

IPPF – Attribute Standards



Attribute Standards

- Address the attributes of organizations and individuals performing internal audits
- Standards are as follows:
 - 1000 - Purpose, Authority, and Responsibility
 - 1100 - Independence and Objectivity
 - 1200 - Proficiency and Due Professional Care
 - 1300 - Quality Assurance and Improvement Program



1000 - Purpose, Authority, and Responsibility

- The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
- The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.



1000 - Interpretation

- The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility.
- The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.



Example – Charter / Table of Contents

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1000 - Purpose, Authority, and Responsibility- Recap

- Must have a documented Internal Audit Charter approved by senior management & board (final approval with Board)
- Charter to be reviewed periodically
- Specify the unrestricted scope of IA
- Should document nature of assurance and consulting services
- The Internal Audit Charter must recognize the Definition of Internal Auditing, the Code of Ethics, and the Standards **NEW ELEMENT (1010)**



1100 – Independence and Objectivity

- Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner.
- Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.



1110 – Organizational Independence

- The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.
- The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.



1110 – Organizational Independence

Functional reporting to the board typically involves the board:

- Approving the internal audit activity's overall charter.
- Approving the internal audit risk assessment and related audit plan.
- Receiving communications from the CAE on the results of the internal audit activities or other matters that the CAE determines are necessary, including private meetings with the CAE without management present, as well as annual confirmation of the internal audit activity's organizational independence.
- Approving all decisions regarding the performance evaluation, appointment, or removal of the CAE.
- Approving the annual compensation and salary adjustment of the CAE.
- Making appropriate inquiries of management and the CAE to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.



1110 – Organizational Independence

Administrative reporting typically includes:

- Budgeting and management accounting.
- Human resource administration, including personnel evaluations and compensation.
- Internal communications and information flows.
- Administration of the internal audit activity's policies and procedures.



1111 – Direct Interaction with the Board

- CAE participation in the board meetings which provides an opportunity to understand strategic and business plans
- Can raise high-level risk, systems, procedures or control issues at an early stage
- Exchange information on the audit plans and to mutually keep each other informed
- Private meetings with the Board at least once annually



1120 – Individual Objectivity

- Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest.
- Such competing interests can make it difficult to fulfill his or her duties impartially.
- A conflict of interest exists even if no unethical or improper act results.
- A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession.
- A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.



1130 – Impairment to Independence or Objectivity

- Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.
- The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.



1130 – Impairment to Independence or Objectivity – Additional points to consider

- Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.
- Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity



1130 – Impairment to Independence or Objectivity – Additional points to consider

- Internal auditors may provide consulting services relating to operations for which they had previous responsibilities
- If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement



1100 – Independence and Objectivity - Recap

- Internal Auditors should be independent of the activities they audit (applies to department & individuals)
- CAE must confirm to the Board, at least annually, the organizational independence of the internal audit activity
NEW ELEMENT (1110)
- CAE must have direct interaction with the board **NEW ELEMENT (1111)**
- Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (such as funding or staffing)
- Details of the impairment must be disclosed to appropriate parties



1200 – Proficiency and Due Professional Care

- Engagements must be performed with proficiency and due professional care



1210 – Proficiency

- Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities.
- Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.



1210 – Proficiency – Additional points to consider

- The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.
- Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.



1210 – Proficiency – Additional points to consider

- Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.
- The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement



1220 – Due Professional Care

- Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.



1230 – Continuing Professional Development

- Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.



1200 – Proficiency and Due Professional Care - Recap

- The internal audit activity **collectively** must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities
- Knowledge of fraud and IT risks is required
- In exercising due professional care internal auditors must consider the use of technology based audit and other data analysis techniques
- Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development



1300 – Quality Assurance and Improvement Program

- A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics.
- The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.



1310 – Requirements of the Quality Assurance and Improvement Program

- The quality assurance and improvement program must include both internal and external assessments.



1311 – Internal Assessments

- Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity.
- Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.



1312 – External Assessments

- A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process.
- The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review.
- The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.
- An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.



1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

- The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.



1300 - Quality Assurance and Improvement Program - Recap

- The quality assurance and improvement program must include **both** internal and external assessments – results to be communicated to the Board
- Internal assessments include periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices
- External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization



Q&A



Thank You



Parthasarathy.ramaswamy@kia-tencor.com