



January 31, 2022

Willie Botha
Technical Director
International Accounting and Auditing Standards Board
529 5th Avenue
New York, New York 10017

Response emailed to www.ifac.org

Dear Mr. Botha:

The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to The International Auditing and Assurance Standards Board exposure draft “Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.” We applaud the IAASB’s effort in soliciting feedback from diversified stakeholders. Our comments are based on the current state of the global internal audit profession, and a thorough analysis and discussion, utilizing a core team of governance, compliance and internal audit experts who serve smaller, less complex entities.

As President and CEO of The IIA, my main mission is enhancing the value internal audit professionals add to their organizations around the world – including smaller, less complex entities (LCEs) – for the support of investors and the protection of the public interest. The internal audit profession worldwide understands LCEs make a critical contribution to the world economy and account for the great majority of audits globally.

As it relates to IAASB’s request for comment, we have two main points to share: **The size of a company should not matter in using the work of the internal auditor, and the proposal limits the options for statutory auditors to use the work of internal auditors in LCEs under existing ISA 610 standards.**

The IIA’s Position

The IIA is opposed to the requirements as expressed in Section 4E, 102, (b): “When the auditor intends to use the work of internal auditors (ISA 610 (Revised 2013)). Internal auditors are likely to be used to provide assurance or add value or improve an organization’s operations related to risk management, controls and governance processes of entities with higher complexity (e.g., more complex entity structures, complex IT systems etc.). In describing what is, and what is not, complex for the purpose of using the proposed standard, organizations that have internal audit functions are typically more complex (e.g., they may have global operations, or divisions or business lines operating independently, or exhibit one or more of the other qualitative characteristics not typical of an LCE), and therefore requirements on using the work of internal auditors are not included within the proposed standard.”

Statutory audits rely on internal audit work in both complex and less complex entities. This proposed new requirement undercuts the main mission of the proposed standard in protecting the public interest.



Global IIA Standards Apply to All Internal Audit Professionals Working in All Organizations

Internal auditing is conducted in diverse legal and cultural environments, for organizations that vary in purpose, size, complexity, and structure. While differences may affect the practice of internal auditing in each environment, conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity. Regardless of the size and complexity of an entity, all internal auditors are accountable for conforming to The IIA's *Standards*.

The IIA *Standards* are developed by a standards-setting board, following a rigorous due process and overseen by an Oversight Council. The representatives from several global organizations sit on the Oversight Council, including International Federation of Accountants. The Oversight Council evaluates and advises on the adequacy and appropriateness of The IIA's standard-setting processes to promote inclusiveness and transparency and ensure the *Standards* serve the public interest.

Size Comparison Gives Misleading Indications

The size and complexity of an organization should not be a determination in using the work of the internal audit function by the statutory auditor. In fact, LCEs often have resource limitations; internal auditors in LCEs are the most valuable and efficient resources for statutory auditors to rely on. Simply comparing the size of company one with another — even in the same industry and the same relative size company — can give misleading indications as to the appropriate use of an internal audit department and its use by the statutory auditor in protecting the interests of investors and the public.

Many small to medium sized companies struggle to properly segregate duties between employees and functions. The opportunity for errors or fraud is higher than in larger corporations where incompatible functions are often handled by different people. Internal auditors can help identify where fraud risk exists and make recommendations to management on direct actions to mitigate these risks. In addition, internal audits play a key role in smaller companies in continuously monitoring critical processes and internal controls.

Internal Auditors Fulfilling Organizational Needs During COVID-19

The main mission of executives of smaller companies is focusing on running the company, often leaving inadequate time to review key processes and internal controls within their organization. The internal audit function within a small company plays a critical role in helping reduce errors, validating internal controls and identifying fraud. With COVID-19, many small businesses have seen major turnover in management — especially with highly specialized knowledge and skills leaving their organizations. Internal auditors are assisting smaller companies in maintaining proper documentation in describing job duties and requirements and recording information through narratives, documentation of procedures, diagrams and flowcharts to minimize the loss of knowledge during turnovers and expedite recovery so business operations are aligned to management's expectations to continually serve the customers.

Finally, with recent cybersecurity issues and privacy concerns many small businesses have been hit the hardest because they lack data security and IT controls that exist in larger organizations. Today, specialized internal auditors holding professional designations from The IIA are working inside less complex companies to evaluate internal controls and continuously assess potential AI data security issues to shore-up defenses.



The IIA's Standard 2030 states that the Chief Audit Executive (CAE) must ensure that internal audit resources are appropriate (i.e., there is a reasonable mix of knowledge, skills, and competencies of internal audit staff), sufficient (i.e., of adequate quantity), and effectively deployed (i.e., used in a way that optimizes achievement) to achieve the approved plan or objectives for the internal audit function. Further, Standard 2010 requires that the CAE establish risk-based plans that are aligned with the organization's overall goals.

The IIA's *Standards* provide the CAEs and internal audit leadership a framework and related guidance to ensure the effectiveness of the internal audit activity. The *Standards* also provide internal audit stakeholders a basis for evaluating the activity's effectiveness. In addition, The IIA provides various timely authoritative guidance that offers detailed information on how to better serve and add value to the organizations and their stakeholders. Being small does not equate to being ineffective or under resourced. In many circumstances, a small internal audit activity is appropriately structured for the size and risks attributable to the business it serves. Conformance with standards is not dependent upon the size of the audit activity and should present no unique challenges for the small audit activity.

Compared to statutory auditors, internal auditors in all sizes of entities are equipped to play a critical role so risks are addressed in a timely manner.

Assuming The Role of Trusted Stewards Helps Statutory Auditors

The definition of internal auditing developed by The IIA states: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Eliminating the work of internal auditors within the proposed standard for less complex entities conflicts directly with The IIA *Standards* and principles of the internal audit profession as trusted stewards to small business entities around the world. The IIA would also advocate that it is the professional responsibility of the external auditor to use the work of the internal auditor if functioning within any size organization.

Also, the proposed standard removes the ability of the statutory auditor from having a choice in using the work of the internal audit function within small businesses. ISA 610 "Using the Work of Internal Auditors" says the statutory auditor, where considered relevant, should determine: Whether, and to what extent, to use specific work of the internal auditors; and if so, whether such work is adequate for the purposes of the audit. In accordance with the requirements of ISA 610 the auditor assesses the competence and objectivity of internal auditors and may also consider, where appropriate, direct assistance of internal auditors. The proposed standard would eliminate this choice by the statutory auditor by using size as a rule and not principles of professional judgment as current standards suggest.

In addition, internal auditors in LCEs are often requested by their organization's governing body to provide direct assistance to the statutory auditors to reduce the cost of the external audit. Internal auditors and statutory auditors work jointly to protect and enhance the broader interest of the organization, its stakeholders and the general public.



In Conclusion

On behalf of the internal audit profession worldwide, The IIA, as a critical stakeholder in the internal audit profession, asks the IAASB to include a requirement that the work of the internal audit function is included in all sizes of entities, including LCEs. The IIA advocates that it is the professional responsibility of the statutory auditor to use the work of the internal auditors who know the organization and have professional knowledge.

The IIA is well-equipped to support IAASB projects that are related to the core competencies of internal auditing: governance, risk management and internal controls. We value the opportunities to collaborate, share, contribute and learn. We welcome further discussion on any of these recommendations and offer our assistance in the continued development of this proposed standard.

Sincerely,

Anthony J. Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters