SHADES OF ETHICS: SETTING THE THERMOSTAT

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OBJECTIVES

- Understand the core principles of ethics
- Discuss the “shades” of ethics and ethical uncertainty
- Consider setting the ethical thermostat and the auditor’s role
- Learn how to audit ethics
- Not become less ethical as a result of this training!
WHY WORRY ABOUT ETHICS?

• It allows you to keep your certifications and remain a practicing internal auditor.

• It protects your organization and reduces risk.

• It is actually linked to greater organizational success.

• It protects you personally.

• It benefits everyone.
Come up with an ethical principle that you believe is
the most important. Enter it into the chat.
THE IIA’S FOUR ETHICAL PRINCIPLES

• Integrity
• Objectivity
• Confidentiality
• Competence
INTEGRITY

• Doing the right thing when no one is looking
• Complying with the law and regulations
• Remaining true to your values
• Willingness to sacrifice for the sake of what’s right or good

What you do outside of work matters too.
CONFIDENTIALITY

• What happens in Vegas...
• No use of information for personal gain
• Safeguarding the company’s assets
COMPETENCY

- Only engage in services for which you have the necessary knowledge, skills, and experience.
- Adherence to the Standards
- Continuous improvement

How do we apply this principle when we have skills gaps? (Is it worse to audit imperfectly or not audit at all?)
OBJECTIVITY

• Everyone is biased.
• Overcoming bias through self-awareness
• Actual and perceived impairments
• Balancing objectivity with collaboration
JAMI’S 4 ETHICAL PRINCIPLES

- Vulnerability
- Selflessness
- Forgiveness
- Context
WHERE ETHICS TRAINING FAILS

• Not recognizing the importance of culture and systems
• Using extreme case studies
• Focus on compliance with rules and regulations
A TALE OF TWO CHAPTERS
Fifty Shades of Ethics

Ethical Uncertainty
ETHICAL OR BUSINESS DECISIONS?
ARE THERE SITUATIONS WHERE THIS DECISION MIGHT BE ETHICAL?

• Raising prices after a natural disaster
• Not complying with OSHA safety standards
• Cutting all employees’ hours to avoid offering benefits
• Requiring employees to meet in person during COVID
BUT WHAT DOES ANY OF THIS HAVE TO DO WITH AUDIT?
Ethics in the News

- “Me Too”
- Discrimination
- Racism
- Corporate Frauds
- Insider Trading

Our ethical (or unethical behavior) can impact us, our families, and our companies. An unethical act can have a significant impact years later.

As auditors, we **must** assess the ethical culture at our organizations in order to detect the iceberg that could sink the ship!
THE AUDITOR’S ROLE: ETHICAL THERMOSTAT

• Take the ethical temperature.
  • We should be auditing ethics and culture.
  • Provide assurance.

• Recommend changes to improve the temperature.

• Set the example.
EXISTING AUDIT PROGRAMS FOR ETHICS…

• Often focus on regulatory compliance
• Are checklist based
• Verify the existence of policies, trainings, and acknowledgements
CODE OF ETHICS

Employees are charged with conducting their business affairs in accordance with the highest ethical standards...Moral as well as legal obligations will be fulfilled in a manner which will reflect pride on the Company’s name.

- Excerpt from Enron’s 64-page Code of Ethics
WE MUST AUDIT ETHICS BETTER!

- Get your head out of the checklist! Stop focusing on policies.
- Evaluate ethics and culture as part of your standard audits, and identify ethical root causes of issues.
- Audit management’s response to ethical reports/issues.
- Audit key HR and Legal functions.
- Evaluate the application of ethics in decision making.
- Perform anonymous surveys of employees.
- Consider a maturity model approach using facilitated sessions with management.
ETHICS IN RISK DISCUSSIONS

• Ethics should be a key component of all risk decisions.

• Ethics must be considered in determining and evaluating risk appetite and risk tolerance.

• The auditor should assess the extent to which ethical values are incorporated into decision making.
We’ve talked about auditing ethics, but what about auditing ethically?
AUDITING ETHICALLY

• Be aware of – and fight against – your biases.
• Be accurate and complete.
• Be vulnerable.
• Be a pain-free auditor.
PAIN-FREE AUDITING

• Involve and educate your client.
• Provide pain relief.
• Be honest.
• Provide timely results.
• Solicit feedback.
SUMMING IT ALL UP

• Ethics must be considered separately from regulatory compliance.

• We can add value by auditing ethics.

• We can add value by auditing ethically.
QUESTIONS?
THANK YOU!

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