



The Institute of Internal Auditors, Global Headquarters
ATTN: Standards and Guidance
247 Maitland Avenue
Altamonte Springs, FL USA 32701

September 5, 2014

Comment Letter: Proposed Enhancements to The Institute of Internal Auditors International Professional Practices Framework

Thank you for the opportunity to comment on the Proposed Enhancements to the Institute of Internal Auditors International Professional Practices Framework (the "IPPF") dated August 4, 2014, and I respectfully submit this comment letter. Overall, I support fully the proposed enhancements and, in particular, I believe the articulation of the Core Principles for the Professional Practice of Internal Auditing (the "Core Principles") represents a significant and positive enhancement to the profession. However, I also believe that to achieve the objective of the Core Principles, one additional core principle is needed, i.e., "Conforms to applicable professional standards and statutory and regulatory requirements." My comments related to the proposed principle are based on my significant personal experience regarding defining and explaining internal audit effectiveness during my tenure as a Managing Partner with the Internal Audit practice of PricewaterhouseCoopers LLP ("PwC") and as a member of the IIA's International Professional Practices Committee.

According to the exposure draft on the proposed enhancements, the rationale for the Core Principles is as follows: "To articulate the key elements that describe internal audit effectiveness and support the Principle-based Standards and Code of Ethics." For starters, I wholeheartedly agree that the rationale supporting the Core Principles should be based on internal audit "effectiveness." I have often encountered the term "effectiveness" as raised by audit committees seeking to better understand the levels of performance and value of their internal audit functions. Directors and other key stakeholders seek to understand what constitutes truly effective internal audit activities and to determine if their internal audit activities conform to those criteria. In that regard, the proposed Core Principles represent a valuable set of criteria that can help audit committees and other key stakeholders determine the effectiveness of their internal audit activities.

During my tenure with PwC, we developed our own responses and criteria to define internal audit effectiveness for discussions with internal auditors and key stakeholders. I was pleased to see that the proposed Core Principles include all but one of the criteria we used then at PwC to discuss and assess internal audit effectiveness. The lone exception: the need for internal audit activities to conform to all applicable professional and regulatory requirements. That criterion would naturally include *The International Standards for the Professional Practice of Internal Auditing* (the “Standards”) promulgated by The Institute of Internal Auditors (the “IIA”), but it goes beyond just those Standards.

The rationale behind the proposed additional core principle is that in certain countries, such as South Africa, and in certain industries, such as Financial Services, there are additional statutory or regulatory requirements for internal audit activities that extend beyond the Standards. It is unlikely that key stakeholders of internal auditors affected by such additional requirements will consider their internal audit staffs to be truly “effective” if they are found to be in non-compliance with the additional statutory or regulatory requirements affecting their organizations.

I am aware from personal experience of situations where the effectiveness of an internal audit activity has been called into question by key stakeholders because the internal auditors involved were cited by regulators for not being in compliance with certain regulatory requirements related to internal auditing. It is my belief that true internal audit effectiveness must include conformance with both the Standards and applicable statutory or regulatory requirements.

For the IIA, inclusion of my proposed principle would be an acknowledgement that, while the IIA remains the global standard-setter for the internal audit profession, other participants in the global regulatory and governance arena have and will continue to issue their own additional guidance and requirements for the field of internal auditing.

Accordingly, any principles purporting to define internal audit effectiveness must include some criteria requiring conformance with all applicable professional standards and regulatory requirements. For many internal auditors, my suggested principle would apply solely to conformance with the IIA Standards as they would not have other statutory or regulatory requirements. In that regard, the proposed principle would be fully consistent with the proposed graphic illustration of the new IPPF structure as the Core Principles sit atop the Standards. However, for internal auditors who face additional requirements beyond the Standards, the proposed principle will ensure that those additional requirements are also acknowledged and addressed as part of the ongoing internal audit activities. And it would ensure that internal audit groups achieve an overall level of “effectiveness” consistent with the broad expectations of their key stakeholders.

In an overall sense, I support the Proposed Enhancements to the IPPF and the Core Principles included in the exposure draft. At the same time, however, I believe strongly that, for an internal audit activity to be considered “effective” by its key stakeholders, it needs to be in conformance with all applicable professional, statutory and regulatory requirements that apply to a specific organization, and, ideally, a Core Principle should reflect that criteria.

Thanks, once again, for the opportunity to comment on the Proposed Enhancements and to congratulate the Re-Look Task Force on a significant achievement.

Respectfully submitted,

A handwritten signature in black ink that reads "Richard J. Anderson". The signature is written in a cursive, flowing style with a prominent initial "R".

Richard J. Anderson, MBA, CPA
Clinical Professor, DePaul University
Partner (Retired) PricewaterhouseCoopers LLP
2011 recipient, the Bradford Cadmus Memorial Award