

Maintaining Objectivity in Internal Audit



Managing Challenges to Internal Audit Objectivity



Yolanda Lockett
Associate Director
Audit and Advisory Services
ylockett@gsu.edu
404-413-1313



Independence and objectivity are the cornerstones of the internal audit function. My research and experience tells me that maintaining objectivity is generally considered more challenging than maintaining independence because:

- objectivity refers to someone's mental state, which can be easily influenced by personal prejudices and pressures.
- even when an auditor is structurally independent from the area they are auditing, it's harder to completely set aside your own personal opinions than it is to avoid direct conflicts in reporting relationships.



- Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.
- Objectivity requires that internal auditors do not put someone else's judgment above their own.



Principle 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

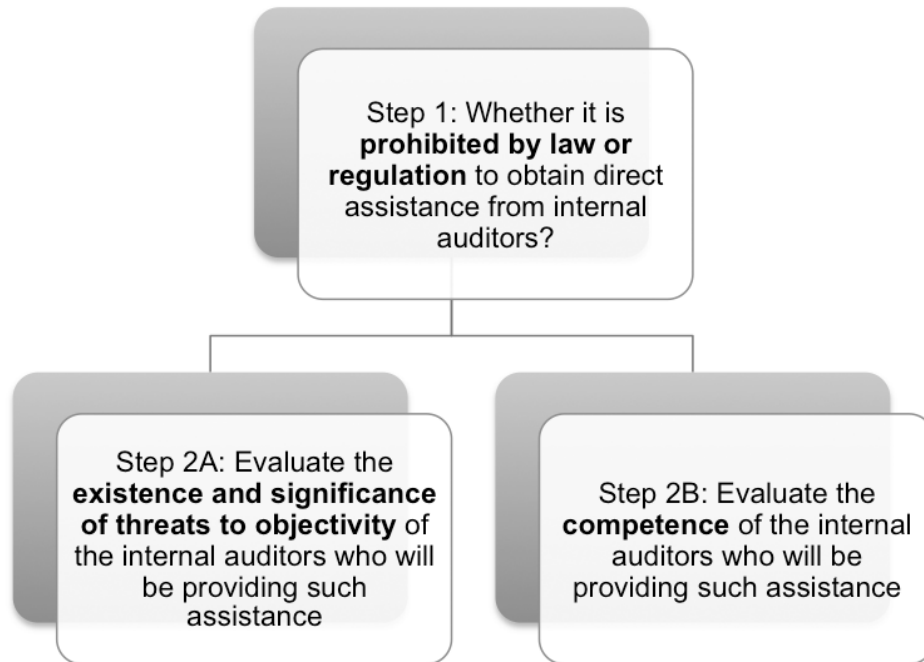
- 1) **Objectivity** allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.
- 2) An independently positioned internal audit function supports internal auditors' ability to maintain **objectivity**.



Principle 2 Maintain Objectivity

Examples of Evidence of Conformance

- References in the internal audit charter to internal auditors' responsibility for maintaining **objectivity**.
- Policies and procedures related to **objectivity**.
- Records of planned and completed **objectivity** training, including list of participants.
- Attestation forms that confirm internal auditors' awareness of **objectivity's** importance and the obligation to disclose any potential impairments.
- Documented disclosures of potential conflicts of interest or other impairments to **objectivity**.
- Notes from supervisory reviews and mentoring of internal auditors.



International Standard on Auditing 610 – Using the Work of Internal Auditors

International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) Standards



- How many in your office sign a Code of Ethics Statement?
 - a) Annually
 - b) Before the Peer Review
 - c) When you were hired only
 - d) Not at all



Code of Ethics

No Change

- **Integrity**
 - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- **Objectivity**
 - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality**
 - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency**
 - Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.



Independence

- Shared Purpose
- Neutrality
- Ethical Foundation
- Structural/Organizational
- External Condition
- Controlled by reporting lines

Objectivity

- Shared Purpose
- Neutrality
- Ethical Foundation
- Mindset and Approach
- Internal Attribute
- Controlled by the internal auditor



- Management Employs Internal Auditors – *who evaluates management's performance*
- One-person internal audit shops – *who completes the internal review of workpapers*
- IIA Audit Shops - *increased demand for advisory services*
- Internal Auditors' role in Governance and Risk Management Activities – *functions traditionally the responsibility of management*



Threats to Objectivity

Social Pressure- *pressure to produce findings*

Economic Interest- *future employment or salary considerations*

Personal Relationship – *close friend or relative in the audited area*

Familiarity – *long-term relationship with audit client (prejudge based on previous problems or nonproblems)*

Cultural, Racial, and Gender Biases – *taking a perspective, either critical or positive based on one of these notions.*

Cognitive Biases – *coming to an engagement with preconceived notions*

Self- Review – *auditor reviewing their own work*

Intimidation – *actual or perceived threat*

Advocacy – *auditors promoting or advocating for or against the audit client*



Activity Level Threat

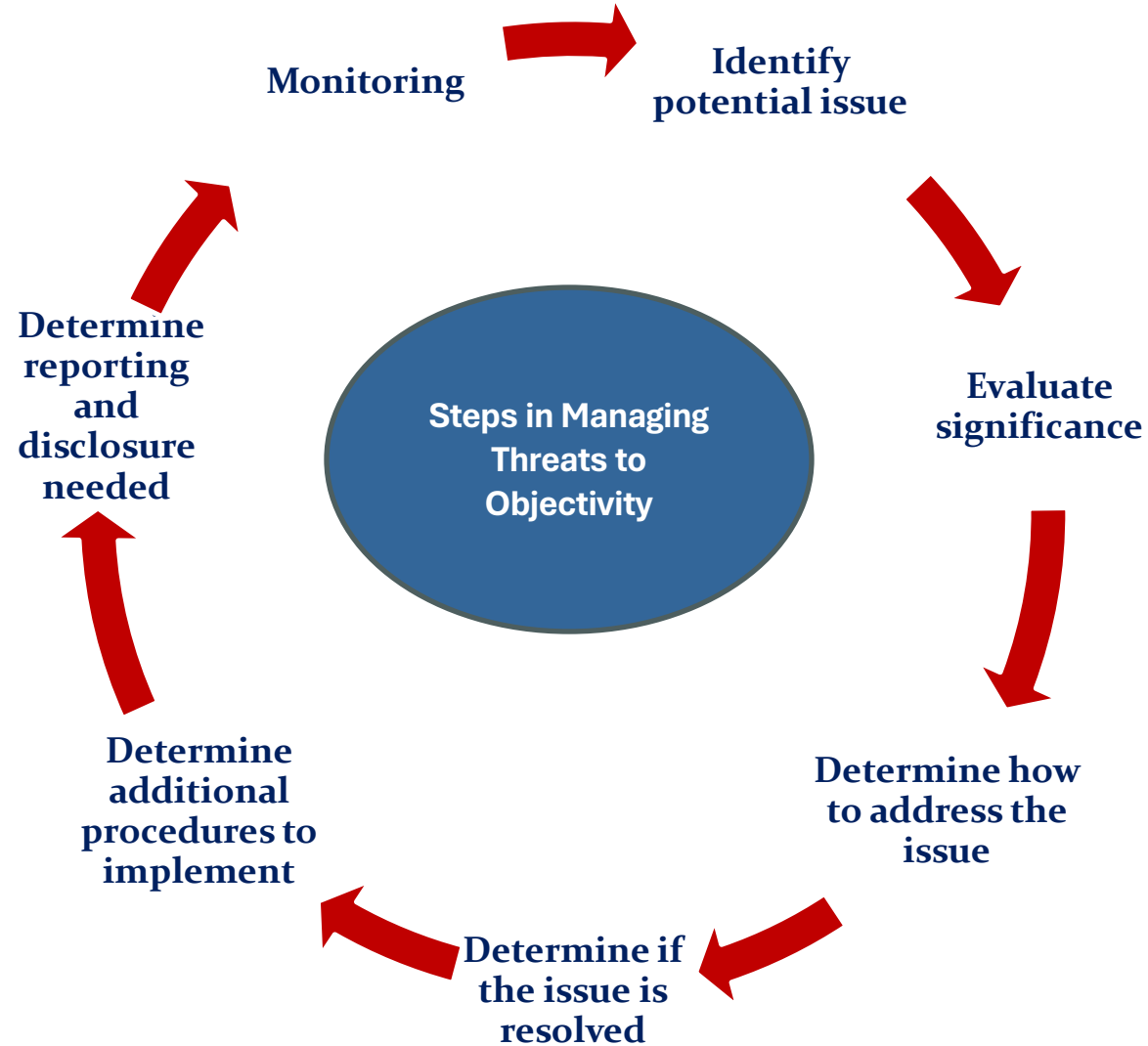




Which of these threats has your office had to deal with?

Select as many as you feel apply.

- a) **Social Pressure**
- b) **Economic Pressure**
- c) **Familiarity**
- d) **Personal Relationships**
- e) **Cultural, Racial, and Gender Biases**
- f) **Cognitive Biases**
- g) **Self-Review**
- h) **Intimidation**
- i) **Advocacy**
- j) **ACTIVITY-LEVEL** (*Consulting, ERM, Investigations, Control Self-Assessment*)





Tips for Handling Threats

Team Audits— *adding another member to an audit can bring an additional perspective to the project.*

Staff Rotation/Reassignment - *reduce the degree of familiarity and self-review.*

Training & Education —*helps auditors recognize objectivity threats.*

Supervisory Review — *review of audit test work is a safeguard to help ensure that test results and conclusions are objective.*

Quality Assessment — *internal and external review of audit activities.*

Hiring Practices—*ensuring candidates are free from conflicts of interest.*

Outsourcing—*enlisting a third party when conflict exist internally.*

Use of Technology — *automate data collection to minimize biases.*



Threat Scenario: *What should you do?*

An auditor in your department is working on an audit project and you learn that the auditor has applied for a job in the department that they are auditing.

- a. Remove the auditor from the assignment and select someone else to review the work and continue the audit.
- b. Close out the audit and begin the audit with a new auditor.
- c. Have the auditor continue the work but review the work more closely.



Threat Scenario: *What should you do?*

A member of the IT staff wants to join the audit department as an IT auditor. Currently, the auditor works in the IT department as a developer.

- a. Don't hire the member of the IT staff.
- b. Allow the new hire to work on IT audit projects but not in any area where the auditor previously work. Have auditor's work reviewed very closely for the next year, document and disclose the objectivity issue on each of the audits.
- c. If you hire the IT auditor, outsource the IT audits for one year.



Threat Scenario: *What should you do?*

The audit manager has been with the company for over 20 years. During that time, he has developed many friendships within management. The controller and he are best friends. You are preparing for an audit in the accounting services area.

- a. Assign the audit project to another auditor manager or outsource the project.
- b. Allow the audit manager to manage the audit because the work is going to be performed by another auditor.
- c. This scenario occurs often and poses no threat.



Threat Scenario: *What should you do?*

One of your auditors applied for a job in another department of the company and was not hired. An audit in the area is on the audit plan and this auditor is considered a subject matter expert and would normally be put on the audit. Should the auditor work on the project?

- a. No. There could be a potential bias since the auditor did not get the job.
- b. Yes, because the auditor's manager will mitigate any threat. Have the manager perform a closer review of the auditor's work.
- c. Yes, as long as the auditor has signed the Code of Ethics for the year.



Threat Scenario: *What should you do?*

An auditor in your department is consulting with management on a major system implementation to help ensure the appropriate controls remain in the processes. Just before 'go live' the auditor is asked to complete a pre-implementation audit. The auditor is told that the system will not be able to 'go-live' if the audit identifies any significant issues.

- a. The CAE should identify a different auditor to complete the pre-implementation review.
- b. The CAE should outsource the pre-implementation review.
- c. Have the auditor complete the pre-implementation review but identify someone else in the department to review their work.



Threat Scenario: *What should you do?*

You are implementing SMART goals in your performance appraisal process. Three goals have been recommended by your auditors, each weighing 1/3 of the overall performance:

- *The number of audit findings*
 - *Customer satisfaction*
 - *The number of audits completed*
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- a. Change the SMART goals.
 - b. Reduce the significance of these goals.
 - c. The goals are fine and present no threat.



Questions???

For More Information on Managing Objectivity



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