Developing an Integrated Anti-Fraud, Compliance, and Ethics Program

Establishing an Effective Anti-Fraud, Compliance, and Ethics Function
Discussion Questions

1. Who is the primary owner of the anti-fraud, compliance, and ethics program in your organization? Are these programs—and their oversight—integrated?

2. Does your organization have a designated compliance and ethics team? If yes, how is it structured? To whom does it report?
Establishing an Effective Function

- To be effective, the party responsible for the compliance and ethics program must have:
  - Adequate resources
  - Appropriate authority
  - Unfiltered access to the board or a subcommittee
Establishing an Effective Function

- Availability and competency of resources:
  - Headcount: CECO? Others?
  - Staff qualifications
  - Budget
Establishing an Effective Function

- As part of legal versus stand-alone:
  - Organizational resources
  - Risk profile
  - The missions and mandates of the two functions
  - Independence and potential conflicts of interest
  - Maintaining legal privilege in investigations
Establishing an Effective Function

- Ideal reporting structure:
  - Report directly to CEO with indirect, but unfiltered, access to board or subcommittee.
Establishing an Effective Function

- Authority
- Accountability
- Credibility:
  - Committed to ethics
  - Aware of and immersed in company realities
  - Approachable
  - Trustworthy
Establishing an Effective Function

- Independence:
  - Make decisions without interference.
  - Objectively evaluate decisions, conduct, and tone.
  - Raise concerns.
  - Be free of conflicts of interest.
Structuring the Compliance and Ethics Function

Centralized versus siloed

Global versus local
Roles and Responsibilities Related to Fraud, Compliance, and Ethics

- Various parties play a role in facilitating and maintaining an integrated program.
Board of Directors

- Must be knowledgeable about program and oversee its implementation

Benefits to board oversight of program:
- Lends authority to program and identifies program as a matter of company policy
- Provides oversight of the program by personnel not involved in day-to-day implementation
- Allows documentation of program efforts in board minutes
Board of Directors

- Set an appropriate tone, including realistic expectations of management.
- Ensure fraud, compliance, and ethics are on the agenda regularly.
- Recognize fraud, compliance, and ethics risks, as well as their potential impact.
- Raise awareness of the risks.
Board of Directors

- Develop a strategy to assess and manage risks that align with risk appetite and strategic plans.
- Make ethics a priority in hiring and firing decisions.
- Proactively monitor and evaluate the anti-fraud, compliance, and ethics activities.
Board of Directors

Engaged and competent board of directors

Effective anti-fraud, compliance, and ethics program

Benefit

Benefit
Audit Committee

- Oversee the assessment and monitoring of the organization’s fraud, compliance, and ethics risks.
- Receive regular updates on the status of reported or alleged fraud and misconduct.
- Meet regularly with key internal parties to discuss identified fraud, compliance, and ethics risks and the steps taken to address these risks.
Audit Committee

- Understand how internal and external audit strategies address risks.
- Provide external auditors with evidence of the committee’s dedication to compliance, ethics, and fraud risk management.
- Engage in candid conversations with external auditors about any known or suspected issues.
Audit Committee

- A non-executive director who acts as ethics champion should chair the committee.
- If established, the separate ethics or compliance committee should oversee these programs.
Executive Management

- Primarily responsible for designing, implementing, monitoring, and improving the program
Executive Management

- Be intimately familiar with organization’s risks.
- Ensure internal controls are effective.
- Set the tone at the top and monitor culture.
- Clearly communicate zero tolerance for fraud and misconduct.
- Allocate adequate resources to program.
- Take seriously all reported incidents and investigate as appropriate.
- Punish perpetrators.
- Remediate weaknesses.
Chief Ethics and Compliance Officer

- Represents the face of compliance and ethics throughout organization

- Must have:
  - Appropriate experience and knowledge base
  - Passion for ethics and compliance
  - Leadership skills
  - Courage
  - Integrity
Chief Ethics and Compliance Officer

- Clearly defined role:
  - Tailored to organization
  - Provided with necessary authority and resources
- Full member of executive team
Chief Ethics and Compliance Officer

- Oversee daily operations of compliance and ethics program.
- Serve as ethics champion, resource, and coach.
- Establish program objectives, benchmarks, and metrics.
- Oversee the design and implementation of all program components.
Chief Ethics and Compliance Officer

- Raise awareness about the importance of and resources to help with making ethical decisions.
- Proactively foster an ethical culture.
- Manage the ethics and compliance team.
- Monitor and evaluate program effectiveness.
Chief Ethics and Compliance Officer

- Regularly report to the board:
  - Compliance and ethics risks
  - Program initiatives
  - Incidents
  - Progress toward program goals

- Should have:
  - Indirect reporting line to the board
  - Direct, unfiltered access to the board
  - Performance goals set by the board and CEO
  - Employment and termination decisions made by the board
Compliance and Ethics Support Staff

- Might be within compliance and ethics function or distributed in other departments
- Provide additional point of contact for employees with compliance or ethics concerns
Compliance and Ethics Support Staff

Should be individuals who:

- Are knowledgeable about the goals and components of the compliance and ethics program
- Understand how their specific roles and responsibilities help drive the program
- Have good rapport with others and a reputation of integrity
- Are free of potential issues that would undermine the organization’s ethical culture
Compliance and Ethics Support Staff

- Serve as representatives of the CECO and the compliance and ethics program.
- Assist in promoting and embedding ethical values throughout the company.
- Serve as a resource for employees with compliance or ethics questions.
Compliance and Ethics Support Staff

- Assist in developing or providing training to other staff members.
- Provide feedback to the CECO about the operations of the program.
- Escalate any serious issues or incidents to the CECO.
Legal

- Closely collaborates with compliance and ethics function
- Advises CECO regarding:
  - Laws and regulations that the compliance program must cover
  - Content and wording of company policies
  - Document retention requirements
  - Whistleblower issues
  - Investigations into incidents
Human Resources

- Collaborates with CECO on:
  - Hiring due diligence
  - Company policies
  - Employee training initiatives
  - Investigations

- Informs CECO of any compliance or ethics issues reported directly to HR
Internal Audit

- Provide independent assurance on the effectiveness of the organization’s risk management strategies, internal controls, and governance processes.
Internal Audit

- Audit the compliance and ethics program:
  - Have all key risks and issues been identified and addressed by the program?
  - Does the program provide reasonable assurance of compliance with applicable policies, laws, and regulations?
  - Is the program appropriately and effectively designed, implemented, documented, and resourced?
  - Do the program monitoring and assessment activities accurately evaluate the program’s effectiveness?
Internal Audit

- Fraud-related responsibilities:
  - Assess effectiveness of anti-fraud controls.
  - Review the comprehensiveness and adequacy of fraud risks identified by management.
  - Consider fraud risk assessment when developing the audit plan.
  - Review fraud risk management strategy and capabilities.
  - Communicate regularly with those responsible for the fraud risk assessment to ensure all fraud risks have been appropriately identified and considered.
Internal Audit

- Fraud-related responsibilities:
  - Maintain an attitude of professional skepticism and be on guard for signs of fraud.
  - Take an active role in supporting the ethical culture.
  - Work with or lead fraud working groups within the organization.
  - Report to the audit committee on plans for and results of audit work.
  - Respond to fraud as indicated in charter.
Middle Management

- Demonstrate a commitment to ethics.
- Display ethical behavior and sound judgment.
- Be approachable so that team members know they can turn to their supervisor with questions or concerns.
- Help conduct training.
- Incorporate compliance and ethics into performance goals and team member evaluations.
- Elevate issues when appropriate.
Staff

- Understand:
  - The expectation for ethical conduct
  - Their roles within the internal control framework
  - Potential compliance issues related to their specific positions
  - How their job procedures are designed to manage fraud, compliance, and ethics risks
  - How fraud, noncompliance, and misconduct affect everyone within the organization

- Act ethically and seek out guidance in making ethical decisions.
Staff

- Comply with organizational policies and procedures.
- As required, participate in:
  - Creating and strengthening the internal control environment
  - Designing, implementing, and monitoring anti-fraud, compliance, and ethics activities
- Report suspicions or incidences of fraud, noncompliance, or misconduct.
- Cooperate in investigations.