



International Professional  
Practices Framework

# Implementation Guide 1322

## Standard 1322 – Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Revised *Standards*, Effective 1 January 2017

## Getting Started

The chief audit executive (CAE) is responsible for ensuring that the internal audit activity undergoes ongoing monitoring, periodic self-assessments, and independent external assessments, as required by the quality assurance and improvement program. These internal and external assessments are performed, in part, to evaluate and express an opinion regarding the internal audit activity's conformance with *International Standards for the Professional Practice of Internal Auditing (Standards)* and The IIA's Code of Ethics. The CAE should be familiar with the results from recent internal and external assessments of the internal audit activity.

Standard 1322 is applicable in instances where the CAE concludes that the internal audit activity does not conform with the *Standards* and Code of Ethics, and the lack of conformance may impact the overall scope or operation of the internal audit activity. It is important that the CAE has an understanding of the mandatory elements of the International Professional Practices Framework, how potential conformance deviations might affect the overall scope of

the internal audit activity, and the expectations of the board and senior management for reporting any such conformance issues.

## Considerations for Implementation

The results of any internal and external assessments, and the level of internal audit conformance with the *Standards*, must be communicated to senior management and the board at least annually. These assessments may uncover impairments to independence or objectivity, scope restrictions, resource limitations, or other conditions that may affect the internal audit activity's ability to fulfill its responsibilities to stakeholders. Such nonconformance is typically reported to the board when identified and recorded in meeting minutes.

If an internal audit activity fails to undergo an external assessment at least once every five years, for example, it would be unable to state that it conforms with the *Standards* (see Implementation Guide 1321 – Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”). In such a case, the CAE would evaluate the impact of this nonconformance.

Other common examples of nonconformance may include, but are not limited to, situations in which:

- An internal auditor was assigned to an audit engagement, but did not meet individual objectivity requirements (see Standard 1120 – Individual Objectivity).
- An internal audit activity undertook an engagement without having the collective knowledge, skills, and experience needed to perform its responsibilities (see Standard 1210 – Proficiency).
- The CAE failed to consider risk when preparing the internal audit plan (see Standard 2010 – Planning).

In such cases, the CAE would need to evaluate the nonconformance and determine whether it impacts the overall scope or operation of the internal audit activity. It is also important for the CAE to consider whether, and how much, a nonconformance situation may affect the internal audit activity's ability to fulfill its professional responsibilities and/or the expectations of stakeholders. Such responsibilities may include the ability to provide reliable assurance on specific areas within the organization, to complete the audit plan, and to address high-risk areas.

After such consideration, the CAE will disclose the nonconformance, as well as the impact of the nonconformance, to senior management and the board. Often, disclosures of this nature involve a discussion with senior management and communication to the board during a board meeting. The CAE may also discuss nonconformance during private sessions with the board, one-on-one meetings with the board chair, or by other appropriate methods.

## Considerations for Demonstrating Conformance

To demonstrate conformance with Standard 1322, the internal audit activity should maintain documentation of the occurrence and nature of any nonconformance with the *Standards* or Code of Ethics. Other items that may indicate conformance with Standard 1322 include documentation that supports the determination of overall impact of nonconformance, board meeting minutes where the internal audit activity's nonconformance with the Code of Ethics or *Standards* was reported, or memos or emails to senior management and the board that discuss such nonconformance. This may include the results of any internal or external assessments completed, as well as any communications that document the lack of conformance and its impact on the scope or operation of the internal audit activity.

## About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit [www.globaliia.org](http://www.globaliia.org) or [www.theiia.org](http://www.theiia.org).

## About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (nonmandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at [www.globaliia.org/standards-guidance](http://www.globaliia.org/standards-guidance) or [www.theiia.org/guidance](http://www.theiia.org/guidance).

## Disclaimer

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