Today’s Speaker

Daniel Graves, CPA
Austin Partner, Risk Advisory Services

Practice emphasis in governance, risk management, compliance, internal audit, business process improvement and consulting.
Today’s Discussion

1. **Importance of “ethics” and true permeation within the culture.**

2. **Integrating and evaluating the ethical value of the company’s culture.**

3. **Assessing ethics through a governance and maturity model.**
Ethics is the body of moral principles or values governing or distinctive of a particular culture or group. Ethics requires intentional action and planning by management to develop, communicate, execute, enforce ethical expectations.
Integrating a Culture of Ethics

Culture is the foundation from which employee expectations are built reinforced by leadership decision-making.

Integrating ethics into the a culture is established in policy and procedures but illustrated through actions.
Establishing A Culture

- What should be in place to establish a culture of ethics?

- How to evaluate ethics in an organization and its infusion with the current culture?

- Steps to communicate expectations and enhance an ethical culture in an organization?
Lessons: Enron

ENRON’S CORE VALUES:

- Integrity
- Communication
- Respect
- Excellence

We know that lack of ethics was the issue!
Still Relevant… Years Later

Hollow values sound good, but do not reflect the true culture or how individuals actually interact with each other and external parties. Rewards and recognition motivate performance.
Lessons: Wells Fargo

Two million fake accounts were created by Wells Fargo employees.

CEO RESPONSE: “There was no incentive to do bad things.”

INITIAL CORE VALUE: We value what’s right for our customers in everything we do.

Where was the culture of ethics?

UPDATED CORE VALUE: Making things right for our customers.
Lessons: UBER

"Tech Bros": The new ‘good old boy’ club!

- A culture that placed high performance over all else
- Freedom but no responsibility
- Systematically ignored reports of sexual harassment
- Mass exodus of executive team and management in 2017
ETHICS
The body of moral principles or values governing or distinctive of a particular culture or group.

CULTURE
The behaviors and belief characteristics of a particular group.

COMPLIANCE
Aligns actions with a structured, formalized set of principles that have been acknowledged and agreed upon by a group.
Ethical Culture
WHAT DOES IT MEAN?

Ethics and culture don’t just happen: they must be established.

The organization must determine its ethical position and create a culture congruent with tenets desired.

Requires intentional action by management to develop, communicate, live out and enforce ethical expectations.
It Really Matters!!

Management must design and live the ethical culture that it wants, holding themselves and others accountable.

- Ethics must be emphasized as critical and important

- Execution must be aligned with actual behavior of the organization
  - Intentionality
  - Continual monitoring

✓ Should be natural to the environment

✓ Acting with integrity as employees execute duties

✓ Accountability is accepted without the need for punishment
Personal Ethics & Integrity

Integrity is the quality of being honest with strong moral principles. Having integrity means never being ashamed of your reflection.

Integrity in the workplace is exhibited by compliance with the ethical stance of the company.

Compliance is measured by Internal Controls (Operational and Financial)

- Internal controls are outlined by the policies, procedures, charters and other governing documents
- Internal controls are the points in the process that we stop, verify and get approval
Ethics Policies

► Ethics define how we should behave
  » The ethical posture of an organization is not equal to the personal ethics of its employees
  » To be effective, an organization’s ethics must be regularly reinforced to be embedded in corporate culture

► Ethics establish the foundations for an organization’s governance structures

Many organizations have a Code of Conduct or Ethics Policy. BUT... Are they sufficiently designed to act as a benchmark and establish expectations for which employees may be held accountable?
Ethics Policies

A thorough Ethics Policy should include

- Confidentiality
- Conflicts of Interest
- Gifts and Entertainment
- Policy Compliance and Violations
- Bribery
- Political Contributions and Activities
- Proper Use of Assets
- Non-Discrimination and Fair Employment
- Expectations of Managers
- Competition
- Records Retention

Policies should be clear and precise so that the intent and expectations are not misunderstood.

Employees should be trained on the meaning of the policies, rather than left to independently read and interpret them individually.
Key Questions

► Does your company have a formal Ethics Policy or Code of Conduct?

► How often does management update and reinforce it? Is it acknowledged annually?

► Has internal audit reviewed the policy for coverage and to ensure the implementation is designed to be understood and followed?

► Does your organization have a committee that meets regularly and discusses ethical and cultural issues?
Establishing a Culture

How does an organization establish a culture of ethics?

To start, leadership must illustrate ethics through every day decisions. This is then reinforced through:

- Core values
- Policies and guidelines
- Monitoring ethical behavior
Core Values

Core values are a great place to start when establishing or evaluating the ethical culture of an organization.

Core values are the tenets for how people in the organization are expected to interact and conduct themselves, both internally to the organization and externally to partners

» Should be specific and meaningful, not broad or hollow
» Should represent what the organization is, and ultimately wants to be
» Should resonate with all employees, at all levels
Ethics in Action: Intuit

Be Bold
- Solve BIG customer problems
- Create a vision that inspires
- Think beyond what is accepted as possible

Be Passionate
- Personally embrace and role model change
- Inspire with your insights and initiative
- Strive to perfect your craft every day

Be Decisive
- Choose what we will and will not do
- Be transparent with your logic and judgment
- Be direct and respectful

Learn Fast
- Lead with a hypothesis
- Measure and act on what matters most
- Savor the surprises

Win Together
- Deliver exceptional results so others can count on you
- Develop yourself and others to do the best work of our lives
- Be boundary-less in our thinking and actions

Deliver Awesome
- Delight our customers and partners with experiences they love
- Nail the fundamentals and sweat the details
- Never stop short of awesome
Ethics in Action: Netflix

“We Seek Excellence”

“All of us are responsible for ensuring we live our values”

► Developed core values that are behaviors and skills desired in their employees
► Identified the goal: High Performance
► Freedom + Responsibility = Flexibility
  » What are your necessary rules?
  » Avoid “hollow” values

“Netflix”

“We Seek Excellence”

“We Seek Excellence”
Many organizations have a Code of Conduct and an Ethics Policy. BUT….are they sufficiently designed to act as a benchmark and establish expectations for which employees may be held accountable?

- Confidentiality
- Conflicts of Interest
- Gifts and Entertainment
- Policy Compliance and Violations
- Bribery
- Political Contributions and Activities
- Proper Use of Company Assets
- Insider Trading
- Non-Discrimination and Fair Employment
- Expectations of Managers
- Competition
- Records Retention

- Policies should be clear and precise so that the intent and expectations are not misunderstood.

- Employees should be trained on the meaning of the policies, rather than left to independently read and interpret them individually.
Ethics Policies

What if people do not do the right thing? Policies will eventually be violated.

► There should be a culture of compliance
► Employees hold each other accountable for doing the right thing and feel safe reporting violations and concerns
► Ethics defines how we should behave
  » Self-interest must be tempered based on how actions impact others and the organization
  » When out of line…others should reel you back in
► Accountability and enforcement actions should inform employees and clarify expectations so that they are disinclined to act on opportunities and incentives that violate ethical conduct, values, and policies
Monitoring Behavior

Management should be monitoring for signs of BOTH:

► Compliance - should be recognized
► Non-compliance - should be corrected

The signs that an ethical culture truly permeates the environment come out in:

► Customer service and loyalty
► Employee satisfaction
► Shareholder value
► Audit results
Monitoring Behavior

Monitoring compliance with ethics and following the ethical tenets established should be incorporated into performance evaluations.

► Require individuals to be evaluated by colleagues at all levels - 360° evaluations

► Include questions that assess non-technical components of job performance:
  » Ability to accept and adapt to changes
  » Communication and supervisory skills
  » Transparency of workload and responsibilities
  » Adherence to control and monitoring activities
Communicating Expectations

Establishing the ethical culture is important, but equally so is the communication and enforcement of ethics expectations.

- **Tone at the Top.** Senior leadership should be the trailblazers and best examples of the ethical culture and core values.

- **Tone in the Middle.** Middle managers that touch employees everyday must adhere to ethics expectations and communicate those expectations consistent with their design.

- **Employee Training.** Require employees to attend training events to discuss and clarify acceptable and unacceptable behaviors.

- **Reporting and Enforcement.** Ensure that employees have an avenue to report violations and that enforcement is timely and appropriate.
Tone at the Top

All other efforts can be quickly undone if senior leadership fails to live out core values and follow the organization’s ethical expectations.

★ Conduct employee satisfaction surveys
  » Do employees feel the freedom to speak up when they see something inappropriate?
  » Are employees hesitant to share when things are not going as expected?
  » Is senior leadership connected to and open to communications with the staff?

★ Turnover analyses at an entity and department level.
  » Are there indications based on feedback that ethical requirements are not being followed?
Tone at the Top

Other considerations when evaluating Tone at the Top:

► Consistency of management actions and decisions
► Communications from senior leadership that describe the companies core values and expectations for employees
► Rewards and advancement systems should be aligned with the organization’s core values and ethical expectations
  » Advance the idea that results are important, but the way in which results are obtained is of equal significance, if not more
► Compliance with ethics, code of conduct, values, and policies and procedures is valued and non-compliance is not tolerated
Accidental death of a pet placed in overhead compartment

- 18 out of 24 animal deaths in major US airlines were on United (2017)
- From 2015-2017 United had the highest rate of animal deaths

Forced Re-accomodation

- CEO apology: “I apologize for having to re-accommodate these customers.”

CORE VALUES

- We hold ourselves to the highest standards in safety and reliability
- Warm and welcoming is who we are
Ethics in Action: Chick-fil-A

“We should be about more than just selling chicken. We should be a part of our customers lives and communities in which we serve.”

– Truett Cathy

► One of the largest family-owned businesses in the country. Owned and operated by the Cathy family for over 50 years.

► Consistency in management is a significant component to establishing tone at the top and embedding the culture.

► Closed on Sundays – important for employees to have a day of rest, time with family, and observe religious practices, if they choose.

► Management proactively taking steps to emphasize the culture they want in the organization.
Tone at the Top

To enhance acceptance and accountability, establishing the ethical cultural should be a collaborative effort with influential people within and across the organization.

Should not just be senior management. Incorporate mid and lower levels of management as well.

There involvement will help ensure the message is carried accurately out into the organization.

These individuals should be an example through their behavior to the remainder of the organization.

Who are the mentors, go-to people, and cornerstones for culture in the organization?
Tone in the Middle is often an overlooked component when developing and assessing an ethical culture.

- No matter how involved Senior Leadership may be in operations and communicating the ethical expectations of the organization, mid-level managers must also carry the torch to really bolster the culture.
- These individuals are in the trenches and carry much of the load when it comes to demonstrating adherence to core values in all situations.
- Middle managers must be encouraged to follow expectations and swiftly held accountable when they do not.
- Ensures that values and culture become institutional and are not lost when changes in leadership occur.

Involvement begets buy-in, and is critical to ensuring the expectations are followed and enforced.
Tone in the Middle

Senior leaders should take extra care to ensure that middle managers have a thorough understanding of the ethical tenets, cultural vision and core values.

- Any **misunderstanding** of the concepts and tone can **undermine** the success of the initiative.

- The explanations to staff should be the same as if they are coming from the CEO.

- Middle managers should ask questions and **seek clarification** on issues or violations as they occur.

- Include middle managers in the development of the core values and ethical culture.
Employee Training

Core values and ethics can be interpreted differently based on an individual’s experiences and background. Training provides a method with which the organization can engage with employees and personally convey the message.

- Take the time to explain core values to employees and why they are important to the organization.
- Review the code of conduct and ethics policies with employees and be specific about what is allowed vs. non-allowed behavior.
- Encourage employees to ask questions and leave time for discussion.
- Deliver specific examples and scenarios that challenge employees to consider how they would behave in certain situations.
Reporting & Enforcement

An unfortunate by-product of establishing core values and ethical expectations is that **eventually someone will violate them.** Employees must have a method of reporting violations and suspicions of unethical conduct, such as an **Ethics Hotline.**

- Reward employees that report true issues
- Educate employees that the hotline is not intended for reporting non-ethical issues and petty indifferences
- Ensure that submissions are routed to appropriate individuals based on the nature of the claim
- Be timely with contacting individuals that submit a report

  » **Urgency of action will reinforce the importance of the organization’s values and ethical expectations**
Reporting & Enforcement

Unethical conduct and violations of the organization’s code of conduct, values, and policies must be addressed swiftly and appropriately.

- Each issue should be thoroughly documented and evaluated
- Consider whether the employee has violated expectations previously and may have established a pattern
- Evaluate the significance of the issue and respond appropriately
- Failure to adequately respond to violations sends the message that the values are not important
Assessing Ethics

► What are practical ways to evaluate ethics beyond existence of policies and check-the-box compliance?

► How does ethics contribute to the overall governance of an organization?
Governance is a combination of processes and structures implemented by Board or Executive Management to inform, direct, manage, and monitor activities of the organization towards achieving their strategic goals.
Perspectives

**Governance is focused on providing direction and oversight to the organizations and their programs.**

- Guides the achievement of business’ goals and objectives
- Structured governance provides:
  - **Foresight**: Strategy driven, processes and control optimization, operational auditing, industry expertise, data modeling
  - **Insight**: Business insight, leverage KPIs, benchmarks, control and process effectiveness
  - **Hindsight**: Monitor control and compliance, risk driven

**Ethics provide the overall tone and focus of Governance.**
Governance Criteria

- Organization Policies and Procedures
- COSO 2013
  - Internal Control Framework for the Governance Structure
- NACD
  - Industry best practices
- External requirements
  - Legislative mandates
  - Exchange requirements
Elements of Governance
Elements of Governance

- Ethics
- Board Roles & Oversight
- Strategy, Policies and Procedures
- Structure & Accountability
- Communication & Reporting
- Assessment & Risk Management
Ethics Policy

» Code of conduct
» Conflicts of interest
» Gifts and vendor relationships

Ethics Communication Strategy

» Tone at the top
» Reinforcement in the middle
» Regular and consistent
Ethics

► Training
  » Content and meaning of policies
  » Includes examples of acceptable and unacceptable behavior
  » Employees and vendors

► Acknowledgements
  » Annual confirmation of understanding of policies and procedures
  » Across all levels of employees
Ethics

► Reporting
  » Ethics hotline
  » Reward reporting issues
  » Timely follow-up

► Monitoring and Enforcement
  » Employee satisfaction surveys
  » 360° evaluations
  » Route reports to appropriate parties
  » Respond quickly to inappropriate actions
Board Roles & Oversight

• Board Charter
  – Defined existence, purpose, and authority

• Bylaws
  – Board composition and qualifications
  – Officers
  – Committees
  – Changes to bylaws

• Board Policies
  – Accurate based on current operations
  – Communicated internally and externally
Board Roles & Oversight

• Board Structure
  – Positions
  – Responsibilities
  – Terms

• Subcommittees
  – Documented charters
  – Clearly defined
    • Composition
    • Purpose
    • Responsibilities
  – Defined mission statement
Strategy, Policies & Procedures

► Mission Statement and Values
  » Purpose of organization
  » Defines strategy and broad-view plan of execution
  » Establish core values

► Strategic Plan and Direction
  » Vision to accomplish mission
  » Clear trajectory for organization
  » Annual budget and tracking
  » Short and long-term plans
Strategy, Policies & Procedures

► Policies and Procedures
  » Support strategic plan
  » Accurate based on current operations

► Goals
  » Benchmarks for accomplishment of strategic plan
  » Measureable

► Performance Metrics
  » KPIs that monitor progress
  » Regularly available and reported
Structure & Accountability

► Human Resources Policies and Procedures
» Include compliance requirements
» Align with statement of values and ethics

► Job Descriptions
» Defines position within organization’s structure
» Include skills and competencies

► Performance Evaluations
» Performance measures relate to job descriptions
» Conducted at least annually
» Timely employee feedback
Structure & Accountability

► Compensation and Incentives
  » Clear compensation levels
  » Incentives align with strategic goals

► Training Plans
  » Continuous development across all levels
  » Monitor completion of approved plans

► Succession Plan
  » Defined succession plans or strategy for key personnel
Communication & Reporting

► Board Communications
  » Regular, consistent frequencies
  » At least quarterly
  » Simple, clear presentation

► Board Reporting
  » Key financial and operational information
  » Updates on strategic initiatives
Communication & Reporting

► Internal Reporting
  » Financial and operational information
  » Meaningful information

► Employee Communications/ Meetings
  » Dissemination of strategic initiatives
  » Organizational changes
  » Feedback from bottom up
Communication & Reporting

► Real-time/Dashboard Reporting
    » Timely feedback of KPIs
    » Consider KRIIs
    » Monitoring of goals and objectives

► Public Information
    » Accomplishments and achievements of organization for constituents
    » Timely communication of impactful information
Assessment & Risk Management

► Risk Identification
  » Key risks and risk events
  » Event scenario planning

► Risk Assessment
  » Determine probability and impact of risks and events
  » Evaluate high-risk areas
  » Create emerging risk watch list
Assessment & Risk Management

► Risk Management
  » Design plan to mitigate significant exposures
  » Determine where risk may be transferred or shared with other parties

► Monitoring and Compliance
  » Design monitoring plan
  » Identify if additional resources or expertise is required
A Different Approach

Governance is dynamic and is different for various organizations and/or programs.

Maturity Model Evaluation

» Assess the effective demonstration of each characteristic within each element of governance

» Assess governance maturity across the continuum of the elements

» Consider each characteristic and element independently before summarizing for the whole attribute
Maturity Model

Initial

Repeatable

Defined

Managed

Optimized
### Determining Maturity Target

**Governance Maturity Model**

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| **Ethics**
Is there an ethics policy in place? How are ethical standards communicated throughout the entity? Are ethics requirements enforced and followed by employees? How is compliance monitored? |
| No defined ethics policy. Misconduct may be addressed without a defined and consistent criteria. | Ethical values are informally communicated by the management. No formal ethics policy is in place. Misconduct is addressed on an ad-hoc basis without a defined and consistent criteria. | Formal ethics program is in place for the entire organization. Cases of employee misconduct are reported and addressed according to a defined criteria included in the formal ethics policy. | Ethics program is reviewed, revised and communicated throughout the entity on a defined schedule. Employees are required to acknowledge the program and any revisions. Ethics program violations are consistently addressed in accordance with the policy requirements. Ethics considerations are incorporated into processes. | Ethics program is updated on an annual basis. Violations are formally tracked and monitored. Information gathered through tracking and monitoring of violations is continuously analyzed and incorporated into the program updates. Ethical considerations are incorporated into programs throughout the organization. Recurring training and proactive monitoring is in place. |
| **Board Roles and Oversight**
Are Board roles explicitly defined through committees and charters? How consistently and effectively does the Board provide oversight to the organization? |
| Board does not have defined committees, a charter or bylaws and objectives have not been defined for the organization | Board has defined committees and communicated objectives and requirements for the organization | Board and its committees have established charters that been developed to align the organization’s mission and objectives | Board and its committees are functioning at the defined state building the foundation for a strong risk governance culture | Board and committees are committed to continuously improving capabilities at managed stage |
| **Strategy, Policies and Procedures**
Are the strategy, goals, objectives, policies, and procedures for supporting organization’s mission clearly defined? What are the key performance metrics to monitor achievement of the mission? Is the strategy communicated, documented, and aligned? |
| General understanding of strategic plan and vision. Policies and procedures are dependent on seasoned staff to carry out operations. No defined performance metrics for measuring achievement of mission and objectives | Informal policies and procedures exist and support strategic direction and key performance measures | Strategic plan has been developed, and key performance measures are defined. Policies and procedures are refined and documented | Strategic plan and goals are agreed upon and meaningful performance measures are in place. Policies and procedures are reviewed, revised, and communicated throughout the entity on a defined schedule. Performance metrics that align with the entity’s mission are monitored | Strategic plan and goals are understood and redefined annually. Policies are continuously evaluated on an enterprise wide basis to achieve the desired risk/reward balance. Performance measures are regularly monitored and reported to management to monitor achievement of goals and objectives |
| **Structure and Accountability**
How effective is the structure of the organization (Board and divisions) for managing programs, hiring, training and staff development, evaluating performance, and succession planning? Are roles and responsibilities defined with adequate staffing? |
| Limited accountability due to absence of clearly designated people charged with managing programs, evaluating performance, and overseeing specific risks | Responsibilities and authorities are defined for specific individuals and roles in addition to identifying staff development needs | Roles and responsibilities are clearly defined, robust management reports are utilized, key performance indicators are integrated into decision making processes, and career ladders are established | Formal lines-of-defense framework is implemented, risk measures are linked to performance goals, early warning systems are in place, capital allocation techniques are effectively deployed, and staffing levels are systematically determined | Organizational structure and delegation of authority is effective and improvement initiatives are established and are integrated with development and risk management plans |
| **Communication and Reporting**
What types of communication used by the organization for board reporting, internal reporting, staff meetings, dashboards and public information? |
| Informal communication and reporting guidelines exist | Basic reporting structure in place; including board reporting, retaining meeting minutes and agendas, and consistent updates to staff | Objectives and performance metrics are integrated into enterprise wide systems, providing dashboard reporting and performance management | Formal guidelines in place for consistent and timely communication to the board, internally to staff, and the public | Entity wide reporting needs are adequately serviced and the Board periodically evaluates performance management and communication effectiveness |
| **Assessment and Risk Management**
What processes are in place to monitor the organization’s progress for meeting stated objectives, performance metrics, risk management, and compliance? |
| Monitoring goals, objectives, and compliance is informal. Risk management is fragmented and ad hoc. Individual risks are managed in silos and the organization behaves reactively to events. There is no monitoring of performance metrics | Basic risk management policy structures and processes are in place, including performing an annual risk assessment; performance goals are informally established; performance metrics are informally monitored | Evidence of risk-sensitive and risk-aware decision making; control deficiencies drive improvement initiatives; risk measures are linked to performance goals | Improved quantification, time tested models, and data analytics assist decision makers with forecasting and scenario planning analysis to identify emerging risks and anticipate potential disruptive change. Performance metrics are regularly monitored | All elements of the risk management structure fully align with business environment changes; compliance and performance goals are continuously monitored and used to analyze risk trends associated with goals and objectives |
## Determining Maturity Target

### Governance Maturity

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Ethics

Is there an ethics policy in place? How are ethical standards communicated throughout the entity? Are ethics requirements enforced and followed by employees? How is compliance monitored?

- **No defined ethics policy.** Misconduct may be addressed without a defined and consistent criteria.

- **Ethical values are informally communicated by the management.** No formal ethics policy is in place. Misconduct is addressed on an ad-hoc basis without a defined and consistent criteria.

Board Roles and Oversight

Are Board roles explicitly defined through committees and charters? How consistently and effectively does the Board provide oversight to the organization?

- **Board does not have defined committees, a charter or bylaws and objectives have not been defined for the organization.**

- **Board has defined committees and communicated objectives and requirements for the organization.**

Strategy, Policies and Procedures

Are the strategy, goals, objectives, policies, and procedures for supporting organization's mission clearly defined? What are the key performance measures to monitor achievement of the mission? Is the strategy communicated, documented, and aligned?

- **General understanding of strategic plan and vision.** Policies and procedures are dependent on seasoned staff to carry out operations. No defined performance metrics for measuring achievement of mission and objectives.

- **Informal policies and procedures exist and support strategic direction and key performance measures.**

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Formal ethics policies are in place for organizations. Conduct is reported and defined criteria in policy.
Organizational Governance
Ethics

- **Initial**: Ethics policy does not exist

- **Repeatable**: Informal ethics policy and guidance exists

- **Defined**: Formally documented ethics policy, clearly defined reporting

- **Managed**: Regular monitoring and reporting ethics compliance, Formal ethics training and communications

- **Optimized**: Ethics compliance monitoring is integrated into processes, Continuous ethics monitoring

- **Initial**: Ethics policy does not exist
Organizational Governance
Board Roles

- **Optimized**: Board and committees are continuously improving capabilities
- **Managed**: Boards and committees function at Defined state
- **Defined**: Board and committees have formal charters
- **Repeatable**: Defined committees or board sub-committees
- **Initial**: Unpredictable, Inconsistent
Organizational Governance
Strategy & Policy

► **Optimized**: Strategic plan and goals are redefined annually, KPIs are regularly monitored and reported

► **Managed**: Defined strategic plan and goals, KPIs align with strategic plan, Policies and procedures updated and maintained regularly

► **Defined**: Strategic plan and key performance metrics are defined, Defined and documented policies and procedures

► **Repeatable**: Informal policies and procedures exist to support strategic direction

► **Initial**: Policies, procedures, charters do not exist, Ad-hoc, non-standardized processes
Organizational Governance
Structure & Accountability

►**Optimized**: Organizational structure improvements are integrated with development and risk management plans

►**Managed**: Risk measures are linked to performance goals, KPIs are actively monitored and early warning systems are in place

►**Defined**: Clear reporting lines and job responsibilities are communicated, Career ladders are established, Performance metrics are monitored and integrated

►**Repeatable**: Responsibility and authority for leadership positions exist, Staff development needs are identified, Informal performance metrics and goals established

►**Initial**: Performance metrics not defined, Inconsistent accountability structure
Organizational Governance
Communication & Reporting

► Optimized: Entity-wide reporting needs are adequately serviced

► Managed: Formal guidelines for board, internal and external communication are in place

► Defined: Objectives and performance metrics integrated into enterprise-wide systems, Dashboard reporting and performance management

► Repeatable: Basic reporting structure in place; including board reporting, retaining meeting minutes and agendas, and consistent updates to staff

► Initial: Informal communication internally and externally
Organizational Governance Assessment & Risk Management

► **Optimized**: Risk trends associated with KPIs are continuously monitored and analyzed

► **Managed**: KPIs and data analytics are integrated into performance models, Scenario planning in place to manage risks

► **Defined**: Risk assessments regularly performed, Risk measures linked to performance goals

► **Repeatable**: Basic risk-management policy structures established, Performance metrics are informally monitored

► **Initial**: Risks managed in silos; frequently not monitored
Determining Maturity Targets

To evaluate the governance of an organization against a maturity model, the target stage of maturity for each element must be established.

- Management consensus and support should be gained prior to performing maturity evaluation procedures.

- Target Maturity Stage should consider:
  » Age of the organization/program
  » External stakeholder expectations
  » Volume of stakeholders affected

- Tailor evaluation procedures to determine actual stage of maturity of the organization.
How to Determine Maturity

Ask these questions of your organization

• Where are we currently?
• Where do we want to go?
• How do we get there?
• What resources can we use?
• What are our limitations?
Developing a Mature Organization

**PROCESS**
Proven processes to ensure effectiveness, monitoring and execution of an organization’s key functions

**PEOPLE**
The right level of expertise to ensure effective management, monitoring and compliance with ethics and governance requirements

**TECHNOLOGY**
Maximizing the use of technology and analytics to monitor results and to compile and report information in support of strategic plans

The increase and decrease of **Resources** affects the **Process, People, and Technology** deployed
## Determining Maturity Target

### Governance Maturity Model

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<td>Formal ethics program is in place for the entire organization. Cases of employee misconduct are reported and addressed according to a defined criteria included in the formal ethics policy.</td>
<td>Ethics program is reviewed, revised and communicated throughout the entity on a defined schedule. Employees are required to acknowledge the program and any revisions. Ethics program violations are consistently addressed in accordance with the policy requirements. Ethics considerations are incorporated into processes.</td>
<td>Ethics program is updated on an annual basis. Violations are formally tracked and monitored. Information gathered through tracking and monitoring of violations is continuously analyzed and incorporated into the program updates. Ethical considerations are incorporated into programs throughout the organization. Recurring training and proactive monitoring is in place.</td>
</tr>
<tr>
<td><strong>Board Roles and Oversight</strong></td>
<td>Board does not have defined committees, a charter or bylaws and objectives have not been defined for the organization</td>
<td>Board has defined committees and communicated objectives and requirements for the organization</td>
<td>Board and its committees have established charters that been developed to align with the organization's mission and objectives</td>
<td>Board and its committees are functioning at the defined state building the foundation for a strong risk governance culture</td>
<td>Board and committees are committed to continuously improving capabilities at managed stage</td>
</tr>
<tr>
<td><strong>Strategy, Policies and Procedures</strong></td>
<td>General understanding of strategic plan and vision. Policies and procedures are dependent on seasoned staff to carry out operations. No defined performance metrics for measuring achievement of mission and objectives</td>
<td>Informal policies and procedures exist and support strategic direction and key performance measures</td>
<td>Strategic plan has been developed, and key performance measures are defined. Policies and procedures are refined and documented</td>
<td>Strategic plan and goals are agreed upon and meaningful performance measures are in place. Policies and procedures are reviewed, revised, and communicated throughout the entity on a defined schedule. Performance metrics that align with the entity’s mission are monitored</td>
<td>Strategic plan and goals are understood and redefined annually. Policies are continuously evaluated on an enterprise wide basis to achieve the desired risk/reward balance. Performance measures are regularly monitored and reported to management to monitor achievement of goals and objectives</td>
</tr>
<tr>
<td><strong>Structure and Accountability</strong></td>
<td>Limited accountability due to absence of clearly designated people charged with managing programs, evaluating performance, and overseeing specific risks</td>
<td>Responsibilities and authorities are defined for specific individuals and roles in addition to identifying staff development needs</td>
<td>Roles and responsibilities are clearly defined, robust management reports are utilized, key performance indicators are integrated into decision making processes, and career ladders are established</td>
<td>Formal lines-of-defense framework is implemented, risk measures are linked to performance goals, early warning systems are in place, capital allocation techniques are effectively deployed, and staffing levels are systematically determined</td>
<td>Organizational structure and delegation of authority is effective and improvement initiatives are established and are integrated with development and risk management plans</td>
</tr>
<tr>
<td><strong>Communication and Reporting</strong></td>
<td>Informal communication and reporting guidelines exist</td>
<td>Basic reporting structure in place; including board reporting, retaining meeting minutes and agendas, and consistent updates to staff</td>
<td>Objectives and performance metrics are integrated into enterprise wide systems, providing dashboard reporting and performance management</td>
<td>Formal guidelines in place for consistent and timely communication to the board, internally to staff, and the public</td>
<td>Entity wide reporting needs are adequately serviced and the Board periodically evaluates performance management and communication effectiveness</td>
</tr>
<tr>
<td><strong>Assessment and Risk Management</strong></td>
<td>Monitoring goals, objectives, and compliance is informal. Risk management is fragmented and ad-hoc. Individual risks are managed in silos and the organization behaves reactively to events. There is no monitoring of performance metrics</td>
<td>Basic risk management policy structures and processes are in place, including performing an annual risk assessment; performance goals are informally established; performance metrics are informally monitored</td>
<td>Evidence of risk-sensitive and risk-aware decision making; control deficiencies drive improvement initiatives; risk measures are linked to performance goals</td>
<td>Improved quantification, time tested models, and data analytics assist decision makers with forecasting and scenario planning analysis to identify emerging risks and anticipate potential disruptive change. Performance metrics are regularly monitored</td>
<td>All elements of the risk management structure fully align with business environmment changes; compliance and performance goals are continuously monitored and used to analyze risk trends associated with goals and objectives</td>
</tr>
</tbody>
</table>
Assessing Maturity

Recognize the incremental achievements of demonstrating the individual characteristics of each governance attribute.

![Bar chart showing maturity levels for Board Oversight]
Consolidate the results of each attribute to represent a representation of the maturity levels for the attributes of ethics and governance as a whole.

Compare the depiction of the current condition to the target maturities of each attribute as a visual representation of the growth needed to reach the target.
So What?

What can Internal Audit do to **make a difference**? How can IA **support a culture of ethics** within the organization?

► Lead by example: are we doing what’s right?

► Develop monitoring activities to identify and assess compliance with expectations

► Evaluate for your organization:
  
  » Do you have the ability to effectively demonstrate performance of key attributes for ethics and/or governance?
  
  » Do you have the people, process, and technology to reinforce ethics and governance initiatives?

► Incorporate/reference the organization’s core values into audit findings and criteria

*daniel.graves@weaver.com*