

The role of internal control and company detection in enhancing corporate integrity

Thursday 7 June 2018, St. Petersburg

Summary of Discussions

Participants of this seminar discussed two mechanisms common in detection of real or suspected misconduct within a company: whistleblowing and internal audit. Good practices were shared from the international perspective, from a large European energy-infrastructure company and from within Russia.

International standards hold that company boards should encourage reporting of unethical or unlawful behaviour without fear of retribution (see: G20/OECD Principles of Corporate Governance). During this half-day seminar, the OECD shared good practices on whistleblowing in OECD countries and beyond. Of the 43 Parties to the OECD Anti-Bribery Convention, 14 have adopted measures that meet the Convention's 2009 Recommendation on *private sector* whistleblower protection. Most often, companies are left to define how whistleblower provisions are implemented. Companies commonly allocate the responsibility for its implementation to an independent or external actor, or to compliance or legal officers. Ideally, there are multiple channels to make claims, and they are treated as confidential (not only anonymous). All claims should be acknowledged, considered as candidates for investigation and, when needed, followed by a formal process of investigation accompanied by appropriate record keeping.

The Russian Corporate Governance Code contains provisions for effective whistleblower protection and mechanisms to report alleged misconduct, but a few participants and speakers pointed to challenges to their implementation in practice. The Federal Anti-Monopoly Service of Russia (FAS) suggested that whistleblowing could help facilitate its work in identifying cartel operations in procurement. It estimates that 10% of all claims related to procurement misconduct come from whistleblowers. FAS said that cultural resistance to whistleblowing remains an obstacle, but that the new draft amendment for anti-corruption could facilitate whistleblowing. A few participants also expressed an ongoing need to manage false claims, or those made not in good faith.

International standards call also for objective internal audit and external audit. The objectivity and autonomy of company internal audit (and the board to whom it should report) are paramount to the performance and integrity of the company. Speakers agreed that in Russia it is not common that internal audit reports directly to the board without the presence or knowledge of management. External audit, however, often skips management to report to the board. Deloitte CIS raised the concern that some boards may prefer not to be informed of any potential wrongdoing.

The head of the Russian Institute of Internal Auditors provided concrete ways in which companies can seek to prevent misconduct. In addition to internal audit, this includes HRM practices, training, codes of ethics, whistleblowing and reporting mechanisms and protection from retaliation. Mr Sonin pointed out that currently in Russia whistleblower mechanisms are not working as effectively as they could – with many complaints being false. This could be remedied in part by better training and explanation on the purpose of hotlines and similar mechanisms. Following a question from the audience, Mr Sonin reported that there have been very few cases of misconduct amongst internal audit units themselves in Russia in the last two decades.

Companies may also seek support from external actors in investigation and detection of misconduct. Deloitte CIS' IT Forensic Services Unit elaborated on how it uses text analyses, security checks and analysis of transaction data at the sector-specific level. Their use of data visualisation, mathematical algorithms and machine learning to interpret data, highlights the potential that technological innovation holds for companies to support prevention and detection of misconduct.

The participation of two large companies helped to shed light on their efforts to prevent and detect misconduct in their two respective sectors:

- Snam, an Italian listed state-owned enterprise, explained how it adopted a whistleblowing mechanism 7 years prior to the formal legislation, demonstrating that a push for a culture of integrity can indeed come first from the company level. Claims are channelled directly to an external body designated with only this role vis-à-vis Snam.
 - Secondly, PAO MTS, a Russian company listed on the NYSE, shared its two-step process of offering multiple channels for anonymous claims. Each is followed-up and relevant corporate units are consulted as required. Forty percent of the companies' information related to fraud comes through its hotline and whistleblowing channels. In addition, PAO MTS relies on operational audits, audits of corporate functions, financial audits (certified annually by an external auditor), risk assessments and due diligence processes and IT audits. One challenge remaining is that employees do not pay adequate attention to existing mechanisms and provisions.
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