

Whistle Blower Mechanism | Let's Uncover

Whether it is in the infamous Satyam fraud case of 2009 or in the recent case of the Zee Group, ICICI or Infosys, it has been a tip from a whistle blower that has precipitated the crisis. The Association of Certified Fraud Examiners in its 2018 Report to the Nations on Occupational Fraud and Abuse estimated that a typical organization loses 5% of its annual revenues to fraud. The report concluded that collectively these caused more than \$7 billion in actual damages.

Additional important facts highlighted in the report are as below:

- 47% of the organizational frauds are detected by way of Tip, followed by 16% from internal audit.
- 52% of frauds were detected when a hotline was in place.
- 54% of the tips were received from the employees and 17% anonymous.
- Whistle blowers use various reporting mechanism, including hotline, email and online platform.
- More than 39% of the frauds occurred at private companies and 38% at public companies.
- Smallest organizations (those with fewer than 100 employees) and the largest (those with more than 10,000 employees) had observed similar volume of frauds.
- The fraud instances were observed across industry, with manufacturing being highest as 17%.
- Average loss of USD 500,000 was observed in manufacturing industry due to detected fraud.
- Lack of internal control is the highest contributor (25%) to facilitate fraud. The same is followed by override of existing internal controls (21%).
- 30% of fraudsters were at employee level, 41% at manager level and 26% senior management.
- Median age for all fraudsters in the region was 42 years.
- 73% of the frauds were committed by Men.
- Fraudsters who had been with the organization for more than five years stole 4 times than others.
- Only 5% of fraudsters had prior fraud conviction.
- 43% of the fraudsters were living beyond their means, which could be considered as a red flag.
- 79% of fraudsters in Asia-Pacific region were either terminated or permitted or required to resign.
- Most of the organizations could not recover anything from fraudsters after fraud detection.

Considering the facts from mentioned report and impact of fraud, it is important for all category of organizations to implement a robust whistle blower mechanism for timely detection and elimination of ongoing fraud.

A robust whistle blower mechanism should have following parts:

- **Policy & communication** | This is important to have a robust policy and framework for whistle-blower mechanism and the same must be communicated at different level of stakeholders.
- **Complaint handling** | The organization need to finalize different platform to raise complaint by whistle blower including: (a) email; (b) physical; & (c) hotline. The complaints need to be addressed sensitively, with confidentiality.
- **Independent ombudsman** | The organization should appoint an independent ombudsman, to provide confidence and trust to whistle blowers.

- **Investigation** | The organization should define effective mechanism for investigation, reporting and rightful disposal of each complaint received by the Company.

While defining the whistle blower mechanism, the management need to consider following factors:

- **Tone from the top** | The mechanism must have top level commitment and acceptance.
- **Clear ownership** | It is important to have a clear ownership for implementation of the framework.
- **Objective** | The management must define the objective and applicability of policy as per the environment.
- **Internal vs external** | Management should clearly define the areas which need to be performed internally and areas where external experts will be required.
- **Reporting** | Determine reporting mechanisms, keeping confidentiality as key consideration.
- **Communication** | Ensure that effective communication, guidance & training are in place.
- **Monitoring** | Its important to monitor, review & refine the whistle blower policy and mechanism from time to time.

How we can help you?

- Defining a robust whistle blower policy and framework.
- Preparation of communication and training material.
- Imparting training within organization.
- Become your independent Ombudsman.
- Establish a hotline for you.
- Receive and conduct preliminary assessment of complaint.
- Detailed investigation.
- Reporting to the Ethics Committee and to the Board.

This thought leadership paper, contains the views as expressed by Mr. Chandan Rajgadha, Director - Risk Advisory.

About us

ProXcel is a corporate advisory firm promoted by young and dynamic professionals having rich experience in the field of risk, financial and management consultancy. Our Services include business set up services, business valuations for merger & acquisitions and regulatory compliance, financial reporting, corporate law advisory, direct and indirect tax advisory, internal and external audit etc. Our expert team sharing a common vision, belong to diverse technical, business and legal backgrounds. We deploy specialized and multidisciplinary teams to serve assignments requiring specific skills. This enables us to work proactively and closely with clients and respond effectively to their needs in a highly focused manner, which in today's fast changing business environment is quite crucial to a client's success.

Naveen Goyal
Managing Director
M: +9111095297
E: naveen.goyal@proxcel.in

Chandan Rajgadha
Director – Risk Advisory
M: +91 99711 13636
E: chandan@proxcel.in