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ETHICS AND PROPER IMPLEMENTATION ISSUE OF THE AUDIT

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INTRODUCTION

Audit is necessary and important in terms of providing related parties with assurance on the proper implementation and quality of the work performed. Audit should be performed properly as it is an important mission. The benefit expected from the audit is possible only with proper implementation. Lack of audit is a risk, yet improper audit is another risk. Improper implementation of the audit leads to negative consequences.

In this study, it is emphasized that audit is an important mission and should be performed properly. Next, the requirements to cover for the proper implementation of the audit are pointed out. In this context, important points such as general principals of the audit, ethic rules of the audit, independence and quality control assurance will be clarified. In conclusion, some recommendations will be introduced.

1. AUDIT IS IMPORTANT AND MUST BE PERFORMED PROPERLY

Audit also serves to give quality control and assurance intended to whether the activities are implemented properly as well as many other functions. Like it may not be possible to be sure about the accuracy of a job not audited properly, the assurance also cannot be given on the proper implementation of this job. Hence, it is important and necessary that the audited activity be implemented in quality and the assurance regarding the proper implementation of the activity be given to the related parties.

Audit must be implemented properly as it is an important mission. In fact, every important job should be implemented properly. Proper and quality audit require endeavor and effort. The benefit expected from the audit is possible only with the proper implementation. Increased rate of the proper implementation of audit also increase the ensuing benefit.

If implemented properly, many benefits of the audit known to all come out. The audits performed properly can play crucial roles for a well-functioning democracy and a sound public management system. The roles of high quality audits are increasing in parallel with a growing demand for governments to be more accountable, transparent and effective. The extent to which audit organizations are able to make a difference to the lives of citizens depends on their effectiveness in strengthening the accountability, integrity and transparency of public entities (Akyel and Kose, 2013: 5510). The audits performed properly add too much value to efforts for combating fraud and corruption and increases public confidence to the public management.

Today, there is a stronger demand for promoting democracy and good governance, which requires strengthening transparency and accountability. To response to that demand, audit organizations are gaining great importance (Akyel and Kose, 2011) and their role and responsibilities are increasing constantly. In this context, the quality of audits is one of the most important issue to meet the demand and make useful changes in public financial management.

Lack of audit is a risk, yet improper audit is another risk. Improper implementation of the audit leads to negative consequences. If not properly dealt with, the benefits expected from audit does not come true. Resources become wasted. The credibility and respectability of audit institution suffer. The perception that auditors are not in compliance with ethic rules prevails. The necessity of the audit functions is questioned.

All exemplifications of those having negative opinion on audit activities are determined to belong to those audits not implemented properly. Each mistake of audit institution and noncompliance of auditors with ethics lead to questioning credibility for the existence and necessity of the audit. Yet, it is the social responsibility of an audit institution in social life to raise awareness for necessity and importance of the audit. The most concrete way of doing this is to make audit properly.

In order for audit to be implemented properly, some requirements need to be fulfilled.

2. REQUIREMENTS FOR IMPLEMENTATION OF PROPER AND QUALITY AUDIT

There are two main components in performing audit. One is the audit organization and the rules of it. In this context, general auditing principals as to the audit functions of audit organization must be clear and be complied with. Another is the human resource to carry out audit activities. In this context too, code of ethics of human resources to carry out audit, that is of auditors, should be clear and complied with.

2.1. GENERAL PRINCIPALS OF AUDIT

General Principals of an audit organization regarding how to carry out audit activities must be clear beforehand. Audit organization must carry out its audit functions in line with these principals which are set out and declared beforehand. In this study, general audit principals (6085; article.35) of Turkish Court of Accounts is dealt with as a sample audit organization.

a) What it is meant by audit is clarified by defining the audit. Audit is the examination of accounts, financial transactions, and the evaluation of effective, economic, efficient and legal usage of public resources.

b) The limit of the audit has been drawn. Turkish court of Accounts shall not undertake propriety audit and shall not render decisions that limit or remove the discretionary powers of administrations.

c) The rules to be followed by audit are determined. Audit shall be carried out in accordance with the generally accepted international auditing standards.

d) Independence and impartiality of the audit is recognized. Turkish Court of Accounts and auditors shall carry out audit activities independently and impartially. Turkish Court of Accounts shall not be given instruction in planning, programming and executing of the audit function.

e) The importance of the audit methodology is specified. Audits shall be carried out with due consideration to the implementation of the contemporary audit methodologies.

f) Qualification of audit professionals is considered important. For effective fulfillment of audit function, technical and professional competencies of personnel of Turkish Court of Accounts shall be developed.

g) Quality control is adopted: For maintaining quality assurance, each stage of audit shall be reviewed constantly in terms of its conformity with audit standards, strategic plans, audit programs and professional code of ethics.

Audit organizations can determine the general principles of audit within the legal and administrative framework of their own countries. The important thing is to determine these principles beforehand and to comply with.

2.2. CODE OF ETHICS OF AUDIT

Just as the code of ethics each professional has to follow, so do audit professionals. Primarily as is the case with international auditing standards, different audit organizations have audit code of ethics peculiar to themselves. Code of ethics addressed to public sector auditors have been issued by the International Organization of Supreme Audit Institution (INTOSAI). In this study, firstly code of ethics of the international auditing standards will be introduced, and then the practice of the Turkish Court of Accounts (TCA) will be taken as sample.

2.2.1. Standards on Code of Ethics

Standards on code of ethics (ISSAI 30) addressed to the public sector auditors as well as general standards in government auditing and standards with ethical importance (ISSAI 200) have been issued by the International Organization of Supreme Audit Institution

a) Significance of the Code of Ethics

Code of Ethics is comprehensive statement of the values and principles which should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor place high expectation for code of ethic behaviors from the SAIs and the staff assigned for audit work (ISSAI 30, Code of Ethics).

b) Standards with ethical significance

There are standards of ethical importance in public audit. They can be counted as the following: (ISSAI 200; General Standards in Government Auditing and Standards with Ethical Significance)

a) The auditor and the SAI must be independent

b) SAIs should avoid conflict of interest between the auditor and the entity under the audit

c) The auditor and the SAI must possess the required competence

d) The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

2.2.2. The Code of Ethics of the TCA

Turkish Court of Auditors (TCA) has established and declared the principals and procedures for auditors' code of ethics (Official journal, 17.12.2011-28145) based on the reference by standard (ISSAI 30) of the INTOSAI on the code of ethics addressed to the public sector auditors. The content of this regulation can be explained by the following systematic.

Obedience to the Code of Ethics

The purpose of this regulation is to establish the procedures and principals on code of ethics to be complied by TCA auditors (art: 1). TCA auditors acknowledge the significance of code of ethics, abide by the rules in all circumstances (art: 4)

Independence

TCA auditors act independent of the public entity under audit and other related parties. They keep away from any behavior and relationship that can damage their independence or give such impression. They avoid from every influence to keep their independence (art.5)

Impartiality and Objectivity

TCA auditors;

a) Perform their duties without any pressure, influence and leading; do not take part in any activity or relationship that may damage the impartiality or lead to such impression around; keep independence against all sort of pressure.

b) In evaluating information and documents related to the duties; act fair, independent, and impartial; comply with objectivity that profession requires.

c) They declare work-related opinion and conviction with justification.

d) They prepare their report without leaving any room for doubt and based on the evidence collected in compliance with generally accepted international auditing standards (art.6).

Honesty

TCA auditors;

- a) Shall carry out duties with honesty, integrity, due care and responsibility.
- b) Shall not make statement, commitment or initiative binding the TCA by exceeding their authority in the course of performing their duties.
- c) Shall avoid from any image, manner and act which damage prestige and reliability
- d) Shall be honest in using public resources with respect to duties; not use and cause the usage of public building and vehicles as well as other public goods and resources except public goals and service requirements; avoid from extravagance in using resources.
- e) Shall prove to be worthy of esteem and credit required by their duties with their behaviors; avoid from manners damaging the sense of trust, arousing doubt and harming the principle of justice (art.7).

Equality;

TCA auditors;

- a) Shall act in compliance with the principle of equality before the law in the course of performing duties.
- b) Shall perform duties irrespective of the differences based on the language, religious, gender, social and economic status, political belief and other similar reasons.
- c) In the course of performing their assignment, auditors may not harbor bias against or in favor of any person or group or be in a exclusive manner (art.8)

Avoidance of Conflict of Interest

TCA Auditors;

- a) Shall refrain from any situation in the course of performing or with respect to their duties that may related to their personal or relatives conflict of interest; not involved in audit, investigation and reporting activities, not disclose opinion and conviction on these matters.

b) Shall refrain from any actual or potential conflict of interest provided to himself, relatives or connections as all benefits, financial or other instruments or similar interests that affect or seem to affect the objective and impartial performance of their duties

c) Shall not work for three years on audit, investigation and reporting related to the institution, organization and affiliations for which they recently worked.

ç) Shall not demand from the audited entities additional facility or service except for audit requirements in the course of performing duties, not make use of public goods, service and human resources apart from service requirements and cause to use.

d) Shall not make public servants or related individuals perform transactions out of law or force them to do so by using their job, title or influence to get benefit or privilege for themselves or relatives.

e) Shall refuse any gift or reward that may be perceived to jeopardize or damage the independence and integrity and avert any potential conflict of interest; not receive any gift that can affect or possibly affect the independence, performance, performing duties or opinion.

f) Shall not receive any gift or interest for themselves or relatives from individual or entities as related to their duties through direct or intermediary means (art.9)

Professional Competence and Due care

TCA Auditors;

a) Shall constantly endeavor to develop Professional knowledge and skill at the level required by their duties. In the course of performing duties, they give importance to teamwork and collaboration among their colleagues; provide the necessary support expected from them.

b) Shall present professional care and meticulous attention in the course of audit planning, implementing and preparing the audit report.

c) Shall follow the profession-related legislation, national and international developments as a requirement of their professional competency.

d) Shall know and apply the policies, procedures and implementation of the legislation in force, have enough information on the legal and institutional principles and standards directing the activities of the public entities under audit (art.10).

Professional and Institutional Conscience

TCA auditors act in accordance with the purpose and mission of the TCA; avoid from manners that can damage the credit given by the society (art.11).

Avoidance of Usage of Profession for getting Benefit

TCA Auditors;

a) Shall not provide benefits and make mediation in favor of themselves, relatives or third parties through using their job, title or authority, sell or distribute their or third party's publication, periodical, CD or similar products, provide favor, donation or similar benefits to any institution, foundation, association or sporting clubs, apply nepotism or political discrimination or any sort of favoritism.

b) Shall not use official or confidential information obtained in the course of performing their duties to provide direct or indirect economic, political, or social kind of benefits for themselves, relatives or third parties.

c) Shall not mediate before the public administration, civil servants and other related institution and organizations under audit.

d) Shall not ask for any revenue-generating request from the institutions and organizations through using their job, title or power (art.12)

Courtesy and Respect

TCA auditors cannot exhibit humiliating, degrading and arbitrary behaviors; make insulting, repressive or threatening practice; behave kindly and respectfully towards those they work together and related to their work (art.13)

Keeping Confidentiality and Professional Secrecy

TCA auditors shall not pass information obtained through their assignment not open to the public on to the unauthorized institutions or individuals in the form of personal interpretation, recommendation or any ways. They shall not disclose secrecies as well as confidential information with respect to the related person and third parties they accessed through their assignment to any institution or individual except fort the authorities specified by law; use for their interest or to the detriment of third parties (14).

Responsibility of Managerial Staff

Managerial Staff;

a) Shall not make discrimination among auditors, shall be fair, honest and credible to them.

b) Shall contribute to the auditors in fulfilling their social and ethical responsibilities and encourage them to do so.

c) Shall make a distinction between their professional and private life, care for professionalism in decision making and stick to the principle of equity in making segregation of duties.

d) Shall make necessary rotation in drawing up audit planning not to damage the objectivity and independency of the auditors.

e) Shall not make discrimination in terms of seniority and title among auditors except for the requirement of legislation and profession,

f) Shall not make professional harassment directed to restrict the employee rights, damage the careers and psychological harassment (mobbing) intended to reduce the quality of work-life and take necessary measures to prevent.

g) Shall provide auditors with proper training on professional code of ethics; follow the compliance with these rules and take the lead on ethical behavior.

h) Shall ensure that professional code of ethics take part in basic, preparatory and in-service training program oriented to auditors (art.15)

Compliance with Professional Code of Ethics

(1) TCA auditors are obliged to comply with professional code of ethics specified in this regulation

(2) Board of Promotion and Discipline of Professional Personnel formed based on Law No. 6085 carry out necessary prosecution in line with provision in this regulation on the allegation that auditors are not in compliance with professional code of ethics and submit conclusion to the Presidency to be informed to those concerned and a copy of the decision is placed in to the personnel file of concerned.

(3) In awarding promotions, professional code of ethics specified in this regulation is considered.

(4) Where there are no provisions in this regulation, general provisions are taken as basis for procedures. (art.16)

3. INDEPENDENCE

Independence of audit organization is vitally important. Independence of audit organizations has been regulated first in the international auditing standards as well as their domestic law. Mexico Declaration (ISSAI 10) on Supreme Audit Institutions (SAIs) independence has been adopted by INTOSAI. Besides, Lima Declaration has regulatory rules on the independence of the SAIs.

As well as the independence of the audit organization, independence of the auditor is also mentioned. How independence of the auditor is understood is an important issue. The importance of independence of the auditor from the audited institution is very high, however, the limit and scope of the independence of the auditor are important to determine. In this study, the issue of independence is examined as practice of the Republic of Turkey in terms of both audit institution and auditor.

3.1. Independence in terms of Institution

a) Turkish Court of Accounts shall have functional and institutional independence in carrying out its duties of examination, audit and taking final decision conferred by this Law and other laws (Law no:6085; art.3)

b) Turkish Court of Accounts and auditors shall carry out audit activities independently and impartially. Turkish Court of Accounts shall not be given instruction in planning, programming and executing of the audit function (Law no:6085;art.35)

3.2 Independence in terms of Auditor

a) Turkish Court of Accounts and auditors shall carry out audit activities independently and impartially (Law no: 6085; art.35)

b) The auditors shall carry out the audit and examination duties assigned by the President of Turkish Court of Accounts, or by heads of groups on behalf of him, within the framework of principles and procedures provided for in laws, by-laws, regulations, standards,

circulars and guidelines; shall submit their results to the Presidency by a report, and carry out all other tasks prescribed herein (Law no: 6085; art.32)

c) For maintaining quality assurance, each stage of audit shall be reviewed constantly in terms of its conformity with audit standards, strategic plans, audit programs and professional code of ethics (Law No:6085; art.35)

d) TCA Auditors acknowledge the importance of professional code of ethics; stick to these rule in any case. These rules are as follows (The procedures and principals of TCA auditors on professional code of ethics)

Independence, impartiality and objectivity, integrity, equity, avoidance from conflict of interest, professional competence and due care, professional and institutional conscience, not to use profession for conflict of interest, courtesy and respect, keeping confidentiality and professional secrecy, responsibility of managerial staff, compliance with professional code of ethics.

Independence of the auditor is mentioned within the professional code of ethics of auditor. The independence of auditor should be interpreted within the context of many principals taking part in the Professional code of ethics. Independence of the auditor coexist and accepted with the principals such as impartiality, integrity, and so on. There is independence understanding in question dependent on these principals.

e) Professional code of ethics is comprehensive statement of the values and principles that should guide to the daily routines of the auditors. The independence, authority and responsibilities of the public sector auditors bring with high level ethical behavior from the Supreme Audit Institutions and personnel assigned for the audit (ISSAI 30, Code of Ethics)

f) General Standards in Government Auditing and Standards with Ethical Significance (ISSAI 200)

a) The auditor and the SAI must be independent

b) SAIs must avoid conflict of interest between the auditor and the entity under audit

c) The auditor and the SAI must possess the required competence

d) The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations

4. QUALITY CONTROL SYSTEM MUST BE ESTABLISHED

As audit mission is important, the establishment of quality control system is a must within the audit institutions to ensure the proper implementation of the audit. The error risk of the auditor can be compensated with quality control system. Correct and high quality implementations of the work affect the credibility and reliability of the audit organizations.

A standard has been accepted in the Supreme Audit Institution covering the whole field of activity, convenient for the conditions of the functions and powers, aiming to support the establishment and maintenance of a quality control system intended to reply quality risks (ISSAI 40). SAIs should be able to benefit from the Quality Control standard for SAIs within the framework of their conditions and as far as they are comprehensive nature to satisfy needs.

Quality Control System must be a part of the strategy, culture, policy and procedures of the audit institutions; Besides, quality control system must cover each phase of the audit work such as planning, implementation, reporting and follow-up and must be pertinent to all process (ISSAI 40).

A quality control system to be established in an audit organization is expected to cover certain elements. These elements are set out below (ISAI 40)

Setting and implementation of the leadership responsibility oriented to the quality within the audit institution.

Setting of the code of ethics with respect to the audit, announcement to the parties and ensuring the compliance to these rules.

Establishment of the communication and relation network with those under audit: arrangement of the audit process and announcement to the parties.

Improvement of the professional competence of audit human resource and ensuring the follow-up.

Establishment and implementation of the necessary system in order for audit activities to be carried out in line with the quality

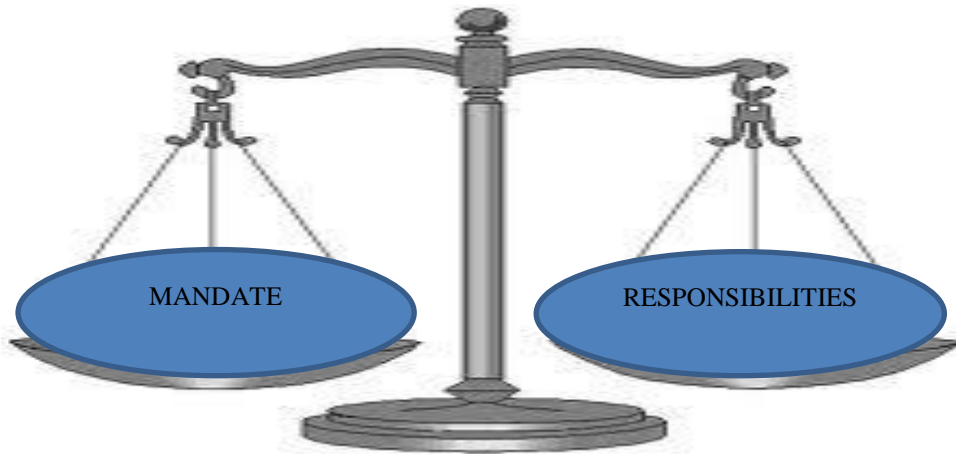
Follow-up of audit findings

Along with counting the general components above, audit institutions can also allow for different components within the framework of their structure and to cover their meets.

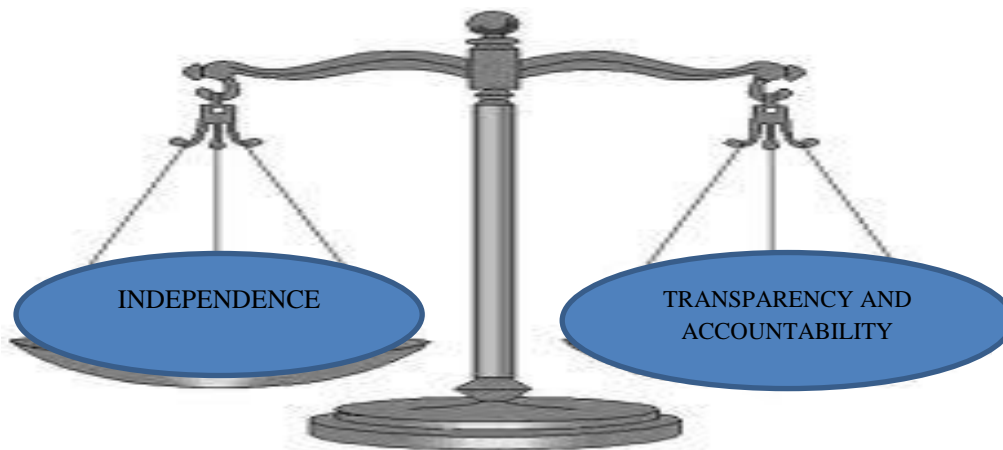
5. BALANCE SYSTEM MUST BE ESTABLISHED

A balance system must be established while decision, transaction and activities are being carried out. In general sense, the importance and necessity of establishing balance system on the basis of institution and incumbent must be acknowledged.

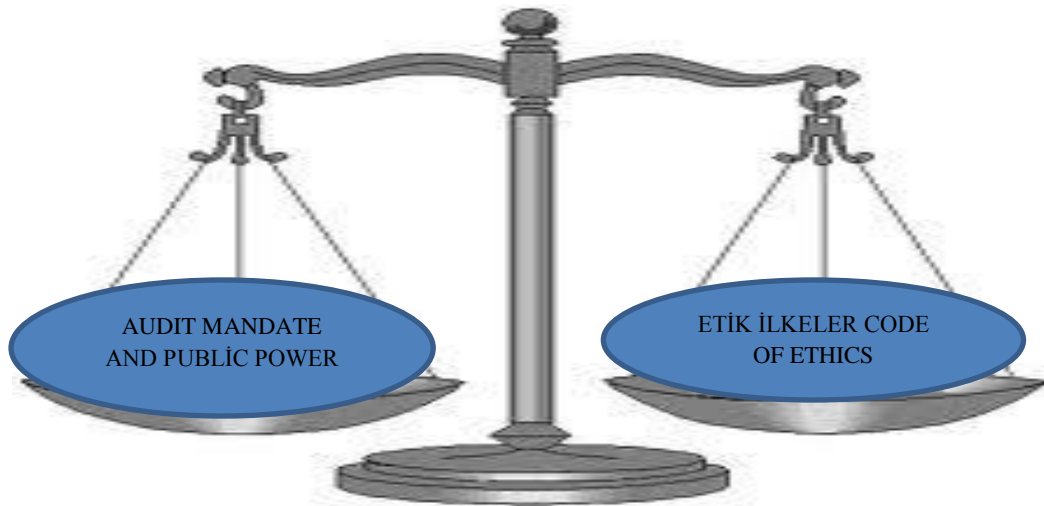
1) IN GENERAL



2) IN TERMS OF AUDIT INSTITUTION



3) IN TERMS OF AUDITOR



CONCLUSION

In case of proper implementation, audit provides many benefits known to all.

Lack of audit is a risk, yet improper audit is another risk. Improper implementation of the audit leads to negative consequences.

In case of not being properly dealt with, the benefits expected are not come true. Resources become wasted. The credibility and respectability of audit institution suffer. The perception that auditors are not in compliance with ethic rules prevails. The necessity of the audit functions is questioned.

Each mistake of audit institution and noncompliance of auditors with code of ethics lead to the questioning credibility for the existence and necessity of the audit.

SAİs should be sensitive to the adoption of codes of conduct. All individuals and all parts of the society have roles in spreading ethical conduct as well as developing and maintaining ethical culture.

Audit institution and auditors should be in endeavor to carry out their activities correct and in line with quality and ethic. In this regard, necessary systems must be set up, process must be followed, related procedures must be generated, implemented, followed up and corrective activities must be carried out.

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