



The Institute of  
Internal Auditors



# **A LEGAL, REGULATORY, AND POLICY FRAMEWORK FOR THE INTERNAL AUDIT PROFESSION**

AN IIA GLOBAL PUBLIC POLICY POSITION PAPER





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# OVERVIEW

## Executive Summary

**The purpose of this paper** is to serve as a reference document for national institutes affiliated with The Institute of Internal Auditors (The IIA) as they promote a legal and regulatory framework for the internal audit profession in their respective countries.

The IIA realizes that, in a diverse world, this paper is not published in a vacuum. Every country is unique and there are often multiple pathways, informed by a country's culture, history, politics, and system of government, which can ultimately lead to the same policy outcome. For this reason, this paper is intended to be a road map without offering prescriptive approaches.

Some countries already have longstanding policies regarding internal audit, which are robust or first-in-class. Other countries have incomplete or problematic laws, regulations, and policies that need updating. And still other countries may just be beginning to think about the role and scope that internal audit should have in their societies.

Regardless of the level of maturity of a country's internal audit laws, regulations, and policies, The IIA hopes that national institutes will find this paper to be a valuable framework of recommended best practices and that they will work, as feasible and appropriate, to conform their laws, regulations, and policies to the vision and principles outlined in this paper.

For clarity and to aid in prioritization, the paper's recommended best practices are divided into two categories: 1) essential public policies – policies all national institutes are encouraged to work to adopt, and 2) optional policy initiatives – which national institutes may or may not opt to pursue based on unique considerations within their countries.

### **The five essential public policies are:**

- 1.** Properly defining in law/regulation the core concepts of “internal auditing” and the “internal audit function”;
- 2.** Adoption by governments and other stakeholders of the International Professional Practices Framework (IPPF), including the Global Internal Audit Standards™ (the Standards);
- 3.** Protecting the profession's self-regulatory model;
- 4.** Requiring internal audit functions in sectors of the economy where such a requirement is deemed in the public interest; and
- 5.** Ensuring that laws and regulations regulating accountants and external auditors are complementary and/or aligned with the interests of the internal audit profession.





### **The four optional policy initiatives are:**

- 1.** Enhancing protections for internal auditors who are threatened or harassed in the performance of their duties;
- 2.** Assessing whistleblowing laws and regulations;
- 3.** Advocating for policies which help promote the professional talent pipeline for the internal audit profession; and
- 4.** Reviewing and updating corporate governance and public sector frameworks and other policies to ensure they properly describe and position internal auditing within the greater corporate and public sector ecosystems.

With this paper's release, national institutes are encouraged to assess all relevant laws, regulations, and policies in their countries and compare them with this paper's recommendations. National institutes may then: determine the political feasibility of introducing new or updated laws/regulations; prepare an advocacy engagement strategy; establish campaign resource needs; form coalitions and identify opposition; and identify legislative and regulatory champions. As part of their strategy development, national institutes may opt to either undertake a comprehensive overhaul of their laws and regulations or pursue a step-by-step process to accomplish the recommendations within the paper as political opportunities present themselves.

The IIA is committed to serving as a collaborative partner and strategic resource in advancing national institutes' advocacy strategies. As part of that support, The IIA is currently working on model legislation and regulations as a supplement to this paper. The model legislation and regulations, when completed, may be utilized by national institutes, in part or as a whole, as they look to update their countries' legal and regulatory frameworks. The model legislation and regulations are expected to be drafted, put out for stakeholder comment, and finalized no later than the middle of 2025.



## Guiding Policy Principles

In developing any legal and regulatory framework for a profession, it is essential to have an underlying philosophy which informs that framework. The IIA articulates its philosophy for this framework through five guiding policy principles.

**First, internal auditing strengthens an organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.** This is the purpose of internal auditing as articulated in The IIA’s Standards. As such, laws, regulations, and other policies related to internal auditing should be designed with this purpose in mind. Any public or corporate governance policies which impede the appropriate scope of activities of internal auditors, undermine their independence, or compromise their objectivity should be rectified.

**Second, internal auditing enhances an organization’s ability to serve the public interest.** While the primary function of internal auditing is to strengthen governance, risk management, and control processes, its effects extend beyond the organization.<sup>1</sup> Because of the ways in which internal audit can instill greater trust and confidence in organizational controls and processes, policymakers may opt to require internal audit functions in certain sectors of the economy as a way to enhance certain investor, taxpayer, consumer, and/or public protections. Such mandates by governments are not to be taken lightly but can be a powerful tool available to policymakers to protect the public and achieve certain policy goals.

**Third, globally recognized, high-quality standards and credentials are essential to the success of the internal auditing profession, ensuring quality, consistency, and effectiveness for all stakeholders.** To ensure a profession has credibility, it must follow widely accepted, consistent, and robustly tested standards for practice and ethical behavior, as well as develop appropriate mechanisms to ensure practitioners are qualified and competent. The IIA is committed to helping national institutes protect and advance the adoption of its professional practice framework (including The IIA’s Standards and guidance) and its credentials within public and corporate governance policies.

>> <sup>1</sup> This principle is also found in The IIA’s Standards. For fuller context, here is the complete definition: “Public interest encompasses the social and economic interests and overall well-being of a society and the organizations operating within that society (including those of employers, employees, investors, the business and financial community, clients, customers, regulators, and government). Questions of public interest are context specific and should weigh ethics, fairness, cultural norms and values, and potential disparate impacts on certain individuals and subgroups of society.”



**Fourth, to the greatest extent possible, The IIA is committed to promoting a “One IIA” vision for public and corporate governance policies.** While there may be some variances in laws and regulations across jurisdictions, the essential core components of a successful legal and regulatory framework should be the same across the globe. This helps to ensure consistent quality, standards, processes, expectations, and outcomes for internal auditors and their stakeholders, whether an internal auditor is operating in Cairo, Quito, Toronto, or Tokyo.



**Fifth, the internal audit profession operates best under a model of self-regulation.** Throughout the world, national institutes and The IIA have demonstrated an ability to successfully oversee their members within the internal audit profession through the development and promotion of their own standards, ethics, credentials, and continuing education, and the oversight and discipline of their members. For some professions (e.g., doctors, architects, accountants), governments have deemed it in the public interest for the government to regulate practitioners directly. However, the justification for government regulation is usually due to a compelling set of specific and clear risks to the public or a significant previous market failure which regulation is believed to mitigate. While governments may have varying degrees of involvement with their national institutes and the activities of the profession, the internal audit profession has demonstrated that it operates best under a model of self-regulation.



# RECOMMENDATIONS ON ESSENTIAL PUBLIC POLICIES

*The policies outlined in this section are considered by The IIA to be foundational provisions which the organization believes should be addressed in every country's legal and regulatory framework.*

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## Define Core Internal Audit Concepts in Law or Regulation

Critical to the success of a legal and regulatory framework for any profession are clear definitions of key concepts. While, inevitably, there will be a need to define multiple professional concepts and terms within laws or regulations, The IIA encourages national institutes to ensure their governments adopt, in particular, definitions of both “internal auditing” and the “internal audit function.” Lack of clear, consistent definitions for those core terms can harm the ability of the profession to operate successfully.

### INTERNAL AUDITING

In setting public and corporate governance policies for the internal audit profession, it is essential that all stakeholders have a common understanding of “internal auditing.” What is internal auditing? What is the scope of its activities? How is this profession distinct from other professions?

#### The IIA's Standards define internal auditing as:

- *“An independent, objective assurance and advisory service 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 governance, risk management, and control processes.”*

While this is a broad and accurate definition of the profession, suitable for the Standards, it may not necessarily be sufficiently specific for legal purposes. Therefore, national institutes are encouraged to work closely with their policymakers on a definition utilizing the forthcoming Model Legislation as appropriate for their country's particular political and policy requirements. While there may be some subtle definitional differences from one country to the next, what is most important, however, is that the definition codified in a country's policies is robust, accurate, comprehensive, contains the key features ensuring the effectiveness of the profession, distinguishes the profession from other professions such as accounting or external assurance providers, and is used consistently across the entire country.<sup>2</sup>

>> 2. If a national institute discovers that there is more than one definition for internal auditing across various laws, regulations, and corporate governance policies, The IIA encourages the institute to work to streamline the definitions into one single definition.

## THE INTERNAL AUDIT FUNCTION

In addition to a definition of internal auditing, there should be a common understanding of what constitutes a successful internal audit function when considering public and corporate governance policies related to internal audit. Failure to define its key components may lead to the creation of internal audit functions which are suboptimal in performance and fail to meet their mandates.

### The IIA defines the term “internal audit function” as:

- “a professional individual or group responsible for providing an organization
- with assurance and advisory services.”

### In further defining a successful internal audit function, The IIA believes any legal definition should ideally also have the following minimum criteria:

1. **Independence from management**, reporting directly and accountable to either an entity’s audit committee or the governing body;
2. **A written internal audit charter** agreed upon by both the governing body and the Chief Audit Executive (CAE) or equivalent leader of the internal audit function;
3. Follows **globally accepted internal audit standards**;
4. Has **qualified staff**, as demonstrated through such means as holding **appropriate certifications or other credentials**, such as the Certified Internal Auditor® (CIA®) credential and/or specialty credentials related to expertise in areas or topics subject to an internal audit;
5. Has the ability to perform activities in an **objective and unbiased manner**;
6. Is subject to an external quality assessment (i.e., **an audit of the internal audit function**) such as The IIA’s External Quality Assessment (EQA) or Self-Assessment with Independent Validation (SAIV) or an alternative high-quality private sector equivalent no less than once every five years.





Failure to meet any of the six criteria above should be considered an improperly structured internal audit function, out of legal compliance, and at risk of failing to function effectively on behalf of the entity.<sup>3</sup>

As appropriate to their political and policy environment, national institutes may want to consider adding other criteria to the definition of internal audit function, so long as such additions align with The IIA's IPPF and Standards, the organization's Three Lines Model, and professional best practices.

## Pursue Adoption of The IIA's International Professional Practices Framework (IPPF), Including the Global Internal Audit Standards

In addition to clear definitions for internal auditing and the internal audit function, national institutes are encouraged to seek the adoption of The IIA's IPPF, including the Standards, in their country's public and corporate governance policies. Such an initiative ensures that the practice of internal auditing is consistent, high quality, effective, comprehensive, and comparable around the world.

The IIA understands that approaches to adoption will vary. Government adoption may not be feasible in some countries. Conversely, in other countries, national institutes may find it possible to take a broad approach with governments adopting the IPPF and the Standards not only for use by the government, but also as the official internal auditing framework for other sectors of the economy (e.g., for public companies, critical infrastructure, regulated entities, financial institutions, etc.).

National institutes are encouraged to pursue universal adoption of the IPPF (including the Standards) and ensure its application to all sectors of their country's economy whenever possible.

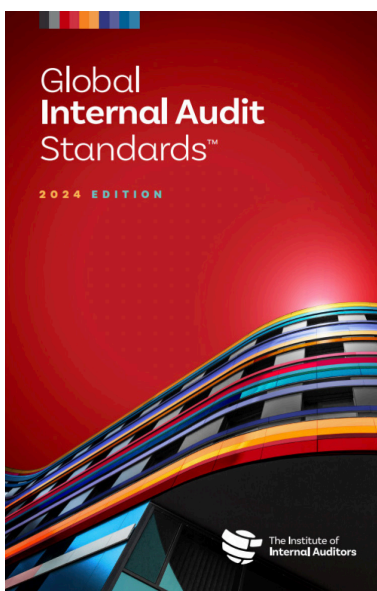


>> **3.** As part of their consideration of the definition of an “internal audit function,” national institutes are also encouraged to consider whether they wish to take an explicit position on the permissibility of co-sourcing or outsourcing an internal audit function. While relying on external resources to support an internal audit function may inherently sound counterintuitive, The IIA does not oppose such flexible arrangements if all the above criteria of a successful internal audit function are met and there are no conflicts of interest. (For example, an internal audit function could not be outsourced or co-sourced with an accounting firm that is currently providing external audit services to the entity.)

## RECOMMENDATIONS FOR ADOPTION OF THE IPPF, INCLUDING THE STANDARDS

In working with governments on adoption of the IPPF, including the Standards, The IIA believes that there are a few critical concepts that should be included in any adoption language. Whenever possible, The IIA encourages national institutes to try to incorporate all five recommendations outlined below.

1. Language should reference adoption of the entire IPPF, meaning the:
  - Global Internal Audit Standards™,
  - Topical Requirements, and
  - Global Guidance.
2. Adoption should be designed to be “evergreen.” That is to say, it will not be necessary to update language again if the IPPF undergoes further revision at some point in the future. This is preferable because asking governments to reform a law or regulation usually requires significant effort. Therefore, an evergreen reference to recognize “the most current” IPPF resolves this issue in perpetuity.
3. The accompanying trademarks (™) for the IPPF and the Standards should be included to acknowledge The IIA’s intellectual property.
4. The proposed law or regulation should explicitly allow for the use of other frameworks, guidance, and standards, as long as they do not conflict with the IPPF and the Standards. This is helpful because it makes it clear that adoption of The IIA’s IPPF and the Standards does not preclude these other tools, which may already be in use by internal auditors in that country.
5. There should be a clear reference to The IIA, explaining what the organization is and that it is the promulgating body for the IPPF and the Standards.



## Protect the Profession’s Self-Regulatory Model

In some countries around the globe, governments have opted to impose burdensome and problematic restrictions or requirements on internal auditors that do not serve the public interest, make it harder for internal auditors to successfully perform their roles, and add additional bureaucracy, cost, and complexity to internal auditing. These public policies may be motivated by: a desire to generate revenue (which isn’t necessarily reinvested back in the profession); an attempt by another profession to limit the activities of internal auditors for competitive reasons; regulatory initiatives which do not make appropriate distinctions between similar, yet distinct professions; or a desire for a localized approach to certain aspects of the profession which undermines the global nature and operations of the profession.

In countries or their governmental subdivisions where such policies are in place, The IIA encourages national institutes to work with policymakers to remove or, to the extent possible, mitigate their impact on the success of internal auditors operating in the country.

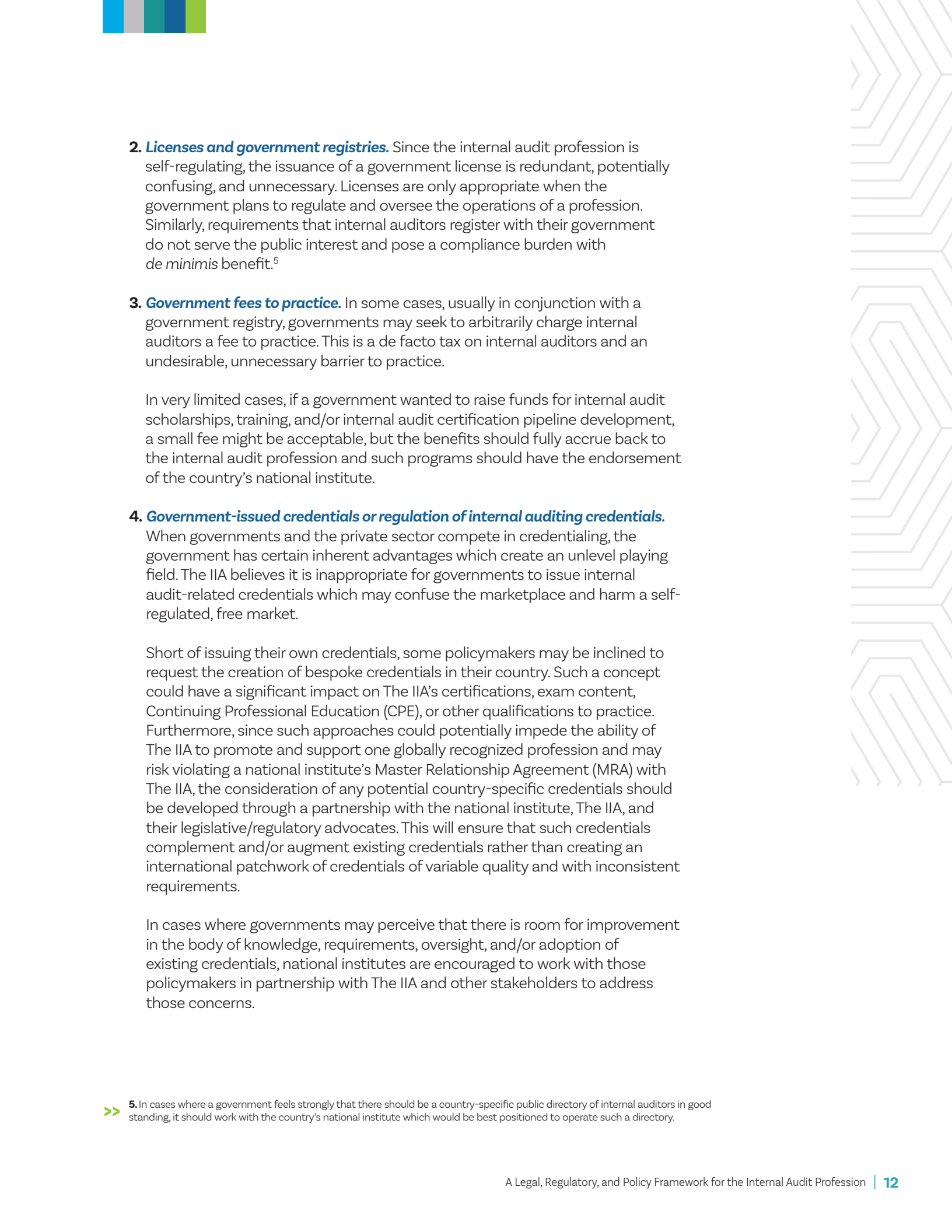
### Public policies which are opposed by The IIA include:

- 1. Restrictions on the practice of internal audit.** In some countries, lawmakers have passed harmful laws, regulations, and policies that restrict the practice of internal auditing. Most commonly in these cases, internal auditing has been inappropriately swept up in a definition of the practice of accountancy and limited to accountants. While many internal auditors possess various accounting-related skills and designations, internal auditing is a different profession and not a subset of accountancy. Internal auditors do not just examine financial statements and internal controls over financial processes. They look holistically at an organization, offering advice, insight, and assurance over diverse areas such as cybersecurity, data protection, climate disclosures, corporate governance best practices, risk management, legal and regulatory compliance, supply chain and economic risks, and many other areas essential to the organization’s operations and success.

Internal auditors are fortunate in that, unlike many other professions, they can generally operate around the world without any cross-border impediments to practice.<sup>4</sup> In contrast, doctors, lawyers, engineers, and numerous other professionals often find that they are prohibited from offering some or all of their services outside of their home countries. The IIA encourages national institutes to work with policymakers to foster and maintain legal and regulatory frameworks that allow internal auditors to continue to thrive and operate without undue restrictions on cross-border competition or the physical location of the internal auditor.

Laws which restrict the practice of internal auditing, especially those giving monopolies or preferential treatment to other professionals (e.g., accountants), should be prioritized for repeal **as soon as possible**.

>> 4. Such freedom of movement and provision of services assumes individuals and their employers are complying with all applicable immigration and tax laws in the countries in which they are residing and/or doing business.



**2. Licenses and government registries.** Since the internal audit profession is self-regulating, the issuance of a government license is redundant, potentially confusing, and unnecessary. Licenses are only appropriate when the government plans to regulate and oversee the operations of a profession. Similarly, requirements that internal auditors register with their government do not serve the public interest and pose a compliance burden with *de minimis* benefit.<sup>5</sup>

**3. Government fees to practice.** In some cases, usually in conjunction with a government registry, governments may seek to arbitrarily charge internal auditors a fee to practice. This is a *de facto* tax on internal auditors and an undesirable, unnecessary barrier to practice.

In very limited cases, if a government wanted to raise funds for internal audit scholarships, training, and/or internal audit certification pipeline development, a small fee might be acceptable, but the benefits should fully accrue back to the internal audit profession and such programs should have the endorsement of the country's national institute.

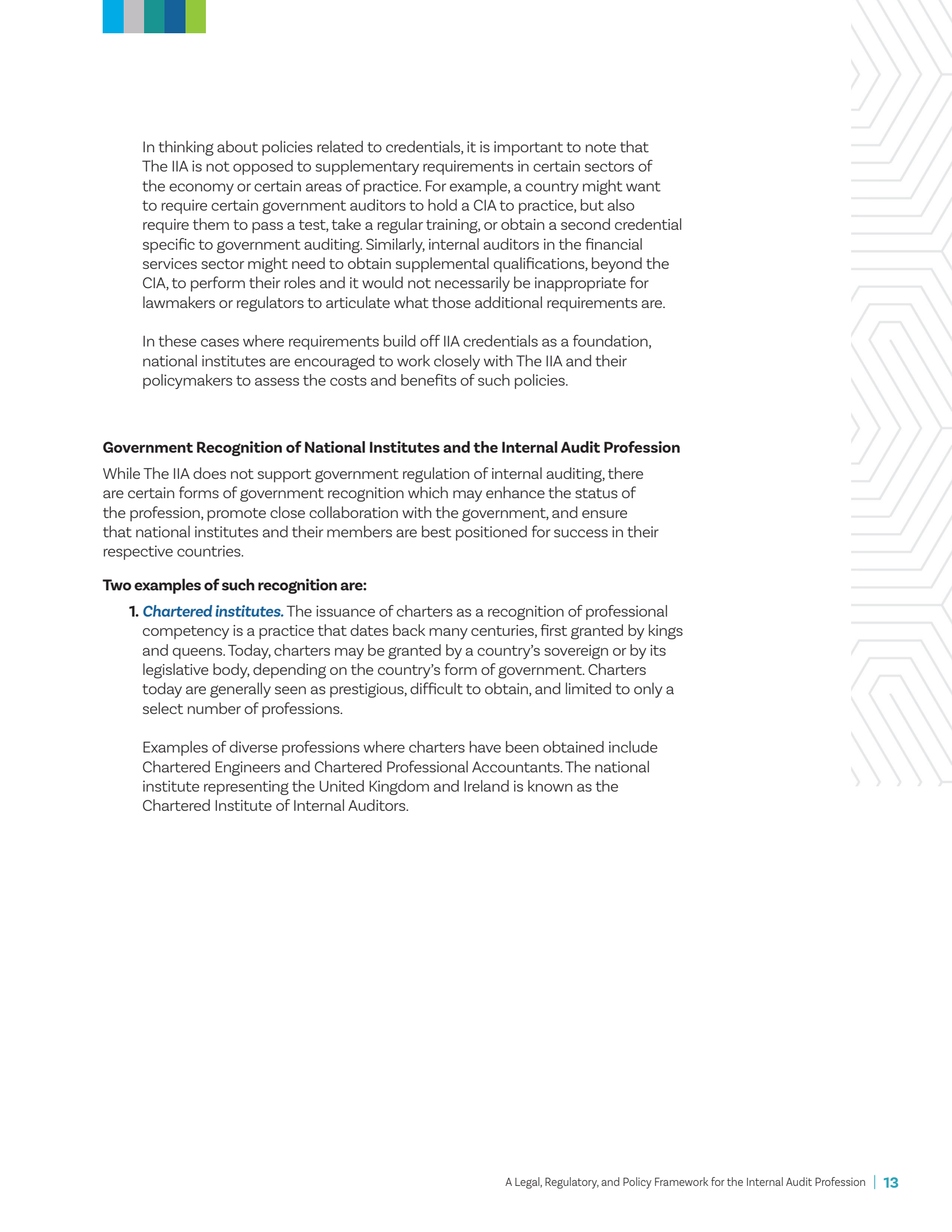
**4. Government-issued credentials or regulation of internal auditing credentials.** When governments and the private sector compete in credentialing, the government has certain inherent advantages which create an unlevel playing field. The IIA believes it is inappropriate for governments to issue internal audit-related credentials which may confuse the marketplace and harm a self-regulated, free market.

Short of issuing their own credentials, some policymakers may be inclined to request the creation of bespoke credentials in their country. Such a concept could have a significant impact on The IIA's certifications, exam content, Continuing Professional Education (CPE), or other qualifications to practice. Furthermore, since such approaches could potentially impede the ability of The IIA to promote and support one globally recognized profession and may risk violating a national institute's Master Relationship Agreement (MRA) with The IIA, the consideration of any potential country-specific credentials should be developed through a partnership with the national institute, The IIA, and their legislative/regulatory advocates. This will ensure that such credentials complement and/or augment existing credentials rather than creating an international patchwork of credentials of variable quality and with inconsistent requirements.

In cases where governments may perceive that there is room for improvement in the body of knowledge, requirements, oversight, and/or adoption of existing credentials, national institutes are encouraged to work with those policymakers in partnership with The IIA and other stakeholders to address those concerns.

>> **5.** In cases where a government feels strongly that there should be a country-specific public directory of internal auditors in good standing, it should work with the country's national institute which would be best positioned to operate such a directory.





In thinking about policies related to credentials, it is important to note that The IIA is not opposed to supplementary requirements in certain sectors of the economy or certain areas of practice. For example, a country might want to require certain government auditors to hold a CIA to practice, but also require them to pass a test, take a regular training, or obtain a second credential specific to government auditing. Similarly, internal auditors in the financial services sector might need to obtain supplemental qualifications, beyond the CIA, to perform their roles and it would not necessarily be inappropriate for lawmakers or regulators to articulate what those additional requirements are.

In these cases where requirements build off IIA credentials as a foundation, national institutes are encouraged to work closely with The IIA and their policymakers to assess the costs and benefits of such policies.

### **Government Recognition of National Institutes and the Internal Audit Profession**

While The IIA does not support government regulation of internal auditing, there are certain forms of government recognition which may enhance the status of the profession, promote close collaboration with the government, and ensure that national institutes and their members are best positioned for success in their respective countries.

#### **Two examples of such recognition are:**

- 1. Chartered institutes.** The issuance of charters as a recognition of professional competency is a practice that dates back many centuries, first granted by kings and queens. Today, charters may be granted by a country's sovereign or by its legislative body, depending on the country's form of government. Charters today are generally seen as prestigious, difficult to obtain, and limited to only a select number of professions.

Examples of diverse professions where charters have been obtained include Chartered Engineers and Chartered Professional Accountants. The national institute representing the United Kingdom and Ireland is known as the Chartered Institute of Internal Auditors.

**2. National institutes recognized as professional bodies.** Official recognition as a professional body can be an extremely important government imprimatur in certain regions/countries. This recognition, when codified in law, can ensure: access for and representation of the national institute before government agencies and departments; appointments to government task forces, commissions, and other bodies; access to government funds for scholarships, training, conferences, and development of the profession; opportunities to influence student curricula; greater credibility with supranational bodies or influential non-governmental organizations (NGOs); and enhanced credibility and authority when working with lawmakers and regulators on various public policy proposals. Despite these benefits, government recognition could also have unintended consequences which would harm the MRAs between national institutes and The IIA and/or increase the risk of future regulation or government intervention. For this reason, national institutes interested in pursuing formal government recognition in law should work closely in partnership with The IIA to reach a consensus pathway forward that balances potential benefits and potential risks.

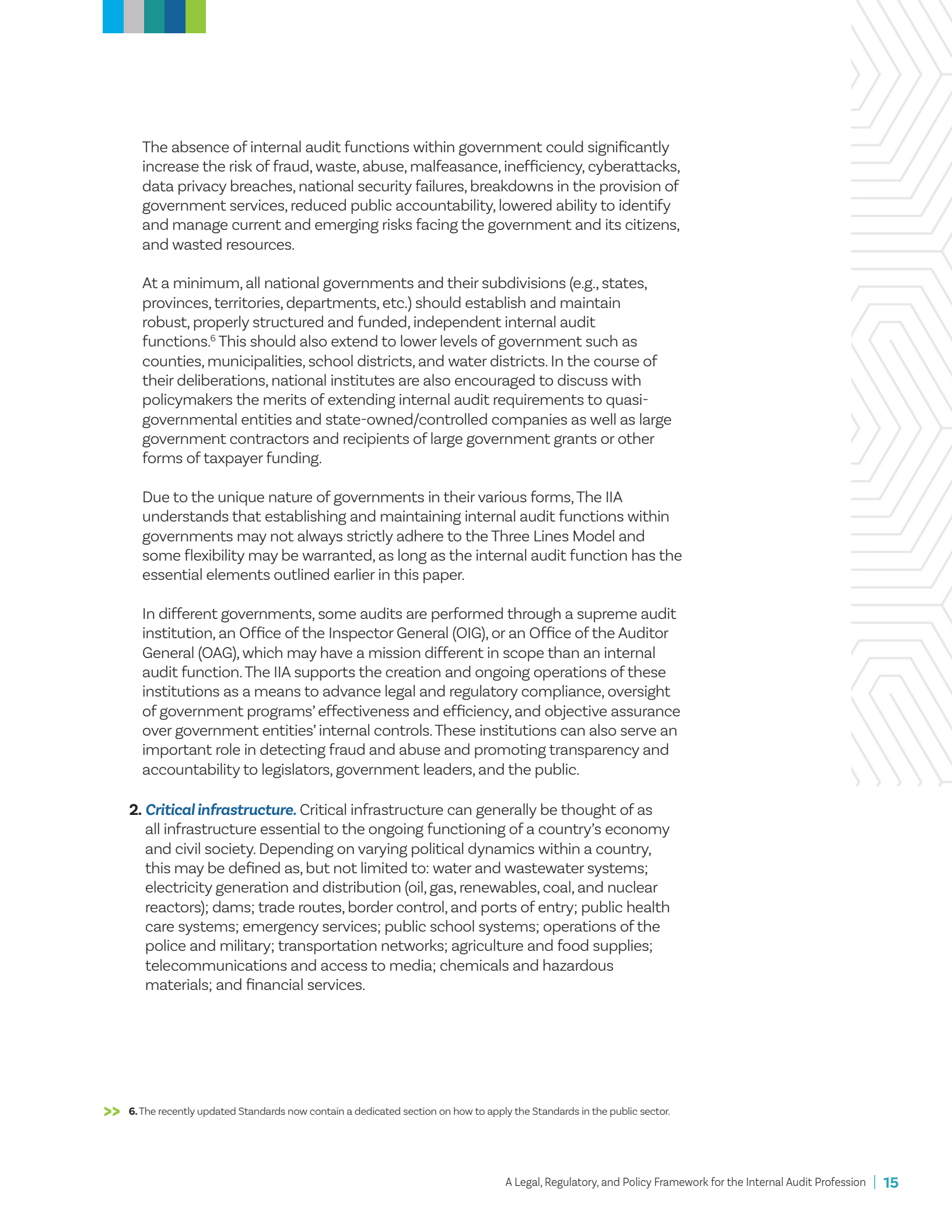
## Require Internal Audit Functions in Sectors of the Economy Where It Is in the Public Interest

The IIA supports the passage of laws, regulations, and public policies that require internal audit functions in certain sectors of the economy when it is deemed to advance the public interest. To create a framework for thinking about how and when to codify such public protections, The IIA proposes seven areas of the economy which national institutes, in collaboration with their countries' policymakers, should examine thoroughly.



### The areas are:

**1. Public sector/government.** Establishing and properly supporting internal audit functions within governments, at all levels, should be considered a universal best practice. The proper protection and stewardship of government money and the efficient, effective operation and delivery of government services on behalf of citizens are policy goals that clearly would benefit from the advice, insight, and independent objective assurance over internal controls provided by internal audit functions.



The absence of internal audit functions within government could significantly increase the risk of fraud, waste, abuse, malfeasance, inefficiency, cyberattacks, data privacy breaches, national security failures, breakdowns in the provision of government services, reduced public accountability, lowered ability to identify and manage current and emerging risks facing the government and its citizens, and wasted resources.

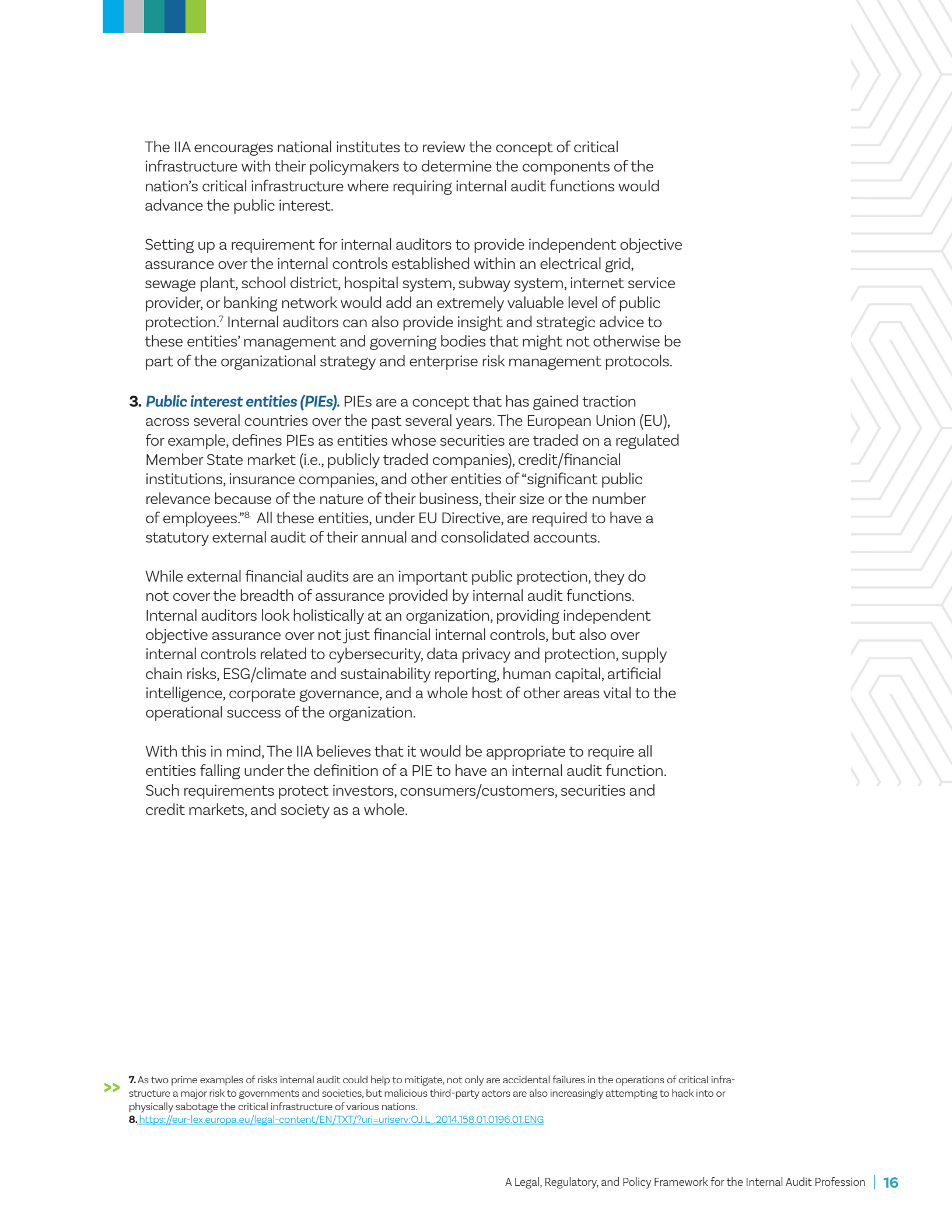
At a minimum, all national governments and their subdivisions (e.g., states, provinces, territories, departments, etc.) should establish and maintain robust, properly structured and funded, independent internal audit functions.<sup>6</sup> This should also extend to lower levels of government such as counties, municipalities, school districts, and water districts. In the course of their deliberations, national institutes are also encouraged to discuss with policymakers the merits of extending internal audit requirements to quasi-governmental entities and state-owned/controlled companies as well as large government contractors and recipients of large government grants or other forms of taxpayer funding.

Due to the unique nature of governments in their various forms, The IIA understands that establishing and maintaining internal audit functions within governments may not always strictly adhere to the Three Lines Model and some flexibility may be warranted, as long as the internal audit function has the essential elements outlined earlier in this paper.

In different governments, some audits are performed through a supreme audit institution, an Office of the Inspector General (OIG), or an Office of the Auditor General (OAG), which may have a mission different in scope than an internal audit function. The IIA supports the creation and ongoing operations of these institutions as a means to advance legal and regulatory compliance, oversight of government programs' effectiveness and efficiency, and objective assurance over government entities' internal controls. These institutions can also serve an important role in detecting fraud and abuse and promoting transparency and accountability to legislators, government leaders, and the public.

**2. Critical infrastructure.** Critical infrastructure can generally be thought of as all infrastructure essential to the ongoing functioning of a country's economy and civil society. Depending on varying political dynamics within a country, this may be defined as, but not limited to: water and wastewater systems; electricity generation and distribution (oil, gas, renewables, coal, and nuclear reactors); dams; trade routes, border control, and ports of entry; public health care systems; emergency services; public school systems; operations of the police and military; transportation networks; agriculture and food supplies; telecommunications and access to media; chemicals and hazardous materials; and financial services.

>> 6. The recently updated Standards now contain a dedicated section on how to apply the Standards in the public sector.



The IIA encourages national institutes to review the concept of critical infrastructure with their policymakers to determine the components of the nation's critical infrastructure where requiring internal audit functions would advance the public interest.

Setting up a requirement for internal auditors to provide independent objective assurance over the internal controls established within an electrical grid, sewage plant, school district, hospital system, subway system, internet service provider, or banking network would add an extremely valuable level of public protection.<sup>7</sup> Internal auditors can also provide insight and strategic advice to these entities' management and governing bodies that might not otherwise be part of the organizational strategy and enterprise risk management protocols.

**3. Public interest entities (PIEs).** PIEs are a concept that has gained traction across several countries over the past several years. The European Union (EU), for example, defines PIEs as entities whose securities are traded on a regulated Member State market (i.e., publicly traded companies), credit/financial institutions, insurance companies, and other entities of "significant public relevance because of the nature of their business, their size or the number of employees."<sup>8</sup> All these entities, under EU Directive, are required to have a statutory external audit of their annual and consolidated accounts.

While external financial audits are an important public protection, they do not cover the breadth of assurance provided by internal audit functions. Internal auditors look holistically at an organization, providing independent objective assurance over not just financial internal controls, but also over internal controls related to cybersecurity, data privacy and protection, supply chain risks, ESG/climate and sustainability reporting, human capital, artificial intelligence, corporate governance, and a whole host of other areas vital to the operational success of the organization.

With this in mind, The IIA believes that it would be appropriate to require all entities falling under the definition of a PIE to have an internal audit function. Such requirements protect investors, consumers/customers, securities and credit markets, and society as a whole.

>> **7.** As two prime examples of risks internal audit could help to mitigate, not only are accidental failures in the operations of critical infrastructure a major risk to governments and societies, but malicious third-party actors are also increasingly attempting to hack into or physically sabotage the critical infrastructure of various nations.

**8.** [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.158.01.0196.01.ENG](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.158.01.0196.01.ENG)





**4. Cryptocurrency exchanges.** While the concept of PIEs generally covers a nation's securities markets, credit markets, insurance, and related fields, it is important to note that the scope of investment and consumer platforms meriting the public protections afforded by internal audit is ever evolving. One type of relatively new investor-facing business which has received enhanced scrutiny recently is cryptocurrency exchanges.

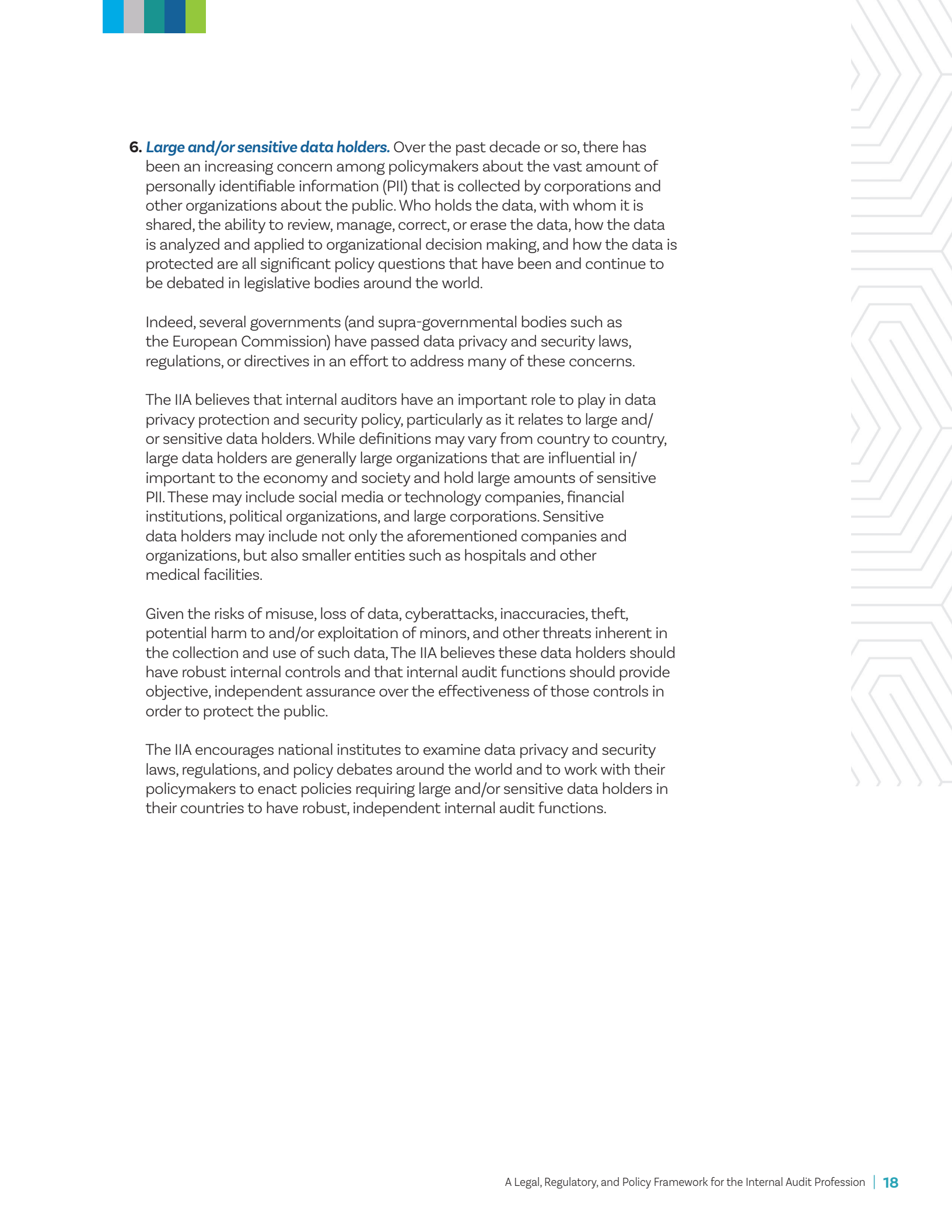
Most notably, the November 2022 implosion of FTX, once the third-largest cryptocurrency exchange, revealed the major risks to investors when cryptocurrency exchanges lack sufficient internal controls and fail to provide objective assurance over those controls.

Considering the significant risks to investors in this relatively new market, The IIA supports good corporate governance laws that require cryptocurrency exchanges and their affiliated partners to possess a sufficiently resourced and highly qualified, independent audit function.<sup>9</sup>

**5. Regulated professions and industries.** As national institute leaders review the above list of sectors of the economy, it will become clear that the list operates within a Venn diagram where some components of one sector also appear in others. For example, the public sector/government category overlaps, in part, with critical infrastructure and the critical infrastructure category shares some common elements with PIEs. This is also true for a country's regulated professions and industries, which are often already covered elsewhere in this policy recommendation.

Nonetheless, The IIA recommends looking at all regulated professions and industries within a country (e.g., for reasons of public health, public safety, consumer and investor protection, etc.) to debate and determine when it might be in the public interest to require that certain regulated companies or organizations have an internal audit function. Many of the same policy arguments that compelled lawmakers to decide to regulate a profession in the first place may also lead them to conclude that companies operating in those professions/industries need an internal audit function to best protect stakeholders.

>> **9.** Preliminary findings from the FTX bankruptcy proceeding estimated that more than one million customers suffered direct financial losses of over \$8 billion. Amazingly, an amount equal to the original losses (plus interest) was ultimately recovered through a bankruptcy proceeding, but this outcome does not reduce the need for strong organizational governance, internal controls, and internal audit to reduce the risk of this happening at another cryptocurrency exchange in the future. It also does not make customers whole, who watched many cryptocurrencies more than double or triple in value while they awaited refunds on their crypto assets. See The IIA's May 4, 2023 [Letter to the U.S. Congress](#).



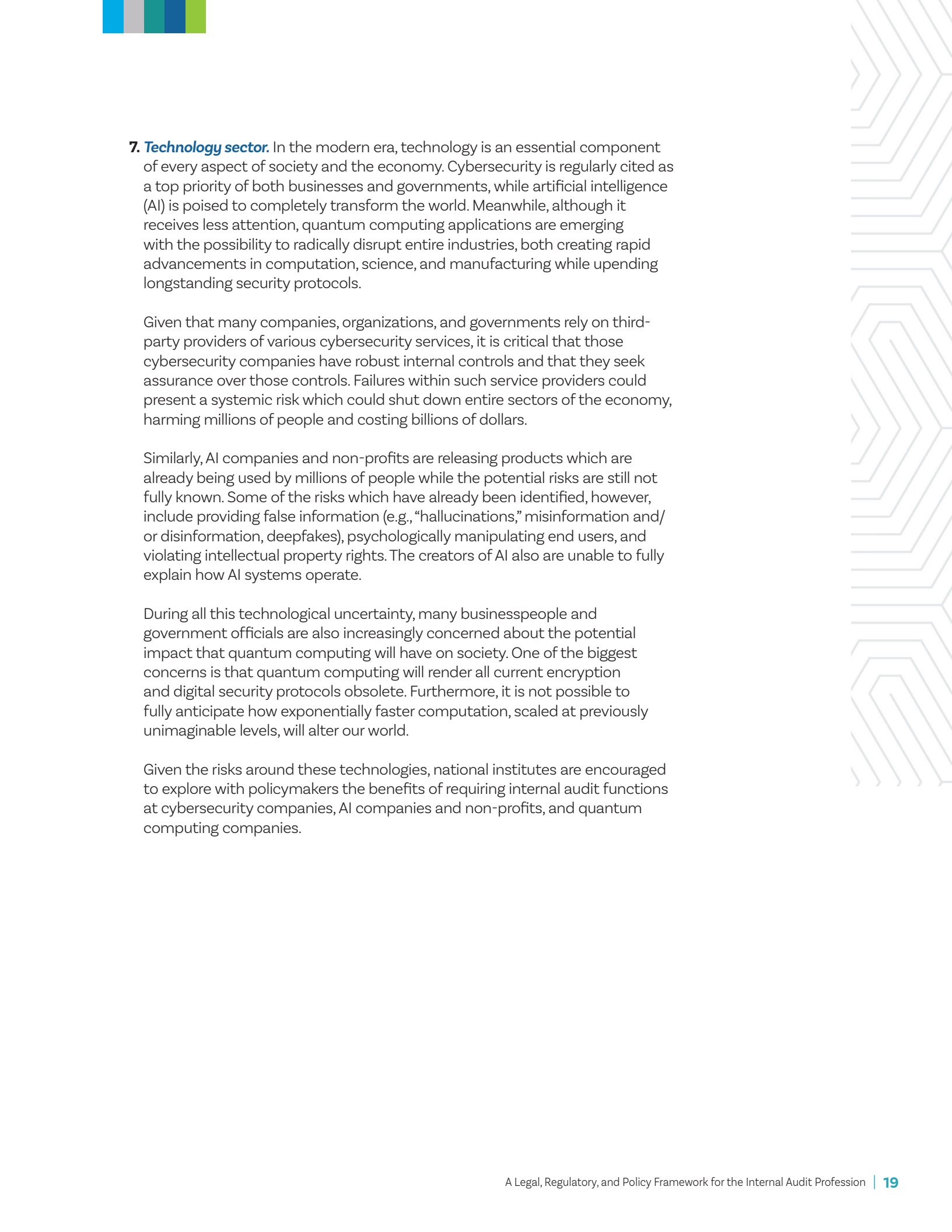
**6. Large and/or sensitive data holders.** Over the past decade or so, there has been an increasing concern among policymakers about the vast amount of personally identifiable information (PII) that is collected by corporations and other organizations about the public. Who holds the data, with whom it is shared, the ability to review, manage, correct, or erase the data, how the data is analyzed and applied to organizational decision making, and how the data is protected are all significant policy questions that have been and continue to be debated in legislative bodies around the world.

Indeed, several governments (and supra-governmental bodies such as the European Commission) have passed data privacy and security laws, regulations, or directives in an effort to address many of these concerns.

The IIA believes that internal auditors have an important role to play in data privacy protection and security policy, particularly as it relates to large and/or sensitive data holders. While definitions may vary from country to country, large data holders are generally large organizations that are influential in/important to the economy and society and hold large amounts of sensitive PII. These may include social media or technology companies, financial institutions, political organizations, and large corporations. Sensitive data holders may include not only the aforementioned companies and organizations, but also smaller entities such as hospitals and other medical facilities.

Given the risks of misuse, loss of data, cyberattacks, inaccuracies, theft, potential harm to and/or exploitation of minors, and other threats inherent in the collection and use of such data, The IIA believes these data holders should have robust internal controls and that internal audit functions should provide objective, independent assurance over the effectiveness of those controls in order to protect the public.

The IIA encourages national institutes to examine data privacy and security laws, regulations, and policy debates around the world and to work with their policymakers to enact policies requiring large and/or sensitive data holders in their countries to have robust, independent internal audit functions.



**7. Technology sector.** In the modern era, technology is an essential component of every aspect of society and the economy. Cybersecurity is regularly cited as a top priority of both businesses and governments, while artificial intelligence (AI) is poised to completely transform the world. Meanwhile, although it receives less attention, quantum computing applications are emerging with the possibility to radically disrupt entire industries, both creating rapid advancements in computation, science, and manufacturing while upending longstanding security protocols.

Given that many companies, organizations, and governments rely on third-party providers of various cybersecurity services, it is critical that those cybersecurity companies have robust internal controls and that they seek assurance over those controls. Failures within such service providers could present a systemic risk which could shut down entire sectors of the economy, harming millions of people and costing billions of dollars.

Similarly, AI companies and non-profits are releasing products which are already being used by millions of people while the potential risks are still not fully known. Some of the risks which have already been identified, however, include providing false information (e.g., “hallucinations,” misinformation and/or disinformation, deepfakes), psychologically manipulating end users, and violating intellectual property rights. The creators of AI also are unable to fully explain how AI systems operate.

During all this technological uncertainty, many businesspeople and government officials are also increasingly concerned about the potential impact that quantum computing will have on society. One of the biggest concerns is that quantum computing will render all current encryption and digital security protocols obsolete. Furthermore, it is not possible to fully anticipate how exponentially faster computation, scaled at previously unimaginable levels, will alter our world.

Given the risks around these technologies, national institutes are encouraged to explore with policymakers the benefits of requiring internal audit functions at cybersecurity companies, AI companies and non-profits, and quantum computing companies.



## **Align Laws & Regulations for Accountants & External Auditors With the Interests of the Internal Audit Profession**

Internal and external auditors serve separate but generally complementary roles in support of governments, corporations, and other organizations. Indeed, it is common for internal auditors and external audit firms to collaborate closely in the performance of their duties. And, in the case of publicly traded companies, it is worth noting that both engage directly with either the company's audit committee or governing body/board of directors.

Given this unique relationship, The IIA recommends that national institutes review public and corporate governance policies related to the regulation of accountants and external auditors to be sure that they do not conflict with the principles outlined in this paper. In addition, standards adopted by accounting oversight boards and regulators of public company external auditors should also be reviewed to ensure that they are aligned with The IIA's Standards. Where conflicts, shortcomings, or problems are identified, national institutes are encouraged to work with other stakeholders to improve relevant laws and regulations.





# RECOMMENDATIONS ON OPTIONAL POLICIES

*The **relevance** of the recommendations in this section of the paper may vary depending on the country and its unique political and cultural factors. National institutes are encouraged to review and debate each recommendation and then select those which are both politically feasible and resonate as valuable potential components of their country's legal and regulatory framework.*

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## **Strengthen Protections for Internal Auditors**

While most internal auditors can do their jobs successfully, free from interference, undue pressure, or coercion, it is a disturbing reality that some internal auditors around the world operate in organizational cultures where they face reprisals, bullying, harassment, potential termination of employment, and, in some cases, even threats, violence, or murder for trying to perform their duties fully and properly. Indeed, many of these cases have been documented worldwide.

Every internal auditor should feel safe at work. Harassment and threats against internal auditors in the performance of their duties should be illegal.

Career-specific protections in law are not without precedent. Indeed, in some jurisdictions, there are additional or specific penalties for threatening, harassing, or harming police officers, judges, flight attendants, parking enforcement officers, and individuals in other industries or professions vulnerable to such attacks.

If such a law is to be enacted, it should include appropriate penalties, including fees and/or jail time, for individuals who would harm internal auditors in the performance of their duties. In some cases, policymakers may decide that internal auditors working in specific sectors of the economy (e.g., the government, critical infrastructure, or publicly traded companies) warrant such additional protections, but an across-the-board law adding supplemental protections for all internal auditors may not necessarily be warranted.



## Evaluate & Improve Whistleblowing Laws & Regulations

Whistleblowing is generally understood to mean one or more individuals going outside of normal reporting channels within an organization to report inappropriate (and often illegal) behavior. Whistleblower programs, when properly structured, are an important means for governments, corporations, and other organizations to detect fraud, corruption, embezzlement, waste, violations of law or policy, and other problematic or even toxic activities harmful to the success of the organization.

The IIA supports the establishment of whistleblower programs as a component of public policies when they may advance and protect: taxpayer resources; investors' and consumers' interests; accurate financial reporting; and public health and safety. Whistleblowing programs should be confidential, with the option for anonymity, and provide robust safeguards to protect whistleblowers from retaliation.

Internal whistleblowing can be an invaluable warning system for internal auditors in the performance of their duties, while external whistleblowing can serve as a critical prompt for investigations by regulators, law enforcement, journalists, and lawmakers.

The IIA encourages national institutes to develop relationships with the broader group of stakeholders advocating on behalf of whistleblowing policies and government and corporate governance best practices to determine what sorts of whistleblower policies would be most effective and appropriate in their country and then to advocate for their enactment.



## Advocate for Policies to Support the Professional Talent Pipeline for the Internal Audit Profession

Governments often serve an important role in influencing and supporting the talent pipeline for various professions. More specifically, governments may develop career or workforce development programs that assist students and professionals, both in and out of government, in advancing their career goals and obtaining additional education, scholarships, job training, internships, apprenticeships, or specialized experience.

The IIA supports the concept of government programs that promote and provide such training, development, and apprenticeships to individuals in the internal audit profession. Furthermore, it supports efforts to fund academic programs and build curricula in colleges and universities that teach internal auditing and related subjects to students.

National institutes are encouraged to work with their policymakers to promote the pipeline for internal auditors in their country and assess ways to incentivize prospective internal auditors to join the profession and seek the education and expertise necessary to excel. Policymakers may wish to model a talent pipeline program for internal auditors based on other successful programs in their country or effective practices in such programs in other countries around the world.

To enhance professional competency, policymakers should also consider ways to encourage internal auditors to obtain appropriate professional credentials such as the Certified Internal Auditor® (CIA®) and Internal Audit Practitioner™ and to take ongoing professional education and training programs to ensure they have the proper competencies required for their roles. Government programs that pay for or, at least, subsidize the cost for government employees' exam fees, study materials, professional association or professional body membership fees, and/or CPE is one option to advance this goal.



## Review & Update Corporate Governance & Public Sector Frameworks & Other Policies

While good **public** policies are essential to the success of the internal audit profession, another critical area in which national institutes should be involved is the promotion of frameworks and policies that reflect internal audit's vital role in good organizational governance in both the private and public sectors. These frameworks and policies are not laws or regulations, *per se*, but rather extend to a whole host of guidance developed within the corporate governance and public sector ecosystems.<sup>10</sup>

The scope of these organizational governance frameworks and policies include: implementation and compliance guidance; government directives and regulations; recommended best practices; thought leadership; academic research; opinion pieces and editorials; practice guides; and private and public sector standards.

National institutes are encouraged to ensure that, in all policies, publications, presentations, and debates in these ecosystems, internal audit is appropriately centered, valued, and adopted as an essential practice.

While public policymakers may not always be particularly current on private sector policies and initiatives and the accompanying debates and discussions around them, national institutes can play a critical role in educating and explaining to public policymakers the ways that they impact corporate governance and internal audit in their respective regions/countries. In some situations, policymakers may be asked by national institutes and other stakeholders to opine on and influence these private sector policies to improve their quality, relevance, and completeness and to ensure that they are aligned with relevant laws and regulations.

Similarly, national institutes are encouraged to look at the role of internal auditors in governments and the broader public sector and to ensure that internal auditing is appropriately positioned within this sector of the economy. Such an approach will ensure that internal audit can assist in both protecting the public interest and appropriately safeguarding public funds and assets.

>> **10.** A country's corporate governance ecosystem can be thought of as the community of boards of directors, audit committees, C-suite leaders, business groups, chambers of commerce, academics, investor and consumer groups, public pensions, stockholder activists and proxy advisors, venture capitalists, corporate governance related professional and membership associations, and other stakeholders who seek to develop, advance, and/or influence corporate governance policies.





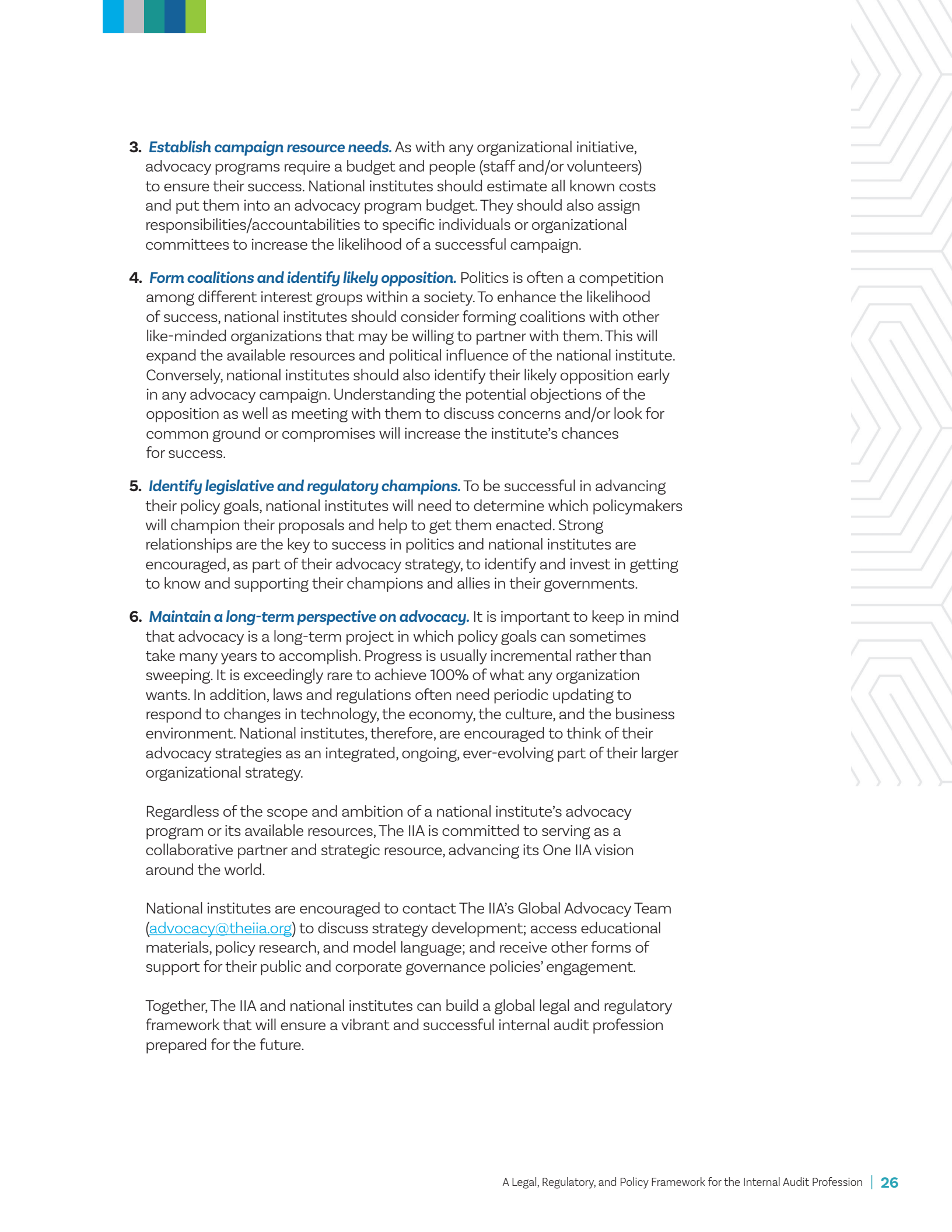
# ADOPTING THE RECOMMENDED LEGAL & REGULATORY FRAMEWORK

*In reviewing the recommendations of this paper's legal and regulatory framework, The IIA realizes that national institutes will take different pathways toward adoption. While some national institutes have sophisticated advocacy programs with dedicated full-time staff working closely with government leaders, others are volunteer-based and may just be beginning to build their advocacy programs.*

*For those national institutes that may be new to advocacy or have less developed programs, The IIA recommends the following guidance to help them get started.*

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- 1. Analyze the legal and regulatory environment and determine the political feasibility of introducing new or updated laws.** National institutes should assess the state of current public and corporate governance policies using the legal and regulatory framework of this paper and then identify opportunities for improvements. This may involve a comprehensive review of all the policy recommendations in this paper or it could involve identifying a handful of known areas for improvement to get started. Once the national institute has identified its policy goals, it should also analyze the political landscape to determine the feasibility of accomplishing its goals. Some simple policy initiatives may be achievable within a few months to a year, while more complex, ambitious initiatives should be looked at through a multi-year strategy.
- 2. Prepare an advocacy engagement strategy.** The IIA recommends writing out a strategy on how a national institute plans to achieve its specific advocacy goals. The strategy should be vetted with and endorsed by the national institute's executive management and governing body to ensure a common vision for the project.

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- 3. Establish campaign resource needs.** As with any organizational initiative, advocacy programs require a budget and people (staff and/or volunteers) to ensure their success. National institutes should estimate all known costs and put them into an advocacy program budget. They should also assign responsibilities/accountabilities to specific individuals or organizational committees to increase the likelihood of a successful campaign.
  - 4. Form coalitions and identify likely opposition.** Politics is often a competition among different interest groups within a society. To enhance the likelihood of success, national institutes should consider forming coalitions with other like-minded organizations that may be willing to partner with them. This will expand the available resources and political influence of the national institute. Conversely, national institutes should also identify their likely opposition early in any advocacy campaign. Understanding the potential objections of the opposition as well as meeting with them to discuss concerns and/or look for common ground or compromises will increase the institute's chances for success.
  - 5. Identify legislative and regulatory champions.** To be successful in advancing their policy goals, national institutes will need to determine which policymakers will champion their proposals and help to get them enacted. Strong relationships are the key to success in politics and national institutes are encouraged, as part of their advocacy strategy, to identify and invest in getting to know and supporting their champions and allies in their governments.
  - 6. Maintain a long-term perspective on advocacy.** It is important to keep in mind that advocacy is a long-term project in which policy goals can sometimes take many years to accomplish. Progress is usually incremental rather than sweeping. It is exceedingly rare to achieve 100% of what any organization wants. In addition, laws and regulations often need periodic updating to respond to changes in technology, the economy, the culture, and the business environment. National institutes, therefore, are encouraged to think of their advocacy strategies as an integrated, ongoing, ever-evolving part of their larger organizational strategy.

Regardless of the scope and ambition of a national institute's advocacy program or its available resources, The IIA is committed to serving as a collaborative partner and strategic resource, advancing its One IIA vision around the world.

National institutes are encouraged to contact The IIA's Global Advocacy Team ([advocacy@theiia.org](mailto:advocacy@theiia.org)) to discuss strategy development; access educational materials, policy research, and model language; and receive other forms of support for their public and corporate governance policies' engagement.

Together, The IIA and national institutes can build a global legal and regulatory framework that will ensure a vibrant and successful internal audit profession prepared for the future.



# APPENDIX

## Internal Audit Policies & Supranational Organizations

A supranational organization is any multinational organization or union where the member bodies agree to cede their authority regarding certain laws, policies, rules, or directives to the supranational body. The largest supranational organization is the United Nations. However, other examples include the European Union, the World Bank, the World Trade Organization, and the International Monetary Fund.

On the global stage, The IIA works to support, influence, and engage global supranational organizations both regarding the operations of their own internal audit functions as well as on internal audit and related policies, rules, and directives applied to their member states. The IIA also works collaboratively with several global non-governmental organizations (NGOs) on internal audit-related and other relevant public policies, standards, guidance, and best practices.

At the regional level, The IIA works closely with five regional bodies, consisting of national institutes as their members: the European Confederation of Institutes of Internal Auditing (ECIIA), the African Federation of Institutes of Internal Auditors (AFIIA), the Arab Confederation for Institutes of Internal Auditors (ARABCIIA), the Asian Confederation of Institutes of Internal Auditors (ACIIA), and the Federación Latinoamericana de Auditores Internos (FLAI). The IIA encourages these professional regional bodies and their constituent institutes to collaborate and engage with the respective supranational organizations in their regions and is happy to partner and provide resources as part of that engagement.

## Stakeholder Input Into an Evergreen Document

As a new initiative that seeks to define a global vision for internal audit public and corporate governance policies, The IIA sought to obtain the broadest possible stakeholder support and input possible for this paper. As an organization with more than 255,000 members around the world, The IIA acknowledges that it needs to solicit diverse and even, sometimes, conflicting views about the proper legal, regulatory, and policy framework for the internal audit profession. While The IIA cannot completely satisfy all stakeholders and their specific comments, the organization aimed to harmonize the various stakeholders' positions globally to produce a position paper that speaks to the broadest, most optimal representation of the internal audit profession's views regarding its legal and regulatory framework.

In that spirit, a draft of this paper was put out for a stakeholder comment period of 60 days over the course of June, July, and August of 2023. In particular, The IIA's 116<sup>11</sup> national institutes and international chapters as well as the organization's 144 chapters in Canada, the United States, and the Caribbean, were invited to propose edits, make suggestions, offer criticisms, and ask questions. The IIA, additionally, held interactive sessions with the leaders of national institutes at The IIA Global Assembly meeting in July 2023 in Amsterdam, The Netherlands as well as The IIA Global Assembly meeting in July 2024 in Washington, D.C. The IIA's Global Board of Directors, North American Board of Directors, and volunteer member committees (e.g., the Canada Advisory Committee, the Global Advocacy Advisory Council, the North American Advocacy Advisory Council, and the Institute Relations Committee) were also briefed and solicited for their input.

All these stakeholders' feedback was carefully considered and discussed over the following months, leading to a revised "fatal flaw" version which was released for an additional five weeks of stakeholder exposure and comment in June and July of 2024.

Upon its issuance, this paper should be considered The IIA's definitive position on the ideal legal, regulatory, and policy framework for the global internal audit profession.<sup>12</sup> The organization, however, views this paper as an evergreen document. As the world, technology, public policy, corporate governance, and the internal audit profession continue to evolve, so will this document. The IIA plans to revisit this paper for proposed updates, leveraging stakeholder input and feedback, no less than once every five years. It is through this process that The IIA hopes that this paper articulates an ever-relevant, comprehensive, and forward-looking framework, underpinned by the broad support of our national institutes and our members.



>> **11.** At the time of this stakeholder comment period, there were 116 IIA national institutes and international chapters.  
**12.** This paper was formally approved by The IIA Global Board of Directors in July 2024.





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