



International Professional
Practices Framework

Supplemental Guidance
Practice Guide

Demonstrating the Core Principles for the Professional Practice of Internal Auditing

Enablers and Key Indicators



**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 IIA for internal audit professionals worldwide.

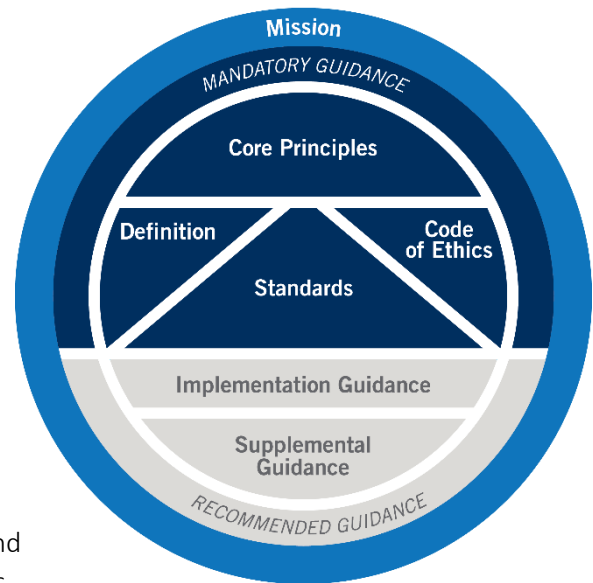


International Professional Practices Framework

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:

- Core Principles for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.
- Code of Ethics.
- *International Standards for the Professional Practice of Internal Auditing.*

Recommended Guidance includes Implementation and Supplemental Guidance. Implementation Guidance is designed to help internal auditors understand how to apply and conform with the requirements of Mandatory Guidance.



About Supplemental Guidance

Supplemental Guidance provides additional information, advice, and best practices for providing internal audit services. It supports the *Standards* by addressing topical areas and sector-specific issues in more detail than Implementation Guidance and is endorsed by The IIA through formal review and approval processes.

Practice Guides

Practice Guides, a type of Supplemental Guidance, provide detailed approaches, step-by-step processes, and examples intended to support all internal auditors. Select Practice Guides focus on:

- Financial Services.
- Public Sector.
- Information Technology (GTAG®).

For an overview of authoritative guidance materials provided by The IIA, please visit www.globaliia.org/standards-guidance.



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Executive Summary

The IIA's Core Principles for the Professional Practice of Internal Auditing are part of the Mandatory Guidance of the International Professional Practices Framework (IPPF). Demonstrating the Core Principles validates the effectiveness, credibility, and value of the internal audit activity within the organization's governance structure. By achieving the Core Principles, the internal audit activity also achieves the Mission of Internal Audit: "to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight."

Note: Terms in bold are defined in the glossary in Appendix B.

This practice guide explains the concepts embodied in the Core Principles and describes enablers, or specific ways to enable and demonstrate them. The guide also identifies measurable key indicators that enable the internal audit activity to define, measure, assess, and monitor demonstration of the Core Principles. The chief audit executive (CAE) should use these enablers and key indicators to customize an approach to demonstrating the Core Principles that is most applicable to its internal audit team. This customized approach may be used as the basis for a self-assessment tool that may supplement the internal audit activity's quality assurance and improvement program (QAIP), as well as providing an easy-to-understand, high-level communication of the internal audit activity's value and effectiveness to key stakeholders, such as senior management and the board.

Introduction

The IIA's **Core Principles for the Professional Practice of Internal Auditing**, taken as a whole, characterize the effectiveness of the **internal audit activity**. This practice guide explains how conforming with the Mandatory Guidance of the IPPF supports the realization of the broader, more encompassing Core Principles.

Each core principle is addressed in its own section, which describes the consequences of failing to achieve that principle and provides practical applications of IPPF guidance that enable the principle to be demonstrated. In each section, a convenient table provides examples of enablers or ways to achieve the principle and examples of key indicators supporting the **chief audit executive's** assessment of whether a principle has been demonstrated. While these tables provide numerous possibilities, the approach to assessing whether the internal audit activity demonstrates the Core Principles should be customized, taking into account the size and maturity of the internal audit activity.

In their conciseness, the Core Principles provide a quick and easy-to-understand overview of the internal audit activity's role, purpose, and criteria of effectiveness that facilitates the CAE's communication with senior management and the **board**, or more specifically, the audit committee



chair. This type of self-assessment and communication promotes the internal audit activity's value proposition in achieving its mission. Appendix C provides an example of an assessment and communication tool.

Business Significance: Risks and Opportunities

Demonstrating the Core Principles is essential to the internal audit activity's culture. Just as an organization's culture sets the tone for its **governance, risk management, and control environment**, the Core Principles and the rest of the IPPF's Mandatory Guidance are meant to guide the internal audit activity to effectively accomplish its mission to protect and enhance organizational value by providing risk-based and objective assurance, advice, and insight. Along with conformance with The IIA's **Code of Ethics** and the *International Standards for the Professional Practices of Internal Auditing*, the internal audit activity's goal should include ongoing improvement of its quality through demonstration of the Core Principles.

When the internal audit activity does not demonstrate the Core Principles, it loses credibility as a trusted advisor and provider of assurance to stakeholders. Failure to embody any principle jeopardizes stakeholders' faith and trust in the results and conclusions of internal audit work. Ultimately, ineffective internal auditors risk becoming irrelevant and losing their position.

Core Principle 1: Demonstrates integrity.

In addition to being the first core principle, integrity is one of the four principles of The IIA's Code of Ethics. Along with related IPPF guidance, the Code of Ethics rules of conduct for the integrity principle establish the minimum behavioral requirements and the criteria against which integrity may be measured. Thus, the CAE should refer to The IIA Code of Ethics in the internal audit charter and build its principles and rules of conduct into the internal audit activity's policies, training, and quality assurance and improvement program.

Integrity is the foundation of the other principles in the Code of Ethics: **objectivity**, confidentiality, and competency depend on integrity. Internal auditors **must** follow the rules of conduct related to integrity in the Code of Ethics. These rules call for internal auditors to observe the law and not be party to any illegal activities or to any acts that would be discreditable to the profession. Examples of potentially discreditable acts are described in The IIA's Implementation Guide "Code of Ethics: Integrity."

Related IPPF Elements

Code of Ethics Principle: Integrity

Standards series:

1000 – Purpose, Authority, and Responsibility

1300 – Quality Assurance and Improvement Program

2000 – Managing the Internal Audit Activity



The Code of Ethics rules also require internal auditors to perform their work with honesty, diligence, and responsibility, and to contribute to the legitimate and ethical objectives of the organization. This is accomplished when internal auditors follow the systematic, disciplined approach provided in the *Standards* and the policies and procedures established by the CAE, as well as any ethics policy or code of ethics established by the organization.

One of the most important ways internal auditors demonstrate integrity is in reporting their **engagement opinions**, conclusions, and recommendations. In simple terms, integrity means doing the right thing and providing honest, objective assurance and advice, even when doing so is uncomfortable or difficult and avoiding an issue might be easier (e.g., minimizing engagement observations or omitting observations from an engagement report).

Consequences of not demonstrating Core Principle 1: If integrity is not demonstrated, then the internal audit activity loses the trust placed in it and consequently its credibility to provide independent and objective assurance and advice. Thus, integrity is inextricably linked to the second core principle – Demonstrates competence and due professional care – and the third core principle – Is objective and free from undue influence (independent). To effectively perform its duties and fulfill its role as a trusted source of assurance and advice, the internal audit activity must embody these intertwined principles, which also appear in The IIA’s Code of Ethics. A direct result of lack of integrity is the erosion of trust, standing in the organization, and credibility of the function and the individuals in it rendering the internal audit activity unable to provide value to the organization. In this situation the organization will likely seek alternative forms of assurance.

Figure 1 lists examples of enablers in the first column that are actions the CAE and internal auditors may take to demonstrate Core Principle 1: Demonstrates integrity. The second column gives examples of key indicators, or measurable ways to help gauge how well the internal audit activity has demonstrated the core principle.

Figure 1. Examples of Core Principle 1: Demonstrates integrity.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we’ve been successful?
<ul style="list-style-type: none"> ■ The IIA Code of Ethics is referred to in the internal audit charter and built into the QAIP. ■ The internal policies and/or internal audit training includes ethical scenarios/case studies that are specifically relevant to internal auditors. ■ The CAE has informed the internal audit activity of their ethical responsibilities. ■ Training on The IIA Code of Ethics and the organization’s code of conduct/ethics takes place. ■ Internal auditors have an annual confirmation of compliance with The IIA Code of Ethics and organization's code of conduct/ethics. 	<ul style="list-style-type: none"> ■ No cases of disciplinary action against internal auditors relating to violations of The IIA Code of Ethics or the organization’s code of conduct/ethics. ■ Internal audit team member survey results indicate that employees believe the department operates with integrity and that concerns raised by employees will be properly addressed. ■ Feedback from surveys or interviews from areas under review indicates that team members demonstrate integrity. ■ Internal audit team has completed ethics-related CPE/CPD requirements.

Core Principle 2: Demonstrates competence and due professional care.

The Code of Ethics and several standards express that internal auditors must perform only services for which they have the necessary knowledge, skills, and experience and that they must continually improve their competence and the effectiveness and quality of their services. Several standards and implementation guides elaborate on the related expectations for internal auditors, the internal audit activity, and the CAE.

Competence

The CAE supports the demonstration of competence and due professional care by properly assigning the staff and other resources to achieve the internal audit plan and to ensure that engagements are sufficiently staffed and supervised. Accomplishing this requires structuring the internal audit activity and creating job descriptions, taking an inventory of the skills needed to achieve the internal audit plan, and developing a strategy to recruit and/or train internal auditors with specific competencies. The CAE is required to obtain competent advice and assistance if internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of an assurance engagement and may do so by coordinating with other assurance providers, working with subject matter experts as guest auditors, or hiring outside consultants (i.e., cosourcing/outsourcing).

One challenge internal audit activities are facing is the influx of internal audit practitioners who are not traditional internal auditors and the stretching of traditional auditors into auditing technical areas (e.g., engineering, medical, IT). CAEs should make an effort to ensure that all internal auditors under their professional responsibilities, are appropriately trained, and possess adequate skills to perform their duties in this changing environment.

The CAE should establish indicators to measure competencies of the internal auditors on staff and other service providers to which the internal audit activity has access. The competency of internal auditors may be measured using such tools as The IIA's Audit Intelligence Suite – Benchmarking Report and The IIA's Internal Audit Competency Framework, which outlines the 10 core competencies recommended for internal audit staff, internal audit management, and the CAE. The CAE may adapt information from these tools to develop a competency model, staff development program, and training plan.

Related IPPF Elements

Code of Ethics Principle: Competency

Standards series:

- 1200 – Proficiency and Due Professional Care
- 2000 – Managing the Internal Audit Activity
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2600 – Communicating the Acceptance of Risks

The CAE may encourage internal auditors to evidence their competencies by exhibiting a certain level of proficiency in engagement-related skills, such as conducting testing and using software to analyze data. Internal auditors may be required to obtain or possess specific certifications, such as The IIA's Certified Internal Auditor designation, or other credentials before progressing into higher level internal audit positions and/or specializing in a particular area, such as fraud, data analytics, or IT.

If internal auditors feel they do not have the competencies to perform any part of an engagement, they should discuss this with the CAE or other internal audit management. The CAE often provides internal auditors opportunities to expand their competencies through mentorship by more experienced auditors or collaboration with subject matter experts.

To demonstrate this core principle, internal auditors may document self-assessments of their skills, plans for professional development, as well as evidence of professional continuing education courses and developmental work and volunteer experiences undertaken. Internal auditors holding certifications or similar credentials are typically required to pursue relevant continuing professional education to keep their knowledge up-to-date.

Due Professional Care

While competence has to do with knowledge and skills, due professional care involves the way in which the knowledge and skills are applied. The internal audit activity and individual auditors are expected to apply a systematic and disciplined approach (processes and procedures) to internal audit work. This approach is provided by the Mandatory Guidance of the IPPF and by internal audit policies and procedures established by the CAE (Standard 2040). Through policies and procedures, the CAE establishes controls to mitigate the risks to the internal audit activity's ability to achieve its mission and objectives. The CAE may require individual auditors to sign forms acknowledging that they have read internal audit and organizational policies and procedures, which should incorporate the IPPF's requirements.

When internal auditors follow the protocol to plan and execute engagements and to document their work and communicate the results, they are applying a structured, disciplined approach. This consistency helps ensure internal audit work is performed with due professional care. When planning an engagement, this approach should result in internal auditors completing sufficient background research and a preliminary risk assessment to inform their discussion with the management of the area or process under review (Standard 2200).

To determine the objectives of assurance engagements, internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review and take into account the results of the assessment (Standard 2210.A1). When performing the engagement, internal auditors must identify, analyze, evaluate, and document sufficient, reliable, relevant, and useful information to achieve the engagement's objectives (Standard 2300). Such a process enables a prudent, informed person, such as an engagement supervisor, to understand the work and be able to reach



the same engagement conclusions and recommendations as were reached by the auditors that performed the engagement.

Additionally, internal auditors need certain personal qualities to perform their job with due professional care. Internal auditors should possess levels of intellectual curiosity and professional skepticism sufficient to enable them to broadly understand the entire organization, to think critically to determine the root causes of control failures, and to provide insights that may help the organization.

The *Standards* also require proper supervision and review of internal audit fieldwork and workpapers throughout the engagement; evidence of such supervision must be documented and retained (Standard 2340). Engagement supervision provides opportunities for mentoring new internal auditors to ensure work was completed with due care and to develop their competencies. Management feedback may also be solicited, and good communication with management throughout the engagement decreases the chances of disagreements after final engagement reports have been issued.

Indicators that due professional care has been applied include that the internal audit activity has few or no disagreements from management after the final engagement report has been produced and that there is no history of major errors or omissions in final reports. Proper engagement supervision may be shown in the percentage of hours of engagement supervision relative to the total hours budgeted to perform the engagement.

Consequences of not demonstrating Core Principle 2: If the internal audit activity does not demonstrate competency and due professional care, internal audit risk assessments, the internal audit activity's plan of engagements, and the scope and objectives of internal audit engagements may not be sufficient, accurate, or complete. Outputs from the internal audit activity including audit reports or other communications may be late, inaccurate, or of low quality or value.

Figure 2 lists examples of enablers that the CAE and internal auditors may apply to demonstrate Core Principle 2: Demonstrates competence and due professional care. The second column gives examples of key indicators, which may help gauge how well the internal audit activity has demonstrated the core principle.

Figure 2. Examples for Core Principle 2: Demonstrates competence and due professional care.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<p>Competence</p> <ul style="list-style-type: none"> ■ Internal audit activity structure is defined and supported with job descriptions. ■ An internal audit activity competency model is accompanied by a staff development program. ■ Internal audit activity's annual training plan, linked to development needs, is prepared and executed. ■ A policy is developed encouraging earning certifications or designations. ■ Performance management system with key objectives for the internal audit activity is linked to departmental objectives. ■ Guest auditor procedure/cosourcing contracts are in place. 	<p>Competence</p> <ul style="list-style-type: none"> ■ Skills required to audit key risk areas of the organization can be matched to in-house team and/or with cosourced provider. ■ Percentage of internal auditors who have undergone 40+ hours of training per annum. ■ Percentage of internal auditors with above average evaluations in performance appraisals. ■ Percentage of team who have earned certifications or designations.
<p>Due Professional Care</p> <ul style="list-style-type: none"> ■ Audit risk (risk of internal audit failing to identify key issues in an audited area) is actively addressed in the QAIP. ■ Internal auditors complete sufficient background research as part of engagement planning to have informed discussions with the audit client. ■ Supervision and review of engagement level work program and activities is conducted by appropriately skilled individuals. ■ The performances of the internal audit activity is assessed after each engagement. ■ Assurance procedures change based on the level of engagement risk. ■ Internal auditors engage with and validate fieldwork and engagement findings through ongoing communication with management in the areas under review. ■ Observations are appropriate and relevant to the function/topic area of the audit. 	<p>Due Professional Care</p> <ul style="list-style-type: none"> ■ Limited or no disagreements with audit client after final reports issued (i.e., report has been agreed with audit client or any disagreements are highlighted in the report). ■ No cases of major errors or omissions in reports are identified after final reports are issued. ■ Percentage of internal audit management oversight and review of audit engagements compared to total hours. ■ No instances of internal audit activity failing to escalate delayed closure of high-risk audit observations.

Core Principle 3: Is objective and free from undue influence.

Principle 3 is closely related to the first principle, “Demonstrates integrity,” in that both require internal auditors to act in the best interest of the organization, whether or not management is supportive of their views. Objectivity is an unbiased mental attitude that requires internal auditors not to subordinate their judgment on audit matters to others, and **independence** is the freedom from conditions that threaten the ability of the internal audit activity to execute its responsibilities in an unbiased manner. The implications of this Core Principle range from presenting observations in a balanced manner to not stepping into management’s role during **consulting services** (i.e., advisory engagements) to ensuring external firms do not have conflicts of interest.

Related IPPF Elements

Code of Ethics Principle: Objectivity

Standards series:

1000 – Purpose, Authority, and Responsibility

1100 – Independence and Objectivity

2000 – Managing the Internal Audit Activity

One important way independence is maintained is through the direct and consistent functional reporting of the CAE and/or the internal audit activity to the board. This reporting relationship is defined in the internal audit charter, which should specify that the CAE has direct and unrestricted access to senior management and the board and that the CAE must communicate and interact directly with the board. The CAE’s independent reporting to the board is supported through a meeting between the board and the CAE, at least annually, without management present. Additionally, the independence of the CAE and the internal audit activity is supported when the board is responsible for approving the CAE’s compensation, appointment, and termination of CAE; and the internal audit activity’s plan, including its budget and resources.

The board may also implement oversight as a safeguard to potential **impairments** to the independence and/or objectivity in cases where the CAE is assigned roles or responsibilities that fall outside internal auditing (Standard 1112 – Chief Audit Executive Roles Beyond Internal Auditing and Standard 1130 – Impairment to Independence and Objectivity). Minutes from board meetings may evidence that the board has assessed the CAE’s roles and responsibilities as well as the effectiveness of his or her performance and/or the adequacy of his or her compensation.

Once defined, the independent relationship is implemented through policies, procedures, and practices. For example, reporting on objectivity and independence may involve confirming to the board at least annually whether there were any impairments to the internal audit activity’s objectivity (e.g., conflicts of interest) or independence (e.g., influence from management). Conformance may be evidenced through the completed and signed acknowledgements of relevant policies and forms declaring any conflicts of interest or other potential impairments to



independence. The board should assess the independence of the internal audit activity by reviewing any limitations on the activity's scope, resources, and access to the information needed to perform its work.

When performing engagements, internal auditors demonstrate objectivity and independence when they identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives. Objective, competent internal auditors analyze and evaluate all relevant facts to inform their impartial, balanced assessments. Once again, professional skepticism helps internal auditors remain objective.

In communicating the results of an engagement, the Code of Ethics requires internal auditors to disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review. Standard 2410.A1 adds that final communication of engagement results must include conclusions, opinions, recommendations, and/or action plans, which should be supported by reliable, relevant, and useful information. The communication of engagement results should be clear, concise, constructive, complete, and timely. While internal auditors are encouraged to acknowledge satisfactory performance (Standard 2410.A2), they also should not minimize gaps in governance, risk management, and internal controls.

Based on the results of one of more engagements or other observation and monitoring, if the CAE concludes that management has accepted a level of risk that is unacceptable to the organization, then the CAE must discuss the matter with senior management. If the matter is not resolved, the CAE must communicate it to the board (Standard 2600 – Communicating the Acceptance of Risks). Any external parties performing internal audit responsibilities should be held to the same standards of integrity, independence, and objectivity. The CAE is responsible for ensuring there is adequate support for conclusions and opinions reached by the internal audit activity, even when the activity relies upon the work of other service providers (Standard 2050 – Coordination and Reliance).

Feedback from post-engagement surveys or interviews may provide evidence that the team has exhibited objectivity and freedom from undue influence, or the feedback may identify ways that the internal audit activity should improve. However, management's feedback may be biased in areas where unsatisfactory observations or ratings are reported, and therefore such feedback should be bolstered with evidence. For example, a review of internal audit observations and reports should reveal that the internal audit activity has no pattern of avoiding stating negative/unsatisfactory observations and results from an engagement. Reported observations that are almost exclusively satisfactory provide a reason to suspect that internal auditors lack sufficient independence and may be under pressure to suppress unsatisfactory observations. Internal audit work conducted independently by objective professionals will be backed by adequate and appropriate evidence so the reviewer is able to reach the same conclusions reached by the internal auditors.

Consequences of not demonstrating Core Principle 3: If internal auditors are not objective, or are not seen as objective, management and the board are unlikely to trust internal audit observations as accurate and complete. If the internal audit activity is not independent, it may be pressured to



limit its engagement scope, suppress findings, or change opinions. Impairments to either objectivity or independence, or both, limit the usefulness of internal audit assurance and advice. In addition to eroding trust in internal audit work, biased conclusions and opinions that either minimize or hide the significance of risk exposures may leave the organization vulnerable to risk occurrences and consequences such as regulatory fines, sanctions, reputational damage, and other stakeholder losses.

Figure 3 lists examples of enablers in the first column that the CAE and internal auditors may apply to demonstrate Core Principle 3: Is objective and free from undue influence (independent). The second column gives examples of key indicators to help gauge how well the internal audit activity has demonstrated the core principle.

Figure 3. Examples for Core Principle 3: Is objective and free from undue influence.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<p>Objectivity</p> <ul style="list-style-type: none"> ■ Confirmation of objectivity (including any conflict of interest with family members, customers and/or suppliers, etc.) is submitted annually to the board. ■ Process exists to verify whether third-party assurance providers (e.g., outside professional services firms) have performed work for management that constitutes a conflict of interest. ■ Internal auditors do not provide assurance over areas for which they had responsibility within the previous 12 months. ■ Internal audit communications are clear, factual, reliable, and relevant. 	<p>Objectivity</p> <ul style="list-style-type: none"> ■ Feedback from audit client surveys or interviews indicating internal auditors appear impartial and objective. ■ Internal auditors (and any assurance providers upon which they rely) have completed forms acknowledging they are free from conflicts of interest or disclosing any potential conflicts. ■ Trends in report/observation ratings show that internal auditors do not avoid negative/unsatisfactory ratings at engagement or observation levels. ■ Conclusions and opinions show that internal auditors report known material facts. ■ Assessments as part of the internal audit activity's QAIP affirm that conclusions and opinions were arrived at objectively (are reliable and supported with facts).
<p>Independence/Freedom from Undue Influence</p> <ul style="list-style-type: none"> ■ Functional reporting to board is defined in the internal audit charter. ■ Board/audit committee formally reviews CAE's independence and objectivity on a periodic basis in relation to ongoing employment. ■ The CAE has direct access to the board as defined in the internal audit charter. ■ Safeguards, with reporting to the board, are in place for any roles that the CAE may have responsibility for beyond internal audit. 	<p>Independence/Freedom from Undue Influence</p> <ul style="list-style-type: none"> ■ Board reviews CAE performance and approves appointment, compensation, and termination. ■ Low number of inhibitors/restrictions to the scope of work that the internal audit department has experienced (e.g., access, major delays). ■ Regularly scheduled private sessions (e.g., quarterly or at least annually) with board without management present.

Core Principle 4: Aligns with the strategies, objectives, and risks of the organization.

Internal auditors have a responsibility to **add value** to the organization they serve. One of the best ways to provide that value is to connect internal audit engagements to the risks that may have the greatest impact on the organization's ability to achieve its objectives. To understand the organization in this way requires both top-down and bottom-up actions.

For a top-level view, the CAE communicates with senior management and the board to gain a clear understanding of the organization's major objectives, the strategies to achieve those objectives, and the risks that could prevent the organization from doing so. To guide the internal audit activity, the CAE aligns the internal audit activity's strategy with that of the organization and establishes a strategic plan with a defined vision, objectives, and clear measures of success. The CAE or designated internal auditors may meet with key members of senior management and attend strategy meetings of senior management committees in various areas (e.g., operations committee, assets and liabilities committee, enterprise risk management committee).

Additionally, the CAE should consider the risks to achieving the organization's strategic objectives. According to Standard 2010.A1, the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually, that incorporates the input of senior management and the board. The CAE may start with management's organizationwide (or enterprisewide) risk assessment, if one exists, and may independently review and corroborate the key risks identified by senior management. Alternatively, the internal audit activity may perform its own organizationwide risk assessment.

Based on these inputs, the CAE creates or updates the internal audit activity's plan of engagements to reflect the organization's priorities. The CAE must review the plan with the board at least annually. The board should ensure that the plan reflects the organization's strategic objectives and risks. In response to changes in the organization's business, risks, operations, programs, systems, and/or controls, the CAE must also review the plan and adjust it, even if that is necessary more often than annually.

From a bottom up perspective, to understand how strategy is implemented at the business unit/operational level, the CAE may assign individual internal auditors to assess various areas within the organization. As part of the assessment, internal auditors may survey stakeholders, such as line/operational management and process owners, about their risk priorities.

Related IPPF Elements

Code of Ethics Principle: Objectivity

Standards series:

2000 – Managing the Internal Audit Activity

2200 – Engagement Planning



Taking into consideration what they have learned from senior management and the stakeholders in individual business areas, internal auditors should have sufficient information to regularly update the internal audit activity’s organizationwide risk assessment. The results of risk assessments performed as part of the individual internal audit engagements should be considered also. This enables the internal audit activity to dynamically adjust the internal audit plan, allowing them to respond to emerging risk priorities quickly. Technology-based, ongoing data analysis further shortens the time to respond. By integrating the most current risk information into its organizationwide risk assessment, the internal audit activity demonstrates conformance with Core Principle 4. The CAE may use surveys to solicit evidence of stakeholder recognition that the internal audit activity is addressing the organization’s strategic objectives sufficiently.

Consequences of not demonstrating Core Principle 4: If the internal audit activity does not align with the strategies, objectives, and risks of the organization, then it risks wasting resources on assessing areas, processes, or issues that do not help the organization manage its key risks and achieve its objectives. Thus, the internal audit activity offers little value and becomes irrelevant in the organization; management and the board do not seek internal audit assurance and advice. Without guidance and assurance, the organization may not see clearly the risks that keep it from achieving its objectives.

The first column in Figure 4 provides examples of enablers or actions the CAE and internal auditors may take to demonstrate Core Principle 4: Aligns with the strategies, objectives, and risks of the organization. The second column gives examples of key indicators, which are measurable ways to help gauge how well the internal audit activity has demonstrated the core principle.

Figure 4. Examples for Core Principle 4: Aligns with the strategies, objectives, and risks of the organization.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we’ve been successful?
<ul style="list-style-type: none"> ■ The internal audit activity’s strategic plan, aligned to the organizational strategy, is developed with a defined vision, objectives, and clear measures of success. ■ The internal audit activity’s audit strategy is updated based on changes to the internal or external environment. ■ The internal audit activity’s annual audit plan is updated based on changes in the organization’s strategies and/or objectives. ■ Internal audit plan links engagements to a strategic objective(s) and/or risk(s). ■ Top organizational risks are used as the basis of the annual plan. Top risks not addressed in the internal audit plan are communicated to the board. ■ The internal audit activity prioritizes follow-up activities on observations or recommendations related to strategic risks and incorporates that information into the risk assessment. 	<ul style="list-style-type: none"> ■ Feedback from stakeholder surveys indicates that the internal audit activity is operating in alignment with stakeholders’ view of priorities. ■ CAE attends strategy discussions. ■ Percentage of internal audit plan covering strategic projects and/or initiatives. ■ Strategic risks are identified in the internal audit plan. ■ Strategic planning has been audited. ■ Percentage of internal audit staff skilled and assigned in alignment with the organization’s structure and key risks (type of skill, location, etc.).

Core Principle 5: Is appropriately positioned and adequately resourced.

The internal audit activity is able to effectively add value to the organization when it is appropriately positioned and adequately resourced. It is difficult for the CAE and the internal audit activity as a whole to maintain integrity, independence, and objectivity and to demonstrate the Core Principles without being correctly positioned and authorized within the organization. The *Standards* start with Standard 1000, which states that “the purpose, authority, and responsibility of the internal audit activity must be defined in the internal audit charter.”

If the CAE reports to the chief executive officer (CEO), chief financial officer (CFO), or other senior manager directly, without the board’s oversight, the arrangement may impair the CAE’s ability to honestly deliver unsatisfactory or critical internal audit observations to that manager. Even in a situation where the CAE reports to the board directly — for example, to the audit committee chair — but where the senior manager reviews the CAE’s performance, budget, and planning processes, the senior manager may exert pressure on the CAE’s independence by limiting internal audit resources or exercising retribution in the form of unsatisfactory performance reviews.

Ideally, the CAE functionally reports directly to the board (i.e., the highest level of governance in the organization), which preserves independence by providing the CAE with unrestricted access to address sensitive matters, especially those involving management or senior management. Administratively, the CAE should report to the highest level of management, which is generally the CEO, or at least to a level that enables the internal audit activity to carry out its responsibilities. However, this may not be practical in every organization; therefore, the board may review the reporting relationship to determine what is appropriate for their governance structure. The CAE should be aware of any regulatory requirements for reporting relationships. Once the customized reporting structure has been defined, it should be documented in the internal audit charter.

The board’s functional oversight typically includes creating, supporting, and ensuring working conditions that enable the CAE and the internal audit activity to operate independently, effectively, and efficiently. Board responsibilities often include:

- Approving the appointment and termination of the CAE.
- Approving the internal audit activity charter and plan, including the budget and resource plan.

Related IPPF Elements

Code of Ethics Principle: Competency

Standards series:

1000 – Purpose, Authority, and Responsibility

1100 – Independence and Objectivity

1200 – Proficiency and Due Professional Care

2000 – Managing the Internal Audit Activity



- Evaluating and compensating the CAE.
- Evaluating the internal audit activity's level of independent operation (e.g., any limitations to the internal audit activity's scope or resources, or other pressures or hindrances).

The board and the CAE should periodically discuss the results of QAIP and internal audit resources, along with any imposed limitations. The board should affirm that the internal audit activity's operating budget and other resources are sufficient for the internal audit activity to accomplish its objectives. To help with the evaluation, the CAE and the board may periodically benchmark the internal audit activity's resources against those of similar organizations.

Internal audit resources may be supplemented by collaborating with subject matter specialists, either within the organization (e.g., through guest auditor programs) or through cosourcing. To ensure independence and objectivity are maintained, the board should approve any cosourcing or outsourcing arrangements and providers of service. Oversight and responsibility for the internal audit activity cannot be outsourced. The responsibility for creating and maintaining a quality assurance and improvement program also remains within the organization, not with the provider. Such arrangements may be subject to regulation and laws, as well.

Consequences of not demonstrating Core Principle 5: If the internal audit activity is not appropriately positioned, the results and conclusions of internal audit work may not be treated with sufficient importance to prompt action from management. Additionally, the CAE may not have direct access to the board, making independent reporting difficult. Without access to the board, internal audit activity cannot communicate freely about sensitive matters involving management. If internal audit is not adequately resourced, it may not have the tools or staffing to adequately execute the internal audit plan, and therefore, may be unable to provide assurance over all significant risks to the organization.

Figure 5 provides examples of enablers or actions that the CAE and internal auditors may apply to demonstrate Core Principle 5: Is appropriately positioned and adequately resourced. The second column gives examples of key indicators, which may reflect how well the internal audit activity has demonstrated the core principle.

Figure 5. Examples for Core Principle 5: Is appropriately positioned and adequately resourced.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<p>Appropriately Positioned</p> <ul style="list-style-type: none"> ■ A documented and customized internal audit charter, aligned with the IPPF, is in place. ■ Functional reporting to the board level and administrative reporting to the highest level in the organization is defined in the charter. ■ Internal audit activity's mandate is broad and aligned to organizational needs (i.e., positioned to add value). 	<p>Appropriately Positioned</p> <ul style="list-style-type: none"> ■ CAE is viewed as part of leadership and participates at key management, board, project management, and functional leadership meetings. ■ Evidence the CAE has challenged management when needed. ■ Audit engagement results are given due consideration.
<p>Resourcing</p> <ul style="list-style-type: none"> ■ A sufficient operating budget is approved by the board. ■ Periodic discussions occur with the board on QAIP, resource availability (capability and capacity), and any limitations. ■ Periodic benchmarking of resources is compared to similar size/profile organizations. ■ Human resources, technology, and tools are provided to internal audit enabling them to execute their engagements effectively and efficiently. ■ The internal audit activity has appropriate access to subject matter specialists through in-house roles, guest auditor programs, and/or cosource arrangements. ■ Internal audit resources are located at the most important operations within the company and/or there is adequate travel budget to enable periodic visits to key operations. 	<p>Resourcing</p> <ul style="list-style-type: none"> ■ Percentage of completion of internal audit plan. ■ Percentage of internal audits dropped from the internal audit plan due to resource limitations. ■ Percentage of internal audit plan available for management requests. ■ Percentage of internal audit hours allocated to core internal audits versus administrative activities. ■ Percentage of internal audit plan coverage dedicated to high-risk processes and entities.

Core Principle 6: Demonstrates quality and continuous improvement.

To guide the internal audit activity, the CAE must implement policies and procedures tailored to the nature of the organization and its needs for assurance and advisory services. The policies and procedures should align with IPPF requirements and enable internal auditors to effectively plan, conduct, and document assurance and consulting engagements and communicate the results to the appropriate parties. The CAE should define and monitor key performance indicators and should allocate adequate resources not only to execute the engagement but also to supervise it, which includes regular review of the workpapers. The internal audit methodology should be periodically reviewed and updated.

Related IPPF Elements

Code of Ethics Principle: Competency

Standards series:

1300 – Quality Assurance and Improvement Program

2000 – Managing the Internal Audit Activity

Additionally, the CAE should establish a comprehensive quality assurance and improvement program (QAIP) by which to evaluate the quality of internal audit activity's work. According to the 1300 series of standards, the QAIP must include ongoing monitoring and structured, internal self-assessments conducted periodically, and external assessments conducted at least once every five years. Together, these elements enable an evaluation of the internal audit activity's efficiency and effectiveness and its conformance with the *Standards* and the Code of Ethics. The QAIP also identifies opportunities for improvement.

To continuously monitor the quality of the internal audit activity's work, the CAE may issue surveys or use other mechanisms to solicit feedback from key stakeholders in the internal audit process (e.g., senior management and operational management in areas recently audited). The feedback may be used to adjust the methodology and improve internal audit services.

The CAE should establish a method to track QAIP action items. Examples of action items include regularly scheduled supervisory reviews of internal audit engagements by internal audit management, self-assessments of the internal audit activity, and opportunities for innovation and improvement identified during reviews. Evidence that such items are tracked and completed timely helps demonstrate the internal audit activity's commitment to this core principle.

The internal and external assessments required in the QAIP should indicate general conformance with the *Standards* and the Code of Ethics as well as showing overall improvement and innovation compared to prior assessments. The CAE is also responsible for supervising any outsourced or contracted internal audit service providers to ensure they conform with The IIA's Mandatory Guidance.



The results of the QAIP should be shared with senior management and the board. The CAE should encourage board oversight of the program. When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the CAE must disclose the nonconformance and the impact to senior management and the board (Standard 1322 – Disclosure of Nonconformance).

Consequences of not demonstrating Core Principle 6: If the internal audit activity does not demonstrate quality and continuous improvement, it will not be in conformance with the *Standards*, specifically the 1300 series of standards, which requires the internal audit activity to have a quality assurance and improvement program. Failure to demonstrate quality would likely result in errors in internal audit work or a perception that internal audit work is not reliable, causing management and the board to lose confidence in the internal audit activity. If the internal audit activity fails to demonstrate continuous improvement, then it may fail to keep up with innovations in technology, methodology, and audit techniques. In an internal audit activity that does not embrace quality and continuous improvement, weaknesses related to personnel, processes, and methodology may continue unidentified and unresolved, creating inefficiencies and/or failures to provide reliable assurance and advice.

The first column in Figure 6 provides examples of enablers or actions for demonstrating Core Principle 6: Demonstrates quality and continuous improvement. The second column gives examples of key indicators, which may help gauge how well the core principle has been demonstrated.

Figure 6. Examples for Core Principle 6: Demonstrates quality and continuous improvement.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<ul style="list-style-type: none"> ■ QAIP elements are operational. ■ QAIP action items are tracked and closed out on a timely basis. ■ Mechanisms are in place to solicit feedback from audit clients and key stakeholders. ■ Operational KPIs are defined and monitored, including KPIs to promote internal audit activity improvements and innovations. ■ A fit for purpose internal audit methodology is in place and is refreshed periodically. ■ Outsourced internal audit activities are required to conform with The IIA's <i>Standards</i> and Code of Ethics. 	<ul style="list-style-type: none"> ■ Internal assessments include ongoing monitoring of internal audit performance and periodic self-assessments or assessments by others within the organization sufficiently knowledgeable about internal auditing and the IPPF. ■ External assessments occur at least once every 5 years and results indicate "general conformance" with IIA <i>Standards</i> and Code of Ethics. ■ Internal and external assessments indicate overall improvement as compared to prior assessments. ■ Senior management and the board receive the results of the QAIP. ■ Internal audit activity has an action plan and addresses/closes QAIP action items timely.

Core Principle 7: Communicates effectively.

Effective internal auditing requires effective communication. Quite a few standards specifically address CAE communication, and others apply to engagement-related communication by internal auditors. The *Standards* require the CAE to communicate to senior management and the board about the internal audit activity's charter, overall risk assessment, plans, resource requirements (and potential impacts of resource limitations), performance relative to its plan, and the results of the QAIP assessments. The CAE also should obtain a good understanding of the expectations of senior management and the board in terms of communication.

An important aspect of communication is actively promoting the internal audit activity's mission, role, value, and effectiveness. Conveying these things involves reporting on the QAIP regarding the conclusions of assessments of the internal audit activity and the implementation of corrective action plans to address any deficiencies. The QAIP specifically describes conformance with the Code of Ethics and the *Standards*, but the CAE may also create a reporting tool using the key indicators that appear in the tables throughout this practice guide to communicate its demonstration of the Core Principles. Such a tool may help the CAE communicate with senior management and the board about the internal audit activity's effectiveness in a simple, straightforward way. Imparting this message can be as simple as adding a slide to a presentation or a discussion item during a report on the QAIP. An example is provided in Appendix C.

To promote internal awareness of the internal audit activity's value in helping the organization achieve its objectives, internal auditors may host planning sessions and provide information in internal newsletters and intranet posts, and/or an internal audit webpage. Pursuing opportunities to gain exposure to wide audiences within the organization helps disseminate the information through the organization. Multimedia approaches include creating a slide show or producing a short video to explain the roles and responsibilities of the internal audit activity, as well as showing the value it can contribute to organizational effectiveness and efficiency. These efforts demonstrate the internal audit activity's communication of its value and role.

To ensure the communication principle is demonstrated consistently among members of the internal audit activity, the CAE may include a communication plan as part of internal audit policies and procedures. The communication plan should align with the communication-related standards and may describe how internal auditors will share about individual engagements, from planning

Related IPPF Elements

Code of Ethics Principle:
Confidentiality

Standards series:

- 1300 – Quality Assurance and Improvement Program
- 2000 – Managing the Internal Audit Activity
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating Results
- 2600 – Communicating the Acceptance of Risks



and work programs to results and monitoring. Another aspect of effective communication is maintaining appropriate confidentiality, which is one of the four principles described in The IIA's Code of Ethics. The internal audit activity should have controls in place to protect the information it receives, accesses, and distributes. The IIA's Implementation Guide on the Code of Ethics confidentiality principle explains how to conform with the relevant standards and Code of Ethics rules of conduct. The internal audit activity's track record should remain free from unauthorized disclosure and inappropriate use of confidential information.

For individual engagements, internal auditors may use an engagement communication plan to establish how engagement-level risk assessments, plans, and observations will be communicated throughout the engagement, including how final engagement results will be communicated. Throughout the engagement, communications should be structured and active, encouraging dialogue between internal auditors and the management of the area or process under review. Communications of engagement results must be accurate, objective, clear, concise, constructive, complete, and timely and should include all significant and relevant information and observations to support recommendations and conclusions (Standard 2420 – Quality of Communications).

Written engagement reports should be succinct and tailored to the recipients. Reports should adhere to a consistent format and be concise and easy to read. Different versions of the same report may be offered because the level and type of technical details relevant and necessary varies by the type of stakeholder. Visual graphics often make the issues and criteria easier to understand.

According to Standard 2240 – Engagement Work Program and Standard 2330 – Documenting Information, the engagement work program/workpapers should include documentation of testing, analyses, evaluations, observations, and conclusions — all linked to previously identified risks. Observations should be objective, meaning backed by factually accurate evidence. Reports and other communications should provide assurance from a holistic perspective, acknowledging positive performance and addressing the root causes of any unacceptable observations. Internal auditors should encourage management to recognize, and take action to resolve, unacceptable levels of risk and their root causes. If operational and senior management fail to resolve unacceptable risks, the CAE must communicate the issue to the board (Standard 2600 – Communicating the Acceptance of Risks).

Consequences of not demonstrating Core Principle 7: Ineffective communication affects all aspects of the internal audit activity's performance. Without effective communication, the internal audit activity may be unable to obtain the position, resources, and information it needs to conduct engagements and to effectively express its results, conclusions, and opinions to management and the board. Essentially, internal audit work becomes ineffective and of little value to management and the board.

The first column in Figure 7 lists examples of enablers or actions that the CAE and internal auditors may apply to demonstrate Core Principle 7: Communicates effectively. The second column gives examples of key indicators, which may help gauge how well the core principle has been demonstrated.



Figure 7. Examples for Core Principle 7: Communicates effectively.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<ul style="list-style-type: none"> ■ An internal audit communication plan (including changes to plan, audit notification, etc.) is in place. ■ Periodic reporting and some engagement reports are customized for key stakeholders (senior management, audit committee) as needed. ■ Engagement reports are factually accurate, highlight risk, address root causes, and encourage action from management responsible for the area or process under review. ■ Engagement reports are succinct, aligned with key risks, and use graphics or visuals where appropriate. ■ Engagement reports and other periodic reporting provide a holistic view of assurance, and positive performance is acknowledged. ■ The internal audit activity raises awareness of its role and promotes its value contribution. ■ A structure exists to encourage active, two-way communication with stakeholders (receiving and delivering information). ■ Unresolved risks accepted by management that are considered unacceptable by the CAE are communicated to the board. ■ Internal audit has implemented controls to secure the confidentiality of the data it receives, accesses, and issues. 	<ul style="list-style-type: none"> ■ Feedback from audit clients and key stakeholders indicates that internal audit reports are fit for purpose. ■ No cases of major errors or omissions in reports are identified after final reports are issued. ■ Percentage of planned awareness sessions, social media/intranet posts, etc., completed by internal audit. ■ Time from end of fieldwork to issuance of draft and final reports is reasonable. ■ No cases of unauthorized or erroneous disclosure of confidential data by internal auditors.

Core Principle 8: Provides risk-based assurance.

This core principle embodies the essence of the internal audit activity’s mission “to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.” To demonstrate this principle and fulfill its mission, the internal audit activity must effectively implement Core Principle 4: “Aligns with the strategies, objectives, and risks of the organization.” Additionally, to demonstrate this core principle, the CAE should start with an internal audit plan based on an organizationwide risk assessment that is aligned with the organization’s risk universe and takes into account its **risk appetite**.

Related IPPF Elements

Standards series:

- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work
- 2200 – Engagement Planning
- 2400 – Communicating Results
- 2600 – Communicating the Acceptance of Risks

To devise an appropriate strategy for assessing the organization’s governance, risk management, and **control processes**, the CAE typically considers the organization’s culture and its level of risk management maturity. To gather information, the CAE may meet with the individuals responsible for maintaining the organization’s risk management framework. If the organization has adopted a particular framework (e.g., COSO internal control framework, COSO enterprise risk management framework, or ISO 31000, among others), the CAE may use it as a basis for assessing the risks associated with the organization’s risk management processes. Using an agreed-upon framework facilitates a common language among internal auditors and the organization’s personnel. It also provides structure for relating the organization’s objectives to the internal audit plan.

The internal audit activity should spend the bulk of its time focused on the risks and controls that are most impactful to the organization’s ability to achieve its objectives. While this may include providing assurance over compliance in an area, the most significant risks to the area’s objectives often go beyond just the fulfillment of regulatory requirements. Thus, providing risk-based assurance typically requires including engagements with scope and objectives to evaluate such considerations as whether the area’s objectives are aligned with those of the organization and how the area creates value for the organization. Furthermore, to ensure proper coverage and minimize duplication of efforts, the CAE should share information and coordinate with other providers of assurance and consulting services and should consider relying upon their work (Standard 2050 – Coordination and Reliance).

To be truly responsive to emerging risks or changes in the organization’s risk profile, the internal audit plan also must be flexible and adaptable, allowing new risks, once identified, to be quickly incorporated. To compete, businesses are under constant pressure to innovate, grow into adjacent markets and new geographies, and adapt their business models. As risk universes change and expand, it is important that the internal audit activity’s assurance efforts are proactive. Too often,



the nature of internal audit processes leaves them locked into past events and losing sight of the most immediate risks affecting the objectives of the organization. If this is the case, then the board and the CAE should address the assurance gap.

Consequences of not demonstrating Core Principle 8: If the internal audit activity fails to produce risk-based assurance, its management or the board will not have independent validation that its controls are designed properly and working as expected to mitigate risks.

The first column in Figure 8 provides examples that help demonstrate Core Principle 8: Provides risk-based assurance. The second column gives examples of key indicators to help gauge how well the internal audit activity has demonstrated the core principle.

Figure 8. Examples for Core Principle 8: Provides risk-based assurance.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<ul style="list-style-type: none"> ■ Internal audit mandate includes assurance that key risks are being managed or that action plans are in place to address those risks. ■ Internal audit planning is aligned with top organizational risk universe and risk appetite. ■ CAE discusses with senior management and the board the provision of assurance over key risks not covered by the internal audit activity. ■ Internal audit plan is flexible and adapts to changing risks. ■ Internal audit interfaces with the risk management function/framework, if one exists, and assesses the effectiveness of risk management. ■ Each engagement's scope and objectives are customized to address the significant organizational and strategic risks most relevant to the engagement. ■ Reporting of results are linked back to top organizational and strategic risks. 	<ul style="list-style-type: none"> ■ Percentage of highly significant risks covered by internal audit plan. ■ Percentage of emerging risks identified by the business that are included in the internal audit plan. ■ Percentage of internal audit observations that can be linked back to significant organizational risks. ■ Engagement-level risk assessment demonstrates that each individual engagement is targeted to identify and test the effectiveness of controls that address the most important risks.

Core Principle 9: Is insightful, proactive, and future-focused.

Historically, internal auditors often looked at past activities to provide assurance on whether the organization complied with policies, procedures, and regulatory requirements. The limitation of this approach is that even though internal audit found gaps in procedures, the activities are already complete. They cannot be changed, and the effect of the risk occurrence on the organization (if applicable) has already been absorbed. The only way evaluating past actions is useful is if those observations and findings are analyzed for root causes and form the basis for recommendations for improvement in the future.

Related IPPF Elements

Standards series:

2000 – Managing the Internal Audit Activity

2100 – Nature of Work

Insightful internal auditors should clearly identify and explain the potential impact of identified risks and should analyze the information they have gathered to find root causes. Taking the time to perform these additional steps will allow the organization to avoid repeat findings and improve performance. Root cause analysis may be conducive to the use of data analytics and other cutting-edge analysis techniques that, when integrated into the internal audit activity's work processes and observations, demonstrate its commitment to being proactive and up to date with evolving audit techniques.

In addition to diving deep into findings to discover root causes, internal audit engagements should go beyond the organization's immediate strategic plan and consider how emerging risks may affect the organization and/or the process under review. The CAE should guide the internal audit activity to actively pursue information regarding emerging risks, including those arising from external sources such as in the organization's industry or market sector, its competitors, and the geographical locations and regulatory jurisdictions within which it operates. Ideally, the internal audit activity may use these new insights to expand its organizationwide risk assessment and alert management and the board to new or changing risks.

Another way the internal audit activity may demonstrate this core principle is by leading or coordinating workshops about current events and emerging future trends that could affect various business areas, risks that may be introduced by those trends, and potential impacts of those risks. Examples include technological and geopolitical changes in a region where the organization operates, or cybersecurity breaches or regulatory failures experienced by other organizations. Such workshops enable management to brainstorm and exchange information about risks and controls.

Internal auditors can also be future-focused within their organizations. Consulting engagements performed in early stages of organizational planning, before new strategies are pursued and new processes become operational, allow internal auditors to help management identify potential risks



and recommend controls that can be integrated into the process design. Internal audit observations and recommendations shared with management early in a new process may initiate discussion with management regarding the strategies, risks, and controls that will help the process achieve its objectives.

As internal auditors become more ingrained in process or product development activities, they may be able to assist management by assessing the inherent risks to strategies under consideration. Such communication enhances future-focused strategy setting and risk management, builds trust, and facilitates management's willingness to disclose its concerns to internal auditors so internal audit's efforts can be directed more precisely.

Finally, surveys and interviews may be useful tools for internal auditors pursuing this core principle to gauge whether stakeholders recognize the internal audit activity's contributions as insightful, proactive, and future-focused.

Consequences of not demonstrating Core Principle 9: If the internal audit activity is not insightful, proactive, and future-focused, it is likely to miss emerging risks and the value it adds will be limited. By missing emerging risks, the internal audit activity leaves the organization exposed to risks for which it could have been prepared. Again, management and the board are likely to lose confidence in the internal audit activity as being unable to fulfill its role as a strategic partner.

The first column in Figure 9 provides examples of enablers or actions that the CAE and internal auditors may take to demonstrate Core Principle 9: Is insightful, proactive, and future-focused. The second column gives examples of key indicators, or measurable ways to help gauge how well the core principle has been demonstrated.

Figure 9. Examples for Core Principle 9: Is insightful, proactive, and future-focused.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<ul style="list-style-type: none"> ■ Internal auditors obtain training and education about emerging issues, data analytics, and technology. ■ CAE maintains a multiyear strategy/strategic plan for the internal audit activity; aligned to the organizational strategy, and developed with a defined vision, objectives, and clear measures of success; and updates regularly. ■ A structure exists to encourage active, two-way communication with stakeholders (receiving and delivering information). ■ Systematic issues and/or trends in risk or controls are identified. ■ Thematic audits are featured in internal audit plans. ■ Engagement process allows management to self-disclose issues to better focus audit efforts. ■ Data analytics are deployed throughout the various phases of the audit life cycle to identify risks and root causes. ■ Internal audit plan addresses risks to strategic objectives. ■ Internal audit supports ongoing monitoring of external and atypical risks that could impact the organization, and assesses readiness/preparedness. ■ Timing of assurance is designed with best value objective (i.e., not auditing the past). ■ Internal audit observations highlight the risk/impact of observations raised. ■ Permanent part of the engagement report template is dedicated to the identification of emerging risks relevant to the area or process under review (e.g., artificial intelligence, new regulations). ■ Incorporates use of control maturity models where appropriate to provide perspective on the adequacy and scalability of current controls. 	<ul style="list-style-type: none"> ■ Feedback from board and management surveys or interviews indicates that internal audit activity is insightful, proactive, and future-focused. ■ Percentage of engagements where technology and/or data analytics are used. ■ Extent of data analytics usage across the audit life cycle. ■ Percentage of previously unknown issues/risks identified per engagement. ■ Percentage of audit observations with forward-looking analysis and issue framing. ■ Resources devoted to training internal auditors for future readiness. ■ Number of awareness sessions conducted/coordinated by internal audit activity on how emerging issues/technologies can impact various business areas. ■ Can demonstrate ongoing consideration of current events and/or emerging trends that may directly/indirectly impact business.

Core Principle 10: Promotes organizational improvement.

This core principle captures the internal audit activity's value proposition to the organization. The Definition of Internal Auditing states that the internal audit activity is designed to improve an organization's operations and to help it to accomplish its objectives. Standard 2100 further communicates the notion that the very nature of internal audit work is to evaluate and contribute to the improvement of the organization's governance, risk management, and control processes. The *Standards* provide the systematic, disciplined, and risk-based approach to achieve these internal audit objectives. The purpose, authority, and responsibility of the internal audit activity should align with these statements and be recognized formally in the internal audit charter.

Related IPPF Elements

Standards series:

- 1000 – Purpose, Authority, and Responsibility
- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work
- 2500 – Monitoring Progress
- 2600 – Communicating the Acceptance of Risks

Several of the CAE's management responsibilities prepare the internal audit activity to promote organizational improvement. One such responsibility is preliminary communication with senior management and the board to understand the organization's strategies and business objectives and to assess its risk management, control, and governance processes. Also, per Standard 2050 – Coordination and Reliance, the CAE should coordinate with other providers of assurance and consulting services to maximize efficiency in providing assurance over the organization's highest priority risks.

In individual engagements, internal auditors promote organizational improvement by recognizing where efficiencies and value may be increased and then communicating relevant observations and recommendations in a way that addresses risks and root causes. Efficiencies and value gained can be tracked as cost savings and increased revenue attributable to the implementation of internal audit recommendations. Indicators of internal audit effectiveness include the timeliness with which internal auditors follow up and close observations, the percentage of internal audit recommendations implemented by management, and internal audit actions taken to escalate unresolved issues when needed. Additionally, internal auditors may demonstrate that they have performed consulting engagements to share best practices across the organization, tailoring them to individual areas and processes.

To add value, the internal audit activity should report on the organization comprehensively, considering its strategies, objectives, unique business concerns, and operational processes. Communications should be tailored to the audience receiving them. Further, the internal audit



activity may promote organizational improvements through benchmarking, sharing best practices, and helping the organization customize a pragmatic approach to governance, risk management, and control.

If the internal audit activity is implementing this core principle, management will consider the internal audit activity to be a business partner and a trusted advisor that helps it to achieve its objectives. Evidence of this relationship includes management proactively reaching out to the internal audit activity to request services. Additionally, stakeholder surveys issued by the internal audit activity may measure whether management finds value in a collaborative partnership with the internal audit activity.

Consequences of not demonstrating Core Principle 10: If the internal audit activity does not promote organizational improvement, the value it adds may be limited. Although the internal audit activity may provide assurance, it may fail to provide consulting/advisory services and may miss opportunities to recommend ways the organization could increase efficiency or streamline the provision of assurance services, ultimately conserving resources and reducing costs. The internal audit activity may also fail to identify root causes, thus leaving the organization open to risks that could have been mitigated. Management and the board may begin to believe that the resources allocated to the internal audit activity are not worth the value produced and may begin to reduce the resources and scope of engagements, further weakening the internal audit activity. Eventually, this results in a loss of confidence in internal audit's work.

The first column in Figure 10 lists examples of actions that the CAE and internal auditors may take to demonstrate Core Principle 10: Promotes organizational improvement. The second column gives examples of key indicators to help gauge how well the internal audit activity has demonstrated the core principle.

Figure 10. Examples for Core Principle 10: Promotes organizational improvement.

Enablers	Key Indicators
What should be done to operationalize this principle?	How do we know that we've been successful?
<ul style="list-style-type: none"> ■ Internal audit's work program makes recommendations to improve the organization's governance. ■ Closure of audit observations is carefully tracked, validated, and escalated based on risk. ■ Appropriate coordination takes place with other assurance providers to streamline assurance activities across the three lines of defense. (Assurance maps define risk owners and assurance providers). ■ Reports focus on and address root causes of issues. ■ Best practices, insights, and control/risk trends are shared with the business and across business units. ■ Internal audit's plan includes consulting (advisory) engagements and reserves a reasonable percentage of the plan to accommodate management requests during the year. ■ Internal audit activity is invested in business knowledge through industry training, hands-on training in the business, etc. ■ Internal audit activity identifies opportunities to promote organizational efficiency and increase organizational value. 	<ul style="list-style-type: none"> ■ Percentage of consulting (advisory) engagements included in internal audit plan. ■ Percentage of internal audit recommendations that are implemented within agreed timelines. ■ Number of management requests received per year. ■ Number of best practices shared with the business and implemented (outside regular audit engagement cycle). ■ Key stakeholders perceive internal audit to be a business partner and advisor who helps management achieve its objectives in a controlled manner. ■ Cost savings achieved/identified. ■ Percentage or number of initial assessments, pre-implementations, and midpoint project check-ins by the internal audit activity related to business initiatives, transformations in processes, systems, external environment, etc.

Appendix A. Relevant IIA Guidance

The following IIA resources may provide further assistance implementing the suggestions in this practice guide. More information about applying The IIA's Code of Ethics and the *International Standards for the Professional Practice of Internal Auditing* may be found in The IIA's [Implementation Guides](#).

Guidance

Practice Guide "Assisting Small Internal Audit Activities in Implementing the *International Standards for the Professional Practice of Internal Auditing*," 2011.

Practice Guide "Chief Audit Executives – Appointment, Performance, Evaluation and Termination," 2010.

Practice Guide "Developing the Internal Audit Strategic Plan," 2012.

Practice Guide "Quality Assurance and Improvement Program," 2012.

Practice Guide "Formulating and Expressing Internal Audit Opinions," 2009.

Practice Guide "Talent Management," 2015.

Supplemental Guidance "Model Internal Audit Activity Charter," 2017.

Appendix B. Glossary

Definitions are from the “Glossary” of *The IIA’s International Professional Practices Framework*[®], 2017 edition.

add value – The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

board – The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization’s activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word “board” in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, “board” in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

chief audit executive – Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

Code of Ethics – The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

conflict of interest – Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual’s ability to perform his or her duties and responsibilities objectively.

consulting services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

control environment – The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management’s philosophy and operating style.



- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

control processes – The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Core Principles for the Professional Practice of Internal Auditing – The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

engagement opinion – The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

governance – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

independence – The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

impairment – Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

internal audit activity – A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization’s operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

must – The *Standards* use the word “must” to specify an unconditional requirement.

objectivity – 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. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

risk appetite – The level of risk that an organization is willing to accept.

risk management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.

Appendix C. Core Principles Assessment and Communication Tool

Below is an example of a tool that may be used to communicate how the internal audit activity demonstrates the Core Principles. CAEs may use the example to develop their own tool for self-assessment of the internal audit activity. It provides a visual presentation that communicates to stakeholders the primary purpose, value, and nature of the internal audit activity. While all internal audit activities should demonstrate the Core Principles, the tool should be customized because key indicators vary from one environment to another. Exhibiting every key indicator shown below is not necessary for an internal audit activity to sufficiently demonstrate the Core Principles. While each principle appears in its own section in this appendix, all 10 sections comprise the complete self-assessment tool and should be used together to indicate the internal audit activity's demonstration of the Core Principles.

Core Principles Assessment and Communication Tool

Principle 1. Demonstrates integrity.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> ■ Internal auditors have not violated The IIA Code of Ethics or the organization's code of conduct/ethics. ■ Feedback from internal auditors indicates that the department operates with integrity and that concerns raised are addressed. ■ Feedback from senior management and areas under review indicates that the internal audit activity demonstrates integrity. ■ Internal audit activity has completed ethics-related CPE requirements appropriate to their certification, industry, and role. 	●		

Legend: ● Does not demonstrate. ● Partially demonstrates. ● Demonstrates.

Core Principles Assessment and Communication Tool (continued)

Principle 2. Demonstrates competence and due professional care.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<p>Competence</p> <ul style="list-style-type: none"> In-house auditors and/or cosourced providers fulfill all identified skills required to audit key risks. All or a majority of internal auditors have undergone 40+ hours of training annually. All or a majority of internal auditors hold CIA certifications. <p>Due Professional Care</p> <ul style="list-style-type: none"> Internal auditors are able to achieve agreement with management on internal audit reports, or disagreements are highlighted in the report. Final reports are issued accurately, with no cases of major errors or omissions being identified later. Internal audit management has performed oversight and review of engagement process, results, and workpapers. The organization cannot identify cases of internal audit's failure to detect major issues. Internal audit activity reports on open observations and escalates any delayed closure of significant risks. 	●		

Legend: ● Does not demonstrate. ● Partially demonstrates. ● Demonstrates.

Core Principles Assessment and Communication Tool (continued)

Principle 3. Is objective and free from undue influence (independent).			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<p>Objectivity</p> <ul style="list-style-type: none"> Feedback from management in audited areas indicates that internal auditors appear impartial and objective. Internal auditors (and any assurance providers upon which they rely) have completed forms disclosing any potential conflicts of interest or acknowledging freedom from such conflicts. Conclusions and opinions show that internal auditors report known material facts. QAIP affirms that conclusions and opinions are reliable and supported with facts. <p>Independence/Freedom from Undue Influence</p> <ul style="list-style-type: none"> Board reviews CAE performance and approves appointment, compensation, and termination. Inhibitors/restrictions to scope of internal audit work are infrequent (e.g. access, major delays). The CAE and the board meet regularly (e.g., quarterly or at least annually) without management present. 	●		
Principle 4. Aligns with the strategies, objectives, and risks of the organization.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> Stakeholder feedback indicates that the internal audit activity operates in alignment with stakeholder priorities. CAE attends strategy discussions. Internal audit plan clearly designates a portion to cover strategic projects and/or initiatives. Strategic risks are identified in the internal audit plan. Organization's strategic planning is assessed. CAE's resource plan aligns with the organization's key risks (e.g., type of skill, location). 	●	Assess the organization's strategic planning process.	

Legend: ● Does not demonstrate. ● Partially demonstrates. ● Demonstrates.



Core Principles Assessment and Communication Tool (continued)

Principle 5. Is appropriately positioned and adequately resourced.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<p>Position</p> <ul style="list-style-type: none"> CAE is viewed as part of leadership and participates at key management, board, project management, and functional leadership meetings. The CAE is positioned in a way that enables appropriate challenge to management when required and ensures engagement results are given due consideration. <p>Resourcing</p> <ul style="list-style-type: none"> CAE is able to schedule the resources needed to achieve the internal audit plan. Few if any engagements are dropped from the internal audit plan due to resource limitations. Internal audit plan is flexible enough to respond to emerging risks and stakeholder requests. Appropriate percentage of work hours in internal audit plan are allocated to administrative activities and performing engagement activities. Internal audit plan is able to sufficiently cover high-risk areas and processes. 	●		
Principle 6. Demonstrates quality and continuous improvement.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> Internal assessments include ongoing monitoring of internal audit performance and periodic self-assessments or assessments by others within the organization sufficiently knowledgeable about internal auditing and the IPPF. External assessments occur at least once every 5 years results indicate "general conformance" with IIA <i>Standards</i> and Code of Ethics. Internal and external assessments indicate overall improvement as compared to prior assessments. Senior management and the board receive the results of the QAIP. Internal audit activity has an action plan and addresses/closes QAIP action items timely. 	●	Schedule full external assessment to be performed by an independent evaluator as part of QAIP.	

Legend: ● Does not demonstrate. ● Partially demonstrates. ● Demonstrates.



Core Principles Assessment and Communication Tool (continued)

Principle 7. Communicates effectively.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> Internal audit reports are aligned with engagement scope and objectives. No cases of major reporting errors or omissions are identified after final reports are issued. Internal audit activity promotes its awareness of its work via live sessions and newsletter, intranet, social media posts or pages, etc. Draft and final reports are issued timely after fieldwork ends. Internal auditors have not been implicated in cases of inappropriate disclosure of confidential data. 	●		
Principle 8. Provides risk-based assurance.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> Internal audit plan addresses highly significant risks. Emerging risks identified by business lines are included in the internal audit plan. Internal audit observations can be linked back to significant organizational risks. Individual engagement objectives target the effectiveness of controls over the most important risks. 	●	Assess the organization's risk management process.	
Principle 9. Is insightful, proactive, and future-focused.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> Feedback from board and management indicates that internal audit activity is insightful, proactive, and future-focused. Technology and/or data analytics are used effectively in engagements. Internal auditors identify previously unknown issues/risks. Audit observations involve forward-looking analyses and issue framing. Internal auditors attend trainings on emerging risks, technology, etc. Internal audit activity brings attention of senior management and board to current events, trends, and emerging risks that may impact business areas. 	●		

Legend: ● Does not demonstrate. ● Partially demonstrates. ● Demonstrates.



Core Principles Assessment and Communication Tool (continued)

Principle 10. Promotes organizational improvement.			
Key Indicators	Assessment	Corrective Action Plan	Due Date
<ul style="list-style-type: none"> ■ Consulting/advisory engagements are included in internal audit plan. ■ The majority of internal audit recommendations are implemented within agreed timelines. ■ Management and board view internal audit activity as business partner and advisor, evidenced by regular requests for internal audit engagements. ■ Internal audit activity shares best practices that business units implement. ■ Internal audit activity is able to identify the cost savings it helps the organization achieve. ■ Internal audit activity is consulted about business initiatives and process and system transformations during initial assessments and pre-implementations. 	●		

Legend: ● Does not demonstrate. ● Partially demonstrates. ● Demonstrates.

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