

IASAB response to IIA on Third Party Topical Requirement (April 2025)

Q1. The Third-Party Topical Requirement aligns with the Purpose of Topical Requirements. The Purpose of Topical Requirements is to enhance consistency and quality of internal audit services; strengthen the ongoing relevance to the evolving risk landscape; and raise professionalism and performance of internal auditors.

IASAB response: Agree

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Q2. A practitioner would find the Third-Party Topical Requirement valuable when preparing for an engagement.

IASAB response: Neutral

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Q3. Do the mandatory requirements in the Third-Party Topical Requirement provide the right level of detail to serve as the baseline for third-party assurance engagements?

IASAB response: Not enough detail

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Q4. Do you have any comments regarding the Third-Party Topical Requirement, particularly regarding any information that should be added, deleted, or clarified to strengthen the baseline provided? Please be specific if your comment is in reference to a particular requirement, or if proposing an additional requirement, indicate where it belongs in either the governance, risk management, or control process sections (optional).

IASAB response:

This response is submitted by the UK Public Sector Internal Audit Standards Advisory Board (IASAB) on behalf of the UK Relevant Internal Audit Standard Setters (RIASS). The IASAB has 11 members of whom 6 are RIASS members with regulatory responsibility for the various parts of the UK public sector. The sector comprises several thousand bodies many of which have an internal audit function. In answering the later question in this survey on how many people are represented by our submission we have answered 2,000 which may be seen to equate to the scale of chief audit executives, we would note that IASAB has not consulted with those CAEs on this response.

The role of the IASAB is to advise on the standards and other requirements to be applied in UK public sector internal audit, and to develop material to support UK public sector internal audit if needed. The RIASS are HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health and Social Care in respect of the health sector in England; and the Chartered Institute of Public Finance and Accountancy in respect of local government across the United Kingdom.

IASAB's submission at this stage does not confirm endorsement of this topical requirement. A final decision is reserved for the final publication of this topical requirement.

The topical requirement is largely suitable for use in the UK public sector for commercial contracts. Within the public sector there are a huge range of 'third party' relationships which could potentially fall within the definition since it mentions other agencies and outsourced service providers. The topical

requirement is not suitable for this wider range of third-party relationships. A different title for the topical requirement would help to identify the scope, maybe “*Third Party Commercial Contract Management*”

The responses to questions one to three have been completed within the restrictions of the consultation form.

- For the second question we have answered “neutral”, however, we do agree that a practitioner may find the topical requirement valuable for commercial third-party contracts.
- For the third question we have answered “not enough detail”, however, the topical requirement needs to achieve a balance between the roles of both small and large audit firms as well as the context of small and large contracts. The topical requirement should encourage a careful assessment of risk by auditors rather than onerous detail for all to follow in all situations while ensuring clear guidance for those when required.

The topical requirement does not mention risks around fraud and corruption. This is a significant concern in procurement and contracting. This could be more clearly identified by being added to the bullet point list on Page 2.

Contract monitoring requirements are identified (Controls G), however, this does not take into account the range of contracts for both scale and complexity. The topical requirement could be clearer that due diligence processes should be ongoing throughout the lifetime of the contract and should assess the risk level for each contract and the level of contract monitoring required.

Different jurisdictions will have different requirements within this Topical Requirement – in jurisdictions, including the UK public sector, there would be an expectation that Environmental and Social Governance (ESG) and Equality, Diversity and Inclusion (EDI) governance requirements would be included.

The requirement to apply the topical requirement to fourth or downstream parties would be difficult to achieve in UK central government departments. Whilst organisations may seek to minimise the risk, there is not always sufficient capacity and systems in place to monitor the ‘downstream’ suppliers. This could also be an issue for other sectors too especially with strong market volatility.

Additional comment on Topical Requirements: The topical requirement has a tension between how the guidance can be both ‘comprehensive’ and a ‘minimum baseline’. This is stated within the specific requirements set out for governance, risk management and control:

“This Topical Requirement provides a consistent, comprehensive approach to assessing the design and implementation of third-party governance, risk management, and control processes. The requirements represent a minimum baseline for this assessment in an organization”

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