

Audit Committee Report

DATE: Monday, May 29, 2023

WARD(S): ALL

TITLE: ETHICS AND COMPLIANCE FRAMEWORK

FROM:

Nick Spensieri, City Manager

ACTION: FOR INFORMATION

Purpose

To present the recently developed Ethics and Compliance Framework and program for the City of Vaughan. This program includes key principles of the framework, the Ethics and Compliance policy and tools for assessment. Ethics and compliance programs are organizational policies and practices put in place to promote law abiding and ethical conduct. This program supports a positive culture of ethical behavior and trust by continuing to instill values of respect, accountability, dedication, and integrity in our staff.

Report Highlights

- In 2016, an Internal Audit recommendation was made that management enhance the City's corporate governance, accountability, and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect, and respond to fraud and misconduct.
- In response to the audit recommendations, management has developed an Ethics and Compliance framework, key principles, an administrative policy and supporting tools for ongoing assessment and review.
- Current City policies, practices and tools that are used to support ethical behavior were also leveraged for the program.
- Development of the program included literature reviews, best practices research, jurisdictional reviews, and collaboration and consultations across City departments.
- Implementation of the new program will include a communications roll-out and training for all staff.

Recommendation

1. THAT the Ethics and Compliance Framework report be received.

Background

An Internal Audit recommendation was made in 2016 that management enhance the City's corporate governance, accountability, and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect, and respond to fraud and misconduct.

In response to the audit recommendations, management has developed an Ethics and Compliance program which includes:

- key principles
- an ethics and compliance framework
- an administrative policy
- supporting tools for ongoing assessment and review.

Currently the City of Vaughan has a number of policies, practices and tools that are used to support ethical behavior. Current City policies, practices and tools that are used to support ethical behavior were also leveraged for the program. Some examples of existing policies and tools include:

- **Employee Code of Conduct**

This policy establishes expectations for ethical conduct and establishes standards designed to promote and protect the public interests and enhance public confidence and trust in the integrity, objectivity and impartiality of the City and its employees.

- **Respect in the Workplace Policy**

This policy ensures, to the best of the City's ability, a healthy, safe and respectful work environment and appropriate management of any occurrences of harassment and discrimination.

- **Workplace Violence Policy**

This policy helps protect employees from workplace violence including harassment, sexual violence, physical and psychological threats, physical and psychological harm and bullying.

- **Acceptable Use of Information Technology Policy**

This policy establishes specific requirements to support efficient, cost-effective, and secure use of major IT infrastructure and resources.

- **Annual Corporate Policy Acknowledgement**

This mandatory acknowledgement ensures that staff review all corporate policies (including the above) on an annual basis and allows the opportunity to ask any questions they may have about the policies.

- **Anonymous Reporting System**

This tool was implemented in 2014 as a resource for City of Vaughan employees to report suspected illegal and unethical activities. The system allows confidential two-way communication between the reporting employee and the internal investigator while maintaining the employee's anonymity.

In addition to these policies, there are staff who are also members of external professional bodies (associations, organizations, etc.) and hold designations which also have additional codes of conduct, ethical standards and guidelines to support ethical behavior.

Development of the Ethics and Compliance program included literature reviews, best practices research, jurisdictional reviews, and collaboration and consultations across City departments. Implementation of the new program will include a communications roll-out and training for all staff.

Previous Reports/Authority

N/A

Analysis and Options

Ethics and compliance programs are organizational policies and practices put in place to promote law abiding and ethical conduct. To be effective, they must be supported by policies, procedures, communications, and cultural attributes.

There are many challenges currently facing both private and public sector organizations in their goal of operational integrity and ethics. According to the Ethics & Compliance Initiative (ECI)'s report on "Principles and Practices of High-Quality Ethics and Compliance Programs", these challenges include:

- Increasingly intense regulatory environments: Thoughtfully designed, consistently implemented Ethics & Compliance programs are important to both preventing misconduct and mitigating penalties if wrongdoing occurs.
- Increasing global standards: Several countries have recently passed legislation strongly incenting organizations to adopt comprehensive compliance programs.

- Rapidly expanding public scrutiny and reputational risk: For example, a single piece of bad news about an organization, circulated on the internet, can do considerable harm to an organization's reputation in a matter of hours.
- Rising costs of misconduct: A single incident of misconduct is all the time more expensive for an organization. As well as direct costs of misconduct – damages, settlements, and fines – research shows large indirect costs resulting from misconduct. These indirect costs include employee turnover, lost productivity, external legal and consultant fees, decreased share price and reputational harm. (i.e., Employee engagement drops by 11% and intent to stay decreases by much as 23% when workplace misconduct is observed).

The work of the ECI provides best practices and demonstrates the benefits of an ethics and compliance program for any organization.

For the City of Vaughan, the Ethics and Compliance program supports a positive culture of ethical behavior and trust by continuing to instill values of respect, accountability, dedication, and integrity in our staff. The objective of this program is to provide employees with principles and guidelines on ethics at the City of Vaughan and the City's position and approach on various ethical matters. The City trusts staff use their best judgment and provide staff with support and guidance to use if unsure about how one should act (e.g. in cases of conflict of interest).

DEVELOPMENT OF THE CITY'S ETHICS AND COMPLIANCE PROGRAM

In response to the Internal Audit recommendations, management undertook a project to develop the new Ethics and Compliance Framework and the program. The project included research, jurisdictional reviews, consultations and review of existing policies, practices and tools. The project has resulted in the development of:

- key principles
- an ethics and compliance framework
- an administrative policy
- supporting tools for ongoing assessment and review.

Key inputs into the development of the program included:

1. A project Working Group with representation across the organization to obtain ideas and inputs into the development and features of the program.
2. A project Steering Committee of senior management to review and approve recommendations made by the Working Group.

3. A review of the City's core values of respect, accountability, and dedication; with integrity woven into each of those values and the development of a definition of ethics and compliance as:
 - Ethics is doing what is right; something you choose to consider when taking action.
 - Compliance is following the law; something that the government requires you to do.
4. Research was conducted to gain an understanding of ethics and compliance issues in the public sector and how surrounding municipalities and third-party organizations have been designing programs and policies to help mitigate these risks and foster a culture of good ethical behaviour and trust.
5. A literature review included the book 'The Responsible Public Servant', 2nd ed. (Kernaghan & Langford, 2014) which provided insights into what it means to be a responsible public servant in the 21st century within the Canadian context and all levels of government. The book suggests that responsible public servants should adhere to the following principles:
 - Act in the public interest
 - Be politically neutral
 - Avoid conflicts of interest
 - Do not disclose confidential information
 - Protect the privacy of citizens and employees
 - Be accountable
6. A jurisdictional review of surrounding municipalities and third-party organizations was conducted to understand how other municipalities managed their ethics and compliance issues and what the standards were of high-quality programs.
7. Review of the Ethics and Compliance Initiative (ECI) report, "Principles & Practices of High-Quality Ethics & Compliance Programs" (2016) which provides detail about organizations with ethics and compliance programs that demonstrate that high-quality programs (HQP) have a purpose of "establishing and perpetuating a high standard of integrity that becomes part of the DNA of the organization."

ELEMENTS OF THE ETHICS AND COMPLIANCE PROGRAM

Based on the above inputs, the program includes Key Principles, an Ethics and Compliance Framework, an administrative Policy, and Tools for assessment.

Key Principles

City of Vaughan's Ethics and Compliance program is based on the following principles:

1. **Strategy:** Ethics and compliance is central to business strategy.
 - Strategic goals for the organization include goals related to Ethics & Compliance
2. **Risk Management:** Ethics and compliance risks are identified, owned, managed, and mitigated.
 - The Ethics and Compliance framework is nimble and adjusts regularly to identified and prioritized risks.
3. **Culture:** Leaders at all levels across the organization build and sustain a culture of integrity.
 - Leaders are knowledgeable about and assume responsibility for their role as ethical leaders in the organization.
4. **Speaking Up:** The organization encourages, protects, and values the reporting of concerns and suspected wrongdoing.
 - Employees are aware of the organization's policy on "no retaliation."
5. **Accountability:** The organization takes action and holds itself accountable when wrongdoing occurs.
 - The code of conduct makes clear that there are consequences for violations.

The Framework

The Ethics and Compliance Framework includes the following components and reflects the above key principles:

1. Vision and Objectives

This component of the framework aligns with the Strategy principle and ensures:

- Commitment to respect, accountability, dedication, and integrity in all that we do
- Communication of the vision and common objectives
- Alignment of purpose toward achieving the vision
- A positive culture of Ethics and Compliance at the City of Vaughan is central to our business strategy and will continue to be supported and nurtured

2. Governance

This component of the framework aligns with the Accountability principle and ensures:

- A sound culture of ethics is engrained throughout the organization
- Accountability and oversight by senior leadership on a quarterly basis
- Roles and responsibilities of leaders and staff are identified. e.g., role of business leaders in communicating and ensuring policy compliance as part of the work culture in their teams

3. People and Training

This component of the framework aligns with the Culture principle and ensures:

- Staff engagement and accountability for culture of ethical behavior and trust
- Staff confidence to do the right thing even when no one is looking
- Staff training and supports
- Tools to identify and manage ethical dilemmas; address “grey area”. e.g., Self-assessment, early issue spotting and prompt remediation of compliance gaps are recognized

4. Policies and Process

This component of the framework aligns with the Risk Management principle and ensures:

- Policy development and review are aligned with principles and framework
- Policies reflect good governance and ensure business is conducted in an open and transparent way
- Periodic assessments of current policies and procedures to address changing needs and reduce E&C risk are conducted as existing policies are reviewed/refreshed. As new policies are developed, they will be developed with an ethics lens and based on the ethics and compliance principles.

5. Tools

This component of the framework aligns with to the Speaking Up principle and ensures:

- Tools are available to support staff in ethical decision-making
- Staff feel prepared and empowered to address “grey area” situations
- Employees are aware of available resources to support speaking up
- Risk assessments and mitigations
- Culture metrics (element of business unit performance on ethical culture)

Policy

An administrative policy for Ethics and Compliance was developed and approved by the Policy Committee in March 2023. The policy reflects the purpose of the program, the above key principles and the overall framework. The policy works in conjunction with existing policies and procedures such as the employee Code of Conduct. In addition, as new policies are developed or as existing policies are refreshed/updated, each policy

will be reviewed with applying the ethics lens to ensure continued reinforcement of the principles of the ethics and compliance framework and related principles.

Oversight

To ensure that ethics is a priority at the City of Vaughan and remains top of mind, ethics and compliance will be included as a quarterly item on the Senior Leadership Team – Executive (SLT-E) agenda. These SLT-E ethics check-ins will ensure timelines are met for ethics reviews and that updates are made as required; build out processes where there may currently be gaps (e.g., Conflict of Interest process; investigation process, etc.); and compile lessons learned. Senior leaders will provide advice to enhance training content staff are required to acknowledge or be certified in.

It is noted that separate investigation processes are illustrated within specific policies such as the Employee Code of Conduct. It is important to note that any violations or complaints still go through established Office of the Chief Human Resources Officer (OCHRO) or the Anonymous Reporting System processes, as appropriate.

Assessment Tools and Supports

In the City's ongoing efforts to support and enhance ethics and compliance, a Current State Assessment Checklist tool has been developed. This is a facilitated guide and discussion tool that will take place with all departments across the organization to assess their current environment, challenges and opportunities for further enhancements.

In addition, staff communications, training and a yearly acknowledgement process will help to reinforce the framework and related principles. Online resource materials, supports and guides will be made available to all staff.

Financial Impact

There are no direct economic impacts associated with this report.

Operational Impact

The Office of Transformation and Strategy will lead the Current State Assessments for each portfolio and departments. This process will assess our current state on ethics against the framework and identify opportunities for further education and engagement with staff.

The Office of the Chief Human Resources Officer will ensure integration of training materials and reference documents into the corporate policy and staff training curriculum.

Conclusion

An Internal Audit recommendation was made in 2016 that management enhance the City's corporate governance, accountability, and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect, and respond to fraud and misconduct.

In response to the audit recommendations, management has developed an Ethics and Compliance program which includes: key principles, an ethics and compliance framework, an administrative policy, and supporting tools for ongoing assessment and review.

Currently the City of Vaughan has several policies, practices and tools that are used to support ethical behavior. Through research, jurisdictional reviews, and collaboration across City departments, a framework and policy has been developed to make the City's ethics program more robust. With strong leadership and governance, ethics will remain top of mind and a high priority at the City, ensuring that the City will continue to evolve and refine the Ethics and Compliance framework.

For more information, please contact: Kathy Kestides, Director, Office of Transformation and Strategy, ext. 8412.

Prepared by

Kathy Kestides, Director, Office of Transformation and Strategy, ext. 8412

Approved by



Zoran Postic
on behalf of Nick Spensieri,
City Manager