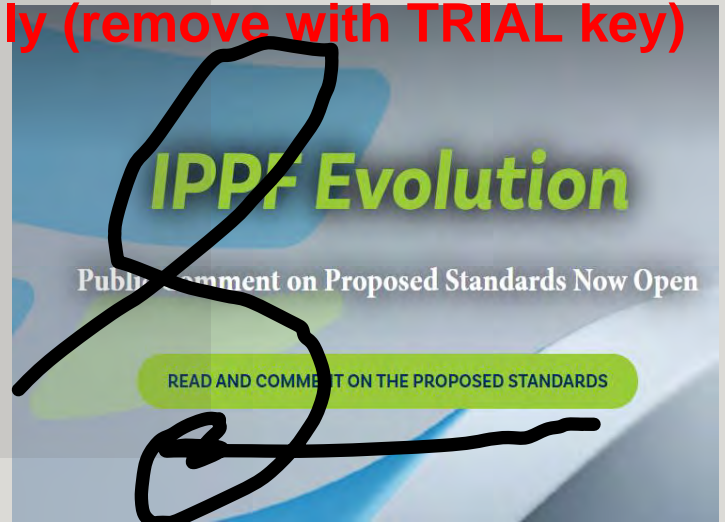


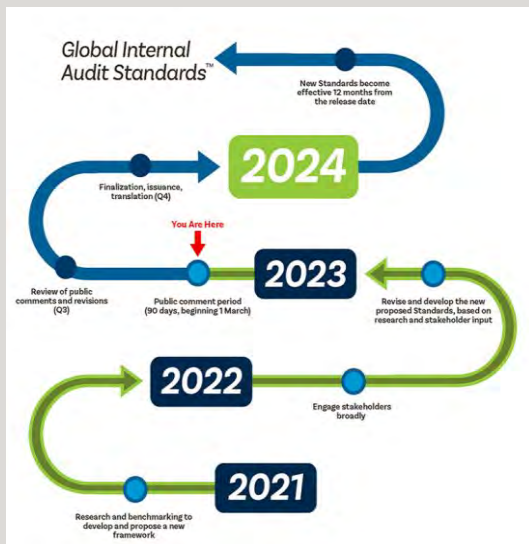
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# IPPF EVOLUTION



## How is the IPPF changing?

The International Internal Audit Standards Board has released a draft of the proposed Global Internal Audit Standards™ for public comment until May 30. This is part of a larger project to update The IIA's International Professional Practices Framework, including the International Standards for the Professional Practice of Internal Auditing. The Standards Board will analyse the responses and make necessary revisions, with the aim of officially releasing the new Global Internal Audit Standards™ before the end of 2023.



## Overview of IPPF changes

- The new Global Internal Audit Standards™ incorporate five mandatory elements of the current framework and one recommended (non – mandatory) element, Implementation Guidance. These will no longer exist as separate entities.
- The proposed Standards are not divided into “attribute” and “performance” categories and do not contain “interpretations” as a separate section. The “. A” and “.C” implementation standards have been incorporated into the main body of the proposed Standards, and the numbering system and order of the Standards have changed.
- Guidance will still exist as a recommended element in the new IPPF, and Topical Requirements are being considered as an addition to Standards and Guidance to address emerging topics promptly and succinctly.

## 10 Major Changes being proposed

- New Name

The International Standards for the Professional Practice of Internal Auditing® has been renamed Global Internal Audit Standards™.

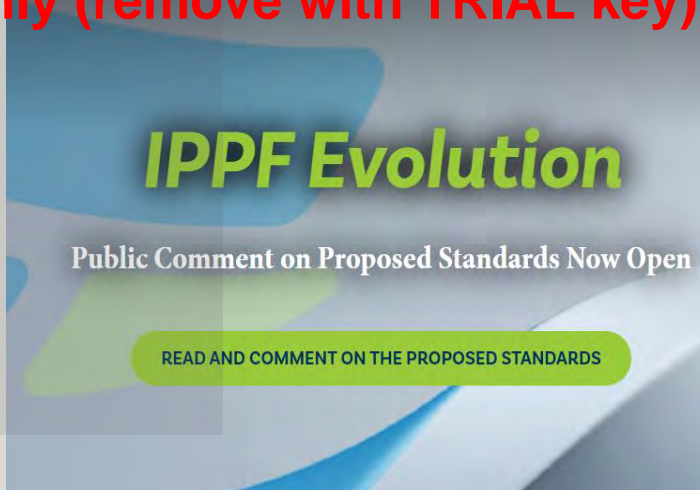
- New Structure

The six elements of the current IPPF (Mission, Definition, Code of ethics, Core Principles, and implementation) are incorporated into the Global Internal Audit Standards™ and organized into the five domains.

## Is IPPF going away?

No. The IPPF will remain a large framework, including the Global Internal Audit Standards™, and Guidance (mainly Practice Guides and Global Technology Audit Guides). There will be a new proposed element – Topical Requirement and Guidance which currently in the preliminary stages of consideration and development.

# IPPF EVOLUTION



- New sections in each standard

The Global Internal Audit Standards were designed to provide clarity and guidance for internal auditors to deliver high-quality performance. Each standard includes sections outlining requirements, and suggestions for implementing and providing evidence of conformance with those requirements.

- New Purpose of Internal Auditing

The first domain in the proposed Global Internal Audit Standards™ incorporates the Mission of Internal Audit and the Definition of Internal Auditing and includes a new focus on how internal auditing helps the organisation serve the public interest.

- New Ethics and Professionalism domain and standards

The Code of Ethics has been incorporated into the Ethics and Professionalism domain of the Standards.

- New Governing domain and standards

The proposed Global Internal Audit Standards™ clarifies the board's role in governing the internal audit function. The Standards also explicitly state the board's responsibility for external quality assessments, previously only implied or indirectly stated in the existing Standards.

- New and different requirements for the quality assurance and improvement program

The Quality Assurance and Improvement Program (QAIP) has new clarifications and requirements, including board oversight and the need for at least one Certified Internal Auditor (CIA) as a reviewer in external quality reviews.

- Special attention to the public sector

"Public sector" is now defined in the proposed Standards glossary, and the new "considerations for implementation" section specifically addresses information to assist internal auditors in the public sector.

- Rigorous standard-setting process, with increased focus on stakeholders and public interest

The public interest was considered intentionally when creating the new standard-setting process and the Purpose of Internal Auditing, and when updating other standards to consider stakeholders.

- New terms and revised and expanded Glossary

The proposed Standards introduce and define terms, such as "criteria," "condition," "finding," "inherent risk," "residual risk," "risk tolerance," and "root cause," commonly used when performing internal audit services.

## What should Internal Auditors do?

- Internal auditor should download and read the proposed Standard and take the survey available in English from 1 March 2023 - 30 May 2023.
- The following are the new resources available regarding the detail of the changes.
  - i) A table of contents lists out the sections of the Proposed Global Internal Audit Standards™.

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# IPPF EVOLUTION



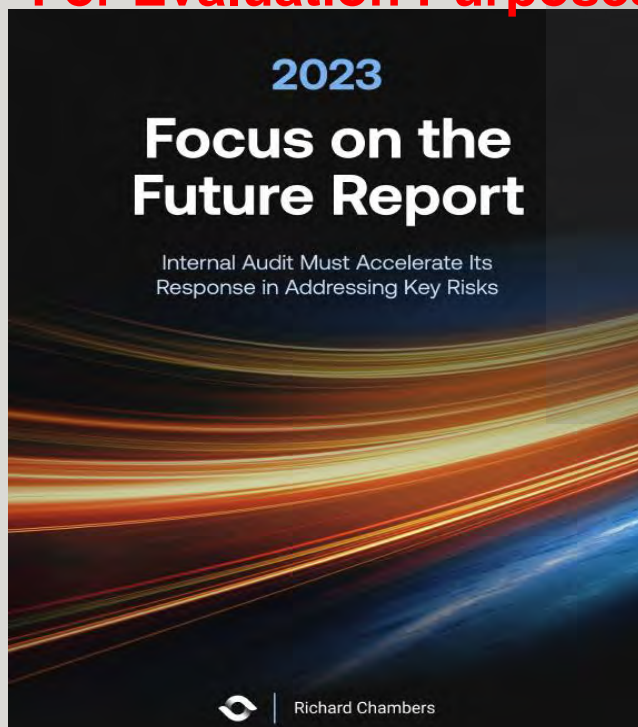
ii) A detailed mapping of statements and concepts from the International Standards for the Professional Practice of Internal Auditing (2017) to the Proposed Global Internal Audit Standards™ is available.

iii) A comparison of the glossaries from the International Standards for the Professional Practice of Internal Auditing (2017) to the Proposed Global Internal Audit Standards™ is available.

- Since the internal audit practitioner learning module and exam will not be updated to reflect the new Standards before July 2024, and the CIA exam will not be updated to reflect the new Standards before January 2025, those internal audit practitioners who wish to take the exam with the existing Standard (IPPF 2017 edition) are encouraged to do so by the end of December 2024.
- The Standards will be effective for quality assessments 12 months after they are published. There are several options for conducting your next quality assessment. If your next assessment is due in 2023 or early 2024, you should proceed with your assessment when due under the existing IPPF. If your assessment is due in late 2024 or in 2025, you can choose to accelerate your assessment under the existing IPPF in 2023 or early 2024. If your assessment is due in 2025, you can elect to have a gap assessment performed by IIA Quality Services in 2024 to assess your readiness in implementing the new Standards.
- If you have questions about your Quality Assurance and Improvement Program or would like IIA Malaysia to conduct an external assessment, please contact the Technical & Quality Assurance Department at [technical@iiam.com.my](mailto:technical@iiam.com.my)

## Reference :

<https://www.theiia.org/ippfevolution>



**Internal audit must accelerate its response in addressing key risks. (BY RICHARD CHAMBERS)**

The current economic climate is facing significant challenges, including high inflation, signs of recession, and the possibility of stagflation. Despite these challenges, a recent survey of internal audit executives by audit board indicates that internal auditors are coasting in these turbulent times, exhibiting a calm that may be masking challenges in preparing for and addressing existing and emerging risks.

The 2023 Focus on the Future survey found a lack of alignment between top risks facing businesses and the level of effort internal audit is putting toward those vulnerabilities. The survey also revealed that internal auditors are generally optimistic about their budgets and available talent, despite the challenges presented by mounting uncertainty and shortfalls in talent and resources.

Overall, the survey suggests an opportunity for internal auditors to better level-set their efforts and be less dependent on the judgment of others. Additionally, organisation need to focus on addressing the top risks facing their business in the face of mounting uncertainty.

# 2023 Focus on the Future Report

## **2023-2026 Top Risks: Cyber and Talent Lead Amid Turbulence**

The risk landscape is constantly changing, but the survey found that overall, there have been no significant declines in risk since last year.

The World Economic Forum and other organisation have issued multiple warnings regarding the urgent and impactful risks associated with environmental, social, and governance (ESG) concerns. However, there is a divided response regarding the level of risk associated with ESG for 2023. Over two-thirds of respondents ranked at least one aspect of ESG (environmental sustainability, governance, or social) as a top risk for 2023, making it one of the fastest-growing risks this year. Despite increased awareness among auditors, all three components of ESG still rank in the bottom half of the 2023 risk areas surveyed.

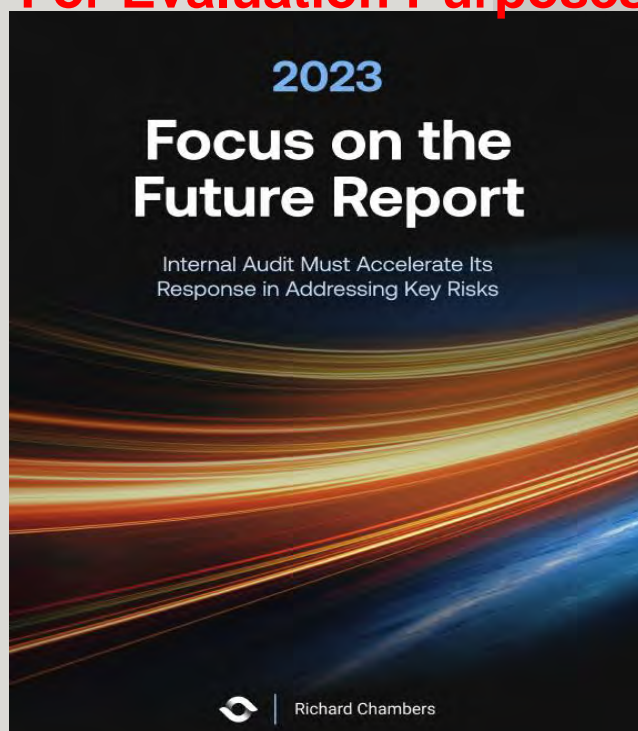
## **Audit Effort vs. Risk: A Troubling Lack of Alignment**

A 2021 Focus on the Future report found that internal audit efforts generally matched risk levels, except for outliers such as talent, fraud, and board oversight. However, their 2022 mid-year report, "Internal Audit Bracing for More Disruption," mentioned that internal audit's focus may not align with their organisation most significant risks in 2023.

The latest survey results indicate that this prediction is ringing true. There is a significant gap between anticipated risk levels and planned audit efforts in three key areas: attracting and retaining top talent, macroeconomic factors and geopolitical uncertainty, and business model disruptions due to an evolving digital risk landscape.



# 2023 Focus on the Future Report



## ✚ Missed Opportunities in Risk Monitoring

The future is unpredictable, and the internal auditor must continuously monitor risks and adjust plans quickly in response to change the conditions. The practice of conducting a single annual risk assessment to build a 12-month audit plan is no longer sufficient.

When monitoring risks, collaborating with other risk-related functions is favoured by most respondents. It can provide valuable information, and internal auditors must base their assessments objectively and use scrutiny and scepticism. Relying solely on thoughts distilled and homogenized by others in the organisation is insufficient for identifying the root of an issue. If the internal audit team needs more talent and skills for independent analysis of a complex issue, third-party support may be necessary.

Although professional networking can bring numerous benefits, only half of the respondents in a survey engage with internal auditors from other organisations. It is still being determined why this hesitation exists. However, reaching out to peers from other businesses is an essential strategy to prevent the audit function from operating in isolation and missing vital emerging risks. Engaging with industry peers can help audit leaders reassess their risk assessments and audit plans and proactively adjust them, which is ideal.

There are other risk monitoring methods, such as using key risk indicators ("KRIs"), only about half of respondents utilize them despite their value in enabling efficient continuous monitoring. The survey shows that while internal auditors try to assess risks effectively, many disregard essential risk monitoring techniques.

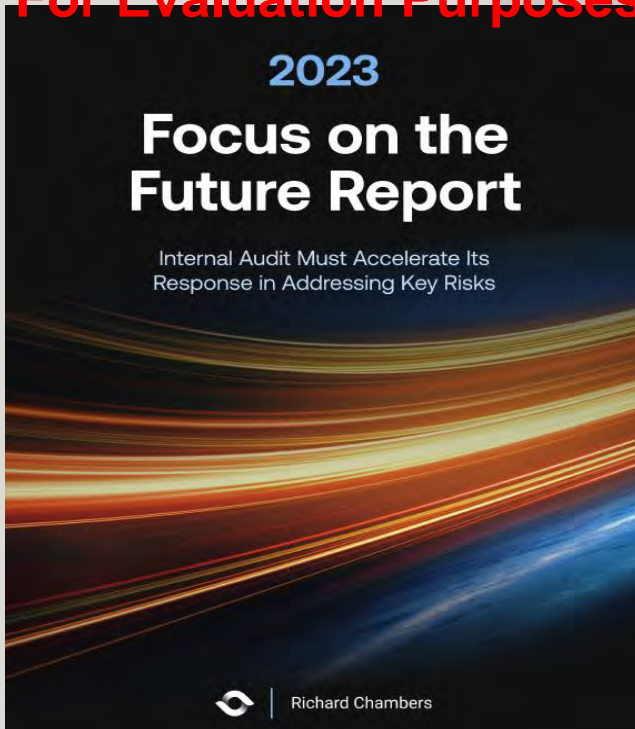
## ✚ Resources and Talent: A Questionably Sunny Forecast

Last year's survey showed that about half of the respondents anticipated increased staff and budget within the next 12 to 24 months. The optimistic outlook continued in the 2022 Mid-Year Snapshot, with 40% of respondents expecting increased budgets and almost one-third planning to expand their workforce in 2023.

The latest survey indicates that internal audit leaders are positive about the resources available in 2023, with many expecting increased budgets and expanded workforces. However, according to recession probability models, the possibility of an economic downturn in 2023 could result in resource constraints that could negatively impact audit budgets and headcount.

Some internal audit leaders said having enough or more-than-needed resources, which should not be taken as a target but rather as a "floor" for necessary resources. The required resource level depends on the organisation's risks in achieving its objectives. During a recession, internal audits may be tasked with activities that do not directly provide assurance to executives and the board, but internal auditors must maintain their objectivity and focus on whether management is effectively managing risks. With the prospects of a recession looming, it is crucial to maintain and justify adequate resources.

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# 2023 Focus on the Future Report

Internal auditors may consider the following to review their talent strategy to ensure that the internal audit function has the necessary skills and expertise to address key risk areas.

- Develop in-house talent – Internal audit function can leverage resources from other departments to address skill gaps and ensure effectiveness in responding to key risk areas. It can help IA functions build a more diverse set of skills and expertise while maintaining independence and adding value to the organization.
- Co-sourcing with external parties - It can provide internal audit function access to specialised expertise and technology that may not be available in-house.
- Resourcing from SME (“Subject matter expert”) departments. By leveraging the expertise of professionals in other assurance functions, such as technical centres of excellence or security teams, internal audit function can improve their ability to address key risk areas such as cybersecurity, ESG, and to stay up to date on emerging risks and best practices in their field.

## References:

<https://www.auditboard.com/resources/ebook/2023-focus-on-the-future-internal-audit-must-accelerate-its-response-in-addressing-key-risks/>

## **Talent and Technology: The Biggest Strategic Risks Facing Audit**

Internal auditors should start by focusing on the risks and their ability to perform their job effectively and efficiently. According to the survey, the two main challenges to meeting these objectives are difficulty attracting and retaining high-quality audit talent, a lack of ability to use technology in auditing, and a lack of technological expertise.

To improve internal audit efficacy and efficiency, internal audit leaders need to invest in talent and technology.

### **What should Internal Auditors do?**

IPPF *Standard 1230* – Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Internal auditors must have sufficient knowledge to perform the internal audit activity and evaluate the organisation's performance. By upskilling the internal auditor, vetting and implementing the right technology solutions, an internal audit can substantially enhance its ability to perform its responsibilities and add value to the organisation.

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# Fraud



## FRAUD

Part 3: The Hangover—Fraud in the Post-COVID Era



### Part 3: The Hangover—Fraud in the Post-COVID Era

#### New COVID-inspired frauds will emerge

The Association of Certified Fraud Examiners (ACFE) found in its most recent Report to the Nations that pandemic-related frauds continue to impact organisations as they have yet to be detected. Remote work, initially intended to be temporary, has become the standard operating procedure in many companies, leading to changes and loosening practices and procedures designed to identify or mitigate fraud. Internal audit has and will continue to play a key role in handling ongoing fraud risks related to the pandemic, including added involvement in strategic considerations of operational challenges, providing continuous assurance, and increased collaboration across business functions while maintaining auditor independence.

#### Top Pandemic-Related Fraud Risks

- More than half see pandemic factors contributing to fraud.

The ACFE found that pandemic-related issues contributed to fraud incidents, with organisational staffing changes being the most common factor. A shift to remote work was the most cited significant factor, followed by internal controls.

- Staffing changes pose various fraud risks

The pandemic forced organisations to adjust and make accommodations, such as changing workers' responsibilities, bringing in new people, and implementing temporary layoffs or furloughs, which may have increased risks from various angles.

Organisations should examine the potential unintentional impacts that pandemic-related adjustments and accommodations to work practices and protocols may have had, particularly as workers took on new responsibilities and new hires had limited time to acclimate to their jobs.

- COVID-related internal control changes should be revisited

Internal controls are put in place by organisations to ensure adherence to policies, reporting requirements, and compliance mandates. Strong internal controls, including anti-fraud controls, can greatly reduce fraud losses and aid in detecting fraud quickly.

The ACFE study found that almost 50% of fraud losses were due to a lack of internal controls or an override of existing controls. Internal audit plays a crucial role in reporting on and suggesting improvements for internal controls, with fraud loss being 50% higher in the absence of an internal audit department.

The pandemic and remote working have weakened internal control frameworks, and shortcuts taken during the crisis may have become standard operating procedures. This has increased the risk of fraud, as weaknesses in internal controls make it easier to neglect or override anti-fraud measures, such as the segregation of duties. Internal audit can help by ensuring proper protocols and processes are in place and using process mapping technology to track processes and identify deviations. Many audit committee members have updated their internal controls due to the remote work environment.

# Fraud



## FRAUD

Part 3: The Hangover—Fraud in the Post-COVID Era



- Remote work remains critical fraud factor

The shift to remote work during the pandemic was the most significant change for most of the organisations, and it was cited as the factor most contributing to the fraud in the ACFE report. This change was implemented rapidly due to the situation's urgency, making it easier to perpetrate fraud when working alone and out of sight of colleagues and supervisors. Those who have made or are moving permanently to remote, or hybrid work should engage in change management planning to identify the fault lines that could have catastrophic consequences if left unaddressed.

- Technology changes create fraud give and take

Technology can help organisations implement effective internal controls and remote work procedures. Many organisations made enhancements and investments in technology to address cybersecurity concerns during the pandemic, prompting companies to accelerate and strengthen their systems. Internal audit functions were also included in this technology upgrade, with 29% of internal auditors using data analysis to identify fraud and corruption since the pandemic began.

- "Quiet Quitting" impacts compliance, ethics efforts

"Quiet quitting" is a practice where workers do only the bare minimum of their job requirements, estimated to make up at least 50% of the US workforce, while actively disengaged workers are at 18%. It will cause lower productivity, efficiency, retention, and negative effects on risk management.

### What should Internal Auditors do?

*IPPF Standard 2130* – The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations, and information systems. Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

Internal auditors are advised that competent evaluation can only be implemented if they are equipped with the necessary skills and competency and are abreast with technological changes and advancement. By staying ahead of the curve, they can recommend mitigation to increase risks of bring your own device ("BYOD"), user-developed applications, cloud computing, etc., accelerated by the pandemic.

Internal auditors should also perform a competent evaluation of the effectiveness of controls and entail assessing the controls in the context of risks to objectives at each level. IAs should use a risk and control matrix to facilitate such assessment.

In employing a risk and control matrix, IAs may find it helpful to interview senior management, including group risk function, review policies and processes, etc., to ascertain whether these risks impact their business operations and the organisations. If the management's response to these risks is affirmative, IAs should offer assurance or consultancy services to them.



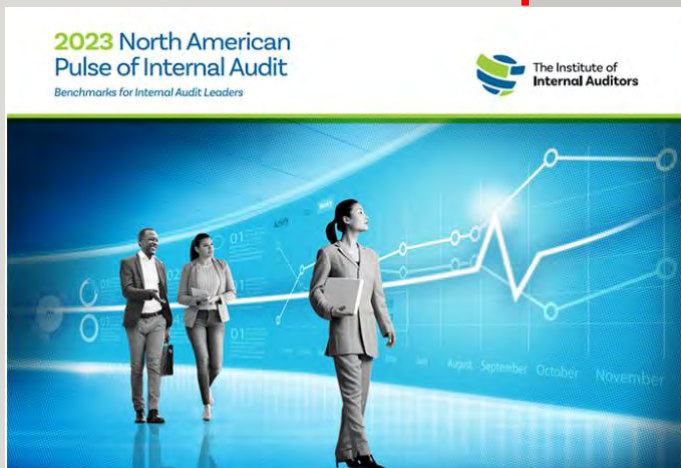
# Fraud



To promote continuous improvement in maintaining effective controls, the IAs should provide the board (including Audit Committee) and senior management with an overall assessment and update them if the risks are significant to the organisation.

## Reference :

<https://www.theiia.org/en/content/articles/global-knowledge-brief/2023/march/fraud-part-3-the-hangover---fraud-in-the-post-covid-era/>

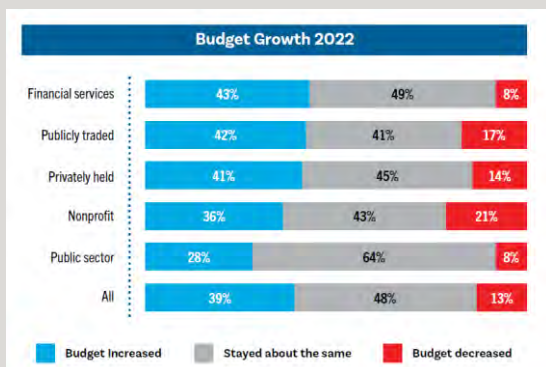


# 2023 North American Pulse of Internal Audit

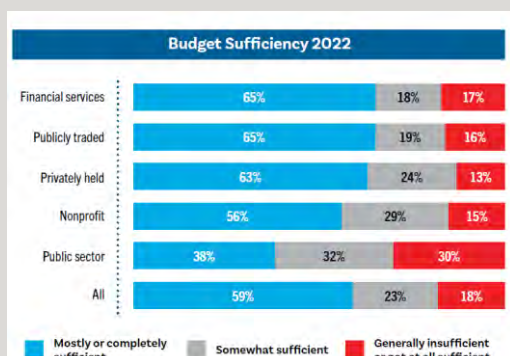
## Benchmarks for Internal Audit Leaders

### Section 1: Budget

- Internal audit budgets have returned to pre-COVID levels for percentages of those with increases vs. decreases.
- About 40% said they had budget increases in the past year.



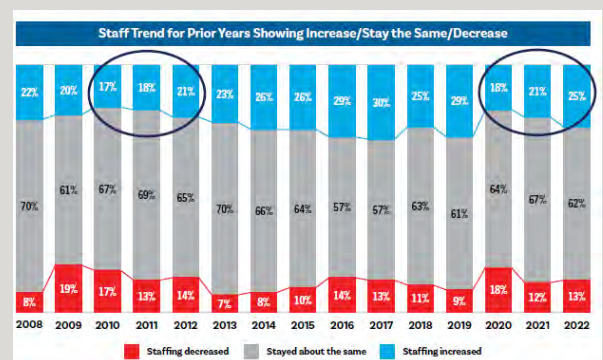
- About 60% said they have budget sufficiency.



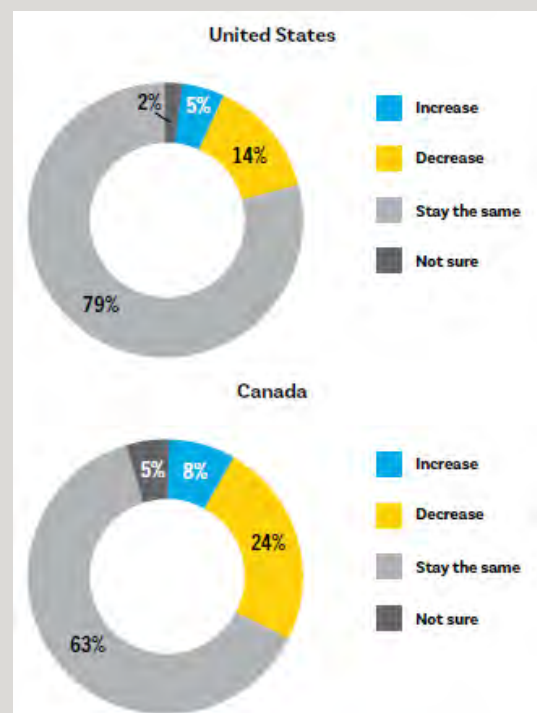
- Long-term trend shows about 50% of budgets stay about the same year-over-year during normal economic conditions.

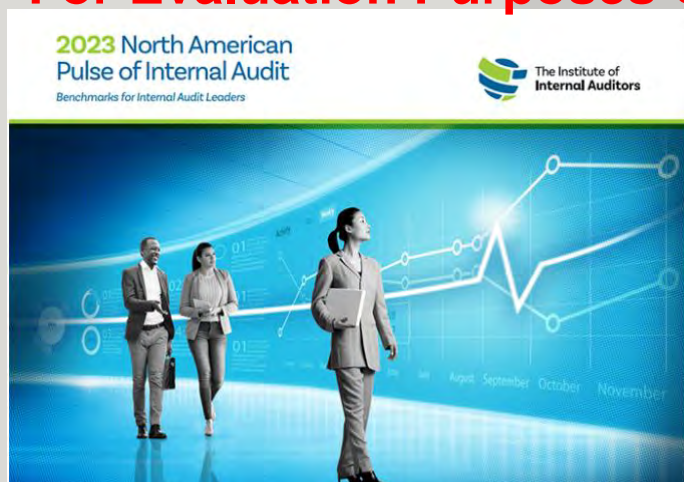
### Section 2: Staff

- Internal audit staff growth is increasing but has not returned to pre-COVID levels yet.



- The biggest challenge when hiring talent is compensation expectations.
- Remote work is decreasing but still common.

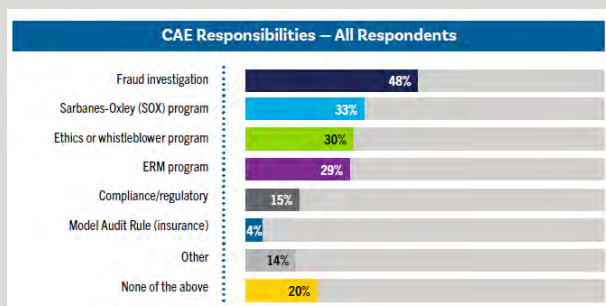




# 2023 North American Pulse of Internal Audit

## Section 3: Audit Plans

- Cybersecurity and IT efforts made up 19% of respondents' audit plans.
- Almost 70% of functions review high risk areas, such as cybersecurity and IT, at least annually.
- More than 80% of auditors integrate fraud and IT considerations into their audits routinely.
- Almost half of CAEs say they are responsible for fraud investigations.



- At publicly traded organisations, 67% of CAEs have responsibility for the Sarbanes-Oxley program.

## Section 4: Risk Levels

- Third-party relationships are the third highest risk area (after cybersecurity and IT).
- Audit frequency for third-party relationships is relatively low compared to risk level.
- More than 60% of respondents at publicly traded organisations considered sustainability/non-financial reporting risk levels to be moderate, high, or very high.

- Cost/expense reduction has a much higher risk level for non-profit organisations than other sectors.

## Section 5: Leadership Metrics

- Administrative and functional reporting lines differ significantly by sector.
- 94% say their organisations have an audit committee, board, or equivalent.
- However, only about 70% at public sector and privately held organisations say they report functionally to an audit committee, board, or equivalent.
- For administrative reporting in the public sector and financial services, the most common line is to the CEO, president, or agency head.
- However, at 72% of publicly traded organisations and 60% of privately held organisations, the administrative reporting line goes to the chief financial officer (CFO) or similar role.

## What should Internal Auditors do?

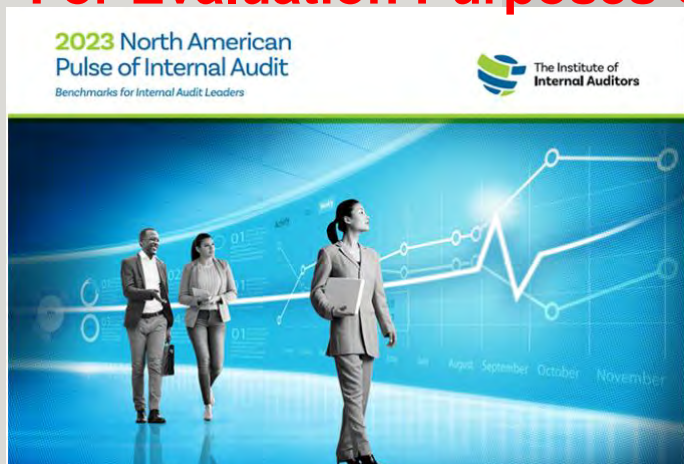
**IPPF Standard 2030** – The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

- Budget and staff - Chief Audit Executive ("CAE") should refer to the Section 1: Budget as a guideline that facilitate their IA function in determining how much resources (i.e., budget and staff) should be allocated for their department's activities, resources, and initiatives.

The budget benchmark can vary depending on various factors such as the size and complexity of the organisation, the nature and scope of the audit function, and the specific risks and priorities of the business.



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# 2023 North American Pulse of Internal Audit

Ultimately, the budget benchmark for CAE should be based on a comprehensive analysis of the organisation's needs and priorities, as well as a realistic assessment of available resources and constraints. The number and composition of staff members should be in accordance with the scope and frequency of audits.

*IPPF Standard 2010* - The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

- **Audit plan and risk levels** - The CAE should ensure the audit universe covers the organisation's key risks. Critical risks are linked to specific objectives and business processes to assist the CAE in organising the audit universe and prioritising the risks. CAE can assess if these risks in Section 3: Audit Plan and Section 4: Risk Levels impact their organisation as the new key risks and adjust their audit plan accordingly. The audit plan should be flexible enough to adapt to changes in the organisation's business environment and to emerging risks.

*IPPF Standard 2200* - Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

The organisations and internal auditors should take into account the increased risk of fraud in the digital age, and integrate cyber security, IT, and fraud considerations into their audit planning, assessment, and execution.

By doing so, they can help to mitigate the risk of fraud and ensure that their internal controls are effective in the face of evolving technological threats.

*IPPF Standard 1100* - The internal audit activity must be independent, and internal auditors must be objective in performing their work.

- **Section 5: Leadership Metrics**, serves merely as a reference. However, the IPPF provides a benchmark for the internal audit function's administrative and functional reporting lines based on the principles of independence, accountability, and objectivity.

The CAE should work closely with other stakeholders, such as senior management, the board of directors, and the audit committee, to establish reporting lines that effectively address the organisation's needs while maintaining the independence and objectivity of the internal audit function.

## Reference:

<https://www.theiia.org/en/resources/research-and-reports/pulse/>

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