EUR⊕SAI
Task Force on Audit & Ethics

SEMINAR ON
METHODS AND MEASURING TOOLS TO AUDIT ETHICS
Ankara, November 2015

Auditing Ethics:
International Guidelines and Standards
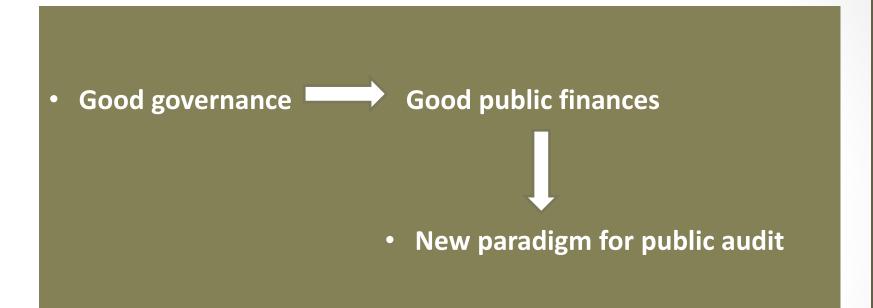
Helena Abreu Lopes, SAI of Portugal, 2015

Auditing Ethics

WHY

UN approach to public management

![EUROSAI Task Force on Audit & Ethics]

- **Good governance** → **Good public finances**

    ⬇

    - **New paradigm for public audit**

- **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/**
  The capacity and coverage of external audit needs to be expanded $\longrightarrow$ increased transparency/increased accountability

- **OECD Public Governance Committee**
  Incorporate integrity in internal and external audit
  Role of SAIs in promoting integrity and fighting corruption

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

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

Auditing Ethics

WHAT

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**

ISSAI 5530

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

- **Types and object of audits**

    Functioning of national integrity systems, development and improvement of anti-corruption strategies and controls, participatory auditing

Auditing Ethics

HOW

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
- Coordenation 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
	9. Significant changes identified and assessed	3
Control Activities	10. Control activities selected and developed	6
	11. General IT controls selected and developed	4
	12. Controls deployed through policies and procedures	6
Information & Communication	13. Quality information obtained, generated and used	5
	14. Internal control information internally communicated	4
	15. Internal control information externally communicated	5
Monitoring Activities	16. Ongoing and/or separate evaluations conducted	7
	17. Internal control deficiencies evaluated and communicated	4

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

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**

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 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

OCD 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

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

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

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

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

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?

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