INDEPENDENCE AND OBJECTIVITY - A SINE QUA NON PRINCIPLE IN AUDITING

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ABSTRACT: *Objectivity is an independent mental attitude that the auditors should maintain in performing engagements. The auditors are not to subordinate their judgment on audit matters to that of others. Objectivity requires the auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations in which they feel unable to make objective professional judgments.*

KEY WORDS: *independence, objectivity, audit, team, professional.*

JEL CLASIFICATION: *M41.*

1. INTRODUCTION

In the process of the decision and the economic activity must be controlled and by another external control structure other than the internal control system, enabling any third party to inform its heritage status. This form of control is known as audit and is performed by independent professionals organized into distinct structures or unincorporated.

Broadly speaking, professional audit means the examination of information responsible for expressing an independent opinion by comparing them to a standard or a standard quality for clear and complete image of the legal heritage.

According to the Dictionary of Economic and Management at the European Commission audit or auditing means checking records of a company in accordance with professional standards in order to establish the regularity of truthfulness and accuracy of records and financial statements of the company.

The financial audit is the verification and certification of annual accounts by a competent and independent professional in order to express its opinion on the

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reliability of the data contained in the annual summary documents. Although the literature is not a clear delineation of accounting and audit financial audit, we can say that the two types of audit are complementary. Thus, if accounting audit work aimed particularly strict accounting, record fair and lawful economic operations, the audit is to assess the economic outcomes represented in the summary documents and annual financial statements. In these circumstances, the role of auditors to check the first part of the course of the audit method to the principles of accounting as a prerequisite for the relevant audited annual financial statements so that ultimately they can make an accurate assessment of the economic situation of the company in order to ensure accurate information to those interested in the results of the company audited.

2. DISCUSSION

The auditors are independent when they can carry out their work freely and objectively. Independence permits the auditors to render the impartial and unobliged judgments essential to the proper conduct of engagements. That is achieved through organizational status and objectivity.

The auditors should have the support of senior management and of the board so that they can gain the cooperation of engagement clients and perform their work free from interference.

The chief audit executive should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of engagement communications, and appropriate action on engagement recommendations.

Ideally, the chief audit executive should report functionally to the audit committee, board of directors, or other appropriate governing authority, and administratively to the chief executive officer of the organization.

The chief audit executive should have direct communication with the board, audit committee, or other appropriate governing authority. Regular communication with the board helps assure independence and provides a means for the board and the chief audit executive to keep each other informed on matters of mutual interest.

Direct communication occurs when the chief audit executive regularly attends and participates in meetings of the board, audit committee, or other appropriate governing authority which relate to its oversight responsibilities for auditing, financial reporting, organizational governance, and control. The chief audit executive's attendance and participation at these meetings provide an opportunity to exchange information concerning the plans and activities of the internal auditing activity. The chief audit executive should meet privately with the board, audit committee, or other appropriate governing authority at least annually.

Independence is enhanced when the board concurs in the appointment or removal of the chief audit executive.

At times, an internal auditor may be asked by the engagement client or other parties to explain why a document that has been requested is relevant to an engagement. Disclosure or nondisclosure during the engagement of the reasons why documents are needed should be determined based on the circumstances. Significant irregularities may dictate a less open environment than would normally be conducive to a cooperative engagement. However, that is a judgment that should be made by the chief audit executive in light of the specific circumstances.

Objectivity is an independent mental attitude that the auditors should maintain in performing engagements. The auditors are not to subordinate their judgment on audit matters to that of others.

Objectivity requires the auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations in which they feel unable to make objective professional judgments.

Staff assignments should be made so that potential and actual conflicts of interest and bias are avoided. The chief audit executive should periodically obtain from the auditing staff information concerning potential conflicts of interest and bias.

Staff assignments of the auditors should be rotated periodically whenever it is practicable to do so.

The results of the auditing work should be reviewed before the related engagement communications are released to provide reasonable assurance that the work was performed objectively.

It is unethical for an auditor to accept a fee or gift from an employee, client, customer, supplier, or business associate. Accepting a fee or gift may create an appearance that the auditor's objectivity has been impaired. The appearance that objectivity has been impaired may apply to current and future engagements conducted by the auditor. The status of engagements should not be considered as justification for receiving fees or gifts. The receipt of promotional items (such as pens, calendars, or samples) that are available to the general public and have minimal value should not hinder internal auditors' professional judgments. Internal auditors should report the offer of all material fees or gifts immediately to their supervisors

The auditors should report to the chief audit executive any situations in which a conflict of interest or bias is present or may reasonably be inferred. The chief audit executive should then reassign such auditors.

A scope limitation is a restriction placed upon the internal audit activity that precludes the audit activity from accomplishing its objectives and plans. Among other things, a scope limitation may restrict the:

- scope defined in the charter.
- audit activity's access to records, personnel, and physical properties relevant to the performance of engagements.
- approved engagement work schedule.
- performance of necessary engagement procedures.
- approved staffing plan and financial budget.

A scope limitation along with its potential effect should be communicated, preferably in writing, to the board, audit committee, or other appropriate governing authority.

The chief audit executive should consider whether it is appropriate to inform the board, audit committee, or other appropriate governing authority regarding scope limitations that were previously communicated to and accepted by the board, audit committee, or other appropriate governing authority. This may be necessary particularly when there have been organization, board, senior management, or other changes.

Internal auditors should not assume operating responsibilities. If senior management directs internal auditors to perform non audit work, it should be understood that they are not functioning as internal auditors. Moreover, objectivity is presumed to be impaired when internal auditors perform an assurance review of any activity for which they had authority or responsibility within the past year. This impairment should be considered when communicating audit engagement results.

If internal auditors are directed to perform non audit duties that may impair objectivity, such as preparation of bank reconciliations, the chief audit executive should inform senior management and the board that this activity is not an assurance audit activity; and, therefore, audit-related conclusions should not be drawn.

In addition, when operating responsibilities are assigned to the internal audit activity, special attention must be given to ensure objectivity when a subsequent assurance engagement in the related operating area is undertaken. Objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility within the past year. These facts should be clearly stated when communicating the results of an audit engagement relating to an area where an auditor had operating responsibilities.

At any point that assigned activities involve the assumption of operating authority, audit objectivity would be presumed to be impaired with respect to that activity.

Persons transferred to or temporarily engaged by the internal audit activity should not be assigned to audit those activities they previously performed until a reasonable period of time (at least one year) has elapsed. Such assignments are presumed to impair objectivity, and additional consideration should be exercised when supervising the engagement work and communicating engagement results.

The internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented. The auditor's objectivity is considered to be impaired if the auditor designs, installs, drafts procedures for, or operates such systems.

The occasional performance of non audit work by the internal auditor, with full disclosure in the reporting process, would not necessarily impair independence. However, it would require careful consideration by management and the internal auditor to avoid adversely affecting the internal auditor's objectivity.

Acceptance of such responsibilities can impair independence and objectivity and, if possible, should be avoided.

Some internal auditors have been assigned or accepted non-audit duties because of a variety of business reasons that make sense to management of the organization.

Internal auditors are more frequently being asked to perform roles and responsibilities that may impair independence or objectivity. Given the increasing demand on organizations, both public and private, to develop more efficient and effective operations and to do so with fewer resources, some internal audit activities are being directed by their organization's management to assume responsibility for operations that are subject to periodic internal auditing assessments.

When the internal audit activity or individual internal auditor is responsible for, or management is considering assigning, an operation that it might audit, the internal auditor's independence and objectivity may be impaired. The internal auditor should consider the following factors in assessing the impact on independence and objectivity:

- the requirements of The HA Code of Ethics and Standards for the Professional Practice of Internal Auditing (Standards);
- expectations of stakeholders that may include the shareholders, board of directors, audit committee, management, legislative bodies, public entities, regulatory bodies, and public interest groups;
- allowances and/or restrictions contained in the internal audit activity charter; Disclosures required by the Standards; and
- subsequent audit coverage of the activities or responsibilities accepted by the internal auditor.

Internal auditors should consider the following factors to determine an appropriate course of action when presented with the opportunity of accepting responsibility for a non audit function The IIA Code of Ethics and Standards require the internal audit activity to be independent and internal auditors to be objective in performing their work.

If possible, internal auditors should avoid accepting responsibility for non-audit functions or duties that are subject to periodic internal auditing assessments.

If this is not possible, then impairment to independence and objectivity are required to be disclosed to appropriate parties, and the nature of the disclosure depends upon the impairment. - Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

If on occasion management directs internal auditors to perform non-audit work, it should be understood that they are not functioning as internal auditors.

Expectations of stakeholders, including regulatory or legal requirements, should be evaluated and assessed in relation to the potential impairment.

If the internal audit activity charter contains specific restrictions or limiting language regarding the assignment of non-audit functions to the internal auditor, then these restrictions should be disclosed and discussed with management, if management insists on such an assignment, the auditor should disclose and discuss this matter with the audit committee or appropriate governing body. If the charter is silent on this matter, the guidance noted in the points below should be considered. All the points noted below are subordinated to the language of the charter.

The results of the assessment should be discussed with management, the audit committee, and/or other appropriate stakeholders. A determination should be made regarding a number of issues, some of which affect one another.

The significance of the operational function to the organization (in terms of revenue, expenses, reputation, and influence) should be evaluated.

The length or duration of the assignment and scope of responsibility should be evaluated.

Adequacy of separation of duties should be also evaluated.

The potential impairment to objectivity or independence or the appearance of such impairment should be considered when reporting audit results.

Audit of the function and disclosure - Given that the internal audit activity has operational responsibilities and that operation is part of the audit plan, there are several avenues for the auditor to consider.

The audit may be performed by a contracted, third party entity, by external auditors, or by the internal audit function. In the first two situations, impairment of objectivity is minimized by the use of auditors outside of the organization. In the latter case, objectivity would be impaired.

Individual auditors with operational responsibility should not participate in the audit of the operation. If possible, auditors conducting the assessment should be supervised by, and report the results of the assessment to those whose independence or objectivity is not impaired.

Disclosure should be made regarding the operational responsibilities of the auditor for the function, the significance of the operation to the organization (in terms of revenue, expenses, or other pertinent information) and the relationship of those who audited the function to the auditor.

Disclosure of the auditor's operational responsibilities should be made in the related audit report and in the auditor's standard communication to the audit committee or other governing body.

3. CONCLUSION

The audit is an independent and objective assurance that gives an entity in terms of the degree of control over operations, guides to improve its operations and contribute to adding value.

The audit helps the organization to achieve its objectives by evaluating, in a systematic and methodical approach, its processes of risk management, control, and governance of the organization, and making proposals to enhance their effectiveness.

The Code of Ethics of the Institute of Internal Auditors (IIA) is Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. Code of Ethics applies to both individuals and organizations providing internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

The responsible for the internal audit activity should report the establishment of a hierarchical level that allows the internal audit activity to fulfill its responsibilities.

Auditing should not be subject to any interference in the definition of its range, carrying out and communicating the results.

Internal auditors should have an impartial and unbiased attitude and avoid conflicts of interest.

If the objectivity or the independence of auditors are affected in fact or in appearance, stakeholders need to be informed of the details of situations that create such damage. The shape of this communication will depend on the nature of injury.

For example, internal auditors should refrain from assessing specific operations that were responsible in the past. The objectivity of an auditor is considered to be impaired when it made an assurance engagement for an activity for which he was responsible during the year.

Assurance engagements aimed at responsible positions responsible for the internal audit activity must be supervised by a person who is not a part of IAC.

Internal auditors may provide consulting services in connection with the implementation of projects for which they were responsible in the past.

The attitude and actions of the Management Board and of the importance of control in the entity framework and structure is meeting the primary objectives of the internal control system.

Control environment include the following:

- integrity and ethical values;
- management philosophy and management style;
- organizational structure; the allocation of powers and responsibilities;
- policies and practices related to human resources competence of personnel.

Impediments or damage to a person's objectivity and independence of the entity may include conflicts of interest, scope limitations, restrictions on access to documents and electronic records, goods, or certain persons employed or resource limitations (funding).

Objectivity is therefore an impartial attitude of mind which allows auditors to carry out their tasks in a manner that demonstrates their sincere faith in the results of their work and that no significant compromises were made about the quality of work performed. Objectivity requires auditors not to subordinate their judgment to others.

The internal audit activity should adopt a process to monitor and evaluate the overall effectiveness of quality control program. This process should include both internal assessment and external evaluation.

Internal evaluations should include: ongoing review of internal audit performance; Periodic reviews performed through self-assessment or by other persons within the entity known internal audit practices and standards.

External evaluations, such as quality assurance reviews must be conducted at least every five years by an independent auditor or an audit team and qualified independent outside entity.

If independence or objectivity of the auditors could be affected in relation to proposed consulting services, they must be informed about the client that requested the task before accepting it.

Independence is therefore the absence of conditions that threaten objectivity in fact or objectivity in appearance. Such threats to objectivity must be kept under control in the auditor's mission, operational and organizational level.

In conclusion concerns the auditing department, division, department, team of consultants or other practitioner providing independent and objective assurance and consulting services that contribute to adding value to and improve the operations of the entity. Auditing helps the organization to achieve its goals bringing a systematic and methodical approach to evaluating and improving the effectiveness of risk management processes, control, and governance of the entity.

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