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GAO's Response to the IIA's Exposure Draft, *Global Internal Audit Standards, 2023 Draft for Public Comment*, March 2023

This letter provides GAO's response to the Institute of Internal Auditors' (IIA) Exposure Draft, *Global Internal Audit Standards, 2023 Draft for Public Comment (Standards)*. We appreciate the opportunity to comment on this proposal. We are providing a high-level response and the overarching nature of our comments makes them applicable to multiple questions.

GAO promulgates generally accepted government auditing standards (GAGAS).¹ These standards provide a framework for performing high-quality audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations work with competence, integrity, objectivity, and independence.

We commend the IIA for reviewing and updating the *Standards* to help ensure the quality, relevance, and effectiveness of internal audit services. We believe that certain initiatives will assist practitioners with compliance efforts, such as having distinct considerations for internal auditors in the public sector. However, we believe that aspects of the proposed *Standards* are problematic and as such have recommendations in the following areas:

- Domain III: Governing the Internal Audit Function
- Principle 2, Maintain Objectivity, and Principle 7, Positioned Independently
- Quality Assurance and Improvement Program
- Principle 3, Demonstrate Competency
- Use of "must" and "should"

¹GAO, *Government Auditing Standards: 2018 Revision Technical Update April 2021*, [GAO-21-368G](#) (Washington, D.C.: April 2021).

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Domain III: Governing the Internal Audit Function

We believe that the structure of domain III is problematic because it is built around requirements for individuals or a group (“the board”) not subject to the *Standards*. We recognize that the involvement of the board of an organization is critical for ensuring that an internal audit function has the necessary authority, independence, and support to be effective. However, per the Applicability of the Standards section of the Introduction to the Global Internal Audit Standards, “the Standards apply to any individual or function that provides internal audit services” and “the Standards apply to individual internal auditors and the internal audit function.” From these statements, it is clear that the *Standards* do not apply to the board of an organization. However, the individual standards that comprise principles 6 through 8 have specific requirements for the board.

Having requirements for individuals or groups such as a board that are not subject to the *Standards* raises concerns about the enforceability of these provisions and the implications for the internal audit function if the board does not fulfill one or more requirements. If an internal quality assessment described in standard 12.1 identifies instances of nonconformance with the *Standards* due to board actions or inactions, would the chief audit executive be expected to develop an action plan with correlated timeframes for the board to complete?

We suggest that the IIA restructure or eliminate this domain to remove requirements for individuals or groups that are not subject to the *Standards*. We believe that many of the requirements directed to the board could be assigned to the chief audit executive to request of the board. The IIA could reframe other requirements assigned to the board as prerequisites for establishing an internal audit function or include them in Considerations as practices that are preferred but not required.

Further, for some public sector internal audit functions there is no equivalent to a board to establish and protect the internal audit function’s independence (principle 7, Positioned Independently). Instead, the chief audit executive reports directly to the head of the government entity, as is noted as a possibility in the glossary entry for “board.” We suggest that the IIA add

additional guidance to the Considerations for principle 7 to address the public sector environment and specifically how the requirements could be implemented in such a situation.

Principle 2, Maintain Objectivity, and Principle 7, Positioned Independently

We suggest that the IIA consolidate the requirements of the individual standards in principle 2, Maintain Objectivity, with principle 7, Positioned Independently. Under GAGAS, the concepts of objectivity and independence are closely related, and independence impairments affect auditors' objectivity.² We believe that consolidating or combining the standards and related requirements will assist internal auditors in understanding and complying with the *Standards*. We also suggest that the IIA strengthen the requirements associated with objectivity and independence to further enhance the reputation of internal audit as a trusted and impartial resource within an organization. We suggest that the IIA strengthen the requirements associated with these principles as follows:

- Add additional biases and considerations to the list of biases in standard 2.1, Individual Objectivity. The requirement notes that the list of biases “is not limited to” the items included but does not provide additional guidance under Considerations as to what additional types of biases may exist. We suggest that the IIA add additional relevant biases, such as a self-interest bias, which is the risk that a financial or other interest will inappropriately influence an internal auditor’s judgment or behavior, to this list. We further recommend that the IIA provide guidance as to what other factors may create biases for the internal auditors.
- Expand the restrictions in standard 2.2, Safeguarding Objectivity, concerning providing assurance over an activity for which an internal auditor provided advisory services, had significant responsibility, or was able to exert significant influence. Certain services or responsibilities could affect, in appearance and in fact, the objectivity of an internal auditor well beyond one year. For example, if the service involved designing and implementing an information system, a threat of self-review bias may exist for many years after the system was installed if it becomes the subject of a subsequent assurance engagement.

²GAO-21-368G, para. 3.11.

- Clarify the Considerations to emphasize that the perception of an impairment should be taken as seriously as an impairment in fact. We believe that the chief audit executive must take action to mitigate impairments to objectivity and that disclosure to management of the activity under review, senior management, or the board does not sufficiently respond to an impairment of objectivity (standard 2.3, Disclosing Impairments to Objectivity). While the requirements imply that there will normally be actions to mitigate impairments, the standard allows the chief audit executive and the party(ies) consulted with to permit impairments to objectivity with no mitigation efforts. Further, we believe that the one of the examples in the Considerations for Standard 2.3 minimizes the significance of the appearance of an impairment to objectivity.³ Under GAGAS, independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.⁴ Further, GAGAS defines a threat as not being at an acceptable level if it (1) could affect the auditors' ability to conduct an engagement without being affected by influences that compromise professional judgment or (2) *could expose the auditors or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the auditor organization, or an auditor, had been compromised.*⁵ We believe that the IIA should clarify the Considerations to emphasize that the perception of an impairment should be taken as seriously as an impairment in fact.
- Add a definition of safeguards to the glossary and the body of the *Standards*. Further, we suggest that the IIA add implementation guidance that details how to evaluate the sufficiency of safeguards and when impairments or potential impairments have been either eliminated or reduced to an acceptable level.

³“When a concern arises during engagement planning that relates solely to the perception of an impairment, the chief audit executive may choose to discuss the concern with management of the activity under review and/or senior management, explain why the risk exposure is minimal and how it will be managed, and document the discussion.”

⁴GAO-21-368G, para. 3.59.

⁵GAO-21-368G, para. 3.47 (emphasis added).

- Clarify the requirements under standard 7.3, Safeguarding Independence, to eliminate differences in terminology. The first requirement states that “safeguards must be in place to *manage impairments* [emphasis added] to the internal audit function’s independence.” The second requirement, under Board Responsibilities, states “the board must protect the independence of the internal audit function by ensuring safeguards to *manage the risk of impairment* [emphasis added] are designed adequately and operating effectively.” Impairments and the risk of impairment, while closely related, are not the same. We believe that it is more appropriate to manage the risk of impairments to independence so that they do not become actual impairments to independence.

Quality Assurance and Improvement Program

We suggest that the IIA reorganize and modify certain standards and requirements associated with the quality assurance and improvement program to improve the clarity and strengthen the requirements.

- We believe that standard 8.3, Quality; standard 8.4, External Quality Assessment; and standard 12.1, Internal Quality Assessment, naturally flow together. As part of the reorganization of domain III, discussed above, the IIA should position standards 8.3 and 8.4 immediately before standard 12.1 to better connect the requirements in each standard.
- We do not believe that self-assessment with independent validation is an acceptable alternative for an external assessment performed by an independent third party. As noted in standard 8.4, a self-assessment is more limited in scope than an external quality assessment and does not require nearly as comprehensive of a review. Internal audit functions may opt to conduct self-assessments to avoid or delay the exposure of deficiencies in the design of the function’s strategy, methodologies, or processes. External quality assessments are required by many standards, including GAGAS, because there is value in having independent outside validation of an audit organization’s quality assurance and improvement program. Permitting such a validation to occur only once per decade increases the risk that deficiencies in quality will become ingrained in the culture of the internal audit function. As such, we suggest that the IIA

remove the option of conducting a self-assessment in lieu of an external assessment from the *Standards*.

Principle 3, Demonstrate Competency

We believe that additional guidance would assist internal auditors in understanding and applying the standards that comprise principle 3, Demonstrate Competency. Specifically,

- We suggest that the IIA clarify the Considerations statement that internal auditors should obtain at least 2 hours of continuing professional education (CPE) on ethics in standard 1.1, Honesty and Courage. It is unclear if the 2 hours of CPE on ethics are included in or in addition to the annual requirement of 20 hours of CPE per standard 3.2, Continuing Professional Development.
- We suggest that the IIA provide additional clarity concerning the measurement of CPE that is required by standard 3.2, Continuing Professional Development, to assist internal auditors in understanding the requirements. Specifically,
 - What are the characteristics of programs or activities that qualify for CPE? Are there examples of programs or activities that do not qualify for CPE under IIA standards?
 - Is an internal audit function required to track CPEs for each individual internal auditor based on the hire date, or is it permitted to establish a universal CPE period for all internal auditors for the organization? If a universal CPE period is permissible, is it permissible to prorate hours for internal auditors who are employed for only a portion of the period?
 - How is an hour of CPE to be measured? Are internal auditors permitted to earn CPEs for university or college courses? If so, how many CPEs may be granted for each unit of credit?
 - Are internal auditors permitted to carry over CPE hours earned in excess of the 20-hour requirement into future periods? If so, how many hours can be carried over?

Use of “must” and “should”

We do not believe that the proposed *Standards* consistently adhere to the principles outlined in the How to Use the Standards section about using “must,” “should,” and “may.” We identified instances where the *Standards* used “must” in a Considerations section and “should” in a requirements section. As a result, we found it difficult to determine if the sentence reflects an unconditional requirement or a preferred but not required practice. For example:

- The Considerations for standard 5.2, Protection of Information, states “internal auditors in the public sector must understand and comply with any jurisdictional requirements regarding disclosures of information.”
- The requirements under Chief Audit Executive Responsibilities for standard 6.1, Internal Audit Mandate, states “to help the board determine the scope and types of internal audit services, the chief audit executive must collaborate with other internal and external assurance providers... to ensure a mutual understanding of each other’s roles and responsibilities. This mutual understanding should be shared with the board.”
- The Considerations for standard 12.1, Internal Quality Assessment, states for public sector internal auditors, “the system of internal assessment also must include monitoring of the conformance with applicable regulations.”

Similarly, the Considerations for standard 1.1, Honesty and Courage, states “internal auditors in the public sector should always protect the public interest and should display courage when providing findings, recommendations, and conclusions.” The phrasing “should always” makes it difficult to interpret whether this sentence is meant to be an unconditional requirement.

Further, we believe the passive voice in conjunction with “must” makes it unclear who is responsible for complying with the requirement. For instance, standard 2.3 states “if objectivity is impaired...the details of the impairment must be disclosed to the appropriate parties before internal audit services are performed,” and standard 7.3 states “safeguards must be in place to manage impairments to the internal audit function’s independence.” In both of these examples, it is unclear whether the requirement is intended to apply to internal auditors, the chief audit executive, the board, or some combination therein.

There are also definitional statements in the requirement sections of several individual standards that do not include “must.” Some of these definitional statements include lists of items that correlate to an action or activity that the *Standards* require. However, it is unclear whether the items in the lists are required elements of the activity or examples of preferred but not required elements. If the definitional statements are intended to convey unconditional requirements, we suggest that the IIA include the word “must” to indicate that intention.

We suggest that the IIA carefully review the final *Standards* to ensure that terms are used only as indicated in How to Use the Standards.

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We suggest that the IIA add numbers to each paragraph of requirements to facilitate compliance with the standards. With paragraph numbers, it will be easier for a chief audit executive and internal or external quality assessors to ensure that the internal audit methodologies incorporate all of the requirements of the *Standards*.

We believe that the *Standards* can be further clarified by making the following changes to enhance the auditor’s understanding and help ensure consistency throughout the *Standards*.

Proposed <i>Standards</i>	GAO proposal (in red text)	Rationale for change
<p>internal audit mandate – “The internal audit function’s authority, role, and responsibilities.” (Glossary p. 7)</p>	<p>internal audit mandate – The internal audit function’s authority, role, and responsibilities. The mandate specifies the scope and types of internal audit services.</p>	<p>To be consistent with the definition of internal audit mandate in standard 6.1, Internal Audit Mandate.</p>
<p>quality assurance and improvement program – “A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global</p>	<p>quality assurance and improvement program – A program developed, implemented, and maintained established by the chief audit executive to evaluate and ensure the internal audit</p>	<p>To be consistent with the requirements in standard 8.3, Quality.</p>

Proposed Standards	GAO proposal (in red text)	Rationale for change
<p>Internal Audit Standards, achieves performance objectives, and pursues continuous improvement.” (Glossary p. 8)</p>	<p>function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement.</p>	
<p>Chief Audit Executive Responsibilities – “When selecting the independent assessor, assessment team, or individual to validate a self-assessment, the chief audit executive must ensure the following criteria are met. To be qualified, the independent assessor or assessment team must evidence...” (standard 8.4, External Quality Assessment, p. 56)</p>	<p>Chief Audit Executive Responsibilities – When selecting the independent assessor, assessment team, or individual to validate a self-assessment, the chief audit executive must ensure the following criteria are met. To be qualified, the independent assessor, or assessment team, or individual to validate a self-assessment must evidence:</p>	<p>Based on the prior sentence, we believe that the IIA intends that an individual who validates a self-assessment also must evidence these matters.</p>
<p>Public Sector – “Additional stakeholders may include elected officials; however, internal auditors should involve management and the board before taking direction from officials who do not provide direct governance over the organization. (standard 11.1, Building</p>	<p>Public Sector – Additional stakeholders may include elected officials; however, internal auditors should involve senior management and the board before taking direction from elected officials who do not provide direct governance over the organization.</p>	<p>To ensure additional clarity and consistency in referring to specific parties.</p>

Proposed Standards	GAO proposal (in red text)	Rationale for change
Relationships and Communicating with Stakeholders, p. 83)		
Public Sector – The system of internal assessment also must include ongoing monitoring of the conformance with applicable regulations. (standard 12.1, Internal Quality Assessment, p. 95)	Public Sector – The system of internal assessment also must include ongoing monitoring of the conformance with applicable laws and regulations.	We believe “laws and regulations” better captures the public sector environment.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,



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