

AUDITING ETHICS PROGRAMS TO ADDRESS CULTURE AND CONDUCT

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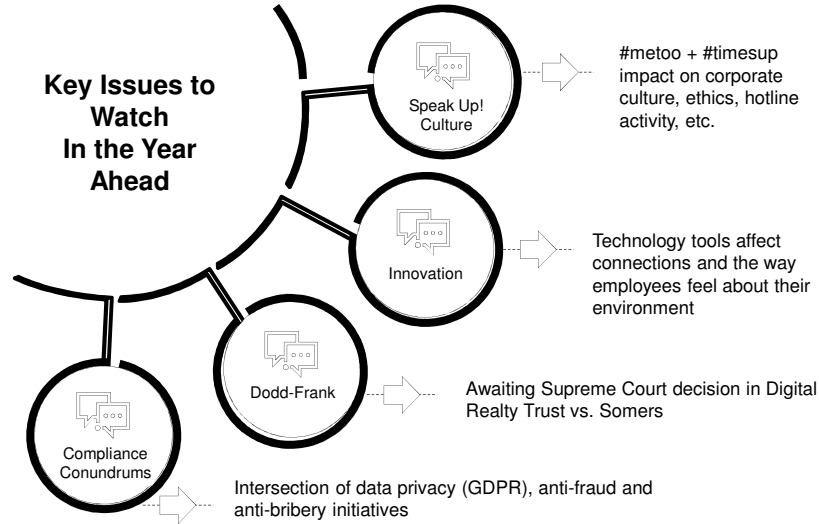
Internal Audit, Risk, Business & Technology Consulting

TODAY'S LEARNING OBJECTIVES



1. Understand hot topics impacting Ethics, Culture and Conduct.
2. Prepare to successfully plan an Ethics Program Audit.
3. Understand interdependent relationships between performance strategies.
4. Distinguish between ethics and compliance for internal control purposes.
5. Articulate frameworks for review of ethics programs.
6. Provide case study as a learning tool in executing an Ethics Program Audit.

2018 HOT TOPICS IMPACTING ETHICS, CULTURE AND CONDUCT



3

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SETTING THE STAGE: FOUNDATIONAL CONCEPTS

FINDING INSPIRATION

"In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you."

-- Warren Buffet

"Culture eats strategy for breakfast."

-- Peter Drucker / Mark Fields

"Integrity has no need of rules."

-- Albert Camus

"In failing circumstances no one can be relied on to keep their integrity."

-- Ralph Waldo Emerson

"Honesty is the first chapter in the book of wisdom."

--Thomas Jefferson

"Real integrity is doing the right thing, knowing that nobody's going to know whether you did it or not."

-- Oprah Winfrey

"The truth of the matter is that you always know the right thing to do. The hard part is doing it."

-- Gen. Norman Schwarzkopf

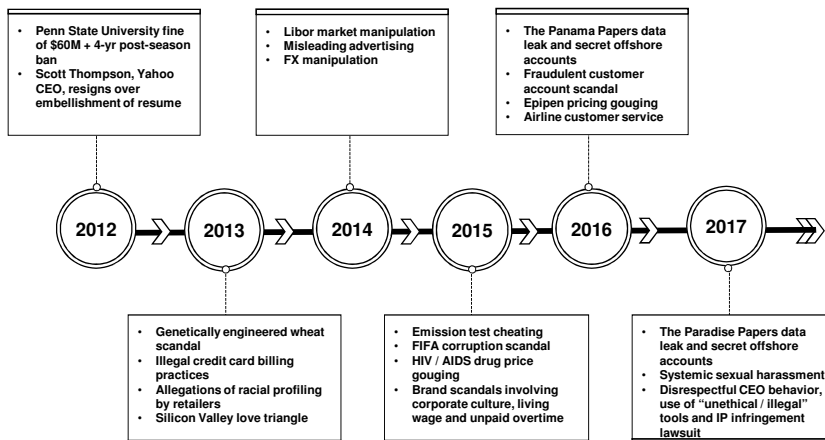
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RENEWED FOCUS

Over the last five years, events have led to renewed focus on ethics, culture, conduct and compliance.



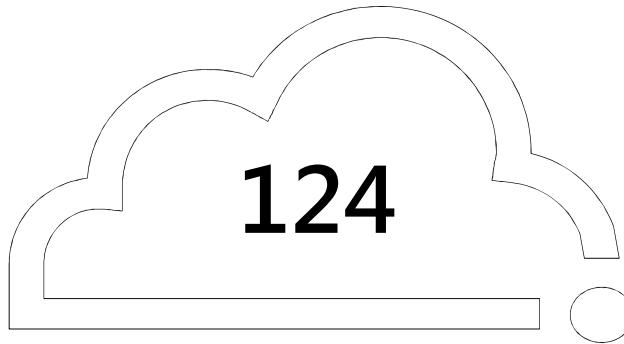
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THE SILVER LINING

Excerpted from 2017 World's Most Ethical Companies List – www.Ethisphere.com



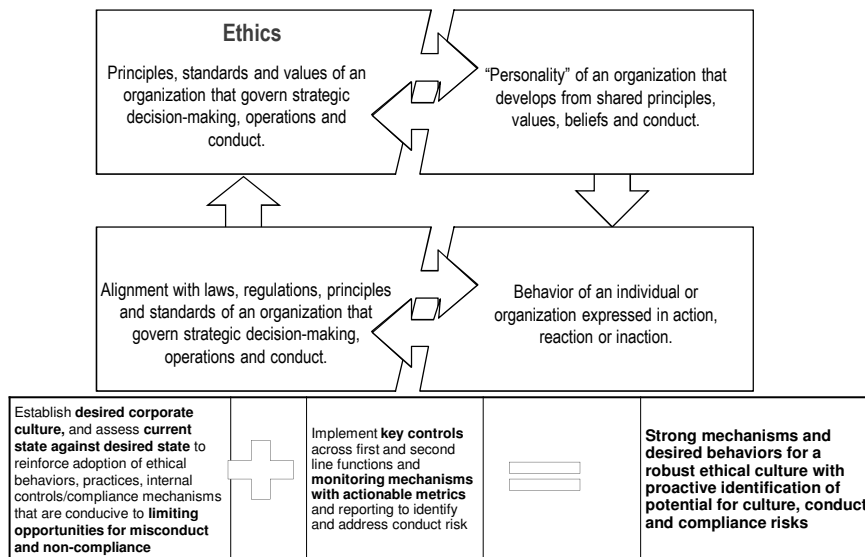
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7

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RELATIONSHIP BETWEEN “E” AND “C(s)” STRATEGIES

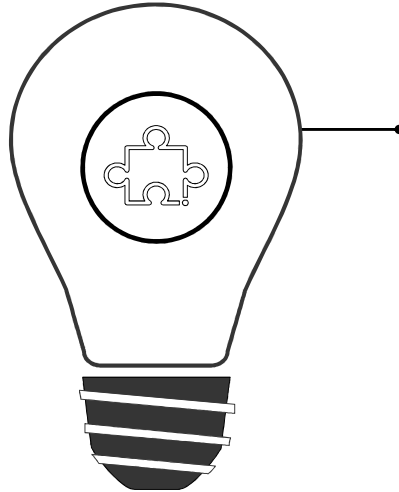


8

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PURPOSE OF AN ETHICS PROGRAM



The purpose of an **Ethics Program** is to *establish a set of values and culture that encourages ethical-decision-making*, as compared with a **Compliance Program** which *prevents and detects criminal conduct and promotes an organizational culture that is committed to ethical conduct and compliance with the law.*

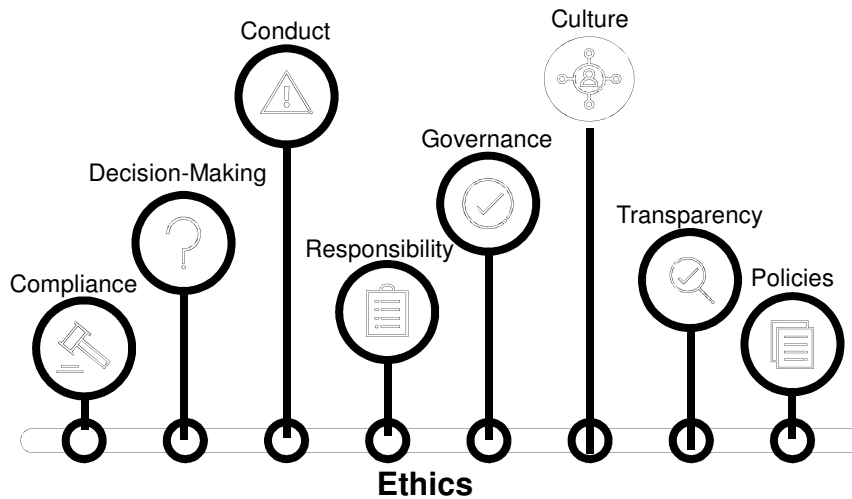
While some organization have separate and distinct programs, many have combined these interdependent functions into a single, **“Ethics & Compliance Program.”**

9

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OBJECTIVES OF ETHICS PROGRAMS VARY



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UTILITIES & ENERGY INDUSTRY: WHAT'S THE SCOPE OF YOUR ETHICS PROGRAM?



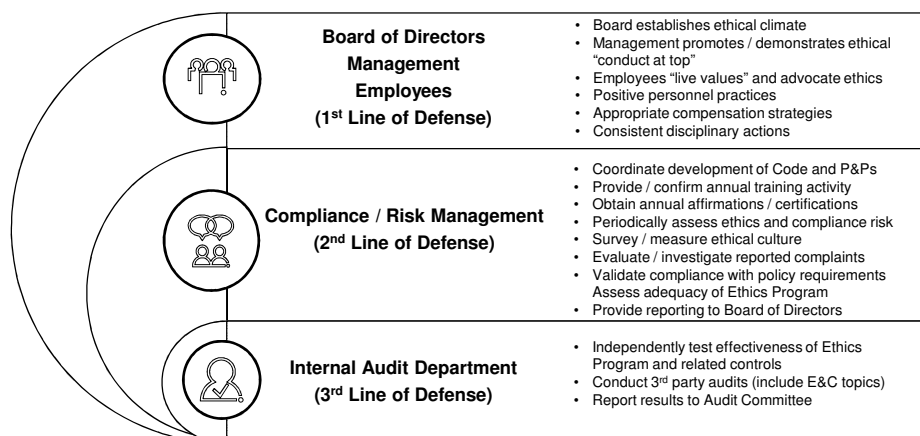
11

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ETHICS PROGRAM: THREE LINES OF DEFENSE

Some Examples of Ethics Program Activities by Lines of Defense



12

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ETHICS AUDIT: PLANNING CONSIDERATIONS

ASK YOURSELF

Given recent ethical failures across a variety of industries, has there has been ongoing dialog within your organization related to Ethics? Have there been any discussions with the Audit Committee, Senior Management and the Ethics Officer relative to assessing the Ethics Program?

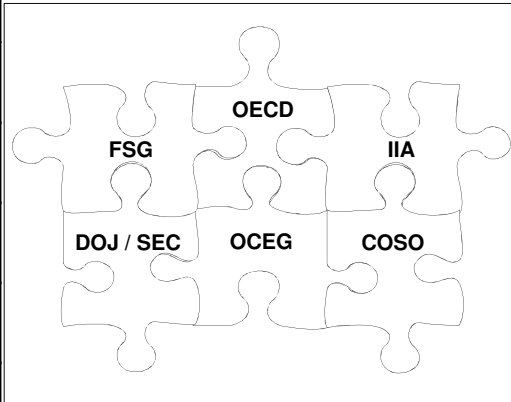
Do you already assess the organization's Ethics Program as a part of existing compliance audits or as a stand alone audit? Do other departments conduct such audits?

Has your organization defined internal controls across the first and second line of defense in order to establish, promote and manage the Ethics Program?



EXAMPLES OF FRAMEWORKS FOR EVALUATING ETHICS PROGRAMS

1	Federal Sentencing Guidelines for Organizations (Chapter 8.B.2)
2	Organization for Economic Co-operation and Development Good Practice Guidance on Internal Controls, Ethics and Compliance
3	IIA Practice Guide – <i>Evaluating Ethics-Related Programs and Activities + Auditing Culture – A Hard Look at the Soft Stuff</i>
4	Department of Justice – <i>Evaluating Corporate Compliance Programs + Hallmarks of Effective Compliance Programs (published w/SEC)</i>
5	Open Compliance & Ethics Group's Redbook 3.0
6	Committee of Sponsoring Organizations Entity Level Control - <i>COSO 2013 – Control Environment / Principle 1 / Points of Focus</i>



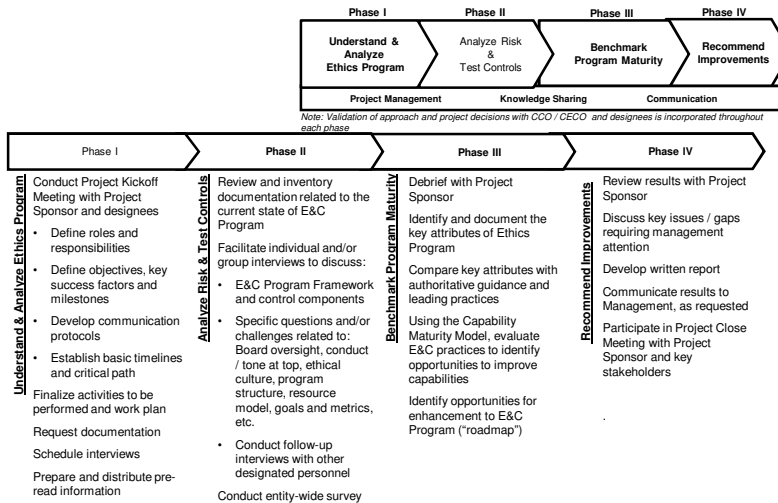
NOTE: Also consider regulatory and industry-specific guidance

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CASE STUDY: WORK PLAN OVERVIEW



16

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DESCRIPTION OF CAPABILITY MATURITY MODEL FRAMEWORK: ETHICS & COMPLIANCE PROGRAM

Capability Maturity Model – Stages of Capability (IIA)



Excerpted from Internal Auditing: Assurance and Consulting Services, © 2009
The Institute of Internal Auditors Research Foundation

Internal Audit may consider the six (6) key elements of an effective Ethics and Compliance Program as outlined in: *Internal Auditing: Assurance and Consulting Services* (IIA Research Foundation)

	CONTINUUM	CHARACTERISTICS OF CAPABILITY	METHOD OF ACHIEVEMENT
↑ PROCESS	OPTIMIZING	OPTIMIZING FEEDBACK Issue management a source of competitive advantage	<ul style="list-style-type: none"> Issue resolution strategy Innovative analysis on tasking and exploiting opportunities
	MANAGED	QUANTITATIVE Issue measured/managed quantitatively and aggregated enterprise-wide	<ul style="list-style-type: none"> Rigorous management Methodology analysis Innovative decision trade-off issues
	DEFINED	QUALITATIVE/QUANTITATIVE Policies, process and standards defined and institutionalized	<ul style="list-style-type: none"> Uniform process Formalized components of infrastructure Rigorous methodologies
	REPEATABLE	INTUITIVE Process repeatable, but dependent on individuals	<ul style="list-style-type: none"> Common language Quality people assigned Defined tasks Initial infrastructure
	INITIAL	AD HOC/CHAOTIC Dispersed no lessons, institutional capability lacking	<ul style="list-style-type: none"> Undefined tasks People not available "Just do it" Dependence on key people

14

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OVERCOMING CHALLENGES

- 1 **Ethics, culture and conduct are *sensitive topics*.**
- 2 ***Mindset* against investment in auditing “soft stuff.”**
- 3 **Measuring *effectiveness* of “value internalization.”**
- 4 ***Perception vs. reality* (or is it really the same)?**
- 5 **Documentation of gaps and weaknesses.**

18

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OPEN DIALOGUE

QUESTION & ANSWERS

