



## Business Case for an Independent Confidential Reporting System

BRCGS and Got Ethics have published some clear guidance on how to select a new confidential reporting system (<https://www.brcgs.com/digital/confidential-reporting/>) and if you have already received a proposal, we have outlined some good reasons why managing internal feedback is such a critical and effective tool to identify emerging and recurring issues, before they become public.

The consequences of being non-compliant across a whole area of operations (Health & Safety, Environment, Fraud, Ant-Bribery, Modern Slavery, Employment Law) can lead to significant business disruption, management time and potentially costly legal fees and fines, not forgetting reputational risk.

There are many cited publications on the benefits of using an internal whistleblowing system. A recent study looking at over 1000 publicly traded USA firms and over two million internal reports demonstrated that more profitable companies use strong internal-reporting systems and experience fewer negative outcomes. Data also showed that they had 6.9% fewer material lawsuits filed against them and paid out 20.4% less in aggregate settlement amounts.

**Just focussing on the single issue of potential fraud**, there are some statistics from the ACFE (Association of Certified Fraud Examiners) Report to the Nations, 2020 Global Study on Occupational Fraud and Abuse that highlight the importance of a confidential reporting system. Here are some key statistics.

- 43% of frauds are detected by a tip off. 50% of all tip offs are provided by employees and 35% come from people outside the organisation – customers, vendors and competitors.
- 15% of tip offs come from an anonymous source.
- Small organizations are especially likely to detect occupational fraud by tip. 47% of frauds were detected by tip in orgs with <100 emps and 31% in orgs with >100 employees.
- In cases where a reporting mechanism was used, reports via phone have dropped substantially, from 42% in 2018 to 33% in 2020. There has been a corresponding increase in web-based reporting, from 23% to 32%.
- On average, organisations with a hotline as one of their internal controls see a 49% reduction in the total number of frauds and a 33% reduction in the duration of a fraud.

Please use the tool over page to extrapolate some of these statistics and calculate a simple Return on Investment (ROI) based on the cost of potential fraud to your business.



<b>Fraud Calculator Tool</b>	<b>Business Costs</b> (Calculate likely costs to your business)
<p><b>OPTION A (if you don't know the actual number of frauds and associated losses within your business)</b></p> <p>On average, an organisation loses 5% of its annual revenue to fraud</p>	<p>1. Annual turnover: GBP* _____</p> <p>2. Turnover x 5% (estimated fraud losses): GBP* _____</p>
<p><b>OPTION B (if you know the number of frauds within your business)</b></p> <p>The average loss from a fraud scheme is 150K USD for a small business (&lt;100 emps) and 140K USD for larger businesses (&gt;10,000 emps). The median loss is 125K USD or 100K GBP.</p> <p>If you know how many frauds have been identified, but do not know the value of associated losses, please plug in the median value</p>	<p>1. Number of frauds in last year: _____</p> <p>2. Average loss per fraud is 100K GBP</p> <p>3. Estimated fraud losses (1 x 2)** GBP* _____</p> <p><i>**Or If you know your estimated losses across all frauds, enter the actual number instead</i></p>
<p><b>C. Estimated cost saving</b></p> <p>On average, organisations with an external hotline, app or online system as one of their internal controls see a 49% reduction in the total number of frauds</p>	<p>Total estimated losses from A or B above: GBP* _____</p> <p>Above minus 49% (estimated annual fraud reduction): GBP* _____</p>
<p><b>Cost of implementing the BRCGS Confidential Reporting System</b></p>	
<p><b>D. Annual Licence Fee</b></p> <p>Scope: Includes unlimited, organisation-wide use with no limitation on numbers of users of the system or number of reports and including access to the system (if required) by suppliers and other third parties. Global tool with translations and anonymity built in</p>	<p>Annual fee per annum: GBP* _____</p>
<p>Estimated saving from reduction in frauds minus annual cost of system and ROI calculation</p>	<p>Estimated fraud reduction (C): GBP* _____</p> <p>System cost (D): GBP* _____</p> <p><b>Net estimated annual saving (C - D):</b> GBP* _____</p> <p><b>Return on Investment (C-D/D*100)%</b> _____</p>

\*Select Currency