

STUDY UNIT ONE

FOUNDATIONS OF INTERNAL AUDITING

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This study unit covers **Domain I: Foundations of Internal Auditing** from The IIA's CIA Exam Syllabus. This domain makes up 15% of Part 1 of the CIA exam and is tested at the **basic** and **proficient** cognitive levels. Refer to the complete syllabus located in Appendix B to view the relevant sections covered in Study Unit 1.

1.1 APPLICABLE GUIDANCE

1. International Professional Practices Framework (IPPF)

- a. The Institute of Internal Auditors (The IIA) defines the **mission** of internal audit as follows:
 - 1) “To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”
 - 2) Facilitating the achievement of this mission is the IPPF.
- b. The IPPF organizes The IIA’s authoritative guidance so that it is accessible and strengthens The IIA as a global standard setter.
- c. The IPPF contains **mandatory** guidance and **recommended** guidance.

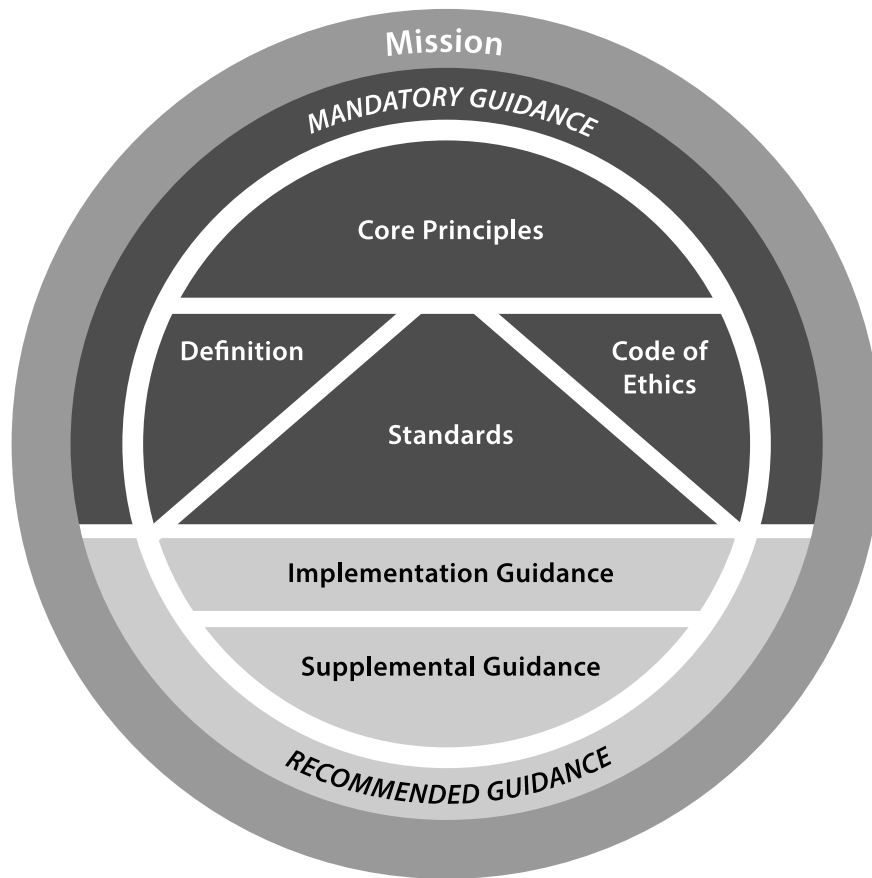


Figure 1-1. IPPF Standards




SUCCESS TIP

Knowledge of the IPPF is important for understanding and distinguishing among the elements of the authoritative guidance on internal auditing. But it is more important that you **understand** and can accurately **apply** the **content** contained in the IPPF. Parts 1 and 2 of the CIA exam primarily test understanding and application of IPPF content.

2. Mandatory Guidance

- a. Adherence to the mandatory guidance is essential for the professional practice of internal auditing.
 - 1) If the *Standards* are used with requirements of other authoritative bodies, internal audit communications also may cite the other requirements. But, if the *Standards* and other requirements are inconsistent, internal auditors must conform with the *Standards* and may conform with the other requirements if they are more restrictive.
- b. The mandatory guidance consists of four elements: the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
 - 1) The **Core Principles** are the basis for internal audit effectiveness. The internal audit function is effective if all principles are present and operating effectively. The following are the Core Principles:
 - a) “Demonstrates integrity.
 - b) Demonstrates competence and due professional care.
 - c) Is objective and free from undue influence (independent).
 - d) Aligns with the strategies, objectives, and risks of the organization.
 - e) Is appropriately positioned and adequately resourced.
 - f) Demonstrates quality and continuous improvement.
 - g) Communicates effectively.
 - h) Provides risk-based assurance.
 - i) Is insightful, proactive, and future-focused.
 - j) Promotes organizational improvement.”
 - 2) The **Definition of Internal Auditing** is a concise statement of the role of the internal audit activity in the organization.
 - a) “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.**”
 - 3) The detailed text of the **Code of Ethics** is in Subunit 1.3.
 - 4) The **Standards** (known formally as the *International Standards for the Professional Practice of Internal Auditing*) serve the following four purposes described by The IIA:
 - a) “Guide adherence with the mandatory elements of the International Professional Practices Framework.
 - b) Provide a framework for performing and promoting a broad range of value-added internal auditing services.
 - c) Establish the basis for the evaluation of internal audit performance.
 - d) Foster improved organizational processes and operations.”

- c. The *Standards* are vital to the practice of internal auditing, but CIA candidates need not memorize them. However, the principles they establish should be thoroughly understood and appropriately applied.
- 1) **Attribute Standards**, numbered in the 1000s, govern the responsibilities, attitudes, and actions of the organization's internal audit activity and the people who serve as internal auditors. They appear in boxes with green highlighting (example below) throughout this text.



Attribute Standard 1000 **Purpose, Authority, and Responsibility**

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

- 2) **Performance Standards**, numbered in the 2000s, govern the nature of internal auditing and provide quality criteria for evaluating the internal audit function's performance. Performance Standards also appear in boxes with green highlighting (example below).



Performance Standard 2120 **Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

- 3) **Interpretations** are provided by The IIA to clarify terms and concepts referred to in Attribute or Performance Standards. Interpretations appear in boxes with blue highlighting (example below) throughout this text.



Interpretation of Standard 1000

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.