

Standards Exposure

This exposure draft of the *International Standards for the Professional Practice of Internal Auditing (Standards)* includes the following proposals from the Internal Audit Standards Board (IASB):

- Proposed new standards, and amended wording of current standards.
- Proposed modifications to existing glossary terms to clarify their meaning or improve their understanding.

Participation in this online exposure will take 20 minutes. Responses and comments should be submitted on or before **May 14, 2010**.

Critical Instructions:

Please note that your submissions will not be included for analysis unless the survey is fully completed and the SUBMIT button is clicked at the end. You have the option to save this survey and continue at a later time. When you select the save option, a link will appear. This link is unique to your survey and you **MUST** save this link to access it at a later time. If you try to re-access the original survey without using this link, your answers and comments will be lost.

For each Standard or glossary term, the new wording is displayed in ***bold italic font***; deleted wording is displayed in ~~crossed-out~~ blue font; and text that is being preserved without change is displayed in regular font style.

Please use the [current Standards](#) as reference.

Proposed New Standards and Changes to Current Standards

PROPOSED REVISION TO INTERPRETATION

1000 - Purpose, Authority, and Responsibility

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, ***including the nature of the chief audit executive's functional reporting relationship with the board***; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1. Do you agree with the changes?

Yes

No

The most straightforward change we recommend is the omission of the word 'functional'.

'Functional' is not incorrect, but it is inadequate here. Examples of 'functional reporting' are given in the proposed Interpretation of Std 1100. Giving examples is not the same as defining the term. 'Functional' is not defined in the Glossary to the Standards but needs to be if it is to be used here. By reference to the proposed new Interpretation of Std 1100, it appears to us that the use being given to 'functional reporting' is limited to (a) accounting for the professionalism (including independence etc) of the internal auditing function and does not include the other two types of internal audit reporting – i.e. (b) reporting on the results of internal audit work (presumably this would be called 'activity reporting', and (c) reporting for pay and rations ('administrative reporting').

We consider the Charter should set out the nature of any and all reporting relationships of internal audit to the board, not just the functional reporting relationship. It should certainly set out the activity reporting relationship of internal audit to the board. While we acknowledge that 'administrative' reporting is usually (or mainly) to management (not to the board), we consider that a case can be made out for internal audit be regarded as a cost of running the board (just as is sometimes the case with a company's legal counsel) and that it is a progressive development when internal audit gets its pay and rations from the board or from its audit committee. That way, internal audit is more independent of management and better positioned to provide reliable, independent assurance to the board. Neither need such arrangements reduce the quality of assurance that internal audit provides to management since assurance is all the more valid if it is more independent of those to whom the assurance is given. Even if, as we acknowledge is most common currently, internal audit reports administratively mainly to management it is nevertheless currently regarded as best practice for the remuneration of the CAE to be a matter over which the board (or the audit committee) should have oversight.

So it is likely and appropriate for elements of all three types of reporting of internal audit to be to the board (or to its audit committee).

No opinion

The most straightforward change we recommend is the omission of the word 'functional'.

'Functional' is not incorrect, but it is inadequate here. Examples of 'functional reporting' are given in the proposed Interpretation

1a. Additional comments:

PROPOSED REVISION TO INTERPRETATION 1100 - Independence and Objectivity

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity ~~or the chief audit executive~~ to carry out internal audit responsibilities in an unbiased manner. 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. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

2. Do you agree with the changes?

Yes

No

No opinion

2a. Additional comments:

PROPOSED NEW INTERPRETATION
1110 - Organizational Independence
Interpretation

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter;*
- Approving the risk based internal audit plan;*
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- Approving decisions regarding the appointment and removal of the chief audit executive; and*
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

3. Do you agree with the change?

Yes

No

We suggest the first sentence of this proposed Interpretation is amended to read 'Functional reporting to the board is an (not 'the') essential prerequisite to the organisational independence of internal audit'.

'Organisational independence is not necessarily effectively achieved when internal audit reports functionally to the audit committee, since other reporting lines to management can impede organizational independence. There are many examples of internal audit having been impeded by management from communicating concerns to the board (or to its audit committee) due to the influence that management has over internal audit caused by other strong organisational reporting relationships of internal audit to management.

No opinion

3a. Additional comments:

We suggest the first sentence of this proposed Interpretation is amended to read 'Functional reporting to the board is an (not 'the') essential prerequisite to the organisational independence of internal audit'.

CURRENT
1312 External Assessments
Interpretation

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

PROPOSED REVISION TO INTERPRETATION

1312 External Assessments

Interpretation

A qualified reviewer or review team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations with similar size, complexity, sector or industry, and of similar technical issues, is more valuable than less relevant experience. In the case of a review team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether a reviewer or review team demonstrates sufficient competence to be qualified.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

4. Do you agree with the change?

Yes

No

We agree with all of this except the phrase 'is more valuable than less relevant experience' which is poorly expressed as it really only means 'is more relevant than less relevant experience'. We suggest revised wording as follows:
'is likely to be valuable'.

No opinion

4a. Additional comments:

We agree with all of this except the phrase 'is more valuable than less relevant experience' which is poorly expressed as it really only means 'is more relevant than less relevant experience'. We suggest revised wording as follows:
'is likely to be valuable'.

PROPOSED NEW INTERPRETATION

1321 - Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

Interpretation

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards.

The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

5. Do you agree with the change?

Yes

No

The two uses of the word 'will' should be replaced by the word 'must', consistent with the way 'must' is defined in the Standards' Glossary. We cannot say that a particular internal audit function necessarily 'will' do these things.

No opinion

5a. Additional comments:

The two uses of the word 'will' should be replaced by the word 'must', consistent with the way 'must' is defined in the Standards' Glossary. We cannot say that a particular internal audit function necessarily 'will' do these things.

PROPOSED REVISION TO INTERPRETATION
2000 - Managing The Internal Audit Activity
Interpretation

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the *Standards*; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the *Standards*.

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

6. Do you agree with the change?

Yes

No

We consider it would be even better if, in addition to the proposed change, this said 'Internal audit adds value when the organisation benefits from the results of internal audit work. This is achieved when [it provides objective and relevant assurance [etc]]'.

We have a slight concern about the use of the word 'and' before contributes because we wouldn't wish it to be considered that internal audit is of no value when it provides assurance that everything is OK.

No opinion

6a. Additional comments:

We consider it would be even better if, in addition to the proposed change, this said 'Internal audit adds value when the organisation benefits from the results of internal audit work. This is achieved when [it provides objective and relevant assurance [etc]]'.

PROPOSED NEW STANDARD

2010-A2 - The chief audit executive must determine stakeholder expectations for internal audit opinions and other conclusions, including the levels of assurance required, through discussion with senior management and the board.

7. Do you agree with the change?

Yes

No

See also our comment on the proposed revisions to Stds 2410-A1 and 2450.

This could be misinterpreted as meaning that internal audit does not independently determine what gets audited and reported, but merely takes its cue from senior management and the board. This could mean that if senior management and/or the board are unconcerned about a major issue, then internal audit will avoid audit work in that area.

By analogy, an external auditor of financial statements does not restrict the scope of audit work to matters articulated by shareholders as being of concern to them.

No opinion

7b. Additional comments:

See also our comment on the proposed revisions to Stds 2410-A1 and 2450.	
This could be misinterpreted as meaning that internal audit does not independently determine what gets audited and reported,	

PROPOSED NEW STANDARD AND INTERPRETATION

2070 - External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that it has the responsibility for maintaining an effective internal audit activity.

Interpretation

This responsibility is demonstrated through the quality assessment and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

8. Do you agree with the changes?

Yes

No

No opinion

8b. Additional comments:

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PROPOSED REVISION TO STANDARD

2110-A2 - The internal audit activity must assess whether the information technology governance of the organization ~~sustains and~~ supports the organization's strategies and objectives.

9. Do you agree with the change?

Yes

No

No opinion

9a. Additional comments:

PROPOSED REVISION TO STANDARD AND ITS NUMBER

~~2110-C1~~ 2210-C2 - Consulting engagement objectives must be consistent with the ~~overall~~ *organization's* values, *strategies*, and *objectives* ~~goals of the organization~~.

10. Do you agree with the change?

Yes

No

No opinion

10a. Additional comments:

PROPOSED REVISION TO INTERPRETATION

2120 - Risk Management

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organizational objectives support and align with the organization's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organization's risk appetite; and
- Relevant risk information is captured and communicated ~~in a~~ timely ~~manner~~ across the organization, enabling staff, management, and the board to carry out their responsibilities.

The internal audit activity gathers the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management and its effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

11. Do you agree with the change?

Yes

No

No opinion

11a. Additional comments:

PROPOSED REVISION TO STANDARD

2120-A1 - The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations *and programs*;
- Safeguarding of assets; and
- Compliance with laws, regulations, *policies, procedures*, and contracts.

12. Do you agree with the changes?

Yes

No

No opinion

12a. Additional comments:

PROPOSED REVISION TO STANDARD

2130-A1 - The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations *and programs*;
- Safeguarding of assets; and
- Compliance with laws, regulations, *policies, procedures*, and contracts.

13. Do you agree with the changes?

Yes

No

No opinion

13a. Additional comments:

PROPOSED DELETION

2130-A2 - Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

Due to proposed additional wording to Standards 2120.A1 and 2130.A1, there will be duplication on overall requirement.

PROPOSE DELETING STANDARD 2130.A2

14. Do you agree with this deletion?

Yes

No

We don't consider that the additional wording to Standards 2120.A1 and 2130.A1 will necessarily be interpreted as meaning, inter alia, that internal auditors should ascertain the extent to which operating and program goals have been established and conform to those of the organisation.

No opinion

14a. Additional comments:

PROPOSED DELETION

2130-A3 - Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

Due to proposed additional wording to Standards 2120.A1 and 2130.A1, there will be duplication on overall requirement.

PROPOSE DELETING STANDARD 2130.A3

15. Do you agree with this deletion?

Yes

No

We don't consider that the additional wording to Standards 2120.A1 and 2130.A1 will necessarily be interpreted as meaning, inter alia, that internal auditors should ascertain the extent to which operating and program goals have been established and conform to those of the organisation.

No opinion

15a. Additional comments:

We don't consider that the additional wording to Standards 2120.A1 and 2130.A1 will necessarily be interpreted as meaning, inter alia, that internal auditors should ascertain the extent to which operating and program goals have been established and conform to those of the organisation.

PROPOSED NEW STANDARD NUMBER

~~2130-C1~~ ~~2220-C2~~ - During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

16. Do you agree with the change?

Yes

No

No opinion

16a. Additional comments:

PROPOSED NEW STANDARD NUMBER

2130-C2 requires to be renumbered to 2130-C1 following the above change.

~~2130-C12~~ - Internal auditors must incorporate knowledge of controls gained from consulting engagements into the evaluation of the organization's control processes.

17. Do you agree with the change?

Yes

No

No opinion

17a. Additional comments:

PROPOSED REVISION TO STANDARD
2400 - Communicating Results

Internal auditors must communicate the **engagement** results *of engagements*.

18. Do you agree with the change?

Yes

No

No opinion

18a. Additional comments:

PROPOSED REVISION TO STANDARD AND NEW INTERPRETATION

2410-A1 - Final communication of engagement results must, where appropriate, contain internal auditors' **overall** opinion and/or conclusions. *When an opinion and/or conclusion is issued it must address the expectations as agreed with the board, senior management, and other stakeholders and must be supported by sufficient reliable, relevant, and useful information.*

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

19. Do you agree with the changes?

Yes

No

See also our comments on the proposed revisions to Stds 2010-A2 and 2450.

This is not wrong but it is inadequate.

The proposed wording of 2410.A1 will sometimes be wrongly interpreted as implying that it is sufficient for the opinion to address only the expectations of the board, senior management and other stakeholders. It should also be informed by the independent judgement of the internal auditors on matters noted during the engagement which are beyond the expectations of the board (etc) but nevertheless relevant in the view of the internal auditor.

No opinion

19a. Additional comments:

See also our comments on the proposed revisions to Stds 2010-A2 and 2450.

This is not wrong but it is inadequate.

PROPOSED NEW STANDARD AND INTERPRETATION

2450 - Overall Opinions

When an overall opinion is issued it must cover an appropriate time period and it must address the expectations as agreed with the board, senior management, and other stakeholders and must be supported by sufficient reliable, relevant, and useful information.

Interpretation:

The communication will identify:

- The scope, including the time period to which the opinion pertains;*
- Scope limitations;*
- Consideration of all related projects including the reliance on other assurance providers;*
- The risk or control framework or other criteria used as a basis for the overall opinion; and*
- The overall opinion, judgment, or conclusion reached.*

The overall opinion may be unqualified, qualified, or adverse. When there is a qualified or adverse opinion, the cause of the qualification or adverse opinion must be stated.

20. Do you agree with the change?

Yes

No

We are happy with the proposed Interpretation here.

The proposed new Standard 2450 is not wrong but is inadequate as it could be interpreted as meaning that it is sufficient for the internal audit overall opinion to be restricted to matters within the expectations of the stakeholders - even when other significant matters are known to the internal auditors. We have discussed this in our comment on the proposed Standards 2010-A2 and 2410-A1.

No opinion

20a. Additional comments:

We are happy with the proposed Interpretation here.

The proposed new Standard 2450 is not wrong but is inadequate as it could be interpreted as meaning that it is sufficient for the internal audit overall opinion to be restricted to

CURRENT

Add Value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

PROPOSED REVISION

Add Value

The internal audit activity adds value to the organization when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

21. Do you agree with the change?

Yes

No

We said the following in our comment on the proposed change to Std 2000 (Interpretation):

We consider it would be even better if, in addition to the proposed change, this said 'Internal audit adds value when the organisation benefits from the results of internal audit work. This is achieved when [it provides objective and relevant assurance [etc]]'.

We have a slight concern about the use of the word 'and' before contributes because we wouldn't wish it to be considered that internal audit is of no value when it provides assurance that everything is OK.

No opinion

21a. Additional comments:

We said the following in our comment on the proposed change to Std 2000 (Interpretation):	<input type="text"/>
We consider it would be even better if, in addition to the proposed change, this said 'Internal audit adds value when the	<input type="text"/>

PROPOSED DELETION

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

To be removed as this term is not used within the Standards.

PROPOSE DELETING Adequate Control

22. Do you agree with the deletion?

Yes

No

No opinion

22a. Additional comments:

CURRENT

Chief Audit Executive

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.

PROPOSED REVISION

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition, the Code of Ethics and the Standards. Normally, the chief audit executive would be a Certified Internal Auditor or have Certified Internal Auditors reporting to them. The specific job title of the chief audit executive may vary across organizations.

23. Do you agree with the change?

Yes

No

[CIA or equivalent, we suggest.](#)

No opinion

23a. Additional comments:

PROPOSED REVISION

Control Environment

The attitude and actions of the board and management regarding the [significance importance](#) of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.

- Human resource policies and practices.
- Competence of personnel.

24. Do you agree with the change?

- Yes
- No
- No opinion

24a. Additional comments:

PROPOSED REVISION

Information Technology Governance

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology ~~sustains and~~ supports the organization's strategies and objectives.

25. Do you agree with the change?

- Yes
- No
- No opinion

25a. Additional comments:

PROPOSED REVISION

Independence

The freedom from conditions that threaten objectivity *of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner.* ~~or the appearance of objectivity.~~ Such ~~t~~ Threats to *independence* ~~objectivity~~ must be managed at the individual auditor, engagement, functional, and organizational levels.

26. Do you agree with the change?

- Yes
- No
- No opinion

26a. Additional comments:

PROPOSED REVISION

Objectivity

An unbiased ~~mental attitude~~ *point of view* that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors ~~not~~ to *not* subordinate their judgment on audit matters to others.

27. Do you agree with the change?

- Yes
- No
- No opinion

27a. Additional comments:

28. Are you a member of The IIA?

- Yes
- No

29. What is your position/role in the organization?

- Audit Staff
- Audit Manager
- Audit Director
- Chief Audit Executive
- IT Audit Staff

- IT Audit Manager
- IT Audit Director
- Risk Management
- IT Professional
- Information Security Professional
- External Public Accountant
- Educator
- Management Consultant
- Corporate Management
- Audit Services Contractor – Manager/Executive
- Audit Services Contractor – Staff
- Retired
- Student
- Other (This has been completed by The Association of Chartered Certified Accountants)

30. In which country do you reside?

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