



# Audit Ethics

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## Stephen W. Minder

1. **Profile:** Internal Audit practitioner with over 40 years in experience in Government, Industry and Public Accounting.
2. **Education:** B.S. (Accounting), Illinois Wesleyan Univ.
3. **Government:** Illinois Department of Revenue, Operational Auditor, Illinois Supreme Court, IT Auditor
4. **Industry:** Archer Daniels Midland Co., IT Audit Specialist, Chief Audit Executive, Corporate Compliance Officer
5. **Public Accounting:** Ernst & Young, LLP, Computer Audit Specialist, Management Consulting, Senior Audit Manager
6. **Entrepreneur:** Founder and CEO, YCN Group, LLC (A Boutique Software Development, Consulting, and Training firm)
7. **Pubs & Presentations:** Contributing Author on various journal articles and publications. Frequent speaker on audit, ethics and management topics
8. **Boards:** Numerous public and professional boards

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## Should We Care About Ethics



### ▶ In Government

- ▶ Perception of Wide Systemic Corruption
- ▶ Lack of Individual Monitoring and Accountability
- ▶ Modern-Day Mantra, “Just Get Along”
- ▶ Vague or Ambiguous Stakeholder Base

How can I be Ethical in such an environment?

How will my Ethical behavior be received?

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## How can Government Influence Ethical Behaviors?



- ▶ Passive Complacency
- ▶ Advocacy
- ▶ Legislation
- ▶ Enforcement

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## The Role of Government

Government can study the ethical environment and initiate action to raise awareness to areas of concern. It can also create legislation to clearly identify expectations and outline penalties for non-conformance. Government should adjudicate any such legislation without preference to anyone found in violation (the penalty for a senior official and any other person should be the same).

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## Should We Care About Ethics

- ▶ **In Internal Audit**
  - ▶ Perceived Never-ending Workload
  - ▶ Perceived Pay-Scale Concerns
  - ▶ Relationships with “Business Partners”
  - ▶ Difficult Clients / Less than 100% Support

**Can I be Ethical in Such an Work Situation?**

**How do I prevent Objectivity from Being Impaired?**

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## Does Ethics REALLY Matter?



- ▶ Do “nice guys really finish last”?
- ▶ If I am ethical, will my ethics be recognized, rewarded, or punished?
- ▶ Are there benefits to ethics beyond the current circumstances I am dealing with now?

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An Introduction to ETHICS

Merriam  
Webster

- ▶ The discipline dealing with what is good and bad and with moral duty and obligation
- ▶ A set of moral principles
- ▶ A theory or system of moral values
- ▶ The principles of conduct governing an individual or a group



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## An Introduction to ETHICS

# Merriam Webster

- ▶ A guiding philosophy
- ▶ A consciousness of moral importance
- ▶ A set of moral issues or aspects
- ▶ A system of ethics by which acts are judged within their contexts instead of categorical principles (Situation Ethics)

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## Baseline for Ethical Decisions

# Ethical Foundations

- ▶ Law
- ▶ Code of Conduct
- ▶ Newspaper Test
- ▶ Moral Fiber

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# ETHICS

Doing the **RIGHT** thing for the **RIGHT** reason(s).

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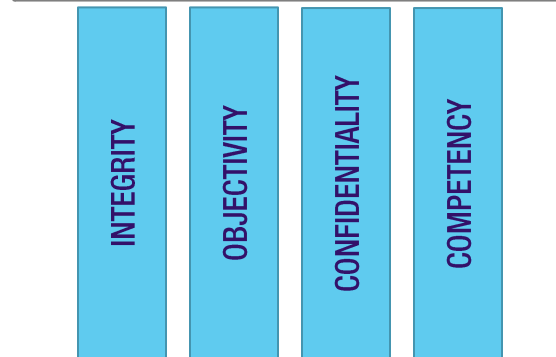
# ETHICS

Doing the **RIGHT** thing for the **RIGHT** reason(s).

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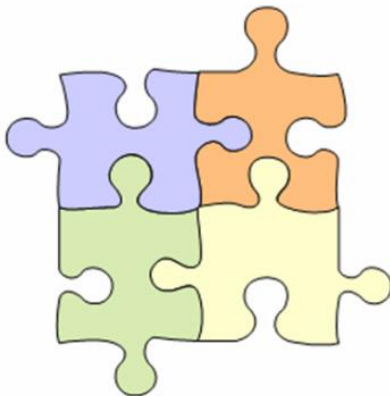
## IIA Code of Ethics



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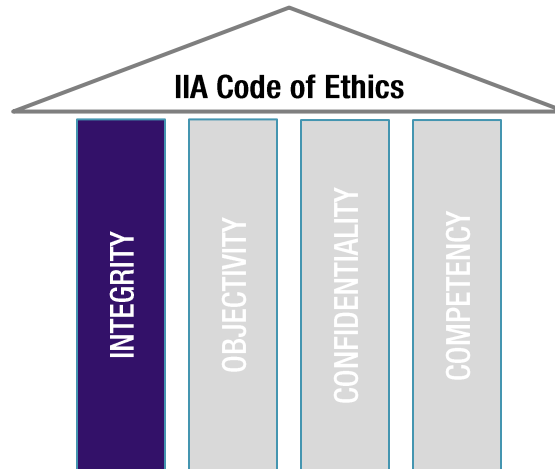


## Benefits of IIA Code of Ethics



- ▶ **Brief**
- ▶ **Simple**
- ▶ **Concrete**
- ▶ **Relevant**

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## What is Integrity?



### Dictionary.com

- ▶ 1. adherence to moral and ethical principles; *soundness of moral character; honesty.*
- ▶ 2. the state of being whole, entire, or undiminished: *to preserve the integrity of the empire.*
- ▶ 3. a sound, unimpaired, or perfect condition: *the integrity of a ship's hull.*

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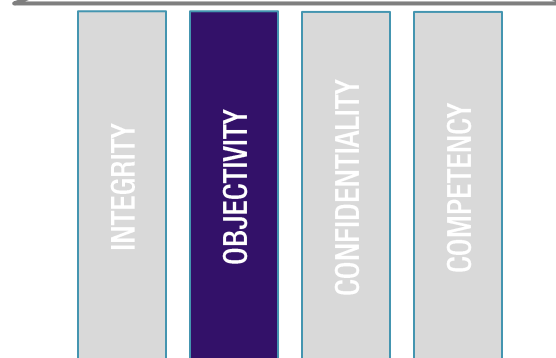
## Integrity – Internal Auditors:

1. Shall perform their work with honesty, diligence, and responsibility.
2. Shall observe the law and make disclosures expected by the law and the profession.
3. Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.
4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

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### IIA Code of Ethics



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## What is Objectivity?



### Dictionary.com

- ▶ 1. the state or quality of being **objective**: *He tries to maintain objectivity in his judgment.*
- ▶ 2. intentness on **objects** external to the mind.
- ▶ 3. external reality.

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## Objectivity – Internal Auditors:



**1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.**

**2. Shall not accept anything that may impair or be presumed to impair their professional judgment.**

**3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.**

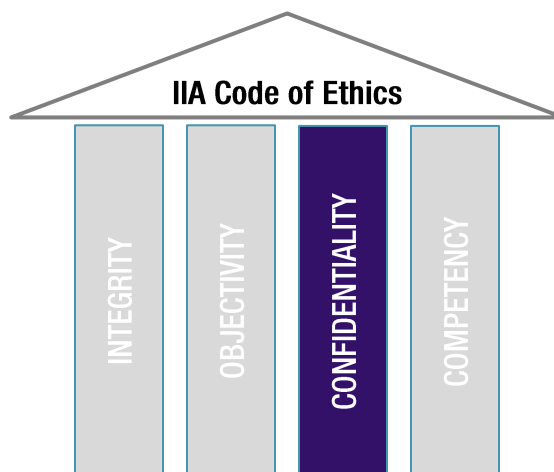
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## More help from IIA Standards



The Interpretation of Standard 1120 defines “Conflict of Interest” as: a situation in which an internal auditor, who is in a position of trust, has a competing **professional** or **personal** interest.

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## What is Confidentiality?



### Dictionary.com

- ▶ 1. spoken, written, acted on, etc., in strict privacy or secrecy; secret: *a confidential remark.*
- ▶ 2. indicating confidence or intimacy; imparting private matters: *a confidential tone of voice.*
- ▶ 3. having another's trust or confidence; entrusted with secrets or private affairs: *a confidential secretary.*
- ▶ 4. a. bearing the classification confidential, *usually being above restricted and below secret.*
- ▶ 4. b. limited to persons authorized to use information, documents, etc., so classified.

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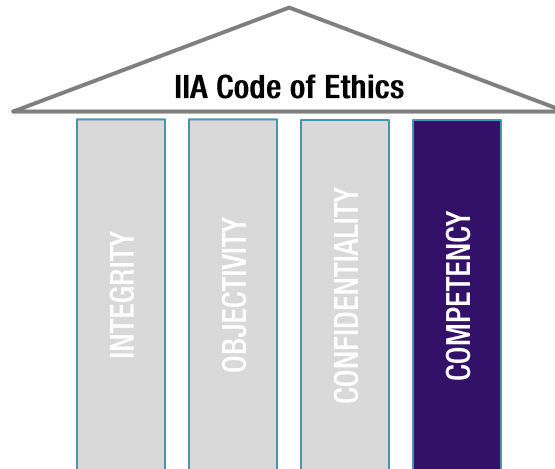
## Confidentiality – Internal Auditors:



1. Shall be prudent in the use and protection of information acquired in the course of their duties.
2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.



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## What is Competency?



### Dictionary.com

- ▶ the quality of being **competent**; adequacy; possession of required skill, knowledge, qualification, or capacity:

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## Competency – Internal Auditors:

1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.



2. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
3. Shall continually improve their proficiency and the effectiveness and quality of their services.

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# In Review ...

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## So What?



### ▶ Effective Auditors:

- Firmly embrace **RIGHT**
- Object to deviations from **RIGHT**, no matter what
- Consistently apply the **RIGHT – WRONG** filter
- Suggest ways their organization can support **RIGHT**

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## A Definition of RIGHT



### ▶ What you are doing is right if:

- ▶ It is Legal
- ▶ It is aligned with your Organization's Policies and Procedures
- ▶ It provides a fair and equitable outcome to all the parties involved in the action
- ▶ It would be easy to explain to your:
  - ▶ Best friend
  - ▶ Grandmother
  - ▶ The most significant faith leader in your belief system
  - ▶ Worst enemy

*and defend their comments and/or objections*

- ▶ It would not cause you embarrassment if published across the WEB and in every newspaper in the USA

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## Internal Audit should:

- ✓ Model the highest ideals of ethical behavior in all activities
- ✓ Articulate ethical principles as a way of sharing understanding and promoting conformance
- ✓ Evaluate successes and gaps in performance honestly and on a continual basis to promote self-improvement
- ✓ Stand firm on the pillars in the IIA Code of Ethics

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