

Controlling Fraud on the Internet: A CAPA Perspective

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**A Report for the Confederation of Asian
and Pacific Accountants**

Russell G. Smith and Gregor Urbas



**Confederation of Asian and Pacific
Accountants**



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The Confederation of Asian and Pacific Accountants (CAPA) represents national accountancy organisations in the Asia-Pacific region. The mission of CAPA is to provide leadership in the development, enhancement and coordination of the accountancy profession in the Asia-Pacific region to enable the profession to provide services of consistently high quality in the public interest.

The Australian Institute of Criminology (AIC) is Australia's national centre for the analysis and dissemination of criminological data and information.

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Foreword

One of the great benefits which developments in computing and communications technologies have brought is the enhanced ability of people to communicate with each other internationally. Information can be exchanged both quickly and cheaply using online services and business transactions have been greatly facilitated in many ways through the use of digital technologies. Although still predominantly English-language based, the Internet now has users located throughout the globe communicating in many languages. Developing nations, in particular, are seeing dramatic growth in their use of online services.

The Asia-Pacific region, in particular, is experiencing enormous growth in all forms of online services and both business and government are now making extensive use of the Internet for the dissemination of information as well as for electronic service delivery and online transactions. The large population of the Asia-Pacific region has, accordingly, proved to be a great inducement to the development of electronic commerce and the region is likely to become the greatest user of these technologies in the world in the near future.

Along with these developments, however, is the concern that misuse of online technologies for financial gain may grow at a correspondingly rapid rate. Already, Internet-related fraud has become a considerable problem in the United States and the European Union, and it is likely that those within the Asia-Pacific region will also be subjected to acts of fraud and economic crime facilitated through the use of Internet-based technologies. Given the global reach of the Internet and the rapid expansion of electronic commerce, it is inevitable that countries in the Asia-Pacific region will be affected by Internet fraud in the years to come.

It is trite to say that crime in the twenty-first century knows no borders, and it can be predicted that the Asia-Pacific region will be subjected to online victimisation in direct proportion to its usage of digital technologies. It is timely, therefore, for those in the region to understand the nature of the risks they face and to make use of the latest fraud prevention strategies that are

available. Not every risk can be avoided, but with a sound knowledge base, and effective use of appropriate technologies, the level of harm might be minimised.

Some of the key challenges in responding to electronic crime lie in establishing partnerships between agencies and organisations and in sharing information widely across nations. In this regard, key stakeholders need to coordinate the efforts of those in individual countries in order to ensure that initiatives are not duplicated and achievements not overlooked. In the Asia-Pacific region, the Confederation of Asian and Pacific Accountants (CAPA) is an extensive network of accounting professionals with the ability to coordinate efforts at fraud reduction among the business community and to mobilise governments to adopt uniform and effective measures to deal with economic crime. CAPA is, therefore, ideally placed to mobilise the fight against Internet fraud in the region.

CAPA was established in 1957 and represents 31 national accountancy organisations in 21 countries with a total membership of almost 700,000 accounting professionals. CAPA is by far the largest regional accountancy organisation, with its geographical area spanning half the globe. The current members of CAPA are Australia, Bangladesh, Canada, China, Fiji, France, Hong Kong, India, Japan, Korea, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand and the United Kingdom.

On 28 and 29 April 2000, the 54th CAPA Executive Committee meeting held in Macau identified crime relating to electronic commerce and Internet-related fraud as problems of increasing concern in the Asia-Pacific region. In order to assess the scale of the problem and the range of possible solutions, in November 2000, CAPA commissioned the Australian Institute of Criminology (AIC), Australia's national centre for the analysis and dissemination of criminological data and information, to undertake a study on behalf of CAPA of Internet-related fraud as it affects business and government organisations in the Asia-Pacific region. The AIC works regularly with a range of international bodies including the United Nations Office for Drug Control and Crime Prevention on topics such as the Global Program Against Trafficking in Human Beings focusing on the Asia-Pacific region, and the Council for Security Cooperation also in the Asia-Pacific area.

In order to limit the scope of the study, the AIC was asked to examine the problem in those countries with current representation as members of CAPA. Other countries in the region are likely to experience Internet-related fraud to a similar extent as current CAPA member countries, and the results of this study should have relevance to those throughout the region. The current analysis will, however, focus on the experience in the 21 current member countries. In the case of non-regional members, such as the United Kingdom, Canada and France, their experience of Internet-related fraud will only be examined in so far as it concerns their business and government activities within the region.

The study also principally examines the fraud risks associated with electronic commerce on the Internet in business and government contexts, rather than consumer transactions. Although the problem of Internet fraud perpetrated against consumers remains a problem globally, this report focuses on the less well documented problem of fraud involving business and government electronic transactions which, as yet, has not been subjected to rigorous study. As such, this report identifies some of the key areas of risk and reviews the various strategies that are being suggested to control the problem in the Asia-Pacific region.

The current report provides a sound basis for CAPA to undertake further initiatives to control fraud on the Internet. The problem is not one that is amenable to simple or quick solutions. There are, however, many ways in which accounting professionals in the region can assist those in business and government to avoid some of the risks which new technologies of electronic commerce have created. This report provides an agenda for CAPA to take action that should help to make electronic commerce a safer and more efficient way in which to conduct business in the future.

Ranel T. Wijesinha
President
Confederation of Asian and Pacific Accountants

9 October 2001

Preface

Within the next few years, the Asia-Pacific region will have the largest number of Internet users of any region globally. Electronic commerce is also predicted to expand considerably, with massive increases in the number of business transactions in the region expected to be carried out electronically by 2003. Throughout the region considerable resources are being devoted to enhancing the technological infrastructure to facilitate on-line activities in both business and government contexts. Attention is also being directed to preventing any crime that might be associated with the use of these new business models.

This innovative report is the first systematic look at the problem of Internet fraud as it affects business and government in the Asia-Pacific region. Risks of electronic crime clearly know no boundaries, and as new technologies are taken up by countries within the region, so will opportunities arise for individuals—both within the region and beyond—to act dishonestly for personal gain.

After reviewing the nature and extent of the problem of on-line fraud, an extensive range of responses is considered—business and government policy responses; responses by investigatory agencies within the public and private sectors; legal and procedural reforms; and a wide variety of fraud prevention initiatives. A detailed agenda for controlling Internet fraud is set out to assist those within the region to take appropriate and effective measures to minimise the risks of economic crime that the Internet has created.

The Confederation of Asian and Pacific Accountants is to be congratulated for embarking upon this important research initiative. Its extensive network of accounting professionals throughout the region will help to ensure that the crime control measures outlined in this report will be taken up throughout the region without delay.

Adam Graycar
Director
Australian Institute of Criminology

9 October 2001

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Abbreviations

ACCC	Australian Competition and Consumer Commission
AIC	Australian Institute of Criminology
ASIC	Australian Securities and Investments Commission
ASP	application service provider
ATM	automatic teller machine
CAPA	Confederation of Asian and Pacific Accountants
EBT	electronic benefits transfer
EFTPOS	electronic funds transfer at point of sale
GDP	gross domestic product
GII	global information infrastructure
ISP	Internet service provider
LAN	local area network
MEPS	Malaysian Electronic Payment System
NII	national information infrastructure
OECD	Organisation for Economic Cooperation and Development
PIN	personal identification number
SET	secure electronic transactions
SWIFT	Society for Worldwide Interbank Financial Telecommunications

