



Overview of the Professional Practices Framework

Presented to the Dallas Chapter IIA

By: Lori Rainwater, CIA, CPA, CFE

October 2, 2008



Don't You Hate it When....

SPEAKERS CHANGE THE TOPIC ON YOU?





Overview of the International Professional Practices Framework

Presented to the Dallas Chapter IIA

By: Lori Rainwater, CIA, CPA, CFE

October 2, 2008



The IPPF is actually thrilling! It has all the trappings of a best-selling novel!

- Conflict
- Fraud
- SEX (Yes...SEX)
 - Standards
 - Ethics
 - **X**planations of how to implement them!





Presentation Outline

- Background, History, Purpose and Evolution (PPF to IPPF)
- Structure of the International Professional Practices Framework (IPPF)
 - Standards and Code of Ethics
 - Practice Advisories
 - Development and Practice Aids
- Deeper Dive! Standards (and how to use them as a life preserver!)
 - Attribute
 - Performance
 - Implementation
- Key differences between Internal Audit and auditing in Public Accounting per the Standards



Background, History, and Evolution

*Change is inevitable,
except from vending
machines*



History Lesson

Did you know?

That Internal Audit is thought to be the second oldest profession? It's origins date back to the 4000 B.C, when record-keeping systems were first instituted by organized businesses and governments in the Near East to allay their concerns about collection of taxes.





History of the (I)PPF

- In June 1999, the Board of the IIA voted to approve a new definition of internal auditing and a new PPF.
- October 1, 2008 will be the beginning of a three-month soft release to allow a preview before the IPPF is effective. Initially released in English, French and Spanish.
- In January 2009, the IPPF will be officially released! Also available in the following translations: Bosnian, Bulgarian, Italian, Japanese



Purpose of an IPPF

- Throughout the world, internal audit is performed in diverse legal and cultural environments; within organizations that vary purpose, size, complexity, and structure; and by persons within or outside the organization.
- The Purpose of the *Standards* is to:
 1. Delineate basic principles that represent the practice of internal auditing.
 2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
 3. Establish the basis for evaluation of internal audit performance.
 4. Foster improved organizational processes and operations.
- The *Standards* are principles-focused, mandatory requirements consisting of:
 - Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organization and individual levels.
 - **NEW**: Interpretations, which clarify terms or concepts within the Statements.
 - **NEW**: Standards now use the word “**MUST**” to specify unconditional requirements, and “**SHOULD**” where conformance is expected.



PPF to IPPF-Why the Change?

- The IIA wants to be internationally recognized as a trustworthy guidance-setting body.
 - The change ensures clarity on what is authoritative, mandatory, or neither authoritative nor mandatory.
 - It also provides more transparency throughout the process life cycle, development to maintenance
 - More timeliness in issuing guidance.

PPF

- This framework organizes **all guidance** developed and/or endorsed by The IIA.

IPPF

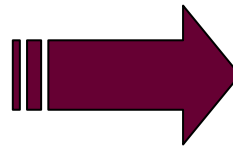
- This framework organizes The IIA's **authoritative** guidance.



Scope and Structure

PPF

ELEMENTS
Definition
Code of Ethics
International Standards
Practice Advisories
Development and Practice Aids REMOVED



IPPF

ELEMENTS
Definition
Code of Ethics
International Standards
Practice Advisories
Position Papers
Practice Guides



Authoritative Guidance





Refer to Handout





Structure of the IPPF





Content Enhancements-What Changed?

- The retooling resulted in the IPPF with:
 - No change to the Definition
 - No change to the Code of Ethics
 - Some changes to the *Standards* (a few new ones!)
 - Some changes to the Practice Advisories (language for the most part)
 - The addition of two Position Papers
 - The Role of Internal Audit in Enterprise-wide Risk Management
 - The Role of Internal Auditing in Resourcing the Internal Audit Activity
 - The inclusion of the existing Global Technology Audit Guides (GTAG) as a Practice Guide.
 - The inclusion of the Guide to the Assessment of IT Risk (GAIT) methodology as a Practice Guide.



Structure of the IPPF

- **Standards and Ethics** (Mandatory Guidance)-consists of core materials; the Code of Ethics and the *Standards*.
 - The Definition of Internal Audit.
 - The purpose of the Code of Ethics is to promote an ethical culture in the profession.
 - Standards are the criteria by which the operations of an internal audit department are evaluated and measured (QAR).
- **Practice Advisories** (Strongly Recommended)-represent best practices endorsed by the IIA as ways to implement and interpret the *Standards*.
- **Position Papers** (Strongly Recommended)-IIA statements to assist a wide range of interested parties-including those not in the profession in understanding significant governance, risk or control issues and delineating roles of internal audit.
- **Practice Guides** (Strongly Recommended) -GTAG and GAIT.



The *Standards*

And how to use them as a life preserver...

Look for this symbol!





The Standards

The Standards consist of:

- **Attribute Standards** that address the characteristics of organization and parties performing the internal audit activity.
- **Performance Standards** that describe the nature of internal audit activities and provide quality criteria against which the performance of services can be evaluated.
- **Implementation Standards**- While Attribute and Performance Standards apply to all internal audit services, the third category (Implementation) apply to specific types of engagements.
 - Assurance Services where the auditors objective assessment of evidence to provide an opinion or conclusions on the process, system, or other subject matter. The nature and scope are determined by the auditor. (Key-Look for "A")
 - Consulting Services are advisory in nature, and are generally performed at the request of an engagement client. The nature and scope are subject to agreement with the client. (Key-Look for "C")



What's Out and What's In?

I like the changes! The Interpretations are nice...reduces the need to dig into Practice Advisories, and they add a lot of clarity.

In	Out
Attribute Standard 1010 -Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter.	
Attribute Standard 1111 –Direct Interaction with the Board.	
Implementation Standard 2110.A2 - IT Governance support of organization's objectives.	
Implementation Standard 2120.A2 - Evaluate the potential for occurrence of fraud.	
Implementation Standard 2120.C3 -"auditors must refrain from assuming any management responsibility by actually managing risks".	
Performance Standard 2430 -Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	



Attribute /Implementation Standards

Requirements for the purpose, authority, and responsibility of the internal audit activity:

- 1000- Purpose, Authority, and Responsibility (1000.A1 and 1000.C1)
- 1010-Recongnition of the Definition of Internal Auditing, The Code of Ethics, and the *Standards* in the Internal Audit Charter.
- 1100- Independence and Objectivity
- 1110-Organizational Independence (1110.A1)
- 1111-Direct Interaction with the Board
- 1120- Individual Objectivity
- 1130-Impairment to Independence or Objectivity (1130.A1, 1130.A2, 1130.C1, and 1130.C2)



PA 1110.A1-1 Disclosing Reasons for Information Request

At times an auditor may be asked by the client or other parties why a document is requested or relevant to an engagement. Disclosure or nondisclosure should be determined based on the circumstances. Irregularities may dictate a less open environment. The CAE should make the decision in light of the specific circumstances.



- 1200-Proficiency and Due Professional Care
- 1210-Proficiency (1210.A1, 1210.A2, 1210.A3 and 1210.C1)
- 1220 –Due Professional Care (1220.A1, 1220.A2, 1220.A3 and 1220.C1)



Attribute /Implementation Standards- Cont.

- 1300- Quality Assurance and Improvement Program
- 1310-Requirements of the Quality Assurance and Improvement Program
- 1311-Internal Assessments
- 1312-External Assessments
- 1320-Reporting on the Quality Assurance and Improvement Program
- 1321-Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
- 1322-Disclosure of Nonconformance



Performance/Implementation Standards

- 2000- Managing the Internal Audit Activity
- 2010-Planning (2010.A1 and 2010.C1)
- 2020-Communication and approval of Plans
- 2030-Resource Management
- 2040-Policies and Procedures
- 2050-Coordination
- 2060-Reporting to the Board and Senior Management
- 2100-Nature of Work
- 2110- Governance (2110.A1, 2110.A2, 2110.C1)
- 2120-Risk Management (2120.A1, 2120.A2, 2120.C1, 2120.C2, 2120.C3)
- 2130-Control (2130.A1, 2130.A2, 2130.A3, 2130.C1, 2130.C2)



PA2100-5 Legal Considerations in Evaluating Regulatory Compliance Programs.

Consult Legal counsel



Performance/Implementation Standards

- 2200-Engagement Planning
- 2201-Planning Considerations (2201.A1, 2201.C1)
- 2210-Engagement Objectives (2210.A1, 2210.A2, 2210.A3, 2210.C1)
- 2220-Engagement Scope (2220.A1, 2220.A2, 2220.C1)
- 2230-Engagement Resource Allocation
- 2240-Engagement Work Program (2240.A1, 2240.C1)



- 2300-Performing the Engagement
- 2310-Identifying Information
- 2320-Analysis and Evaluation
- 2330-Documenting Information
(2330.A1, 2330.A2, 2330.C1)
- 2340-Engagement Supervision

**Note: 2330 used to be called
"Recording Information"**

PA2300-1 Internal Audit's Use of Personal Information in Conducting Audits

Privacy controls are legal requirements for doing business in most of the world. PII is generally referred to as information that can be associated with a specific individual, or has identifying characteristics that can be combined with other information to do so. For example:

- Name, address, ID numbers, income or blood type;
- Evaluations, comments, social status, or disciplinary actions;
- Employee files, credit records, loan records.

Auditors must understand that it may be inappropriate and in some cases illegal, to access, retrieve, review, manipulate or use personal information in conducting certain internal audit engagements.



PA2330.A1-2 Legal Considerations in Granting Access to Engagement Records



Consult Legal Counsel.

Engagement records are generally prepared under the presumption that their contents are confidential and may contain a mix of both facts and opinions. However, those not immediately familiar with the organization or its internal audit process may misunderstand these facts and opinions.

Practices should be explicit in the Charter and Department Policies.

Provides detailed "how to" if compelled to produce engagement records.



Performance/Implementation Standards



- 2400- Communicating Results
- 2410-Criteria for Communicating (2410.A1, 2410.A2, 2410.A3, 2410.C1)
- 2420- Quality of Communications
- 2421- Errors and Omissions
- 2430- Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Auditing*"
- 2431-Engagement Disclosure of Nonconformance.
- 2440- Disseminating Results (2440.A1, 2440.A2,2440.C1, 2440.C2)

PA2400-1: Legal Considerations in Communicating Results

Internal Auditors should exercise caution when including results and issuing opinions in audit communications and workpapers regarding law and regulatory violations and other legal issues.

Established policies and procedures regarding handling of these matters and have a close working relationship with Legal is strongly encouraged.

Discusses the elements needed to invoke "privilege".

Discusses "critical self-analysis" privilege.



Performance/Implementation Standards

PA2440-3: Communicating Sensitive Information Within and Outside the Chain of Command.



Whistleblower guidance.

2500- Monitoring Progress (2500.A1, 2500.C1)

2600- Resolution of (Senior) Management's Acceptance of Risks



Key Differences between Internal Audit and Public Accounting...per the *Standards*





Key Differences-Internal vs. External Audit

Internal Auditors are independent of the activities they audit, and are integral to the organization and provide ongoing monitoring and assessment of all activities.

External auditors are independent of the organization, and provide an annual opinion on the financial statements.

The work of the internal and external auditors should be coordinated for optimal effectiveness and efficiency.





Key Differences-Internal vs. External Audit

- Internal and external auditors have **mutual interests regarding the effectiveness of internal financial controls**. Both professions adhere to codes of ethics and professional standards set by their respective professional associations. There are, however, major differences with regard to their relationships to the organization, and to their scope of work and objectives.
- The internal auditors' objectives are determined by **professional standards, the board, and management**.
 - External auditors are not part of the organization, but are engaged by it. **Their objectives are set primarily by statute** and their primary client - the board of directors.
- **The internal auditors scope of work is comprehensive**. It serves the organization by helping it accomplish its objectives, and improving operations, risk management, internal controls, and governance processes. Concerned with all aspects of the organization - both financial and non-financial - **the internal auditors focus on future events** as a result of their continuous review and evaluation of controls and processes. They also are concerned with the prevention of fraud in any form.
 - The primary mission of the external auditors is to provide an independent opinion on the organization's financial statements, annually. **Their approach is historical in nature**, as they assess whether the statements conform with generally accepted accounting principles, whether they fairly present the financial position of the organization, whether the results of operations for a given period of time are accurately represented, and whether the financial statements have been materially affected.



Key Differences: Independence & Objectivity

Independence & Objectivity

- *"The internal auditor occupies a unique position he or she is employed by the management but is also expected to review the conduct of management which can create significant tension since the internal auditor's independence from management is necessary for the auditor to objectively assess the management's action, but the internal auditor's dependence on the management for employment is very clear."*
- Internal auditors are **independent when they render impartial and unbiased judgment in the conduct of their engagement**. To ensure this independence, best practices suggest the CAE should report directly to the audit committee or its equivalent.
- **Objectivity** is a mental attitude which internal auditors should maintain while performing engagements. The internal auditor should have an **impartial, unbiased attitude and avoid conflict of interest situations, as that would prejudice his/her ability to perform the duties objectively**. Internal auditors should not assume any operational responsibility.



Q: What do you get when you cross and
baseball player with an auditor?

A:



The End.....

Thank you for your attention! For the latest:

<http://www.theiia.org/guidance/standards-and-practices/>