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ETHICS AND COMPLIANCE RISK MANAGEMENT

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Abstract: *ERM guides directors and executives as they coordinate the myriad tasks to identify the potential risks encountered by individual employees, business units, geographic divisions and corporate leadership. Effectiveness is predicated on a process orientation, proper tools and high-quality information from operating units and individuals. The ethical health of a company's culture has gained importance due to high-profile business failures where material weakness was found in the control environment. Control environments with strong cultures of compliance are conducive to the minimization of risk a positive control environment, while those with a culture of non-compliance do little to reduce risk. The newly amended guidelines now require companies to expand their program beyond compliance to "compliance and ethics" as a means to prevent and detect criminal conduct and foster an organizational culture that encourages ethical conduct and a commitment to legal compliance. Employees are similarly unresponsive to unethical behavior. Those who believe management endorses unethical conduct often disobey orders and instead do what they believe is right. Companies have more satisfied, more productive, lower risk employees, and customers are more likely to buy their products and services.*

Key Word: *Myriad, Compliance , conducive*

Introduction:

An integral component of ERM is to holistically manage ethics and compliance risk to help shape and foster a strong ethical corporate culture. This article examines the five integrated process steps in building a lawful ethical culture- define, prevent, detect, respond and evaluate – providing practical suggestions. The conclusion discusses the bottom line benefits of ethics and compliance management and how to market those benefits internally to crete support for ethics and compliance initiatives.

Define ethics and compliance risk:

Many companies define their risks during the business planning process, specifically during budgeting. A chief financial officer may call upon the heads of company's operating units and functional areas. It requires two iteration. In the first iteration, accounting breakdowns, business ethics failures, employment related risks, fair trading laws, customer and workplace violations. In the second iteration, the corporate ethics and compliance team cross-references data gathered from interviews in the business units to build a profile of enterprise-wide ethics and compliance risk.

While Shaping the employee for interview process heavily depends on soft controls, an effective assessment of ethics and compliance risk must take into account employee behaviour and organizational culture. When interviewing, employees about ethics and compliance, companies should keep in mind three basic questions:

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- ✓ What has hurt us in the past?
- ✓ What is hurting us day-to-day?
- ✓ What might hurt us in the future?

Prevent ethics and compliance lapses failures:

Past waves of reform focused on preventing misconduct through hard controls – processes and activities that can be objectively measured and quantified, such as controls on access to cash and reconciliations. Companies that have grown quickly or through acquisition should take particular care in comparing policies across regions and business units. When conflicts and gaps arise, company management will have to consult with legal department and the relevant functions in order to build consistent and comprehensive guidelines for employees. Traditionally companies have measured the success of their ethics education programs by employee completion rates.

Today ethics and compliance education is no longer about simply complying with guidelines and numeric targets. It is about instilling the underlying values of an ethical business culture. Here are five keys to do so effectively.

- ✓ Engage corporate leadership to drive successful ethics education.
- ✓ Promote the benefits of interactive engagement drawn from new development in e-learning.
- ✓ Combine the geographic breadth of ethics education with a focus on professional relevance.
- ✓ Move beyond the "Carrot –and-stick" approach.
- ✓ Create certification programs that attest to effective education and compliance.

Detect noncompliance:

Sarbanes-Oxley and the U.S. Sentencing guidelines requirements for anonymous reporting codify what companies already know from experience anonymous reporting can reduce misconduct and save money. The primary reason for the disparity seems to be that "Occupational frauds were much more likely to be detected by a tip that through other means such as internal audits, externals audits and internal controls." The legal and cultural borders that many organizations cross, help lines or other communication systems for anonymous reporting systems must be flexible. Flexibility to accommodate both local culture and applicable law.

The following six suggestions for building whistle-blower systems are effective and likely to be approved by authorities globally:

- ✓ Design the reporting system to complement, not replace, other direct reporting means.
- ✓ Reserve anonymous reporting for serious complaints, while offering openness and discretion for all complaints.
- ✓ Establish trust by keeping promises.
- ✓ Be transparent.
- ✓ Conduct the investigation quickly.
- ✓ Use the data collected from the reporting system to plan risk management.

Employees are encouraged to ask questions and report ethics and compliance Concerns through supervisors and colleagues, including direct supervisors, human resources contacts, legal contacts, environmental health and safety specialists and business practices

specialists, toll-free anonymous phone helpline, anonymous we based system that uses chat e-mail and allows responses to be returned confidentially if the employee desires, specially trained, neutral ombudsmen who accept telephone calls, in translation if necessary, and funnel concerns to management for response.

Respond to allegation and violations:

Employees regulators and prosecutors closely watch not just the equity but also the speed of responses to violations. A company should also make arrangements for having experts regularly evaluate whether the company requires outside counsel and what the company's obligation to authorities. An investigation expands, companies must maintain confidentiality, protect against adverse litigation and avoid retaliation. The investigator believe an interview target has criminal liability, the company must be careful to clarify that attorneys involved represent the company, not the employee. Companies that allow retaliation against whistle-blowers make an unwise bet against numerous federal, state and local laws.

Evaluate results and continuously improve:

Evaluation was not mandated and many good business practices, particularly ethical ones, were not required by law, companies could actually increase their risk by uncovering problems they were not equipped or legally required to handy. In other words, a certain level of ignorance was bliss. Following are the common evaluation technique:

- ✓ Conduct baseline survey of employees about their awareness of regulation
- ✓ Structure survey – low risk to high risk
- ✓ Match programs to requirements of sentencing, guidelines
- ✓ Record quantitative barometers of implementation
- ✓ Compare the programe with industry best practices
- ✓ Use results to inform future evaluations.

Conclusion:

Companies are focused on getting their own houses. But in the new two years many plan to begin including business suppliers, sales partners and other third parties in prevention activities. Vendors should not be expected to match the ethical standards of all of their customs, so partners must strike a balance between independence and mutually beneficial cooperation over standards. Industry groups can be a great help by establishing guidelines for a level playing field. Among companies with all types of attitudes towards ethics, poor training is a leading cause of reporting and compliance failures. The place to start with ethics compliance communications is at the top. Manages, supervisors and executives will always be the cornerstone of successful ethics and compliance management. If management does not demonstrate a commitment of ethics and compliance, no employee will be inspired to care either.

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