



Conflict of Interest & Orion Gift Policy

A Message to Our Customers, Auditors and Employees

TRANSPARENCY, INTEGRITY

The purpose of this publication is to provide our customers, auditors, and employees with an explanation of our current policies around avoiding Conflicts of Interest (COI), and our Gift Policy. The topic of conflict of Interest is often not well understood, and as a result we have noted a great deal of confusion regarding why our Conflict of Interest guidelines and Gift Policy have been constructed in a manner which appears to some to be highly and/or unnecessarily restrictive.

From our standpoint, our policies on avoiding Conflicts of Interest and accepting Gifts is a natural outgrowth of a firm which strives to operate on the basis of three critical elements:

- **Transparency:** the customer will always be able to understand all of the parameters associated with every audit, and the data-based basis for the audit results
- **Integrity:** the auditors supplied by Orion Registrar will always be individuals of the highest integrity, and will operate in such a way so as to provide an audit result that is a function of the audited conditions, and only those observed and/or documented conditions
- **Ethical Standards:** all audits conducted by Orion Registrar personnel are conducted with industry-leading standards and expectations of ethical behavior.

Given these expectations, it should not be surprising that Orion Registrar has established policies that lead rather than follow or match those of our competitors. Rather than dilute our ethical standards, or apologize for our policies, the material in this publication has been prepared and disseminated in order to explain our view of the Conflict of Interest issue in general, and the rationale for our Gift Policy specifically, which is intended to scrupulously avoid any question of Conflict of Interest issues in any audit we support or conduct. We believe that these policies are absolutely critical for a firm which depends upon its reputation as an auditor of unparalleled integrity.

INTEGRITY & ETHICS

What Does Orion Expect of Its Employees and Subcontractors?

- Orion expects its employees and subcontractors to follow the policy established by Orion's Committee to Safeguard Impartiality (CSI), especially during the conduct of an audit or audit-associated services;
- Orion expects its employees and subcontractors to follow section 9.3b) of Technical Procedure 2.0, and not accept any gifts or favors; especially during the conduct of an audit or audit-associated services;
- Orion expects its employees or subcontractors to report any instance where gifts or favors are offered by a client or customer prior to or during the conduct of a contracted Orion service. This report should be made to the appropriate Orion manager, who will forward the report to the President of Orion and the Chairman of the CSI.

What Does Orion Request from Its Clients and Customers?

- Orion would request that its clients and customers recognize the importance of Orion's COI policies and Gift policies to the long-term health of Orion, as well as to the integrity of the results of every audit performed by Orion personnel or its subcontractors.
- Orion personnel or subcontractors may be uncomfortable refusing gifts as required by Orion policy, because they (understandably) do not wish to offend the client or customer. We believe the best way to avoid this situation is to have every client or customer understand our gift policy, appreciate the rationale and reasoning behind it, and to assist us in avoiding an actual or apparent COI by not offering any gifts to Orion employees or subcontractors (unless specifically permitted within the written agreement with Orion).

QUESTIONS AND CLARIFICATIONS

From time to time, questions may arise as related to potential conflict of interest situations or the Orion gift policy, as related to what may and may not be permissible. These questions may be sent directly to Orion's Committee to Safeguard Impartiality at csi@orion4value.com. The Committee will respond to these queries as quickly as possible. The Committee contains one Orion staff member, one Orion international representative and 3 or more non-Orion volunteers representing a variety of stakeholders. The purpose of the Committee is to act independently of Orion, reviewing information, conducting investigations and submitting binding and non-binding advice to Orion, in order to ensure that Orion remains impartial and to help Orion properly address any potential conflict of interest situations.

The CSI subsequently unanimously approved the following policy: No partners, employees/subcontractors of Orion shall accept any kind of gifts including entertainment, regardless of monetary value, from any individual or organization external to Orion that: (1) has any type of financial working relationship with Orion; or (2) has the potential to have any financial or working relationship with Orion. The CSI further recommended that unsolicited gifts received should either be returned or donated to a charitable organization, but our desire is that through the distribution of this document, such a situation will be totally avoided on the future.

It should be noted that this policy is essentially identical to the policy previously specified in Orion Technical Procedure 02, which reads (in part): "9.3c) Orion personnel and subcontractors...may not solicit any gift or other item, nor accept any gift or other item, of monetary value from any person or entity seeking audit services." Since all gifts, including 'tokens' have some monetary value, however small and possibly inconsequential as considered by the two parties (but not necessarily to an outside observer), the CSI did not see the change from 'any monetary value' to 'regardless of monetary value' as a fundamental change in this policy, except to make Orion's position on gifts very clear. It is very true that many firms view gifts from customers or clients to its employees and subcontractors with a less strict perspective. The value of the gift, its purpose, the circumstances under which the gift is given, accepted business practice in the industry, and the relationship between the gift giver and recipient are all factors which are commonly considered. This explains some companies' policies which allow employees to accept gifts worth, for example, less than \$25.00.

The problem for Orion is that we are not a 'typical' company, providing products or services to customers where COI issues are of interest, but not a matter of life or death for the reputation of the firm. Orion provides its clients with audit services that are intended and expressed to be performed at the highest possible levels of impartiality and objectivity; which in turn requires transparency, integrity, and the highest levels of ethical standards. As a result, Orion cannot tolerate a 'relaxed' standard for gift-giving in the auditee-auditor relationship. It is important to note that this policy does not apply to those services provided by the client to the auditor during the conduct of the audit which are an integral part of the contract or written agreement that Orion has with the client. For example, meals and refreshments which are included in the written agreement do not constitute 'gifts' under this policy. Supplies provided by the client for the conduct of the audit such as temporary office space, internet access, writing tools and tablets are likewise included in the written agreement, and are not considered 'gifts' for the purpose of this policy.

For R2 clients, additional external requirements apply. For R2 clients, neither Orion nor any Auditor shall accept any hospitality, entertainment or in cash of any kind from the R2 Facility subject to the audit or its vendors that could influence their professional judgments and create potential or actual conflicts of interest. Reasonable meals on-site during the audit may be accepted. In addition, Orion and Auditors shall ensure that they do not engage in a paid or reciprocal relationship with consultants, owners, or employees working for the R2 Facility before, during or after the audit in a way that could appear to influence the Auditor and/or Orion's judgement and impartiality. Orion shall document and manage any allegations of bias or conflicts of interest in accordance with our complaints process and/or internal corrective action process.

THE ORION REGISTRAR GIFT POLICY

In those instances where common practice within a particular industry and/ or nation employs the exchange of gifts as a necessary basis for conducting business, and where both Orion and its client in those conditions recognize that this is the case, then this exclusion will be written into the contract between Orion and the client on a case-by-case basis, and the employee/subcontractor will be advised of the terms and parameters around which the gift may be accepted. However, under no circumstances does the Orion employee/subcontractor have the authority to make this decision on their own, as this would open Orion up to (at the very least) an apparent COI; which is under no circumstances acceptable.

THE EXCEPTION TO THE RULE

Conflict of Interest - An Overview & the Risk to Orion

Conflicts of Interest (COI) in the case of Orion business activity occurs in any instance when any Orion employee or auditor is:

Engaged in carrying out any audit or audit-related task on behalf of Orion; and the employee or auditor has or appears to have a personal interest in the outcome of the audit or audit-related task; and The employee or auditor is operating under the assumption of complete independence in their judgment and in the way they are performing their tasks. In essence, a COI will exist in any audit when employees have some form of interest that either can, or can appear to, motivate them to conduct the audit or some audit-related activity that is not in the best interest of Orion; which fundamentally is to be recognized as a source of audit services that is unparalleled in transparency, integrity, and which are of the highest ethical standards. A COI may be objective (financially-related, such as associated with bribes) or subjective (conflicts based on personal relationships, favors, or emotional relationships). A COI may also be either actual or potential depending on the status of assignments to individuals; and an additional distinction relates to individual versus organizational conflicts. This last distinction is very revealing in the context of how Orion is structured and has chosen to operate. An organizational COI exists when a firm is performing work for two clients with competing interests, or when a firm is providing two sets of services to a single client, where those services represent competing interests. Arthur Anderson, which provided both auditing and management consulting services to their clients, was clearly engaged in unethical behavior based on this clear COI, which ultimately led to scandal and their downfall. Orion has historically taken a position that this is an unethical condition, would represent an organizational COI, and refuses to use the technique that others have employed of constructing an ‘artificial wall’ between the audit and consulting groups. What is unethical may still be legal, but Orion operates at a higher level of ethics than the minimum standard required by what is simply legal. Because of this, Orion does not offer any consulting services. Perhaps the most difficult aspect of managing COI issues is related to the situation where an apparent COI exists. This situation exists when no actual COI exists, and no wrongdoing may have actually occurred, but where an appearance of ethical wrongdoing may exist. In essence, apparent COI situations are based on whether some external observer, viewing the situation, might logically conclude that some inappropriate behavior has taken place. Apparent COI situations can undermine the reputation of a firm, because although no actual unethical behavior may have taken place, the impartiality and fairness of the firm’s products/services may come into question or doubt – a kiss of death for a firm that strives to provide impartial audits. A concern that we proactively avoid this particular COI is the primary rationale behind Orion’s gift policy.

FREQUENTLY ASKED QUESTIONS

I worked in industry in three different companies, and they all had policies that allowed employees to accept gifts as long as they were low in value (e.g. \$25.00 or \$50.00). Why won’t Orion operate in this way?

First, the firms you worked in with this sort of policy probably weren’t auditors. If they were, they also probably maintained a number of other policies that made their ethical standards questionable. It is simply Orion’s position that any gift of any monetary value has the potential to affect, or seem to affect, the outcome of an Orion audit. Second, the setting of the amount is completely arbitrary; why \$25.00? Is \$25.50 so different? Why? And, what is included in the value assigned to the gift? Shipping costs? Taxes? Finally, who sets the value of the gift? If a customer can obtain a \$300.00 (retail) Netbook for \$24.95 by making a large-quantity purchase, put their firm’s name on the cover, and hand them out, does it become a gift worth less than \$25.00? These are not issues we want to try to deal with, in that there is no ‘upside’ to auditors accepting gifts of any monetary value. We simply avoid all this confusion when customers do not offer gifts of any kind, and we do not solicit or accept them if they are offered.

I accepted a number of small gifts and tokens from a customer I was auditing during the conduct of the audit. None of the individual items were worth a great deal of money, and after the audit, I presented the customer with 18 nonconformances. Doesn’t that prove that the gifts had no effect on the outcome of the audit, and eliminate the COI problem?

No, it doesn’t eliminate the issue. First, and remember that no wrongdoing need to have occurred to have a COI issue, how would an external observer know that there would not have been an even higher number of nonconformances had the gifts/tokens not been given and accepted? What would the next customer think, if s/he received an audit result of 45 nonconformances after giving you no gifts, were they to find out the result of the previously-referenced audit and the fact that you had accepted these gifts? We implore our customers not to put

our auditors or employees in this position, and we direct our auditors to accept no gifts.

What if the customer gives gifts to all the auditors conducting audits in their firm's locations. Since everyone received the same gift, does that make it OK?

No. We cannot control what others do. At Orion, we do not accept that such behavior is supportive of our objectives of Transparency, Integrity, and Ethical Standards.