



# Annual Report IPPF Oversight Council 2013

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# Chairman's Message



James M. Sylph  
Chairman, IPPFOC

The International Professional Practices Framework Oversight Council (IPPFOC) has completed its third year of oversight, and I am happy to present the corresponding third Annual Report. The IPPFOC has established its independence and governance role in the international activities of standard- and guidance-setting conducted under the auspices of The Institute of Internal Auditors (IIA). 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 one — the perceptions, expectations, and priorities of potential users of standards around the world, including investors, practitioners, and regulators.

This year we continued to review the Professional Issues Committee (PIC) due process, assess the progress of the new processes within the Global Ethics Committee (GEC) and gain a more in-depth understanding of The IIA's governance structure, through discussions with the Professional Guidance Advisory Council (PGAC). This report outlines the broader range of activities we followed as we expanded our oversight in these areas.

This report marks the end of my term as Chairman of the IPPFOC. It has been a remarkable, albeit challenging, time. I want to express my sincere thanks to my fellow Council members — past and present. Your interest, support, and contribution to the work of the Council made my job easy.

I am delighted that the IPPFOC has unanimously elected Peter Gleason of the National Association of Corporate Directors (NACD) to be my successor. I could not complete my final report to you without recognizing the huge support I have received for the work of the IPPFOC from Phil Tarling, Paul Sobel, and Richard Chambers. The IPPFOC has had a significant impact on the processes of the boards and committees over the last three years. The IPPFOC believes that volunteers and staff welcome the oversight and have been generally attentive to our advice. I wish The IIA every success as it grows from strength to strength.

# 1. IPPF OVERSIGHT COUNCIL (IPPF OC)

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes the authoritative standards and guidance promulgated by The IIA. The IPPF includes only authoritative standards and 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.



The IPPF includes only authoritative standards and guidance developed by an IIA international technical committee following appropriate due process

The IPPFOC was established in October 2010 to promote inclusiveness, transparency, and other qualities that increase internal audit stakeholders' confidence that the outputs of standard- and guidance-setting committees help to serve the stakeholders of internal audit globally, but also support a broader public interest. 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 IPPFOC reviews transparency and adherence to due process as the following IPPF technical committees conduct activities related to developing, maintaining, and sustaining the IPPF.

- International Internal Audit Standards Board (IIASB): Primary responsibilities are to develop, issue, maintain, and promote the *Standards*.
- Professional Issues Committee (PIC): Primary responsibilities are to develop, issue, and promote strongly recommended guidance under the IPPF.
- Public Sector Committee (PSC): Primary responsibilities are to support public sector members globally and, as part of that the PSC has begun to develop, issue, and promote strongly recommended guidance for public sector internal auditors.
- Global Ethics Committee (GEC): Primary responsibilities are to maintain, update, and promote the Code of Ethics.
- Professional Guidance Advisory Council (PGAC): Primary responsibilities are to establish The IIA's guidance strategy and ensure consistency of guidance within the IPPF and transparency of the processes.

## 2. 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 IIA Global Board of Directors.

The IPPFOC is responsible for evaluating procedures for standards- and guidance-setting to determine 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/or processes. Refer to Appendix 2 for the IPPFOC charter.

IPPFOC membership at 2013 year-end is:

ORGANIZATION	REPRESENTATIVE	TERM ENDING
International Federation of Accountants (IFAC) <sup>(1)</sup>	James M. Sylph, Chairman <sup>(2)</sup>	December 31, 2013
International Organisation of Supreme Audit Institutions (INTOSAI)	Yvan Pedersen	December 31, 2015
National Association for Corporate Directors (NACD)	Peter Gleason	December 31, 2013 <sup>(3)</sup>
Organisation for Economic Co-operation and Development (OECD)	Juan Yermo	December 31, 2015
The World Bank	Zinga Venner	December 31, 2014
IIA Representative	Larry Rittenberg <sup>(4)</sup>	December 31, 2013
IIA Representative	A.J. Hans Spoel	December 31, 2014

The IIA Board of Directors appoints the stakeholder organizations represented on the IPPFOC and the stakeholder organizations names the Council member.

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

- (1) Effective January 1, 2014, Alta Prinsloo will represent IFAC for a 3-year term ending December 31, 2016.
- (2) Effective January 1, 2014, the chairman of the IPPFOC is Peter Gleason, NACD.
- (3) By virtue of being elected Chairman, Peter Gleason's new term runs through December 31, 2016.
- (4) Effective January 1, 2014, upon Larry Rittenberg's term expiring, Wayne Moore has been appointed by The IIA's Global Board Chairman to a 3-year term to end December 31, 2016. At the request of the new Chair, Larry Rittenberg has been asked to fulfill a non-voting, ex-officio advisory role to the IPPFOC throughout 2014.

During 2013, The IIA accepted the IPPFOC's recommendations in principle and made resultant changes to the standards- and guidance-setting processes as warranted.

### 3. The 2013 Work of the IPPFOC

The IPPFOC met in person in March and December 2013. The IPPFOC oversight process consisted of these main elements:

- Inspecting documentation and related reports describing the standards- and guidance-setting processes used by the IASB, PIC, PSC, GEC and PGAC to carry out their work and making recommendations for change where considered appropriate in the design of the processes.
- Observing meetings of the IASB, PIC, PSC, GEC and PGAC, where possible and cost-effective, to gain first-hand knowledge of the breadth and depth of discussion and deliberation, and observe the overall participation of members.

#### Activities

During 2013, The IIA accepted the IPPFOC's recommendations in principle and made resultant changes to the standards- and guidance-setting processes as warranted. Following is a summary of Council activities during 2013:

- Ongoing review of PIC due process together with discussions with PIC Chair and other volunteers to address IPPFOC observations and recommendations.
- Validated its previous recommendation that the IASB, PIC, PSC, and GEC Charters be revised to include reference to the "public interest" to explicitly address the dual focus of the guidance development objective (i.e., guidance is written for internal auditors to help them conform with the *Standards* and, equally, to serve the broader public interest of providing assistance to internal auditors in meeting stakeholders' needs of the internal auditing profession).
- Recommended, and the boards and committees accepted, that a section be added to the Project Initiation Document (PID) that specifically addresses any strongly recommended guidance that is not directly related to a Standard to ensure proper review by the PGAC. (A PID is the controlling scope document that acts as the basis for approving and commencing any guidance project.)
- Recommended that further evaluation be given to development of project planning and prioritization, including consideration of stakeholder input.
- Received updates on the introduction and application of the new processes introduced by the GEC in 2012 affecting its policies and operations.
- Confirmed that the GEC expected all IIA Institutes ensure that all their members understand and agree to abide by The IIA Code of Ethics.
- Confirmed that a GEC representative was added to the PIC team developing whistleblower guidance.



- Recommended that the GEC consider a change in the title of the Code of Ethics, observing that the title may not reflect clearly who the Code is for.
- Observed the PSC for the first time and will continue to evaluate the approval process as the PSC develops new guidance.
- Validated that The IIA Board had approved a Resolution in July 2013 adding a requirement that the IPPFOC review and approve any Definition and Code of Ethics revision processes prior to their issuance.
- Reviewed the geographic and gender demographics for the IASB, PIC PSC, and GEC membership.
- In response to the Oversight Council recommendation, The IIA submitted its recommendation to the Financial Stability Board (FSB) to include the *Standards* in the FSB's Compendium of Key Standards for Sound Financial Systems.
- In response to the Oversight Council's concerns expressed over quality of guidance translation, there was a review of Administrative Directive 2 which is the IPPF Translation and Adaption policy to develop recommendations to improve translation quality. Enhancements to the process are under consideration.
- Observed the December 2013 PGAC meeting to gain first-hand knowledge of the breadth and depth of debate and discussion on relevant issues and ensuring consistency of guidance within the IPPF and transparency of the processes.
- Requested that IIA Governance to consider adding a statement on the annual declaration to clarify that a committee member represents his/her own view and not that of his/her employer or Institute in participating in the committee's activities. The IIA is considering this recommendation for possible implementation in the 2014–15 volunteer year.

In response to the Oversight Council's concerns expressed over quality of guidance translation, there was a review of Administrative Directive 2 which is the IPPF Translation and Adaption policy to develop recommendations to improve translation quality.



The Oversight Council is positive about the direction and leadership of the GEC, IASB, PGAC, and PSC and has chosen to defer assessment of the functioning of PIC until 2014.

## New Observations

During the year, through meeting with committee chairs and observing committee meetings, the IPPFOC shared additional observations with the IIA Executive Committee and the Global Board of Directors. The following points are being considered by the respective individuals, groups, or committees:

- Opportunities to improve documentation of the guidance-setting process including complete evidence of approval votes, enhanced measures to prevent scope creep, clearer determination of guidance type, and enhanced documentation to support disposition of comments.
- Public Sector Committee outputs known as Leading Practices may be confused with strongly recommended guidance, such as Practice Guides. Currently, the Leading Practices produced by the Public Sector Committee do not follow the same process as Practice Guides. The Oversight Council has recommended that the group revisit the term “Leading Practices.”
- The Oversight Council recommended that the PGAC evaluate the sufficiency of its public sector expertise.

The Oversight Council is positive about the direction and leadership of the GEC, IASB, PGAC, and PSC. As previously noted, the GEC continues to develop new processes and procedures based on its revised Mission. As well, the Oversight Council duly notes that PIC is undergoing some transitions and challenges and, as a result, has chosen to defer further assessments of the functioning of PIC until 2014.

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.

## 4. Next Steps for IPPFOC

- In 2014, there will be an expanded review of the guidance-setting processes to evaluate adherence to the defined diligence processes covering any remaining PIC developed guidance published in 2013.
- There will be a continued focus on the due processes of the IASB and PIC. Discussions will continue with the chairs of the IASB and PIC, the vice chair of Professional Guidance, and IIA staff to address the status of previous IPPFOC observations.
- The Council was updated on the activities of the IPPF Relook Task Force which was established to evaluate the sufficiency and future relevancy of the IPPF structure. The objectives of the project are to:
  1. Consider the evolving role of internal audit globally as well as the impact of elevating stakeholder expectations and
  2. Propose updates to the structure of the IPPF that will encompass the full range of existing and developing global and local practice guidance to meet the needs of the profession for the foreseeable future.

The Council will monitor the implications of this project on the standards- and guidance-setting processes (i.e., current IPPF content).

- The Council will continue to evaluate the functioning of the GEC, to include the status of work related to volunteer committee member conflict of interest forms.
- The Council will continue to monitor the development and approval of PSC guidance documents.

There will be a continued focus on the due processes of the IASB and PIC. Discussions will continue with the chairs of the IASB and PIC, the vice chair of Professional Guidance, and IIA Staff to address the status of previous IPPFOC observations.

## APPENDIX 1 – ABOUT THE IPPF

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

<p><b>Mandatory Guidance</b></p> <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>	
<p>Definition</p>	<p>The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.</p>
<p>Code of Ethics</p>	<p>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.</p>
<p><i>International Standards for the Professional Practice of Internal Auditing</i></p>	<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>

<p><b>Strongly Recommended Guidance</b></p> <p>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 <i>Standards</i>. The three strongly recommended elements of the IPPF are:</p>	
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 (IPPF) Oversight Council is to evaluate and advise on the adequacy and appropriateness of The IIA's IPPF standard- and guidance-setting processes.

### STRUCTURE

The IIA Board of Directors appoints the stakeholder organizations represented in the Council. 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 re-confirms participation by the various organizations every three years.

The Council 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 IPPF standard- and guidance-setting committees which are subject to oversight of this council.
- The IIA Vice President responsible for the IPPF standards and guidance (ex-officio member and staff non-voting).

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

The IIA Board of Directors appoints the stakeholder organizations represented in the Council.

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

The voting members shall select the Chairman from among the members of the stakeholder community. The Chairman's term shall be three years. If re-appointed 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 IPPF standard- and guidance-setting committees are in the public interest, the Council will:

- a. Evaluate the rigor of IPPF mandatory guidance-setting process prior to its approval.
- b. Evaluate procedures for IPPF strongly recommended guidance-setting and determine whether they represent internationally accepted practices.
- c. Recommend to The IIA Board of Directors improvements to the IPPF standards- and guidance-setting processes.
- d. Review the process by which the IPPF standards and guidance work plans are set and the reasonableness of the content of those plans.
- e. Recommend to The IIA Board of Directors additions to the content of the work plans, when deemed appropriate.
- f. Review the charters of the IPPF standards- and guidance-setting committees of The IIA.
- g. Communicate in the Council's annual report the adequacy and the appropriateness of the processes employed for the IPPF standards- and guidance-setting.
- h. At least every three years, review and, where appropriate, recommend to The IIA Board of Directors changes to the IPPF Oversight Council's charter.

At least annually, the Chairman of the Council will report on the Council's activities to the Board of Directors.

To ensure the Council is refreshed, any individual shall not serve more than two consecutive, three-year terms, excluding the ex-officio member, and staff position.

## APPENDIX 3 – IPPFOC Members

Pictured in photo  
from left to right:  
Juan Yermo  
Larry E. Rittenberg  
A.J. Hans Spoel  
James M. Syph  
Yvan Pedersen  
Zinga Venner



### **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 Board of Governors of the Canadian Comprehensive Auditing Foundation, and the Institute of Corporate Directors. 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 director at Nura Health 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. Venner also represents the World Bank on the IFRS Advisory Council. 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 program 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 more than 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.





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