Management and employee fraud are concerns for all organizations today. Confidential reporting mechanisms, or whistle-blower hotlines, are often proposed as one tool in the organization’s internal control arsenal for dealing with fraud. A key dimension of internal control is communication. Since fraud involves concealment and communication fosters openness, it is logical that communication might act to thwart fraudulent activities. When valid, such reports provide the opportunity for wrongdoing to be corrected and organizational controls to be improved.

In India though institution of whistle blower mechanism is still a non- mandatory requirement under the Revised Clause 49 of Listing Agreement with stock exchanges, the Clause entrusts the Audit Committee to review the functioning of the mechanism where its exists. Questions you may wish to raise at an audit committee meeting in reviewing and approving the whistleblowers process would include:

- Who is responsible for the process? Do the individual and the process have a sufficient degree of independence and objectivity to be both effective and credible?
- What is the “Tone at the Top?” Does the culture of the company assist or inhibit the hearing of complaints?
- What is the company's policy and process for collecting and processing whistleblower information?
- Is the process focused solely on employees or is it open to third parties as well? Is the process integrated with other feedback, suggestion box and complaint systems? If so, how?
- How can complaints be submitted - i.e. - mail, e-mail, voicemail, special secure telephone line? Does the process support all languages in which the company operates?
- How are employees, customers and suppliers notified and educated on the process? What is their level of confidence that complaints will be dealt with quickly and with no reprisal?
- What is the decision making process to determine whether a complaint is serious or frivolous?
- How will investigations be managed to ensure they are effective, maintain confidentiality and minimize the risk of retaliation claims? Have appropriate considerations been given to protecting legal privilege?
- Does the mechanism provide adequate safeguards against victimization of employees who avail of the mechanism?
- Does the policy allow direct access to the Chairman of the audit committee in exceptional circumstances?
- What is the process for deciding what actions should be taken when investigations are completed? What is the involvement of the audit committee or board of directors? Is there an appeal process?
- What has been the company's experience with such information in the past 24 months and what changes have occurred as a result?
- How has the number and nature of calls changed since the prior year?
- What reporting might the audit committee expect on such matters in the future? What reporting is provided to senior management and the board of directors on complaints received, investigated and actions taken?
To explore these ideas further, contact your
Lead Client Service Partner
or
Abhay Gupte
Director, Deloitte Center for Corporate Governance, India
Tel.: + 91 (22) 6681 0600
E-mail: agupte@deloitte.com

In this material Deloitte refers to Deloitte Touche Tohmatsu India Private Limited (DTTIPL), a Company established under the Indian Companies Act, 1956, as amended.

DTTIPL is a member firm of Deloitte Touche Tohmatsu, a Swiss Verein, whose member firms are legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

This material prepared by DTTIPL is intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s). Further, the views and opinions expressed herein are the subjective views and opinions of DTTIPL based on such parameters and analyses which in its opinion are relevant to the subject.

Accordingly, the information in this material is not intended to constitute accounting, tax, legal, investment, consulting, or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser. None of Deloitte Touche Tohmatsu, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this material.

© 2009 Deloitte Touche Tohmatsu India Private Limited.