



Australian Government
Australian Institute of Criminology

VPS Fraud Control Network

*Understanding and responding to
public sector fraud and corruption*

Dr Russell G Smith
Principal Criminologist



Understanding the nature of public sector fraud

Targets

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

Methods

- Theft, credit card / cabcharge misuse, unauthorised computer access
- Counterfeiting documents, providing false information, identity misuse
- Corruption - bribery, abuse of office, kickbacks, collusion

Offenders

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



Mapping the fraud risk environment

Current and emerging risks

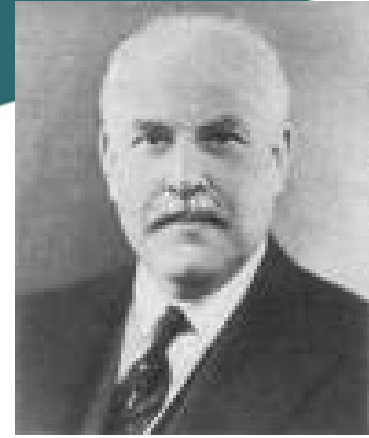
- *Internal fraud* – poor internal controls, poor recruitment practices
- *External fraud* – new benefits, new taxes, procurement, consultants
- *Collusion* – between criminals and insiders (29%–KPMG Survey 2012)
- *New govt. programs* – risks from rapid deployment with poor controls

Misusing new technologies

- e-government – online payments, phishing, data breaches – Verizon (2012) identified 174m compromised records; 83% by organised crime
- cloud computing – risks for providers and users of cloud services
- new payment systems – chip/PIN, online transactions, e-currency
- new hardware and software – mobile devices, wireless networks

Corruption risks

- Corruption of public servants to gain access to secure systems / data



Quantifying trends in fraud & corruption

A problem throughout history

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

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 n th 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)

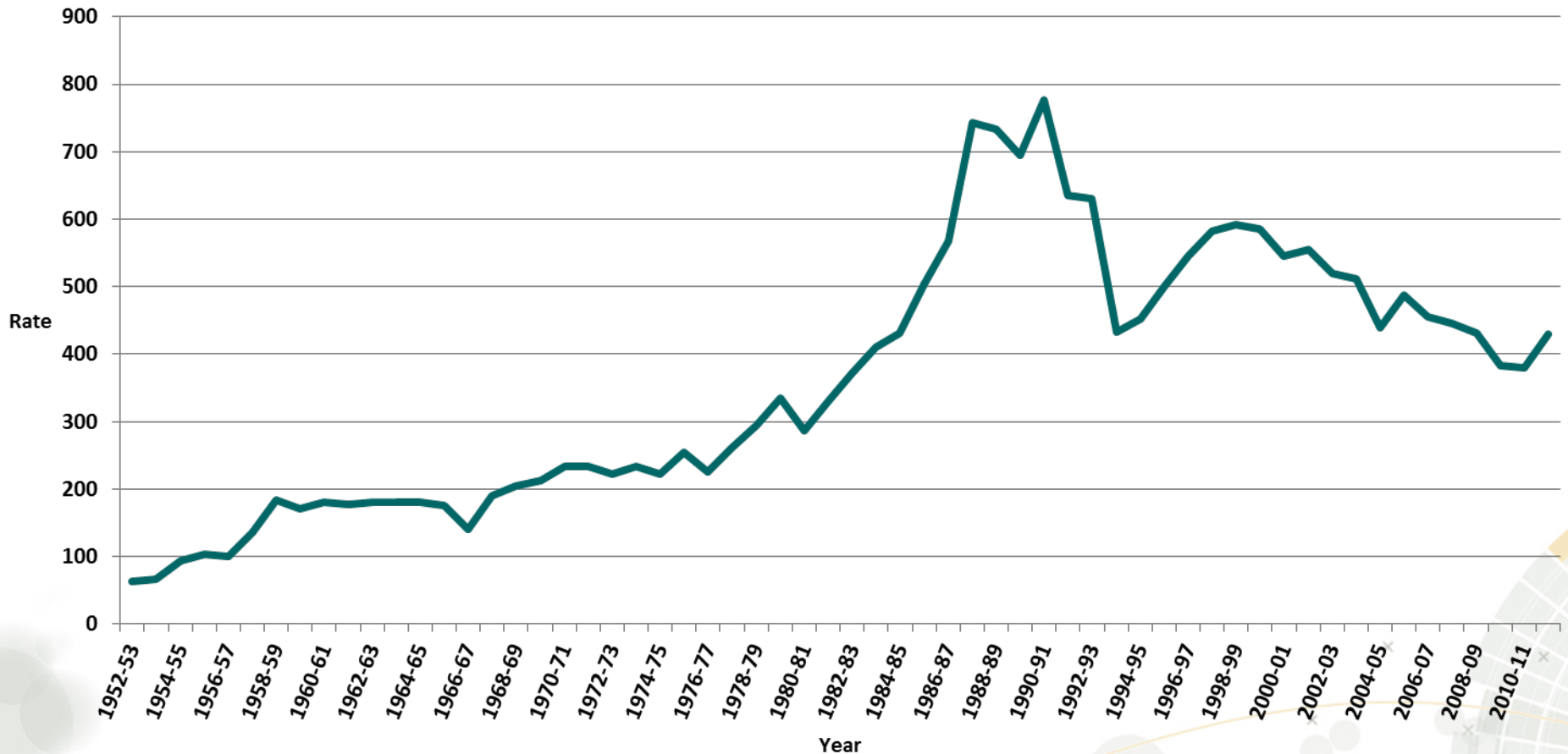
The problem of under-reporting (KPMG Survey 2012)

- 46% of cases reported to police in 2012 (60% in 2010: down 14%)
- 43% internal investigation; immediate dismissal 42% (up 5%); 12% external investigation; 10% permitted to resign; 8% contract terminated; 6% insurance claim; 2% no action



Trends in officially recorded fraud in Australia

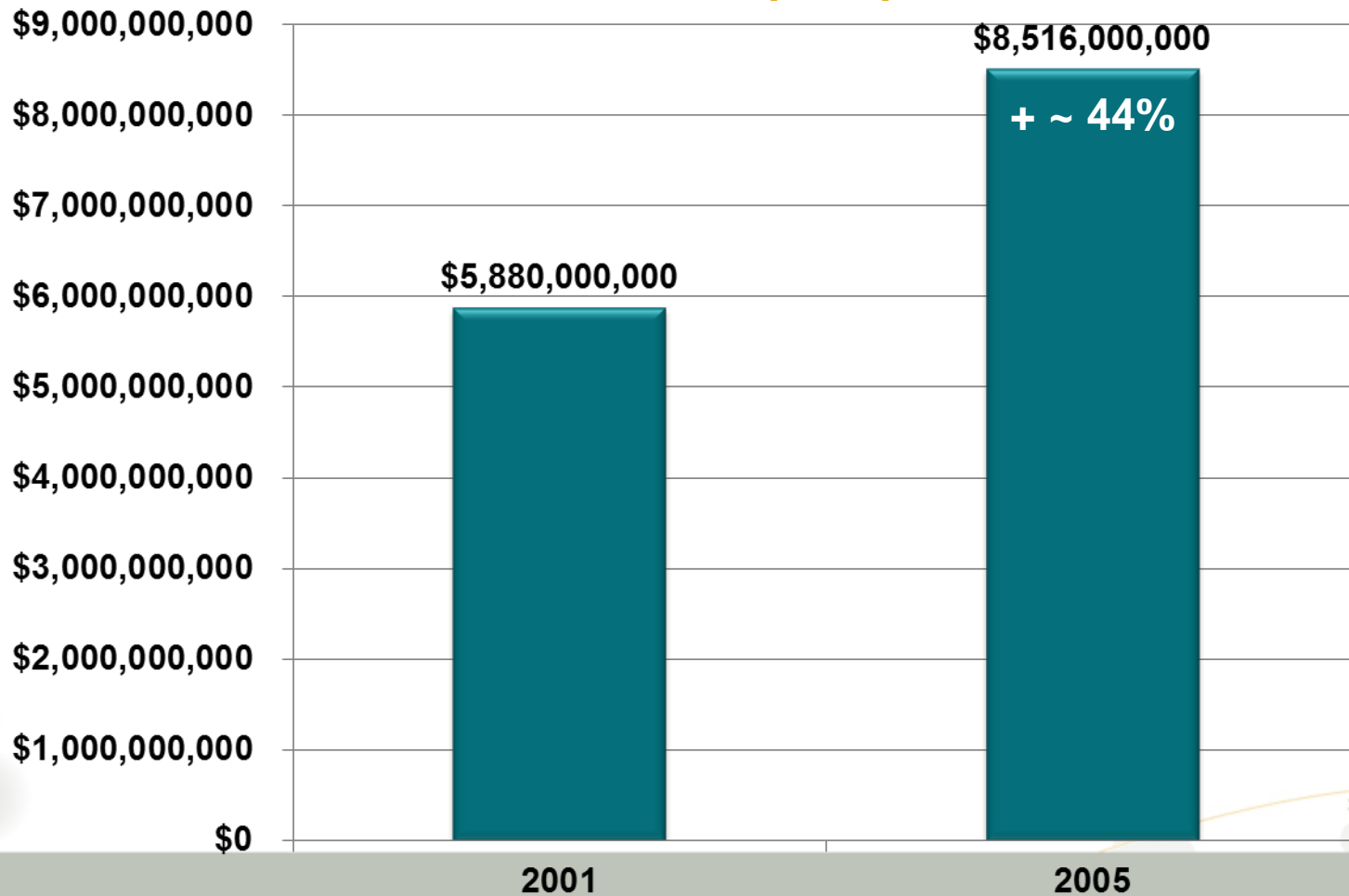
Rate per 100,000 popn, recorded by Australian police (1953/54 – 2011/12)





The cost of fraud in Australia

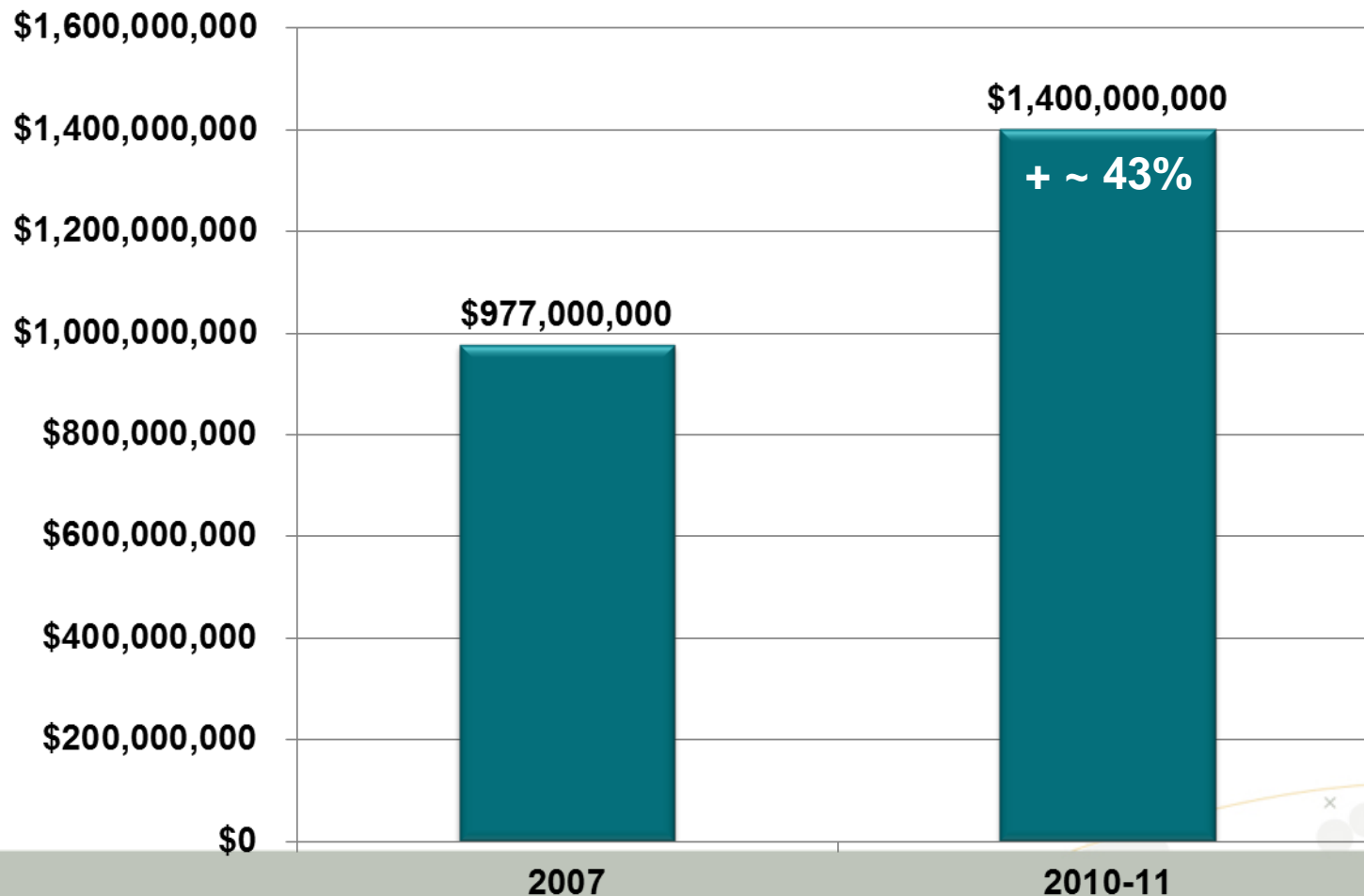
Estimated total fraud losses (AIC)





Trends in consumer scam losses in Australia

Personal fraud (Australian Bureau of Statistics)

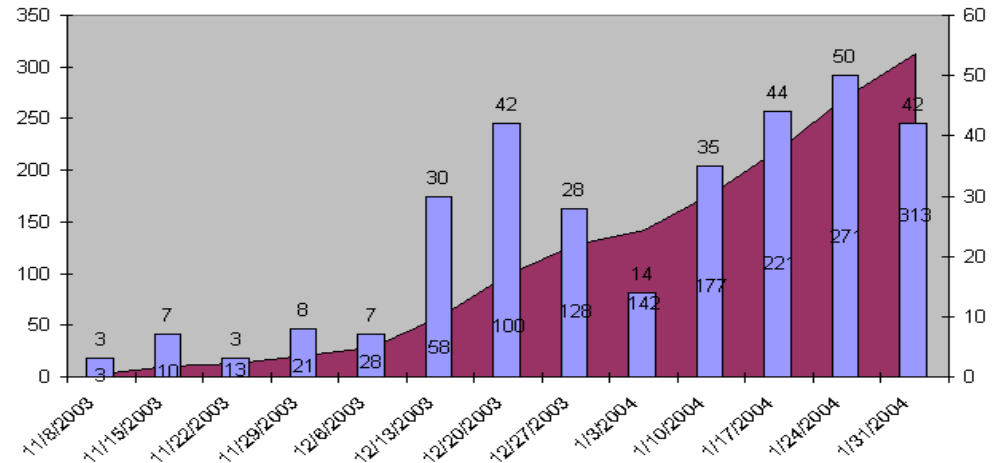




Anti-Phishing Working Group Data

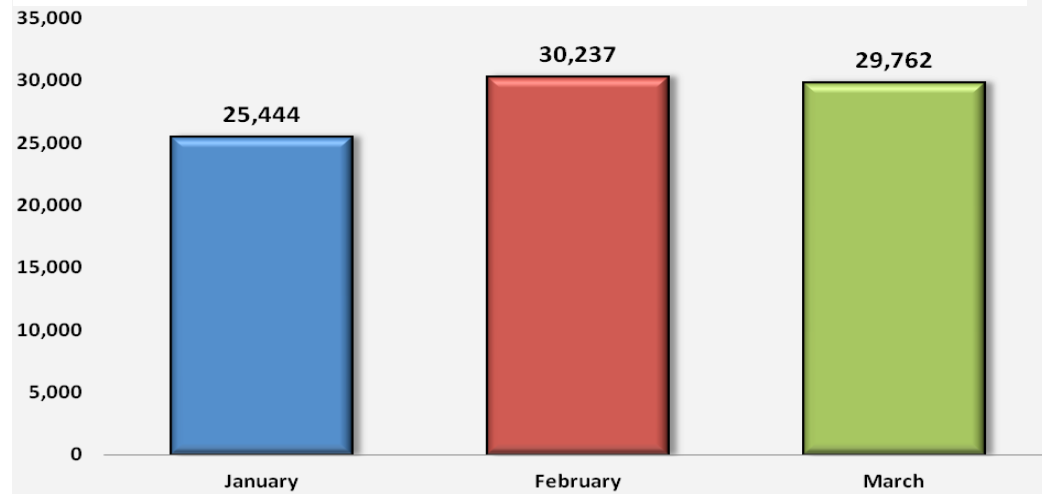
January 2004

- 176 unique attacks



January 2012

- 25,444 unique attacks

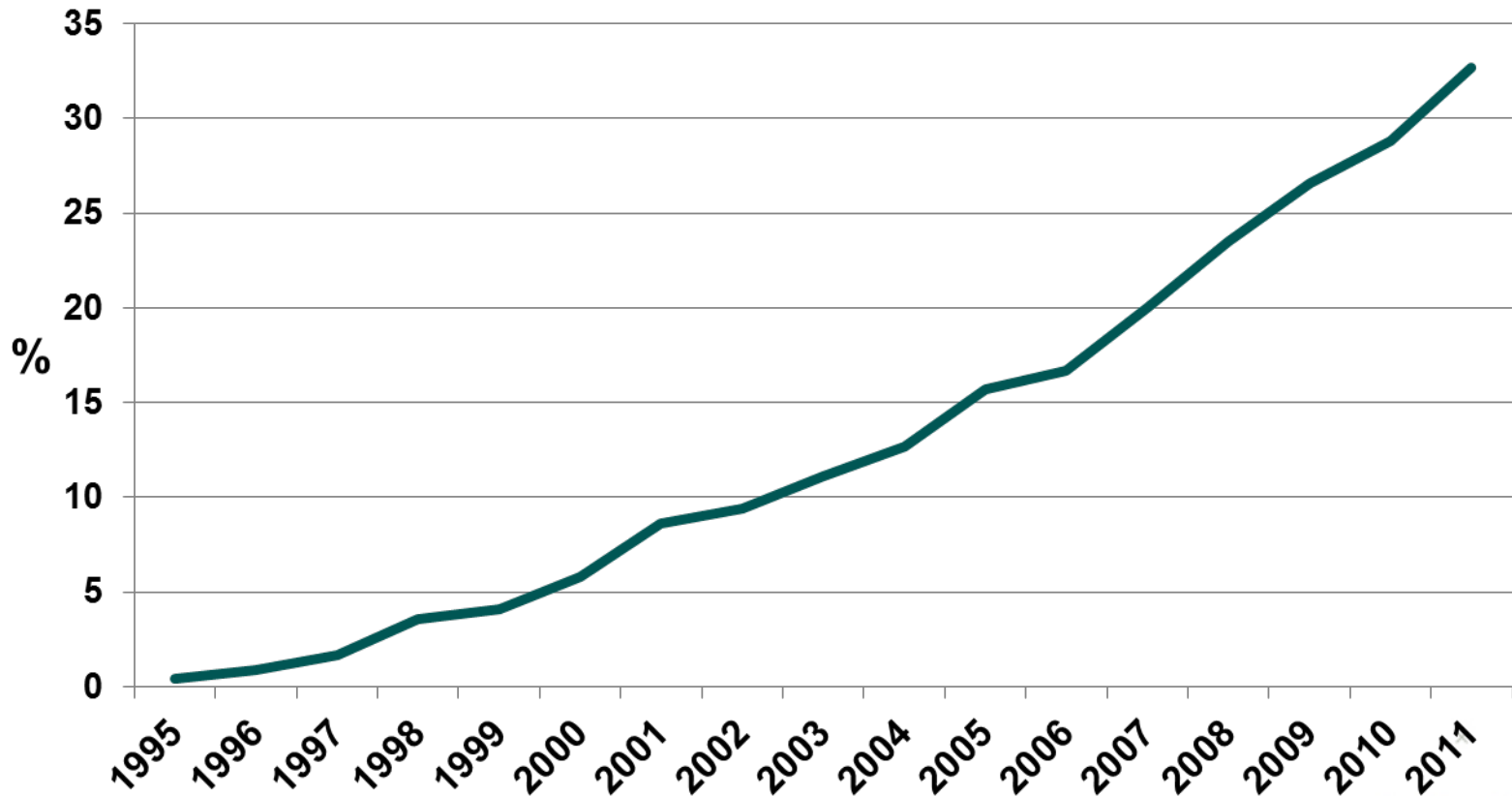


14,000% increase over 8 years



Internet growth statistics 1995-2011

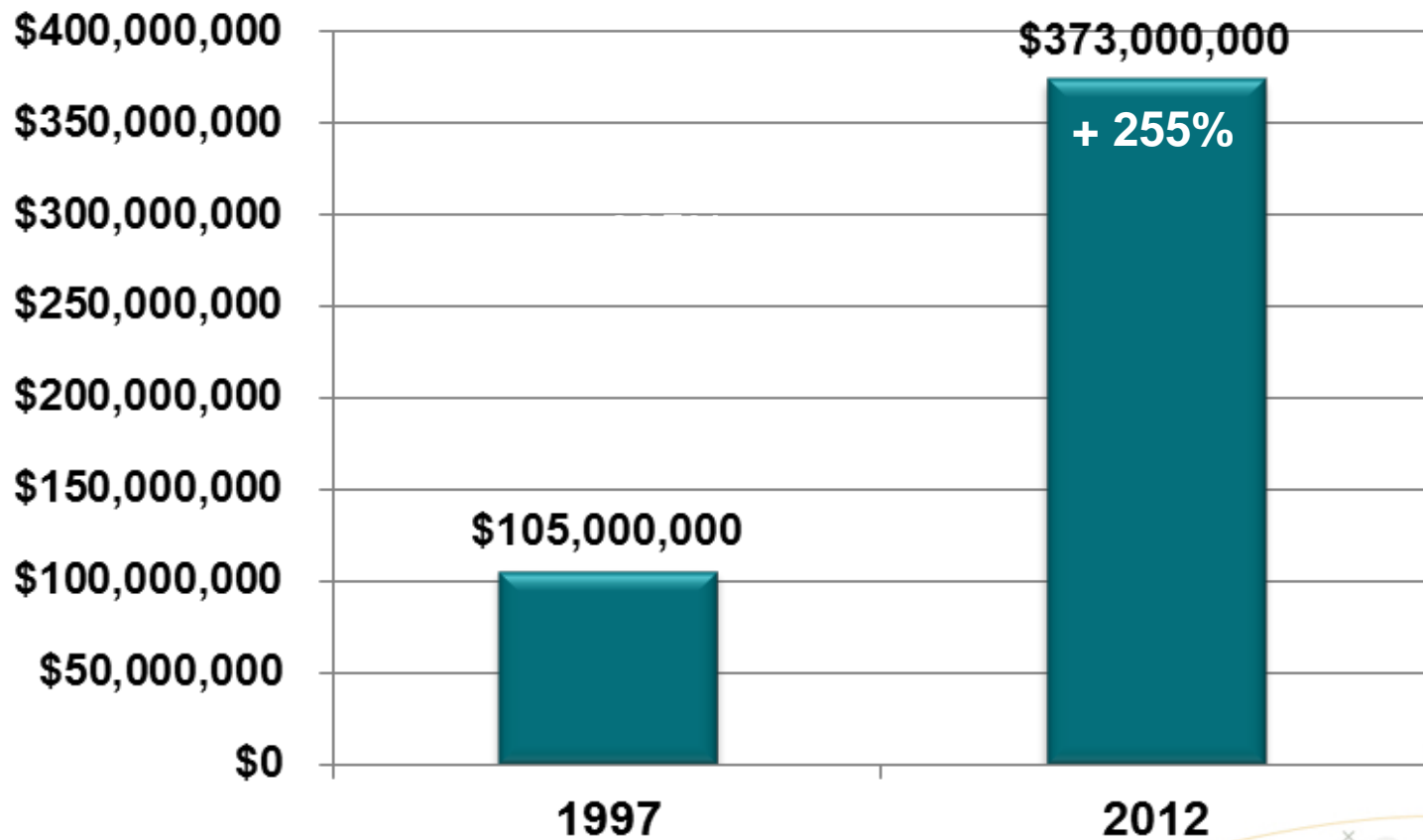
Internet users as a percentage of world population





Trends in fraud against organisations

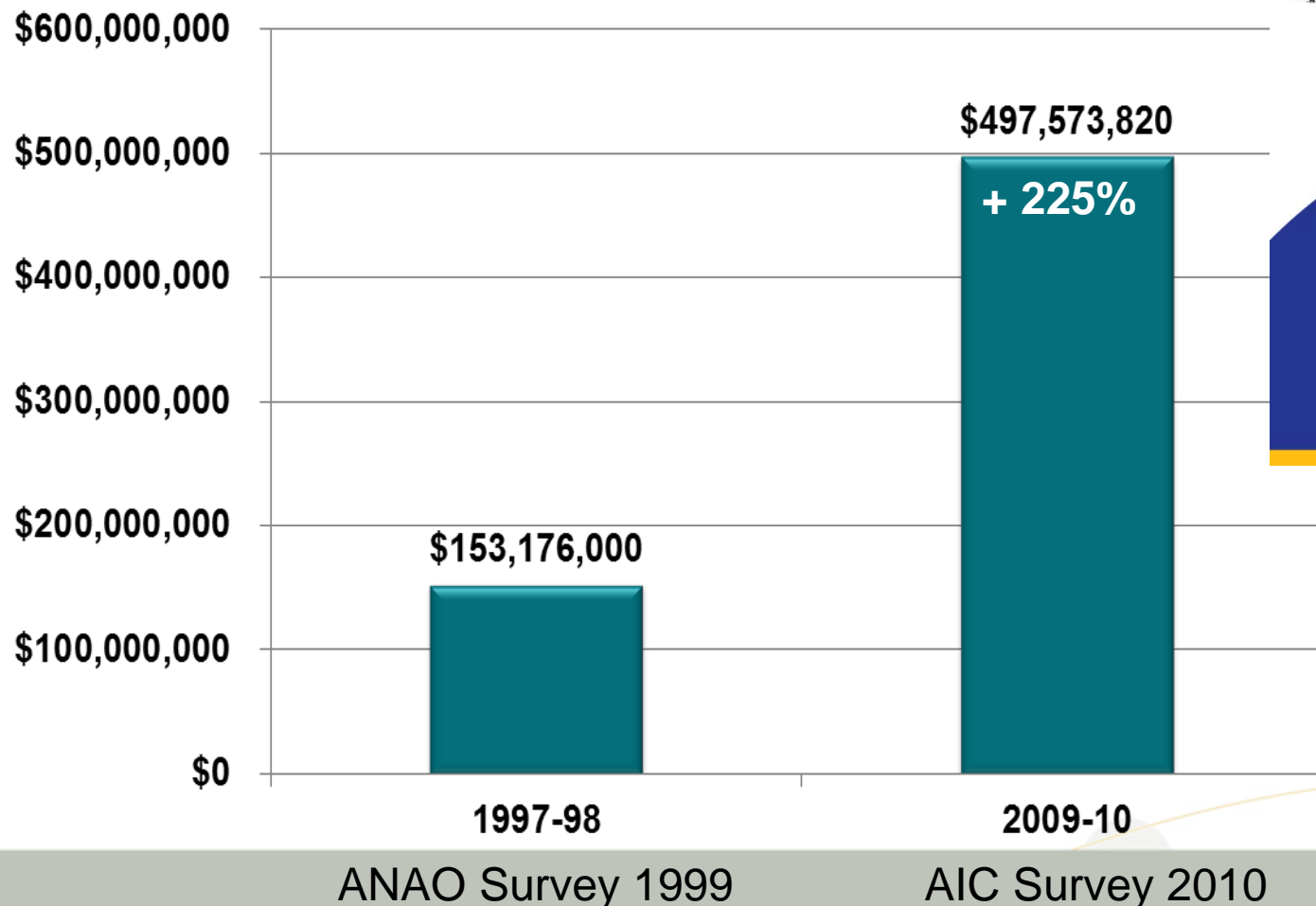
Fraud losses in Australian and NZ organisations





Trends in fraud against the Commonwealth

Fraud losses in 152 Commonwealth agencies

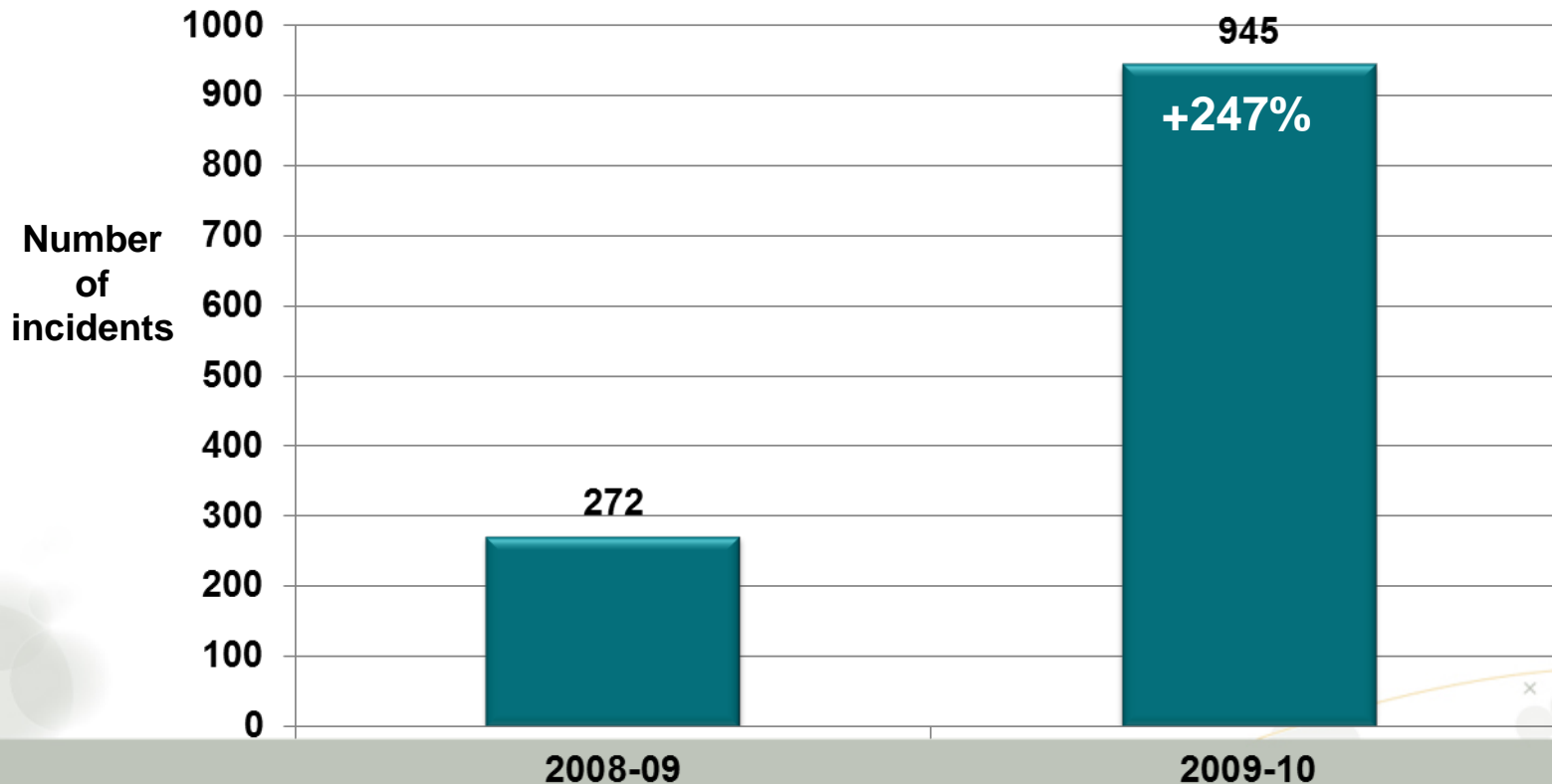




Trends in corruption in the Commonwealth

Commonwealth corruption incidents (AIC surveys)

- 2008-09 – 249 internal, 23 external corruption incidents
- 2009-10 – 802 internal, 143 external corruption incidents





Detected internal Clth corruption incidents

Type of corruption	2007-08	2008-09	2009-10
Bribery of employee	83	75	48
Accepting kickbacks / gratuities	3	9	9
Conflict of interest	58	49	342
Collusion or conspiracy	8	7	23
Abuse of power	23	69	45
Unable to be determined	56	33	92
Other	0	7	243



Detected external Clth corruption incidents

Type of corruption	2007-08	2008-09	2009-10
Bribery of employee	0	3	42
Accepting kickbacks / gratuities	2	3	4
Conflict of interest	1	5	11
Collusion or conspiracy	117	3	19
Abuse of power	13	8	43
Unable to be determined	6	1	22
Other	43	0	2

Number of incidents



Responding to public sector fraud and corruption

Fraud prevention entails

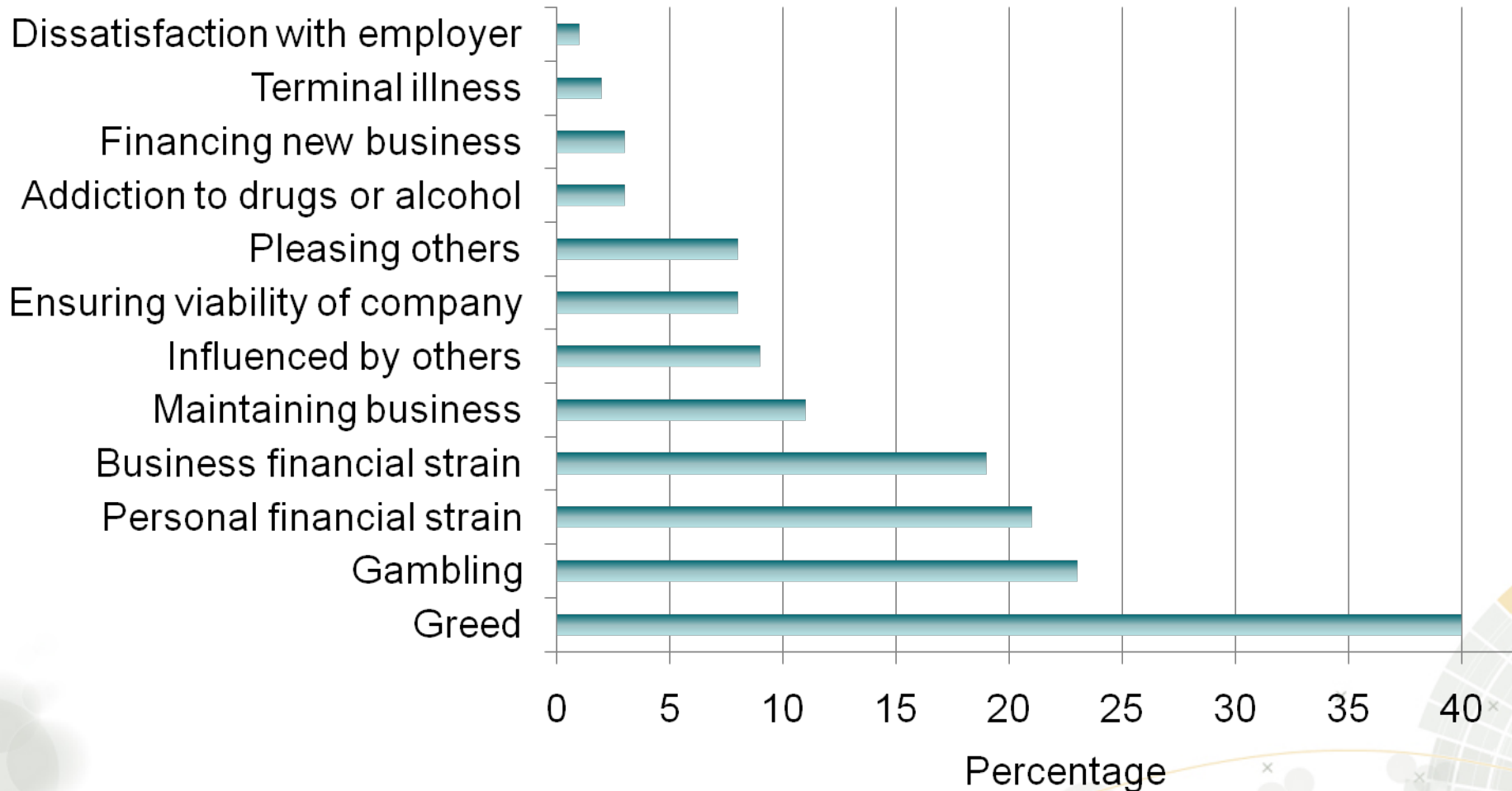
- Increasing the effort required to offend
- Increasing the risk of getting caught
- Reducing the rewards of offending

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
- Responding to the techniques of neutralisation



The motivations of fraudsters





Responding to 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



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Russell.Smith@aic.gov.au

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