Topic two

Ethics and Professionalism in Internal Auditing

Domain II: Ethics and Professionalism

This domain outlines behavioral expectations for all internal auditors, including chief audit executives and entities providing internal audit services. Conformance with these principles builds trust in the profession, creates an ethical culture, and provides the basis for reliance on internal auditors' work and judgment.

All internal auditors must conform to these standards, even when other codes of conduct apply. The chief audit executive (CAE) must support and promote conformance, though they may delegate responsibilities while retaining accountability.

Principle 1: Demonstrate Integrity

Definition: Integrity is behavior characterized by adherence to moral and ethical principles, including honesty and courage to act based on facts, even under pressure or when facing adverse personal or organizational consequences.

Integrity is the foundation of all other ethical principles: objectivity, competency, due professional care, and confidentiality.

Standard 1.1: Honesty and Professional Courage

Requirements:

- Perform work with honesty and professional courage
- Be truthful, accurate, clear, open, and respectful in all professional relationships
- Do not make false, misleading, or deceptive statements
- Disclose all material facts that could affect organizational decisions
- Communicate truthfully even when facing dilemmas or difficult situations
- CAE must maintain a work environment where auditors feel supported when expressing evidence-based results, whether favorable or unfavorable

How to Implement:

- Seek ethics-related continuing professional education (CPE)
- Use workplace training, mentorship, and supervision to practice tact and respectful communication
- Discuss challenging situations with supervisors to determine best course of action
- CAE should arrange ethics education, training, and discussions of ethical choices
- Supervisors should provide guidance when reviewing work programs and workpapers

- Solicit stakeholder feedback on internal auditors' honesty and courage

Evidence of Conformance:

- Training plans with ethics education
- Attendance records for ethics training
- Performance evaluations with honesty/professional courage as objectives
- Stakeholder feedback

Standard 1.2: Organization's Ethical Expectations

Requirements:

- Understand, respect, meet, and contribute to the organization's legitimate and ethical expectations
- Recognize conduct contrary to those expectations
- Encourage and promote an ethics-based culture
- Report behavior inconsistent with ethical expectations according to applicable policies

How to Implement:

- Ethical expectations are usually documented in codes of ethics/conduct
- Internal audit plan may include assessments of ethics-related risks
- CAE should establish a methodology for addressing ethical issues and discuss with board and senior management
- Consider ethics-related risks and controls during individual engagements
- If senior management violates ethical expectations, CAE must report to the board
- If board chairman is involved, report to the entire board
- Follow up and validate appropriate actions were taken

Evidence of Conformance:

- Records of participation in ethics workshops/training
- Signed forms acknowledging understanding of ethics policies
- Internal audit plan, work program, or workpapers showing consideration of ethics-related risks
- Documentation of ethical issues communicated to board, senior management, and regulators

Standard 1.3: Legal and Ethical Behavior

Requirements:

- Do not engage in illegal or discreditable activities
- Understand and abide by relevant laws and regulations
- Report legal or regulatory violations to appropriate authorities

Discreditable Behaviors Include:

- Bullying, harassment, or discrimination
- Lying, deceiving, or intentionally misleading others
- Misrepresenting competency or qualifications
- Issuing false reports or omitting findings
- Overlooking illegal activities
- Soliciting/disclosing confidential information without authorization
- Performing services with undeclared objectivity impairments
- Falsely claiming conformance with Global Internal Audit Standards
- Failing to accept responsibility for mistakes

How to Implement:

- CAE may develop methodology specifying actions to take for legal/regulatory violations
- Ensure proper supervision and conformance with ethical values
- Include procedure for validating adequate actions were taken

Evidence of Conformance:

- Records of training on laws, regulations, and ethical behavior
- Signed acknowledgments of understanding legal and professional expectations
- Documented methodologies for handling illegal/discreditable behavior
- Communication with supervisors/legal counsel about concerns
- Sign-off on workpaper reviews

Principle 2: Maintain Objectivity

Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill responsibilities, and achieve the Purpose of Internal Auditing without compromise.

Standard 2.1: Individual Objectivity

Requirements:

- Maintain professional objectivity when performing all aspects of internal audit services
- Apply an impartial and unbiased mindset
- Be aware of and manage potential biases

Types of Biases:

- **Self-review bias:** Lack of critical perspective when reviewing one's own work
- **Familiarity bias:** Making assumptions based on past experiences
- **Prejudice/unconscious bias:** Misinterpreting information based on predisposed ideas about culture, ethnicity, gender, ideology, race, etc.

How to Implement:

- Objectivity means performing work without compromise or subordination of judgment
- Training helps auditors understand objectivity-impairing scenarios
- Develop awareness of situations, activities, and relationships that may affect objectivity
- Consider human tendency to misinterpret information or make assumptions

Evidence of Conformance:

- Internal audit charter references to objectivity responsibility
- Policies and procedures related to objectivity
- Records of objectivity training
- Attestation forms confirming awareness of objectivity importance
- Documented disclosures of potential conflicts of interest
- Notes from supervisory reviews and mentoring

Standard 2.2: Safeguarding Objectivity

Requirements:

- Recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity
- Do not accept gifts, rewards, or favors that may impair objectivity
- Avoid conflicts of interest

- When performing internal audit services:
  - Refrain from assessing activities for which you were previously responsible (within 12 months)
  - If providing assurance where advisory services were previously performed, CAE must confirm objectivity is not impaired
  - Disclose potential impairments before accepting advisory services for previously responsible activities
- CAE must establish methodologies to address impairments to objectivity

Conflicts of Interest Include:

- Competing professional or personal interests
- Potential for undue financial or personal gain
- Nepotism or favoritism

How to Implement:

- Follow more restrictive policies on gifts/rewards
- Consider perceptions of others regarding objectivity
- Engagement staffing should ensure auditors were not recently responsible for the activity
- Discuss engagement with auditors to identify any current or potential impairments
- Workpaper reviews provide opportunities for feedback and mentoring

Evidence of Conformance:

- Policies for identifying impairments and safeguards
- Records of objectivity training
- Attestation forms (no known impairments or disclosed impairments)
- Stakeholder surveys on perceived objectivity
- Notes from supervisory reviews
- Remuneration plan
- Board minutes where impairments were discussed
- Alternative provisions for unavoidable impairments

Standard 2.3: Disclosing Impairments to Objectivity

Requirements:

- Disclose impairments promptly to appropriate parties
- If objectivity is impaired, disclose to CAE or designated supervisor
- If discovered after engagement completion, discuss with activity management, board, senior management, and/or affected stakeholders

How to Implement:

- Methodologies should define actions to address each impairment
- Options to manage unavoidable impairments:
  - Reassign internal auditors
  - Reschedule engagement
  - Adjust scope
  - Outsource performance or supervision
- For perceived impairments, discuss with management, explain minimal risk exposure, and document

Evidence of Conformance:

- Internal audit methodologies for disclosing objectivity impairments
- Documentation disclosing presence or affirming absence of impairments
- Records of disclosure and mitigation approval

Principle 3: Demonstrate Competency

Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

Standard 3.1: Competency

Requirements:

- Possess or obtain competencies to perform responsibilities successfully
- Engage only in services for which you have or can attain necessary competencies
- Each internal auditor is responsible for developing and applying competencies
- CAE must ensure the internal audit function collectively possesses necessary competencies

Competencies to Develop:

- Communication and collaboration

- Governance, risk management, and control processes
- Business functions (financial management, information technology)
- Pervasive risks (fraud)
- Tools and techniques for data gathering, analysis, and evaluation
- Economic, environmental, legal, political, and social conditions
- Laws, regulations, and practices relevant to the organization
- Trends and emerging issues
- Supervision and leadership

How to Implement:

- Obtain professional credentials (e.g., CIA®)
- Seek feedback to identify improvement opportunities
- Attend training on internal audit methodologies and business activities
- CAE should:
    - Maintain knowledge of internal auditors' competencies
    - Participate in performance reviews
    - Identify areas for improvement
    - Encourage intellectual curiosity
    - Understand competencies of other assurance providers
    - Consider contracting external service providers when needed
    - Implement a quality assurance and improvement program

Evidence of Conformance:

- Documentation of certifications, education, experience, and qualifications
- Self-assessments and professional development plans
- Records of CPE completion
- Documented performance reviews
- Supervisory reviews and stakeholder feedback
- Results of internal and external quality assessments

- Analysis of resource gaps and training needs
- Assurance map showing competencies of other providers

Standard 3.2: Continuing Professional Development

Requirements:

- Maintain and continually develop competencies
- Pursue CPE including education and training
- Holders of professional certifications must fulfill specific CPE requirements

How to Implement:

- CPE may include self-study, on-the-job training, special assignments, mentorship, supervisory feedback, and free/paid education
- Seek opportunities to learn about trends, best practices, emerging topics, and changes affecting the organization
- CAE should budget and plan for training opportunities
- Assign auditors to engagements with limited experience (with proper supervision)
- Professional credentials require minimum CPE hours within specific periods
- CAE should consider implementing a plan for specific types and quantities of CPE
- All internal auditors should develop a plan and schedule for ongoing training

Evidence of Conformance:

- Documented plans for training events and CPE
- Records of completed CPE and credentials obtained
- Performance reviews and professional development plans
- Evidence of involvement in professional organizations

Principle 4: Exercise Due Professional Care

Planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. Internal auditors are expected to perform in the best interests of those receiving services but are not expected to be infallible.

Standard 4.1: Conformance with Global Internal Audit Standards

Requirements:

- Plan and perform internal audit services in accordance with the Standards
- Establish, document, and maintain methodologies aligned with the Standards
- Follow the Standards and methodologies when planning, performing, and communicating results
- If citing other authoritative requirements, also cite the use of other requirements
- If unable to conform with any part of the Standards, document and communicate the circumstance, alternative actions taken, impact, and rationale

How to Implement:

- Review Standards when changes occur and align methodologies accordingly
- If inconsistencies exist, conform with more stringent requirements
- Ensure engagement work programs align with Standards
- Document nonconformance and alternative actions to support external quality assessment

Evidence of Conformance:

- Documentation of methodologies and update dates
- Final engagement communications with nonconformance disclosures
- Documentation of laws/regulations preventing conformance
- Results of quality assurance and improvement program

Standard 4.2: Due Professional Care

Requirements:
Exercise due professional care by assessing:

- Organization's strategy and objectives
- Interests of those for whom services are provided and other stakeholders
- Adequacy and effectiveness of governance, risk management, and control processes
- Cost relative to potential benefits of services
- Extent and timeliness of work needed
- Relative complexity, materiality, or significance of risks
- Probability of significant errors, fraud, noncompliance, and other risks
- Use of appropriate techniques, tools, and technology

How to Implement:

- Understand the Purpose of Internal Auditing and nature of services
- Consider the organization's customers and other stakeholders
- Understand circumstances and aspects of risk in the risk assessment
- Weigh costs of internal audit services against potential benefits
- Consider use of data analysis software and technology
- Proper engagement supervision and quality assurance program promote due professional care

Evidence of Conformance:

- Planning notes documenting strategy and objectives
- Documented assessments of governance, risk management, and control processes
- Notes showing assessment of risks (errors, noncompliance, fraud)
- Notes on potential costs and benefits of services
- Workpapers indicating supervisory review
- Performance reviews
- Stakeholder feedback
- Internal and external assessments from quality assurance program

Standard 4.3: Professional Skepticism

Requirements:
Exercise professional skepticism by:

- Maintaining an attitude that includes inquisitiveness
- Critically assessing the reliability of information
- Being straightforward and honest when raising concerns
- Seeking additional evidence for incomplete, inconsistent, false, or misleading information

How to Implement:

- Always question or doubt the validity of claims and statements
- Seek evidence to support statements rather than simply trusting information
- Perform additional analyses for incomplete/inconsistent information
- Additional validation provided by review and approval of workpapers

- CAE should help auditors build competency in professional skepticism through workshops and training

Evidence of Conformance:

- Records of relevant training
- Workpapers showing approach to evaluate and validate information
- Documentation that false/misleading information was handled as a finding
- Workpapers and engagement communications reviewed and signed by supervisor

Principle 5: Maintain Confidentiality

Internal auditors use and protect information appropriately, respecting the value and ownership of information acquired.

Standard 5.1: Use of Information

Requirements:

- Follow relevant policies, procedures, laws, and regulations when using information
- Do not use information for personal gain or in a manner contrary to the organization's legitimate and ethical objectives

How to Implement:

- Inappropriate use of confidential information may have unintended consequences (reputational damage, fines)
- Follow organizational and internal audit function policies governing information handling
- CAE should discuss policies and expectations with internal auditors
- Apply appropriate digital security measures (passwords, encryption)
- Misuse includes using insider financial/strategic knowledge for personal gain

Evidence of Conformance:

- Controls over access to and use of information
- Documentation of relevant policies and training
- Minutes from meetings on proper information use
- Attendance records of training
- Signed acknowledgments of understanding

- Performance reviews

Standard 5.2: Protection of Information

Requirements:

- Protect information confidentiality, privacy, and ownership
- Understand and abide by laws, regulations, policies on confidentiality, information privacy, and information security
- Do not disclose confidential information to unauthorized parties unless legally or professionally obligated
- Manage risk of exposing information inadvertently
- CAE must ensure the internal audit function and assisting individuals adhere to protection requirements

How to Implement:

- Information is protected by laws, regulations, and organizational policies
- Consult with legal counsel to understand legal/regulatory requirements and protections
- Information access may be monitored to verify methodologies are followed
- Protect information through encryption, password protection, email distribution restrictions, social media restrictions, and physical access controls
- When no longer needed, revoke digital permissions and handle printed copies according to established methodologies

Evidence of Conformance:

- Documentation demonstrating application of relevant methodologies
- Documentation of mechanisms restricting information access
- Attendance records of training on protection of information
- Signed acknowledgments of understanding relevant policies
- Documentation of restrictions on distribution of workpapers and final communications
- Signed confidentiality/nondisclosure agreements
- Performance reviews