

June 2, 2020

International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York 10017

Re: Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*
Submitted electronically through the IESBA website

To The International Ethics Standards Board for Accountants:

The IIA welcomes the opportunity to comment on proposed revisions regarding the non-assurance (NAS) provisions of the International Independence Standards (IIS).

For nearly 80 years, The Institute of Internal Auditors (IIA) and its more than 200,000 internal audit members have aided sound governance and risk-management efforts in public- and private-sector organizations, encouraging strong internal controls and an enterprisewide approach.

We recognize the importance of responding to regulatory stakeholder's and the Public Interest Oversight Board's broad concerns about auditor independence when a NAS is provided to an audit client, and congratulate you on your objective to ensure that "all the NAS provisions in the IIS are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms."

As you know, we serve on the IESBA Consultative Advisory Group (CAG) through our representatives Paul Sobel and IIA Managing Director of Global Advocacy Francis Nicholson. We have been able to make general comments during CAG meetings. Per your request, below we address the matters specifically highlighted for comment in the exposure draft that we feel warrant our further contribution.

Request for Specific Comments

Prohibition on NAS that Will Create a Self-review Threat for PIEs

1. Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?

Yes. The guidance also should note that additional attention is needed where the firm is providing outsourced internal audit assurance engagements. There are internationally recognized authoritative professional standards defining the requirements for such work, as embodied in the International Professional Practices Framework (IPPF), and auditors should be directed to follow these whenever they perform internal audit work, whether outsourced or in-house. Of particular note, measures needed to safeguard an appropriate degree of independence for internal audit's assurance work are just as important for outsourced services as for an in-house capability. (Particularly relevant are IIA Standards 1112 - Chief Audit Executive Roles Beyond Internal Auditing, and 1130 - Impairment to Independence or Objectivity.)

- 605.4 refers to ISAs related to reviewing the adequacy of internal audit work. Clearly, if the firm has carried out that work, there could be a self-review threat. In addition, it should be noted that making an assessment of the adequacy of internal audit work, whether conducted by an in-house or outsourced auditor, itself creates a self-interest threat as the auditor may be predisposed to find the work inadequate in order to secure additional work for the firm. That threat includes the appearance of self-interest, even if the assessment made can be justified. One way to avoid this is to refer the auditor to the International Professional Practices Framework (IPPF). There is at least a prima-facie case for concluding that work completed in accordance with these standards can be relied upon.

2. Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

For something to be characterized as "internal audit services" (rather than other kinds of consulting), it must conform to the accepted definition of internal audit. The most widely accepted definition of internal audit is included in the International Professional Practices Framework (IPPF) and direct reference to this definition would be beneficial. Certainly, key elements should include:

- Independence
- Objectivity
- Systematic and disciplined approach

There is scope for confusion in application material 600.11 A2 and care must be taken to avoid it. As per the proposed material, one of the "non-assurance services" an "auditor" may offer is internal auditing, which, by definition, constitutes an independent and objective assurance service on the adequacy and effectiveness of governance, risk management, and control.

As mentioned above, as much as possible, it would be highly beneficial to refer users of this material to the International Professional Practices Framework (IPPF) for internal auditing, to be adhered to whenever they undertake internal audit services, with additional requirements, as needed.

605.2 includes a definition of internal auditing, and we recommend using The IIA's definition:

"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."

Communication with TCWG

7. Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

We see as a safeguard consulting with those charged with governance (the audit committee or governing body). 600.17 suggests non-PIES communication with the governing body/audit committee “might be appropriate,” but that does not seem strong enough. There is no clear logic as to why this provision needs to be weaker for non-PIES.

It is correct to direct the firm to advise the client, where no internal audit function exists within the client organization, to identify an individual to assume responsibility for internal audit services (scope, quality, etc.) and to operate as the de facto Chief Internal Audit Executive. The firm cannot assume responsibility for having an effective internal audit capability. This is consistent with IIA Standard 2070. However, that individual needs to be independent of management and report to TCWG.

IIA Standard 2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

605.3 asks that the firm be satisfied that the client designate someone, “preferably senior management,” to be responsible for internal audit services. That is not recommended as it risks the lack of objectivity and independence in the role. The IIA recommends that the designation be to an individual, (e.g., the CAE) who is independent of senior management. There is a mix of things that are managerial (such as determining which recommendations to accept) and those that should be independent (scope, review, evaluation, assurance, etc.)

605.3 includes examples of internal audit assuming management responsibilities. Some of the roles listed are second-line or even first-line responsibilities, and the audit firm should assume neither. These are not internal audit responsibilities.

Request for General Comments

78. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

• ***Those Charged with Governance, including Audit Committee Members*** – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight responsibilities. This includes small businesses where a single owner manages the entity and also has a governance role.

According to IIA *Standards*, the Chief Audit Executive will make every effort to coordinate with and rely upon the work of external auditors. This standard should be reciprocal.

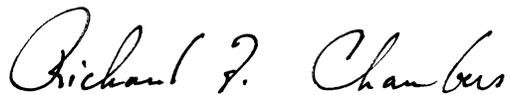
IIA Standard 2050 Coordination and Reliance

The CAE should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

In other words, it is wholly advisable for outsourced auditors to make every effort to coordinate with and rely upon the work of internal auditors.

We are happy to review our suggestions with you at any time. Please reach out to Francis Nicholson, IIA Managing Director of Global Advocacy, at francis.nicholson@theiia.org.

Sincerely,

A handwritten signature in cursive script that reads "Richard F. Chambers".

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and Chief Executive Officer
The Institute of Internal Auditors