

ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT

Participant Notes

Handouts

Slides

15-19 APRIL 2019
ANTALYA

ECOSAI WORKSHOP- 2019
“INTRODUCTION TO ETHICS AUDIT” PROGRAM
15-19 April 2019, Antalya

Day 1 (15 April 2019–Monday)	
09:35–09:55	Opening Speech by Mr. Seyit Ahmet Bař, President of TCA, ECOSAI & EUROSAI
10:00	Group Photo
10:10– 10:30	COFFEE BREAK
10:30–12:30	Session 0.1. Introducing Workshop and Climate Setting
12:30–14:00	LUNCH BREAK
14:00–15:00	Session 1.1. Introduction to Ethics Audit : Key Concepts And Definitions (Exercise)
15:00–15:30	COFFEE BREAK
15:30–16:30	Session 1.1. Introduction to Ethics Audit: Key Concepts And Definitions (Lecture)
Day 2 (16 April 2019–Tuesday)	
09:30–10:30	Session 1.2. Introduction to Ethics Audit: What Is Audit of Ethics? (Lecture)
10:30–11:00	COFFEE BREAK
11:00–12:30	Session 1.2. Introduction to Ethics Audit: What Is Audit of Ethics? (Exercise)
12:30–13:45	LUNCH BREAK
13:45–14:45	Session 1.3. Introduction to Ethics Audit: Why Should SAls Audit Ethics? (Lecture)
14:45–15:30	Session 1.3. Introduction to Ethics Audit: Why Should SAls Audit Ethics? (Exercise)
15:45	Departure of Tour
15:45–19:00	City Sightseeing
Day 3 (17 April 2019–Wednesday)	
09:30–10:30	<ul style="list-style-type: none"> ▪ Brief Information Regarding to EUROSAI TFAE ▪ Session 2.1. Designing Ethics Audit: Selecting Audit Topics (Lecture)
10:30–11:00	COFFEE BREAK
11:00– 12:30	Session 2.1. Designing Ethics Audit: Selecting Audit Topics (Exercise)
12:30–14:00	LUNCH BREAK
14:00–20:00	SOCIAL PROGRAM

Day 4 (18 April 2019–Thursday)	
09:30–10:30	Session 2.2. Designing Ethics Audit: Making Progress in Designing Ethics Audit (Lecture)
10:30–11:00	COFFEE BREAK
11:00– 12:30	Session 2.2. Designing Ethics Audit: Making Progress in Designing Ethics Audit (Exercise)
12:30–14:00	LUNCH BREAK
14:00–15:00	Session 3. Executing Ethics Audits (Lecture)
15:00–15:30	COFFEE BREAK
15:30–16:30	Session 3. Executing Ethics Audits (Exercise)
Day 5 (19 April 2019–Friday)	
09:30–10:30	Session 4. Reporting of Ethics Audit (Lecture)
10:30–11:00	COFFEE BREAK
11:00– 12:30	Session 4. Reporting of Ethics Audit (Exercise)
12:30–14:30	LUNCH BREAK
14:30–15:30	Country Paper Presentations and Suggestions for Future Ethics Audit Activity in Own SAIs
15:30–16:00	COFFEE BREAK
16:00–17:00	Country Paper Presentations and Suggestions for Future Ethics Audit Activity in Own SAIs



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



LIST OF FACILITATORS

TURKEY	Mr. Yaşar UZUN
	Mrs. Setenay KÖKSAL
	Mr. Ozan UYSAL
PORTUGAL	Mrs. Helena Abreu LOPES (Chair of EUROSAT TFAE)

LIST OF PARTICIPANTS

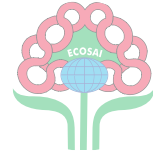
AFGHANISTAN	Mr. Fraidoon HANIFI
	Mr. Sangar KAKAR
AZERBAIJAN	Mr. Tural JAHANGIRLI
	Mr. Tamerlan Namiq YUSIF-ZADA
IRAN	Mr. Saber BOLHASSANI
	Mr. Shirku HORMOZI
KAZAKHSTAN	Mr. Talgat Usenovich KAMBAROV
	Mr. Zhandos Konysovich BUPETAYEV
KYRGYZSTAN	Mrs. Baktygul ABAKIROVA
	Mrs. Aizhan TURDUEVA
TURKISH REPUBLIC OF NORTHERN CYPRUS	Mr. Hakan HALİL SOY
	Mr. Hüseyin ÖZGİT
KUWAIT	Mr. Abdullah Y. ALMAZROUEI
	Mr. Ali A. HAYATI
MONGOLIAN	Ms. Bold BOLORMAA
	Mr. Ser-od ENKHBAATAR
PAKISTAN	Mr. Muhammad Afnan ALAM
	Mrs. Saima SABAH
PALESTINE	Ms. Suzan Mahmoud KHALAF
	Mr. Osaid K.A. SHOMAN
QATAR	Ms. Maha Al Mahmoud
TAJIKISTAN	Mr. Faridun KODIROV
	Mr. Firuz TAVARALIEV
TURKEY	Mr. Murat İNCE
	Mrs. Belgin ŞAHİN
	Mr. Kaşif DEMİREL
	Mrs. Hilal ULUÇAY DEMİR
	Mr. Savaş ABA

CONTENTS

1. Introduction to Ethics Audit	9
1.1. Key Concepts And Definitions	11
Handout: Accountability and Integrity in the Public Sector	21
Session Slides	27
1.2. What Is Audit of Ethics?	45
Handout: Audit of Ethics: An Appointment in the SAIs' Schedule for the 21 st Century	53
Handout: Audit and Ethics: The Icelandic Experience	57
Session Slides	59
1.3 Why Should SAIs Audit Ethics?	73
Handout: Organisational Performance and Auditing Ethics	83
Handout: The Integrity Agenda: Lessons from OECD Countries	87
Handout: Management of the Conflict of Interests Situations	93
Session Slides	97
2. Designing Ethics Audit	109
2.1. Selecting Audit Topics	111
Handout: Examples and Audit Reports	117
Handout: Technical Guidelines for Conducting Audits of Institutional Ethics: A Contribution By the SAI of Costa Ricae	121
Handout: Efficiency of the Ethical Infrastructure Functioning in the Government Bodies: Croatian Experience	123
Session Slides	125
2.2. Making Progress in Designing Ethics Audit	137
Handout: How to Audit the Ethical Performance of a Public Body – A Proposal	157
Handout: State Owned Enterprises and Corporate Governance Principles: The Portuguese Experience	163
Session Slides	165
3. Executing Ethics Audit	181
Handout: Integrity: A Project to Strengthen the Integrity Based Administrative Culture in Hungary	193
Session Slides	195
4. Reporting of Ethics Audit	211
Handout: Audit on The Integrity Policy in Federal Tax Departments: Problems Concerning the Code of Conduct	221
Handout: A New Perspective in Public Sector Auditing: Ethics Audit	223
Session Slides	239



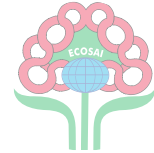
ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT



SESSION 1

INTRODUCTION TO ETHICS AUDIT





SESSION 1.1 KEY CONCEPTS AND DEFINITIONS



1.1.1 OVERVIEW

Ethics and ethical behaviour of public sector entities and their representatives are fundamental for citizens to trust them. Robust ethics in the public sector is an important counterbalance to fraud and corruption. If SAIs include an ethical approach in their audit work, they further improve public sector performance, by promoting that public sector organisations conduct their activities and achieve their objectives in full respect of ethical principles. By auditing ethics or ethics related issues SAIs can help restoring trust and confidence in public organisations,

Before discussing the question of “what does ethics audit mean?”, participants should be familiar with the key concepts such as “ethics”, “integrity”, “ethics management” etc in order to understand ethics audit and what it deals with more.

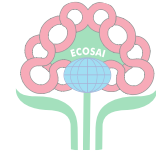
Therefore, participants will find some key concepts and their definitions in this notes first, and then, focus on the key requirements of ethics infrastructure in public sector. Thus, this participant notes are expected to provide preliminary information to ethics audit.

1.1.2 WHAT IS ETHICS?

Ethics is the entirety of moral principles that form the basis of an individual’s behaviour. In other words, ethics is the guiding values, principles and standards that help people in determining “how things should be done”. At the same time ethics is a process. In this process, when making decisions and putting them into practice, certain values are respected. Ethics is the branch of philosophy that defines what is good for the individual and for society and establishes the nature of obligations or duties that people owe themselves and one another. It is embodied in the moral values of a society and individuals, guiding one’s acts in a particular circumstance. Ethics vary across countries, time, cultures and organisations. The aim of principles of ethical behaviour is to prevent corruption and degeneration in the state and society and to ensure the dominance of integrity. The term “integrity” is derived from Latin and literally



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



means not (in) touching (tangere). It refers to something or somebody who is not contaminated, not damaged. Integrity is the honest behaviour of the individual or organisation in line with the relevant ethical values. It is the behavioural outcome of ethics. Integrity also refers to virtue, incorruptibility and the state of being unimpaired. Integrity is closely related to the absence of fraud and corruption, but it also entails common decency. In this way, it is a positive and broad concept, which is related to ethics and culture. ISSAI 30 defines integrity as follows: to act honestly, reliably, in good faith and in the public interest. Integrity is essential for building strong institutions and assures citizens that the government is working in their interest, not just for the select few (OECD,2017). OECD Recommendation of The Council on Public Integrity defines “integrity” as follow: “Integrity is one of the key pillars of political, economic and social structures and thus essential to the economic and social well-being and prosperity of individuals and societies as a whole.” In this workshop, integrity is often mentioned with a similar meaning as ethics.

Public sector ethics/public integrity deals with ethics for those who serve in the public sector (primarily governmental and elected officials), focusing on the public whom they serve. Public sector ethics are, broadly speaking, the core values and behavioural standards expected of state employees, both in the civil service and in elected public office. Ethical behaviour is essential in public office, as the violation of these shared ethical norms brings public office into disrepute. Once public trust in the ethical standard of public officials disappears, the moral authority to govern crumbles and democratic governance falters. Ethics derives its significance for public sector due to the role of public sector to create public value and its implication to people’s life. The public must be able to trust the government because it is the sole provider of many vital services. Owing to this monopoly and the public’s dependence, the government must be unblemished and beyond all suspicion. OECD Recommendation of The Council on Public Integrity defines public integrity as follow: “Public integrity refers to the consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the public interest over private interests in the public sector.”

Since, public sector consists of public sector organisations, public sector ethics requires **organisational (or institutional) ethics** in place as well. It can be defined as the ethical values, culture and structures that guide ethical behaviour of board, management and employees. This means that organisational ethics must be organised and managed. A configuration of values, norms and provisions to manage and uphold institutional integrity is a necessary condition for upholding organisational ethics. This is ultimately the responsibility of the organisation’s leadership.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



1.1.3 FROM ETHICS INFRASTRUCTURE TO PUBLIC INTEGRITY

Throughout the years, OECD has developed the concept of an “Ethics Infrastructure”, recently updated as the Public Integrity Framework able to support an environment that encourages high standards of behaviour. A well-functioning Ethics Infrastructure supports a public sector environment which encourages high standards of behaviour. Each function and element is a separate, important building block, but the individual elements should be complementary and mutually reinforcing. The elements interact to achieve the necessary synergy to become a coherent and integrated infrastructure. The elements can be categorised according to the main functions they serve – guidance, management and control – noting that different elements may serve more than one function:

- **Guidance** is provided by strong commitment from leadership; statements of values and standards of conduct such as codes of conduct; and professional socialisation activities such as education, training and counselling to raise awareness and develop skills for application of laws and standards in the daily work.
- **Management policies and practices** create public service conditions that ensure fair and impartial selection, promotion and remuneration, as well as contribute to social respect. A special dedicated body or existing central management agency is often in charge of the systemic co-ordination in order to ensure consistency of combination of separate actions and their constant integration into the overall public administration.
- **Control** is assured primarily through an effective legal framework that sets basic standards of behaviour for public officials, and enforces them through effective accountability mechanisms, such as internal control and external audit; transparency mechanisms providing access to public information, facilitating public involvement and scrutiny; as well as arrangements for independent investigation and prosecution.

In 2017, the OECD adopted a new Recommendation on Public Integrity. The OECD Recommendation on Public Integrity provides policy makers with the blueprint for a public integrity strategy. It shifts the focus from ad hoc integrity policies to a comprehensive, risk-based approach with an emphasis on cultivating a culture of integrity across the whole of society. It is built on 3 pillars: A coherent and comprehensive integrity system, a culture of public integrity and effective accountability mechanisms.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT

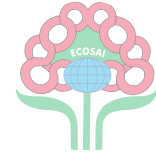


Figure 1: Pillars of the Public Integrity



Resource: OECD, <http://www.oecd.org/gov/ethics/recommendation-public-integrity/>

In a coherent and comprehensive integrity system;

- Top-level management develop the necessary legal and institutional frameworks and display high standards of personal propriety, (Commitment)
- Public sector organisations co-ordinate well with each other, with well-defined responsibilities. It is clear ‘who does what’, (Responsibilities)
- Using data and indicators for evaluation and based on legitimate risks to integrity, a strategy is developed outlining objectives and priorities, (Strategy)
- Rules and public sector values are reflected in laws and organisational policies (such as codes of conduct or codes of ethics) and are effectively communicated.(Standards)

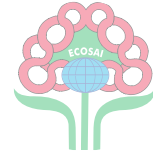
In a culture of public integrity;

- Businesses, individuals and non-governmental actors uphold public integrity and do not tolerate corruption, (Whole of Society)
- Managers lead with integrity in public sector organisations; they carve out the ‘integrity agenda’ and communicate it to the organisation, (Leadership)
- The public sector strives to employ professional and qualified people that have a deep commitment to the public service integrity values, (Merit based)
- Public officials are skilled and trained to apply integrity standards, (Capacity Building)
- Integrity concerns are openly and freely discussed in the workplace and it is safe to report suspected violations of integrity. (Openness)



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



In a public sector where effective accountability is in place;

- An effective integrity risk management and control system exists in public sector organisations, (Risk management)
- Corruption and other violations to integrity are detected, investigated and sanctioned, (Enforcement)
- Oversight bodies, regulatory enforcement agencies and administrative courts perform external control, (Oversight)
- A transparent and open government allows for the meaningful participation of all stakeholders in the development and implementation of public policies (Participation).

World practice confirms that a well-functioning ethical infrastructure/integrity framework in place contributes to the successful operation of institutions and to the public needs' satisfaction, while also increasing public confidence in the work of the state administration.

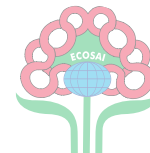
1.1.4 ETHICS MANAGEMENT SYSTEM

'Ethics management' means the planning, implementation and co-ordination of activities of an organisation for the achievement of the institutional integrity of that organisation. It is an integral part of operational management of an organisation and a responsibility of the organisation's leadership. **Ethics management system** involves a well-balanced mix of actions and instruments organised as a system. It comprises a structured and balanced package of policies and mechanisms (desirably under a specific strategy) designed to define, lead, guide, manage, monitor and enforce ethical conduct. The components of these systems include structure or rules-oriented actions and instruments and values or culture-oriented ones, also called as hard and soft controls. A well-balanced mix of both is necessary for good results.

Management literature on operational management usually speaks of 'management control' as a means to plan, steer and evaluate the organisation's strategies. Management control concerns coordination, resource allocation, motivation, and performance measurement. Management controls are elements of a management control system that enables an organisation to attain its goals. In the case of ethics management we can distinguish several specific controls. These are '**hard controls**', such as rules, regulations and measures concerning detection and sanctioning of integrity incidents. Or they can be '**soft controls**', such as moral competence building, ethical leadership, values and norms.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



1.1.5 ETHICS AND INTERNAL CONTROL SYSTEM

Internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.(INTOSAI GOV 9100)

INTOSAI explicitly recognises 'ethical operations' as an element of the general objectives to be achieved through effective, 'built in' and ongoing internal control by management and other personnel. Internal control consists of five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. According to COSO and INTOSAI-GOV 9100, the fundamental component of the internal control system, which is the foundation of the other ones, is the **control environment**. While the other components of the internal control system include systems, processes, policies, procedures and activities, the **control environment mainly refers to the overall attitude, awareness and actions of those charged with governance regarding the internal control system**. This is expressed, among others, in management style, corporate culture and values.

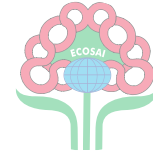
The first basic principle of the control environment implies that the organisation must demonstrate a commitment to integrity and ethical values. This means that the leadership role of an organisation should:

- Set the tone of action
- Establish codes of conduct
- Create a positive control environment where, among other aspects, all duties are performed in an ethical and professional manner, employees are encouraged to act according to the code of conduct, and an open workplace is created where concerns and comments are welcomed and actioned.

It also means that the staff maintain and demonstrate personal and professional integrity and ethical values and comply with the applicable codes of conduct at all times. In addition, public organisations have to maintain and demonstrate integrity and ethical values, and they should make those visible to the public in their mission and core values. Their operations have to be ethical, orderly, economical, efficient and effective.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

Council of Ethics for the Public Service of Turkey, (2009), An Ethics Reminder For Public Officials,

<http://etik.gov.tr/Portals/0/en/Ethics%20Reminder%20for%20Public%20Officials.pdf>,

EUROSAI Task Force Audit&Ethics (TFAE), (2013), “Supporting SAI To Enhance Their Ethical Infrastructure, Part I A general overview of SAI’s ethical strategies and practices”,

[http://www.eurosai-fae.tcontas.pt/activities/Papers/Activities/Ethics%20within%20SAIs/Ethics%20within%20SAIs-Part%20I%20-%20overview/Ethics%20within%20SAIs%20-Part%20I-overview%20\(EN\).pdf](http://www.eurosai-fae.tcontas.pt/activities/Papers/Activities/Ethics%20within%20SAIs/Ethics%20within%20SAIs-Part%20I%20-%20overview/Ethics%20within%20SAIs%20-Part%20I-overview%20(EN).pdf),

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,

INTOSAI GOV 9100 Guidelines for Internal Control Standards for the Public Sector,

http://www.issai.org/pt_br/site-issai/issai-framework/intosai-gov.htm

OECD (2005), “Public Sector Integrity: A Framework For Assessment”,

https://read.oecd-ilibrary.org/governance/public-sector-integrity_9789264010604-en#page34,

OECD, (2009), “Towards a Sound Integrity Framework: Instruments, Processes, Structures and Conditions for Implementation”,

<http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=GOV/PGC/GF%282009%291>,

OECD, (2017) <http://www.oecd.org/gov/ethics/recommendation-public-integrity/>

OECD, (2017), “OECD Recommendation Of The Council On Public Integrity,Public Integrity: A Strategy Against Corruption”,

<http://www.oecd.org/gov/ethics/OECD-Recommendation-Public-Integrity.pdf>,

TI, Transparency International, (2015), “Public Sector Integrity Topic Guide,

https://www.transparency.org/files/content/corruptionqas/Public_Sector_Ethics_Topic_Guide.pdf.

SESSION 1.1

HANDOUTS



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 1.1-HANDOUT 1

ACCOUNTABILITY AND INTEGRITY IN THE PUBLIC SECTOR¹

Ambrin Buang/Auditor General of Malaysia Chairman of ASOSAI

Introduction

Allow me to begin by extending my heartiest congratulations on the 25th Anniversary of EUROSAI Magazine and my gratitude for the opportunity to share my insights and perspectives on accountability and transparency in the public sector.

In any country, the performance of the public sector will never escape public scrutiny. As society becomes better educated and better informed, the public sector cannot afford to be complacent or ignore the increasingly vocal public opinions, especially with regard to the efficiency and effectiveness of public servants in the performance of their duties. Accountability and integrity issues surrounding the spending of public monies and the occurrence of fraud and corruption in the public sector are especially important in the eyes of the public and these issues need to be addressed with a greater sense of urgency. Public entities should exercise adequate accountability and integrity because only with assurances of accountability and integrity will they be able to claim legitimacy.

Meaning of Accountability and Integrity

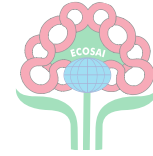
Accountability is about the onus of those responsible for managing the public resources to explain why certain thing has to be done, how it was done and what result or outcome has been achieved. In the context of government, accountability is the performance of the stakeholders in ensuring the public resources are not wasted whether by honest mistake or fraudulent design. For accountability to exist there should be rules, standards and systems (processes, relationships) and mechanisms in place which guide towards maximising progress in accordance with the development aspirations of the public they serve.

Integrity in the context of a public servant is not just about staying away from bribery and corruption. It is also about doing one's work conscientiously, sincerely, fairly and with a sense of responsibility and urgency. It is actually about one's mindset, attitude, behaviour, competency and diligence in carrying out one's task and responsibility.

¹ Resource: 2015 EUROSAI Magazine 21,
[http://www.eurosai-tfae.tcontas.pt/activities/Articles/Activities/2015%20EUROSAI%20Magazine%2021%20\(pag110\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Articles/Activities/2015%20EUROSAI%20Magazine%2021%20(pag110).pdf)



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



Accountability and Integrity Issues

The public service all around the world is a very large and complex sector in view of the various levels of governments and jurisdictions involved. Moreover, the public delivery system covers many important facets of our lives, including maintaining law and order, ensuring peace and security, planning and implementing economic and social activities, foreign affairs and many more. Because of its size and complexity, lapses, shortcomings and weaknesses are bound to happen from time to time.

If one were to sieve through audit report findings on financial management or government projects, programmes or activities, one would easily understand the need for people with accountability and integrity in the public service whether they are in the positions as controlling officers or workers of the public entities.

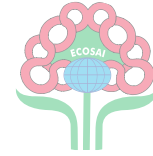
Based on the auditing experiences, the common issues found in the audit of financial management are pertaining to inadequate documentation or records, non-compliance to regulations and standards, core processes, policies and procedures are not properly defined, lack of control with authorization of transactions, no oversight or review, ineffective information system, lack of physical and logical security, no formal ethical policies and procedures, job roles and responsibilities not clearly defined, absent or inadequate separation of duties, inadequate disaster recovery and backups, inadequate control consciousness within the organisation, management override of controls. These internal control weaknesses depending on severity could cause significant losses of resources and revenue to the government.

The management should know whether these weaknesses are due to proven incompetence of people down the line or their lack of diligence because of poor supervision. As the ultimate responsibility rests with the controlling officers, they must be committed to act, to make sure their personnel improve their competency through effective training programmes and they must not hesitate to take appropriate disciplinary action against those who are blatantly negligent in their works.

In the sphere of government projects, programmes and activities, audit reports normally reveal many cases of poor planning, implementation and monitoring arising not only from incompetence or lack of diligence involved, but also problems or inter- and-intra agency coordination and communications as well as poor supervision by project or programme managers. Resulting from these problems, several government projects and programmes show unfavourable outcomes such as unjustified delays, severe cost overruns, poor quality buildings, underutilised facilities and equipment. Such outcomes contribute not only to a poor image of the public delivery system but also raise the questions about those people responsible in



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



choosing the contractors, consultants or vendors to do the works as well as those supervising the work of these people.

Ways of Strengthening Accountability and Integrity

It is not an easy task to inculcate values of accountability and integrity among the public servants with their own spheres of functions and responsibilities whether they are heads, managers or workers. It needs a high commitment and discipline as well as good communication and coordination among them.

Public servants can show more commitment to improving the way they do their work to correcting their weaknesses, ensuring good discipline as well as equipping themselves with relevant knowledge and expertise. For the heads and managers, practicing leadership by good example is imperative.

The heads in the public sector must walk the talk by showing that they are really committed to the cause of developing excellent work culture within their organisation through effective monitoring their managers' and subordinates' performance indicators relating to actual output, outstanding applications and complaints from the public as well as conducting regular spot checks. Realistic deadlines must be imposed to resolve problems and clearly indicate who will be made responsible for improvements to happen. The heads must be morally strong and willing to take firm actions to ensure the subordinates are always clean, efficient and trustworthy by becoming role models and ensuring the existing controls and mechanisms are effectively functioning.

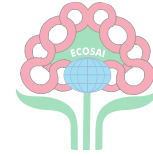
Role of SAI and Regional Groups

The governance landscape in the last decade has changed tremendously with the convergence of public and private sectors, new levels of complexity and risks of public sector agencies, increasing expectations of governance from stakeholders and profound development of new technology. In an environment of increasing high expectations of governance in the public sectors, administrators/managers need access to information on better practice of leadership, management and control structures and performance measures to reach the world best practice target. The SAI and the regional groups have important roles to play in supporting such practices and therefore contributing to World class public sector.

A SAI was established to undertake a full range of audit activities to provide assurance to the Parliament by playing the corrective and preventive roles. Corrective role refers to providing credible information on waste, abuse and fraud and malpractice as well as analyse their causes and effects. Preventive role means providing timely information on where things can go wrong,



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



recommend measures to correct shortcomings in systems and processes, eliminate waste, loss and abuse of resources and to identify ways and means to improve management systems and practices. Effective discharge of these roles support audit entities in developing appropriate management system and to strengthen control.

The positive role of the SAI has generated greater awareness amongst administrators for better management of resources, more reliable information systems, and effective planning and implementation. The SAI has been a catalyst in bringing about changes by setting examples to be followed, by providing expertise in financial administration and by ensuring adequate review of the management of resources.

As institution of accountability and integrity, the SAI discharge the above roles through providing high impact auditing results and outcomes; ensuring that audit opinions, recommendations and other related information are fully explained to all stakeholders on a timely basis; effective followup measures; and active engagement with stakeholders such as auditees, legislatures, public accounts committee, media and public to obtain their support and cooperation.

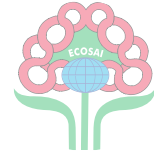
Regional groups of INTOSAI such as EUROSAI and ASOSAI could contribute to enhancing accountability and integrity in the public service by fostering the exchange of ideas, information, knowledge and experiences through collaborative best practice studies and research; joint capacity building activities; and developing best practice joint guidance in the control mechanisms. Generally, the legal framework pertaining to the public accountability and integrity is in place but the controls mechanisms are not always operating well. There is a wide gap exists between theory and reality and promise and performance. Institutions, principles and procedures do not always work well because a system is as good as people who administer it.

Conclusion

The culture of accountability and integrity must be continuously infused in the public sector entities to ensure good governance. A more comprehensive accountability and integrity framework which takes into account the moral aspects must be practised. Any activities and policies to be implemented must be properly discussed and deliberated so that a consensus decision making process is followed. This should be done with the right conduct which forbids unethical behaviour and actions. The SAI and regional groups could play an active role in promoting the good practices of accountability and integrity in the public sector.



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT




References

Ambrin Buang (2011) Issues and Challenges in Public Sector Auditing in Malaysia, National Audit Department of Malaysia.

SESSION 1.1

SLIDES

KEY CONCEPTS AND DEFINITIONS



Introduction To Ethics Audit 1

Learning Objective


You will learn key concepts and their definitions regarding ethics and key requirements of ethics infrastructure in public sector.



Introduction To Ethics Audit 2

What Is Ethics?

- Ethics is the entirety of moral principles that form the basis of an individual's behaviour.
- Ethics is the guiding values, principles and standards that help people in determining "how things should be done".



Introduction To Ethics Audit 3

What Is Ethics?

- Ethics is a process.
- When making decisions and putting them into practice, certain values are respected.



What Is Ethics?

- Ethics is the branch of philosophy that defines what is good for the individual and for society and establishes the nature of obligations or duties that people owe themselves and one another.



The aim of principles of ethical behaviour

To prevent corruption and degeneration in the state and society and to ensure the dominance of integrity.



What Is Integrity?

- **Integrity** is the honest behaviour of the individual or organisation in line with the relevant ethical values.
- It is the behavioural outcome of ethics.



What Is Integrity?

It is to act honestly, reliably, in good faith and in the public interest. (ISSAI 30)



What Is Integrity?

Integrity is one of the key pillars of political, economic and social structures and thus essential to the economic and social well-being and prosperity of individuals and societies as a whole.

(OECD Recommendation of The Council on Public Integrity)

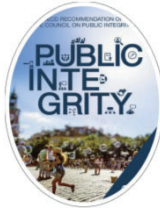


In this workshop, integrity is often mentioned with a similar meaning as ethics.



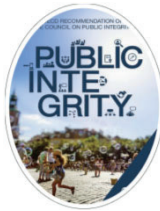
Public Integrity

Public sector ethics/public integrity deals with ethics for those who serve in the public sector, focusing on the public whom they serve.



Public Integrity

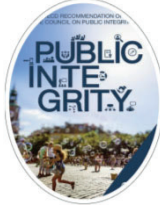
- Public sector ethics are, broadly speaking, **the core values and behavioural standards expected of state employees**, both in the civil service and in elected public office.



Public Integrity

Public integrity refers to the **consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the public interest over private interests in the public sector.**

(OECD Recommendation of The Council on Public Integrity)



Organisational Ethics

The ethical values, culture and structures that guide ethical behaviour of board, management and employees.



Ethics Management

The planning, implementation and co-ordination of activities of an organisation for the achievement of the institutional integrity of that organisation.



Ethics Management System

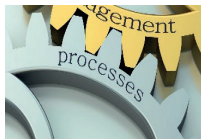
It comprises a structured and balanced package of policies and mechanisms (desirably under a specific strategy) designed to

- ✓ define,
- ✓ lead,
- ✓ guide,
- ✓ manage,
- ✓ monitor and enforce ethical conduct.

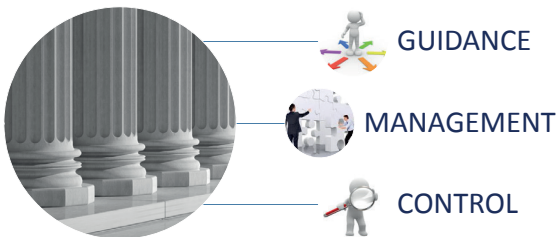


Ethics Management System

- 'Hard controls' such as rules, regulations and measures concerning detection and sanctioning of integrity incidents.
- 'Soft controls' such as moral competence building, ethical leadership, values and norms.



ETHICS INFRASTRUCTURE



Guidance

- Strong commitment from leadership;
- Statements of values and standards of conduct such as codes of conduct;
- Professional socialisation activities **such as** education, training and counselling etc.



Management Policies and Practices

- Fair and impartial selection, promotion and remuneration, as well as contribute to social respect.



Management Policies and Practices

A special dedicated body or existing central management agency in charge of the systemic co-ordination

➡ *In order to ensure consistency of combination of separate actions and their constant integration into the overall public administration.*

Control

- An **effective legal framework** that sets basic standards of behaviour for public officials, and enforces them through effective accountability mechanisms, such as internal control and external audit;

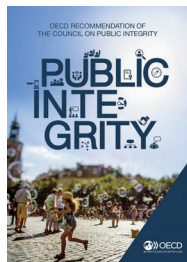


Control

- **Transparency mechanisms** providing access to public information, facilitating public involvement and scrutiny;
- Arrangements for **independent investigation and prosecution.**



Let's Look At



Pillars of Public Integrity



Commitment

- Top-level management develop the necessary legal and institutional frameworks and display high standards of personal propriety.



Responsibilities

- Public sector organisations co-ordinate well with each other, with well-defined responsibilities.
- It is clear 'who does what'.



Strategy

- Using data and indicators for evaluation and based on legitimate risks to integrity, a strategy is developed outlining objectives and priorities.



Standards

- Rules and public sector values are reflected in laws and organisational policies (such as codes of conduct or codes of ethics) and are effectively communicated.



Whole of Society

- Businesses, individuals and non-governmental actors uphold public integrity and do not tolerate corruption.



Leadership

- Managers lead with integrity in public sector organisations; they carve out the 'integrity agenda' and communicate it to the organisation.



Merit based

- The public sector strives **to employ** professional and qualified people that have a deep commitment to the public service integrity values.



Capacity Building

- Public officials are skilled and trained to apply integrity standards.



Openness

- Integrity concerns are openly and freely discussed in the workplace and it is safe to report suspected violations of integrity.



Risk management

- An effective integrity risk management and control system exists in public sector organisations.



Enforcement

- Corruption and other violations to integrity are detected, investigated and sanctioned.



Oversight

- Oversight bodies, regulatory enforcement agencies and administrative courts perform external control.



Participation

- A transparent and open government allows for the meaningful participation of all stakeholders in the development and implementation of public policies.



Ethics And Internal Control System

Internal control is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- ✓ executing orderly, **ethical**, economical, efficient and effective **operations**;
- ✓ fulfilling accountability obligations;
- ✓ complying with applicable laws and regulations;
- ✓ safeguarding resources against loss, misuse and damage. (INTOSAI GOV 9:100)



Components of Internal Control System

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication, and
- Monitoring.



The first basic principle of the control environment

The organisation must demonstrate a commitment to integrity and ethical values.



Leadership role should

- Set the tone of action
- Establish codes of conduct
- Create a positive control environment.



Staff should

- Maintain and demonstrate personal and professional integrity and ethical values; and comply with the applicable codes of conduct at all times.









SESSION 1.2 WHAT IS AUDIT OF ETHICS?



1.2.1 OVERVIEW

Having understood what is ethics and ethics management frameworks, it is necessary to find out the answer of the question “ what is ethics audit?”. Without understanding what it is, it would be difficult to go further since it is a new understanding of audit compared to the traditional types of public sector audit.

Therefore, by this participant notes, participants will obtain general understanding regarding to the concept of “ethics audit” and its key characteristics, its types, SAIs’s mandates to perform this audit and its relation with traditional types of public sector audits.

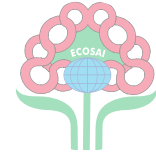
1.2.2 TOWARDS UNDERSTANDING ETHICS AUDIT

Audit of ethics is a new type of audit for SAIs. It complements the financial, compliance and performance audits that they usually perform. **An audit of ethics is a process used to evaluate several dimensions of the ethical conduct of an organisation. It assesses how well (or poorly) an organisation conforms to agreed benchmarks of ethical standards.** It addresses the ultimate responsibility and corresponding accountability of the organisation’s leadership to promote and ensure that its management at all levels and its staff behave in an ethical way and, by doing so, refrain from acts of fraud and corruption. It may include assessment of ‘soft’ elements (like tone at the top and tone at the middle) as well as ‘hard’ elements (the codes and procedures established to stimulate monitor and reinforce ethical conduct throughout the organisation). An ethics audit, as Kaptein (1998) has said is like an ethics thermometer to measure the “health condition of organizational ethics”. An ethics audit is an integrated tool for evaluating the ethical climate inside the organization and organisations’ sustainability. “A comprehensive ethics audit should assess the extent to which agencies have practices,



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



procedures, and policies in place to protect clients, identify ethics-related risks, and prevent ethics complaints and ethics-related litigation.”

An audit of ethics looks at the overall ethical health of an organisation or part of it. This health depends on formal and informal factors that conceptualise and materialise the philosophy, approaches, ethical behaviour and management of an institution. It distinguishes between the ethical program (formal rules), ethical environment (climate/values) and integration with management systems. An audit of ethics does not assess the ethical behaviour of individuals. Neither is it aimed at detecting or investigating (suspicions of) wrongdoings, such as fraud or corruption. The audit of ethics is a systematic, objective and professional process to evaluate the operation and the effectiveness of the institutional framework on ethical matters, in order to make contributions to that framework.

The main purpose of an audit of ethics is to strengthen ethics management and ethical conduct in the public sector and to ensure good governance.

An audit of ethics may be of use if there are specific issues or (perceived) risks that need to be addressed. These may be behavioural issues; leadership issues; system issues; integrity incidents, etc. In these cases an audit of ethics can:

1. Identify areas of concern;
2. Evaluate the extent of any perceived problems;
3. Suggest ways forward by which these problems can be tackled (implementation of new regulations; ethics training; etc.).

However, an audit of ethics may also be conducted in an organisation that has no concerns whatsoever. In this case it can:

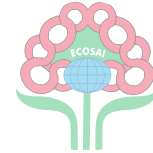
1. Act as an ethical ‘health check’;
2. Identify existing good practice;
3. Further strengthen the organisation.

Of course, even an ethics audit will not completely eliminate the risk of illegal or unethical behaviour, but it can reduce its likelihood.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



1.2.3 MAIN TYPES OF AUDIT OF ETHICS

Generally there are three types of audit of ethics: compliance audits, cultural audits and system audits:

- **Compliance audits** are the least comprehensive ethics' audits. In these audits, the auditor determines the degree to which the entity's ethics program meets the standards set forth in applicable law, regulation and policy, and the degree to which organisational and individual behaviour satisfies the requirements of that program. At the most basic level the audit shows how well an organisation meets (or exceeds) standard compliance requirements, e.g. a code of conduct; protocols; protection for whistle-blowers. However, the existence of such mechanisms does not ensure adherence to them.
- **Cultural audits** explore how employees and other stakeholders feel about the standards and behaviour of the organisation. This type of audit assesses perceived priorities and ethical effectiveness of individuals, groups, units or the organisation as a whole. Organisational culture is frequently defined as "the way we do things around here". Ethical culture can have a substantial impact on numerous aspects of the performance of an organisation. There are no standards for this type of audit and they are notoriously difficult to design. Therefore, they are very rare and are usually limited to an assessment or descriptive studies.
- **Systems audits** assess both compliance and culture as part of a bigger whole; the degree to which the ethical principles, guidelines and processes of the organisation are integrated within the organisational system and how this is managed: the Ethics Management System. This addresses the performance and effectiveness of the adopted integrity measures.

1.2.4 SAI's MANDATE TO AUDIT ETHICS

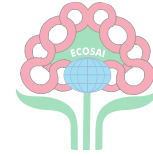
Auditing ethics related specific subjects may be considered as a part of the main types of public sector auditing.

According to INTOSAI GOV 9100/2.1, ISSAI 1315/14 and 2013 COSO Framework, the ethical aspect is one of the relevant factors of a risk assessment and an element of the internal control environment of an organisation. Therefore, ethics related issues should always be considered in traditional audits, especially where the internal control environment is analysed.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



In financial audits, this is always an important step. The analysis of ethical related regulations and their implementation may be subject to compliance audits. Some SAIs already do that.

On the other hand, ethics is an element of public organisations' performance and thus as a potential topic for a performance audit.

Therefore, SAIs having power to conduct financial, compliance and/or performance audits over public sector activities, don't need an explicit mandate to audit ethics or ethics related issues. The general mandate of most SAIs provide them with a power to either audit ethics/integrity as a general subject or to include ethical issues within other audits.

Even though, many SAIs refer to ethics or integrity in their mission statements and, in some cases, SAIs have a specific mandate for this area or found it useful to include it explicitly.

1.2.5 RELATION WITH FINANCIAL, COMPLIANCE AND PERFORMANCE AUDITS

The ethical conduct and the policies and procedures designed to influence are an essential part of public governance and public performance. Therefore, the SAI's analysis will easily fit in a financial, compliance or performance approach, in a combination of them or in a different type of product, such as a review, a study or an investigation. This will entirely depend on the choice of the SAI.

Financial audit has a typical and very specific scope and objective: it focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. Hence, an approach to ethics or integrity in financial audit will always be conducted over a specific organisation and will be done within the analysis of its internal control environment. It will always be a subsidiary issue to be explored mainly if there is reason to believe that the financial information could have been or was affected by an unethical environment or behaviour.

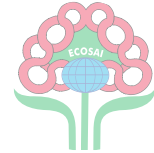
Compliance audit is an assessment of whether given subject matters, notably the activities of public sector organisations, comply with applicable formal criteria (such as laws, regulations and agreements) or with the general principles governing sound financial management and the conduct of public officials (propriety). Compliance audits may be attestation or direct reporting engagements. The conclusion is expressed in terms of findings, answers to specific audit questions, recommendations or an opinion.

Performance audit is an examination of whether undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. It seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



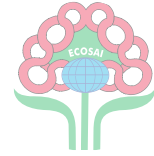
Where ethical aspects are treated as a secondary element that can affect the audited object, the audit of ethics will occur in a subsidiary manner, embedded in the main compliance or performance audit, according to cases.

When the main scope of the audit focuses on ethics management and its infrastructure, we can say that we are dealing with a proper audit of ethics. This audit will be a compliance audit when focused in comparing a situation with established requirements and will be a performance audit when targeted at assessing the results achieved and the areas for improvement.

Depending on the specific subject matter and scope of an audit of ethics, such an audit may be characterised as either a compliance audit, or a performance audit, or a mix of these both main types. Accordingly, its design and execution may be inspired and guided by the corresponding ISSAIs: 300, 3000, 3100 and 3200 for a performance-oriented audit of ethics; 400 and 4000 for a compliance-oriented audit of ethics. When the audit of ethics focuses on, or includes, assessment of risk management and internal control over ethics, INTOSAI GOV 9100 and 9130 are also relevant.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations, OECD Recommendation of The Council On Public Integrity, <http://www.oecd.org/gov/ethics/OECD-Recommendation-Public-Integrity.pdf>,

JORGE Suárez, “Technical guidelines for conducting audits of institutional ethics: a contribution by the SAI of Costa Ricae”, EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI’s practices p.74,

[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf)

The National Council of Nonprofits (Council of Nonprofits), (2011), Conducting an Ethics Audit at Your Nonprofit, Quoted from-- Frederick Reamer, in The Social Work Ethics Audit: A Risk Management Tool

<https://www.councilofnonprofits.org/sites/default/files/documents/Conducting%20an%20Ethics%20Audit%20at%20Your%20Nonprofit.pdf>,

RIHMA, MERLE (2014), “Ethics Audit: A Management Tool for Assessing of Corporate Social Responsibility and Preventing Ethical Risks”, p.20, https://www.researchgate.net/publication/12387609_The_Social_Work_Ethics_Audit_A_Risk-Management_Strategy,

RIHMA, MERLE (2014), “Ethics Audit: A Management Tool for Assessing of Corporate Social Responsibility and Preventing Ethical Risks”, p.24, quoted from Kaptein, M. (1998). Ethics Management: Auditing and Developing the Ethical Content of Organization. Kluwer Academic.

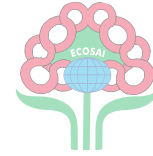
https://www.researchgate.net/publication/12387609_The_Social_Work_Ethics_Audit_A_Risk-Management_Strategy.

SESSION 1.2

HANDOUTS



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 1.2-HANDOUT 1

AUDIT OF ETHICS: AN APPOINTMENT IN THE SAIS' SCHEDULE FOR THE 21ST CENTURY²

By José Rodrigues de Sousa Filho -Tribunal de Contas da União / Instituto Serzedello Correa, Brazil

The relevance of ethics to INTOSAI cannot be underestimated when it is noted that the Code of Ethics (ISSAI 30) figures as a prerequisite for the functioning of a SAI. In this sense, INTOSAI highlights that the adoption and implementation of a code of ethics by public auditors “promotes trust and confidence in the auditors and their work”, foundations of trust, confidence and credibility of the SAI to the public.

This point understood, the challenge that increasingly unfolds before the action of a SAI figures on the need to audit the management and ethical infrastructure within the public sector entities subjected to the discretion of SAI.

The paradigm change to the Public Administration towards a managerial model, focused on decentralisation, quality of service and finalistic control, in contrast to the weberian bureaucratic model, based on the formalism in meeting regulations and administrative procedures of formal controls, led to relaxation of the called hard controls and to the stimulus of the soft controls, the increased discretion of Administration and the application of management methods commonly used by the private sector in pursuit of increased efficiency and effectiveness of services provided to citizens.

In parallel, this movement was accompanied by a demand on the improvement of the accountability mechanisms by public entities and understanding of the importance of having a good governance and management, guided and sustained by values and principles that provide a high ethical climate in which public officials seek to achieve the goals and objectives of the organisation without departing from the commitment to the public interest and ethics of the organisation.

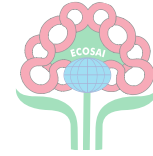
Seeking to achieve this balance, the OECD conducted two surveys - in the year 1996/1998 - to determine the factors that influence ethical behaviour in public service. From the experience of its member countries, the OECD has identified the elements and mechanisms used by

² Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices, [http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



governments to promote integrity and ethics in the public service - the so called ethical infrastructure.

Categorised the elements of ethics infrastructure in accordance with the functions of guidance, management and control, we will examine these mechanisms from an audit's point of view within the methodological approach of INTOSAI and The Institute of Internal Auditors.

In defining the scope of an audit, the ethical aspect will be present primarily or subsidiary, according to the choice of the audited object and breadth of scope. When the main scope of the audit focuses on ethics management and its infrastructure, we can say that we are dealing with a proper audit of ethics. In other cases where the ethical aspect is treated only as a secondary element that can affect the audited object, the audit of ethics would occur in a subsidiary manner, embedded in the main audit.

Thus, organisational ethics should always be considered in greater or lesser depth, in the planning of any audit conducted by SAI, in so far as the ethical aspect is the relevant factor of the risk assessment and element of the internal control environment of the organisation (INTOSAI GOV 9100/2.1, ISSAI 1315/14, 2013 COSO Framework).

A preliminary study (or pre-study) can be undertaken to explore and evaluate the entity's internal control environment (ISSAI 300/3.2, 2004), as well as to assess the ethical climate and the risk of unethical behaviour in the organisation. There are some models in the literature to estimate the risk of unethical behaviour; however, we must be careful not to leave out of the model a variable that captures the level of existing internal controls in the organisation system. The degree of exposure to ethical risk can serve as a criterion for prioritising the entities that are to be audited.

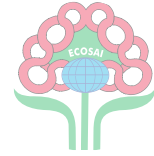
When talking about risks and internal controls it is convenient that we also pay attention to the rules of the International Professional Practices Framework (IPPF), which provide an interesting view of the interaction between ethics, governance, control and risk management. One of the objectives of good governance is precisely the promotion of ethics and appropriate values within the organisation (Standard 2110). On the other hand, good governance is based on effectiveness of internal controls as well as risk management is based on good governance (for example, think of the tone of the top, the risk appetite and oversight of risk management). Obviously, control and risks are associated from the very definition of control (any action taken by the organisation to manage risk and increase the likelihood of achieving organisational objectives).

The audit of ethics brings a growing challenge towards the standardisation of models and frameworks of a sound ethics management that can be taken as reliable audit criteria and support



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



the development of robust evidence and audit findings. The management of ethics lacks an architecture (principles, framework and process) similar to that for risk management (see, for example, ISO 31000), which narrows the scope and weakens the results of an audit of ethics.

Despite the limitations resulting from an inconsistent audit criterion, much can be done to achieve the goal of auditing ethics management and assess the ethical climate of a public sector organisation. Every management presupposes the existence, declared or not, of objectives, programs and activities, based on a framework upon which flow processes and controls, so that the management of ethics is no exception to this approach.

A good starting point for elaborate assessment tools can be found on the inspiring systematic set of 96 questions of Ethics Effectiveness Quick-Test (EEQT), designed by the Ethics Resource Center (ERC) Principal Consultant Frank Navran to evaluate twelve areas related to the management of ethics. This EEQT proves both versatile to draw a self-assessment test of areas related to the management of ethics, as well as to support the planning of an audit.

Certainly, audit planning of ethics should address the code of conduct and other elements of the ethical infrastructure of the organisation, however we cannot lose sight that the analysis of the design, implementation and management effectiveness of ethics enforced by the audited requires the subsumption to a management role model, suggesting here the models that bring embedded the concept of PDCA (plan-do-check-act) or its variant PDCL (plan-do-check-learn), which incorporates the concept of organisational learning.

To assess the risks and controls associated with the management of ethics we can adapt the tools and techniques specified in ISO 31010, or any that SAI usually applied to perform the steps of the risk assessment (identification, analysis and evaluation).

Also, we can set attributes to design maturity models of ethics management, or build a governance index of ethics in order to qualify the audited entities by ranges of susceptibilities to commit ethical violations. For purposes of governance, it matters how much ethics management is aligned with the strategic objectives of the organisation.

Knowing the maturity level of ethics management is essential for defining the scope of the audit of ethics and to choose which components of the structure (ethics infrastructure) and which processes are viable to be audited.

We cannot forget that the audit of ethics is not only to measure the ethical climate or adherence to the code of conduct of the organisation. The audit of ethics conducted by SAI, in the wake of the performance audits, needs to add value and contribute to the improvement of management, controls and governance of the audited organisation through functional



ECOSAI WORKSHOP-2019

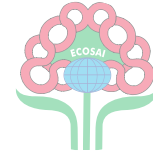
INTRODUCTION TO ETHICS AUDIT



recommendations and a timely follow-up. SAI, playing a leading role, will provide a good service to embody the view that ethics has practical implications in achieving the goals, mission and vision of the future of public sector organisations.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 1.2-HANDOUT 2

AUDIT AND ETHICS: THE ICELANDIC EXPERIENCE³

By Þórir Óskarsson-Assistant Director, The Icelandic National Audit Office

The National Audit Act (No. 86/1997) doesn't specify ethical issues as one of the Icelandic National Audit Office's (INAO) principal tasks. Such issues can, however, both be a part of compliance and performance auditing. The report Codes of Conduct in Public Administration (2003) is so far INAO's only audit with ethics as its primary objective.

In 2003 the Government Employees Act (No. 70/1996) was the only formal ethical guideline for civil servants in Iceland, and its article dealing with ethics was very limited, only a few sentences. However, there was a growing interest in developing a code of conduct for the whole public sector and individual public bodies. In 2003 the INAO did approve and publish its own Code of Ethics, based on ISSAI 30.

The INAO's goal with the audit Codes of Conduct in Public Administration was twofold. On the one hand, the Office wanted to raise awareness of ethics and ethical issues in the public sector in Iceland in order to enhance good governance. On the other hand, the Office wanted to evaluate and describe the ethical infrastructure of public bodies, e.g. the scope of codes of conduct, the views of managers towards a number of selected ethical criteria and their experiences regarding the use of codes of conduct. The audit was based on a questionnaire survey among managers of 204 public bodies. The response rate was 80%. The audit also made comparison with codes of conduct for public administration in two western countries (UK and USA) and OECD's survey on ethics measures in OECD countries.

Among the audit's main findings were that only 15% of Icelandic public bodies had already established a code of conduct in 2003, about 40% were planning to establish a code of conduct and another 40% were waiting for a general code of conduct for civil servants or didn't see the need for such code.

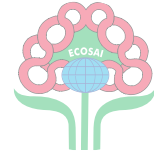
The questionnaire also showed that respondents considered legitimacy, services benefiting the public, honesty, expertise and impartiality to be the most important ethical values for the public sector. These values were in good line with those in the countries the INAO selected for comparison.

³ Resource: EUROSAT TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices, [http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



In most cases managers were involved in establishing and implementing codes of conduct and in general managers were also responsible for monitoring compliance with the codes. Most bodies reacted to unethical behavior of an employee with an informal reprimand. About 41% of those that had already established a code of conduct claimed that consequently work procedures had improved as employees were more conscious of their role and obligations and of following appropriate procedures.

The INAO presented its findings to the Icelandic parliament and called for an open discussion on ethical issues and for the introduction of codes of conduct in the public administration. In 2003 the INAO didn't perform formal follow-up audits but the audit did without doubt have some impact on the discussion of ethical issues in the public sector. Today civil servants not only rely on the aforementioned Government Employees Act but also on some new codes of conduct for public administration: Criteria for a code of conduct for civil servants (2006), Code of Conduct for Ministers (2011), Code of Conduct for Staff in the Government Offices of Iceland (May 2012) and Code of Conduct for Civil Servants (2013). Those codes should also give the INAO a more solid base for auditing ethical issues than the Office has had up till now.

SESSION 1.2

SLIDES




WHAT IS AUDIT OF ETHICS?

Introduction To Ethics Audit 1

Learning Objective

To understand


- the concept of “ethics audit”, its key characteristics and types,
- SAls’ mandates to perform this audit, and
- its relation with traditional types of public sector audits.



Introduction To Ethics Audit 2

Audit Of Ethics

- A process used to evaluate several dimensions of the ethical conduct of an organisation.
- Assesses how well (or poorly) an organisation conforms to agreed benchmarks of ethical standards.



Introduction To Ethics Audit 3

Audit Of Ethics

SAs can assess the extent to which agencies have practices, procedures, and policies in place to protect clients, identify ethics-related risks, and prevent ethics complaints and ethics-related litigation.



Introduction To Ethics Audit

4

Audit Of Ethics

- It does not assess the ethical behaviour of individuals.
- Neither is it aimed at detecting or investigating (suspicions of) wrongdoings, such as fraud or corruption.



Introduction To Ethics Audit

5

Audit Of Ethics

- It is a systematic, objective and professional process to evaluate the operation and the effectiveness of the institutional framework on ethical matters.



Introduction To Ethics Audit

6

The main purpose of an audit of ethics

To **strengthen** ethics management and ethical conduct in the public sector and to **ensure** good governance.



Introduction To Ethics Audit

7

Audit of Ethics

- Identify areas of concern,
- Evaluate the extent of any perceived problems,
- Suggest ways forward by which these problems can be tackled,



Introduction To Ethics Audit

8

Audit of Ethics

- Act as an ethical 'health check',
- Identify existing good practice,
- Further strengthen the organisation.



Introduction To Ethics Audit

9

An ethics audit

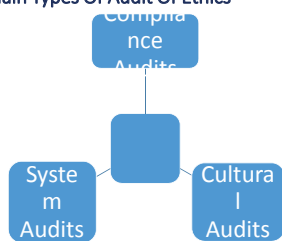
- Will not completely eliminate the risk of illegal or unethical behaviour.
- But it can reduce its likelihood.



MAIN TYPES OF AUDIT OF ETHICS



Main Types Of Audit Of Ethics



Compliance Audits


Shows how well an organisation meets (or exceeds) standard compliance requirements.



Introduction To Ethics Audit 13

Cultural Audits


- Explores how employees and other stakeholders feel about the standards and behaviour of the organisation.



Introduction To Ethics Audit 14

Systems Audits

- Assesses the degree to which the ethical principles, guidelines and processes of the organisation are integrated within the organisational system and how this is managed: the Ethics Management System.



Introduction To Ethics Audit 15

Systems Audits

- Addresses the performance and effectiveness of the adopted integrity measures.



Mandate To Audit Ethics

- The ethical aspect is one of the relevant factors of a risk assessment and an element of the internal control environment of an organisation.



Mandate To Audit Ethics

- Ethics related issues should always be considered in traditional audits, especially where the internal control environment is analysed.



Mandate To Audit Ethics

- In financial audits, this is always an important step.
- The analysis of ethical related regulations and their implementation may be subject to compliance audits.
- Ethics is an element of public organisations' performance and thus as a potential topic for a performance audit.


Introduction To Ethics Audit 19



Mandate To Audit Ethics

SAs having power to conduct financial, compliance and/or performance audits over public sector activities, don't need an explicit mandate to audit ethics or ethics related issues.


Introduction To Ethics Audit 20



Mandate To Audit Ethics

The general mandate of most SAs provide them with a power to either audit ethics/integrity as a general subject or to include ethical issues within other audits.

Introduction To Ethics Audit 21



Relation with Traditional Audits



Introduction To Ethics Audit

22

Financial Audit

Focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework.



Introduction To Ethics Audit

23

Financial Audit

An approach to ethics or integrity in financial audit will always be conducted over a specific organisation and will be done within the analysis of its internal control environment.



Introduction To Ethics Audit

24

Financial Audit

It will always be a subsidiary issue to be explored mainly if there is reason to believe that the financial information could have been or was affected by an unethical environment or behaviour.



Introduction To Ethics Audit

25

Compliance Audits

An assessment of whether the activities of public sector organisations, comply with applicable formal criteria or with the general principles governing sound financial management and the conduct of public officials.



Introduction To Ethics Audit

26

Performance Audits

An examination of whether undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.



Introduction To Ethics Audit

27

Performance Audits

Provides new information, analysis or insights and, where appropriate, recommendations for improvement.



Relation with Traditional Audits

When the main scope of the audit focuses on ethics management and its infrastructure, we can say that we are dealing with a **proper audit of ethics**.



Relation with Traditional Audits


This audit will be:

- a **compliance audit** when focused in comparing a situation with established requirements and
- a **performance audit** when targeted at assessing the results achieved and the areas for improvement.



Relation with Traditional Audits (ISSAIs)


- 300, 3000, 3100 and 3200 for a performance-oriented audit of ethics;
- 400 and 4000 for a compliance-oriented audit of ethics.



Introduction To Ethics Audit 31

Relation with Traditional Audits (ISSAIs)

- When the audit of ethics focuses on, or includes, assessment of risk management and internal control over ethics, INTOSAI GOV 9100 and 9130 are also relevant.



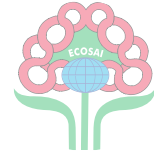
Introduction To Ethics Audit 32

Any Question?



Introduction To Ethics Audit 33





SESSION 1.3 WHY SHOULD SAIs AUDIT ETHICS?



1.3.1 OVERVIEW

Ethics audit is a new audit perspective by which Supreme Audit Institutions can promote integrity in public sector organizations. In order to understand ethics audit well and put it into practice successfully, one should also find answers to the key question of “why”.

As a starting point to ethics audit, these participant notes will focus on the key question of “why should SAIs audit ethics”. During this session, participants will be able to get information about the main factors and/or reasons that could pave the way for SAIs to conduct ethics audit.

1.3.2 POSSIBLE REASONS FOR SAIs TO PERFORM ETHICS AUDIT

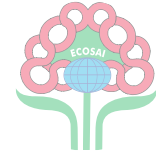
Public services are delivered with the taxes paid by citizens. Citizens entrust public officials with their taxes with the expectation of receiving low-cost and high quality services. In this sense, public service is a service “held on trust”. Conscious of this trust, public officials must deliver public services effectively, efficiently and in honesty; and must respect professional ethical principles and standards when performing their duties and employing their discretion. However, ethics, integrity and transparency of state officials and civil servants’ actions have become a growing focus of public attention. Numerous scandals related to corruption, illegality or lack of professionalism justify the prominent role of these issues in many countries. At the same time, the reform and modernisation of state administration and public management and the increasing democratisation and openness of societies allow and claim for the development and strengthening of ethics’ structures and management in the civil service. Thus, ethics turns out to be a required part of the good governance and performance of public sector organisations. In such circumstances, ethics and ethics management present themselves as important topics for auditing.

A Supreme Audit Institution (SAI), or national audit institution, fulfils the independent and technical public sector external audit function that is typically established within a country’s constitution or by the supreme law-making body. A SAI is responsible for overseeing and holding government to account for its use of public resources, together with the Legislature and



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



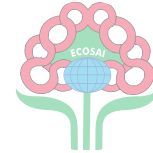
other oversight bodies. Today, the role of Supreme Audit Institutions has been evolving to audit the existence and functioning of the Integrity framework in public organisations. Supreme Audit Institutions have a crucial role in supporting more open and effective government institutions and also in meeting citizens' expectations of governments, providing assurances that the decision-making processes effectively pursue the public interest and are protected from undue influence. An increasingly common recognition is to review risks to integrity of government decision making and audit how existing instruments, for example for identifying and managing conflict of interest, function in daily practice.

Now, we can discuss about the main factors that can motivate SAIs to conduct ethics audit. There are many factors encouraging and directing SAIs to audit ethics. We can analyse them as follow:

- 1. UN approach to SAIs:** UN considers principles such as accountability, transparency, effectiveness and efficiency as a requirements of “good governance” and those principles are also part of “ethics”. Both the UN World Public Sector Reports and the Reports of the United Nations Committee of Experts on Public Administration refer to the role of Supreme Audit Institutions (SAIs) to enhance public accountability. They envisage that SAIs and other independent oversight bodies, as part of the formal accountability structure, can provide valuable feedback and advice to assist public institutions to become more transparent and accountable. Therefore, SAIs are now guardians of good governance and not only guardians of correct accounts.
- 2. UN Sustainable Development Goals:** The Sustainable Development Goals (SDGs), which the UN Member States jointly committed to in September 2015, provide an ambitious and long-term “plan of actions for people, planet, and prosperity,” for all nations. These goals contain ethical dimensions such as inclusiveness, accessibility to justice, effectiveness, accountability, anti-corruption approaches, gender equality etc. SAIs can, through their audits and consistent with their mandates and priorities, make valuable contributions to national efforts to track progress, monitor implementation, and identify improvement opportunities across the full set of the SDGs and their respective nations' sustainable development efforts.
- 3. OECD's approach to integrity:** The OECD Recommendation on Public Integrity provides policy makers with the blueprint for a public integrity strategy. It envisages that SAIs are one of the oversight bodies reinforcing public integrity through their rulings and formal advices.
- 4. The International Standards of Supreme Audit Institutions (ISSAIs):** The International Standards of Supreme Audit Institutions (ISSAI) state the fundamental prerequisites for the orderly function and professional conduct of SAIs and the fundamental principles in auditing of public entities. They are issued by the International



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



Organisation of Supreme Audit Institutions. They put allocate some responsibilities to the SAIs regarding ethics audits. For example, public-sector auditing should;

- help to create suitable conditions and reinforce the expectation that public-sector entities and public servants will perform their functions effectively, efficiently, **ethically** and in accordance with the applicable laws and regulations (ISSAI 100/17).
- contribute to good governance by enhancing accountability and transparency, encouraging continuous improvement and sustained confidence in the appropriate use of public funds and assets and the performance of public administration (ISSAI 100/20),
- Make a difference to the lives of citizens. In order to make difference to the lives of citizens, SAIs are supposed to strengthen the accountability, transparency and integrity of government and public sector entities (ISSAI 12/5).

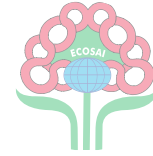
SAIs may carry out audits or other engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources (ISSAI 100/23).

- 5. Understanding Changes Regarding Public Sector Auditing:** Changes that happen in the SAIs' environment such as technological, social, cultural etc. cause understanding changes in audit. Today, it is recognized that SAIs should adopt a preventive approach through their audits in order to promote integrity in public sector. The main role of SAIs in audits should be the promotion of a system in public sector organizations in which public resources are obtained, used and managed by public officials according to the ethical values and principals. In an audit that doesn't take the requirements of ethics management as primary concern, corruption, irregularities and unethical behaviours identified may be the tip of the iceberg. Therefore, ethics audits focusing ethics system requirements in public management would pave the way for taking necessary precautions in order to establish and develop an ethics based public management.
- 6. Positions and Authorities of SAIs In Public Management:** SAIs carry out external audits in public sector and are considered as the guardians of Public Money. They have the authority to submit their audit reports directly to the Parliament. SAIs' reports are also effective in drawing the attention of Parliaments and public. By focusing on ethics and ethical management, and providing correspondent recommendations and follow-up, they would be able to effectively encourage and enhance improvement in ethics' practices and accountability in the public sector. Therefore, these positions and authorities of SAIs create golden opportunity to raise ethics and ethics related issues as main agenda of public management.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT

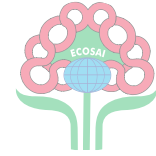


7. **Expectations of Public:** As mentioned above, the problems faced in public sector such as irregularities, wasting of public resources, unfair delivery of public services, lack of requirements of professional standards, losing of lives in countries etc. necessitate the establishment and maintenance of integrity based public sectors. These problems make ethical values such as honesty, fairness, equality, transparency, accountability etc. as the main expectations of public regarding public officials and public services. SAIs can meet these requirements of public through ethics audits by focusing on integrity requirements.
8. **SAIs are an important pillar of the National Integrity System:** As a pillar of National Integrity Systems, SAI are increasingly expected to promote integrity and specifically contribute to combating fraud and corruption. Corruption undermines the trust of citizens in their governments and is therefore extremely harmful for a society. There are different ways for this to be done and the appropriate strategy depends on the specific circumstances in each country. However, by including ethics in their audit focus, SAIs can help mitigating the risks of fraud and corruption.
9. **Potential Benefits and Impacts of Ethics Audits:** Ethics audits to be performed by SAIs would provide numerous benefits and impacts for public sector managements. Therefore, expected benefits of ethics audits should be the main motivator for SAIs to perform ethics audits. Ethics audit and the recommendations given on the basis of the particular facts and identified findings are able to produce the following types of improvements in the public sector organizations:
 - Restoring the trust and confidence in the public organizations
 - Contribution to the achievement of organizations' agreed integrity policy objectives and outcomes that matter to their managers and to citizens
 - Promoting transparency, accountability, and value for money
 - Improvement of public sector performance, by promoting that public sector organisations conduct their activities and achieve their objectives in full respect of ethical principles
 - Increasing the effectiveness of the control systems in place, since ethics is a relevant factor of risk assessment and an element of the internal control environment of the organisation
 - Encouraging the set-up of missing processes and/or relevant control activities
 - Stimulating and improving the set up and functioning of ethical infrastructures in public bodies



ECOSAI WORKSHOP-2019

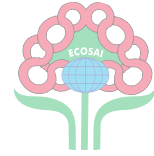
INTRODUCTION TO ETHICS AUDIT



- Increasing the awareness of the importance of implementing and respecting ethical principles and values in public sector
- Stimulating relevant training and education on ethics
- Fostering the consistent application of rules and regulations related to ethics and ethical behaviour
- Enhancing ethical behaviour and ethical decision making
- Strengthening mechanisms for monitoring the implementation of ethical principles
- Decreasing the number of breaches and irregularities
- Improving prevention of fraud and corruption
- Increasing public awareness
- Change of management practices
- Increased public officials' accountability
- Amendments to legislation introduced
- Guidance to decision makers for developing integrity in public sector
- Strengthening human resource management policies and practices with ethics dimension
- An assessment of the actual culture and values of an organisation
- Identify specific ethics related problems/gaps
- Identify strengths/effective ethics management practice
- Lead a roadmap for success in ethics management in public sector organizations.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

Council of Ethics for the Public Service of Turkey, (2009), An Ethics Reminder For Public Officials,

<http://etik.gov.tr/Portals/0/en/Ethics%20Reminder%20for%20Public%20Officials.pdf>,

EUROSAI, <https://www.eurosai.org/en/topMenu/ISSAI.html>

EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices,

[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,

<http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf>,

INTOSAI, International Organization of Supreme Audit Institutions (INTOSAI) Strategic Plan 2017-2022,

http://www.intosai.org/fileadmin/downloads/downloads/1_about_us/strategic_plan/EN_INTOSAI_Strategic_Plan_2017_22.pdf,

INTOSAI ISSAI 100, “Fundamental Principles of Public-Sector Auditing”,

http://www.issai.org/en_us/site-issai/issai-framework/3-fundamental-auditing-principles.htm,

INTOSAI ISSAI 12, Value and Benefits of SAIs - making a difference to the life of citizens”,

http://www.issai.org/en_us/site-issai/issai-framework/2-prerequisites-for-the-functioning-of-sais.htm,

Lopes, Helena Abreu, EUROSAI TFAE, 2016, Possibilities of auditing ethics by SAIs,

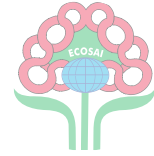
<http://www.eurosai-tfae.tcontas.pt/activities/Seminars/IGPS/Documents/4%20Documents%20of%20Seminar/Presentation%2005.pdf>,

OECD Public Governance Reviews Supreme Audit Institutions and Good Governance, Oversight, Insight and Foresight, (2016)



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



https://read.oecd-ilibrary.org/governance/supreme-audit-institutions-and-good-governance_9789264263871-en#page1,

OECD Recommendation of The Council On Public Integrity Public Integrity, A Strategy Against Corruption (2017),

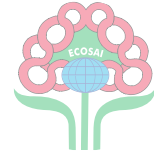
<http://www.oecd.org/gov/ethics/OECD-Recommendation-Public-Integrity.pdf>,

UN Responsive and Accountable Public Governance, 2015 World Public Sector Report, (2015)

<https://publicadministration.un.org/publications/content/PDFs/World%20Public%20Sector%20Report%202015.pdf>,



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT

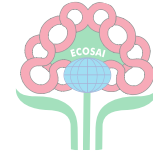


SESSION 1.3

HANDOUTS



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 1.3-HANDOUT 1

ORGANISATIONAL PERFORMANCE AND AUDITING ETHICS⁴

By Prof. Dr. Christoph Demmke, External Expert

Over the last two decades, the EU Member States have invested considerable resources in setting ethical standards, as evidenced by the proliferation of ethics codes. The trend has been towards an increase in the number of rules and standards, as well as the number of issues that are recognised as unethical behaviour. On the other hand, most countries and organisations have invested very little in the evaluation of ethics policies' effectiveness as regards the development of ethical behaviour, costs of unethical behaviour, (unintentional) side effects of ethics policies and the added value of ethics in terms of organisational quality and efficiency.

In most countries ethics policies operate in a climate of increasing levels of distrust (higher distrust towards politicians than civil servants). Therefore, the Member States are under pressure to intensify their efforts in the field of ethics to improve public trust.

It is clear is that doing less would probably decrease the trust levels even further, but doing more, on the other hand, would not necessarily improve public trust.

Ethics policies are mostly scandal-driven. They emerge, flourish, are reformed and expanded as a result of scandals and media attention. Hence, some issues such as corruption and fraud attract a lot of media and political interest, whereas others are not discussed publically to the same extent (e.g., mobbing and disrespect for core values). The fact that ethics policies are often scandal-driven results in the conception of symbolic policies, which at best lead to the adoption of new regulations.

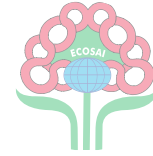
However, more Member States are more eager to invest in ethics surveys which measure the perception of the ethical climate. Therefore, an emerging focus is less on the adoption of new policies, but on the implementation, enforcement and evaluation of policies. The latter includes auditing policies in the field of ethics.

At present, most institutional structures are still weak. To date, the Member States are still particularly active in the institutionalisation of anti-corruption policies and conflicts of interest policies but much less in other ethics-related policies.

⁴ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices, [http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



Overall, institutional structures differ a lot from country to country and are highly fragmented. As regards corruption and conflicts of interest policies, one can observe a trend towards the creation of specialised bodies tasked with investigating conflicts of interest and corruption in the national public services. Ideally, these bodies should be independent. Only a few Member States provide for centralised and integrated institutional structures in the field of ethics.

However, also the institutionalisation of ethics is about to change. Most governments are increasingly in search for an evidence-base to build policies on. Educational performance is compared based on comparative data collected through standardised tests. In health policies, standardised registration systems – the so-called Diagnosis Related Groups - strengthen the evidence base. Economic policies are supported by the increasingly sophisticated practices of national accounting. Just to name a few examples. The financial crisis demonstrated the need for well-functioning, solid administrative capacity to regulate society. Yet, because of the fiscal and sovereign debt crisis that followed from the financial crisis, governments will have to do this with fewer resources. A good evidence base of what works is crucial in this endeavour (OECD, 2012).

This trend towards more evidence based policies is also taking place in the field of ethics. Consequently, more efforts to institutionalise ethics can be seen in the link between ethics and auditing. Until today, auditors rarely examined the entire ethical framework. In most cases, they focus on a number of (limited) issues.

Clear evidence is still lacking but more surveys and studies show that a strong ethical climate and organisational fairness/justice is associated with the values of efficiency, effectiveness, quality, trust and cooperation. A good ethical climate is also positively linked to organisational performance. Thus, efficiency and effectiveness is reinforced by a strong ethical climate.

In the context of the financial crisis, there is a growing interest in public sector innovation, quality management, the need to enhance organisational performance, efficiency and good governance. The search for causal links between ethics and business performance is also starting to influence the academic and practitioner debate.

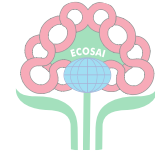
If an unambiguous causal connection can be established between organisational performance and ethics, then this will have significant and positive implications for the justification of auditing ethics.

While evidence mounts that ethics are related to organisational performance, significant methodological and theoretical challenges still exist. Methodologically, there is no consensus regarding which practices constitute a theoretically complete set of ethics policies, how to conceptually categorise these practices; the definition of performance, the appropriate level of



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



analysis; or how ethics is to be measured. Theoretically, still no consensus exists regarding the mechanism by which ethics might impact on outcomes.

Therefore, ethics audit is still not a widely implemented instrument. Often, auditors will have to justify why audits should be extended to the field of ethics as many national laws do not provide for audits in the field.

Other reasons are relatively straightforward

- Ethics audits can be threatening if presented as an instrument to root out wrongdoing.
- Ethics audits are often used as symbolic measures and have no consequences.
- Most managers/leaders react by saying that they are ethical and work in an ethical organisation anyway.
- Auditing ethics can be seen as challenging, complex, take time and are costly – in times of growing financial constraints.
- Often, managers and employees are afraid that ethical audits are not handled in a confidential way and that privacy rights will be touched.
- There are few experts in the field. From here the risk that external consultants do the job but who are not fully qualified to do this sensitive task.
- Often, ethics audits face the dilemma of measuring the immeasurable. Alternatively, audits have only limited effects if they measure only what is measurable.
- One important question is also to know whether internal self-regulation audits can be effective or, whether external, independent audits should be carried out. External audits have a stronger legitimising function but there is no reason why a successful audit cannot be completed internally. Here, all depends on the maturity of the organisation.

Despite the “weak tradition of auditing ethics”, ethics and auditing will become a normal feature in auditing organisations in the future.

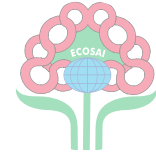
Awareness is clearly increasing that an ethical culture, ethical leadership, organisational fairness and ethical organisations are more efficient and effective and that there are higher levels of trust amongst employees and employers. Increasingly, ethics are also linked to the discussions on Good Governance and to studies on public performance.

Thus, there is no doubt that there is a growing interest in audits and it is likely that this will further increase. More organisations are beginning to develop their (own) health checks for ethics by the way of introducing ethics culture surveys.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



In any case, ethics audits should be straightforward, simple and concentrate on the essential issues. Otherwise, ethical audits just become another example of performance measurement and accountability gone mad and becoming ever more costly and bureaucratic.

However, more efforts must be invested measuring ethics and linking ethics to organisational performance. Here, many difficulties still exist as regards a number of questions:

For example, how to measure the effects of ethical leadership? Other key challenges come from elsewhere. A key challenge for auditors is to collect evidence on progress made considering that misconduct is by nature a hidden phenomenon. Outcome measures of integrity practices could be more quantitative but these are (i) extremely hard to come by because of the challenges of measuring corruption (e.g. they are covert) and (ii) because of possible misinterpretations of that outcome data (e.g. measuring for instance number of over-turned contracts or people fired/suspended for corruption means not necessarily more corruption but actually stronger mechanisms for identifying it.) (OECD, 2012)

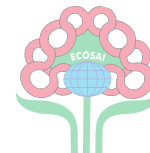
Therefore in this context the perspective of public employees can be particularly valuable to measure the performance of integrity frameworks. Employees can also report on their direct experiences with breaches to integrity, which helps organisations understand their vulnerability to specific individual and organisational risks. This perception can be used alongside other outcome measures that are quantitative to gain a more accurate view of performance of governments in instilling and implementing good integrity practices in the public sector (OECD, 2012).

Still, in the academic field, there is still a lot of work to do in order to harden evidence as regards the link between government performance, organisational performance and individual performance and ethics.

But it seems only a matter of time: time will come when linking ethics to audits et vice versa will become a normal feature of monitoring and evaluating public policies.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 1.3-HANDOUT 2

THE INTEGRITY AGENDA: LESSONS FROM OECD COUNTRIES⁵

By János Bertók, Head of Public Sector Integrity Division, OECD

Supreme Audit Institutions evolve facing the deep impacts of crisis

Given the governance failures that contributed to the financial crisis and against a background of continuing economic and social uncertainty, Governments have been facing a challenge to rebuild trust in public institutions. Restoring trust in the ability of governments to regulate markets, manage public finances and deliver the services that citizens expect is a key element of a return to sustainable and inclusive growth.

Supreme Audit Institutions are evolving to meet the challenges and opportunities presented by the increasingly complex policy environment. This requires that Supreme Audit Institutions take an introspective review of their institutions' own capabilities and performance, in view of broader public sector modernisation and reforms if they want to remain a relevant source of objective and credible information for supporting structural reforms and a model institution for accountability expected in the 21st century.

The current policy environment presents new opportunities for Supreme Audit Institutions to support a more strategic and forward-looking state. Many Supreme Audit Institutions have undertaken ambitious initiatives for institutional strengthening, capacity development, transparency and citizen participation in order to expand the relevance and impact of their work.

Internal reforms, in particular the introduction of strategic planning, increasing the professional capacity of workforce to develop new products and services in order to meet the evolving demands of policymakers and society at large, however are not sufficient to become an exemplary institution if these reforms are not complemented with high standards of integrity and transparency in their daily operations.

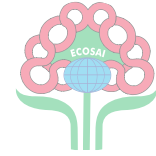
Supreme Audit Institutions are expected to build the set of core integrity tools and measures – including code of ethics, training and advice – into a coherent Integrity framework. The role of Supreme Audit Institutions has also been evolving to audit the existence and functioning of the Integrity framework in public organisations.

Integrity, Transparency and fairness: Conditions for restoring trust in government

⁵ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices, [http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

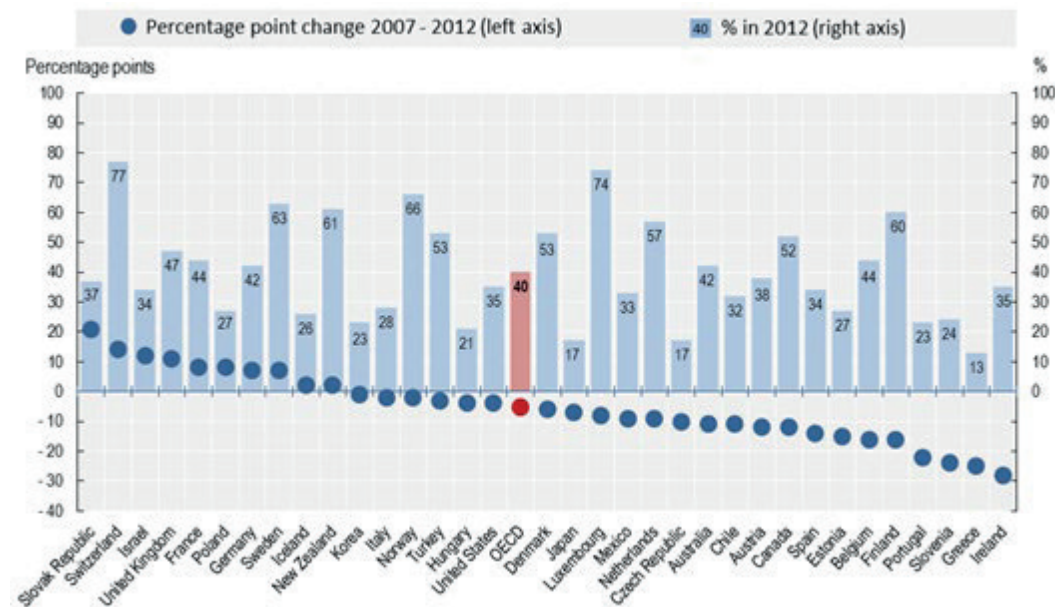


ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



Trust has received higher political attention over the last few years as levels of trust have plummeted in majority of countries. Citizens pay greater attention to whether the sacrifices for structural adjustment and benefits are fairly shared within the society. For example, on average four out of ten people expressed confidence in government in OECD countries by 2012 (Figure 1). Citizens trust less their democratic representatives and political parties. “Wrong incentives driving policies” and “corruption and fraud” are key factors for trusting government less⁶ (Figure 2).

Figure 1. Trust in government in OECD countries in 2007 and 2012



Source: OECD (2013), Government at a Glance 2013, OECD Publishing, doi: 10.1787/gov_glance-2013-en, based on Gallup World Poll (database).

⁶ Edelman (2013), Edelman Trust Barometer in 26 countries

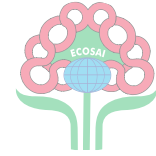
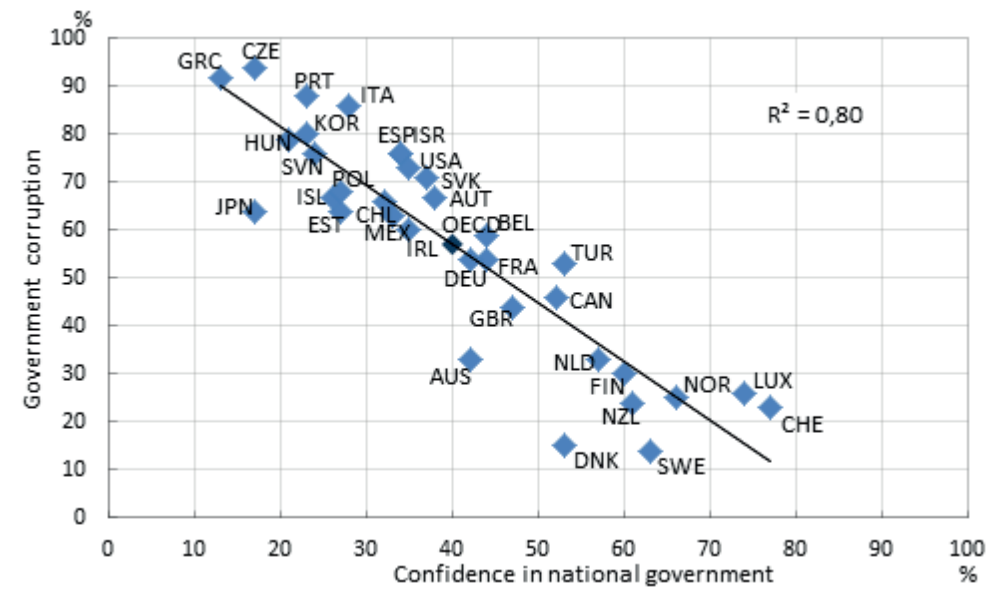


Figure 2. Correlation between confidence in national government and perception of government corruption (2012)



Source: OECD (2013), Government at a Glance 2013, OECD Publishing. doi: 10.1787/gov_glance-2013-en (see Figure 1.10, based on data from Gallup World Poll 2012)

Waning trust in government compromises the willingness of citizens and enterprises to respond to public policies and questions the ability of the State as a competent steward of the public interest. Trust in decision makers and policy options influences positively individual and collective behaviour, facilitates policy implementation and strengthens confidence in the economy. As governments are undertaking a series of critical reforms, they need to secure the buy-in of citizens. Structural reforms require to be built on trust to be successful.

Supreme Audit Institutions have a crucial role in supporting more open and effective government institutions and also in meeting citizens' expectations of governments, providing assurances that the decision-making processes effectively pursue the public interest and are protected from undue influence. An increasingly common recognition is to review risks to integrity of government decision making and audit how existing instruments, for example for identifying and managing conflict of interest, function in daily practice. Altogether, available data suggest that critical levers for building trust in decision making are integrity, transparency (Figure 3) and leadership.

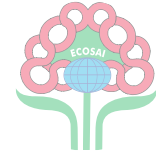
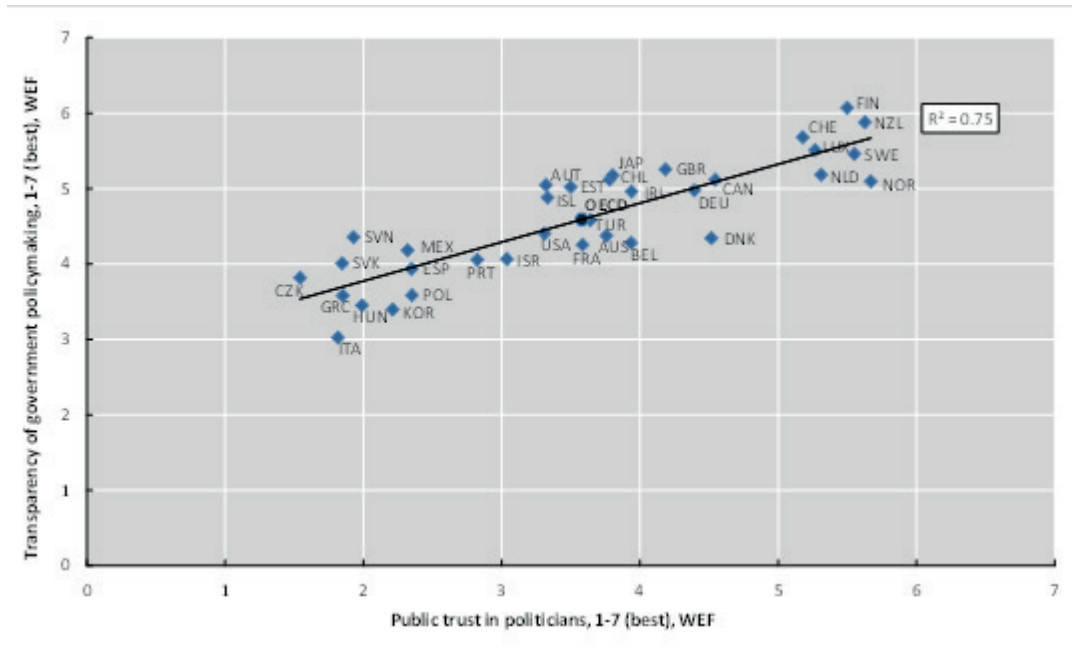


Figure 3. Correlation between public trust in politicians and transparency in government policymaking (2013)



Source: World Economic Forum – Global Competitiveness Report (2013-2014)

Building a sound Integrity Framework: lessons learned

Integrity, transparency and accountability are cornerstones of good governance and levers for restoring trust in government. However, building a culture of integrity and addressing corruption as a complex problem ultimately requires a comprehensive approach that effectively combines prevention detection and prosecution.

The OECD has been supporting countries in building evidence-based regulatory and institutional frameworks to build a culture of integrity in the public sector.

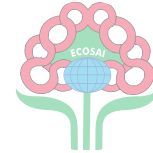
Governments bear a heavy responsibility for upholding core values and safeguarding the public interest. This responsibility, however, is shared with other actors, in particular Supreme Audit Institutions and stakeholders. The OECD provides a platform to engage relevant actors in state institutions, the private sector and the society at large.

This article highlights some lessons learned from country experiences in building a sound Integrity Framework that could support Supreme Audit Institutions' efforts in fostering a culture of integrity:



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT

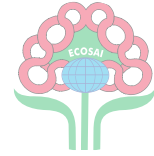


- **Set the basics right with redefining core values:** the evolution of core public service values in the past decades shows how integrity, honesty and transparency have reached similar status as impartiality and legality, the traditional core values. For example, transparency is even recognised in several constitutions.
- **A range of tools and measures needed for putting values into effect:** Corruption is a complex phenomenon and experience in various country contexts shows that no single measure can provide effective response. However, bringing distinct measures of prevention, detection, prosecution and sanction into a coherent system remains a constant challenge that decision-makers face in building resistance to corruption and a culture of integrity in both the public sector and business:
- **Core integrity tools and measures** include, in particular codes of conduct; conflict-of-interest rules; asset disclosure requirements; gifts and gratuities policy; post-employment measures; reporting channels and protection for whistle-blowers; integrity training and accessible advice and counselling, etc.
- **Supporting public management processes** are in particular the internal financial controls, including cash, asset and debt management; human resource management, including recruitment, evaluation and career progression; performance management, including quality control processes and external evaluations; public procurement, including pre-tendering, bidding, contract management and payment; internal and external audit, including the monitoring and follow up of recommendations, etc.
- **Integrity actors**, including ethics advisors, managers, anti-corruption agencies to support the **implementation and co-ordination of integrity tools and measures**.
- **Streamline integrity in management:** understanding the sources of corruption and misconduct has been an increasing demand by decision makers. Effective risk mapping and mitigation requires not only data and analysis but also leadership commitment to provide incentives and resources to apply them. For example, include integrity in training or performance management that is a mostly mandatory tool in OECD countries.
- **Implementation is the test:** many countries and public organisations face an implementation gap. For example, providing timely advice when officials really need them (e.g. facing integrity dilemmas) or verifying the accuracy of asset disclosures (e.g. not only whether the forms were submitted but also review whether all required information was provided and accurate).
- **Visible success of passing laws – experience affects understanding and behaviour:** Achieving a change in behaviour and building a culture of integrity needs constant and not ad hoc efforts. Focus on prevention – for example through mapping out evolving risks – helps closing the sources of corruption and misconduct and build confidence in distinct tools and measures. Checklists and self-tests, for example on gifts and benefits could help officials apply the rules and policies in specific situation. Another example is the timely investigation of misconduct reported and effective protection for a whistle-blower that could increase the confidence in the reporting process.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



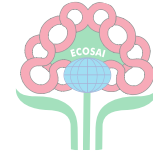
- **Transparency is the rule:** for example in asset declarations ‘the higher the position, the more transparency’ is applied.
- **Assessment of implementation and impact,** in particular by internal control and external audit, supports a better understanding of actual functioning of integrity measures and intervention to strengthen or update the Integrity Framework.

Experience shows that no single actor can achieve alone a sound Integrity Framework.

Supreme Audit Institutions clearly play a role, in particular by setting an example for high standards of professionalism, integrity and transparency in their operations. However, they are more and more also expected to verify the functioning of Integrity Framework in public organisations, if they want to fulfil their mandate.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 1.3-HANDOUT 3

MANAGEMENT OF THE CONFLICT OF INTERESTS SITUATIONS⁷

By Dr Igors LUDBORŽS, Member of the European Court of Auditors

“General and specific recommendations, if properly implemented, might bring significant improvement in the Management of the conflict of interest situations, not only in selected agencies but in all EU institutions and decentralised bodies”⁸

Introduction

Conflict of interest situations can occur almost in any workplace at any time. Organisations concerned must either eliminate the risks or ensure that procedures are in place to manage the risks effectively. The risks and consequences of poor management of conflict of interest situations are significant especially in highly specialised organisations where expertise is frequently in limited supply and revolves between public and private bodies. If these situations are not handled correctly they can negatively affect the decision-making process, give rise to scandals and rapidly cause reputational damage.

In recent years a number of alleged cases pertaining to conflict of interest involving certain EU Agencies have been reported in the press and have raised concerns within the European Parliament. In 2011 the European Parliament requested the Court to ‘undertake a comprehensive analysis of the agencies’ approach to the management of situations where there are potential conflicts of interest’⁹.

In our audit¹⁰, the European Court of Auditors (ECA) evaluated policies and procedures for the management of conflict of interest situations for four selected European Union Agencies which make vital decisions affecting the safety and health of consumers; the European Aviation Safety Agency (EASA), European Chemicals Agency (ECHA), European Food Safety Agency (EFSA) and the European Medicines Agency (EMA).

General findings

The Court found that there is no comprehensive EU regulatory framework dedicated to conflict of interest which would ensure comparable minimum requirements on independence and transparency applicable to all EU Agencies and to all key players that influence strategy, operations and decision-making.

⁷ Resource: EUROSAT TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI’s practices, [http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

⁸ Statement by Dr Igors Ludboržs, on the publication of Special Report 15/2012 (ECA Press Release, 11 October 2012).

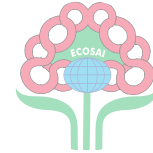
⁹ Resolution of the European Parliament of 10 May 2011 on the 2009 discharge: performance, financial management and control of EU agencies (OJ L 250, 27.9.2011, p. 269).

¹⁰ Special Report 15/2012, “*Management of conflict of interest in selected EU Agencies*”.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



In addition, ECA found that there was a need to establish a reference framework for minimum requirements on, for example, independence and transparency for key players.

Specific findings

The Court found the following shortcomings to varying degrees in some or all of the agencies concerned which were related to Agency-specific policies and procedures as well as their implementation:

- Policies and procedures for managing conflict of interest situations ranging from advanced to non-existent;
- A widespread lack of policies and procedures to identify a conflict of interest before a candidate (for example, an expert, a member of the Management Board or a member of the Board of Appeal) was appointed;
- An absence of or inconsistent application of agencies' assessment of declarations of interest with a frequent lack of clear assessment criteria;
- Lack of transparency when it came to the publication of interests declared during the meetings of the Management Board and scientific bodies, where applicable, and in the context of the scientific decision-making process, however transparency relating to the publication of general annual declarations of interests was properly dealt with by all selected Agencies, except one.

The Court's audit also looked at the selected Agencies' policies and procedures in place when officials or experts leave the selected agencies to work in the private sector. The Court identified a number of shortcomings in this respect, notably:

- Lack of provisions that address risks associated with post-employment activities of experts and Members of the Management Board and the Board of Appeal;
- Absence of objective criteria as to what situations constitute conflict of interest;
- Negotiations for future employment are not covered by current policies and procedures of selected Agencies.

Key conclusion

The Court concluded that none of the selected Agencies adequately managed conflict of interest situations.

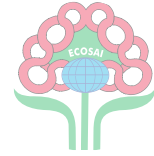
Recommendations

To address these findings and the key conclusion the Court made both Agency-specific and wide ranging recommendations which apply to all the four Agencies examined. Although the report concludes on four selected Agencies, the Court invites all EU Institutions and decentralised bodies to examine whether its recommendations may also be relevant and applicable to them.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Conflicts of interest – audit of a sensitive area

With such an audit topic there was a need for the expectations of stakeholders and of the general public to be managed clearly from the outset. The Court did this by clearly defining and communicating the audit scope.

The Court did not assess specific conflict of interest situations as such since this would have involved an intensive examination of the circumstances of those situations as well as arbitrary judgements. ECA looked at policies and procedures and their implementation, in other words, the Court looked at management. ECA were not targeting particular individuals but, of course, in the report ECA also give examples to demonstrate our findings and conclusions.

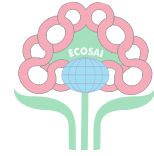
In addition, the audit did not cover conflict of interest situations that could arise in procurement and recruitment procedures. These procedures are subject to the annual audits of the Court. Nor could the Court assess the validity of the methods which the selected Agencies used to assess the results of research funded by industry.

SESSION 1.3
SLIDES



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



WHY SHOULD SAIs AUDIT ETHICS?



Learning Objective

You will be able to get information about the main factors and/or reasons that could pave the way for SAIs to conduct ethics audits.



Possible Reasons To Perform Ethics Audit

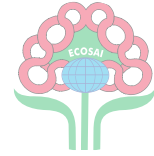
- Public service is a service “held on trust”.
- Public officials must deliver public services effectively, efficiently and in **honesty**; and must respect professional ethical principles and standards when performing their duties and employing their discretion.





ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Numerous scandals related to corruption, illegality or lack of professionalism,
- The reform and modernisation of state administration and public management and the increasing democratisation and openness of societies.



Introduction To Ethics Audit

4

Possible Reasons To Perform Ethics Audit

- Ethics turns out to be a required part of the good governance and performance of public sector organisations.



Introduction To Ethics Audit

5

Possible Reasons To Perform Ethics Audit

Supreme Audit Institutions have a crucial role in supporting more open and effective government institutions **and** also in meeting citizens' expectations of governments, providing assurances that the decision-making processes effectively pursue the public interest and are protected from undue influence.



Introduction To Ethics Audit

6



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



• An increasingly common recognition is to review risks to integrity of government decision making and **audit** how existing instruments, for example for identifying and managing conflict of interest, function in daily practice.



Introduction To Ethics Audit

7

UN Approach To SAIs

✓UN considers principles such as accountability, transparency, effectiveness and efficiency as a requirements of “good governance” and those principles are also part of “ethics”.



Introduction To Ethics Audit

8

UN Approach To SAIs

✓Both the UN World Public Sector Reports and the Reports of the United Nations Committee of Experts on Public Administration refer to the role of Supreme Audit Institutions (SAIs) to enhance public accountability.



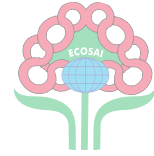
Introduction To Ethics Audit

9



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Therefore, SAIs are now guardians of good governance and not only guardians of correct accounts.



Introduction To Ethics Audit

10

UN Sustainable Development Goals

• The Sustainable Development Goals (SDGs) contain ethical dimensions such as inclusiveness, accessibility to justice, effectiveness, accountability, anti-corruption approaches, gender equality etc.



Introduction To Ethics Audit

11

SAIs can make valuable contributions to national efforts to;

- track progress,
- monitor implementation, and
- identify improvement opportunities

across the full set of the SDGs and their respective nations' sustainable development efforts.



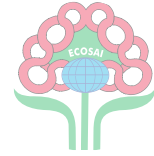
Introduction To Ethics Audit

12

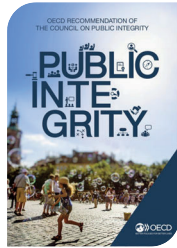


ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



SAs are one of the oversight bodies reinforcing public integrity through their rulings and formal advices.



Introduction To Ethics Audit

13

The International Standards of Supreme Audit Institutions (ISSAIs)

Public-sector auditing should help to create suitable conditions and reinforce the expectation that public-sector entities and public servants will perform their functions effectively, efficiently, **ethically** and in accordance with the applicable laws and regulations. (ISSAI 100).



Introduction To Ethics Audit

14

The International Standards of Supreme Audit Institutions (ISSAIs)

- Public-sector auditing should make a difference to the lives of citizens.
- SAs are supposed to strengthen the accountability, transparency and integrity of government and public sector entities. (ISSAI 12)



Introduction To Ethics Audit

15



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



International Standards (ISSAIs)

SAs may carry out audits or other engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. (ISSAI 100/23)



Introduction To Ethics Audit

16

Understanding Changes

It is recognized that SAs should adopt a preventive approach through their audits in order to promote integrity in public sector.



Introduction To Ethics Audit

17

Understanding Changes

In an audit that doesn't take the requirements of ethics management as primary concern, corruption, irregularities and unethical behaviours identified may be the tip of the iceberg.



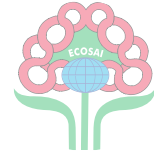
Introduction To Ethics Audit

18



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



SAIs' reports are effective in drawing the attention of Parliaments and public.



Public Expectations

The problems faced in public sector make ethical values as the main expectations of public regarding public officials and public services.



National Integrity System

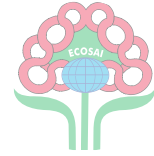
As a pillar of National Integrity Systems, SAI are increasingly expected to promote integrity and specifically contribute to combating fraud and corruption.





ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



BENEFITS AND IMPACTS OF ETHICS AUDITS



Introduction To Ethics Audit

22

Benefits and Impacts of Ethics Audits

- Restoring the trust and confidence in the public organizations,
- Increasing the effectiveness of the control systems in place,



Introduction To Ethics Audit

23

Benefits and Impacts of Ethics Audits

- Improvement of public sector performance, by promoting that public sector organisations conduct their activities and achieve their objectives in full respect of ethical principles,



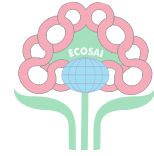
Introduction To Ethics Audit

24



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Stimulating and improving the set up and functioning of ethical infrastructures in public bodies,
- Enhancing ethical behaviour and ethical decision making,



Introduction To Ethics Audit

25

Benefits and Impacts of Ethics Audits

- Strengthening mechanisms for monitoring the implementation of ethical principles,
- Improving prevention of fraud and corruption,



Introduction To Ethics Audit

26

Benefits and Impacts of Ethics Audits

- Increasing public awareness,
- Amendments to legislation introduced,
- Identify strengths/effective ethics management practices etc.



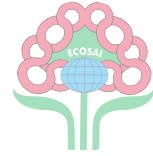
Introduction To Ethics Audit

27



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Any Question?

Introduction To Ethics Audit 28



thank you

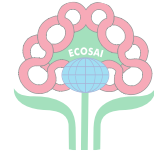
Introduction To Ethics Audit 29



SESSION 2

DESIGNING ETHICS AUDITS





SESSION 2.1 SELECTING AUDIT TOPICS



2.1.1 OVERVIEW

Like all audits, audit of ethics also requires good audit design and planning. This phase comprises selection of audit topics, determination of ethics audit' objectives, scope of the audit, audit questions and criteria and data gathering techniques. Since the success and expected impact of the ethics audit depend on good design of audit, this phase should be handled with due care by auditors.

In addition to the information learnt at the previous sessions, in this phase, participants will focus on how to select audit topics for ethics audits.

2.1.2 IDENTIFYING AUDIT TOPICS

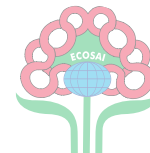
Auditors, due to limitations on budget cannot afford to audit all audit topics. Therefore, the selection of individual topic for audit is a key judgement that the auditor must make. The selection process must consider several key factors to guide the selection of appropriate audit topics.

The selection of audit topics is an inherent part of the SAI's strategic planning process. It involves conducting research to identify and map possible risks related to ethical matters, performing an overall evaluation of them and deciding about the topic and the perspective of the audit. Ultimately, those topics should allow the audit to serve as an effective way to promote ethical conduct in public organisations.

From research, professional knowledge and experience it is known that some areas of activity in the public sector produce higher risk of breaching ethical aspects than others. For instance, procurement or granting of subsidies are more vulnerable to breaches of integrity than teaching or archiving. Processes in which there is intensive contact with "clients" (members of the public or businesses) are more vulnerable to violations, because there are more opportunities and temptations.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



EXAMPLES of processes or areas inherently vulnerable to ethical breachess ¹¹:

- Public procurement
- Payment of subsidies, grants, benefits and allowances
- Granting/issuing licenses, permits, passports, identity cards, etc.
- Regulating and setting standards
- Inspection/audit
- Enforcing laws and regulations
- Sensitive information about security threats, defence, taxes, health care, companies, etc.
- Handling or custody of money
- Managing valuable goods
- Buying, selling and managing real estate

While selecting audit topics, SAIs can also take into account the **integrity related policy instruments, processes, structures, systems, informal factors and ethics projects as audit topics in** order to improve them in public sector organisations:

Integrity policy Instruments are the tools for intervention that are used to shape integrity and resistance to corruption such as code of ethics, ethics training, ethics counselling, ethical leadership approach, whistleblowing and complaints policies, disciplinary policies, risk management frameworks, declarations of assets and conflict of interests etc.

Processes are the continuous processes of putting instruments to work; planning, implementing, evaluating and adjustment such as human resource management processes, contracting processes, whistleblowing processes, complaint and conflict management processes etc.

Structures are the organisation of the integrity management. They identify how responsibilities are distributed over the different actors regarding ethics management at public sector or public organizations such as ethics management regulating bodies, ethics councils/committees, investigation authorities/bodies, integrity actors etc.

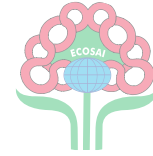
Systems such as ethics management system is a structured and balanced package of policies and mechanisms (desirably under a specific strategy) designed to define, lead, guide, manage, monitor and enforce ethical conduct. Also, **the internal control system** of an organisation aggregates the many individual control procedures designed to provide reasonable assurance regarding the achievement of its objectives relating to the integrity of operations, reporting and compliance and incorporates the control environment. The first principle of control environment relates to integrity and ethical values. Auditing the integrity control environment

¹¹ In Manual of Integrity Assessment of Public Sector Organisations, Integrity Vulnerability Mapping, SAI of Netherlands



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



is mainly an approach to be adopted by a SAI while assessing the internal control systems in the ordinary audits it conducts.

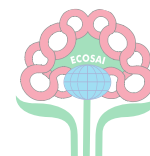
Informal factors (such as the organisational climate, the management styles, the decision-making models etc.) are the factors influencing ethical environment of organisations.

While selecting audit topics;

- Debates in Parliament, media and public could lead us select an appropriate audit topics for ethics audits,
- It is important to organise this risk based topic selection in such a way that it will convince stakeholders, including the auditees, of the necessity and viability of the audit. This will provide the groundwork needed for a successful reception of the audit and a basis for future actions,
- The audit topics should be sufficiently significant as well as auditable and should fall within the mandate of the SAI,
- The topic selection process should aim to maximize the expected impact of the audit while taking account of audit resources (e.g. auditor's professional skills, external experts, access to the information being audited).
- SAIs can embrace different audit approaches such as subject focused and transversal audit approaches. Transversal audits maybe referred to as government-wide, horizontal, or theme audits and they can have a compliance or performance audit focus or a combination of both. A transversal audit can be defined as the simultaneous examination whereby crosscutting issues such as a specific focus area, theme or topic is examined in more than one audited entity using the same audit methodology and procedures. SAIs may choose to conduct a theme audit in a single entity, but advantages of making it transversal are high. SAIs can audit or study and conduct a theme transversal audit over multiple ethics-related issues such as tone at the top, whistleblowing arrangements, conflicts of interest, equality, discrimination, gifts and hospitality etc. SAIs should choose them according to their risk and impact analysis.
- In addition to the explanations made above, we shouldn't forget that audit topics may be brought to the SAIs' agenda through Parliament's request also. For example, In 2011 the European Parliament requested the European Court of Auditors (ECA) to 'undertake a comprehensive analysis of the agencies' approach to the management of situations where there are potential conflicts of interest' .



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

EUROPEAN Court of Auditors (ECA), (2012), Management of conflict of interest in selected EU Agencies,

https://www.eca.europa.eu/Lists/ECADocuments/SR12_15/SR12_15_EN.PDF,

EUROSAI Task Force Audit&Ethics (TFAE), (2014), “Auditing Ethics In The Public Sector- A general overview of SAI’s practices”,

<http://www.eurosai->

[tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,

<http://www.eurosai->

[tfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf),

OECD Recommendation of The Council On Public Integrity,

<http://www.oecd.org/gov/ethics/OECD-Recommendation-Public-Integrity.pdf>

OECD, (2009), Public Governance And Territorial Development Directorate Public Governance Committee, Integrity in Government: Towards Output and Outcome Measurement,

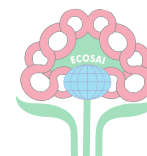
[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=GOV/PGC/ETH\(2009\)4](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=GOV/PGC/ETH(2009)4).

SESSION 2.1

HANDOUTS



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



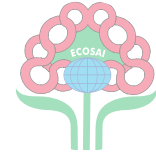
SESSION 2.1-HANDOUT 1 EXAMPLES AND AUDIT REPORTS¹²

SUBJECT	TITLE
Case study on audit of preventing corruption in the health sector	Guidance on audit of institutional framework for fighting corruption, IDI
Using data and benchmarks to highlight integrity vulnerabilities in public procurement	Components of integrity: data and benchmarks for tracking trends in government, OECD
Integrity surveys	Integrity and integrity risks in the administrative culture, SAI of Hungary
Auditing internal control	Internal control and governance in FAS, SAI of Ireland
	Investigation into internal control in the defence sector, SAI of Norway
Assessing the ethical infrastructure in government bodies	State of integrity management in central government, SAI of Netherlands
	Efficiency of the ethical infrastructure functioning in the government bodies, SAI of Croatia
	Review of ethics in the public sector, SAI of Croatia
	Integrity policy in the federal tax departments, SAI of Belgium
	Systems to prevent corruption in government departments, SAI of Austria
Auditing compliance and implementation of codes of conduct	Codes of Conduct in public administration, SAI of Iceland

¹² Resource: EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,
<http://www.eurosaifae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf>,



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT

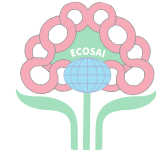


	State owned enterprises and corporate government principles, SAI of Portugal
Auditing management of conflicts of interests	Management of conflict of interest in selected EU agencies, ECA
	Sponsoring and use of external consultants, SAI of Germany
	Conflicts of interests, SAI of UK
	Prevention of conflicts of interests in health expertise, SAI of France
	Auditing conflict of interests (results of a YES workshop), P. Costa, SAI of Portugal
	Investigation: The Department's management of a potential conflict of interest (Department for Education), SAI of UK
	Whether the Society Integration Foundation ensures traceability of the allocation of the State budget funds to associations and foundations as well as control over the use thereof? SAI of Latvia
Auditing whistle-blowing policies	Government whistleblowing policies, SAI of UK
	Making a whistleblowing policy work, SAI of UK
	The role of prescribed persons, SAI of UK
Auditing post- employment Restrictions	Audit of the implementation of the cooling-off law, SAI of Israel
Auditing staff recruitment and management	Political appointments at the Ministry of Environmental Protection, SAI of Israel
	Hiring of employees in public corporations, SAI of Israel
	Ethical aspects regarding the service of elected officials, SAI of Israel



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



	Bank of Israel – Salary benefits, SAI of Israel
	Foreign allowances granted to civil servants, SAI of Netherlands
Auditing political financing	Political financing and donations to political parties, SAI of Israel
Auditing gifts and hospitality policies	Gifts and benefits for public servants, SAI of Israel
	Investigation into the acceptance of gifts and hospitality, SAI of UK
Auditing the use of public assets	The former prime ministers publicity managers use and misuse of phones, taxi and credit cards, SAI of Denmark
	Expenditures of the Prime Minister’s Residences, SAI of Israel
Integrity in public procurement	Public Procurement analysis through case studies, SAI of Malta
	Inquiry and report on the purchase of personal computers, SAI of Malta
	Investigation relating to the tender issued for the provision of warden services and installation of CCTV cameras by four Local Joint Committees, SAI of Malta
	Defence Contracting Integrity, SAI of USA
	Dr Foster Intelligence: a joint venture between the Information Centre and Dr Foster LLP, SAI of UK
Integrity in licensing	Integrity in marketing emission licenses in the EU, ECA
Auditing enforcement arrangements	Execution of the disciplinary function by Public Administrations, SAI of Italy
	Investigation and prosecution of fraud, SAI of Netherlands



ECOSAI WORKSHOP-2019

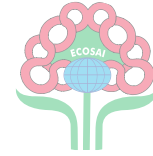
INTRODUCTION TO ETHICS AUDIT



Assess concrete misbehaviour	The professional conduct of a high ranking Government official, SAI of Malta
Fraud and corruption approach	The fight against tax fraud, SAI of France
	Prevention of corruption in the work organization of rural municipalities and cities, SAI of Estonia
Promoting the equality of gender through public procurement	Contracts awarded between 2010 and 2011 by the entities qualified as public units under the Public Procurement Law, SAI of Spain



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 2.1-HANDOUT 2

TECHNICAL GUIDELINES FOR CONDUCTING AUDITS OF INSTITUTIONAL ETHICS: A CONTRIBUTION BY THE SAI OF COSTA RICA¹³

By Jorge Suárez, Auditor, CGR

According to the Political Constitution of Costa Rica, the Office of the Comptroller General (CGR) is an institution that supports the Legislative Assembly in the process of supervising public assets; to that effect, the CGR is provided with functional and administrative independence so it can perform its activities. Its mandate appoints the CGR as the leader of the National System of Audit and Control, which allows the SAI to continuously contribute in order to strengthen the performance of the Costa Rican Public Administration. This is done by means of the audit tasks that are inherent to the SAI, the emission of standards and regulations, and the delivery of training activities for public servants, as well as other actions regarding the control of public resources and the performance of functions and powers assigned by the national juridical framework.

Based on such powers, in 2008 the CGR took the challenge of defining a methodology for developing audits of institutional ethics. As the product of a thorough bibliographic and digital research and a survey on the national and international levels, the “Technical Guide for Conducting Audits of Institutional Ethics” was issued. The paper configures the CGR’s answer to a need it perceived and to frequent statements, mainly from the group of the internal auditors of public institutions, who required guidance about ways to support management in strengthening the systems of internal control, risk assessment and corporate governance, including institutional ethics as a part of the latter. The Guide’s use is not mandatory, rather it is offered to internal auditors, management and every professional who conducts audit, as an option to perform examinations regarding the topic it deals with.

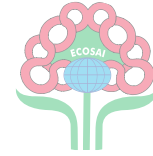
The document contains a theoretical discussion on the nature of ethics, its relation to corporate governance and internal control, on the legal and technical regulations on ethics in force in Costa Rica, as well as the features and scopes that can be used when undertaking an audit assignment aimed at assessing this important element of control environment within an institution, as well as at devising improvement opportunities.

¹³ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI’s practices,
[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



As a preamble to the audit of ethics, the Guide refers to the “institutional framework on ethical matters” as a “...set of formal and informal factors that configure and materialise the ethical philosophy, approaches, behaviour and performance within an institution.” From this concept, it defines the audit of ethics as “...a systematic, objective and professional process to evaluate the operation and the effectiveness of the institutional framework on ethical matters, in order to make contributions to that framework.”

Depending on the scope of the audit, it might embrace the integral institutional framework on ethical matters or its specific components, which the Guide identifies as follows:

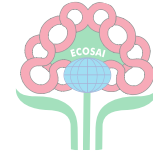
- The ethical program, which comprises the formal ethical factors established by the institution, such as its statement of institutional values, its code of ethics, its vision and mission, its definition of ethical performance indicators, and a formal strategy to strengthen ethics
- The ethical environment, which is observable through the values, beliefs and behaviours shared by the different actors of the organisation. It includes the informal factors that can be perceived within the institution, such as the organisational climate, the management styles, the decision-making models, and the individual behaviour and verbal statements.
- The integration of ethics as part of management systems, which relates to the incorporation of ethical controls within the systems and procedures used in the performance of organisational areas with particular exposure to ethical failure and corruption, such as human resources, financial management, contracting and activities politically exposed.

The Guide advises audit practitioners to start auditing ethics by approaching the ethical program only since formal factors are easier to detect, assess and strengthen—, and advance in future evaluations towards the examination of the other two components of the institutional framework on ethical matters. This initial concentration on the ethical program is fundamental to determine whether the applicable regulations are being observed. For organisations with strong formal factors that have acknowledged the relevance of ethics, it is important to assess how ethics is incorporated into systems. On its part, the examination of the ethical environment provides useful information regarding the organisational perceptions on ethics and the actions that should be implemented to promote and further ethics.

For practical purposes, the Guide is complemented by nine tools covering the preparation of the general audit program, the evaluation of each component of the institutional framework on ethical matters, and the documentation and delivery of findings.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 2.1-HANDOUT 3

EFFICIENCY OF THE ETHICAL INFRASTRUCTURE FUNCTIONING IN THE GOVERNMENT BODIES: CROATIAN EXPERIENCE¹⁴

By Anita Materljan, Head of Department SAI Croatia

During 2013, the State Audit Office of the Republic of Croatia performed the audit of efficiency of the ethical infrastructure functioning in the government bodies. The audit objective was to evaluate the performance of ethical infrastructure within 20 ministries, ethical conduct of civil servants and compliance with ethical values and principles, as well as the procedures in cases of their misconducts. Besides main audit objectives, there are also specific audit objectives to check and assess: completeness of ethical infrastructure in the public sector, implementation of rules and regulations related to ethics, level of ethical infrastructure establishment and efficiency of its implementation, level of relevant knowledge and skills of civil servants, treatment of complaints, cooperation with other subjects and importance of ethics in the government bodies and its place within the development strategy in the Republic of Croatia.

Regarding to significant irregularities that are repeating through the years in public sector, it was assessed that it would be justified to perform the audit that will evaluate whether government bodies implement necessary activities and developing adequate practice for promoting ethical values and principles in everyday practice and whether high ethical standards set in the public sector are achieved. In accordance, the audit scope includes activities related to the application of the Civil Servants Act provisions connected to the civil servants rules of conduct and Code of Ethics for Civil Servants, application of ethical principles and values and functioning of ethical infrastructure in government bodies.

The basis for the conclusions and recommendations that relate to legal and institutional framework and implementation of ethical infrastructure in government bodies were expert and science literature cognitions, legal and institutional framework set up, checked documentation, interviews and results of research through distribution of questionnaire.

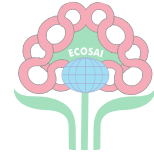
Legal framework that regulates ethical behaviour in the public sector includes the Civil Servants Act (Official Journal 49/12) and Code of Ethics for Civil Servants (Official Journal 40/11, 13/12), and other provisions and rules partially related to the implementation of ethical behaviour in the public sector. The purpose of provisions related to ethics and ethical conduct,

¹⁴ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices,
[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



is to promote ethical principles and moral principles and values in the behaviour of civil servants in their work, with the aim to achieve common good and public interests and citizens' confidence in public service.

Institutional framework includes Ethics Commissioners nominated in all government bodies, Ethics Committee as an independent body, and Ministry of Administration, Department for Ethics and Values in Civil Service, which is given a specific role. Along with the above mentioned, the bodies competent for proceeding in cases of infringements of civil servants duties, also have a very important role.

Ethical infrastructure in government bodies includes laws and other provisions setting up ethical standards, and relevant ethical principles, fundamental ethical values and rules of conduct for civil servants, and ethical commissioners that are part of institutional framework. The purpose of establishing the ethical infrastructure is assuring, through the use of efficient mechanisms, the application of ethical principles, the following of fundamental ethical values, monitoring their application and undertaking the appropriate measures, procedures and sanctions in the cases of unethical behaviour. Worldwide practice confirms that good functioning of ethical infrastructure contributes to the quality of institutions' work and satisfying public needs, and increases the public confidence in state administration's work

SESSION 2.1
SLIDES




**SELECTING AUDIT TOPICS
FOR ETHICS AUDITS**

Designing Ethics Audit 1

Learning Objective

You will get insight about how to select audit topics for ethics audit.



Designing Ethics Audit 2

Can we audit every audit topics?

Designing Ethics Audit 3

Identifying Audit Topics

- Auditors, due to limitations on budget, cannot afford to audit all audit topics.
- Therefore, the selection of individual topic for audit is a key judgement that the auditor must make.



The selection of audit topics involves

- conducting research to identify and map possible risks related to ethical matters,
- performing an overall evaluation of them, and
- deciding about the topic and the perspective of the audit.



Identifying Audit Topics

From research, professional knowledge and experience it is known that **some areas of activity** in the public sector produce higher risk of breaching ethical aspects than others.



Identifying Audit Topics

Processes in which there is intensive contact with "clients" are more vulnerable to violations, because of more opportunities and temptations.



Such As

- Public procurement
- Payment of subsidies, grants, benefits and allowances
- Granting/issuing licenses, permits, passports, identity cards, etc.
- Sensitive information about security threats, defence, taxes, health care, companies, etc.
- Buying, selling and managing real estate



Issues To Consider In Ethics Audit

- Integrity related policy instruments
- Processes
- Structures
- Systems
- Informal factors
- Ethics Program/Projects



Integrity Policy Instruments

The tools for intervention that are used to shape integrity and resistance to corruption.



Integrity Policy Instruments

- ✓ Code of ethics,
- ✓ Ethics training,
- ✓ Ethics counselling,
- ✓ Ethical leadership approach,
- ✓ Whistleblowing and complaints policies,
- ✓ Disciplinary policies,
- ✓ Risk management frameworks,
- ✓ Declarations of assets
- ✓ Conflict of interests etc.



Processes

The continuous processes of putting instruments to work; planning, implementing, evaluating and adjustment



Processes

- Human resource management processes,
- Contracting processes,
- Whistleblowing processes,
- Complaint processes,
- Conflict management processes etc.



Structures

- Structures are the organisation of the integrity management.
- They identify how responsibilities are distributed over the different actors regarding ethics management at public sector or public organizations.



Structures

- Ethics Management Regulating Bodies,
- Ethics Councils/Committees,
- Investigation Authorities/Bodies,
- Integrity Actors etc.



Systems

A structured and balanced package of policies and mechanisms (desirably under a specific strategy) designed to **define, lead, guide, manage, monitor and enforce** ethical conduct.



Systems

Auditing the integrity control environment is mainly an approach to be adopted by a SAI **while assessing the internal control systems** in the ordinary audits it conducts.



Informal Factors

The factors influencing ethical environment of organisations.



Informal Factors

- Organisational climate,
- Management styles,
- Decision-making models etc.



Debates

- Parliament,
- Media and
- Public



While selecting audit topics

- Audit topics may be brought to the SAIs' agenda through Parliament's request also.



While selecting audit topics,

- It is important to organise the risk based topic selection in such a way that it will convince stakeholders, including the auditees, of the necessity and viability of the audit.



While selecting audit topics,

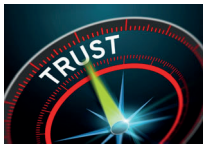
The audit topics should

- be sufficiently significant as well as auditable and
- fall within the mandate of the SAI.



While selecting audit topics,

The topic selection process should aim to maximize the expected impact of the audit while taking into account of audit resources.



Examples Of Ethics Audit Reports

Subject	Title
Auditing management of conflicts of interests	Management of conflict of interest in selected EU agencies, ECA
Auditing compliance and implementation of codes of conduct	State owned enterprises and corporate government principles, SAI of Portugal
Assessing the ethical infrastructure in government bodies	Efficiency of the ethical infrastructure functioning in the government bodies, SAI of Croatia

Examples Of Ethics Audit Reports

Subject	Title
Auditing whistle-blowing policies	Government whistleblowing policies, SAI of UK
Auditing gifts and hospitality policies	Investigation into the acceptance of gifts and hospitality, SAI of UK
Integrity in public procurement	Defence Contracting Integrity, SAI of USA
Auditing enforcement arrangements	Execution of the disciplinary function by Public Administrations, SAI of Italy

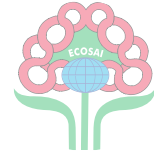
Resource: EUROSAI TFAE Guideline, «Audit Of Ethics In Public Sector Organisations»





Designing Ethics Audit

28



SESSION 2.2. MAKING PROGRESS IN DESIGNING ETHICS AUDIT



2.2.1 OVERVIEW

Designing phase comprises the selection of audit topics, determination of ethics audit' objectives, scope of the audit, audit questions and criteria and data gathering techniques. Since the success and expected impact of the ethics audit depend on good design of audit, this phase should be handled with due care by auditors.

Once a topic has been selected for ethics audit, the audit team should design their audit works. Therefore, in this session, participants will focus on how to design ethics audits in order to conduct ethics audit successfully.

2.2.2 DETERMINING THE OBJECTIVE OF AN ETHICS AUDIT

Audit objectives relate to the reasons for conducting the audit and should be established early in the audit process to assist in identifying the matters to be audited and reported on. In setting objectives the audit team takes into account the roles and responsibilities of the SAI and the expected net impact of the audit. The specific objectives when auditing ethics depend on the audit approach. Having chosen to focus on auditing ethics within a public sector organisation, the audit objectives would be:

- **to determine** strengths and weaknesses in the ethics component of the control environment in an **audit of the ethics component of internal control system**;
- **to assess** the existence and functioning of integrity management systems or infrastructures in public sector organisations in an **audit of ethics management system within an organisation or sector**;
- **to assess** the existence, effectiveness and efficiency of the national integrity system, analyse, and identify specific weaknesses in an **ethics-based transversal audit**. This objective would be adapted to the theme at stake in the case of subject-focused audits.



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT

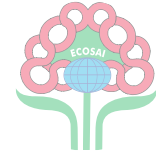
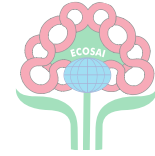


Table1: Some Examples of Audit Objectives:

Objective of The Audit	Relevant Audit Report
To determine whether Australian Government agencies were implementing appropriate policies and processes to identify and manage conflicts of interest.	Managing Conflicts of Interest in FMA Agencies (Across Agencies), Australian National Audit Office, (ANAO), 2014
To investigate whether the risks relating to officials accepting gifts and hospitality are properly managed to maintain public trust in government.	“Investigation into the acceptance of gifts and hospitality”, National Audit Office of UK, NAO, 2016
(1) To describe the extent to which contractors had ethics programs before the finalization of the FAR rules that included practices consistent with standards now required by the FAR and (2) To assess the impact the new FAR rules have on DOD oversight of contractor ethics programs.	“Defense Contracting Integrity, Opportunities Exist to Improve DOD’s Oversight of Contractor Ethics Programs”, U.S.Government Accountability Office, GAO, 2009
To evaluate policies and procedures for the management of conflict of interest situations for four selected Agencies making vital decisions affecting the safety and health of consumers.	“Management of conflict of interest in selected EU Agencies”, European Court of Audit, ECA, (2012)
To evaluate and describe the ethical infrastructure of public bodies, e.g. the scope of codes of conduct, the views of managers towards a number of selected ethical criteria and their experiences regarding the use of codes of conduct.	“Codes of Conduct in Public Administration”, The Icelandic National Audit office, (INAO), (2003)



2.2.3 DETERMINING THE AUDIT SCOPE OF AN ETHICS AUDIT

The audit scope is a clear statement of the approach chosen, of the extent and of the limits of the audit in terms of the subject matter selected. The audit scope defines the subject matter that the audit will assess and report on, the documents, situations or records to be examined and the period reviewed. The subject matter of the audit of ethics may be specific programs, processes, procedures, systems, or the ethical culture of the entities.

The scope of audit must clearly state everything to be achieved and concluded by the auditors at the end of audit. Therefore it must be able to help determine the criteria, audit approaches, audit procedures and audit conclusion. The scope of ethics audit should be thoroughly considered and clearly stated. The scope must be defined in such a way so that the audit team can conclude the audit results pursuant to the objective of audit.

The audit objectives and scope are interrelated and, since changes in one usually affect the other, they need to be considered together.

2.2.4 DEVELOPING AUDIT QUESTIONS

Designing an ethics audit requires establishment of leading audit questions. Specific audit objectives need to be detailed in audit questions for which the audit will seek to obtain answers.

The audit objectives should be clear enough, so that they logically determine the questions that will need an answer. The audit questions will have to be specific, unambiguous, auditable, relevant and logically consistent. Together they will contribute to reach the audit objective.

The audit questions are the key to determine the direction of the audit and to define the methods and techniques to be used: always auditors should ensure consistency between the audit criterion, the audit object, the audit objectives and the audit methods.

The main study question can be broken down into sub-questions, and broken down this into further sub-questions. At each stage the questions become more specific. It should be noticed that the sub-questions do not overlap each other, as they can then be broken down further. Auditors should make sure that answers to sub-questions also answer the higher level question.

Table 2: Some Examples of Audit Questions:

Audit objective: Assess the existence and functioning of the integrity management system

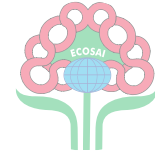
Audit questions:

- Does the organisation have an integrity management system?



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Is this system effectively implemented?
- Is the ethical culture of the institution conducive to ethical behaviour?

Examples of sub-questions related to criteria:

- Are integrity policy instruments in place (e.g. code of conduct, procedures)?
- Are integrity police instruments capable of functioning as intended (expectations, resources and conditions)?

Audit Objective: Evaluate policies and procedures for the management of conflict of interest situations for four selected EU Agencies which make vital decisions affecting the safety and health of consumers.

Audit Questions: -Do the selected Agencies adequately manage conflict of interest situations?

Specific audit questions:

-Are there adequate policies and procedures in place to manage conflict of interest situations?

-Have selected Agencies adequately implemented their policies and procedures on management of conflict of interest situations?

Audit Objective: Determine the government's approach to achieving an equal, diverse and inclusive workforce in terms of "whether the civil service is promoting equality, diversity and inclusion in the workforce to optimise capability for the future."

Audit Questions:

- What is the current situation in the civil service and the progress made?
- What is the Cabinet Office's recent approach to changing this?
- Is there now a sustainable approach to realising the benefits of inclusion and diversity for the whole workforce?

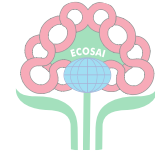
Audit questions can be designed by depending on what ethics audit will assess. If ethics audit will assess;

- the existence of policy measures, then, the key question could be whether key policy instruments, such as laws, institutions and procedures are in place to form an "Ethics Infrastructure",



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- the feasibility, then, the key question could be whether a policy instrument is capable of functioning to deal with risk areas,
- the effectiveness of policy measures, then, the central question would be: did the policy measures achieve their specific initial objectives?,
- the relevance of a policy measure, then, the main question could be: to what extent it has been contributing to meeting stakeholders' overall expectations,
- coherence, i.e, the relationship of a particular policy measure with other elements of the policy, then, the main question could be whether they coherently interact and enforce each other, and jointly support the overall aims of the policy.

2.2.5 DETERMINING AUDIT CRITERIA

Audits must have suitable criteria. They are a means of measuring or judging the performance of the matters subject to audit. If audit criteria are not set, there will be no basis for comparison and consequently no basis for arriving audit findings, conclusion and recommendations. Since audit of ethics is new for SAIs and regarded as subjective but, in fact, there are enough established criteria on which to base the audits. Therefore, auditors should avoid using unclear or unrecognised criteria.

In auditing ethics, three types of criteria can be identified, depending on their source and character:

- **Binding criteria**, resulting e.g. from stated requirements, such as national legislation concerning public management systems, or international agreements, e.g. ratified conventions
- **Non-binding criteria**, resulting from guidance or recommendations issued at the national or international level, such as COSO Framework, INTOSAI GOV or OECD Integrity Framework
- **Benchmarking**, comparing the outcome to peer standards.

In relation to the purpose, we can distinguish compliance, governance and outcome criteria, as follows:



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT

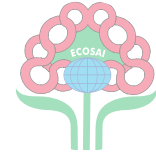
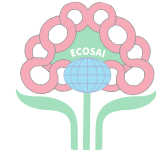


Table 3: Types of Criteria in Relation to the Purpose

	Compliance criteria	Governance Criteria	Outcome Criteria
Purpose	To verify the functioning of hard controls	To assess the ethics management system	To assess if policies are effective in achieving the desired ethical culture
Examples	<ul style="list-style-type: none"> - how ethics-related legal and regulatory requirements are reflected in ethics management systems and internal rules - how internal rules and regulations are being executed and enforced 	<ul style="list-style-type: none"> -strategic planning -internal control System -risk management -quality control management -personnel policy -etc. 	<ul style="list-style-type: none"> - performance indicators - reduced risks as a result of policies - perceptions and expectations of staff and stakeholders
Sources	<ul style="list-style-type: none"> - international conventions, protocols & agreements - national legislation, regulations, codes & policies 	<ul style="list-style-type: none"> - benchmarking - maturity models built on the basis of good practice 	



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



	- institutional ethical infrastructure	
--	--	--

Compliance criteria are usually defined as established requirements and the audited situation either complies or not complies with them. Based on them, an audit opinion may be issued. The limitation of compliance criteria is that even full compliance with the requirements does not guarantee that the intended effects of ethics management in terms of the desired level of ethical culture are obtained. Formally, all mechanisms may be established and operate, but bring no effects in terms of increased awareness of the importance of implementing and respecting ethical principles and values and, thus, improved ethical behaviour.

The institution's ethics management system and the ethical culture are commonly evaluated through benchmarking and can be assessed against predesigned maturity models, based on governance criteria, taking into account the existence, the operation and the performance of controls, and/or on outcome criteria, considering desired levels of results.

Analysis against governance or outcome criteria can reveal gaps or weak points in an institution's ethics management system. The audit will then be able to identify and recommend the needed improvements to enhance ethics management, thus providing added value.

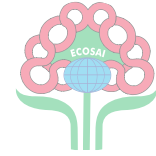
Reference framework and criteria for an audit of ethics can be identified at the national, international and research level:

Table 4: Sources of Ethics' Audit Criteria

Sources of Ethics' Audit criteria	National	International	Audit frameworks/research materials
	<p>Laws and regulations</p> <p>(e.g. financial management, duties of officials, measures related to</p>	<p>International conventions, agreements and recommendations</p> <p>(eg. UN Convention against</p>	<p>-Manual on SAINT</p> <p>(integrity assessment in public sector organisations)</p> <p>SAI Netherlands</p>



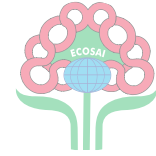
ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT



Generally applicable	<p>fraud and corruption, security requirements, conflicts of interests, dealing with misconduct, etc.)</p>	<p>Corruption, UN Convention on the Elimination of All Forms of Discrimination against Women, ILO Convention on</p>	<p>-Guide for assessing the institutional framework in the ethics field</p> <p>SAI of Costa Rica</p>
	<p>Government strategies, policies or programmes to strengthen ethics in the public sector</p> <p>(e.g. related to corruption, mobbing, equal treatment, etc.)</p>	<p>Discrimination (Employment and Occupation))</p>	<p>-Evaluating Ethics-Related Programs and Activities IIA</p> <p>-Guidance on Audit of Institutional Framework for Fighting Corruption</p> <p>IDI</p>
	<p>National standards</p> <p>(e.g. principles and requirements for establishing internal control systems)</p>	<p>Recognised international standards</p> <p>(e.g. COSO Framework for Risk Management/ Internal Control, ISSAI 30, INTOSAI GOV 9100-9160, ISSAI 5700)</p>	<p>-Auditing ethics: a suggested model</p> <p>J. R. Souza Filho, SAI Brazil</p> <p>-Consolidating ethics in the public sector in Turkey, Ethics Audit Toolkit</p>



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT

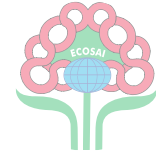


National guidance material	Guidance issued by international organisations (e.g. OECD Integrity Framework, Transparency International)	Land Registry of Turkey -Global Ethics and Integrity Benchmarks Joan Elise Dubinski, Alan Richter
	Examples of good/best practice as benchmarks	
Applicable to one specific entity or to a group of similar institutions	<p>-Professional values, codes and Standards</p> <p>-Internal ethics regulations and Procedures</p> <p>-Ethics-related policies, programmes and timetables of activities</p> <p>-Ethics related contracts or</p>	<p>To be identified in each case</p> <p>To be identified in each case</p>



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



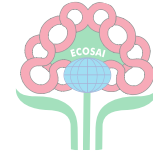
	<p>agreements (v.g. with providers or contractors)</p> <p>-Established performance indicators</p>		
	<p>Examples of good/best practice as benchmarks</p>		<p>To be identified in each case</p>

In case ethics related legislation and infrastructure are not well advanced at the national level, international sources may turn out to be a valuable reference for showing needs and possibilities for improvements.

Audits of ethics will usually need an appropriate mix of criteria from various sources, depending on audit type (compliance audits, culture audits, systems audits) and scope.

In audits of ethics, in view of the intangible nature of part of the audit matter, it is necessary to use criteria that go beyond those traditionally applied. Therefore, an important aspect is their reliability as perceived by the key stakeholders, such as auditees or the main addressees of audit reports, including parliament and the public. For this reason, identification of reliable sources is an important process. As much as possible, the approach adopted or recognised as viable and the identification of criteria should be carried out with due account taken by the key stakeholders. This can be achieved in various ways, which, among others, may include:

- Using the frameworks mentioned/ referenced in auditees/governmental/parliamentary documents;
- Conducting direct discussions with auditees, in order to achieve understanding and agreement on mutually recognised criteria;
- Organising expert panels;
- Using recognised scientific knowledge;
- Benchmarking with similar organisations;
- Considering public expectations (obtained as a results of polls, surveys, etc.).



2.2.6 DATA GATHERING METHODS

In all audits, it is important that auditors use the most suitable methods for gathering information during audit in order to achieve the objectives of the audit. Thus, auditors should pay attention to choose the most suitable method for audit. In ethics audit, auditors look for data or evidence that will allow the application of the chosen criteria and express an opinion or answer to the audit questions. However, a critical factor in the selection of methods is to ensure the balancing of objective data and subjective opinions – perceptions of managers, personnel and citizens that may over or under emphasise actual effects – in order to ensure the credibility of the findings. A short description of data gathering methods that can be used in ethics audits is shown below:

2.2.6.1 Surveys (e.g. public perception, public service users, employees): Overall purpose is to obtain a lot of information quickly and easily in a neutral way. Survey is usually used to collect (quantitative) data from a large group of respondents, by means of a written questionnaire. They can collect information on past experience, current attitudes, opinions and expectations of subjects. Surveys are carried out on a sample that represents a certain population. This population can include different perspectives: public perception, targeted groups or subgroups, including users, employees and management level.

In auditing ethics, employee perception surveys can be very useful. Surveys can give a good overview about several ethical issues such as organisational culture, awareness of the code of ethics, education/trainings on ethics related policies and procedures, exchange of information, communication etc. They can be anonymous. They provide an excellent opportunity for statistical analysis of attitude and culture.

Advantages of surveys could be illustrated as follow::

- can be completed anonymously;
- inexpensive to administer;
- easy to compare and analyse;
- can reflect a significant sample;
- gather different perspectives: public perception, public service users, employees.

However they could have some challenges as follow:

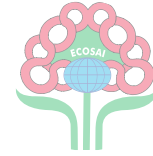
- might not get careful feedback;
- wording can bias responses;
- are impersonal;
- in surveys, may need sampling expert;
- does not tell full story.

2.2.6.2 Interviews: Overall purpose is to fully understand someone's impressions or experiences, or learn more about their answers to questionnaires. This is a specific way of



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



inquiry, used as a data collection technique in almost every audit. Usually the interviewed is a key person in the organisation or an external informant. In the audit of ethics, interviews may be used to fully understand someone's impressions or experiences or to learn more about answers to questionnaires. A single interview by itself does not represent strong evidence and there is a risk that responses may be biased. It usually needs to be substantiated by independent sources such as documentation, observations or other interviews.

Interview as a method to gather data has some kind of advantages as follow:

- get full range and depth of information;
- develops relationship with client;
- can be flexible with client.

However it might bring some challenges as well as follow:

- can take a lot of time;
- can be hard to analyse and compare;
- can be costly;
- responses can be biased.

2.2.6.3 Document or case review: Overall purpose is to illustrate how a policy operates without interrupting the policy. This method provides sound evidence to support findings. Documentation is selected by random sampling or according to selection criteria. In auditing ethics/ethics related issues, strategic and planning documents are useful, as well as contracts, minutes from management meetings, complaints and discussions. Internal audit reports may contain relevant information.

Advantages of documentation review is that:

- It provides extensive and historical data, which already exists, with a little chance of misinterpretation,
- It does not interrupt policy;
- Information already exists;
- Few biases about information.

Challenges of documentation review is that:

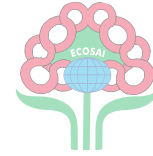
- This review can be time-consuming,
- Information may be incomplete,
- Auditor needs to be quite clear about what is being looked for and
- Inflexible; data restricted to what already exists.

2.2.6.4 Observation: Overall purpose is to gather accurate information about how a policy actually operates, particularly about processes. It is used to monitor processes or procedures during their performance (implementation) and checks of physical existence of assets.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Observation and physical examination are a useful way of collecting evidence, but generally have to be complemented by other methods. The evidence collected through observation may not be very strong, but it may prove useful in testing controls, which leave no audit trail.

A special method for observation of the adherence to the code of ethics is the alignment audit, where ethical dilemmas are presented to staff members and the management, comparing their responses. One must be careful not to influence behaviour of participants.

As a method to gather information, observation has some kind of advantages as follow:

- view operations of a policy as they are actually occurring;
- can adapt to events as they occur.

However, it can also have some challenges as well. It:

- can be difficult to interpret observed behaviours;
- can be complex to categorise observations;
- can influence behaviours of participants;
- can be costly.

2.2.6.5 Focus groups (e.g. expert, management, client): Overall purpose is to explore a topic in depth through group discussion. They are groups of selected individuals gathered to discuss an issue or a topic. They are used to collect qualitative data and information that can provide insight into values and opinions of individuals connected with the audited organisation, procedures or activities. Focus groups are frequently used to help define a large scale quantitative survey and can be very useful in exploring ethical issues within the auditee. Focus groups may give some indications of why people/employees have certain preferences in behaviour, opinions about certain ethical situation or make a particular decision in ethical dilemmas, but they will not demonstrate how often the group made a particular choice. On the other hand, they may provide more valuable insight than yes/no responses to a questionnaire.

As advantages, focus groups;

- quickly and reliably get common impressions;
- can be efficient way to get great range and depth of information in a short time;
- can convey key information about potential problems or risks;
- could provide groundwork for scientific survey.

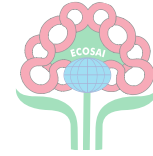
As challenges of focus groups;

- can be hard to analyse responses
- difficult to generalise scientifically.
- responses can be biased



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- need for a good and experienced facilitator to ensure reliability.

2.2.6.6 Sampling: Overall purpose is to obtain information from only a part of a large group or population so as to infer about the whole population. This is a specific method of collecting documentary evidence. Sampling can be statistical and non-statistical. Both types of sampling require the use of professional judgement at the stages of sample planning, testing and evaluation. In auditing ethics, sampling methods can be especially useful when there is e.g. larger number of complaints of citizens/employees on unethical behaviour within the auditee, big number of procedures to handle complaints, big number of complaints about public procurement procedures, etc. The most 'convenient' method of sampling is that in which the investigator selects a number of sampling units which he/she considers 'representative' of the whole population.

As advantages of sampling;

- Ensures convenience, collection of intensive and exhaustive data, suitability in limited resources and better rapport
- Low cost;
- Less time consuming;
- The process of sampling makes it possible to arrive at generalizations by studying the variables within a relatively small proportion of the population.
- The results of sampling studies turn out to be sufficiently accurate.

As challenges of sampling;

- Chances of bias. Bias arises when the method of selection of sample employed is faulty.
- Selection of a truly representative sample is difficult when the phenomena under study are of a complex nature.
- When the researcher lacks specialized knowledge in sampling, he/she may commit serious mistakes. Consequently, the results of the study will be misleading.

2.2.6.7 Questionnaires: They are used to collect findings from more informants, or to collect facts that are not available otherwise. In auditing ethics, they can contain questions directed to getting insight about the existence and/or operation of certain controls or certain ethical issues. They can be combined with interviews. The aim of the questionnaire might be to get first information on employees awareness about certain ethical issues (e.g. in information technology, public procurement, etc.).

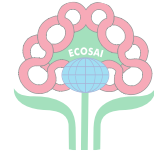
There are many advantages of questionnaires such as;

- Questionnaires are one of the most affordable ways to gather quantitative data. (Especially online and mobile surveys have a very low cost and a generous reach. There's no printing cost, you don't have to hire surveyors to ask people the questions, nor do you have to buy stamps to send out your paper survey).



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Apart from being inexpensive and flexible, questionnaires are also a practical way to gather data. They can be targeted to groups of your choosing and managed in various ways. You can pick and choose the questions asked as well as the format (open-ended or multiple choice). They offer a way to gather vast amounts of data on any subject.
- It's quick and easy to collect results with online and mobile tools.
- Digital questionnaires give the best sense of anonymity and privacy.
- Make you able to ask as many questions as you like to cover all aspects of a topic.

Some of the challenges of questionnaires may be as follow:

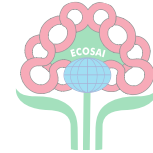
- Dishonesty can be an issue.
- There's no way to know if the respondent has really thought the question through before answering
- Differences in understanding and interpretation of questions,
- Hard to convey feelings and emotions,
- Too many open-ended questions can produce more data than can be analysed.

2.2.6.8 Cultural observation techniques: A specific type of observation is psychological behavioural observation of leadership and decision making processes. This can be used to describe and evaluate the leadership culture of an organisation. Embedded observation is an anthropological method, used in description and assessment of the organisational culture. The auditor/researcher is temporarily embedded in the organisation and collects stories and experiences in a diary. Artefacts, video images and pictures may also be collected as data. These techniques are still experimental and are occasionally used by internal auditors.

2.2.6.9 Inquiry: It is the process of gathering information in written or oral form, directly from an individual who is familiar with the subject matter or control being tested. Inquiry is best used to gain a basic understanding of complex processes and it is always used in combination with observations and document reviews.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

AUSTRALIAN National Audit Office (ANAO), (2014), “Managing Conflicts of Interest in FMA Agencies”, <https://www.anao.gov.au/work/performance-audit/managing-conflicts-interest-fma-agencies>,

DEBOIS Stefan, (2016) “Advantages and Disadvantages of Questionnaires”, <https://surveyanyplace.com/questionnaire-pros-and-cons/>

EUROPEAN Court Of Audit, ECA, (2012), Management of conflict of interest in selected EU Agencies”, p.7,
https://www.eca.europa.eu/Lists/News/NEWS1210_11/NEWS1210_11_EN.PDF,

EUROSAI TFAE, (2014),”Auditing Ethics In The Public Sector A general overview of SAI’s practices”,

[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,
<http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf>

GOVERNMENT Accountability Office, GAO, (2009), Defense Contracting Integrity, Opportunities Exist to Improve DOD’s Oversight of Contractor Ethics Programs, p.34,
<https://www.gao.gov/assets/300/295617.pdf>,

INTERNATIONAL Centre For Environment Audit And Sustainable Development (ÍCED), “Sampling Techniques”,
http://iced.cag.gov.in/wp-content/uploads/C-07/SAMPLING_TECHNIQUES.pdf,

NATIONAL Audit Office of UK, NAO, (2016) Cross-government-Investigation into the acceptance of gifts and hospitality,

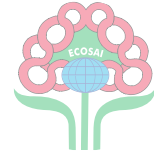
<https://www.nao.org.uk/wp-content/uploads/2016/02/Investigation-into-the-acceptance-of-gifts-and-hospitality.pdf>

NATIONAL Audit Office Of UK, NAO, 2015-2016, Cabinet Office and cross-government - Equality, diversity and inclusion in the civil service”,

<https://www.nao.org.uk/wp-content/uploads/2015/06/Equality-diversity-and-inclusion-in-the-civil-service.pdf>



ECOSAI WORKSHOP-2019
INTRODUCTION TO ETHICS AUDIT



OECD, 2005, Public Sector Integrity A Framework For Assessment p.34-35,
<http://www.oecd.org/gov/ethics/publicsectorintegrityframeworkforassessment.htm>

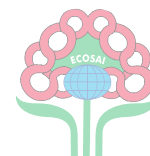
THE ICELANDIC National Audit Office, (INAO), <https://rikisendurskodun.is/en/codes-of-conduct-in-public-administration/>

TURKISH Court of Accounts, (TCA) – Performance Audit Workshop Training Material

INTERNET Reference: “Advantages and Disadvantages of Sampling”,
<https://accountlearning.com/advantages-and-disadvantages-of-sampling/>

SESSION 2.2

HANDOUTS



SESSION 2.2-HANDOUT 1

HOW TO AUDIT THE ETHICAL PERFORMANCE OF A PUBLIC BODY – A PROPOSAL¹⁵

By Paolo GIUSTA, external expert, author on ethics for civil servants and ethical leadership

The audited area

Auditing the way ethics is implemented in public sector bodies subject to the scrutiny of Supreme Audit Institutions is a challenging task, as the discussions held and questions raised at the EUROSAI Seminar on Auditing Ethics of September 2013 demonstrated.

This article intends to reflect on a possible basis for carrying out such an audit. This reflection will, of course, be developed and adapted in the event an actual audit is carried out.

The logical starting point for this kind of audit is to look at the scope of the potential audited area, i.e. what the ethical framework of the audited bodies consists of.

Typically, this framework - or ethical infrastructure - consists of several layers, like the steps of a ladder (see Figure 1).

Figure 1: the layers of the ethical infrastructure of an organisation

Excellence orientation ("we want to")	4. Ethical culture	Facts Written provisions
	3. Guiding values	
2. Other obligations and standards		
1. Minimal legal requirements		
Compliance orientation ("we have to")		

The first step consists of compulsory provisions laid down by legal rules, including staff regulations stipulating civil servants' obligations, and remedies - such as disciplinary sanctions - in the event these obligations are not complied with. This is the first and minimal level of any ethical infrastructure: indeed, one can expect from a public body that at the very least no illegal act is committed.

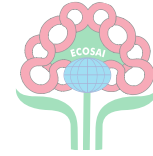
In the second layer, we find other obligations and standards of public conduct, such as the duty to act with independence, in the event such a duty does not stem from a legal provision. Part of

¹⁵ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices,
[http://www.eurosai-tfae.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf)



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



the independence standard is the avoidance of conflicts of interest, e.g. as laid down by the OECD¹⁶. At this point, we also find any other rule that the audited body has decided to adopt, such as provisions to protect the dignity of staff, the obligation to denounce reprehensible acts, etc. Some organisations may decide formally to adopt a code of ethics containing these tailor-made obligations applying to its staff.

These first two layers share the feature that they look at ethics as compliance with established rules. They aim primarily to prevent, identify and punish bad behaviour. The provisions they contain are enforceable, and consequences - such as disciplinary and even criminal sanctions - can be applied when such provisions are breached.

The next two levels belong to a different, yet complementary, approach to ethics, which considers ethics as a resource for better behaviour and decision making, and ultimately for better performance¹⁷, rather than just as a limitation indicating what should be avoided. The content of these two latter layers is largely unenforceable.

Here the consequences are not sanctions, but positive outcomes if they are put into practice: a more serene working climate, more and better-quality output, increased reputation, and a better service to the public as the bottom line.

The third layer is the values that the organisation considers important: the values that should guide the strategy and daily operations of managers and staff and that are typically enshrined in a value statement, communicated to all personnel and stakeholders. These values are aspirational, insofar as they indicate which kind of excellent (not only rule-abiding) conduct and decisions the organisation is striving to achieve and demonstrate.

The first three layers consist of written provisions. This facilitates audit work, since one can at least check whether such documents exist.

All these written provisions, however, could remain little more than wishful thinking if they are not used and put into practice in the organisation's daily life. Here the actual, non-written ethical culture of the audited body enters into play – the fourth step in our ladder. This culture is composed of facts, such as the example provided by public servants at the top of the organisation (which we see as the single most important element of the ethical infrastructure), the time and resources spent in making ethics a priority (e.g. by setting up an integrity function, internal and external communication actions, training courses, etc.), and the way the public body monitors that the components of the ethical infrastructure are put into practice.

Possible audit questions

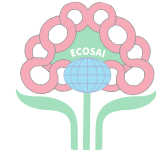
Looking at the ethical framework as described above, a number of key risks appear:

¹⁶ See OECD (2005), OECD Guidelines for Managing Conflict of Interest in the Public Service (www.oecd.org/gov/ethics).

¹⁷ For a recent research indicating that there is “a positive and strong correlation between ethics and organizational performance”, see Peyman Akhavan, Majid Ramezan, Jafar Yazdi Moghaddam, Gholamhossein Mehralian, (2014) “Exploring the relationship between ethics, knowledge creation and organizational performance: Case study of a knowledge-based organization”, VINE, Vol. 44 Iss: 1, pp.42 – 58.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



Some elements of the framework may not exist, which would be particularly unfortunate if the most important ones were missing: the first step, where legal obligations are laid down, and the fourth, which makes the whole framework operate in practice rather than just in theory;

The elements of the framework may well exist, but not be functioning. This might be due to some internal inconsistencies in the ethical framework (e.g. the values declared have nothing to do with the obligations and standards in the code of conduct) or to the fact that the written provisions are overlooked when it comes to deciding the course of action to be followed in concrete situations.

It may also be impossible to know whether or not the ethical framework is effective, since no measurement system has been put in place by the audited entity, or the wrong indicators have been chosen.

Based on this first list of the most obvious risks, the following pyramid of audit questions could be conceived (Figure 2):

Figure 2: Outline of a basic pyramid of audit questions, to be developed for audits on ethical performance

1. Is the ethical framework of the audited entity effective?								
1.1. Does an appropriate ethical framework exist?			1.2. Is the ethical framework working in practice?			1.3. Does the audited entity monitor the implementation of its ethical framework?		
1.1.1. Do minimal legal requirements exist?	1.1.2. Has the entity adopted tailor-made obligations, standards and values?	1.1.3. Is there an integrity function in place?	1.2.1. Are all instances of illegal behaviour detected and punished?	1.2.2. Are the audited body's values and standards applied throughout the organisation in daily conduct and decision-making?	1.2.3. Do top managers lead by example?	1.3.1. Are objectives laid down?	1.3.2. Are these objectives accompanied by indicators?	1.3.3. Is someone measuring them regularly?

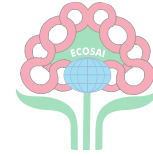
Possible audit approach

To answer these questions, the auditors could look at the following elements:



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



1.1. The existence of the ethical framework

1.1.1. The regulatory framework applicable to the audited body: legal provisions on staff obligations and standards, conflicts of interest, preventing and punishing misconduct such as corruption, harassment, etc.

1.1.2. Whether the audited body has decided to go beyond the minimal regulatory requirements and adopt tailor-made enforceable obligations and standards – which are compulsory for all staff, and aspirational values – which are intended to guide staff in making decisions and adopting the most appropriate course of action. Auditors could also look at the internal coherence between those tailor-made elements, for example whether the guiding principles are translated into operational and enforceable obligations and standards¹⁸ or whether, conversely, the values speak a completely different language from the compulsory requirements. If the latter occurs, it could be an indication that the values have been set up, maybe under pressure from stakeholders, without real conviction on the part of the organisations' leaders and, therefore, they are likely to remain theoretical rather than become a practical tool.

1.1.3. The way the audited body has organised itself to ensure the ethical framework works, e.g. by creating a function providing guidance and advice on ethics and integrity-related matters. Here the auditors may look at existing practices, and note for instance the difference between the approach adopted by the United Nations, where every agency has a senior staff member (at director level) in charge of the Ethics Office, and the approach by the European Commission, where a network of junior “ethics correspondents” has been put in place, mainly charged with assisting colleagues in complying with the obligations laid down by the regulatory framework.

By looking at the elements under 1.1.2. and 1.1.3., the auditors could also aim to ascertain whether the audited body has limited itself to a compliance-based approach to ethics, or whether they intend, at least in theory, to use ethics as a resource for increased performance and better service to the public. These elements would also allow them to determine whether the ethical framework is complete (have all the four layers above been taken into account and developed?) and coherent (are the various elements consistent with each other?)

1.2. How the ethical framework functions in practice

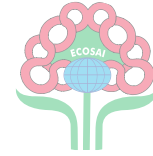
1.2.1. Here the auditors should look first at whether all instances of reprehensible behaviour are detected and punished. Indeed, the organisation might be proud of having systematically applied no disciplinary sanctions at all to its staff for a number of years. This could well indicate that no breach in civil servants' obligations and professional standards has occurred. However, this could also present a distorted image, as is the case for other indicators proving an

¹⁸ A good example of a coherent framework encompassing values and obligations is the Code of Ethics of the Project Management Institute (http://www.pmi.org/About-Us/Ethics/media/PDF/Ethics/ap_pmicodeofethics.ashx). This code also presents the advantage of establishing a clear distinction between mandatory standards (accompanied by possible sanctions in the event of a breach) and aspirational ones.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



ambiguous image: e.g. if an external audit body tries to maximise the number of recommendations accepted by the auditee to measure its influence capacity, it may be tempted to water down some of the recommendations for the sake of ensuring the maximum number are accepted. Similarly, a lack of disciplinary sanctions might indicate that breaches in obligations and standards, if they occur, go unnoticed or, when they are detected, are not actively pursued. Appropriate audit criteria need to be developed, based on the nature and organisation of the audited entity, to assess whether this is the case.

1.2.2. The emphasis should then be on establishing to what extent the various components of the ethical framework, the existence of which has been established under 1.1., are applied as a routine practice by managers and staff, rather than remaining merely a beautiful picture that nobody looks at. This is possibly the most difficult task in this kind of audit: what is measurable here? What should be measured in practice?

A comprehensive measurement framework is provided by two renowned ethics experts, Joan Elise Dubinsky (the current director of the UN Ethics Office) and Alan Richter: in their *Ethics and Integrity Benchmarks*¹⁹, they provide “a tool for helping organizations assess and measure their progress in making a formal and transparent commitment to ethics and integrity in the workplace”²⁰. In our view, these benchmarks, organised around twelve key areas, can be used not only by managers and ethics officers in the organisation itself, but also as a reference point for external auditors charged with assessing the performance of the ethical framework of such organisations.

Auditors could also be willing to look at what happens within the organisation’s everyday life. For instance:

- Is ethics something managers and staff talk about freely and regularly? (A private-sector organisation decided to name its meeting rooms according to its values; the fact that people knew they were going to meet at the “Integrity” meeting room, or the “Transparency” room, helped them remember what the organisation, and each one of them, were striving for.)
- Do the audited body’s official decisions refer to the organisation’s values and standards in their recitals? (If not, this could indicate that the values and standards the organisation has chosen to adopt play little or no role in the actual decision-making process.)
- Do training courses focus on compliance only, or do they provide the staff with tools for making sound ethical decisions, such as the ability to recognise and address ethical dilemmas when they encounter them? Are special training programmes devised for specific functions, such as managers, civil servants in charge of financial management, etc.?

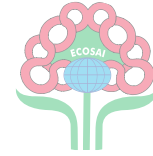
¹⁹ <http://qedconsulting.com/files/GlobalEthicsandIntegrityBookmarks.pdf>.

²⁰ From the Introduction.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



1.2.3. Particular attention should be paid in this context to the tone at the top. As the US expert in ethical dilemmas Rushworth Kidder pointed out, nothing fosters the development of an integrity culture more powerfully than the values visibly shown and practiced by the top management; and nothing destroys it more rapidly than a do-what-I-say-not-what-I-do attitude. Here, it could be useful to ask the staff (through a questionnaire, survey, etc.) about their perception of the way their managers lead by example, and to distinguish between top managers who have been politically appointed and those who have not.

1.3. The way the audited entity monitors the implementation of its own ethical framework

At this point, the auditors could check whether the audited entity has a thorough knowledge of the ethical framework in which it operates, and what the basis for this knowledge is. Typical questions could be whether objectives are set for the organisation's ethical performance, whether indicators exist to measure progress towards these objectives, and whether someone within the organisation actually measures such progress. One could also look at whether the indicators not only exist, but are the right ones (see 1.2.1. for an example of an ambivalent indicator).

A useful checklist for public-sector bodies carrying out such monitoring is provided by the OECD²¹, and consists of a series of questions and sub-questions:

- Are the basic principles and standards clear?
- How is an ethical culture fostered?
- Is there adequate oversight and accountability?
- Is the public well informed?

As we indicated at the beginning, this article presents ideas and proposals, based on the author's personal experience and research; they should be developed further in the event an actual audit on the ethical performance of a public-sector body is carried out.

In particular, audit criteria and methodology should be strengthened and fine-tuned, depending on the nature, organisation, and operations of the audited entity.

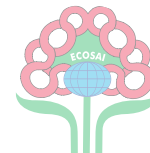
Our intention, and our hope, is that this article will stimulate the debate launched in September 2013 and will provide some useful, and useable, food for thought.

Our intention, and our hope, is that this article will stimulate the debate launched in September 2013 and will provide some useful, and useable, food for thought.

²¹ OECD, "Ethics Checklist", Paris, November 1997, quoted by Carol W. Lewis and Stuart C. Gilman, *The Ethics Challenge in the Public Service. A Problem-Solving Guide*, Jossey-Bass, San Francisco, 2005, p226.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 2.2-HANDOUT 2

STATE OWNED ENTERPRISES AND CORPORATE GOVERNANCE PRINCIPLES: THE PORTUGUESE EXPERIENCE²²

By Gabriela Ramos, Audit Director, Tribunal de Contas, Portugal

In 2002, the Portuguese Court of Auditors carried out an audit focusing on the State Owned Enterprises (SOE) and aiming at getting the answers to the following questions:

- How many SOE existed in Portugal by the end of 2001
- How financially sound these SOEs were
- How much funding had the State been giving to these SOE
- How far did SOE adopted corporate governance principles, which at the time were to be applied only to specific listed companies

Ethics related issues were included within such corporate governance principles, as follows:

- Risk management, aiming at minimizing all business risks, mainly the reputation risk that could affect both managers and the company
- Conflicts of interest, preventing misconduct or suspicion over managers due to the existence of these kinds of conflicts
- Codes of ethics and codes of conduct, applicable to managers and/or all company's staff, in order to avoid and prevent misconduct
- Corporate Social Responsibility (CSR), taking into account the interests of all company's stakeholders (staff, clients, suppliers, residents, state departments, taxpayers) as well as environmental and sustainable development issues
- Transparency and accountability, to ensure good reputation and confidence of stakeholders and taxpayers.

Within these ethics related issues, the audit criteria were focused on conflicts of interests, codes of ethics, management approaches, SOE's reputation and transparency and accountability. The information was gathered through a survey launched over a set of SOE in 2002, which consisted of the following parts:

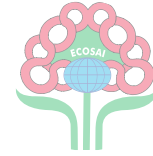
- Structure and functioning of Company's Boards
- Strategy and performance measurement
- Disclosure of company's information (mainly financial)
- Risk management
- Internal rules

²² Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices,
[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- The State as shareholder and its duties

The main conclusions drawn were that:

- Very few companies followed corporate governance principles
- Most of them had their own codes of ethics or codes of conduct
- Very few performed risk management

As a consequence, the Portuguese Court of Auditors recommended that implementation of corporate governance principles within the State Owned Enterprises should be boosted.

In order to follow up the recommendations issued in that audit report, the Portuguese SAI performed a new audit in 2008, finding that:

- A law adopted in 2007 approved and published clearer “Corporate Governance of State Owned Enterprises” and made them applicable to all SOE where the State owned the majority of equity shares as well as to other SOE
- Ethical principles for management, managers and companies were enforced by setting requirements in the following fields:
 - Compliance with legal standards related to taxes, money laundering, competition, consumer protection, environment protection and labour protection by promoting equality of gender without any discrimination
 - Respect and integrity towards employees, customers, suppliers and other stakeholders
 - Need to have a code of ethics requiring high standards of ethical and deontological behaviour, which should be disseminated to all the company and to customers, suppliers and public
 - Ethical behaviour of managers, who should, for instance, refrain from taking part in decisions that may involve their own interests
 - Disclosure of relevant information about the company (mainly financial information)
 - Set up of easy and free access websites, where relevant, clear and updated information should be available
 - Appointment of a “customer provider”, where appropriate, in order to receive either complaints or suggestions from customers and/or citizens, acting as a link between the company and the public.

Both audits were of great relevance both to the Court of Auditors and the SOE, for they emphasized the important role of CG principles for SOE’s management, highlighted the importance of ethics requirements and ethical conduct whilst managing public assets (and money), contributed to the enforcement of transparency and accountability and strengthened risk management and internal control system within SOE.

SESSION 2.2

SLIDES

MAKING PROGRESS IN DESIGNING ETHICS AUDIT



Designing Ethics Audit

1

Learning Objective

Having selected audit topic, you will learn key requirements of designing ethics audits.



Designing Ethics Audit

2

Objectives Of An Ethics Audit

Audit objectives relate to the reasons for conducting the audit.



Designing Ethics Audit

3

Examples

To determine whether Australian Government agencies were implementing appropriate policies and processes to identify and manage conflicts of interest.



(Managing Conflicts of Interest in FMA Agencies-(Across Agencies), Australian National Audit Office, (ANAO), 2014

Examples

To assess the impact the new FAR rules have on DOD oversight of contractor ethics programs.,



"Defense Contracting Integrity", U.S.Government Accountability Office, GAO, 2009

Examples

- To evaluate and describe the ethical infrastructure of public bodies, e.g. the scope of codes of conduct, the views of managers towards a number of selected ethical criteria and their experiences regarding the use of codes of conduct.



"Codes of Conduct in Public Administration", The Icelandic National Audit office, (INAO), (2003)

Audit Scope

A clear statement of the;

- approach chosen,
- extent, and
- limits of the audit in terms of the subject matter selected.



Audit Scope

- Must be able to help determine the criteria, audit approaches, audit procedures and audit conclusion.



Audit Questions

They should be;

- Clear,
- specific,
- unambiguous,
- auditable,
- relevant and
- logically consistent.



Audit Questions

The main study question/-s can be broken down into sub-questions.



Audit objective:

Assess the existence and functioning of the integrity management system

Possible Audit questions:

- Does the organisation have an integrity management system?
- Is this system effectively implemented?
- Is the ethical culture of the institution conducive to ethical behaviour?

Possible sub-questions:

- Are integrity policy instruments in place (e.g. code of conduct, procedures)?
- Are integrity police instruments capable of functioning as intended (expectations, resources and conditions)?

If ethics audit will assess the existence of policy measures,

Are key policy instruments, such as laws, institutions and procedures in place to form an "Ethics Infrastructure"?



If ethics audit will assess the feasibility,

Is a policy instrument capable of functioning to deal with risk areas?



If ethics audit will assess the effectiveness of policy measures,

Did the policy measures achieve their specific initial objectives?



If ethics audit will assess the relevance of a policy measure,

To what extent has it been contributing to meeting stakeholders' overall expectations?



If ethics audit will assess coherence

(i.e., the relationship of a particular policy measure with other elements of the policy).

The main question could be **whether they coherently interact and enforce each other, and jointly support the overall aims of the policy.**



Audit Criteria

- ✓ They are a means of measuring or judging the performance of the matters subject to audit.
- ✓ If audit criteria are not set, there will be no basis for comparison and consequently no basis for arriving audit findings, conclusion and recommendations.



Depending on their source and character

- Binding criteria** • resulting e.g. from stated requirements
- Non-binding criteria** • resulting from guidance or recommendations issued at the national or international level
- Benchmarking** • comparing the outcome to peer standards

In relation to the purpose

Compliance criteria

To verify the functioning of hard controls

How internal rules and regulations are being executed and enforced etc.

Governance Criteria

To assess the ethics management system

- *strategic planning*
- *personnel policy etc.*

Outcome Criteria

To assess if policies are effective in achieving the desired ethical culture

- *performance indicators*
- *perceptions and expectations of staff and stakeholders*

In case

Ethics related legislation and infrastructure are **not well advanced at the national level**, international sources may turn out to be a valuable reference for showing needs and possibilities for improvements.



Identification Of Criteria

- Using the frameworks mentioned/ referenced in auditees/governmental/parliamentary documents,
- Conducting direct discussions with auditees,
- Organising expert panels,
- Using recognised scientific knowledge,
- Benchmarking with similar organisations,
- Considering public expectations.



Data Gathering Methods



Surveys

- Overall purpose is to obtain a lot of information quickly and easily in a neutral way.
- Survey is usually used to collect (quantitative) data from a large group of respondents, by means of a written questionnaire.



Surveys

In auditing ethics, surveys can give a good overview about several ethical issues

such as organisational culture, awareness of the code of ethics, education/trainings on ethics, exchange of information, communication etc.



Interviews

Overall purpose is to fully understand someone's impressions or experiences, or learn more about their answers to questionnaires.



Interviews

- In the audit of ethics, interviews may be used to fully understand someone's impressions or experiences or to learn more about answers to questionnaires.



Document or case review:

- Overall purpose is to illustrate how a policy operates without interrupting the policy.
- This method provides sound evidence to support findings.
- Documentation is selected by random sampling or according to selection criteria.



Document or case review:

- Strategic and planning documents,
- Contracts,
- Minutes from management meetings, complaints and discussions,
- Internal audit reports etc.



Observation

- Overall purpose is to gather accurate information about how a policy actually operates, particularly about processes.
- Observation and physical examination are a useful way of collecting evidence, but generally have to be complemented by other methods.



Observation

A special method for observation of the adherence to the code of ethics is the alignment audit, where ethical dilemmas are presented to staff members and the management, comparing their responses.



Focus Groups

- Overall purpose is to explore a topic in depth through group discussion.
- They are groups of selected individuals gathered to discuss an issue or a topic.



Designing Ethics Audit

31

Focus Groups

- They are used to collect qualitative data and information that can provide insight into values and opinions of individuals connected with the audited organisation, procedures or activities.

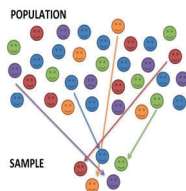


Designing Ethics Audit

32

Sampling

- Overall purpose is to obtain information from only a part of a large group or population so as to infer about the whole population.



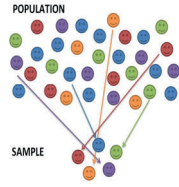
Designing Ethics Audit

33

Sampling

In auditing ethics, sampling methods can be especially useful when;

- ✓ there is e.g. larger number of complaints of citizens/employees on unethical behaviour within the auditee, big number of procedures to handle complaints,
- ✓ big number of complaints about public procurement procedures, etc.



Questionnaires

They are used to collect findings from more informants, or to collect facts that are not available otherwise.



Questionnaires

In auditing ethics, they can contain questions directed to getting insight about the existence and/or operation of certain controls or certain ethical issues.



Questionnaires

The aim of the questionnaire might be to get first information on employees awareness about certain ethical issues (e.g. in information technology, public procurement, etc.).



Inquiry

It is the process of gathering information in written or oral form, directly from an individual who is familiar with the subject matter or control being tested.



Inquiry

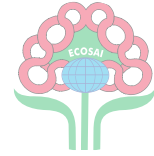
Inquiry is best used to gain a basic understanding of complex processes.





ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Thank you for listening. Any questions?



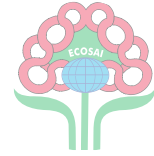
Designing Ethics Audit

40

SESSION 3

EXECUTING ETHICS AUDITS





SESSION 3 EXECUTION OF ETHICS AUDITS



3.1 OVERVIEW

Execution of ethics audits is a phase in which audit evidences that form the basis to support audit findings, audit conclusion/s and recommendations are collected in order to reach audit objectives as determined by audit design phase. In this stage, data gathering techniques as determined in the audit design phase are put into practice in order to collect due audit evidences.

Therefore, this session would briefly focus on key issues regarding fieldwork phase of ethics audit.

3.2 GATHERING AND VERIFYING AUDIT EVIDENCE

Audit evidence is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. As is considered for performance audit in ISSAI 3000 (Article 106), the auditor should obtain sufficient and appropriate audit evidence in ethics audit as well in order to establish audit findings, reach conclusions in response to the audit objective(s) and audit questions and issue recommendations when relevant and allowed by the SAI's mandate:

- Audit evidence should be both sufficient (quantity) and appropriate (quality) to persuade a knowledgeable person that the audit findings are reasonable.
- Sufficiency is a measure of the quantity of audit evidence used to support the audit findings and conclusions. In assessing the sufficiency of audit evidence, the auditor should determine whether enough audit evidence has been obtained to persuade a knowledgeable person that the audit findings are reasonable.
- Appropriateness refers to the quality of audit evidence. It means that the audit evidence should be relevant, valid and reliable.
- Relevance refers to the extent to which the audit evidence has a logical relationship with, and importance to, the audit objective(s) and audit questions being addressed.
- Validity refers to the extent to which the audit evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the audit evidence represents what it is purported to represent.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Reliability refers to the extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly.

The audit evidence in ethics audits usually falls into **four categories** as is the case for other types of audits:

- **Physical evidence** is obtained through direct inspection or observation of people, property, or events. The evidence can take the form of photographs, charts, maps, graphs, physical samples, memoranda summarizing the matters inspected or observed, and other sources. When the observation of a physical condition is critical to achieving the audit objectives, it should be corroborated. This may be achieved by having two or more auditors make the observation, if possible accompanied by representatives of the agency. Examples are physical verification of ethics training activities in place, of “ethics sites” on web/intranet, of ethics programs/projects etc.
- **Testimonial evidence** is obtained from others through oral or written statements. Sometimes auditors need this type of evidence from users of a service or target group of beneficiaries to assess effectiveness of an ethics related program or project. Corroboration of testimonial evidence is required if it is to be used as evidence rather than simply as background. This could be by:
 - ✓ written confirmation by the interviewee;
 - ✓ weighting of multiple independent sources revealing the same facts; or
 - ✓ checking records later.

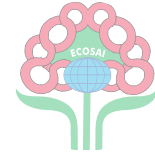
In assessing the reliability and relevance of testimonial evidence the auditor needs to have regard to the credibility of the interviewee; that is, the position, knowledge, expertise and forthrightness of the person being interviewed. Example of this kind of evidence: results of focus group/interviews/surveys.

- **Documentary evidence** consists of - files, reports, manuals and instructions. They could be in physical or electronic form. The reliability and relevance of documentary evidence should be assessed in relation to the objectives of the audit. For example, the existence of a procedures manual is not evidence that the manual is put into practice. As with testimonial evidence, the position, knowledge and expertise of the author or approver of the document may need to be assessed. Documents that are the output of management information and control systems (eg. the accounting system) will need to be assessed in the light of the internal controls that operate within that system. Auditors who intend to rely on such evidence should assess the system’s internal controls.
- **Analytical evidence** is built up by analysing the information obtained from other sources. It includes computations, comparisons, rational arguments, interpretations, and the separation of information into components. The quality of analytical evidence depends on the accuracy and the reliability of the data used, the level of detail, and the



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



logic applied in the audit. For example; analysis regarding to results of staff satisfaction survey of organisation.

In ethics audit, auditors gather evidence through using many sources of evidences such as surveys, interview, sampling, document review etc. which were mainly explained in previous participant notes. In addition to them, databases, internet, external sources and SAI sources can be used as source of evidence in audit as well because of following reasons:

- Most agencies have some form of management information system that collects relevant information for the conduct of operations. These systems can be important sources of evidence, especially in quantifying relevant audit matters.
- Many agencies have their own internet website and intranet and much information may be located there. It is also possible to find documents and reports relating to an agency on the internet by using a web search engine e.g. Google, and appropriate search terms. Auditors should always check the validity of documents found on the internet, unless they are sourced from the agency's own website or its intranet.
- Larger agencies may have sophisticated, specialist libraries relevant to their areas of responsibility. Literature searching on relevant topics and key words can be particularly useful.
- Evidence collected in previous audits or through the SAI strategic planning process should be used if it is relevant.

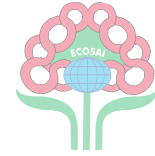
Some Rule Of the Thumbs Regarding Gathering Evidence:

- Auditors should be aware that sampling is a complex tool and they should ensure they select a valid sample.
- Interviews can be useful, but it is necessary to identify the appropriate people to provide information, and to corroborate the oral information. Solid preparation for the topic is essential and a pre-prepared list of questions is useful. In some cases, it may be effective to supply this list to the interviewee beforehand.
- File examination is time-intensive, and it is usually not possible to examine all files. Judgement must be exercised whether to examine a random selection or a selection based on the purpose of the investigation. Usually the latter approach would be adopted but, if time permits, a random sample of other files should be examined.
- Auditors should always check the validity of documents found on the internet, unless they are sourced from the agency's own website or its intranet.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT

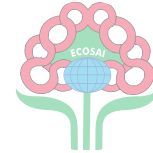


- Auditors should also be aware that people perform differently when they are being observed. Observation based evidence can be regarded as ‘soft’ unless corroborated. Photographs and video recordings increase the value of direct observation. Detailed description of the results of the observations in written form is recommended.
- Auditors should take into account the auditee specificities in order to carry out effective audits of ethics. Timeless values must be considered along with the views of countries, professions, businesses, citizens, generations and profiles, which may introduce variations on what is seen as good or bad, on what is acceptable or neglectable or on ways to react to conduct. One must understand the specific organisation’s culture, its own standards of ethical conduct and the specific risks it faces.
- Auditors shouldn’t stick just to basic controls that are required by law or regulations. They will look also to additional controls that may be needed to mitigate the auditee specific risks.
- Since ethical culture and behaviour is a sensitive and emotive issue, managers and employees may be afraid and not receptive to an audit in this field. Their understanding and trust is a key success factor. Thus, auditors should;
 - a) Explain the audit scope and possible impact to the auditees: how the audit of ethics can help them improve integrity management, prevent integrity incidents and, in the end, improve their performance, effectiveness and trust of citizens.
 - b) Not position themselves as if they are looking for concrete cases of corruption or misbehaviour.
 - c) Communicate the audit framework to the auditees. They should make sure they understand it fully and keep communication lines open during the audit. Auditors may need to discuss criteria, methods used and content of surveys with auditees to reduce resistance and obtain collaboration.
 - d) Not change the framework they have communicated to the auditees during the audit: surprises are not welcomed.
 - e) Share their findings and recommendations with the auditees. This will minimize the possibility that they oppose auditors’ final opinion.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



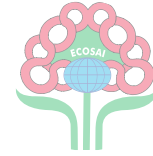
f) Not complete the final report without allowing the auditees to give their own views on the findings. Auditors should publish those views with the audit report.

- Auditors should consider the perspective of managers and employees of the organisation about the ethical culture and conduct: they will help you understand vulnerabilities and risks of the public body. For this, the auditor should use perception surveys, focus groups and interviews. Subjective data is used to assess perceptions, attitudes and feelings, which are the core of the ethical climate.
- Auditors should consider evaluation methods that protect confidentiality of employees who report honest opinions or wrongdoing by others.
- They should never violate a promise of confidentiality.
- Auditors should apply surveys keeping some specific concerns in mind: use online survey tools to cover a wide population and to easily compile and analyse results; run the survey before starting the interviews; ask for factual knowledge on functioning and impact of integrity instruments; ask for explanations and comments to the answers and include cross validating questions; compare different perceptions by groups.
- Auditors should avoid restricting the survey to a small number of senior staff. Survey and interview people with different positions, perspectives and insights. Avoid yes/no questions: ethical issues always have degrees.
- Depending on environments, auditors should consider whether individual interviews provide better information than focus groups.
- Subjective and objective data must be combined to ensure reliability of audit findings. Auditors should combine results from different types of sources.
- Surveys can accurately measure employee perceptions, but perceptions are not always accurate. Thus, auditors should use the results of surveys to focus your audit. Results should not be reported as audit issues unless they have been validated with evidence.
- Auditors shouldn't settle for negative perceptions: identify their root cause, they should find out whether the weaknesses have been identified earlier and whether they have already been properly addressed by management.
- As using benchmarking techniques, auditors should consider the results of similar audits of comparable organisations showing relative weaknesses and



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



strengths. Benchmarking enables organisations to learn from each other's approaches and concrete experiences and provides a baseline to compare and interpret assessment results.

- Auditors should use a maturity model to evaluate the ethical climate. Assessments will be more objective and accepted if based in recognised best practice description. These models help to identify strengths and gaps.
- Auditors should keep develop working papers (a record of work that is done on an audit) in order to support the information presented in the written report, especially the findings and recommendations, to help audit team members and supervisors and/or auditors-in-charge manage the work of the project, and to allow others to review the audit's quality.

3.3 ANALYSING AND EVALUATING DATA

Auditors are expected to analyse the collected information and ensure that the audit findings are put in perspective and respond to the audit objective(s) and audit questions; reformulating the audit objective(s) and audit questions as needed. The comparison of observed conditions (what the auditor actually finds as a result of the review) against audit criteria results in audit findings. Audit findings are based on the identification of performance gaps such as where controls are deficient or ineffective in mitigating risks.

Due to the holistic character of an ethics audit, the chosen methods for data analysis need to facilitate the combination of objective and subjective data. This is best compared to making puzzles, where a completed puzzle is a result of different information collection activities. On the other hand, the selected data analysis method also shapes the data collection. They go hand in hand. The most relevant ways to combine and analyse the data are the following:

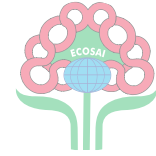
Case studies

This is a method that provides detailed insight into a complex subject. Case studies include descriptions full of information gathered from different sources, especially by first hand (direct) observation. The intention is to get the most complete picture about what is going on and why. Case studies combine facts in a simple and concise way. For example, a case study can explain how a certain health care service is provided, how some big purchase project was managed or how and with what results money for promoting innovation has been spent in an entity. A case study can enliven a report, and it should, with its appearance and structure, draw the attention of readers and make them interested.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Case studies can be descriptive (used to explain the data when readers are believed not to have enough knowledge about a programme; usually are combined with other methods), investigative (usually developed before large studies in order to identify questions for evaluation, define criteria or audit strategy) and critical -problem-oriented (used to investigate a certain problem).

Expert judgement

It is a method where the assistance of an expert is used to evaluate the data, when the knowledge and expertise of the SAI is insufficient. The expert could be an individual or an organisation (e.g. Ethics Committee, bodies in charge of interpretation of ethics regulation) possessing expertise in a field that is audited. The knowledge, independence and objectivity of the expert should be beyond doubt. An external auditor or peer group might certify this. The expert can help to establish a qualified opinion.

Benchmarking

It is used to compare the results of one organisation with the results of its peers or the standard of the sector. Benchmarking is suitable to compare various aspects, such as the maturity of the ethics management or implementation of a specific control or the ethical culture of the organisation. The emphasis is placed on identifying good practices and learning from other experiences. This method can combine both qualitative and quantitative analysis.

Seminars and workshops

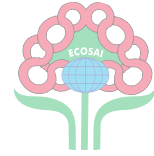
They can be useful to combine knowledge from different people into one common report or product. It can take the form of a self-assessment of an organisation, facilitated by an (external) auditor, or it can be a structured session of the audit team to combine and evaluate the collected data within the framework. This method is especially appropriate for a risk assessment.

Incident analysis

In this method, a past (integrity) incident is analysed in a structured way, to find out what went wrong and what could be improved. Well-known methods of this kind are Root Cause Analysis or Tripod-Beta.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,

<http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf>

ISSAI 1003, “Glossary of Terms to the INTOSAI Financial Audit Guidelines”,

ISSAI 3000, (2016), “Standard for Performance Auditing”,

http://www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm

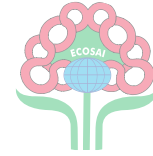
PASAI, (2011), “Performance Audit Manual”

<https://www.eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/materials/Performance-Audit-Manual-PASAI.pdf>

SESSION 3
HANDOUTS



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 3-HANDOUT 1

INTEGRITY: A PROJECT TO STRENGTHEN THE INTEGRITY BASED ADMINISTRATIVE CULTURE IN HUNGARY²³

By dr. Gyula Pulay, Supervisory Manager -SAI Hungary

The Integrity Project of the State Audit Office of Hungary (SAO) provides an example of the prevention approach in the fight against corruption. Based on strengthening integrity within the public sector, SAO launched an EU-funded project in order to map corruption risks and strengthen integrity within the public sector. The project is based on the principles of the internationally recognised and verified Dutch integrity methodology which has been adapted to the Hungarian circumstances and developed into a survey-methodology. It is unique in Europe that the integrity survey has been extended to the whole Hungarian public sector; however, the participation of the budgetary institutions in the survey remains voluntary.

The objective of the Integrity Project is to map, classify and analyse corruption risks and risk enhancing factors and to evaluate the existence and functioning of controls mitigating the corruption threats within the public sector. By providing a "mirror image" for the public sector institutions participating in the survey, the organisations can face their own corruption risks and develop their resistance to the threats. The main aim of the project is to create the culture of integrity in the Hungarian public sector as a whole and to develop the integrity approach in the audit practice, to strengthen transparency and accountability.

The first two surveys were implemented in 2011 and 2012 when each year over 1,000 budgetary organisations filled out voluntarily the electronic form data sheets containing 155 questions serving for measuring of the corruption risk profiles of the participating institutions. In 2013 the number of respondent organisations has reached 1,500.

The data sheets filled out by the respondent budgetary institutions were channelled by the SAO's document management system directly to a multi-purpose electronic data collecting and processing system, which counted risk indices by run-off predefined algorithm. The risk indices are visualised on an internet surface ('risk map') by geographic information system methods. The database is made accessible for everyone on the Internet, through the Integrity Portal of SAO.

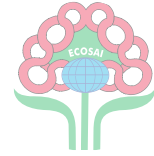
As a part of the integrity project, detailed analysis has been prepared every year concerning the corruption risks in organisations involved in public procurement, administrative licensing and the utilisation of EU subsidies, and a new audit guide with anti-corruption aspects is developed within the SAO. The integrity project as a whole promotes preparation for a change in administrative culture.

²³ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices,
[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



To maintain the results achieved, proposals were drafted for the government about the experience gained from the integrity project covering the necessary amendments to regulations and other proposals to facilitate the development of an effective anti-corruption policy.

The integrity surveys provide unique help for the SAO in risk assessment and in auditing integrity related matters.

The State Audit Office of Hungary is determined to continue the nation-wide data surveys in the public sector up until 2017 each year.

SESSION 3
SLIDES

EXECUTING ETHICS AUDIT



Executing Ethics Audit

1

Learning Objective

You will get information about

- ✓key qualifications of audit evidence in ethics audit,
- ✓main issues regarding implementing data gathering methods,
- ✓Analysing and evaluating data.



Executing Ethics Audit

2

AUDIT EVIDENCE

Audit evidence is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.



Executing Ethics Audit

3

AUDIT EVIDENCE

The auditor should obtain **sufficient** and **appropriate audit evidence** in ethics audit.



Executing Ethics Audit

4

Sufficient Audit Evidence

Sufficiency is a measure of the quantity of audit evidence used to support the audit findings and conclusions.



Executing Ethics Audit

5

Sufficient Audit Evidence

In assessing the sufficiency of audit evidence, the auditor should determine **whether enough audit evidence has been obtained to persuade a knowledgeable person that the audit findings are reasonable.**



Executing Ethics Audit

6

Appropriateness of Audit Evidence

- **Appropriateness** refers to the quality of audit evidence.
- It means that the audit evidence should be **relevant, valid and reliable**.



Executing Ethics Audit

7

Relevance

the extent to which the audit evidence has a logical relationship with, and importance to, the audit objective(s) and audit questions being addressed.

Executing Ethics Audit

8

Validity

the extent to which the audit evidence is a meaningful or reasonable basis for measuring what is being evaluated.

In other words, validity refers to the extent to which the audit evidence represents what it is purported to represent.

Executing Ethics Audit

9

Reliability

extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly.

Categories Of Evidence



Physical evidence



Testimonial evidence



Documentary evidence



Analytical evidence



Physical Evidence

Physical evidence is obtained through direct inspection or observation of people, property, or events.

Such as physical verification of

- ✓ ethics training activities in place,
- ✓ “ethics sites” on web/intranet,
- ✓ ethics programs/projects etc.



Testimonial Evidence

▪ **Testimonial evidence** obtained from others through oral or written statements.



Testimonial Evidence

▪ Auditors need this type of evidence from users of a service or target group of beneficiaries to assess effectiveness of an ethics related program or project.

Such as; results of focus group/interviews/surveys.



Documentary Evidence

▪ **Documentary evidence** consists of files, reports, manuals and instructions etc.



Analytical Evidence

▪ **Analytical evidence** built up by analysing the information obtained from other sources.

Such as; analysis regarding to results of staff satisfaction survey of organisation.

Rule Of The Thumbs



Some Rule Of the Thumbs

- Interviews can be useful, **but it is necessary to identify** the appropriate people to provide information, **and** to corroborate the oral information.



Some Rule Of the Thumbs

- Judgement for **file examination** must be exercised whether to examine a random selection or a selection based on the purpose of the investigation.



Some Rule Of the Thumbs

- Auditors should also be aware that people perform differently when they are being **observed**.
- Photographs and video recordings increase the value of direct observation.



Some Rule Of the Thumbs

- Auditors should take into account the auditee specificities in order to carry out effective audits of ethics.



Some Rule Of the Thumbs

- Auditors shouldn't stick just to basic controls that are required by law or regulations.
- They will look also to additional controls that may be needed to mitigate the auditee specific risks.



Some Rule Of the Thumbs

- ✓ Explain the audit scope and possible impact to the auditees,
- ✓ Not position yourselves as if you are looking for concrete cases of corruption or misbehaviour.



Some Rule Of the Thumbs

- ✓ Communicate the audit framework to the auditees.
- ✓ You may need to discuss criteria, methods used and content of surveys with auditees to reduce resistance and obtain collaboration.



Some Rule Of the Thumbs

✓Not change the framework you have communicated to the auditees during the audit: surprises are not welcomed.



Some Rule Of the Thumbs

- Share your findings and recommendations with the auditees.
- Not complete the final report without allowing the auditees to give their own views on the findings.
- You should publish those views with the audit report.



Some Rule Of the Thumbs

- You should consider evaluation methods that protect confidentiality of employees who report honest opinions or wrongdoing by others.



Some Rule Of the Thumbs

- Auditors should avoid restricting the survey to a small number of senior staff.
- Survey and interview people with different positions, perspectives and insights.
- Avoid yes/no questions: ethical issues always have degrees.

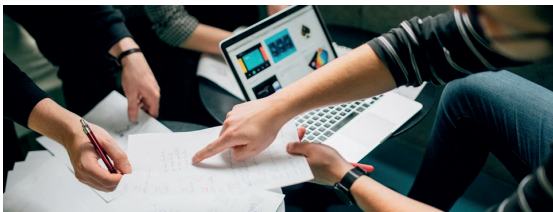


Some Rule Of the Thumbs

- Subjective and objective data must be combined to ensure reliability of audit findings.
- Auditors should combine results from different types of sources.



Analysing And Evaluating Data



Case Studies

- This is a method that provides detailed insight into a complex subject.
- Case studies include descriptions full of information gathered from different sources, especially by first hand (direct) observation.



Case Studies

- Case studies combine facts in a simple and concise way.
- The intention is to get the most complete picture about what is going on and why.



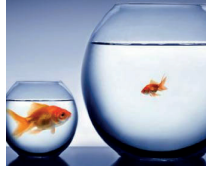
Expert Judgement

- It is a method where the assistance of an expert is used to evaluate the data, when the knowledge and expertise of the SAI is insufficient.



Benchmarking

- It is used to compare the results of one organisation with the results of its peers or the standard of the sector.



Benchmarking

- Benchmarking is suitable to compare various aspects, such as
 - the maturity of the ethics management or
 - implementation of a specific control or
 - the ethical culture of the organisation.



Seminars And Workshops

- They can be useful to combine knowledge from different people into one common report or product.



Seminars And Workshops

- It can take the form of a self-assessment of an organisation, facilitated by an (external) auditor, or
- it can be a structured session of the audit team to combine and evaluate the collected data within the framework.



Incident Analysis

- In this method, a past (integrity) incident is analysed in a structured way, to find out what went wrong and what could be improved.



Thank you for listening

Questions??



SESSION 4

REPORTING OF ETHICS AUDITS





SESSION 4 REPORTING OF ETHICS AUDITS



4.1 OVERVIEW

SAIs' reports are effective in drawing the attention of Parliaments and public. Focusing on ethics and ethical management, and providing correspondent recommendations and follow-up, they would be able to effectively encourage and enhance improvement in ethics' practices in public sector. The audit report communicates the results of the audit work and for that reason it is one of the most important parts of the audit process. If written and communicated well, it can be a powerful tool for prompting management to corrective action. Thus, before preparing any ethics audit report, auditors should know the key essentials regarding to reporting. Monitoring the implementations of ethic audit recommendations through follow-up audits is also integral element of ethics audit reporting.

Therefore, the main objective of this session is to make participant familiar with the key essentials of reporting ethics audit to meet generally accepted reporting standards. At the end of this session you will be aware of key essentials regarding to communicate the audit findings and conclusions in an objective and systematic manner and obtain relevant management responses and comments. And also participants will get insight regarding to follow-up activities of SAIs.

4.2 ESSENTIALS OF REPORTING ETHICS AUDITS

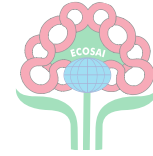
The audit report is arguably the most important component of the entire audit process in all types of audits. It has several purposes:

- identifying structures and processes that aren't working as well as they could be and bringing them to the attention of stakeholders so they can initiate change;
- presenting a case for change to improve the administration and management of the area or activity being audited by;
 - ✓ presenting the findings of the audit work
 - ✓ setting out the auditor's conclusions, based on the findings, about the performance of the audited activity or area in terms of the audit criteria and



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- ✓ making recommendations as to the form any change(s) should take
- providing assurance to stakeholders about those areas and activities that are being well managed, where these are reviewed in sufficient detail to make this assessment;
- reporting on those activities and procedures that represent good practice which may be usefully adopted by other areas of the entity;
- providing a basis for follow-up work either by the auditor or by the entity to review the implementation of recommendations, or alternative action taken by the auditee;
- providing evidence about the work done by the auditor and validating the allocation and use of scarce audit resources on the audit topic.

When it comes to audit of ethics, it deals with a sensitive subject. Therefore reporting and communication before, during and after the audit requires special care. While the topic is expected to be of a more sensitive nature, it is recommended that the reporting process largely follows a performance audit approach. In fact, the audit of a public organisation's ethical framework will mainly focus on performance, in particular the efficiency and effectiveness of the measures put in place (and/or absence thereof) to ensure the ethical behaviour of the entity's management and staff. An audit on ethics should aim at improving integrity management, although it may imply compliance with existing rules/regulations. It is therefore essential that the reporting draws attention to and takes into consideration the existing legal provisions at national/regional level as well as the established rules and practice.

Ethics audit reports, like other types of audit reports, should be **comprehensive, convincing, timely, clear, relevant, reader friendly, objective, accurate, concise** and **constructive**. An effective quality control system is required to help ensure that the reports exhibit these qualities.

To be **comprehensive**, an audit report needs to include all the information and arguments needed to address the audit objective(s) and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the audit findings and conclusions. The audit report of the audit of ethics shall follow the standards applicable for any audit report. Thus, it comprises sections on: introduction; objectives (clearly stating the purpose and reason of the audit); audit scope, approach and criteria; observations; conclusions; and recommendations.

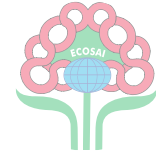
To be **convincing**, an audit report needs to be logically structured and present a clear relationship between the audit objective(s) and/or audit questions, audit criteria, audit findings, conclusions and recommendations. It also needs to present the audit findings persuasively, address all relevant arguments to the discussion, and be accurate. Accuracy requires that the audit evidence presented and all the audit findings and conclusions are correctly portrayed. Accuracy assures readers that what is reported is credible and reliable.

Being **timely** requires that an audit report needs to be issued on time in order to make the information available for use by management, government, the legislature and other interested parties.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



The main messages of the report should be **clear, relevant** and easily identifiable and not be susceptible to misunderstanding. The information given should convince the reader of the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. The report's contents must pertain to the stated audit questions, be of importance and interest to the report's users, and add value, e.g. by saying something new about the topic. An important aspect of **relevance** is timeliness.

To be **reader friendly**, the auditor needs to use simple language in the audit report to the extent permitted by the subject matter. Other qualities of a reader-friendly audit report include the use of clear and unambiguous language, illustrations and conciseness to ensure that the audit report is no longer than needed, which improves clarity and helps to better convey the message.

Since ethical issues tend to be perceived as sensitive and even subjective, concerns about their objectivity are of special importance. Audit reports need to be written from an independent unbiased viewpoint, with actual performance judged against objective (and, particularly important in this case, preferably agreed) criteria. The report should be balanced in content and neutral in tone, be fair and not misleading, with the audit results put into context. Objective reports give due recognition to positive aspects of performance, and are representative of what was actually found, rather than overemphasising or exaggerating deficient performance. Interpretations need to be based on insight and understanding of the facts and conditions. This can help ensure improved acceptance of the report by the auditee.

The key to a good audit report is effective communication, with the report **clearly and objectively** setting out the main findings and conclusions on the audit questions, allowing the reader to understand what was done, why and how, and providing practical recommendations. Audit questions presented in the report should be those questions which give rise to the report's conclusions. These questions need not be exactly the same as the original audit questions, as set out in the audit planning phase.

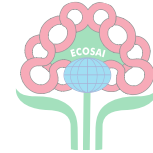
In ethics audit, **accuracy** is of the maximum importance. In ethical issues, it is very easy that concerned people argue that conclusions are a matter of perspective. So, conclusions must be based in well established and presented evidence. This evidence presented should be true and all findings correctly portrayed. This is based on the need to assure readers that what is reported is credible and reliable, as one inaccuracy in a report can cast doubt on the validity and credibility of the entire report and divert attention from its substance. In addition, inaccuracies can damage the SAI's credibility and reduce the impact of its reports. In what relates to culture and climate, the auditor must be very careful in the way it formulates the conclusions in connection to the value of the available evidence. It must clearly differentiate the cases where he/she can comfortably say that a situation 'is this' from those where he/she should say that people 'perceive it like this'. The fact in this latter case would not be the situation but, instead, the climate about that situation.

An audit is often the result of many hundreds of hours work and involves perhaps thousands of pages of working papers and audit evidence. The role of the author of the report is to distil this material into as **concise** a report as possible. To this end auditor must develop his or her writing



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



skills. They need to be able to review their words and find a way to express their ideas in the shortest possible way, replacing long words with shorter ones, and reducing the number of sentences in an argument without detracting from that argument. The auditor should also go through the report carefully and test every point to see if they are all necessary. This test is simple; if this point was left out would the report be less effective at meeting its objectives.

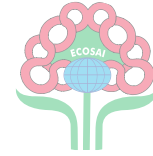
Audit report should be **constructive**, assisting management in overcoming or avoiding problems in the future, by clearly identifying who is responsible for the weaknesses identified and making practical recommendations for improvement. It is not appropriate to criticise management for issues that are beyond their control. Balanced reports, which give due recognition to positive aspects of performance, can help ensure improved acceptance of the report by the auditee. A constructive recommendation is one that is well founded, adds value, is practical and is linked to the audit objective(s), audit findings and conclusions. Recommendations need to avoid truisms, address the causes of problems, and not encroach on the management's responsibilities. It should be clear how the recommendation would contribute to better performance. The recommendations must follow logically or analytically from the facts and arguments presented. Recommendations need to be addressed to the audited entity that has the responsibility and competence for implementing them. Conclusions and recommendations of the audit report of an audit of ethics should aim at improving integrity management and, consequently, could be related to the following issues:

- Adapting procedures to best practices
- Promoting written ethical standards and/or signing declarations of adherence to written good practices
- Defining concrete policies/guidelines regarding areas of business or authorisation of expenses
- Strengthening integrity awareness among staff
- Establishing an effective communication of the use of soft controls as a means to increase the effectiveness of hard controls,
- Promoting a culture of transparency regarding management practices,
- Improving the quality of the information given to boards, management or the Parliament,
- Comprehensively reviewing the internal control systems' performance and/or strengthening them to confirm compliance with key controls
- Complying with applicable codes or rules and reinforcing the ability of some bodies and departments to ensure that compliance
- Improving guidance in the area of disciplinary action
- Establishing legal obligations of information to public to increase transparency and prevent corruption with the help of the general public
- Avoiding conflicts of interest in procurement, namely by preventing the purchase of consulting advice from the same companies that are negotiating contracts
- Promoting and supporting awareness raising and training programmes
- Adopting strategic approaches to whistleblowing arrangements, clarifying responsibilities in those procedures, sharing the information collected and using it to identify trends, target areas of risks and learn lessons



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Promoting the inclusion of special conditions for contract execution, with the view of fostering equality of gender in what concerns the access to the labour market.

Since comments from the audited entity on the audit findings, conclusions and recommendations contribute to the writing of a balanced audit report and help the auditor resolve any disagreements and correct any factual errors before an audit report is finalized, SAI should give the audited entity the opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report. It shouldn't be neglected that the audit report has to reflect the views of the auditor but also show the perspective of the audited entity. The examination of feedback received needs to be recorded in working papers so that any changes to the draft audit report, or reasons for not making changes, are documented. Such documentation provides transparency over why any changes to the draft audit report were or were not made, as well as the auditor's reasons for these decisions.

When audit conclusions and recommendations on ethical public management are issued, public reporting is quite important. Ethics audit reports should be made public and published via the similar channels as other SAI reports. The press/media and public at large are the ultimate stakeholders when it comes to raising awareness and putting pressure to the public sector to increase transparency and accountability. The broadcast press and the written media play a significant role in raising awareness of SAI's findings and recommendations across the public. Taking into account the potential restrictions related to confidentiality and data protection, audit reports on ethics shall be communicated through the press and media upon publication.

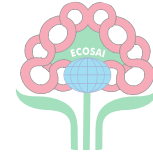
4.3 FOLLOW UP OF ETHICS AUDITS

Follow-up activities by the SAI provide impetus for the implementation of accepted recommendations. Management are more likely to focus on implementing recommendations if they are aware that the SAI could revisit the area. Follow-up procedures should identify and document the impact of the audit and the progress of the agency in implementing audit recommendations. The conduct of follow-up activity is also vital to provide feedback to the SAI, the legislature and the government on ethics audit effectiveness in producing improvements in public sector management.

In particular, as regards ethics, demonstrating that all possible efforts have been made to improve ethical framework and to implement the audit findings and recommendations is essential for the credibility, accountability and reputation of the auditee. To lead to effective change, the recommendations need first to be accepted by auditees and then to be implemented. The SAIs should need to ensure a proper monitoring of the implementation of their recommendations, knowing that it can take a significant period of time before some are implemented, due to their scale or complexity.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



REFERENCES

EUROSAI Task Force Audit&Ethics (TFAE) Paper, (2014),”Auditing Ethics In The Public Sector A general overview of SAI’s practices”,
[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

EUROSAI Task Force Audit&Ethics (TFAE) Guideline (2017), “Audit of Ethics in Public Sector Organisations,
<http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf>

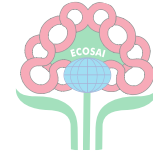
ISSAI 3000, (2016), “Standard for Performance Auditing”, http://www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm

PASAI, (2011), “Performance Audit Manual”
<https://www.eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/materials/Performance-Audit-Manual-PASAI.pdf>

SESSION 4
HANDOUTS



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 4-HANDOUT 1

AUDIT ON THE INTEGRITY POLICY IN FEDERAL TAX DEPARTMENTS: PROBLEMS CONCERNING THE CODE OF CONDUCT²⁴

By Philippe Roland, Senior President, SAI of Belgium

In 2011, the Belgian Court of Audit issued a review of how the integrity policy was being carried out in the tax services of the federal Department of Finance²⁵. This service had been chosen because it presents a particular risk both for control purposes and tax collection.

The integrity policy has been addressed in its various aspects: the prevention, the identification and the rectification of integrity breaches. An essential component of prevention, which has been emphasised in the audit, is the determination of integrity standards: the authority must define the values of the organisation and specify the behavioural expectations on the part of its staff members. This benchmark – in the form of a code of conduct or any other related standard - may be used as a basis for the other elements of the integrity policy.

In this respect, the main objective of the audit was therefore to ascertain the existence of such a benchmark, which not only sets the values of the organisation but also transposes them into specific operational standards in order to cover the specific risks faced by the organisation in its tax collection and inspection activities. Indeed, very concrete questions may arise about the appropriateness of some behaviours of the staff towards a taxpayer or his representative (with regard to gift items or invitations, for example). The management has to rule on the lawfulness of such behaviours.

All federal departments are subject to an ethical framework (Cadre déontologique) in the form of a circular, which has been published on 17 August 2007²⁶ and details the common values and rules of conduct imposed on all civil servants. The aim of this ethical framework is to raise awareness among civil servants regarding particularly the values of respect, impartiality, professionalism and loyalty; it outlines the behavioural expectations related to these four core values. However, due to the variety of the mission types assigned to federal civil servants, the ethical framework further suggested that each Minister or State Secretary should lay down additional rules of conduct that would specifically be applicable in their departments. The particular risks encountered in the tax departments required the enactment of additional rules.

²⁴ Resource: EUROSAI TFAE (2014), Auditing Ethics In The Public Sector, A general overview of SAI's practices,

[http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosai-tfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf),

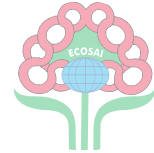
²⁵ Politique de l'intégrité dans les administrations fiscales fédérales (Integrity policy in federal tax departments), 20 June 2012 (A French version of this document can be viewed at: https://www.ccrek.be/docs/2012_26_PolitiqueIntegrite.pdf).

²⁶ Published in the Belgian Official Gazette of 27 August 2007 (French version available at: [http://www.ejustice.just.fgov.be/cgi_loi/loi_a1.pl?language=fr&la=F&cn=2007081731&table_name=loi&&caller=list&F&fromtab=loi&tri=dd+AS+RA NK&rech=1&numero=1&sql=\(text+contains+\(*\)\)](http://www.ejustice.just.fgov.be/cgi_loi/loi_a1.pl?language=fr&la=F&cn=2007081731&table_name=loi&&caller=list&F&fromtab=loi&tri=dd+AS+RA NK&rech=1&numero=1&sql=(text+contains+(*)))).



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



The review of the Court of Audit revealed that there was still no code of conduct in the Federal Department of Finance, but that such a code was in the pipeline for several months. An Ethical Framework Guide (Guide du cadre déontologique²⁷) has been published after the completion of the audit in March 2013. As the title indicates, it is a set of guidelines aimed at enforcing the provisions of the federal ethical framework in this particular organisation. As advocated by the Court of Audit, the guide contains standards of conduct that are tailored to the tasks performed by the tax officials: parts of the document make reference to gifts and donations, invitations to events, receptions and meals, as well as to potential conflicts of interest. Since the guide was published after the completion of the audit, the Court has not had the opportunity to assess how far staff members adhere to it.

²⁷ A French version of this document can be found at: http://finances.belgium.be/fr/binaries/guide-deontologie-version-imprimable_tcm307-235909.pdf.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



SESSION 4-HANDOUT 2

A NEW PERSPECTIVE IN PUBLIC SECTOR AUDITING: ETHICS AUDIT²⁸

Yaşar UZUN, Principal Auditor of Turkish Court of Accounts

1. INTRODUCTION

Sustainable development is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (ISSAI 5130, Articles 1.1 and 1.2). This definition requires people to use the resources available in their environment in an economical, efficient and effective way, and acquire and consume them as much as their real needs by taking into account their life balances and qualities without compromising next generations’ needs. Sustainable development is a term that encompasses economic, social and environmental dimensions. However, the requirements implied by the definition, such as using resources as much as real needs, considering next generations as “valuable” and providing common good-based sustainable development at each dimension, point out to the fact that this definition actually encompasses one more dimension based on ethical values and principles. The fact that resources available today can not be obtained, produced and delivered in line with ethical values and principles causes global problems in the form of economic, social, political and environmental crises that can be a disaster for humanity and earth. It is thought that non-compliance to ethical values and principles, which should shape the behaviours of the factors forming civil societies, private and public sectors, produces global problems such as poverty, hunger, poor health and education circumstances etc. These problems are also the subjects of the sustainable development goals of the UN. From this perspective, one can understand the importance of promoting ethical culture in civil society, private sector and public sector . Supreme Audit Institutions (SAIs) play an important role in establishing and sustaining transparency and accountability in public management through traditional audits such as financial audits, compliance audits and performance audits. In addition to the traditional audits, SAIs can perform “ethics audits”, by which they can promote ethics management infrastructure in public sector. Ethics audits aim at developing working environments, in which public organizations and public officials produce and deliver public services according to the expected professional standards such as honesty, equality and independence.

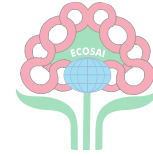
The purpose of this paper is to raise awareness regarding the “ethics audit”, which SAIs should carry out to build and support an integrity-based public sector. Therefore, a conceptual analysis to understand essential terms well will be made in this paper, and then the issues such as why and how SAIs should conduct “ethics audits” and potential benefits of ethics audits in public sector would be explained.

²⁸The Journal of The World Of Accounting Science- The Turkish Foundation For Science And Collaboration Of Accounting Academician/ Cilt / Volume: 20 Sayı / Issue: 1 Mart / March 2018, <http://dergipark.gov.tr/download/issue-full-file/36424>



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



2. CONCEPTUAL ANALYSIS

Ethics is the entirety of moral principles that form the basis of an individual's behaviour. In other words, ethics is the guiding values, principles and standards that help people in determining "how things should be done". At the same time, ethics is a process. In this process, when making decisions and putting them into practice, certain values are respected (The Council of Ethics 2009, 2). Ethics is the branch of philosophy that defines what is good for the individual and for society and establishes the nature of obligations or duties that people owe themselves and one another. It is embodied in the moral values of a society and individuals, guiding one's acts in a particular circumstance. Ethics vary across countries, time, cultures and organizations (EUROSAI TFAE 2017, 12).

The stakeholders of public sector organizations have value-based expectations from public management. For example, taxpayers expect their taxes to be used properly for specific purposes. Therefore, public sector should display appropriate behaviours based on ethical values and principles in order to meet the expectations of stakeholders. What is called ethics in public management comprises the set of values and principles that the public officials should follow while making decisions and carrying out their tasks and responsibilities, such as objectivity, honesty, competency, transparency, accountability, fairness, equality, the maintenance of public benefit, professionalism, efficiency, effectiveness, non-acceptance of gifts and bribes. Ethical management is the management that adopts those values and principles and practices them in its decision-making processes and operations (Eryılmaz 2008, 7).

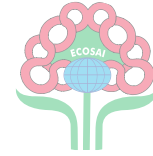
Ethics management in public sector requires the production and delivery of public services in line with ethical values and principles, and it necessitates that the structure and functioning of public management is shaped according to the "requirements of ethics management". The term "ethics infrastructure", which the OECD has developed throughout the years, identifies the requirements of ethics management. According to the OECD, a well-functioning ethics infrastructure supports a public sector environment, which encourages high standards of behaviour. Each function and element is a separate, important building block, but the individual elements should be complementary and mutually reinforcing. The elements interact to achieve the necessary synergy to become a coherent and integrated infrastructure. The elements can be categorized according to the main functions they serve –guidance, management and control– noting that different elements may serve more than one function (OECD 2005, 33):

- Guidance is provided by strong commitment from leadership; statements of values and standards of conduct such as codes of conduct; and professional socialization activities such as education, training and counselling to raise awareness and develop skills for application of laws and standards in the daily work.
- Management policies and practices create public service conditions that ensure fair and impartial selection, promotion and remuneration, as well as contribute to social respect.
- Control is assured primarily through an effective legal framework that sets the basic standards of behaviour for public officials, and enforces them through effective accountability mechanisms, such as internal control and external audit; transparency



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



mechanisms providing access to public information, facilitating public involvement and scrutiny; as well as arrangements for independent investigation and prosecution.

The main approach of the OECD regarding the main functions of ethics infrastructure (guidance, management and control) can be summarized as follows:

Integrity systems often begin with a code of conduct, code of behaviour or code of ethics. They usually begin with either a series of principles or a delineation of behaviours that public servants are expected to avoid or observe. These codes are generally in addition to anticorruption laws, and they attempt to refine behaviours in a broader and encompassing fashion. They are often helpful because they provide the basis for other ethics elements. Most ethics programmes have counselling mechanisms, through which they give employees advice in response to ethics questions (OECD 2005,80-81). However, the content of the codes of conduct or even legal provisions remains simply words on paper unless adequately communicated and inculcated. Socialisation mechanisms are the processes by which public servants learn and adopt ethical norms, standards of conduct, and public service values. Training –both induction and ongoing– is an essential element to raise ethics awareness and develop skills capable of solving ethical dilemmas. In the same way, training on vulnerable areas can help public servants solve ethical dilemmas by defining practices for managing organisational and strategic risks proactively. The ethical commitment of leaders and managers is immensely important so as not to cause efforts for encouraging ethical behaviours are in vain. Public managers should serve as important role models (OECD 2005, 67-68).

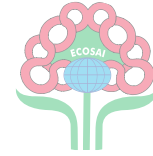
The high standards of ethical conduct expected of public officials are one side of the coin. The other side is a “package”, which provides decent working and living conditions for the “servants of the public”. This “package” consists of such basic elements as sufficient job security, prospect of possible promotion and career, fair remuneration or social appreciation. Fair and impartial human resources management policies could ensure that the selection and promotion processes in the public sector would be based on general professional requirements, and that other factors such as direct political interventions, would be minimised (OECD 2005, 68).

Legal framework is the “teeth” of the overall ethics infrastructure. Laws and regulations define the basic standards of behaviour for public servants and enforce them through systems of investigation and prosecution. Legal framework includes criminal codes and civil service laws, conflict-of-interest statutes and other regulations, which apply to public servants. Accountability and control mechanisms encourage ethical behaviour by making unethical actions hard to accomplish and easy to detect. Accountability mechanisms set guidelines for government activities, for checking whether the results are achieved and due process is observed. They include internal administrative procedures (requirements that activities or requests are recorded in writing), comprehensive processes (such as audits and evaluations of an agency’s performance), or new forms of procedures such as whistleblowing (which can encourage public servants to expose wrongdoing committed by others or to say no when asked to do something inappropriate). They might also be external to the public service; for example,



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



oversight mechanisms such as legislative or parliamentary committees. Freedom of information laws can institutionalise and support public awareness and responsiveness (OECD 2005, 69).

In order to meet the aforementioned requirements of ethics management infrastructure in public sector, “ethics and ethics-related issues” should be handled at strategic level and works of the infrastructure required should be designed systematically. Therefore, we can say that ‘ethics management’ means the planning, implementation and co-ordination of activities of public management and public bodies for the achievement of integrity in their structures and functions (EUROSAI TFAE 2017, 13).

One of the important tools to assess whether the requirements of ethics management infrastructure in public sector organizations are properly designed and implemented is the “ethics audits” that should be conducted by SAIs. An audit of ethics is a process used to evaluate several dimensions of the ethical conduct of an organisation. It assesses how well (or poorly) an organisation conforms to agreed benchmarks of ethical standards. It addresses the ultimate responsibility and corresponding accountability of the organisation’s leadership to promote and ensure that its management at all levels and its staff behave in an ethical way and, by doing so, refrain from acts of fraud and corruption. It may include the assessment of ‘soft’ elements (like tone at the top and tone at the middle) as well as ‘hard’ elements (the codes and procedures established to stimulate, monitor and reinforce ethical conduct throughout the organisation) (EUROSAI TFAE 2017,6). By conducting ethics audit on cross-cutting ethics issues in government (for example; effectiveness of ethics commissions, functioning of conflict of interest policies and procedures, requirements and practices of ethical leadership, effectiveness of codes of ethics etc.), SAIs could assess how well (or poorly) more than one public entity or general public sector conforms to the agreed benchmarks of ethical standards.

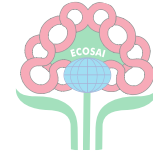
Ethics audits make it possible to identify to what extent ethics management system requirements are working in public sector organisations, and what sort of deficiencies exist in terms of the existing structure, policy areas, processes and systems. It can provide a picture regarding the development and maturity level of public management or public sector organizations in terms of ethical culture in place. Therefore, ethics audit will carry out an important function to bring these issues to the agendas of audited entity, the Parliament and public opinion. Audit findings and recommendations of ethics audit reports would also provide support to politicians and administrative decision makers for making effective decisions regarding ethical management requirements.

3. WHY SHOULD SAIs CONDUCT ETHICS AUDIT?

SAIs, which conduct audits on behalf of legislature almost in every country, are the most reliable information sources of Parliaments. They have an important place within the constitutional systems of countries. Having indispensable functions for executives in addition to the legislatures and carrying out judicial tasks and responsibilities in some practices, SAIs



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



conduct the role of the guardianship of Treasury on behalf of public (Köse 2007,13). They are one of the important pillars of National Integrity Systems (NIS) and have a main responsibility such as promoting integrity/ethics in public sector management. The factors that motivates and/or necessitates SAIs to perform ethics audits for developing an integrity-based public management could be analysed as below:

a- Problems of public management and the expectations of public: Ethics, integrity and transparency of state officials, and civil servants' actions have become a growing focus of public attention. Numerous scandals related to corruption, illegality or lack of professionalism justify the prominent role of these issues in many countries. At the same time, the reform and modernisation of state administration and public management and the increasing democratisation and openness of societies allow and claim for the development and strengthening of ethics' structures and management in the civil service. Thus, ethics turns out to be a required part of the good governance and performance of public sector organisations. In such circumstances, ethics and ethics management present themselves as important topics for auditing. (EUROSAI TFAE 2017, 5).

b- Responsibilities given by International Standards of Supreme Audit Institutions (ISSAIs): Professional standards are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs), developed by the International Organisation of Supreme Audit Institutions (INTOSAI), aim to promote independent and effective auditing by SAIs. The ISSAIs encompass public-sector auditing requirements at the organisational (SAI) level (ISSAI 100, Article 1 and 2).

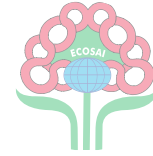
SAIs have important roles and responsibilities in strengthening ethics management in public services. According to the standards, public sector auditing should help create suitable conditions and reinforce the expectation that public-sector entities and public servants perform their functions effectively, efficiently, ethically and in accordance with applicable laws and regulations (ISSAI 100, Article 17). In other words, SAIs should have an audit approach that help public-sector entities and public servants perform their functions ethically by giving priority to the ethics and ethics-related issues in their audit activities.

Public sector auditing is an important factor in making a difference in citizens' lives. In order to make a difference in citizens' lives, SAIs are supposed to strengthen the accountability, transparency and integrity of government and public sector entities (ISSAI 12, Article 5). Therefore, strengthening of integrity of government and public sector entities should be the main concern for SAIs. They can focus more on developing ethics management systems in public sector through ethics audits.

SAIs may carry out audits or other engagements on any subject related to the responsibilities of management and those charged with governance and the appropriate use of public resources (ISSAI 100, Article 23). In other words, SAIs should have a responsibility to carry



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



out ethics audits in public entities in order to promote the ethical responsibilities of leaders and managers in administrations and ethical use of public resources as a requirement of good governance.

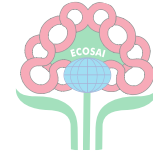
c- Traditional audits do always not give priority to the ethics and ethics-related issues: According to the ISSAIs, there are three types of public-sector audit; financial audit, performance audit and compliance audit (ISSAI 100, Article 22). Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework (ISSAI 200, Article 4). Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material aspects, with the authorities that govern the audited entity (ISSAI 400, Article 12). Performance audit focuses on independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations operate in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement (ISSAI 300, Article 9).

Traditional audit types such as financial audits, compliance audits and performance audits identify whether public organizations and public officials perform their duties and responsibilities effectively, efficiently, economically, transparently and in accordance with applicable laws and regulations. However, traditional audits of SAIs do always not make the requirements of ethics management infrastructure the prioritized audit subjects and these issues can be handled as subsidiary issues depending on audit objectives and purposes.

An approach to ethics or integrity in financial audit will always be conducted by a specific organisation and will be done within the analysis of its internal control environment. It will always be a subsidiary issue to be explored mainly if there is reason to believe that the financial information could have been or was affected by an unethical environment or behaviour. Compliance audit is an assessment of whether the given subject matters, notably the activities of public sector organisations, comply with applicable formal criteria (such as laws, regulations and agreements) or with the general principles governing sound financial management and the conduct of public officials (propriety). Compliance audits may be attestation or direct reporting engagements. The conclusion is expressed in terms of findings, answers to specific audit questions, recommendations or an opinion. Performance audit is an examination of whether undertakings, systems, operations, programmes, activities or organisations operate in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. It seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Where ethical aspects are treated as a secondary element that can affect the audited object, ethics audit will occur in a subsidiary manner, embedded in the main compliance or performance audit. When the main scope of the audit focuses on ethics management and its infrastructure, we can say that we are dealing with a proper audit of ethics (EUROSAI TFAE 2017, 25).



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



d-The positions of SAIs and their authorities to raise ethics-related issues in public management: By auditing ethics or ethics-related issues, SAIs can help restore trust and confidence in public organisations, which has been recently deteriorating due to the financial and economic crisis. As known, part of the roots of this crisis lies in values' breakdown as well as the failure of regulation and controls. SAIs are in an independent, expert and privileged position to identify and counteract the weaknesses, thus contributing to restore public confidence. SAIs' reports are effective in drawing the attention of Parliaments and public. Focusing on ethics and ethical management and providing correspondent recommendations and follow-up, they would be able to effectively encourage and enhance improvement in ethics' practices in public sector (EUROSAI TFAE 2014, 8).

e-Recognizing the understanding of system improvement rather than identifying road accidents in public sector audits: In recent years, a general understanding recognizing system improvement rather than identifying road accidents in public sector audits has been accepted. Therefore, the role of SAIs has shifted towards an understanding that meet the requirements of ethical management system in public management by conducting system-based audits instead of focusing on the identification of mistakes. Through the ethics audit to be conducted by SAIs, public sector organizations are encouraged to make their ethics management control mechanisms functional not to face irregularities and corruptions. As a result, preventing violations of ethical values and principles and/or ensuring the effective management of potential ethics-related risks in public sector organizations would be more possible.

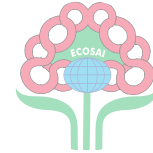
4. AN EVALUATION REGARDING THE ETHICS AUDIT METHODOLOGY

Having analysed the reasons for conducting ethics audit to promote integrity in public sector, some important questions may come into minds: How can public sector audit help public sector organizations and public officials perform their duties and responsibilities ethically or what can SAIs do in order to promote ethics in public sector? These questions are on the agendas of the international organisations of SAIs. EUROSAI (European Organisation of Supreme Audit Institutions) is one of the Regional Groups of INTOSAI. As a working group of EUROSAI, the Task Force on Audit & Ethics (TFA&E), aiming to promote ethical conduct and integrity both in SAIs and in public organisations, was set up in 2011. The Task Force has developed a guideline titled "Audit of Ethics in Public Sector Organizations" after the works conducted between the 2014-2017 working period. According to the guideline, the main purpose of an ethics audit is to strengthen ethics management and ethical conduct in the public sector and to ensure good governance (EUROSAI TFAE 2017, 6). The guideline focuses on subjects such as why should SAIs audit ethics, key concepts, definitions and key approaches in auditing ethics, designing methodology, the essentials of reporting and communication and do's and don'ts in ethics audit. The guideline includes two annexes; one of them is the list of examples and audit reports regarding ethics, and the other one is a glossary of ethics audit. By taking into account this guideline, an evaluation regarding ethics audit methodology can be made as described below.



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



Traditional audit types such as financial audits, compliance audits and performance audits are performed by SAIs with their own particular methodologies. Ethics audit also requires a particular methodology to be followed for the planning, executing and reporting processes of the audit. As mentioned above, the guideline gives general information regarding potential ethics audit approaches and how to design an ethics audit. Therefore, by taking into account the audit approaches to be followed, ethics audit should have particular audit objectives such as: to determine strengths and weaknesses in the ethics component of the control environment in auditing the ethics component of internal control system; to assess the existence and functioning of integrity management systems or infrastructures in public sector organisations in auditing of ethics management system within an organisation or sector; to assess the existence, effectiveness and efficiency of the national integrity system, analyse, and identify specific weaknesses in subject-focused and transversal audits.

The audit scope of ethics audit defines the subject matter that the audit will assess and report on, the documents, situations or records to be examined, and the period reviewed. The subjectmatter of ethics audit may be specific programs, processes, procedures, systems, or the ethical culture of the entities.

One of the key elements of ethics audit methodology is the selection of audit topic. As mentioned above, the main focus of ethics audit should be on the requirements of ethics management infrastructure in public sector organizations. The topics of ethics audit could be related to ethics management infrastructure as a whole or each of key functions forming this infrastructure. Some examples for topics of ethics audit are below:

- Effectiveness of ethics management regulators of public management,
- Conflict of interest policies and practices,
- Diversity management,
- Ethical commitment of leaders and managers,
- Ethical codes and legal arrangements,
- Ethics committees/commissions in public bodies,
- Ethical advice policies and practices,
- Recruitment and professional development approaches etc.

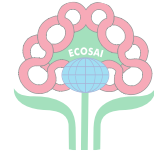
While identifying topics of ethics audits, issues such as the priorities of the Parliament and public and the potential effects of audit over the financial management discipline, culture of integrity, progress of organizational performance, behaviours of public officials should be taken into account (Uzun 2017,76). Examples of ethics audit of European SAIs, by which ethics or ethics-related issues are prioritized, are below:

List 1. Examples for Ethics Audit



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



- Regularity and performance of the established ethics infrastructure and the implementation of ethical values and principles (Croatia)
- Ethics infrastructure in comparison with the practices of other developed countries (Croatia)
- Integrity and integrity risks in the administrative culture (Hungary)
- State of integrity management in central government (The Netherlands)
- Codes of conduct in public administration (Iceland)
- Governance practices of the state-owned companies sector (Portugal)
- Integrity policy in tax departments (Belgium)
- Management of conflict of interest in EU agencies (ECA)
- How far public servants' disciplinary rules and proceedings are implemented and working as a support to ethical conduct in public administration (Italy)
- How effective investigation and prosecution of tax fraud, social security fraud and horizontal fraud is working (The Netherlands)
- Inappropriate adjustments in patient waiting lists in some organisations of the National Healthcare System, developing work and following-up on a previous report that had identified those kind of adjustments (UK)
- Professional conduct of high ranking government officials, including unethical professional conduct and inappropriate use of official facilities and equipment (Malta)
- Foreign allowances granted to civil servants (The Netherlands)
- Gifts and benefits for public servants (Israel)
- Political financing and donations to political parties (Israel)
- Post-employment restrictions (Israel)
- Making a whistle-blowing policy work (UK)

Resource: www.eurosai-tfae.tcontas.pt/activities/Papers

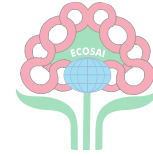
In an ethics audit, there should be some questions to be answered by audit work to reach audit objective. Potential questions could be related to the existence of ethics management policies, tools and procedures, systems, their visibility, effectiveness, sufficiency etc. Some examples of the questions mentioned in the guideline are as follows:

- Does the entity identify, assess and address the risks to integrity?
- Does the management demonstrate in its guidelines, actions and attitudes its commitment to ethical conduct and ethical principles?
- Does the management evaluate the performance of employees and teams to meet the expectations of ethical conduct, does it identify deviations and does it implement corrective actions in a consistent and timely manner?
- Does leadership pay attention to ethics?
- Are there open discussions about ethics issues?
- Are ethics violations reported when they occur?



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



In ethics audit, audit criteria would be a base to assess potential gaps between the thing that exists and the thing that should be. Examples of audit criteria for ethics audit could be ethics-related national legislation, international agreements, international guidance and recommendations, such as COSO Framework, INTOSAI GOV or OECD Integrity Framework, peer standards to compare, performance indicators, institutional plans and programs.

The audit team performing ethics audit needs to obtain audit evidences in order to find answers to audit questions and develop audit recommendations. Document or case review, sampling, observation, cultural observation techniques, inquiry, interview, questionnaires, surveys and focus groups could be some examples of methods to collect data or evidences in ethics audits.

Reporting of ethics audit is the phase by which SAIs make the results of their audit works concrete and ready to submit to stakeholders. Since ethics audit deals with a sensitive subject, reporting and communication before, during and after the audit requires special care. The audit report of ethics audit shall follow the standards applicable for any audit report:

- It should contain the following sections: introduction; objectives (clearly stating the purpose and reason of the audit); audit scope, approach and criteria; observations; conclusions; and recommendations.
- It must be objective, complete, clear, convincing, relevant, accurate, constructive, and concise. An effective quality control system is required to help ensure that the reports exhibit these qualities.

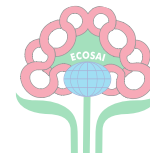
In order to be successful in ethics audit, SAIs should pay special attention to the communication initiatives regarding key stakeholders to maximise the impact of its reports. Some of the communication initiatives SAIs can adopt are as follow:

- Explain to stakeholders (including parliament) and auditees why it decided to adopt an ethical approach in its audit work, why it is important to do so and share with them the strategy it decided to adopt in this regard.
- Share the guideline to audit ethics with stakeholders
- Compile best practice, lessons learnt and impacts from its audits of ethics and share them with stakeholders, notably in the SAI's annual reports
- Ask for feedback from the auditees concerning the usefulness of the audits of ethics and learn from that feedback.

For SAIs, who want to contribute to the promotion of ethics culture in public management through ethics audits, it would be a good step to develop their own ethics audit strategies, methodologies and guidelines suitable to their own legal, political, social and cultural environments by taking into account the best practice guidelines and approaches in this field.



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



5. POSSIBLE IMPACTS OF ETHICS AUDITS

Ethics audit to be performed by SAIs are expected to provide positive impacts to the public sector, public officials, public, environment etc. in many ways. Therefore, this part of the paper would emphasize the possible impacts that ethics audit can directly or indirectly produce.

The audit and the recommendations given on the basis of the particular facts and findings identified are able to produce the following types of improvements in the public sector (EUROSAI TFAE 2017, 52):

- Increasing the effectiveness of the control systems in place, since ethics is a relevant factor of risk assessment and an element of the internal control environment of the organisation
- Encouraging the set-up of missing processes and/or relevant control activities
- Stimulating and improving the set up and functioning of ethical infrastructures in public bodies
- Increasing the awareness of the importance of implementing and respecting ethical principles and values in public sector
- Stimulating relevant training and education on ethics
- Fostering the consistent application of rules and regulations related to ethics and ethical behaviour
- Enhancing ethical behaviour and ethical decision making
- Strengthening mechanisms for monitoring the implementation of ethical principles
- Decreasing the number of breaches and irregularities
- Improving prevention of fraud and corruption
- Increasing public awareness
- Change of management practices
- Increased public officials' accountability
- Amendments to legislation introduced
- Dismissal of public officials
- Sanctions applied to identified cases

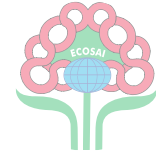
By considering those impacts, it could be concluded that ethics audits can help keeping the functioning of public sector and using of public resources under the powerful control mechanisms and diminish the violation of ethical values and principles and mistakes. By doing that, ethics audit would strengthen the transparency and accountability in public sector as well.

The ethics guidance policies of public sector are expected to help public officials adopt institutional and professional values and standards. Through the adopted values and principles,



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



it would be provided that public officials directly or indirectly reflect them to the people they interact during public service by setting an example. Therefore, those people that public official interacts with would be able to adopt and be aware of those values and principles. Considering that public officials also have a social environment, it would be inevitable that values and principles adopted by public officials would be transferred to family members and other people in their own particular social environment. In this context, activities to be provided to public officials such as ethics training, ethics guidance, advising etc. are expected to help the development of perceptions of public officials and other people they interact regarding the “value and correct behaviour”. From this point of view, by taking “ethics guidance policies and practices in public sector” as the main focus in ethics audits, SAIs would be able to strengthen and increase effectiveness of the ethics guidance policies to be implemented in public sector, to train and develop public officials based on values, and to support the transfers of values to next generations indirectly over the people forming public officials’ environments.

As mentioned above, human resource management policies and practices in public management are expected to create public service conditions that ensure fair and impartial selection, promotion and remuneration, as well as contribute to social respect because of ethics management requirements. Therefore, SAIs would contribute to strengthening the management practices regarding the key human resources policy areas through ethics audits by focusing on the existence and effectiveness of human resources management policies and practices with ethical aspects in public sector, such as diversity management policies of public sector organizations, equality, fairness and transparency in recruitment processes, ethical assessment practices of public managers in staff assessment processes etc.

Ethics audits to be conducted by SAIs can also create positive changes in the perception of public trust towards state, public sector organizations, rule of law, human rights and democracy. Ethics audits of SAIs promoting public officials’ commitment to the service standards in the production and delivery of public services would pave the way for increasing the quality of people’s lives in many ways. Through ethics audits to be conducted on complaining and whistleblowing policies and practices in public sector, the application mechanisms of citizens regarding unethical behaviours of public officials in public sector organizations, and eventually the ability of citizens to hold public official accountable for their unethical behaviours, would be strengthened. An ethics audit to be performed on citizens’ demand and suggestion submission mechanisms regarding the production and delivery of public services in public sector organisations can draw the attention of organizations to the due processes and tools regarding these mechanisms and therefore, a citizen-oriented and participative management approach would be strengthened in public management. Ethics audits of SAIs focusing on freedom of information policies and practices in public sector organizations, can also contribute to protecting and maintaining rights and freedoms of citizens (Uzun 2017, 78).

One of the important fields of applied ethics is environmental ethics. It has developed as a discipline questioning the relationships of human beings with their natural environments, the value of nature that consists of soil, river, plant, animal and similar beings and moral statute of



ECOSAI WORKSHOP-2019

INTRODUCTION TO ETHICS AUDIT



it. It primarily studies what kind of relationship human being should establish with the nature or in broad sense with the outside world (Yağanak and Önkal 2005, 590). People live in an environment, and this environment has all the resources they need to survive. Therefore, it is a main responsibility for everyone to protect and maintain the environment. “Environment” is a subject that should affect all public sector organisations and their decision-making mechanisms at the same time. Public officials and managers are responsible for protecting it and not causing environmental pollution while making decisions or performing activities. They are supposed to make their decisions by thinking about what sort of effects their decisions or activities can have on weather, soil, water and lives of other living beings in addition to the economic and social lives of people. In view of this context, it can be concluded that SAIs’ audits focusing on environmental ethics and its place in decision-making processes of public managers and officials could be considered as ethics audit. What follows is that, through ethics audits focusing on environmental ethics, SAIs would contribute to the protection of environment and environmental resources, which are necessary for sustainable development.

6. CONCLUSION

The global crises encountered have been leading countries to question their ethical values and principles and their practices in civil societies, private and public sectors. Therefore, ethics audit to be performed by SAIs to develop an ethics culture in public sector is a prominent subject, and the practices of SAIs’ ethics audits are increasing day by day.

As an important component of the National Integrity System (NIS), SAIs have a particular role in promoting integrity/ethics infrastructure systems in public sector organisations through ethics audits. While it is a responsibility of public sector organizations to meet the requirements of ethics management, it should be SAIs’ role to assess the efforts and activities of organizations to meet those requirements and submit their key findings and recommendations to the Parliament for making ethics management systems work better and providing sustainability in public sector. By putting ethics management requirements on the agenda through ethics audits, SAIs would provide support to politicians, public managers and regulating bodies in terms of identifying the things that should be done for meeting the requirements of ethics management structures in public sector and for increasing the quality of citizens’ lives and the awareness of protecting environment.

In order to achieve the potential impacts or benefits of ethics audits as mentioned above, SAIs should handle this audit approach with a strategic look and identify their ethics audit strategies, including communication with stakeholders, and methodologies. They should allocate due resources to ethics audit and design plans and programs to prepare ethics audit teams equipped with required skills and information necessary for audits. The ethics audit experiences of other SAIs would provide insights and awareness regarding the ethics issues. Therefore, following international practices and approaches in ethics audits would be helpful for SAIs in developing their approaches and methodologies. It should always be kept in mind that SAIs putting ethics



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



audits on their working agendas will always protect and maintain their privileged positions in the eyes of Parliaments, public organizations and public.

REFERENCES of ARTICLE

Eryılmaz, B. 2008. “Etik Kültürü Geliştirmek”, <http://etik.gov.tr/Portals/0/makaleler/1-12bilaleryilmaz.pdf> (Access Date: 18.09.2017).

EUROSAT TFAE (European Organisation of Supreme Audit Institutions -Task Force Audit & Ethics) Paper. 2014. Auditing Ethics in the Public Sector, A General Overview of SAI’s Practices, [www.eurosaitfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20\(EN\).pdf](http://www.eurosaitfae.tcontas.pt/activities/Papers/Activities/Auditing%20Ethics/TFAE_paper%20Auditing%20Ethics%20in%20Public%20Sector%20(EN).pdf) (Access Date: 01.06.2017).

EUROSAT TFAE (European Organisation of Supreme Audit Institutions -Task Force Audit & Ethics) Guideline. 2017. “Audit of Ethics in Public Sector Organisations, www.eurosaitfae.tcontas.pt/activities/Papers/Activities/Guidance/Guidelines%20to%20audit%20ethics.pdf (Access Date: 01.06.2017).

INTOSAI ISSAI (International Organisation of Supreme Audit Institutions- International Standard of Supreme Audit Institutions) 100. www.issai.org/en_us/site-issai/issai-framework/3-fundamental-auditing-principles.htm (Access Date: 01.06.2017).

INTOSAI ISSAI (International Organisation of Supreme Audit Institutions- International Standard of Supreme Audit Institutions) 12. www.issai.org/en_us/site-issai/issai-framework/2-prerequisites-for-the-functioning-of-sais.htm (Access Date: 01.06.2017).

INTOSAI ISSAI (International Organisation of Supreme Audit Institutions- International Standard of Supreme Audit Institutions) 200. www.issai.org/en_us/site-issai/issai-framework/3-fundamental-auditing-principles.htm (Access Date: 01.06.2017).

INTOSAI ISSAI (International Organisation of Supreme Audit Institutions- International Standard of Supreme Audit Institutions) 300. www.issai.org/en_us/site-issai/issai-framework/3-fundamental-auditing-principles.htm (Access Date: 01.06.2017).

INTOSAI ISSAI (International Organisation of Supreme Audit Institutions- International Standard of Supreme Audit Institutions) 400. www.issai.org/en_us/site-issai/issai-framework/3-fundamental-auditing-principles.htm (Access Date: 01.06.2017).



ECOSAI WORKSHOP-2019 INTRODUCTION TO ETHICS AUDIT



INTOSAI ISSAI (International Organisation of Supreme Audit Institutions- International Standard of Supreme Audit Institutions) 5130. www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm (Access Date: 01.06.2017).

Köse,H. Ö. 2007. “Dünyada ve Türkiye’de Yüksek Denetim”, www.sayistay.gov.tr/tr/Upload/95906369/files/yayinlar/Dunyada_Turkiyede_Yusek_Denetim.pdf (Access Date: 02.10.2017).


OECD (Organisation for Economic Co-operation and Development) 2005. “Public Sector Integrity, A Framework for Assessment”, http://www.keepeek.com/Digital-Asset-Management/oecd/governance/public-sector-integrity_9789264010604-en#.WZVPclFJaUk (Access Date: 17.08.2017).

The Council of Ethics for the Public Service of the Republic of Turkey. 2009. “An Ethics Reminder for Public Officials”, <http://etik.gov.tr/Portals/0/en/Ethics%20Reminder%20for%20Public%20Officials.pdf> (Access Date: 25.09.2019).

Uzun, Y. 2017. “Yüksek Denetim Kurumları ve Etik Denetim”, Sayıştay Dergisi, Sayı: 105, www.sayistay.gov.tr/tr/Upload/95906369/files/dergi/pdf/dergi_105_m3.pdf(Access Date: 20.09.2017).

Yağanak, E. ve G. Önköl. 2005. “Çevre Etiği”, Felsefe Ansiklopedisi (ed.A.Cevizci), Ankara, Nobel Yayınları, 3. Cilt, Aktaran: Cevizci, A. 2013. Uygulamalı Etik, 1. Baskı, Say Yayınları, s.121.

SESSION 4
SLIDES




REPORTING of ETHICS AUDIT

Reporting of Ethics Audit 1

Learning Objective

You will be familiar with the key essentials of reporting ethics audit to meet generally accepted reporting standards.



Reporting of Ethics Audit 2

What Could Be The Main Purposes Of Any Audit Report?

Reporting of Ethics Audit 3

Purposes of Audit Report

- Identifying structures and processes that aren't working well to the attention of stakeholders



Reporting of Ethics Audit

4

Purposes of Audit Report

- Presenting a case for change to improve the administration and management of the area or activity being audited



Reporting of Ethics Audit

5

Purposes of Audit Report

- Providing assurance to stakeholders about those areas and activities that are being well managed



Reporting of Ethics Audit

6

Purposes of Audit Report

- Providing evidence about the work done by the auditor and validating the allocation and use of scarce audit resources on the audit topic.



Reporting of Ethics Audit

7

Purpose of Ethics Audit Reports

- An audit on ethics should aim at improving integrity management, although it may imply compliance with existing rules/regulations.



Reporting of Ethics Audit

8

Ethics Audit Reporting Process

It is recommended that the reporting process largely follows a performance audit approach.



Reporting of Ethics Audit

9

Essentials Of Reporting Ethics Audits

- Comprehensive
- Convincing
- Timely



- Clear
- Relevant
- Reader friendly



- Objective
- Accurate
- Concise
- Constructive

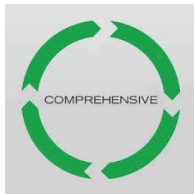


Reporting of Ethics Audit

10

Comprehensive Report

An audit report needs to include all the information and arguments needed to address the audit objective(s) and audit questions.



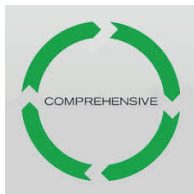
Reporting of Ethics Audit

11

Comprehensive Report

The audit report of an ethics audit **comprises** sections on:

- introduction;
- objectives;
- audit scope, approach and criteria;
- observations;
- conclusions; and
- recommendations.



Reporting of Ethics Audit

12

Convincing Report

An audit report needs to be **logically structured and present a clear relationship between** the audit objective(s) and/or audit questions, audit criteria, audit findings, conclusions and recommendations.



Convincing Report

It also needs to present the audit findings **persuasively**, address all relevant arguments to the discussion, and be **accurate**.



Accurate Report

- Accuracy requires that the audit evidence presented and all the audit findings and conclusions are **correctly portrayed**.



Accurate Report

Accuracy **assures** readers that what is reported is credible and reliable.



Timely Report

An audit report needs to **be issued on time** in order to make the information available for use by management, government, the legislature and other interested parties.



Clear and Relevant Report

The main messages of the report should be:

- clear,
- relevant and
- easily identifiable and
- not be susceptible to misunderstanding.



Clear and Relevant Report

The information given should **convince** the reader of

- the validity of the findings,
- the reasonableness of the conclusions, and
- the benefit of implementing the recommendations.



Clear and Relevant Report

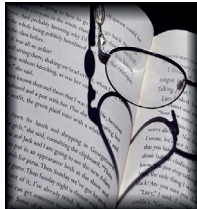
The report's contents must

- pertain to the stated audit questions,
- be of importance and interest to the report's users, and
- add value, e.g. by saying something new about the topic.



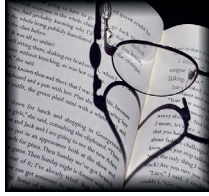
Reader Friendly Report

The auditor needs to use **simple language** in the audit report to the extent permitted by the subject matter.



Reader Friendly Report

- Audit report should use of **clear and unambiguous language, illustrations and conciseness** to ensure that the audit report is no longer than needed, which improves clarity and helps to better convey the message.



Objective Report

- Audit reports need to be written from an **independent unbiased viewpoint**.
- The report should be **balanced in content and neutral** in tone, be **fair and not misleading**, with the audit results put into context.



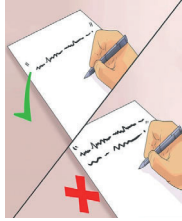
Objective Report

- Objective reports **give due recognition** to positive aspects of performance, and are representative of what was actually found, **rather than** overemphasising or exaggerating deficient performance.



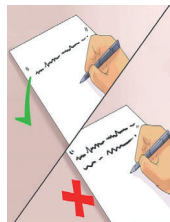
Concise Report

Auditors need to be able to review their words and find a way to express their ideas in the shortest possible way.



Concise Report

The auditor should also **go through the report** carefully and **test every point** to see if they are all necessary.



Constructive Reporting

Audit report should assist management in overcoming or avoiding problems in the future, **by clearly identifying** who is responsible for the weaknesses identified and making practical recommendations for improvement.



Constructive Reporting

It is **not appropriate** to criticise management for issues that are beyond their control.



Reporting of Ethics Audit

28

Constructive Reporting

A constructive recommendation is one that is **well founded, adds value, is practical and is linked to** the audit objective(s), audit findings and conclusions.

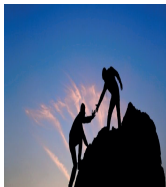


Reporting of Ethics Audit

29

Constructive Reporting

- Conclusions and recommendations of the audit report of an audit of ethics should **aim at improving integrity management.**

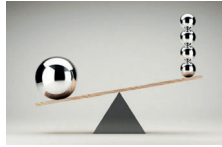


Reporting of Ethics Audit

30

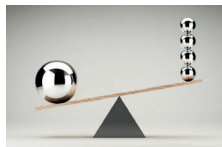
It shouldn't be neglected that

The audit report has to reflect the views of the auditor **but also** show the perspective of the audited entity.



It shouldn't be neglected that

Ethics audit reports should be made public and published via the similar channels as other SAI reports **by taking into account** the potential restrictions related to confidentiality and data protection.



Follow Up Of Ethics Audits

The conduct of follow-up activity is **vital** to provide feedback to the SAI, the legislature and the government on ethics audit effectiveness in producing improvements in public sector management.



Follow Up Of Ethics Audits

- Follow-up procedures should identify and document **the impact of the audit and the progress** of the agency in implementing audit recommendations.



Thank you for listening

Questions??