Section I: Mandatory Guidance

- Identify and apply relevant ethical, practical, and legal standards to audit practice, including The IIA’s Code of Ethics, International Standards, and Implementation Guides, and relevant laws.
- Explain the International Professional Practices Framework categories of guidance.
- Explain the mission of internal audit.
- List the core principles for the Professional Practice of Internal Auditing.
- Define internal auditing.
- Describe compliance with The IIA’s Code of Ethics.
- Explain how the purpose, authority, and responsibility for an internal audit activity are documented, communicated, and approved.
- Understand the importance of securing the board’s approval of the internal audit activity charter and plan.
- Explain independence and objectivity and how to maintain both in an internal audit activity.
- Identify and describe the required knowledge, skills, and competencies for an internal audit activity and how an organization develops and/or procures them.
- Explain how to exercise due professional care in an internal audit activity.
- Describe the importance of professional development and formal certification for internal auditors.
- Describe elements of a quality assurance and improvement program.

The Certified Internal Auditor (CIA) exam questions based on content from this section make up approximately 35% to 45% of the total number of questions for Part 1. All topics are covered at the “P—Proficiency” level, meaning that you are responsible not only for comprehension and recall of information but also for higher-level mastery, including application, analysis, synthesis, and evaluation.

Section Introduction

The IIA’s International Professional Practices Framework

The Institute of Internal Auditors (The IIA) provides its members with an International Professional Practices Framework (IPPF) to guide their professional practice and ensure the highest-quality internal audit results in widely diverse environments.

In The IIA’s own words, “The purpose of the . . . IPPF is to organize The Institute of Internal Auditor’s . . . authoritative guidance in a manner that is readily accessible on a timely basis while strengthening the position of The IIA as the standard-setting body for the internal audit profession globally.” Furthermore, by reflecting the evolution of current practice, the framework
aims “to assist practitioners and stakeholders throughout the world in being responsive to the expanding market for high quality internal auditing.”

The IPPF consists of:

- The Mission of Internal Audit.
- The Core Principles for the Professional Practice of Internal Auditing.
- The Definition of Internal Auditing.
- The Code of Ethics.
- The *International Standards for the Professional Practice of Internal Auditing* (the *Standards*).
- Implementation Guides (IGs).
- Practice Guides, including Financial Services, Public Sector, Global Technology Audit Guides (GTAGs), and Guides to the Assessment of IT Risks (GIAT).
- Other supplemental guidance documents.

The Mission of Internal Audit, Core Principles, Definition of Internal Auditing, the Code of Ethics, and the *Standards* are available to be read or downloaded from The IIA’s Web site (www.theiia.org), along with a great deal of other material relevant to internal auditors, whether or not they are IIA members. (Other materials available to the public for reading or downloading from the Web site include the monthly newsletters, *IIA Global SmartBrief* and *Tone at the Top*, and the *Internal Auditing* magazine, all of which will be cited as authoritative sources in these study materials.) These materials enhance the knowledge and skills of internal auditors.

The Implementation Guides and Practice Guides are intended for the use of IIA members and are password-protected. The full International Professional Practices Framework is available, however, in printed and e-book versions, known familiarly, and for reasons obvious to those who have seen it, as the “Red Book.” It can be ordered online. While the book includes all aspects of the framework—the Mission, the Core Principles, the Definition of Internal Auditing, the Code of Ethics, the *Standards*, the Implementation Guides and the Practice Guides—it is not necessarily as up-to-date as the online version, which is subject to continuous review, revision, and addition. Internal auditors should be sure they are familiar with the most current version of the framework available at The IIA’s Web site. As the auditing environment evolves so will the recommended guidance materials and, at a more deliberate pace, the *Standards*. For example, the 2017 edition of The IIA’s *International Standards for the Professional Practice of Internal Auditing* include the
addition of two new standards, alignment of the *Standards* to the Core Principles, and updates to existing standards.

Note that this learning system is consistent with the revision of the *Standards* effective January 1, 2017, which can be viewed at global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx.

The IPPF is the “conceptual framework that organizes the authoritative guidance promulgated by The IIA.” Authoritative guidance comprises two categories: (1) mandatory guidance and (2) recommended guidance.

The Mission of Internal Audit, Core Principles, the Definition of Internal Auditing, the Code of Ethics, and the *Standards* make up the core of the IPPF, and abiding by them is mandatory for IIA members, practicing internal audit professionals, and Certified Internal Auditors. Mandatory guidance is denoted within the *Standards* by the use of the terms “must” and “should.” The IPPF *Standards* Glossary defines these words in the following manner:

- The word **must** specifies an unconditional requirement.
- The word **should** is used where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The introduction to the *Standards* goes on to clarify what is meant by mandatory guidance: “The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the *Standards* related to individual objectivity, proficiency, and due professional care, and the *Standards* relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity’s overall conformance with the *Standards*.”

(Note: Adherence to the *Standards* is required even for those who are not IIA members or CIAs if the statement “conformance with the standards” is used in their work.)

The IPPF’s recommended forms of guidance support the core. Each standard, for example, is supported by a corresponding Implementation Guide. There are also links, in some cases, to the growing collection of Practice Guides – including Global Technology Audit Guides (GTAGs) Guides to the Assessment of IT Risks (GAIT), and other supplemental guidance documents. The Implementation Guides and Practice Guides— unlike the *Standards*, the Code of Ethics, Core Principles, and the
Definition of Internal Auditing—are optional, not mandatory. Implementation Guides and Practice Guides are The IIA’s version of “best practices.” They provide detailed guidance for conducting internal audit activities. These include topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables.

Recommended guidance is endorsed by The IIA and were developed using due process by an IIA international guidance committee and/or institute. Rather than providing definitive answers, supplemental guidance is intended as a guide containing a wide range of possible solutions and methods of implementing the mandatory guidance.

An introductory overview of the IPPF Framework, as well as descriptions of this Mission, Core Principles, Standards, Implementation Guides, and Practice Guides follows, along with a brief mention of some related supporting endeavors. The IIA’s Definition of Internal Auditing is covered in Chapter A, Topic 1, of this section. It is also posted on The IIA’s Web site. The Code of Ethics is discussed in detail in Chapter B, Topic 1.

In general, a framework provides a structural blueprint of how a body of knowledge and guidance fit together. As a coherent system, a framework facilitates consistent development, interpretation, and application of concepts, methodologies, and techniques useful to a discipline or profession. Specifically, the purpose of the International Professional Practices Framework (IPPF) is to organize The IIA’s authoritative guidance in a manner that is readily accessible on a timely basis while strengthening the position of The IIA as the standard-setting body for the internal audit profession globally. By encompassing current internal audit practice as well as allowing for future expansion, the IPPF is intended to assist practitioners and stakeholders throughout the world in being responsive to the expanding market for high quality internal auditing.

Throughout the world, internal auditing is performed in diverse environments and within organizations that vary in purpose, size, and structure. In addition, the laws and customs within various countries differ from one another. These differences may affect the practice of internal auditing in each environment. The implementation of the IPPF, therefore, will be governed by the environment in which the internal audit activity carries out its assigned responsibilities. No information contained within the IPPF should be
construed in a manner that conflicts with applicable laws or regulations. If a situation arises where information contained within the IPPF may be in conflict with legislation or regulation, internal auditors are encouraged to contact The IIA or legal counsel for further guidance.

The International Professional Practices Framework (IPPF) is the compass that provides internal auditors direction to keep up with the rate of business change. The updated IPPF Framework was introduced in July 2015.

Mission of Internal Auditing

The IPPF was expanded to include a mission statement to support the internal audit profession. It articulates what internal audit aspires to accomplish within an organization. It states:

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

Its place in the new IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

Core Principles

The Core Principles for the Professional Practice of Internal Auditing, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission.

The Core Principles include:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

Standards

The Standards are principles-based mandatory guidance rather than a detailed set of rules and regulations. Some Standards include “interpretation” text to
further explain the guidance description. This italicized text should not be overlooked, as it is part of the standard.

The purpose of the *Standards* can be broken down as follows:
- Delineate basic principles that represent the practice of internal auditing.
- Provide a framework for performing and promoting a broad range of value-added internal auditing.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organizational processes and operations.

The *Standards* employ terms that have been given specific meanings. The IPPF “Red Book” contains a brief *Standards* Glossary. Whenever these terms are defined in this learning system, they are identified as being from the *Standards* Glossary.

There are three types of *Standards*: Attribute Standards, Performance Standards, and Implementation Standards.

**Attribute Standards**
The Attribute Standards address the characteristics of organizations and parties performing internal audit activities. Attribute Standards apply to all internal audit services and internal auditors individually.

Attribute Standards are numbered in the 1000s range. The major sections of Attribute Standards are as follows:

- **1000**—“Purpose, Authority, and Responsibility”
- **1100**—“Independence and Objectivity”
- **1200**—“Proficiency and Due Professional Care”
- **1300**—“Quality Assurance and Improvement Program”

The following are examples of two of these Attribute Standards.

- **Attribute Standard 1000**—“Purpose, Authority, and Responsibility.”
The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International
Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

- **Attribute Standard 1100—“Independence and Objectivity.”** The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Each of the sections of Attribute Standards can have multiple subsections. For example, Standard 1100’s subsections (1110, 1120, etc.) all deal with some aspect of independence and objectivity. Similarly, Standard 1300 on quality assurance and improvement contains a subsection 1310, “Requirements of a Quality Assurance and Improvement Program,” which in turn contains two subsections, 1311, “Internal Assessments,” and 1312, “External Assessments.” The numbering system leaves room for additions in the future, indicating that the standards will continue to evolve.

**Performance Standards**

Performance Standards describe the nature of internal auditing and provide quality criteria for evaluating audit performance. Similar to Attribute Standards, Performance Standards apply to all internal audit services as well as internal auditors.

Performance Standards are numbered in the 2000s range. The major sections of the Performance Standards are as follows:

- 2000—"Managing the Internal Audit Activity"
- 2100—"Nature of Work"
- 2200—"Engagement Planning"
- 2300—"Performing the Engagement"
- 2400—"Communicating Results"
- 2500—"Monitoring Progress"
- 2600—"Communicating the Acceptance of Risks"
The following are examples of two of the Performance Standards.

- **Performance Standard 2000—“Managing the Internal Audit Activity.”** The chief audit executive must effectively manage the internal audit activity to ensure that it adds value to the organization.

- **Performance Standard 2100—“Nature of Work.”** The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

As you can see, the Performance Standards at this highest level address topics of general applicability; from 2200 through 2600, they trace the course of the well-constructed audit. Performance Standards also have more detailed subsections and are added to as the framework evolves over time.

### Implementation Standards

Implementation Standards expand upon Attribute and Performance Standards and provide separate mandatory instructions for implementing the Attribute and Performance Standards depending on whether the engagement is to be for assurance (A) or consulting (C). The Standards Glossary defines an engagement as “a specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy.” The two types of audit engagements are described in the Introduction to the Standards as follows:

#### Assurance

Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter—the process owner; (2) the person or group making the assessment—the internal auditor; and (3) the person or group using the assessment—the user.

#### Consulting

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or
group offering the advice—the internal auditor; and (2) the person or group seeking and receiving the advice—the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

Assurance and consulting are not mutually exclusive, so an audit activity can have both assurance and consulting (advising) components. A “blended” engagement may consolidate elements of consulting and assurance activities. In other instances, individual components of the engagement may be specified as assurance or consulting.

Internal auditors may conduct consulting services as part of their normal or routine activities or in response to management requests. An organization should delineate the types of consulting activities to be offered and develop necessary policies or procedures for each. The following are examples of consulting categories:

- **Formal consulting engagements.** Planned and subject to written agreement.
- **Informal consulting engagements.** Routine activities such as participation on standing committees, limited-life projects, ad hoc meetings, and routine information exchange.
- **Special consulting engagements.** Participation on a merger or acquisition team or system conversion team.
- **Emergency consulting engagements.** Participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary business event or a team assembled to supply temporary help to meet a special request or unusual deadline.

In all situations, a consulting engagement should not be conducted in an attempt to circumvent assurance engagement requirements such as the need to provide an opinion at the end of an engagement. This is consistent with The IIA’s Code of Ethics. On the flip side—if deemed appropriate—services once conducted as an assurance engagement may be performed as a consulting engagement. However, such consulting activities should be coordinated with other internal audit assurance activities as well as external audit activities to minimize redundancy as per Standard 2050, “Coordination and Reliance.”

The numbering format for Implementation Standards indicates their classification (assurance or consulting). For example, 1000.A1 and 1000.C1 are the Implementation Standards related to Attribute Standard 1000, “Purpose, Authority, and Responsibility,” whereby A indicates an assurance engagement standard and C indicates a consulting engagement standard. Implementation Standard 1000.A1 tells us, “The nature of assurance services
provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.”

Implementation Standard 1000.C1 states, in similar language, “The nature of consulting services must be defined in the internal audit charter.”

**Exceptions to mandatory guidance of Standards**

If laws or regulations prohibit internal auditors from complying with certain parts of the *Standards*, appropriate disclosures should be made. Internal auditors should comply with all other parts of the *Standards*.

The IIA’s Professional Issues Committee offers nonmandatory guidance in the form of Implementation Guides to help internal auditors put the mandatory *Standards* into practice. Implementation Guides are IIA-endorsed and provide concise and timely guidance to assist internal auditors in interpreting and applying the Code of Ethics and *Standards* and promoting best practices. Implementation Guides include practices relating to international, country, or industry-specific issues; specific types of engagements; and legal or regulatory issues. Some Implementation Guides are applicable to all internal auditors; others address the needs of a specific industry, audit specialty, or geographic area.

Implementation Guides address approach, methodology, and considerations but not detailed processes and procedures.

All internal auditors and other interested parties are welcome to submit suggestions to The IIA’s Professional Issues Committee to help in the continued development of the guides. Implementation Guides have ongoing updates and changes to provide new best practices to conform with the requirements of the *Standards*. All Implementation Guides are submitted to a formal review process by the Professional Issues Committee or other group designated by the Professional Practices Advisory Council. The most up-to-date versions of these and other parts of the framework appear at The IIA’s Web site (www.theiia.org). The Implementation Guides are intended for the use of IIA members and are therefore password-protected on The IIA’s Web site.

Implementation Guides will form the background of the presentation of many topics in this course.

As an example of how the Implementation Guides function, consider Standard 1110, “Organizational Independence.” The standard contains this mandate: “The chief audit executive must report to a level within the
organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.” How to put that into practice may not be immediately obvious to an organization’s chief audit executive (CAE). To get clarification, the CAE can bring up the Contents section of the online framework (assuming he or she is an IIA member), go to the section listing Implementation Guides, find an entry for Implementation Guides 1110, “Organizational Independence,” and read the further guidance provided there.

Even with the guidance of the Implementation Guides, the auditor will inevitably encounter challenging situations that aren’t specifically covered. When this happens, the auditor is still responsible for making decisions that are guided by the principles underlying the specific Standards and Rules of Conduct in the Code of Ethics. For The IIA’s members, these principles, and their animating spirit, cannot be overruled by a manager’s instructions or an organization’s contrary practices, policies, or culture. Only the law overrides the Code and the Standards.

**Practice Guides**

Practice Guides are another form of guidance provided by The IIA to help internal auditors incorporate the Standards into their practice. According to the Preface to the IPPF, the Practice Guides provide “detailed guidance for conducting internal audit activities” and include “detailed processes and procedures, such as tools and techniques, programs, and step-by-step approaches, including examples of deliverables.”

Like the Implementation Guides, these materials are listed only in the sections of The IIA’s Web site that require a password for access.