

# ***Essentials in Designing a Whistle blowing System***

**12<sup>th</sup> December 2011**

# **Living in Denial**

- **Organizations**
- **Governments**

# **Reality 1**

## **Impacts of Fraud**

- **The ACFE 2010 report to the nation noted a 2.9 Trillion Global losses to Fraud.**

# **Reality 2**

## **Perpetrators of Fraud**

- **The Employee**
- **The Managers**
- **The Owners / Executives**

# **Reality 3**

## **Damage of Frauds**

- **Frauds committed by these Employees, Managers and Owners/Executives, created much damage and took much longer to detect.**

# **Reality 4**

## **Areas of Fraud**

- **80% of these frauds were committed in these departments: accounting, operations, sales, customer service and the executive/upper management,**

# **Reality 5**

## **Trends of Fraud**

- Trends indicate that there is an increase in all major types of fraud schemes.

# **Reality 6**

## **No Controls for Fraud**

- There are no formulas and no foolproof controls to curb and stop fraud.

# **Reality 7**

## **Profile of a Fraudster**

- **More than 85% of fraudsters have never been previously charged or convicted for fraud-related offenses.**

# Case Study

- **Ghost employee fraud**
- **Recruitment fees fraud**
- **Credit card fraud**
- **Who was involved???**

# **Let's Agree**

- **That we to stop living in denial**
- **That we have a problem**
- **That fraud is here to stay**

- **The Definitions**

# What is Whistle Blowing

- **US academics – Marcia P.**
  - Act of disclosure of illegal activities
- **UK academics – Guy Dehn**
  - Act of disclosure to reduce and remove risks
- **Australian academics – Peter Jubb**
  - Act of disclosure to rectify a wrongdoing

# Whistle Blowing Defined

- A system in place that allows ways of disclosure by any person of any information about a misconduct or illegal activity while protecting the individual against sanctions of all forms in order to promote accountability.

# **Cynthia Cooper**

## **WorldCom**



# **Sherron Watkins**

## **Enron**



# **Coleen Rowley**

## **FBI**



# Time - 2002



# Harry Markopolos Madoff's Ponzi



# Harry Markopolos

- First uncovered Madoff's scheme in 1999
- Reported it to Boston SEC in 2000
- Reported it to Boston SEC in 2001
- Reported it to Boston SEC in 2002
- Wrote 21 page memo to SEC regulators in 2005
- Raised the issue again with the regulators in 2007
- In Dec 2008 Madoff was arrested
- "No one would listen"

# ACFE - 2009



# **Whistle Blowing National Laws**

- **US – Whistleblower Protection Act**
- **UK – Public Interest Disclosure Act**
- **Canada- Public Servants Disclosure Act**
- **Japan – Whistleblower Disclosure Act**
- **New Zealand – Protected Disclosures Act**
- **Romania – Act on the Protection of Whistleblowers**

# **United Nations International Instrument on Whistle Blowing**

- **Convention against corruption in 2003**
- **Convention against corruption in 2005**
- **140 countries have signed for as of 2011**

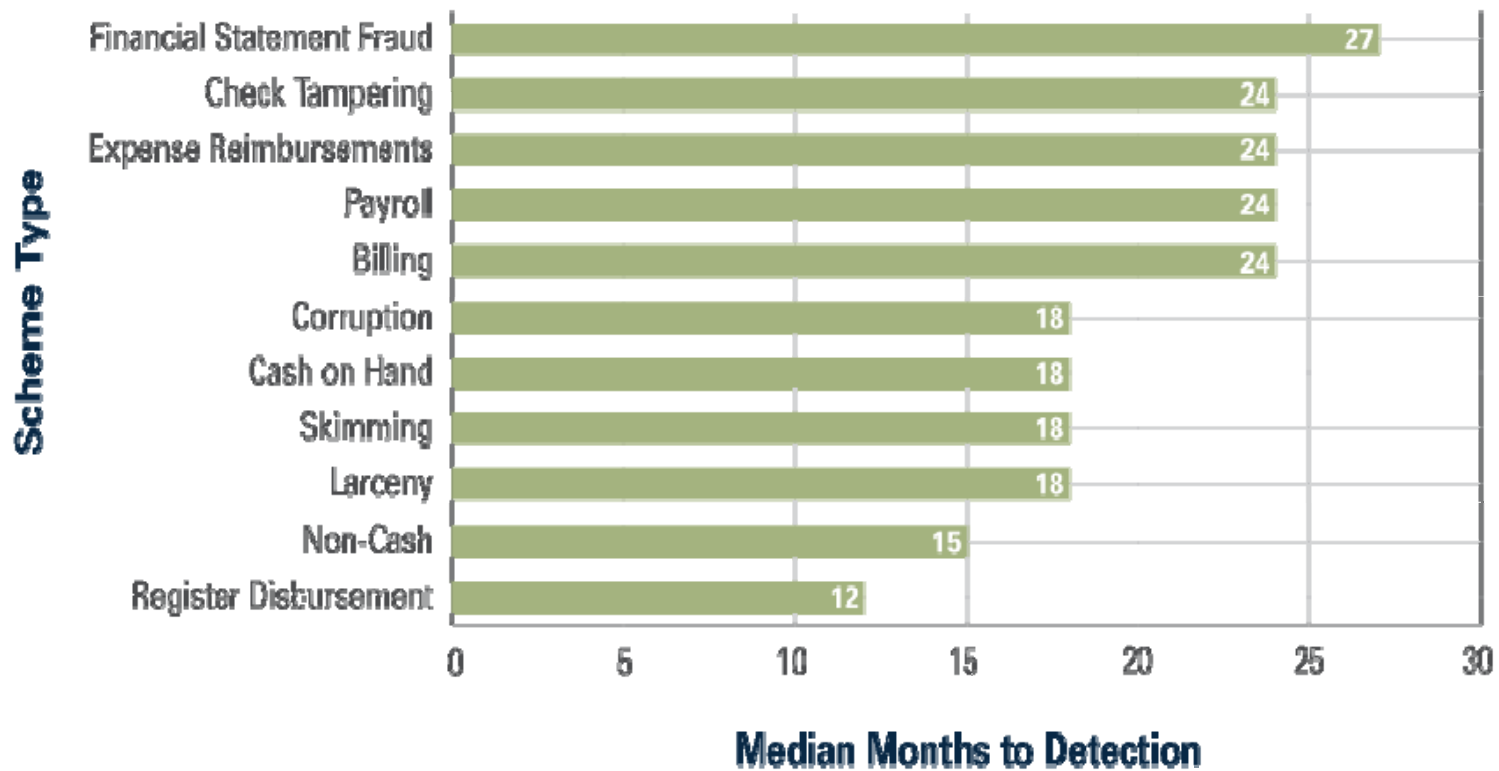
- **Statistics**

# Time To Detection

- The median duration — the time period from when the fraud first occurred to when it was discovered — for cases in 2010 report was 18 months.

# Time To Detection

## Median Duration of Fraud Based on Scheme Type



# Time To Detection

## Median Duration of Fraud Based on Position

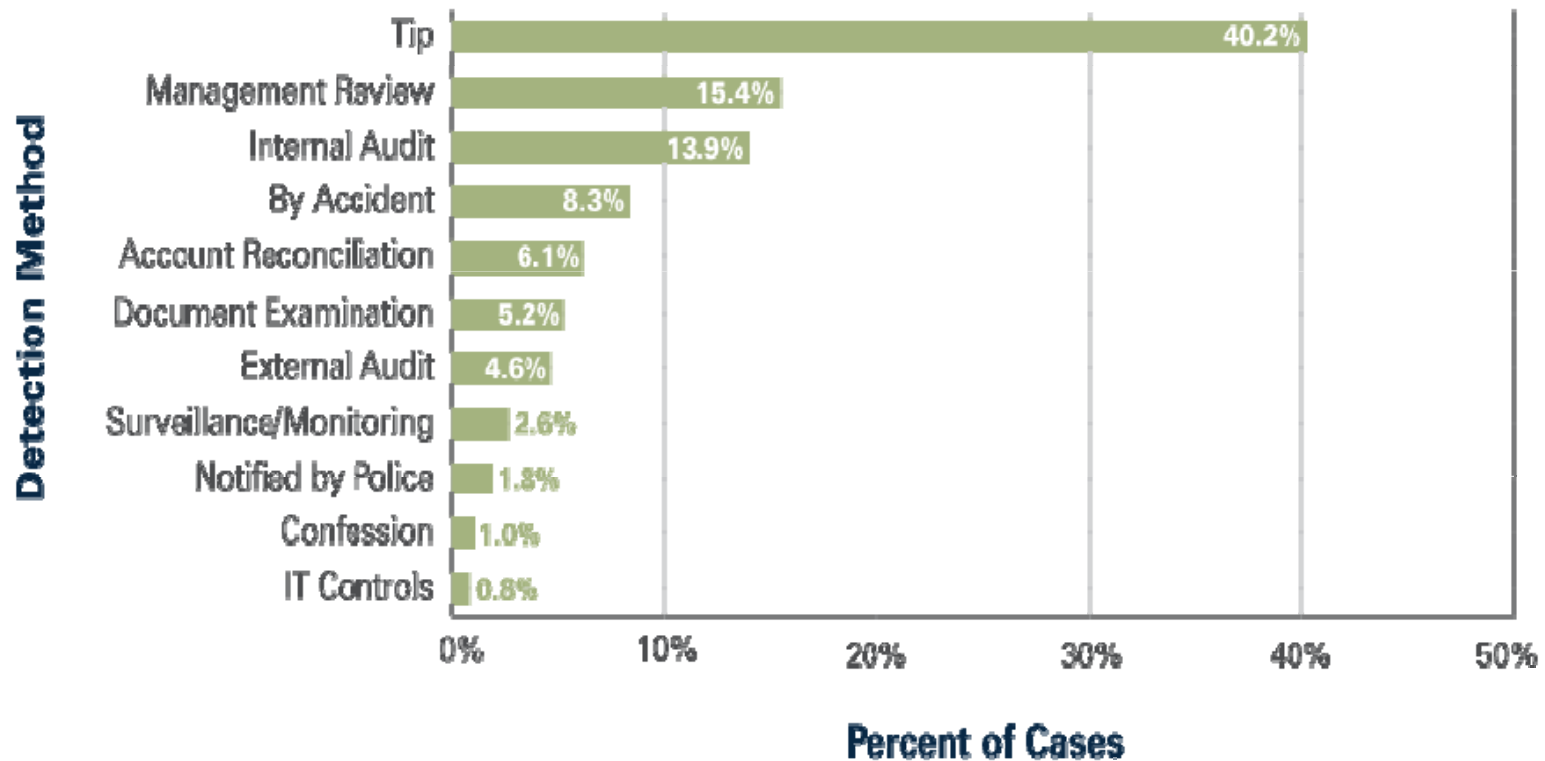
Months to Detection Based on Position	
Position	Median Months to Detect
Employee	13
Manager	18
Owner/Executive	24

# Detection Methods

- Tips
- Management Review
- Internal Audit
- By Accident
- Account Reconciliations

# Detection Methods

## Detection methods

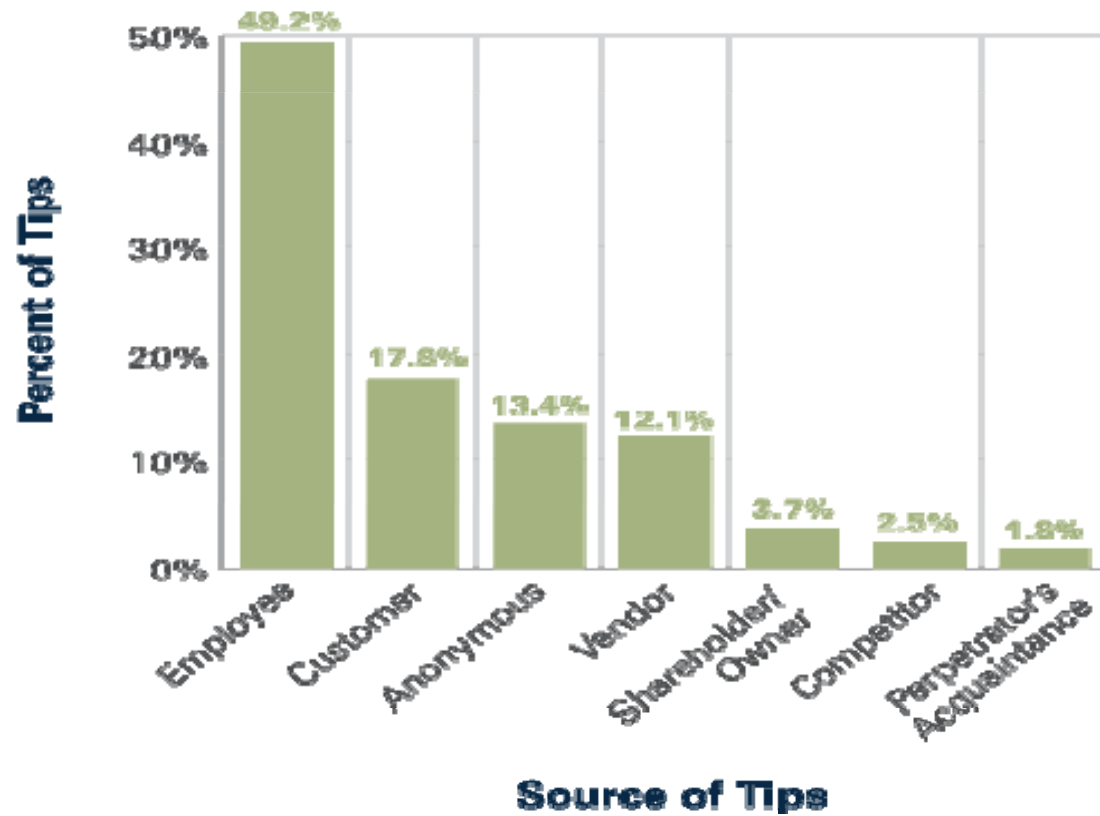


# Source Of Tips

- Employees
- Customers
- Anonymous
- Vendors
- Acquaintances

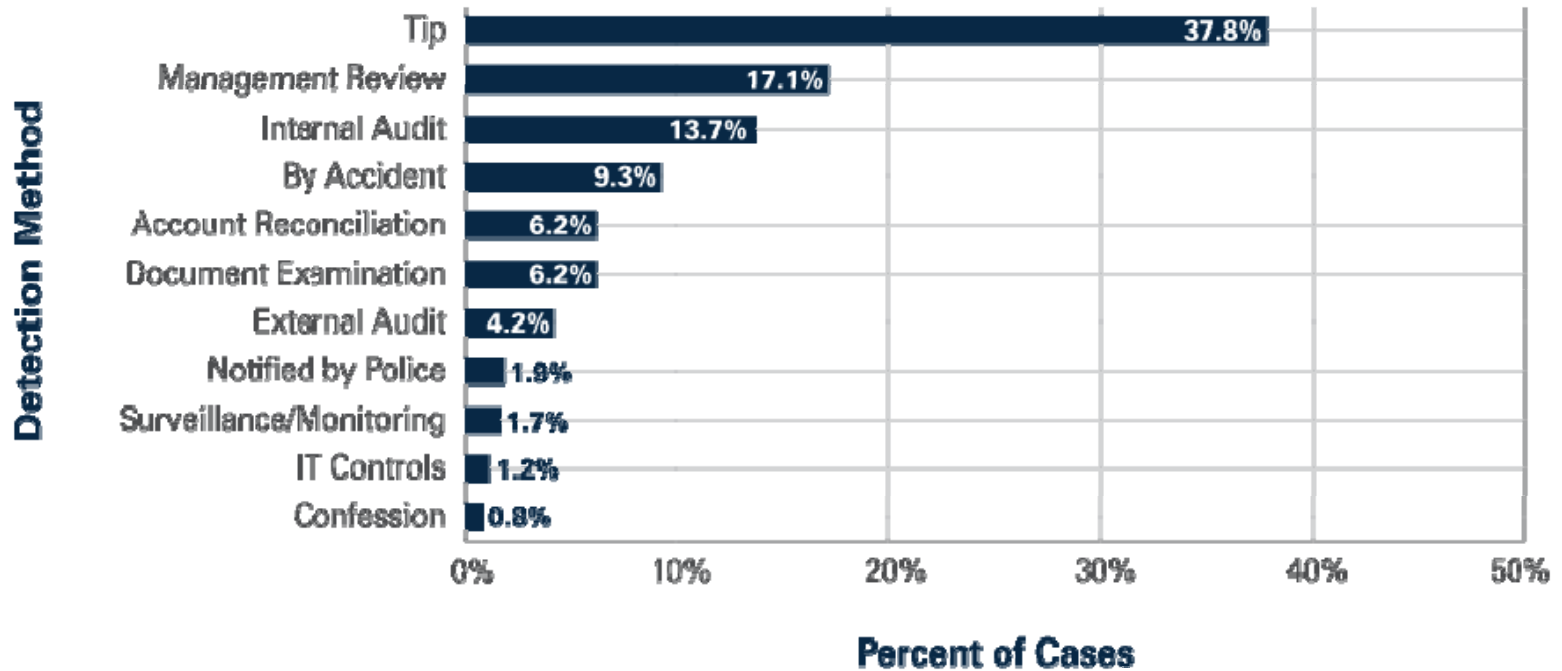
# Source of Tips

## Source of Tips



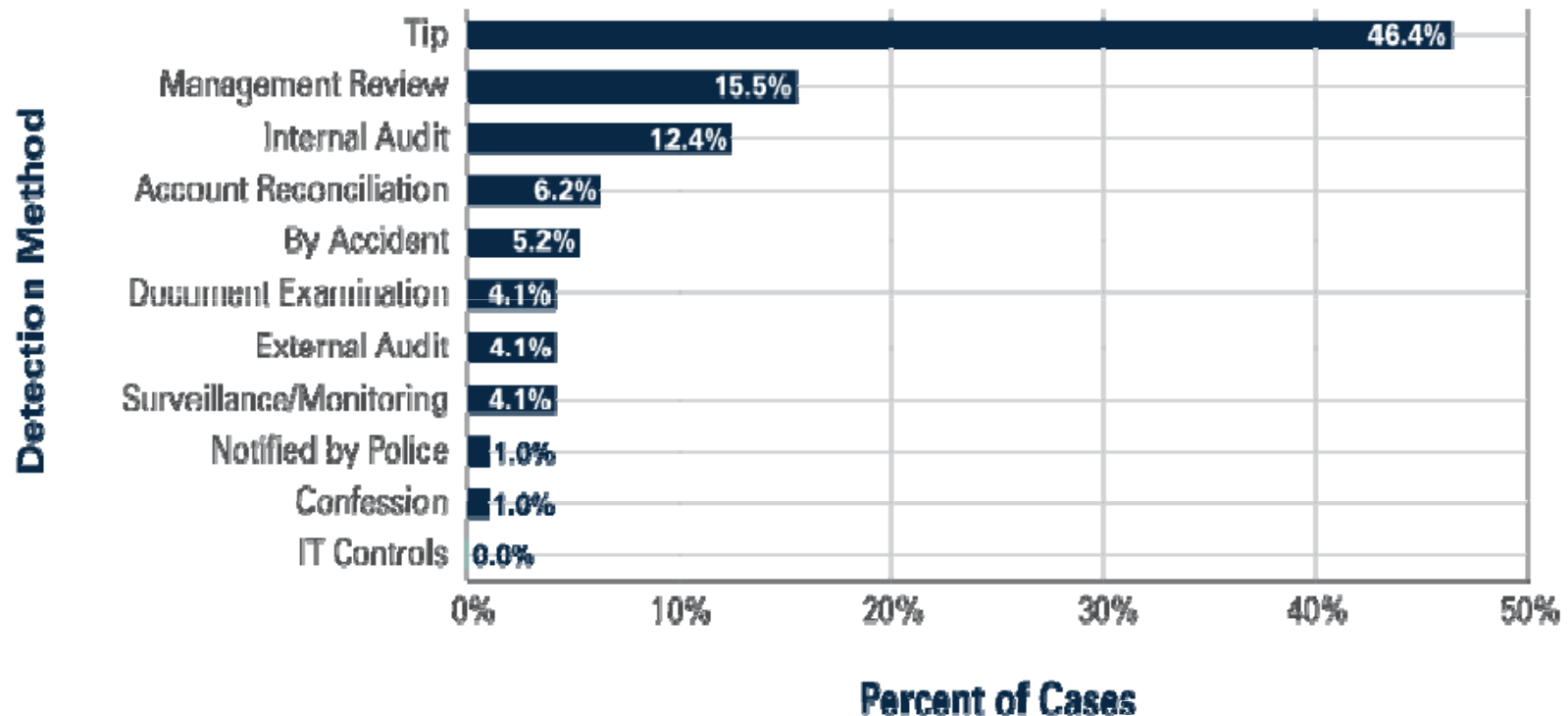
# Method of Detection USA

## Method of Detection - USA



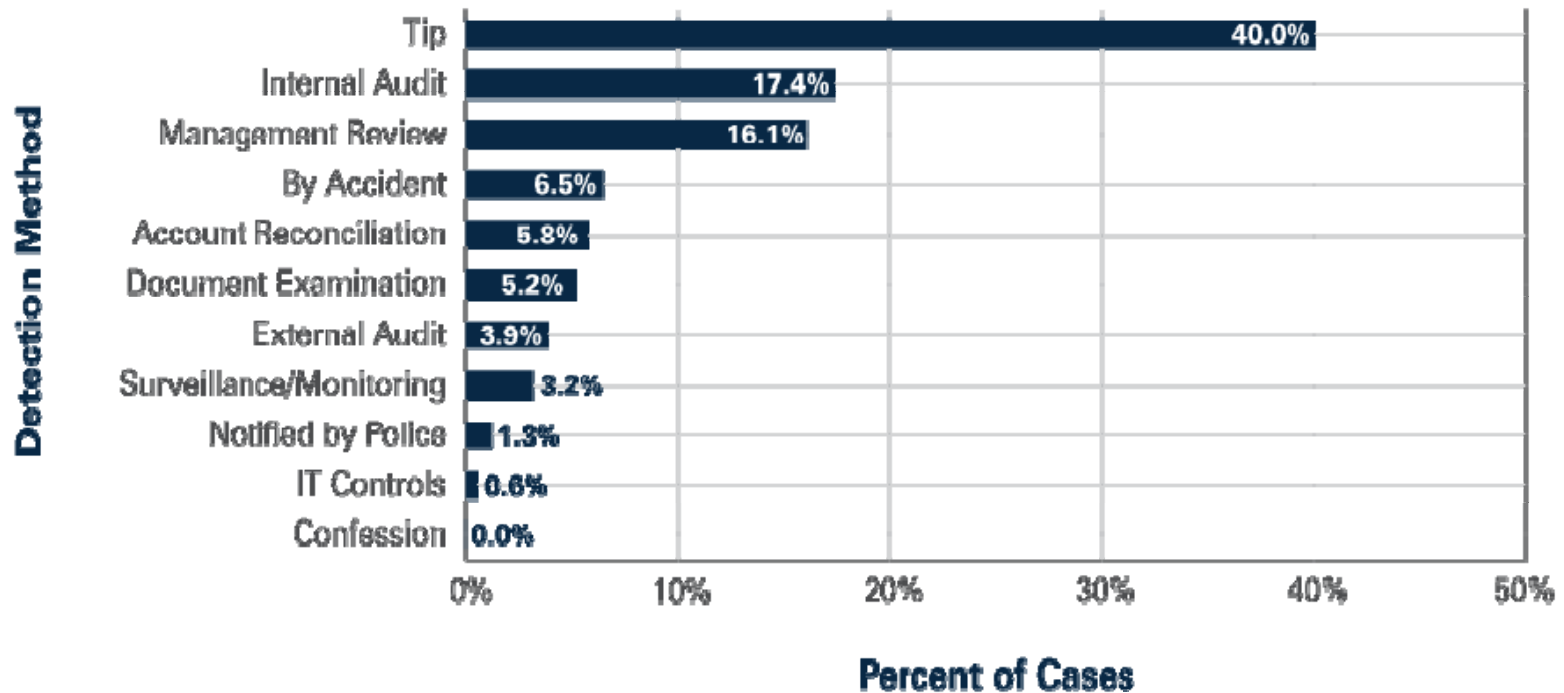
# Method of Detection Canada

## Method of Detection - Canada



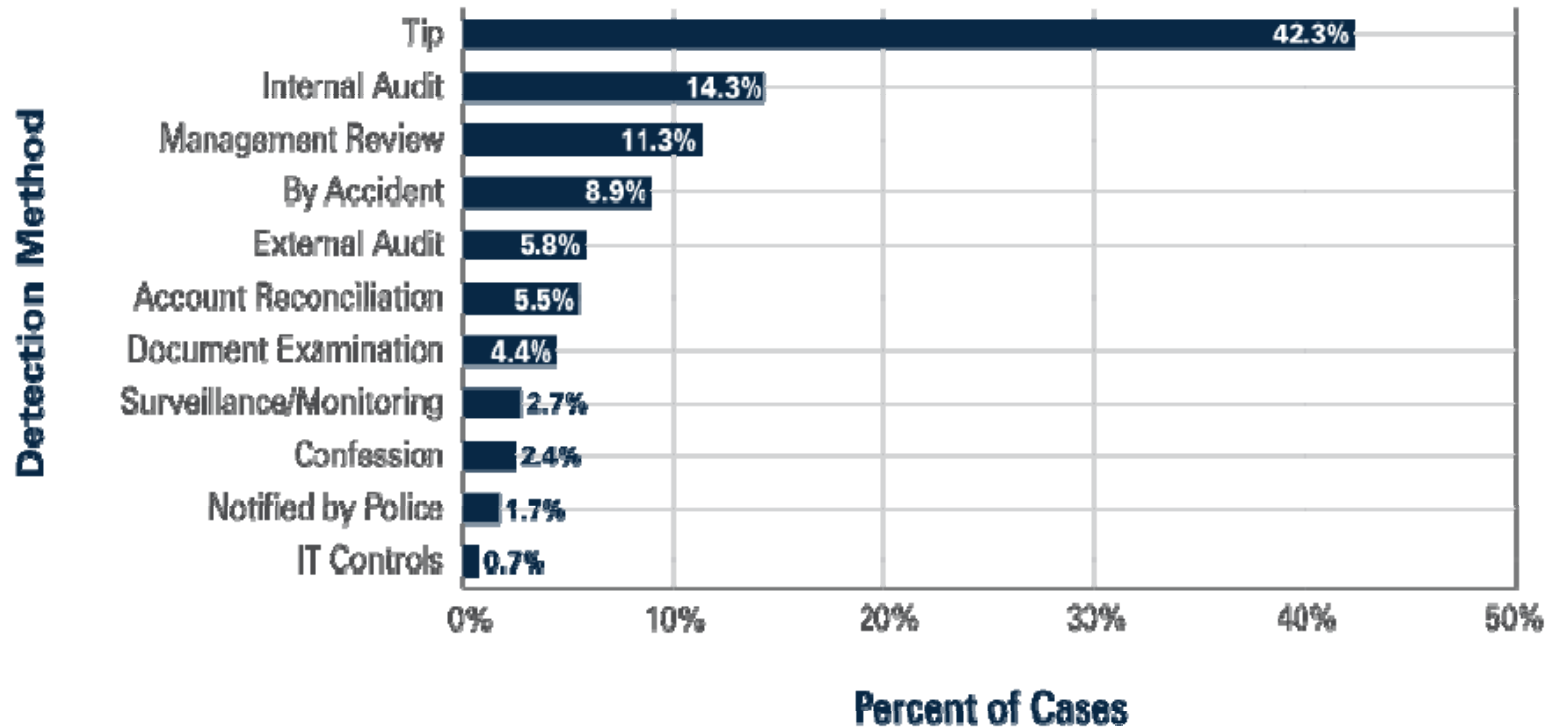
# Method of Detection Europe

## Method of Detection - Europe



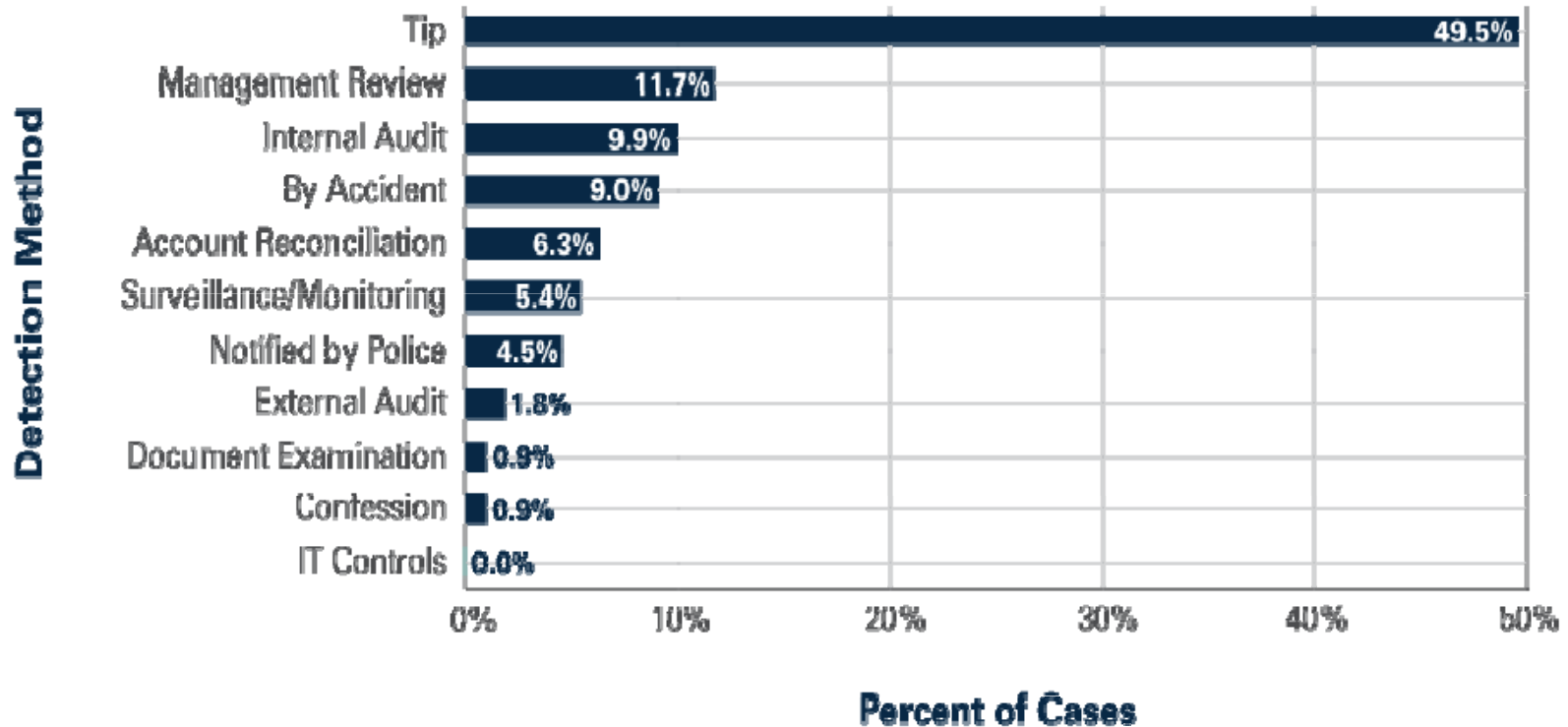
# Method of Detection Asia

## Method of Detection - Asia



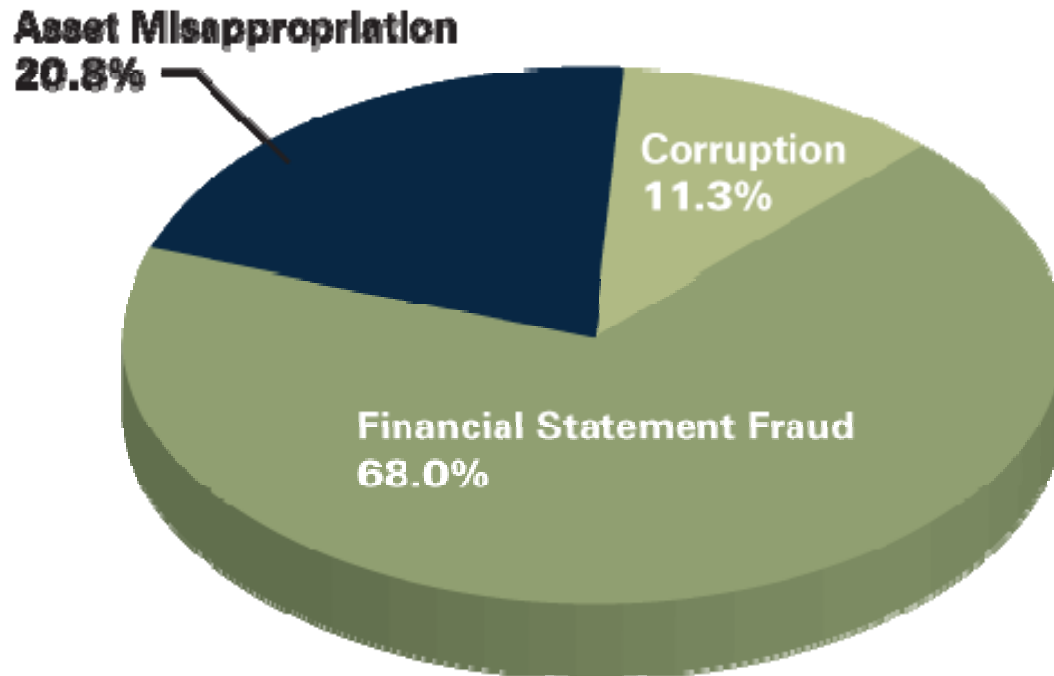
# Method of Detection Africa

## Method of Detection - Africa



# Global Dollar Losses

## Percentage of Dollar Losses



# Case Study

- **Duplication of Jobs**
- **Duplications of Payments**
- **Forgery of Quotations**
- **Forgery of Invoices**
- **How was it reported???**

# **Let's Agree**

- **That Fraud is here to stay**
- **That we need whistleblowers**
- **That we need whistle blowing system**

- **The Whistle Blowing  
Essentials**

# Essential 1

- **Create an Anti-Fraud Policy**
  - Outline an anti-fraud culture
  - Outline the need for accountability
  - Outline reporting mechanisms
  - Outline the owners of the process
  - Outline the authority of these owners

# Essential 2

- **Create Case Management Framework**
  - Outline incidents criteria
  - Outline incidents level
  - Outline incident response teams
  - Outline investigative process
  - Outline evidence retention timeline

# Essential 3

- **Create a dedicated department**
  - Legal experience
  - Forensics Accounting experience
  - IT Forensics experience
  - Fraud experience

# Essential 4

- Get endorsements from the top

# Essential 5

- Get endorsements from Clients

# Essential 6

- **Awareness, Awareness, Awareness!**
  - The policy
  - Anti-fraud culture
  - The department

# Essential 7

- **Investigate and Take Action**
  - Investigate incidents reported
  - Take action on the incidents reported

# Essential 8

- **Protect the Whistle Blower**

# Essential 9

- Reward the Whistle Blower

# Essential 10

- Encourage anonymity

# Essential 11

- **Assess and evaluate the system**
  - Is it working
  - Is it yielding the intended results
  - Are employees comfortable using it
  - Are employees using it

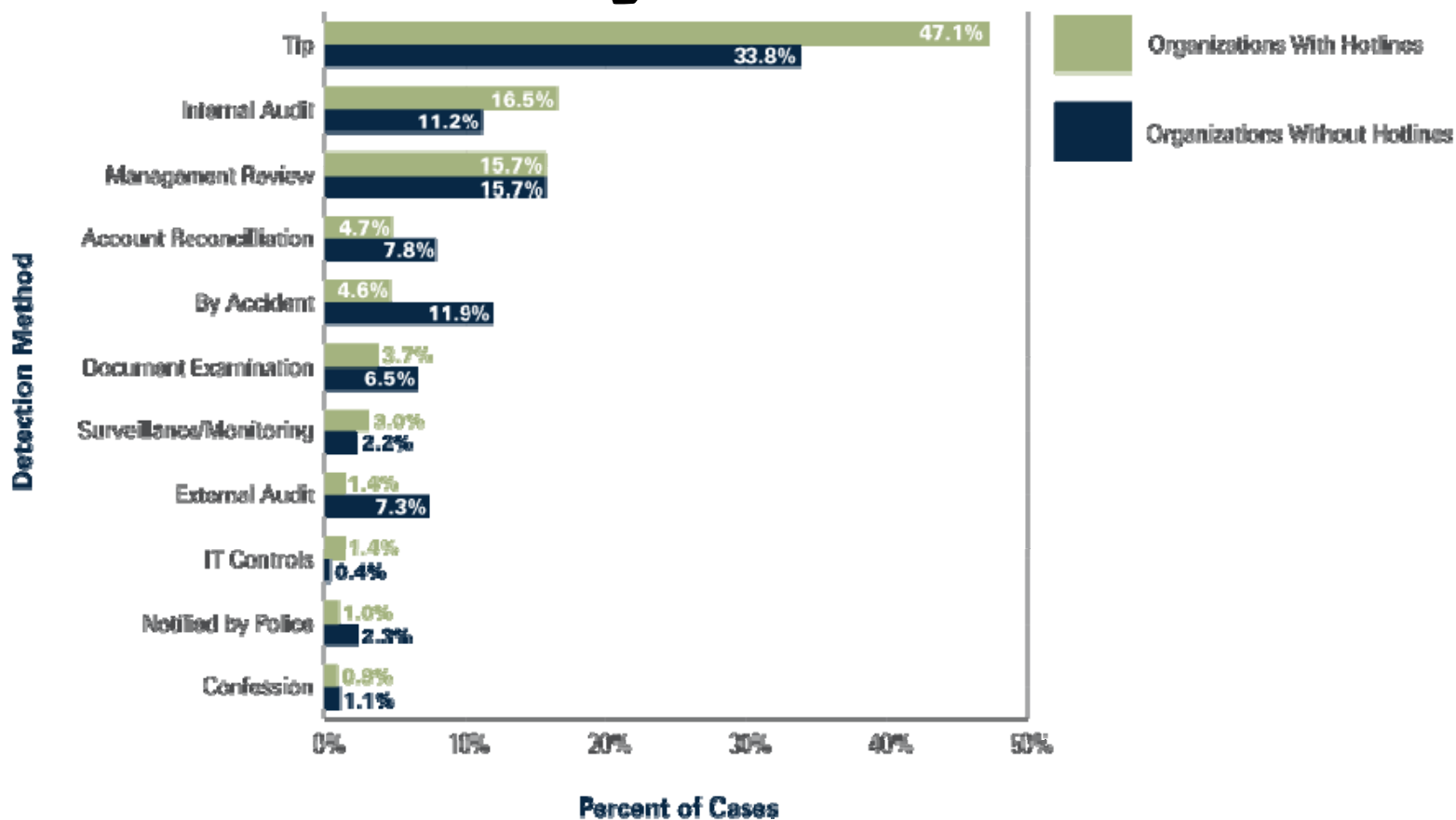
# Five Factors To Success

- Protection
- Taking Action
- Confidentiality
- Reward
- Showing Action

# Case Study

- **A 10 million bribery case**
- **Unfulfilled Protection**
- **Pending Reward**
- **Death of the Whistle Blower**
- **What's next???**

# Impacts of Whistle Blowing System



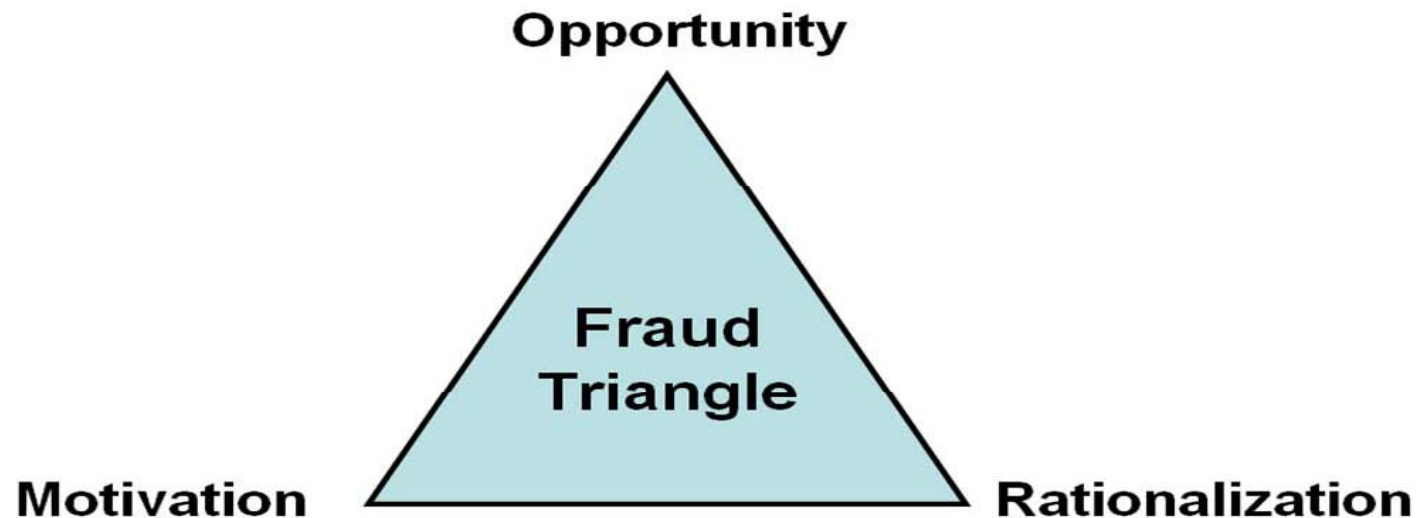
# **Let's Agree**

- **That Fraud is here to stay**
- **That we need whistleblowers**
- **That we need whistle blowing system**

# Let's Agree with Donald Cressey

## Why People Commit Fraud

Famed criminologist Donald R. Cressey



Even the best systems of internal control cannot provide absolute safeguards against irregular activities.

*Thank You*