

FRAUD PREVENTION STRATEGIES

Recent organisational fraud victimisation surveys indicate that, although fraud is a growing concern for both the private sector and public sector, most organisations are still reluctant to report fraud to the police for reasons ranging from a fear of bad publicity, inadequate evidence and the time and cost involved in prosecution. As a consequence, no one knows for sure the extent of fraud or the cost to Australia.

According to these surveys, Government organisations were among those that reported the greatest monetary losses. These surveys furthermore found that, although effective internal control systems are important, a significant percentage of frauds are discovered only by chance through, for example, anonymous tip-offs.

Clearly, organisations should be concerned about the level of fraud they are not discovering. Being forewarned is therefore possibly the best preventive strategy to embrace. This newsletter attempts to raise awareness of fraud control strategies, in particular, those strategies that have been proven to be effective in preventing criminal fraud.

FRAUD PREVENTION

Fraud is a crime perpetrated by a *motivated* offender taking advantage of an *opportunity*. Fraud is only one of many business risks and, like other risks, can seldom be completely eliminated. It can, however, be managed to minimise potential loss.

The establishment of sound fraud control procedures, appropriate to the environment of an entity, should therefore form an integral part of the entity's risk management strategies.

The four stages at which measures for the control of fraud may be implemented, are prevention, detection, investigation and punishment. A policy focussing on prevention is likely to be the most effective, therefore policies and systems should be in place to minimise motivation and opportunities to engage in fraud.

PREVENTION STRATEGIES

Fraud prevention involves more than merely compiling carefully designed fraud control policies. It also involves putting in place effective accounting and operational controls, and the maintenance of an ethical climate that encourages staff at all levels to actively participate in protecting public and private money and property.

Although fraud prevention plans will obviously vary from one organisation to another to meet particular needs and circumstances, the following strategies and techniques have been proven to be effective in fraud prevention:

- be alert to the possibility of fraud;
- periodically review all functions and operations and assess the organisation's exposure to the risk of fraud;
- develop a fraud control plan;
- instil a culture of ethical behaviour in the organization;
- ensure all staff and external contractors are aware of the organisation's attitude to fraud and their consequences;
- train management and staff in fraud awareness and prevention;
- identify in advance those responsible for fraud control activities;
- maintain strict recruitment practices and confirm that employee details and references are thoroughly checked;
- ensure accounting and operational controls are effective;
- be alert to indicators of fraud;
- introduce mechanisms available to all staff to report fraud (such as 'hot lines'); and
- set severe penalties for fraud.

Proactive planning for fraud prevention requires management to identify the areas more prone to the risk of fraud and to design appropriate countermeasures to minimise those risks. Functions traditionally more susceptible to the risk of fraud in the public sector include:

- grants programs;
- the use of credit cards;
- travel and other allowances;
- procurement;
- claim payments;
- outsourced activities;
- computer security;
- salaries; and
- property and other physical assets.

WHERE TO TURN FOR ASSISTANCE AND GUIDANCE

- Serious incidents of criminal fraud should be referred to the Major Fraud Group of the Victoria Police on ☎ 9526 6666.
- For assistance in relation to legislative requirements, regulations and Ministerial Directives, please contact Mr Nick Daicos, Assistant Director, Finance Risk Assessment and Control at the Department of Treasury and Finance on (facsimile) 9651 1231.
- Forensic accounting specialists can be appointed to perform risk assessments, develop fraud control plans, conduct fraud awareness training or assist with fraud investigations.

Useful websites:

- Australian Institute of Criminology: www.aic.gov.au;
- Australian Federal Police: www.afp.gov.au (publications such as *Comfraud Bulletin*);
- Commonwealth Attorney-General's Department: www.ag.gov.au/aghome/aghome.htm (*Fraud Control Policy of the Commonwealth 1994*, located under the Law Enforcement Coordination Division: Fraud Control); and
- New South Wales Independent Commission Against Corruption: www.icac.nsw.gov.au.

NOTIFICATION OF INSTANCES OF LOSS OR DAMAGE

It would be appreciated if public sector agencies could advise our Office of all cases of suspected or actual theft, arson, irregularity or fraud in connection with the receipt or disposal of money, stores or other property of any kind whatsoever under your control.

Such advice should contain, as a minimum, the following elements:

- what has happened;
- when it occurred;
- where it occurred;
- the amount or value involved;
- why it occurred - eg breakdown in internal controls; and
- what steps have been taken to:
 - recover the amount involved;
 - discipline or prosecute as appropriate; and
 - prevent it from occurring in future.

It would be appreciated if the December 1999 return could be forwarded to this Office by 18 February 2000. The provision of such information assists the Office and audit service providers in maintaining an awareness of current financial management and accountability issues, with the more significant matters being considered for inclusion in the Office's Reports to the Parliament.

CONTACT

The Victorian Auditor-General would be interested in your comments on this important issue. Should you wish to comment or have any queries in relation to this publication, please contact:

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FURTHER INFORMATION

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