

Global Internal Audit Standards

A consultation response by:

The Chartered Institute of Public Finance and Accountancy

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Introduction

- 1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) is pleased to respond to the Institute of Internal Auditors (IIA) consultation on the Global Internal Audit Standards. We have completed the IIA's online survey, but this response includes those aspects that CIPFA believes to be crucial.
- 1.2. Our publication of this summary response is published for the benefit of our members and stakeholders in the UK, as well as contributing to the international debate about the future of the standards.
- 1.3. CIPFA is a UK-based international accountancy membership and standard-setting body. We are the only such body globally dedicated to public financial management. CIPFA is the relevant internal audit standard setter for local authorities in the UK, for the Office of the Police and Crime Commissioner, constabularies, fire and rescue authorities, National Park authorities, joint committees and joint boards of England and Wales, and in Scotland the integration joint boards and Strathclyde Partnership for Transport. This sector employs 2.01 million people across 500 separate organisations – a significant client base for internal audit teams operating in the UK public sector. These teams include in-house teams, shared service and partnership arrangements and contracted services from internal audit professional services firms – an estimated 2,500 internal auditors within CIPFA's jurisdiction. In addition, many CIPFA members work as internal auditors in the UK and globally. CIPFA works collaboratively with the other relevant internal audit standard setters of the UK public sector to agree the Public Sector Internal Audit Standards (PSIAS), which applies the IIA International Standards to the UK public sector.
- 1.4. CIPFA places great value on the work of internal auditors. They play a crucial part in supporting good governance and effective risk and control arrangements in public bodies. Internal auditors in local government have a long-standing history in the UK, dating back to the 19th century. In *A Municipal Internal Audit* (A. Collins, Gee & Co, 1904), Collins says: "*Perhaps the greatest danger against which a municipal Internal Auditor has to guard himself is that of falling into a groove, and becoming more and more like an automaton.*" CIPFA is keen that the sector's longstanding history of innovation continues.
- 1.5. Our comments recognise that the IIA proposals present a solid base of good internal audit practice that will enable base-level conformance across the profession. To ensure practices align to the standards, their implementation will require considerable effort for internal audit teams. However, we have concerns that the effort may not result in noticeable improvement to the overall effectiveness of internal audit here in the UK. We would not wish to see compliance at the expense of value.
- 1.6. CIPFA agrees with much of the material in the proposed standards, and the comments below primarily focus on aspects that we wish the IIA to reconsider.

2. Structure of the proposed standards and overall approach

Disagree

- 2.1. CIPFA supports the proposed structure of the five domains, as it is simpler than the previous structure, but the inclusion of Domain III requires further thought.
- 2.2. CIPFA is concerned that the overall approach to the Global Standards is more rules based, including a very significant increase in aspects that internal auditors 'must' apply. Internal auditors in the UK public sector, including CIPFA-qualified members,

generally conform to the existing standards (the UK Public Sector Internal Audit Standards). There are opportunities to improve the quality and effectiveness of internal audit in the sector, but we consider that best achieved with a clear performance vision and principles that allow flexibility to adapt to the needs of the organisation. A more prescriptive approach is not likely to improve the quality of internal audit in the sector and instead will encourage auditors to focus on the process of evidencing conformance, which we are sure is not the intention of the Institute.

- 2.3. Overall, the proposed standards are significantly longer. While inclusion of the *Considerations for Implementation and Evidence of Conformance* for each standard includes some useful content, overall the standards are less accessible. This is important for board members who need to be aware of the standards, particularly in Domain III, where their own actions will influence overall conformance.
- 2.4. The incorporation of public sector examples under the Considerations for Implementation are in the main unhelpful. Some reflect very particular requirements of some jurisdictions, which are meaningless to other internal auditors in the public sector. This level of guidance and advice on the application of standards is better addressed at national/sector levels. CIPFA is of the view that the IIA should set standards that are equally applicable for all sectors, and the public sector should not be singled out as a separate category.
- 2.5. To help navigation and reference, CIPFA would like to see a clear numbering structure, so it is apparent which Domain, a Principle or Standard is part of.

3. Domain I: Purpose

Disagree

- 3.1. The new Purpose replaces the Mission and Definition of Internal Audit, together with some aspects of the Core Principles, which are no longer included. Overall, the Purpose fails to communicate the essential value of internal audit to the board and wider stakeholders.
- 3.2. CIPFA recommends that the definition of when internal audit is most effective is amended to incorporate wider aspects of the previous Core Principles. The existing text has an undue weight to the process of internal auditing, rather than ensuring internal audit focuses on what matters. The Core Principles that should be reflected within the Purpose are that internal audit:
 - aligns with the strategies, objectives and risks of the organisation
 - provides risk-based assurance
 - is insightful, proactive, and future focused.
- 3.3. Serving the public interest is used in Purpose and elsewhere in the standards, but 'public interest' is not defined in the glossary. CIPFA suggests this term merits further definition. The International Federation of Accountants (IFAC) defines the public interest as "*the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision, or policy.*" CIPFA suggests that the IIA adopt the same definition.

4. Domain II: Ethics and Professionalism

Strongly disagree – opening text

- 4.1. The definition of ‘internal auditors’ is unclear. The current Code of Ethics refers to both Institute members and “those who provide internal auditors services within the definition of internal auditing.” The proposed definition only refers to IIA members or candidates. We would suggest that consistency with the previous definition is adopted to avoid confusion. CIPFA notes that other international standards are membership neutral, and CIPFA would expect the IIA to take the same approach. As well as CIPFA members, other professional bodies have members working as internal auditors, and the Global Internal Audit Standards should not distinguish between them.

Agree – Principle 1: Demonstrate Integrity

- 4.2. CIPFA welcomes the strengthened wording emphasising truthfulness, honesty and courage.
- 4.3. CIPFA questions whether a separate public sector consideration is needed in the implementation guidance. Internal auditors working in the public sector should display courage, but so should internal auditors in other sectors. The separate criteria suggest a different standard applies.

Agree – Principle 2: Maintain Objectivity

- 4.4. CIPFA generally agrees with this section, but the wording of Standard 2.2 on conflicts of interest to avoid is unclear. The meaning of “Be established to protect oneself from potential or actual loss or harm” is not clear as to why it is a conflict of interest to be avoided.

Agree – Principle 3: Demonstrate Competency

Agree – Principle 4: Exercise Due Professional Care

Disagree – 4.1: Conformance with Global Internal Audit Standards

- 4.5. In the UK public sector, internal audit standards are mandated for auditors working in public sector bodies in addition to the professional standards for an individual auditor (Global Internal Audit Standards). The wording of this section appears to cut across this mandate. Given the variety of jurisdictions and legislation around the world, we would like to see amendments to this requirement to reflect the authority of regulators.
- 4.6. CIPFA also has concerns that conformance is included as an ethical matter for the individual auditor. This matters when conformance with the standards includes aspects in Domain III that are beyond the control of the chief audit executive. This could lead to unintended consequences. For example, it could become difficult to recruit a new chief audit executive to improve a weak internal audit function, as they will be unlikely to conform with the standards for some time.

Agree – Principle 5: Maintain Confidentiality

5. Domain III: Governing the Internal Audit Function

- 5.1. CIPFA acknowledges the difficulties faced by the Institute in establishing Principles that operate across multiple jurisdictions and sectors, each with their own governance frameworks, legislation and regulations. CIPFA agrees that it is of vital importance that the organisation takes responsibility for supporting effective internal audit and creating the right environment in which internal audit can operate. This is why CIPFA developed [the CIPFA Statement on the Role of the Head of Internal Audit](#) in 2011, which defined the principles of the organisation's responsibilities towards internal audit. The Statement was updated in 2019.
- 5.2. Proposed principles in Domain III encapsulate some of the objectives of the CIPFA Statement but in a more generic way that is not always easily applicable to UK public sector governance arrangements. As a result, demonstrating conformance with Domain III by UK local government bodies may be compromised, even where there is no concern about the governance and oversight of internal audit.
- 5.3. The Global Standards attempt to mandate decisions and responsibilities for the board towards internal audit, though it cannot require boards to comply with them. Chief Audit Executives can advise and guide the board on adoption and implementation of Domain III, but ultimately those decisions lie with the board. The Global Standards are of internal auditing, not internationally agreed governance standards. As it stands, the board's compliance with the Principles and Standards of Domain III will be necessary to demonstrate conformance. CIPFA recommends that the IIA adopt Domain III as their recommended practice for boards rather than internal audit standards. As part of the assessment of conformance, the assessment would consider the extent to which the board follows the recommendations, but those practices would not determine the level of conformance. The IIA should also work with regulators and standard setters to encourage them to adopt the recommended practice for boards within their own codes. This would then provide greater flexibility to individual sectors to apply the recommended practice in a way that is appropriate for the governance of those bodies.
- 5.4. Although both the Glossary and the standards themselves attempt to define 'board', it is likely that each organisation within differing sectors and jurisdictions will need to make its own interpretation of which body or bodies fulfils the role of the board. To facilitate this in UK local government, CIPFA would welcome sufficient flexibility to interpret the fulfilment of 'board' functions.
- 5.5. In the UK public sector, there are many internal audit services that operate as shared services and multi-client providers. Domain III in particular assumes the internal audit service has a single board relationship. This difference is particularly challenging when assessing conformance with the standards.

Disagree – Principle 6: Authorised by the Board

- 5.6. The introduction of a mandate in addition to the charter is unnecessarily complex. CIPFA recommends the requirements of mandate and charter are brought together in the charter. Where there are legislative or regulatory mandates for specific sectors or jurisdictions – for example, UK local government bodies all have statutory regulations that mandate internal audit – these will be referenced within the approved charter of the body.

Agree – Principle 7: Positioned Independently

- 5.7. CIPFA supports the importance of the organisational independence of internal audit. Depending on which body (or bodies) fulfils the role of board, direct reporting relationships should be established.
- 5.8. CIPFA agrees that under Standard 7.3, alternative assurance arrangements should be established where the chief audit executive has ongoing non-audit responsibilities.

Principle 8: Overseen by the Board

Agree – Standards 8.1, 8.2 and 8.3

CIPFA agrees the principles underpinning these standards, but there are difficulties with the application in practice. While the audit committee might be regarded as the body best able to fulfil the role of ‘the board’ under local government governance arrangements, the audit committee is a non-executive advisory committee. Decision-making powers lie elsewhere.

Disagree – Standard 8.4: External Quality Assessment

- 5.9. It isn't clear how the assessment should be conducted for an internal audit service that is a shared service or a multi-client provider. Should each client have their own external quality assessment, with the timing and scope decided by each board? Or should the internal audit service coordinate a single assessment across their various clients? In the latter situation, how would differences in conformance with Domain III by the clients be addressed?
- 5.10. CIPFA disagrees that the Certified Internal Auditor designation is essential for the completion of the external quality assessment. This would exclude competent assessors with alternative qualifications. CIPFA considers that the standards should remain membership neutral, as per our comments in 4.1.

6. Domain IV: Managing the Internal Audit Function

Principle 9 – Plans Strategically

Neutral – Standard 9.1: Understanding Governance, Risk Management and Control Processes

- 6.1. CIPFA agrees the importance of understanding governance, risk management and control for the chief audit executive. The IIA's mapping makes clear that this standard, along with 9.4 and 9.5, is intended to cover content currently in standards 2110, 2120 and 2130. These standards are applicable to all internal auditors, not just those in management roles.

Strongly agree – 9.2: Internal Audit Strategy

- 6.2. CIPFA has always advocated the need for an internal audit strategy and welcomes this additional requirement.

Agree – 9.3: Internal Audit Charter and 9.4: Methodologies

- 6.3. In line with our response to Principle 6, CIPFA suggests combining the mandate and charter.

Neutral – 9.5: Internal Audit Plan

- 6.4. Clarification of what is meant by “a documented assessment of the organisation’s strategies, objectives and risks” is required. The standards no longer refer to a ‘risk-based plan’, which suggests a different approach going forward. The considerations for implementation emphasise the importance of addressing an internal audit plan towards the organisation’s key risks. CIPFA would like to see a stronger focus on the plan being risk based in the standard itself.

Neutral – 9.6: Co-ordination and Reliance

- 6.5. Coordination and reliance on the work of other assurance services can add value to the work of internal audit and add value to the organisation. As they are currently drafted, the Standards could be interpreted that it is the job of the chief audit executive to prepare assurance maps on behalf of the organisation. The interaction of the Standards with the Three Lines Model and other resources such as CIPFA’s *Developing Effective Assurance Frameworks in Public Sector Organisations*, due to publish later in 2023, would merit further examination.
- 6.6. The Standard says the chief audit executive ‘must’ coordinate with other assurance providers. Where there are external regulators and inspectors (such as in the UK public sector) the ability of the chief audit executive to coordinate their interactions with the organisation will be very limited. These bodies have statutory powers, with no obligation to respond to the internal audit function. Amended wording would be helpful to emphasise communication where coordination is not possible.

Disagree – Principle 10: Manages Resources

- 6.7. CIPFA agrees that to manage the internal audit function, management of financial, human and technological resources is required. The standards reflect expected good practice from the management of any function, but which seem out of place in a set of standards about internal auditing.

Agree – Principle 11: Communicates Effectively

- 6.8. CIPFA generally agrees the content.

Principle 12: Enhances Quality

Agree – Standard 12.1: Internal Quality Assessment

Disagree – Standard 12.2: Performance Measurement

- 6.9. In establishing appropriate performance objectives, CIPFA concludes that the chief audit executive should consider the extent to which the internal audit function is achieving the Purpose of internal auditing. Below this, the chief audit executive will wish to have management metrics such as efficiency measures or staff productivity. These are common practice for the management of any function so do not need to be specifically stated in Internal Audit Standards.

Agree – 12.3: Ensuring and Improving Engagement Performance

7. Domain V: Performing Internal Audit Services

Agree – Principle 13: Plan Engagements Effectively

- 7.1. CIPFA generally agrees the content of Principle 13, though it considers that some of the standards are overly detailed.

Principle 14: Conduct Engagement Work

Agree – Standards 14.1, 14.2 and 14.3

Strongly disagree – Standard 14.4: Recommendations and Action Plans

- 7.2. The Standard says that internal auditors must formulate recommendations. Many internal audit functions have found a more open discussion with management on how to address the root causes of the audit's findings to be more constructive and effective than formally tabling a recommendation to management. CIPFA would not wish to see this practice constrained by the Standard and we would like the Standard to provide an alternative means to achieve the desired outcomes.

Agree – Standards 14.5 and 14.6

Principle 15: Communicate Engagement Conclusions and Monitor Action Plans

Neutral – Standard 15.1: Final Engagement Communication

- 7.3. The Standard requires disclosure where the engagement is not conducted in conformance with the standards. The practical application of this should clarify if this applies to conformance with all Standards or simply those Standards concerning the performance of internal audit services. While CIPFA agrees the principle that it is important for management to know that the internal audit work is in conformance with the Standards, the practical benefits of detailed disclosures on each Standard to individual managers following each engagement is less certain.

Disagree – Standard 15.2: Confirming the Implementation of Action Plans

- 7.4. CIPFA agrees the importance of confirming the implementation of action plans by management. However, the responsibility for implementation lies with management, not internal audit, and management should be held accountable by the board.

8. Glossary

- 8.1. In addition to the definitions included in the glossary, CIPFA would like to see the inclusion of 'public interest', suggesting use of the IFAC definition (see paragraph 3.3).

9. Topical Requirements

- 9.1. CIPFA welcomes the publication of guidance on emerging topics but believes that these are best regarded as guidance rather than requirements. CIPFA disagrees with the proposal in the recent paper *Topical Requirements: A New Concept* to expect mandatory conformance with the topical requirement when it is included in the audit plan. We foresee that a topic such as 'assessing organisational governance' is going to be hard to apply to some public sector governance structures. It is more productive that the guidance remains as guidance to inform and support internal audit planning.