

## Accounting and Auditing

### Principles and Rules of Conduct in the Internal Audit Activity

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**Abstract:** The objectives of the paper are to present the basic principles governing the internal audit mission as well as the code of conduct that must be observed in exercising such a mission, because the completion of a professional audit mission implies precisely the compliance with the two category of elements. Consequently, this paper is meant to be added to the practice specific to this field as support in exercising the internal audit according to the market requirements. For this purpose, we analysed the above-mentioned elements, presenting brief examples in support of the importance of the approached topics. Thus, from the practical point of view, we can notice the mechanisms used to apply these principles and how the compliance with the audit specific audit conduct lead to a more efficient activity. For these reasons, we can say that the paper is an element of interest both for the academic field (as a starting point for the support of practical approaches) and also for the future researches in order to improve the specific audit activity.

**Keywords:** internal audit; conduct; audit principles.

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#### 1 Introduction

For the smooth conduct of an internal audit mission, irrespective of the type of entity, the existence and thus compliance with certain principles, with a code of conduct, is an element that provides its quality and professionalism. According to the extent and objectives aimed, the code of conduct, both at general and at individual level, will represent the framework for the actual internal mission.

In the analysis of the problems of the principles and rules of conduct in the internal audit activity, the legal provisions in force, the regulations issued by the profession of auditor, as well as the regulations issued at internal level within the entities subject to the audit play a very important role.

On the basis of the information included in their content, an internal audit mission can be organised in compliance with the national and corresponding international

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social and economic requirements.

## **2 The Internal Audit Profession: Reference Framework**

Internal audit is a profession whose structuring has been made over a long period as a result of the needs of organizations related to the increase in the efficiency of the activities performed. Currently, there are, in various countries, more than 80 national institutes, parts composing IIA (the Institute of Internal Auditors), with professional representation in more than 120 countries. At the level of this profession, the overall aim is to improve the systems and activities of the entities, from the point of view of the risk management, control activities and the administration of the controlled resources. More specifically, the major objectives of the internal audit activity aim the risk management assessment and the control system assessment (Boulescu & Bârnea & Ispir, 2004, p. 29).

The exercise of this profession takes into account the reference to a benchmark framework, a set of professional standards structured as follows (Țogoe, 2008):

- Defining the profession and the notions specific to the internal audit;
- The deontological code;
- The professional standards;
- Practical application methods;
- Professional development framework.

Obviously, the Deontological Code plays a very important role in the structure of the reference framework applicable in the case of the internal audit specific services. Under the provisions of IIA, in the Deontological Code we will find two components:

- The basic principles of internal auditor profession;
- The rules of conduct required in practice.

## **3. The Basic Principles of Internal Auditor Profession**

The Code of Ethical Conduct of the internal auditor was approved by Order no. 252/2004. Based on this act, the generally accepted basic principles for the good organization and exercise of the internal auditor profession are focused on the five major objective elements:

- integrity;
- independence and objectivity;
- confidentiality;
- competence in exercising the profession;
- political neutrality.

**Integrity** implies the auditor's fairness, honesty and incorruptibility. If the auditor meets these requirements, then there will be trust and credibility in relation to the results obtained by the auditor. Thus, the auditor must exercise his profession in compliance with the law and with its application (legitimacy), not to perform illegal activities, to support the ethics of the audited entity.

On the other hand, the auditor should have the capacity to obtain the best professional solutions for actual situations and for the increase in the efficiency, by using the legal and professional tools available, for the entity.

**Independence** will be manifested in the relationship with the auditor, both with the audited entity, and with any other groups with which it interacts. No problem approached, both theoretically and practically, should be affected by personal problems or by any other external interferences. The auditor will never get involved in a mission in which he has the least interest.

"Internal auditors must fulfil their competences objectively and independently, with professionalism and integrity, in compliance with the legal provisions and the norms and procedures specific to the internal audit activity." (Law no. 672/2002)

**The objectivity** manifested by the internal auditors will be reflected both in the preparation of the reports (accurate and objective), as well as in expressing conclusions and opinions that should be based only on the documents obtained and analysed in compliance with the audit standards, on the useful information coming from various sources (the point of view of the audited entity, the pertinence of the points of view expressed, the relevant circumstances).

"Internal auditors should have an impartial attitude, they should not be prejudiced and they should also avoid conflicts of interests, they should achieve their objectives objectively and independently, with professionalism and integrity, in compliance with the norms and procedures of the public internal audit activity" (General Norms for the Exercise of the Public Internal Audit Activity).

**Confidentiality** implies that any internal auditor should keep the professional secrecy related to the facts, information or documents used in exercising the professional competences. None of the above-mentioned elements can be used to satisfy personal interests or interests of third party stakeholders directly or indirectly interested in the activity carried out by auditors. Such information may only be disclosed under certain situations provided by the legal norms.

**Competence in exercising the profession** implies that internal auditors should fulfil their professional duties with professionalism, competence, impartiality, in compliance with the international standards set for this profession, applying the knowledge, skills and experience acquired.

**Political neutrality**, i.e. internal auditors should exercise their professional

competences mentioning their independence in relation to any political influence. The impartial exercise of their professional competences also implies expressing or manifesting their political believes.

#### **4 The Rules of Conduct Required in Practice**

The principles listed and analysed above are supported by the rules of conduct that represent the behavioural norms, which is a support for the interpretation of the principles and their application into practice, an ethical guide for internal auditors. Under such circumstances, according to the Code of Ethical Conduct of the Internal Auditor we are mentioning:

**A) Integrity** includes the following behavioural rules:

- a) exercising their profession honestly, in good faith, and responsibly;
- b) observing the law, acting in compliance with the requirements of the profession;
- c) observing and contributing to the legitimate ethical objectives of the entity;
- d) the interdiction of knowingly taking part into illegal activities, commitments that discredit the profession of auditor or the entity of origin.

**B) Independence and objectivity:**

- a) internal auditors do not get involved in activities or in relationships that could generate conflicts of interests related to the entity and could affect the objective assessment;
- b) internal auditors can only provide the audited entity with audit and consultancy services;
- c) it is forbidden to internal auditors, during the mission, to receive undue benefits from the audited party, which could potentially affect the objectivity of the assessment;
- d) internal auditors are required to present, in their reports, any document or fact they know that could affect the activity of the audited structure.

**C) Confidentiality:** internal auditors may not use the information obtained during the audit mission, for personal or illegal purposes, or for purposes that could jeopardize the legitimate and ethical objectives of the audited entity.

**D) Competence:**

- a) internal auditors must behave professionally in their activities, must apply the professional standards and norms, must be impartial in their professional duties;

- b) internal auditors will only be committed to missions for which their knowledge, skills and experience are appropriate;
- c) internal auditors will only use high-quality methods and practices in their missions, will have as a priority the basic principles and generally accepted audit standards, both in relation to the actual audit performance, as well as to the preparation of the reports;
- d) the continuous improvement of internal auditors is another necessary rule of conduct (in this respect, we are talking about new knowledge, high efficiency and quality of their activity); the audit compartment chief, or the manager of the entity, is required to provide the conditions needed for the professional training of internal auditors (at least 15 working days per year);
- e) the specialised studies, the professional training and experience, should be representative and should answer practical needs;
- f) knowing the specialised applicable legislation, increasing the training level, in compliance with international standards, represent other rules that must be observed by auditors;
- g) internal auditors may not exceed their professional competences.

## 5 Practical Applicability of the Principles and Rules of Conduct

From the practical point of view, the principles and rules of conduct are synthesized throughout the documentation and reports that will be prepared from the beginning of the audit mission to its end.

Thus, at the beginning of any audit mission, the auditor, in compliance with the legal provisions in force, must fill in an independence statement that could have the structure below:

<b>Incompatibilities and conflicts of interests</b>	<b>YES</b>	<b>NO</b>
Have you had/do you have any official financial or personal relationship with persons in the audited structure that could limit the extent to which you can intervene and ascertain deficiencies of any kind concerning the internal public audit mission?		
Do you have misconceptions in relation to persons, activities, processes, programmes, groups that are related to the audited structure and that could influence your audit mission?		
Have you held/are you holding positions or have you been involved in the past 3 years in the activity of the structure to be audited, in any other way?		
Do you have any responsibilities in carrying out programmes and projects		

fully or partially funded by the European Union?		
Have you been involved in the development and implementation of the control systems of the structure to be audited?		
Are you the spouse, a relative or an in-law up and including the 4 <sup>th</sup> degree of the manager of the entity/structure to be audited?		
Do you have any political or social connection, or a connection resulting from a former employment or from receiving benefits from any group, organization, etc., related to the audited structure?		
Have you previously approved documents, orders of payment and other payment instruments for the structure to be audited?		
Have you been/are you involved in the bookkeeping of the entity/structure to be audited?		
Have you had/Do you have any personal interest that influences or seems to influence the fulfilment of your professional duties impartially and objectively in relation to the audited structure?		
Can you assess the effectiveness of the processes and systems in relation to the requirements specified and the compliance of the objectives with the entity policy?		
If during the public internal audit mission, personal, external or organizational incompatibilities occur that could affect your objectivity in working and preparing unbiased audit reports, will you notify them to your superior?		

Integrity implies fairness in the conduct of the internal audit mission, honesty in carrying out specific actions and honesty in the dialogues with the audited persons. The relationships with your fellow-workers and the external relationships must be based on the same values (Ghiță & Popescu, 2006, p. 134). Any mistake assumed provides high respect for the profession and also the improvement of the performances of the entity by applying the recommendations made by respected professionals.

The public audit compartment/the internal audit mission operates directly under the management of the entity, exercising a function that is separate and independent from the activities of the entity. Due to his/her tasks, there should be no interference in the preparation of the specific internal control. Moreover, there should be no external involvement, starting from setting goals, performing the audit, and communicating the results. The audit activity must be able to be exercised from own initiative in all areas covered by the audited entity/structure.

According to their independence statement, auditors must be impartial, unprejudiced and must avoid conflicts of interests, they must fulfil their duties objectively and independently, with professionalism and integrity, according to specific norms and procedures.

They are also forbidden, in exercising their function:

- a) to take part in the collection of funds for any political party;
  - b) to support candidates to public positions;
  - c) to cooperate, internally or externally, with persons involved in supporting political parties;
  - d) to be part of the management of political parties.
- f) according to Order no. 252/2004 on the Code of ethics of the internal auditor, internal auditors must be politically neutral, they must remain independent from any political influence;

When objectivity or independence are affected in various ways, the affected parties shall be informed (the level of the damage caused will also be taken into account). The provision of impartiality allows the entity/structure management to request opinions, in relation to the control principles, the organization of activities with high risk, to the information and informatics system management. Hence the advisory role of the auditor that will not have implications on the implementation of the measures themselves.

In the exercise of their function, internal auditors must not use offensive language, and must not publicly disclose aspects of private life, or perform slandering actions.

During their missions, auditors have at their disposal information about various activities or persons. Confidentiality implies keeping this information for internal judgements, unless there are cases when legal or professional norms require its disclosure. Confidential information obtained during the mission must not be used for personal interest. Confidentiality has as barriers the exercise of professional activities or barriers required by the superior. All collected documents and documents with negative implications on the business must be treated very carefully.

The audit staff must not request or accept undue benefits irrespective of their form, for them, their families, persons who have various relationships with them, which can influence their impartiality or may represent a reward.

Auditors' competence is a very important element in effectively achieving the objectives of the mission. Internal auditors must have the skills required to exercise their responsibilities (the application of the audit norms, procedures and

techniques; principles and techniques on the audited direction; basic economic, legal and IT principles; identifying irregularities and fraud; high communication capacity, clarity and concision, for the preparation of the final audit report).

Professional competence can be provided by training on the job, internal and external training, staff turnover, the publication of specialised materials, etc. It was noticed that the training on the job and specialised courses represent the most effective form of training (the period dedicated to this purpose is of at least 15 days a year).

## **6 The Place and Role of the Principles and Rules of Conduct. Economic and Social Implications**

The set of principles and rules of conduct are applicable to all internal auditors and thus to the services they provide. Any audit mission will implicitly become valuable due to the compliance with the above-mentioned elements. The strict compliance with these elements provides, in fact, the capitalization and certification of the results of the auditor's work: the audited party's confidence can only exist if these minimal requirements are observed.

Any specialised service provided by a professional (such as an internal auditor) should not have errors (voluntary or involuntary), should not generate conflicts of interests, or should not tacitly accept compromising situations both for him and for the audited entity.

All these elements provide the improvement of the organizational process, in general, and especially the improvement of the productive one. This would be translated into the value added that can be obtained through internal audit services provided at the quality level required by the international professional norms.

The above-mentioned value added which represents the benefit or benefits created by performing the internal audit, the immediate effects on the elements targeted through the respective mission, or the distal temporary effects quantifiable at the level of the economic and financial indicators.

It is intriguing and it is important to study this aspect of value added created by performing the internal audit mission, the manners and tools used to obtain the value added and to increase it, the possibility to quantify and express it.

The quick identification, if necessary, of such tools and means of increasing the efficiency of the activity, committing staff with appropriate skills highlight the importance of internal audit and specific missions.



## 7 Conclusions

In order to be able to assess any entity, information needs to be collected and sent to another direction, in our case, to internal auditors. Their role is to process the set of information obtained and to draw conclusions based on it, in order to assess the evolution of the entity in a pertinent manner.

However, this set of actions cannot be carried out chaotically, it should be organised based on certain guidelines. These guidelines are represented, among others by basic principles and specific rules of conduct. Thus, any audit mission provides counselling both for the entity management and for its employees, impartially and professionally.

Although, at the level of each country, there are a number of differences and peculiarities, the reporting should be made according to a rigorous normative framework, with general applicability, which allows, in fact for adjusting the peculiar to the general requirements in such a way as to provide coherence and the integration of a part into the unified whole.

The current existence of a diversified range of forms of audit highlights the major impact of this profession and the economic and social life by an active involvement in solving problems that involve the compliance with principle and conduct guidelines.

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