



International Professional
Practices Framework

Implementation Guide

Code of Ethics: Objectivity

IIA Code of Ethics Principle 2: Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Rules of Conduct

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Getting Started

The *International Standards for the Professional Practice of Internal Auditing* require conformance with the Code of Ethics, comprising four principles. Each principle is accompanied by rules of conduct that internal auditors must implement to properly demonstrate the principle. This implementation guide is intended to demonstrate how to achieve conformance with the principle of objectivity.

Objectivity is so essential in the internal audit profession that it is specifically mentioned within each element of the IPPF's Mandatory Guidance and in the Mission of Internal Audit. To properly implement

the Code of Ethics and the *Standards*, internal auditors must understand the term “objectivity” as it is defined in the IPPF glossary:

“An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.”

The objectivity principle and related rules of conduct reflect and expand upon the IPPF’s definition of objectivity. Analyzing the words of the principle reveals that exhibiting professional objectivity involves gathering, evaluating, and communicating information about the area or process being examined in a manner that will enable a balanced assessment of all relevant circumstances. The rules of conduct and the standards related to objectivity describe specific actions internal auditors must take to implement the principle.

Considerations for Implementation

Chief Audit Executive

While individual internal auditors are responsible for their personal conformance with the Code of Ethics, it is perhaps especially vital for the chief audit executive (CAE), as the leader of the internal audit activity, to uphold the Code of Ethics principles and rules of conduct, thereby setting the tone for the value of ethics among the team.

To help manage threats to objectivity, as required by Standard 1100 – Independence and Objectivity,¹ the CAE may create relevant policies and procedures, such as a policy about internal auditors receiving gifts, favors, and rewards. Furthermore, the CAE may require internal auditors to complete a form disclosing potential conflicts of interest and impairments to objectivity, and should consider these disclosures when assigning internal auditors to engagements. In addition, when developing policies and procedures, the CAE should carefully consider how performance measures and the system of compensation may influence internal auditors’ objectivity in reporting observations and conclusions. Trainings about how internal auditors should address impairments to objectivity may be helpful also.

If a CAE is responsible for any functions other than the internal audit activity, assurance engagements related to those functions must be overseen by a party outside the internal audit activity (Standard 1130.A2). If any of the internal audit activity’s assurance and consulting work is outsourced or cosourced, the CAE is still responsible for enforcing mandatory guidance of the IPPF, including that auditors must be objective and that potential impairments to objectivity must be declared. The CAE may

¹ Standard 1100 points out that threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels. Implementation Guide 1100 and the Practice Guide “Independence and Objectivity” provide specific tips for managing threats to objectivity at each of these levels.

include such requirements in third-party provider contracts and should research the providers' business relationships and determine whether conflicts of interest exist.

Individual Internal Auditors

Balanced Assessment

The *Standards* provide the systematic and disciplined internal audit approach for gathering, evaluating, and communicating information about the area or process under review, as required. The 2300 series of standards instructs internal auditors to perform engagements in a manner that results in a balanced assessment of all the relevant circumstances, as described in the principle.

For example, Standard 2310 – Identifying Information, Standard 2320 – Analysis and Evaluation, and Standard 2330 – Documenting Information describe the requirements for internal auditors to gather, analyze, evaluate, and document information that is sufficient, reliable, relevant, and useful and that will support the engagement results and conclusions. The respective implementation guides detail specific ways to carry out these objectives. This information should enable an engagement supervisor, CAE, external auditor, or a similarly informed individual (i.e., with sufficient information and appropriate knowledge and qualifications) to reach the same conclusions reached by the internal auditors. When others are able to review the engagement workpapers and arrive at the same conclusions as the internal auditors that conducted the engagement, there is validation that a balanced, objective review of all the relevant circumstances has been conducted.

Successfully implementing several additional standards generally results in conformance with the Code of Ethics rules of conduct related to objectivity. These include Standard 1100 – Independence and Objectivity, Standard 1120 – Individual Objectivity, Standard 1130 – Impairment to Independence or Objectivity, and related implementation standards. The implementation guides that accompany these standards and The IIA's Supplemental Guidance and Position Papers provide thorough descriptions and examples that may help internal auditors make good decisions about potential impairments to objectivity and roles and activities appropriate to maintaining objectivity. Reviewing relevant resources may help internal auditors to better recognize, understand, and overcome innate biases and subjectivity. Several primary points are highlighted below.

Not Unduly Influenced in Forming Judgments

The second part of the objectivity principle reiterates the second sentence of the IPPF definition of objectivity; that is, internal auditors should not be unduly influenced by others or subordinate their judgment on audit matters to others. The rules of conduct associated with objectivity clarify a few specific actions that internal auditors must take to support the maintenance of an unbiased mental attitude and the performance of engagements without quality compromises.

Rule 2.1 specifies that internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment, including activities or relationships that

may be in conflict with the interests of the organization. Standard 1120 defines “conflict of interest” as “a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest that may make it difficult to fulfill his or her duties impartially.” Examples include excessive individual fraternizing outside of work with the organization’s employees, management, third-party suppliers, and vendors. Close relationships and those involving financial ties, such as investments, that could represent conflicts of interest, whether in fact or perception, should be avoided. If unavoidable, such potential impairments to objectivity should be disclosed.

Rule 2.2 adds that internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment. Examples include accepting gifts, meals, trips, and special treatment that exceed policy limits or are not disclosed and approved.

Conflicts of Interest and Impairments

Conflicts of interest may be identified even if no unethical or improper act actually results because the conflicts themselves may create the appearance of impropriety and undermine confidence and trust in individual internal auditors, the internal audit activity, and the profession, according to Standard 1120.

Standard 1130 expands upon the concept of impairment, reiterating that impairments may exist in fact or appearance and adding details about determining the appropriate parties to which the impairments must be disclosed. For example, internal auditors must not provide assurance over an area or process for which they had responsibility within the preceding 12 months because their objectivity is presumed to be impaired (Standard 1130.A1). In this circumstance, consulting engagements are acceptable; however, before accepting the engagement, internal auditors must disclose to the consulting engagement client any potential impairments.

Not every situation is covered explicitly in the *Standards*; therefore, careful discernment is important. For example, an internal auditor desiring to accept an open opportunity to rotate into a certain department might choose not to participate in an assurance engagement in that area because a favorable assessment could appear to be biased by the auditor’s desire to obtain the open position. At a minimum, the internal auditor should disclose the potential impairment to the CAE and discuss the implications.

Rule of Conduct 2.3 requires internal auditors to disclose any “material” facts about the activities under review; more specifically, that is, those facts that if not disclosed, may distort the internal auditors’ reporting. Internal auditors must not hold back from reporting all the known facts pertinent to the engagement results and conclusions, even if those facts, results, or conclusions may be displeasing to senior management and the board.

Internal audit communications should be clear, factual, and objective, avoiding language that could minimize, hide, or exaggerate findings. For example, if the controls in accounts payable were unsatisfactory when last assessed, stating that the controls are just as effective as when last assessed

(or that there has been no change in the control effectiveness) would be inadequate. Instead, internal auditors should mention whether recommendations and improvements have been implemented since the last assessment and whether those changes have brought the unsatisfactory condition into a satisfactory status.

Considerations for Demonstrating Conformance

Chief Audit Executive

To demonstrate support for the rules related to the objectivity principle, the CAE may provide evidence of relevant policies and procedures for the internal audit activity, the requirement for internal auditors to attend meetings or trainings about objectivity, and documentation of the rationale for allocating resources to the internal audit plan, including consideration of potential impairments. To prevent violations of the objectivity principle and rules of conduct, the CAE's typically retains forms signed by internal auditors and outsourced and cosourced providers to document their consideration and disclosure of any potential conflicts of interest or impairments to objectivity. Additional evidence may include documentation of research into potential conflicts of interest related to outsourced and cosourced activities for which the CAE has responsibility, as well as signed contracts and records of services provided with the rationale and evidence supporting results, observations, and conclusions.

Individual Internal Auditors

Evidence that internal auditors are conforming with the objectivity principle and rules of conduct and complying with policies related to objectivity includes internal auditors' timely maintenance of current, signed forms disclosing conflicts of interests or other impairments to objectivity. Engagement workpapers that have been approved by the CAE or a designated engagement supervisor may evidence that internal auditors have conducted a balanced assessment. Feedback from post-engagement surveys and supervisory reviews of engagements may provide additional evidence that the internal auditors' work appeared to be performed objectively. Assessments as part of the internal audit activity's quality assurance and improvement program also lend support that appropriate objectivity was used in arriving at internal audit conclusions and opinions.

Applicability and Enforcement of the Code of Ethics

This Code of Ethics applies to both entities and individuals that perform internal audit services.

For IIA members and recipients of or candidates for IIA professional certifications, breaches of the Code of Ethics will be evaluated and administered according to The IIA's Bylaws, the Process for Disposition of Code of Ethics Violation, and the Process for Disposition of Certification Violation. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.



About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides Recommended Guidance (nonmandatory) for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Implementation Guides describe considerations that may be applied and actions that may be taken to implement The IIA's Mandatory Guidance. Implementation Guides do not detail programs, processes, procedures, or tools.

For other authoritative guidance materials provided by The IIA, please visit our website at <https://globaliia.org/standards-guidance>.

About The IIA's Code of Ethics

The IIA's Code of Ethics comprises two essential components:

- Four principles relevant to the profession and practice of internal auditing.
- Rules of conduct for each principle that describe behavioral norms expected of internal auditors.

The purpose of The IIA's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

The complete Code of Ethics may be found at <https://globaliia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>.

Disclaimer

The IIA publishes this document for informational and educational purposes. This guidance material is not intended to provide definitive answers to specific individual circumstances. The IIA recommends seeking independent expert advice related to specific situations. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

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