



Janette Minnaar

SARPA 12th Annual Revenue Protection
SARPA Convention
Getting our house in order

**The fighting of crime should not be a
competitive issue**

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Presenters

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Introduction – magnitude of crime

- Thirty per cent of businesses fail as a result of commercial crime.
- Nine of ten businesses in South Africa are likely to fall victim to white-collar crime (February 2006).
- Seven per cent of general crime investigations goes to court (one-third of the police's own 21 per cent target – reported by the ISS).
- Only one third of crimes are reported – conviction rate of 6 per cent.



Magnitude of crime (2)

- In KPMG's 2007 "Profile of a Fraudster" survey of Europe, Middle East and Africa, it was found that every third fraudster in South Africa caused a total loss of 1 million EUR and more.
- In 24 per cent of the cases the time frame for perpetrating the act was less than a year.
- In 67 per cent of the cases the crimes were perpetrated over a period of 1 – 5 years raising questions about the effectiveness of internal controls.



Magnitude of crime (3)

- In a 1999 fraud survey of Southern Africa, KPMG found that 75 per cent of frauds were perpetrated by a company's own employees.
- In 48 per cent of these cases, there was collusion between the internal fraudster and a third party.
- In KPMG's 2002 survey, this figure increased to 88 per cent of employees being the major source of fraud.
- In KPMG's 2005 survey, which was conducted on 162 public- and private-sector organisations, 76 per cent of respondents indicated that employees were the source of fraud.

Magnitude of crime (4)

In KPMG's 2007 "Profile of a Fraudster" survey it was found that:

- Eighty nine per cent of the fraudsters were employees of the victim.
- Collusion with a third party took place in 20 per cent of the cases following that companies were only attacked by externals in 11 per cent of the cases.
- Members of senior management represented 60 per cent of all fraudsters and an additional 26 per cent involved management.
- Thirty six per cent of perpetrators had been employed by the victim for 2 – 5 years and 22 per cent had worked for the organisation for more than 10 years.
- Fraudsters most often worked in the finance department followed by operations or sales.

Magnitude of crime (5)

- Deloitte's Tip-offs Anonymous reports that white-collar crime has increased with 200% over the past 12 months (July 2008).
- There has been an increase in senior executives abusing their powers and circumventing controls.
- There is a clear correlation between increasing interest rates, the cost of living and fraud.
- Despite strict legislation, South Africa was featured 51st of 163 countries that participated in Transparency International's most recent corruption survey.



Magnitude of crime (6)

- A 2004/2005 survey by KPMG showed that 91 per cent of fraud cases committed by employees were repeat crimes!
- This figure was confirmed by KPMG's 2007 survey. Every third fraudster acted more than 50 times!
- Greed and opportunity together accounted for 73 per cent of the frauds.
- In more than half of the cases no prior suspicion existed but in 21 per cent of the crimes the company neglected to act even where there was suspicion about wrongdoing!

Magnitude of crime (7)

- In 50 per cent of the cases the organisation did not communicate the details of the fraud to employees and in 15 per cent the details were only communicated selectively.
- In 49 per cent of frauds a weak internal control was exploited.
- Whistle-blowers and management reviews accounted for 46 per cent of cases detected.

Magnitude of crime (8)

- In the absence of data, auditors can use the so-called “2 per cent rule” to calculate potential losses - it may therefore be expected that 2 per cent of sales will be lost to fraud.
- Research from PricewaterhouseCoopers (PwC) and the Association of Certified Fraud Examiners shows that companies lose 6 per cent of their turnover as a result of crime (2002 Report to the Nation on Occupational Fraud and Abuse).



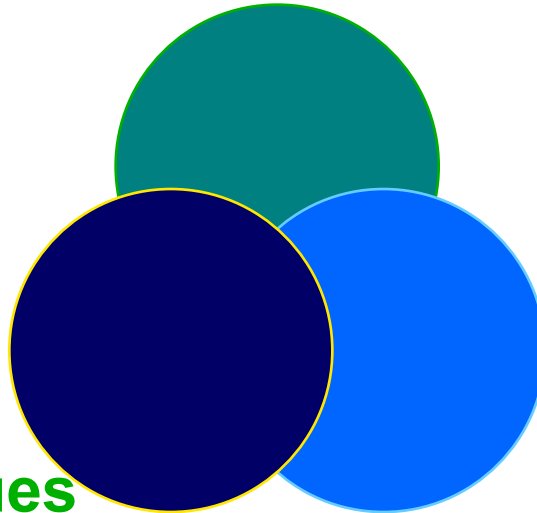
The logo consists of the letters 'JM' in a white, stylized, cursive font, set against a red background that has a white, curved shape on its right side.

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A crime prevention strategy

A large, faint, light gray version of the 'JM' logo is positioned in the bottom right corner of the slide.

**Legislative framework
(minimum standard)**



**Ethics & values
(highest standard)**

**Rules &
Policies
(additional standard)**



A Holistic Fraud Prevention Strategy

“Every organisation should possess an integrated strategy for fraud prevention and control in order to draw all elements of the strategy together to form a holistic and complementary raft of fraud countermeasures. Those organisations with an integrated strategy are less likely to suffer catastrophic losses from fraud than those without.”

Source: David Cafferty CFE The White Paper, Nov/Dec 2003, page 25



Fraud-awareness training

- The Association of Certified Fraud Examiners (ACFE) studied and evaluated almost 4 000 cases of fraud from 1996 to 2002. Although fraud prevention was not the major focus of the research, it became clear that some organisations were less prone to crime than others.
- It appeared that the prevention of fraud extends beyond traditional accounting (and legal) controls and involved a number of diverse disciplines, such as behavioural sciences and criminology.
- The ACFE now believes that internal control (such as IT solutions) and fraud prevention are not one and the same.
- Fraud is much broader than accounting, and the ACFE believes that students do not receive sufficient anti-fraud education.

Recruitment procedures

- It is critical that honest people are attracted to the organisation.
- Check personal backgrounds (e.g. criminal records, experience levels and qualifications).
- Use a reputable screening agency if necessary.
- Speak to a previous employer and ask straight questions.
- Assess integrity levels through a psychometric instrument such as the IP 200.
- Integrity levels are measured through ten scales consisting of five sub-fields/factors with four supportive items each.

Fraud-prevention policy

What is a fraud-prevention policy?

- A fraud-prevention policy refers to certain minimum crime-prevention measures that are formulated in a document and which should be entrenched in the daily business activities of an organisation.
- These crime-prevention measures refer to the prevention, detection, investigation, reporting and prosecution of crime.
- Generally, a fraud-prevention policy is a short document, which provides a broad framework of measures that an institution will implement to fight crime.

Fraud-prevention policy (2)

- By adopting and signing a fraud-prevention policy, the leaders of an organisation illustrate their commitment to combating crime and promoting effective service.



Implementation of a fraud-prevention policy

- A fraud-prevention policy should be adopted by and enforced from the most senior level in an institution, for example, the board of directors.
- A fraud-prevention policy should be dynamic and integrated and should evolve as changes occur in the institution.
- There should be active support of the policy by all levels of management and employees.
- The policy should also be supported by a budget.



A crime response plan

- Whereas the major objective of a crime-prevention plan is obviously to prevent crime from occurring at all, it is advisable that an organisation should also have a fraud-response plan.
- Once fraud has occurred in an organisation, such a response plan should spell out which legal and other procedures should be followed in order to prevent the company from acting in a crisis mode.
- This response plan should stipulate in detail the priority of the necessary steps to be followed within a specified time frame and how commercial crime should be reported to the authorities.

A crime response plan (2)

The response plan should enable the organisation to take prompt and effective action in order to -

- minimise the risk of subsequent losses;
- improve the chance and scale of recoveries;
- reduce adverse commercial effects;
- demonstrate that the company retains control in a crisis;
- make a clear statement that the company is not a soft target; and
- minimise negative or adverse publicity.



Internal controls

Internal controls refer to the policies and procedures that an organisation puts in place to:

- provide reasonable assurance that the organisation will achieve its objectives;
- prevent white-collar crimes such as fraud and corruption;
- protect the resources of the company from waste, loss, theft or abuse; and
- ensure that resources are used efficiently and effectively.



Radio station man on R12m fraud charges

Business Report de Jaune de 08

**From Sapa
Cape Town**

A former financial controller at Heart 104.9 Radio in Cape Town appeared in the Bellville specialised commercial crime court yesterday, on charges of theft and fraud.

Mario Roos earlier fled the country after allegedly embezzling millions of rands from the radio station.

He appeared before magistrate Amrith Chabilall, who postponed the matter to today.

Roos is expected to plead to two charges of theft involving R63 684, and fraud charges involving R12 472 929.

According to the charge sheet, prior to his employment at Heart Radio, he was engaged in a similar financial capacity with the Foschini Group in 2003, where he is alleged to have embezzled R63 684.

The charge sheet alleges that he embezzled R12 472 929 while working as the financial controller at the radio station, between October and March.

While working as the financial controller at the Foschini Group, Roos had access to the safe, where a safety drawer containing cash for the payment of casual workers was kept.

However, a supervisor had to authorise his access to the safety drawer.

The charge sheet alleges he obtained keys to the safe from the supervisor under the false pretence that he and the financial official, Marwaan Allie, needed access to the cash for business purposes. Allie was not aware of this.

On the Heart Radio charges, Roos was entrusted with access to all the funds of the company, via the internet, with a unique pin number.

Internal controls (3)

- Perform a business-process risk analysis to assess the efficiency of controls.
- Never neglect or underestimate the value of supervision!
- Segregation of duties is paramount.
- Do not give too much power to any single individual.
- Institute dual signing/authorisation powers.
- Enforce leave policies.
- Rotate duties.
- Ask sufficient questions.
- Use software solutions (where appropriate).
- Know the early warning signs of crime.



Employee warning signs

- There is clear evidence that an employee has a lifestyle far beyond his/her apparent means.
- An employee is very defensive or ever eager to assist when questions are asked.
- An employee works much unnecessary overtime.
- An employee takes little or no time off work.
- An employee is very resistant to change his/her duties and obligations.
- An employee is defiant of procedures and company policies – ignores personnel policies.

Employee warning signs (2)

- An employee is stressed, cannot cope with pressure, takes shortcuts to meet targets.
- An employee is not experienced, is not trained for the position, has no mentor or leadership.
- Excessive reliance is placed on specific people with specialised knowledge.
- A person is generally unethical and unreliable.
- Dependence on drugs, alcohol or gambling.



Principle-based system

- It is impossible to develop comprehensive rules for every situation. World-class companies understand that fraud prevention and enhanced internal controls are not achieved by just checking off a list.
- The “initiative” idea that compliance is just a project or a one-time idea must be replaced with embedding sound principles of fraud prevention into the “cultural mind-set” of all employees.

Source: US Certified Fraud Examiners 2006

- Other studies have shown that factors such as a culture of crime, emotions and job loyalty, a climate of honesty and ethical leadership influence honesty and integrity at the workplace.

Organisational guidelines

- A company should have collective values or standards.
- These company values are formulated to provide the foundation and direction for business practice.
- Sir Adrian Cadbury said that “Values are the glue that holds a company together”.
- Alan Cox (*Redefining Corporate Soul*) says “a company that lives its values, knows its purpose, and follows a mission can become an incubator for a caring, ethical future generation of business people and citizens”.

The King 3 draft report

- A new report on corporate governance called the King 3 Report will be published end 2008.
- This report will require organisations to align their strategies and operations with basic ethical standards for what is good, right and fair.
- In the report, ethics performance is positioned as part of social performance which adds to the triple bottom line (the combination of economic, social and environmental performance).
- In order to be sustainable, King 3 emphasises that a company should run a sound business operation, live by ethical standards and build a culture of integrity.

The King 3 draft report (2)

- Ethical risks should be assessed (rated). Beliefs, practices and behaviours that might impact on positive and negative risks in the organisation have to be identified.
- The chosen ethical standards should be embodied in a code of ethics. In the code the ethical values are linked to specific rules and guidelines illustrating the behavioural meaning of each value.

Source: Prof Willem Landman, CEO, Ethics Institute of South Africa.



King 3 draft report - Institutionalising ethics

- The company's code of ethics (and related policies) should be institutionalised by integrating them into all the company's strategies and operations.
- The standards set should become an integral part of the company's identity ("who we are") and culture ("how we do things").
- Operationally, institutionalisation consists of:
 - Management practices;
 - Structures and offices;
 - Education and training;
 - Communication and advice, and
 - Prevention and detection of misconduct.

Source: King 3 draft report



Does ethics pay?

- There is clear proof that companies with strong ethical cultures have a competitive advantage over unethical companies.
- Companies with an ethical culture attract and retain better talent and they find it easier to maintain lasting relationships with stakeholders. This has positive effect on sustainability.
- They also have a sound reputation which provides opportunities and a competitive advantage.

Source: King 3 draft report



Reporting of crime

- The King II report states that a whistle-blowing facility is a key corporate-governance responsibility.
- An effective, well-marketed reporting line is invaluable to an organisation.
- In a global fraud survey by Ernst & Young in 2003, it was shown that nearly 40 per cent of all frauds were prevented and/or detected by either internal or external whistle-blowers.
- A study by the ACFE in 2002 revealed that organisations with an anonymous whistle-blowing mechanism were losing an average of 50 per cent less money to fraud than organisations without such a mechanism.



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Learn from others in your industry.

Make the fighting of crime a non-competitive issue!



Questions?



The logo consists of the letters 'JM' in a white, elegant, cursive script font, set against a red background that has a white, curved shape on its right side, resembling a stylized banner or a speech bubble tail.

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**Thank you very much for your
attention!**

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