



Ethics & Professional Accountability:  
Structural Challenges in the Audit, Assurance & Consultancy Industry  
Executive Summary of Institute of Internal Auditors Recommendations

20 Feb 2024

IIA welcomes the opportunity to share how the internal audit as a profession and assurance function, can assist **Firms** manage their **GRC** responsibilities to better meet community expectations. This includes how the **IIA** and the **Global Internal Audit Standards** can effectively raise the professionalism and ethical of all those working in internal audit.

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| <b>1</b> | <b>Professionalise “internal audit” by protecting the title, as well as embedding IIA membership and adherence to the Standards.</b> <b>RATIONALE</b> IIA members represent approx. 30% of the profession. These are the people who have opted in to be held to a high professional standard. To increase professionalism and confidence in the market, more people in the profession need to join and be held to the same high standard (see below).   |
| <b>2</b> | <b>Mandate that Firms <i>must</i> have their own internal audit function that complies with the Global Standards, including having 5-yearly independent quality assessments (EQA) before they can undertake government work.</b> <b>RATIONALE</b> Approx 60% of an organisation’s obligations (doing what it says it will do, including how it behaves) are not directly regulated. As the Governing Body is responsible for the Firm’s actions, GRC best practice uses the three lines model to ensure they are informed - information from management (line 1), compliance (line 2) and (independent of management) internal audits (line 3). Being informed is a prerequisite of taking action. The Standards set behavioural and practice expectations and EQAs assess compliance to the standards – see below.   |
| <b>3</b> | <b>Mandate that Firms undertaking internal audit work for government clients must be:</b><br><b>(1) led by an IIA ‘Certified Internal Auditor’ (CIA)</b> <b>RATIONALE</b> CIA-led: this is a globally recognised, assessed competency-based credential that requires ongoing professional development including ethics training.<br><b>(2) staffed by IIA Professional Members</b> <b>RATIONALE</b> IIA Professional Members must adhere to the Standards and Code of Ethics, as well as undertake continuous professional development, including ethics.<br><b>(3) completed according to the Global Standards</b> <b>RATIONALE</b> See below.<br><b>(4) subject to an EQA</b> <b>RATIONALE</b> See below.   |
| <b>4</b> | <b>Mandate that all Internal Auditors working at Firms be required to be IIA Members before the Firm can undertake government work.</b> <b>RATIONALE</b> The Inquiry is concerned with the behaviours it has found in Firms and is seeking ways to ensure government expenditure on Firms aligns with community expectations of the behaviour of those firms. Regulating professional behaviour is not simple. Putting in place mechanisms that hold professionals to a higher ethical standard, especially when there is a recognised Global Standard, is a good step. If every Firm-employed internal auditor was required to uphold the Standards (and continuous education through membership), not only would their clients benefit from restrictive information use standards, governing bodies that rely on their expertise can expect the independent flow of information needed. |

**About the Global Internal Audit Standards:** The Global Standards define appropriate behaviour, governance, management and performance standards. Following are elements of the new Standards that are relevant:

- Definition of IA’s purpose - strengthening an organisation’s ability to create, protect, and sustain value by providing governing body and management with independent, risk-based, and objective assurance, advice, insight, and foresight. Unlike External Audit, the work is predominantly applied to bettering future performance.
- Internal Auditor Behaviour:
  - **Integrity** - requires honesty, but also professional courage to communicate necessary information even in difficult situations, and the ability to identify inappropriate corporate culture and its impacts.
  - **Objectivity** - objective in work performed and safeguarding that objectivity from real/perceived conflict of interest.
  - **Due Care** – competent, of course, and aligning the internal audit work with strategy governance, risk management and control processes, and applying professional scepticism to best serve the truthful flow of information.
  - **Information use** – information collected cannot be used for any other purpose.
  - **Public Interest** – consider not only the interests of the governing body, but also stakeholders, including society.

**About EQAs:** A fundamental differentiator of the Global Standards for IIA is that functions are required to undergo an independent quality assessment every 5 years and the findings reported to the Board via the appropriate Board committee. While we have shared that we have not had member disciplinary action, we have performed 125 EQAs in the past four years. Keeping in mind that this is currently a voluntary process, of those we conducted, none were completely non-compliant; 11% was partial compliant and the remainder generally conformed. There are only three grades as continual improvement as the organisation evolves and the function matures is expected.