



Chartered Institute of  
Internal Auditors



# WHISTLEBLOWING AND CORPORATE GOVERNANCE

The role of internal audit in whistleblowing

# Whistleblowing



Whistleblowing is increasingly in the news, with high profile cases such as Olympus, the Mid Staffordshire NHS Foundation Trust Inquiry and, before those cases, the whistleblower revelations of excessive risk taking at HBOS as the financial crisis took hold.

In response, inquiries and commissions have recommended action to strengthen whistleblowing procedures and practices. The issue has also been taken up by the UK Government.

Whistleblowers are becoming bolder, whether motivated through conscience or fear. In the financial services sector, for example, the Financial Conduct Authority recently reported that it had opened 72% more investigations during 2013, based on information from whistleblowers, than its predecessor did in the previous 12 months. But what role should internal audit play in whistleblowing in any sector?

In this report we present the key findings of a survey of heads of internal audit across all sectors. This is the first time cross-sector research on the subject of whistleblowing has been conducted. Our survey formed part of a wider study by Public Concern at Work (PCaW). The results have helped shape the Institute's thinking in relation to the important role that internal audit can and should be playing to support executives and non-executives in ensuring that whistleblowing policies and practices are fully effective as part of a healthy organisational culture.

We are grateful to all those heads of internal audit who responded to the survey, particularly those who provided us with more specific insights into their whistleblowing procedures and the role internal audit plays.

**Dr Ian Peters**  
Chief Executive  
*January 2014*

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# Internal audit and whistleblowing

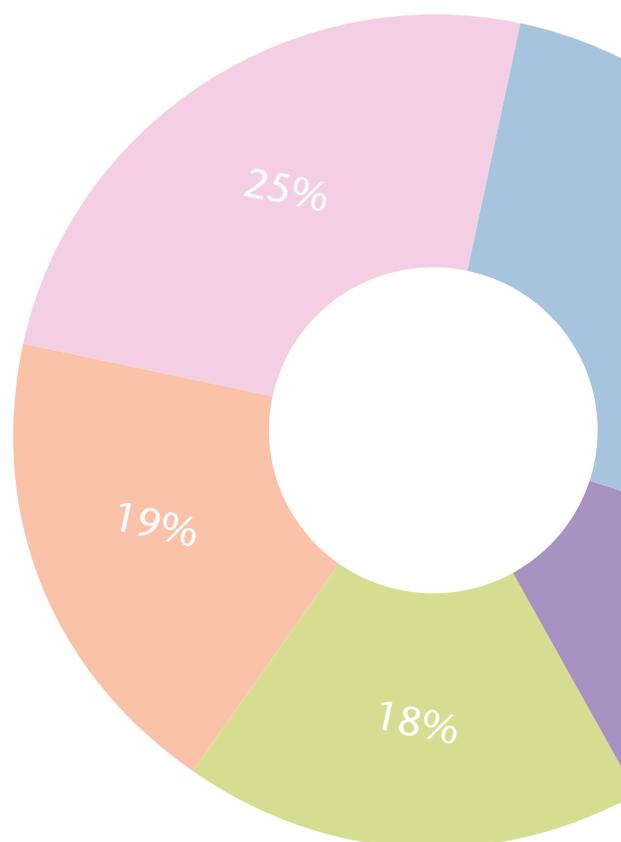
Internal audit has a central role to play in effective whistleblowing procedures, given the nature of the internal control and other issues thrown up by whistleblowers and the position internal audit occupies in offering boards independent and objective advice, support and assurance. But there are dangers and potential conflicts of interest that need to be considered in determining internal audit's role. The Institute has therefore researched how internal audit is being used in whistleblowing, considered the issues this raises, and developed a policy approach that will inform boards, executives and heads of internal audit in establishing or developing internal audit's role to ensure whistleblowing procedures are effective.

## Scope and structure

The purpose of this report is to outline the role internal audit should play in relation to whistleblowing, in helping to protect the organisation and support employees to highlight control weaknesses, malpractice and criminality. Setting up formal whistleblowing procedures within an organisation strengthens corporate governance as well as being a useful risk management tool, both areas of concern to internal audit.

The report is split into three sections:

- Introduction: whistleblowing – what it is and why it is important.
- Effective whistleblowing arrangements, the role of internal audit and the Institute's policy position.
- Examples of internal audit's role in whistleblowing.



# Introduction

## What is whistleblowing?

Whistleblowing is when an employee, contractor or supplier goes outside the normal management channels to report suspected wrongdoing at work, i.e. speaking out in a confidential manner. This can be done via internal processes set up by the organisation (internal whistleblowing) or to an external body such as a regulator (external whistleblowing). While public disclosure to the media can also be perceived as whistleblowing this paper focuses on formally prescribed channels.

A worker can report things that are not right, are illegal or if anyone at work is neglecting their duties, including:

- someone's health and safety is in danger
- damage to the environment
- a criminal offence
- the company is not obeying the law
- covering up wrongdoing

Source: Department for Business, Innovation and Skills ([www.gov.uk/whistleblowing](http://www.gov.uk/whistleblowing))

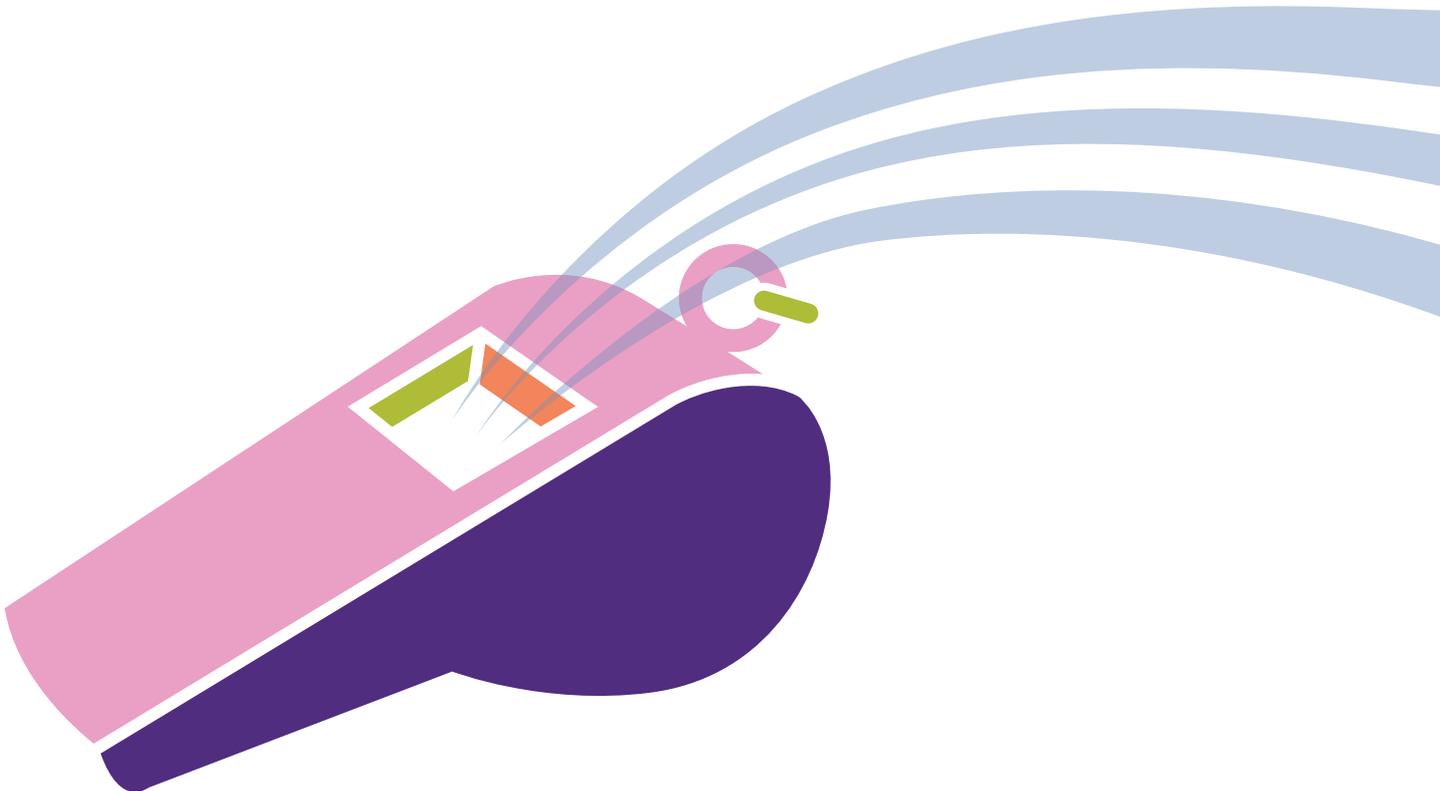
## Internal whistleblowing

Whistleblowing is an essential safety valve and should be part of the internal control environment. Having a whistleblowing procedure is not a mark of failure. Boards need to consider the effectiveness of whistleblowing policies and procedures on a regular basis as part of their oversight of the system of internal control. Internal audit can play a vital role in supporting boards in this area.

The UK Corporate Governance Code, which applies to companies listed on the London Stock Exchange, says:

C.3.5 The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Source: Financial Reporting Council, 2010



## External whistleblowing and the role of the regulator

Regulators in a number of sectors act as a channel for whistleblowers who feel unable to raise their concerns internally. For example, the General Medical Council (the regulator for doctors) provides a telephone and online service for doctors to raise patient safety concerns. Similarly, the Financial Conduct Authority (FCA) sets out detailed guidelines outlining its approach to responding to whistleblowers from firms in the financial services sector. In response to concerns raised by a whistleblower the FCA is able go in to an organisation that it regulates and investigate matters without revealing that the investigation is as a result of the whistleblower's actions.

An internal auditor could face the prospect of blowing the whistle themselves either inside or outside the organisation. Should internal auditors find themselves in this situation, we and IIA Global have issued a specific practice advisory<sup>1</sup> for members.

In order to protect the position of internal audit in raising issues with the regulator one organisation, an international financial services concern, has set out how to go about communicating to the regulator in its internal audit charter:

How one financial services company uses its internal audit charter to clarify internal audit's role in communicating with the regulator

### Internal Audit Charter – Extract

#### 3. "Internal Audit's Responsibilities

IA's principal responsibilities are as set out below.

##### 3.5 Communicating with regulators

Primary responsibility for timely communication of significant developments affecting company x's business to regulators (other than matters relating to developments in the Internal Audit function) rests with the relevant members of the Group Board/senior management team.

In normal circumstances, the only matters in respect of which the Chief Audit Officer (CAO)/direct reports (DRs) would initiate communication to regulators are matters relating to developments in the Internal Audit function. In addition Internal Audit will provide information specifically requested by regulators.

In exceptional circumstances, the CAO (only) may come to a view that a significant matter affecting company x's business has not been communicated to the regulator on a complete, accurate and timely basis. In these circumstances the CAO will discuss this view with the Group CEO, Group Regulatory Risk Director and Chair of the Group Audit Committee with a view to agreeing a reasonable timeframe within which the matter will be communicated to the regulator in an appropriate manner. If the matter has not been communicated to the regulator in an appropriate manner within the agreed timeframe then the CAO may initiate or authorise communication of the matter to the regulator.

Only the CAO, his DRs, particularly those who are Senior Management Approved Persons, or country heads of audit, will generally communicate with regulators."

<sup>1</sup> <http://www.iaa.org.uk/resources/global-guidance/practice-advisories/2440-2-communicating-sensitive-information-within-and-outside-the-chain-of-command/>

# Introduction *(continued)*

## Why whistleblowing is important

Employees who sound the alarm about bad practices early enough can help to ensure that problems come to light before it is too late, thus helping to prevent disasters ranging from widespread customer mistreatment to loss of life. An organisation's whistleblowing procedures should encourage individuals to disclose concerns using appropriate channels before these concerns become a serious problem, damaging an organisation's reputation through negative publicity, regulatory investigation, fines and/or compensation.

Examples of where concerns were raised but not listened to have plagued a range of sectors. Many high-profile reviews in the NHS have found that whistleblowers have been ignored, including at Mid Staffordshire Foundation Trust and Winterbourne View hospital. Scandals in the banking sector, e.g. excessive risk taking at HBOS, also featured whistleblowers who were not listened to.

## Whistleblowing – public policy developments

There have been a number of recent developments in the public policy arena which have thrust whistleblowing into the limelight. In November 2013, Public Concern at Work's (PCaW's) Whistleblowing Commission published a report making 25 recommendations for improving whistleblowing across UK workplaces. The Commission's primary recommendation was a draft Code of Practice detailing whistleblowing arrangements in the workplace such as greater oversight of whistleblowing schemes by non-executive directors. The Commission called for the Secretary of State for Business, Innovation and Skills to adopt the code and for it to be taken into account by courts and tribunals where whistleblowing issues arise. In addition, the government is looking into what action is necessary on the issue and considering strengthening the legal framework. The Department for Business, Innovation and Skills (BIS) issued a call for evidence to help it decide whether more legal protection is necessary and the IIA responded to this call.

Barriers to whistleblowing still exist and many people worry about speaking out. Research in June 2013 by YouGov for PCaW found that 22% feared reprisals if they raised a concern at work, with similar numbers concerned about the response of colleagues and career damage.

There are, however, encouraging signs that more people are beginning to speak out to regulators. For example in the financial services sector, research by Kroll <sup>2</sup>, the investigations company, revealed tougher regulatory penalties have encouraged more people to report potential wrongdoing to the regulator, the FCA. In the year to October 31 2013, the FCA opened 72 per cent more cases based on intelligence from whistleblowers than its predecessor did in the preceding 12 months. FCA figures show that, between November 2012 and October 2013, the regulator launched 254 new cases on the back of whistleblowers' information, compared with 148 cases a year earlier and 5,150 people contacted the FCA's whistleblower hotline during the period, compared with 3,813 in the 12 preceding months.

<sup>2</sup> *Financial Times*, 23 December 2013, *Whistleblower tip-offs soar in the UK*

## The crucial relationship between whistleblowing and culture

There is a symbiotic relationship between whistleblowing and an organisation's culture. Effective internal whistleblowing arrangements are an important part of a healthy corporate culture. But it is also crucial to have the right organisational culture which encourages people to speak out without fear.

A key question for internal audit, when providing assurance to the board that whistleblowing arrangements are effective, is therefore whether the organisation's culture allows people to speak out without fear of recrimination and encourages them to report concerns.

The major public inquiries and reports in sectors such as healthcare and banking have highlighted the lack of effectiveness of whistleblowing arrangements. They have emphasised the importance of having the right organisational culture to encourage people to speak out and support those who do, and outlined that the success of whistleblowing regimes relies as much on culture as it does on policies and procedures.

### National Audit Office (NAO) Memorandum on the role of major contractors in the delivery of public services (November 2013)

The NAO scrutinises public spending on behalf of Parliament. It published a report on the provision of out-of-hours GP services in Cornwall which found whistleblowers played a significant role in highlighting concerns about the service.

*"Whistleblowing policies are insufficient if organisational culture does not support them. Whistleblowers raised important concerns about Serco's out-of-hours GP services in Cornwall, though chose not to use the company's internal procedures. Staff working on Serco's £6 million per year contract for providing out-of-hours GP services in Cornwall approached the media in 2012 with concerns about the service. Serco has a whistleblowing policy and a range of channels for staff to raise concerns with management. However, the whistleblowers expressed fears about the consequences if they raised concerns internally".*

### Mid Staffordshire Public Inquiry Report (February 2013)

The report examined the commissioning, supervisory and regulatory organisations in relation to their monitoring role at Mid Staffordshire NHS Foundation Trust between January 2005 and March 2009. It considered why the serious problems at the Trust were not identified and acted on sooner, and identified important lessons to be learnt for the future of patient care.

*"Whistleblowing is only necessary because of the absence of systems and a culture accepted by all staff which positively welcomes internal reporting of concerns. If that culture is absent then raising concerns external to the system is bound to be a difficult and challenging matter exposing the whistleblower to pressure from colleagues. Therefore the solution lies in creating the right culture, not in focusing on improvements to whistleblowing legislation, important though such protection is".*

### Parliamentary Commission on Banking Standards (June 2013)

The Parliamentary Commission on Banking Standards (PCBS) was set up to report on professional standards and culture of the UK banking sector following the financial crisis and incidents of poor practice such as the LIBOR rate-setting process.

*"The Commission was shocked by the evidence it heard that so many people turned a blind eye to misbehaviour and failed to report it. Institutions must ensure that their staff have a clear understanding of their duty to report an instance of wrongdoing, or 'whistleblow', within the firm... A non-executive board member—preferably the Chairman—should be given specific responsibility under the Senior Persons Regime for the effective operation of the firm's whistleblowing regime. That board member must be satisfied that there are robust and effective whistleblowing procedures in place and that complaints are dealt with and escalated appropriately.*

*A poorly designed whistleblowing regime could be disruptive for a firm but well-designed schemes can be a valuable addition to its internal controls".*

# Effective whistleblowing arrangements, the role of internal audit and the Institute's policy position

## Effective whistleblowing arrangements

Organisations must disseminate clear policies and procedures on internal whistleblowing to staff, suppliers and contractors so that disclosures can be made to employers with confidence that they will be handled seriously and without prejudice to the interests of the individual.

Key elements which underpin effective whistleblowing arrangements are outlined in the diagram below. Although the criteria were originally developed with government whistleblowing policies in mind they are equally applicable to the private sector.

### Main criteria to include in a whistleblowing policy

#### Addressing concerns and providing feedback

Whistleblowing policies should set out procedures for handling concerns. This should reassure employees that their concerns will be taken seriously and will ensure that instances of malpractice are identified and dealt with appropriately.

#### Reassuring potential whistleblowers

Guidance should make clear that it is an offence for management and staff to victimise employees thinking of making a complaint. Similarly, it should make clear that employees who deliberately raise malicious and unfounded grievances will be subject to disciplinary action.

#### Whistleblowing to external bodies (prescribed persons)

Guidance should make employees aware of how they can raise concerns outside the department, e.g. to an external auditor or regulator. This is an obligation for officials in certain circumstances, for example where there is evidence of criminal activity.

#### Commitment, clarity and tone from the top

Guidance should make clear that any concerns are welcomed and will be treated seriously.

Guidance should reassure the reader who may be thinking of raising a concern that the organisation's leadership will take the concern seriously and will not punish the employee if the concern turns out to be untrue, as long as they had reasonable suspicion of wrongdoing.

“ I've seen/heard something and I think I should report it – but who to and how? ”

#### Access to independent advice

Employees may need advice where they feel unsure or unaware of how to raise a concern. Guidance should indicate where employees can seek advice.

#### Openness, confidentiality and anonymity

Guidance should make sensible and realistic statements about respecting whistleblowers' confidentiality. Guidance should also outline the potential issues that could arise from employees reporting concerns who wish to remain anonymous.

#### Offering an alternative to line management

Concerns may relate to behaviours of line managers or employees may be unwilling to discuss concerns with immediate management. Thus alternative channels inside the organisation should be offered.

#### Structure

It is important that guidance is easy to use so that readers are clear as to how they should take their concerns forward. The policy should cover all areas expected under best practice. It should be clear, concise and avoid including irrelevant detail that might confuse readers.

## How internal audit supports whistleblowing procedures

The Institute promoted with our member Heads of Internal Audit (HIAs) the PCaW survey of whistleblowing arrangements in the UK conducted in September 2013<sup>3</sup>. Our purpose was to find out, for the first time, the detailed views of senior internal auditors on whistleblowing policies, procedures and practice.

The survey results from our HIAs paint a picture of widespread involvement by internal audit in whistleblowing procedures, often as the main channel. However it also shows that more needs to be done to improve the way whistleblowing is carried out in practice. Areas for improvement include:

- more training for staff members named in whistleblowing policies;
- separating the complaints/grievance procedures from the whistleblowing procedures; and
- providing feedback to whistleblowers on outcomes of investigations and/or proposed remedial action.

The need to improve whistleblowing arrangements has implications for internal audit in two ways. Firstly, where internal audit is running whistleblowing, it may need to review the outcomes and improve its own performance. The second concerns the provision of assurance. Whistleblowing can be an essential input into the work of internal audit by providing a valuable source of intelligence about the effectiveness of internal controls. If procedures and processes are not working well, internal audit may not be as well-informed as it could be in reaching its judgements and providing assurance to audit committees and boards.

The results of our survey also raise the question of whether too great an involvement by internal audit in the processes themselves might endanger its assurance role. It underlines the need for all parties to be clear about their whistleblowing policies and procedures and internal audit's roles within them. There must be awareness amongst non-executive directors and executives of the potential tensions between the different roles, and there must be safeguards in place where potential conflicts of interest arise.

The key findings from the survey results can be found at Appendix A.

## The Institute's policy position

Our research shows that internal audit plays a key role in supporting boards in the area of whistleblowing. Nearly 60% of HIAs act as a channel for whistleblowing in their organisations. Given this, it is important that there are safeguards in place to preserve internal audit's independence and objectivity. The Institute has therefore developed a policy position to support boards, audit committees, executives and internal audit practitioners to ensure that internal audit's role is not compromised.

In summary, the Institute believes that whistleblowing policies and procedures are an important element in a healthy corporate culture and that internal audit's independence from the executive and objectivity give it the potential to be involved in whistleblowing arrangements, for example in a triage role, as a channel of communication or in carrying out investigations. But boards also require independent assurance that the organisation's whistleblowing policies and procedures are effective in achieving the appropriate outcomes. Internal audit cannot give that assurance if it is directly involved in managing or carrying out those procedures. Internal audit should therefore either provide assurance to the board or play an integral part in the process of internal whistleblowing in their organisations.

The Institute has set out its policy position in more detail at: <http://www.iaa.org.uk/policy/policy-position-papers/internal-audit-and-whistleblowing/>. The policy position paper can be found at Appendix B.

<sup>3</sup> The Institute in collaboration with Public Concern at Work (PCaW). PCaW used the results to provide input to their Whistleblowing Commission report which was published in November 2013.

# Examples of internal audit's role in whistleblowing

A number of the survey respondents provided us with examples of how they are involved in their organisations' whistleblowing arrangements. The examples give us a flavour of where whistleblowers can report their concerns internally; how concerns are dealt with; and internal audit's reporting on whistleblowing activity to boards/audit committees.

## Roles that internal audit plays in relation to whistleblowing arrangements include:

- As a point of contact
- Investigation of complaints, especially if related to fraud or corruption
- Dealing with the complaint if those with day to day responsibility (e.g. compliance, HR, or legal) are implicated
- Managing an external provider giving advice or operating a helpline
- Supporting the board or the audit committee's oversight role
- Incorporating key control weaknesses identified into the audit planning framework

## A large retail group

A whistleblower can directly report concerns to a number of named senior designated contacts across the group including the HIA. The HIA also provides an oversight role on the remaining whistleblowing activity to the designated officers. Each designated officer notifies the HIA of any instance of whistleblowing and the HIA ensures that it has been dealt with to his satisfaction.

Public Concern at Work (PCaW) also provides a confidential advice and whistleblowing line. Internal audit maintains a relationship with HR which in turn owns the relationship with PCaW and the whistleblowing policy and process.

Internal audit provides an annual report to the audit committee, on behalf of management, which includes a report from PCaW on annual activity and supports a debate within the committee.

## An integrated support services company

Whistleblowers can report concerns directly to: our externally supported whistleblowing service provider; to management; and to internal audit.

Internal audit plays a lead role in coordinating the company's response to whistleblowing disclosures and the whistleblowing service is considered one of the most cost effective methods to identify wrongdoing and therefore inadequacies within the control environment.

The whistleblowing and fraud response includes:

1. Investigating significant allegations of fraud or corruption and making recommendations for further action (i.e. disciplinary action and/or reporting the matter to the police) and improvements to controls or processes.
2. Liaising with third party agencies such as the police where criminal acts are suspected.
3. Allocating non-fraud related whistleblowing cases to HR and management to investigate and tracking progress of these cases to a satisfactory close.
4. Updating the externally supported whistleblowing database with the status of investigations so that whistleblowers can see that their concerns have been taken seriously and are being investigated.
5. Recording and monitoring whistleblowing trends with particular focus on reported fraud. Frauds are classified by type and internal audit monitors the number and type of frauds reported each month by each business group.

Internal audit collates a monthly report summarising the whistleblowing cases disclosed with a breakdown of the number of allegations that are fraud-related, those that are HR-related and those that are 'other' types of disclosures e.g. allegations of health & safety breaches. The monthly report, which is circulated to senior finance team members, commercial HR employees and the chairman of the audit committee, also includes a summary of each case, current investigation progress and a dashboard which reports the trends being recorded and explained in point 5 above. A summary of the monthly reporting is included within the each internal audit report to the audit committee.

Internal audit considers the key control weakness identified from whistleblowing and fraud investigations during the planning stage of individual reviews and also when collating the annual internal audit plan for the group. Risks and business areas are

incorporated into the annual plan where there is an indication that controls have failed previously such as where a material fraud has occurred or a number of smaller frauds have crystallised.

Internal audit monitors fraud trends, including the number and frequency of whistleblowing reports received. In areas of the business experiencing fewer whistleblowing disclosures than expected (compared to previous years, or the number of disclosures per 1,000 employees in other areas of the business and other organisations) results are analysed to determine the causes. Where whistleblowing procedures are found to be wanting, corrective action can be taken. This might include whistleblowing and fraud awareness articles and briefings communicated via the group's quarterly magazine, email or team talks. If, on the other hand, internal audit identifies areas of the business experiencing a high rate of whistleblowing reports or a particular type of fraud, internal audit could, if appropriate, carry out fraud awareness briefings to make employees aware of the consequences, with reference to actual cases and criminal sanction.

## Multinational consumer company A

The organisation outsources its whistleblowing contact service to an independent service provider. The provider can receive written letters, emails or phone calls in any language and translates these into English. This independent service provider then forwards the information to a Single Point of Contact (SPOC) in the company. The SPOC then forwards this to a senior director who performs a triage to assess which function to direct the issues to for investigation. The majority are relatively simple and will be directed to the appropriate function (typically HR).

For items which appear serious in nature/more complex – the senior director will convene a meeting with one or two other pre-designated senior colleagues who form a whistleblowing triage committee. This committee will then decide which function is best to investigate the issue: fraud, corporate security, HR, legal, group audit (internal audit).

Group audit does not typically get involved with investigating whistleblowing issues but will if other teams are conflicted i.e. the allegation was about issues between security & HR or if the issue is process related and it is strongly felt that group audit's skills were more appropriate than those of the other teams e.g. legal.

All findings/follow ups are thoroughly investigated and documented. The findings are fed back to the independent service provider who will inform the whistleblower – ensuring the anonymity of the whistleblower is kept at all times and that they are aware that the issue they have raised has been dealt with appropriately.

### Scenario: an example based on actual experience

Employee A had worked within the company finance function for a number of years. The employee had become suspicious about explanations for irregularities in payments to a supplier. There seemed to be a wall of silence when questions about the supplier and their key contacts at the client organisation were raised during a routine credit control meeting. Feeling increasingly uncomfortable about the situation, employee A mentioned her concerns to her line manager but they did not appear to take the concern seriously or agree to take any specific action/follow up.

The employee had seen and was aware of the whistleblowing hotline through internal communication campaigns and the link to the hotline was only one click away from her company's intranet landing page.

As it does with all cases, the company followed due process when it received the whistleblowing allegations. The matter was investigated by a team that comprised members of the corporate fraud and security team and the group's internal audit team.

The employee was kept informed of progress (as they were not anonymous and had provided their details to the 3rd party company who operate the whistleblowing hot line). Only circumstantial evidence could be gathered regarding the employees who were reported in the case so the contract with the supplier was terminated and put out to retender (the incumbent supplier was not asked to tender).

Group internal audit kept the audit & risk committee informed as part of their regular reporting to them.

# Examples of internal audit's role in whistleblowing *(continued)*

## A financial services provider

Day-to-day responsibility for the whistleblowing hotline rests with compliance. Internal audit, amongst other functions, may be invited to get involved in advising on the application of this policy. When the concern is raised, the employee is asked whether (s)he wants to be in direct contact with the function the case will be referred to, or would they rather any communication be done through the compliance function.

Internal audit is requested to investigate all cases of suspected fraud and corruption. Where appropriate, the employee raising the concern will be contacted and a meeting arranged (this is usually done away from the normal place of work) to discuss the concern further. Internal discussions will then be held to decide whether an investigation is appropriate. The employee will be notified about how the internal auditor leading the enquiry proposes to deal with the concern as soon as is practical. The following matters will be considered as part of the investigation:

- The most appropriate method of investigation and the skills needed
- The evidence that is needed to substantiate the concern
- Whether the matter needs to be referred to the police
- What involvement other function may have in this investigation

The internal auditor concerned will report his/her findings to the head of group internal audit. Depending on the significance of the concern and the findings, it may be necessary for the chief executive or other parties to be informed. The employee raising the concern will be notified of the outcome, subject to legal constraints.

## A University

The HIA is named as one of the channels in the whistleblowing policy for those wishing to make disclosures. In the context of any disclosures made internal audit can be asked to lead on any resulting investigatory work, or contribute to wider investigations, the results of which can be taken into account by management when deciding on what action they might take.

Internal audit acts as an adviser on the formal annual review of the policy and its supporting procedures, identifying good practices and current issues that management can take into account.

Like all other areas of risk internal audit is able to audit management's arrangements for whistleblowing as they do not own the policy and are not accountable for its design or operation.

## Multinational consumer company B

The whistleblowing policy owner is the group HR director. From a governance perspective, internal audit provides independent oversight (on behalf of the audit committee) of all whistleblowing activity, whether it be formal (through the established and communicated 'Speak up' whistleblowing line, managed by a third party) or informal (through any other route). Management has the obligation to forward all informal whistleblowing activity to internal audit immediately.

Internal audit is copied in on all formal whistleblowing reports. The investigation is generally the responsibility of local HR under the guidance of Regional HR; however, internal audit reserves the right to take over and lead any investigation, where there is a potential conflict of interest or if local/regional management do not have the capability to perform an adequate investigation. The target for completing an initial investigation is two weeks from the receipt of the report.

Internal audit routinely reports on all whistleblowing to the audit committee and the policy owner (group HRD) attends the audit committee annually to answer to them as they review the adequacy of the group whistleblowing policy.

### Scenario: an example based on actual experience

Employee A received a call from an acquaintance working in the admin department of a nearby hotel; the caller claimed that employee B had approached them seeking a kick-back in exchange for organising an agreed number of rooms booked quarterly by other employees under their direction. Employee A shared this information with internal audit, who alerted employee B's line and HR managers and a covert investigation was immediately begun, in line with the organisation's whistleblowing policy. In this case the employee shared the information with internal audit rather than using the external line, but the outcome was the same.

Internal audit followed up with the caller to verify their statements, to the extent possible. HR interviewed employee B, who denied the claims but could not present a credible alternative explanation for the verified sequence of events. Employee B was dismissed immediately upon conclusion of the investigation. The process lasted a total of seven weeks from initial whistleblow to the departure date of employee B.

The matter was covered in internal audit's routine reports to both the ethics and audit committees. Furthermore, the HIA for the hotel group was contacted to alert the third party to the possibility of extended fraud in their organisation.

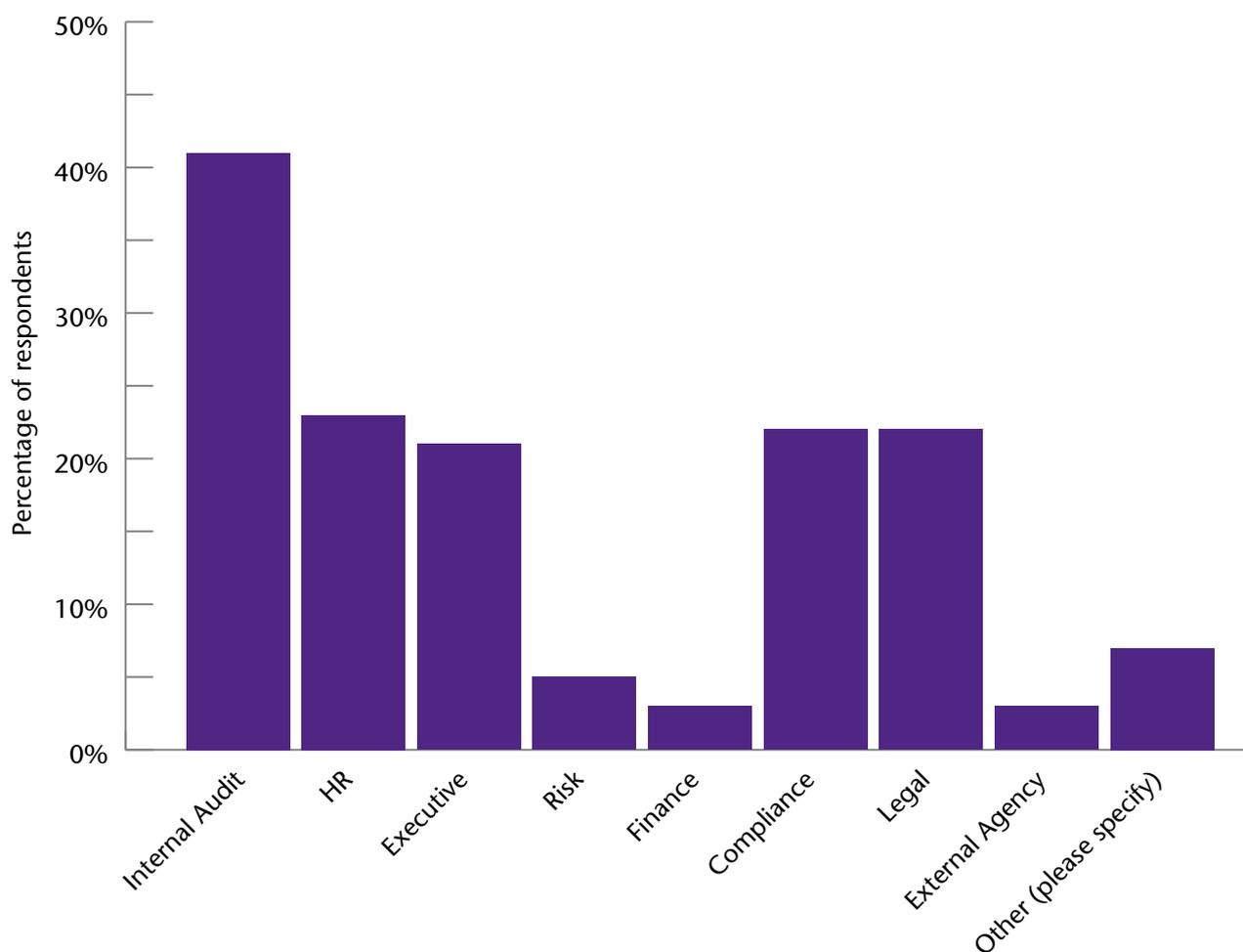
# Appendix A

## Results from the whistleblowing survey

The charts below show a summary of the results from the 137 Heads of Internal Audit who responded to the survey.

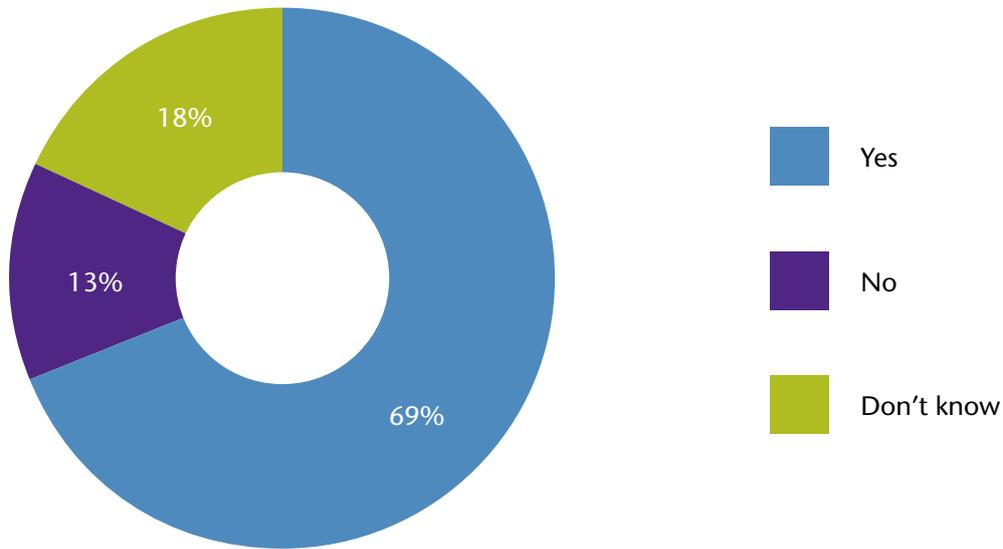
The survey showed that 41% of respondents reported that internal audit has day-to-day responsibility for whistleblowing arrangements. (A separate survey of Heads of Internal Audit in July 2013 showed that 58% act as a channel for whistleblowing – this higher percentage may be, for example, due to them acting as a point of contact for whistleblowers but not necessarily having day-to-day responsibility for it). Other departments cited as having responsibility include HR, the Executive, compliance and legal.

### Who has day-to-day responsibility for your whistleblowing arrangements? (If more than one, please select all that apply)



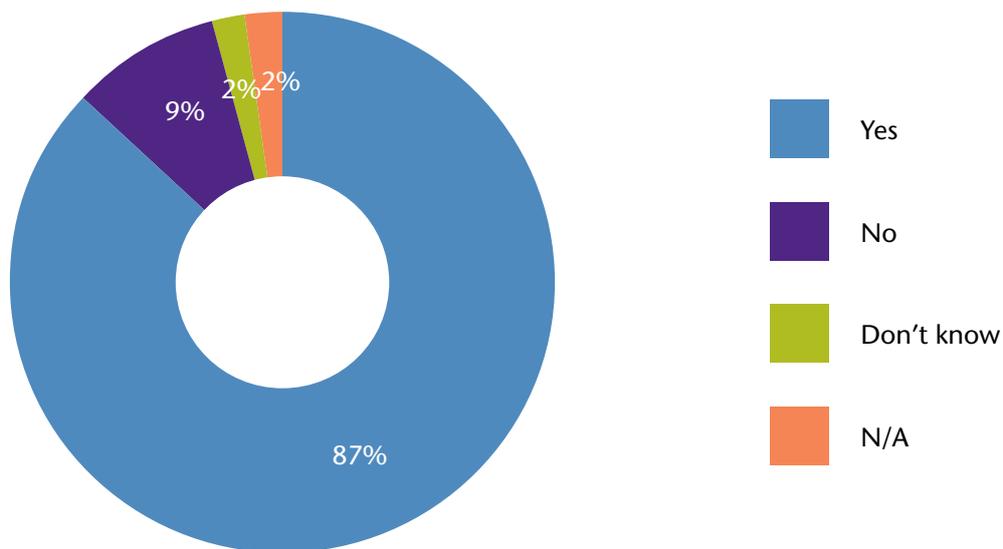
The survey highlighted a number of encouraging findings with regard to the effectiveness of whistleblowing arrangements as shown in the following two charts.

**Do you believe that your organisation’s whistleblowing arrangements are effective?**



Over two-thirds agreed that their organisation’s whistleblowing arrangements are effective.

**If you have a policy, does it include how you will protect a whistleblower?**

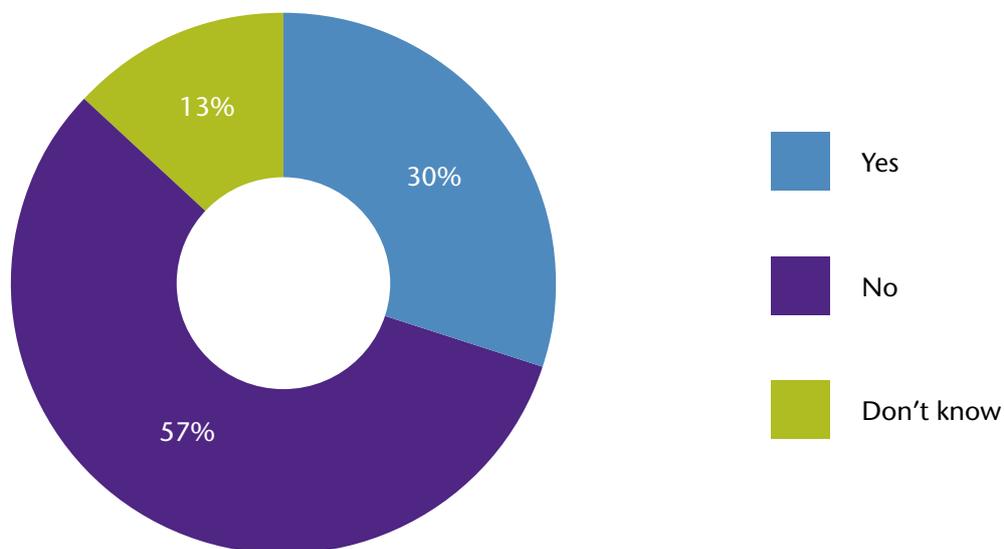


Nearly nine in ten say that their policies include how they will protect a whistleblower. However the survey also showed that there are some areas for improvement.

The following three charts show this in more detail.

## Appendix A *(continued)*

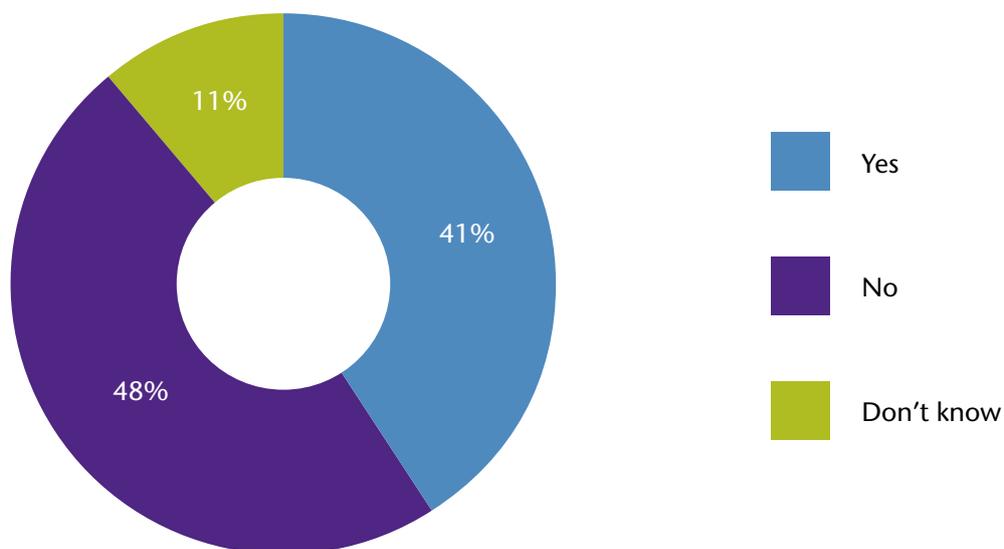
Does your organisation train members of staff named within the policy?



Whistleblowing cases can be complicated and often sector specific. Yet nearly 6 in 10 do not train staff members who are named in whistleblowing policies. This lack of training may explain why nearly one-third of respondents were sceptical about the effectiveness of whistleblowing arrangements. Furthermore, low levels of training could lead to serious issues being unreported, ignored or mishandled and consequently could endanger an organisation's attempts to tackle risks relating to fraud and corruption.

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Do you include personal complaints or grievances in whistleblowing reports (such as bullying and harassment issues that relate only to the treatment of the worker)?

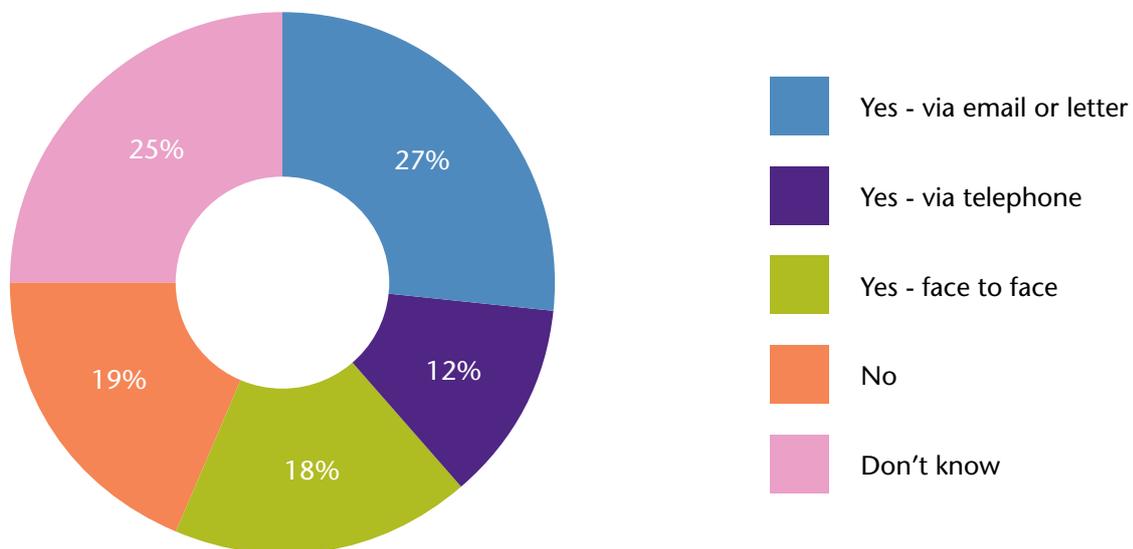


Whistleblowing is different from making a complaint or raising a grievance. As PCaW states: “The person blowing the whistle is usually not directly, personally affected by the danger or illegality. Consequently, the whistleblower rarely has a personal interest in the outcome of any investigation into their concern - they are simply trying to alert others... He or she is a messenger raising a concern so that others can address it”. This is very different from a personal complaint or grievance which stems from the individual in question being poorly treated and seeking personal redress.

Nearly half of all respondents exclude personal complaints or grievances from whistleblowing reports. We believe that this is the correct stance to take. Therefore, in order for internal audit to either provide effective assurance on or be involved in whistleblowing procedures, it is important to exclude personal complaints and grievances from whistleblowing activity.

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### Do you provide feedback or progress updates to whistleblowers?



It is critical for whistleblowers to have confidence in their organisation’s whistleblowing arrangements and that information is treated seriously, and a key element of this is to receive feedback on the outcome of investigations. It is therefore of some concern that nearly one in five respondents say they do not provide feedback or progress updates to whistleblowers and one-quarter of respondents do not know what the position is in their organisation.

# Appendix B

## Whistleblowing policy position paper

### Internal audit and whistleblowing

#### What do we mean by whistleblowing?

Whistleblowing is when an employee, contractor or supplier goes outside the normal management channels to report suspected wrongdoing at work, i.e. speaking out in a confidential manner. This can be done via internal processes set up by the organisation (internal whistleblowing) or to an external body such as a regulator (external whistleblowing).

Public disclosure to the media is also perceived by some as whistleblowing and is of interest to internal audit as a possible indicator on the control environment and in the context of an internal auditor needing to go outside his/her organisation to get concerns dealt with.

#### Main message

There is a symbiotic relationship between whistleblowing and an organisation's culture - effective internal whistleblowing arrangements are an important component of a healthy corporate culture, but also effective internal whistleblowing depends on the right corporate culture that encourages concerns to be raised. Internal whistleblowing, whether it is conducted in-house or outsourced, acts as a deterrent to corrupt practices, encourages openness, promotes transparency, underpins the risk management systems and helps protect the reputation of an organisation.

The responsibility for establishing and operating effective internal whistleblowing procedures lies with the executive, reporting to the board. But given the potential conflicts of interest the executive will need to devolve the day-to-day running of the process to a function that is considered to be independent.

Internal audit's independence from the executive and objectivity give it the potential to be involved in whistleblowing arrangements, e.g. in a triage role, as a channel of communication or carrying out investigations.

But boards require assurance that the organisation's whistleblowing policies and procedures are effective in achieving the appropriate outcomes. Internal audit cannot give that assurance if it is directly involved in managing or carrying out those procedures.

Internal audit should therefore either provide assurance to the board or play an integral part in the process of internal whistleblowing in their organisations.

Boards need to ensure that internal audit's involvement in whistleblowing does not undermine its ability to carry out its prime assurance functions and that it has the necessary skills and resources.

#### What do we want?

Boards must be accountable for ensuring effective whistleblowing procedures are in place that guarantee confidentiality and anonymity and avoid conflicts of interest.

Where internal audit is involved in the procedures for whistleblowing the board should ensure:

- There is a separate, independent mechanism to provide assurance on the effectiveness of the whistleblowing procedures
- Internal audit's main functions and wider assurance roles are not compromised
- Internal audit is properly resourced in terms of staffing and skills

Where internal audit is not playing a direct whistleblowing role it should provide assurance on the effectiveness of the system and procedures to the board. It also should have the right to be informed of all whistleblowing reports so that it can consider what impact they have on its overall opinion to the board concerning risk management and internal control in the organisation.

Internal audit should be able to reserve the right to carry out investigations into the incidents raised in whistleblowing reports as part of its work on giving assurance about internal controls. However, it is not the job of internal audit directly to detect or prevent corrupt practices. This is for executive management.

Internal audit's role can include promoting whistleblowing best practice, testing and monitoring systems and advising on change where it is needed. But the ultimate operational responsibility for whistleblowing procedures lies with executive management reporting to the board.

## Additional points

Boards should consider corporate culture and whistleblowing together as the two are interrelated.

With the right corporate culture internal whistleblowing will be seen as the normal and acceptable way of reporting wrongdoing, except where there are clear legal or other reasons for approaching a regulator or other authority. Public disclosure to the media should be seen as a last resort and a possible indicator of weakness in internal whistleblowing procedures.

Organisations must disseminate to staff clear policies and procedures on internal whistleblowing so that disclosures can be made with confidence that they will be handled seriously by the organisation and without prejudice to the interests of the individual. Internal processes should be able to preserve anonymity. There should also be a feedback loop to whistleblowers.

Employees should be made aware of external bodies such as regulators and others (e.g. Public Concern at Work) they can approach if the internal procedures have not worked.

## Internal audit acting as a whistleblower

While we believe that it is not the job of internal audit to detect or prevent corrupt practices directly, internal auditors often come into possession of critically sensitive information that is substantial to the organisation and poses significant potential consequences. This distinguishes them from many

other members of an organisation. This information may relate to exposures, threats, uncertainties, fraud, waste and mismanagement, illegal activities, abuse of power, misconduct that endangers public health or safety, or other wrongdoings. These matters may adversely impact the organisation's reputation, image, competitiveness, success, viability, market values, investments and intangible assets, or earnings. The first channel of communication of this information would be to senior management, or failing that to the board. This should not be seen as whistleblowing but as normal internal audit activity.

However if concerns are not taken seriously or overridden, an internal auditor may well face the prospect of considering whether to communicate the information outside the organisation, either by external whistleblowing to a regulator or other authority, or by public disclosure.

Should internal auditors find themselves in this situation, both the Chartered IIA and IIA Global have issued a specific practice advisory to members relating to the role of the internal auditor and external whistleblowing – 2440-2: Communicating Sensitive Information Within and Outside the Chain of Command.

This says: "Ultimately, the internal auditor makes a professional decision about his or her obligations to the employer. The decision to communicate outside the normal chain of command needs to be based on a well-informed opinion that the wrongdoing is supported by substantial, credible evidence and that a legal or regulatory imperative, or a professional or ethical obligation, requires further action."

*17 December 2013*

# About the Chartered Institute of Internal Auditors

First established in 1948, we obtained our Royal Charter in 2010. We are the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland.

We have approximately 8,000 members in all sectors of the economy including private companies, government departments, utilities, voluntary sector organisations, local authorities and public service organisations such as the National Health Service.

Members of the Chartered Institute of Internal Auditors are part of a global network of 180,000 members in 190 countries. All members across the globe work to the same International Standards and Code of Ethics.

Over 2,000 members of the Institute are Chartered Internal Auditors and have earned the designation CMIIA. 800 of our members hold the position of head of internal audit and most FTSE 100 companies are represented amongst the Institute's membership.

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