

Annual Report IPPF Oversight Council 2014

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Chairman's Message



Peter Gleason,
Chairman, IPPFOC

The International Professional Practices Framework Oversight Council (IPPFOC) had a busy and eventful year, and I am pleased to present this 2014 Annual Report on its efforts. The IPPFOC is an international, independent body that evaluates and advises on the diligence exercised by The Institute of Internal Auditors (IIA) in its global standards setting and guidance development processes.

Although I have served on the IPPFOC since 2010, this past year was the first in which I served as chairman. I am honored to have assumed this role at a time when the International Professional Practices Framework (IPPF) may undergo significant changes, as proposed by The IIA during the latter half of 2014. The Council began the year with a heavy agenda and, thanks to the diligence and dedication of the members, both new and veteran, we had a very successful year.

Throughout 2014, the IPPFOC supported The IIA's effort to restructure and enhance the IPPF (as exposed) and closely monitored progress of the "IPPF Relook" project. The IPPFOC members found the proposal emanating from this effort to be important and insightful for the internal audit profession's future direction, and we look forward to providing oversight as The IIA moves into implementation of the IPPF's transformation in 2015.

In addition, the IPPFOC reviewed documentation detailing how The IIA's IPPF standards and guidance-related boards and committees carried out their respective work. We observed their meetings to gain firsthand knowledge of the breadth and depth of their efforts and, while these processes are strong and suitably robust, opportunities for continuous improvement will always exist. As a result, recommendations were made accordingly for refinements and committee actions intended to address past IPPFOC observations were monitored.

I want to express my sincere appreciation to my fellow Council members for their involvement, support, and contributions. With the start of 2015, several long-standing members of the Council are stepping down, and I'd like to personally thank Larry Rittenberg, Hans Spoel, Zinga Venner, and Juan Yermo for their dedication to both The IIA and the IPPFOC. I'd also like to welcome Wayne Moore, Denny Beran, Svetlana Klimentko, and János Bertók to the Council. Further, I'd like to recognize the support I and the entire Council received this past year from IIA Global chairmen Paul Sobel and Anton van Wyk, IIA President and CEO Richard Chambers, and the dedicated IIA staff who support standards and guidance promulgation for the benefit of the global internal audit profession.

I strongly believe the IPPFOC has been impactful in executing its oversight duties and been truly helpful to The IIA over the past four years. I look forward to continuing to play a role in elevating The IIA's standards setting and guidance development activities underpinning the important role internal audit has in good organizational and corporate governance.

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 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 Global 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's Global Board. The IPPFOC reports to the Global Board.

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's technical committees consider adjustments, enhancements, and improvements, as appropriate, to their charters and processes. Refer to Appendix 2 for the IPPFOC charter.

IPPFOC membership during 2014 was as follows:

REPRESENTATIVE	ORGANIZATION	TERM ENDING
Peter Gleason, Chairman	National Association for Corporate Directors (NACD)	December 31, 2016
Alta Prinsloo	International Federation of Accountants (IFAC)	December 31, 2016
Yvan Pedersen	International Organisation of Supreme Audit Institutions (INTOSAI)	December 31, 2015
Juan Yermo ⁽¹⁾	Organisation for Economic Co-operation and Development (OECD)	December 31, 2015
Zinga Venner ⁽²⁾	The World Bank	December 31, 2014
Wayne G. Moore, CIA	IIA Representative	December 31, 2016
A.J. Hans Spoel, CIA, CCSA, CFSA, CGAP	IIA Representative	December 31, 2014 ⁽³⁾
At the request of the chairman, past IIA representative Larry Rittenberg, CIA (Council member whose term expired Dec. 31, 2013) was asked to fulfill a non-voting, ex-officio advisory role to the IPPFOC throughout 2014.		

Refer to Appendix 4 for more information about the IPPFOC member organization representatives.

- 1) Due to a change in job responsibilities at the OECD, Juan Yermo resigned from the Council at the end of 2014. János Bertók will replace Yermo as the OECD representative. His term will expire Dec. 31, 2015.
- 2) Svetlana Klimenko will replace Zinga Venner as the World Bank representative. Her term will expire Dec. 31, 2017.
- 3) Approved in late 2014 and effective Jan. 1, 2015, upon A.J. Hans Spoel's term expiring, Denny Beran, CIA, QIAL, CCSA, CRMA, was appointed by The IIA's Global Board chairman to a three-year term to end Dec. 31, 2017.

3. The 2014 Work of the IPPFOC

The IPPFOC met either in person or by conference call four times in 2014. The Council's oversight activities focused on four primary areas:

- Staying apprised on the progress of proposed enhancements to the IPPF (i.e., the IPPF Relook project).
- Inspecting documentation supporting how standards and guidance-setting committees carry out their work.
- Evaluating the level of adherence The IIA maintains with its well-established standards and guidance-setting diligence practices.
- Observing standards and guidance-setting committee meetings.

Activities

During 2014, The IIA acknowledged all IPPFOC's recommendations and made changes to its practices as warranted.

- Reviewed the progress of the IPPF Relook exposure process and observed the IPPF Relook Task Force evaluation of exposure results.
- Inspected 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 made recommendations for change where considered appropriate in the design of the processes.
- Observed in person and telephonic meetings of the IASB, PIC, and PSC, when practical, to gain knowledge of the breadth and depth of discussion and deliberation, inclusive of observing the overall participation and engagement of members.
- Reviewed the status of committee actions to address past IPPFOC observations. (See Appendix 3 for more detail.)

2014 Observations

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

Local Guidance

- The Council expressed some concern with The IIA's inability to keep abreast of guidance and guidance-like content being promulgated by some of its institutes and associated organizations (local guidance). The Council's concerns relate to The IIA's ability to effectively manage global brand and reputation risk if such content were to continue to proliferate, without better coordination among all IIA parties globally.

Council Representation

- Three of the six non-chair positions on the IPPFOC have new incumbents as of early 2015, and two of the remaining six have tenure on the Council of only one year. The Council's chair and The IIA are working together to mitigate this instability and resultant learning curve for new members in 2015.

Documentation of Exercised Diligence

- Documentation was not readily available to support the diligence undertaken on all guidance projects under Council review. These projects began several years ago, which complicated the matter. IIA staff was subsequently able to locate the necessary supporting documentation.

Progress Against Previously Reported Observations

- The Council continued to receive updates on and assess The IIA's progress against previously reported observations. The Council is satisfied with the progress being made at completing or addressing all such observations.

4. Next Steps for IPPFOC

During 2015, the Council plans to:

- Monitor discussions and decisions regarding the development of local guidance by the institutes and associated organizations that is not part of the IPPF.
- Review the due diligence exercised for the IPPF Relook exposure and subsequent implementation.
- Review the guidance-setting processes and diligence exercised for select guidance projects published in 2015.
- Review any activities undertaken by the IASB or GEC to potentially revise or update the *Standards* and Code of Ethics.
- Review all relevant committee work plans and charters.
- Monitor the status of actions to address previous IPPFOC observations.
- Support the progress of potentially adding more stakeholder organizations to the IPPFOC.

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>Mandatory Guidance</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>	
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 (Standards)</i>	<p>The <i>Standards</i> provide a framework for performing and promoting internal auditing. The principles-focused standards are mandatory requirements consisting of:</p> <ul style="list-style-type: none"> • 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. • Interpretations, which clarify terms or concepts within the statements. • A glossary. <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	
<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	<p>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.</p>
Practice Advisories	<p>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.</p>
Practice Guides	<p>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.</p>

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.

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 afterward, 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 IIPPF standard and guidance-setting committees are in the public interest, the Council will:

- a. Evaluate the rigor of IIPPF mandatory guidance-setting processes prior to approval of new guidance.
- b. Evaluate procedures for IIPPF strongly recommended guidance-setting and determine whether they represent internationally accepted practices.
- c. Recommend to The IIA Board of Directors improvements to the IIPPF standards and guidance-setting processes.
- d. Review the process by which the IIPPF 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 IIPPF 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 IIPPF standards and guidance-setting.
- h. At least every three years, review and, where appropriate, recommend to The IIA Board of Directors changes to the IIPPF Oversight Council's charter.

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

APPENDIX 3 – Status of Past IPPFOC Observations

During 2014, the Council confirmed that past reported observations were addressed as follows:

- Quality review processes have been enhanced to ensure due process for guidance-setting activities is followed and sufficient evidence of compliance is maintained. Also, the guidance development project charter template was revised to ensure there is a clear communication of guidance type along with its objective and scope at the onset of a development process.
- The title of guidance issued by the PSC outside the IPPF was changed to “Global Public Sector Insights” to clearly differentiate it from “Practice Guides.”
- The PSC evaluated the IPPFOC’s concern regarding the required committee votes needed to approve release of public sector-related guidance. It was determined that the size, experience, and geographical diversity of the PSC adequately positions the committee to deliver such guidance.

APPENDIX 4 – IPPFOC Members



Peter Gleason

Peter Gleason was recently named president of the National Association of Corporate Directors (NACD). He is responsible for ensuring NACD effectively manages growth while continuing to deliver resources to help directors navigate the key issues influencing today's and tomorrow's boardroom. Previously, Gleason was managing director and chief financial officer of NACD, served as treasurer for the NACD Board of Directors, and led 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 he is regularly quoted in the national media. He is 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).



Wayne G. Moore, CIA

Wayne G. Moore is president and CEO of Wayne G. Moore Consulting. He conducts quality assurance reviews for global internal audit organizations as a team leader for IIA Quality Services LLC. He spent most of his career directing the global internal audit activities of E. I. du Pont de Nemours and Company (including Conoco and Consolidation Coal) after a stint in public accounting with Arthur Young & Co. He has been involved with IIA committees and boards at the international level for more than 35 years, serving as chairman of the International Internal Audit Standards Board (IIASB), chairman of the Board of Research Advisors, vice chairman of The IIA Research Foundation, and as a trustee of The IIA Research Foundation. While chairman of the IIASB, Moore played a key role in developing the current Definition of Internal Auditing and the IPPF. Moore is a CIA, a CPA, a Six Sigma Green Belt, and a recipient of The IIA's Bradford Cadmus Memorial Award.



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 audit standards. He is a member of the audit committee of the European Space Agency in Paris from 2015 to 2017. 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.



Alta Prinsloo

Alta Prinsloo is executive director, strategy, and chief operating officer for the International Federation of Accountants (IFAC), which she joined in 2002. In her role, she is responsible for strategic planning and risk management and the day-to-day operations of the organization, including human resources and IT. She oversees the Global Accountancy Profession Support operating line, which includes support for professional accountants in business, small- and medium-sized practices, and new initiatives activities, as well as the Global Knowledge Gateway. She also oversees the Global Accountancy Profession Development operating line, which includes building the capacity of professional accountancy organizations and enhancing transparency and accountability in the public sector. Prinsloo is qualified as a Chartered Accountant, and holds a Master's Degree in financial management.



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 formerly represented 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 holds her Certified Public Accountant, Chartered Financial Analyst, and Financial Risk Manager designations.



Juan Yermo

Juan Yermo was recently named deputy chief of staff to the Organisation for Economic Co-operation and Development (OECD) secretary-general. Previously, he was deputy head of the Financial Affairs Division and head of the Private Pensions Unit at the OECD, which he joined in 1999. He managed 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. Yermo has a master's degree in economics from Cambridge University, post-graduate studies in economics and finance, and a doctorate in economics from Oxford University.



Larry E. Rittenberg, CIA

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 The Committee of Sponsoring Organizations of the Treadway Commission (COSO) for five years and was a driver in the development of the COSO ERM framework, its guidance for small 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 recently co-authored an IIA Research Foundation report addressing political pressure on CAEs and their internal audit departments titled *The Politics of Internal Auditing*. He has been called upon frequently to comment on professional issues including an appearance before the PCAOB to talk about auditor independence and professional skepticism.



A.J. Hans Spoel, CIA, CCSA, CFSA, CGAP

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 now 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 (ECIIA). 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.

New IPPFOC Members in 2015



Denny Beran, CIA, QIAL, CCSA, CRMA

Denny Beran is the retired senior vice president of audit for the JCPenney Co. located in Plano, Texas, one of America's leading retailers with stores throughout the United States and Puerto Rico. As the chief audit executive, he was responsible for overseeing the auditing for all of the company's operations. Beran spent his 40-year career at JCPenney, joining the company in 1971 directly after graduating Cum Laude from Point Park University in Pittsburgh, Pennsylvania, USA, with a BS degree in Accounting. He spent the next four decades building a successful internal audit career by working his way up through the ranks of the internal audit division, holding positions at a variety of field locations.

Beran is a longtime member of The Institute of Internal Auditors and served as the 2011-2012 chairman of The IIA Board of Directors. In 1999, he received one of The Institute of Internal Auditors' most prestigious awards, the Victor Z. Brink Award for Distinguished Service.



Svetlana Klimenko

Svetlana Klimenko is a lead financial management specialist in the World Bank Group. Ms. Klimenko is a leading technical specialist in public sector governance, international accounting, and auditing standards in the public and private sectors, and capacity building initiatives in the Latin American and Caribbean region of the World Bank Group. Prior to the joining the World Bank Group, she was a manager for Deloitte. She holds a Master's degree in Economics and Engineering, and the Certified Public Accountant and Association of Chartered Certified Accountants designations.



János Bertók

János Bertók is head of the Public Sector Integrity Division in the OECD. For more than 15 years, he has been leading OECD activities for promoting integrity and preventing corruption in the public sector. Before joining the OECD in 1997, Bertók was director in the Prime Minister's Office in Hungary in charge of the modernization of public administration that included the reform of internal control. His previous career focused on creating new legal and institutional frameworks for the public administration and civil service in the transition period. Before 1990, Bertók worked in academia where his research focused on public management.



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