



Association of Certified Fraud Examiners

South African Chapter (Number 91)

Protecting Whistleblowers in the Digital Age

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FRAUD IN AFRICA: A BIG/BIGGER PROBLEM

SA has the **HIGHEST** rate of fraud **worldwide (77% for 2018)**!

And it's getting worse. SA Fraud Prevention Service: **new fraud cases in SA rose by 56% in 2017**

PWC's 2018 Fraud Report estimates that **fraud cost SA R100bn in lost revenue.**

Half of the 10 countries with highest rates of fraud are in Africa



HOW MUCH AM I LOSING TO FRAUD?

ACFE: on average, **companies lose 5% of turnover to fraud**. That's a lot of money you're throwing away.

For every R100m annual turnover, you're losing R5m every year to fraud. Money that you may as well flush down the toilet.

As if this weren't bad enough, **40% of customer churn is due to a company's unethical behaviour**.



BUT PEOPLE WILL REPORT WRONGDOING, RIGHT?



If you're like most firms, you're **doing nothing about fraud**. We hear views like:

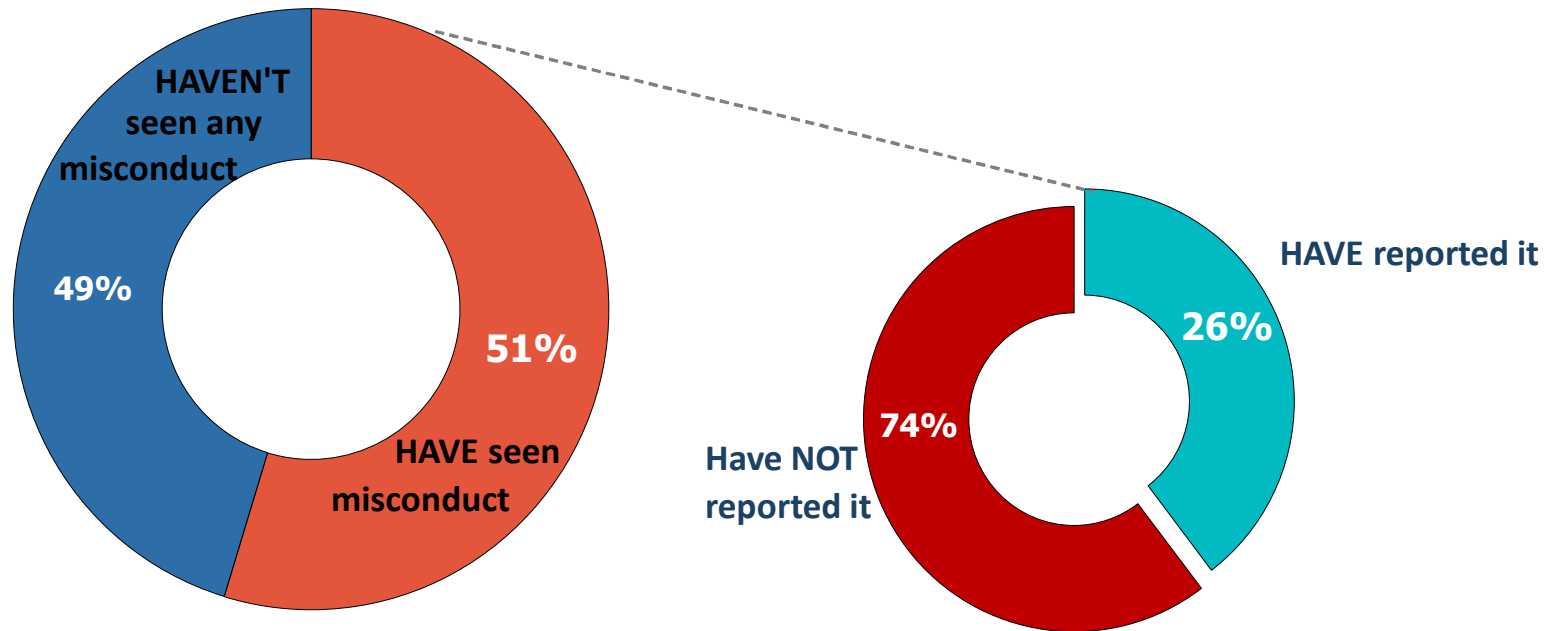
- Our firm's culture strongly says "Do the right thing, even if nobody is looking", or
- Our staff will tell us about any wrongdoing, so it's not worth putting anything in place.

Sadly, this isn't true. **Most times fraud goes completely undetected**. Other than "it's the right thing to do", staff don't have any real reason to speak out.

In fact, they have much stronger reasons **NOT** to speak out.

GIBS ETHICS BAROMETER I

Have employees seen and reported misconduct?



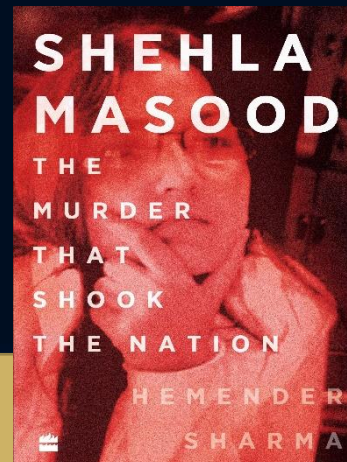
GIBS ETHICS BAROMETER II

Reasons for not reporting misconduct

1. I fear I'll be victimised
2. Even if I do report it, the company won't do anything about it, so why bother?
3. I don't know where to report it
4. Someone else will report it
5. I don't want to get the person in trouble

WHISTLE-BLOWER RETALIATION OVERSEAS

- **Shehla Masood, India, 2011:** exposed corruption, shot and killed
- **Bill Bado, Wells Fargo (WFC), USA, 2012-2016:** WFC fired 5,300 staff for dirty tactics like fake accounts/PIN numbers/emails. Yet upper management had put these tactics in place! Bado phoned WFC's ethics hotline and emailed HR about unethical sales activities he was ordered to do. Fired 8 days later.
- **Philippines reporter Maria Ressa:** death threats, harassed online



WHISTLE-BLOWER RETALIATION IN SA

- **Cynthia Stimpel, SAA, 2016:** tried to stop a dirty R15b cash-raising deal at SAA – where BnP Capital charged R225m as adviser – while SA banks would charge +/-R85m. Stimpel fired for exposing corruption. SAA said Stimpel suspended for misconduct
- **Jacques Pauw, 2018:** threats of legal action and death threats after he published his exposé *The President's Keepers*
- **Journalist Pieter-Louis Myburgh, 2019:** *Gangster State* book launch disrupted by violent protests and ANCYL book burning
- **Journalist Karima Brown, 2019:** posted eNCA brief by mistake on EFF WhatsApp group. Malema tweeted her cell nr. EFF supporters sent death threats and viciously attacked Brown on social media

THIS SENDS THE MESSAGE NOT TO WHISTLE-BLOW

How do we convince people, especially millennials, to report wrongdoing, when they see the bad experiences of whistle-blowers?

Many whistle-blowers who tried to report using the right channels were fired for doing the right thing. Firing staff for reporting misconduct sends a strong message in a company that you should NOT report it.

It also sends a message to tomorrow's leaders, to NOT report. So what should you do? Report the fraud and risk being fired or killed? Or live with the guilt of knowing you could've spoken up but did nothing? Most of us choose the 2nd.



BUT WE VERY MUCH NEED WHISTLE-BLOWERS



Whistle-blowers play a vital role in exposing fraud, corruption and human rights violations committed by governments, people and firms. They uncover huge wrongs, changing our world for the better.

By protecting whistle-blowers, we protect free speech and democracy.

Tips uncovers 40% of fraud (ACFE) (10x more than ext audit). By far, tips are consistently most common way of detecting fraud.

More whistles blown is also a sign of a healthy firm, not a sick one (HBR). Firms with higher usage of reporting tools tend to be more profitable, with less legal exposure. It shows more open communication between staff and management (and a belief that issues raised will be resolved).

WHISTLE-BLOWERS THAT HELPED GLOBALLY

- **Peter Buxtun and Tuskegee Study of Untreated Syphilis:** 600 syphilis patients in US Public Health Service clinical trial went untreated for 40 years, yet penicillin treatment available. Participants not told they wouldn't be treated. Many died from syphilis. 40 wives infected. 19 children born with syphilis. In 1972 Buxtun whistle-blew. Thanks to him, we now have informed consent in clinical trials
- **#MeToo movement on social media, many whistle-blowers:** exposed global sexual harassment in entertainment and other industries, changing treatment of women and sex-ed worldwide
- **Chelsea Manning** exposed human rights abuses in Iraq war
- **Edward Snowden** leaked classified NSA info about global surveillance programs impeding on our rights and freedoms

WHISTLE-BLOWERS THAT HELPED SA

Bell Pottinger and #GuptaLeaks: Anonymous #GuptaLeaks whistle-blowers uncovered massive corruption, changing SA history for the better. Had their names been revealed, this may not have happened.

They leaked many emails to journalists, exposing Gupta empire, state capture, corruption. Emails between Gupta family, Zuma's son Duduzane, top govt officials and PR firm Bell Pottinger. Gupta-owned company OakBay hired Bell Pottinger to run racially divisive campaigns in SA, using fake news, Twitter bots and racially heated phrases like 'White Monopoly Capital' on social media. UK PR trade body expelled Bell Pottinger after campaign for Gupta family was found to inflame racial discord. Global backlash against Bell Pottinger, now closed down.



HOW TO ENCOURAGE & PROTECT TIPSTERS

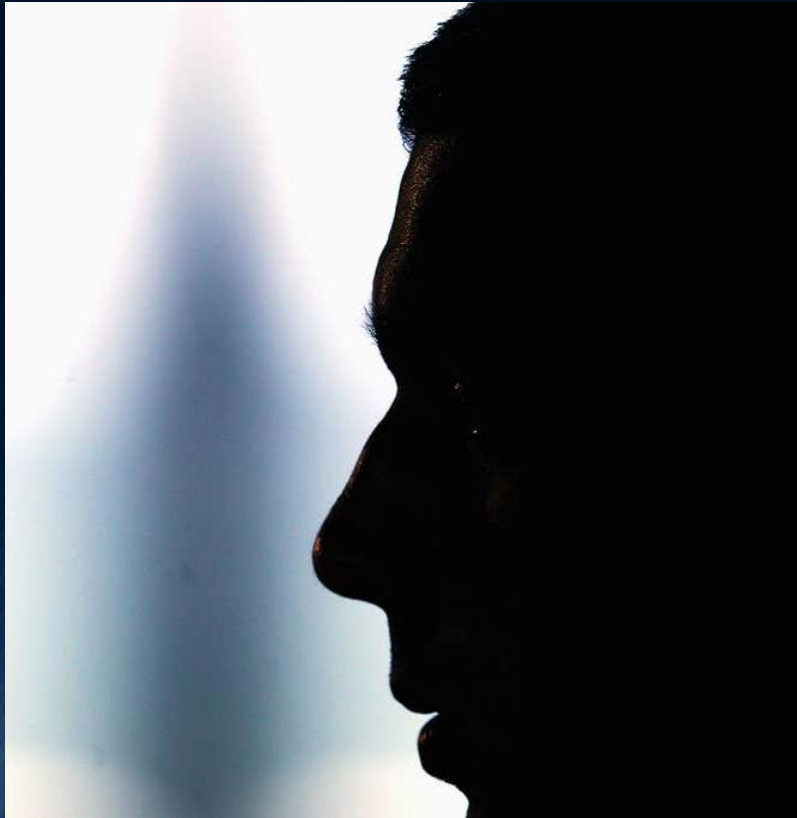


Need all 5 of the following:

1. Robust laws protecting tipsters and punishing perpetrators,
2. Rewards for reporting with evidence,
3. Ethical leadership and culture,
4. Communication about reporting channels, AND
5. Safe, anonymous, reporting channels

We'll discuss each of these in turn.

1. LAWS TO PROTECT TIPSTERS & PUNISH WRONGDOERS



- Need strong laws to protect whistle-blowers and their personal info eg. PDAA, POPIA, Companies Act, GDPR
- In SA, the PDA and PDAA protect employees in state and private from harm if they disclose wrongdoing
- In SA, the Companies Act requires public companies and SOEs to have a confidential whistle-blowing tool, to publicise it, and to act on disclosures to it
- Most whistle-blower laws worldwide require the whistle-blower's identity to be kept confidential.

BUT...

- Laws without enforcement are useless. We still haven't seen McKinsey, KPMG, Trillian, Bain, the Guptas, Malema, Zuma, etc. punished. This sends 2 strong messages:
 - that, in SA, you can get away with wrongdoing, and
 - that crime pays and handsomely.
- Whistle-blowers also need help paying their legal fees
 - Stimpel, SAA whistle-blower: Whistle-blowers often get fired and can't afford lawyers. The companies they report on, may go after them to damage their credibility. If these firms have deep pockets, they can trap the whistle-blower in legal battles for years. Without help paying their legal fees, whistle-blowers may be forced to back down, to avoid more legal fees. The end-result: the perpetrators get off unpunished.
- While laws, enforcement and payment of legal fees are vital, on their own they are not enough to encourage people to speak out.

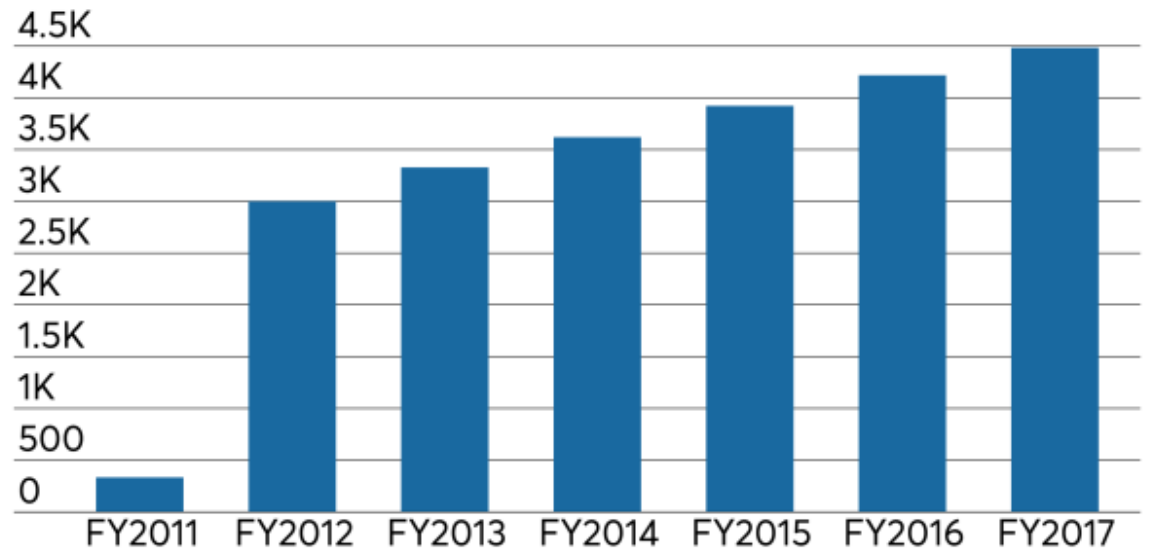
2. REWARDS FOR REPORTING WITH PROOF I

- Started in 2010 in USA, Dodd-Frank SEC Whistleblower Program features:
 - monetary awards,
 - protection from retaliation, and
 - protection of whistle-blower identity
- SEC now gives big monetary awards (10-30% of sanctions collected eg. \$50m) after whistle-blowing and successful enforcement
- Led to 16x rise in whistle-blowing
- No rewards for false/unsubstantiated claims

Whistleblower tips on the rise

The SEC received an all-time high number of tips last year

● Number of tips reported



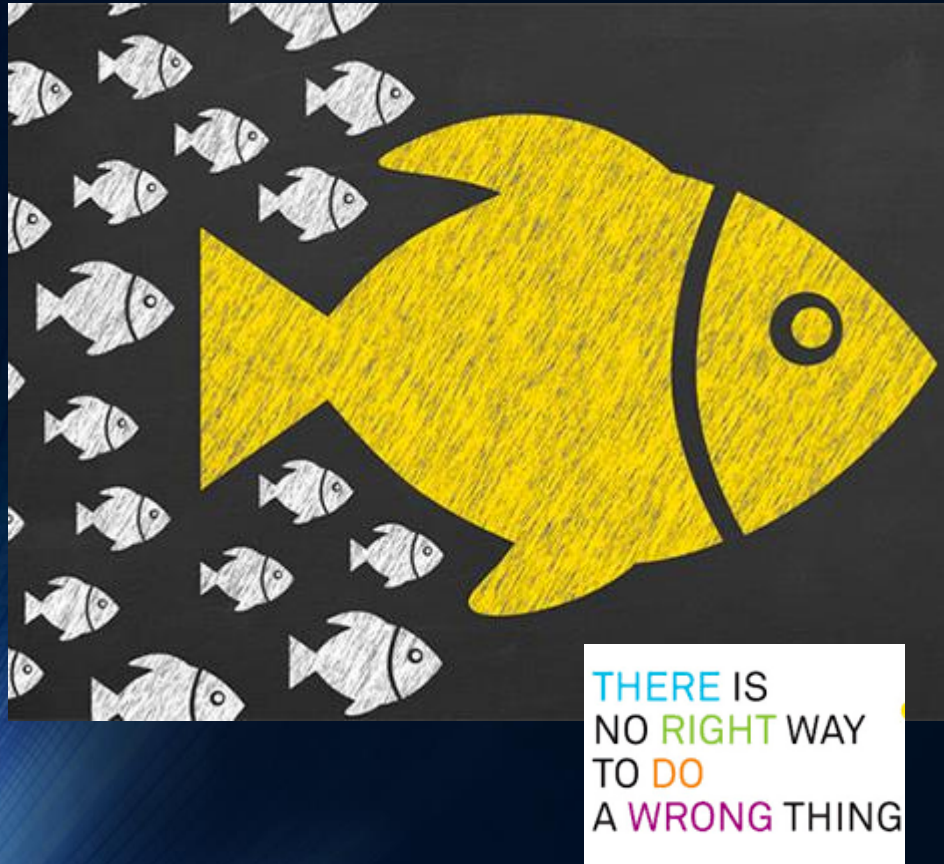
Source: SEC Whistleblower Program 2017 Annual Report to Congress

2. REWARDS FOR REPORTING WITH PROOF II

- In SA, prevailing view is that rewards don't work. We hear things like:
 - Rewards lead to false positive reporting
 - Don't want people to report every little thing eg. stealing a roll at KFC
 - Need to know whistle-blower's identity to reward them
- At FraudCracker we've found a digital way to reward people anonymously so they still hide their identity
- Monetary rewards help in tough times
- The key is to reward behaviour / results you want
 - You define the result you want, and reward that
 - E.g. successful prosecution, termination, disciplinary action, etc.
 - No rewards for false/unsubstantiated claims
- Celebrate reward-winners (while keeping them anonymous) – makes others report



3. ETHICAL LEADERSHIP AND CULTURE I



- Examples of unethical leadership:
 - Malema tweeting Karima Brown's cell nr
 - ANCYL threat to burn Myburgh's book
 - Wells Fargo CEO John Stumpf said they supported whistle-blowing, yet condoned dirty sales tactics and firing of tipsters
- GBES (Global Biz & Ethics Survey) 2018: staff 11x more likely to report wrongdoing if leaders' communication on ethical conduct is proactive and open, and if management responds quickly to tipsters
- Proactive communication = regular messages on values, celebrating ethical conduct and encouraging diverse views

3. ETHICAL LEADERSHIP AND CULTURE II



- Employees report misconduct 94% more when leaders verbally promote integrity
- Staff also need to see leaders setting ethical examples, punishing wrongdoing, celebrating ethical behaviour (shows 'something will be done about it')
- But only 48% of CAEs said ethics formed an integral part of their company

A tool is only as good as the leadership and culture of the firm. If a company is unethical / does nothing about wrongdoing / doesn't protect whistle-blowers, no tool will fix this

4. COMMUNICATION ABOUT REPORTING CHANNELS I



For a company's reporting tool to succeed, you should run regular awareness drives to staff via email, posters, etc. This ensures that, when staff see wrongdoing, they know about the tool, how to access it, how to use it

Don't call it a whistle-blowing tool, as whistle-blowing is viewed negatively. Rather call it an ethics tool, which makes it aspirational – by using it, people see themselves as ethical.

However, it may then attract submissions on all types of unethical conduct, only some of which are fraud-related.

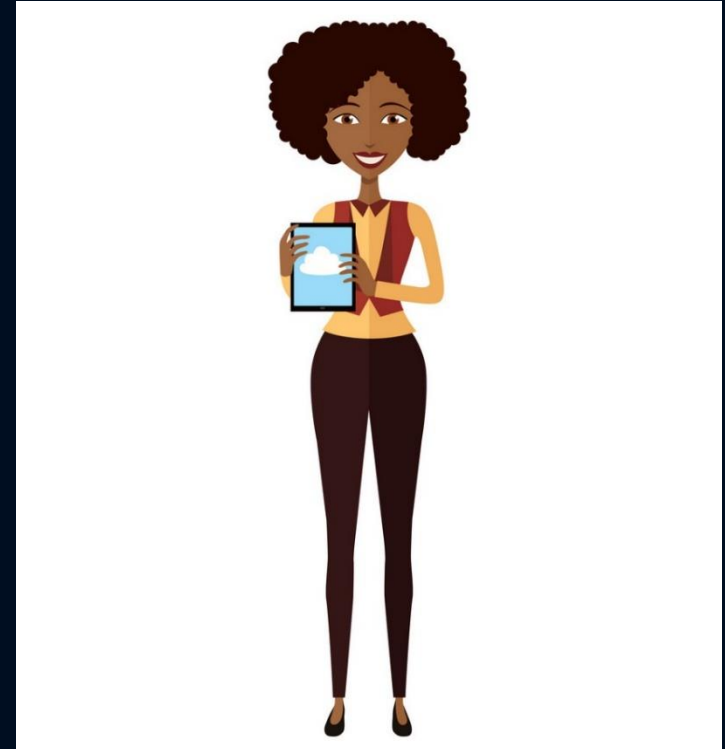
4. COMMUNICATION ABOUT REPORTING CHANNELS II



- Communicating the importance of speaking out, improves attitudes to whistle-blowing, by helping people see it as an act of good
- Public marketing in partnership with civil society makes the public more comfortable reporting corruption - via social media, publications, SMS. In Bhutan, citizens reported corruption anonymously as feared retaliation. In last 8 years, see drop in nr of anonymous reports to Anti-Corruption Committee because citizens now trust / more aware of Committee.

5. SAFE, ANONYMOUS REPORTING CHANNELS

- Channels = online, app, email, phone, SMS. Each has pros + cons
- Fraud and ethics industries ripe for digital disruption. New tech is emerging that makes reporting safer and completely anonymous
- 2 main reasons why people don't report wrongdoing:
 - Fear of victimisation
 - Nothing will be done about it



PROTECTING WHISTLE-BLOWERS DIGITALLY

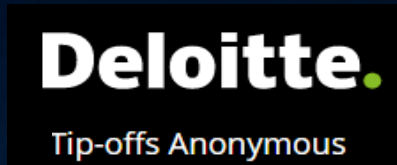
22% of tipsters get victimised. If we take away the risk of victimisation, more people will report wrongdoing. We can do this with today's tech.

Tech can't solve the 'nothing will be done about it' problem, but it can prevent victimisation by providing a totally anonymous, safe channel where people can report.



TRADITIONAL TECH + DIGITAL TECH

Phone hotlines



Online tools



Apps



TRADITIONAL TECH: PHONE HOTLINES



Hotlines can work for older workers who are more comfortable talking on phones.

However, staff believe they're **not truly anonymous** – calls are recorded. Voices, accents and phone nrs can be recognised. Truecaller app can identify your name from your cell nr.

Also, you **can't get evidence of fraud** via a phone hotline, **following up is difficult** and they can be **expensive** to run.

NEW TECH: DIGITAL REPORTING TOOLS I

- Eg. FraudCracker, EthicsDefender, Expose IT
- Appeals to younger workforce who prefer conversations on screens to phones
- Tipster chooses anonymous nickname/user ID
- They can report and discuss fraud and wrongdoing with relevant staff in firm (eg. CAE) or with external forensic/legal firm
- Like WhatsApp but anonymous and can upload proof that is on device eg. video, voice, pic, doc, PDF
- Anonymous 2-way follow-up chat, can build trust, ask more questions, get more evidence



NEW TECH: DIGITAL REPORTING TOOLS II

- Hosted independently on cloud servers outside firm. So staff can't tamper with proof/discussions
- Automatically store accurate date and time stamps for audit trail purposes
- Don't need to be staffed 24/7
- Built-in CMS (content management system)
- Customised reports
- Conversations, evidence, CMS all in 1 place
- Compliant with legislation (PDAA, Companies Act, POPIA, etc).



DIFFERENCES BETWEEN ONLINE TOOLS & APPS

Online tools

- Eg. FraudCracker, EthicsDefender
- Email alerts
- Works on/responsive to any device with Net access eg. smartphone, tab, feature phone, PC
- Don't store any personal info except email (hidden from authority figures)
- Don't store IP addresses of computers or IMEI numbers of cellphones
- If no email address → solutions like SMS etc.
- Can give anonymous rewards to tipsters

Apps

- Eg. Expose IT
- Push notifications via app
- Works on smart devices with Net access eg. smartphone, tab
- Don't store any personal info (unless tipster gives fraudster's personal info)
- Don't store IMEI numbers of cellphones
- No solution for non-smartphone users



DIGITAL TOOL WITH PHONE HOTLINE

If have phone hotline already, don't need to replace it with digital tool. Can **have both, to uncover more fraud**:

- **Existing phone hotline** for staff who are comfortable reporting confidentially (but not anonymously) by phone

AND

- **Digital tool** for staff not comfortable using phone hotline. Gives them a safe, **completely anonymous** way to report fraud, and also provides **effective follow-up** and **evidence of fraud**



THE TAKEAWAYS

Fraudsters have gotten smarter, so we need smarter tools to fight them.

It is vital that people speak out about wrongdoing. But fear of retaliation is a very real deterrent - retaliation cases send a strong message NOT to speak out.

There are 5 ways to encourage and protect tipsters. One is the anonymous reporting channel. Traditional tech like phone hotlines can work, but have problems. Digital tools solve these. They make it safe for people to report, because they ensure people are totally anonymous, so can't be victimised.

First prize is combination of digital tools and hotlines to address entire employee base. And, the more tools you have in your anti-fraud arsenal, the more fraud you'll detect, and the more effectively you can combat it.

Practice, teach, prevent, detect and deter fraud in SA



THANK YOU! ANY QUESTIONS?

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