



Australian Government
Australian Institute of Criminology

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Exploring Fraud Against the Commonwealth

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Outline

The nature of fraud against the Commonwealth

- “Dishonestly obtaining a benefit, or causing a loss, by deception or other means” (*Commonwealth Fraud Control Guidelines 2011*)
- Targets, methods and offenders; public sector fraud risks

The annual AIC survey of Commonwealth agencies

- Fraud Control Policy of the Commonwealth
- Online survey and methodological issues

Principal findings from 2008-09

- Victimization rates, losses, AFP investigations, CDPP prosecutions

Responding to fraud against the Commonwealth

- Fraud prevention in the public sector
- Responding to the techniques of neutralisation
- Deterrence through prosecution and punishment

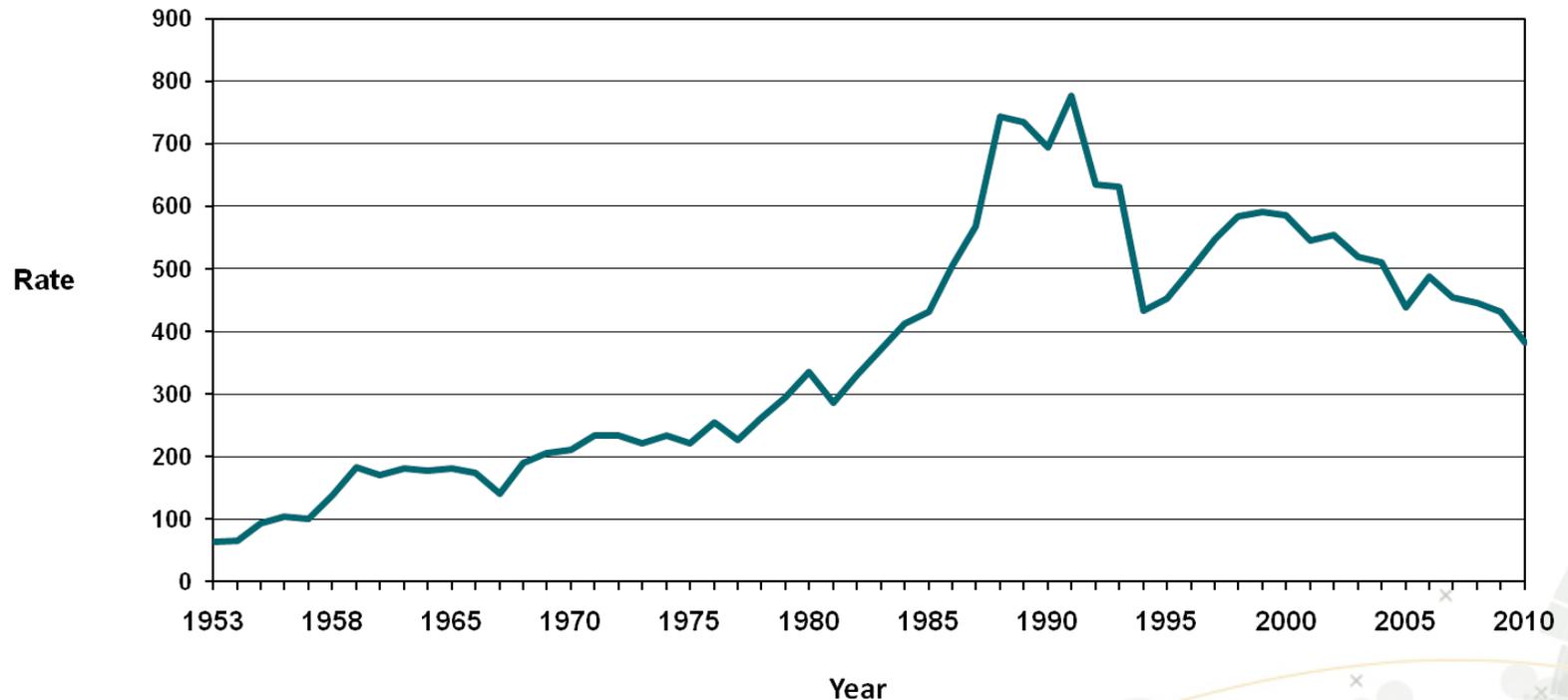


The changing nature of fraud

A problem throughout history

- Pepper and tobacco revenue fraud cost £1 million in 1715-1717

Recorded fraud – rate per 100,000 popn. (1953/54 – 2009/10)





The nature of fraud against the Commonwealth

Targets

- *Revenue* – income tax, GST, customs duties, e-tax
- *Benefits* – health, social security, child care, education, training
- *Property* – computers, phones, cash, stationery, inventory and stock
- *Entitlements* – expenses, travel allowances, payroll, leave
- *Facilities* – unauthorised use of computers, cars, IP, agency logos

Methods

- Theft, credit card / cabcharge misuse, unauthorised computer access
- Counterfeiting documents; providing false information, identity fraud
- Bribery, corruption, abuse of office, kickbacks, collusion

Offenders

- *Internal fraud* – public servants and contractors
- *External fraud* – members of the public / benefit recipients



Public sector fraud risks

Fraud is 'where the money is'

- *Internal fraud* – poor internal controls, poor recruitment practices
- *External fraud* – new benefits, new taxes, procurement, consultants

Fraud risks of new government programs

- Home insulation scheme – fraudulent claims and inadequate training
- Green loans program – problems of delay and poor training
- Primary Schools Building Program – allegations of fiscal wastage
- Carbon trading scheme – risks of fraudulent reporting and accounting

Information / infrastructure attacks

- DPM&C – DDoS attack against Internet filtering policies in Sept 2009
- Misappropriation of government information from insecure outsourcing
- Revenge attacks *Vitek Boden* (Qld 2002) – millions of litres of raw sewage pumped into rivers as revenge for loss of council job





The annual AIC Commonwealth fraud survey

Background

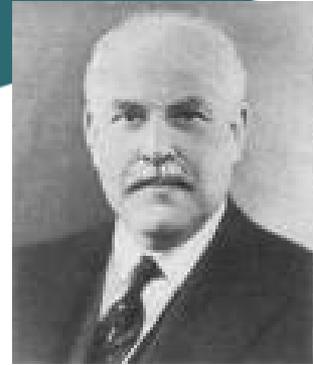
- AGD surveys 1996 to 2006 (for Departmental use only)
- AIC surveys from 2006-7
- ANAO surveys 1999, 2002, 2009 and specific agency audits

2008-09 Annual Survey

- First publicly-released report of survey of 177 Commonwealth agencies
- 149 useable responses analysed
- Separate investigation and prosecution data from AFP and CDPP
- CEOs notified in August, and online responses in by 30 September

Survey and data issues

- High response rate (84%) – mandatory under the *Fraud Control Policy*
- Variable interpretations of the definition of fraud
- Difficulties of time-series analysis



The extent of Commonwealth fraud

Sir Josiah Stamp *“Some Economic Factors in Modern Life”*

“The government are very keen on amassing statistics. They collect them, add them, raise them to the nth power, take the cube root, and prepare wonderful diagrams. But you must never forget that every one of these figures comes in the first instance from the village watchman, who just puts down what he damn pleases” (Stamp 1929, pp.158-9)

Fraud victimisation in 2008-09

- 39% experienced an incident in 2008-09 (45% in 2007-08)
- 32% internal fraud; 30% external fraud; 23% both types of fraud
- 3,371 internal fraud incidents; 797,327 external fraud incidents
- Most fraud against large agencies (13% of small agencies victimised)
- Internal fraud losses \$1.8m; external fraud \$596m; total \$597.8m
- Largest losses due to entitlement fraud (\$489m)
- 62% of agencies recovered funds - \$92m recovered by 2 agencies



Investigation and prosecution of fraud

Agency investigations

- *Internal fraud* – 97.6% investigated within agency
- *External fraud* – 99.7% investigated within agency

Australian Federal Police

- 368 fraud referrals accepted in 2008-09 (396 in 2007-08)
- 47 fraud referrals declined in 2008-09 (34 in 2007-08)
- Losses investigated of \$70m in 2008-09 (\$146m in 2007-08)

Commonwealth DPP

- 5,507 defendants referred to CDPP in 2008-09
- 4,821 prosecuted in 2008-09 in respect of \$79m in fraud
- (4,055 prosecuted in 2007-08 in respect of \$84m in fraud)
- 36 acquittals in 2008-09 (49 acquittals in 2007-08)



Responding to fraud against the Commonwealth

Fraud prevention entails

- Increasing the effort required to offend
- Increasing the risk of getting caught
- Reducing the rewards of offending

Matching fraud prevention to risks

- Developing and using effective fraud control guidelines and policies
- Conducting regular risk assessments and reviews of policies
- Personnel monitoring at recruitment and throughout employment
- Improving personal identification of employees
- Monitoring of IT equipment and usage
- Employing targeted sanctions for non-compliance with policies
- Responding to offenders' motivations and techniques of neutralisation



The techniques of neutralisation

Denial of authorship

- Shifting blame onto others, or claiming to have been coerced into offending

Sharing responsibility

- '*They can afford it*'; '*fraud is rife*' and '*everyone's doing it*'

External influences

- Global financial crisis created pressures that led to the fraud

Denial of injury

- Intended to repay the money so that no-one would have lost out

Denial of illegality

- Conduct was technically not wrong, or they didn't know it was illegal

Denial of culpability

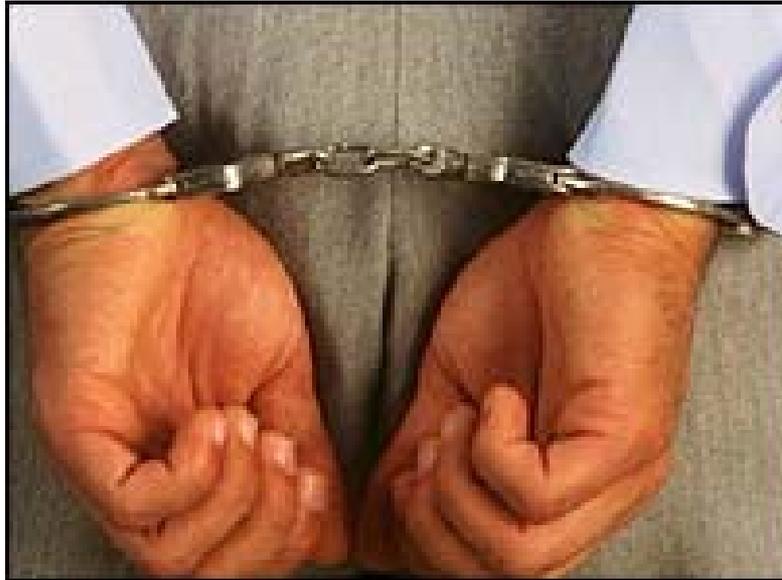
- Offenders were sick or affected by circumstances beyond their control

Appeal to higher loyalties

- Laws can be ignored due to higher loyalties owed to friends and family



Deterrence through prosecution and punishment





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