



Association of Local Government Auditors

November 3, 2014

The Institute of Internal Auditors, Global Headquarters
ATTN: Ms. Terri Freeman, Director of Standards and Guidance
247 Maitland Avenue
Altamonte Springs, FL 32701

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449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503
Phone: (859) 276-0686
Fax: (859) 278-0507
www.algaonline.org

Re: Proposed Enhancements to The Institute of Internal Auditors International Professional Practices Framework (IPPF)

Dear Ms. Freeman,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to The IIA's exposure draft, *Proposed Enhancements to The Institute of Internal Auditors International Professional Practices Framework (IPPF)*. Our organization represents more than 300 audit organizations and about 2,000 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the exposure draft in its entirety. We recognize the difficulty the Re-look Task Force (RTF) has in setting out standards to be followed by internal auditors when our profession covers such a broad array of responsibilities. Even within our local government auditing community, the specific functions of each office can vary greatly, making it very challenging to reach consensus. We offer the following comments in response to the exposure draft questions:

1. *Mission of Internal Auditing*

1.1. *To what extent do you support the addition of a Mission of Internal Auditing to the IPPF?*

Rating - 2

Proposing the addition of a mission statement to the IPPF created a surprising amount of discussion. Some members felt strongly that it was inappropriate to try to draft a single mission statement to cover all aspects of the profession and that the definition already establishes the purpose of internal auditing. Others believed it could help unify the profession. All believe that it's important for each audit organization to develop their own mission statement and that the proposed statement should include wording to the effect that each organization is encouraged to develop their own mission statement.

1.2. To what extent do you agree that the proposed Mission of Internal Auditing captures what internal audit strives and/or aspires to accomplish in organizations?

Rating - 2

Similar to the Core Principles discussion below, the wording of the mission statement led to multiple perspectives within our organization. As written, the proposed statement avoids the use of the words independent and consulting, both of which are key aspects of the Definition of Internal Auditing. The proposed wording seems to substitute “consulting activity” for “advice and insight” while “independent” is left out entirely. Instead, the words “objective and reliable” are used. An auditor may be objective while not being independent and conversely may be completely independent but not provide objectivity in their work. If these characteristics (advice, insight, objective, and reliable) are intended to expand the definition of internal auditing, it should be made clear that the mission statement is not a substitute for the definition and instead is written to support the definition.

2. Core Principles for the Professional Practice of Internal Auditing

2.1. To what extent do you support adding Core Principles for the Professional Practice of Internal Auditing as an element of the IPPF?

Rating – 2

The principles seem to support the steps necessary for following the IPPF appropriately and highlight some of the key principles of the code of ethics and the standards. However, the principles as structured are more beneficial as a performance measurement tool rather than actual required guidance. The principles could be improved by providing additional guidance to address why the element is a core principle of internal auditing, and a conceptual framework for how the principle is intended to function. Without a better understanding of the context of how the principles would be used, there was disagreement among our membership about whether these principles were needed at all. Further, some members were concerned that several of these principles would fall outside the control of a given audit organization. For example, where the internal audit organization is placed within the larger organization is not something that is usually under the control of the auditors. However, if this list of principles is intended to be a list of ideal attributes that would be used to describe the characteristics of an effective internal audit function, that should be explained in the introduction to the principles. Examples of principles structured in this manner can be found in GAGAS or INTOSAI.

2.2. Do you agree with the three “input-related” Principles as proposed?

Rating – 2

The principles of integrity, objectivity, and competence are foundations of the profession of internal auditing. These are appropriate foundations for the practice of internal auditing; however, independence is not addressed anywhere in the proposed Principles and is a

foundation of the practice of internal auditing. Integrity should not need to be qualified by adding the word “uncompromised.” One either demonstrates integrity or does not.

2.3. Do you agree with the three “process-related” Principles as proposed?

Rating – 2

The process-related Principles demonstrate the various processes of internal audit, but could be expanded upon to better reflect the process-related standards. Concerns were expressed that this group of principles is often outside the control of the auditors, but may not necessarily reflect performance. Is it possible for an internal audit function to not be “appropriately positioned” or to have limited resources, but still be effective?

2.4. Do you agree with the three “output-related” Principles as proposed?

Rating - 2

The output-related Principles could be expanded upon to describe the various aspects of assurance the audit activity provides, including governance and risk management. In addition, the Principles could be expanded upon to describe the consulting and continuous auditing aspects of internal audit that are currently growing within the profession. Some concern was expressed that the use of subjective wording such as “insightful” would make it difficult to judge success.

2.5. Do you agree with the order of the 12 Principles as proposed?

Rating – 3

Grouping the Principles in this way should help auditors determine how the Standards are related to each Principle.

2.6. To what extent do you agree with the view that all Principles must be “present and operating effectively” for an internal audit function to be considered effective?

Rating – 1

Some of the Principles would be difficult to find a consistent measurement or goal between organizations. For example, how does a CAE make the determination that the audit activity is “appropriately positioned within the organization?” In addition, this is not something that could be applied equally across multiple organizations and industries. The same is true when measuring the alignment of the audit activity with enterprise goals, or measuring the adequacy of resources of the audit activity.

While the Principles do provide some guidance as to what the practice of internal auditing is, the subjective nature of the application of these Principles does not make them suitable to state that “all must be present and operating effectively for an internal audit function to be effective.”

2.7. Do you agree that the Principles, if adopted, would require guidance to help demonstrate to practitioners what the Principles might look like in practice?

Rating – 4

Additional guidance would be needed to explain the meaning and intent of each principle to provide a better understanding to auditors regarding how the principles should function. However, the guidance would have to take into consideration the different sectors and organizations in which internal audit serves. This would require guidance from the perspective that there is not a single approach to implementing these procedures into your function.

3. Implementation Guidance & Supplemental Guidance

3.1. To what extent do you support the restructure of guidance elements from “Practice Advisories” to a more comprehensive layer entitled “Implementation Guidance” as part of the framework?

Rating - 4

This is more of a logistical change that does not actually immediately change the guidance in the Practice Advisories. Going forward this change should be beneficial in terms of classifying and drafting new guidance.

3.2. To what extent do you support the restructure of guidance elements from “Practice Guides” to “Supplemental Guidance” as part of the framework?

Rating – 4

This change should be beneficial in terms of classifying and drafting new guidance.

4. Addressing Emerging Issues

4.1. To what extent do you support the introduction of a new IPPF element to address emerging issues?

Rating – 5

The IIA has needed an IPPF element to address emerging issues in order to ensure the profession is able to keep-up with the various emerging risks, regulatory changes, and business process changes. The addition of emerging issues guidance would help the profession as a whole to be more informed about the latest issues affecting the profession.

4.2. To what extent do you agree that Emerging Issues Guidance, due to its quicker development process, should be less authoritative than Supplemental Guidance as part of the framework?

Rating – 5

Any emerging issues guidance should be given less “weight” than any other established guidance in the IPPF. The other guidance in the IPPF undergoes a more thorough review and/or comment period from practitioners to ensure the guidance will work as intended. Any

authoritative guidance should undergo a similar review process to ensure practitioners will not be adversely affected by the emerging issue guidance that is more hastily released.

5. Position Papers

5.1. To what extent do you support the deletion of “Position Papers” as an element of the IPPF?

Rating – 4

With the exception of occasionally citing a position paper to clarify an issue for audit committee members, there seems to be little use of the Position Papers by internal auditors. Because these items have minimal use for practitioners they should be removed from the IPPF.

6. Required and Recommended

6.1. To what extent do you support revision of the words “Mandatory” and “Strongly recommended” to “Required” and “Recommended,” respectively?

Rating – 5

This change would provide more clarity on the overall weight of the different elements of the IPPF.

7. Summary of the Elements of the Proposed Revised IPPF

7.1. Overall, to what extent do you support the changes regarding the IPPF?

Rating - 2

The addition of a mission statement to the IPPF is problematic. The exposure draft states that the addition of a mission statement was developed to provide a “clear and succinct description of what internal audit aspires to achieve;” however, the definition of internal audit provides this information.

In addition, mission statements should address the mission of an individual internal audit activity, specific to the organization and industry of the audit activity. An alternative to having a single mission statement for all activities would be to have additional guidance that provides that individual audit activities should develop a mission statement as part of their audit charter or policies and procedures.

The 12 core principles of internal auditing do establish some of the key principles related to the practice of internal auditing, which would provide a tool for practitioners to use to train and evaluate staff. However, the principles fail to address things such as independence, which is a cornerstone of the practice of auditing.

The core principles should not be required to be in place and operating for an audit activity to be considered to be effective. The principles include some items that are subjective, rather than objective, and are thus open to differing interpretations. Some organizations may limit the internal audit activity’s funding, staffing, or reporting structure without the input of the internal audit activity.

The terminology changes that include “Practice Advisories” to “Implementation Guidance,” “Practice Guides” to “Supplemental Guidance,” “Strongly Recommended” to “Recommended,” and “Mandatory” to “Required” are positive changes that will provide more clarity and simplicity to the IPPF. In addition, the structure for how these types of guidance will be used will be beneficial to the profession.

The addition of emerging issues guidance will benefit practitioners greatly by providing timely guidance to address emerging issues in the profession; however, this guidance should be given little weight due to the fact it is meant to be developed more quickly than any other type of IPPF guidance.

7.2. To what extent do you agree that the pictorial representation adequately depicts the hierarchy and interrelationships of each element of the new proposed IPPF?

Rating – 2

The updated IPPF graphic does represent the hierarchy and relationships of the elements of the IPPF for the most part; however, there should be some consideration given to restructuring the placement of the proposed mission statement and the core principles to be only recommended guidance. Perhaps centering the required elements with the recommended elements on the perimeter would better depict their relationship.

7.3. To what extent do you agree that the pictorial representation of the proposed new IPPF is visually appealing?

Rating – 2

The graphic contains text that is small and is difficult to read. The graphic could be improved by restructuring the graphic to provide more space to allow for larger text. The color scheme does work well and allows users to see clear color differences even when the graphic is printed in black and white.

Respectfully submitted,

Harriet Richardson

Key ALGA Contributors:

Vickie Classen, City of Colorado Springs, CO

Shaun Ledbetter, City of Lubbock, TX