
Postgraduate Certificate in Internal Audit and Controls

Ethics and Professional Standards in Auditing

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Ethics and professional standards play a crucial role in auditing, ensuring that auditors uphold integrity, objectivity, and independence in their work. In the Postgraduate Certificate in Internal Audit and Controls, students are expected to have a strong understanding of these concepts to perform their roles effectively. Let's delve into the key terms and vocabulary related to ethics and professional standards in auditing.

Auditing

Auditing refers to the examination and evaluation of an organization's financial statements, records, and operations to ensure accuracy and compliance with laws and regulations. Auditors provide an independent and objective opinion on the fairness of the financial statements.

Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal auditors help organizations accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

External Audit

External audit is an independent examination of an organization's financial statements by a certified public accountant (CPA) or a firm of CPAs. The purpose of an external audit is to provide an opinion on the accuracy and fairness of the financial statements.

Independence

Independence is a fundamental principle of auditing that requires auditors to maintain an unbiased and impartial attitude throughout the audit process. Auditors must be free from any conflicts of interest that could compromise their objectivity.

Integrity

Integrity refers to the honesty and ethical behavior of auditors in carrying out their professional responsibilities. Auditors must be truthful and transparent in their communications and actions.

Objectivity

Objectivity requires auditors to maintain an impartial and unbiased mindset when evaluating evidence and forming conclusions. Auditors should not let personal biases or influences affect their judgment.

Professional Skepticism

Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Auditors must be vigilant and not accept information at face value, challenging assumptions and investigating inconsistencies.

Confidentiality

Confidentiality is the principle that auditors must protect sensitive information obtained during the audit process from unauthorized disclosure. Auditors should only disclose information to authorized parties and maintain the confidentiality of client data.

Professional Competence

Professional competence refers to the knowledge, skills, and expertise that auditors must possess to perform their duties effectively. Auditors should stay current with developments in auditing standards, regulations, and industry best practices.

Due Professional Care

Due professional care requires auditors to exercise diligence and judgment in performing audit procedures. Auditors should plan and execute audits with care, ensuring that they obtain sufficient and appropriate evidence to support their conclusions.

Audit Evidence

Audit evidence is the information obtained during the audit process to support the auditor's findings and conclusions. Audit evidence can include documents, records, observations, and confirmations from third parties.

Risk Assessment

Risk assessment is the process of identifying and evaluating risks that could impact an organization's ability to achieve its objectives. Auditors use risk assessment to determine the focus and scope of audit procedures.

Materiality

Materiality is the concept that information is considered material if its omission or misstatement could influence the economic decisions of users of financial statements. Auditors use materiality to determine the significance of errors or discrepancies.

Audit Planning

Audit planning involves developing an overall strategy for the audit, including determining the audit objectives, scope, timing, and resource requirements. Effective audit planning helps auditors conduct efficient and thorough audits.

Audit Procedures

Audit procedures are the specific tasks and tests that auditors perform to gather evidence and assess the reliability of financial information. Audit procedures can include inquiries, observations, inspections, and

analytical reviews.

Audit Report

The audit report is the formal document issued by auditors at the conclusion of the audit, summarizing their findings and opinions on the financial statements. The audit report communicates the results of the audit to stakeholders.

Internal Controls

Internal controls are policies, procedures, and mechanisms implemented by organizations to safeguard assets, ensure accuracy of financial information, and promote operational efficiency. Auditors assess the effectiveness of internal controls during audits.

Compliance

Compliance refers to the adherence to laws, regulations, and standards that govern an organization's operations. Auditors evaluate whether the organization is in compliance with relevant legal and regulatory requirements.

Audit Committee

The audit committee is a subcommittee of the board of directors responsible for overseeing the financial reporting process, internal controls, and external audit functions. The audit committee provides independent oversight of audit activities.

Code of Ethics

A code of ethics is a set of principles and standards that guide the behavior and conduct of professionals in a specific field. Auditors are expected to adhere to a code of ethics that outlines their responsibilities, values, and ethical obligations.

Independence Threats

Independence threats are circumstances or relationships that could compromise an auditor's independence or objectivity. Common independence threats include financial interests, family relationships, and conflicts of interest.

Whistleblowing

Whistleblowing is the act of reporting unethical or illegal behavior within an organization to authorities or external parties. Whistleblowers play a crucial role in exposing fraud, corruption, and misconduct.

Quality Control

Quality control refers to the policies, procedures, and processes implemented by audit firms to ensure the quality and consistency of audit services. Quality control measures help maintain the integrity and reputation of the audit profession.

Professional Development

Professional development involves continuous learning and skill enhancement to stay current with industry trends and best practices. Auditors should invest in professional development to improve their competencies and knowledge.

Ethical Dilemmas

Ethical dilemmas are situations where auditors face conflicting moral principles or values that make it challenging to make decisions. Auditors must navigate ethical dilemmas with integrity, objectivity, and adherence to professional standards.

Audit Sampling

Audit sampling is the practice of selecting a representative subset of data for testing during an audit. Auditors use sampling techniques to draw conclusions about the entire population of transactions or accounts.

Fraud Detection

Fraud detection involves identifying and investigating instances of fraud or misconduct within an organization. Auditors play a critical role in detecting fraud through analytical procedures, interviews, and forensic techniques.

Professional Judgment

Professional judgment is the ability of auditors to make informed decisions and assessments based on their expertise, experience, and knowledge of auditing standards. Auditors rely on professional judgment to navigate complex audit issues.

Regulatory Compliance

Regulatory compliance refers to the adherence to laws, regulations, and guidelines set forth by regulatory authorities. Auditors must ensure that organizations comply with regulatory requirements to avoid legal sanctions or penalties.

Corporate Governance

Corporate governance is the system of rules, practices, and processes by which companies are directed and controlled. Strong corporate governance promotes transparency, accountability, and ethical behavior within organizations.

Internal Audit Charter

The internal audit charter is a formal document that defines the purpose, authority, and responsibilities of the internal audit function within an organization. The internal audit charter outlines the scope and objectives of internal audit activities.

Continuous Monitoring

Continuous monitoring is the ongoing process of assessing and evaluating risks, controls, and operations to identify issues in real-time. Auditors use continuous monitoring to detect anomalies and deviations from

expected norms.

Audit Documentation

Audit documentation consists of the records, working papers, and supporting evidence that auditors create and maintain during the audit process. Audit documentation provides a trail of the audit work performed and supports the audit findings.

Professional Ethics

Professional ethics are the moral principles, values, and standards that guide the conduct and behavior of professionals in their respective fields. Auditors are expected to uphold high ethical standards in their interactions with clients, colleagues, and stakeholders.

Peer Review

Peer review is a process where audit work is reviewed by independent auditors or experts to assess its quality, compliance with standards, and adherence to professional guidelines. Peer reviews help enhance audit quality and identify areas for improvement.

Internal Audit Function

The internal audit function is a department within an organization responsible for conducting independent assessments of controls, risks, and governance processes. The internal audit function helps organizations improve their operations and achieve their objectives.

External Audit Firm

An external audit firm is a professional services firm that provides external audit services to clients. External audit firms are typically independent of the organizations they audit and follow auditing standards established by regulatory bodies.

Audit Risk

Audit risk is the risk that auditors may issue an incorrect opinion on the financial statements, leading to the failure to detect material misstatements. Auditors assess audit risk to determine the appropriate audit procedures and evidence required.

Audit Program

An audit program is a detailed plan that outlines the specific audit procedures, tests, and tasks to be performed during an audit engagement. The audit program serves as a roadmap for auditors to follow in conducting the audit.

Professional Conduct

Professional conduct refers to the behavior, attitudes, and actions that reflect the ethical standards and values of a profession. Auditors are expected to exhibit professional conduct in their interactions with clients, colleagues, and the public.

Compliance Audit

A compliance audit is an examination of an organization's adherence to laws, regulations, and internal policies and procedures. Compliance audits assess whether the organization is following established guidelines and requirements.

Audit Findings

Audit findings are the results of audit procedures, tests, and evaluations conducted by auditors. Audit findings may include discrepancies, control weaknesses, compliance issues, and recommendations for improvement.

Audit Follow-Up

Audit follow-up involves monitoring the implementation of audit recommendations and actions taken by management to address audit findings. Auditors follow up to ensure that corrective measures are effectively implemented.

Professional Liability

Professional liability refers to the legal responsibility and accountability that auditors have for their actions and decisions during the audit process. Auditors may be held liable for errors, omissions, or negligence that result in financial harm to clients or stakeholders.

Internal Audit Standards

Internal audit standards are guidelines and best practices established by professional organizations, such as the Institute of Internal Auditors (IIA), to govern the conduct and performance of internal audit activities. Internal audit standards promote consistency and quality in internal audit practices.

Audit Quality

Audit quality refers to the degree of excellence, accuracy, and reliability of audit services provided by auditors. Audit quality is essential to ensure the credibility and effectiveness of audit reports and opinions.

Professional Conduct Framework

A professional conduct framework is a set of rules, principles, and guidelines that regulate the behavior and ethical standards of professionals in a specific field. Auditors must adhere to a professional conduct framework to maintain trust and integrity in the audit profession.

Compliance Framework

A compliance framework is a structured set of policies, procedures, and controls that organizations use to ensure adherence to regulatory requirements and industry standards. Auditors evaluate compliance frameworks to assess the effectiveness of internal controls.

Risk Management Framework

A risk management framework is a structured approach that organizations use to identify, assess, monitor, and mitigate risks that could impact their operations. Auditors analyze risk management frameworks to

evaluate the effectiveness of risk mitigation strategies.

Audit Independence Policy

An audit independence policy is a formal statement that outlines the rules, restrictions, and requirements related to auditor independence. Audit independence policies help prevent conflicts of interest and ensure the objectivity of audit engagements.

Professional Development Plan

A professional development plan is a customized roadmap that outlines the learning objectives, activities, and resources needed to enhance the skills and knowledge of auditors. Professional development plans help auditors advance their careers and stay competitive in the industry.

Internal Audit Manual

An internal audit manual is a comprehensive document that provides guidelines, procedures, and instructions for conducting internal audit activities within an organization. The internal audit manual serves as a reference tool for internal auditors to ensure consistency and quality in audit processes.

Ethical Decision-Making

Ethical decision-making involves evaluating moral dilemmas and choosing courses of action that align with ethical principles and values. Auditors must apply ethical decision-making skills to navigate complex situations and uphold professional standards.

Professional Conduct Review

A professional conduct review is a formal assessment of an auditor's behavior, actions, and decisions to determine compliance with ethical standards and professional guidelines. Professional conduct reviews help maintain the integrity and reputation of the audit profession.

Compliance Monitoring

Compliance monitoring is the process of overseeing and evaluating an organization's adherence to regulatory requirements, internal policies, and industry standards. Auditors conduct compliance monitoring to identify deficiencies and ensure corrective actions are taken.

Code of Conduct Violation

A code of conduct violation occurs when an auditor breaches ethical principles, standards, or rules outlined in a code of conduct. Code of conduct violations can result in disciplinary action, sanctions, or loss of professional credibility.

Professional Ethics Training

Professional ethics training is a structured program that educates auditors on ethical principles, values, and standards relevant to the audit profession. Professional ethics training helps auditors develop the knowledge and skills needed to make ethical decisions in challenging situations.

Internal Audit Charter Approval

Internal audit charter approval is the formal endorsement and authorization of the internal audit charter by senior management or the board of directors. Internal audit charter approval establishes the authority and independence of the internal audit function within the organization.

Compliance Audit Program

A compliance audit program is a detailed plan that outlines the procedures, tests, and activities to be performed during a compliance audit. Compliance audit programs help auditors assess an organization's adherence to regulatory requirements and internal policies.

Professional Ethics Compliance

Professional ethics compliance refers to the adherence to ethical principles, standards, and values that govern the conduct of auditors in their professional roles. Professional ethics compliance is essential to maintain trust, credibility, and integrity in the audit profession.

Internal Audit Quality Assurance

Internal audit quality assurance is a process that evaluates the effectiveness, efficiency, and compliance of internal audit activities with professional standards and best practices. Internal audit quality assurance ensures the reliability and credibility of internal audit reports and opinions.

Audit Independence Assessment

An audit independence assessment is a formal evaluation of the independence of auditors to ensure they are free from conflicts of interest that could impair their objectivity. Audit independence assessments are conducted to maintain the integrity and credibility of audit engagements.

Professional Conduct Investigation

A professional conduct investigation is a formal inquiry into allegations of misconduct, ethical violations, or breaches of professional standards by auditors. Professional conduct investigations seek to determine the facts, assess the impact, and take appropriate disciplinary actions if necessary.

Compliance Monitoring Plan

A compliance monitoring plan is a structured framework that outlines the procedures, responsibilities, and timelines for monitoring and evaluating an organization's compliance with regulatory requirements. Compliance monitoring plans help organizations identify and address compliance issues proactively.

Ethical Leadership in Auditing

Ethical leadership in auditing involves setting a positive example, promoting ethical behavior, and fostering a culture of integrity within the audit profession. Ethical leaders in auditing inspire trust, accountability, and professionalism among auditors and stakeholders.

Professional Ethics Certification

Professional ethics certification is a formal designation that recognizes auditors who have demonstrated

expertise, competence, and adherence to ethical standards in the audit profession. Professional ethics certification enhances the credibility and reputation of auditors in the industry.

Internal Audit Effectiveness Review

An internal audit effectiveness review is a comprehensive assessment of the performance, impact, and value of the internal audit function within an organization. Internal audit effectiveness reviews help identify strengths, weaknesses, and opportunities for improvement in internal audit practices.

Compliance Audit Findings Report

A compliance audit findings report is a formal document that summarizes the results, conclusions, and recommendations of a compliance audit. Compliance audit findings reports identify areas of non-compliance, control weaknesses, and opportunities for enhancing compliance processes.

Professional Ethics Code of Conduct

A professional ethics code of conduct is a set of rules, principles, and guidelines that outline the ethical responsibilities and expectations of auditors in their professional roles. Professional ethics code of conduct serves as a framework for ethical behavior and decision-making in auditing.

Internal Audit Quality Improvement

Internal audit quality improvement involves implementing measures, processes, and initiatives to enhance the quality, efficiency, and effectiveness of internal audit activities. Internal audit quality improvement initiatives aim to elevate the standards and performance of internal audit functions.

Audit Independence Policy Compliance

Audit independence policy compliance refers to the adherence to rules, restrictions, and requirements related to auditor independence outlined in an audit independence policy. Audit independence policy compliance ensures that auditors maintain objectivity, integrity, and independence in audit engagements.

Professional Ethics Training Program

A professional ethics training program is a structured curriculum that educates auditors on ethical principles, values, and standards relevant to the audit profession. Professional ethics training programs help auditors develop the knowledge, skills, and awareness needed to make ethical decisions in challenging situations.

Internal Audit Quality Control Review

Internal audit quality control review is a process that evaluates the adherence of internal audit activities to professional standards, guidelines, and best practices. Internal audit quality control reviews identify areas for improvement, ensure consistency, and enhance the quality of internal audit reports.

Compliance Audit Program Development

A compliance audit program development involves creating a detailed plan that outlines the procedures, tests, and activities to be performed during a compliance audit. Compliance audit program development

ensures that auditors assess an organization's compliance with regulatory requirements and internal policies effectively.

Ethical Leadership Development in Auditing

Ethical leadership development in auditing focuses on building the skills, competencies, and behaviors needed to promote ethical behavior, integrity, and professionalism within the audit profession. Ethical leadership development programs help auditors become role models, influencers, and advocates for ethical conduct.

Professional Ethics Compliance Monitoring

Professional ethics compliance monitoring is the ongoing process of overseeing, evaluating, and enforcing ethical standards and behaviors within the audit profession. Professional ethics compliance monitoring ensures that auditors uphold ethical principles, values, and responsibilities in their professional roles.

Internal Audit Quality Assurance Framework

Internal audit quality assurance framework is a structured approach that evaluates the effectiveness, efficiency, and compliance of internal audit activities with professional standards and best practices. Internal audit quality assurance frameworks help organizations enhance the credibility, reliability, and impact of internal audit functions.

Audit Independence Assessment Process

An audit independence assessment process is a systematic evaluation of the independence of auditors to ensure they are free from conflicts of interest that could compromise their objectivity. Audit independence assessment processes help maintain the integrity, credibility, and trustworthiness of audit engagements.

Professional Conduct Investigation Procedure

A professional conduct investigation procedure is a formal protocol that outlines the steps, responsibilities, and timelines for conducting inquiries into allegations of misconduct, ethical violations, or breaches of professional standards by aud

****Materiality****

Materiality is a fundamental concept in auditing that refers to the significance of an item or event in the financial statements. In auditing, materiality is important because auditors must focus their efforts on areas that are material to the financial statements. Materiality is both a qualitative and quantitative measure, as it involves assessing the size and nature of an error or omission. Determining materiality involves considering factors such as the size of the entity, the nature of the item, and the needs of the users of the financial statements.

For example, if a company misstates its revenue by a small amount that does not affect the overall financial health of the company, it may not be considered material. However, if the misstatement significantly impacts the financial statements and could influence the decisions of users, it would be considered material.

****Audit Evidence****

Audit evidence is the information gathered by auditors to support their audit opinion. It includes documentation, physical observations, inquiries, and analytical procedures. Audit evidence is essential for auditors to form an opinion on the financial statements and provide reasonable assurance that they are free from material misstatement. The sufficiency and appropriateness of audit evidence are crucial in the audit process.

For example, auditors may gather audit evidence by examining bank statements, invoices, contracts, and other supporting documents. They may also perform physical inspections of inventory or assets to verify their existence and condition. Audit evidence provides a basis for auditors to draw conclusions about the financial statements and communicate their findings to stakeholders.

****Audit Risk****

Audit risk is the risk that auditors may issue an incorrect audit opinion, either by failing to detect material misstatements or by concluding that the financial statements are materially misstated when they are not. Audit risk consists of three components: inherent risk, control risk, and detection risk. Inherent risk is the susceptibility of an assertion to material misstatement, control risk is the risk that internal controls will not prevent or detect material misstatements, and detection risk is the risk that auditors will not detect a material misstatement.

For example, if a company operates in a high-risk industry with complex transactions and weak internal controls, auditors may assess a higher inherent risk. If the company's controls are ineffective in preventing or detecting errors, auditors may assess a higher control risk. Auditors can mitigate audit risk by performing substantive procedures, assessing control effectiveness, and obtaining sufficient appropriate audit evidence.

****Fraud****

Fraud is an intentional act of deception that results in a material misstatement in the financial statements. Fraud can be committed by management, employees, or third parties and can involve financial statement fraud or misappropriation of assets. Auditors are responsible for detecting fraud during the audit process, although their primary focus is on detecting errors and unintentional misstatements. Auditors must maintain professional skepticism and exercise professional judgment to identify the risk of fraud.

For example, if a company's management manipulates revenue recognition to inflate sales and mislead investors, it could be considered financial statement fraud. If an employee embezzles company funds for personal gain, it could be considered misappropriation of assets. Auditors must consider the risk of fraud in their audit planning, perform procedures to detect fraud, and communicate any findings to management and the audit committee.

****Independence****

Independence is a core principle in auditing that requires auditors to be free from bias, conflicts of interest, and undue influence. Independence enhances the credibility of auditors and the reliability of their audit opinions. Auditors must maintain independence in fact and appearance to provide assurance that their judgments are impartial and unbiased. Independence is essential for auditors to act in the public interest and fulfill their responsibilities to stakeholders.

For example, auditors must not have financial or personal relationships with the client that could impair their independence. They must avoid conflicts of interest that could compromise their objectivity or integrity. Auditors should also disclose any threats to independence and take appropriate actions to mitigate them. Independence is critical to maintaining trust in the audit profession and upholding the integrity of financial reporting.

****Ethical Principles****

Ethical principles are fundamental values that guide auditors in their professional conduct and decision-making. Ethical principles include integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Auditors must adhere to these principles to ensure they act in the public interest, maintain the integrity of the profession, and uphold the trust of stakeholders. Ethical principles are essential for auditors to perform their duties with honesty, diligence, and respect for others.

For example, auditors must demonstrate integrity by being honest and straightforward in all their professional relationships. They must maintain objectivity by avoiding conflicts of interest and exercising professional judgment without bias. Auditors should continually improve their professional competence and due care to provide high-quality audit services. Confidentiality is crucial for auditors to protect sensitive information and maintain trust with clients. Professional behavior involves acting with courtesy, respect, and professionalism in all interactions.

****Professional Skepticism****

Professional skepticism is an attitude of questioning and critical evaluation that auditors must apply throughout the audit process. Professional skepticism involves being alert to the possibility of material misstatement, considering contrary evidence, and challenging assumptions and explanations. Auditors must maintain professional skepticism to identify risks, evaluate audit evidence, and detect errors or fraud. Professional skepticism enhances the quality of the audit and provides assurance that auditors have exercised due professional care.

For example, auditors should not accept information or explanations from management at face value but should verify them through independent sources. They should consider the possibility of bias, manipulation, or error in the financial statements and perform procedures to address these risks. Professional skepticism requires auditors to be cautious, inquisitive, and persistent in their pursuit of the truth. By maintaining professional skepticism, auditors can fulfill their responsibilities to stakeholders and provide reliable audit opinions.

****Internal Controls****

Internal controls are processes, policies, and procedures implemented by management to achieve the entity's objectives and safeguard assets. Internal controls help prevent errors, fraud, and inefficiency in the organization and provide assurance on the reliability of financial reporting. Auditors must assess the effectiveness of internal controls to plan the audit, determine the nature, timing, and extent of procedures, and identify areas of audit risk. Internal controls are essential for maintaining the integrity of financial information and ensuring compliance with laws and regulations.

For example, internal controls may include segregation of duties, authorization procedures, physical safeguards, and IT controls. Segregation of duties ensures that no single individual has control over all aspects of a transaction, reducing the risk of fraud. Authorization procedures require management approval for significant transactions to prevent unauthorized activities. Physical safeguards protect assets from theft, damage, or misuse. IT controls secure information systems and data from unauthorized access or manipulation.

****Audit Planning****

Audit planning is the process of developing an overall strategy for the audit, setting objectives, and determining the scope of work. Audit planning involves assessing risks, establishing materiality thresholds, and identifying significant accounts or assertions. Auditors must consider the entity's business environment, internal controls, and financial reporting risks to tailor their audit approach. Audit planning is crucial for efficiently allocating resources, managing audit risk, and achieving audit objectives.

For example, auditors may perform a preliminary assessment of the entity's business risks, control environment, and financial performance to identify areas of focus. They may set materiality thresholds based on financial benchmarks, industry standards, or regulatory requirements. Auditors should document their audit plan, including the audit approach, procedures to be performed, and timelines for completion. Effective audit planning helps auditors conduct a thorough and efficient audit that meets professional standards and stakeholder expectations.

****Audit Procedures****

Audit procedures are specific tasks performed by auditors to obtain audit evidence and support their audit opinion. Audit procedures include tests of controls, substantive procedures, analytical procedures, and other procedures as necessary. Auditors tailor their procedures to address the risks of material misstatement, assess the reliability of financial information, and identify errors or fraud. Audit procedures are designed to provide reasonable assurance that the financial statements are free from material misstatement.

For example, auditors may perform tests of controls to evaluate the effectiveness of internal controls in preventing or detecting errors. Substantive procedures involve testing account balances, transactions, and disclosures for accuracy and completeness. Analytical procedures compare financial data to expectations or

industry benchmarks to identify unusual trends or fluctuations. Auditors may also perform inquiry, observation, or inspection procedures to gather audit evidence. By performing a combination of audit procedures, auditors can assess the financial statements and form an audit opinion.

****Audit Documentation****

Audit documentation is the record of auditors' work, findings, and conclusions during the audit process. Audit documentation includes planning documents, working papers, audit programs, and reports. Auditors must document their audit procedures, evidence obtained, significant judgments, and conclusions to support their audit opinion. Audit documentation serves as a basis for review, quality control, and communication with stakeholders. Auditors should maintain organized, complete, and accurate audit documentation in compliance with professional standards.

For example, auditors may document their audit plan, including the scope of work, materiality thresholds, and significant risks identified. Working papers detail the procedures performed, evidence obtained, and conclusions reached for each audit area. Audit programs outline the steps to be followed, the objectives to be achieved, and the resources required for the audit. Audit reports summarize the audit findings, conclusions, and recommendations for management and the audit committee. By maintaining comprehensive audit documentation, auditors can demonstrate accountability, transparency, and professionalism in their work.