



November 3, 2014

The Institute of Internal Auditors, Global Headquarters
ATTN: Standards and Guidance/Hal Garyn, Vice President of Professional Practices
247 Maitland Avenue
Altamonte Springs, FL US 32701

Submitted via IIA-Exposure@theiia.org

Re: Potential Enhancements to the International Professional Practices Framework

Dear Mr. Garyn,

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) values the opportunity to comment on the Institute of Internal Auditors (IIA)'s exposure draft outlining proposed enhancements to the [International Professional Practices Framework](#) (IPPF, "the Framework") and seeks to provide the perspective of the global accountancy profession.

We highlight key matters before responding to the various questions in the addendum. The members of the [PAIB Committee](#) played a central role in the development of our response, as a large part of the constituencies they represent are involved in, and/or stakeholder of, internal audit.

General Comments on the Framework

The PAIB Committee believes professionally performed auditing and accounting are fundamental to the effective functioning of the world's capital markets and are predicated on the existence of and compliance with high-quality international standards. In addition, an effective internal audit function contributes to good governance through independent assessments and recommendations that enhance organizational risk management and internal control, while promoting transparency in and accountability for the use of resources and achievement of objectives. The Framework is globally recognized for providing effective guidance for the internal auditing profession.

Overall, the PAIB Committee welcomes the proposed enhancements to the Framework as they put the core content (the internal audit standards and guidance), as well as the internal audit profession as a whole, on a more solid, principles-based footing, and better enable internal auditors manage the challenges that they confront.

Stimulate Professional Judgment through Principles-based Application of the Framework

The PAIB Committee strongly supports the principles-based approach for the professional practice of internal auditing and broadly concurs with the proposed core principles (see also specific comments below). However, we also notice that these principles primarily encompass the attitude of the internal auditor, the performance of the internal audit process, and the desired outcomes but do not yet entail the specific internal audit activities as encapsulated in the underlying standards and guidance. We believe it is important to, consequently, extend this principles-based approach to the underlying standards and guidance as this will promote the exercise of professional judgment.



In this light, and going forward, it might be worthwhile to reassess how principles-based these documents actually are, as in many cases they contain language that is difficult to reconcile with such a principles-based approach, such as “*requirements*” and the frequent use of words such as “*must*.” By referencing compliance with requirements, the Framework implies that there is only one prescribed way for many internal audit activities. Throughout the documents, these sentences could be rephrased from “*complying with the requirements*” to “*appropriately applying the principles*” to better capture the spirit of principles-based *application* of the Framework, thus stimulating professional judgment.

Balance Assurance, Insight, and Advice

Providing assurance has been, is, and will be an important part of the internal auditor’s responsibilities. Going forward, however, the PAIB Committee believes increased attention should be given to the two other pillars, as mentioned in the proposed mission statement of internal auditing: insight and advice. For example, internal audit should focus more on supporting the organization, especially top and line management, in the process of setting its strategic objectives and the management of risk.

Comments on Specific Questions

For the convenience of the IPPF Task Force, we have included our comments on the specific questions outlined in the IIA’s [International Professional Practices Framework Exposure Response Questionnaire](#) in the addendum to this response. We hope you find our recommendations useful and constructive as you finalize the Framework.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission. IFAC values our relationship with the IIA and we look forward to continuing our collaborative projects, as per our Memorandum of Understanding, in support of both of our strategies.

Yours sincerely,

Charles Tilley
Chair, IFAC PAIB Committee

About IFAC and its PAIB Committee

[IFAC](#) is the global organization for the accountancy profession, dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It is comprised of 179 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

The [PAIB Committee](#) serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and the not-for-profit sectors. Its aim is to promote and contribute to the value of professional accountants in business by increasing awareness of the important roles professional accountants play, supporting member bodies in enhancing the



competence of their members, and facilitating the communication and sharing of good practices and ideas.

DRAFT



Comments on the Specific Questions Outlined in the IIA's [International Professional Practices Framework Exposure Response Questionnaire](#)

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Stakeholder group: Accountancy profession

Organization name: International Federation of Accountants (IFAC)

Industry sector: Not-for-profit

Geographical region: Global

International Professional Practices Framework (IPPF) Exposure Response

Thank you for your valuable input. This questionnaire collecting your responses to the IPPF exposure should take about 10 minutes to complete and closes on **Monday, November 3, 2014**.

Mission of Internal Auditing

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



1.1 Comments:

The Mission of Internal Auditing proposed is:

"TO ENHANCE AND PROTECT ORGANIZATIONAL VALUE BY PROVIDING STAKEHOLDERS WITH RISK-BASED, OBJECTIVE AND RELIABLE ASSURANCE, ADVICE AND INSIGHT."

Adding a mission of internal auditing is a good idea. However, we believe that internal auditing is not only about *providing* stakeholders with reliable assurance, advice, and insight on audit matters, which boards might easily mistake for a yes/no answer. It is also about engaging in a meaningful *dialogue* with the various stakeholders, and most notably the board, which provides the internal auditor the opportunity to proactively bring all relevant matters to its attention. In this respect, one could also think of freely discussing topics that are not directly audit related, such as the quality of the governance and risk management arrangements, "tone-at-the-top" and other ethical issues, compliance, IT security, and sustainability. Possibly, the proposed mission statement of internal auditing could be slightly amended to also capture this notion.

A minor point is that "providing insight" typically precedes "providing advice," so the order of these words could possibly be switched in the mission statement.



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

5 **Completely agree** 4 3 2 1 **Do not agree**

1.2 Comments:

See our comment at 1.1.

Core Principles for the Professional Practice of Internal Auditing

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

5 **Completely support** 4 3 2 1 **Do not support**

2.1 Comments:

We support a principles-based application of the Framework and adding Core Principles for the Professional Practice of Internal Auditing as an element of the IPPF could provide a general approach in that regard. However, as explained in our general comments, we believe the underlying standards and guidance should also be more principles-based.

2.2 Do you agree with the 3 “input-related” principles, as proposed? (Please include in your comments any principles you disagree with, as well as also noting any that you believe should modified.)

5 **Completely agree** 4 3 2 1 **Do not agree**

2.2 Comments:

The 3 “input-related” principles:
1. Demonstrates uncompromised integrity.
2. Displays objectivity in mindset and approach.
3. Demonstrates commitment to competence.



We do agree with the 3 “input-related” principles from a content perspective, but we wondered how these “principles” relate to the similar principles in the [IIA Code of Ethics](#). Several questions come to mind, such as: Why include them twice in the Framework? Could this create confusion? What are the differences between these principles and the corresponding principles in the Code? Why haven’t all the principles from the code, such as confidentiality, been elevated to core principles?

Perhaps the IPPF Task Force could reconsider the relation between the Core Principles and the Code.

Specific comments:

- Principle 3: With respect to competence, there is a connection to “addressing emerging issues,” mentioned in section 4.1 below, as competence also implies that internal auditors should be abreast of these developments, e.g., through qualifications, training, experience, and CPD.

2.3 Do you agree with the 6 “process-related” principles, as proposed? (Please include in your comments any principles you disagree with, as well as also noting any that you believe should be modified.)



2.3 Comments:

The 6 “process-related” principles:

4. Is appropriately positioned within the organization with sufficient organizational authority.
5. Aligns strategically with the aims and goals of the enterprise.
6. Has adequate resources to effectively address significant risks.
7. Demonstrates quality and continuous improvement.
8. Achieves efficiency and effectiveness in delivery.
9. Communicates effectively.

We generally agree with the 6 “process-related” principles from a content perspective, although one could argue that most of these principles are not unique to the internal audit function, but more generally applicable, probably even for all employees of an organization. Would it be possible to emphasize the internal audit relevance in these principles?

Specific comments:

- What would/should be the consequence if an internal auditor/the internal audit function is not able to apply/achieve principle 4 (“Is appropriately positioned within the organization with sufficient organizational authority”)? Not accepting the position? Resign? Another issue may arise for organizations that have outsourced the internal audit function.



- Principle 5: Why should the internal auditor need to only “align strategically with the aims and goals of the enterprise?” and not on a tactical or operational level? Why is the word “enterprise” used, instead of the more neutral “organization?” Furthermore, what if aligning with the aims and goals of an organization would compromise adherence to the other ethical principles?
- Principles 6: What would/should be the consequence if an internal auditor/the internal audit function cannot obtain adequate resources to effectively address significant risks? Furthermore, whose risks are being discussed? The internal audit risk or organizational risk? In case of the latter, shouldn’t it be more up to the line organization to obtain adequate resources to address the risk—both opportunities and threats—they are responsible for?
- Principle 7: We are not sure if you can demonstrate quality and continuous improvement. Perhaps internal audit demonstrates the will/determination to deliver quality and achieve continuous improvement.
- Principle 8: Is effectiveness not an output/outcome measure, rather than a process measure? And should therefore belong to the output related principles?

2.4 Do you agree with the 3 “output-related” principles, as proposed? (Please include in your comments any principles you disagree with, as well as also noting any that you believe should be modified.)

5 **Completely agree** 4 3 2 1 **Do not agree**

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2.4 Comments:

The 3 “output-related” principles:

10. Provides reliable assurance to those charged with governance.

11. Is insightful, proactive, and future-focused.

12. Promotes positive change.

We generally agree with the 3 “output-related” principles from a content perspective, but we wonder how they relate to, for example, the proposed mission statement (“what internal audit aspires to achieve”).

Specific comments:

- Principle 10: We question the phrasing of “Providing reliable assurance to those charged with governance” when the mission statement also mentions “advice” and “insight.” Additionally, shouldn’t the wider group of stakeholders other than only those charged with governance be included/mentioned?



- Principle 11: Why did the IPPF Task Force select the quality criteria of a "good" output and not other, clearer criteria, such as "reliable" or "relevant?"
- Principle 12: Why should the internal auditor always promote change, as change is not always necessarily a useful or good thing? Or is this principle more about "positive" change? In which case, consider changing the words "positive change," to, for example, "promotes continuous improvement."

Core Principles for the Professional Practice of Internal Auditing *continued*

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



2.5 Comments:

Taking into account the comments above, the order of the principles (input, process, and output) seems reasonable.

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? (If not, please indicate in your comments which Principle(s) does (do) not need to be "present and operating effectively" for an internal audit function to be considered effective?)



2.6 Comments:

Taking into account the comments above, we generally agree that these principles should be present and operating effectively for an internal audit function to be considered effective. However, the appropriate application of some of these principles is not fully in the hand of the internal audit function, which leaves the question open as to what should happen in those circumstances.

In addition, we believe most of these principles are not black and white ("pass or fail"), but leave room and provide the incentive to continuously improve, as noted, for example, in Principle 7.

Assessing the effective application of 12 Principles begs a radar-style spider web chart with a range of achievement on each spoke, which internal audit can then benchmark. This would also allow the internal audit function to "focus on the things that are most important" for their organization, as rightly noted on page 5 of the consultation draft.



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?

5 Completely agree **4** **3** **2** **1 Do not agree**



2.7 Comments:

We believe principles should stimulate professional judgment and that too much guidance, even when well meant, might quickly turn principles into rules.

If the IPPF Task Force decides to provide additional guidance on putting the principles into effect, we recommend taking a "comply or explain" approach. With this approach, the explanation by a practitioner should elaborate why her/his course of action is more aligned with the principle than compliance with the guidance would have been.

Implementation Guidance and Supplemental Guidance

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

5 Completely support **4** **3** **2** **1 Do not support**



3.1 Comments:

We are not sure if this would also change the underlying guidance or just a matter of "relabeling". With respect to the name, we would prefer "application guidance" over "implementation guidance" because the principles in the standard should be applied rather than implemented and because "implementation" sounds like a "one-off" whereas principles should be applied time and again.

With respect to the content, we are somewhat reserved to the statement that "each and every individual standard would be supported by Implementation Guidance" as application of principles should stimulate the practitioner's own judgment and too much guidance could cause the opposite effect.

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



5
Completely support

4

3

2

1
Do not support



3.2 Comments:

No comments.

Addressing Emerging Issues

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

5
Completely support

4

3

2

1
Do not support



4.1 Comments:

We think this is a good idea but are not sure if that should be a part of the Framework, as emerging issues are typically communicated through newsletters, magazines, LinkedIn groups, etc. However, internal audit professionals certainly need to develop the capability to timely identify and respond to relevant emerging issues, as embodied in, for example, Principle 11 (“Is insightful, proactive, and future-focused”).

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?

5
Completely agree

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2

1
Do not agree



4.2 Comments:

See comment 4.1

Position Papers

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

5
Completely support

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1
Do not support



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5.1 Comments:

See comment 4.1

Required and Recommended

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

5 Completely support **4** **3** **2** **1 Do not support**

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6.1 Comments:

For a principles-based framework, we would prefer likeminded terminology, such as “apply or explain,” rather than rules/compliance-based terms, such as “mandatory” or “required.”

Conclusion

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

5 Completely support **4** **3** **2** **1 Do not support**

● ● ● ● ●

7.1 Comments:

Support contingent on previous comments.

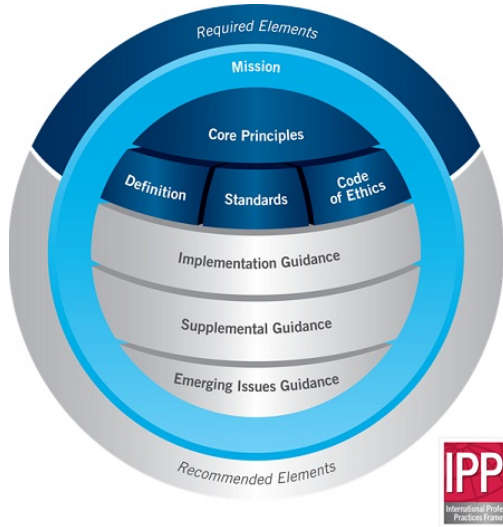
7.2 To what extent do you agree that the pictorial representation below adequately depicts the hierarchy and interrelationships of each element of the new proposed IPPF?

5 Completely agree **4** **3** **2** **1 Do not agree**

● ● ● ● ●

7.2 Comments:

Support contingent on previous comments.



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

5 **Completely agree** 4 3 2 1 **Do not agree**

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7.3 Comments:

We believe the pictorial representation is quite clear.