Dear Q&A

I notice the Institute of Internal Auditors (IIA) definition of 'control' in the 'International Professional Practices Framework' (IPPF) Glossary includes *"Any action taken by management, the board and other parties…"* – why are actions taken by 'other parties' considered controls?

Answer

The definition of control has a number of forms.

› ISO 31000 'Risk management – Guidelines' defines control as "a measure that maintains and / or modifies risk" (International Organization for Standardization 2018).

› 'International Standards for the Professional Practice of Internal Auditing' contained in the IPPF (Internal Audit Standards) define control as "Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved" (International Internal Auditing Standards Board 2016).

These differ from the definition of internal control developed by the Committee of Sponsoring Organisations (COSO) – "a process effected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance" (COSO 2013).

Internal control can only be those things that are put into place by the organisation itself whereas the ISO definition of control allows that things outside the organisation may affect outcomes. It is clear management and the board are not the only active agents in control, but it is not clear whether the framers of the definition in the Internal Audit Standards intended to embrace anything beyond the organisation.

This raises the question of whether it is useful to consider operation of controls outside the organisation in the delivery of internal audit services.

The controls that are a part of the external context and are therefore beyond the control of the organisation still affect risk faced by the organisation. It would, therefore, be sensible to monitor them to the extent possible to confirm risk inherited from the environment has not changed.

Organisations also frequently by political or other action attempt to change the operation of external controls such as taxation or regulatory regimes, but this is not normally in scope for an internal auditor.

Organisations are increasingly becoming part of network organisations – alliances designed to produce a product or service by sharing costs and core competencies. These may involve contracts for service or joint venture activities. In such circumstances, some controls executed by external parties are in place as a consequence of an agreement with the entity.

Organisations commonly seek assurance that controls are adequate and may even specify the nature of the controls be put in place. These are a legitimate subject for internal audit activity and some organisations make such interest explicit by including 'right to audit' clauses in contracts or by asking for third-party assurances such as through ASAE 3150 'Assurance Engagements on Controls' engagements.