

Multiple directorships 'increase fraud risk'

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Research by Inoxico, an online credit bureau specialising in risk management solutions, shows that each director of the 20 largest companies in South Africa sits on 14 other boards, increasing the risk for fraud and non-compliance with governance requirements in the Companies Act, Inoxico chief executive André Stürmer said this week.

Internal systems and processes to detect potential conflicts of interest were in many cases rudimentary and static. Many companies realised they had "a false sense of security", Stürmer said on Monday (12 November).

Inoxico has devised a web-based application that allows companies to track and audit any company or individual associated with an organisation.

The company also has a database on 2.5m active companies and 3m directors that was compiled using the Companies and Intellectual Property Commission (CIPC) as its initial source.

The application - Association Matrix - is a governance and supply-chain risk management tool, not a fraud indicator. It shows the risk and potential for risk, but is used to support directors to comply with their fiduciary duties, Stürmer said.

Institute of Directors Southern Africa chief executive Ansie Ramalho said there were directors who were "uninformed" about the need to declare their interests.

"If there is any intention (to defraud) there is very little a company can do to detect the unfavourable associations, except for such a tool or a whistle-blower."

She said the CIPC was not consistent when recording data. For instance, she could be registered as a director under the name of Anna Ramalho or Ansie Ramalho. During the 1980s, the last digits of identity numbers changed, resulting in many directors having two different identity numbers, making the verification process for companies difficult.

Stürmer said while the relationships between directors on the same boards were not always a sign of fraud or non-compliance, companies needed to ensure areas of association were transparent and that there were sound audit processes were in place.

Source: *Business Day* via I-Net Bridge

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