

Mining is a global industry, and the drive behind the economy of many countries around the world. It covers a wide variety of resources – precious and semi-precious metals, diamonds, and coal – to name a few. It is this diversity that makes the industry so fascinating, but that also makes it a hotbed for fraud and other workplace issues.

An Ernst & Young article suggests that as “projects are being conducted in countries more prone to corruption”¹ and because characteristics of the industry (i.e. high-value commodities and remote operations) “predispose miners to fraud and corruption risks”², levels of fraud in the industry are increasing.

Because companies often have operations in several countries, policies must take into account differing cultures and the widespread nature of the business, but trying to adapt can often result in a breakdown of policy as business procedures and workplace standards in a particular country may not be legal (or ethical) practice.

The ACFE names five types of fraud widely prevalent in the mining industry: environmental, occupational, safety and resource or reserve reporting³. They also suggest that the global, decentralized nature of mining operations make it particularly difficult to control and detect these fraudulent behaviours.

Environmental fraud is mostly focused on improper disposal of hazardous materials coming out of the mine site. While it is a heavily regulated area, it is also difficult to enforce proper practice given the remote location of most mine sites. The main way to ensure materials are being properly disposed of is to create an estimate of what disposal should cost, and use audits to ensure costs are on target. If costs are significantly lower than expected, or significantly lower than they have previously been, this is a red flag that finances could be being diverted elsewhere.

Forestry fraud involves avoiding obtaining licenses to cut down trees, or postponing obtaining them until clearing has already occurred. Keys to ensuring this type of fraud has not occurred involves

¹ Ernst & Young (2011). *Fraud and Corruption in Mining and Metals*. Retrieved on Sept 12, 2011, from <http://www.ey.com/GL/en/Industries/Mining---Metals/Fraud-and-corruption-in-mining-and-metals---Miners-contend-with-corruption-risk>

² Ernst & Young (2011). *Fraud and Corruption in Mining and Metals*. Retrieved on Sept 12, 2011, from <http://www.ey.com/GL/en/Industries/Mining---Metals/Fraud-and-corruption-in-mining-and-metals---Miners-contend-with-corruption-risk>

³ ACFE (2011). *Fraud in the Mining Industry*. Retrieved on Sept 12, 2011, from <http://www.fraud-magazine.com/article.aspx?id=4294969154>

checking acquired licenses against those needed for a specific country and verifying they were acquired at the right time and through the right channels. Additionally, check actual cut areas against those that the company has been given permission to cut in to ensure that they match up.

Occupational fraud is “The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets”⁴ – essentially, stealing from the company in one form or another. Reporting hotlines and internal audits are the most effective tools against this type of fraud.

Reserves or resources reporting fraud is a means of attracting investors by falsely reporting the amount of resource or the size of the reserve as larger than it actually is. It is suggested that potential investors employ third-party services to independently investigate the company, (and it’s claims) to ensure to the greatest possible extent that they are true before investing.⁵

Mining safety fraud is essentially the improper enforcement of safety regulations leading to hazardous working conditions. There are many ways to combat this form of fraud – reporting hotlines, employee education, and compliance checks – to name a few.

All of these factors contribute to the need for company-wide protection against fraud, employee security, and other issues that, unless resolved, could result in catastrophe for the organization.

Implementing internal controls to try and prevent problems before they begin can circumvent this type of disaster as well as improving your company’s corporate governance abilities.

⁴ ACFE. (2010). *Report to the Nations on Occupational Fraud and Abuse*. Retrieved on August 9, 2011, from <http://www.acfe.com/rtnn/rtnn-2010.pdf>

⁵ ACFE (2011). *Fraud in the Mining Industry*. Retrieved on Sept 12, 2011, from <http://www.fraud-magazine.com/article.aspx?id=4294969154>