

## COMMENTS FROM INTOSAI MEMBERS ON 9140

- Austria
- Canada
- Costa Rica
- Denmark
- European Commission (Robert De koning)
- Finland
- Hungary
- Iceland
- Indonesia
- Kuwait
- Norway
- Poland
- PSC Secretariat
- Sweden
- United Arab Emirates
- UK (NAO)
- United Nations Development Programme Office of Audit and Investigations
- USA (GAO)

**COMMENTS FROM INTOSAI MEMBERS AND EC**

<b>Principles</b>	<b>Initial text in the exposure drafts</b>	<b>propositions</b>	<b>From</b>
Concept of 'independence'	Reference to ISSAI 1610 defining criteria to determine the independence of the IA function in the public sector in a general way.	<p>Some additional factors of independence may have a significant relevance in the public sector and therefore could be addressed more specifically:</p> <ul style="list-style-type: none"> <li>- clear and formally defined responsibilities and authorities of IA in an audit charter;</li> <li>- functional and personal segregation of internal audit from responsibilities for management tasks and decisions (e.g. as heads of operational working groups in administrative reform projects);</li> <li>- adequate freedom for the chief audit executive (CAE) in establishing audit plans;</li> <li>- adequate payment and grading within the salary scale according to the responsibility and significance of IA;</li> <li>- involvement and participation of the CAE in recruitment of audit staff.</li> </ul> <p>Although you find references in the text to these factors of independence it could provide additional support for auditors in the public sector to include at least some of these elements of independence more explicitly in Guidelines for Good Governance.</p>	SAI Austria
General comment		A reference to compliance with authorities should be added under the role of internal auditing section as internal auditors can provide assurance in the compliance area.	SAI Canada
Concept of 'independence'		<p>This standard should include more comments about the functional independence and criteria independence.</p> <p>Functional independence relates to the internal audit capacity to determine its planning, resources, duties execution and results reporting.</p>	SAI Costa Rica

<p>Concept of 'objectivity'</p>		<p>Considering the concept of conflict of interests and some explanation and examples of its occurrence may contribute to a better understanding of how an auditor can guarantee objectivity.</p> <p>As well, independence and objectivity could be impaired if staff from the IA function perform audits on processes or operations in which they had functional responsibilities, or wherein they could have established incompatible relations. In addition, internal audit staff should not execute their competencies on advising and warning about operations where they could have functional responsibilities.</p>	<p>SAI Costa Rica</p>
<p>Reporting relationship and appointment of the Head of IA activity</p>		<p>The CAE should report only to one instance, instead of two, as the document proposes.</p> <p>The CAE can provide communication of results to management, as a mean of advising and providing direction, support and administrative interface. But the Chief Audit Executive <i>must report</i> to the oversight body of the entity or to the board, in order to guarantee its independence.</p>	<p>SAI Costa Rica</p>
<p>Methods to achieve independence page 7, section 3</p>	<p>"oversight body"</p>	<p>Not quite certain what is referred to. In our internal section 9 audits, the "oversight body" will typically be an office under the department (and Rigsrevisionen). The charter/mandate is not approved annually in Denmark, because the charter/mandate is a part of the section 9 agreement which is generally renewed every three or four years. The charter/mandate may be supplemented by 1-year performance contracts.</p>	<p>SAI Denmark</p>
<p>Introduction</p>		<p>Reference is made to the IIA standards advocating a strong system of internal controls to be monitored by the audit activity. The question is how "internal control" is exactly defined, because, as it seems the case in the COSO-model, internal control would include "internal audit" under the monitoring aspect. This would mean that the internal auditor is supposed to audit its own position or at least its role in the "internal control" environment. This can of course not be the case. So, there would seem to be two issues: one is to be clear about the term "internal control".</p>	<p>European Commission</p>

<p>General comments</p>		<p>The IA should be subject to an assessment of its “added value” or “professionalism” from an oversight body for internal audit or similar agency. In the paper the tasks or location of the oversight body does not seem to be clearly defined. The IIA standards would not provide much protection of the independence of the internal auditor if e.g. the civil service law, defining the rights and obligations of civil servants would not provide the necessary support to public internal auditors. In my opinion the independence of the "internal auditor" can only be achieved in the civil service act and of course through changing management attitudes. But relying on the Internal audit charter which is a signed and written agreement between the manager and internal auditor is mostly not strong enough to support the independence of the internal auditor, even if this document is annually reviewed and approved by the oversight body. Placing the independence of the internal auditor in the framework of the civil service act and hence in the Public Administration Reform, would seem to be a <i>conditio sine qua non</i>. This certainly is the case if substance should be given to the notion that internal audit is a fundamental feature of good governance.</p>	<p>European Commission</p>
<p>Organisational status</p>		<p>Reference is made to the CAE reporting to the board. It is not clear which board is being referred to. Only too often there is no board in the public sector at all. Do we talk of an Audit Board or Audit Committee? If that is the case, the paper might well touch upon the advantages or pitfalls of such boards/committees); usually the CAE just reports to the management.</p> <p>Does the paper rely too much on the private sector in this respect? Or could it be that the board is another organisation outside the auditee to which the Internal auditor must report? The paper is not clear about this issue.</p>	<p>European Commission</p>
		<p>It would seem that the IA should also be free from interference in determining the annual and strategic multiannual audit plans. As we know, this is often not the case and management may exercise undue strong influence on what and what not to audit. Only the auditor can, in his professional way, objectively establish an audit plan based on risk assessment and management. The manager can only follow the plan made by the internal auditor (i.e. endorse the plan to give it the authority for access to managerial and sub-managerial levels) and, at most, suggest audit activities in special high-risk areas.</p>	<p>European Commission</p>

	term "oversight body" under the heading "Reporting Relationship"	In the public sector it is usually the Ministry of Finance that has a responsibility for being the guardian of the national budget. Should the paper mention that the internal auditor should be free to report to the MoF in case there is no agreement between the highest management level of the auditee and its internal auditor? Or at least require the MoF to mediate under such circumstances? Or, is this what is meant by the term "oversight body" under the heading "Reporting Relationship..."	European Commission
General comments		<p>The standard cannot be considered as a success for the following reasons.</p> <p><b>202</b> The primacy of internal control over internal auditing is not highlighted. Internal auditing is practically pressed on all organisations regardless of whether they have any need for such a function. It would be appropriate to state that arranging effective internal control does not always necessitate an internal audit function. One is nonetheless necessary especially when management is unable through its own actions to obtain adequate assurance of the appropriateness of internal control.</p> <p><b>203</b> The principal point of departure for the Standard should be the relevant text of the Lima Declaration<sup>1</sup> and INTOSAI's own definition of the internal audit function (appearing on page 5 of Standard 9150). A stance lacking in sound critical thinking is adopted towards the Standards and the positions of the IIA. In many respects, the Standard reads like an IIA direct mail letter.</p>	SAI Finland
		<p>a) Examples of text reminiscent of advertising: "Internal auditing has become a key factor of the new accountability and control era."; "The role of internal audit has evolved .... to a strategic partner with management and one of the cornerstones of good governance."; "Internal auditing is a valuable partner with management and the oversight body."; "Public sector internal auditing is an essential element of a strong public sector governance foundation."</p> <p>b) When using the IIA's definition of internal auditing, it must be made clear that the definition used is that of the IIA and not of INTOSAI – and that other definitions of internal auditing also exist</p>	SAI Finland

<sup>1</sup> Section 3. Internal audit and external audit

1. Internal audit services are established within government departments and institutions, whereas external audit services are not part of the organisational structure of the institutions to be audited. Supreme Audit Institutions are external audit services.

2. Internal audit services necessarily are subordinate to the head of the department within which they have been established. Nevertheless, they shall be functionally and organisationally independent as far as possible within their respective constitutional framework.

3. As the external auditor, the Supreme Audit Institution has the task of examining the effectiveness of internal audit. If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit.

General comments		<p><b>204</b> In a number of respects, adequate regard has not been had to the particular characteristics of public sector organisations (difference in objectives, organisation, different operating environment, lack of markets, etc.) and the ensuing impacts on internal auditing. The Standards for the Professional Practice of Internal Auditing have not been addressed in an appropriately evaluative manner, instead reiterating [in Standard 9140] the text of the Standards more or less as such; this consideration has already been addressed in part in the section above.</p>	SAI Finland
		<p>a) The fundamental assumption underlying the Standard is for organisations in the public sector to have an oversight body which plays an important role in safeguarding the independence of the internal auditing function. Finland is hardly the only country in the world where government agencies and offices lack oversight bodies acting in accordance with the same principles and having the same duties as e.g. the Board of Directors of a limited liability company. In this respect, a broader rewriting of the standard at the very least would be warranted.</p> <p>b) Mentioning as worthy of pursuit arrangements representing the wishes or objectives of the IIA rather than the unanimous views of the Supreme Audit Institutions– such as the chief audit executive being a part of the management team, comprehensive risk management, and the increasing demand for internal audit services – is unwarranted.</p> <p>c) It is not in the best interests of the Supreme Audit Institutions to encourage the perception that legality issues are no longer important and topical in the public sector. This perception is fuelled by the sentence, “The role of internal audit has evolved from an administrative procedure with a focus on compliance, to a strategic partner with management and one of the cornerstones of good governance.”</p>	SAI Finland
General comments		<p><b>205</b> The matters presented in the Standard go beyond the scope of its title. Besides organisational status and objectivity, the Standard would provide a natural platform also to address matters such as resource allocation, the confidence the internal audit function, and the relationship between the internal audit function and supervisory and other authorities. Nonetheless, a separate examination of relations with the SAI, from its viewpoint, would be warranted in the ordinary ISSAI standards.</p>	SAI Finland

General comment		The draft contains only few new information, it mainly repeats the contents of the standards. However, it is understandable since the target group of the document is wide and diverse.	SAI Hungary
<b>Methods to achieve independence</b>  'Reporting Relationship and Appointment of the Head of the IA Activity' (page 7)	the CAE should be part of the senior management team	There is a need for an explanation concerning the sentence: 'the CAE should be part of the senior management team'. It means that as a member of the senior management team the CAE may also be responsible for decision-making, which contradicts the principles related to the independence of the IA function. It should be clear, how it can be part of the senior management team, e.g. the CAE is entitled to take part in management meetings, but is independent fo decision-making.	SAI Hungary
General comment		Raise the issue concerning <i>external</i> internal auditor. Many public entities are to small to hire an individual as an internal auditor, as it is not cost-effective. It is getting more common in both the public and the private sector to have an external audit firm providing this service. In some cases the same audit firm provides both external and internal audit service.  This raises some questions about the status of the internal audit within the entity, trust and independence. Therefore the INAO is wondering if this situation should be reflected in the ISSAI standards.	SAI Iceland
General comment		The document has covered important issues relating to internal auditor independence in the public sector. Also, by incorporating concepts from the Institute of Internal Auditor's documents, the comprehensiveness and profundity of the document is increased. As such, this document will be valuable for organizations, either in the public or private sector, in developing their internal audit function.	SAI Indonesia
Specific comments	- Definition of internal auditing (p.4) - Definition of independence (P.4) - Definition of objectivity (p.5)	Some comments that might be considered to improve the document further :  <ul style="list-style-type: none"> <li>Some statements in the document seem to be quoted directly from other documents, such as the definition of internal auditing (p.4), the definition of independence in internal audit (p.4), and the definition of objectivity (p.5). It is a good practice when there is direct quotation in a document to cite the source of the quotation.</li> </ul>	SAI Indonesia
<b>Public sector auditing</b>		<ul style="list-style-type: none"> <li>It would be better to add word 'internal' in session title 'Public Sector Auditing'(it becomes 'Public Sector Internal Auditing").</li> </ul>	SAI Indonesia

General comment		<ul style="list-style-type: none"> <li>There is discussion on 'Methods to Achieve Independence" (p.7) but no discussion on 'Methods to Achieve Objectivity' in the document.</li> </ul>	SAI Indonesia
<b>Legislative requirements</b> (p.8)		<ul style="list-style-type: none"> <li>If possible, the document might give examples of what should be included in the legislative requirements to guarantee the independence of the internal audit activity.</li> </ul>	SAI Indonesia
Specific comments		<p>Some consistency issues found in the document</p> <ul style="list-style-type: none"> <li>Page numbering (page numbering for p.1 and p.3 differs with page numbering for the rest of the document)</li> <li>The use of terms internal audit activities services (p.3), internal audit function (p.5), and internal audit activity (p.5). Do these terms reflect the same meaning?</li> <li>Internal auditors vs. auditors. In some places in the document, it is written 'auditor' (such as p.6, par 2) instead of internal auditor.</li> </ul>	SAI Indonesia
Specific comments	The draft includes a number of methods to realize internal auditor independency via: reporting to the top management, audit activities, efficiency, and legislative requirements.	<p>With the analysis of the aforementioned four pivots, we noticed that they are mentioned in general and can be interpreted in more than one way that may reversely affect the internal auditor independency.</p> <p>Therefore, we suggest adding more identified indicators for the content of each pivot to increase the possibility of efficient application, or adding annex to the draft including the said identified indicators.</p>	SAI Kuwait
		<p>The draft does not explain the following items.</p> <ul style="list-style-type: none"> <li>The relation between the internal auditor and the audit committees within the organization, and the effect of such committees on the internal auditor independency.</li> <li>The organization applicable method to select the internal audit staff and the recruitment standards, and their effect on the auditor independency.</li> </ul>	SAI Kuwait
Editorial comments	On page 6, the following sentences could be improved by adding/removing a word:	<p><i>"The public entity should help to ensure <b>that</b> the appearance of a lack of independence and objectivity does not arise".</i></p> <p><i>"Although the internal audit activity can add significant value to the organization given <b>(of)</b> its in-depth knowledge and understanding of operational conditions..."</i></p>	SAI Norway

General comment	Title of the standard	<p>This standard should be titled "Internal <u>Audit</u> Independence in the Public Sector" instead of "Internal <u>Auditor</u>" because <i>INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING</i> say (among others) as follows:</p> <p>1100 - Independence and Objectivity          "The internal audit activity must be independent, and internal auditors must be objective in performing their work".          "Interpretation: Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner.</p>	SAI Poland
		<p>To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels."</p> <p>It is the <u>internal audit</u> that should be independent.</p>	SAI Poland
Introduction 5 <sup>th</sup> paragraph	"the Institute of Internal Auditors Standards and Code of Ethics recognizes the importance of internal auditors maintaining their independence and objectivity when performing their work;	<p>We suggest the <u>International Professional Practice Framework (IPPF) wording</u> instead of: "<u>the Institute of Internal Auditors Standards and Code of Ethics</u>".          The IPPF wording includes, except Internal Auditors Standards and Code of Ethics, also Practice Advisories, which constitute a very important supplement to the first two documents.</p>	SAI Poland
Introduction 5 <sup>th</sup> paragraph	In the 5th line beginning with "... strong system of internal control".	We suggest replacing „ <u>internal control</u> ” with just „ <u>control</u> ”. For justification – see below.	SAI Poland
The role of Internal auditing  2 <sup>nd</sup> paragraph	"Internal auditing evaluates emerging technologies; analyzes opportunities; examines issues from a 'local' and global perspective; assesses risks, controls, operations, ethics, efficiency, and effectiveness; and helps ensure controls are in place to manage risks"	<p>We suggest to replace the text with the following:</p> <p>"internal auditing analyzes strengths and weaknesses of a public sector organization, considering its governance, organizational culture, and related threats and opportunities for improvement which can affect whether the organization is able to achieve its goals. The analysis ensures that controls are in place and that risk management enables the organization to manage public funds in an effective and efficient manner".</p>	SAI Poland

<p><b>Public sector auditing</b></p> <p>1st paragraph, 3rd line</p>	<p>However, most public sector internal auditors also play a role in their agency's accountability systems – serving the citizens as part of the check-and-balance process that accompanies public activities.</p>	<p>deleting the word „however” because it suggests an opposition between governance and accountability, which is not, we believe, what the authors intended.</p>	<p>SAI Poland</p>
<p><b>Why is independence and objectivity vital?</b></p>	<p>title</p>	<p>(a) Perhaps the chapter should be titled "WHY <u>ARE</u> INDEPENDENCE AND OBJECTIVITY VITAL?"</p>	<p>SAI Poland</p>
<p><b>Why is independence and objectivity vital?</b></p> <p>2nd paragraph</p>	<p>The nature of internal auditing and the role of providing unbiased and accurate information on the use of public resources and services delivered require the internal audit activity to perform their duties without restrictions - free from interference or pressures from the organization being reviewed or the area under audit.</p>	<p>(b) it is unclear what "<u>free from interference or pressures from the organization being reviewed or the area under audit</u>" means.</p>	<p>SAI Poland</p>
<p><b>Why is independence and objectivity vital?</b></p> <p>3rd paragraph</p>	<p>Development of sound working relationships with management and staff at all levels of the organization is fundamental to the effectiveness of the internal audit function.</p> <p>The internal audit activity's knowledge and understanding of the organization assist in building effective relationships and in evaluating and improving the effectiveness of risk management, internal control, and governance processes.</p>	<p>(c) we suggest deleting "internal" from "internal control". The IIA has clearly moved away from "<u>internal control</u>" to simply "<u>control</u>" in order to include relationships with sub-contractors.</p>	<p>SAI Poland</p>
<p>Technical remark</p>		<p>references made in ISSAIs and INTOSAI GOVs to other ISSAIs and INTOSAI GOVs should follow the agreed format:</p> <p><i>The Classification Principles – page 15 – item 6</i></p> <p>When convenient, a reference to specific items (or sections and subsections within an ISSAI or INTOSAI GOV document can be made by adding the number of the item to the ISSI-number with a slash. E.g. ISSAI 3000/5.4 is referring to item 5.4 in ISSAI 3000.</p> <p>If at all possible, it would be greatly appreciated if you could follow that format in INTOSAI GOV 9140 and 9150.</p>	<p>PSC secretariat (Rigsrevisionen)</p>

<p>General Comment &amp; Concept of 'independence'</p>	<p>We believe that the draft is relevant as guidance on independence for internal auditors.</p>	<p>However, we would like to point out that all organisations in Sweden with internal auditors do not have a board or oversight body. In these cases the internal auditor reports directly to the Director General. We, generally, do not see any problems with independence for these internal auditors. It is thus vital that the paper does not imply that there is a need for a board or oversight body in order for the internal auditor to be considered independent. It is also important to that the paper clarifies that independence for internal auditor is not on the same level as independence for external auditors, SAIs.</p>	<p>SAI Sweden</p>
<p>General comments on Introduction</p>	<p>Introduction</p>	<p>For this to be a standolone document, it would be useful for comment in the introduction <u>about why internal auditor independence is of interest to SAIs</u>. Perhaps some cross-referencing with INTOSAI GOV 9150 would be beneficial.</p>	<p>SAI United Arab Emirates</p>
		<p>There is an interference in the exposure draft that internal auditors are employees of their organization. There are various models for resourcing an IA activity: inhouse, co-sourced, outsourced with inhouse management, fully outsourced.(..)</p>	<p>SAI United Arab Emirates</p>
<p>General Comments &amp; Concept of 'independence and objectivity'</p>		<p>Gov 9140 defines "independence" for an internal auditor. This is based on the IIA's definition, which has been widely adopted within internal audit communities, including the UK public sector. However, the clarity ISAs published by the IAASB, on which the INOTOSAI ISSAIs are based, focuses on what makes internal audit sufficiently objective for external auditors to rely on their work. Indeed, ISA 610 explicitly states that internal audit are not "independent" of the entity*. This statement draws on the IFAC ethical guidelines, which consider external auditor independence. Of course, these are reflected in INTOSAI auditing guidance as well. This raises a potential conflict in terminology that may need to be addressed in Gov 9140, not least because discussions at the sub-committee meeting in Brussels showed that there is some reluctance to rely on internal audit's work because of this independence issue.</p>	<p>United Kingdom (NAO)</p>
		<p>In our view, this potential conflict could be resolved in one of two ways within Gov 9140:</p>	<p>United Kingdom (NAO)</p>

		<p>1. Remove references to auditor "independence" and refer instead to the conditions and criteria that define an operational state that allows objectivity. This may address SAI concerns in the financial audit sector, but is not consistent with the IIA guidance. It also does not fit with the Lima Declaration, which defines internal audit as being "functionally and organizationally <i>independent</i> as far as possible within their respective constitutional framework"; or</p> <p>2. Provide a bridge between the IIA definition of independence and the ISSAI 1610/ISA 610 consideration of objectivity to demonstrate their compatibility and consistency of principle.</p> <p>Our preference would be for the second option, and we suggest amendment to the definitions sections within Gov 9140 as follows:</p>	United Kingdom (NAO)
		<ul style="list-style-type: none"> <li>• Definition of independence section, first para. Amend as follows: "Independence can be generally defined <u>for internal audit</u> as freedom..."</li> <li>• change para 1 on page 4 under Independence and objectivity standards to read "ISSAI 1610 recognises that internal audit is not constitutionally independent from the audited entity, but instead seeks to assess whether the environment in which internal audit operates allows the internal auditor to be sufficiently autonomous and objective to the extent that the external auditor can rely on the work of the internal auditor. This is equivalent to the assessment of internal auditor independence within Gov 9140."</li> </ul>	United Kingdom (NAO)
		<p>We recognise that these comments fall outside the consultation window, but we also consider that Gov 9140 represents an important document for the development of internal and external audit relationships throughout the INTOSAI community. For this reason, we think that the sub-committee needs to consider carefully the language within the document so that it appeals to all potential users, whether they rely on financial auditing standards, internal auditing guidance, or other frameworks.</p>	United Kingdom (NAO)

General Comments		<p>Overall, it is unclear which aim this document ought to fulfill, i.e. an explanatory document or a reference document. It remains vague, is often repetitive and does not provide specific enough guidance regarding independence of the internal audit function.</p> <p>Further, although its title centers it – theoretically- on independence (at the organizational level), it broaches to objectivity (at the individual level) in a number of sections.</p>	UNDP1
Specific comments		<p>In several sections, the document presents and contrasts, in very general terms, internal and external audit, albeit with a different spin (introduction, role of internal auditing, public sector auditing).</p> <p>It later mentions (section ‘standards’) ISSAI 1610 for external auditors while using most of the language of - but not the reference to the specific IIA IPPF standards on independence and objectivity (under IPPF #1100 – in particular, #1110 and #1120). It is unclear why two different levels of detail were used. Further, and more importantly, as ISSAI 1610 and IPPF standards differ in defining independence in internal audit, and criteria used thereon, it is unclear what to conclude out of this section.</p>	UNDP1
<b>Why is independence and objectivity vital?</b>		<p>The section ‘why independence..’ may be logically be better placed after defining what independence is, rather than after the standards section.</p>	UNDP1
<b>Concerns related to independence and objectivity</b>		<p>In section ‘concerns’, impairment to independence (and objectivity) are clearly defined in IPPF #1130, in particular in the practice advisory. Yet the current text remains rather vague and is not comprehensive. It would be advisable to present which concern there is and which methods exist to alleviate that concern rather than present them separately, at the cost of repetition.</p>	UNDP1

<p><b>Methods to achieve independence</b></p>		<p>In ‘methods to achieve independence’, the reference to reporting line is repeated on several places, which dilutes its impact. The reference to other mechanisms is either missing or not forcefully stated.</p> <p>In our opinion, concerns regarding independence are many-fold and should be clearly stated.</p> <ul style="list-style-type: none"> <li>- Placement of the function in the organization</li> <li>- Reporting relationship of the CAE,</li> <li>- CAE recruitment and termination decision</li> <li>- Internal audit staff recruitment and termination – if auditees are “choosing” their auditors (through participation in the recruitment process)</li> <li>- Access of the CAE to governing bodies</li> <li>- Decision mechanism for internal audit funding</li> <li>- Adequate level of funding for the function – mentioned as a concern but not elaborated upon,</li> <li>- Mechanism by which differences of opinion between internal audit and management are resolved – without reprisal to the CAE (possibly presented as lack of performance or insubordination)</li> </ul> <p>It was also noted that wording such as “ the Board” or “the oversight body” are used, without being defined which can lead to misinterpretations or different interpretations.</p>	<p>UNDP1</p>
<p>General Comments</p>		<p>It is a nice paper, well written and clear.</p> <p>However, in the first place I would question why this paper is necessary, what is the added value to the IIA standards?</p> <p>In this paper INTOSAI endorses the IIA standards. The standards are fairly clear on the independence issue. That should be sufficient. Furthermore, the paper frequently quotes IIA standards without indicating it.</p> <p>Establishing a new paper on the same issue creates the risk of unintended discrepancies between the two documents, and may give rise to more room for interpretation. If INTOSAI intends to give guidelines for external auditors, they could inform auditors where to find the IIA standards and they could prepare a checklist for this audit subject.</p>	<p>UNDP2</p>

<p><b>Why is independence and objectivity vital?</b> Page 6, paragraph 2</p>		<p>In this context something should be added on whistleblower protection.</p>	<p>UNDP2</p>
<p><b>Reporting Relationship and Appointment of the Head of the Internal audit activity</b> paragraph 2</p>	<p>The CAE should report to executive management for assistance in establishing direction, support, and administrative interface; and typically to the oversight body for strategic direction, reinforcement, and accountability. The oversight body should safeguard the independence by approving the internal audit charter annually and (where applicable) the mandate.</p>	<p>What is an "oversight body" in an international organisation? Similarly, the notion of "the Board" in the IIA standards is not clear. There are always questions how to translate this in public international organisations. In addition, the split reporting, administratively to the CEO and functionally to the "oversight body, does not be the case in many UN organisations and other international organisations. IT leads to a dual accountability and is difficult to implement.</p>	<p>UNDP2</p>
<p><b>Reporting Relationship and Appointment of the Head of the Internal audit activity</b> paragraph 3</p>	<p>The CAE should have direct communication with the oversight body which reinforces the organizational status of internal auditing, enables full support and unrestricted access to organizational resources, and ensures that there is no impairment to independence. This provides sufficient authority to ensure broad audit coverage, adequate consideration of engagement communications, and appropriate action on recommendations.</p>	<p>What is meant with "...unrestricted access to organisational resources"? Does it include unrestricted access to budgetary funds? Would this be realistic?</p>	<p>UNDP2</p>
<p>General Comments</p>		<p>The document uses the terminologies "Board" and "Oversight Body", with the latter presumably meaning Audit Committees. These terms may need to be defined for better clarity, especially in the context of international public sector organizations.</p>	<p>UNDP3</p>

<p><b>Defining independence</b></p>		<p>It needs to be distinguished between</p> <ul style="list-style-type: none"> <li>- “Independence of internal audit activity” (organizational status, reporting lines, and independence from management in terms of funding the IA activity and appointment/removal of the CAE); and</li> <li>- “Independent internal audit activity” (freedom of the CAE and his/her staff from influence or control in carrying out internal audit responsibilities in an unbiased manner, such as final decision on the IA work plan and on what goes in reports, etc.)</li> </ul> <p>Similarly, the paragraph should define independence <b>in fact</b> and independence <b>in appearance</b>, both equally important. Alternatively, <b>real vs perceived</b> independence.</p> <p>Finally, the para should refer to the need for internal auditors to sign and act according to their code of conduct (such as the IIA Code of Ethics)</p>	<p>UNDP3</p>
<p><b>Organizational Status</b> lines 1-2</p>	<p>The CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.</p>	<p>Although this is a direct quotation from the IIA Standard 1110 (Organizational Independence), we suggest to replace it with the Practice Advisory 1110-1 (Organizational Independence), which is more specific in stating in para.2 that:</p> <p>“The chief audit executive (CAE), reporting functionally to the board and administratively to the organization’s chief executive officer, facilitates organizational independence. At a minimum the CAE needs to report to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of engagement communications, and appropriate action on engagement recommendations.”</p>	<p>UNDP3</p>
<p><b>Organizational Status</b> lines 2-3</p>	<p>The CAE must confirm to the board, at least annually, the organizational independence of the internal audit activity</p>	<p>It would be useful to add from the IIA Practice Advisory 1111-1 (Board Interaction) that:</p> <p>“The chief audit executive must communicate and interact directly with the board. Direct communication occurs when CAE regularly attends and participates in board meetings that relate to the board’s oversight responsibilities for auditing, financial reporting, organizational governance, and control. Such communication and interaction also occurs when the CAE meets privately with the board, at least annually.”</p>	<p>UNDP3</p>
<p><b>Organizational Status</b></p>		<p>Independence as regards funding of internal audit activity should be added</p>	<p>UNDP3</p>

<p><b>Reporting Relationship and Appointment of the Head of the Internal audit activity</b></p>	<p>The CAE should <b>be part of the senior management team</b></p>	<p>The use of “part of the senior management team” requires caution. Alternative phrasing could be: “The CAE should be equal in rank to senior management of the organization. The CAE should also attend senior management meetings in advisory, non decision-making capacity, in order to be apprised of strategic business and operational developments.”</p>	<p>UNDP3</p>
<p><b>Reporting Relationship and Appointment of the Head of the Internal audit activity</b></p>	<p>The CAE should report to executive management for assistance in <b>establishing direction</b>, support, and administrative interface;</p>	<p>It is not clear what establishing “direction” means. The IIA Practice Advisory 1110-1 (Organizational Independence) states in para 4 that:</p> <p>“[The CAE should report administratively to the organization’s Chief Executive Officer.] Administrative reporting is the reporting relationship within the organization’s management structure that facilitates the day-to-day operations of the internal audit activity.</p> <p><b>Administrative reporting typically includes:</b></p> <ul style="list-style-type: none"> <li>- Budgeting and management accounting.</li> <li>- Human resource administration, including personnel evaluations and compensation.</li> <li>- Internal communications and information flows.</li> <li>- Administration of the internal audit activity’s policies and procedures.</li> </ul>	<p>UNDP3</p>
<p><b>References</b></p>		<p>No reference is made to the International Professional Practices Framework, promulgated by the IIA (1 January 2009)</p>	<p>UNDP3</p>
<p><b>Introduction</b> (last §)</p> <p>editorial comments</p>	<p>The potential conflicting requirements of an organization’s governance structure’s need for assurance, the increasing importance of integrated risk management and control processes, and the overall growth in the demand for internal audit services, <del>leads to concerns regarding</del> internal auditor independence. In this regard, it is critical that public sector audit activities are configured and positioned appropriately within the organization.</p>	<p>The potential conflicting requirements of an organization’s governance structure’s need for assurance, the increasing importance of integrated risk management and control processes, and the overall growth in the demand for internal audit services, <u>may create threats to</u> internal auditor independence. In this regard, it is critical that public sector <u>internal</u> audit activities are configured and positioned appropriately within the organization.</p>	<p>USA (GAO)</p>
<p><b>Public Sector auditing</b></p> <p>editorial comments</p>	<p><del>Public sector internal auditing</del> is an essential element of a strong public sector governance foudation.</p>	<p><u>The public sector internal audit function</u> is an essential element of a strong public sector governance foudation.</p>	<p>USA (GAO)</p>

<p><b>Independence and objectivity standards</b></p> <p>editorial comments</p>	<p>ISSAI 1610 <del>defines the criteria to determine</del> the independence of the internal audit function in the public sector.</p>	<p>ISSAI 1610 <u>provides criteria to assess</u> the independence of the internal audit function in the public sector.</p>	<p>USA (GAO)</p>
<p><b>Organizational status</b></p>	<p>The CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.</p>	<p><u>Under IIA standards</u> the CAE..</p>	<p>USA (GAO)</p>
<p><b>Objectivity</b></p>	<p>Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that the quality of their work is not compromised in any way.</p>	<p>Objectivity is <u>defined in IIA standards</u> as.....</p>	<p>USA (GAO)</p>
<p><b>Objectivity</b></p>	<p>Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels, and disclosed as necessary.</p>	<p><u>IIA standards also state that ...</u></p>	<p>USA (GAO)</p>
<p><b>Concerns related to independence and objectivity</b></p>	<p><del>The public entity should help to ensure the appearance of</del> a lack of independence and objectivity does not arise.</p>	<p><u>Public entity internal audit organizations and auditors should avoid appearing to ....</u></p>	<p>USA (GAO)</p>
<p><b>Concerns related to independence and objectivity</b></p>	<p><del>Although the internal audit activity can add significant value to the organization given of its in-depth knowledge and understanding of operational conditions, it may be hindered...</del></p>	<p><u>The in-depth knowledge and understanding of operational conditions of internal audit activity can add significant value to the organization. However, it may be hindered ...</u></p>	<p>USA (GAO)</p>
<p><b>Methods to achieve independence</b></p>	<p><del>Methods to achieve independence</del></p>	<p><u>Evaluating internal auditor independence</u></p>	<p>USA (GAO)</p>

<b>Methods to achieve independence</b>	Methods to help achieve independence include:	<u>Factors to consider in evaluating such independence</u> include	USA (GAO)
<b>Reporting relationship</b>	The CAE should have direct communication.. and ensures that	The CAE should have direct communication.. and <u>helps ensure</u> that	USA (GAO)
<b>The internal audit activity</b>	Title: <b><i>The internal audit activity</i></b>	<u>Appropriate Placement and Organizational Status</u>	USA (GAO)
<b>The internal audit activity</b>	The IIA standards require, and other guidance strongly recommends, that to <del>adequately provide</del> for the independence of internal auditing activity...	The IIA standards require, and other guidance strongly recommends, that to <u>help maintain</u> the independence of internal auditing activity...	USA (GAO)
<b>The internal audit activity</b>	The audit activity must be positioned in such a way that it may obtain cooperation from <del>the area</del> being audited,...	The audit activity must be positioned in such a way that it may obtain cooperation from <u>management and staff of the program or entity</u> being audited,...	USA (GAO)
<b>Legislative Requirements</b>	Legislative Requirements to establish an internal audit activity may <del>be important to guarantee</del> the funding and independence of the internal audit activity. <del>This would be considered a positive development for the future as it would assist in ensuring that internal audit is given the required recognition in the public sector.</del>	Legislative Requirements to establish an internal audit activity may <u>help protect</u> the funding and independence of the internal audit activity <u>and recognize internal audit as an important function in the public sector.</u>	USA (GAO)