provided by agencies to their staff to assist in preventing and managing fraud. The chapter also discusses training provided to third party providers on ethics/conduct and specific investigations training for relevant agency staff.

Introduction

4.1 An effective way of ensuring that staff are aware of the standards of conduct expected of them is for agencies to provide them with fraud control training and fraud awareness-raising sessions on a regular basis. This encourages an awareness of the responsibilities staff have in relation to fraud prevention and control.

4.2 Staff who work in higher risk areas may need a higher level of training than is provided more generally in the agency, while staff directly responsible for investigating fraud need specific training in these skills. Following the release of the current Guidelines, it is mandatory for agencies to comply with the specified fraud investigation training requirements.

4.3 The ANAO sought information from agencies on the following:

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

4.4 Additionally, given that there is an increasing use of consultants, contractors, and other third parties, to deliver services on behalf of the government, the ANAO asked agencies what arrangements they had in place to make third party providers aware of their fraud policy and of the providers' need to comply with them.

4.5 Each of these areas is discussed under separate headings below.

Fraud awareness raising

4.6 The Guidelines state that one of the principles for fraud control in the Commonwealth is the 'training of all employees in ethics, privacy and fraud

awareness activities'.²⁷ As effective fraud control requires the commitment of not only agencies, but also their employees, staff have a responsibility to make themselves aware of fraud and its implications on their day-to-day activities. In order to facilitate this, agencies are required to provide information to staff through awareness-raising activities.

4.7 The ANAO asked agencies to provide details on the measures undertaken to raise staff awareness of fraud control. The results are provided in Figure 4.1 opposite.

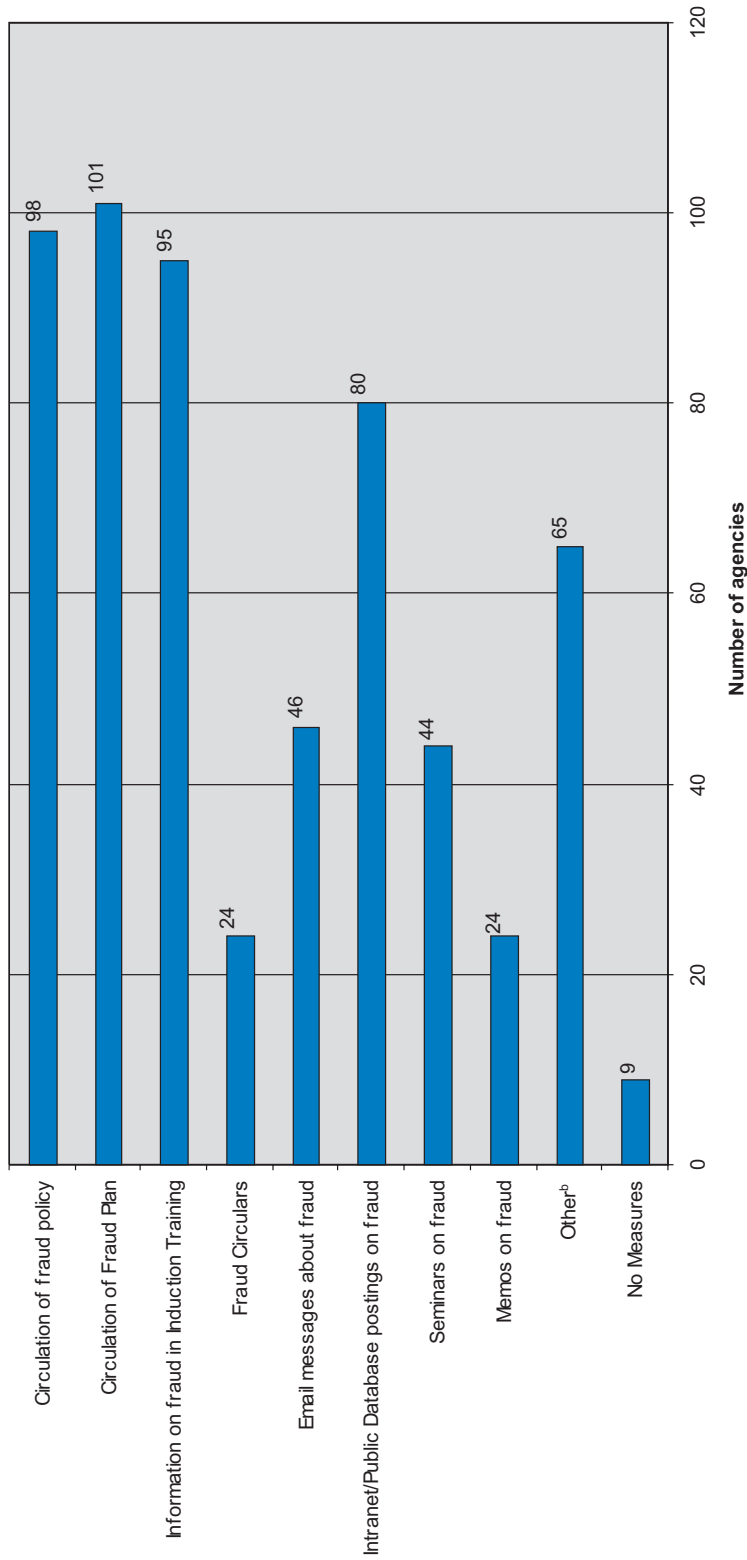
4.8 Of the 147 agencies that responded to this question, 138 (or nearly 94 per cent) indicated that they provided some form of fraud awareness-raising activity but 9 of them reported that they had no measures in place. A further 11 agencies did not respond to this question.²⁸

4.9 The major forms of fraud awareness initiatives undertaken by agencies include the circulation of the agency's fraud control policy and plan and the inclusion of information on fraud in induction training of new staff. The use of information technology systems for raising staff awareness is also widespread, with 54 per cent of respondent agencies reporting that they used their intranet to post information on fraud control and 31 per cent using e-mail messages to raise staff awareness on fraud.

²⁷ *Commonwealth Fraud Control Guidelines*, May 2002, paragraph 24, p.4.

²⁸ 158 agencies responded to the survey overall, of the total population of 160 agencies surveyed.

Figure 4.1
Measures to raise staff awareness of fraud control^a



^a 147 FMA agencies and CAC bodies out of a total of 160 agencies surveyed, responded to this question. In responding to this question, agencies could indicate that they used more than one measure.

^b Examples of the other methods used by agencies to raise staff awareness included seminars on risk management and fraud control, the circulation of videos and brochures on fraud, distribution of staff bulletin articles, security briefing handbook and articles on fraud control in staff magazine.

4.10 The ANAO noted that agencies which had experienced fraud in the last two years reported providing a greater range of awareness-raising activities for staff and contractors than agencies that had not detected fraud. The ANAO is unable to comment on the effectiveness of agencies' awareness-raising activities as this was beyond the scope of this audit. Nevertheless, agencies have identified benefits in raising staff awareness of fraud such as in the example set out in Figure 4.2 below

Figure 4.2

An agency's view on the value of fraud awareness-raising

The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) launched an interactive awareness-raising program—"No Harm Done"—in 1999. The program used practical examples to convey its message and was designed to make participants question their actions and those of their colleagues and managers. The aim was to promote awareness about what unethical behaviour or fraud was, and questioned whether the actions resorted to in the examples were ethical or a breach of the code of conduct and ethics. The program addressed fundamental issues such as:

- conflict of interest;
- conduct;
- bribes;
- gifts;
- security;
- misuse of power;
- accountability; and
- supervisory concerns.

This program is used during induction programs for new staff, at information sessions at overseas posts, and at refresher courses held for ongoing staff in the department. It has received very positive response as the scenarios in the program played out the every day pressures faced by staff within the department. Hence staff could easily relate to the situations. This prompted lively discussions between participants and in turn raised staff awareness of ethical issues.

DIMIA is in the process of developing another such program, to address various levels of staff in the organisation.

Source: Department of Immigration and Multicultural and Indigenous Affairs advice in response to the October 2002 Survey.

Ethics awareness-raising

4.11 Ethical behaviour needs to be integral to the way public servants operate and this involves taking into account the public service values and public service code of conduct set out in the *Public Service Act 1999*. The changing APS environment, involving a focus on outcomes, budgetary constraints and new forms of service delivery, is also creating a range of new pressures for management and staff.

4.12 Accordingly, agencies need to provide staff with clear standards of behaviour as well as appropriate training and supervision to allow them to understand and implement the public service values and public service code of conduct prescribed by the *Public Service Act 1999*. This type of training can also assist in preventing fraud by fostering an ethical workplace where fraud and unethical behaviour are not tolerated by agency staff.

4.13 The ANAO asked agencies whether they provide code of conduct/ethics awareness training to their staff and 69 per cent of respondent agencies²⁹ advised that they are providing such training.

4.14 Of those agencies that reported having experienced fraud in either one or both of the two years covered by the survey, 83 per cent reported having conducted such training, an increase of 18 per cent from the previous survey. Additionally, 62 per cent of agencies that reported they had not experienced any fraud in last two years advised they had also conducted code of ethics/conduct awareness training, a 19 per cent increase since the previous survey. The increase seems to indicate a greater awareness on the part of agencies of their responsibility to provide such training.

Ethics/Fraud awareness for third-party providers

4.15 Fraud and ethics awareness are not just important for employees of an agency. The ANAO asked agencies whether they had established specific policies and procedures for ensuring that consultants, suppliers, and other third party providers were made aware of, and complied with, the agency's fraud control policy. Twenty-six agencies (17 per cent) indicated that they have specific policies and procedures in place for this purpose.

4.16 Given the level of outsourcing that now occurs within the APS, it is important that agencies effectively communicate to contractors the accountability issues involved and make contractors aware of the agency's fraud control policy. Some measures that agencies could implement to help third party providers meet the standards of accountability expected of them in relation to fraud control include:

- having appropriate contract conditions and access provisions to ensure performance and financial requirements are met;
- agencies providing their fraud control policy to third party providers; and
- implementing monitoring and reporting arrangements that provide adequate information for agencies to assess performance under contractual arrangements.

²⁹ In total 109 agencies out of the 160 surveyed responded to this question.

4.17 Whatever the method of service delivery, a government agency remains accountable for the effective performance of the functions delegated to it by Government.³⁰

General fraud control training

4.18 Training is an important mechanism to ensure that all staff, particularly those in areas of higher risk and in areas with direct responsibility for fraud control, are well equipped to prevent and manage fraud. For those staff who are involved in, and are responsible for fraud investigations, specific training in this area is mandatory. This is discussed in detail under the relevant heading later in this chapter. Figure 4.3 provides a comparison between the results of the two ANAO surveys on training conducted by agencies that reported fraud and those that did not.

Figure 4.3

Training for fraud control

Type of training provided	Percentage of agencies that reported fraud that provided training		Percentage of agencies that reported no fraud that provided training	
	Previous survey	Current survey	Previous survey	Current survey
General fraud awareness training	54%	70%	21%	41%
Code of conduct/ethics training	65%	83%	43%	62%
Specific fraud-related training in high risk areas	26%	28%	0%	10%
Training on fraud prevention	35%	19%	1%	5%
Training on fraud investigation	-	23%	-	5%
No training provided	22%	2%	45%	28%

Note: A total of 111 agencies (97 per cent) responded to this question in the 1999 survey and 157 agencies (99 per cent) responded to the same question in the 2002 survey. A total of 160 agencies were surveyed as part of the 2002 survey.

4.19 The results indicate a general increase since the last survey in the proportion of agencies providing some form of training related to fraud control. They also indicate that those agencies having experienced fraud in the last two years were more likely to provide training than those who had not. Some 50 per cent of those agencies that had reported fraud within the last two years had provided staff with more than one form of fraud-related training.

³⁰ Commonwealth Industry Commission Report No.48, *Competitive Tendering and Contracting by Public Service Agencies*, Melbourne, 1996, pp.4–5.

4.20 Two per cent of agencies that reported fraud did not provide any form of relevant training to staff, in comparison to the 22 per cent of such agencies who did not provide such training in the previous survey. While this is a welcome improvement, the ANAO is concerned that at least 32 agencies continue to omit to provide any form of fraud control training to their staff.

4.21 The most common reason provided by agencies for not providing fraud-related training was that they had not experienced any fraud to date and hence did not consider it necessary to provide such training. In other instances, agencies advised that fraud awareness training was included as a component of induction training. Also, there were a number of small agencies (ranging from 5 to 30 employees) that indicated that they considered the controls already in place to be effective and, accordingly, did not see the need to provide additional fraud-related training.

Fraud investigations training

4.22 The Guidelines state that ‘agencies are responsible for investigating routine and minor instances of fraud against them or their programs’ and that ‘Compliance with the fraud investigation training requirements ... is mandatory’.³¹ The Guidelines go on to explain that it is mandatory for employees who are primarily engaged in preventing, detecting or investigating fraud to gain the Certificate IV in Government (Fraud Control Investigation) by 30 June 2003. In addition, those employees primarily engaged in the coordination and conduct of fraud control investigations are required to gain the Diploma of Government (Fraud Control Investigation) by 30 June 2004.

4.23 Although agencies have been given a level of responsibility for investigations under the Guidelines, the ability and capacity to investigate fraud varies widely between individual agencies. The nature and extent of fraud against an agency, as well as expertise and resource constraints, are factors that can have a significant impact on the ability of an agency to undertake investigations in-house.

4.24 The 2002 survey indicates a large increase in the number of fraud investigators across the APS, from 846 in the previous survey to 2382 in the current one. Around 90 per cent (2152) of these investigators are employed by agencies that reported fraud in the preceding two years and a majority of the investigators are employed by agencies with investigation units having significant caseloads.

³¹ Commonwealth Fraud Control Guidelines, May 2002, paragraph 4.6, p.13 and paragraph 6.1, p. 22.

Skills of investigation staff

4.25 Agencies reported that 694 of the 2382 fraud investigators had relevant qualifications including Diploma in Government (Fraud Control Investigation) and Certificate IV in Government (Fraud Control Investigation). A further 1309 fraud investigators were in the process of being trained while 327 investigators were yet to be trained. It is not clear from agencies' responses when these remaining investigators were to be trained. However, several agencies reported that their investigators were former police officers whose skills exceeded those prescribed by the Certificate IV training. Other agencies reported that their staff had been trained through other methods to levels in excess of the Certificate IV.

4.26 Several agencies also reported that, while their investigators were not Certificate IV trained, they were trained to the level prescribed by the current Guidelines, which was adequate to meet the needs of the agency. However, agencies need to be aware of the deadlines by which 'employees primarily engaged in preventing, detecting, (coordinating) or investigating fraud are to meet the required fraud control competency requirements...' ³² namely the Certificate IV in Government (Fraud Control Investigation) and the Diploma in Government (Fraud Control Investigation).

4.27 The 2002 survey results indicate that those agencies experiencing fraud generally recognise the importance of having appropriately trained in-house investigators who can effectively handle fraud cases. These agencies are also generally in the process of getting their remaining fraud investigators trained to the required competency levels. However, only 14 agencies reported having training plans in place to enable them meet the relevant deadlines. One large Commonwealth agency recently advised ANAO that it had met 100 per cent of its training target as at 30 June 2003. The majority of agencies reported that training on fraud investigation has been wholly or partly outsourced.

Outsourcing of fraud-related training

4.28 The ANAO survey sought to determine the extent to which agencies have outsourced particular training functions. Figure 4.4 provides details of fraud-related training and whether it was provided in-house or was outsourced.

³² Ibid, p.22, paragraph 6.2.

Figure 4.4
Fraud-related training

Type of training ^a	Number							
	Agencies that reported fraud in the last 2 years ^b				Agencies that reported no fraud in last 2 years ^c			
	Outsourced ^d	In-house	No training	No response	Outsourced	In-house	No training	No response
Fraud awareness training	14	15	9	9	29	17	41	24
Training on fraud prevention	12	12	13	10	27	15	44	25
Specific fraud training in high risk areas	6	10	20	11	10	12	65	24
Training on fraud investigation	21	5	16	5	18	10	61	22

^a 125 agencies responded to the question on fraud awareness training, 123 responded to training on fraud prevention, 123 responded to specific fraud related training in high risk areas and 131 agencies responded to training on fraud investigation. 158 agencies responded to the survey overall, out of a total population of 160 agencies surveyed.

^b 47 agencies reported fraud for the last two financial years.

^c 111 agencies reported no fraud for the previous two financial years.

^d Includes outsourced in full or part by agencies.

4.29 There has been a significant increase in the number of agencies that provide fraud-related training to their staff since the previous survey. Additionally, more agencies responded to this question this time.³³ Where in-house skills and resources are either insufficient or unavailable, agencies have outsourced fraud-related training. Agencies that reported having experienced no fraud in the preceding two years generally outsourced fraud-related training.

4.30 The ANAO notes that those agencies that accounted for more than 95 per cent of the fraud in the last two years advised that they provided such training in-house. These agencies also advised that they would not consider outsourcing this function in the future because they believed it was important to maintain a high level of expertise in-house.

Conclusion

4.31 Ninety-three per cent of responding APS agencies reported having undertaken some form of fraud awareness-raising activities. The main activities reported were the circulation of the fraud control plan, the fraud control policy, and induction training. More than half of the surveyed agencies had also undertaken awareness-raising activities on code of conduct/ethics.

4.32 However, only 26 agencies had established specific policies and procedures to ensure that consultants, suppliers and other third-party providers were aware of, and complied with, agency fraud control policy. Given the widespread use of contracting arrangements, it is sound practice for agencies to take steps to effectively communicate to contractors the importance of ethical behaviour and the agency's approach to fraud.

4.33 There has been an increase in the number of agencies that provide some form of training to their staff in relation to fraud control. However, two per cent of agencies that reported fraud also reported that they did not provide any form of relevant training to staff. This is a significant improvement on the previous survey where 22 per cent of agencies that had experienced fraud advised that they did not provide fraud control training to staff. While this is a welcome improvement, the ANAO is concerned that at least 32 agencies continue to omit to provide any form of fraud control training to their staff.

4.34 A majority of agencies with staff responsible for fraud investigations reported they were in the process of getting their staff trained to the required competency level. Other agencies had put training plans in place to enable them meet the deadlines specified in the Guidelines for staff to achieve the required

³³ In the previous survey, 36 agencies responded to the question on general fraud awareness training; 21 agencies to training on fraud prevention and 14 agencies to specific training in high-risk areas. The question regarding training on fraud investigation was not included in the previous survey.

competency. One large agency recently advised the ANAO that it had met 100 per cent of its training target as at 30 June 2003. There were a few other agencies that reported they had yet to put mechanisms in place to address this mandatory requirement as at the date of their survey response.

5. Fraud Control Operations

This chapter discusses whether agencies had established operational structures for managing fraud including: fraud control procedures and guidelines; mechanisms for recording and reporting fraud; and fraud control operations supported by quality assurance arrangements to ensure that allegations and investigations are being handled appropriately.

Introduction

5.1 At the operational level, it is sound practice for agencies to have arrangements in place to assist with the implementation of their fraud control framework and guide the day-to-day activities of staff involved directly with fraud control.

5.2 The ANAO sought information from agencies on the operational arrangements they had in place including:

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

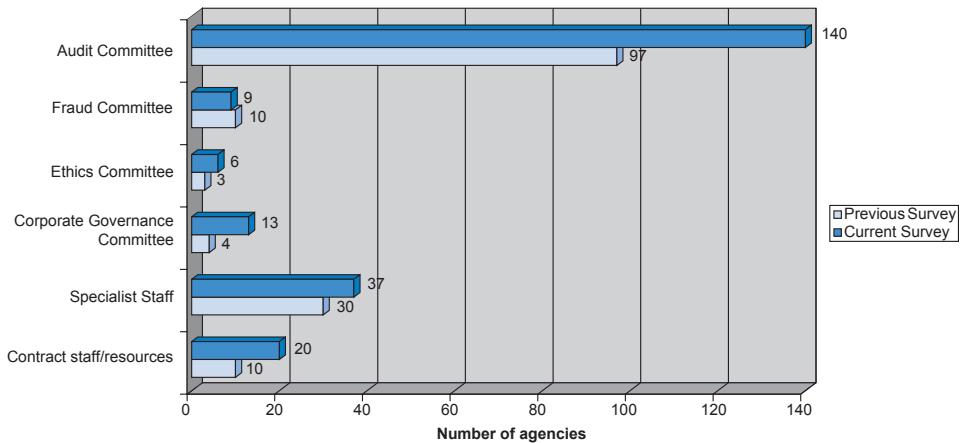
5.3 Each of these areas is discussed under separate headings below.

Structures for managing fraud

5.4 In order to ensure effective implementation of the Guidelines and related plans, agencies need to establish structures with responsibility for fraud issues. The ANAO survey sought information on whether agencies had management structures in place with direct responsibility for fraud control. A comparison of the responses between the two surveys is provided in Figure 5.1 below.

Figure 5.1

Management Structures with responsibility for fraud control^a



^a A total of 157 FMA agencies and CAC bodies of a total 160 agencies surveyed, responded that they had at least one of these structures in place. Agencies were also able to indicate that they allocated responsibility to more than one structure. 158 agencies responded to the survey overall, out of a total population of 160 agencies surveyed.

5.5 One hundred and forty agencies reported that the Audit Committee was the main body responsible for fraud control. Fifty-eight agencies indicated that they had a structure in place other than, or in addition, to those listed in Figure 5.1. Most commonly this involved assigning responsibility to an officer within corporate services or the internal audit areas. This officer generally also had other responsibilities. Nine agencies indicated that they did not have any structure in place and one agency did not respond.

5.6 In comparison to the previous survey wherein 106 agencies reported having established management structures with responsibility for fraud control, in the current survey 148 agencies reported having established such structures.

Procedures and guidelines

5.7 Procedures and guidelines that assist staff to deal with fraud are an important element of an effective framework for fraud control. These should be available to all staff, particularly those staff with direct responsibilities for managing fraud. In addition to providing guidance to staff on ways to deal with fraud, such procedures and guidelines also serve to raise awareness of fraud matters.

5.8 The ANAO asked agencies whether they had developed specific guidelines or procedures that covered all fraud matters. Responses indicated that 71 per cent of agencies had developed procedures that covered all fraud-related matters. Of the agencies that reported having experienced fraud in the last two years,

91 per cent³⁴ had established such procedures. Sixty one per cent of agencies that reported no fraud in the last two years also reported having established such procedures.

5.9 As well as having a specific set of procedures for fraud control, the ANAO noted that some agencies are also using documents such as their Chief Executive Instructions, fraud control plans and agency codes of conduct to provide directions for staff on fraud matters.

Mechanisms for reporting and recording fraud including fraud investigations

Reporting fraud

5.10 Another important part of the overall framework for fraud control is the mechanism to facilitate the reporting of fraud both by staff and, where relevant, by the community. The existence of such mechanisms need to be publicised, be easily accessible and should assure confidentiality, so that people will be encouraged to use them.

5.11 The ANAO sought to establish whether agencies had reporting mechanisms in place, which encourage reports from staff and the community. The responses are presented in Figure 5.2 below.

Figure 5.2

Agency mechanisms for reporting fraud^a

Types of Systems	Agencies with reported fraud ^b		Agencies with no reported fraud ^c		Total of all agencies	
	(Number)		(Number)		(Number)	
	Yes	No	Yes	No	Yes	No
Fraud reporting system	44	3	78	29	122	32
Community reporting system	23	24	14	94	37	118

^a 154 and 155 agencies responded to the questions on formal fraud reporting and community fraud reporting respectively. 158 agencies responded to the survey overall out of a total population of 160 agencies surveyed

^b 47 agencies reported fraud, but not all of these agencies responded to both questions.

^c 111 agencies reported no fraud, but not all of these agencies responded to both questions.

5.12 Overall, 79 per cent of respondent agencies reported that they had a fraud reporting system in place, an increase of 14 per cent from the previous survey.

³⁴ These 91 per cent of agencies accounted for all but \$116 350 of the total value of fraud reported in the 2001–02 financial year (covered by the 2002 survey).

These systems usually involved a central reporting point or a complaints hotline, with information on alternative avenues for reporting, should this be necessary. They also assured strict confidentiality and in some cases warned that spurious allegations and wilful attempts at defamation would not be tolerated.

5.13 The ANAO noted that agencies that had been exposed to fraud were more likely to have systems in place to encourage reports on suspected fraud than were agencies that had not reported detecting any fraud. That is, 94 per cent of the agencies that had reported fraud, as opposed to 74 per cent of those that had not reported fraud, had established such systems.

5.14 Systems to encourage reports from the community were not as widespread. However, the ANAO found that all agencies that had experienced fraud committed by parties external to the agency and those that had significant dealings with the community, had systems in place for the community to report fraud.

Fraud investigations

5.15 The investigation process is a critical component in effective fraud control. 'Agencies are responsible for investigating routine or minor instances of fraud against them or their programs...' and 'all agency investigations must be conducted according to the Commonwealth Fraud Investigation Standards Package or as revised.'³⁵ For serious or complex fraud and larger scale matters, the Guidelines assign responsibility for investigation to the Australian Federal Police (AFP) and provide criteria for matters that are to be referred to the AFP. The Guidelines also encourage effective liaison between agencies, the AFP, and DPP for the investigation and prosecution of fraud against the Commonwealth.

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

5.17 Responses to the 2002 survey indicate that agencies with significant fraud caseloads over the two financial years covered by the survey, generally conducted their investigations in-house. These were approximately 10 per cent of the agencies that responded to this question. However, there were some exceptions to this general rule.

5.18 Overall, 26 per cent of agencies that responded to this question advised that they contracted the investigation function out in full. Some 40 per cent of respondents had not had reason to conduct such investigations. These were

³⁵ *Commonwealth Fraud Control Guidelines*, pp12–13, paragraphs 4.5–4.6 .

agencies with low incidence or risk of fraud. Nevertheless, some of them mentioned that if the need arose, they would seek external help with investigations, as it would be uneconomical for them to maintain an investigation unit at all times. ANAO notes that there may be scope for large APS agencies with sophisticated investigation capabilities to assist smaller APS agencies in these circumstances.

5.19 To gauge the level of fraud investigations conducted by Australian Government agencies, the ANAO asked for information on the number of cases referred to the AFP and the DPP as well as the number of cases prosecuted. This information is summarised in Figure 5.3 and compared to the figures from the previous survey.

Figure 5.3
Fraud Investigations and Prosecutions ^a

	Previous Survey ^b		Current Survey	
	1997–98	1998–99	2000–01	2001–02
Number of fraud cases referred to the AFP or other law enforcement agencies	390	312	378	762
Number of fraud cases referred to the DPP	4 473	4 276	4 277	4 270
Number of fraud cases prosecuted	3 176	3 634	3 112	3 282
Number of fraud cases prosecuted and proven	3 076	3 516	3 026	3 195

^a 113 agencies responded to this question in the 2002 survey. Of these, only 90 agencies provided information for both financial years. 158 agencies responded to the survey overall out of a total population of 160 agencies surveyed.

^b A total of 111 agencies responded to the same question in the 1999 survey. Of these, four agencies only provided information for the financial year 1998-99.

5.20 The number of cases referred to the AFP or other law enforcement agencies more than doubled in 2001–02 as compared to the 2000–01 financial year. However, there was a small drop in the number of cases referred to the DPP in 2001–02. The proportion of cases referred to the DPP that were prosecuted in 1997–98 was 71 per cent, 85 per cent in 1998–99, 73 per cent in 2000–01 and 77 per cent in 2001–02. The number of cases that were prosecuted and subsequently found proven has remained constant at around 97 per cent in each of the four financial years.

5.21 The ANAO also sought to determine the types of penalties imposed as a result of fraud investigations and prosecutions. The results are provided in Figure 5.4.

Figure 5.4
Penalties imposed^{a,b}

Types of penalties	Internal Fraud				External Fraud			
	Previous Survey		Current Survey		Previous Survey		Current Survey	
	97-98	98-99	00-01	01-02	97-98	98-99	00-01	01-02
Administrative penalties	172	143	395	588	1 988 ^c	1 469	747 ^d	717
Criminal Penalties	50	28	201	188	4 960	5 542	6 886	7 243

- ^a A total of 94 agencies responded to this question in the 2002 survey, but not all of them were able to provide information for both financial years. 158 agencies responded to the survey overall out of a total population of 160 agencies surveyed.
- ^b A total of 111 agencies responded to the same question in the previous survey. Of these, two agencies only provided data for the financial year 1998-99, while another agency was only able to provide information on the value of the internal cases of fraud.
- ^c The ANAO re-examined the data from the previous survey and found that this number was indicated in error as 4323 in Chapter 5, Table 14 of ANAO Report No.47 of 1999-2000.
- ^d The significant drop in administrative penalties was identified as relating mainly to one agency. However, a reason for this was not provided by the agency.

5.22 Care should be taken in interpreting and comparing the results contained in the above table as not all agencies provided figures for both financial years covered by the current survey. However, it is notable that in the 2002 survey agencies reported to the ANAO significantly larger numbers of cases resulting in criminal penalties both from internal and external frauds.

5.23 For those internal cases of fraud where administrative penalties were considered more appropriate, termination of employment, recovery of debt and reprimand were the most frequently applied penalties. For those cases of external fraud for which administrative penalties were applied, the recovery of debt was the most frequently imposed administrative penalty.

5.24 When criminal penalties were imposed, agencies reported various forms of punishment including imprisonment, community service, reparation orders and the imposition of fines.

Management Information Systems

5.25 In order to support effective fraud control operations, agencies need appropriate information systems to manage the information gathered about fraud against the agency. This not only supports sound decision making at the management level, but also helps agencies identify and address any systemic issues relevant to fraud.³⁶

³⁶ Commonwealth Fraud Control Guidelines, May 2002, Guideline 8, p.27.

5.26 Management Information Systems (MIS) can be used for the purpose of recording information and monitoring all aspects of fraud control. The ANAO asked agencies if they had an MIS in place for recording, monitoring and reporting all aspects of fraud control. Of the 157 agencies that responded to this question, 48 agencies indicated that they had such an MIS in place. This reflected an increase of 14 per cent from the previous survey, in which only 17 per cent of respondents reported having such a system.

5.27 The ANAO's analysis of a sample of reports provided by agencies with an MIS in place, showed that systems ranged in complexity from simple spreadsheets and tables to databases maintained specifically to record allegations and cases of fraud. Some agencies recorded fraud on corporate databases and used the information to provide a variety of reports to management on both internal and external fraud, the status of any investigations, resolution of cases and outcomes achieved.

5.28 Common elements found in the sample of agency reports examined included:

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

5.29 The ANAO was particularly concerned to find that 20 of the 47 agencies that had reported experiencing fraud in the two financial years covered by the 2002 survey advised that they did not have any form of MIS in place to record or report fraud.

5.30 Agencies need to base their fraud control activities on sound information. However, the ANAO also recognises the need for a fraud control MIS to be cost-effective for an agency. Accordingly, agencies need to tailor their MIS to meet their individual needs. The ANAO encourages all agencies to implement Guideline 8 and establish cost-effective systems tailored to meet their information needs for fraud control, recognising that for agencies with a low incidence of fraud, a simple manual-based system may be sufficient.

Quality assurance

5.31 The Guidelines state that the AFP will conduct quality assurance reviews of agency investigations according to an annual rolling program.³⁷ Fourteen agencies reported that they had participated in AFP quality assurance reviews, with six of these agencies participating in more than one such review. Four of these agencies had large caseloads and accounted for more than 85 per cent of the fraud investigated by the Commonwealth.

5.32 It is sound practice for agencies to have an internal quality assurance system in place that complements AFP reviews. Such a system helps to identify operational deficiencies through monitoring of compliance with procedures and rules. Nine of the 47 agencies that reported having experienced fraud in the two financial years covered by the 2002 survey advised that they had conducted multiple internal quality assurance reviews. Eight of these nine agencies had reported fraud caseloads of more than 40 cases for those two financial years. In total, the nine agencies reported they had conducted 236 internal quality assurance reviews since 1 January 2000 and that the findings from these reviews had been used to streamline performance in investigations.

Fraud related recoveries

5.33 The Guidelines state:

Agencies should be committed to recovering losses caused by illegal activity through proceeds of crime and civil recovery processes and, in the absence of criminal prosecution, to applying appropriate civil, administrative or disciplinary penalties.³⁸

5.34 The ANAO's detailed performance audits on fraud control arrangements undertaken in various agencies revealed, among other things, that agencies were more often unable to identify a dollar value for the administrative recoveries effected internally by them, than for fraud-related recoveries. Agencies need to be able to identify this value to assist the Commonwealth estimate the amount of funds recovered in relation to the estimated amount lost to fraud.

5.35 The ANAO is aware that there are a number of reasons for agencies preferring to recover funds defrauded administratively instead of pursuing legal action, including the limit on the number of cases that the DPP will accept for prosecution (see also paragraph 2.10). However, agencies are required to record the reasons why such decisions are made. The recording of reasons promotes transparency and increases accountability. When asked whether agencies record

³⁷ Ibid, Guideline 7, p.25.

³⁸ Ibid, Guideline 1, paragraph 1.4, p. 1.

such decisions, 51 of the 108 agencies that responded to this question in the 2002 survey, reported that they did. Of the 13 agencies that reported having undertaken administrative recoveries, only one agency reported not recording reasons for its decision to recover funds administratively.

5.36 One agency advised the ANAO that recovering funds administratively often ensured that a larger portion of the amount defrauded could be recovered, than if these funds were pursued through legal proceedings.

5.37 The ANAO also asked agencies to provide a breakdown of the internal and external, administrative and fraud-related recoveries undertaken by them for the two financial years covered by the survey. The response to this question is summarised in Figure 5.5 below.

Figure 5.5

Administrative and Fraud-related Recoveries^a

Administrative Recoveries				Fraud-related Recoveries			
Internal ^b		External ^c		Internal		External	
00–01 \$	01–02 \$	00–01 \$	01–02 \$	00–01 \$	01–02 \$	00–01 \$	01–02 \$
397 201	382 461	630 193 179	735 745 594	220 306	20 200	19 489 089	24 384 099

^a 30 agencies responded to this question, but not all of them were able to provide information for both categories and for both financial years. 158 agencies responded to the survey overall out of a total population of 160 agencies surveyed.

^b Recoveries from staff.

^c Recoveries from people external to the agency.

5.38 Some agencies informed the ANAO that they could not provide the above information for both financial years as they were either unavailable as a consolidated figure or had not recorded such information in the past. In some instances, information of administrative recoveries was not recorded at all as they were effected as adjustments to future payments or salaries. Other agencies provided information on only either administrative or fraud-related recoveries.

Conclusion

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

5.40 Almost 80 per cent of all agencies had a system for staff to report fraud, but only 24 per cent of agencies had systems to encourage the community to report suspected fraud.

5.41 An important contribution to fraud prevention is to have a suitable management information system (MIS) that assists in identifying systemic issues or control weaknesses and helps to manage cases of fraud expeditiously once they have occurred. The ANAO asked agencies if they had an MIS in place for recording, monitoring and reporting all aspects of fraud control. Of the 157 agencies that responded to this question, only 48 agencies or some 30 per cent indicated that they had such an MIS in place. This reflected an increase of 14 per cent from the previous survey, in which only 17 per cent of respondents reported having such a system.

5.42 Of particular concern to the ANAO was the approximately 43 per cent of respondent agencies that had reported having experienced fraud in the previous two years also advised that they did not have any form of fraud control MIS in place for recording, monitoring and reporting all aspects of fraud control.

5.43 Agencies need to base their fraud control activities on sound information. However, the ANAO also recognises the need for a fraud control MIS to be cost-effective for an agency. Accordingly, agencies need to tailor their MIS to meet their individual needs. The ANAO encourages all agencies to implement Guideline 8 and establish cost-effective systems tailored to meet their information needs for fraud control, recognising that for agencies with a low incidence of fraud, a simple manual-based system may be sufficient.

5.44 The ANAO's detailed performance audits on fraud control arrangements undertaken in various agencies revealed, among other things, that agencies were more often unable to identify a dollar value for the administrative recoveries effected internally by them, than for fraud-related recoveries. Agencies need to be able to identify this value to assist the Commonwealth estimate the amount of funds recovered in relation to the estimated amount lost to fraud.

6. Monitoring and Implementation of ANAO Recommendations

This chapter examines the extent to which all agencies are monitoring and implementing, where applicable, ANAO recommendations having general application, particularly those made in the reports of detailed performance audits of fraud control arrangements in particular agencies.

Introduction

6.1 Since 1999, the ANAO has undertaken 10 detailed performance audits on fraud control in various agencies. In order to follow up on the status of implementation of the recommendations made in these audits, the ANAO included an attachment to the 2002 survey, which listed the recommendations made in the detailed performance audits on fraud control for those agencies that had been subject to them. The agencies were requested to provide the ANAO with a summary of the action taken by the agency in implementing the recommendations.

6.2 Additionally, the Department of Finance and Administration in its Finance Circular No.2 of 1999 on the *Follow-up of Auditor-General Matters*, recommended that agencies review all Auditor-General reports for applicability, identify matters that affect the entity and satisfactorily address the recommendations made. Seven of the recommendations included in the detailed performance audits undertaken on specific agencies' fraud control were identified as applicable across the APS. For those agencies that were not subject to the detailed performance audits, the ANAO sought information on the agencies' monitoring of ANAO recommendations in the agency-specific audits that were generally applicable across the APS.

6.3 Responses to these questions are discussed under separate headings below.

Agency-specific Recommendations

6.4 As indicated in paragraph 6.1, the ANAO has, in recent years, undertaken 10 detailed performance audits on fraud control in various agencies.³⁹ The ANAO decided to follow-up on agencies' progress on recommendations made in 8 of these 10 performance audits. The ninth agency was not included because it would not have had sufficient time to implement the recommendations and the audit of the tenth agency was completed after the commencement of the survey.

³⁹ The names of the audits and the agencies subject to the audits are listed in Chapter 1, Figure 1.1.

6.5 The 8 agencies were sent a list of the ANAO recommendations relating to their specific audit and asked to provide information on the current status of implementation, a summary of action taken and supporting documentation as evidence of implementation.

6.6 It should be noted that it was beyond the scope of this audit for the ANAO to confirm agency responses. Moreover, not all agencies provided documentation in support of their responses and some agencies provided vague timeframes for completion of implementation.

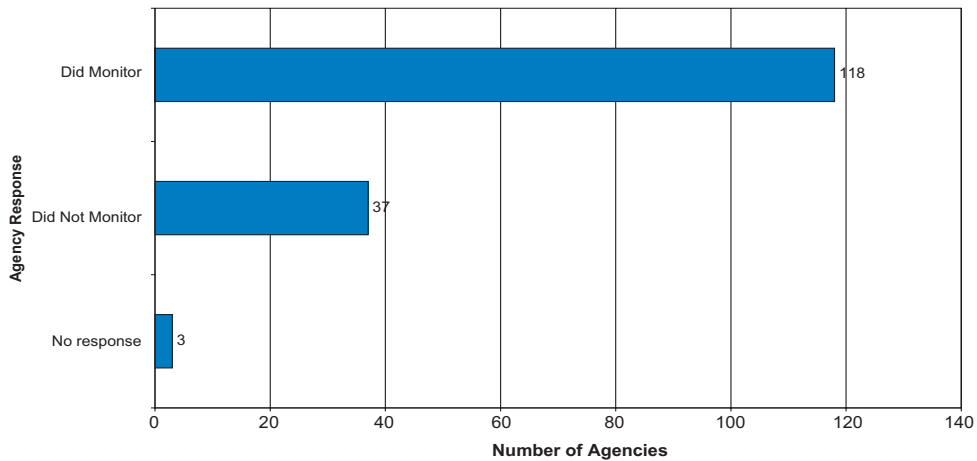
6.7 Of the 35 recommendations made across the 8 agencies, the ANAO was advised that, as at the time of the agency's survey response, 18 recommendations had been implemented and 13 were in the process of being implemented. Of the remaining four recommendations, one had not been implemented and it was unclear if the other three were being implemented or not.

6.8 The ANAO is aware that a major reason for the delay in implementing some of these recommendations related to the changes to departmental responsibilities and administrative arrangements following the Administrative Arrangements Order of 26 November 2001.

Agency monitoring of ANAO Recommendations

6.9 All 160 agencies surveyed in this audit were asked whether they were aware of, and monitored, all ANAO recommendations for applicability to their respective agencies. Figure 6.1 outlines the response to this question.

Figure 6.1
Monitoring of ANAO Recommendations



6.10 In total 155 agencies responded to the question on whether they monitored ANAO recommendations. Some 76 per cent of these agencies responded that they did monitor ANAO recommendations and 24 per cent indicated that they did not monitor them.

Agency monitoring and implementation of generally applicable ANAO recommendations in performance audits of individual agencies' fraud control arrangements

6.11 Of the total number of 160 agencies surveyed, 152 agencies had not been subject to detailed ANAO performance audits on fraud control. These agencies were asked to answer an additional question relating to whether they monitored ANAO recommendations made in performance audits of other agencies' fraud control arrangements but which were generally applicable to all agencies. The question listed seven ANAO recommendations that were generally applicable and sought information on whether or not agencies had implemented changes to reflect those recommendations. Where agencies considered the recommendation not applicable to them, they were also asked to explain briefly why.

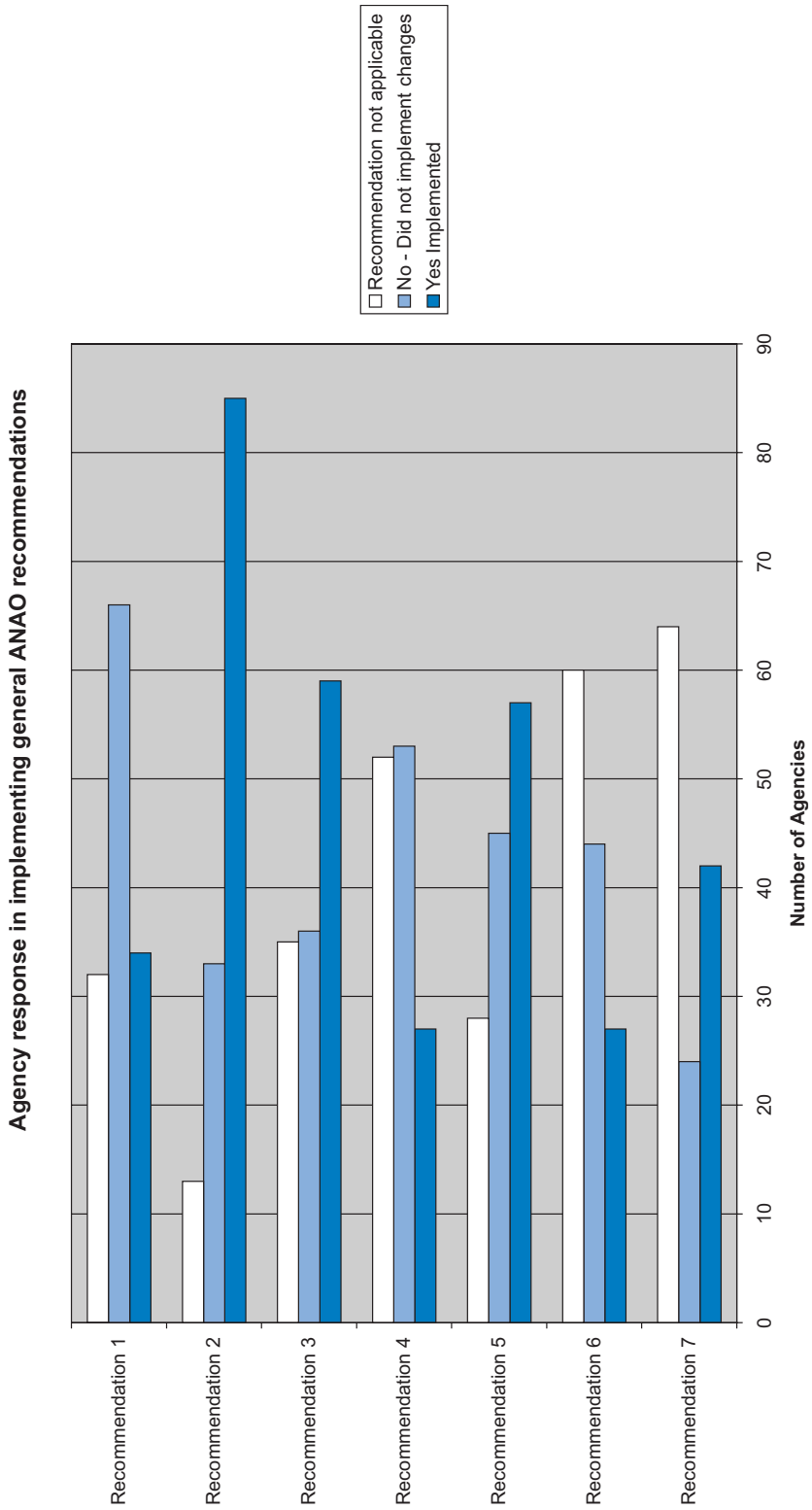
6.12 The seven generally applicable recommendations listed related to:

- the inclusion of performance indicators, benchmarks and targets in agencies' performance assessment framework (Recommendation 1);
- the assessment of training needs for all staff to receive appropriate training in relation to fraud (Recommendation 2);

- the implementation of formal guidelines for the recording, reporting and investigation of cases of fraud (Recommendation 3);
- the implementation of an internal quality assurance program for fraud investigations (Recommendation 4);
- the development of a monitoring and reporting framework to enable the implementation of strategies on fraud control to be evaluated (Recommendation 5);
- the assessment of the agency's fraud MIS to ensure it met user requirements and its ability to produce appropriate reports that supported the agency's Executive in their fraud-related responsibilities (Recommendation 6); and
- ensuring that staff undertaking fraud investigations are trained to the required competency level (Recommendation 7).

6.13 Figure 6.2 illustrates the responses provided by both FMA agencies and CAC bodies in relation to the questions whether they considered the ANAO recommendations applicable to them and whether they had implemented any changes as a result of these recommendations. It should be noted that not all agencies provided a response to all the recommendations listed.

Figure 6.2
Summary of agencies' responses regarding implementation of general ANAO recommendations



6.14 The ANAO notes that following the release of the current Guidelines in May 2002, Recommendation 6 relating to the fraud MIS and Recommendation 7 relating to the training of staff involved in fraud investigations were made mandatory for agencies to implement.⁴⁰

6.15 Approximately 86 per cent of agencies responded to the question asking whether agencies had implemented any changes in response to the generally applicable ANAO recommendations. However, as stated earlier, not all of these agencies provided a response in respect of each of the seven recommendations.

Recommendation 1

6.16 In relation to Recommendation 1 (regarding a performance assessment framework), 26 per cent of agencies that responded indicated that they had implemented changes to include performance indicators, targets and benchmarks while 50 per cent had not. A further 24 per cent indicated that they considered that this recommendation was not applicable to them. Some of the reasons cited by agencies in their response to the survey, for considering the recommendation inapplicable to them were:

- 'the incidence of fraud is historically so low, a framework such as recommended is not considered to be warranted';
- 'very small, low risk agency';
- 'not a department and not resourced to have staff and full policy framework in place as envisaged by this question'; and
- 'given the low level of fraud risk and based on sound management systems in place, it has not been considered necessary to establish specific fraud performance indicators, benchmarks and targets'.

Recommendation 2

6.17 In response to Recommendation 2 (that agencies assess their training needs in relation to raising fraud awareness among staff), 65 per cent of agencies indicated that they had implemented changes, 25 per cent said that they had not and 10 per cent responded that they considered that this recommendation was not applicable to them. Reasons given by agencies for not implementing or finding this recommendation inapplicable were that:

- they already had a process in place for providing relevant training to staff;

⁴⁰ The Commonwealth Fraud Control Guidelines, May 2002, Guidelines 8 and 6 respectively, pp.27 and 22.

- the induction program they had in place already covered the requirements of this recommendation; or
- fraud risk was assessed as being low.

Recommendation 3

6.18 In regard to Recommendation 3 (on the development of formal guidelines for recording and reporting on fraud investigations), 45 per cent of agencies indicated that they had implemented changes, 28 per cent reported they had not and 27 per cent stated that they did not find it applicable. Some reasons provided by agencies for not implementing changes or for finding this recommendation inapplicable were that:

- they already had guidelines in place;
- past history did not warrant the development of such guidelines; or
- they would do so if the need arose.

Recommendation 4

6.19 In relation to Recommendation 4 (on internal quality assurance for fraud investigations), only some 20 per cent⁴¹ of agencies indicated that they had implemented such a system. 40 per cent advised that they had not done so and 39 per cent advised they considered this recommendation inapplicable to them. The main reason given by the 79 per cent of agencies that had not taken action on this recommendation was that the agencies either did not conduct their own investigations or would outsource such an investigation if the need for one arose.

Recommendation 5

6.20 Recommendation 5 called for the development of a monitoring and reporting framework to enable the implementation of strategies on fraud control to be evaluated. Some 43 per cent of agencies indicated that they had developed a reporting framework to enable the progress and implementation of fraud control strategies to be satisfactorily evaluated. However, 35 per cent of the agencies indicated that they had not implemented any changes and the remaining 22 per cent advised that they did not consider the recommendation applicable to them. The reasons cited by the 57 per cent of agencies that did not implement any changes in response to this recommendation were similar to those described in the previous paragraph.

⁴¹ Percentage rounding error needs to be taken into consideration in interpreting the percentages in paragraphs 6.19–6.23.

Recommendation 6

6.21 In response to Recommendation 6 (regarding the development of a fraud MIS), 20 per cent of agencies indicated that they had implemented changes, 34 per cent indicated that they had not and 46 per cent responded that it was not applicable to them. The main reasons provided for why such a large majority of agencies, some 81 per cent, had not implemented this recommendation or found it inapplicable were that:

- many of them were extremely small agencies;
- they had not experienced any cases of fraud to date; or
- they had experienced a very low level of fraud.

6.22 Accordingly, these agencies did not consider it cost effective to implement such a system. Smaller agencies indicated that they either did not see the need, or did not have the resources, to implement this recommendation in light of the low level of fraud experienced by them. However, some of these agencies advised that they had a manual system in place to record all the relevant information relating to fraud.

Recommendation 7

6.23 In respect of Recommendation 7 (relating to training for staff undertaking fraud investigations), 33 per cent of agencies indicated that they had taken steps to ensure that their staff involved in fraud investigations were being trained to the required competency levels. Eighteen per cent had not implemented this recommendation and 49 per cent did not consider it applicable. The fact that such a large number of agencies had not implemented this recommendation reflected the fact that the majority of agencies outsource fraud investigations and so did not consider this recommendation applicable to them.

Conclusion

6.24 Those agencies that had been subject to detailed performance audits on fraud control reported having partially or fully implemented nearly 89 per cent of the ANAO's recommendations at the time of their response to the October 2002 survey. Agencies should endeavour to implement ANAO recommendations as soon as possible, to help ensure that the requirements of the Guidelines are met.

6.25 Some three quarters of agencies reported that, in accordance with advice provided in Finance Circular No.2 of 1999, they were monitoring for general applicability ANAO recommendations made in performance audits of other agencies and were, as a result, implementing changes, where practical. Agencies

that have not been monitoring the recommendations, are encouraged to do so, not only to enhance fraud control arrangements across the APS but, more generally, to ensure that all matters raised by the ANAO that effect the agency are identified and satisfactorily addressed.

Canberra ACT
28 November 2003



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Survey Questionnaire



Australian National
Audit Office

**SURVEY OF
FRAUD CONTROL
ARRANGEMENTS WITHIN
AUSTRALIAN PUBLIC SERVICE
AGENCIES**

AUSTRALIAN NATIONAL AUDIT OFFICE

OCTOBER 2002

**RESPONSE REQUIRED BY
15 NOVEMBER 2002**

INTRODUCTION

This survey on Fraud Control Arrangements within Australian Public Service (APS) Agencies is being undertaken by the Australian National Audit Office (ANAO) as part of a performance audit being conducted under Part 5, Division 1 of the *Auditor-General Act 1997*. It follows a previous survey of Fraud Control Arrangements in APS Agencies, undertaken in 1999 resulting in a Report (No. 47, 1999–2000).

The survey has been forwarded to approximately 160 Commonwealth agencies that are covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

The ANAO is aware that under the Commonwealth Fraud Control Guidelines (the Guidelines)⁴² agencies are required to provide information in meeting their annual reporting requirements to the Attorney-General's Department. This questionnaire, deals with similar issues but seeks detailed information from a wider range of agencies and will allow a more complete understanding of fraud control arrangements in the APS.

The purpose of the survey is to assess key aspects of fraud control arrangements in place across the Australian Public Service (APS) against the Guidelines, in order to provide assurance to Parliament on the preparedness of agencies to effectively prevent and deal with fraud.

The survey results will also be used to assist in the development of a Better Practice Guide on fraud control for the APS and will complement the results of performance audits of fraud control arrangements that have been conducted in selected agencies.

The survey has been designed to:

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

The 1999 survey questionnaire has been modified to reflect changes that have resulted from the current Guidelines.

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

Individual agencies will not be identified in the report of the survey, which will be tabled in Parliament in mid 2003.

⁴² The current Commonwealth Fraud Control Guidelines was issued by the Minister for Justice and Customs in May 2002.

INSTRUCTIONS

1. Please complete all relevant questions in the questionnaire.
2. The completed questionnaire should be authorised. **Each completed questionnaire should be signed by the officer responsible for fraud control as an authorised response from the agency.**

RETURN OF QUESTIONNAIRE

Please return the completed questionnaire by no later than 15 November 2002. Completed questionnaire and accompanying documentation should be returned to:

Audrey Moffatt
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

SUPPORT/HELP

If you have any questions about this questionnaire please contact:

- Audrey Moffatt, Performance Analyst, Performance Audit Services Group on (02) 6203 7536.

ADDITIONAL INFORMATION

If the space provided for any of the questions is insufficient, please provide your answers on a separate sheet of paper with the number of the question clearly indicated beside your response.

Agency information

Name of Agency _____

1. Please indicate the *Act* under which your agency is covered.
 - Financial Management and Accountability Act 1997 (FMA Act)*
 - Commonwealth Authorities and Companies Act 1997 (CAC Act)*
 - Other _____
2. If your agency operates under the *CAC Act*, what percentage of your agency's operating cost is budget funded? (For example 25%, 50% etc)

Commonwealth Fraud Policy

3. Are you aware of the revised *Commonwealth Fraud Control Guidelines 2002*?
 - No
 - Yes
4. Does your agency have a written fraud control policy in place?
 - No
 - Yes (*Please attach a copy to this questionnaire*)

Awareness of Fraud Control

5. What measures has your agency taken to raise staff awareness of fraud control?
 - Circulation of fraud control policy
 - Circulation of fraud control plan
 - Inclusion of information on fraud for induction of new staff
 - Fraud control circulars
 - Email messages about fraud control
 - Intranet / public database postings on fraud control
 - Seminars on fraud control
 - Memos on fraud control
 - Other (specify) _____
 - None of the above

6. Does your agency supply the following to staff including contract staff, with respect to fraud: *(Please tick relevant answers and send the ANAO samples of the types of kits or documentation provided at the training.)*
- General fraud awareness training
 - Code of conduct or ethics training
 - Specific fraud-related training in high risk areas
 - Training on fraud detection
 - Training on fraud investigation
7. Does your agency have formal policies and procedures for ensuring that consultants, suppliers and other third parties are aware of, and comply with the agency fraud control policy.
- No
 - Yes *(If yes, please send details to the ANAO – for example, extracts from tender documents which contain warnings on your agency's policy of fraud control)*

Code of Conduct/Ethics

8. Does your agency have an agency-specific code of conduct or code of ethics?
- No
 - Yes *(If yes, please attach a copy to this questionnaire)*
9. Has your agency developed specific guidelines or procedures that would cover all fraud matters? For example guidelines or procedures, which cover matters such as conflict of interest, accepting gifts or gratuities, reporting and recording allegations of fraud and undertaking investigations?
- No
 - Yes *(If yes, please attach copies to this questionnaire)*

Management of Fraud Control

10. Does your agency have any specific individual(s) or agency structure(s) responsible for fraud control?
- No (Go to Q12)
- Yes
11. What are they?
- Audit Committee
- Fraud Committee
- Ethics Committee
- Corporate Governance Committee
- Specialist staff (eg Fraud Prevention Unit, Fraud Investigation Unit,)
- Specialist contract staff/resources
- Other (please specify)
12. Has your agency taken steps to integrate its fraud control and security responsibilities? For example, are there linkages in the fraud control plan or in fraud management arrangements to security arrangements?
- No
- Yes (*If yes, please provide details*) _____
- _____
- _____

Fraud Risk Assessment

13. Has your agency undertaken a fraud risk assessment in the last two years in line with the Commonwealth Fraud Control Guidelines?
- No (*If no, when was the last fraud risk assessment undertaken?*) _____
- Yes (*If yes, please send a copy of the risk assessment methodology used and a list of all areas that have been subject to a risk assessment in the last two years to the ANAO*)

14. Has your agency developed action plans (ie. a plan to address identified risks) for those areas within the agency deemed to be of medium to high risk of fraud?
- No
- Yes (*If yes, please attach copies to this questionnaire*)

Fraud Control Plan

15. Has your agency developed a fraud control plan in the last two years to reflect its identified risks?
- No (*If no, when was the last fraud control plan developed and what period does it cover?*) _____
- _____
- Yes (*If yes, please attach a copy to this questionnaire*)
- Date of approval _____
- Period it covers _____

Fraud Monitoring and Reporting

16. Does your agency have a formal fraud reporting system in place?
- No
- Yes
17. Have procedures to report fraud been developed and distributed to all employees?
- No
- Yes (*If yes please attach a copy of the procedures to this questionnaire*)
18. Have any mechanisms been developed to facilitate reports from the community of suspected fraud in any form (external or internal) and how has this information been circulated?
- No
- Yes (*If yes, please provide details*) _____
- _____
- _____
- _____

19. What is the most successful process/measure implemented by your agency to identify and/or deter fraud? For example, data matching, confirmation of proof of identity, reports by employees, reports by members of the public etc.

Fraud Management Information System

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

No (*Go to Q23*)

Yes

21. How often is information from this system reported:

(a) to agency executives

(b) to relevant committees

and/or

(c) through general reporting.

(Please send samples of types of reports produced by this system to the ANAO)

22. For what other purpose is the information maintained on the Management Information System used? For example, fraud intelligence, input into Annual Reports etc.

Fraud Investigations

23. Does your agency undertake its own fraud investigations?

No (*Go to Q26*)

Yes

Partially

24. For your agency, please provide a breakdown of your fraud investigation staff numbers by their qualifications. (Please only include highest level qualification for each person).

Total number of staff responsible for Fraud Investigations	Number of staff responsible for fraud investigations with the following qualifications			Staff being trained	Staff yet to be trained
	Dip. of Govt. (Fraud Control Investigation)	Cert. IV in Govt. (Fraud Control Investigation)	Other relevant qualifications		

25. Has this agency developed training plans to assist it in determining the level of fraud related training required by its relevant employees?

No

Yes (*Please attach a copy to this questionnaire*)

26. For your agency, please supply the following information for the financial years 2000–01 and 2001–02. The ANAO understands that administrative changes may have occurred over this period that could have an impact on the comparability of information provided for the two financial years.

	2000–01	2001–02
Number of fraud cases referred to AFP or other law enforcement agencies		
Number of fraud cases referred to DPP		
Number of fraud cases prosecuted		
Number of fraud cases prosecuted and proven		

Quality Assurance

27. Since 1 January 2000 has your agency conducted any of its own Quality Assurance Reviews of fraud investigations?

No

Yes (If yes, please state how many and include any that were active in that period, including those that were started but not completed before 1 January 2000)

Number _____

28. Since 1 January 2000 has your agency participated in any Quality Assurance Reviews of fraud investigations conducted by the Australian Federal Police?

No

Yes (If yes, please state how many and include any that were active in that period, including those that were started but not completed before 1 January 2000.)

Number _____

29. To what extent does your agency contract out any aspects of the following fraud control functions? (Please tick appropriate boxes)

Function	All	Part	Not Applicable
Fraud awareness training			
Training on fraud prevention			
Specific fraud-related training in high risk areas			
Training on fraud investigation			
Fraud Risk Assessment			
Development of Fraud Control Plan			
Fraud Investigations			
Other (please specify)			

Comments

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

Increase. If increase, which functions?

No change

Decrease. If decrease, which functions?

Information on Fraud Matters

31. Please state your agency's overall definition of fraud.

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

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

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

Nature and Extent of Fraud

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

Increase

Unchanged

Decrease

36. What are the main contributing factors for your response at Question 35?

37. Please complete the tables provided below for the financial years 2000–01 and 2001–02. The ANAO understands that administrative changes may have occurred over this period that could have an impact on the comparability of information provided for the two financial years.

Internal Fraud:

Fraudulent activities	No. of fraud allegations		No. of fraud cases		Value of fraud cases	
	2000–01	2001–02	2000–01	2001–02	2000–01	2001–02
Improper use of Commonwealth credit cards						
Improper use of Commonwealth petty cash and other negotiable instruments: Cheques: Cabcharge: Purchase Orders:						
Manipulation of inventory control						
Improper use of Commonwealth property						
Improper use of Commonwealth travel funds						
Improper payments to contractors/suppliers						
Improper claims for benefits/payments (including false invoices)						
Other (please specify)						
Total A						

Please provide a break-up of the above information in the following categories.

Employee Levels						
Management (SOGC equivalent and above)						
Employee (non management)						
Other (eg. Staff on contract)						
Total B						

External Fraud:

Fraudulent activities	No. of fraud allegations		No. of fraud cases		Value of fraud cases	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Improper claims for benefits/payments by the community						
Improper payments to consultants, suppliers or other third parties (eg. False invoices)						
Improper use of funds by consultants, suppliers and other third parties						
Other (please specify)						

38. Please indicate the number of cases of fraud that resulted in the following actions being taken for the 2000-01 and 2001-02 financial years:

ADMINISTRATIVE PENALTIES	INTERNAL FRAUD		EXTERNAL FRAUD	
	2000-01	2001-02	2000-01	2001-02
Suspension				
Demotion				
Termination of employment				
Recovery of debt				
Interest on debt				
Reprimand				
Other (please specify)				
CRIMINAL PENALTIES				
Imprisonment				
Community service				
Fine				
Bond				
Suspended sentence				
Offence proven but no conviction recorded				
Reparation order				
Other (please specify)				

39. In relation to identified cases of fraud, what procedures does the agency have in place to recover funds defrauded? For example, administrative procedures including adjustment of payments, pensions, salary etc. Please give details.

40. In relation to identified cases of fraud, does your agency record the reasons for decisions made by responsible staff to recover funds administratively in preference to pursuing legal action?

No

Yes (*Please provide examples to the ANAO*)

41. Please provide a breakdown of the total of internal and external administrative and fraud related recoveries for the financial years 2000–01 and 2001–02.

Administrative Recoveries		Fraud –related Recoveries	
Internal	External	Internal	External
2000–2001	2001–02	2000–01	2001–02

Follow-up of ANAO recommendations

42. Is your agency aware of and does it monitor the applicability of ANAO recommendations made in detailed performance audits on fraud control in Agencies other than your own?

No

Yes

In relation to the follow-up of ANAO recommendations, please also complete the attachment to this questionnaire.

CHECKLIST

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

- Fraud Control Policy (Q4)
- Samples of material for the various types of training provided by the agency. (Q6)
- Information provided to consultants, suppliers etc on agency's policy of fraud control. (Q7)
- Agency Code of Conduct or Code of Ethics (Q8)
- Guidelines or Procedures to Cover All Fraud (Q9)
- Details of integration of fraud control and security responsibilities (Q12)
- Fraud Risk Assessment Methodologies (Q13)
- Copy of an action plan and list of programs that have current action plans to counter fraud (Q14)
- Most recent Fraud Control Plan (Q15)
- Procedures for staff to report fraud (Q17)
- Mechanism for customers/general public to report internal or external fraud and how information was circulated (Q18)
- Sample reports from Fraud Management Information System to agency executives and committees (Q21)
- Information on fraud investigation staff qualifications (Q24)
- Training plans (Q25)
- Information on referrals and prosecutions (Q26)
- Breakdowns by types of fraud (Q36)
- Breakdowns by administrative and criminal penalties (Q38)
- Copy of record of decisions for administrative recoveries (Q40)
- Breakdown of administrative and fraud related recoveries (Q41)

The survey should be returned by no later than 15 November 2002

CERTIFICATION

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

Authorising Officer's signature: _____

Print Name: _____

Position Title: _____

Date: _____

Phone Number: _____

Contact Officer's Name: _____

Position Title: _____

Phone number: _____

PLEASE RETAIN:

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

Appendix 2

Criteria and core areas against which the ANAO reviewed risk assessments

These criteria are drawn from the Commonwealth Fraud Control Guidelines 2002. The risk assessment methodology must:

- reflect the risks across the range of functions performed by the agency;
- be capable of adequately measuring risks in a comparable way;
- be capable of providing a supportable rating of the risks of fraud;
- be amenable to fine-tuning as appropriate;
- be able to be replicated;
- include decisions on how and why particular criteria have been selected for assessing and rating risks; and
- define the criteria, all of which should be applicable to all areas and functions of the agency.

The core areas that a fraud risk assessment must consider include:

- information technology and information security;
- electronic commerce, electronic service delivery and the Internet;
- outsourced functions;
- grants and other payments or benefits programs;
- tendering processes, purchasing and contract management;
- services provided to the community;
- revenue collection;
- use of Government credit cards;
- travel allowance and other common allowances;
- salaries; and
- property and other physical assets including physical security.

Appendix 3

Bibliography

ACT Auditor General's Report *Management of Fraud and Corruption Prevention in the Public Sector*, Report No. 4, Canberra, 2003.

Association of Certified Fraud Examiners, Report to the Nation on Occupational Fraud and Abuse, USA, 1999 [Online] available at <http://www.cfenet.com>

Association of Certified Fraud Examiners, The Computer and Internet Fraud Manual, USA, 2002 [Online] available at <http://www.cfnnet.com>

Audit Office of New South Wales, *Contracting Out Review Guide*, 1999.

Audit Office of New South Wales, *Fraud Control: Developing an Effective Strategy*, Sydney, c. 1994

Commonwealth Industry Commission, *Competitive Tendering and Contracting by Public Service Agencies*, Report No 48, Melbourne, 1996.

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

Director of Public Prosecutions, *The Prosecution Policy of the Commonwealth*, Australia, [Online], available at <http://www.nla.gov.au/dpp/prospol.html>

Ernst and Young International Fraud Group, *Fraud the unmanaged risk: An international survey of the effect of fraud on business*, May 1998.

Horne, S, *Implementing Accountability and Fraud Control in an Era of Outsourcing and Commercialisation*, paper presented to the conference Linking Ethics and Accountability to Minimise Fraud in the Public Sector, 29 February 2000.

House of Representatives Standing Committee on Banking, Finance and Public Administration, *Focussing on Fraud: Report on the Inquiry into Fraud on the Commonwealth*, Canberra November 1993.

IIR Conferences, papers presented to Linking Ethics and Accountability to Minimise Fraud in the Public Sector, 29 February–1 March 2000.

IIR Conferences, papers presented to the Fraud in the Public Sector conference, Sydney 19–20 April 1999.

Independent Commission against Corruption, *Ethics: the key to good management*, Australia, 1998 [Online], available at <http://www.icac.nsw.gov.au>

Institute of Chartered Accountants in Australia, *Taking Fraud Seriously: Issues and Strategies for Reform*, November 1998.

KPMG, *2002 Fraud Survey, 2002*.

Management Advisory Board/Management Improvement Advisory Committee, *Guidelines for Managing Risk in the Australian Public Service*, Canberra c1996.

National Audit Office Report, *Department of Work and Pensions Tackling Benefit Fraud*, London, February 2003.

National Audit Office Report, *Tackling Fraud against the Inland Revenue*, London, February 2003.

Price Waterhouse Coopers and Australian Institute of Criminology, Research and Public Policy Series No. 48, *Serious Fraud in Australia and New Zealand*, Canberra 2003.

Smith, RG, *Defrauding Governments in the Twenty-first Century*, Australian Institute of Criminology, Canberra, 1999.

Smith, RG, *Measuring the Extent of Fraud in Australia*, Australian Institute of Criminology, Canberra, 1997.

Standards Association of Australia, *Guidelines for Managing Risk in the Australian and New Zealand Public Sector* (AS/NZS 4360:1999) Strathfield, 1999.

Waters, G., *Effective fraud awareness is no laughing matter! Or can it be so?* presented to the conference 'Linking Ethics and Accountability to Minimise Fraud in the Public Sector', 29 February 2000.

Other publications

Australian Federal Police, Comfraud Bulletin, published quarterly.

Fraud Prevention Services, Fraud Prevention Review, published quarterly.

Series Titles

Audit Report No.13 Performance Audit

ATSIS Law and Justice Program

Aboriginal and Torres Strait Islander Services

Audit Report No.12 Performance Audit

The Administration of Telecommunications Grants

Department of Communications, Information Technology and the Arts

Department of Transport and Regional Services

Audit Report No.11 Performance Audit

Annual Performance Reporting

Audit Report No.10 Performance Audit

Australian Defence Force Recruiting Contract

Department of Defence

Audit Report No.9 Performance Audit

Business Continuity Management and Emergency Management in Centrelink

Centrelink

Audit Report No.8 Performance Audit

Commonwealth Management of the Great Barrier Reef Follow-up Audit

The Great Barrier Reef Marine Park Authority

Audit Report No.7 Business Support Process Audit

Recordkeeping in Large Commonwealth Organisations

Audit Report No.6 Performance Audit

APRA's Prudential Supervision of Superannuation Entities

Australian Prudential Regulation Authority

Audit Report No.5 Business Support Process Audit

The Senate Order for Departmental and Agency Contracts (Autumn 2003)

Audit Report No.4 Performance Audit

Management of the Extension Option Review—Plasma Fractionation Agreement

Department of Health and Ageing

Audit Report No.3 Business Support Process Audit

Management of Risk and Insurance

Audit Report No.2 Audit Activity

Audit Activity Report: January to June 2003

Summary of Outcomes

Audit Report No.1 Performance Audit

Administration of Three Key Components of the Agriculture—Advancing Australia (AAA) Package

Department of Agriculture, Fisheries and Forestry—Australia

Centrelink

Australian Taxation Office

Better Practice Guides

Public Sector Governance	July 2003
Goods and Services Tax (GST) Administration	May 2003
AMODEL Illustrative Financial Statements 2003	May 2003
Managing Parliamentary Workflow	Apr 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Cash Management	Mar 1999
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997

Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management Handbook	Jun 1996