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National Health and Medical Research Council

NHMRC FRAUD CONTROL FRAMEWORK 2017-2019

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Approval

Professor Anne Kelso

Chief Executive Officer

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1 Introduction

1.1 The National Health and Medical Research Council's Attitude to Fraud

The National Health and Medical Research Council (NHMRC) will not tolerate fraud at any level and has a commitment to high ethical, moral and legal standards. Officers of the NHMRC will act with integrity and fairness and uphold the values of the Australian Public Service in their dealings with NHMRC's Ministers and all stakeholders.

To build and maintain a strong ethical culture within the NHMRC, NHMRC staff will adhere to the following APS values:

<i>Impartial</i>	We are apolitical and provide the Government with advice that is frank, honest, timely and based on the best available evidence.
<i>Committed to Service</i>	We are professional, objective, innovative and efficient, and work collaboratively to achieve the best results for the Australian community and the Government.
<i>Accountable</i>	We are open and accountable to the Australian community under the law and within the framework of Ministerial responsibility.
<i>Respectful</i>	We respect all people, including their rights and their heritage.
<i>Ethical</i>	We demonstrate leadership, are trustworthy, and act with integrity, in all that we do.

1.2 Objectives of this Fraud Control Framework

The *NHMRC Fraud Control Framework 2017-2019* has been developed in accordance with the *Commonwealth Fraud Control Framework 2014* and the *Australian Standard on Fraud and Corruption Control AS 8001:2008*. A key focus of this framework is to raise awareness of fraud among NHMRC staff and other people who deal with NHMRC, to assist in the prevention, detection and reporting of suspected fraud. Other objectives are to:

- inform the *NHMRC Fraud Control Plan 2017-2019*
- reduce the opportunities for fraud to occur within or against the NHMRC
- establish and define responsibility structures for identifying and managing fraud risks and a regime of regular fraud related risk assessments
- ensure that NHMRC staff and external service providers and contractors are aware of the relevant fraud risk indicators and engage with NHMRC's fraud reporting mechanisms
- increase awareness and vigilance, and promote reporting mechanisms to improve the likelihood that suspicions of fraudulent activity within or against the NHMRC will be promptly reported
- ensure that appropriate action is taken when fraud or other improper activity is detected, including:
 - investigation of allegations of fraud and misconduct
 - referral, where appropriate, to an external organisation such as the Australian Federal Police
 - referral, where appropriate, to the Commonwealth Director of Public Prosecutions for decision to prosecute
 - notification, where appropriate, to the Australian Signals Directorate of any IT security breaches within the NHMRC
 - recovery of fraudulently obtained money and/or assets.

1.3 Definition of Fraud

The *Commonwealth Fraud Control Framework 2014* defines fraud against the Commonwealth to be:

Dishonestly obtaining a benefit, or causing a loss, by deception or other means¹.

This definition contains several elements:

- Dishonesty ²: Acting against the interests of the organisation.
- Obtaining a benefit or causing a loss: This can be both financial or non-financial and includes avoiding a debt.
- By deception or other means: Some sort of action to deceive the organisation into departing with the asset, avoiding detection or simply intentionally not drawing an error to the attention of the appropriate authority.

Fraud against the Commonwealth includes (but is not limited to):

- theft of assets or information
- accounting fraud (e.g. false invoices, misappropriation)
- misuse of Commonwealth credit cards
- unlawful use of, or unlawful obtaining of, property, equipment, material or services
- causing a loss, or avoiding or creating a liability
- providing false or misleading information to the Commonwealth, or failing to provide information where there is an obligation to do so
- misuse of Commonwealth assets, equipment or facilities
- making, using or possessing forged or falsified documents
- bribery, corruption or abuse of office
- wrongfully using Commonwealth information or intellectual property
- any offences of a like nature to those listed above.

The benefits referred to in the above definition are not limited to material assets, but can also be intangible, such as the misuse of privileged information.

1.4 NHMRC's Exposure to Fraud

NHMRC has assessed its exposure to fraud as arising from actions taken by staff of the Office of the NHMRC, actions by members of NHMRC appointed Council and Committees, and actions taken by people seeking or receiving funding from the NHMRC, through the Medical Research Endowment Account. As a material agency of the Commonwealth, NHMRC's fraud exposure could amount to tens of millions of dollars.

NHMRC's fraud risk assessments have identified that the controls and measures outlined in the *Fraud Control Plan 2017-2019*, and in preceding plans, have created low to medium levels of risk of fraud incidents occurring. NHMRC's assessments also indicate that it is unlikely that a fraud incident would not be detected.

1.5 The Legislative Framework

Fraud is a criminal offence under chapter 7 of the Criminal Code. Section 10 of the PGPA Rule provides a legislative basis for the Commonwealth's fraud control arrangements and sets out fraud control requirements to assist Accountable Authorities to meet their obligations under the PGPA Act. Breaches of the fraud rule may attract a range

¹ This definition is based on the fraudulent conduct offences under part 7.3 of the *Criminal Code Act 1995*, in addition to other relevant offences under chapter 7 of the Criminal Code.

² The meaning of dishonesty is set out in section 130.3 of the Criminal Code as follows:
(a) dishonest according to the standards of ordinary people, and
(b) known by the defendant to be dishonest according to the standards of ordinary people.

of criminal, civil, administrative and disciplinary remedies (including under the PGPA Act, the *Public Service Act 1999*, the *Criminal Code Act 1995* and the *Crimes Act 1914*).

A number of other relevant pieces of legislation, external standards, NHMRC policies and procedures should be read in conjunction with this Fraud Control Framework. These include:

Key Legislation	External Standards	Policies and Procedures
<p><i>National Health and Medical Research Council Act 1992</i></p> <p><i>Public Governance, Performance and Accountability Act 2013 (particularly PGPA Rule s10).</i></p> <p><i>Public Service Act 1999 - APS Values and APS Code of Conduct</i></p> <p><i>Privacy Act 1988</i></p> <p><i>Public Interest Disclosure Act 2013</i></p>	<p>Commonwealth Fraud Control Framework 2014</p> <p>ANAO Better Practice Guide: Fraud Control in Australian Government Agencies (2011)</p> <p>Australian Government Investigation Standards (2011)</p> <p>Prosecution Policy of the Commonwealth</p> <p>Australian Government Protective Security Policy Framework (amended June 2013).</p> <p>ASNZ ISO 31000:2009 Risk Management</p> <p>AS 8001:2008 – Fraud and Corruption Control</p>	<p>NHMRC Fraud Control Framework 2017-2019</p> <p>NHMRC Fraud Control Plan 2017-2019</p> <p>The APS Code of Conduct</p> <p>Australian Code for the Responsible Conduct of Research</p> <p>HR Policy and Procedures</p> <p>NHMRC Risk Management Policy</p> <p>Accountable Authority Instructions</p> <p>Financial Delegations</p> <p>ICT Policies</p>

1.6 Review of the Fraud Control Framework and Fraud Control Plan

The CEO must develop and implement “a fraud control plan that deals with identified risks as soon as practicable after conducting a risk assessment” (PGPA Rule s10(b)).

NHMRC should consider reviewing this *Fraud Control Framework* at the same time as the *Fraud Control Plan*. NHMRC will review both documents at least every two years as recommended in the *Commonwealth Fraud Control Framework 2014* to ensure it identifies and manages the issues most likely to contribute to fraud at NHMRC. The review should include:

- considerations of the findings of the most recent fraud risk assessment
- a review of changes in the NHMRC’s operations and environment since the previous review (including, for example, fraud risk assessments conducted on new projects, initiatives or investments)
- primary objectives of the agency as described in the Corporate or Strategic Plan
- changes in Government policy
- consideration of new fraud control strategies and the cost/benefit of implementing such strategies.

2. NHMRC's Approach to Fraud Control

Senior management has a significant role in the development of an effective anti-fraud culture at the NHMRC. A highly effective approach to fostering such a culture is ensuring that all staff have an opportunity to be involved in the development, implementation and maintenance of the fraud control framework and fraud control plan.

APS Officials should incorporate fraud risk assessment within planning and design of processes and procedures for projects, initiatives and investments, demonstrating the NHMRC's commitment to continuously and proactively reviewing its fraud control arrangements. All NHMRC Officials have a shared responsibility to detect, report and prevent fraud.

Fraud can be pervasive and sometimes difficult to detect. The NHMRC fraud control strategy is built around the three basic principles of Prevention, Detection and Response.

Prevention

This includes actions taken to prevent fraud through the promotion of a high level of ethics and accountability in relation to fraud control.

Principal mechanisms to achieve this include:

- an ethical organisational culture
- fraud awareness training
- appropriate internal controls
- effective fraud risk assessment and risk management
- internal audit
- employee screening and supplier vetting.

Detection

This includes actions taken to detect fraud early and to limit exposure where it does occur. Principal mechanisms include:

- compliance reviews
- disclosure to an Authorised Officer under the *Public Interest Disclosure Act 2013* and reporting mechanisms
- data analysis and post transaction reviews
- regular management reviews.

Response

Response actions are those taken following detection of suspected fraud, receipt of allegations or receipt of complaint to ascertain if fraud or other illegal acts have occurred and, if so, to what extent.

Principal mechanisms include referral processes and investigation procedures that meet relevant standards and guidelines.

2.1 Responsibilities for Fraud Risk Management

All NHMRC officials have responsibility for fraud control. Some specific responsibilities in relation to fraud risk management are described in the table:

Role	Responsibilities
<p><i>Chief Executive Officer</i></p>	<p>Setting the 'tone at the top' by accepting principal responsibility for fraud control within the NHMRC and for complying with the <i>Commonwealth Fraud Control Framework 2014</i>.</p> <p>Implementing a fraud control plan in accordance with Rule 10 under the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and accounting to the Minister for Health for fraud control within the NHMRC.</p> <p>Appointing the Fraud Control Officer.</p> <p>Fostering an environment that makes active fraud control a responsibility of all staff.</p> <p>Certifying in the NHMRC annual report that they are satisfied that the agency has prepared fraud risk assessments and fraud control plans, and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the NHMRC and comply with the <i>Commonwealth Fraud Control Framework 2014</i>.</p> <p>Articulating clear standards and procedures to encourage the minimisation and prevention of fraud and for the detection and investigation of offences should they occur.</p> <p>Assessing allegations of fraud and decisions regarding the investigation of allegations.</p>
<p><i>Audit Committee</i></p>	<p>Assisting the Chief Executive Officer to ensure the Fraud Control Plan is implemented.</p> <p>Receiving and reviewing NHMRC's fraud risk assessment and Fraud Control Plan.</p> <p>Receiving and reviewing progress reports on the implementation of fraud control strategies.</p>

<p><i>Fraud Control Officer</i></p>	<p>Coordinating strategies as documented in the <i>Fraud Control Framework</i> and ensuring that they are implemented.</p> <p>Performing the fraud risk assessment every two years.</p> <p>Coordinating strategies in the <i>Fraud Control Plan</i> and ensuring that they are implemented.</p> <p>Educating managers and staff regarding the reporting of incidents of suspected fraud.</p> <p>Developing and implementing the fraud awareness training strategy.</p> <p>Providing a central referral point for allegations of fraud and maintaining a fraud incident register.</p> <p>Undertaking a preliminary assessment to determine whether reported behaviour is potentially fraudulent in nature.</p> <p>Referring the matter, where appropriate, to the Chief Executive Officer, Audit Committee and/or an external fraud investigation service provider or the Australian Federal Police.</p> <p>Making recommendations to the Executive on proposed modifications to the internal control environment as a consequence of a fraud occurring.</p>
<p><i>General Manager, Executive Directors</i></p>	<p>Identifying potential fraud risks within their area of responsibility on a continuing basis.</p> <p>Ensuring that appropriate internal controls are in place and operating effectively to minimise fraud risks.</p> <p>Reporting to the Chief Executive Officer on the key fraud risks and effectiveness of fraud control strategies in their relevant Branch.</p> <p>Ensuring a targeted response to fraud in each Branch.</p> <p>Contributing to the development of the <i>Fraud Control Plan</i>.</p> <p>Ensuring that agreed strategies and recommendations contained in the <i>Fraud Control Plan</i> and any internal and external audit reports are implemented within an acceptable timeframe.</p> <p>Reporting any concern, suspicion, or information of any suspicion of fraudulent or improper conduct to a senior NHMRC staff member.</p>
<p><i>NHMRC Officials (APS staff)</i></p>	<p>Acting in a professional and ethical manner, follow legal requirements and enhance the reputation of the NHMRC.</p> <p>Implementing fraud risk management strategies where directed and participate fully in activities relating to fraud control.</p> <p>Advising the Fraud Control Officer or the Chief Executive Officer of any concern, suspicion, or information of any suspicion of fraudulent or improper conduct and encourage others to do the same.</p>
<p><i>NHMRC Officials (non-APS staff)</i></p>	<p>All Officials (as defined by the PGPA Act) are required to report any concern, suspicion, or information of any suspicion of fraudulent or improper conduct to a senior NHMRC staff member.</p>

3. Prevention

The CEO must have “an appropriate mechanism for preventing fraud, including by ensuring that officials in the entity are made aware of what constitutes fraud and the risk of fraud is taken into account in planning and conducting the activities of the entity” (PGPA Rule s10(c)).

3.1 Integrity Framework and Organisational Culture

A fundamental strategy in controlling the risk of fraud is the development and maintenance of a sound ethical culture, underpinned by effective and continuous communication of the expectations of employee conduct within the NHMRC, and including examples set by management.

3.2 Fraud Control Planning

To maintain better practice in its fraud risk management strategies, NHMRC is committed to the following:

- A consistent approach– this plan is to be applied uniformly across all the NHMRC. Each official is to have an understanding of their responsibilities for fraud control.
- Communication of the Executive’s strong commitment – ensure there is regular communication promoting compliance with the Fraud Control Framework.
- Accessibility to the *Fraud Control Framework* and *Fraud Control Plan* – the *Fraud Control Plan* will be made accessible to all officials, including those externally engaged, and will be located on the NHMRC intranet and internet.
- Regular review of the Fraud Control Framework.

3.3 Fraud Awareness Training

From time to time, situations may arise that may be symptomatic of fraudulent activity but they are not in themselves proof that a fraud has occurred. These situations are commonly referred to as indicators of fraud or ‘red flags’. A significant proportion of fraud goes undetected because of the inability of officials to recognise these ‘red flags’, or other early warning signs of fraudulent activity, or alternatively they are unsure of how to communicate their suspicions.

Accordingly, NHMRC will conduct fraud awareness training annually to assist in raising the general level of awareness.

Executive staff in particular should be aware of their responsibility to remain vigilant to identify and report any suspected fraud risk and/or fraudulent activity relating to the NHMRC.

3.4 Internal Controls

Internal controls are often the first line of defence against fraud. NHMRC will ensure the maintenance of a strong internal control system and the promotion and monitoring of a robust internal control culture.

NHMRC will promote an internal control culture through a process of:

- example setting by management
- regular communication of the importance of internal controls to all employees
- documenting key internal controls and control policies
- adherence to internal controls as part of the performance development scheme
- internal Audit programs (see section ‘NHMRC Internal Audit’).

3.5 Fraud Risk Assessment

The CEO must conduct “fraud risk assessments regularly and when there is a substantial change in the structure, functions or activities of the entity” (PGPA Rule s10(a)).

NHMRC will conduct an assessment of fraud risk at least every two years and at any time of significant corporate restructure, as recommended in the *Commonwealth Fraud Control Framework 2014*. The Chief Executive Officer, General Manager or Audit Committee may request that the fraud risk assessment be updated at any time. The fraud risk assessment will be contained within the Fraud Control Plan. The Fraud Control Plan will be aligned with the other policies and legislation governing NHMRC, and undertaken in accordance with the *Commonwealth Fraud Control Framework 2014*, the international risk management standard *AS/NZ ISO 31000:2009* and the *NHMRC Risk Management Policy and Framework*.

The results of the fraud risk assessment are incorporated into the NHMRC’s overall risk management framework which includes the Fraud Control Plan. All NHMRC branches will ensure that the strategies developed during the fraud risk assessment process are reviewed for effectiveness and amended where necessary.

3.6 Internal Audit Program

The NHMRC internal audit program is an important element in reviewing risk management strategies and the effectiveness of the controls, policies and procedures in place. The internal audit process will also play an important role in identifying additional fraud risks.

3.7 Employee Screening and Supplier Vetting

NHMRC will apply screening procedures in accordance with the *Protective Security Policy Framework* for APS Officials. Supplier vetting procedures will be included in contractual documentation, where appropriate.

4. Detection

The CEO must have “an appropriate mechanism for detecting incidents of fraud or suspected fraud, including a process for officials of the entity and other persons to report suspected fraud confidentially” (PGPA Rule s10(d)).

All Officials have a responsibility to advise the Fraud Control Officer or the Chief Executive Officer of any concern, suspicion, or information of any suspicion of fraudulent or improper conduct and encourage others to do the same. This includes all actions that may appear, or may be an attempt to dishonestly obtain a benefit or cause a loss, by deception or other means.

4.1 Public Interest Disclosure Mechanisms and Incident Reporting

People who are prepared to speak up about suspected wrongdoing in the Commonwealth public sector are vital in ensuring its integrity and accountability. Allegations of wrongdoing made under the *Public Interest Disclosure Act 2013* are known as public interest disclosures.

NHMRC provides a number of avenues to assist officials to come forward with their concerns regarding suspected fraudulent behaviour. APS officials may wish to, in the first instance, report the matter to their immediate supervisor. The supervisor would then be responsible for notifying the Fraud Control Officer of the suspected behaviour. If, for any reason, the APS official feels that reporting the incident through this channel would be inappropriate, he or she should report the matter directly to the Fraud Control Officer or to a Public Interest Disclosure Authorised Officer. Non APS officials can report their concerns to the NHMRC Fraud Control Officer, the CEO or a senior NHMRC official.

NHMRC will ensure all officials are aware of NHMRC’s reporting policies and actively encourage all officials to report suspected cases of fraud through appropriate channels. NHMRC will also maintain an appropriate recording, reporting and analysis system to ensure that all instances of suspected fraud are satisfactorily resolved. A checklist to assist officials in the event of a suspect fraud incident is at [Appendix B](#).

Section 58(b) of the *National Health and Medical Research Council Act 1992* (NHMRC Act) also provides for the making of complaints to the Commissioner of Complaints on the basis that a reviewable action has been “induced or affected by fraud”. Reviewable action is defined in the NHMRC Act, section 4, and relates to decisions to grant, or not grant, funding from the Medical Research Endowment Account.

4.2 Grants Compliance Monitoring

Provision of grant funds is a key fraud and error risk area for NHMRC. Active monitoring of grant funds expended can be effective in identifying fraudulent activity by external providers and ensuring accountability for the use of Commonwealth funds. Active monitoring activities will go beyond reviewing acquittal information to processes such as:

- seeking verification and justification of expenditure (including documentation where relevant)
- inspection of outcomes and milestones by persons with the appropriate expertise
- undertaking benchmarking and ratio analysis to identify inefficiencies or possible fraudulent activities.

It is the responsibility of the Chief Executive Officer, the Executive and the Audit Committee to determine which monitoring procedures may be required to manage the fraud risk associated with the provision of grant funds.

NHMRC also receives notification of allegations of research misconduct from researchers, Administering Institutions and other stakeholders. While NHMRC is not responsible for investigating allegations of research misconduct or potential breaches of the *Australian Code for the Responsible Conduct of Research*, some breaches may include behaviours that fall within the definition of potential fraud. Behaviours that NHMRC may investigate as an allegation of fraud may include data falsification, misuse of grant funds or provision of false or misleading information to NHMRC.

4.3 Data Mining Analysis

Data mining is a process of uncovering patterns and relationships in datasets that are not otherwise apparent. Data mining uses databases to search for accounting anomalies or unusual relationships between numbers, people and entities. For example, this might include such tests as searching accounts payable data for repeated invoice numbers to identify duplicate payments, or analysing payments of claims for milestone payments by grant recipients.

4.4 Post Transaction Reviews

A review of transactions after they have been processed can be effective in identifying fraudulent activity. Such a review may uncover altered or missing documentation, falsified or altered authorisation or inadequate documentary support. In addition to the possibility of detecting fraudulent transactions, a review can also have a significant fraud prevention effect as the threat of detection may be enough to deter an employee who would otherwise be motivated to engage in fraud.

4.5 Management Accounting Reporting Review

Using relatively straightforward techniques in analysing NHMRC's management accounting reports, trends that may be indicative of fraudulent conduct can be identified and investigated. Some examples of the types of management accounting reports that can be utilised on a compare and contrast basis are:

- budget reports for each branch
- reports comparing expenditure against industry benchmarks
- reports highlighting unusual trends in doubtful debts and write-offs.

4.6 External Audit

NHMRC recognises that the external audit function is an important control in the detection of fraud which impacts on the financial statements. The Chief Executive Officer and Chief Finance Officer may consider discussions with the Australian National Audit Office to ensure that due consideration is given by the auditors to their consideration of fraud in the Financial Statements audit.

4.7 ICT Systems Audit

NHMRC uses a sophisticated software tool to monitor all activity on the NHMRC ICT system. This tool is capable of detecting a range of potentially fraudulent behaviours, including misuse of ICT resources and wrongful use of Commonwealth information. The RGMS system is also monitored, and particular transactions or modifications are logged and audited.

5. Response

The CEO must have “an appropriate mechanism for investigating or otherwise dealing with incidents of fraud or suspected fraud” (PGPA Rule s10(e)) and “an appropriate mechanism for recording and reporting incidents of fraud or suspected fraud” (PGPA Rule s10(f)).

The NHMRC is committed to the investigation of all reports and suspicions of fraudulent activity and the Fraud Control Officer is responsible for coordinating fraud response strategies. Officials of the NHMRC are not authorised to investigate fraud unless directed by the Fraud Control Officer. All responses to fraud incidents must be coordinated through the Fraud Control Officer.

The NHMRC is a small agency and does not employ qualified fraud investigators to respond to suspicious incidents³. The investigation of fraud can be a complex and, at times, technical process and staff should be aware of the consequences of a poorly conducted investigation, including:

- denial of natural justice
- defamation
- inadmissible or poor control over the collection of evidence – for example making physical alterations to documents or data
- destruction of physical evidence.

APS Officials may only take action related to the area in which fraud is suspect as a normal part of their duties in consultation with the Fraud Control Officer.

Officials should not attempt to undertake any investigation, collect evidence or interview any person about a possible offence. Procedures relating to these activities are subject to legal requirements, and, as indicated above, must only be carried out by investigators with a minimum mandatory qualification. Failure to follow proper procedures could result in evidence being lost or not accepted by the courts.

5.1 Handling a Fraud Report

Should an official become aware of fraudulent conduct, he or she should complete a Fraud Incident Report (see [Appendix A](#)) and forward this to the Fraud Control Officer at the earliest opportunity. Where the official does not consider that this approach is appropriate (for example, allegations that involve the CEO or Fraud Control Officer), they should refer to the Public Interest Disclosure guidance and the Procedures for Whistleblower Reports. Allegations of fraud received should be communicated as soon as practicable.

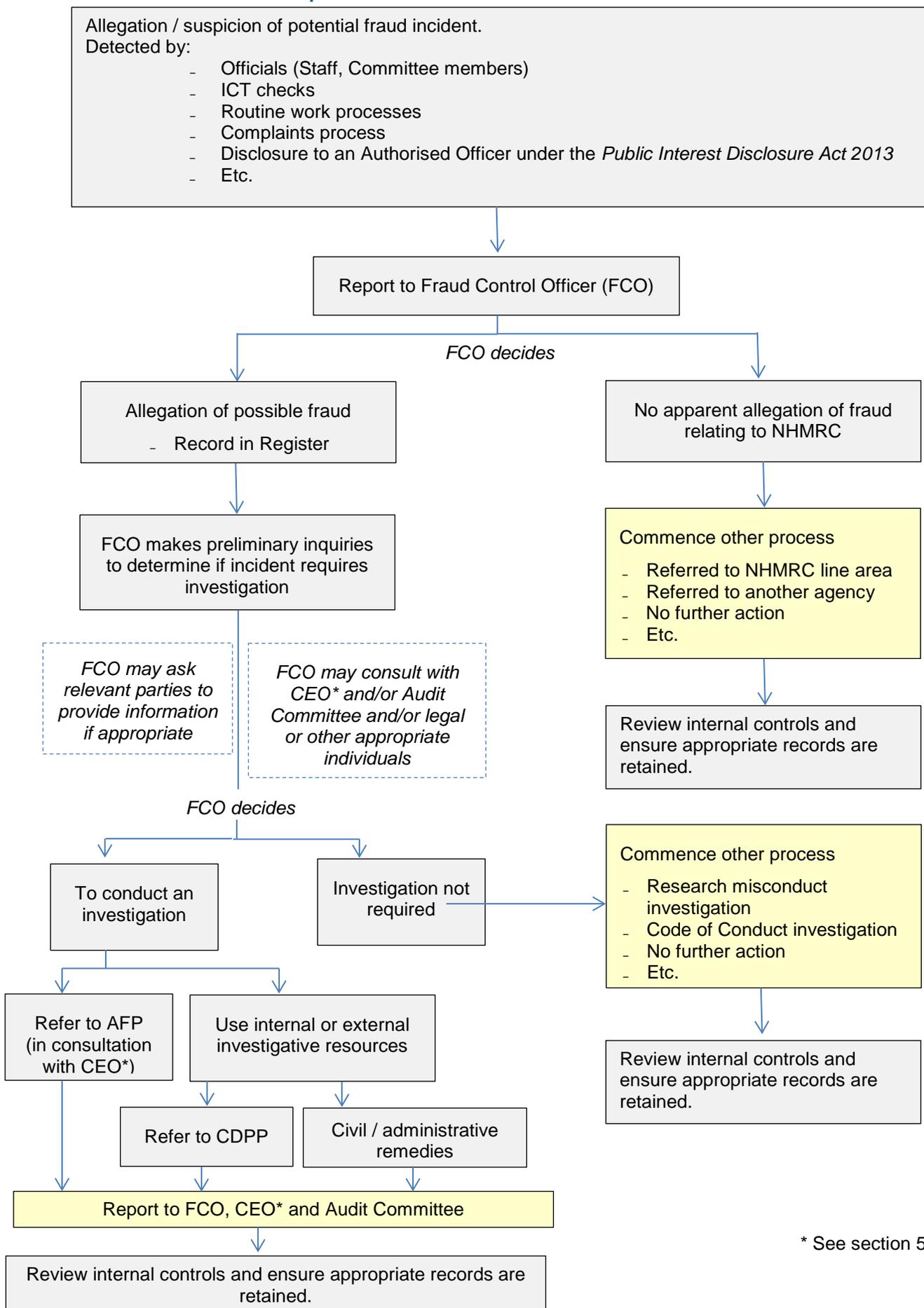
A flowchart that describes the key process is at [Figure 1](#). Officials should also review the checklist of issues ([Appendix B](#)) to ensure appropriate actions and issues are considered when a potential fraud matter is identified.

5.1.1 Fraud Incident Register

The Fraud Control Officer will also maintain a Fraud Incident Register. The Fraud Incident Register records a summary of reported fraud incidents, regardless of their outcome, and is used as a basis for providing quarterly reports to the Audit Committee and annual reports to the Australian Institute of Criminology (AIC) by 30 September each year.

³ Investigative guidance may be obtained from the Australian Government Investigation Standards package (available from the AFP) if required. However, it should be noted that the Commonwealth Fraud Control Framework 2014 mandates minimum mandatory qualifications for people who investigate allegations of fraud.

Figure 1: **NHMRC Response to a Potential Fraud Event: Flowchart**



* See section 5.4

5.2 Decision to conduct an investigation

On receipt of an allegation of fraud, the Fraud Control Officer will make preliminary inquiries to ascertain whether the matter warrants further investigation. Being cautious of privacy obligations, the Fraud Control Officer may seek information from any relevant party, including NHMRC staff, contractors, committee members, researchers and Administering Institutions. The Fraud Control Officer may consult with the Executive and/or the Audit Committee in determining the appropriate course of action. In any event, the Fraud Control Officer must inform the Chief Executive Officer and the Audit Committee as soon as practicable regarding receipt of an allegation of fraud and the action taken to respond to the matter.

The Fraud Control Officer can use internal or external resources as required, taking into consideration the requirements of the *Commonwealth Fraud Control Framework 2014* (as indicated in section above). If an allegation of fraud is investigated, the Fraud Control Officer will be responsible for overseeing the investigation, except for those matters referred to the AFP (refer to section below). In consultation with the Fraud Control Officer, internal and external investigators may seek advice from external experts (e.g. legal advice).

5.2.1 Referral to Australian Federal Police (AFP)

The AFP has the primary law enforcement responsibility for investigating criminal offences against Commonwealth laws. Under the *Commonwealth Fraud Control Framework 2014*, agencies must refer all instances of potential serious or complex fraud offences to the AFP. If the Fraud Control Officer determines that a serious or complex fraud is likely to have been committed, they will brief the Chief Executive Officer who may refer the matter to the AFP for investigation. In order to determine whether the matter is serious or complex, the Fraud Control Officer and the Chief Executive Officer will refer to the following criteria:

- significant monetary or property loss to the NHMRC
- damage to the security, standing or integrity of the NHMRC
- harm to the economy, resources, assets, environment or well-being of Australia
- a serious breach of trust by an NHMRC employee or NHMRC contractor
- the use of sophisticated techniques to avoid detection
- evidence of a criminal conspiracy
- bribery or attempted bribery of an NHMRC employee or contractor
- known or suspected criminal activity against more than one Commonwealth agency.

Any criminal activity likely to have politically sensitive implications is also to be referred to the AFP. The process is to complete the 'Referral to the AFP' form on the AFP website. (

If the AFP declines to accept the matter, the Fraud Control Officer, in conjunction with the Chief Executive Officer, will determine the most appropriate option for resolving the matter. The matter must be managed in accordance with the Australian Government Investigation Standards. In most cases, NHMRC will engage external investigators to provide specialised investigative services for a matter that was considered sufficiently serious or complex to refer to the AFP.

5.2.2 External investigative resources

The appointment of third party investigative resources must be approved by the Chief Executive Officer to ensure segregation of duties in the appointment process. Consistent with the requirements of the *Commonwealth Fraud Control Framework 2014*, external providers engaged by the NHMRC to undertake fraud investigations must meet at least the minimum competency requirements of a Certificate IV in Government (Fraud Control Investigation) or Diploma of Government (Fraud Control Investigation).

5.3 Civil and administrative remedies

There are numerous civil and equity law remedies and administrative processes available to NHMRC to deal with people who engage in unethical or unlawful behaviour (be it fraud or misconduct). The Fraud Control Officer should obtain legal advice as to the remedies available in relation to a particular matter.

For external fraud, NHMRC may take action against individual researchers, Administering Institutions, or other interested parties which may include, but is not limited to: restrictions from participation in peer review; restrictions in relation to the receipt of NHMRC funding; suspension or termination of funding; and other civil remedies.

For internal fraud, NHMRC may take administrative action under the *Public Service Act 1999*. Remedies available include, but are not limited to: reprimand; suspension; transfer / reassignment of duties; demotion; termination; penalty; financial recovery; counselling; loss of privileges, and greater scrutiny / increased controls.

5.4 Allegations involving the Chief Executive Officer

Allegations involving the CEO should be reported to the Fraud Control Officer or an NHMRC Public Interest Disclosure (PID) Authorised Officer. The Fraud Control Officer will follow the general process for investigating the allegation, in consultation with the Audit Committee. The Fraud Control Officer must not advise the CEO of the allegation if there is any possibility this could jeopardise the investigation. At any time, the Fraud Control Officer, Audit Committee or PID Authorised Officer may determine that the allegation should be referred to the AFP, in accordance with paragraph 10.14 of the *Resource Management Guide No. 201 - Preventing, detecting and dealing with fraud*.

5.5 Interaction of Fraud Control Framework with other Policies and Processes

5.5.1 Research Misconduct

NHMRC Administering Institutions are required, under the Funding Agreement, to provide NHMRC with information relating to research misconduct allegations. The Administering Institution is required to investigate the allegation in accordance with the requirements of the *Australian Code for the Responsible Conduct of Research 2007*. Depending on the nature of the allegation, the NHMRC Chief Executive Officer may take action when there are reasonable grounds to form a view that relevant standards of conduct or research conduct may or have not been met by an NHMRC funded researcher or in NHMRC. These actions are established in the *NHMRC Policy on Responses to Probity or Research Misconduct Events*, or equivalent as amended from time to time.

At any time following the receipt or suspicion of an allegation that may involve fraudulent behaviour, NHMRC has an obligation to commence the procedures described in this Fraud Control Framework. Officials may detect potentially fraudulent behaviour in the course of their work and should report these potential fraud incidents to the Fraud Control Officer. Officials should not attempt to investigate or seek further information without agreement from the Fraud Control Officer.

5.5.2 Code of Conduct

As well as prosecution under the Criminal Code, APS Officials who commit fraud are in breach of the APS Code of Conduct and may be subject to suspension with or without pay and misconduct action under the *Public Service Act*.

Where an employee's behaviour is both a breach of the Code and a criminal offence, misconduct action need not be delayed until the fraud or criminal processes have been completed. NHMRC Officials must seek advice from the Fraud Control Officer before alerting an employee of any allegations of misconduct. A key consideration is the need to avoid prejudicing any fraud investigation process.

If there is some risk of prejudicing the fraud or criminal proceedings, agencies may initiate a misconduct action (putting the employee on notice that an action will ensue) but may immediately suspend the Code of Conduct investigation, pending the outcome of the fraud or criminal proceedings.

The *Commonwealth Fraud Control Framework 2014* makes it clear that agencies must refer all allegations of serious or complex fraud involving Commonwealth interests to the Australian Federal Police.

5.6 Reporting to the Chief Executive Officer and Audit Committee

The investigator (in conjunction with the Fraud Control Officer) is to submit a written report to the Chief Executive Officer detailing the allegation, the investigation procedures undertaken and the investigation findings. The Fraud Control Officer will report regularly on the status and results of all investigations to the NHMRC Audit Committee.

The Chief Executive Officer, in consultation with the Fraud Control Officer, is responsible for deciding what action will be taken at the conclusion of an investigation, such as referring the matter to the Commonwealth Director of Public Prosecutions, pursuing any other civic or administrative remedies, conducting disciplinary action and/or recovering fraudulently obtained money or assets.

5.7 Follow-up of Risk Assessment and Internal Controls

At the conclusion of a fraud investigation, the details of the circumstances that allowed the fraud to occur will be reported back to the Executive. The previous risk assessment that was conducted in the area in which the fraud occurred will be reassessed and the ratings that were earlier applied in this risk assessment will be reviewed and amended accordingly. Similarly, the circumstances that allowed the fraud to occur will be considered in the context of the wider NHMRC operations, and risk assessments conducted or amended as required. In each instance where fraud is detected, NHMRC will reassess the adequacy of the internal control environment (particularly those controls directly impacting on the fraud incident and potentially allowing it to occur) and consider whether improvements are required. Where improvements are required, they should be implemented as soon as practicable.

5.8 Recovery and Other Remedies

NHMRC is committed to actively pursuing the recovery of any money or property lost through fraud, although an assessment should be made of the likely costs and benefits of recovery. The decision to pursue recovery actions will be determined by the Chief Executive Officer.

Subject to the above, civil action for the recovery of misappropriated moneys may, at the discretion of the Chief Executive Officer, extend to seeking the appointment of a Trustee in Bankruptcy to the estate of the person or persons against whom an order for restitution arising out of fraudulent conduct has not been satisfied. Where it is considered appropriate that the matter not be reported to the police, NHMRC reserves its right to pursue a range of other remedies including dismissal, demotion or reprimand.

Exit interviews and exit checklist procedures should be performed in the event of dismissal from NHMRC for fraud or misconduct. This is necessary to ensure those factors that contribute to the dismissal can be managed as a process of mitigating fraud risk.

5.8.1 Insurance

NHMRC maintains and will continue to maintain insurance policies issued through Comcover.

5.9 Crisis and Media Management

NHMRC is committed to preserving its reputation in the event of a fraud allegation concerning NHMRC entering the public domain. Should fraud be detected, the Fraud Control Officer, in conjunction with the Chief Executive Officer should assess communication needs in relation to the fraud. Where external investigative agencies are involved, NHMRC will consult those agencies in relation to the communication activities.

In all other circumstances, the receipt of a fraud allegation, or conduct of a fraud investigation, is to be treated in the strictest confidence to ensure procedural fairness and the integrity of the investigation. All NHMRC staff involved in a fraud investigation will be briefed by the Fraud Control Officer on their privacy and information security obligations.

5.10 Recording the Fraud Control Process and Fraud-related Issues

All NHMRC fraud management activities are to be recorded and traceable according to NHMRC record keeping policies and procedures.

All NHMRC APS officials should use the NHMRC-agreed templates and checklists (see [Appendices A and B](#)).

All officials must comply with the requirements of the *Privacy Act 1988* and must ensure fraud-related information is only provided to staff with a demonstrated 'need to know'. APS officials must ensure appropriate security classification and Dissemination Limiting Markers (DLMs) are applied to fraud-related documents which may contain personal or sensitive material.

6. NHMRC Fraud Risks and Specific Fraud Control Actions

The key fraud risks to NHMRC are identified in the *NHMRC Fraud Control Plan 2017-2019*.

The *NHMRC Fraud Control Plan 2017-2019* also identifies specific fraud control actions that will be implemented to further reduce fraud risk. These specific actions align with NHMRC's general objectives for the prevention and detection of fraud:

General Prevention Objectives (ongoing)

- maintain awareness of the risk of fraud, conflicts of interest and the importance of security (physical and IT).
- foster an ethical culture
- maintain awareness of fraud mitigation processes and assist with promoting effective fraud control communication across NHMRC Branches and functions
- communicate and explain fraud control responsibilities for staff, committee members and contractors of the NHMRC
- ensure a strong and appropriately targeted post-award compliance regime to ensure the appropriate use of public funds by funded institutions and researchers
- improve of conflict of interest management through active conflict checking
- reduce the risk of a conflict of interest going un-declared and un-noticed
- ensure adequate safeguards and post payment monitoring is undertaken to mitigate the risk of fraud perpetrated through the RBA Link process.

General Detection Objectives (ongoing)

- maintain a program of pro-active data analysis over the Accounts Payable function to identify potential duplicate payments, unauthorised payments or other Accounts Payable anomalies
- institute regular monitoring of electronic logs for unauthorised activity to increase the ability of the NHMRC to detect inappropriate access and minimise the extent of fraud
- strengthen contract management and increase post-transaction reviews
- assist NHMRC in complying with the Commonwealth Procurement Guidelines
- enable legal review of contracts.

7. Fraud Control Officer

As at November 2017, the Fraud Control Officer is Dr Tony Willis, Executive Director Research Quality and Priorities Branch. Dr Willis is situated on level 3 in the Canberra Office. He can be contacted on 02 6217 9101.

In the event that Dr Willis will be unavailable for an extended period of time, Dr Willis will delegate the responsibilities of the Fraud Control Officer to an appropriate individual.

Secretariat support to the Fraud Control Officer is provided by the Strategic Project and Support section.

Appendix A: Fraud Incident Report

To be completed for all allegations of fraud or misconduct reported to the Fraud Control Officer.

All Officials have a responsibility to report any concern, suspicion, or information of any suspicion of fraudulent or improper conduct and encourage others to do the same. This includes all actions that may appear, or may be an attempt to dishonestly obtain a benefit or cause a loss, by deception or other means.

Date report completed	
Details of person making report (If the report originally came from an external party, include details of the external party as well as the NHMRC staff member completing this form)	

Allegation

Date/s of alleged activity	
Details of person/s potentially involved in alleged activity (name/s, contact details etc.)	
Allegation (Include details of the concern, suspicion, or information relating to potentially fraudulent conduct. Include how the incident/conduct was detected. Specify when and where the matter occurred, if known)	
Further comments from person making report (Include sensitivities, if any)	

Director, Strategic Projects & Support – Comment/s & Recommendation/s (if applicable)

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FCO Comment/s & Decision

FCO to complete

- Please add this to the fraud register
- Please provide a M2FCO with further information
- Please arrange a meeting with me to discuss this matter further

Fraud Support Officer's use only

Date received	Date provided to Director	Date of FCO response
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Appendix B: Fraud Reporting Checklist

The checklist below is to be used to assist NHMRC APS Officials in the event of a fraud incident.

Action	Completed
Read the Fraud Control Framework to gain an understanding of fraud, the reporting process and the possible investigation process.	
Do not approach the suspect.	
Report the incident to the Fraud Control Officer or a person nominated in the NHMRC Procedures for Whistleblower Reports and Public Interest Disclosure guidance.	
In consultation with the Fraud Control Officer, identify any documentation that relates to the incident, and where appropriate secure documentation. Where	

documentation is possessed by the suspect, do not seize documentation.	
Maintain confidentiality. Incidents should not be discussed with any person except those to whom the matter is reported and for those who are responsible for investigating the incident.	
Ensure that all relevant matters are documented in a file note such as dates, persons, and conversations. An employee may be required to make a statement if the matter is investigated.	
Assist the investigation team as required.	

Appendix C: Fraud Control - The Basics

The Commonwealth Government made a coordinated and systematic commitment across the Australian Public Service (APS) to protect its revenue, expenditure and property from fraudulent activity when it released its Fraud Control Policy in 1987.

In 1994, the Government formed the Commonwealth Law Enforcement Board⁴ to coordinate and develop public sector fraud control policy, as well as oversee the implementation and maintenance of this policy within Commonwealth agencies. The revised Fraud Control Policy was released in 1994.

Due to the rapidly changing world of business and technology, the opportunities for and efficiency with which fraud can be committed has dramatically increased the Commonwealth's fraud risk exposure. As a result, the 1994 Fraud Control Policy was further revised and replaced by the *Commonwealth Fraud Control Guidelines* in 2002, the *Commonwealth Fraud Control Guidelines 2011* and subsequently the *Fraud Control Framework 2014*.

The *Commonwealth Fraud Control Framework 2014* not only acknowledges that technology has created new and more significant exposures to fraud, but also that a dynamic response in a dynamic environment is more likely to succeed than a prescriptive approach. All staff need to be aware of fraud control issues and actively implement fraud reduction strategies in the execution of their day-to-day activities.

In addition to the *Commonwealth Fraud Control Framework 2014*, the *Public Governance, Performance and Accountability Act 2013* designates the Chief Executive Officer as responsible for the implementation of a Fraud Control Plan, and for reporting on fraud control to the Minister for Health.

The *Commonwealth Fraud Control Framework 2014* recommends that a fraud risk assessment be conducted at least every two years, the outcomes of which should form the basis for the continuous improvement of fraud control strategies. This recommendation is based on the fact that new technology and business processes expose organisations to new risks, and the need to actively tackle the inherently pervasive nature of fraud. The performance of a regular fraud risk assessment also provides the opportunity to assess our progress in managing fraud and to identify the effectiveness of our strategy.

Fraud: Internal vs. External

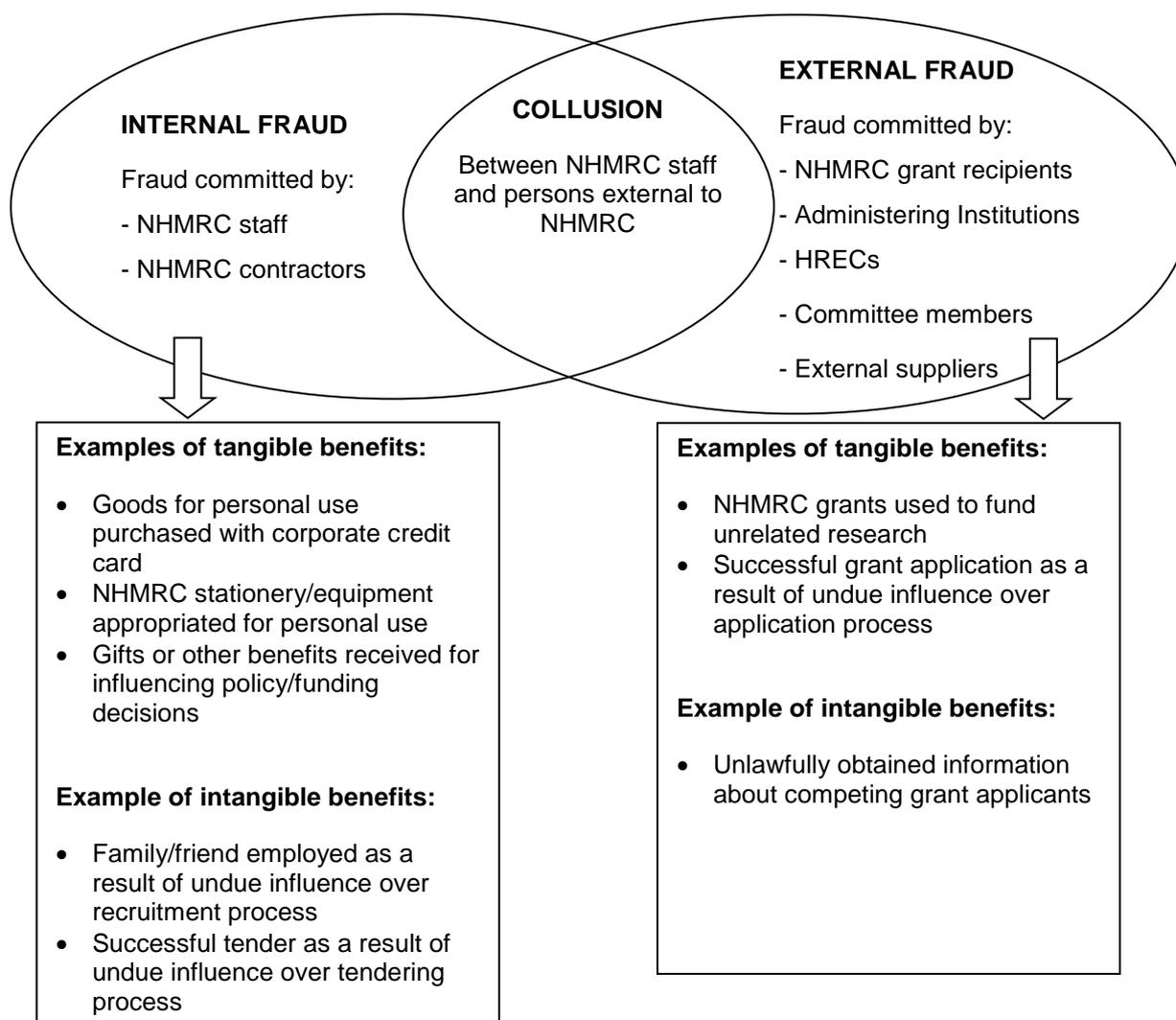
Fraud can be broadly classified into the following three categories based on who is involved:

- internal fraud
- external fraud
- fraud committed by collusion between staff and persons outside the organisation.

Although the nature of the NHMRC's role as a funding body and regulator does not provide significant opportunities for serious fraud against the Commonwealth, there are nevertheless a number of tangible and intangible benefits that might be obtained by defrauding the NHMRC (Figure 1).

⁴ The functions ascribed to CLEB are now being carried out by the Attorney-General's Department.

Figure 1 – Possible fraud perpetrators and benefits



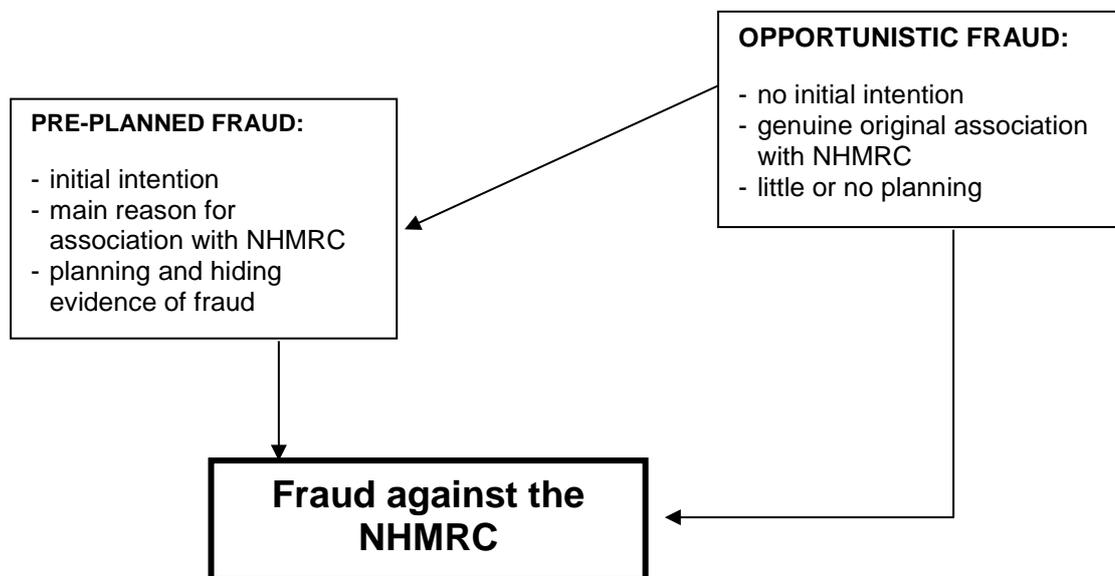
There is a clear distinction between those who intentionally commit fraud in a pre-planned manner and those who had no plan to commit fraud but do so when the opportunity arises⁵. In the case of those who set out to defraud the organisation, fraud forms the basis of their association with the organisation. However, the NHMRC is unlikely to attract professional fraudsters because of the nature of its business and the relatively small size of this public sector organisation. In other words, the NHMRC is unlikely to offer a significant tangible benefit to those who make a living from fraud.

Corporate culture in the fight against fraud

In the NHMRC context, fraud is most likely to be of an opportunistic nature. This means that the person who commits the fraud did not become associated with the NHMRC specifically to defraud the organisation. However, the commission of an opportunistic fraud against the NHMRC may lead to systemic fraud (Figure 2). This changes the relationship with the organisation entirely: the fraud now becomes an intentional activity and the person’s association with the NHMRC changes and is now based on the commission of further fraud and hiding evidence of the fraud.

⁵ The Chartered Institute of Management Accountants (2001) *Fraud Risk Management – A guide to good practice*. <http://www.cimaglobal.com>

Figure 2 – Fraud: pre-planned vs. opportunistic



Limiting opportunities for fraud to be committed against an organisation must form a key aspect of any fraud control plan. Generally, opportunity for fraud is created by a weak internal control environment and a poor anti-fraud culture within the organisation. An analysis of fraud in the public sector led the Commonwealth Law Enforcement Board to conclude that:

“Fraud flourishes in an administrative environment where opportunities exist for waste, abuse and mismanagement. The Government is convinced that its emphasis on fraud prevention as part of its financial management and law enforcement policies will reduce these opportunities for waste, abuse and mismanagement.”⁶

The principal influence on organisational culture is ethical conduct by management, and in particular by the Chief Executive Officer. Studies conducted on the impact of management behaviour on the attitudes of staff showed that staff were more likely to do what they see their supervisor doing than adhere to ethics policy.⁷ Other research conducted into the impact of Chief Executive Officer opinions on ethical behaviour showed that statements from the Chief Executive Officer on his or her stance on ethics have more impact on staff decision making than do the staff member’s own ethical goals or beliefs.⁸

The *Commonwealth Fraud Control Framework 2014* recognises the particularly important role that the Chief Executive Officer can play in an organisation’s anti-fraud culture. Under the guidelines, Chief Executive Officers are fully accountable to their respective Ministers for the implementation of fraud control policy in their agency.

In addition to the prescriptive requirements of the *Commonwealth Fraud Control Policy*, Commonwealth Chief Executive Officers also have a legislative requirement under the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act).

The fraud triangle

Opportunity alone, however, is not likely to be sufficient motivation for the vast majority of people associated with the NHMRC to commit fraud. Other conditions that are generally present when fraud occurs are incentive or pressure and

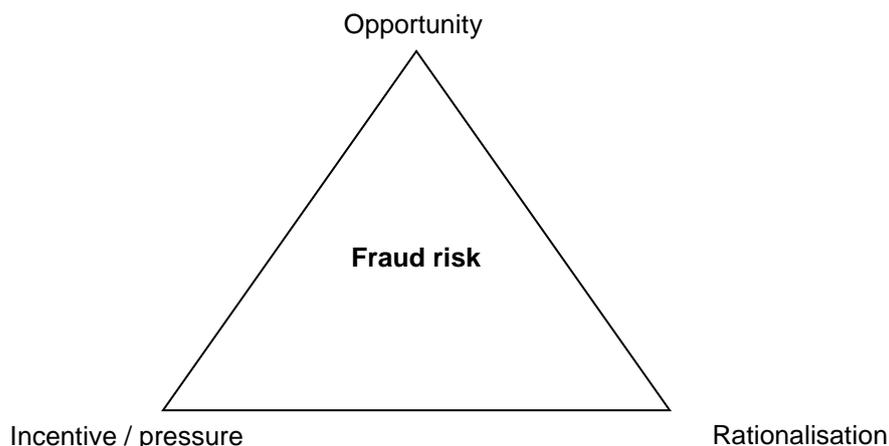
⁶ Commonwealth Law Enforcement Board (1994) *Best Practice for Fraud Control – Fraud Control Policy of the Commonwealth*.

⁷ Soutar, G., McNeil, M.M., & Molster, C. (1994) The Impact of the Work Environment on Ethical Decision Making: Some Australian Evidence *Journal of Business Ethics* **13(5)** 327-339.

⁸ Hegarty, W.H., & Sims Jr. H.P. (1979) Organizational Philosophy, policies and objectives related to unethical decision behaviour: A Laboratory Experiment *Journal of Applied Psychology* **64(3)** 331-338.

rationalisation. The relationship between these conditions was first articulated by the American Institute of Certified Public Accountants⁹ and is represented by the fraud triangle (Figure 3).

Figure 3 – The fraud triangle



Condition	Definition	Prevention
Opportunity	Weakness in internal (fraud) controls	Effective internal (fraud) controls Anti-fraud culture
Incentive / pressure	Fraud is an opportunity for significant personal gain or alleviation of situational or professional pressures.	Ethical culture
Rationalisation	Personality traits, personal integrity, and the inclination or ability to rationalise unethical conduct	Ethical culture

There are a range of motivating factors that might drive a person to commit fraud, including:

- financial pressures or greed
- gambling and other addictions
- revenge
- maintaining lifestyle
- financial support for an unrelated business
- personal debt.

In 2005 the Australian Institute of Criminology estimated that fraud in Australia costs an estimated \$8.5 billion.¹⁰ This is despite the fact that all major corporations and Government agencies have fraud control strategies in place. Effective internal controls and an anti-fraud culture within an organisation are an integral part of any fraud control strategy, but address only one corner of the fraud triangle, namely opportunity (Figure 3).

⁹ American Institute of Certified Public Accountants (2002) *Consideration of Fraud in a Financial Statement Audit*. Statement on Auditing Standards No. 99. New York, NY.

¹⁰ http://www.aic.gov.au/crime_community/communitycrime/costs.html

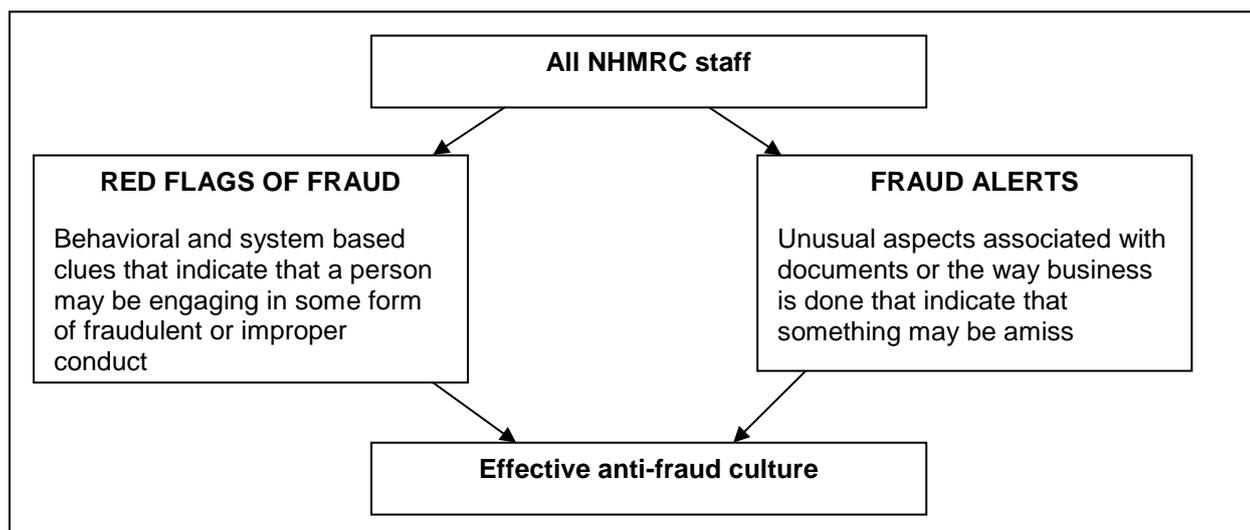
It is clear that to target all corners of the fraud triangle effectively, the NHMRC fraud control plan must include internal controls and strategies that encourage the development of an effective ethical and anti-fraud culture. Senior management will play a vital role in this process by:

- fostering an environment within the NHMRC which makes active fraud control a major responsibility for all officials
- articulating clear standards and procedures to encourage minimisation and deterrence of fraud
- implementing procedures for the detection and prosecution of offences should they occur.

Recognising the warning signals: fraud indicators

An effective fraud control strategy involves all staff. In particular, all staff should receive training to recognise the indicators that a fraud may have been, or might be committed.

Figure 4 – Understanding the fraud indicators



Red flags can include the following behaviours¹¹:

- non adherence to NHMRC policy and procedures
- high incidence of social contact between member of staff and contractor/grant recipient
- evidence of expensive gifts
- never taking holidays/working excessive hours/working weekends
- undeclared conflicts of interest
- unethical behaviour
- low employee morale
- excessive complaints from clients/stakeholders
- significant personal or family problems
- domination of specific activities
- possessiveness about custody of records/office space
- high personal debts
- gambling and other addictions.

Fraud alerts include the following process or documentary anomalies:

¹¹ The Chartered Institute of Management Accountants (2001) *Fraud Risk Management – A guide to good practice*. <http://www.cimaglobal.com>

- missing documentation
- non-standard replacement of documents
- sole source contracts with no justification for not following open tendering processes
- evergreen contracts (no end date or reviews)
- payment of premium prices for products or services
- poor vetting practice for job applicants
- unrealistic performance appraisals.

It is noted that for the above red flags the existence of the anomaly does not necessarily mean that a fraud has occurred or is likely to occur. For example, in the vast majority of cases, there are no fraud concerns associated with staff working excessive hours and never taking holidays. However, particularly when a number of the above red flags are present together, the risk of fraud occurring may be increased.

Examples of fraud

Some examples of fraud are obvious such as theft of items or cash. However, fraudulent behaviour may also include the following:

- Engaging a friend or relative to work for the NHMRC without adhering to the NHMRC and Public Service recruitment policies.
- Purchasing a number of items of a piece of IT equipment for distribution to staff, and takes one of the items that is left over for personal use.
- Being provided with lunch by a prospective tenderer for NHMRC work, and providing the tenderer with information that would aid it in a tender process.