12th Annual Quality Audit Conference

Ethics and Enron

(*script used for presentation*)

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How does an auditor access data that lawyers want to hide?

Dennis: I guess the first step is to even know about the data. Back in the days when we audited by ISO 9001 clauses and used the same standard checklist for all our audits, this was pretty tough. With the coming of ISO 9001:2000 and the many spin-off standards, more auditors are using the process approach to auditing. This requires process mapping and looking at interfaces between departments and groups within the enterprise.

JP: So how will this help us to know of the existence of a problem?

Dennis: When we get out into the operating spaces and actually talk to the operators, nurses, technicians, and teachers, they will often reveal built-up frustrations with other groups. These other groups are either sending or receiving receive information from the people we are interviewing. When expectations are not met, frustrations result. We auditors are expected to make the frustrations go away. So we get all the dirty little secrets, including secrets the lawyers want hidden.

JP: Do supplier auditors and conformity assessment auditors also see this tendency of employees to open up?

Dennis: No. There's less feeling of trust and understanding between the auditee and those groups. The concept is usually restricted to internal audits. (Although, check out sign # TBD for an exception.)

JP: OK. So we know of a situation and it's pretty hot. If we expose the data, it may cause the firm harm, especially if it gets outside the enterprise. What now?

Dennis: The first thing is to "call home." In other words, check with the audit boss for guidance. Remember, you work for the audit boss. If he or she says, "This is too hot and you must not probe into it," then you must back off. You might want to keep a "Pearl Harbor" private record in a safe place for your own protection.

JP: Whoa! What's a "Pearl Harbor" record?

Dennis: That's something to protect you when the planes are bombing all around you. If the area comes to light and you are about to take the fall for it, you can prove you did your duty to inform the boss. Someone else with higher authority made the decision. A Pearl Harbor document can keep you employed and out of jail.

JP: I understand. So, the audit boss tells you to proceed. Now what?

Dennis: I believe this is where the tools of auditing become important – especially tracing. From your first interview, you now try to track a specific document, record, piece, or request to the next person in the chain. Then track it to the next person. Always focus on the specific item, even though you suspect something much larger. The specific item will get you entrance into the room so you can look around. Any reference to a bigger problem will scare folks and cause them to become silent. As you proceed, take great notes but keep them protected. Of course, you must keep the audit boss apprised of your progress.

Must auditors be independent?

Dennis: No.

JP: OK. Could you be a little more specific?

Dennis: Sure. First, we must go back to the roots of our auditing profession – Financial Auditing. A firm wishing to sell stock to outsiders must obey certain laws, originally passed during the days of the Great Depression and since modified since the Great Enron incident. One of those requirements is the need for an outsider to audit the accounting books and records for truthfulness. (Untrue statements in public records are called *Material False Statements*, meaning they adversely affect the ability of a potential investor to make an informed decision.) We require this of an outsider because the firm's own financial auditors might be under pressure to cover up improprieties.

JP: Where do these outside financial auditors come from?

Dennis: They can be independent CPAs or CPAs in an auditing firm. But they must be certified by the AICPA (American Institute of Certified Public Accountants) to legal codes and standards. Junior accountants may do part of the fieldwork, but the report must be signed by a CPA. That report is then delivered to the client firm.

JP: Is this where the term "client" came from?

Dennis: Exactly. The publicly traded company would hire an outside auditor. The auditors worked for the clients who hired them. They were paid for their services when the client accepted the audit report. They were totally out of the picture after the report was delivered and accepted. Well, except for Arthur Anderson. They were called to testify, they were examined, and eventually they closed the firm after their recent audit engagements. That, of course, is the exception.

JP: I can see where financial external auditors are independent. What about other external auditors, such as conformity assessment registrars?

Dennis: The same principle applies to quality management system auditors, except there are very few legal requirements. The consequences of not being independent are generally much less. Recently, the Chinese filed a formal grievance concerning conformity assessments being performed in their country. Unqualified branch offices issued some certificates to unqualified enterprises. China was not the only country experiencing this problem. We have all heard the stories of the registration firm's consulting arm defining the systems, writing the procedures, training the employees, and answering the interview questions by the auditing arm of the same firm. Obviously, this practice damages the whole conformity assessment community. My friends in ABS, DNV, BSI, BVQI, and others are extremely sensitive to even the appearance of conflict in their operations. They do not wish to become the next Arthur Anderson.

JP: The new ISO 19011:2002 standard says, "auditors are independent of the activity being audited and are free from bias and conflict of interest." I can see how this applies to external auditors, but what about internal auditors?

Dennis: Well, it doesn't really. Unfortunately, the people writing the auditing standard didn't take advantage of the discussions held by the people writing the 9001:2000 standard. When this 9001 issue came up in the U.S. Technical Advisory Group, we were successful in getting the words changed to, "Selection of auditors and conduct of audits shall ensure objectivity and impartiality of the audit process. Auditors shall not audit their own work." We took out that awful *independent* word that was causing all the stupid reactions in the 1994 edition of 9001.

JP: Well, at least we made some progress. Does independence apply anywhere in an internal audit situation?

Dennis: Yes. The audit *program* must be independent of undue pressure by senior management. Again, this goes back to our financial auditing roots. As internal financial auditing gained favor in the 1960s, the new Institute of Internal Auditors wrote their *Standards for the Practice of Internal Auditing*. These *Standards* are still used today and are a good resource to all of us here in the room. The committee members knew that internal auditors could not be independent of the accounts and practices they were auditing. After all, they worked for the company! In many cases they actually wrote some of the accounting practices. But we needed assurances that the internal auditors could look in all the corners of the enterprise. They needed to have the ability to ask and probe without getting fired. So, the IIA committee members wrote two important principles: Internal financial audit reports go to the Board of Directors and the audit *program* must be independent to examine all areas of the enterprise. These two principles continue today. While quality audits don't go to the Board of Directors (My friend, Greg Hutchins thinks they should!), the quality audit boss must be able to examine all areas of the firm that fall under the QMS rules. Unfortunately, this sometimes excludes marketing, sales, and distribution, where many of the quality problems have their start. But, we continue to hold that the audit program is independent of undue influence by senior management.

Are Quality Audit Reports Subject to Legal Discovery?

Dennis: This is an interesting question and one that required a ton of research. Some would argue that internal audits fall under the legal doctrine of "self-evaluation privilege." My research led me to conclude that this is wishful thinking for the most part.

JP: You mean it is a privilege to perform audits?

Dennis: Of course we all know that, or we wouldn't be attending this conference. [smile] But seriously, the term "self-evaluation privilege" means that the information drawn from evaluating your own performance should not be held against you. The idea is society benefits by organizations performing self-evaluations. We can find and correct problems ourselves much easier and more efficiently than the regulators. Additionally, we are more likely to perform meaningful internal reviews if we know that the resulting data will not be used against us. So the information is considered "privileged" and not to be used in legal proceedings.

JP: Wow! What areas of auditing have this self-evaluation privilege?

Dennis: Only a few audit areas are presently covered and even that is spotty. This idea started back in 1957 with a ruling in the US District Court for Maine. A car crashed into a train and the court ruled that the railroad's internal investigations were off limits to the plaintive. The most widely recognized application was a 1970 ruling in Federal Court involving an internal hospital peer review process and its subsequent results. In the 1980s, several States passed laws encouraging internal environmental audits and allowing for the self-evaluation privilege in STATE regulation areas. However, the EPA and the DOJ have consistently stated that there is no privilege from disclosure or immunity from enforcement sanctions on the FEDERAL level. So the only place there's any real application of the self-evaluation privilege is for internal environmental audits at the State level.

JP: Besides environmental, are there other internal audit areas being considered for this self-evaluation privilege?

Dennis: As you might imagine, the insurance industry is pushing for some sort of self-evaluation privilege. It has long been a practice for insurance carriers to conduct reviews and audits of their own operations as well as the operations of their clients. This reduces risk, which is the basis of the whole insurance industry. New Jersey, Illinois, North Dakota, and Oregon have passed bills protecting internal insurance data from discovery. Other States are considering similar legislation. I see no similar movement in the Occupational Health and Safety sector.

JP: You mentioned earlier that there are specific conditions under which this privilege might apply.

Dennis: There are eight conditions that could cancel the privilege: 1) The person receiving the report has waived the privilege, 2) The privilege is being asserted for a fraudulent purpose, 3) You are trying to avoid disclosure of information in an investigation already started, 4) The information must be disclosed to prevent danger to the public, 5) You failed to act on noncompliance areas identified in a report, 6) The information is specifically required by law, 7)

The information was obtained by a government inspection, or 8) an outside and independent party, such as Friends of the Fuzzies.

JP: So, how does this apply to internal quality auditors?

Dennis: So far, application of the self-evaluation discovery concept has been restricted to those areas involving a high degree of government regulation. As quality auditors, we have not been directly affected. But the indirect affects are known to all of you working in firms under the watchful of the Food and Drug Administration. There is an internal FDA policy 130.300 which says, “During routine inspections and investigations conducted at any regulated entity that has a written quality assurance program, FDA will not review or copy reports and records that result from audits and inspections of the written quality assurance program, including audits conducted under 21 CFR 820.20b and written status reports required by 21 CFR 58.35b4.” They can seek evidence that audits and inspections have been scheduled and performed. They can also seek evidence that any required corrective action has been taken. Of course, there are exceptions. These include “directed” or “for cause” inspections and investigations, litigation (and this DOES include legal discovery), inspections made by inspection warrant, and when executing a judicial search warrant. Policy 130.300 has no effect on access to information about product failure or manufacturing error. Wheew!

JP: What about the Federal Aviation Administration for airplane manufacturers?

Dennis: I don’t know the answer to that one. My friends in the aircraft manufacturing and airline industries say that the Feds ask for and receive any internal report they want. Perhaps someone in the audience can enlighten us.

Are Quality Auditors Subject to Subpoena?

Dennis: As best I can tell, all auditors may be required to testify in a legal setting. Certainly, financial auditors, be they internal or external, have been on the witness stand. This was shown to millions watching televised coverage of the recent Enron investigations.

JP: So even if your work papers and reports are protected from discovery, you are still fair game?

Dennis: Yes, but I don't believe that makes us unique. Everyone in the firm may be called to testify. The only ones who can claim the protection of privilege are the lawyers.

JP: What should I do if I get called as a witness?

Dennis: Dress like a professional and tell the truth. But do so in short and direct responses. The preferred answers are "yes" and "no." Just as others were coached to "just answer the question" in your audits, you should do likewise on the witness stand.

JP: What if I can't remember all the details, especially from an audit several years ago?

Dennis: This happens to us all. I can't remember all the details in an audit I conducted last October. I can remember the general conditions. I can remember the flow of the work I examined and the machines I looked at, but I certainly cannot remember the detailed responses to my questions. I can't remember the contents of every record I examined. So I would say, "I can't remember those details."

JP: Should I bring notes and copies of my work papers with me?

Dennis: Absolutely not. Legal council would probably advise against it and the judge would probably prohibit it. Come with your wits and lots of anti-acid tablets.

What if I Discover an Unsafe Practice During an Audit?

Dennis: Point it out to the employee and report it to the supervisor!

JP: Any records or reports?

Dennis: The fact (and your **opinion** that it is unsafe) should be recorded in your field notes, which are officially called work papers. Unless you are doing an audit of occupational health and safety (OH&S), it is my opinion that this would be outside the scope of your intended audit. Thus, it would not be proper to include it in the report.

JP: But don't we have an obligation to the firm, to the workers, and even to society to stop unsafe practices from recurring?

Dennis: I don't think so. We are not our brother's keeper for all matters. The duty of an auditor is to provide processed information to others for decision-making. It is up to the supervisors and managers to act on our information. If we can present that information to the operator and the supervisor (and perhaps even the manager) in a serious fashion, we will generate a desire to correct the unsafe practice. Remember, this is still your opinion of an event.

What if I Discover Customer Errors While Doing a Supplier Audit?

Dennis: I believe this happens more than we care to acknowledge. My data tell me that this happens quite frequently among suppliers for large, multinational organizations, typically automotive and aerospace industries. The supplier base is huge. The processes used to develop and distribute technical requirements to those many suppliers are costly and complex. It's almost like herding cats, except the herder carries a very big stick.

JP: Can you tell us more about how this happens?

Dennis: When you are dealing with several thousand suppliers, you can either hire a bunch of buyers or you can automate and let the computers take over. The trouble is garbage in gives garbage out. It's not that the designers and engineers are lazy; it's just that they are also pushed to the limits of their resources. The engineers are not given time and talent to maintain existing specifications because it's more fun to develop new designs. Additionally, the old guys who originally used those MIL specs have retired. So, we have 1950s specifications being used for today's manufactured parts. The computers don't care. They just crank out the purchase orders and associated specifications.

JP: I thought those MIL-SPECS were cancelled several years ago, in favor of national standards?

Dennis: They were. These old documents remain in the contracts because it takes time and energy to update the specifications to current standards.

JP: Is there anything we auditors can do about the situation?

Dennis: Yes, there actually is a way. It won't change years of practice overnight, but it can start the correction process. When we define the basis of the audit during preparation of the audit plan, we will naturally read and study the contract requirements. This means we must exam the referenced technical documents to develop our checklists. If we can't locate these technical documents, we go to our own engineers and purchasing agents. Just asking these questions will cause those in charge of the requirements to question the validity of those supplier directives.

JP: So, we should strive to define the existence of poor technical requirements before we even leave for the audit?

Dennis: Yes.

JP: Well, that's theory. What if we arrive on site and the supplier starts pointing out all these stupid requirements our company has imposed on them?

Dennis: First of all, remember whom you work for. Don't start dumping on your own firm. Listen and understand. You have to make some judgments here. You basically have three options: 1) Ignore the issues as other have before you, 2) Determine that performance to the questioned requirements is technically acceptable, or 3) Determine that performance to the questioned requirements is technically unacceptable.

JP: Is ignoring the situation ethically correct?

Dennis: No, but it is done quite often.

JP: How do I determine technical adequacy?

Dennis: By using your audit skills of seek and analyze. You gather facts from them. You call home to get facts from your people. From those facts you draw judgments. Generally, all this questioning will get the right eyes on the problem and get it corrected (eventually).

JP: What now?

Dennis: If you all agree it is technically acceptable, then get the supplier to declare it nonconforming and get a waiver to ship from the buyer. Of course, both you and your supplier are generating corrective actions sheets now. If it is technically unacceptable, you should council the supplier to hold off shipping until formal direction is received from the buyer. At this point, the supplier is now legally liable for nonperformance if known defective product leaves their site. The buyer is your authorized agent to give contractual direction, not the affected project engineer.

JP: Should all this go in your audit report?

Dennis: Yes. You want to bring the situation out into the open. Perhaps senior management will direct some resources to update these old specs. Of course, you would want to examine the issue during your next audit of this or similar suppliers.

Does a quality auditor have a duty to society?

It is incredible that the questionable behavior of a few auditors and accountants could lead to the ruin of company the size Arthur Andersen.

That is where I think a sense of duty comes in. The Arthur Andersen auditors and accountants didn't cook the books, Enron executives did. Yet something doesn't seem right about the situation. I think if you call yourself an auditor people have certain expectations of you. It doesn't matter if you are a 3rd Party registrar auditor or an internal auditor; there are still preconceived expectations.

Does anyone in the audience have an idea of what those expectations might be?

[Honesty, integrity, above board, impartial, fair, unbiased, reliable, truthful, accurate]

Dennis: Doesn't this place auditors in a tough situation?

6-JP: Even though an auditor may not win a popularity contest, people think of auditors as part of our check and balance system. They expect auditors to keep themselves impartial so that they can be objective. When an auditor sees wrong things (wrongdoing) they are expected to report it and not hide it, no matter what the situation.

Dennis: How does that fit in with auditors having a duty to society?

7-JP: I think society expects auditors to keep themselves free of conflicting interests. There is an expectation (duty) for auditors to maintain their integrity through their own actions. I think that was General McArthur's point when he said duty is about self-responsibility and selfless devotion despite difficulty or danger. I think auditors have a duty to maintain their integrity. If an auditor's integrity is questionable, the auditing organization will lose creditability in the eyes of their customers, their competitors and society overall.

Key Points:

- ☐ *When you call yourself an auditor, people afford you a certain level of respect. Auditors are expected to be honest and impartial.*

Is there a code of conduct for auditors?

1-JP: The answer is simple and straightforward. I can definitely say that there might be. There is no code of conduct just for a *quality auditor* or for an ASQ Certified Quality Auditors (CQA). However, CQAs are required to conduct themselves in accordance with the ASQ Code of Ethics that is applicable to all members of ASQ.

Dennis: Should there be a code of conduct or code of ethics for quality auditors and CQAs?

2-JP: My first reaction is yes, there should be. However, I have reviewed the ASQ code of ethics and it covers a lot of ground. If we had a code of ethics for auditors, we could certainly add more specifics that relate to auditing.

Dennis: Does anyone else have a code of conduct just for auditors?

3-JP: Yes. The Registrar Accreditation Board (RAB) has a "Code of Conduct for RAB Auditors" and Institute of Internal Auditors (IIA) has a "Code of Ethics." There is a lot of overlap between the different codes of conduct. The RAB version has several items that strengthen the code areas concerning honesty, impartiality and avoiding conflicts of interest. There was a little overkill on the kinds of conflicts of interests, but it was definitely a better fit for the auditing profession. By comparison the IIA "Code of Ethics" requirements are very brief and succinct, but there is more about who, what, when, where and why. The IIA code contains a section on the consequences of breaching the "Code of Ethics." I thought that the enforcement clause was interesting and could add value.

Dennis: Does the new standard ISO 19011-2002 contain any ethical guidance?

4-JP: Yes it does. It states that auditors should be ethical and that ethical conduct is listed as one of the 5 principles auditing relies upon. Independence and being free from conflicts of interest is another basic principle put forth by the standard. In the personal attributes section of the standard, ethical is described as truthful, sincere, honest, and discreet. What I didn't see is follow through of this emphasis in the audit program management section of the standard. There was no suggestion that audit organization auditors subscribe to a code of ethics, there was no suggestion to measure and monitor conduct relative to ethics, or a need for disciplinary action procedures when codes of conduct are breached.

Dennis: Were the auditors involved in the Enron scandals disciplined?

5-JP: I sent a request for information regarding the enforcement of their code of ethics to the Institute of Internal Auditors (IIA), Institute of Management Accounts (IMA) and the American Institute of Certified Public Accountants (AICPA). I asked them if their members were involved in the Enron, Global Crossing and Worldcom scandals. If their members were involved, were possible breaches of the code of ethics evaluated? Was action taken and to what extent? Was their membership revoked, were there reprimands or were members admonished in some manner?

[I will continue with either their answer or failure to answer]

Dennis: Is tough disciplinary action the key to auditor ethics?

6-JP: Due to the horrendous nature of the Enron scandals, I think something should be done, but overall, day-by-day enforcement and discipline is not the answer. From the practical side of things, it seems that most ethical issues are fuzzy or they get fuzzy when you try to take action. It can get very personal and the process is subject to abuses on all sides. I think ethical conduct can be improved if we re-evaluate the system from the perspective of all interested parties.

Dennis: What do you mean by interested parties?

7-JP: I mean from everyone involved in the process. First there is the auditor. I think there should be a code of conduct or ethics for all auditors. I think there should be more emphasis on self-enforcement by requiring auditors to periodically sign their intent to adhere to a code of conduct, perhaps every three years.

Other interested parties such as employers of auditors could stress the importance of the code at meetings and in newsletters and they could re-examine their policies and procedure that may present obstacles to ethical conduct. Perhaps contracts between the auditee organization and auditing organization should stipulate auditee actions that are considered a conflict of interest, such as offering spin-off work or making offers of employment. Auditor certifying organizations should promote and re-enforce ethical behavior. CEOs and Presidents should promote ethical behavior of auditors and other employees.

Dennis: Why do we need to do anything? Is there really a problem? Things seem to working okay now.

8-JP: We can always make things better and there are some issues that should be addressed. If I may, I would like to enter the “No Spin Zone” and bring up some issues facing auditors today.

Dennis: Oh, you are referring to a popular news talk show. Sure, let’s hear what you have to say.

9-JP: First of all, if an auditor conducts an audit and there are no findings or only minor issues are identified, everything goes smoothly. If an auditor finds something major, everyone gets involved, there is more paper work, and the auditor’s every action is scrutinized. The result is that if an auditor finds something important, it is more work and there are significant individual risks. Second, if an auditor finds something major, which creates more work for the auditee, the auditor is not likely to be invited back. If auditing is how you make your living, too many findings can be detrimental to your livelihood. If you are an auditing organization, you may get a reputation of being unreasonable and lose business. Third, if the auditor or auditing organization is perceived as being unreasonable, they would jeopardize getting any spin-off work. Such conflicts of interest could, in some cases, influence audit reporting.

Dennis, I don’t have the answers to these issues. I do know that ethics is not about eloquent words used to create the code; it is really about self-adherence and self-enforcement.

I would like to conclude and say that proper auditor conduct is serious. I think that we, (individuals, auditing organizations, institutions, and certification organizations) could be more proactive in the achievement of higher levels of ethical conduct by auditors. An auditor's conduct affects the reputation and credibility of the auditor and the auditing organization.

Key Points:

- ☐ *Adherence to code of conduct is necessary for maintaining audit program credibility.*
- ☐ *All interested parties should support and promote auditor ethics.*

What do you do when you discover fraud?

1-JP: What is fraud, anyway? In the dictionary fraud is defined as: an instance or an act of trickery or deceit. A lot of times fraud involves money, but not all the time. The Sawyer's Internal Auditing book describes fraud as: the false representation or concealment of a material fact to induce someone to part with something of value. Fraud is deception for the benefit or detriment of an organization or person. Fraud can be stealing tools from the work place, pocketing cash instead of putting it in the register, overstating expense reports, falsifying inventories or test results or selling company equipment or scrap and keeping the money.

Dennis: Should quality auditors look for fraud when they conduct quality system audits?

2-JP: No, it is the job of the accountant who is auditing the general ledger or the warehouse to detect fraud, but sometimes quality auditors encounter it. When I conduct audits, I am a stickler for collecting evidence. As a result, there are times when handheld devices are missing or not where they are suppose to be; checking inventories sometimes reveals missing merchandise or something that is not suppose to be there; secure inventory areas may be found to be insecure. Other times it obvious that something is not right.

As an external auditor, organizations are not going to tell me that I uncovered fraud. They will address it after I leave. The think internal auditors are more likely to observe fraud and know when they see it..

Dennis: I see. So quality auditors should not look for fraud. It will find them. Could this amount to millions of dollars?

3-JP: Uncovering what some call "massive" fraud is very unlikely, perhaps in the being struck by lightening category. Auditors are much more likely to observe "non-massive" or fraud involving individual and small sums of money. After all, as quality auditors we are investigating the operation side of things, not the business side.

Dennis: Okay, but what do we do if we do observe fraud?

4-JP: Auditors have a responsibly to report fraud to the appropriate management for action. Auditors should keep a record of the observation, who was in attendance, and follow-up actions. Audit evidence should be safeguarded for possible retrieval later on. The auditor should report the fraud to the lead auditor. The lead auditor should inform his boss, which is probably the audit program manager and auditee management. Fraud is more likely in places where money is handled, like a gambling casino, but it shows up everywhere.

Dennis: When the financial records were being tampered with at Enron, do you think someone reported it?

5-JP: We may never know, but I would guess a lot of people knew about it. The size of the deceit was massive. A lot of people must have known about it, but looked the other way.

Can quality auditors do anything about corporate dishonesty?

1-JP: I am not exactly sure what they can do. I guess corporate dishonesty can be many things. It is the little white lies, fraud, white collar crime, embezzlement and actual theft. Perhaps it all starts with a little dishonesty, where the end, justifies the means. To name a few cases, in my career I have been asked to write deceptive marketing material, coached on what to say for a legal disposition, asked to increase the capacity of a proposed plant to impress the board with the high return on investment and told to falsify my records so that I could get a certain certification. I was aware of managers taking credit for other peoples' ideas and skewed environmental sample-taking to ensure a certain result. Internal competition results in people bending the rules, perhaps too far.

Dennis: What can we as quality auditors do about it?

2-JP: I don't think quality auditors can do anything about corporate dishonesty except to refuse to be part if it. It is really about corporate values. A code of conduct, by itself, is not going to change things. I think there needs to be a more holistic approach to corporate honesty. I would like to see honesty and adherence to a code of ethics promoted in organizations. Make honesty more visible from top management on down.

None of us are perfect, but I think there is a lot more that can be done to promote honesty and doing the honorable thing as business people.

Should auditors be ready to blow the whistle?

1-JP: In an Enron-related USA Today article last February 22nd, a retired saleswoman, Lee York from Pensacola Florida, is quoted as saying "Auditors get paid big bucks but rarely blow the whistle. There needs to be some kind of change." In that statement I am not sure Lee York understood the difference between auditing and whistle blowing, or perhaps she believes there is no difference.

Dennis: Do you agree that auditors should be whistle-blowers?

2-JP: Whistle blowing is very serious business with extreme consequences. The dictionary defines a whistle-blower as someone who reveals something covert or informs on another (http://unabridged.merriam-webster.com, Merriam-Webster Unabridged Dictionary). So technically, you are a whistle-blower when you report something that someone else is trying to hide. In many cases whistle-blowers disclose fraud and unethical practices, but reporting wrongdoing is not a requirement of whistle blowing. A whistle-blower might report that their cigarette company is targeting certain minorities and genders in their marketing campaigns. What the whistle-blower reports may not be illegal; however, it may be something the company wants to keep secrete for other reasons.

Dennis: What are these extreme consequences you mentioned?

3-JP: If an auditor reports a covert scheme to defraud the organization to his supervisor, who then instructs him to keep quite, his next decision will probably affect the rest of his life. If the auditor decides to look the other way, it may gnaw away at her integrity for years to come. If an auditor decides to blow the whistle, there are significant personal risks. Let's face it; if you decide to blow the whistle, the cards are stacked against you.

Dennis: Won't you feel better reporting what you found and keeping everything on the up and up, so to speak?

4-JP: First of all I think those who are willing to reveal wrongdoing should be honored as long as they are not doing it for personal gain or revenge. The unfortunate truth is that most of the time, people who come forward and speak up are dishonored. From childhood we are told not to be a tattletale. Growing up, tattletales were looked down on and even punished for telling the truth. No wonder the term whistle-blower has a negative connotation. Can you think of other terms we associate with whistle-blower? I can think of one, informer, what are some others?

Audience: Snitch, squealer, stool pigeon, rat, trouble maker, and so on.

Okay, very well. Now, since speaking up is good thing and we want people to let us know what bad stuff is going on, how many positive words do we have to describe whistle-blower. We don't need to go on, because there isn't one.

Dennis: I did not realize how one-sided and slanted the situation is. I guess that is why we use the phrase "Don't shoot the messenger." when reporting quality problems.

5-JP: Secondly, if a person decides to blow the whistle, those under suspicion will attempt to discredit the whistle-blower. The whistle-blower may be investigated and her motives questioned. If whistle-blowers report what they found to an outside organization, they may be subject to legal action for releasing confidential information. Follow employees will feel betrayed and the whistle-blowers will be accused of being disloyal. Whistle-blowers can lose their jobs and even their livelihoods. Who wants to hire a whistle-blower?

Dennis: Wow! With all those issues why would anyone want to blow the whistle?

6-JP: A decision to blow the whistle is a personal one. In most cases it is a lose-lose situation for the whistle-blower but a lose-win for society and those being injured by the covert actions. There are whistle-blower statutes that may protect whistle-blowers from punitive legal action, but their lives will never be the same. I think auditors are as ready as anyone else to blow the whistle, but they are not afforded any special protection either. So to say, auditors should blow the whistle more, is not a viable strategy given our current system and is counter-culture.

Key Points:
- ☐ We cannot count on whistle-blowers to prevent another Enron.
- ☐ To blow the whistle to outside authorities is a personal decision.