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A Suggested Framework to develop the role of Auditors in activating the OECD/G20 Principles of Corporate Governance

إطار مقترح لتطوير دور محافظي الحسابات في تفعيل مبادئ G20/OECDلحوكمة الشركات

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Abstract: Changes and developments in the economic environment fundamentally affect the quality of services provided by auditors, as the development of companies led to a widening of the circle of stakeholders in it, and it has become necessary to provide accurate, honest and transparent information to these groups, in pursuit of this, the OECD has issued new principles of corporate governance called The OECD/G20 Corporate Governance Principles. Consequently, it was necessary to develop the auditing profession to acclimatize with these changes.

keyword:Auditors,Corporate Governance, the G20/OECD Corporate Governance Principles, the international auditing standards.

JEL classification code : M42, G34.

ملخص: تؤثر التغيرات والتطورات في البيئة الاقتصادية بشكل جوهري على نوعية الخدمات التي يقدمها محافظو الحسابات، إذ أدى تطور الشركات إلى اتساع دائرة أصحاب المصالح فيها، فازداد الاهتمام بمجموعات أصحاب المصالح وأصبح من الضروري توفير معلوماتصادقة وشفافة ، سعيا لتحقيق ذلك قامت منظمة التعاون الاقتصادي والتنمية بإصدار مبادئ جديدة للحوكمة أطلق عليها مبادئOECD/G20لحوكمة الشركات، ونظرا لأن مهنة التدقيق تتأثر بالظروف المحيطة بهاتطلب الأمر ضرورة تطوير تلك المهنة لتواكب هذه التغيرات.

الكلمات المفتاحية: محافظي الحسابات،حوكمة الشركات، مبادئ OECD/G20لحوكمة الشركات، معايير التدقيق الدولية.

تصنيف JEL : M42, G34

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1. Introduction :

The concept of corporate governance has become the focus and attention of organizations, auditors and accountants during the last years, especially after the collapse of Enron Company, which led to the collapse of the world's largest auditing firm (Arthur Andersen) because of its proven involvement in the financial manipulations at Enron Company, and the spread of stumbling companies phenomenon in all countries, these collapses was not due to the insufficient prevailing international accounting standards or the auditing standards, but the ethics of the profession itself.

According to the audit standards, the auditor is responsible to provide reasonable assurance that the financial lists as a single unit is generally free of any material misstatement and fraud.

The external auditor's commitment with audit profession ethicsandaudit standards, will lead to promote the audit profession, which will contributein activating the G20/OECD Principles of Corporate Governance.

Main question:

Themain question of this researchis:

How to develop the role of Auditors to activate the G20 / OECD Principles of Corporate Governance?

Sub-questions:

Through the main problematic, we ask the following sub-questions:

- What are the responsibilities of auditors?
- What are the G20 / OECD Principles of Corporate Governance?
- What are the requirements for developing the role of auditors to activate the G20 / OECD Principles of Corporate Governance?

Hypothesis:

Based on the previous presentation of the study problem, the following hypothesis can be formulated:

Auditors play an essential role in activating the principles of corporate governance, through their use of academic qualifications and professional experience, and their commitment to the international auditing standards and the professional ethics rules.

Research objectives:

This study aims to:

- Determining the responsibilities of Auditors;

- Introduce and define the G20 / OECD principles of corporate governance;
- Submitting a proposed framework to develop the role of auditors in activating the G20 / OECD principles of corporate governance.

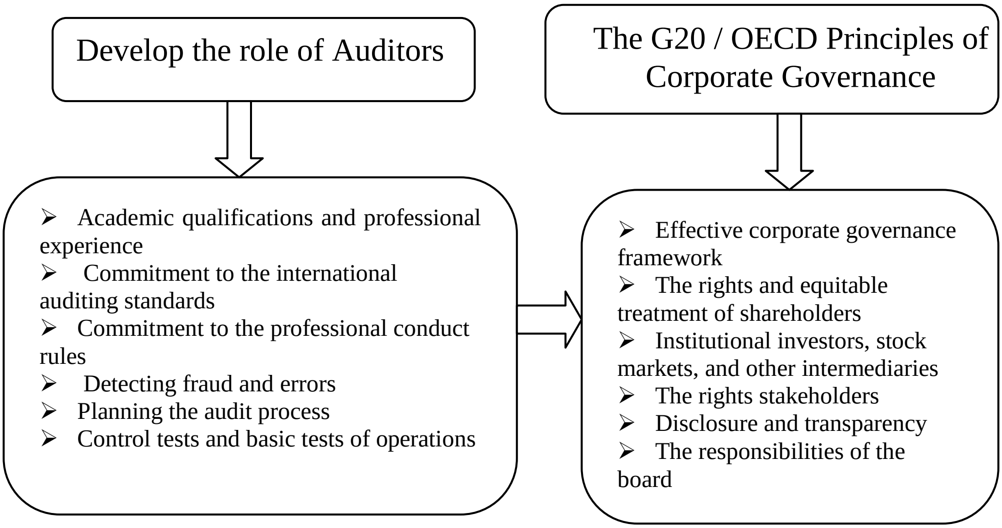
Research methodology:

In order to answer the problem of the study, we used the deductive approach and its descriptive tool in order to visualize the nature of the external audit function and present the G20 / OECD principles of corporate governance, also submitting a proposed framework to develop the role of auditors to activate the corporate governance principles.

Research model:

A research model is designed to show the effect of independent variables on the dependent variable.

Fig.1: research model



Source: prepared by the researchers

2. External Audit function:

The main objective of the external audit function is to provide an opinion that the financial lists as a single unit is generally free of any material misstatement or fraud or manipulation, and reflect the real financial situation of the company.

1.1. External Audit Definition and Importance:

The term of audit is derived from the Latin word meaning a hearing. Auditing originated over 2000 years ago when, firstly used in Egypt, and subsequently in Greece, Rome and elsewhere, citizens (or sometimes slaves) entrusted with the collection and disbursement of public funds were required to present themselves publicly, before a responsible official (an auditor), to give an oral account of their handling of those funds. (Brenda, 2003, p. 03)

The auditor is defined as a listener: one who reviews the statements. Increased trade during the 19th century required greater funding, provided by many investors. That is how the practice of joint ownership of enterprises and establishing companies with limited liability begins. (Josheski, 2012, p. 2)

An external audit, defined as a company audit which is performed by a party which is not employed by business to be audited, are very commonly performed. (CFO.)

An effective external audit function often provides the board of directors and management with: (Comptroller's, 2016, pp. 39-40)

- Reasonable assurance about the effectiveness of internal controls over financial reporting, the accuracy and timeliness in recording transactions, the accuracy and completeness of financial and regulatory reports.
- An independent and objective view of a company's activities, including processes relative to financial reporting.
- Information useful to directors and management in maintaining a company's risk management processes.

1.2. ExternalAuditorsresponsibilities:

The external auditor's responsibility is determined on the basis of the contract between him and the institution (the client). Once the contract is signed, the auditor becomes responsible for performing his work carefully and professionally.In the case of any negligence and failure the external auditor would be held accountable. The main responsibilities of the external auditor are as follows: (Josheski, 2012, p. 2))

- Provide an opinion whether the financial statements objectively present the financial condition of the institution on a certain date, the results its operation and the changes of its financial condition in accordance with certain accounting standards or regulations;
- The external audit provides an independent assessment of the overall condition of the institution at some point;
- Gives confidence in the institution's solvency through accurate financial information to shareholders, as well as for the other users.

1.3. ExternalAuditorsConduct:

When the External Auditor performs an Audit, the External Auditor must: (BC Cnstruction Safety Allianc, 2018, pp. 4-5)

-Be objective:

Separate facts from opinions and base the External Auditor's evaluations on objective and measurable data, not subjective opinions, unfounded assumptions, or personal bias;

- **Be honest**:

Be honest in the assessment of the Employers' workplace health and safety management systems and in the External Auditor's dealings with each person who is contacted or involved;

- **Be diligent**:

Act in good faith, with due care and competence, without misrepresenting material facts or allowing the External Auditor's independent judgment to be compromised;

- **Be accurate**:

Strive for accuracy and consistency in the collection and evaluation of data;

- **Be complete**:

Ensurethat the External Auditor's evaluations are complete and avoid any omissions relevant to the scope of the Audit;

- **Be clear in communicating the Audit results**:

Ensure that the External Auditor's notes, observations, and especially the External Auditor's recommendations to Employers are clear, concise, and written in plain language;

- **Make relevant recommendations**:

Must ensure that the External Auditor's recommendations are relevant to the Employer's operations and add value to improving the Employer's health and safety management system; and

- **Be timely**:

Comply with the required timelines for Audit completion, submission, and correction.

- Provide a unique and individual audit for their client.

1.4. The objectives of Professional Conduct Principles:

The rules of professional conduct aim to achieve many targets: (Hasan, vol 3 ISSUE 18, 2014, p. 250)

- Raising the accounting and auditing profession and maintain its position;
- The development of cooperation among the accountants and auditors in addition to take care of their interests;
- Promotion of confidence among those who are concerned in auditors and accountants services, such as clients and other various groups;
- Enforcement of legal terms to provide the efficiency principle, and academic and practical qualifications of the auditor and his independence at work.

3. The G20/OECD Principles of Corporate Governance:

The G20/OECD Principles of Corporate Governance help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth and financial stability, these principles are as follows: (OECD, 2015)

3.1. Ensuring the basis for an effective corporate governance framework:

The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.

3.2.The rights and equitable treatment of shareholders and key ownership functions:

The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

3.3. Institutional investors, stock markets, and other intermediaries:

The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

3.4. The role of stakeholders in corporate governance:

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

3.5. Disclosure and transparency:

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

3.6. The responsibilities of the board:

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

4. Proposed framework: the requirements for developing the role of auditors to activate the G20 / OECD Principles of Corporate Governance

The external auditor's commitment to auditing profession ethics and auditing standards will lead to promote the audit profession, which help to improve the quality of the information included in the financial statements, thus activating the G20/OECD Principles of Corporate Governance.

In order to activate the governance principles the auditors shall comply with the following:

4.1. First: the use of academic qualifications and professional experience

Auditing standards have been organized along 10 generally accepted auditing standards (GAAS) that fall into three categories: General standards, Standards of field work and reporting standards, the first set contains the following: (Alicia, 2019)

- The auditor must have adequate technical training and proficiency to perform the audit.
- The auditor must maintain independence in mental attitude in all matters relating to the audit.
- The auditor must exercise due professional care in the performance of the audit and the preparation of the report.
- While the standard of U.S. Audit Standard N° 99 States some instructions that enable the auditor to free his responsibility towards methods and procedures of creative accounting that associated with the fraud, the important implications of this standard could be summarized as follows: (Hamad, 2014, , p. 10)

- Description of the fraud characteristics;
- Discussion among the members of the audit team concerning the fundamental risks of substantial deviation resulted from the fraud;
- Getting the required information in order to specify the risks of substantial deviation resulted from the fraud;
- Specifying the risks that lead to substantial deviation because of the fraud;
- Evaluation of the specified risk after the consideration of the internal control system of the facility;
- Responding to the results of evaluation;
- Evaluating the results of the audit test;

- Informing the administration, the auditing committee and the other parties by the fraud; and
- Authentication of the audit study about the fraud.

4.2.Second: **Commitment to the international auditing standards**

Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statements. They include consideration of professional qualities such as competence and independence, reporting requirements, and evidence. (Alvin, 2014, p. 32)

ISA 240 has set some considerations which the auditor should consider in relation to the methods of creative accounting when auditing financial statements, the most important of these considerations are the following: (IAASB., 2015, p. 162)

An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error;

- The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance;
- The auditor shall make inquiries of management regarding:
  - ➢ Management's assessment of the risk that financial statements may be materially misstated due to fraud;
  - ➢ Management's process for identifying and responding to the risks of fraud in the entity;
  - ➢ Management's communication, if any, to employees regarding its views on business practices and ethical behavior.
- The auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks;
- The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures;

- The auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level;
- The auditor shall evaluate whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud;
- If, as a result of a misstatement resulting from or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:
  - ➢ Consider whether it is appropriate to withdraw from the engagement; and
  - ➢ If the auditor withdraws; discuss with the appropriate level of management and those charged with governance the auditor's withdraws from the engagement and the reasons, and determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

4.3. Third: Commitment to the professional ethics rules

The existence of the ethical conduct is deemed essential for the society building and solidarity, as well as for the various work areas including auditing profession. The provision of ethical conduct is essential need to win the trust in the service providers, who possess integrity and objectivity in addition to confidence in the financial statements provided. (Hasan, vol 3 ISSUE 18, 2014, p. 249)

The national Code of Ethics for External Auditors is divided into three parts:

Part A

Establishing the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants shall apply to: (IESBA., 2016, p. 9)(IESBA, 2016, p. 09)

- Identify threats to commitment with the fundamental principles;
- Evaluate the significance of the threats identified; and

- Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

Parts B and C

Describes howthe conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles, they also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided.

Part B applies to professional accountants in public practices. Part C applies to professional accountants in business. Professional accountants in public practice may also find part C relevant to their particular circumstances. (IESBA., 2016, p. 9)

An external auditor is required to comply with the following fundamental principles: (Amos, 2017, pp. 6-7)

-Integrity:

The fundamental principles require that an external auditor should be with straightforward and honest in all professional, business and financial relationships. Integrity implies not merely honestly but fair dealing and truthfulness.

- **Objectivity**:

The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others to override professional or business judgments.

- **Confidentiality:**

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

- **Competency**:
A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional Accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

4.4. Forth:detecting fraud and errors

An audit conducted in accordance with International Standards on Auditing (ISAs) is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatements. Although, the ultimate responsibility for the prevention and detection of fraud and error rests with those charged with governance, auditors can still be held liable in the event that financial statements are misstated.(Yusarina & Zuraidah, 2012, p. 07)

However, when we take into account that auditors have to work within limitations, it would be extremely impossible for them to find all the misstatements in a financial report. The limitations faced by auditors do not release them from the responsibility of uncovering material misstatements that would adversely affect the interests or decisions of the users of a financial statement. So if we view creative accounting as a practice that may lead to actual misrepresentation and falsification in the financial statements, it is clear that auditors should equip themselves with the appropriate principles, techniques, and tools to detect such practices. (Yusarina, 2012, p. 7)

Fifth: Planning the audit process

International Standards on Auditing (ISA) 300, “Planning,” states “The auditor should plan the audit work so that the audit will be performed in an effective manner”. (Rick, 2005, p. 198)

There are three main reasons why the auditor should properly plan engagements: (Alvin, 2014, p. 208)To enable the auditor to obtain sufficient appropriate evidence for the circumstances;

- To help audit keep costs reasonable; and
- To avoid misunderstandings with the client.

Hence, the objective of planning is to determine the amount and type of evidence and review required to assure the auditor that there is no material misstatement of the financial statements. The planning procedures are: (Rick, 2005, p. 194)Perform audit procedures to understand the entity and its environment, including the entity's internal control;

- Assess the risks of material misstatements of the financial statements;
- Prepare the planning memorandum and audit program containing the auditor's response to the identified risks.

4.5. Sixth: Application of control tests and basic tests of operations

For any given audit, there are many ways in which an auditor can accumulate evidence to meet the overall audit objective of providing an opinion on the financial statements. The plan should result in an effective audit approach at a reasonable cost. The auditor performs procedures to assess the risk that material misstatements in the financial statements may be present. Three key aspects are introduced here: (Alvin, 2014, pp. 163-164)

- Obtain an understanding of the entity and its environment to adequately assess the risk of misstatements in the financial statements and to interpret information obtained throughout the audit, the auditor must have a thorough understanding of the client's business and related environment, including knowledge of strategies and processes. The auditor should study the client's business model, perform analytical procedures and make comparisons to competitors.
- Understand internal control and assess control risk the risk of misstatement in the financial statements is reduced if the client has effective controls over computer operations and transaction processing.
- Assess risk of material misstatement the auditor uses the understanding of the client's industry and business strategies, as well as the effectiveness of controls, to assess the risk of misstatements in the financial statements. This assessment will then impact the audit plan

and the nature, timing, and extent of audit procedures. The auditorperforms the following tests:

- **Tests of controls**: auditors must first test the effectiveness of the controls.
- **Substantive tests of transactions**: Auditors also evaluate the client's recording of transactions by verifying the monetary amounts of transactions.
- **Analytical procedures:** consist of evaluations of financial information through analysis of plausible relationships among financial and nonfinancial data
- **Tests of details of balances**: are specific procedures intended to test for monetary misstatements in the balances in the financial statements.

After the auditor has completed all procedures for each audit objective and for each financial statement account and related disclosures, it is necessary to combine the information obtained to reach an overall conclusion as to whether the financial statements are fairly presented.

5. Conclusion :

Through this study, the following results were reached:

- The main objective of the external audit is to provide an opinion that the financial lists as a single unit is generally free of any material misstatement or fraud or manipulation;
- The existence of the ethical conduct is deemed essential for the auditing profession to gain a trust in the service providers, who possess integrity and objectivity in addition to confidence in the financial statements provided;
- The use of academic qualifications and professional experience enhances the role of the external auditor in activating the OECD/G20 corporate governance principles;
- External auditor's commitment with international auditing standards aid in fulfilling their professional responsibilities in the audit of financial statements, they include consideration of professional qualities such as competence and independence, reporting requirements, and evidence;
- The external auditor should plan the audit work so that the audit will be performed in an effective manner;

- The application of control tests and basic tests of operations by the external auditor aid to accumulate evidence to meet the overall audit objective of providing a reliability opinion on the financial statements;
- The external auditor's commitment with audit profession ethics, will lead to promote the audit profession, in order to achieve the trust, transparency on the financial statements.

From the results obtained, we conclude the validity of the study hypothesis: the external auditor's commitment to the ethics of the auditing profession, as well as his commitment to apply international auditing standards while planning and performing the audit function, in addition the application of control tests and basic tests of operations to provide reasonable assurance that the financial statements are free from material misstatements, fraud and errors, All of this contributes to developing the auditor's role to achieve transparency and trust in the financial statements and thus activate the OECD/G20 principles of corporate governance.

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