AUDITING INTEGRITY
– THROUGH CHALLENGE TO ADDED VALUE

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Abstract: *The aim of this paper is to explain the essence and significance of integrity as an element of organizational culture (i.e. control/internal environment), but also the issues of auditing/assessment of integrity as ‚soft' control. Since many academic and professional researches and case studies has shown that organizational integrity, or the lack of it, has multiple effects on the quality of overall corporate governance, including the integrity of financial reporting, internal control systems and risk management, it is not surprising that legislation and auditing standards have introduced the obligation of assessment and reporting on the control environment/organizational culture, including the ethics, integrity and tone at the top.*

Considering the mission of auditing profession (especially internal auditing), the first prerequisite in this context is to define ‚integrity' because this definition represents the criterion for its effective assessment. However, the lack of general consensus on integrity definition is just one of many challenges auditors are facing. This paper shows that regular assessments of control environment and its elements, including the integrity, do contribute to its empowerment. Likewise, strong control environment, i.e. organizational culture, by itself, provides many different advantages resulting in overall business performance. This paper suggests that integrity carries real value, just like knowledge, technology, human, physical and social capital. Therefore, there are no formal controls that could replace or compensate for the lack of organizational integrity and auditing the integrity may create real added value.

Keywords: *Integrity, ethics, tone at the top, control environment (organizational culture), internal auditing, added value*

1. INTRODUCTION

The interest in ethics and integrity has significantly increased in last decades as it became clear how CEOs and other senior managers has contributed to huge financial scandals. The common trait of all these cases relates to the lack of integrity and unethical behavior of top management and entrepreneurs [52], but also experts – accountants, lawyers, bankers [53]. The fact that these scandals still go on, despite numerous actions taken to repress them, proves that the prevailing paradigm of financial economy needs to be transformed and redefined. This particularly refers to the definition of *integrity* so that academics and practitioners could more efficiently identify real causes of financial scandals in order to improve ways of doing business. Moreover, it seems that *integrity* can be seen as production factor equally important as knowledge, technology, entrepreneurship, human, physical and social capital [4].

Although the author tends to isolate the concept of *integrity* for the purpose of this research, it is not possible, nor in theory or in practice, to look at the integrity solely and analyze it separately from the concepts of ethics and tone at the top. *Integrity*, together with ethics and tone at the top, is not something that business organizations can disregard as they represent, formally and in essence, the elements of organizational culture, i.e. control/internal environment, and consequently, the integral parts of whole internal control system [1, 2], risk management process [3] and corporate governance.

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Many authors have struggled to define integrity (e.g. [5]; [6]; [8]; [9]; [4]; [7]). Some of them searched for and highlighted negative consequences of unethical behavior (see: [15]; [10]; [11]; [12]; [13]; [14]; [16]), while others managed even to identify a positive arguments in its favor (see e.g. [54]; [55]; [46]). Besides the researches dealing directly with the consequences of ethical or unethical behavior, many authors have approached this problem indirectly via the effects of corporate culture (e.g. [28]; [31]; [56]; [57]; [58]; [34]) and corporate social responsibility ([30]; [32]; [33]) on business performance indicating positive correlation between them. So far, there were no formal, long-term, empirical studies covering the influence of integrity on employees' performance. In 2014, Warner and Jensen have started a wide-scale empirical tests that will last for years and hopefully throw some light on this issue.

Although corporations, all over the world, have developed different approaches to embed ethics and integrity into organizational culture, researches have shown that not many of them perform cultural assessments regularly, disregarding the fact that such assessments do contribute to strong ethical tone (see: [35]; [36]). Some authors stressed and suggested the implementation of organizational culture audits (e.g. [37]; [38]), while others have dealt with practical issues related to these audits (see e.g. [43]; [50]; [41]) and provided some useful recommendations in this respect.

The author of this paper starts from several hypotheses: 1) there are legitimate reasons why it is important to audit integrity as a component of control environment and the internal control system; 2) the lack of clear and unique integrity definition represents the basic challenge for auditors; 3) because of its sensitive nature it is necessary to provide some preconditions for auditing; and 4) regular audits of organizational culture, including the integrity, may contribute to the empowerment of internal control system, risk management and corporate governance.

Organizational culture – meaning control/internal environment in COSO language – acts as binding element without which the system could not exist even with all the best materials and building skills. Management is, by all means, responsible for establishing, maintaining and evaluating control environment. However, the assessment of control environment is the segment of internal auditors' responsibility. The goal of this paper is to show why it is important to audit integrity, which challenges the auditors are facing, but also to render recommendations and offer some solutions in order to overcome the challenges and create added value.

2. METHODS AND MATERIALS

In the process of testing the established hypotheses the author of this paper has applied standard scientific methods such as: description, analysis and synthesis, inductive and deductive methods, abstraction and concretization and the method of comparison.

During the desk research conducted for the purpose of this paper, the author has analyzed relevant literature from the field of integrity, internal auditing, internal controls, corporate culture, expert articles, official documents, reports and regulations, relevant scientific research and surveys, as well as other sources which are directly or indirectly related to the subject of the paper. Based on comparative analysis of all collected sources, the author managed to reach common indicators and general conclusions regarding the defined hypotheses and goals.

3. RESULTS AND DISCUSSION

What is ‚integrity' as the subject matter of auditing?

Ethics and integrity are not just philosophical, sociological or psychological concepts. Ethical behavior and management integrity are the products of *corporate culture*. In corporate sense, ethics and integrity represent ‚soft' controls, i.e. the elements of control/internal environment and therefore are the integral part of the whole internal control system. According to COSO [1, 2] *the effectiveness of internal controls cannot rise above the integrity and ethical values of the people who create, administer and monitor them. Integrity and ethical values are essential elements of the control environment, affecting the design, administration and monitoring of other internal control components*. Risk management is another significant aspect of corporate governance. COSO [3] indicates that the elements of internal control system are integral part of the whole risk management process and that the first element refers to *internal environment* which includes risk management philosophy and risk appetite, *integrity and ethical values*, and the environment in which people operate.

Although COSO's Frameworks have clearly positioned ethics and integrity in corporate governance context, there is still a question of defining them, especially integrity, as a subject matter of auditing. Werner et al [4], in their comprehensive study on integrity, on the very beginning, point out that the key problem in understanding *integrity* results from the fact that this concept is often, in dictionaries and literature, overlapped and confused with concepts of morality and ethics. The concept „integrity" is derived from the Latin word *integritas* meaning „wholeness", „completeness" and „purity" [5, 6]. The common usage of the term „integrity" generally focuses on lapses or deficiencies in integrity. Integrity is thereby defined as „unimpeachable", „intact" or „incorruptible" [6]. It actually means to making sure that one does not become tarnished or corrupted or that one does not overstep the mark. Kaptein i Wempe [7] argue that integrity is not limited to one aspect of human character, such as the inclination not to get involved in corruption or - in positive terms - being honest. According to these authors, integrity refers to the integrative judgment and control of character, conduct, and consequences. Integrity, in fact, means "working on wholeness" in three respects: (1) by aligning values, norms, and ideals; (2) by striving for coherence be-tween words and deeds, and (3) by making a contribution to the greater whole. In similar way, Simons [8] emphasizes "behavioral integrity" as "… the perceived degree of congruence between the values expressed by words and those expressed through action," (p. 90) and points to the importance of what he terms "word-action" misfit. Simons' paper ". . . proposes that the divergence between words and deeds has profound costs as it renders managers untrustworthy and undermines their credibility and their ability to use their words to influence the actions of their subordinates." (p. 89).[2]

For the purpose of this research, the most interesting definition of integrity is the one suggested by Werner et al [4]. These authors define integrity as *a state or condition of being whole, complete, unbroken, unimpaired, sound, perfect condition.* They conclude that the integrity is a requisite condition for workability (nothing can work adequately if it is not whole), and workability is a requisite condition for performance. Therefore, the causal relationship has been established between integrity and performance, in a way that integrity is a necessary condition for performance. However, the most valuable contribution of these authors refers to the definition of integrity relating to a person and/or organization. Werner et al [4] suggested to be a person/group/organization of integrity all what is needed is to *„honor its word", which means either*

[2] See also: Simons [9].

keeping its word or being responsible for not doing so by restoring integrity and „cleaning up the mess" it has imposed on others who were depending on that word being kept. (p. 62). Understanding integrity as „honoring one's word" renders auditors much needed criteria for assessing integrity as an element of control environment because it enables integrity to be managed and empowered.

Why should integrity be audited?

Researches and case studies evidences

The consequences of unethical actions have been severe and investigated through empirical [10, 11], theoretical [12] and practice-oriented [13, 14] studies. Treadway Commission [15] believed that corporate environment, i.e. culture is the most important factor contributing to the integrity of the financial reporting process and has a pervasive impact on the entire process by which an organization's financial reports are prepared. As a reaction to fraudulent activities, many organizations have developed codes of conduct, training programs, and other initiatives to create environments that foster ethical decisions. The major purpose of these initiatives is to ensure that organizational members behave ethically when involved in activities both internal and external to the organization [16].

However, despite all the efforts invested in these initiatives, financial reporting frauds still occur. The results of study, carried out by the Association of Certified Fraud Examiners in 2014 [17], showed that, according to the examinees' estimations, typical organization loses 5% of revenues each year because of fraud. If applied to the 2013 estimated Gross World Product, this translates to a potential projected global fraud loss of nearly $3.7 trillion. Unfortunately, many frauds go undetected due to many factors including poor control environment, which is capable of affecting the organization's strategic objectives and vision [18]. Researches have shown that employees who cannot perpetrate fraud due to low financial pressure and existence of strong controls can still perpetrate fraud by rationalizing the act if the executive management commitment to integrity is low and/or the management flagrantly bypass or override the laid down controls. Therefore, Oke [178] has emphasized that *all the other interrelated components of internal control system are necessary but not sufficient without a strong control environment.* One of extreme cases is that of General Motors (see: [14]) and its many lessons considering the significance of integrity for all organizational levels, costs and other negative consequences caused by poor corporate governance.[3] This case shows clearly that no matter how employees were ethical and with integrity, if they are put in a culture of costs or numbers, they are lost and, along with them, the company (see: [19]).

On the other side, one of the most impressive examples showing the power of integrity and ‚honoring one's word' may be the company Johnson & Johnson[4]. Simply by honoring its word, Johnson & Johnson managed to maintain its integrity and thereby the consumers' trust. The Company re-

3 In summer 2015, the number of people killed due to ignition switch defect exceeded 100. In September 2015, criminal charges were announced against GM that resulted in a deferred prosecution agreement and a $900 million forfeiture. Formally, this was an exemplar company with all the best governance practices applied, including the Code of Conduct. In essence, the concepts of ethics, integrity and legality were overlapped and confused, while the corporate culture was characterized by pressure, short deadlines, information covering up, focusing on cutting costs...

4 In autumn 1982, Johnson & Johnson faced terrible affair with Tylenol capsules causing several consumers to die. However, instead of covering up the whole case, Johnson & Johnson proclaimed the truth, withdrew all the products under that name and replaced them with new ones for free – it took the responsibility and bore the consequences.

covered from the affair in a remarkably short period of time, although most experts forecasted the opposite outcome. In their research, Bitner, Booms and Tetreault ([20], p. 80-81), also confirmed how powerful can ‚honoring one's word' be in situations when it is not possible to ‚keep one's word'. Their study revealed that 23.3% of the *memorable satisfactory encounters involve difficulties attributable to failures in core service delivery. . . It suggests that even service delivery system failures can be remembered as highly satisfactory encounters if they are handled properly..* Thus, the results of the Bitner, Booms, and Tetreault study prove again that there is a relation between integrity and performance – where the performance was measured by customers' satisfaction.

The above mentioned case studies, but also other researches (see: [21]; [22]; [23]; [24]; [25]), render an important insight as they all suggest that strong soft controls (including the integrity) may be the substitute for expensive hard controls and thus provide the same or even better outcomes then those provided by formal internal controls. This is crucial in terms of adding value to organizations as it brings incredible opportunities for improving business efficiency and overall performance. Contrary to the traditional beliefs, recently some economists have started to highlight the fact that major variations among companies are caused by invisible forces inherent to companies themselves [26, 27]. Hosmer [28] argued that organizations dedicated ethical behaviour have a significantly better chance of success than those engaged in dishonest and unethical behaviour. The research carried out by Gilden [29] shows that consumers prefer to purchase from and invest in companies that are environmentally sensitive and display good behaviour (see also: [30]). Also, a number of researches have proved that there is a positive correlation between organizational behaviour based on ethics and integrity and financial performance (see e.g.: [31, 32, 33]). The study carried out by Graham, Harvey, Popadak and Rajgopal [34] among 1,348 companies in North America, has showed that more than 50% of executives believe that corporate culture presents one of three major contributors to company's value, and even 92% of them believe that its empowerment would increase the value of their company.

As Werner et al [4] emphasized in their integrity model, the chance for a system to meet any performance standards, which for the system has been created, would decrease if the system is not whole and complete. This is in accordance with COSO [2] which states that *for the system of internal controls to be effective, all five components have to be present* (the system should be whole and complete) *and all five components need to work together to accomplish the relevant objectives. A deficiency in one principle cannot be compensated by strong operation of another principle* (the implementation of system has to be complete, i.e. integrated). Werner et al [4] also concluded that even if the whole system is complete (has integrity), but one or more individuals, who are integral part of this system, are without integrity, there are great chances for a whole system to stay without integrity, meaning it would not be complete, and, thereby, effective. This conclusion is, also, in line with COSO's requirements [1, 2], since the very definition of internal control highlights that *in the organization, all are responsible for internal controls.* This means that if those who create, implement and supervise internal controls lack integrity, then the system, as a whole, cannot be complete, i.e. it cannot maintain its integrity, and as a result, its effectiveness.

Lack of recognition

Since the integrity do have a power, significance and implications regarding the compliance, financial statements reliability, fraud prevention and the quality of corporate governance, it is quite understandable that there is a need to assess and estimate the integrity as an element of control/internal environment, and the related risks. Unfortunately, although COSO has been emphasizing its importance for decades, it seems that academic and professional public recognize it rather slowly. The survey carried out by PWC Fraud Academy in 2010 [35], has shown that *there are a wide range of approaches being used to establish the foundations for ethical tone*[5]. However, 77% of respondents state that leadership teams have an articulated set of values and principles but only 36% regularly assess them for relevance and applicability. Also, 70% agree/strongly agree that ethical risks are identified but only 34% report they are adequately measured or evaluated. The survey conducted by Hermanson et al [36] has provided similar conclusions indicating that (p. A36) *despite the emphasis placed on an organization's tone at the top … it appears that many companies do not regularly assess the tone at the top...* Besides, these surveys have shown that the organizations which assess corporate culture regularly have stronger tone at the top then the organizations not conducting regular assessments of the tone at the top. Therefore, we can conclude that regular assessments/audits of corporate culture (including the integrity) may provide its empowerment.

Castellano and Lightle [37] suggested the conduct of a *cultural audit* in which an assessment is made of 'the tone at the top and the attitude toward internal controls and ethical decision making' (2005, p.10). They argued that the tone at the top (set by CEOs and senior managers) affects the culture of an organization; and that an inappropriate tone is likely to increase the risk of fraudulent financial reporting and help explain cases of corporate collapse. Also, Amernic et al [38] promoted the idea that auditors should address the issue of business leadership risk in assessing audit risk – that is, that they should give particular attention to the risk of an organizational leader setting an inappropriate tone at the top. However, it is not easy to measure objectively factors affecting someone's ethics, integrity or management's tone. It is even more difficult to detect and identify ethical and integrity issues before they reflect on the business performance. However, that should not be an excuse to do nothing and ignore the need of dealing with the control environment [39].

Requirements of auditing standards

Measuring the effectiveness of control environment represents the integral part of the whole organization's performance measurement. Because of the unique position of internal auditing function in the organization, its contribution is especially valuable in this respect. The responsibilities of internal auditing function, concerning control environment assessment, have been stipulated by International Professional Practices Framework [40] as follows:

- **Standard 2130 – *Control***: „The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement." (p. 19).
- **Standard 2110 – *Governance***: „The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:
- *Overseeing risk management and control;*
- *Promoting appropriate ethics and values within the organization;*
- *Communicating risk and control information to appropriate areas of the organization.“* (p. 17)
- **Standard 2110.A1** – „The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities". (p. 18)

[5] These approaches include: establishing a set of core values and principles, regular communications of ethical values by leadership, and even declining business where it is not aligned with the ethical values of the business.

In order to assess the whole internal control system, internal auditors have to evaluate the control environment as well. Recognizing the significance of control environment audits, the Institute of Internal Auditors (IIA) has provided guidance for auditors by introducing two Practice Guides[6]. According to the IIA [41], roles and responsibilities of internal auditors relating to the control environment assessment include: *(1) assessment of risks from failure of each one of the six individual control environment elements and their interconnections... (4) individual evaluation of control environment deficiencies but also understanding how they interact with or impact other controls in the organization; and (5) communication of the control environment audit findings*. Also, when auditing the design of the organization's ethics-related objectives, programs, and activities, the most significant issues are often related to weaknesses in design. These may include, among other issues, comprehensive coverage of the code of conduct, e.g., does the code cover: *integrity in the workplace, integrity of information, integrity in the marketplace, integrity in society, integrity toward the environment* [42].

There is no doubt that the auditing of control environment or some of its elements (such as ethics and integrity), whether individually or as a part of other auditing engagements, is not just in accordance with different IPPF Standards and Practice Guides, but also provides the ***added value*** for an organization.

Challenges for auditors

Assessment of control environment and its components is necessary, but also challenging for the management. That is why many organizations are using services of the internal audit function. However, its effectiveness largely depends on the management level which to auditors communicate their results. Although CEOs and executives should be aware and informed on their tone, integrity and the related risks, the experts believe that it would be more appropriate to communicate about the audit results with auditing committee (see: [43]). Sensitive nature of soft controls (including integrity) requires certain preconditions to be provided, such as: *support from senior management and the board or the audit committee (formal and informal), internal auditing's reporting structure should be sufficiently independent to ensure minimal or virtually no scope limitation of the audit team, availability of appropriate criteria for assessment...*(see: [41]).

On one hand, regular audits of ethics and integrity would certainly strengthen the control environment, but, on the other hand, lower risks, resulting from this, would enable internal auditors to engage more resources in providing consulting services which are more likely to add value to their organizations. Thus, internal auditors are in a unique position to help improve the control/internal environment of an organization (see: [44]; [43]). Besides, internal auditors have developed tools and techniques which they can use in this process. Since it may be difficult to obtain direct evidence for soft controls through traditional testing, self-assessments, surveys, workshops, or similar techniques may be better suited than traditional methods (specifically: employee surveys, using the CAE's network within the organization and internal auditor's knowledge of the organization's inner-workings, "auditing by walking around", past audit results over control activities, internal auditors' participation in committees, taskforces, workgroups, and involvement in ethics and compliance program implementation and assessments) [41].

In order to gather information on 'soft' controls management and internal auditors often use the approach called Control self-assessment (CSA). The three primary CSA approaches, recom-

[6] (1) IPPF – Practice Guide: Auditing the Control Environment (April, 2011), and (2) IPPF – Practice Guide: Evaluating Ethics - related Programs and Activities (June, 2012).

mended by IIA, are *facilitated team meetings* (also known as workshops), *questionnaires,* and *management-produced analysis.* Most academic surveys on ethics and integrity are based on polls and questionnaires which are meant to provide insights in some aspects of organizational culture (e.g. [45]). However, Griesery et al [46] have warned that prejudices related to self-reporting may be rather serious when assessing integrity. E.g., there is a significant probability that the employees, not behaving ethically, would be more prone to lying or embellishing their answers in the polls. For this reason, the authors have evaluated integrity by questioning employees on all organizational levels (not just the top ones) and proved there is a strong relation between personal and professional ethics. However, these kinds of assessments are more verbal evidences, like interviews, and, therefore, should be tested and validated to provide basis for creating the opinion on an organization's internal controls.

The problem of assessing ethics and integrity can be found in that the most organizations and leaders have prejudices regarding these ‚soft' controls[7], and, therefore, are more likely to choose more symbolic and formal approach such as introducing policies and codes of ethics. They differ only by their individual efforts in promoting these policies/codes and insisting on their implementation. Besides all these formal programs, many organizations keep relying on the previously established corporate structures and/or processes, and that is why it is much more important to comprehend the informal and hard-to-notice side of ethics and integrity manifesting through corporate culture and subcultures or tone at the top (see: [47]). If current structures and processes are not able to implement contemporary ethics policies, then they have only a symbolic function in an organization. Therefore, any effort to assess the corporation's readiness to establish and implement adequate ethics and integrity, requires observing the whole organization – both, its formal and informal aspects (see: [48]).

Recommendations and solutions

Values stated in code of ethics should be, by all means, unambiguous and reflect, both, business and individual goals. However, management and employees will not always be able to comprehend these abstract principles and apply them in everyday situations. Typical example is the understanding of *integrity.* If this concept is not clear and easy to understand, it cannot be implemented or assessed. That is why the goal of this paper is to suggest the unambiguous definition of *integrity* (the one provided by Fuller and Jensen [49] and Werner et al [4]) as an audit criterion.

Individual behavior is strongly affected by the management's ethics, especially when faced with difficult situations and decisions to make. This is a very sensitive topic and it is not that easy to make top management aware of its responsibilities in this respect. If internal auditors are supposed to assess and communicate to the CEO or the board/auditing committee that certain items may not be „setting the right tone", this can be viewed as a reason to get fired. Nevertheless, as Lynn Fountain [50] has noticed, internal auditors need to overcome the simple check the box evaluation methods to see if certain things exist like board charters, code of conducts, conflicts of interest, authorization policies, personnel evaluations etc. These things should not exist just because of some compliance requirements. Management must understand that tone at the top actually means to fully support procedures and accept evaluations and readily evaluate recommendations for their potential impact to control environment processes.

7 An expectation that the leaders will act with integrity suggests a high degree of trust. Trust, in turn, is frequently defined as a "willingness to be vulnerable." Unfortunately this is a generally accepted view of trust (see: [25]).

Internal audit function may offer significant support to management, but the effectiveness of internal controls is primary the responsibility of management. Since an entity's control environment is the foundation of an organization's entire internal control structure, internal auditors need to consider the risk of control environment failures in the development of annual (and other periodic) audit plans as well as in planning each individual audit (see: [41]). Because of the sensitive nature of these audits, the IIA has provided a number of guidelines relating to the risk assessment, planning, organizing and conducting the control environment audits. Very often, in this case, it is necessary to obtain the support and sponsorship of the board and/or the CEO, that would enable internal auditors to have access to all relevant sources of information needed for their audit. Even the communication of the control environment audit findings involves many practical considerations as control deficiencies may be considered sensitive or confidential. Recommendations, given in the audit report, should be practical with positive intent and should address the root cause for the identified control environment risk. Also, given the sensitive nature of the findings, sometimes it would be needed that others in the organization, such as the audit committee and/or the board of directors, perform the follow-up of recommendations.

Also, the way the management view and treat the employees has a key impact on control environment. When people feel they are appreciated and respected by management, they will strive themselves to meet the expectations and achieve the results specified. Managing human factor, which is supposed to create value in long term, should not rely on the governing process based on manipulating people, not by controls nor by incentives [51]. That is why it is important for management to encourage *the dedication of employees to the organization's goals* (primary by its example, but also by including people in the process of establishing goals and tasks), *transparency in behavior* (the more people are aware of their own and others' behaviors, and their consequences, the more they would able to control and adjust them) and *open discussion on issues* (the more it is talked about sensitive issues, the less taboo they would be; also, transparency and openness create the atmosphere of trust and honesty).

4. CONCLUSION

Despite a number of new laws, regulations, guidelines and other initiatives, corporate scandals are still present in our economic reality. This indicates that the prevailing paradigm of financial economics has finally to take into consideration all those invisible elements of corporate culture, especially ethics and *integrity*. The reason is simple: on the one hand, they have been identified as the main cause of these scandals, and, on the other hand, long-term sustainability and business performance is not possible without them.

Issues of ethics and *integrity* are not some vague and voluntary principles that organizations can disregard since they represent, formally and essentially, the elements of organizational culture, i.e. control/internal environment, and thereby the integral parts of the whole internal control system, risk management process and corporate governance. The control environment is constituted by two dimensions. The first one relates to written regulations, policies, procedures, which are necessary but not sufficient conditions. No matter how well designed, and how much the management insists on their implementation, they will not be able to accomplish their mission if employees have, as a role models, leaders behaving unethically and without integrity, or who tacitly accept such behavior. This intangible dimension is a „spirit" of an organization and makes it vital and kinetic.

As many surveys and studies have shown, and regulations confirmed by their requirements, regular assessments of ethics and *integrity,* as components of corporate culture, are likely to strengthen internal controls, risk management and governance, but also, more specifically, they contribute to grater integrity of financial statements, minimization of fraud risks and higher business performance. Integrity is a foundation for the trust in leaders and organizations, and without such trust it is not possible to maintain a long-term sustainability and develop a successful business team. Although the issues of ethics, integrity and tone at the top are very sensitive and there are many challenges regarding their auditing and communicating their findings, it must not be an excuse to be passive and ignore the need for active approach. Assessment of control environment, including the integrity, is the primary responsibility of top management. However, because of its unique position in an organization, the internal auditing function may provide added value by its regular assessments of ethics and *integrity*.

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