

30 May 2023

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FAO: J. Michael Peppers, IASB Chairman  
The Institute of Internal Auditors  
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Dear Michael,

Thank you for the work of the Standards Board in preparing the proposed standards for public comment. CIPFA has responded to the online survey but considered it would be helpful to draw out some key points separately. CIPFA is keen to continue the productive relationship we have with the Institute, in the UK and internationally.

CIPFA mandates the IPPF in the form of the UK Public Sector Internal Audit Standards for local government bodies here in the UK, a sector of more than 500 organisations. CIPFA is very supportive of excellence in internal audit practice in the sector but also in public bodies generally as we are an international accountancy membership body, the only such body globally dedicated to public financial management.

In 2022 we published a major piece of research, Internal Audit: Untapped Potential exploring how internal auditors in the UK public sector could have an even greater impact, supporting governance, risk management and internal control. We hoped the forthcoming standards would reinforce the some of the leading practices this report encouraged internal auditors to adopt. However, we have concerns that the proposed overall approach to the Global Standards will encourage chief audit executives to focus on the process of audit to maintain their compliance, rather than focus on how they can best provide assurance and advice to their clients. The best heads of internal audit will be able to accommodate the standards when developing leading practice, but that leading practice will not be driven by the standards themselves.

CIPFA is very supportive of much of the internal audit practice within the standards but has concerns over the approach in three main areas: the overall approach, Domain I Purpose, and Domain III Governing the Internal Audit Function, plus some observations on professional memberships.

### **Overall approach**

Although the Standards includes Principles, these are underpinned by a considerable number of 'rules' with a significant increase in the number of 'musts'. As a result the Standards appear to prioritise rules-based compliance rather than focusing on how to deliver effective internal audit to best support the client. CIPFA appreciates the difficulty the Institute faces in setting standards to apply across many different organisation types, sectors and jurisdictions, and this approach may be helpful for some of those entities, but for the UK local government sector, it appears a retrograde step.

### **Domain I Purpose**

The new Purpose statement says that internal auditing is most effective when it is carried out in conformance with the standards. Demonstrating quality and standards are fundamental to a profession, but alongside this,

internal audit must demonstrate the value it brings. A stronger connection between the standards and the value of internal audit would be welcomed. For example the Purpose states internal auditing strengthens the organisation's sustainability, decision-making, and reputation, and CIPFA agrees that internal audit has that potential. But it is hard to trace that ambition into the detail of the standards themselves.

### **Domain III governing internal audit**

CIPFA also has concerns about the approach to the governance of internal audit. CIPFA agrees that the organisational context and the engagement with those charged with governance and the leadership team is crucial for the success of internal audit. We can see the appeal of including this within the standards as a clear set of expectations. However, the Institute is not able to mandate boards to act in accordance with these standards, so they would appear to be beyond the scope for an assessment of conformance. CIPFA would propose those aspects of the standards are made advisory so they can be applied by regulatory bodies that mandate governance of boards.

Domain III appears to be most suited to an organisation where internal audit reports to an executive board. Globally entities have many different governance structures, and the Institute has attempted to define board to accommodate this, for example suggesting an audit committee. However, specific sectors such as UK local government will need tailored guidance on how to implement these standards. When we provide that guidance to the UK local government sector it would be more helpful if Domain III was advisory, providing broad principles rather than rules. We share the same objective of wanting to ensure high quality internal audit that is supported by those in governance and leadership roles, and it would be helpful if the Institute could reconsider their approach to Domain III.

### **Professional Membership**

Finally, CIPFA would encourage the Institute to maintain a neutral approach to professional membership. If the standards are to be adopted by all internal auditors, then there should be nothing in the standards that elevates one professional qualification over another.

A summary of our main responses in the online survey is attached for your convenience.

We hope to continue to work with you to support excellent practice in internal auditing and will be happy to respond to any areas needing further discussion.

Yours sincerely,

Iain Murray

Director, Public Financial Management, CIPFA