

# Fraud, misappropriation and whistleblowing

Audit committees can play an important role in ensuring that the systems in place to mitigate the risk of fraud and misappropriation – not only in monetary terms but also intellectual property rights, data loss, accounting manipulation, inappropriate use of an organisation’s assets by employees, and other matters – are fit for purpose and working as intended.

While ultimate responsibility rests with the board as a whole, audit committees are typically tasked with the principal oversight of fraud, misappropriation and whistle-blowing systems; including inter alia:

- reviewing and discussing any issues raised during the organisation’s assessment of the risk of fraud and irregularity;
- reviewing and discussing with the internal and external auditors any findings on the quality of the organisation’s anti-fraud systems and controls;
- reviewing arrangements by which employees (and others) may, in confidence, raise concerns about possible improprieties in accounting, auditing and other matters; and
- ensuring that arrangements are in place for the receipt and proportionate investigation of questions or concerns regarding possible improprieties in accounting, auditing and other matters and for appropriate follow-up action.

## Responsibilities

Direct responsibility for anti-fraud efforts would generally reside with a member of the senior management team, such as the chief financial officer or another officer with specific compliance duties. This person would be responsible for co-ordinating the organisation’s approach to the prevention of fraud and misconduct, detection and response. When fraud and irregularity issues arise, this individual can draw together the right resources to deal with the problem and make necessary operational changes. The compliance officer may also co-ordinate the organisation’s risk assessment efforts in this area by:

- establishing policies and standards of acceptable practice;
- overseeing the design and implementation of anti-fraud programmes and controls; and
- reporting to the board and/or audit committee on the results of the institution’s fraud risk management activities. The internal audit function is a key participant in anti-fraud activities, supporting management’s approach to preventing, detecting and responding to fraud and irregularity. Typically, internal audit is tasked with:
  - planning and evaluation of the design and operating effectiveness of anti-fraud controls;
  - assisting in the fraud risk assessment and helping to draw conclusions as to appropriate mitigation strategies; and
  - reporting to the audit committee on internal control assessments, audits, investigations and related activities.

It should be noted that the external auditors have a duty to report to those charged with governance (usually the audit committee) any serious weaknesses, fraud, irregularities or accounting breakdowns they come across in the normal course of their duties.

## The role of the audit committee

How can the audit committee ensure that appropriate procedures are in place to minimise the risk of losses arising from fraud, bribery and corruption? Unpalatable though it may be, the audit committee has to address these risks head-on. Identification of the risk of losses arising from fraud and other impropriety, through diagnostic studies of the risks within the

organisation, should be considered an important first step. The audit committee should question whether management has considered those risks likely to have greatest financial, reputational or regulatory impact on the organisation. This should include identifying the risk of fraud and impropriety; a rigorous assessment of any relevant internal controls and their ability to prevent and/or detect fraud; and monitoring those controls.

The audit committee should determine whether a consistent approach is taken across the organisation, whether those risks assessed as high are dealt with appropriately, and whether management is engaged in the process.

It is important that staff at all levels receive training relevant to their role: this might include fraud awareness, anti-bribery and corruption and other matters. A common theme arising from the investigation of many improper activities is that countless people in the affected organisation knew or suspected that irregularities were occurring, but were not given the skills to identify the signs of fraud or provided with an opportunity to communicate their concerns. The audit committee should enquire as to whether the organisation has an effective awareness programme which is updated as appropriate and provided in a relevant format to employees at different levels within the organisation.

The audit committee is not involved in day-to-day management, and therefore not closely involved with the detail of matters related to fraud and improper activities. However, it can usefully focus attention on the need for proper policies and procedures to help in preventing fraud. In some organisations the board may delegate this role to an «ethics committee».

The audit committee should question whether appropriate policies have been issued and whether they are user-friendly and adopted throughout the organisation. Policies which might be considered include an anti-fraud policy, an anti-bribery and corruption policy, a whistle-blowing policy (see below) and response plans. The committee should consider not just whether these policies are appropriate, but whether they are effective and how management has confirmed this. 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 – i.e., an oversight role. The committee should ensure that management is providing clear direction to the organisation on fraud and impropriety, and requesting and receiving relevant information on suspected misconduct. The following are, among other factors, sometimes seen as symptomatic of a potential for fraud and misconduct to occur:

- overly dominant senior executives with unfettered powers;
- frequent changes in finance or other key personnel, auditors or other professional advisers;
- implausible explanations as to surpluses, or projections that are «too good to be true»;
- organisations «bucking the trend» or significantly out-performing the competition;
- individuals who have expensive lifestyles or habits that are potentially at variance with the remuneration they receive from the organisation;
- aggressive accounting policies;
- highly leveraged reward schemes; and
- overly complex corporate structures involving havens of secrecy.

### Measures to guard against fraud, bribery and corruption include:

- Boards taking responsibility for the fight against fraud, bribery and corruption
- Appointing a senior officer accountable for oversight
- A clear statement of an anti-fraud and anti-corruption culture
- Documented policies and a code of ethics, applicable regardless of local laws or culture, which must also apply to business partners
- Consistent disciplinary processes providing for individual accountability
- Assessing risks specific to the organisation
- Financial controls and record-keeping to minimise the risk of fraud, bribery and corruption
- Policies and procedures on gifts, hospitality, and facilitation payments
- A policy and procedure on the use of outside advisers/third parties including vetting, due diligence and appropriate risk assessments
- A policy covering political contributions and lobbying activities
- Training to ensure dissemination of the anti-fraud and anti-corruption culture to all staff
- Establishing whistle-blowing procedures e.g., a helpline
- Regular and risk-based checks and auditing
- Wherever possible, implementation of procurement and contract management procedures to minimise the opportunity for corruption by sub-contractors and suppliers



## Whistle-blowing

Whistle-blowing procedures are a major line of defence against fraud and audit committees have a role in ensuring such procedures are effective.

Barriers to an effective whistle-blowing procedure include:

- Operational – is the whistle-blowing process fully embedded within the organisation? Do all staff know what to do, what to look for? Do the hotlines and reporting lines actually work?
- Emotional and cultural – Whistle-blowers are commonly viewed as snitches, sneaks, grasses, super grasses and gossips. This perception can make it difficult to blow the whistle even though individuals recognise that it is good for the company, employees, shareholders and other stakeholders.
- Fear – Potential whistle-blowers often fear reporting incidents to management. Areas such as legal protection, fear of trouble and potential dismissal all play a part when an individual is considering whistle-blowing.

When reviewing whistle-blowing procedures, the audit committee should consider the following:

- Are whistle-blowing procedures documented and communicated throughout the organisation?
- Does the policy make clear that it is both safe and acceptable for employees to raise concerns about wrongdoing?
- Were the whistle-blowing procedures arrived at through a consultative process? Do management and employees «buy into» the process?
- Are concerns raised by employees (and others) responded to with a reasonable time frame?
- Are procedures in place to ensure that all reasonable steps are taken to prevent the victimisation of whistle-blowers?

- Are there procedures to ensure that all reasonable steps are taken to keep the identity of whistle-blowers confidential?
- Has a senior person been identified to whom confidential concerns can be disclosed? Does this person have the authority and determination to act if concerns are not raised with, or properly dealt with, by line management and other responsible individuals?
- Are success stories publicised?
- Does management understand how to act if a concern is raised? Do they understand that employees (and others) have the right to blow the whistle?
- Has consideration been given to the use of an independent advice centre as part of the whistle-blowing procedure?

An example of a whistle-blowing policy is set out on the following pages.

## Audit committee questions

Audit committees can add value by asking how much detected fraud is captured by the whistle-blowing system. If it's less than (say) 50%, they might want to consider whether:

- there are areas of the business (either geographical or functional) where there are few, if any, whistle-blowing reports – suggesting effectiveness is patchy;
- management are motivated to follow up whistle-blowing activity; and
- a significant number of detected frauds were not detected by the whistle-blowing process – suggesting procedures are less than effective.

## Appendix

All employees are encouraged to raise genuine concerns about possible improprieties in matters of financial reporting and other malpractices at the earliest opportunity, and in an appropriate way.

This policy is designed to:

- support our values;
- ensure employees can raise concerns without fear of suffering retribution; and
- provide a transparent and confidential process for dealing with concerns. This policy not only covers possible improprieties in matters of financial reporting, but also:
  - fraud;
  - corruption, bribery or blackmail;
  - criminal offences;
  - failure to comply with a legal or regulatory obligation;
  - miscarriage of justice;
  - endangering the health and safety of an individual; and
  - concealment of any of the above.

### Principles

- All concerns raised will be treated fairly and properly.
- We will not tolerate the harassment or victimisation of anyone raising a genuine concern.
- Any individual making a disclosure will retain their anonymity unless they agree otherwise.
- We will ensure that any individual raising a concern is aware of who is handling the matter.
- We will ensure no one will be at risk of suffering some form of retribution as a result of raising a concern even if they are mistaken. We do not however extend this assurance to someone who maliciously raises a matter they know to be untrue.

### Grievance procedure

If any employee believes reasonably and in good faith that malpractice exists in the work place, then he or she should report this immediately to their own line manager. However, if for any reason they are reluctant to do so, then they should report their concerns to either the:

- group company secretary; or
- director of human resources.

Employees concerned about speaking to another member of staff can speak, in confidence, to an independent third party by calling the [whistle-blowing hotline](#) on [ ]. This is provided through the independent party who provide the employee care counselling and legal advice service. Your concerns will be reported to the company without revealing your identity.

If these channels have been followed and employees still have concerns, or if employees feel the matter is so serious that it cannot be discussed with any of the above, they should contact the senior independent director on [ ].

Employees who have raised concerns internally, will be informed of who is handling the matter, how they can make contact with them and if there is any further assistance required. We will give as much feedback as we can without any infringement on a duty of confidence owed by us to someone else.

Employees' identities will not be disclosed without prior consent. Where concerns are unable to be resolved without revealing the identity of the employee raising the concern, (e.g., if their evidence is required in court), we will enter in to a dialogue with the employee concerned as to whether and how we can proceed.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received, or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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