



Global

FIRST ANNUAL REPORT
**IPPF OVERSIGHT COUNCIL
(IPPOC)**
2011

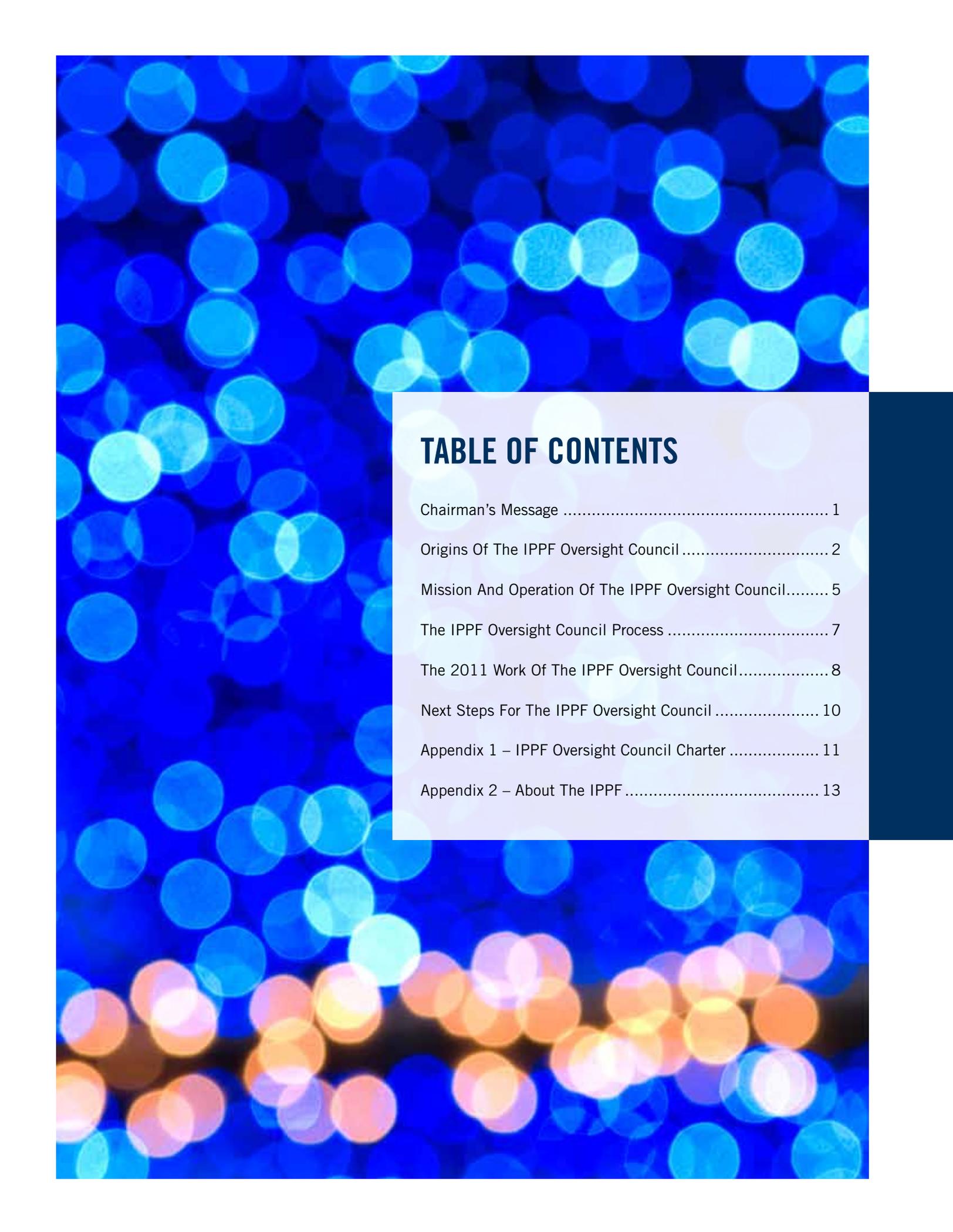


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1. CHAIRMAN'S MESSAGE

I am pleased to present the first public report of the International Professional Practices Framework Oversight Council (IPPF). The IPPF is an international, independent body that evaluates and advises on the adequacy and appropriateness of The Institute of Internal Auditors' (IIA's) standards- and guidance-setting processes.

Formed one year ago at the request of The IIA, the oversight group's mission is to increase global stakeholder confidence in The IIA's activities related to the International Professional Practices Framework (IPPF), which comprises the *International Standards for the Professional Practice of Internal Auditing (Standards)* and other mandatory and strongly recommended guidance. The IPPF is a new framework retooled in January 2009 from the previous Professional Practices Framework (PPF). It builds on the *Standards* and related guidance going back several decades. On behalf of the IPPF and the broader stakeholder community, I commend The IIA for ensuring that the manner in which its *Standards* and guidance are created is effective, fair, transparent, and in the public's and their stakeholders' best interests.

I firmly believe that high-quality standards for the internal audit profession can play an instrumental contributory role in ensuring public confidence in organizational governance and the financial reporting process. I also believe high-quality standards—when uniformly applied—create international “public good,” an important aspect in the governance of our world's financial system. By ensuring that the internal audit profession's global *Standards* and guidance are formulated in the broad public's best interest, we will foster further financial stability and development around the world.

It can be challenging to superimpose oversight upon pre-existing activities. Those charged with this responsibility must tread carefully. On one hand, oversight that is misdirected runs the risk of destabilizing and harming the activities it was intended to improve. On the other, overly timid oversight may have no impact, rendering the function ineffective. I believe we walked that line successfully during our first year. We were able to establish both authority and credibility without creating disorder in the underlying activities of The IIA as a global guidance-setting body. I am confident we will continue to grow in effectiveness as we deepen our understanding and gain further experience in this role.

I look forward to the continued progress of this group's efforts to enhance standard-setting, governance, and internal auditing's effectiveness around the world. The excellent cooperation I observed among all IPPF members, the constructive rapport we established with The IIA and its standards- and guidance-setting volunteers from around the world, and the commitment of The IIA staff serving us—all point to our continued future success.

James M. Sylph
Chairman, IPPF



2. ORIGINS OF THE IPPF OVERSIGHT COUNCIL

The past couple of decades have been marked by regional financial instability, high-profile accounting scandals, and corporate failures that resulted in significant losses of shareholder value in the United States, Europe, and Asia. These incidents were seen primarily as failures of management integrity, risk management, and governance, as well as noncompliance with financial reporting rules and audits. The public's confidence in capital markets was undermined, and those assessing the situation called for improvements of corporate governance.

Many organizations have established governance mechanisms to provide a measure of reasonable assurance that the interests of applicable stakeholders — and, in turn, the interests of the public at large — are protected. Through the evolution of governance, internal auditing has become a key component of well-governed organizations.

The Institute of Internal Auditors (IIA) defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*

The IIA provides and promulgates the International Professional Practices Framework (IPPF), the conceptual framework comprising authoritative guidance including the Definition of Internal Auditing, the Code of Ethics, *International Standards for the Professional Practice of Internal Auditing (Standards)*, Position Papers, Practice Advisories, and Practice Guides. (See the overview of the IPPF in Appendix 2.) In this context, The IIA promotes good governance by:

- Issuing current and relevant IPPF standards and guidance through a rigorous and transparent standard-setting process.
- Enhancing the quality of internal audit services guided by the IPPF.
- Increasing the confidence and reliance on internal audit services by stakeholders.

To achieve these goals, in 2007 The IIA's Vision for the Future II report suggested the need for an independent oversight body to ensure that The IIA's standards- and guidance-setting processes were rigorous enough to properly serve the interests of the public and the internal



audit profession. In 2009, The IIA's Board of Directors invited a number of organizations to provide representatives to form the IPPF Oversight Council (IPPF). IPPF members are appointed by, and report to, The IIA's Board of the Directors. (For details regarding the structure of the IPPF, see its charter in Appendix 1.)

IPPF members are experienced and knowledgeable, and are fundamentally independent from The IIA's current organizational structure, policies, and procedures. They have no operational or management authority with respect to IIA activities.

The IPPF held its first meeting in October 2010 and elected a chairman from within its non-IIA members. To ensure the IPPF is refreshed continuously, it was decided that any individual member shall not serve more than two consecutive three-year terms (excluding The IIA's vice president of Standards and Guidance, who shall be a non-voting ex-officio member of the IPPF). However, 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.

One of the first tasks performed by the IPPF members was to stagger their own terms of appointment so that the IPPF would be able to function effectively as rotation became a reality. The current members of the IPPF and their terms of service are:

ORGANIZATION	REPRESENTATIVE	TERM ENDING
International Federation of Accountants (IFAC)	James M. Sylph, Chairman	December 31, 2012
International Organization of Supreme Audit Institutions (INTOSAI)	Rolf Elm-Larsen	December 31, 2012
National Association for Corporate Directors (NACD)	Peter Gleason	December 31, 2013
Organization for Economic Co-operation and Development (OECD)	Grant Kirkpatrick	December 31, 2012
The Institute of Internal Auditors	Larry Rittenberg	December 31, 2013
The Institute of Internal Auditors	A.J. Hans Spoel	December 31, 2014
The World Bank	Zinga Venner	December 31, 2014



From left to right: Rolf Elm-Larsen, A.J. Hans Spoel, Peter Gleason, James M. Sylph, Zinga Venner, and Larry Rittenberg.

3. MISSION AND OPERATION OF THE IPPF OVERSIGHT COUNCIL

The IPPFOC held three two-day meetings: October 5–6, 2010, February 7–8, 2011, and October 31 to November 1, 2011. During these meetings, the IPPFOC discussed and finalized its mission, responsibilities, and operating procedures. The revised IPPFOC Charter (Appendix 1) was approved by The IIA's Board of Directors in November 2011.

A. MISSION

The mission of the IPPFOC is to evaluate and advise on the adequacy and appropriateness of The IIA's standard- and guidance-setting processes.

B. RESPONSIBILITIES

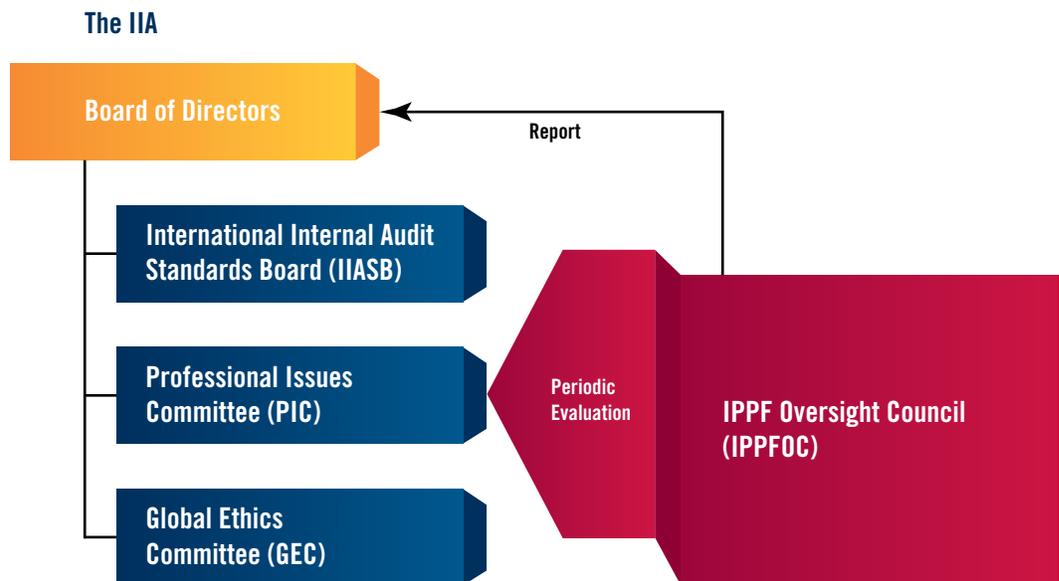
To promote inclusiveness, transparency, and other qualities that will enhance internal audit stakeholders' confidence that the outputs of The IIA's standard- and guidance-setting bodies are in the public interest, the IPPFOC will:

- Evaluate The IIA's standards- and guidance-setting procedures performed by the Global Ethics Committee (GEC), International Internal Audit Standards Board (IIASB), and Professional Issues Committee (PIC), and determine whether they represent internationally accepted practices.
- Recommend to The IIA Board of Directors improvements to the standards- and guidance-setting processes.
- Review the process by which the standards and guidance work plans are developed and the reasonableness of the content of those plans.
- Recommend to The IIA Board of Directors additions to the content of the work plans, when deemed appropriate.
- Review the charters of The IIA's standards- and guidance-setting bodies: the GEC, IIASB, and PIC.
- Communicate in The IIA's annual report on the adequacy and the appropriateness of the processes employed for standards- and guidance-setting.
- At least every three years, review and, where appropriate, recommend to The IIA Board of Directors changes to the IPPFOC's charter.

C. OPERATING MODEL

The IPPFOC operating model addresses the IPPFOC's reporting structure, frequency of meetings, report-issuing responsibilities, and source of funding:

- The IPPFOC will ensure transparency and adherence to due process as the GEC, IIASB, and PIC conduct their activities to develop IPPF standards and guidance. As the IPPFOC reports directly to The IIA Board of Directors, it may address the board directly if it determines that this is appropriate. The following chart depicts the relationship of the IPPFOC and The IIA's relevant committees and board.



- The IPPFOC meets twice annually in person, or more often if deemed appropriate, to carry out its activities. A quorum (75 percent of the membership) is needed for a meeting.
- The IPPFOC issues an annual report that discusses its own activities and evaluates how the public interest has been reflected in the activities it oversees.
- To ensure the IPPFOC has a stable funding source, The IIA agrees on an adequate annual budget to support IPPFOC activities (i.e., the cost of meeting rooms and facilities, members' travel and accommodations for attending the in-person meetings, annual reports, and research necessary for the IPPFOC to accomplish its mission).

4. THE IPPF OVERSIGHT COUNCIL PROCESS

The IPPF has concluded that its oversight process will consist of three main elements:

- Inspecting documentation describing the standards- and guidance-setting processes used by the GEC, IASB, and PIC to carry out their work and making recommendations for change where considered appropriate.
- Observing meetings of the GEC, IASB, and PIC, where possible and cost-effective, to gain first-hand knowledge of the breadth and depth of debate and discussion, and assess the overall participation of members.
- Inspecting reports prepared by IIA staff regarding the due process steps followed in completion of each project, and conducting related discussions about the key elements of these due process steps.

In order to make effective use of IPPF and volunteer time and resources, the IPPF is scheduling its first meeting in 2012 alongside The IIA international committee meetings in Boston.



5. THE 2011 WORK OF THE IPPF OVERSIGHT COUNCIL

During the year, the IPPFOC started to evaluate The IIA's standards- and guidance-setting process performed by the GEC, IASB, and PIC. The IPPFOC conducted a series of in-depth interviews and discussions with The IIA's senior vice chairman of the board, vice chairman of the board in charge of professional guidance, Executive Committee members, IASB chairman, and IIA president/CEO and staff.

The IPPFOC concluded it would focus its attention in 2011 on the work of The IASB and, where possible, the PIC. As a consequence of its observations, the IPPFOC agreed that the IASB and PIC exhibited professional behavior, good organization, and good support by well qualified staff and volunteer leaders in carrying out their mandates. The IPPFOC considered the information provided by IIA volunteers and staff it had interviewed and raised a number of issues with them for consideration in improving the adequacy and appropriateness of the standards- and guidance-setting process.

A. COMPLETED ISSUES

Change the Name of the Internal Audit Standards Board (IASB)

The IPPFOC suggested the Internal Audit Standards Board (IASB) be renamed to avoid confusion with the International Accounting Standards Board's similar acronym, IASB.

In July 2011, The IIA Board of Directors renamed the Internal Audit Standards Board (IASB) to International Internal Audit Standards Board (IIASB).

Improve the Standards-setting Process

To ensure standards are seen as having wide acceptance, the IIASB was encouraged to consider increasing the required quorum (simple majority) for attending a meeting and allowing those who cannot attend in person to attend via teleconference. This will help establish appropriate voting levels and encourage in-person participation in the meetings of the IIASB.

The IIASB quorum requirements were raised from simple majority to sixty percent, the voting requirements to two thirds, and the expressed expectation that members of IIASB and PIC will attend, in person, the two meetings per year.



□ Enhance the IASB Nomination Process

To increase global acceptance of the Standards, the IPPFOC advised the IASB to increase geographic representation and stakeholder diversity, where possible.

The IIA Board of Directors has responded during the 2011 appointment process. The IASB 2011–2012 membership is comparable with the geographic membership of The IIA. In addition, it now has three members who are representatives from stakeholder organizations: the Association of Chartered Certified Accountants (ACCA), The United States Government Accountability Office (US GAO) and the International Organization of Supreme Audit Institutions (INTOSAI).

B. IN-PROCESS ISSUES

We understand that The IIA is conducting a study to benchmark with other standards-setters to further assess and potentially improve The IIA's standards and guidance-setting process. The IPPFOC is continuing discussions with the Board of Directors and the Chairs of the IASB and PIC on a number of issues around improvements to the standard-setting and guidance-setting processes, enhancing the nominations process and considering how adoption of the standards can be enhanced.

6. NEXT STEPS FOR THE IPPF OVERSIGHT COUNCIL

The IPPF has set out a two-year plan for its activities.

During 2012, we will see a focus on the work of PIC. Discussions will continue with the Chair of the PIC, Vice Chair of Professional Guidance, and the IIA's Board of Directors to address the IPPF's observations.

We understand the GEC is proposing changes to its policy and operations to the Board of Directors. We look forward to reviewing the proposed changes during 2012.

The 2013 program will focus on assessing the successful introduction and application of these new processes within the GEC.

We look forward to the continued progress of the IPPF's efforts to enhance standard- and guidance-setting, governance and internal auditing's effectiveness around the world.

APPENDIX 1 – IPPF OVERSIGHT COUNCIL CHARTER

1. MISSION

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

2. STRUCTURE

The IPPOC is appointed by The IIA Board of Directors and is comprised of persons representing stakeholders such as 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 IPPOC 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 recommended 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 by this council.
- IIA vice president of Standards and Guidance (ex-officio member, staff, non-voting).

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

The initial appointments will be staggered. To ensure the IPPOC is refreshed, any individual member shall not serve more than two consecutive three-year terms (excluding The IIA's vice president of Standards and Guidance, who shall be a non-voting ex-officio member). 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 IIA Board will re-confirm participation by the various stakeholder organizations every three years.



The voting members of the IPPFOC shall select the chairman from among its 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 additional three-year term, not to exceed six consecutive years in total.

3. RESPONSIBILITIES

To promote inclusiveness, transparency, and other qualities that will generate internal audit stakeholders' confidence that the outputs of The IIA's standard- and guidance-setting bodies are in the public interest, the Council will:

- a. Evaluate procedures for IPPF standards- and guidance-setting and determine whether they represent internationally accepted practices.
- b. Recommend to The IIA Board of Directors improvements to The IIA's standards- 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 IIA's standards- and guidance-setting bodies, namely: the Global Ethics Committee, International Internal Audit Standards Board, and Professional Issues Committee.
- f. Communicate in The IIA's annual report on the adequacy and the appropriateness of the processes employed for standards- and guidance-setting.
- g. At least every three years, review and, where appropriate, recommend to The IIA Board of Directors changes to the IPPFOC's charter.

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



APPENDIX 2 – ABOUT THE IPPF

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The IIA. The scope of the IPPF covers authoritative guidance developed by IIA international technical committees following due process. The IPPF comprises two categories of guidance: Mandatory and Strongly Recommended guidance.

MANDATORY GUIDANCE

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:

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.
International Standards	<p><i>Standards</i> are principle-focused and provide a framework for performing and promoting internal auditing. The <i>Standards</i> are mandatory requirements consisting of:</p> <ul style="list-style-type: none"> <input type="checkbox"/> 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. <input type="checkbox"/> Interpretations, which clarify terms or concepts within the statements. <input type="checkbox"/> 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 that are included in the Glossary.</p>

STRONGLY RECOMMENDED GUIDANCE

Strongly recommended guidance is endorsed by The IIA through a formal approval processes. 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.



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