

## Press Release

Kristýna Hrubčíková  
EY  
Mobile: +420 704 651 405  
E-mail: kristyna.hrubcikova@cz.ey.com

Martin Kubišta  
Media: list (media contact)  
Mobile: +420 608 841 396  
E-mail: martin.kubista@medialist.cz

### **How prepared is the Czech business environment for whistleblowers? Three quarters of companies that have implemented a whistleblowing mechanism praise it, EY survey shows**

**Prague, 30 November 2021** – On 17 December, the European Whistleblower Protection Directive will apply to Czech companies employing more than 250 employees. But national legislation has not yet passed through Parliament. How do companies that have already implemented a reporting channel evaluate their experience and how do those that have yet to implement the new obligation view it? Some 75% of domestic companies that have implemented a reporting channel praise its effect. It enables them to respond flexibly to a wide range of internal misconduct – from employee fraud to HR problems. On the whole, the positive news is that the number of cases of abuse of the system remains negligible – 96% of companies record abuse in less than a quarter of cases. Companies that have not yet introduced the channel are more skeptical, with only 39% of them believing in the usefulness of the EU directive and the obligation to introduce a reporting channel in companies with over 50 employees. This results from a survey of 169 respondents conducted across the size spectrum of companies by the analytical consulting company EY in cooperation with the Czech Association of Small and Medium-sized Enterprises and Tradesmen. Only 39% of respondents already have a reporting system in place, meaning 61% have yet to implement one.

Czech companies consider whistleblowing to be beneficial for several relevant reasons. *“The expected benefit for them is that whistleblowers will help them detect problems in the HR area. With adequate processes in place, they will also be more likely to be alerted to employee fraud or breaches of regulations such as GDPR and OHS. One-fifth of companies expect to see an increase in trust and an improvement in the overall atmosphere of the organisation as a result of a functioning whistleblowing system. On the other hand, 15% of companies don’t think a whistleblowing system will benefit them at all,”* remarks Tomáš Kafka, **Partner, Forensic Services and Integrity Support, EY Czech Republic and Slovakia**, on the motivations of the domestic business environment.

#### **Czech companies trust reporting systems**

Although only a quarter of domestic companies report a higher proportion of relevant reporting cases (i.e. more than 25%), 27% of respondents admit that such reporting has contributed to the detection of serious fraud or misconduct: for 22% of respondents, reporting helped uncover HR issues, 20% helped uncover employee fraud, and 19% were alerted to misconduct in other areas (OHS, GDPR). According to 19% of respondents, the existence of a reporting channel has contributed to an improved company atmosphere overall.

However, Czech companies are relatively clear that they want to continuously work on improving their reporting systems. Over 80% of respondents stated their clear and unequivocal support for the concept of whistleblowing and want to maintain the same commitment in the future. *“Three quarters of companies believe the reporting channel is useful for their activities, and 40% even think this obligation should be*

*extended to smaller companies with more than 50 employees as soon as possible. This shows that the business environment is more flexible in this respect”, adds Kafka.*

EY’s survey clearly indicates that companies have recorded only a minimal degree of abuse of whistleblowing channels, with 96% of respondents stating they have experienced such breaches in less than a quarter of cases. In the rest, company representatives say reporting process abuses are more common. This is matched by the fact that 83% of them are not at all concerned about the risk of abuse. However, more than a fifth of companies are concerned about the possibility of reporting to a hotline, which, according to the intentions of the drafters of the implementing law, should be set up by the Ministry of Justice.

### **Ethical behaviour guarantees corporate integrity**

Globally, an overwhelming 97% of respondents to the EY Global Fraud and Corruption Survey consider ethical conduct important. This is a significant contributor to the adoption of appropriate legislation. It shows that with the right safeguards in place, employees are willing to report criminal activity by companies and corporations. Indeed, over 40% of fraud is detected thanks to reporting. In the wake of this, we would look for other ways such as internal audits or management oversight.

In up to half of all cases, information from employees is key to detecting fraud. However, customers (22%) and suppliers (11%) also contribute significantly. Anonymous reports are not uncommon, accounting for around 15% of the total. On the other hand, direct associates of companies and, perhaps surprisingly, competitors are the least likely to engage in whistleblowing.

### **Implementing law still pending**

The Chamber of Deputies of the Czech Republic did not approve the original draft of the Whistleblower Protection Act. It can therefore be assumed that it will deal with it after its establishment in the new legislature. Despite this, the content of the European Directive is already binding for certain entities – namely companies employing more than 250 people (from 17 December 2023, the threshold will be reduced to 50), as well as all public procurement authorities, institutions such as insurance and reinsurance companies, and public authorities. The original proposal lowered the bar for the introduction of the reporting system to include companies with more than 25 employees, but respondents consider this nonsensical. Only 22% of them perceive such an obligation as useful.

If the law as proposed eventually passes, companies will have to comply with a number of new obligations. The establishment of a channel for reporting illegal acts is itself fundamental. This will be a prerequisite for the fulfilment of other obligations – allowing reporting to be done orally and in writing, designating a responsible person, publishing information on reporting methods, notifying the whistleblower of the receipt of the report, assessing and informing of the results of the review, maintaining confidentiality, or ensuring record keeping and retention. An important and relatively separate imperative is the prohibition of retaliation against the whistleblower.

*EY conducted the survey between 13 September 2021 and 7 October 2021 drawing on a representative sample of 169 participants. The survey included representatives of small, medium-sized and large enterprises. It was carried out in cooperation with the Czech Association of Small and Medium-sized Enterprises.*

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Ernst & Young, s.r.o. Na Florenci 2116/15 110 00 Praha 1 Česká republika	Tel: +420 225 335 111 Fax: +420 225 335 222 <a href="http://www.ey.cz">www.ey.cz</a>
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