

Possibilities of Auditing Ethics by SAIs

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Promote the relevance of ethical conduct in:

- Supreme Audit Institutions
- Public Organisations



Activities 2012-2014



A Survey was conducted:

- 64% of EUROSAI members replied, answering the questions, sharing their experiences and sending several ethics related documents.
- A report on the results of this survey is available in www.eurosa-tfae.tcontas.pt



Activities 2012-2014

In September 2013 the TFA&E held a seminar about "Auditing Ethics", organised and hosted by the European Court of Auditors.

52 participants from 29 SAIs participated in this seminar (documents and conclusions in www.eurosaistatistics.com)





Activities 2012-2014



Workshops in:

- YES Conference
- EUROSAI Congress
- EUROSAI-OLACEFS Conference



Activities 2012-2014



A Paper was issued:

- *Auditing Ethics in the public sector* : A general overview of SAIs practices
- Available in the same website



Activities 2012-2014

Some conclusions:

- 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



Working Plan 2014-2017

Goal	Objectives	Activities/ Projects
2. Promote ethical conduct in public organisations through the SAIs' audit activities	2.1. Issue common guidelines to audit ethics/integrity	Map and study existing instruments
		Organise seminar about methodologies to audit ethics
		Draft common guidance
		Disseminate and test guidance
		Liaise with other working groups to include an ethical approach in the audit of public procurement



Working Plan 2014-2017

- Update survey in 2015
- Seminar on Methods and Measuring Tools to audit ethics:
 - Turkey, November 2015
 - E-learning follow-up seminar, January-March 2016

Problems:

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

Important questions:

- **Why to audit ethics**
- **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**



Auditing Ethics

WHY







Ethics

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ISSAI 1, 10, 100 & draft 5700

Public sector auditing

- Shall contribute to good governance and to prevent corruption, responding appropriately to the risks of financial impropriety and fraud and corruption, for example by promoting mechanisms to address them
- Enhances transparency, accountability, improvement and confidence in the use of public funds and assets
- Favours that public bodies and public servants act effectively, efficiently, ethically and in accordance with laws and regulations

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INTOSAI GOV 9100-9160

INTOSAI Guidance for Good Governance

- Public ethics is a precondition for, and give support to, peoples' confidence in the public sector
- Public ethics is at the core of good governance
- Public ethics principles should be reflected in written documents such as a code of conduct (CoC) or similar standard

AFROSAI-e: contribution of SAIs in the fight against fraud and corruption

Creating a climate of good governance

Agitating for support and enable the strengthening of the internal control environment of public sector institutions.

Fostering strong partnerships with state institutions such as the prosecution, police authorities and other bodies mandated to fight fraud & corruption

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Auditing ethics:

- Embodies the view that ethics has real and practical implications in achieving goals, mission and vision of public sector organisations
- Encourages ethical behaviour and ethical decision-making
- Strengthens existing mechanisms for monitoring implementation of ethical principles and encourages the establishment of the missing processes and/or relevant control activities
- Adds value and contributes to the improvement of management, controls and governance of the audited organisation
- Leads to help restoring trust and confidence in public organisations
- Draws the attention of the Parliament and public to the importance of ethical management

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Auditing Ethics

WHAT

Ethics

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ISSAI 100, 200, 300, 400, 1240, 4000, 4100 & 4200

SAIs:

- Assess internal controls and whether management created an environment where fraud can be prevented and detected
- Audit compliance with laws, regulations or other authorities (great degree of international diversity in organising and reporting on compliance audit)
- Audit how interventions, programmes and/or institutions are performing and if is there room for improvement
- May conduct combined audits incorporating financial, compliance and/or performance aspects



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Different and possible several approaches:

- Ethics considered and assessed as part of the internal control system
- Ethics audits encouraged and promoted to be conducted by the organisations themselves or by internal audit
- Audits targeted at the assessment of the ethics control system/ethics infrastructure of public administration or of a certain public body
- Audits over specific ethics related subjects (conflicts of interests, post employment, whistleblowing, etc)
- Integrity module in compliance audits
- Audits to prevent fraud and corruption
- Forensic audits



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SAI of Netherlands: objective of integrity audits

- To determine whether a public sector organisation has implemented an adequate set of integrity measure to control its integrity risks, that might seriously undermine confidence in the organisation and thus in its image and continuity
- This may lead to an opinion on the maturity of the entity's Integrity management
- The purpose is to stimulate awareness and improvement, determine strenghts and weaknesses in a specific entity, identify weak organisations, departments or sectors and not detect incidents of fraud and corruption



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SAI of Netherlands: benchmarking integrity controls


- Compare the organisation's performance and/or process with best practice
- Within a peer group
- Develop plans to make improvements
- Continuous process
- Purpose: stimulates improvement
- Monitoring



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SAI Hungary

- Selects institutions and areas of activities based on the risks identified through the integrity survey
- Assesses their vulnerabilities and controls in a 3 level classification (excellent, appropriate, to be developed)



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AUDIT OBJECTIVE AND SCOPE

Source: Suggested model by José R S Filho, SAI Brazil


- The audit objective is specified by means of a problem and related audit questions to be investigated
- The audit question is the key to determine the direction of the audit engagements and to define the methods and techniques to be used
- Example of audit problem:
The organization performs high-amount procurement, every year in an uncompetitive market. There have been proven cases of corruption related to the entity's contracts. So it is important to evaluate the entity's commitment to the ethical principles and adherence to the code of conduct



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Auditing Ethics

HOW



Given the range of components to ethics-related objectives, programs, and activities, the auditor will need to determine which components to include in the audit plan, based on assessment of applicable risk, the levels of assurance required, the level of maturity of the ethics related programs and the approach for conducting reviews.

AFROSAI-e Guideline

1.BACKGROUND TO FRAUD

- Defining Fraud
- Drivers of Fraud
- Impact of Fraud
- Applicable standards

2. PREREQUISITES AND ORGANISATION OF THE WORK IN THE SAIs WHEN FIGHTING FRAUD

- Good governance
- Accountability & transparency
- Performance Reporting
- IntoSAINT
- Risk Assessment

3. PREVENTIVE AUDIT APPROACHES ON FRAUD AND CORRUPTION

- COSO Approach
- Integrity Management
- Assessment of Integrity

4.ADDRESSING FRAUD AND CORRUPTION

- SAIs & all types of audit
- Audit Considerations

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Auditing Ethics


Criteria



AUDIT CRITERIA

Source: Suggested model by José R S Filho, SAI Brazil


- The audit findings result from the comparison between the criterion and the existing situation
- The audit criterion must be consistent with the object and the objective of the audit
- This means that if the audit object is the management of ethics by the entity, the criterion should be a management framework; similarly, to audit the governance of ethics, we need a governance framework as a criterion and to audit the soundness of the control environment and the commitment to ethics, we need an internal control framework.



INTOSAI GOV 9100-9160


INTOSAI Guidance for Good Governance

- Guidelines for internal control standards for the public sector
- Guidance for reporting on the effectiveness of internal controls
- Foundation for accountability in government
- Entity risk management
- Coordination and cooperation between SAIs and internal auditors in the public sector
- Enhancing good governance for public assets (draft)



COSO Framework
Risk management/Internal control

Components	Principles	No. of Points of Focus
Control Environment	1. Commitment to integrity and ethical values	4
	2. Independent board of directors oversight	5
	3. Structures, reporting lines, authorities, responsibilities	3
	4. Attract, develop and retain competent people	4
	5. People held accountable for internal control	5
Risk Assessment	6. Clear objectives specified	5
	7. Risks identified to achievement of objectives	5
	8. Potential for fraud considered	4
Control Activities	9. Significant changes identified and assessed	3
	10. Control activities selected and developed	6
	11. General IT controls selected and developed	4
Information & Communication	12. Controls deployed through policies and procedures	6
	13. Quality information obtained, generated and used	5
Monitoring Activities	14. Internal control information internally communicated	4
	15. Internal control information externally communicated	5
	16. Ongoing and/or separate evaluations conducted	7
	17. Internal control deficiencies evaluated and communicated	4



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COSO Framework

Ethics

- Define and communicate the expected integrity and ethical behaviour via a code and other means
- Apply it to all employees at all levels
- The leaders of the organisation must explicitly and publicly demonstrate behaviour consistent with the defined expectations
- Identify appropriate monitoring methods and criteria and implement monitoring programs, including independent monitoring where appropriate
- Ensure accountability for deviations from the core expectations
- Apply consistent and appropriate actions to address deviations from the standards




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UN Convention against corruption

(see also technical guide, toolkit, guidebook, institutional integrity initiative)

- Promoting integrity, honesty and responsibility among public officials
- Integrity action planning
- Codes of conduct (standards concerning impartiality, conflicts of interest, administration of public resources and confidentiality)
- Putting standards into action
- Promote transparency
- Improve employee culture
- Prevent conflicts of interests
- Declarations of activities, employments, interests, gifts, benefits
- Disclosure and disciplinary systems
- Appropriate systems of public procurement
- Promoting transparency and accountability in the management of public finances: accounting, auditing and oversight
- Risk management and internal control systems
- Public administration's transparency and reporting




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OECD Integrity Framework:


Components of a sound integrity system focused in organisations

- Inner and outer context
- Instruments:
 - ✓ Determining and defining integrity (risk analysis, codes, conflict of interest policies)
 - ✓ Guiding (training, advice, declarations)
 - ✓ Monitoring (whistleblowing, complaints policies)
 - ✓ Enforcing (investigation, sanctions)
- Processes:
 - ✓ Planning
 - ✓ Implementing
 - ✓ Evaluating
 - ✓ Adjusting
- Structure
 - ✓ Distribution of responsibilities over integrity actors




OECD : Update of the 1998 Recommendation on Improving Ethical Conduct in the Public Service

- Promote proactive approach in building a culture of integrity
- Balance rule and value based approaches
- Consider variety of contexts
- Promote institutional cooperation
- Incorporate integrity in management (vg HR) and internal and external audit
- Improve monitoring of integrity policies and define responsibilities for monitoring



Draft ISSAI 5700
(Guideline for the audit of corruption prevention in government agencies)

- **Components of preventing and fighting corruption**
 - Organisation
 - Risk assessment
 - Delimitation of duties
 - Job rotation
 - Supervision
 - Decision making
 - Internal control
 - Cooperation with anti-corruption agencies and inspectors general
 - Training
 - Codes of conduct
 - Monitoring
 - Reporting



ISSAI 30

Setting a Good Example

- The draft revised ISSAI 30 is in exposure draft, to be commented, redrafted and further approved in next INCOSAI
- It includes requirements and guidance regarding the SAI's responsibilities to build an ethics control system within the organisation
- The several policies included cover instruments targeted to define, guide, monitor and enforce integrity



Auditing Ethics

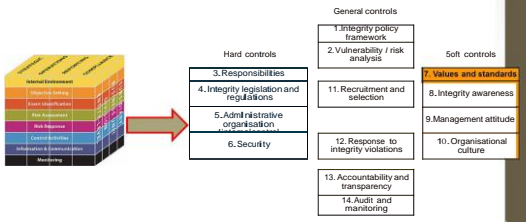
Audit Questions

(To address audit objective and audit criteria)


SAI of Netherlands Auditing integrity: How?

Culture & behaviour	Legal framework
Integrity	
Integrity controls	Standards & Obligations

Integrity control system




Hard controls	General controls		Soft controls
	3. Responsibilities	1. Integrity policy framework	
	4. Integrity legislation and regulations	2. Vulnerability / risk analysis	
	5. Administrative organisation	11. Recruitment and selection	
6. Security	12. Response to integrity violations	7. Values and standards	
	13. Accountability and transparency	8. Integrity awareness	
	14. Audit and monitoring	9. Management attitude	
		10. Organisational culture	



Examples of audit questions to assess ethical infrastructure (OECD framework)

Source: Suggested model by José R S Filho, SAI Brazil


- Does your organisation set out general and specific standards of conduct applicable for its employees?
- Is the responsibility for ensuring the effectiveness of standards of conduct formally assigned to the area integrating the organisational structure?
- Does your organisation have an ethics committee?
- Does your organisation has protection mechanism for those who report ethical misconduct, as well as for those employees who are tasked to investigate the complaints?
- Does your organisation identify areas, activities and processes most likely to ethical misconduct?
- Does the work plan of ethics management area result from the organization's planning?
- Has senior management demonstrated by specific acts be committed to the dissemination and complianced with the standards of conduct by public declaration of this commitment?



Examples of audit questions to assess ethical infrastructure (OECD framework)


Source: Suggested model by José R S Filho, SAI Brazil

- Are the standards of conduct disseminated among employees (public servants) of the organisation?
- Are the standards of conduct part of the organisation's training programs?
- Does the organisation assess the knowledge of the standards of conduct by its employees?
- Are the standards of conduct disseminated to the general public, like service users and providers?
- Are there communication channels in place to receive questions and provide practical guidance on the application of the standards of conduct?
- Is compliance with the standards of conduct routinely monitored?
- Are misconduct and violation of standards of conduct investigated?
- Does your organisation use some kind of recognition or reward to promote ethical conduct?



SAI Hungary Integrity Module- questions used address:

- Conflict of interest regulation and ethical expectations
- Human resources management
- Measures due to defend the properties of the organisation
- Measures against employees' misconduct
- Measures aimed at strengthening integrity and raising awareness of the corruption risks



SAI Hungary Integrity Module (examples):


- In what form does your organisation regulate the matter of conflict of interest?
- Does your organisation have a special policy for the conditions of hiring external experts?
- Does your organisation perform systematic risk analysis other than planning internal audit tasks?
- Do your organisation's internal regulations require every member of the staff to declare any economic or other interests that are relevant for the organisation's activity?
- Does your organisation regulate the conditions of accepting various gifts, invitations?



INTOSAI WGEA

Addressing Fraud and Corruption Issues when Auditing Environmental and Natural Resource Management: Guidance for Supreme Audit Institutions

- **FRAUD AND CORRUPTION RISK FACTORS ASSOCIATED WITH WEAK INTERNAL CONTROLS**
 - ✓ Has the entity implemented a code of conduct or similar standard in the organization?
 - ✓ Has the entity established a proper "tone at the top"?
 - ✓ Has the entity established an adequate system for the reporting of possible fraud and corruption?
 - ✓ Has the entity established procedures to identify and assess possible fraud and corruption risks, and to respond to these risks in an appropriate manner?
 - ✓ Is there a sufficient segregation of duties and/or routines in place for rotation of personnel?



ECA: auditing management of conflicts of interests


Two main questions:

- Are policies in place to manage conflicts of interest?
- Are these policies adequately implemented?



Auditing Ethics


Audit process and tools



ISSAI 5530

(Adapting audit procedures to take account of the increased risk of fraud and corruption in the emergency phase following a disaster)

- **Conducting the audit:**
 - Audit procedures to address the assessed risks and gather audit evidence
 - Evaluating the audit evidence
 - Audit documentation
- **Reporting**
 - Identify weaknesses, recommend improvements, report control deficiencies and non-compliances, follow-up, liaise with other authorities
- **Setting a good example**
 - SAIs expected to assess the quality of their own integrity system, to be transparent about the results of the assessment and to make the follow-up action public



ISSAI 5530

(Adapting audit procedures to take account of the increased risk of fraud and corruption in the emergency phase following a disaster)

- **Audit planning**
 - Risk assessment includes:
 - Evaluating preventive and detective controls, mechanisms for dealing with cases of suspected fraud or corruption and arrangements for complaints and whistleblowing
 - Reviewing ethics management practices in the audited body (culture of honesty and ethical behaviour)
 - Operation of the internal controls set up to control risks
- **Audit planning**
 - Part 3: examine red flags in high risk areas

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SAI Costa Rica: several tools

- Work programme (audit procedures)
- Guide for assessment
- Maturity model
- Guide for SWOT analysis
- Guides for interviews
- Survey to staff
- Guide to prepare findings
- Findings' sheet

Land Registry of Turkey:Ethics Audit Toolkit

Start up meeting agenda

Do and don't guidelines

Person specification for ethics auditor

Benchmarks and performance indicators

Data collection methods

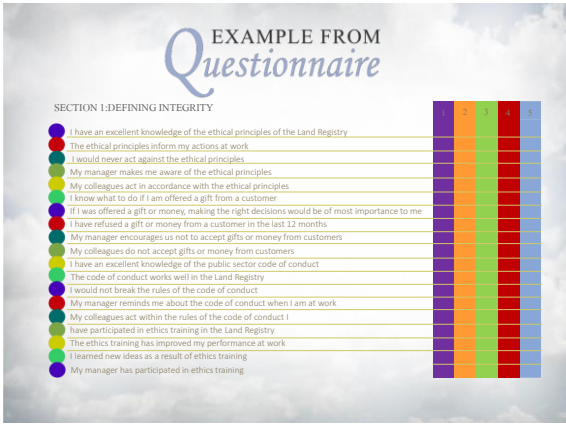
Action plan

HOW WILL
DATA BE
Collected?

SURVEY

INTERVIEW
& FOCUS
GROUPS

DOCUMENTARY
ANALYSIS



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SAI of Netherlands


- Documents
- Employee perception survey

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ECA audit approach

Desk work
Analysis of the relevant regulatory framework
Internationally recognised **principles** (OECD)
EU-wide **regulations**
Agency specific **policies** (questionnaire)

Work on the spot
Meetings / interviews during on-site visits
Examination of specific cases (e.g. a sample of conflict of interest declarations)



SAI of Croatia


Several methods used:

- Analysis of regulatory framework
- Interviews and meetings
- Review of relevant documentation
- Direct evidence examination
- Field work and deskwork
- Evaluation of the answers given to a questionnaire.



Auditing Ethics

Measurement



OECD Integrity Framework: Measuring

Integrity in Government: Towards Output and Outcome Measurement, OECD, 2009

- **Assessment of integrity measures:**
 - ✓ Adoption of integrity management instruments
 - ✓ Integrity mainstreamed into traditional management instruments
 - ✓ Perception of the integrity of leadership
 - ✓ Awareness of rules
 - ✓ Corruption incidence
 - ✓ Ethical climate
 - ✓ Trust of citizens
 - ✓ Frequency of risk analysis
 - ✓ Risk controls

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OECD Integrity Framework:

Measuring

Integrity in Government: Towards Output and Outcome Measurement, OECD, 2009

Assessment of integrity measures:

✓ Presence of a code of ethics, quality of the code, awareness of the code, attitude towards the code

✓ Staff turnover to sensitive positions

✓ Number and coverage of training

✓ Satisfaction and knowledge acquired in training

✓ Number of advices provided

✓ Compliance to reporting obligations

✓ Presence, quality, awareness and use of whistleblowing arrangements and complaints policies

✓ Number of investigations on misbehaviour

✓ Perception of fairness and adequacy of investigations

Ethics

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Maturity Models

Institute of Internal Auditors (IIA)

SAI of Costa Rica: Guide for conducting audits of ethics

SAI of Hungary: Integrity Module (3 levels of classification)

IIA: example

Maturity Model

Ethics is a sensitive area that does not easily lend itself to traditional audit rating systems. Rather than give an audit opinion on ethics, it might be less inflammatory and more useful to assess the maturity of the various elements of the ethical climate using a maturity model. The following compliance and ethics program maturity model is an example.

ATTRIBUTE	IMMATURE	REPEATABLE	DEFINED	MATURE	WORLD CLASS
1. Code of Ethics (How effectively does the Code outline management's expectations regarding ethical conduct?)	<ul style="list-style-type: none">There is no formally documented code of ethics.In general, there are no other means of communicating management's expectations regarding ethical conduct.	<ul style="list-style-type: none">A Code of Ethics has been developed, but it may not be comprehensive or current.Experienced employees generally understand management's expectations regarding ethical conduct, but new employees may not have any way of determining those expectations.	<ul style="list-style-type: none">A comprehensive Code of Ethics exists, was approved by the board and is reviewed every two to three years to determine what updates are needed.All employees must sign off annually that they comply with the Code of Ethics.New employees must sign a document asserting that they have read and understood the Code.	<ul style="list-style-type: none">Outside counsel reviews the Code of Ethics as appropriate to ensure it remains current and appropriate.The Code of Ethics is reviewed annually and updated as necessary.All employees must complete annual questionnaires that ask more probing questions regarding compliance with the Code of Ethics.	<ul style="list-style-type: none">Specific compliance policies are in place to support and provide additional guidance on key components of the Code of Ethics.Periodic focus groups and/or surveys are conducted with a representative sample of employees to assess their understanding of the Code of Ethics and their perceptions on level of compliance throughout the organization.

ECA: conclusion of the audit

OVERVIEW OF SELECTED AGENCIES' MANAGEMENT OF CONFLICT OF INTEREST SITUATIONS¹

	Experts	Staff	Management Board	Board of Appeal
EASA				
ECOA				
EFSA				N/A
EMA				N/A
Key				
Management of conflict of interest situations is not adequate, as the Agency-specific policies and procedures are absent				
Management of conflict of interest situations is not adequate, as the Agency-specific policies and procedures <i>and/or</i> implementation have significant shortcomings				
Management of conflict of interest situations is not adequate, as the Agency-specific policies and procedures <i>and/or</i> implementation have shortcomings				
Management of conflict of interest situations is adequate				
Not applicable, as this Agency does not have a Board of Appeal				N/A

¹ See paragraphs 15 to 23 (Audit Scope and Approach).



Some challenges for the TFAE guidelines

- Define concepts
- Ethics to be approached mainly as a governance and management tool, while considering compliance issues
- Choosing the object and objectives of each audit and criteria that are consistent with them
- Assess also cultural aspects and implementation issues
- Survey as a tool to be used, while understanding its scope and limitations



Thank you for your attention
Your comments are welcome
