Technical Guide for Conducting Audits of Ethics
—Executive Summary—

Foreword

The original version of the Technical Guide for Conducting Audit of Ethics was issued by the Office of the Comptroller General of the Republic of Costa Rica in 2008 as a non-binding document containing guidelines for performing assessments of the institutional ethical framework. To that effect, it deals with the characteristics and scope of such exercises and provides basic instruments. Given its purpose, the following specific objectives can be set:

- To discuss the concepts, scope and methodologies to be considered by the audits of ethics.
- To contribute to the systematic conduct of audits of ethics.
- To strengthen the efforts regarding such matter.
- To contribute to the continued improvement of the institutional systems of internal control.

Internal auditors are the Guide's ideal users, but it may also be applied by management when deciding to perform a self-evaluation of ethical issues, by external auditors and by other individuals who have interest in it.

Ethics in public activities

According to the Guide, and within the context of public activities, ethics comprises the rules that should be followed by public servants to make sure that their performance effectively provides a service that is consistent with the institution's nature before citizens, within a framework of honesty, integrity, transparency, and common-good focus. This includes the willingness to abide with the prevailing constitutional and legal principles and mandates on how to carry out public functions.

The Guide presents ethics as the opposite of corruption. The latter is defined as the abuse of a position in order to obtain a benefit for the public servant or for someone else. Corruption arises in different ways, but in all cases it undermines the transparency of management, the image and the credibility of the institution, and it can sometimes cause demise. In addition, its three components are identified, namely: incentive (the need or desire to make a profit), rationalization (the psychological justification for incurring corruption) and opportunity (the circumstances that make it easy to incur corruption).

The lack of ethics will likely result in corruption, and this will diminish the legitimacy of institutional actions. On the other hand, if the ethical level of an organization and its staff is high, it will act as a mechanism to prevent corruption.

The Guide also acknowledges the importance of ethics for strengthening corporate governance and internal control systems.

Regulations on ethics in Costa Rica

The principles of legality and efficiency are present in the Political Constitution of the Republic of Costa Rica. They are the basis for the legal instruments which in turn lay the foundations for the country's regulations on ethics. The latter include the General Act of Public Administration, the General Act on Internal Control, the Act against Illicit Enrichment in the Public Service, and the Organic Act of the Attorney General's Office. Also, the Office of the Comptroller General of the Republic has issued technical rules on the topic, which lately prompted the executive to issue a decree on the principles to be observed by the public officials of that government branch.

Institutional Ethical Framework

The institutional ethical framework is the set of formal and informal factors that conceptualize and materialize the philosophy, approaches, ethical behavior and management of an institution. It comprises the following three components:

- The ***ethical program***, which includes the formal factors regarding ethical matters set out in the organization, such as the statement of institutional values, the code of ethics, the vision and mission, the definition of indicators of ethical management, and a formal strategy for strengthening ethics.

- The ***ethical environment***, which comprises the shared values, beliefs and behaviors of the organization's members. It includes observable informal factors such as the organizational climate, the management style, the models of decision making, the verbal expressions, and the behaviors of individuals.

- The ***integration of ethics within the institution's management systems***, which refers to the incorporation of ethical controls in the systems and procedures used in processes that are particularly sensible and exposed to ethical failure and corruption, such as human resources, financial management, administrative contracting and activities with potential political interference.

Audit of ethics

The institutional ethical framework and the efforts to promote ethical conduct should be evaluated to determine their effectiveness and to identify opportunities for improvement. The assessments can be performed through the daily operation of the related controls, as well as through specific exercises, such as the periodical evaluations of the internal control system and separate checks of each component of the institutional ethical framework and of the framework as a whole, including audits of ethics.

The audit of ethics is a systematic, objective and professional process for evaluating the functioning and effectiveness of the institution's ethical framework, in order to promote its strengthening. From the perspective of internal audit, it is an assessment performed by such activity in accordance with

its competences and duties through the applicable audit procedures and techniques. Depending on their scope, such evaluations will consider:

- **Ethical program.** Examines the composition of the ethical program and the extent to which it meets the current regulations and is applied in organizational management.
- **Ethical environment.** Evaluates the adequacy and compliance (real and perceived) of the ethical rules and behavior of the organization, including those regarding priorities, ethical effectivity and the commitment with ethical issues.
- **Integration of ethics within the institution's management systems.** Examines the extent to which the values, principles, guidelines and processes related to ethics are integrated into the management systems of the organization, particularly in the areas of greatest sensitivity and risk exposure.

It is advisable to start with an assessment that only covers the ethics program, because formal factors are easier to detect, assess and improve, and their consideration enables the evaluator to determine the existence of institutional rules and the presence of a commitment of top management to reinforce ethics. Subsequent audits may tackle the other two components: the evaluation of the ethical environment will provide information on organizational perceptions and the actions that should be undertaken to revitalize the ethical management and, finally, the assessment of how ethics is integrated in the organization's performance.

Finally, the audit of ethics should be conducted in compliance with the current standards and procedures for the performance of audit activities. In that sense, it will cover the following four stages:

- **Planning.** The intended evaluations should be included in the annual work plan, after assessing risks and other factors and conditions that justify the need for each audit.
- **Examination.** This stage deals with running the tests, verifications, analysis, evaluations and other activities covered by the specific program to achieve the objectives of the study, according to the defined scope.
- **Reporting.** The auditor should timely report, both verbally and in writing, the main results, conclusions and recommendations of the study. This report should be sent to high management, since it is charged with the main responsibility for institutional ethics.
- **Follow-up.** Through the follow-up mechanisms used by the audit unit, it is necessary to timely verify the effective application of the audit of ethics' recommendations.

Tools

In order to ease the conduction of audit of ethics, the Guide provides a set of basic tools as a reference for the systematic development of such evaluations. The tools included are:

- General work plan
- Guide for evaluating the institutional ethical framework
- Guide for the analysis of strengths, opportunities, weaknesses and threats
- Ethics maturity model
- Guides for interviewing high and middle management and others
- Survey on the institution's ethical environment

Key factors for conducting audits of ethics

Because of the unique features of ethics, it is a sensitive topic whose evaluation implies a high degree of complexity. Given this situation, the auditor must possess the required professional competence and expertise. Also, a set of basic conditions should be present in the institution to ensure the fulfilment of the objectives of the evaluations of ethics. The following are fundamental among them:

- Knowledge about ethics and the institutional ethical framework in force in the entity.
- Existence of procedures and tools for evaluating ethics.
- Resource availability to apply the procedures and tools.
- High management commitment with ethics, as well as support and an open-mind attitude prior to, during and after the audit process. This includes the need for high management to participate in the process.
- Timely availability and submission of the information necessary for the audit.