



LEGISLATIVE AND REGULATORY GUIDELINES

Global Recommendations



The Institute of
Internal Auditors

INTRODUCTION



In early 2018, The IIA released findings from its Project Team and Global Steering Committee tasked with reviewing The IIA's position on the subject of laws, regulation and licensing as it pertains to the profession of internal auditing and its practitioners.

After careful consideration of the various viewpoints, and benchmarking results describing the experiences of other professional organizations, the Project Team concluded that The IIA will support the development of laws and regulations relating to the practice of internal auditing, but not licensing of individual practitioners. Further, the Team suggested the addition of organizational governance codes as a preferred alternative to laws and regulations.

Governance is a well-studied and widely accepted concept that supports success in business and government, and internal auditing is a core component of effective governance. The IIA supports legislation and regulation that enhances governance by mandating internal audit.

Countries vary considerably with respect to political frameworks, legal systems, culture, social priorities, and economic development, so it is not feasible to provide one suitable common template for internal audit legislation or regulation.

Therefore, the aim of this document is to suggest topics that should be considered for inclusion in such legislation or regulation when it is being drafted. The IIA believes the four areas addressed below are essential for internal audit functions to succeed and provide the highest level of service possible to the organization.

Further clarification on the notes provided below may be gained by referring to The IIA's International Professional Practices Framework (IPPF), including its Code of Ethics, Core Principles, Mission Statement, the *International Standards for the Professional Practice of Internal Auditing*, and the related glossary of terms and guidance.

The Legislative and Regulatory Guidelines that follow are meant to provide direction to those involved in the drafting process. Legislators and regulators are encouraged to use the recommended language of this document when creating localized law. The IPPF and its components are principles-based, making them globally applicable and enduring. The principles of good internal audit do not change.

The IIA discourages legislation and/or regulation that is highly prescriptive — specifying in detail the scope of internal audit's work or setting agendas for specific audits. Such legislation and/or regulation tends to narrow the ability of an internal audit function to provide value to the organization and help it achieve its objectives.

The IIA is the internal audit profession's global standard-setting body, as well as its most widely recognized advocate, educator, and provider of guidance and certification. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories.

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Recommendation 1: Defining Internal Auditing

One of the indicators of good legislation and regulation is a clear and precise definition of its elements. The IIA recommends that legislation and/or regulation relating to internal auditing contain(s) the following language: “**...internal auditing, as defined by The Institute of Internal Auditors’ International Professional Practices Framework (IPPF).**”

Commentary

The International Professional Practices Framework currently defines internal auditing as “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 process.” The IPPF, including the definition of internal auditing, is periodically updated. Therefore, to avoid including an outdated definition, legislation and regulation should use language similar to the recommendation above and not include the text of the current definition.

Additional Resources

- The International Professional Practices Framework: <https://global.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>.
- Model Internal Audit Activity Charter: <https://global.theiia.org/standards-guidance/recommended-guidance/Pages/Model-Internal-Audit-Activity-Charter.aspx>

Recommendation 2: Independence and Objectivity

Independence and objectivity are integral to professional internal auditing and are incorporated in the International Professional Practices Framework. The IIA recommends that legislation and/or regulation contain(s) the following language: “**The internal audit activity must be organizationally independent, and internal auditors must be objective in performing their work as defined by The Institute of Internal Auditors’ International Professional Practices Framework (IPPF).**”

Commentary

Independence, as defined by the International Professional Practices Framework, is the freedom from conditions that threaten internal audit’s ability to carry out its responsibilities in an unbiased manner. Independence is best achieved when internal audit has a direct reporting line to the governing body, is sufficiently resourced, and has the proper competencies on staff to carry out its work.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. This means personal beliefs do not interfere with gathering facts; relevant information is never deliberately omitted; and facts are not altered to give misleading impressions or to support one view over another.

Additional Resources

- The International Professional Practices Framework: <https://global.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>
- Independence and Objectivity (Practice Guide): <https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Independence-and-Objectivity-Practice-Guide.aspx>
- Independence and Objectivity: A Framework for Internal Auditors: <https://www.isbns.co.tt/isbn/9780894134609/>

Recommendation 3: International Professional Practices Framework Conformance

The IIA recommends that legislation and/or regulation contain(s) the following language: **“To provide a professional level of service, internal audit activities must conform to the mandatory elements of The Institute of Internal Auditors’ International Professional Practices Framework (IPPF).”**

Commentary

The International Professional Practices Framework is the conceptual framework that organizes authoritative global guidance promulgated by The IIA, and ensures such guidance is readily accessible on a timely basis. The IPPF incorporates a mandatory Code of Ethics to provide the rules of conduct that describe behavioral norms expected of internal auditors, as well as the *International Standards for the Professional Practice of Internal Auditing* that establish the basis for the evaluation of internal audit performance.

Additional Resources

- The International Professional Practices Framework: <https://global.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>
- Quality Assessment Manual for the Internal Audit Activity: <https://bookstore.theiia.org/quality-assessment-manual-for-the-internal-audit-activity-qa-manual>
- Practice Guide: Quality Assurance and Improvement Program: <https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Quality-Assurance-and-Improvement-Program-Practice-Guide.aspx>

Recommendation 4: Governing Bodies

Typically, a committee of the governing body (often a designated audit committee) oversees all audit functions in the organization, including the internal audit activity. The IIA recommends that legislation and/or regulation contain(s) the following language: **“To ensure internal audit is effective and organizationally independent, the organization will appoint a committee of the board to oversee internal audit and to whom the head of internal audit reports functionally.”**

Commentary

Often, an audit committee’s responsibilities include oversight of external audit (financial reporting), internal audit, and risk management. In directing internal audit, it is critical for the audit committee (or assigned committee of the board) to review, provide input, and have final approval over:

- The head of internal audit’s appointment, remuneration, review, and removal.
- The internal audit charter.
- A risk-based internal audit plan.
- Internal audit budget and resources.

Additional Resources

- Audit Committee Handbook: http://theiia.mkt5790.com/CBOK_2015_Six_Audit_Committee/
- Model Audit Committee Charter: <https://na.theiia.org/standards-guidance/Public%20Documents/Model%20Audit%20Committee%20Charter.pdf>

About The Institute of Internal Auditors

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Disclaimer

The IIA publishes this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

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