



International Professional
Practices Framework

Implementation Guide 2431

Standard 2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

Revised *Standards*, Effective 1 January 2017

Getting Started

Standard 2431 requires disclosure when the results of a specific engagement are impacted by nonconformance with the Code of Ethics or the *International Standards for the Professional Practice of Internal Auditing (Standards)*. Therefore, internal auditors should have an understanding of The IIA's Code of Ethics and the *Standards*. They should also understand the potential areas of nonconformance at the engagement level and the expectations of senior management and the board for reporting any nonconformance issues.



The IIA's Code of Ethics comprises broad principles relevant to the profession and practice of internal auditing and more specific rules of conduct, which describe the behavior expected of both entities and individuals who perform internal audit services in accordance with the Definition of Internal Auditing (including IIA members, recipients of IIA certifications, and certification candidates). The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

As stated in the Introduction to the *Standards*, "The purpose of the *Standards* is to:

1. Guide adherence with mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

"The *Standards* are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the *Standards*."

Considerations for Implementation

At times, certain circumstances may prevent internal auditors from conforming with the Code of Ethics or the *Standards* during the performance of an engagement. In general, these are circumstances in which the independence and/or objectivity of an internal auditor is impaired, or an internal auditor encounters unreliable data, a lack of information, a scope limitation, or other constraints. In such cases, the internal auditor should identify any principles, rules of conduct, or standards with which full conformance was not achieved and determine whether the nonconformance impacts the engagement results. If the nonconformance *does* affect the results, the engagement communications would describe why the nonconformance occurred



and how the results and communications were affected.

It may be helpful to contemplate several scenarios in which Standard 2431 would apply:

- In a situation where an impairment to an internal auditor's objectivity or independence is found to impact engagement results, the communication of results must disclose nonconformance with Standard 1120 – Individual Objectivity and the Code of Ethics principle of objectivity.
- In a situation where the internal audit activity undertook an engagement for which it did not possess the collective knowledge, skills, and experience needed to perform its responsibilities, the communication of results must disclose nonconformance with Standard 1210 -- Proficiency and the Code of Ethics principle of competence.
- If the internal audit activity encounters any restrictions in its ability to access records, personnel, or properties, and these restrictions impact the scope of the engagement, the communication of results must disclose nonconformance with Standard 2220.A1.
- If internal audit resources are insufficient to achieve engagement objectives, the communication must disclose nonconformance with Standard 2230 – Engagement Resource Allocation.

Disclosures of this nature are typically documented in engagement workpapers. It is important for the CAE to consider whether the nonconformance situations affect the internal audit activity's ability to fulfill its professional responsibilities and/or meet the expectations of shareholders. Then, the CAE would determine how and whether to communicate these issues to senior management and the board. Often, disclosures are handled through a discussion with senior management and are communicated to the board during a meeting. The CAE may discuss nonconformance in advance during a private meeting with the board, one-on-one meeting with the chair, or by another appropriate method. To ensure full disclosure, the CAE should also consider whether the nonconformance should be included in the final engagement communication.

Considerations for Demonstrating Conformance

Materials that may demonstrate conformance with Standard 2431 include:



- Written department policies and procedures for disclosing nonconformance with the Code of Ethics and/or the *Standards* in the engagement workpapers.
- Memos, emails, or other written communications that identify Code of Ethics principles or rules of conduct and standards with which conformance was not achieved; explain the reason(s) for nonconformance; and describe the impact of nonconformance on the engagement and the communicated engagement results.
- Minutes of meetings or other records documenting verbal disclosure of the nonconformance, reason(s) for nonconformance, and the impact of nonconformance on the engagement and the communicated engagement results.
- Evidence of disclosure in the final engagement communication.



About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (nonmandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

Disclaimer

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