

J. Michael Peppers
Chairman, IASB
Filed via the website
Brussels, 30 May 2023

Subject: Proposed Global Internal Audit Standards

Dear Sir,

Accountancy Europe is pleased to provide you with its comments on the proposed Global Internal Audit Standards (hereafter "the Standards").

Firstly, we would like to congratulate the IIA for responding to emerging challenges and demands for today's internal auditors and for following a rigorous due process in revising the Standards.

We believe that all stakeholders in the corporate reporting ecosystem need to work together with a systemic approach to reinforce corporate resilience. The internal audit function has a key role to play in supporting boards and board committees for understanding and managing risks better. Collaboration between internal auditors and external assurance providers is also pivotal and expected to become more important especially in the areas of sustainability and technology.

The Standards have a clearer structure compared to current standards although there is still potential room for improvement with regards to proportionality, understandability and user-friendliness. Please refer to our overall and detailed comments below.

We thank you for the opportunity to comment. For further information on this letter, please contact Harun Saki on +32 488 55 25 76 or via email at harun@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

About Accountancy Europe

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the European Union (EU) Transparency Register (No 4713568401-18).

Annex – Overall and Detailed Comments

Overall Comments

The Internal Audit Function as part of Corporate Governance

Accountancy Europe has been working on corporate governance, which is an integral part of the European Union's sustainability agenda, for several years.

Our [position paper](#) (April 2022) on Environment, Social and Governance (ESG) sets out recommendations for audit committees, including:

- The audit committee should exchange with the external assurance provider information about company risks, including ESG-related risks. It should assess the compliance and internal audit functions' activities on ESG matters and report to the Board accordingly.
- In the context of their overall responsibilities on ESG assurance, audit committees should reflect on the following questions related to the internal audit function:
 - How can internal audit provide additional insight and foresight?
 - Is internal audit adequately resourced to conduct engagements on ESG?

Our [publication](#): Audit Committees' role in tackling fraud (November 2022) includes the following considerations and recommendations:

- The Board should ensure that management conducts a proper fraud risk assessment in collaboration with relevant functions within the company, including internal audit. Audit Committees ("ACs") have a key role in supporting boards to fulfil these responsibilities.
- The internal audit function is also important in a company's governance structure. Internal auditors usually report directly to the audit committee. Their main role is to assess the efficiency and effectiveness of the company's internal controls, including fraud risk management systems, which help produce reliable corporate reporting.
- ACs will need to work closely with internal auditors to identify fraud risks. For example, ACs should review and approve the company's annual internal audit plan to ascertain that it is aligned with audit committee's expectations and addresses management fraud risk appropriately.
- Given the critical role of audit committees in mitigating fraud risk, it should be mandatory for all PIEs to have an independent internal audit function supervised by the audit committee.

The Role of the Internal Audit Function on Sustainability

There is no planet B. Sustainability is vital, and in this regard, we see three inter-connected key roles for the internal audit function:

1. Contributing to company's readiness

The risk-based internal audit plan which determines the internal audit priorities should be aligned with the organization's goals. Obviously, compliance with sustainability-related regulatory requirements (e.g., European Sustainability Reporting Standards (ESRS) in the EU) and accurate reporting will be among the primary goals of many companies.

As per the principles of proficiency and due professional care, internal auditors must have sufficient knowledge about ESG matters. In this regard, multi-disciplinarity and having the necessary skillset are essential.

Internal audit should also assist the organization in maintaining effective controls related to sustainability reporting by evaluating internal control's effectiveness and efficiency, and by promoting continuous improvement within the company.

2. Supporting audit committees

The role of the audit committee is evolving and expanding. For example, new EU legislation extends the mandate of boards and audit committees to include ESG matters. More specifically, Corporate Sustainability Reporting Directive (CSRD) assigns a range of tasks for sustainability reporting and assurance to audit committees (see [our FAQ document on CSRD](#)). The draft Corporate Sustainability Due Diligence Directive ([CSDDD](#)) requires companies to implement a series of actions and policies to address adverse impacts on human rights and environment in their own operations and in their value chains.

It is not a prophecy to say that audit committees, along with other board committees, will call for internal auditors' help more frequently. Similarly, internal auditors can greatly benefit from audit committee support and collaboration. For example, under the CSRD the audit committees would have to monitor the effectiveness of the company's internal control and risk management systems, and of its internal audit function, particularly with regard to fraud and greenwashing risks.

3. Cooperation with assurance providers on sustainability

The cooperation between internal and external auditors (or other assurance providers on sustainability-related matters) will evolve. Stakeholders are increasingly looking for independent assurance in certain aspects of ESG. These will unquestionably be within the radar of boards and internal auditors too. Cooperation is almost inevitable and stakeholders' expectations will shape this evolution.

Coordination will also increase the chances that neither side (internal/external auditors) misses any material risk. Both parties should respond to:

- (valid) stakeholder expectations
- challenges of rapidly changing business environment

Collaboration between internal auditors and external auditors/assurance service providers

External auditor or other assurance service provider (hereafter external auditor) may plan to use the work of the internal audit function of the audited entity. This modifies the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, and may include internal auditors performing audit procedures under the direction, supervision and review of the external auditor (referred to as "direct assistance" in professional standards¹).

The external auditor has sole responsibility for the opinion or conclusion expressed at the end of the engagement, and this responsibility is not reduced when the internal audit function's work is used.

In principle, if the external auditor plans to use the work of the internal auditors, the auditor first evaluates:

- the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function in the underlying subject matter

¹ See [International Standard on Auditing \(ISA\) 610 - Using the Work of Internal Auditors](#), paragraph 14.

- whether the internal audit function applies a systematic and disciplined approach, including a system of quality management

This evaluation includes whether the internal audit function has appropriate quality control policies and procedures, for example, policies and procedures that would be applicable to an internal audit function or quality control requirements in standards set by the relevant professional bodies for internal auditors.

We welcome the fact that the Standards includes relevant requirements and additional guidance to cover these aspects and thus it would qualify as a systematic and disciplined approach.

Detailed Comments

Structure of the Standard and Glossary

The structure of the Standards is clearer to follow compared to current version of the standards. We also welcome that the Standards are flexibly formulated recognising different corporate governance structures in place. However, the Standards are quite lengthy, and further clarity could be very useful to distinguish mandatory, conditional and optional requirements as well as implementation “guidance”.

In this regard, the IIA should offer an electronic, user-friendly version that enables, for instance, filtering provisions relevant for the Board only or the CAE. Such a tool can also help identify conditional requirements which are relevant only when certain condition(s) exists (e.g. considerations specific to public sector).

This will be particularly necessary to enhance proportionality of the Standards and reduce compliance burden on smaller internal audit functions.

Domain 1 - Purpose of Internal Auditing

The purpose statement claims that internal auditing strengthens the organisation’s ability to serve the public interest. A distinguishing mark of the accountancy and auditing profession is their acceptance of the responsibility to act in the public interest. We are not sure, however, if this is also relevant for all types of organisations. We believe the purpose statement should rather state that internal auditing strengthens the organisation’s ability to achieve its ESG objectives.

The purpose statement also presents a list of conditions under which internal auditing would be most effective. We believe a reference to commitment to quality via effective quality management at both function- and engagement-level should be added to the list.

Domain 2 - Ethics and Professionalism

We agree that adherence to ethical principles and standards instils trust in the profession of internal auditing and provides the basis for reliance on internal auditors’ work. In this regard, internal auditors need to safeguard their objectivity in fact and in appearance.

We assume that the Standards refer to organisational independence with the term “independence” since internal audit function is part of the audited organisation. Independent auditors and assurance providers outside the organisation perform various engagements as required by legislation or requested by the Board or management.

Potential impairments to the internal audit function’s independence and objectivity will require the Board’s specific attention when this function is outsourced. Therefore, the Standards should include additional guidance relevant to such cases.

Domain 3 - Governing the Internal Audit Function

As noted above, the internal audit function as a whole or some internal audit engagements could be outsourced by an entity. The former is more frequently preferred by smaller entities whereas the latter is chosen especially when the in-house team does not possess the necessary skills or have sufficient resources. In these cases, ensuring effective communication and consistency in the quality of the engagement performance becomes an important concern for those charged with governing the entity. In this respect, the IIA should consider adding specific considerations to this domain of the Standards for cases where the internal audit function is partly or fully outsourced.

The corporate governance frameworks rely on the effective collaboration between audit committees and the internal audit function. It is therefore vital to have the ways of cooperation explained in more details in the Standards, especially from the internal auditor's point of view. Such material should include specific considerations related to timely communication, effective risk management and setting the internal audit strategy. We observe that in some jurisdictions, such as the UK, the internal audit function reports directly to the audit committee and this is helpful for both parties in performing their respective duties.

Domain 4 - Managing the Internal Audit Function

Although the terms 'internal audit charter' and 'mandate' are clearly defined in the glossary, the way these terms are referred in Domain 4 (Standard 9.3) may create confusion. In principle, the internal audit mandate should be defined in the charter which is to be developed by the Chief Audit Executive (CAE) and approved by the Board. With this approval, the Board establishes the authority, role, and responsibilities (i.e. the mandate) of the internal audit function.

In addition, the Standard 9.2 on internal audit strategy should not precede the Standard 9.3 on internal audit charter since the strategy would be based on the mandate (which is defined in the charter) and expected to be updated more frequently. Finally, the definition of the internal audit strategy should be added to the glossary.

It is crucial for the CAE and internal auditors to proactively communicate with external auditors and other assurance service providers while setting up the internal audit strategy and plan.

Domain 5 - Performing the Internal Audit Function

The nature and scope of the advisory services are significantly different than the assurance services. Accordingly, the work to be performed and the way to communicate results of the engagement will vary depending on the circumstances of the advisory engagement. In this regard, we invite the IIA to reconsider if the scope of this domain should include the advisory services to be performed by the internal audit function. Alternatively, the IIA could consider laying out specific principles for advisory engagements in a separate standard.

This would also allow to place more emphasis on "risk-based" approach which is missing to a certain extent in this domain of the Standards. Risk based internal audit has been a major differentiator and keeps the function focussed on matters with higher priority.

We agree that internal auditors should evaluate their objectivity before conducting an assurance engagement over an activity for which they provided advisory services.

Finally, we believe that the standard should encourage internal auditors to proactively engage with external auditors and other assurance service providers to support them by sharing their insights and results of their risk assessments.