



IPPF – Practice Guide

INDEPENDENCE AND OBJECTIVITY

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Executive Summary

The importance of independence and objectivity, which has always been significant for internal auditors, continues to increase among the challenges facing internal audit activities in the constantly changing business environment. An ever-growing number of stakeholders, both inside and outside an organization, continue to demand greater transparency, increased disclosures, expanded internal audit services, increased professionalism, improved coordination among internal and external auditors, greater responsibilities, and more accountability from internal audit professionals. This practice guide was developed to address these changes and increased expectations.

There are many assurance providers within the organization, such as frontline managers and executives, quality assurance staff, health and safety staff, compliance and risk management staff. Internal audit is distinguished from many other internal assurance providers by virtue of a requirement to comply with professional standards and a code of ethics that demand independence and objectivity. Further, objectivity is a key determinant for whether external auditors can place reliance on work performed by internal audit. As specified in The International Standard on Auditing (ISA) 610 – Using the Work of Internal Auditors, issued by The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), to determine potential areas of reliance, first and foremost, the external auditors have to evaluate the internal audit activity's degree of objectivity, its level of competence, and the extent to which judgment is involved in planning, performing, and evaluating that work.

Independence and objectivity are integral parts of the mandatory guidance of The Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF). The use of these terms starts with the definition of internal auditing, which states that "Internal auditing is an independent, objective assurance and consulting activity

designed to add value and improve an organization's operations." Objectivity is also one of the four key principles of The IIA's Code of Ethics (Code), which defines the rules of conduct that support these principles. The Code applies both to organizations and individuals that perform internal audit services. Standards 1100 – Independence and Objectivity; 1110 – Organizational Independence; 1120 – Individual Objectivity; and 1130 – Impairment to Independence or Objectivity outline the specific requirements for the internal audit activity and internal audit professionals. All internal audit practitioners should periodically refresh their understanding of this guidance.

This practice guide highlights the IPPF International Standards for the Professional Practice of Internal Auditing (Standards) related to independence and objectivity, as well as The IIA's supporting practice advisories. This guide also acknowledges the confusion that is often present when people use the terms independence and objectivity interchangeably. While independence and objectivity are related, they are distinctly different attributes and require specific actions and safeguards to ensure auditors are both independent and objective.

This guide also highlights activities supporting both independence and objectivity and discusses various factors that can affect an auditor's independence and objectivity. Combinations of threats, unresolved threats, and considerations for both assurance and consulting services also are discussed.

Frameworks for evaluating and managing independence and objectivity are presented as models that internal auditors can use to help ensure that independence and objectivity are promoted and fostered in their own organizations.

Key sections that provide further information relating to considerations about independence and objectivity include:

- Definitions of independence and objectivity, as well as related guidance included in the IPPF.
- Factors impacting independence, such as the organizational reporting relationship of the internal audit activity, access to information, control over the scope of internal audit activities and content of audit communications, and the oversight and involvement of governing bodies.
- Activities supporting independence, such as organizational placement, strong governance environment, hiring practices (including outsourcing, as necessary), and a strong audit charter.
- Factors threatening objectivity, such as social pressure, economic interests, personal relationships, familiarity, cultural and other biases, self-review, and intimidation and advocacy threats.
- Managing threats to objectivity through the use of incentives, teams, rotational assignments, training, supervision and review, quality assessments, hiring practices, and outsourcing.
- Unresolved challenges to objectivity and considerations for assurance and consulting engagements.
- A process for managing threats to independence and objectivity and frameworks for evaluating independence and objectivity at the individual, engagement, activity, organization, and professional levels.

Introduction

In the midst of a global drive to improve corporate governance, internal auditors face many challenges and opportunities, including increasingly complex and pervasive use of technology, a need for new and ever-changing skills, flattening organizational structures, demand for an expanding scope of services, and increasing competition and globalization. Internal auditors are developing new strategies to meet these challenges, and are becoming more proactive by providing a broadened variety of serv-

es and otherwise changing the internal audit model. This, in turn, creates additional challenges in managing both independence and objectivity.

Management employs internal auditors, yet these same internal auditors review the performance of management and other activities within the organization. In addition, management often relies on internal auditors for consulting services and incorporates audit recommendations into the reengineering of business processes. In their role as assurance providers, auditors evaluate management's processes. The combination of the internal auditor as an employee of the organization, the increasing importance of internal audit activities, and the growing demand for internal audit consulting activities lead to escalating concern about internal auditor independence and objectivity. As internal auditors expand their role in governance and risk management activities, additional challenges are presented for managing independence and objectivity. The IIA's Position Paper on the Role of Internal Auditing in Enterprisewide Risk Management provides an excellent example of the expanded roles for internal audit as well as safeguards needed to address any threats to internal audit's independence and objectivity.

As both private and public organizations around the world grow in size and influence, society is demanding greater accountability. This drive for accountability has led to an increased focus on audit activities as a cornerstone of governance systems and, in some parts of the world, has resulted in calls for mandating an internal audit activity.

The purpose of this practice guide is to:

- Highlight IIA guidance on independence and objectivity.
- Discuss potentially confusing aspects encompassing independence and objectivity.
- Identify activities that support independence and objectivity.

- Identify various considerations and potential challenges related to independence and objectivity.
- Provide frameworks for managing independence and objectivity.

Guidance on Independence and Objectivity

The IIA's IPPF provides guidance for independence and objectivity in several standards, practice advisories, and position papers. The following standards, which include a paraphrased interpretation, address independence and objectivity.

1100 – Independence and Objectivity (Standard)

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

Interpretation:

“Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. . . . 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. . . .”

1110 – Organizational Independence (Standard)

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.

Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter;*
- *Approving the risk-based internal audit plan;*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- *Approving decisions regarding the appointment and removal of the chief audit executive; and*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

1120 – Individual Objectivity (Standard)

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

1130 – Impairment to Independence or Objectivity (Standard)

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

The various standards and practice advisories related to independence and objectivity are reproduced in detail in the appendix of this practice guide.

Relationship of Independence and Objectivity

In practice, there is often confusion about independence and objectivity, and many people use these terms interchangeably. Independence and objectivity are not the same thing. Someone can be independent but not objective, and conversely, someone can be objective but not in-

dependent. It is important to understand the difference between the two and realize how threats and safeguards affect each.

It is easier to measure or gauge independence and implement safeguards to ensure it than to ensure objectivity. Safeguards such as reporting relationships, segregation of duties, restrictions on responsibilities, remuneration structure, and actions or requirements that avoid conflicts of interest can help improve independence.

Objectivity, however, is something for which an individual auditor retains ultimate accountability and control. For example, statistical sampling techniques can be used to pull an unbiased sample for testing, but it is still up to the individual auditor to exercise professionalism and due care in applying the test attributes or procedures and interpret the results in an unbiased manner. Supervisory review of the test work is a safeguard to help ensure that test results and conclusions are objective.

The IPPF Standards Glossary provides the following definitions for independence and objectivity (as revised Jan. 1, 2011):

Independence: The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Objectivity: 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. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

As previously noted, many auditors have struggled with these concepts, often using the terms interchangeably and incorrectly. This confusion was compounded by using one term to define the other. The newly revised Standards Glossary definitions should help alleviate some of

this confusion. While these terms are certainly related, they are extremely different concepts. In practice, the independence concept is usually expressed in factual matters, such as the organizational placement of the internal audit activity, reporting relationships to the board, an audit committee or other governing body separate from management, and authorities to access information, people, and records. Objectivity relates more to a state of mind, the individual auditor's judgment, biases, relationships, and behaviors.

Independence

Factors Impacting Independence

The specific role of internal audit activities varies from organization to organization based on factors such as organizational size, type of operations, capital structure, and the legal and regulatory environment. In some organizations, the work of internal auditors is confined to special assurance and consulting projects for management. In these situations, management is the only user of the internal audit work and the only party that derives direct benefit from that work. In other organizations, the internal audit activity provides assurance and consulting services to various groups inside and outside the organization, such as governing bodies (e.g., boards of directors), regulators, external auditors, customers, and suppliers.

The particular role of the internal audit activity in an organization determines the appropriate structure of responsibilities and reporting level as well as the degree of reliance that should be placed on the assurance and consulting services provided. An internal audit activity with a broad assurance and consulting role ideally should report directly to the governing board of the organization and, more specifically, to the audit committee of the board or other similar body.

The organizational placement and status of the internal audit activity poses a practical constraint or a limit on the scope of internal audit services that can be appropriately undertaken by internal auditors. For example, if the internal audit activity resides in the controller's department with the chief audit executive (CAE) reporting directly to the controller, it is difficult — if not impossible — for the internal auditor to objectively evaluate the performance of peer offices under the chief financial officer. In general, the higher the reporting level, the greater the potential scope of engagements that can be undertaken by the internal audit activity while remaining independent of the audited entity.

The ability to achieve appropriate and adequate internal audit activity independence depends critically on the appropriate placement or organizational status of the activity within the organization. The organizational status of the internal audit activity should be sufficient to allow it to accomplish its activities as defined by its role within the organization. In this regard, the internal audit activity must be positioned to obtain cooperation from the entity being audited and free access to required information. Noting such access in audit department and audit committee charters is always a good practice. Including CAEs as part of senior or executive management and as participants in critical meetings helps demonstrate strong and supportive top management commitment to the internal audit activity. In addition, reports of audit findings must not be subject to potential interference and suppression by management.

The internal audit activity should be organized to afford a higher organizational status as its role expands and as more parties inside and outside the organization derive assurance from its work. For example, to provide assurance to the governing body of the organization, such as the board of directors or similar bodies, the CAE should have direct and unrestricted access to that body. This allows the activity to be insulated from possible threats to independence.

If the internal audit activity does not have sufficient organizational status and autonomy, the ability to effectively manage the independence of its work and reports is subject to question. For example, the risk that independence will be compromised may be high in situations in which the CAE may be fired by top management without consultation with the organization's governing body. The risk also may be high in situations in which the scope of audit activities or the activity's budget is determined by top management without consultation with the governing body. In these situations, there is a risk that management may inappropriately affect the scope of the audit work, impose bias, or suppress audit findings. When the risk that appropriate and adequate independence will not be achieved is significant, it is difficult to determine how much assurance may be derived from the audit work.

In evaluating the appropriate organizational status of the internal audit activity, consideration also should be given to other constituents who derive benefit from the assurance and consulting work. For example, external auditors may have greater confidence in internal controls because they know an effective internal audit activity reviews the system. Similarly, the governing body of an organization may obtain assurance on overall control from the fact that the internal audit activity performs risk assessments to determine the appropriate areas to audit. The knowledge that risk assessment and monitoring are being performed may provide implicit assurance in areas beyond those explicitly examined and reported on by internal auditors.

Internal auditors are being asked more frequently to provide assurance to parties outside the organization. For example, regulatory agencies often require copies of internal audit reports. Some regulations even require establishment of an internal audit function. In addition, customers and suppliers are beginning to request assurances about such matters as the organization's controls over the confidentiality of shared information, particularly in electronic commerce cases. Providing credible assurance to these outside parties requires the highest degree of orga-

nizational status and autonomy on the part of the internal audit activity.

The organizational status of the internal audit activity correlates with the scope of engagements that can be undertaken. When there is high-level reporting, the scope of potential engagements is less limiting; when there is lower-level reporting, the reporting universe (i.e., the population of users who could benefit from the audit work) becomes more limited.

In organizations where assurance is derived by parties other than management, the organization's governing body should review the autonomy of the internal audit activity to ensure its adequacy. If internal audit activities provide assurance to customers, clients, external auditors, regulators, or other parties outside the organization, such assurance activities should be endorsed by the appropriate governing body. In addition, the autonomy and organizational status of the activity should be reviewed for compliance with any existing legal or regulatory requirements.

In reviewing and evaluating the organizational status of the internal audit activity, the governing body should consider factors that increase and improve independence, such as:

- The reporting level of the CAE within the organization.
- The CAE's unrestricted access to information throughout the organization and the governing board.
- The governing board's involvement in decisions to hire or remove the CAE and in drafting and approving an internal audit charter.
- The role of the governing board in influencing the budget for, and the scope of, internal audit activities and remuneration and retention of the CAE.
- The active involvement, oversight, review, and follow-up by the governing board with the internal audit activity.

These factors are not intended to be all-inclusive, and should be considered in relation to the parties that expect to derive assurance from the internal auditors' activities. When internal audit has sufficient organizational status and autonomy, parties both inside and outside the organization can have increased confidence in internal audit's ability to manage threats to independence with respect to the work that it performs. Therefore, the CAE is free from significant threats that may affect any individual auditor's ability to make independent decisions regarding audit engagements and reports.

Activities Supporting Independence

The following list is not intended to be exhaustive. Rather, it is intended to illustrate the range of mitigating factors and safeguards that may reduce or eliminate threats to independence.

Organizational Position and Policies

The auditor and/or audit activity's organizational position, internal audit charter, and policy statements at various levels addressing auditor/audit client relations may bolster the auditor's position in the organization and create barriers for audit clients to influence or intimidate auditors. Other documents that could be used to promote internal audit's status in the organization are the organization's code of ethics, the audit activity's mission statement, audit reports and other official communications from the audit activity, an audit website, and the audit committee charter.

Environment — Strong Organizational Governance System

A supportive environment in the organization as a whole encourages auditors to audit and report without restriction and fear of retaliation for negative opinions or critical findings. A significant component of a supportive environment is the audit committee, board, or other governing body, which is crucial in ensuring auditor independence.

Audit Charter

A strong governing body and internal audit charter that clearly outline internal audit's responsibilities, authorities and reporting relationship, unrestricted access to information, people, and records can help promote independence. Effective governing body oversight, including responsibilities for hiring, evaluating and compensating, and terminating the CAE, can improve independence.

Hiring and Compensation Practices

Hiring practices also can be a safeguard for independence. For example, screening can ensure that potential employees do not have conflicts of interests that threaten the internal audit activity's independence. For example, determining whether applicants own stock in the organization, are related to people who work for or have business relationships with the organization, or have served in some official capacity previously or provided significant services to the organization in the past. Compensation practices also can be structured so that the auditors' pay is not dependent on the performance of the organizational units they review.

Outsourcing

When internal structure and mechanisms cannot be effectively used to manage threats to independence, outsourcing to an external service provider can help promote independence of internal audit activities.

Objectivity

Factors Threatening Objectivity

To make unbiased performance and reporting decisions, internal auditors must be able to manage threats to objectivity. This ability is also an important signal to governing boards, shareholders, and external parties that internal audit activities can be relied on to provide assurance

about control, compliance, and other relevant matters.

Social Pressure

Social pressure threats may arise when an auditor is exposed to, or perceives that he or she is exposed to, pressures from external parties. For example, a perception that external auditors or regulators expect a certain number of findings to be generated, or that management expects each engagement should produce major findings, can put undue pressure on internal auditors. This situation also may occur when the auditor, for example, has inadvertently or mistakenly raised issues in the past when there were no problems. Also, pressure from audit clients could drive the auditor to overlook suspicious items. Another form of social pressure could occur when an audit team member is reluctant to oppose a generally held view on the part of the audit team itself or from clients who indicate that "this is the way we have always done it" (a phenomenon labeled as "groupthink" in behavioral literature).

Economic Interest

This threat may arise when the auditor has an economic stake in the performance of the organization. An auditor may fear that significant negative findings, such as discovery of illegal acts, could jeopardize the entity's future; hence, the auditor's own interests as an employee. Or, an auditor may have stock options or other financial interests that may be threatened by negative audit findings. This threat also arises when the auditor audits the work or department of an individual who may subsequently make decisions that directly affect the auditor's future employment opportunities or salary.

Personal Relationship

This threat may arise when an auditor is a close friend or relative of the manager or an employee of the audit client. The auditor may be tempted to overlook, soften, or delay reporting negative audit findings to avoid embarrassing the friend or relative.

Familiarity

This threat may arise because of an auditor's long-term relationship with the audit client. Familiarity may lead an auditor to lose objectivity during an audit by making the auditor overly sympathetic to the client. Alternatively, familiarity may lead an auditor to prejudge an audit client on the basis of previous problems (or nonproblems) and assume a posture consistent with the prejudgment rather than taking a fresh, objective look.

Cultural, Racial, and Gender Biases

This threat may arise from cultural, racial, or gender biases. For example, in a multidivisional organization, a domestically based auditor may be biased or prejudiced against audit clients located in certain foreign locations. Or, an auditor may be unduly critical of different practices and customs or of an audit client managed or staffed by employees of a particular race or gender.

Cognitive Biases

This threat may arise from an unconscious and unintentional psychological bias in interpreting information depending on a person's role in a situation. For example, if someone takes a critical audit perspective, he or she may overlook positive information. Conversely, if someone takes a positive facilitative perspective, he or she may discount negative information. In addition, an auditor may come with certain preconceived notions and tend to see evidence confirming such notions.

Self-review

Self-review threats may arise when an auditor reviews his or her own work performed during a previous audit or consulting engagement. For example, an auditor may audit a department repeatedly or in consecutive years, or the auditor may provide consulting services in connection with a system implementation that he or she subsequently must audit. Furthermore, the auditor may provide recommendations for operational improvements and subsequently review processes that were changed in accordance with

those recommendations. All of these examples represent situations in which the auditor could conceivably become less critical or observant of errors or deficiencies due to the difficulty of maintaining objectivity when reviewing his or her own work.

Intimidation Threat

Intimidation threats arise when an auditor is deterred from acting objectively by threats — actual or perceived — or being overtly or covertly coerced by audit clients or other interested parties.

Advocacy Threat

Advocacy threats arise from auditors acting biased in promoting or advocating for or against the audit client to the point that subsequent objectivity may be compromised.

Managing Threats to Objectivity

The following list is not intended to be exhaustive. Rather, it is intended to illustrate the range of mitigating factors that may reduce or eliminate threats to objectivity.

Incentives (Rewards, Discipline)

A system of rewards and disciplinary processes within both the internal audit activity and in the entire organization can reduce threats to objectivity. For example, an environment that rewards critical and objective thinking or penalizes bias or prejudice can encourage objectivity in the face of these types of threats. Incentive pay, additional time off, flexible work schedules, and other positive rewards can be used to encourage and reward objective thinking.

Likewise, penalties that impact performance reviews, delay promotions or other advancement, or require additional training could be used to discourage lack of objectivity. Naturally, how such reward and discipline programs are structured and managed is critical and must be conducted in a professional and balanced manner to be viewed as positive and supportive.

Use of Teams

Assigning another team member to an audit can diffuse or eliminate potential threats to objectivity by bringing an additional perspective to the audit. This additional perspective can counterbalance potential threats due to familiarity, personal relationships, self-review, or other threats to objectivity on the part of one or more audit team members. In addition, appropriate assignments within teams can be made to maximize the mitigating effects of the team approach.

Rotation/Reassignment

Rotating audit assignments can reduce the degree of familiarity and self-review. There are different types of rotation, including rotating all the staff from one audit to another so that new staff always performs the audit; rotating some of the staff; and keeping the audit staff on a repeated audit but rotating the work performed by the staff.

Training

Training in appropriate methods and approaches improves objectivity. Further, training also can help auditors recognize potential threats to objectivity, so that they can avoid or effectively manage them in a timely fashion.

Supervision/Review

Close supervision of auditors and careful review of their work can encourage staff to approach audit issues objectively, since they are accountable for their judgments. Research indicates that accountability is an important factor in improving judgments and reducing biases in an audit.

Quality Assessment

Internal and external reviews of the internal audit activity, its services, processes, and procedures can help ensure that threats to objectivity are effectively managed and professionalism is maintained. Ongoing monitoring and periodic reviews can help ensure that processes are in place and that the audit staff carries out their activities in accordance with designated policies and procedures.

Hiring Practices

Hiring practices also can improve the likelihood that personnel are free from biases and are able to render objective judgments when conducting internal audit engagements. For example, screening can ensure that potential employees do not have conflicts of interests that threaten their objectivity. Also, determining whether applicants have relatives that work for the organization, own stock in the organization, have family members with business relationships with the organization, or have served previously in some official capacity or provided significant services to the organization can help ensure objectivity.

Outsourcing

Outsourcing internal audit activities to a third party may be appropriate when there are known or perceived conflicts of interest that would impair the staff's judgment or create potential biases.

Combinations of Threats to Objectivity

There could be circumstances in which several categories of threats are present at the same time. For example, many internal auditors provide control self-assessment services that involve working with audit client representatives and facilitating their review of risks and controls. A number of threats can arise in these circumstances, such as self-review threats if an auditor acts as a facilitator and subsequently is assigned to review the controls that were the subject of the assessment exercise. Also, social pressure threats may arise if the facilitating auditor feels pressure to not “breach the trust” placed in the self-assessment process by the participants who candidly reveal system weaknesses. In this context, an auditor may be concerned that future self-assessment exercises would be undermined by negative audit findings. Furthermore, when an auditor takes on a facilitating role, he or she may become too close to some audit clients by developing personal relationships that could make it difficult to be critical of those clients. Or, the auditor may develop unconscious cognitive biases because of the positive facilita-

tive role adopted in the self-assessment process by interpreting information about the audit clients more positively than objectively and seeking confirmatory information.

While the auditor only may be dealing with individual threats in some cases, there will be multiple threats, mitigating factors, and management tools used to address residual threats in many situations. Therefore, a comprehensive and integrated approach in identifying, assessing, and managing potential threats is recommended.

Threats to Objectivity at the Activity Level

Some internal auditors have suggested that certain activities, such as consulting services and control self-assessment services, performed by the internal audit activity may threaten the activity's objectivity and result in role conflict. For example, if an activity provides extensive management consulting services, threats to objectivity may arise in the form of self-review threats and familiarity threats at the unit level. Self-review threats may arise when internal audit is involved in the implementation of an entitywide management information system and subsequently is engaged in reviewing the same system.

Providing consulting services does not in and of itself necessarily compromise objectivity, particularly if the auditor is involved primarily in an advisory capacity (internal audit should not be involved in a decision making capacity) and there is no reason to presume that the auditor's objectivity is automatically compromised. A professional internal auditor and internal audit activity, within the context of the framework described herein, should be able to recognize potential threats to objectivity in subsequent audit assignments, consider mitigating factors, and take appropriate action to reduce or eliminate residual threats to objectivity.

Unresolved Threats to Objectivity

There may be circumstances in which threats to objectivity remain unresolved because no mechanisms are avail-

able to address unmitigated threats, and the engagement cannot be outsourced. The guide specifies that these unresolved threats should be disclosed to the audit committee or similar independent bodies so that the auditor's recommendations are reviewed in the appropriate context. This disclosure also may be included in the audit report as appropriate. In some situations, audit committee members or top management may, in fact, be the problem. Therefore, the best alternative may be to decline to conduct the audit. If the problem is systemic, the internal auditor should evaluate how the effect of remaining with the organization will impact his or her professionalism and the underlying commitment to integrity.

Considerations for Assurance and Consulting Engagements

Assurance engagements include those services designed to provide an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Consulting engagements include advisory and related client service activities — the nature and scope of which are agreed to by the client — and are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

As previously noted, providing consulting services does not in and of itself necessarily compromise objectivity, particularly if the auditor is involved in an advisory capacity and there is no reason to presume that his or her objectivity is automatically compromised. A professional

internal auditor and internal audit activity, within the context of the framework described herein, should be able to recognize potential threats to objectivity in subsequent audit assignments related to previous consulting services, consider mitigating factors, and take appropriate action to reduce or eliminate residual threats to objectivity. Internal auditors should remember Standard 1130.A1, which states: “Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.”

Considerations for Rotational Audit Assignments

Rotational audit assignments can create unique challenges and may require special considerations when evaluating independence and objectivity. These special considerations will vary depending on the nature of the rotational audit assignment. Examples of some typical rotational audit assignments include:

- Individuals can be employed as part of an audit staff on a temporary basis and later return to another department, operating unit, or subsidiary of the organization. These assignments can run from very short engagements, such as two to three weeks, to extended time periods that can last from two to three years.
- Interns or management trainees employed by the organization may be assigned to the internal audit activity as part of their training and development.
- The CAE position in some organizations may be subject to rotational assignments. These type of assignments usually last longer — often at least two years — but can run as long as five or more years depending on the organization’s needs.

The examples described above generally involve rotational assignments “into” the internal audit activity. Here again, internal auditors are reminded about Standard 1130.A1 that governs assessing activities for which auditors were previously responsible. Rotational assignments also can be structured so that internal auditors rotate “out” of the internal audit activity for some time period. Internal auditors at all levels — staff, management, or even the CAE — may rotate out of internal audit and be assigned to another department, business unit, or subsidiary of the organization. Generally, independence and objectivity concerns will need to be evaluated only when the individual rotates back into the internal audit activity.

Internal auditors seeking guidance involving situations in which the internal auditor may be assigned audit work related to areas where they were previously employed should refer to the guidance contained in Standard 1130 (see the appendix). This guidance is generally directed to auditors who have joined or “rotated into” the internal audit activity on a permanent basis. Internal auditors who may eventually rotate back to other areas of the organization (i.e., those who have joined the internal audit activity on a temporary basis or for a rotational assignment) may need to take additional actions to help ensure independence or objectivity. Rotational auditors may face challenges or threats to their independence or objectivity that cause them to fear their chances of returning to the area from which they rotated may be jeopardized. These challenges or threats can come from outside parties the auditors deal with when performing audit assignments or the threats may be self-imposed.

The following list presents considerations or actions that may need to be taken for auditors on rotational assignments.

- If the CAE has rotated into the internal audit activity and is expected to return to an operating unit or other subsidiary of the organization, possible safeguards could include:

- Ensuring the CAE is aware of IIA standards related to independence and objectivity and the Code of Ethics.
 - Ensuring that the audit committee is aware of this arrangement, preferably by documenting a discussion in the audit committee minutes.
 - Assigning a third party to oversee the audit work performed in the area to which the CAE will return.
 - Requiring the CAE to recuse himself or herself from the matters that present a problem and delegate all required activities in that area, including board reporting, to a deputy CAE or audit manager when the internal audit function is large enough.
 - Including an independent party (e.g., another executive or manager) to observe or participate in meetings between the CAE and acting management of the area to which the CAE will return in situations involving problems, audit issues, personnel issues, or other major discussions.
 - Considering a special review of interactions (e.g., reports, significant meetings, etc.) between the CAE and the area to which he or she will return when a decision is made if the area to which the CAE will return is unknown or to be decided later.
 - For staff auditors and audit managers who may have rotated into internal audit and will be rotating back to some other operating unit or subsidiary, possible safeguards could include:
 - Ensuring the auditor who has rotated into the internal audit activity is aware of IIA standards related to independence and objectivity and the Code of Ethics.
 - Refraining from assigning rotating staff, if possible, to audit areas to which they will return. This is more easily accomplished in larger audit shops.
- Audit shops with limited resources may need to take other precautions.
- Providing additional oversight and review of the work performed by auditors who may be auditing an area to which they eventually will return.
 - Ensuring appropriate disclosures are included in audit reports.
 - Ensuring appropriate discussions have been held with the audit committee, management, and the area to be audited.
 - For organizations that run “rotational” audit shops, where some portion of the audit staff are expected to eventually rotate back out to some other area of the organization, the following safeguards can be considered:
 - Ensuring all auditors are aware of IIA standards related to independence and objectivity and the Code of Ethics.
 - Ensuring that “career” audit managers and supervisors review the work of rotational auditors.
 - Refraining from assigning rotational auditors, if possible, to areas where they may return.
 - Ensuring appropriate disclosures are made and that appropriate discussions have been held with the audit committee and management.

Frameworks for Evaluating Independence and Objectivity

Independence and objectivity are necessary for effective internal audit services. Each of these must be managed effectively for internal audit activities to comply with the IPPF. This section provides a process and frameworks for managing threats to both independence and objectivity. These frameworks focus directly on the goals of independence and objectivity at the organizational, engagement,

and personal levels by requiring internal auditors to identify threats to their independence or objectivity. Further, internal auditors are required to assess and mitigate those threats, and assess whether they can be independent and objective given the steps they have taken to mitigate the threats identified.

The independence framework recognizes that independence is primarily an organizational and structural issue. The objectivity framework recognizes that objectivity is primarily a state of mind. The assessment of threats to independence or objectivity — and their mitigation or management — is largely a process of self-assessment by internal auditors. The frameworks rely heavily on the professionalism of CAEs and individual auditors. Internal auditors must accept the responsibility to manage and disclose threats to their own independence or objectivity.

The following table presents a process diagram for managing threats to independence or objectivity.

PROCESS FOR MANAGING THREATS TO INDEPENDENCE OR OBJECTIVITY							
Identify Threat	Assess Significance of Threat	Identify Mitigating Factors	Assess Residual Threat	Proactively Manage Residual Threat	Assess Presence of Unresolved Threats	Determine Reporting and Disclosure Implications	Review and Monitoring
—>	—>	—>	—>	—>	—>	—>	—>

Identify threat. The first responsibility of auditors within the managed independence or objectivity process is to identify possible threats to independence or objectivity. Any situations or circumstances that may cause internal auditors to question their ability to act freely or without bias must be identified as a threat. Even seemingly insignificant threats to independence and objectivity should be identified during this stage. Threats may arise from, but are not limited to, issues relating to reporting or organizational deficiencies or to personal, financial, or task relationships. Threats identified by auditors should be conveyed to the CAE so that he or she can proactively manage the threats.

Assess significance of threat. The second stage of the process requires auditors to assess the significance of the threats to independence or objectivity identified in the previous stage. Assessing significance requires those performing internal audit services to consider whether threats might compromise their independence or objectivity and whether seemingly insignificant threats could intensify

over time. The assessment of the significance of threats must be considered both in the context of immediate circumstances and expected or reasonably possible changes in future circumstances.

Identify mitigating factors. After identifying and assessing the significance of threats to independence or objectivity, internal auditors should identify specific mitigating factors that may alleviate the threats. Mitigating factors could include, but are not limited to, audit committee support, job security issues, reputation capital, and legal/professional penalties. Internal auditors should take care to identify relevant mitigating factors in determining whether the threat can be mitigated, and if so, how to best mitigate the risk of compromised independence or objectivity.

Assess residual threat. After identifying mitigating factors for related threats to independence or objectivity, an internal auditor must then determine whether these factors have sufficiently mitigated the threats to allow the audi-

tors to perform their audit work so the risk of ineffective audits is minimal. The internal auditor must be cautious to avoid assuming that the factors have adequately mitigated all of their independence or objectivity risks, and should make this assessment from the perspective of persons relying on the auditor's judgments. In cases where significant residual threats exist, or if the internal auditor is not entirely sure of his or her own independence or objectivity, the assessment should be made or reviewed by the CAE or, when necessary, senior management and/or the audit committee.

Proactively manage residual threat. Threats to independence or objectivity that are not sufficiently offset by mitigating factors should be appropriately managed by auditors (to the extent possible) to ensure audits can be performed without interference and bias. Suggested tools to manage residual threats to independence or objectivity include, but are not limited to, strong audit charters, third-party reviews, separation of audit duties, or contracting work to another party.

Assess presence of unresolved threats. In this stage, auditors must review any remaining threats that could not be resolved adequately through the identification of mitigating factors or management efforts. Should the auditor determine that significant unmitigated and unmanaged threats to independence or objectivity remain, he or she, in conjunction with appropriate parties, should then assess whether it is still possible or practical to perform the work. In many cases, it may be advisable to inform likely users of the services about the unresolved threats prior to beginning audit work. If, after advisement and consultation, the decision is that the work should be performed despite unresolved threats to independence or objectivity, reporting implications should be considered carefully.

Determine reporting and documentation implications. Identified mitigating factors and steps taken to manage threats to independence or objectivity must be documented adequately to provide an accurate record of auditors' efforts to achieve independence and objectivity. This record will provide valuable information to the organization's governing body and to professional quality assurance review teams. Further, if the decision is made to undertake work in the presence of material, unresolved threats to independence or objectivity, auditors should report the details of the situation to the appropriate level (e.g., senior management, the audit committee, or the board of directors or its equivalent). Unresolved threats also should be disclosed in audit reports. Such communication prevents users from unknowingly deriving unwarranted assurance from work that was performed in the presence of a significant unresolved threat to independence or objectivity.

Review and monitoring. For every audit engagement, the CAE should conduct an overall review of the audit activity and related staffing to determine whether independence and objectivity were effectively managed. This would require the acceptance of engagements compatible with the role of the internal audit activity in the organization. In addition, the CAE should review and monitor the process for managing threats to independence or objectivity for individual audit engagements. Audit committees or other similar bodies also can be part of the monitoring and review process. Finally, the internal audit profession requires quality assessments of internal audit activities. These assessments should include the process to ensure compliance with independence and objectivity standards.

The following table presents a framework for managing threats to independence at all levels of auditor involvement.

MANAGED INDEPENDENCE FRAMEWORK	
LEVEL	ISSUES
I. Individual	<ul style="list-style-type: none"> • Management of auditor independence • Reporting relationship of the auditor
II. Engagement	<ul style="list-style-type: none"> • Review auditor independence • Access to information • Freedom from influence or control by audit client
III. Internal Audit Activity	<ul style="list-style-type: none"> • Ensure independence is managed (including third-party outsourcing) • Organizational placement • Strong charters
IV. Organization	<ul style="list-style-type: none"> • Management interest in, and support of, independence • Human resources policies (e.g., hiring, firing, promoting) • Level of audit committee involvement
V. Profession	<ul style="list-style-type: none"> • Standards-setting, education, and enforcement • Active promotion of independence management • Monitoring of profession-level results • Certification
FOUNDATION: NEED FOR INDEPENDENCE	

Level I depicts individual internal auditor-level issues. A key component of independence is the reporting relationship of the internal auditor.

Level II depicts engagement-level issues. At this level, freedom from undue influence or control by the audit client is critical.

Level III depicts issues at the level of the internal audit activity. The CAE is responsible for reporting any unmitigated residual threats to independence to the audit committee or other appropriate parties, and for ensuring that independence is appropriately managed on individual en-

agements. The CAE may want to consider outsourcing an engagement if independence from audit clients cannot be managed to an appropriate degree.

Level IV depicts organization-level issues. Policies should be established to ensure that auditors are free to conduct audits and report results without interference. Ultimately, the CAE should be actively involved with the audit committee or similar bodies to ensure the highest level of independence of the audit activity.

Level V depicts the profession level and encompasses activities by professional bodies, such as The IIA. These

professional bodies can ensure that standards and guidance — which will enhance the internal auditor's ability to manage independence and guide organizations in establishing appropriate and adequate internal audit independence — are promulgated. In financial services and some other regulated industries, higher thresholds for accountability may necessitate government review of independence documents. In other environments, regulatory encouragement and endorsement often provide additional reinforcement on compliance with professional requirements.

The following table presents a framework for managing threats to objectivity at all levels of auditor involvement.

MANAGED OBJECTIVITY FRAMEWORK	
LEVEL	ISSUES
I. Individual	<ul style="list-style-type: none"> • Management of auditor objectivity • Management of professionalism
II. Engagement	<ul style="list-style-type: none"> • Review auditor objectivity • Review auditor professionalism and the audit process
III. Internal Audit Activity	<ul style="list-style-type: none"> • Rotation of employees on jobs • Ensure objectivity is managed (including third-party outsourcing) • Review hiring practices
IV. Organization	<ul style="list-style-type: none"> • Management interest in objectivity • Human resources policies (hiring, firing, promoting) • Quality assurance reviews
V. Profession	<ul style="list-style-type: none"> • Standards-setting, education, and enforcement • Active promotion of objectivity management • Monitoring of profession-level results • Certification
FOUNDATION: NEED FOR OBJECTIVITY	

Level I depicts individual internal auditor-level issues and is the point at which threats to objectivity are identified and proactively managed. It is also at this level that internal auditor professionalism (i.e., competence, integrity, and the use of due care) is fostered. This professionalism in turn cultivates objectivity.

Level II depicts engagement-level issues. The engagement level is where a review of individual auditor objectivity and related threats would take place, as well as the standard review of audit practices, procedures, and judgments. Appropriate supervision of the audit staff and review of audit work can help encourage results that are bias-free.

Level III depicts issues at the level of the internal audit activity. This is the point at which the CAE takes steps to enhance objectivity, such as rotation of auditors on engagements. The CAE also would be responsible for reporting any unmitigated residual threats to objectivity to the audit committee or other appropriate parties and assuring that objectivity is appropriately managed on all engagements.

Level IV depicts organization-level issues. The internal audit activity must be given the freedom to appropriately manage threats to objectivity. Management also should actively support internal audit. Policies should be established to ensure that auditors are not penalized for surfacing problems and identifying issues in the organization.

Level V depicts the profession level and encompasses activities by professional bodies, such as The IIA. These professional bodies can ensure that standards and guidance — which will enhance the internal auditor's ability to manage objectivity and offer certifications to enhance professionalism and strengthen auditor objectivity — are promulgated. They also can help ensure process quality and controls for objectivity through quality assurance peer reviews. In some environments, regulatory encouragement and endorsement often provide additional reinforcement on compliance with professional requirements. Further, educational programs can be offered to focus on enhancing objectivity and help auditors identify and understand threats to objective judgments.

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Appendix

IPPF Guidance on Independence and Objectivity

The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards) provides the following guidance related to independence and objectivity.

1100 – Independence and Objectivity (Standard)

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

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

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. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 – Organizational Independence (Standard)

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter;*
 - *Approving the risk-based internal audit plan;*
 - *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
 - *Approving decisions regarding the appointment and removal of the chief audit executive; and*
 - *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*
- **1110.AI** – *The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.*

Practice Advisory 1110-1: Organizational Independence (Jan. 1, 2009)

1. Support from senior management and the board assists the internal audit activity in gaining the cooperation of engagement clients and performing their work free from interference.
2. The chief audit executive (CAE), reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence. At a minimum the CAE needs to report to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of engagement communications, and appropriate action on engagement recommendations.

3. Functional reporting to the board typically involves the board:
 - Approving the internal audit activity's overall charter.
 - Approving the internal audit risk assessment and related audit plan.
 - Receiving communications from the CAE on the results of the internal audit activities or other matters that the CAE determines are necessary, including private meetings with the CAE without management present, as well as annual confirmation of the internal audit activity's organizational independence.
 - Approving all decisions regarding the performance evaluation, appointment, or removal of the CAE.
 - Approving the annual compensation and salary adjustment of the CAE.
 - Making appropriate inquiries of management and the CAE to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.
4. Administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit activity. Administrative reporting typically includes:
 - Budgeting and management accounting.
 - Human resource administration, including personnel evaluations and compensation.
 - Internal communications and information flows.
 - Administration of the internal audit activity's policies and procedures.

1120 – Individual Objectivity (Standard)

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Practice Advisory 1120-1: Individual Objectivity (Jan. 1, 2009)

1. Individual objectivity means the internal auditors perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations that could impair their ability to make objective professional judgments.
2. Individual objectivity involves the chief audit executive (CAE) organizing staff assignments that prevent potential and actual conflict of interest and bias, periodically obtaining information from the internal audit staff concerning potential conflict of interest and bias, and, when practicable, rotating internal audit staff assignments periodically.
3. Review of internal audit work results before the related engagement communications are released assists in providing reasonable assurance that the work was performed objectively.
4. The internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented. The auditor's objectivity is considered to be impaired if the auditor designs, installs, drafts procedures for, or operates such systems.

5. The occasional performance of non-audit work by the internal auditor, with full disclosure in the reporting process, would not necessarily impair objectivity. However, it would require careful consideration by management and the internal auditor to avoid adversely affecting the internal auditor's objectivity.

1130 – Impairment to Independence or Objectivity (Standard)

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

- **1130.A1** – *Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.*
- **1130.A2** – *Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.*
- **1130.C1** – *Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.*
- **1130.C2** – *If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.*

PA 1130-1: Impairment to Independence or Objectivity (Jan. 1, 2009)

1. Internal auditors are to report to the chief audit executive (CAE) any situations in which an actual or potential impairment to independence or objectivity may reasonably be inferred, or if they have questions about whether a situation constitutes an impairment to objectivity or independence. If the CAE determines that impairment exists or may be inferred, he or she needs to reassign the auditor(s)
2. A scope limitation is a restriction placed on the internal audit activity that precludes the activity from accomplishing its objectives and plans. Among other things, a scope limitation may restrict the:
 - Scope defined in the internal audit charter.
 - Internal audit activity's access to records, personnel, and physical properties relevant to the performance of engagements.
 - Approved engagement work schedule.
 - Performance of necessary engagement procedures.
 - Approved staffing plan and financial budget.
3. A scope limitation, along with its potential effect, needs to be communicated, preferably in writing, to the board. The CAE needs to consider whether it is appropriate to inform the board regarding scope limitations that were previously communicated to and accepted by the board. This may be necessary particularly when there have been organization, board, senior management, or other changes.

4. Internal auditors are not to accept fees, gifts, or entertainment from an employee, client, customer, supplier, or business associate that may create the appearance that the auditor's objectivity has been impaired. The appearance that objectivity has been impaired may apply to current and future engagements conducted by the auditor. The status of engagements is not to be considered as justification for receiving fees, gifts, or entertainment. The receipt of promotional items (such as pens, calendars, or samples) that are available to employees and the general public and have minimal value do not hinder internal auditors' professional judgments. Internal auditors are to report immediately the offer of all material fees or gifts to their supervisors.

PA 1130.A1-1: Assessing Operations for Which Internal Auditors Were Previously Responsible (Jan. 1, 2009)

Persons transferred to, or temporarily engaged by, the internal audit activity should not be assigned to audit those activities they previously performed or for which they had management responsibility until at least one year has elapsed. Such assignments are presumed to impair objectivity, and additional consideration should be exercised when supervising the engagement work and communicating engagement results.

PA 1130.A2-1: Internal Audit's Responsibility for Other (Non-audit) Functions (Jan. 1, 2009)

1. Internal auditors are not to accept responsibility for non-audit functions or duties that are subject to periodic internal audit assessments. If they have this responsibility, then they are not functioning as internal auditors.
2. When the internal audit activity, chief audit executive (CAE), or individual internal auditor is responsible for, or management is considering assigning, an operational responsibility that the internal audit activity might audit, the internal auditor's independence and objectivity may be impaired. At a minimum, the CAE needs to consider the following factors in assessing the impact on independence and objectivity:
 - Requirements of the Code of Ethics and the Standards.
 - Expectations of stakeholders that may include the shareholders, board of directors, management, legislative bodies, public entities, regulatory bodies, and public interest groups.
 - Allowances and/or restrictions contained in the internal audit charter.
 - Disclosures required by the Standards.
 - Audit coverage of the activities or responsibilities undertaken by the internal auditor.
 - Significance of the operational function to the organization (in terms of revenue, expenses, reputation, and influence).
 - Length or duration of the assignment and scope of responsibility.
 - Adequacy of separation of duties.
 - Whether there is any history or other evidence that the internal auditor's objectivity may be at risk.
3. If the internal audit charter contains specific restrictions or limiting language regarding the assignment of non-audit functions to the internal auditor, then disclosure and discussion with management of such restrictions is necessary. If management insists on such an assignment, then disclosure and discussion of this matter with the board is necessary. If the internal audit charter is silent on this matter, the guidance noted in the points below are to be considered. All the points noted below are subordinate to the language of the internal audit charter.
4. When the internal audit activity accepts operational responsibilities and that operation is part of the internal audit plan, the CAE needs to:

- Minimize the impairment to objectivity by using a contracted, third-party entity or external auditors to complete audits of those areas reporting to the CAE.
 - Confirm that individuals with operational responsibility for those areas reporting to the CAE do not participate in internal audits of the operation.
 - Ensure that internal auditors conducting the assurance engagement of those areas reporting to the CAE are supervised by, and report the results of the assessment, to senior management and the board.
 - Disclose the operational responsibilities of the internal auditor for the function, the significance of the operation to the organization (in terms of revenue, expenses, or other pertinent information), and the relationship of those who audited the function.
5. The auditor's operational responsibilities need to be disclosed in the related audit report of those areas reporting to the CAE and in the internal auditor's standard communication to the board. Results of the internal audit may also be discussed with management and/or other appropriate stakeholders. Impairment disclosure does not negate the requirement that assurance engagements for functions over which the CAE has responsibility need to be overseen by a party outside the internal audit activity.

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Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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