

## **THEORETICAL APPROACH TO THE ETHICS OF THE EXTERNAL PUBLIC AUDITOR**

**Diana Sabina BRĂNETȚ (ULICD)<sup>1</sup>**

**Abstract:** *The paper aims to highlight the importance that the elements regarding the ethics of external public auditors have in auditing public sector entities, respectively, in providing audit reports that contribute, through the recommendations contained, to the management, in conditions of efficiency, effectiveness and economy of public funds. Compliance with ethical principles by public auditors also helps to increase the quality of audit reports, reducing non-compliance, including fraud, and increasing the company's confidence in this sector. For this study, the methodology used is the qualitative one, in which the most relevant and current articles have been systematized that deal with the role of ethical elements in terms of external public auditors, respectively ethical elements specific to the Supreme Audit Institutions (IAS) of various countries of the world. Following the analysis, several factors have been identified that impact the results and quality of audit reports prepared as a result of the audits performed, which were used to highlight the importance of respecting ethical elements by public auditors in different countries. The most relevant factors are the auditor's independence, the level of training of the auditor, professional scepticism, creating an ethical climate appropriate to the professional activity following the aims and mission of the institution, preventing and resolving ethical issues and conflicts, discouraging unethical practices, etc. The main conclusion is that several ethical factors influence the quality of audits performed in the public sector. However, auditors' independence is undoubtedly one factor with a high impact on the qualitative aspects of audits in this sector.*

**Keywords:** *audit, public sector, auditor ethics, auditor independence*

**JEL classification:** *M42, M49*

### **Introduction**

This study focuses on the importance of respecting ethical principles and values by public auditors to produce high-quality audited reports without professional “subjectivism”.

The motivation for choosing this topic is mainly the new trends to analyze the public sector and not only from the perspective of the 3E (efficiency, effectiveness, economy), or this can be done only in terms of quality audits conducted in terms of compliance with the principles and of ethical constraints, which are intended to increase the quality and reliability of the audit reports provided (Bringselius, 2018).

The main objective of this study is to emphasize that the qualitative side of audits on the formation, management and use of public funds is closely linked to the ethics of public auditors,

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<sup>1</sup> Pd. D Student, West University of Timisoara, [diana.branet81@e-uvt.ro](mailto:diana.branet81@e-uvt.ro)

DOI: 10.29302/oconomica.2023.25.1.1

which is to respect the ethical principles of national Fund managers.

In order to assess the ethical factors with a significant impact on quality in public audit, several factors were analyzed to highlight this role, without focusing on a single impact factor, considering that by analyzing several different factors, it will be possible to obtain a broad picture of the decisive role that ethical factors and principles play in the audit reports prepared for the public sector (Jurkiewicz, 2002).

The primary relevant papers, concepts and definitions will be reviewed in the continuation of the paper. The research methodology focused on a qualitative method, a descriptive-explanatory study of the most relevant scientific articles addressing this topic. The end of the article is reserved for conclusions.

### **Literature review**

As Vuković and Voza (2015) pointed out, ethics is a discipline whose role is particularly accentuated in globalization and modern business. Ethics is the basis of any responsible society and the basis for meaningful and sustainable development (Oboh et al., 2020).

In all administrative-territorial units, the state has created centralized and decentralized public institutions to represent and act to realize its interests and the population. Today, there is more and more discussion about the moral responsibility that the state authorities and institutions should assume towards those involved, and the social investments that the state must make in response to the increase are also increasingly emphasise-emphasizedemphasize-emphasized the requirements of the communities to which they belong and in which they operate. As a result, citizens' growing demands are creating an increasing involvement of ethics in public administration and institutions. (Mitu, 2009).

The Supreme Audit Institutions (SAIs) work aims to strengthen stakeholder confidence in public sector governance. Growing demands from these stakeholders include performance according to high ethical standards.

ISA reports are effective insofar as they capture the attention of parliaments and the public, emphasizing ethics and ethical management. They can also provide appropriate recommendations to be followed and leveraged, thus encouraging and enhancing public sector ethics practices (EUROSAI, 2007).

Accountability and financial transparency have become fundamental principles in obtaining and using public resources efficiently and productively (Hancu-Budui & Zorio-Grima, 2021; Zeytinoglu, 2021). What seemed to have increased the perception of civil servants on performance audit reports as valuable was the perception of the legitimacy of ISA as an institution that reduces and prevents mismanagement and corruption, which increased the perception of civil servants of reports as applicable (Johnsen et al., 2019).

While civil servants perceived the report as balanced and of high quality, they knew the audit could help improve public sector systems.

An independent attitude is an attitude that is not easy to influence, does not fall under the conflict of interest, remains objective in every assessment and behaves by the principle of high integrity (Ratna & Anisykurlillah, 2020).

Auditor independence is a cornerstone of the audit profession, a crucial element in the legal process of financial reporting that contributes to increasing the added value of audited financial statements (Crucean, 2020).

The value of users' confidence in financial statements must be significant to public audit quality accountants, so auditors need to produce quality audits (Mulyani, 2019).

Building strong institutions is a central development challenge and key to controlling corruption. Supreme Audit Institutions (ISAs) play a vital role among public institutions, as they promote sound financial management and, therefore, responsible, and transparent governance (Dye & Stapenhurst, 1998).

**Research methodology**

The methodology of this research was qualitative analysis, reviewing some essential scientific papers that evaluated the impact factors on the quality of public audits and the role of compliance with ethical principles in providing audit reports that present a high degree of trust from society and why not help reduce public sector financial fraud.

Thus, some of the most important and suggestive articles at the international level from 2009-2021 were chosen as a selection criterion for these papers for the keywords words such as ethical behaviour, ethical principles, public audit, public auditor or SAI. Using these selection criteria were identified 11 papers representative of the chosen topic.

**Results**

In the table below (table no. 1), for each title of the identified papers was selected, the objective, the sample, the research methodology, the impact factors as well as the individual research results, which are the ethical factors influencing the quality of public audits performed. Following the analysis of the selected papers, it emerged that among the identified ethical factors, the most important factors influencing the quality of audit reports provided by public auditors are: auditor independence, professional experience, ethical values and principles, ethical culture, education and ethical training, as represented in figure no. 1.

Other essential indicators contribute, through their recommendations, to the management, in terms of efficiency, effectiveness and economy of public funds, of the auditor's experience, integrity, objectivity or motivation of auditors.

*Table no.1: Analysis of scientific papers*

Nr. crt.	Title	Author/authors and year	Objectives	Results	Sample	Research methodology	Impact factors
1	Public Sector Ethics	Mitu, 2009	defining, applying and implementing the concept of ethics in public sector	more important than the theoretical debates on ethics is the way to put into practice, in everyday work, the principles applied morality and ethics	152 public sector accountants in Romania	descriptive analysis	promoting values, and ethical principles, creating an ethical climate appropriate to professional activity, under the aims and mission of the institution, to prevent

							and resolve ethical conflicts, to discourage unethical practices, to punish deviations from the values of the institution
2	Auditors' Ethics and their Impact on Public Trust	Ardelean, 2013	how auditors' ethics influence the trust placed in the profession by society	the company associates ethical conduct with the profession and condemns any failure to meet this expectation	the ethical behaviour of auditors	the ethical behaviour of auditors	trust, independence, integrity
3	Ethics and public sector employees	Vuković & Voza, 2015	examination of the ethical climate and the presence of unethical behaviour in public institutions as well  correlation investigation between socio-demographic characteristics and ethical behaviour	Typical areas with the highest risk of deviating from ethical norms are corruption, theft, conflict of interest, media abuse, hidden consent, fraud and other related phenomena. the development of modern society, such as discrimination and cultural diversity	150 public sector employees in Boor, Serbia	descriptive analysis	ethical behaviour, care, independence, rules, efficiency
4	Determinants Ethics in Public Accountants and Auditors	Ramírez, & Saavedra (2015).	inclusion of ethical issues based on the IFAC Code of Ethics	17 aspects of the IFAC Code of Ethics are significant contributes to the education of accountants.	accountants, as well as a professional auditor with academic and business	descriptive analysis	integrity, objectivity, professional competence, fee, independence, degree of security

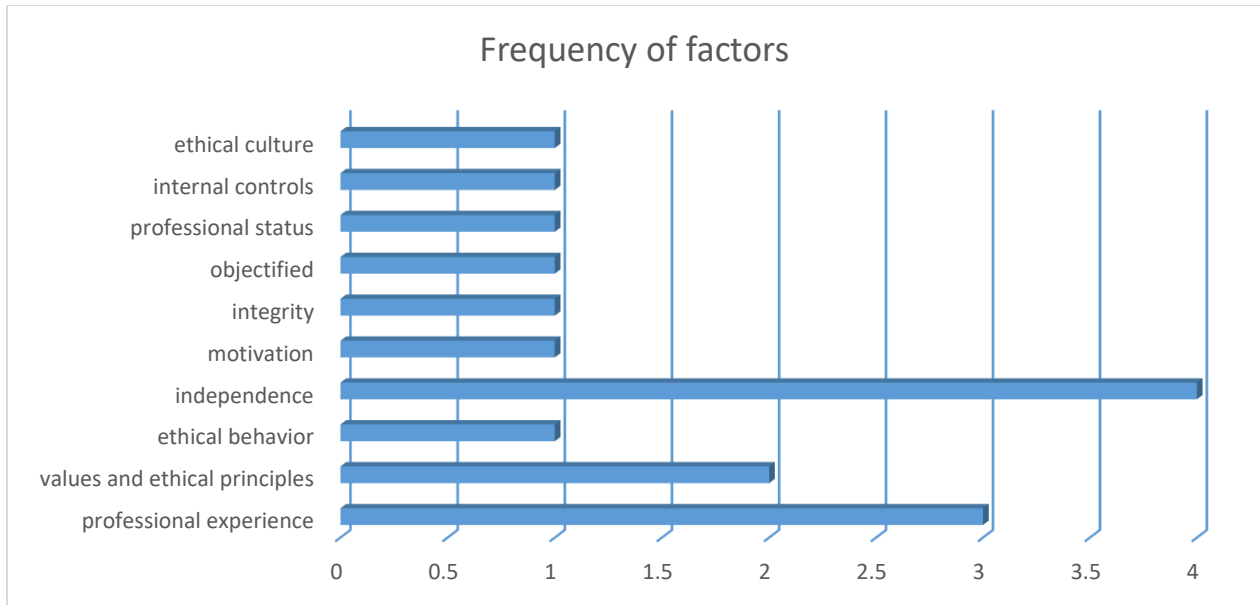
					studies		
5	Public sector ethics management: integrity approaches	Prayote, 2016	addressing integrity, focusing on ethical education and training and ethical models	Moral education and training programs, embedded in an integrity approach, are cognitive in making ethical decisions.	95 civil servants	descriptive analysis	internal controls, ethical education and training, communication and deliberation, ethical leadership, culture and ethical climate, consolidation through rewards
6	The Ethics of Professional Skepticism: A Study in Indonesia's Supreme Audit Institution	Mapuasari, 2017	the influence of ethics on the government's external auditor	a positive relationship between moral reasoning and the professional skepticism of the auditor	public auditors from Indonesia	descriptive analysis	professional scepticism, judgment and questioning mind, education
7	The Effect of Auditor Ethics, Auditor Experience, Audit Fees, and Auditor's Motivation on Audit Quality (A case study of a Public Accounting Firm in Semarang)	Mulyani, 2019	identifying the effect of the auditor's ethics, the auditor's experience, audit fees, and the auditor's motivation for audit quality.	auditor ethics, auditor experience, audit fees and auditor motivation they simultaneously had a significant effect on the quality of the audit; the auditor's ethics, the auditor's experience, the auditor's motivation for the quality of each partial audit significant effect on audit quality.	auditors of the Public Accounting Office from Semarang	descriptive analysis	auditor experience, auditor independence, auditor motivation, audit fees
8	Accountant's perception of the factors influencing auditors' ethical behaviour in Nigeria	Adekoya, Oboh, & Oyewumi, 2020.	Accountants' perception of influencing factors ethical conduct of auditors in Nigeria	personal factors play a crucial role in determining how an auditor behaves in the examination and expressing an opinion on them.	Public accountants	nonparametric tests	gender, religion, specialization, professional experience, professional status,

9	A Literature Review on the Auditor's Independence Between Threats and Safeguards	Crucean, 2020	identify the essential information and concepts for the auditor, independence and practical implications	absence threats to the independence of the auditor lead to a lack of impairment of the quality of the audit	Eight representative papers	descriptive analysis	independence, professional knowledge, aptitude, required ethical behaviour
10	The Effect of Experience, Independence, and Gender on Auditor Professional Scepticism with Professional Ethics as Moderating	Ratna, & Anisykurlilla, 2020	analysis of factors that affect the professional scepticism of auditor	In order for auditors to remain sceptical, every audit practice requires experience, independence, and high awareness	83 auditors working for the public accounting firm in Central Java and Yogyakarta	descriptive analysis and multiple regression	professional scepticism, experience, independence, professional ethics

11	Role of Public Auditors in Fraud Detection: A Critical Review	Kassem & Turksen, 2021	the role of public auditors in detecting fraud, causes of auditors' failure to detect fraud.	regulators have an essential role to play in protecting the independence of auditors, whether in the private or public sector, audit fees and auditor rotations are still high significant issues that are more likely to affect the independence of auditors; The way audit standards are presented also needs to change to reflect the importance of leadership assessment and effective response to the risk of fraud	UK public auditors	descriptive analysis	independence of auditors, motivation of auditors
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*Source: own projection*

Analyzing the identified factors we have, some factors such as gender, religion, specialization, deviations from the institution's values, care, rules, efficiency, security, internal controls, culture and climate, communication and deliberation were not subjected to analysis.



**Fig. no. 1** Frequency of impact factors

As can be seen from the graphic representation presented above, the ethical factor significantly impacts the preparation of quality public audit reports that will help reduce non-compliance with the use of public funds. Respectively preventing and reducing the risk of fraud is the auditor's independence, thus ensuring the increase of the company's public sector confidence. Ethical factors with a significant impact on the findings and recommendations made following the audit of the financial statements of public entities are also the ethical behaviour of auditors, the professional experience of public auditors and the values and ethical principles to which they relate.

### **Conclusions**

The first conclusion we can draw from this study is the fact that the ISAs of each country, through the developed codes of ethics, contribute to the provision of audit reports to support the management of public entities and national governments in adopting the best measures to lead to maximizing the company's expectations regarding this sector, by managing the financial resources of the state from the perspective of the 3 E (efficiency, effectiveness, economy).

The high level of public auditors performed by external public auditors can only be achieved by respecting fundamental ethical principles and values, the most important of which is the auditor's independence, without respecting this factor (Gildenhuis & Janse van Rensburg, 2017). Objectively the financial statements of public entities in order to identify deviations from legality and regularity, and irregularities, in order to formulate recommendations to increase public confidence in the recommendations made

The limitations of the research consist of the small number of papers included in the study, and there is a risk that some information needs to be taken into account. Future research will expand the number of flaws in the analysis, and even a separate analysis of the ethical characteristics of several Supreme National Audit Institutions, to identify, as far as they exist, the differences between the ethical principles of these Supreme Audit Institutions.



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