Proposed Enhancements to The Institute of Internal Auditors International Professional Practices Framework (IPPF)

August 4, 2014


Visit www.theiia.org/NewFramework to access for more information and instructions on how to respond to this exposure document.
AGENDA

A. Current IPPF
B. The Task Force
C. Area of Enhancements:
   1. Mission of Internal Auditing
   2. Core Principles for the Professional Practice of Internal Auditing
   3. Implementation Guidance & Supplemental Guidance
   4. Addressing Emerging Issues
   5. Position Papers
   6. Required and Recommended
   7. Summary of the Elements of the Proposed Revised IPPF
A. CURRENT IPPF
ABOUT THE IPPF

• The International Professional Practices Framework (IPPF) is the conceptual framework that organizes all authoritative guidance promulgated by The Institute of Internal Auditors.
• While there have been prior versions of the Professional Practices Framework, the current version of the IPPF was introduced in 2007.
• Split into Mandatory and Strongly Recommended sections, the IPPF has served all global internal audit profession practitioners well.
Breaking Down the Current IPPF

• Mandatory Guidance Elements:
  – The Definition of Internal Auditing:

  “Internal auditing is 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.”
Breaking Down the Current IPPF

- Mandatory Guidance Elements:
  - The International Standards for The Professional Practice of Internal Auditing:

- Today, there are 51 Standards broken down into Attribute and Performance Standards
Breaking Down the Current IPPF

• Mandatory Guidance Elements:
  – The Code of Ethics:
    – Encompassing the 4 key ethical values driving professional internal audit practice:
      • Integrity, Objectivity, Confidentiality, and Competency
Breaking Down the Current IPPF

• Strongly Recommended Guidance Elements:
  – Practice Advisories:
    – Intended to provide internal audit practitioners with descriptive ways to potentially achieve conformance with The Standards
Breaking Down the Current IPPF

• Strongly Recommended Guidance Elements:
  – Practice Guides:
    – Intended to supplement the guidance framework with topical, sector specific, and other guidance not directly tied to the implementation of The Standards
Breaking Down the Current IPPF

- Strongly Recommended Guidance Elements:
  - Position Papers:

  - Position papers have historically been targeted to stakeholders of the internal audit profession to inform, educate and clarify on the role of internal audit.
B. THE TASKFORCE
The IPPF Re-Look Taskforce

- Approved as an official activity of The IIA in July 2013
- Officially convened and commenced its effort in November 2013 with the stated objective of evaluating the structure of the IPPF.
- Truly global in nature...
## Task Force Members

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<th>Name</th>
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<td>Bob Hirth, Chair</td>
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<td>Sarah Blackburn</td>
<td>Non-Executive Director</td>
<td>Royal Institution of Chartered Surveyors</td>
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<td>Karl Erhardt</td>
<td>Senior Vice President, General Auditor</td>
<td>MetLife</td>
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<td>Charlotta Lofstrand Hjelm</td>
<td>Chief Internal Auditor</td>
<td>Swedish National Grid</td>
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<td>Jenitha John</td>
<td>Chief Audit Executive</td>
<td>First Rand Corporation</td>
<td>South Africa</td>
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<td>Beatrice Ki-Zerbo</td>
<td>Director of Research</td>
<td>IFACI (IIA – France)</td>
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<td>Norman Marks</td>
<td>Retired</td>
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<td>Gunther Meggeneder</td>
<td>VP, Internal Audit</td>
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<td>Michael Parkinson</td>
<td>Director</td>
<td>KPMG</td>
<td>Australia</td>
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<td>Renato Trisciuzzi</td>
<td>Audit Partner</td>
<td>RTA Auditors Associate and RESGUARDA</td>
<td>Brazil</td>
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<td>Karine Wegrzynowicz</td>
<td>VP, Internal Audit</td>
<td>Deckers Outdoor Corp.</td>
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<td>Dave Zechnich</td>
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## Task Force Steering Committee

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<tr>
<td>Larry Harrington</td>
<td>VP, Internal Audit</td>
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<td>Patty Miller</td>
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<td>Doug Anderson</td>
<td>Asst. Professor</td>
<td>Saginaw Valley State Univ.</td>
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<td>Angela Witzany</td>
<td>Head of Internal Audit</td>
<td>Sparkassen Versicherung AG</td>
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<td>Hal Garyn</td>
<td>VP, Professional Practices</td>
<td>The IIA</td>
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The Overarching Objective:

• The Taskforce’s Mandate:

“To consider the evolving role of the internal audit profession and stakeholder expectations globally, and to propose a reasonable and effective professional practices framework that will encompass the full range of existing and developing global and local practice guidance and meet the needs of the profession over the next 8 to 10 years.”
The Charge to the Taskforce

**Propose, as applicable, ...**

- Future guidance elements,
- Guidance framework/layers (such as mandatory versus recommended and the linkages between the layers),
- Responsibilities for development and maintenance (such as staff, committee, task force, other),
- Due process requirements for each element of guidance, and
- Authority for approval of new or changed guidance, at the Global and local level.

**Status**
- EXPOSED
- EXPOSED
- PENDING
- PENDING
- PENDING
The Charge to the Taskforce

Propose, as applicable, ...

- Future guidance elements,
- Guidance framework/layers (such as mandatory versus recommended and the linkages between the layers)

Status
EXPOSED
EXPOSED

So, let’s discuss these two topics today
What is not changing...

• The RTF is **not** proposing changes to the **content** or continued relevance of the following IPPF elements:
  - The Definition of Internal Auditing
  - The Code of Ethics
  - The International Standards for the Professional Practice of Internal Auditing (The *Standards*)
  - Currently existing Strongly Recommended Guidance **content**:
    - Practice Guides
    - Practice Advisories
    - Position Papers

However, as we will discuss, the recommendations of the taskforce will impact the content over time.
What the Taskforce Has Recommended ...

- **Addition of:**
  - The Mission of Internal Auditing
  - The Core Principles for the Professional Practice of Internal Audit
  - Capability to produce Emerging Issues Guidance

- **Introduction of:**
  - Implementation Guidance (to replace and enhance Practice Advisories)
  - Supplemental Guidance (to replace and enhance Practice Guides)

- **Removal of Position Papers from IPPF**

- **Renaming Key Elements:**
  - Mandatory to Required
  - Strongly Recommended to Recommended

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**But Why?**
C. AREA OF ENHANCEMENT
1. Mission of Internal Auditing
What the Taskforce Has Recommended ...

- **Introduce a Mission of Internal Auditing** that underpins and support the entire framework.

**WHY?** To provide a clear and succinct description of what internal audit aspires to achieve within organizations.
Proposal 1 - The Mission of Internal Auditing

• Expand the IPPF to include a Mission statement to support the Internal Audit profession.

“To enhance and protect organizational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.”
EXPOSURE DRAFT SURVEY QUESTIONS

1. MISSION OF INTERNAL AUDITING
1.1 To what extent do you support the addition of a Mission of Internal Auditing to the IPPF?

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Comments:


1.2 To what extent do you agree that the proposed Mission of Internal Auditing captures what internal audit strives and/or aspires to accomplish in organizations?

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Comments:
2. Core Principles for the Professional Practice of Internal Auditing
What the Taskforce Has Recommended...

- **Introduce Core Principles** for the Professional Practice of Internal Auditing.

**WHY?** To articulate the key elements that describe internal audit effectiveness and support the principles-based Standards and Code of Ethics.
Proposal 2 - The Core Principles for the Professional Practice of Internal Auditing

• Add principles to the IPPF that describe internal audit effectiveness and support the principles-based Standards and Code of Ethics.

While the principles are not stated in order of significance, they are grouped to provide a logical segmentation:

✓ Three aligned to the individual,
✓ Six aligned to the function, and
✓ Three aligned to the outputs or outcomes of the function.
Proposal 2 - The Core Principles for the Professional Practice of Internal Auditing

✓ The Three aligned to the individual,

1. Demonstrates uncompromised integrity.
2. Displays objectivity in mindset and approach.
3. Demonstrates commitment to competence.
Proposal 2 - The Core Principles for the Professional Practice of Internal Auditing

✓ The Six aligned to the function,

4. Is **appropriately positioned** within the organization with sufficient organizational authority.
5. **Aligns strategically** with the aims and goals of the enterprise.
6. Has adequate **resources** to effectively address significant risks.
7. Demonstrates **quality and continuous improvement**.
8. Achieves **efficiency and effectiveness** in delivery.
9. **Communicates effectively**.
Proposal 2 - The Core Principles for the Professional Practice of Internal Auditing

✓ The Three aligned to the outputs or outcomes of the function.

10. **Provide reliable assurance** to those charged with governance.

11. Is **insightful, proactive, and future-focused**.

12. **Promotes positive change**.
EXPOSURE DRAFT SURVEY QUESTIONS

2. CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING
2.1 To what extent do you support adding Core Principles for the Professional Practice of Internal Auditing as an element of the IPPF?

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2.2 Do you agree with the three “input-related” Principles as proposed?

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2.3 Do you agree with the six “process-related” Principles as proposed?

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Comments:

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2.4 Do you agree with the three “output-related” Principles as proposed?

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2.5 *Do you agree with the order of the 12 Principles as proposed?*

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Comments:


2.6 *To what extent do you agree with the view that all Principles must be “present and operating effectively” for an internal audit function to be considered effective?*

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Comments:


2.7 Do you agree that the Principles, if adopted, would require guidance to help demonstrate to practitioners what the Principles might look like in practice?

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Comments:
3. Implementation Guidance & Supplemental Guidance
What the Taskforce Has Recommended...

- Reposition the nomenclature of guidance elements:
  - “Practice Advisories” to “Implementation Guidance” and
  - “Practice Guides” to “Supplemental Guidance”

WHY? To better reflect the nature of what each of these layers of the IPPF should accomplish: either to help **implement** the Standards or **supplement** the rest of the framework with specific examples.
Proposal 3 – Introduction of Implementation and Supplemental Guidance

- Restructuring of the current guidance elements of the IPPF, namely Practice Advisories and Practice Guides to become Implementation Guidance and Supplemental Guidance, respectively.
EXPOSURE DRAFT SURVEY QUESTIONS

3. IMPLEMENTATION GUIDANCE & SUPPLEMENTAL GUIDANCE
3.1 To what extent do you support the restructure of guidance elements from “Practice Advisories” to a more comprehensive layer entitled “Implementation Guidance” as part of the framework?

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Comments:__________________________________________________________________________________________

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3.2 To what extent do you support the restructure of guidance elements from “Practice Guides” to “Supplemental Guidance” as part of the framework?

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Comments:__________________________________________________________________________________________

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4. Addressing Emerging Issues
What the Taskforce Has Recommended ...

- Introduce the capability to produce Emerging Issues Guidance that underpins and support the entire framework.

WHY? Current IPPF diligence processes supporting the promulgation of guidance are comprehensive and thorough, however, resultantly, this limits the ability to support the profession with quick guidance of a less authoritative nature expeditiously.
Proposal 4 – Emerging Issues Guidance

- Introduce processes to develop and promulgate emerging issues guidance in a timely manner, and add a separate and distinct new layer to the IPPF entitled Emerging Issues Guidance.
EXPOSURE DRAFT SURVEY QUESTIONS

4. ADDRESSING EMERGING ISSUES
4.1 To what extent do you support the introduction of a new IPPF element to address emerging issues?

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4.2 To what extent do you agree that Emerging Issues Guidance, due to its quicker development process, should be less authoritative than Supplemental Guidance as part of the framework?

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Comments:
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5. Position Papers
What the Taskforce Has Recommended ...

• Remove “Position Papers” as a guidance element of the IPPF.

WHY: Position Papers have primarily been written to inform stakeholders on the preferred role of internal audit within organizations. While important and useful to practitioners, arguably they should not be part of a professional practices framework that seeks to guide practitioners in the execution of their responsibilities.
Proposal 5 – Position Papers

• Remove “Position Papers” as a guidance element of the IPPF.
5.1 To what extent do you support the deletion of "Position Papers" as an element of the IPPF?

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6. Required and Recommended
What the Taskforce Has Recommended ...

- Change the existing IPPF classification of “Mandatory” and “Strongly Recommended” elements to “Required” and “Recommended”, respectively.

WHY: To clarify the language delineating key divisions of the framework.
Proposal 6 – Recommended and Required

• Modify the classification of “Mandatory” and “Strongly Recommended” in the existing IPPF elements to “Required” and “Recommended,” respectively.

• Therefore, the RTF recommends that:
  – The Definition, the Standards and Code of Ethics continue to be required, as they are today.
  – Implementation Guidance would be recommended, as the purpose of this information is to provide guidance to assist internal auditors with applying a standard in their organization but is not mandatory.
  – Supplemental guidance would also be recommended, as the purpose of this information is to provide examples and additional support to guide internal audit activities but is not mandatory.
EXPOSURE DRAFT SURVEY QUESTIONS

REQUIRED AND RECOMMENDED

6.1 To what extent do you support revision of the words “Mandatory” and “Strongly Recommended” to “Required” and “Recommended,” respectively?

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Comments:

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Summary of the Elements of the Proposed Revised IPPF
Putting it all Together – A Potential New Framework

Definition, Standards, and Code of Ethics
Putting it all Together –  
A Potential New Framework

Core Principles for the Professional Practice of Internal Auditing
Putting it all Together – A Potential New Framework

Implementation Guidance
Putting it all Together –
A Potential New Framework

Supplemental Guidance
Putting it all Together – A Potential New Framework

Emerging Issues Guidance
Putting it all Together –
A Potential New Framework

Mission of Internal Auditing
Putting it all Together –
A Potential New Framework

Required and Recommended

MANDATORY GUIDANCE
- International Standards
- Code of Ethics
- Practice Guides
- Position Papers

STRONGLY RECOMMENDED GUIDANCE
- Definition
- Practice Advisories

Required Elements
- Mission
- Core Principles
- Standards
- Code of Ethics
- Implementation Guidance
- Supplemental Guidance
- Emerging Issues Guidance

Recommended Elements

IPPF
So, It Might Look Like This...
PERBANDINGAN

- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing
- Practice Advisories
- Practice Guides
- Position Papers

- Mission for Internal Auditing
  - possible introduction in 2015
- Core Principles for Internal Auditing
  - possible introduction in 2015
- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing
- Implementation Guidance
  - possible introduction in 2016
- Supplemental Guidance
  - possible introduction in 2016
- Position Papers
  - possible removal in 2015
- Emerging Issues Guidance
  - possible introduction in 2015
Overall, to what extent do you support the changes regarding the IPPF as detailed on the previous page?

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7.2 To what extent do you agree that the pictorial representation adequately depicts the hierarchy and interrelationships of each element of the new proposed IPPF?

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7.3 To what extent do you agree that the pictorial representation of the proposed new IPPF is visually appealing?

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Comments:
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CODA
What We Need From You...

Share Your Views

1. Read the Exposure Document:
   Available languages:
   - Arabic, Chinese, English, French, German
   - Italian, Japanese, Portuguese, Spanish

2. View the video

3. Respond to the questions (same languages)

4. Add comments to support your answer

5. Submit a separate comment letter if you so desire
One Small Detail

Feedback deadline: Nov. 3, 2014!
Where to Access the Exposure Draft

Go to:

www.theiia.org/NewFramework

Kunjungi:
AuditorInternalIndonesia.com
HIGH LEVEL TIMELINE (SUBJECT TO CHANGE)

Aug. 1 – Nov. 3, 2014
IIA Membership exposure and comment period

October 2014
Consideration of exposure and comment period input and feedback

November 2014
Finalization of proposed changes from exposure and comment period

December 2014
Executive and Global Board approval

2015
Revised Framework content development and changes to dependent areas, CIA exam, etc.

January 2015
New Committee structures announced

July 2015
New Committee structure effective

First Quarter 2016
Revised Framework released as completed
EOF