

Mandatory elements of the internal audit profession

2021 Young Internal Auditors Summit [YIAS]
The Institute of Internal Auditors Philippines

July 2021

Mhycke C Gallego
Past President, IIA Philippines
Advisory Services Practice Leader, P&A Grant Thornton



1

POOO



- **Purpose.** This session introduces participants to the mandatory elements of the internal audit profession based on authoritative issuances of The Institute of Internal Auditors.
- **Objective.** Internal audit professionals should understand the mandatory elements that govern the internal audit profession and apply their understanding of the elements in their personal circumstances and professional work.
- **Output.** Norms and standards on internal auditing.
- **Outcome.** Develop effective internal audit professionals that add value to their organizations

2

The IPPF establishes the IA professional practice



2002

PPF

Organizes **all** guidance developed and/or endorsed by The IIA

- -
- -
- Definition
- Code of ethics
- Standards for the professional practice of internal auditing (*Standards**)

2009

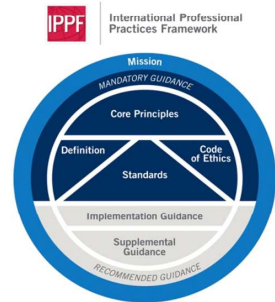
IPPF

The conceptual framework that organizes **authoritative** guidance promulgated by The IIA

- -
- -
- Definition
- Code of ethics
- *International standards for the professional practice of internal auditing (Standards*)*

2015

1. **Mission of internal audit**
2. **Core principles**
3. Definition
4. Code of ethics
5. *International standards for the professional practice of internal auditing (Standards*)*



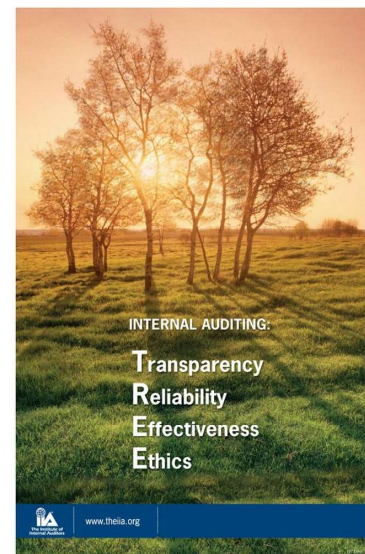
* IIA Style Guide: *Standards* should always be italicized

3

1 Mission of internal audit

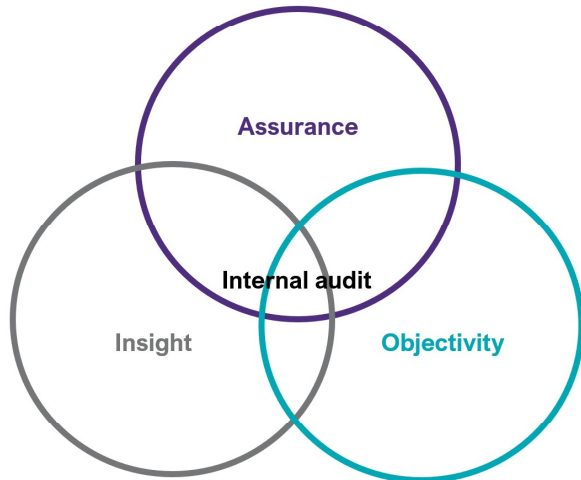
The mission articulates what internal audit aspires to accomplish within an organization.

To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.



4

Value of internal auditing



Internal audit = assurance, insight and objectivity

Assurance = governance, risk and control			
Evaluating governance	Mitigating risks	Testing controls	Assuring compliance

Insight = catalyst, analyses and assessments		
Analyzing operations	Assessing efficiency and effectiveness	Being a catalyst for improvement

Objectivity = integrity, accountability and independence		
Establishing objectivity and independence	Embracing the principles of integrity and accountability	The value of professionalism

5

2 Core principles

The core principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively.

Input

1. Demonstrates integrity
2. Demonstrates competence and due professional care
3. Is objective and free from undue influence (independent)

Process

4. Aligns with the strategies, objectives, and risks of the organization
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively

Output

8. Provides risk-based assurance
9. Is insightful, proactive, and future-focused
10. Promotes organizational improvement

6

Competence and due professional care

INTERNAL AUDIT COMPETENCY FRAMEWORK



Competence level		
General awareness	Applied knowledge	Expert
- - CIA IAP	- CRMA CIA -	QIAL CRMA - -

Competencies required to demonstrate the authority, credibility, and ethical conduct essential for a valuable internal audit activity.

Competencies required to plan and perform internal audit engagements in conformance with the *Standards*.

Competencies required to identify and address the risks specific to the industry and environment in which the organization operates.

Competencies required to provide strategic direction, communicate effectively, maintain relationships, and manage internal audit personnel and processes.

Poll 1

Sli.do
#529673

Active poll

Of the 10 internal audit principles, which will you have relative ease in observing? (1 to 2 words) 068

Join at **slido.com** #529 673

1: Poll

Show Q&A

27°C Rain 10:01 AM 7/22/2021

9

3 Definition and key components

The definition of internal auditing states the fundamental purpose, nature and scope of internal auditing.

Nature

Internal auditing is an independent, objective ...

Service

... assurance and consulting activity ...

Purpose

... designed to add value & improve an organization's operations. It helps an organization accomplish its objectives ...

Method

... by bringing a systematic, disciplined approach ...

Scope

... to evaluate and improve the effectiveness of governance, risk management, and control processes.

4 Code of ethics

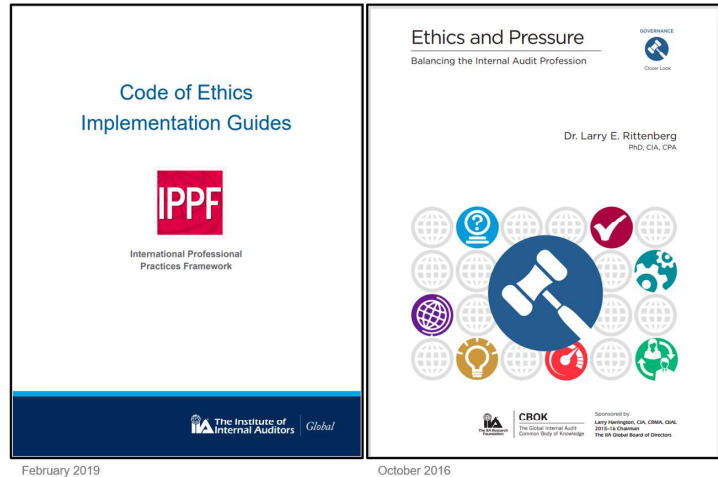
The objective of the Code is to promote an ethical culture in the profession of internal auditing.

Principles that are relevant to the profession and practice of internal auditing.

- Integrity
- Objectivity
- Confidentiality
- Competency

Rules of conduct that describe behavior or norms expected of internal auditors.

2 CPE hours about ethics are required annually for certified individuals.



5 Professional standards

Internal audit professionals should comply with appropriate *Standards*.

Conformance with The IIA's international standards for the professional practice of internal auditing (*Standards*) **is essential to meeting the responsibilities** of internal auditors and the internal audit function.

Standards are **principle-focused** and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements which contains:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance.
- Interpretations, which clarify terms and concepts within the Statements
- Glossary terms

5 Professional standards

Internal audit professionals should comply with appropriate *Standards*.

Attribute Standards (19) address the **characteristics of organisations and individuals** performing internal auditing.

- 1000 Purpose, authority and responsibility
- 1100 Independence and objectivity
- 1200 Proficiency and due professional care
- 1300 Quality assurance and improvement program



Performance Standards (33) describe the nature of internal auditing and provide **quality criteria for measuring performance** of services.

- 2000 Managing the internal audit activity
- 2100 Nature of work
- 2200 Engagement planning
- 2300 Performing the engagement
- 2400 Communicating results
- 2500 Monitoring progress
- 2600 Communicating the acceptance of risks



Mandatory elements of the internal audit profession 13

13

5 Professional standards

Internal audit professionals should comply with appropriate *Standards*.

Glossary

Internal audit activity v internal audit function

a department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting activities designed to add value and improve an organization's operations

Must v Should

- **Must** – unconditional requirement (49)
- **Should** – where conformance is expected unless, when applying professional judgment, circumstances justify deviation (1 + 2)

The IIA Style Guide

(Revised July 2016)

The IIA Style Guide was developed after careful consideration of The Institute's editorial needs and is intended to ensure consistency of editorial style and usage across Institute publications. It applies to all IIA print and online publications, as well as social media — though in light of length restrictions on some platforms (e.g., Twitter) and other factors, adhering to the Style Guide may not always be feasible with social media content. A separate document will be available shortly with guidance specific to social media usage.

Appendix sections of this guide are designed to meet the specific needs of The IIA's Standards and Guidance, Curriculum Development, and Conferences materials. In some cases, these sections include exceptions to the main IIA guide. Note that the appendices apply only to their respective areas.

The IIA recognizes the *Associated Press (AP) Stylebook* as its primary reference for grammar and style issues. The IIA Style Guide is intended to show exceptions to AP style or address areas not covered by AP. For items not covered in either reference, refer to *Webster's New World College Dictionary*. The *AP Stylebook* is available online — many IIA employees have subscribed to the web-based version. *Webster's New World College Dictionary* is also available through AP as a bundled subscription with the *AP Stylebook*. To order an online subscription, visit www.apstylebook.com.

Use references in this order:

- *The IIA Style Guide*
- *AP Stylebook*
- *Webster's New World College Dictionary*

For items not covered in the above listed references, contact Style Committee Chair David Saliermo (david.saliermo@theiaa.org).

Mandatory elements of the internal audit profession 14

14

Poll 2


Sli.do
#529673

15

The screenshot shows a web browser window displaying an active Slido poll. The browser's address bar shows the URL: wall.sli.do/event/x5hghpvl?section=199a096a-cb79-4ce0-8cbe-5e938729c739. The poll title is "Active poll" and the question is "In 1-2 word/s, which of the internal audit elements or concepts will you have difficulty or challenge applying in actual practice?". The poll has 0 votes, 6 responses, and 1 question. A QR code is visible on the left side of the poll interface. The word cloud contains the following terms: Management accountability, COE: COMPETENCE, Evaluating governance, Process improvement, Competence & Effectivity, Effective Reports, Recommendations, Identifying Risks, Standards and insights, Standards, Independence, qaip, quality assurance, Competence, professional judgment, Insights, objectivity, Risk Appetite, Risk analysis, Objectivity, Insight, finding analysis, Recommend, and 529673. The Slido interface includes a navigation bar at the bottom with a "Show Q&A" button and a timer showing "2: Poll". The Windows taskbar at the bottom of the screenshot shows the time as 10:00 AM on 7/22/2021, with a weather forecast of 27°C Rain.

16

Summary

Mission of internal audit	Mandatory guidance	Recommended guidance	
<p>The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. Its place in the new IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission</p>	<p>Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The mandatory elements of the IPPF are:</p> <ul style="list-style-type: none"> ▪ Core Principles for the Professional Practice of Internal Auditing ▪ Definition of Internal Auditing ▪ Code of Ethics ▪ <i>International Standards for the Professional Practice of Internal Auditing</i> 	<p>Recommended guidance is endorsed by The IIA through a formal approval process. It describes practices for effective implementation of the mandatory elements. The recommended elements of the IPPF are:</p> <ul style="list-style-type: none"> ▪ Implementation Guidance <p>Implementation Guides assist internal auditors in applying the Standards and Code of Ethics. They collectively address internal auditing's approach, methodologies, and consideration, but do not detail processes or procedures.</p> <ul style="list-style-type: none"> ▪ Supplemental Guidance <p>Supplemental Guidance provides detailed guidance for conducting internal audit activities. These include topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables.</p>	

17

Summary



- **Purpose.** This session introduces participants to the mandatory elements of the internal audit profession based on authoritative issuances of The Institute of Internal Auditors.
- **Objective.** Internal audit professionals should understand the mandatory elements that govern the internal audit profession and apply their understanding of the elements in their personal circumstances and professional work.
- **Output.** Norms and standards on internal auditing.
- **Outcome.** Develop effective internal audit professionals that add value to their organizations.

18

Thank you



Michael C. Gallego

CPA, CIA, CCSA, CRISC, MPM, CMC, CRMA, CSP, ASEAN CPA, AICD, CDPSE

Past president, Institute of Internal Auditors – Philippines

Partner and Advisory Services Practice Leader
 Head, Knowledge Management
 P&A Grant Thornton
 M +63 917 592 1049
 E mhycke.gallego@ph.gt.com

This presentation is not a comprehensive analysis of the subject matters covered and may include proposed guidance that is subject to change before it is issued in final form. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this presentation. The views and interpretations expressed in the presentation are those of the presenters and the presentation is not intended to provide accounting or other advice or guidance with respect to the matters covered. For additional information on matters covered in this presentation, contact your P&A Grant Thornton adviser.

© 2021 Punongbayan & Araullo. All rights reserved.

Punongbayan & Araullo is a leading professional services firm that helps dynamic organizations unlock their potential for growth by providing insightful, actionable advice and services through our client-caring team of outstanding audit, tax and business professionals.

P&A is a member firm within Grant Thornton International Ltd, one of the world's leading organizations of independent assurance, tax and advisory firms. These firms help dynamic organizations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 35,000 Grant Thornton people, across over 100 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.



grantthornton.com.ph