THE IIA's CIA LEARNING SYSTEM®

# Essentials of Internal Auditing

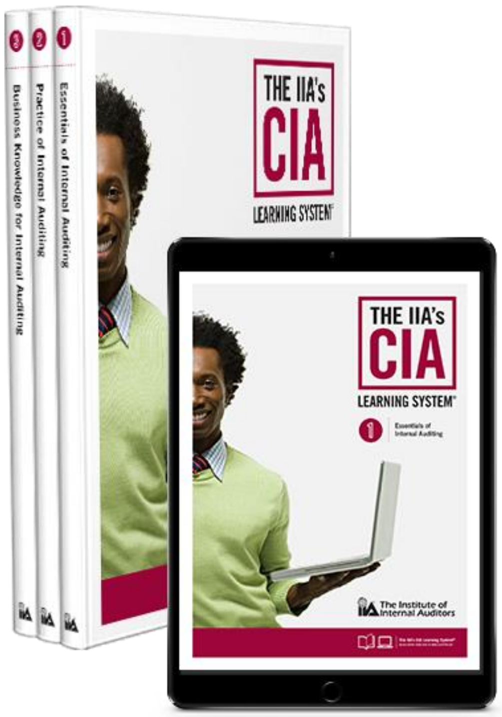
Section II



The Institute of Internal Auditors

# Section II: Independence and Objectivity

- **Topic A:** Organizational Independence of the Internal Audit Activity
- **Topic B:** Impairments to Independence
- **Topic C:** Auditor Objectivity
- **Topic D:** Promoting Objectivity



# Independence and Objectivity, Defined

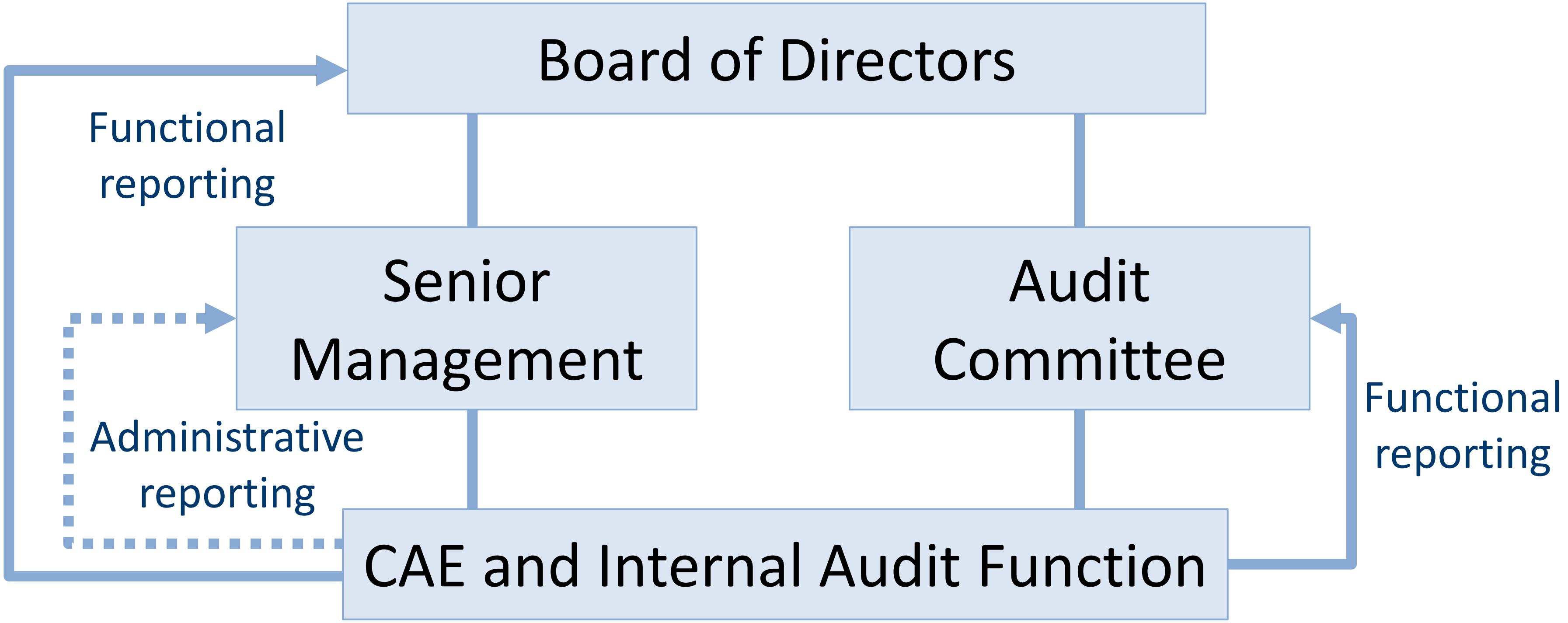
**Independence**

"The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner"

**Objectivity**

"An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no significant quality compromises are made"

# Independence and Reporting Relationships



## Functional Reporting

**Provides Independence and Authority**

(Board, audit committee)

- Approve internal audit charter, risk-based internal audit plan, budget and resource plan, decisions on CAE
  - Appointment/removal
  - Remuneration of CAE
- Communications from CAE
- Appropriate inquiries of management and CAE

## Administrative Reporting

**Facilitates Day-to-Day Operations**

(Senior management)

- Budgeting and management accounting
- Human resource administration
- Internal communications and information flows
- Administration of internal audit activity's policies and procedures

# Alignment to Ensure Organizational Independence

- Have regular and direct communication with the board.
- Report to senior management individual with sufficient authority to:
  - Promote independence.
  - Ensure broad audit coverage.
- Report directly to the audit committee (or its equivalent).

# Discussion Question

Identify whether the following items exemplify potential impairments. Respond "yes," "no," "maybe," or "probable."

1. Acceptance of a breakfast invitation
2. An executive demanding to reschedule an audit
3. A client gift of a designer travel wallet
4. Denial of facility access

# Discussion Question

Identify whether the following items exemplify potential impairments. Respond “yes,” “no,” “maybe,” or “probable.”

**Answers:**

| | |
|---|---|
| Maybe | 1. Acceptance of a breakfast invitation |
| Yes | 2. An executive demanding to reschedule an audit |
| Probable | 3. A client gift of a designer travel wallet |
| Yes | 4. Denial of facility access |

***Potential impairments should be reported to the CAE.***

# Practice Question

Which action best exemplifies internal auditing objectivity?

A. A competing personal interest not resulting in any unethical or improper acts

B. Win-win conflict resolution

C. Assuming that a prior positive audit proves effective risk mitigation

D. An unbiased mental attitude

# Practice Question

Which action best exemplifies internal auditing objectivity?

A. A competing personal interest not resulting in any unethical or improper acts
B. Win-win conflict resolution
C. Assuming that a prior positive audit proves effective risk mitigation
D. An unbiased mental attitude

**Answer:** D. An internal auditor must have an unbiased and impartial mindset in regard to all engagements.

# Maintaining Individual Objectivity

**CAE**

- Periodic query of internal auditing staff
- Periodic staff assignment rotation

**Internal Auditor**

- Refusal of material fees, gifts, or entertainment—consideration of what is "reasonable"

# Policies to Promote Objectivity

**Internal auditors should:**

- Have no recent operational responsibility for reviewed activity.
- Have had no authority or responsibility during the past year or a reasonable time frame.
- Abide by the Code of Ethics.
- Not subordinate judgment to that of others.
- Not compromise quality of work or objectivity of judgment.
- Avoid potential conflicts of interest and bias.
- Have CAE review engagement results before release.

# End of Section II

Questions?