Assessing the Effectiveness of Internal Control Systems for Preventing Corruption and Conflicts of Interest in Latvia

The purpose of this report is primarily to support the Corruption Prevention and Combating Bureau (KNAB) in analysing current approaches and inputs for assessing internal control systems in Latvia, with a focus on the prevention of corruption and conflicts of interest. Also including a methodological recommendation for assessing the effectiveness of internal control systems for corruption prevention and conflicts of interest in Latvia, including key indicators that determine the effectiveness of the system.

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Executive summary

The Latvian Corruption Prevention and Combatting Bureau (KNAB) has identified priorities for strengthening anti-corruption frameworks and practices in Latvia, to improve the promotion of public integrity and the prevention of corruption, one of which includes developing a methodology for public entities to assess the quality of the internal control systems they have in place. While the KNAB provides public institutions with regulations and guidelines on their expectations of how corruption prevention internal control systems should be implemented, the high rate of perceived corruption in Latvia implies that there are still challenges in implementing and maintaining an effective internal control system for preventing corruption and conflicts of interest. The OECD public integrity indicators and communications from KNAB also show that there are gaps in the implementation, and therefore the effectiveness, of these regulations and guidelines.

This OECD report focuses on analysing current approaches and inputs for assessing internal control systems in Latvia, with a focus on the prevention of corruption and conflicts of interest and provides a methodological approach for Latvian public institutions to assess the effectiveness of their corruption prevention internal control systems. The methodology is based on international standards, mainly being the OECD Public Integrity Handbook and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework, as well as other related guidance developed by The International Organization of Supreme Audit Institutions (INTOSAI), and The Institute of Internal Auditors (IIA). It also builds on good practice applications from other countries.

Chapter 1 of the report provides some background as to the relevance and importance of having an effective internal control system to prevent corruption and conflicts of interest and presents the existing Latvian system while discussing challenges to its adoption. Chapter 2 suggests five principles public organisations[1] should use to assess the effectiveness of their internal control system. Chapter 3 provides the practical methodology that can be used to conduct an assessment of a public institution's internal control system. The methodology outlined in Chapter 3 is accompanied by Annex A, which is a more practical tool for public institutions to use.

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[1] In this document, the terms 'institution,' 'organisation,' and 'entity' all refer to general public sector bodies applicable to the context of Latvia.

1 Corruption prevention internal control landscape in Latvia

1.1 The relevance of internal controls for preventing corruption and conflicts of interest

Transparency International defines corruption as '*the abuse of entrusted power for private gain'*. Corruption erodes public trust, weakens democracy, hampers economic development, and further exacerbates inequality, poverty, social division, and the environment crisis (Transparency International, 2024[1]). It diverts public resources away from public spending and to private gain (INTOSAI, 2019, p. 8[2]). Lack of trust in the government is often due to public concerns about corruption (Wike and Holzwart, 2008[3]). The loss of trust and confidence in the public sector makes it more difficult for governments to address and improve important societal issues, such as, social welfare, education, and public health. It can also lead to political disengagement and polarisation among citizens. Rebuilding trust in governments through greater integrity and accountability is a key pillar of the OECD Policy Framework for Inclusive Growth (OECD, 2019, p. 67[4]). To maintain public trust, public institutions need to demonstrate that they are trustworthy, and they act in the best interest of all citizens. Implementing and maintaining an effective internal control system for preventing corruption and conflicts of interest is the best way to do this.

In public sector organisations, effective internal control systems are crucial to prevent corruption and ensure the delivery of public services to citizens. Effective internal control and risk management policies reduce the vulnerability of public organisations to fraud and corruption by guiding officials to adequately assess risks in their duties and develop strategies to manage them (OECD, 2020, p. 152[5]). Internal controls are highly relevant in preventing corruption and conflicts of interest because they provide essential procedures and safeguards that deter unethical behaviour and ensure accountability within public institutions. By implementing these relevant controls, public organisations can effectively mitigate risks, protect public resources, and maintain the integrity necessary to uphold public trust and confidence.

Mismanaged conflicts of interest have the potential to lead to corruption, and public confidence in the integrity of the public institution can be seriously damaged (OECD, 2005, p. 18[6]). Therefore, preventing, disclosing, and managing conflicts of interest in the public sector is crucial in preventing corruption and strengthening public integrity. When discussing corruption prevention throughout this report, it inherently includes the management of conflicts of interest.

An internal control system is an integrated component of a public sector organisation's operations (OECD, 2020, p. 152[5]). An internal control system is a combination of policies, procedures and practices implemented to prevent, detect, and respond to issues, errors, and irregularities. It is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the institution (INTOSAI, 2004, p. 6[7]). Internal control systems can address a broad range of problems within an organisation such as achieving organisational goals and improving employee performance (Batts, 2022, p. 1[8]). However, this report focuses on systems of internal control for preventing corruption, including conflicts of interest, as the broad function of The Corruption Prevention and Combating Bureau (KNAB) is to prevent and

combat corruption and oversee compliance. In addition, the expected long-term effect of the overall project that this report is one part of is to contribute to improved integrity and corruption prevention in the Latvian public sector.

1.2. The current corruption prevention and conflicts of interest internal control methodology in Latvia

According to the Transparency International's Corruption Perception Index 2023 (Transparency International, 2024[9]), Latvia scores 60/100, sharing 36th place (out of 180 countries) with Saint Vincent and the Grenadin, and Spain. Similarly, the 2023 Eurobarometer indicates that 74% of respondents believe that corruption in Latvia is widespread (EU average: 70%) and 64% responded that there is corruption in local or regional public institutions (EU average: 71%). Furthermore, 68% agree that there is corruption in national public institutions (EU average: 74%) (European Commission, 2023, p. 2[10]). The OECD Survey on Drivers of Trust in Public Institutions found that for Latvia, only 29% of respondents indicated that they had high or moderately high trust in the national government, which is below the OECD average of 39% (OECD, 2024[11]). See Figure 1.1 for this data, along with other country comparatives.

Figure 1.1. Trust in national government, 2023
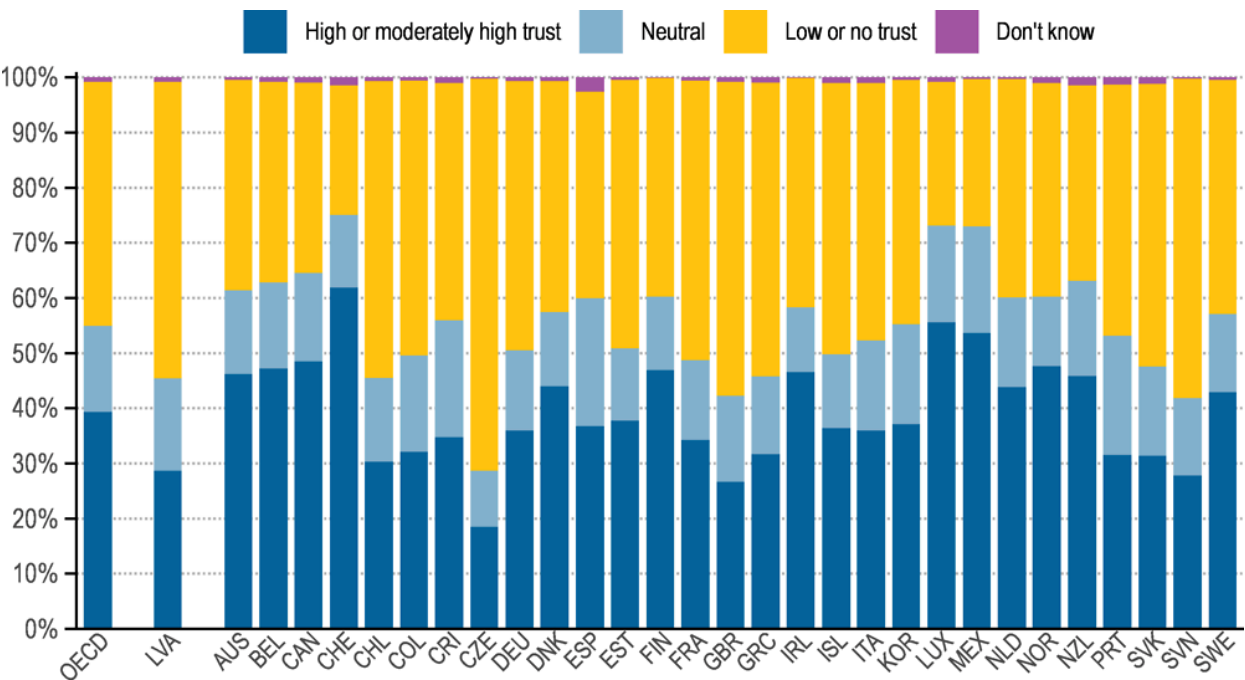
Note: 'High or moderately high' corresponds to the aggregation of response option 6-10 to the question "On a scale of 0 to 10, where 0 is not at all and 10 is completely, how much do you trust the national government?"; 'neutral' to option 5 and 'low or no trust' to response option 0-4.

Source: (OECD, 2024[11])

OECD Integrity Indicators

The OECD Public Integrity Indicators establish a new benchmark for government resilience to corruption risk and for strengthening public integrity (OECD, 2024[12]). There are currently three sets of indicators available, of which the 'Effectiveness of internal control and risk management' is the most relevant for this

report. From this set of indicators, the indicator that is particularly relevant is the regulatory framework for internal control.

Latvia scored 7/10 on the regulatory framework for the internal control indicator (Table 1.1). This indicator involved the review of relevant regulations for internal control (IC), including, regulations specific to risk management and regulation for internal audit (IA). The criteria for this indicator are based on COSO 2013 Internal Control - Integrated Framework, IIA International Professional Practices Framework (IPPF) standards 2017, and INTOSAI GOV 9100 and 9130.

Table 1.1. Regulatory framework for the internal control indicator

Criteria	Criterion fulfilled?
The definition of IC and IA in policy or regulatory documents are defined according to international standards.	Yes
Regulations on IC define managerial responsibility regarding the implementation of IC and IA.	Yes
Regulations specify the objectives of IC.	Yes
Regulations on IC establish annual IC and IA reporting activities.	**No**
Guidelines on fraud and corruption prevention are available and part of the IC system.	Yes
Regulations for implementing internal control are applicable to all central government institutions, including social security funds.	Yes
Standards of conduct and ethical behaviour are published and applicable for ministers.	**No**
Standards of conduct and ethical behaviour are published and applicable for members of parliament.	Yes
Standards of conduct and ethical behaviour are published and applicable for other political appointees.	**No**
Standards of conduct and ethical behaviour are published and applicable for civil servants.	Yes

OECD Anti-Corruption and Integrity Outlook 2024

The OECD published its first edition of the Anti-Corruption and Integrity Outlook in March 2024. This publication aims to support countries' work to combat corruption and uphold integrity. Drawing on data gathered from the OECD Public Integrity Indicators, it discusses how key aspects of countries' integrity frameworks are currently performed and possible opportunities for improvements.

According to the OECD Anti-Corruption and Integrity Outlook 2024, Latvia is one of the best performing OECD countries for both its regulations and performance in practice for conflict of interest. Latvia fulfils 100% of the criteria for regulations and fulfils 89% of the criteria for practice. The OECD average is 76% and 40%, respectively (OECD, 2024[13]).

One key overall finding from the Anti-Corruption and Integrity Outlook was that while most OECD countries adopt strong regulations on internal control and risk management, in practice applications of these regulations are significantly lower. This gap means that the legislation and regulatory frameworks are not being realised as intended, impeding countries' ability to effectively mitigate corruption risks. Accordingly, despite the existing regulations and guidelines, Latvian public institutions face challenges in effectively implementing them. Measured against OECD standards on risk management, including internal control and internal audit, Latvia fulfils 80% of the criteria for regulations and 49% for practice, while the OECD average is 67% and 33% respectively (OECD, 2024[13]).

Regulations in Latvia

KNAB is the leading anti-corruption authority of Latvia. It was established in the accession process to the EU and NATO in 2002 and since then, its capacity and powers have grown. The KNAB is a multi-functional agency with broad function to prevent corruption (including through education and awareness-raising), combat corruption and oversee compliance. Its mission is to *"take action against corruption for the good of society and national interests with the full force of law and public support, in order to achieve integrity in the exercise of power vested in officials of State"* (KNAB, 2023, p. 6[14]).

In April 2023 Latvia introduced the Corruption Prevention and Combating Action Plan 2023-2025 (the 'Anti-Corruption Action Plan'), building on the Guidelines for Preventing and Combating Corruption 2015-2020. A key objective of the Anti-Corruption Action Plan is to establish and enhance an autonomous, continuously operating internal control system designed to minimise opportunities for corruption and fund misappropriation. This includes a specific 'line of action' focused on the *'perfection, maintenance and monitoring of the internal control system in the states and local government institutions and capital companies'* (KNAB, 2023, p. 27[15]), and demonstrates KNAB's strong dedication to developing an effective internal control system to combat corruption.

In October 2017 Latvia adopted Cabinet of Ministers Regulation No. 630, "Regulations Regarding the Basic Requirements for an Internal Control System for the Prevention of Corruption and Conflict of Interest in an Institution of a Public Person" (the 'Regulation'), in order to ensure a common understanding of the basic requirements for the establishment of an internal control system to prevent the risks of corruption and conflicts of interest within institutions. It is a mandatory requirement for all public institutions. The Regulation is a high-level document which sets out the expectations of how an institution should implement a corruption prevention internal control system (Cabinet of Ministers, 2017[16]). Box 1.1 discusses the Regulation further.

Box 1.1. Lavia Cabinet Regulation No. 630

Scope and applicability

Regulation No. 630 sets out the basic requirement for an internal control system for the prevention of corruption and conflicts of interest in a public institution. The regulation is applicable to all public institutions, with judiciary institutions applying it in accordance with their specific functions and laws.

Responsibilities of institution heads

The head of the institution, or their authorised person, is responsible for establishing, improving, and maintaining the internal control system to prevent corruption. They may establish a dedicated internal control unit or assign these duties to existing units or employees.

Operational requirements

- Establish the control environment of the institution focused on preventing corruption;
- Identify, analyse, and assess corruption risks;
- Identify the specific positions that are subject to the risk of corruption;
- Determine, introduce, and implement measures for the prevention of the risk of corruption;
- Implement the handling of information and communication regarding corruption prevention;
- Ensure that employees are educated on issues of corruption and conflicts of interest;
- Ensure supervision of the internal control system.

Periodic review and adaption

The institution head or authorised person must review the system and its measures at least once every three years. This review includes assessing whether implemented measures effectively reduce corruption risks and if they are economical.

Ethical and procedural standards

The institution head, or their authorised person, must:

- Approve ethical principles binding to all employees;
- Establish procedures for reporting potential violations, ensuring anonymity and protection of reporters;
- Set procedures for public officials to declare conflicts of interest and for transferring their duties to others if a conflict arises;
- Determine procedures for issuing permissions for combining offices and reviewing these permissions periodically.

Training

Institution heads must ensure employees are familiar with relevant management documents, internal regulations, and ethical principles. Employees in corruption-prone positions should receive training upon starting their job and additional training at least once every three years.

Source: (Cabinet of Ministers, 2017[16])

In January 2018 "Guidelines on Basic Requirements of Internal Control Systems for the Prevention of the Risk of Corruption and Conflict of Interest in Institutions of a Public Person" (the 'Guidelines') were developed to provide recommendations, methodological assistance and examples for public organisations when implementing the basic requirements set out in the Regulation. These Guidelines are more detailed and provide a more concrete methodology to support institutions in their implementation of a corruption prevention internal control system.

The Guidelines offer important details on establishing an effective internal control environment, such as requiring the head of an institution to approve ethical principles binding on all employees[2]. However, more emphasis could be placed on fostering a strong culture of integrity and the role of "soft controls", which are vital for the success of any internal control system. 'Soft controls' refer to intangible controls that are usually subjective and reflect implicit attitudes, such as organisational culture, tone at the top, shared values, morale, integrity, trust, empowerment (IIA, 2024, p. 2[17]). These elements are vital for fostering a culture of integrity and establishing a control environment that effectively prevents corruption and conflicts of interest. While robust formal controls are necessary, without a well-established culture of integrity, even the best mechanisms may fail to prevent corrupt practices.

Public integrity refers to the consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the public interest over private interests in the public sector (OECD, 2017[18]). It goes beyond mere legal compliance; it is about consistently doing the right thing and aligning commitments and behaviours with strong ethical values and principles, at both an individual and institutional level (Office of the Auditor-General, 2022, p. 7[19]). The "tone at the top," for instance, is a critical soft control endorsed by various frameworks, including the IIA's Auditing Anti-Corruption Activities and the COSO framework, which highlight its importance in ensuring commitment to ethical values across all leadership levels. The OECD also stresses that reinforcing tone at the top at every layer of leadership is vital for building integrity (OECD, 2020, p. 97[5]).

While training can help instill these principles, including them in written guidelines alongside trainings would send a stronger message about their significance. For instance, Singapore's approach, as discussed in Box 1.2, integrates soft controls into their formal guidelines, providing a clear example of how these elements can be institutionalised. Latvia could benefit from similarly strengthening its focus on soft controls in its Guidelines. Section 2.1 below explores the principle of fostering a culture of integrity in more detail.

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[2] In this document, the terms 'staff' and 'employees' have been used interchangeably to refer to individuals to work for an institution.

> **Box 1.2. Soft controls are a big focus in Singapore's anti-corruption guide**
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> The Corruption Practices Investigation Bureau (CPIB) of Singapore have designed a practical anti-corruption guide for businesses in Singapore, called PACT. It aims to guide business owners in developing and implementing an anti-corruption system in a clear and easy-to-understand manner. The four steps of the PACT guide are Pledge, Assess, Control/Communication, and Track.
>
> The first step of the process, Pledge, is made up of three key soft control principles:
>
> 1. Tone from the top is key.
> 2. Implement an anti-corruption policy that is clear, visible, and easy to understand.
> 3. Create a code of conduct.
>
> Singapore ranks 5th on the Transparency Internation Corruption Index for 2023 with a score of 83 (Transparency International, 2024[20]). As a country with one of the least perceived levels of corruption in the world, the CPIB recognises the importance of setting a strong tone from the top and establishing a culture of integrity within an organisation in order to effectively prevent corruption.
>
> Source: (Corrupt Practices Investigation Bureau, 2017, p. 13[21])

While the Guidelines mostly follow the basic COSO framework and INTOSAI components, in terms of the control environment, risk assessment and control activities components, they do not discuss the information and communication, nor the monitoring activities components. These components are important in ensuring an effective and sustainable internal control system. These areas are briefly mentioned in the Regulations in paragraphs 10 and 13, respectively. Open communication contributes to creating a safe and encouraging environment where staff feel comfortable voicing their opinions freely discussing ethical dilemmas, potential conflict of interest situations, and other integrity concerns (OECD, 2020, p. 136[5]). Monitoring and evaluation is a critical component of an internal control system designed to safeguard integrity (OECD, 2020, p. 153[5]). Without these components, there is an increased risk that the implementation of the internal control system for corruption prevention becomes more of a ticking-the-box exercise. The Regulations (section 8.2) also mandate risk assessments at least every three years, but more frequent and dynamic reassessments would ensure that risks are managed proactively.

The Regulation and the Guidelines, though comprehensive, lack detailed guidance on practical implementation, particularly concerning the roles and responsibilities of staff related to internal controls. This gap could result in inconsistent application and potential weaknesses in the system. According to KNAB, the absence of specific guidance on roles and responsibilities is intentional, as institutions may have varying needs based on factors such as size, resource availability, and scope of activities. Nevertheless, KNAB could monitor the implementation of these aspects within Latvian institutions and assess whether additional guidance is necessary to address inconsistencies that may arise.

Furthermore, the Regulation's approach to reporting and managing conflicts of interest is ambiguous, lacking detailed procedures that would ensure consistent handling of such issues. Paragraph 3.2 of the Guidelines requests that the head of an institution establish procedures for public officials to report situations where they face a conflict of interest. The head of an institution is responsible for determining both the process and the individual to whom public officials should report such conflicts, as well as the procedures for delegating the official's functions to another public official. Since each institution is left to determine its own processes, this could lead to inconsistencies in the creation and implementation of these procedures. The Guidelines also don't mention the need to address perceived conflicts of interest, which could be similarly harmful to the trust in a public institution, so should also be avoided to minimise the risk

to the institution's reputation for integrity (OECD, 2005, p. 8[6]). If KNAB has produced or identified other good practice materials related to conflicts of interest, they could be referenced in the Guidelines and institutions could align their conflicts of interest procedures with these good practices.

Overall, the Guidelines perform well in supporting transparency and accountability, particularly with the measures that public institutions must take to prevent corruption. However, extending these measures to require more public reporting and transparency for all public bodies, not just capital companies, would improve public trust. According to information from KNAB, the Guidelines will be amended to include a reference to Cabinet Regulations No. 413 (Public Annual Reports), which requires all public institutions to report on the anti-corruption measures they have implemented in their annual reports. While the Guidelines address ethical behaviour, OECD best practices suggest going beyond compliance to foster a broader ethical culture through regular training and ethical decision-making frameworks (OECD, 2017[18]).

In addition to Regulation No. 630, Latvia has Regulation No. 326 in place relating to broader aspects of internal control systems. This regulation outlines the requirements for establishing, supervising, and improving internal control systems in institutions of direct administration as mandated by Section 17, Paragraph 6 of the State Administration Structure Law (Cabinet of Ministers, 2012[22]). It includes elements of an internal control system as being operational planning, control environment, risk management, control measures, information and communication, and supervision. While this regulation includes the information and communication, and monitoring and evaluation (supervision) components, it is in a much broader context than Regulation 630, which is specifically related to preventing corruption and conflicts of interest, and is also only for institutions of direct administration and so does not encompass all public entities like Regulation 630 does.

1.3. Challenges in the establishment of internal control systems in Latvia

Establishing an internal control system that is effective, can be challenging. Box 1.3 explains the core reasons why internal control systems fail.

Box 1.3. COSO Baseline Understanding of Internal Control Effectiveness

Internal control systems fail because:

- They are not designed and implemented properly at the outset;
- They are designed and implemented properly, but the environment in which they operate changes (such as through changes in risks, people, processes or technology) and the design of the internal control system does not change accordingly; and/or
- They are designed and implemented properly, but their operation changes in some way, rendering them ineffective in managing or mitigating applicable risks.

Source: (COSO, 2009[23])

Although the Latvian government and the KNAB have made efforts to adopt regulations for implementing corruption prevention internal control systems, reports from the KNAB and the OECD Public Integrity Indicators reveal that the level of implementation varies significantly across different institutions. This aligns with the first core reason in Box 1.3 for the failure of internal control systems; improper implementation from the outset.

While corruption risk management and internal control systems are practised in most public organisations, there is room to improve the implementation of these areas. As seen by the OECD average, this is an area

where many OECD countries struggle. Corruption and fraud are sensitive and complex topics (OECD, 2022[24]), which causes challenges when trying to put regulations into practice. It is only by putting regulations into practice that corruption risks can be mitigated, and integrity upheld (OECD, 2024[25]). It is no use having regulations in place if public institutions do not understand them nor do they incorporate them into their operations.

Integrating internal control systems into daily operations is a challenge that reflects the broader difficulty Latvia faces in implementing regulations effectively. According to the OECD Regulatory Policy Outlook 2021, governments spend far too little time checking whether regulations work in practice, and not just on paper. Less than one-quarter of OECD members systematically assess whether rules and regulations have worked as intended (OECD, 2021[26]).

For an internal control system to effectively prevent corruption and conflicts of interest, public institutions should move past the traditional "set and forget" rule-making mindset and develop "adapt and learn" approaches practice (OECD, 2021, p. 16[26]). This starts with cultivating an environment of integrity, which will be discussed further in Chapter 2.

Not adapting the Regulations and the Guidelines to cater for the entity

During the 2015-2020 policy planning period, KNAB conducted three assessments on the internal anti-corruption control system of institutions in 2015, 2017, and 2019 (KNAB, 2023, p. 27[15]). From these assessments, they found that in 2019, at least 80% of ministries and their subordinate institutions had implemented internal control systems per the Regulation, however, the plans were often developed formally using the sample included in the Guidelines provided by KNAB, rather than adapting it to suit the specific needs of the institution.

The implementation of new systems is often rushed to meet compliance requirements, without fully considering the broader impact or the intended goals of the regulations. While guidance and examples can be provided, implementing an effective corruption prevention system is not a 'one-size-fits-all' model. Institutions need to embed internal control systems into their operations and culture in a way that suits them.

Lack of capability in corruption risk management

Understanding how an effective internal control system for corruption prevention should operate requires institutions to invest in training staff in this area. The need for public institutions to have capacity and capability in this space, is therefore a challenge when trying to adopt an effective internal control system. Often, corruption risk management and the implementation of internal control systems are perceived as mere "tick-the-box" exercises, with their necessity questioned. Many responsible heads of institutions lack the expertise and skills to conduct meaningful assessments, and the importance of communicating and recording corruption risks is frequently overlooked. This mindset leads to superficial compliance rather than substantive action. To address this, it is essential to build expertise, particularly at the management level (OECD, 2024[27]). Without adequate expertise internal control systems implemented primarily for compliance purposes are unlikely to effectively target corruption.

KNAB has been constantly dedicating significant resources to carrying out its mandate of making public institutions aware of the importance of investing in internal control systems via various training and educational events. However, the challenge of institutions not having sufficient resources, financial and human, to put towards this area remains.

2 Principles for assessing the effectiveness of internal control systems

This chapter provides the principles to be used to assess the effectiveness of internal control systems for preventing corruption and conflicts of interest. For each principle, a set of criteria has been established in order to help institutions understand how to meet these principles in practice. These criteria can then also be used to help institutions practically assess the effectiveness of their internal control systems for corruption prevention.

According to the COSO Internal Control Framework, there are five components of internal control which support an organisation to achieve its objectives (COSO, 2013[27]). These components are listed in Box 2.1.

Box 2.1. COSO Internal Control Framework – Components of Internal Control

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring Activities

Source: (COSO, 2013[27])

More specifically related to preventing corruption, the IIA produced guidance on Auditing Anti-corruption Activities (IIA, 2021[28]). Although this guidance is intended for internal auditors, it is also relevant in developing principles for assessing the effectiveness of internal control systems for corruption prevention, as one of the primary purposes of the internal audit function is to evaluate the adequacy and effectiveness of internal control systems within public organisations (OECD, 2020, p. 165[5]). This guidance sets out the elements needed to fight corruption, which are listed in Box 2.2.

> **Box 2.2. IIA Guidance of Auditing Anti-Corruption Activities – Elements for Corruption Prevention**
>
> 1. Tone at the Top
> 2. Policies & Procedures
> 3. Communication & Training
> 4. Investigation Protocols
> 5. Enforcement Standards
> 6. Monitoring & Reporting
>
> Source: (IIA, 2021[28])

The INTOSAI Guidance for the Audit of Corruption Prevention sets out seven key components for an effective fight against (and prevention of) corruption (INTOSAI, 2019[2]). While the guidance was designed to help Supreme Audit Institution auditors in preparing and conducting the audit of anti-corruption policies and procedures, it can also be used by the public institutions themselves as guidance for implementing and carrying out their own anti-corruption activities (INTOSAI, 2019, p. 5[2]). These components are listed in Box 2.3.

> **Box 2.3. INTOSAI Guidance for the Audit of Corruption Prevention – Components for Effective Corruption Prevention**
>
> 1. Anti-Corruption Organisational Culture
> 2. Objectives / Strategy
> 3. Organisational Responsibility for Corruption Prevention
> 4. Risk Assessment and Risk Analysis (Risk Management)
> 5. Anti-Corruption Programme (Modules of Corruption Prevention)
> 6. Communication – Reporting
> 7. Monitoring and Modification
>
> Source: (INTOSAI, 2019[2])

These various standards share similar and overlapping components of what could make an effective internal control system for preventing corruption and conflicts of interest. Based on these common components, Box 2.4 outlines principles for assessing the effectiveness of internal control systems.

Box 2.4. Suggested principles for assessing the effectiveness of internal control systems for preventing corruption and conflicts of interest

1. Fostering a culture of integrity
2. Identifying and assessing corruption risks
3. Responding to corruption
4. Clear and regular communication
5. Purposeful monitoring and evaluation

Source: adapted from (COSO, 2013[27]); (IIA, 2021[28]); (INTOSAI, 2019[2])

For each principle, a maturity level is to be determined (the application of which will be discussed in Chapter 3 and then further in Annex A).

2.1. Fostering a culture of integrity

Public integrity refers to the consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the public interest over private interest in the public sector (OECD, 2017[18]). In order to effectively manage corruption risks, a fundamental step is to create an internal control environment where the organisation demonstrates a commitment to integrity, and where managers and senior public officials demonstrate the right tone at the top (OECD, 2017[29]). Ensuring that public organisations maintain a control environment with clear objectives that demonstrate senior management's commitment to public integrity and values is a critical component of an internal control system designed to safeguard integrity and prevent corruption (OECD, 2020, p. 152[5]).

An institution demonstrating a commitment to fostering a culture of integrity and ethical values, is a principle relating to the Control Environment component of the COSO Internal Control - Integrated Framework (COSO, 2013, p. 33[27]). Points of focus for this principle include setting the tone at the top, establishing standards of conduct, evaluating adherence to standards of conduct, and addressing deviations in a timely manner. According to the Institute of Internal Auditors (IIA), tone at the top is an essential element needed to fight corruption within organisations, as it fundamentally shapes the culture throughout the organisation. The IIA considers it to potentially be the single most important factor in determining the organisation's resistance to corruption (IIA, 2021, p. 7[28]).

Management has the primary responsibility of creating and maintaining an environment that fosters integrity and a positive tone (OECD, 2020[30]). Integrating integrity and anti-corruption measures into the core operations of an organisation is essential for reducing both the perceived and actual instances of corruption, as well as building trust in society (OECD, 2020, p. 94[30]). Box 2.5 discusses how Lithuania has strived to establish a nation-wide culture of integrity.

Box 2.5. Lithuania: developing and sustaining a culture of integrity

Lithuania's Special Investigation Service (STT) has adopted a whole-of-government and whole-of-society approach to integrity and anti-corruption, focusing on raising awareness and increasing understanding of corruption prevention. For example, in cooperation with other public institutions they have produced a Guide of Development and Implementation of an Anti-Corruption Environment in the Public Sector with the aim of developing a sustainable anti-corruption environment in the public sector.

The Guide has several objectives:

- Identify and properly manage the risk of corruption in the public sector.
- Strengthen citizenship and intolerance for corruption, encourage public sector employees not to commit corruption-related offences.
- Introduce transparent and fair standards of behaviour.
- Disseminate good practices in developing an anti-corruption environment.
- Develop an environment resistant to corruption in state and municipal institutions.

It also aims to enable the public sector to assess employees' vulnerability to corruption and identify corruption risk factors, in particular through:

- Identifying employees' (in)tolerance for corruption, and gradually achieve "zero" tolerance.
- Educating employees on anti-corruption topics.
- Organising activities within anti-corruption commissions and for persons responsible for the prevention of corruption.
- Organising, coordinating and implementing anti-corruption programmes and plans.
- Identifying probabilities of corruption manifestation.
- Conducting qualitative anti-corruption assessments of legal acts.
- Organising training activities or providing information for persons seeking to hold or holding a position in a state or municipal institution or enterprise.
- Preparing a code of conduct for civil servants and employees.
- Effectively organising declarations of private interests and declarations of assets and income.
- Ensuring the protection of employees when they report cases of corruption or any other offences committed or being committed in an institution or agency.

Source: (OECD, 2019[31]), (Special Investigation Service (STT), 2018[32])

One important characteristic of a culture of integrity is that staff feel comfortable to report any instances of fraud or corruption without fear of being criticised or punished (ICAC NSW, 2023, p. 2[33]). A key observation from the 2024 OECD report on improving corruption risk management in the Slovak Republic is that people do not feel safe communicating about risks. The culture appears dominated by fear and silence, not rewarding those who stand out or speak up, and there is also a lack of safe channels for report integrity risks (OECD, 2024[34]). This report identified that "ticking the box" behaviour was a barrier to corruption risk management. Some managers exhibit this so-called "ticking the box" behaviour meaning that they claim to follow rules and policies, whereas in reality they fail to translate these rules into practice. This behaviour leaves employees uncertain on how to act upon an instance of a risk arising (OECD, 2024[34]).

These observations highlight the importance of fostering a culture of integrity within public institutions. Since "culture" is something that develops over time, institutions need to have long-term goals of building and sustaining an integrity culture. It is not something that can be implemented overnight (World Economic Forum, 2021[35]).

What does fostering a culture of integrity look like in practice?

While fostering a culture of integrity is a 'soft control' that is mainly driven by individual's attitudes and behaviours, there are some practical criteria that can be looked at to gauge how an institution is progressing with this principle.

The primary responsibility of fostering a sustainable control environment that focuses on integrity and sets a positive tone, sits with management (OECD, 2020, p. 155[5]). To demonstrate that the board of directors and senior management consider integrity and the ethical culture of the organisation to be of utmost importance, they should establish a code of conduct (sometimes referred to as a code of ethics). A code of conduct should be a clear and simple, logically structured document that is linked to all other related documents or legislation that form part of the wider integrity system. It is also recommended that it includes a clear reference to the formal chain of responsibility and outlines what protection is available in cases of exposed wrongdoing (OECD, 2020, p. 68[5]). This code of conduct would outline the organisation's values and principles of integrity, set out the ethical expectations of all staff, provide guidance for navigating potential ethical dilemmas and reflect the laws, rules and regulations governing the organisation. Box 2.6 shares some essential elements that should be included in a code of conduct or similar policies.

Box 2.6. Essential elements of policies to promote an effective control environment within public institutions

- References to the values and principles of integrity as well as standards of personal conduct that underpin the organisation, and to what they mean in practice.
- Statement of the organisation's anti-fraud and anti-corruption objectives, with explicit linkage to how internal control and risk management activities service these objectives.
- Description of the alignment between integrity objectives and the organisation's other policies and tools (i.e. code of conduct).
- Definition of fraud and corruption, with illustrative examples of actions that are deemed corrupt or fraudulent.
- Identification of staff to whom the policy applies, taking into consideration temporary staff and volunteers.
- Clearly define roles and responsibilities for internal control and risk management related to fraud, corruption, waste, and abuse.

Source: (OECD, 2020, p. 155[5])

In addition to an overall code of conduct, more specific policies can be implemented for specific target areas, such as anti-corruption or conflicts of interest (OECD, 2020, p. 68[5]). The anti-corruption policy should be concise, define fraud and corruption clearly, provide illustrative examples, and outline the institution's response to suspected corruption. Best practice policies should also address conduct outside of the office (IIA, 2021, p. 8[28]).

The institution fosters a culture of integrity by embedding the code of conduct into regular use and applying it to situations where relevant. For example, it might refer to the code of conduct when making

organisational decisions and asking questions such as: Would this infringe on the institution's code of ethics? How would this be perceived by the public, our staff, or other stakeholders? (COSO, 2013, p. 35[27]).

In addition to setting the overall tone from the top, senior managers need to ensure that corruption prevention systems receive enough organisational support and resourcing and are embedded throughout the organisation. Corruption prevention systems should be a common topic of discussion at senior leadership meetings (ICAC NSW, 2023[33]). Some organisations have specific roles dedicated to preventing corruption and promoting integrity within the organisation (OECD, 2020, p. 155[5]). Box 2.7 provides insights on this from a World Economic Forum report. Having a specific role for these purposes, sends a clear message to internal and external stakeholders that integrity is highly valued within the organisation and the prevention of corruption is taken seriously.

Box 2.7. World Economic Forum – Chief Integrity Officer Role

In December 2021, the World Economic Forum published the report The Rise and Role of the Chief Integrity Officer: Leadership Imperatives in an ESG-Driven World. The report looks at the rise in prominence of the chief integrity officer (CIO) role and the integrity function of an organisation in general.

A specific integrity function is becoming more prominent and valuable in the current global context. The focus and mandate of the integrity function has broadened and now can also include corruption prevention, integrity due diligence and anticipating project vulnerabilities. The remit of integrity functions also now includes the development of organisational principles and values and encouraging ethical behaviour (World Economic Forum, 2021, p. 11[35]).

The report mentions that:

- An organisation's integrity function must be independent from operational pressures and incentives. Where possible, this function should report directly to governance (i.e. the board).

- The integrity function needs to have a seat at the decision-making table in order to provide insights of any risks, help guide the organisation's direction from an integrity perspective, and signal to staff that integrity and corruption prevention is a priority for the organisation.

The increase in popularity of a chief integrity officer is a visible manifestation of a shift towards a more strategic and inclusive approach to integrity.

Source: (World Economic Forum, 2021[35])

Roles and responsibilities within the organisation should be clearly defined and communicated (COSO, 2013, p. 44[27]). Every member of an organisation plays an important role in building an effective internal control system for preventing corruption; they should all understand this and know what is expected of them (OECD, 2020, p. 28[5]). While certain employees may have specific roles in maintaining the internal control system, all staff are responsible for reporting corrupt conduct, including any risks or control weaknesses they identify. To fulfil this responsibility, they should know how to whom to report these issues. Additionally, they must feel safe when doing so, without fear of punishment or hostility.

Key criteria for fostering a culture of integrity

A public institution showing a strong commitment to fostering a culture of integrity within their organisation is one principle of an effective corruption prevention internal control system. Based on the discussion of this principle in the section above, the following key criteria are proposed for assessing how institutions foster a culture of integrity:

- The institution has a code of conduct, or similar policy, in place which sets out the ethical principles and values that underpin the institution, as well as standards of personal conduct expected by all staff within the institution, and what they mean in practice.
- The institution has clearly defined anti-corruption objectives, including addressing conflicts of interest. It explicitly demonstrates how its risk management and internal control activities are aligned with and contribute to achieving these objectives.
- Definitions of corruption and conflicts of interest are in place, with illustrative examples of instances of corruption and conflicts of interest.
- Responsibilities and expectations of staff related to corruption prevention are clearly defined, including any specific corruption prevention roles as well as general staff expectations.
- The institution has dedicated staff resource in place to oversee and implement anti-corruption and risk management practices, ensuring these functions are effectively managed.
- The procedures on how staff should report on potential corrupt activities or conflicts of interest should be documented, including the measures taken in order to ensure anonymity.
- Corruption awareness, conflicts of interest, and code of ethics/conduct trainings are provided regularly and are actively encouraged for staff of all levels.

2.2. Identifying and assessing corruption risks

Identifying and assessing corruption risk is a diagnostic tool which allows institutions to identify areas within a system which may present opportunities for corruption to occur (McDevitt, 2011, p. 1[36]). Corruption risk assessments (CRA) form the basis for determining how corruption risks will be managed. Institutions need to have a thorough understanding of the risks of corruption within their organisations, the likelihood of them occurring, and the impact if they were to occur. Corruption risk assessments can be stand-alone exercises or embedded into an institution's existing risk management processes, recognising the interlinkages among different risk categories, such as strategic, operational, financial, compliance and reputational risks (OECD, 2020, p. 158[5]). A hybrid model could also be adopted. Box 2.8 below discusses the benefits and challenges of each approach and why Latvia could consider a hybrid model as an option. CRAs should be performed by public institutions on a regular basis, and also on an ad hoc basis if any risks of corruption materialise (INTOSAI, 2019, p. 24[2]). Corruption risk assessments can also be used as a baseline for organisations to track and monitor changes in risk over time (McDevitt, 2011, p. 1[36]).

Box 2.8. Consideration of Corruption Risk Assessment Approaches

A stand-alone corruption risk assessment (CRA) offers a focused and detailed evaluation of corruption risks, ensuring these specific threats are neither diluted nor overshadowed by other risk categories. This approach can support the development of tailored anti-corruption plans aligned with the unique nature and severity of corruption risks.

However, a stand-alone CRA may lead to fragmented risk management and inefficiencies, especially if similar processes already exist within broader risk frameworks. It risks creating silos in risk management and hindering a holistic view of the institution's overall risk profile.

Conversely, integrating corruption risks into the overall risk assessment provides a comprehensive view of the institution's vulnerabilities and ensures alignment with other risk categories. This integration can streamline processes and strengthen institutional coherence in risk management. Nevertheless, it poses challenges, such as the potential under-prioritisation of corruption risks or the application of inconsistent methodologies, particularly when different risk rating frameworks are used.

To address these challenges, a hybrid approach could be considered. This would involve conducting a stand-alone CRA to maintain focus and integrity while cross-referencing its results within the broader risk register. For example, corruption risks could be flagged within the broader register with explicit references to the stand-alone assessment. Outputs from the CRA would then inform broader risk management decisions and plans.

To ensure effective integration, the following measures could be considered:

- **Mapping Framework:** Develop a mapping framework to align the 5-level KNAB system with the 3- or 4-level systems used in broader risk management. This could involve a working group of experts to establish equivalencies, ensuring consistency across risk categories.

- **Safeguards:** Introduce a minimum threshold for corruption risk ratings to prevent their de-prioritisation. For instance, corruption risks could not be underestimated and rated below "medium" without robust justification, taking into consideration existing controls ensuring that risk mitigation measures are approved in the anti-corruption plans if the risk level has not been accepted.

- **Harmonisation of ICS Methodology:** Update and harmonise the ICS methodology to explicitly account for the integration of corruption risks, reflecting their importance within the broader risk framework.

- **Training and Guidance:** Provide staff with training on the integration process to enhance their ability to identify and address corruption risks effectively.

- **Periodic Reviews:** Conduct regular reviews of the integrated risk management framework to ensure corruption risks are adequately evaluated and prioritised.

- **Audit Integration:** Leverage audit findings to continuously refine both stand-alone and integrated approaches, ensuring their ongoing improvement and effectiveness.

To avoid duplication while maintaining comprehensive coverage, the integrated framework must align with broader risk management processes where relevant. This ensures visibility of corruption risks without compromising the overall coherence of institutional risk management.

Before integration, it is advisable to establish a harmonised general risk management framework and practice, ensuring standardised principles, processes, and tools across the institution. Once this framework is in place, specialised approaches, such as those addressing corruption and fraud, can be

effectively integrated. This phased approach minimises potential conflicts, promotes consistency, and enhances the institution's overall risk management capability.

We recommend that the CRA that institutions follow align with the Latvian NCRA that will be produced based on the OECD recommended methodology[3]. For the purposes of this principle, *Identifying and assessing corruption risks*, Phase 2: Risk Assessment Phase from the OECD recommended methodology should be followed. Box 2.9 outlines what this phase involves.

Box 2.9. Risk assessment phase

This phase involves:

- (Corruption) risk identification, which involves the "finding, recognising and describing the risks that could affect the achievement of national, institutional or organisational objectives".

- (Corruption) risk analysis (i.e. assessing the likelihood and consequences of risks occurring): a process helping to "understand the nature, causes and level of the identified risks".

- (Corruption) risk evaluation: which aims at "analysing the formerly identified vulnerabilities and the estimated impact of risks with a view to determine whether or not a specified level of risks is acceptable or tolerable".

Source: OECD Recommendations for a National Corruption Risk Assessment Methodology in Latvia

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Effective corruption risk assessment in institutions involves considering specific institutional risks, analysing the potential likelihood and impact of corruption, prioritising these risks based on this evaluation, and documenting the decision (INTOSAI, 2019, p. 24[2]). For public institutions, identifying and analysing areas of activity that are especially vulnerable to corruption is of great importance. While the documentation and communication of risk assessment may vary across organisations, certain tools can consistently aid this process.

There is not a one-size-fits all approach to identifying and assessing corruption risks (OECD, 2020, p. 158[5]). Fraud and corruption risks can vary by sector and institution, so it is critical that institutions cater their risk management activities to the unique conditions of the specific organisation. A tailored approach to risk management and assessing integrity risks is a critical component of an internal control system which is effective at safeguarding against corruption (OECD, 2020, p. 152[5]).

The corruption risk assessment process should be one that is iterative and can adapt to a changing risk environment. Corruption and fraud schemes constantly evolve, often in response to changes to regulatory frameworks, advancements in technology, shifts in economic or political conditions etc. Therefore, institutions should ensure that their policies and frameworks include stipulations that risk assessments will be conducted at regular intervals to provide an up-to-date picture of the organisation's risk profile (OECD, 2020[30]).

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[3] As part of the DG Reform funded Latvia project, *Strengthening the Corruption Prevention Framework in Latvia*, of which this methodology is one output of, the report *Recommendations for a National Corruption Risk Assessment Methodology for Latvia* has recently been produced. This output is based on international standards, good practices, and analysis of Latvia's context, and provides a recommended approach to corruption risk assessments, specifically tailored to Latvia.

Key criteria for identifying and assessing corruption risks

Identifying and assessing corruption risks is another principle of an effective corruption prevention internal control system. Based on the discussion of this principle in the section above, the following key criteria are proposed for assessing how institutions identify and assess corruption risks:

- The institution has documented and put into regular practice a comprehensive and systematic process for identifying corruption risks, including the description of risks, causes and risk factors that influence risks.
- The institution has documented and put into regular practice a process for analysing corruption risks. This includes the risks being weighted and assessed on the basis of the risk criteria i.e. likelihood and impact.
- The process for identifying, analysing, and evaluating corruption risks (hereinafter – risk assessment) has been tailored to suit the current unique conditions of the institution.
- The institution has documented and put into regular practice a process for evaluating corruption risks. This includes assessing the risk appetite.
- In addition to regular corruption risk assessments being performed, they are also conducted in response to relevant institutional changes, incidents, staff or stakeholder reports, or negative media coverage.
- Corruption risk assessments are embedded into the entity's operational processes and decision-making frameworks, rather than conducted as standalone activities.
- Roles and responsibilities for risk management and for managing corruption risks have been assigned in line with policies and processes.
- Staff with specific risk management roles, and any other relevant staff, have sufficient understanding of corruption risk management, including, how changes to the external/internal environment, strategy, processes, and system, affect exposure to risk.

2.3. Responding to corruption risks

Once an institution has identified, analysed, and evaluated its corruption risks, it should assess whether the risks require concrete mitigation measures. This should also take into account the costs and potential benefits of the institution of accepting or refusing a risk. Per the CRA output that the OECD has produced for Latvia, this is known as the Risk Treatment Phase (Phase 3). We encourage the methodology for this phase in the output to be followed.

Once an institution has determined which of its identified corruption risks require tangible mitigation measures, it should determine the controls and practices needed to prevent these risks (INTOSAI, 2019, p. 29[2]). The adoption of corruption controls is a means of helping the institution achieve its corruption prevention objectives. It assists the organisation in achieving good financial and operational performance and protecting its internal and external reputation (ICAC NSW, 2023, p. 43[33]).

An organisation should have in place a mitigation plan, based on the Guidelines provided by the KNAB and relevant international standards, i.e. COSO 2017 Enterprise Risk Management (ERM) Framework[4] and ISO 3100:2018[5]. Similar to when identifying corruption risks, organisations need to ensure they

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[4] COSO Enterprise Risk Management Framework - Integrating with Strategy and Performance
[5] ISO Guide

consider the impact of possible changes in the external environment and within the institution's own operating model that may cause internal controls to become ineffective.

What does responding to corruption risks look like in practice?

Implementing control activities is one of the main actions that institutions can take to prevent corruption. Controls should reflect the environment and sector in which the organisation operates, as well as be suited to the size and complexity of the organisation (COSO, 2013, p. 90[27]). Box 2.8 includes examples of some common preventative controls.

Box 2.10. Common internal controls for corruption prevention

- Segregation of duties to prevent an individual from exercising end-to-end control over processes that could result in fraud.
- Setting and enforcing delegations and permissions.
- Supervision of high-risk functions and systems that impose joint decision-making.
- Physical and information technology security controls to either prevent access to valuable assets/information or to at least create an audit trail for detection.
- Accountability mechanisms that oblige decision-makers to explain the reasons for their decisions/actions.
- Screening process for new/existing employees and due diligence measures for suppliers and other third parties.

Source: (ICAC, n.d.[38])

Control activities should be performed at all levels of the organisation. For example, controls should be operating at the transaction-processing level, as well as more broadly at high levels in the organisation such as analytical reviews and data comparisons (COSO, 2013, p. 94[27]).

Control activities need to be performed by competent personnel with sufficient authority and training, and with consistent focus. The level of competency required to perform a given control will depend on the complexity and nature of it. Additionally, the control officer needs to be completely focused whenever performing the control in order to ensure the risks to which the control is addressing are being adequately covered (COSO, 2013, p. 103[27]).

Institutions should periodically reassess control activities to verify that they are still relevant and operating effectively and as intended to mitigate the identified risk. Changes in process, equipment, people, or the environment may potentially reduce the effectiveness of control activities and so the relevance of controls should be reassessed whenever any of these elements changes (COSO, 2013, p. 103[27]). The process for testing the effectiveness of controls should be clearly documented, including the responsible divisions and roles within the organisation (OECD, 2020[30]).

Key criteria for responding to corruption risks

Having mitigations in place for the corruption risks it identified is another principle of an effective corruption prevention internal control system. Based on the discussion of this principle in the section above, the following key criteria are proposed for assessing how institutions respond to corruption risks:

- The institution has documented and put into regular practice, a risk management process for assessing whether its previously identified corruption risks require concrete mitigation measures.
- The institution has documented and put into regular practice, a process for mitigating identified corruption and conflict of interest risks e.g. a mitigation plan (existing control mechanisms).
- Internal control activities for preventing corruption (including managing conflicts of interest) have been specifically tailored to suit the environment, sector, size and complexity of the institution.
- Internal control activities for preventing corruption are implemented throughout all levels of the institution. This would include the basic control activities such as those listed in Box. 2.10.
- Internal control activities for preventing corruption are developed and performed by personnel with the sufficient mandate and training.
- Institutions periodically (e.g., at least once every three years) reassess their internal control activities for preventing corruption to ensure relevance, and operating effectiveness.
- Enforcement measures are identified, and a process is described as to how suspected forms of corruption (i.e. from whistle-blower reports, complaints) will be investigated.

2.4. Clear and regular communication

Communication is the continual, iterative process of providing, sharing, and obtaining necessary information (COSO, 2013, p. 105[27]). Internal communication is the way in which information is disseminated throughout the whole organisation, flowing in all directions across the entity. Effective internal communication enables public officials to receive clear messages from senior management about the importance of integrity and the corruption prevention internal control system (INTOSAI, 2019, p. 52[2]). It also enables staff to communicate any integrity breaches or potential corruption instances to senior management.

For a corruption prevention internal control system to be effective, clear and regular communication needs to flow across all levels of the organisation.

Effective communication within the organisation has a multitude of benefits, including:

- Ensuring staff understand what corruption prevention policies and procedures are in place.
- Promoting and demonstrating a culture of integrity, which prioritises corruption prevention.
- Staff reporting any suspected or identified instances of wrongdoing.

Communication from public officials to senior management is just as important as communication in the other direction. It is the channel in which senior management can learn of any potential instances of corruption or integrity breaches and also get a realistic view of the integrity culture of the organisation. This information can help them to make better informed decisions relating to the anti-corruption processes of the organisation. Enabling the flow of communication up the channel, from officials to senior management, can be challenging when the information is related to integrity and anti-corruption. Integrity can be a

delicate topic, therefore it can be difficult to openly discuss if a safe environment has not been created. Box 2.9 discusses some behavioural insights into this from an OECD report.

Box 2.11. Behavioural insights into risk communication

Risk communication needs to feel safe and encouraged

Results from a 2023 Experiment in Applying Behavioural Insights to Public Integrity, barriers were identified in the country report. Many of these barriers relate to public officials not feeling safe when communicating risks. The experiment conducted confirmed that less than 50% of respondents felt safe when communicating risks. The experiment also revealed that respondents tended not to communicate risks even when they had identified one.

Risk communication process should be easy and well-understood

When staff have knowledge of the risk communication channels, it contributes to a higher likelihood of them communicating corruption risks. The study showed that employees do not always know how to communicate potential risks, since the process for doing so is often unclear. Therefore, having a clear risk communication process in place and making employees aware of this process could increase the likelihood of employees communicating corruption and conflicts of interest risks.

Source: Improving Corruption Risk Management in the Slovak Republic (OECD, 2024[34])

As well as there being open channels of communication for officials to report up to senior management, there needs to be a willingness from management to listen. Staff must believe that their managers truly want to know about possible integrity and corruption issues and trust that they will respond to them, as necessary. Staff can quickly pick up on any signals if management does not seem to have the time, interest, or resources to effectively manage any situations that arise (COSO, 2013, p. 115[27]).

To help understand the comfort and safety levels of staff when reporting instances or wrongdoing, the institution could conduct regular anonymous surveys. This not only helps leadership and the integrity function gain some behavioural insights but will also send a message to staff that they take corruption prevention and integrity seriously and want to create a culture of integrity.

External communication is the channel by which the public institution delivers information to external parties in regard to its specific needs, working expectations and institutional integrity criteria (INTOSAI, 2019, p. 52[2]). It is important for effective communication to occur to those outside the entity, not just within the entity itself. When open two-way communication is in place externally, important information regarding the institution's anti-corruption policies and integrity culture can be provided to the public, other government entities, third party service providers, and other external stakeholders. Important inbound communication should also be able to be easily received and processed, such as, public feedback and perspectives on the institution's integrity behaviour, important environmental changes (laws, regulation, standards etc.), and any concerns with third-party vendors (COSO, 2013, p. 119[27]).

What does clear and regular communication look like in practice?

All anti-corruption and integrity policies and procedures in place should be communicated to the entire organisation. This communication should be to new staff during induction stages, including temporary staff, contractors, and volunteers, but also more generally on a regular basis. To be effective, these policies and processes should be communicated in a way that implies that the organisation takes it seriously and provides a space for them to be discussed to help embed the values of the organisation (COSO, 2013, p. 114[27]).

As part of this communication, employees should be informed about how and to whom they can report suspected wrongdoing, as well as encouraged to share observations for potential improvements. They should know the reporting channels available to them and what they can expect if they do report these matters. Separate communication channels, such as whistle-blower hotlines, should be in place to enable confidential communication so officials feel safe and comfortable in reporting any identified issues (COSO, 2013, p. 113[27]). There should be a clear process set out on how to report any instances of wrongdoing, but also the process on how these reports will be handled by senior management. Managers need to create a space that enables staff to trust that managers will listen to their concerns and act on them, as necessary.

The institution should develop and implement controls that facilitate effective communication with external parties. This includes creating policies and procedures for obtaining and receiving information which management can then use to make informed decisions about anti-corruption efforts (COSO, 2013[27]).

Key criteria for clear and regular communication

Clear and regular communication in relation to corruption prevention and integrity is another principle of an effective corruption prevention internal control system. Based on the discussion of this principle in the section above, the following key criteria are proposed for assessing how institutions communicate regarding corruption prevention, particularly focusing on the clarity and regularity of these communications:

- Anti-corruption and integrity policies and processes are communicated to all staff on a regular basis, as well as to new staff during induction stages.
- Senior management supports and directly engages in communication to staff regarding anti-corruption and integrity matters; and there is a mechanism to facilitate discussion about any information disseminated.
- Communication channels to enable confidential communication to senior management are in place i.e. whistleblower hotlines, third-party reporting mechanisms, etc.
- Communication to employees on how to report suspected corruption is clear, understandable, and reporting mechanisms are easily available. This includes them understanding the reporting channels available to them and the procedures to be followed.
- The process on how the delegated official should receive and then process any report from their staff is clearly set out in the appropriate policy/procedure.
- Controls have been developed and implemented to facilitate effective external communication i.e. policies and procedures outlining this.

2.5. Purposeful monitoring and evaluation

Monitoring is a key input into the organisation's assessment of the effectiveness of internal control (COSO, 2013, p. 124[27]). Monitoring and evaluating internal control systems for preventing corruption and managing conflicts of interest on a continuous basis is vital to maintain an effective system. This is important even if a corruption prevention system is deemed adequate, with no instances of corruption coming forward. Corruption adapts to different contexts and changing circumstances. It can shift in response to changes in rules, legislation, and technology (Transparency International, 2024[1]). Entities need to remain vigilant and establish continuous monitoring activities (INTOSAI, 2019, p. 57[2]).

An institution's objectives and overall system of internal control will change over time. Policies and procedures developed to address an organisation's internal control system for preventing corruption, may therefore become less effective or obsolete, may no longer be in place and functioning, or may be deemed insufficient to support the achievement of the new or updated objectives (COSO, 2013, p. 124[27]). The monitoring and evaluation process can help organisations assess policies and practices for managing integrity risks and make changes as needed (OECD, 2020, p. 163[5]). This will help organisations to continuously improve their corruption risk management and internal control processes.

The monitoring and evaluation that takes place should be purposeful and not simply to meet a compliance requirement.

What does purposeful monitoring and evaluation look like in practice?

Institutions should have a monitoring and evaluation policy in place as part of the internal control policy. This is a comprehensive plan that outlines how the organisation will regularly track and assess whether the component of anti-corruption internal controls is present and functioning (COSO, 2013, p. 126[27]).

Institutions should clearly document monitoring and evaluation activities in their anti-corruption policy (or similar policy), including the frequency of these activities, and the roles and responsibilities of staff. This should then be communicated to staff (OECD, 2020, p. 163[5]).

Regular monitoring and evaluation activities should take place to ensure the overall corruption prevention internal control system is functioning correctly and optimally. Evaluations should also take place after any relevant organisation changes i.e. changes to the strategic plan, personnel, and information systems (INTOSAI, 2019, p. 58[2]). Targeted monitoring activities should also be applied using information acquired through risk assessments about known fraud and corruption, and high-risk areas (OECD, 2020, p. 163[5]).

Effective monitoring and evaluation should focus on measuring outcomes and progress toward the achievement of objectives of the overall internal control system for corruption prevention, rather than simply reviewing outputs and progress in implementing control activities (INTOSAI, 2019, p. 57[2]).

Internal audit teams can support organisations to conduct purposeful monitoring and evaluation. See Box 2.10 for further discussion on the role of internal audit for monitoring and evaluation.

Box 2.12. Role of internal audit in assessing corruption prevention internal control systems

The internal audit function examines the adequacy and effectiveness of public sector organisations' internal control systems, procedures, governance arrangements, risk management processes, and performance of operations.

Audit recommendations to improve the control environment in high-risk operation areas can support the organisation's efforts to prevent and detect fraud and corruption. Internal auditors should also evaluate the effectiveness of the organisation's objectives and activities relating to ethics, and the processes for promoting ethics and values. This could include assessments of the effectiveness of the governance structure in fostering a culture of integrity or audits on the processes for handling cases of whistleblowing.

Internal auditors can play a critical role by assessing whether internal control to manage corruption prevention are operating effectively and efficiently, and by identifying any areas for improvement.

Source: (OECD, 2020, p. 165[5])

Control deficiencies identified through the monitoring and evaluation activities need to be communicated to senior management and those responsible for taking corrective action in a timely manner (COSO, 2013, p. 123[27]). Senior management then need to coordinate timely improvement of these deficiencies. (OECD, 2020[30]).

The results of monitoring and evaluation should be used to improve the design and implementation of corruption risk prevention control activities. The head of the institution, senior management, and the relevant anti-corruption staff and internal audit function, need to communicate and work together in order to address specific issues and lessons learned. Through engaging in discussion between these parties, the organisation can uncover overall structural problems with the internal control system for corruption prevention, that may result in corruption occurring. They can then adopt improved measures to prevent the recurrence of those problems in the future (INTOSAI, 2019, p. 59[2]).

Key criteria for purposeful monitoring and evaluation

Purposeful monitoring and evaluation of the corruption prevention internal control system is another indication that the system is performing effectively. Based on the discussion of this principle in the section above, the following key criteria are proposed for assessing how institutions monitor and evaluate their internal control system for corruption prevention:

- A monitoring and evaluation policy in regards to internal control systems is clearly outlined in the anti-corruption (or similar) policy/procedures and includes roles and responsibilities.
- The documented monitoring and evaluation policy for internal control systems is clearly and regularly communicated to staff on a need-to-know basis.
- Regular monitoring and evaluation activities take place as per the documented policy.
- In addition to regular monitoring and evaluation activities, evaluations take place as / when needed i.e. when relevant organisational changes occur, for areas of identified high-risk etc., and this is clearly documented in the monitoring and evaluation policy.
- The results from the monitoring and evaluation activities are discussed between all relevant parties and any areas for improvement are addressed in a timely manner.
- Reports are regularly prepared and submitted to the head of the institution on the progress of anti-corruption measures.

3 Methodology to assess the effectiveness of internal control systems

3.1. Introduction

This chapter outlines the recommended methodological approach for Latvian public institutions to assess the effectiveness of their internal control systems for corruption prevention and conflicts of interest.

Chapter 1 outlines that Latvia has in place regulations and supporting guidelines setting out the basic requirements for an internal control system for the prevention of corruption and conflict of interest in a public institution. However, from the OECD public integrity indicators and reports from KNAB, it is apparent that there are gaps in the actual implementation of these regulations.

Chapter 2 outlines the core principles which make an effective internal control system for corruption prevention. This methodology is designed to be applied in conjunction with the principles in Chapter 2 above. Therefore, it is important that a good understanding of these principles is first obtained.

The application of this methodology should not simply be another compliance exercise but instead a tool for leaders in public organisations to reflect and evaluate the effectiveness of their internal control systems at preventing corruption, including managing conflicts of interest. For this end, the methodology has purposefully been created to be completed as simply as possible while still providing useful insights as to the effectiveness of an institution's internal control systems for preventing corruption.

Existing methodologies

One existing methodology for assessing the effectiveness of internal control systems is from the European Banking Authority (EBA) (EBA, 2023[39]). The EBA assesses the effectiveness of their internal control system by assessing the implementation of an established internal control framework, and by evaluating the main shortcomings identified by the EBA itself or reported by others, including the Internal Audit Services and the European Court of Auditors. The internal control framework implemented by EBA is in line with the model provided by the European Commission as well as the COSO framework. This methodology is not specific to corruption prevention and conflicts of interest, but instead covers the broader internal control systems of the EBA.

In 2021, the Queensland Audit Office (QAO) in Australia developed a tool for public sector organisations to assess their internal controls (QAO, 2021[40]). The tool is designed for clients to use as a self-assessment to help them understand the strengths of their control system and identify areas for improvement. The assessment tool links to a maturity scale the QAO prepared using a matrix approach. It comprises of 11

internal control areas, which have four levels of maturity. The four levels of maturity are: Developing, Established, Integrated, and Optimised.

The QAO assessment tool focuses on whether suitable controls have been designed and implemented, rather than testing the effectiveness of the controls and overall control system. While this tool does not assess the effectiveness of a corruption prevention internal control system, it is a useful example of the functionality of a self-assessment tool and a maturity framework. Figure 3.1 shows how the results could be presented.

Figure 3.1. Example of internal control assessment overall results from the Queensland Audit Office (QAO)
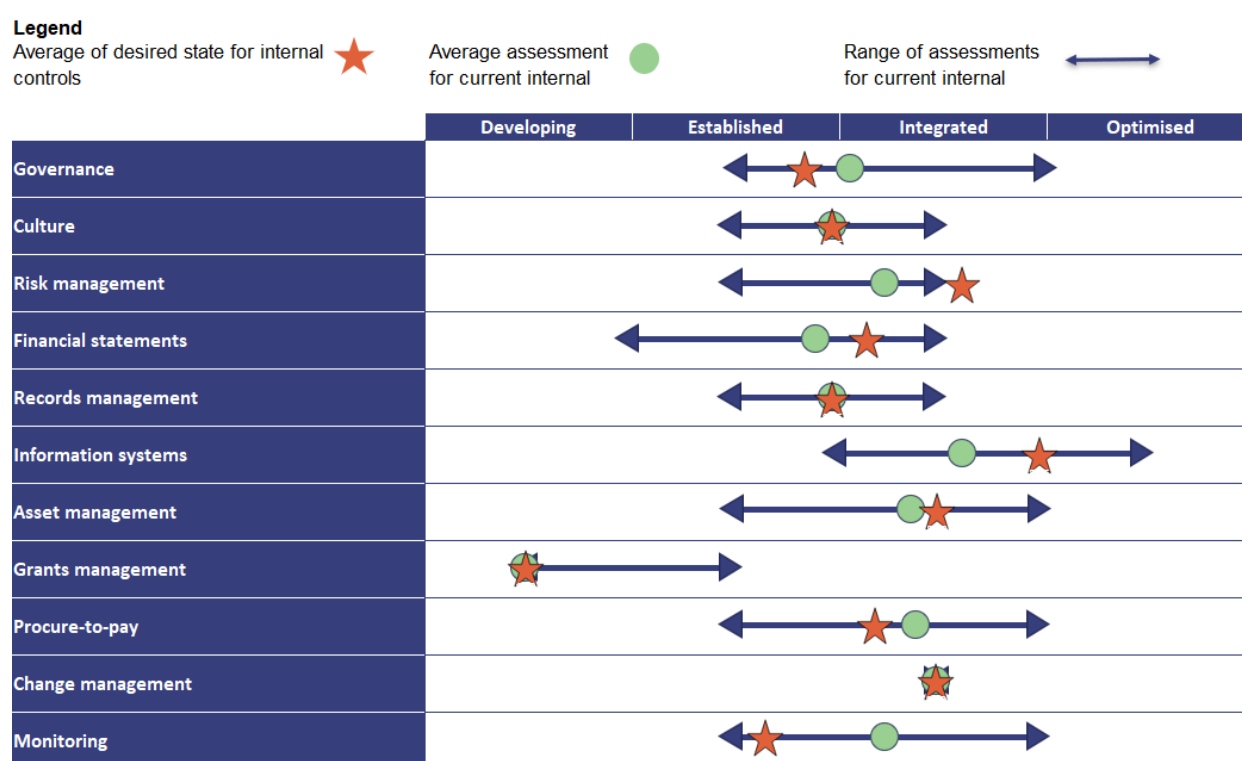
Source: (QAO, 2021[40])

The New South Wales Independent Commission Against Corruption (ICAC), produced a publication titled *Assessing Corruption Control Maturity*. This publication focuses on improving corruption control in New South Wales, Australia. It was designed with the intention of public agencies using it to assess their corruption control systems and processes, and then map their strengths and weaknesses. It describes keys features of effective corruption control and then provides descriptions of different maturity levels for each feature. The maturity levels indicate the extent to which an agency has managed its corruption vulnerabilities and are categorized as Low, Medium, and High (ICAC NSW, 2023, p. 6[33]).

The National Anti-Corruption Commission in Australia has also developed an Integrity Maturity Framework in order to support Australian agencies design, implement, and review the effectiveness of their integrity frameworks so they are tailored to their risk profiles, size and contexts. The Framework sets out eight

integrity principles which are derived from key integrity laws, policies, and procedures. Each principle is then accompanied by a 4-level maturity scale (NACC, 2024, p. 2[41]).

These methodologies from other countries offer valuable examples of assessing broader internal controls and applying maturity frameworks. Building on these approaches, this report develops a methodology specifically focusing on evaluating the effectiveness of an internal control system for corruption prevention.

3.2. Maturity framework

A maturity framework enables organisations to identify their current level of maturity in various areas and then understand where they can make improvements. It is a tool that supports discussion amongst senior management and leads to greater levels of ownership of the outcome of the assessment and therefore enhances and facilitates organisational learning (Bititci et al., 2014[42]). Maturity models are a well-established tools and have been used across a range of systems and operating areas. They are generally descriptive in nature, with a focus on processes and the broad outcomes of those processes, rather than being heavily based on metrics (OECD, 2021, p. 7[43]).

As seen in the examples in section 3.1. above, maturity frameworks have been used in order to assess the effectiveness of internal control systems (QAO), corruption controls (ICAC), and integrity frameworks (NACC). A maturity framework is a useful tool to assess the effectiveness of the internal control system for corruption prevention and conflicts of interest in Latvian public institutions because it could provide a structured, progressive model that helps organisations identify current capabilities, benchmark against best practices, and prioritise areas for improvement, as well as track progress over time to ensure continuous enhancement. As systems and process become more mature, they naturally become more effective and efficient.

The framework proposed for this methodology sets out four levels of maturity. Each maturity level describes a different level of capability, effectiveness, or sophistication of the processes or controls being assessed. They provide a high-level view of where an institution stands in terms of its internal control system's maturity and what areas can be developed. This is a useful measure for organisations to build on and improve, as it offers a structured approach to understanding current strengths and identifying gaps. By categorising the maturity of internal controls, organisations can prioritise their efforts, focusing resources on areas that require the most development. The framework allows for benchmarking against similar institutions, facilitating the sharing of best practices and enabling continuous improvement. The maturity levels also serve as a roadmap, guiding organisations through a clear progression path toward more advanced and effective internal control systems.

Table 3.1. Maturity framework for corruption prevention internal control systems

Maturity level	Key consideration
0 – Non-existent	**Does not exist:** The institution does not have the required polices and/or procedures in place or does not execute them.
1 – Developing	**Exists:** The institution shows basic competency however requires development in this area (i.e. Not regularly conducted or missing some elements).
2 – Established	**Exists with elements of good practice:** The entity is developed in this area or regularly demonstrates this, however, it could be improved.
3 – Integrated	**Demonstrates good practice:** The entity consistently

	demonstrates this.
4 - Optimised	**Demonstrates best practice:** The entity consistently demonstrates this and is a leader of best practice in this area.

Source: OECD adapted from the Queensland Audit Office internal control assessment and the Australian Government National Anti-Corruption Commission Integrity Maturity Framework.

Public institutions will all be at different stages of their 'assessment journey' (ICAC NSW, 2023[33]). It is not expected that entities are at the 'Optimised' maturity level if they have just recently implemented their corruption prevention internal control system. It takes time for internal control practices to get embedded into an organisation. One criterion for reaching the higher levels of the risk matrix is to standardise practices and, where possible, automate them.

The maturity framework in Table 3.1 will be used to assess the principles from Box 2.4 (fostering a culture of integrity, identifying and assessing corruption risks, responding to corruption, clear and regular communication, and purposeful monitoring and evaluation). Institutions should select assessors with sufficient knowledge of risk management and who have a good understanding of how the organisation operates. This could be internal auditors, members from the risk and compliance team, or similar. Having multiple assessors is recommended in order to avoid biases and ensure independence as much as possible. Assessors will assign each principle a maturity level. A table to conduct this assessment is provided for in Annex A.

3.3. Evidence collection methods

In order to assess each of the principles using the maturity framework, assessors will need to collect evidence. This evidence will form the basis of their evaluations and be used to determine the maturity level of the organisation for each principle. For an assessment to be accurate, information should be obtained from a variety of sources (IIA, 2024, p. 105[44]); this will reduce any errors or biases.

There are various methods that assessors can use to collect evidence. The primary methods are listed below, but this is not an exhaustive list. Depending on the criteria being assessed and the processes in place, assessors should apply the relevant method(s) as needed, and not all methods must be used.

Document reviews

Document reviews involve examining anti-corruption and integrity policies, procedures, guidelines, and other relevant documents to understand what the institution has in place and how entrenched they are in the organisation. They provide foundational information for subsequent assessment activities and act as a good base.

Interviews

Interviews are structured conversations with key personnel across different levels, and functions of the organisations. Interviews to assess the effectiveness of internal control systems should ensure that a broad range of personnel are interviewed to get an accurate, holistic perspective of how systems are actually operating (Arens et al., 2017[45]).

Surveys & questionnaires

Surveys and questionnaires are structured tools used to gather quantitative and qualitative data from a broader population within the organisation. These methods can be designed to assess various employee perspectives, such as on the organisation's integrity culture, what their overall understanding of control systems and risk management procedures are, whether they know how to report corrupt misconduct and

if they would feel comfortable doing so. Surveys and questionnaires provide useful insights into the cultural aspects and 'on-the-ground' perspectives. They also enable assessors to gauge some behavioral insights.

Observations

Observations involve the witnessing of the execution of policies, processes, and activities within the institution. This method allows assessors to validate the effectiveness of the control system by observing the application in real-time. Observations can reveal discrepancies between the formal, written policies and processes and actual practices. This is useful to assess the reliability and practicality of systems.

Case studies

There may be instances where looking into one or more particular situations would be a useful way to assess how effective a system is. In these instances, the assessor can use case studies as evidence. Case studies will often be supplementary to other evidence. They can be an effective way to share good practice with relevant stakeholders.

3.4. Scoring

A scoring framework is applied to assess how well the principles meet the criteria for each maturity level. Scoring offers a structured approach to assess, and consequently improve, the effectiveness of the internal control system for corruption prevention. By understanding where an institution stands at each of the principles, it enables a more targeted basis for improving the weaker performing areas and helps identify organisational strengths.

Assessors will assign a maturity level to each principle. The data/evidence collected is what will be used to determine the maturity level for each criterion, and ultimately each principle.

Scoring can be a difficult step when performing the assessment as it requires a significant amount of judgement and impartiality. Assessors need to be aware of any unconscious biases when completing evaluations. It is therefore recommended that institutions use multiple assessors to reduce the risk of error and biases.

Determining the level of effectiveness

The components of internal control are interdependent and an ineffectiveness in one component can compromise the effectiveness of the other components. For example, if the control environment (which sets the tone for the organisation) is weak, even well-designed control activities may not be properly implemented or enforced (COSO, 2013, p. 6[27]). Internal controls are often viewed as being only as strong as their weakest component. The international auditing standard, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," requires auditors to understand and assess the design and implementation of internal controls, including the five components as identified by COSO. If the auditor identifies a deficiency in one of these components that is severe enough to suggest that material misstatements may not be prevented, detected, or corrected on a timely basis, the auditor may conclude that the entity's internal control system as a whole is ineffective (IAASB, 2022, p. 31[46]) (IAASB, 2009, p. 337[47]).

Therefore, in order to determine the overall measure of effectiveness for an institution's internal control system for preventing corruption and conflicts of interest, first identify the lowest maturity level determined out of all the principles. i.e. if four principles result in Established, and one is in Developing, then the overall maturity level will be Developing. The overall determined maturity level can then be translated into a level of effectiveness. When translating maturity levels to determine whether an institution's internal control system for corruption prevention is effective or not, we would consider Optimised to be Very Effective, Integrated to be Effective, Established to be Partially Effective, and Developing to be Ineffective. See Table 3.2. below.

Table 3.2. Scoring the level of effectiveness of internal control systems at preventing corruption

Level of effectiveness	Maturity level	Description
Very Effective	4 – Optimised	The internal control system is fully integrated and continuously improving, demonstrating a high degree of effectiveness in preventing corruption and conflicts of interest.
Effective	3 – Integrated	The internal control system is well-established and aligned with organisational goals, effectively managing corruption and conflicts of interest.
Partially Effective	2 – Established	The internal control system is functioning but may have some gaps or inconsistencies that limit its overall effectiveness in addressing corruption and conflicts of interest.
Ineffective	0 – Non-existent, 1 – Developing	The internal control system is in the early stages of implementation, and its ability to prevent corruption and conflicts of interest is limited or ineffective.

3.5. Implementation

To ensure impact and growth, entities need to analyse the results of their assessments and incorporate any relevant findings into the organisation's strategy decisions (OECD, 2005[48]). This process should include clearly defining the roles and responsibilities of individuals or teams tasked with implementing these strategic changes. These roles should be supported by clear reporting lines and accountability mechanisms, ensuring that progress is consistently monitored and any barriers to implementation are swiftly addressed.

Deficiencies and improvement areas identified should be turned into actions for improvement. To ensure these actions get implemented, the institution should designate an individual(s) within the organisation who are responsible for implementing the actions for improvement. These assigned individuals should also regularly update senior management on their progress (OECD, 2020, p. 196[5]).

Senior management needs to be open and transparent about the results and findings of the assessment. Identified deficiencies and improvement areas should not be met with defensiveness and justifications. They should instead be used as a starting point for further, more detailed investigations, and/or as a basis to implement new policies, procedures, and initiatives. Senior leaders must actively promote a culture of continuous improvement, demonstrating their commitment by not only supporting, but also participating in the implementation process.

Assessing the effectiveness of an institution's corruption prevention internal control system should be an iterative process. Governments often tend to have a "set and forget" mindset, but instead need to develop "adapt and learn" approaches (OECD, 2021, p. 16[26]).

If all public institutions have an understanding of their maturity levels, it enables organisations to learn from each other. Institutions within similar sectors, or who share similar structural traits can come together to share good practices and ways to improve their corruption prevention internal control systems. Facilitating these exchanges should be a key role of those responsible for overseeing the implementation, ensuring that lessons learned are effectively integrated into ongoing efforts.

3.6. Accountability

Evaluating government's standards, policies and procedures for internal control is a critical function for organisations with government-wide responsibilities. These include audit institutions (internal and

external), anti-corruption bodies and regulatory bodies. The institution that leads the government-wide review varies from country to country. For example, as provided in the OECD Public Integrity Handbook, the Austrian Court of Audit (ACA) undertakes audits of entities' corruption prevention systems, which includes assessing whether or not an entity has sufficient provisions in place to mitigate integrity risks. Such reviews highlight system-wide deficiencies, allowing the government to improve internal control and risk management frameworks through a co-ordinated government-wide approach (OECD, 2020, p. 163[5]).

Sound internal control systems are best achieved when embedded within an institution's operations and regularly assessed in terms of quality (Boryczka, Bochnar and Larin, 2019, p. 8[49]). The external quality assessment for internal control systems provides valuable feedback on the potential weaknesses and risks in the system. This is especially true when public organisations are implementing or have recently implemented their internal control systems (Boryczka, Bochnar and Larin, 2019, p. 6[49]).

Based on annual internal audit reports of the line ministries and subordinated institutions, the Ministry of Finance submits a compiled annual report to the Cabinet of Ministers and the State Audit Office on the activities of the internal audit units including the opinion on the internal control system (Ministry of Finance Republic of Latvia, 2020[50]). It is not yet common practice for the scope of these internal control system assessments to specifically include the prevention of corruption and conflict of interest. As of the 2022 Report on the Operation of the Internal Audit System in State Administration, there was no systematic or structured approach to evaluating the internal control system for preventing the risks of corruption and conflict of interest (Ministry of Finance Republic of Latvia, 2023, p. 24[51]). However, on March 23, 2022, the Cabinet of Ministers issued Order No. 194 "On common auditable priorities in the state administration for 2022 and 2023". This order mandated an internal audit of the internal control system in institutions, specifically targeting the prevention and management of conflict of interest and corruption risks.

To ensure high-quality control systems, governments need efficient feedback and accountability mechanisms (Boryczka, Bochnar and Larin, 2019, p. 6[49]). It is therefore important for Latvia to ensure their central harmonisation function (at the Ministry of Finance) and the anti-corruption agency (KNAB) are well-coordinated, and that the internal control system for corruption prevention is included in the whole-of-government assessments. Along with the Austrian example above, Box 3.1 provides another example of Korea's approach to a whole-of-government assessment on anti-corruption.

Box 3.1. Monitoring and assessing integrity in Korea

The Anti-corruption and Civil Rights Commission (ACRC) in Korea uses two complementary assessment frameworks to monitor and assess the quality of implementation of anti-corruption efforts as well as their results: Integrity Assessment and Anti-corruption Initiative Assessment.

Integrity Assessment

Korea annually assesses integrity in all government agencies through standardised surveys. Staff from 617 organisations are asked about their experience with and perception of corruption. Furthermore, citizens who have been in contact with the respective organisations are surveyed as well as stakeholders and experts who have an interest in the work of those organisations. The answers, together with other information, are scored into a composite indicator – the Comprehensive Integrity Index.

Anti-Corruption Initiative Assessment

The Anti-Corruption Initiative Assessment is a comparative assessment of integrity policies across government agencies in Korea. Agencies selected for assessment submit a performance report on their implementation of integrity policies. On-site visits verify the information, which is then scored by an external assessment team. This allows the ACRC to observe integrity willingness and efforts across the public sector.

Benchmarking and competition

Underperformance in the Integrity Assessment or the Anti-Corruption Initiative Assessment does not result in sanctions. However, the results are made public, and the direct comparison of government entities based on integrity indicators fosters competition among them. The results are also included in the Government Performance Evaluation. In addition, there are institutional and individual high-performance rewards, such as an overseas study programme for the officials presiding over outstanding integrity performance. Continuous improvement of the performance results has indicated that these incentives might be effective.

Source: (OECD, 2020, p. 54[5])

Is it recommended that internal control systems for preventing corruption and conflicts of interest are assessed externally at a whole-of-government level, rather than relying solely on individual institutions' assessments. This would require Latvian central agencies to take a coordinated approach to assessing the effectiveness of these systems.

Annex A. Tool for assessing the effectiveness of internal control systems for preventing corruption and conflicts of interest

The purpose of this assessment is to assess a public institution's internal control system for preventing corruption and conflicts of interest. Assessors will determine the maturity levels for specific criteria, input them into the Excel Tool provided (Annex B), and the Excel Tool will then generate a final rating of Very Effective, Effective, Partially Effective, or Ineffective.

Methodology for Evaluating the Effectiveness of a Public Institution

1. **Review principles and criteria**

- Refer to Chapter 2 of the OECD report *Assessing the Effectiveness of Internal Control Systems for Preventing Corruption and Conflicts of Interest in Latvia* to understand the principles being evaluated.
- Use the guidance tables provided in the Excel Tool (under their respective tabs) to review the expectations for each maturity level for every criterion.

2. **Determine maturity levels**

- For each criterion under each principle:
  o Consult the guidance tables to assess the maturity level (e.g. Developing, Established, Integration or Optimised) best matches your institution's current state.
  o Base your assessment on evidence and collected data.
- Input the assessed maturity level directly into the designated table in the 'Calculation Tool' tab of the Excel Tool provided in Annex B.

Important to note:

As measure in the Report, assessing the maturity levels for each of the criteria requires a significant amount of judgement and impartiality. It is therefore recommended that institution's use multiple assessors to reduce the risk of error and biases.

How the Excel Tool Automates the Process

Once maturity levels are entered, the Excel sheet will automatically:

- **Translate maturity levels into score:** Maturity levels are converted into numeric scores used the predefined framework (Table A.1).
- **Calculate total scores for each principle: The** sheet adds up the scores for all criteria under each principle.
- **Determine overall maturity levels:** Based on total scores, the sheet identified the overall maturity level for each principle using the predefined scoring table (Table A.2)
- **Generate the final effectiveness rating:** The sheet selects the lowest maturity level across all principles and automatically translates it into the final effectiveness rating (Very Effective, Effective, Partially Effective, Ineffective) using the predefined translation table (Table A.3).

Table A.1. Maturity Framework

Maturity level	Key consideration
0 – Non-existent	**Does not exist:** The institution does not have the required polices and/or procedures in place or does not execute them.
1 – Developing	**Exists:** The institution shows basic competency however requires development in this area (i.e. Not regularly conducted or missing some elements).
2 – Established	**Exists with elements of good practice:** The entity is developed in this area or regularly demonstrates this, however, it could be improved.
3 – Integrated	**Demonstrates good practice:** The entity consistently demonstrates this.
4 - Optimised	**Demonstrates best practice:** The entity consistently demonstrates this and is a leader of best practice in this area.

Table A.2. Determining the maturity level

	Fostering a culture of integrity	Identifying and assessing corruption risks	Responding to corruption risks	Clear and regular communication	Purposeful monitoring and evaluation
0 – Non-existent	0	0	0	0	0
1 – Developing	1 – 9	1 – 11	1 – 9	1 – 8	1 – 8
2 – Established	10 – 14	12 – 17	10 – 14	9 – 13	9 – 13
3 – Integrated	15 – 23	18 – 27	15 – 23	14 – 19	14 – 19
4 - Optimised	24 – 28	28 – 32	24 – 28	20 – 24	20 – 24

Table A.3. Scoring level of effectiveness

Level of effectiveness	Maturity level
Very Effective	4 – Optimised
Effective	3 – Integrated
Partially Effective	2 – Established
Ineffective	0 – Non-existent, 1 – Developing

Table A.4. Self-assessment tool for assessing the effectiveness of internal control systems for preventing corruption and conflicts of interest[6]

	0	1	2	3	4	Reasoning
Fostering a culture of integrity						
The institution has a code of conduct, or similar policy, in place which sets out the ethical principles and values that underpin the institution, as well as standards of personal conduct expected by all staff within the institution, and what they mean in practice.						
The institution has clearly defined anti-corruption objectives, including addressing conflicts of interest. It explicitly demonstrates how its risk management and internal control activities are aligned with and contribute to achieving these objectives.						
Definitions of corruption and conflicts of interest are in place, with illustrative examples of instances of corruption and conflicts of interest.						
Responsibilities and expectations of staff related to corruption prevention are clearly defined, including any specific corruption prevention roles as well as general staff expectations.						
The institution has dedicated staff resource in place to oversee and implement anti-corruption and risk management practices, ensuring these functions are effectively managed.						
The procedures on how staff should report on potential corrupt activities or conflicts of interest should be documented, including the measures taken in order to ensure anonymity.						
Corruption awareness, conflicts of interest, and code of ethics/conduct trainings are provided regularly regularly and are actively encouraged for staff at all levels.						
TOTAL SCORE = _____						
Identifying and assessing corruption risks						
The institution has documented and put into regular practice a comprehensive and systematic process for identifying corruption risks, including the description of risks, causes and risk factors that influence risks.						

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[6] This table is provided in the Excel Tool (Annex B) where assessors can input their determined maturity levels directly into the Excel sheet based on the corresponding guidance tables (also in the same Excel document).

The institution has documented and put into regular practice a process for analysing corruption risks. This includes the risks being weighted and assessed on the basis of the risk criteria i.e. likelihood and impact.					
The process for identifying, analysing, and evaluating corruption risks (hereinafter – risk assessment) has been tailored to suit the current unique conditions of the institution.					
The institution has documented and put into regular practice a process for evaluating corruption risks. This includes assessing the risk appetite.					
In addition to regular corruption risk assessments being performed, they are also conducted in response to relevant institutional changes, incidents, staff or stakeholder reports, or negative media coverage.					
Corruption risk assessments are embedded into the entity's operational processes and decision-making frameworks, rather than conducted as standalone activities.					
Roles and responsibilities for risk management and for managing corruption risks have been assigned in line with policies and processes.					
Staff with specific risk management roles, and any other relevant staff, have sufficient training and understanding of corruption risk management, including, how changes to the external/internal environment, strategy, processes, and system, affect exposure to risk.					
TOTAL SCORE = _____					
Responding to corruption risks					
The institution has documented and put into regular practice, a process for assessing whether its previously identified corruption risks require concrete mitigation measures.					
The institution has documented and put into regular practice, a process for mitigating identified corruption and conflict of interest risks i.e. a mitigation plan (existing control mechanisms).					
Internal control activities for preventing corruption (including managing conflicts of interest) have been specifically tailored to suit the environment, sector, size, and complexity of the institution.					
Internal control activities for preventing corruption are implemented throughout all levels of the institution. This would include the basic control activities such as those listed in Box. 2.10.					
Internal control activities for preventing corruption are developed and performed by personnel with sufficient mandate and training.					
Institutions periodically (e.g., at least once every three years) reassess their internal control activities for preventing corruption to ensure relevance, and operating effectiveness.					
Enforcement measures are identified, and a process is described as to how suspected forms of corruption (i.e. from whistle-blower reports, complaints) will be investigated.					

TOTAL SCORE = _____						
Clear and regular communication						
Anti-corruption and integrity policies and processes are communicated to all staff on a regular basis, as well as to new staff during induction stages.						
Senior management supports and directly engages in communication to staff regarding anti-corruption and integrity matters; and there is a mechanism to facilitate discussion about any information disseminated.						
Communication channels to enable confidential communication to senior management are in place i.e. whistleblower hotlines, third-party reporting mechanisms, etc.						
Communication to employees on how to report suspected corruption is clear, understandable, and reporting mechanisms are easily available. This includes them understanding the reporting channels available to them and the procedures to be followed.						
The process on how the delegated official should receive and then process any report from their staff is clearly set out in the appropriate policy/procedure.						
Controls have been developed and implemented to facilitate effective external communication i.e. policies and procedures outlining this.						
TOTAL SCORE = _____						
Purposeful monitoring and evaluation						
A monitoring and evaluation policy in regards to internal control systems is clearly outlined in the anti-corruption (or similar) policy/procedures and includes roles and responsibilities.						
The documented monitoring and evaluation policy for internal control systems is clearly and regularly communicated to staff on a need-to-know basis.						
Regular monitoring and evaluation activities take place as per the documented policy.						
In addition to regular monitoring and evaluation activities, evaluations take place as / when needed i.e. when relevant organisational changes occur, for areas of identified high-risk etc., and this is clearly documented in the monitoring and evaluation policy.						
The results from the monitoring and evaluation activities are discussed between all relevant parties and any areas for improvement are addressed in a timely manner.						
Reports are regularly prepared and submitted to the head of the institution on the progress of anti-corruption measures.						
TOTAL SCORE = _____						

Annex B. Guidance table for assessing the maturity of each criteria

The Annex is provided as a separate attachment titled "22LV19_Out.4_Annex B_Guidance table for assessing the maturity of each criteria_17.01.25.xlsx", which includes the following:

1. Calculation tool

2. Five guidance table to assess the maturity of each criteria:
   a. Fostering a Culture of Integrity
   b. Identifying as Assessing Risks
   c. Responding to Risks
   d. Clear and Regular Communication
   e. Purposeful Monitoring and Evaluation

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