

GLOBAL PERSPECTIVES & INSIGHTS

SPECIAL EDITION

*Updating Standards for a
Changing World*



The Institute of
Internal Auditors

Contents

Introduction	2
IPPF Evolution: The <i>Global Internal Audit Standards</i>	2
<i>Global Internal Audit Standards</i>[™]	3
Dramatic changes for dramatic times	3
The Five Domains	5
Domain I: The Purpose of Internal Auditing	5
Domain II: Ethics and Professionalism	7
Domain III: Governing the Internal Audit Function	8
Domain IV: Managing the Internal Audit Function	9
Domain V: Performing Internal Audit Services	10
Standards for a New Generation	11
How the <i>Global Internal Audit Standards</i> work	11
Implementation and performance	11
Conclusion	13



Introduction

IPPF Evolution: The *Global Internal Audit Standards*

Internal audit professionals around the globe rely on the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the International Professional Practices Framework (IPPF) to help navigate the complex world of risk management, governance, and control. For more than a generation, these documents from The Institute of Internal Auditors (IIA) have guided practitioners in providing internal audit assurance and advice that is independent, objective, effective, efficient, ethical, and of the highest quality.

During that time the fundamentals of risk management – identifying relevant risks to organizational goals and strategies, assessing likelihood and impact, establishing a risk appetite, and creating internal controls to manage risks — have remained consistent. However, the speed at which risks emerge, factors that add volatility and complexity to risk, and evolving attitudes about the purpose and nature of organizations have created new challenges and demands for today's internal auditors.

"I have spoken to literally hundreds of internal auditors from all parts of the world, both in my role as a former IIA Global Board Chairman and in my current role," said International Internal Audit Standards Board (IIASB) Chairman Mike Peppers. "What I have heard from them is that they need clear and direct guidance from The IIA. While the IPPF provides that guidance, its various components sometimes create confusion about how they apply to internal auditors, and about the roles and responsibilities for frontline practitioners, chief audit executives, executive management, and the board. Now more than ever, we need standards that meet their needs and raise the quality of the internal audit services they provide."

Indeed, the future demands internal audit services that are timely, relevant, and impactful. This requires standards that are insightful, prescient, clear and direct. To meet that demand, The IIA will soon release a public comment draft that dramatically changes how the *Standards* and other elements of the IPPF are presented and explained. The new *Global Internal Audit Standards*[™] more clearly articulate the keys to effective internal auditing by grouping the *Standards* into five domains:

- Domain I: Purpose of Internal Auditing
- Domain II: Ethics and Professionalism
- Domain III: Governing the Internal Audit Function
- Domain IV: Managing the Internal Audit Function
- Domain V: Performing Internal Audit Services

This special edition of *Global Perspectives & Insights* provides an overview of the proposed new *Global Internal Audit Standards*, background on how they were developed, and considerations for how the updated *Standards* can be applied. It also examines how conformance to the updated *Standards* will help future generations of internal auditors meet and exceed the demands of our stakeholders and add value to their organizations.



Global Internal Audit Standards™

Why are updated standards needed?

Dramatic changes for dramatic times

Reviewing and revising the Standards is part of the IASB's established due process, which leads to periodic updates to the profession's governing documents. The most recent update began in 2020 when the IASB acknowledged the need for re-envisioning how the *Standards* were organized and presented. The IASB listened to feedback from practitioners about challenges associated with conforming to certain standards, and kept in mind that conformance with the *Standards* doesn't always equate to quality performance. These themes helped drive the dramatic revisions to how the *Standards* are presented in the upcoming *Global Internal Audit Standards* public comment draft. Additionally, the revisions reflect input from a broad range of stakeholders.

"More than two years of hard work by our staff and Standards Board has resulted in a remarkable draft of the new *Global Internal Audit Standards*, which I believe will help lead internal auditors into the future. It reflects significant input not only from internal audit practitioners — including the leadership of 90 different national IIA affiliates — but also from stakeholders such as regulators, corporate directors, and standard-setting bodies," said Anthony Pugliese, IIA President and CEO. "The standard-setting follows a rigorous due process and aims to meet the fundamental needs of the profession and serves the public interest. I am confident the draft will be well received and look forward to feedback during the public comment period."

One of the key changes reflected in the public comment draft is a simplified structure. The six components of the IPPF now focus on two areas, Standards and Guidance. Standards and implementation guidance are presented in five domains, each addressing key aspects of the profession.

- **Domain I — Purpose of Internal Auditing** unifies descriptions of the profession previously spread across various IPPF elements.
- **Domain II — Ethics and Professionalism** incorporates the Code of Ethics and standards relating to practitioner conduct and is enriched by the inclusion of standards addressing due professional care.
- **Domain III — Governing the Internal Audit Function** clarifies the board's role. This change outlines for the first time important board responsibilities in support of effective internal auditing and addresses how the chief audit executive (CAE) can support the board in carrying out its responsibilities.
- **Domain IV — Managing the Internal Audit Function** clarifies the role of the CAE and provides direction on running an internal audit function.
- **Domain V — Performing Internal Audit Services** includes additional requirements and practices for providing effective day-to-day internal audit services.

Each domain incorporates related principles that drive standards within the domain. The principles, 15 in total, provide broad descriptions of a basic assumption or rule summarizing a group of requirements and recommendations that follow. Additionally, the updated *Standards* now include recommended practices and evidence of conformance after each standard, making it easier for practitioners to understand and conform with individual standards. The revised *Standards* also acknowledge nuances for public sector, small audit functions, and advisory services.

Another way to understand the proposed revisions is to examine "before" and "after" states in several key areas:

Before: The responsibilities of the internal audit function, the chief audit executive, and the board were unclear.



After: The standards grouped into **Domain III — Governing the Internal Audit Function** describe what is needed from the board in support of an effective internal audit function and clarifies the roles and responsibilities of the board and the chief audit executive. When the board authorizes and fully supports the role of the chief audit executive and the internal audit function, internal auditing can serve the board and other stakeholders effectively.

Before: Requirements for strategically managing a high-quality internal audit function were not thorough.

After: Domain IV —Managing the Internal Audit Function outlines new requirements and recommended practices for chief audit executives to develop strategy and performance indicators to help the chief audit executive lead a quality internal audit function.

Before: Standards describing how to perform practical aspects of individual internal audit engagements lacked detail.

After: Domain V —Performing Internal Audit Services provides new requirements and recommended practices for performing engagements, particularly about assessing risks and analyzing information to develop findings and conclusions.

Before: Essential guidance about implementing and demonstrating conformance with the *Standards* were in separate documents, making them difficult to access.

After: The *Global Internal Audit Standards* comprise one comprehensive document. Each standard incorporates sections on requirements and recommended practices for implementation and demonstrating conformance.

“As a working internal auditor, I understand the value of professional standards that are clear, precise and relevant to the work I do on a daily basis,” said Benito Ybarra, IIA Global Board Chairman. “We need to amplify and extend this recognition to engage our key stakeholders. The proposed *Global Internal Audit Standards* simplify the structure, add recommended practices, and align their relevance to real-world business objectives. I would love to see input and insights from my fellow practitioners and other key stakeholders on the public comment draft.”

Top Changes To the Standards

- Simplify the IPPF Structure
- Consolidate 6 elements (Mission, Definition, Code of Ethics, Core Principles, Standards and Implementation Guides) into the new Standards
- Create the new Purpose of Internal Auditing, under the new Standards
- Enrich the Ethics and Professionalism by adding due professional care
- Add the recommended practices and evidence of conformance after each Standard
- Add the nuances for Public Sector, small functions, and advisory services
- Clarify the Board role in governing internal audit function
- Clarify the roles of CAEs and internal auditors for internal audit functions and various activities
- Redefine the quality = conformance + performance



The Five Domains

Examining the structure of the *Global Internal Audit Standards*

Domain I: The Purpose of Internal Auditing

One of the key challenges, indeed criticisms, of the IPPF is that it includes four separate components to address what internal audit is and how it should operate – Mission of Internal Audit, Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, and Code of Ethics. In addition to contributing to confusion among practitioners, this has also made it difficult to clearly and concisely articulate internal audit's value to internal audit stakeholders. **Domain I—The Purpose of Internal Auditing** is designed to address this shortfall.

The public comment draft's Purpose of Internal Auditing describes how internal audit enhances organizational success through objective assurance and advice. Paul Sobel, a former IIA Global Board Chairman and former IASB Chairman, joined The IIA as a senior advisor to help draft the new *Standards*, including the Purpose of Internal Auditing statement. He believes it greatly improves and clarifies messaging about the profession's value and intent.

"I think part of it was to try and get the internal audit profession to be viewed as more aligned with the goals and objectives of the organization and the success of the organization," he said, adding that the new statement improves on the existing Mission of Internal Auditing. "You know the old, 'Enhance and protect organizational value' made sense, but I'm not sure it went far enough to directly link internal audit to what makes an organization successful."

Elizabeth Sandwith, a current IASB member, also worked on the new *Standards*. She describes the new Purpose of Internal Auditing as the long-sought-after "elevator pitch" description of the profession. "I think that the purpose now is very clear in terms of who we are, what we are, and how we are most effective" she said.

Sobel agreed.

"The point was this had to be something that was simple and memorable. You know, if somebody says, 'You're from internal audit. What does that mean? What do you do? Why are you here?' We should be able to distinguish internal auditing from any other part of the organization that is also there to help the organization be successful."

While recognizing that further changes may be made to Domain I after the public comment period, Sandwith still expressed confidence that the new wording will help internal auditors and their stakeholders have a better grasp of their roles in the organization.

In essence, the new purpose statement and other proposed changes to the *Standards* reflect an evolution of the profession and its role in good governance.

"The *Global Internal Audit Standards* better articulate and clarify where exactly internal audit fits within the evolving governance models that we see around the world," Sobel said. "So that's why this is going to be very important. We've got to get this right. If this is really timeless, it should fit as governance and other things continually evolve; and if we don't get it right we will find the *Standards* will be out of pace with modern business."



"I think that's part of what happened before," Sobel continued. "The *Standards* are very good. They served the profession well. But they didn't necessarily connect with boards and executives about how those *Standards* support the success of an organization, which is the ultimate measure of good governance."



Domain II: Ethics and Professionalism

A fundamental function of any professional standard is setting the guardrails for ethical conduct and professional performance. Domain II of the new *Global Internal Audit Standards* achieves this for the internal auditing profession. This task is accomplished under the current IPPF with the Code of Ethics, several of the Core Principles of Internal Auditing, and standards related to due professional care. This exemplifies, how the structure of the proposed new *Global Internal Audit Standards* improves on the existing IPPF.

“The advantage of Domain II is that it articulates very clearly what the behaviors are that we must exhibit, and why those behaviors are important,” Sandwith said. “Again, there is now clarity around this that is so important in terms of an internal auditor – be they a CAE guiding their team, or a new internal auditor coming into the profession.”

Sobel stressed that the existing Code of Ethics and other IPPF components are not going away. They are just being incorporated into the new domain.

“By embedding it and calling it its own domain, it helped us much better integrate how those expectations around ethics and professionalism fit with the principles of good internal auditing,” he said. “So now you don't have separate ethics principles. They're embedded in the 15 total principles, which again just makes for a much cleaner way of looking at what the expectations are.”

Domain II is primarily focused on the individual auditor — what's expected of them from an ethics standpoint; what's needed from them from a competency and professionalism standpoint. Practitioners have an obligation to understand how to do their job competently and ethically and to conform to standards that explain those obligations. Sobel and Sandwith agreed the proposed new domain makes that easier.

“The clarity now is so much stronger in terms of how we do our job, how we behave, what is acceptable behavior, what isn't, how we report things that we see that are unacceptable, and how we demonstrate that we are conforming with Domain II,” Sandwith said. “Previously there was a Code of Ethics that we signed up to annually when we renewed our membership and probably forgot about across the year as we completed internal audit engagements. Now it is front and center of the *Standards* and everything we do.”

Sobel added, “Before it was the Code of Ethics, and you had certain standards focused on professionalism, and there was certainly a fair amount of crossover. By embedding them all together every internal auditor now knows, ‘Hey, I need to go to Domain II and figure out what my responsibilities are, that I can't rely on a chief audit executive or my manager telling me what to do. These are things I need to internalize, I need to do effectively, or I can't do my job well.’”

For IASB board member Hans-Peter Lerchner, Domain II brings unity to ethics and professionalism that was missing before.

“What was very important was to make it complete,” he said. “If you don't know what you're actually doing, or what you should do to develop further, it's not complete. Now with this compilation of ethics and professionalism, we know what every auditor should take care of, the basics of our work.”



Domain III: Governing the Internal Audit Function

Domain III offers what is likely the most dramatic change in the proposed *Global Internal Audit Standards*. For the first time, standards for the internal auditing profession will include direction and responsibilities for the board. This bold step recognized and tackled a fundamental challenge that the existing standards do not clearly address.

The existing standards outline a preferred structure for internal auditing governance — specifically that it should be independently positioned within the organization and report functionally to the board and administratively to executive management. The existing standards also require the adoption of an internal audit charter and outline the CAE's interaction with the board relating to communicating the functions independence.

“These are internal audit standards; these are not board standards; they're not audit committee standards,” Sobel said. “In the past we worked around it by saying, ‘Well, the chief audit executive must strive to do this or try to make this happen.’ This was still focused on the chief audit executive. What we wanted to do was flip this. If the board is serious about wanting an effective internal audit function, one that truly does meet that purpose of internal auditing, then they have to take on certain responsibilities.”

Domain III outlines several standards for the board that authorize the internal audit function, ensure and safeguards its independence and positioning within the organization, and establish the board's responsibilities for overseeing the quality of the performance of both the internal audit function and the chief audit executive. The new *Standards* emphasize the quality performance requires conformance to the *Standards* and more. Each standard within Domain III specifically identifies the responsibilities of the CAE and the board, as well as joint responsibilities.

“The board does have a de facto responsibility over risk oversight, over controls that internal audit can be very helpful with,” Sobel said. “Therefore, I think what this does is it really helps the board more effectively carry out those oversight responsibilities by understanding what they need to do.”

Sandwith predicted Domain III will likely present a challenge for many CAEs in terms of not just communicating the new standards to their audit committees and boards but potentially adapting to stricter oversight from the board.

“I think there is a risk that people will miss the fact that this is now formalizing what your audit committee, your board, your governing body, have to do,” she said. “That's going to take a little bit of clever messaging to get that across. If I'm a practicing internal auditor, I can use the *Standards*, but I may well choose not to tell my audit committee about Domain III, because actually I'm happy just doing the things I'm comfortable doing, and I may not want that oversight challenge.”

However, when it comes to conforming to Domain III, CAEs will need to demonstrate that their boards understand and implement each related standard, Sobel said.

“CAEs need to tell their boards, ‘If you really want me to fulfill this purpose of internal auditing, I need your help. You have to do these things. Now, I'm going to do the following things to support you to make sure that you can do those things, and together we can successfully make sure that the internal audit function is governed effectively,’” Sobel said. “But I can't do it without you, and I don't expect you to be able to do it without me.”

Standards in the Governance domain cover board oversight to ensure the CAE develops, implements, and maintains a quality assurance and improvement program (QAIP), including that an external quality assessment (EQA) of the internal audit function is conducted at least every five years. Emphasizing this as a board responsibility is designed to bring “more rigor to what an EQA and, frankly, a QAIP can and should be,” Sobel said.

Additional specifics on performance and conformance to standards are found in the “Implementation and performance” section on page 11.



Domain IV: Managing the Internal Audit Function

The CAE is responsible for managing the internal audit function, and Domain IV outlines in significant detail what responsibilities that entails. This domain identifies principles for strategic planning, managing resources, ensuring internal auditors build relationships and communicate effectively with stakeholders, and ensuring and enhancing the performance of the function.

Sobel describes Domain IV as giving the CAE a roadmap for setting up the internal audit function for success. “It focuses on long range strategic planning for internal audit, which is something that was missing from the *Standards* before. It was maybe alluded to, but not explicitly stated,” he said.

For example, Principle 9, Strategically Plans, covers:

- Understanding governance, risk management and control processes
- Internal audit strategy
- The internal audit charter
- Methodologies
- The internal audit plan
- Coordination and reliance

“Principle 9 sets the foundation for the remaining principles and standards within Domain IV because, once you have a strategy set, then you can start thinking about how you are going to achieve that strategy,” Sobel said.

The principles in Domain IV also provide a logical flow to managing resources, setting up methodologies, communicating effectively with all stakeholders, and ensuring there is a plan in place that ensures quality, which comprises both conformance and performance. Additionally, discussion about effective communication provides another example of how the restructured standards bring together like topics that were once dispersed across the six IPPF components.

“We talk about communications to the board to help CAEs fulfill their oversight responsibilities in Domain III, but Domain IV focuses on what types of communications we typically need to have, whether they’re up to the board, out to management, or down to the activity under review,” Sobel said. “Domain IV is going to really help the CAE understand that this is not something you can just wing. You need to be thoughtful about the types of communications you have — how frequent they’re going to be, who they are with, what is their purpose.”

Sandwith said Domain IV also provides a powerful means to clarify internal auditing’s role and value.

“Domain IV is very clear, and it tells me what I am expected to do from a professional perspective,” she said. “But it also is a phenomenal tool in terms of talking to my stakeholders, talking to my senior management team about my role as the CAE.”



Domain V: Performing Internal Audit Services

Domain V provides the most practical direction in the *Global Internal Audit Standards* for conducting day-to-day internal auditing work. The three principles and related standards in this domain address effective engagement planning, conducting engagement work, communicating throughout the engagement, developing findings, providing recommendations and conclusions, and monitoring action plans. Domain V provides in-depth direction and guidance in areas that are vague in the existing standards. For example the new Standards describe how to gather information, perform the engagement risk assessment, and develop the engagement work program as part of effective engagement planning. This improves on the existing standards, which sometimes don't provide the necessary level of detail.

"What we found is that there were probably things missing from the old standards," Sobel said. "They may have been in the implementation guides and practice guides somewhere. But part of the purpose of this whole initiative was to bring things into one place. So, when somebody says, 'I need to know how to perform an internal audit engagement.' well, now it's all right there for you. You know the requirements, and then the considerations for implementation."

What's more, the drafters of the *Global Internal Audit Standards* gave additional consideration to how the pronouncements from individual principles and standards could be carried out in real-world situations.

"Domain V is truly the bread and butter of how you perform your responsibilities day in and day out," Sobel said. "There was a lot of thought about the implementation side. How are people actually going to do this? When we say, 'You must do this.' What does that mean? How do you do that?"

New requirements and considerations in Domain V provide details intended to help internal auditors perform engagements with consistency and quality, while recognizing that the order in which steps are performed may vary by engagement, may overlap, or be iterative rather than linear.

The new *Standards* raise the bar by emphasizing that internal auditors are expected to apply and conform to the *Standards* in the same way for assurance and advisory engagements, except when otherwise specified in individual standards. For the first time, the *Standards* describe the process for analyzing and evaluating findings to reach engagement recommendations and conclusions

"Once this is finalized and people understand it, I would expect most internal auditors to spend most of their time looking at Domain V, because this really provides them the guidance on what they need to do to effectively perform their jobs," Sobel said.



Standards for a New Generation

Five domains working in concert

How the *Global Internal Audit Standards* work

There is growing interest and excitement among drafters of the proposed *Global Internal Audit Standards* on how they will be received by internal auditors around the world. There is also consensus among them that the proposed changes will help the next generation of internal auditors to succeed.

“I think we are going to end up with a document that’s going to give us the framework on which we build, as professional internal auditors, the best possible service we can for our organizations. So, I think it’s laying that foundation,” Sandwith said. “I think it’s also giving us a stronger framework for things like external quality assessments.”

For Lerchner, the proposed changes offer a significant improvement in that they responded to critiques from practitioners doing day-to-day internal audit work.

“The situation with the IPPF after the last revision in 2017 was that, while there were some new additions, it looked a little bit fragmented. This was of some concern for practitioners because they didn’t know, ‘Where are the pieces relevant for me,’” he said. “Whether it’s for the CAE, if it’s a board, or if it’s simply for the internal auditor, we needed some guidance for daily work. That was the starting point to bring the puzzle together and make one picture in the end.”

Creating the five domains, each with specific subjects and audiences in mind, helps create the clarity Lerchner said practitioners are seeking.

“I think the structure of the domain specifically for me as a CAE is brilliant and absolutely key in terms of helping me do my job better,” Sandwith said. “Domain IV is very clear, and it tells me what I am expected to do from a professional perspective.”

However, Sandwith stressed that internal auditors should strive to look at all five domains and how they work together.

“If I don’t know what my purpose is, I’m not sure how I do my job,” she said. “So, I need Domain I to be my anchor. I need Domain II to tell me how to behave, and what’s important in terms of how I deliver my job. I need Domain III in terms of the oversight from my audit committee or board. I need Domain IV as a CAE in terms of what I’ve got to do, and then, of course, Domain V actually tells me how I do my job. So, you can’t say, ‘I’m going to ignore all of them, and only going to look at Domain V because I’m a practicing internal auditor.’”

Implementation and performance

Drafters of the *Global Internal Audit Standards* intentionally included information on implementation and evidence of conformance with each principle and standard. This is designed to make it significantly easier for practitioners to understand what they have to do. However, it also raises the bar on performance.

“We’re saying quality is not just about conformance,” Sobel said. “Quality is about conformance and performance. You know that’ll mean different things to different companies and different CAEs, but you have to have performance expectations, performance goals as well, and a good quality improvement program should be focusing on both of those.”

Standards conformance remains an important and, ultimately, mandatory aspect for every internal audit function and practitioner. However, CAEs should see conformance as a beginning, not an end. The proposed *Global Internal Audit Standards* leverage the board’s oversight responsibilities to help improve performance.



"I think they'll start to ratchet up the expectations on the chief audit executive to say, 'Yeah, you need to conform and you also need to perform. Now let's talk about what those performance measurements should be,'" Sobel said. "Hopefully, in the future we'll have more external quality assessments that do focus on leading practices, performance, etc., and not just conformance."



Conclusion

The IIA is bringing a fresh perspective to standards that govern the internal audit profession. As new risk challenges ratchet up the pressure to create, maintain, and assure effective governance, internal audit standards that place a premium on effective, high-quality risk assurance and advisory services will be critical. CAEs and boards should be asking, “Is our organization equipped for the future from a risk management and internal control perspective?”

The *Global Internal Audit Standards* are designed to help organizations answer, “Yes.”

“I think it's more about succeeding in a world that is full of volatility, uncertainty, and change,” Sandwith said. “That's what I think the *Global Internal Audit Standards* do. I think they raise the bar, and I think they equip internal auditors and our profession to face that volatile, uncertain, ever changing world we now find ourselves in.”



About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 230,000 global members and has awarded more than 185,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

Disclaimer

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

Copyright

Copyright © 2023 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact copyright@theiia.org.

February 2023



The Institute of
Internal Auditors

Global Headquarters

The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101