CEP Magazine - November 2019
Human resources: A valuable contributor to the tone at the top

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"Tone at the top" is a term used to describe an organization's ethical culture, as established by its board of directors and senior management. Having a robust tone at the top and ethical culture is believed by business ethics experts to help prevent fraud and other unethical practices. Sarbanes-Oxley Section 404 clearly states that senior officers are responsible for the tone at the top/ethical culture they create and must adhere to the same rules they set out for other employees.[1] Section 404 (b) requires auditors to identify any material weaknesses in internal control, issue an adverse opinion, and describe the nature of the material weaknesses in the organization's audit report. The tone at the top is a fundamental ingredient of reliable financial reporting and must be monitored, tested, and mitigated if deficient, just like any organization's key internal controls and risks.

Senior management must serve as role models and a source of guidance regarding what counts in the organization. Employees need to believe that the policies that flow from senior management are applied fairly to all employees within the organization. If the tone set by senior management upholds ethics and integrity, employees are inclined to uphold those same values; alternatively, if management appears unconcerned with ethics, employees will be more apt to commit fraud, because they see that ethical conduct is not a priority of the organization, and almost no amount of detailed control procedures will be effective in preventing fraud and abuse.

I would like to suggest a creative approach to developing, communicating, and testing an organization's tone at the top and ethical culture. This approach is based on an employee's first "taste" of the organization's ethical culture, which is fed to them by the human resources (HR) department. This first taste is key in the formulation of an organization's tone at the top and ethical culture, and must be developed in conjunction with the ethics department and approved by the board of directors and upper management. Developing the tone at the top requires superior skills in policymaking and relationship-building; therefore, the human resources director, ethics director, and the compliance director should all be members of the C-suite as advisers and to guide and provide feedback to top management.

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