

Appendix:
ACCA's detailed, specific responses to the proposed changes, including the *Interpretations*

New Standard number	Agree/Disagree	Suggested modification	Comments
1000	Agreed		The rewording of the Standard is generally fine. It puts the onus on the CAE to present the Charter to the Board.
<i>Interpretation of above</i>	Agreed, but with a suggestion (see cell to the right)	<p>In defining the CAE in relation to outsourced services, the Interpretation defines the CAE as the person responsible for overseeing the service contract. While this <i>Interpretation</i> states that the '<i>Chief audit executive is a senior position within the organization responsible for internal audit activities.</i>', we consider there is nevertheless a danger that this <i>Interpretation</i> might be interpreted to permit someone quite junior in the organisation with little understanding of the role and responsibilities of Internal Audit to be regarded as the CAE when internal auditing is outsourced.</p> <p>We would have preferred that this Interpretation made it crystal clear that when internal audit is outsourced the CAE (assuming he or she is in-house) should be a senior executive who has direct reporting responsibility to the Board for Internal Audit.</p>	<p>We appreciate that currently there are outsourced service providers fulfilling the role of CAE and reporting directly to non-executive directors of an organisation, usually via the audit committee of the board. As internal auditors, we criticise management if they outsource other functions without retaining in-house responsibility for managing the risk. The fact that the work is outsourced should not permit management to outsource responsibility to oversee the service contract. However, in our General Notes we discuss our reservation about an CAE always being in-house.</p> <p>An in-house CAE (when internal audit services are outsourced) could be conflicted between his/her role as CAE and his/her other responsibilities within the entity. It is inadequate that only Standard 1130-A2 addresses this.</p>
1000-A1	Agreed		
1000-C1	Agreed		
1010	Agreed, subject to our suggested modification	At the end of the second sentence add "and document this."	But in our General Notes we ask for a Standard level opt out of Consulting Services
1100	Agreed		

<i>Interpretation of above</i>	Agreed, subject to our suggested modification	Revise to avoid duplication with Std 1111 – see our Comment to the right of this cell.	‘To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.’ The above almost repeats these words from Std 1111: ‘The chief audit executive must communicate and interact directly with the board.’
1110	Agreed, subject to our suggested modification	At the end of the second sentence add “and provide evidence to support this assertion.”	Excellent enhancement to the old version of this Standard
1110-A1	Agreed		
1111	Agreed, subject to our suggested modifications	At the end of the sentence add “sufficiently regularly to keep the board properly informed.” It might be helpful if the Standard were to distinguish between ‘professional’ interaction between the CAE and the Board and ‘line-managerial’ interaction between the CAE and his/her line executive manager.	‘The chief audit executive must communicate and interact directly with the board.’ The above almost repeats the second sentence of the first paragraph of the <i>Interpretation</i> of Std 1110 which says ‘To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board’.
1120	Agreed		
<i>Interpretation of above</i>	Agreed		Excellent
1130	Agreed, subject to our suggested modification	We suggest that the Standard should provide for both (i) the situation where there may be a local impairment to independence or objectivity which can be satisfactorily resolved locally and would not necessarily need to be disclosed to the Board and (ii) a more fundamental or widespread impairment which can not be resolved and which clearly would need to be disclosed to the Board.	The confirmation to the Board of organisational independence and the requirement to interact directly with the Board, significantly improves true independence and is welcomed. This is not carried through into Standard 1130 dealing with impairments, where the impairment is to be disclosed to ‘appropriate parties’. Why is the Standard not more specific? Disclosure should be to the Board.

<i>Interpretation of above</i>	Agreed, but repetitious (see note in cell to right)		Either the first paragraph of this Standard or the Glossary definition of Impairment should go, as they are identical.
1130-A1	Agreed, but see our comment		The one-year rule is entirely arbitrary.
1130-A2	Agreed, but see our comment		It would be helpful if 'oversight' were defined. Does it mean management of the audit engagement, for instance?
1130-C1	Agreed		We are not clear why The IIA's exposure of the proposed new Standards shows Standard 1130-C1 unchanged. Perhaps this is a typing mistake – in which case we don't know what change is being proposed. Alternatively the intention may be to indicate that it is not intended to change the word 'may' to 'should' or 'must'. We agree that 'may' remains acceptable here.
1130-C2	Agreed		
1200	Agreed		
1210	Agreed		
<i>Interpretation of above</i>	Agreed		
1210-A1	Agreed		
1210-A2	Disagree	Previous wording preferred. New wording does not require an internal auditor to spot evidence indicative that a fraud may be happening.	
1210-A3	Agreed		
1210-C1	Agreed		
1220	Agreed		
1220-A1	Agreed		
1220-A2	Agreed		
1220-A3	Agreed		
1220-C1	Agreed		
1230	Agreed		
1300	Agreed, subject to our suggested modification	Add 'the Definition of Internal Auditing'.	For consistency with other changed Standards



<i>Interpretation of above</i>	Agreed		
1310	Agreed		
1311	Disagree	We suggest 'and the <i>Standards</i> ' which has been deleted should be reinstated.	We see no reason why the text should be deleted.
<i>Interpretation of above</i>	Agreed		
1312	Agreed		
<i>Interpretation of above</i>	Agreed		
1320	Agreed		
<i>Interpretation of above</i>	Agreed, subject to our suggested modification	Amend the middle sentence to include the words in bold " <i>are communicated to senior management and to the board upon completion of such assessments and the results of ongoing monitoring are communicated at least annually.</i> "	We consider this <i>Interpretation</i> should indicate to whom the communication must be made. Nevertheless, Std 1320 <i>does</i> indicate to whom communication should be made
1321	Agreed		
1322	Agreed		
2000	Agreed		
<i>Interpretation of above</i>	Agreed		
2010	Agreed		

<p>Interpretation of above</p>	<p>Agreed, subject to our suggested modification</p>	<p>Interpretation: Amend as follows: <i>The chief audit executive is responsible for developing a risk-based plan. The chief audit executive draws on considers the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, †The chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.</i></p>	<p>We consider this Interpretation leaves open the possibility, even the desirability, that the CAE develops a plan of future audit engagements which corresponds to senior management's assessment of the major risks to the organisation. But sometimes the major risks are not all on top management's radar screen and there is value in internal audit spending time systematically auditing the affairs of the organisation, including some time where there is no perception that there are major risks, in case there are some concealed major risks in those unexciting parts of the business. Put another way, there is value in internal audit looking round corners that management is not themselves looking round. Or you could say, that if senior management is managing what they perceive are the major risks to the organisation, then there is less point in internal audit spending <i>all</i> their time auditing those same risk areas.</p>
<p>2010-A1</p>	<p>Agreed</p>		
<p>2010-C1</p>	<p>Agreed</p>		
<p>2020</p>	<p>Agreed</p>		
<p>2030</p>	<p>Agreed</p>		
<p>Interpretation of above</p>	<p>Agreed, subject to our suggested modification</p>	<p>Interpretation: Add text in bold: <i>Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan developed in accordance with these Standards.</i></p>	<p>'effectively' - If the approved plan is poor then one can hardly claim that audit resources are effectively employed.</p>
<p>2040</p>	<p>Agreed</p>		
<p>Interpretation of above</p>	<p>Agreed, but ...</p>		<p>We think the policies and procedures will be dependent on other things as well</p>



2050	Agreed, subject to our suggested modification		We are not clear why The IIA's exposure of the proposed new Standards shows Standard 2050 unchanged. Perhaps this is a typing mistake – in which case we don't know what change is being proposed. Alternatively the intention may be to indicate that it is not intended to change the word 'should' or 'must'. We would prefer the phrase 'must consider sharing ...' to replace 'should share ...'.
2060	Agreed, subject to our suggested change, at the end of this Standard	Amend as follows: requested by senior management and or the board.	
<i>Interpretation of above</i>	Agreed		
2100	Agreed		
<i>Interpretation of above</i>	Disagree		We consider that internal auditors are systematic in that (a) they plan to cover the affairs of the organisation systematically over time, and (b) they approach each engagement systematically.
2120	Agreed		
<i>Interpretation of above</i>	Agreed		
old 2110-A1 (suppressed)	Agreed		
2120-A1	Agreed		
2120-A2	Agreed		
2120-C1	Agreed		
2120-C2	Agreed		
2120-C3	Agreed, subject to our suggested modification	Amend as follows: When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.	Actually is redundant, superfluous – as it always is. It is a word to be avoided in audit reports – and in internal auditing Standards!
2130	Agreed		

<i>Interpretation of above</i>	Disagree		Just achieving alignment with the organisation's risk appetite may mean that the controls are much weaker than they could be, if designed and applied differently. No extra cost may be involved in having controls which achieve more than compliance the entity's risk appetite; and one can never be sure when the extra quality of control might not be greatly appreciated.
2130-A1	Agreed		
2130-A2	Agreed, subject to our suggested modification	We would prefer 'must' to 'should'.	
2130-A3	Agreed, subject to our suggested modification	We would prefer 'must' to 'should'.	
2210-A3	Agreed		
2130-C1	Agreed		
2130-C2	Agreed		
2110	Agreed		But we are uncomfortable about the modest involvement of internal audit with corporate governance, as set out in our General Notes.
2110-A1	Agreed		A far-reaching new Standard that we welcome strongly, not least the use of 'must'
2110-A2	Agreed		A far-reaching new Standard that we welcome strongly, not least the use of 'must'
2110-C1	Agreed		
2200	Agreed		
2201	Agreed		
<i>Interpretation of above</i>	Disagree	We suggest no interpretation here. The Standard itself is quite interpretative.	'within the organization's risk appetite' is, as we have suggested earlier an inadequate test of effectiveness.
2201-A1	Agreed		
2201-C1	Agreed		
2210	Agreed		
2210-A1	Agreed		



2210-A2	Agreed		
2210-A3	Agreed		
2210-C1	Disagree		Not a good Standard as some consulting engagements (per the definition in the Glossary) would not require this. Others would – in which case the Standard does not need to be stated.
2220	Agreed		
2220-A1	Agreed		
2220-A2	Agreed		We agree that 'should' is the correct word to use. 'Must' could not be used here.
2220-C1	Agreed		
2230	Agreed		
2240	Agreed		
2240-A1	Agreed		
2240-C1	Agreed		
2300	Agreed		
2310	Agreed		
<i>Interpretation of above</i>	Agreed – but a bit thin		
2320	Agreed		
2330	Agreed		
2330-A1	Agreed		
2330-A2	Agreed		
2330-C1	Agreed		
2340	Agreed		
<i>Interpretation of above</i>	Agreed		
2400	Agreed		
2410	Agreed		
2410-A1	Agreed		
2410-A2	Agreed, subject to our suggested modification	Amend as follows, adding words in bold: 'Internal auditors must consider acknowledging satisfactory performance in engagement communications.'	Avoid the word 'encouraged' and indicates what it is that internal auditors must do. 'Encouraged' is a word that is out of place within Standards.
2410-A3	Agreed		
2410-C1	Agreed		



2420	Agreed		
<i>Interpretation of above</i>	Agreed		
2421	Agreed		
2430	Agreed, subject to our suggested modification	Amend as follows: 'Internal auditors must consider reporting that their engagements ...'	Avoids the word 'encouraged' and indicates what it is that internal auditors must do. 'Encouraged' is a word that is out of place within Standards.
2431	Disagree	For consistency, perhaps the Definition of Internal Auditing should be included in this Standard.	
2440	Agreed		
<i>Interpretation of above</i>	Agreed		
2440-A1	Agreed		
2440-A2	Agreed		
2440-C1	Agreed		
2440-C2	Agreed		
2500	Agreed		
2500-A1	Agreed		
2500-C1	Agreed		
2600	Agreed strongly		A very good revision to this Standard as the latter part of this Standard is no longer open to the interpretation that the issue only goes to the Board if senior management and the CAE both concur that they will take it to the Board (or to the Audit Committee etc) for resolution. Now it is clear that the CAE can decide for him/herself whether to take the issue to the Board – of course after discussing it with senior management.

<p><i>Interpretation of above</i></p>	<p>Disagree</p>	<p>The easiest thing to do is to remove this Interpretation completely as it interprets such a small element of proposed Standard 2600.</p>	<p>We do not consider a level of residual risk is always acceptable just because it is within the entity's defined risk appetite. Even if the matter is within the risk appetite (which is sometimes difficult to assess) there may be abundant opportunities to reduce the risk still further and it may be reasonable for the CAE to draw that to the Board's attention. The <i>Interpretation</i> suggests merely that 'A level of residual risk to the organization is unacceptable when the residual risk exceeds the risk appetite.' and implies that it is only then that a CAE may take an unresolved matter to the Board for resolution. This is not enough on its own. Reference should be made within this Interpretation to 'significance' in the auditor's judgement – see the Glossary definition of 'significance'. The issues addressed in the Glossary definition of 'Significance' could be further justification for the CAE taking a matter to the Board for resolution. Also, senior management's assessment of what is within the risk appetite of the organisation may be inappropriate and the CAE should be able to advise the board on that.</p>
<p>Glossary Assurance Services</p>	<p>Agreed, subject to attendance to two matters we comment on here.</p>	<ol style="list-style-type: none"> 1. Should refer to 'governance, risk management and control' in that sequence as newly adopted elsewhere in the proposed Standards.¹ 2. Needs to resolve the ambiguity about the 'due diligence' role of internal audit (see cell to right of this cell) 	<p>It is ambiguous as to whether the reference to 'due diligence' is in the context of internal audit auditing due diligence or participating in a due diligence assignment. If the latter, may internal audit manage the due diligence assignment?</p>

¹ eg. in Glossary definition of 'Consulting Services', or p2 of IIA's Exposure Draft Instructions, and new proposed Standard 2100.

Glossary Chief Audit Executive	Agreed, subject to our suggested modification	Amend as follows, adding words in bold: ‘Whether the internal audit activity is in-house or outsourced, the chief audit executive is a senior position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from external service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes titles such as general auditor, head of internal audit, chief internal auditor, and inspector general.	
Glossary External Service Provider	Agreed, subject to our suggested modification	Amend as follows: An outside person or firm providing a service to outside of the organization that has special knowledge, skill, and experience in a particular discipline.	Inadequate definition as it does not include any indication that the person or firm is providing a service to the organisation.
Glossary Fraud	Agreed, subject to our suggested modification	Amend as follows: Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.	Does fraud have to be illegal? Is it not just, more simply: ‘Dishonesty for gain with concealment’. I suspect it might have to be illegal in the US but perhaps not everywhere else: there have been many US examples of senior executives claiming they have done nothing wrong – just because perhaps what they did was not technically illegal. Whether it is technically illegal should be beside the point in ‘principles focused’ rather than ‘rules-based’ Standards.

Glossary Governance	Agreed, for now!	The system by which organisations are directed and controlled.	The Glossary definition corresponds to how Governance is referred to within the Standards. In our General Notes we have suggested that this is too narrow. We don't suggest this definition of Governance should be changed until the Standards themselves embrace other aspects of corporate governance. Then, possibly, the right definition will be: 'The system by which organisations are directed and controlled'
Glossary Impairment	Agreed, subject to our suggested modification	Amend as follows: Impairment is a condition that threatens organizational independence or and individual objectivity. Examples may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).	The proposed definition (which is unchanged in the Proposed Standards) does not define impairment – it just gives examples. Hence our suggested adjustment. Either the first paragraph of the <i>Interpretation</i> of Standard 1130 or thi Glossary definition of Impairment should go, as they are identical.
Glossary Information Technology Controls	Agreed, subject to our suggested modification	Amend as follows: Controls that utilise IT resources to support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.	Not all contols that support business management and governance are 'IT Controls'. To be 'IT Controls' they will be controls that make use of IT resources.
Glossary Internal Audit Activity	Agreed, subject to our suggested modification	Should refer to 'governance, risk management and control' in that sequence as newly adopted elsewhere in the proposed Standards. ²	

² eg. in Glossary definition of 'Consulting Services', or p2 of IIA's Exposure Draft Instructions, and new proposed Standard 2100.