

Frequently Asked Question

Briefing from the Internal Audit Standards Advisory Board

Disclosure of Non-conformance

What does Standard 1322 Disclosure of Non-conformance say?

The original IIA Standard 1322 requires the chief audit executive (CAE) to disclose only instances of non-conformance that “impact the overall scope or operation of the internal audit activity”. The UK Public Sector Internal Audit Standards (PSIAS) have made an additional requirement as follows:

Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Separately, Standard 2431 requires the results of an engagement to disclose details of non-conformance with the Code of Ethics or the International Standards that have impacted the conduct of that engagement.

Which types of non-conformance do the IASAB and the Relevant Internal Audit Standard Setters ¹intend the CAE to refer to in the Annual Report?

The public sector requirement refers to two levels of non-conformance:

Firstly, instances of non-conformance at the activity level. These must be reported in some form to the board even if the non-conformance does not impact the overall scope or operation of the internal audit activity.

An example of such a non-conformance would be where the chief audit executive (CAE) is not professionally qualified, as set out in the public sector requirement to standard 1210. If the CAE is appointed without a professional qualification, this may not necessarily impact on the overall scope or operation of the internal audit activity but as it is a clear non-conformance, it must be reported to the board.

Secondly, more significant deviations that must be considered for inclusion in the annual governance statement. The governance statement requires that “significant governance issues” are included as well as an outline of the actions taken, or proposed, to deal with those issues (which may either be at the engagement or the activity level).

¹ The Relevant Internal Audit Standard Setters (RIASS) comprise CIPFA, HM Treasury, Department of Health, the Scottish Government, the Welsh Government, the Department of Finance and Personnel (NI).

What does “significant deviation” mean?

The PSIAS do not specify a definition of the term ‘significant deviation’, just as guidance on governance statements does not define ‘significant governance issues’.

It is therefore up to the CAE and/or the external assessor or assessment team to identify the issues that must be considered for inclusion in the governance statement and therefore to be addressed formally and publically by the organisation.