

ETHICAL CODES FOR INTERNAL AND EXTERNAL AUDITORS

Principles for internal and external professionals



AGENDA

- Introduction to Ethical Codes in Auditing
- Understanding Ethical Codes in the Auditing Profession
- Ethical codes for Internal Auditor
- Ethical codes for External Auditor
- Key Ethical Principles for Internal Auditors
- Conclusion: Upholding Integrity and Professionalism in Audit

ETHICAL CODES IN AUDITING

INTRODUCTION

Ethical codes are formal guidelines that govern the professional conduct, behaviour, and decision-making of auditors. Both internal and external auditors play a critical role in ensuring transparency, accountability, and credibility in financial reporting. Due to the sensitive nature of their work, auditors are expected to uphold the highest ethical standards to maintain public trust and professional integrity. Globally recognised codes, such as the IESBA Code, provide frameworks that auditors rely on to safeguard the auditing function from bias and malpractice.



MEANING OF ETHICAL CODES IN AUDITING

Ethical codes in auditing, refer to a set of principles, rules, and standards that guide auditors in performing their duties honestly, objectively, and professionally. These codes help auditors navigate ethical dilemmas, prevent misconduct, and promote consistency in professional judgment.



DIFFERENCE BETWEEN AN INTERNAL AND EXTERNAL AUDITOR

Internal auditors are employees of an organisation appointed by management to continuously evaluate internal controls, risk management, and operational efficiency, with reports mainly meant for internal use. Their independence is limited and can be impaired by management because they are part of the organisation.

In contrast, external auditors are independent professionals appointed by shareholders to examine the financial statements and express an opinion on whether they present a true and fair view. External auditors operate periodically, usually annually, follow statutory auditing standards, and report to shareholders, with a high level of independence from the organisation.



ETHICAL CODES IN AUDITING

AUDIT ETHICS MATRIX

Principles

Foundational ethical values such as integrity, objectivity, and professional behavior, forming the core of the auditor’s ethical framework.

Rules

Mandatory requirements that prescribe specific behaviors auditors must follow, ensuring compliance with ethical expectations.

Standards

Detailed guidance for implementing principles and rules, such as GAAP, to ensure consistent audit quality.

Interrelationships

Principles guide the creation of rules; standards operationalize both, creating a cohesive ethical and practical framework for auditors.

NAVIGATING ETHICAL DILEMMAS

01

Identify Ethical Dilemma

Recognize conflicts of interest, pressure, or confidentiality issues.

02

Consult Guidance

Refer to professional codes and organizational policies.

03

Seek Advice

Consult colleagues, ethics committees, or legal counsel.

04

Evaluate Options

Assess actions for transparency, fairness, and compliance.

05

Make Decision

Choose the action that best aligns with ethical standards.

CONSISTENT PROFESSIONAL JUDGMENT

Minimizes bias, enhances audit quality

Why Consistency Matters

Consistent judgment reduces subjective bias and audit variability, improving reliability of financial disclosures and strengthening market trust.

Ethics and Standards

Standardized methodologies and ongoing professional development align judgments with ethical codes, best practices, and regulatory expectations.

Impact on Markets

Studies show consistent judgments enable dependable reporting, reinforcing stakeholder confidence and market integrity.



ETHICAL CODES FOR INTERNAL AUDITORS

Institute of Internal Auditors (IIA)

ETHICAL CODES FOR INTERNAL AUDITORS

Internal auditors are guided mainly by the Institute of Internal Auditors (IIA) Code of Ethics. This code applies to individuals and organisations that provide internal auditing services.

Key Ethical Principles for Internal Auditors:

A. Integrity: Internal auditors must perform their work honestly, responsibly, and with due care. They should not knowingly engage in illegal activities or actions that discredit the profession.

B. **Objectivity:** Internal auditors must remain impartial and unbiased. They should avoid conflicts of interest and not allow personal relationships or pressures to influence their professional judgment.

C. **Confidentiality:** Information obtained during internal audit activities must be protected. Internal auditors should not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

D. **Competency:** Internal auditors must apply the knowledge, skills, and experience required for their responsibilities. They should continuously improve their proficiency and effectiveness through professional development.



ETHICAL CODES FOR EXTERNAL AUDITORS

International Ethics Standards Board for Accountants (IESBA) and professional accounting bodies (e.g., ICAN, ACCA).

ETHICAL CODES FOR EXTERNAL AUDITORS

External auditors are governed by ethical standards issued by professional and regulatory bodies such as the International Ethics Standards Board for Accountants (IEASBA) and professional accounting bodies (e.g., ICAN, ACCA).



ETHICAL COMPLIANCE & IMPORTANCE OF ETHICS CODES

Safeguards to Ensure Ethical Compliance

To manage ethical threats, auditors should adopt safeguards such as:

- Strong corporate governance structures
- **Independent audit committees**
- **Rotation of audit personnel**
- **Continuous ethical training**
- **Adherence to professional standards and disciplinary procedures**

Importance of Ethical Codes to Auditors

Ethical codes help to:

- Enhance public confidence in audit reports
- **Promote professionalism and accountability**
- **Reduce fraud and unethical practices**
- **Protect auditors from legal and reputational risks**
- **Ensure compliance with professional and regulatory standards**

CONCLUSION

Ethical codes are essential to the effectiveness and credibility of both internal and external auditors. By adhering strictly to ethical principles such as :

Integrity

Act with honesty and transparency to uphold trust and accountability.

Objectivity

Maintain independence and unbiased judgment in all engagements.

Confidentiality

Protect sensitive information and use it responsibly.

Competence

Apply expertise diligently to ensure credible, reliable results.