GAO
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United States Government Accountability Office
Washington, DC 20548

Comptroller General
of the United States

April 30, 2007

Brenda D. Lovell, CIA
Vice President, Knowledge Management
The Institute of Internal Auditors
247 Maitland Avenue
Altamonte Springs, FL 32701

Subject: Exposure Draft of Proposed Changes to the Professional Practices
Framework

This letter provides the U.S. Government Accountability Office's (GAO) comments on
the Institute of Internal Auditors' (IIA) Exposure Draft of Proposed Changes to the
Professional Practices Framework. We appreciate the opportunity to comment on an
issue of such importance for the accountability community.

We commend the IIA for taking on this project to realign the Professional Practices
Framework to address changes in the internal auditing profession over the past few
years. We applaud the IIA's decision to include detailed practical guidance to meet
the requirements of Standard 1300 – Quality Assurance and Improvement Program
within the proposed International Professional Practices Framework (IPPF). An audit
organization's quality assurance and improvement program is essential to providing
high-quality auditing. It is therefore fundamentally important that auditors have a
common set of standards and guidance for implementing an effective quality
assurance and improvement program. Including the Quality Assurance and
Improvement Guidance as a distinct element in the IPPF gives it credibility and focus.

We agree with the IIA's current practice of issuing auditing standards at a principles-
based level and the decision to not issue engagement specific implementation
standards dealing with specific industries, subjects, or programs under audit. We
believe that the application of the standards for engagement specific audits, such as
environmental auditing, should be issued in related guidance, such as the IIA's
Position Papers and Practice Guides. Accordingly, we also agree with including
Position Papers and Practices Guides as "endorsed and strongly recommended" in
the IPPF. These documents provide useful guidance for auditors in applying the
auditing standards. Including them in the IPPF gives them enhanced prominence that
will encourage increased implementation.

While we agree with the changes mentioned above, we have suggestions regarding some of the issues addressed in the exposure draft and the process for updating the framework and standards. Our comments focus on the following areas:

- clarity of auditor requirements,
- process for making interpretations mandatory,
- continued use of consulting terminology in the standards, and
- proposed review cycles for updating the IPPF.

Clarity of Auditor Requirements

We agree with the IIA's identification of the elements in the IPPF as either "mandatory" or "endorsed and strongly recommended" and the related definitions. We suggest that in the future, the IIA consider applying clarity conventions along the same principles as those adopted by other standard setters – such as the AICPA, IFAC, PCAOB and GAO – to define requirements for auditor actions in the standards and guidance materials. While we acknowledge that the IIA has made distinctions between mandatory and endorsed and strongly recommended elements in the IPPF, we believe that a valuable next step would be to adopt common usage for terms such as "must," "is required," and "should" or "shall" for defining auditor requirements within the language of the standards and guidance materials, and terms such as "may," "might," or "could" for optional actions. Consistent use of terminology throughout the standards and guidance materials will serve to increase the ease of use of the standards, encourage consistent application, and contribute to audit quality.

GAO has recently adopted the above clarity conventions in its standards, consistent with other auditing standard setting organizations. See *Government Auditing Standards*, January 2007 Revision, (GAO-07-162G), paragraphs 1.05 through 1.13.

Process for Making Interpretations Mandatory

We believe that including interpretations of the standards in the IPPF will assist auditors with understanding and implementing the standards. However, we have a concern regarding the process and the transparency of the process for determining which Practice Advisories will be made mandatory. It is not clear how the IIA will determine which Practice Advisories are to be elevated to interpretation status and which ones will remain Practice Advisories. We suggest that the interpretations that the IIA intends to make mandatory be included with the related standards in an exposure process so that internal auditing professionals and the public have an opportunity to comment.

Continued Use of Consulting Terminology in the Standards

We remain concerned about the confusion that may result from the IIA's characterization of some forms of internal audit engagements as "consulting" engagements. In our earlier letter, dated May 20, 2003, and commenting on the *Exposure Draft of Proposed New and Amended Standards for the Professional Practice of Internal Auditing*, we stated that the use of the term "consulting" services to cover internal audit work other than assurance services is problematic

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because it provides a connotation that the internal auditor may not be independent. We believe that the independent, internal audit function is a critical element of governance and oversight. Therefore, we continue to recommend that the IIA adopt other language, such as "professional services other than audits," to describe the types of engagements currently referred to as "consulting" engagements.

Proposed Review Cycles for Updating the IPPF

We commend the IIA for the transparency and exposure of its timeframes and cycles for reviewing and issuing updates to the IPPF. We suggest that the IIA add an element of flexibility that may be needed to address today's rapidly changing environment for standard setters.

Attachment I contains our responses to the specific questions included in the IIA's exposure draft.

We thank you for considering our comments on these important issues as we work together on issues of mutual interest to the accountability profession.
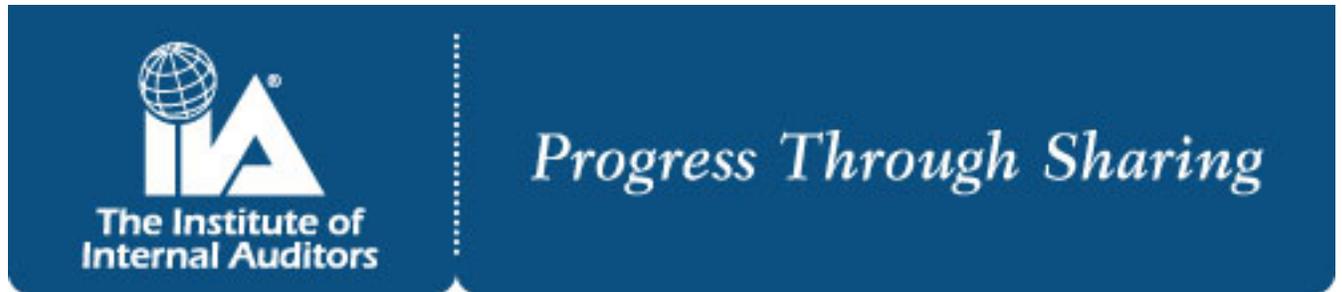
Sincerely yours,

David M. Walker
Comptroller General
of the United States

cc:
Mr. Harold Monk, Jr., Chair
U.S. Auditing Standards Board

The Honorable Mark W. Olson, Chairman
Public Company Accounting Oversight Board

Mr. James M. Sylph, Technical Director
International Auditing and Assurance Standards Board

The Institute of Internal Auditors (IIA)

IIA International Professional Practices Framework - Exposure Feedback

The Institute of Internal Auditors (The IIA) is revising its Professional Practices Framework (PPF). The current framework was introduced in 1999 in the *Vision for the Future* report.

The IIA's Executive Committee appointed an international steering committee and task force in early 2006 to review the Professional Practices Framework. The work was to be focused on reviewing the scope of the PPF and increasing the transparency and flexibility of the guidance development, review, and issuance processes. Responses should be submitted on or before **April 30, 2007**.

III. A Comparison of the Elements Contained in the Current PPF to the Proposed IPPF
Questions for Comment:

1. The proposed IPPF no longer includes the opportunity to issue *engagement specific* implementation standards (e.g., environmental auditing). There are currently no engagement specific implementation standards; only "assurance" and "consulting" implementation standards. Do you believe that mandatory implementation standards are needed for engagement specific internal audits, or should implementation standards relate only to audit activities (consulting and assurance)?

    Engagement specific audits

    Audit activities (consulting and assurance)

1a. Please explain:

2. Will interpretations to the Standards be helpful in clarifying terms or concepts used in the

Standards?

 Yes

 No; please explain:

3. Do you support the inclusion of position papers (e.g. *The Role of Internal Audit in Enterprise-wide Risk Management)* in the proposed IPPF?

 Yes

 No; please explain:

4. Are the definitions for *mandatory and endorsed and strongly recommended* sufficiently clear?

 Yes

 No; please explain:

5. Are the names of the elements (e.g. Standards, Practice Advisories) sufficiently clear?

 Yes

 No; please explain:

6. Are the new definitions and descriptions of each element and their distinction from each other sufficiently clear?

 Yes

 No; please explain:

7. Do you support inclusion of detailed practical guidance to meet the requirements of Standard 1300 - Quality Assurance and Improvement Program (International Standards for the Professional Practice of Internal Auditing) within the IPPF?

 Yes

 No; please explain:

7a. If so, do you support its inclusion as a separate element of the IPPF or as part of the Practice Guides category (*please select one)*?

 Separate element

 Practice Guide

8. Please provide any additional comments you may have regarding this section:

IV. A Comparison of the Process and Approval Between the Current PPF and the Proposed IPPF
Questions for Comment:

9. Are there any suggestions for ways to further increase the transparency of the proposed processes?

10. Are levels of approval (e.g. Board of Directors, Executive Committee) appropriate for each element within the proposed IPPF?

    Yes

    No; please explain:

11. Is the proposed arbitration method appropriate?

    Yes

    No; please explain:

12. Should the proposed minimum voting requirements apply in all cases or be up to the approval body to establish?

    All Cases

    Approval Body to Establish

13. Please provide any additional comments you may have regarding this section:

V. Proposed Review Cycles for Each Element of Guidance
Questions for Comment:

14. Do you agree with the proposed review cycles?

    Yes

    No; please explain:

15. Please provide any additional comments you may have regarding this section:

VI. How IIA Affiliate Guidance is Included in the International Professional Practices Framework

Questions for Comment:

16. Do you agree with the proposed affiliate guideline A?

    Yes

    No; please explain:

17. Do you agree with the proposed affiliate guideline B?

    Yes

    No; please explain:

18. Do you agree with the proposed affiliate guideline C?

    Yes

    No; please explain:

19. Please provide any additional comments you may have regarding this section:

20. Please provide any additional comments you may have regarding this survey or exposure.

21. Are you a member of The IIA?
    Yes
    No

22. Country:

23. What is your position/role in the organization?
    Audit Staff
    Audit Manager
    Audit Director
    Chief Audit Executive
    IT Audit Staff
    IT Audit Manager
    IT Audit Director
    Risk Management
    IT Professional
    Information Security Professional
    External Public Accountant
    Educator
    Management Consultant
    Corporate Management
    Audit Services Contractor
    Retired
    Student
    Other; please specify: