

# Fraud risk management

Report to Parliament 9 : 2012-13



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March 2013

The Honourable F Simpson MP  
Speaker of the Legislative Assembly  
Parliament House  
BRISBANE QLD 4000

Dear Madam Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Fraud risk management.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Greaves', with a long, sweeping underline.

Andrew Greaves  
Auditor-General



# Contents

<b>Summary</b> .....	<b>1</b>
Conclusions .....	1
Key findings .....	2
Recommendations .....	4
Reference to agency comments (Appendix A) .....	4
<b>1. Context</b> .....	<b>5</b>
1.1 Background .....	5
1.2 Legislation and policy .....	8
1.3 Roles and responsibilities .....	8
1.4 Changes within the Queensland public sector .....	9
1.5 Audit objectives, method and cost .....	10
1.6 Structure of this report .....	10
<b>2. Setting the standard</b> .....	<b>11</b>
2.1 Background .....	12
2.2 Conclusions .....	12
2.3 Findings .....	13
2.4 Recommendations .....	16
<b>3. Tools and systems</b> .....	<b>17</b>
3.1 Background .....	18
3.2 Conclusions .....	18
3.3 Findings .....	18
3.4 Recommendations .....	21
<b>4. Responding and monitoring</b> .....	<b>23</b>
4.1 Background .....	24
4.2 Conclusions .....	24
4.3 Findings .....	25
4.4 Recommendations .....	26
<b>Appendices</b> .....	<b>27</b>
Appendix A - Comments .....	29
Appendix B - Fundamental attributes of a fraud control program .....	41
Appendix C - Audit details .....	45



# Summary

A recent survey reported that more than one third of public sector organisations had experienced fraud. Another survey reported that, in the second half of 2011, the Australian public sector experienced more than 20 major frauds costing nearly \$60 million.

Public sector fraud usually involves the theft or misuse of assets, and lower level management is most likely to be responsible. Nearly two thirds of frauds are detected through tip offs, by accident or because of whistleblowers, with less than one quarter uncovered by internal controls such as internal audit, fraud risk management or reporting of suspicious transactions. Another survey estimates that two thirds of fraudulent activity go undetected.

The opportunity and motivation to commit fraud increase when there is major structural change, reform and lack of job security. Public sector staff cuts may compromise individual loyalty and commitment to corporate values. Staff cuts can also threaten an organisation's ability to maintain necessary controls. In this environment of heightened risk chief executives must make sure they apply strong barriers to fraud.

We examined whether selected Queensland public sector agencies are effectively managing fraud risks. We used recognised best practice criteria to assess the control measures in three agencies for preventing, detecting and responding to fraud.

The audit was conducted between May and November 2012 and assessed fraud controls at:

- Queensland Health, including six Hospital and Health Services
- The Department of Housing and Public Works
- The Public Trustee of Queensland.

Recommendations in this report are relevant to a broad range of Queensland government agencies and are directed to all agencies to help them improve their fraud resistance.

## Conclusions

While senior management is committed to fraud control, this is not being supported by visible processes to actively prevent, detect and respond to fraud. This means the risk of fraud occurring and going undetected is unacceptably high.

Having policies, plans and reporting and investigation procedures alone is not sufficient. What is missing and is much needed is a targeted campaign of fraud prevention and detection. The agencies are not capitalising on fraud risk assessments or data analytics, thereby missing the opportunity to efficiently target at risk areas.

There is also little evidence that agency culture reinforces the message that fraud management is a core responsibility of every employee. There is little fraud specific education and awareness training. As a result, employees are less likely to be alert to, and aware of, fraud risks, or to know what to do if they suspect fraud.

We discovered no substantiated fraud during the audit. While data analytics performed during the audit found weaknesses in controls and opportunities for improvement, the agencies examined the exceptions identified and found no evidence of fraud.

## Key findings

The three agencies were assessed against 15 attributes of better practice fraud control programs. The combined rating for Queensland Health, the Department of Housing and Public Works and the Public Trustee of Queensland against these attributes is set out in Figure A.

Figure A  
Combined fraud control performance



Note: A '3' rating represents the minimum acceptable level; '5' is best practice. The basis for each rating is explained in the Context chapter.

Source: QAO

Appendix B provides guidance on developing a better practice fraud control program. It includes key sources of information and a checklist, based on the 15 attributes, to assist agencies to review their own programs and identify improvements.

## Setting the standard

There is no strategic whole-of-government approach to fraud control. Queensland Treasury's *Financial Accountability Handbook* provides broad approaches to fraud prevention and detection. The *Code of Conduct for the Queensland Public Service* mentions wrongdoing, not fraud.

The three agencies have fraud control policies and varying processes for managing fraud risks. Two have well publicised zero tolerance attitudes to fraud.

Responsibility and accountability for fraud control is not clearly documented in any of the three agencies. Fraud and corruption control is not included in position descriptions or in performance management systems, even for officers in fraud control positions.

One of the three agencies did not have a fraud control plan at the time of the audit. All the agencies are developing fraud control documentation, but some lack communication strategies to raise awareness of all staff.

Code of conduct training, while well established in two of the agencies, treats fraud in general terms as one form of corruption or misconduct. There is little fraud specific training, and fraud is defined largely as involving financial misappropriation, with limited understanding or consideration of the broader types of fraud, such as identity theft or use of false credentials.

The three agencies have clear fraud and misconduct reporting processes, but these are not used to feed back into, and help to target, fraud control activities.

## Tools and systems

The three agencies conduct rigorous pre-employment screening for permanent employees and undertake due diligence checks of suppliers and contractors. Only one applies the same rigour to screening temporary staff.

The three agencies do not routinely carry out fraud risk assessments, despite one agency having a policy to conduct them annually. Such assessments help agencies develop fraud mitigation measures to address risks. One agency recently developed standards for fraud risk assessments and has begun training managers.

We undertook fraud risk assessments at two of the agencies and identified a number of risks which could affect probity, transparency and value for money.

Only one agency has dedicated data analytic capability, but its capacity is limited and its existence not widely known throughout the organisation. Two agencies used limited electronic data analysis in procurement, but not strategically for detection of possible fraud.

Data analytics can quickly and efficiently uncover suspicious or anomalous patterns in transactions and can examine large and complex data sets quickly, efficiently and consistently. Use of data analytics may, in itself, provide a deterrent to potential fraudsters. We applied data analytics to data sets from the three agencies, and identified anomalous patterns in transactions. The results of our analysis are included in Chapter three.

## Responding and monitoring

The three agencies have processes to manage complaints, handle investigations and escalate to external agencies when required, but make limited use of these capabilities to improve fraud resistance.

Two of the agencies have dedicated integrity units which handle all suspected fraud complaints. These units are building their profiles within their agencies to emphasise employees' responsibility to report fraud and to provide support to any who do.

Each agency has the ability to track investigations and recommendations made to business units. Each demonstrates awareness of Crime and Misconduct Commission statutory reporting requirements to external agencies.

The three agencies maintain some records and statistical data on fraud, but make little strategic use of the information which their fraud complaints handling, investigations and follow up provide. Only one keeps a specific register of fraud related matters or monitors fraud trends. Only recently have the agencies begun a systematic review of fraud cases to improve their fraud control programs.

## Hospital and Health Services

National healthcare reforms since 1 July 2012 have devolved responsibility for frontline management of health services to 17 newly created statutory bodies, the Hospital and Health Services (HHS). These are still evolving their own approaches to fraud, and may require further support until they establish their own capability. It is essential that senior management in each of the HHS provides adequate ongoing support and commitment to the development of fraud controls as they strengthen their governance frameworks.

There is no training planned by the HHS Boards to prevent, detect and respond to allegations of fraud and misconduct.

The HHS will need to develop the capacity for credential checks, due diligence checks and data analytics which were formerly provided by Queensland Health's centralised support functions.

It is not yet clear how the governance structure of the HHS will support fraud detection frameworks and reporting mechanisms to external agencies. The new statutory authorities do not have fraud control officers and it is uncertain how they will record fraud information and statistical data.

## Recommendations

1. **All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.**

Where the following are not in place, agencies should:

2. **conduct and regularly update their fraud risk assessments**
3. **implement routine data analytics over areas identified as inherently susceptible to fraud**
4. **use their fraud data to inform ongoing development of fraud control programs.**

## Reference to agency comments (Appendix A)

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to Queensland Health, the Department of Housing and Public Works, the Public Trustee of Queensland, Metro North, Metro South, Gold Coast, Cairns and Hinterland, Sunshine Coast and Townsville Hospital and Health Services with a request for comments.

Their views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report.

The full comments received are included in Appendix A of this report.

# 1 Context

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## 1.1 Background

Fraud is defined as dishonestly obtaining a benefit by deception or other means. Fraudulent and corrupt conduct by public officials may fall within the category of 'official misconduct' under Queensland's *Crime and Misconduct Act 2001* and may also amount to a criminal offence under the *Criminal Code Act 1899*.

Fraud in public sector agencies can cause significant financial and reputational damage, affect employee morale and undermine the public's confidence in the delivery of public services. This is why legislation requires accountable officers within public sector agencies (e.g. chief executives) to ensure they have an efficient and effective system to manage the agency's resources appropriately, and to establish an effective fraud control framework.

Fraud control refers to the integrated set of activities to prevent, detect and respond to fraud, and includes the supporting processes such as staff training, investigations and the prosecution and penalisation of fraud perpetrators.

Opportunities for fraud are inherently linked to agency operations and activities: the risks are emerging and ever-changing. Effective fraud control involves more than compliance with legislation and having policies that acknowledge the risk. It needs to be aligned to the agency's business objectives and be tailored to each agency's operations. Better practice fraud control in public sector agencies is underscored by three broad fundamentals:

- setting standards and enabling people to identify and report fraud
- developing the tools to prevent and detect fraud
- responding appropriately to suspected fraud.

Fraud control needs to be specifically addressed as a discrete topic and should be incorporated in an agency's governance activities such as risk management, internal audit and corporate governance.

Senior management commitment drives effective fraud control. The Crime and Misconduct Commission's (CMC) publication, *Fraud and corruption control: guidelines for best practice* emphasises the importance of senior management's commitment to the development of effective fraud and corruption control policies:

*Setting the tone starts at the top, and the CEO plays a pivotal role in providing ethical leadership as well as operational vision. A strong and visible commitment to ethical practices from senior management is a precursor to a successful fraud and corruption control program. The agency's management team must transmit the message of ethical behaviour throughout the organisation and down the chain of command. Management must match words with deeds, and always display high personal standards that uphold the code of conduct.*

Managing the risk of fraud includes a range of proactive and reactive measures. Current leading practice in fraud risk management involves strategies which prevent, detect and respond to the risk of fraud, whether perpetrated by internal or external parties. The key is to get the right balance between fraud risk and control and to manage risk without adding unnecessary red tape.

Prevention, detection and response form the basis on which to develop fraud control strategies. It is important, however, that strategies are tailored to suit the individual circumstances and operating environment of each agency. Strategies must also be reviewed regularly, particularly in times of rapid change in the operating environment, or where organisational restructures present new risks to the agency.

### 1.1.1 Prevention

Fraud prevention is the most cost effective method of fraud control. It involves:

- developing appropriate documentation and standard setting by management to minimise the agency's exposure to fraud
- raising employees' awareness about the agency's expectations and standards, as well as the employees' obligations to report suspected fraud
- risk identification for prioritising and addressing fraud risks, and putting appropriate controls in place.

Frequent relevant communication is central to preventing fraud. Previous studies suggest that most people within an organisation will voluntarily comply with regulations if they are aware of them. Fraud control efforts in any agency should therefore promote compliance through staff education and awareness initiatives.

Formal documentation such as the fraud control policy and fraud control plan will only be useful if widely publicised and well known to all staff. Clear, consistent and regular messages about fraud control from agency leaders to staff will convey the expectations about fraud prevention and set the standards of expected behaviour.

### 1.1.2 Detection

Even the most robust prevention framework does not provide absolute protection against fraudulent conduct: there will always be individuals who have the motivation, knowledge and ability to circumvent an agency's prevention mechanisms. Prevention efforts must be supported by appropriate detection mechanisms so that fraud can be detected as quickly as possible and responded to appropriately.

The implementation of detection systems can also have a deterrent effect: if employees and external parties are aware of detection mechanisms, they will be less likely to attempt to defraud the agency.

Detection systems include:

- post transactional reviews
- data mining and analytic techniques
- analysis of management accounting reports.

### 1.1.3 Response

Studies suggest that staff are more likely to comply with policies if it is evident the agency will take compliance and enforcement action. It is therefore critical that agencies have the capability, either themselves or through third party arrangements, to respond appropriately to suspected fraud.

Each agency needs to have response mechanisms that address fraud where it occurs and minimise future exposure to similar events. The responses may also involve a broader review of processes or systems to identify control weaknesses or poor management practices that enabled the fraud to occur.

Where fraud has been detected, the initial response will usually be an investigation, either by the agency itself, by an external organisation or by an oversight or law enforcement body. In certain circumstances (such as shown in Figure 1C) the agency's chief executive has a statutory duty to report suspected fraud to agencies such as the Queensland Police Service and the CMC.

The investigation and prosecution of fraud by public sector agencies sends an important deterrent message to potential fraudsters and should be accompanied by a commitment to recovering any fraudulent losses of public money. This includes exposure to potential fraud from external parties. Just because a function or activity has been outsourced to a third party provider does not mean that the reputational risk associated with fraud is eradicated.

Prevention, detection and response are interdependent. Employee awareness sessions may lead to an employee identifying and reporting suspected fraud (prevention and detection). The ensuing investigation into a fraud allegation (response) may find that there was a lack of staff understanding about the proper way to perform a particular task. Based on this information, the agency may develop an education and awareness campaign for relevant staff (prevention). It may implement new internal checking mechanisms (detection) for a particular business process. To ensure that fraud is being managed appropriately, each agency's fraud control strategies should be subject to regular monitoring, evaluation and review.

### 1.1.4 Assessment

The 15 attributes of better practice fraud control programs used in the audit came from a range of sources including:

- Australian Standard AS 8001-2008 *Fraud and Corruption Control*
- the Australian National Audit Office's *Fraud Control in Australian Government Entities - Better Practice Guide 2011*
- the Crime and Misconduct Commission's *Fraud and corruption control: guidelines for best practice 2005* (currently being updated).

Each of the attributes includes requirements against which each agency was rated on a scale ranging from inadequate to equivalent to better practice. The attributes are detailed in Appendix B.

Figure 1A  
Rating system for assessment of fraud control performance

Assessment	Interpretation	Rating
Inadequate	Substantial improvement needed in order to render it effective in fulfilling a fraud and corruption control function	1
Inadequate but some progress made	Some progress towards achieving better practice but currently inadequate in fulfilling a fraud and corruption control function	2
Minimum acceptable level	Significant progress has been made towards achieving better practice. Currently at the minimum acceptable level in fulfilling a fraud and corruption control function and at least partially effective	3
Approaching better practice	Approaching better practice but with a relatively small number of areas in need of improvement which could be achieved with minimal effort	4
Equivalent to better practice	The organisation's fraud and corruption control program is equivalent to current better practice.	5

Source: QAO

## 1.2 Legislation and policy

Fraud and corruption control is broadly covered by various legislation, policy and public sector standards and guidance material. The Queensland *Criminal Code 1899* incorporates fraud and corruption offences including false claims, stealing, misappropriation of property, receipt or solicitation of secret commissions and forgery. Fraud may also amount to official misconduct under the *Crime and Misconduct Act 2001*.

Figure 1B  
Legislation, policies, guidance and better practice

Type of reference	Publication
Primary legislation	<i>Criminal Code 1899</i> <i>Crime and Misconduct Act 2001</i> <i>Financial Accountability Act 2009</i> <i>Public Interest Disclosure Act 2010</i>
Policy	Queensland Treasury <i>Financial Accountability Handbook 2012</i>
Standards, guidance and better practice	Public Service Commission <i>Code of Conduct for the Queensland Public Service 2011</i> Queensland Treasury <i>Financial Management Tools 2012</i> Queensland Treasury <i>A Guide to Risk Management 2011</i> Queensland Treasury <i>Financial and Performance Management Standard 2009</i> Crime and Misconduct Commission <i>Fraud and corruption control: guidelines for best practice 2005</i> Crime and Misconduct Commission <i>Facing the Facts 2007</i> Australian Standard 8001-2008 <i>Fraud and Corruption Control</i> Australian National Audit Office <i>Fraud Control in Australian Government Entities - Better Practice Guide 2011</i> .

Source: QAO

The *Code of Conduct* refers to wrongdoing and not to fraud or misconduct. Queensland Treasury's *Financial Accountability Handbook* includes approaches to fraud prevention and detection. Aside from the *Code of Conduct* and reporting requirements (Figure 1C), the guidance and better practice material is not mandatory.

## 1.3 Roles and responsibilities

Each of the agencies audited has a direct responsibility for fraud control within its organisation. Central and oversight agencies also have a role in fraud assessment and investigation and there are mandatory requirements for reporting suspected fraud.

**Figure 1C**  
**Mandatory fraud reporting requirements**

Reference	Requirement
<i>Crime and Misconduct Commission Fraud and corruption control: guidelines for best practice 2005 (page 44)</i>	<p><i>Reporting to the Queensland Police Service and the Queensland Audit Office</i></p> <p><i>Once an agency or accountable officer suspects any loss to be a result of an offence under the Criminal Code or other Act, the agency or accountable officer must inform both the Queensland Police Service and the Queensland Audit Office</i></p> <p><i>If the loss involves suspected official misconduct, the matter must also be reported to the CMC. The CMC then has the option of investigating the matter itself or referring it to the Queensland Police Service and the agency.</i></p>

Source: QAO

Under the *Financial and Performance Management Standard 2009*, the accountable officer of a department or statutory body is required to develop and implement systems, practices and controls for the efficient, effective and economic financial and performance management of the department or statutory body.

## 1.4 Changes within the Queensland public sector

This performance audit has been undertaken within a changing operational and governance landscape. Recent machinery of government changes and public sector redundancies have resulted in changes to the organisational structures within Queensland Health and the Department of Housing and Public Works.

As in any industry or sector, staff redundancies have the potential to impact the internal control environment of agencies and, more broadly, may have implications for the ongoing prevention, detection and response to fraud. Each agency must ensure it is aware of, and anticipates, potential fraud risk exposures created by the changing operational and governance landscape.

In Queensland Health, national healthcare reforms have also meant that, since 1 July 2012, the responsibility for frontline management of health services has been devolved to 17 newly created statutory bodies, the Hospital and Health Services (HHS), each governed by a board. These boards are accountable to the local community they serve and to the Queensland Parliament.

Each HHS will be responsible for ensuring that it has an adequate governance and internal control framework, which includes fraud control. Specific fraud control activity may be new to many of the HHS as it may previously have been undertaken by Queensland Health's corporate office. Many of the key findings in this report apply equally to the HHS.

## 1.5 Audit objective, method and cost

The objective of the audit was to determine whether fraud risks are being managed effectively in selected Queensland government agencies. The audit assessed:

- how organisations prevent fraud from occurring in the first instance
- how organisations discover fraud as soon as possible after it has occurred
- how organisations respond appropriately to an alleged fraud when it is detected.

The audit was undertaken in accordance with Auditor-General of Queensland Auditing Standards, which incorporate Australian auditing and assurance standards.

The cost of the audit was \$500 000.

## 1.6 Structure of the report

The performance audit identified three key themes across the agencies which are critical to effective fraud control:

- **Setting the standard** – developing policies, management commitment, awareness and training
- **Tools and systems** – techniques for preventing and detecting fraud
- **Responding and monitoring** – assessing, reporting, investigating and monitoring.

The remainder of the report is structured against these themes:

- Chapter 2 examines how agencies **set the standards** to prevent fraud
- Chapter 3 examines how agencies use **tools and systems** to prevent and detect fraud
- Chapter 4 examines how agencies **respond to and monitor** fraud
- Appendix A contains agency responses to the report
- Appendix B contains the 15 best practice attributes in the form of a self assessment checklist
- Appendix C contains the detailed audit objective and approach.

## 2 Setting the standard

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### In brief

#### Background

Better practice fraud control includes a fraud control policy, plan and associated documentation such as fraud reporting procedures. The fraud control policy should establish a zero tolerance approach to fraud. This sends a signal that the agency treats fraud seriously and demands a culture that actively resists fraud. Better practice fraud control also requires clear guidance and the demonstrable and ongoing commitment of senior management. Fraud control should be incorporated into an agency's broader governance framework and complement other business practices and functions such as risk management, due diligence processes and internal audit.

Staff awareness and ability to recognise and report fraud are central to effective fraud control. A range of educational and awareness strategies, coupled with appropriate training, creates an environment that recognises fraud control as a priority, and not just as another compliance activity.

#### Conclusions

While each agency has addressed fraud control at a high level there are shortcomings in applying their fraud control strategies that compromise their ability to prevent fraud.

Each agency has clear channels for reporting fraud and other misconduct, but the lack of awareness training reduces their effectiveness.

#### Key findings

- Each agency has a fraud control policy and some processes for managing fraud risks
- In two agencies there is evidence of a well publicised zero tolerance attitude to fraud
- Two agencies had fraud control plans at the time of the audit
- There is little fraud specific training in any of the agencies
- Each agency has recently developed new fraud control documentation.

#### Recommendations

1. **All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.**

## 2.1 Background

Preventing fraud is the most efficient and effective approach to fraud control, and should be the focus for an agency when developing its fraud control framework. Once fraud occurs, damage has already been done to the agency. Even if all fraud losses and related costs can be recovered, the agency's reputation may be damaged, staff morale may suffer and the government and public may lose confidence in the agency.

Fraud prevention in public sector agencies starts with a zero tolerance approach that is clearly communicated to all agency staff. There should be no doubt among staff that fraud is treated seriously, and each agency should build a culture that actively resists fraud. This approach to fraud prevention is founded on the development of clear and effective policies, supported by demonstrable commitment from senior management.

Each agency needs an overarching fraud control strategy which should:

- incorporate a fraud control policy, implementation plan and associated procedures (e.g. investigations manual)
- cover the elements of prevention, detection and response
- be reviewed regularly, particularly where changes in the operating environment or organisational structure present new and emerging risks.

Once a fraud control policy has been developed, a fraud control plan is essential to give effect to the policy and to guide practical implementation of fraud control initiatives and prevention measures. Each agency should have a nominated fraud control officer, accountable for ensuring that the plan is put into action and that the results are regularly reviewed and evaluated.

Staff awareness and ability to recognise and report fraud are central to effective fraud control. A range of education and awareness strategies, coupled with appropriate training, is required to create an environment that resists fraud and embeds fraud control as part of broader corporate governance. Fraud awareness training should be provided to staff regularly and reinforced by email, intranet postings, newsletters and other targeted messaging. The main aim of training for fraud control is to ensure that all agency officers can recognise fraud red flags and identify and report potential wrongdoing in a timely way, so the agency can respond appropriately.

Staff who suspect fraud must be clear about the agency's expectations and reporting processes, and must know that they will be supported by the agency in responding to fraudulent activities.

## 2.2 Conclusions

Each of the three agencies has overarching fraud control policies and broad frameworks for risk management; however, none demonstrates an integrated and comprehensive approach to fraud prevention. A lack of clear responsibility for fraud control risks staff believing that somebody else must be responsible for fraud control implementation.

The agencies' broad code of conduct training is not specific enough to ensure that staff can recognise fraud in their workplace. Staff are aware of the reporting channels for fraud and other forms of misconduct, but if they do not recognise fraud it will not be reported. The lack of fraud reporting gives management false assurance that they are handling fraud risk effectively. If employees cannot identify fraud it may continue to go undetected, despite the agency's policies.

## 2.3 Findings

### 2.3.1 Developing and implementing policies

The Australian Standard AS 8001-2008 *Fraud and Corruption Control* recommends that public sector agencies use a fraud control plan to implement their fraud control strategies. A fraud control plan is an active document that assists those responsible to coordinate fraud control activities. A fraud control officer is responsible for ensuring that the plan is put into action.

Each agency has an overarching fraud policy and associated material including governance and general risk management frameworks. Two of the agencies also have specific policies aimed at the prevention of fraud and corruption and have identified a fraud control officer with responsibility for implementing the policy. Each agency has their fraud control policy online for access by members of the public. Two agencies expressly articulate a zero tolerance approach to fraud and promote this across their organisations.

One agency does not have a fraud control plan or a nominated fraud control officer. In the same agency until recently there was lack of clear ownership of the fraud control policy. A new fraud control policy and implementation standard are now being developed as part of a broader fraud control review project.

While there is general awareness across the three agencies that a fraud policy exists — in two agencies more than 80 per cent of staff surveyed were aware that their agency had fraud and corruption control policies — staff were less aware of who ‘owned’ the policy or how it was given effect.

This high level of awareness may be indicative of senior management’s commitment to fraud control and highlights the importance of regular communication to develop an informed staff and a culture that resists fraud. Agencies can provide employees with more information about the role of the fraud control officer and their functions.

There is evidence across the three agencies of stalled momentum for fraud control. For example, several key documents relating to fraud control were outdated and have not been revised in several years, although many were under review at the time of the audit and have since been finalised. Better practice suggests that key fraud documents such as the policy and the plan should be reviewed on a regular basis (at least every two years), and especially where there may be a change to the agency’s fraud risk profile. The risk of stalled momentum can be mitigated in part by having a fraud control officer with clear senior management support.

The optimum frequency of review depends on the agency’s operating environment, changing legislation, organisational structure and emerging risks. Two agencies have since committed to an annual review of their fraud control policies and the other agency will conduct a review at least every two years.

Each agency has a policy and process for dealing with public interest disclosures — which can include allegations of fraud — and each demonstrates a clear commitment to responding appropriately to reports of fraud.

There are shortcomings in each agency's implementation of fraud control policies which compromises the ability to prevent fraud. For example, in two of the three agencies there is a lack of documentation relating to fraud risk assessment processes and procedures. A lack of formal procedures may mean:

- fraud risk assessments are not being undertaken
- assessments are being conducted in an ad hoc way and may not address all relevant fraud risks
- fraud is not appearing on risk registers, and is not being flagged with management so that action can be taken.

### Case Study One

#### The need for clear escalation processes

In one agency, a fraud risk identified as presenting a high risk was added to the risk register. It was later removed from the register because the staff responsible for mitigating the risk did not know how to address it, and decided it was better to remove it as a risk than to leave it on the register and do nothing about it. The risk remains active and unaddressed.

This highlights the need to have an appropriate escalation process for fraud risks that exceed the capability or acceptable risk profile of the work unit involved. This escalation process should be known to all staff responsible for risk management and fraud control and should be part of fraud risk documentation and training for responsible staff.

Source: QAO

## 2.3.2 Management commitment

In each of the three agencies the fraud control policy is approved by the chief executive and receives apparent support from senior management.

In one agency there is limited awareness, even among senior executives, about who is responsible for implementing the fraud control policy. In this agency, there is a prevailing view among senior managers that fraud should not be treated as a discrete issue, but should be included in expected standards of conduct. This approach has led to confusion at the executive level about how fraud-related messages and activities are conveyed between committees and governance bodies. Lack of clarity in roles and communication can mean mutual assumptions are made that another group within the agency is responsible for fraud-related activity, and it fails to be performed by any group.

In another agency there is clear support for fraud control from the chief executive and senior executives, evidenced by regular communication of messages about fraud to staff across the agency. There is also clear responsibility for managing fraud: an integrity unit has established a profile across the agency and developed a framework to deal with integrity matters (including fraud) consistently.

Senior managers in one agency have promoted an ethical culture since a 2009 review of ethics and governance and have established a specific directorate to improve governance. Nearly 90 per cent of survey respondents in this agency believe that senior management is extremely or very committed to fraud prevention, and over eighty per cent consider the agency has appropriate measures to prevent and detect fraud.

Fraud is often detected when a new manager introduces internal controls to the business unit. It is important for agencies to be vigilant to mitigate against 'control fatigue' and to ensure there is adequate and regular review of business unit operations.

In one agency, senior managers who have recently joined show a good understanding of the importance of fraud control. They have introduced proactive governance measures to mitigate fraud risks such as the introduction of assurance programs, review of known risks (e.g. corporate card spending) and have developed ongoing transaction monitoring.

The frequency of review should be based on:

- a fraud risk assessment
- the length of time that managers have been in the same role
- associated cultural aspects such as the increasing use of 'work-arounds' to circumvent controls (as these can be antecedents to fraud).

There is a lack of formal accountability for fraud control and its linkage to individual performance: none of the agencies include fraud and corruption management in position descriptions or performance management systems or criteria for employees, even for those in the role of fraud control officer.

### 2.3.3 Enabling people: awareness, education and training

Each agency has measures to raise awareness about ethics and integrity, and they all provide induction training. Messages are delivered by different modes such as face to face briefings, in induction training, screen saver messages and communiques from senior executives. While these initiatives help shape the culture within each agency, there has been, until recently, limited evidence of the inclusion of specific fraud control messages.

Across all agencies there are examples where staff display limited understanding of the broader non-financial definition of fraud risk such as identity theft, providing false and misleading information and inappropriate access to and disclosure of certain information. Each agency provides training in official misconduct and general code of conduct but, until recently, limited specific fraud awareness training.

One agency recently implemented specific awareness training to support its fraud and corruption prevention policy. Previously general misconduct training incorporated some fraud related topics, but did not provide specific detail on the identification of potential fraud or fraud risk assessments. The new training recognises that, unlike general code of conduct training, fraud control training needs to be tailored to each business unit and should address the specific risks and functions of the business unit.

In the same agency, the integrity unit has a role in updating the code of conduct training and annual fraud risk awareness briefing documents based on fraud trends identified from previous fraud complaints.

In another agency, nearly three quarters of staff have received training about official misconduct in the last 12 months, and 82 per cent of all who received training found it extremely or very useful. Training material includes some references to fraud, but mainly emphasises official misconduct. Nonetheless, a large proportion of survey respondents stated that they had received memoranda, emails or other communications on fraud.

This contrasts with another agency where fraud awareness raising has been inconsistent and uncoordinated, although there are signs that more emphasis is now being placed on fraud control awareness. This agency has good channels for officers or third parties to report potential fraud and other alleged wrong-doing, and its integrity unit provides a centralised collection point for fraud complaints.

## Case Study Two

### Use of internal communications to reinforce standards

Examples of strong messages about fraud control to staff include:

- the chief executive of an agency emailed all staff to advise of updates to the Fraud and Corruption Prevention Policy and the introduction of the agency's new Fraud and Corruption Risk Assessment Guideline
- an agency's integrity unit provides regular updates on fraud and corruption control by screen saver messages, chief executive bulletins, posters and intranet
- induction training for senior executives at one agency now includes specific fraud control training from the agency's finance officers.

Each agency's fraud control plan should include information about the ways in which it will communicate with staff about fraud control.

Source: QAO

## 2.4 Recommendations

1. **All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self assessment.**

## 3 Tools and systems

---

### In brief

#### Background

Specific systems and tools are available to prevent and detect fraud. Fraud risk assessments and use of technology to analyse data provide a strategic basis for designing fraud control activities. Agencies should use employment screening and due diligence checking to mitigate risks in hiring employees and using third parties. Technology-based tools and systems such as data mining and analytical techniques are an effective and efficient way of preventing and detecting fraud. Promoting an organisation's use of these tools and systems deters fraud.

#### Conclusions

Agencies make limited use of formal fraud risk assessments. This limits their ability to prioritise and direct detection efforts because they may not have a complete picture of their fraud risk profile.

Unless they use routine data analysis techniques, agencies are exposed to detectable fraud. Greater use of technology-based tools can identify potential control gaps arising from staff redundancies and from blurred lines of accountability for fraud control following restructures. Use of data analytics offers greater insight into agency fraud risk profiles because large volumes of data can be continuously analysed, providing real-time information.

#### Key findings

- Fraud risk assessments have been irregular until recently
- Only one agency has a dedicated data analytic capability
- Fraud risk assessments and data analytics performed during the audit identified potential risks
- Hospital and Health Services are developing their fraud detection capability, but some will need support to do so.

#### Recommendations

Where the following are not in place, agencies should:

2. **conduct and regularly update their fraud risk assessments**
3. **implement routine data analytics over areas identified as inherently susceptible to fraud.**

## 3.1 Background

Each agency must understand where it is vulnerable to fraud by identifying and analysing fraud risks. Fraud risk assessments allow agencies to target specific fraud control initiatives for higher risk business systems and activities and to prioritise them. Fraud risk assessments need to be done when agencies undergo structural change or when they offer new services, functions or programs to the public.

Employment screening and due diligence checking provide early opportunities to make sure that individuals and external parties meet the agency's integrity standards. These checks should be used when outsourcing public sector functions or programs, and when officers are appointed to positions of trust with discretionary control over public spending.

Technology-enabled tools and systems include data mining and analytical techniques using real-time computer analysis. These can identify internal control weaknesses and suspected fraudulent transactions. They can continuously monitor high risk areas, and are less labour intensive than manual checking.

Once potentially suspicious activities and transactions are identified, agencies need processes for capturing, reporting, analysing and escalating them. Fraud reporting systems should include a central unit or officer for internal and external parties to report complaints and suspicions. This will support consistent assessment and action.

## 3.2 Conclusions

None of the three agencies uses specific fraud risk assessments to prioritise and direct fraud detection efforts and to identify key fraud risks. Without this they cannot know whether they are addressing the right risks and whether their controls are effective.

Agencies must strengthen their fraud control frameworks through a proactive and strategic use of data analysis. Data analytics are much less labour intensive than traditional control mechanisms and are less likely to be affected by organisational changes and loss of staff. Data analytics provide agencies with greater insight into their fraud risks and enable them to continuously analyse large volumes of data, providing real-time information.

## 3.3 Findings

### 3.3.1 Prevention: fraud risk assessments

Two of the three agencies audited made limited use of fraud risk assessments and have not used them as a strategic driver for fraud control initiatives. Those conducted have been ad hoc and not part of a programmed approach to fraud control.

In one agency the last program of fraud risk assessments was undertaken in 2009, despite its fraud control policy requiring that assessments be done annually. Better practice suggests that fraud risk assessments should be conducted at least every two years, and more regularly where there are significant changes to the operating environment. The longer the period between assessments, the greater the disconnect between the agency's fraud risk profile and its fraud control activities.

One agency recently developed standards for fraud risk assessment and is training managers in conducting them. Managers of business functions are being empowered to understand fraud risks and are accountable for mitigating them. Fraud risk assessments have now been completed for each departmental service area and will also be periodically audited by internal audit.

In all agencies fraud control is generally based on past experience rather than on a robust assessment of vulnerable areas and potential fraud risks. With this approach detection efforts may not focus on the areas that pose the most serious fraud threats to the agency. Lack of fraud risk assessments to support detection efforts may also limit the effectiveness and monitoring of detection controls. The controls may not be directed to the right areas, and may not be adequately designed to identify fraud.

We undertook a high level fraud risk assessment of specific business activities in two of the agencies audited. This included:

- interviews and workshops with key staff to gain an understanding of the processes and procedures involved in the activities
- a process review of the activities
- identification of high level fraud risks in the processes
- assessment of the effectiveness of internal controls to mitigate those risks.

Our fraud risk assessments highlighted a number of key fraud risks inherent in the business activities examined:

- favouritism towards certain suppliers
- improper access to or release of confidential information
- secret commissions from suppliers
- falsification of documents
- inappropriate use of discretion to influence an outcome
- improper diversion of funds.

As well as providing specific recommendations for improved fraud controls, the fraud risk assessments provided broader benefits. They enabled participants to identify innovative fraud mitigation measures for their agencies, including the use of data analytics (section 3.3.3 below) and fraud awareness campaigns. They brought together representatives of different business units, encouraging information sharing and establishing new communication channels for governance.

### 3.3.2 Prevention: employment screening and due diligence

Each agency conducts employment screening of prospective staff which generally includes referee checks, employment history checks and, in some circumstances, criminal history checks. The same rigour, however, is not applied to staff on temporary contracts due to the costs and time involved.

Each agency carries out supplier and contractor due diligence checks, with one agency requiring that its staff in procurement roles — an area traditionally susceptible to fraud risk — sign annual declarations of compliance with internal policies.

### 3.3.3 Detection: analysing data

Fraud risk assessments and data analytics are complementary tools that can inform the fraud control program.

Data analytics identifies hidden patterns and possible anomalies, and is particularly applicable to large volumes of data which may be uneconomic or technically difficult to analyse by other means. Data analytics helps increase efficiency in performing the traditional assurance role, and also delivers deeper insight and greater value to the agency. Data analytics can provide a retrospective view (what has happened in the past) through to real-time and ongoing monitoring to inform management decisions (continuous monitoring).

Data analytics can be employed to:

- test for suspicious activities or anomalous transactions (e.g. potential fraud)
- identify areas where there are opportunities for efficiency improvements (e.g. rostering)
- detect overpayments and cost recovery opportunities for the agency (e.g. duplicate invoicing)
- facilitate the risk ranking of particular transactions or to target potential operational hot spots (e.g. particular business units or personnel).

Data analytics also has a preventative role as it can identify control gaps that may be vulnerable to fraudulent conduct.

Data analytics can be used in conjunction with fraud risk assessments, which can identify the types of data analytics tests of most value (e.g. where there is greatest fraud risk) and the potential anomalies they could highlight (e.g. major theft).

Only one agency has a dedicated data analytics capability, but this capability is not widely known throughout the agency. The business unit responsible for data analytics works closely with the integrity unit, which identifies matters that may indicate misconduct. The agency's data analytics function could be enhanced by adopting a strategic risk-based approach, using fraud risk assessments to identify high risk areas to be tested.

While the two other agencies use some electronic data analysis (e.g. in procurement), they make limited strategic use for fraud detection. In one agency the ability to use data analytics effectively is limited by the number of systems and information technology platforms operating in its diverse business areas. The other agency has been developing its capabilities in Computer Assisted Auditing Techniques (CAATs) to analyse transaction data for anomalies.

## Case Study Three

### Using data analytics to identify risk of fraud

To highlight the potential of data analytics, we applied it to procurement and payroll data sets from the three agencies. We used standard tests designed to identify common anomalies:

- employees paid but with no hours recorded
- employees with more than 80 hours in a single pay period
- tenders received after closing date and accepted
- lowest tender bid not accepted
- payments exceeding purchase order value
- duplicate payments made to vendors
- purchase orders created after payment
- purchase orders changed in value by more than ten per cent
- invoices entered on a weekend or public holiday.

The tests also identified potential cost savings, such as large volumes of low value payments made to the same vendor.

Initial findings from any data analysis must be reviewed in light of each agency's operations and internal procedures. The exceptions identified do not always reflect fraudulent activity, as they may be legitimate transactions. But data analytics tests can readily highlight irregularities, potential control gaps and areas that may reveal underlying control weaknesses.

Source: QAO

### 3.3.4 Results of data analytics

Each agency examined the findings from data analytics in further detail with internal subject matter specialists. All the exceptions identified in the data analytics were found by the agencies to be legitimate transactions.

Two of the agencies are improving their in house data analytics capability. One had conducted a review of the system examined during the audit as part of its annual internal audit plan. The other conducts payroll analysis which has reduced tax file number anomalies from more than 500 two years ago to approximately 20, all of which are reviewed and corrected fortnightly. This agency will adapt some of the tests run during the audit to increase its capability.

One agency reported that existing controls were sufficient to manage the potential risks identified by the data analytics. Some of the findings will be considered in the agency's Internal Audit continuous control monitoring initiative.

The results of the data analytics and the agencies' detailed investigations will be re-examined by Queensland Audit Office in the next financial audit cycle.

## 3.4 Recommendations

Where the following are not in place, agencies should:

2. **conduct and regularly update their fraud risk assessments**
3. **implement routine data analytics over areas identified as inherently susceptible to fraud.**



## 4 Responding and monitoring

---

### In brief

#### Background

An agency's response to a suspected fraud will depend on the extent and seriousness of the fraud and on the availability of relevant information and evidence, but it usually requires an investigation. Agencies need clear and well documented investigative processes, and access to experienced and skilled investigators. They also need to report to the relevant external agencies.

Agencies must rely not only on their experience of fraud to improve internal control. They should also analyse data on suspected or actual frauds to identify control gaps and find a way to eliminate them.

#### Conclusions

The three agencies have centralised approaches to coordinating fraud reporting, assessment and investigation. This means that agency responses to reports of fraud are consistent. Statutory reporting requirements are met, demonstrating the agencies' commitment to accountability.

However, none of the agencies systematically reviews fraud cases, trends and data to inform the overarching fraud control program to make sure that it reflects the agency's specific risks. A siloed approach to gathering fraud control data that does not collate all relevant information limits the ability to identify and address all relevant fraud risks.

#### Key findings

- Two agencies have dedicated integrity units that handle all suspected fraud complaints; both are building their profile within their agencies
- Each agency has the ability to track investigations and recommendations made to business units and provide statutory reports to external agencies
- Agencies do not make effective use of fraud data and trends to inform the ongoing development of their fraud control programs.

#### Recommendation

4. **Where not in place agencies should use their fraud data to inform ongoing development of fraud control programs.**

## 4.1 Background

### 4.1.1 Assessment

Where a suspected fraud is detected or reported, the agency's response mechanisms should be triggered and the matter referred to the appropriate unit or officer for assessment. Whilst the nature of the response will be determined by the extent and seriousness of the fraud and the availability of relevant information and evidence, it is likely that an investigation will be necessary. This assessment is usually the responsibility of the integrity unit.

### 4.1.2 Investigations and statutory reporting

Agencies need clear and well documented investigative processes and access to skilled investigators. Many larger agencies have dedicated integrity units with in house investigative capability, whereas others may need to source expertise when needed. As an investigation may lead to prosecution, the investigation policy and process must reflect the legislative, policy and practical requirements necessary for a successful prosecution.

Where an investigation uncovers fraud, the agency should:

- maximise the recovery of stolen funds or property
- report the matter to the appropriate external agency
- identify and address the control weaknesses which permitted the fraud to occur.

### 4.1.3 Monitoring

Fraud control monitoring should ensure that:

- control weaknesses are addressed by the relevant business unit
- results of investigations are fed back into the overall fraud control program
- audit and risk committees are provided with information consistent with their charters.

Review of the fraud control program should:

- reflect changes in the operating environment, including legislative and administrative changes
- be open, comprehensive and inclusive to reflect the agency's fraud risk profile
- identify fraud trends and use them to update education and training sessions and to reinforce internal controls
- use data analytics for real-time monitoring of fraud trends and to inform the broader fraud control review process.

## 4.2 Conclusions

The three agencies have centralised integrity units or a single point fraud control officer with standardised processes for receiving complaints and investigating suspected fraud. This creates a consistent approach to fraud reporting, assessment and investigation and supports reporting to management and to external agencies.

The agencies have only recently begun systematically reviewing fraud cases. The lack of collated fraud data and investigation results means that senior managers do not have timely and accurate reporting to help them identify and address all relevant fraud risks.

Unless fraud-related matters are routinely reported to audit and risk committees, the committees will not have a realistic view of the agency's exposure and the maturity of its systems to prevent, detect and respond to fraud.

## 4.3 Findings

### 4.3.1 Investigations

Two of the agencies have dedicated integrity units which handle all suspected fraud complaints. These units provide a central point for assessing, dealing with and monitoring fraud matters. The third agency has a fraud control officer, but other managers are familiar with the requirements for dealing with fraud and other types of misconduct. This agency uses internal investigators or engages qualified and experienced investigators to conduct investigations. Investigators follow the approach outlined in the Crime and Misconduct Commission's *Facing the Facts*. Each agency demonstrates knowledge of the requirements of the *Public Interest Disclosure Act 2010*, and one also has resources dedicated to public interest disclosures and whistleblower liaison.

One agency has processes, well understood by staff, for reporting fraud internally or externally. Staff are familiar with the role of the integrity unit in investigating complaints of fraud. The integrity unit has developed documentation for a consistent approach to responding to suspicions of fraud and also follows the investigation approach outlined in *Facing the Facts*. The integrity unit has a role in updating code of conduct training and annual fraud risk awareness briefing documents based on fraud trends.

Investigations are carried out either internally or by external qualified investigators; the integrity unit's officers are trained in investigations. The integrity unit annually reviews investigations conducted in the previous year and tracks progress on implementing any recommendations.

Although employees at another agency were generally aware that they must report suspicions of fraud internally, the integrity unit has only recently promoted its profile within the agency. This, coupled with a lack of clear understanding of fraud across the agency, may mean that some fraud has not been reported. The integrity unit is staffed with experienced investigators and, because it uses the CMC's database for capturing all misconduct information, has the ability to register and refer fraud matters to the CMC and to monitor its assessments.

### 4.3.2 Monitoring and statutory reporting

Until recently, only one agency has kept a specific register of fraud matters and systematically reviewed fraud cases to identify trends and inform the overarching fraud control program. There is scope for agencies to improve the communication of outcomes of investigations and lessons learnt to their business units.

The integrity units in two of the agencies maintain a record of all open and closed investigations and action plans. They maintain statistical data on investigations and monitor development and implementation of action plans by business areas to remedy control weaknesses and gaps. One agency's integrity unit records and tracks all recommendations following investigations, while another is reviewing its internal fraud reporting, responsibility structures and how its fraud control program is monitored and evaluated.

This agency also uses data analysis software for ongoing monitoring of business activities and transactions, and provides some fraud-related reports to business area managers.

Each agency is aware of the legislative requirements to refer suspected or actual fraud to relevant agencies.

Each agency reports fraud matters to the audit and risk committee. However, most reporting is ad hoc, rather than as a standing agenda item. One agency's integrity unit has recently started reporting high level statistics of reported and investigated misconduct, including trends in broad categories of misconduct, to the audit committee on a six monthly basis.

The Fraud and Corruption Control Policy of another agency requires that significant fraud concerns be reported to the chief executive and the chair of the audit and risk management committee.

## 4.4 Recommendations

- 4. Where not in place agencies should use their fraud data to inform ongoing development of fraud control programs.**

# Appendices

<b>Appendix A - Comments .....</b>	<b>29</b>
<i>Auditor-General Act 2009</i> (Section 64) – Comments received.....	29
Comments received and response to recommendations .....	30
<b>Appendix B – Fundamental attributes of a fraud control program .....</b>	<b>41</b>
<b>Appendix C - Audit details .....</b>	<b>45</b>
Audit objective .....	45
Reasons for the audit.....	45
Performance audit approach.....	45



# Appendix A - Comments

## *Auditor-General Act 2009 (Section 64) – Comments received*

### Introduction

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to Queensland Health, the Department of Housing and Public Works, the Public Trustee of Queensland, Metro North, Metro South, Gold Coast, Cairns and Hinterland, Sunshine Coast and Townsville Hospital and Health Services with a request for comments.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these agencies.

Comments received

Response provided by the Director-General, Queensland Health on 06 March 2013



## Responses to recommendations

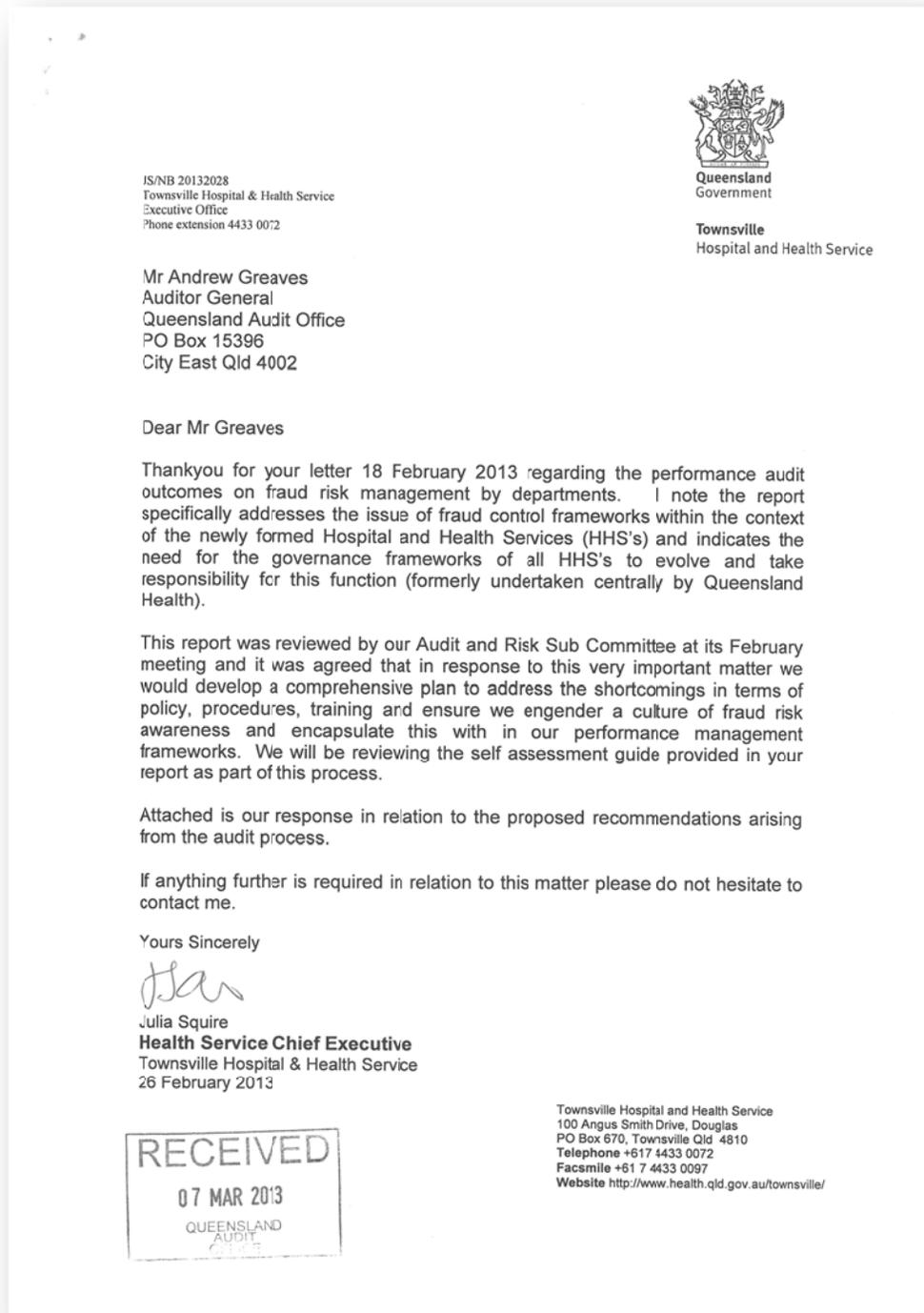
Response to recommendations provided by Queensland Health on 06 March 2013.

### Department of Health responses to recommendations

Recommendation	Agree / Disagree	Timeframe for Implementation	Additional Comments
1. All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.	Agree	Implemented	<p>The Department of Health commenced a Fraud Risk and Control Improvement Project in September 2012 (completed December 2012).</p> <p>The outcomes of this project have led to a significant improvement to Departmental fraud risk management.</p> <p>All items in the self-assessment have been addressed and will be regularly reviewed under the Fraud and Corruption Working Group chaired by the Chief Governance Officer.</p>
Where the following are not in place, agencies should:			
3. conduct and regularly update their fraud risk assessments.	Agree	Implemented	<p>The Chief Governance Officer and Chief Risk Officer as part of the Fraud and Corruption Working Group maintain and review a fraud risk profile and risk register.</p> <p>Since October 2012 nineteen (19) fraud risk assessment workshops have been conducted across the Department.</p>
4. implement routine data analytics over areas identified as inherently susceptible to fraud.	Agree	Implemented	<p>The Data Analytics Unit is looking to expand their capability and has a membership role in the Fraud and Corruption Working Group.</p> <p>The Chief Governance Officer is responsible for ensuring that the data analysis program focuses on key risk areas including fraud target at-risk areas.</p>
5. use their fraud data to inform ongoing development of fraud control programs.	Agree	Implemented	<p>The focus of the Fraud and Corruption Working Group is to share recent fraud related incidents (including fraud trends), risk assessments, risk registers, data analytics and best practice to ensure all parts of the organisation have adequate fraud control programs.</p>

## Comments received

Response provided by the Health Service Chief Executive, Townsville Hospital and Health Service on 07 March 2013.



## Responses to recommendations

Response to recommendations provided by Townsville Hospital and Health Service on 07 March 2013.

Responses to recommendations			
Recommendation	Agree/ Disagree	Timeframe for Implementation	Additional Comments
1. All public sector agencies should assess their fraud control program against the better practice principles in this report, and as required, implement a plan to address deficiencies identified by this self assessment	Agree	Assessment against best practice guidelines 30 March 2013 Action plan for deficiencies identified 31 April 2013	The action plan will incorporate elements that can be delivered within a specific time frame (eg policy development) whilst other elements are of a continuous nature as they seek to engender a cultural shift in the awareness of staff across the HHS)
Where the following are not in place			
3. Conduct and regularly update their fraud risk assessments	Agree	Ongoing process of review	The THHS has a comprehensive internal audit program for 2012-13 currently being undertaken by PWC. This program will assist the THHS to identify significant areas of risk relating to fraud .
4. Implement routine data analytics over areas identified as inherently susceptible to fraud	Agree	Ongoing process of review	As above data analytics are used by the internal audit firm
5. Use their fraud data to inform ongoing development of fraud control programs	Agree	Ongoing process of review	Outcomes from the internal audit program will inform the THHS control programs

## Comments received

Response provided by the Public Trustee of Queensland on 11 March 2013.

**The Public Trustee**  
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444 Queen Street Brisbane Qld 4000  
GPO Box 1449 Brisbane Qld 4001



**RECEIVED**  
11 MAR 2013  
QUEENSLAND  
AUDIT  
OFFICE

7 March 2013

Mr Andrew Greaves  
Auditor-General  
Queensland Audit Office  
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CITY EAST QLD 4002

Phone: 07 3213 9213  
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Officer: Peter Carne  
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Ausdoc: DX239

Dear Mr Greaves

**Performance audit on fraud risk management by departments**

I am writing to you in relation to the performance audit completed by the Queensland Audit Office on Fraud Risk Management by Departments. Thank you for providing me with a copy of the Report to Parliament (the report) and the opportunity to respond. It is a valuable report, and I intend to implement all recommendations made in it. Indeed much work has been advanced in that regard.

The performance report was very much focussed on the governance structures (including planning and risk management) necessary to prevent fraud within Government agencies. These are essential components in order to reduce the potential for fraud. The Public Trust Office standing as it does as a fiduciary for many clients has very clear key fraud risk mitigation strategies to prevent fraud in respect of client and corporate assets:-

- The implementation of effective and adequate internal controls and continued management review of the operation of those controls;
- The independent internal and external review regimes; and
- An ongoing focus by management of fraud control and training and awareness of staff in fraud identification, assessment, mitigation and escalation processes.

It was pleasing to note that no substantiated fraud had been discovered nor were any ineffective control measures highlighted by your review. The Public Trustee values each of the recommendations made (see *Appendix A* for our response to recommendation) with a view of further enhancing our control environment in respect of fraud management.

Should you require any further information, your office may wish to contact Mrs Caroline Hannigan, A/Director Governance & Executive Directorate on 07 3213 9160 or via email caroline.hannigan@pt.qld.gov.au

Yours sincerely



**Peter Carne**  
Public Trustee of Queensland

**SERVICES**

Free Will making service  
Enduring Powers of Attorney

Disability Services  
Deceased Estate Administration

Trusts  
Probate Services

Real Estate Auctions  
Motor Vehicle Auctions

## Responses to recommendations

Response to recommendations provided by the Public Trustee on 11 March 2013.

### Appendix A – Response to recommendations

Recommendation	Agree / Disagree	Timeframe for Implementation	Additional Comments
<p>1. All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.</p>	<p>Agree</p>	<p>Implemented as at 30 June 2012</p>	<p>PT has had in place a Fraud and Corruption Control Policy for a number of years which was last reviewed in June 2012. This policy is to be reviewed annually going forward. As part of the annual review, relevant policies and procedures will be benchmarked against better practice material to ensure that the Office is cognisant of emerging issues and trends in fraud control.</p>
<p>Where the following are not in place, agencies should:</p> <p>3. conduct and regularly update their fraud risk assessments.</p>	<p>Agree</p>	<p>Implemented as at 31 December 2012</p>	<p>As part of our risk management framework, fraud risk has been identified and highlighted within each of the relevant program's risk registers. Fraud risk has been identified as a significant material risk event and has been documented as a Material Business Risk. The fraud risk assessment is incorporated within our overall risk assessment process which is reviewed and updated periodically. Additionally, staff are periodically trained on how to identify risk (including fraud risk) and to assess/mitigate such risk.</p> <p>In line with this recommendation a process for conducting detailed fraud risk assessments will be developed in consultation with the Audit and Risk Management Committee as part of the larger risk management framework.</p>
<p>4. implement routine data analytics over areas identified as inherently susceptible to fraud.</p>	<p>Agree</p>	<p>Implemented as at 31 January 2013</p>	<p>PT, over the years, has implemented various data analytical procedures and processes to review both financial and operational data with the primary objective being to identify and investigate any unusual or suspicious transactions. To further support this activity, the Audit and Evaluation Unit's capability has recently been enhanced with the procurement of a specific data analytical tool which will assist in analysing greater volumes of data. Data analytics will continue to be developed in line with PT's fraud risk assessments and other business requirements.</p>

## Responses to recommendations

Response to recommendations provided by the Public Trustee on 11 March 2013.

Recommendation	Agree / Disagree	Timeframe for Implementation	Additional Comments
<p>5. use their fraud data to inform ongoing development of fraud control programs.</p>	<p>Agree</p>	<p>Implemented</p>	<p>In regards to the utilisation of fraud data, PT now maintains a Fraud Register which will be reported to the Executive Management Group. The Executive Management Group will assess the fraud data and develop, in consultation with operational managers, appropriate strategies to address any concerns. The fraud data is also considered in developing the Strategic and Annual Internal Audit Plans. Further to this, in investigating allegations of Fraud, investigators are required to identify any systemic issues and recommend appropriate remedial action.</p> <p>The recommended improvements are uploaded into our audit management software (TeamCentral) for automated monitoring and review to ensure agreed actions are being implemented and escalated as appropriate. The Audit and Risk Management Committee receives regular reports on the appropriateness and timeliness of the implementation of agreed actions.</p> <p>As part of an ongoing review of our fraud control activities, PT contacts Public Trust Offices in other jurisdictions after significant fraud events to understand and apply to our context any systemic learnings and identification of new potential threats. The activity provides valuable insight into how the fraud was perpetrated to reassess our control environment in response to those vulnerabilities. After two significant threats in other jurisdictions, our Regional Managers were provided with detailed information as to how the frauds were perpetrated so that they could also be conscious of the issues in performing their management functions.</p>

## Comments and responses to recommendations received

Response provided by the Chief Executive Officer, Sunshine Coast Hospital and Health Service on 12 March 2013.

### Responses to recommendations

Response to recommendations provided by Mr K Hegarty, Chief Executive Officer, Sunshine Coast Hospital and Health Service

Recommendation	Agree / Disagree	Timeframe for Implementation	Additional Comments
1. All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.	Agree	By 30 June 2013	<p>The Sunshine Coast Hospital and Health Service will formally establish a Fraud Control Strategy encompassing a detailed plan, policy, procedures and guidelines.</p> <p>The Plan will incorporate:</p> <ul style="list-style-type: none"> <li>• A strong focus on prevention</li> <li>• Nominate a fraud control officer and fraud control committee</li> <li>• Commitment from Senior Management in communicating a zero tolerance approach to fraud</li> <li>• Increased awareness through delivery of targeted and tailored training programs including linkage back to current code of conduct program.</li> </ul>
Where the following are not in place, agencies should: 3. Conduct and regularly update their fraud risk assessments.	Agree	Ongoing	<p>The SCHHS currently assesses fraud risk informally, through the financial management assurance program, a newly established (in 2012) payroll assurance program, monitoring any incidents of minor thefts as they are reported (i.e. usually patients valuables)</p> <p>If any risks are identified they are dealt with immediately however there is also an ability to record all risks in current SCHHS risk register if necessary, with key accountable officers appointed.</p>
4. Implement routine data analytics over areas identified as inherently susceptible to fraud.	Agree	Ongoing	<p>Data analytics currently conducted on internal financial controls as part of the annual Financial Management Assurance program.</p> <p>This has now been extended to cover the SCHHS payroll related processes with the appointment of a Payroll Assurance Officer.</p> <p>The SCHHS is currently in the process of implementing an Internal Audit hub with two other HHS.</p>
5. Use their fraud data to inform ongoing development of fraud control programs.	Agree	By 30 June 2013	We will incorporate this into the Fraud Control Strategy and Plan.

1

## Comments received

Response provided by the Director-General, Department of Housing and Public Works on 12 March 2013.



Queensland  
Government

Department of  
Housing and Public Works

Ref: HPW00475/13

12 MAR 2013

Mr Andrew Greaves  
Auditor-General  
Queensland Audit Office  
PO Box 15396  
City East Qld 4002

Dear Mr Greaves

Thank you for your letter dated 18 February 2013 concerning the proposed report on the performance audit on fraud risk management, and your request for comments on both the report and recommendations.

Two minor changes to the report are proposed.

It is proposed that the sentence regarding the results of the data analytics on page 21 of the report is amended to read '*All the exceptions identified in the data analytics were found by the agencies to be either legitimate transactions or invalid due to incorrect data analytics*'. It is felt that this more accurately reflects QBuild's and Project Services' findings from their investigation of the data analytics results.

Following earlier departmental feedback, a comment on page 25 of the report about responding and monitoring was amended to reflect that '*... one agency has kept a specific register of fraud matters and systematically reviewed fraud cases to identify trends and inform the overarching fraud control program*'. It is noted that the summary about responding and monitoring on page 3 of the report, where it states '*none keeps a specific register of fraud-related matters or monitors fraud trends*', also requires an amendment to match the above comment.

The Department of Housing and Public Works supports the recommendations made. Please find attached the completed recommendations table for your information.

Should you require any further information, your officers may wish to contact Ms Robyn Turbit, Assistant Director-General, Corporate Services on telephone 07 3224 6307.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Neil Castles'.

Neil Castles  
Director-General

Encl

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## Responses to recommendations

Response to recommendations provided by the Department of Housing and Public Works on 12 March 2013.

### Responses to recommendations

Recommendation	Agree / Disagree	Timeframe for Implementation	Additional Comments
1. All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.	Agree	The Department of Housing and Public Works' fraud control program will be assessed against the better practice principles in QAO's report and a plan implemented to address deficiencies by 30 June 2013.	
Where the following are not in place, agencies should:	Agree	Fraud risk assessments will be conducted annually (as part of the assessment of all risks) during March to June as part of the department's annual business planning cycle	
3. conduct and regularly update their fraud risk assessments.			
4. implement routine data analytics over areas identified as inherently susceptible to fraud.	Agree	Targeted maturity according to roadmap by 30 June 2015.  Access to data analytics for SAP ECC transactions will be negotiated with the shared service provider.	A roadmap covering three years has been developed to progress data analytics maturity within the department.
5. use their fraud data to inform ongoing development of fraud control programs.	Agree	Fraud control programs will be assessed by 30 September each year, following the annual review of fraud matters across the department for the previous financial year.	

## Comments and responses to recommendations received

Response provided by the Chief Executive, Metro South Hospital and Health Service on 13 March 2013.



**Metro South Health**

Enquiries to: Metro South Health  
 Telephone: 3156 4949  
 Our Ref:  
 Date: 13 March 2013

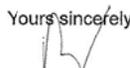
Mr Andrew Greaves  
 Auditor-General  
 Queensland Audit Office  
 PO Box 15396  
 CITY EAST QLD 4002

Dear Mr Greaves

I refer to your letter dated 18 February 2013, requesting a response to recommendations to be included in a report to Parliament on fraud risk management by departments. My responses are included in the table below.

Recommendation	Agree/ Disagree	Timeframe for implementation	Additional Comments
1. All public sector agencies should assess their fraud control program against the better practice principles in this report and, as required, implement a plan to address deficiencies identified by this self-assessment.	Agree	30/6/2013	Metro South Hospital and Health Service (MSH) recognises the need to have a strong fraud control program. This is evidenced through the creation of an Internal Audit function that was in place from 1/7/12 when MSH was created as a separate statutory body. In addition, MSH is currently developing a Fraud Policy and Fraud Control Program and this is expected to be in place by 30 June 2013. Requirements related to recommendations 3, 4 and 5 will be incorporated into the Fraud Control Program.
Where the following are not in place, agencies should:			
3. conduct and regularly update their fraud risk assessments.	Agree	30/6/2013	
4. implement routine data analytics over areas identified as inherently susceptible to fraud.	Agree	31/12/2013	
5. use their fraud data to inform ongoing development of fraud control programs.	Agree	31/12/2013	

Yours sincerely

  
**Dr Richard Ashby**  
 Chief Executive  
 Metro South Hospital and Health Service

Office	Postal	Phone
Metro South Health Executive Services	PO Box 4043 Eight Mile Plains QLD 4113	61 7 3156 4949

## Appendix B – Fundamental attributes of a fraud control program

Figure B1 includes indicative questions to assist agencies to design and assess their fraud control program. This is not an exhaustive list of questions for establishing, maintaining or assessing a fraud control framework: these questions have been compiled in reference to this audit's 15 attributes of a better practice fraud control framework and the audit findings.

Each agency should build on these fundamentals and tailor the program to its specific risks and operating environment. When designing a fraud control program, agencies should also draw on detailed sources of better practice fraud control such as:

- the Crime and Misconduct Commission *Fraud and corruption control: guidelines for best practice 2005*
- Australian Standard AS 8001-2008 *Fraud and Corruption Control*
- the Australian National Audit Office *Fraud Control in Australian Government Entities - Better Practice Guide 2011*.

Each agency's fraud control program should be reviewed regularly to reflect changes in the agency's operating environment, functions or services provided and where it is subject to organisational change.

**Figure B1**  
**Fraud control self-assessment guide**

Fraud control attribute	Assessment criteria
<p><b>Fraud control strategy</b></p> <p>The fraud control strategy should be holistic and should establish the agency's policy as well as a plan that sets clear actions and targets.</p>	<ul style="list-style-type: none"> <li>• Has the agency developed a fraud control policy, implementation plan and associated procedures?</li> <li>• Do the fraud control policy and plan establish clear objectives and assign specific actions?</li> <li>• Is the fraud control program subject to regular review and updates?</li> </ul>
<p><b>Senior management commitment</b></p> <p>Commitment is required from senior management to establish fraud control expectations and to sustain momentum for planned activities.</p>	<ul style="list-style-type: none"> <li>• Does the agency clearly set the tone at the top and communicate a zero-tolerance approach to fraud?</li> <li>• Has the agency designated a fraud control officer with responsibility for implementing the fraud control plan?</li> <li>• Has management provided adequate resources to implement the planned fraud control initiatives?</li> </ul>
<p><b>Ethical framework</b></p> <p>An ethical framework consisting of the code of conduct and ethics and integrity documentation is central to establishing a culture that resists fraud.</p>	<ul style="list-style-type: none"> <li>• Has the agency developed and delivered a code of conduct and ethics awareness and education program?</li> <li>• Are ethical considerations included in staff performance reviews?</li> <li>• Does the agency regularly assess its culture (e.g. through staff surveys)?</li> </ul>
<p><b>Fraud awareness</b></p> <p>Awareness initiatives contribute to staff and third party alertness to fraud and their ability to identify and report it.</p>	<ul style="list-style-type: none"> <li>• Does the agency deliver tailored fraud control training to relevant staff?</li> <li>• Is there regular and ongoing communication with all agency staff about fraud control initiatives and activities?</li> <li>• Are staff encouraged to report suspicions of fraud?</li> </ul>
<p><b>Fraud risk assessment</b></p> <p>Fraud risk assessments can identify weaknesses in controls and enable the agency to focus detection resources to high risk areas.</p>	<ul style="list-style-type: none"> <li>• Does the agency conduct an annual fraud risk assessment with more regular reviews for areas considered high risk?</li> <li>• Have fraud risk registers been developed and are they regularly monitored and reviewed?</li> <li>• Are the results of fraud risk assessments used to improve internal control weaknesses?</li> </ul>
<p><b>Internal control</b></p> <p>Internal controls should specifically address the identified fraud risk and should be regularly reviewed, particularly in times of rapid organisational change.</p>	<ul style="list-style-type: none"> <li>• Are the internal controls matched to specific risks and is their effectiveness regularly reviewed?</li> <li>• Are internal policies and procedures documented and promoted to relevant staff?</li> <li>• Are internal controls reviewed in times of rapid organisational change or restructure?</li> </ul>
<p><b>Line manager responsibility</b></p> <p>Line managers set the tone within their teams and should communicate to staff the importance of fraud prevention, detection and response.</p>	<ul style="list-style-type: none"> <li>• Are line managers aware of their responsibilities for fraud control and for ensuring adherence to internal controls?</li> <li>• Has the agency established an appropriate delegations framework and is it promoted to relevant staff?</li> <li>• Do line managers hold regular discussions with staff about ethical dilemmas that include fraud case studies?</li> </ul>

Fraud control attribute	Assessment criteria
<p><b>Responsibility structures</b></p> <p>There must be clarity in the roles performed by staff responsible for fraud control and they need to be held accountable for implementation of the plan.</p>	<ul style="list-style-type: none"> <li>• Are there clear accountabilities for implementation of all aspects of the fraud control strategy across operations?</li> <li>• Have staff responsible for fraud prevention, detection and response been adequately trained (e.g. in investigations)?</li> <li>• Does the fraud control officer monitor the performance of staff responsible for implementation of the fraud control plan?</li> </ul>
<p><b>Internal audit</b></p> <p>Internal audit performs an important role in testing the effectiveness of fraud controls and ensuring exposures to fraud are limited.</p>	<ul style="list-style-type: none"> <li>• Is the internal audit function adequately resourced and does it have access to executive management and the audit committee?</li> <li>• Are fraud risk registers subject to internal audit and are audit findings used to inform and improve the fraud control strategy?</li> <li>• Are internal audits designed and conducted with consideration of potential fraud risks?</li> </ul>
<p><b>Employment screening</b></p> <p>Agencies can limit the potential for fraud by employees by ensuring that prospective staff meet the agency's ethical profile.</p>	<ul style="list-style-type: none"> <li>• Does the agency conduct criminal history and disciplinary checks on prospective employees?</li> <li>• Does the agency conduct reference and qualifications checks on prospective employees?</li> <li>• Does the agency conduct screening on existing employees periodically, or upon promotion?</li> </ul>
<p><b>Third party due diligence</b></p> <p>Due diligence enables an agency to protect itself from external parties that could potentially damage its reputation.</p>	<ul style="list-style-type: none"> <li>• Is there an adequate risk assessment process when the agency intends to contract with third parties (including how the third party was identified)?</li> <li>• Does the due diligence process include reference and finance checks and are third parties provided information about the agency's conduct standards?</li> </ul>
<p><b>Fraud detection program</b></p> <p>The strategic use of information systems to detect suspected fraud is an efficient and effective fraud control measure.</p>	<ul style="list-style-type: none"> <li>• Does the agency employ a range of detection mechanisms?</li> <li>• Does the detection program prioritise areas based on thorough fraud risk assessments?</li> <li>• Does the agency employ strategic and proactive data analysis techniques that enable wide coverage across high risk areas?</li> </ul>
<p><b>Fraud reporting systems</b></p> <p>There must be formal and well promoted internal and external reporting mechanisms to enable and encourage staff and external parties to report suspected fraud.</p>	<ul style="list-style-type: none"> <li>• Has the agency established and promoted internal and external fraud reporting processes?</li> <li>• Is there a dedicated process to manage Public Interest Disclosures and has this been widely promoted to staff?</li> <li>• Does the agency provide various reporting channels such as online, face to face, in written form and via telephone hotlines?</li> </ul>
<p><b>Investigations</b></p> <p>Once a fraud is detected it must be investigated professionally and with regard to potential future legal proceedings and evidentiary requirements.</p>	<ul style="list-style-type: none"> <li>• Is there a process to receive, assess, investigate, prosecute, monitor and record allegations of fraud?</li> <li>• Does the agency have access to qualified and experienced investigators?</li> <li>• Does the agency review and communicate investigation outcomes and implement lessons learned?</li> </ul>
<p><b>Insurance</b></p> <p>Each agency should have a level of fraud cover commensurate with its fraud risk profile.</p>	<ul style="list-style-type: none"> <li>• Does the agency's insurance policy cover against fraudulent losses?</li> <li>• Is there an annual review of the agency's insurance coverage?</li> </ul>

Source: QAO



# Appendix C – Audit details

## Audit objective

The objective of the audit is to determine whether fraud risks are being managed effectively in selected Queensland government agencies. The audit assessed:

- how organisations prevent fraud from occurring in the first instance
- how organisations discover fraud as soon as possible after it has occurred
- how organisations respond appropriately to an alleged fraud when it is detected.

## Reason for the audit

Major public sector frauds in recent years have demonstrated that inadequate controls can still place agencies at risk of significant loss. These risks have been heightened by machinery of government changes and losses of experienced staff during 2012.

The *Queensland Audit Office Report to Parliament No 5 for 2012 Results of Audits: Internal Control Systems* had found significant weaknesses in strategies of agencies to prevent and detect fraud. This audit was planned to provide a more detailed examination of the performance of three agencies in preventing, detecting and responding to fraud.

## Performance audit approach

The audit was conducted between May and November 2012 and examined fraud controls in:

- Queensland Health, including six Hospital and Health Services
- Department of Housing and Public Works
- The Public Trustee of Queensland.

The audit consisted of:

- interviews with staff of the above agencies
- analysis of documents including strategies, plans, policies and guidelines
- surveys of staff in two of the agencies
- workshops to prepare fraud risk assessments
- data analytics on selected data sets.

The audit was undertaken in accordance with *Queensland Auditor-General Auditing Standards*, which incorporate Australian auditing and assurance standards.



# Auditor-General Reports to Parliament

Tabled in 2012–13

Report number	Title of report	Date tabled in Legislative Assembly
1	Racing Queensland Limited: Audit by arrangement	July 2012
2	Follow- up of 2010 audit recommendations	October 2012
3	Tourism industry growth and development	November 2012
4	Queensland Health - eHealth	November 2012
5	Results of audits: State entities 2011–12	November 2012
6	Implementing the National Partnership Agreement on Homelessness in Queensland	February 2013
7	Results of audit: Queensland state government financial statements 2011-12	March 2013
8	Online service delivery	March 2013
9	Fraud risk management	March 2013

Reports to Parliament are available at [www.qao.qld.gov.au](http://www.qao.qld.gov.au)