

Practice Note**The Management Accountant as a Whistle-Blower?**

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It was reported by Matthew Knott (The Age, Nov 23, 2016, p.4) that Australian whistleblowers could be paid a lavish "bounty" for exposing wrongdoing in companies, government departments and charities under reforms to be introduced to Parliament next year by the Australian government. The so-called '*Registered Organisations Bill*' passed the Australian Senate 33-30 on Tuesday November 22, 2016.

Under amendments to the bill, stronger protections will apply to union whistleblowers; and the Australian government has committed to rolling them out to private sector employees within 18 months.

Further, an Australian parliamentary inquiry, due to report in the middle of 2017, will examine whether the bounty system that operates in the United States should be introduced in Australia. In the US, the *Securities and Exchange Commission* can reward whistleblowers by giving them a share of a fine extracted from a company, with payouts often reaching many millions of dollars. Earlier this year the US government paid almost \$5 million to a former BHP Billiton employee for raising concerns about alleged corruption at the mining giant.

Instead of being rewarded, private sector whistleblowers in Australia currently have few protections and take large risks in speaking out. Whistleblowers have been crucial to stories exposing scandals in the banking and life insurance industries as well as companies such as 7-Eleven that were underpaying its part-time and casual employees.

According to Knott, experts have said that the changes, if legislated, would make it easier for whistleblowers such as former Commonwealth Bank financial planner Mr. Jeff Morris to expose corporate maleficence (harm or evil) without fear of being sacked or financially punished.

The issue that I would like to raise is; "What exactly can one whistle-blow about?"

Clearly issues of corporate corruption, fraud, workplace harm, tax evasion and insider trading are areas where safe whistleblowing is much needed. Whistleblowing can also be extended to environmental damage, social injustice and racial and predatory behaviour in the workplace.

But what about whistleblowing sheer incompetence? Can a financial or management accountant whistleblow the negligence or incompetence of those that claim to be professionals and experts in their areas?

There are reports of financial accountants whistleblowing the company CFOs and auditors in the USA. Ms. Cynthia Cooper, known as the "Wonder Women of Whistleblowing" is an American accountant who formerly served as the Vice President of Internal Audit at WorldCom. She whistleblow when she was asked by WorldCom CFO (Mr. Scott Sullivan) to delay the capital-expenditure audit to hide some 'cooking the book' accounting entries. In August 2016, a whistleblower at Monsanto, an American seeds firm, received a reward from the *Securities and*

¹ First Published: Ratnatunga, Janek, (2016), "The Management Accountant as a Whistle-blower?", On Target, ICMA Australia Newsletter, 20 (6), Nov-Dec, pp.3-4.

Exchange Commission, after spotting that the firm was misreporting its earnings for Roundup, a weedkiller. In another case the same month, T. Rowe Price, an asset manager, launched a lawsuit against Valeant, a drugs firm which it accuses of fraud and misleading accounting. In both cases, the accounts had been passed as 'True and Fair' by auditors.

The list goes on. PricewaterhouseCoopers, one of the Big Four accounting firms, settled a case involving Colonial Banc Group, a lender it audited which went bust after suffering fraud. The boss of Monte dei Paschi di Siena, an Italian bank, said that he was under investigation as part of a probe into false accounting. Shares in Orbital ATK, an American defence firm, tanked after it said it had made accounting mistakes, and an internet firm called ComScore replaced its top brass amid problems with its numbers.

It appears that the accounting industry has failed to clean itself up since 2001-03, when Enron and WorldCom, among others, blew up in spectacular style because of book-cooking. Those two American firms were worth a combined \$250 billion at their peak, and their collapse also brought down their auditing firm, Arthur Andersen.

The *Economist* (Sep 8th 2016) in an article titled "*Auditors aren't so bad*", states that today's scandals are much smaller. The article says that if you look at the sum of losses across the economy due to accounting fraud now, the number is low. The figure in 2015 was \$2.7 billion, or 0.3% of total corporate profits, suggesting there is no systemic problem.

The *Economist* warns however that there is still no room for complacency. It is quite possible that huge undiscovered frauds are still taking place. The incentive structure of the accounting industry remains suspect says the *Economist*: accounting firms are paid fees to audit their customers, but they often earn more by selling various advisory services to them. The rise of opaque private markets for trading the shares of private firms—including Silicon Valley "unicorns"—seems ripe for fraud.

Further, in many big emerging economies, including China and India, the state of accounting rules and of the auditing business is still murky. In Japan an accounting scandal at Toshiba, a conglomerate, which led to a restatement worth \$1.9 billion last year, dented faith in accounting and in the local affiliate of EY, another Big Four audit firm.

All of the above examples are of financial accountants whistleblowing false or fraudulent disclosures of past corporate performance. What about future performance? Should management accountants whistleblow when they clearly see professional negligence or unethical practises that will affect the future performance of the company? For example, the company's strategies may be skewed to give an unfair benefit to some stakeholders at the expense of others. Or the company's cost management systems may be so flawed that incorrect cost information may be used for product costing, pricing and customer profitability calculations. This could result in dysfunctional decision making by unsuspecting managers; that may ultimately lead to a loss of return for the shareholders. I believe that such unprofessionalism is more damaging to the company and its reputation than the discovery of a past fraud that has removed funds from being distributed to shareholders.

The management accountant should be able to safely whistleblow if he or she sees the theft, fraud or wastage of a shareholder's future expected earnings.