

Business ethics: a practitioner's perspective

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Internal Audit Group

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An ethical Challenge for Universities

“ Universities must accept some of the responsibilities for corporate scandals because it is in university that many future accountants, lawyers and other professionals receive the first exposure to ethical standards and traditions” (Couch, 2005)

Why is ethics important in universities

1. Research community value universities that set and live up to stated standards
2. Students value faculty management that acts with honesty and integrity
3. Funding sources (government, other donors) and suppliers value institutions that honour commitments
4. Faculty value a culture where they can trust colleagues, university management and where they are proud to work
5. General public expect high standards of behaviour as they see universities as centres for thought leadership

Ethics and the role of internal audit: hypothesis

Internal audit plays a key role in helping to set, maintain and monitor ethical standards and desired behaviours

Audit brings a unique perspective and value add to an ethics program as it can detect problems early

Audit can also play a leading role in complex investigations involving fraud, corruption, and other ethical failures

Internal auditors have the benefit of casting independent “eyes” on a wide range of data and may be able to detect issues invisible to management

Audit is a key contributor to any institution’s ethics system

Ethics and the role of internal audit: your views

What is your view of this hypothesis?

Do ethical issues (behavioural) related to your university's values come in to play directly in your audits?

Does your university have a code of conduct or a statement of ethics/ values which you can refer to when undertaking actives related to auditing and/or investigations? How helpful is it?

How does your University instil/promote its ethical values in its staff and the workplace?

Elements required for a robust ethics program

Governance (board responsibilities)

1. **Leader lead & board endorsed** (cascaded messages demonstrated in behaviour)
2. **Documents** - Written code which refers to policies, standards and procedures developed with stakeholder input including internal audit and risk management
3. **Monitoring** - Establish metrics to measure success of the program and report key issues/challenges to the Board

Management (VC and management responsibilities)

1. **Incentive system rewards ethical behaviour**
2. **Whistleblowing** – to be effective whistle blowing systems should be managed by independent party and must be actively promoted

3. **Measure, monitor and report** - establish measurable targets, monitor and report on these and ideally undertake ethical audits every 2-4 years or incorporate ethical questions into existing audits
4. **Communication** - Key messages must be effectively communicated and reinforced by observed local leadership behaviour
5. **Training**
 - Prioritise on material risks for high risk exposed groups
 - Include face-to-face elements & design content relevant to the local workplace ethical dilemmas
 - Include a practical ethical decision making model

Stages of ethical leadership development

Four Stages:

Training delivery mode:

Stage 4: Leadership and accountability

Workshop

Stage 3: Ethical decisions making in complex environments

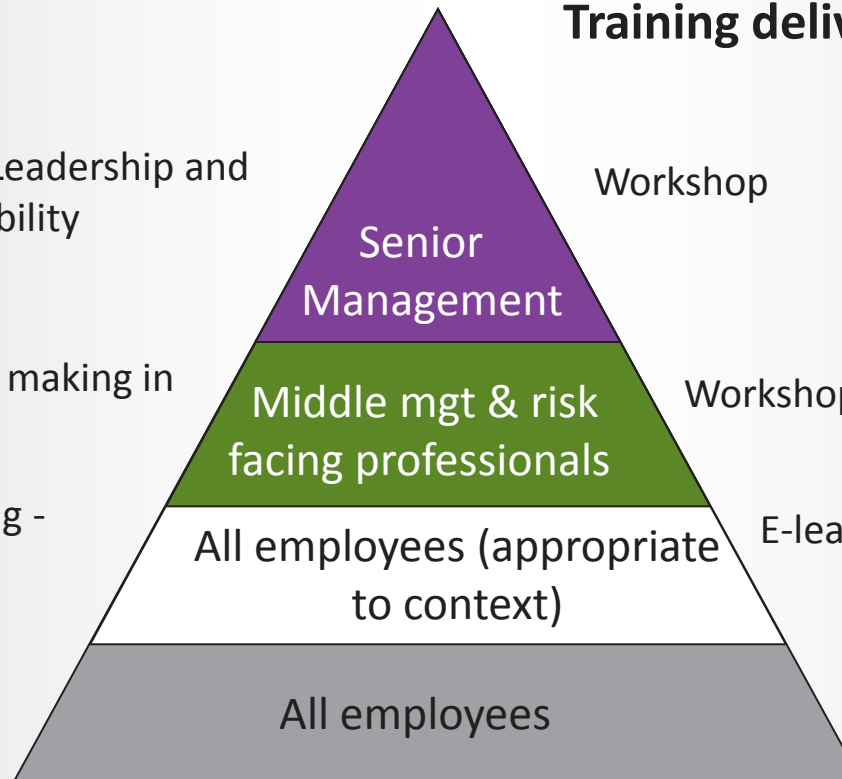
Workshop, E-Learning

Stage 2: Ethical reasoning - determining the 'right thing' to do

E-learning and face-to-face

Stage 1: Ethical knowledge: Understand organisational values

E-learning & face-to-face



Target audience for training

Commonly used ethical theories

Utilitarianism (consequentialist theory):

Act to bring about the greatest “good” for the most

Kantianism (duty or rights based theory):

1. Act only if one is willing for such acts to be universalised
2. Act only if the act treats all humans as ends in themselves – not means to an end
3. Act to bring about a situation where the most people possible are treated as intrinsically valuable

Example: Decision Making Model

Is it illegal?

Are my actions consistent with the Code of Conduct, policies and standards?

Would there be negative consequences for the University?

Would it appear improper to my family and friends?

Would I prefer to keep this secret?

Would I be embarrassed if my actions were reported in the newspaper?

Case Study on Revenue Overstatement

You believe the University is including in its Higher Education Research Data (HERDC) return research income which is questionable as to whether it can be counted.

What are the underlying ethical issues?

What would you do?

What should you do?

Would it be different if:

Your DVC (Research) said it was ok?

Case study on Procurement

You are overseeing an audit on the awarding of service contracts for catering. One of your auditors has heard that the head of procurement for one of the campuses was entertained at the Australian Open Tennis by the company that won the tender. Your university does not have a campus in Melbourne.

What are the underlying ethical issues?

What would you do?

What should you do?

Would it be different if:

- the invitation to the tennis occurred after the tender was awarded?

Case study on conflict of interest

You are overseeing an operational audit on an incorporated research centre which is headed by a Laureate Professor who is also the head of an academic department. You note that the prioritisation of research in the department has become strongly aligned to the commercially funded research agenda of the centre. Is this appropriate?

What are the underlying ethical issues?

What would you do?

What should you do?

Would it be different if:

- the head of department was not a Laureate Professor?
- the research agenda is in line with the department's plans?
- the field of research attracts plenty of funding?
- no one has previously raise this as an issue?

Case study on conflict of interest

You are doing an HR audit and find out that the head of an academic department has apparently approved the employment of his wife as a research assistant. Is this appropriate?

What are the underlying ethical issues?

What would you do?

What should you do?

Would it be different if:

- his wife is an expert in the research field?
- worked for a lower pay rate?
- enables the husband and wife to continue the research work after hours at no cost to the University?
- everyone knows about it and no one has raised a complaint?

Final remarks

Internal audit can influence all of the following:

- Tone at the top and at the middle
- Policies and procedures e.g. ethics policy, code of conduct
- Integration of governance, risk and control
- Audit environments e.g. culture and behaviours
- Encouraging probing questions to ensure strong governance

If internal audit is performing to high ethical standards this will help to protect the reputation and integrity of university