# SUPPORTING SAI TO ENHANCE THEIR ETHICAL INFRASTRUCTURE

EUROSAI
Task Force on Audit & Ethics

*Part I*

*A general overview of SAI's ethical strategies and practices*

# Introduction

Work undertaken by Supreme Audit Institutions is intended at strengthening stakeholders' trust in the governance of the public sector.

To ensure this, SAI's independence, ethics and credibility should be beyond doubt, as stressed by INTOSAI standards (ISSAI). High ethical demands are, therefore, placed on public auditors.

The EUROSAI Governing Board set up the EUROSAI Task Force on Audit & Ethics (TFA&E) as an instrument to support European SAI in promoting **the relevance of ethical conduct,** most specifically intended through the exchange of respective experiences.

One of the two main activities of the Task Force is to promote e*thics within SAIs*. Accordingly, the first goal of the TFA&E Working Plan for 2012-2014 is to *contribute to raise public confidence in SAIs by supporting the implementation of ISSAI 30* (Code of Ethics).

As a first step, the TFA&E launched a survey addressed to EUROSAI members in December 2012, asking for the provision of information on several ethics-related issues. Among other subjects, European SAI were asked about their ethical codes and regulations, human resources policies, committees for attending to ethical issues, ethical guidance and training, practical dilemmas, as well as operational and assessment tools.

32 European SAIs, out of 50 EUROSAI members, answered the survey, providing the TFA&E with a rich array of experiences and practices, as well as relevant documents, which the Task Force will analyse with a view towards establishing good practices in this field.

Building on the results of the aforementioned survey, a seminar about "*Enhancing Ethics within Supreme Audit Institutions"* was held in *Lisboa,* in January 2014. 100 participants from 34 SAI attended the seminar, sharing views, experiences and practices related to ethical conduct in SAI.

This paper aims at reflecting on the main results of the survey, in what concerns *Ethics within SAIs,* identifying the main trends, approaches and strengths key in assuring adherence towards ethical requirements, highlighting possibilities to enhance ethical behaviours in SAI and identifying areas that merit further development. Such issues, together with the results obtained by means of the administered survey are presented throughout the report, with the latter referred results also annexed. A few examples are included.
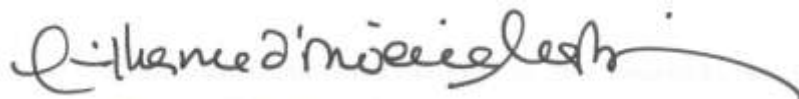
This submission is intended as the first paper on the subject matter.

Through the aforementioned survey and seminar, the Task Force has gathered European SAI's replies to the questions as well as relevant documents, description of experiences and fruitful discussions' results. The possibilities of further exploring this documentation and of deepening the analysis of relevant ethics-related issues, as well as the additional information that can be collected from other INTOSAI Regional Working Groups, provide this Task Force with the ideal opportunity to identify and analyse the most salient issues deemed relevant in this regard.

Such objectives and approaches will be addressed in greater detail through the submission of Part II of this paper, which will focus on specific SAI's experiences, according to the main themes emerging and identified by the Task Force with respect to the ethical infrastructure and its corresponding requirements.

The Task Force expects information provided in this respect to be of use and interest to SAIs, particularly when considered in the context of enhancements intended in their respective ethical management capabilities.

I deeply thank all the SAI for their contributions to enrich these documents and for their willingness and effort to describe practices and experiences put in place in the respective Institutions.

**Guilherme d'Oliveira Martins**
Chair of the EUROSAI Task Force on Audit & Ethics
President of *Tribunal de Contas* (Portugal)

# 1. Why Ethics' Management is Important for Supreme Audit Institutions



As independent external auditors of public finances, Supreme Audit Institutions (SAI) must be looked upon, by everyone, with a sense of trust, confidence and credibility.

As stated in ISSAI 1 (the Lima Declaration) and ISSAI 30 (INTOSAI Code of Ethics), reliability is deeply grounded on the independence, impartiality and moral integrity of SAI's members and auditors, who should act according to a clear code of values and principles.

The INTOSAI Code of Ethics describes the core values of public auditing. This Code is classified as ISSAI 30 in level 2 of the ISSAI framework, which means that, although targeted at individuals working for, or on behalf of a SAI, it also defines prerequisites for its functioning as an institution.

**Ethics is about making conscious choices in line with a framework of values and principles**

In other words, the SAI must ensure that the described ethical and deontological principles are respected and complied, in order for the organisation to fulfil the true role of a SAI and to be recognised as such.

Furthermore, as stressed by OECD, high standards of integrity and transparency in SAI's daily operations enhance the role of SAI as model institutions for accountability. This is quite important to expand the relevance and impact of SAI's work in a time, such as the current one, marked by the need to rebuild trust in public institutions as a key element of a return to sustainable and inclusive growth.

# 2. ISSAI Ethical Requirements

The ISSAI ethical requirements are mainly described in ISSAI 30 (INTOSAI Code of Ethics), although other ISSAI also include ethical provisions. These provisions can be found in ISSAI 20, 40, 100 and 200, as well as in ISSAI 1200, 3000, 4100 and 4200.

In most cases, the standards require that auditors act according to the principles of **Integrity**, **Independence, Objectivity**, **Impartiality**, **Confidentiality** and **Competence,** at times describing the expected attitudes and behaviours emanating from these principles.

Regarding the SAI's organisational perspective, ISSAI 30, 20 (principle 4) and 40 (elements 2 and 4) clearly establish that each SAI has the responsibility:

- To **develop its own Code of Ethics**, clarifying ethical concepts, founded in the principles stated in ISSAI 30 and in the applicable legal and regulatory framework;
- To **make the ethical requirements** and obligations **public**;
- To ensure that all of those performing audit work **acquaint** themselves **with the values and principles** contained in the code;
- To **emphasise the importance of** meeting the **relevant ethical requirements** when carrying out the work;
- To actively **promote ethical behaviour** throughout the organisation;
- To make sure that **managers act as examples** of appropriate ethical behaviour;
- To ensure **transparency and legality** of their own operations;
- To implement **policies and practices aligned with ISSAI 30**;
- To adopt appropriate policies and procedures that **safeguard independence**;
- To put in practice policies and procedures that **reduce risks of familiarity** with the organisation being audited, namely through the rotation of key audit personnel;
- To ensure that all auditors or parties contracted to carry out

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**INTOSAI**

**ISSAI 30
Code of Ethics**

A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors.

**INTOSAI**

**ISSAI 40
Quality control for SAI**

SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI comply with relevant ethical requirements.

work for the SAI **act accordingly** with the relevant ethical principles;

- To consider, for that purpose, written declarations to confirm **compliance with ethical requirements**;
- To **prevent** internal **conflicts of interests** and corruption;
- To establish appropriate **confidentiality agreements** with parties contracted to carry out work for the SAI; and
- To implement procedures to timely **notify breaches** of ethical requirements and to take appropriate action to **resolve them**.

Criteria to assess the compliance to these ethical requirements can be found in the Appendix to ISSAI 5600 (peer review guidelines) and also in the drafts of the Performance Measurement Framework (PMF) and of the ISSAI Compliance Assessment Tools (iCATs).

# 3.    From Ethics Infrastructure to Integrity Framework

The TFA&E is expected to support European SAI in implementing ethical requirements identified and established through the relevant ISSAI.

Such an objective can be achieved by framing the **SAI's management of ethical conduct**, so that SAI can reinforce it and more closely influence the achievement of the values and the performance of expected behaviours by individuals.

At a conceptual level of analysis, the management of ethical conduct can be referred to as a logical framework, such as the one used and recommended by OECD.

Throughout the years, OECD has developed the concept of an **Ethics Infrastructure**, recently updated as the **Integrity Framework,** able to support an environment that encourages high standards of behaviour. This infrastructure has several elements that can be applied to organisations such as SAI, which if appropriately implemented, should function in a coherent and linked manner. These elements can be categorised according to the main functions they serve, that is, **guidance**, **management** and **control**.

**Guidance** is provided by:
• Statements of values and standards of behaviour, such as codes of conduct;
• Strong commitment from leadership; and
• Professional socialisation activities such as education, training and counselling to raise awareness and develop skills for application of laws and standards in the daily work.

**Management** policies and practices:

• Create conditions to ensure fair and impartial selection, promotion and remuneration; and
• Contribute to social respect.

**Control** is assured through:

• An effective legal framework that sets basic standards of

**1998 Recommendation of the Council on Improving Ethical Conduct in the Public Service Including Principles for Managing Ethics in the Public Service**

behaviour;

- Effective accountability mechanisms, such as internal control and external audit;
- Enforcement procedures; and
- Transparency mechanisms providing access to public information, facilitating public involvement and scrutiny.

# 4. The integrity agenda: lessons from OECD countries

*by János Bertók, Head of Public Sector Integrity Division, OECD*

Given the governance failures that contributed to the financial crisis and against a background of continuing economic and social uncertainty, Governments have been facing a challenge to **rebuild trust** in public institutions as a key element of a return to sustainable and inclusive growth. To meet the challenges and opportunities presented by the increasingly complex policy environment, **SAI are required to take an introspective review of their institutions' own capabilities and performance if they want to remain a relevant source of objective and credible information** for supporting structural reforms **and a model institution for accountability** expected in the 21st century.

To support more strategic and forward-looking states, many SAI have undertaken ambitious initiatives for institutional strengthening, capacity development, transparency and citizen participation in order to expand the relevance and impact of their work. Internal reforms, in particular the introduction of strategic planning, increasing the professional capacity of workforce to develop new products and services in order to meet the evolving demands of policymakers and society at large, however, are not sufficient to become an exemplary institution if these reforms are not complemented with **high standards of integrity and transparency in their daily operations**.

**SAI are expected to build the set of core integrity tools and measures – including code of ethics, training and advice – into a coherent Integrity Framework.**

Integrity, transparency and accountability are cornerstones of good governance and levers for restoring trust. However, building a culture of integrity and addressing corruption as a complex problem ultimately requires a **comprehensive approach that effectively combines prevention, detection and prosecution**. The OECD has been supporting countries in building evidence-based

regulatory and institutional frameworks to build a culture of integrity in the public sector. Some of the lessons learned from country experiences in building a sound Integrity Framework could support SAI's efforts in fostering a culture of integrity:

- **Set the basics right with redefining core values**

  The evolution of core public service values in the past decades shows how integrity, honesty and transparency have reached similar status as impartiality and legality, the traditional core values. For example, transparency is even recognised in several constitutions.

- **A range of tools and measures are needed for putting values into effect**

  Bringing distinct measures of prevention, detection, prosecution and sanction into a **coherent system** remains a constant challenge in building resistance to corruption and a culture of integrity.

  - **Core integrity tools and measures** include, in particular codes of conduct, conflict-of-interest rules, asset disclosure requirements, gifts and gratuities policy, post-employment measures, reporting channels and protection for whistle-blowers, integrity training and accessible advice and counselling, etc.

  - **Supporting management processes** are in particular the internal financial controls, human resource management, (including recruitment, evaluation and career progression), performance management (including quality control processes and external evaluations), public procurement, internal and external audit, including the monitoring and follow up of recommendations.

  - **Integrity actors,** including ethics advisors or managers to support the implementation and co-ordination of integrity tools and measures.

- **Streamline integrity in management**

  Understanding the sources of corruption and misconduct has been an increasing demand. Effective risk mapping and mitigation requires not only data and analysis but also leadership commitment to provide incentives and resources to apply them. For example, include integrity in training or performance management is a mostly mandatory tool in OECD countries.

- **Implementation is the test**

  Many countries and public organisations face an implementation gap. For example, providing timely advice when officials really need them (e.g. facing integrity dilemmas) or verifying the accuracy of asset disclosures (e.g. not only whether the forms were submitted but also review whether all required information was provided and accurate).

- **Visible success of passing laws but experience affecting understanding and behaviour**

  Achieving a change in behaviour and building a culture of integrity needs constant and not *ad hoc* efforts. Focus on prevention (for example through mapping out evolving risks) helps closing the sources of corruption and misconduct and build confidence in distinct tools and measures. Checklists and self-tests, for example on gifts and benefits, could help officials apply the rules and policies in specific situation. Another example is the timely investigation of misconduct reported and effective protection for a whistle-blower that could increase the confidence in the reporting process. **Transparency is the rule**: for example in asset declarations 'the higher the position, the more transparency' is applied.

- **Assessment of implementation and impact**, in particular by internal control and external audit, supports a better understanding of actual functioning of integrity measures and intervention to strengthen or update the Integrity Framework.

# 5. Ethical Strategies and Policies of European SAI - Main Approaches

The results of the survey conducted on December 2012 by the TFA&E are summarised in the attached report.

When compared with the ISSAI ethical requirements, and with the elements of a well-functioning integrity framework, one can draw the following main conclusions:

- **Codes of Conduct**

  Statements of values and standards of behaviour are central pieces of the ISSAI requirements and of an ethical infrastructure and are well established elements in the European SAI. A large majority of European SAI have approved their own Code of Ethics.

- **Education, Training and Counselling**

  Training sessions or lectures for employees and the use of Intranet are commonly used by EUROSAI Members to raise awareness of ethical values and issues, thereby simultaneously emphasising the importance of meeting ethical requirements.

  More than half of the SAI that answered the survey have a special unit or person to advice employees and managers about ethical dilemmas and conduct.

- **Management Policies and Practices**

  EUROSAI Members seem to be well aware that human resources management must include ethical considerations. Their policies and practices with respect to recruitment, performance appraisal and training often address this dimension.

  In particular, conflicts of interests (interacting with the independence, objectivity and impartiality of the institution) seem to be the main concern of European SAI. Many SAI have implemented policies, routines and procedures to avoid the occurrence of wrongdoing related to this issue.

  Nevertheless, written rotation policies were only adopted by 41% of the SAIs that submitted a response to the administered survey.

- **Transparency and Public Scrutiny**

  Many European SAI render documents relating to their respective ethical requirements as publicly available (at least in part), while more than half of SAI that responded to the survey indicated that they established routines or policies to deal with whistle blowing.

  In contrast, only a minority of SAIs ask auditees about ethics-related performance of audit staff during audits.

- **Control and Assessment Tools and Practices**

  A large majority of SAI have established measures to specifically control the absence of conflicts of interests in audit work.

  However, very few of them have ethics-related self-assessment tools or undertake internal or external/independent evaluations of ethics-related performance.

So we can conclude that, as a general trend, European SAI strive to meet the main INTOSAI ethical requirements. Clearly emerging from responses gathered with respect to the survey is that SAI are presently predominantly focused on establishing and executing ethics-related guidance and orientation measures. On the other hand, the control function of the ethics infrastructure is less developed.

# 6. SAI's Practices

In the submission of replies to the aforementioned survey, European SAI reported several concrete policies and practices that have been adopted with regard to ethics management within their respective institutions. Hereunder are a selection of the identified ethics-related policies and practices. As indicated earlier, the TFA&E will be further exploring and detailing these examples in future papers, thereby facilitating the useful exchange of relevant experiences by SAI.

## Guiding Ethical Conduct

### Codes of Conduct and other Ethics Guidance Documents

As mentioned, a large majority of European SAI have approved their own Code of Ethics. As regards the content of these codes, experiences vary, but, in many cases they include:

- Statements regarding the values and principles guiding conduct
- Descriptions of the associated expected behaviours
- Concrete examples of dilemmas and sensitive situations regarding, among others, conflicts of interests, political neutrality, as well as gifts and hospitality, and
- Provisions for dealing with misconduct

Usually European SAI's ethical frameworks also address:

- Declarations of financial interests and assets;
- Obligations after ceasing to hold office; and
- Use of official facilities and equipment.

Some SAI have specific provisions, and associated policies and tools, targeted at managers and their role in guiding and managing ethical conduct. Such provisions acknowledge the relevant role played by leadership and the importance of its example when promoting integrity within an organisation.

Furthermore, the majority of SAI apply their ethical rules and procedures to seconded staff and experts engaged by the Institution, which is, in fact, in line with ISSAI requirements.

**Ethics' guidance relates to stating values and principles and making them known and understood**

**INTOSAI**

**ISSAI 20 Principles of transparency and accountability**

**Principle 5: (...) Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI and is subject to ethical policies (especially conflict of interest) and policies to ensure integrity and independence.**

## Raising Awareness about the Ethical Framework

Ethical requirements and obligations of SAI's members and staff need to be well known by those who are to respect them and should also be made public (see principle 4 of ISSAI 20).

The majority of European SAI publishes their ethics-related documents through their corporate intranet and, also, in full or in part, through their respective Internet sites.

Additionally, a number of other means are being used to raise awareness and disseminate information about ethical values and principle as well as related documents and policies. Some SAI use traditional tools in their efforts at disseminating information, while others have developed more innovative approaches. These latter referred innovative approaches include systems of self-evaluation, the sharing of experiences and utilisation of communication tools.

Means used are:

- The delivery of structured information to newly recruited staff;
- Entrusting managers and supervisors with the duty of informing auditors on ethical issues;
- The formalisation of staff commitment to the ethical principles of the institution;
- The drafting of regular papers, possibly on an annual basis, describing standard and good practices in this respect;
- The utilisation of brochures, gadgets and posters;
- Conduct training sessions to raise awareness and transfer knowledge about ethics;
- Use of self-assessment questionnaires;
- Conduct self-evaluations on integrity (e.g. Into-SAINT);
- Organisation of experience exchange meetings;
- Use of story-telling techniques; and
- The use of actors to identify (un)ethical behaviour at the workplace.

Training about ethics makes SAI and their staff more able to ascertain their integrity, to identify ethics-based risks and to gain knowledge about how to prevent unethical conduct. The majority of European SAI have interest or experience in ethics-related training and strongly recommend it. Training methods that SAI use in this area are, mainly:

**iCAT on performance audit:**

Before using experts, the SAI ensures that the expert (...) is informed about the conditions and the ethics required.

- Training sessions or lectures for new employees;
- Training sessions for all employees organised around periodical cycles;
- Seminars based on real-life situations;
- Training for accountants; and
- E-learning courses about ethics.

Besides traditional training sessions, key in raising awareness about ethical issues are also discussions based on real-life situations and systems of self-evaluation. Furthermore, experiences shared through meetings provide practical guidelines on expected behaviours and decision-making processes involved in this respect, thereby aiding the development of awareness of up to date ethical practices and facilitating the on-time recognition of problems. Such opportunities create an open atmosphere, where employees communicate and are willing to learn from one other.

Establishing connections with other non-SAI organisations was also deemed to be an aspect of notable importance by a number of European SAIs, allowing for the identification of other experiences in terms of methods utilised in raising awareness on ethics and ethical-related issues. Connections of the following type were reported:

- Contact and joint work with anticorruption agencies;
- Exchanging experiences among ethics commissioners;
- Joint workshops and meetings with other non-SAI organisations;
- Reports and exchanges of information on resolving doubtful situations; and
- Fostering cooperation among NGOs, public and private sectors with respect to ethics-related issues.

## Formal Commitment to the Ethical and Deontological Values and Principles

There are several ways by which SAI request formal declarations related to the ethical and deontological values, as well as the principles they embrace. While some SAI only make use of one of the following procedures, others utilise several or all of them:

- Signature of a declaration acknowledging awareness of, and agreement with, the SAI's Code of Ethics when assuming functions within the SAI;

- Signature of reminders corresponding to ethical obligations on a regular basis (e.g. annually);
- Periodic (e.g. annual) declaration stating one's compliance to ethical obligations; and
- Inclusion, as an audit procedure within every audit, of a formal declaration of compliance to ethical requirements applicable, such as the absence of concrete conflicts of interests.

## Specialised Ethics Units/Persons

European SAI were asked whether they maintained an Ethics Committee/Officer/Advisor/Contact person and, if that was the case, were asked to detail their respective role.

More than half of the SAI answered positively, reporting that they have a special unit or person to deal with ethical issues. Yet the submitted responses also indicated that these units or persons have very different roles from case to case.

The nomenclature employed in this respect varies considerably, and includes:

- Ethics Committee;
- Ethics Commissioner;
- Ethics Director;
- Integrity Coordinator;
- Audit Counsellors; and
- Ethics Partner.

Secondly, and in correspondence to the above point raised, their roles are also subject to considerable variations. In some cases they have a decidedly strategic nature, while in others, they fulfil a guidance role. However, in many, they were mainly designed as control bodies. The identified roles for these ethical units in SAI were:

- Ensuring the adequacy of policies and procedures relating to integrity, objectivity and independence;
- Promoting the effectiveness of communication to senior management and staff;
- Introducing preventive measures and facilitating solutions;
- Ensuring compliance with ethical standards;
- Reporting cases of conflict of interest and violations of the Code of Ethics; and
- Receiving, investigating and keeping records of complaints.

The use of internal and external confidential advisors to help staff in ethical situations has also been reported.

# Managing Ethical Conduct

### Human Resources Management

Human Resources management policies and practices usually include some of the instruments already mentioned within the guidance function, such as a training policy.

Some other components of the Human Resources policies should be highlighted as part of the ethics' management function. As indicated in element 4 of ISSAI 40, SAI's Human Resources policies and procedures should give appropriate emphasis to commitment to the SAI's ethical principles, and these policies and procedures include recruitment, performance evaluation, professional development, ethical competence, career development, promotion and compensation.

The replies to the survey confirm that a majority of European SAI consider ethical behaviour as something to be assessed when **recruiting** auditors and staff. The concern in this regard relates to how best to carry out such an assessment. Practices mentioned by SAI in this respect include the following:

- Screening reactions to ethical dilemmas during examinations and interviews;
- Conducting psychological tests and examinations; and
- Undertaking background checks following security clearance procedures.

Another area where ethical considerations should be included is the assessment criteria for the **annual performance appraisal**. A significant number of SAI report incorporating such criteria in this manner. Examples of the use of ethics-related assessment criteria include:

- Sense of responsibility;
- Integrity and professional conduct;
- Personal qualities;
- Conduct on and off duty, including professional ethics;
- Commitment to the institution and integrity;

> **Ethics' management relates to adopting management policies and practices that promote and respect the stated values and principles**

- General behaviour and professional conduct;
- Active support for corporate policies; and
- Demonstration of positive business behaviours.

## Rotation Policies

Element 2 of ISSAI 40 stresses the importance of rotating key audit personnel to reduce the risk of familiarity with the organisation being audited.

Nevertheless, not many SAI in Europe declared having adopted written rotation policies for its audit staff.

The SAI that do have written employee rotation policies in place indicated that they have established (depending on the cases):

- A maximum period for auditing the same institution, that can be two, five or seven years;
- Compulsory mobility for auditors after a period of five, seven or eight years in the same department; and
- Compulsory mobility for management posts after a period of seven years.

## Tone at the Top

In what concerns management practices, one cannot avoid stressing the importance of example.

As already mentioned above, ethical requirements set by ISSAI specifically state that SAI should ensure transparency and legality of their own operations and that managers should act as examples of appropriate ethical behaviour.

Exemplary behaviour by management, fair treatment and good relationships among colleagues are, in fact, an important contribution to the moral awareness of staff. In addition, amicable relations among colleagues and fair treatment help to promote an ethical attitude towards work. This indicates that soft controls represent an essential contribution to staff integrity in the workplace.

**INTOSAI**

**ISSAI 40
Quality control for
SAI**

**The Head of the SAI and senior personnel within the SAI should serve as an example of appropriate ethical behaviour.**

**SAI should ensure that (...) ethical principles are key drivers of performance assessment of personnel and any parties contracted to carry out work for the SAI**

# Controlling Ethical Conduct

## Conflicts of Interest

As mentioned above, and consistent with the ISSAI requirements, **conflicts of interest** (which bears direct relevance to the independence, objectivity and impartiality of the institution) are the main concerns of many European SAI, which in turn use policies, routines and procedures to prevent or address such cases. Examples of these policies, routines and procedures include guidance measures, systematic declarations and the role of ethics units.

A large majority of European SAI stated that they have established measures whereby the absence of conflicts of interest must be formally declared. These declarations assume one or several of the following types:

- Regularly renewing oath or declarations of independence and impartiality;
- Periodically (e.g. annually) stating adherence to the ethical obligations;
- Formally declaring, as auditor and in every audit, the compliance to applicable ethical requirements, including the absence of concrete conflicts of interest;
- Formally declaring, as audit supervisor and in every audit, that he/she has confirmed the absence of concrete conflicts of interest within the audit team; and
- Regularly declaring public and private interests

## Self-assessments, internal evaluations and external evaluations

Most European SAI recognise and acknowledge that they don't have self-assessment tools related to ethical conduct in place.

Few of them undertake internal and/or external evaluations of ethics-related performance.

Those SAI that reported undertaking those evaluations indicated that internal assessments were mainly undertaken by Ethics Committees or through the implementation of IntoSAINT.

IntoSAINT is a **self-assessment** tool developed by the Netherlands Court of Audit, which enables SAI to assess their vulnerability and resilience to integrity violations and yields recommendations on how to improve integrity management.

IntoSAINT experience has so far shown that:

- Structured integrity risk assessment is not common within SAI;
- The need for an integrity policy framework is among the most mentioned recommendations;
- Risks related to the independence of SAIs are an important concern; and
- Recommendations concerning 'soft controls' stress the importance of fairness, clarity, communication and leadership.

Where external evaluations were conducted they were mainly part of peer reviews.

A number of SAI also involve the auditees in assessing the ethics-related performance of audit staff. This is mainly accomplished through surveys on audit practices and through the administrations of client feedback questionnaires and self-assessments during and after audit tasks.

## Misconduct

Around half of the SAI reported routines or policies relating to whistle blowing. SAI that have such policies in place consider the protection of those who report suspicions (including the protection of identity and acquired labour rights) a very important issue to safeguard.

The most common manner in which such cases are handled include the utilisation of special teams, allocated units or Ethics Committees.

As mentioned above, specific ethical units are often used to deal with cases of misconduct, receiving complaints, investigating and reporting them.

INTOSAI

**ISSAI 40
Quality control for
SAI**

**SAI should ensure policies and procedures are in place to notify the Head of the SAI in a timely manner of breaches of ethical requirements and enable the Head of the SAI to take appropriate action to resolve such matters.**

# 7. Some cases: Introducing changes in the ethical management of SAI

A few SAI have reported having recently implemented significant changes in their global ethical management, following an analysis of gaps. That is the case of the European Court of Auditors (ECA).

## The European Court of Auditors' experience

*by Eduardo Ruiz Garcia, Secretary General of the ECA*

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In recent years the ECA has reviewed its ethical framework. In 2011 the ECA adopted its "*Ethical Guidelines*" for all staff and in 2012 it issued a new "*Code of Conduct for Members*". In addition, a new procedure was introduced in 2011 for providing reasonable assurance on compliance with ethical requirements, in particular, for avoiding conflicts of interests or any situation that might impair the independence of the ECA's auditors. This set of instruments has further defined the ethical framework and requirements of the institution, and has aligned them with the INTOSAI standards, in particular with ISSAI 30.

The aim of the ethical framework is to ensure that the ECA is perceived as an objective, independent and professional institution in which its stakeholders can have full confidence. It is a key element in preserving and promoting the reputation and credibility of the institution, which is essential to its task of scrutinising and certifying the work of other public managers. The ECA's reputation is built on basic rules, standards and values which stem from a variety of sources: normative (Treaty on the Functioning of the European Union, Staff Regulations), professional (INTOSAI and IFAC codes) and corporate (mission statement and values). Overall, the reputation and credibility of the institution depend on its personnel fulfilling these requirements - on the individual behaviour of auditors, managers and Members.

As the President of the ECA, Mr Vítor Caldeira, points out in the preface to the Ethical Guidelines, they are intended to help us ensure that our daily decisions, both in auditing and in running the institution, comply with ethical requirements. Ethics goes beyond binding laws or rules, and it applies to scenarios where a decision, or conduct, might be legal and in accordance with rules, but not in conformity with the values of the institution or of individuals.

The German philosopher Hannah Arendt said that the only persons to be trusted are those who, when confronted with an ethical choice, make their decision on the basis of '*I should not do it*', rather than '*I cannot do it or I am not allowed to do it*'. The decision, the choice, is made by individuals, but it is the responsibility of the institutions to provide the necessary framework and environment to enable them to take the right decision.

A Supreme Audit Institution should take all the necessary steps to adopt and introduce an ethical framework in accordance with public management and international professional standards of conduct. Nevertheless, the effective implementation of the ethical requirements defined will depend on its staff. It will be their own responsibility to choose the best ethical solution when they are confronted with a dilemma. To do so, staff should be aware of the requirements, the potential implications and the consequences of the different courses of action open to them; in particular, they must be encouraged to apply common sense and to talk openly to superiors and colleagues. In this exercise, sharing experience and doubts is vital.

The European Court of Auditors is placing a great deal of emphasis on empowering its staff with adequate ethical tools; training on the Guidelines has been made compulsory for all personnel. At the end of 2013, around 89% of staff had participated in the ECA's courses on ethics; 90% of its managers have followed the courses. New arrivals receive specific training and further ethical issues are being raised in management workshops.

The ECA is very attentive to any development in this area and is participating in the EUROSAI Task Force. We are also willing to

contribute to the review of ISSAI 30 led by the Polish Supreme Audit Institution (NIK). All these actions will help us to review and to improve our current practice and further strengthen and protect the reputation of the European Court of Auditors as an institution and the reputation of its staff.

# 8.    Some cases: Managing ethics in a small SAI

Several ethics management policies and tools are related with segregation of functions, preventing from participating in decisions and audits and periodic rotation of staff. This can be a challenge for small sized SAI operating in small countries or regions. This is the case of the Maltese SAI.

**Managing Ethics in a Small Supreme Audit Institution**

*by Keith Mercieca, National Audit Office, Malta*

*nao.malta@gov.mt*

The Maltese National Audit Office (NAO) has a staff complement of approximately 60 persons, which comparatively, would categorise this office as a small SAI. Smallness, in and of itself, presents challenges relating to ethics, both in terms of the office's ethics management function and the audit environment within which it operates.

The smallness of the Maltese SAI does not allow for the development of a specialised ethics management role, but this is incorporated under other corporate functions. Notwithstanding this limitation, NAO strives to promote ethical conduct within the organisation through its Code of Professional Conduct, which addresses various facets of ethical correctness such as confidentiality, conflicts of interest, independence and objectivity. In addition, this document makes reference to another ethical code, that is, the Code of Ethics for Employees in the Public Sector, which also applies to NAO officials. Furthermore, NAO employees are all required to take a sworn oath of secrecy precluding them from divulging any information acquired as a result of the

execution of their function.

Despite NAO's efforts, one aspect where smallness bears an influential role is with respect to the likelihood of conflict of interest. Given the micro scale of government operations, there exists a greater risk of auditors knowing or having worked with a potential auditee. In seeking to mitigate such a challenge and bearing in mind the limited resource pool available, NAO Malta has established a two-year period within which auditors may not audit organisations where they were previously employed or provided consultancy services to.

An element of residual risk always remains, particularly in view of NAO Malta's capacity limitations. There are notable difficulties in establishing and implementing a structured job rotation policy, with the most evident risk being the lack of continuity that could arise, resulting in a disjointed audit operation. Nonetheless, NAO Malta attempts to restructure its audit teams whenever possible, thereby lessening such risk.

Another facet where the management of ethics is rendered challenging is with respect to the sourcing of external consultants. Difficulties encountered in this respect relate to the very limited pool of external consultants that are specialised in the particular field that NAO Malta requires assistance in. Such experts would, in all probability, have already been engaged by the auditee in some capacity and with respect to some other assignment. In essence, aside from the provisions put forward in the Office's Code of Professional Conduct relating to the expert's current and recent relationships with the audited entity, an element of ethical uncertainty remains, with the Office often resorting to establishing the correct balance between operational exigencies and ethical correctness on a case-by-case basis.

It is this last point that truly captures the most significant challenge faced by a small SAI in the management of ethics, that is, the correct prioritisation between attaining core business objectives and doing so in an ethical manner. This dichotomy may require further thought, with the possibility of fusing ethical considerations to core business objectives a more cogent scenario.

# 9. Outlook

In this paper, the TFA&E has identified the ISSAI ethical requirements, the important elements of an ethical infrastructure, the main picture of the European SAI status in regard to the aforementioned requirements and elements, while simultaneously providing a number of examples of policies, practices and tools that SAI can adopt to fulfil their ethical management obligations.

In the forthcoming paper, the TFA&E will delve deeper into these examples, sharing with the European SAI community further details on the practices that can be used to implement ISSAI 30 and other ISSAI ethical requirements, thereby contributing towards the enhancement of SAI ethical infrastructures and the raising of public confidence in SAI.

the time is always right to do what is ➢──────→ right.

*martin luther king*
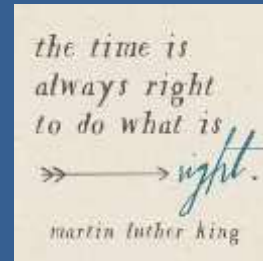
# Results of the SURVEY issued by the TFA&E to EUROSAI Members in December 2012

## MAIN RESULTS OF THE SURVEY

### PART II: ETHICS WITHIN SAIs

#### II.1. Ethics' guidance

1. Within EUROSAI Members, **Codes of Conduct** are a well spread means of disseminating SAIs **values and principles**, along with **expected behaviours** and **provisions for misconduct**. In half of the European SAIs that informed having a Code of Conduct, that Code includes **practical dilemmas** and ways to solve them.

2. By **Building knowledge about ethics** SAIs should be more able to ascertain their integrity and to prevent unethical conduct. This could contribute to increasing trust in SAIs. Besides codes of conduct, common ways to raise awareness of ethical values and issues are **training sessions** or lectures for employees, the use of **Intranet** and, sometimes, **special units to advice** on ethical issues**.**

3. Some SAIs regularly work together and exchange information with non-SAI organisations to raise awareness on ethics in the public sector.

#### II.2. Ethics' management

4. **Conflicts of interests** (interacting with the independence, objectivity and impartiality of the institution) seem to be the **main concern** of European SAIs. Many of them put in place policies, routines and procedures to avoid the occurrence of wrongdoing related to this issue.

5. SAIs' human resources management tools usually include ethical concerns, especially in **recruitment**, **performance appraisal** and **training.**

6. Written **rotation policies** are adopted by 41% of the replying SAIs

#### II.3. Ethics' control

7. Few SAIs use internal and/or external **specific evaluations of their ethical systems**. **Into-SAINT** is one of the tools that can be used for self-evaluations, but only five SAIs report experience with it.

8. When considering the ethical infrastructure recommended by OECD, it becomes clear from the answers to the survey that **guidance** and **management** functions are, at the moment, much more developed in European SAIs than **control function**.

# RESULTS BY QUESTION

## ETHICS WITHIN SAIs

### II.1. Ethics' guidance

**Question 1.** **Documents where the values and principles applicable to SAIs are stated in:**

| | a) General legal rules (applicable to all civil servants) | b)Specific legal rules (applicable to the SAI) | c) General Code of Ethics (applicable to all civil servants) | d) SAI's Code of Ethics | e) SAI's Strategic documents | f) Audit Manuals | g) Code or guidelines for conduct | h) Other |
|---|---|---|---|---|---|---|---|---|
| N.º of answers | 25 | 21 | 16 | 22 | 17 | 17 | 11 | 11 |
| % | **78%** | **66%** | 50% | **69%** | 53% | 53% | 34% | 34% |
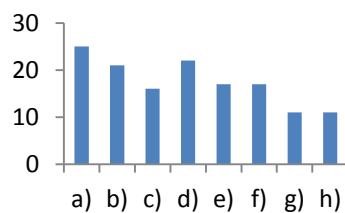


- Almost 70% of the SAIs answering the survey have their own Code of Ethics

- General rules applicable to all civil servants prevail also in the ethical framework of SAIs

- Some SAIs inform that they are in the process of reviewing their Code of Ethics and that they intend to include in that Code descriptions of expected behaviours and examples of ethical dilemmas

**Question 2.** **Are those documents applicable to seconded staff and experts occasionally hired by the SAI?**
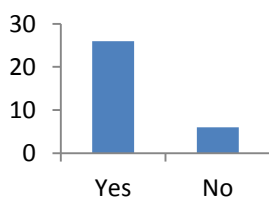


| | Total | Yes | No |
|---|---|---|---|
| N.º of answers | 32 | 26 | 6 |
| % | 100% | 81% | 19% |

- Most SAI apply their ethical rules and procedures to seconded staff and experts

## Question 3. The documents/provisions mentioned in 1 include:

| | a) Statements on values and principles | b) Explanations on expected behaviours | c) Examples of dilemmas and sensitive situations | d) Tools to be used | e) Provisions for misconduct | f) Specific provisions for managers | g) Others |
|---|---|---|---|---|---|---|---|
| N.º of answers | 31 | 30 | 16 | 15 | 22 | 17 | 2 |
| % | **97%** | **94%** | 50% | 47% | **69%** | 53% | 6% |
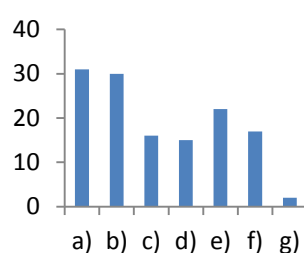


- Almost all SAIs that replied include in their framework documents the values and principles that govern their activities, and explain which behaviours they expect from their staff when facing ethical dilemmas

- Provisions for dealing with misconduct are also present in more than 70% of SAIs that replied to the survey

- One must notice that, in what concerns existence of specific tools and special rules for managers, only about half of the institutions replying have policies and measures in place

## Question 4. Those documents/provisions cover the following issues:

| | a) Conflicts of interests | b) Gifts and hospitality | c) Political neutrality | D Professional secrecy | e) Sexual or moral harassment | f) Others |
|---|---|---|---|---|---|---|
| N.º of answers | 31 | 29 | 31 | 30 | 20 | 10 |
| % | 97% | 91% | 97% | 94% | 63% | 31% |
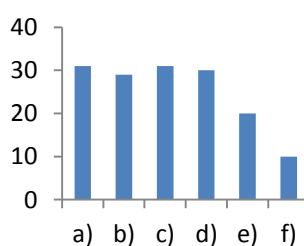
- Almost all SAIs replying have provisions regarding the main topics related to ethical conduct, such as conflicts of interests and professional secrecy

- Approximately one third of replies indicated other issues covered by their ethical framework, such as:

  − Declaration of financial interests and assets
  − Obligations after ceasing to hold office
  − Use of official facilities and equipment

## Question 5. How are the employees informed about the ethics' values and principles, documents and policies of the SAI?
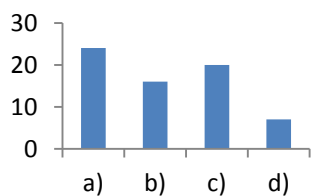
|  | a) Organised documentation is delivered to them | b) Specific training is held | c) Managers and supervisors inform them | d) Others |
|---|---|---|---|---|
| N.º of answers | 24 | 16 | 20 | 7 |
| % | 75% | 50% | 63% | 22% |

- Some SAIs mention that the appraisal interviews are used to discuss and advice on ethical issues
- We may conclude that SAIs have measures in place to inform staff about ethical policies

## Question 6. Are the ethics' documents available on the SAIs' intranet?
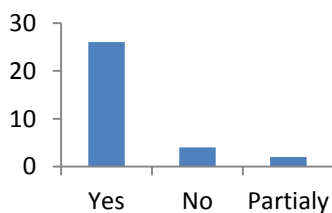
|  | Total | Yes | No | Partially |
|---|---|---|---|---|
| N.º of answers | 32 | 26 | 4 | 2 |
| % | 100% | 81% | 13% | 6% |

- As a general practice, ethics´ documents are placed in the INTRANET of the institutions, which is quite understandable since these are provisions directly targeted to SAIs' employees

## Question 7. Are the ethics' documents available on the SAIs' website (Internet)?
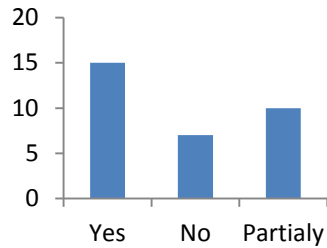
|  | Total | Yes | No | Partially |
|---|---|---|---|---|
| N.º of answers | 32 | 15 | 7 | 10 |
| % | 100% | 47% | 22% | 31% |

- It is important to notice that almost 80% of SAIs replying to the survey also make all or some of the ethics' documents known to the citizens, via INTERNET

## Question 8. Do members, auditors and/or staff formally subscribe/commit to the ethical and deontological values and principles of the SAI?
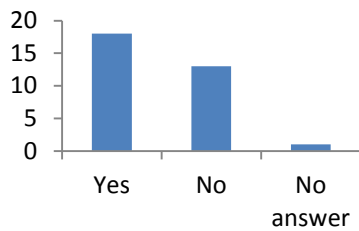
|  | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 18 | 13 | 1 |
| % | 100% | 56% | 41% | 3% |

- A small majority of respondent SAIs require from auditors to formally commit to ethical values of the institution.

- The ones doing it, choose different forms:

  - Signing declarations taking notice of the Code of Ethics at the occasion of starting functions in the institution

  - Reminders of ethical obligations in a regular basis

  - Commitment for each audit in which the auditor is involved

## Question 9. Does your SAI maintain any Ethics Committee / Officer / Advisor / Contact person?
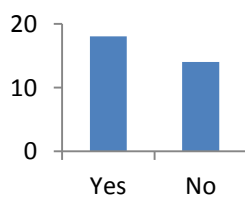
|  | Total | Yes | No |
|---|---|---|---|
| N.º of answers | 32 | 18 | 14 |
| % | 100% | 56% | 44% |

- More than half of the SAIs that answered the survey has a special unit or person to advice employees and managers about ethical dilemmas and conduct.

- These units/persons may have one of the following designations:
    – Ethics Committee
    – Ethics Commissioner
    – Ethics Director
    – Integrity coordinator
    – Audit Counselors
    – Ethics Partner

- Their main roles include:
    – Reporting cases of conflict of interest and violations of the Code of Ethics
    – Receiving, investigating and keeping records of complaints related to unethical behaviour
    – Introducing preventive measures and facilitating solutions for real ethical problems encountered
    – Ensuring the adequacy of the office's policies and procedures relating to integrity, objectivity and independence, compliance with ethical standards and the effectiveness of the communication of these policies and procedures to senior management and staff

## Question 10. Do you (or other colleagues of your SAI) have experience with methods to raise awareness on ethics/ethical issues?
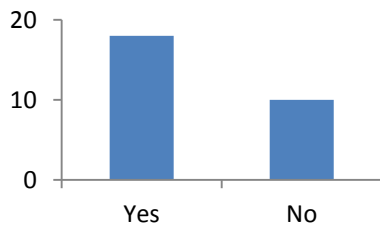
|  | Total | Yes | No |
|---|---|---|---|
| N.º of answers | 32 | 19 | 13 |
| % | 100% | 59% | 41% |

- 59% of the SAI's replying to the survey have experience with methods to raise awareness on ethics and ethical issues

- A common way to raise awareness is the use of training sessions or lectures for new employees

- Several SAI's use the intranet to raise awareness on ethics

- Some SAIs have set an integrity-day for employees, when they are expected to talk about ethical issues

## Question 11.   Has your SAI organised/participated in training on or related with ethics?



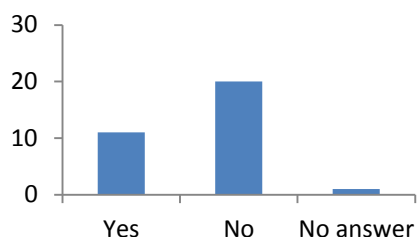| | Total | Yes | No |
|---|---|---|---|
| N.º of answers | 32 | 18 | 14 |
| **%** | 100% | 56% | 44% |
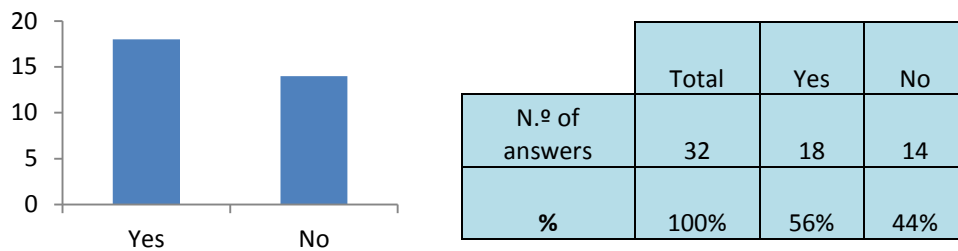
- 18 of the 32 SAIs who replied to the survey have organised/participated in training related with ethics
- Some have used scenario-based workshops and find them quite useful to raise awareness on ethics and ethical issues
- Into-SAINT is considered as a good tool to raise awareness on ethics and ethical issues and to make SAIs better capable of self-evaluations on the issue

## Question 12. Would you recommend any of the methods/training experiences as described above to another SAI?



| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 19 | 10 | 3 |
| % | 100% | 59% | 31% | 10% |
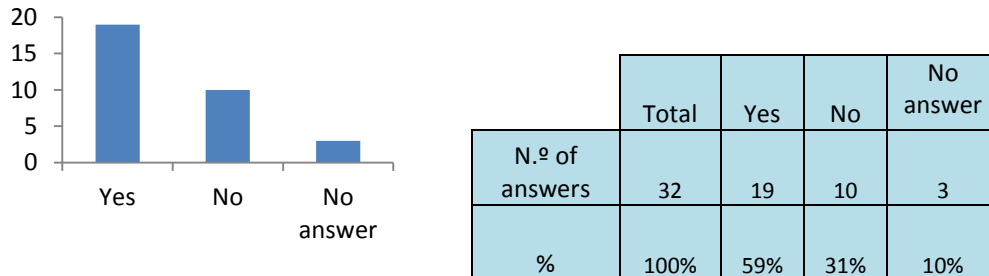
- A majority of SAIs recommend training on ethical issues so that all employees possess the same knowledge about ethics

- This training can be based on:
  - Real-life situations, in order to provide practical guidelines on expected behaviours and decision making
  - Discussions on ethics and experience exchange meetings, in order to be aware of up-to-date ethical practices and be able to recognise problems timely
  - Feedback training (how to call someone to account), in order to create a more open atmosphere where employees communicate with each other and are willing to learn from each other
  - Into-SAINT as a tool to raise awareness on ethics and ethical issues and to make SAI's better capable of self-evaluations

**Question 13.** In your connections with other organisations (non-SAI), have you heard about their experiences with methods to raise awareness on ethics?



| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 11 | 20 | 1 |
| % | 100% | 34% | 63% | 3% |

- 34% of the SAIs that replied to the survey have connections with other non-SAI organisations and have heard about their experiences with methods to raise awareness on ethics and ethical issues

- They report connections of the following type:
    - Contacts and joint work with the anticorruption agency of their nation
    - Exchanging experiences among ethics commissioners
    - Joint workshops and meetings with other non-SAI organisations
    - Report and exchange information on resolving doubtful situations
    - Fostering cooperation among NGOs, public and private sectors for ethics issues

**Question 14.** In case your SAI has had experience with Into-SAINT tool please share your experiences with it:

- 5 SAIs (16%of respondents to the survey) report having experience with the Into-SAINT tool
- In these cases that experience has led to more systematic awareness raising on ethics and ethical issues and gave the management a clear image about the degree of integrity in the institution

## II.2. Ethics' management

**Question 15.** Please mention initiatives that your SAI has taken to deal with each or some of the situations falling in the following categories, either to prevent or to solve them:

| Independence/ Impartiality | Conflict of interests | Gifts and hospitality | Political neutrality | Professional secrecy | SAIs ´internal affairs |
|---|---|---|---|---|---|

- A significant number of SAIs (76% of respondents) identified practical situations that happened in those field and gave notice of the initiatives taken to deal with them
- Relationships with the auditees, professional secrecy and SAIs' internal affairs are the subjects with more examples and that deserve from SAIs a particular worry

## Question 16. Does the selection process of new employees for your SAI consider ethical issues?
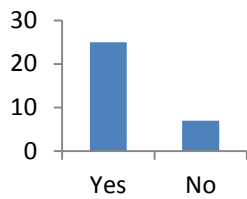


| | Total | Yes | No |
|---|---|---|---|
| N.º of answers | 32 | 25 | 7 |
| % | 100% | 78% | 22% |

- Almost 80 % of the respondent SAIs finds ethical behaviour as an issue to be considered in the recruitment of new auditors. The main ways they use to do it are:

  - Screening attitudes to ethical dilemmas during entry exams and interviews
  - Background researches (security clearance)
  - Examinations by psychologists

## Question 17. Does your SAI have a written rotation policy for audit staff?
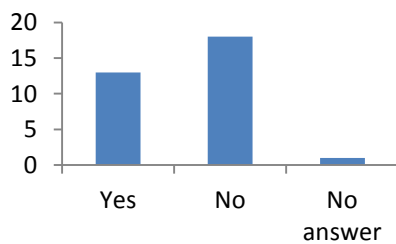


| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 13 | 18 | 1 |
| % | 100% | 41% | 56% | 3% |

- A slight majority of SAIs replying to the question don't have a written rotation policy in place

- The 41% that do have staff rotation policies specify having established:
  - Maximum period for auditing the same institution (2, 5 or 7 years)
  - Compulsory mobility for auditors (every 5, 7 or 8 years)
  - Compulsory mobility for management posts ( 7 years)

## Question 18. Does the annual performance appraisal system include any criteria related to ethical conduct?
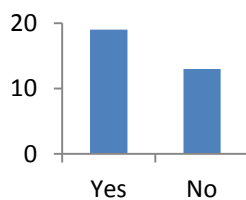


| | Total | Yes | No |
|---|---|---|---|
| N.º of answers | 32 | 19 | 13 |
| % | 100% | 59% | 41% |

- Almost 60% of the SAIs that answered the survey consider ethical conduct as an important assessment criteria for performance appraisal.

- Several SAIs clearly include ethical conduct as assessment criteria in that appraisal, in one or some of the following descriptions: *Sense of responsibility; Integrity and professional conduct; Personal qualities; Conduct on and off duty, including professional ethics; Commitment to the institution and integrity; General behaviour and professional conduct; Active support for corporate policies and demonstration of positive business behaviours.*

### Question 19. Please mention any other management practices that your SAI adopts to promote or recognise ethical conduct.

- Some SAIs inform on other management practices and measures towards enhancing ethical behaviour, such as:

    – Internal audit carried out by an independent internal auditor of the SAI focused on antifraud measures and audit aimed at compliance with the Code of Ethics
    – Motivating Senior management to share their knowledge and experience
    – Implementation of INTO-Saint as a self-assessment tool of the integrity level of an organisation
    – Use of an external confidential advisor
    – Recognition of ethical conduct by honour mentions (official condecorations are sometimes awarded)

## II.3. Ethics' control

### Question 20: Are there routines in your SAI to declare interests or to declare the absence of conflicts of interests?
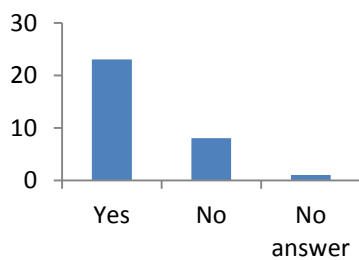


| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 23 | 8 | 1 |
| % | 100% | 72% | 25% | 3% |

- A large majority of respondent SAIs have established measures to declare the absence of conflicts of interests, mainly through declarations of independence and impartiality at the beginning of audits, declaration of public and private interests and/or renewing oath in an annual basis

**Question 21: Are there tools in your SAI that the members and staff can use to self-assess their adherence to ethical values and principles or to solve their ethical dilemmas?**
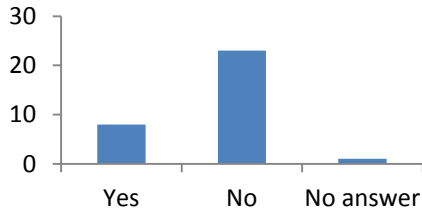
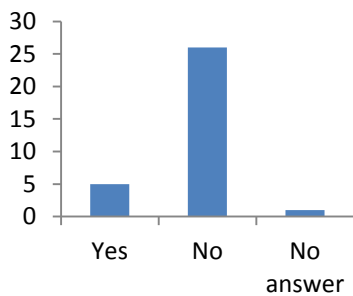| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 8 | 23 | 1 |
| % | 100% | 25% | 72% | 3% |

- Most SAIs recognise that they don't have self-assessment tools related to ethical conduct in place
- The few ones that do have this kind of instrument do it either during the audit work or by checklists included in the Code of Ethics
- Personal advisors are also mentioned

**Question 22: Does your SAI undertake internal evaluations of ethics related performance?**
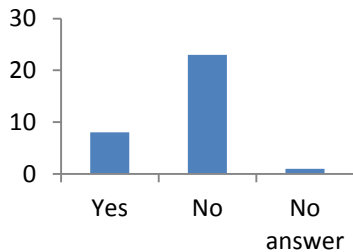
| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 8 | 23 | 1 |
| % | 100% | 25% | 72% | 3% |

**Question 23: Has your SAI undertaken any external/independent evaluation of ethics related performance?**

| | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 5 | 26 | 1 |
| % | 100% | 16% | 81% | 3% |

- Few SAIs undertake internal and/or external evaluations of ethics institutional levels.

    – Usually internal assessments are undertaken by ethics committees
    – INTO-Saint is also used by a few SAIs
    – Peer reviews are used for external/independent evaluations

- The SAIs that have had an internal assessment related to ethics mention that those evaluations took place between 2010 and 2012

## Question 24: Does your SAI ask the auditees about ethics related performance of audit staff during audits?
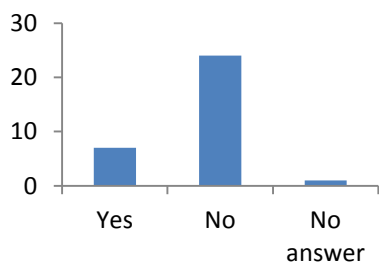


|  | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 7 | 24 | 1 |
| % | 100% | 22% | 75% | 3% |

- 22% of the SAIs replying to the survey ask the auditees about ethical conduct of audit staff
- They do it primarily through surveys on audit practices, client feedback questionnaires and also by self-assessment during and after audit tasks

## Question 25: Are there established procedures to deal with whistleblowing?
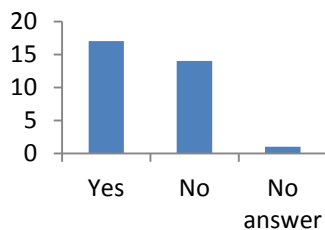


|  | Total | Yes | No | No answer |
|---|---|---|---|---|
| N.º of answers | 32 | 17 | 14 | 1 |
| % | 100% | 53% | 44% | 3% |

- A slight majority of replying SAIs report routines or policies concerning whistle blowing
- In these cases one can notice that the major concern is about protection of employees who report the suspicion, including protection of identity and acquired labour rights
- Special teams, allocated units or ethics committees are the chosen ways to handle this issue