

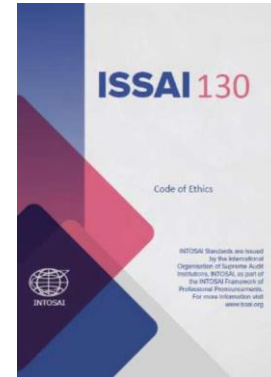
# Applying Ethical Standards

## Introduction

The Office complies with ISSAI 130 Code of Ethics and professional practice in Ireland (Ethical Standards ES1 to ES 5). Ethical standards and expectations for staff of the Office also arise from the fact that as civil servants they comply with the applicable code of standards and behaviour and ethics legislation (for applicable staff).

Ethical standards establish that the overarching principles of integrity, objectivity and independence underpin the financial audit process. These principles should be taken into account when making judgements on ethical matters.

The Office's systems, policies and practices are designed to ensure compliance with these ethical requirements.



## Audit engagements

At the beginning of each audit engagement, the Engagement Director evaluates compliance with relevant ethical requirements, including that the engagement team has the necessary independence and ability to perform the engagement.

Throughout the audit engagement, the Engagement Director remains alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. (ISA 220.9)

The following procedure should be applied by each engagement team member before the completion of the planning stage of an audit in order to confirm compliance with ethical requirements.

After the assignment of staff to an audit, each team member should confirm and record on the audit file that

- they are aware of ethical requirements
- to their knowledge no conflicts of interest or other threats to independence arise, or if they do arise that they have informed their immediate manager in writing of the nature of the possible conflict or threat.

If matters come to the Engagement Director's attention through the quality control system or otherwise indicate that members of the engagement team have not complied with relevant ethical requirements, the Engagement Director in consultation with the Director of Audit determines the appropriate action (ISA 220.10). In considering such matters, the Engagement Director

- obtains relevant information regarding the circumstances and relationships that pose a threat to independence
- evaluates that information together with the applicable Office policies and procedures to determine whether there is an actual threat to independence for the audit engagement

- takes appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw the person from the audit engagement. Any breaches of discipline are handled in accordance with the disciplinary code.

The Engagement Director forms a conclusion on compliance with independence requirements that apply to each audit engagement.

### Ethical requirements for staff

#### General requirements

The specific requirements of the Ethics in Public Office Acts 1995 and 2001 and the Civil Service Code of Standards and Behaviour set out the policies and procedures which will either address many of the threats to integrity, objectivity, independence and the associated threats from relationships, or provide information to the Ethics Director to assist him/her in discharging that role.

#### Ethics legislation

The Ethics legislation applies to senior audit management (Engagement Directors and above) and other designated officers (e.g. purchasing managers). Individuals are required to

- make annual written statements in respect of their personal interests (and those interests of a spouse, child or stepchild of which they are aware) which could materially influence them in the performance of their official duties
- make ad hoc declarations where a potential conflict of interest could directly arise in the performance of official duties between the public interest and the interests of the individual concerned or those of connected persons e.g. close relatives or business directors.

Failure to comply with the legislation can result in sanctions being imposed for offences under the Act (Section 37).

#### Civil Service Code of Standards and Behaviour

The Civil Service Code of Standards and Behaviour requires that all staff

- must be impartial in the performance of their duties (Section 4)
- maintain confidentiality of information — the provisions regarding confidentiality under the Official Secrets and Freedom of Information legislation apply to all audit work (Section 7)
- maintain high standards of service in all of their dealings with the public — this includes any dealings with audited bodies or other State organs (Section 8)
- do not use their official positions to benefit themselves or others with whom they have personal or business ties. In this regard, staff are also forbidden to seek to influence decisions on matters pertaining to their official positions other than through established procedures (Section 13)
- do not engage in outside business or activity which would in any way conflict with the interests of the Office. Staff must inform the Personnel Officer where they intend to be engaged in or connected with any outside business or employment (Section 14)
- should not receive benefits of any kind from a third party which might reasonably be seen to compromise their personal judgement or integrity. The same principle applies to the acceptance of hospitality. Every care must be taken to ensure that any acceptance of hospitality does not influence, or is seen to influence, the discharging of official functions (Section 16 and 17). Additional policies regarding the receipt of gifts and hospitality are set out

in the section dealing with Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality (ES4).

- The guidelines set out in relation to payment for work on behalf of outside bodies are also applicable to Office staff. Such work should not be undertaken without informing the Personnel Officer. Where an officer is requested to provide assistance or expertise to an outside body due mainly or in part to his/her experience or position in the Office, then the reimbursement to the Office for costs (including expenses) is a matter for decision by the Accounting Officer. No payments in relation to such work may be accepted by staff. (Section 18)
- must not seek contracts with Government Departments or Offices for the supply of goods or services whether for their own benefit or for the benefit of any company with which they may have an involvement in a private capacity (Section 19)
- shall not accept an appointment, or particular consultancy project, where the officer concerned believes that the nature and terms of such appointment could lead to a conflict of interest or the perception of such, without first obtaining the approval of the Outside Appointments Board or the Secretary as appropriate. Additionally, staff who hold positions which are designated positions for the purposes of the Ethics Acts must, within twelve months of resigning or retiring, obtain the approval of the Outside Appointments Board or the Secretary, as appropriate, before taking up any outside appointment (Sections 20 and 21).

The monitoring of these measures by the Personnel Officer (Ethics Director) will ensure that where relevant threats to the integrity, objectivity and independence are identified appropriate action is taken.

### Contracted audits

Consideration and assessment of ethical threats applies equally to firms conducting work on behalf of the C&AG. The procurement and contract process is designed to ensure there is clear communication of potential or actual ethical threats and the Engagement Quality Control Reviewer assigned to these audits considers such matters.

### Application of general ethical standards

The key principles enshrined in EU law<sup>1</sup> to safeguard the integrity, objectivity and independence of the audit are that

- The organisation and staff should behave with integrity and objectivity in all professional and business activities and relationships
- In relation to each engagement, the organisation and all relevant personnel should ensure that the organisation and each person is free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude the independence of the organisation or any person assigned to the audit is compromised.

The measures set out in the civil service code of standards and behavior will in general cover the following situations

- Integrity, Objectivity and Independence (address elements of ES1)
- Financial, Business, Employment and Personal Relationships (part of ES2).

Additional policies and procedures in relation to the other three Ethical Standards are addressed in the relevant paragraphs below including the response at the audit engagement level to ensure compliance with ethical requirements. The following sections also set out the Office's response to the threats suggested by each Ethical Standard.

<sup>1</sup> Directive 2014/56/EU and Regulation 537/2014 which established specific requirements concerning the statutory audit of annual and consolidated financial statements. Although the legislation isn't applicable to audits carried out by the Office, the legislation sets out core principles to safeguard audit against ethical threats which we apply.

Identification of and Responses to Threats to Objectivity and Independence (ES1)

Potential threats to objectivity and independence other than those addressed in the civil service code are responded to either at an Office level or audit engagement level. Engagement management must always be alert for circumstances which could give rise to threats. These threats may be identified through normal supervision of work, consultation with the engagement team, from interaction with audited bodies and from the written/electronic confirmation from each team member (see also the section on Responding to Ethical Threats which sets out general responses to ethical threats). The following table lists specific threats outlined in ES1 and indicates the overall responsibility and suggested response to those threats.

Threat	Overall Responsibility	Addressed through
Self Interest	Ethics Director Engagement management	<ul style="list-style-type: none"> <li>▪ procedures set out above</li> <li>▪ compliance with ethics legislation and civil service code</li> <li>▪ confirmation by audit team</li> </ul>
Self-review	Engagement management / Director of Audit EQC Reviewer	<ul style="list-style-type: none"> <li>▪ regular rotation of staff</li> <li>▪ audit supervision and review process</li> <li>▪ engagement quality control review</li> </ul>
Management and advocacy	Director of Audit	<ul style="list-style-type: none"> <li>▪ as a matter of policy the Office does not make judgements or decisions which are the responsibility of the audited body</li> </ul>
Familiarity	Engagement management / Director of Audit Ethics Director	<ul style="list-style-type: none"> <li>▪ regular rotation of staff</li> <li>▪ audit supervision and review process</li> <li>▪ training</li> </ul>
Intimidation	Director of Audit Ethics Director	<ul style="list-style-type: none"> <li>▪ audit supervision and review process</li> <li>▪ training</li> </ul>

Financial, Business, Employment and Personal Relationships (ES2)

Business relationships

Independence is the freedom from conditions and relationships which, in the context of an engagement, would compromise the integrity or objectivity of the organisation or auditor. Integrity or objectivity (and therefore independence) would be compromised if it is probable that an objective, reasonable and informed third party would conclude that the threats, arising from any conditions or relationships that exist (taking into account any conflicts of interest that they may cause, or generally be perceived to cause and having regard to any safeguards), would impair integrity or objectivity.

While the Office would not have the type of business relationships described in ES2, it does have customer relationships with certain entities it audits by virtue of the fact that it is part of the civil service and staffed by civil servants who engage as public service users with those entities. The following policies and procedures are applied to address threats, including perceived threats:

- At the organisation level, engagement directors who have a business management relationship (e.g. recruitment) with a service provider (e.g. Public Appointment Service) are not assigned to those audits. The Secretary and Ethics Director review senior assignments to avoid potential conflicts due to such business relationships.

- In addition, audits of entities which are also service providers to the Office undergo an ECQR<sup>1</sup>. If there are any service providers or regulatory authorities outside of this list which have been or are engaged with the Office in relation to a matter, then the Secretary and Ethics Director are best placed to consider whether an ECQR is required to respond to any perceived conflicts.
- For employees, the civil service code of conduct applies and all staff have a personal responsibility to avoid situations which may conflict or be perceived to conflict with their official duties or compromise their integrity and independence. They should alter their manager or the Ethics Director if a potential or actual conflict arises.

#### Loan or seconded staff

From time to time, staff may be seconded to another body which is audited by the C&AG. Before such secondments occur, the Ethics Director considers, in consultation with the Engagement Director, the potential threats and the safeguards to be put in place. Responsibility for implementing the safeguards should be agreed and communicated as appropriate.

Where a staff member has previously been seconded to a general function within an audited body, the individual will not be assigned upon his/her return to the audit of that body for a period of two years.

#### Joining an audited entity

Where a staff member is approached or makes an approach to join a body audited by the C&AG (through transfer, open competition, etc.), or an entity regulated by such a body, to which they are or were assigned in the previous two years they must notify the Ethics Director. The following prompt action is taken

- The Ethics Director consults with the Engagement Director and consideration is given to whether any threats to objectivity or independence may exist. If so, appropriate action is taken such as the reassignment of the individual.
- The relevant audit files are reviewed by the Engagement Director (or by the Engagement Manager under his / her delegation) for any significant decisions or judgements made by the individual which could pose a threat to the objectivity or independence of the audit.

#### Previous work for an audited entity

Any new entrant who has previously worked in an audited body will be identified by the Ethics Director (in her/his role as Personnel Officer). As a matter of policy, the person will not be assigned to that audit for a period of two years where such an assignment may impact on their independence (e.g. the individual was involved in taking decisions on financial matters).

#### Family member employed by an audited entity

Audit team members must report (as part of their confirmation of compliance on ethical standards - see Responding to Ethical Threats) any situations where they become aware that an immediate or close family member is employed by an audit body in a position to exercise influence on the accounting records or financial statements. The same procedure applies to engagement management in relation to 'connected persons' as defined under Ethics legislation.

Where such matters are reported, the Engagement Director considers and assesses relevant threats to the audit and takes appropriate action (e.g. reassignment of the individual).

<sup>1</sup> There are currently 5 such audits – NSSO, OGCI, OGP, OPW and PAS. The CSSO may also provide services but these are exceptional.

### Long Association with Audit Engagements (ES3)

In order to address threats to familiarity from the long association of staff with an audit and to ensure adequate succession planning, the rotation of staff is considered annually (i.e. staff should be rotated regularly to ensure that they and the Office have experience in the various financial audit directorates and within directorates). The Office information system records information on staff assignments both to specific audits and within the various divisions of the Office.

In general, the Office seeks to ensure that audit staff are not continuously involved for more than the stated time

- seven years in the case of Directors of Audit
- five years for Engagement Directors and Managers
- four years in the case of other engagement team members.

A report is prepared annually by the Ethics Director outlining audit staff who have been or are approaching the time limits set out above. The Audit Board, Director of Audit or Engagement Directors (as the case may be) consider the report and any consequent threats arising from a lack of rotation or prolonged association with audits and measures put in place to avoid any risk to independence are documented and actioned.

### Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality (ES4)

Audits are statutorily based and fees are not charged other than on a basis agreed with the Department of Public Expenditure and Reform. Consequently, threats to independence in relation to audit fees, remuneration and litigation are not applicable in the Office's situation.

The following policy and procedures pursuant to section 16 of the Civil Service Code of Standards and Behaviour apply to gifts and hospitality

- No gift shall be accepted from an audit body by a continuing member of staff
- Where a client wishes to contribute or make a gift to an individual (e.g. upon the retirement or resignation of an officer) the permission of the Personnel Officer must be obtained
- Client paid for hospitality should be avoided. There may be exceptional circumstance where it may arise incidental to the engagement, for example where presentations are given by staff at work related events. In accepting client hospitality, staff must always be conscious of the potential reputational damage to the Office and threats to audit objectivity and independence in light of the nature, frequency and estimated costs of the hospitality. Where such hospitality is accepted it should be reported promptly to the Engagement Manager or Director.

### Non-audit Services Provided to Audit Clients (ES5)

The Office does not generally provide any of the services listed in ES5. However, as some of the services described are closely related to audit work, the Office may be requested occasionally to provide assurance other than through the audit process in relation to one or more of the situations listed (e.g. request for confirmation of balances or grants by a government department or regulator).

In those situations, the threats to independence are likely to be insignificant and safeguards would generally not be warranted. The Director of Audit should review the nature of the services to be provided and ensure that appropriate communication occurs with the audited body and/or the requestor.

## Responding to ethical threats

Based on potential threats identified through the processes referred to above a central record of threats to independence should be maintained by the Ethics Director. This will enable the Ethics Director to consider whether systemic risks are emerging and also assist in the preparation of his/her annual report on ethical matters. This record should also include instances where threats to independence may have been identified centrally, might have arisen or were referred centrally for guidance and ruling by line management.

Where ethical threats arise there are a number of measures which can be taken by audit management in response. In addition to the specific responses outlined in the paragraphs above, a number of management responses can be taken, for example

- reporting to and consulting with the Ethics Director
- increasing the supervision effort on the audit
- assigning more experienced personnel to the audit or to the critical areas within the audit
- considering whether an ECQR should be undertaken for the specific engagement
- in line with other Office procedures (e.g. internal whistle-blowing), the Ethics Director or other suitable senior manager may arrange for the investigation of a concern or complaint
- identifying training needs and arranging same.