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9th LUMEN International Scientific Conference Communicative Action &
Transdisciplinarity in the Ethical Society | CATES 2017 |
24-25 November 2017 | Targoviste, Romania

Communicative Action & Transdisciplinarity in the Ethical Society

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<https://doi.org/10.18662/lumproc.21>

How to cite: Pleșa, I. T. (2018). The Supreme Audit Institutions' Ethics Challenges in the Contemporary Society. In T. Ciulei, G. Gorghiu (eds.), *Communicative Action & Transdisciplinarity in the Ethical Society* (pp. 211-223). Iasi, Romania: LUMEN Proceedings. <https://doi.org/10.18662/lumproc.21>

The Supreme Audit Institutions' Ethics Challenges in the Contemporary Society

Ilidor Tiberiu PLEȘA^{1*}

Abstract

In a world increasingly affected by the phenomena of fraud and corruption, ethics has become a very important element in contemporary society. A series of financial scandals, such as Enron's case, have highlighted ethical deficiencies. In ensuring a stability climate at national level, the supreme audit institutions, as "public financial guards", play an extremely important role. Considering the importance of these institutions in the architectural structure of a rule of law, this article proposes to analyze the elements of ethics identified at the level of the Romanian Court of Accounts, as well as at several supreme audit institutions members of INTOSAI (International Organization of Supreme Audit Institutions). It also analyzed the relationship between ethics, independence, transparency and quality control as elements of international auditing standards for the public sector, being also realized a pyramidal hierarchy of the most important criteria of professional ethics in external public audit. This pyramid is based on the main analysis of the ethics tool in the Supreme Audit Institutions, namely the ISSAI 30 INTOSAI Code of Ethics, taking also into account other elements provided in the codes of ethics and professional conduct of other supreme audit institutions. All these aspects are analyzed in the context of the phenomena of fraud and corruption, which have become a real challenge for contemporary society.

Keywords: *supreme audit institution; ethics; INTOSAI; international standards for supreme audit institutions; corruption.*

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<https://doi.org/10.18662/lumproc.21>

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Selection and peer-review under responsibility of the Organizing Committee of the conference

1. Introduction

The phenomena of fraud and corruption have become a real challenge for contemporary society, given that they manifest in more and more sophisticated forms, at all levels of society.

In this context, the Supreme Audit Institutions have a decisive role in maintaining the financial balance in the rule of law, through their function of "public financial guards". Their extremely important role is also recognized by the United Nations, which issued Resolution A/66/2019 on the independence of these institutions [18].

The main beneficiaries of the audit reports issued by the supreme audit institutions are the Parliament, citizens, mass media, deliberative authorities, etc. The International Standards for the Supreme Audit Institutions (ISSAI) highlight the importance of ethics within these institutions, which should be a model for all other public sector institutions. At the same time, ensuring high standards of ethics at the level of supreme audit institutions contributes to increasing stakeholder confidence in the work of these institutions, especially citizens, who need to be adequately informed about the spending of public funds that they contribute to, by paying taxes and duties established by law.

2. Theoretical Background

The Supreme Audit Institutions (SAI), through their specific work, must be a model for the other public sector institutions, especially in terms of ethical principles.

The new INTOSAI Framework of International Standards for the Supreme Audit Institutions (IFPP-INTOSAI Framework for Professional Pronouncements), organized on 4 levels, includes ethical issues at 3 of the above mentioned levels. These standards are developed within the FIPP (The Forum for INTOSAI Professional Pronouncements) which submits them to the vote in the INTOSAI Congress, for their approval [21].

The concepts of ethics related to the external public audit activity are described, as follows, on the three levels of international auditing standards in which they are mentioned:

Figure 1 - The main international auditing standards for the public sector where ethical issues and their organization on IFPP levels are presented [21], [1] - [12]

Starting from the aspects presented above, within the framework of implementation of the international audit standards at national level, the supreme audit institutions have developed tools to ensure that a high standard of ethics is ensured, in order to prove quality in the conduct of their specific activity.

In this context, the paper aims to identify the main conditions that must underlie to an ethical behavior within the supreme audit institutions, to analyze the relationship between ethics, independence, transparency and quality control within supreme audit institutions, as elements of international standards for the public sector auditing, and a pyramidal hierarchy of the most important criteria of professional ethics in external public audit. This pyramid is based on the analysis of the main instrument on ethics in the supreme audit institutions, namely the *ISSAI 30 Code of Ethics*, taking into account also other elements provided in the codes of ethics and professional conduct of other supreme audit institutions.

3. Argument of the paper

In the *ISSAI 30 Code of Ethics* are described the fundamental ethical values underlying the ethical behavior in the external public audit activity [7]. These fundamental values presented in ISSAI 30 have been taken over by the majority of the supreme audit institutions, by introducing them into codes of ethics at the level of each supreme audit institution, but ensuring ethical behavior can be achieved not only by including these values in codes of ethics, but also in other ways, one of them being the behavioral modeling of staff engaged in external public audit activity through "*soft*" controls.

4. Arguments to support the thesis

The lack of ethical elements in external public audit has extremely negative effects in terms of overseeing the management of public funds at national level. Taking into account that public funds are part of the society's financial resources, the negative effects spread to all levels of society, which also affects the citizens of the country, as the tax payers. Ensuring a framework of ethical values to be respected by staff involved in the external audit of public funds helps to blur and even eliminate these negative effects.

5. Arguments to argue the thesis

Generally speaking, with regard to external public audit, the main risk identified is to familiarize the staff involved in the external public audit activity with the staff of the audited entity, leading to a behavior that cannot be considered ethical. The international auditing standards for the public sector recommend the staff rotation, within the quality assurance process. Therefore, it is clear that, in addition to the fundamental ethical values imposed by the *ISSAI 30 Code of Ethics*, the international general framework offers enough tools to ensure a high level of ethics in the field of external public audit.

Among the steps taken by the Supreme Audit Institutions to create a framework of ethics and integrity, there is *the effective control* through various instruments (code of ethics, ethics committee, other internal rules and regulations), considered effective and a "*soft*" control, which focuses on a series of elements related to the conditions and environment in which the staff work in the Supreme Audit Institution.

The implementation of "*hard controls*" is often the most used tool by the Supreme Audit Institutions, only some of the supreme audit institutions

having implemented "*soft*" controls, the former being considered more effective.

5.1. The international experience in ethics at the level of the Supreme Audit Institutions members of INTOSAI

At the international level, ethical and integrity issues have been given great importance in the field of external public audit. To this end, within EUROSAI (European Organization of Supreme Audit Institutions) it was considered necessary to create a special working group for this purpose. Thus, in 2011, at the 8th EUROSAI Congress held in Lisbon, the **Task Force on Audit and Ethics**, led by the Portuguese Court of Auditors, was set up [20]. The purpose of this task force is to promote ethical values as a "supportive pillars" for the supreme audit institutions and ethical behavior within public entities that fall within the scope of verification of the supreme audit institutions. In this working group are part the supreme audit institutions of the following countries: Portugal, Albania, Croatia, Cyprus, Czech Republic, European Court of Auditors, Macedonia, France, Hungary, Iceland, Italy, Israel, Malta, Montenegro, Poland, Netherlands, Romania, the Russian Federation, Serbia, Slovenia, Spain, Turkey and the United Kingdom.

Most supreme audit institutions have developed a code of ethics based on the recommendations contained in the *ISSAI 30 Code of Ethics*, but at the international level there are different practices that complement the code of ethics within each supreme audit institution. These practices are presented in the table below:

Table 1. Auxiliary tools to the Code of Ethics, used by various supreme audit institutions of INTOSAI [20]

Supreme audit institution of :	Auxiliary tools used by supreme audit institutions
Netherlands	IntoSAINT - an instrument developed by the Dutch Court of Auditors for Supreme Audit Institutions. The evaluation is for prevention purposes.
Portugal	Designing a risk map at the supreme audit institution
Albania	Introducing a specific objective on ethics within the institutional strategy

Hungary	Mix of 3 Documents: Code of Ethics + Rules on Ethical Deviation + Implementation Guide
Italy	The existence of 2 codes of ethics: Code of Ethics for Italian Court of Auditors + Code of Ethics for civil servants (applicable to the administrative staff of the Italian Court of Auditors)
Estonia	Interviews to recruitment with tests for candidates at auditor positions in order to identify their ethical behavior under certain circumstances
Slovakia	Ethical criteria included in the auditor's individual evaluation criteria
Spain	Employee merit rewards policy by awarding honorable decorations / decorations.

Among the tools outlined above, a number of supreme audit institutions considered the IntoSAINT tool developed by the Dutch Court of Auditors to be very useful. IntoSAINT is a tool for self-assessment of the risks associated with the integrity of a supreme audit institution, while ensuring the assessment of the maturity level of integrity management systems. This tool consists of a self-assessment that takes place over two days in a seminar that is supported by an IntoSAINT moderator. Following this findings, a report or action plan is developed to support the management of the supreme audit institution to take action in order to increase employees' awareness of integrity issues. The long-term benefits of using IntoSAINT include the increasing of public confidence in supreme audit institutions as pillars of the national integrity system, while contributing to good governance.

The Importance of IntoSAINT as an instrument of self-assessment of the integrity system of supreme audit institutions is recognized by the international community of supreme institutions (INTOSAI), being included in a series of international standards of public sector auditing (ISSAI 12 *Value and Benefits of SAIs - making a difference to the life of citizens*, ISSAI 20 *Principles of Transparency and Accountability*, ISSAI 30 - *Code of Ethics*), as well as in a series of guidelines (SAI PMF – *Supreme Audit Institutions Performance Measurement Framework* and ISSAI 5700 *Fraud and Corruption* [13]).

Figure 2. IntoSAINT and international auditing standards for the public sector

Regarding the Supreme Audit Institution Performance Measurement Framework (SAI PMF), this is a more general performance measurement tool that includes, besides performance issues related to financial audit, compliance audit and performance audit, also measurement of governance and ethics [18].

SAI PMF has two components:

1) Guide for designing the performance report, which is the final product of the evaluation and which consists of a narrative analysis of the results.

2) A set of 26 indicators (two to four dimensions each) in order to measure the performance of the supreme audit institution on the basis of good international practice in six areas, one of the areas being related to ethics:

Figure 3. Ethics elements within the SAI PMF

For the aforementioned dimensions, there are established scores, which are allocated according to how many criteria are met by the supreme audit institution assessed. This measurement methodology is useful to supreme audit institutions in order to assess their performance not only in ethics but also in other areas, as shown in the figure above.

5.2. The experience of the Romanian Court of Accounts in ensuring a high standard of ethics in external public audit

The Romanian Court of Accounts, as supreme audit institution member of INTOSAI [19] and EUROSAI, established a general ethical framework in the process of transposing international auditing standards for the public sector into its own standards, on the basis on which this institution operates.

At the level of the Romanian Court of Accounts, there is *the Code of Ethical and Professional Conduct of the Romanian Court of Accounts' staff* [17], whose main purpose is to increase the trust, authority and prestige of the Romanian Court of Accounts as supreme audit institution. This code of ethics was developed on the basis of the principles of the *ISSAI 30 Code of Ethics*, the Romanian Court of Accounts thus complying with good international ethics practices at the level of the supreme audit institutions.

In applying the provisions of the *Code of Ethical and Professional Conduct of the Romanian Court of Accounts' staff*, the Romanian Court of Accounts has established that each external public auditor should complete a *declaration of independence* before any external public audit mission begins. This declaration of independence is a way of monitoring and controlling the compliance with the provisions of *the Code of Ethical and Professional Conduct of the Romanian Court of Accounts' staff*, by the external auditors of the Romanian Court of Accounts, all of these declarations being recorded in the *Register of Declarations independence of external public auditors*. Also, whenever there is a change during the control/audit mission that may affect or influence the independence and objectivity of the external public auditor, he/she has to submit a new declaration of independence, which complements the original one.

In addition to the *Code of Ethical and Professional Conduct of the Romanian Court of Accounts' staff*, there is an indicator for the ethics area within the Romanian Court of Accounts. This indicator is part of the Romanian Court of Accounts' Performance Assessment System and is called "*IP 12 The management's opinion of the audited entities on the audit quality of the Romanian Court of Auditors and its impact on the audited entities, as well as the observance of respecting the principles and values of ethics by external public auditors*", which has the format of a questionnaire that is submitted to the entities audited by the Romanian Court of Accounts after the completion of the auditing activities [14], [15] [16].

Through this indicator, the Romanian Court of Accounts implemented a provision of the *ISSAI 30 Code of Ethics*, according to which the supreme audit institution should take into account the perception of stakeholders regarding the independence and impartiality of the external public auditors during the conduct of the audits.

Figure 4. The evolution of the IP indicator 12 *The management's opinion of the audited entities on the audit quality of the Romanian Court of Auditors and its impact on the audited entities, as well as the observance of respecting the principles and values of ethics by external public auditors* " during 2014-2015 [14], [15], [16].

The above graph shows an increase in the number of questionnaires sent by the Romanian Court of Accounts to the audited entities in 2015 as compared to 2014, the same trend being recorded for the questionnaires received from the audited entities. Regarding 2014, over 71% of the questionnaires received from audited entities described as *"very good"* the relationship between them and the Romanian Court of Accounts, both with the specialized departments and with the chambers of accounts [14].

On the basis of this indicator, the Ethics Committee from the Romanian Court of Accounts draws up half-yearly and annual reports that are analyzed by the management of the Court.

We must highlight the difference between ethics in audit and the audit of ethics. Ethics in audit refers on the situation where an auditor must respect the standards on ethics in carrying out his audit activities at the audited entity.

The audit of ethics refers on the situation where a supreme audit institution may audit the framework of ethics in an audited entity, during carrying out its audit missions, by submitting a questionnaire to the audited entity regarding the internal control. In this questionnaire, there are questions related to the existence of a code of ethics, training on ethics, procedures for avoiding the conflict of interest, aspects of ethics on recruiting, whistleblowing, other measures and methods adopted by the audited entity. This kind of activity may be considered a non-financial audit.

The ethics is very important in a knowledge society, being vital for the developing of this kind of society. Without ethics, the evolution of the society would not be possible.

6. Dismantling the arguments against

Regarding the way of monitoring the ethical behavior within a supreme audit institution, implementing effective controls ("hard" controls) may be less effective than implementing "soft" controls. "Soft" controls focus on equal treatment, creating a good atmosphere in the audit team, exemplary management behavior, ethics training courses, all of which contribute to raising awareness of the ethical issues of all staff of the supreme audit institution. "Soft" controls contribute more effectively to the creation of an ethical culture at the level of the supreme audit institution, as opposed to effective controls, based on strict adherence to imposed rules.

7. Conclusions

In the *ISSAI 30 Code of Ethics* are described the fundamental ethical values that are then taken over by most of the ethical codes implemented at the level of the supreme audit institutions. Starting from *ISSAI 30 the Code of Ethics* and the other auxiliary ethical tools presented above, a pyramidal hierarchy can be created, comprising the main elements of ethics organized from the basic level (the individual) to the level of management of the supreme audit institution:

Figure 4. Pyramid of ethical elements, structured on levels

From the figure above, it can be seen that the pyramid base is formed by the ethical principles provided by *ISSAI 30 Code of Ethics*. This analysis is based on the idea that the ethical features that an external public auditor must meet are the most important within the set of values and principles of the organization. Independence, objectivity, integrity, and confidentiality are key features that an external public auditor must have in pursuing his or her specific activity, so that the image of the supreme audit institution to be an honest one, adequate of its audit/control activity.

The following elements refer to the audit team and the conditions in which it contributes to creating a favorable ethical climate within the supreme audit institution. A good atmosphere between teammates helps to promote the awareness of ethical behavior within the supreme audit institution.

The third level of the pyramid refers to the ethical code and other internal rules within the supreme audit institution. The Code of Ethics and other internal rules within the Supreme Audit Institution are mandatory written rules to be respected by staff.

The last level of the pyramid refers to the tone given by the management of the supreme audit institution. Management's attitude is fundamental, as described in the ISSAI 20, ISSAI 30, and ISSAI 40 International Standards of Auditing, which state that senior supreme audit managers should be an example for the other employees.

Analyzing the aspects presented in the pyramid, it can be observed the two types of control regarding to the respecting of ethical values within a supreme audit institution: an *effective control*, represented by measures taken by the supreme audit institution (ethical code, ethics committee, other internal regulations, etc.) and a *"soft" control*, which is the creation of an ethical culture at the level of the supreme audit institution (equal treatment, good atmosphere in the audit team, ethics training courses, etc.).

Regarding those presented above, soft controls contribute more effectively to creating an ethical culture at the level of the supreme audit institution, unlike effective controls based on strict adherence to imposed rules. Creating an ethical culture at the level of the supreme audit institution contributes to increasing the trust, authority and prestige of the supreme audit institution in the institutional architecture of a rule of law, thus becoming a model for the other public sector institutions.

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