KPMG

Whistleblower 2022
The Impact of Trust & Technology

March 2022

With effect from 1 January 2022, the Stock Exchange of Hong Kong (HKEX) has made whistleblowing programs a mandatory part of its Corporate Governance Code for listed companies and listing applicants.

Potential Implications for Hong Kong Listed Companies

HKEX now requires issuers to establish a whistleblowing policy and system for employees, customers and suppliers to anonymously raise concerns about possible improprieties in confidence to the audit committee. (Reference: Stock Exchange of Hong Kong - Corporate Governance Code)

Issuers must state whether they have complied with the code provisions for the relevant accounting period in both their annual and interim reports. An issuer is potentially in breach of the Exchange Listing Rules if it deviates from a code provision but does not provide reasons or explanations in the manner as required by HKEX.

Whistleblowing Remains an Effective Platform

Whistleblowing programmes have been around for the last two decades and are a proven effective method to detect wrongdoings. Globally, programmes have matured over time, with institutions developing policies and guidelines in the following areas:

- Anti-Retaliation
- Whistleblower Protection
- Sexual Harassment; and
- Data Privacy

Source of discovery of misconduct within organisations

Whistleblowers, tip offs and complaints	**59%**
Internal Controls	**25%**
Accidental	**14%**

Reference: KPMG Whistleblowing Report 2020

Understanding whistleblowers' needs

In order to have an effective whistleblowing programme, it is essential to understand the concerns of people using the platform.

A whistleblowing program's integrity is built not only by the design of the platform itself but also by the degree to which the organisation's people trust and accept the platform to report potential misconduct. As such, building a successful programme is not just about just having the best technology in the market or complying with regulations.

Ultimately, the three main goals of any whistleblowing platform should be:

a. Protecting people;

b. Ensuring that there is a trusted environment to raise issues; and

c. Having a culture of doing the right thing without fear of repercussions.

KPMG Identifies Factors Preventing People from Speaking Up

In our whitepaper "Guardians of Trust"[1], KPMG observed that 92% of employees are concerned about the impact on their reputation upon speaking up. The following factors may come into play in this respect:
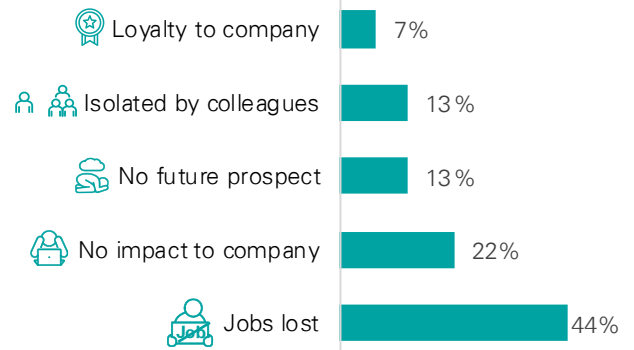
Fear
Fear of reporting incidents to management due to lack of legal protection or concerns about retaliation and/or dismissal.

Misperceptions
Concern about being perceived as a snitch within an organisation can make it difficult for an individual to blow the whistle, even though they may recognise that reporting an incident may be good for the company, employees, shareholders, and other stakeholders.

Common Barriers to Whistleblowing among Employees

Barrier	%
Loyalty to company	7%
Isolated by colleagues	13%
No future prospect	13%
No impact to company	22%
Jobs lost	44%

Reference: KPMG Whistleblowing Report 2020

The Four Pillars of Trust in Whistleblowing

A whistleblowing program can only be impactful if people choose to trust Management. In order to do so, barriers to trust need to be acknowledged and addressed.

If enabled effectively, trust can be used to produce successful outcomes from the whistleblowing process. Trust should be anchored to four pillars:

Integrity. From compliance with data privacy laws to less clear areas such as the ethics of profiling. This anchor is rapidly becoming a key focus for regulators, as they strive to assess the 'fairness' of due processes used

Quality. Models deployed must be appropriate for the context in which reports are made and used. In many cases, it starts with questions around the quality of the underlying data reported

Effectiveness. The program must be aligned with expectations to achieve desired results, providing value to decision makers who rely on the generated insights and anonymity to employees raising concerns

Resilience. The program must consider the changing audience, generational preferences and along with it protection of its infrastructure

Independent Non-Executive Directors Need to Question the Board

Ensuring the quality and integrity of whistleblowing programmes requires a strong culture of trust within the organisation and the Boardroom. KPMG works with Boards and INEDs to ensure that whistleblowing programmes accomplish their intended objectives and provide actionable insights for decision makers. We recommend INEDs use a multi-faceted approach to ensure that whistleblowing programs are trusted to be effective. This begins by addressing boardroom level questions and analysing data to determine how technologies could be deployed to enhance reporting platforms.

5 Questions to Address Trust in Whistleblowing Programs	
1	Does the Board have an expectation for our employees to raise concerns? What have we done to ensure they trust us beyond asking them to do so via communications and training?
2	Do employees know exactly how the Board operates its whistleblowing program, aside from business-as-usual communications and broadcasts?
3	Is the Board's whistleblowing program transparent to scrutiny by employees to understand: Expectations on responsible reporting • Specific technology and controls in place to assure confidentiality • How issues are tracked, clarified, and escalated • The trusted individual(s) or agent(s) handling the information are independent from the Board
4	Does the Board understand how to act if a concern is raised and if a concern is leaked to the public? Is the Board prepared to handle such contingencies and can it stand up to regulatory scrutiny and public opinion?
5	Is the whistleblowing program able to provide insights that enables trust (with measurable data points) that address: • Transparency around the status of reports made to employees raising concerns • Credibility of the information reported to regulators and the INEDs • Timeliness of escalations to management to ensure information entrusted is handled diligently • Preservation of confidentiality of content and identity • Unresolved cases and backlogs

KPMG's methodology for Culture Risk Assessments

Upon addressing boardroom level questions we suggest to conduct a culture risk assessment to identify weaknesses that may hinder the creation of the trust based culture required for an effective whistleblowing process and make recommendations to address key issues.

01

As-Is Assessment

- ✓ **Review of existing policy/process and gap analysis**
- ✓ As part of the analysis **compare and benchmark industry best practice** against current practice to identify commonalities / differences

02

Validation

- ✓ **Sample testing on selected procedures to assess operating effectiveness**
- ✓ **Stakeholder validation via interviews or focus groups** to validate insights

03

Culture Assessment

- ✓ **Online survey** identifying culture weaknesses that may hinder the creation of a trust based culture that is needed for your whistleblowing process to be effective
- ✓ **Evidence-based insight used** to provide practical change interventions to address culture weaknesses

04

Report and Recommend

- ✓ **Recommendations,** including a roadmap of activities to support the implementation or improvement of your whistleblowing program and address any key issues / shortcomings and insights

Culture Review Framework

As-Is Assessment

Validation

Culture Assessment
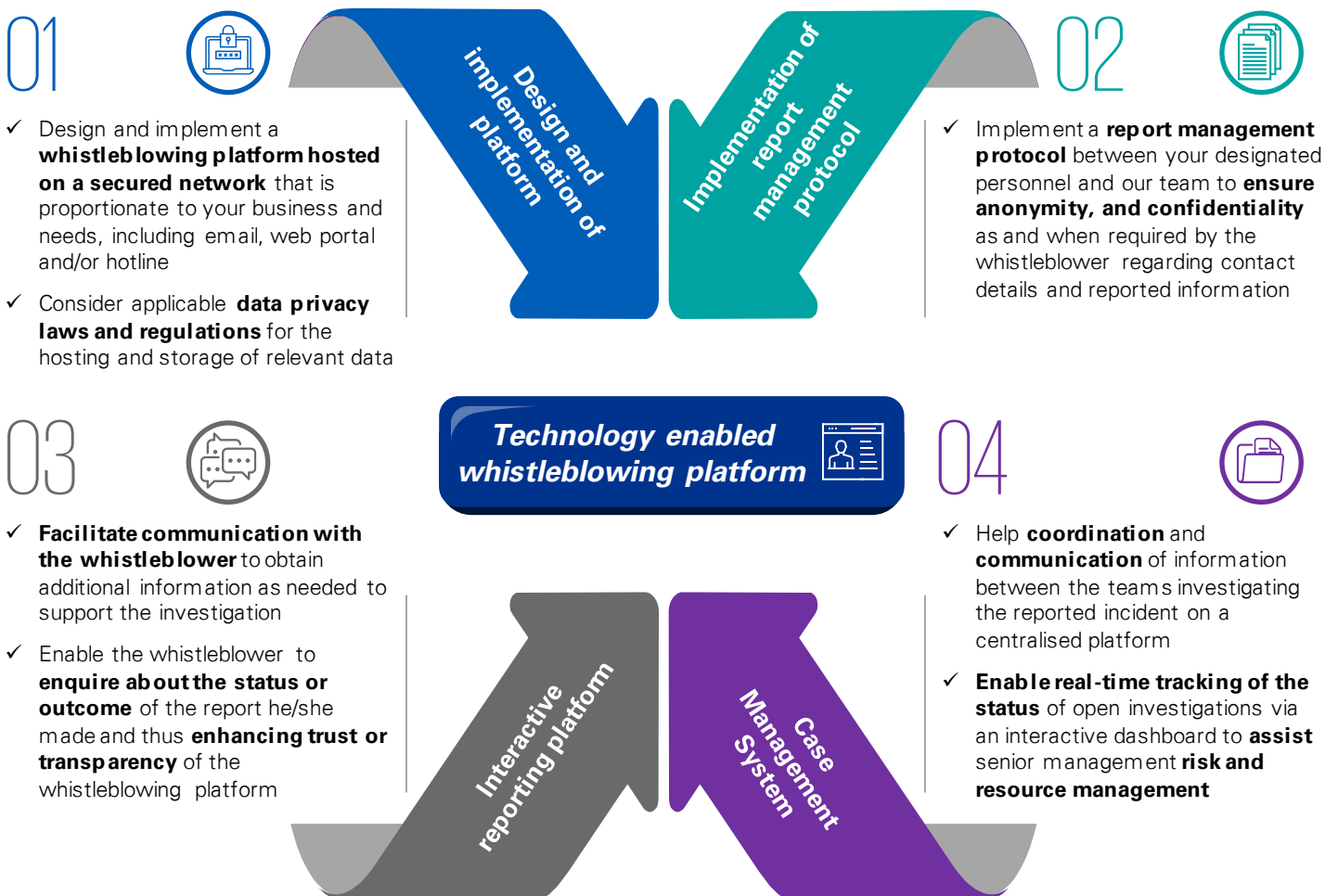
Report & Recommend

Harnessing Technology to Earn Trust

Technology has a strong enablement role to play in helping to garner trust within organisations. A strong tech framework supporting a whistleblowing platform can enable the following:

a. Secure networks and systems where personal and sensitive data is protected;

b. Assurance of privacy and anonymity of individuals as well as the integrity and confidentiality of reported information;

c. Facilitating communication with the whistleblower via the reporting platforms, which can provide increased reassurance and piece of mind; and

d. Real-time tracking of the status of the investigation and improved coordination and communication among teams handling the reported incident.

Technology alone cannot manufacture trust or compel people to do the right thing. When employees choose to trust internal channels for reporting, they expect reciprocation for the trust they have placed. However, technology can support those pillars of trust by improving the quality and expediency of reports received. In addition, it can support resilience and effectiveness by protecting channels and providing insights to the Board.

KPMG's Approach to Integrate Technology into Whistleblowing Programs

01 — Design and implementation of platform

✓ Design and implement a **whistleblowing platform hosted on a secured network** that is proportionate to your business and needs, including email, web portal and/or hotline

✓ Consider applicable **data privacy laws and regulations** for the hosting and storage of relevant data

02 — Implementation of report management protocol

✓ Implement a **report management protocol** between your designated personnel and our team to **ensure anonymity, and confidentiality** as and when required by the whistleblower regarding contact details and reported information

Technology enabled whistleblowing platform

03 — Interactive reporting platform

✓ **Facilitate communication with the whistleblower** to obtain additional information as needed to support the investigation

✓ Enable the whistleblower to **enquire about the status or outcome** of the report he/she made and thus **enhancing trust or transparency** of the whistleblowing platform

04 — Case Management System

✓ Help **coordination** and **communication** of information between the teams investigating the reported incident on a centralised platform

✓ **Enable real-time tracking of the status** of open investigations via an interactive dashboard to **assist** senior management **risk and resource management**

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