AUDITING ETHICS PROGRAMS TO ADDRESS CULTURE AND CONDUCT
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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

Key Issues to Watch In the Year Ahead

1. #MeToo + #TimesUp impact on corporate culture, ethics, hotline activity, etc.
2. Intersection of data privacy (GDPR), anti-fraud and anti-bribery initiatives
3. Technology tools affect connections and the way employees feel about their environment
4. Awaiting Supreme Court decision in Digital Realty Trust vs. Sommers
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 Buffett

"Integrity has no need of rules."
-- Albert Camus

"In failing circumstances no one can be relied on to keep their integrity."
-- Ralph Waldo Emerson

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

"Honesty is the first chapter in the book of wisdom."
-- Thomas Jefferson

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

"Culture eats strategy for breakfast."
-- Peter Drucker / Mark Fields

RENEWED FOCUS

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

2012
- Genetically engineered wheat scandal
- Illegal credit card billing practices
- Allegations of racial profiling by retailers
- Silicon Valley love triangle

2013
- Emission test cheating
- FIFA corruption scandal
- HIV / AIDS drug price gouging
- Brand scandals involving corporate culture, living wage and unpaid overtime

2014
- Libor market manipulation
- Misleading advertising
- FX manipulation

2016
- The Paradise Papers data leak and secret offshore accounts
- Systemic sexual harassment
- Disrespectful CEO behavior, use of "unethical / illegal" tools and IP infringement lawsuit

2017
- The Panama Papers data leak and secret offshore accounts
- Fraudulent customer account scandal
- Epipen pricing gouging
- Airline customer service
THE SILVER LINING
Excerpted from 2017 World’s Most Ethical Companies List – www.Ethisphere.com

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6 Honorees from Energy & Utilities Industry

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

Ethics
- Principles, standards and values of an organization that govern strategic decision-making, operations and conduct.
- Personality of an organization that develops from shared principles, values, beliefs and conduct.
- Alignment with laws, regulations, principles and standards of an organization that govern strategic decision-making, operations and conduct.
- Behavior of an individual or organization expressed in action, reaction or inaction.

Compliance
- Conduct
- Conduct
- Conduct
- Conduct

Ethics Program
- Establish desired corporate culture, and assess current state against desired state to reinforce adoption of ethical behaviors, practices, internal controls/compliance mechanisms that are conducive to limiting opportunities for misconduct and non-compliance
- Implement key controls across first and second line functions and monitoring mechanisms with actionable metrics and reporting to identify and address conduct risk

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 organizations have separate and distinct programs, many have combined these interdependent functions into a single, “Ethics & Compliance Program.”
OBJECTIVES OF ETHICS PROGRAMS VARY

- Conduct
- Decision Making
- Compliance
- Governance

CULTURE

- Responsibility
- Transparency
- Policies

Ethics

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

ETHICS PROGRAM: THREE LINES OF DEFENSE

Some Examples of Ethics Program Activities by Lines of Defense

Board of Directors
- Management promotes / demonstration of ethical conduct
- Conducts / enforces ethics policies
- Proven personal practices

Management / Employees
- Aligns employees with ethical conduct
- Conducts / enforces ethics policies
- Proven personal practices

Compliance / Risk Management
- Coordinate development of Code and P&Ms
- Provide / outline annual training activity
- Monitor / analyze adherence / conformance risk
- Survey / measure ethical culture
- Evaluate / investigate reported complaints
- Validate compliance with policy requirements

Internal Audit Department
- Independently test effectiveness of Ethics Program / internal structure
- Conduct 3rd party audits (include E&C topics)
- Report results to Audit Committee
ETHICS AUDIT: PLANNING CONSIDERATIONS

ASK YOURSELF

Given recent ethical failures across a variety of industries, has there been an ongoing dialogue within your organization related to Ethics? Have there been any discussions with the Audit Committee, Senior Management and the Ethics Officer related 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 6.8.2)
2. Organization for Economic Cooperation and Development: Good Practice Guidance in Internal Control, Ethics and Compliance
3. IIA Practice Guide – Evaluating Corporate Compliance Programs (published by IIA)

NOTE: Also consider regulatory and industry-specific guidance
CASE STUDY: WORK PLAN OVERVIEW

**Phase I**
- Understand & Analyze Ethics Program
  - Schedule interviews
  - Conduct phase I kickoff meeting with project sponsor and designees
  - Define roles and responsibilities
  - Define objectives, key success factors and milestones
  - Develop communication protocols
  - Establish basic timelines and critical path

**Phase II**
- Analyze Risk & Test Controls
  - Review and inventory documentation related to the current state of E&C Program
  - Facilitate individual and/or group interviews to discuss:
    - E&C Program Framework and control components
    - Specific questions and/or challenges related to:
      - Board oversight, conduct/tone at top, ethical culture, program structure, resource model, goals and metrics, etc.
  - Conduct follow-up interviews with other designated personnel

**Phase III**
- Conduct entity-wide survey

**Phase IV**
- Benchmark Program Maturity
  - Debrief with Project Sponsor
  - Compare key attributes with authoritative guidance and leading practices
  - Using the Capability Maturity Model, evaluate E&C practices to identify opportunities to improve capabilities
  - Identify opportunities for enhancement to E&C Program ("roadmap")

**Recommend Improvements**
- Review results with Project Sponsor
- Discuss key issues / gaps requiring management attention
- Participate in Project Close Meeting with Project Sponsor and key stakeholders.

DESCRIPTION OF CAPABILITY MATUREITY MODEL FRAMEWORK: ETHICS & COMPLIANCE PROGRAM

Capability Maturity Model – Stages of Capability (IIA)

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)

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.