Survey on Ethics and Governance A Research Project

The Institute of Internal Auditors Austin Chapter 2005-2006 Research Project

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INTRODUCTION

The Institute of Internal Auditors Austin Chapter Research Committee recently conducted a survey of 55 chief audit executives (CAEs) who are members of the IIA Austin Chapter and/or the Texas State Agency Internal Audit Forum to obtain ideas on auditing ethics and governance in keeping with IIA Performance Standard 2130. Only the CAE (or designee) or the senior auditor within each organization was asked to respond to the survey to ensure that only one response was received from each chapter member organization.

The survey was administered on-line through *SurveyMonkey*, and the web link to the survey was sent via email to each member organization's CAE. The survey questions were a combination of 24 yes/no, multiple-choice and open-ended type questions. The open-ended questions were used primarily to gather additional information or clarification pertaining to the other questions. The survey summary indicates that not all of the respondents answered every question. Respondents had the option of identifying their organization on the last question; otherwise, the respondents' organization remained unnamed.

The purpose of the survey was to identify the role that Internal Audit plays within the ethics and governance structure of the organization, and to obtain ideas on how internal auditors can help create an awareness of the ethics and governance concepts within their organization. The survey consists of four sections: Organizational Demographics, Policy and Procedures, Executive Management, and Internal Audit. The content of this report is a summary of the information gathered through the survey.

ORGANIZATIONAL DEMOGRAPHICS

The questionnaire was sent to 55 CAEs within the Austin Chapter and/or the Texas State Agency Internal Audit Forum. Forty-one useable responses were received, a 75% response rate. In the first section of the survey, the respondents were asked to identify their organization's industry type and the size of their organization -- by number of employees and by annual revenue (or budget).

Industry Type

The five industry types consisted of federal/state government, city/county government, education, private sector, and not-for-profit. Seventy-one percent of survey respondents were from the government sector -- either federal, state, county or city. The education segment accounted for 17%, private sector accounted for 10%, and not-for-profit accounted for the remaining 2%.

Size of Organization

Respondents were asked to assess their organization size by the number of employees and by their annual revenue or budget. The results are illustrated in Tables 1 and 2 below.

Table 1 Number of Employees

	Response Total	Percent
Less than 100	1	2.4%
100 to 500	12	29.3%
501 to 1,000	6	14.6%
1,001 to 5,000	11	26.8%
More than 5,000	11	26.8%

Table 2
Annual Revenue or Budget

	Response Total	Percent
Under \$10 million	3	7.3%
\$10 million to \$25 million	2	4.9%
\$26 million to \$100 million	9	22%
\$101 million to \$500 million	9	22%
\$501 million to \$1 billion	7	17.1%
More than \$1 billion	11	26.8%

POLICIES AND PROCEDURES

Survey questions four through twelve relate to the organization's ethics and governance policies and the key features; and communication efforts utilized within the organization.

Ethics and Governance Policy

While 93% of the organizations do have an ethics policy, only 38% report having a governance policy. Further, only 35% of the organizations have **both an ethics and a governance policy**. An additional three respondents indicated that while their organization does not have a specific ethics policy, the employee code of conduct does address ethical standards.

The survey provided respondents an opportunity to share some of the key features of their organizations' ethics and governance policies. Most policies address the common elements such as confidentiality; conflict of interest; fraud/waste prevention/detection; use of company/state property; nepotism; standards of performance and professionalism; acceptance of benefits, gifts and favors; and outside employment.

Communicating the Policies

Although establishing policies within an organization is important, equally important is how the policies are communicated throughout the organization. Therefore, the respondents were asked to indicate the methods used by their organization to communicate the ethics and/or governance

policies to the employees. The most common methods of communication include a combination of the following: management meetings (71%), email messages (61%), training sessions (66%), and other (42%). The "other" methods of communication included the use of new employee orientation, annual acknowledgment, newsletter, intranet, video, and/or the organization's general manual.

Perceived Gap or Not?

Another interesting question is whether the CAE perceives a gap between the organization's ethics and standards and the way the policies are administered -- 89% answered "no" perceived gap. However, the remaining 11% indicated that a gap does exist.

Ethics Advisor, their Job Title, and Ethics Hotline Service Available

Of the 30 organizations with an in-house ethics advisor, 66% of the advisors retain the job title of Attorney, 6% the Human Resources Manager, and the remaining 28% reported "Other" (Ethics Officer, Ombudsman, Corporate Compliance Office, or Executive Manager). Additionally, 66% of respondents said that their organization has some type of ethics or fraud hotline service available.

EXECUTIVE MANAGEMENT

The third section of the survey focused on executive management's role related to ethics and governance. Respondents were then asked to whom the CEO reports, how frequently executive management speaks about ethics and governance in management meetings, and whether the organization uses outside speakers to provide training about ethics and governance. Survey responses are illustrated in Tables 3 through 5 below.

Table 3
To Whom Does Your CEO Report?

	Response Percent
Taxpayers/Citizens	10.3%
Board or Commission	64.1%
Governor	5.1%
Owners/Shareholders	5.1%
Other	15.4%

Table 4
How Often Do Executive Leaders Speak About
Ethics and Governance in Meetings?

	Response Percent
Regularly	22%
Often	24%
Sometimes	32%
Occasionally	19%
Never	0%
Other	3%

Table 5
Has Your Organization Utilized Outside Speakers to Provide
Training About Ethics and Governance?

Yes	No	Other
37%	55%	8%

INTERNAL AUDIT

Section four of the survey consisted of a series of nine questions to identify Internal Audit's role within the organization's ethics and governance structure. Four of the questions provided for yes/no responses and the remaining five questions were open-ended.

Internal Audit's Role

As expected, a high percentage (82%) of respondents indicated that Internal Audit does play a role within the ethics and governance structure of the organization. Internal Audit's role may include providing advice, assisting with ethics training sessions, monitoring through compliance audits, investigating violations, and evaluating policies.

Assurance Audit on Ethics and Governance Within the Organization

While 18% of the respondents indicated they have completed an assurance audit on ethics and governance within their organization, another 11% indicated that an assurance audit is in progress or is scheduled. The respondents were asked to share with us their assurance audit objective and scope. Listed below are some of the responses we received:

- Test to determine that agency has the 11 elements of an enhanced, highly effective ethical culture in place, as listed in PA 2130-1(7).2. Administer a survey of all employees regarding ethics at the agency. Summarize results.
- Provide assurance that an effectively designed compliance program has been implemented for Code of Ethics and is operating effectively.

- Review of reports and information flow to management to determine if senior management received the quality of reporting and information necessary for knowledgeable decisions in governance of the agency.
- Assess employees' awareness of management's expectations for ethical conduct and behavior in the workplace.
- Identify financial and administrative impacts from ethical climate factors and ethics management. Assess the ethics management strategy as a control to mitigate risks from unethical and illegal behavior. Assess the prevalence throughout the departments of selected ethical climate factors and outcomes.
- Ethics survey and compliance review. Review of compliance with filing requirements of the ethics policy and state law. Follow-up review scheduled.
- Every audit, at every stage, considers the risk of fraud and/or non-compliance with company ethics policies.

Provide Consulting Services for Ethics and Governance Within the Organization

The respondents were asked if they provide consulting services for ethics and governance within their organization, and to share with us the audit objective and scope. Forty-nine percent have provided consulting services, and 5% have participated as an advisor. Listed below are some of the responses that we received:

- Develop interactive fraud/ethics training/prevention program.
- Assist during investigations about possible ethics violations.
- Serve on ethics task force.
- Assist with survey of control environment in particular units.
- Develop/review the ethics/fraud policy and make recommendations.

Compliance with IIA Standard 2130 on Governance

The CAEs were asked if their internal audit activity complies with IIA Standard 2130 on governance; and 69% said "yes" they do comply, 19% answered "no", and 11% selected "other."

Create an Awareness of Ethics and Governance Concepts

Further, the CAEs were asked to share their ideas on how Internal Audit can help create an awareness of ethics and governance concepts within an organization. Below are a few examples and ideas:

- Periodic mandatory review of the ethics statement and governance policies
- Survey employees regarding ethics and submit results to executive management
- Include ethics/governance components within audits and address issues in the recommendations
- Risk assessment process
- Regular communication with auditees and management

- Forward related articles and other publications to executive management
- Discuss in seminars, training sessions, email, intranet, posters, newsletter, staff/management meetings
- Ethics Officer and/or use of anonymous hotline

CONCLUSIONS

Although some form of ethics, governance, and fraud prevention queries are built into many routine Internal Audit programs and projects, auditing ethics and governance, exclusively, is new territory to the Internal Audit community. Internal Audit professionals have begun tackling this new audit area to assist their organizations and more fully comply with Standard 2130.

The results of the survey were shared during a seminar on *Governance – The Internal Auditor's Role* that was presented to the Austin Chapter on March 28, 2006. A copy of the entire survey is included in the **Appendix** to this report (page 8). Additionally, we will place the survey results on the Chapter's website.

The Chapter Research Committee would like to thank those who took the time to respond to our survey for sharing with us your thoughts and ideas. As always, we can learn much from one another by sharing ethics and governance audit programs, approaches, and reports.

Appendix I: IIA Austin Chapter Ethics and Governance Survey

A. ORGANIZATIONAL DEMOGRAPHICS

1. What best describes your organization?

Federal / State Government City / County Government Education Private Sector Not for Profit Other (please specify)

2. How many people are employed by your organization?

Less than 100 100 to 500 501 to 1000 1001 to 5000 More than 5000

3. What is your organization's annual revenue or budget?

Under \$10 million \$10 million to \$25 million \$26 million to \$100 million \$101 million to \$500 million \$501 million to \$1 billion More than \$1 billion

B. POLICY & PROCEDURES

4. Does your organization have an ethics policy?

Yes No Other (please specify)

- 5. If yes, please describe the key features of the ethics policy.
- 6. Does your organization have a governance policy?

Yes No Other (please specify)

- 7. If yes, please describe the key features of the governance policy.
- 8. How are the ethics and/or governance policies communicated to staff members?

Management meetings Email messages Training sessions Unknown Other (please specify)

9. Is there a perceived gap between what the organizations ethics and standards say and the way those policies and standards are administered?

Yes

No

10. Does your organization have an in-house ethics advisor?

Yes

No

11. If yes, what is the ethics advisor's job title?

Attorney Internal Auditor Human Resources Manager Other (please specify)

12. Does your organization have an ethics hotline service?

Yes

No

Other (please specify)

3. EXECUTIVE MANAGEMENT

13. To whom does your chief executive office report?

Taxpayers/Citizens
Board or Commission
Governor
Owners/Shareholders
Customers/Clients/Members
Other (please specify)

14. How often do your executive leaders speak about ethics and governance in management meetings or other settings?	
Regularly Often Sometimes Occasionally Never Other (please specify)	
15. Has your organization brought in outside speakers or trainers to provide information about ethics and governance?	
Yes No Other (please specify)	
4. INTERNAL AUDIT	
16. Does Internal Audit play a role within the ethics and governance structure of your organization?	
Yes No Other (please specify)	
17. If yes, please explain the role.	
18. Have you completed an assurance audit on ethics and governance within your organization	1 ?
Yes No Other (please specify)	
19. If yes, please describe the audit objectives and scope.	
20. Have you provided consulting services for ethics and governance within your organization	ւ?
Yes No Other (please specify)	
21. If yes, please describe the audit objectives and scope.	

22. Does your Internal Audit activity comply with IIA Standard 2130 on governance?

Yes No Unknown/Not Sure Other (please specify)

- 23. Please provide suggestions on how Internal Audit can help create an awareness of ethics and governance concepts within an organization.
- 24. Name of Organization (OPTIONAL)