



Australian Government  
Department of Foreign Affairs and Trade

## Annual Report to the Minister for Foreign Affairs

Fraud Control Report 2014-15

October 2015

### Introduction

The following report has been prepared for the Minister for Foreign Affairs in accordance with the *Commonwealth Fraud Control Framework 2014*. This report covers DFAT's fraud control environment and significant risks; fraud and corruption control measures, including training and awareness; and an outline of fraud cases and trends during 2014-15.

### Fraud Control Environment

s22(1)(a)(ii)

s22(1)(a)(ii)

### **External Fraud: Fraud against the Australian Aid Program**

DFAT's Fraud Policy Statement mandates a 'zero tolerance attitude' towards fraudulent activity or behaviour. For all instances of alleged, suspected or detected fraud DFAT will:

- investigate the matter;
- seek prosecution of offenders and the application of appropriate penalties, including through referral to local police overseas and/or the Australian Federal Police; and
- seek the recovery of misappropriated funds or assets.

This applies to both departmental staff (including locally engaged staff at overseas posts) and external parties that receive Australian Government funds, including all aid program funds. Accordingly the Fraud Policy Statement applies to contractors, third party service providers, non-government organisations, partner governments and other funding recipients.

The Australian aid program operates in some of the most challenging governance environments in the world where significant fraud risks exist. DFAT's priority is to limit the incidence of fraud through a robust approach to preventing, detecting, disrupting and rapidly responding to fraud. The controls that DFAT has in place are in accordance with Australian Government legislative requirements and Australian National Audit Office (ANAO) better practice guides.

s22(1)(a)(ii)

s22(1)(a)(i)

s22(1)(a)(ii)

s.22(1)(a)(ii)

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s.22(1)(a)(ii)

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s.22(1)(a)(ii)

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### External Fraud: Fraud against the Australian Aid Program

In 2014-15, 261 new matters were reported to the Fraud Control Section. 159 of these were registered as fraud cases. These cases represent a net potential loss to the aid program of \$1,324,242 or 0.026 per cent of the total Australian Official Development Assistance (ODA) in 2014-15. Fraud trends for the last five years are in [Table 1](#). Data on potential losses and recoveries are updated annually as cases are further investigated and recovery actions are completed.

Explanatory comment:  
Not all new matters reported are assessed to be fraud.

**Table 1: Aid fraud 2010-11 to 2014-15**

Year	Number of Cases	Estimated losses as a % of total ODA at end of FY	Potential/Actual Loss at 30 June of listed financial year	Potential/Actual Loss updated as at 30 June 2015	Recovered funds updated as at 30 June 2015
2014-15	159	0.026%	1,324,242	N/A	84,796
2013-14	194	0.029%	1,455,348	2,237,633	349,161
2012-13	136	0.014%	706,290	418,356	350,382
2011-12	120	0.012%	583,071	303,298	1,267,745
2010-11	102	0.028%	1,264,125	873,824	3,315,081
Five year average	142	0.022%	1,066,615	-	-

Information on fraud types and country distribution is at [Appendix B](#). A summary of significant active fraud cases as at 30 June 2015 is at [Appendix C](#).

### Public Reporting


Information on fraud in DFAT, including in the Australian aid program is reported publicly in a fact sheet on the DFAT internet site. The fact sheet contains information on DFAT's approach to preventing and managing fraud and summary information on fraud levels and types. DFAT's public reporting of fraud exceeds the reporting requirements as mandated in the *Commonwealth Fraud Control Framework*.

s22(1)(a)(ii)

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s.22(1)(a)(ii)

### Conclusion

In 2014-15 DFAT had in place:

- fraud risk assessments and fraud control plans;
- appropriate fraud prevention, detection, investigation, reporting and data collection procedures; and
- effective measures to deal with incidences of fraud and corruption and to investigate and recover funds lost to fraud.

These controls enabled DFAT to meet the requirements of the *Commonwealth Fraud Control Framework 2014*.



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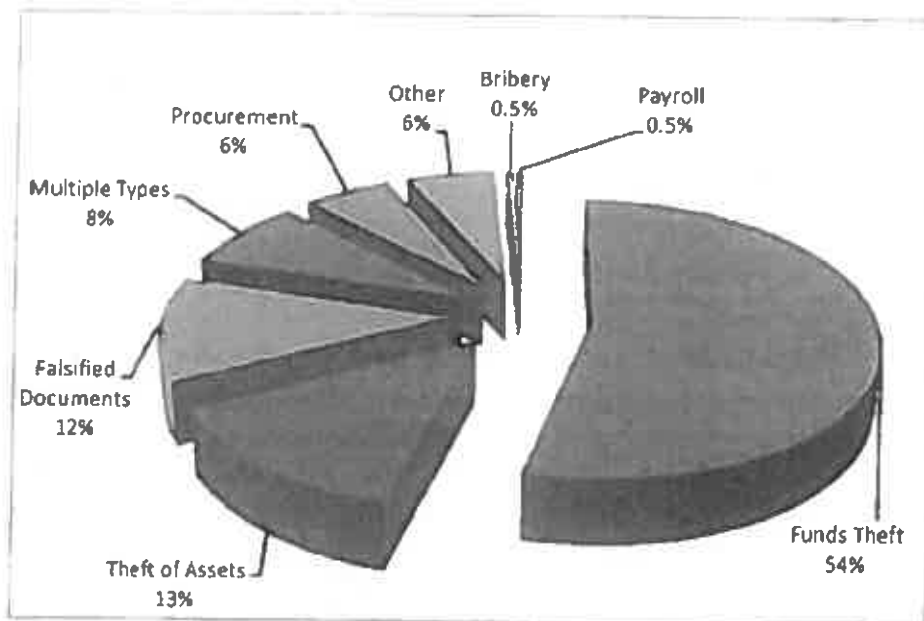


## Appendix B - External Fraud: Fraud against the Australian Aid Program - Summary Statistics

### Fraud Types

Theft of funds was the most common type of fraud under investigation as at 30 June 2015, accounting for 54 per cent of active fraud cases by number. Theft of assets (13 per cent) and falsified documents (12 per cent) were the second and third most common, respectively.

Active cases as at 30 June 2015 – by type



<sup>1</sup> Other, any other dishonest benefit derived or loss to the Commonwealth generated through deception or other means, which is not covered by other specific categories.

<sup>2</sup> Multiple Types, includes fraud incidents where more than one of the above fraud types is present.

### Number and location of fraud cases reported in 2014-15

As at 30 June 2015 there were 208 active external fraud cases. A total of approximately 76 per cent (159) of these cases were reported during the 2014-15 financial year. Cases can take in excess of one year to finalise due to factors such as:

- lengthy investigative timeframes of local authorities/police;
- lengthy prosecution timeframes of local justice systems; and
- cases remaining open until all recovery options are exhausted.



s33(a)(iii)

s.22(1)(a)(ii)

## Appendix C: List of current Significant Aid Fraud Cases as at 30 June 2015

Country	Fraud Type	Date reported to DFAT	Case Summary	Potential / Actual Loss to DFAT and Subgrants
Indonesia	Funds Theft	12/03/2015	Following reports of corruption and misuse of funds in the development of a school, the local Attorney's Office undertook an investigation into two committee members actions. The matter appeared before the local courts and two committee members received four years imprisonment each and were fined IDR200,000,000 (approximately AUD20,300). If the individuals fail to pay this fine, their sentence will be extended for a further three months. The individuals are also required to jointly return the sum of IDR1,000,977,272 (approximately AUD101,600) which was deemed to be the financial loss as a result of the fraud. If they fail to return the funds, their sentences will be extended for a further three years.	\$101,600
Indonesia	Funds Theft	12/03/2015	Following reports of corruption from a non-government organisation on the school development site, an investigation was undertaken by the local Attorney's Office. The matter appeared before the local courts with litigation action being taken against the Head of the School Construction Committee (SCC) and the foreman of the school construction committee. Both committee members were found guilty of corruption, with the Head of the SCC sentenced to 3 years imprisonment and the foreman 1 year and six months imprisonment and each fined IDR50,000,000 (approximately AUD5,000). If the individuals fail to pay this fine, their sentence will be extended for a further two months. The individuals are also required to jointly return the sum of IDR605,479,900 (approximately AUD61,500) which was deemed to be the financial loss as a result of the fraud. If they fail to return the funds, their sentences will be extended for a further year.	\$61,500
Nauru	Funds Theft	21/11/2014	It was alleged that in May 2014, the Government of Nauru (GoN) transferred \$1,068,852.32 from the GoN operational account to support the Nauru Utilities Corporation (NUC). s33(a)(iii) The independent audit did not find any evidence to suggest that an intended misappropriation of funds had taken place and only identified an overpayment of \$279,694.73. s33(a)(iii)	\$279,694.73

Country	Fraud Type	Date reported to DFAT	Case Summary	Potential / Actual Loss to DFAT and Minister
			s33(a)(iii) DFAT is working with the GoN to have the funds reimbursed into the operational account.	
Nauru	Procurement	17/11/2014	The Government of Nauru's Department of Commerce, Industry and Environment (CIE). s33(a)(iii) s33(a)(iii)  s33(a)(iii) The audit recommended that DFAT work with CIE to develop a forward work plan to: i) ensure the project is implemented in line with the existing contract requirements and ii) continue working with the existing supplier, subject to an assessment of the supplier's technical capabilities to deliver the project. s33(a)(iii) s33(b)(iii)  s33(a)(iii) DFAT sent their infrastructure specialist adviser to Nauru to ensure that the company has the capacity to deliver the project and consequently develop a work plan in line with the recommendations of the independent audit. s33(a)(iii) s33(a)(iii)	\$819,256
Indonesia	Multiple Types	Various dates starting from 19/01/2014	Following several instances of suspected misuse of advances, falsified documents and inflated invoices within two Australian Indonesia Partnership for Decentralisation (AIPD) contractor offices, An independent audit firm was commissioned to conduct a forensic audit of the program. The audit firm has finalised the draft forensic audit report. In order to address further issues arising from the forensic audit, DFAT has drafted terms of reference for an expanded secondary investigation to be conducted by a separate external forensic audit firm. DFAT is awaiting findings from the secondary investigation to inform next steps and quantify fraud losses.	Not known at this time

Country	Fraud Type	Date Reported to DFAT	Case Summary	Potential / Actual Loss to DFAT Aid Program
Solomon Islands	Funds Theft	5/09/2013	<p>Suspected inflated and fraudulent invoices for shipping and freight costs s33(a)(iii) s33(a)(ii) was reported to DFAT in September 2013. s33(b) s33(h)</p> <p>The investigation is being led by the Royal Solomon Islands Police Force and Internal Audit within the Solomon Islands Ministry of Finance and Treasury. DFAT contracted an independent audit firm to support the Solomon Islands Government's investigation and its report was submitted to DFAT in early 2014. Since that time an Australian-funded investigator has been contracted to continue assisting in achieving police prosecutions. One conviction was obtained in June 2014 for transactions worth approximately SBD1.6M (approximately AUD232,000). The offender was sentenced to 2 years and 6 months imprisonment. A second accused is currently before the Courts and faces charges for fraudulent transactions totalling SBD\$7.3M (approximately AUD1,241,000)</p>	\$1,540,788
Indonesia	Funds Theft	13/01/2013	<p>A school construction committee withdraw funds without being able to demonstrate a clear purpose for the funds. Despite a block being imposed on the subsequent second tranche funding payment, the school was able to withdraw additional funding. The Indonesian Ministry of Education and Culture undertook an investigative audit and referred their findings to the local police who took litigation action against the committee members involved. The matter went before local prosecutors and the court proceedings have recently been finalised with three individuals found guilty of corruption and sentenced to jail. The individuals were fined approximately \$20,000 and are required to repay the loss, which is approximately \$120,000. If the individuals cannot pay the fine or repay the loss, they will receive additional sentencing. The court decision has not yet been published.</p>	\$120,000