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# The Role of Supreme Audit Institutions in Promoting and Strengthening Ethics and Integrity in the Public Sector. Possible Models and Tools to Follow

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**Abstract**: This paper intends to provide an overview of the main concepts and issues concerning ethics infrastructure and associated components integrated into the internal management control, and of the role of SAIs in strengthening ethics and integrity, specific valuation models and tools of ethics and integrity in public entities. It also reflects the good practice and punctual approach of several relevant supreme audit institutions that managed to innovate in the field of analysis and assessment of risks and vulnerabilities specific to ethics and integrity in the public sector. As research methods used in this paper we mention: logical method, analysis and synthesis, as well as the documentary studies, especially developed and promoted by institutions and major organizations worldwide: United Nations - the UN, Organisation for Economic Co-operation and Development - OECD, World Bank, International Organization of Supreme Audit Institutions - INTOSAI, relevant supreme audit institutions, and so on. The novelty of this paper is the highlight on the importance of ethics and integrity of public sector entities, trying to raise the awareness about the need for a functional ethical infrastructure and the illustration of possible approaches, models, and tools that can be used by external public audit institutions in evaluating ethics and integrity.

**Keywords:** ethics; integrity; ethics infrastructure; supreme audit institution; ethics audit; IntoSAINT;

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## 1. Introduction

Since 2007, most States have experienced a deep financial and economic crisis, which has caused great difficulties for citizens, affecting most aspects of their lives. It often argues that the crisis was a crisis of leadership and governance that included a variety of entities, both private and public, reflecting the failure of an economic and social model anchored on certain humane and ethical assumptions[1], finding even the failure of these premises (Aragandoña, 2012).

In the post-crisis period, uncertainty continued and major financial and economic changes manifested, with adverse consequences for the public sector; governments and government organizations were forced to cope with these problems and ensure the sustainable development of States and social prosperity for their citizens. It can be said that in recent years, awareness is higher concerning the risks and ethical challenges faced by the management of government entities, especially concerning conflict of interest and integrity, as prerequisites for reducing corruption.

SAIs play a vital role in all fundamental institutions of democratic States, being pillars in strengthening and sustaining good governance. By audits conducted to public sector entities, SAIs may cause limitation of risks and vulnerabilities in terms of ethics. They can also determine management to develop adequate procedures by which to evaluate the effectiveness of targets set in terms of ethics, to identify areas where improvements need to be made and to ensure that ethical standards and values are achieved.

Currently, SAIs review and evaluate the ethics and integrity of governmental organizations and entities throughout the public sector in the specific objectives of financial and compliance audits, when they assess the level of confidence in internal control.

"Control, from the semantic point of view, is a permanent or periodical analysis of an activity, a situation, in order to study its development and to take measures to improve it. At the same time, the control means a continual moral and material supervision, as well as command of an activity, of a situation" (Dascălu, 2016).

Also, according to the same reference (Dascălu, 2016) "internal control is an integrated process, conducted by an entity management and staff and it is meant to identify risks and to provide a reasonable assurance that, in the process to attain the entity's mission, general objectives have

[1] Ethics = moral principles that govern the behaviour of a person or an activity (www.oxforddictionaries.com)

been implemented. Internal control is conducted by the management and the institution's employees, in the sense that it is conducted by people, that need to be aware of their roles, responsibilities and authority levels".

In this context, component "control environment" is assessed, in which ethics is an important issue, specifically personal and professional integrity and ethical values of management and staff, including permanent supportive attitude to internal control throughout the organization. Performance audits can evaluate, for example, the fulfillment of the mandate entrusted to managers and appointed officials, the way they interact with public officials subordinated if the conduct of these individuals is consistent with legislation, policies and ethical values specific to the public sector.

## 2. The OECD ethical infrastructure model, a potential framework to help the audit of ethics and integrity in public sector entities

When it comes to conducting an audit of ethics or ethical issues specific to the public sector, it is necessary that the matter is handled properly, to understand what ethics means, so as to easily identify the audit objectives.

Even if the way of conceptualizing the ethical issues varies from one country to another, given their level of development, culture, and traditions, most of the ethical elements are common to these countries.

Ethics in public sector, as a dimension of management culture, is a formal system that regulates the behavior of managers and staff of public entities.

This frame refers to a full ethical infrastructure, which must include:

- A set of values and principles to be observed and complied with;
- Laws and rules for applying the laws governing ethical conduct issues;
- Internal rules of public sector entities, professional and ethical codes, policies, guidelines, manuals, etc., used to detail and implement legal provisions;
- Institutions and/or mechanisms responsible for the promotion, control, and monitoring of ethical conduct (***, 2015).

Such a concept model of ethical infrastructure has been developed by the OECD, specifically a part of this organization: Public Management Service - PUMA (***. 1997). According to PUMA, countries have their own cultural, administrative and political traditions, a situation in which an effective ethics infrastructure in public entities should take into account

national elements. In addition, ethics infrastructure is functional if it supports a public sector that encourages high standards of behavior.

OECD believes that a functional ethics infrastructure consists of several elements, which can be expressed according to the main functions they serve, such as guidance, management, and ethics control (OECD, 2000).

Guidance is provided by the consistent commitment of the management of public entities to ethical values and principles that are found in codes of ethics, codes of conduct, etc. Guidance is also ensured by organizing vocational education and training activities and ethics counseling, which should lead to increased awareness of ethics by all entity employees.

Management is achieved through policies and practices to ensure fair and impartial selection, promotion and employment of staff by public entities, and to contribute to respect at the staff level.

Control is ensured through an effective legal framework, which contains a minimal set of rules of conduct, accountability mechanisms, and sanctioning procedures, as well as transparent mechanisms that ensure public access to a thorough examination.

"A fundamental condition for the survival of the internal control, in any public entity is the knowledge and the observance of rules of conduct covered by the public entity's Code of Ethics, as well as the ethical codes for certain occupational categories" (Burcea et. al., 2013).

It can be said that, for auditing ethics, Supreme Audit Institutions do not necessarily need a specific legal mandate, because all elements described above, which make up the ethical infrastructure are circumscribed to the control environment, which is the object of analysis of external audit and a permanent concern of internal audit.

Ethics audit may be performed as a compliance audit, of which overall objective is to assess the existence, functioning, and effectiveness of ethical infrastructure, according to existing rules and regulations, and is punctually developed by specific objectives and components.

In terms of compliance versus integrity when dealing with issues of ethics in the public sector, we should consider that there are two main approaches. One strictly focuses on the existence of rules to be followed, sanctions applicable to infringements of rules and the existence of a control system on which base the entity management must ensure that rules are followed. The other approach is based on the promotion of ethical behavior, awareness and offering rewards/recognition for good behavior or compliant conduct. In order to be effective, ethical infrastructure must incorporate both approaches and use them complementary and in a balanced way. The

existence of rules is essential but not sufficient (***, 1997). These issues were mentioned because they are important in the ethics audit and must be considered when assessing internal control.

## 2.1 Description of the key steps to follow in assessing the ethical infrastructure

When analyzing the first component of ethical infrastructure - ethical guidance – one should consider first checking the existence of an internal ethical code or a national code that applies to civil servants in all public entities, as applicable. It will assess whether it contains ethical conduct values and principles applicable to staff, including management, and description of behavior expected by the entity from its staff, examples of ethical dilemmas, provisions that apply in the event of non-compliant behavior or restrictions affecting the staff, for example, concerning the conflict of interest.

In this context, it should be noted that there are regulations to formalize staff compliance with the provisions of ethical codes or regulations, whether the public entity management is concerned with ethical education and organizes regular courses or other forms of training for the staff to achieve adequate levels of awareness, and whether ethical counselling is provided.

In the second element - ethics management - practices and policies to ensure fair and impartial selection, promotion and employment of staff by public entities, which contributes to a climate of respect, must be observed. Evaluation of the ethical component of HR policies and procedures existing throughout the chain of human resources is required, from recruitment, continuing with professional development, activity evaluation, promotion, remuneration and post-employment restrictions. Very important it is to observe management practices within public entities regarding ethical conduct and awareness element, given that management sets the tone and is an example for subordinated officials.

When analyzing the third element - ethics control – it can assess whether there are accountability mechanisms and procedures to monitor the commitment of public officials to values and principles in codes of ethics or ethical regulations that work effectively, including those relating to the notification of any irregularities and application of sanctions for improper conduct. In the context of analysis, a significant aspect of this ethical infrastructure component is the possible internal evaluations conducted either as self-assessments of ethics or by possible external evaluations, which indicates a high level of concern from entity management to seek to identify any gaps or inconsistencies in the functioning of the ethics infrastructure.

As techniques used for collecting audit evidence, professional standards provide assurance levels, from highest to lowest, re-making, examination, observation and interview. However, when it comes to ethics, observing and interviewing provide more certainty. When using audit programs based on questions to which answers are only "yes" and "no," it is difficult to achieve ethics audit objectives, so questions must be open and some of them must be formulated in many different ways (Lord & Benoit, 2008).

## 3. The IntoSAINT model for assessing ethics and integrity

It is well known that the supreme audit institutions have an important role in promoting ethics and integrity in the public sector by contributing to accountability and transparency. The Netherlands Court of Audit – NCA, in cooperation with the Ministry of Interior and the Bureau of Integrity of Amsterdam, developed a particularly effective instrument called Self-Assessment Integrity: "IntoSAINT", by which it can assess the vulnerability to violations of integrity in public entities. This model can help SAIs to assess integrity risks and soundness of the integrity management system in public entities (***, 2013). To understand the national context and the specific approach that favoured the development of this tool, a chart is presented in Figure 1.

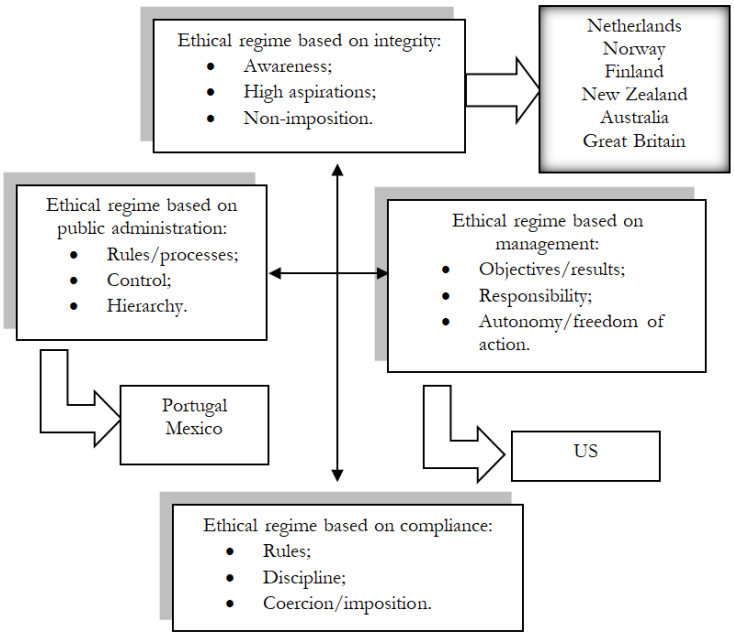



**Figure 1** - Countries grouped based on the overall management and ethics regime
*Source:* (OECD, 1996)

The diagram shows how countries are grouped based on the overall management and ethics regime, being obvious that in case of Netherlands, and of other countries in northern Europe, it is based on integrity, involving organizations staff awareness, high aspirations, non-imposition, etc.

IntoSAINT can be used by Supreme Audit Institutions, both for self-assessing the integrity of these organizations, but rather to assess the ethics and integrity of the audited entities. As mentioned, IntoSAINT is a self-assessment tool that is directed towards prevention, to find weaknesses and risks in the system and not to identify unacceptable behavior and punishing it. Mainly, applying this tool is made through a workshop attended by the entity's staff and that is conducted by an IntoSAINT expert, an activity that can be spread over several days. The workshop aims to significantly increase the awareness of integrity and at the same time how to minimize risks.

Given the above, the basic principles of IntoSAINT are listed below:

• Self-assessment: IntoSAINT is a self-assessment tool. According to this Principle, the entity (a supreme audit institution or organization in the public sector) must take the initiative to conduct its own self-assessment and test its integrity. Thus, the assessment is based on the knowledge and opinions of the staff, the entity being the one that reveals the weaknesses and the staff make recommendations for quick removal of shortcomings;

• The target is prevention: The self-assessment tool is directed to prevention. It is not designed to detect integrity violations or to punish (sanction) unacceptable conduct but to identify major weaknesses and risks and strengthen the response capacity of the organization to these weaknesses and risks;

Increasing general awareness of integrity: IntoSAINT workshops significantly increase the awareness of integrity. Participants' collective discussions about integrity are of great value;

• Thinking in terms of vulnerability and risk: IntoSAINT workshop helps the organization to think in terms of vulnerability and risk; during it, participants identify the main vulnerabilities and risks and make recommendations to minimize them.

During the workshop, in the section on risks and vulnerabilities, a module in which the personnel of the entity evaluates the maturity of integrity management system is conducted. To achieve this module, IntoSAINT uses an integrity control framework based on international standards set by organizations such as the United Nations and the World

Bank. The system is divided into 14 elements (clusters), which are grouped into three blocks, representing general controls, hard controls, and soft controls. Within the integrity management control system, hard controls are represented by the law and regulations, internal control and safety system. Soft controls are aimed at influencing behavior and atmosphere in the workplace, including the values and standards, organizational culture, management's attitude and awareness of integrity. Finally, on a broader scale, we have the category of general controls where we can have a mix of strong and soft elements, which may include policies, analysis of vulnerabilities and risks, recruitment and selection, response to violations of integrity, accountability, audit and monitoring. Also, during the workshop, the staff assesses the maturity of all the above-presented measures by awarding points, IntoSAINT using a classification model consisting of four levels of maturity.

- Development of the concrete Report/Action Plan: The final product of the IntoSAINT workshop is the elaboration of a report / concrete action plan under the guidance of an expert, who is also the moderator of the workshop, contains recommendations made by participants within the entity. The report presents to the management areas where urgent action must be taken to strengthen the capacity of the entity's response to violations of integrity.

### 3.1. Example of a specific approach of the IntoSAINT tool

Integrity project was undertaken by the State Audit Office of Hungary - SAO and can be considered an example of approaching the fight against corruption based on prevention. In order to strengthen integrity in the public sector, SAO launched a project funded by the EU for mapping the risk to corruption and strengthen integrity in public entities. Generally accepted international principles that have been applied in practice by the Netherlands through IntoSAINT integrity methodology were developed by SAO Project, in a survey methodology, adapted to national circumstances. This project is unique in Europe as it was applied across the public sector in Hungary, given that public sector entities participation was voluntary.

The main objective of the project is mapping, classification, and analysis of corruption risk and assessment of the existence and functioning of controls to minimize threats to corruption in the public sector.

The main goal of the project is to create a culture of integrity in the public sector in Hungary as a whole and develop integrity approach in the audit practice of approach and increase transparency and accountability.

The project development began in 2011 when a total of over 1,000 public entities voluntarily filled out questionnaires used, containing 155 questions needed to measure corruption risk profile of the participating institutions. In 2015, which was the fifth year of project implementation, it reached the attendance of nearly 2,600 public entities.

Questionnaires completed by the institutions participating in the survey were sent by the SAO' document management system directly to multi-purpose electronic data collection and processing system, which conducted the calculation of risk indicators, as it has been predefined by the algorithm. Risk indexes can be viewed on a risk map which is published on the Internet, the method used being that of geographic information disclosure system, accessible to the public by SAO Integrity Portal.

As part of the project development, an annual detailed analysis was carried out regarding the risk of corruption in organizations on important topics such as public procurement, administrative approvals and use of EU subsidies and also a new guide for SAO audit containing anti-corruption issues has been elaborated.

The whole project developed by SAO, at least until 2017, prepares the promotion of a change in the administrative culture of the public sector in Hungary.

## 4. Conclusions

By audits performed, the SAIs can identify whether the public entities audited include, totally or partially, the elements of an ethical infrastructure and from one period to another, by relevant recommendations, this model can be consolidated and internal control system operation can significantly improve on this important component.

Some SAIs have designed and developed specific tools that can assess and analyze issues related to ethics and integrity in public entities, such as the example of the Netherlands, who developed the IntoSAINT model and that of Hungary which has successfully implemented this tool to the specific national circumstances. There are also SAIs, such as those in Latin America who have elaborated manuals of ethics audit, meaning specialized, punctual, working methodologies which were designed to be used both by external auditors, as internal auditors in public entities.

By audit of ethics and integrity, as well as by sustained efforts to strengthen ethics infrastructure in public sector, by methods and tools

presented, SAIs can confirm to interested parties that they meet the need of society to strengthen ethics in public sector entities, both regarding managers and civil servants with effect in preventing and limiting, as much as possible the fraud and corruption which, especially in financial and economic crisis periods, significantly affect public spending, sustainable development of states and prosperity of the citizens.

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