

INSIGHTS TO QUALITY

Consideration of Ethics Supports Successful Internal Audit Practices

IIA Quality Services' assessment teams work with many internal audit activities each year. As trusted advisors and providers of objective assurance about governance, risk management, and control, internal auditors must be above reproach and set the example for ethical behavior within the organization. Clear links have been established between organizational ethics and organizational performance, and an internal audit activity grounded in ethics is likely to perform better and be more successful.

Like the *Standards*, The IIA's Code of Ethics is a mandatory element of the International Professional Practices Framework. The *Standards* require conformance with The IIA's Code of Ethics, comprising four principles: integrity, objectivity, confidentiality, and competency. Each principle is accompanied by rules of conduct that internal auditors must implement to properly demonstrate the principle.

Areas where the ethical principles of integrity, objectivity, confidentiality, or competency are specifically considered include the following *Standards*:

1000 Series



Purpose, Authority, and Responsibility

Defining a purpose, authority, and responsibility of the internal audit activity that is consistent with the Code of Ethics and formally recognizing the Code of Ethics in the internal audit charter sets expectations for ethical and professional behavior and performance. This helps to establish trust in the internal audit activity.

The *Standards* specifically require recognition of the mandatory nature of this element in the internal audit charter. All mandatory elements are discussed with senior management and the Audit Committee during review of the charter.

1100 Series



Independence and Objectivity

Relevant policies and procedures, such as a policy about internal auditors receiving gifts, favors, and rewards, helps the CAE manage threats to objectivity. Training on how internal auditors should address impairments to objectivity may be helpful. Forms disclosing conflicts of interest and evidence that such forms are reviewed when assigning internal auditors to engagements can help to demonstrate conformance with the Code of Ethics.

Implementing a mechanism to confirm adherence to the independence and objectivity requirements of the *Standards* and The IIA's Code of Ethics requiring internal audit management and staff to sign an "Internal Auditor's Independence and Objectivity Statement" on an annual basis is a successful practice that demonstrates a commitment to these core requirements. 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.

1200 Series



Proficiency and Due Professional Care

Clearly, internal auditors must observe the law and make disclosures expected by the law and the profession. But this rule of conduct extends to include "acts that would be considered discreditable to the profession of internal auditing or to the organization." Such discrediting could relate to ethical behavior or to competency, knowledge, skills, and experience. Have any complaints about the internal audit activity regarding any of the above been reported through the organization's confidential reporting lines?

1300 Series



Quality Assurance and Improvement Program

A quality assurance and improvement program is critical to sustaining a team with integrity. Through internal assessments, the CAE determines whether internal auditors apply the Code of Ethics and monitors and reports on conformance with the rules of conduct regarding integrity, objectivity, confidentiality, and competency. External assessments either confirm or disprove this conformance.

2000 Series



Managing the Internal Audit Activity

As a leader, the CAE should cultivate a culture of integrity by acting with integrity and adhering to the Code of Ethics. Proper engagement supervision and periodic reviews of internal auditors' performance provide opportunities to discuss how integrity may be challenged and applied in real situations. CAEs may require internal auditors to acknowledge in writing their agreement to follow The IIA's Code of Ethics and any additional ethics-related policies, such as disclosure of conflict of interest.

CAEs report on the competency of the internal audit activity to senior management and the board. Internal auditors who lack skills for a particular engagement may need to decline the engagement or seek a partner with the needed skills.

2100 Series



Nature of Work and Governance

The internal audit activity's credibility and value are enhanced when auditors are proactive and their evaluations offer insights and consider future impact. The corporate ethics and compliance program and IT governance should be evaluated as part of the assessment of governance activities, included in the audit universe, considered as part of the annual risk assessment, and incorporated into the annual audit plan as appropriate.

2300 Series



Performing the Engagement

The 2300 series of the *Standards* instructs internal auditors to perform engagements that result in a balanced assessment of all relevant circumstances, as described in the objectivity principle. Conforming with the objectivity principle of the Code of Ethics goes hand in hand with meeting the *Standards* requirements for objectivity in identifying, analyzing, evaluating, and documenting information. Likewise, the confidentiality principle of the Code of Ethics encourages internal auditors to consider the confidentiality of information documented in engagement workpapers and reports.

2400 Series



Communicating Results

CAEs assess the potential risk of releasing assurance engagement results and restrict the use of such results except as required by laws, statutes, or regulations. Engagement results released to parties outside of the organization are accompanied by limitations on how the results may be distributed and disclosed. Training on principles, rules, policies, and expectations related to confidentiality support conformance with both the Code of Ethics and the *Standards*.

About IIA Quality Services, LLC

IIA Quality Services' mission is to elevate professionalism within internal auditing and conformance to the *International Standards for the Professional Practice of Internal Auditing* by providing knowledge resources to internal audit activities. IIA Quality Services' experts provide full-scope quality assessments, validations of self-assessments, and readiness assessments.



Need further insight into quality assurance and improvement? Let IIA Quality Services be your trusted advisor. Our experts can assist you in determining which option — quality assessment or self-assessment with independent validation — best suits your needs.

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