

## Back to the Basics



*Naohiro Mouri, CIA, was elected the Chairman of The IIA's (Institute of Internal Auditors) Global Board of Director in May 2018. Mouri's commitment to supporting internal audit professionals has been long. In an illustrious career spanning more than 20 years, making a mark on the profession, Mouri has held a number of chief auditor positions. In addition to serving The IIA and the profession in numerous volunteer leadership roles, he is Executive Vice President and Chief Auditor at American International Group (AIG). In the past, Mouri had served as the first elected president of the Asian Confederation of Institutes of Internal Auditors (ACIIA) and was recognised with ACIIA's 'Outstanding Contribution in the Field of Internal Auditing' honour in 2016.*

*In this special write-up for The Chartered Accountant journal, he stresses the importance of going back to the basics and that how elevating the basics in turn elevates the profession; thereby making the professionals trusted advisors, as their organisations and stakeholders, needs them to be. Read on...*

Selecting a theme for the year was one of the first things I was asked to do when I learned I would be The Institute of Internal Auditors' (IIA) 2018-19 Global Chairman of the Board. It was not a task I

took lightly, as I felt strongly that my theme should reflect and endorse an issue or initiative relevant to The IIA, the profession and its practitioners, and be valuable to our stakeholders.

As I pondered the many areas I could pursue, I found my mind kept returning to what I believe is core to the practice of internal auditing—adherence to the basics of our profession, including conformance to the *Standards*. Taking that as a sign, I set my theme: “Emphasise the Basics. Elevate the Standards.”



**Naohiro Mouri**

(The author is the Chairman of The Institute of Internal Auditors (IIA). He can be reached at [mouri.naohiro@aig.com](mailto:mouri.naohiro@aig.com).)

# Special Write-Up

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It may seem unexpected that in today's complex business environment that I would choose a theme focused on basic principles. After all, there are many flashier concepts I could have addressed, such as artificial intelligence, big data, or the Internet of Things. Or, I could have elected to drill down on some of the challenges internal auditors currently face: information security risks, toxic corporate cultures, and geopolitical pressures.

Those things are unquestionably important, and they constitute a significant component of our work today. But, ultimately, a good result—whether it is an effective audit, a towering skyscraper, a delicious meal, or a well-written essay—depends in large part on judicious understanding and application of the basics. Where better to focus?

## Setting the Stage

The IIA first issued its *International Standards for the Professional Practice of Internal Auditing (Standards)* approximately 40 years ago. Global in nature and designed to be appropriate in all types and sizes of internal audit departments, they describe clearly and succinctly what auditors must do to perform consistently and professionally.

Professions are often distinguished by having a set of accepted principles against which practitioners perform and are evaluated. Highly respected professions such as medicine, law, accounting, and education have standards their stakeholders expect the professionals to follow. Auditing, whether performed by internal auditors, external auditors, or specialty auditors, is no different; to be respected and trusted, and provide value, we must conform to the standards of our profession.

I may not have been part of the original development of the *Standards*, but I salute those who were. It took foresight to recognise the value that codifying our good practices would contribute to our profession. Those leaders were also astute enough to know it should not be a one-time effort, hence the establishment of the International Professional Practices Framework (IPPF) Oversight Council to manage the standard-setting and revision process to

ensure the *Standards* reflect current conditions and requirements of internal auditing.

I am grateful to those leaders for their vision and commitment, because I believe consistent performance of the basics is critical to our organisation and our profession. The *Standards* position the IIA as the recognised authority and principal educator for the profession. They enable practitioners to perform at a level that brings value and builds our reputation as trusted advisors. They provide internal auditors a blueprint to evaluate and contribute to improving organisational governance, risk management, and control processes. I believe our profession's continued and future relevance depends on strict conformance to these *Standards*.

## Tools of the Trade

It is surely clear by now that, in my view, "emphasising the basics and elevating the standards" is the foundation upon which we can continue to validate internal audit as a profession. But doing so requires a deep understanding of the elements of the *Standards* and where they fit in the IPPF.

The IIA started small on the process of creating the basics, crafting just the statement of responsibilities to define and explain the functions and responsibilities of the internal auditor. Over time, the statement—along with the *Standards*, core principles, and code of ethics—became the IPPF, a body of work that transformed as the profession evolved, with the last major revision occurring in 2017. The *Standards*, which now number 52, are available in dozens of languages including Japanese (which is, of course, of great satisfaction to me), Spanish, French, Chinese, Arabic and English.

But I think we do the *Standards* a disservice if we think of them as a single, monolithic unit. Certainly, they outline internal auditors' mission to provide risk-based and objective assurance, advice, and insight, but they also describe the subtleties of how that should be done.

The attribute standards explain that the internal audit activity must be independent, and internal auditors must be objective in performing their work. Meeting (and exceeding) those responsibilities requires internal auditors to possess a distinct portfolio of knowledge, skills, and other competencies.

Building on the attribute standards are the performance standards, which outline how chief

audit executives (CAEs) must effectively manage the internal audit activity to ensure it adds value to the organisation—for example, by evaluating the effectiveness of the risk management processes and contributing to their improvement.

The *Standards* are the tools of our trade and, as such, we should master them, remain up to date on their supporting guidance, and incorporate them into our everyday activities. They should become second nature to us, particularly those that are most important to our process: independence, proficiency, and quality assurance. Conformance to the *Standards* is, in my mind, what makes us professionals, dedicated to providing the best possible service to our stakeholders. Once we progress beyond just knowing the *Standards*, to living and breathing them, we reach a point that understanding and achieving the principles behind them are no longer daunting tasks.

### Facing the Future

This is all self-evident, right? Of course, audit practitioners (regardless of their type of employment) should understand and adhere to the *Standards*. Of course, the core principles and code of ethics should be part of our everyday world view. Who could doubt the importance of these foundational cornerstones of our profession?

Regrettably, many internal auditors seem to do exactly that, based on their lack of conformance. The most recent Common Body of Knowledge (CBOK) study revealed that, in 2015, only 54 percent of CAEs reported that they were in full conformance with the *Standards*. Nine years earlier, in 2006, 59 percent were in full conformance. How is it possible for that percentage to have gone down in that nine-year period? What could these CAEs have seen in the current business climate that would convince them that adherence to the *Standards* does not need to be as much a priority as it once was?

The study may provide some indication of an answer. According to the survey respondents, conformance is not universally supported by management and the board. This is an excellent



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example of the impact of tone at the top. Surely, if those on top of the organisational ladder felt that conformance to the *Standards* was important, that mindset would be reflected in CAEs' activities.

Contrary to the declining percentage revealed in the CBOK survey, I believe internal auditors now have even *more* need to make conformance to the *Standards* a non-negotiable practice. Stakeholders expect us to help the organisation achieve its objectives by making sure that risk, which might otherwise hinder progress, is identified and the right controls are in place. Our audit committees and executive management wish to exercise effective governance—in which internal audit plays a key role. We will find it difficult, perhaps impossible, to meet the expectations of our stakeholders and organisations if we fall short on conforming to the *Standards*. They have the elements necessary to help us perform at a high level and enable us to build a range of value-added activities that foster improved organisational processes and operations.

The future holds challenges for internal auditing, as it does for most professions. We will have to become more tech-savvy and adept in the ways we communicate. We will have to meet new demands for corporate accountability. We will need to develop new processes and ramp up the value we provide. However, in addition to adding new skills, we will need to maintain mastery of fundamental internal audit activities, many of which are likely to remain relatively unchanged in the years to come. The *Standards* support us in both cases: they will continue to evolve to meet the shifting challenges and opportunities of the profession while also remaining a reliable underpinning to our daily practices.

People who know me know that I truly love the profession. It is not just a job for me; it is a passion. I believe, in this age of disruption, internal audit is needed more than ever. That is why I chose to use my term as Chairman to stress the importance of going back to the basics. By elevating the basics, we elevate the profession, and we become the trusted advisors our organisations and stakeholders need us to be. ■