Standards of professional practice and professional conduct of internal audit

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ABSTRACT

The standards of professional practices and professional conduct of the internal audit has become one of the most important qualities and features that are characterized by contemporary internal auditing. Therefore, the focus in this study is on several important aspects of the standards of professional practice and professional conduct of internal auditing in terms of historical development and performance standards. The study includes the Department of Interior Auditing and the audit; both in terms of adherence to these standards and rules of professional conduct. Also, it includes a summary highlighting the standards and rules of professional conduct of internal audit. The aim of the study was to clarify the criteria that meet the standards in the professional practice and professional conduct of internal auditing. The general concept of the internal audit is demonstrated by a list of the responsibilities of internal auditing; furthermore, the standards of internal audit, in terms of the necessity of the compliance of the auditorsof the appropriate rules of professional conduct and the main reasons for the necessity for formal issuing of the rules of professional conduct and commitment to it. The importance of this study stems from the importance of standards of professional practice and professional conduct of the internal auditing. It includes international standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors in the United States of America; which is regarded as the pioneer and leader professional standards among internal auditors in the areas of classification, education, research, and evidence of applied and international standards for the professional practice of internal auditing. The researcher concluded this study with several personal recommendations, as a specialist in this field, with experience of more than twenty years. These recommendations pertain to all specialists in the field of auditing in general, internal auditing in particular.

Key words: standards of professional practice of internal auditing, the rules of professional conduct of internal auditing.

Introduction

Whatever the consensus or disagreement among historians on the origins and development of internal auditing over time, it can be determined that the concept and methodology of the modern internal auditing started by 1941; founded by the Foundation of the Institute of Internal Auditors (IIA) in Florida, USA. The institute contributed in clarifying and developing the concepts, methodologies' and mechanisms of internal auditing. Eversince, the internal auditors exercised a professional level.

The Institute of Internal Auditors is considered to be an international professional organization. In 2006, there were more than 128,000 members. Its headquarters is located in Florida, USA, where statistics in 2006 revealed that more than 29,300 internal auditors holding the certificate of the Institute to became a Certified Internal Auditor. The Institute of Internal Auditors is the pioneer and leader professional standards among internal auditors in the areas of classification, education, research, and evidence of applied and international standards for the professional practice of internal auditing. The first criterion was issued in July 1978. In addition, the Governing Council of the Institute founded and developed a New Professional Practices
Framework in July, 1999. As a part of this framework, a set of new standards for internal auditing was practiced by January 1, 2002. These standards were revised; amendments were made effective as of January 1, 2007.

The first version of the rules of professional conduct was in 1968, and applied to members of the Institute of Internal Auditors (IIA). As of 1988, to obtain an approved certificate for the internal auditor, a new specific set of professional rules of conduct were put in place. In 1999, a modified draft on professional conduct was issued by the Independent Ethics Committee (IEC). It was approved by the Board of Directors of the Institute of Internal Auditors (IIA) on July 17, 2000.

The Institute of Internal Auditors, USA, issued standards of internal auditing in 1978. Those standards included the introduction of some of standards listed in the list of the responsibilities of internal auditing. The standards of internal auditing are categorized into five main sections, covering different aspects of internal auditing in any organization (Institute of Internal Auditors. 1995. PP 9-12). The sections are divided as following:

1. Independence; in order to avoid external pressures that might face the internal auditor.
2. Attention and professional care.
3. Scope of work.
4. Performing auditing work accurately and efficiently.
5. The management of Internal Auditing Department.

These standards are considered to be versions of the official publications of the Institute of Internal Auditors that govern the practice of the profession; however, the Institute tends to adopt new plans to modify these standards. These new plans are incorporated if a general fundamental problem appears on the surface, where in that the available standards do not provide an appropriate solution. In such cases, the Institute issues a Statement on Internal Auditing Standards (SIAS). These statements are considered to be an extension and interpretation of the existing standards, which have already been issued in 1978. Moreover, these statements are not considered a change of the original standard. As of December 1995, there have been thirteen statements issued.

The following section highlights and addresses the standards of internal auditing, including its five sections:

First section, the independence of the internal auditor:

The internal auditor must be independent from activities that are reviewing. This requires the need for the regulatory status of the internal auditing department to be sufficient enough to allow the performance of responsibilities assigned to it to flourish. The auditor must be objective in the performance of auditing work (Institute of Internal Auditors. 1995. pp. 9-88).

Second section, professional care:

The work of internal auditing should lead to what comply with the required professional care; for example, the care necessary of a sincere person who is keen to work. Responsibilities include the following:

1. For internal auditing department:
   - The manager of the department of internal auditing should ensure the availability of technical and vocational rehabilitation and appropriate scientific background to the internal auditor doing the published reviews.
   - The department of the internal auditing department has to have adequate knowledge, possess pristine skills, and the assets necessary for carrying out the responsibilities of the auditing task.
   - The manager responsible of the department of internal auditing must ensure the availability of adequate supervision of all internal auditing work, of all kinds and forms.

2. For internal auditor:
   - The internal auditor should be committed to professional standards of conduct.
   - The internal auditor must have adequate knowledge, skills and assets necessary for the performance of auditing work.
   - The internal auditor must have the necessary skills for dealing with individuals and the ability to communicate effectively with the departments involved.
   - The internal auditor should maintain technical by rehabilitation through continuous education, and have access to training courses and maintain knowledge of all developments in this regard.
   - The internal auditor should make the necessary professional care intervenes in the performance of the auditing work.
**Third section, the scope of work:**

The scope of internal auditing work must include an examination and evaluation of the adequacy and effectiveness of internal control system in the designated organization. In addition to the quality of performance, with regard to the different responsibilities, in order to achieve the goals, the auditor should do the following:

- Review the reliability and integrity of financial and operating information, as well as the means used to identify the measurement process, information addition and reports preparation.
- Review systems placed to verify compliance with policies, plans, procedures, laws and regulations that can have a substantial impact on operations and reports; furthermore, the auditor must determine whether there was a commitment in the organization or not?
- Reviewing the means of maintaining the assets and verification of the existence of such assets whenever possible.
- To evaluate the efficiency of the usage of assets in economic terms.
- Review operations or programs to verify whether the results are consistent with the objectives set and whether the processes and programs have been implemented as planned and to what extent it has achieved its objectives.

**Fourth, the performance of the auditing work:**

The auditing task must include planning of the auditing process, examine and evaluation of the information, a report on the results, and follow up of the recommendations. Auditing planning has to include the need to develop targets for auditing in the scope of work, and it has to obtain sufficient information to form the background for the activities that will be audited and identified as the resources necessary for the performance of the auditing process. In Addition to communication with all those involved, a comprehensive information investigation to identify the activities, risks, and control procedures must be done in order to identify those aspects that need closer attention. The auditor must establish and write auditing program, determine how, when and to whom to send the results of the auditing process. Finally, the approval from the supervisor of the department of internal auditing on the process of the auditing plan must be received.

In the book, "Advanced Studies in the Auditing, Fiume, Mohammed, and others, 2006." It was stated that the screening and assessment of information should include a collection of information, analysis, interpretation and documentation by the auditor to support the auditing findings. The process of examination and evaluation of information is conducted as follows:

1. A compilation of information concerning the subject of auditing, in line with the objectives of the scope of the review process, is done using an analytical review. This includes comparisons between the current period and previous periods; furthermore, comparisons between actual performance and planned performance. It also includes a study of the relations between financial information and non-financial information, to which they relate and study the relations between the elements of information and compare information to similar information in other organizations. Moreover, comparing information to similar information in similar financial institutions.
2. The information must be adequate, reliable, appropriate, and useful to provide the basis of the forces that can be relied upon in reaching the findings and recommendations; this in the sense that information must be based on the sufficient and convincing facts. This is important so that a qualified person will reach the same results. In addition, the information must be appropriate to strengthen results and recommendations that are in line with the objectives of the auditing. This useful information will help the organization to achieve its short and long term goals.
3. The selection of the auditing procedures must include the choices of the auditing, and the statistical sampling methods used in advance.
4. Adequate supervision of the process of information gathering, analysis, interpretation and documentation should be included; putting an emphasis on achieving of the objectives of the auditing.
5. Worksheets should be prepared to document the review process, provided by the auditor, and then reviewed by the supervisor of the department of internal auditing.

Upon completion of the audit, the Auditor should prepare a report that includes the results of the examination and evaluation. The auditor might prepare temporary reports during the audit process. In all cases, the report must be signed by the Auditor and the auditor should discuss the findings and recommendations that should be reached by the administrative level appropriately, before issuing the final report. The auditor must be certain that the reported objective is clear, specific, constructive, and is completed within a timely manner. The report should cover the purpose of the audit, the scope, and contain the opinion of the auditor where appropriate.

The report should contain the Auditor's recommendations of possible improvements, as well as the pathological aspects of performance. Furthermore, the Auditor should note the perspective of the place of the
audit and offer any necessary corrective actions; all of which must be reviewed by the supervisor of the Department of Internal Audit before the report is released in its final form.

After issuance of the audit report, the internal auditor must take action to meet the demands of the results. The internal auditor must also see that the appropriate actions are taken by all parties involved to achieve the goals set within the report.

**Fifth: The management of the Department of Internal Audit:**

Standards require that the internal audit department be administered by the supervisor in an appropriate manner (i.e. democratic way). This is to be carried out in an appropriate manner. The supervisor is to achieve the following:

1. Ensure the audit achieve the general purpose of auditing and the responsibilities are accepted by senior management as well as the Board of Directors.
2. Ensure that use of resources available to the department of internal audit are utilized efficiently and effectively.
3. Ensure that all audit work is in line with the standards of professional practice of internal auditing.

To meet these standards and enable the supervisor to manage the Department of Internal Audit in a manner that can achieve these goals, the following have to be considered:

1. The supervisor of the department of internal audit has to have a list of objectives, authorities, and responsibilities of the department.
2. The supervisor of the department set the plans to implement the responsibilities of the department in a swift way and meets guidelines.
3. Provide the supervisor of each department a copy of policies and procedures in written form to relay the information to staff in the department.
4. The supervisor set a plan for the development of human resources in the Department of Internal Audit.
5. The supervisor coordinate the efforts of both the internal audit department and external auditor.
6. The supervisor develop and implement a program to monitor the quality of the work of the internal audit and evaluation.

**The continuous manner of internal audit department work:**

These standards represent a general framework of rules, which must be upheld by internal auditors in the practice of the profession.

**Rules of professional conduct:**

The list of the responsibilities of internal auditor and the list of internal auditing standards confirm the necessity of complying the auditor with the appropriate rules of auditing profession. Moreover, it is a basis for professional conduct. There are three main reasons for the need for a formal version of the rules of professional conduct; they include the following:

1. The members of the Institute of Internal Auditors represent the profession of internal auditing.
2. The management must adopt the profession of internal auditing.
3. Hold members of the profession to high standards of conduct, honor, honesty, sincerity and persona so that they can exercise the internal audit in a proper way.

The rules of professional conduct are expected to be followed by the internal auditors; furthermore, they are responsible for good behavior. There should be no doubt in their sincerity and integrity. The rules of professional conduct during the auditing process are as follows:

1. The internal auditors must possess honesty, objectivity and diligence in the performance of their duties and responsibilities.
2. Internal auditor’s should be characterized by loyalty in all matters relating to the organization in which they work, and should not be aware of any activity that is illegal or inappropriate knowledge of any legal rules for the process of auditing.
3. The auditors should never engage in activity that leads to the abuse of the profession of internal auditing or to the regulation in force.
4. The auditors should abstain from any activity that could conflict with the interests of the organization in which they work, or can impede one from carrying out their duties and responsibilities objectively.
5. Auditors should not accept anything of value while conducting within the organization, including from customers, suppliers or business partners.
6. Auditors should work efficiently with a high professionalism and effectiveness.
7. Auditors must utilize the appropriate means to comply with the standards of professional practice of internal auditing.
8. Auditors must act as trustees of the information they receive during the review process and must not use any confidential information or data or private organization for personal gain or in any way contrary to the law and the interests of the organization.
9. The auditors must be aware when preparing reports on the results of the work, disclose all material facts known. Any material not disclosed, if detected, will lead to reports of shady operations being audited. Furthermore, this may lead to investigations to seek cover-ups and illegal practices.
10. Internal auditors should always seek to improve their efficiency, effectiveness and quality of services they provide.
11. The auditors must exercise commitment to the profession and the need to maintain global standards for rehabilitation, creative and generous set by the Institute of entrants.
12. Internal auditors must be committed to the values and ethics of work and behavior when dealing with management, accountants, and other staff (Ali Idiab M, Mohamed Sabri Haron, and Shofian Bin Hj. Ahmad 2011).

The rules of professional conduct, along with the list of responsibilities of internal audit and standards of professional practice are the cornerstones of the profession. Despite that the profession has evolved and flourished in the United States during the past fifty years, and extended its development to other countries as well, but it did not reach such development in the Arab region, as it is still performed as a function of observation of the profession, not integrated with the basic requirements and elements, rules, standards and assets. This view led this approach to the non-achievement of the internal audit level that suits it in that area, and can be a positive profession of internal audit by the establishment of the Institute or complex of Arab internal auditors to issue professional standards and rules of professional conduct to extend the activity of this Assembly to qualify internal auditors and hold exams, whoever passed those exams can get the membership of the Institute or the compound or association with the need to provide sufficient awareness to the importance of developing the internal audit profession (S. Rao, & Devi. V. 1994. p 10.).

There are international standards for audit; which do not differ much from these standards where any profession is characterized by several properties. They include the following:

- Master the skill of a certain cultural value obtained by education and effective practice.
- Acceptance of duties to the community as a whole, as well as duties to the client or employer.
- An objective view of all things.
- Provide the basis of human mental effort, intelligent and conscious and not dealing in a commodity.
- The individual that becomes an accountant or an auditor requires a specialized knowledge, skill, training and experience due to the nature of the services performed. For example, these professionals should be aware of standards used by auditors to carry out services. Gathering professional accountants adopt the requirements of conduct adhered to by memberst to ensure the highest quality of performance. Doing so, keeping in line with the needs of the public, the beneficiaries of the profession. This includes customers, banks and institutions such as government, employers and employees, and investors in the community. All of which promotes economic dominance of the business community and others who rely on the objectivity and accuracy of accountants and auditors.

Conclusion:

The paper presented the research to shed light on different aspects of the standards of professional practice and professional conduct of internal audit. And present tangible development, as well as highlighting the role of the Institute of Internal Audit in adopting a new plan to modify these criteria. It also confirmed the need for an internal audit, internal audit professional standards and rules of conduct internal audit. It also noted that of the leading standards of internal audit, the supervisor running the department oversees the audit in an appropriate manner, with democracy. Also stressed, was the necessity of complying with the auditors the rules of professional conduct. The conclusion of the paper was aimed to show the most important of the existence of coherence and consensus at the international level when it comes to standards of professional practice of internal auditing. It shares that there is an international trend towards the creation of value for the standards of professional practice and rules of professional conduct for the internal audit and to maximize its axis and the existence of an international trend. Furthermore, it is demonstrating the support of these standards and behavior of professional internal audit. In conclusion, that there is international recognition by the institutions and bodies in relationship with versions that issued by the international Institute of auditors in the United States of America, in which there is a rush in the process and practices to keep pace. In light of these findings, the researchers recommended the need to:

1. The internal auditor should remain independent of the activities that the review is in accordance with, where the professional care needed.
2. The auditor should make sure that the department responsible for internal audit has the availability of technical and/or vocational training, knowledge, skills and assets necessary for carrying out the responsibilities of reviewing and the availability of adequate supervision of all internal audit work of all kinds and forms.
3. The internal auditor should adhere to the professional standards of conduct, and possess the skills available for dealing with individuals. Furthermore, they must possess the ability to communicate effectively, remain concerned and make the necessary professional care measures to perform the audit.
4. Preserve technical rehabilitation through continuing education, and access training courses to gain knowledge of all developments in this regard.
5. The internal auditor has to maintain high standards of conduct, honor, project honesty, sincerity and personal normalcy; all of which will help to ensure the audit is performed in the proper way. Moreover, only engage in activity that does not lead to abuse of the profession of internal audit in all matters relating to the organization in which they work.
6. The internal auditor has to utilize the appropriate means to comply with the standards of professional practice of internal auditing. Also, continuously aim to improve the efficiency and effectiveness through its commitment to the quality of services offered. Furthermore, it is imperative to maintain global standards of training, ethics stones set by the Institute of internal auditing.

References