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Professional Ethics in internal auditing

-On the light of auditing international standards-

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Dedication

I'm dedicating this thesis to the noblest person I have ever met, who have meant and continue to mean to me, although she is no longer in this world, her memories continue to regulate my life, My grand Mother Tidjani FATOUMA, whose love for me knew no bounds and, who thought me the value of adapting the ethical culture as a mindset,

Your love will always be alive in my heart!

I also dedicate it to every soul that supported me and believed in me, Thank you so much,

I love you all!

I finally dedicate this thesis to every noble person in the world, who never gets tired of matching his attitude to high values, Big up for you!

Acknowledgement

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I am also deeply grateful to the board of examiners who accepted to read my humble work and thanks to them for the vulnerable remarks.

Preface

Internal auditing has a very important role in conducting the entity to success, this function has many factors that are necessary to make a progress in it, and within these factors we have the ethical culture which is the heart of our study. The purpose of this study is to determine the effectiveness and efficiency of the function of internal auditing while adopting an ethical culture as a conductor. Here we report the combination between the Framework of internal audit as a function in the internal environment of the entity with the Auditing international standards that define generally the ethical culture and precisely the code of ethics matching it with the Algerian companies' objective. Technically, it was proven that the Algerian internal auditing filer needs a board to identify the internal auditing standards starting with the code of ethics which it will lead the whole profession to an improvement.

Abbreviations table:

In the following table we will define all the abbreviations that has been used previously in the thesis:

Abbreviation	The whole word
The IIA	The internal institute of auditors
ISAs	International standards of auditing
IFAC	International Federation of accountants
PIOB	Public Interest Oversight Board
IAASB	International Accounting and Auditing Standards Board
ISREs	International Standards on Review Engagement
ISRSs	International Standards Related Services
ISQCs	Standards on Quality Control
CAG	Consultative Advisory Group
FS	Financial Statements

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GENERAL INTRODUCTION

GENERAL INTRODUCTION

Nowadays, different companies are exposed to competitiveness because they seek to ensure excellent customer service. Therefore, by developing their businesses, they validate to make the consumers satisfied. It all comes from a great performance and credible governance inside the company.

Moreover, every company is known by their different function that works on achieving the company's performance; by having an effective and an efficient internal control system that is measured by internal auditing which is led by the internal auditor who is a considerable employee in the company. Besides, to what really make a deviation in the quality of internal auditing: is the behaviour of the auditor that is measured by the degree of its professional ethics mindset and attitudes.

Problematic

- ❖ At what point the professional ethics can impact the quality of internal auditing in the company?

In order to answer this question we will focus to give an approach to our study by providing answers to the following questions:

- ❖ What is the conceptual framework of internal auditing function?
- ❖ How can the professional ethics impact the quality of internal auditing?
- ❖ Are the professional ethics practiced on the Algerian societies? If yes, at what level?
- ❖ Are the Algerian internal auditors aware about the value of the ethics code of internal auditing? If yes, at what level are they?

Hypotheses

To get into this problematic, we will focus on inspecting the following Hypotheses:

- ❖ The professional ethics empower the quality of internal auditing.
- ❖ The Algerian internal auditors need to be conscious of the ethics code and its value in order to accomplish their mission.

Importance

The principal objective of this research study is to clear up that an organization will surely have a successful internal auditing process; while according it with the ethics code, so it will provide a value to the whole company. However, a great internal audit function can be profoundly important to the survivor and prosperity of any organization, thus mastering the ethics code of internal auditing is a basic principle so the firm ensures a great operational performance.

Purpose

The main principle of our study research is to find solutions in order to fill up the gap between the internal auditing as a function inside the organization: the internal auditors, and the code of ethics, then see how the auditor can work on forming its professional ethical mindset and behavior.

Particularly, our study will get an approach to these goals:

- ❖ Make a progress of the internal auditing quality by applying the code of ethics.
- ❖ Sensitize the leaders of this domain to take advantage from the code of ethics to favor the performance of internal auditing process by developing the ethics culture.

Methodology

Our research study's methodology is based on two parts:

1. Theory corner

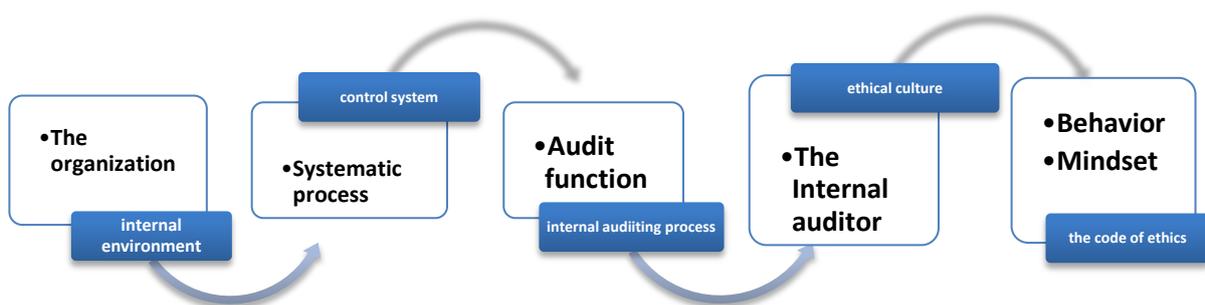
In this part we will give a descriptive approach to our subject through explaining the coordination between the concept of control system in the company and the internal auditing as a function and the ethics code as a factor in this function.

2. Practical corner

In this part we will give an analytic approach through interviewing Algerian Internal auditors about the quality conscious of the ethics code relating it with their mindset and behavior.

Theoretical framework

We will focus on the hierarchy of the organization as reference to our subject as it is explained in the following figure:



Otherwise, we will use the global certified guidance of our subject as it is explained in the following figure:



The Institute of Internal Auditors

Structure

In order to answer our problematic, we have structured our work into three Chapter

The first Chapter is entitled as “the Conceptual Framework of Internal Auditing”, and it involves three sections:

- ❖ Section1: overview about internal auditing
- ❖ Section2: The types of internal auditing
- ❖ Section3: The purpose of internal auditing

The second Chapter is entitled “Code of Ethics of Internal Auditing”, it involves three sections:

- ❖ Section1: Overview about ethics
- ❖ Section2: Internal auditing code of ethics principles
- ❖ Section3: Internal auditing code of ethics and regulations

The third Chapter represents the practical, it involves two sections:

- ❖ Section1: Presentation of the empirical part
- ❖ Section2: Analysis and results

Limits

- ❖ Unavailability of Algerian documentation in the code of ethics of internal auditing
- ❖ The lack of the consideration of the ethical culture as a solid factor in the field.

CHAPTER ONE
THE CONCEPTUAL
FRAMWORK OF
INTERNAL
AUDITING

CHAPTER ONE: THE CONCEPTUAL FRAMWORK OF INTERNAL AUDITING

Preface

Internal auditing is a very important independent function that leads the society to an effective and efficient, through adding a value to the whole control system.

In this first chapter we will enhance the basic of the conceptual framework of internal auditing, first of all through introducing an overview about this filer, than explaining the types of internal auditing, and finally ending it with the general purpose of internal auditing in leading and controlling.

CHAPTER ONE: THE CONCEPTUAL FRAMWORK OF INTERNAL AUDITING

Section 01 Overview about internal auditing

Internal audit corresponds on a set of systematic disciplines that are based of rules of conduct; we have chosen to exhibit the perspective of internal auditing.

1. Internal auditing perspectives

1.1. Internal auditing seen as art

As Ed Catmull said:

“Craft is what we are expected to know; art is the unexpected use of our craft”¹

The art of internal audit is taking those skills (taking the craft of internal audit) and developing the unexpected.

1.2. Internal auditing seen as history

Internal audit is a craft that was born globally in the USA on the 30's. In order to certify the profession, and runs it with global regulation; the institute of internal auditors was created on 1941.

2. The global definition of IA

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes².

3. The performers of the internal audit

Typically the internal auditors in the company perform the process of internal audit as certified employees with their fixed salaries.

3.1. Who is the internal audit operation reported to?

Generally the IA operation is reported to board of directors and members of management

3.1.1. What does the IA cover?

Internal audit -internal control system- covers

- ❖ Governance.
- ❖ Risk management.
- ❖ Process improvement.

¹ Ed Catmull ; Creativity ;Overcoming the unseen forces that stand in the way of true inspiration.

² <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx>; 27/08/2020; 11:43.

3.1.2. When the IA results are reported?

Technically the IA results are ready to use at the last part of any IA process During the operational period.

4. The IA procedure (process)

Basically an IA should have four general phases of activities: Planning, fieldwork, Reporting, and Follow-up.

4.1.The following provides a brief synopsis of each phase of the IA process

Planning: during this phase the internal auditor defines the scope and Objectives; through working on setting the budget and a timeline than identifying the process owners to involve, finishing if with scheduling a kick-off meeting to start the field³.

Fieldwork: fieldwork is the actual act of internal auditing, throughout this Step the internal auditor/ the intern audit team will execute the audit plan. It usually includes interviews, reviewing relevant documents, testing the Controls, documenting the work performed, and identifying expectations and recommendations.

Reporting: as we can guess the IA drafts the Audit report during the Report phase; the report should be written clearly

Follow-up: throughout this final stage the internal auditor/the intern audit Team focus on ensuring whether the recommendations have been implemented. It the entity fails to follow-up on the implementation of Recommendations, it is unlikely that the changes will be made.

4.2 The procedure direction: the direction of the above procedure is defined in the following figure:

Figure (I-01) : Internal Auditing process

³ <https://linfordco.com/blog/what-is-internal-audit/>;28/08/2020;9:00.

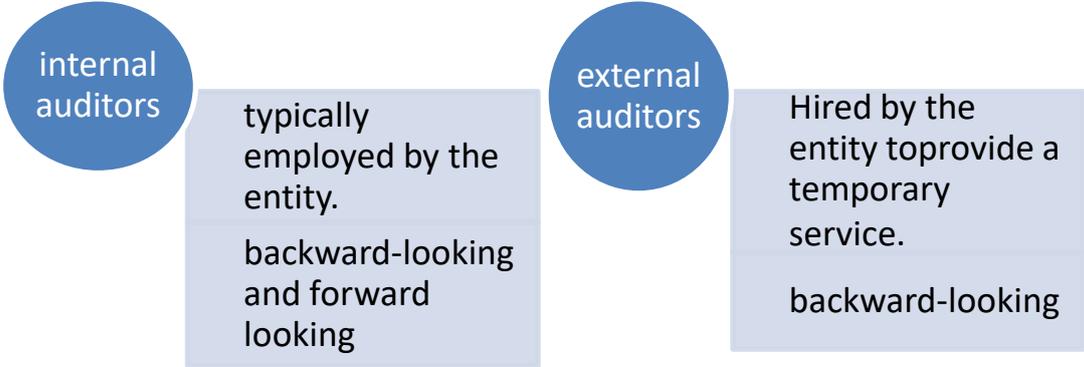


Source : done by the student, nternal Auditing process

5. Who is an internal auditor?

Internal auditors are explorers, analysts, problem-solvers, reporters, and trusted advisors. They bring objectivity and a variety of skills and expertise to the organization. They come from diverse areas such as finance, operations, IT, and engineering. Today’s internal audit professionals are revered for their critical thinking and communication skills, as well as their general IT and industry-specific business knowledge. Still, people often confuse internal auditors with accountants or external auditors (entities the organization engages to provide an annual review of the financial statements). The differences are significant:

Figure (I-02): the difference between internal and external audit



Source: done by the student, the difference between internal and external audit

5.1. What are common pitfalls that can derail an internal auditor?⁴

Recognizing gaps and identifying fraud can extremely be useful to help streamline process. However we will mention some of the red flags that can easily derail the process:

- ❖ Scope creep
- ❖ Not talking to all clients/stakeholders
- ❖ Not reviewing the data
- ❖ Objectivity and independence

5.2. What are the professional standards in internal audit?

The institute of internal auditors (USA) has set internationally recognized framework for internal auditing. It is called The International Professional Practices framework –IPPF-. The IPPF provides “mandatory” and “strongly recommended” guidance. These are standards that are applied globally by internal auditors.

Section 02 The types of internal auditing

Internal audits are conducted for different reasons and with varying objectives; in this part of our study we will expose the most common types of IA in the following figure:

Figure (I-03): Internal auditing types



Source: done by the student, Internal auditing types.

⁴ The previous reference; 28/08/2020 ; 9 :00.

CHAPTER ONE: THE CONCEPTUAL FRAMWORK OF INTERNAL AUDITING

Compliance audit

A compliance audit is basically the type of audit that evaluates the degree of compliance with Applicable regulations, laws, and procedures; it is mainly focusing on reviewing whether the Entity is complying with the related internal Rules.

A compliance audit is normally conducted by the internal auditor and sometimes when the Internal audit department lacks of sources the service can be provided by an external firm of Auditing or simply a compliance officer can do the work.

Performance audit

Also called management audit; it is internal consulting phase that evaluates whether the Organization is meeting the metrics set by management in order to achieve the goals set forth by the board of directors.

Operational audit

It serves to conduct the organization's control mechanism for their overall efficiency and Reliability.

Environmental audit (social....)

This type of audit it assess the impact of a company's operations on the environment. It may also asses the company's compliance with environmental regulations.

Information technology audit (data)

It's typically evaluates information systems and the underlying infrastructures to ensure the accuracy of their processing. Also it includes the assessment of general IT controls related logical access, change management, system operations, and backup and recovery.

Section 03 The purpose of internal audit

Internal auditing is an important function in any entity.

1. Why do organization have internal audit?

According to the institute on internal auditors

“The role of internal audit is to provide independent assurance that an organization’s Risk management, governance, and internal control process are operating effectively”

Here are five reasons why the internal audit is important to an entity:

Provide an objective insight

The Chiefs can’t audit their own work so the entity needs the internal auditor in order To provide an objective view.

Improve efficiency of operations

Through continuously monitoring and reviewing the procedures the entity will be able to identify the factors that control the efficiency and effectiveness of the entity; by reviewing objectively the policies and

Procedures evaluates risks and protect assets

It helps to analyze the environment of the entity and tracking any changes in order to ensure the mitigation of any found risks.

Assesses controls

Internal auditing is beneficial because it improves the control environment of the organization by assessing efficiency and operating effectiveness..

Internal audit ensures compliance

By regularly performing an internal audit you can ensure compliance with all relent regulations and laws

2. What value does internal auditing provide to an entity?

Technically, with commitment to integrity and accountability, internal auditing provides a credible base to governing sides and managers as an independent source of objective advice. Moreover, it is grounded in professionalism and integrity through professional standards and code of ethics.

3. How can internal auditors add value?

Internal auditors are important to a cycle life of any entity whether at a strategic level or as a result of specific audits because they are the employees who provide the control system efficiency and effectiveness through their behaviors and mindsets giving evaluation and recommendations for all the phases of the society as it's explained in the next figure:

Figure (I-04): internal auditor mission cycle



Source: done by the student, internal auditor mission cycle.

Conclusion

To conclude, we knew now that internal audit is a necessary function in any entity; by having an internal audit, a company reduces the risk of errors, and ensures efficient and effective governance. Furthermore, internal auditors are integral component of the organization's governance; they should to continue to improve their internal audit so they ensure their positions in the corporate governance continuum.

CHAPTER TWO
ETHICS
OF
INTERNAL
AUDITING

Preface

Ethics are an essential key to the success of any entity, and internal audit plays a very important role as a needed process; that's why the internal auditors should better behave depending on the code of ethics and suit their mindsets and attitude to it.

In this chapter we elaborate internal auditing from the corner of ethics, first of all we introduce the code of ethics as a guide in the field, secondly we represent the principles that the ethics code of internal auditing is based on, finally we define the relation between the ethics in internal auditing and regulations and laws.

Section 01 Overview about the code of ethics

In this first section we will enhance some generalities about professional ethics through identifying their nature and need.

1. Definition of professional Ethics

Ethics can be defined broadly as a set of moral principles or values, each one of us has such a set of values, although we may or may not have considered them explicitly.

The word “ethics” can derive from the Greek work “ethos” that means character, and “morality”, another name for ethics, comes from the Latin word “mores” that means customs.

Together, they combine to define how individuals choose to interact with one another. In philosophy, ethics defines what is good for the individual and society and establishes the nature of duties that people owe themselves and one another.

1.1 Ethics as theory:

Ethics is that branch of philosophy that deals with morality. An engineer with ethics is a person who is expected to possess the moral integrity with rich ethical values. The ethics are mainly divided into two categories depending upon the morality of humanity.

They are :

❖ Consequential ethics

The Consequential ethics are values the outcome of which determines the morality behind a particular action. A lie which saves a life comes under this.

❖ Non-consequential Ethics

The non-consequential ethics are values followed where the source of morality comes from the standard values.

The moral law which states that a lie is a lie, and shouldn't be done, though it ends in a good deed can be taken as an example of non-consequential ethics.

Let us discuss each theory in detail.

If we enhance the ethics debate from the theoretical corner all we can say about it; it is a system dealing with values relating to human conduct, with respect to the rightness and the wrongness of certain actions and the goodness and the badness of the motives and ends of such actions.

The central point in this definition is that ethics, as a field of study, is an organized analysis of values that is divided into four types as they are introduced in the following figure:

Figure (II-01) the relation between the ethics theories types



Source : Done by the student, the relation between the ethics theories types

❖ Utilitarian ethics

The Utilitarian ethics was proposed by John Stuart. According to this theory, the happiness or pleasure of a greatest number of people in the society is considered as the greatest good. According to this philosophy, an action is morally right if its consequences lead to happiness of people and wrong if they lead to their unhappiness.

An example of this can be the removal of reservation system in education and government jobs, which can really benefit the talented. But this can have an impact on the rights of the minorities.

Problem of Application

Qualification of the benefits can be difficult.

What are these ethics?

Consider the cost-benefit analysis in auditing. A typical cost-benefit analysis identifies the good and bad consequences of some action or policy in a monetary aspect. It weighs the total good against total bad and then compares the results to similar tallies of the consequences of alternative actions or rules. This supports the idea of maximizing benefits against cost.

There are two main types of Utilitarianism. They are:

❖ Act Utilitarianism

The Act Utilitarianism focuses on each situation and the alternative actions possible in the situation. Act Utilitarianism states that “A particular action is right if it is likely to

produce the higher level of good for the most people in a given situation, compared to alternative choices that might be made.”¹

In accordance with this theory, the good done is only considered but not the way how it is done. For example, looting the richer to feed the poor, can satisfy and make a group of poor people, happy. But looting is not a way of morality. Hence act-utilitarianism seems to justify the wrong-doing.

Rule Utilitarianism

The Rule Utilitarianism states that “Right actions are those required by rules that produce the higher level of good for the most people.” We need to consider a set of rules, where they interact with each other. This was developed to clear the problem that occurs with act-utilitarianism.

Engineers with ethics should follow the rule-utilitarianism considering the point, “Act as faithful agents or trustees of employers”. So, engineers should abide by it even when an exception might happen to be beneficial. Like in the above example, one should seek the help of law and order to prove the guilt of richer and let see that the poor get benefitted.

❖ Golden mean ethics:

The Golden Mean ethical theory was proposed by Aristotle. According to this theory, the solution to a problem is found by analyzing the reason and the logic.

A “Mean value of solution” which will be between the extremes of excess and deficiency.

For example, the solution to the problem of environment pollution is neither by avoiding industrialization and civilization, nor by neglecting the environment completely. A mean solution that will work towards controlling the pollution and protecting the environment will also help.

Problem in Application

The application of this theory varies from one person to another with their powers of reasoning and the difficulty in applying the theory to ethical problems.

What is Golden Mean?

The Golden Mean virtue can be understood as the virtue of reaching a proper balance between extremes in conduct, emotion, desire and attitude. This theory phrased by Aristotle states that virtues are tendencies to find the golden mean between the extremes of too much (excess) and too little (deficiency) with regard to particular aspects of our lives.

The most important virtue is practical wisdom, i.e., morally good judgment, which enables one to discern the mean for all the other virtues. There are internal goods such as

¹ https://www.tutorialspoint.com/engineering_ethics/engineering_ethical_theories.htm; 01/09/2020; 18:20

products, activities and experiences should never clash with the external goods such as money, power self-esteem and prestige. The standards of excellence enable internal goods to be achieved. The external goods when extremely concerned, though by individuals or by organizations, threaten the internal goods.

❖ **Rights based ethics:**

The Rights based ethical theory was proposed by John Locke. According to this theory, the solution to a problem is by realizing that every person has a right to live. Live and let live is the philosophy behind this theory. The rights of a person towards life, health, liberty, possession, etc. are taken care of under this theory.

For example, any action in terms of Capital punishment, Jails, Income taxes and Medical charges etc. come under this category.

Problem in Application

One rights of a person may be in conflict with rights of the other.

What does it mean?

Rights-based ethics is the recognition of human dignity at its most basic form. The ethics refer to the basic human rights whether they are positive or negative. Everyone has a right to live, liberty and the pursuit of happiness. Beauchamp and Childress, authors and ethical theorists, have defined the term "right" to be a "justified claim that individuals and groups can make upon other individuals or upon society; to have a right is to be in a position to determine by one's choices, what others should do or need not do."

The natural law states that human laws are defined by morality and not by some authority. This law is derived from the belief that human morality comes from nature. Any action done by a person that would prevent a fellow being from living a good and happy life, is considered immoral or unnatural. Any law should have some morals. Moral duty is the obligation to act based on ethical beliefs.

❖ **Duty based ethics:**

The duty-based ethical theory was proposed by Immanuel Kant. According to this theory, every person has a duty to follow which is accepted universally, with no exceptions.

An example of this can be expecting all to be honest, kind, generous and peaceful.

Problem in Application

The universal application of this theory can be misleading.

1.2 What are these ethics?

Kant observed that everyone is bound to follow some moral laws. It is the choice we make to be morally sound though we have chances to do anything. This theory can also be called as Deontological theory or the Absolutist theory. According to this, it is our duty to

obey the categorical imperative rules. To have good will, is to perform one's duty for the sake of duty and for no other reason.

The categorical imperative law states that "Act only according to that maxim by which you can at the same time will that it should become a universal law."

There are four virtues that come under this law, which have to be discussed here.

❖ **Prudence**

The quality of prudence states that every individual has a life that should be respected and every individual has duties which should be done without any exception. One should always be cautious to perform one's duties.

❖ **Temperance**

Temperance is the voluntary self-restrain from the attractions. The temptations that might lead to the violation of duties and ethics have to be restrained. No false promises are to be made as they contradict the principles of duties.

❖ **Fortitude**

Fortitude is the sense of having tolerance. No perfection can be maintained if happiness alone is sought and no happiness is achieved if perfection alone is sought. Both may or may not go with each other.

❖ **Justice**

Every individual is a human being with a set of intrinsic values and morals. Truth and fairness are the aspects one should always bear in mind. People should be treated as separate individuals but never as a mere means of existence.

A free will and a will under moral laws are one and the same. We are free only when we act in accordance with our own best natures, while we are slaves whenever we are under the rule of our passions and wills. There should be a universally valid will, under which everyone can be free.

2. Nature of ethics:

When it comes to the lead of the entity excellence we can just think about the effectiveness and the efficiency of the staff and all this is related to an applied discipline; the ethical culture that is based on a specific natures that are summarized in the following:

2.1 What ethics is not?

- ❖ Ethics is not simply about matters of a private nature or about personal feelings, attitudes and values.
- ❖ Ethics is not about mysterious occult processes, feelings in the gut, or privileged access to moral truth.
- ❖ Ethics is not exclusively a business for experts, for religious authorities, lawyers, philosophers or gurus.

- ❖ Ethics is not about endless disputes, disagreements and dilemmas, or about grandstanding our opinions.
- ❖ Ethics is not a matter of innate knowledge, special powers of intuition or supernatural revelation.

2.2 What ethics is:

- ❖ Ethics is a community enterprise, based on universal principles and reasoned public debate.
- ❖ Ethics is about real power relations between people and the basis of power-sharing between them.
- ❖ Ethics is about participation in a moral community and ownership of the policies it develops.
- ❖ Ethics is a problem-solving activity based on knowledge of principles and skills in their application.
- ❖ Ethics is an educational process in which we can discover what it means to be responsible moral agents.

3. Need for ethics

Ethics is the branch of philosophy dealing with values relating to human conduct, concerning the rightness and the wrongness of certain actions and the goodness and badness to motives and ends of such activities.

It includes a study of universal values such as the essential equality of all men and women, human or natural rights, obedience to the law of the land, concern for health and safety and increasingly, also for the natural environment.

Ethical behavior is necessary for a society to function in an orderly manner. It can be argued that ethics is the glue that holds a society together.

4. Frame work for general ethics

No universal set of standards or changing codes of ethics can point to the correct choice of behavior in all situations.

Through the following steps we can build an ethical culture:

- ❖ Obtain the facts relevant to the decision
- ❖ Identify the ethical issues from the facts
- ❖ Determine who will be affected by the decision and how
- ❖ Identify the decision maker's alternatives.
- ❖ Identify the consequences of each alternative
- ❖ Make an ethical choice

5. Introduction to IA code of ethics

The code of ethics states the principles and expectations governing the behavior of the individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities.

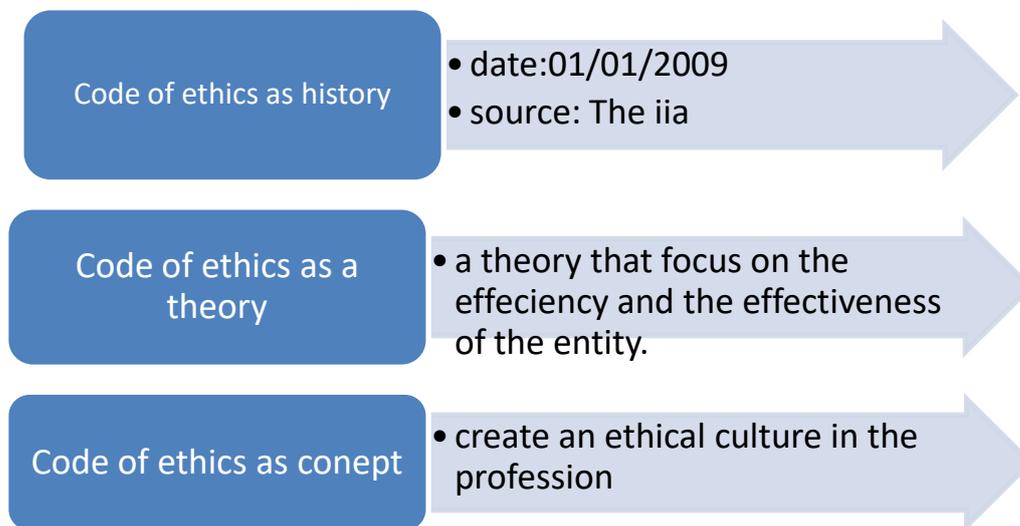
5.1 Internal auditing code of ethics theory :

If we observe the code of ethics frame work and see it as a theory we will understand that it conducts the entity to a credible efficiency and effectiveness

5.2 Internal auditing code of ethics seen as a concept:

Organizations technically work on adopting the code of ethics in order to be a part from the ethical culture from the inside to the outside and vice versa.

Figure (II-02) Code of ethics perspectives



Source: done by the student, Code of ethics perspectives

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management and control; that's the reason technically the institute of internal auditors has globally settled the code of ethics in order to promote an ethical culture in the profession on internal auditing.

The institute's code of ethics extends beyond the definition of internal auditing to include two essentials components:

- Principles those are relevant to the profession and practice of internal auditing.
- Rules of conduct that describe behavior norms expected of internal auditors.

“Internal auditors” refers to institute members, recipients of or candidates for IIA professional certificates, and those who perform internal audit services within the definition of internal auditing.

6. understanding the code of ethics

Business ethics refers to how ethical principles guide a business's operations. Common issues that fall under the umbrella of business ethics include employer-employee relations, discrimination, environmental issues, bribery and [insider trading](#), and social responsibility. While many laws exist to set basic ethical standards within the business community, it is largely dependent upon a business's leadership to develop a code of ethics¹.

Both businesses and trade organizations typically have some sort of code of ethics that their employees or members are supposed to follow. Breaking the code of ethics can result in termination or dismissal from the organization. A code of ethics is important because it clearly lays out the rules for behavior and provides the groundwork for a preemptive warning.

Regardless of size, businesses count on their management staff to set a standard of ethical conduct for other employees to follow. When administrators adhere to the code of ethics, it sends a message that universal compliance is expected of every employee.

7. Code of ethics' objective:

Professional ethics refer to the professionally accepted standards of personal and business behavior, values, and guiding principles.

It encompasses the personal, organizational and corporate standards of behavior of professionals.

Professionals and those working in acknowledged profession, exercise specialist knowledge and skills.

A code of ethics is important in the process of any entity because it clearly lays out the rules for behavior and provides the groundwork for a preemptive warning. When administrations adhere to a code of ethics, it sends a message that universal compliance is expected of every employee.

8. Applicability and enforcement of the code of ethics

The code of ethics applies to both entities and individuals that perform internal audit services.

9. Example of a Code of Ethics

- ❖ Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets².
- ❖ Place the integrity of the investment profession and the interests of clients above their own personal interests.

¹ <https://www.investopedia.com/financial-term-dictionary-4769738> ;05/09/2020; 18:29.

² <https://www.investopedia.com/terms/c/code-of-ethics.asp> ; 05/09/2020; 18:42.

- ❖ Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- ❖ Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- ❖ Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- ❖ Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

Section 02 Code of ethics principles

Internal auditors are expected to apply and uphold principles that are extended from the framework of code of ethics that represent the image of the ethic culture in the entities.

Common principles:

1. Integrity:

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Rules of conduct**

Internal auditors:

- ❖ Shall perform their work with honesty, diligence, and responsibility.
- ❖ Shall observe the law and make disclosures expected by the law and the profession.
- ❖ Shall not knowingly be a part to any illegal activity, or engages in acts that are discreditable to the profession on internal auditing or to the organization.
- ❖ Shall respect and contribute to the legitimate and ethical objective of the organization.

2. Objectivity:

The internal auditor exhibits the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity of the process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Thus, concerning the threats to objectivity we can take Self-interest plus self review, and advocacy as it is with familiarity also the intimidation of the internal auditor in the entity.

- **Rules of conduct:**

Internal auditors:

- ❖ Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interest of the organization.
- ❖ Shall not accept anything that may impair or be presumed to impair their professional judgments.
- ❖ Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality:

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Rules of conduct:**

Internal auditors:

- ❖ Shall be prudent in the use and the protection of information acquired in the course of their duties.
- ❖ Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency:

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

- **Rules of conduct:**

Internal auditors:

- ❖ Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- ❖ Shall perform internal audit services in accordance with the international standards for the PPIA.
- ❖ Shall continually improve their proficiency and the effectiveness and quality of their services.

Section 03 IA code of ethics and regulations

Because of the necessity of the code of ethics in the entity, Rules and regulations has been programmed to be applied globally so the quality of audit improves generally and specifically the function of audit.

These laws are a part from a whole set of international standards that are called “international standards on auditing”.

1. The IFAC:¹

International federation of accountants is the global organization for the accountancy profession, comprising more than 175 member and associate organizations in 130 countries and jurisdictions, representing nearly three million professional accountants.

How IFAC creates value:

In The appendix B it is explained with details how this global federation adds value to the world wide profession and creates it.

2. The IAASB²:

The international Auditing and Assurance Standards Board is an independent standard-setting body that serves the profession interest by setting high quality international standards for auditing, and quality control and by facilitating the convergence of international and national standards, In doing so, The IAASB enhances the quality and uniformity of practice throughout the world and strengthens public confidence in the global auditing and assurance profession.

The IAASB efforts are focused on development, adoption, and implementation of internal standards addressing audit, quality control, review, other assurance, and related services engagements.

The IAASB's medium-term strategy addresses the following three main themes in the public interest:

- Supporting global financial stability
- Enhancing the role, relevance and quality of assurance and related services in an evolving world
- Facilitating adoption and implementation of the standards

The IASB follows a rigorous due process in developing its pronouncements. Input is obtained from a wide range of stakeholders including the IAASB's consultative advisory Group national auditing standard setters, IFAC member bodies and their members, regulatory and oversight bodies, firms, governmental agencies, investors, preparers, and the general public.

The IAASB was founded in March 1978. It was previously known as the IAPC.

The IAPS initial work focused on three areas: object and scope of audits of financial statements, engagement letters, and general auditing guidelines. In 1991, the IAPC's guidelines were recodified as ISASs.

In 2001, a comprehensive review of the IAPC was undertaken, and in 2002 the IAPC was reconstituted as the international Auditing and Assurance Standards Board. In 2003,

¹ <https://www.ifac.org/> ; 27/08/2020 ; 18 :30

² <https://www.iaasb.org/about-iaasb> ; 27/08/2020; 19:00

IFAC approved a series of reforms designed, among other things, to further strengthen its standard setting processes, including those of the IAASB, so that they are responsive to the public interest and globally to the profession of Audit.

In 2004, the IAASB began the clarity project, a comprehensive program to enhance the clarity of its ISAs. This program involved the application of new conventions to all ISAs, either as part of a substantive revision or through a limited redrafting to reflect the new conventions and matters of clarity generally.

The IAASB issues an annual report on its activities and outputs for the year, we can find these reports on their certified website.

2.1. Terms of Reference

2.1.1. Purpose

The mission of the IFAC, as set out in its constitution, is to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession's expertise is most relevant. In pursuing the mission, the IAASB to function as an independent standard setting body under the auspices of IFAC and subject to the oversight of the PIOB.

The IAASB develops and issues, in the public interest and under its own authority, high-quality auditing and assurance standards and other pronouncements for use around the world. The IFAC Board has determined that designation of the IAASB as the responsible body, under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect its mission.

2.1.2. Objective

The IAASB's objective is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

2.1.3. Membership

The members of the IAASB? INCLUDING THE Chair and Deputy Chair, are appointed by the IFAC Board on the recommendation of the nominating committee and with the approval of the PIOB. The appointment as Deputy Chair does not imply that the individual concerned is the Chair-elect.

The IAASB has 18 members comprising practitioners and non practitioners of whom no more than nine shall be practitioners and no less than three shall be public members. A public

member is an individual who satisfied the requirements of a non-practitioner and is also expected to reflect, and is seen to reflect the wider public interest. Not all public members may be members of IFAC member bodies.

The selection process is based on the principles of the best person for the job, the primary criterion being the individual qualities and abilities of the nominee in relation to the position for which they are being nominated. However, the selection process also seeks a balance between the personal and professional qualifications of a nominee and representational needs, including gender balance, of the IAASB. Accordingly, consideration will be given to other factors including geographic representation, sector of the accountancy profession, size of organization, and level of economic development.

IAASB members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the IAASB member he or she advises, and may participate in projects. Technical advisors are expected to possess the technical skills to participate, as appropriate, in IAASB debates and attend IAASB meetings regularly to maintain an understanding of current issues relevant to their role.

The IAASB may also include up to three observers, appointed at the discretion of the IFAC board, in consultation with the PIOB. Observers may attend IAASB meetings, have the privilege of the floor, and may participate in projects. Observers are expected to possess the technical skills to participate fully in IAASB debates and attend IAASB meetings regularly to maintain an understanding of current issues.

The Chair of the IAASB CAG is expected to attend IAASB meetings, or to appoint a representative of a CAG member organization to attend. The Chair of the IAASB CAG, or appointed representative, has the privilege of the floor at IAASB meetings.

IAASB members are required to sign an annual statement declaring they will act in the public interest and with integrity in discharging their roles within IFAC. Nominating organizations of members of the IAASB are asked to sign independence declarations.

2.1.4. The IAASB chair

The IAASB chair is an independently contracted position within IFAC. The Chair is selected by the Nominating Committee and recommended to the IFAC board for its agreement and to the PIOB for subsequent approval. The provisions of the Chair's remuneration, benefits and other conditions are determined in a separate contract between the Chair and IFAC.

The IAASB chair must agree to be bound by independence requirements in order to assume the position. The independence requirements are outlined in the independence requirements of the IAASB chair.

2.1.5. Terms of office

The standards term for IAASB members is three years, with approximately one-third of the membership rotating each year. A member may serve up to two consecutive terms, for an aggregate term of six years.

The chair ordinarily may serve three consecutive terms (as chair or as a member for one to two terms preceding the appointment as chair), for an aggregate of nine years. In exceptional circumstances, to be specified by the Nominating Committee, the chair may serve for one additional consecutive term, for an aggregate term of twelve years.

2.1.6. Pronouncements

In fulfilling the previous objective, the IAASB develops and issues the following international standards:

- ISAs and ISREs to be applied in audit and review engagements on historical financial information.
- ISAEs to be applied in ISAEs other than audits or reviews of historical financial information.
- ISRSs to be applied in related services engagements.
- ISQCs to be applied for all services falling within the Engagements standards of the IAASB.

The IAASB also publishes other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of professional auditors and assurance service providers.

2.1.7. National Auditing standards setters:

Annually, the IAASB hosts a meeting of a group of national auditing setters from around the world that share the common goals of promulgating high-quality standards, and reaching consensus at an early stage in their development. The Statement of Purpose of IAASB and national auditing standards setters liaison was accepted in March 2006 by the participating national auditing standard setters as reflecting the aims of the liaison activities.

Currently, the participating national auditing standard setters are from: Australia, Brazil, Canada, China, France, Germany, Hong Kong, India, Japan, Mexico, New Zealand, South Africa, The Netherlands, United Kingdom and United States of America as well as the Nordic Federation.

The IAASB has issued guidance for national auditing standards setters that adopt its International Standards with limited modifications.

3. the ISAs¹

3.1. introduction the ISAs

International standards on Auditing refer to professional standards dealing with the responsibilities of the independent auditor while conducting the financial audit of financial info. These standards are issued by IFAC through IAASB. The ISAs include requirements and objectives along with application and other explanatory material. The auditor is obligatory to have knowledge about the whole text of an ISA, counting its application and other explanatory material, to be aware of the objectives and to apply the requirements aptly.

3.2. Objective of the ISA

The ISA objectives are two-fold:

- Analyzing the comparability of national accounting as well as auditing standards with international standards, determine the degree with which applicable auditing and accounting standards are complied, and analyze strengths and weaknesses of the institutional framework in sustaining high-quality financial reporting
- Assist the country in developing and implementing a country action plan for improvement of institutional capacity with w view of strengthening the corporate financial reporting system of the country

4. ISA 240: The auditor's responsibilities relating to fraud In an audit of financial statements

ISA 240 generally concerns the phase of external auditor because it talks about the financial statements generally but as a matter of fact in our study we are using the intern audit function and internal auditors as factors, and it's clear that inside the entity there is a correlation between the internal audit and the external audit so we will expose the ISA240 and extract from it the points that are useful in the internal auditing function.

4.1. scope of this ISA

This ISA deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically it expands on how ISA 315¹ and ISA 330² are to be applied in relation to risks of material misstatement due to fraud.

4.2. characteristics of fraud

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

¹ <https://www.ifac.org/system/files/downloads/a012-2010-iaasb-handbook-isa-240.pdf> ; 29/08/2020; 8:00

Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements, two types of intentional misstatements are relevant to the auditor-misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, In rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

4.2.1. Responsibility for the Prevention and Detection of Fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and ethical behavior which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability.

4.2.2. Effective date

This ISA is effective for audits of FS for periods beginning on or after December 15, 2009.

4.2.3. Objectives

The objectives of the auditor are:

- To identify and assess the risks of the misstatements of the FS due to fraud.
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses.
- To respond appropriately to fraud or suspected fraud identified during the audit.

5. International standards for the Professional Practice of internal auditing ¹

Internal auditing is the process carried out in different legal and cultural environments; within the organizations that differ in purpose, size structure and complexity; as well as by individuals inside or outside the organization. Although differences might affect the practice of internal auditing in every environment, conformance with the IIA's international standards for the professional practice of internal auditing is important in congregating the responsibilities of internal auditors as well as internal audit activity.

¹https://www.readyratios.com/reference/audit/international_standards_for_the_professional_practice_of_internal_auditing.html ; 28/08/2020; 17:00

If in case, internal audit activity or internal auditor is proscribed by regulation or law from conformance with certain sections of the standards, conformance with all other section of standards and apt disclosures are also required.

If these standards are used in combination with standards issued by other regulatory bodies, internal audit communications may also mention the issue of other standards, as suitable. In such a case, If uniformities exist between the standards and other standards, internal auditors and the internal audit activity needs to conform with the standards, and can conform with the other standards on being more restrictive.

5.1. Purpose of standards

The purpose of these standards includes:

- Delineating the basic principles representing the practice of internet auditing.
- Providing a framework for carrying out and promoting a wide range of value added internal auditing.
- Establishing the basis for the evaluation of internal audit performance.
- Promoting improved organizational operations and processes

5.2.Principles of standards

The international standards for the professional practice of internal auditing are princle-based, obligatory requirements containing:

- Statements of basic requirements for the professional practice of internal auditing as well as for assessing the effectiveness of performance, which are applicable internationally at individual and organizational levels.
- Interpretations, which clarify concepts and terms contained in the statements.

5.3. Structure of the standards

The structure of these standards is segregated between attribute and performance standards. Attribute standards include the attributes of individuals and organizations involved in internal auditing. The performance standards, on the other hand, delineate the nature of internal auditing thus providing quality criteria benchmarked with the performance of these services can be measured. Moreover, the Attribute and the performance standards are also issued to apply to all internal audit services.

Conclusion

To sum up, this chapter has discussed three keys areas of code of ethics of internal auditing, and has argued that it is an important consideration for larger companies in 2020.

In understanding the use of the code of ethics and adopting an ethical culture plus the standards pursuit and the rules of conduct the company will automatically own efficient and effective governance.

**CHAPTER
THREE
PRACTICAL
PART**

First section: presentation of the empirical part

In this part we have elaborate structured interview with Algerian internal auditors.

1. Definition of structured interview ¹

Structured interview is a type of quantitative interview that makes use of a standardized sequence of questioning in order to gather relevant information about a research subject. This type of research is mostly used in statistical investigations and follows a premeditated sequence.

In a structured interview, the researcher crates a set of interview, the researcher creates a set of interview questions in advance and these questions are asked in the same order so that responses can easily be placed in similar categories. A structured interview is also known as a patterned interview, planned interview or a standardized interview.

2. Structured interview method

Structured interview divides to three types of methods, as it is introduced in the following:

2.1.Face-to-Face Structured Interview

A face-face structured interview is a type of interview in which the researcher and the interviewee exchange information physically. It is a method of data collection that requires the interviewer to collect information through direct communication with the respondent in line with the research context and already prepared questions.

A face-face structured interview allows the interviewer to collect factual information with regards to the experiences and preferences of the research respondent. It helps the researcher minimize survey dropout rates and improve the quality of data collected, which results in more objective research outcomes.

❖ Advantages of Face-to-face Structured Interview

It allows for more in-depth and detailed data collection.

Body language and facial expressions observed during a face-to-face structured interview can inform data analysis.

Visual materials can be used to support face-to-face structured interviews.

A face-to-face structured interview allows you to gather more accurate information from the research subjects.

¹ <https://www.formpl.us/> ; structured interview: definition; 30/08/2020; 14:37

CHAPTER THREE PRACTICAL PART

❖ Disadvantages of Face-to-face Structured Interview

A face-to-face structured interview is expensive to conduct because it requires a lot of staff and personnel. Different costs incurred during a face-to-face structured interview including logistics and remuneration.

This type of interview is limited to a small data sample size. A face-to-face structured interview is also time-consuming.

It can be affected by bias and subjectivity.

2.2. Tele-Interviews

It is a type of structured interview that is conducted through a video or audio call. In this type of interview, the researcher gathers relevant information by communicating with the respondent via a video call or telephone conversation.

Moreover, a tele-interview is usually conducted in accordance with the standardized interview sequence as is the norm with structured interviews. It makes use of close-ended questions in order to gather the most relevant information from the interviewee, and it is a method of quantitative observation.

❖ Advantages of a Tele-interview

Tele-interviews are more convenient and result in higher survey response rates.

It is not time-consuming as interviews can be completed relatively fast.

It has a large data sample size as it can be used to gather information over a large geographical area.

It is cost-effective.

It helps the interviewee to target specific data samples.

❖ Disadvantages of a Tele-interview

It does not allow for qualitative observation of the research sample.

It can lead to survey response bias.

It is subject to network availability and other technical parameters.

It is difficult for the interviewer to build rapport with an interviewee via this means; especially if they are meeting for the first time.

It may be difficult to read the interviewee's body language, even with a video call. Body language usually serves as a means of gathering additional information about the research subjects.

CHAPTER THREE PRACTICAL PART

3. Surveys/Questionnaires

A structured questionnaire is a common tool used in quantitative observation. It is made up of a set of [standardized questions, usually close-ended](#) arranged in a standardized interview sequence, and administered to a fixed data sample, in order to collect relevant information.

In other words, a questionnaire is a [method of data gathering](#) that involves gathering information from target groups via a set of premeditated questions. We can administer a questionnaire physically or we can create and administer it online using data-gathering platforms like Form plus.

3.1. Advantages of Surveys/Questionnaires

- ❖ It is time-efficient and allows us to gather information from large data samples.
- ❖ Information collected via a questionnaire can easily be processed and placed in data categories.
- ❖ A questionnaire is a flexible and convenient method of data collection.
- ❖ It is also cost-efficient; especially when administered online.
- ❖ Surveys and questionnaires are useful in describing the [numerical characteristics of large sets of data.](#)

3.2. Disadvantages of Surveys/Questionnaires

- ❖ A high rate of [survey response bias](#) due to survey fatigue.
- ❖ High survey drop-out rate.
- ❖ [Surveys and questionnaires](#) are susceptible to researcher error; especially when the researcher makes wrong assumptions about the data sample.
- ❖ Surveys and questionnaires are rigid in nature.
- ❖ In some cases, survey respondents are not entirely honest with their responses and this affects the accuracy of research outcomes.

3.3. The Tools used in Structured Interview

❖ Audio Recorders

An audio recorder is a data-gathering tool that is used to collect information during an interview by recording the conversation between the interviewer and the interviewee. This data collection tool is typically used during face-to-face interviews in order to accurately capture questions and responses.

The recorded information is then extracted and transcribed for data categorization and data analysis. There are different types of audio recording equipment including analog and digital audio recorders. However, digital audio recorders are the best tools for capturing interactions in structured interviews.

CHAPTER THREE PRACTICAL PART

❖ Digital Camera

A digital camera is another common tool used for structured tele-interviews. It is a type of camera that captures interactions in digital memory, which are pictures.

In many cases, digital cameras are combined with other tools in a structured interview in order to accurately gather information about the research sample. It is an effective method of gathering visual information.

❖ Camcorder

Just as its name implies, a camcorder is the hybridization of a camera and a recorder. It is a portable dual-purpose tool used in structured interviews to collect static and live-motion visual data for later playback and analysis.

❖ Telephone

A telephone is a communication device that is used to facilitate interaction between the researcher and interviewee; especially when both parties are in different geographical spaces.

4. The question type that is used in our interview guide

In our study we have chosen to use the open-ended questions, it is a type of question that does not limit the respondent to a set of answers. In other words, open-ended questions are free-form questions that give the interviewee the freedom to express his or her knowledge, experiences and thoughts.

[Open-ended questions](#) are typically used for qualitative observation where attention is paid to an in-depth description of the research subjects. These types of questions are designed to elicit full and detailed responses from the research subjects, unlike [close-ended questions](#) that require brief responses.

4.1. Advantages of Open-Ended Questions

- ❖ Open-ended questions are useful for qualitative observation.
- ❖ Open-ended questions help you gain unexpected insights and in-depth information.
- ❖ It exposes the researcher to an infinite range of responses.
- ❖ It helps the researcher arrive at more objective research outcomes.

4.2. Disadvantages of Open-ended Questions

- ❖ Data collection using open-ended questions is time-consuming.
- ❖ It cannot be used for quantitative research.
- ❖ There is a great possibility of capturing large volumes of irrelevant data.

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4.3. Using Open-ended Questions for Interviews

In interviews, open-ended questions are used to gain insight into the thoughts and experiences of the respondents. To do this, the interviewer generates a set of open-ended questions that can be asked in any sequence, and other open-ended questions may arise in follow up inquiries.

❖ **How to conduct a structured interview**

Conducting a structured interview also requires a methodical approach to ensure consistency.

Take the following steps¹ when conducting a structured interview

- ❖ **Greet your applicant verbally and with a handshake:** A warm greeting helps put your candidate at ease and builds a rapport, making them more likely to offer genuine responses.
- ❖ **Ask each question on your list in order as written:** Asking each question as it is written makes sure each interview is standardized.
- ❖ **Give your applicant time to answer:** Giving your candidate time to answer each question ensures they can get the maximum points they are capable of. Continue to the next question once you are sure your applicant has finished speaking.
- ❖ **Score each answer immediately:** Scoring each answer before moving on to the next question gives the most accurate result, as it allows you to grade based on your immediate reaction rather than trying to recall their response later.
- ❖ **Close the interview:** Once your candidate has responded to your questions, say goodbye and offer another handshake. You may also tell the candidate when they should expect to hear from you regarding the next steps.

4.3.1. The choice of the respondents

Technically, the choice of the respondents is not random, it is based on

- The respondent needs to have an academic and a professional experience
- The respondent needs to be an Internal auditor
- The respondent needs to agree to answer honestly and authentically
- The respondent needs to accept to share with us the details that we are focusing on from its experience.

4.3.2. The structured interview constructions

The constructions of the structured interview are

¹ <https://www.indeed.com/career-advice/interviewing/structured-interviews>; 31/08/2020 ; 11:15

CHAPTER THREE PRACTICAL PART

Date: it is important to inform the respondents with the selecting date of the interview so they will get ready and identify it on its schedule.

Time: In time construction we have two phases; the period that the interview will last and the time of enhancing it, the questioner have to inform the respondents in advance so they will get ready.

Place: generally the place of the interview is at the companies, or online, the questioner has to inform the respondents with the place and see if they agree.

Second Section: Analysis and results

1. Analysis/Questions guide

The main questions that have been asked in our interviews with the respondents are introduced on the following points:

Psychological and social part

QA: What Thoughts cross your mind when you think of professional ethics?

QB: Can you tell me if you have assist to a training that concerns the ethical culture during your career?

QC: From where you extend your ethical culture?

Professional part

QD: What has your biggest professional challenge been in the theme of ethics?

QE: What's the source of the code of ethics you apply?

QF: In your opinion what's the technical relation between the professional ethics and the function of internal audit?

QG: What steps would you make to create a change in the quality of internal auditing ethics in the Algerian audit profession?

1.1.An approach to the respondents answers

In this part we will analyze the respondents' answers one by one and give an approach to the important points that will serve us in our study.

Psychological and social part

In this first phase we have enhanced the psychological part of our respondents which means their mindsets about the subject, plus the social phase that introduces the educational and the career adventure.

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- ❖ The answers to the first question were typically classical ones, all the respondents think unconditionally of the main point that introduce that the professional ethics are related to hard efforts in the field, honesty and integrity; which is very relievable to us as a questioners and especially very securable to the track of the Algerian internal auditing
- ❖ The answers to the second question were generally that the respondents during their university studies had professional ethics classes only one of them had extra training in the subject in a foreign country but it was during his career, which let us think more about adopting the culture of having extra training that let us be always actualized with the news in the profession globally especially nowadays that audit and accountancy has been globally a unified field through the work is done by the IFAC, so the Algerian auditor will be at the same level with the global auditors adapting to the situation of the profession factors in the country.
- ❖ The answers to this question were divided into three sources, the first common answer was obviously we extend the values we have found in our career from Family, than the second common one we extend these values from idols that are famous in this field, and the third common one was very professional and it mentions that since you are an auditor external or internal and you want to succeed the rule is you have got to start building your own ethical culture since day one exercising it.

The professional part

In this phase we have elaborated a behavioral concept with our respondents, in order to see how it is going with local auditors.

- ❖ Obviously as in every domain in the professional life in the field of internal auditing especially when it's about the professional ethics the environment is challenging, the answers to this question was my favorite as a future auditor. right the answers was extremely different including challenging experiences but the reactions to these challenges include the same values; patience, integrity, objectivity, intelligence, respect, and professionalism.
- ❖ The answers to this question was common and very technical; all our respondents as internal auditors apply specifically the code of ethics that is approved by the head of the entity they work for, and generally the national standards of auditing that are extended from the global ones.
- ❖ The answers to the last question in our interviews have been very constructive with a strong consistency and a professional visions, that has the same basic concept that was mainly introduced in the following points:
- ❖ The very first point contains the process of building an ethical culture that is conducted by an integral mindset, plus objective actions that create equality between the personal profession interest and the public interest.
- ❖ The second point that all the respondents agreed on it is that taking this career as a challenging process that need an everyday actualization and being in harmony with the global world, all of this will definitely lead the local profession to success through improving its quality.

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2. Study Results

In this second part we will represent a model of internal auditing code of ethics that suits the international standards that can be adapted with the local profession factors¹.

2.1. The Code of Ethics' introduction

It states the principles and expectations governing the behavior of the Internal Auditors in the conduct of internal auditing. The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing. Since the profession is founded on the trust placed in its objective assurance about risk management, control and governance, it is necessary and important for the Internal Auditors to be governed by proper Code of Ethics.

Furthermore, the Code of Ethics has the following components:

- ❖ Principles that is relevant to the profession and practice of internal auditing.
- ❖ Rules of Conduct that describes behavioral norms expected of internal auditors. Moreover, these rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

2.2. Applicability and Scope

This Code of Ethics shall apply to all Internal Auditors appointed by the Royal Civil Service Commission under the Royal Government of Bhutan.

Internal Auditors shall uphold the principles of this Code in addition to general Civil Service Code of Conduct. Any breaches of the Code will be evaluated and administered according to the disciplinary procedure and the fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, shall be liable for disciplinary action.

3. Code of Ethics guide

3.1. Integrity Principle

Integrity is the quality of being honest and having strong moral principles. Integrity in internal auditors can generate trust and confidence among stakeholders and thus provide basis for reliance on their judgment.

3.1.1. Rules of Conduct Internal auditors

- ❖ Shall perform their work with honesty, sincerity and dedication irrespective of the time and circumstances;
- ❖ Shall not be a party to any illegal activity or improper activity, or engage in acts that are discreditable to the profession of internal auditing;
- ❖ Shall refrain from soliciting, receiving or offering any form of gratifications which could impair their professional judgments;

¹ <https://www.mof.gov.bt/wp-content/uploads/2014/07/CODEOFETHICS01012015.pdf>; 01/09/2020; 22:09.

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- ❖ Shall not abuse or misuse authority bestowed upon by the Internal Audit Charter for any purpose.

3.2.Objectivity Principle

Objectivity is the quality of being true. Internal auditors are to exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

3.2.1.Rules of Conduct Internal auditors

- ❖ Shall conduct their duties efficiently and effectively without fear or favor;
- ❖ Shall not participate in any activity or relationship that may impair their unbiased assessment;
- ❖ Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review or conceal unlawful practices;
- ❖ Shall deal with facts and not allow personal feelings or prejudices to affect their evaluation.

3.3.Confidentiality Principle

Confidentiality means keeping a client's information between you and the client, and not telling others including co-workers, friends, family, etc.

Therefore, the internal auditors must respect the value and ownership of information they receive and not disclose to any parties without appropriate authority unless there is a legal or professional obligation to do.

3.3.1.Rules of Conduct Internal auditors

- ❖ Shall be prudent in the use and protection of information acquired in the course of their duties.
- ❖ Shall not disclose information acquired in the process of auditing to any parties for any personal gains;¹
- ❖ Shall not use information in the matter that is contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

3.4. Competency Principle

Competency is the ability to do something successfully or efficiently. Internal auditors must apply the knowledge, skills and experience needed in the performance of internal auditing services.

3.4.1.Rules of Conduct Internal auditors

- ❖ Shall engage only in those services for which they have the necessary knowledge, skills and experience.

¹ The previous reference.

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- ❖ Shall endeavor to comply with the International Standards for the Professional Practice of Internal Auditing.
- ❖ Shall continually strive to improve their proficiency and the effectiveness and quality of their services.

3.5. Conflict of Interest

Conflict of Interest is a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity. Internal auditors must declare ‘conflict of interest’ and accordingly refrain from auditing an activity or process when they see themselves in a position to potentially undermine impartiality in an objective assessment of an activity or process.

3.5.1. Rules of Conduct the internal auditors

- ❖ Shall declare ‘conflict of interest’ in the manner prescribed before auditing an activity or process.
- ❖ Shall not be obliged by borrowing cash or kind from a person who might be directly or indirectly linked with the activity or process under review.
- ❖ Shall not make use of their official status for private gains
- ❖ Shall avoid any kind of relations that will pose corruption risk or cast doubts upon their objectivity.

4. Enforcement and Compliance procedure

The Central Coordinating Agency for Internal Audit Service under the Ministry of Finance shall be responsible for the enforcement of this Code.

The CCA shall review complaints and coordinate with the Human Resource Division of the Ministry of Finance and other related agencies with respect to administering disciplinary provision contained therein. Any Internal Auditors who violates the Code of Ethics may be subjected to the discipline policy as described in “Appendix A1”.

5. Duty to Report

If an Internal Auditor encounters a situation where another auditor has violated the Internal Audit Code of Ethics or engaged in unethical audit practices, this must be reported to CCA immediately.

Reference Note:

(This Code of Ethics is prepared by adapting the model Code of Ethics of the Institute of Internal Auditors and it’s approved solely for compliance by the Internal Auditors of the Royal Government of Bhutan. The Ministry of Finance, Royal Government of Bhutan acknowledges the reference provided by the IIA)¹. The original document we have used is in Appendix A.

¹ The previous reference.

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Conclusion

To sum up, the empirical part of our study research has discussed our subject locally, and it gave it a professional reel approach through interviewing respondents in the domain, and by all counts, with proven results it is no wonder that the Algerian internal auditing is on a nascent track thus the ethical culture exists but it still at the normal stage hoping it will be taken in consideration in the educational program by the responsible head-bodies.

General Conclusion

General Conclusion

On the whole, with our empirical part results we can assume that every entity highly needs to work on building an internal auditing ethical culture; in addition the internal auditors should better adopt this culture so they can lead the society to an effectiveness and efficiency.

By All counts, to answer to our study research problematic, and approve the hypotheses we have worked on:

First of all, identifying the frame work of internal auditing an entity; through giving an overview about auditing plus mentioning its purpose; so we can answer to the first hypothech.

Additionally, presenting the professional ethics as subject than relating them to the function of auditing, and how they can highly impact the result of internal auditing and conduct them depending their levels, that is leaded by the international regulations.

And then, having structured interviews with Algerian auditors to take a look on how the Algerian auditor is taking this subject and analyzing their behaviors and mindsets.

As shown above, the necessity of professional ethics in the internal auditing function in any entity is with a very high degree, so the Algerian entities should better learn about the global code of ethics and form their internal auditors so they will be more aware of this culture that became a basic in the career of any internal auditor precisely and any auditor generally, Plus studying the relation between auditing of internal auditing and auditing of ethics, it may fills up too many assimilation points.

To sum up, the objective of this study research is to prove that The Algerian internal auditing profession needs a conductor; it may be a federation, institute or a board that will enhance all the gaps of the local profession adopting the global standards so the Algerian internal auditing will talk the same global profession language.

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