



Ethics, Integrity and Internal Auditors

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Statements to reflect from the on set

- Beauty may take a woman to the palace, but it is only character that can keep her there.
- Whatever you compromise to gain, you will lose
- The greatest value in life is not what you get but what you become ; what you become influences what you get.
- If you and your boss reason the same one of you is redundant – have strong character of independent mind
- If you are peeling groundnuts for a blind man, you must continue whistling so that he knows you are not eating them – be transparent all the time.
- When you do things right, you will enjoy your memories

Arthur Friedman & T. Roosevelt Thoughts on Character and Integrity

“Men of genius are admired, men of wealth are envied, and men of power are feared, but it is only men of character who are trusted and respected.” – Arthur Friedman.

“To educate a man in the mind and not in morals is to educate a menace to society.” – Theodore Roosevelt

Definition of Integrity

- Integrity is the manifestation of character, which is oneness of self.
- Integrity and character are the protectors of your work as an auditor and the preservation of your vision.
- In other words, having character and integrity means having an integrated self. It means there is no dichotomy or division in your person.
- You are not one thing in public and another in private.

Behavioral Dichotomy of the Kissing Fish

- In the coral reefs of the Caribbean lives a small fish known as the Kissing Fish. It is bright, blue and quick and a delight to behold. Most fascinating is its kiss.
- It is not uncommon to see two of these fish with lips pressed and fins trashing. They give the appearance of serious underwater romance.
- You would think the species would be an aquarium lover's dream. But looks can be deceiving.
- For what appears to be a gentle friend in the sea is actually a pint – sized bully of the deep.

Behavioral Dichotomy of the Kissing Fish cont..

- Challenge his boundaries and he will take you on, jaw to jaw. What actually appears to be a kind and humble fish is actually underwater artist.
- We don't have to go to the Caribbean to see inconsistencies in behavior . Look closely at the people in your institution, particularly your fellow employees and leaders. You might be surprised how fishy things get when they have personal interest – **a culture of deceit.**

Back Home from the Caribbean

- On the 13th of December 2013, the world stood still for a true son of Africa – Nelson Mandela.
- African leaders who made comments spoke with such authority and clarity about great leadership of integrity and honour which suggests that they actually know what great leadership of integrity is about.
- They talked of Madiba's humility and yet they have zero tolerance for divergent views.

Back Home from the Caribbean cont.

- They talked about love and forgiveness as some of the key attributes of Mandela's greatness and yet they spit venom on their enemies.
- They talked about how Mandela stood for public good and yet some scheme to defraud and plunder public or private resources.
- They are inconsistent in their actions and have failed to embrace true leadership that enhances a culture of integrity and transparency.

Yet these are the leaders you are supposed to oversight.

Well groomed for wrong reasons

Generally the system has produced:

- Charismatic leaders without character.
- Gifted leaders without convictions
- Powerful leaders without principles
- Intellectual leaders without morality
- Visionary leaders without values
- Spiritual leaders without conscience

Character – the invisible quality for an auditor

- Character is the cradle of credibility for an auditor. Without the elements of strong, noble, honorable character, credible potential findings in audit work are in danger of being brought up and implemented. Every auditor is only as safe as his character.
- We experience character deficiency among some auditors because training programs do not include the concept of character as an essential element that goes to the root of the entire audit process. Instead the programs have given priority to intelligence, skills, talents, professional qualifications and competence.

Character – the invisible quality for an auditor cont....

- While many appeared competent and well adjusted, they lack real substance within - which is character

In an address to the aspiring lawyers, Lincoln said, "There is a vague popular belief that lawyers are necessarily dishonest. Let no young man choosing the law for a calling, for a moment yield to this popular belief. Resolve to be honest at all events and if, in your own judgment, you cannot be an honest lawyer, resolve to be honest without being a lawyer. Choose some other occupation rather than one in the choosing of which you do...."

What is Character?

- ‘Character is the complex of mental and ethical traits marking and often individualizing a person , group , or nation.’
- In the sense of this definition, everyone has ‘character.’ We are each identified by the sum of our mental and ethical traits.
- Character is a person’s personal submission to the disciplines of adhering to principles that protect his talents.
- Talent is a person’s inherent gifts and abilities and it is only character that can sustain its manifestation.

The Progression of Character Development

All people follow generally the same course as they develop character. The process occurs like this:

- Our beliefs lead to our convictions.
- Our convictions produce our values
- Our values form our morals, or principles
- Our morals/principles lead to our corresponding personal conduct.
- Our conduct manifests as our character.
- Our ethics result in our character
- Our character determines our life style.

Character emanates from Ethics

- Ethics is a set of moral principles, a theory or system of moral values,” the principles of conduct governing an individual or a group or a guiding philosophy”
- Thus, a code of ethics is the synthesis of an auditor or a leader’s beliefs, convictions, values, and moral standards as well as the priorities and choices that determine the personal discipline.
- A code of ethics is a clearly delineated guiding philosophy and system of moral principles to which an auditor commits in order to exercise effective ethical leadership.

Differences in Legal and Ethical Compliance Approaches

Factors	Legal	Ethical
Ethos	Regards ethics as a set of limits and something that has to be done	Defines ethics as a set of principles to guide choices
Objectives	Preventing unlawful acts	Geared toward achieving responsible conduct
Methods	Emphasizes rules and uses increased monitoring and penalties to enforce these rules	Treats ethics as infused in business practice (leadership, core systems, decision-making processes, etc)
Behavioral Assumptions	Rooted in deterrence theory (how to prevent people from doing bad things by	Rooted in individual and communal values (both material and spiritual)

Your character is your fate –Madoff case

- On the day that former business magnate Bernard Madoff was sentenced to 150 years in prison for his massive Ponzi scheme – which cost his clients billions of dollars – the judge made some striking comments about Madoff’s life and leadership:

“In terms of mitigating factors in a white – collar fraud case such as this, I would expect to see letters from family and friends and colleagues. But not a single letter has been submitted attesting to Mr. Madoff’s good deeds or good character or civic or charitable activities. The absence of such support is telling.”

Your character is your fate –Madoff case cont..

- Remarkably – and significantly – not one friend, family member, neighbor , colleague , or acquaintance came forward to offer a positive statement about Madoff’s character or deeds.
- Such a statement might have helped to commute his sentence, allowing him the possibility of being released on bail some time before the end of his life.
- Either he had alienated them by his deception.

Character – The Most Powerful Force

- Character is the most powerful force an auditor can possess because it protects his talent and skill.
- It manifests who he/she is and shapes who he/she will be.
- Without character, every other aspect of audit is at risk.
- Your character- not your skill – is the fuel of audit performance.
- Your skill and talent is validated by your character.
- When your character is not maintained and starts to “leak”, your skill and talent lose ethical power that propels it.

Enron case as an example of lack of integrity.

- It took 16 years for Enron assets to grow from equivalent of 1 trillion to 65 trillion Kenyan shillings in assets but took only 24 days to go bankrupt.
- This was because of huge ambitions for top managers to make wealth for themselves and had no character at all.
- Due to this, 4000 employees including Internal Auditors lost their jobs, life savings and pensions.
- During 2001, Enron shares fell from over Kshs 9000 to Kshs 30.

What characters of the people behind this fraud? **Where were the auditors?**

Grew up poor



Ken Lay,

Dishonest/Arrogant



Jeff Skilling,

Manipulator



Andy Fastow

Responsibilities of Enron top managers

- **Ken Lay** – was the chairman and had huge ambition to make wealth for himself.
- **Jeff Skilling** – was the CEO , abrasive, dishonest and arrogant.
- **Andy Fastow** – was CFO, used off balance sheet transactions to hide debt while keeping the stock price high. Recruited young professionals and inducted them into the system of concealed deceit.

Where were the auditors? Auditors should always audit culture and observe dominant management behavior.

Manifestations of lack of strong character among auditors in organizations

- Intentionally accepting scope limitation
- Ignoring organization culture
- Failure to perform follow –up
- “Watering Down Reportable” issues
- Failure to provide adequate reporting about internal audit.

Building a strong team of people of great character – Obama episode

CBS anchor Kate Couric asked Barak Obama which one book he would take with him to the White House apart from the Bible. Obama singled out **‘Team of Rivals’** written by Doris Goodwin. He clearly knew there was no better author to put the subject of leadership of **great character and integrity** in times of crisis in perspective than Doris Goodwin.

What did Obama want to learn from the book?

Build Strong Team Cont..

He wanted to understand how Lincoln was able to surround himself with people including his rivals during times of civil war, who had strong egos and high ambitions, who felt free to question his authority and who were unafraid to argue with him. For example, Lincoln brought **Salmon Chase** into his cabinet as **treasury secretary**, knowing full well that Chase craved the presidency with every fiber of his being but he admired his great **character of honesty and integrity**.

Build a strong team cont..

- On learning this, Obama reprised Lincoln's strategy by creating a team composed of his most able rivals, people who were of great **character** and unafraid to take issue with him and who were confident of their own leadership abilities.
- That is why he chose his chief rival, Hillary Clinton to be secretary of state, Joe Biden as his deputy and also included powerful Republicans in his cabinet like Robert Gates and Ray LaHood

Critical lessons from Lincoln for an auditor

- Your genius as an auditor, audit manager or director is to manage the ambitions and egos of your colleagues to form a team that has great character and that can confront the challenges of underperformances and misuse of resources.
- Your ability to create a team of different interest groups must be rooted in an extraordinary level of emotional intelligence anchored on solid character. You must learn from your mistakes, share responsibility for mistakes of others and do not hold grudges.

Character enables you to understand the political philosophy of your relationship with BAC

- 1) Do not become “carried away” by close proximity between the internal auditor and the BAC.
- 2) Recall that the internal auditor still serves the CEO and management.
- 3) Evaluate the independence, background, and capability of the committee.
- 4) Be aware of what interests the committee.
- 5) Commit the prestige of having the committee ‘s support only in rare cases
- 6) Remember that the committee is less interested in problems than solutions.
- 7) Realize that the committee can “live nicely without confrontation and does not really want to see management embarrassed.”
- 8) Be assured that in a confrontation with the CEO, the board will side with the CEO. Do not make management lose face before the audit committee.
- 9) Provide the committee routinely with those matters that give the committee comfort – matters of great objectivity without compromise.

Conclusion

Character matters to you as an auditor because:

- It establishes and strengthens your inner life, so that you are a person of integrity and honour.
- It enables you to effectively fulfil your purpose and potential and enables governance principles to be upheld.
- It protects your leadership at whatever level and your vision – preventing you from cancelling them prematurely, and enabling you to leave a legacy for your own generation and future generations.

Over to “You”



Quotable Quotes:

'I dream of men who take the next step instead of worrying about the next thousand steps'.

Theodore Roosevelt (Former US President)

"I'm in this race not just to hold an office, but together with you to transform a nation." – Barack Obama

"Many times a day I realise how much my own outer and inner life is built upon the labours of my fellow men both living and death, and how earnestly I must exert myself in order to give in return as much as I have received – Albert Einstein

"A people who values its privileges above the principles soon loses both." – Dwight D. Eisenhower.

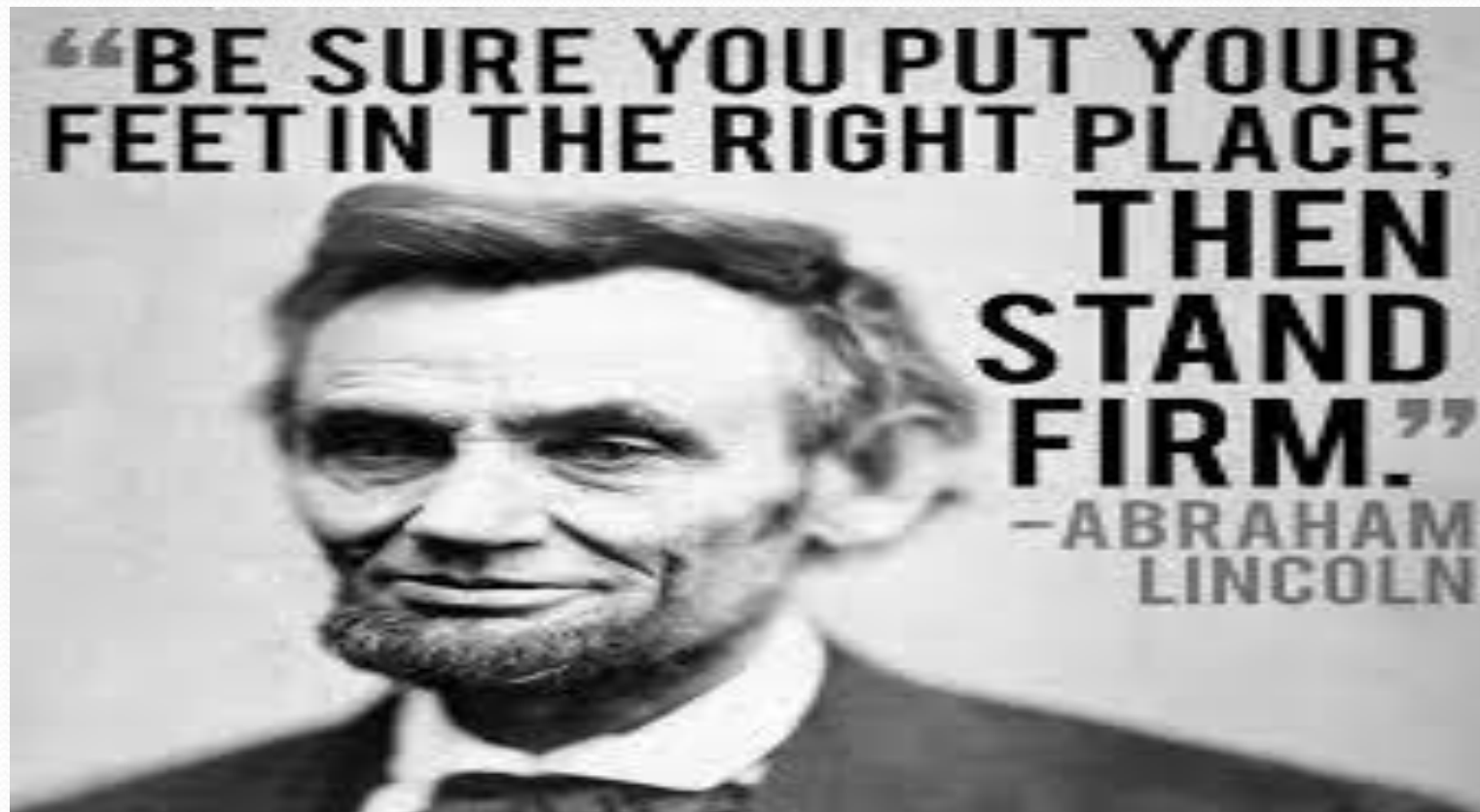
Quotable quotes

“
**YOU DON'T
GET TO
EXTRACT A
RANSOM FOR
DOING YOUR
JOB.**
”

PRESIDENT OBAMA
TO HOUSE REPUBLICANS ON
PREVENTING A GOV'T SHUTDOWN



Quotable Quotes:



Quotable Quotes:

*“He who steals my purse steals trash...But he that filches from me my good name and character robs me of that which not enriches him and makes me poor indeed.”-
Shakespeare.*

Over To You...your Memoirs...

- ❑ What will the future remember you for?
- ❑ Will history condemn or vindicate you?
- ❑ What do you want your great grandson to say about you with pride?
- ❑ Will your eternal pillow give peace to your conscience or disturb your dreams?

