



International Professional
Practices Framework

Implementation Guide 1120

Standard 1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Revised Standards, Effective 1 January 2017

Getting Started

Objectivity refers to an internal auditor's impartial and unbiased mindset, which is facilitated by avoiding conflicts of interest. Therefore, to implement this standard, the chief audit executive (CAE) will first want to understand policies or activities within the organization and within internal audit that could enhance or hinder such a mindset. For example, many organizations

have standard performance evaluation and compensation policies, as well as employee conflict of interest policies. Internal audit will often customize these policies to address internal audit roles specifically and may have other relevant departmental policies, such as policies that specify training requirements. The CAE will want to understand the nature of relevant policies identified and consider their potential impact on internal audit objectivity.

Considerations for Implementation

To manage internal audit objectivity effectively, many CAEs have an internal audit policy manual or handbook that describes the expectation and requirements for an unbiased mindset for every internal auditor. Such a policy manual may describe:

- The critical importance of objectivity to the internal audit profession.
- Typical situations that could undermine objectivity, such as auditing in an area in which an internal auditor recently worked; auditing a family member or a close friend; or assuming, without evidence, that an area under audit is acceptable based solely on prior positive experiences.
- Actions the internal auditor should take if he or she becomes aware of a current or potential objectivity concern, such as discussing the concern with an internal audit manager or the CAE.
- Reporting requirements, where each internal auditor periodically considers and discloses conflicts of interest. Often, policies require internal auditors to indicate that they understand the conflict of interest policy and to disclose potential conflicts. Internal auditors sign annual statements indicating that no potential threats exist or acknowledging any known potential threats.

To reinforce the importance of these policies and help ensure all internal auditors internalize their importance, many CAEs will hold routine workshops or training on these fundamental concepts. Such training sessions will often allow internal auditors to better understand objectivity by considering objectivity-impairing scenarios and

how best to address them. For example, more senior auditors and managers may share personal experiences where objectivity was called into question or where they self-disclosed a relationship or experience that was a conflict. Another common related training topic is professional skepticism. Such training reinforces the nature of skepticism and the criticality of avoiding bias and maintaining an open and curious mindset.

Further, when assigning internal auditors to specific engagements, the CAE (or delegate) will consider potential objectivity impairments and avoid assigning team members who may have a conflict, as described above. For example, when internal auditors have moved into internal audit from other departments, the CAE must follow Standard 1130.A1, which requires internal auditors to refrain from assessing operations for which they were previously responsible for at least one year after leaving the operation. In addition, the CAE (or delegate) will discuss with potential team members the nature of an assignment and the individuals and departments involved, and explore whether there is a conflict that would impair (or appear to impair) an internal auditor's objectivity. Internal auditors are encouraged to share any concerns they may have so that internal audit management can determine whether the internal auditor may participate on the engagement.

It is widely understood that performance and compensation practices can significantly and negatively affect an individual's objectivity. For example, if an internal auditor's performance evaluation, salary or bonus are significantly based on client satisfaction surveys, the internal auditor may hesitate to report negative results that may cause the client to report low satisfaction ratings. Or, if the auditor evaluation process is heavily focused on the number of observations, or on staying within the audit budget, it could cause the internal auditor to lose objectivity and either report a relatively minor issue as an audit finding, or ignore warning signs of new issues that arise near the end of an engagement, when the budget is nearly depleted. Therefore, the CAE needs to be thoughtful in designing the internal audit performance evaluation and compensation system and consider whether the measurements used could impair an internal auditor's objectivity. Ideally, the evaluation process will balance auditor performance, audit results, and client feedback measurements.

Considerations for Demonstrating Conformance

Documentation that may demonstrate conformance with the standard includes the internal policy manual, which contains performance evaluation and compensation processes as well as clear policies on objectivity and avoiding and reporting conflicts of interest. Training records or materials may demonstrate that internal auditors have been made aware of the importance of objectivity, the nature of threats to objectivity, and examples of conflicts of interest.

In addition, if a related policy at the organization or internal audit level exists, there may be signed acknowledgement forms to disclose the existence (or nonexistence) of conflicts. Engagement workpapers would document the team assigned and could be compared to employment records or acknowledgement forms to confirm that known conflicts were avoided.

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 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance 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 (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

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 and, as such, is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

Copyright

Copyright® 2016 The Institute of Internal Auditors. For permission to reproduce, please contact guidance@theiia.org.