Department of Public Works Fraud Conference 26 September 2007

Codes of Ethics and Conduct

Why It Is Not Working

How to make it work !!

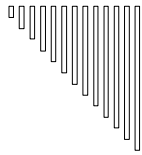
Why We Break The Law
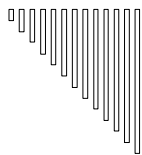
Pressure

Opportunity

Rationalization
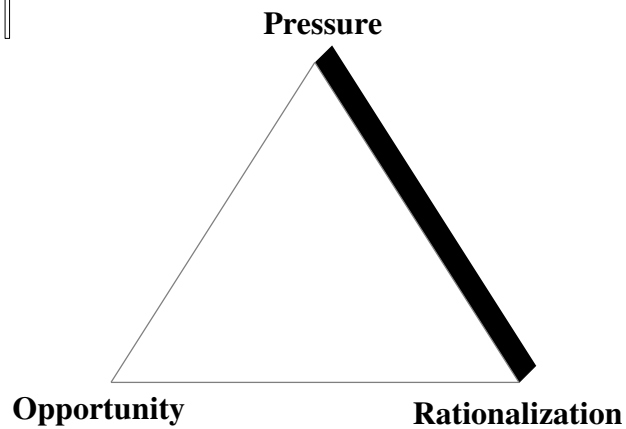
Codes of Ethics
Some Issues

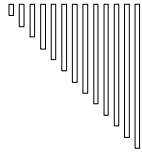Arrive at airport in Japan
- ☐ Hosts offer substantial gifts to welcome you – pens costing R10 000
- ☐ Your policies say can only accept reasonable gifts of nominal value
- ☐ What will you do

Codes of Ethics
Some Issues

You manage subsidiary of SA company in China
- ☐ Chinese employee caught stealing
- ☐ You are not sure of Chinese custom
- ☐ Your company policies very clear
- ☐ Hand matter to authorities
- ☐ What will you do

Codes of Ethics
Some Issues

☐ In Japan US businessmen insulted their hosts by refusing traditional gift giving lost contract

☐ In China a manager of a US company caught an employee stealing. Reported it to Chinese provincial authorities in terms of company policies; employee was executed
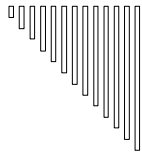
Source Culture Dynamics of Corporate Fraud
Douglas M Watson
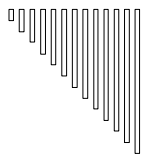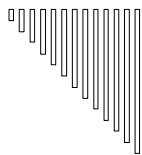
Codes Of Ethics
Culture China

Guanxi – relationships and contacts
☐ Informal social relationship between two particular persons
☐ It assumes reciprocity of favour
☐ A favour granted by one person will be returned
☐ Reciprocity is guaranteed by personal trust between the two
☐ Should be some positive human feelings
☐ Refers to a long-term stable relationship
☐ Relationship needs to be cultivated
☐ It is a mutual commitment
Japan on/obligation giri/to repay
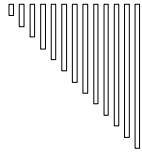
Codes of Ethics
Regulatory Framework

- ☐ King 11
- ☐ PFMA
- ☐ ISA 240
- ☐ Best practice governance

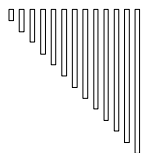## Codes of ethics
King 11

What it is

- ☐ Some other names:credo declaration of business principles value statement standard of conduct code of conduct

- ☐ Code of ethics is a document that stipulates moral acceptable behavior in an organization

- ☐ It defines moral standards or guidelines that need to be respected by all members of organization in dealings with internal and external stakeholders.

Codes of Ethics
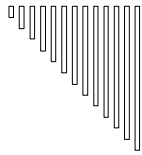## King 11

Purpose of code of ethics internal
- ☐ Morally acceptable behavior in organization
- ☐ Guidance to moral decision-making
- ☐ Promote organizational integration and co-ordination
- ☐ Can rally staff around specific moral values
- ☐ Strengthen commitment to organization

Codes of Ethics
King 11

Process for developing code of ethics
- ☐ Need to build support
- ☐ If moral standards of organization can be developed by senior management will need communication and explanation
- ☐ If external stakeholders engage them
- ☐ If shared values between members of organization; consensus seeking process
- ☐ Training ; communication

Codes of Ethics
King 11

Content of code
- ☐ Rationale:justification for benefit of all certainty
- ☐ Ethical values or standards: norms to guide organization
- ☐ Prohibitions: prescribe specific actions to avoid malpractice
- ☐ Sanctions: zero tolerance disciplinary action
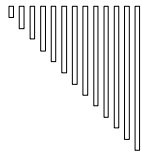
Tone of code
- ☐ Spirit and method of communication: make people feel good/proud
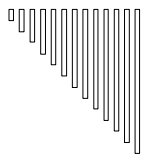
Codes of Ethics
Monitoring

What will be indicators of failures in control

environment
- ☐ Hotlines
- ☐ Codes of ethics and conduct
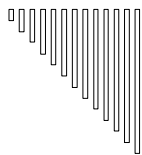- ☐ Training of personnel

Codes of Ethics
Importance of Tip-Offs

Association Certified Fraud Examiners 2004

Initial detection employees (management)

☐ Tip-offs – 40% (51%)

☐ Internal audit – 24% (23%)

☐ By accident – 21% (12%)

☐ Internal controls – 18% (6%)
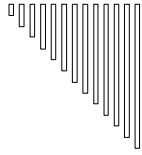
☐ External audit – 11% (26%)

Codes of Ethics
Sources of Tip-Offs

Who reports fraud?

☐ Employees – 60%

☐ Customers – 20%

☐ Suppliers – 16%

☐ Anonymous – 13%

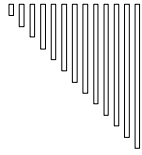Do you keep these statistics and what do the trends tell you?

Codes of ethics
Will You Report

Example one

Codes of ethics
Will You Report

What will you do

Codes of ethics
Will You Report

Example two
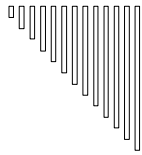

Codes of Ethics
Differences

Personnel rules
- thou shall
- no discretion

Code of ethics
- value system
- beliefs
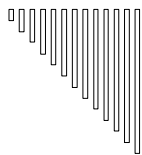- difficult to define needs to be internalised

Code of conduct
- deals with grey areas
- tram lines - though should

Codes of Ethics
Examples

Outside work
- □ personnel rules - must get permission
- □ code of ethics - adhere to
- □ code of conduct - not to embarrass organisation
- □ Give examples

Codes of Ethics
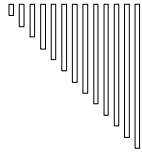## Examples

Entertainment
- □ personnel rules - yes or no
- □ code of ethics - strip clubs
- □ code of conduct - soccer or a week away

Why focus on entertainment and gifts
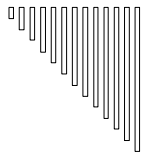
Lavish entertainment

Ten reasonable lunches

Exchanging a business class ticket for two
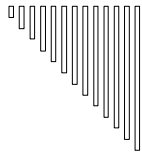
economy class tickets

Codes of Ethics
Values

Organisation
- ☐ Respect
- ☐ Integrity
- ☐ Honesty
- ☐ Transparency
- ☐ Commitment
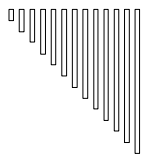
Codes of Ethics
Values

Develop for another organisation

Fraud Prevention Plans
Codes of Conduct

Content
- Policy statement zero tolerance
- Applies to everyone regardless of position or tenure
- Applies to stakeholders
- What constitutes irregular behaviour
- Role of auditors
- Role of corporate investigators

Fraud Prevention Plans
Codes of Conduct

- Enforcement of rules codes of ethics and conduct
- Disciplinary or prosecution
- Hot/ethics lines
- Feedback to organisation
- Fraud awareness training
- Relationships
- The grey areas
- Discuss zero tolerance
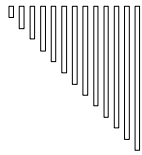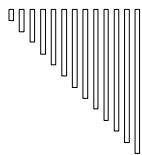
Codes of Conduct
Whistle Blowing

In – house
- ☐ Office hours/ person or tape
- ☐ After hours tape

Contracted out
- ☐ 24 hours person to person
- ☐ Specialist training in interviewing
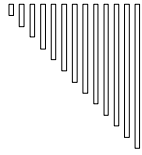- ☐ Various language

The Protection of Disclosure Act 2000

Codes of Conduct
Whistle Blowing

Factors inhibiting reporting
- ❑ Reluctance upbringing
- ❑ Supervisor involved
- ❑ Past reports not acted upon
- ❑ Senior executives not available
- ❑ Absence of rules on reporting
- ❑ Not aware of fraud strategy

Codes of Ethics and Conduct
How To make It Work

- Fraud risk assessments ongoing as circumstances changes
- Define illegal/unethical behaviour
- Communicate
- Walk the talk in every small way
- Safe reporting
- Reward integrity
- Trust ++
- Workshops instead of just publishing