

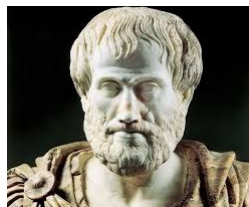


ETHICS IN SAIs

The implementation challenge

Helena Abreu Lopes
Athens, march 2019

**What is the 1st thing
that comes to your mind
when you think about ethics?**

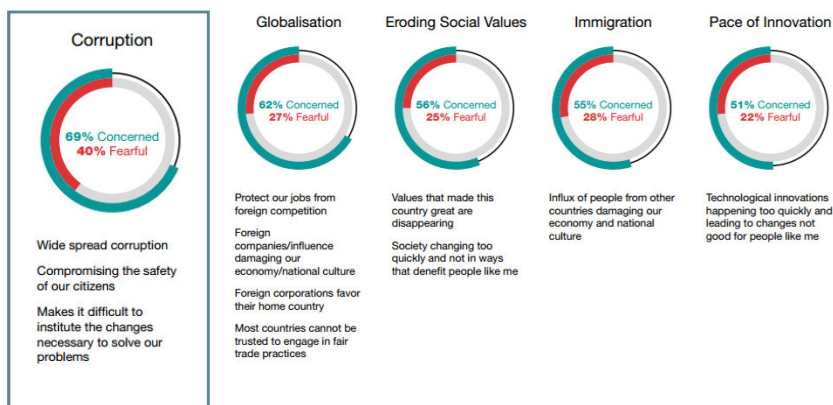




1. Why is ethics important for SAIs?



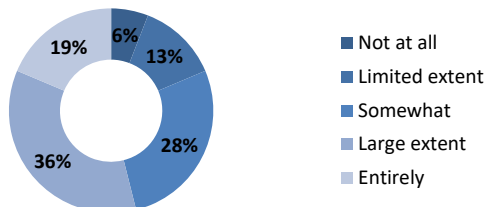
A large majority of citizens is concerned about corruption, in a larger extent than about other issues



Source: Edelman Trust Barometer, 2017 <https://www.edelman.com/trust2017/>

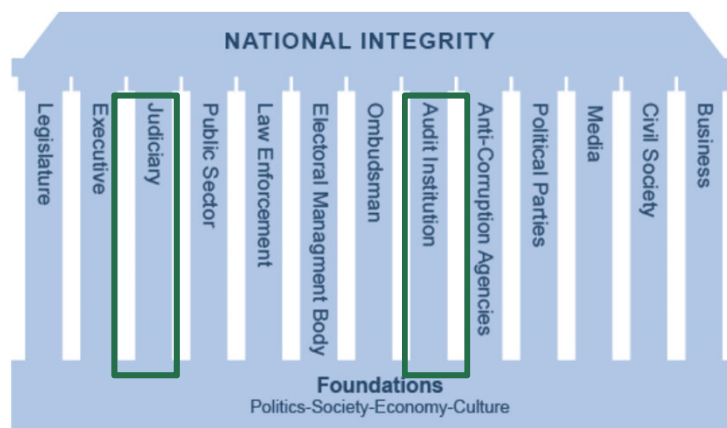
Half of the world's population think their governments are captured by powerful private interests

To what extent is this country's government run by a few big interests looking out for themselves?

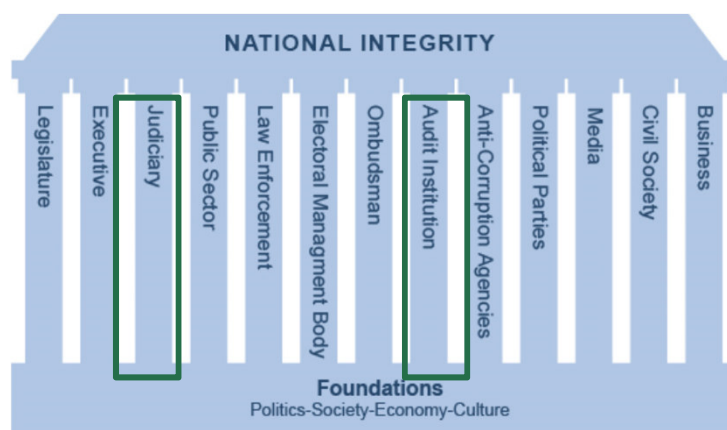


Source: Undue influence of government, Global Corruption Barometer 2013

SAs are one of the pillars of the national integrity systems



Are we trustworthy?



Identify situations where unethical conduct puts the credibility/reputation of an institution at risk

Situations where unethical conduct puts the credibility/reputation of an institution at risk

Over a span of nearly 90 years, Arthur Andersen became known as one of the "Big Five" largest accounting companies. For most of those years, Arthur Andersen's name was synonymous with trust, integrity, and ethics. Moreover, Arthur Andersen also led the way in a number of areas of accounting standards.

That changed at the beginning of 21st century, when Arthur Andersen has been alleged to have been involved in the fraudulent accounting and auditing of a couple of companies. Enron was one of them.

The impact of the scandal combined with the findings of criminal complicity ultimately destroyed this auditing company.



Situations where unethical conduct puts the credibility/reputation of an institution at risk

Oxfam is a non-profit organization working together with partners and local communities in more than 90 countries. In February 2018 an investigation by The Times found that Oxfam allowed three men to resign and sacked four for gross misconduct after an inquiry concerning sexual exploitation, the downloading of pornography, bullying and intimidation. Oxfam did not report any of the incidents to the Haitian authorities, because "it was extremely unlikely that any action would be taken". This scandal led to a crisis of trust and confidence in international aid and humanitarian action.

Source:
<https://en.wikipedia.org/wiki/Oxfam>
<https://www.bbc.com/news/uk-43030705>



Situations where unethical conduct puts the credibility/reputation of an institution at risk



We need an auditor general that's above reproach

Illinois Corruption: Auditor General Frank Mautino Is Under Federal Investigation Over Campaign Spending

DIARY / ULYSSES ARN // Posted at 1:00 pm on May 21, 2016 by Ulysses Arn

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We cannot end up in a position where the AG embarrasses the NAO through expenses claims and perceived conflicts of interest

HOME » NEWS » UK NEWS

How unsackable Sir John Bourn sealed his fate



Sir John Bourn ran up £365,000 in travel expenses

By Robert Winnett
12:01AM BST 26 Oct 2007

The man who was virtually impossible to sack finally agreed to retire yesterday, after a furore over the six-figure taxpayer-funded expenses bill he racked up travelling the world, often with his wife.

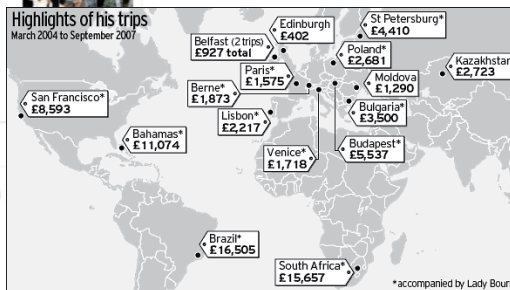
Print this article

UK News
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In UK News

Highlights of his trips

March 2004 to September 2007



I express my deep regret over the damage that I have caused the SNAO and you as my colleagues

Radio Sweden - News in English

Home All broadcasts Contact News archive

National auditor resigns after cronyism revelations

Published måndag 11 juli kl 10:15

▶ Apologised to staff for damage caused (2:54 min)



Susanne Achum was one of three national auditors. Photo: Bertil Enevåg Ericson / TT

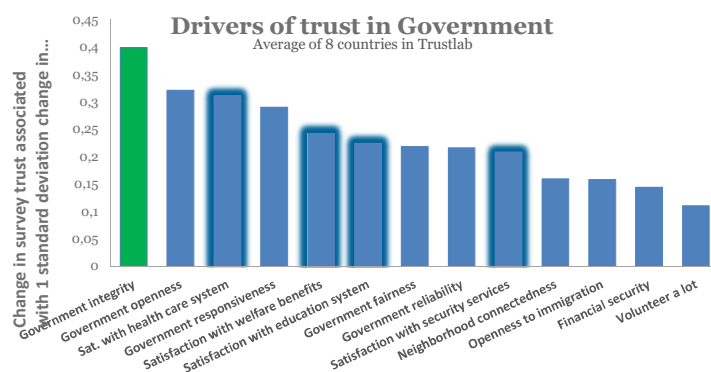
One of Sweden's three national auditors resigned on Friday after a newspaper revealed she showed internal documents to some of those being audited, and intervened to get friends into positions at the National Audit Office.

Ethics vs. Law



How to mitigate vulnerabilities?

Public integrity as a key determinant of trust in government



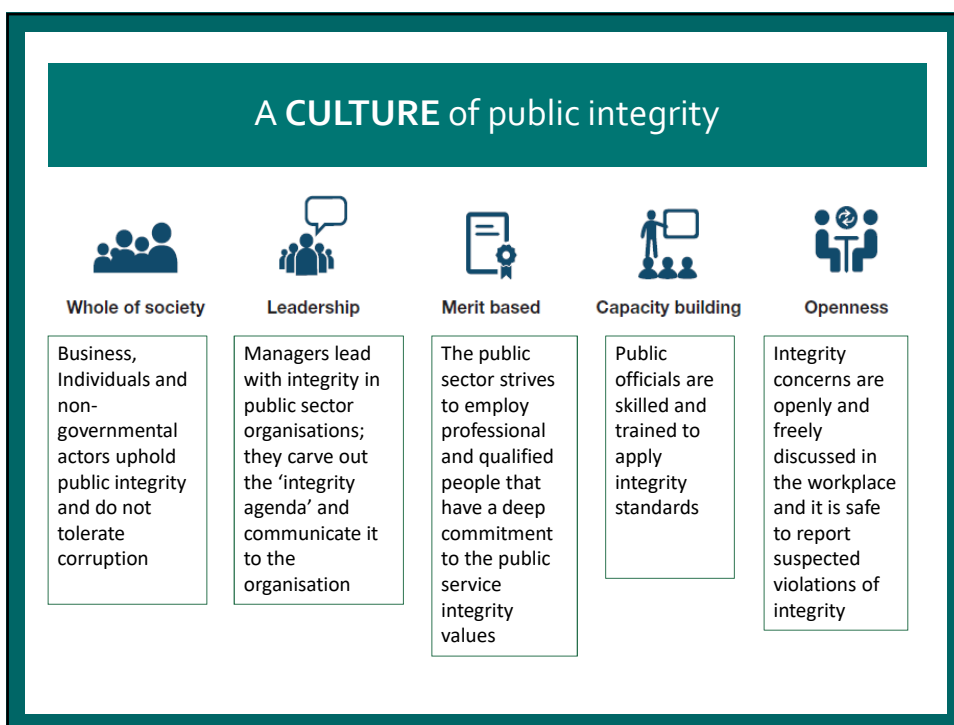
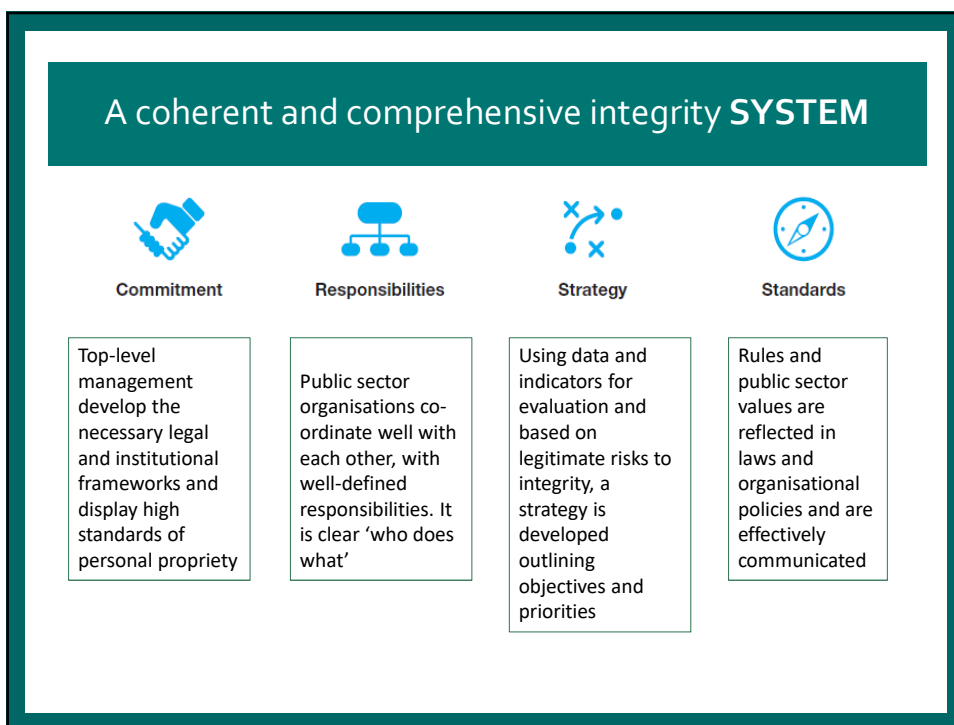
Source: OECD Trustlab

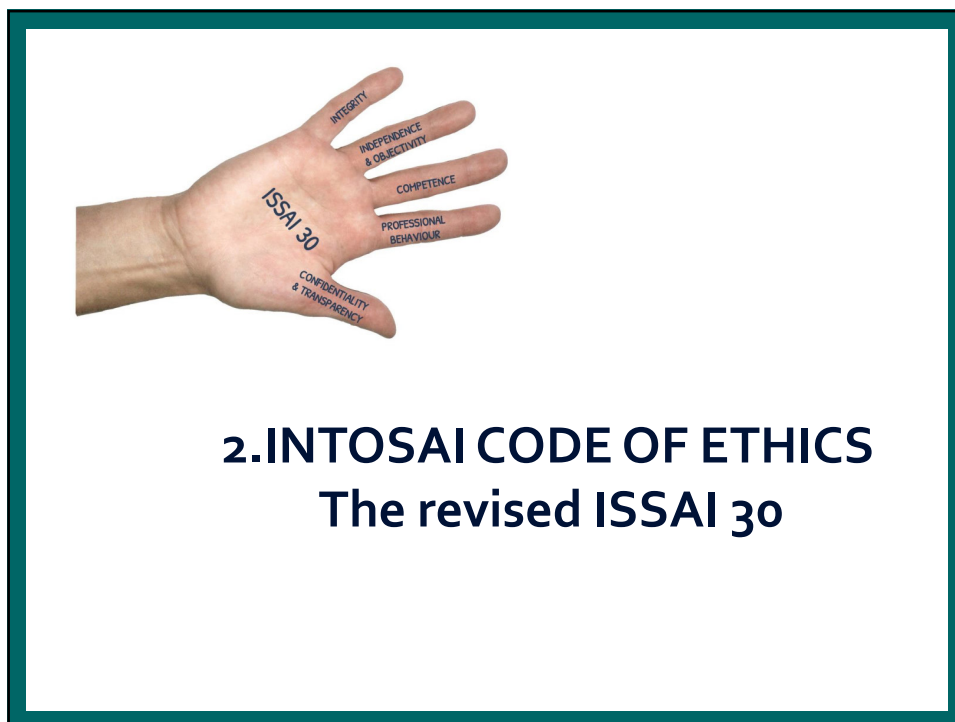
Several international recommendations to reinforce integrity in public sector

- **United Nations**
- **GRECO**
- **OECD**
- **INTOSAI**

OECD Recommendation on Public Integrity (2017)







- An assessment was conducted in 2014 to determine whether ISSAI 30 needed to be reviewed: YES
- The review was conducted by a team chaired by the SAI of Poland
- A revised version of ISSAI 30 was approved in the INCOSAI 2016



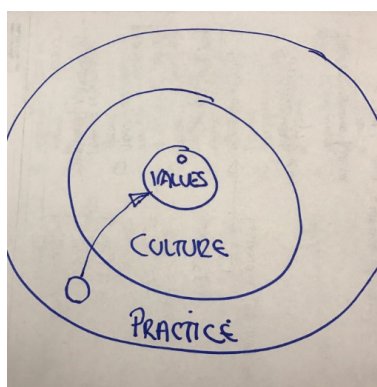
Main changes in ISSAI 30

- Institutional perspective: no longer only about behaviour of auditors; 3 dimensions: institution, stakeholders, individuals
- The code of ethics is intended for all those who work for, or on behalf of, a SAI
- Ethical behaviour of individuals is also influenced by the environment they work in, so the SAI is responsible for promoting and safeguarding ethics and ethical values in every aspect of the organisation and its activities: The SAI has a specific responsibility to guide, to manage and to control ethical behaviour

Main changes in ISSAI 30

- Reviewing core values and fundamental principles
- Requirements and guidance

3. The importance of ethical values



Ethical Values



Guide the choices of individuals

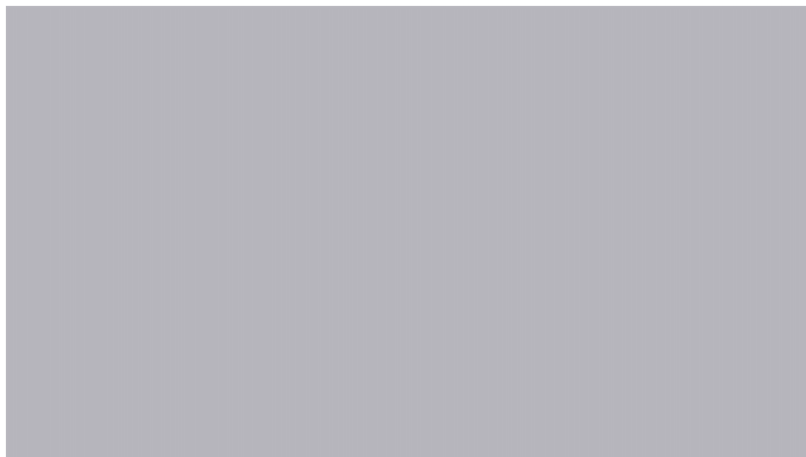
Ethical Values

Identifying the fundamental ethical values is the first step for a common understanding of the expected behaviour

Fundamental Ethical Values



Fundamental Ethical Values



Fundamental Ethical Values

1. Choose the photo to illustrate the value
2. In your daily work in the SAI
 - This value is...
 - This value is not...
3. Which are the main ethical risks that arise in a SAI related to this value?

INTEGRITY

Act honestly, reliably, in good faith and in the public interest "*Act above reproach*"

Being trustworthy

Engage in no improper activity

Comply with the policies and standards of the SAI

Exercise responsibilities and use the powers, information and resources at your disposal solely for the benefit of the public interest

Not using the professional position to obtain favours or personal benefits for her/himself or for third parties.

INDEPENDENCE & OBJECTIVITY

Being free from circumstances or influences that compromise, or may be seen as compromising, professional judgement

Acting in an impartial and unbiased manner

Maintain independence from political influence and be free from political bias

Not be involved in the auditee management's decision-making

Not audit own's work

Avoid auditing entities in which one has recently been employed

Avoid circumstances where personal interests could impact decision-making

Avoid circumstances where relationships with the management or personnel of the auditee or other entities could impact decision-making

Refuse gifts, gratuities or preferential treatment that could impair independence or objectivity

Inform management about any pre-existing relevant relationships and situations that may present a threat to independence or objectivity

COMPETENCE

Perform job in accordance with applicable standards

Execute tasks with due care

Act in accordance with the requirements of the assignment, carefully, thoroughly and on a timely basis

Maintain and develop knowledge and skills to keep up with the developments in the professional environment in order to perform the job optimally

In case own's expertise is not appropriate or sufficient to perform a specific task, raise this with superiors or the responsible management

PROFESSIONAL BEHAVIOUR

Being aware of the standard of professional behaviour expected by stakeholders, as defined by the laws, regulations and conventions of the society in which the SAI operates

Understand the impact of one's actions on the SAI's credibility and consider how one's behaviour, both within and outside the working environment, may be perceived by colleagues, family and friends, auditees, the media and others.

Comply with the laws, regulations and conventions of the society in which the SAI operates

Comply with the guidance for one's behaviour established by the SAI

Not engage in conduct that may discredit the SAI: apply appropriate prudence and care in order that one's actions or opinions do not compromise or discredit the SAI and its work, for example when using social media.

Acting according to ethical values, adhering to the legal and regulatory framework in place, not misusing one's position, applying diligence and care in performing one's work and acting appropriately when dealing with others.

Inform superiors about any arising conflicts between the SAI's and own's profession's ethical requirements

CONFIDENTIALITY & TRANSPARENCY

Being aware of the legal obligations and of the SAI's policies and guidelines concerning both confidentiality and transparency.

Not disclose any information acquired as a result of one's work without proper and specific authority, unless there is a legal or professional right or duty to do so.

Not use confidential information for personal gain or for gain of third parties

Being alert to the possibility of inadvertent disclosure to third parties of confidential information.

Maintain professional confidentiality during and after termination of employment

Fundamental Ethical Values

Integrity	to act honestly, reliably, in good faith and in the public interest
Independence & Objectivity	to be free from circumstances or influences that compromise, or may be seen as compromising, professional judgement, and to act in an impartial and unbiased manner
Competence	to acquire and maintain knowledge and skills appropriate for the role, and to act in accordance with applicable standards, and with due care
Professional behaviour	to comply with applicable laws, regulations and conventions, and to avoid any conduct that may discredit the SAI
Confidentiality & Transparency	to appropriately protect information, balancing this with the need for transparency and accountability.

4. What are the main ethical risks in a SAI?



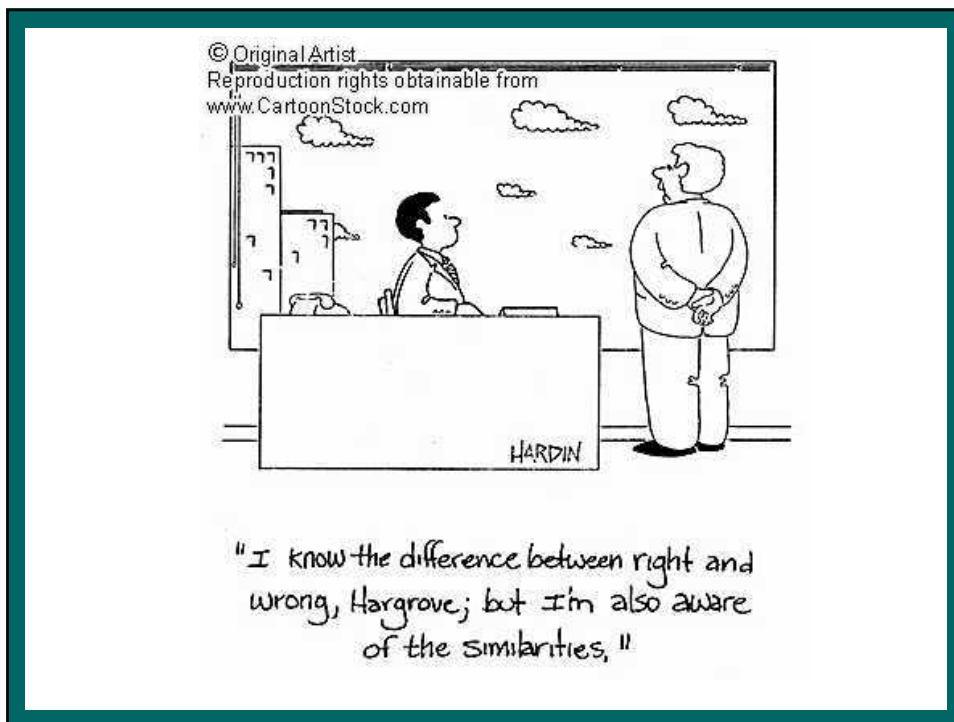
What could the SAI do to prevent/mitigate these risks?

What are the main ethical risks in a SAI?



5. The ethical responsibilities of a SAI





Revised ISSAI 30

Paragraphs	STRUCTURE	
1 - 7	Preamble	
8 - 10	Overall approach to Ethical behaviour	Fundamental values
		Risks and Controls
11 - 22	Overall responsibilities of SAIs	Requirements
		Explanation
		Application guidance
23 - 76	Ethical values	Requirements at the level of SAI
		Requirements at the level of SAI Staff
		Explanation
		Application guidance at the level of SAI
		Application guidance at the level of SAI staff

**ISSAI 30 adopts now an institutional perspective:
it is no longer solely about behaviour of auditors**

- SAs need to act as model organisations to inspire confidence and credibility
- The SAI has a specific responsibility to guide, to manage and to control ethical behaviour

**ISSAI 30 includes requirements and application guidance
both for SAs and for staff**

- The 'shall' clause
- Chapter on overall responsibilities of SAs
- Requirements at the levels of SAs and staff for each ethical value
- Application guidance gives explanations and suggestions on how to implement requirements
- Basis for assessments

There are overall responsibilities for SAIs in promoting and safeguarding ethical values

- To adopt, implement and publish a code of ethics
- To emphasise the importance of ethics
- To promote an ethical culture
- To set the tone at the top by actions and example
- To require the engagement of staff and external providers to ethical conduct
- To provide guidance and support to facilitate their understanding
- To implement an ethics control system
- To solve conflicts between ethical requirements

The ethics control system in SAIs

- A set of strategies, policies and procedures to promote and safeguard ethics in every aspect of the SAI and its activities: an organisational policy on integrity
- It must include measures to guide, manage and monitor ethical behaviour
- It can be designed as a separate set of controls or integrated within the SAI's overall internal control system
- The main components of the ethics control system are:
 - Code of ethics
 - Leadership
 - Ethics guidance
 - Ethics management
 - Ethics monitoring

Other SAI's requirements

- **Integrity:** demonstrate integrity, respond to breaches in a timely and adequate manner
- **Independence and objectivity:** independence of the SAI, identification of threats and application of controls, policies to ensure independent conduct of audit staff
- **Competence:** HR policies, building teams, training, support and supervision, knowledge management
- **Professional behaviour:** defining and demanding the standard of behaviour expected by stakeholders
- **Confidentiality and transparency:** balance these two values, guide and promote confidentiality when needed, confidentiality agreements with external providers

Ethics Control System

GUIDANCE	MANAGEMENT	MONITORING
Codes of ethics	Leadership (tone at the top and tone at the middle)	Identification and mitigation of integrity risks
Leadership (strategic direction and priority of ethics)	Ethical assessment in recruitment	Independence and objectivity-related controls
Raising awareness	Ethical criteria in performance appraisal	Addressing conflicts of interests (identify, declare, monitor)
Training	Reward and recognition policies and practices towards ethical behaviour	Political neutrality, use of social media and gifts and hospitality policies
Benchmarking	Balance confidentiality and transparency	Whistleblowing policies
Intranet	Rotation policies	Effective enforcement in case of violations
Counselling	Open culture	Self assessments and internal evaluations
Ethics Committees		External evaluations
Addressing ethical dilemmas		Assessment by stakeholders
		Published assessments

What do we already have in place in our SAI?



What could be improved?

The ethics control system in SAIs (EUROSAI guidance)

- Put ethics in context: set a common understanding, identify specific risks
- Proceed in an inclusive manner: participative approach, good communication, open spirit
- Act transparently: publish relevant information on ethical behaviour
- Design the ethics control system on the basis of a well prepared organisational ethics assessment and strategy: assess and address specific vulnerabilities and risks
- Alternatives and good practices

**Having a code of ethics (rules) is not enough:
*the implementation challenge***

- There is no ethics control system without a code
- There is no ethics control system at all if there are no other policies to make sure the code is implemented
- Committing, reminding and monitoring
- Recruiting and rewarding

Building an ethical culture

- OECD 2017 recommendation on public integrity: system, culture and accountability
- Culture of integrity: awareness on the benefits of integrity, reducing tolerance of violations, invest in integrity leadership, promote and reward merit, training and advice, open culture, reporting suspected violations
- ISSAI 30: Building an ethical culture starts with the leadership of the organisation
- Ethics and lack of ethics are both contagious

Building an ethical culture: soft controls

- **Hard internal controls**, such as procedures and segregation of duties, are traditionally the first line of defence against risks such as fraud and misconduct
- Investigations highlight that in some cases systems and processes were in place to prevent fraud and, yet, the **controls were weakened and made ineffective by the culture** within the organisation.

Building an ethical culture: soft controls

- **So, something other than the traditional rules based approach is needed to ensure that organisations continue to effectively control risks**
- **Soft control** instruments include areas such as training, performance reviews, whistle-blower guidelines, codes of conduct and general awareness raising. These are all tools which organisations can use to influence and promote certain behaviour.

Building an ethical culture: key soft controls

- **Clarity:** Is the desired organisational behaviour clear to management and employees?
- **Role Modelling:** Do senior management lead by example and "*set the tone from the top*" in terms of demonstrating the desired organisational behaviour?
- **Achievability:** Is there sufficient time, information, capacity and resources to achieve an organisation's aims?

Building an ethical culture: key soft controls

- **Commitment:** Do management and employees actively endorse and uphold the organisation's interests?
- **Openness:** To what extent can employees discuss ethical dilemmas within the organisation?
- **Transparency:** Is employee behaviour and its subsequent impact upon the organisation sufficiently visible?

Building an ethical culture: key soft controls

- **Comfort to report misconduct:** Do management and employees feel comfortable to report incidents of misconduct?
- **Enforcement:** To what extent are employees punished for irresponsible behaviour and rewarded for responsible behaviour? To what extent are lessons learnt from incidents and fed back into the business?

Monitoring ethics is the weakest element in SAIs

- Many have no systematic identification of risks to ethical behaviour and no application of controls
- Quite often ethics is understood as a personal responsibility that does not require monitoring
- Self assessments, internal and external reviews and feedback from stakeholders are not used regularly
- Enforcement may be shy

Building an ethical culture: Leadership



Building an ethical culture: Leadership





6. How can SAIs promote integrity in public sector organisations through their audit work?



- SAIs are not completely aware of the possibilities they can explore in auditing ethics related issues
- Initiatives and practices to audit ethics in SAIs are very asymmetric
- SAIs expressed interest that the TFA&E develops common methods and tools to audit integrity

Problems:

- **Mandate of SAIs**
- **Ethical vs Illegal**
- **Different terminology and different concepts on acceptable conducts and desirable controls**
- **No clear criteria**
- **Measurable indicators**
- **Tools to measure**

Important questions:

- **Why to audit ethics/integrity?**
- **Do SAIs have mandate to audit ethics?**
- **Which ethics related issues can SAIs audit?**
- **How to audit (methodology, standards, criteria and tools)?**
- **How to report?**



Guideline

“Audit of ethics in public sector organisations”

May 2017

- **Why to audit ethics:** mandate of SAIs
- **What to audit:** concepts, several possible approaches
- **How to audit:** objectives, audit questions, criteria, methods, measurement, reporting, dos and don'ts
- **Links and examples**

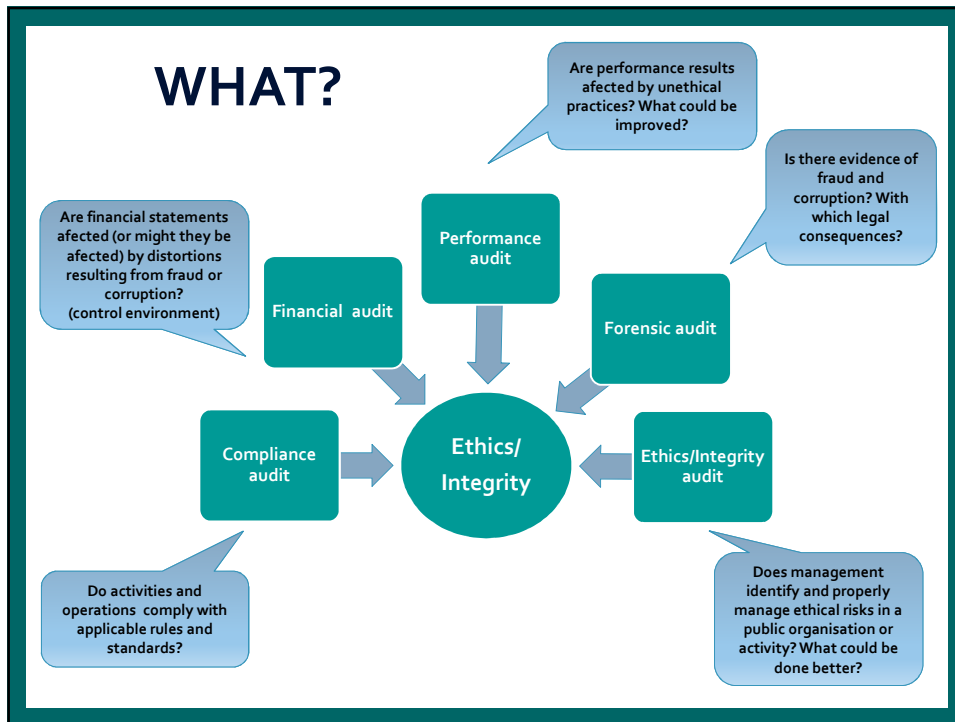
WHY?

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

*

UN World Public Sector Report/UN Committee of Experts on Public Administration/OECD Public Integrity Recommendation
ISSAIs

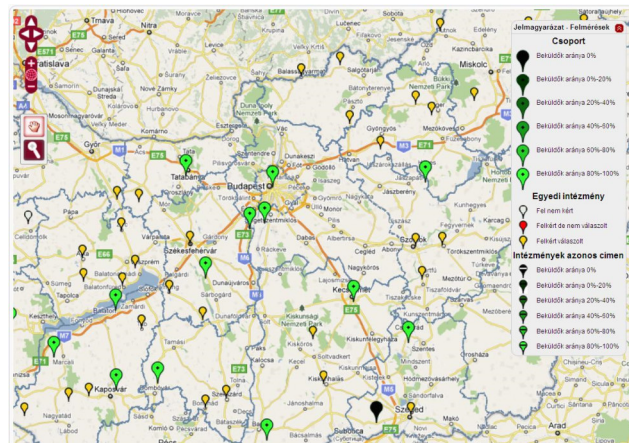




Possible approaches

Identifying risks and highlighting the responsibility of public managers	Raise awareness activities on ethics' management
Supporting a more robust internal control system	Audit the ethics component of the internal control environment as a part of the SAI's traditional audits Encourage that public bodies and/or their internal auditors promote ethics audits and review their work
Overseeing and holding public managers to account	Perform compliance, performance or ethics audits Include ethics related questions and ethical risk areas in the SAI's ordinary audits Assess the effectiveness of the ethics control system in selected organisations Assess the ethical culture in selected organisations
Creating insight into the whole public sector integrity	Conduct transversal or cross-cutting analysis and assessments Assess effectiveness of a national integrity system Identify and assess national strategies to address wide integrity weaknesses

Possible approaches



The audit of ethics: holistic approach

- Should go beyond compliance
- Needs to measure cultural dimensions and impacts
- Benefits from participatory evaluation approaches, involving stakeholders
- The SAI as a model

HOW

- **Designing an audit of ethics**
 - -holistic approach
 - -selection of topics
 - -audit objectives
 - -audit scope
 - -audit questions
 - -audit framework
 - -audit criteria
 - -methods to collect data
 - -methods to analyse and evaluate data
- **Reporting and communication**

Dos and DON'Ts in the audit of ethics

- **Understand and define very well the scope, goal and objectives of the audit of ethics**
- **Be attentive to adequate and effective communication with the auditee**
- **Use the adequate methods and tools to reach the audit objectives**
- **Facilitate positive impacts**



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