



Auditors and Whistle-Blowers

Article by: Ger Long, BA (Hons) BFS, MBA, FCA, AITI Examiner: P2 Audit Practice, April 2018.

The second decade of the twenty-first century has seen the issue of 'whistle-blowing' come very much to the fore. According to the Collins English dictionary whistle-blowing is "the act of telling the authorities or the public that the organisation you are working for is doing something immoral or illegal". Many jurisdictions now provide some kind of statutory protection for an employee who, in good faith, reports his/her employer for some alleged wrongdoing. In Ireland, this is the Protected Disclosures Act, 2014. This act makes provision "for, and in connection with, the protection of persons from the taking of action against them in respect of certain disclosures in the public interest and for connected purposes".

Whistle-blowing has a much greater significance than issues concerning financial reporting by the types of entity that are usually subject to audit. Nevertheless, it could easily be the case that a disclosure by a whistle-blower could impact on a financial statement audit. It could become audit evidence. If the auditor becomes aware that a client company is the subject of a protected disclosure then the auditor would need to find out the nature of this disclosure to attempt to assess what impact, if any, this would have on the financial statements.

For example a disclosure might suggest that the company could have an unrecorded liability because, it might be subject to claims against it by individuals or entities who may feel aggrieved by the actions of the company and who may commence legal action against it. Similarly, it might find itself exposed to fines or penalties for breaches of laws or regulations. In an extreme case, it might even have implications for the going concern status of the company. One would imagine this would be rare but could come about if the accusation against the company was so serious that it might suggest the possibility of the company's license to operate being withdrawn.

There are at least two aspects of the situation that the auditor will need to consider. Firstly, the auditor needs to consider what it is about the company that leaves the complainant feeling that he or she needs to resort to whistle-blowing to have his or her concerns addressed. For example, it might suggest that there is a dominant individual within the company who is, consciously or otherwise, creating an intimidating atmosphere which makes it difficult for staff to voice their concerns. If this is the case, it may be that the auditor should reconsider the assessment of inherent risk and control risk for the company.

Secondly, as with any other piece of evidence, the auditor will also need to assess the credibility of what the whistle-blower is saying. This would involve considering questions such as:

- The degree of seniority of the whistle-blower in the organisation.
- The degree to which the accusations are specific e.g. if they concern particular, identified transactions on particular dates this will add to their credibility and also make investigating the issue less difficult.
- Efforts made by the whistle-blower to bring the problem to the attention of the company prior to raising the matter under the whistle-blower legislation. For example, with whom were the allegations first raised? Was any action taken at that time and, if so, how did the problem persist or recur?
- The extent to which the issue raised are directly relevant to the financial statements.

The auditor should not be too quick to dismiss the credibility of the accusations. Companies will often 'circle the wagons' when faced with a whistle-blower and, in some cases, this leads them to not addressing the problem which then accumulates and becomes more difficult to solve later on. It is of course true that the accusations of whistle-blowers may be mistaken, vexatious or even malicious. However as sceptical as the company may be about the whistle-blower's claims the auditor needs to be equally sceptical about the management response(s) to them.