



**Code of Ethics
For Internal Auditors
Royal Government of Bhutan**



**MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN
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INTRODUCTION

The Code of Ethics states the principles and expectations governing the behavior of the Internal Auditors in the conduct of internal auditing. The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing. Since the profession is founded on the trust placed in its objective assurance about risk management, control and governance, it is necessary and important for the Internal Auditors to be governed by proper Code of Ethics.

The Code of Ethics has the following components:

- A. Principles that are relevant to the profession and practice of internal auditing;
- B. Rules of Conduct that describes behavioral 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.

APPLICABILITY AND SCOPE

This Code of Ethics shall apply to all Internal Auditors appointed by the Royal Civil Service Commission under the Royal Government of Bhutan. Internal Auditors shall uphold the principles of this Code in addition to general Civil Service Code of Conduct. Any breaches of the Code will be evaluated and administered according to the disciplinary procedure and 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, shall be liable for disciplinary action.

CODE OF ETHICS

1. Integrity

Principle

Integrity is the quality of being honest and having strong moral principles. Integrity in internal auditors can generate trust and confidence among stakeholders and thus provide basis for reliance on their judgment.

Rules of Conduct

Internal auditors:

- 1.1. Shall perform their work with honesty, sincerity and dedication irrespective of the time and circumstances;
- 1.2. Shall not be a party to any illegal activity or improper activity, or engage in acts that are discreditable to the profession of internal auditing;
- 1.3. Shall refrain from soliciting, receiving or offering any form of gratifications which could impair their professional judgments;
- 1.4. Shall not abuse or misuse authority bestowed upon by the Internal Audit Charter for any purpose.

2. Objectivity

Principle

Objectivity is the quality of being true. Internal auditors are to exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

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Rules of Conduct

Internal auditors:

- 2.1. Shall conduct their duties efficiently and effectively without fear or favor;
- 2.2. Shall not participate in any activity or relationship that may impair their unbiased assessment;
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review or conceal unlawful practices;
- 2.4. Shall deal with facts and not allow personal feelings or prejudices to affect their evaluation.

3. Confidentiality

Principle

Confidentiality means keeping a client's information between you and the client, and not telling others including co-workers, friends, family, etc. Internal auditors must respect the value and ownership of information they receive and not disclose to any parties without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

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 disclose information acquired in the process of auditing to any parties for any personal gains;
- 3.3. Shall not use information in the matter that is contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

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4. Competency

Principle

Competency is the ability to do something successfully or efficiently. Internal auditors must apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2. Shall endeavor to comply with the International Standards for the Professional Practice of Internal Auditing.
- 4.3. Shall continually strive to improve their proficiency and the effectiveness and quality of their services.

5. Conflict of Interest

Conflict of Interest is a situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity. Internal auditors must declare 'conflict of interest' and accordingly refrain from auditing an activity or process when they see themselves in a position to potentially undermine impartiality in an objective assessment of an activity or process.

Rules of Conduct

The internal auditors:

- 5.1. Shall declare 'conflict of interest' in the manner prescribed before auditing an activity or process.

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- 5.2. Shall not be obliged by borrowing cash or kind from a person who might be directly or indirectly linked with the activity or process under review.
- 5.3. Shall not make use of their official status for private gains
- 5.4. Shall avoid any kind of relations that will pose corruption risk or cast doubts upon their objectivity

ENFORCEMENT AND COMPLIANCE PROCEDURE

The Central Coordinating Agency for Internal Audit Service under the Ministry of Finance shall be responsible for the enforcement of this Code. The CCA shall review complaints and coordinate with the Human Resource Division of the Ministry of Finance and other related agencies with respect to administering disciplinary provision contained therein. Any Internal Auditors who violates the Code of Ethics may be subjected to the discipline policy as described in "Appendix A"

Duty to Report

If an Internal Auditor encounters a situation where another auditor has violated the Internal Audit Code of Ethics or engaged in unethical audit practices, this must be reported to CCA immediately.

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Internal Auditor Code of Ethics and Discipline Policy

“Appendix A”

If the CCA receives complaints against an internal auditor or believes that an internal auditor has breached the internal auditors’ Code of Ethics, the CCA will review the circumstances and consider all facts and the concerns of the affected parties. This review will be documented for transparency and future reference. If the initial review indicates that a breach is likely to have occurred, the CCA will move to step 1 of the disciplinary process.

Step 1:

The CCA will call the auditor and discuss the issue. If there is agreement between the auditor and the CCA that a minor breach has occurred, a letter documenting the details of the breach and specifying the penalties for the auditor will be sent to concerned auditor with copies endorsed to head of agency and RCSC. If the auditor does not agree that a breach has occurred, the process will move to step 2 of the procedure.

If there was a significant breach of the auditor’s code, the process automatically moves to step 2. At the discretion of the CCA, a temporary suspension may also be invoked and the rationale for the suspension will be documented.

Step 2:

The CCA will put up the matter to HR Committee of the Ministry of Finance for further deliberations. The CCA will provide details of the alleged breach as well as the evidences establishing it and provide a written decision of the HR Committee of the Ministry of Finance to the auditor no later than 15 working days after the meeting. The letter will be sent via a secure delivery method.

The accused Internal auditor will be provided with an opportunity to respond to the decision of the HR Committee of the Ministry of Finance.

Severity of a Breach of the Auditor's Code of Ethics

The following guidelines will be used to determine the severity of a breach of the code of ethics.

A. Minor Infraction

To be considered minor, it must be a first time violation of the auditor's code of ethics and the affected parties must not have suffered any economic loss as a result of the breach. The breach must not have affected the audit findings. However, any issues that place the auditor in a conflict of interest situation, or compromise the confidentiality of the audit cannot be considered to be a minor infraction.

B. Significant Infraction

To be considered 'Significant Infraction' the auditor must have compromised the integrity of the audit findings. The violation must result in some form of economic loss to the employer. A second breach of the auditor's code of ethics is also to be considered to be a significant infraction. Any issues that place the auditor in a conflict of interest situation, or compromise the confidentiality of the audit is automatically considered to be a significant infraction.

C. Serious Infraction

A third time breach of the Auditors' Code of Ethics is considered to be a serious infraction. The violation must have resulted into a major economic loss to the employer or brought about discredit to the profession of internal audit.

Penalties for breaching the Auditor's Code of Ethics

The following are the grade of penalties for breaching the Auditors' Code of Ethics. However, if any breach of this Code is punishable by a heavier penalty under another law, that law shall apply.

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For 'Minor Infraction', the auditor will receive one or both of the following:

- ✓ The auditor will write a letter of apology to the parties involved;
- ✓ The auditor will be reprimanded.

For 'Significant Infraction', the auditors will receive one or more of the following:

- ✓ The auditor's annual increment will be withheld for a period of one year;
- ✓ The auditor will be barred from availing any training programs for a period of one year;
- ✓ The auditor's promotion will be withheld for a period of one year.

For 'Serious Infraction' the auditors will receive one or more of the following:

- ✓ The auditor will be demoted to a lower grade;
- ✓ The auditor will be terminated from the service without benefits.

Appeal

Any Auditor who is aggrieved by the decision of the HR Committee of the Ministry of Finance may appeal to the Chairperson RCSC within ten days from the day of the receipt of disciplinary Order.

Reference Note: (This Code of Ethics is prepared by adapting the model Code of Ethics of the Institute of Internal Auditors and it's approved solely for compliance by the Internal Auditors of the Royal Government of Bhutan. The Ministry of Finance, Royal Government of Bhutan acknowledges the reference provided by the IIA)