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# Internal Audit versus Ethics Programmes

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ŁUKASZ MAŁECKI-TEPICHT

<https://orcid.org/0000-0001-6587-4372>

## Abstract

**Purpose:** The aim of the study is to present a proposal for the delimitation (determination of boundaries) of the internal audit spectrum in the area of ethics programmes of organisations, from the perspective of the draft new Global Internal Audit Standards.

**Methodology/research approach:** A comparative analysis, a critical analysis and a descriptive method of the proposed model were used in the study.

**Results:** The main findings of the analysis include the identification of new opportunities provided by the revision of the Global Internal Audit Standards in the area of auditing of ethics programmes, the illustration of challenges in the area of analysing the organisation's ethical maturity levels and the presentation of a list of audit tasks in the area of ethics: desirable; potentially acceptable; and not recommended.

**Research limitations/implications:** The proposed streamlining of audit tasks in the area of ethics from the perspective of the Standards is a proposal for discussion, resulting, among others, from the author's experience. Further development of the Global Internal Auditing Standards and potential official stances of the Institute of Internal Auditors, including the Institute's domestic branches, may serve its positive or negative verification.

**Originality/value:** This is the first publication comparing the qualitative as well as quantitative change between the existing International Standards for the Professional Practice of Internal Auditing, in force since 2017, the revision of which, called the Global Standards for Internal Auditing, was presented in 2023 and will be implemented in 2024–2025.

**Keywords:** internal audit, ethics programmes, ethical maturity levels, Global Internal Audit Standards



## Introduction

The article's theme involving auditing ethics programmes and the questions the author seeks to answer is a consequence of the author's personal involvement in a number of organisational governance endeavours, including the formation of ethics and its individual components. It should be noted here that both the role of internal audit and the tools for shaping organisational governance with a particular focus on ethical issues have evolved. Changes in both areas studied have affected the perception as well as the functioning of internal audit and the effectiveness of ethics programmes in organisations.

The history of internal auditing dates back to the 1940s. Since then, the role and position of this function in business has undergone significant changes. The original assumption was that internal auditors – using analytical instrumentation similar to statutory auditors – are able to detect certain issues (e.g., irregularities) earlier, before the statutory auditor does so during the audit<sup>1</sup>. Internal audit has evolved from a function that can be called 'internal financial review' to an assurance and advisory function that significantly goes beyond issues related to confirming the reliability of financial reporting. According to Teck-Heang and Ali, for the past 30 years the internal auditor has played an empowering role (Teck-Heang, Ali, 2008, p. 1). Today, internal auditors are expected not only to streamline the financial reporting process, but to provide value-added services in many areas of the organisation's operations (Teck-Heang, Ali, 2008, p. 1). At this point, it should be noted that internal auditors currently perform two types of tasks:

- *assurance* – that is, where the internal auditor provides the organisation's management (e.g., the company's board of directors) with an assessment of a particular process or area, e.g., in terms of its effectiveness, efficiency or level of maturity;
- *advisory (consulting)* – that is, where the internal auditor supports a particular process or area, according to the internal auditor's competence.

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<sup>1</sup> This difference can be seen in the names of the professions in English, where an internal auditor is an internal auditor and a statutory auditor is an external auditor. This distinctiveness stems from the original idea that the two professions would perform similar tasks – the difference being that the internal auditor works throughout the year, inside the organisation, and not just during periods of financial statement audit. Nowadays, there are many more differences – both methodological and regarding the conception of the existence of the two professions.

It can be considered that the audit area, also known as the audit spectrum or audit space, is determined by the risk analysis and by the competence of the internal audit staff, that is, their knowledge, skills, experience and attitude.

Internal auditors are also increasingly performing tasks related to business ethics, both in the form of assurance tasks and in the form of advisory tasks. According to representatives of the Institute of Internal Auditors (hereinafter referred to as the IIA)<sup>2</sup>: *'Stakeholders see assurance activities as crucial, and there needs to be a balance in the work to reflect that. However, auditors are also mobilised to carry out assurance or advisory activities where the auditor has competence, resources and stakeholder support'* (Witzany, Harrington, 2016, p. 5).

Among the catalysts for change in the area of business ethics, the author primarily includes:

- 1) reputation (loss) risk management and perceived business interest in the relationship between accountability and trust, which usually follows image or financial crises,
- 2) changes in the law that force *compliance* activities to bring the organisation into compliance with external requirements, including raising ethical standards.

It is also worth bearing in mind, as Fukuyama points out, that *'More formal norms and rules (...) generally take the form of written laws, constitutions, regulations (...) or intra-organisational circulars.'* (Fukuyama, 2003, p. 176). Thus, it can be thought that the formation of ethical governance is influenced by regulations: both external and intra-organisational. Business practice additionally shows that internal regulations are a response to the expectations of regulators or stakeholders. This leads to the conclusion that ethical behaviour in an organisation can be a response to both the requirements of the law<sup>3</sup> as well as the expectations of customers or shareholders.

The main purpose of this paper is to point out the necessity of taking steps to delineate the spectrum of internal auditing in the ethical area. In order to achieve the above goal, it is necessary to identify areas where audit tasks can be carried out, related to the implementation of ethics programmes in organisations.

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<sup>2</sup> The Global Institute of Internal Auditors is based in the US and operates under the name of Institute of Internal Auditors – IIA. In Poland, the branch of the IIA is the Association of the Institute of Internal Auditors, to which the abbreviation IIA Poland is also used. Due to the institutional nature of the authorship of documents issued by the Institute, the documents cited here will be referred to as having been produced by the IIA.

<sup>3</sup> For example, in 2016, the French parliament passed a law on anti-corruption and business transparency, more widely known as 'Sapin II', introducing obligations for certain groups of entities to, among other things, have a code of ethics describing desirable and prohibited behaviour, as well as mechanisms to protect whistleblowers.

Adequate – for such a goal – is the question: *To what extent can internal audit contribute to improving an organisation's ethics? And what follows: Can internal audit perform assurance and advisory tasks in the area related to ethics, adding significant value to improving the maturity level of the organisation<sup>4</sup> in this area?* In attempting to formulate an answer to the above questions, the author poses three auxiliary questions:

- 1) How do the Global Internal Audit Standards adopted by the IIA on 13 December 2023 (IIA 2023a) affect the legitimacy of covering ethical issues in audit engagements?
- 2) To what extent can the practice guides made available – for internal auditors by the IIA – contribute to the effectiveness of ongoing ethics programme audits, and what changes, if any, do they require?
- 3) What tasks can internal audit perform in the area of ethics – to ensure impartiality and objectivity – and which are not advisable?

The author derives conclusions by way of:

- outlining the area of analysis,
- conducting a comparative analysis of the IIA regulations: of 2017 and 2023 to identify the tasks of internal auditors in the area of ethics, and then,
- presenting a critical analysis of the levels of ethical maturity that are specified in the Practice Guide published by the IIA in 2012.

## 1. Scope of the analysis

According to Gasparski, Lewicka-Strzalecka, Bąk and Rok, the foundation of ethical capitalism is the belief that, *'at the core of doing business, in addition to consistently adhering to legal regulations, is the public good. Each company is therefore an actor on the global stage and with a sense of social accountability adapts its management systems to the expectations coming from diverse stakeholder groups'* (Gasparski et al. 2009, p. 26). In this aspect, therefore, it is important to set ethical issues in the context of the organisation's responsibility to a wide range of stakeholders, operating within a specific institutional framework. Further analysis in this text, relating to auditing ethical issues, is carried out by the author in the neo-institutional perspective, considering it the most appropriate for recognising the issue taken up. This approach is reinforced by the fact that institutions can be formal as well as informal, and that they fall into three groups (as conceptualised by Richard Scott): regulatory institutions, normative institutions, and

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<sup>4</sup> An organisation according to the nomenclature used by the Institute of Internal Auditors can be both a business organisation and a public or non-governmental institution.

cultural-cognitive institutions (Marczewska, 2016, p. 188), which may be relevant to the study of business ethics issues relating to their activities.

Recognising the title problem is strongly related to business ethics, ethical infrastructure and ethics programme.

Lewicka-Strzałecka defines business ethics as the formulation and analysis of ethical rules in the economic world (Lewicka-Strzałecka 1997, p. 56). In order to more clearly illustrate the issues presented, the author proposes to clarify that *business ethics* includes a set of principles and values of responsible business, which results in legitimate<sup>5</sup> stakeholder trust. *Ethical infrastructure*, on the other hand, is a component of organisational governance regarding ethics, which includes both rules and the assignment of responsibility for their implementation in the organisation. For example, in the public sector, the International Monetary Fund includes the ethical infrastructure below:

- website (dedicated to ethics),
- hotline (*Integrity Hotline*), through which there is the possibility of anonymous notification (signalling) of irregularities, 7 days a week, 24 hours a day,
- ethics education and extraordinary ethics training,
- ongoing cooperation in the area of ethics with other organisations, such as the UN (as part of the Ethics Network) (The Fund, 2010, pp. 12–13).

The term *ethics programme*, in turn, refers to the process of shaping the ethics infrastructure and evaluating its effectiveness. At the same time, ethics effectiveness is understood as defining the organisation's professionalism, declaring core values appropriate to all areas of speciality, and implementation:

- ethical guidelines,
- organisational infrastructure and procedures,
- ethics education and training,
- ethics consultation services within the organisation,
- continuous evaluation and improvement (Soskolne, Siesward, 1998, pp. 111–112).

In this argument, the analyses conducted with regard to the internal audit function will use the concept of thinking about the title issue that has been proposed by the IIA, because the standards developed by the IIA, in this regard, are considered directional both in Poland and internationally. The Institute of Internal Auditors has 235,000 members in 180 chapters around the world. As a result, the concepts developed at the IIA resonate in the organisations where the audit is conducted.

According to the IIA, internal audit is an independent and objective activity aimed at adding value and improving the organisation's operational activities. It

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<sup>5</sup> Justified, in the sense of the English term reasonable, that is, having grounds for inspiring confidence..

involves – systematically and in a structured manner – evaluating the processes: risk management, control and organisational governance, and contributes to improving their performance. It helps the organisation achieve its goals by providing assurances about the effectiveness of these processes, as well as through advice (IIA 2016, p. 3).

It follows that it is possible to identify components of the organisation's functioning that are verifiable – so, internal auditors can assess them. And in the event that any of the components of the ethical infrastructure are missing – it is possible to complete an audit consulting assignment, which may allow for the ethical infrastructure to be completed with the missing component.

## 2. Comparative analysis of internal audit standards

For recognising professionalism in the field of internal auditing, the content of the documents that present the standards for practising the internal auditing profession is crucial. The analysis of their content, especially in the period when the amendment is taking place, will help identify the direction of changes taking place in the internal auditing profession and diagnose how to focus attention on the issues of ethics programmes.

Here, the subject of comparative analysis will be the content of the *Global Internal Audit Standards* (GIA) approved in December 2023. *Global Internal Audit Standards*, hereafter referred to as GIAS 2023 (IIA, 2023a) and the existing *International Standards for the Professional Practice of Internal Auditing* (IIA), hereafter referred to as IPPF 2016 (IIA, 2016).

As Anthony Pugliese, president of the IIA, points out: '*Standard-setting follows a rigorous process and aims to meet the basic needs of the profession and serves the public interest*' (IIA, 2023b, p. 3). Publication of the new and translated Standards is scheduled for the first quarter of 2024 (IIA, 2023c). However, organisations that use IPPF 2016 will have one year to comply with the new requirements, which means that internal audit governance documentation must be revised and brought into compliance with GIAS 2023 in 2025. GIAS 2023 will therefore certainly replace IPPF 2016 in 2024–2025.

GIAS 2023 provides for a significant change in the structure and presentation of requirements. The standards and implementation guidelines are presented in five domains, each of which addresses key aspects of the profession. Domains<sup>6</sup> under which expectations for internal audit are regulated include (IIA, 2023a):

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<sup>6</sup> The English version of the document uses the term 'Domain', as well as the Polish version has been translated as 'Domains'. Although there are more appropriate formulations in Polish (areas, fields), the author uses the original nomenclature used by the IIA in the documents in question.

- Domain I – *Purpose of Internal Auditing* unifies descriptions of the profession that were scattered in various components of previous regulations.
- Domain II – *Ethics and Professionalism* includes the Code of Ethics<sup>7</sup> and standards relating to the conduct of practitioners of the internal audit profession, and is enriched by standards relating to professional due diligence.
- Domain III – *Internal Audit Function Management* clarifies the issue of bodies responsible for the proper functioning of internal audit. This amendment defines for the first time the important responsibilities of the board<sup>8</sup> in supporting effective internal audit and addresses how the internal audit manager can support the board in fulfilling its responsibilities.
- Domain IV – *Internal Audit Function Management* clarifies the role of the internal audit manager and provides guidelines for carrying out the internal audit function.
- Domain V – *Provision of Internal Audit Services* covers additional requirements and practices for the effective provision of internal audit services.

In GIAS 2023, the word ‘ethics’ in various variations appears 37 times, while in IPPF 2016, in effect from 2017–2023, it appears slightly less – 33 times. As an adjective – referring to an attribute of the audit, or the organisation – the word ‘ethical’ in various variations in GIAS 2023 appears 19 times, while in IPPF 2016 there were only 4 references. However, when the content of GIAS 2023 is analysed more closely, the overwhelming majority of the use of the word ‘ethics’ refers to a reference to the Code of Ethics of the internal audit profession, and is therefore autotelic, so to speak, i.e., referring to the requirements for auditors themselves.

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<sup>7</sup> In order to distinguish between two different issues, i.e., organisational ethics and internal audit ethics, consistently using nomenclature derived from both the IPPF 2016 and in GIAS 2023 – the author uses the term ‘Code of Ethics’ to refer to the ethics of internal auditors and ‘code of ethics’ to refer to the regulation of organisational ethics.

<sup>8</sup> In the standards perspective, a board is the top-level body responsible for organisational governance, such as a board of directors, a committee or other body to which the board of directors has delegated certain functions (for example, an audit committee), a non-executive/supervisory board in an organisation that has more than one supervisory body, a board of managers or trustees, a group of elected officials or political appointees. If the council does not exist, the word ‘council’ refers to a group or individual entrusted with organisational governance responsibilities (...). According to the author, interpretation problems may arise against this background, since in Polish capital companies the word ‘council’ most often refers to the supervisory board, which would be limiting. Given the previous understanding of the word ‘council’ – still the interpretation in Polish will depend on the context and nature of the organisation. Sometimes it will actually be the board of directors, but in certain situations it may be the top management of a particular organisation in which the audit is active, such as a minister, president, director or rector.

Despite the above – a purely statistical observation – it is impossible to ignore the fivefold increase in the volume of regulations specifying why – and how – internal auditors should direct their tasks towards ethical issues. This regulatory change, axiological and at the same time significant in professional pragmatics in the analysed scope, in comparative terms, is presented in Table 1.

**Table 1.** References to ethical issues in internal audit standards

IPPF 2016	GIAS 2023
1) <i>Standard 2110 – Organisational Governance</i> , excerpt from one sentence relating to ethics.	1) <i>Standard 1.2 – Ethical expectations of the organisation, including</i> <ul style="list-style-type: none"> <li>• requirements (four sentences relating to ethics)</li> </ul>
2) <i>Standard 2110.A1</i> excerpt from one sentence relating to ethics	2) <i>Implementation tips and confirmation of compliance</i> <ul style="list-style-type: none"> <li>• implementation (eight sentences relating to ethics)</li> <li>• confirmation of compliance (four sentences relating to ethics)</li> </ul>
3) <i>Definition of the control environment</i> excerpt from one sentence relating to ethics	3) <i>Standard 9.1 – Understanding organisational governance, risk management and control processes</i> (one sentence relating to ethics)

Source: Own study based on IIA, 2016, p. 30; IIA, 2023a, pp. 15–16

The IPPF 2016 standards consist of two groups of standards: *Attribute Standards* and *Performance Standards*. The first group of standards defines the characteristics of internal auditing, such as independence. The second group of standards answers questions about how internal audit works, i.e., how it carries out its tasks. Within the group of *Performance Standards* in Standard 2110 – *Organisational Governance* there was the following requirement: *Internal audit must assess the processes that shape organisational governance and make appropriate recommendations for improving these processes in terms of: (...) to promote appropriate ethics and values in the organisation* (IIA 2016, p. 30). In addition to the above, Standard 2110.A1 (IIA 2016, p. 30), clarifying the previous standard with regard to assurance tasks, outlines that internal audit *must evaluate the objectives, as well as the design and implementation and effectiveness of the organisation's ethics programmes and activities*<sup>9</sup>. In addition, the audit's interest in ethical

<sup>9</sup> The A designation in the standard number from the English term assurance limits a given standard to assurance tasks only, as opposed to the C designation – concerning consulting tasks.



issues should follow from the definition of internal audit, according to which audit work 'consists of a systematic and orderly evaluation of the processes of risk management, control and organisational governance, and contributes to improving their performance' (IIA, 2016, p. 3). In turn, the definition of the control environment in these Standards implies that the control environment consists of (among other things) integrity and ethical values (IIA, 2016, p. 49).

In the GIAS 2023 standards, the issue of ethics as a subject of internal auditing is specified in Standard 1.2 – Ethics Expectations of Organisations.

The requirements of this standard state that internal auditors must (IIA, 2023a, p. 15):

- respect and support the organisation's legitimate ethical expectations,
- understand and meet the organisation's ethical expectations and be prepared to recognise behaviour that is inconsistent with those expectations,
- support and promote an organisational culture based on ethics,
- evaluate and make recommendations directed at improving the organisation's goals, policies and processes that promote appropriate ethics and values. If internal auditors identify behaviour in the organisation that is inconsistent with the organisation's ethical expectations, they must report their concerns in accordance with the policies established by the internal audit manager.

According to the GIAS 2023 regulatory systematics, each standard includes a section referred to as *Guidance on Implementation and Confirmation of Compliance*. The guidelines for implementing Standard 1.2 state that the internal audit plan should include an assessment of the organisation's ethical risks to evaluate whether existing policies, processes and other controls adequately and effectively address them (IIA, 2023a, p. 15). In light of the IIA regulation under discussion<sup>10</sup>, the organisation's policies may specify: criteria and processes for communicating and handling ethical issues, the parties who should receive such communication, and the mode of escalation of unresolved issues. The internal audit manager should also establish a methodology for approaching ethical issues and discuss it with senior management and the board to ensure a common approach.

In light of GIAS 2023, internal auditors should consider ethics-related risks and controls during individual assignments. If internal auditors identify behaviours in the organisation that are inconsistent with the organisation's ethical expectations, they should follow the methodology and communicate such findings internally in accordance with the methodology established by the internal audit manager,

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<sup>10</sup> *Policies* – a document of direction and regulation – not politics – in reference to a political debate or agenda.

which in turn takes into account organisational policies and processes (IIA, 2023a, p. 15).

The standard in question also introduces a way to deal with situations in which it is senior management that violates ethical expectations. If there is an issue affecting, for example, the board, the internal audit manager should report his concerns to the board. If the ethical concerns involve the chairman of the board, the internal audit manager should raise his concerns with the entire board (IIA 2023a, p. 15). A new element of the IIA regulatory structure that was introduced in GIAS 2023 is ‘Confirmation of Compliance’. The idea behind this new – compared to IPPF 2016 – regulatory component is to clarify how auditors can demonstrate compliance for the implementation of a standard. Confirmation of compliance for the Standard 1.2 in question, is to be demonstrated (IIA, 2023a, p. 16):

- evidence of participation of internal auditors in workshops, trainings, meetings where ethical expectations and problems were discussed;
- forms signed by individual internal auditors confirming their understanding and commitment to the organisation’s ethical policies and processes;
- documented assessment of the organisation’s ethics policies and processes;
- documentation demonstrating that ethical issues have been effectively communicated to senior management, the board and the regulator in accordance with the organisation’s policies and relevant laws and regulations..

In addition to the above, Standard 9.1 – *Understanding Organisational Governance, Risk Management and Control Processes* indicates in the requirements ‘(...) *To understand organisational governance processes, the internal audit manager must consider how the organisation: (...) promotes an ethical culture*’ (IIA, 2023a, p. 68).

The above analysis shows that GIAS 2023 regulates not only the ethos of the internal auditor in a more precise and specific manner, but also makes it much more clear whether, why, and how to audit issues in the area of ethical functioning of the organisation. In the author’s opinion, this is not only a quantitative but also, above all, a qualitative change in the functioning of internal auditing in the world, relating to the challenges of the modern economy, in which issues of accountability are increasingly important.

### **3. Critical analysis of the organisation’s ethical maturity levels**

In 2012, the Institute of Internal Auditors published a *Practical Guide* titled *Evaluating Ethics Programs and Activities* (IIA, 2012). The purpose of the guide was to provide internal auditors with tools to evaluate ethics-related programmes

and activities. Given both the fact that more than a decade has passed since the publication of this guide, and because today we already have knowledge of the contents of GIAS 2023, it is expedient to critically analyse this document.

It is worth mentioning at this point that internal auditors often use the term ‘maturity’ in their work, as well as matrices that characterise the levels of this maturity in relation to the audited area. Through them, they analyse the goals of this activity and determine its benefits. In its guide titled *Selecting, Using, and Creating Maturity Models: a Tool for Assurance and Advisory Services*, the Institute of Internal Auditors points to a number of benefits, the occurrence of which helps identify the use of maturity models. ‘Appropriately designed maturity models ensure’ (IIA, 2013, p. 29):

- a framework for predicting the future, the desired state and the development of improvement plans;
- benchmarks for an organisation to compare its processes internally or externally;
- a mechanism to provide insight into the improvement path from immature to mature process;
- a disciplined method that is relatively easy to understand and implement.

Thus, the maturity levels allow for the identification of organisational and regulatory gaps, the direction of expected changes and a structured approach to an issue. Recognising the differences between maturity levels and commenting on them is therefore cognitive and can lead to interesting observations, particularly if they are related – which the author does in further argument – to Edgar H. Shein’s theory of organisational culture.

In the period between the first publication of the *Practical Guide* and the implementation of the new standards, a number of events took place that affected the conditions of organisations in Poland and Europe. Such events include:

- measures to regulate customer and employee privacy in light of the implementation of European data protection standards;
- changes in the functioning of the labour market resulting from, for example, the *work life-balance* directive;
- regulation of the issue of whistleblowers at the European level; however, it needs to be mentioned that until the end of the last term the Polish model for the protection of whistleblowers has not yet been implemented;
- the outbreak of the global COVID-19 pandemic, the outbreak of wars, affecting global interests, including both human rights violations and changes in the ethics assessment of supply chains.

The practical guide, *Evaluation of Ethics Programs and Activities*, identified areas of organisational performance in six subject areas and five levels of maturity. This systematics (IIA, 2012, pp. 14–19) is illustrated in Table 2.

**Table 2. Abbreviated scheme for analysing the levels of ethical maturity of an organisation**

	Code of Ethics	Culture and consistency	Awareness	Structure and responsibility	Automation and process integration	Objectives and measurement system
Entry	The component in question is missing					
Practised	Component exists – but may be incomplete or outdated					
Defined	The component is complete and periodically reviewed (evaluated)					
Mature	Component is being improved, element is also being verified by employees					
World-Class	The component is evaluated by external parties using a variety of techniques					

Source: based on IIA, 2012, p. 14–19

At this point, it should be noted that the maturity level defined as ‘world class’ is not the standard level used to analyse the maturity level of processes and areas in internal auditing. More common is a 4-stage division, without the latter category.

To illustrate how ethical levels are presented, the maturity levels for the ‘code of ethics’ area are shown below.

*Entry level* is characterised, in the view of the guide’s authors, by the absence of a formal code of ethics and a lack of communication about management’s expectations for a code of ethics. *Practised level* indicates that the code exists, but may be incomplete or outdated. At this level, experienced employees in the organisation have a general understanding of management’s expectations for the code of ethics, but newcomers may struggle to recognise these expectations. At the *Defined level*, there is a complete code of ethics that has been approved by the board and is reviewed every two to three years to determine if it is still valid. In addition, all employees must sign a document acknowledging compliance with the code of ethics. New employees must sign the document confirming that they have read and understood the code. *Mature level*, on the other hand, requires that external reviews of the code be implemented to determine whether the organisation’s existing code of ethics is still valid and appropriate. The Code of Ethics is – at this level of maturity – reviewed annually and updated as necessary. All employees must complete an annual questionnaire with additional questions regarding their conduct in accordance with the code of ethics. The final level, *World-Class*, requires that detailed compliance policies be implemented to support and provide additional clarification on key elements of the code of ethics. In addition, in order to assess the understanding of the code of ethics and evaluate the compliance of the activities implemented in the organisation with the values specified in

the code, focus groups and/or surveys are periodically conducted throughout the organisation on a representative group of employees.

According to the author, communicating values does not have to be based on a new code of ethics. It can be about the overall values of a profession or industry. Hence, orientation to a specific organisation's code of ethics may be inappropriate for those organisations where ethical standards are defined in other, clearly identifiable sources of ethical operating principles.

Focus group interviews (FGIs) and surveys do not have to be attributed to a world-class ethics programme. Focus surveys can be carried out by an external consultant as well as an auditor, when analysing ethical issues. In particular, identifying the reasons for the lack of implementation or inadequate records according to employees will be possible precisely during the focus study, that is, the focus group interview. Successfully, such audits, performed by auditors, or by ethics coordinators established in an organisation, can be supported by tools used for online audits, and available in various Office applications (e.g., Google Forms as part of Google suite of applications, and Microsoft Forms as part of Office 365).

For the other areas, analogous levels were also used in the *Guide*, and their detailed analysis would exceed the volume of this article. However, other areas of ethics analysis point to analogous criteria, that is, the existence of a given document or requirement, assessment of the degree of implementation, assessment of deviations or identification of gaps, and the degree of involvement of management and selected employee groups in a given process or area.

The recommended maturity levels presented above can be identified by answering the questions presented in Table 3.

**Table 3.** Areas of analysis of the organisation's ethical maturity and key questions

1.	Code of Ethics	How effectively does the Code clarify management expectations for ethical behaviour?
2.	Culture and consistency	How does the organisation view management's commitment to compliance?
3.	Awareness	How aware are employees and external stakeholders of the compliance programme and its regulations?
4.	Structure and responsibility	How effective is the structure in terms of programme management and accountability enforcement?
5.	Automation and process integration	How effectively are compliance controls and processes standardised, integrated and automated?

6.	Objectives and measurement system	How is the success of a compliance programme measured?
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Source: based on the IIA 2012, p. 14–19

The above systematisation significantly corresponds to the characteristics of organisational culture in the theory of Edgar H. Schein, who introduced into management science the now classic concept of levels of organisational culture (Schein, 2004, p. 26). Relating Schein's concept of levels of organisational culture to the internal audit arena leads to some insights into the feasibility of including an organisation in an internal audit assessment. These are signalled in Table 4.

**Table 4.** Levels of organisational culture, along with an assessment of internal audit capabilities

The level of organisational culture and its characteristics according to H. Schein		Assessing the auditability (ability to be covered by an internal audit assessment) of an organisation
Level	Characteristics of	
Artefacts	Visible organisational structures and processes	<i>Artefacts</i> are the level of organisational culture assessed by standard evaluation techniques (verification: whether it exists or not, content evaluation).
Proclaimed beliefs and values	Strategies, goals, philosophies	<i>Beliefs and values</i> are assessed using standard assessment techniques, as well as in-depth techniques such as individual interviews and focus studies.
Podstawowe założenia	Nieświadome, przyjęte za pewnik przekonania, percepcje, myśli i uczucia...	<i>The underlying assumptions</i> are a difficult level of organisational culture for internal audit. Nevertheless, with a high level of employee confidence in the internal auditor, it is assessable. For example, an internal auditor can gain knowledge from employees about social consensus (e.g., 'everyone does this') or rationalisation (e.g., 'if I didn't do this I wouldn't get a bonus'). The internal auditor's acquisition of knowledge in this area can be supported by anonymous surveys and effective cooperation with the organisational unit or employee responsible for the communication channel for whistleblowing.

Source: Own study based on Schein, 2004, p. 26.

The maturity levels presented can be attributed to specific elements of a given level of organisational culture. For example, the existence of a code of ethics or compliance policy will be within the *proclaimed beliefs* and *values*. However, a careful analysis of the *Practice Guide's* guidance identifies some shortcomings in the mapping of organisational culture elements to appropriate maturity levels. What is most apparent here is the lack of attribution relating to the workspace and operating conditions of the organisation, which should be indicated when describing the level of *artefacts*. Meanwhile, this element is important in assessing the level of maturity and its omission gives an incomplete picture of – classified by maturity – organisational culture. For example, differences in: the equipment of the premises where different employee tasks are performed, the quality of equipment made available to different employee groups, the amount of wages, especially when there is a wage gap<sup>11</sup>, may be elements that are not directly related to the ethical model of a particular organisation, but may indicate the existence or limitation of such phenomena as discrimination, or unequal treatment.

The most difficult for the internal auditor, and yet – for the organisation's management – presumably the most important for evaluating the usefulness of the audit results, will be to identify the *underlying assumptions*, including the actual reasons why expected ethical values are being violated. To identify the presence of characteristics of this most complex level of organisational culture, i.e., the level that reflects the real translation of code ethical values into the practice of organisational operations, the internal auditor has at his disposal a number of auditing techniques. The first (and primary) is the technique of the interview conducted as a one-on-one conversation. The second technique is to talk to the wider community. They can be in free form, but can also be more structured, as focus group interviews. A third form of obtaining information important in evaluation is surveys, which contain both closed questions (formulated using, for example, a Likert scale) and open-ended questions that allow free speech. The last is an increasingly popular source of knowledge about the values actually shared by employees, namely anonymous communication channels dedicated to informing the organisation about irregularities, i.e., whistleblowing channels<sup>12</sup>.

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<sup>11</sup> Gender pay gap – difference in pay between men and women, without a substantive reason, usually to the detriment of women.

<sup>12</sup> As of the date of publication of this article, Poland has not adopted a law implementing Directive 2019/1937 of the European Parliament and of the Council (EU) of October 23, 2019 on the protection of persons reporting violations of Union law. Nevertheless, many entities – anticipating a change in the law in this area – are getting ahead of the Polish legislator's move, implementing signalling solutions, regardless of national requirements, but in compliance with the Directive.

The effectiveness of the use of the above tools is determined by an important condition, i.e., the space of trust that the organisation's employees will place in the internal auditor (or not) and the way in which the internal auditor communicates both the audit task being carried out in the area of ethics and the tasks previously carried out by the auditor. A space of trust, after all, is an area of communication in which employees and managers will feel comfortable enough to be confident that their knowledge will be used to improve the organisation, rather than to draw negative consequences against those who in good faith communicate their knowledge of the organisation's weaknesses.

It should also be noted that the other – presented in the analysed *Guide* – descriptions of the organisation's maturity levels in the ethical area do not address such contemporary challenges as:

- privacy issues,
- applications of artificial intelligence (including biased courts identified in artificial intelligence activities),
- the ethics of the entire supply chain, including an assessment of how sanctions are implemented.

Summarising the above analysis of maturity levels, it should be noted that the Practice Guide entitled *Evaluation of Ethics Programs and Activities* (IIA, 2012) inspiringly identifies six subject areas and five maturity levels. In the author's opinion, interpretive dilemmas may largely relate to the differences between *Mature* and *World-Class* levels. Therefore – in the context of the implementation of GIAS 2023 – the focus of further work on updating the Guide should be both assessing the cognitive utility of the latest (*World-Class*) level and identifying the ethical challenges provided to organisations over the past 12 years.

Updating the structure of IIA documents, resulting from the implementation of GIAS 2023 from 2024, should also result in a revision of the wording of the guidance for internal auditors on internal audit's coverage of the area of ethics in organisational operations. This update should take into account, among other things, labour issues, including privacy and ethical dilemmas arising from the use of artificial intelligence as well as the effectiveness of ethics assessments along the supply chain (including the service chain).

#### **4. Proposal for description of internal audit tasks in the area of ethics of the organisation**

Earlier sections of the article outlined the new – relating to ethics – responsibilities of internal audit and the challenges in shaping assessments in this area (identifying an organisation's level of maturity from an ethical standpoint). At this point, it is reasonable to point out – once again – that in addition to assurance



tasks, in which internal auditors evaluate a particular area (here: ethics), it is possible to carry out advisory tasks (here: in the area of ethics). In doing so, it should also be borne in mind that auditors are expected to assist the organisation in identifying risks to which the organisation is exposed, and which the auditor perceives by virtue of experience and professional judgment. Thus, dilemmas can arise: what tasks the internal auditor can perform, and what tasks should be delegated to other employees or those in charge of areas important to organisational governance (such as the legal, compliance or risk function). To this end, the author proposes to apply – to the area of ethics and the risk of unethical of the organisation – a perspective, on the tasks of the auditor and the way they are carried out, analogous to that which applies to issues related to the management of risks identified in areas other than ethics.

The role of audit in risk management is evolving, and there is a wide debate in the auditing literature on this issue, but nevertheless a certain model has taken shape, which, although sometimes contested, has cognitive value and helps to ensure the independence of internal audit when evaluating assurance, advisory and possibly other audit tasks that are entrusted to the audit.

Based on the 2012 *Practical Guide* (IIA, 2010, p. 7) and the recommended section titled *Internal Audit Roles in the Risk Management System*, the author – presenting his point of view – uses the structure proposed therein for the description of the internal auditor's tasks, which distinguishes three types of tasks and their potential implementation, or limitations of internal audit activities.

The model proposed in this *Guide* for viewing the internal auditor's tasks assumes the existence of (IIA, 2010, p. 7):

- key roles of internal audit, i.e., those in which the role of internal audit is expected or desirable and the performance of tasks is in accordance with standards and thus does not violate impartiality;
- legitimate internal audit roles in which caution is necessary, and which are due to low maturity and the inability of another person or unit in the organisation to perform the tasks;
- roles that internal audit should not undertake, i.e., such tasks that should be entrusted to another person or organisational unit; in small organisations, where the existence of an audit is a formal, legal or best-practice requirement, these tasks are sometimes entrusted and, therefore, their possible evaluation (e.g., an audit task in this area) should be entrusted to an external entity.

The author, following the above course of organising the tasks of the internal auditor, in Table 5 presents his own proposal for determining the tasks that, in connection with ethical issues, the internal audit:

- should perform,
- can perform,

— should not perform.

The above systematisation of tasks in the area of organisational ethics and the role of internal audit is of a propositional nature and results from:

- the author's experience in carrying out audit tasks in the field of ethics,
- discussions held with internal auditors during the author's training courses on auditing ethical issues,
- GIAS 2023 content analysis.

Given that internal audit (IIA, 2018, p. 2) provides insightful analysis, this proposal can act as a catalyst for management and the board to better understand organisational governance processes and structures. The auditor's tasks shown in the third column of Table 5 would – in the author's opinion – severely limit the impartiality and objectivity of the implementation of audit tasks in other areas of the organisation's functioning. Hence, although internal auditors are sometimes entrusted with tasks outside the internal audit function, any management responsibility for the area of ethics should be considered to limit the operation of internal audit.

**Table 5.** Proposal for systematisation of tasks in the area of organisational ethics and the role of internal audit

Key roles of internal audit	The legitimate roles of internal audit	Roles that internal audit should not undertake
<ul style="list-style-type: none"> <li>• Provide reassurance about processes affecting ethics.</li> <li>• Evaluation of the ethics area.</li> <li>• Evaluating the reporting of major ethical incidents.</li> <li>• Review of ethics area management.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate the identification and evaluation of ethical issues.</li> <li>• Advise management on how to respond to the risk of unethical operation of the organisation.</li> <li>• Coordinate activities in the ethics area (e.g., collecting information on incidents and incident response, but not managing the organisation's response to them).</li> <li>• Consolidated reporting.</li> <li>• Support the implementation of an ethical management system.</li> <li>• Develop an ethics strategy, excluding responsibility for its implementation.</li> </ul>	<ul style="list-style-type: none"> <li>• Determine the organisation's risk appetite for unethical in selected areas.</li> <li>• Impose ethical management processes on the organisation.</li> <li>• Deciding how to respond to the risk of unethical.</li> <li>• Implement responses to risk of unethical on behalf of management.</li> <li>• Responsibility for the ethical functioning of the organisation.</li> </ul>

Source: own study based on the classification of internal auditor roles presented in: (IIA, 2010, p. 7)

## Summary

The functioning of internal audit, as one of the tools supporting the effective implementation of organisational governance, falls within the perspective of neo-institutional management science.

*The Global Internal Audit Standards*, announced in December 2023, significantly and comprehensively regulate internal audit's responsibilities in assessing ethics in an organisation. The changes include not only an expansion of the semantic field of the analysed regulation, but also clarify and more clearly present the requirements for auditors in the presented area.

The Institute of Internal Auditors' 2012 *Practice Guide: Evaluating Ethics-related Programmes* and 2018 *Practice Guide: on Assessing the Risk Management Process* have a varying and extensively every so often less valid potential to add value. Accordingly, following the establishment of the new GIAS 2023 – guidance in this area, at a certain level of generality has been included in these standards, and at the detailed level of the implementation of audit tasks requires significant updating.

In order to ensure the impartiality and objectivity of internal audit, it is necessary to determine the scope of internal audit tasks desirable, possible and not desirable in the area of ethics of the organisation. The author proposed a systematisation in this regard as a suggestion for further discussion.

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