

EXPOSURE DRAFT SURVEY QUESTIONS - Section 7

I have submitted an online response to the questions but was not able to include tables as part of the comments to section 7 (incorrectly noted as 6 in the questionnaire). The full section 7 is below.

7. SUMMARY OF THE ELEMENTS OF THE PROPOSED REVISED IPPF

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

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Comments:

I support the introduction of a mission statement and principles. However, I do not consider the wording of these sufficiently distinguishes internal auditing from similar functions like Risk Management or Compliance and have made suggestions to emphasise the differences.

I believe that there has been a fundamental weakness in the way that the changes have been made to the IPPF. The usual method of defining standards is to decide on an objective (mission statement), set down a framework within which the objective is to be achieved (core principles) and define the tasks necessary to deliver the objective (standards). However, the decision by the RTF to retain the standards without any changes means that this process is turned on its head, which compromises the mission statement and principles, which have to be consistent with the standards.

There is also a need to distinguish internal auditing as a *tool* from internal auditing as a *function/department* within an organisation. The tool (for example a saw) remains the same, whereas the function will change depending on the requirements of the organisation (for example, the saw can be used to cut firewood or cut the frame for a house). However, some of the core principles relate to the internal audit function, not the tool of internal auditing (for example principle 7). There is also no 'audit trail' showing how the principles were derived from the mission statement. So I considered how best to check that the principles were complete, and came to the conclusion that principles are similar to high level internal controls in that they are intended to ensure delivery of the objective (mission statement). So what are the risks to the objective that give rise to these internal controls?

I believe the risks in the table below are those threatening the objective. The required responses to those risks can be then be used as the basis for core principles. In drawing up these risks and responses I used:

1. The RTF principles
2. The PWC report, '2014 state of the internal audit profession'
3. 'Mind the gap' article by Anton van Wyk on the Ia online website (<https://iaonline.theiia.org/mind-the-gap>)

Risks	Impact		Responses (Principles)	RTF
The opinions provided by IA are incomplete	If the audit plan is not based on all risks threatening the organisation's objectives, the opinions expressed from the audits will be incomplete and therefore not 'enhance and protect organizational value'	1	IA is aligned strategically with the aims and goals of the organisation (tool - planning)	5
		2	IA verifies that the organisation has a complete list of risks (tool - planning)	
		3	IA has the authority to verify that the responses to all these risks are adequate (tool - verification)	4
		4	Audit work is planned using a complete list of the organisation's objectives and the risks which threaten them (tool - planning)	
		5	Audit worked planned is fully discussed with stakeholders (tool - planning)	
		6	The organisation continually watches for new risks and changing priorities and audit plans are changed where necessary (tool - planning)	7

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Risks	Impact		Responses (Principles)	RTF
Data obtained to verify whether the response to the risk is adequate is wrong or insufficient	The opinion will be incomplete or incorrect	7	Use auditors who have all the necessary personal qualities and skills to obtain data which will support a reliable opinion (auditors)	3 6 10
		8	Give necessary authority to auditors to obtain data which will support an opinion (tool - verification)	4
		9	Obtain comprehensive data, including that from outside the organisation and use modern technology and data interpretation techniques (tool - verification)	8
The data is correct but the opinion is not properly based on it, for example, making unjustifiable assumptions or not highlighting all the implications of the data found	The opinion will not be supported by the data, or will be incomplete	10	Use auditors who have all the necessary personal qualities and skills to draw objective conclusions based on all the data (auditors)	1,2,3 8 10
		11	Use auditors who are not susceptible to demands that opinions are changed so that they do not properly reflect the data from the audit (auditors)	4
The opinion is delivered at an inappropriate time	No time to implement suitable responses and prevent possible losses	12	Employ adequate resources (tool - verification)	6
		13	Use resources efficiently (tool - verification)	6
The opinion is not understood	Management do not initiate appropriate responses	14	Opinions are written in clear jargon-free language (tool - reporting)	9
		15	Opinions are discussed fully with those directly responsible for implementing responses (auditors)	9
The opinion does not result in appropriate responses	The responses required to bring those risks found to be above the risk appetite are not implemented promptly	16	Opinions are addressed to those directly responsible for implementing the responses (tool - reporting)	10
		17	Opinions (or a summary) are sent to stakeholders, who will ensure appropriate responses are put in place (tool - reporting)	10
		18	Follow-up work is carried out to ensure responses to risks have been implemented (tool - reporting)	
The opinion is based on procedures which do not follow organisational, professional, national or international standards	Possible action by regulators. Poor quality of work.	19	All audit work and opinions comply with appropriate standards (tool - verification)	
		20	Audit work is subject to quality control checks to ensure it complies with standards. These include feedback from stakeholders (tool-verification)	7
Responses to risks are inadequate	Losses occur because management have not identified all risks above their risk appetite and taken appropriate responses	21	Summarised audit opinions sent to those responsible for governance, giving an overall conclusion on the adequacy of responses to risks (tool - reporting)	10

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The responses above naturally fall into two categories:

1. Principles relating to internal audit as a *tool*. These can be sub-divided into planning, verification and reporting which I believe to be more relevant than input, processing and output as used by the RTF. These principles are expanded by the *Standards*.
2. Principles relating to those using the tool, who I have referred to as '*auditors*'. They will include permanent members of the internal audit function, including the CAE, plus others from the organisation, or external firms, brought in to use their specialist expertise. These principles are expanded by the *Code of Conduct*

Taking the principles above, I have merged some and matched them with the RTF core principles in the table below. The numbers in brackets correspond to the numbers in the table above. The main changes are as follows:

- A separate category for the personal qualities and skills of auditors, considered by the RTF as input. While they are an input, I believe this term is confusing, since these qualities apply throughout the audit. I have included core principles 11 and 12 in this category, since they relate to the personal skills of the auditor and not the tool of internal audit.
- The need to have a risk based audit plan is included. Despite the inclusion of 'risk based' in the mission statement, only core principle 6 gives a passing mention to them. Yet risks are the real input into the audit process and my section 'Tool - planning' is based on them.
- The need for internal audits to comply with standards is included.
- Follow-up work to ensure responses to risks required by the audit is included.
- Principles relating to the opinions from audits are included under Tool-reporting. It is really only these which distinguish internal audit from risk management.

RTF principle	Proposed principle
(Not included)	Auditors
1. Demonstrates uncompromised integrity 2. Displays objectivity in mindset and approach 3. Demonstrates commitment to competence 11. Is insightful, proactive, and future-focused 12. Promotes positive change	<i>1. Auditors have all the necessary personal qualities, skills and independence to obtain and analyse data in order to present objective, reliable opinions (7,10,11)</i>
9. Communicates effectively	<i>2 Auditors communicate with stakeholders during all audit processes to understand their expectations (5,15)</i>
8. Achieves efficiency and effectiveness in delivery	<i>3 All available resources are used and managed to report opinions when required (13)</i>
Input	Tool - planning
5. Aligns strategically with the aims and goals of the enterprise. (Is included in process but must be the basis of IA work)	<i>4 IA is aligned strategically with the aims and goals of the organisation (1)</i>
(No equivalent)	<i>5 IA verifies that the organisation has a complete list of risks which is constantly updated (2,6)</i>
(No equivalent)	<i>6 Audit work is planned using a complete list of the organisation's objectives and risks(4)</i>
Process	Tool - verification
4. Is appropriately positioned within the organization with sufficient organizational authority	<i>7 IA has the authority to obtain any data which is required to support an opinion (3,8)</i>
5. (Moved to input)	
6. Has adequate resources to effectively address significant risks	<i>8 IA has the resources necessary to carry out the agreed plan (12)</i>
(No equivalent)	<i>9 All audit work and opinions comply with appropriate standards (19)</i>

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7. Demonstrates quality and continuous improvement	10 Audit work is subject to quality control checks to ensure it complies with standards. These include feedback from stakeholders (20)
8. (Moved to Auditors)	
9. (Moved to Auditors)	
Output	Tool - reporting
10. Provides reliable assurance to those charged with governance	11 Opinions are concise, understandable and supported by appropriate data (9,14)
11. (Moved to Auditors)	
12. (Moved to Auditors)	
(No equivalent)	12 Opinions are addressed to those responsible for implementing the responses (16)
(No equivalent)	13 Opinions (or a summary) are sent to stakeholders, who will ensure appropriate responses are put in place and report externally, as required.(17,21)
(No equivalent)	14 Follow-up work is carried out to ensure responses to risks have been implemented (18)

In order to ensure the core principles deliver the mission they need to be matched:

To enhance and protect organizational value

4 IA is aligned strategically with the aims and goals of the organisation

14 Follow-up work is carried out to ensure responses to risks have been implemented

by providing stakeholders

2 Auditors communicate with stakeholders during all audit processes to understand their expectations

10 Audit work is subject to quality control checks to ensure it complies with standards. These include feedback from stakeholders

13 Opinions (or a summary) are sent to stakeholders, who will ensure appropriate responses are put in place and report externally, as required

with independent, objective opinions, advice and insight

1. Auditors have all the necessary personal qualities, skills and independence to obtain and analyse data in order to present objective, reliable opinions

3 All available resources are used and managed to report opinions when required

7 IA has the authority to obtain any data which is required to support an opinion

9 All audit work and opinions comply with appropriate standards

11 Opinions are concise, understandable and supported by appropriate data

12 Opinions are addressed to those responsible for implementing the responses

on the adequacy of all risk management.

5 IA verifies that the organisation has a complete list of risks which is constantly updated

6 Audit work is planned using a complete list of the organisation's objectives and risks

8 IA has the resources necessary to carry out the agreed plan

Once the core principles are defined, the Standards required to deliver the mission within these principles can then be specified. So, while I generally support the changes, I think there are serious omissions. I believe that the RTF has also failed to address the main issue, that of updating the standards for *auditors* and the *tool* of internal auditing to enable the *function* of internal audit to become that of 'trusted advisor'.