



*“The Internal Audit Professionals”™*

**ETHICS**



**Ethics** – the code of conduct or behavior governing an individual or group, has never been so blatantly disregarded by so many in the history of American and International Business - or has it? The unethical business practices employed by the great industrialists of the nineteenth and early twentieth centuries; Andrew Carnegie, J.P. Morgan, John D. Rockefeller, among others, who amassed tremendous personal fortunes in oil, railroads and steel at the expense of many of their workers who lived and worked in hopeless squalor and poverty, make the practices employed by those involved in the Enron and WorldCom accounting frauds downright saintly in comparison. Is there a double standard at work? After all, these great men have universities, and banks, and benevolent public trusts named after them, not to mention their descendents who serve, or have served, as Vice President, U.S. Senators, State Governors, Ambassadors, and Cabinet members. The men and women of Enron, Tyco, and WorldCom, on the other hand, are facing extended prison terms, for committing far less egregious crimes. For example, the recently convicted Bernie Ebbers, former WorldCom CEO, may get up to 85 years in prison.

**The difference is** that the powerful industrialists didn't have internal auditors to answer to. Although the first recorded internal audit was performed on Babylonian clay tablets over 5,000 years ago, the modern practice of internal auditing, and the birth of a profession, didn't occur until the 1940's. Since its inception, the IIA has established and maintained high standards of integrity, honor and character among internal auditors. The IIA's certificate of incorporation states this as one of its specific purposes.

**Today, the Internal Auditing Profession** finds itself at a crossroads of sorts. More and more, large public accounting

firms, firms that only recently began focusing on providing internal audit services to their clients, are dominating the profession. As internal auditing firms, these former public accounting firms must adopt new standards regarding materiality, objectivity and audit scope. Internal auditors are asked to live by a Code of Ethics. This Code states that the integrity of internal auditors establishes trust and provides the basis for reliance on their judgment. What is required to ensure integrity? Basically, impartiality and objectivity are required. As internal auditors typically work directly for their employer and are accountable to management, they lack independence. Without independence, there is no guarantee of impartiality. Without impartiality, there is no guarantee of objectivity. Without objectivity, there is no guarantee of integrity. Internal auditors are to exhibit the highest level of professional objectivity in performing their audit work, and are not to be unduly influenced by their own interests or by others in forming judgments. To have a truly independent internal audit function is not possible, which is why it is so important that the internal audit function report to the audit committee, composed of independent directors. The Code further states that internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. They are to do nothing that will impair their professional judgment. They are to be above reproach.

**PRI AUDIT & CONTROL** is a full-service professional internal auditing firm, owned and operated by Certified Internal Auditors. We have extensive experience working with clients in many different industries and many different countries. Our reputation and integrity are above reproach, and we work diligently to uphold the IIA's Code of Ethics.

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PRI AUDIT & CONTROL has experience and expertise in all areas of internal audit. We are committed to helping you uphold the principles of Integrity, Objectivity, Confidentiality and Competency.

For more information on PRI's approach to Ethical Business Practices or any of our other Internal Audit, Risk Management or Consulting services, please contact:

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