

Annual Report IPPF Oversight Council 2015

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Chairman's Message



Peter Gleason, Chairman
IPPF Oversight Council

The International Professional Practices Framework Oversight Council (IPPFOC) has completed its fifth year of oversight, and I am pleased to present the 2015 annual report. Established by The IIA Board of Directors in 2010, the Council is an international, independent body that evaluates and advises on the adequacy and appropriateness of the processes used by The IIA to set global standards and develop guidance.

Although its individual members have changed since 2011, the IPPFOC has comprised one representative from each of the same five organizations since its inception. The Council's dedicated members ensured a productive year that included delving into committee processes and documents and overseeing the progress made toward implementing a new International Professional Practices Framework (IPPF).

I have served on the IPPFOC since January 2011 and became chairman in 2014, just as The IIA began to introduce proposals to revise the IPPF based on the results of its "IPPF Relook" project. The Council oversaw the project and processes that led to the creation of a new IPPF.

In 2015, The IIA began to implement the IPPF's transformation, with a transition from the Strongly Recommended Guidance known as Practice Advisories to the new, more strategically conceptualized Recommended Guidance named "Implementation Guides," along with the introduction of the new "Mission of Internal Audit" and "Core Principles for the Professional Practice of Internal Auditing." In addition, the IPPFOC continued to review the processes used by the Standards Board and committees that help set standards and develop guidance. The Council observed meetings, reviewed documentation, monitored actions intended to address past IPPFOC observations, and made recommendations for further refinements.

I have appreciated the commitment and contributions of my fellow Council members and would like to recognize a few changes that occurred in 2015. Council member Yvan Pedersen, who had served as a representative of INTOSAI since July 2014, stepped down and was replaced by Jacek Jezierski. The Council welcomed new members Svetlana Klimenko, representing The World Bank, and Denny Beran, former IIA chairman of the board. János Bertók committed to a second three-year term as the OECD's representative to the Council. I would also like to thank IIA President and CEO Richard Chambers, IIA Global chairmen Anton van Wyk and Larry Harrington, and IIA staff for ongoing cooperation and participation.

The IPPFOC reinforces the important role of good organizational governance. Over the past five years, I've enjoyed seeing how Council oversight has elevated The IIA's standard-setting and guidance-development processes. In my last year of service, I look forward to continuing to support such evolution.

1. IPPFOC and the International Professional Practices Framework

The IPPFOC was established in October 2010 to promote inclusiveness, transparency, and other qualities that increase internal audit stakeholders' confidence that the outputs of standards-setting and guidance-development committees serve the stakeholders of internal audit globally, but also support a broader public interest. The Council's mission is to evaluate and advise on the adequacy and appropriateness of The IIA's standards-setting and guidance-development processes. *Refer to Appendix 1 for the IPPFOC Charter.*

The IPPFOC is responsible for evaluating procedures for setting standards and developing guidance to determine whether they represent internationally accepted practices. Based on the evaluations, the IPPFOC may recommend that The IIA's technical committees consider adjustments, enhancements, and improvements, as appropriate, to their charters and processes.

The International Professional Practices Framework

The IPPF is the conceptual framework that organizes the authoritative standards and guidance promulgated by The IIA. The IPPF includes only authoritative standards and guidance developed by an IIA international technical committee following appropriate due process.

The IPPF comprises:

The Mission of Internal Audit

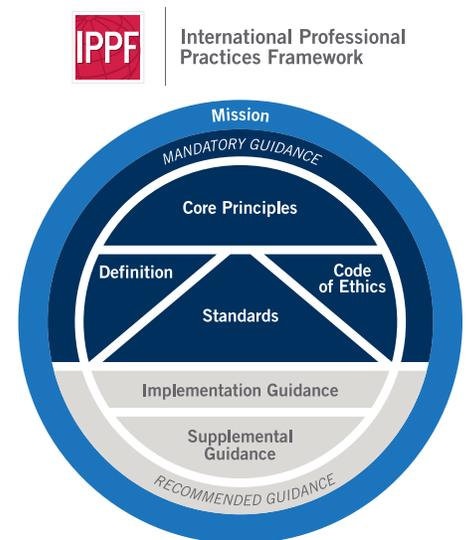
MANDATORY GUIDANCE

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

RECOMMENDED GUIDANCE

- Implementation Guidance (IGs)
- Supplemental Guidance: Practice Guides (PGs), Global Technology Audit Guides (GTAGs), Guides to the Assessment of IT Risks (GAITs)

Refer to Appendix 2 for more information about the IPPF.





IPPF Technical Committees: Primary Responsibilities

As an independent body, the IPPFOC reviews transparency and adherence to due process as the following IPPF technical committees conduct activities related to developing, maintaining, and sustaining the IPPF.

- International Internal Audit Standards Board (IIASB): Develops, issues, maintains, and promotes the *Standards*.
- Professional Issues Committee (PIC): Develops, issues, maintains, and promotes recommended guidance under the IPPF.
- Public Sector Committee (PSC): Supports public sector members globally and develops, issues, and promotes recommended guidance specific to the unique needs of internal auditors serving the public sector.
- Global Ethics Committee (GEC): Maintains, updates, and promotes the Code of Ethics.
- Professional Guidance Advisory Council (PGAC): Establishes and sustains The IIA's guidance strategy and ensures the consistency of IPPF guidance, as well as the transparency of the underlying guidance development processes.

2. IPPFOC Members

The IPPFOC reports to The IIA Global Board of Directors. The IIA Global Board approves the stakeholder organizations represented on the IPPFOC. These organizations represent boards, management, public and private sector auditors, regulators and government authorities, investors, and international organizations. The IIA Global Board also appoints two IIA representatives to the IPPFOC.

IPPFOC membership during 2015 was as follows:

REPRESENTATIVE	ORGANIZATION	TERM ENDS DEC. 31ST OF
Peter Gleason	National Association for Corporate Directors (NACD)	2016
Denny Beran	IIA Representative	2017
János Bertók ⁽¹⁾	Organisation for Economic Co-operation and Development (OECD)	2018
Lisa Hirtzinger ⁽²⁾	IIA Representative	*
Svetlana Klimenko	The World Bank	2017
Wayne G. Moore	IIA Representative	2016
Yvan Pedersen ⁽³⁾	International Organisation of Supreme Audit Institutions (INTOSAI)	2015
Alta Prinsloo	International Federation of Accountants (IFAC)	2016

- (1) On October 13, 2015, the IPPFOC voted to approve a second three-year term for János Bertók as its OECD representative.
- (2) The IIA Standards and Guidance vice president serves as an ex-officio member; a non-voting, advisory role. Hal Garyn occupied this role from January until October 2015, when Lisa Hirtzinger became the vice president of Standards and Guidance.
- (3) On October 13, 2015, the IPPFOC voted to approve Jacek Jezierski to replace Yvan Pedersen as its INTOSAI representative. His term runs from Jan. 1, 2016, to Dec. 31, 2018.

3. The 2015 Work of the IPPFOC

2015 Activities

The IPPFOC met in person in April and October and by conference call in August.

As part of IPPFOC oversight activities, the Council observed the processes of IIA standards-setting board and guidance-development committees. This work included observing committee meetings to gain firsthand knowledge of the breadth and depth of committee discussions and deliberations and to observe the overall participation of members. For example, two Council members observed the IASB and PIC meetings in person at the July 2015 International Conference in Vancouver.

The Council also followed the progress of the IASB's review of the *Standards*. The IASB's review process involved subgroups of IASB members reviewing specific standards and proposing revisions to the entire IASB. Once the IASB agreed on the proposed changes, a document of proposed changes was prepared for public exposure from February 1 to April 30, 2016. In addition to attending the International Conference meeting, two Council members observed the March IASB conference call, and one observed the September 2015 conference call.

The Council also monitored The IIA's progress in implementing the new IPPF and the related changes to the structure of guidance-development committees and processes that will become effective July 2016. This included reviewing documents that describe how the board and committees work, and making recommendations where appropriate.

IPPFOC reviewed supporting documentation that led to closure of past IPPFOC observations. Details are described in Section 4 on page 7: Status of 2014 IPPFOC Observations.

2015 Observations

During the year, through its meetings with committee chairs and staff liaisons and by observing committee meetings, the IPPFOC identified the following notable observations, which are being considered by IIA staff.

- 1. IASB: Proposal to delink the *Standards* glossary from the *Standards*.** The IPPFOC expressed concern about consistency of usage within the IPPF and appropriate control over the meanings of key terms in the *Standards* and subsequent guidance and translations of those that could affect the meaning of a standard.

Status: The IASB is developing a process to ensure that glossary terms that could impact the meaning of a standard are included in future exposures of *Standards*.

- 2. PIC: Supplemental Guidance content and guidance development process and content quality.** It is important to ensure a process of content disposition in reviewing old Practice Guides for revision or retirement. Improvements could be made to the process of sharing and distinguishing content and guidance across various IIA entities, including Standards and Guidance, The IIA Research Foundation (IIARF), and institutes. Timeliness of releasing Practice Guides should also be addressed.

Status: Processes are being created for collecting input during the planning phase for guidance development projects from committee members and institutes. Processes may also be developed to invite stakeholder input. Also, processes have been initiated to improve content development by enhancing the coordination between all IIA departments by leveraging an entitywide content strategy.

In addition, the committee structure will change in 2016 to more efficiently and effectively leverage the experience and dedication of volunteers, as well as ensuring more timely release of guidance, enhancing consistency and quality of guidance, and better aligning the linkage between the *Standards* and other guidance.

- 3. IIA (Standards and Guidance) Staff: Stability and sustainability.** Turnover of staff in The IIA's Standards and Guidance department and change in staff support for the IPPFOC presents impression of instability for IPPFOC.

Status: The IIA and the IPPFOC are focused on succession planning and recruitment of high-quality talent to stabilize both entities within the growing IIA organization.

- 4. IPPFOC: Sustainability and breadth of representation.** With the exception of the Chairman, the Council members have tenures less than two years, and two members started in 2015.

Status: IPPFOC is working with IIA staff to emphasize succession planning for new IPPFOC members. Also, The IIA Board of Directors approved a proposal to pursue the IPPFOC's addition of two more member organizations: the International Organization of Securities Commissions (IOSCO) and one of the organizations that is part of the Bank of International Securities (BIS).

4. Status of 2014 IPPFOC Observations

During 2015, the Council confirmed that past observations reported in 2014 had been satisfactorily addressed as follows:

- 1. IIASB and *Standards* translation quality.** Beginning in 2014, the IIASB improved the process of ensuring quality of the translation of *Standards* by individual institutes. The IIASB now requires attestations of translations from five randomly chosen institutes each year with the goal of assessing the translations by the 15 largest institutes once every three years. For the assessment to be complete, a Certified Internal Auditor must attest.
- 2. GEC and volunteer conflicts of interest.** The Global Ethics Committee formalized a process and disclosure agreement to address volunteers (committee members) with potential conflicts of interest and clarified rules for updating such agreements. IPPFOC members have completed the forms.
- 3. PGAC and local guidance development.** The Council had expressed concern with The IIA's ability to keep abreast of guidance and local guidance-like content being promulgated by some of its institutes and associated organizations (local guidance), and thus, The IIA's ability to effectively manage global brand and reputation risk if such content were to continue to proliferate without better coordination among all IIA parties globally. The IIA is addressing the concern by developing a strategy for emerging guidance in partnership with its global institutes and associated organizations. The new committee structure, as well as collaborative strategic partnerships with institutes, is expected to positively impact the release of timely, high quality guidance.
- 4. PIC and documentation of exercised diligence.** In 2014, the IPPFOC had some concerns about the ability to locate documentation related to guidance development. Subsequently, staff was able to locate the proper documentation. Throughout 2015, the Council continued to receive updates with supporting documentation relevant to the guidance development process.

5. Next Steps for IPPFOC

During 2016, the Council will:

1. Monitor the *Standards* exposure scheduled from February 1 to April 30, 2016, and validate conformance with the standards-setting due diligence process before changes are released. Continue to monitor the IASB's efforts to include key stakeholder input throughout the exposure process.
2. Continue to monitor discussions and decisions regarding the development by the institutes of local guidance that is not part of the IPPF.
3. Monitor implementation, effectiveness, and efficiency of the new committee structure, which includes reviewing committee charters and work plans and observing committee meetings.
4. Continue to evaluate adherence to the defined diligence processes related to developing IPPF recommended guidance in the form of Implementation and Supplemental Guidance to be published in 2016.
5. Ensure that 2015 observations are addressed with the committee chairs, staff liaisons, and the vice chairs of Professional Practices and Professional Guidance.

Appendix 1 – IPPFOC Charter

MISSION

The mission of the International Professional Practices Framework Oversight Council (IPPFOC) is to evaluate and advise on the adequacy and appropriateness of The IIA's IPPF standards- and guidance-setting processes.

STRUCTURE

The IIA Board of Directors appoints the stakeholder organizations represented in the IPPFOC. These organizations represent boards, management, public and private sector auditors, regulators and government authorities, investors, and international organizations, as well as members selected by The IIA Board of Directors. The Board of Directors reconfirms participation by the various organizations every three years.

The Council shall be made up of no more than 11 members as follows:

- Representatives nominated from different organizations in the stakeholder community, excluding IIA national or international volunteers or staff who have served or worked for The IIA in the past two years.
- Two individual members appointed by The IIA chairman of the board, excluding those currently serving on any of the IPPF standard and guidance-setting committees that are subject to oversight of this Council.
- The IIA vice president responsible for the IPPF standards and guidance (ex-officio member and staff non-voting).

The council may invite a number of non-voting observers to participate in its deliberations.

To ensure the Council is refreshed, any individual shall not serve more than two consecutive three-year terms, excluding the ex-officio member. In the event that a vacancy occurs during a Council member's term, the replacement individual may fulfill the remaining term of the original Council member and afterward, up to two consecutive three-year terms.

The voting members shall select the chairman from among the members of the stakeholder community. The chairman's term shall be three years. If reappointed by the voting members, the chairman may serve a consecutive and additional three-year term, not to exceed six years in total as chairman.

RESPONSIBILITIES

To promote inclusiveness, transparency, and other qualities that will generate internal audit stakeholders' confidence that the outputs of IPPF standards- and guidance-setting committees are in the public interest, the Council will:

- a. Evaluate the rigor of IPPF mandatory guidance-setting process prior to its approval.
- b. Evaluate procedures for IPPF recommended guidance-setting and determine whether they represent internationally accepted practices.
- c. Recommend to The IIA Board of Directors improvements to the IPPF standards- and guidance-setting processes.
- d. Review the process by which the IPPF standards and guidance work plans are set and the reasonableness of the content of those plans.
- e. Recommend to The IIA Board of Directors additions to the content of the work plans, when deemed appropriate.
- f. Review the charters of the IPPF standards- and guidance-setting committees of The IIA.
- g. Communicate in the Council's annual report the adequacy and the appropriateness of the processes employed for the IPPF standards- and guidance-setting.
- h. At least every three years, review and, where appropriate, recommend to The IIA Board of Directors changes to the IPPFOC's charter.

At least annually, the chairman of the Council will report on the Council's activities to The IIA Board of Directors.

Appendix 2 – About The IPPF

The IPPF is the conceptual framework that organizes The IIA's authoritative guidance as Mandatory Guidance and Recommended Guidance.

The Mission of Internal Audit is *“to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”* The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. Its place in the New IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

<p>Mandatory Guidance</p> <p>Conformance with the principles set forth in Mandatory Guidance is required and essential for the professional practice of internal auditing. Mandatory guidance is developed following a due diligence process that includes public exposure. The mandatory elements of the new IPPF are the Core Principles, the <i>Standards</i>, the Definition of Internal Auditing, and the Code of Ethics.</p>	
<p>Definition of Internal Auditing</p>	<p><i>“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.”</i></p> <p>The Definition of Internal Auditing continues to articulate what internal auditing is and states the fundamental purpose, nature, and scope of internal auditing.</p>
<p>Code of Ethics</p>	<p>States the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities.</p>

<p>Core Principles for the Professional Practice of Internal Auditing (Core Principles)</p>	<p>Taken as a whole, the principles articulate internal audit effectiveness. For an internal audit function to be considered effective, all Core Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Core Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission (see Mission of Internal Audit).</p> <p>The Core Principles are (1) demonstrates integrity; (2) demonstrates competence and due professional care; (3) is objective and free from undue influence (independent); (4) aligns with the strategies, objectives, and risks of the organization; (5) is appropriately positioned and adequately resourced; (6) demonstrates quality and continuous improvement; (7) communicates effectively; (8) provides risk-based assurance; (9) is insightful, proactive, and future-focused; (10) promotes organizational improvement.</p>
<p><i>International Standards for the Professional Practice of Internal Auditing (Standards)</i></p>	<p>Provides a framework for performing and promoting internal auditing. The principles-focused <i>Standards</i> are mandatory and consist of:</p> <ul style="list-style-type: none"> • Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels. • Interpretations, which clarify terms or concepts within the statements. • A glossary. <p>It is necessary to consider both the statements and their interpretations to understand and apply the <i>Standards</i> correctly. The <i>Standards</i> employ terms that have been given specific meanings, which are included in the Glossary.</p>



<p>Recommended Guidance</p> <p>Recommended guidance is endorsed by The IIA through a formal approval process. It describes practices for effective implementation of the Definition of Internal Auditing, Code of Ethics, and the <i>Standards</i>, as well as the new Mission of Internal Audit. The two elements of Recommended Guidance under the new IPPF are Implementation Guidance and Supplemental Guidance.</p>	
<p>Implementation Guidance</p>	<p>An expanded, more comprehensive suite of guidance to replace Practice Advisories, assists internal auditors in achieving conformance with the <i>Standards</i>.</p>
<p>Supplemental Guidance</p>	<p>Provides detailed guidance for conducting internal audit activities. These include topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables.</p> <p>Effective with the July 2015 launch of the New IPPF, all Practice Guides (PGs), Global Technology Audit Guides (GTAGs), and Guides to the Assessment of IT Risks (GAITs) automatically became part of the Recommended Supplemental Guidance layer.</p>

Appendix 3 – 2015 IPPFOC Members



Peter Gleason is president of the National Association of Corporate Directors (NACD). He is responsible for ensuring NACD effectively manages growth while continuing to deliver resources to help directors navigate the key issues influencing today's and tomorrow's boardroom. Previously, Gleason was managing director and chief financial officer of NACD, served as treasurer for the NACD Board of Directors, and led NACD's research group focused primarily on helping establish and refine leading practices to enhance board performance. Gleason is a member of NACD's national faculty and is regularly quoted in the national media. He is a director at Nura Health.



Denny Beran, CIA, QIAL, CCSA, CRMA, CPA, CFE, is the retired senior vice president of audit for the JCPenney Co. Joining the company in 1971, Beran spent his 40-year career working his way up through the ranks of the internal audit division. As the chief audit executive, he was responsible for overseeing internal audit for all company operations. Beran is a longtime member of The IIA and served as the 2011–12 chairman of The IIA Board of Directors. In 1999, he received one of The IIA's most prestigious awards, the Victor Z. Brink Award for Distinguished Service, and in 2015, he was inducted into The IIA's American Hall of Distinguished Audit Practitioners.



János Bertók is head of the Public Sector Integrity Division in the Organisation for Economic Co-operation and Development (OECD). For more than 15 years, he has been leading OECD activities for promoting integrity and preventing corruption in the public sector. Before joining the OECD in 1997, Bertók was director in the Prime Minister's Office in Hungary in charge of the modernization of public administration that included the reform of internal control. His previous career focused on creating new legal and institutional frameworks for the public administration and civil service in the transition period.



Svetlana Klimenko is a lead financial management specialist in the World Bank Group. Klimenko is a leading technical specialist in public sector governance, international accounting, and auditing standards in the public and private sectors, and capacity building initiatives in the Latin American and Caribbean region of the World Bank Group. Prior to joining the World Bank Group, she was a manager for Deloitte. She holds a master's degree in economics and engineering, and the Certified Public Accountant and Association of Chartered Certified Accountants designations.



Wayne G. Moore, CIA, is president and CEO of Wayne G. Moore Consulting. He conducts quality assurance reviews for global internal audit organizations as a team leader for IIA Quality Services LLC. He spent most of his career directing the global internal audit activities of E.I. du Pont de Nemours and Company. He has volunteered with The IIA for more than 35 years, serving as chairman of the Internal Audit Standards Board and of the Board of Research Advisors, as well as vice chairman and trustee of The IIA Research Foundation. Moore played a key role in developing the current Definition of Internal Auditing and the IPPF. He was the recipient of The IIA's Bradford Cadmus Memorial Award in 2003.



Ivan Pedersen is assistant auditor general in the National Audit Office of Denmark (Rigsrevisionen), a member organization of INTOSAI. He has been employed in Rigsrevisionen for more than 20 years and has gained broad and deep experience with all aspects of auditing, including standard-setting processes. Pedersen specializes in comprehensive audits of the Ministry of Defence, the Ministry of Taxation, and the European Community area. He is a member of the audit committee of the European Space Agency in Paris from 2015 to 2017. Pedersen has a master's degree in political science and has been external lecturer in political science at the University of Copenhagen and Aarhus University.



Alta Prinsloo is executive director of strategy and chief operating officer for the International Federation of Accountants (IFAC), which she joined in 2002. She oversees the Global Accountancy Profession Support operating line, which includes support for professional accountants in business, small- and medium-sized practices; new initiatives activities; and the Global Knowledge Gateway. She also oversees the Global Accountancy Profession Development operating line, which includes building the capacity of professional accountancy organizations and enhancing

transparency and accountability in the public sector. Prinsloo is qualified as a Chartered Accountant, and holds a master's degree in financial management.



Lisa Hirtzinger, CIA, QIAL, CCSA, CRMA serves as The IIA's vice president of Standards and Guidance. Her responsibilities include the development and dissemination of relevant professional guidance for the internal auditing profession. Over the past 10 years, Hirtzinger has served The IIA in a number of positions including curriculum development, standards and guidance, and exam development, continuously advancing the quality of IIA content. Her previous experience includes financial oversight and consulting for Wells Fargo & Co., as well as audit and assurance at EY. Hirtzinger holds a B.A. in accounting and an MBA. She also completed her master's in human resources development.



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