

# 2012 Fraud Survey

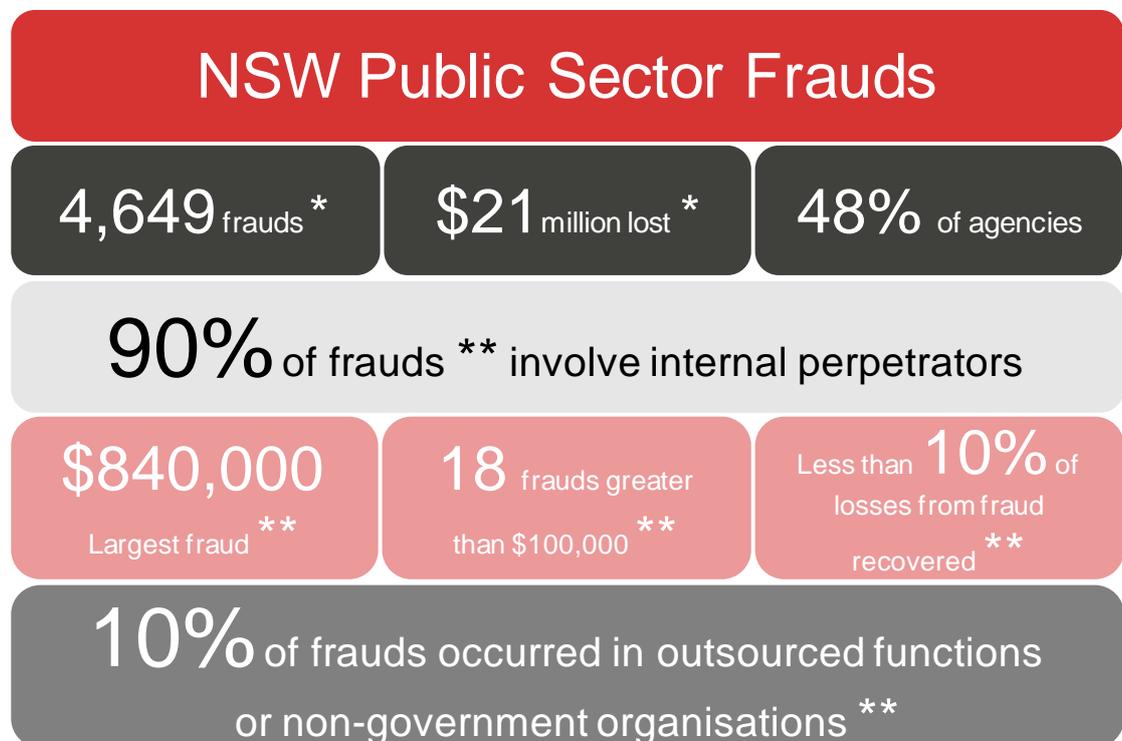
High profile frauds in other jurisdictions have re-inforced the need for effective fraud control strategies.

My 2012 fraud control survey shows fraud control measures are improving, but there is more work to be done.

My survey gives a snapshot of frauds identified over the last three years by NSW Government agencies, and considers whether agency fraud mitigation strategies and processes are improving or could be improved further. It also considers whether more can be done at a whole-of-government level to better respond to the risk of fraud.

## NSW Public Sector Fraud Dashboard

The following data is for the three year period, 1 July 2009 to 30 June 2012.



\* Frauds identified by all surveyed agencies - survey excludes universities and local government councils.

\*\* Excludes licensing identity frauds, fraudulent State tax self assessments and mortgage title frauds committed by the public. Exposure to these frauds is limited to the operations of only a few agencies.

## Key Survey Conclusions

Fraud continues to be an important issue for the NSW public sector, with 48 per cent of agencies identifying a fraud in the last three years.

Positively, my survey suggests fraud control in agencies is improving. However, it also indicates the incidence and magnitude of fraud may be growing. This is worrying, particularly as the motivation and opportunities to commit fraud increase when money is tight and significant agency structural changes and reforms are in progress.

Fraud control requires an ongoing commitment that goes well beyond setting up policies and procedures. I am concerned some agencies simply 'tick the box' and put their commitment to fraud control in the bottom drawer. To illustrate this, the survey indicates that:

- while a high proportion of agencies conduct risk assessments and have a fraud control plan, a much lower proportion revise these when there is a major change to their role or function
- while a high proportion of agencies have a code of conduct, a much lower proportion require staff to regularly attest they know and understand it
- weaknesses in fraud awareness and training exist.

Specifically, I am also concerned that:

- more than two out of five agencies do not require staff to take at least two weeks continuous leave each year
- there is a growing trend in frauds identified in outsourced functions and contracted non-government organisations
- one in ten agencies do not routinely conduct pre-employment checks of criminal records, work histories and qualifications.

Agencies and their audit and risk committees should consider the issues identified in this report when assessing the effectiveness of their approach to fraud control.

Despite gradual improvement over a long period of time, agencies do not rate their fraud control measures as effective or better in 20 per cent of cases. With the risk of fraud increasing, I do not believe the current decentralised approach to fraud control adequately protects agencies against fraud. I believe fraud control would be significantly improved if New South Wales adopted a whole-of-government fraud control policy framework which establishes mandatory minimum standards. The framework needs to be flexible enough so its application meets individual agency needs and gives responsibility for developing policy and monitoring results to key agencies.

## Fraud in the NSW Public Sector

This survey only provides data on frauds identified by NSW Government agencies. There is no way of accurately determining the total extent and cost of all frauds occurring in the NSW public sector. Because fraud inherently involves deception and concealment many may never be detected.

The KPMG Fraud and Misconduct Survey 2012 estimates unidentified frauds in organisations are almost three times the number of identified frauds. International fraud studies show a typical organisation can lose five per cent of its revenues to fraud (Report to the Nations on Organisational Fraud and Abuse, 2012 Global Fraud Study, Association of Certified Fraud Examiners).

I am concerned some agencies 'tick the box' and put their commitment to fraud control in the bottom drawer

Fraud inherently involves deception and concealment resulting in potentially many frauds never being detected



I have excluded 4,087 public sector frauds valued at \$13.6 million from the analysis below as they involve unique types of fraud committed by public citizens. They are predominately false identity licensing frauds, fraudulent state tax self assessments and land registration frauds and only impact a small number of agencies. To include them may reduce the learnings coming out of the survey for all agencies.

Of the frauds included in the analysis, 259 (46 per cent) were not valued because they did not result in a loss of public money or could not be quantified by the agency.

The number and values of frauds identified in the last three years are summarised below:

Years	Total Number of frauds*	Number of frauds valued**	Value of frauds \$**	Average value of each fraud \$**
2011-12	196	113	3,208,517	28,394
2010-11	199	118	1,047,252	8,875
2009-10	167	72	2,903,363	40,324
<b>Total</b>	<b>562</b>	<b>303</b>	<b>7,159,132</b>	<b>23,627</b>

\* Includes frauds not valued by agencies.

\*\* Excludes frauds not valued by agencies.

The total number and value of frauds are higher in 2011-12 than they were two years ago, and the average value is higher than it was in 2010-11.

Forty-eight per cent of agencies identified a fraud in the three year period, with 17 per cent identifying ten or more frauds.

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The frauds identified had the following value profile:

	Number of frauds	Value of frauds \$m
Over \$750,000	2	1.7
\$500,000 to \$749,999	--	--
\$250,000 to \$499,999	5	1.9
\$100,000 to \$249,999	11	1.6
\$50,000 to \$99,999	13	0.9
\$10,000 to \$49,999	39	0.8
Less than \$9,999	233	0.3
<b>Total</b>	<b>303</b>	<b>7.2</b>

Eighteen frauds, costing agencies more than \$100,000 each, were identified across 12 agencies during the three year survey period.

The top five frauds by value over the three year period were:

Nature of fraud	Value of fraud \$	Year
Procurement	840,000	2011-12
Unauthorised access to data	822,000	2009-10
Procurement	480,000	2011-12
Procurement	465,300	2009-10
Theft	340,000	2009-10

Eighteen frauds, costing agencies more than \$100,000 each, were identified across 12 agencies during the three year survey period

The nature of frauds identified by agencies over the three years ending 30 June 2012 is summarised as follows:

Nature	Number of frauds*	Number of frauds	Value of frauds \$	Average value of each fraud \$**
Procurement related	43	23	3,037,678	132,073
Theft other (e.g. assets)	68	42	1,051,131	25,027
Unauthorised access to data	9	1	822,000	822,000
Other	79	39	628,057	16,104
Expenditure claim	25	16	581,876	36,367
Theft of cash	75	72	433,408	6,020
Timesheet	54	30	146,988	4,900
Revenue	6	5	128,543	25,709
Payroll	16	11	127,135	11,558
Misuse of government equipment	23	3	70,850	23,617
Overtime	20	12	65,762	5,480
Leave entitlement	34	17	27,563	1,621
Credit card	23	23	25,633	1,114
Travel claim	6	5	11,906	2,381
Cab charge	4	4	602	151
Bribery	32	--	--	--
Misuse of authority	13	--	--	--
Motor vehicles	10	--	--	--
Identity	7	--	--	--
Medical certificate	6	--	--	--
Misuse of email	4	--	--	--
Intellectual property	2	--	--	--
Workers compensation	2	--	--	--
Manipulation of IT systems	1	--	--	--
<b>Total</b>	<b>562</b>	<b>303</b>	<b>7,159,132</b>	<b>23,627</b>

\* Includes frauds not valued by agencies.

\*\* Excludes frauds not valued by agencies.

### *Recommendation*

Agencies should reconsider their procurement structures, processes and people with reference to and in light of findings in the ICAC publication 'Corruption Risks in NSW Government Procurement - The Management Challenge', December 2011.

Procurement is the top fraud risk in the NSW public sector. This is no surprise and aligns with the findings of the Independent Commission Against Corruption's (ICAC) investigative work over the last decade.

The ICAC publication 'Corruption Risks in NSW Government Procurement - The Management Challenge', December 2011, provides extensive guidance to agencies on mitigating the risk of procurement fraud. This publication focuses on strengthening procurement structures, the procurement process and people factors.

Procurement is the top fraud risk in the NSW public sector

The exact nature of public sector frauds varies significantly, even within the listed categories above. Some more specific examples are:

Nature of Fraud	Examples*
Procurement	Employee procures goods or services from a private company they own or are associated with. Employee buys excessive amounts of overpriced stationery after accepting gifts from a supplier.
Unauthorised access to data	Ex-contractor uses still valid system password to obtain valuable information from an agency for free.
Expenditure claim	Contractor takes advantage of weak controls to overcharge for work done and to charge for work not done.
Travel claim	Employee claims for travel not undertaken and fabricates expenses.
Credit cards	Employee fraudulently uses agency credit card for private purposes.
Timesheets	Employee claims they worked but this is not supported by timesheets.
Misuse of government equipment	Employee runs a private business on agency time, using its assets.
Other	Employee manipulates agency data to make performance look better than it actually was to maximise program funding. Staff member employed based on fraudulent qualifications or work history.

\* Note: Includes public sector fraud examples from States other than New South Wales to illustrate the diversity of public sector fraud.

The following table provides data on where frauds identified by agencies occurred:

Year ended 30 June	Number of frauds		
	2012	2011	2010
Location of fraud			
Within an agency	168	184	153
Within an agency's outsourced functions	7	2	2
At an agency's contracted non-government organisation	21	13	11
Other	--	--	1
<b>Total</b>	<b>196</b>	<b>199</b>	<b>167</b>

### *Recommendation*

Agencies with outsourced functions or those which have engaged non-government organisations should ensure fraud risks are being managed as well as they would have been had the agency not chosen an outsourced arrangement.

Frauds identified in outsourced functions and contracted non-government organisations are increasing, growing from eight per cent of all frauds in 2009-10 to 14 per cent in 2011-12. Given the increasing trend in outsourcing government service delivery and functional activity, the increasing incidence of fraud in these arrangements is likely to continue.

I am concerned that 55 per cent of the \$7.2 million worth of frauds identified, occurred in outsourced functions and contracted non-government organisations. These frauds totalled \$2,462,482 for 2011-12, \$579,660 for 2010-11 and \$919,448 for 2009-10.

Frauds identified in outsourced functions and contracted non-government organisations are increasing

The following table highlights how the frauds were identified:

Identification method	Number of frauds*	Value of frauds \$m**
Management review	90	1.3
Tip	89	0.7
Internal controls	71	0.4
Internal audit	38	0.9
Document examination	30	0.2
Account reconciliation	25	1.5
Advice from police, etc	15	0.2
By accident	11	0.9
Confession	6	0.4
Other audit review	5	0.1
Surveillance monitoring	2	0.0
IT controls	1	0.0
Other	179	0.6
<b>Total</b>	<b>562</b>	<b>7.2</b>

\* Includes frauds not valued by agencies.

\*\* Excludes frauds not valued by agencies.

The table shows that controls are successful in identifying fraud. Management review, internal controls, internal audit and account reconciliations detected 40 per cent of the frauds identified.

Another successful way of identifying fraud is from receiving a 'tip'. Fraud awareness programs for employees, customers and suppliers can improve the likelihood of identifying frauds from tip offs.

Agencies are at greater risk of fraud from their own employees than from external perpetrators

## Profile of the NSW Public Sector Internal Perpetrator

NSW public sector agencies are at greater risk of fraud from their own employees than they are from an external perpetrator. Ninety per cent of frauds involve an internal perpetrator.

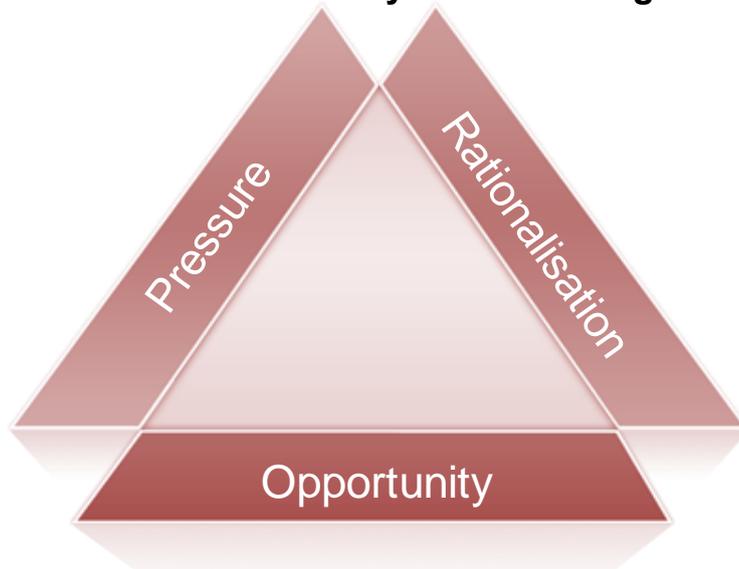
This is a common finding in fraud surveys of private and public sector organisations around the world. The NSW public sector profile of the average internal perpetrator is unremarkable as illustrated below:



The average perpetrator has worked for the agency for more than five years, which suggests they do not enter an agency with the intention of committing a fraud.

The 'fraud triangle' is a concept created by an American Criminologist Dr Donald Cressey after he interviewed 200 convicted embezzlers he dubbed 'trust violators.' He was interested in these people because they had entered the work place with no intention of stealing. From this work he created the following fraud triangle.

### Dr Donald Cressey's Fraud Triangle



Pressure is the first leg of the fraud triangle, which Cressey describes in his hypothesis as usually a personal problem the perpetrator is too ashamed or unwilling to share with others. Disturbingly, Cressey found that if they had talked about their problems, others probably would have helped.

Opportunity is the second leg and relates to the opportunity that exists within an agency for a fraud to take place. Opportunities usually occur from a lack of internal controls. Here the violator feels they can take advantage of the situation without getting caught. Of course, there has to be a certain level of technical skill to be able to exploit an opportunity, which is why violators often find opportunities within their own job function.

The third and final leg is rationalisation. Cressey found many violators never felt they were actually a criminal because they had rationalised the misdeed to themselves. Many violators Cressey interviewed felt justified and did not believe they were accountable for their fraudulent actions.

The fraud triangle can influence how agencies respond to mitigating fraud risk. Of the three legs of the triangle, agencies have most capacity to influence the second leg by building processes, procedures and controls that reduce opportunities for employees to commit fraud and effectively detect fraudulent activity should it occur.

Agencies provided the following reasons for identified frauds occurring:

Reason for fraud	Number of frauds*	Value of frauds \$m**
Person did not think they would get caught	141	1.0
Internal controls or policies not followed	132	1.1
Reason not determined	167	1.6
Easy access to cash and assets	44	0.3
Inadequate internal controls/policies	41	2.0
Management override of controls	22	0.9
New type of fraud agency unprepared for	9	0.3
Poor segregation of duties	6	0.0
<b>Total</b>	<b>562</b>	<b>7.2</b>

\* Includes frauds not valued by agencies.

\*\* Excludes frauds not valued by agencies.

Key findings in the table above are:

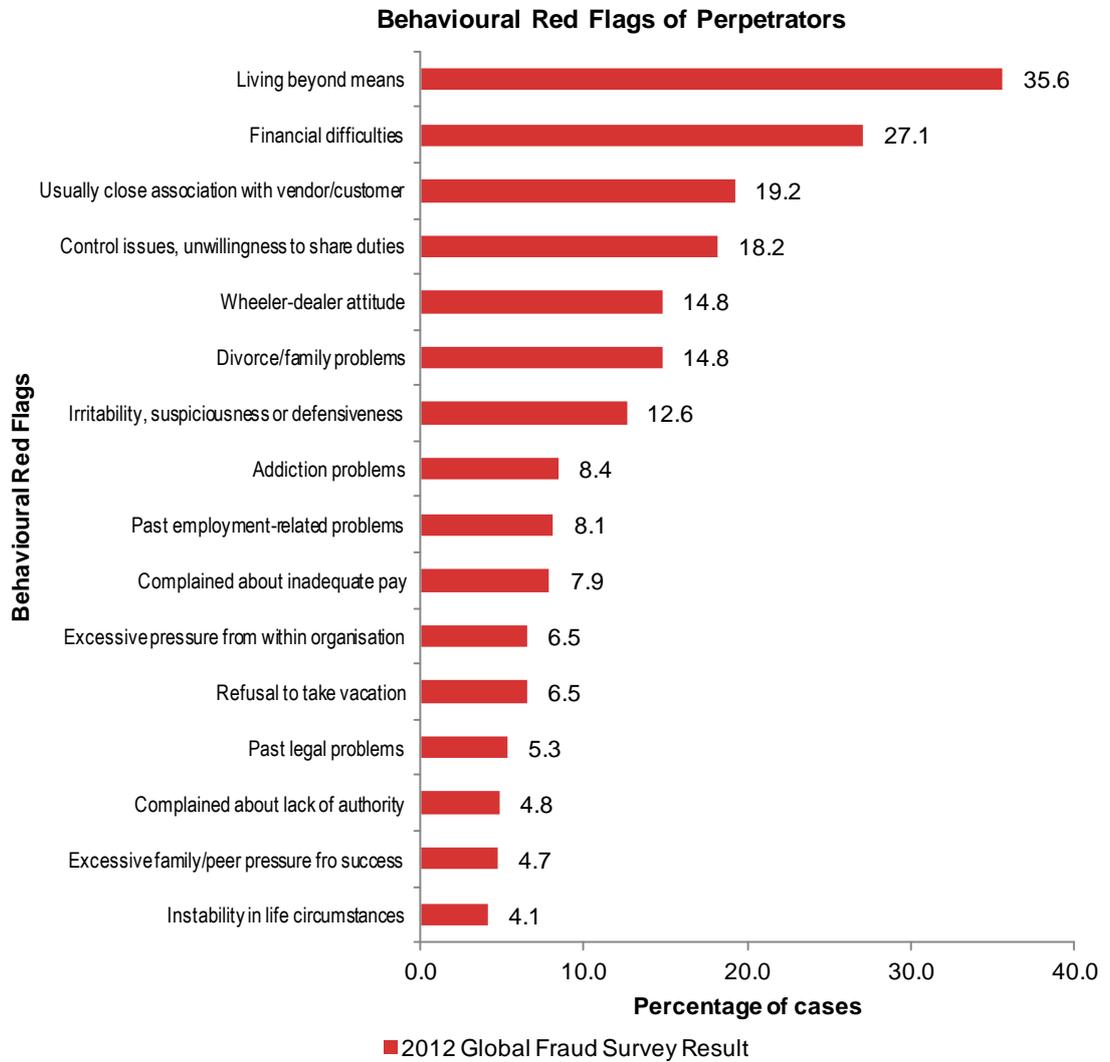
- 25 per cent of frauds occurred because internal perpetrators did not think they would be caught
- 23 per cent of frauds occurred because internal controls or processes were not followed.

The NSW public sector is currently facing job reductions, budget cuts and restrictions on salary increases. This is an environment in which the risk of fraud may increase. Employees may be motivated to commit fraud if they fear losing their job, promotion opportunity or wage increase. Budgetary and staff cuts may lead to less effective internal controls because segregation of duties becomes harder to maintain and fewer people are available to monitor controls and identify suspicious transactions or activities.

Twenty-five per cent of frauds occurred because internal perpetrators did not think they would get caught

Twenty-three per cent of frauds occurred because internal controls or processes were not followed

Fraud studies often refer to common 'red flag' behavioural traits that can serve as a warning that a person is at higher risk of committing a fraud. The 2012 Global Fraud Study (Association of Certified Fraud Examiners) reported that in 81 per cent of cases, the perpetrator displayed one or more of the following behavioral red flags before committing the fraud:



Source: Report to the Nations on Organisational Fraud and Abuse, 2012 Global Fraud Study, Association of Certified Fraud Examiners, 2012.

## Fraud Control in the NSW Public Sector

Agency measures to control fraud are improving over time

Agency measures to control fraud are improving over time. In 2012, agencies assessed their fraud control measures by key element as either highly effective or effective in 80 per cent of cases. This compared to 71 per cent in 2009 and 50 per cent in 2004.

I am concerned agencies do not rate their fraud control measures as effective or better in 20 per cent of cases.

Agencies were asked to assess themselves against ten key elements of fraud control in the Audit Office of New South Wales Fraud Control Kit, 2006. The kit is a practical, flexible and assessable tool to help agencies and universities develop effective processes to review and monitor fraud control strategies.

The fraud improvement kit can be obtained from the Audit Office website at [http://www.audit.nsw.gov.au/publications/better\\_practice/2006/fraud\\_control\\_improvement\\_kit.pdf](http://www.audit.nsw.gov.au/publications/better_practice/2006/fraud_control_improvement_kit.pdf).

Each element's effectiveness was rated by agencies on a scale from one to six.

Rating	Description
1	Ineffective
2	Partly ineffective
3	Partly effective
4	Largely effective
5	Effective
6	Highly effective

The 2012 survey results are as follows:

	NSW public sector agencies responses (91 respondents in 2012)						Per cent highly effective or effective			
	1	2	3	4	5	6	2012	2009	2004	
<b>Prevention</b>										
1	Fraud control policy	2	0	5	13	59	12	78	79	57
2	Responsibility structures	0	2	1	12	65	11	84	82	57
3	Fraud risk assessment	0	3	8	19	55	6	67	61	43
4	Employee awareness	0	2	7	17	59	6	71	61	39
5	Consumer and community awareness	4	4	12	13	55	3	64	32	32
<b>Detection</b>										
6	Notification systems	0	0	0	8	62	21	91	84	63
7	Detection systems	0	2	4	21	59	5	70	60	34
8	External notification	0	0	1	3	67	20	96	88	59
<b>Investigation</b>										
9	Investigation standards	1	0	3	8	65	14	87	82	50
10	Conduct and disciplinary standards	0	0	0	4	71	16	96	77	66
<b>Total response average</b>							<b>80</b>	<b>71</b>	<b>50</b>	

Agencies should focus on improving fraud prevention measures

The survey results show agencies' fraud control elements are strongest in the areas of responsibility structures, notification systems, external notification, investigation standards and conduct and disciplinary standards.

In 2009, I advised that improvement was needed in the areas of employee awareness, consumer and community awareness programs, and in agency detection systems. The 2012 results show improvements in these areas, which is pleasing.

Despite this, the survey indicates prevention measures are the weakest links in the chain and agencies need to focus more on fraud risk assessments, employee awareness, and consumer and community awareness programs.

## Issues and Opportunities in NSW Public Sector Fraud Control

### Recommendations

Agencies should evaluate their fraud control measures against my 2012 survey findings and satisfy their respective audit and risk committees that they have responded appropriately.

My survey included specific questions aimed at identifying perceived weaknesses in fraud control measures. The questions focused on fraud risk assessments, fraud control plans, fraud awareness and training, use of computer assisted data mining techniques, gifts and benefits, secondary employment, conflicts of interest, codes of conduct, pre-employment checks, employees taking leave and lessons learnt.

Key findings and learnings from this section of the survey follow.

### Fraud Risk Assessments

The purpose of fraud risk assessments is to help agencies focus on the risks that need to be managed and to develop appropriate risk mitigation strategies. Assessments should be revisited regularly, especially after significant change in agency structures or operations, to ensure all fraud risks requiring a mitigation strategy have been identified.

Key survey findings are:

- 18 per cent of agencies had not revised their fraud risk assessments in the last two years
- 27 per cent of agencies did not revise their fraud risk assessments after major changes to their structures or functions
- 24 per cent of agencies had not identified any high fraud risk functions in their agencies
- 14 per cent of agencies do not have a documented fraud risk assessment endorsed by the chief executive officer.

The following high fraud risk functions were identified within agency risk assessments:

Functional area with high risk of fraud	Per cent of respondents*
Procurement	46
Contracting	36
Finance	27
Other specific areas	27
Revenue	22
Payments to non-government organisations	20
Human resources	19

\* Excludes the 24 per cent of agencies which have identified no functions within the agency as being a high fraud risk.

Twenty-seven per cent of agencies did not revise their fraud risk assessments after major changes to structures or functions

Twenty-four per cent of agencies had not identified high fraud risk functions in their agencies

Twenty-one per cent of fraud control plans were not updated after fraud risk assessments were revised

## Fraud Control Plans

Fraud risk assessments should be followed by development and implementation (or update) of fraud control plans to manage fraud risks. A fraud control plan should document an agency's approach to controlling fraud.

Key survey findings are:

- 19 per cent of agencies did not have a documented fraud control plan that was approved by the chief executive officer or board
- 21 per cent of fraud control plans were not updated following revision of fraud risk assessments
- only 58 per cent of agencies included a summary of identified internal and external fraud risks in fraud control plans.

Twenty-one per cent of agencies have never provided fraud awareness training to employees

## Fraud Awareness and Training

Fraud awareness and training is important in establishing an ethical culture and in helping to prevent and/or detect fraud.

Key survey findings:

- 21 per cent of agencies have never provided fraud awareness training to employees
- 24 per cent of agencies provide no fraud awareness training to employees on induction
- 53 per cent of agencies provide no fraud awareness training to contractors
- only 25 per cent of agencies provide refresher training to staff every one to two years and 38 per cent every two to five years.

Fifty-three per cent of agencies do not provide fraud awareness training to contractors

## Use of Computer Assisted Data Mining Techniques

Computerised accounting systems now feature in all public sector organisations, recording all financial transactions and storing them for future reference. Sophisticated data mining tools can facilitate analysis of transactions for a relatively modest cost. These tools can be used to indicate possible fraud by checking for such things as duplicate payments, multiple vendor names and splitting of invoices into smaller amounts.

Key survey finding:

- 48 per cent of agencies used computer assisted data mining techniques to complement their fraud detection capability, with 47 per cent of these agencies using external specialists.

## Gifts and Benefits

A gift or benefit is anything of value offered to a public sector employee in the course of their work, apart from normal employment entitlements. Receiving gifts and benefits increases potential risks, actual or perceived, that agency decisions have been influenced, resulting in non-arms length, corrupt/fraudulent transactions.

Key survey findings:

- 100 per cent of agencies had a gifts and benefits policy and 78 per cent had reviewed the policy in the last two years
- 9 per cent of agencies did not have a gifts and benefits received register
- 68 per cent of agencies recorded gifts and benefits offered to, but declined by staff, (this information can be used to inform management of clients/suppliers who are likely to provide offerings to staff)
- 73 per cent of agencies reviewed the gifts and benefits register to identify matters requiring action.

Sixty-three per cent of agencies do not require staff to reconfirm secondary employment requests at least once every two years

## Secondary Employment

A person is considered to be in secondary employment when they engage in paid work for another organisation while employed by a public sector organisation. Potential risks include conflicts of interest between official and private business interests, misuse of public resources such as telephones and office supplies, and unauthorised use of government information or intellectual property.

Key survey findings:

- 92 per cent of agencies had a secondary employment policy and 74 per cent had reviewed the policy within the last two years
- 69 per cent of agencies do not have a centralised secondary employment register, either as a stand-alone register or as part of a conflicts of interest register
- 63 per cent of agencies do not require staff to reconfirm secondary employment requests with management at least once every two years.

Seventy-five per cent of agencies do not require staff to complete a conflicts of interest declaration annually

## Conflicts of Interest

Conflicts of interest occur when the private interests of public sector officers interfere, or appear to interfere, with the performance of their official duties. Such conflicts may arise when employees want to avoid personal loss or gain personal advantage. It is crucial to identify and effectively manage actual or potential conflicts so public officials do not put private interests above the public interest.

Key survey findings:

- 98 per cent of agencies have a conflicts of interest policy and 72 per cent reviewed the policy in the last two years
- only 57 per cent of agencies have a conflict of interest register, but 25 per cent of these agencies had not reviewed the register for matters requiring action
- 75 per cent of agencies do not require staff to complete a conflicts of interest declaration annually.

Eighty per cent of agencies do not require staff to certify they understand and commit to the code of conduct annually

## Code of Conduct

Public employment requires standards of professional behaviour that promote and maintain public confidence and trust in the work of government agencies. A code of conduct gives employees guidance on which to base their decisions and actions in various workplace contexts and outlines minimum standards of behaviour in a range of specific situations.

Key survey finding:

- 80 per cent of agencies do not require staff to certify they understand and commit to the code of conduct, including the obligation to report fraud, annually.

Eleven per cent of agencies do not validate qualifications and employment history of applicants before appointment

## Pre-Employment Checks

Employing staff with a criminal record or staff who do not have the qualifications or experience they claim to have, are risks that need to be understood and effectively managed. Failure to do pre-employment criminal record, qualification and employment history checks clearly indicates this risk is not being managed.

Key survey findings are:

- 12 per cent of agencies do no pre-employment criminal record checks
- 11 per cent of agencies do not validate the qualifications and employment history of applicants before appointment.

Forty-five per cent of agencies do not require staff to take two weeks continuous leave each year

## Taking leave

Failure of employees to take regular blocks of leave may indicate fraud. Perpetrators may be reluctant to go on leave in case their replacement uncovers their fraudulent behaviour during their absence.

Key survey findings are:

- 45 per cent of agencies do not require staff to take two weeks of continuous leave each year
- 32 per cent of agencies have not considered and ensured they have mitigated the risk of staff in high fraud-risk positions with large leave balances who have not taken at least two weeks continuous leave each year
- 18 per cent of agencies do not ensure other staff act in the position of staff in higher fraud-risk positions while they are on leave.

## Whole-of-Government Perspective

It is incumbent on the management of NSW public sector organisations to ensure they have effective fraud controls in place. My office has supported agencies over the last decade by issuing several performance audit reports and a comprehensive guide to better practice on fraud control. In 2006, my office released a fraud control improvement kit to help agencies develop an effective way to review and monitor fraud control strategies.

My 2004, 2009 and 2012 fraud control surveys show fraud control measures are improving, but there is more work to be done. This survey highlights that some agencies fail to update and enforce the policies and procedures needed for an effective control environment.

The findings suggest fraud is an area of risk that warrants close and ongoing attention and point to the need for stronger guidance to agencies on effective management of fraud control obligations.

Treasury policy TPP09-05, 'Internal Audit and Risk Management Policy for the NSW Public Sector', establishes core requirements for agencies to support the implementation of effective corporate governance arrangements. The policy requires the responsibilities of agency audit and risk committees to include review and oversight of fraud prevention and detection. However, the policy does not define fraud control practices and procedures agencies are required to have in place. This is a different approach to that of the Australian Government.

The Australian Government's 'Commonwealth Fraud Control Guidelines' establish a framework in which agencies determine their own specific plans and processes to manage the prevention, detection and investigation of fraudulent activity. The guidelines also clearly define the roles and responsibilities of key agencies in setting policy, reporting on fraud and monitoring compliance with fraud control arrangements.

The tables below outline the key differences between these two approaches.

<b>New South Wales and Commonwealth fraud control frameworks</b>		
<b>Objective</b> The government has an effective fraud control policy framework.		
<b>Criteria</b>	<b>Commonwealth</b>	<b>New South Wales</b>
The government's commitment to fraud control is explicit.	<p>The Commonwealth Fraud Control Guidelines 2011 is a legislative instrument.</p> <p>The guidelines are issued by the Minister for Home Affairs under the Financial Management and Accountability Regulations 1997.</p> <p>Individuals and agencies have a legal obligation to comply with the requirements set out within the guidelines.</p> <p>Breaches of the guidelines may attract a range of criminal, civil, administrative and disciplinary remedies.</p>	<p>There is no equivalent to the Commonwealth Fraud Control Guidelines.</p> <p>There is no legislative instrument specific to fraud control, and there are no legal obligations specific to fraud control.</p> <p>TPP09-05, 'Internal Audit and Risk Management Policy for the NSW Public Sector', establishes core requirements for the establishment and composition of internal audit and risk committees and the implementation of risk management and internal audit functions.</p> <p>The responsibilities of these committees include review of the agency's fraud control plan and ensuring appropriate processes and systems are in place to capture and effectively investigate fraud information.</p>
The government has clearly articulated the expectations it has on agencies to create and implement fraud control measures.	<p>The Commonwealth Fraud Control Guidelines incorporate mandatory requirements of agencies, including:</p> <ul style="list-style-type: none"> <li>• fraud risk assessments every two years, more often when there is a substantial change in structure, function or policy</li> <li>• fraud control plan documenting the approach to prevention, employee awareness, detection and investigation</li> <li>• regular fraud awareness raising and prevention training for all employees and, where appropriate, contractors</li> <li>• prepare and widely distribute a fraud policy statement, including to consultants</li> <li>• systems to detect fraud, or attempted fraud, which comply with the requirements of the Australian Government Investigation Standards</li> <li>• channel for employees, clients or members of the public to report fraud that, where possible, ensures confidentiality</li> <li>• investigations carried out by appropriately qualified and experienced personnel</li> <li>• clearly documented procedures and instructions to help employees deal with fraud</li> <li>• monitoring and evaluation of fraud control plans by an appropriate committee or body</li> <li>• collect information on fraud and provide it to the Australian Institute of Criminology.</li> </ul>	<p>There are no mandatory requirements of agencies.</p> <p>The Audit Office of New South Wales and NSW Independent Commission Against Corruption issue better practice guidance.</p>

## New South Wales and Commonwealth fraud control frameworks

**Objective** The government has an effective fraud control policy framework.

Criteria	Commonwealth	New South Wales
The government has explicitly assigned responsibilities to key agencies to develop policy, share knowledge, and monitor and report results	<p>The Fraud Control Guidelines assign specific responsibilities to key agencies, i.e. the:</p> <ul style="list-style-type: none"> <li>• Attorney General's Department is responsible for providing high-level policy advice to the government about fraud control arrangements, advising agencies about the content and application of those policies, and reporting to government on compliance with the guidelines</li> <li>• Australian Institute of Criminology is responsible for conducting an annual fraud survey of Australian Government agencies and producing a report on fraud against the Commonwealth, and fraud control arrangements within Australian Government agencies</li> <li>• Australian National Audit Office is responsible for assessment of key aspects of Australian Government agencies' fraud control arrangements to effectively prevent, detect and respond to fraud.</li> </ul>	<p>There is no equivalent to the Commonwealth's Fraud Control Guidelines.</p> <p>The NSW Government has not specifically assigned responsibility to key agencies for developing fraud control policy, sharing knowledge, monitoring implementation, or reporting results.</p> <p>Whole-of-government fraud monitoring and reporting is ad-hoc, essentially initiated by the Auditor-General.</p> <p>The <i>Independent Commission Against Corruption Act 1988</i> requires principal officers to report to ICAC any matter that the person suspects on reasonable grounds concerns or may concern corrupt conduct. This includes fraud.</p>

I believe there is merit in establishing a fraud control policy framework for NSW public sector agencies

I believe there is merit in adopting the Australian Government's approach and establishing a fraud control policy framework for NSW public sector agencies. The framework should be consistent with the structures and requirements established by TPP09-05, 'Internal Audit and Risk Management Policy for the NSW Public Sector'. It should mandate key aspects of fraud control that must be adopted, but remain sufficiently flexible so it can be applied to meet agencies' individual circumstances and risk profiles.

I believe this is justified by the fundamental fraud control weaknesses the survey has identified and the extent of frauds being identified.

### *Recommendation*

The NSW Government should appoint a lead agency to develop a fraud control policy framework for the NSW public sector that:

- explicitly states the government's commitment to fraud control
- clearly articulates the government's expectations of agencies to develop and implement fraud control measures
- assigns responsibilities to key agencies to develop policy, share knowledge, and monitor and report results.

The following should be considered as mandatory components of this framework:

- agencies undertake a fraud risk assessment at least once every two years or earlier following a substantial change in structure or functions
- fraud control plans be updated on a timely basis following risk assessments
- agencies provide regular fraud awareness training to all agency employees and, where appropriate, contractors
- agencies provide employees, clients and members of the public with appropriate channels to report fraud
- employee secondary employment, conflicts of interest and code of conduct declarations are current
- agencies collect information and report regularly on the incidence of fraud and the nature of fraud control arrangements, to facilitate whole-of-government monitoring and reporting
- agency heads attest to compliance with the fraud control policy framework annually.

## Other Information

I surveyed 92 NSW public sector agencies. My survey did not include universities or local government councils.

For the purposes of this survey, I adopted the following definition of fraud as is used by the Australian Institute of Criminology in its annual survey reports to government, see [www.aic.gov.au](http://www.aic.gov.au).

### **Fraud**

Fraud is defined as dishonestly obtaining a benefit by deception or other means.

This definition of fraud includes suspected fraud, incidents under investigation and completed incidents, whether the fraud was proved or not, and whether the incident was dealt with by a criminal, civil or administrative remedy.