

April 4, 2011

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Response e-mailed to www.iaasb.org

RE: Response to the International Auditing and Assurance Standards Board (IAASB) –
Proposed Strategy and Work Program for 2012 - 2014

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to the IAASB's Proposed Strategy and Work Program for 2012 - 2014. We applaud the IAASB's effort in soliciting feedback from diversified stakeholders. Our comments are based on a thorough analysis and discussion, utilizing a core team of governance, compliance and audit experts who serve on The IIA's Professional Issues Committee and Advanced Technology Committee. These individuals consist of business leaders, Certified Internal Auditors, Certified Public Accountants, audit executives and consultants who have worked in both public accounting and management positions in Fortune 500 and multinational companies.

In comparing the IAASB's Proposed Strategy and Work Program with The IIA's 2010 - 2014 Strategic Plan, we noted a number of similarities and opportunities for collaboration, especially for projects related to governance, risk management and internal controls, as well as initiatives in marketing, communication, value proposition development and knowledge sharing. Specifically:

1. The IAASB and The IIA's Internal Audit Standards Board and Professional Issues Committee share the same mission of setting high-quality professional standards and providing guidance for assurance and audit engagements. Given changes in the global internal audit profession, The IIA recently issued a new International Professional Practices Framework (IPPF), which is comprised of mandatory and strongly recommended authoritative guidance. Through launching of the IPPF, The IIA has invested considerable resources to strengthen its relationships with key stakeholders, communicate advocacy messages and promote global adoption of the IPPF. These experience are relevant to execution of the IAASB's Proposed Strategy and Work Program.

2. The IAASB is of the view that the International Standards on Auditing (ISAs) are capable of being applied to audits of all entities regardless of size. However, the IAASB is conscious of the difficulties that the practitioners may have in implementing ISAs in the audits of the small- and medium-sized entities (SMEs), and in particular the perception held by some that the ISAs have been written primarily with larger entities in mind. The IAASB has identified a number of projects with particular relevance to the SMEs and is monitoring their ISAs implementation challenges through project B.4. Similarly, a large number of The IIA's constituents are small- and medium- size audit departments. We recognize the challenges they face in adopting the IPPF and are issuing guidance and publications to assist them.
3. Based on a recent 2010 global survey, internal auditing's top five areas of focus for 2015 and beyond will be corporate governance, Enterprise Risk Management (ERM), strategic reviews, ethics audits and migration to IFRS. The IIA and The IIA Research Foundation will align their guidance, publications, and research priorities accordingly. The IIA can contribute to IFAC projects related to these topics.
4. In 2011, The IIA will publish *Organizational Governance and Assisting Small Internal Audit Activities in Implementing Standards for the Professional Practice of Internal Auditing*, as well as other guidance for small-size audit departments. These topics are related to IAASB's projects in progress or planned.
5. The IAASB has a project to communicate the meaning, and implicitly the value, of an audit. Similarly, The IIA is developing a comprehensive marketing program and a branding strategy to communicate the global value proposition of The IIA and the value of internal auditing.
6. The IIA will create a methodology for developing, sharing and coordinating best-in-class training, publications and services on a global basis. This is a key enabler for global adoption of the IPPF. This project is relevant to *B.4 Monitoring ISA Implementation and other outreach activities* and *B.6 Develop a publication explaining the benefits of adopting the ISAs.*

The following are our principal comments and observations regarding the Proposed Strategy and Work Plan. Detailed responses to the questions posed and projects that the IIA can make a contribution to are summarized in Attachment A.

1. The IIA agrees that the three areas of strategic focus support the IAASB's mission and, therefore, remain appropriate.

2. We also agree that the list of current, anticipated, and additional projects support these three strategic focus areas. Of particular importance are:
 - B.1 Undertake new project(s) to respond to findings of the ISA Implementation Monitoring Project, and B.4. Take a proactive role in identifying implementation challenges and developing solutions. These projects enable IAASB to be responsive and proactive.
 - B.6 Develop publications to explain the benefits and promote adoption of the ISAs. Effective communication, outreach and promotion are critical for prompt adoption of standards and guidance.
 - B.5 Seek feedback regarding implementation of International Standard on Assurance Engagements (ISAE) 3402, Assurance Reports on Controls at a Service Organization. This is important due to the pervasive use of outsourced IT and accounting services by companies.
3. Due to the interdependencies and relationships among the projects in progress and being planned, as well as the ongoing nature of some projects, it is imperative that the IAASB project teams coordinate timing, ensure consistent direction and determine how best to leverage each others' work.
4. The IIA also recommends elevating the priority of C.1 Undertake a project regarding International Auditing Practice Statement (IAPS) 1004, The Relationship between Banking Supervisors and Banks' External Auditors, and IAPS 1006, Audits of the Financial Statements of Banks. Our recommendation is driven by the global, pervasive impact of financial institution failures, the strong views held by various regulators that this guidance should be updated with lessons learned from the financial crisis, and the concerns of audit regulators, audit firms and supervisory agencies that audit procedures may need to be strengthened in areas such as risk assessment, impairments, disclosures and going concerns.

The IAASB recognizes that this would be a complex and resource intensive project. This is a high-impact, urgent and complex project. It is prudent to get started as soon as possible to address the issues and prevent the next failure.

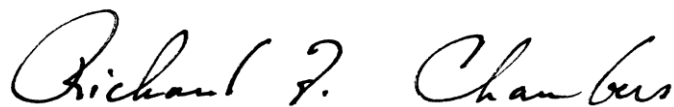
5. The top three new projects from Column C. that would best meet the IAASB's public mandate are: C.1 (see above); C.5 Evaluate whether to adopt a new ISAE addressing assurance on governance statements; and C.3 Monitor the impact of developments in integrated reporting.

6. Of the projects listed in Column B. (Anticipated Projects) and Column C. (Additional Projects), we believe that *B.4 Take a proactive role in identifying implementation challenges and developing solutions* should be IAASB's top priority. This project addresses two of the three IAASB's strategic focus areas and also the known challenges with implementation for audits of SMEs.
7. Regarding the types of publications or guidance that may facilitate the implementation of the IAASB's pronouncements, we recommend that the IAASB reach out to the oversight bodies for external auditors, such as regulators and audit committees, to determine priority for implementation. To reinforce the priority, the IAASB should consider contacting the oversight bodies and the "Big 4" accounting firms to include this topic in their publications and training.

In addition to publications, we also recommend that the IAASB consider using more interactive means of communication such as webinars, web-based training, discussion forums and events targeted to small- and medium-size firms.

The IIA is well-equipped to support those IAASB projects that are related to the core competencies of internal auditing: governance, risk management and control. We value the opportunities to collaborate, share, contribute and learn. We welcome further discussion on any of these recommendations and offer our assistance in the continued development of these projects.

Best Regards,



Richard F. Chambers, CIA, CGAP, CCSA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 170,000 members across the globe and has 103 affiliates in 165 countries that serve members at the local level.

Attachment A
Institute of Internal Auditors (IIA)
RE: Response to the International Auditing and Assurance Standards Board (IAASB) Proposed Strategy
and Work Program for 2012 - 2014

Questions for the Respondents:

15. The IAASB invites comments on any aspect of the proposed strategy and possible actions to implement the proposed strategy. In particular, it would be helpful if respondents' comments could include the following:

(a) Whether the IAASB's three areas of strategic focus noted in paragraphs 7–11 remain appropriate;

Response: *The IIA agrees that the three areas of strategic focus (Developing and revising standards and pronouncements; Monitoring and facilitating adoption of these standards; and Responding to implementation concerns and improving the consistency of the standards' practical application) support the IAASB's mission and remain appropriate.*

(b) Whether the list of anticipated projects likely to commence in 2012–2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:

(i) Whether respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project(s) would not be supported;

Response: *The list of anticipated projects likely to commence in 2012 - 2014 adequately address the issues currently facing the accounting and auditing professions. Of particular importance are:*

- *B.1 Undertake new project(s) to **respond** to findings of the ISA Implementation Monitoring Project and B.4 Take a **proactive** role in identifying implementation challenges and developing solutions. They are linked directly to the IAASB's three strategic focus areas. These two projects take into account the dynamic nature of the environment and recognize the needs to be responsive to identified issues and also be proactive in anticipating implementation challenges and emerging issues.*
- *B.6 Develop publications to explain the benefits and promote adoption of the ISAs. Effective communication, outreach and promotion are critical to adoption of professional standards. Marketing, sales and promotion are core competencies of consumer product companies. Professional organizations can benefit from adopting some of their strategies and approaches.*

- B.5 Seek feedback from service organizations, service auditors, user entities, user auditors, and others regarding implementation of International Standard on Assurance Engagements (ISAE) 3402, Assurance Reports on Controls at a Service Organization. This is important due to pervasive use of outsourced IT operations, Shared Services Centers, and other outsourced services such as accounting, payroll, healthcare benefits administration, supply chain management that directly or indirectly impact financial statement preparation. Companies rely on these reports to provide assurance that risk management and control processes at the service organizations have been designed effectively and were operating as designed.

(ii) Whether respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and

Response: Yes, these projects are aligned with the IAASB's three areas of strategic focus.

(iii) How these anticipated projects should be prioritized in light of the current projects (Column A).

Response: The list of current projects (Column A) should be reviewed to identify any interdependencies or relationships with the anticipated projects (Column B); some activities are ongoing, such as responding to concerns and answering questions related to standards. The project teams should also assess how the concerns and questions raised on current projects would impact or influence future projects. For example:

- A.5 Provide input on proposed standards that may have potential verifiability or auditability issues and continue to monitor developments in financial reporting standards to determine the need for new/revised ISAs or guidance, is linked to:
 - B.1 Undertake new project(s) to respond to findings of the ISA Implementation Monitoring Project, and
 - B.4 Take a proactive role in identifying implementation challenges and developing solutions.
- A.10 Develop a publication on the meaning of an audit, and A.11. Continue communication and other outreach initiatives, are linked to B.6. Develop publications to explain the benefits and promote adoption of the ISAs.

Therefore, the IAASB project teams should be cognizant of the portfolio of projects in progress and being planned, as well as their interrelationships and interdependencies on the critical paths. The project teams should work jointly to coordinate timing, ensure consistent direction and determine how best to leverage each others' work.

Decisions on the scope and planned output of each of the projects listed in Column B would be undertaken following the development and approval of a project proposal, with full IAASB and IAASB CAG consultation in accordance with the IAASB's due process and working procedures.

(c) With respect to the additional projects (Column C):

(i) Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012–2014 (Column B); and

Response: *The business environment is very dynamic. Priorities can change overnight; as illustrated by the tsunami in Japan which created tremendous domino effects in the global economy, the financial markets, and various industries. It is challenging to predict critical issues for the accounting and auditing profession beyond 2014. Regarding the additional projects (Column C), The IIA ranks the following as highest priorities:*

- *C.1 Undertake a project regarding International Auditing Practice Statement (IAPS) 1004, The Relationship between Banking Supervisors and Banks' External Auditors, and IAPS 1006, Audits of the Financial Statements of Banks. IAPs are prepared by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC). The Basel Committee on Banking Supervision (the Basel Committee) has designated observers on The IAPC Bank Audit Subcommittee.*

In undertaking this project, the project team should also be aware of the recommendations in the public consultation document.

The IIA believes that this project should be elevated to Column B, Anticipated Projects due to:

- *The global, pervasive impact of financial institution failures.*
- *The strong views expressed by a number of regulators that IAASB should update the guidance in IAPS 1004 and IAPS 1006 to supplement with lessons learned in addressing financial crisis issues, and respond to concerns of audit regulators, audit firms and supervisory agencies that audit procedures may need to be strengthened in areas such as risk assessment, impairments, disclosures, and going concern.*
- *The recognition that this would be a complex and resource intensive project requiring support from the banking regulators and supervisors, as well as firm experts.*

As noted in Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs (Wong Report; 2004), “High-quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and non-financial information and, thus, play an integral role in contributing to a country’s economic growth and financial stability.” It is through this focus that the IAASB can play its role in promoting financial stability in light of the lessons learned from the global financial crisis.

The National Standard Setters (NSS) has indicated that developing international guidance in a highly nationally-regulated industry or other specialized industries, such as insurance may not be possible. The IIA acknowledges that while it may not be viable to develop detailed, prescriptive guidance, there is still value in developing principles-based guidance.

- *C.5 Evaluate whether to develop a new International Standard on Assurance Engagements (ISAE) addressing assurance on corporate governance statements.*

The root causes of many organization failures were failure in organizational governance. Organizational governance comprises the procedures established by governing bodies to provide oversight of the risk and control processes administered by management to achieve reporting, compliance, operations, and strategic objectives. When organizational governance is effective, internal controls are strong, reporting is accurate, ethics are maintained, oversight is effective, risks are mitigated, and investments are protected. As can be expected, stakeholders will look to the external auditors for assurance on governance over reporting.

The IIA has published a number of standards and guidance on evaluating the effectiveness of governance, risk management and internal control. We can contribute to this project.

- *C.3 Monitor the impact of developments in integrated reporting (linking financial, environmental, social and governance information) and participate, as necessary, in any audit- or assurance-related outcomes.*

Sustainability Reporting, Environmental and Social Responsibilities are becoming hot topics, partially driven by catastrophic events and political movements. The IIA has issued guidance on Evaluating Corporate Social Responsibility/Sustainable Development and can contribute to this project.

(ii) Whether any particular project(s) in Column C would not be supported; and

Response: *The IIA supports all the project(s) in Column C; they are relevant to the IAASB's mission.*

(d) Whether there are additional actions or projects that respondents believe should be addressed, and, if so, how these should be prioritized in relation to the projects identified in Columns B and C.

Response: *No additional actions or projects.*

16. The IAASB intends to devote the majority of its efforts on the projects in Column A through 2011 and into 2012 and beyond to progress these projects on a timely basis. If respondents support commencing the majority of the anticipated projects (Column B), the IAASB currently anticipates it will have resources and time to commence³ (this is what's in their question.) further new projects, although substantive activity for these new projects would not be expected to commence before 2013.

Respondents are therefore specifically asked to select the top three projects either from, or in addition to, the list of suggestions for additional projects (Column C) that they believe would best meet the IAASB's public interest mandate. However, outreach activities, the findings of the ISA Implementation Monitoring project, the fundamental debates about the role of the auditor, and unforeseen events beyond the IAASB's control may require the IAASB to amend its Work Program or reprioritize its agenda.

Response: *The three projects are (for rationale, see our response to 15.c.i.):*

- *C.1 Undertake a project regarding International Auditing Practice Statement (IAPS) 1004, The Relationship between Banking Supervisors and Banks' External Auditors, and IAPS 1006, Audits of the Financial Statements of Banks.*
- *C.5 Evaluate whether to develop a new International Standard on Assurance Engagements (ISAE) addressing assurance on corporate governance statements.*
- *C.3 Monitor the impact of developments in integrated reporting (linking financial, environmental, social and governance information) and participate, as necessary, in any audit- or assurance-related outcomes.*

Based on a recent 2010 global survey, internal auditing's top five areas of focus for 2015 and beyond will be corporate governance, Enterprise Risk Management (ERM), strategic reviews, ethics audits, and migration to IFRS. The IIA and The IIA Research Foundation will align their guidance, publication and research priorities accordingly. The IIA can contribute to projects related to these topics.

In 2011, The IIA will publish Organizational Governance and Assisting Small Internal Audit Activities in Implementing Standards for the Professional Practice of Internal Auditing, as well as other guidance for small-size audit departments. These topics are related to the IAASB's projects in progress or planned.

As defined in The IIA's IPPF, Internal auditing ... 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. The IIA has issued a number of standards and professional guidance on these topics. The IIA is well-equipped to contribute to any project related to the core competencies of internal auditing: risk management, control and governance. Specifically:

- *C.3 on monitor the impact of developments in integrated reporting (linking financial, environmental, social and governance information),*
- *C.4 on assurance on sustainability reporting,*
- *C.5 on assurance on corporate governance statements,*
- *C.6 on assurance on internal control, and*
- *C.8 on implementation of International Standard on Quality Control (ISQC)1. Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, for smaller firms.*

We understand the challenges with adopting ISAs at small- and medium- size firms and for audits of SMEs. The IIA spent considerable effort to assist small internal audit departments to implement:

- *The IPPF,*
- *Standard 1300/1310 Quality Assurance and Improvement Program and Related Requirements,*
- *Standard 1311 Internal Quality Assessment, and*
- *Standard 1312 External Quality Assessment.*

In 2011, The IIA will issue guidance and publish a text book for small-size audit departments. The IAASB can leverage our experience and lessons learned.

17. The IAASB notes that, depending on the priorities identified by respondents, the balance of the IAASB's future time spent on auditing and implementation of the ISAs as compared to development of new assurance standards may vary significantly. For this reason, it would also be helpful to understand which one project (either from Column B, Column C or an additional action not included in either column) respondents would identify as the IAASB's top priority, in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program.

Response: *In view of the IAASB’s strategic focus areas (Developing and revising standards and pronouncements; Monitoring and facilitating adoption of these standards; and Responding to implementation concerns and improving the consistency of the standards’ practical application), the top priority needs to be placed on B.4. Through the ISA Implementation Monitoring Project and other outreach activities, take a proactive role in identifying implementation challenges and seek to develop materials aimed at addressing these challenges, working with NSS, IFAC member bodies and others. This project addresses two of the three strategic focus areas and also the known challenges with implementation of ISAs for audits of SMEs.*

18. In addition, the IAASB would welcome comments from respondents as to the following:

(a) What types of publications or further implementation guidance may be of most use to facilitate the adoption and implementation of the IAASB’s pronouncements; and

Response: *The oversight bodies for external auditors, such as the regulators, the audit committees should be fully aware of the implementation schedule, status, challenges and actions taken to mitigate the risks of delayed implementation. These should be regular agenda topics between the oversight bodies and the external auditors.*

The IAASB should consider:

- *Using publications such as the Top 10 Agenda Topics for Oversight Bodies/Audit Committees to build awareness.*
- *Hosting webinar and other web-based training to promote understanding and adoption of new/revised standards.*
- *Sponsoring Best Practices Forums to discuss lessons learned and effective implementation approaches.*
- *Hosting Roundtables to discuss unique challenges for implementing ISAs in audits of SMEs and potential solutions.*

(b) What opportunities may exist for the IAASB to partner with others to facilitate implementation of the clarified ISAs (for example, IFAC member bodies, NSS, training organizations, and others)?

Response: *In view of the list of topics, the IAASB should partner with: The IIA on risk management, control and governance topics, the National Association of Corporate Directors (NACD) on governance topics, Organization for Economic Co-Operation and Development (OECD) on governance, ethics and compliance topics, and key environmental agencies such as the United States Environmental Protection Agency and similar organizations around the world on environmental issues.*