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FOUR WAYS THAT ACCOUNTANTS TURN TO THE DARK SIDE

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IDEAS IN ACTION

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Not only those with 'defective individual traits' commit fraud

Under the right circumstances anyone of us is capable of fraud, says **Paul Andon**, an associate professor in the school of accounting at UNSW Business School. Andon has been looking at what causes accountants and bookkeepers to carry out fraud, and the conclusions suggest the crime isn't only committed by those who are pre-disposed to do so.

"People who might show the particular personality traits may not offend and, conversely, people who don't might be offenders," he says.

In *Pathways to accountant fraud: Australian evidence and analysis*, Andon and his co-authors – **Clinton Free**, a professor at UNSW Business School, and **Benjamin Scard**, now a federal prosecutor with the Commonwealth Director of Public Prosecutions – say their research highlights the flexibility of individual attitudes to offending, and how such attitudes can be influenced by the confluence of circumstances in which someone may find themselves.

The research adds to a wide body of existing research in psychology and criminality that shows particular personal traits don't necessarily cause someone to offend or not to offend.

For their study, Andon, Free and Scard examined court records of 192 successful fraud prosecutions in Australia in the decade to 2011 and identified four pathways to fraud.

PERSONAL CIRCUMSTANCES

The researchers term the first pathway "crisis responders". The primary driver for these offenders is a personal crisis, such as a marriage breakdown, business collapse or gambling addiction. In fact, problem gambling accounts for about half of crisis responder cases.

The study provides the example of Gareth Brown, who was a high-level accountant for the Charsam group of companies. He had suffered a marriage breakdown and the previous collapse of his own business. On top of that, the Charsam group of companies was in financial difficulties.

Brown committed fraud to try to keep the company afloat and hence secure his only stream of income.

"Mr Brown's case is one of many classified in the crisis responder category that reflect a combination of financial and psychological circumstances precipitating a personal crisis leading to fraud," the researchers write.

In the study, crisis responders were the most common committers of fraud, making up about half of all cases, and it was the only category where a majority of offenders were female. This might be because of the high proportion of bookkeepers – a role with a relatively high female representation – who are induced to commit fraud in this category.

SITUATIONAL ELEMENTS

The second pathway to fraud is "opportunity takers".

"The key element of the opportunity taker is that there's the opportunity for fraud that they've just happened to discover and it's too good to pass up for some reason," says Andon.

Opportunity takers do not proactively set out to offend, but situational elements can induce them to do so when the chance arises. These can include jealousy over pay and conditions and promotional opportunities, a perceived need to extract revenge on an employer or a permissive corporate culture.

Sergio Joseph Bernardi, an accountant at a crematorium in Victoria, defrauded his employer of \$2.3 million between 2001 and 2006. He didn't spend the money, but left it in the bank and the court heard he committed fraud in response to his disillusionment at being passed over for promotion

Bernardi was unusual in not spending his loot. The researchers say most opportunity takers use their gains to fund an extravagant lifestyle.

HUMANS ARE FALLIBLE

Darryl Swindells, a partner in HLB Mann Judd, is called in by companies after they have spotted a discrepancy in their books and has investigated many frauds. Like Andon, he believes anyone is capable of fraud.

He tells of the office manager and bookkeeper at an engineering firm who used to take her family on holidays with her boss's family and used to spend Christmas with her boss and his family. Over the years, she stole enough money to pay for two home units.

"I think anyone can become a thief," says Swindells. "Humans are fallible, people make mistakes."

He also points out that fraud is prevalent in charities, because often they don't have the same sorts of controls that other businesses do:

"There's more opportunity for people to do something. People don't think that someone else would do something bad because they're all there trying to be good."

Swindells says that detecting fraud is one thing, but proving it is more difficult. Where someone has defrauded a company for, say, a million dollars or more, it is worthwhile to pursue the case and try to get the money back.

But it is very costly to investigate a fraud and gather all of the evidence needed for a successful prosecution and to attract the interest of the police, so for frauds of a hundred thousand dollars or less, the offender often leaves the company and goes free.

ATTITUDINAL FLEXIBILITY

The next two pathways to fraud that the researchers identified are a better fit with the stereotype of a criminal, as perpetrators tend to be more scheming and calculated in their offending and less remorseful when they get caught.

"Opportunity seekers" are those who proactively seek opportunities to commit fraud, such as Ka-Hung Ip, who persuaded his employer, the National Archives of Australia, to bypass normal tendering processes and award an accounting data processing contract to 3I consulting – a firm that Ip owned, but did not disclose.

"While Mr Ip was considered to have a generally law-abiding disposition, he actively sought in these circumstances to shape deceptively the outsourcing negotiations in his favour. His behaviour was said to reflect a 'high degree of criminality'," the authors say.

"Consistent with the image of an opportunity seeking offender, Mr Ip's attitudes to illegitimate financial gains displayed an attitudinal flexibility."

Finally, there is the "deviance seeker", those the authors describe as calculating and unremorseful in their actions.

"Deviance seekers ... reflect characteristics that most resemble the hallmarks of a criminal pathology often associated with fraud offenders," the authors write. "These individuals are characterised as displaying a morally corrupt attitude to seeking financial gain."

PROBLEMATIC DISCREPANCIES

Andon says the researchers were surprised by how unsophisticated the frauds were, particularly among crisis responders and opportunity takers. Given that, it was also surprising how long it took for them to get caught – many offenders carried on for several years – and how they were often only caught by chance.

Offending often comes to light when the fraudster leaves or goes on holiday and someone else fills in for them and discovers what they have done. For that reason, many fraudsters try to avoid taking breaks or keep popping into the office on their holidays to help out.

"Something which is coming out of our subsequent research into fraud offenders is that people who are engaged in fraud have to continually find ways to hide increasingly problematic discrepancies that might be revealed in terms of the amounts that they've taken versus what's supposed to be reported in the books," Andon says.

Most of the victims of fraud tend to be small businesses, because the owner is busy running and growing the business and so is happy to leave responsibility for the accounts to someone else – and because the businesses are too small to justify the separation of duties that can help mitigate fraud, such as separating authorisation of a payment from the record-keeping of the payment.

Andon says he and his colleagues undertook the research because despite being trusted organisational members, a "fair number" of accountants and bookkeepers still commit fraud.

Second, they wanted to dispel the myth that fraud is committed only by people with "defective individual traits", who have something wrong with their personality or morality.