ethics reporting handbook

Guidelines for ethics officers and internal auditors

Compiled by:
Kris Dobie, Ethics Institute of South Africa
Kato Plant, University of Pretoria

Endorsed by:
# Table of Contents

Preface by EthicsSA  
Endorsement by IIA SA  

## INTRODUCTION

**Part 1: Context**

1.1 Ethics reporting in the context of sustainability reporting  
1.2 Ethics reporting as part of an ethics management framework  
1.3 Reporting principles  
1.4 Reporting and assessment process and role-players

## TERMINOLOGY

**Part 2: Internal Reporting**

2.1 Monitoring the ethics programme  
2.2 What should the ethics office report on?  
2.3 What should the ethics committee report on?  
2.4 Frequency of reporting

## PART 3: INDEPENDENT ASSESSMENT AND ASSURANCE

3.1 Combined assurance  
3.2 Internal assessment  
3.3 External assurance

## PART 4: EXTERNAL REPORTING

**Conclusion**

BIBLIOGRAPHY  

About EthicsSA  
About IIA SA  
About the Authors
Preface by EthicsSA

The field of ethics management grew dramatically over the last two decades in South Africa. This growth was fuelled by the three King Reports on Corporate Governance that were released since 1994, the new Companies Act that came into effect, and also by global developments in sustainability and integrated reporting. Also in the public sector in South Africa, various legal and regulatory reforms, as well as the recent introduction of the Public Service Integrity Management Framework, contributed to a growth in ethics management.

With this growth in ethics management came greater maturity in the field of ethics management. One of the areas that matured significantly is ethics reporting. As ethics management is becoming more sophisticated, a greater need for more relevant and accurate reporting on the ethics performance of organisations has emerged. The Ethics Reporting Handbook is a direct response to this demand for more guidance on what needs to be reported in the process of governing and managing the ethics performance of organisations.

The Ethics Reporting Handbook is the second in the EthicsSA Handbook series. The first publication in this series was the Social & Ethics Committee Handbook. The purpose of the Handbook Series is to provide practitioners with a practical guide and reference work that can assist them in improving the ethics performance of their organisations.

EthicsSA partnered with the Institute of Internal Auditors of South Africa (IIA SA) to produce the Ethics Reporting Handbook. The field of ethics management is a multi-disciplinary field in which boards of directors, board committees, ethics officers, internal auditors, external auditors, and others play an important role.

When it comes to ethics reporting specifically, ethics officers and internal auditors are key players. The collaboration between ethics officers and internal auditors can be very productive and can significantly enhance the ethics performance of organisations.

I would like to thank the IIA SA for partnering with EthicsSA in producing the Ethics Reporting Handbook. In particular, I would like to thank the two authors, Kris Dobie from EthicsSA and Kato Plant from the University of Pretoria (and member of the IIA SA Education and Training committee) for their dedication and innovation to produce this handbook. A special word of thanks also to the following IIA SA members who gave input in the early conversations about this handbook: Daleen Nel, Charles Weber, Annelie Steenkamp and Jenitha John.

I trust that the Ethics Reporting Handbook will become an important and trusted companion for all governance and management practitioners who play a part in building ethical organisations in South Africa and on our continent.

Prof Deon Rossouw
CEO: EthicsSA

Endorsement by IIA SA

With the increasing complexity that organisations are operating in and the context of a world in which profits and financial gain often tend to triumph over doing what is right, an emphasis on ethics is an absolute necessity. This emphasis includes a proactive approach to the management of ethics within the organisation, right from setting the tone at the top to a reporting process which allows for meaningful feedback loops and continual evolution to a conscious ethical culture.

An ethical culture is central to an organisation that can be classified as a responsible corporate citizen. As more and more stakeholders are starting to express their expectation that organisations behave as good corporate citizens, there is also a greater interest in the actions taken to ensure that the right tone is set at the top and that it actually permeates throughout the organisation. Independent assurance around those steps taken and the accuracy of the reporting on the outcome of those steps will therefore receive more attention as we move into the immediate future. Assurance providers such as internal auditors should therefore ensure that they focus on their role in fostering an ethical culture and include ethics in their audit plans. This handbook is a valuable contribution in providing guidance in this arena, which the IIA SA welcomes.

Dr Claudelle von Eck
CEO: Institute of Internal Auditors of South Africa
Introduction

Ethics management is a reasonably new field when compared with fields such as financial management or human resource management, yet significant strides have been made in the emphasis that organisations place on their ethics performance. Organisations are now beginning to grapple with how to monitor and report on their ethics performance resulting from their ethics management programmes. In South Africa this need for reporting is further driven by the following regulatory requirements and guidelines:

- **King III** stipulates that “the board should ensure that the company's ethics performance should be assessed, monitored, reported and disclosed” (King III Code, 2009: 21).
- The **Companies Act** requires certain companies to have social and ethics committees. These committees have a mandate to monitor a number of areas of the company's social responsibility, but are also ideal structures to oversee companies' ethics performance. (See the Social and Ethics Committee Handbook, EthicsSA, 2012)
- The **Public Service Integrity Management Framework** requires all government departments on national and provincial levels to have ethics committees in place to oversee their ethics programmes. These committees would give strategic direction to the ethics management programme, but would also provide oversight. As such there is a need for them to receive regular reports to assess the state of ethics in the organisation.
- The **Global Reporting Initiative**, in its latest reporting standard (GRI G4), requires organisations to report on 'Ethics and Integrity' to external stakeholders.

There is therefore an increasing responsibility for organisations to monitor their ethics performance and to report both internally to oversight committees, and externally to stakeholders.

If organisations are required to report on their ethics performance they should be sure that what they communicate is fair and accurate. There is therefore an additional responsibility for independent assessment of the ethics performance.

**This handbook is intended for four groups:**

- Firstly, ethics officers who need to report on their organisations' ethics management programmes to relevant governing bodies;
- Secondly, internal auditors who have to assess the organisation's ethics performance and report to the audit committee;
- Thirdly, audit committees who need to sign off on organisations' integrated and sustainability reports;
- And lastly, governing bodies and other relevant committees that provide direction and oversight of the organisation's ethics performance.

Providing a sound reporting framework should serve the additional purpose of improving ethics management in general. As the adage goes, “What gets measured gets managed.”

Terminology

To simplify the reading of the document and ensure that it can be applied to both the public and private sectors, the following terminology is used:

**Governing body**

The highest governing body in an organisation. For the private sector this will be the board of directors (hereafter referred to as the board), while in the public sector it will be the executive committee (hereafter referred to as the exco).

**Ethics committee**

Any committee that provides strategic direction and oversight of the organisation's ethics performance. This will differ from organisation to organisation and may include social and ethics committees, ethics committees, risk committees, audit committees or governance committees.

**Ethics office**

The office that takes responsibility for managing the organisation's ethics programme. This may be a dedicated or part-time function, and could also include other role-players who have responsibility or involvement in the organisation's ethics management.

**Ethics management framework**

All interventions at strategic, systems and operational levels which are intended to improve organisational ethics. (See section 1.2)

**Ethics management programme**

The operational component of the ethics management framework. In other words the work done by the ethics office.

**Ethics performance**

The extent to which an organisation behaves ethically.
1 Context

1.1 Ethics reporting in the context of sustainability reporting

There could be some confusion between ethics reporting and sustainability reporting. Sustainability reporting is reporting within the triple context, namely the economic, environmental and social sustainability issues related to organisations.

The impact of organisations on their stakeholders (in terms of the triple context) can be seen as an indication of how ethical organisations are. However, the term ‘ethics reporting’ as it is used in this booklet does not refer to reporting on this external impact, but rather to reporting on the organisation’s ethics management. Strong ethics management should lead to an ethical culture and by implication improve integrated sustainability.

Ethics reporting would therefore be one aspect of a sustainability report.

1.2 Ethics reporting as part of an ethics management framework

An ethics management framework refers to all interventions at strategic, systems and operational levels, which are intended to improve organisational ethics. The diagram below shows a generic ethics management framework developed by EthicsSA. It is aligned to both King III and the Public Service Integrity Management Framework.
It includes the following:

1. Strong **leadership commitment** that sets a clear ethical tone is critical to the success of ethics management interventions.

2. Organisations should incorporate ethics management into its **governance structures**. This might include establishing ethics structures (such as an ethics committee and an ethics office) and assigning responsibilities for managing ethics (for example, to an ethics champion and an ethics officer).

3. These structures and people should oversee and implement the following elements of an ethics management programme:
   a. **Ethics risk assessment**: An ethics risk and opportunity assessment should be conducted to ensure that the organisation understands its ethics risk profile.
   b. **Strategy**: A strategy and plan for managing ethics in the organisation must then be formulated.
   c. **Code and policies**: The organisation should develop a code of ethics and other relevant ethics-related policies to ensure that the identified risks are addressed and opportunities harnessed.
   d. **Institutionalisation**: The ethics management strategy and plan must be implemented to ensure that everyone in the organisation is familiar with, and adheres to ethics values and standards.
   e. **Monitoring and reporting**: The ethics office should report to the ethics committee on progress with the ethics management plan, and the state of ethics in the organisation.

4. There should be **independent assessment** of the ethics performance that informs how the organisation’s ethics performance is **reported to internal and external stakeholders**.

This handbook focuses on items 3e (monitoring and reporting), and 4 (independent assessment and internal and external reporting) of the above ethics management framework.

### 1.3 Reporting principles

The Global Reporting Initiative (GRI Reporting Principles, 2013: 17-18) sets out the following ‘Principles for Defining Report Quality’:

- **Balance**: Does it reflect both positive and negative aspects?
- **Comparability**: Has there been consistency in the monitoring methods? Is it possible to use the information to analyse trends over time?
- **Accuracy**: Is it accurate and detailed enough?
- **Timeliness**: Does it reflect current information? Is it in time for the report recipients to make informed decisions?
- **Clarity**: Has an attempt been made to simplify the information and make it understandable, or is it purposefully complex so as to make it more difficult to get a clear picture?
- **Reliability**: Is the information true and accurate? Would someone be able to audit this information? Is it based on fact? Subjective information should therefore be avoided.

These principles do not need to be complied with in the strict sense of the word, but they do provide important guidance to be kept in mind for both internal and external reporting of ethics performance.

### 1.4 Reporting and assessment process and role-players

The diagram below gives a schematic overview of the ethics reporting and assessment process and the roles of those involved.

- The ethics office will compile an internal ethics report which will be submitted to the ethics committee.
- Internal audit will conduct an assessment of the adequacy and effectiveness of the ethics management process. It will report these findings to the audit committee.
- The ethics committee and the audit committee will prepare overview reports to the governing body.
- The governing body (through the responsible office) will compile an ethics submission to the annual, sustainability or integrated reports.
- The external assurance providers (such as external auditors or independent consultants) will provide assurance of the accuracy and reliability of this information before it is disclosed to stakeholders.
The ethics office should report on its performance like any other management function. It has been mandated by the governing body or ethics committee to implement the ethics management programme, and therefore has the responsibility to report back on its progress in this regard.

The ethics committee will in turn provide a high level report to the governing body on the organisation's ethics performance.

This section will elaborate on the monitoring of the ethics programme by the ethics office and its reporting to the ethics committee, as well as the ethics committee's reporting to the governing body.

2.1 Monitoring the ethics programme

The ethics office should continuously monitor the ethics management programme. This is to keep track of programme implementation, but also to monitor data that will give a picture of the state of ethics in the organisation.

2.1.1 What should be monitored?

The ethics office should design its monitoring systems to align with what will be reported to the ethics committee. This will be dependent on the ethics programme, but could include:

- Training figures
- Data on disclosures of interest and gifts
- Information from the hotline case management system
- Information from the ethics helpline
The reporting elements are discussed in more detail in section 2.2 below and will give a broader indication of areas that may be monitored.

2.1.2 Integrating monitoring with management

Monitoring should not be an additional burden to the ethics office. It should rather be incorporated into its management systems. For example, if the organisation requires that employees declare their interests or gifts this could be done electronically. Such integration will reduce the administrative burden of the ethics office while at the same time allowing for easier analysis of information.

2.2 What should the ethics office report on?

The ethics office should keep the ethics committee up to date with progress in implementing the ethics programme, but should also give the committee information to allow them to engage with the organisation's ethics at a strategic level.

The report could include the following elements:

- Progress with programme implementation
- Trends
- Critical incidents
- Strategic considerations

2.2.1 Programme implementation

What has been done in terms of the ethics management programme?

The ethics office should, in consultation with the ethics committee, have developed an ethics management plan with measurable objectives for implementing the ethics strategy. It should, on a regular (e.g. quarterly) basis, report back to the committee on progress with implementation. In other words – have they done what they committed to?

The plan will differ from organisation to organisation, but could include objectives such as conducting an ethics risk assessment, reviewing the code or policies, establishing systems or processes, launching communication campaigns, facilitating ethics workshops, etc. The implementation report will indicate the extent to which each objective has been achieved and whether any additional initiatives have been implemented.

Besides this checklist type of approach the ethics office may also choose to submit a narrative report. This would give an overview of the ethics office's activities, but would also place the activities in context. For example, the ethics office may report that they conducted an ethics risk assessment and based on those findings they reviewed the policy framework, subsequent to which an awareness campaign was launched targeting high risk areas. The narrative report should give an indication of the thinking behind the programme components.

2.2.2 Trends

What does the data say? Are there any emerging trends that the committee should be aware of?

Trend analyses are useful in that they give the ethics committee tangible information to work with, which assists them in providing strategic direction and oversight.

For instance, trends on training attendance or the use of the helpline and hotline will show whether employees are making use of these interventions or not.

When analysed over time, trends (such as misconduct types and frequency) also start telling a story about the state of ethics in the organisation.

The following are examples of trends that can be monitored and reported:

- Ethics risk assessment
  - Main risk areas
  - Comparing risk areas with previous assessments (It is important to use consistent methodology to ensure comparability)

- Declarations of interest
  - Number of employees declared per business unit
  - Number of conflicts picked up

- Gift registers
  - Gifts declared
  - Maximum value of a gift
  - Average value of gifts

- Training
  - Number of employees trained (face to face / online)
  - Consolidated course evaluation
  - Significant points raised during training or in evaluation forms
The ethics office could also overlay different information sets. It may for example be interesting to see if a specific awareness campaign, or focussed training has led to increases in helpline or hotline queries on those matters.

The ethics committee needs a comprehensive picture of all factors that may reflect the ethical trends in the organisation. As can be seen above, this may include information of which the ethics office is not the primary custodian. The ethics office will therefore be responsible for consolidating the information from various other units such as HR, forensics, or corporate communications. The ethics committee should support the ethics office in ensuring that this information is shared as a matter of course.

Presentation of the information

Information should be presented as clearly and simply as possible in line with the principle of understandability. The reality is that most committees have too much on their agenda. Simplifying information makes it easier to digest and gives the committee an opportunity to apply their minds.

Most of the information on trends can be displayed graphically as in the examples below.

The above graph may allow the committee to see which divisions have not been requesting ethics training or making their employees available for training. This can be read in conjunction with the risk profile of each unit to give the committee a sense of emerging risk.

Assessing trends of misconduct reports (such as in the two above graphs) serves as an ongoing risk assessment. The trends can be presented per division, region, or year. The committee can use this information to assist the ethics office with developing interventions to address emerging risks. Misconduct categories, which are required for comparability, will differ from organisation to organisation. Appropriate categories can be determined by doing a thematic analysis of existing data.

2.2.3 Critical incidents

Are there any incidents/issues that the committee should take note of?

The ethics committee should be kept informed of any high profile ethics matters. These may be matters that could cause serious reputational damage, or harm to
stakeholders. It should not only include any matters which have already been exposed in the media, but also emerging critical incidents (or ethical dilemmas) that can potentially result in reputational harm or stakeholder alienation.

This information assists the committee to fulfill its monitoring function, but also enables them to make judgement calls on ethical issues to avert reputational damage.

2.2.4 Strategic considerations

Are there challenges or opportunities that will impact on the ethics programme?

The ethics officer should also present an assessment of any new challenges or opportunities that should be brought to the attention of the ethics committee. These issues should be material to the company to the extent that they may lead to a revision of, or addition to, the current ethics strategy or ethics management plan.

2.3 What should the ethics committee report on?

The governing body takes final accountability for the ethics performance of the organisation. The ethics committee should therefore present information to the governing body to enable it to fulfill this responsibility.

This may include:

- A high level synopsis of what has been achieved with the ethics management programme;
- Ethics risks and critical incidents that the board/exco should be alerted to; and
- Strategic objectives regarding the ethics performance that the committee would like to submit to the board/exco for consideration or approval.

2.4 Frequency of reporting

The ethics office should submit regular (e.g. quarterly) reports to the ethics committee. There would be a comprehensive annual report with the interim reports raising new progress, changes or critical matters.

The ethics committee will also give a comprehensive annual report while raising emerging issues on an ongoing basis.
King III recommends not only that the ethics performance should be managed, but also that it should be independently assessed (both internally and externally), and disclosed to external stakeholders. This implies specific responsibilities for internal and external assurance providers, who can also consolidate their efforts through combined assurance.

3.1 Combined assurance

What is combined assurance?

King III defines combined assurance as “Integrating and aligning assurance processes in an organisation to maximise risk and governance oversight and control efficiencies and optimise overall assurance to the audit and risk committee, considering the organisation’s risk appetite.” (King II Report, 2009: 117).

Simply put, combined assurance means that there is not only one independent party that provides assurance in isolation (such as internal audit), but that many parties contribute to the assurance process. This ensures that limited assurance capacity is used effectively and that tasks are not duplicated unnecessarily.

Organisations are increasingly combining assurance efforts by both internal and external assurance providers to optimise overall assurance to the governing body and audit committee. With regard to assurance services relating to ethics management, a combined assurance methodology is encouraged to ensure proper coverage against key ethics risks.

The following diagram illustrates the role players as it relates to assessment of the organisation’s ethics performance:

<table>
<thead>
<tr>
<th>Management responsible for the specific risk area</th>
<th>Internal assurance providers</th>
<th>External assurance providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics office</td>
<td>Internal auditors</td>
<td>External auditors and independent subject matter experts</td>
</tr>
</tbody>
</table>

While independence remains critical, the tone is more collaborative. For example, when conducting an independent assessment of the organisation’s ethics performance, the internal audit function could utilise reports and information provided by the ethics office. They would however need to verify the accuracy and reliability of the information. Similarly external assurance providers could rely on the work of the internal audit function when providing independent assurance on the information contained in the integrated report.
3.2 Internal assessment

King III recommends that “Internal assessment of the company's ethics performance as well as internal reporting on its ethics performance are necessary to provide the board and management with relevant and reliable information about the achievement of ethics objectives, the outcomes of ethics initiatives and the quality of the organisation's ethics performance” (King III Report, 2009: 26).

Although there are various possible role-players in providing an assessment of the organisation's ethics performance, the internal audit function is best placed to do so due to its independence.

The International Professional Practices Framework (IPPF), which guides the work of internal auditors, defines internal auditing as both an assurance and consulting activity providing a value adding service to the organisation by evaluating the effectiveness of risk management, internal control and governance processes within an organisation.

With regard to governance processes, the IPPF emphasises the following:

**Duties of the internal audit function**

- To assess and make appropriate recommendations for improving governance processes, which includes:
  - promoting appropriate ethics and values within the organization;
  - evaluating the design, implementation and effectiveness of the organization’s ethics-related objectives, programs and activities.

(Institute of Internal Auditors - International Professional Practices Framework, 2012: 30)

The aim of this section is to provide guidance to the internal audit function with regard to ethics assessments.

### 3.2.1 Considerations for ethics assessments

The nature and extent of the organisation's ethics management programme (see section 2.2) will have a direct impact on the approach applied by the internal audit function when conducting ethics assessments.

The internal audit function should consider the following:

**The maturity of the organisation's ethics management framework**

- Does the organisation have an ethics management framework and is it adequate?
  - If the organisation has an ethics management framework the internal audit function can provide related assurance services.
  - If the organisation does not have an ethics management framework, or the framework is inadequate, the internal audit function can provide the necessary consulting services.

**Approach**

- Will the ethics assessment be a separate engagement or will it be assessed as part of a comprehensive governance engagement?
- Will the entire ethics management framework be assessed, or will the focus be on specific components?

**Reliance on external service providers**

In testing the adequacy and effectiveness of the organisation's ethics management framework, the internal audit function could rely on work performed by external service providers, such as independent ethics consultants or assurance providers. In deciding whether this would be appropriate internal audit should consider the following:

- Does the internal audit function need the assistance of an external service provider due to a lack of the necessary competencies to perform an ethics assessment?
- Is the external service provider competent and experienced to perform an independent ethics assessment?
- Is the external service provider independent and objective in performing the ethics assessment?

### 3.2.2 Proposed methodology

The internal audit function should assess the adequacy and effectiveness of the ethics management programme. This includes leadership commitment, governance structures, and programme implementation.

When assessing adequacy, internal audit should determine whether ethics interventions are in line with good practice and commensurate with the organisation's ethics risk profile.
When assessing the effectiveness, internal audit should determine (a) whether ethics interventions are institutionalised (in other words, not only whether they are in place, but also whether they are embedded within the organisation), and (b) whether ethics interventions had the desired effect.

It should consistently be kept in mind that the overarching purpose is to improve the governance of the organisation at a strategic level. It should also be kept in mind that the purpose is not to assess the ethics office, but the organisation's ethics performance. Internal auditors should guard against conducting a pure process assessment on the ethics office without placing these findings in context.

The following approach, which makes use of complementary assessment techniques, is therefore recommended:

- To assess adequacy it is recommended that a process assessment of the ethics programme be conducted.
- To assess effectiveness it is recommended that other methods such as trend analyses and staff surveys should be incorporated.

**a) Process assessment**

The first step in a process assessment would be to determine applicable criteria. In this instance—what is the best practice in ethics management?

Evidence is then gathered to determine the extent to which the organisation meets these criteria or best practice standards. It should determine whether appropriate interventions are in place, and whether they can be improved.

At the same time the internal auditor will make a judgement call on whether these aspects are adequate to the organisation's profile (e.g. size, business activities, and ethics risk profile).

Internal audit may use a maturity model to assess levels of compliance with the criteria. The Institute of Internal Auditors (IIA) has issued a Practice Guide on ‘Evaluating ethics related programmes and activities’ (IIA, 2012) which includes such a maturity model. This document is available to IIA members globally.

Internal audit can also use the generic ethics management framework (see section 1.2) as a starting point for determining appropriate criteria. The following, which is based on the framework, gives guidance on some aspects to be assessed:

**Leadership commitment:**
- Is ethics performance discussed at meetings of the highest governing body?
- Is a senior member of executive management assigned responsibility for organisational ethics?
- Does leadership provide adequate resources for ethics management?

**Governance structures:**
- Does the organisation have an ethics committee?
- Does the ethics committee provide feedback to the governing body on the organisation’s ethics performance?
- Is the composition of the committee appropriate?
- Has the organisation established an ethics office?
- Are responsibilities and reporting lines clearly defined and appropriate?

**Ethics risk assessment:**
- Is an ethics risk assessment conducted regularly?
- Are key internal and external stakeholders engaged in the risk assessment?
- Is the risk assessment methodology appropriate? Internal audit should not only assess the risk assessment process, but should also use the organisation's ethics risk profile to determine the adequacy and appropriateness of ethics interventions.

**Ethics strategy:**
- Does the organisation have an ethics strategy?
- Is the ethics strategy aligned to the organisation’s strategic objectives?
- Is the strategy suited to the organisation’s risk profile?

**Codes and policies:**
- Does the organisation have a current code of ethics?
- Does the code address the main ethics risk areas?
- Are employees familiar with the content of the code?
- Is the code supported by other relevant policies such as gift and conflict of interest policies?

**Institutionalisation:**
This part of the assessment will focus on institutionalising of the ethics management programme and related activities. The diagram overleaf shows possible interventions that may be covered. It should be noted that it would not be the responsibility of the ethics office to implement all these interventions. The focus should therefore not be only on the ethics office, but on the entire programme.
The following are some examples of assessment areas:

- **Training:**
  - Has sufficient training taken place?
  - Are appropriate (senior / high risk) employees trained?
  - Is the content appropriate?

- **Conflict of interest management**
  - Is a suitable conflict of interest management system in place?
  - Is this system user-friendly?
  - Is the information utilised optimally?

- **Safe reporting**
  - Is there a whistle-blowing system (e.g. hotline) in place?
  - Is the service provider accredited?
  - Are there processes to support the whistle-blowing system, e.g. investigation processes?

It is possible to elaborate significantly on these assessment areas. The assessment on the institutionalisation aspect is bound to be the most detailed since each of the above interventions will be assessed on an operational level. Care should however be taken to not get lost in the detail, and to ensure that the findings are not limited to the operational level. While improvements in this area are important, the emphasis should remain on adding strategic value to the organisation's ethics performance.

**Monitoring and reporting:**

- Does the ethics office have appropriate mechanisms (e.g. an information management system) in place to monitor ethics performance?
- Does the ethics office provide regular reports to the ethics committee?

**b) Trend analysis**

The internal audit function may utilise the trend analyses conducted by the ethics office (see 2.2.2) once it has determined that the data is reliable.

There may however be a need to add to these analyses or extract different data. It would for example be of interest to determine levels of compliance with specific requirements (such as declarations of interest), or levels of use of mechanisms such as the helpline or the hotline.

The information may also be used to determine high risk areas which may inform the process assessment.

**c) Staff survey**

Many indicators of the organisation's ethics performance are intangible and cannot be assessed through traditional means. It is however part of the internal audit function's responsibility to also assess the soft controls in the organisation.

A staff survey may be the most appropriate means of assessing aspects such as the following:

**Staff awareness of ethics programme elements and their effectiveness**

The test for institutionalisation of an ethics programme is whether it has reached employees and made a difference for them.

For instance:

- Are employees clear on what is expected of them in terms of ethics?
- Are they aware of the various components of the ethics programme, such as the code and relevant policies, the helpline and the hotline?
- Do they find the code useful?
- Do they trust the helpline and hotline?

If the findings of the process assessment show that interventions and processes are in place, but the survey indicates that these are not working in practice (are not effective) the ethics management programme should be reviewed.

**Leadership commitment and organisational culture**

The effectiveness of interventions can be significantly influenced by organisational culture. An ethically healthy organisation is one where the leadership and the organisational culture support ethical behaviour. A well formulated organisational ethical culture survey will give an indication of employees' beliefs around these issues.
It may test issues such as:

- Do employees believe that leadership is committed to ethics?
- Is ethics a legitimate business consideration?
- How much misconduct is witnessed in the workplace?
- Are people held accountable when misconduct occurs?
- Do employees feel pressure to compromise ethical standards?

These surveys are often commissioned by the ethics office or human resource function. Internal audit may rely on these studies once it has ensured the methodology is sound and that the views are representative of the organisation’s population.

Consistent and sound methodology is also important to ensure that results will be comparable if the survey is repeated, which allows for additional trend analysis. It is also useful for organisations to be able to benchmark their ethics culture against that of other organisations. If this is required the organisation should use an independent service provider that has such data available.

Most organisations conduct generic staff satisfaction surveys. Some ethics statements could be included in these, but superficial questions are not likely to give a full picture. Dedicated ethics assessments should ideally be conducted from time to time to perform an ethics health check. Should this not be done by other parties, internal audit should consider commissioning such a study.

d) Communicating the findings
The internal audit function communicates the results of the ethics assessment to the governing body, audit committee and ethics committee. These parties should take cognisance of significant findings that might have a negative impact on the ethics performance of the organisation.

In its findings, internal audit should highlight the root causes for not meeting the criteria of best practice in ethics management, highlight the impact thereof and make appropriate recommendations. These recommendations should aim at improving the ethics management framework and ultimately the ethical culture of the organisation.

In response, management should indicate the corrective actions to be taken to ensure that appropriate standards and ethics management practices are in place. The internal audit function should perform follow-up procedures to determine the extent to which recommendations were implemented.

3.3 External assurance
King III recommends that “External assessment and disclosure of the company’s ethics performance, supported by an assurance statement (as part of the integrated report) enhances the credibility of the information provided to stakeholders.” (King III Report, 2009: 27)

External auditors and independent consultants could act as external assurance providers. It is important that the external assurance team has the necessary competencies and independence to perform such an assessment. This would mean that someone who has been used as a consultant on an ethics programme would not be able to give a completely independent audit opinion. Should their expertise be required, their procedures would still need to be assured by independent parties such as external auditors.

The International Federation of Accountants (IFAC) is an international body that sets standards for the audit profession. IFAC has issued a standard (ISAE 3000) on providing assurance on information other than historical financial information. This standard is used, for example, in environmental and sustainability assurance engagements. It can also be used to guide assurance providers in performing external assurance engagements of organisations’ ethics performance.

The standard distinguishes between reasonable assurance engagements and limited assurance engagements. Reasonable assurance is a higher level of assurance than limited assurance. With the latter, the risk of expressing an inappropriate opinion is greater than for a reasonable assurance engagement. The assurance provider expresses an opinion based on the procedures performed and the evidence obtained regarding the organisation’s ethics performance, including its ethics management process and other ethics interventions.

The external assurance provider provides assurance that the information included in the integrated report is relevant, complete, reliable, neutral, understandable and accessible to intended users of the information.
Organisations provide various reports such as annual, sustainability, and integrated reports. Each of these can contain reporting on the organisation’s ethics performance.

**Annual report**

An annual report is the traditional financial report of organisations which also includes the external auditors report. These reports also contain a governance component where it has become common practice to report on aspects related to the organisational values, the code of ethics, and interventions to institutionalise these. There is also reporting on relevant committees and governance structures providing strategic direction to, and oversight of the ethics function.

**Sustainability report**

A sustainability report includes reporting on the organisation’s economic, social and environmental impacts. There are a number of guidelines for sustainability reporting, including AccountAbility 1000 Principles Standard (AA1000), the Global Reporting Initiative (GRI) G4, and the ISO 26000 Guidance on Social Responsibility. Of these, the GRI is the most widely used, and the latest standard, the G4, also provides the most detailed guidance on ethics reporting. It has an entire category dedicated to ‘Ethics and Integrity’ as can be seen in the following table which gives an overview of the G4 report structure.

<table>
<thead>
<tr>
<th>General standard disclosures(^1) (reporting required for all organisations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational profile</td>
</tr>
<tr>
<td>Governance</td>
</tr>
<tr>
<td>Ethics and integrity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specific standard disclosures. (reporting required only if material)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
</tr>
</tbody>
</table>

\(^1\) There are a number of other General Standard Disclosures. For the full list see GRI Implementation Manual, 2013: 19
This Ethics and Integrity section includes aspects such as:

- **Organisational values**
  - ‘Values, principles, standards and norms’, how these have been developed.

- **Leadership commitment**
  - The role of the board and senior executives in the development and approval of values.
  - Executive level position responsible for institutionalisation of values?

- **Implementation:**
  - How the values and standards have been implemented, for example training initiative.
  - Systems such as helplines and hotlines.

**Integrated report**

An integrated report combines aspects of the annual and sustainability reports in a condensed narrative format. It addresses long-term integrated value including financial, human, social, environmental and intellectual capital.

As the name suggests the framework has integrated ethics indicators throughout the report. The ethics related indicators are all related to long term value creation for the organisation as can be seen in the text box below.

**International Integrated Reporting Framework**

“4.8. An integrated report should answer the question: How does the organization’s governance structure support its ability to create value in the short, medium and long term?”

For example:

“Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues.”

*International Integrated Reporting Council, 2013, p12*

This encourages organisations to consider how their ethics programmes contribute to their value creation and long term sustainability. Institutionalised internal monitoring and reporting of the organisation’s ethics programme, as well as independent assessment of the organisation’s ethics performance, should ensure that this link remains clear.
Bibliography


International Federation of Accountants (IFAC). 2013. ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information Available at: https://www.ifac.org/sites/default/files/publications/files/ISAE%203000%20Revised%20-%20for%20IASSB.pdf


About EthicsSA

The Ethics Institute of South Africa (EthicsSA) is a non-profit, public-benefit organisation that commenced operations in August 2000. The organisation is governed by a board of directors consisting of prominent persons committed to promoting ethical responsibility.

EthicsSA’s vision is: “Building an ethically responsible society”.

We achieve our vision by forming partnerships with the public and private sectors, and the professions. EthicsSA serves as a resource through our thought leadership, research, training, support, assessment and certification activities.

Thought leadership

EthicsSA is committed to stimulate and advance awareness of ethics in South Africa and in other countries on the African continent where we are active. We participate regularly in public debates in the media and contribute to policy formulation in respect of business ethics, corruption prevention and professional ethics.

Services offered

EthicsSA offers a wide array of services related to the management of ethics in organisations and professions. These services include:

Training: Public and in-house training programmes on a range of ethics-related themes.

Advisory services: Consulting to public-sector and private-sector organisations and professional associations on matters related to the management of ethics.

Assessments: Assisting organisations with gauging their current state of ethics through a variety of assessment instruments.

Certification: Certifying certain ethics-related services and service providers in order to provide assurance that these services and service providers meet relevant ethics standards.

Project management: Acting as project manager for funders wishing to enhance good governance, corruption prevention, or professional ethics.

Membership services: Offering subscription membership to individuals and organisations, with a variety of membership benefits.

More information on EthicsSA can be found at www.ethicssa.org
About the IIA SA

The Institute of Internal Auditors South Africa (IIA SA) is part of an international network representing the interests of Internal Auditors worldwide and serving members in the fields of internal auditing, risk management, governance, internal control, IT audit, education, security and management.

As a part of this international network, the IIA SA upholds and supports the fundamental tenets of the profession - the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. The IIA SA also participates in global initiatives to develop the profession in South Africa, and is an active participant in global activities and direction.

The IIA SA supports the profession in South Africa by providing a wide range of services for internal auditors and dynamically promoting and developing the profession in South Africa. The IIA SA is also the creator and custodian of the career path standards for Internal Auditors and is dedicated to the education and the advancement of internal auditors in South Africa. The IIA SA’s objectives are to build the profession, its credibility and thus contributing to good governance and a thriving economic environment in South Africa.

We serve internal auditors in South Africa by offering Technical Guidance, Professional Training Programs, Certification Programs, Conferences and Networking Opportunities, Continuing Professional Development Opportunities and the Executive Leadership Network.

More information on the IIA SA is available on www.iiasa.org.za.

About the authors

Kris Dobie is Manager for Organisational Ethics Development at the Ethics Institute of South Africa (EthicsSA). He holds a degree in Landscape Architecture from the University of Pretoria, as well as MPhil in Workplace Ethics (cum laude) from the same institution.

He has been involved in organisational ethics since 2004 when he was appointed Assistant-Director at the Centre for Business and Professional Ethics at the University of Pretoria. He joined EthicsSA in 2007 and is active in consulting, training and research.

Kris's main focus has been corruption prevention where he has been involved in policy-, training-, and resource development. He has consulted to government on numerous occasions in the development of anti-corruption and ethics management standards and guidelines applicable to all public service entities. He has also conducted a public service-wide audit on the anti-corruption capacity of government departments.

He is currently a member of the Gauteng Anti-corruption Working Group, and recently served on the Global Reporting Initiative’s Anti-corruption Working Group for the development of the GRI’s G4 reporting standard.

Kato Plant is a Certified Internal Auditor (CIA) and a member of the Institute of Internal Auditors (IIA).

She studied Accounting Sciences and completed a Master's degree in Workplace Ethics (cum laude) at the University of Pretoria. Her dissertation focused on the role of the internal audit function in assessing ethics.

She worked at the ISCOR School of Finance for two years and returned to the UP as lecturer in the Department of Auditing. Kato has more than nineteen years' experience in the academic landscape, has published in national and international journals and has acted as guest speaker at various IIA conferences. She has also acted as consultant and presented various courses locally and abroad to finance and audit practitioners on behalf of the Continuing Education division at the University of Pretoria, the Centre for Business and Professional Ethics, the Southern African Institute of Government Auditors and the Ethics Institute of South Africa.

She is currently a senior lecturer in the Department of Auditing at the UP and is also a member of the IIA (SA) Education and Training committee. Kato's research areas are internal audit education and workplace ethics. She is currently registered for a PhD in Internal Auditing at the University of Pretoria.
In line with the Companies Act (2008) and the Public Service Integrity Management Framework, many organisations are now establishing ethics committees in one form or another. If these committees are to fulfil their mandate they will need credible and useful information on their organisations' ethics performance.

This booklet is aimed at the following role players:

- Ethics officers who have to monitor, and report on their organisations' ethics management programmes to relevant committees;
- Internal auditors who have to independently assess their organisation's ethics performance and report their findings to their audit committees; and
- Members of governing bodies and committees who provide strategic direction and oversight of the organisation's ethics performance, and who are responsible for reporting to external stakeholders.

The aim is to give practical guidance to ensure a higher standard of information. Clear, relevant and timely information allows for more constructive engagement, more relevant ethics management programmes, and ultimately better ethics performance.