

**8th EUROSAI-OLACEFS Joint Conference
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EUROSAI TFA&E

AUDITING ETHICS IN THE PUBLIC SECTOR

The State Audit Office of the Republic of Croatia



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I. TFA&E GOALS (Goal 2):

- **GOAL 1**: promote ethics as a pillar of SAIs
- **GOAL 2**: promote ethical conduct in public organisations through the SAIs' activities
- most effective way → **auditing**
- possible impacts and results: **numerous**

Important questions:

- **Why to audit Ethics(?)**
- **Does SAI have a mandate to audit Ethics(?)**
- **Which ethics related issues SAI can audit(?)**
- **How to audit (methodology, standards, tools and criteria)?**
- **How to report(?)**
- **Are some good practices available(?)**

II. ACTIVITIES AND THE MAIN OUTCOME OF GOAL 2

Activities of the TFA&E related to Goal 2:

- **survey launched in December 2012**
- **Seminar in Luxembourg (Sept. 2013)**
- **Young Eurosaï Congress (Nov., 2013)**
- **Various types of contributions of the TFA&E's members**
- **Contributions of the several SAIs from other INTOSAI Regional Groups and of independent experts**

Main result within the Goal 2: Paper on Auditing Ethics in Public Sector – A general overview of SAIs' Practices

AUDITING ETHICS IN PUBLIC SECTOR

*A general
overview of
SAI's practices*

1. WHY SHOULD SAIs AUDIT ETHICS?

The audit of ethics conducted by SAI:

- a valuable instrument for measuring the ethical climate or adherence to the code of conduct of the organization
- add value and contribute to the improvement of management, controls and governance of the audited organization
- embody the view that ethics has real and practical implications in achieving goals, mission and vision of public sector organizations
- lead to help restoring trust and confidence in public organisations
- draw the attention of the Parliament and public to the ethics, ethical management and its practices in public sector...

1.1. Ethical infrastructure

- **what does ethics mean in the public sector of each country?**
 - **should or can SAIs carry out audits of certain issues related to ethics in the public sector?**
- **ethics in the public sector varies from country to country considering its level of development, tradition and culture, some ethical elements are common to all**
- **definition of ethics in the public sector, description of ethical infrastructure, ethical values and principles**

1.2. Unethical behaviour

- **variety of types of unethical behaviour within the public sector**
- **important to define clear principles and establish a legal and institutional framework that will define high ethical standards and allow managing ethics.**

1.3. SAIs' mandate to audit ethics or ethics related issues

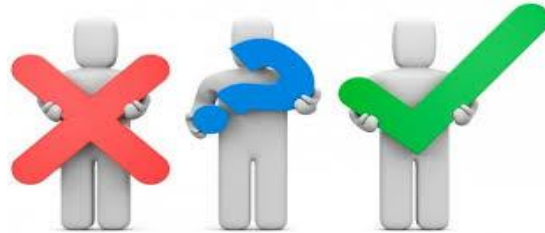
- **most SAI don't have specific mandate for auditing ethics and/or integrity; it arises from their general mandate**
- **ethics related issues are mostly considered within financial audits (assessment of internal control), or as a part of compliance and performance audits**

- **awareness of importance of the topic is clearly increasing**
- **a number of SAIs have specific mandate**
- **ethics is becoming a normal feature in auditing public organisations and in monitoring and evaluating public policies**

2. WHICH ETHIC RELATED ISSUES CAN SAI AUDIT?

- **auditors rarely examined the entire ethical framework; in most cases, they focus on a specific number of issues**
- **in some SAIs: audits/studies are specifically addressed to assess ethics/integrity in public sector or its organisations**
- **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 – depends on the maturity level of management**

2.1. Choice of topics



- a challenging task
- different approaches
- different examples

2.2. Good practice in auditing ethics and ethics related issues

- **SAIs' experience and practice in auditing ethics vary**
- **attention payed to various aspects that could help developing further good practices in the future**

3. HOW TO AUDIT ETHICS ?

- **a challenging task (again 😊)!**
- **practice on which methodology, standards, and tools to use, approach to apply, and which criteria to set (and how) varies from one country to another, from one SAI to another**

3.1. Methodology: criteria, standards and tools

- due to different audit approaches – practice vary a lot
- some SAIs developed their own tools, in different forms:
 - specific audit manual containing ethical issues,
 - specific audit programmes,
 - specific methods, checklists and questionnaires,
 - specific glossary, etc.
- a big majority of SAIs consider beneficial the general guidelines and sample check lists for auditing ethics in public sector to be developed
- ▶ Issuing common guidance to audit ethics/integrity → next step (objective)

3.2. Reporting

- a powerful tool
- experiences vary from one SAI to another
- examples of recommendations related to ethics/ethics related issues
and examples on how to present them and attract attention of Parliament and public → given in the Paper

4. IMPACT AND RESULTS

- **performing the audit and giving recommendations can produce numerous positive impacts and outcomes:**
 - improve the functioning of ethical infrastructure in government bodies,
 - ensure consistent application of the rules and regulations related to ethics and ethical behaviour,
 - encourage ethical behaviour and ethical decision-making,
 - strengthen existing mechanisms for monitoring of implementation of ethical principles and encourage the establishment of the missing processes and/or relevant control activities / increase the effectiveness of control systems in place
 - decrease the number of irregularities within audit subjects,
 - stimulate relevant education on ethics
 - increase awareness on importance of implementation/respect of ethical principles and values in public sector, etc.

ANNEXES:

1. Results of the TFA&A survey

- Survey has been issued by the EUROSAI TFA&E in December 2012
- It covered questions related both to ethics within SAIs and to auditing ethics in public organisations
- 32 replies from EUROSAI members (64%) received and 65 documents collected
- main results about *Auditing Ethics* - included in the Paper

2. Articles

several SAIs and authors (specialists in the field of ethics) described their opinions and experiences in short articles

III. EXPERIENCE OF THE SAO CROATIA RELATED TO GOAL 2

AUDITS:

Audit on the Functioning of Ethics Infrastructure in Governmental Administration Bodies (2013)

- Scope: covered specific activities related to the application of the relevant regulations, compliance with ethical values and their application in daily operations, and functioning of ethics infrastructure in Governmental Administration Bodies.
- Main goal: to assess efficiency in the functioning of ethics infrastructure established in 20 ministries and to assess the ethics profile with regard to the behaviour and conduct of civil servants, i.e. assessing the level of their compliance with and application of ethical principles, as well as actions taken in cases of breaches thereof.
- Objective: to assess whether gov. Bodies undertake the required activities and developing appropriate practices to promote ethical values and ethical principles in their daily operations, and whether the high ethical standards set for the public sector were being effectively achieved.
- Impact: report assisted Governmental Administration Bodies in strengthening their ethical profile and pursuing high ethical standards in the operation of the public sector as a whole, with a view to minimizing irregularities, fraud, corruption and other forms of unethical behaviour.

Audits of Political Parties (2013) - covered 29 political parties

- Objective: to assess whether pol. parties had adopted their codes of ethics and/or other documents defining the rule of conduct as well as high and clear standards of ethical behaviour required of their employees and members, in particular those discharging public and political duties; and how these rules were applied in political and other activities related to the operation of each political party.

Audit on Preventing and Detecting Fraud in Companies Owned by Local and Regional Governments (2015)

- Performance audit with objective to determine:
 - whether companies have established appropriate policies, procedures and controls to prevent fraud
 - whether they are taking the necessary action to increase awareness of managers and employees about the potential for fraud
 - to assess the effectiveness of the internal control system with regard to the risks of fraud
- Impacts: reducing the possibility of fraud, increasing the awareness of managers and employees about the possibility of fraud, as well as their obligation to report suspected fraud, and improving the system of disclosure of irregularities and reporting (of suspected fraud).

III. EXPERIENCE OF THE SAO CROATIA RELATED TO GOAL 2 (cont.)

DOCUMENTS:

- **Checklist on ethics as a part of Guidelines for auditing political parties** - obligatory document for auditors, refers to:
 - Existence of adequate legal basis (code of ethics or similar document)
 - Communication of that document to employees, managers (leaders) and pp members
 - Checking on whether there are clear rules that define situations of potential conflict of interest and manner of conduct,
 - Whether there are clear description of violation of duties related to unethical behaviour
 - Responsiveness of leadership to unethical behaviour
- **Guidance on assessment of ethics within auditing public procurement**
 - the SAO initiated, at national level, creation of guidance on ethical conduct in public procurement process in public sector organisations to be used by external and internal public sector auditors.
 - Intention : to motivate other relevant bodies at the national level to contribute in raising awareness on ethics and ethical behaviour in public sector organisation and to interconnect them
- **Report on „Evidence based integrity policies; the use of monitoring within the Public Administration“**
 - the SAO Croatia have been invited by the Dutch Ministry of Interior and Kingdom Relations to contribute
 - Intention of the Report: to stimulate practices that could advance evidence based integrity policies and transparency, and to open international dialogue on integrity and anti-corruption policies for the public administration.
 - Contribution - based on the case study prepared on the audit of ethics infrastructure
 - useful and encouraging example for all SAIs - shows how work of SAIs in the area of ethics can be internationally recognised and contribute to development of wider/higher goals.

IV. CONCLUSION

Information provided in the Paper (existing practice, good examples, tools, approaches, outcomes):

- **to be of use and interest to all SAIs, particularly when considered in the context of preparing and launching audits related to ethics issues in public organisations**

Practical example of the SAO Croatia:

- **to additionally motivate and encourage SAIs to audit ethics in public management and to facilitate the development of the ethical framework in their countries!**



Thank you for attention!

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