

WHY CONFORMANCE MATTERS

Meeting Internal Audit Standards Key to Providing True Assurance

Introduction

Internal auditing is conducted in diverse legal and cultural environments for organizations that vary in purpose, size, complexity, and structure, and by persons within or outside the organization. Yet, no matter the environment, internal auditing is a critical component of effective governance and organizational success.

To best serve the organization and inspire stakeholder confidence, internal audit must operate at the highest level of ethical and professional competencies to ensure consistent and accurate delivery of risk-based and objective assurance, advice and insight. Internal audit is most effective when its resource level, competence, and structure are aligned with organizational strategy, and when it follows the International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors (IIA)¹.

The Institute of Internal Auditors Perspective

While differences may affect the practice of internal auditing in each environment, The IIA's IPPF has been developed to help internal auditors achieve the highest level of competence and service. The IPPF comprises mandatory guidance that includes:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics
- *International Standards for the Professional Practice of Internal Auditing*

These are complemented by recommended guidance approved through a rigorous, formalized process that provides practitioners direction on *Standards* implementation and supplemental support.

Ultimately, internal audit delivers true value and earns stakeholder trust when it contributes to organizational success, positive change, and innovation by delivering assurance, insight, and advice.

KEY TAKEAWAYS

Internal audit should operate to the highest level of ethical and professional competencies to ensure consistent and accurate assurance delivery.

Every professional internal auditor and internal audit activity should follow and conform to the IIA's International Professional Practices Framework (IPPF).

Internal audit should operate under a charter that adopts the IPPF, and stakeholders should expect and accept nothing less.

Stakeholders should require the internal audit activity maintain a Quality Assurance and Improvement Program (QAIP) and demand regular external quality-assurance reviews.

Conformance to the IPPF is essential in meeting the responsibilities of internal auditors and the internal audit activity (IAA). It provides a measure of confidence that the IAA is operating to a strict code of ethics, defined professional standards, and that its staff is trained to specified standards of education and continued professional development.

The purpose of IIA *Standards* is to:

- Guide adherence with the mandatory elements of the International Professional Practices Framework.
- Provide a framework for performing and promoting a broad range of value-added internal auditing services.
- Foster improved organizational processes and operations.
- Delineate basic principles that represent the practice of internal auditing
- Establish the basis for the evaluation of internal audit performance.

The internal audit activity must operate under a charter² that adopts the IPPF, and stakeholders should expect and accept nothing less.

A commitment to the continual review and improvement of the IAA is a vital aspect of earning and maintaining credibility and trust among its stakeholders. The *Standards* require heads of audit to create Quality Assurance and Improvement Programs. Additionally, the IPPF contains an obligation (Attribute Standard 1312: External Assessment) for an external Quality Assurance Review every five years.

These external quality reviews validate the trust placed in internal audit by stakeholders by affirming that the IAA is operating in conformance to the *Standards*. IAAs that comply with the IPPF and the Quality Assurance Review obligation are allowed to be recognized as “*Conforms with the International Standards for the Professional Practice of Internal Auditing.*”

The board, senior management, and other governing bodies should require their internal audit functions to achieve this recognition.

When the recognition is attained and maintained, stakeholders know they are being supported by functions that are operating to an international standard and can be confident in the work performed and associated assurance and advice provided.

Who Must Conform and Why

Every professional internal auditor and every IAA must follow the mandatory components of the IPPF. As a set of principles-based, internationally applicable requirements for the practice and evaluation of internal auditing services, the *Standards* are fundamental to successful internal auditing.

FIVE QUESTIONS

Stakeholders must understand the state of internal audit within the organization and demand the highest professional and ethical performance.

Here are five key questions they should be asking:

- 1.**
Does the organization have internal audit and audit committee charters that adopt the IPPF?
- 2.**
Does the internal audit activity follow and conform to the IPPF?
- 3.**
Do internal audit staff members hold relevant professional certifications, such as The IIA’s Certified Internal Auditor (CIA)?
- 4.**
Does the internal audit activity have a Quality Assurance and Improvement Program (QAIP) in place?
- 5.**
Does the internal audit activity undergo regular external assessment to demonstrate conformance to the IPPF?

Conformance is mandatory for:

- IIA members.
- Certified Internal Auditors (CIAs).
- Practitioners operating in countries that require IIA *Standards* compliance.

Practitioners who fall outside these groups are not obligated to follow the *Standards*, but stakeholders should demand conformance as assurance of the IAA's demonstrated level of competency.

Who Benefits from Conformance

By definition and design, conformance to the IPPF strengthens the delivery of internal audit services, which in turn helps the organization improve governance, manage risks, and implement controls to more effectively achieve its goals. Those who benefit include, internal auditors, audit committees, management, the board, shareholders, and regulators.

The IPPF provides a credible and current framework for these stakeholders to understand internal audit's role in effective governance, risk management and control, and outlines the expectations they should have of their IAA. Conformance increases professionalism, drives and encourages continued development of the profession, and nurtures conditions under which internal audit can thrive and more effectively enhance and protect organizational value.

Conformance to the IPPF strengthens the delivery of internal audit services, which in turn helps the organization improve governance, manage risks, and implement controls to more effectively achieve its goals. Those who benefit include internal auditors, audit committees, management, the board, shareholders, and regulators.

¹ IIA Global Advocacy Platform

² IG 1000

About Position Papers

The Institute of Internal Auditors (IIA) promulgates Position Papers on key issues of interest to stakeholders and practitioners with the aim of advocating for sound governance and educating those involved in it. The positions outlined offer insights into various aspects of the governance process and internal audit's vital role in improving governance at all levels and adding value to the organization. Position Papers are developed and reviewed through a rigorous process that solicits input and critique from practicing internal audit professionals and other IIA volunteers who serve on The IIA's Global Advocacy Committee, IIA Standards Board, and The IIA's Professional Responsibility and Ethics Committee.

About The Institute of Internal Auditors

The Institute of Internal Auditors (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 190,000 members from more than 170 countries and territories. The IIA's global headquarters are in Lake Mary, Fla. For more information, visit www.theiia.org.

Disclaimer

The IIA publishes this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

Copyright

Copyright © 2018 by The Institute of Internal Auditors, Inc. All rights reserved.

May 2018



Global Headquarters
The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101
www.globaliia.org

