



# Ethics Overview for Internal Auditors

Charlie Shannon, Partner

Brianna Brown, Senior Manager

November 3, 2023

---

The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. ISO/IEC 27001 services offered through Moss Adams Certifications LLC. Investment advisory offered through Moss Adams Wealth Advisors LLC.

# With You Today

---



**Charlie Shannon, CPA**  
*Audit Partner*

[charlie.shannon@mossadams.com](mailto:charlie.shannon@mossadams.com)  
(214) 242-7452



**Brianna Brown, CPA**  
*Audit Senior Manager*

[brianna.brown@mossadams.com](mailto:brianna.brown@mossadams.com)  
(425) 551-5737



# The Right Expertise to Serve You

For more than 35 years, our firm has built its credit union expertise through membership in credit union associations, continuing education, and involvement in industry events. Our firm currently serves over 150 credit unions ranging in size from less than \$100 million to more than \$20 billion in assets—with more than 90 clients with assets greater than \$500 million and with the average client size greater than \$1 billion in assets.



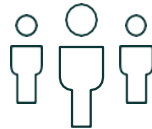
## CREDIT UNION EXPERIENCE

#2

in the nation in credit union assets audited

#4

in the nation in the number of credit unions served



## DEEP, CONSISTENT RESOURCES

175+

professionals dedicated to financial institutions



## EXCEPTIONAL CLIENT SERVICE

committed to maintaining close and regular contact with you throughout the year and serving as a resource for questions and advice with a quick response time



## BRIDGING THE DISTANCE GAP

work with clients seamlessly even when we're not on-site and we're well equipped for remote work



# POLLING QUESTION #1

Have you ever eaten a grape out of the produce aisle at the grocery store?

- A. Snack time!
- B. Never
- C. Plead the 5<sup>th</sup>



# Roadmap

---

- Definitions
- Code of ethics
- Dilemmas
- Ethical leadership
- Safeguards



# Definitions

---



# Business Ethics

**Morals:** Personal feelings about right versus wrong that come from within and can be shaped by upbringing, environment, and personal development.

**Ethics:** Set of standards for behavior defined by a group or population

- Decision-making process for determining right and wrong and the values and interests that dictate the weighing of pros and cons
- System of ethics can shape a person's moral development and vice versa
- Collective group sharing similar morals can provide guidance for corporate culture and identity



# Evolution of Ethics

- Classical theories of a business acting as a business
  - Early on, many employers were self-serving and individualistic
  - Often looked upon employers with disdain
- Evolution to more socially responsible approaches
  - Increased human resource departments, added mission statements, and code of conducts
  - Emphasized collaboration and working on equal footing
  - Graver penalties for legal missteps
- Profits versus the right decision
  - Altered view of customers to focus on (a) the right to safety (b) the right to be informed (c) right to choose, and (d) the right to be heard
- Focus on preventing conflicts through education





# POLLING QUESTION #2

Does your institution have a code of ethics?

- A. Yes, and it's readily available
- B. Yes, but not sure where it's located
- C. Unsure
- D. No



# Elements of a Code of Ethics

- Promotes policies to guide behavior
- Communicates organizational beliefs
- Framework for decision making and reporting
- Defines oversight roles
- May outline disciplinary actions
- Establishes trust and loyalty in the organization
- Encourages employees to serve the entity's aspirations



# IIA Code of Ethics

---

## FOUR MAIN SECTIONS

- Integrity
- Objectivity
- Confidentiality
- Competency



# Dilemmas

---



# Notable Ethics Failures

- Wirecard: accounting fraud related to falsifying accounts, inflating sales and profits, and alleged money laundering, ultimately leading to their bankruptcy
- Citibank: entered into Cease & Desist Order and will pay a \$400 million civil money penalty related to deficiencies in enterprise risk management, compliance risk management, data governance, and internal controls
- Capital One: willfully failed to file thousands of suspicious-activity reports in violation of the Bank Secrecy Act and was assessed a \$390 million civil money penalty
- Wells Fargo: more than 100 employees were fired for creating fake profiles and filing fraudulent applications to get money from the SBA relief program
- Pacific Gas & Electric: alleged to have overlooked faulty equipment which is alleged to have led to significant wildfires in California



# Ethical Dilemmas

---

## PROFITS OVER DOING THE RIGHT THING

- Passive corrections of errors
- Unsuitable products—pressure on members
- Timing of gains and losses





# Ethical Dilemmas (Cont.)

---

## MANAGEMENT PRESSURE

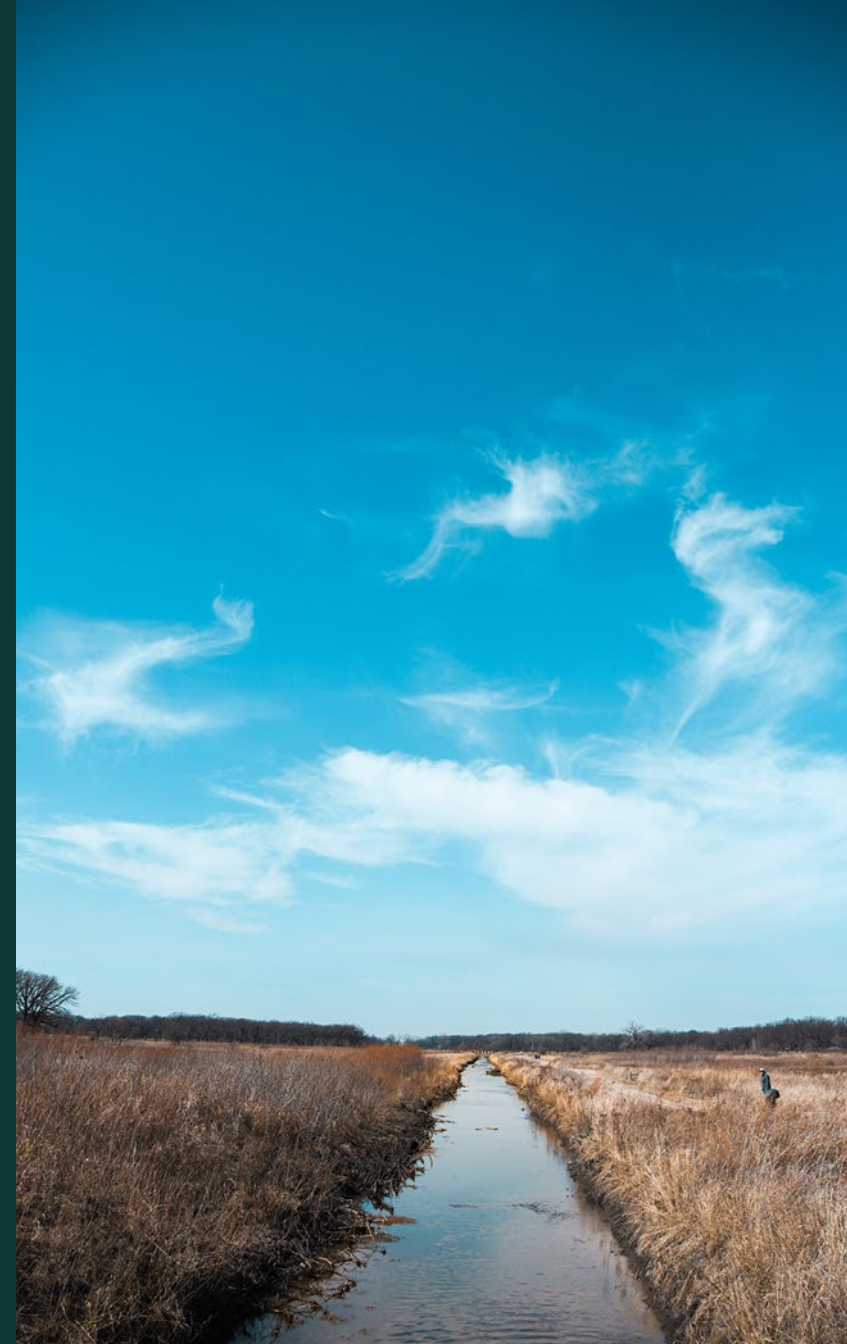
- Pressure to change findings
- Lack of funding
- Non-inclusionary culture
- Scope restrictions

# Ethical Dilemmas (Cont.)

---

## PERSONNEL – INTERNAL AND OUTSOURCED

- Requirement to adhere to a code of ethics (CIA, CPA)
- Outsourced firms do not have codes of ethics
- Lack of training
- Conflicts of interest





# Ethical Dilemmas (Cont.)

---

## ROLE OF THE INTERNAL AUDITOR IN THE ORGANIZATION

- Adequate oversight
- Internal auditor as a management control
- Internal audit and supervisory committee charters



# Ethical Dilemmas (Cont.)

---

## TECHNOLOGY

- Monitoring email and internet use
- Social media
- Employee account reviews



# POLLING QUESTION #3

Have you experienced ethical dilemma related to completing your audit plans?

- A. Yes
- B. No
- C. No comment



# Ethical Leadership and Safeguards

---



# Ethical Leadership

---

## TRAITS OF AN ETHICAL LEADER:

- Trust in employees
- Honesty in communications
- Empathy and openness to listen
- Leads by example and is consistent
- Stakeholders over profits
- CEO roundtable



# Safeguards and Internal Controls

- Whistleblower hotline
- Appropriate IT policies
- Mandatory vacations
- Appropriate training at all levels
- Annual independent audit
- Board oversight
- Segregation of duties
- Expense report reviews
- Written fraud policy
- Employee account reviews



# POLLING QUESTION #4

What is the number one way fraud is discovered within organizations?

- A. Internal auditor
- B. Hotline or tips
- C. External auditor
- D. By accident



# ACFE Report to the Nations 2022 Global Study on Occupational Fraud and Abuse

## OUR STUDY COVERED



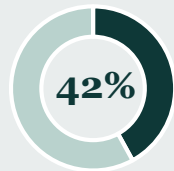
## LOSS PER CASE





# ACFE Report to the Nations 2022 Global Study on Occupational Fraud and Abuse

## DETECTION

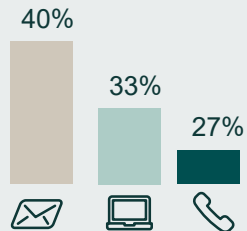


of frauds were detected by tips,

Which is nearly **3x** as many cases as the next most common method



More than **HALF** of all tips came from employees



● Email  
● Web-based online form  
● Telephone Hotline



Email and web-based reporting **BOTH** surpassed telephone hotlines

**Organizations with hotlines** detect fraud more quickly and have lower losses than organizations without hotlines

\$100,000

\$200,000

● Median loss

12 months

18 months

● Duration

**With fraud hotlines**

**Without fraud hotlines**

## SCHEMES

**ASSET MISAPPROPRIATION SCHEMES** are the most common but least costly

86%  
of cases

**\$100,000**  
median loss

**FINANCIAL STATEMENT FRAUD SCHEMES** are the most common but least costly

9%  
of cases

**\$593,000**  
median loss



## CORRUPTION

was the most common scheme in every global region



## A TYPICAL FRAUD CASE...

- causes a loss of **\$8,300 per month**
- lasts **12 months** before deflection



**8%** of fraud cases involved the use of **CRYPTOCURRENCY**

Among these cases, cryptocurrency was most commonly used for:

**48%** Making bribery and kickback payments

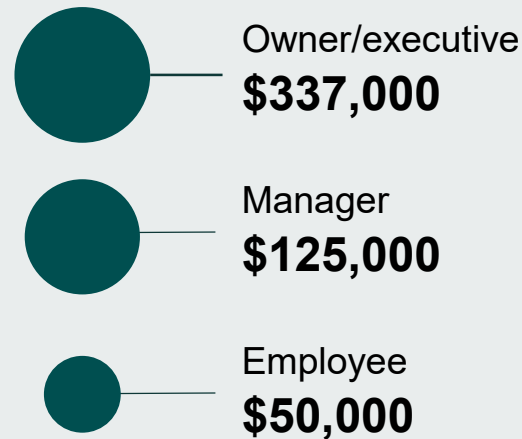
**43%** Converting misappropriated assets



# ACFE Report to the Nations 2022 Global Study on Occupational Fraud and Abuse

## PERPETRATORS

**Owners/executives committed only 23% of occupational frauds, but they caused the largest losses**



**Nearly half** of all occupational frauds came from these four departments:



**85%** of fraudsters displayed **BEHAVIORAL RED FLAGS** of fraud



**ONLY 6%** of perpetrators had a prior fraud conviction

## ANTI-FRAUD CONTROLS

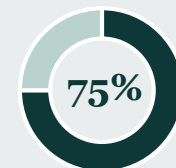
The presence of anti-fraud controls is associated with

↓ **LOWER** fraud losses **AND** 🔍 **QUICKER** fraud detection

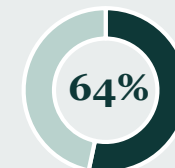
Nearly **HALF** of cases occurred due to:



**81%** of victim organizations **MODIFIED** their anti-fraud controls following the fraud



Increased management review procedures



Increased use of proactive data monitoring/analysis



# Big Picture

---

- Whistleblower program allows for prevention and detection of unethical behavior
- Effective corporate governance framework can mitigate risk
- Education is a key component to success
- Supervisory committee, internal audit and external auditors are integral to overall process



# NCUA Rules and Regulations

- NCUA doesn't have a provision explicitly requiring that credit unions make a hotline available for whistleblower employees
- NCUA expects member credit unions will incorporate a whistleblower program within its Fraud Policies and Procedures
- Section 1790b of the Federal Credit Union Act has a provision protecting whistleblowing employees against retaliation
- NCUA has a fraud hotline for the reporting of suspicious or illegal activity directly to NCUA
- Board members are responsible for exercising due care to ensure that internal controls address the risk of fraud
- NCUA examinations will continue to be focused on internal controls over fraud



# Features of Well-Defined Whistleblower Program

- Single hotline for all ethics issues with an option for anonymity
- Dual dissemination of the information
- Protocols for timely investigation and reports
- Data security and retention policies
- Ongoing message to motivate employees and vendors to use the hotline
- Calls shouldn't be answered or monitored by C-Suite



# Trends in Social Governance Audits

## **ENVIRONMENTAL, SOCIAL & GOVERNANCE:**

- Sustainability
- Corporate social responsibility
- Diversity and inclusion

As auditors, challenges remain when determining whether systems and internal controls are in place, nature of data reported, and ensuring the results are accurately interpreted for a given company's circumstances.



# Effective Risk Management Program

## SUGGESTED STEPS TOWARDS IMPROVING YOUR RESULTS:

- 1) Conduct a current state assessment of the organization to evaluate performance against stated goals and objectives
- 2) Develop recommendations related to findings based on current assessment
- 3) Create strategies for improving performance including the development and reporting of key metrics within your organization
- 4) Audit performance against key metrics and report to stakeholders







# Questions and/or Experiences?

<https://www.mossadams.com/articles/2021/03/business-ethics-programs-for-credit-unions>





The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. ISO/IEC 27001 services offered through Moss Adams Certifications LLC. Investment advisory offered through Moss Adams Wealth Advisors LLC.

©2023 Moss Adams LLP

