

June 26, 2013

Counsellor Heshman Genena
President of the Central Auditing Organization
Chair of the INTOSAI WG-FACML
C/O German SAI
Emailed to: uwe.schreiner@brh.bund.de/ international@brh.bund.de

RE: INTOSAI Exposure Draft ISSAI 5700 *Guideline for the Audit of Corruption Prevention in Government Agencies*

Dear Counsellor Heshman Genena,

On behalf of the over 180,000 members of The Institute of Internal Auditors (The IIA), we are pleased to provide the attached comments on INTOSAI's Exposure Draft of ISSAI 5700 *Guideline for the Audit of Corruption Prevention in Government Agencies*. As the global standards setting body for the professional practice of internal auditing, we appreciate the opportunity to provide comments on the draft guidelines designed to fight corruption and money laundering in government agencies.

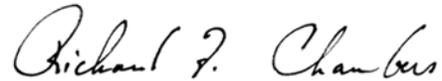
Our comments represent the culmination of observations from a core team of auditing professionals who serve on The IIA's Public Sector Committee. These professionals consist of Certified Government Auditing Professionals (CGAP), Certified Internal Auditors (CIA) and Certified Public Accountants (CPA) with experience in the public sector, internal and external auditing, and small, medium, and large organizations.

We believe the document does a commendable job in outlining the risks of corruption and how SAI's should help mitigate these risks. We have made detailed suggestions for clarification and amplification in the appendix. In particular, we recommend referencing the following standards and guidance in this ISSAI:

- *INTOSAI GOV9150 Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector*, which was jointly written by INTOSAI and The Institute of Internal Auditors.
- The Institute of Internal Auditor's International Professional Practices Framework (IPPF), including the *International Standards for the Professional Practice of Internal Auditing*, which contains the globally recognized standards and guidance essential to the professional practice of internal auditing.
- The IIA's Position Paper titled *The Three Lines of Defense in Effective Risk Management and Control* that helps clarify the role of internal audit in an organization's governance, risk management and control.

Thank you again for the opportunity to provide comments. The IIA values our relationship with INTOSAI and looks forward to our continued work together in fostering sound financial management and effective governance and risk management in governments throughout the world.

Best regards,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive style with a large initial 'R' and 'C'.

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

Appendix

Observations from The Institute of Internal Auditors

#	Title	Page	Line	Comment
1.1	Objective, purpose and applicability of the guideline	5	18	The claim that guidance “covers all areas of anti-corruption structures and procedures that may be found in government agencies” is a very broad statement that should be modified to reflect more realistic terms.
		5 6	25-31 1-3	Only the first sentence in this section — “this guidance does not cover fraud investigations” — is needed. The addition information on this type of investigation may distract the reader from the main objective of the ISSAI.
1.2	The role of the SAI and its limitations in the fight against corruption	7	19-20	It is not the SAI’s job to provide the procedures for whistle-blowing, but rather to provide advice or facilitate the development of procedures.
		7	22	Suggest adding a bullet that addresses utilizing Participatory Audits through the formation of mixed teams of auditors and representatives of society utilizing auditing techniques such as physical inspection, interviews and document review, to identify critical points, risks and irregularities.
		7	23-24	We recommend alternative wording similar to the following: The SAI should understand the risk of corruption based on an analysis of corruption phenomena for use during each audit.
		8	13	If the SAI feels that management is not adequately addressing recommendations that prevent or detect corruption, the SAI should also escalate the issue to the appropriate governing body.

#	Title	Page	Line	Comment
1.3	Concept of Corruption	9	General comment	If it is the intention of this document to wrap up all of these under one banner called corruption as used in the definitions later in the section, then that needs to be made very clear up front. The way it is worded is somewhat confusing as to whether the section is discussing one large aspect that includes fraud, etc. or is the discussion only about corruption. Corruption is more an issue of corrupting another (e.g. through bribery). Abuse of office, theft and fraud are different issues.
		14 16	7-15 7	Suggest incorporating the term “facilitation fees” within this section dealing with bribery. There is a major court case underway in Australia in relation to a company on this matter (see <i>R v Ellery</i> [2012] VSC 349, available at www.austlii.edu.au).
1.4.1	Types of Corruption	27	8-17	Corruption does not only involve money, it can be services or favors (e.g. a contract is awarded and the contractor builds the public official a new pool).
		27 28	18-20 1-2	It is not clear why the differences between white, grey and black corruption are discussed in this section. The differentiation is not used anywhere else in the document. We recommend deleting this information or clarifying why the explanation of the differentiation is needed.

#	Title	Page	Line	Comment
2.2	Risk assessment and risk analysis	37	4-10	<p>Add a new bullet as follows:</p> <ul style="list-style-type: none"> consideration of broader impact of corruption on society. <p>The document earlier in Section 1.5 discusses the cost of corruption to society. The list of considerations on page 37 does not include this broader consideration.</p>
		38	21	<p>Five years is a long maximum interval. The drivers of corruption risk can change quickly in certain environments. Optimally this is reconsidered every year, but the frequency should be dictated by the inherent risk.</p>
		38 39	32-35 1-37	<p>Suggest adding the following question: “Does the entity have in place a suitable statement of business ethics that describes the provisions of honesty and integrity to third parties?”</p>
2.3	Modules of corruption prevention	40	25	<p>Add “sanctions” as a fourth module of corruption prevention. Defined penalties and other consequences for noncompliance to, insufficient supervision of and inadequate execution of policies, procedures and controls could help prevent or deter fraud and corruption.</p>
2.3.1.1	Delimitation of duties	41	13	<p>We recommend that you add that this concept is also commonly known as “segregation of duties”.</p>
		42	7	<p>Add a sentence that acknowledges that not only should there be delimitation of duties preventing a single person from having incompatible duties, but a person and their supervisor combined should also not have incompatible duties.</p>
2.3.2	Personnel rotation and job rotation	45	19-27	<p>Sections on Save Cost and Develop Career need further clarification.</p>

#	Title	Page	Line	Comment
2.3.2.2	Negative effect of job rotation	46	3-13	An additional negative impact of job rotation is that persons new to a role may not understand the role clearly enough such that they do not detect corruption perpetrated by others that interface with the new person's role.
2.3.5.1	The concept of internal control	56	General comment	Recommend pointing out the importance of the governance process in the fight against corruption.
2.3.5.4	Internal control divisions	58	21	It is not clear what is meant by "Internal Control Divisions" and "Internal Control Systems".
2.3.5.5	The importance of internal control in fighting corruption	59	11-12	
2.3.5.6	Internal Control Checklist	59	24	<p>The title of this section should be changed to "Internal Auditor Duties" because the content contains questions about internal auditor duties, not internal controls.</p> <p>Add a footnote to reference in this section The IIA's Position Paper \ titled "The Three Lines of Defense in Effective Risk Management and Control" which clearly defines the role of internal audit in an organization's governance, risk management and control.</p> <p>https://global.theiia.org/standards-guidance/recommended-guidance/Pages/Position-Papers.aspx</p>
			40	Add a footnote to the phrase "the standards of the profession" referencing "the <i>Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.</i> "
2.3.6.4	SAI Cooperation with Offices of Inspector General	63	17	Since this section discusses coordination between SAIs and OIGs (internal auditors), reference in this section:

#	Title	Page	Line	Comment
				<ul style="list-style-type: none"> • That professional internal audit functions are expected to follow the Institute of Internal Auditor's International Professional Practices Framework (IPPF). • Add a footnote referencing the paper jointly written by INTOSAI and The Institute of Internal Auditors titled INTOSAI GOV9150 Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector.
2.3.7.6	Supreme Audit Institution and/or internal auditor should evaluate and review the strategic plan and its implementation.	66	10-20	Add a question to determine who is responsible for identifying, controlling and monitoring risks to the strategic plan.
2.3.8	Code of Conduct	67	6-24	Incorporate the need for a suitable code of ethics for (external) third party suppliers.