

The International Professional Practices Framework (IPPF)[®]

Practice Guide Overview

Setting the bar for internal audit efficiency, effectiveness, and professionalism

- Easy-Access Reference for Practice Guides
- Relevant, Valuable and Detailed Guidance
- IIA Member Benefit



The Institute of
Internal Auditors

Global

About The IPPF

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditor (IIA). It comprises:

Mandatory Guidance

- Definition of Internal Auditing
- Code of Ethics
- *International Standards*

Strongly Recommended Guidance

- Position Papers
- Practice Advisories
- Practice Guides



To learn more and
download the IPPF, go to
www.globaliia.org/standards-guidance.

The IPPF sets the bar for internal audit efficiency, effectiveness, and professionalism, guiding internal audit professionals throughout the world. As an IIA member, The IIA Guidance is a complimentary service of your membership.

About Practice Guides

IIA Practice Guides provide detailed guidance for conducting internal audit activities. They represent ***strongly recommended guidance*** that includes detailed processes and procedures, such as tools and techniques, programs, and step-by-step approaches for effective implementation of The IIA mandatory guidance.

This brochure is a useful quick reference to understand the most recent guide releases. All of the guides included in this reference tool are available ***as a free download to members at www.globaliia.org/standards-guidance***. ***Guides are available for purchase for nonmembers through The IIA Research Foundation Bookstore. Download your copies today!***



Practice Guide – Independence And Objectivity

The importance of independence and objectivity, which has always been significant for internal auditors, continues to increase among the challenges facing internal audit activities in the constantly changing business environment. An ever-growing number of stakeholders, both inside and outside an organization, continue to demand greater transparency, increased disclosures, expanded internal audit services, increased professionalism, improved coordination among internal and external auditors, greater responsibilities, and more accountability from internal audit professionals. This practice guide was developed to address these changes and increased expectations.

Independence and objectivity are integral parts of the mandatory guidance of The IIA's International Professional Practices Framework (IPPF). Objectivity is also one of the four key principles of The IIA's Code of Ethics (Code), which defines the rules of conduct that support these principles.

The purpose of this practice guide is to:

- Highlight IIA guidance on independence and objectivity.
- Discuss potentially confusing aspects encompassing independence and objectivity.
- Identify activities that support independence and objectivity.
- Identify various considerations and potential challenges related to independence and objectivity.
- Provide frameworks for managing independence and objectivity.

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Practice Guide – Interaction With The Board

Boards and internal auditors have interlocking goals. A strong working relationship between the two is essential for the internal audit activity to fulfill its responsibilities to not only the board, but also senior management, shareholders, and other stakeholders, as appropriate. The chief audit executive (CAE) often reports directly to the board, depending on the organization's governance structure. An effective internal audit activity provides the board assurance and suggests improvement opportunities related to the organization's governance, risk management, and related internal controls.

The purpose of this practice guide is to assist the chief audit executive (CAE) in meeting the requirements of the International Professional Practices Framework (IPPF) as it relates to interacting and communicating with the board. The IPPF's Glossary defines the board as "an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report."



Practice Guide – Auditing The Control Environment

The control environment is the foundation of an effective system of internal control. Most of the well-publicized failures (including not only Enron and WorldCom, but also the governance failures that led to the 2008 financial crisis) were, at least in part, the result of weak control environments. In the absence of a demonstrably effective control environment, no level of “design and operating” effectiveness of controls within business and IT processes can provide meaningful assurance to stakeholders of the integrity of an organization’s internal control structure.

The control environment includes the following elements:

- Integrity and ethical values.
- Management philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The purpose of this Practice Guide is to provide guidance to the internal auditor on the significance of the control environment; how to determine which elements of the control environment should be addressed by engagements in the periodic audit plan; how to scope, staff, and plan such engagements; and which items to consider in performing related audit work, including evaluating and reporting deficiencies.

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Practice Guide – Assisting Small Internal Audit Activities In Implementing The International Standards For The Professional Practice Of Internal Auditing

This practice guide provides a working definition of the term small internal audit activity. The guide acknowledges the challenges that CAEs and audit leadership in small audit activities may face in implementing the Standards, provides suggestions for meeting those challenges, and discusses the benefits of using the Standards.

Typically, a small internal audit activity will have one or more of these characteristics:

- One to five auditors.
- Productive internal audit hours below 7,500 a year.
- Limited level of co-sourcing or out-sourcing.

Being small does not equate to being ineffective or under resourced. In many circumstances, a small internal audit activity is appropriately structured for the size and risks attributable to the business it serves. However, smaller audit activities may have challenges not typically faced by larger audit activities that have greater economies of scale.

This practice guide provides specific examples and leading practices, relevant to the CAE and audit management of small internal audit activities, on how to best approach implementation of the Standards.



Practice Guide – Assessing The Adequacy Of Risk Management

Over the last few years, the importance of managing risk as part of strong corporate governance has been increasingly acknowledged. Organizations are under pressure to identify the significant business risks they face — social, ethical, and environmental as well as strategic, financial, and operational — and to explain how they manage them. The use of enterprise-wide risk management frameworks has expanded as organizations recognize the advantages of coordinated approaches to risk management.

Risk management is defined in the Glossary of the International Standards for the Professional Practice of Internal Auditing (Standards) as “a process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.” A comprehensive risk management framework provides an end-to-end link between objectives, strategy, and execution of strategy, risks, controls, and assurance across all levels in the organization.

This practice guide uses ISO 31000 as a basis for the risk management framework. Other frameworks may be used to perform the risk assessment. This guidance does not imply implicit or explicit endorsement of this or any other framework.

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Practice Guide – Measuring Internal Audit Effectiveness And Efficiency

Internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated, and managed, it is an important element in helping an organization achieve its objectives. Organizations that effectively use internal auditing are better able to identify business risks and process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement. To maintain and enhance internal auditing's credibility; however, its effectiveness and efficiency must be monitored.

This practice guide provides guidance to internal audit activities on measuring their effectiveness and efficiency and the level of customer service they provide to stakeholders.

Effectiveness and efficiency measurements can be quantitative and qualitative and examples of audit activity performance measures may include:

- Achievement of key goals and objectives.
- Evaluation of progress against audit activity plan.
- Improvement in staff productivity.
- Increase in efficiency of the audit process.
- Increase in number of action plans for process improvements.
- Adequacy of engagement planning and supervision.
- Effectiveness in meeting stakeholders' needs.



Practice Guide – CAEs – Appointment, Performance Evaluation And Termination

In today's business environment, where there is increasing focus on governance, risk management, and control, appointing a CAE is a critical undertaking for any organization. This imperative activity is one of the key responsibilities of the organization's board. The CAE will have a high degree of interaction with senior management and the board and thus needs to demonstrate the right attributes and skills for the position.

The CAE's unique role in the organization requires independence and objectivity while also demonstrating an ability to partner within the organization to add value to its operations. Independence and objectivity are fundamental to the CAE's role because the individual must be willing to raise difficult issues with both senior management and the board, even if that proves unpopular. To maintain credibility, CAEs must demonstrate the ability to escalate difficult issues to an appropriate level to ensure they are adequately addressed. In addition, a CAE exhibits the attributes of integrity, intellectual curiosity, and a focus on audit quality.

This practice guide discusses the types of considerations senior management and boards of directors would typically address when appointing, evaluating, or terminating a chief audit executive (CAE).

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Practice Guide – Auditing Executive Compensation and Benefits (ECB)

Auditing the structure and operation of ECB programs is a legitimate and appropriate role for internal auditing. If a risk assessment indicates a review is warranted, the chief audit executive (CAE) should add ECB to the audit plan, which the board will review and approve. Internal auditing will choose the audit approach and design risk-based audit procedures. This practice guide provides discussions relating to such an audit and includes several considerations that may be relevant to an organization's business activities or risk profile.

Strong governance systems are needed for ECB programs, as management often is in the position of both designing and recommending its own compensation. There are several specific risks internal auditors should consider, including employment market, compliance, financial reporting, reputation, operating, and external business relationship risks. ECB programs also are subject to fraud risk.

This guide will assist internal auditors with an explanation of the audit approach, audit considerations such as access to information and privileged communications, as well as the skills and knowledge necessary to serve on the audit team. A section on audit program development includes various concepts, potential tests, and questions to help auditors create an audit program.



Practice Guide – Evaluating Corporate Social Responsibility/Sustainable Development (CSR)

CSR presents significant risks and opportunities for many organizations. Stakeholders expect boards and management to accept responsibility and implement strategies and controls to manage their impact on society and the environment, to engage stakeholders in their endeavors, and to inform the public about their results. The proliferation of regulation and voluntary standards has made CSR management a complex endeavor.

Internal auditors should understand the risks and controls related to CSR objectives. Where appropriate, the CAE should plan to audit, facilitate control self-assessments, verify results, and/or consult on the various subjects. Internal auditors should maintain the skills and knowledge necessary to understand and evaluate the governance, risks, and controls of CSR strategies.

This guide will assist internal auditors in understanding the following:

- The risks associated with CSR activities and how to use such knowledge in audit planning
- The approaches to evaluating CSR activities and considerations in developing the internal audit program
- Audit considerations such as use of the audit opinion, independence and objectivity, and types of resources

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Practice Guide – Internal Auditing And Fraud

Fraud encompasses a wide range of irregularities and illegal acts characterized by intentional deception or misrepresentation and can negatively impact organizations in many ways including financial, reputation, psychological and social implications. According to various surveys, monetary losses from fraud are significant. However, the full cost of fraud is immeasurable in terms of time, productivity, and reputation including customer relationships. Depending on the severity of the loss, organizations can be irreparably harmed due to the financial impact of fraud activity. Therefore, it is important for organizations to have a strong fraud program that includes awareness, prevention, and detection programs, as well as a fraud risk assessment process to identify fraud risks within the organization.

This guide will discuss fraud and provide general guidance to help internal auditors comply with professional Standards including:

- Fraud awareness
- Fraud roles and responsibilities
- Fraud risk assessment
- Fraud prevention and detection.
- Fraud investigation.
- Forming an opinion on internal controls related to fraud



Practice Guide – Auditing External Business Relationships (EBRs)

Organizations conduct business with EBRs for a variety of reasons. Organizations may seek benefits like enhancing revenues through licensing and distribution arrangements, reducing costs in areas of an organization's that are outside of its core competencies, or augmenting existing resources focused on its core competencies. However, with these business relationships also comes inherent and control risks associated with working with external business partners.

The organization is responsible for risk management activities encompassing tasks such as selection of business partners, contract effectiveness, partner/customer contract management controls, contract compliance monitoring and reporting, and business relationship management. Without proper controls in place to address the risks associated with these responsibilities, the organization may lose revenue or incur higher costs, as well as have inefficient operations, misreporting, and even damaged brand, in addition to impacted business relationships.

Internal auditors need to understand all the elements associated with EBRs, from initiating a relationship, contracting and defining a relationship, procurement, managing and monitoring the continued relationship, and finally discontinuing the relationship.

This guide provides internal auditors with guidance in auditing EBRs. Management also may use this guide in managing and monitoring the risks associated with these relationships.

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Practice Guide – Formulating And Expressing Internal Audit Opinions

Internal auditors are being asked by the board, management, and other stakeholders to provide opinions as part of each individual audit report as well as on the overall adequacy of governance, risk management, and control within the organization. These requests may be for an assurance or opinion at a broad level for the organization as a whole (macro-level opinion) or on individual components of the organization's operations (micro-level opinion).

The need for audit opinions and the ability of internal auditing to express them depends on several circumstances, including understanding the needs of stakeholders; determining the scope, nature, timing, and extent of audit work required; ensuring there are sufficient resources to complete the work; and assessing the results of the work performed.

Stakeholder requirements for internal audit opinions, including the level of assurance required, should be clarified by the CAE with senior management and the board.

This document provides practical guidance to internal auditors who wish to form and express an opinion on some or all of an organization's governance, risk management, and internal control systems.

Additional IIA Guidance and Publications

GTAG® (Global Technology Audit Guide)

The GTAG series, as part of practice guides, are written in straightforward business language to address a timely issue related to IT management, control, and security.

GAIT (Guide to the Assessment of IT Risk)

The GAIT series, as part of practice guides, describes the relationships among business risk, key controls within business processes, automated controls and other critical IT functionality, and key controls within IT general controls.

Educational Products – IIA RF Bookstore

The following books are available to help you understand and apply the Standards:

International Professional Practices Framework

The new IPPF contains the Standards, a glossary, the Code of Ethics, Practice Advisories, Position Papers, and Practice Guides.

Implementing the Professional Practices Framework, 3rd Edition

This handbook serves as a practical guide for applying the IPPF and outlines the specific actions needed to comply with the Standards.

Independence and Objectivity: A Framework for Internal Auditors

This report explains the critical issues associated with auditor objectivity and includes a framework to use when confronting challenges and opportunities.

Available at www.globaliia.org/bookstore.



The IIA guides the international profession with not only Standards, but numerous additional resources to implement best practices in our ever-changing and growing field: guides, advisories, papers, educational products, and tools. Go to www.globaliia.org/standards-guidance to learn more and download.



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