2012 IIA Standards Update

International Internal Audit Standards Board (IIASB)

October 2012
Session Overview

- Why the *Standards* matter
- Standards-setting due process
- The key changes in 2012
- Best practices for implementation
- Q & A
Why the *Standards* Matter
The *Standards* – Mandatory Element Under International Professional Practices Framework

**IPPF =**

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Overview of the IIA Standards

Attribute Standards:
- Purpose, Authority and Responsibility ..................................(1000)
- Independence and Objectivity .............................................(1100)
- Proficiency and Due Professional Care .................................(1200)
- Quality Assurance and Improvement Program ......................(1300)

Performance Standards:
- Managing the Internal Auditing Activity ..............................(2000)
- Nature of Work .....................................................................(2100)
- Engagement Planning ............................................................(2200)
- Performing the Engagement ...................................................(2300)
- Communicating Results .........................................................(2400)
- Monitoring Progress .............................................................(2500)
- Communicating the Acceptance of Risks ..............................(2600)
Standards are Critical

- Delineate **basic principles** that represent the practice of internal auditing
- **Framework** for performing and promoting a broad range of **value-added** internal auditing
- Establish the basis for the **evaluation** of internal audit performance
- Foster **improved** organizational **processes and operations**
Standards-Setting
Due Process
Standards Setting
International Internal Audit Standards Board (IIASB)

Initiation

- IIASB discussed the emerging issues and feedback from various sources for potential topics that impacts the profession and the *Standards*.

Development

- IIASB researched and discussed the topics, developed the potential changes to the *Standards*.
- Global Ethics Committee reviewed the proposed changes to the *Standards* to ensure its consistency with Code of Ethics.

Public Exposure

- 90 days exposure period to get input from the public (Feb 20 – May 20)
Standards Exposure Stats

- Exposure draft was available in 11 languages.
- Number of responses received:
  - 1,685 in total
    - 1,547 responses from individuals
    - 138 collective responses from organizations
- 24% of the responses are from North America.
- 76% of the responses are from outside NA.

Your Opinion Counts!!!
Standards Setting
International Internal Audit Standards Board (IIASB)

Review & Approval
- IIASB reviewed the results and comments from the exposure and made final decision on the Standards changes.
- IPPF Oversight Council, an independent body, reviewed the Standards-setting due process.

Issuance
- IIA Institutes translate the Standards into the local language, prior to the effective date of the new Standards, if possible
- Promote and educate the members in your country

Release Date - Oct 1, 2012
Effective Date – Jan 1, 2013
The Key Changes in 2012
Why Change?

• The *Standards* must remain current, relevant, and timely for the profession

• The IPPF process requires that the Standards be reviewed at least once every three years

• Ongoing changes are a key component of the continued development of the IPPF
Summary of the Changes

- Clarify responsibilities for conforming with the Standards
- Increased focus on Quality Assurance & Improvement
- Clarify the CAE’s role to communicate unacceptable risk
- Explicitly require timely audit plan adjustments
- Emphasize coverage of risks to strategic objectives
- Changes to Glossary Terms
Responsibilities for Conformance

Adding the following wording to the Introduction of the *Standards*:

The *Standards* apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the Standards related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the Standards, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the Standards.

Exposure Results: Yes: 87%, No: 4.1%, No Opinion: 5.8%

Standards Board Decision: Adopt the exposed change
Organizational Independence

1110 - Organizational Independence
The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:
Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:
• Approving the internal audit charter;
• Approving the risk based internal audit plan;
• Approving the internal audit budget and resource plan;
• Receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters;
• Approving decisions regarding the appointment and removal of the chief audit executive;
• Approving the remuneration of the chief audit executive; and
• Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Exposure Results: Yes: 85%, No: 9.8%, No Opinion: 5.3%
Standards Board Decision: Adopt the exposed change
Standard 1110 – Best Practices

• Board or audit committee approve the risk assessment and related audit plans

• Private meetings with the CAE and audit committee / board chair

• Frequent interactions with board outside formal board meetings
Increased Focus – Quality Assurance

1312 - External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer assessor or review assessment team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent form and frequency of external assessments; and
- The qualifications and independence of the external reviewer assessor or review assessment team, including any potential conflict of interest.

**Interpretation:**
*External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.*

Exposure Results: Yes: 86.5%, No: 7.6%, No Opinion: 5.9%

Standards Board Decision: Modify the exposed change
Standard 1312 – Best Practices

- Proactive internal quality assessment and improvement program

- Fully embrace the spirit and the letter of the external quality Standards

- Have practices to allow execution and delivery of quality work

- Leverage the external quality assessment to promote internal audit by including a statement of conformance in each audit report
Timely Audit Plan Adjustments

2010—Planning
The chief audit executive must establish a risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.

Interpretation:
The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board consideration of input from senior management and the board. 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.

Exposure Results:  Yes: 92.5%, No: 4.3%, No Opinion: 3.2%

Standards Board Decision: Adopt the exposed change
Standard 2010 – Best Practices

- Identify and consider stakeholder input into the internal audit risk assessment process
- Don’t let major risks go uncovered; find a way to address them before they get too big
- Educate key stakeholders on important areas of risk and on actions needed to address issues
- Develop an ongoing communications process with management to keep current on changing business and risk issues
The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

Exposure Results: Yes: 90.6%, No: 5.9%, No Opinion: 3.5%
Standards Board Decision: Adopt the exposed change
Inclusion of Strategic Risk

2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

Exposure Results: Yes: 90.9%, No: 5.7%, No Opinion: 3.4%

Standards Board Decision: Adopt the exposed change

• Internal audit involvement in key strategic initiatives
• A “seat at the table”
• Address the organizations key strategic risks
• Serve on IT development teams
Disseminating Results

2440 – Disseminating Results
The chief audit executive must communicate results to the appropriate parties.

Interpretation:
The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

Exposure Results: Yes: 84.7%, No: 11.8%, No Opinion: 3.5%
Standards Board Decision: Modify the exposed change
Standard 2440 – Best Practices

• Communicate with impact
• Develop an ongoing communications process with management to keep current on changing business and risk issues
• Develop systemic and trending information that would be valued by stakeholders
• Ensure management is attentive to audit issues and that top management and the audit committee are kept aware of management’s corrective actions
Acceptance of Risk

2600 – Resolution of Senior Management's Communicating the Acceptance of Risks

When the chief audit executive believes concludes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is chief audit executive determines that the matter has not been resolved, the chief audit executive must report communicate the matter to the board for resolution.

Interpretation:
The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Exposure Results:  Yes: 89%, No: 7%, No Opinion: 4%

Standards Board Decision: Adopt the exposed change
Standard 2600 – Best Practices

• When you believe the organization is facing unacceptable risk or certain actions are just not right, speak out

• Use good judgment on what are real issues, but make it clear that internal auditing has a voice and is willing to use it
Clarify the Definition of “Board”

Board –

A board is an organization’s governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non-profit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions.

Exposure Results: Yes: 88%, No: 5.7%, No Opinion: 6.3%

Standards Board Decision: Modify the exposed change
New Definition of “Engagement Opinion”

Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Exposure Results: Yes: 89.1%, No: 4.8%, No Opinion: 6.2%

Standards Board Decision: Modify the exposed change
New Definition of “Overall Opinion”

Overall Opinion

The overall ratings, conclusions, or other descriptions of results provided by the chief audit executive addressing, at a broad level, governance, risk management and control processes of the organization. An overall opinion is based on the results of a number of individual engagements and other activities for a specific time interval.

Exposure Results: Yes: 88.2%, No: 5.4%, No Opinion: 6.5%

Standards Board Decision: Modify the exposed change
Other Changes

• 1311 – Internal Assessment
• 1320 – Reporting on the Quality Assurance and Improvement Program
• 2201 – Plan Consideration
• 2220 – Engagement Scope
• 2210.A3
• Control Processes
• Delete the definition of “residual risk”
• Keep the current definition of “risk”
International Standards for the Professional Practice of Internal Auditing (Standards)

Standards are principle-focused and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary terms.

It is necessary to consider both the statements and their interpretations to understand and apply the Standards correctly. The Standards employ terms that have been given specific meanings as noted in the Glossary, which is also part of the Standards.

Revised Standards, Effective January 1, 2013

The International Internal Audit Standards Board (IIASB) recently proposed changes to the Standards after consideration of input it received from internal auditors and stakeholders, as well as global surveys and other research focused on the International Standards for the Professional Practice of Internal Auditing (Standards). The proposed changes to the Standards had a 90-day exposure period from 20 February, 2012 to 20 May, 2012. The IIASB has completed the review of the exposure results and comments and has approved the final changes to the Standards.

The IIASB released the revision to the Standards following the consideration and approval of due process by the International Professional Practice Framework Oversight Council (IPPFOC). The new Standards will be effective on January 1, 2013.

2013 Standards

English
Conformance with the Standards is required and essential for the professional practice of internal auditing.
QUESTIONS

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