

Practice Advisory 2130-1: Role of the Internal Audit Activity and Internal Auditor in the Ethical Culture of an Organization

**Interpretation of *Standard 2130* from the
*International Standards for the
Professional Practice of Internal Auditing***

Related Standard

2130 – Governance

The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Effectively communicating risk and control information to appropriate areas of the organization.
- Effectively coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Related Standard

2130.A1 – The internal audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

Nature of this Practice Advisory: Internal auditors should consider the following in determining the role to play in the ethical culture of an organization. This role can vary depending on the existence, lack of, or degree of development of the organization's ethical culture. This guidance is not intended to represent all the procedures that may be necessary for a comprehensive assurance or consulting engagement related to an organization's ethics culture.

1. This Practice Advisory underscores the importance of organizational culture in establishing the ethical climate of an enterprise and suggests the role that internal auditors could play in improving that ethical climate. Specifically, the Practice Advisory:
 - Describes the nature of the governance process,
 - Links it to the ethical culture of the organization,
 - States that all people associated with the organization, and specifically internal auditors, should assume the role of ethics advocates, and
 - Lists the characteristics of an enhanced ethical culture.

Governance and Organizational Culture

2. An organization uses various legal forms, structures, strategies, and procedures to ensure that it:

- (a) Complies with society's legal and regulatory rules,
- (b) Satisfies the generally accepted business norms, ethical precepts, and social expectations of society,
- (c) Provides overall benefit to society and enhances the interests of the specific stakeholders in both the long- and short-term, and
- (d) Reports fully and truthfully to its owners, regulators, other stakeholders, and general public to ensure accountability for its decisions, actions, conduct, and performance.

The way in which an organization chooses to conduct its affairs to meet those four responsibilities is commonly referred to as its governance process. The organization's governing body (such as a board of directors or trustees or a managing board) and its senior management are accountable for the effectiveness of the governance process.

- 3. An organization's governance practices reflect a unique and ever-changing culture that affects roles, specifies behavior, sets goals and strategies, measures performance, and defines the terms of accountability. That culture impacts the values, roles, and behavior that will be articulated and tolerated by the organization and determines how sensitive — thoughtful or indifferent — the enterprise is in meeting its responsibilities to society. Thus, how effective the overall governance process is in performing its expected function largely depends on the organization's culture.

Shared Responsibility for the Organization's Ethical Culture

- 4. All people associated with the organization share some responsibility for the state of its ethical culture. Because of the complexity and dispersion of decision-making processes in most enterprises, each individual should be encouraged to be an ethics advocate, whether the role is delegated officially or merely conveyed informally. Codes of conduct and statements of vision and policy are important declarations of the organization's values and goals, the behavior expected of its people, and the strategies for maintaining a culture that aligns with its legal, ethical, and societal responsibilities. A growing number of organizations have designated a chief ethics officer as counselor of executives, managers, and others and as champion within the organization for "doing the right thing."

Internal Audit Activity as Ethics Advocate

- 5. Internal auditors and the internal audit activity should take an active role in support of the organization's ethical culture. They possess a high level of trust and integrity within the organization and the skills to be effective advocates of ethical conduct. They have the competence and capacity to appeal to the enterprise's leaders, managers, and other employees to comply with the legal, ethical, and societal responsibilities of the organization.
- 6. The internal audit activity may assume one of several different roles as an ethics advocate. Those roles include chief ethics officer (ombudsman, compliance officer, management ethics counselor, or ethics expert), member of an internal ethics council, or assessor of the organization's ethical climate. In some circumstances, the role of chief ethics officer may conflict with the independence attribute of the internal audit activity.

Assessment of the Organization's Ethical Climate

- 7. At a minimum, the internal audit activity should periodically assess the state of the ethical climate of the organization and the effectiveness of its strategies, tactics, communications, and other processes in achieving the desired level of legal and ethical compliance. Internal

auditors should evaluate the effectiveness of the following features of an enhanced, highly effective ethical culture:

- (a) Formal Code of Conduct, which is clear and understandable, and related statements, policies (including procedures covering fraud and corruption), and other expressions of aspiration.
- (b) Frequent communications and demonstrations of expected ethical attitudes and behavior by the influential leaders of the organization.
- (c) Explicit strategies to support and enhance the ethical culture with regular programs to update and renew the organization's commitment to an ethical culture.
- (d) Several, easily accessible ways for people to confidentially report alleged violations of the Code, policies, and other acts of misconduct.
- (e) Regular declarations by employees, suppliers, and customers that they are aware of the requirements for ethical behavior in transacting the organization's affairs.
- (f) Clear delegation of responsibilities to ensure that ethical consequences are evaluated, confidential counseling is provided, allegations of misconduct are investigated, and case findings are properly reported.
- (g) Easy access to learning opportunities to enable all employees to be ethics advocates.
- (h) Positive personnel practices that encourage every employee to contribute to the ethical climate of the organization.
- (i) Regular surveys of employees, suppliers, and customers to determine the state of the ethical climate in the organization.
- (j) Regular reviews of the formal and informal processes within the organization that could potentially create pressures and biases that would undermine the ethical culture.
- (k) Regular reference and background checks as part of hiring procedures, including integrity tests, drug screening, and similar measures.

Origination date: Feb 1, 2001

All contents of this Web site, except where expressly stated, are the copyrighted property of The Institute of Internal Auditors, Inc. (The IIA®). [Privacy Policy](#)