



Ethics Overview for Internal Auditors

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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.



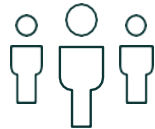
CREDIT UNION EXPERIENCE

#2

in the nation in credit union assets audited

#4

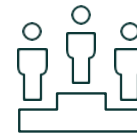
in the nation in the number of credit unions served



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 5th



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
- Binance: assessed \$4.3 billion in penalties related to various anti-money laundering (AML), Bank Secrecy Act failures and sanctions.
- Deutsche Bank: fined \$186 million for violating previous consent orders related to sanctions and AML weaknesses and control failures.
- T-Mobile: had at least three cybersecurity-related incidents in 2023 leading to reputational risks for failing to keep customer data safe.



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.)

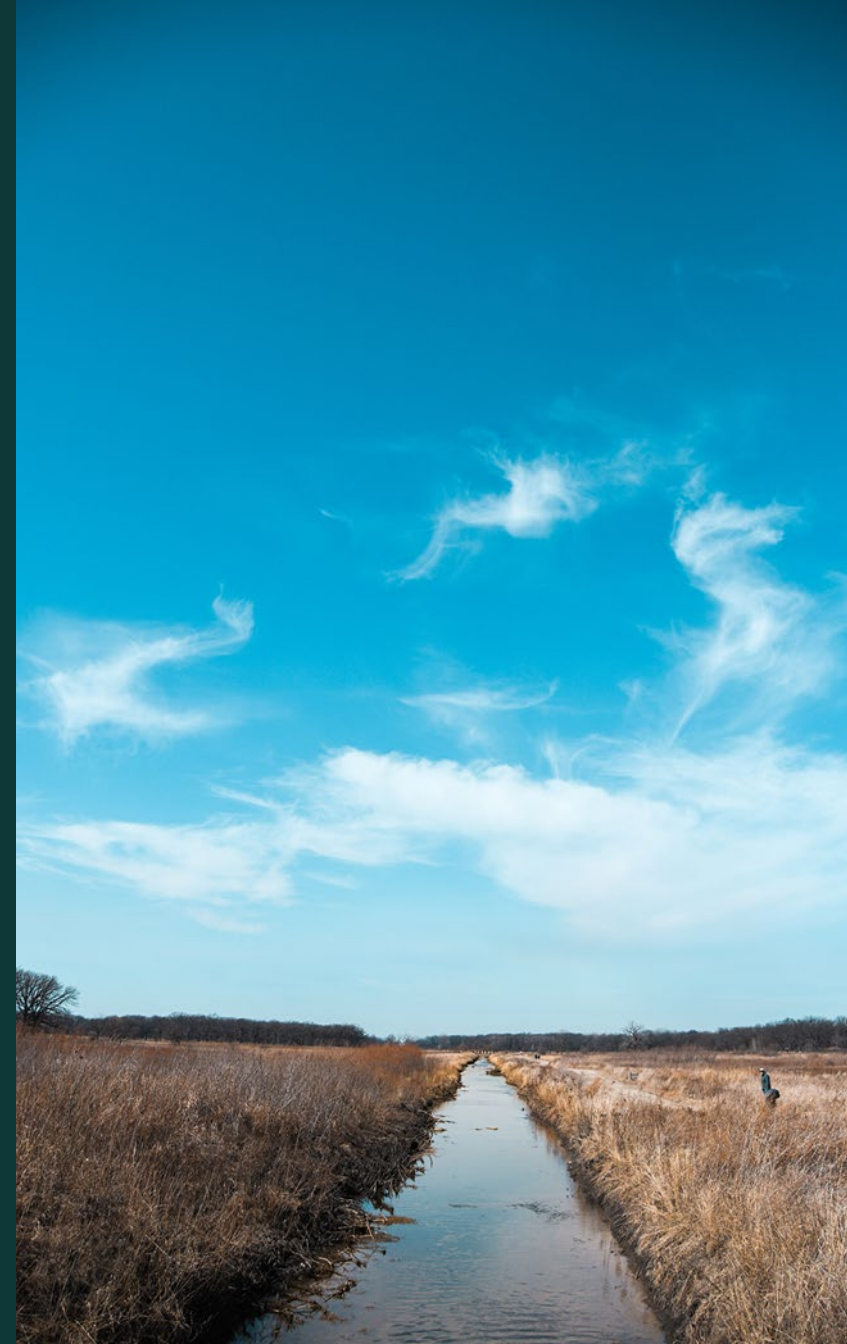
MANAGEMENT PRESSURE

- 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 2024 Global Study on Occupational Fraud and Abuse

OUR STUDY COVERED

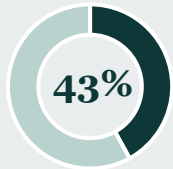


LOSS PER CASE



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DETECTION

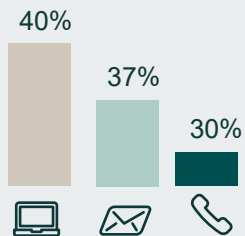


of frauds were detected by tips,

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



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

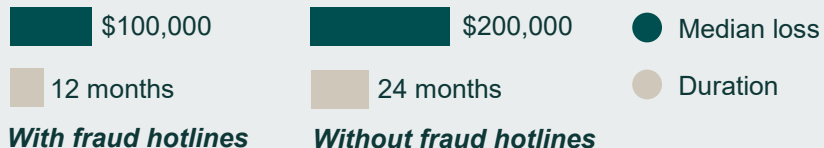


- Web-based online form
- Email
- Telephone Hotline



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

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



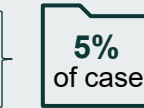
SCHEMES

ASSET MISAPPROPRIATION SCHEMES are the most common but least costly



\$120,000 median loss

FINANCIAL STATEMENT FRAUD SCHEMES are the least common but most costly



\$766,000 median loss



CORRUPTION

Almost half of all reported cases included corruption



A TYPICAL FRAUD CASE...

- causes a loss of **\$9,900 per month**
- lasts **12 months** before deflection



4% of fraud cases involved the use of **CRYPTOCURRENCY**

Among these cases, cryptocurrency was most commonly used for:

33% Making bribery and kickback payments

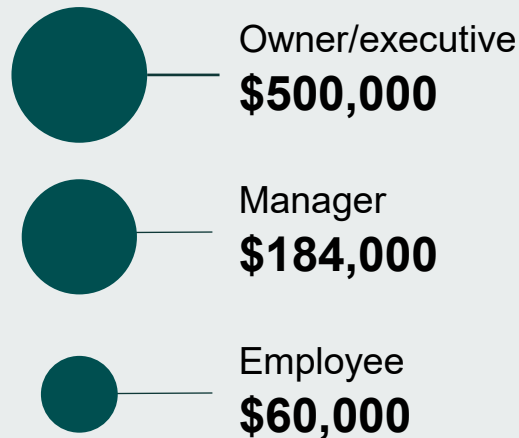
47% Converting misappropriated assets



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PERPETRATORS

Owners/executives committed **only 19%** of occupational frauds, but they caused the largest losses



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



84% of fraudsters displayed **BEHAVIORAL RED FLAGS** of fraud



ONLY 5% 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:



82% of victim organizations **MODIFIED** their anti-fraud controls following the fraud



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:

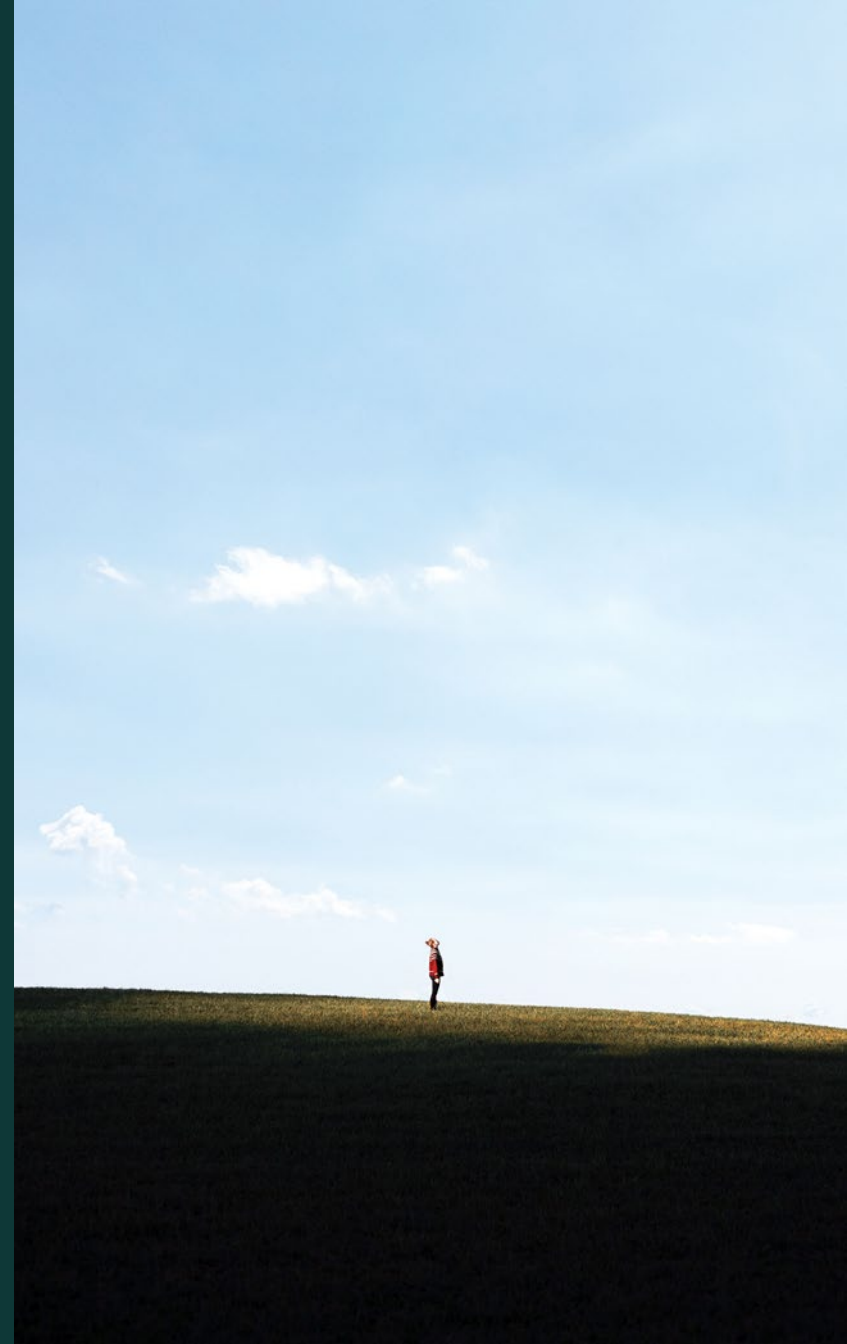
- 1) Conduct a current state assessment of the organization to evaluate performance against stated goals and objectives
- 2) Develop recommendations related to findings based on current assessment
- 3) Create strategies for improving performance including the development and reporting of key metrics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



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