Introduction

The IIA’s International Internal Audit Standards Board (IIASB) develops, issues and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). It is the intent of the IIASB to propose changes to the Standards when they will substantively improve the practice of internal auditing.

The IIASB recently proposed changes to the Standards after consideration of input it received from internal auditors and stakeholders, as well as global surveys and other research focused on the Standards. The proposed changes to the Standards had a 90-day exposure period from Feb. 20, 2012, to May 20, 2012, during which time the IIASB received 1,685 responses from individuals and organizations around the world. The Standards Board has completed the review of the exposure results and comments and has approved the final changes to the Standards.

This document provides:

- The exposed changes to the Standards, including the glossary terms
- Standards exposure survey results.
- A summary of key comments received from the exposure and the Standards Board’s disposition of each of them.
- The Standards Board’s final decision on adopting, modifying or rejecting the exposed changes.
- Final approved wording of the Standards, including the glossary terms.
- A brief rationale of the Standards Board’s decision.

Both exposed changes and final approved changes are marked up against the existing Standards. The new wording is displayed in red font; deleted wording is displayed in crossed-out blue font; and text that is being preserved without change is displayed in regular font style. For a full list of all Standards, visit https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx.

Questions related to the Standards and this document should be directed to guidance@theiia.org.

International Internal Audit Standards Board
September 2012
### Disposition on the 2012 Standards Exposure Results/Comments

1. **EXPOSED CHANGE – Adding the following paragraph to the Introduction of the Standards**

   **Introduction**
   The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the Standards related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the Standards, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the Standards.

### Exposure Survey Results

- Yes: 87%
- No: 7.1%
- No Opinion: 5.8%

### Summary of Key Comments from the Exposure | Standards Board Disposition
---
Several questioned whether the Standards apply to non-CIAs. | No change required. We believe the Standards apply to all internal auditors and the profession. Other parts of the Introduction of the Standards clearly states that conformance with the Standards is essential in meeting the responsibilities of internal auditors and the internal audit activity.

Several recommended replacing the word “accountable” with “responsible.” Others suggested answering the question: accountable to whom? | No change required. We discussed the proposed update and agreed collectively to keep the word “accountable,” which has a broader and stronger meaning than “responsible.” Those practicing internal audit are “accountable” to the profession, the internal audit function, and the organization for which one works in an internal audit capacity.

Several comments cite the need to add responsibility of the board. They note that the chief audit executive (CAE) needs board support to conform. | No change required. The Standards are focused on the internal auditors and internal audit activity and are not meant to place requirements on the board or other stakeholders.

Several comments ask for clarification between CAE and individual auditors. What happens with the individual auditor when the CAE does not comply? | No change required. We believe the changes made already clarify the differences between the role of internal auditors, and that of the CAE. No further changes were made.

### Standards Board Decision

**Options:**
1. Adopt the change
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Standard:**
No change; adopt as exposed.

**Brief rationale/reason for the change to Introduction:**
The Standards Board has received comments that ask for clarification on the role and accountability of internal auditors, CAEs, and internal audit activities for conformance with the Standards. The proposed change is to provide clarification.
2. **EXPOSED CHANGE - Standard 1110**

**1110 – Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

*Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:*

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the chief audit executive;
- Approving the remuneration of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

### Exposure Survey Results

- Yes: 85%
- No: 9.8%
- No Opinion: 5.3%

### Summary of Key Comments from the Exposure | Standards Board Dispositions

<table>
<thead>
<tr>
<th>Comment</th>
<th>Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Approval of remuneration of the chief audit executive” caused the</td>
<td>No change required. The Standards added two</td>
</tr>
<tr>
<td>most disagreement, to the extent it may result in lack of conformance.</td>
<td>additional examples already listed in the</td>
</tr>
<tr>
<td></td>
<td>Practice Advisory 1110-1 with intention of</td>
</tr>
<tr>
<td></td>
<td>strengthening the internal audit activity's</td>
</tr>
<tr>
<td></td>
<td>independence. The board “approval of</td>
</tr>
<tr>
<td></td>
<td>remuneration of the chief audit executive”</td>
</tr>
<tr>
<td></td>
<td>is an example of functional reporting to the</td>
</tr>
<tr>
<td></td>
<td>board rather than a requirement. Therefore,</td>
</tr>
<tr>
<td></td>
<td>it will not impact conformance with the</td>
</tr>
<tr>
<td></td>
<td>Standards if at this time a board does not</td>
</tr>
<tr>
<td></td>
<td>approve the remuneration of the CAE.</td>
</tr>
<tr>
<td>Some comments indicate that the examples are all very prescriptive;</td>
<td>No change required. We understand the concern;</td>
</tr>
<tr>
<td>they cause confusion and take away from the premise that the</td>
<td>however, the Standards Board believes the</td>
</tr>
<tr>
<td>Standards are principles-based.</td>
<td>examples can help influence and increase the</td>
</tr>
<tr>
<td></td>
<td>substance of “functional reporting” to the</td>
</tr>
<tr>
<td></td>
<td>board. We believe the specific examples are</td>
</tr>
<tr>
<td></td>
<td>appropriate.</td>
</tr>
</tbody>
</table>

### Standards Board Decision

**Options:**

1. Adopt the change
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Standard:**

No change; adopt as exposed.

**Brief rationale/reason for the change to existing Standard:**

Approval of the internal audit budget and remuneration of the CAEs are appropriate examples of functional reporting and further demonstrate independence of the internal audit activity. These two items were already part of strongly recommended guidance in a Practice Advisory. These changes can help increase the substance of functional reporting lines.
### 3. EXPOSED CHANGE – Standard 1311

#### 1311 - Internal Assessments

Internal assessments must include:
- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

**Interpretation:**

*Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

*Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

*Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.*

#### Exposure Survey Results

- Yes: 89.6%
- No: 5.0%
- No Opinion: 5.4%

#### Summary of Key Comments from the Exposure

<table>
<thead>
<tr>
<th>Comments</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Several comments expressed concern about who is allowed to conduct these internal assessments. Some expressed preference that assessments should be conducted by a CIA. There is concern that an assessment conducted by people outside the audit department could be subjective and therefore inappropriate.</td>
<td>No change required. Overall, the comments were not directed at the exposed change. The suggestions beyond the exposure may be considered for future exposure.</td>
</tr>
<tr>
<td>Some suggested that the term “periodic” should be further defined.</td>
<td>No change required. Practice Advisory 1311-1 defines elements of periodic assessments, including the strongly recommended guidance that “At least annually, the CAE reports the results of internal assessments…”</td>
</tr>
</tbody>
</table>

**Standards Board Decision**
**Options:**

1. **Adopt the change**
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Standard:**
No change; adopt as exposed.

**Brief rationale/reason for the change to the Standard:**
The change is to improve the consistency of using the word “assessment.”
4. **EXPOSED CHANGE – **Standard 1312

1312 - External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer assessor or review assessment team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent form of external assessments; and
- The qualifications and independence of the external reviewer assessor or review assessment team, including any potential conflict of interest; and
- The need for more frequent external assessments.

**Interpretation:**

*External assessments can be in the form of a full external assessment, or a self-assessment with independent validation.*

A qualified reviewer assessor or review assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of a review an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether a reviewer an assessor or review assessment team demonstrates sufficient competence to be qualified.

An independent reviewer assessor or review assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

**Exposure Survey Results**

- Yes: 86.5%
- No: 7.6 %
- No Opinion: 5.9 

<table>
<thead>
<tr>
<th>Summary of Key Comments from the Exposure</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarify, revise, or remove the third bullet on “The need for more frequent external assessments” because external assessments are already required at least once every five years. Suggested changes included adding “appropriate” to the bullet, such as “The need for more frequent external assessments, if appropriate.” or “The appropriate frequency of external assessments.”</td>
<td>Modification made to the exposed change. The third bullet was removed and the first bullet was revised to refer to “the form and frequency of external assessment.” It is important that the CAE and board consider circumstances that may warrant an external assessment on a more frequent basis, such as a change in the organization, a change in CAEs or a need for improvement in internal audit.</td>
</tr>
<tr>
<td>Clarify the meaning of “self-assessment with independent validation”. To avoid confusion that this is a form of internal assessment under Standard 1311, consider referring to it as an independent “external” validation.</td>
<td>Modification made to the exposed change. Agreed. The interpretation has been revised to refer to independent “external” validation, consistent with the related practice advisory. Practice Advisories 1312-1 and 1312-2 describe, in detail, the concepts of full external quality assessment and self-assessment with independent external validation.</td>
</tr>
<tr>
<td>The external assessment process should be driven by and the responsibility of the board, not the CAE.</td>
<td>No change required. The Standards do not currently place requirements on parties other than the CAE, internal auditor and internal audit activity. While the Standards may influence behavior, they do not mandate behavior of a board. The CAE does have responsibility for conformance with the Standards including for obtaining an external quality assessment. The Standards do already require the CAE to discuss this with the board.</td>
</tr>
</tbody>
</table>
Some note that a self-assessment with independent validation is more appropriate for smaller audit activities than for larger activities.

No change required. Practice Advisory 1312-2 mentions that a self-assessment with independent external validation may be appropriate for smaller audit activities; however, there are circumstances when a self-assessment with independent external validation may be appropriate for larger audit shops. The size of internal audit activity is not the only factor for consideration of the form of external quality assessment. The board believes that every internal audit activity getting an external quality assessment of one form or another is important.

### Standards Board Decision

**Options:**

1. Adopt the change
2. Reject the change
3. Modify the change

Here is the final approved wording of the Standard:

**1312 External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent reviewer assessor or review assessment team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent form and frequency of external assessments; and
- The qualifications and independence of the external reviewer assessor or review assessment team, including any potential conflict of interest.

**Interpretation:**

*External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.*

A qualified reviewer assessor or review assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of a review an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether a reviewer an assessor or review assessment team demonstrates sufficient competence to be qualified.

An independent reviewer assessor or review assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

**Brief rationale/reason for the proposed new Standard:**

The Standards Board agreed to clarify “self-assessment with independent external validation” as one of the methods of external quality assessment. A reason for this change is to encourage and alert internal auditors to explore all options for conforming with the external quality assessment requirements. There are a number of practical ways for any organization to obtain an external quality assessment. It is the responsibility of the chief audit executive to be an advocate for obtaining this assessment. In addition, changing “review” to “assessment” and “reviewer” to “assessor” will improve IPPF and Standards clarity and consistency.
5. **EXPOSED CHANGE – Standard 1320**

1320 - Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

**Interpretation:**

_The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the reviewer’s assessor’s or review team’s assessment team’s evaluation with respect to the degree of conformance._

---

**Exposure Survey Results**

- Yes: 86.6%
- No: 3.0%
- No Opinion: 10.4%

---

**Summary of Key Comments from the Exposure**

There were very few comments not agreeing with this proposed change. A few similar comments suggested that assessments should not be mandatory.

---

**Standards Board Dispositions**

No change required. Overall, the comments were not directed at the proposed change to the Standard. The Standards Board continues to believe that assessments are mandatory for the benefit of internal audit, its stakeholders and the public interest.

---

**Standards Board Decision**

**Options:**

1. Adopt the change
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Standard:**

No change; adopt as exposed.

**Brief rationale/reason for the change to existing Standard:**

The change is to improve the consistency of using the word “assessment.”
6. **EXPOSED CHANGE – Standard 2010**

**2010–Planning**
The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

*Interpretation:*
*The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.*

---

**Exposure Survey Results**
- Yes: 92.5%
- No: 4.3%
- No Opinion: 3.2%

---

**Standards Board Responses**

<table>
<thead>
<tr>
<th>Summary of Comments</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add strategy to the last sentence, i.e., organization’s strategy, business, risks, operations, programs, systems, and controls. Some comments disagree with adding “strategic.”</td>
<td>No change required. This is included in other guidance, such as Practice Advisory 2010-1, Section 2, and the Standard 2120.A1 revision.</td>
</tr>
<tr>
<td>Add “resource availability” to last sentence to address turnover in the internal audit organization. Other suggestions included updating the last sentence or possibly removing all the items in the last sentence after “business.” This may enable the Standard to be more principle based.</td>
<td>No change required. With the high level of support for the change as proposed, and the discussions of the Standards Board, no further changes gathered wide support.</td>
</tr>
<tr>
<td>Add a requirement for communication and approval.</td>
<td>No change required. This is already included in Standard 2020.</td>
</tr>
<tr>
<td>Set a timeframe for updating the plan in this Standard.</td>
<td>No change required. This is dependent on each organization and the minimum annual requirement is already defined in Standard 2010.A1.</td>
</tr>
<tr>
<td>Replace &quot;risk appetite&quot; with &quot;risk criteria, including risk appetite.&quot;</td>
<td>No change required. Risk appetite is defined in the Glossary. It is different from risk criteria.</td>
</tr>
</tbody>
</table>

---

**Options:**
1. **Adopt the change**
2. Reject the change
3. Modify the change

---

**Here is the final approved wording of the Standard:**
No change; adopt as exposed

**Rationale/Reason for the proposed change to existing Standards:**
Organizations and their risks are changing more rapidly than ever. Planning audits only once per year creates potential audit risks. The audit plan needs to be updated timely to reflect changes in management direction, objectives, emphasis, and focus. This change will now require re-assessing the organization’s business and associated risks, and adjusting the annual audit plan during the year in response to changes in the organization’s business, risks, operations programs, systems, and controls.

**2120.A1** - The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

---

**Exposure Survey Results**

- Yes: 90.6%
- No: 5.9%
- No Opinion: 3.5%

---

**Standards Board Responses**

**Summary of Comments**

Some respondents felt that additional guidance is needed on “strategic”, for example:

- Risks around strategic objectives are very ambitious and challenging – there may be a need for further guidance.
- It may not be clear if this applies to the whole organization or the areas under review.
- It may not be clear if this applies to internal audit assessing the strategic plans or the process for how they are developed and the risks around the strategic plan are managed.
- Management may not understand why internal audit is involved in strategic objectives or issues.

---

**Standards Board Dispositions**

- No change required. Responses to the exposure draft showed that overall there was strong support for this change. Regarding the comments:
  
  The Standards Board and others will be considering the need for further guidance in this and other areas. It will be important for internal audit leaders to work with their organization and stakeholders to align internal audit’s role with stakeholder expectations and the organization’s business priorities. This includes proving internal audit’s ability to deliver objective assurance and insight in areas important to the business.

- No change required. Consistently including areas related to strategic risks in the audit plan is consistent with the direction of these Standards changes. However, the Governance related Standards in the 2110 section were not found to have a gap related to strategic objectives and risks which was found in 2120 and 2130.

- No change required. The categories as now described are perceived to include all appropriate categories of objectives, similar to some widely accepted risk and control models.

**Options:**

1. **Adopt the change**
2. **Reject the change**
3. **Modify the change**

**Here is the final approved wording of the Standard:**

No change; adopt as exposed

**Rationale/reason for the proposed change to existing Standards:**

It is important for internal auditors to acknowledge the need to consider the most important risks of the organization. Assessing strategic risks, or risks to the organization’s strategic objectives, has become accepted as an effective way to capture this point.

**2130.A1** - The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

**Exposure Survey Results**

- Yes: 90.9%
- No: 5.7%
- No Opinion: 3.4%

<table>
<thead>
<tr>
<th>Standards Board Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of Comments</strong></td>
</tr>
</tbody>
</table>
| Some respondents felt that additional guidance is needed on “strategic”, for example:  
- Risks around strategic objectives are very ambitious and challenging – there may be a need for further guidance.  
- It may not be clear if this applies to the whole organization or the areas under review.  
- It may not be clear if this applies to internal audit assessing the strategic plans or the process for how they are developed and the risks around the strategic plan are managed.  
- Management may not understand why internal audit is involved in strategic objectives or issues. | No change required. Similar to the disposition to the Standard 2020.A1, responses to the exposure draft showed that overall there was strong support for this change. Regarding the comments:  
- The Standards Board and others will be considering the need for further guidance in this and other areas.  
- It will be important for internal audit leaders to work with their organization and stakeholders to align internal audit’s role with stakeholder expectations and the organization’s business priorities. This includes proving internal audit’s ability to deliver objective assurance and insight in areas important to the business. |
| Consider updating Standard 2110 Governance, to add “strategic” to make more consistent with this change, i.e., ensuring that strategic objectives are attained and that the organization’s performance is managed effectively. . . | No change required. Similar to the disposition to the Standard 2020.A1, consistently including areas related to strategic risks in the audit plan is consistent with the direction of these Standards changes. However, the Governance related Standards in the 2110 section were not found to have a gap related to strategic objectives and risks which was found in 2120 and 2130. |
| Add “business objectives” to the first bullet, i.e., achievement of the organization’s strategic and business objectives. | No change required. Similar to the disposition to the Standard 2020.A1, the categories as now described are perceived to include all appropriate categories of objectives, similar to some widely accepted risk and control models. |

**Options:**

1. Adopt the change
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Standard:**

No change; adopt as exposed

**Rationale/reason for the proposed change to existing Standards:**

It is important for internal auditors to acknowledge the need to consider the most important risks of the organization. Assessing strategic risks, or risks to the organization’s strategic objectives, has become accepted as an effective way to capture this point.
2220 – Engagement Scope
The established scope must be sufficient to **satisfy** achieve the objectives of the engagement.

Exposure Survey Results

- Yes: 90.1%
- No: 2.5%
- No Opinion: 7.3%

Summary of Key Comments from the Exposure

Some felt this was a minor change or suggested other words.

Standards Board Disposition

No change required. As noted below, the change in terminology is to improve the clarity of the Standard, as the prior wording caused difficulties for some practitioners in our globally diverse audience.

Standards Board Decision

Options:
1. Adopt the change
2. Reject the change
3. Modify the change

Here is the final approved wording of the Standard:
No change; adopt as exposed.

Brief rationale/reason for the change to existing Standard:
The change in terminology is to improve the clarity of the Standard, as the prior wording caused difficulties for some practitioners in our diverse audience.
10. **EXPOSED CHANGE - Standard 2201**

**2201 – Planning Considerations**

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity’s governance, risk management and control processes compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity’s governance, risk management and control processes.

**Exposure Survey Results**

- Yes: 90.5%
- No: 4.5%
- No Opinion: 5.4%

<table>
<thead>
<tr>
<th>Summary of Key Comments from the Exposure</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some suggested to change “controls its performance” to “achieves its objectives” in the first bullet point and “control processes” to “control arrangements” in the second/third bullets.</td>
<td>No change required. These comments were not made by most respondents, and did not seem to indicate a major concern for most practitioners.</td>
</tr>
<tr>
<td>Some concern about redefining “Governance, Risk, Compliance” (GRC) as “Governance, Risk and Controls.”</td>
<td>No change required. The phrasing is consistent with the Definition of Internal Auditing. The Standards Board does not believe it is beneficial for the profession to lose its focus on the widely recognized importance of control.</td>
</tr>
</tbody>
</table>

**Standards Board Decision**

**Options:**

1. **Adopt the change**
2. **Reject the change**
3. **Modify the change**

**Here is the final approved wording of the Standard:**

No change; adopt as exposed.

**Brief rationale/reason for the change to existing Standard:**

Adding the word “governance” to broaden the audit engagement plan consideration and enhance consistency throughout the Standard.
11. **EXPOSED CHANGE - Standard 2210.A3**

**2210.A3** - Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

### Exposure Survey Results

- Yes: 89.6%
- No: 5.6%
- No Opinion: 4.8%

### Summary of Key Comments from the Exposure

<table>
<thead>
<tr>
<th>Comment</th>
<th>Standards Board Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some suggested the potential need to clarify criteria or framework.</td>
<td>No change required. Additional guidance is available in the practice guides. The Standards are frameworks neutral.</td>
</tr>
<tr>
<td>Some raised a concern regarding the impression that we are asking internal auditors to actively work with the board on a regular basis, which is not the intent.</td>
<td>No change required. The Standard is focused on identification and assessment of criteria, not board and internal audit working relationships. However, The Standards Board fully supports collaborative, healthy relationships between the CAE and those charged with governance and already describes those expectations in other areas of the Standards and supporting guidance.</td>
</tr>
<tr>
<td>Some commented that the Standard is somewhat ambiguous regarding the situation that management and/or the board have identified criteria but that the auditor finds the criteria unacceptable.</td>
<td>No change required. The comment was not directed at the exposed change to the Standard. The Standards Board did not find that the comment required change at this time.</td>
</tr>
</tbody>
</table>

### Standards Board Decision

**Options:**

1. **Adopt the change**
2. Reject the change
3. Modify the change

**Brief rationale/reason for the change to existing Standard:**

Addition of “governance” and “risk management” results in a broadening of areas for audit plan consideration, which in many cases internal audit activities had already integrated into their methodology. The words “and/or the board” were added as criteria can be set by management, the board, or both, and are reflective of the board’s role in organizational governance.
12. **EXPOSED CHANGE - Standard 2440**

**2440 – Disseminating Results**
The chief audit executive must communicate results to the appropriate parties.

**Interpretation:**
*The chief audit executive or designee reviews is responsible for reviewing and approves approving the final engagement communication before issuance and decides deciding to whom and how it will be disseminated.*

### Exposure Survey Results
- Yes: 84.7%
- No: 11.8%
- No Opinion: 3.5%

### Summary of Key Comments from the Exposure

<table>
<thead>
<tr>
<th>Standards Board Dispositions</th>
<th>Summary of Key Comments from the Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change was driven by sufficient feedback regarding challenges with understandability of the word “designee.”</td>
<td>A number of respondents felt that a change to the existing Standard was not necessary.</td>
</tr>
<tr>
<td>Modification made to the exposed change. This was not the intent of the change. One could view a larger activity having a policy in place governing “how” reports are issued which creates a process that requires that CAE’s direct input only in certain cases. Several options were considered including rejecting the change entirely (continuing to use existing Standard) with a possible Glossary definition of “designee” added; substituting “designated individual” for “designee”; adding “overall” in front of “responsibility,” and various modified language options. The Standards Board concluded that adding a clarifying sentence to the end of the Interpretation would best address the issue.</td>
<td>A number of respondents, particularly from larger organizations, interpreted the proposed change to mean that the CAE is now required to personally read and approve every audit report (200+ reports in larger audit organizations). The proposed change appears to have created the unintended consequence of some readers interpreting the change to read that the CAE is no longer able to delegate this responsibility (i.e. have a designee).</td>
</tr>
</tbody>
</table>

### Standards Board Recommendations

<table>
<thead>
<tr>
<th>Options:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Adopt the change</td>
</tr>
<tr>
<td>2. Reject the change</td>
</tr>
<tr>
<td><strong>3. Modify the change</strong></td>
</tr>
</tbody>
</table>

Here is the final approved wording of the Interpretation:

**2440 – Disseminating Results**
The chief audit executive must communicate results to the appropriate parties.

**Interpretation:**
*The chief audit executive or designee reviews is responsible for reviewing and approves approving the final engagement communication before issuance and decides deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.*

**Brief rationale/reason for the proposed change to existing Standard:**
The word “designee” is not generally used in the *Standards*. Changing the terminology will improve the clarity and consistency of the Standard. It is not the intent of the Standard to reduce the CAE’s ability to delegate as appropriate. The Standards Board added an additional clarifying sentence to the end of the Interpretation to explain that the chief audit executive delegates these duties, but retains overall responsibility.
13. **EXPOSED CHANGE - Standard 2600**

**2600 Resolution of Senior Management’s Communicating the Acceptance of Risks**

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is chief audit executive determines that the matter has not been resolved, the chief audit executive must report communicate the matter to the board for resolution.

**Interpretation:**

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

---

**Exposure Survey Results**

- Yes: 89%
- No: 7%
- No Opinion: 4%

---

**Summary of Key Comments from the Exposure**

<table>
<thead>
<tr>
<th>Comments</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Several commented that there is the potential for risk being resolved but not in a manner in which the CAE agrees.</td>
<td>No change required. The second sentence in the Standard adequately addresses the issue as the CAE would not consider the matter “resolved” if the CAE did not agree with the resolution.</td>
</tr>
<tr>
<td>Some respondents felt that there is still a place for “residual risk” wording.</td>
<td>No change required. The change in language is meant to increase clarity and simplicity, and is acceptable to far majority of respondents.</td>
</tr>
</tbody>
</table>

---

**Standards Board Recommendations**

- **Options:**
  1. Adopt the change
  2. Reject the change
  3. Modify the change

---

**Here is the final approved wording of the Standard:**

No change; adopt as exposed.

---

**Brief rationale/reason for the proposed change to existing Standard:**

Standard 2600 has been identified by a significant percentage of practitioners as requiring improvement, including clarification and additional guidance. The change is to improve clarity and provide additional guidance in the Interpretation, with the goal to increase overall conformance with the Standard. The word “resolve” is used to address a variety of risk management situations regarding managing or treatment of risk and was not intended to have a narrow meaning as may be used in certain risk management methodologies.
14. **EXPOSED CHANGE TO GLOSSARY TERM**

**Board**

A board is an organization’s governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non-profit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.

The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” is the head of the company or agency. “Board” may refer to an audit committee to which the governing body has delegated its authority.

**Exposure Survey Results**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>88.0%</td>
</tr>
<tr>
<td>No</td>
<td>5.7%</td>
</tr>
<tr>
<td>No opinion</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

**Summary of Key Comments from the Exposure**

<table>
<thead>
<tr>
<th>Comment</th>
<th>Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replace reference to “company or agency” with “organization” as it applies to public and private companies, governmental organizations and agencies.</td>
<td>Modification made to the exposed change. Replaced reference to “company or agency” with “organization.”</td>
</tr>
<tr>
<td>The board does not “direct” operations. That is a management function. Suggest revision to state “direct and/or oversee.”</td>
<td>Modification made to the exposed change. To capture the diverse governance structure, changed wording to “direct and/or oversee.”</td>
</tr>
<tr>
<td>The board is not independent in many or most situations. Suggest deleting the word “independent.”</td>
<td>No change required. The intent is that the governance body referred to as “the board” is independent. If an organization has an entity that is not independent (even if it is called the “board”), it likely is not the body referred to in these Standards.</td>
</tr>
<tr>
<td>The CAE reporting lines should be noted (similar to prior definition).</td>
<td>No change required. Functional reporting lines are clearly stated in the body of the Standards.</td>
</tr>
<tr>
<td>The board cannot delegate its authority to the audit committee. Suggest deleting or revising the last sentence of the definition.</td>
<td>No change required. The intent of the wording is to note for purposes of the Standards the board may delegate authority to a specific committee empowered to deal with internal audit matters.</td>
</tr>
</tbody>
</table>

**Standards Board Decision**

Options:

1. Adopt the change
2. Reject the change
3. **Modify the change**

Here is the final approved wording of the Glossary term:

**Board**

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions.
Brief rationale/reason for the change to the existing Glossary term:

The core of the new definition is the first sentence which states the principle involved. The next two sentences provide examples to help clarify the meaning of “board” in reference to NGOs, government entities and organizations without single-chamber boards. This definition aligns with more widely used terminology: those charged with governance. The term is not defined in relation to the CAE reporting line – the appropriate reporting line of the CAE is addressed in other guidance. It further emphasizes that the audit committee is a delegate of that governing body. For the purposes of the IIA’s Standards, such a committee may be regarded as the “board.”
### 15. EXPOSED CHANGE TO GLOSSARY TERM

**Control Processes**
The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the level of risk tolerances established by the risk management process that an organization is willing to accept.

<table>
<thead>
<tr>
<th>Exposure Survey Results</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes - 92.7%</td>
<td>No change required. The wording as is still accurate.</td>
</tr>
<tr>
<td>No - 3.4%</td>
<td></td>
</tr>
<tr>
<td>No opinion – 3.9%</td>
<td></td>
</tr>
</tbody>
</table>

#### Summary of Key Comments from the Exposure

| Should use the term "risk appetite," which is what the second part of the sentence defines. | No change required. The wording as is still accurate. |
| Recommend adding reference to manual and automated procedures and making a distinction between the design and operational effectiveness of control processes. | Modification made to the exposed change. Added reference to "both manual and automated" controls and designed "and operated." |
| Wording appears somewhat redundant. Suggest "that risks are contained at a level of risk that an organization is willing to accept." | Modification made to the exposed change. Changed per suggestion. |

#### Standards Board Decision

**Options:**
1. Adopt the change
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Glossary Term:**

**Control Processes**
The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the risk tolerances established by the risk management process level that an organization is willing to accept.

**Brief rationale/reason for the change to the existing Glossary term:**
This change eliminates the use of the term "risk tolerances," which is not used anywhere else in the Standards and is not defined. Rather than use other defined risk management terms (some of which do not align with usage in the risk management discipline and therefore may cause confusion) the intended meaning is spelled out in full.
16. EXPOSED CHANGE – NEW GLOSSARY TERM

**Engagement Opinion**
The ratings, conclusions, or other descriptions of results of an individual internal audit engagement based upon the procedures performed, relating only to those aspects within the objectives and scope of the engagement.

**Exposure Survey Results**
- Yes - 89.1%
- No - 4.8%
- No opinion - 6.2%

**Summary of Key Comments from the Exposure**

<table>
<thead>
<tr>
<th>Comment</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are not limited to reporting on items &quot;only&quot; within the objectives and scope, we discuss with management and report on it. This says that the CAE cannot opin on something that came to internal audit's attention but was not part of the defined scope. Conclusions might include information that was not included in the scope and we should not ignore any information available to provide management with a conclusion.</td>
<td>Modification made to the exposed change. Reference to the term &quot;only&quot; was removed.</td>
</tr>
<tr>
<td>Use singular language regarding ratings, conclusions, and descriptions.</td>
<td>Modification made to the exposed change. Changed per the suggestion.</td>
</tr>
<tr>
<td>Remove &quot;based upon the procedures performed&quot; as this does not add anything to the definition</td>
<td>Modification made to the exposed change. Changed per the suggestion.</td>
</tr>
</tbody>
</table>

**Standards Board Decision**

**Options:**
1. Adopt the change
2. Reject the change
3. Modify the change

Here is the final approved wording of the Glossary term:

**Engagement Opinion**
The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

**Brief rationale/reason for the addition to the Glossary terms:**
The term “opinion” is used in the *Standards* but is not defined. The IIASB believes that there are two types of opinions generally given: those in relation to a particular engagement; and those in relation to a number of related engagements. The internal auditor is not required or encouraged by the Standards to provide an opinion, but required to follow certain Standards if he/she does issue opinions. This definition describes the nature of an internal audit engagement opinion and the manner in which it should be interpreted. While a CAEs may elect to provide a view or assessment on anything for which they have sufficient evidence and may draw on broader evidence than may have been produced by the audit procedures, an opinion contained within an internal audit engagement ought to reflect the scope of that engagement so that any reader of such an opinion is fully aware of its context and limitations.
17. EXPOSED CHANGE – NEW GLOSSARY TERM

**Overall Opinion**
The overall ratings, conclusions, or other descriptions of results provided by the chief audit executive addressing, at a broad level, governance, risk management and control processes of the organization. An overall opinion is based on the results of a number of individual engagements and other activities for a specific time interval.

**Exposure Survey Results**
- Yes - 88.2%
- No - 5.4%
- No opinion - 6.5%

**Summary of Key Comments from the Exposure**
Overall opinions should not be mandatory, and this definition is taking it in that direction.

We foresee some espousing the view that the issuance of an opinion somehow constitutes "best practice." Unlike generally accepted auditing standards, the Standards provide very little guidance about restrictions that may prevent issuance of opinions and conclusions absent a sufficient level of work. Stakeholders will assume overall opinions provide the same level of assurance as obtained from other assurance providers that are subject to strict guidance, and potentially may be misled. If the Standards continue with the concept of overall ratings, conclusions, and other descriptions as noted above, we recommend that the word "opinion" not be used in the Standards. Alternatively, use "rating" or "conclusion."

- Replace "or other" descriptions with "and/or other."
- Opinions do not need to address each of governance, risk management, and control processes. Suggest revising to “and/or” control processes.
- Include reference to the professional judgment required by the CAE in offering an opinion.

**Standards Board Dispositions**
- No change required. This comment does not affect the need to define “opinion” in the standards as they are now. The words "ratings, conclusions or other descriptions of results" are now included in the Standards, effectively defining what is meant by "opinion." The Standards do not require or advocate the internal auditor providing an opinion.

- Modification made to the exposed change. Changed per the suggestion.

**Standards Board Decision**
Options:
1. Adopt the change
2. Reject the change
3. **Modify the change**

Here is the final approved wording of the Glossary term:

**Overall Opinion**
The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.
Brief rationale/reason for the addition to the Glossary terms:
This term “opinion” is used in the Standards but is not defined. The IIASB believes that there are two types of opinion generally given: those in relation to a particular engagement and those in relation to a number of related engagements. The internal auditor is not required by the Standards to provide an opinion, but required to follow certain Standards if he/she issue opinions. This definition describes the nature of an internal audit overall opinion and the manner in which it should be interpreted.
18. **EXPOSED DELETION OF GLOSSARY TERM**

**Residual Risk**  
The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

### Exposure Survey Results

- Yes – 74.1%
- No – 13.8%
- No opinion -12.1%

### Summary of Key Comments from the Exposure

Some noted that although the term is not used in the Standards, it is valuable to have the definition of residual risk because the term is a key concept that is often used by auditors and risk professionals.

Some suggested the definition is needed to help with Practice Advisories 2010-2 and 2050-2.

### Standards Board Dispositions

No change required. Many terms are valuable and it is worthy to define them in the Glossary. However, Glassy, as part of the Standards, only includes the terms used in the body of the Standards.

No change required. The Glossary is part of mandatory guidance and not intended to provide a comprehensive internal audit vocabulary.

### Standards Board Decision

**Options:**

1. **Adopt the change**
2. Reject the change
3. Modify the change

**Here is the final approved wording of the Glossary term:**

No change; definition deleted.

**Brief rationale/reason for the deletion of the Glossary term:**

The term is no longer used in the Standards so a Glossary definition of this term is not necessary. The Glossary is part of mandatory guidance that is not intended to provide a comprehensive internal audit vocabulary.
19. **EXPOSED CHANGE TO GLOSSARY TERM**

**Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

The effect of uncertainty on objectives. An effect is a deviation from the expected and may be positive or negative. Risk is often expressed in terms of a combination of the consequences of an event and the associated likelihood of occurrence.

**Exposure Survey Results**

- Yes – 80.0%
- No – 14.5%
- No opinion - 5.5%

<table>
<thead>
<tr>
<th>Summary of Key Comments from the Exposure</th>
<th>Standards Board Dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some individuals objected to risk being perceived as potentially positive.</td>
<td>Objections acknowledged. The Standards Board has rejected the exposed change and a wider research project into the use of the term “risk” within the IPPF may be initiated. While the current definition of risk allows those who think in this manner to accept risk as related to both positive and negative outcomes, the new definition would have forced such a view and was, as a consequence criticized for this.</td>
</tr>
<tr>
<td>Some individuals were tied to the concept of risks being a “potential event”.</td>
<td>Since the exposed change was rejected, this requires no further action. The proposed definition did not require risk to be associated with a conceivable event – it only required uncertainty such as might come about through lack of information.</td>
</tr>
<tr>
<td>Individuals who saw the change as minor and could not see any purpose in the change.</td>
<td>The Standards Board believes the proposed change was quite fundamental as the other reasons for objection reflect.</td>
</tr>
</tbody>
</table>

**Standards Board Decision**

**Options:**
1. Adopt the change
2. **Reject the change**
3. Modify the change

**Here is the final approved wording of the Glossary term:**

Keep the original definition of “Risk”

**Brief rationale/reason for the change to the existing Glossary term:**

The exposed change was to align the definition used by internal auditors with that used most widely by professional risk managers. It emphasized the fact that any given event may have a range of consequences that may be positive or negative and that these consequences have different likelihoods of occurring.

The feedback received from the exposure period resulted in the Standards Board voting NOT to adopt the change. The message from the feedback was that the new definition had strayed too far from the COSO terminology and was only aligned with ISO 31000. The Standards Board decided to avoid wording that favors one framework over another. The existing definition still works for both COSO and ISO 3100 proponents.