

WHISTLEBLOWERS: WHAT THE BOARD NEEDS TO KNOW

Code of business conduct and ethics programs, including “whistleblower” programs, are an important component of a healthy organizational culture and effective governance. These programs can be far reaching in their impact, from deterring corrupt practices and promoting transparency to supporting risk management and helping to protect brand reputation.

According to a 2014 survey by the Association of Certified Fraud Examiners, organizations specifically with whistleblower hotlines detected acts of fraud 50 percent faster than those without. And, possibly because of earlier detection, incidents of fraud at those organizations were on average 41 percent less costly, according to the survey.

The Bitter Pill

Despite the long-term benefits of an effective whistleblower program, attitudes toward them are mixed. It’s understandable for boards to fear the disruption and potential embarrassment that can stem from a whistleblower complaint. Because whistleblowers reveal difficult issues, they tend to cause at least short-term turmoil. But the results are almost always preferable to ignoring festering problems. “It’s a case of long-term versus short-term gratification,” says Tom Devine, Legal Director of the Government Accountability Project. “Whistleblowers are the human equivalent of the bitter pill that can keep your company out of the hospital.”



Ensuring Effective Oversight

Often delegated to the audit committee, effective oversight of a whistleblower program is not an easy job. But there are steps that can help to ensure that an organization's whistleblower procedures provide positive results:

1 Build Employee Trust of Internal Policies

Almost any management team would agree that, normally, it's better for workers to report problems internally rather than taking issues public or directly to regulators. But, employees are less likely to "whistle where they work" when they mistrust internal policies and processes for investigating and acting on complaints. External whistleblowing can result when workers fear retribution, or if they believe problems will be concealed. That's why directors should view whistleblowers who are compelled to go public as a red flag of deeper problems within the organization, and not necessarily an act of disloyalty.

Without active, visible support from senior officials, the best-written whistleblower policies can be toothless. "Most companies have whistleblower policies that are impressive on paper," Devine says. "But . . . policies can quickly become counterproductive sources of cynicism if they are not enforced properly."

2 Consider All Sources

Although hotlines often play a starring role in whistleblower programs, they should not be an organization's only source of whistleblower information, says Kristin Rivera, PwC advisory partner specializing in fraud prevention and detection. "Effective programs should also consider sources such as anonymous emails, lawsuits, exit interview information, and social media . . . [as well as] employees who walk into internal audit or security or the HR office to report a problem."

3 Ensure Adequate Triage

Whistleblower processes can develop problems at any point, but many failures occur during triage, when an organization evaluates new allegations and decides how to respond. According to Rivera, these failures are particularly likely if the person reviewing new allegations does not have a broad enough perspective to consider the situation in full or does not understand and appreciate the legal or accounting implications of an allegation.

Some organizations appoint a committee rather than an individual to review each reported issue, regardless of severity. This approach can help to ensure that the most important issues are properly identified and brought to the board's attention.

4 Enlist the Internal Auditors

Internal audit can be a valuable resource to the board for ensuring effective code of business conduct and ethics programs. Because internal auditors generally have a working knowledge of all parts of an organization and a high degree of independence, they are often well-positioned to handle whistleblower information competently and objectively.

In some organizations, internal audit directly manages whistleblower processes, whereas, in others, the internal audit function may review and evaluate whistleblowing activities. So, directors must rely on the internal auditors for activities that are appropriate considering the function's responsibilities. "Boards require assurance that the organization's whistleblowing policies and procedures are effective," says Greg Hollyman, chief internal auditor for the Australian Taxation Office. "My own organization's internal audit team is able to objectively provide independent assurance for the whistleblowing program because the program is administered by another division." Conversely, Hollyman explains, in organizations where internal audit administers the whistleblowing program, the board should bring in outside resources to "audit the auditors."

5 Understand the Entire Process

Directors need to provide broad oversight of whistleblower programs. According to Rivera, this includes understanding the entire process, from receipt of new information through remediation. To enhance awareness, Rivera recommends that directors invite the administrator of their whistleblower program to provide an overview of the program, walking the board through the general approach and perhaps demonstrating how the program works in various situations.

“Boards should know whether there is a framework for deciding how to deal with issues, and they should understand company procedures for taking remedial actions such as human resources decisions,” Rivera says. They should receive reports describing the volume of issues, sources of information, and the nature of issues being identified.”

6 Remain Vigilant

Organizations are constantly evolving, regulatory requirements change, and personnel are often reassigned, so last year’s whistleblower policies might not meet this year’s needs. If your board has not reviewed its whistleblower program recently, it’s time to add a review to an upcoming meeting agenda. And if a program is not in place at your organization, it might be time to ask why.

Quick Poll Question

How effective is your organization’s whistleblower program in protecting the organization and its stakeholders?

Visit www.theiia.org/goto/quickpoll to answer the question and see how others are responding.

Multicultural and Multinational Implications

For organizations doing business across national boundaries, legal issues regarding whistleblowing can be complex. Legal protections for whistleblowers vary from country to country and may depend on the country of the original activity, where and how allegations were revealed, and how they eventually became published or publicized. The rules and provisions are often fragmented into multiple acts and codes that can be unclear or even contradictory. In the United States alone, dozens of laws include whistleblowing provisions, and legal protections vary according to the subject matter of the allegation, the industry, and sometimes the state in which the case arises.

Attitudes toward whistleblowing also vary considerably across the globe. Because cultural norms differ, it is important to ensure that all employees understand what is expected. In some jurisdictions, even the definition of the term “whistleblower” is a subject of debate. In a whistleblower case tried by the Government Accountability Project in Tunisia in the Administrative Tribunal for the African Development Bank, proceedings were halted while interpreters resolved a dispute over accurate translation. One of the translators interpreted “whistleblower” as “snitch,” while the other translated it as “one who shines the light of truth.”

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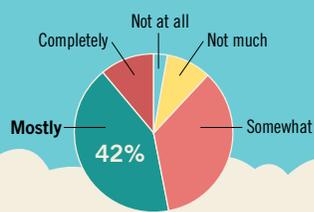
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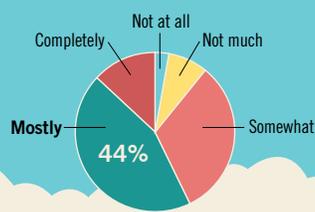
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Quick Poll Results:

How well does your organization's internal audit function achieve its mission to enhance and protect organizational value?



Enhance
Organizational Value



Protect
Organizational Value

Based on 262 respondents. Source: The Institute of Internal Auditors' Tone at the Top July/August 2015 survey. Total may not equal 100% due to rounding.