

MISSION STATEMENT

Internal Audit exists to support administration and the Board of Directors in the effective discharge of their responsibilities. Using our knowledge and professional judgment, we will provide an independent appraisal of the MHMRA financial, operational, and control activities. We will report on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with institutional policies and government laws and regulations. Additionally, we will provide analyses, recommendations, counsel, and information concerning the activities reviewed.

OBJECTIVES IN ACCOMPLISHING OUR MISSION

Determine the accuracy and propriety of financial transactions
Evaluate financial and operational procedures for adequacy of internal controls and provide advice and guidance on control aspects of new policies, systems, processes, and procedures
Verify the existence of MHMRA assets and ensure that proper safeguards are maintained to protect them from loss
Determine the level of compliance with MHMRA policies and procedures, state and federal laws and government regulations
Evaluate the accuracy, effectiveness, and efficiency of the MHMRA's electronic information and processing systems
Determine the effectiveness and efficiency of organizations in accomplishing their mission and identify operational opportunities for cost savings and revenue enhancements
Provide assistance and a coordinated audit effort with the external auditors
Investigate fiscal misconduct

VALUES

In carrying out our mission, we share certain beliefs and values.

Our primary focus is to provide excellent service to the MHMRA. Our examinations will be performed in accordance with applicable standards established by the American Institute of Certified Public Accountants (AICPA), Institute of Internal Auditors (IIA), Government Accounting Office (GAO), etc. We are committed to the highest degree of fairness, integrity, and ethical conduct in the performance of our mission. We will adhere to the Code of Ethics as established by the Association of Certified Fraud Examiners (ACFE) and Institute of Internal Auditors (IIA). Furthermore, we will not issue a report without first allowing the recipient the opportunity to review, challenge, question, and respond to our findings and conclusions. Our relationships with the MHMRA community will be characterized by respect, helpfulness, sharing, patience, and openness. We are committed to maintaining our professionalism as internal auditors through continuance of our education and training. Although we are a part of the MHMRA we are committed to maintaining our independence in defining the scope and objectives of our examinations.

Standards for the Professional Practice of Internal Auditing (IIA)

100 INDEPENDENCE

Internal auditors should be independent of the activities they audit.

.01 Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational status and objectivity.

110 ORGANIZATIONAL STATUS

The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities.

.01 Internal auditors should have the support of management and of the board of directors so that they can gain the cooperation of auditees and perform their work free from interference.

The director of the internal auditing department should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

The director should have direct communication with the board. Regular communication with the board helps assure independence and provides a means for the board and the director to keep each other informed on matters of mutual interest.

Independence is enhanced when the board concurs in the appointment or removal of the director of the internal auditing department.

The purpose, authority, and responsibility of the internal auditing department should be defined in a formal written document (charter). The director should seek approval of the charter by management as well as acceptance by the board. The charter should (a) establish the department's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of audits; and (c) define the scope of internal auditing activities.

The director of internal auditing should submit annually to management for approval and to the board for its information a summary of the department's audit work schedule, staffing plan, and financial budget. The director should also submit all significant interim changes for approval and information. Audit work schedules, staffing plans, and financial budgets should inform management and the board of the scope of internal auditing work and of any limitations placed on that scope.

The director of internal auditing should submit activity reports to management and to the board annually or more frequently as necessary. Activity reports should highlight significant audit findings and recommendations and should inform management and the board of any significant deviations from approved audit work schedules, staffing plans, and financial budgets, and the reasons for them.

120 OBJECTIVITY

Internal auditors should be objective in performing audit.

.01 Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not to subordinate their judgment on audit matters to that of others.

.02 Objectivity requires internal auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations in which they feel unable to make objective professional judgments.

Staff assignments should be made so that potential and actual conflicts of interest and bias are avoided. The director should periodically obtain from the audit staff information concerning potential conflicts of interest and bias.

Internal auditors should report to the director any situations in which a conflict of interest or bias is present or may reasonably be inferred. The director should then reassign such auditors.

Staff assignments of internal auditors should be rotated periodically whenever it is practicable to do so.

Internal auditors should not assume operating responsibilities. But if on occasion management directs internal auditors to perform nonaudit work, it should be understood that they are not functioning as internal auditors. Moreover, objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility. This impairment should be considered when reporting audit results.

Persons transferred to or temporarily engaged by the internal auditing department should not be assigned to audit those activities they previously performed until a reasonable period of time has elapsed. Such assignments are presumed to impair objectivity and should be considered when supervising the audit work and reporting audit results.

The results of internal auditing work should be reviewed before the related audit report is released to provide reasonable assurance that the work was performed objectively.

.03 The internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented. Designing, installing, and operating systems are not audit functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity.

200 PROFESSIONAL PROFICIENCY

Internal audits should be performed with proficiency and due professional care.

.01 Professional proficiency is the responsibility of the internal auditing department and each internal auditor. The department should assign to each audit those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly.

210 STAFFING

The internal auditing department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

.01 The director of internal auditing should establish suitable criteria of education and experience for filling internal auditing positions, giving due consideration to scope of work and level of responsibility.

.02 Reasonable assurance should be obtained as to each prospective auditor's qualifications and proficiency.

220 KNOWLEDGE, SKILLS, AND DISCIPLINES

The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

.01 The internal auditing staff should collectively possess the knowledge and skills essential to the practice of the profession within the organization. These attributes include proficiency in applying internal auditing standards, procedures, and techniques.

.02 The internal auditing department should have employees or use consultants who are qualified in such disciplines as accounting, economics, finance, statistics, electronic data processing, engineering, taxation, and law as needed to meet audit responsibilities. Each member of the department, however, need not be qualified in all of these disciplines.

230 SUPERVISION

The internal auditing department should provide assurance that internal audits are properly supervised.

.01 The director of internal auditing is responsible for providing appropriate audit supervision. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment.

.02 Supervision includes:

Providing suitable instructions to subordinates at the outset of the audit and approving the audit program.

Seeing that the approved audit program is carried out unless deviations are both justified and authorized.

Determining that audit working papers adequately support the audit findings, conclusions, and reports.

Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely.
Determining that audit objectives are being met.

.03 Appropriate evidence of supervision should be documented and retained.

.04 The extent of supervision required will depend on the proficiency of the internal auditors and the difficulty of the audit assignment.

.05 All internal auditing assignments, whether performed by or for the internal auditing department, remain the responsibility of its director.

240 COMPLIANCE WITH STANDARDS OF CONDUCT

Internal auditors should comply with professional standards of conduct.

.01 The Code of Ethics of The Institute of Internal Auditors sets forth standards of conduct and provides a basis for enforcement among its members. The Code calls for high standards of honesty, objectivity, diligence, and loyalty to which internal auditors should conform.

250 KNOWLEDGE, SKILLS, AND DISCIPLINES

Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

.01 Each internal auditor should possess certain knowledge and skills as follows:

Proficiency in applying internal auditing standards, procedures, and techniques is required in performing internal audits. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance.

Proficiency in accounting principles and techniques is required of auditors who work extensively with financial records and reports.

An understanding of management principles is required to recognize and evaluate the materiality and significance of deviations from good business practice. An understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to be able to carry out the research necessary to arrive at reasonable solutions.

An appreciation is required of the fundamentals of such subjects as accounting, economics, commercial law, taxation, finance, quantitative methods, and computerized information systems. An appreciation means the ability to recognize the existence of problems or potential problems and to determine the further research to be undertaken or the assistance to be obtained.

260 HUMAN RELATIONS AND COMMUNICATIONS

Internal auditors should be skilled in dealing with people and in communicating effectively.

.01 Internal auditors should understand human relations and maintain satisfactory relationships with auditees.

.02 Internal auditors should be skilled in oral and written communications so that they can clearly and effectively convey such matters as audit objectives, evaluations, conclusions, and recommendations.

270 CONTINUING EDUCATION

Internal auditors should maintain their technical competence through continuing education.

.01 Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies; attendance at conferences, seminars, college courses, and in-house training programs; and participation in research projects.

280 DUE PROFESSIONAL CARE

Internal Auditors should exercise due professional care in performing internal audits.

.01 Due professional care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Professional care should, therefore, be appropriate to the complexities of the audit being performed. In exercising due professional care, internal auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They should also be alert to those conditions and activities where irregularities are most likely to occur. In addition, they should identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices.

.02 Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations and verifications to a reasonable extent, but does not require detailed audits of all transactions. Accordingly, the internal auditor cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance should be considered whenever the internal auditor undertakes an internal auditing assignment.

.03 When an internal auditor suspects wrongdoing, the appropriate authorities within the organization should be informed. The internal auditor may recommend whatever investigation is considered necessary in the circumstances. Thereafter, the auditor should follow up to see that the internal auditing department's responsibilities have been met.

.04 Exercising due professional care means using reasonable audit skill and judgment in performing the audit. To this end, the internal auditor should consider:

The extent of audit work needed to achieve audit objectives

The relative materiality or significance of matters to which audit procedures are applied

The adequacy and effectiveness of internal controls

The cost of auditing in relation to potential benefits

Due professional care includes evaluating established operating standards and determining whether those standards are acceptable and are being met. When such standards are vague, authoritative interpretations should be sought. If internal auditors are required to interpret or select operating standards, they should seek agreement with auditees as to the standards needed to measure operating performance.

300 SCOPE OF WORK

The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

.01 The scope of internal auditing work, as specified in this standard, encompasses what audit work should be performed. It is recognized, however, that management and the board of directors provide general direction as to the scope of work and the activities to be audited.

.02 The purpose of the review for adequacy of the system of internal control is to ascertain whether the system established provides reasonable assurance that the organization's objectives and goals will be met efficiently and economically.

.03 The purpose of the review for effectiveness of the system of internal control is to ascertain whether the system is functioning as intended.

.04 The purpose of the review for quality of performance is to ascertain whether the organization's objectives and goals have been achieved.

.05 The primary objectives of internal control are to ensure:

The reliability and integrity of information.

Compliance with policies, plans, procedures, laws, and regulations.

The safeguarding of assets.

The economical and efficient use of resources.

The accomplishment of established objectives and goals for operations or programs.

310 RELIABILITY AND INTEGRITY OF INFORMATION

Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

.01 Information systems provide data for decision making, control, and compliance with external requirements. Therefore, internal auditors should examine information systems and, as appropriate, ascertain whether:

Financial and operating records and reports contain accurate, reliable, timely, complete, and useful information.

Controls over record keeping and reporting are adequate and effective.

320 COMPLIANCE WITH POLICIES, PLANS, PROCEDURES, LAWS, AND REGULATIONS

Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.

.01 Management is responsible for establishing the systems designed to ensure compliance with such requirements as policies, plans, procedures, and applicable laws and regulations. Internal auditors are responsible for determining whether the systems are adequate and effective and whether the activities audited are complying with the appropriate requirements.

330 SAFEGUARDING OF ASSETS

Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

.01 Internal auditors should review the means used to safeguard assets from various types of losses such as those resulting from theft, fire, improper or illegal activities, and exposure to the elements.

.02 Internal auditors, when verifying the existence of assets, should use appropriate audit procedures.

340 ECONOMICAL AND EFFICIENT USE OF RESOURCES

Internal auditors should appraise the economy and efficiency with which resources are employed.

.01 Management is responsible for setting operating standards to measure an activity's economical and efficient use of resources. Internal auditors are responsible for determining whether:

Operating standards have been established for measuring economy and efficiency.

Established operating standards are understood and are being met.

Deviations from operating standards are identified, analyzed, and communicated to those responsible for corrective action.

Corrective action has been taken.

.02 Audits related to the economical and efficient use of resources should identify such conditions as:

Underutilized facilities.

Nonproductive work.

Procedures which are not cost justified.

Overstaffing or understaffing.

350 ACCOMPLISHMENT OF ESTABLISHED OBJECTIVES AND GOALS FOR OPERATIONS OR PROGRAMS

Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

.01 Management is responsible for establishing operating or program objectives and goals, developing and implementing control procedures, and accomplishing desired operating or program results. Internal auditors should ascertain whether such objectives and goals conform with those of the organization and whether they are being met.

.02 Internal auditors can provide assistance to managers who are developing objectives, goals, and systems by determining whether the underlying assumptions are appropriate; whether accurate, current, and relevant information is being used; and whether suitable controls have been incorporated into the operations or programs.

400 PERFORMANCE OF AUDIT WORK

Audit work should include planning the audit, examining and evaluating information, communicating results and following up.

.01 The internal auditor is responsible for planning and conducting the audit assignment, subject to supervisory review and approval.

410 PLANNING THE AUDIT

Internal auditors should plan each audit.

.01 Planning should be documented and should include:

Establishing audit objectives and scope of work.

Obtaining background information about the activities to be audited.

Determining the resources necessary to perform the audit.

Communicating with all who need to know about the audit.

Performing, as appropriate, an on-site survey to become familiar with the activities and controls to be audited, to identify areas for audit emphasis, and to invite auditee comments and suggestions.

Writing the audit program.

Determining how, when, and to whom audit results will be communicated.

Obtaining approval of the audit work plan.

420 EXAMINING AND EVALUATING INFORMATION

Internal auditors should collect, analyze, interpret, and document information to support audit results.

.01 The process of examining and evaluating information is as follows:

Information should be collected on all matters related to the audit objectives and scope of work.

Information should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Competent information is reliable and the best attainable through the use of appropriate audit techniques. Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit. Useful information helps the organization meet its goals.

Audit procedures, including the testing and sampling techniques employed, should be selected in advance, where practicable, and expanded or altered if circumstances warrant.

The process of collecting, analyzing, interpreting, and documenting information should be supervised to provide reasonable assurance that the auditor's objectivity is maintained and that audit goals are met.

Working papers that document the audit should be prepared by the auditor and reviewed by management of the internal auditing department. These papers should record the information obtained and the analyses made and should support the bases for the findings and recommendations to be reported.

430 COMMUNICATING RESULTS

Internal auditors should report the results of their audit work.

- .1 A signed, written report should be issued after the audit examination is completed. Interim reports may be written or oral and may be transmitted formally or informally.
- .2 The internal auditor should discuss conclusions and recommendations at appropriate levels of management before issuing final written reports.
- .3 Reports should be objective, clear, concise, constructive, and timely.
- .4 Reports should present the purpose, scope, and results of the audit; and, where appropriate, reports should contain an expression of the auditor's opinion.
- .5 Reports may include recommendations for potential improvements and acknowledge satisfactory performance and corrective action.
- .6 The auditee's views about audit conclusions or recommendations may be included in the audit report.
- .7 The director of internal auditing or designee should review and approve the final audit report before issuance and should decide to whom the report will be distributed.

440 FOLLOWING UP

Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.

- .01 Internal auditing should determine that corrective action was taken and is achieving the desired results, or that management or the board has assumed the risk of not taking corrective action on reported findings.

500 MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT

The director of internal auditing should properly manage the internal auditing department.

- .01 The director of internal auditing is responsible for properly managing the department so that: Audit work fulfills the general purposes and responsibilities approved by management and accepted by the board.
Resources of the internal auditing department are efficiently and effectively employed.
Audit work conforms to the Standards for the Professional Practice of Internal Auditing.

510 PURPOSE, AUTHORITY, AND RESPONSIBILITY

The director of internal auditing should have a statement of purpose, authority, and responsibility for the internal auditing department.

- .01 The director of internal auditing is responsible for seeking the approval of management and the acceptance by the board of a formal written document (charter) for the internal auditing department.

520 PLANNING

The director of internal auditing should establish plans to carry out the responsibilities of the internal auditing department.

- .01 These plans should be consistent with the internal auditing department's charter and with the goals of the organization.
- .02 The planning process involves establishing:
Goals.
Audit work schedules.

Staffing plans and financial budgets.

Activity reports.

.03 The goals of the internal auditing department should be capable of being accomplished within specified operating plans and budgets and, to the extent possible, should be measurable. They should be accompanied by measurement criteria and targeted dates of accomplishment.

.04 Audit work schedules should include (a) what activities are to be audited; (b) when they will be audited; and (c) the estimated time required, taking into account the scope of the audit work planned and the nature and extent of audit work performed by others. Matters to be considered in establishing audit work schedule priorities should include (a) the date and results of the last audit; (b) financial exposure; (c) potential loss and risk; (d) requests by management; (e) major changes in operations, programs, systems, and controls; (f) opportunities to achieve operating benefits; and (g) changes to and capabilities of the audit staff. The work schedules should be sufficiently flexible to cover unanticipated demands on the internal auditing department.

.05 Staffing plans and financial budgets, including the number of auditors and the knowledge, skills, and disciplines required to perform their work, should be determined from audit work schedules, administrative activities, education and training requirements, and audit research and development efforts.

.06 Activity reports should be submitted periodically to management and to the board. These reports should compare (a) performance with the department's goals and audit work schedules and (b) expenditures with financial budgets. They should explain the reasons for major variances and indicate any action taken or needed.

530 POLICIES AND PROCEDURES

The director of internal auditing should provide written policies and procedures to guide the audit staff.

.01 The form and content of written policies and procedures should be appropriate to the size and structure of the internal auditing department and the complexity of its work. Formal administrative and technical audit manuals may not be needed by all internal auditing departments. A small internal auditing department may be managed informally. Its audit staff may be directed and controlled through daily, close supervision and written memoranda. In a large internal auditing department, more formal and comprehensive policies and procedures are essential to guide the audit staff in the consistent compliance with the department's standards of performance.

540 PERSONNEL MANAGEMENT AND DEVELOPMENT

The director of internal auditing should establish a program for selecting and developing the human resources of the internal auditing department.

.01 The program should provide for:

Developing written job descriptions for each level of the audit staff.

Selecting qualified and competent individuals.

Training and providing continuing educational opportunities for each internal auditor.

Appraising each internal auditor's performance at least annually.

Providing counsel to internal auditors on their performance and professional development.

550 EXTERNAL AUDITORS

The director of internal auditing should coordinate internal and external audit efforts.

.01 The internal and external audit work should be coordinated to ensure adequate audit coverage and to minimize duplicate efforts.

.02 Coordination of audit efforts involves:

Periodic meetings to discuss matters of mutual interest.

Access to each other's audit programs and working papers.

Exchange of audit reports and management letters.

Common understanding of audit techniques, methods, and terminology.

560 QUALITY ASSURANCE

The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.

.01 The purpose of this program is to provide reasonable assurance that audit work conforms with these Standards, the internal auditing department's charter, and other applicable standards. A quality assurance program should include the following elements:

Supervision.

Internal reviews.

External reviews.

.02 Supervision of the work of the internal auditors should be carried out continually to assure conformance with internal auditing standards, departmental policies, and audit programs.

.03 Internal reviews should be performed periodically by members of the internal auditing staff to appraise the quality of the audit work performed. These reviews should be performed in the same manner as any other internal audit.

.04 External reviews of the internal auditing department should be performed to appraise the quality of the department's operations. These reviews should be performed by qualified persons who are independent of the organization and who do not have either a real or an apparent conflict of interest. Such reviews should be conducted at least once every three years. On completion of the review, a formal, written report should be issued. The report should express an opinion as to the department's compliance with the Standards for the Professional Practice of Internal Auditing and, as appropriate, should include recommendations for improvement.

STANDARDS OF CONDUCT

Code of Professional Ethics

All Certified Fraud Examiners must meet the rigorous criteria for admission to the Association of Certified Fraud Examiners. Thereafter, they must exemplify the highest moral and ethical standards and must agree to abide by the bylaws of the Association and the Certified Fraud Examiner Code of Professional Ethics....

- A Certified Fraud Examiner shall, at all times, demonstrate a commitment to professionalism and diligence in the performance of his or her duties.
- A Certified Fraud Examiner shall not engage in any illegal or unethical conduct, or any activity which would constitute a conflict of interest.
- A Certified Fraud Examiner shall, at all times, exhibit the highest level of integrity in the performance of all professional assignments and will accept only assignments for which there is reasonable expectation that the assignment will be completed with professional competence.
- A Certified Fraud Examiner will comply with lawful orders of the courts and will testify to matters truthfully and without bias or prejudice.
- A Certified Fraud Examiner, in conducting examinations, will obtain evidence or other documentation to establish a reasonable basis for any opinion rendered. No opinion shall be expressed regarding the guilt or innocence of any person or party.
- A Certified Fraud Examiner shall not reveal any confidential information obtained during a professional engagement without proper authorization.
- A Certified Fraud Examiner will reveal all material matters discovered during the course of an examination which, if omitted, could cause a distortion of the facts.
- A Certified Fraud Examiner shall continually strive to increase the competence and effectiveness of professional services performed under his or her direction

THE IIA IS COMMITTED TO:

- Providing, on an international scale, comprehensive professional development activities, standards for the practice of internal auditing, and certification.
- Researching, disseminating, and promoting to its members and to the public throughout the world, knowledge and information concerning internal auditing, including internal control and related subjects.
- Establishing meetings worldwide in order to educate members and others as to the practice of internal auditing as it exists in various countries throughout the world.
- Bringing together internal auditors from all countries to share information and experiences in internal auditing and promoting education in the field of internal auditing.

Code of Ethics

INTRODUCTION

The purpose of The Institute's *Code of Ethics* is to promote an ethical culture in the profession of internal auditing.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Institute's *Code of Ethics* extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The *Code of Ethics* together with The Institute's *Professional Practices Framework* and other relevant Institute pronouncements provide guidance to internal auditors serving others. "Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who provide internal auditing services within the definition of internal auditing.

APPLICABILITY AND ENFORCEMENT

This *Code of Ethics* applies to both individuals and entities that provide internal auditing services.

For Institute members and recipients of or candidates for IIA professional certifications, breaches of the *Code of Ethics* will be evaluated and administered according to The Institute's Bylaws and Administrative Guidelines. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.

PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

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.

RULES OF CONDUCT

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal auditing services in accordance with the *Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

INDEPENDENCE/OBJECTIVITY

To be effective in performing audits the audit staff must be independent and objective both in actuality and perception. We maintain our independence by our organizational position (including reporting line to the Board) and our Board approved *AUTHORIZATION AND RESPONSIBILITIES* (see *CHARTER*).

In order to maintain objectivity, auditors will immediately inform the audit administration of any factors that may be perceived as impairing their objectivity on an assigned audit. Also, auditors will take great care to prevent even a perception of partiality by maintaining a professional distance from the staff of a department while performing an audit. Questions concerning any relationships with auditees or potential auditees (i. e., preparing tax returns, attending parties, etc.) should be brought to the attention of the audit administration. Finally, auditors will not accept anything of value from an employee, supplier, or business associate of the MHMRA.

CONFIDENTIALITY

Much of the information available to internal auditors is of a sensitive or confidential nature. Auditors should be prudent in their use of information acquired in the course of their duties or information, which is available to them. They will not discuss any matters pertaining to the audits performed by the departments in other than an official manner.

Auditors shall not use confidential information for any personal gain or in a manner which would be detrimental to the MHMRA. (See the Institute of Internal Auditor's Code of Ethics).

Auditors will take adequate measures to prevent the unauthorized release of confidential materials or information in any medium including paper copies, microfiche, or computer files. Such materials should be adequately secured from theft, reproduction, or casual observation.

Confidential materials include any information (except public information) associated with customers or employee names, social security numbers, or identification numbers.

CONDUCT

The following guidelines are established regarding personal conduct and the confidentiality of audit or business information acquired through audit assignments.

As a member of the Internal Audit staff, you are representing the highest level of management. Conduct yourself in a manner that reflects favorably upon yourself and those you represent. You are expected to exercise professional skill, integrity, maturity of behavior, and tact in your relations with others. In general, you are encouraged to be friendly with all MHMRA employees without affecting your objectivity. You should guard against any conduct or mannerisms which permit an impression that you consider yourself an "expert" sent to check on employees. As far as possible, take the position of an independent/objective analyst and advisor. Avoid the image of policing.

In the course of your assignments, you will be in contact with personnel at all levels of authority and position. At all times, an independence in mental attitude is to be maintained. Reports resulting from your efforts should always contain full and unbiased disclosure of all but minor audit findings. Although you report to the Internal Audit department, you have responsibilities to both management and the personnel being audited.

Much of your work is confidential; therefore, be discreet on and off the job in discussing current or past audits or your personal assessments of audit customers. Judgment should be exercised in the security of audit work papers, programs, records, and information at all times.

Never indiscreetly discuss any information you obtain during audits.

Avoid extremes of dress or personal grooming.