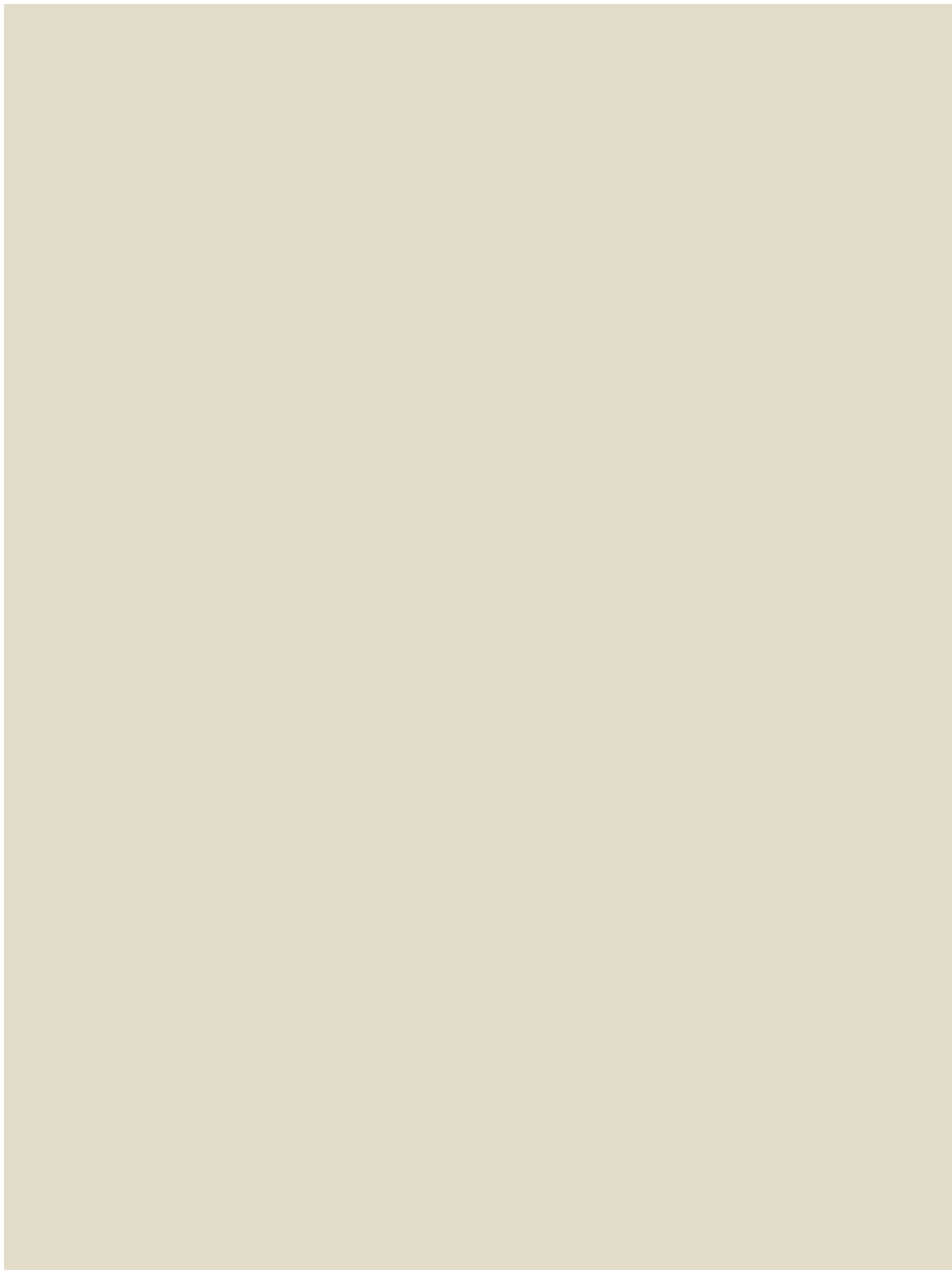




*Global*

ANNUAL REPORT  
**IPPF OVERSIGHT COUNCIL**  
2012



## TABLE OF CONTENTS

Chairman's Message .....	1
IPPF Oversight Council (IPPFOC) .....	2
IPPFOC Members .....	3
IPPFOC Work in 2012.....	4
Next Steps for the IPPFOC .....	8
Appendix 1 – About the IPPF.....	9
Appendix 2 – IPPF Oversight Council Charter .....	11
Appendix 3 – IPPF Oversight Council Members.....	13



# 1. CHAIRMAN'S MESSAGE

The International Professional Practices Framework Oversight Council (IPPF) has completed its second year of oversight, and I am happy to present the IPPF's corresponding Second Annual Report. Through a host of activities and decisions, the IPPF has gained considerable momentum and established its independence and its governance role in the international activities of standard- and guidance-setting conducted under the auspices of The Institute of Internal Auditors (IIA).

The IPPF has operated with a high level of collegiality and has achieved increased effectiveness. Oversight of international standard-setting is a complex task. It requires not only an internal focus on the standard-setting activities themselves, but also an external focus on the perceptions, expectations, and priorities of potential users of the *International Standards for the Professional Practice of Internal Auditing (Standards)* around the world, including internal audit practitioners, investors, and regulators.

Throughout its second year, the IPPF has continued to organize and refine its method of weaving together the internal and the external focus in a way that best ensures the high quality and applicability of *Standards* and guidance produced under its oversight.

An important condition for global acceptance of the *Standards* is the credibility of the standard-setters and the standard-setting process. We fully realize that a multiplicity of dialogues and perspectives must be coordinated in order to achieve credibility, international comparability, and ultimately convergence.

Our part of the task refers only to oversight of The IIA's standard- and guidance-setting processes, but the activity — in its totality — also involves those stakeholders charged with implementation and quality control. We stand ready to work with all who share the common goal of global acceptance of the *Standards*, which we oversee.



James M. Sylph

Chairman, IPPF Oversight Council

## 2. IPPF OVERSIGHT COUNCIL (IPPF) (IPPF)

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The IIA. The IPPF includes only authoritative guidance developed by an IIA international technical committee following appropriate due process. The IPPF comprises:

### MANDATORY GUIDANCE

---

- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (Standards)*

### STRONGLY RECOMMENDED GUIDANCE

---

- Position Papers
- Practice Advisories
- Practice Guides

Refer to Appendix 1 for more information about the IPPF.

In order to promote inclusiveness, transparency, and other qualities that increase internal audit stakeholders' confidence that the outputs of standard- and guidance-setting committees are in the public interest, the IPPF Oversight Council (IPPF) was established in October 2010. Its mission is to evaluate and advise on the adequacy and appropriateness of The IIA's standard- and guidance-setting processes.

As an independent body, the IPPF reviews transparency and adherence to due process as the following IPPF technical committees conduct activities related to developing, maintaining, and sustaining the *Standards* and guidance.

- Global Ethics Committee (GEC): Its primary responsibilities are to maintain, update, and promote the Code of Ethics.
- International Internal Audit Standards Board (IIASB): Its primary responsibilities are to develop, issue, and promote the *Standards*.
- Professional Issues Committee (PIC): Its primary responsibilities are to develop, issue, and promote strongly recommended guidance under the IPPF.



## 3. IPPFOC MEMBERS

The IIA Board of Directors appoints the stakeholder organizations represented on the IPPFOC. These organizations represent boards, management, public- and private-sector auditors, regulators and government authorities, investors, and international organizations, as well as members selected by The IIA Board of Directors. The IPPFOC reports to the Board of Directors.

During 2012, the IPPFOC refined its charter, which was approved by The IIA Board of Directors in July 2012. The IPPFOC is responsible for evaluating procedures for standards- and guidance-setting and determining whether they represent internationally accepted practices. Based on the evaluations, the IPPFOC may recommend that the IIA technical committees make improvements, as appropriate to their charters and processes. Refer to Appendix 2 for the IPPFOC charter.

Here is the IPPFOC membership at the end of the year:

ORGANIZATION	REPRESENTATIVE	TERM ENDING
International Federation of Accountants (IFAC)	James M. Sylph, Chairman	December 31, 2013
National Association for Corporate Directors (NACD)	Peter Gleason	December 31, 2013
International Organisation of Supreme Audit Institutions (INTOSAI)	Yvan Pedersen	December 31, 2015
The World Bank	Zinga Venner	December 31, 2014
Organization for Economic Co-operation and Development (OECD)	Juan Yermo	December 31, 2015
IIA Representative	Larry Rittenberg	December 31, 2013
IIA Representative	A.J. Hans Spoel	December 31, 2014

Refer to Appendix 3 for more information about the IPPFOC member organization representatives.

The IPPFOC is indebted to Rolf Elm-Larsen (INTOSAI) and Grant Kirkpatrick (OECD), who stepped down in 2012. They were founding representatives on the IPPFOC and contributed significantly to the development of the processes that the Council has set for its role.



## 4. IPPFOC WORK IN 2012

The IPPFOC met in person on July 11–12, 2012, in Boston, and held a web meeting on Oct. 10, 2012. During the year, the IPPFOC oversight process consisted of the following main elements:

- Conducting a series of interviews and discussions with The IIA's senior vice chairman of the board, vice chairman of the board in charge of professional guidance, IIA President and CEO, GEC chair, IASB chair, PIC chair, and IIA staff.
- Inspecting documentation that describes the standards- and guidance-setting processes used by the IASB and PIC to carry out their work and making recommendations for process improvements where appropriate.
- Observing the IASB and PIC in-person meetings in July 2012 to gain first-hand knowledge of the breadth and depth of debate and discussion on relevant issues, and assessing the overall participation of members.
- Inspecting reports prepared by IIA staff and signed by the IASB chair, regarding the due process steps followed in completion of each project, and conducting related discussions to understand the key elements of these due process steps.

The IPPFOC observed that the IASB and PIC exhibited professional behavior, good organization, and strong support by well qualified staff and volunteer leaders in carrying out their mandates. The IPPFOC considered the information it gathered from IIA committees and staff interviews and raised a number of points with them for consideration to improve the standards- and guidance-setting processes.

### COMPLETED WORK

The IPPFOC has established its credibility with the IIA Executive Committee and the committees under the IPPFOC's oversight. During 2012, The IIA accepted the IPPFOC's recommendations in principle and made improvements in the standards- and guidance-setting processes. Following is a summary of work completed in 2012:

#### □ **2012 Standards Revision**

As part of IPPF due process, The IIA's *Standards* must be reviewed at least once every three years in order to remain current, relevant, and timely. At its December 2011 meeting, the IASB proposed changes to the *Standards*, followed by a 90-day public exposure period from Feb. 20, 2012, to May 20, 2012. Responses to the exposure draft were received from 1,685 individuals and organizations around the world. The IASB considered these comments, as part of its due process, and approved final changes at its July 2012 meeting.

The IPPFOC conducted in-depth discussions with the IASB chair and staff liaison, observed the debates and consensus development at the IASB meeting, reviewed the standard-setting due process checklist and disposition document that captured the exposure results, and reviewed key comments and the IASB's disposition of exposure draft comments. The IPPFOC agreed that the IASB followed the due process in developing this *Standards* revision. The revised *Standards* were released Oct. 1, 2012 to go into effect on January 1, 2013.

#### □ **IIASB, PIC, and GEC Charter Updates**

The IPPFOC recommended that the IASB, PIC, and GEC review their charters for consistency and inclusion of the concept of public interest. The charters were revised and approved by the IIA Executive Committee in October 2012. In addition to the improvements for consistency, the charter updates included the following changes:

- Adding “serve public interest” to all three charters.
- Raising the IASB meeting quorum from 60 percent to two-thirds.
- Raising the PIC meeting quorum from simple majority to two-thirds.
- Clarifying that the IASB comprises representatives of the internal audit profession and its stakeholders.
- Including the following in the PIC and GEC charters: “Inform the IPPF Oversight Council of the committee’s work, respond to their recommendations, and provide updates on changes resulting from the Oversight Council’s recommendations.”

#### □ **Inclusion of External Stakeholders in the Standard-setting Process**

The IPPFOC suggested that the IASB consider changing its process to include stakeholder input throughout the standard-setting process. The current IASB membership includes two members who are representatives from stakeholder organizations, the Association of Chartered Certified Accountants (ACCA), and the International Organisation of Supreme Audit Institutions (INTOSAI).

In 2012, the IIA Board of Directors requested that the IASB review the current Definition of Internal Auditing. The first phase of this review process began with a broad consultation process to obtain input from both internal audit practitioners and external stakeholders. The five organizations represented on the IPPFOC, along with other external stakeholders, were included in this consultation process. At the time of this report, the IASB was still in the process of analyzing all input received from internal and external stakeholders. The IASB will continue to seek external stakeholder input in its future standard-setting.





## IMPROVEMENTS IN PROGRESS

---

A number of points raised in 2011 and 2012 have been accepted. Actual implementation is a matter of conforming processes and allowing time for changes in attitudes or action.

The open points include:

- The IPPFOC suggested that the IIA Board of Directors clarify what is meant by “public interest” in the context of The IIA. The IIA has formed a task force to clarify the concept in the context of The IIA’s work.
- The IPPFOC suggested that The IIA consider communicating with the Financial Stability Board, the World Bank, and International Monetary Fund (IMF) to advocate for IPPF inclusion in their “recommended international standards.” The IIA’s Executive Committee has asked the Global Advocacy Committee (GAC) to coordinate these efforts. The GAC has established a plan to reach out to the Financial Stability Board and work with the IASB to help provide necessary messages for advocating the adoption of The IIA’s *Standards*. Through developing a relationship with the IMF, The IIA could influence the IMF to adopt/endorse the *Standards* as a benchmark to be used in a safeguards assessment.

## NEW COMMENTS

---

During the year, through meeting with committee chairs and observing committee meetings, the IPPFOC raised a number of new comments with the IIA Board of Directors and Executive Committee as well as the chairs of the IASB and PIC. The following points are being considered by the respective individuals or groups:

- The IPPFOC suggested that the PIC consider changing its guidance-setting process to include stakeholder input throughout the process. The IPPFOC suggested that volume of output should not be the PIC’s goal. Instead, the IPPFOC encourages the group to see timeliness and relevance in the global scene as the criteria for initiating projects and quality as the criteria for issuing a Practice Advisory or Practice Guide.
- The IPPFOC has expressed some concern over whether the process used for the IPPF translation ensures the level of quality required.
- Nearly all responses to the *Standards* exposure draft were from IIA members. The IPPFOC encouraged the IASB to obtain more external responses in the future, especially from organizations that have adopted/endorsed the *Standards* for use by their members.



- The current PIC model relies heavily on the goodwill of The IIA's incredibly motivated volunteers. However, projects suffer from diverse writing skills and competing pressures. The IPPFOC questions whether this model is sustainable in the long term. The IPPFOC suggests that there would be greater efficiency and consistency if staff resources could be increased and the PIC members' role refocused from that of “drafter” to “provider of technical input” and “reviewer.”
- Some PIC members expressed concern that they aren't certain whether they are writing guidance for the internal audit profession or with a public interest perspective. The IPPFOC believes that The IIA should feel comfortable that any stakeholder who might read this guidance should see that the guidance benefits the internal audit profession, its stakeholders, and the public.

## 5. NEXT STEPS FOR THE IPPFOC

The IPPFOC plans to meet twice in 2013. It will continue to review the PIC due process. Discussions will continue with the chair of the PIC, vice chair of Professional Guidance, and The IIA's Board of Directors to address the IPPFOC's observations.

As the GEC made major changes to its policy and operations in 2012, the IPPFOC's 2013 program will focus on assessing the successful introduction and application of these new processes within the GEC.

Having gained a more in-depth understanding of The IIA's governance structure, the IPPFOC acknowledges the important roles undertaken by the Professional Guidance Advisory Council (PGAC) in establishing The IIA's guidance-setting strategy and ensuring consistency of guidance within the IPPF and transparency of the processes. The IPPFOC will study the PGAC structure and process in 2013.

The IPPFOC looks forward to the continued progress of its efforts to enhance standard- and guidance-setting, governance, and effectiveness of the internal audit profession around the world.

# APPENDIX 1 – ABOUT THE IPPF

A trustworthy global guidance-setting body, The IIA provides internal audit professionals worldwide with authoritative guidance.

The IPPF is the conceptual framework that organizes The IIA's authoritative guidance as mandatory guidance and strongly recommended guidance.



<b>Mandatory Guidance</b>	
<p>Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The three mandatory elements of the IPPF are:</p>	
Definition	The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.
Code of Ethics	The Code of Ethics states the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities.
<i>International Standards for the Professional Practice of Internal Auditing</i>	<p>The <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> provides a framework for performing and promoting internal auditing. The principles-focused standards are mandatory requirements consisting of:</p> <ul style="list-style-type: none"> <li>• Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.</li> <li>• Interpretations, which clarify terms or concepts within the statements.</li> <li>• A glossary.</li> </ul> <p>It is necessary to consider both the statements and their interpretations to understand and apply the <i>Standards</i> correctly. The <i>Standards</i> employ terms that have been given specific meanings, which are included in the Glossary.</p>



### Strongly Recommended Guidance

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

Position Papers	Position Papers assist a wide range of interested parties, including those not in the internal audit profession, in understanding significant governance, risk, or control issues and delineating related roles and responsibilities of internal auditing.
Practice Advisories	Practice Advisories assist internal auditors in applying the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> , as well as promoting good practices. Practice Advisories address internal auditing's approach, methodologies, and consideration, but not detailed processes or procedures. They include practices relating to: international, country, or industry-specific issues; specific types of engagements; and legal or regulatory issues.
Practice Guides	Practice Guides provide detailed guidance for conducting internal audit activities. They include detailed processes and procedures, such as tools and techniques, programs, and step-by-step approaches, as well as examples of deliverables.



# APPENDIX 2 – IPPFOC CHARTER

## MISSION

The mission of the International Professional Practices Framework Oversight Council (IPPF) is to evaluate and advise on the adequacy and appropriateness of The IIA's standard- and guidance-setting processes.

## STRUCTURE

The IIA Board of Directors appoints the stakeholder organizations represented in the IPPFOC. These organizations represent boards, management, public- and private-sector auditors, regulators and government authorities, investors, and international organizations, as well as members selected by the IIA Board of Directors. The Board of Directors reconfirms participation by the various organizations every three years.

The IPPFOC shall be made up of no more than 11 members as follows:

- Representatives nominated from different organizations in the stakeholder community, excluding IIA national or international volunteers or staff who have served or worked for The IIA in the past two years.
- Two individual members appointed by the IIA Chairman of the Board, excluding those currently serving on any of the standard- and guidance-setting committees that are subject to oversight of this council.
- The IIA's vice president, Standards and Guidance (ex officio member, staff, and non-voting).

The IPPFOC may invite a number of non-voting observers to participate in its deliberations.

To ensure the IPPFOC is refreshed, any individual shall not serve more than two consecutive three-year terms, excluding the IIA staff member serving in the ex officio role. In the event that a vacancy occurs during an IPPFOC member's term, the replacement individual may fulfill the remaining term of the original member and afterwards, up to two consecutive, three-year terms.

The voting members shall select the IPPFOC chairman from among the members of the stakeholder community. The chairman's term shall be three years. If reappointed by the voting members, the chairman may serve a consecutive and additional three-year term, not to exceed six years in total as chairman.



## RESPONSIBILITIES

---

In order to promote inclusiveness, transparency, and other qualities that will generate internal audit stakeholders' confidence that the outputs of standard- and guidance-setting committees are in the public interest, the IPPF will:

- a. Evaluate standard- and guidance-setting procedures and determine whether they represent internationally accepted practices.
- b. Recommend to the IIA Board of Directors improvements to the standard- and guidance-setting processes.
- c. Review the process by which the standards and guidance work plans are set and the reasonableness of the content of those plans.
- d. Recommend to the IIA Board of Directors additions to the content of the work plans, when deemed appropriate.
- e. Review the charters of the standard- and guidance-setting committees of The IIA. The standard- and guidance-setting committees of The IIA include the Global Ethics Committee, International Internal Audit Standards Board, and Professional Issues Committee.
- f. Communicate in the IPPF's annual report the adequacy and the appropriateness of the processes employed for standard- and guidance-setting.
- g. At least every three years, review and, where appropriate, recommend to the IIA Board of Directors changes to the IPPF's charter.

At least annually, the IPPF chairman will report on the IPPF's activities to the IIA Board of Directors.

## APPENDIX 3 – IPPFOC MEMBERS



### **JAMES M. SYLPH, CHAIRMAN**

Jim Sylph is the executive director of Professional Standards and External Relations with the International Federation of Accountants (IFAC). He has responsibility for the day-to-day operations of four standard-setting boards operating under the auspices of IFAC: Auditing and Assurance, Ethics, Accounting Education and Public Sector Accounting Standards. He is a member of the IFRS Advisory Council, the Institute of Corporate Directors and the Canadian Auditing and Assurance Standards Oversight Council. Sylph is also IFAC's key relationship manager with a number of global organizations including the International Public Interest Oversight Board, the European Commission, and the International Valuation Standards Council.



### **PETER GLEASON**

Peter Gleason is managing director and chief financial officer of NACD and serves as treasurer for the NACD Board of Directors. He also leads NACD's research group that engages in substantive research projects focused primarily on helping establish and refine leading practices to enhance board performance. Gleason serves as a member of NACD's national faculty presenting on a variety of subjects related to board governance, and is regularly quoted in the national media. He is currently a member of the Business Advisory Board of Nura Life Sciences, LLC and was formerly a director of The Patriot Fund and the Executive Advisory Panel of the Open Compliance & Ethics Group (OCEG).



### **YVAN PEDERSEN**

Yvan Pedersen is assistant auditor general in the National Audit Office of Denmark (Rigsrevisionen), a member organization of INTOSAI. He has been employed in Rigsrevisionen for more than 20 years and has gained broad and deep experience with all aspects of auditing including standard-setting processes. He specializes in comprehensive audits of the Ministry of Defence, the Ministry of Taxation and the European Community area. He has broad experience in cooperating with internal auditors both in respect to developing internal audit units and using the work performed by internal auditors. Pedersen has cooperated with various national and international public sector accountancy bodies on developing public sector auditing standards. Pedersen has a master's degree in political science and has been external lecturer in political science at the University of Copenhagen and Aarhus University.



**ZINGA VENNER**

Zinga Venner is the manager of the Financial Reporting and Analysis unit in the Controller's Vice Presidency in the World Bank. Her unit is responsible for statutory and management reporting for the International Bank for Reconstruction and Development and the International Development Association, and is the focal point for advising on accounting policy matters as they relate to financial reporting. Prior to joining the World Bank in April 2000, Venner worked in the Audit and Assurance practice of PricewaterhouseCoopers. She holds an MBA in accounting and finance, as well as the Certified Public Accountant (CPA), Chartered Financial Analyst (CFA), and Financial Risk Manager (FRM) designations.

**JUAN YERMO**

Juan Yermo is currently head of the Private Pensions Unit in the Financial Affairs Division of the OECD, which he joined in 1999. He manages the research and policy programme of the Working Party on Private Pensions, a body that brings together policymakers and the private sector from 37 countries around the world. Previously, he worked at the World Bank on capital markets and pension reform and as an analyst in the risk management department at Bankers Trust. Yermo has a master's degree in economics from Cambridge University and doctorate studies (MPhil) in economics and finance from Oxford University.

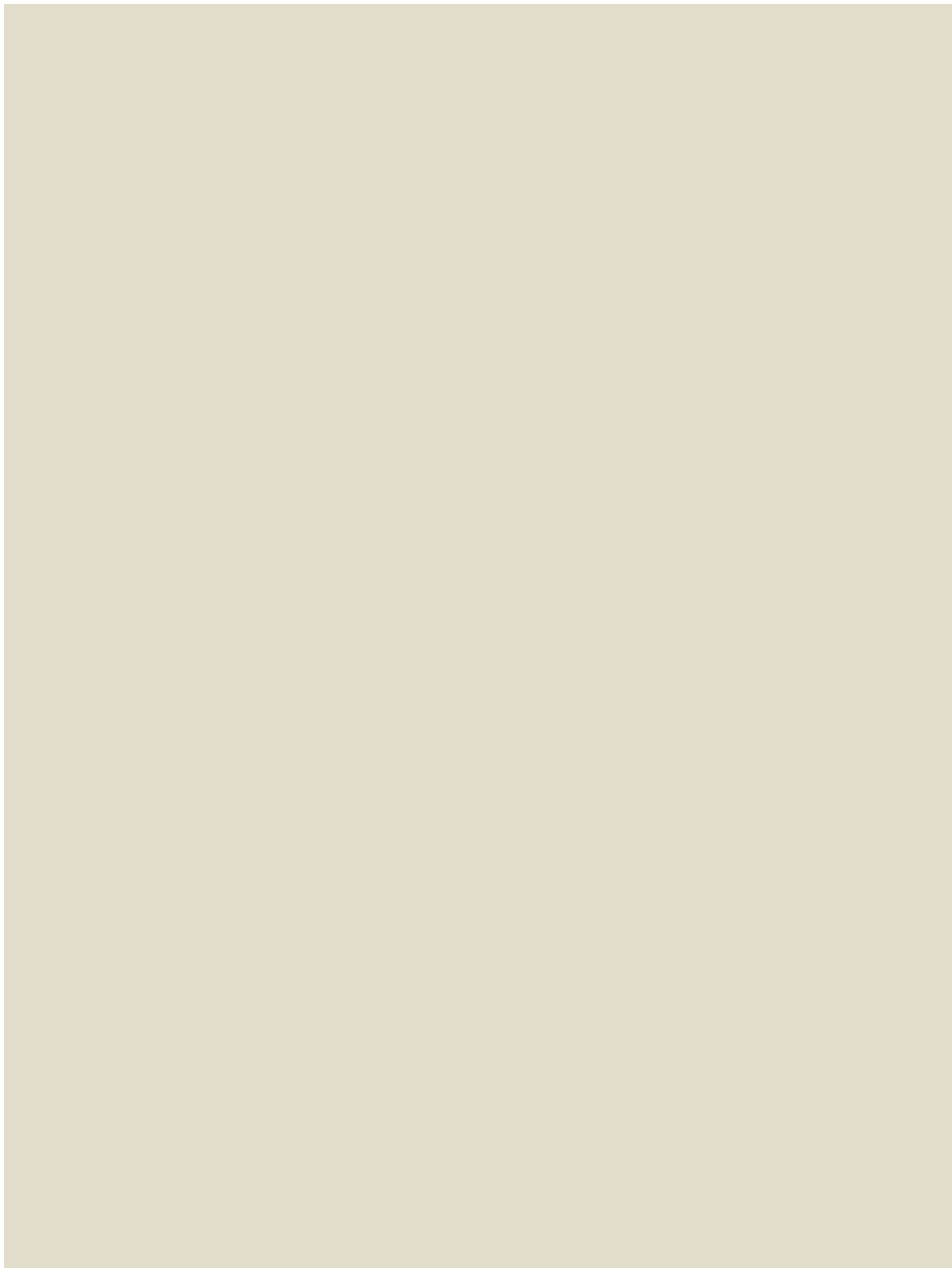
**LARRY E. RITTENBERG**

Dr. Larry E. Rittenberg has been active in The IIA for over three decades serving as president of the IIA Research Foundation, vice chairman of the Professional Practices Committee that led to the current Definition of Internal Auditing, and many other roles. He served as the Ernst & Young professor of accounting at the University of Wisconsin where he currently serves as an emeritus professor. He also chaired COSO (The Committee of Sponsoring Organizations of the Treadway Commission) for five years and was a driver in the development of the COSO ERM Framework, its guidance for smaller businesses, and its monitoring guidance. Dr. Rittenberg has authored a number of research monographs for The IIA including *The Outsourcing Dilemma: What's Best for Internal Auditing*. He has been called upon frequently to comment on professional issues including a recent appearance before the PCAOB to talk about auditor independence and professional skepticism.

**A.J. Hans Spoel**

A.J. Hans Spoel is an independent consultant and director for a variety of international organizations. He is a 28 year veteran of the company that evolved from ITT into Alcatel, then Alcatel-Alsthom and is now called Alcatel-Lucent S.A. He spent the majority of his career as an external auditor (PMM&Co) and as an internal auditor (Esso, ITT, etc.).

Spoel is the past president of IIA–Benelux v.z.w., and The European Confederation of Institutes of Internal Auditing. He also served as the chairman of The IIA Board of Directors. He was a professor at the University in Antwerp in the post-graduate program, master in internal auditing and a visiting professor at The CASS Business School in London, England.





*Global*

**The Institute of Internal Auditors – Global Headquarters**  
247 Maitland Avenue / Altamonte Springs, FL 32701-4201  
Phone: +1-407-937-1111 / [www.globaliia.org](http://www.globaliia.org)

