



The Institute of
Internal Auditors
Australia

Code of Professional Conduct for Internal Auditors

CONSULTATION DRAFT

Message from the President

The primary aim of this Code of Conduct for Internal Auditors is to enhance the effectiveness of the application and practice of internal audit and its role in the governance process, in all organisations, large or small, in the private and public sector. This benefit would be realised by following and adopting the principles and recommendations contained herein.

The IIA-Australia Board of Directors would like to provide this draft Code of Conduct (Code) as recommended by the Professional Responsibility and Ethics Committee of the board of the Institute of Internal Auditors-Australia (Institute). It will be distributed widely amongst members of the Institute, Chief Audit Executives, Senior Management, Stakeholders and Regulators for comment before a final version is released.

The Committee anticipates that this new Code will further raise awareness amongst all stakeholders of the responsibilities and commitments of the internal audit function, highlight the professional skills required and status of the profession.

As former APRA Chairman John Laker reminded us “after any failure, however, internal audit is inevitably one of the sacrificial lambs on the altar of accountability, and internal auditors do well to remember that if they are being tempted into silence or acquiescence”¹.

In APRA’s view, he says, the internal audit function needs to have a strong standing within the institution it serves. It must be recognised as a core part of governance and not some necessary burden or add-on.

Organisations and internal auditors will be asked to subscribe to the final version of the Code of Conduct, which will be prominently featured on the IIA-Australia website.

The mission of internal audit as set out in the International Professional Practices Framework (IPPF) is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

The Board believes that this Code of Conduct provides a consolidated, timely, and practical guide for the internal audit community.

I encourage you to provide comments on the draft code by 31 May 2022. Please email your comments to draftcode@iia.org.au.

Stephen Tiley
President • IIA-Australia
MARCH 2022

This Code relates to both individuals and entities that provide internal auditing services in the private and public sectors.

¹ Speech to the NSW Chapter of IIA-Australia reported in the Australian Financial Review Dec 17 2004: “Call for caution as audit chiefs move” by Stewart Oldfield.

In the age of advanced technology, where the physical, economic and social environment are integrated, internal auditors must take a proactive role to help shape behaviour as the organisation's trusted advisers. Rapid changes in internal audit roles also mean that members must be able to apply their code of ethics in the current and the foreseeable future environments.

The Code must be directed to provide timely guidance for internal auditors to meet technological challenges, such as the reliance of data analytics, or in organisational supply chain. Today's workforce is automating faster than expected and many new jobs will be created by AI and the robotics revolution. Therefore, members of the internal audit community must have a strong awareness of stakeholder needs that go beyond the changing traditional business functions.

Internal auditors must embrace the challenge of the increasing demand in skills, as strategic advisors, management analysts, and information security analysts.

The mandatory provisions of the *International Professional Practice Framework*² (IPPF) and, in particular, the *IIA Code of Ethics* (COE) are the ethical foundation for global internal audit practice.

The Institute of Internal Auditors - Australia recognises the impact of technology and the significance when working in complex businesses where information and data governance are vital.

With this *Code of Conduct*, IIA-Australia further empowers the internal audit profession in Australia in the transformation of the role of internal audit regarding ethical behaviour in the current fast developing environment.

Internal audit's operation within an organisation is based on trust. Internal auditors require access to organisational records, facilities and persons to fulfill their duties. Such access can only be granted on the basis of trust. A clear, rigorous and enforceable code of professional conduct is an essential prerequisite for this trust.

1.1 SOURCE OF THE CODE OF CONDUCT

This *Code of Conduct* provides a conceptual framework that internal auditors are to apply in order to identify, evaluate and address threats to comply with the fundamental principles. It combines the requirements of the IPPF, the COE, and incorporates recommendations from implementation Guides published by The Institute of Internal Auditors (The IIA). In five statements of ethical commitments, the Code identifies the essence of honesty, value creation, information integrity, competence, objectivity and professionalism. It sets out requirements and application material on contemporary topics to help internal auditors apply the conceptual framework to those topics.

The consolidation is aimed at improving the effectiveness of the internal audit function, and its role in the governance process in all organisations, large or small, in the private and public sector. It does not introduce any new requirements. Should any part of this Code conflict with the mandatory provisions of the IPPF then the IPPF will prevail.

² The mandatory components of the IPPF are the *Core Principles for the Professional Practice of Internal Auditing*, the *IIA Code of Ethics*, the *International Standards for the Professional Practice of Internal Auditing*, and the *Definition of Internal Auditing*.

1.2 APPLICATION

This Code of Conduct is applicable to all members of the Institute and entities that subscribe to the Code. A contravention of, or failure to comply with, any requirements in the Code may be regarded as a breach, and may be investigated by the Professional Responsibility and Ethics Committee (PREC). A member who breaches the Code might face disciplinary action as described in the By-laws of the Institute.

When an organisation subscribes to the Code, it applies to anyone who delivers internal audit services (either as an employee of the organisation they work for, or as a contracted service provider) it also includes Heads of Internal Audit, Chief Audit Executives, executive and non-executive directors, members of audit and risk committees, and senior management who are associated with internal audit activity.

1.3 THE PUBLIC INTEREST

A distinguishing feature of the internal auditing profession is its acceptance by members of the responsibility to act in the public interest. An internal auditor's responsibility is not exclusively to satisfy the needs of an individual client. Therefore, the Code contains requirements and application material to enable internal auditors to meet their responsibility to act in the public interest.

An internal auditor shall comply with this Code whether they are engaged in internal auditing within their own organisation or as part of a contracted service to another organisation. There is an expectation that contracts for the delivery of internal audit services will require adherence to this Code.

This Code operates alongside and is subject to existing laws and regulations.



2 Code of Conduct

Statements of professional behaviour

The IIA-Australia Code of Conduct are Statements of minimum acceptable standards of behaviour. Some jurisdictions might have provisions that go beyond those set out in the Code. Internal auditors in those jurisdictions need to be aware of those differences and comply with the more stringent provisions.

STATEMENT 1

We are honest and consistent in all our dealings.

The IIA *Code of Ethics* (COE) states that the “integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.” Internal auditors are expected to tell the truth, be frank and do the right thing, even when it is uncomfortable or difficult to do so. They should avoid taking inappropriate actions that might seem easier or might placate the objections of the client (e.g., concealing or omitting observations from an engagement report).

A person who behaves with integrity is consistent and predictable.

The Code of Ethics has three rules of conduct that relate to this requirement:

Internal auditors shall “observe the law and make disclosures expected by the law and the profession” (CoE Rule 1.2). A breach of the law will be regarded as a prima facie breach of this rule.

Internal auditors shall not “knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization” (CoE Rule 1.3). This broadens the requirement to obey the law and extends to knowledge of illegal acts and participation in dubious behaviour. Internal auditors are expected to hold themselves to a high standard and to report unacceptable behaviour to the competent authorities.

Internal auditors shall “respect and contribute to the legitimate and ethical objectives of the organization” (CoE Rule 1.4). Internal auditors are expected to meet the requirements of the code of conduct of their organisation. Where these are more rigorous than the IIA *Code of Ethics*, then the more rigorous provision applies.

An internal auditor is expected to behave with integrity in the face of unethical, corrupt or inappropriate behaviour within their organisation or society. Integrity is measured by the behaviour of an individual when they are under duress.

An internal auditor complying with this requirement will not knowingly be associated with reports, communications or other information where the internal auditor believes that the information:

- Contains a significantly false or misleading statement.
- Contains statements or information provided recklessly; or
- Omits or obscures required information where such omission or obscurity would be misleading.

STATEMENT 2

We work to preserve and grow value in our organisation.

As internal auditors our mission is to “enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight”.

This is expanded in two parts of the mandatory guidance:

The *Definition of Internal Auditing* (Definition) which describes internal audit as an activity “designed to add value and improve an organization’s operations”, and

The *Core Principles for the Professional Practice of Internal Auditing* (Core Principles), which state that internal audit “Aligns with the strategies, objectives, and risks of the organization” and that internal audit “promotes organizational improvement”.

The Standards (Standard 2000) states that Internal audit “adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance”.

Internal Auditors are uniquely placed to identify, deliver and preserve value in their organisation. Our internal audit engagements are orientated towards value and delivery of meaningful outcomes.

STATEMENT 3

We protect the information we have access to

Internal auditors have privileged access to corporate information. Along with that privileged access come obligations. As stated in Principle 3 of the *Code of Ethics*: “Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so”.

The related rules from the Code of Ethics are:

Internal auditors shall “be prudent in the use and protection of information acquired in the course of their duties” (CoE Rule 3.1).

Internal auditors shall not “use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization” (CoE Rule 3.2).

It is clear that this is a qualified duty. This duty prohibits our use of the information obtained for personal gain but, if the law or honesty require disclosure, then the CoE rules of Integrity (which include adherence to law) take precedence.

STATEMENT 4

We exhibit competence and professionalism

Principle 4 of the Code of Ethics requires internal auditors to “apply the knowledge, skills, and experience needed in the performance of internal audit services”. Professionalism is also related to the principle of integrity.

The Code of Ethics has several related rules:

Internal auditors shall “perform their work with honesty, diligence, and responsibility” (CoE Rule 1.1). As stated in Standard 1220, internal auditors “must apply the skill and care expected of a reasonably prudent and competent internal auditor”. Failure to follow the Standards where it is within the authority of the auditor to do so would be regarded as a prima facie breach of this rule. However, to establish unethical behaviour the failure would need to be established as careless disregard rather than as a minor technical breach.

Internal auditors shall “engage only in those services for which they have the necessary knowledge, skills, and experience” (CoE Rule 4.1).

Internal auditors shall “perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing” (CoE Rule 4.2).

Internal auditors shall “continually improve their proficiency and the effectiveness and quality of their services” (CoE Rule 4.3).

The implications of these rules include that an internal auditor will:

- Attain appropriate qualifications in internal auditing as evidenced by being a Certified Internal Auditor (CIA), completing the Graduate Certificate in Internal Auditing or becoming a professional member of the Institute of Internal Auditors,
- Maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on the IPPF and relevant legislation;
- Attain appropriate assistance when they do not have a sufficient understanding of the subject matter, and
- Act diligently and in accordance with the Standards.

Professional competence requires the exercise of sound judgement when applying professional knowledge and skill. This sound judgment includes an element of professional scepticism: understanding that information provided can be incomplete or distorted. An internal auditor is expected to use multiple, independent sources of information in coming to a conclusion.

Maintaining professional competence requires a continuing awareness, and an understanding of relevant technical, professional and business developments. Continuing professional development (CPD) enables an internal auditor to develop and maintain the capabilities to perform competently within the professional environment.

To gain insight into their level of competency, proficiency, and effectiveness and to find areas for potential growth, internal auditors should regularly assess themselves. The IIA’s Competency Framework may be a useful benchmarking tool for this purpose. In addition, internal auditors should seek constructive feedback from peers, supervisors, and the CAE. Feedback may be given throughout engagements, during supervisory reviews of workpapers, and/or after closing engagements and may involve a combination of informal communication and formal processes established by the CAE. The overall work performance of individual internal auditors may be reviewed at regular intervals, such as annually or semiannually.³

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

In complying with the principle of professional competence and due care, an internal auditor would take reasonable steps to ensure that those working in a professional capacity under the internal auditor’s authority have appropriate qualifications, training and are properly supervised. An internal auditor would not undertake or continue with any engagement that they are not competent to perform, unless the internal auditor obtains advice and assistance that enables the conduct of the engagement satisfactorily.

Where appropriate, an internal auditor shall make clients, or other users of the internal auditor’s professional services or activities, aware of the limitations inherent in the services or activities.

STATEMENT 5

We are objective

The Core Principles state that effective internal auditing is “objective and free from undue influence”. Further, Principle 2 of the *Code of Ethics* states that 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”.

The Standards require internal auditors to base conclusions upon the “analysis of sufficient, reliable, relevant and useful information”. The documented evidence must be such that a “a prudent, informed person would reach the same conclusions as the auditor”.

The Code of Ethics details three relevant rules of conduct:

Internal auditors 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” (CoE Rule 2.1).

Internal auditors shall not “accept anything that may impair or be presumed to impair their professional judgment” (CoE Rule 2.2). Today, most organisations have policies about the receipt of gifts or hospitality from suppliers or customers some have similar policies that apply to relationships within the organisation. An internal auditor must go a step further and ensure that there can be no suggestion that they have been influenced by such activities, regardless of their origin.

Internal auditors shall “disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review” (CoE Rule 2.3). Objectivity requires that the internal auditor is fair-minded and does not select information in a manner that prejudices the outcome.

The Standards (1120) warn internal auditors of various ways in which objectivity may be impaired. These include personal conflicts of interest that may arise from current and prior relationships or prior activities of the internal auditor. Typical threats to objectivity include:

Self-interest – where the internal auditor has a financial or personal relationship that may inappropriately influence the internal auditor’s judgment or behaviour. These may arise from long-term association, family and other emotional relationships, or being mutually dependent financially.

Self-reviews – where the internal auditor may be asked to form an opinion on a judgment, decision or service that they have performed or, in the case of an internal audit service provider, has been made by another individual within the internal auditor’s firm.

Intimidation – where the internal auditor is subject to coercive behaviour, such as threats of dismissal or financial/social penalty, to formulate a conclusion in a specific manner.

Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, an internal auditor’s objectivity. A circumstance or relationship may create more than one threat.

A conflict of interest does not preclude an internal auditor from undertaking any specific engagement, but all such conflicts should be declared to competent authority (their CAE or audit committee) prior to the work being commenced.

3

Conflicts of provisions within the code

An internal auditor might face a situation in which complying with one ethical requirement conflicts with complying with one or more other ethical requirements. In such a situation, the internal auditor might consider consulting, on an anonymous basis, if necessary, with:

- Others within the organisation.
- Those charged with governance.
- The Institute of Internal Auditors.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the internal auditor from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

The internal auditor is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

4

Enforcement

4.1 WHISTLEBLOWING

Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour such as complaint and disciplinary processes operated by the Institute of Internal Auditors-Australia. These enables colleagues, employers and members of the public to draw attention to unlawful, unprofessional or unethical behaviour and provide the ability to report breaches of unethical conduct.

4.2 COMPLAINTS MECHANISM

IIA-Australia is committed to ensuring the highest standards of professional conduct and performance of its members and takes seriously any complaint made about the behaviour and actions of its members and/or companies that subscribe to the Code.

Ethical complaints against IIA-Australia members should be directed to the IIA-Australia Chief Executive Officer.

They will be registered and then referred to the Professional Responsibility and Ethics Committee.



4.3 PROFESSIONAL RESPONSIBILITY AND ETHICS COMMITTEE

The PREC is a committee appointed by the Board of IIA-Australia to manage complaints of breaches of this code by IIA-Australia members and/or organisations that are subscribers to the Code. When an investigation is necessary, the committee will nominate an investigation team of three senior Professional Members of IIA-Australia without conflicts in relation to either the complainant(s) or the individual(s) who are the subject of the complaint. Members of the IIA-Australia Board and other officers of IIA-Australia are not eligible to undertake this role. Decisions of the PREC arising from an investigation may be appealed to an independent arbiter who will be engaged for the purpose.

4.4 SANCTIONS

Sanctions for failure to follow this code can be:

- A formal warning
- A requirement to undertake specified professional development activities
- Cancellation of IIA-Australia Membership and/or
- Petition to the Institute of Internal Auditors Inc Global Professional Ethics and Responsibility Committee for the cancellation of an IIA Certification.
- Removal of the organisation from the subscriber register.



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