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

According to the Sentencing Guidelines, the party responsible for the compliance and ethics program “shall be given adequate resources, appropriate authority, and direct access to the governing authority or an appropriate subgroup of the governing authority.”
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 that 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.
Executive Management

- 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

▪ It 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 that 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.
Internal Audit
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.