



**THE
ETHICS
INSTITUTE**



Second Edition

Ethics Reporting and Auditing Handbook

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Ethics Reporting and Auditing Handbook

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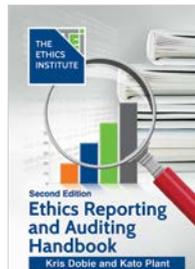
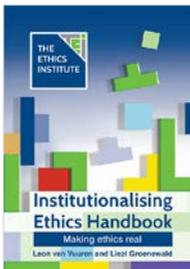
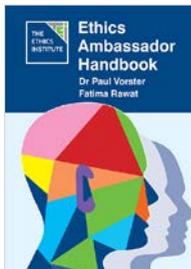
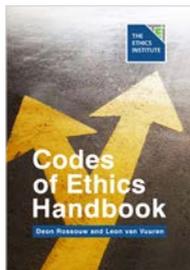
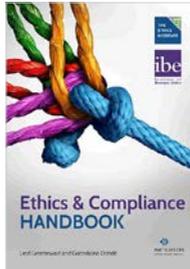
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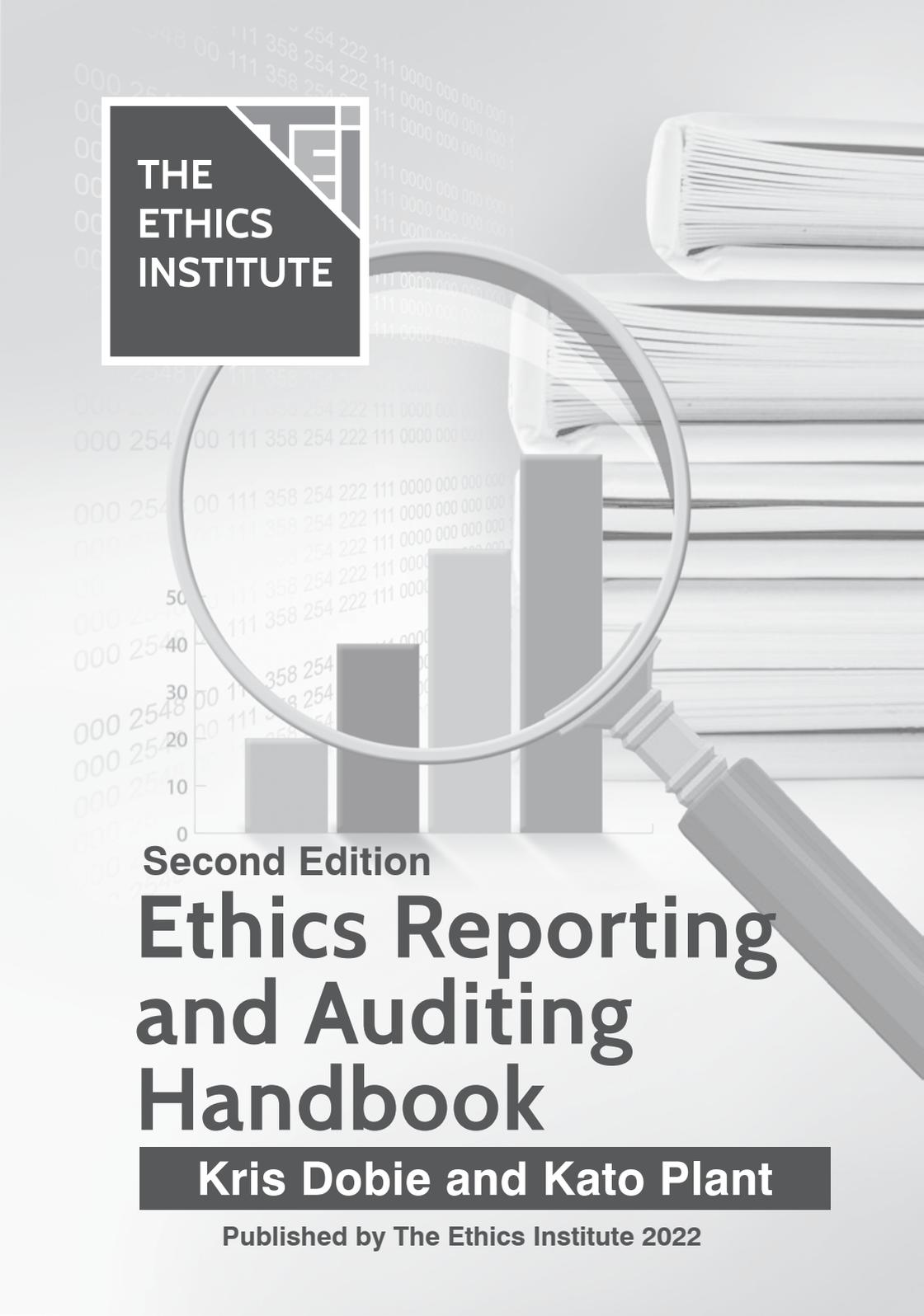
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Published by The Ethics Institute 2022

Preface by TEI

Endorsement by IIA SA

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The field of ethics management grew dramatically over the last two decades in South Africa. This growth was fuelled by the four King Reports on Corporate Governance that were released since 1994, the new Companies Act (2008) that introduced statutory Social and Ethics Committees for certain categories of companies, 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 Public Service Regulations (2016), contributed to the growth in ethics management.

This growth has seen a corresponding 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 and Auditing 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 and Auditing Handbook* forms part of the Ethics Handbook series published by The Ethics Institute. The purpose of the Handbook Series is to provide practitioners with practical guides and reference works that can assist them in improving the ethics performance of their organisations.

The first edition of the *Ethics Reporting and Auditing Handbook* was published in 2014. Several significant international developments in the fields of sustainability and integrated reporting triggered the need for a second edition of this Handbook.

The Ethics Institute partnered with the Institute of Internal Auditors of South Africa (IIA SA) to produce the second edition of the *Ethics Reporting and Auditing Handbook*. The field of ethics management is a multidisciplinary field in which governing bodies, ethics 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 The Ethics Institute in producing the *Ethics Reporting and Auditing Handbook*. In particular, I would like to thank the two authors, Kris Dobie from The Ethics Institute and Prof Kato Plant from the University of Pretoria (and member of the IIA SA Policy Committee) for their dedication and innovation to produce this handbook.

I trust that the *Ethics Reporting and Auditing Handbook* will become an important and trusted companion for all governance and management practitioners who play a role in building ethical organisations.

Prof Deon Rossouw

CEO: The Ethics Institute



The Institute of
Internal Auditors
South Africa

Endorsement by IIA SA

In a reflection on a modern experienced disruption we are reminded of the importance of the role that Internal Audit plays in providing assurance on the governance processes and the state of governance in our organisations both directly and indirectly, specifically with the increasing reports of fraud and corruption. Ethics principles and ethics structures play a key role in maintaining stability, order and trust. Internal Auditors are seen as the guardians of governance and are called upon to uphold and account for governance failures. However this function calls for a collective responsibility where an integrated thinking and combined assurance approach is vital as it ensures a comprehensive governance overview. We believe that ethical leadership is amplified by integrity, competence, responsibility, accountability, fairness and transparency which involves the anticipation and prevention of the negative consequences of an organisations' activities and outputs on the economy, society and the environment. The IIA SA welcomes the value contribution this ethics handbook provides in terms of guidance and as a knowledge resource.

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 diagram on p. 5)

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.

Although ethics management has matured dramatically over the past two decades, our engagements with organisations in both the public and private sectors point to the fact that there is still room for growth in how organisations report on, and audit their ethics performance – both internally and externally.

International and local corporate ethics failures, together with large-scale corruption and state capture have left stakeholders and regulators with the belief that more meaningful transparency is both desirable and possible.

Partly to address these issues, the Companies Act of 2008 requires certain organisations to establish social and ethics committees. (See *The Social and Ethics Committee Handbook*, 2018). These committees have a mandate to monitor, and report on, the company's triple context impacts. The JSE has itself recently launched its own Sustainability Disclosure Guidance for public comment.

In the South African public sector, regulation 23 (2) of the Public Service Regulations (2016) places a requirement on heads of departments to establish ethics committees “to provide oversight to ethics management in the department.”

The trends for greater monitoring and oversight of non-financial issues are also playing out internationally. In the European Union, legislative reforms are underway to review the 2014 Non-Financial Reporting Directive, which will lead to a new Corporate Sustainability Reporting Directive. At COP26, held in Glasgow in 2021, the International Accounting Standards Board (IASB) announced the launch of the International Sustainability Standards Board (ISSB) to strengthen reporting on sustainability issues. This is a very significant move, intended to elevate non-financial (sustainability) reporting to the same standard as financial reporting.

Governing bodies can only report on information that they are aware of. The regulations now mean that they have to get serious about becoming aware.

These developments signal that greater transparency is required from governing bodies to external stakeholders. To bring this about there would need to be a concomitant

transparency from management to these governance structures. Governing bodies can only report on information that they are aware of. The regulations now mean that they have to get serious about becoming aware.

This requires improved information management in organisations, and structured and meaningful reporting to the oversight structures.

This handbook does not address sustainability reporting in its totality. Instead, it aims to provide guidance on the reporting and auditing of the organisational ethics and integrity component. Without a strong ethical culture, it would be impossible for governing bodies to have confidence that the other components of the triple context are being managed effectively.

This handbook is divided in four sections:

- **Part 1** sets the context of ethics reporting within sustainability reporting, the relevant regulatory framework, and the ethics management framework. It also provides an overview of the ethics reporting and audit process and role-players.
- **Part 2** discusses the internal reporting responsibilities of the ethics office in providing reports to the ethics committee.
- **Part 3** focuses on the role of the internal audit function in assessing the organisation's ethics performance and reporting to the audit committee.
- **Part 4** deals with the inclusion of ethics in governing bodies' reports to external stakeholders.

1.1 Ethics reporting in the context of sustainability reporting

Sustainability reporting is reporting within the triple context, namely on the economic, environmental and social sustainability issues related to organisations. These issues can however not be governed effectively without an ethical culture.

Some might confuse ethics reporting with overall sustainability reporting, but ethics reporting as used here is a subset of sustainability reporting.

The Global Reporting Initiative, in its 2016 GRI Standards, positions Ethics and Integrity as a General Disclosure (GRI, 2016: 16-17). This is at a higher level than the triple context reporting, indicating the importance that is placed on getting this right as part of good governance. This is also something that all participating organisations need to report on, as opposed to the triple context disclosures which are only made if they are deemed material to the organisation.



Diagram – Schematic overview of the GRI Standards

In the language of the GRI, this handbook deals with the reporting on the ethics and integrity of organisations, as well as the auditing of these aspects.

1.2. Regulatory framework

As is set out in the introduction, much of the reporting requirements on organisational ethics is driven by the regulatory frameworks that establish committees with a mandate to provide oversight of organisational ethics and integrity. In South Africa these include the social and ethics committees required by the Companies Act of 2008, public service ethics committees required by the Public Service Regulations of 2016, and relevant oversight structures as set out in the Municipal Integrity Management Framework of 2015.

As can be seen from the following extracts, there is a requirement in the public sector for a committee that provides oversight of ethics management.

Public Service Regulations (2016) - extract

23.2 *The head of department shall establish an ethics committee or designate an existing committee, chaired by a Deputy Director-General, to provide oversight on ethics management in the department.*

Municipal Integrity Management Framework (2015) - extract

- 3.3 *Oversight of the anti-corruption / integrity management programme:*
- a) *A relevant committee (such as the Municipal Public Accounts Committee) should provide strategic guidance and oversee implementation of the municipality's integrity promotion and anti-corruption strategy.*
 - b) *The relevant committee should continuously monitor progress with the implementation of the strategy. Where there is lack of implementation there should be a response. This could include improved support and resources, or holding non-performing officials accountable.*

The Companies Act and Regulations are not specific that the social and ethics committee must deal with the matter of organisational ethics. However, read with King IV it is clear

that these committees are well suited to play a role in the oversight of organisational ethics, and as such have to report on it as well. *For more on this see the Social and Ethics Committee Handbook (Rossouw, 2018: 34).*



King IV is however very specific that the governing body has a role with regards the ethics of the organisation:

King IV extract

Principle 2. The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

(IoDSA, 2016: 40)

This governance role requires an oversight responsibility, which King IV sets out as follows:

King IV extract

9. The governing body should exercise ongoing oversight of the management of ethics and, in particular, oversee that it results in the following:

- a) *Application of the organisation's ethical standards to the processes for the recruitment, evaluation of performance and reward of employees, as well as the sourcing of suppliers.*
- b) *Having sanctions and remedies in place for when the organisation's ethical standards are breached.*
- c) *The use of protected disclosure or whistle-blowing mechanisms to detect breaches of ethical standards and dealing with such disclosures appropriately.*
- d) *The monitoring of adherence to the organisation's ethical standards by employees and other stakeholders through, among others, periodic independent assessments.*

(IoDSA, 2016: 45)

King IV also suggests some specific external disclosures in relation to organisational ethics:

King IV extract

10. The following should be disclosed in relation to organisational ethics:

- a) An overview of the arrangements for governing and managing ethics.*
- b) Key areas of focus during the reporting period.*
- c) Measures taken to monitor organisational ethics and how the outcomes were addressed.*
- d) Planned areas of future focus.*

(IoDSA, 2016: 45)

One can imagine that the regulators, as well as the drafters of King IV, are hoping that the additional oversight and reporting will lead to more positive ethical outcomes and the avoidance of ethical failures. The first governance outcome stated by King IV is an ethical culture, and perhaps the wish is that the governing body at least has the comfort of knowing that:

- a) the ethics of the organisation is thoughtfully and actively managed, and
- b) there is an overall ethical culture in the organisation.

For this handbook we therefore build on the formal reporting requirements, and also consider them in the context of a complete ethics management framework.

1.3. Ethics reporting as part of the 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 The Ethics Institute. It is aligned to both King IV and the Public Service Regulations.



Diagram – Ethics 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 their **governance structures**. This might include establishing ethics structures (such as an ethics committee) and assigning responsibilities for managing ethics (for example – to an ethics champion and an ethics officer).
3. The ethics management function must 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**.

Finally, it is important to note that these initiatives are not implemented for their own sake, but to positively influence the organisation's ethical **culture**.

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

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.

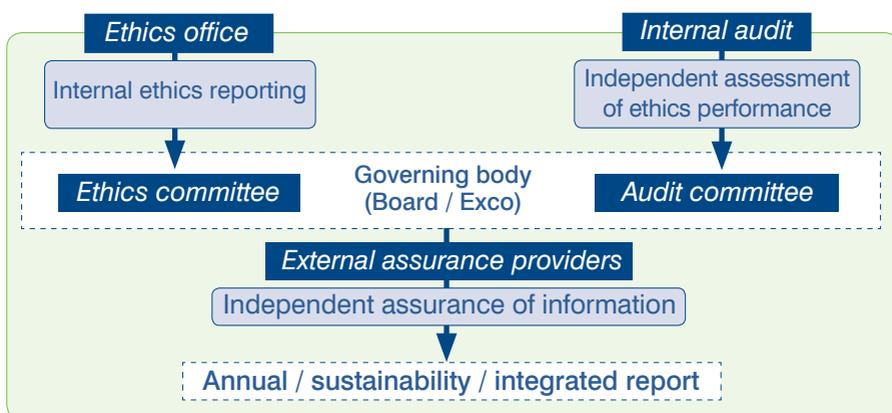


Diagram – Reporting process and role-players (schematic overview)

- 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.

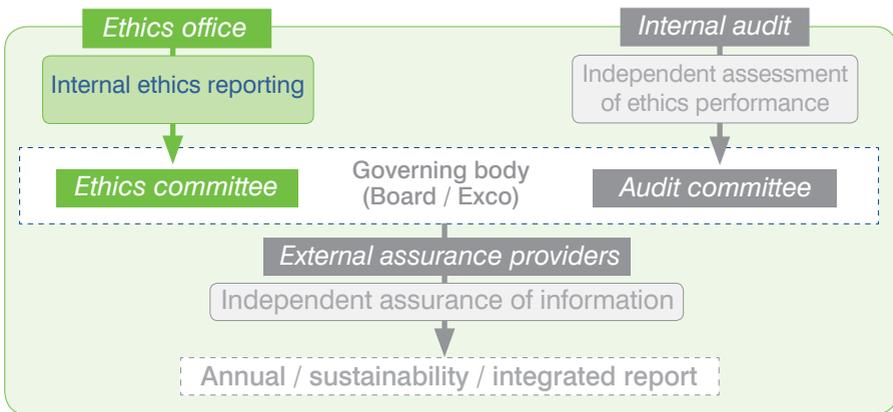


Diagram – Reporting process and role-players (schematic overview)

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.

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 numbers
- 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.

Integrating monitoring with management

Monitoring should not be an additional burden to the ethics office. It should rather be incorporated into its management systems.

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 performance at a strategic level.

The report could include the following elements:

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

a) 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 – has the ethics office done what it committed to?

The implementation report will indicate the extent to which each objective has been achieved and whether any additional initiatives have been implemented.

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.

b) 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.
- Helpline
 - Number of queries per division / region.
 - Categories (type of query).

- Hotline reports
 - Number of incidents
 - Categories (type of incident).
 - Average time for completion of investigations
 - Outcomes
 - Financial impact

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 should support the ethics office in ensuring that information is shared as a matter of course.

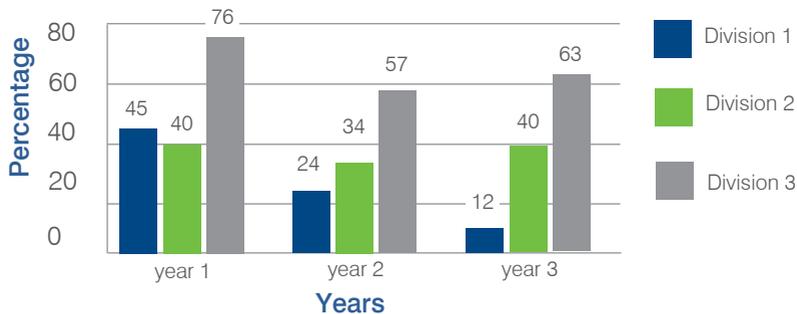
The ethics committee needs a comprehensive picture of all factors that may reflect the ethical trends in the organisation. As can be seen above, this may include information of which the ethics office is not the primary custodian. The ethics office will therefore be responsible for consolidating the 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.

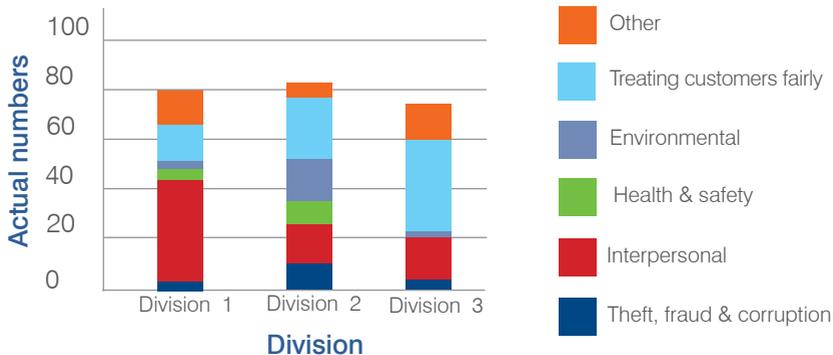
Most of the information on trends can be displayed graphically as in the examples below.

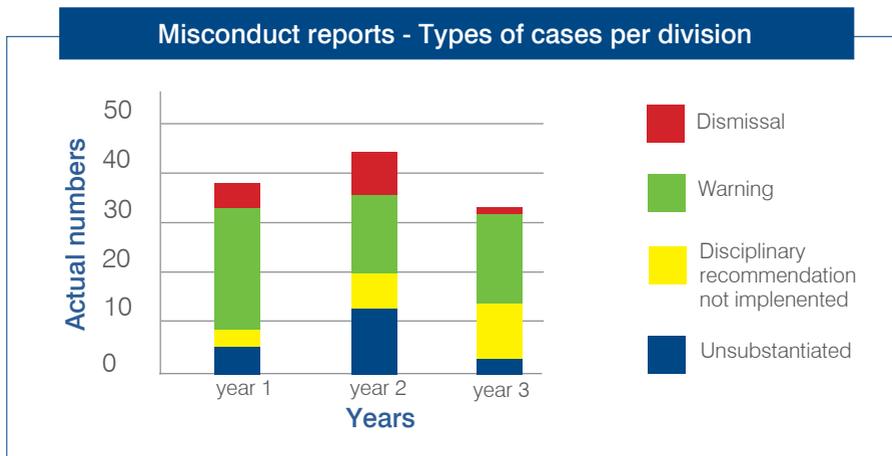
Percentage of employees trained



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.

Misconduct reports - Types of cases per division





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.

c) 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 fulfil its monitoring function, but also enables them to make judgement calls on ethical issues to avert reputational damage.

d) Strategic considerations

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

The ethics office(r) 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. Examples may include changes in regulation or legislation, or mergers and acquisitions.

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 fulfil 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.

Besides reporting on these elements, King IV also gives the following guidance for all committees of the governing body, therefore including the Ethics Committee.

King IV extract

50. The following should be disclosed in relation to each committee of the governing body:

- a) *It's overall role and associated responsibilities and functions.*
- b) *Its composition including each member's qualifications and experience.*
- c) *Any external advisors or invitees who regularly attend the committee meetings.*
- d) *Key areas of focus during the reporting.*
- e) *The number of meetings held during the reporting period and attendance at those meetings.*
- f) *Whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting.*

(IoDSA, 2016: 55)

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, but raise emerging issues on an ongoing basis.

Besides setting out specific practices for the management of ethics in organisations, King IV recommends that the governing body should ‘exercise ongoing oversight of the management of ethics that should include “the monitoring of adherence to the organisation’s ethical standards by employees and other stakeholders through, among others, periodic independent assessments” (IoDSA, 2016:45).

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 IV says that “A combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees; and support the integrity of the organisation’s external reports.” (IoDSA, 2016: 10)

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 (referred to as lines of defence or lines of assurance) contribute to the assurance process. This ensures that limited assurance capacity is used effectively and that tasks are not duplicated unnecessarily.

With regard to assurance services relating to ethics management, a combined assurance methodology is encouraged to ensure proper coverage against key ethics risks.

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:

Leadership accountable to stakeholders (1st line of defence)	Management responsible for the risk area (2nd line of defence)	Internal assurance providers (3rd line of defence)	External assurance providers (4th line of defence)
Governing body	Ethics office	Internal auditors	External auditors and independent subject matter experts

While independence remains critical in combined assurance engagements, 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 audit of ethics performance

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.

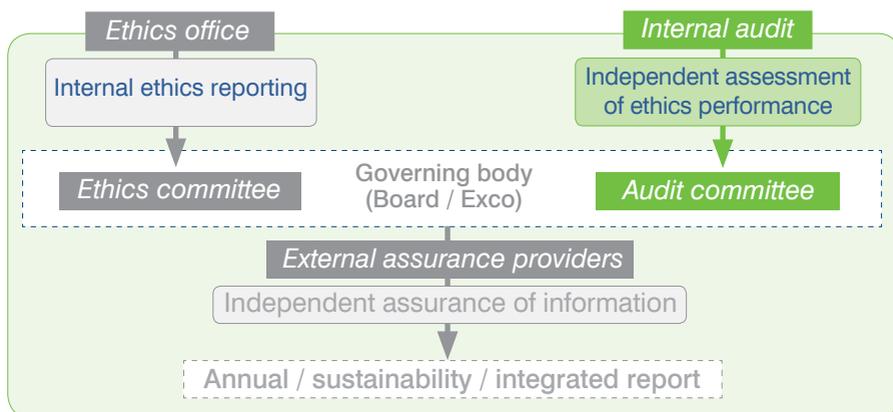


Diagram – Reporting process and role-players (schematic overview)

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:

IIA – International Professional Practices Framework - Extract

- ***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, 2016: 12)

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

a) Considerations for ethics audits

The nature and extent of the organisation's ethics management programme (see section 1.2) will have a direct impact on the approach applied by the internal audit function when conducting ethics audits.

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 audit be a separate engagement, or will it be audited 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 audit?
- Is the external service provider competent and experienced to perform an independent ethics audit?

- Is the external service provider independent and objective in performing the ethics audit?

b) Proposed methodology

Internal auditors generally take a risk-based approach in assessing specific control areas. In the same way, assessing the ethics performance of the organisation might look at the control environment as it relates to organisational ethics. The actual risk an organisation faces is however very dependent on how supportive the ethical culture is in that organisation. Internal auditors should therefore not only look at the hard control environment (i.e. ethics governance structures and ethics programme), but should also assess the soft control environment (i.e. ethical culture).

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

The following diagram sets out an approach for auditing the ethics performance of organisations, which makes use of complementary audit techniques, and is therefore recommended:

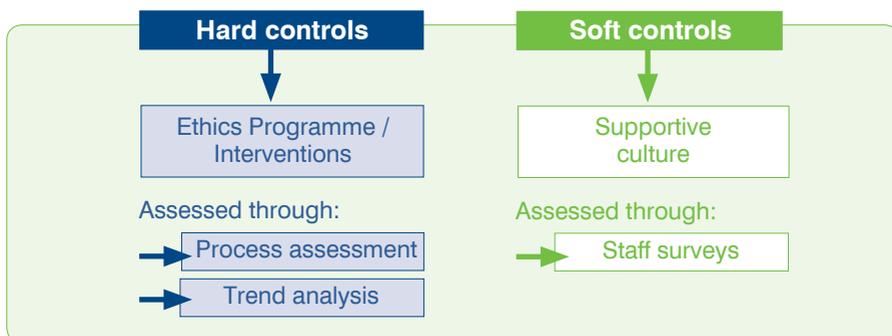


Diagram – Approach for internal audit assessment of organisational ethics

Hard controls

Most internal auditors are adept at assessing the hard control environment. For the ethics programme it would include:

- Process assessment
 - Whether the required elements of an ethics programme have been implemented
- Trend analysis
 - Whether the ethics programme elements have been institutionalised and whether they are being utilised.

The first step in a process assessment would be to determine applicable criteria, or a best practice standard against which to measure the organisation's ethics programme.

Evidence is then gathered to determine the extent to which the organisation meets the best practice standard. It should determine whether appropriate interventions are in place, and whether they can be improved. To do this 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' which includes such a maturity model. This document is available to IIA members globally.

Internal audit can also use the 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 below 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.



Diagram – Institutionalisation of ethics standards

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?¹
 - Are there processes to support the whistle-blowing system, e.g. investigations 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?

¹ TEI certifies hotline service providers according to the Safe Reporting Service Provider Standard which was developed in conjunction with industry players. See <https://www.tei.org.za/safe-reporting-service-provider-certification/> for more information.

The second step of assessing the hard controls is to do a *trend analysis* based on the information that was generated by the various ethics programme elements. The internal audit function may utilise the trend analyses conducted by the ethics office (see section 2.2b) 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.

Soft controls

Many indicators of the organisation's ethics performance are intangible and cannot be assessed through traditional means. Corporate ethics failures have taught us that the presence of ethics programme elements does not mean that these are supported by leadership's example and the organisational culture.

Many indicators of the organisation's ethics performance are intangible and cannot be assessed through traditional means.

A 2016 issue of The Institute of Internal Auditors' Global Perspectives and Insights series dealt specifically with the auditing of culture, and states that "Anything that is so critical to an organisation's success should be examined thoroughly and consistently" (IIA, 2016:5).

The same publication however acknowledges that giving an opinion on culture can be seen as subjective, and that is the reason why internal auditors have traditionally shied away from it. To avoid perceptions of subjectivity it is therefore recommended that internal auditors make use of staff surveys to assess the ethical culture of the organisation. The

more scientifically validated the surveys are, and the larger the sample size, the more these surveys stand up to scrutiny and avoid being considered as subjective.

While instruments differ, the following should be considered for inclusion:

- *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*

An ethically healthy organisation is one where the leadership and the organisational culture support ethical behaviour.

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 resources 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.

Communicating the findings

The internal audit function communicates the results of the ethics audit 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.

Reporting to external stakeholders is a key element of building legitimacy through greater transparency.

Due to the increased importance that is placed on issues of organisational ethics and integrity, it is now common practice to report on these aspects in the annual, sustainability and/or integrated reports.

The King IV report says that the governing body has the discretion to decide where to make its King IV disclosures – citing possible examples as the “integrated report, sustainability report, social and ethics committee report, or other online or printed information or reports.” (IoDSA, 2016: 38)

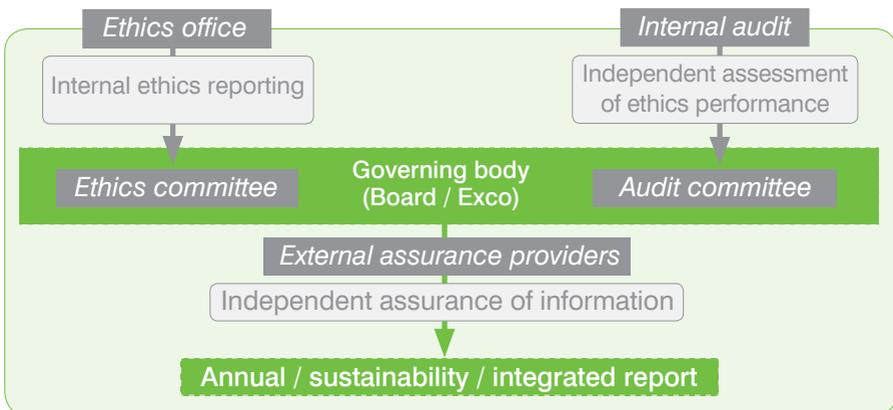


Diagram – Reporting process and role-players (schematic overview)

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 international standards and guidelines for sustainability reporting, including AccountAbility 1000 Principles Standard (AA1000), the Global Reporting Initiative (GRI) Standards, and the ISO 26000 Guidance on Social Responsibility.

Of these the GRI is the most widely used, and also provides the most detailed standard for ethics reporting. It has an entire category dedicated to Ethics and Integrity (as can be seen in the diagram in section 1.1 of this booklet.)

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 initiatives; and
 - Systems such as helplines and hotlines.

Integrated report

An intergrated report addresses long term integrated value including financial, human, social, environmental and intellectual capital.

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

4.9 An integrated report provides insight about how such matters as the following are linked to its ability to create value:

- 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.

- How the organization's culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders.

- International Integrated Reporting Council, 2021, p40

This encourages organisations to consider how their ethics programmes contribute to their value creation and long-term sustainability.

4.1. External assurance of organisational ethics

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.

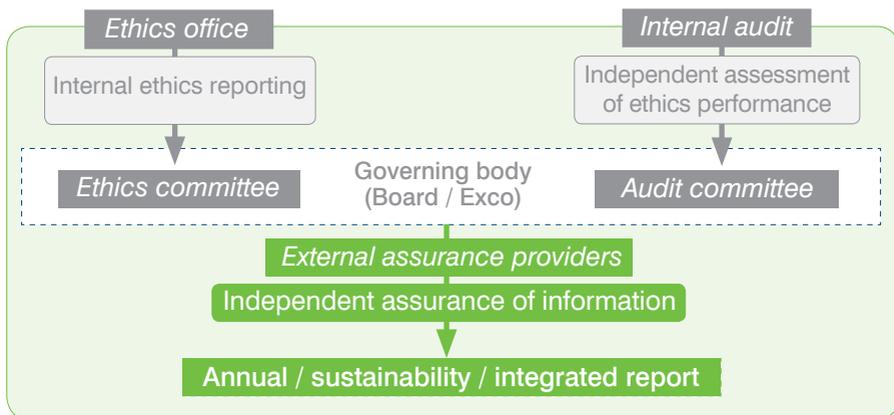


Diagram – Reporting process and role-players (schematic overview)

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.

The International Auditing and Assurance Standards Board (IAASB) is an international body that sets standards for the audit profession. In 2013 it issued a standard (ISAE 3000) on providing “*Assurance Engagements Other than Audits or Reviews of 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.

Reasonable assurance is a higher level of assurance than limited assurance.

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.

Amongst others, the following initiatives were started in 2021:

- The European Union embarked on legislative reforms to develop a Corporate Sustainability Reporting Directive.
- The International Accounting Standards Board (IASB) announced the launch of the International Sustainability Standards Board (ISSB) to drive the strengthening of reporting on sustainability issues.
- In 2021, the IAASB published further "Non-Authoritative Guidance on Applying ISAE 3000 To Sustainability and Other Extended External Reporting Assurance Engagements" to assist with the assurance of non-financial information.

These developments indicate that the standards for reporting on sustainability information, as well as the assurance of such information will enjoy greater prominence in the coming years.

Ethics reporting and auditing form an integral part of the ethics management framework.

It places ethics on the agenda of the governance body. It provides the governance body with the information it needs to fulfil its responsibility in terms of ethical leadership and oversight, and ensures that ethics remains top of mind.

It gives credibility to the ethics interventions. A lack of effective reporting and auditing effectively undermines the legitimacy of the organisation's ethics programme.

It contributes to continuous improvement. Independent assessment allows a number of governance professionals to apply themselves to the improvement of the organisation's ethics performance.

It reduces the risk of ethics failures. Regular reporting and auditing assists with the timely identification of ethics risks and shortcomings in the ethics management programme.

It builds trust with stakeholders. Meaningful and transparent reporting and disclosure provides valuable information to internal and external stakeholders allowing them to form an opinion on the organisation's ethics performance.

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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 TEI in 2007 and is active in consulting, training and research.

Kris's main focus has been in 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 National Anti-Corruption Strategy Reference Group, and 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 (focusing on the role of the internal audit function in assessing ethics) and a PhD in Internal Auditing at the University of Pretoria (UP).

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 twenty-five 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.

She is currently an associate professor and Head of the Department of Auditing at the UP and is also a member of the IIA (SA) Policy committee, the Southern African Institute of Government Auditors (SAIGA) Tertiary and University committee as well as the chairperson of the South African Institute of Chartered Accountants (SAICA) Ethics Community of Best Practices for educators. Kato's research areas are audit quality, internal audit education, and workplace ethics.



Second Edition

Ethics Reporting and Auditing Handbook

Guidelines for ethics officers and internal auditors on reporting on, and auditing, organisational ethics

In line with the Companies Act (2008), the Public Service Regulations (2016), and the Municipal Integrity Management Framework (2016) 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 or other assurance providers 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.

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