

The following diagram describes examples of unacceptable (X) and acceptable (J) conduct when conducting tests of controls and aims to explain how the Code of Ethics can be used to guide acceptable internal auditing practice when conducting tests of controls.

Principle	Rules of conduct (condensed)	X	J
Integrity	Perform work with honesty, diligence and responsibility	The internal auditors use an unrevised audit programme, used three years ago, to conduct an organisation-wide audit of credit sales.	The internal auditors perform a detailed risk assessment and identify the key controls with regard to credit sales before they decide on the tests to be performed.
	Observe the law and make disclosures expected by law or the profession	An internal auditor accepts an excuse from a manufacturing site manager for ignoring regulations regarding the treatment of hazardous waste and mentions nothing in his final report.	After noticing that consideration is not given to regulations with regard to the treatment of hazardous waste on a manufacturing site, the internal auditor immediately issues a written notification to a person with sufficient responsibility within the organisation to take suitable action and follows up on the actions taken. The finding and any actions taken are included in the final audit report.
	Not be part of illegal activity or acts discreditable to the profession or the organisation	In loyalty to her organisation who is experiencing financial difficulty, a chief audit executive (CAE) ignores the scheduled audit of the final tax return for the current tax year, knowing that management is	Realising that management intends to understate taxable income, the internal auditor expresses her dissatisfaction and issues an interim report to the directors and audit

		understating taxable income.	committee stating that this would be against the law and to the detriment of the organisation as severe penalties could follow.
	Respect and contribute to legitimate and ethical objectives of the organisation	An internal auditor joins a protest action against an organisation after instituting a time management clock-in system for administrative staff.	The internal audit activity publishes an informative article on the organisation's intranet, setting out the advantages of introducing a time-management clock-in system for administrative staff.

The following diagram describes examples of unacceptable (X) and acceptable (✓) conduct when conducting tests of controls and aims to explain how the Code of Ethics can be used to guide acceptable internal auditing practice when conducting tests of controls.

Principle	Rules of conduct (condensed)	X	✓
Integrity	Perform work with honesty, diligence and responsibility	The internal auditors use an unrevised audit programme, used three years ago, to conduct an organisation-wide audit of credit sales.	The internal auditors perform a detailed risk assessment and identify the key controls with regard to credit sales before they decide on the tests to be performed.
	Observe the law and make disclosures expected by law or the profession	An internal auditor accepts an excuse from a manufacturing site manager for ignoring regulations regarding the treatment of hazardous waste and mentions nothing in his final report.	After noticing that consideration is not given to regulations with regard to the treatment of hazardous waste on a manufacturing site, the internal auditor immediately issues a written notification to a person with sufficient

			responsibility within the organisation to take suitable action and follows up on the actions taken. The finding and any actions taken are included in the final audit report.
	Not be part of illegal activity or acts discreditable to the profession or the organisation	In loyalty to her organisation who is experiencing financial difficulty, a chief audit executive (CAE) ignores the scheduled audit of the final tax return for the current tax year, knowing that management is understating taxable income.	Realising that management intends to understate taxable income, the internal auditor expresses her dissatisfaction and issues an interim report to the directors and audit committee stating that this would be against the law and to the detriment of the organisation as severe penalties could follow.
	Respect and contribute to legitimate and ethical objectives of the organisation	An internal auditor joins a protest action against an organisation after instituting a time management clock-in system for administrative staff.	The internal audit activity publishes an informative article on the organisation's intranet, setting out the advantages of introducing a time-management clock-in system for administrative staff.

Principle	Rules of conduct (condensed)	X	✓
Objectivity	Not participate in any activity or relationship which may impair unbiased assessment or which is in conflict with the interests of the organisation	An internal auditor is assigned to an audit of controls in the procurement section, which is headed by his father.	The internal auditor reports his relationship with his father who is heading the procurement section and further assignments of staff are made with due consideration of this information.
	Not accept anything which may impair professional judgement	An internal auditor fights to be assigned to the annual audit of his organisation's retail outlet in the North West province as he loves hunting and always gets an opportunity to hunt on the branch manager's farm during one of the weekends falling within the audit.	An internal auditor rejects an offer to go hunting with the branch manager on his farm, knowing that this could be seen as an impairment of his objectivity when auditing controls at the branch.
	Disclose all known material facts that, if not disclosed, may distort the reporting of activities under review	Since everyone in the organisation is aware of the IT department's inability to arrange suitable back-up facilities for the financial systems of the organisation, the internal auditor makes no mention of the fact in his report following an audit of general IT controls.	The auditor includes a finding on the lack of suitable back-up facilities in his audit report, explaining the possible effect of the shortcoming and recommending the necessary actions to be taken. He also includes any comments from IT management in response to the finding.
Confidentiality	Be prudent in the use and protection of information acquired	While auditing controls over wage pay-outs, an auditor finds that some controls have been circumvented. She discusses her finding and the possibility of fraud with her colleague in the canteen over lunch.	While auditing controls over wage pay-outs, an auditor finds that some controls have been circumvented. She discusses her finding and the possibility of fraud with the internal audit manager in his office.

	<p>Not use any information for personal gain and/or that is contrary to the law or detrimental to the organisation</p>	<p>During an audit of procurement controls an auditor realises that he buys printing cartridges for his own private use for 15% less than the lowest of three quotes obtained by the organisation. He convinces the procurement clerk to obtain a quote from the supplier he buys from and arranges with the supplier to pay him a 5% commission on all the cartridges sold to the organisation.</p>	<p>During an audit of procurement controls an auditor realises that he buys printing cartridges for his own private use for 15% less than the lowest of three quotes obtained by the organisation. He mentions the fact to the procurement manager to investigate further.</p>
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Principle	Rules of conduct (condensed)	X	✓
Competency	Engage only in those services for which they have the necessary knowledge, skills and experience	An internal audit activity appoints a chartered accountant who has recently completed her articles with an auditing firm and assigns her to lead an audit of control over the purchasing and implementation of new IT systems.	An internal audit activity appoints an experienced IT auditor who has recently become qualified as a Certified Information Systems Auditor, and assigns her to lead an audit of control over the purchasing and implementation of new IT systems.
	Perform internal audit services in accordance with the Standards	An audit file contains an audit programme, specifically designed for the audit, where a third of the procedures have been left undone without any further explanation.	An audit file contains an audit programme, specifically designed for the audit, where a third of the procedures have been left undone. Detailed explanations are provided in all instances which have been signed off by the audit supervisor providing the reasons why the procedures could not be performed and indicating alternative procedures which have been carried out.
	Continually improve proficiency and the effectiveness and quality of services	An internal auditor assigned to an audit in a remote location refuses to attend training in the use of automated working papers which will enable continuous supervision over the audit.	To enable continuous supervision of audit assignments, training in the use of automated working papers has been made compulsory for all internal auditors before they can be assigned to any audit engagement.

To clearly illustrate unacceptable and acceptable behaviour, we have simplified the examples in the diagram above. In practice it sometimes becomes difficult to distinguish between acceptable and unacceptable behaviour. When in doubt, junior auditors should seek advice from internal audit management and/or the chief internal auditor. Internal audit executives may have to seek technical advice from the Institute of Internal Auditors or from legal advisors. Of essence, however, is an in-depth knowledge and conceptualisation of the principles and rules of conduct and their continuous integration into any aspect of internal auditing practice.