



Fraud & Corruption:

An Introduction to Fraud Risk Management
within La Trobe University



Objectives

Provide awareness on:

- The nature of fraud and corruption risks
- LTU's management of fraud and corruption risks
- Your responsibilities for the management of fraud and corruption risk

What is Fraud?

- **“Dishonestly obtaining a benefit by deception or other means.”**

[Source: Commonwealth Fraud Control Guidelines 2002, p. 4]

- **“Any act which involves the use of deception to obtain an illegal advantage.”**

[Source: AUS210 (Auditing standard on fraud and error)]

- Encompasses a wide variety of deceptive, dishonest, unethical OR corrupt behavior.

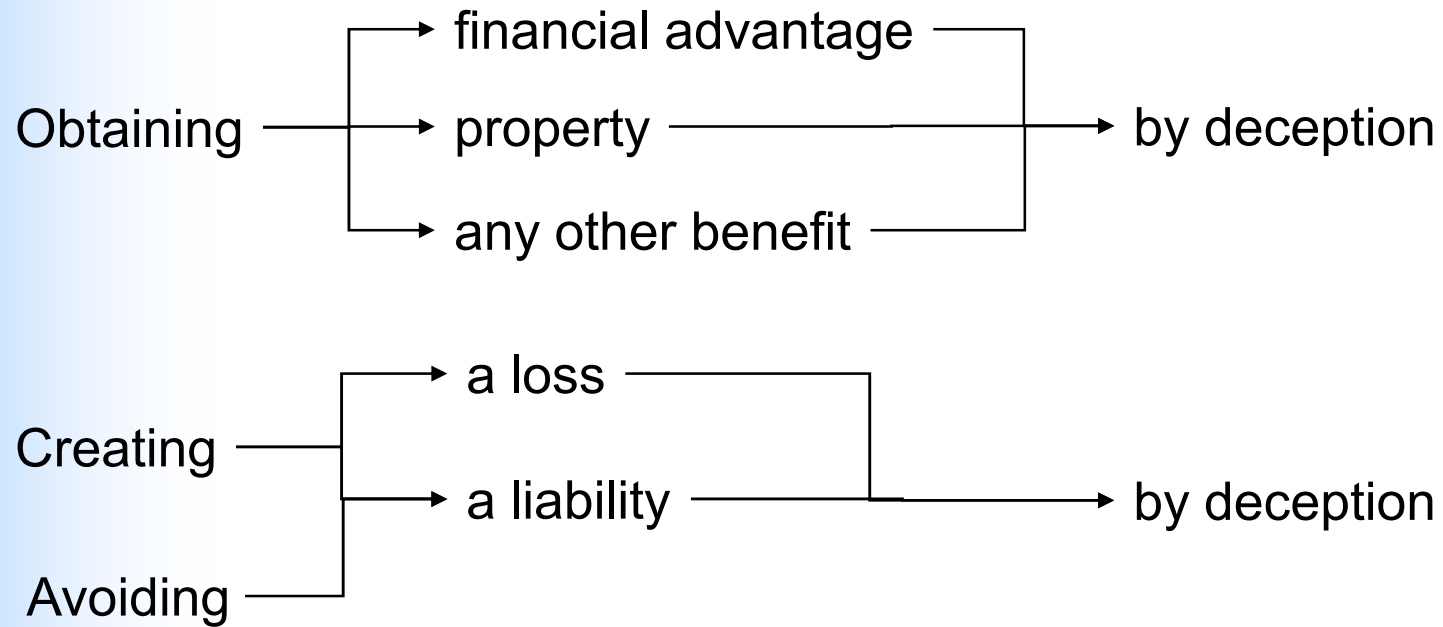
LTU Definition of Corruption

“any dishonest activity

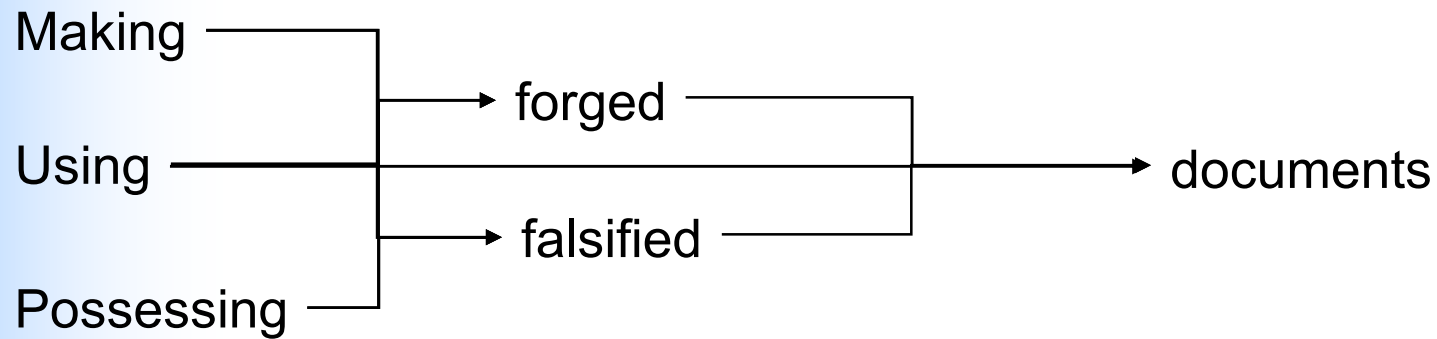
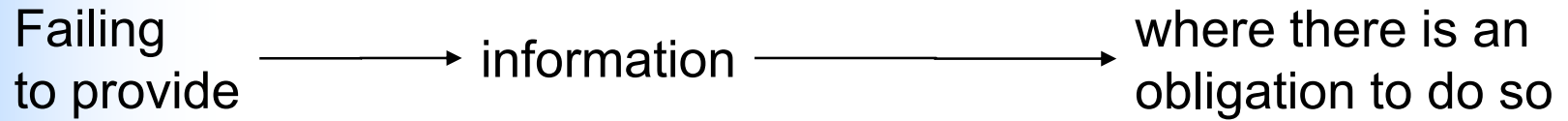
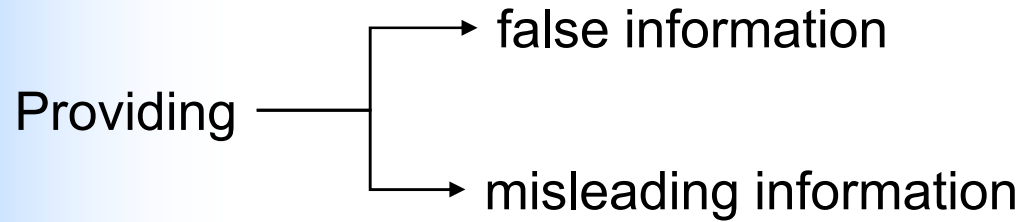
in which an employee, Council member, adjunct,
volunteer, student or contractor of the University
acts contrary to the interests of the University and
abuses their position of trust

in order to achieve some personal gain or
advantage for themselves or another person
or entity”

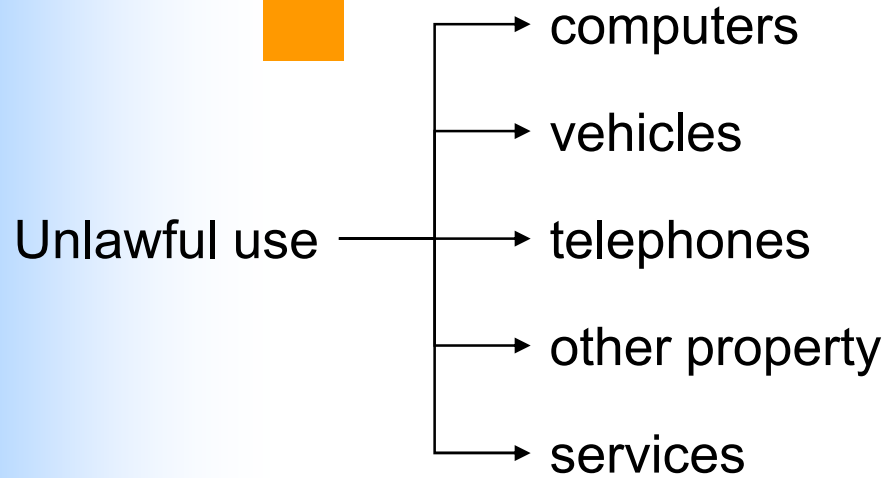
Types of Fraud



Types of Fraud



Types of Fraud - examples



Bribery

Corruption

Abuse of office

Theft

The Nature of Fraud

- 85 % of the worst frauds – internal (employees & contractors)
- 50% fraud – by managers
- 50% of fraudulent managers - < 1 year in their position

Source: Ernst & Young's 8th Global Fraud Survey

Issues in understanding

- Lack of common definition
- Infallibility of fraud controls
- Direct cost is outweighed by the hidden cost
- Modernisation of fraud (greed, speed, anonymity, trust, capability)
- Management as techno dinosaurs
- Lack of recognition
- Resistance

Fraud on Public Service Agencies

- Fraud does not happen within government departments!
- Popular misconception:
 - § 40% Commonwealth Departments – experienced fraud – previous 2 years
 - § An estimated 94% of this fraud – external
 - § The estimated total cost of this fraud - \$146 million
 - § NSW government agencies - \$52m - \$95m pa

Source: Parliament of Victoria –
Inquiry into Fraud and Electronic Commerce [Jan 2004], p. 57)

Fraud Costs

- Australia

- § Fraud: \$1bn - \$50bn pa

- § ID fraud: \$2.6bn - \$4.5bn pa

- Finance sector

- § Fraud: Largest driver for spend on IT

- 50% of major fraud is identity fraud

- 48% of non-major fraud is identity fraud

Basics of identity fraud

- The possession and/or use or intent to use fraudulent and/or stolen documentation and/or identity information to deceive a third party for a benefit

(AUSTRAC)

- Obtaining an advantage (eg services, products, etc) by:
 - § Using a totally fictitious name
 - § Adopting a real persons name

Identity Fraud

- Shoulder surfing: eg EFTPOS pin numbers
- Dumpster diving: eg personal correspondence
- Spam scam: eg unsolicited email
- Unbelievable deal: eg telemarketing
- 419 Fraud: eg Nigerian oil scam
- Data digging: eg electronic databases
- Pocket pick: eg stolen wallet
- Cyber snatch: eg spyware, viruses etc
- Transaction trail: eg credit application form

Frequency of identity fraud

- Credit card 42%
- Telecom/utility 22%
- Bank 17%
- Employment 9%
- Loans 6%
- Government 8%

Increasing ID Fraud

- Becoming easier
 - § Globalisation – increasing information flows
 - § Technology improvements – forgery easier
 - § Increasing use of internet - transactions
 - § Complex interdependencies

- Organised crime
 - § increasing attention on exploiting POI

- Risk-reward payoff
 - § Probability of detection/capture
 - § Revenue stream
 - § Punishment

Basic elements of identity

- Biometric
 - § Face, fingerprints, retinal patterns, face, hair, height, etc.

- Attributed
 - § Resulting from birth: name, place of birth, date of birth, family relationships & details, etc.

- Biographical
 - § Interactions with society: permits, addresses, credit history, employment record, etc.

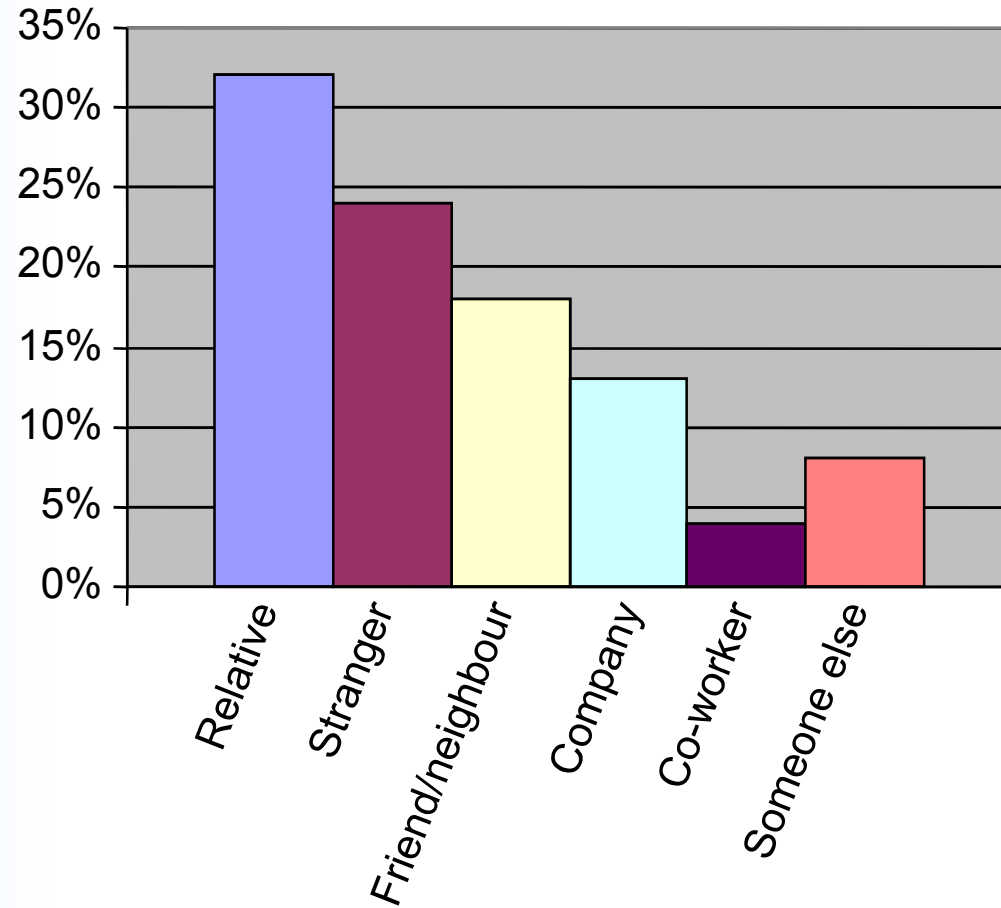
Identity fraud mechanisms

- Use of legitimate documents
 - § Real person - eg documents stolen/misrepresented
 - § Created identity – fictitious identity registered
 - § Other known name – eg previous identity
 - § Variations in real name

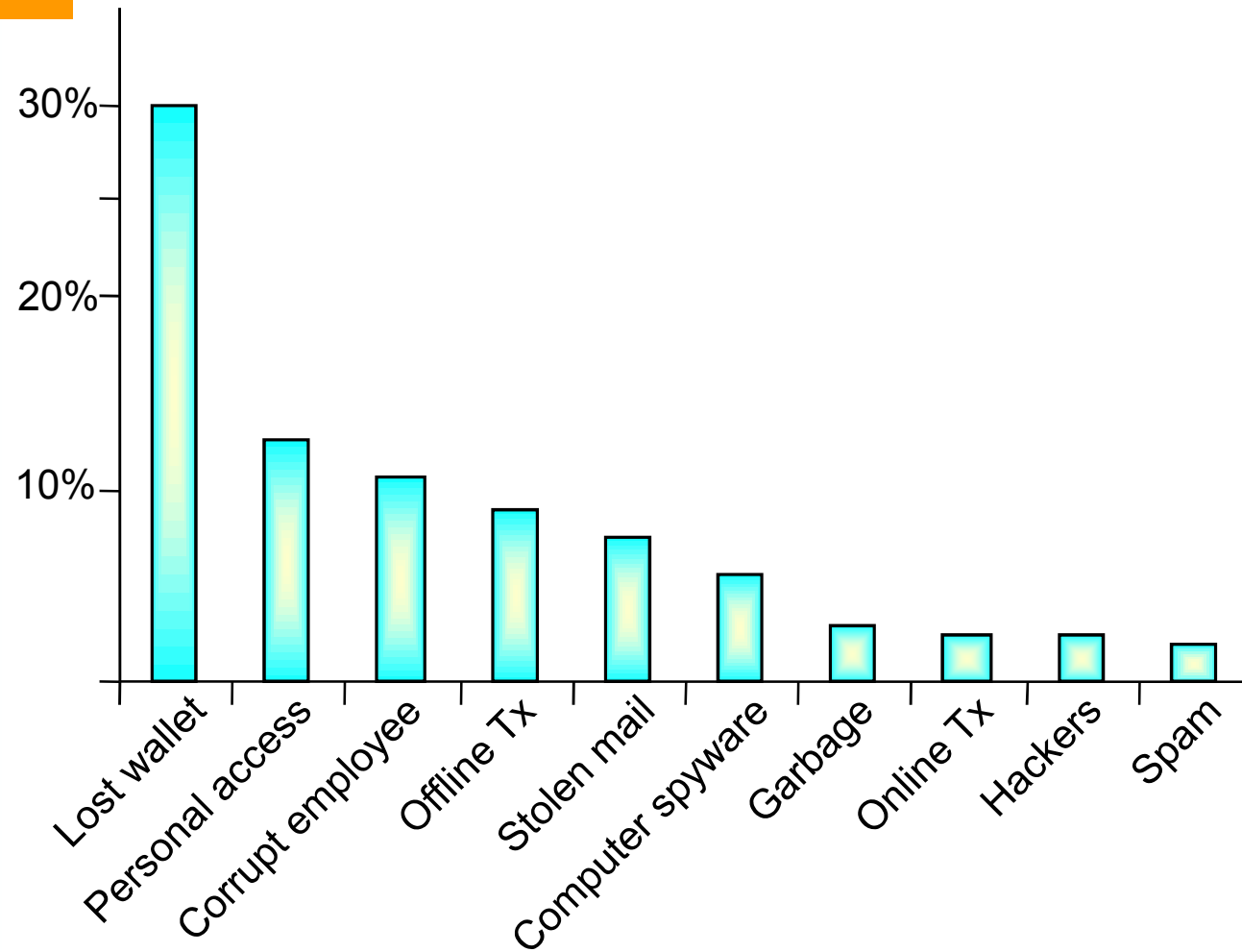
- Use of forged documents
 - § Fictitious name
 - § Identity theft

- No document used
 - § Exceptional circumstances
 - § Electronic registration

Who Commits Identity Fraud?



Obtaining personal information



Australian reliance on POI

- Drivers licences 31%
- Passports 22%
- Credit cards 22%
- Medicare cards 15%
- Birth certificates 8%

POI issues

- NSW

- § Mismatch between Westpac & BDM – 13%

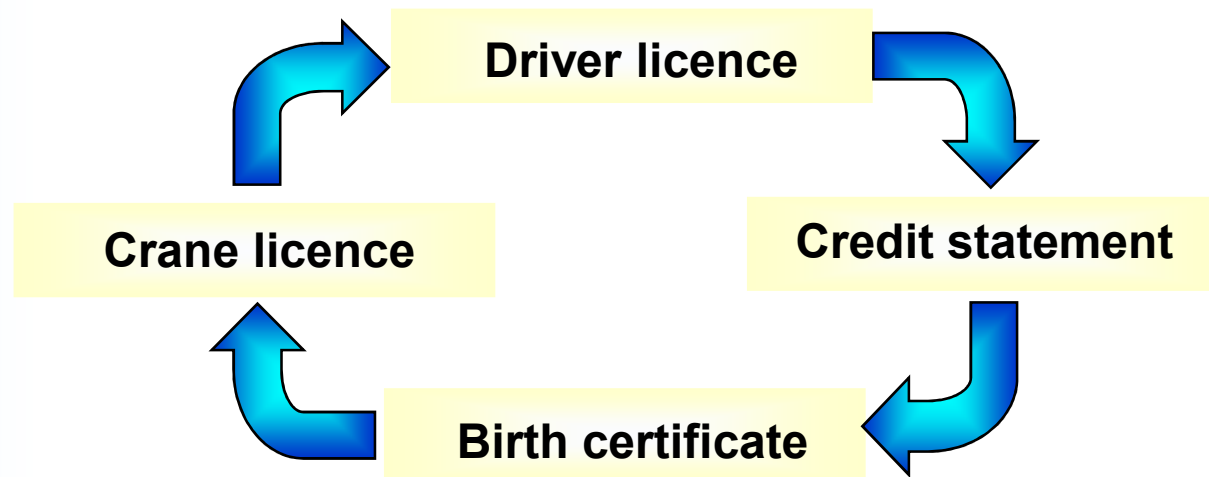
- Victoria

- § Mismatch between Vic Roads & BDM – 18%

- § Vic Roads estimate – up to 65,000 ‘false’ licences

POI Interdependency

- High level interdependencies between POI issuers
- Circular path of identity
- Weak link in the loop – obtaining POI from organisations with the weakest controls



POI 'Standards'

- Financial Transaction Reports (FTR) Act 1988
- 100 point POI
 - § Birth/marriage/change of name certificate
 - § Passport
 - § Drivers licence
 - § Visa (incl Citizenship certificate, record of immigration status, residency status)
 - § Medicare card
 - § Firearms licence
 - § Credit/debit card
 - § Pensioner/social security card
 - § Security licence
 - § TFN
 - § ABN
 - § Bank statement
 - § Utility statements
 - § Registration of business name
 - § Registration of company name

Personal Protection Against Identity Fraud

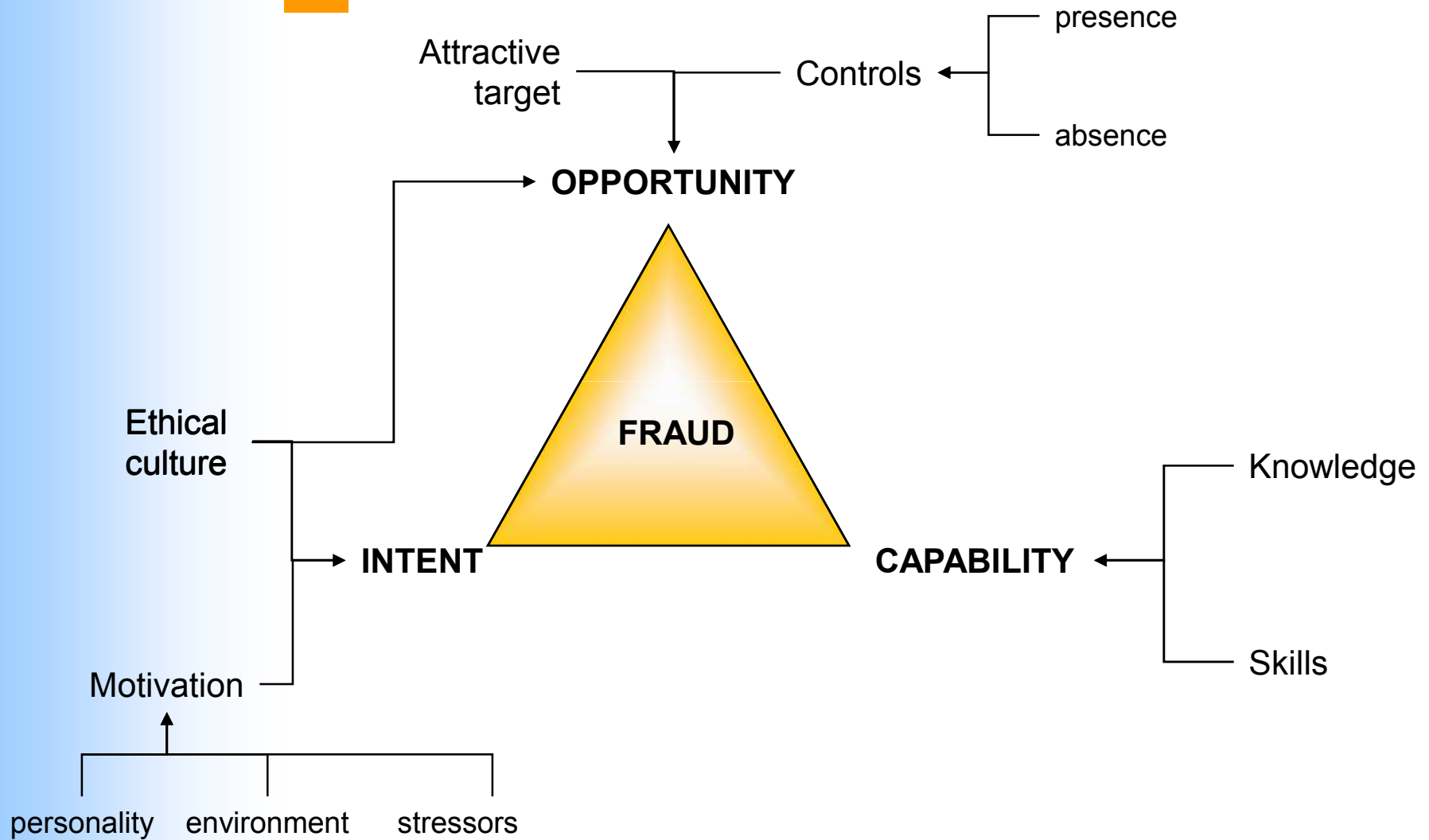
Use SCAM

- **S**ECURE: ensure personal information is secure
- **C**HECK: check financial information on a regular basis
- **A**SK: for a regular personal credit regularly¹
- **M**AINTAIN: maintain records of financial transactions

¹www.mycredit.com.au

Based on advice provide by the US Department of Justice

Three Ingredients of Crime/Fraud



Elements of Fraud and Corruption Control

RECOVERY

DETERRENCE

PREVENTION

DETECTION

Prevention & Detection of Fraud

Factor	Prevention	Detection
Internal controls	1	1
Management review	2	4
Internal audit	3	3
External audit	4	6
Whistleblowers	5	2
Accident	6	5

The LTU Fraud & Corruption Management Framework

Objectives & Outcomes

Conduct & behavioural expectations

Understanding of fraud and risk

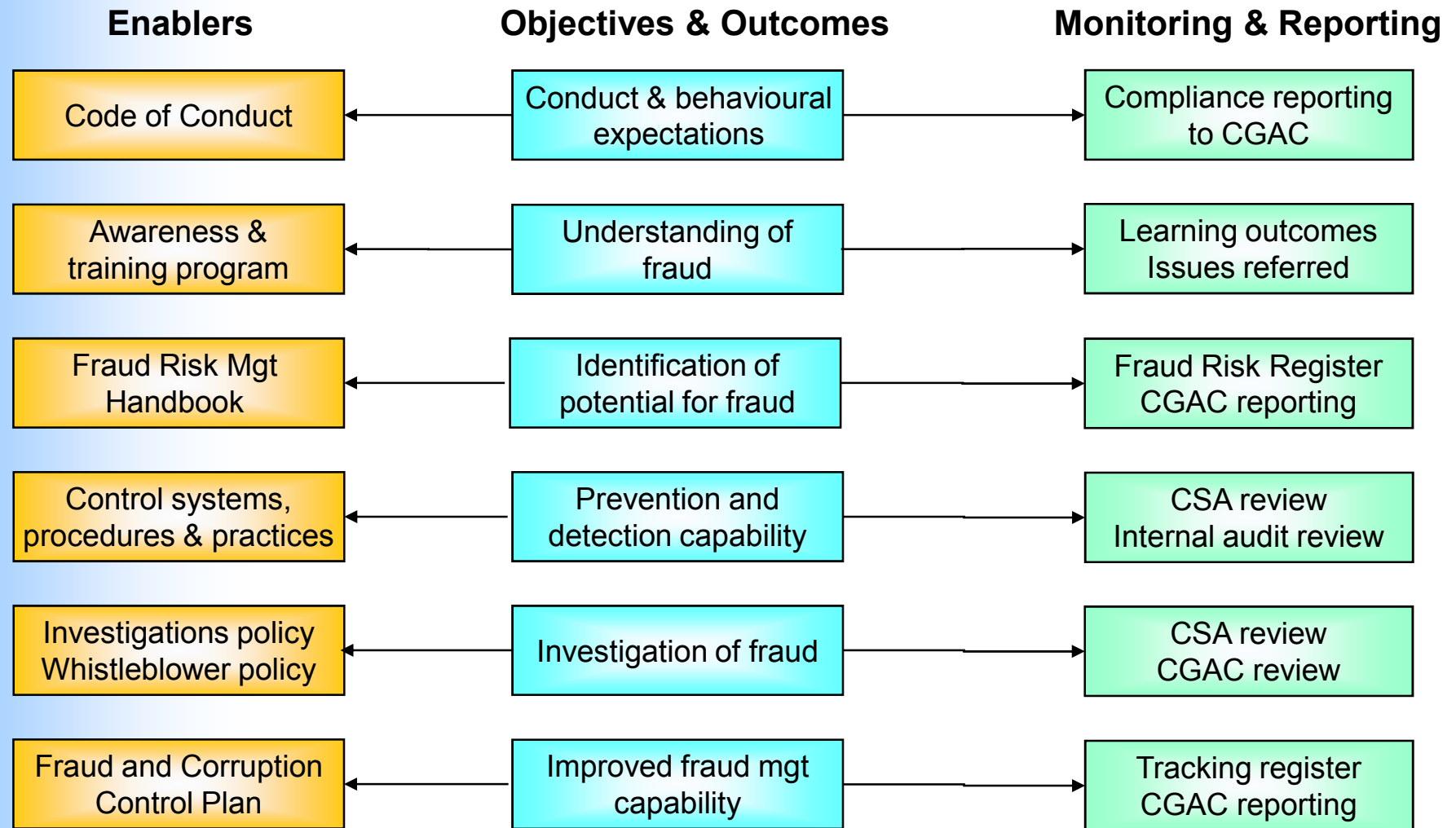
Identification of potential for fraud

Prevention and detection capability

Investigation of fraud

Improved fraud mgt capability

The LTU Fraud & Corruption Management Framework

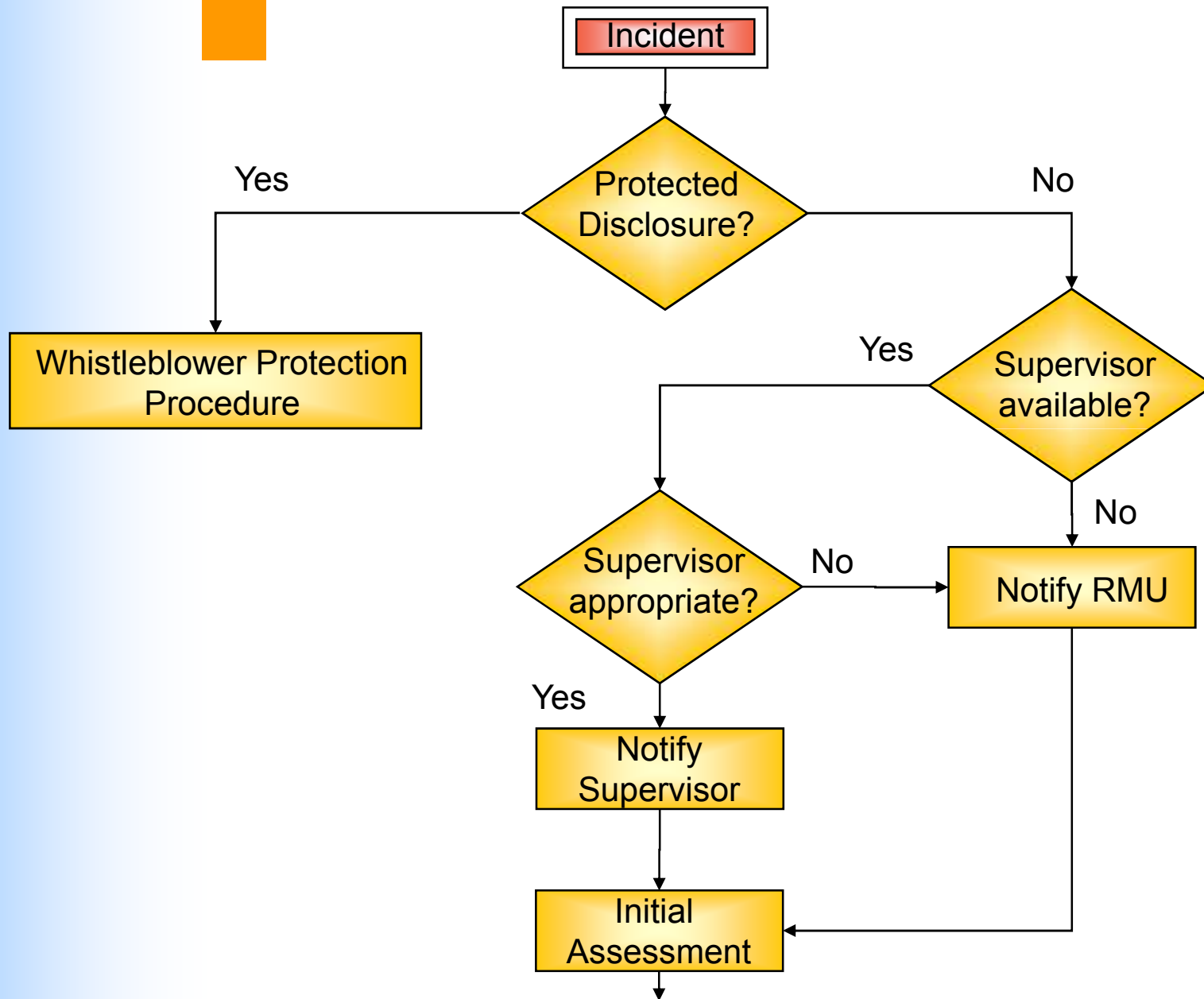




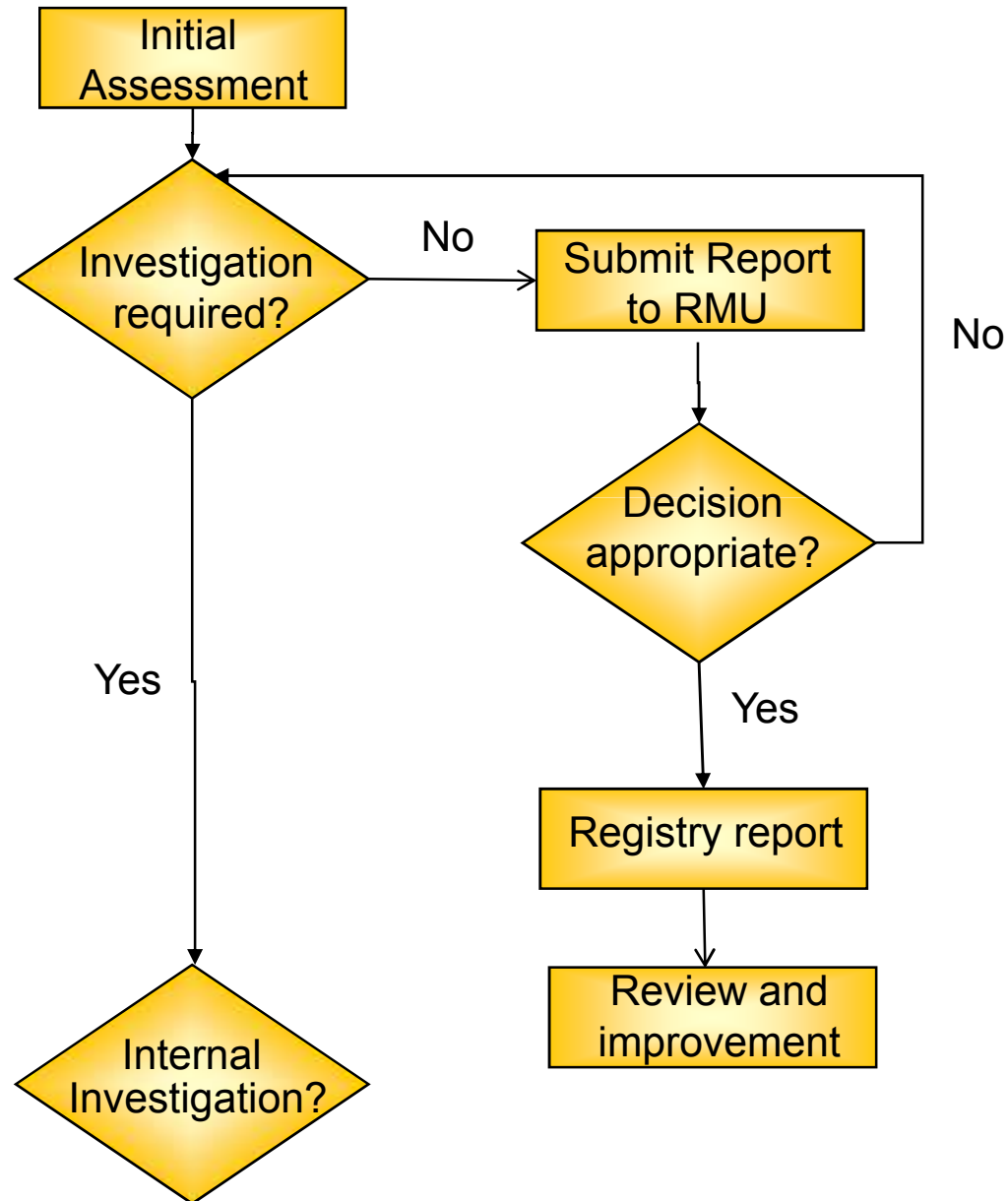
Total Cost of Fraud

- Loss event
- Anticipatory
 - § Risk assessment
 - § Prevention
 - § Deterrence
 - § Detection
- Reactionary
 - § Investigation
 - § Recovery
 - § Restoration

Reporting an Incident/Allegation



Decision: to investigate or not



Conducting an Investigation

