



Tribunal de Contas

VII Conference of EUROSAI-OLACEFS - Georgia

SUB-THEME I: Enhancing stakeholder confidence: auditing management integrity, accountability and “tone at the top”

I. Introduction

In the last years, the importance of democratic values, ethics and citizenship has been underlined by scholars and institutions.

As it was stated by the EUROSAI members in the last Congress, held in Lisbon, *“transparency and accountability are both democratic values and are fundamental for good governance. Accountability is a broad concept including a wide range of responsibilities for public managers, such as professional and management skills, compliance with financial and other regulations, meeting performance expectations and ethical conduct”*.

The world financial crisis is a tremendous evidence of the importance of integrity and ethical conduct, either in private or in public sectors.

Confidence is crucial for the markets. But confidence is also crucial for **democratic state**. Citizens demand transparency, integrity and competence from those who represent them and from those who manage public funds. Public holders/officials/managers must be accountable before citizens for their conduct in the exercise of their public functions.



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SAIs¹ can no longer ignore the challenges posed by this reality

II. Context

Considering the theme, we will inform about the developments in what concerns the Portuguese Court of Auditors (*Tribunal de Contas*) and, as Presidency of EUROSAI, also about the initiatives that have been taken in EUROSAI related to ethics, integrity and audit.

III. Ethics in the Portuguese Court of Auditors (*Tribunal de Contas*)

AUDIT MANUAL

As expected, our Audit Manual incorporates strategies and rules related to ethical behaviour. All auditors should comply with these rules, which focus primarily on values as independency, professional diligence and secrecy, objectivity, impartiality and responsibility. Its provisions detail and explain auditors how to comply with the aforementioned principles and values.

ISSAI 30, the INTOSAI Code of Ethics, is also a constant reference for auditors.

¹ Supreme Audit Institutions



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IMPLEMENTATION MEASURES

But our institution has considered that, in this field, provisions are not enough. Therefore, it has been decided to conduct a deep study on how to enhance Ethics and Deontology in our SAI.

This study considered several SAIs experiences, general ethical framework and also the OECD recommendations. Based on that, analysis was made over the eight elements of an ethical infrastructure (Legal framework, accountability mechanisms, public involvement and scrutiny, commitment from leadership, codes of conduct, socialization activities, such as education and training, human resources policy and co-ordination of the infrastructure), which serve three functions: guidance, management and control.

The study concluded with a set of recommendations to enhance all the three components.

Guidance should be reinforced, by issuing a code of conduct, with detailed advice, and by providing intense specific training and support. The code was attached to the study and publicized through intranet.

Management should take more active steps to value and favour ethical behaviours. Ethical criteria were, therefore, introduced in all management activities and decisions. We must mention the importance of declaring the inexistence of conflicts of interests when initiating an audit, the clear knowledge and control of potential conflicts caused by other activities and the need of including ethical criteria as explicit indicators in the framework of the



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annual professional performance evaluation. Always keeping in mind that example at the top is the prime measure of an ethical infrastructure.

Control also needed to be strengthened. In this field, a complete set of assessment mechanisms and tools was proposed. These tools include self-assessment checklists (for employees and for managers), internal audits and possible external surveys to auditees.

The several measures proposed in this study are being taken step by step, in order to favour acceptance and compliance.

PREVENTION PLAN AGAINST CORRUPTION AND OTHER MANAGEMENT RISKS

The supporting services of *Tribunal de Contas* also have their own Prevention Plan against corruption risks and other similar offenses. In this document, several important measures dealing with Ethics and correct behaviour are recommended, such as:

- Declarations on conflicts of interests made on a regular basis;
- Mechanisms for the control of professional secrecy;
- Human resources rotation policy;
- Auditees surveys on the ethical behavior of auditors;
- Reinforcement of supervision and revision phases of the audit work



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RECRUITMENT AND TRAINING

Ethical training courses are regularly offered to the employees of *Tribunal de Contas*, in which, in addition to the recalling of principles, values and rules, practical cases and dilemmas are discussed. This training is compulsory for newly recruited auditors.

Concerns about Ethics are considered in the recruitment of new auditors and other employees. Whether in the written tests or in the oral interviews, the response of the applicants to ethical dilemmas is assessed.

COLLEGIALLY AND TRANSPARENCY

Furthermore, the Portuguese *Tribunal de Contas* works according to the principles of collegiality and transparency, which have a specific potential of enhancing ethical behavior. We can mention that:

- Audit teams and audit works, such as all the decisions of the Court are always collegial;
- There is an open list (accessible to everyone) of authorized accumulation of functions, annually updated;
- There is complete openness in the allocation of employees – all the decisions on the placement of staff are accessible to everyone in the Court.



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IV. Ethics in EUROSAI

The Task Force on Audit & Ethics

Following the importance given by its Members, the issue of *ethics and integrity* has been approached in several congresses, conferences, training events and working activities of EUROSAI.

Recent international crisis have brought a specific importance to it, making it very clear that discretionary powers and decisions must respect high behaviour standards and that specific institutions and watchdogs, such as SAIs, must give the “*tone at the top*”.

In the Conclusions and Recommendations of the VIII EUROSAI Congress, held in Lisboa in June 2011, the EUROSAI members stated that “*the opportunity should be considered to build up upon this theme, via any adequate form of joint efforts within EUROSAI, such as a taskforce to perform Ethics Audit, in the framework of the EUROSAI Strategic Plan adopted in this Congress*” (Theme I – Recommendation n. 8).



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This approach meets challenges that have been increasing in a period of a wide financial and economic crisis, which has been causing growing difficulties for citizens.

It is generally agreed that the roots of the problem lie on failures of regulation and also on values' breakdowns. These assumptions, in times of uncertainty and need to recall the basic principles, enhance the opportunity and the advantages of exploring and consolidating this theme.

That why Ethics was explicitly included in the strategies and goals of the Presidency of EUROSAI for the period 2011-2014.

In fact, one of the strategies of the Presidency of EUROSAI for the above mentioned period is to “*promote the relevancy of ethical conduct and integrity, both in SAIs and in Public Organisations*”. The main goals of the Portuguese Presidency related to this strategy were described as to:

- Promote comparative studies on the ethics of SAIs and their staff;
- Support the design of guidelines and other tools in the field of Ethics and Integrity;
- Work on the preparation of guidelines for Audit of Ethics.



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Considering the above mentioned recommendation and concerns, and the proposals of the Portuguese Presidency, the EUROSAI Governing Board agreed **to set up a Task Force to deal with Audit & Ethics**, aiming primarily to promote ethical conduct and integrity, both in SAIs and in public organisations.

The goal of EUROSAI Task Force on Audit & Ethics is *to promote the relevance of ethical conduct and integrity both in SAIs and in public organisations, namely by promoting comparative studies, supporting the design of guidelines and other tools and sharing the results with the wider SAI community.*

OBJECTIVES OF THE TASK FORCE

The 1st meeting of this EUROSAI Task Force was held in Lisbon, on 7 and 8 May 2012. Representatives of eleven SAIs attended this event.

Ethics is about making conscious choices in line with a framework of values and principles. This means that the Task Force's work will deal with rules on minimums to be complied with and will cross issues of fighting fraud and corruption, avoiding conflicts of interests and controlling conducts. But it



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will also deal with the expected appropriate behaviours, touching upon making moral expectations known and guiding staff and upon possible organisational measures to minimise risks.

The Task Force members agreed on a Working Plan 2012-2014. This Working Plan targets two goals:

- **Goal 1:** *Contribute to raise public confidence in SAIs by supporting the implementation of ISSAI 30 (Code of Ethics)*
- **Goal 2:** *Promote ethical conduct in public organisations through the SAIs' activities*

Ethics in a Supreme Audit Institution

If Ethics, Deontology and Integrity are relevant issues in every kind of business, they become crucial when we talk about the independent controllers of public spending.

As a matter of fact, when INTOSAI considers ISSAI 30² and its explanatory notes in level 2 – prerequisites for the functioning of SAIs – this means that

² Code of Ethics.



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SAIs must develop and comply with ethical and deontological principles in order to be able **to be and act** as a Supreme Audit Institution.

The INTOSAI Code of Ethics is founded in the values of trust, confidence and credibility, and highlights the importance of integrity, independence, objectivity, impartiality, professional secrecy and competence of the auditors.

In fact, **SAIs legitimacy is linked to their credibility before citizens, parliaments and governments.**

In this context, the goal of the EUROSAI Task Force on Audit & Ethics, as ethics in SAIs is concerned, is **to reinforce, frame and provide robustness** to the management of ethical conduct, with practical and feasible tools that intend to help the institutions in their everyday work.

For this purpose, the Task Force intends to launch an exhaustive comparative study about how SAIs use ethical codes and regulations, how they include ethical concerns in their Human Resources' policies, whether they have Ethics Committees and which role do they own, which guidance do they provide and how do they deal with the several practical ethical dilemmas, which management, operational and assessment tools do they use. The objective is to identify and list good practices on this subject.



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The Task Force will then make this information available for the use of the EUROSAI community, through seminars and webpages.

The Task Force will also develop a specific project on Ethical training, aiming at identifying good practices of SAIs and also at building programmes and contents for training modules that SAIs can deliver themselves.

Auditing Ethics in the Public Sector

In recent years, there is a wider awareness of risks and challenges that modern management is subjected to, mainly facing discretion and oversight, calling for the relevance of ethical issues related to conflicts of interest, environment and integrity that need to go along with good levels of performance.

Nowadays, ethical standards have had a significant development, causing much more impact on the everyday's life of an organisation, going from simple values and standards to a more comprehensive set of rules, which management performance must comply with. One thing is sure: rules and discretion compete, and values should guide the way.

Management should develop adequate procedures to evaluate the effectiveness of targets and identify where improvements are needed and should, at the same



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time, guarantee that ethical values and standards are attained. Maintenance of a high level of ethical behaviour within the organization will probably reduce corruption as well as mismanagement and allow it to enjoy a high reputation within stakeholders and the whole society.

Auditing ethics comes up as a practical way to regularly make the assessment of compliance with those demands, to evaluate at what level control systems are strong and robust, and that ethics stands at a high level within the organisation. This regular assessment enables management to be aware of improvements related to internal control systems and ethical issues as well.

Auditing ethics can also serve as a means for external auditors to appraise at what level an organisation can be considered of high ethical reputation. This is of particular relevance where it deals with public management and the use of public money, and, of course, the obligation of being accountable to public, mainly taxpayers.

The Task Force for Audit and Ethics has, therefore, a project on studying how to audit including an approach to the integrity of the auditee.

This is rather a new approach and, for the next two years, the Task Force intends only to compare SAIs practices in this matter, namely audit reports, guidance and methodologies, and to conduct a discussion seminar to reflect on



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possibilities. For a next period, it will probably be possible to think about drafting guidelines for audit.

V. Conclusion

The complexity of nowadays public governance is a challenge for SAIs. A broad concept of accountability, which comprehends an ethical dimension, is one of the main issues in what concerns public governance.

Being aware of this reality, both our Court and all the EUROSAI Members are engaged in studying and promoting ethics, both in SAIs and in public organisations.

One of the steps in this way was the set up of the Task Force on Audit and Ethics.

We hope to continue our joint work, in this issue, in the framework of EUROSAI, in order to strengthen our institutions and to improve public management, and, thus serve even better our citizens.

It will be very important to share information and experiences with our fellow SAIs and their organisations, such as OLACEFS.



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We know that OLACEFS also has a specific Ethics Committee and it will be precious that the EUROSAI Task Force cooperates with its counterpart in OLACEFS, allowing both to benefit from each other's knowledge and experience and, thus, giving their Member SAIs a richer inside in these issues.