

Applying the IPPF in the Unique Public Sector Environment



The Institute of
Internal Auditors
Chicago

**2023 Illinois Government
Auditing Conference**

Pamela J Stroebel Powers, CIA, CGAP, CRMA, CPA (She/Her)

Director Professional Guidance – Public Sector
The Institute of Internal Auditors – Global Headquarters



Pam joined the IIA in April 2021 and enjoys working with public sector auditors globally! She came to the IIA with 22 years experience as an internal auditor in Oregon State Government. Over that time, Pam worked for five agencies, serving as the Chief Audit Executive for four of those agencies and established the first in-house internal audit activity in two. Pamela also founded Powers CPA, LLC which provided internal audit, consulting and assurance services to government and non-profit entities. Pam began her career as an external auditor with the Audits Division of the Secretary of State.

In addition to her audit roles, Pam has served as a contributing faculty member at Willamette University since 2010. Over the course of her career, she has provided training on various topics to agency staff, management and various professional organizations. She also serves as a course facilitator for the IIA, providing training for audit professionals globally. Pam has a Bachelor's degree in Accounting from Western Baptist College and an MBA from Willamette University.

[linkedin.com/in/pamela-j-stroebel-powers-cia-cgap-crma-cpa-mba](https://www.linkedin.com/in/pamela-j-stroebel-powers-cia-cgap-crma-cpa-mba)

Today's Discussion Topics

This session is designed to:

- Identify the unique aspects of auditing in the public sector and discuss opportunities for mitigating challenges.
- Discuss current trends and challenges in public sector auditing based on the 2023 Pulse Report.
- Provide an update on the current IPPF Evolution Project and what potential impacts to the public sector may be.
- Provide awareness to attendees on IIA resources specific to public sector internal auditors.

Unique Aspects of Auditing in the Public Sector



The Institute of
Internal Auditors
Chicago

Public Sector Definition

The public sector consists of governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services.

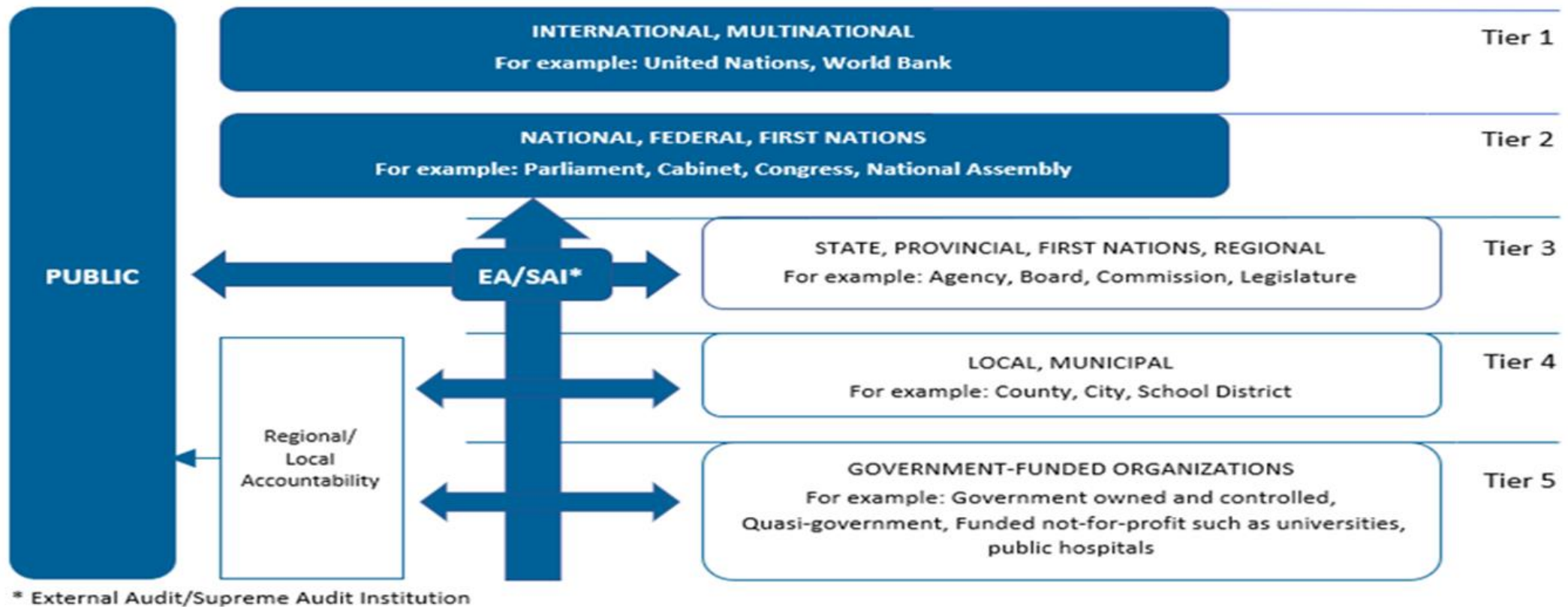
This definition will now be included in the IPPF's glossary!

Purpose of Government

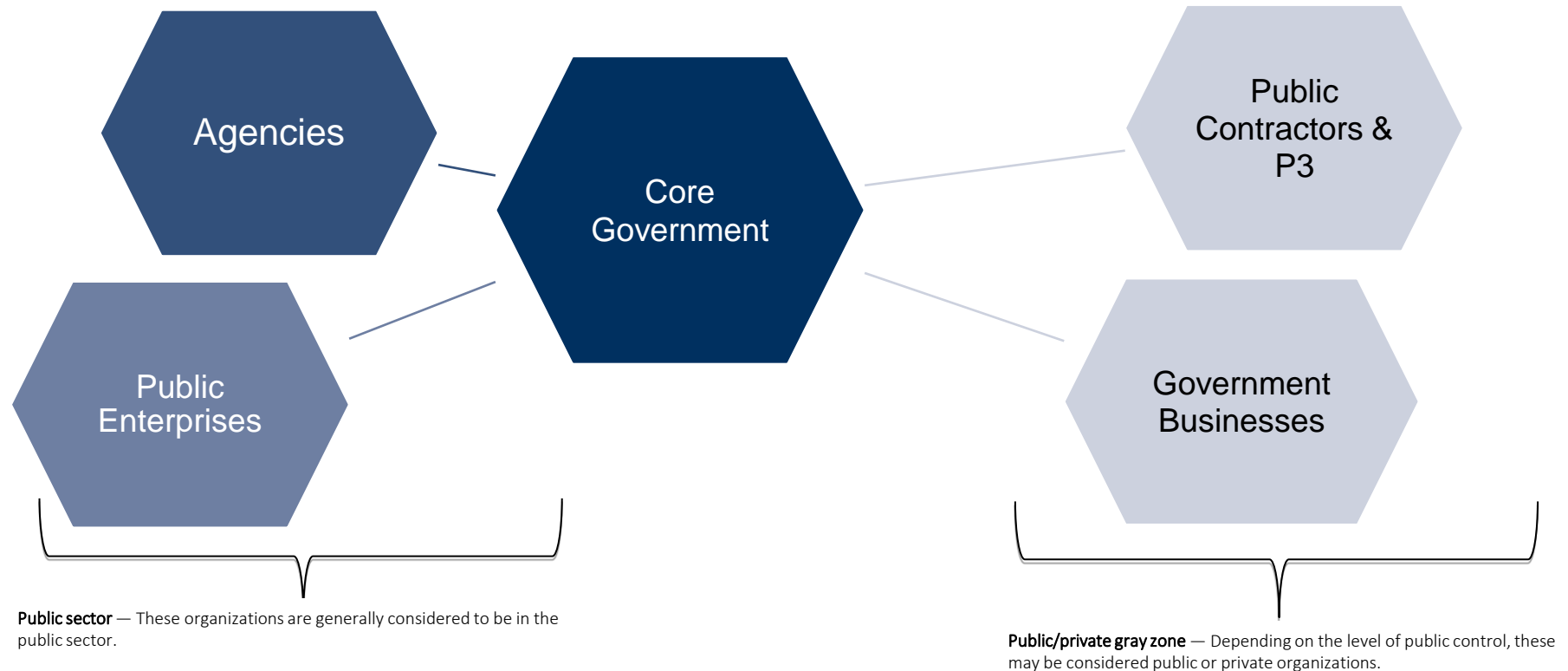
- To define, prioritize, and enact social, economic, security and environmental policies.
- To optimize the stewardship over and the use of public resources, considering the public interest.



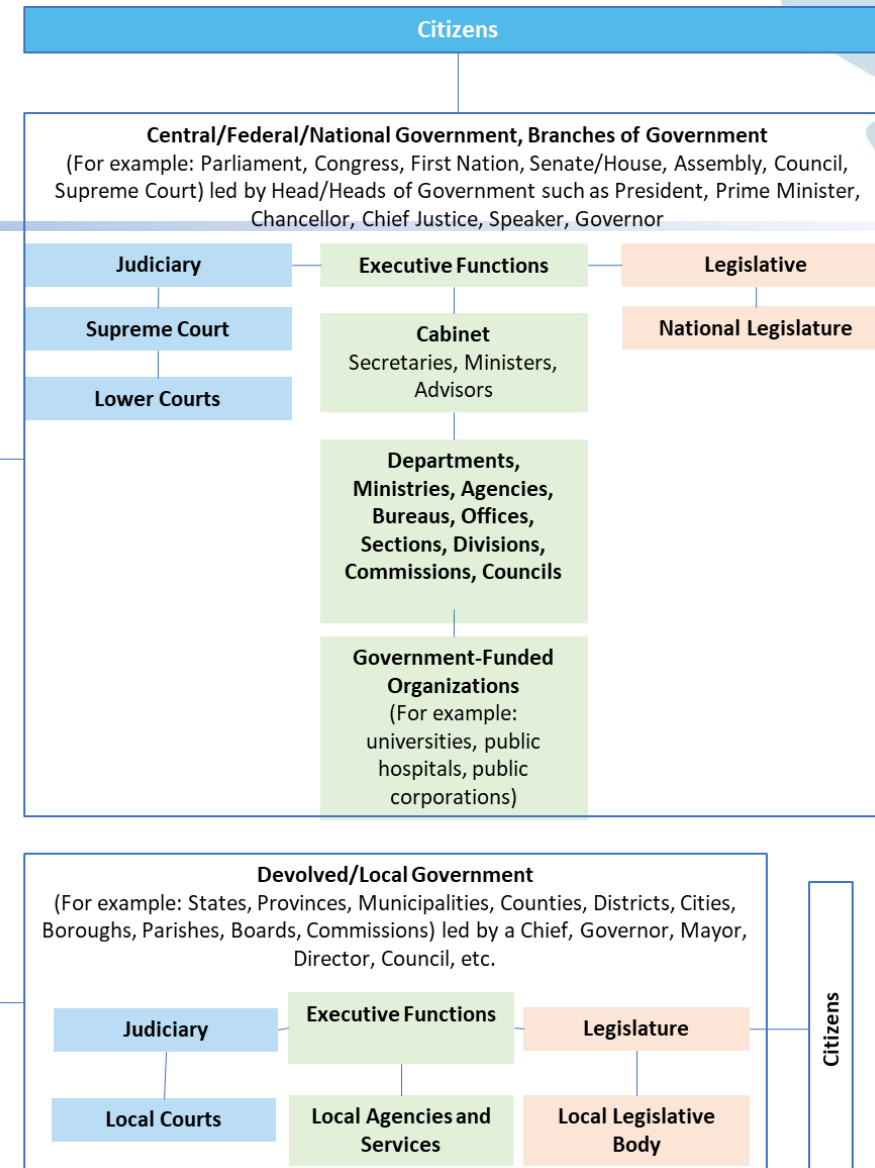
Tiers of Government



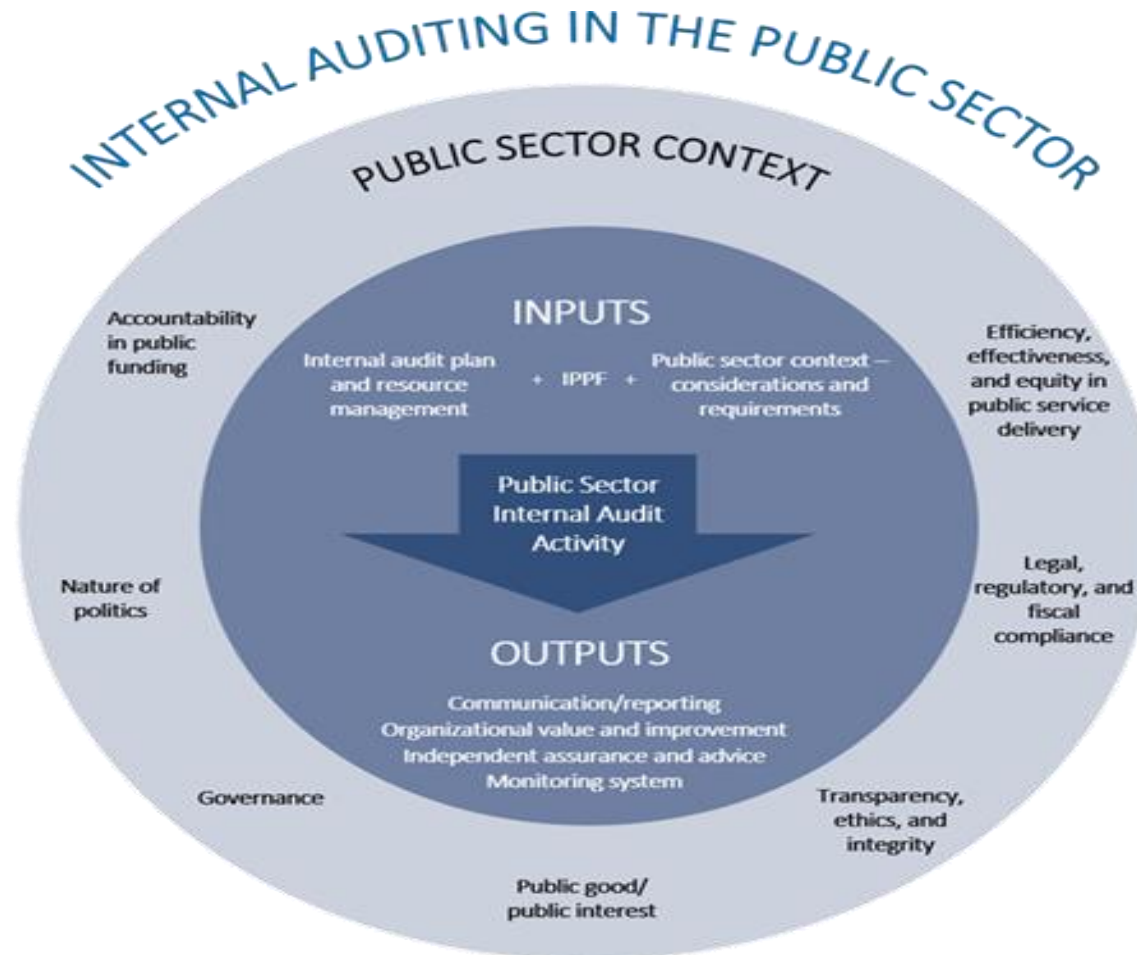
Relationship Among Core Government and Other Public Sector Organizations



Structures of Government



Unique Aspects of Auditing in the Public Sector



Public Sector vs. Private Sector

Organizational Characteristic	Public Sector	Private Sector
Main Organizational Purpose	Protect/Serve Public Interest	Maximize Shareholder Value
Creation	Law	Incorporation Acts
Governance Structure	Governing Board/Audit Committee/Senior Officials	Shareholders/Board of Directors/Audit Committee
Finance	Taxes/Revenues/Grants	Ownership/Debt/Revenues
Operational Rules	Format/Rigid/Law	Formal/Flexible/Informal
Accountability	Citizens/Legislature	Shareholders/Stakeholders/ Regulators
Outside Communication	Open/Public	Present/Potential Shareholders, Stakeholders & Regulators
Control Systems	Rigid	Flexible

Terminology Differences

- Board: *Often the public sector may not use the term Board to refer to the governing body; additionally government may have layers of 'governing bodies' with different responsibilities for setting law, budgets, policy, etc.*
- Chief Audit Executive: *The head of the internal audit activity – should have adequate competencies and experience.*
- External Audit/Assurance/Service Provider: *Typically the SAI or another body established in law; may be contracted out.*
- Internal Audit Charter: *Mandate - could also be from law or 'policy' – formal agreement with governing body/audit committee – helps protect independence*
- Company: *organization, entity, agency, department (components: unit, program)*
- ***Others?***

Governing Domain Introduction: “Board”

The Global Internal Audit Standards use the term “board” to refer to the highest-level body charged with governance, such as:

A board of directors, a committee, or another body to which the board of directors has delegated certain functions (for example, an audit committee).

A nonexecutive/supervisory board in an organization that has more than one governing body.

A board of governors or trustees.

A group of elected officials or political appointees.

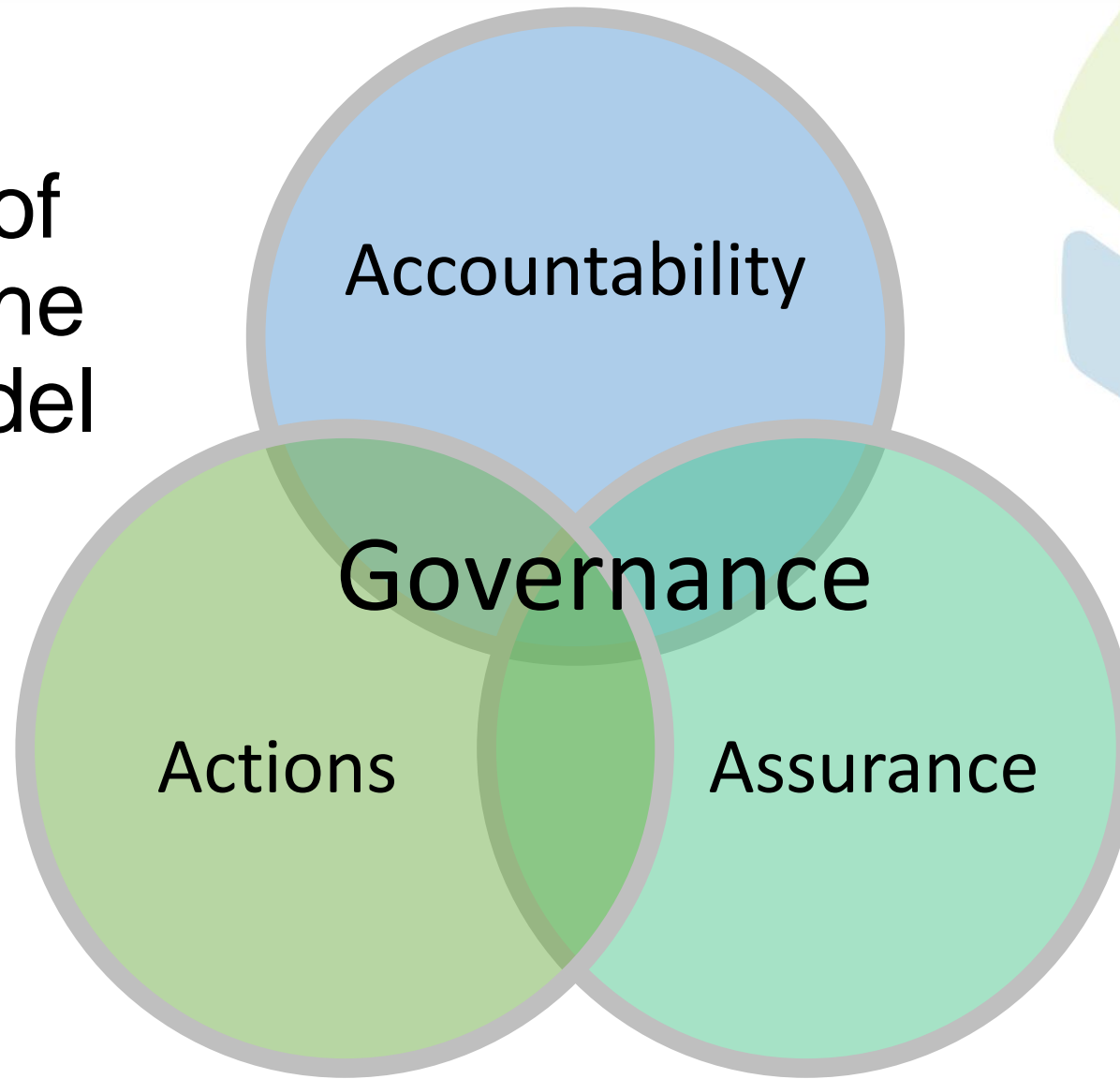
If a board does not exist, the word “board” refers to a group or person charged with governance of an organization (for example, some public sector entities or small private sector organizations may rely on the head of the organization or the senior management team to act as the highest-level governing body).

Applying the Three Lines in the Public Sector



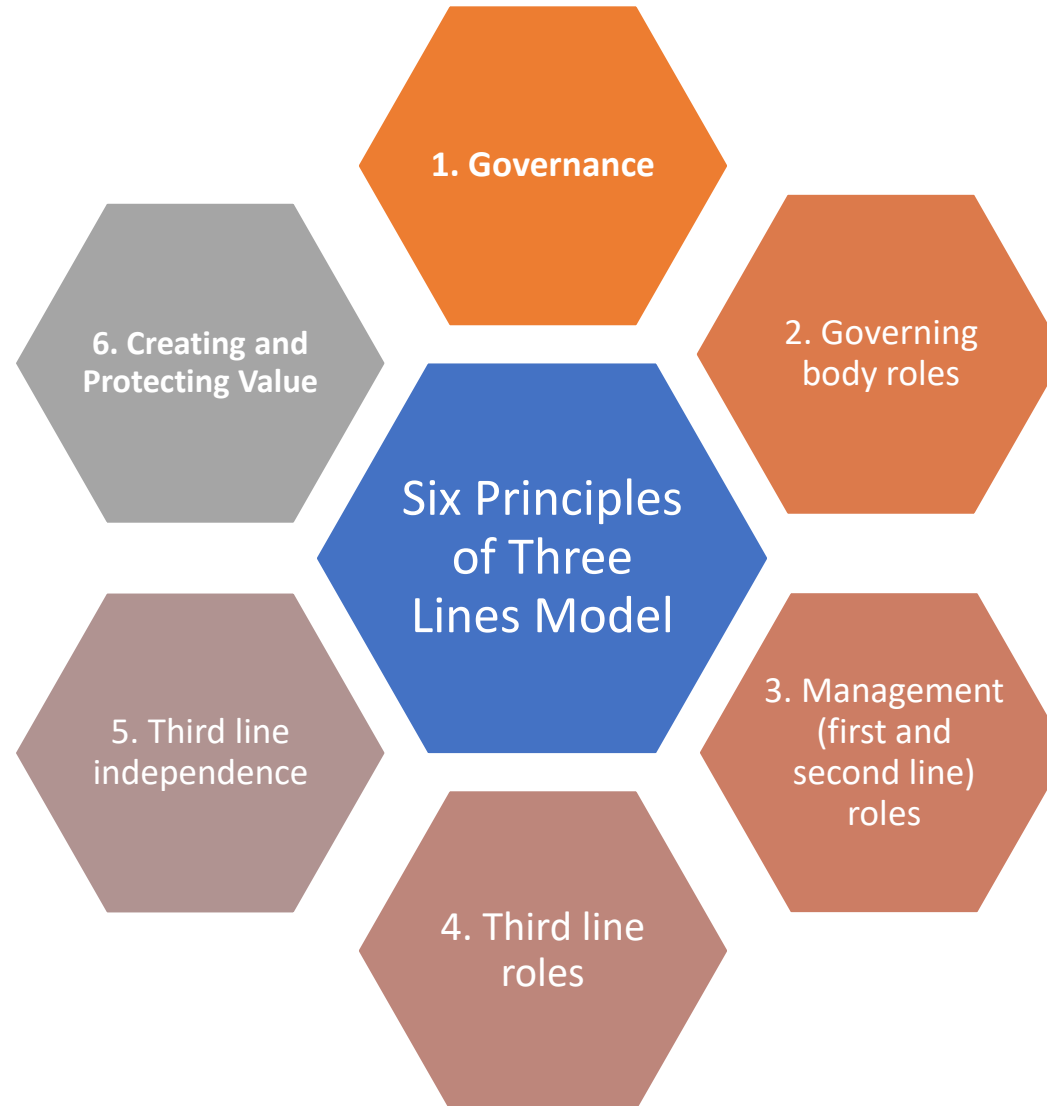
The Institute of
Internal Auditors
Chicago

Fundamental Building Blocks of Governance in the Three Lines Model



The Institute of
Internal Auditors

Three Lines Model — Six Principles



The Institute of
Internal Auditors

Independent Assurance

- Independence from the area of activity being audited.
- Timeliness and relevance to priorities and risks.
- Methods followed.
- Standards applied.
- Integrity, skills, and due professional care of the auditor, including **objectivity** and professional skepticism.
- Effectiveness of the oversight, supervision, and quality assurance of the auditing process.

Elements of Independence and Objectivity

Independence of Auditors	Objectivity of Auditors
<ul style="list-style-type: none">• Accountability to and oversight by highest decision-making authority – within the entity (for internal audit), within government (nation for SAIs), or at a level required by statute for other external audit providers• Absence of responsibilities for or power over activity or entity being audited• Freedom from interference in planning and delivering audits and reporting findings• Statutory or mandated powers to conduct audits on “access all areas” basis• Sufficient people, budget, and other resources to carry out audits	<ul style="list-style-type: none">• Strict adherence to code of ethics and professional standards• Proficiency and due professional care• Application of systematic and disciplined methodology• A mindset free from bias and the application of professional skepticism• Effective supervision and quality assurance processes

Threats to Independence and Objectivity

- The auditor has a personal interest or stake in the findings or outcome of the audit.
- The auditor has had recent close involvement with the area or entity being audited.
- The auditor was or is currently responsible for some aspects of the area or entity being audited.
- The auditor has acted or is acting on behalf of those responsible for some aspects of the area or entity being audited, including being a representative for or speaking on behalf of those individuals.
- The auditor is under pressure (real or perceived) to plan, deliver, execute, or report the audit in a certain way, whether through inducements or threats.

Safeguards

- Full disclosure of potential threats to independence and objectivity to the audit committee (or governing body).
- Auditor training and professional development.
- Increased audit supervision.
- Assessment of audit staffing and potential deployment of alternate or supplemental auditor(s).
- Outsourcing of audit to a third party.

Internal to External Audit Comparison

<u>Similarities:</u>	<u>Differences:</u>
Purpose - Assurance	Accountability
Professional Standards - Authoritative	Scope
Approach – Systemtic and Disciplined	Subject Matter
Status – Independence from Decisions, Activities and Resources being Audited	Reporting
	Enforceability

Opportunities for Collaboration with External Audit

- Regular communication
- Informed planning
- Improved and Shared reports
- Reliance on assurance provided
- Joint training – increase competencies
- Shared resources
- Mutual advocacy

Internal Auditing in the Public Sector: Challenges

Risk Adverse
Climate

Resource
Constraints

Public
Scrutiny

Access to
Information

Limits on Risk
Maturity

Political
Pressures

Additional Opportunities for Enhancing the Professionalism of the Internal Audit Function

- Internal Audit Charter – *Defines roles and responsibilities and enforces independence.*
- Types of Audits - *Performance Auditing*
- Audit Committee – *External membership integral to increasing independence.*
- Risk-Based Internal Audit Plan – *Standard 2010*
- Recruitment, Outsourcing, Cosourcing and Partnering - *Staffing and Competencies*
- Disseminating Results of Engagements – *Reporting in compliance with public records law*

The Model Invites Internal Auditors to Ask of Their Organizations

- Who is accountable (provides transparency and insight) to stakeholders (the public, citizens, service users, taxpayers)?
- Who is charged with executive decisions and actions (including managing risks, resources and operations)?
- Who is providing independent assurance (internally, externally)?
- Are these roles clearly defined?
- Are there appropriate interactions among them?

Statistics – What Public Sector Internal Auditors are Saying

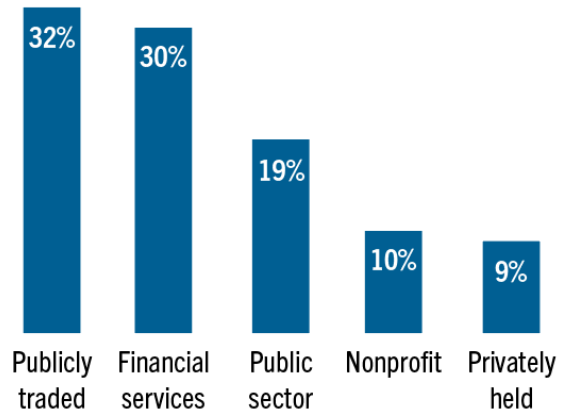


The Institute of
Internal Auditors
Chicago

2022 NA Pulse Survey Respondents

www.theiia.org/Pulse

Organization Type With Financial Services Breakout



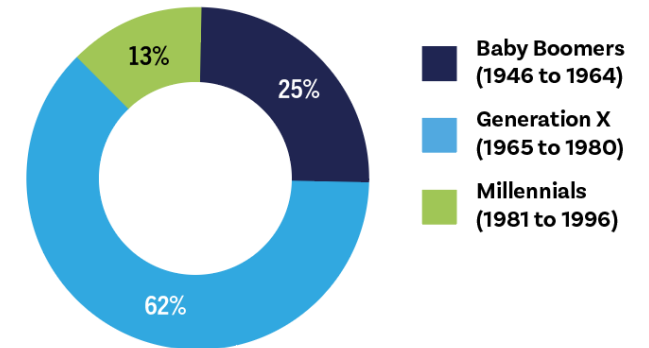
Public Sector

Public administration	43%
Educational services	29%
Health care and social assistance	8%
Agriculture, forestry, fishing, hunting	5%
Other	15%
Total	100%
Number of responses	107

NUMBER OF RESPONSES

CAEs	467	83%
Directors	95	17%
Total	562	100%

Respondent Generation

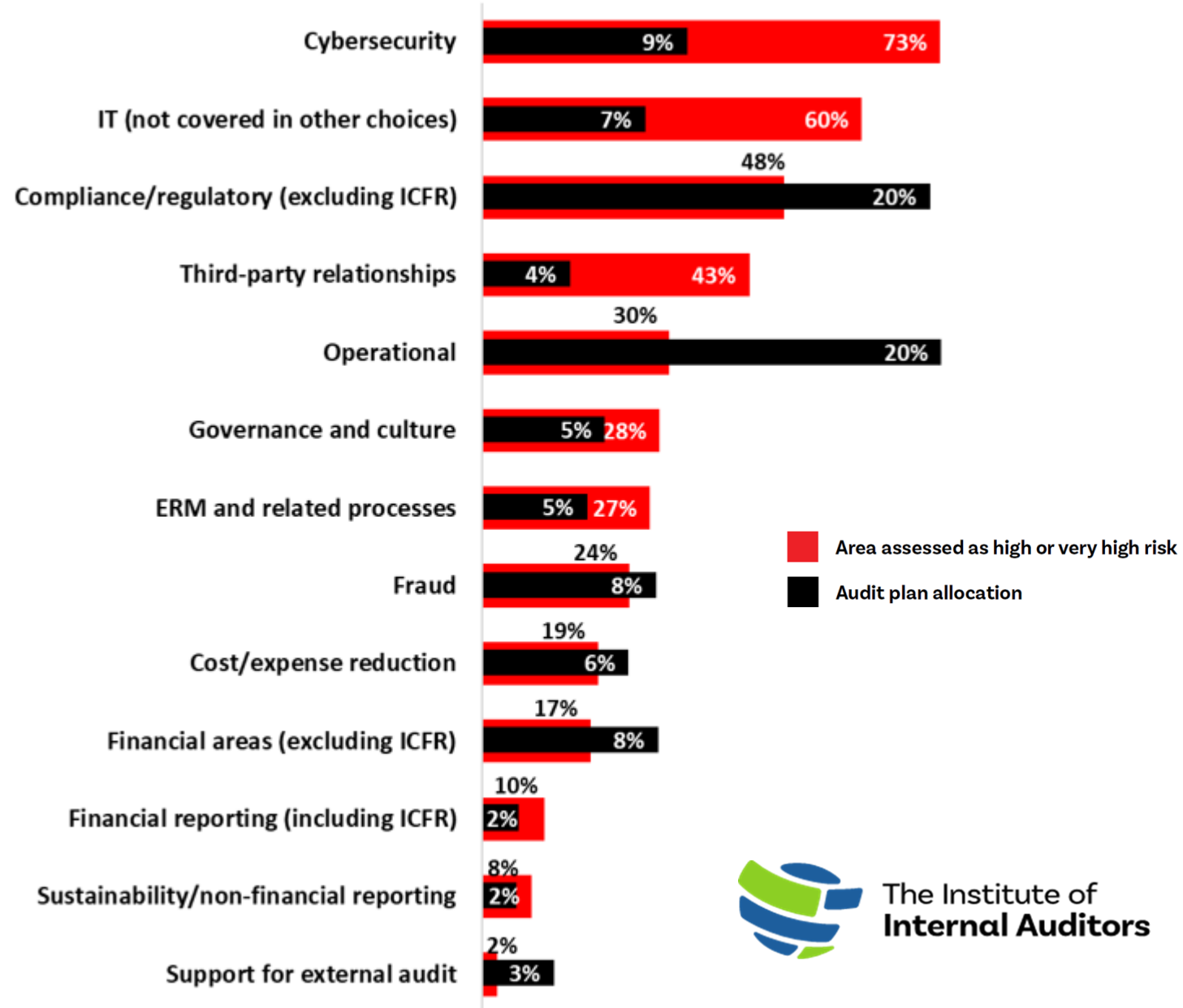


2023 Pulse

Risk vs. Audit Plans – Public Sector

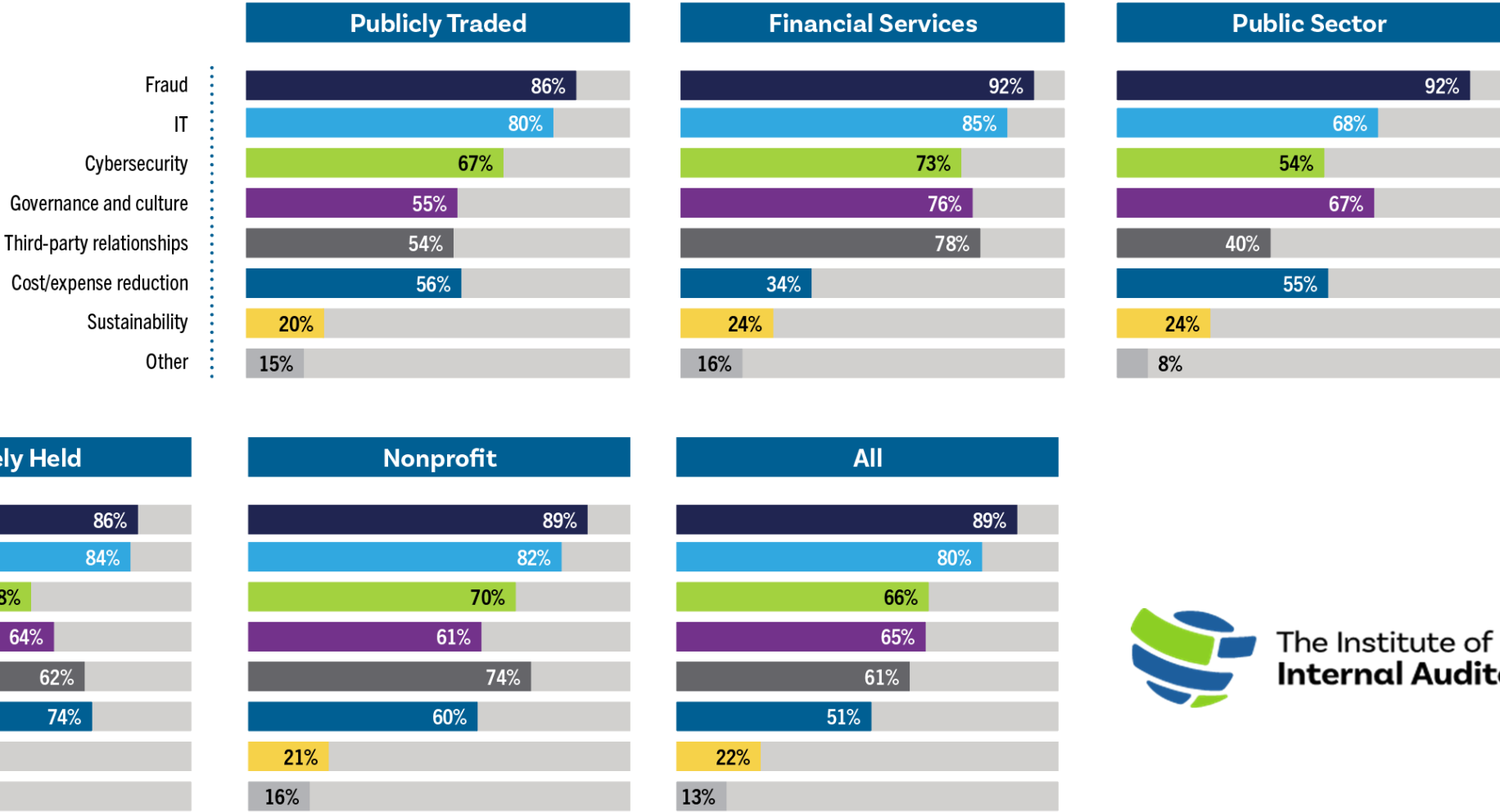
Technology drives risks in the public sector.

Pulse of Internal audit survey for 2023. Q26: How would you describe the level of risk in your organization in the following risk areas? Compared to Q27: Looking ahead over the next 12 months, please indicate what percentage of your audit plan you anticipate will be allocated to each of the risk areas listed. Public sector only. n = 107.

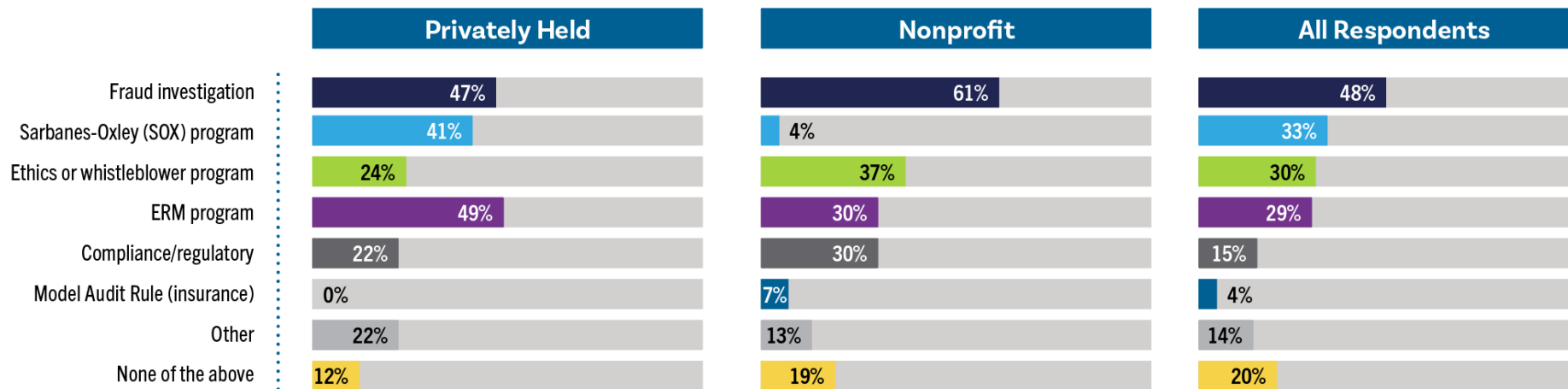
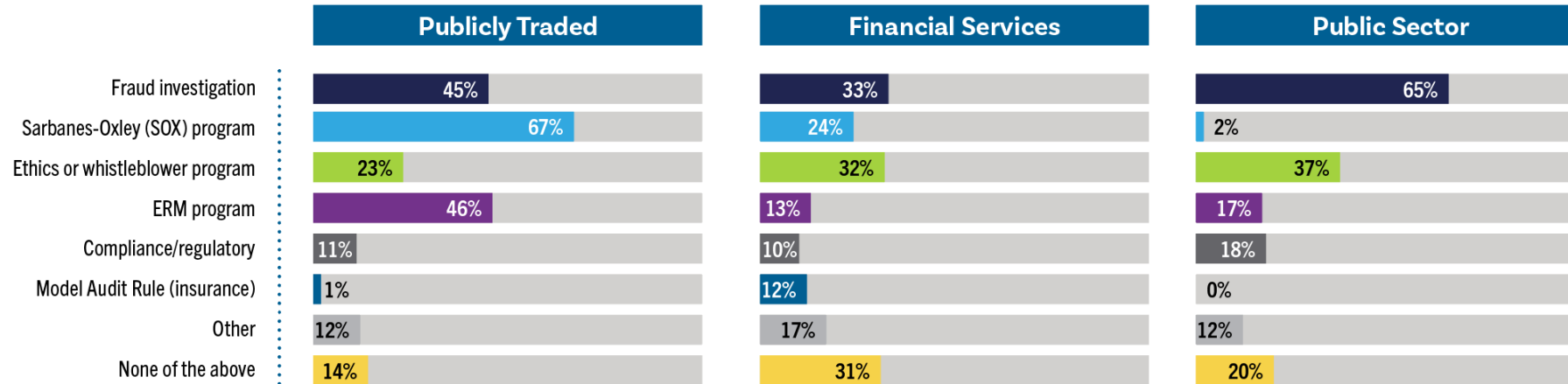


Considerations Integrated Into Audits

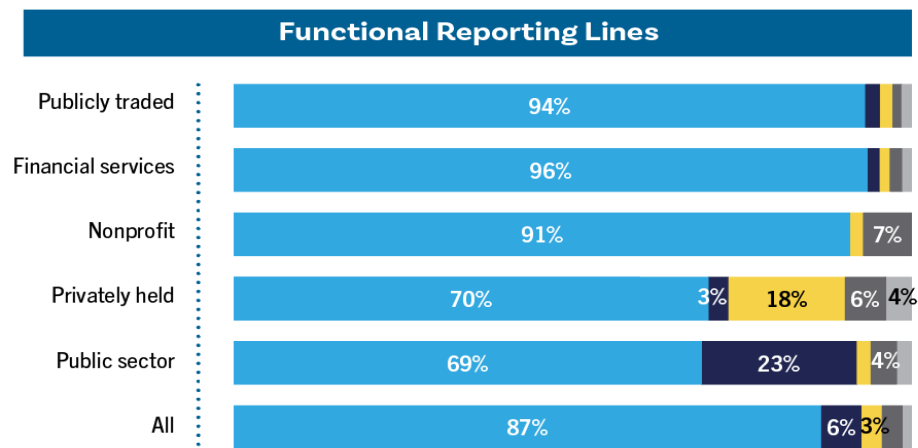
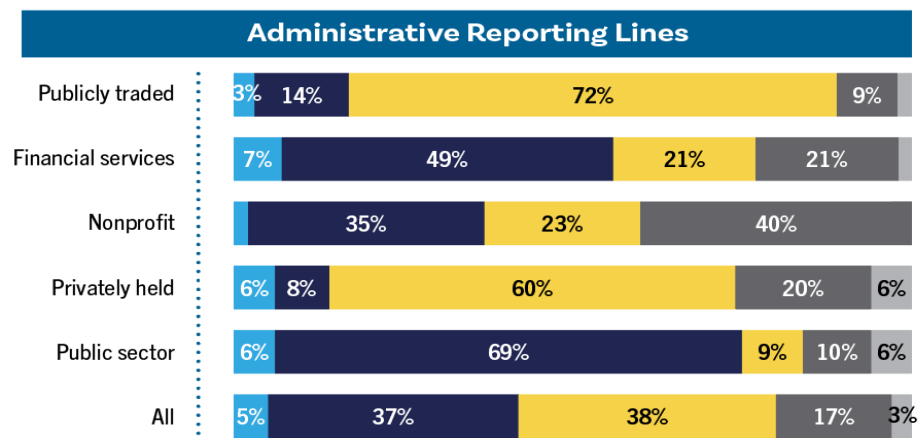
Auditors across all sectors consider a broad range of issues as part of their audits, especially fraud and IT.



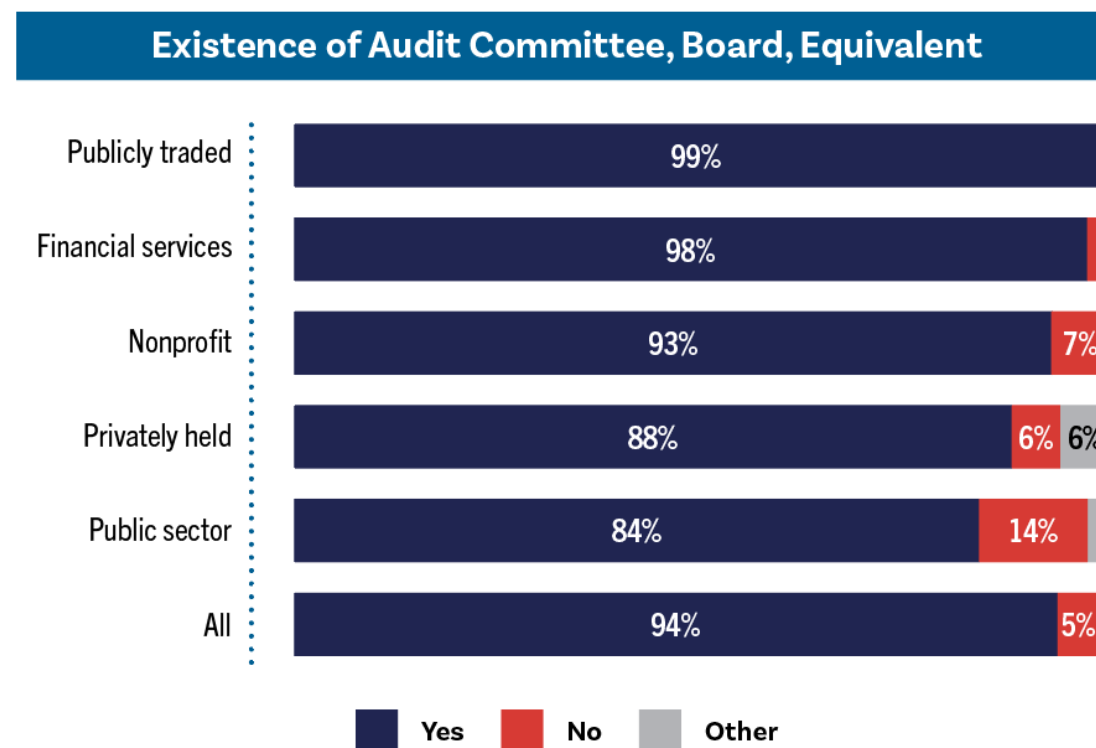
CAE Responsibilities (Compared to Organization Type)



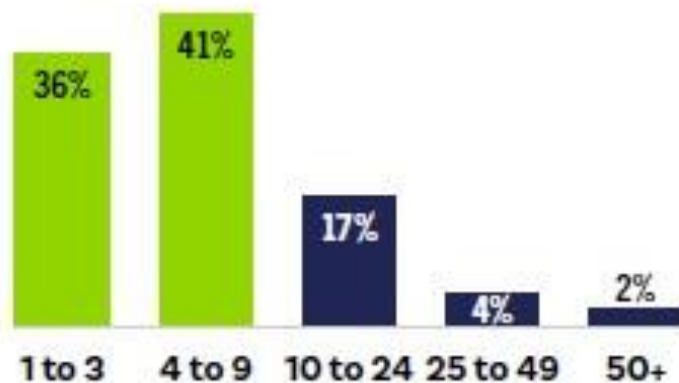
Reporting Lines



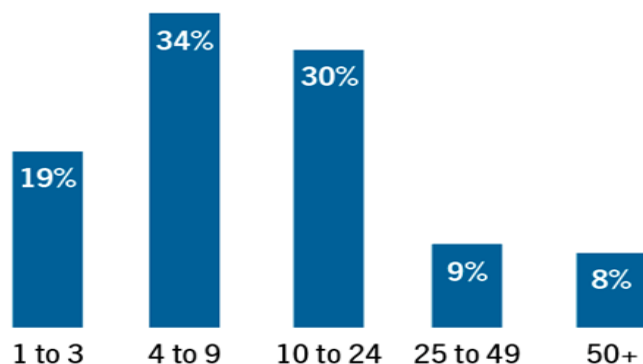
■ Audit committee, board, equivalent
 ■ CEO, president, agency head
 ■ Other
 ■ Chief financial officer or equivalent
 ■ Other executive leadership



Public Sector



Internal Audit Function Size (FTEs)



Internal Audit Function Sizes

www.theiia.org/Pulse

Note: The IIA's North American Pulse of Internal Audit Survey, Oct. 20 to Dec. 2, 2022. Q9: How many full-time equivalent employees (FTEs) are in your internal audit function (in-house and sourced)? FTE = full-time equivalent employee. $n = 562$ - filtered for the public sector.

IPPF Evolution: Introduction

The Introduction will recognize the Challenges Small Internal Audit Functions may face in conforming with the Global Internal Audit Standards:

- Internal Audit functions must determine for themselves if they are ‘small’
- Small may be dependent on the size of the organization or the size of the internal audit function itself
- The most significant impacts are likely to resources and the ability to meet all the requirements
- Single person functions may be especially challenged to adequately implement a Quality Assurance Improvement Program

IPPF Evolution

Embracing the Future



The Institute of
Internal Auditors

Elevating Impact

©2023 The Institute of Internal Auditors.

Please do not share, repurpose, or distribute this information without permission.

Request permission to distribute from standards@theiia.org.

DRAFT - Distribution Limited

Disclaimer

**The contents in this presentation are draft for consultation;
thus, they are subject to change.**

International Standard-setter



The IIA sets the *Standards* for the way internal auditing is practiced around the world.

The Value of Following Standards

- They set the bar that every auditor should comply with.
- They give you a reference guide for how to conduct yourself and your work.
- They lay the groundwork, but are not the ultimate goal.
- They give our customers peace of mind and confidence they're getting a quality product.
- **They help establish our credibility with our Stakeholders!**

The Standards elevate the Profession

Feedback

Simplify structure

Clarify and align elements

Include timely and/or emerging topical areas

More practical and applicable guidance
regardless of size, industry, maturity

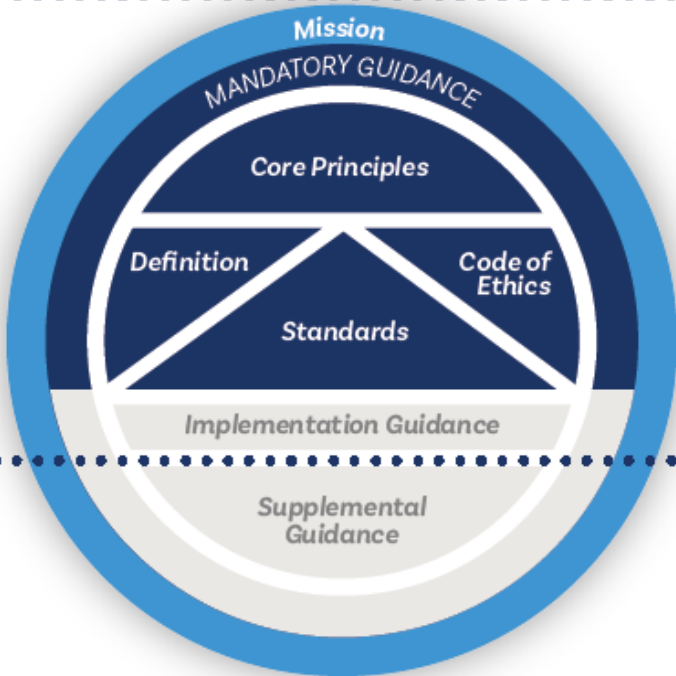
Communicate and advocate
with internal audit, stakeholders, regulators, etc.

**“IPPF is
no longer
meeting
expectations.”**

The IPPF Evolution

CURRENT

International Professional Practices Framework



PROPOSED

International Professional Practices Framework

Global Internal Audit Standards

including requirements and considerations for implementation as well as evidence of conformance.

Guidance

including clarifications and best practices (Practice Guides and GTAGs).

Topical Requirements

A new mandatory element being developed.

Approved Topical Requirements will cover governance, risk management, and control processes over specific audit subjects.



The New Structure



Introduction
Glossary

5 Domains

15 Principles

53 Standards

- Requirements
- Considerations for:
 - Implementation
 - Evidence of Conformance



Application in the Public Sector

Internal Auditing in the Public Sector: Applying the Concepts

- Conformance with the IPPF is essential.
- Conform or disclose.
- May be additional professional standards, laws, regulations, etc.
- Suggestions to integrate expectations.

Introduction

Included in Introduction and have always been recognized:

- If internal auditors or the internal audit function is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are required.
- If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of other requirements, as appropriate. However, conformance with the Standards is expected.

Domain I. Purpose of Internal Auditing

Internal auditing enhances the organization's success by providing the board and management with objective assurance and advice.

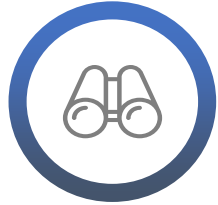
Internal auditing strengthens the organization's:

- Value creation, protection, and sustainability.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by qualified internal auditors in conformance with the Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from bias and undue influence and committed to making objective assessments.

Global Internal Audit Standards Milestones



2021

- Research and benchmarking as input for revisions to framework and standard-setting process.



2022

- Outreach and engagement to receive input from broad variety of stakeholders.
- Revisions and development of new Standards.



2023 – Q1 - Q3

- Translation and release of draft for 90 days of public comment.
- Analysis and disposition of results.



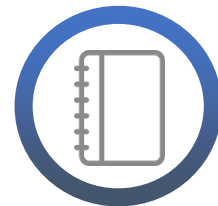
2023 – Q4

- Approval of final draft. Translations begin.



2024

- Target publication dates:
 - Digital – January
 - Print – March



2024

- Updated Quality Assessment Manual, Q1.
- New instructor-led training, updated learning library, Q1.
- Updated Internal Audit Practitioner exam, not before Q3.



2025

- New Standards become effective 12 months from the release date.



2025

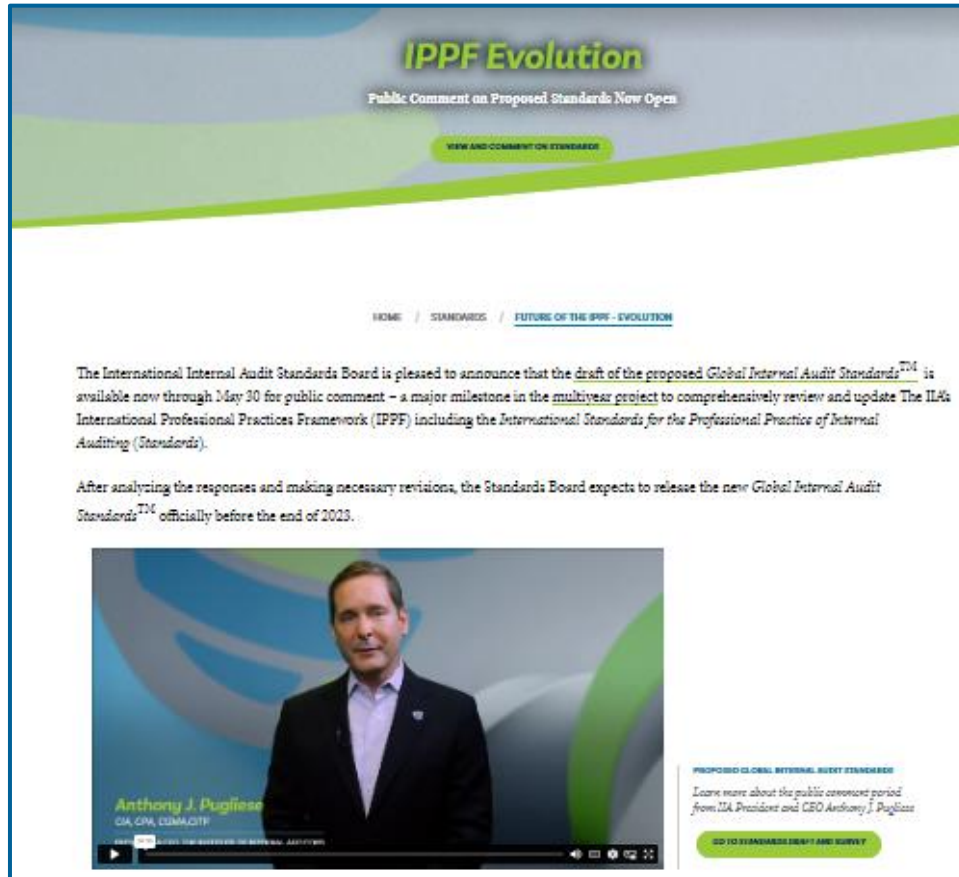
- Updated CIA exam and study materials, not before March.

How to Support the New Standards

Learn More

Project information and FAQs

www.theiia.org/ippfevolution



The screenshot shows the 'IPPF Evolution' website. At the top, it says 'Public Comment on Proposed Standards Now Open' and 'VIEW AND COMMENT ON STANDARDS'. Below this is a navigation bar with 'HOME / STANDARDS / FUTURE OF THE IPPF - EVOLUTION'. The main text states: 'The International Internal Audit Standards Board is pleased to announce that the draft of the proposed Global Internal Audit Standards™ is available now through May 30 for public comment – a major milestone in the multiyear project to comprehensively review and update The IIA's International Professional Practices Framework (IPPF) including the International Standards for the Professional Practice of Internal Auditing (Standards). After analyzing the responses and making necessary revisions, the Standards Board expects to release the new Global Internal Audit Standards™ officially before the end of 2023.' Below the text is a video player featuring Anthony J. Pugliese, CIA, CPA, CIMA, CITP. To the right of the video, it says 'PROPOSED GLOBAL INTERNAL AUDIT STANDARDS' and 'Learn more about the public comment period from IIA President and CEO Anthony J. Pugliese'. At the bottom right, there is a button that says 'GO TO STANDARDS DRAFT AND SURVEY'.

- Stay up to date
- Inform your board (audit committee)
- Encourage your team

Knowledge Centers: Public Sector



Dedicated space on the IIA's webpage where public sector specific guidance and thought leadership can be accessed:

Aims to advance the professional practice of auditing in the public sector through relevant thought leadership, communication, collaboration, and education.



Also, consider volunteering!



theiia.org/en/resources/knowledge-centers/public-sector/

Public Sector Audit Resources: Guidance and Thought Leadership

See public sector specific resources such as “Applying the Three Lines in the Public Sector” at:

<https://www.theiia.org/en/resources/knowledge-centers/public-sector/>

See Public Sector Practice Guides such as “Building an Effective Internal Audit Activity in the Public Sector” and “Unique Aspects of Auditing in the Public Sector” at:

<https://www.theiia.org/en/standards/what-are-the-standards/recommended-guidance/supplemental-guidance/>

We'd Like to Hear from You!

- What topics are of interest to you for training, webinars, articles/blogs, guidance, tools, etc.?
- How can the IIA better support you in your internal audit role in the public sector?
- Are you interested in volunteering?

Contact Information:

Pam.stroebelpowers@theiia.org

Guidance@theiia.org

Summary: *Insights into the future for the Public Sector Internal Auditor*

The IIA recognizes the unique aspects of auditing in the public sector and strives to provide thoughtful and current guidance, thought leadership and training opportunities specifically for its public sector auditor members.

Be watching in late 2023/early 2024 for the release of the new IPPF and be aware in planning for EQAs and CIAs.

If your audit plan does not currently contain Cybersecurity and other current and relevant components (*such as auditing equity factors!!*) you might consider looking at those risks closer to see where they may apply.



Q & A