



No. 74

# Measuring the Extent of Fraud in Australia

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*Analysts believe that fraud costs the nation considerably more than any other type of crime. It has serious consequences for all Australians, whether they be victims of fraud whose trust has been betrayed, or consumers who are required to shoulder the burden of business losses through increased costs of goods and services. It is surprising, therefore, that so little is known about the nature and extent of fraud. This may be due in part to fraud being seen as remote from the interests of average Australians, but also because it involves offences which are sophisticated in their planning and execution, under-reported and difficult to investigate. Although some forms of fraud appear to be waning, victimisation surveys have found that businesses continue to lose millions of dollars each year through fraud of various kinds. These losses are, in turn, passed on to consumers. This Trends and Issues reviews existing data on fraud trends in Australia and identifies ways of improving our level of understanding of the extent to which such crime occurs.*

**Adam Graycar**  
Director

**C**riminal fraud is a generic, non-statutory category of crime which includes a variety of offences linked by the common element of the perpetrator seeking to obtain property belonging to another through deception.

At present, in Australia, we have a fairly piecemeal approach to fraud data collection with some agencies devoting much greater resources to this than others. Because different systems of counting and analysis exist, it is difficult to make interjurisdictional comparisons. As a result, those working in criminal justice agencies as well as members of the public are often misinformed or given inadequate or no information with respect to the true nature and extent of fraud in the community.

Gathering data on fraud, and indeed other forms of crime, can be helpful in a variety of ways. First, statistical information enables crime and criminal behaviour to be better understood, particularly how patterns of offending change over time. Armed with this knowledge, members of the public can then be informed as to how best to protect themselves against new and emerging forms of crime as soon as they become apparent. Knowledge of the ways in which the security features on plastic cards are able to be compromised can, for example, help prevent cardholders being defrauded (*see* Smith 1997). Similarly, the Nigerian government has recently taken out newspaper advertisements designed to alert individuals to the risks of replying to advance fee solicitations which have already defrauded many

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unsuspecting people of substantial sums throughout the world (*see* Osimiri 1997).

Secondly, fraud statistics may be used for strategic intel-ligence purposes associated with the detection and prevention of crime. Knowledge of how offenders commit crimes may be used to detect similar offending patterns in the future and to prevent offenders from making use of criminal strategies employed in the past. This is particularly important where sophisticated trans-jurisdictional frauds are being investigated. In addition, the maintenance of comprehensive databases may enable patterns of offending to be isolated and repeat victimisation prevented.

Finally, statistics may be used for research and planning in criminal justice administration, such as for the calculation of workforce numbers and budgets. Latest estimates of the cost of offences of fraud and misappropriation in Australia are between \$3 billion and \$3.5 billion per annum which is approximately one-third of the cost of all crime categories (29-30 per cent). This is just in excess of the cost of main-taining all of the police services throughout Australia (Walker 1997). Increased resources for policing fraud may, therefore, have substantial financial benefits for the community generally.

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## Australian Fraud Data

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### *Official Statistics*

Official statistics are gathered by police services, the courts, and correctional agencies. In discussing the extent to which fraud statistics are collected in Australia, it is necessary, at the outset, to distinguish data which are collected purely for statistical purposes from data which are collected for intelligence and operational purposes. The distinction is often blurred, however, for in some databases it is possible to make use of operational data for statistical trend analysis and research purposes.

Although the National Centre for Crime and Justice Statistics of the Australian Bureau of Statistics coordinates the collection of data from official criminal justice agencies through-out the country, the data collected at present are by no means complete, particularly with respect to offences of fraud and deception; a problem principally resulting from disparate offence definitions across jurisdictions.

Official statistics are also collected by the civil courts. These may be of great value in fraud cases in which civil actions have been taken concurrently or following criminal investigations, particularly in describing the circumstances of the offences and losses sustained.

Various federal agencies compile fraud data of varying kinds. The Australian Bureau of Criminal Intelligence (ABCI) has its Australian Criminal Intelligence Database (ACID) which records information for intelligence purposes rather than for purely statistical purposes. ACID uses Internet technology to transmit encrypted information to law enforcement agencies throughout the country. It is undergoing review at present to improve its operation, for example, to enable photographic images to be transmitted.

The National Exchange of Police Information (NEPI) has its National Major Investigation System (NMISYS) which provides an index of incidents reported throughout Australia. It aims to provide a comprehensive, uni-form investigation management system for serious crimes, particularly those involving multiple agencies. NEPI also maintains the Police Reference System (PRS) which in 1995-96 received 1.78 million queries, an increase of 126 per cent on the

previous year. This system provides a national index of persons of interest to the police (Commonwealth of Australia, Commonwealth Law Enforcement Board, Australasian Police Ministers' Council 1996).

Steps are currently being taken to compile a National Fraud Database which will record fraud data from around the country in addition to the databases maintained by ABCI and NEPI.

In addition to describing some representative case studies of fraud prosecutions each year, the Australian Federal Police (AFP) *Annual Reports* contain statistics on the number of matters dealt with each year. Numbers for the last four years are shown in Table 1.

Each police service in the various States and Territories maintains records of the number of crimes dealt with each year. Since 1 March 1993, Victoria, for example, has maintained a computerised database of offences (Law Enforcement Assistance Program "LEAP").

Data for some offence categories are collated by the National Centre for Crime and Justice Statistics (NCCJS) at the Australian Bureau of Statistics in Melbourne (Australian Bureau of Statistics 1996a). Although this is described as being a national body, its data are essentially State and Territory-based. The NCCJS was established in 1996 by the amalgamation of the National Crime Statistics Unit (NCSU), the National Criminal Courts Statistics Unit (NCCSU) and the National Corrective Services Statistics Unit (NCSSU). Statistics are recorded for victim characteristics, matters heard in the criminal courts, and correctional statistics (ABS 1996a, 1997a, 1997b).

The Australian Institute of

**Table 1: Australian Federal Police Commonwealth Fraud Offences 1992-96**

	1992-93	1993-94	1994-95	1995-96
Offences Reported	12 827	11 922	9 287	4 358
Offences Cleared	6 544	4 072	3 644	2 470
Percentage Cleared	51.0	34.2	39.2	56.7
<b>Total Value Involved</b>	<b>\$113.1m</b>	<b>\$82.6m</b>	<b>\$94.5m</b>	<b>\$132.1m</b>

Source: Australian Federal Police *Annual Reports*, 1992-96.

Criminology recently produced a report summarising the number of offences reported to each police service. Table 2 shows the aggregate figures for Australia for fraud offences over the last four years.

There has been a decline in reported fraud offences in all jurisdictions since 1992-93 except for the ACT, Queensland, Tasmania and South Australia where the numbers and rates increased. These trends are of use in national planning but cannot reveal how the incidence of individual offence types varied.

Most State and Territory Police Services also record details of the number of offences cleared for males and females (although the definition of "cleared" varies considerably between jurisdictions). The data for fraud offences are set out in Mukherjee et al. (1997, pp. 25-39).

Some jurisdictions report far greater detail in their Annual Reports than others, sometimes including variables such as number and rate of offences reported and cleared for different age, gender, racial appearance, country of birth, occupation and marital status categories for offenders and victims, month, day and time reported, geographical location and value of property involved. This information is not consistently provided by all police services and only broad offence categories are used, such as "deception".

The information technology employed by State and Territory Police Services is also variable in terms of its capacity and quality. One of the most recent critiques of information management employed by the New South Wales Police Service appeared in the *Final Report of the Royal Commission into the New South Wales Police Service* (Wood 1997, ch. 7). The report principally dealt with information technology systems used for operational and intelligence purposes, although it also considered the maintenance of official police records, and was critical of the uncoordinated, incomplete nature of

**Table 2:** *Fraud Offences Reported to the Police in Australia, 1992-96*

Year	Number	Rate per 100 000 population
1992-93	110 493	625.79
1993-94	74 999	420.44
1994-95	80 970	448.49
1995-96	86 130	470.94

**Source:** Mukherjee, Carcach & Higgins 1997, p. 2.

existing systems and their potential for abuse.

In August 1997, the Australian Bureau of Statistics published its first report on data for all Australian jurisdictions on the volume and flow of work in the criminal courts. Unfortunately, this first publication failed to give data for particular offence categories, although subsequent reports are expected to include this information (ABS 1997a, p. 3).

The Australian Bureau of Statistics (1996b, 1997c) also gathers data on the number of convicted prisoners detained in prisons throughout the country. Between 1994 and 1995, the number of prisoners detained whose most serious offence related to fraud or misappropriation showed a small decline from 709 to 700. Figures for each jurisdiction are shown in Table 3.

Interestingly, the number of prisoners sentenced for these offences in South Australia has increased markedly, whilst the other jurisdictions have shown little change over the twelve-month period. This increase is reflective of the increased number of fraud offenders recorded by police in South Australia, a trend which has been present for the last

four years (Mukherjee et al. 1997, p. 32). Victoria, with its vibrant economy, which some may argue is conducive to fraud, has fewer such prisoners than New South Wales, although this may be due to different sentencing practices which operate in Victoria. Although fewer females were imprisoned for fraud and misappropriation than males, when one considers the incidence of these offences in comparison with all offence categories, it appears that offences of fraud and misappropriation have the highest proportion of female offenders out of all types of offence (in 1995, offences of fraud and misappropriation accounted for 15.9 per cent of all female offenders and only 4.0 per cent of male offenders. This is the largest offence category for females ABS 1997c, p. 23).

Statistics relating to offences of fraud and misappropriation are also given for length of sentence and time expected to serve and the same categories of data are given for unsentenced prisoners, Indigenous prisoners and periodic detainees.

Finally, State and Territory Police Service Fraud Squads keep information on the investigations they are currently undertaking, some of

**Table 3:** *Number of Sentenced Prisoners by Most Serious Offence of Fraud or Misappropriation, 1994-95*

Jurisdiction	1994			1995		
	Male	Female	Total	Male	Female	Total
New South Wales	314	57	371	306	58	364
South Australia	71	13	84	87	15	102
Victoria	84	14	98	80	14	94
Queensland	60	11	71	58	8	66
Western Australia	55	18	73	46	18	64
Northern Territory	3	3	6	6	0	6
Tasmania	6	0	6	4	0	4
ACT (in NSW)	0	0	0	(3)	0	(3)
<b>Total Australia</b>	<b>593</b>	<b>116</b>	<b>709</b>	<b>587</b>	<b>113</b>	<b>700</b>

**Source:** Australian Bureau of Statistics 1996b, p. 21; 1997c, p. 21.

which are held on computerised databases.

*Quasi-Official Statistics*

What may be called quasi-official statistics are gathered by various other organisations. Insurance companies, for example, maintain extensive records on claims made and sums of money paid as a result of financial crimes. The Insurance Council of Australia (ICA) estimates that fraudulent claims on insurance companies cost \$1.1 billion in 1993, considerably less than the \$1.7 billion estimated to be lost in 1991. This may be due to improvements in fraud prevention being used in the insurance industry (ICA 1994).

The Australian Bankers' Association also collects data on frauds against financial institutions. Such organisations are, however, reluctant to share this information with others for commercial reasons.

Non-criminal justice government departments such as the Health Insurance Commission and Commonwealth Departments of Social Security, Employment, Education, Training and Youth Affairs, Defence and the Taxation Office, gather data on fraudulent conduct within their own field of interest. The Australian National Audit Office also has information on fraud contained in some of its audit reports while the Australian Payment Systems Council collects data on electronic payment systems, including fraud committed against such systems.

*Unofficial Statistics*

Surveys of business victimisation have been carried out regularly by two large firms of accountants, KPMG and Ernst & Young. These surveys deal specifically with fraud experiences of businesses and give useful detail on fear of organisational fraud, losses suffered and the extent to which fraud was committed by employees as opposed to parties external to the organisation. Although relatively small sample sizes were used, they

provide a good starting point for documenting the nature and extent of fraud in Australia.

KPMG's 1997 Fraud Survey, for example, surveyed over 1800 of Australia's largest businesses: 480 replies were received (27 per cent) with information being provided on fraud awareness, victimisation, cost of fraud, who perpetrated the fraud, how fraud was discovered, and why it occurred. Information was also provided on action taken and fraud prevention steps relied upon. Unlike in previous surveys, specific information was given concerning computer fraud. In the two years covered by the survey, 7771 incidents of fraud were reported and nearly half of respondents reported some experience of fraud in the previous two years with losses totalling more than \$104 million, considerably less than for the 1995 survey which reported losses of \$350 million. Every organisation surveyed within the communications and tourism and hospitality industries reported fraud and the manufacturing and financial services industries reported the highest losses per occurrence. Theft of inventory/plant was the most frequently reported type of fraud carried out by employees and third parties. Forgery of cheques and credit card fraud were also frequently reported as offences committed by parties external to the organisation. Only 7 per cent of respondents reported computer fraud, although 9 per cent were unaware whether they had experienced such fraud or not. Upon discovery, most organi-

sations conducted internal investigations and either reported the fraud to the police or dismissed the perpetrator forthwith. Improvements in internal controls were seen as the most effective fraud prevention strategy to adopt (KPMG 1997).

The firm of Ernst & Young has also undertaken fraud victimisation surveys of its clients since 1989. The latest international survey of senior executives in major organisations, conducted in 1995, found that approximately three-quarters of the 805 respondents reported having been victimised over the preceding twelve-month period with losses of US\$642 million. Most frauds were committed by employees and most were discovered by chance (Ernst & Young 1996). The Australian respondents numbered 123 of which some 95 per cent reported having suffered at least one fraud in the preceding five years, while 52 per cent had lost over \$1 million in the preceding five years. Seventy-six per cent of frauds reported were committed by employees, mainly in middle management. Seventy per cent of frauds were reported to the police or regulatory authorities (Ernst & Young 1996).

In 1994, Deakin University in conjunction with the Victoria Police Major Fraud Group conducted a survey of fraud victimisation experiences of 477 medium and large businesses in Victoria (Deakin University 1994). Data were collected on twenty-two fraud categories, the most frequently mentioned of which

**Table 4: Percentage of Businesses Victimised Through Fraud, 1993**

Country	% Fraud by Personnel	% Fraud by Outsiders	% All Fraud
France	1.3	42.3	43.6
Germany	3.1	27.6	30.7
Italy	1.6	24.7	26.3
Czech Republic	6.0	21.2	27.2
United Kingdom	2.5	21.0	23.5
Australia	1.7	19.7	21.4
Switzerland	1.3	13.6	14.9
Netherlands	3.0	12.6	15.6
Hungary	2.9	11.2	14.1

Source: Based upon Van Dijk & Terlouw 1996, p. 160.

were misappropriation of stock and equipment (251 cases — 25 per cent) and misappropriation of cash (162 cases — 16 per cent). Losses for these two categories were estimated to be \$284.67 million and \$165.9 million respectively. Some of the variables examined included whether the fraud was reported to the police, reasons for not reporting to the police, type of offender, factors contributing to the fraud, how the fraud was detected, and value of money lost.

Finally, in 1993, a joint project entitled the International Crimes Against Businesses Survey was conducted with the Australian Institute of Criminology coordinating the Australian component of the study (Walker 1994). Table 4 shows some of the results of the project.

In Australia, approximately one in five of the businesses surveyed had experienced some kind of fraud, although more than ten times as many businesses had been defrauded by outsiders than by employees, a finding which contradicts that of the more recent business victimisation surveys referred to above. Where employees were involved, it was unusual to report the matter to the police (Walker 1994).

Unfortunately, the Australian Bureau of Statistics, which conducts regular surveys of household and personal victimisation, fails to examine offences of deception and business fraud.

## Improving Knowledge of Fraud

### *Consistent Offence Categories*

In the federal criminal law system which operates in Australia, there are nine separate jurisdictions which may contribute statistical information. Each has its own fraud offences, which creates problems of categorising offence types.

Although the Australian Bureau of Statistics (1985) has its own classification of offence types (the Australian Standard Offence Classification, which is being updated

at present), there are different offence recording practices which operate in each of the official crime recording bodies in the police, courts and correctional organisations.

An additional problem is that fraud involves many types of offences. In Victoria, for example, police statistics for 1995-96 list 104 separate offences included in the category "deception". These include various forms of obtaining property by deception, forgery, conspiracy, impersonation, secret commissions, and making false statements (Victoria Police 1996, pp. 131-3).

When the *Model Criminal Code* is completed and operational throughout Australia, this problem will be partially solved for the future, although comparisons before and after its introduction will be difficult to make because of the different offence definitions involved.

### *Consistent Data Recording Practices*

Guidelines are needed which will assist those who collect data on fraud to do so in a way which will permit comparisons to be made across the various jurisdictions. Data should be collected in a systematic and controlled way in a form suitable for strategic intelligence purposes as well as statistical analysis and interpretation of the kind undertaken by the Australian Institute of Criminology.

### *Improving Detection and Reporting*

Obtaining an accurate picture of the extent to which fraud occurs is particularly difficult when one relies upon official statistics as fraud tends to be a crime which often goes undetected, unreported or not proceeded with by law enforcement agencies. Some victims, such as those who have given money to fraudulent and non-existent charities, may never realise that they have been victimised, while others, such as businesses, may be unaware that stock has, in fact, been stolen by employees.

In the case of on-line commercial fraud, victims may be unable to locate the offender who may be resident overseas or who may have used an anonymous remailing system in carrying out the fraud.

There are also many reasons why individuals and organisations may be reluctant to report frauds. KPMG (1997, p. 15), for example, found in its survey of businesses that 68.7 per cent of organisations surveyed reported incidents of fraud to the police, although in 28 per cent of these cases charges were not laid. Some of the reasons reported in the Deakin University survey of organisations in Victoria for not reporting fraud to the police included a belief that the matter was not serious enough to warrant police attention, a fear of consumer backlash, bad publicity, inadequate proof, and a reluctance to devote time and resources to prosecuting a matter (Deakin University 1994, pp. 45-6). Improving the reporting of fraud would, therefore, provide a basis for a better understanding of this type of crime.

### *Improving the Quantification of Monetary Loss*

One of the most sought-after statistics concerning fraud is the amount of financial loss suffered by victims. There are various problems associated with calculating such loss which start with the estimation of the losses for an individual case and are compounded in the compilation of state-wide and national estimates.

Already a plethora of estimates of the cost of fraud exist. The Australian Federal Police in its submission to AUSTRAC, for example, estimates that between \$3 billion and \$3.5 billion was lost through fraud in Australia annually (Walker 1997). The National Survey of Crimes Against Businesses found in excess of \$235 million lost by fraud against businesses in the retail, manufacturing, primary industry and tourism/recreation sectors in the year 1992-93 (Walker 1994), while the KPMG survey in 1997 of 480 large organisations found losses of more

than \$104 million due to all forms of fraud including thefts by staff, customers and suppliers (KPMG 1997). Losses due to offences of deception in Victoria for 1995-96 were estimated to be \$45 127 000, or \$3225 per offence. Extrapolated nationally, this would total losses of \$277 million in respect of all offences reported to police services throughout Australia. Clearly, there is a need for the development of consistent practices when it comes to calculating the losses sustained through fraud.

Walker (1997) calls for increased funding to enable fraud victimisation surveys to be carried out on a wide scale. Official police estimates provide only a limited indication of the cost of fraud owing to their exclusion of unreported offences. Relying upon cases which proceed to trial is also problematic as only a selection of offences are included for prosecution and it is these which form the basis of the estimated loss. Other offences taken into consideration for sentencing purposes tend not to be included in official estimates of the cost of crime.

It would also be beneficial for funding to be provided so that Australia may re-establish its participation in the International Crime Victimization Surveys, and also for fraud to be included as one of the categories examined. Conducting comprehensive offender self-report surveys would also be useful in understanding the reasons why fraud occurs and which sanctions are most appropriate to control it.

Finally, there exists a need for ongoing monitoring of data collection, recording and reporting practices concerning fraud throughout Australia. Only then, will Australia be well-placed to understand the full extent of this, its most costly form of crime.

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