

**PUBLIC SECTOR FRAUD AND CORRUPTION**  
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**Keynote Address: The Importance of Reporting  
Fraud and Corruption by Public Sector Agencies**

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**Introduction**

This paper argues that effective reporting of fraud can offer a wide range of benefits for both government agencies and the community as a whole. These include raising awareness of fraud victimisation which can help to create a fraud-averse culture amongst management and employees; enabling effective quantification of fraud victimisation for risk-management and resource allocation purposes; helping to evaluate existing fraud minimisation procedures by seeing if they have been effective in preventing fraud from taking place; compiling intelligence which can be used for policing and fraud prevention activities; providing feedback to those who have detected fraud to reward their vigilance; enabling information on new crime methodologies to be shared with others at risk of similar types of victimisation; and assisting in the compilation of statistical data for trend identification and analysis.

Only by understanding the true extent of fraud victimisation can government agencies begin the process of designing and implementing targeted risk-management activities that will be effective in addressing the new and emerging problems as they arise.

At the outset, however, we need to assess the scope of the problem of under-reporting of fraud and to determine why under-reporting takes place. We can then look to some of the solutions that have recently been proposed to encourage fraud reporting including the use of hotlines, whistleblower protections, mandatory reporting legislation, and suggestions which have recently been made for the establishment of central fraud reporting agencies.

The aim is to enhance the reporting of fraud, so that repeat victimisation can be avoided and the deterrent effects of prosecution and punishment maximised. There is now clear evidence that it is neither effective nor ethical simply to dismiss a person suspected of dishonesty from their employment, without taking further action. Unfortunately, this practice remains all too prevalent.

Failure to take official action causes a number of problems. First, those who have acted illegally may believe that because they have not suffered any adverse consequences from their conduct, they are free to act illegally again in the future, either in exactly the same way in respect of the same organisation or in a new workplace where their prior misconduct is not known of. Failure to take action may also result in any general

deterrent effects on the rest of the staff being diluted or avoided if the illegality of one of their number fails to result in official action. This may lead to a more generalised downgrading of the ethical standards within the organisation owing to management being seen to be unwilling to take action.

Increasing the level of reporting of fraud by organisations would help to ensure that similar patterns of offending by the same or other offenders are uncovered by police and that appropriate fraud prevention strategies may be identified and implemented. If the true nature of fraud remains undisclosed and uninvestigated, then it is difficult to devise appropriate measures to guard against it. The community may also suffer where crime has not been dealt with as incidents will not find their way into official crime statistics and the educative and deterrent effects of publicity in preventing crime will be avoided. Effective reporting may, instead, enhance the feeling in the community that fraud is, in fact, unlawful and likely to result in prosecution where it is detected.

Finally, if offenders are not dealt with, organisations might be subject to repeat victimisation, sometimes at the hands of the same individual or someone else replicating the same form of criminal activity. In the context of personal fraud victimisation, studies have consistently found that one of the most reliable indicators of fraud victimisation is past victimisation (Titus and Gover 1999).

### **Quantifying the Current Extent of Reporting**

In order to assess the extent to which fraud is reported, we have to rely on the evidence that comes from surveys of organisations and individuals about their victimisation experiences. Unfortunately, these have consistently found that fraud tends to be a category of crime that often goes unreported to police and other regulatory agencies. In the public sector few surveys have been carried out, although data are starting to be collected for the purposes of the Australian Government Fraud Control Guidelines.

#### *Australian National Audit Office Surveys*

In November 1999 and in October 2002, surveys were conducted by the Australian National Audit Office of Australian Public Sector agencies to determine the nature of their fraud control arrangements. Surveys were sent to 150 agencies in 1999, and 160 agencies in 2002. Responses were received from 114 agencies in the 1999 Survey (76%), and from 158 agencies (99%) in the 2002 survey.

In the 1999 Survey, 49 out of 114 agencies reported experiencing fraud in the preceding two years (43%). In the 2002 Survey, 47 out of 106 agencies reported experiencing fraud in the preceding two years (44%). The findings of the survey concerning fraud victimisation are shown in Table 1.

**Table 1 - Extent of Fraud Reported by Surveyed APS Agencies (a)**

	Financial years	Number of fraud allegations	Number of fraud cases	Value of fraud cases <sup>b</sup> (\$'000)
<b>Internal Fraud <sup>c</sup></b>				
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
<b>External Fraud <sup>d</sup></b>				
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: Australian National Audit Office (2003, p. 33)

Notes: 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) A total of 160 FMA agencies and CAC bodies made up the total population of the 2002 survey. 106 agencies responded to this question out of a total of 158 agencies who responded overall to 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. In the 1999 survey, 99 agencies were able to provide a dollar value of fraud cases. Of these, six were unable 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

The ANAO also asked questions about the fraud reporting systems which were in place to deal with both internally-detected fraud as well as reports from the community. It was found in the 2002 Survey, that 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 (which found that only 65% of respondent agencies reported that they had a fraud reporting system in place). Responses in respect of the 2002 Survey are presented in Table 2.

**Table 2 - Mechanisms for reporting fraud (a)**

Types of Systems	Agencies with reported fraud <sup>b</sup>		Agencies with no reported fraud <sup>c</sup>		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

Source Australian National Audit Office (2003, p. 68)

Notes: (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.

The fraud reporting systems used 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. 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. 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 (ANAO 2003, p. 69).

Australian government 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. For serious or complex fraud and larger scale matters, the Guidelines assign responsibility for investigation to the Australian Federal Police 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.

In order to determine the extent to which allegations of fraud were investigated and referred for prosecution, the ANAO asked for information on the number of cases referred to the AFP and other investigation agencies and the DPP as well as the number of cases prosecuted. This information is summarised in Table 3.

**Table 3 - Fraud Investigations and Prosecutions (a)**

	Previous Survey <sup>b</sup>		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

Source Australian National Audit Office (2003, p.70)

Notes: (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.

Using these data, it is possible to calculate rates with respect to the attrition of cases from the stage of allegation to proof, as shown in Table 4.

**Table 4 - Fraud Reporting Rates for 2001-02**

	No of Cases	% of Allegations
<b>Allegations</b>	<b>11,162</b>	<b>100.0</b>
<b>Cases investigated</b>	<b>6,511</b>	<b>58.3</b>
<b>Reported to police or other agencies</b>	<b>762</b>	<b>6.8</b>
<b>Referred to DPP</b>	<b>4,270</b>	<b>38.3</b>
<b>Referred to police, other agencies or DPP</b>	<b>5,032</b>	<b>45.1</b>
<b>Prosecuted by DPP</b>	<b>3,282</b>	<b>29.4</b>
<b>Cases proved</b>	<b>3,195</b>	<b>28.6</b>

Source: Derived from Australian National Audit Office (2003)

From Table 4, it is apparent that almost half (45.1%) of the allegations of fraud recorded, were referred to police, other investigatory agencies, or referred to the DPP following an internal investigation. Of the cases actually investigated, more than three quarters (77.3%) were referred to police, other agencies or the DPP. Of the cases referred to police, other agencies of the DPP, 63 per cent were proved.

In its 2000 Report on the Fraud Control Arrangements of APS Agencies, the ANAO recommended that agencies develop formal guidelines for recording and reporting on fraud investigations. In the 2003, Report, it was found that since 1999, some 45 per cent of agencies 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 that they would do so if the need arose.

### *Reporting under the Fraud Control Guidelines*

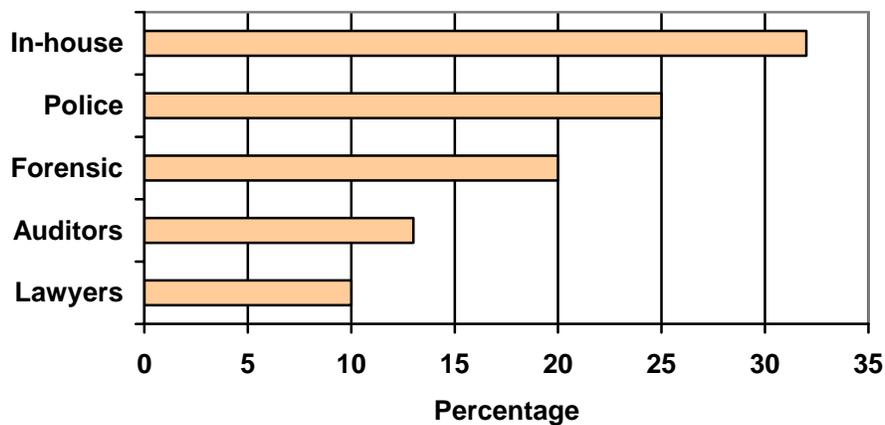
Since the promulgation of the 1994 version of the Commonwealth Fraud Control Policy, agencies have been required to provide information on fraud matters to the Australian Federal Police and the then Commonwealth Law Enforcement Board, which was part of the Attorney-General's Department. In addition, the Attorney-General's Department collected information on fraud matters from both the AFP and the DPP.

Under the Guidelines introduced in May 2002, agencies are now required to report on the 30 September annually, to the Attorney-General's Department on an expanded range of information collected on fraud matters including suspected fraud, matters under investigation, completed matters, whether the fraud is proved or not, and whether the matter was dealt with by a criminal, civil or administrative remedy. This information has been collected for three years now and is used for internal purposes of the Attorney-General's Department and for feedback to individual agencies. It is not, however, made public.

### *Industry Surveys*

Information on fraud reporting also comes from surveys conducted by the large consulting practices of their clients which include both public and private sector organisations. In the latest in a series of global fraud victimisation surveys, conducted in about fifteen countries by Ernst and Young, and involving seven per cent of government organisations, some 25 per cent of fraud matters were referred to police. Of those matters, only 28 per cent of respondents were satisfied with the police investigation. One third of matters were investigated in-house, and 20 per cent were referred to forensic investigators. A further 13 per cent were referred to external auditors and 10 per cent to external lawyers (Ernst and Young 2003, p. 7).

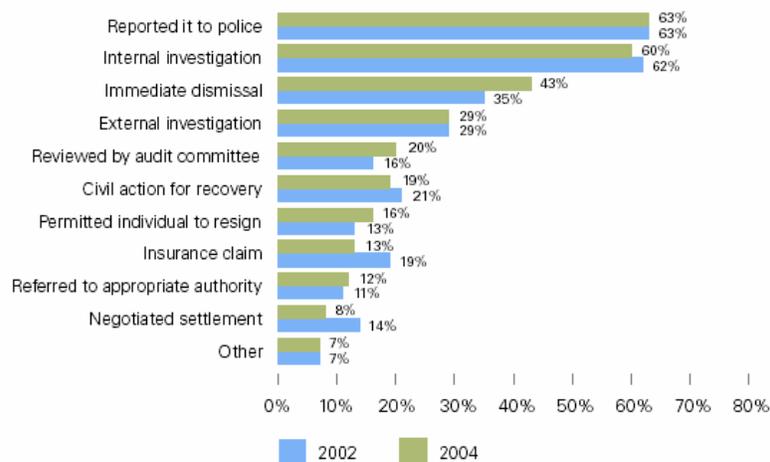
**Figure 1 – Action Taken Concerning Fraud Incidents  
Percentage of Respondents in Ernst & Young's 2003 Survey**



Source: Derived from Ernst & Young (2003, p. 7)

In its most recent survey of business fraud, carried out in June 2004 by KPMG (2004), 2,164 of Australia's largest organisations were surveyed. Some 491 organisations responded, 13 per cent of which were public sector. It was found that 63 per cent of major fraud incidents reported in the survey were referred to the police. This leaves nearly 37 per cent of fraud matters handled without police involvement. A range of other responses was reported, including internal and external investigations, or simply immediate dismissal of the individual in question (KPMG 2004, p. 23). These results, and those of the 2002 survey, are shown in Figure 2.

**Figure 2 – Action Taken Concerning Largest Fraud Incident  
Percentage of Respondents in KPMG's Surveys**



Source: KPMG (2004, p. 23)

### Identifying the Barriers to Effective Reporting

The reasons for non-reporting fraud are well-known. Some victims, such as those who have given money to fraudulent and non-existent charities, may never realise that they have been victimised. Some organisations, may be unaware that employees have stolen stock or misappropriated government equipment or misused services.

In the case of online fraud, difficulties may arise in locating the offender who may be resident overseas or who may have used an anonymous re-mailing system in carrying out the fraud. Often the victims of economic crime may be unwilling to incur further time and expense in pursuing legal remedies - in the case of electronic fraud, the key factor is the need to re-instate systems quickly so as to prevent loss of business.

There may be a belief that there is inadequate proof or that the matter is not serious enough to warrant police attention or there may be fear of reprisals if matters are reported or that publicity of security weaknesses could result in victims being targeted again, or of losing business or damaging commercial reputations

Finally, many public sector agencies often don't like to admit that they have a problem.

In KPMG's Fraud Survey (2004, p. 23), the organisations surveyed indicated a 'lack of evidence', 'concern about adverse publicity' and 'concern about the resources required to prepare the complaint' as their main reasons for not reporting matters to the police (see Table 5).

**Table 5 – Reasons for Failing to Report Largest Fraud Incident to Police in KPMG's 2004 Fraud Survey**

Reason for not reporting to the police	%
Lack of evidence	25
Concern about adverse publicity	12
Concern about the resources required to prepare the organisation's complaint	9
Immaterial amount involved	7
Concern about costs associated with making the report	5
Concern about the effectiveness of the criminal justice process in deterring the further incidence of fraud within the organisation	5
Concern about the effectiveness of the criminal justice process in deterring the further incidence of fraud within the community generally	5
Concern about the impact on a civil claim against the person for recovery of the stolen property	3
The organisation has a policy that such matters are not reported to the police	3
Other	26
Total	100

Source: KPMG (2004, p. 23).

Similar reasons for non-reporting of electronic commerce incidents were given by the respondents to KPMG's *Global eFraud Survey* (2001), in addition to the key factor of the need to re-instate systems quickly so as to prevent loss of business. Reporting the matter to the authorities simply prevented the organisation in question from minimising its financial losses, and risked incurring further losses in prosecuting the matter.

Organisations may also often be reluctant to report fraud simply due to a fear of 'sending good money after bad'. Their experiences may have led them to believe that it is impossible to recover losses through legal avenues and that the time and resources required to report an incident officially and to assist in its prosecution simply do not justify the likely return on investment. Prosecution may entail countless interviews with the police, extensive analysis of financial records, and lengthy involvement in court hearings for staff.

The other disincentive to taking official action lies in the reluctance of organisations to publicise their victimisation because of a fear of losing business or damaging their reputation. A government agency that is the victim may believe that adverse publicity could result in a loss of confidence by voters, while financial institutions that have suffered from fraud might believe that publicity of security weaknesses could result in being targeted again.

## **Encouraging Reporting**

There are a various ways in which reporting of fraud can be enhanced. These include education about the desirability of reporting offences officially; making full use of *Whistleblowers Protection* legislation and policies to protect individuals who report suspected fraud and offences involving dishonesty; establishing a central agency which could receive reports from all sources and which could coordinate investigatory action by sending reports to appropriate agencies; creating electronic systems to make reporting simple and efficient including the establishment of a hotline for reporting fraud; providing regular feedback to complainant organisations about what is being done with their cases; enacting legislation to make it obligatory to report fraud to the central agency, and creating a criminal offence for failure to report a serious offence involving dishonesty.

Three issues deserve some further discussion, namely the use of hotlines, whistleblower protection legislation, and mandatory reporting requirements.

### **Using Hotlines to Encourage Reporting**

The use of fraud reporting ‘hot lines’ is a way of persuading employees to report fraud to management, although in Ernst and Young’s (1998) survey, more than fifty per cent of respondents were opposed to the idea with most opposition coming from company directors. More recently, in KPMGs (2004, p. 28) survey, 48 per cent of respondents reported having instituted a system for anonymous reporting of fraud and corruption (either operated by the organisation itself, or by an external agency on the organisation’s behalf). The use of anonymous reporting systems had increased by 15 per cent since KPMG’s 2002 survey was conducted. There are also now companies in the private sector providing online reporting services to receive and manage complaints as well as statistical and mapping functionalities (see for example, [www.onlinereport.com.au](http://www.onlinereport.com.au)).

Anonymous hotlines are telephone numbers dedicated to the reporting of relevant matters. Most commonly, the person receiving the calls will be part of the agency, such as a manager although some people may not feel comfortable reporting to someone within their own agency. It is possible, for example, that the person nominated to receive calls will actually be the perpetrator of the wrongdoing, creating additional difficulties. To overcome such concerns, some hotlines are externally maintained, although this may not be allowed in some jurisdictions under whistleblower protection legislation (see below). Where it is permitted, employees can call the hotline and somebody neutral to the agency will take the call. Information can be provided anonymously if desired. Relevant information will then be passed on to the agency for investigation.

Externally maintained hotlines are particularly useful in encouraging reporting because they can make people feel comfortable in speaking out against others whom they know and work with in the agency. Often potential whistleblowers may feel frightened of that person, or of their possible reaction to their claims. Alternatively, they may not believe

that the contact person will properly pursue their allegations. In addition, internal reporting mechanisms will rarely provide for the possibility of truly anonymous reporting, even in larger agencies, as there is always a risk that an individual's voice will be recognised. Many individuals may feel more willing to be open and honest if their anonymity is protected.

### **Understanding Whistleblower Protection Strategies**

Relying on individuals within agencies to report fraud is of critical importance as it is often the case that colleagues will be the first to detect suspicious transactions or activities. In Ernst & Young's 8<sup>th</sup> *Global Survey* (2003), for example, whistleblowing was seen to be the second most effective method of fraud detection, while in KPMG's *Fraud Survey* (2004, p. 19) 19 per cent of fraud was detected by employee notification, with a further 6 per cent being notified to the organisation by anonymous letters or calls.

If employee notification is to be encouraged, however, appropriate safeguards need to be in place to protect those who report their suspicions from personal liability or reprisals. The problems faced by whistleblowers have been documented in a number of studies which have looked at individuals who have reported corruption in public sector agencies. The difficulties relate to whistleblowers being discriminated against or otherwise being subjected to harassment, intimidation or reprisals as a consequence of reporting what they believe to be illegal conduct. This will be a particular problem if the wrongdoing is being committed by those in management. In such circumstances, individuals may reasonably fear that if they speak up, their employment with the organisation may be placed in jeopardy.

In Australia, whistleblower protection statutes have been introduced in various jurisdictions, some with greater consequence than others. In Victoria, for example, the *Whistleblowers Protection Act 2001* (Vic) attempts to provide protection for those who disclose improper conduct or detrimental actions by public officers and public bodies. The Act sets out procedures for both disclosure and investigation, and under section 109 exempts documents connected to protected disclosures from the ambit of the *Freedom of Information Act 1982* (Vic). Offences are created in relation to taking reprisals against a whistleblower (s.18), revealing confidential information related to a protected disclosure (s. 22), obstructing an investigation (s. 60) and making a false disclosure (s.106).

Concerns have recently been expressed, however, that protection is only offered for public servants where disclosures are made in-house or to the Ombudsman (see section 6 *Whistleblowers Protection Act 2001* (Vic.) and rule 8 *Whistleblowers Protection Regulations 2001* (Vic)). This has meant that external organisations that offer reporting services cannot receive complaints from public servants that will be protected under the legislation. Private organisations can, however, carry out the investigations even though they cannot receive them initially (Tomazin 2005).

While this legislation offers protection to those in the public sector, the same level of protection is not offered to those in the private sector. Protection for those outside the

public sector already exists in some other jurisdictions. For example, under the South Australian *Whistleblowers Protection Act 1993*, anyone who discloses ‘public interest information’ is protected. While the definition of ‘public interest information’ covers such public sector wrongs as the maladministration of public officers, the irregular use of public money and the substantial mismanagement of public resources, it also includes wrongs that could equally be perpetrated by the private sector. For example, it covers illegal activity or conduct that causes a substantial risk to health and safety, or to the environment.

The Queensland *Whistleblowers Protection Act 1994* also protects public interest disclosures, which include those that relate to a substantial and specific danger either to the health and safety of a person with a disability or to the environment, or if the disclosure is of a reprisal taken against a person who themselves made a public interest disclosure (see Queensland Crime and Misconduct Commission 2005, *Fraud and Corruption Control: Guidelines for Best Practice*).

Limited protection is also provided in the case of those who provide information or documents to the ACCC or to the Australian Competition Tribunal. Section 162A of the *Trade Practices Act 1974* (Cth) provides for penalties of up to 12 months’ imprisonment for individuals and fines of up to \$10,000 for corporations who intimidate individuals who report matters.

The desirability of offering such protection to those outside the public sector is supported by Standards Australia in its Standard AS 8004-2003 *Whistleblower Protection Programs for Entities* as part of its Corporate Governance package. In the Foreword to that Standard, it stated that:

A whistleblower protection program is an important element in detecting corrupt, illegal or other undesirable conduct... within an entity, and as such, is a necessary ingredient in achieving good corporate governance.

An effective whistleblower program can result in–

- (a) more effective compliance with relevant laws;
- (b) more efficient fiscal management of the entity through, for example, the reporting of waste and improper tendering practices;
- (c) a healthier and safer work environment through the reporting of unsafe practices;
- (d) more effective management;
- (e) improved morale within the entity; and
- (f) an enhanced perception and the reality that the entity is taking its governance obligations seriously (Standards Australia 2003, p.4).

Standard AS 8004-2003 sets out a number of elements of a desirable whistleblower protection program. For example, a whistleblower protection policy should be established that articulates ‘the benefits and importance to the entity of having such a program as well as the sanctions and disciplinary procedures for non-compliance with the entity’s

whistleblower protection policy' (Standards Australia 2003, p.8). There should also be procedures in place for handling any reports received.

### **Evaluating Mandatory Reporting Legislation**

A more radical way in which fraud reporting could be improved entails the enactment of mandatory reporting legislation to ensure that organisations take official action. Already, however, the law in some states requires, in certain circumstances, that individuals and agencies who become aware of fraud, bring the matter to the attention of the police.

Sub-section 1 of section 316 *Crimes Act* 1900 (NSW), for example, creates an offence of failing to report a 'serious offence' (being an offence punishable by at least five years' imprisonment) to the police where the person knows or believes that the offence has been committed and that he or she has information which might be of material assistance to the police. This offence carries a maximum penalty of two years' imprisonment, although a prosecution of professionals such as accountants who fail to report serious offences cannot take place without the approval of the Attorney General.

There are also some statutory obligations in some jurisdictions for public sector agencies, other than local government, to report cases of suspected fraud to State Auditors-General and Ministers for Finance (see, for example, Queensland Crime and Misconduct Commission 2005, *Fraud and Corruption Control: Guidelines for Best Practice*). We have already seen that Australian Government agencies are required to make reports to the Attorney-General's Department each year. In Victoria, Procedure (c) under Direction 4.3 of the Standing Directions of the Minister for Finance states that the Auditor-General and the Minister for Finance must be notified of 'all cases of suspected or actual theft, arson, irregularity or fraud in connection with the receipt or disposal of money, stores or other property of any kind whatsoever under the control of a Public Sector Agency' (Department of Treasury and Finance 2003).

In the private sector there are certain circumstances in which an obligation arises to report fraud. For example, there is an obligation on financial dealers to report fraud committed by licensees to the Australian Securities and Investments Commission, and there are now obligations on company auditors to report certain matters following the passage of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act* 2004.

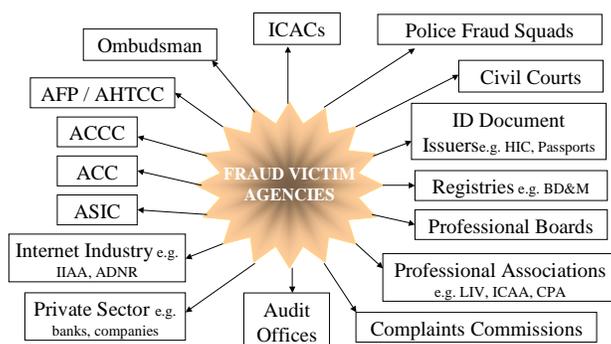
An alternative to legislation which requires organisations to report fraud to the police, would be a requirement for professionals, such as solicitors, accountants and auditors, who become aware of fraud, to report the matter to the organisation's Chief Executive Officer. Failure to report could then result in disciplinary proceedings being taken against the professional in question for misconduct. Requiring auditors to take on the role of fraud investigators is, however, highly contentious although the idea is continuing to gain support in recent times in a number of countries.

Recently, the Victorian Parliamentary Drugs and Crime Prevention Committee (2004) suggested the enactment of legislation to make it obligatory to report fraud to a central reporting agency, and to create a criminal offence of failure to report a serious offence involving dishonesty where the victim believes that any financial loss suffered amounts to at least \$100,000. If such a proposal were introduced, it would be essential for ‘fraud’ to be defined precisely so that it would be clear exactly what kinds of dishonesty need to be reported. There would also be significant resourcing implications for law enforcement if fraud reporting increased substantially.

### Coordinating Avenues of Reporting

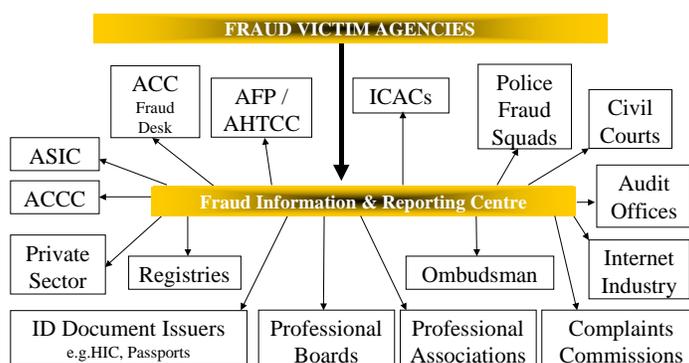
At present there is a wide variety of organisations to whom incidents of suspected fraud or corruption can be referred (see Figure 3).

**Figure 3 – Current Avenues of Complaint for Fraud Victims**



Establishing a single central agency which could receive reports from all sources and which could coordinate investigatory action by sending reports to appropriate agencies would help to ensure that victims know exactly to whom suspected incidents should be reported (see Figure 4).

**Figure 4 – Proposed Avenues of Complaint for Fraud Victims**



Creating simple and efficient electronic reporting systems, including the establishment of a hotline for reporting fraud, would also make reporting easier than at present. Providing regular feedback to complainants about what is being done with their cases would also help to raise confidence in the system and would avoid duplication of investigatory activities involving witnesses, such as the conduct of multiple interviews.

In Victoria, the Victorian Parliamentary Drugs and Crime Prevention Committee (2004) also recommended the establishment of a central fraud reporting agency within police to act as a clearinghouse for complaints. That agency would receive reports, compile statistical information, and then transmit reports to relevant agencies for investigation. For example, a complaint involving misleading and deceptive practices concerning the sharemarket on the Internet could be referred to the Police, the Australian High Tech Crime Centre, the Department of Business and Consumer Affairs, the Australian Securities and Investments Commission and other agencies at federal and state level. Victims of fraud would, thus, only need to approach one agency to make their report.

The Committee further recommended that the central agency produce a best practice guide to reporting fraud, including a description of what information should be provided. The Committee suggested that the guide should contain specific information on preparing reports where the matter is likely to require further police action to be taken.

## **Conclusion**

In order to encourage government agencies and their employees to take official action where they have discovered fraud, a variety of constructive steps may be taken.

In the first place it is important for organisations to have clear and transparent fraud control policies in place. Australian Standard No. AS 3806-98 *Compliance Programs* provides guidelines for both private and public sector organisations on the establishment, implementation and management of effective compliance programs. The Standard also provides principles which organisations are able to use to identify and to remedy any deficiencies in their compliance with laws, industry codes and in-house company standards, and to develop processes for continuous improvement in risk management (Standards Australia 1998).

In terms of reporting fraud to the Australian Government Attorney-General's Department, the ANAO (2003) considered that agencies should work towards adopting the Australian Government's current definition of fraud so that accurate data can be collected and analysed to provide uniform information about the level of fraud being perpetrated against the Australian Government, the value of fraud, and emerging trends to inform fraud control activities across Australian Government agencies. In addition, the ANAO (2003) considered that there may also be benefit in agencies further disaggregating the categories of losses currently required to be reported annually to the Attorney-General's Department. This would assist in both understanding the nature of

fraud experienced by the Australian Government and in determining the most appropriate control measures.

One of the greatest impediments to reporting concerns the fear of bad publicity where criminal proceedings are taken. Although criminal courts are reluctant to conduct proceedings *in camera*, on occasions this could be desirable in order to protect an agency's reputation from adverse publicity or to ensure that a novel type of fraud does not receive undue public attention which might encourage illegal conduct.

Agencies might also be more willing to report fraud to the police if they were confident that the personal costs and time associated with the investigation and prosecution of the matter could be minimised. This could, perhaps, be achieved by streamlining interviewing procedures and by reducing the necessity for senior witnesses to be present in court for unnecessarily lengthy periods of time. Documentary evidence should also be used in preference to oral testimony wherever possible and the barriers to the use of computer-generated evidence overcome. The appropriate use of awards of costs to assist witnesses should also be considered and scales of witness expenses increased to realistic levels.

Hopefully, if these initiatives were implemented not only would fraud reporting increase, but as a consequence, the actual incidence of fraud may be reduced once it becomes apparent that crimes of dishonesty will result in official action being taken. Encouraging agencies and their employees to report their suspicions of fraud, if handled in a sensitive manner, will have benefits for government and the community as a whole.

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