

The IIA Standards: The IPPF Framework

SPEAKER:
DOTT. ROBERTO ROSATO



UNIVERSITA' degli STUDI di ROMA
TOR VERGATA

COURSE OF BUSINESS AUDITING
UNIVERSITY OF ROME TOR VERGATA

NOVEMBER 2022

IPPF: Authoritative Guidance for Internal Auditing Practitioners

The **International Professional Practices Framework (IPPF)** is the conceptual framework that organizes authoritative guidance promulgated by **The Institute of Internal Auditors – The IIA**

Established in 1941, The IIA is an international professional association with more than 180,000 member worldwide. It's universally acknowledged as the **trustworthy, global, guidance-setting body**, providing internal audit professionals worldwide with knowledge and methodologies

The scope of the IPPF is only authoritative guidance developed by an IIA international technical committee (International Internal Auditing Standards Board, Professional Issues Committee, Global Ethics Committee, and Public Sector Committee) following **appropriate due process**



IA Standards and Guidance: A “Vision for the Future” Story



The Framework has been developed to organise the full range of internal audit guidance from IIA Global in an accessible way.

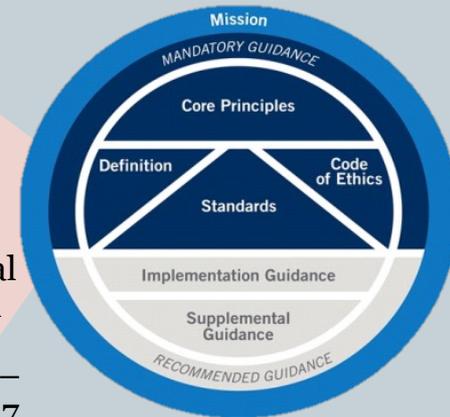


Code of Ethics - 1968

Standards - first issued 1978

Professional Practices Framework - 2000
Revised 2009

International Professional Practices Framework – January 2017



Vision for the Future is a task force focused on reviewing the scope of the framework and increasing the transparency and flexibility of IIA guidance development, review, and issuance processes. The aim is assessing whether gaps existed between the evolving internal audit practices and the Standards, enhancing the guidance structure and development processes.

The Framework for Internal Audit Effectiveness: The New IPPF

In July 2015, The IIA released a new IPPF to better support internal audit practitioners in fulfilling the profession's evolving role with an **insightful, proactive, and future-focused perspective**.

The Framework includes two types of guidance:

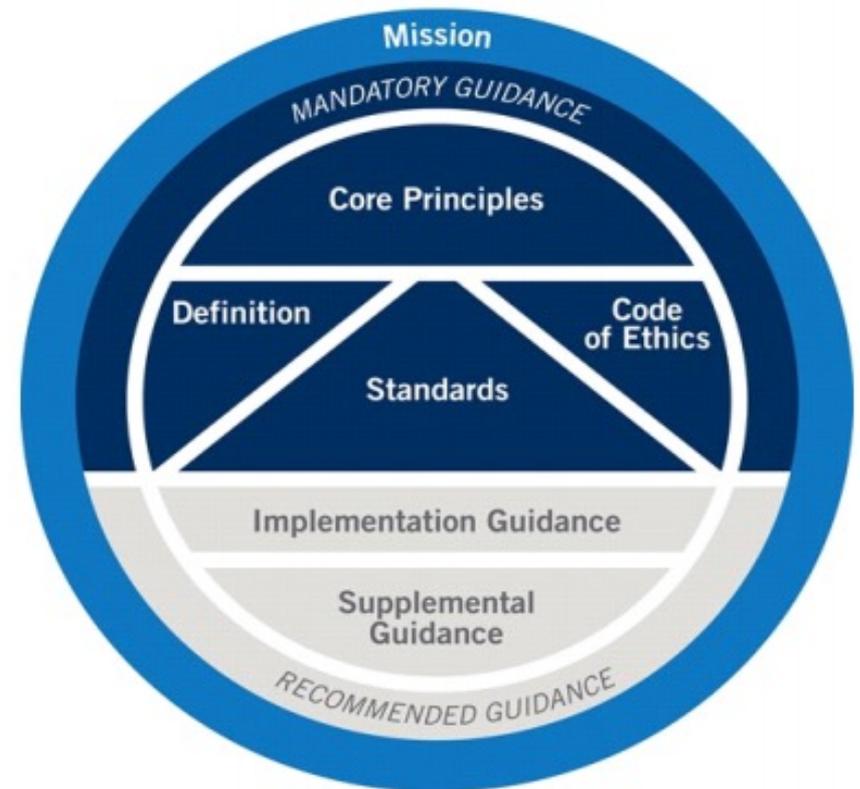
1. **Mandatory guidance:** For IIA members compliance is required and is essential for the professional practice of internal auditing
2. **Recommended guidance:** It describes practices for the effective implementation of mandatory guidance. Therefore, compliance is strongly recommended

Revised Standards, Effective January 1, 2017

The International Internal Audit Standards Board (IIASB) released the revision to the Standards following consideration and approval by the International Professional Practice Framework Oversight Council (IPPFOC).



International Professional
Practices Framework



Path to Internal Audit Effectiveness



<https://www.theiaa.org/sites/auditchannel/Pages/video.aspx?v=lt3l4dTof8QJau9wYqVpr4Ox-BHH15T>

What internal audit aspires to accomplish within an organization?

MISSION

What do IAs try to achieve through their activity?



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

The Mission of Internal Audit describes internal audit’s primary purpose and overarching goal. Achievement of the mission is supported by the entire IPPF, including the mandatory elements of the Definition, Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and Standards, as well as all recommended guidance.

Assurance

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.

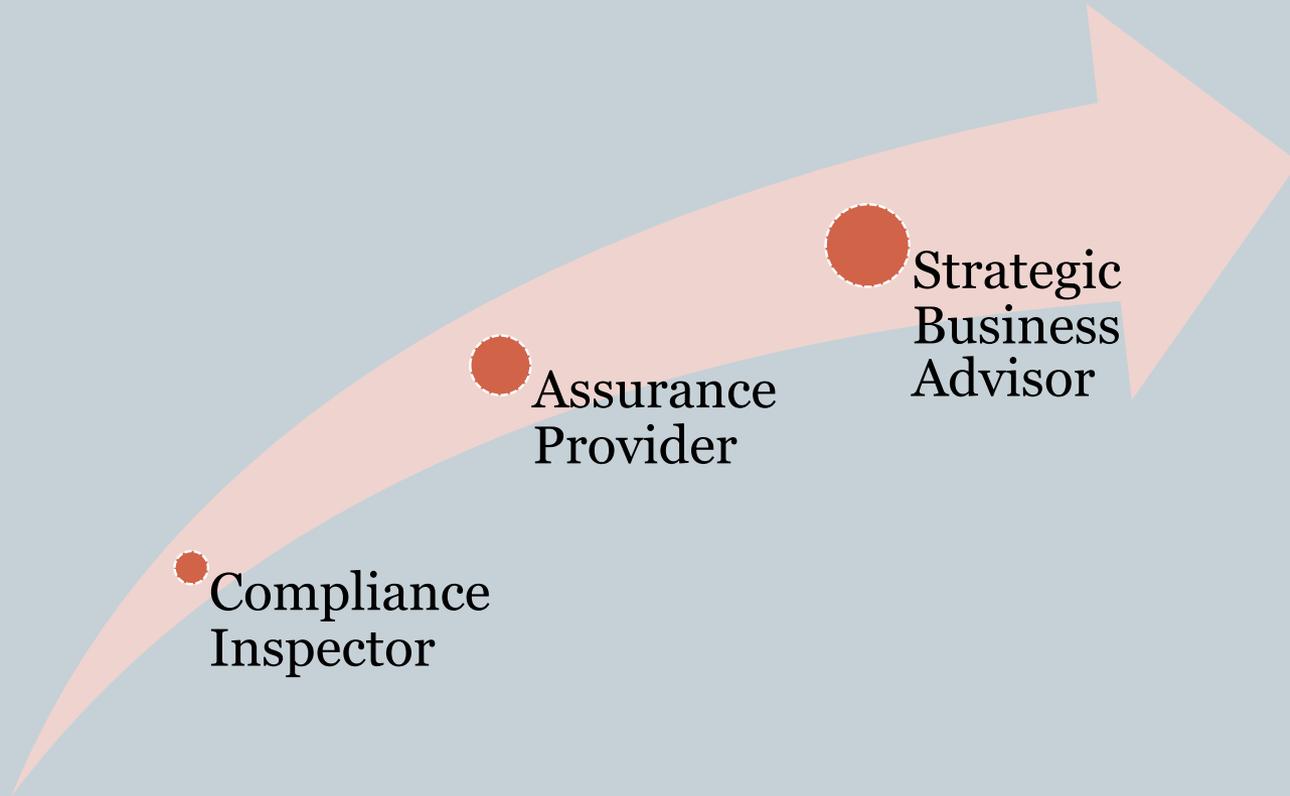
Advice

Advisory, the nature and scope of which are agreed with the client, are intended to improve an organization's governance, risk management, and control processes without assuming management responsibility

Insight

To be truly effective, IA should focus proactively on key risks and issues facing organizations with catalyst, analysis, assessments

MISSION: A changing role



Compliance
Inspector

Assurance
Provider

Strategic
Business
Advisor

What internal audit is?

DEFINITION

Which are IA nature of work and objects of evaluation?



*“Internal auditing is an independent, objective assurance and consulting activity designed to **add value** and improve an organization's operations. It 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 Definition of Internal Auditing states the fundamental **purpose, nature, and scope of internal auditing**

Which are the focal point for IA in order to be present and operating effectively?

Core Principles

Which are the criteria in order to evaluate IA effectiveness?



An Internal auditor is effective if

1. Demonstrates uncompromised **integrity**
2. Demonstrates **competence** and **due professional care**
3. Is **objective** and free from undue influence (**independent**)

Principles relate to the individual internal auditor and collectively to the internal audit activity

8. **Provides risk-based assurance**
9. Is insightful, **proactive**, and future-focused
10. Promotes **organizational improvement**

Principles relate to the outcomes or results of an internal audit activity

Input

Output

Process

4. **Aligns with the strategies, objectives, and risks of the organization**
5. Is **appropriately positioned** and **adequately resourced**
6. Demonstrates **quality** and **continuous improvement**
7. **Communicates effectively**

Principles relate to the internal audit activity and its processes

Failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission

Provides RISK-BASED Assurance



There isn't a definition of risk based internal auditing (RBIA) provided by the IPPF... **WHY??**

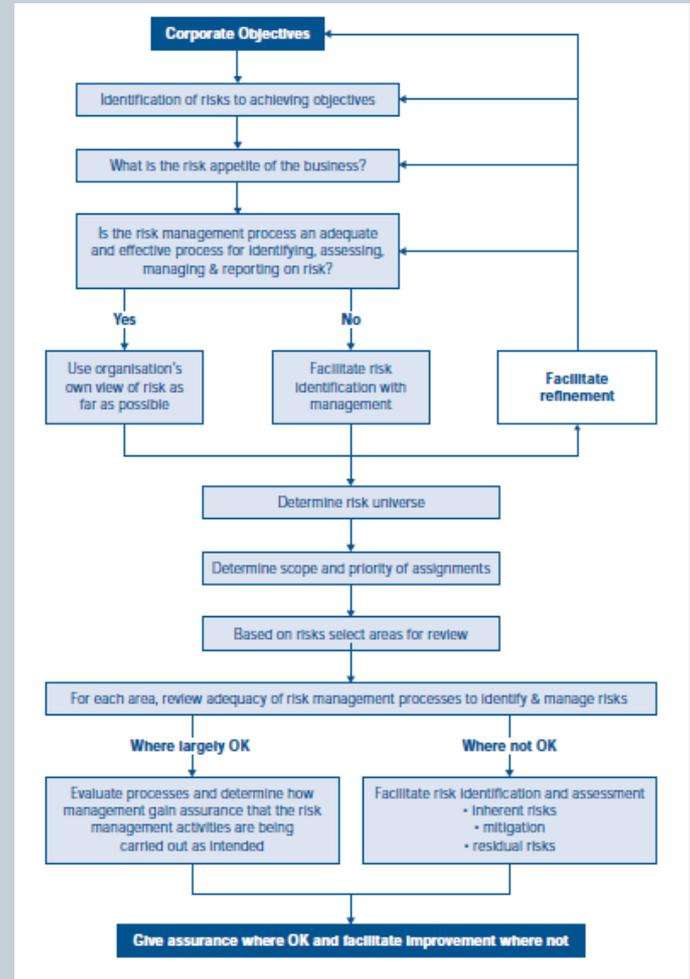
RBIA is a methodology that links internal auditing to an organization's overall risk management framework.
RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite
 (Position Statement – IIA UK and Ireland)

Assessing risk maturity

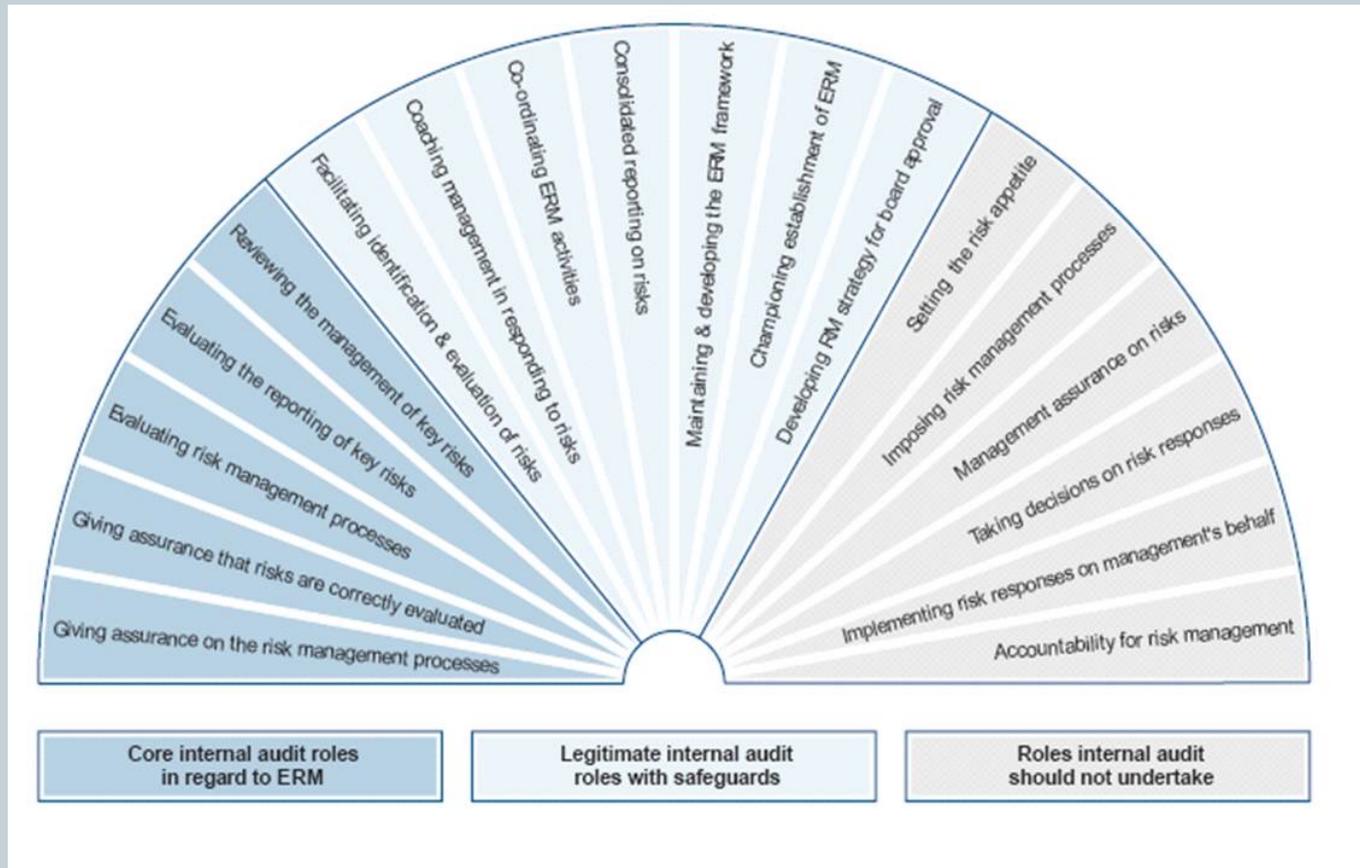
Periodic audit planning

Individual audit assignments

Risk Maturity	Key Characteristics	Internal Audit Approach
Risk Naive	No formal approach developed for risk management	Promote risk management and rely on audit risk assessment
Risk Aware	Scattered silo based approach to risk management	Promote enterprise-wide approach to risk management and rely on audit risk assessment
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	Facilitate risk management/liaise with risk management and use management assessment of risk where appropriate
Risk Managed	Enterprise wide approach to risk management developed and communicated	Audit risk management processes and use management assessment of risk as appropriate
Risk Enabled	Risk management and internal control fully embedded into the operations	Audit risk management processes and use management assessment of risks as appropriate



Provides RISK-BASED Assurance



Which are the minimum requirements for conduct?

Code of Ethics

Which are behavioral expectations rather than specific activities?



4 PRINCIPLES

12 RULES

• Integrity

- The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment

Honesty, Diligence, Responsibility
Compliance No illegal acts
Respect of company ethical value

• Objectivity

- Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

No operational responsibilities
Avoid any pressures
Conflicts of Interest Disclosure

• Confidentiality

- Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Prudency
Correct use of info

• Competency

- Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Knowledge, skills, and experience
Compliance with IPPF
QAIP

International Standards

Which are the Attributes of organizations and individuals performing internal audit services?

Which are the criteria against which the performance of IA services can be measured?



*International Standards for the Professional Practice of Internal Auditing (Standards) provide a framework of **principle-focused criteria** for performing and promoting internal auditing.*

Mandatory requirements consisting of:

- **Statements** of basic requirements for professional practice of internal auditing
- **Interpretations** which clarify terms or concepts within the Statements.
- **Glossary**

Attribute *Standards* address the characteristics of organizations and parties performing internal audit activities

ATTRIBUTE

- Purpose, Authority, and Responsibility
- Independence and Objectivity
- Proficiency and Due Professional Care
- Quality Assurance.

Performance *Standards* describe the nature of internal audit activities and provide criteria for performance evaluation

PERFORMANCE

- Managing Internal Auditing Activity
- Nature of Work
- Engagement Planning
- Performing the Engagement
- Communicating Results
- Monitoring Progress
- Management's Acceptance of Risks

How to implement the Mandatory Guidance?

Recommended Guidance

How to conduct the activity in compliance with the Standards?



Recommended guidance is endorsed by The IIA through a formal approval process. It describes **practices for effective implementation** of The IIA's Core Principles, Definition of Internal Auditing, Code of Ethics, and Standards
The recommended elements of the IPPF are:

Implementation Guidance

Address approach, methodology and considerations, but NOT detailed processes and procedures.

Concise and timely guidance to assist internal auditors in applying Code of Ethics and Standards and promoting good practices. Includes practices relating to: international, country, or industry specific issues; specific types of engagements; and legal or regulatory issues

Downloads and Links

Ref #	Implementation Guide	Date
IG1000	Purpose, Authority, and Responsibility	December 2016
IG1010	Recognizing Mandatory Guidance in the Internal Audit Charter	December 2016
IG1100	Independence and Objectivity	November 2016
IG1110	Organizational Independence	November 2016
IG1111	Direct Interaction with the Board	November 2016
IG1112	Chief Audit Executive Roles Beyond Internal Auditing	December 2016
IG1120	Individual Objectivity	November 2016
IG1130	Impairment to Independence or Objectivity	November 2016
IG1200	Proficiency and Due Professional Care	November 2016

Supplemental Guidance

Detailed guidance for conducting internal audit activities. Includes detailed processes and procedures, such as tools and techniques, programs, and step-by-step approaches, including examples of deliverables.

17 Global Technology Audit Guides (GTAG)
related to information technology (IT) management, control, and security.

3 Guide on the assessment of IT Risk (GAIT)
address a specific aspect of IT risk and control assessment

29 Practice Guides
Provides detailed guidance for conducting internal audit activities, including processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables

3 Practice Guides — Financial Services

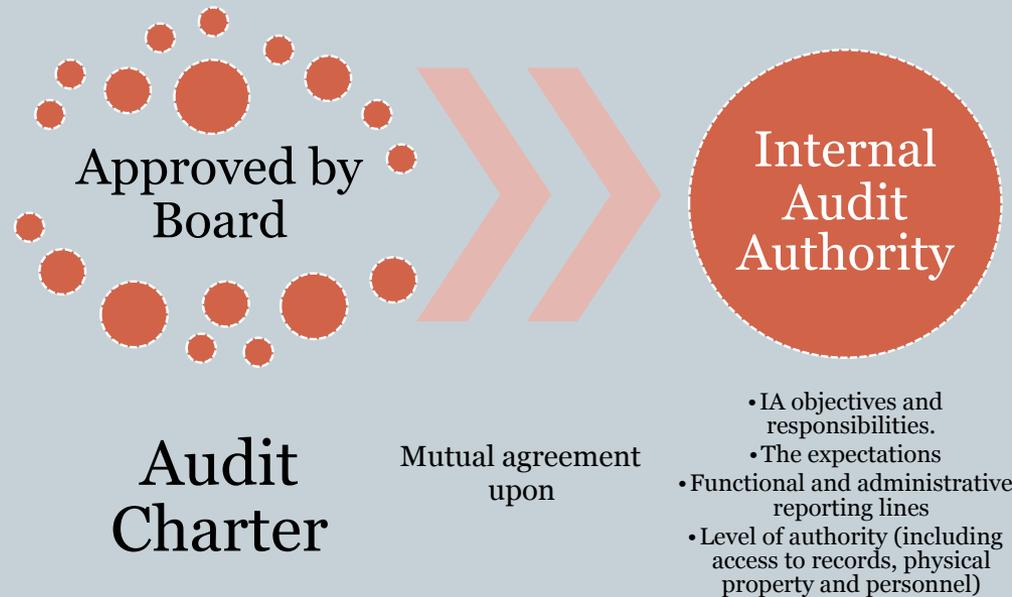
3 Practice Guides — Public Sector

Attribute Standards

1000 – Purpose, Authority, and Responsibility



The **purpose, authority, and responsibility** of the internal audit activity must be formally defined in an **internal audit charter**, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.



Attribute Standards

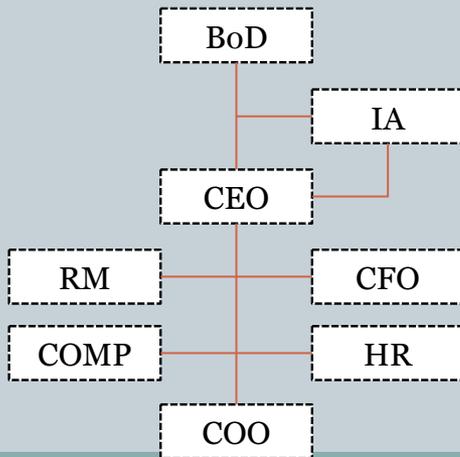
1100 – Independence and Objectivity



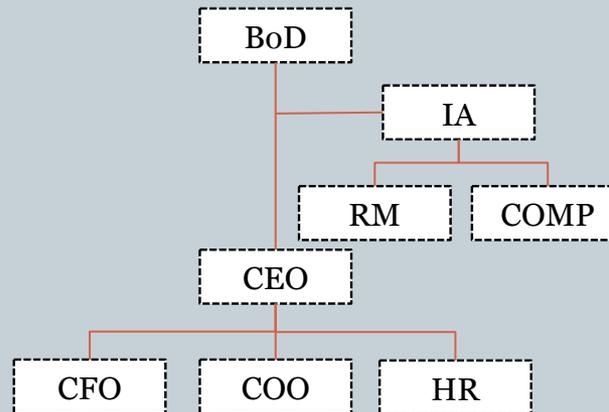
The internal audit activity must be **independent**, and internal auditors must be **objective** in performing their work.

*Which is the best organizational position for IA Activity?
Select one and explain why*

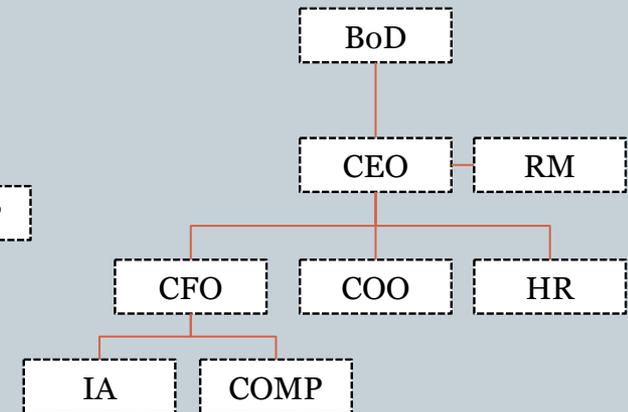
A



B



C

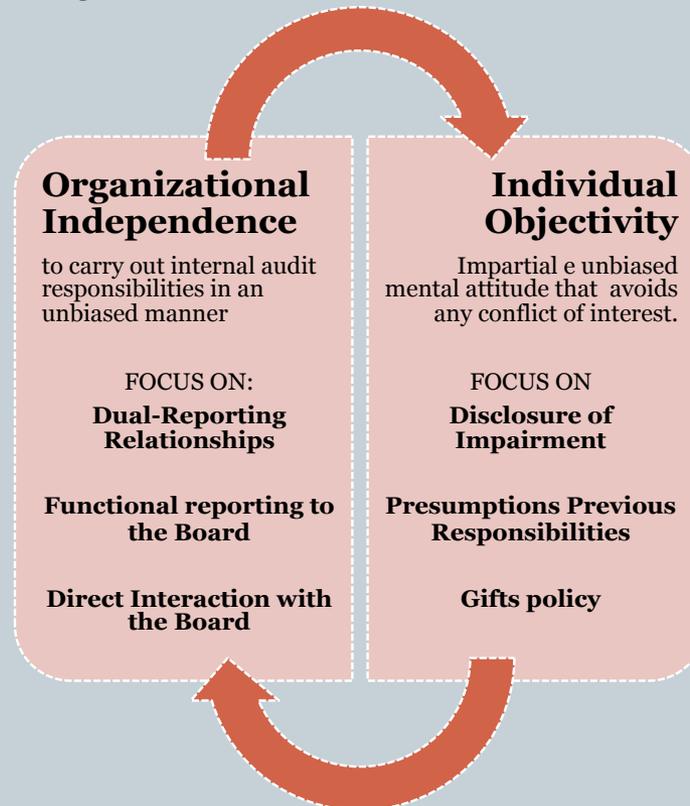


Attribute Standards

1100 – Independence and Objectivity



The internal audit activity must be **independent**, and internal auditors must be **objective** in performing their work.



Attribute Standards

1200 – Proficiency and Due Professional Care



*Engagements must be performed with **proficiency** and **due professional care**.*



- internal audit standards, procedures, and techniques / accounting principles and techniques / indicators of fraud.
 - key information technology risks and controls
 - an understanding of management principles / an appreciation of accounting, economics, commercial law, taxation, finance, quantitative methods, information technology, risk management, and fraud.
 - skills in dealing with people / in oral and written communications
- OR
- **competent advice and assistance**

- Extent of work needed to achieve the engagement's objectives
 - Relative complexity, materiality, or significance of matters
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
 - Cost of assurance in relation to potential benefits

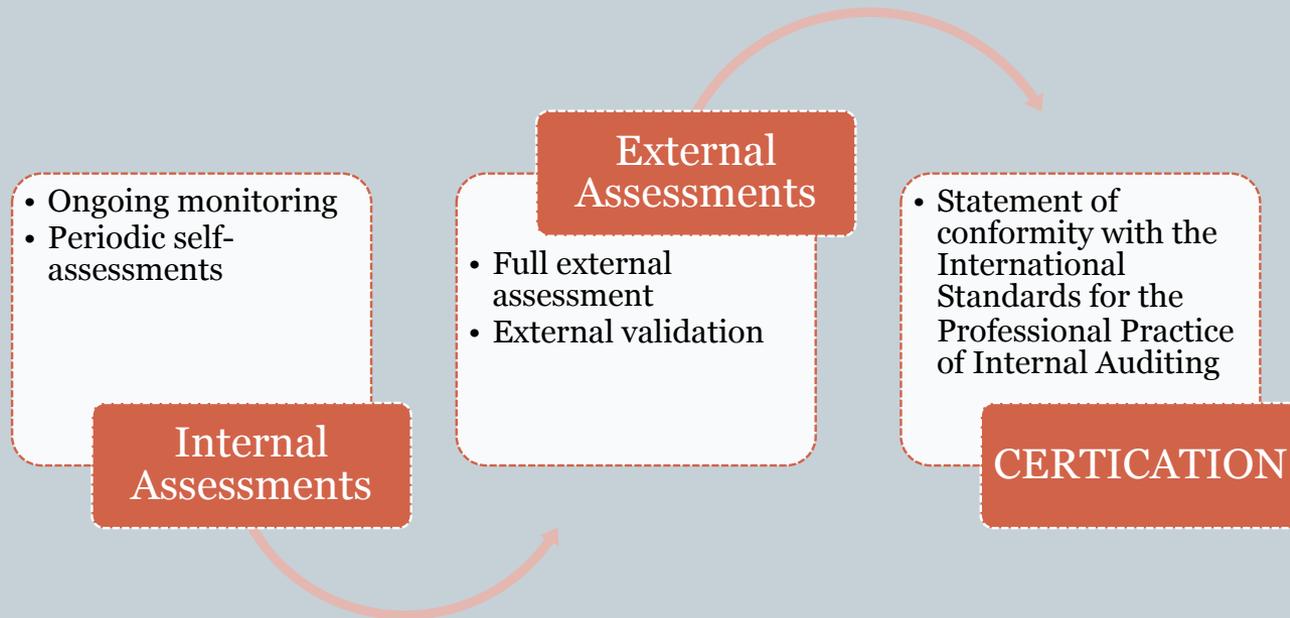
 **Continuing Professional Development** 

Attribute Standards

1300 – Quality Assurance and Improvement Program



*The chief audit executive must develop and maintain a **quality assurance and improvement program** that covers all aspects of the internal audit activity.*

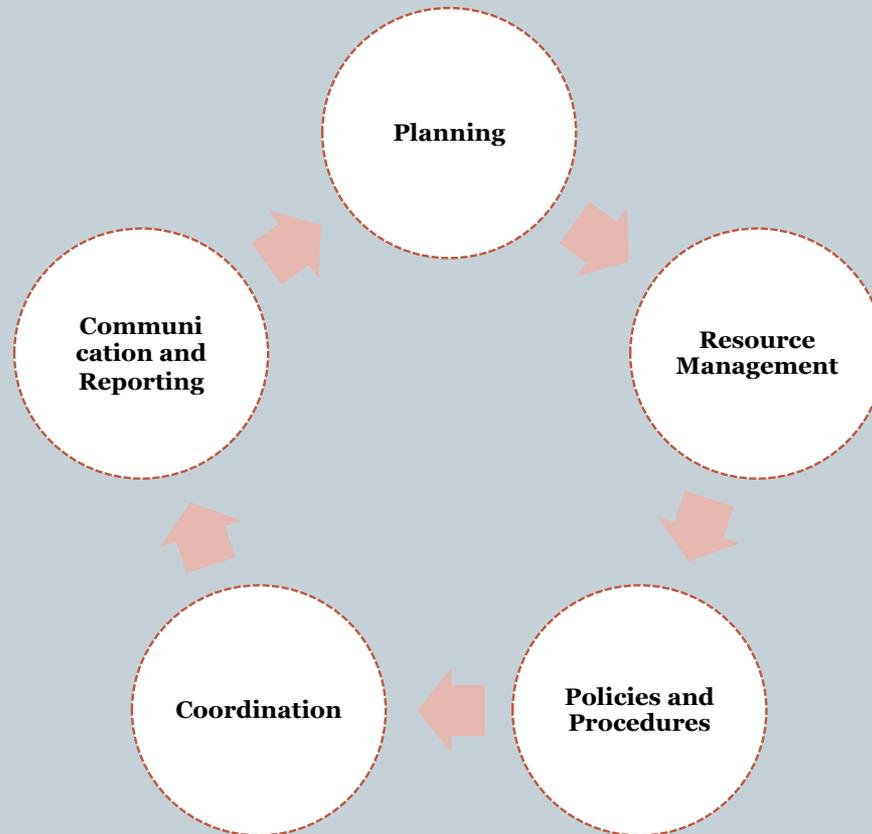


Performance Standards

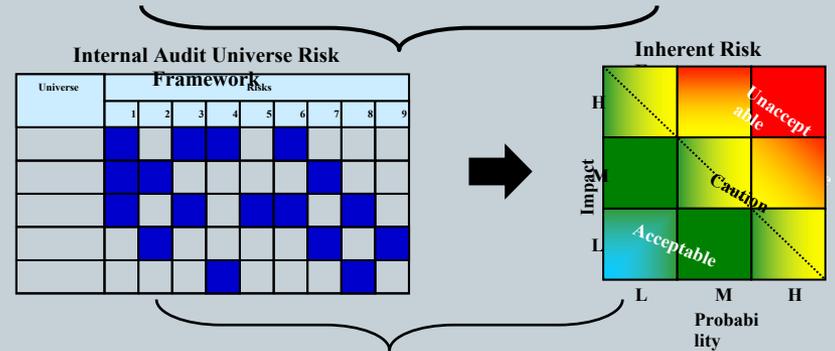
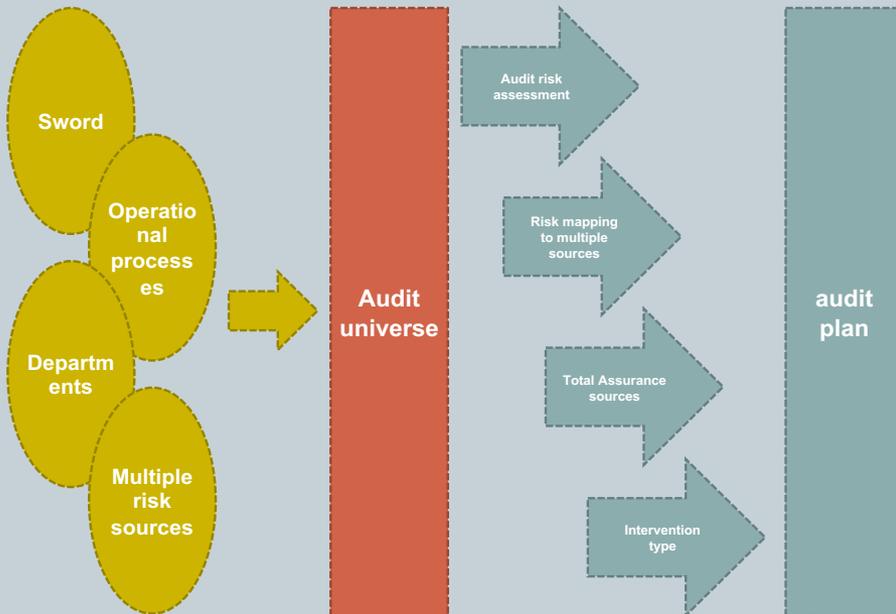
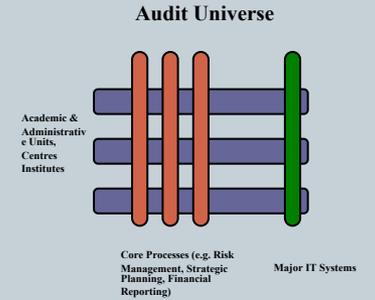
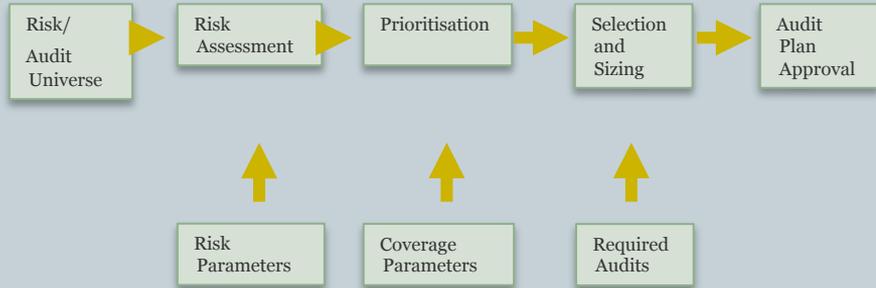
2000 – Managing the Internal Audit Activity



The chief audit executive **must effectively manage the internal audit activity** to ensure it adds value to the organization.



Planning



Risk-Based Internal Audit Plan

Projects	Description	Type	Priority	Timing	Level of Effort
Project 1	Scope and Objective	Audit - Assurance	High	Quarter / Year	Hours
Project 2	Scope and Objective	Audit - Assurance	High	Quarter / Year	Hours
Project 3	Scope and Objective	Audit - Consulting	Medium	Quarter / Year	Hours
Project 4	Scope and Objective	Audit - Assurance	Low	Quarter / Year	Hours

The definition of Audit Plan



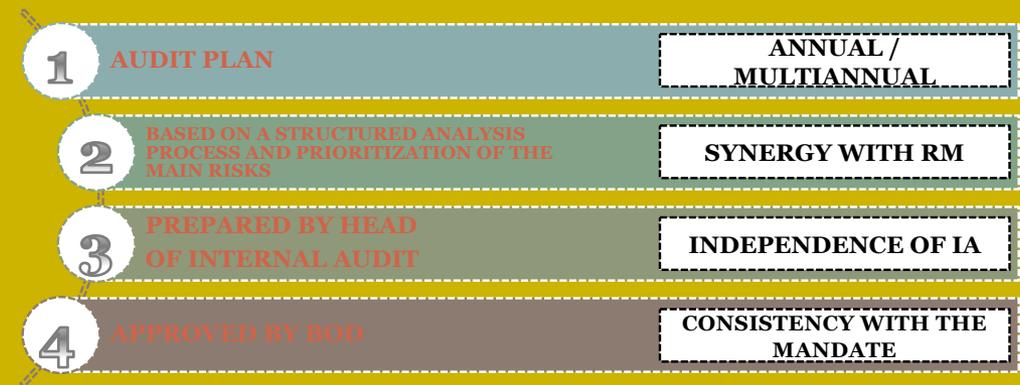
OBJECTIVES

- ✓ Compliance with the Code of Conduct for Listed Companies
- ✓ Alignment with the Professional best practices (Standard IPPF)
- ✓ Significance of assurance in terms of adequate coverage

OPERATIONAL TOOLS

The Audit Plan based on the prioritization of risks

For compliance with the Code of Conduct and Best Practices Professional (Standard IPPF) verification activities on the operation and suitability of the internal control and risk management system must be based on



The definition of Audit Plan

Identification of all possible objects of audit, by defining a hierarchy of business processes

Identification of Audit Universe

Determination of Priorities and Audit Strategies;

Prioritization of audit's objects

Evaluation of ERM – IC Company System

Structured analysis and mapping of business processes

Audit Plan & Action Plan

Identifying areas on which carry out audits and provide recommendations for improvement

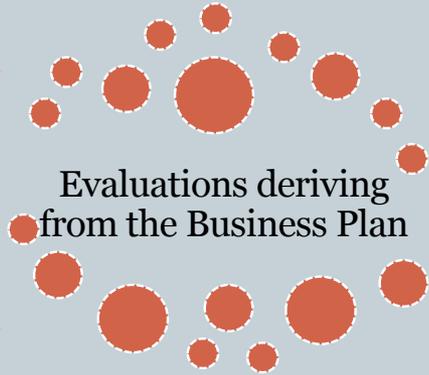
Connection of ICS and Business Plan



It allows to identify
the processes to be
audited

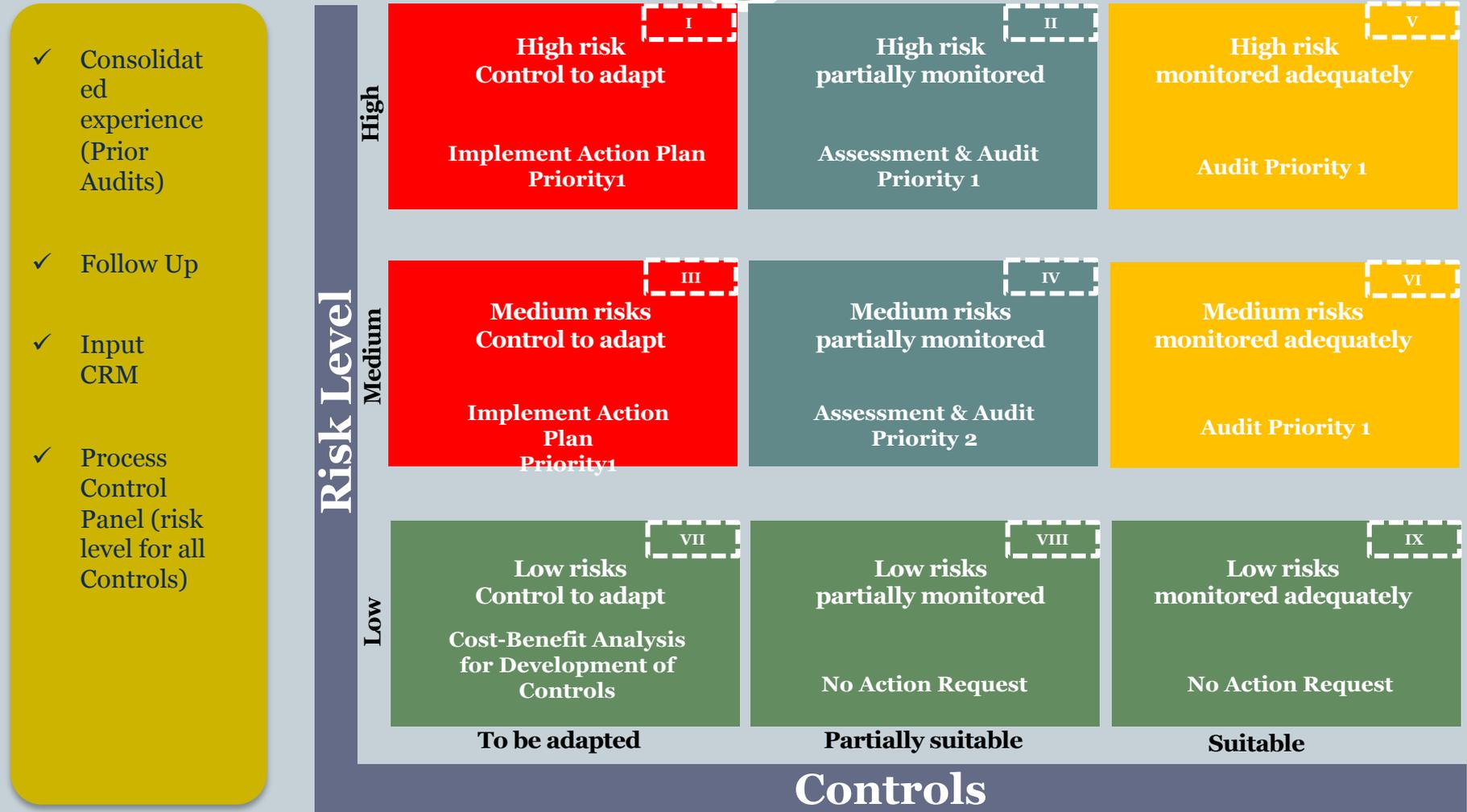


**Risk
Based**



It allows to identify the
specific objects
(projects / companies /
branches) to be
included in the plan

Planning



Performance Standards

2100 – Nature of Work



*The internal audit activity must evaluate and contribute to the improvement of the organization's **governance, risk management, and control processes** using a systematic, disciplined, and risk based approach. Internal audit credibility and value are enhanced when auditors are **proactive** and their evaluations offer new **insights and consider future impact**.*

Governance

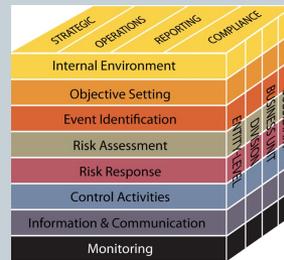
Combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives



- ✓ Ethical principles and values?
- ✓ Efficient organization and accountability?
- ✓ Information & communication on risks and controls?
- ✓ Coordination and information flows between Key Governance Actors?

Risk Management

Process, effected by board, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.



- ✓ Identification of objectives in line with mission?
- ✓ Evaluation of significant risks??
- ✓ Selection of risk response in line with risk appetite?
- ✓ Risk reporting?

Control

Process, effected by an board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance



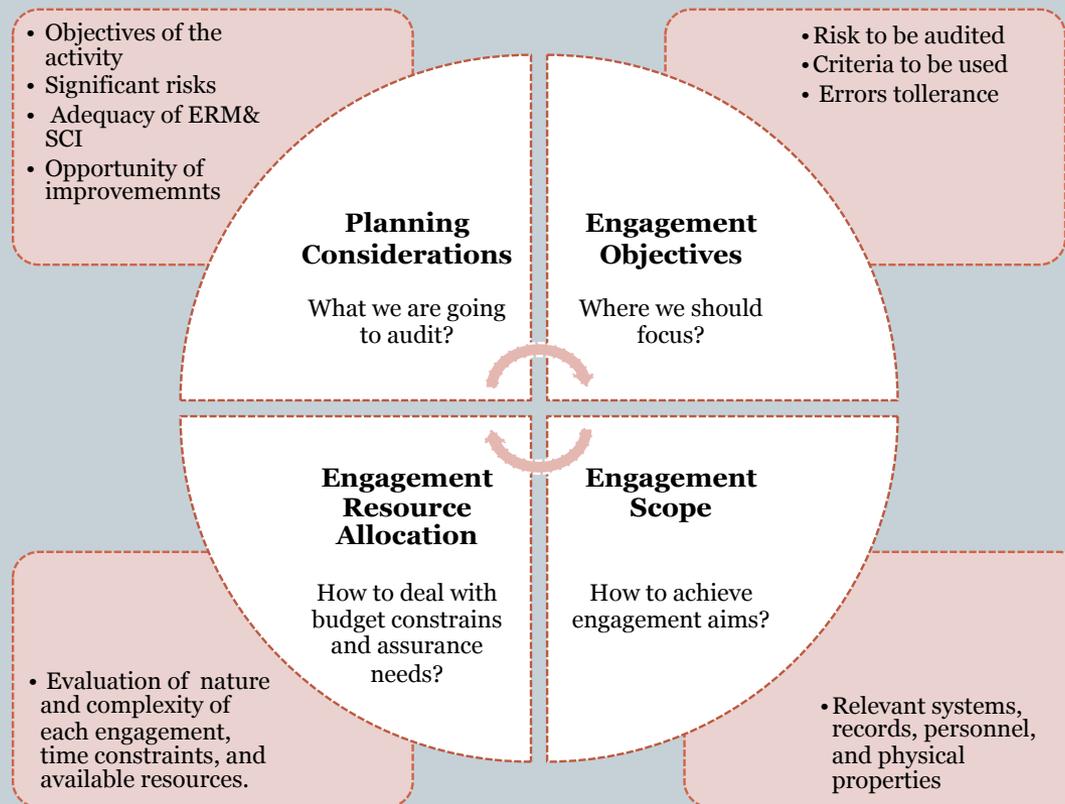
- ✓ Controls proportionated to risks?
- ✓ Controls in line with risk tolerance and acceptance?
- ✓ Reasonable assurance of achieving the objectives (strategic; reliability and integrity of information; effectiveness and efficiency of operations; Safeguard the assets; Compliance)?

Performance Standards

2200 – Engagement Planning



*Internal auditors must develop and document a plan for each engagement, including the **engagement's objectives, scope, timing, and resource allocations**. The plan must consider **the organization's strategies, objectives, and risks** relevant to the engagement*

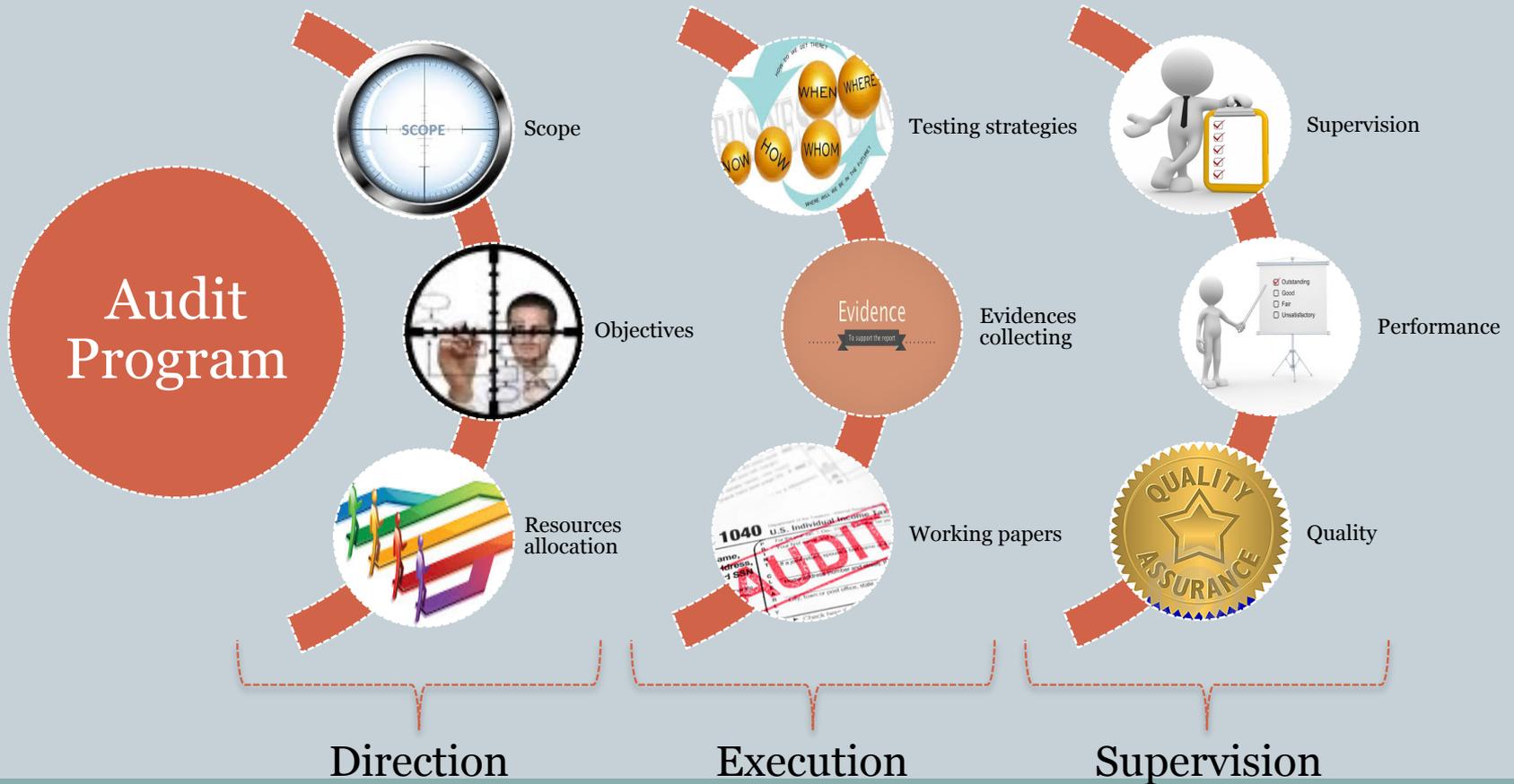


Performance Standards

2240 – Engagement Work Program



Internal auditors must **develop** and **document** work programs that achieve the engagement objectives.



Performance Standards

2300 – Performing the Engagement



Internal auditors must **identify, analyze, evaluate, and document sufficient information** to achieve the engagement's objectives.

Identifying Information

Sufficient

Reliable

Relevant

Useful

Analysis and Evaluation

Data Analytics &
Continuous Auditing

Detailed testin and
Walthrough

Analytical procedures

Root cause analysis

Documenting Information

Relevant information to support the conclusions and engagement results

Performance Standards

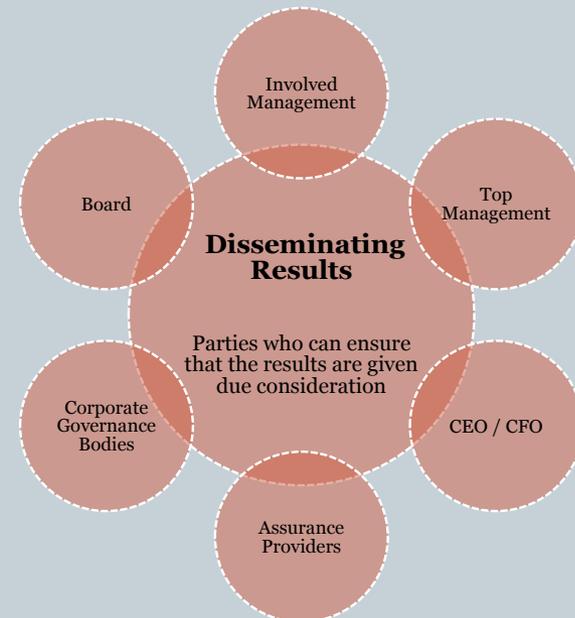
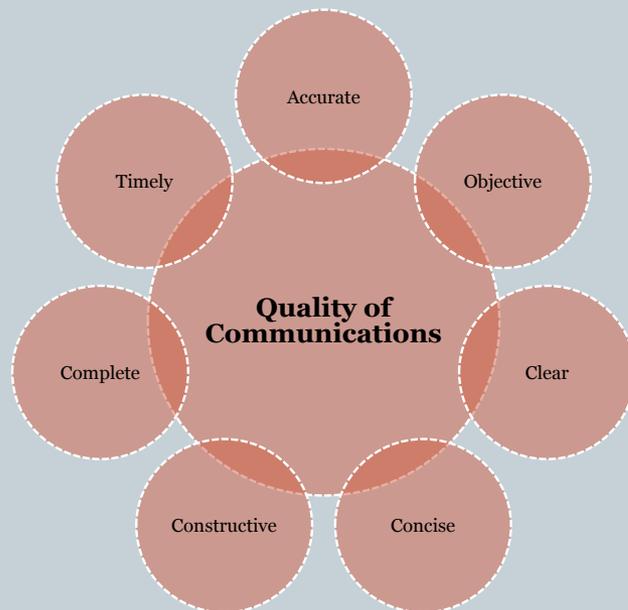
2400 – Communicating Results



Internal auditors **must communicate** the results of engagements.

Observations and recommendations are based on the following attributes:

- ✓ **Criteria:** The standards, measures, or expectations used in making an evaluation and/or verification TO BE
- ✓ **Condition:** The factual evidence that the internal auditor found in the course of the examination AS IS
- ✓ **Cause:** The reason for the difference between expected and actual conditions.
- ✓ **Effect:** The risk or exposure the organization and/or others encounter because of the gaps (the impact of the difference)
- ✓ **Recommendations:** based on the cause



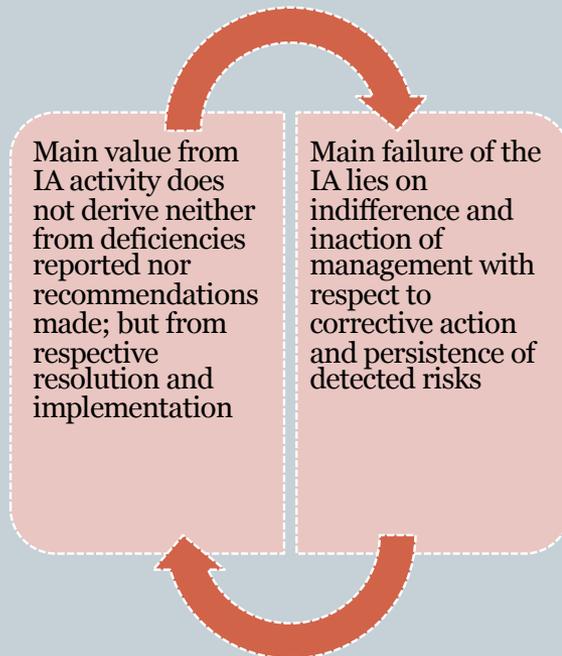
Performance Standards

2500 – Monitoring Progress



*The chief audit executive must establish and maintain a system to **monitor the disposition of results** communicated to management.*

The implementation status of recommendations is the barometer of reputation of Internal Audit



Added value, Effectiveness and Reputation should be measured not statically, on the amount of audits, but dynamically considering the improvements accomplished



Performance Standards

2600 - Communicating the Acceptance of Risks



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

IT IS NOT THE RESPONSIBILITY OF THE CHIEF AUDIT EXECUTIVE TO RESOLVE THE RISK

Audit Charter Purpose



Audit Charter Must

Define the position of IA into the organization

Indicate the extent of Internal Auditing activities

Allow unconditional access to the data, people, information and assets, whenever this is needed for Internal Audit activity

Audit Charter: main of Independence and Objectivity



INTERNAL AUDITING
MUST BE INDEPENDENT

Independence allows Internal Auditor to formulate an unbiased and objective opinion

Independence

INTERNAL AUDITOR ARE
INDEPENDENT WHEN
MAY CARRY OUT THEIR
RESPONSABILITIES
WITHOUT TIES

Adequate organizational position and objectivity of Internal Auditor resulting from proficiency and due professional care are prerequisite of independence.

Objectivity

INDEPENDENCE IS
ASSURED WHEN
INTERNAL AUDIT REFERS
FUNCTIONALLY TO THE
BOARD

The Board approves the audit charter

Charter

Audit Charter: Minimum Content



Elements of Audit Charter

INTERNAL AUDIT

- ✓ VISION
- ✓ MISSION
- ✓ DEFINITION
- ✓ SCOPE
- ✓ POSITION AND ROLE

Audit Charter: Vision and Mission



Vision

Long Term Objectives

Raise awareness of the risks and controls throughout the organization and promote company's values.

Mission

Ultimate Reason of
Internal Audit Activity

Review the adequacy of the internal control and risk management system, its functioning and effectiveness, providing a reasonable assurance to Corporate and Control Bodies and to Top Management

Audit Charter: Definition and Scope



Definition

Nature of work

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control

Scope

Responsabilità and Authority

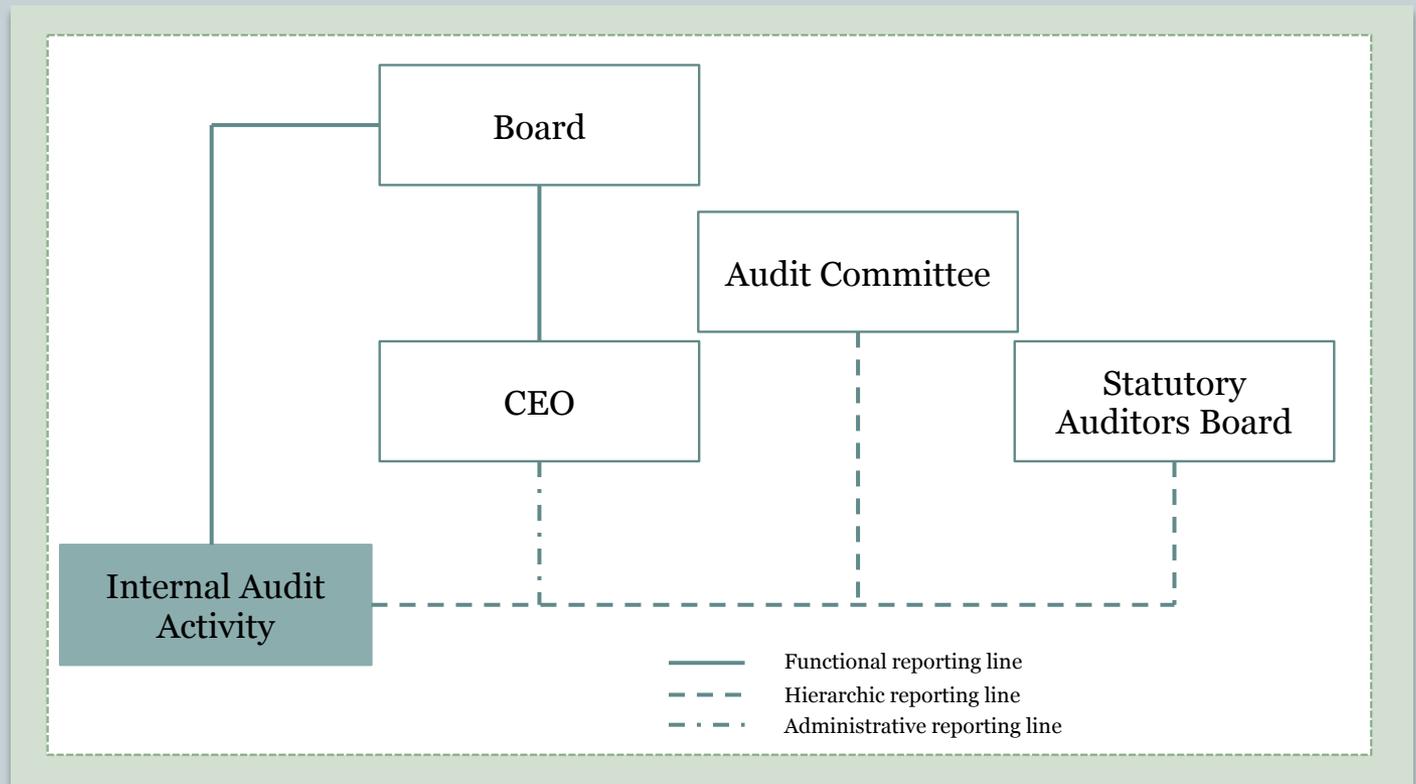
The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of organization records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board

Audit Charter: Position



Position



Internal Audit Manual



2040 – Policies and Procedures

«The chief audit executive must establish policies and procedures to guide the internal audit activity»

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work:

A small internal audit activity may be managed informally. Its audit staff may be directed and controlled through daily, close supervision and memoranda that state policies and procedures to be followed.

In a large internal audit activity, more formal and comprehensive policies and procedures are essential to guide the internal audit staff in the execution of the internal audit plan.

IA Manual Objectives



Establishing uniform criteria for internal control and risk management evaluation

Standardizing operating activities and practices regarding Internal Control System

NEEDS

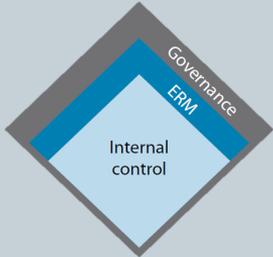
Supporting a continuous improvement of methodologies and practices

Optimizing efficiency and productivity of Internal Audit Activity

IA Manual Content



1. Risk Management and Internal Control Frameworks



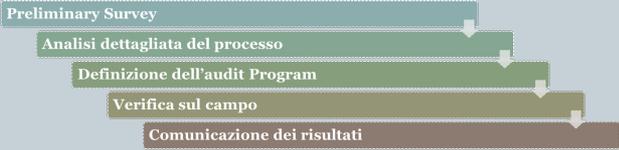
2. Internal audit organization, position and role



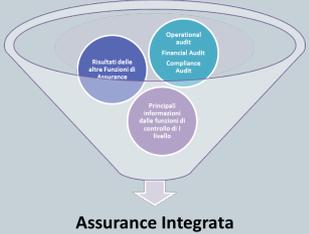
3. Audit Planning



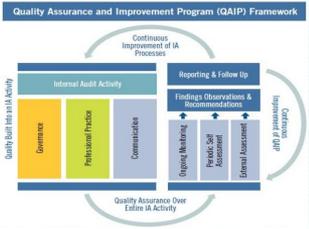
4. Audit Process



5. Communication and reporting



6. Quality Assurance and Improvement Program



7. Human Resource Management

