

A White Paper

# Employment screening

Safeguarding against bad hires and mitigating fraud and corruption risk.

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## Introduction

Although it has been well documented that the current Australian job market is experiencing skills shortages in various specialist sectors, the competition for high quality positions can nevertheless be intense. Many candidates 'enhance' their résumés to distinguish themselves from their perceived competition.

Misrepresentation is often discovered when it is too late to reverse the negative consequences of an adverse employment decision. If the information provided by candidates is not verified, organisations will continue to give individuals with questionable backgrounds the opportunity to join their teams at the expense of genuine quality candidates.

Thorough employment screening should form part of any organisation's risk management practices to identify questionable candidates before they become employees and, possibly, liabilities of an organisation.

Common misrepresentations <sup>1</sup>:

- Educational qualifications: listing degrees not attained or schools not attended.
- Employment history: stretching out employment dates to hide periods of unemployment or omit unsatisfactory periods of employment.
- Salary and job title: embellishing previous job titles and salaries to strengthen negotiating position with prospective employers.
- Responsibilities and achievements: including management and leadership capabilities or exaggerating sales, profit and growth achievements.
- Criminal convictions: omitting convictions to dilute any doubt regarding honesty and reliability.

## Engaging talent from abroad

Compounding the issue is the increasing trend for organisations to become more reliant on engaging candidates from abroad. It is more likely and easier for a candidate to misrepresent personal and professional information because the perception, often matched by the reality, is that it is too difficult for their prospective employer to check their background.

**A comprehensive background check would have identified Bundaberg's accused 'Dr Death', Jayant Patel, the surgeon banned from practicing surgery in the United States and who is being investigated in connection with 87 deaths in Queensland.<sup>2</sup>**

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<sup>1</sup> 'The Complete Reference Checking Handbook, The Proven (and legal) Way to Prevent Hiring Mistakes', Andler, C Edward, Second Edition, AMACOM, 2003

<sup>2</sup> 'Basic search would have diagnosed trouble', *Australian Financial Review*, Robin Robertson, 28 July 2005



## What is employment screening?

Employment screening is the process of verifying the credentials, identity and integrity of a person who is or will be entrusted with your resources and/or assets. Put simply, it is the verification of information provided in an application for a position with an organisation.

Employment screening can be as simple as speaking to a referee nominated by the candidate and possibly performing a criminal history search. However, in most cases it should also include investigation of credit, bankruptcy and driving records; professional memberships; educational qualifications; directorships and significant shareholdings; media searches; employment history; and information provided by specific professional and personal referees.

The statistics below provide a good snapshot of the extent of misrepresentation by job applicants in Australia.

**A survey carried out in Australia found that 16 percent of respondents admitted to lying on their resumes to secure a new position.**<sup>3</sup>

**“Up to one in three people seeking jobs in the financial sector has been discovered lying in their applications, including hiding criminal convictions or making up academic qualifications...”**<sup>4</sup>

**“A study of 1,000 job applicants has found that 21 percent had misrepresented their qualifications, while 60 percent of those with criminal convictions failed to admit them, even when asked”.**<sup>5</sup>

All employment checks require the express consent of the subject in question. A candidate's written authority must be obtained before any screening process can commence, as defined by the Privacy Act 1988.

## Why is employment screening important?

Failure to conduct thorough employment screening is an enterprise risk that can impact an organisation in many ways including financial loss, diverting management focus and creating a negative influence on company culture and reputation.

Negative publicity associated with a bad hire - especially when a thorough employment screening process was not carried out - can have a negative impact on the organisation's brand and position in the business community. This can result in immediate or future loss of customers or business opportunities and can also damage employee morale, which could result in an increase in employee turnover.

**“... hiring the wrong person can cost businesses between 30 per cent and 200 percent of a person's annual salary.”**<sup>6</sup>

As employers become increasingly responsible for the actions of their employees, employment screening also helps to mitigate potential legal action by third parties. In

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<sup>3</sup> 'Uncovering articulate incompetents', *Human Resources Magazine*, 5 February 2004

<sup>4</sup> 'One in three CVs a fraud', *The Age*, Gary Hughes, 24 August 2003

<sup>5</sup> 'One out of five lie in their job resumes', *Sydney Morning Herald*, Alan Mascarenhas, 26 November 2004

<sup>6</sup> 'How many turkeys do you hire?', *Human Resources Magazine*, 24 February 2004

addition to the associated costs of defending legal action, senior management focus and energy is diverted from core business.

**“In a 2001 Federal court case a bank was ordered to refund \$300,000 and pay \$80,000 interest to an investor after it was discovered that the employee who lost the money had convictions for fraud.”<sup>7</sup>**

**“[Recruitment consultants] HJ&B and its insurers have agreed to a cash settlement to end a legal action by a former client. The case involved a claim by Victorian marketing company ISS Marketing that HJ&B had breached its contract and engaged in misleading conduct under the Trade Practices Act by failing to adequately reference a candidate. ISS’ claim related to its appointment of a financial controller referred by HJ&B who subsequently defrauded ISS of more than \$250,000.”<sup>8</sup>**

Standards Australia has released a draft employment screening standard (DR05024) for comment. Early indications are that the standard will be released in the second quarter of 2006. The standard has been developed to form the basis for industry or organisational specific screening policy and procedure, and applies equally in both the public and private sectors.

The draft standard recommends employment screening<sup>9</sup> as an integral and effective component of an organisation’s risk management strategy.

### **Mitigating fraud and corruption**

With white collar crime a fact of life and technology providing new avenues to help facilitate it, an organisation’s approach to managing and mitigating its fraud and corruption risks has never been more important. With fraud and corruption costing the Australian economy at least \$3 billion per year and incidence of fraud increasing year by year<sup>10</sup>, it is without doubt a growing concern in both the private and public sectors.

A survey of more than 100 Australian companies found that 63 percent each encountered \$3 million in fraud costs between 2003 and 2005. Large companies are not the only ones to fall victims of fraud. Of the companies with less than 200 employees, 33 percent had also experienced fraud.<sup>11</sup>

**“Anecdotal evidence suggests a correlation between people who commit fraud and people who lie on their CVs.”<sup>12</sup>**

Key to managing corporate fraud is establishing standards for hiring and promoting individuals to and within an organisation. Employment screening or background screening is referred to in Australian Standard AS8001-2003 Corporate Governance - Fraud and Corruption Control, which aims to provide companies with risk management tools and guidelines.

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<sup>7</sup> ‘One in three CVs a fraud’, *The Age*, Gary Hughes, 24 August 2003


<sup>8</sup> ‘HJB settles legal claim’, *Shortlist*, 14 October 2004

<sup>9</sup> DR05024 - Employment screening, Standards Australia, 2005

<sup>10</sup> AS8001-2003 - Fraud and Corruption Control, Standards Australia, 2003

<sup>11</sup> ‘The big rip off’, *Business Review Weekly*, Kristen Le Mesurier, 8-14 December 2005

<sup>12</sup> ‘Economic crime hits 47 per cent of firms, PwC says’, *Sydney Morning Herald*, James Chessell, 9 July 2003



In the United States, the Sarbanes-Oxley Act is designed to restore shareholder confidence in public companies in response to numerous corporate collapses. In a 2003 Sarbanes Oxley White Paper by PricewaterhouseCoopers ‘Key Elements of Antifraud Programs and Controls’ employment screening or background screening is again referred to as an integral component of an organisations fraud and risk management principles.

**“An entity’s failure to perform substantive background investigations, touching on all areas identified [educational background, employment history and criminal record], for individuals being considered for employment or for promotion to those positions outlined above [all persons in an accounting or financial reporting role and people who have access to company assets or information systems] would be a strong indicator of a significant deficiency in internal control over financial reporting. The federal sentencing guidelines support this.”<sup>13</sup>**

Specifically within the financial services sector the Australian Prudential Regulation Authority (APRA) released in March 2006 the Prudential Standards APS 520 - Fit and Proper for Authorised Deposit-taking Institutions (ADI’s). The guidelines set out the minimum requirements in determining the fitness and propriety of individuals that hold positions of responsibility in banks, building societies, credit unions, general insurers and life insurers. The ‘fit and proper’ criteria concludes that the ADI “must conclude that the person has the competence, character, diligence, honesty, integrity and judgement to perform properly the duties of the responsible person position”.<sup>14</sup>

The standard also states that “the fitness and propriety of a responsible person must generally be assessed prior to initial appointment and then re-assessed annually (or close to annually as practical”.<sup>15</sup>

## Conclusion

There is no question that job seekers often ‘boost’ or exaggerate their qualifications and/or experience and performance for the purpose of a job application. With the increasing ‘war for talent’ businesses are increasing their focus on employing and retaining high quality and trustworthy employees - recognising this as critical to remaining competitive.

While the recruitment process is accepted as an integral part of an organisation’s growth strategy, many companies still make the fundamental error of not thoroughly checking the background of potential employees.

Whether considering candidates for management or entry level positions, employment screening is an effective step in reducing the likelihood of bad hires and safeguarding your organisation from fraud and corruption - as a person’s history and the integrity of the information they provide can be a good indicator of their future behavior.

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<sup>13</sup> ‘Key elements of Antifraud Programs and Controls’, November 2003, PricewaterhouseCoopers

<sup>14</sup> Prudential Standard APS520 Fit and Proper, March 2006

<sup>15</sup> Ibid.



## About Reality Check

Reality Check provides independent identity, integrity and credential checks that enable organisations to mitigate their fraud and corruption risks by making smarter employment decisions.

As the final filter in the recruitment process, Reality Check adds value by providing an independent, rigorous and customised pre-employment screening solution in line with Australian standards for fraud and corruption control.

An impartial source of information Reality Check does not benefit from an organisations recruitment choice, whether the recruitment process is being managed internally or through recruitment agencies.

Through its global network, Reality Check is also able to deliver an international background checking service in more than 200 countries.

For more information, you can contact Reality Check on + 61 2 9747 0666, visit [www.reality-check.com.au](http://www.reality-check.com.au) or send an email to [info@reality-check.com.au](mailto:info@reality-check.com.au).