Whistle-blowing system needed to fight crime

Small companies are both disproportionately victimised by fraud and significantly under-protected by anti-fraud controls, and this combination could easily put them out of business.

"That's why it is becoming increasingly important for smaller companies to put a whistle-blowing system in place. In South Africa, everyone needs to be brought into the crime fighting fold," says Dale Horne, who heads up Whistle Blowers, South Africa's leading independently-owned corruption reporting service provider.

In its 15 years' experience, Whistle Blowers has noted important trends and alarm signals. The company offers subscribing clients internationally a 24/7 call centre which is manned by highly trained multi-lingual staff. Subscribing client employees can report irregular activities such as theft, fraud, bribery or any irregularities within an organisation, secure in the knowledge that their identities are protected.

Whistle Blowers is not affiliated with a large auditing firm, which is to ensure that there is no conflict of interest. As such, the company has become the preferred service provider of hotlines to like-minded auditing companies, both large and small.

Issues identified by Whistle Blowers over the years are echoed in various credible international research reports, such as the 2014 Report to the Nations on Occupational Fraud and Abuse carried out by the Association of Certified Fraud Examiners (ACFE).

"Small businesses (defined as those with fewer than 100 employees) were victimised in the greatest percentage of cases reported to us. In addition, the median losses for small businesses and the largest entities (those with more than 10 000 employees) were the highest at $154 000 and $160 000 respectively. It is important to note that the overall impact of a $154 000 loss for many small businesses is much greater than the relative impact of a $160 000 loss at an organisation with more than 10 000 employees," the ACFE report notes.

The survey found that small organisations were much less likely to have hotlines or internal audit departments than their bigger brothers. In South Africa, this is a given, as listed companies now have to have a whistle blowing system in place by law, while SMMEs don't.

Horne believes that one of the key reasons why smaller companies don't take measures to detect dishonesty is the same reason why they are particularly susceptible to it - decision-making in such companies is confined to a few key managers. There is also a higher risk of being identified as the one who snitches to the boss within a small, closely knit organisation, which emphasises the importance of protecting the identity of a whistle blower.

"Our success over the past 15 years stems from our ability to protect the identity of whistle blowers and, at the same time, having the skill to obtain enough information to get to the bottom of irregularities. There are clear guidelines on reports and who will handle these," says Horne.

According to the ACFE findings, "tips are consistently and by far the most common detection method. Over 40% of all cases were detected by a tip - more than twice the rate of any other detection method. Employees accounted for nearly half of all tips that led to the discovery of fraud."

The presence of anti-fraud controls ensures that fraud is detected quickly and lowers the costs for the unfortunate company.

Reference
"Large and small companies need a whistle blowing system to fight crime." - Issued by Whistle Blowers (Pty) Ltd dated 24 February 2015.