

30 October 2014

Dear Sir,

International Professional Practices Framework (IPPF) Exposure Response

This response has been prepared by the UK Internal Audit Standards Advisory Board (the IASAB) on behalf of the following bodies:

- Her Majesty's Treasury;
- the Scottish Government;
- the Department of Finance and Personnel Northern Ireland;
- the Welsh Government;
- the Department of Health;
- and the Chartered Institute of Public Finance and Accountancy (CIPFA).

These bodies are the Relevant Internal Audit Standard Setters (the RIASS) in the UK public sector and as such, they set the internal audit standards for the public services over which they have jurisdiction. They welcome the opportunity to respond to this consultation.

The IASAB believes that there are positive proposals within the exposure, such as the restructure and renaming of guidance elements. However, we do have concerns on certain areas of the proposed IPPF amendments, particularly regarding the introduction and drafting of the principles; the lack of a need for supporting guidance for the principles; and the position of emerging issues guidance. These concerns are set out fully in our response.

The IASAB appreciates that proposing amendments to a globally utilised IPPF inherently generates specific difficulties. Therefore, we wish to offer our assistance as a Standards advisory board to the IPPF 'Re-look Task Force', as well as to the Executive and Board of the Global IIA, with further detailed comments and advice as required.

Thank you once again for considering this response.

Yours faithfully

Janet Eilbeck

Janet Eilbeck
Chair
Internal Audit Standards Advisory Board

International Professional Practices Framework (IPPF) Exposure Response

Introduction/Summary

This response has been prepared by the UK Internal Audit Standards Advisory Board (the IASAB) on behalf of the following bodies:

- Her Majesty's Treasury;
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- and the Chartered Institute of Public Finance and Accountancy (CIPFA).

These bodies are the Relevant Internal Audit Standard Setters (the RIASS) in the UK public sector and as such, they set the internal audit standards for the public services over which they have jurisdiction¹. They welcome the opportunity to respond to this consultation, particularly considering the potential impact any changes will have on organisations and internal audit practitioners over whom they have responsibility.

The IASAB was established in 2012 with the overriding objective to advise the RIASS on the development and maintenance of a set of internal audit standards applicable to all areas of the UK public sector based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

The UK Public Sector Internal Audit Standards' (PSIAS) were published in December 2012 and came into force on 1 April 2013.

The IASAB welcomes the opportunity to respond to this consultation and has responded as follows in the format requested.

Mission of Internal Auditing

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

Score = 3

1.1 Comments:

The IASAB acknowledges the reasons stated for the inclusion of the Mission. However, it is unclear as to whether the addition of a Mission provides significant incremental benefits.

¹ The RIASS areas of standing-setting responsibilities are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

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?

Score = 2

1.2 Comments:

The IASAB would like to suggest several amendments to the draft Mission as follows:

- Replace 'organizational value' with 'organizations'. We consider that organizational value is too commercially-focussed for an IPPF that is designed for all sectors. Internal audit should enhance and protect organisations.
- Insertion of the word 'independence'. This underpins the added value that is provided by the internal audit activity and is a key concept within internal auditing not reflected elsewhere within the mission.
- Replace 'stakeholders' with 'management, the board and other key stakeholders'. The purpose of internal audit is to act as a service to management and the IASAB feels that 'stakeholders' is more externally focussed and could be misinterpreted as a very broad group.
- Remove the word 'reliable' as this is considered to be tautological. Assurance should inherently be reliable.

The IASAB therefore proposes the following wording to be used for the Mission:

"To enhance and protect organizations by providing management, the board and other key stakeholders with risk-based, independent and objective assurance, advice and insight".

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?

Score = 2

2.1 Comments:

The IASAB considers that a principles-based set of Standards itself sets the principles. That is, it is a set not based on principles but that forms the principles (as opposed to the alternative; rules-based standards).

The IASAB is disappointed that the mapping exercise of Standards to the principles, as mentioned in the consultation document, has not been provided. Testing the principles by mapping the Standards to them will be a useful indicator of their substance but it does not appear all principles, for example principle 11, would be covered by the Standards. It is also not clear whether the principles apply to the internal audit activity as a whole or to individual auditors. The language immediately preceding the list of principles should be clarified.

Overall, the IASAB strongly feels that there are too many principles and that, as currently written, they are too subjective and not clear enough. The principles should also not require further supporting guidance other than the Standards themselves.

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 be modified.)

Score = 1

2.2 Comments:

Principles 1-3 appear to be duplicating the content of the Code of Ethics (although the IASAB notes that the third principle of the Code of Ethics relating to confidentiality is omitted). These principles are therefore superfluous.

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.)

Score = 1

2.3 Comments:

The six principles do not clearly refer to the processes of the internal audit activity. For example, principle 7 relates to the evaluation of the processes i.e. the quality and improvement programme.

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.)

Score = 1

2.4 Comments:

The IASAB does not agree with the principles as currently drafted. Specifically:

Principle 10 – the term ‘those charged with governance’, which is wider than the organisation’s management but also excludes other key stakeholders. Internal Audit is internal to an organisation and therefore its primary function is to provide assurance to management and the board.

‘Reliable assurance’ is considered to be tautological (see also the response to question 1.2) as it suggests that other providers are able to deliver unreliable assurance.

Principle 11 – the three descriptors are not output-related. It is not clear whether these adjectives relate to the activity, individual internal auditors or the activity’s ‘output’. It is also not evident how this principle is mapped back to the Standards and these are not terms that are used currently elsewhere in the mandatory elements of the IPPF.

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

Score = 3

2.5 Comments:

Subject to the reservations outlined in the previous questions, the IASAB does not hold a strong view as to the order of the principles.

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?)

Score = 2

2.6 Comments:

The IASAB believes that for this idea to be upheld, it should be clarified that some of the principles as currently written are not within the power and remit of the internal audit activity/chief audit executive.

It might be useful to divide the principles into those that internal auditors can aspire to and attain through their own efforts and those where third party support is needed, in particular from management and boards. Principles 4 and 6 are in the latter category.

It is also not obvious how certain principles would be measurable through the Standards for the purposes of the quality assurance and improvement programme.

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?

Score = 1

2.7 Comments:

The IASAB does not agree that additional guidance would be required. The Standards should define the principles and provide the guidance. Once again, a formal mapping exercise would be most useful here.

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?

Score = 4

3.1 Comments:

The IASAB supports the restructuring proposal. The IASAB's 2014 work programme has consisted of reviewing all Global IIA guidance, along with other guidance already in use in the UK public sector, for relevance and appropriateness in the sector. It would be willing to share the results of this review with the IIA in order to assist with the restructuring process.

The IASAB has drafted additional guidance in certain areas where it considers that there are gaps in the guidance available specifically to the UK public sector. This guidance has been written on behalf of the UK public sector Relevant Internal Audit Standard Setters.

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

Score = 4

3.2 Comments:

Please see the above comments to question 3.1.

Addressing Emerging Issues

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

Score = 3

4.1 Comments:

Although the IASAB does not disagree in principle with the introduction of guidance on emerging issues, it strongly believes that this level of guidance should not sit within the IPPF.

Emerging issues are likely to arise at a local or country level and in many cases would be better identified and written by the IIA Chapter, as they would be best placed to understand and reflect the subject.

If Global IIA wish for the new emerging issues guidance to be contained within the IPPF framework, then the IASAB proposes that only truly international issues are addressed that will be applicable across the majority of the IIA's sphere of influence.

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?

Score = 1

4.2 Comments:

Please refer to the response to question 4.2. If the new emerging issues guidance is to become part of the IPPF, it should be as authoritative and held to the same level of governance and quality assurance processes as the other elements of the framework.

If, however, emerging issues guidance is identified and written in main by local IIA chapters, and does not therefore reside within the IPPF, this guidance can be less authoritative.

Position Papers

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

Score = 5.

5.1 Comments:

The IASAB supports this proposal.

Required and Recommended

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

Score = 5

6.1 Comments:

The IASAB supports this proposal.

Conclusion

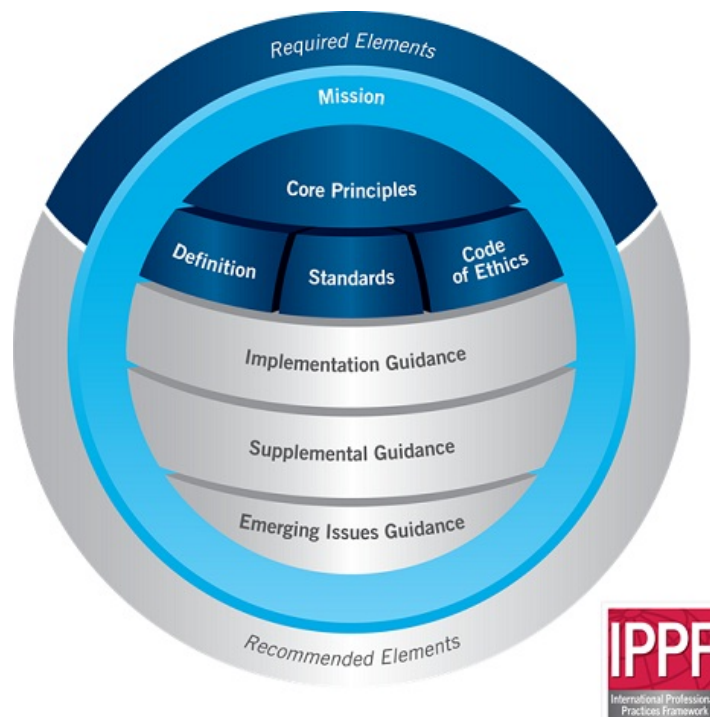
7.1 Overall, to what extent do you support the changes regarding the IPPF as detailed on the previous pages?

Score = 1/2

7.1 Comments:

The IASAB would refer you back to the previous responses, particularly regarding the introduction and drafting of the principles; the lack of a need for supporting guidance for the principles; and the position of emerging issues guidance.

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?



Score = 2

7.2 Comments:

The IASAB considers the outer ring to be incorrectly placed: it proposes that the Mission should sit around the outside of the IPPF, surrounding the required and recommended elements.

It also questions the position of the Core Principles and whether, hierarchically, it is intended that they will sit above the Code of Ethics and Definition of Internal Auditing, as well as the Standards. The IASAB would not agree that such a hierarchy would be correct and suggests that the Definition and Code of Ethics should sit above the Core Principles, which would in turn be supported by the Standards.

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

Score = 3

7.3 Comments:

The IASAB believes the font to be too small but otherwise feels that the overall design is more modern than the current IPPF diagram.