

An economic crime offender's perception of fraud, corruption and tax-related offences from a South African perspective

AP Swanepoel
*Department of Taxation
University of South Africa*

swaneap@unisa.ac.za

K Coetzee
*School for Accounting Sciences
North-West University*

ABSTRACT

Within the legal framework of the criminal justice system and the various taxation laws and regulations in South Africa, there are always opportunities for people to come into conflict with the law. This study was undertaken to investigate an economic crime offender's perceptions of fraud, corruption and tax-related offences. In total 82 economic crime offenders, serving a prison term for their offences, completed a questionnaire comprising 38 questions and were personally interviewed in a semi-structured interview comprising 17 pre-set questions. The study demonstrated that differences exist between an economic crime offender's level of education and the monetary extent of the perpetrated offence. In perpetrating an economic crime, the offender is only concerned about the immediate financial reward, disregarding any possible consequences such as taxation or prosecution. To prevent fraud, corruption and tax-related offences, the motivation to commit such crimes should be eliminated or reduced. Fraudsters consciously or subconsciously weigh up the individual risks and rewards of their criminal behaviour, and for that reason, their conduct may be relatively easily modified. Consequently, this study has vital implications for reformulating appropriate rehabilitation programmes for economic crime offenders.

Keywords: corruption, fraud, tax avoidance, tax evasion, tax fraud

Economic crime has managed to infiltrate virtually all spheres of life. The public and private sectors cannot only testify to the existence of this Hydra but also bear the scars of the impact of economic crime in general. Economic crimes such as fraud, corruption and tax evasion are on the increase. Pedneault (2009:xi) states that, according to the Association of Certified Fraud Examiners' 2008 *Report to the Nation on Occupational Fraud and Abuse*, "approximately 7% of an entity's gross revenue is lost to fraud". This is applicable internationally and may also apply to South African entities. Economic crime

offenders may look for opportunities, take advantage of perceived shortcomings in control environments, and exploit the situation (Doig, 2006:229).

Economic crime seems to have been around since time immemorial. Bishop and Hydoski (2009:3) contend that fraud may have existed in various forms since the formation of early societies. Growing attention is paid to shadow economies and related issues such as tax evasion and corruption by governments (Pickhardt & Shinnick 2008:3). It has been observed that fraud is not limited to large international corporations but may also occur

in any size of entity regardless of its profit status or the industry of which it forms part (Pedneault, 2009:xii).

Economic crimes may take on various forms such as fraud, corruption or tax evasion which impoverishes the victim and enriches the perpetrator. According to Turner (2008:7), fraud may include various forms of deception, carried out by an economic crime offender for personal financial gain and at the expense of the victim. The main purpose of perpetrating an economic crime is usually to obtain some kind of gain or benefit. When fraud or corruption is committed, taxation may come into play. Depending on the nature and extent of the fraud or corruption perpetrated, the South African Revenue Service (SARS) might be deprived of tax revenue of one or more of the taxes administered and collected by them, for example income tax, value-added tax, employees' tax and customs and excise duty.

Geis (2007:104) observes, "the decline in taxes paid by corporations is in some considerable measure the result of fraud that goes undetected". Beesley in Péteri (2008:116) contends that the elimination of, or even a reduction in, economic crimes, will assist a tax administration in its efforts to increase the tax base and ensure that all taxes are paid. Economic crimes may never be eliminated because such crime offenders have no regard for their victims and only focus on the financial rewards of their economic crimes. However, a pro-active risk management plan in the form of preventative measures and corporate ethics could act as an effective countermeasure to manage the levels of economic crimes in general.

Economic crimes seem to have become part of the daily lives of people in the public and private sectors. Numerous media reports in various South African newspapers and financial magazines and television coverage confirm the existence of economic crimes. It is therefore important to determine why economic crime offenders commit such crimes

and whether they are at all aware of the possible taxation consequences that may result from their criminal actions. In the absence of any research literature on this subject, the objective of the study on which this article is based was to determine an economic crime offender's perceptions of fraud, corruption and tax-related offences. Do fraudsters perpetrate fraud or corruption to conceal taxation consequences, or do the taxation consequences merely result from the perpetration of fraud or corruption? For the purposes of this research, only financially related economic crimes that may have a direct or indirect taxation consequence were investigated. This article may therefore provide some insight into an economic crime offender's perception of fraud, corruption and tax-related offences. Economic crime offenders serving a prison term for their sentenced offences were personally interviewed, and they also manually completed a questionnaire comprising 38 questions in a statement format in order to provide the data on which this article is based.

LITERATURE REVIEW

Economic crime is not confined to modern society but has occurred since the dawn of creation. The prevalence of these crimes is only matched by the many potential reasons for committing them. The economic crimes to be examined include fraud, corruption, and tax-related offences such as tax evasion and tax fraud. Rezaee and Riley (2010:25) contend that, in general, "white-collar criminals are intelligent, determined, committed to success, highly energetic, creative, good problem solvers, and aggressive". These characteristics are similar to those that are generally associated with successful entrepreneurs and leaders in business.

The various types of economic crimes and the various methods employed by the perpetrators of such crimes underline the importance of this study. Bishop and Hydoski (2009:5) contend that there are "accelerating factors involved in

the prevalence of fraud and corruption in the contemporary world” and these factors include “changing social norms, the democratisation of finance, and the unintended consequences of two decades’ worth of market deregulation”.

Since this article reports on research that was conducted to investigate the perceptions of persons convicted of economic crimes, it is important to define the crimes associated with the economic crime offenders who were the subjects in this study. The economic crime to be defined first is tax evasion.

Stiglingh, Koekemoer, Van Schalkwyk, Wilcocks and De Swart (2013:773) describe tax evasion as the “illegal activities deliberately undertaken by a taxpayer to free himself from a tax burden”. One example of simple tax evasion would be where a taxpayer omitted income from his or her annual tax return. Tax evasion is the use of illegal means to reduce a tax liability, for example by falsifying books, suppressing income, or fraudulently not disclosing income. The Collins English Dictionary & Thesaurus (2006:1240) explains tax evasion as the reduction or minimisation of a tax liability by illegal methods.

The second term to be defined is “tax fraud”. Baker (2004:6) states that tax fraud, as a criminal matter, must involve intentional behaviour or actual knowledge of the wrongdoing. Suppose a taxpayer transfers assets to a foreign trust knowing full well that if he is liable for taxation, he will be able to show that he cannot pay the tax because the assets are in trust. The taxpayer knows, therefore, that he/she may be able to negotiate a deal with SARS to settle the matter. The question is whether or not such an action would be seen as tax fraud; that is aiming at a “good” settlement by paying less tax than one might otherwise have paid. If this act would have been fraudulent when committed with regard to a non-governmental victim, then it should have been equally fraudulent and criminal when applied in regard to any

government. Orta and D’Meza (2008:540) describe tax fraud as acts carried out by taxpayers that only appear to adhere to the law. Fraud presumes manipulation of the facts and is usually undertaken at the same time the taxable event takes place.

The third kind of economic crime to be defined is fraud. The Collins English Dictionary & Thesaurus (2006:474) describes fraud as “deliberate deception, trickery, or cheating intended to gain an advantage”. The International Standard on Auditing 240 (ISA)(2010: paragraph 11) proposes that the term “fraud” should refer to an intentional act by one or more individuals in management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Vona (2008:45) defines fraud very comprehensively as follows:

Acts committed on the organization or by the organization or for the organization. The acts are committed by an internal or external source and are intentional and concealed. The acts are typically illegal or denote wrongdoing, such as in the cases of: financial misstatement, policy violation, ethical lapse, or a perception issue. The acts cause a loss of company funds, company value, or company reputation, or any unauthorized benefit whether received personally or by others.

Rezaee and Riley (2010:7), Wells (2008:8) and Coenen (2008:7) argue that fraud occurs when all of the following elements exist:

- An individual or an organisation intentionally makes a false representation about an important fact or event of a material nature;
- The false or reckless representation is believed by the victim (the person or organisation to whom the representation has been made disregards the truth);

- The victim relies upon and acts upon the false representation;
- The victim suffers loss of money and/or property as a result of relying upon and acting upon the false representation; and
- The false representation was intentional.

The last form of an economic crime to be defined is “corruption”. Johnston (2005:12) defines corruption as “the abuse of public roles or resources for private benefit but emphasises that “abuse”, “public”, “private” and even “benefit” are matters of contention in many societies and of varying degrees of ambiguity in most”. Johnston (2005:17) also states that “corruption has come to be seen as both cause and effect of uneven or incomplete economic liberalisation, and of an intrusive, ineffective state”. Van Vuuren (2004:11) describes corruption as the “abuse of entrusted power for private benefit”. The perpetrator of corruption uses his position of trust by exercising the powers vested in him to commit a corrupt act for a personal gain.

From the literature review conducted, it was established that economic crime is generally perpetrated internally (defrauding an entity) or externally (defrauding third parties or clients, for example), by management, employees or other third parties (Bishop & Hydoski, 2009:4; Wells, 2002:3; and Robertson, 2002:73 & 105). Victims of economic crimes may include company directors, managers, employees (all being internal victims) and investors, creditors, suppliers and customers (all being external victims) (Robertson, 2002:105).

Robertson (2002:39) contends that there are two types of fraudsters (economic crime offenders), namely amateurs (the decision to perpetrate fraud is largely driven by an opportunity) and professionals (making the bulk of their income through law violations). Wells (2008:6-7) contends that fraudsters may work alone or conspire with someone outside the company, such as “crooked customers or

suppliers”. The literature review indicated that the position a person holds within an entity and the financial control exercised in each position contributes towards the ultimate fraud/corruption loss the entity may experience (Henderson 2001:17). The financial impact of fraud/corruption perpetrated by an employee will be slight compared with the fraud/corruption being perpetrated by management (Henderson, 2001:17).

The literature reviewed defined the concepts of fraud and corruption in various ways. Most of these literature sources reviewed indicated that fraud is an intentional or deliberate act by a fraudster (the perpetrator) to deprive someone (the victim) of property or money by deception or any other unfair means to obtain an unlawful gain (Robertson, 2002:5; Simon, 2008:108; and Coenen, 2008:7). Corruption, on the other hand, is explained in the literature as the abuse of entrusted power (someone acting in his capacity as a fiduciary) to obtain a private gain (Van Vuuren, 2004:11; Simon, 2008:200; and Coenen, 2008:84). The real issue here is the illegal gain obtained by the economic crime offender by perpetrating an economic crime offence. For the purposes of this study, this illegal gain was deemed to be financially related. As such, the illegal gain obtained by the economic crime offender may also have a certain taxation consequence.

A taxpayer has a right to plan his tax affairs within the ambit of the applicable taxation laws to pay the least possible tax. Visser, McIntosh and Middleton (2006:75) state that “driven by profit logic, and by a legal principle, suggests that taxpayers may organise their tax affairs in such a way as to pay the least tax possible under the law”. The leading case to establish the distinction between tax avoidance and tax evasion is *IRC v. Duke of Westminster* (1936) 19 TC 490 [1936] AC 1 (Raabe & Parker 1985:114). If permissible tax planning cannot yield the required result for a taxpayer, would he be prepared to employ tax

avoidance (perfectly legal), tax evasion (illegal) or worse, tax fraud (criminal), to address his adverse tax position? (Please note that the use of the pronominal "he" and its variants is not intended to express any gender bias and includes both sexes.)

MOTIVATION FOR THE STUDY

Regardless of the many regulatory, legal and other measures in place to address economic crimes in general in South Africa and globally, they still occur with devastating financial effects in some cases. Fleming and Zyglidopoulos (2009:2) argue, "some people are corrupt by nature and if given half the opportunity and/or a conducive environment, they will break the rules". Eicher (2009:1) concludes, "people everywhere are more concerned than they ever have been about corruption and business ethics". Bracking (2007:3) remarks, "people have been urged to 'fight' corruption, to 'combat' its causes and effects, to wage a 'war' against the degradation of the social fabric, and to rally around a moral standard of integrity and principle". Pickhardt and Shinnick (2008:81) state, "independent journalists have a strong incentive to investigate and uncover stories of wrongdoing". Mbaku (2007:146) suggests that "press accounts of corruption have educated civil society and encouraged the latter to seek ways to demand more transparency and accountability in the public sector". Burke (2009:33) states that "greed underlies all acts of crime and corruption in organizations". Burke (2009:56) also observes that the "costs of crime and corruption are high, in both financial and physical terms. Zack (2009:3) states that "fraudulent financial reporting by big businesses has reached alarming levels".

A country's tax system is a natural source of intelligence on corruption and money laundering because it "depends on the generation and analysis of vast amounts of financial data" (Chaikin & Sharman, 2009:38). In most countries tax authorities have strong

investigative powers to combat tax evasion and these powers "can be useful in pursuing other types of financial crime" (Chaikin & Sharman, 2009:38). One approach to address economic crime, according to Winter (2008:108), is to devote resources to social programs, "especially aimed at the young, to discourage future criminal behavior". Winter (2008:109) also observes that "increased incarceration tends to have benefits that are seen fairly quickly" but that improved social programs "tend to have current cost but benefits that accrue far in the future". Winter (2008:114) is also of the opinion that "criminals are more responsive to changes in the certainty of punishment (especially through the probability of apprehension) than to the changes in the severity of punishment". Eicher (2009:147) observes that a rational person "acts on the basis of costs and benefits, meaning that a person will pursue a goal when its expected benefits exceed its expected costs".

The commission of an economic crime may cause a financial or other loss to a victim and yield a financial or other gain for the perpetrator. For the purposes of this study, attention was only focused on scenarios where crimes are financially related. Thus, when a financially related economic crime is perpetrated by an economic crime offender, certain taxation consequences may result from such criminal behaviour. The perpetrator of fraud or corruption may only be concerned with the possible direct or indirect financial gain he may derive from his fraudulent action. Any possible taxation consequences that may result from perpetrating fraud or corruption may be disregarded by the fraudster. This disregard may be intentional or unintentional. If an economic crime offender perpetrates fraud or corruption, does he consider any possible taxation consequences that may result from such criminal behaviour? Or is the possible taxation consequence regarded as a merely coincidental consequence by the fraudster?

RESEARCH QUESTION

The purpose of this study was to investigate an economic crime offender's perception of fraud, corruption and tax-related offences from a South African perspective. The first research question to be answered is whether economic crime offenders perpetrate fraud or corruption to conceal any possible taxation consequences or do the taxation consequences merely result from the perpetration of fraud or corruption. The second research question is whether the perpetration of fraud or corruption has a direct or indirect impact on taxation in general if the fraud or corruption perpetrated is financially related.

RESEARCH OBJECTIVE

Modern society, with its complex financial systems and variety of legislative and regulatory bodies, does not seem to be able to stop economic crime offenders from continuing with their fraudulent activities. Bishop and Hydoski (2009:5) contend that it is "unlikely that we will ever be able to eliminate fraud and corruption completely".

The following broad dimensions (objectives) were investigated in establishing the perceptions of the economic crime offenders regarding fraud, corruption and tax-related offences:

- A. Adequacy of law enforcement
- B. Prevention or management of crime
- C. Reasons for perpetrating economic crime
- D. Adequacy of current laws and regulations
- E. Possible taxation consequences ignored
- F. Awareness of any possible taxation consequences
- G. Impact on taxation in South Africa
- H. Function of opportunities available
- I. Morality and sound principles
- J. Cost of complying with tax administration requirements
- K. Concern by an offender for the perpetration of a fraudulent action

RESEARCH METHOD

In this section, the research method followed to investigate an economic crime offender's perceptions of fraud, corruption and tax-related offences will be discussed.

Research design

This research had its roots in the numerous personal interviews conducted with role-players in the field of prevention, detection and addressing of economic crimes in general. These role-players included among others a certified fraud examiner, a psychologist, a criminologist, two senior officials from the South African Revenue Service, two senior officials from the Financial Service Board, a senior manager from the South African Banking Risk Information Centre, and three ministers from different church congregations in Pretoria. During a personal interview with the criminologist, it was suggested that the Department of Correctional Services (DCS) should be approached to involve sentenced economic crime offenders in a research project.

This research comprised a qualitative and a quantitative component. For the quantitative component, a questionnaire comprising 38 questions spread over 11 sections (A to K) was developed after reviewing the literature and conducting personal interviews with role-players in the field of prevention, detection and addressing of economic crimes in general. The population for this research was effectively all sentenced economic crime offenders in South African prisons at the time of commencing the research. However, due to the sensitive nature of this research and the protocols and procedures in place at the various DCS institutions, it was not possible to establish the exact number of economic crime offenders imprisoned. For research purposes, the researcher had to rely on the DCS to identify economic crime offenders at the DCS institutions where the research was conducted. It was therefore not possible to determine the

exact population size. In the end, 82 economic crime offenders from Gauteng-based prisons participated in the research project.

The questionnaire was presented in the form of a structured self-administered questionnaire, which is available from the author on request. The economic crime offenders were requested to complete the questionnaire by hand. The Likert scale questions in the questionnaire were set in a statement format requesting offenders to rank each statement from 1 (strongly agree) to 7 (strongly disagree) with regard to the influence they believe it has or may have on fraud, corruption or taxation-related consequences in general.

For research purposes, it was important to establish certain demographic information pertaining to the economic crime offenders, and these included gender, age and previous employment details.

Ethical considerations

Owing to the nature of this research involving sentenced economic crime offenders, the necessary authorisation and permission had to be obtained from the DCS. Permission was granted on the basis that any information acquired from participating offenders would be used in a balanced and responsible manner, taking into account the perspectives and practical realities of the DCS in the research output. All economic crime offenders identified by the DCS participated voluntarily in this research project and were under no obligation to participate. At one of the DCS institutions, a number of economic crime offenders refused to participate and were allowed to leave the area where the researcher conducted his research.

All offenders who participated agreed to be interviewed and to complete the questionnaire. DCS protocol required that a DCS official be present at all times during the interaction with the group of offenders at the various Gauteng-

based institutions visited. The respondents were not remunerated for their participation, but participated on a voluntary basis only and were assured of the confidentiality of their participation and responses.

Participants/Data source

The questionnaire (on which this article is based) involved the participation of 82 economic crime offenders serving time for offences related to fraud, corruption and taxation in general. All the economic crime offenders who participated in this research project were located at Gauteng-based DCS institutions. Prior arrangements had to be made with each individual correctional institution to be visited, firstly, to identify any possible economic crime offenders on its data base and, secondly, to arrange for a date and time for the proposed visit.

Measuring instruments

A survey was conducted, using a questionnaire, to determine from the participating economic crime offenders their perceptions of fraud, corruption and tax-related offences. Owing to the nature of the research topic, the respondents in this research project were informed that they could base their responses on their own perceptions and/or working or personal experiences relating to fraud, corruption and taxation in general. Caution was taken to protect the privacy and anonymity of all the participating economic crime offenders. The researcher instructed the 82 economic crime offenders not to reveal their names or surnames or any other personal information to him. The importance of the correct completion of the questionnaire and the content of the questionnaire were discussed with all participants before they were requested to complete the questionnaire. The research tool comprised 38 printed questions given to each participating offender for completion. Once a questionnaire had been completed by an offender, the researcher, in

the presence of the offender, reviewed the questionnaire to determine that all the questions had been answered.

Personal interviews of about 10 minutes each were also conducted on a one-to-one basis with the participating 82 economic crime offenders and represent the qualitative component of this research project. Although a DCS official was present at all times during the contact with the participants, the personal interviews could be conducted in private in a secluded area where the economic crime offenders were assembled for the purpose of conducting the research. The DCS official could neither overhear nor interfere with the personal interview conducted. That ensured the privacy and quality of the interview. During the personal interview, a respondent could elaborate on certain questions and issues raised during the personal interview. All the personal interviews were recorded, where possible, on a digital voice recording device, and the answers given by the interviewees were carefully noted on a hard-copy of the 17 pre-set interview questions. Once an offender's response to a question was written down, it was read back to the offender to confirm his verbal response. The interview questions comprised the following:

1. What was the Rand value of the fraud/corruption perpetrated by you?
2. Did you act alone or did you have an accomplice?
3. What is the official length of your sentence?
4. If you could turn the clock back, would you perpetrate the fraud/corruption again?
5. Do you think your punishment is fair in relation to the offence committed by you?
6. Was the fraud/corruption perpetrated by you a once-off offence or a series of offences over a period of time?
7. Did you, at any time during the perpetration of the fraud/corruption, consider the action to be wrong?
8. Was the immediate benefit to be derived from the fraudulent action more important than the potential consequences?
9. Did you ever consider the possibility that you might be caught or your fraudulent action could be detected?
10. To what use did you put the proceeds of the fraud/corruption?
11. What advice would you give to other potential fraudsters to deter them from perpetrating fraud/corruption?
12. Would you consider perpetrating fraud/corruption again once released from prison?
13. Do you think that serving a prison term for a fraud/corruption offence may be viewed as sufficient rehabilitation?
14. Do you think that, if you had been more informed about the potential consequences resulting from the perpetration of fraud/corruption, you would have committed such an offence?
15. Were you, at any stage during the perpetration of the fraud/corruption, aware of any possible taxation consequences that could have resulted from such fraudulent behaviour?
16. Do you have any remorse about the fraud/corruption you perpetrated?
17. What is your highest level of academic achievement?

The outcomes of the interviews may also be used to verify the test results obtained from the completed questionnaires. Only selected information from the personal interviews conducted with the 82 economic crime offenders were used in this article to expand on their responses to the manual questionnaire completed by them. Owing to logistical, time and cost constraints, only Gauteng-based correctional institutions were used for the purpose of completing the said questionnaire and conducting the personal interviews with the economic crime offenders.

Statistical analysis

The data collected by means of the 82 completed questionnaires was analysed by the University of South Africa's Bureau of Market Research (BMR), using special computer-aided software (PASW Statistics 18 – released 30 July 2009). The BMR also provided assistance in evaluating and processing the questionnaires. The initial data was captured by the writer and presented to the BMR in the form of an Excel spreadsheet. The data captured on the Excel spreadsheet was then processed by the BMR using the Statistical Program for Social Science (SPSS) software to calculate various statistical ratios and data relationships for each of the 11 sections (dimensions) of the questionnaire. Some of the statistical ratios and relationships calculated included Cronbach's alpha, the mean and standard deviation for each question, Correlations Transformed Variables and Discrimination Measures.

Wherever possible, all the personal interviews conducted with the economic crime offenders were recorded on a digital voice recording device and saved as a Windows Media Audio file. Content analysis was done on the verbatim transcriptions of the interviews conducted. The results of the questionnaires and the interviews conducted were integrated for the purpose of this research.

FINDINGS

The results obtained from the completed and processed questionnaires will now be discussed. Firstly, the demographic information with regard to the participating economic crime offenders will be presented. Then, some of the disclosures made during the personal interviews will be presented, discussed and interpreted. Lastly, a summary with regard to each of the 11 sections (dimensions) of the questionnaire will be presented, discussed and interpreted.

Demographics

The relevant demographic information with regard to the participating economic crime offenders were as follows:

- 63 were males and 19 were females
- The majority (85.37%) were in the age group 20–49 years.

Important disclosures made by economic crime offenders

During the personal interviews conducted with the 82 economic crime offenders, very personal questions were asked with regard to the economic crimes they had perpetrated. The following is a summary of the most significant information revealed by the participating offenders:

- The total monetary value of the economic crimes perpetrated amounted to R616 452 400, with the lowest being R2 500 and the highest R300 000 000, and a median amount per participating offender of R200 000.
- Of the 82 offenders interviewed, 62.20% had an academic qualification equivalent to Grade 12 or less and 37.80% had an academic qualification ranging from a Diploma to a doctoral degree.
- The offenders who indicated that they had passed Grade 12 or less had perpetrated on average an economic crime equalling R208 833, while the offenders who indicated that they had an academic qualification exceeding Grade 12, revealed an average calculated economic crime value of R19 541 997.
- Sixty-one of the economic crime offenders (74.39%) indicated that they had perpetrated a once-off offence with a median monetary value of R150 000 per offender. By contrast, 21 offenders (25.61%) indicated that they had perpetrated a series of offences with a

median monetary value of R1 000 000 per offender.

- Fifty-one (62.20%) of the offenders indicated that they had acted alone while 31 (37.80%) indicated that they had had an accomplice. The calculated median monetary amount involved when acting alone amounted to R175 000, while the median monetary amount using an accomplice amounted to R233 000.
- Only 40.24% of the offenders were of the opinion that their punishment was fair in relation to the offences perpetrated.
- For 74.39% of the offenders, the immediate benefit from perpetrating an economic crime was more important than any potential consequences and 76.83% considered their actions to be wrong.

The following significant correlations could be made with regard to the data collected from the economic crime offenders during their respective personal interviews and the processing of the data collected:

- The higher the level of an offender's academic qualification, the higher the monetary amount involved with regard to the economic crime perpetrated.
- The higher the level of the monetary amount involved with regard to an economic crime, the more significant the move from acting alone and perpetrating a once-off offence to involving an accomplice and perpetrating a series of offences.
- Offenders were willing to run the risk of being detected or even prosecuted and possibly sentenced because the immediate benefit to be derived from their fraudulent actions would seem more important than the potential consequences.
- Offenders considered the possibility that they might be caught or that their

fraudulent actions would be detected, but the rewards on offer by perpetrating an economic crime probably overshadowed this risk.

DISCUSSION OF FINDINGS

The voluntary participation of 82 Gauteng-based economic crime offenders in this research project assisted in determining an economic crime offender's perception of fraud, corruption and tax-related offences. To address each of the 11 dimensions identified in the questionnaire, the economic crime offenders had to respond to specific statements in the questionnaire related to each of the 11 dimensions. The participating economic crime offenders displayed certain perceptions with regard to fraud, corruption and tax-related offences. Their summarised responses to the 11 sections (dimensions) of the completed questionnaire are presented in Table 1 below.

The perceptions with regard to fraud, corruption and tax-related offences revealed by this research are presented from the perspective of a sentenced economic crime offender serving time in prison for his trialled economic crime offence. The participating economic crime offenders have perpetrated economic crime offences that were detected, prosecuted and penalised with an official prison sentence in a court of law. The majority of the participating economic crime offenders were in agreement with all 11 sections, presented in statement format, of the questionnaire. A discussion and interpretation of the responses of the economic crime offenders will now be presented.

It is interesting that the majority of the economic crime offenders observed that current law enforcement, prosecution and sentencing practices were inadequate. To what extent their own experiences might have contributed to this observation would not be known; however, they had experienced the whole process of law enforcement, prosecution and sentencing in a court of law. It would be

interesting to learn from the sentenced economic crime offenders how to improve the current systems in place (dimension “A” of the questionnaire). The reliability of the data collected is confirmed by the Cronbach’s Alpha score of 0,708. A score of 0,70 or more is acceptable.

The majority of the economic crime offenders were of the opinion that prevention or management would minimise or reduce the possible negative impact of fraud, corruption and taxation-related consequences. Their economic crimes might have been detected by alert managers or if effective control measures had been in place. Economic criminals would rarely let an opportunity slip by to perpetrate an offence, but are always alert to preventative measures in place (dimension “B” of the questionnaire). The reliability of the data collected is confirmed by the Cronbach’s Alpha score of 0,786. A score of 0,70 or more is acceptable.

The majority economic crime offenders were of the opinion that the current laws and regulations were adequate to address fraud, corruption and tax-related misconduct in general. This appears to suggest that the current laws and regulations should be applied more effectively to deal with economic crimes in general (dimension “D” of the questionnaire). The reliability of the data collected is confirmed by the Cronbach’s Alpha score of 0,859. A score of 0,70 or more is acceptable.

The majority of the economic crime offenders confirmed the notion that an economic crime offender was more concerned about the proceeds of his crime than any possible consequences it might have. They observed that fraud or corruption was perpetrated without taking into account any possible taxation consequences that might result from their conduct (dimension “E” of the questionnaire). The reliability of the data

collected is confirmed by the Cronbach’s Alpha score of 0,867. A score of 0,70 or more is acceptable.

However, the majority of the economic crime offenders averred that the perpetrators of fraud or corruption were aware of any possible taxation consequences that might occur as a result of their fraudulent actions (dimension “F” of the questionnaire). The reliability of the data collected is confirmed by the Cronbach’s Alpha score of 0,895. A score of 0,70 or more is acceptable.

It is significant that the majority of the economic crime offenders, having perpetrated economic crime offences and enjoyed the fruits of the offences, agreed that the perpetration of fraud or corruption has an impact on taxation in South Africa. The proceeds from economic crime offences are normally not reflected or accounted for tax purposes. Thus, for an economic crime offender to acknowledge that the economic crime he has perpetrated has an impact on taxation in South Africa is thought-provoking (dimension “G” of the questionnaire). The reliability of the data collected is confirmed by the Cronbach’s Alpha score of 0,783. A score of 0,70 or more is acceptable.

The majority of the participants argued that the type of fraud or corruption being perpetrated was a function of the opportunities available to the potential offender. Most of the participating offenders indicated during their personal interviews that they were able to exploit weaknesses in the control systems at their respective employers or the entities they had targeted. Thus, it would seem that the type of fraud or corruption being perpetrated could be linked to the opportunities available to a potential offender (dimension “H” of the questionnaire). The reliability of the data collected is confirmed by the Cronbach’s Alpha score of 0,747. A score of 0,70 or more is acceptable.

Most of the participating economic crime offenders agreed with the statement that morality and sound principles would impede the occurrence of fraud, corruption and possible tax-related consequences. Conversely, a lack of morality and sound principles could promote the occurrence of economic crimes. Arguably, the best defence against any possible economic crime would be prevention. External and internal measures have their limits, but a change in a person's attitude by adopting a sound moral stance and subscribing to sound principles could assist in addressing

economic crime in general (dimension "I" of the questionnaire).

The statement was made that the prevention of fraud, corruption and tax evasion may be influenced by the cost of complying with all the taxation administration requirements in South Africa. Most participating offenders were in agreement with this statement. It is interesting that the sentenced offenders viewed tax compliance cost as a possible hurdle in the prevention of economic crimes (dimension "J" of the questionnaire).

TABLE 1
A summary of the economic crime offenders' disclosures made

Questionnaire section (Dimension)	Likert scale options		
	Agree (1 - 3)	Uncertain (4)	Disagree (5 - 7)
A. Law enforcement, prosecution and sentencing practices are not adequate.	72.82%	6.54%	20.64%
B. Prevention or management will minimize or reduce the possible negative impact of fraud, corruption and related taxation consequences.	82.68%	5.62%	11.70%
D. Current laws and regulations are adequate to address fraud, corruption and tax conduct in general.	58.21%	11.21%	30.58%
E. Fraud or corruption is perpetrated without taking into account any possible taxation consequences that might occur as a result thereof.	55.34%	11.72%	32.94%
F. The perpetrator of fraud or corruption is aware of any possible taxation consequences or tax liabilities that might occur as a result of his fraudulent actions.	67.30%	17.32%	15.38%
G. The perpetration of fraud or corruption has an impact on taxation in South Africa.	60.57%	8.13%	31.30%
H. The type of fraud or corruption being perpetrated is a function of the opportunities available to the potential offender.	66.88%	14.25%	18.87%
I. Morality and sound principles would impact positively on the occurrence of fraud, corruption and possible related taxation consequences.	69.50%	9.80%	20.70%
J. The perpetration of fraud, corruption and tax evasion may be influenced by the cost to comply with all the taxation administration requirements in South Africa.	67.10%	7.30%	25.60%
K. The prospective fraudster has no concern for his fraud or corruption being detected and eventually being prosecuted for the perpetration of a fraudulent action.	63.83%	4.47%	31.70%
Average	66.42%	9.64%	23.94%

The majority of the offenders argued that a prospective fraudster has no concern for his economic crime being detected and eventually being prosecuted for the perpetration of such an offence. This also confirms the view expressed by most offenders that fraud or

corruption is perpetrated without taking into account any possible taxation consequences. Thus, an economic crime offender has only the possible proceeds in mind when perpetrating an economic crime and may disregard the possible consequences of such conduct (dimension "K" of the questionnaire). The

reliability of the data collected is confirmed by the Cronbach's Alpha score of 0,796. A score of 0,70 or more is acceptable.

The percentages displayed in Table 1 above for each dimension under the headings "Agree", "Uncertain" and "Disagree" have been calculated using the responses of the offenders to the seven point Likert scale that applied in the questionnaire. If an offender selected "Strongly agree" (1), "Moderately agree" (2) or "Slightly agree" (3) to a specific statement in the questionnaire it was interpreted as "Agree" to the said statement and reflected as such in Table 1. However if an offender selected "Uncertain" (4), neither agreeing nor disagreeing to a specific statement it was treated as such and reflected under the heading "Uncertain". If an offender elected to disagree to a specific statement, the offender could have chosen "Slightly disagree" (5), "Moderately disagree" (6) or "Strongly disagree" (7). Whichever option of disagreement had been chosen by an offender had been interpreted as "Disagree" to the said statement and reflected as such in Table 1.

The main reasons for perpetrating fraud, corruption or tax evasion identified by the economic crime offenders are reflected in Table 2 below (dimension "C" of the questionnaire). The 10 reasons reflected in Table 2 were the 10 pre-defined options which offenders were requested to rank. They also had the option to provide any other possible reason.

The three highest ranked reasons for perpetrating fraud, corruption or tax evasion were identified by the offenders as needs/wants, facilitation of payments/cash-flow problems and greed. This is in line with the common belief that the majority of people will perpetrate fraud or corruption driven by need or greed (Wells, 2008:399).

TABLE 2
Ranking of reasons for perpetrating fraud, corruption or tax evasion

Reasons	Ranking order
Needs/wants	1
Facilitation of payments/cash-flow problems	2
Greed	3
Bribes paid to get things done/sorted out	4
Excursions/entertainment offered to foster informal relations with potential clients	5
Marketing targeted at specific individuals in the form of expensive gifts	6
Criminal behaviour	7
Getting even with SARS/the government	8
Tax savings/Tax evasion	9
Political pressure, for example subsidies or export-credit deals	10

The following other reasons why people may commit fraud, corruption or tax evasion, were noted by the economic crime offenders:

- Transparent corruption within the governmental environment
- People may be forced out of poverty
- Lack of employment and/or unemployment
- Self enrichment
- To keep other people happy
- Striving for a better/higher position
- An economic opportunity
- Peer pressure
- General cost of living
- Follow the rules of the economy
- To amass wealth so as to have power

The economic crime offenders were asked to rank four types of fraud normally perpetrated by employees that would have a moderate financial impact on an entity. Their collective

responses to the pre-identified types of fraud are summarised in Table 3.

TABLE 3

Ranking of the types of employee fraud that have a moderate financial impact

Type of employee fraud	Ranking order
Embezzlement of money or property	1
Breach of a fiduciary duty	2
Theft of trade secrets / intellectual property	3
Illegal acts	4

The embezzlement of money or property by an employee would probably be the easiest and quickest form of employee fraud to commit. It will require less effort than the theft of trade secrets for example and may be easier to conceal.

Offenders were also requested to rank four types of fraud normally perpetrated by management that would normally have a substantial financial impact on an entity. Their collective responses to the pre-identified types of fraud are summarised in Table 4.

TABLE 4

Ranking of the types of management fraud that have a substantial financial impact

Type of management	Ranking order
Financial statement fraud	1
Conflict of interest	2
Misrepresentation of material facts	3
Bribery	3
Misappropriation of assets	4
Concealment of material facts	4
Illegal acts	5

Financial statement fraud was ranked as the number one form of management fraud, followed by conflict of interest, a

misrepresentation of material facts and bribery. All of these types of management fraud have the potential to create serious financial implications for possible victim entities.

CONCLUSION

The main objective for the study was to establish an economic crime offender's perception of fraud, corruption and tax-related offences. The research was conducted by means of a statistical analysis of data collected with a manual questionnaire completed by 82 economic crime offenders, as well as by means of personal interviews conducted with them at five Gauteng-based correctional institutions.

The results obtained from the study indicated that the majority of the 82 economic crime offenders who had participated in this research responded in the affirmative to each of the 11 stated research questions. The participation of economic crime offenders in a research project to establish their own perceptions of fraud, corruption and tax-related offences was most informative. None of the participants felt threatened by their involvement in the research and participated voluntarily, thus making a substantial contribution by sharing some of the personal experiences of having been involved in economic crime and ending up paying the ultimate price for the offences committed by serving a prison term.

The results of the data analysis suggest that the prevention, detection and addressing of economic crimes in South Africa could be approached from a different perspective by taking note of the perceptions of economic crime offenders with regard to fraud, corruption and tax-related offences. Their perceptions with regard to the research questions revealed the following:

- Law enforcement, prosecution and sentencing practices are not adequate (dimension "A").

- Prevention or management of economic crime will minimise or reduce the possible negative impact of fraud, corruption and taxation-related consequences (dimension “B”).
- The main reasons for perpetrating economic crimes are needs/wants, facilitation of payments/cash flow problems and greed (dimension “C”).
- Current laws and regulations are adequate to address fraud, corruption and tax conduct in general (dimension “D”).
- Fraud or corruption is perpetrated without taking into account the possible taxation consequences that might occur as a result thereof (dimension “E”).
- The perpetrator of fraud or corruption is aware of the possible taxation consequence or tax liabilities that might occur as a result of his fraudulent actions (dimension “F”).
- The perpetration of fraud or corruption has an impact on taxation in South Africa (dimension “G”).
- The type of fraud or corruption being perpetrated is a function of the opportunities available to a potential offender (dimension “H”).
- Morality and sound principles would impact positively on the occurrence of fraud, corruption and possible tax-related consequences (dimension “I”).
- The prevention of fraud, corruption and tax evasion may be influenced by the cost to comply with all the taxation administration requirements in South Africa (dimension “J”).
- A prospective fraudster is unconcerned about whether or not his fraud or corruption will be detected, and whether he will be prosecuted for perpetrating a fraudulent action (dimension “K”).

More laws and regulations would not necessarily address the current levels of economic crime in South Africa. The focus should be on the more effective application of existing laws and regulations. The implementation of sound principles, such as corporate ethics and the promotion of moral conduct, could contribute towards a business environment where economic crime could be labelled as the enemy of sound business practices. It seems that the human factor, in particular the exploitation of an opportunity, to perpetrate an economic crime is largely driven by need or greed. A temporary solution to this world-wide phenomenon is to send economic crime offenders to prison once found guilty in a court of law. This may only be a short-term solution to this problem by removing the sentenced offender temporarily from society. The real challenge arises when the sentenced economic crime offender is released from prison after having served his term. To what extent has the economic crime offender been rehabilitated and how would he be integrated back into society? It is suggested that a holistic rehabilitation programme for economic crime offenders should extend beyond prison during their integration phase back into society once released from prison.

In conclusion, the above discussion provides substantive evidence that economic crime offenders have definite perceptions regarding fraud, corruption and tax-related offences. Despite the existence of numerous laws, regulations and control measures, they were able to perpetrate economic crimes and ended up in prison for their choices and offences. They indicated that law enforcement, prosecution and sentencing practices are not adequate and that, although they might have been aware of the possible tax consequences their offences could have, they disregarded them. Economic crime offenders are only concerned about the proceeds from their crimes and do not really consider the consequences they may have. To send them to prison and to deprive them of their freedom

and the proceeds of their crimes is only a temporary solution to a long-term problem, unless the offenders are willing to subject themselves to a life changing post-prison rehabilitation programme.

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