

On the basis of provisions of paragraph 3 of Article 137 of the Budget Law (official gazette *Narodne novine* 96/03), the minister of finance shall pass

Internal Auditors' Code of Professional Ethics

I. Introduction

Article 1

The Code of Ethics of internal auditors in the Republic of Croatia (hereinafter: the Code) shall be based upon the principles and rules of the Code of Ethics of the Institute of Internal Auditors (IIA).

Article 2

The Code shall contain the principles and rules to which certified internal auditors shall be obliged to adhere as well as the employees involved in training for acquiring internal auditor's certification and other persons engaged in internal audit affairs (hereinafter: internal auditors). The acceptance and application of the Code shall promote confidence in internal auditors and their work.

The internal auditors shall be obliged to adhere to the principles and rules of the Code in order to be independent, objective and honest in their performance of tasks and also to improve permanently for the purpose of work quality improvement.

Article 3

To achieve the highest ethical standards of their own behaviour shall be their personal responsibility and duty of each internal auditor. Their duty shall be to encourage ethical behaviour of their associates and colleagues. Furthermore, their duty shall be to consult colleagues if they shall have any ethical doubts. However, each internal auditor shall act in his/her activities as an independent person and shall amend and enrich the rules given by this Code, his/her personal system of human values, culture and life experience.

Article 4

The Code's principles shall represent the background on which the rules of ethical and professional performance of internal auditors' tasks shall be based.

The Code's rules shall represent the elaboration of principles, by which professional and ethical behaviour of internal auditors shall be defined.

II. Principles and rules of the Professional Ethics of Internal Auditors

Article 5

The fundamental principles of professional ethics to which internal auditors shall have to adhere in their work performance shall be as follows:

1. integrity,
2. independence,
3. competence,
4. objectivity,
5. confidentiality – protection of data secrecy,
6. avoiding conflicts of interest.

1. Integrity

Article 6

Principle: The internal auditors' integrity and honesty shall enable establishing of trust in accordance with their judgments and findings. For the purpose of public trust, the internal auditor's behaviour shall have to be honest, beyond any doubt and without fraud.

Rules: The internal auditors shall have to:

- perform their work with honesty, diligence, and responsibility,
- work in compliance with the law and regulations,
- to avoid participation in actions or activities which shall discredit the profession of internal auditor or budget user,
- respect and support the budget user's objectives,
- form opinions and make judgements taking into consideration public interest.

2. Independence

Article 7

Principle: In performing internal audit affairs, the independence of internal auditor must not be threatened by personal or external interests. A high level of independence shall have to ensure to the internal auditor a possibility of impartial acting and objective judgement of a state of facts.

Rules: The internal auditors shall have to:

- perform their work without influencing their decisions i.e. only when they shall assess it on their own as justified,
- protect their independence from political influence,
- avoid activities or relationships which might have impact on assurance.

3. Competence

Article 8

Principle: The internal auditors shall be required to perform their work professionally and to possess knowledge, skills and experience necessary for audit tasks performance.

Rules: The internal auditors shall have to:

- apply their knowledge, skills and experience necessary for audit performance,
- improve professionally and continuously,
- perform internal audit in accordance with the International Standards of Internal Auditors (IIA),
- to prove continuously their competence and quality of their services.

4. Objectivity

Article 9

Principle: The internal auditors shall be expected to possess the highest level of professional objectivity. The objectivity as well as impartiality shall have to be particularly present when compiling audit report and none influence should be present in providing assurance, judgements and recommendations of internal auditors.

Rules: The internal auditors shall have to:

- demonstrate the highest level of professional objectivity in gathering data and information, evaluating and reporting,
- consider all important facts for the evaluation of the existing system,
- be objective in the preparation of audit reports.

5. Confidentiality – protection of secrecy of data

Article 10

Principle: In internal audit performance, it is necessary to respect the confidentiality and secrecy of all data. The internal auditor may give the auditee's confidential data, exclusively with the approval of involved persons and if there shall be a legal right or duty of announcing these data.

Rules: The internal auditors shall have to:

- respect the confidentiality of data and information gathered in their work, they shall not be allowed to use them for private purposes or in a fashion which shall not be in accordance with the Law on Protection of Data Secrecy or the International standards of internal audit (IIA),
- be careful in the use and protection of data which they collected during audit performance,
- inform the Irregularity Officer on all irregularities identified in their work which might have, if they shall not alert to them, as a consequence the concealment of illegal actions.

6. Avoiding conflicts of interest

Article 11

Principle: If the internal auditor shall provide assurance or services outside audit or audited subject, he/she shall have to be cautious that these services shall not lead to a conflict of interest. In case of conflict of interest in audit performance, they shall be obliged to inform the Internal Audit Division Head.

Rules: The internal auditors shall have to:

- ensure that services and assurance shall not include managerial responsibility or management,
- protect their independence and prevent a possible conflict of interest through receipt of gifts and benefits which might influence or be wrongly understood as an influence to their independence and integrity,
- avoid all relationships with management and employees of the audited entity and other subjects which might have an impact on internal auditor in terms of his independent performance of work,
- avoid using their working positions for private purposes,
- avoid relationships which might lead to corruption and make their objectivity and independence doubtful.

III. Solving ethical issues

Article 12

If the internal auditor shall not be confident concerning the compliance of a certain situation or job with this Code, he/she shall be obliged to consult the Department for Harmonisation of internal audit and financial control in the Ministry of Finance (hereinafter: the Central Harmonisation Unit).

The internal auditor who shall notice his/her colleague infringing the ethical principles of professional behaviour, he/she shall be obliged to alert him/her and in an informal way to try to help in solving this problem.

If the infringement of the Code could not be solved in a friendly and informal way, the internal auditor shall be obliged to report to the Internal Audit Division Head and to the Central Harmonisation Unit which shall take necessary measures.

The internal auditor mustn't deal with the reports whose goal shall be to hurt or humiliate somebody.

Article 13

The internal auditor shall be obliged to cooperate with the Central Harmonisation Unit in controlling and promoting the ethical issues.

An honourable internal auditor shall treat other internal auditors in the same fashion as he/she would like to be treated.

If another internal auditor shall ask him a professional advice and assistance, he will provide it to him unselfishly and to the best of his knowledge.

IV. Relationship with the Central Harmonisation Unit

Article 14

The internal auditor shall consider the Central Harmonisation Unit as his professional center safeguarding and promoting its reputation both in profession and in wide public.

The internal auditor shall be obliged to respect general acts and all other instructions of the Central Harmonisation Unit and to fulfil all obligations in due time.

The internal auditor shall be obliged to refuse any professional action contrary to this Code and the Central Harmonisation Unit shall be obliged to help him with its reputation and legal means, if necessary.

V. Concluding provisions

Article 15

The Central Harmonisation Unit shall be in charge of interpreting the principles and rules of the Professional Code of Ethics of internal auditors.

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Minister of Finance

IVAN ŠUKER

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