Potential Enhancements to The International Professional Practices Framework – comments from IIA Sweden

Summary
In general we welcome the suggested changes and think that they will be a great help in our advocacy.

We think the Mission statement is good, but probably the words “stakeholders with” should be taken out.

As for the Principles, aren’t they too general, would apply to most professions, staff functions, consultants … , with the possible exception of Principle no 10?

What is our Unique Selling Proposition?

See our more detailed comments below, and also comments from Nils-Göran Olve a leading academic authority in management control1.

Background
The IIA has released an exposure draft outlining proposed enhancements to the International Professional Practices Framework (IPPF). The last significant changes to the IPPF, known to some practitioners as “the Red Book,” were in 2007.

While the current IPPF has served the profession well, global marketplace factors, including legislative, regulatory, and market demands for improved governance, risk management, and internal control, have elevated the expectations of, and demands placed on, internal audit practitioners. In certain regions and in certain industries, additional regulatory-influenced internal audit requirements have been promulgated. In some cases, these influences attempt to fill perceived gaps in the content of the IPPF.

Further, chief audit executives or heads of internal audit as well as internal auditor practitioners continue to seek high quality “leading practice” guidance and insights delivered in a shorter timeframe than existing IPPF processes typically provide. As a result, The IIA established a task force to evaluate the IPPF and propose necessary changes, enhancements, or updates.

A comprehensive explanation of all proposed enhancements can be found in the exposure document. The IIA seeks input on these proposed IPPF enhancements.

1 Nils-Göran Olve is a doctor and “docent” from the Stockholm School of Economics. He has been adjunct professor in management control at Linköping University since 1995 and currently is also a guest professor with Uppsala University and Jönköping International Business School.
Comments from IIA Sweden

1. MISSION OF INTERNAL AUDITING

1.1 To what extent do you support the addition of a Mission of Internal Auditing to the IPPF?

Scale: 5
Comment: It is extremely useful with a mission statement that catches the essence of the internal audit profession, something that we can use as an “elevator pitch”.

1.2 To what extent do you agree that the proposed Mission of Internal Auditing captures what internal audit strives and/or aspires to accomplish in organizations?

Scale: 4
Comment: What is proposed is a significant improvement compared to what we have at present, the definition of internal audit.

We agree with IIA Norway that “…a mission statement should be short & sweet and be able to endure the passing of time and fashions; and at the same time capture what internal audit is about”.

However, we do not think that the suggested mission statement is too long. Probably the words “stakeholders with” should be taken out, and maybe the word “governance” should be included.

We see it as essential that the word “independent” should not be part of the mission statement, for us to be able to use it as our Unique Selling Proposition.

2. CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

2.1 To what extent do you support adding Core Principles for the Professional Practice of Internal Auditing as an element of the IPPF?

Scale: 4
Comment: The idea of adding core principles is good. However, they are all universal in nature, could be describing almost any profession or at least most other professions. The only principle that seems unique for internal audit is “10. Provides reliable assurance to those charged with governance”.

We think that the number of principles is about right, possibly it could be beneficial having fewer of them.

2.2 Do you agree with the three “input-related” Principles as proposed?

Scale: 3
Comment: We agree with IIA Norway that the division of principles into different sequences is unnecessary complicated and doesn’t serve or help understanding or support the principles. The main focus should exclusively be on formulating good principles that capture our Unique Selling Proposition, the framework and the profession.
2.3 Do you agree with the six “process-related” Principles as proposed?
Scale: 3
Comment: Please see the comment on 2.2.

2.4 Do you agree with the three “output-related” Principles as proposed?
Scale: 3
Comment: Please see the comment on 2.2.

2.5 Do you agree with the order of the 12 Principles as proposed?
Scale: 3
Comment: Please see the comment on 2.2. Input – output – process is logical (we are auditors…) but maybe we should regroup them taking the most important principles first, those that we think are attractive to our customers and other stakeholders?

2.6 To what extent do you agree with the view that all Principles must be “present and operating effectively” for an internal audit function to be considered effective?
Scale: 5
Comment: In regard to purpose of the principles, then naturally yes.

2.7 Do you agree that the Principles, if adopted, would require guidance to help demonstrate to practitioners what the Principles might look like in practice?
Scale: 1
Comment: We agree with IIA Norway that “with well-designed principles this shouldn’t be necessary. The standards themselves would naturally provide the next level of guidance. The principles and the standards should therefore be aligned”.

3. IMPLEMENTATION GUIDANCE & SUPPLEMENTAL GUIDANCE

3.1 To what extent do you support the restructure of guidance elements from “Practice Advisories” to a more comprehensive layer entitled “Implementation Guidance” as part of the framework?
Scale: 4

3.2 To what extent do you support the restructure of guidance elements from “Practice Guides” to “Supplemental Guidance” as part of the framework?
Scale: 4
Comment: We agree with IIA Norway that “the change of name is not that important, as long as the content is good and useful”.

4. ADDRESSING EMERGING ISSUES

4.1 To what extent do you support the introduction of a new IPPF element to address emerging issues?
Scale: 5
4.2 To what extent do you agree that Emerging Issues Guidance, due to its quicker development process, should be less authoritative than Supplemental Guidance as part of the framework?  
Scale: 5

5. POSITION PAPERS

5.1 To what extent do you support the deletion of “Position Papers” as an element of the IPPF?  
Scale: 5

6. REVISION OF WORDS

6.1 To what extent do you support revision of the words “Mandatory” and “Strongly Recommended” to “Required” and “Recommended,” respectively?  
Scale: 3  
Comment: The change of wording is not that important.

7. OVERALL & PICTORIAL

7.1 Overall, to what extent do you support the changes regarding the IPPF as detailed on the previous page?  
Scale: 4  
Comment: Overall good structural changes.

7.2 To what extent do you agree that the pictorial representation adequately depicts the hierarchy and interrelationships of each element of the new proposed IPPF?  
Scale: 5

7.3 To what extent do you agree that the pictorial representation of the proposed new IPPF is visually appealing?  
Scale: 5

Stockholm November 2, 2014

Klas Schöldström  
CEO

Attachment: Comments from Nils-Göran Olve.
Comments from Nils-Göran Olve, 2014-09-03

New mission etc for the IIA?

Overall structure

The proposed new structure looks reasonable to me as an outsider, but I’m not able to evaluate it in relation to the previous one. Words like ‘required’ (and the one used previously: ‘mandatory’) immediately raises the issue of who is in the position to “require”, and what sanctions there are. However, if this can be given a shared meaning the design with the ‘egg’ looks appealing and communicative.

Mission

I’m somewhat troubled by the mission statement:

“Proposed Mission of Internal Auditing”

To enhance and protect organisational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.”

1. Value to whom? By using the singular and talking of ‘organisational value’ the Mission implies a view that readers should understand this, and my guess is that it refers to the organisation’s legal owners. This raises two objections: one, that it is a strategic issue for owners what value they see in their property, and all owners may not agree on sources of value and likely future benefits from their ownership; and second, that quite a few observers – including internal ones who may be among IA’s audience – may take the position that an organisation also has other stakeholders, like employees, business partners, or others in the communities where it is active. I realise this is related to principle no. 5 which I will discuss further on.

2. Who are the stakeholders mentioned in the Mission? I guess that they are what I called “IA’s audience” in the previous paragraph: the board (through its audit committee); management; possibly other employees. But as there is a discussion about IA’s independence I’m not sure “stakeholders” is the appropriate term for all of them. One might consider deleting the words “stakeholders with”.

3. “Objective and reliable” may be an ideal worth striving for, but it is a philosophical point whether it is feasible. An alternative might be “unbiased and valued”.

It is easy to be critical. So how would I write a mission? Maybe like this:

To protect an organisation’s value-creating processes and resources by communicating with its board and members, thus providing them with risk-related assurance, unbiased advice and enhanced insight.
“Core Principles”

Each of twelve principles are indicated as necessary conditions – three each for input and output, and six characterizing processes. This seems a good, communicative way of packaging these ideas. Some comments:

Input (1–3): Integrity, objectivity and competence seem necessary conditions, but are they sufficient? Like I mentioned above, I’m troubled by ‘objectivity’. It seems very close to ‘integrity’, and I miss something about “passion” for improvement.

Even if an internal auditor has to be unbiased and impartial, s/he has to have ideas about relevance and the organisation’s role in society. This may extend to an understanding of reputational risks to brand, employee branding etc that impacts on which risks to prepare for. Maybe this is included in no. 5? I would consider subsuming objectivity (and the alternative concepts of independence, unbiasedness etc) within integrity, and either delete no. 2 or change it thus:

Is guided by a passion in mindset and approach for realizing the potential of her or his organisation.

Process (4–9): I like these. I believe IA’s role should include analysing the consequences and realism of “the aims and goals of the enterprise” (no. 5), for instance how quality control can be effected in outsourcing relationships, or if adequate competence can be attracted with current HR practices. So while not questioning the strategy, I’d personally as an internal auditor like to add something to this principle:

Aligns strategically with the aims and goals of the enterprise, and aids in clarifying their consequences for risk exposure.

Output (10–12): Aren’t nos. 11 and 12 too general? Having covered ‘assurance’ in no. 10, I’d write something like this:

Is insightful, proactive, and future-focused in establishing an appropriate risk awareness

Promotes positive change towards deliberate, well-articulated and adequate risk management among all members of the organisation.

Or you may find the final item unnecessary, given the previous ones. I might delete nos. 2 and 12, achieving a nice ten-commitments list.

Guidance etc

This sounds eminently reasonable. But it is important that adding the new overarching principles is not interpreted as something separate, intended only as window-dressing. They should be referred to constantly as a relevance test for the more practical advisories.

I’m particularly intrigued by the idea of ‘emerging issues guidance’, which may be shaped as dialogues within the profession. Such ‘guidance’ might be as much a call for good examples and suggestions for shared developments, as normal guidelines.