



Queensland Audit Office
better public services

Fraud risk management

Report 6: 2017–18



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Front cover image is an edited photograph of Queensland Parliament, taken by QAO.

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Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to the Queensland Police Service, Public Safety Business Agency, Queensland Rail, Queensland Building and Construction Commission and Queensland Fire and Emergency Services. In reaching our audit conclusions, we have considered their views and represented them to the extent we deemed relevant and warranted when preparing this report.

Responses were received from the Queensland Police Service, Public Safety Business Agency, Queensland Rail, Queensland Building and Construction Commission and Queensland Fire and Emergency Services. The responses are in Appendix A.

Report cost

This audit report cost \$255 000 to produce.

Your ref:
Our ref: 2017-9161P



15 February 2018

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Fraud risk management* (Report 6: 2017–18).

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 'B. Worrall', is positioned above the typed name.

Brendan Worrall
Auditor-General

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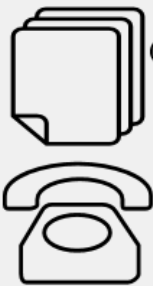
KEY FACTS



40 per cent of frauds in Australia take place over a five-year period before being discovered.*



Between April 2016 and September 2016, more than half of Australia's total fraud was reported in Queensland.*



In 2016–17, Queensland's Crime and Corruption Commission received 7 898 allegations of corruption (up 14 per cent since 2014–15).**



43 per cent of economic crime committed in Australian public sector organisations were identified because of tip-offs, whistleblowing or by accident.***

Source: *KPMG (January 2017): *Fraud barometer—A snapshot of fraud in Australia, April 2016 – September 2016.*

Source: **Queensland Crime and Corruption Commission (September 2017): *Effectiveness of Queensland public sector corruption risk assessments.*

Source: ***PWC (2016): *Global economic crime survey—Fighting fraud in the public sector IV.*

Audit objective and scope

In this audit we assessed if agencies appropriately identify and assess fraud risks, and apply appropriate risk treatments and control activities to adequately manage their exposure to fraud risks.

We assessed if the agencies' risk management plans effectively targeted and addressed fraud risks and if there were any obvious omissions from risk registers.

Our audit included five agencies:

- Public Safety Business Agency
- Queensland Police Service
- Queensland Fire and Emergency Services
- Queensland Rail
- Queensland Building and Construction Commission.

Summary

Introduction

Recent fraud attempts in the Queensland public sector highlight the need for agencies to implement effective fraud control measures.

In 2015–16:

- the Crime and Corruption Commission laid charges in 16 cases for fraud offences and recommended disciplinary action in a further 14 cases
- nine of Queensland's local government councils were targeted in a fraud scheme, resulting in \$744 000 worth of fraudulent payments.

To effectively manage and identify fraud risks, an agency needs to examine its business environment to understand its potential exposure to fraud. Agencies that do not dedicate sufficient time and resources to understanding their fraud risks can be exposed without realising it. As a result, they may over or under control their fraud risks, investing too much or too little in fraud risk management.

Fraud and corruption are commonly associated, but they are distinct from one another. With reference to the Crime and Corruption Commission's *Fraud and corruption control: guidelines for best practice* (2005)

Fraud is normally characterised by some form of deliberate deception to facilitate or conceal the misappropriation of assets, whereas corruption involves a breach of trust in the performance of official duties.

Legislation requires agencies to implement risk management systems to mitigate the risk of unacceptable losses, and to manage those risks that impede the agency's ability to deliver government services. Agencies should integrate fraud risk management within their agency's enterprise risk management approach.

Multiple sources provide guidance on better practice in fraud risk management:

- Crime and Corruption Commission's *Fraud and corruption control: guidelines for best practice*
- Queensland Treasury financial accountability handbook—*Fraud control*
- *Australian Fraud and Corruption Control* standard.

This is the third report QAO has completed on fraud risk management. The previous two covered departments and local government councils.

We developed a fraud risk assessment tool to provide agencies with a methodology to follow when assessing their inherent fraud risks (risks that exist before considering controls or mitigating factors). We used this tool to identify inherent fraud risks for the five agencies we audited.

Audit conclusion

None of the agencies we audited is effectively managing fraud risk, leaving themselves potentially exposed to fraud. Agencies have not applied the findings from our previous two reports on fraud risk management. We are still observing gaps in governance, fraud identification, detection, and prevention.

It is particularly concerning that agencies are not taking the opportunity to proactively manage fraud risk as the incidents and attempts of fraud become more prevalent and sophisticated.

While each agency has established a system and processes for enterprise risk management, none has effectively integrated fraud risk assessments into its existing practices. The audited agencies consider fraud risk on an ad hoc basis, if at all, and only assess it at a high level rather than through detailed analysis.

Although agencies have included some elements of better practice in their fraud and corruption control policies and plans, we still identified some gaps and opportunities to improve. In particular, agencies have not targeted their fraud and corruption control programs to the areas of greatest risk. Therefore, their plans for controlling fraud and corruption risks could be ineffective, particularly given that perpetrators of fraud are becoming more sophisticated in their approach.

Executives and senior managers state their commitment to fraud risk management in their policies, but they need to show their commitment by making sure their fraud and corruption control plans are implemented and monitored. They need access to better information from their staff to know what fraud risks are emerging and whether their controls to prevent fraud are working.

Summary of audit findings

Please note this is a summary of the audit findings. More information is in the following chapters.

Leading and developing a fraud risk management culture

Three of the five agencies' fraud policies state that senior management is committed to managing fraud risks, but this commitment is not evident in practice. While four agencies broadly state their approach to fraud risk management in their fraud policies and/or plans, none of the agencies could provide evidence of how they were applying it. This demonstrates a lack of commitment to implementing the approach the agencies outline in their policies and plans.

Each agency claims to have a zero tolerance (level of risk an agency can accept) to fraud and corruption. Only one agency articulates this in its risk appetite statement (outlines the amount of risk that an agency is prepared to accept or be exposed to at any point in time to achieve its objectives).

Establishing a fraud risk management framework

Fraud and corruption control policy

Most of the audited agencies have established a fraud and corruption control policy which contains better practice elements from the Crime and Corruption Commission's guidelines. However, agencies do not outline their approach for conducting fraud risk assessments, or identify what factors could influence fraud and corruption risks in their agency.

Of the four agencies with a fraud and corruption control policy in place, three of these were overdue for review at the time of the audit. These agencies have since developed a new draft of their policy, and one has since approved and published its new policy on their intranet.

Fraud and corruption control plan

Four agencies have a fraud and corruption control plan, but their plans do not include current or planned anti-fraud or anti-corruption activities. The plans demonstrate that agencies have not conducted a preliminary assessment of the agency's exposure to fraud risk to inform their fraud and corruption control programs. At the time of the audit, only one agency had an up to date fraud and corruption control plan in place. Three agencies' plans were overdue for review, and one agency did not have a fraud and corruption control plan. Three of the agencies with plans overdue for review have since developed a new draft of their plan, and one has recently approved and published a new fraud and corruption control plan.

Identifying and responding to fraud risks

Identifying fraud risks

Each audited agency conducts an annual risk management assessment for strategic and operational risks. However, none of the agencies specifically assesses the business environment for current and emerging fraud risk factors. This involves identifying business areas or service lines highly exposed to fraud risk to inform a detailed fraud risk assessment. As a result, they are not targeting their fraud and corruption control plans to emerging risks, or to areas of their operations with the greatest exposure to fraud risk.

None of the audited agencies provides its staff with training on identifying, mitigating, and managing fraud risks. There are no processes in place to scan for emerging fraud risks, and fraud risks do not feature in team discussions, even during the annual assessment of enterprise risks.

Responding to fraud risks

The audited agencies have not effectively integrated fraud risk management with their annual enterprise risk management activities. Although most audited agencies maintain strategic and operational risk registers, only one agency includes a fraud risk category. None of the other agencies has a fraud risk register, or includes a fraud risk category in their operational risk registers. The agency using a fraud risk category did not identify those fraud risks by undertaking a fraud risk assessment. Two other agencies each raised a single fraud risk but had not performed a fraud risk assessment to inform and justify the risks identified.

We assessed the adequacy of controls and risk treatments for agency-identified fraud risks. For those agencies that did not nominate fraud risks, we reviewed their risk registers and selected a sample of risks that had characteristics similar with fraud risks.

We observed that:

- while all audited agencies have risk owners, only two agencies have assigned control owners and established processes for them to assess and record the operational effectiveness of controls
- the wording of controls and risk treatments is generic. When using non-descriptive words, it is difficult to assign measures to assess the effectiveness of controls or risk treatments. A precise description helps to specify how the control or treatment would mitigate the risk.

Monitoring and reporting fraud risks

Senior management at each agency has limited visibility of its agency's potential exposure to fraud. They receive limited assurance over how well their controls and risk treatments mitigate fraud risks.

We observed that the audited agencies' senior management teams monitor and report their enterprise risks, but there was no evidence this included fraud risks. Those agencies that identified fraud risks may assess these as part of their risk management processes. However, agencies do not have processes in place that are specifically targeted to assess, monitor and review their fraud risks, and conclude if actions to address them are effective. Senior management is not supported with adequate data and information to help it determine their agency's exposure to fraud risk and whether their fraud and corruption control plan is being implemented effectively.

We found evidence that the audited agencies' governance forums discussed fraud incidents that have occurred, but there was no evidence they discussed current and emerging fraud risks. This indicates a reactive rather than proactive approach to fraud risk management.

Recommendations

We recommend that all public sector agencies:

1. self-assess against the better practices listed in this report to improve fraud control policies and plans where required, and make sure accountabilities and responsibilities for fraud control are clear.
2. integrate fraud risk management systems and procedures within existing enterprise risk management frameworks.

The integrated framework should include the requirement to:

- conduct regular fraud risk assessments at the entity and detailed level, to identify current and emerging risks
 - record fraud risks in a fraud risk register or using a fraud risk category in existing registers
 - train and provide guidance to employees on how to conduct fraud risk assessments, and how to effectively design, implement and monitor controls to mitigate risks
 - ensure control owners regularly assess and report on the operational effectiveness of fraud controls
 - document controls and treatments to mitigate fraud risks that are clear and measurable, with a defined timeframe and assigned to a responsible officer.
3. monitor through their governance forums, their agencies' exposure to fraud risk and the effectiveness of their internal controls to mitigate any risks.

Key governance committees, including boards and audit and risk committees should:

- review whether the agency has a comprehensive enterprise risk management framework in place, to effectively identify and manage risks, including fraud risks
- ensure the agency has appropriate processes or systems to capture and assess fraud risks
- review reports on fraud risks, and fraud incidents (that occur both within the agency and the broader public sector), considering how reported allegations and confirmed incidents may change identified fraud risks.

Auditor-General reports to parliament

Reports tabled in 2017–18

Number	Title	Date tabled in Legislative Assembly
1.	Follow-up of Report 15: 2013–14 Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017
4.	Integrated transport planning	December 2017
5.	Water: 2016–17 results of financial audits	December 2017
6.	Fraud risk management	February 2018

Contact the Queensland Audit Office

