

# CASE STUDY

## Timothy Schwab of Timber & Steel Constructions Pty Ltd and the Department of Infrastructure, Planning and Logistics

The Northern Territory Government spends millions of dollars on procuring goods and services each year. As this money circulates through public administration, there is always a risk that a few unethical people will be tempted by opportunities for corruption.

This case study illustrates the risk of corruption in the Northern Territory and describes some practical tools for government officials, businesses, non-government organisations and the community to prevent corruption in procurement.



## The story

In October 2014, the Department of Infrastructure, now the Department of Infrastructure, Planning and Logistics (DIPL) established the Indigenous Employment Provisional Sum (IEPS) to increase employment opportunities in the NT and enhance the capacity of Aboriginal businesses in respect of construction projects.

The IEPS encouraged the employment of Aboriginal people by allowing eligible contractors to claim reimbursement of wages.

Timber & Steel Constructions was an

eligible contractor to participate in the IEPS. Mr Timothy Schwab was the director and manager of the Darwin-based business, which was established in 2010. The company was awarded six contracts by DIPL that enabled claims to be made against the IEPS.

In late 2016, a DIPL staff member identified some discrepancies in Timber & Steel Construction's claims from 2015 that had resulted in excess payments of \$33 460. Mr Schwab was notified by DIPL in December 2016 and repaid the full amount.

In February 2017, DIPL initiated an audit to verify expenditure against the claims by Timber & Steel Constructions. During this time, the Police had discovered that Mr Schwab had fabricated pay sheets that were submitted to DIPL for payment under the IEPS.

Mr Schwab's fraudulent behaviour resulted in 56 counts of deceptive conduct and a number of financial benefits received between November 2015 to June 2017. The total in question was \$213,312.16, which included GST payments made by DIPL.

## The facts uncovered

Mr Schwab was found to have acted deceptively and dishonestly in a number of ways over the period in question:

- creating pay sheets for employees who were not working for Timber & Steel Constructions at the time of the contract period;
- claiming overstated wages for employees from what they were actually being paid by Timber & Steel Constructions;
- claiming additional hours worked by employees of the IEPS;
- submitting claims for employees working on projects that were not related to the contracts of the IEPS;
- forging pay sheets for subcontractors who were claimed as employees of Timber & Steel Constructions instead of as ABN holders.

## Questions for discussion

- Who was affected by Mr Schwab's fraudulent behaviour and how?
- Upon discovering the contract violations, what steps should DIPL have taken to prevent further breaches of the IEPS?
- How could DIPL have safeguarded and enforced the parameters of the IEPS?
- What are the short and long term impacts to DIPL and its stakeholders?
- What are the areas of vulnerability from this case study that the department could consider for their governance/procurement policies and procedures?

## Risks and impact

- disruption to the general operations of DIPL;
- increased resources and expenses incurred by DIPL to investigate the fraudulent claims;
- suspension of the scheme which impacted employment in the construction sector for Aboriginal Territorians;
- reputational risk and loss of confidence in the department, and more broadly the NT;
- potential distrust between the agency and contractors;
- fraudulent behaviour will obstruct the prosperity of the Territory.

## Lessons learnt

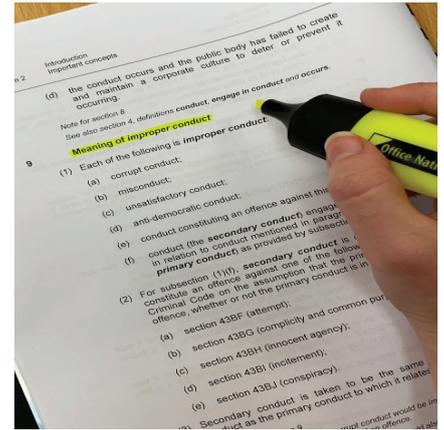
- establish strong governance culture that includes fraud control, code of conduct and employment screening, and disciplinary action;
- develop and implement a robust policy which is supported by processes and guidelines;
- ensure staff are trained to identify and report suspicious activity;
- include random audits by internal and external auditors to identify discrepancies and patterns. This could include regular cross-checking of invoices to the agreed service, costs and timeframes;
- develop enforceable parameters that prevent continuation of a contractor's service if doubts arise;
- regularly review processes and monitor unusual trends/patterns.

## References

KPMG Independent Evaluation, Indigenous Employment Provisional Sum & Remote Contracting Policy

*The Supreme Court of the Northern Territory Transcript of Proceedings SCC 21836445*

[www.bdo.com.au/en-au/insights/forensic-services/articles/lessons-learned-from-five-recent-fraud-matters](http://www.bdo.com.au/en-au/insights/forensic-services/articles/lessons-learned-from-five-recent-fraud-matters)



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