



# CAS NEWSLETTER 1/2017



## *Words from the Chair*

The Comptroller and Auditor General of India took over chairmanship of the Compliance Audit Sub-Committee (CAS) from the Auditor General of Norway in November 2016. I would like to use this opportunity to recall the valuable contributions of the outgoing Chair in guiding the activities of CAS successfully for the past several years. I look forward to their continued active cooperation in the Subcommittee.

INCOSAI concluded its 67<sup>th</sup> meeting at Abu Dhabi in December 2016. The Congress has laid down the roadmap for the activities of INTOSAI for the period up to 2022. The INCOSAI endorsed many changes in the existing standards and guidelines and also approved a new framework for INTOSAI professional pronouncements. In tune with this, the Forum for Professional Pronouncements has prepared a Strategic Development Plan to guide the professional pronouncement activities of INTOSAI for the period up to 2019.

One of the crosscutting priorities laid down by INCOSAI is effective development and coordination among the professional standards, capacity development and knowledge sharing committees to support SAIs to improve their performance and effectiveness. This calls for continuous interaction and coordination among different committees for effective delivery of standard setting services and their implementation within INTOSAI. IDI, with its long experience in assisting SAIs to improve their quality of audits through capacity development support, has also a significant role and has to be a partner of CAS in implementing its work plan. This coordination is particularly important at this juncture since INCOSAI 2016 has endorsed the new operational standard for compliance auditing - ISSAI 4000. I would like to place on record the excellent work done by SAI Norway and significant efforts of all the members of CAS in developing ISSAI 4000.

The 14<sup>th</sup> meeting of the INTOSAI Compliance Audit Subcommittee (CAS), hosted by the Office of the Comptroller and Auditor General of India, was held in New Delhi. This meeting, being the first since SAI India took over as chair of CAS was of particular importance to us. The meeting discussed the CAS Work Plan for 2017-2019 and approved two projects for inclusion in the Work

Plan. The work on preparing supplementary Compliance Audit Guidance to help SAIs implement the new ISSAI 4000 has started. This is expected to be completed by September 2019 with the final pronouncement of Guidance for examining and reporting on the regularity and propriety aspects in compliance audits (ref. outdated ISSAI 4100) and Guidance for carrying out compliance audit as attestation engagement performed together with the audit of financial statements (ref. outdated ISSAI 4200).

The Newsletter is a prominent medium of dissemination of news/articles on audit particularly to compliance audit among the INTOSAI community. This edition of the Newsletter also contains an article contributed by the State Audit Office of Hungary on “Utilization the Integrity Survey in Enhancing Audit Methodology”.

I look forward to active cooperation from all the members in making this Newsletter an efficient medium of communication.

***V Kurian***

## Chairmanship of CAS

INTOSAI Governing Board in its 67<sup>th</sup> meeting at Abu Dhabi approved the proposal of change in Chairmanship of CAS from SAI Norway to SAI India. Accordingly, representatives of SAI Norway visited the CAG office, New Delhi on 28 and 29 November 2016 to handover chairmanship of CAS to SAI India.

**Mr. V Kurian and Ms. Ingvild Gulbrandsen exchanging Handing/Taking-over Note**



## 14th Meeting of CAS - New Delhi

The 14<sup>th</sup> meeting of CAS was hosted by the Office of the Comptroller and Auditor General of India held in New Delhi, India on 20 and 21 February 2017. Dr. Prasenjit Mukherjee, Deputy Comptroller and Auditor General, SAI India, welcomed the participants of 14<sup>th</sup> meeting of CAS – Azerbaijan, Brazil, China, the European Court of Auditors, France, India, Norway, Saudi Arabia, South Africa, AFROSAI-E and IDI.



14th Compliance Audit Subcommittee Meeting 2017  
New Delhi, India



All the participants took keen interest in the meeting and made following presentations:

- “Implementing ISSAI 4000” by Mrs. Raj Esther Thomas, Regularity Audit Manager, AFROSAI-E
- “A report on Governance” by Mr. Peter Welch, Audit Director, European Court of Auditors
- “Standard Setting Process” by Mr. Rafael Lopes Torres, Federal Auditor, PSC Project Manager via Video Conference in Luxembourg
- “Performance Reporting” by Mr. Fhumulani Rabonda, Senior Technical Manager, SAI-South Africa
- “Activities of IDI” by Ms. Gulbrandsen Ingvild, Senior Adviser, SAI-Norway
- “Activities of IDI” by Mr. Shofiqul Islam, Programme Manager, IDI
- “Proposals for Work Plan of CAS 2017-19” Mr. V. Kurian, Chair, CAS
- “Reporting on proprietary issues in Compliance Audits” by Mr. C M Singh, Principal Director, SAI-India

Keeping in view the requirements of the INTOSAI Strategic Plan 2017-2022, projects proposed in the Strategic Development Plan of the FIPP 2017-2019 and the suggestions received from CAS

members, the meeting discussed the CAS Work Plan for 2017-2019 and approved two projects for inclusion in Work Plan subject to approval of FIPP as required in the Due Process:

**Project I** - Prepare Supplementary Compliance Audit Guidance to help SAIs implement the new ISSAI 4000.

**Project II** - Associating with other Committees, on specific request, as subject matter experts in projects of relevance to the CAS scheduled to be carried out as part of Priority 2 of the SDP of the FIPP.

For Project I, SAI Norway was nominated as the nodal SAI responsible for collecting the material from different SAIs and INTOSAI Regional Groups/ IDI and developing draft guidelines. SAI Brazil, European Court of Auditors, SAI France, SAI India and SAI South Africa are to support SAI Norway in developing this guidance. Target date for completion of this project is 30 September 2019.

Under Project II, CAS will provide subject matter experts in projects of relevance to the CAS scheduled to be carried out as part of Priority 2 of the SDP of the FIPP, when requested by the concerned Subcommittee/Group/PSC/FIPP.



The meeting also discussed the procedure for granting new membership and agreed to adopt a policy of promoting new membership to the Subcommittee in view of the benefits such membership will provide to the functioning of the Subcommittee. It appreciated a request from the Accounts Chamber of the Russian Federation for membership to the CAS and approved the same. With this, there are now 19 members of CAS - Azerbaijan, Brazil, China, European Court of Auditors, France, Georgia, Hungary, India, Lithuania, Mexico, Namibia, Norway, Portugal, Romania, Russia, Saudi Arabia, Slovakia, South Africa and Tunisia; and one observer - AFROSAI - E.

## Annual 15th CAS meeting 2018 – European Court of Auditors

The next CAS meeting will be organised by the European Court of Auditors in Luxembourg in 2018.



### Article

The State Audit Office of Hungary contributed an article on “Utilization the Integrity Survey in Enhancing Audit Methodology”. The study of extensive set of data corroborates that sectors have different integrity performance and that inadequate level of integrity affects considerable amounts of public money.

# Utilization the Integrity Survey in Enhancing Audit Methodology

## Bettina Martus –Szabolcs Gergely

### 1. Introduction

Integrity approach is a fundamental pillar of the well governed state. The State Audit Office of Hungary (SAO) considers the assistance in spreading and consolidating an integrity-based public administration culture as a priority. This goal is supported by the so-called Integrity Survey.

The main goal of the Integrity Survey is to explore, map and classify corruption risks in the area of public administration, establishing a better audit practice and enhanced compliance with legal/ethical norms and transparency along with professional innovations. The survey thus focuses on the analysis of risk levels and the established controls.

With the examination of this relation, the evaluation can be also useful at the audits during the risk analysis. The aim of internal control audits and the integrity survey's goals are almost similar. The methodological results in the integrity surveys can be utilized in the following forms:

- easier selection process, faster evaluation during the audits
- general and specific data and visualization
- quick assessment and mapping of risks and controls
- application of new aspects and methods in the audits

### 2. Integrity Survey of SAO

The SAO intends to trigger an integrity-based change of culture in the public sector. Therefore the Integrity Survey launched in 2011 – and carried out every year since then – aims to identify risks that negatively affect an ethical and transparent course of action, and to examine the controls designed to manage these risks. The Survey also aims to serve as an effective tool to give feedback to public institutions on their exposure to corruption-related risks, and assess control measures required to manage corruption risks.

Beside evaluating risks and controls, the study based on the survey carried out in 2016 resulted in identifying various additional factors strengthening the anti-corruption line of defense. The results of the study corroborate that participation in the Survey, audits performed by the SAO and risk-sensitivity of external control bodies all contribute to enhancing the coverage of risks with controls.

### 3. Methodology

In mapping corruption risks and controls, the SAO relies on the standard questionnaire method, reviewed each year. Consisting of 169 questions (fitted with a scoring system that assigns weight to each response received to the questions) in 2016, the questionnaire includes multiple question types (dichotomous questions, multiple choice questions) covering 16 topics. Based on their main activity, the SAO classified institutions participating in the Survey into 15 categories. Each question is associated with one of the three risk indices pre-defined by the SAO. Expressed in percentages, these risk indices are the following:

**Inherent Vulnerability Index (IVI):** The Inherent Vulnerability Index (IVI) measures the components of a particular organization's exposure to corruption based on its legal status and role. It is determined by factors that are shaped by the legislative competence of the founder, such as the implementation of law, (legal) regulation or the provision of various public services (education, healthcare, social and cultural).

**Enhanced Factors Index (EFI):** The Enhanced Factors Index (EFI) indicates components that depend on the daily operation of the given institution and increase inherent vulnerability. It maps the characteristics of the legal/institutional environment of budgetary institutions, the predictability and stability of their operation, as well as variable factors – fundamentally shaped by the decisions of current management – that arise during the operation of institutions, such as the definition of strategic goals, the establishment of organizational structure and culture, as well as the management of human and budgetary resources and public procurements.

**Existence of Controls Index (EoCI):** The Existence of Controls Index (EoCI) reflects whether a given organization has set up, and is effectively operating institutional controls. This index comprises factors such as the internal regulations of the organization, its internal audit and other integrity controls, including the definition of ethical requirements, the handling of conflicts of interest, the management of whistleblowing and complaints, regular risk analysis and consistent strategic management.

The SAO calculates all three indices for all institutions to determine the average indices of each institution type that capture the average corruption exposure of the given institution type and the coverage of its controls. More details on the Integrity Survey's methodology can be found in the [Summary of the Integrity Survey 2016 on Public Organizations](#).

The SAO prepares studies based on groups of institutions. The aim is to provide a basis for comparison. The institutions with different kinds of duties can learn their sector's results and



make comparison with their own performance. All of these contribute to spreading of the integrity-conscious approach.

The novelty in this year's study is that the results of the survey have been linked to the database of the Hungarian State Treasury. Furthermore, the SAO also examined what priority controls are available for the management of the priority risk situations. This year, the reports prepared for the different sectors are not separated: the experiences are summarized in a unified study. In addition, a one-sheet evaluation form illustrates the detailed results of the group of institutions.

#### **4. Results**

Due to an intensive spread of the culture of integrity, 3002 public organizations have joined SAO's methodologically renewed Integrity Survey in 2016. This extensive set of data enables SAO to elaborate studies, which are more thorough and comprehensive than ever. The study corroborates that sectors have different integrity performance. Inadequate level of integrity affects considerable amounts of public money.

##### **4.1. Each group of institutions performs differently**

The study points out that each group of institutions perform differently in particular areas. There are some group of institutions which have to face not only high integrity risks but also the fact that their risks are covered by integrity control to an inadequate extent. At the same time, the extreme high risks of the government bodies and regional administrative bodies are associated with an outstanding level of established controls.

The study calls the attention to the fact that the institutions that manage significant financial sources, also have higher level of integrity risks with higher level of possible effects. The institutions with inadequate integrity level dispose of significant goods (assets), their budget being much larger than institutions with adequate integrity level. Furthermore, healthcare institutions, regional administrative bodies and government bodies have received significant funds from the European Union as well. Due to the inadequate integrity level significant financial sources are at stake.

Further threats can arise if the public institution can exercise equity but at the same time the acceptance of gifts are regulated properly. The study finds that e.g. the different groups of institutions (healthcare, institutions providing social services, higher educations) exercise some forms of equity but the acceptance of gifts are regulated just to a slight extent.

#### **4.2. Larger and more complex institutions have better established integrity level**

The 2016 Study also examined the spread of the ethical leadership and the integrity effects of organizational solutions. It claims that some areas of the ethical leadership have large influence on establishing the organizational controls. We have found that organizational performance has significant effect on the established controls in the area of training and code of conduct, but the majority of organizations are behind with establishing the appropriate controls. Typically larger organizations with more management levels performed better in the field of setting up controls and ethical leadership.

The summarized results based on the Survey is an important part of the analysis, but it is necessary to make a supplement to the result of each institution group. Figure 1 shows how to prepare a sample to a quick and picturesque infographic which contains important information about the performance of the institutions and provides feedback.

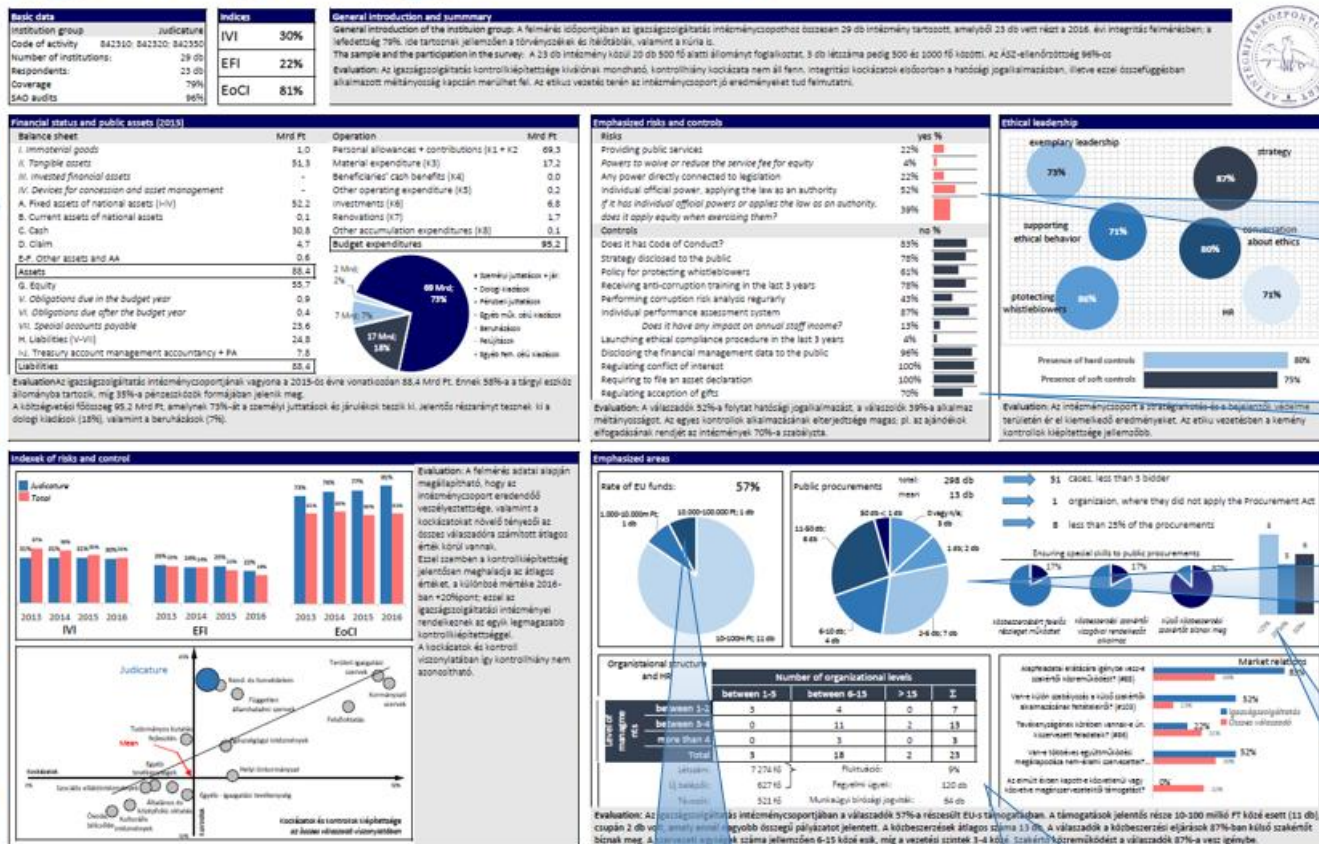
## Figure One-Sheet Evaluation Form

Name of the institution group, the main activity code (TEAOR) which is the basis of the classification, data related to the population.

Index values according to the 2016 year survey

General data about institution groups and respondents. Separate articles summarizes the institution group's results.

**One-sheet evaluation form of institution groups:** one evaluation form was made for every institution group. The exact values of the survey data, statistics and diagrams are presented on the data sheet following the evaluation report, with reference to the 2016 year integrity survey's questions.



Financial data of the whole institution group according to the 2015 year financial statements. The diagram illustrates the composition of expenses.

IVI, EFI and EoCI index values of the institution group between the periods 2013-2016.

Each institution group according to their risks and controls, the analyzed institution group is highlighted.

Achievements in the area of ethical leadership

Evaluation of task performance derived from legal status (in the case of public test provider organization, official law enforcement and legislation are not in the evaluation)

Soft and hard controls of ethical leadership

Evaluation of priority controls.

Evaluation of special enhancing risk raising factors.

The number of institutions according to the number of public procurements carried out.

How many percent of their procurement have they spent under the public procurement procedure?

Institutions according to the aggregate amount of EU funding.

Number of departments and management levels.

## 5. Utilization

The integrity project is in line with the strategy and work of the SAO. Its main goal is to explore, map and classify corruption risks within public administration, establishing a better audit practice and enhanced compliance with legal/ethical norms and transparency along with professional innovation.

One of our innovations is the above mentioned one-sheet evaluation form which can help public organizations to identify their threats and strengths. The data that are visualized on this evaluation form are the results of the integrity survey for each institution group. It contains the general data and the special area what the SAO examined during the analysis (see Section 4).

The evaluation form helps to make the comparison between institution groups much easier and highlights the problems. A modified one-sheet evaluation form can also be a possible tool to select the most risky institutions for compliance audit. It is easy to adapt the form for different kinds of audits to:

- ease the process of the risk-based evaluation;
- examine the whole system during the audits covering the group of related institutions; and in addition get information about the institution groups separately;
- evaluate the data faster and better with the use of infographics;
- compare the organizations with each other;
- generate, propose and develop new methodology for the audit process.