COMMENTARY

Comments by the Auditing Standards Committee of the Auditing Section of the American Accounting Association on The Institute of Internal Auditors' *Proposed Enhancements to the International Professional Practices Framework (IPPF)*

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SUMMARY: According to the IIA, "The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors." The IPPF includes overarching principles and standards of internal audit practice (e.g., the definition of internal audit, the code of ethics, the standards), as well as detailed guidance for carrying out specific activities (e.g., practice advisories). The IPPF is currently organized to differentiate between mandatory guidance and strongly recommended guidance for internal auditors as they carry out the responsibilities of the profession.

On August 4, 2014 the Institute of Internal Auditors (IIA) solicited public comments on its proposed enhancements to the International Professional Practices Framework (IPPF). This "relook" is intended to modify the existing structure of the IPPF so that it (1) "benefits IIA members, the internal audit profession as a whole, and its stakeholders," and (2) strengthens "the IPPF's ongoing relevance for the foreseeable future." The comment period ended November 3, 2014.

Data Availability: The exposure draft of the proposed enhancements to the IPPF is available at: https://na.theiia.org/standards-guidance/Pages/IPPF-Exposure-Draft-for-Proposed-Modifications.aspx

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The views expressed in this paper are those of the authors and do not reflect an official position of the AAA or the Auditing Section.

GENERAL COMMENTS REGARDING THE *PROPOSED ENHANCEMENTS TO THE IPPF*

The *Proposed Enhancements to the International Professional Practices Framework* (IPPF®) represent the third restructuring of internal audit professional guidance since the issuance of the original *Standards for the Professional Practice of Internal Auditing* in 1978. The first restructuring was completed in 2003 and represented a major revision to the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards), including the organizational structure of the Standards themselves, the addition of *Practice Advisories,* and the *Definition of Internal Auditing*. A second restructuring took place in 2009 and represents the current framework and includes a modification of the format of the Standards by expanding the amount of interpretive verbiage and adding new elements in the *Practice Guides* and *Position Papers*. Five years later yet another restructuring was proposed in 2014.

While continuous improvement is certainly desirable, change comes with a cost. Internal audit professionals and internal audit activities have had to make a number of adaptations in the past few years—a new revision of the COSO framework, a multitude of more complex regulations and, now, a change in framework for internal audit guidance. This seems overwhelming to the individual practitioner who constantly is pushed by his/her employing organization to increase day-to-day productivity. For those in audit education, the proliferation of professional standards has also become overwhelming with three sets of financial auditing standards, government auditing standards, a revised COSO and, now, a changing set of internal audit standards. The question that we hope the task force has asked is whether the proposed changes are worth the cost of implementation. Particularly, what are the anticipated benefits expected to be obtained in internal audit practice by the proposed change?

Standard setters for accounting and external auditing standards are currently struggling with the issue of cost versus benefit. While a complete quantified cost/benefit analysis is very difficult to conduct for auditing standards, there does seem to be some consensus as to an approach for conducting such an analysis (Burns and Fogarty 2010; FASB 2014; G. Meeks and J. Meeks 2001; Schipper 2010).

The following presents a number of specific comments or suggestions, organized by the questions posed by in the *Proposed Enhancements to the International Professional Practices Framework* (IPPF). For each question we also provide a numerical rating, on a scale from 1–5, to describe the extent to which we agree with (or support) each proposed change to the IPPF.

RESPONSES TO SPECIFIC QUESTIONS REGARDING THE *PROPOSED ENHANCEMENTS TO THE IPPF*

For each question, the IIA asked commenters to indicate their agreement with or support of proposed changes using a five-point Likert scale, where a rating of 5 indicates complete agreement (support) and 1 represents no agreement (support) (the Likert scale ratings are indicated within brackets). We also provided the following detailed comments to the IIA.

1.1 To what extent do you support the addition of a Mission of Internal Auditing to the IPPF? [3]

The IIA proposes to add a mission statement to the IPPF. The mission statement, "To enhance and protect organizational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight," succinctly expresses the key components of the definition

of internal auditing. The proposed mission statement has an aspirational tone, as is generally the style of organizational mission statements. We believe that the addition of a mission statement to the IPPF has some merit—especially as a tool for communicating the purpose and goals of internal auditing to external stakeholders. However, we also believe that there may be some limitations to its effectiveness as a tool for inspiring commitment and professional identification of internal auditors themselves.

The academic literature suggests that the purpose of mission statements is to communicate the product and objectives of the organization (Bartkus, Glassman, and McAfee 2000). The content of the mission statement should describe the scope of operations, core values, guiding principles, and priorities (Drohan 1999). As a result, the mission statement communicates the identity of the organization and describes its purpose, focus, and direction (Drohan 1999). Additionally, when implemented effectively, (corporate) mission statements can be used to inspire employees to work toward the shared goals of the organization (Williams 2008), inspire employee commitment (Swales and Rogers 1995), and guide strategic decision making (Drohan 1999). Mission statements generally address many different stakeholders including employees, management, customers, etc. (Williams 2008). However, Bartkus et al. (2000) warn against organizations using the mission statement as much more than a communication tool.

There has been some debate in the academic literature about whether mission statements are effective and meaningful communication tools, or simply empty platitudes, especially within the organization (Fairhurst, Jordan, and Neuwirth 1997). Fairhurst et al. (1997) summarize the prior research that investigates the factors that might improve the usefulness of mission statements and conclude that there are two overarching problems. First, mission statements are not communicated frequently enough (Kotter 1995). By not communicating the mission repeatedly and as a part of day-to-day operations, employees perceive it to be empty. Further, without frequent communication of the specific message, employees may reinterpret, or misinterpret the statement when convenient. Thus, without sufficiently frequent communication of the mission, the organizational identity that it is meant to engender cannot take hold (Fairhurst et al. 1997).

Second, the manner with which the mission is communicated can impact the extent to which it is taken seriously. Leaders must communicate the mission in such a way that it becomes personally meaningful to the stakeholders who must implement it (e.g., employees). Stakeholders need to understand how their day-to-day activities are linked to the organizational goals expressed in the mission statement (Barge, Downs, and Johnson 1989). Fairhurst et al. (1997, 246) conclude that the communication about the mission statement is a function of "the organizational information environment, work unit commitment, trust in different levels of management, and organizational role."

In general, mission statements are used by *organizations* to convey a message, internally and externally, about what they do and what they strive to do. It is uncommon, however, for a *profession,* such as internal auditing, to have a mission statement and the potential communication pitfalls described by Fairhurst et al. (1997) may provide insight into why it is difficult for professions to embrace a shared mission. For example, the specific day-to-day activities of internal auditors may vary quite widely across organizations, making it more difficult to effectively communicate the linkages between their tasks and the mission statement developed by the IIA. Similarly, with the naturally decentralized "management" that exists across the profession, the extent to which the message is meaningfully conveyed will vary widely. Further, internal auditors are likely to operate under the mission statement of their organization, which may communicate a different set of goals and priorities and may be

communicated more directly and effectively. This may make it more difficult for internal auditors to fully internalize the mission statement developed by the IIA.

Thus, if the IIA intends for the proposed mission statement to engender a shared identity among practicing internal auditors, it needs to carefully consider how the mission statement is communicated throughout the profession. There must be a consistent and frequently shared message. Otherwise, the mission statement may simply be perceived as a trivial statement that adorns the cover of glossy marketing materials.

That said, there are several examples of professional "mottos" that are easily recallable by external stakeholders. The medical profession's use of the Hippocratic Oath, which serves as a guiding principle for practice, and the motto "To serve and protect," often adopted by police officers, are two notable examples. Whether these mottos are still formally associated with their respective professions can be debated, but they have been effectively communicated *externally* and therefore provide an important benefit to the profession. These mottos allow external stakeholders to easily understand the purpose and goals of the profession and, presumably, communicate a positive image to the public. To the extent that the mission statement for the profession of internal auditing is used to communicate the purpose, scope, and goal of internal auditing to external stakeholders, it has the potential to be a useful tool.

1.2 To what extent do you agree that the proposed Mission of Internal Auditing captures what internal audit strives and/or aspires to accomplish in organizations? [4]

The proposed Mission of Internal Auditing appears to succinctly communicate the same message as contained within the Definition of Internal Auditing. As a result, it captures the scope, purpose, and goals of the internal auditing profession. However, we have a few questions related to the specific wording of the mission statement that should be addressed.

While the concept of "risk-based, objective and reliable assurance" makes sense, it is not clear how the adjectives "risk-based," "objective," and "reliable" modify the nouns "advice" and "insight." Is the intent of the statement to say that internal audit provides stakeholders the following three things:

- Risk-based, objective and reliable assurance
- Risk-based, objective and reliable advice
- Risk-based, objective and reliable insight

Or is the intent to say that internal audit provides stakeholders the following three things:

- Risk-based, objective and reliable assurance
- Advice
- Insight

We assume it is the former. If that is the case we question what is meant by risk-based advice and risk-based insight. It seems clear that advice and insight can be objective and reliable, but are they really risk-based? This raises several concerns. First, we do not know what is meant by risk-based advice and risk-based insight. Second, being risk-based may too restrictive, internal audit may add value by providing advice and insight that is not risk-based (although it would still need to be objective and reliable for it to have value).

2.1 To what extent do you support adding Core Principles for the Professional Practice of Internal Auditing as an element of the IPPF? [3]

Ultimately, the Core Principles provide clarity to the Standards by giving a higher-level, principle-based structure about what is necessary to provide effective internal audit services. However, they add another layer to an already complex guidance framework, which may not be warranted. As we suggested in our introduction, it is not clear that the benefits of this addition exceed the costs.

In particular, we believe there are significant costs to adding this layer of guidance to the IPPF, in part because it did not precede the development of the standards, which would have been more logical, but rather has been created to describe the existing standards. These costs would be of three types:

(1) Cost to practitioners and audit activities:

Audit activities base their own policies and procedures on the IPPF. Changes to the IPPF require internal audit activities to redo their policy and procedure documentation. Further, it could potentially change the cost of quality assurance reviews. For example, in a quality assurance review, will an internal audit department be required to demonstrate how it achieves each of the Core Principles? Or, is merely adhering to the Standards of Professional Practice sufficient to demonstrate achievement of the Core Principles? If the latter is the case, then do the Core Principles really add significant value?

(2) Cost to the profession:

As a profession we are suffering from "guidance overload." Organizations must adhere to various accounting standards (e.g., GAAP, AICPA), regulatory requirements (e.g., SOX, PCAOB), control guidance (e.g., COSO, COBIT), etc. With so much guidance, much of which is mandated, internal auditors may not have the capacity (resource or cognitive) to embrace a new, or amended, version of the standards that support the principles.

(3) Cost to the IIA:

Significant resources would be required to update IIA publications, examination study material, and the professional examinations themselves. Websites would also require revision, not only the IIA Global site, but also the sites of each Institute. Training courses and training material would also need to be updated.

2.2 Do you agree with the three "input-related" Principles as proposed? [3]

There is no question that these three Principles are fundamental to an effective internal audit and that integrity, objectivity, and competence are critical inputs. However, the notion of sufficient effort (as captured in the Standards under the concept of due care) is missing.

Further, we suggest moving Principle 6 (Adequate Resources) to this category and expanding Principle 6 to not only include that the internal audit activity has sufficient resources, but also that the resources are appropriately applied.

2.3 Do you agree with the six "process-related" Principles as proposed? [2]

We do not disagree with the six Principles in this category—they are indeed necessary for providing effective internal audit services. However, the category itself seems to be conceptually weak as an organizing construct. First, it is not clear how some of these principles relate to process (such as Principle 4). Second, some principles would be more appropriate in other categories (such as Principle 6, which we would argue fits better as a principle related to inputs).

If process is an important construct, we are also not sure that all the principles regarding process have been identified. Are there other characteristics of the process that must be present for effective internal audit services? In the Definition of Internal Auditing, it states the process is to be a "systematic, disciplined approach." Are there no principles involved in the "systematic, disciplined approach?"

Another fundamental concept that seems to be missing is the role of evidence. The proposed mission statement says internal audit products are risk-based, but are they not also evidence-based?

2.4 Do you agree with the three "output-related" Principles as proposed? [3]

We believe that a better name for the category would be "outcome" rather than output. Principles 10, 11, and 12 are not really direct products of the process, but are the outcomes that result from these products.

We agree with the Principles themselves. However, there could be better links to "advice" and "insight," which are the two other products mentioned in the mission.

2.5 Do you agree with the order of the 12 Principles as proposed? [1]

The issues we note in response to questions 2.2, 2.3, and 2.4 suggest that the "input-process-outcome" structure is a stretch and may not be worth the effort to force the Principles into this organizational construct. There does not seem to be any fundamental basis for this organization. The "input-process-output" structure does not seem to have driven the development of the Principles or add any particular insight.

Among the categories, two of the Principles seem to us to be misplaced. In particular, we think that Principle 6, regarding adequate resources, might be better placed in the input category. We also do not see the direct link to process for Principle 4, regarding the position of IA within the organization. While we are not sure Principle 4 belongs in the input category either, we do agree it is an important Principle.

2.6 To what extent do you agree with the view that all Principles must be "present and operating effectively" for an internal audit function to be considered effective? [2]

We are not completely convinced that all Principles must be "present and operating effectively" for an internal audit function to be considered effective, but we would agree with the statement that the majority of these Principles need to be present and operating effectively for an effective internal audit function. We acknowledge, however, that we are hesitant to identify which Principles may not be needed for an effective internal audit function, as we suspect this would vary depending upon circumstances.

Further, we are not convinced that the current set of proposed Core Principles is exhaustive. As we have noted previously, we think principles related to due care and evidence are needed.

We note that, from an educator's perspective, these Principles would be helpful when discussing the internal audit function with our students.

2.7 Do you agree that the Principles, if adopted, would require guidance to help demonstrate to practitioners what the Principles might look like in practice? [5]

One question often raised when discussing standards is: Are they principle-based or rule-based? For example, the U.S. accounting community has been debating whether their standards should be rule-based versus principle-based for several years. Concerns that overly complex rules

and bright-line tests contained within rules-based standards create opportunities for executives to manage earnings and engage in other opportunistic behavior (Agoglia, Doupnik, and Tsakumis 2011). Further, external auditors are believed to focus on these rules in an effort to reduce their own risk when conducting audits (PCAOB 2007). In comparison, principles-based standards could lead to higher-quality financial reporting because they would prevent executives from exploiting the gaps existing within the rules-based standards. Of course, others believe that principles-based standards could lead to *greater* manipulation of financial results and reduced comparability across organizations (Agoglia et al. 2011). Burns and Fogarty (2010) provide an insightful discussion on the tradeoff between principle-based versus rule-based auditing standards.

What is clear is that the benefits accrued from adopting a principles-based system, such as requiring auditor judgment focused on the underlying transaction, not just the rules, are most effective if the standards are supported by underlying guidance. For the principles proposed as a change to the IPPF, that guidance would naturally be the existing *Standards for the Professional Practice of Internal Auditing*.

> 3.1 To what extent do you support the restructure of guidance elements from "Practice Advisories" to a more comprehensive layer entitled "Implementation Guidance" as part of the framework? [5]

We agree with this proposed change. The Practice Advisories have lost much of their use since the changes to the IPPF in 2010 when the Standards were restructured to include "interpretations." That change made a number of the practice advisories inconsequential. We believe it would be a significant improvement if the IPPF used the proposed "Implementation Guidance" to provide a clear focus on how the Standards are to be implemented and omit those (current) practice advisories that are focused on interpretation or clarification of the Standards.

We note that there have been several recent practice advisories that are more in this implementation vain, such as PA 2050-2, *Assurance Mapping;* PA 2320-2, *Root Cause Analysis;* and PA 2320-3, *Audit Sampling*. These practice advisories could serve as examples for future implementation guidance as they provide practical content for practitioners.

> 3.2 To what extent do you support the restructure of guidance elements from "Practice Guides" to "Supplemental Guidance" as part of the framework? [5]

We also support this change. The number and length of the practice guides are overwhelming for guidance purposes. They certainly have valuable content, but we believe that they contribute to the feeling that we are overwhelmed by guidance. One benefit of restructuring this guidance is that it becomes clear that internal audit functions are not required to follow this guidance to be in compliance with the required elements of the IPPF.

> 4.1 To what extent do you support the introduction of a new IPPF element to address emerging issues? [3]

Given the IIA's initiative to influence the internal audit profession, a new IPPF element addressing emerging issues is appropriate. The speed with which the business world is changing results in many new and unexpected risks, and guidance from the IIA should help its members navigate these changes effectively.

However, we point out that the IIA is an organization that depends upon volunteers to complete several key tasks, including the development of guidance. Thus, the proposal to add

"emerging issues guidance" might be both a blessing and a burden. On the positive side, the IIA will be able to tap into the collective knowledge of its member volunteers, who have may have already experienced these emerging issues, to quickly develop helpful guidance. The input of these professionals will be invaluable and the IIA can promote a useful dialogue among its members, who highly value the ability to discuss and provide input into emerging issues. However, in contrast, *because of* the reliance on volunteers, depending upon the interest level of the members, and/or the experience and expertise of the committee charged with developing the emerging issues guidance, this guidance may be incomplete, insufficiently responsive, or delayed. Further, this may become another task force for which IIA executives may have to spend considerable time recruiting and retaining productive volunteers. This process may be even further complicated by setting the expectation that the "emerging issues guidance" would be issued within a matter of weeks after identifying a potential pressing topic.

In sum, we support the initiative to provide quick and helpful guidance on emerging issues, however we believe the IIA needs to think carefully about the implementation of this initiative to ensure that it is effective. We also recommend strongly that the committee responsible for emerging issues communicates regularly and effectively with other IIA guidance committees such as the Standards Board, the Professional Issues Committee, and the Audit Executive Institute.

4.2 To what extent do you agree that Emerging Issues Guidance, due to its quicker development process, should be less authoritative than Supplemental Guidance as part of the framework? [5]

Assuming the Emerging Issues Guidance meets its tight issue date guideline (i.e., within weeks of identifying a potential pressing topic), then we agree that the Emerging Issues Guidance would be less authoritative than Supplemental Guidance. However, we warn that by having both Emerging Issues Guidance and Supplemental Guidance, members and the general public are tasked with the potential difficulty of understanding what each type of guidance is and how the two types differ.

5.1 To what extent do you support the deletion of "Position Papers" as an element of the IPPF? [5]

We support the deletion of the "Position Papers" as an element of the IPPF given that the intended audience for these papers is IA stakeholders and not internal auditors themselves. That said, the content contained within the position papers is relevant to internal auditors and should be revised to provide guidance directly to internal auditors and be included as supplemental guidance. In particular, the information contained within the position papers on "The three lines of defense in effective risk management and control," and "The role of internal auditing in enterprise-wide risk management" should be provided to internal auditors as supplemental guidance.

6.1 To what extent do you support revision of the words "Mandatory" and "Strongly Recommended" to "Required" and "Recommended," respectively? [5]

We agree that the change from "Mandatory" and "Strongly Recommended" to "Required" and "Recommended" is appropriate. We recognize that the term "mandatory" is often used when something is legally enforced, therefore the term "required' is more appropriate given that there is no legal authority compelling internal audit functions to abide by specific aspects of the IPPF. Replacing the term "strongly recommended" with "recommended" seems to more effectively

convey that following the guidance from these aspects of the IPPF is up to the discretion of the organization.

We do not foresee any reason why this new language would be problematic for U.S. users. However, we encourage the IIA to confirm that this change will not be misinterpreted when translated into other languages.

7.1 Overall, to what extent do you support the changes regarding the IPPF as detailed on the previous page? [3]

In general, we support most of the proposed changes to the IPPF. We believe that, on balance, the proposed additions of the Mission, Core Principles, and Emerging Guidance have merit and have the potential to make the IPPF more useful, despite some specific concerns that we described previously. In addition, we support the removal of the position papers and the restructuring of the practice advisories and practice guide, as well as the labeling of the guidance (in general) as "required" and "recommended."

That said, we have a few remaining concerns about the changes in general. First, the IPPF is moving from six components to eight components under the proposed change. As we have noted previously, we are not sure that the new components are really necessary or that the benefits of these additions outweigh the costs. For example, we note that the Core Principles add an extra layer of complexity, which may not result in improved compliance with the standards.

Second, we are concerned that internal auditors may be confused about how to use certain elements. For example, the differences between Implementation Guidance and Supplemental Guidance may not be immediately clear. Similarly, how are Internal Audit Activities expected to provide evidence of their compliance with the Core Principles? We encourage the IIA to carefully consider these costs and the potential for confusion before finalizing the revised IPPF. At the very least, careful explanation is needed to differentiate among several of the elements and to explain their intended uses.

7.2 To what extent do you agree that the pictorial representation adequately depicts the hierarchy and interrelationships of each element of the new proposed IPPF? [2]

The suggested pictorial representation of the IPPF contains all of the elements of the proposed IPPF, categorized as either required or recommended, and uses a circular shape similar to the previous version. However, we believe there are several weaknesses with this design that diminish its usefulness.

(1) The mission is represented as a ring that sits on top of the other elements of the IPPF. Based on supplementary materials (i.e., the recent IPPF video) provided by the IIA, which explained the concept behind the figure, the placement of the mission ring is intended to indicate that the mission is supported by all of the other elements of the IPPF. However, this is not effectively communicated by the two dimensional figure that readers will use.

Instead, from the figure it appears that the mission encircles the other elements of the IPPF, which suggests that the mission is an integral part of each IPPF element. We believe that this interpretation also makes sense and is consistent with the intention of the mission statement. However, given this interpretation, it is perplexing why the Core Principles are not also displayed as an integral part of each IPPF dimension. Thus, the current representation may lead to more questions than it answers.

(2) The recommended elements on the bottom of the sphere appear to be more important than the required elements shown at the top. In particular, the recommended elements are represented using larger bands than the required elements, which suggests that they are more important and given more weight. Further, because they are on the bottom and are more uniform in shape, it appears that the recommended elements are the foundations upon which the other elements rest, which is essentially the opposite of the intended message.

(3) One meaningful aspect that differentiates certain elements of the IPPF is the "permanent" versus "evolving" nature of the guidance. While the required elements of the IPPF are essentially "complete," the recommended elements continue to grow and evolve as new internal audit practices develop, risks emerge, etc. It would be informative to users of this summary if the picture could represent this difference as well. The current illustration does not convey this message.

In sum, we believe that the current figure does not effectively convey the interpretation of the IPPF as intended by the IIA. Perhaps the solution is to represent the IPPF with a shape other than a circle or sphere. If the intention is to show how different aspects of the IPPF build upon each other, perhaps a pyramid, triangle, or arrow would be more appropriate. The circle worked sufficiently well with the current IPPF (2007–2014). However, in that illustration each IPPF element appeared to be of equal importance and the main pieces of information conveyed by the figure were the elements themselves and whether each element was mandatory or strongly recommended. In the proposed figure, the different sizes, shapes, and placement of the elements convey information and can easily be misinterpreted.

7.3 To what extent do you agree that the pictorial representation of the proposed new IPPF is visually appealing? [2]

As noted previously, the figure, although attractive, does not effectively convey the elements of the IPPF.

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