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No excuses. No surprises. Raising the bar
on ethics and compliance

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Agenda

Setting the context

Managing reputation risks: What makes a good program great?

- Tone at the top
- Culture
- Risk assessments
- Testing and monitoring
- The chief ethics and compliance officer

Must-ask questions

Questions and answers

Setting the context

- Economic expansion of the 1990s fueled enormous growth in the equity markets.
- The tech bubble burst in the first quarter of 2000, exposing high-profile corporate scandals.
 - Sarbanes-Oxley
 - Thompson/McNulty
 - FSGs – amendments
- The Great Recession of 2007–2009 led to catastrophic consequences globally.
- New laws, regulations, and stricter global enforcement resulted.
 - Dodd-Frank
 - OECD
 - COSO amendments
- There is extensive cross-border cooperation between enforcement authorities.
- In the current environment, reputation risk is at least as great as strategic, operating, and financial risks.

Where are we today?

- There are vastly expanded expectations of the board and corporate leaders, and a growing intolerance for fiduciary failures.
- Enforcement authorities seek to hold organizations and individuals accountable.

Some issues keeping CFOs up at night

- Global economic uncertainty
- Rapidly shifting markets and competitive unknowns
- Growth from emerging markets
- Growing regulatory demands
- SEC focus on accounting fraud
- Bribery and corruption
- Agents and third parties
- Technology and digital risks
 - Cyber threats
 - Managing “Big Data”
 - Privacy vs. transparency
 - Social media
- Mergers and acquisitions
- Black swans

Managing reputation risks — What makes a good program great?

- Tone at the top
- Culture
- Risk assessments
- Testing and monitoring
- Role of the chief ethics and compliance officer

Tone at the top

Protecting shareholders' reputational and financial assets by setting a clear "tone at the top" is the responsibility of the board and executive management.

- Translates into the "mood in the middle" and "buzz at the bottom"

Tone at the top is the accumulation of the board and executive management's words and actions, including:

- Establishment of clear expectations for "performance with integrity"
- Adoption of performance metrics that encompass ethics and compliance
- Consistent application of rules and standards across the entire organization

*Words without actions
are an empty chalice.*

Reinforcing the tone at the top

- **Walk the walk** — Implement board operating principles and extend the code of conduct to the board.
- **Remember the water cooler** — Assume decisions related to ethical breeches will be widely known throughout the organization.
- **Keep an ear to the ground** — Use technology to monitor "chatter" on social media.
- **Pay for principled performance** — Align incentive programs with ethical principles.
- **Build an ethical corporate ladder** — Confirm that those placed in positions of power have demonstrated a commitment to ethics and compliance.

Source: *Building World-class Ethics and Compliance Programs: Making a Good Program Great*, Deloitte, April 2014.

Culture *can* be shaped to enable strategy

The alignment of culture to business strategy is critical.

Start by assessing strengths and gaps to shape and drive a culture of integrity.



Culture needs to align with and support the **business strategy**.



Culture is shaped by **leaders' actions** and **decisions**.



Culture is sustained by **employee behaviors**.



Culture is reinforced by **business and organizational systems**.

Assessing and transforming culture

First assess, then drive change.

- Identify the business imperative — integrity and compliance — and confirm your culture vision.
- Define the current state and generate insights.
- Build a culture-change plan.
- Execute and make it stick.



Compliance risk assessments

An ethics and compliance risk assessment helps the board and executive leaders understand the direct and indirect consequences of noncompliance.

- Complementary to, but different from, other risk assessment processes (such as ERM and internal audit)
- Should drive decisions about structure, resource allocation, and governance

An organization's ethics and compliance risk is challenging for several reasons:

- Requires input from specialists in all areas of the business
- Relies on knowledge of emerging risks and regulatory behavior, which is not always available in the public domain
- Presupposes the full spectrum of compliance risks are known to the company

In an ever-changing compliance risk landscape, old risks remain important, while new risks appear on the scene every day.

Perfecting compliance risk assessment

- **Establish clear accountabilities** — Risk ownership for each domain of compliance risk.
- **Don't jump to conclusions** — Assess inherent risk, then assess program effectiveness.
- **Know what you don't know** — Use of outside subject-matter specialists is no longer optional.
- **Kill lots of birds** — Leverage and expand existing risk assessment processes, such as ERM and audit risk.

Source: *Building World-Class Ethics and Compliance Programs: Making a Good Program Great*, Deloitte, April 2014.

Testing and monitoring

Testing and monitoring is an essential component of an effective ethics and compliance program and can include the following:

- Include both the design and operating effectiveness of ethics and compliance program elements and controls
- Develop programs for ongoing monitoring of ethics and compliance risks for early warning of breakdowns
- Leverage the output of testing and monitoring activities for continuous improvement of the ethics and compliance program
- Conduct periodic cultural assessments and reinforce desired behaviors while remediating negative behaviors.

That which gets measured gets done.

Effective testing and monitoring

- **Once is NOT done** — Value of compliance testing is compounded when repeated over time.
- **Accountability is king** — Line-of-business leadership must be held responsible for results and remediation.
- **The circle of (compliance) life** — Revise and simplify policies that are routinely violated; use results for training.
- **See the forest and the trees** — Implement advanced analytics, qualitative factors, and trend analysis.

Source: *Building World-Class Ethics and Compliance Programs: Making a Good Program Great*, Deloitte, April 2014.

Chief ethics and compliance officer

The chief ethics and compliance officer:

- Has day-to-day responsibility for overseeing the management of compliance and reputational risks;
- Is the agent for the board's fiduciary obligations to provide oversight and accountability for the ethics and compliance program;
- Is a professional with an uncommon breadth of experiences who can design the necessary risk architecture, assess business and cultural risks across businesses and geographies, develop training and communication strategies, build comprehensive databases, assess data analytics, and conduct sometimes critical investigations;
- Is a leader who can take a balanced approach to ethics and compliance and can build partnerships with business leaders that enhance levels of trust with all internal and external stakeholders.

A skilled chief ethics and compliance officer contributes to the creation of trusted brands and a strong corporate reputation.

Source: *Building World-Class Ethics and Compliance Programs: Making a Good Program Great*, Deloitte, April 2014.

Must-ask questions

- Are senior leaders held accountable for fostering a culture of ethics and compliance in their performance goals? How are they performing?
- What's the role, accountability, and scope of authority of the ethics and compliance officer? Is that person sufficiently independent of management? To whom does he or she report?
- Does the ethics and compliance office have sufficient financial and talent resources to meet the defined roles and responsibilities?
- Which organizational structures have we considered for our ethics and compliance management approach? Why did we choose the one we have in place today?
- What process has been used to assess ethics and compliance risk throughout the enterprise?
- How has the ethics and compliance officer allocated resources to various ethics and compliance risks?
- How recently have we considered the adequacy of our ethics and compliance helpline? How does our program compare to others?
- What testing and monitoring programs does the organization have in place? What does the output of those efforts tell us about ethics and compliance risks?
- What regulatory changes are likely to affect our business in the future, and what are we doing today to address them? What programs or processes does the organization use to monitor emerging ethics and compliance risks?
- How does management address ethics and compliance risks that are related to our third-party relationships? Is the program proactive enough to prevent and detect ethics and compliance breaches in our extended enterprise?

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