Ethics in Jeopardy

Expectations

Present
- Cell phones on stun
- Check messages on break
- No other work, please

Participate
- Ask questions
- Feel free to disagree
- Share your experience
- Fill in the Blanks

Pause for Breaks

Learning Objectives

- Review the ‘Language of Ethics’
- Understand the complexity of ethics in the workplace.
- Discover how ethics (or the lack of it) affects organizational effectiveness.
- Learn how Internal Auditors can promote ethical behavior in organizations.
Part 1
Overview: The Language of Ethics

The Language of Ethics

- Ethics
- Professional Ethics
- Business Ethics (Organizational)

Your Values

- Refer to the Handout
- On your own, rank your top 3 values in order of importance
- Rank your 3 least important values
- Share with neighbor
  - Do you share any values in common?
Values & Ethics

Values may be:
- Ethical
- Unethical
- __________

Some Non-Ethical Values

Non-Ethical, What’s that?

What are Ethics?

- Involve how we "should" treat one another
- Concerned with what one “ought” to do
- “Right” and “wrong” conduct, behavior, actions

But by whose standards?
Universal Ethical Principles

- Honesty
- Integrity
- Fairness
- Excellence
- Accountability
- Trustworthy
- Respect
- Caring
- Responsibility
- Compassion

Values & Ethics

- OK to have different values
- Good to know we have different values
- Ethical ________ should trump non-ethical values when deciding how to behave

Ethical Dilemma

Defines ethical dilemmas...
- Right vs. Right
- When ethical values compete

Can you think of an example?

Decision Making

1. Based: “categorical imperative” - Rules exist for a purpose: they promote order and justice and should be followed.
2. Based: “utilitarianism” - “the greatest good for the greatest number.”
3. Based: The Golden Rule: “Do unto others as you would have them do unto you.”


Part 2
Ethics in the Workplace
Legal ≠ Ethical

Ethical

Legal

Illegal & Probably Unethical

Legal is Required, Ethical is Expected

Rules vs. Principles

- Workplace Rules
- Codes of Conduct
  - _____-Based (compliance)
  - _____-Based (aspirational)

Variation in Conduct

| Follow their own ideas | Try to follow company policies and rules | Go along with work groups | Take advantage if risk is low |

It’s about Culture

- **Culture** is what is characterized by normal behavior in the organization.
- ________ is acceptable and unacceptable behavior defined by a set of ethical principles.

What Makes Culture?

Values
Principles
Standards

\[ \text{Culture} \]

Org. Cultures Exist

They can either be:
- **Ethical** - Actively encourage and support ethical behavior
- **Unethical** - Actively encourage people to engage in misconduct
- **Indifferent** - Passively accept ethical behavior that is/is not present
Ethical culture

- Ethical cultures are not a given
- Established shared values, standards and principles for conduct and accountability
- Takes dedication and work
- Takes the whole organization

Take a Break

Part 3
Workplace Cultures at Risk
Conflicts of Interest

- When you put your personal interest ahead of the public/org interests.
- COIs jeopardize your credibility – independence and objectivity
- Conflicts of Interest undermines trust
- Even the appearance of impropriety undermines the public’s faith

KPMG - COI Breech

- Scott London - KPMG partner arrested and fired over allegations he:
  - Provided confidential info on clients to his golf buddy, Bryan Shaw
  - Shaw traded in those companies’ securities and paid London $55K
- Now, KPMG forced to resign from 5 companies, nullifying 5 yrs. of audit opinions
- Companies reeling to get in compliance & have their audit on file with SEC.
Studies Show…

- **Effect**
  - We overestimate our abilities, behavior, ethics
- Reality: behaviors driven far more by the *situation or environment* than by force of our personality
- What *someone else* did in that situation is a very strong warning about what we would do

SOURCE: NY Times article. http://www.nytimes.com/2009/05/05/health/05mind.html?_r=1

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**NPR Morning Edition**

5/28/2013

http://www.npr.org/templates/rundowns/rundown.php?prgId=y&q=Date=5-28-2013

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**Why People Don’t Report**

- #3. Lose their job
- #2. None of their business
- #1. Fear of alienation from colleagues

Case Study

Debrief

1. Who are the key stakeholders & what are their stakes?
2. What should Lisa consider before responding to Cyndi’s request?
3. What alternative solutions might she propose, including modifications to her annual audit plan, risk assessment and recommended governance practices?

Cultural Red Flags

- Overestimating our own ethical fortitude
- A compliance-only mentality
- Unethical co-workers
- Poor morale – tone in the middle lacking
- Deliberate anonymity – lack of accountability
- Fast-paced/pressure – short-term thinking
Part 4
Ethics Framework

Org. Responsibilities

- Comply with society's legal/regulatory rules
- Satisfy business norms, ethical precepts, & social expectations
- Provide overall benefit to society & specific stakeholders (short & long-term)
- Report fully & truthfully to owners, regulators, stakeholders, public to ensure accountability


Governance

Governance consists of:
- Organizational Culture
- Board oversight
- Management style
- Policies, procedures, & other organizational rules
Ethical Org. Cultures

5 Pillars to creating & sustaining an ethical organization culture

1. Standards
2. Awareness
3. Accountability
4. Trust
5. Courage

What are Standards?

- Laws
- Rules & Regulations
- Policies
- Procedures
- Other Org. Documents

“It's not hard to make decisions when you know what your values are.”

-Roy E. Disney, Director Emeritus, Walt Disney Company
How To: Accountability?

What DOES accountability look like?
- Request and provide feedback
- Hold yourself & others accountable
- Recognize when someone’s accountable, acknowledge specific behavior.
- Be consistent, if not...
  - Breeds morale issues
  - Complacency
  - Lack of trust

“The enemy to accountability is ________.”

“So I keep watching what I DO, to see what I BELIEVE.”

Sister Helen Prejean, Death Penalty Repeal Advocate

“TRUST – the one thing that changes everything.”

Stephen M.R. Covey, Author
The Speed of Trust

\[ \downarrow \text{Trust} = \downarrow \text{Speed} \uparrow \text{Cost} \]
\[ \uparrow \text{Trust} = \uparrow \text{Speed} \downarrow \text{Cost} \]

Or

SOURCE: CoveyLink 2009

“Courage is the most important virtue, because without it we can’t practice any other virtue with consistency.”

Maya Angelou, Poet, Author, Educator

Ideal Ethical Culture

✓ Sets the _________ for Conduct
✓ Creates _________ of Ethics
✓ Defines and upholds________________
✓ When these elements exist, builds _____
✓ And trust breeds ____________
Who is Responsible?

Who is responsible for the state of the organizations’ ethical climate?

- CEO?
- Management & Leadership?
  - Attorneys?
  - H.R. Director?
- The Internal Auditor?

SOURCE: Tone in the Middle, Nunez, Ted, "Want to Build Ethical Culture. Play Up the Middle" 7/29/12

Everyone Must be...

...an Ethics Advocate

Together you:
- Define _____________
- Educate Each Other
- Act as a Resource and support one another

“Never underestimate the ability of a small group of committed individuals to change the world.

Indeed, they are the only ones who ever have.”

Margaret Mead,
Cultural Anthropologist
Take a Stretch Break

Once Upon A Time…

Part 5
Role of the Auditor
Ethical culture

- Ethical cultures are not a given
- Established shared values, standards and principles for conduct and accountability
- Takes dedication and work
- Takes the whole organization

*Takes you to be an ethics advocate!*

IIA Standard - Governance

*Internal audit activity must assess & recommend improvements to the governance process in its accomplishment of the following objectives:*

- Promote ethics within the organization;
- Ensuring effective organizational performance, management and accountability;
- Communicate risk & control info to appropriate areas in the organization; and
- Coordinate/communicate among board, executive management, internal auditors & management.


Specifically...

..*requires the Internal Audit activity to:*

"*evaluate the design, implementation and effectiveness of the organization’s ethics-related objectives, programs and activities.*"

To determine what type of audit activities are conducted specific to board members and executive management, we asked whether Internal Audit had audited travel expenses and financial statements for these individuals. Response to these questions identified that departments were more likely to have audited executive management than board members. While these responses appear low, it is not known how or whether this has changed since the frauds committed in recent history or as a result of the economic conditions over the past couple of years.

In addition to the areas specifically questioned, respondents indicated that they perform other ethics/values-related activities in their organizations. Some of these include reviewing potential conflicts of interest; writing and promoting anti-fraud and whistleblowing policies; and conducting annual governance reviews. A full list of the activities reported can be found in Appendix A on pages 38-39.

More of the respondents' organizations require ethics training than fraud training, but Internal Audit was more likely to be involved in training for fraud prevention than ethics. When asked whether the organization required fraud training, and if so, whether Internal Audit participated in providing it, 59 of the 109 respondents who answered the question answered “yes” that it was required, and of those, 35 responded “yes” that Internal Audit participates in providing the training. This higher level of involvement by Internal Audit is likely a reflection of the expertise auditors have related to fraud, whereas often organizations rely on the General Counsel to provide guidance on ethics.

A major topic in seminars and conferences over recent years and one that continues to receive widespread interest is Information Technology (IT) governance. Almost 85 percent of the 103 who answer the question responded that their organization has an IT governance process, and 60 of those that responded to the follow-up question indicated that Internal Audit had reviewed the process.

“At a minimum, the internal audit activity should periodically assess the state of the ethical climate of the organization and…”

Refer to handout page 2., 7. a-k
Auditor Roles…

...as an Ethics Advocate
- Chief Ethics Officer (Beware COI)
- Ombudsman
- Compliance officer
- Management ethics counselor
- Ethics expert
- Member of Internal Ethics Council
- Assessor of organization's ethical climate

Resources

Resources to turn to for auditing ethics:
- Institute for Internal Auditors
- Practice Advisories
- The IIA Research Foundation (various reports)
- Books, periodicals, newsletter, blogs
- The Ethics Resource Center
- Navran (2003)
- Gilman et al (2009)
- Society for Human Resource Management

Now for the fun part...

- Thank you!
- Game of Jeopardy
- But first, Evaluate