The IIA’s 2017 International Professional Practices Framework

2017 IPPF Standards & Guidance Update
Debi Roth, CIA

The Institute of Internal Auditors

• Managing Director, Global Standards and Guidance

• Staff Liaison to the IIA’s
  − International Internal Audit Standards Board (IIASB)
  − Professional Responsibility and Ethics Committee
Objectives

- Revised *Standards* Exposure results.
- Impact of key changes to the *Standards*.
- Next steps and important dates.
- What’s new in Recommended Guidance.
- Q&A.
Revised Standards
Exposure Results
From the Previous IPPF ... To the New IPPF
International Professional Practices Framework

- Launched July 2015
  - Introduced Mission.
  - Introduced 10 Core Principles.
  - Implementation Guides.
“To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.”
The 10 Core Principles

The Core Principles

• Demonstrates integrity
• Demonstrates competence and due professional care
• Is objective and free from undue influence (independent)
• Aligns with the strategies, objectives and risks of the organization
• Is appropriately positioned and adequately resourced
• Demonstrates quality and continuous improvement
• Communicates effectively
• Provides risk-based assurance
• Is insightful, proactive, and future-focused
• Promotes organizational improvement
IIASB Assessment Results

• IIASB found general alignment between the Core Principles and the Standards
• No contradictions were found
• Re-wording certain standards would improve alignment
• No changes to the Code of Ethics are recommended at this time
Why Revise the *Standards*?

• Ongoing process—IPPF mandatory guidance reviewed at least once every three years.
  – Last revision to the *Standards* published in 2013.
  – To keep up with the demands of today’s business environment.
  – CAEs being asked to accept other roles and responsibilities.

• New IPPF introduced in 2015.
  – Included new mandatory guidance, the Core Principles for the Professional Practice of Internal Auditing.

• IIASB reviewed relationship between the *Standards* and the Core Principles.
  – Proposed changes better highlight the relationship.
The IIA released revised *Standards* October 1, 2016.

The revised *Standards* became effective January 1, 2017.
Global Exposure

- 16 languages.
- 3,000+ webinar attendees.
- 8,000+ AuditChannel.tv video views.
- 35,000+ unique web page visits.
Global Response

- 1,144 survey responses.
- 76 institutes represented.
Overall Standards Exposure Results

Overwhelming agreement across 42 survey questions related to the revisions to the *Standards*

- **Agree/Strongly Agree**: 94.4%
- **Disagree**: 4.2%
- **Strongly Disagree**: 1.4%

The Institute of Internal Auditors
Standards Exposure Results

Top 5 Areas of Concern

<table>
<thead>
<tr>
<th>Standard</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Standard 1112 - Interpretation</td>
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<td>Standard 1112</td>
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<td>Standard 2060 - Interpretation</td>
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Key Changes to the Standards
New standards to address:

- Chief audit executives taking on roles and responsibilities beyond internal auditing.
- Potential objectivity-impairing situation of performing assurance role after previous consulting role.

Updates to existing standards to clarify requirements:

- Relationship between new Core Principles, such as “Is insightful, proactive and future-focused,” and the Standards.
- Quality assessment and improvement program.
- Communications between CAE, the board, and senior management.
- Scope of EQA: must opine on conformance with Standards and Code.
Overview of Changes to the Standards

Updates to the Introduction to the Standards:

- Clarify that the *Standards*, together with the Code of Ethics, encompass mandatory elements.
- Conformance with the Code of Ethics and *Standards* demonstrates conformance with all mandatory elements.
- Modifications to enhance the flow and clarify the introduction

Updates to Standards Glossary:

- Added definition of Core Principles.
- Modified definition of Board.
- Modified definition of IPPF.
- Modified definition of CAE.
1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

1010 – Recognizing Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.
1112 – Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation: The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.
Addition of new implementation standard for assurance under 1130:

1130 – Impairment to Independence or Objectivity

1130.A3 – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

**Interpretation:**

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. *The chief audit executive should encourage board oversight in the quality assurance and improvement program.*
1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:
- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

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A qualified assessor or 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 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 an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.
The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

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 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 assessor’s or assessment team’s evaluation with respect to the degree of conformance.
Changes to the Interpretation:

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:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization’s strategies, key business objectives, associated risks, and risk management processes. 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.
Standard 2050 – Coordination and Reliance

The chief audit executive should share information, coordinate activities, \textit{and} consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

**Interpretation:**

\textit{In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.}
2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

Interpretation:
The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

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The chief audit executive’s reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.
- Management’s response to risk that, in the chief audit executive’s judgment, may be unacceptable to the organization.

These and other chief audit executive communication requirements are referenced throughout the Standards.
Glossary Term: Board

Board

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization’s activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word “board” in the Standards refers to a group or person charged with governance of the organization. Furthermore, “board” in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).
This presentation covers just a few of the Standards and Glossary terms that have been changed. The rest of the changes can be reviewed on The IIA’s website under the Standards section.
Next Steps
Next Steps: Future of the IPPF

- Revised Standards became effective January 1, 2017.
- Implementation Guides to support updated IPPF have been issued.
- 2017 IPPF was issued December 2016.
- Certifications: Exam questions no earlier than July 1, 2017.
Implementation Guidance

• Implementation Guides released throughout 2016 have replaced the Practice Advisories that were part of the 2013 IPPF. Part of Recommended Guidance, IGs assist internal auditors in implementing and achieving conformance with the Standards.

• Each IG corresponds to one attribute or performance standard.

• Members can download IGs from the IIA website.
Implementation Guides

Implementation Guidance

Recommended Guidance

Implementation Guides assist internal auditors in applying the Standards. They collectively address internal auditing’s approach, methodologies, and consideration, but do not detail processes or procedures.

Download all the new implementation Guides with a click of the button or review the table to download them individually.

Implementation Guides are free to IIA members.

Downloads and Links

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<thead>
<tr>
<th>Ref #</th>
<th>Implementation Guide</th>
<th>Date</th>
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<tbody>
<tr>
<td>IG1000</td>
<td>UPDATED! Purpose, Authority, and Responsibility</td>
<td>December 2016</td>
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<tr>
<td>IG1010</td>
<td>UPDATED! Recognizing Mandatory Guidance in the Internal Audit Charter</td>
<td>December 2016</td>
</tr>
<tr>
<td>IG1100</td>
<td>UPDATED! Independence and Objectivity</td>
<td>November 2016</td>
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<td>IG1110</td>
<td>UPDATED! Organizational Independence</td>
<td>November 2016</td>
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<tr>
<td>IG1111</td>
<td>UPDATED! Direct Interaction with the Board</td>
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Quick Links

New Guidance
Standards
Code of Ethics
Become a Global Guidance Contributor

An updated edition of the Red Book will be released 1st Quarter 2017. Visit the IIA Bookstore for more information.
Sections of an Implementation Guide

- One IG per standard
- Standard text in full
- Section 1: Getting Started
- Section 2: Considerations for Implementation
- Section 3: Considerations for Demonstrating Conformance
Recommended Guidance

In addition to Implementation Guidance, Recommended Guidance includes Supplemental Guidance

- Practice Guides.
- Practice Guides for the Public Sector
- Global Technology Audit Guides (GTAGs).
- Guides to the Assessment of IT Risks (GAITs).

Supplemental Guidance is being updated to be consistent with 2017 IPPF.
Ensuring Independence and Objectivity

Many organizations are restructuring responsibilities, ensuring governance and monitoring functions collaborate more closely to avoid duplication. With this change comes an additional weight for the chief audit executive; they may be asked to assume responsibilities for risk management, compliance, and other governance functions. Navigating through this process can be challenging; as a result, this guidance was developed to assist practitioners in making effective decisions regarding roles and responsibilities to assume related governance of risk management and controls.

*Internal Audit and the Second Line of Defense* offers guidance and recommendations for audit practitioners, especially chief audit executives, to ensure independence and objectivity are not compromised in situations where internal audit may be responsible for second line of defense activities.
NEW! Practice Guide: Audit Reports: Communicating Assurance Engagement Results

Recommended Guidance

Maximizing Impact

As the demand for internal audit value shifts from a retrospective view to a forward-looking perspective, internal auditors are expected to adapt with innovative methods to assess and communicate internal audit results. Stakeholders need clear and concise reports that prioritize engagement observations based on urgency and overall impact. This new guidance was created to support practitioners in writing reports that resonate with stakeholders and effectively communicate key messages in a timely manner.

Audit Reports: Communicating Assurance Engagement Results offers guidance to audit practitioners on how to effectively communicate the results of internal audit engagements to stakeholders. The guide addresses key considerations such as tailoring the report to multiple audiences, structuring the report to maximize impact, and accounting for follow up and corrective action.
Recently Published Supplemental Guidance


Identifying, Assessing, and Mitigating Cyber Threats

Organizations of all types are becoming more vulnerable to cyber threats due to their increasing reliance on computers, networks, programs and applications, social media, and data. In response to such emerging risks, CAEs are challenged to ensure management has implemented both preventive and detective controls. CAEs must also create a clear internal audit approach to assess cybersecurity risk and management’s response capabilities, with a focus on shortening response time.

The IIA’s newest Global Technology Audit Guide (GTAG), Assessing Cybersecurity Risk: Roles of the Three Lines of Defense, was designed to help internal auditors develop competence in providing assurance over cybersecurity risks.

Assessing Cybersecurity Risk: Roles of the Three Lines of Defense discusses the internal audit activity’s role in cybersecurity; explores emerging risks and common threats faced by all three lines of defense; and presents a straightforward approach to assessing cybersecurity risks and controls.
Global Technology Audit Guide (GTAG): Auditing Smart Devices: An Internal Auditor’s Guide to Understanding and Auditing Smart Devices

Balancing Convenience and Risk

With the proliferation of the use of smart devices throughout organizations, the need to identify and manage risks associated with their use has become paramount. Many CAEs have been challenged to identify the opportunities and threats that the use of smart devices present to the organization and the internal audit activity.

The IIA’s newest Global Technology Audit Guide (GTAG), Auditing Smart Devices: An Internal Auditor’s Guide to Understanding and Auditing Smart Devices, was designed to help internal auditors better understand smart device technology and empower them to ensure the benefits are maximized while the risks are minimized.

Auditing Smart Devices: An Internal Auditor’s Guide to Understanding and Auditing Smart Devices provides guidance to help internal auditors in both identifying the risk landscape associated with smart devices and assuring that the controls and governance policies in place are adequate to mitigate the risks posed to an acceptable level.
Questions?

Email: debi.roth@theiia.org
      guidance@theiia.org