

Global Internal Audit Standards

A Consultation Response by:

**UK Public Sector Internal Audit Standards Advisory Board
(IASAB)**

Date 30th May 2023

The **UK Public Sector Internal Audit Standards Advisory Board (IASAB)** exists to promote high quality internal audit across the UK public sector. It does this mainly by advising the Relevant Internal Audit Standard Setters (RIASS) on the development and maintenance of the Public Sector Internal Audit Standards (PSIAS).

Further information about IASAB can be obtained at <https://www.iasab.org>

Any questions arising from this submission should be directed to:

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1. Introduction

- 1.1. The UK Public Sector Internal Audit Standards Advisory Board (IASAB) is pleased to respond to the Institute of Internal Auditors' consultation on the Global Internal Audit Standards.
- 1.2. The IASAB promotes high quality internal audit across all parts of the UK public sector¹. This role includes advising the Relevant Internal Audit Standard Setters (RIASS)² on the development and maintenance of the UK *Public Sector Internal Audit Standards* (PSIAS).
- 1.3. The IASAB has completed the IIA's online survey, providing detailed comments on the proposed Standards.
- 1.4. This open letter will be published for the benefit of our stakeholders in the UK, as well as contributing to the international debate about the future of the Standards. Acknowledging the IIA's approach is intended to produce globally appropriate standards, our response is based specifically on UK public sector considerations and comes from an overarching viewpoint. The following text consists of key issues and concerns that IASAB believes to be critical, followed by an Appendix of more detailed comments aligned with the format of the IIA's online survey.

2. Key issues – those welcomed and those of concern

- 2.1. We welcome the ambition for the Standards to be relevant and practical on a global basis. However, we have concerns that the Standards as they are currently drafted will cause difficulties for nations, regions and individual organisations at different points on the maturity spectrum. We have therefore identified those Standards in the Appendix where we believe that their impact would be regressive for current UK public sector operation. We are confident that this is an unintended consequence of the draft Standards, but it will need to be addressed for the Standards to work in practice for all organisations and territories.
- 2.2. We welcome the aim of the Standards to raise the bar for internal audit services and while we do not object to additional rules being brought into the Standards per se, we are concerned about the move to a more rules-based approach. In the UK, we believe that this will not lead to an improvement in service provision. In our view, it would be helpful for the Standards to establish minimum rules-based requirements but within a principles-based approach, permitting sufficient flexibility to allow those providers and organisations with greater maturity to innovate and improve on a continuous basis.
- 2.3. We welcome the recognition of the role of the board and senior management in establishing and working with internal audit. However, while it may be appropriate to

¹ The UK public sector includes health, central and local government and employs approximately 5.8 million people.

² The role of the Relevant Internal Audit Standard Setters (RIASS) is supported by Statute and they include: 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 in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK..

The RIASS mandate the UK *Public Sector Internal Audit Standards* (PSIAS) for their respective areas of responsibility in the public services.

recommend (or strongly recommend) actions that boards should take, we do not believe that it is appropriate or practical for Standards for internal auditors to include mandated conformance requirements for board actions. To mandate such actions would require a separate conversation by the IIA with the bodies representing boards globally.

- 2.4. Further to the above point, we are concerned that the Standards do not take account of the diverse range of internal audit providers across the UK including multi-client and outsourced providers which may have multiple board relationships as well as small internal audit teams with limited resources.
- 2.5. Although we welcome the IIA's recognition in the Global Standards that the public sector merits particular consideration, we do not consider the current approach to be effective and recommend that the examples under Considerations for Implementation and Evidence of Conformance should be removed. In our view, this level of guidance and advice on the application of Standards is better addressed through a statement of principles reflecting the public sector's unique characteristics.
- 2.6. We hope that this contribution to the development of the Global Internal Audit Standards is helpful.

Yours sincerely,

Simon Edge

Chair, UK Public Sector Internal Audit Standards Advisory Board

1. Overall opinion - structure of the proposed standards and overall approach

Disagree

- 1.1. The proposals represent a significant change to the Standards. It is therefore essential that the approach adopted by them is practical, easy to understand, and supported by the internal audit profession in the UK public sector. We welcome the IIA's overall aim to develop standards that are 'insightful, prescient, clear, and direct' and underpin its overall commitment to enhancing internal auditing through greater conformance. However, in our view, the draft as currently written does not fully achieve these objectives.
- 1.2. The Global Standards indicate a move to a more rules-based approach with a notable increase in aspects that internal auditors 'must' apply. Internal auditors in the UK public sector generally conform to the existing standards - the UK Public Sector Internal Audit Standards which applies the IIA International Standards to the UK Public Sector. The IASAB is concerned that an increase in prescription will not lead to improved internal audit in the public sector. Rather it risks rewarding formulaic conformance, potentially at a cost of deeper understanding and innovation requiring internal auditors to adjust their work to fit with what is compulsory. We believe that the Global Standards represent an opportunity to set out a vision for internal audit and to illustrate clearly what success would look like. We would therefore like to see the Standards acknowledge and encourage innovation, improvement and aspiration. They could set out minimum rules-based requirements that would work in every global jurisdiction but, within a principles-based context so as to be sufficiently flexible to permit and encourage more ambitious audit teams to move away from a very traditional approach, for example through developing a customised service for the client.
- 1.3. The IASAB supports the proposed structure of the five domains. It is logical, and simpler than the previous structure. In particular, we welcome the inclusion of the Domain II Ethics and Professionalism in the Standards. However, while we recognise that integrating the Standards with the Code of Ethics, Core Principles, Implementation Guidance and Practical Guides brings the guidance together in one place, the result is less accessibility overall. In our view, key messages are more difficult to locate and it is harder for the reader to determine priorities. This is particularly important for board members who need to be aware of the Standards, especially in Domain III. It is essential that the Standards are user friendly for all stakeholders including those who may not see the internal audit function as a main sphere of interest. We recommend that the IIA considers how best to present the Standards to support their effective use. In particular, we recommend the inclusion of paragraph numbers, an index and the consistent use of language throughout. A content outline at the start of each section may also be helpful.
- 1.4. We note the inclusion of public sector examples under the Considerations for Implementation and Evidence of Conformance. Overall, we do not believe that they are helpful or add value and we recommend that they are removed. Instead, we believe that a statement of principles should be included to underpin the internal auditor's understanding of the public sector and their approach to planning and performing engagements. This could be based on the IIA's recent publication *Building an Effective Internal Audit Activity in the Public Sector* (2022) which sets out the unique characteristics of, and context for, public sector internal audit which includes such aspects as accountability for public funding and the nature of politics.

- 1.5. The Standards are drafted from the viewpoint of an inhouse internal audit team. In the UK there are many multi -client and outsourced options in place and the way in which they operate is not addressed. We recommend that the practicalities of these arrangements are considered including evidence of performance examples, particularly at Standards 7.1, 8.4 and 9.1. We are also concerned that the needs of smaller internal audit teams with limited resources are not adequately addressed and require further consideration.

2. Domain I Purpose of Internal Audit

Disagree

- 2.1. In our view, the text gives undue weight to the process of internal auditing. In keeping with our preference for a principles-based approach, we recommend that it is amended to incorporate the wider aspects previously reflected in the Core Principles including:
- Aligns with the strategies, objectives, and risks of the organisation
 - Provides risk-based assurance
 - Is insightful, proactive, and future-focused.
- 2.2. The term 'public interest' requires definition. There are various definitions available. For example, the International Federation of Accountants (IFAC) defines public interest as:

The net benefits for and procedural rigour employed on behalf of, all society in relation to any action, decision, or policy.

3. Domain II Ethics and Professionalism

- 3.1. We welcome the inclusion of the Domain II in the Standards.

Disagree – opening text

- 3.2. The text refers to internal auditors as:

'Recipients of or candidates for IIA professional certifications and all IIA members, including those who are members of IIA affiliates or chapters.'

In our view this is too narrow and does not reflect how internal audit operates in practice. The Standards define internal auditing as 'an independent, objective and advisory activity...' Those that undertake this activity must have appropriate competence and integrity but this is wider than the IIA's membership. The Standards will need to apply to/be used by non IIA members who may be subject to standards and requirements of their own professional bodies. The IASAB has included members from the UK's range of accountancy bodies including CIPFA, ACCA and ICAEW as well as IIA. The current Code of Ethics refers to both IIA members and 'those who provide internal auditors services within the definition of internal auditing'. We recommend that this definition is retained.

Agree - Principle 1 Demonstrate Integrity

- 3.3. The IASAB welcomes the strengthened wording emphasising truthfulness, honesty and courage.
- 3.4. However, we question why a separate consideration is required for public sector internal auditors requiring them to display courage when providing findings, recommendations and conclusions. The separate criteria appear to suggest that different standards apply. As we have said earlier in this response, we do not consider the public sector specific guidance to be particularly helpful and we recommend that it is replaced with a statement of principles.

Agree – Principle 2 Maintain Objectivity

- 3.5. Under Standard 2.2 on conflicts of interest to avoid, the meaning of 'Be established to protect oneself from potential or actual loss or harm' is unclear and requires further explanation.

Agree – Principle 3 Demonstrate Competency

Disagree – Principle 4 Exercise Due Professional Care

- 3.6. We are concerned at the proposed hierarchy of authoritative bodies described in Standard 4.1. In particular, we are concerned about the statement that 'other authoritative bodies' can effectively only issue 'may' requirements and only in circumstances where those requirements are more restrictive than the Standards themselves. In our view, for the Standards to be acceptable at a global level, they need to acknowledge the existence of other authoritative bodies and that they can have parallel, or even superior, regulatory hierarchy depending on the local environment. We recommend that the final paragraph of the requirements section of this Standard is amended to read: 'if inconsistencies exist between the Standards and requirements issued by other authoritative bodies, internal auditors and the internal audit function must conform as required by local legal or professional direction. The internal audit function should disclose and explain any such inconsistencies in the Audit Charter along with an assessment of likely impact of the difference.'
- 3.7. We welcome the section on professional scepticism.

Agree – Principle 5 Maintain Confidentiality

4. Domain III Governing the Internal Audit Function

Disagree

- 4.1. IASAB agrees that it is of vital importance that the board takes responsibility for supporting internal audit and creating an environment in which internal audit is able to operate effectively. It is essential that internal audit is independent of operational management and is seen to provide objective views and opinions. However, while it may be appropriate to recommend (or strongly recommend) actions that boards should take, we do not believe that it is appropriate or practical for Standards for internal auditors to include mandated conformance requirements for board actions. To mandate such actions would require a separate conversation by the IIA with the bodies representing boards globally. In particular, we are concerned about the impact on an internal auditor's EQA where the board has failed to conform. This is especially important given the ethical and professional implications of non-conformance set out in Principle II.

- 4.2. We acknowledge the difficulties faced by the Institute in establishing an approach that operates across multiple jurisdictions and sectors, each with their own governance frameworks, legislation and regulations. Our preferred way of covering such diversity is through a principles-based approach.
- 4.3. Both the Glossary and the Standards themselves attempt to define 'board' and the Standards acknowledge that the board will not be the same for each organisation. However, it is likely that each organisation within differing sectors and jurisdictions will need to make their own interpretation of which body or bodies fulfils this role.
- 4.4. We envisage that this domain could present difficulties for the UK public sector where there are a large number of internal audit services operating as shared services and multi-client providers. This domain, in particular, appears to assume that the internal audit service has a single board relationship. This difference would be particularly challenging when an assessment of conformance with the Standards is undertaken.

Disagree – Principle 6 Authorised by the Board

- 4.5. We believe that the introduction of a Mandate in addition to the Charter is unnecessary and could cause confusion. Instead, we recommend that 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

- 4.6. We support the importance of the organisational independence for internal audit. Depending on which body (or bodies) fulfils the role of the board, direct reporting relationships should be established.
- 4.7. We agree that under Standard 7.3 alternative assurance arrangements should be established where the chief audit executive has ongoing non audit responsibilities.

Disagree – Principle 8 Overseen by the Board,

Agree – Principle 8 Overseen by the Board, Standards 8.1, 8.2, 8.3

- 4.8. We agree with the principles underneath these Standards but envisage that there may be difficulties with the application in practice. For example, while the audit committee might be regarded as the body best able to fulfil the role of 'the board' under local government governance arrangements, it is a non-executive advisory committee and decision making powers lie elsewhere.

Disagree - Standard 8.4 External Quality Assessment

- 4.9. In our opinion, clarification regarding how the assessment for an internal audit service that is a shared service or a multi-client provider should be conducted is required. For example, should each client have their own external quality assessment, 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?
- 4.10. IASAB questions the need for the Certified Internal Audit designation for the completion of the external quality assessment. This would exclude competent assessors with alternative qualifications.

5. Domain IV Managing the Internal Audit Function

Principle 9 Plans Strategically

Disagree – Standard 9.1 Understanding Governance, Risk Management and Control Processes

- 5.1. The IIA's mapping makes clear that this Standard, along with 9.4 and 9.5 are intended to cover content currently in Standard 2110, 2120 and 2130. However, these Standards are applicable to all internal auditors, not just those in management roles.

Strongly agree – 9.2 Internal Audit Strategy

- 5.2. We support the need for an internal audit strategy and welcome this additional requirement. This could be included with the Mandate in the Charter.

Agree – 9.3 Internal Audit Charter and 9.4 Methodologies

- 5.3. We would emphasise our response to Principle 6 and suggest combining the Mandate and Charter.

Agree - Principle 11 Communicates Effectively

IASAB agrees with the content.

Principle 12 Enhances Quality

Agree – Standard 12.1 Internal Quality Assessment

Disagree – Standard 12.2 Performance Measurement

- 5.4. In establishing appropriate performance objectives, we believe 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 we do not consider that they need to be specifically stated in the Standards.

Agree – 12.3 Ensuring and Improving Engagement Performance

6. Domain V Performing Internal Audit Services

Agree – Principle 13 Plan Engagements Effectively

- 6.1. We agree with the content of Principle 13.

Principle 14 Conduct Engagement Work

Agree – Standards 14.1,14.2,14.3

Strongly Disagree – Standard 14.4

- 6.2. The Standard notes that internal auditors must formulate recommendations. Many internal audit functions in the UK have found that 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. Such

a requirement could be regressive for some internal audit teams. Internal auditors are control and risk experts who are able to facilitate and advise front line staff and risk experts. However, managers responsible for delivery are best placed to develop recommendations in their own sphere of responsibility. In our view, the Standard should acknowledge that there are alternative means to achieving the desired outcome so that such practice is not constrained.

Agree – Standard 14.5, 14.6

Principle 15 Communicate Engagement Conclusions and Monitor Action Plans

Neutral – Standard 15.1

- 6.3. 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 on that engagement. While we agree 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.

Neutral – Standard 15.2 confirming the implementation of Action Plans

- 6.4. IASAB agrees the importance of confirming the implementation of action plans by management. However, while not precluding a role for internal audit in monitoring management's overall performance in implementing plans, the responsibility for implementation lies with management not internal audit and management should be held accountable by the board.

7. Topical requirements

- 7.1. We welcome the publication of guidance considering emerging topics but we believe that the above should remain as guidance rather than covering mandatory elements.