

Anti-Fraud Collaboration WEBCAST

Your Role in Sustaining a Culture That Deters Fraud

April 16, 2014

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Today's Program

Goals of the Program

- This program is part of a series of three webcasts examining the financial fraud issue from several related perspectives
- Today, we will discuss sustaining corporate culture as a major deterrent to fraud in organizations
- Our experts have experience in shaping, observing, or auditing within various corporate cultures
- We will use examples and real situations to assist you in understanding the interplay between culture and fraud

Panelists

Karl Erhardt

Senior Vice President & General Auditor
MetLife

Mary Guilfoile

Chairman
MG Advisors, Inc.

Janice Innis-Thompson

Senior Managing Director, Chief Compliance and Ethics Officer
TIAA-CREF

Robert Kueppers

Senior Partner, Global Regulatory and Public Policy
Deloitte LLP

Moderator

Cindy Fornelli

Executive Director
Center for Audit Quality

Key Attributes of a Strong Ethical Culture

Code of Conduct

- Communicates company values
- Focuses on expected behaviors
- Is readily accessible to and understood by employees
- Reinforced frequently through training and communications
- Enforced with consequences for non compliance

Key Attributes of a Strong Ethical Culture

Top management sets the tone and establishes the values

- Leads by example
- Cascades the messaging down through the organization
- Reinforces expectations in messages to employees
- Rewards exemplary behavior

Key Attributes of a Strong Ethical Culture

Problems identified, investigated and resolved

- Violations reported without fear of retaliation
- Clear escalation protocols
- Helpline/hotline program
- Misconduct dealt with promptly
- Appropriate remedial action taken
- Appropriate communications to employees about program operations and outcomes

Responsibilities of Company Management

- Set the tone
- Develop effective, enterprise-wide programs and policies
- Assess risks and develop internal controls (mitigate opportunities to commit fraud or ethics violations)
- Monitor compliance with the program
- Investigate and resolve issues, including determining consequences for non-compliance

Responsibilities of the Board

Ethical culture driven by the board through the following activities:

- Assess tone at the top through observation and inquiry
- Be certain there are policies, processes and procedures
- Assure there are adequate information and reporting systems
- Determine whether any shortcomings represent an enterprise risk that needs to be mitigated
- Carry through at the board level the ethical culture in board discussions and decisions

Responsibilities of the Board (*cont.*)

- Board committees should see their role as overseeing how the culture is working
- Compliance is a regular agenda item for the audit committee
- Evaluate strength of Internal Audit and its programs

Responsibilities of Internal Audit

- Messaging from senior management
- Reinforcing culture through IA activities and interactions
- Employee communications
- Compliance policies
- Accountability
- Risk management
- Financial controls

2013 COSO Framework Update Articulates Principles of Effective Internal Control

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Corporate Culture Key Consideration for the External Auditor

- Client acceptance and continuance discussions
- Audit risk assessment
- Planning and scoping the audit engagement
- Updating audit plan as work progresses
- Share any observations with management
- Determine if any violations impact the F/S
- Discussions with client audit committee

Keys to Successful Implementation

- Living, breathing, code of conduct
- Training and education
- Reinforcing core values
- Reward employees who demonstrate the culture
- Tying ethical behavior to performance evaluations and compensation decisions
- Whistleblower program/system to respond to allegations
- Make changes as needed: take steps to prevent future incidents
- Ensure consistent enforcement

Lessons Learned from the Trenches

- Complexities of global compliance and cultural differences create serious challenges
- Seeing the audit committee signal culture changes that last
- Complexities of “last minute” whistleblower
- Importance of a thorough investigation

Major Components of Successful Monitoring Programs

- Board oversight
- Regular, periodic reviews
- Employee satisfaction/attitude surveys
- Creating a dynamic, evolving program
- Measurable compliance data
- Process for addressing issues

Analytics and Fraud Detection



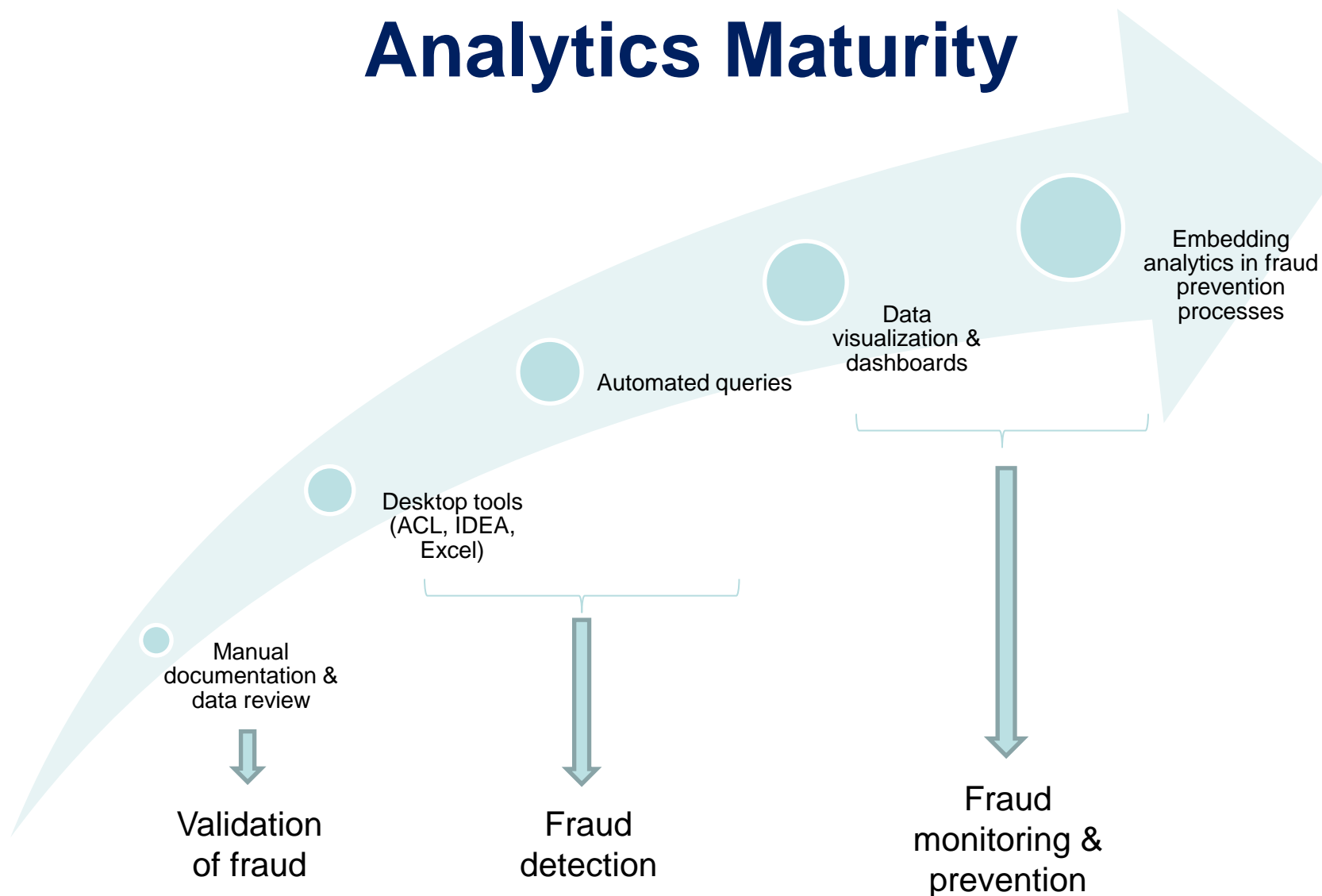
Use analytics to monitor areas with greatest opportunity for fraud

- Cash transactions
- Control deficiencies
- Compensation structures
- Product design
- Weak policies

Implement analytics by experimentation

- Obtain granular data for a period of time
- Knowledge of the process & common fraud schemes
- Mine the data
- Look for outliers
- Iteratively improve the analytics model

Analytics Maturity



Communicating Program Results

- To the board/audit committee
- To senior management
- To employees
- To external stakeholders
- Leading practices and where this is headed

Key Takeaways

- Managing the behavioral component of compliance is difficult
- Be prepared to make mid-course corrections – the program has to evolve to address external expectations
- The new COSO framework will require new fraud risk assessments by the end of 2014
- Ethical culture has to be embedded into the DNA of the company

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