

## Financial Background Checks

KPMG's latest Fraud and Misconduct Survey was released on 8 November 2010 and reported that, between 2008 and 2010:

- fraud resulted in a loss of money totalling \$345.4 million, an increase of 13%;
- the average loss from fraud doubled between 2008 and 2010 to a total of \$3 million; and
- respondents believe that only a third of losses are being detected!

This survey confirmed the continuing trend that 65% by number and 98% by value of all frauds were committed by employees. The three main methods of committing fraud were theft of cash, diversion of sales (through false invoicing or the creation of "dummy" payees) and tampering with cheques.

It is obvious from this survey that the risk of employees committing financial fraud is very real! Although there are not always prior indicators, it stands to reason that employees with a history of financial difficulty such as a poor credit history or prior or current bankruptcy may pose a larger risk if placed in roles where there is the opportunity to misappropriate funds.

Enter financial background checks! By undertaking checks to ascertain the financial stability of candidates, the guesswork about their financial history and how this might pose a risk in their role with the organisation is significantly reduced. At PeopleCheck, we are seeing more and more organisations throughout Australia adopting these very important checks as part of their background checking programs.

### What roles require financial background checks?

The idea that only individuals working for banks or in traditional financial roles such as accounts, payroll and tellers have the opportunity to mishandle funds is a great misconception! Roles with varying duties and levels of seniority can pose the same risks if filled by an employee who proves to be dishonest.

For example, take the PA with the freedom to charge the company credit card under the assumption this will not be abused. Or the cleaner with access to office premises after hours, offering the opportunity to steal valuables. Then there is the junior administration assistant who runs errands including depositing cheques and withdrawing petty cash. Or the supervisor with expense sign-off privileges, controlling payment of funds. And not to forget the senior manager in procurement who has the authority to award contracts worth thousands of dollars to companies of his choice, real or otherwise.

Great care should be taken when ascertaining which roles in an organisation require financial background checks. Each role should be assessed from a risk management perspective to determine:

- a) What opportunity is presented to an employee in the role to commit fraud (such as level of supervision or other checks in place, including board sign-off on payments); and
- b) The potential damage to the organisation (in terms of monetary or reputational damage), should financial fraud be committed in the role.

The roles found to be on the higher scale of both a) and b) should take priority in terms of having financial background checks undertaken for applicants filling these roles. However, it is recommended that roles with any opportunity to commit financial fraud have financial background checks undertaken as part of the application process, in order to minimise risks to the organisation.

### What financial background checks are available in Australia?

In Australia, it is possible to undertake a bankruptcy check, full credit history check and basic court/basic credit check, as well as a search to confirm that the candidate holds an Australian financial services licence or is authorised as a representative by an Australian financial services licensee to provide financial advice.

Some of these checks do overlap slightly in terms of the information they may reveal about a candidate's financial history; however, each has its own strengths and application to the background checking process.

### Bankruptcy Search

#### What does this check involve?

A bankruptcy search is a search of the National Personal Insolvency Index held by the Insolvency and Trustee Service of Australia. It determines whether a person is or has been subject to bankruptcy, a Part X agreement, a Part IX debt agreement or some other proceeding under the Bankruptcy Act which may expose a business risk.

When an individual is declared bankrupt, this usually lasts for three years; however, a person's bankruptcies (current or previous) are kept on record by the ITSA permanently and will be revealed by a bankruptcy search.

The search undertaken is a 'wildcard' search and will show individuals with similar names/identifiers, which is useful where an individual may have multiple identities.

#### What information may be revealed by this check?

A bankruptcy search will reveal information on various proceedings under the Bankruptcy Act, details of which are outlined below.

A **Creditors Petition** is the process by which a creditor who is owed a debt may petition the Federal Court or the Federal Magistrates Court for the bankruptcy of the debtor. To have the Court issue a creditor's petition (which brings about a hearing before the Court to decide

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whether the debtor should be made bankrupt) the creditor:

- Y must be owed at least \$2,000 and
- Y must have evidence of an act of bankruptcy.

A **Debtor's Petition** occurs when, if there is no alternative to bankruptcy, a debtor or joint debtors may become bankrupt voluntarily.

**Part X of the Bankruptcy Act** provides a process by which a debtor may make a proposal to their creditors which they consider and vote upon at a formal meeting. It is an alternative to bankruptcy. Once accepted, the proposal is binding on the debtor and all creditors in respect of their unsecured provable debts. It enables the debtor and creditors to come to a mutually agreed compromise in a relatively simple way without reference to the court.

A **Debt Agreement** is an agreement pursuant to Part IX of the Bankruptcy Act and provides a process by which a legally binding arrangement can be put in place between a debtor and their creditors as an alternative to Bankruptcy. The debt agreement system is only to be used where the debtor is insolvent, i.e. unable to pay their debts as and when they fall due.

## Full Credit History Check

### What does this check involve?

A full credit history check is a search of consumer and commercial credit information, including defaults. Section 18K of the Privacy Act 1988 provides limits on the disclosure of personal information by credit reporting agencies for the provision of credit. An individual's consumer credit file is generally not available for background checking purposes. However, an individual is able to access their own credit file and on this basis, PeopleCheck is able to obtain the file on the applicant's behalf with their full consent.

### What information may be revealed by this check?

Due to the restrictions of the Privacy Act noted above, the information revealed as part of the full credit history check cannot be considered in isolation to other searches as a reason for non-employment and can only be undertaken for relevant roles.

## Basic Court/Basic Credit Check

### What does this check involve?

A Basic Court/Basic Credit Check is a public record search of court writs, court judgements, securities and limited bankruptcies and will reveal all of the publicly available information available on an individual's credit file.

### What information may be revealed by this check?

This search determines whether a person has been involved in selected court actions and bankruptcies, which may expose a business risk.

This search is also *not* a full credit history search, and will only reveal the publicly available information on the candidate's credit file. This search is not required for cases where a full credit history is obtained, as it would provide no additional information.

Both the full credit history check and the basic court/basic credit checks contain some bankruptcy information but the searches are *not* full bankruptcy searches. The bankruptcy aspect of these searches is limited and may not include all bankruptcy-related proceedings under the Bankruptcy Act, particularly for similar identifiers or for discharged bankrupts. A full bankruptcy search should be undertaken for the candidate if bankruptcy information is pertinent to the role.

## How can financial services licenses be validated?

The Professional and Licensee Registers search is a search of ASIC's AFS Licensee, AFS Authorised Representative and Professional registers. This search determines individuals who:

- Y hold an Australian Financial Services licence;
- Y are authorised as representatives by an Australian Financial Services Licensee or by a corporate representative of a licensee; and
- Y are registered auditors and authorised audit companies, registered liquidators & official liquidators.

This search is relevant for candidates where it is crucial to their role that they hold such a license, such as financial planners.

## References

- Y ITSA - [www.itsa.gov.au](http://www.itsa.gov.au)
- Y Privacy Act 1988
- Y KPMG Fraud and Misconduct Survey 2010, Australia and New Zealand

## More Information

For more information on the ways in which financial background checks can assist in reducing the risks to your business, please contact us via telephone on +612 4023 0603 or email at [validate@peoplecheck.com.au](mailto:validate@peoplecheck.com.au).