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# Chapter 2: Ethical Principles in Government Auditing

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## Introduction

**2.01** Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with generally accepted government auditing standards (GAGAS) to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.

**2.02** The ethical principles presented in this chapter provide the foundation, discipline, and structure as well as the climate which influence the application of GAGAS. Because the information presented in this chapter deals with fundamental principles rather than specific requirements, this chapter does not contain additional requirements.

**2.03** Conducting audit work in accordance with ethical principles is a matter of personal and organizational responsibility. Ethical principles apply in preserving auditor independence, **17** taking on only work that the auditor is competent to perform, performing high-quality work, and following the applicable standards cited in the audit report. Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the auditors' report, including the

public.

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## Ethical Principles

**2.04** The ethical principles contained in the following sections provide the overall framework for application of GAGAS, including general standards, field work standards, and reporting standards. Each principle is described, rather than set forth as a series of requirements, so that auditors can consider the facts and circumstances of each situation within the framework of these ethical principles. Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct audits in accordance with GAGAS. <sup>18</sup>

**2.05** The ethical principles that guide the work of auditors who conduct audits in accordance with GAGAS are

- a. the public interest;
- b. integrity;
- c. objectivity;
- d. proper use of government information, resources, and position; and
- e. professional behavior.

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### The Public Interest

**2.06** The public interest is defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.

**2.07** A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.

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## Integrity

**2.08** Public confidence in government is maintained and strengthened by auditors' performing their professional responsibilities with integrity. Integrity includes auditors' conducting their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.

**2.09** Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressures to violate ethical principles to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.

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## Objectivity

**2.10** The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. **19**

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## Proper Use of Government Information, Resources, and Position

**2.11** Government information, resources, or positions are to be used for official purposes and not inappropriately for the auditor's personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.

**2.12** In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

**2.13** As accountability professionals, accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public's expectations for auditors.

**2.14** Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the auditor serves as an officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment. (See paragraphs 3.07 through 3.09 for further discussion of personal impairments to independence.)

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## **Professional Behavior**

**2.15** High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally

deficient. Professional behavior includes auditors' putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.

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17. Independence requirements are discussed in chapter 3.

18. Individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors in government entities may also be subject to government ethics laws and regulations.

19. The concepts of objectivity and independence are very closely related. Problems with independence or conflicts of interest may impair objectivity. (See independence standards at paragraphs 3.02 through 3.30.)

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