

# The International Professional Practices Framework

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*Internal Audit Training of Trainers*

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# **The International Professional Practices Framework (IPPF)**

# Important notice

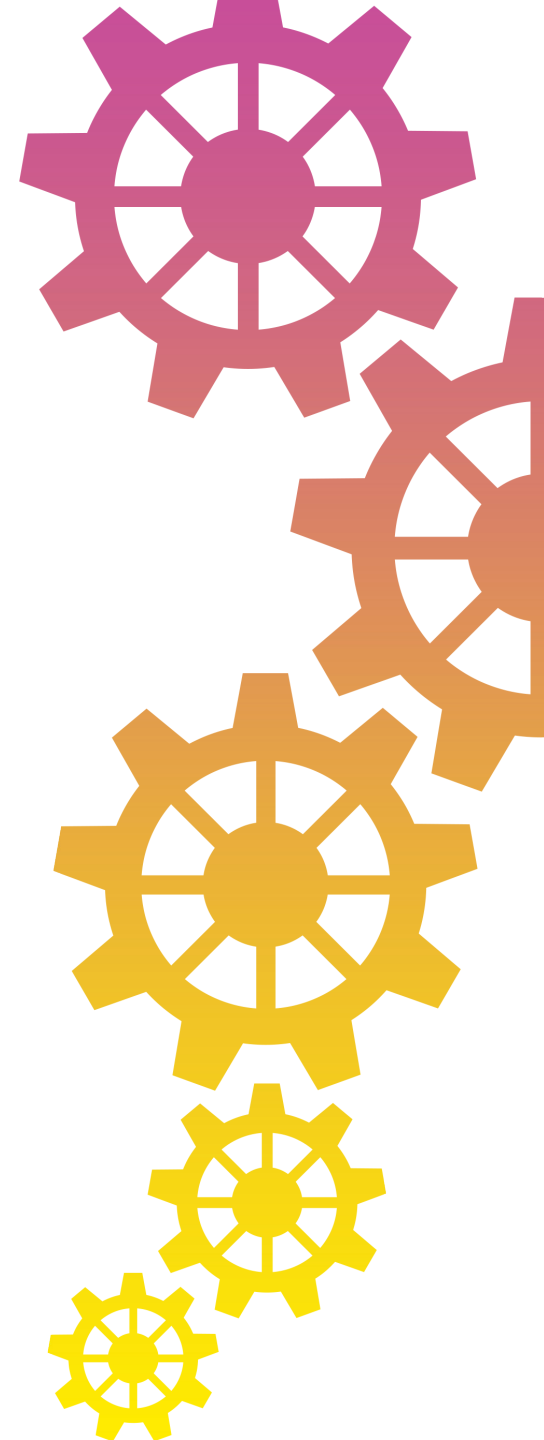
This webinar refers entirely to the International Professional Practices Framework (IPPF) as promulgated by the global Institute of Internal Auditors (IIA).

Future users of this webinar materials should always consult with the website of the IIA, as components of the IPPF are subject to periodical updates.

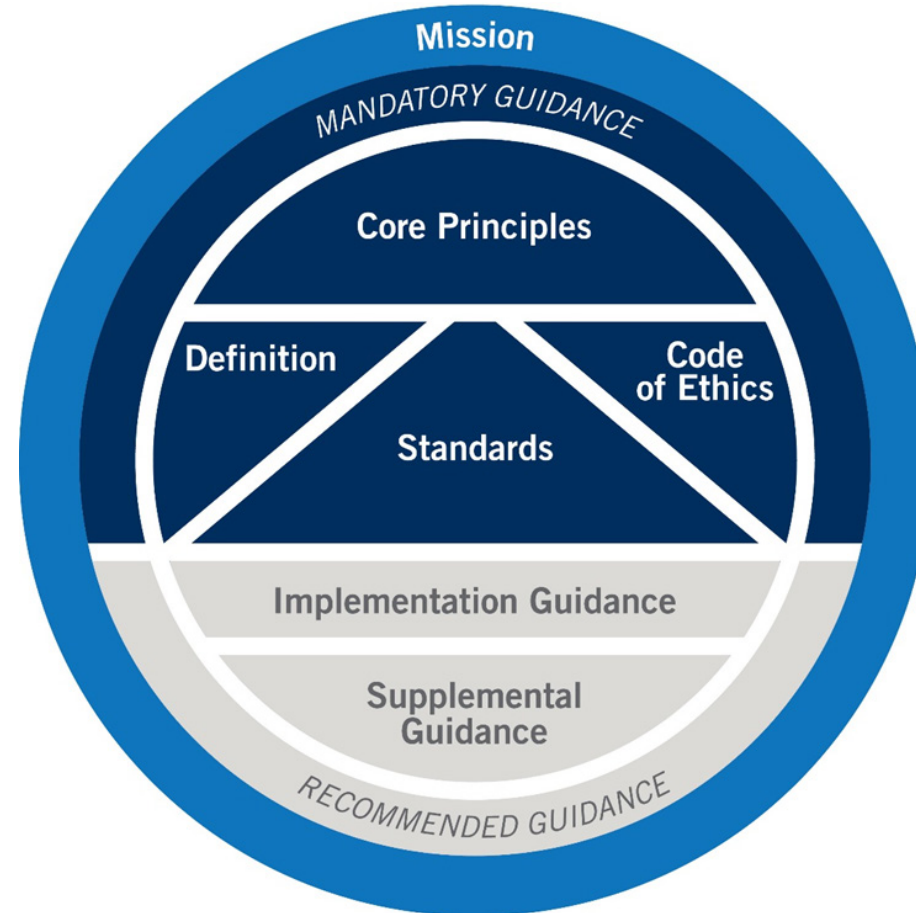
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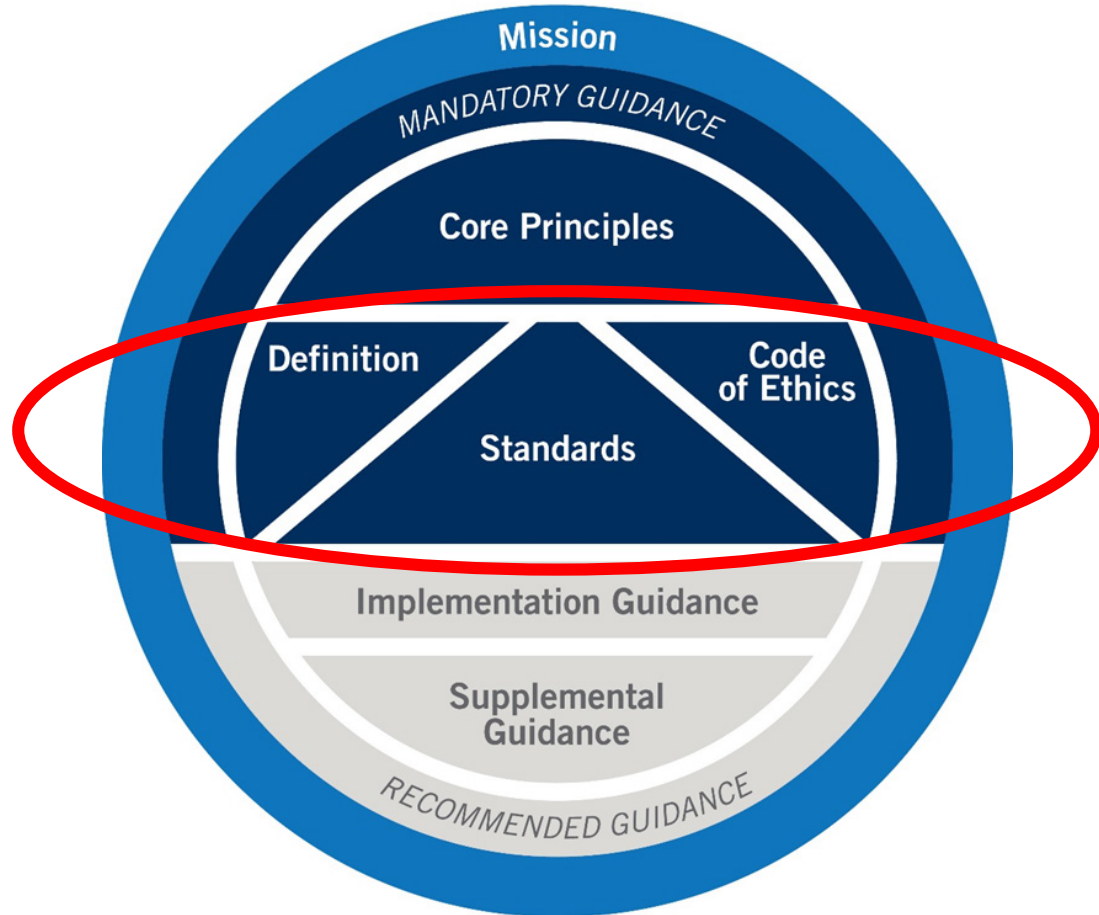
# Overview of the IPPF



# The International Professional Practices Framework



# What remained unchanged?



## Remember...

### What does the IPPF represent?

- Authoritative **professional guidance** provided by the Institute of Internal Auditors (The IIA)
- Part of the **collective knowledge** of the Internal Audit profession (CBOK)
- **Essential elements** for the effective delivery of Internal Audit services



## **Organizations represented in the Council:**

- International Federation of Accountants (IFAC)
- National Association of Corporate Directors (NACD)
- International Organization of Supreme Audit Institutions (INTOSAI)
- Organization for Economic Co-operation and Development (OECD)
- The Institute of Internal Auditors (IIA)
- The World Bank



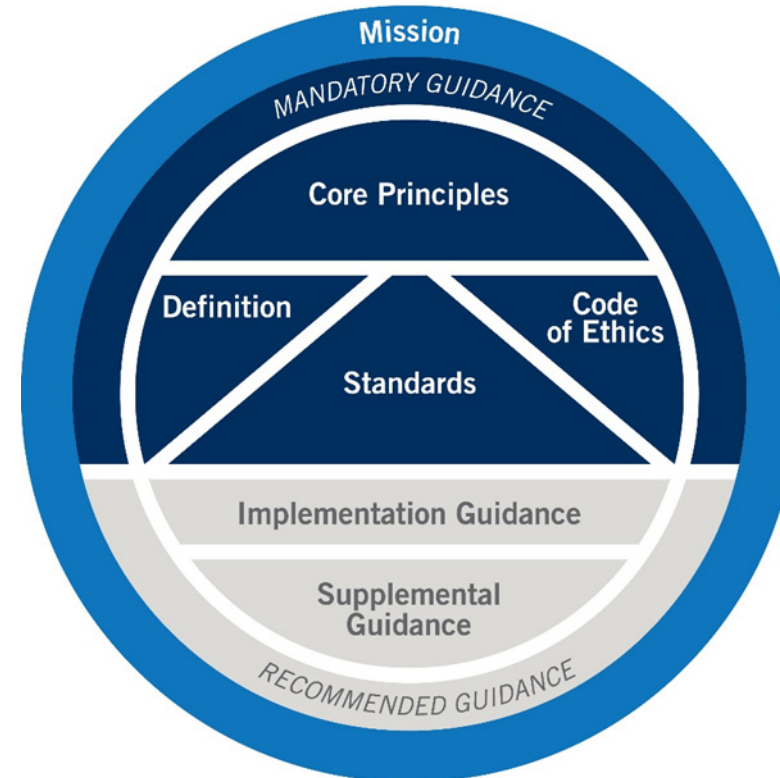
# What are the components of the IPPF?

## Mandatory Guidance

- Mission
- Core Principles
- Definition
- Code of Ethics
- Standards

## Recommended Guidance

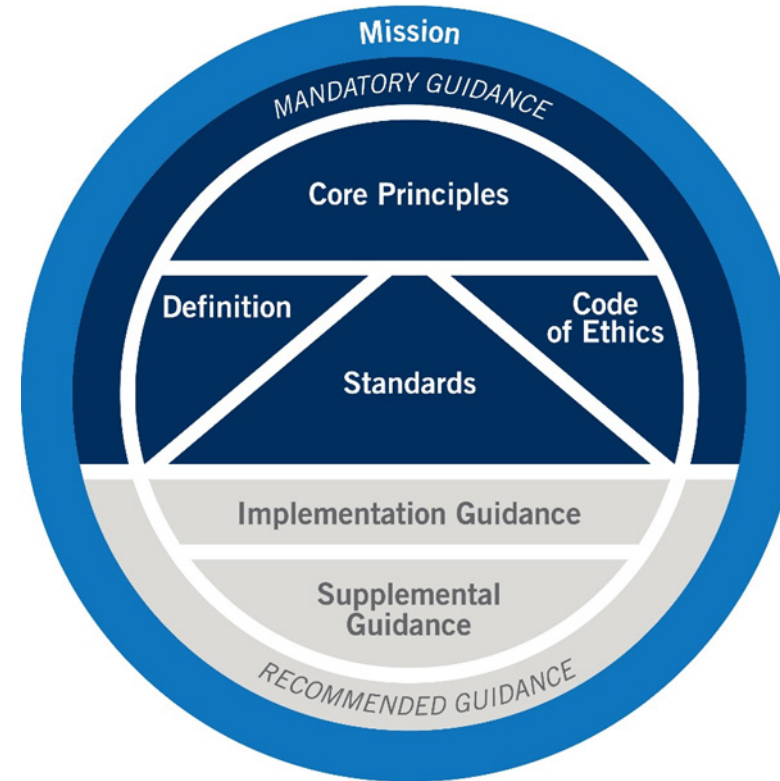
- Implementation Guidance
- Supplemental Guidance



# Mission of Internal Audit

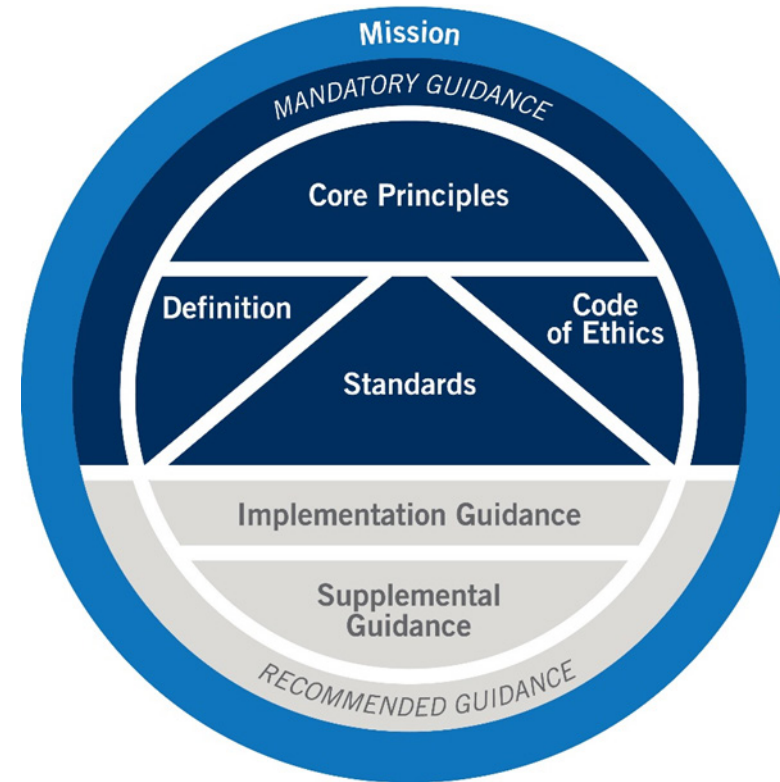
The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

**To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.**



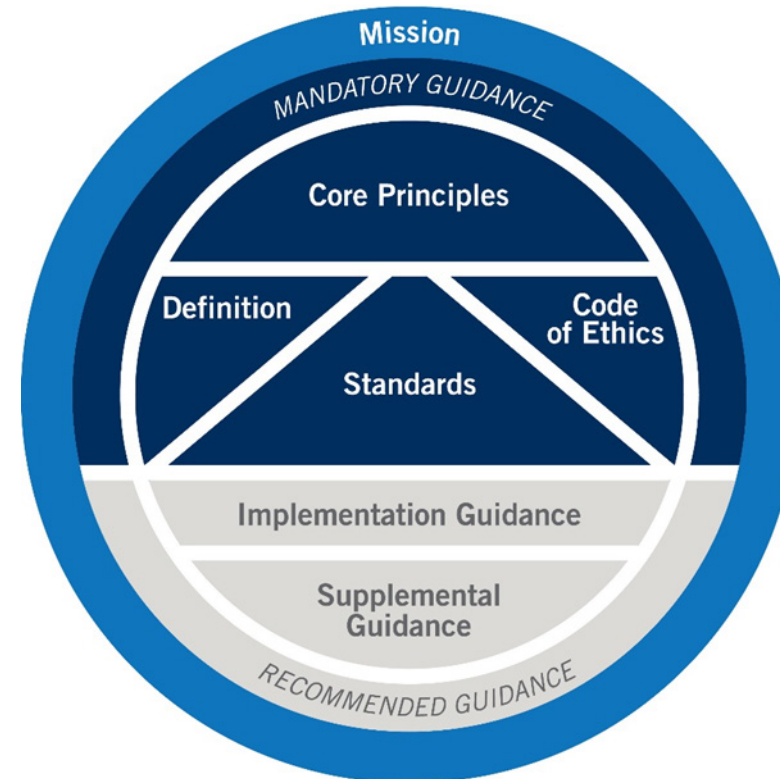
# Core Principles for the Professional Practice of Internal Auditing (1)

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving its internal audit's mission.



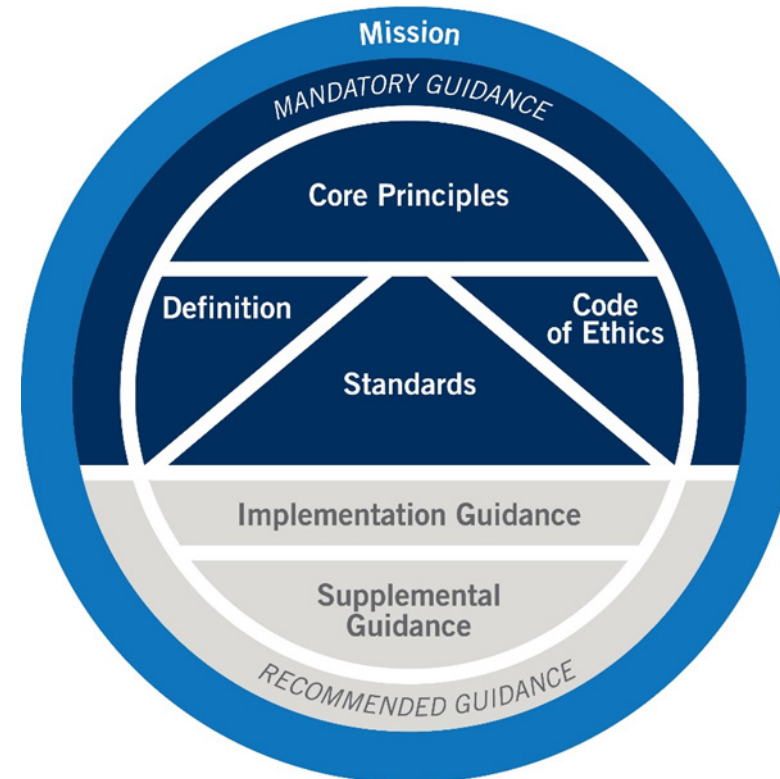
# Core Principles for the Professional Practice of Internal Auditing (2)

1. **Demonstrates integrity.**
2. **Demonstrates competence and due professional care.**
3. **Is objective and free from undue influence (independent).**
4. **Aligns with the strategies, objectives, and risks of the organization.**
5. **Is appropriately positioned and adequately resourced.**



# Core Principles for the Professional Practice of Internal Auditing (3)

6. **Demonstrates quality and continuous improvement.**
7. **Communicates effectively.**
8. **Provides risk-based assurance.**
9. **Is insightful, proactive, and future-focused.**
10. **Promotes organizational improvement.**



# Definition of Internal Auditing

*The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.*

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



## Code of Ethics (1)

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

The Code of Ethics states the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.

## Code of Ethics (2)

The Institute's Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

1. **Principles** that are relevant to the profession and practice of internal auditing.
2. **Rules of Conduct** that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

"Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who perform internal audit services within the Definition of Internal Auditing.



# Code of Ethics (3)

Internal auditors are expected to apply and uphold the following principles:

## **1. Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

## **2. Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

## **3. Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

## **4. Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.



# The Standards (1)

## **Purpose of the Standards is to:**

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.



# The Standards (2)

## Components of the Standards:

1. Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels
2. Interpretations (attached to specific standards)
3. Glossary

# The Standards (3)

**The Standards comprise two main categories:**

1. Attribute Standards address the attributes of organizations and individuals performing internal auditing.
2. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance or consulting services.



# The Attribute Standards

1000 – Purpose, Authority, and Responsibility

1100 – Independence and Objectivity

1200 – Proficiency and Due Professional Care

1300 – Quality Assurance and Improvement Program

# The Performance Standards

2000 – Managing the Internal Audit Activity

2100 – Nature of Work

2200 – Engagement Planning

2300 – Performing the Engagement

2400 – Communicating Results

2500 – Monitoring Progress

2600 – Communicating the Acceptance of Risks





# Changes to the Standards



# Main Characteristics of Changes to the Standards

1. Addition of new standards
2. Major changes to existing standards
3. Other changes, including interpretation, to existing standards
4. Adherence to principles is emphasized (QAR)
5. Alignment of standards with core principles
6. Clearer wording





# Addition of new Standards

1. Addition of New Standard 1112: Chief Audit Executive Roles Beyond Internal Auditing.
2. Addition of New Standard 1130.A3. Internal audit may provide assurance services where they had previously performed consulting services.

## 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:**

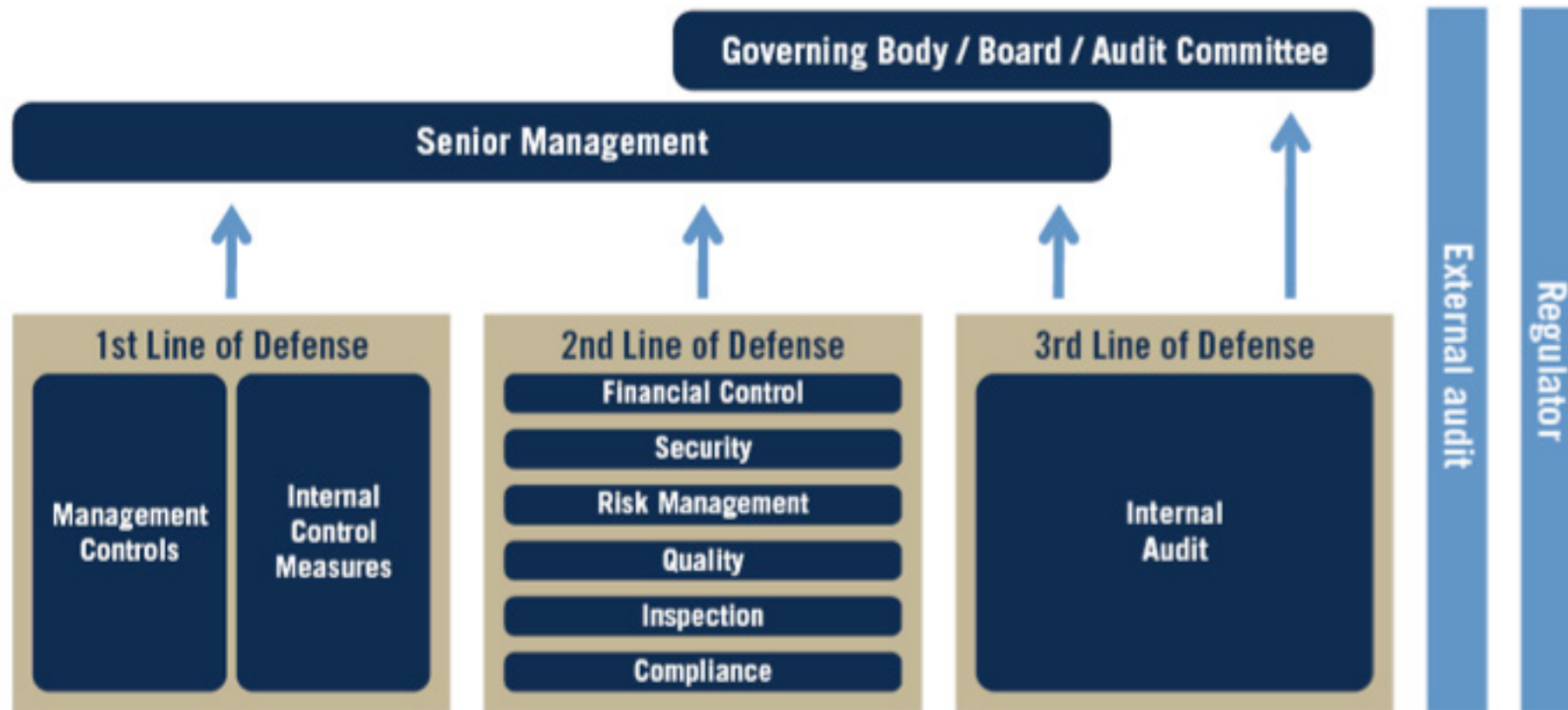
*The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities.*

*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.*

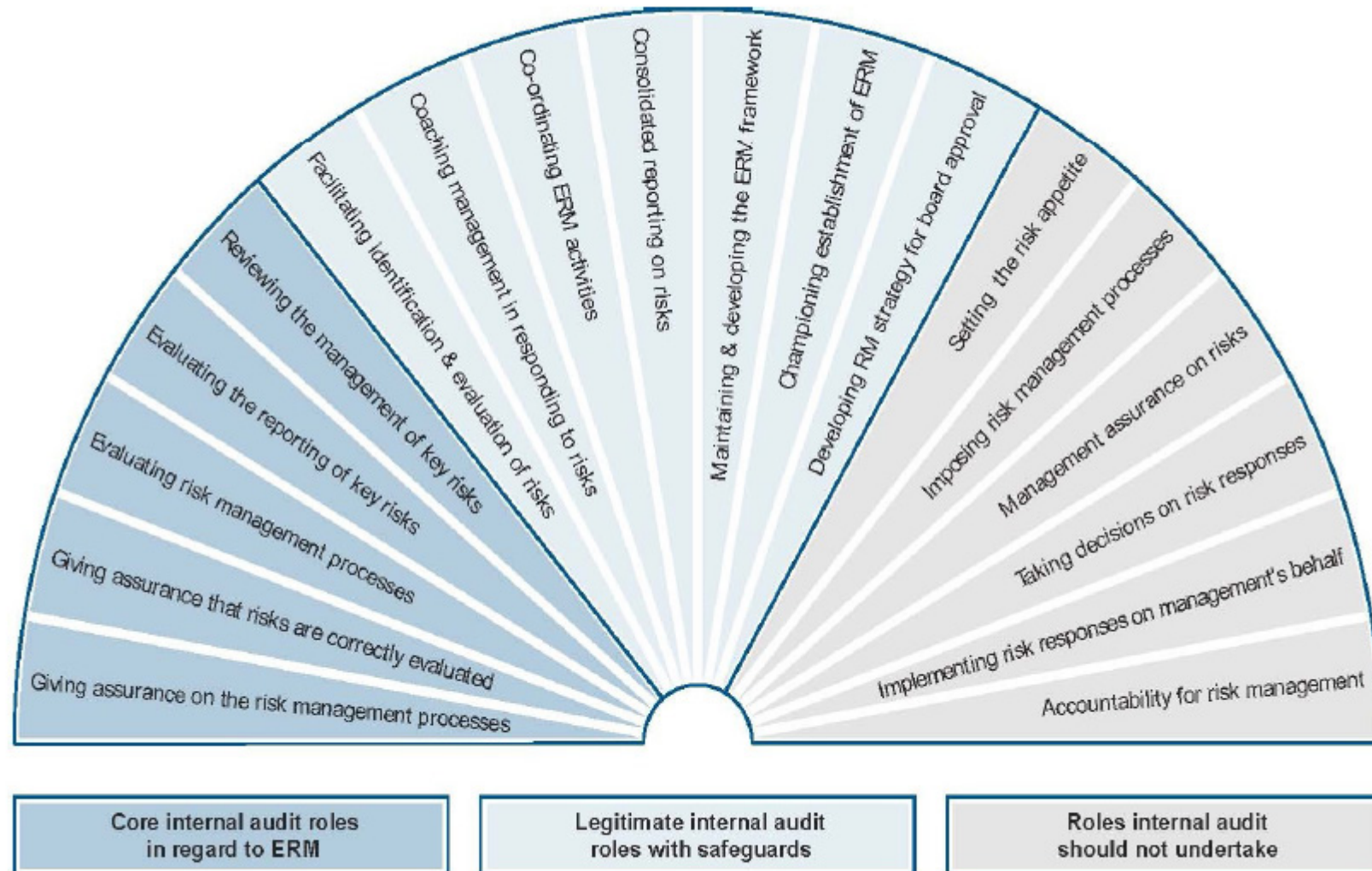


# Three Lines of Defense Model



(as conceived by the **ECIIA** & **FERMA** in *Guidance on the 8th EU Company Law* and endorsed in the so-named **Position Paper** issued by The IIA in Jan. 2013)

# Balancing Internal Audit's Roles



# 1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

## **Interpretation:**

*Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.*

*The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.*

# 1130 Impairment to Independence or Objectivity

**1130.A1** Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

**1130.A2** Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

**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.



# Major changes to existing Standards

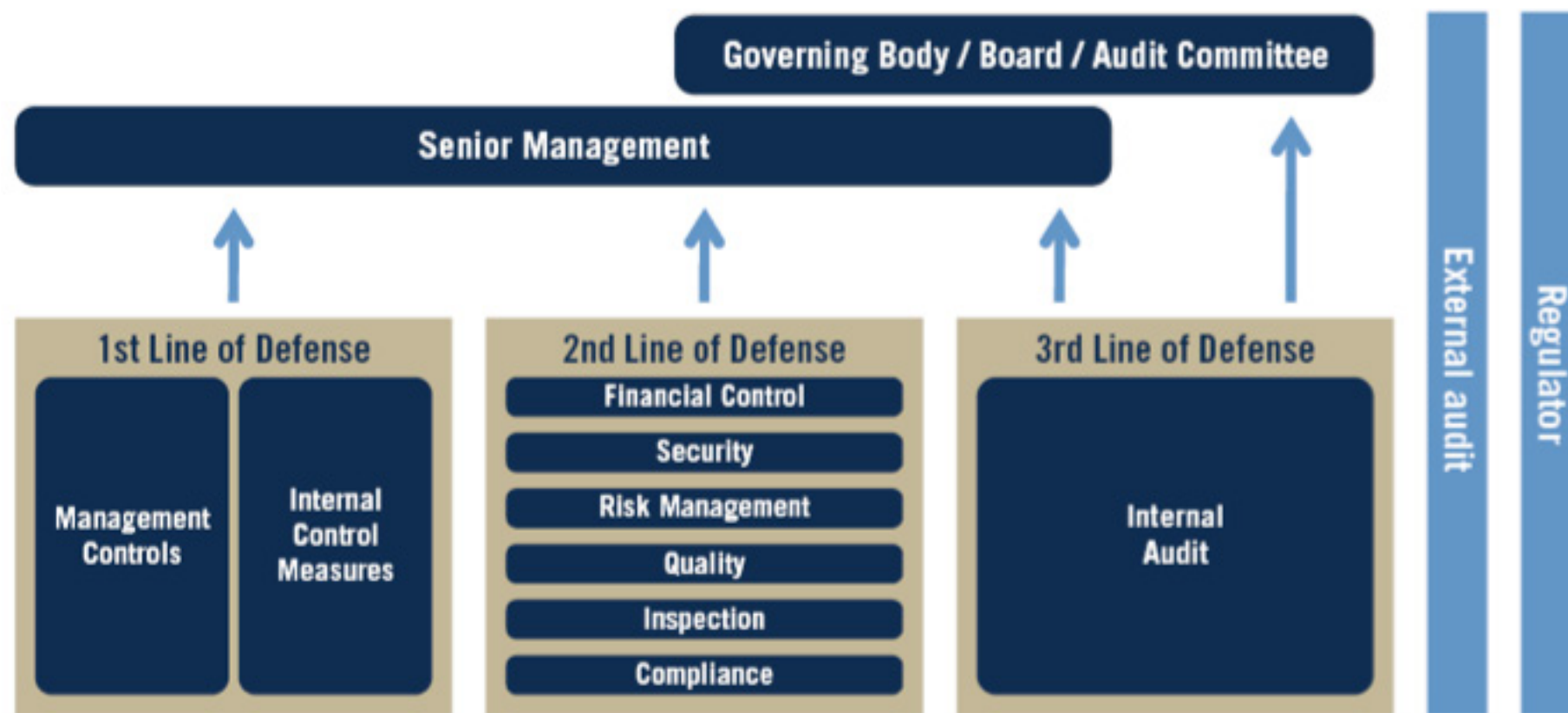
1. Change to Standard 2050: Coordination and **Reliance**.

## 2050 Coordination and Reliance (1)

The chief audit executive should share information, coordinate activities, 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.



# Three Lines of Defense Model



(as conceived by the **ECIIA** & **FERMA** in *Guidance on the 8th EU Company Law* and endorsed in the so-named **Position Paper** issued by The IIA in Jan. 2013)

## 2050 Coordination and Reliance (2)



### Interpretation:

*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.*

# Other changes to existing Standards

1. Reference to mandatory guidance
2. Disclosure of interference
3. Conclusion, oversight and reporting with regard to external quality assessment
4. Managing internal audit with insight and content of reporting
5. Development of engagement objectives

## 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.

## 1110 - Organizational Independence

**1110.A1** The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. **The chief audit executive must disclose such interference to the board and discuss the implications.**



## 1312 - External Assessments (1)

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.

## 1312 - External Assessments (2)

### 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.** 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.***



## 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. **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.



# 2000 - Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

## Interpretation:

*The internal audit activity is effectively managed when:*

- *It achieves the purpose and responsibility included in the internal audit charter.*
- *It conforms with the Standards.*
- *Its individual members conform with the Code of Ethics and the Standards.*
- *It considers trends and emerging issues that could impact the organization.*

*The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.*



## 2060 - Reporting to Senior Management and the Board (1)

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.*



## 2060 - Reporting to Senior Management and the Board (2)

### **Interpretation:** (continued)

*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.*



## 2210 - Engagement Objectives

**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 identify appropriate evaluation criteria through discussion with management and/or the board.

### Interpretation:

*Types of criteria may include:*

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*



## 2230 - Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

### **Interpretation:**

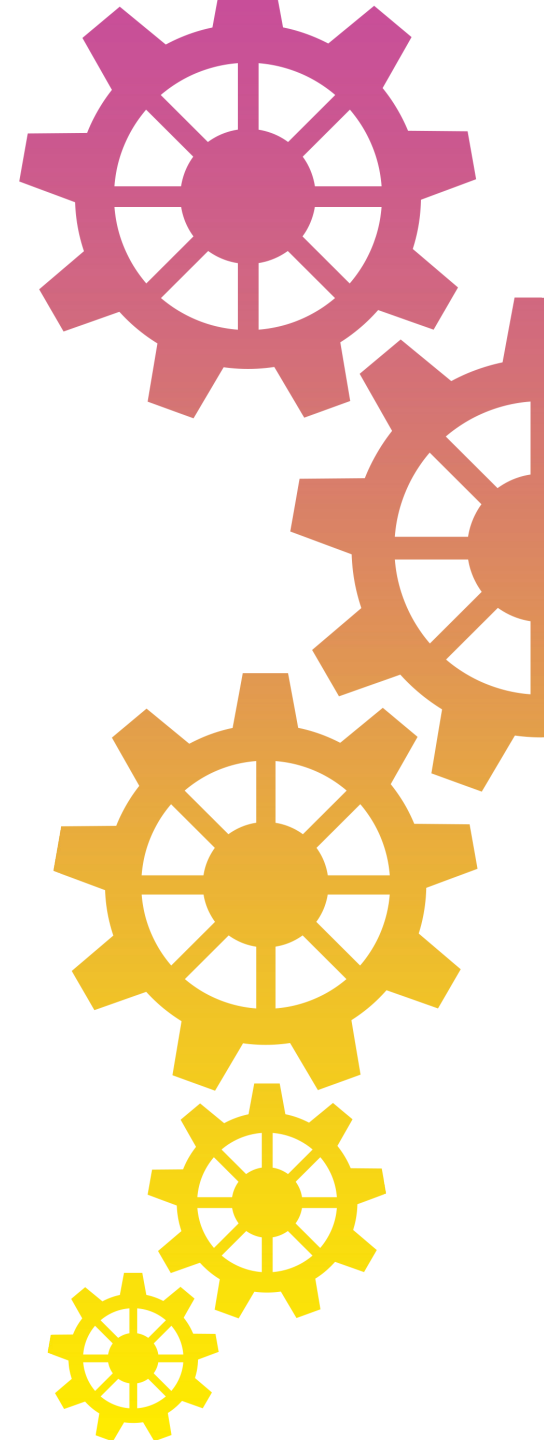
*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement.*

*Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.*





# Questions and answers



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