October 29, 2014


Dear Sirs and Madams,

We welcome and thank you for the opportunity to comment on the proposed enhancements to the Institute of Internal Auditors International Professional Practices Framework (IPPF).

While we know that many of our members are submitting their responses to the exposure draft by completing the survey questions provided by the IIA, we as the professional body of the Internal Auditors in Germany would like to supplement their input by submitting this comment letter.

General Remarks

In general, we support the goal of the “Re-Look Task Force (RTF)” to modify the existing IPPF structure in order to benefit IIA members, the internal audit profession as a whole, and its stakeholders as well as to strengthen the IPPF’s ongoing relevance for the foreseeable future.

We also support the explicit statement of the exposure draft that the RTF is not proposing changes to the content of individual IPPF elements (such as the Definition of Internal Auditing, the Code of Ethics, the Standards and the currently existing guidance). We believe that the IPPF are well understood and implemented in current practice of Internal Auditing In Germany. Hence, any changes to the current content of the IPPF should be well justified and go through a thorough due process involving the members of the IIA and considering the input of stakeholders of the internal audit profession.

Considering the individual proposed enhancements to the IPPF’s content and structure, we would like to submit the following comments:

Mission of Internal Auditing

We agree with and support the addition of a Mission of Internal Auditing to the IPPF. We believe that a short mission statement can help to communicate the role and value of Internal Auditing to stakeholders as well as to make the internal audit profession more visible in public. The wording of the mission is suggested by the exposure draft as follows:
"To enhance and protect organizational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight"

We generally agree with the wording of the mission statement. However, we noted that the mission introduces the term "insight". While we agree that Internal Auditing provides added value beyond assurance and advice, we were not able to find supporting guidance regarding "providing insight" within the existing IPPF. We therefore recommend to add respective guidance to the IPPF as to what "insight" means and how it can be delivered in order to support the internal audit practice and to help manage expectations with stakeholders.

Core Principles for the Professional Practice of Internal Auditing

The IPPF indicates that the International Standards for the Professional Practice of Internal Auditing (the Standards) are principle-based. Hence, we in general agree to add explicit principles to the IPPF as a basis for future standard setting activities.

However, it is our opinion that although the Core Principles may be helpful for future standard setting, we also see the potential risk that the complete set of requirements for an effective internal audit function promulgated by the full IPPF are reduced to just the 12 Core Principle. An unintended consequence of this may be that internal auditors as well as stakeholders or regulators focus on the compliance with these 12 Core Principles only and lose sight of other requirements (and recommended guidance) of the IPPF or attach to the Core Principles a higher degree of authority than to other requirements of the IPPF.

Therefore, it should be made perfectly clear that the Core Principles may not be used as exclusive criteria for assessing the effectiveness of an internal audit function. According to the IPPF, an internal audit function needs to be in conformity with the Definition of Internal Auditing and the Standards and internal auditors need to apply the Code of Ethics (Attribute Standards 1300). In our understanding, the criteria to assess the effectiveness of an internal audit function therefore are the IPPF as a whole. The exposure draft currently states:

"The RTF believes that for an internal audit function to be considered effective, all 12 Principles must be present and operating effectively."

In our view, this statement could be misinterpreted in a way that the 12 Principles are considered to be exclusive criteria for the evaluation of an internal audit function. In addition, we believe that in the case of non-conformance with one of the twelve Core Principles, an internal audit function may still be considered effective as a whole, although with qualifications.

Consider for example Core Principle No. 8 " Achieves efficiency and effectiveness in delivery". Although, for example, an internal audit engagement may not have been delivered efficiently (however effectively), and as a consequence, Core Principle No. 8 may not have been present; this in our view does not result in the internal audit function being ineffective. In evaluating an internal audit function, professional judgement should rather be exercised as to whether the internal audit function is inefficient (adverse opinion) or efficient with a deficiency (qualified opinion).
Therefore, we suggest to clarify the statement as follows:

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<th>Current wording</th>
<th>Suggested wording</th>
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<tr>
<td>&quot;The RTF believes that for an internal audit function to be considered effective, all 12 Principles must be present and operating effectively&quot;</td>
<td>&quot;The RTF believes that for an internal audit function to be considered effective, as a minimum, all 12 Principles must be present and operating effectively. If one or more of the 12 Principles are not present or not operating effectively, the internal audit function is not, or not fully, effective. In addition to the 12 Principles, the internal audit function must be in conformance with the IPPF as a whole.&quot;</td>
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In our understanding, the twelve suggested Core Principles have been extracted from existing IPPF elements (such as the Standards or the Code of Ethics). Inherent of such an extraction is the risk that important contents are omitted and that there is an inadequate focus on just the extracted twelve principles that are considered to be core.

Having said that, it is our view that other significant matters of the IPPF should be considered as core principles in addition to the suggested twelve Core Principles. Since "integrity", "objectivity" and "competence" are part or the Core Principles No. 1 to 3, we strongly believe that the fourth principle mentioned in the Code of Ethics - "confidentiality" - should also be considered as a Core Principle. Otherwise the message seems to be that there are principles of the Code of Ethics that are more important than other principles of the Code of Ethics.

In addition, in our view the following matters should also be explicitly considered as part of the Core Principles:

- Independence (Attribute Standard 1100)
- Monitoring Progress (Performance Standard 2500)

We noted that the wording of Core Principle No. 10 is not in line with the Mission of Internal Auditing. The Principle refers to “assurance” only and hence, does not consider the two other main deliverables "advice" and "insight" mentioned in the mission. In addition, the Principle refers to "those charged with governance" as the recipients of "assurance" rather than "stakeholders" as in the mission. Although "those charged with governance" are not defined in the IPPF, International Standard on Auditing (ISA) 260 of the IAASB describes "those charged with governance" as either the "supervisory board and management board" (two-tier system) or "a common board" (one-tier system). In our view, "those charged with governance" do not comprise all stakeholders of the internal audit function. This view seems to be supported by Performance Standard 2410.A1 which states that in addition to the "board" the results of an engagement must also be communicated to "senior management and ... other stakeholders". We therefore suggest to align Core Principle No. 10 with the wording of the mission.

Considering the above, we suggest the following amendments to the Core Principles:

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<th>Current wording</th>
<th>Suggested wording</th>
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<tbody>
<tr>
<td>Core Principle No. 2: &quot;Displays objectivity in mindset and approach&quot;</td>
<td>Core Principle No. 2: &quot;Is independent and displays objectivity in mindset and approach&quot;</td>
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Implementation Guidance & Supplemental Guidance

The exposure draft states that "the RTF is not proposing changes to the content ... of the following IPPF elements:

- ...  
- Currently existing guidance (Practice Guides / Practice Advisories / Position Papers)

Although the exposure draft only suggest a restructuring of Practice Advisory and Practice Guides to become Implementation Guidance and Supplemental Guidance, it later states that "Implementation Guidance is intended to be more comprehensive than Practice Advisories are today... ."

This suggests that the content of Implementation Guidance is different in nature from the content of Practice Advisories, i.e., "more comprehensive". While it is not clear, what exactly "more comprehensive" means and what consequences this may have on the content of current Practice Advisories and future Implementation Guidance, the exposure draft announces that current Practice Advisories (and Practice Guides) "will be revised, re-issued, or superseded over time as the IIA begins to convert existing guidance to the new structure".

We understand from the above, that the introduction of Implementation Guidance and Supplemental Guidance is intended to be more than just re-naming or re-structuring current elements of the IPPF. In our understanding, it results in changes of the content of current elements of the IPPF in lieu of revising, re-issuing and superseding existing Practice Advisories and Practice Guides. However, since the term "more comprehensive" and the potential changes of the content are not clarified in the exposure draft, we are not able to evaluate the nature and scope of possible changes.

We are aware and concerned that any changes to existing content of the IPPF will impact current practice and result in additional cost and effort to implement changes. Unless any changes cannot reasonably be justified by e.g. identified deficiencies in practice or new requirements by changed legislation, we do not support changing existing content of Practice Advisories and Practice Guides. We suggest to keep current Practice Advisories and Practice Guides unchanged. Implementation Guidance and Supplemental Guidance should, in our view, be applied to new Standards and evolving topical areas only.
Addressing Emerging Issues

In general, we support the aim of the IIA to react to new developments in a timely manner. However, we do not agree with the exposure draft's suggestion to add a separate and distinct new layer to the IPPF entitled Emerging Issues Guidance.

The current preface of the IPPF gives a definition of what is considered to be an element of the IPPF:

"The IPPF's scope has been narrowed to include only authoritative guidance developed by IIA international technical committees following appropriate due process. Authoritative guidance consists of two categories: Mandatory. (...) Strongly Recommended. (...)"

Emerging Issues Guidance does not meet this definition. It is not clear who (i.e., which international technical committee) is going to develop Emerging Issues Guidance and whether there will be an appropriate due process. In addition, Emerging Issues Guidance is neither "mandatory" (or "required") nor is it "strongly recommended" (or "recommended"). Rather, Emerging Issue Guidance "would be of a less authoritative nature than other forms of guidance in the Framework".

In addition, there are no distinct criteria for what "emerging issues" are and under what circumstances Emerging Issues Guidance will be developed and published.

Therefore, at this point we do not support the suggestion of the exposure draft to introduce Emerging Issues Guidance as an additional element of the IPPF. Nevertheless, in our view, the IIA could issue guidance on emerging issues in a timely manner outside the IPPF framework or streamline current due processes in order to speed up the issuance of recommended guidance that forms part of the IPPF.

Required and Recommended

We agree to change the term "strongly recommended" into "recommended". However, it is not clear to us why the term "mandatory" is changed to "required" and whether this indicates a change in the authority of the Standards and the Code of Ethics.

We therefore suggest to either keep the term "mandatory" unchanged or to include a statement in the final standard that the change in wording from "mandatory" to "required" does not impact the authority of the Standards and the Code of Ethics.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact either one of us at d.mertmann@diir.de or c.scharr@diir.de.

Yours sincerely,

DIIR – Deutsches Institut für Interne Revision e.V.

Dorothea Mertmann
Chief Executive Officer

Christoph Scharr
Head of Professional Issues