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3 November 2014

Dear Sirs

**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 International Professional Practices Framework (IPPF).

Baker Tilly has over 3500 partners and staff in the UK, with annual fees of over £300m. Baker Tilly is the UK member of the RSM International network.

Our Risk Advisory faculty of 350 professionals provides internal audit services to over 400 organisations in various sectors and industries. We work also with many in-house internal audit teams, and have brought this experience to bear in formulating our responses.

Given the importance of the IPPF, we have a number of over-arching comments to make to the IIA, as well as providing our more detailed comments on each recommendation.

**Overarching comments**

**Position Papers:** we support the removal of position papers from the IPPF (given that position papers are targeted at the stakeholders of internal audit rather than practitioners). However, we these are useful documents, and we would not wish to see the IIA cease to publish position papers.

**The role of local institutes and chapters in publishing guidance:** we are supportive of the introduction of the new and clearer layers of guidance within the IPPF.

With regards the publication of emerging issues guidance, we would like further clarity on whether the IIA expects all emerging issues guidance to be published centrally by global IIA, or whether local institutes' and chapters' own emerging issues guidance will be considered to be part of the IPPF's emerging issues guidance layer, or would be seen to be guidance to members outside of the IPPF.

**Next steps:** given the number of questions which we have raised, it would be useful if the IIA publish its research and mapping when it publishes its decisions following the consultation.

## Comments on specific recommendations

We have submitted our response to each of the recommendations via your on-line survey; for completeness and to provide context to our over-arching comments, we have replicated our detailed responses at Appendix A to this letter.

Should you require any additional information regarding this response, please do not hesitate to contact me.

Yours faithfully



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## Appendix A: Responses from Baker Tilly Risk Advisory Services LLP

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

Completely Support				Do Not Support
5	<b>4</b>	3	2	1
<b>Comments</b>				
<p>A mission statement would be a useful tool for communicating the role / purpose of internal auditing to stakeholders, and is certainly a tool that may be less dry than the existing Definition of Internal Auditing. Many businesses and leaders do now use mission statements to help explain their vision or purpose, so having a mission would certainly align the internal auditing profession with many of the businesses that benefit from the work of the IIA's members.</p> <p>If the Definition is left as it currently stands (we note that there is currently no intention to change the definition of internal auditing), then a mission statement is useful, but it should be used to drive the profile of internal auditing rather than being seen in any way to change the scope or remit or purpose of internal auditing as set out in the Definition.</p>				

### 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?

Completely Agree				Do Not Agree
5	4	3	<b>2</b>	1
<b>Comments</b>				
<p>The proposed wording of the Mission is ambiguous. We note it does not refer to independence, which is an important tenet of internal auditing; this is a surprising omission from the Mission.</p> <p>We have comments on specific elements of the proposed Mission:</p> <p><b>Enhance and protect:</b> the use of the terms “enhance and protect” potentially move the focus of internal audit away from the role of an independent internal audit function, towards the role of management which is to achieve the business’s objectives (and therefore to enhance the business and protect it). Internal audit’s role is to provide independent assurance and advice to support management in their role. The inclusion of this also appears to be a departure from the core role of internal auditing in supporting management improve the governance, risk management and control processes in an organisation.</p> <p><b>Stakeholder:</b> to ensure full clarity of the role of internal auditors, if the term “stakeholders” is to be used, it must reflect that this is the stakeholders of internal audit (i.e. senior management, the Board, the Audit Committee) and not the stakeholders of the organisation (which could include shareholders, third party businesses and the general public).</p> <p><b>Reliable:</b> the use of reliable is not necessary, if anything unreliable were to be provided it would not be assurance by definition. The use of this term may also open up questions around what does reliable mean in terms of internal audit, which detracts from the purpose of the IPPF (albeit the Standards as they currently exist will set out a framework that would constitute reliable internal auditing).</p> <p><b>Insight:</b> This term may be ambiguous. Internal audit should be a value added service, and senior management in a business will require internal auditors to make insightful recommendations and have a good understanding of their business and often will phrase this as internal auditors ‘having good business insight’.</p>				

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

Completely Support				Do Not Support
5	4	3	2	1
<b>Comments</b>				
<p>Generally, the introduction of core principles does not add much to the IPPF given that the principles are summary “sentences” of what is already captured within either the Code of Ethics or the International Standards for the Professional Practice of Internal Auditing (the Standards) themselves. As the Standards currently stand, there is no real value in adding these principles, when there is sufficient coverage of these already within the IPPF.</p> <p>For example, principle 4 (“Is appropriately positioned within the organisation with sufficient organisational authority”) is captured within the attribute standards under the following:  <i>1000 Purpose, Authority and Responsibility</i>  <i>The purpose, <u>authority</u> and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</i></p> <p>Therefore rather than adding value or insight to the IPPF, the new principles create duplication, possibly because of their addition to the Standards instead of being created alongside the Standards. Each of the principles is already covered within the performance or attribute standards or the Code of Ethics; having separate principles does not add particular use or clarity to the reader.</p> <p>The addition of the Principles provides mixed messages. For example, in the new graphical representation of the IPPF it is implied that the Principles have been added to the IPPF to describe internal audit effectiveness and support the principles based standards and code of ethics. There is no regard for the definition of internal audit, although as noted previously the graphical representation shows the principles being higher in the hierarchy than the definition (and indeed more important than the three current mandatory elements of the IPPF). This does not seem appropriate when the Standards already exist, and the Principles have been developed around the existing Standards.</p> <p>Typically we would expect to see any principles in such guidance take the form as is usefully set out in the UK Corporate Governance Code as published by the Financial Reporting Council (i.e. main principles, supporting principles and provisions). If the Standards are already principles based (and there is an important distinction between principles based guidance and rules based guidance) then the addition of core principles some years after the Standards have been published seems an afterthought; it may have been more appropriate therefore to undertake a full scale refresh of the principles based standards, building in core and supporting principles to become the new standards.</p>				

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

Completely Agree				Do Not Agree
5	4	3	2	<b>1</b>
<b>Comments</b>				
<p>Integrity is not solely about input, it must be present throughout the entire internal auditing process (including output). Core principles two and three are also already in the Code of Ethics (under objectivity and competency).</p> <p>The proposed input principles cover three-quarters of the code of ethics, leaving the obvious question, why is confidentiality not a core part of the input activity of internal auditing as currently set out in the proposed input principles?</p>				

### 2.3 Do you agree with the six “process-related” Principles as proposed?

Completely Agree				Do Not Agree
5	4	3	<b>2</b>	1
<b>Comments</b>				
<p>The process related principles as set out in the consultation are not just around process. Principles 4, 5 and 6 all relate to governance and reporting lines.</p> <p>Principle 8 regarding efficiency and effectiveness is captured in the competency principle of the code of ethics, but to set this out in a separate principle (which must be achieved with all other principles to have an ‘effective’ internal audit function) means this, as it stands, is too subjective to be measured or meaningful. The various drivers, organisational cultures, working environment, resources and geography of internal audit functions across the globe will naturally mean that efficiency and effectiveness will mean different things to different internal audit functions. There is also a risk (particularly in those industries affected by government austerity for example) that senior management may use the driver for efficiency to cut internal audit resource, confusing efficiency and cost-saving.</p>				

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

Completely Agree				Do Not Agree
5	4	3	<b>2</b>	1
<b>Comments</b>				
<p>Principle 10: It is surprising to see external audit terminology (“those charged with governance” within internal auditing guidance. Internal audit provides assurance to management generally, not only those charged with governance (i.e. the Board and senior Executives) and therefore this Principle may be misleading regarding how internal audit should work with management and regarding who are the stakeholders of internal audit.</p> <p>As mentioned in our comments on the mission, the use of ‘reliable’ should not be necessary, and in fact the Standards’ focus (performance standard 2000) is on <u>objective</u> and <u>relevant</u> assurance with no mention of reliable. Competency is of course one of the cornerstones of the Code of Ethics, which we would expect would support reliability.</p> <p>Principle 11: these are all indicators of what management would expect to see in a value adding internal audit service.</p> <p>In summary, regarding principles 11 and 12, it may have been more effective to update the relevant performance standards. The principles as they stand (and perhaps because there has been no publication of the mapping of principles to the wider IPPF) are not fully clear and perhaps too high level and open to diverse interpretation. The new output principles also lead the reader to challenge whether the related standards are sufficient and if not why these have not been updated.</p>				

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

Completely Agree				Do Not Agree
5	4	<b>3</b>	2	1
<b>Comments</b>				
<p>The order is not particularly of concern or relevance. We have made specific comments on our views on the relevance and usefulness of the three sets of core principles.</p>				

**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?**

Completely Agree				Do Not Agree
5	4	3	2	1
<b>Comments</b>				
<p>As all 12 Principles are already in the Code of Ethics, Definition and Standards, then naturally we would expect that an effective internal audit function is already meeting the requirements of the existing IPPF. If it is possible for an internal audit function to be conformant with the existing mandatory elements of the IPPF (Code of Ethics, Definition and Standards) and not be effective, then this would indicate that those three elements of the IPPF are not fit for purpose.</p> <p>However, the question refers explicitly to the principles, which are too high level (and in some cases too subjective) to enable a fair assessment. We consider that any comment or assessment of internal audit effectiveness must link to the entire IPPF, not solely the proposed Principles. As it stands, the IIA would need to publish its mapping of the Standards to the Principles to support this consideration.</p>				

**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?**

Completely Agree				Do Not Agree
5	4	3	2	1
<b>Comments</b>				
<p>The consultation explains that the proposed Principles are designed to describe internal audit effectiveness and support the Principles-based Standards and Code of Ethics. Therefore, if they are designed to further describe and support what is already in place, no additional guidance should be required. If they do not fulfil this, then the principles themselves need further work.</p> <p>One of the strengths of internal auditing is that it is not a prescribed process, hence the value of principles based standards (which we already have).</p>				

**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?**

Completely Support				Do Not Support
5	<b>4</b>	3	2	1
<b>Comments</b>				
<p>With regards terminology, the change of name from “Practice Advisories” to “Implementation Guidance” is a more user-friendly and relevant terminology.</p> <p>It is not clear how the new layer of implementation guidance will work or be more detailed and comprehensive than the existing practice advisories. There is insufficient information within the consultation document for us to form a full view on the new layer of Implementation Guidance.</p> <p>We would like more information on this, and also have concerns that the new IPPF may be published in early 2015, but the new layers of guidance may not be available until 2016.</p>				

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

Completely Support				Do Not Support
5	4	<b>3</b>	2	1
<b>Comments</b>				
<p>With regards terminology, the change of name from “Practice Guides” to “Supplemental Guidance” is a more user-friendly and relevant terminology.</p> <p>Besides the name change, it is unclear what the IIA is aiming to achieve or deliver within this layer of guidance.</p> <p>We would like more information on this, and also have concerns that the new IPPF may be published in early 2015, but the new layers of guidance may not be available until 2016.</p>				



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

Completely Agree				Do Not Agree
5	4	<b>3</b>	2	1
<b>Comments</b>				
<p>If the Global Institute were to be responsible for the development and publication of emerging issues guidance for use by all global members, there are a number of questions that must be considered:</p> <ul style="list-style-type: none"> <li>• Does the Global IIA have the expertise to deal with this change? In particular to be able to publish timely, accurate and relevant guidance to address all emerging issues for all global members reflecting the diversity of geographies, languages, cultures, legislations, industries (i.e. what could be termed 'local' emerging issues).</li> <li>• Does the IIA have the resources to implement this new project? If not, how will this be funded? Is there a plan to pass this cost to members?</li> </ul> <p>It would be therefore more appropriate for Global IIA to publish emerging issues guidance only on those topics which are deemed to be a global emerging issue. Local institutes and chapters should be responsible for publishing local guidance, and will be better placed to do so. Therefore Global IIA must clarify whether emerging issues guidance published by local / national institutes would be considered to fall under the emerging issues guidance within the IPPF.</p> <p>We welcome emerging issues guidance, but there is a clear need for any such guidance to be timely, and will need local and industry input to ensure guidance this addresses the needs of global membership.</p>				

**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?**

Completely Agree				Do Not Agree
5	4	<b>3</b>	2	1
<b>Comments</b>				
<p>If emerging issues guidance is less authoritative it should not be part of the IPPF. Until our questions in consultation question 4.1 are addressed, it is difficult to provide further comment.</p>				

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

Completely Support				Do Not Support
5	4	3	2	1
<b>Comments</b>				
<p>The main purpose of position papers is to inform the stakeholders of internal audit. Therefore it is appropriate that position papers are not included in the IPPF if they are not aimed at internal audit practitioners.</p> <p>However, we hope that the IIA does not cease to publish position papers as these are an important part of advocacy, awareness raising, and education for the stakeholders of internal audit.</p>				

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

Completely Support				Do Not Support
5	4	3	2	1
<b>Comments</b>				
<p>This is better terminology than that used previously. The “mandatory” was previously perceived by practitioners as too rigid when considering the vast diversity of internal audit functions and the businesses in which they operate, and previously was one of the more contentious points when the IPPF was last significantly updated.</p> <p>Given that the IIA is proposing to cease using the word “mandatory”, it is not useful to use “mandatory” when describing what is meant by “recommended” (i.e. not mandatory).</p> <p>Stating that new Implementation Guidance is not mandatory may give the wrong message, and we suggest that its recommended status is emphasised without stating that the “Implementation Guidance is not mandatory”.</p> <p>It would also be useful if the IPPF’s glossary is updated to include both “required” and “recommended” and that both are described without any reference to the word “mandatory”.</p> <p>Lastly, the results of the research referred to in the Consultation have not been shared. This would have been a useful reference when considering this question.</p>				

**7.1 Overall, to what extent do you support the changes regarding the IPPF as detailed on the previous page?**

Completely Support				Do Not Support
5	4	3	<b>2</b>	1
<b>Comments</b>				
<p>In answering this, we have assumed the question refers to the table and graphics on page 12 of the consultation document.</p> <p><b>Timing:</b> the table on page 12 sets out proposed timing for implementation of different elements of the new IPPF; this appears to leave practitioners in limbo for 12 – 24 months. If the IIA were to make all changes to the IPPF as proposed, there would be new mission and principles in a matter of a few months, but implementation guidance not until at least the following year.</p> <p>There is a lack of clarity over hierarchy within the new IPPF. Overall, we are not supportive of all changes as set out. In particular the Mission needs further work, and the core principles do not add to the value of the existing IPPF's principles based standards. It would have perhaps have been more useful to have considered a full refresh of the standards not just introduce core principles as new elements.</p> <p>We would be happy to comment further once the IIA has digested and responded to the feedback from this consultation.</p>				

**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?**

Completely Agree				Do Not Agree
5	4	3	2	<b>1</b>
<b>Comments</b>				
<p>The hierarchy set out in the pictorial representation gives the proposed Core Principles a greater importance than the existing mandatory elements of the IPPF. We disagree with this; the Principles should be the same level as the Standards. If any of the 'required' elements of the IPPF are to be shown as more important, this should be the Code of Ethics and Definition.</p> <p>With regards the proposed Mission, it would be sensible visually for this ring to sit on the outside of the circle to encapsulate the entire IPPF.</p>				

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

Completely Agree				Do Not Agree
5	<b>4</b>	3	2	1
<b>Comments</b>				
<p>The representation is visually appealing in terms of colour and style.</p>				