

Encouraging the Reporting of Misconduct

A Roundtable Summary

About the Anti-Fraud Collaboration

The Anti-Fraud Collaboration (Collaboration) was formed in October 2010 by the Center for Audit Quality (CAQ), Financial Executives International (FEI), the National Association of Corporate Directors (NACD), and The Institute of Internal Auditors (The IIA). The four organizations represent members of the financial reporting supply chain — external auditors (CAQ), company financial management (FEI), audit committees (NACD), and internal auditors (The IIA).



The goal of the Collaboration is to promote the deterrence and detection of financial reporting fraud through the development of thought leadership, awareness programs, educational opportunities, and other related resources specifically targeted to the unique roles and responsibilities of the primary participants in the financial reporting supply chain. The Collaboration defines financial reporting fraud in its most general sense, as a material misrepresentation in a financial statement resulting from an intentional failure to report financial information in accordance with generally accepted accounting principles.



The Collaboration's areas of focus include:

- Advancing the understanding of conditions that contribute to fraud.
- Promoting additional efforts to increase skepticism.
- Encouraging a long-term perspective so as to moderate the risk of focusing only on short-term results.
- Exploring the role of information technology in facilitating the deterrence and detection of fraudulent financial reporting.



Several collaborative projects have been delivered by this partnership. Encouraging the Reporting of Misconduct: A Roundtable Summary is one such project.

Find more resources from the Anti-Fraud Collaboration at:
www.antifraudcollaboration.org.



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Introduction

Misconduct by employees can potentially destroy an organization. To minimize this risk, management typically implements a variety of processes to identify misconduct so alleged transgressions can be understood, analyzed, and addressed. One common, often effective, method is to provide people a safe and convenient way to report suspected wrongdoing. Yet, fear of retaliation and other factors often deter employees from coming forward.

In an effort to better understand the factors that impede the reporting of misconduct, the Anti-Fraud Collaboration — the Center for Audit Quality (CAQ), Financial Executives International (FEI), The Institute of Internal Auditors (IIA), and the National Association of Corporate Directors (NACD) — conducted two roundtables focused on the fear of retaliation. Key players in the financial reporting supply chain — corporate directors, financial executives, external and internal auditors — discussed issues surrounding reporting suspected fraud and the negative impact fear of retaliation has on the timely detection of such fraud.

Presentations and discussions involved the following issues:

- What organizations can do to encourage reporting of misconduct.
- What creates fear of retaliation and what can be done to mitigate this fear.
- What organizations and each participant in the financial reporting supply chain can do to cultivate a retaliation-free environment.

This report from the Anti-Fraud Collaboration provides a summary of the presentations and the roundtable discussions that followed. Topics covered include:

- Presentations, including survey results about fear of retaliation for reporting of alleged misconduct.
- Factors that discourage reporting of misconduct.
- Recommendations to encourage reporting of misconduct.
- Ways to cultivate a retaliation-free environment.
- Stakeholder roles in promoting a retaliation-free environment.

Presentations

Both of the opening presenters — Harold Silverman, IIA vice chairman Professional Certifications, and Douglas Anderson, IIA managing director CAE Solutions — shared selected statistics on misconduct in the workplace, organizational culture, and whistleblower programs. The following is a summary of the material presented that set the stage for the roundtable discussions.

2016 Global Business Ethics Survey

The Ethics & Compliance Initiative's (ECI) Global Business Ethics Survey™¹ is a rigorous, multi-country inquiry into worker conduct and workplace integrity. Survey results provide insights into workplace ethics in public and private sector organizations. Highlights include:

- Twenty-two percent of global workers reported pressure to compromise standards.
- About one-third of global respondents reported that they observed alleged misconduct.
- Seventy-six percent of those in the United States who observed alleged misconduct reported it — 17 percent higher than the global median — but nearly a quarter did not.
- Fifty-three percent of those in the United States who reported misconduct experienced retaliation, also 17 percent higher than the global median.

The report states: “High rates of reporting correspond with more widespread retaliation, even though one might imagine that there would be an inverse relationship. Countries with the highest rates of reporting also tend to have the highest rates of retaliation.” The higher reporting rate of misconduct in the United States being associated with higher rates of retaliation is consistent with the global results. Retaliation does not seem to abate as reporting becomes more common.

¹ Ethics & Compliance Initiative www.ethics.org/eci/research/eci-research/gbes.

2013 National Business Ethics Survey of the U.S. Workforce

The ECI describes its National Business Ethics Survey® (NBES®)² as generating “the U.S. benchmark on ethical behavior in corporations. Findings represent the views of the American workforce in the private sector...NBES gives practitioners’ insight into the state of ethics and compliance in organizations, including rates of observed misconduct, reporting and retaliation against reporters.” Highlights include:

- Forty-one percent of U.S. workers observed misconduct in the workplace.
- Of those surveyed, one-third indicated that the rule breaking they observed represented a one-time incident, while two-thirds reported that the misconduct happened more frequently:
 - More than a quarter (26 percent) of observed misconduct represents an ongoing pattern of behavior.
 - Forty-one percent said the behavior has been repeated at least a second time.
- Workers reported that 60 percent of misconduct involved someone with managerial authority from the supervisory level up to top management.
- Retaliation against workers who reported wrongdoing continues to be a widespread problem. One in five workers (21 percent) who reported misconduct said they suffered from retribution as a result. Retaliation has not always been so widespread — the rate was only 12 percent in 2007, the first time it was measured in the NBES.
- Among non-reporters, 53 percent cited fear or knowledge of retaliation as a reason for not reporting.

² Ethics & Compliance Initiative www.ethics.org/eci/research/eci-research/nbes.

- Thirty-four percent of those who declined to report said they feared retaliation from senior leadership.
- Thirty percent worried about retaliation from a supervisor.
- Twenty-four percent said their co-workers might react against them.

While these statistics are not focused solely on financial reporting fraud, they illustrate an environment where misconduct, including financial reporting fraud, is a challenging problem for organizations. Misconduct is relatively commonplace, generally ongoing (i.e., not a one-off incident), and frequently involves management. The fear of retaliation from management (who may be perpetrating the misconduct) and co-workers is growing.

SEC Whistleblower Program

The U.S. Securities and Exchange Commission (SEC or Commission) initiated a whistleblower program in 2011, as mandated by the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). In addition to establishing an awards program to encourage the submission of high-quality information, Dodd-Frank and the Commission’s implementing regulations prohibit retaliation against whistleblowers who report possible wrongdoing based on a reasonable belief that a possible securities violation has occurred, is in progress, or is about to occur. Dodd-Frank expressly prohibits employment retaliation for reporting securities law violations and provides that individuals who have experienced such retaliation may pursue a private cause of action in the federal courts.

The SEC’s Office of the Whistleblower (OWB) is required to report annually to Congress on OWB’s

activities, whistleblower complaints received, and the SEC’s response. The OWB’s 2016 Annual Report to Congress³ includes interesting statistics and observations related to the reporting of misconduct and fear of retaliation:

- In Fiscal Year (FY) 2016, the SEC paid more than \$57 million to 13 whistleblowers.
- Increased public awareness of the program has led to a substantial growth in the number of whistleblower tips, from 3,001 in FY 2012, its first full year in operation, to over 4,200 in FY 2016.

| Fiscal Year | Whistleblower Tips Received |
|-------------|-----------------------------|
| 2012 | 3,001 |
| 2013 | 3,238 |
| 2014 | 3,620 |
| 2015 | 3,923 |
| 2016 | 4,218 |

The SEC has a pattern of actions that reflects its position to protect whistleblowers’ ability to report to and cooperate with Commission staff, including strong enforcement of anti-retaliation protections. New in FY 2016 was action against several companies for illegally using severance agreements to prevent reporting and obtaining awards.

“FY 2016 witnessed significant and ground-breaking enforcement activity on the whistleblower protection front, with the agency bringing charges against a company for retaliating against an employee for reporting a possible securities law violation and charges against multiple companies for impeding their employees’ ability to report to the SEC through severance agreements and other practices,” the 2016 annual report states.

³ www.sec.gov/files/owb-annual-report-2016.pdf

Roundtable Discussion Insights

After the presentations, roundtable discussions expanded beyond the issue of fear of retaliation to address organizational factors that discourage and recommendations to encourage the reporting of misconduct. The factors discussed generally fell into three categories:

- The Control Environment.
- The Reporting and Investigation Process.
- Consequences of Reporting Alleged Misconduct.

Roundtable participants discussed each of these factors and then addressed the roles that the different members of the financial reporting supply chain have in mitigating fear of retaliation and creating an environment and culture that encourages reporting of potential misconduct.

Factors That Discourage Reporting

The Control Environment

According to the COSO *Internal Control-Integrated Framework 2013*:

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for

performance. The resulting control environment has a pervasive impact on the overall system of internal control.⁴

The control environment has many aspects including the culture, structures, resources, and expectations of an organization. Roundtable participants identified several control environment factors that could discourage the reporting of potential misconduct.

- **Poor tone at the top.** Employees may consider it a personal risk to report potential misconduct, and they need to know that top management supports them and encourages them to do so. If executive management does not make it clear, through messaging and actions, that it supports reporting of suspected misconduct and will protect those who do report, employees will rightfully question whether it is in their best interest to proceed with a report of potential misconduct.
- **Dominating and intimidating personalities.** Individuals with dominating personalities may sometimes intimidate those who might want to

⁴ The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control-Integrated Framework*, 2013.

raise concerns about potential misconduct, but fear the dominant individual's response. This can be especially pertinent when the dominant individual is also in a management position.

- **Mistrust.** When employees do not know who to trust, there may be concern about confiding in the “wrong person.” This can be especially troublesome in circumstances where employees do not trust their supervisors. As noted in the 2013 NBES, a high proportion of misconduct is perpetrated by managerial employees. This could lead employees to mistrust management and those who management puts in place to review reports of potential misconduct.
- **Excessive team loyalty.** Loyalty can significantly strengthen teams and help them improve their performance. However, excessive or misplaced team loyalty may encourage members of the team to overlook misconduct “for the good of the team.” Peer pressure within the team can weigh on its members, forcing them to stay silent and avoid confrontation.
- **Management does not want to hear about problems.** Managers have different styles. One style, often referred to as a “driver,” may focus almost exclusively on moving forward, accomplishing the tasks ahead, and pushing aside distractions. Sometimes this approach is accompanied by a “kill the messenger” attitude where those who raise issues are not “contributing” and need to be ignored. Those reporting suspected misconduct could be caught up in a “if you're not with us, you're against us” attitude and find management really does not want to listen. There also can exist an attitude that the misconduct represents “how we do things” or “what's best for the organization,” and an allegation regarding misconduct is not perceived as important to moving forward.
- **A lack of sound policies and procedures overall.** The absence of formal policies and procedures encouraging the reporting of potential misconduct, and the prohibition of retaliation for such reporting, sends a clear signal: Either the organization is not concerned with potential misconduct, or prefers to allow an

inconsistent approach to handling misconduct. Neither scenario encourages reporting of potential misconduct.

- **Perception that wrongdoing will not be addressed if misconduct is reported.** There is a saying that the definition of insanity is doing the same thing over and over again and expecting different results. If someone has observed that reports of suspected misconduct were ignored or dropped, or if this is a common perception, they are unlikely to expect their report would be handled differently.

The Reporting and Investigation Process

Roundtable participants identified factors related to the reporting and investigation process itself that could also potentially discourage employees from coming forward to report suspected misconduct.

- **Fear of the unknown.** Individuals who have not made prior reports of suspected misconduct, or those who have made past reports but did not receive follow-up, may be fearful of the legitimacy or potential outcomes of the reporting process. While a process for reporting suspected misconduct may be well-defined and documented, employees may be unaware of how the process works, or concerned that the process will not be followed.
- **Fear that the report will not be handled anonymously or confidentially.** Potential reporters may have a high degree of skepticism that reports of suspected misconduct are truly held confidential, and fear that their identity will be exposed. It is not uncommon for upper management to ask for the name of the reporter when they do not want to believe or act on an allegation.
- **Fear that the reporter's identity will be revealed to others in the organization.** In many cases, the employee reporting suspected misconduct works with or for the person engaged in the behavior. This increases the probability that the subject of the report may ascertain who submitted the report either through deductive reasoning or because those

charged with conducting the investigation reveal a piece of information that can be tied back to the reporter. In some situations, there may only be one person who would have the knowledge to report the suspected misconduct. While not common practice, some organizations do let the subject of a report know who made the report, either formally or informally. As the person making the report is rarely 100 percent confident they know the full story, the risk of their identity being released to the person suspected of misconduct can easily be enough motive to not report.

- **Concern that the person perpetrating the misconduct will not be held responsible.** Oftentimes, misconduct cannot be traced back to a member of senior management. Roundtable participants surmised that senior executives rarely get caught because they do not leave a paper trail. Instead, senior executives pressure subordinates to perform the fraudulent acts (such as making improper journal entries). The paper trail leads to the subordinate, not the executive. In these situations, the person making the report of suspected misconduct could be right, and the investigation closed, but the executive who can retaliate against the person making the report is still in the role.

Consequences of Reporting Alleged Misconduct

Roundtable participants identified potential negative consequences to reporting suspected fraudulent financial reporting:

- **Retaliation by co-workers.** Retaliation can take many forms including job termination, demotion, derailing of a career, being moved to an undesirable position, and being ostracized

from other employees. As noted in the NBES report, retaliation is not uncommon.

- **Termination.** A major factor in the decision to report may be whether the employee is the sole provider for his or her family and has the support of his or her spouse if reporting potential misconduct should result in termination.
- **Future reputation.** Fear that the whistleblower tag will stay with the reporter, and that the reporter's reputation as a whistleblower will have a negative impact on future employment opportunities.
- **Impact on others.** Reporting fraud can have ramifications for others besides the alleged perpetrator of wrongdoing. The company, investors, and employees all can suffer reputational or financial loss. Reporters may fear that they and others will suffer even if the issue is resolved.
- **Results of investigation determine that the misconduct is unsubstantiated.** Although made in good faith, the report of alleged misconduct may prove to be nothing. An employee may not have a full view of the context of a situation: What appears to be misconduct may, when all of the facts are known, be acceptable behavior. In this scenario, suspicion could turn on the person reporting the suspected misconduct as to why they created an issue when one did not exist.
- **Emotional cost of whistleblowing.** The emotional cost of whistleblowing can be high. The whistleblower typically experiences great uncertainty, fears, suspicions, and anxiety.

While the above list should not be considered exhaustive, it lays out credible reasons why employees may be reluctant to report suspected misconduct.

Recommendations to Encourage Reporting

Most of the factors that would encourage reporting of suspected misconduct are the mirror opposite of the factors that would discourage such reporting.

The Control Environment

- **Set the right tone at the top.** The CEO and board must visibly denounce misconduct and support reporting of suspected misconduct.
- **Promote a strong ethical culture.** Organizational cultures are the result of multiple factors. Cultures with a strong ethical component encourage the reporting of suspected misconduct. Such cultures are evidenced by transparency, open communication throughout the organization, and high levels of employee engagement. The culture involves not only the tone at the top, but also the mood in the middle, and the buzz at the bottom. Consistent monitoring of the ethical culture of an organization, and taking corrective actions, are critical to its promotion.
- **Communicate that reporting suspected misconduct is expected and required.** Establishing ethics hotlines and policies to set an expectation that employees speak up are important building blocks in encouraging the reporting of potential misconduct. Many organizations make this requirement part of their code of conduct.
- **Develop, implement, and promote a strong anti-retaliation policy.** Communicate to employees their right to report problems, suggestions, or issues to management without fear. It is vitally important to have a consistently enforced policy on non-retaliation so that employees who file reports for unethical or discriminatory behavior, whether proven true or false, aren't victimized or retaliated against.
- **Ensure independence for those responsible for the whistleblowing and anti-retaliation programs.** Various departments or persons in an

organization can be involved in handling reports of suspected misconduct. These individuals must have the highest level of integrity and respect in the organization, but also be allowed to execute their role without interference from management or others with a political or personal agenda.

- **Provide on-going training to employees regarding the handling of suspected misconduct.** Training typically includes:
 - The unacceptable nature of misconduct.
 - The attitude of executive management.
 - The importance of reporting suspected misconduct.
 - The methods of reporting.
 - The anti-retaliation policy.
 - Real-world case studies of how reporting misconduct was valuable to the organization, safeguarded the persons involved, and punished the wrongdoer.
- **Hiring practices that evaluate candidates for ethics.** Technical competence is insufficient when evaluating candidates for employment. The candidate's conduct history, ethical reasoning, and character is also critical to prevent hiring persons who have a history of, or leaning toward, allowing misconduct. One way to accomplish this is to develop questions for the interview process that present ethical dilemmas and reveal character and leadership style.

The Reporting and Investigative Process

- **Develop, implement, and promote formal policies and procedures.** Establish a formal process for the receipt, evaluation, and handling of reports of suspected misconduct. Typically a report of potential misconduct will result in a preliminary investigation. The formal process must identify the persons to be involved, the steps to be taken, and the communications

protocols during and after the investigation. Lastly, the process for determining discipline of persons engaged in misconduct must be defined. Exceptions to the formal process must be handled only through an agreed-upon escalation protocol.

- **Provide processes that facilitate reporting.** There are a number of things that companies can do to present the reporting process in a positive light.
 - Call the reporting line a helpline, not a hotline. Allow for multiple ways to report: telephone, online reporting forms, etc.
 - Outsource management of the helpline to a third party to ensure anonymity of reports. Employees may be more inclined to report if they know that an outside vendor is the recipient of the initial report.
 - Promote the helpline as a tool, not just for reporting problems but also to provide answers to questions or other guidance.
- **Train all supervisors and managers on the appropriate process to respond to a report of suspected misconduct.** Many companies encourage employees to report issues to their supervisor or manager. In these situations, it is critical that anonymity be preserved, and that intake is made without judgment.
- **Establish a proper investigation process.** An investigative process must be perceived as independent, fair, and robust. All reports must be impartially evaluated, and if an investigation is indicated, it must be conducted following a formal, unbiased process. The company's investigative procedures should identify in advance who the appropriate staff are to conduct the inquiry, and include exceptions as necessary. There should be communication back to each person who made a report acknowledging the report, explaining whether an investigation was conducted, and the results of that investigation (if appropriate).
- **Disciplinary actions must be decided impartially, without giving preference for higher level individuals in the organization**

or those considered to be “high-value” employees. It is essential that employees believe that the code of conduct applies to all employees, even those who are considered high performers. Investigations involving reports about high-level employees, such as members of the C-suite, should be monitored by the board or audit committee.

- **Communicate.** The more communication there is about a well-run process, the more employees will trust the process. While there are certain legal constraints to over-publicizing information about certain investigation results, organizations should attempt to broadly communicate:
 - The nature of the program, how all reports are carefully considered, and that fair and impartial investigations are conducted.
 - Types of whistleblower reports received and types of actions taken.
 - Misconduct confirmed and actions taken against the persons involved.
- **Monitor the program.** Periodic evaluation of the reporting and investigative processes should be performed by independent persons, which might include the chief audit executive's internal audit team. In addition, on-going metrics should be monitored to ensure the process remains effective.

Consequences of Reporting Alleged Misconduct

- **Reward employees who exemplify the organization's values.** Use the company's internal newsletter to highlight “moments that matter” where an employee appropriately dealt with an ethical dilemma.
- **Reward and incentivize whistleblowers.** Celebrate employees who reported misconduct for the value they brought to the organization. While this reward may not be public, the person who made the report should experience the positive reward for taking the risk and reporting suspected misconduct.

- **Take action against those who violate the company's anti-retaliation policy.** Retaliation against someone who reports suspected misconduct should be considered misconduct and punished.
- **Hold resolution interviews.** Solicit feedback from those who have reported misconduct using independent parties. What was their experience? Would they report again? Why or why not?

As with factors that may discourage reporting of suspected misconduct, the above factors should not be considered an exhaustive list. However, it is clear there are multiple steps organizations can take that will reduce the reluctance of employees to report suspected wrongdoing and lead to a healthier corporate culture.

Employee Surveys

Participants of the roundtables were divided over the efficacy of confidential surveys. Confidential surveys are sometimes used by organizations to not only score employees' perceptions of the ethical climate of the company, but also solicit reporting of suspected misconduct. Some thought that surveys could be a useful tool to encourage reporting. A routine anonymous survey could mitigate the fear of reporting. Others opined that such surveys are not effective because even if intended to be confidential or anonymous, many believe it is possible to associate survey responses to specific employees. This perception may prevent the survey from providing a true representation of employees' views.

Establishing and Maintaining a Retaliation-free Environment

Participants discussed the challenge of establishing and maintaining a retaliation-free environment. Organizations with a history of retaliation or a lack of trust in management produce a climate where employees fear retaliation. The lack of communication about the results of investigations amplifies fear as rumors fill the void. Smaller organizations may not be able to protect sufficiently the whistleblower's identity. Retaliation may come in the form of demoting or alienating a whistleblower.

Participants were divided over whether progress was being made with respect to retaliation against whistleblowers. While there is more emphasis on the need to prevent retaliation, there also seems to be more incidents of retaliation becoming known. Some perceive that anti-retaliation efforts are proving successful and this is bringing more incidents of retaliation to light. Others perceive that the problems associated with retaliation are not only more visible, they are also worsening. There was discussion that there may be overconfidence in “papering over” the issue with new policies, procedures, statements, and admonition — all with little real effect. It is unclear whether the effects of Dodd-Frank and the U.S. Sarbanes-Oxley Act of 2002 are as intended. Better delivery of current responsibilities may be needed more than additional requirements.

Roles of Those in the Financial Reporting Supply Chain

Roundtable participants from each professional group (financial management, internal audit, external audit, and boards of directors/audit committees) explored what their respective roles should be in cultivating a retaliation-free environment as well as what they viewed as others' roles. As the expectations of each supply chain member were discussed, there was general consensus about the roles and responsibilities and no disagreement between members of that profession and roundtable attendees.

Financial Management's Role

- Lead by example. Embrace and demonstrate a tone at the top that emphasizes strong internal controls and an ethical culture.
- Ensure that an appropriate code of conduct is in place and that people act in accordance with the code.
- Ensure that reporting and anti-retaliation policies are communicated and enforced.
- Publicly recognize or reward those who come forward.
- Ensure that internal controls are set up properly.
- Hire and promote ethical and qualified staff. Conduct background checks.
- Communicate and over-communicate, using town hall meetings, newsletters, etc.
- Take swift action on investigation results.
- Communicate to the board of directors how the company handles reporting and deals with misconduct.

Internal Audit's Role

- Build relationships and be a trusted advisor to management and the board.
- Maintain independence.
- Be the eyes and ears of the audit committee. Raise issues with the audit committee.
- Make internal audit professionals visible to provide an avenue for employees to report concerns outside the formal helpline or management lines.
- Report to the audit committee on the control environment and investigations of misconduct.

- Audit culture, the compliance program, and internal control effectiveness.
- Provide independent validation of shared information.
- Review personnel disciplinary actions as part of routine audit work.
- Promote awareness of reporting on anti-retaliation efforts.

External Audit's Role

- Evaluate during an integrated audit whether the control environment component of internal control over financial reporting is present and functioning.
- Communicate noted control deficiencies to management and the audit committee.
- Communicate noted misconduct and/or retaliation when a potential illegal act is noted.
- Review internal audit reports and discuss ongoing investigations with the chief audit executive.
- Share best practices with management and board members.
- Provide the audit committee with views on the tone and culture of the organization. Be another

set of eyes and ears on issues with respect to corporate culture.

- Lead by example with transparent communications, client selectivity, and risk assessment that considers factors regarding reporting of misconduct.

Board of Directors'/Audit Committee's Role

- Ask how allegations are handled/resolved to understand management's approach.
- Request a culture audit and an audit of the compliance program.
- Ask questions. Probe and challenge.
- Ask to see evidence that those who reported suspected misconduct do not experience retaliation.
- Determine whether there is fair/equitable application of reporting and anti-retaliation policies.
- Maintain 360-degree supervision of a situation or issue. Be sure to obtain the perspective of management, internal audit, and external audit. Many eyes make fraud hard to hide.
- Develop strong relationships with internal and external audit to facilitate dialogue and identify issues early.

Conclusion

The objective of the roundtables was to bring together the key players in the financial reporting supply chain to discuss each group's experiences and recommendations to address those factors that can promote or hinder speaking up about a potential incidence of financial reporting fraud. The outcome of the roundtable discussions can serve as a catalyst for continued dialogue among the financial reporting supply chain participants, the investing public, and other interested parties on the efforts that are undertaken to deter and detect financial fraud.

Roundtable participants also considered topics that need further discussion. Because management is responsible for the control environment and corporate culture, participants suggested further discussions with an emphasis on the role and activities of management. Another topic requiring further discussion is the engagement of the board of directors. Board members need a high level of independence from management when considering the issues discussed at these roundtables. The level of

interest, involvement, and inquiry of board members may need to be better defined.

While further discussion is warranted, substantive actions can be taken now to address the issues around encouraging the reporting of suspected financial reporting fraud. No organization is immune from the risk of financial reporting fraud and in every company there are factors that discourage reporting of suspected misconduct. Members in each of the financial reporting supply chain processes should carefully consider which actions of those noted in this report should be implemented in their organization. Time and effort should be devoted to fully explore the possibility that observed misconduct is not being reported in an organization and then quickly implement responsive actions.

Encouraging employees to report suspected misconduct can help to mitigate fraud, identify it early in its incubation, and maintain the integrity of a company's financial reporting.



ANTI-FRAUD COLLABORATION

The Center for Audit Quality (CAQ)

CAQ is an autonomous, nonpartisan public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of CPA. For more information, visit www.thecaq.org/.



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Financial Executives International (FEI)

FEI is the leading advocate for the views of corporate financial management. Its more than 10,000 members hold policymaking positions as chief financial officers, treasurers, and controllers at companies from every major industry. FEI enhances member professional development through peer networking, career management services, conferences, research, and publications. Members participate in the activities of 65 chapters in the United States and a chapter in Japan. FEI is headquartered in Morristown, N.J., with an office in Washington, D.C. For more information, visit www.financialexecutives.org.



The National Association of Corporate Directors (NACD)

NACD empowers more than 17,000 directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today's directors are well-prepared for tomorrow's challenges. World-class boards join NACD to elevate performance, gain foresight, and instill confidence. Fostering collaboration among directors, investors, and corporate governance stakeholders, NACD has been setting the standard for responsible board leadership for 40 years. To learn more about NACD, visit www.NACDonline.org.



The Institute of Internal Auditors (IIA)

The IIA is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla. For more information, visit www.theiia.org.

