



**International Federation  
of Accountants**



## **MEMORANDUM OF UNDERSTANDING**

**BETWEEN**

**THE INSTITUTE OF INTERNAL AUDITORS**

**AND**

**THE INTERNATIONAL FEDERATION OF ACCOUNTANTS**

### **PURPOSE**

1. Both International Federation of Accountants (IFAC) and the Institute of Internal Auditors (IIA), with their respective perspectives, are currently heavily engaged in restoring confidence of the general public in business reporting and enhancing governance processes in general in both the private and public sector. Both bodies have overlapping interests and they already collaborate and share their expertise when governance issues and assessment of internal controls over financial reporting are involved.
2. The collaboration of both organizations should better address and reflect the reality of the field and the interest of the respective professionals. As a consequence, IFAC and the IIA agree to set a formal cooperation forum, which will include a portfolio of actions and initiatives (meetings, organized exchange of information, ad hoc task forces etc...) to enhance their respective impact on issues and topics where both organizations have common interest.
3. The purpose of this Memorandum of Understanding is to create a project structure and co-operation process that will enable IIA to benefit from the work of IFAC, and IFAC from IIA involvement in the development of IFAC publications.
4. Background information on IIA and the IFAC is provided in an appendix to this Memorandum of Understanding.

### **AREAS OF COMMON INTEREST**

5. Several areas of professional interest are currently shared. These include:
  - **Governance:** Both organizations are strong advocates of sound governance as a key element in the restoring of credibility in financial reporting. Their contribution and added value into the governance process could be further reinforced if both organizations

proactively coordinate their activities to achieve a common view and voice in speaking out on matters of mutual concern.

- **IT auditing:** IT is intrinsic in the entities that members of both organizations serve. IT security (integrity, confidentiality and timely availability of data) is a universal concern. To properly address this issue, IT auditing requires standards and professional guidance, which could be mutually beneficial to both external and internal auditors.
- **Auditing in the public sector:** although less scrutinized by the media and the general public, public sector governance represents a major issue. Governance failures in the public sector are numerous and directly impact the stability, political decision-making and citizens' well-being around the world. Internal auditing in the public sector is geared to both financial auditing and performance auditing.
- **Mutual awareness and recognition of professional standards:** The organizations will also endeavor to provide a suitable environment for interaction between internal auditors and accountants in their respective activities leading the respective professionals when dealing with each other in the field.

Both organizations also have an interest in narrative reporting and sustainability reporting. These are matters on which cooperation could be further considered in the future.

6. The two organizations also share an interest in association issues, reflecting that both are international, non-profit professional associations. Both organizations share an interest in attaining compliance by members (or member bodies) with obligations of membership and in supporting the global development of, and convergence to high quality and consistent standards of practice.

## CO-OPERATION PROCESS

7. To facilitate the development of joint projects, the IIA and IFAC will create structures appropriate to the respective projects. They will generally involve:
  - A Working Group responsible for developing the appropriate output or publication,
  - A Reference Panel of interested parties from both organizations who will agree that publications are of a quality worthy of dissemination to the public at large and that they contain information and facts that will advance the public understanding and appreciation of the matters addressed, and
  - A Project Secretariat who will support the Working Party in the development of the relevant materials.

Various mechanisms can be undertaken to support initiatives in regards the above mentioned topics. Through this agreement both parties intend to cooperate via a three step process, in which the topics and possible actions below will be addressed:

1. In the first stage there will be a focus on achieving awareness of the nature of each organizations activities in the topics of common interest below. This mutual awareness will

be achieved principally through attendance at committee or board meetings, as appropriate, and through meetings between the organizations at the technical staff level. It is anticipated that this first stage would last approximately six months;

2. On the basis of experience gained in the first step, the two organizations will jointly re-assess the nature and level of participation in the topic areas identified, and also determine whether there are other areas in which cooperation may be warranted;
3. The third step is for the two organizations to give effect to the levels of participation in each other's activities, as agreed in stage 2 above.

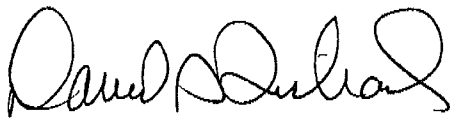
TOPIC	POSSIBLE ACTION
IT auditing	<ul style="list-style-type: none"> <li>▪ IFAC Technical representative on IIA "Advanced Technology Committee."</li> <li>▪ Staff liaison on IT issues, including an annual technical meeting at staff level.</li> <li>▪ IAASB staff to receive briefing from IIA on IT activities of IIA.</li> </ul>
Public sector	<ul style="list-style-type: none"> <li>▪ IFAC public sector committee chair/representative to sit within the IIA "government relation committee.</li> <li>▪ IIA to be a member of the PSC CAG.</li> <li>▪ IFAC to nominate a representative to the IIA "International Certified Government Auditing" task force.</li> <li>▪ The global curriculum of the IIA to be reviewed with the Education Committee technical staff.</li> </ul>
Professional awareness and recognition	<ul style="list-style-type: none"> <li>▪ A meeting of the IIA Standards Board and the IAASB to be held alongside one another, with a one-day overlap, enabling liaison between the chairs and/or committees.</li> <li>▪ IFAC Technical Director or deputy to sit as Observer at IIA standard Board meetings.</li> <li>▪ IIA to continue participation in the IAASB CAG and to accept an invitation to join the Ethics Committee CAG.</li> <li>▪ Regular meetings between IFAC Technical Director and Deputies where appropriate and IIA Professional Practices unit (Standards, Professional Issues, Ethics).</li> <li>▪ IIA to have membership of relevant IFAC Task Forces (e.g. ISA 260 project).</li> <li>▪ Combined team when rewriting ISA 610 Reliance on the Work of Internal Auditors.</li> <li>▪ Co-produced and simultaneously promulgated guidance to respective profession members.</li> </ul> <p>Ex: identical standards incorporated into IFAC standards and IIA standards regarding the collaboration between external auditors and internal auditors (use of work, respective oversight, etc.)</p>

TOPIC	POSSIBLE ACTION
Governance	Promulgate common pronouncements and position papers on an ad hoc basis with full due process.
Compliance and global development	Sharing experience and procedures through annual technical staff meeting.
Ethics	IIA member of the IFAC Ethics Committee CAG and internal audit representation on Ethics Committee. The objective should be agreement that IIA will seek to converge with the IFAC Code of Ethics.

The activities above will be monitored and the achievements assessed on an on-going basis and reported to the IFAC and the IIA Boards respectively.

As evidence of our commitment to working for the mutual benefit of our professions, we hereby affix our signatures:

Paris November 11, 2004



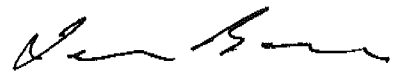
David A. Richards  
President  
The Institute of Internal Auditors

Paris November 11, 2004



Rene Ricol  
Chairman  
International Federation of Accountants

Paris November 11, 2004



Ian Ball  
Chief Executive  
International Federation of Accountants

## **APPENDIX**

THE INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) is the global organization for the accountancy profession. It works with its 157 member organizations in 118 countries to protect the public interest by encouraging high quality practices by the world's accountants. IFAC members represent 2.5 million accountants employed in public practice, industry and commerce, government, and academe. Its structure and governance provide for the representation of its diverse constituencies and interaction with external groups that rely on or influence the work of accountants.

IFAC's overall mission is to serve the public interest, strengthen the worldwide accountancy profession, and contribute to the development of strong international economies

Established in 1941, THE INSTITUTE OF INTERNAL AUDITORS (IIA) currently serves members in 140 countries worldwide engaged in chapters or institutes in more than 90 countries worldwide. The Institute has a network of 243 affiliates, which equates to approximately 93,000 members worldwide.

The IIA serves these members in internal auditing, governance and internal control, IT audit, education, and security worldwide.

The IIA's mission is to be the primary international professional association, organized on a worldwide basis, dedicated to the promotion and development of the practice of internal auditing.