

Code of Conduct for Internal Auditors

INTRODUCTION

Pursuant to Article 8 of the internal audit sub decree No. 40 ANK/BK dated February 15th, 2005, on the organization and functioning of the Ministries, Organizations, and State own enterprises, the Ministry of Economy and Finance, has developed the Code of Conduct for internal auditors. This Code of Conduct provides guidance to internal auditors working in the RGC. The purpose of the Code of Conduct is to promote an ethical culture in the profession of internal auditing..

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

A code of conduct is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, internal control, and governance. The Code of Conduct extends beyond the definition of internal auditing to include two essential components:

1. *Principles* that are relevant to the profession and practice of internal auditing;
2. *Rules of Conduct* that describes behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

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

Confidentiality

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.

Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of

internal auditing services.

RULES OF CONDUCT

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. 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 RGC.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the RGC.

2. Objectivity

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 RGC.
- 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.

3. Confidentiality

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 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 RGC.

4. Competency

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2 Shall perform internal auditing services in accordance with the *Standards for the Professional Practice of Internal Auditing* as issued by the Ministry of Economy and Finance.
- 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.

STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Introduction

Pursuant to Article 8 of the internal audit sub decree No. 40 ANK/BK dated February 15th, 2005, the Ministry of Economy and Finance has developed the standards for the practice of internal auditing in the public sector. These standards must be followed by internal auditors in the public sector. The term “standards” means the criteria by which the operations of an internal auditing function are evaluated and measured. They are intended to represent the practice of internal auditing as it should be carried out in a professional manner. Compliance with the concepts enunciated by these Standards is essential before the responsibilities of internal auditors can be met.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

“Independence” as used in these standards requires clarification. Internal auditors must be independent of the activities they audit. Such independence permits internal auditors to perform their work freely and objectively. Without independence, the desired results of internal auditing cannot be realized.

There are five general standards:

1. Independence
2. Proficiency and professional care
3. Scope of work
4. Performance of audit assignments
5. Management of the internal auditing function

1. INDEPENDENCE

Internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational status and objectivity.

a. Organizational status

The executive in charge of internal auditing should be responsible and report to the head of the organization who has the authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports and appropriate action on audit recommendations. The head of audit should have direct communication with the head of institution, ministry or board of directors. The head of each state institution or boards of directors of public enterprises, at their

discretion, may establish an audit committee to assist them in promoting the independence of internal audit.

b. Objectivity

Internal auditors must perform their audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors must not be placed in situations in which they feel unable to make objective professional judgments. Situations that may lead to potential and actual conflicts of interest and bias must be avoided when staff are assigned to a particular assignment. The head of internal audit must periodically obtain from the audit staff information concerning potential conflicts of interest and bias. Similarly audit staff must advise the head of any situations in which a conflict of interest or bias is present or may reasonably be inferred.

Internal auditors should not assume operating responsibilities. Objectivity is impaired when internal auditors audit any activity for which they had authority and responsibility. The results of internal auditing work should be reviewed before the related audit report is released to provide reasonable assurance that the work was performed objectively. The internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented. Designing, installing and operating systems are not auditing functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity.

2. PROFESSIONAL PROFICIENCY

Internal audits should be performed with proficiency and due professional care. Professional proficiency is the responsibility of the internal audit function and each internal auditor. The head of internal audit should assign to each audit assignment those persons who collectively have the necessary knowledge, skills and disciplines to conduct the audit properly.

a. Staffing

The head of internal auditing function must provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

The head of internal audit should establish suitable criteria of education and experience for filling internal auditing positions, giving due consideration to scope of work and level of responsibility.

b. Knowledge, skills and disciplines

The internal auditing function should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities. The internal auditing staff should collectively possess knowledge and skills essential to the practice of the profession within the organisation. These attributes include proficiency in applying internal auditing standards, procedures and techniques.

The internal auditing function should have employees or use consultants who are qualified in such disciplines as accounting, economics, finance, statistics, electronic data processing, engineering, taxation and law as needed to meet audit responsibilities. Each member of the unit, however, need not be qualified in all of these disciplines.

Internal auditors should possess the knowledge, skills and disciplines essential to the performance of internal audits. Each internal auditor should possess certain knowledge and skills as follows:

- Proficiency in applying internal auditing standards, procedures and techniques is required in performing internal audits. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance.
- Proficiency in accounting principles and techniques is required for auditors who work extensively with financial records and reports
- An understanding of management principles is required to recognize and evaluate the materiality and significance of deviations from good business practice. An understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to be able to carry out research necessary to arrive at a reasonable solution.
- An appreciation is required of the fundamentals of such subjects as accounting, taxation, economics, commercial law, finance, project management, revenue/expenditure management, quantitative methods, and computerized information systems. An appreciation means the ability to recognize the existence of problems or potential problems and to determine the further research to be undertaken or the assistance to be obtained.

c. Supervision

The internal auditing function should provide assurance that internal audits are properly supervised. The head of internal auditing is responsible for providing appropriate audit supervision. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment.

Supervision includes:

- Providing suitable instructions to subordinates at the outset of the audit and approving the audit program
- Seeing that the approved audit program is carried out unless deviations are both justified and authorised
- Determining that audit working papers adequately support the audit findings, conclusions and reports
- Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely
- Determining that audit objectives are being met

Appropriate evidence of supervision should be documented and retained. The extent of supervision required will depend on the proficiency of the internal auditors and the difficulty of the audit assignment. All internal auditing assignments, whether performed by, or for the internal auditing function, remain the responsibility of the head of internal auditing.

d. Compliance with standards of conduct

Internal auditors should comply with professional standards of conduct. Internal auditors should conform to high standards of honesty, objectivity, diligence and loyalty. The internal auditors are also bound to comply with the Code of Conduct pursuant to article 8 of the Internal Audit Sub Decree No 40 ANK/BK attached to these standards..

e. Human resources and communications

Internal auditors should be skilled in dealing with people and in communicating effectively. Internal auditors should understand human relations and maintain satisfactory relationships with auditees.

Internal auditors should be skilled in oral and written communications so that they can clearly and effectively convey such matters as audit objectives, evaluations, conclusions and recommendations.

f. Continuing education

Internal auditors should maintain their technical competence through continuing education. Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies; attendance at conferences, seminars, college courses, and in-house training programs; and participation in research projects.

g. Due professional care

Internal auditors should exercise due professional care in performing internal audits. Due professional care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Professional care should therefore be appropriate to the complexities of the audit being carried out. In exercising due professional care, internal auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They should also be alert to those conditions and activities where irregularities are most likely to occur.

In addition, they should identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices.

Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations and verifications to a reasonable extent, but does not require detailed audits of all transactions. Accordingly the internal auditor cannot give absolute assurance that non-compliance or irregularities do not exist. Nevertheless the possibility of material irregularities or non-compliance should be considered whenever the internal auditor undertakes an internal auditing assignment.

When the internal auditor suspects wrongdoing, the appropriate authorities within the organisation should be informed. The internal auditor may recommend whatever investigation is considered necessary in the circumstances. Thereafter the auditor should follow up to see that the internal auditing function's responsibilities have been met.

Exercising due professional care means using reasonable audit skill and judgment in performing the audit. To this end the internal auditor should consider:

- The extent of audit work needed to achieve audit objectives
- The relative materiality or significance of matters to which audit procedures are applied
- The adequacy and effectiveness of internal controls
- The cost of auditing in relation to potential benefits

Due professional care includes evaluating established operating standards and determining whether those standards are acceptable and are being met. When such standards are vague, authoritative interpretations should be sought. If internal auditors are required to interpret or select operating standards, they should seek agreement with the auditees as to the standards needed to measure operating performance.

3. SCOPE OF WORK

The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization:

- (a) systems of risk management,
- (b) governance processes,
- (c) internal control and
- (d) the quality of performance in carrying out assigned responsibilities.

(a) The purpose of the review of risk management is to assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems. The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system. The internal audit activity should evaluate risk exposures relating to the organization's governance, operations and information systems regarding the

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with laws, regulations and contracts

(b) The purpose of the review of the governance processes is to assess and make appropriate recommendations for improving the governance processes in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation
- Ensuring effective organizational performance management and accountability
- Effectively communicating risk and control information to appropriate areas of the organisation
- Effectively coordinating the activities of and communicating information among the minister/board, external and internal auditors and management.

The internal audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics related objectives, programs and activities.

(c) The purpose of the review for adequacy of the system of internal control is to ascertain whether the systems established provide reasonable assurance that the organization's objectives and goals will be met efficiently and economically.

The purpose of the review for effectiveness of the system on internal control is to ascertain whether the system is functioning as intended.

(d) The purpose of the review for quality of performance is to ascertain whether the organization's objectives and goals have been achieved.

The primary objectives of internal controls are to ensure:

- The reliability and integrity of information
- Compliance with policies, plans, procedures, laws, and regulations
- The safeguarding of assets
- The economical and efficient use of resources
- The accomplishment of established objectives and goals for operations or programs

a. Reliability and integrity of information

Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

Information systems provide data for decision-making, control, and compliance with external requirements. Therefore internal auditors should examine information systems, and, as appropriate, ascertain whether:

- Financial and operating records and reports contain accurate , reliable, timely, complete and useful information
- Controls over record keeping and reporting are adequate and effective

b. Compliance with policies, plans, procedures, laws and regulations

Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and should determine whether the organisation is in compliance.

Management is responsible for establishing the systems designed to ensure compliance with such requirements as policies, plans, procedures, and applicable laws and regulations. Internal auditors are responsible for determining whether the systems are adequate and effective and whether the activities audited are complying with the appropriate requirements.

c. Safeguarding of assets

Internal auditors should review the means of safeguarding assets and as appropriate, certify the existence of such assets. Internal auditors should review the means used to safeguard assets from various types of losses such as those resulting from theft, fire, improper or illegal activities, and exposure to the elements. Internal auditors when verifying the existence of assets should use appropriate audit procedures

d. Economical and efficient use of resources

Internal auditors should appraise the economy and efficiency with which resources are employed. Management is responsible for setting operating standards to measure an activity's economical and efficient use of resources. Internal auditors are responsible for determining whether:

- Operating standards have been established for measuring economy and efficiency
- Established operating standards are understood and are being met
- Deviations from operating standards are identified, analyzed, and communicated to those responsible for corrective action
- Corrective action has been taken

Audits related to the economical and efficient use of resources should identify such conditions as:

- Underutilized facilities
- Non productive work
- Procedures which are not cost justified
- Overstaffing or understaffing

e. Accomplishment of established objectives and goals for operations or programs

Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

Management is responsible for establishing operating or program objectives and goals, developing and implementing control procedures, and accomplishing desired operating or program results. Internal auditors should ascertain whether such objectives and goals conform with those of the organisation and whether they are being met.

Internal auditors should provide assistance to managers who are developing objectives, goals, and systems by determining whether the underlying assumptions are appropriate; whether accurate, current, and relevant information is being used; and whether suitable controls have been incorporated into the operations or programs.

4. PERFORMANCE OF AUDIT WORK

Audit work should include planning the audit, examining and evaluating information, communicating results and following up. The internal auditor is responsible for planning and conducting the audit assignment, subject to supervisory review and approval.

a. Planning the audit

Planning should be documented and should include:

- Establishing audit objectives and scope of work
- Obtaining background information about the activities to be audited
- Determining the resources necessary to perform the audit
- Communicating with all who need to know about the audit
- Performing, as appropriate, an on site survey to become familiar with the activities and controls to be audited, to identify areas for audit emphasis and to invite auditee comments and suggestions
- Writing the audit program
- Determining how, when and to whom the audit results will be communicated
- Obtaining approval of the audit work plan

b. Examining and evaluating information

Internal auditors should collect, analyze, interpret, and document information to support audit results. The process of examining and evaluating information is as follows:

- Information should be collected on all matters related to the audit objectives and scope of work
- Information should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations

Sufficient information is factual, adequate, and convincing, so that a prudent, informed person would reach the same conclusions as the auditor.

Competent information is reliable, and the best attainable through the use of appropriate audit techniques.

Relevant information supports audit findings and recommendations and is consistent with the objectives of the audit.

Useful information helps the organisation meet its goals.

Audit procedures, including the testing and sampling techniques employed, should be selected in advance, wherever practicable, and expanded or altered if circumstances warrant.

The process of collecting, analyzing, interpreting, and documenting information should be supervised to provide reasonable assurance that the auditor's objectivity is maintained and that audit goals are met.

Working papers that document the audit should be prepared by the auditor and reviewed by management of the internal auditing function. These papers should record the information obtained and the analyses made and should support the bases for the findings and recommendations to be reported.

c. Communicating results

Internal auditors should report the results of their audit work. A signed, written report should be issued after the audit examination is completed. Interim reports may be written or oral and may be transmitted formally or informally.

The internal auditor should discuss conclusions and recommendations at appropriate levels of management before issuing final written reports.

Reports should be objective, clear, concise, constructive, and timely.

Reports should present the purpose, scope, and the results of the audit; and where appropriate, reports should contain an expression of the auditor's opinion.

Reports may include recommendations for potential improvements and acknowledge satisfactory performance and corrective action.

The Auditee's views about audit conclusions or recommendations may be included in the audit report.

The head of internal auditing or designee should review and approve/sign the final audit report before issuance and should decide to whom the report will be distributed.

d. Following up

Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings. Internal auditing should determine that corrective action was taken and is achieving the desired results, or that management or the board has assumed the risk of not taking corrective action on reported findings.

5. MANAGEMENT OF THE INTERNAL AUDITING FUNCTION

The head of internal auditing should properly manage the Internal Auditing activity. The head is responsible for ensuring that:

- Audit work fulfils the general purposes and responsibilities approved by management and as required in the internal audit sub decree.
- The internal audit activity evaluates and contributes to the improvement of risk management, control and governance processes using a systematic and disciplined approach. Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations and information systems. This should include: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; compliance with laws, regulations and contracts
- The internal audit activity assesses and makes appropriate recommendations for improving the governance process in its accomplishment of the following objectives: promoting appropriate ethics and values within the organisation; ensuring effective organizational performance management and accountability; effectively communicating risk and control information to appropriate areas of the organisation; effectively

coordinating the activities of and communicating information among the board, external and internal auditors and management

- Resources of the internal auditing function are efficiently and effectively employed
- Audit work conforms to the internal audit standards.

a. Purpose, authority and responsibility

The head of internal auditing should have a statement of purpose, authority and responsibility for the internal auditing function. This is normally embodied in the mandate or audit charter. The head must ensure that a formal written charter approved by management is available for the function. The head of the internal audit function must sign audit reports that are to be issued.

b. Planning

The head of internal auditing should establish plans to carry out the responsibilities of the internal auditing function. These plans should be consistent with the internal auditing function's charter and with the goals of the organisation. The planning process involves establishing:

- Goals
- Audit work schedules
- Staffing plans and financial budgets
- Activity reports

The goals of the internal auditing function should be capable of being accomplished within specified operating plans and budgets and, to the extent possible, should be measurable. They should be accompanied by measurement criteria and targeted dates of accomplishment.

Audit work schedules should include:

- what activities are to be audited
- when they will be audited and
- the estimated time required taking into account the scope of the audit work planned and the nature and extent of the audit work performed by others.

Matters to be considered in establishing audit work schedule priorities should include:

- the date and results of the last audit
- financial exposure
- potential loss and risk
- request by management
- major changes in operations, programs, systems, and controls
- opportunities to achieve operating benefits and
- changes to and capabilities of the audit staff. The work schedule s should be sufficiently flexible to cover unanticipated demands on the internal auditing function.

Staffing plans and financial budgets, including the number of auditors and the knowledge, skills, and disciplines required to perform their work, should be determined from audit work schedules, administrative activities, education and training requirements, and audit research and development efforts. Activity reports should be submitted periodically to management and the board where applicable. These reports should compare (a) performance with the department's goals and audit work schedules and (b) expenditures with financial budgets. They should explain the reason for major variances and indicate any action taken or needed.

c. Policies and procedures

The head of internal auditing should provide written policies and procedures to guide the audit staff.

The form and content of written policies and procedures should be appropriate to the size and structure of the internal auditing function and the complexity of the work. All internal auditing functions may not need formal administrative and technical audit manuals. A small internal auditing function may be managed informally. Its audit staff may be directed and controlled through daily, close supervision and written memoranda. In a large internal auditing function more formal and comprehensive policies and procedures are essential to guide the audit staff in the consistent compliance with the unit's standards of performance.

d. Personnel management and development

The head of internal auditing should establish a program for selecting and developing the human resources of the internal auditing function. The program should provide for:

- Developing written job descriptions for each level of the audit staff
- Selecting qualified and competent individuals
- Training and providing continuing educational opportunities for each internal auditor
- Appraising each internal auditors performance at least annually
- Providing counsel to internal auditors on their performance and professional development

e. Quality assurance

The head of internal auditing should establish and maintain a quality assurance program, to evaluate the operations of the internal auditing function.

The purpose of this program is to provide reasonable assurance that audit work conforms with the internal audit sub decree, the standards, and the internal audit charter. A quality assurance program should include the following:

- Supervision
- Internal reviews
- External reviews
- Supervision of the work of the internal auditors should be carried out continually to assure conformance with internal auditing standards, policies and audit programs
- Internal reviews should be performed periodically by members of the internal auditing staff to appraise the quality of the work performed. These reviews should be performed in the same manner as any other internal audit
- External reviews of the internal auditing unit should be performed to appraise the quality of its operations. Qualified persons who are independent of the organisation and who do not have either a real or an apparent conflict of interest should perform these reviews. Such reviews should be conducted at least once every three years. On completion of the review a formal written report should be issued. The report should issue an opinion on the function's compliance with the standards and as appropriate include recommendations for improvement.

Glossary

Add Value- Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure.

Charter- The charter of the internal audit activity is a formal written document that defines the activity's purpose, authority, and responsibility. The charter should (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit activities.

Code of Ethics- The Code of Ethics are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing.

Compliance- Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements

Conflict of Interest- Any relationship that is or appears to be not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Control- Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, directs and controls the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Governance- the combination of processes and structures implemented by executive management/board of directors in order to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Independence- The freedom from conditions that threaten objectivity or the appearance of objectivity

Risk- The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Management- A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives.