Practice Advisory 2440-2:
Communicating Sensitive Information Within and Outside the Chain of Command

Primary Related Standard
2440 – Disseminating Results
The chief audit executive must communicate results to the appropriate parties.

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1. Internal auditors often come into possession of critically sensitive information that is substantial to the organization and poses significant potential consequences. This information may relate to exposures, threats, uncertainties, fraud, waste and mismanagement, illegal activities, abuse of power, misconduct that endangers public health or safety, or other wrongdoings. Furthermore, these matters may adversely impact the organization's reputation, image, competitiveness, success, viability, market values, investments and intangible assets, or earnings.

2. Once the internal auditor has deemed the new information substantial and credible, he or she would normally communicate the information — in a timely manner — to senior management and the board in accordance with Standard 2060 and PA 2060-1. This communication would typically follow the normal chain of command for the internal auditor.

3. If the chief audit executive (CAE), after those discussions, concludes that senior management is exposing the organization to an unacceptable risk and is not taking appropriate action, he or she needs to present the information and the differences of opinion to the board in accordance with Standard 2600.

4. The typical chain-of-command communication scenario may be accelerated for certain types of sensitive occurrences because of laws, regulations, or common practices. For example, in the case of evidence of fraudulent financial reporting by an organization with publicly traded securities, local regulations may prescribe that the board be immediately informed of the circumstances surrounding the possibility of misleading financial reports even though senior management and the CAE may agree on which actions need to be taken. Laws and regulations in some jurisdictions specify that the board should be informed of discoveries of criminal, securities, food, drugs, or pollution laws violations as well as other illegal acts such as bribery or improper payments to government officials or to suppliers or customers.

5. In some situations, an internal auditor may face the dilemma of considering whether to communicate the information to persons outside the normal chain of command or even outside the organization. This communication is commonly referred to as "whistleblowing." The act of disclosing adverse information to someone within the organization but outside the internal auditor's normal chain of command is considered internal whistleblowing, while disclosing adverse information to a government agency or other authority outside the organization is considered external whistleblowing.

6. Most whistleblowers disclose sensitive information internally, even if outside the normal chain of command, if they trust the organization's policies and mechanisms to investigate allegations of illegal or other improper activity and to take appropriate action. However, some persons possessing sensitive information may decide to take the information outside the organization if they fear retribution from their employer or fellow employees, have doubt that the issue will be properly investigated, believe that it will be concealed, or possess evidence about an illegal or improper activity that jeopardizes the health, safety, or well-being of people in the organization or community.

7. In a case where internal whistleblowing is elected as an option, an internal auditor must evaluate alternative ways of communicating the risk he or she sees to persons or groups outside the normal chain of command. Because of risks and ramifications associated with these approaches, the internal auditor needs to proceed with caution in evaluating the evidence and reasonableness of his or her conclusions, as well as examining the merits and disadvantages of each potential action. Taking this action may be appropriate if it will result in responsible action by persons in senior management or the board.

8. Many jurisdictions have laws or regulations requiring public servants with knowledge of illegal or unethical acts to inform an inspector general, other public official, or ombudsman. Some laws pertaining to whistleblowing actions protect citizens if they come forward to disclose specific types of improper activities. The activities listed in these laws and regulations include:
   - Criminal offenses and other failures to comply with legal obligations.
   - Acts that are considered miscarriages of justice.
   - Acts that endanger the health, safety, or well-being of individuals.
   - Acts that damage the environment.
   - Activities that conceal or cover up any of the above activities.

   Some jurisdictions offer no guidance or protection or offer protection only to public (i.e., government) employees.

9. The internal auditor should be aware of the laws and regulations of the various jurisdictions in which the organization operates. Legal counsel familiar with the legal aspects of whistleblowing can assist internal auditors confronted with this issue. The internal auditor should always obtain legal advice if he or she is uncertain of the legal requirements or consequences of engaging in internal or external whistleblowing.

10. Many professional associations hold their members accountable for disclosing illegal or unethical activities. A distinguishing mark of a profession is its acceptance of broad responsibilities to the public and its protection of the general welfare. In addition to examining the legal requirements, IIA members and all certified internal auditors must follow the requirements presented in The IIA's Code of Ethics.

11. An internal auditor has a professional duty and an ethical responsibility to carefully evaluate all evidence and the reasonableness of his or her conclusions and decide whether further actions are needed to protect the organization's interests and stakeholders, the outside community, or the institutions of society. Also, the auditor will need to consider the duty of confidentiality imposed by The IIA's Code of Ethics to respect the value and ownership of information and avoid disclosing it without appropriate authority unless there is a legal or professional obligation to do so. During this evaluation process, the auditor may seek the advice of legal counsel and, if appropriate, other experts. Those discussions may be helpful in providing a different perspective on the circumstances as well as offering opinions about the potential impact and consequences of possible actions. The manner in which the internal auditor seeks to resolve this type of complex and sensitive situation may create reprisals and potential liability.

12. Ultimately, the internal auditor makes a professional decision about his or her obligations to the employer. The decision to communicate outside the normal chain of command needs to be based on a well-informed opinion that the wrongdoing is supported by substantial, credible evidence and that a legal or regulatory imperative, or a professional or ethical obligation, requires further action.

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