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To: Governance and Audit Committee – 16th May 2024
Subject: **Global Internal Audit Standards**
Classification: Unrestricted

Summary:

The Governance and Audit Committee is required to be aware of the new Global Internal Audit Standards to be effective from January 2025.

Recommendation:

The Governance and Audit Committee is asked to **note** the New Global Internal Audit Standards and their implications.

FOR INFORMATION

1. Introduction and background

- 1.1 Following consultation during 2023, in January 2024 the Global Institute of Internal Audit (the IIA) published a set of new Global Internal Audit Standards (the Standards). The Standards are due to come into effect from January 2025.
- 1.2 The previous International Professional Practices Framework (IPPF) was separated into categories for mandatory and recommended guidance. The new 2024 Global Internal Audit Standards have incorporated the recommended guidance into the mandatory requirements to aid practitioners in accessing and understanding the information. This has also led to the previous Code of Ethics, Core Principles and Implementation guidance under the umbrella of the new Standards.
- 1.3 The Standards are arranged into 5 Domains:
- I. Purpose of Internal Auditing
 - II. Ethics and Professionalism
 - III. Governing the Internal Audit Function
 - IV. Managing the Internal Audit Function
 - V. Performing Internal Audit Services
- 1.4 The 5 domains include 15 Principles and 53 individual standards to support these. Each standard includes:
- **Requirements** – Mandatory practices for Internal Audit
 - **Considerations** for Implementation – Common and Preferred practices to consider when implementing the requirements.
 - **Examples of Evidence of Conformance** – Examples to demonstrate that

the requirements have been implemented.

2. Key Impacts and changes of the new standards on clients

2.1 The new standards represent a number of changes to the requirements for Internal Audit, Senior Management and the Governance and Audit Committee. There is a detailed self-assessment being undertaken to identify gaps in compliance and a subsequent Improvement Plan will be presented to Governance and Audit Committee to address these.

2.2 Aside from these changes, there are some key additional requirements in the new Standards:

- A new Purpose statement that sets out the value of Internal Audit.
- New behavioral requirements for Internal Auditors, including the concept of Professional Scepticism
- Domain 3 covers the governance of Internal Audit and represents a significant change. Although it covers areas that were in the 2017 standards, the new standards go further and explicitly lay out requirements for Senior Management and the board (GAC). Further details of these are detailed in section 2.3 of this report.
- The standards require an Internal Audit Mandate to be approved by the Audit Committee. The mandate sets out the authority, role, responsibilities, scope and types of services. It also considers organisational independence, including interference such as limiting budgets or resources of Internal Audit.
- The chief audit executive (Head of Internal Audit) must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.
- The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.
- The chief audit executive must strive to ensure that the internal audit function has the technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency. The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management. The chief audit executive must collaborate with the organisation's information technology and information security functions to implement technological resources properly.
- If internal auditors and management disagree about the engagement recommendations and/or action plans, internal auditors must follow an established methodology to allow both parties to express their positions and rationale and to determine a resolution.
- Internal auditors must ensure the final communication to stakeholders for individual engagements is reviewed and approved by the chief audit executive before it is issued.

2.3 Although it is the responsibility of the Chief Audit Executive to facilitate the conditions below, the Standards set out a number of essential conditions for Senior Management and the Audit Committee. *(Note where the Standards refer to the Board this represents the Governance and Audit Committee)*

Senior Management	Governance and Audit Committee
<ul style="list-style-type: none"> • Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate. • Support the internal audit mandate throughout the organisation and promote the authority granted to the internal audit function. 	<ul style="list-style-type: none"> • Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function. • Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services
<ul style="list-style-type: none"> • Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the internal audit charter. 	<ul style="list-style-type: none"> • Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function. • Approve the internal audit charter. • Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.
<ul style="list-style-type: none"> • Work with the board and management throughout the organisation to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate. 	<ul style="list-style-type: none"> • Demonstrate support to Internal Audit by: <ul style="list-style-type: none"> – Specifying that the chief audit executive reports to a level within the organisation that allows the internal audit function to fulfil the internal audit mandate. – Approving the internal audit charter, internal audit plan, budget, and resource plan. – Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively. • Meeting periodically with the chief audit executive in sessions without senior management present.
<ul style="list-style-type: none"> • Support recognition of the internal audit function throughout the organisation. 	<ul style="list-style-type: none"> • Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.
<ul style="list-style-type: none"> • Engage with the board to determine the chief audit executive's qualifications, experience, and competencies. 	<ul style="list-style-type: none"> • Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function. • Approve the chief audit executive's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities.
	<ul style="list-style-type: none"> • Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate. • Communicate the board's perspective on the organisation's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities. • Set expectations with the chief audit executive for:

	<ul style="list-style-type: none"> – The frequency with which the board wants to receive communications from the chief audit executive. – The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board’s risk tolerance. – The process for escalating matters of importance to the board. <ul style="list-style-type: none"> • Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.
<ul style="list-style-type: none"> • Collaborate with the board and the chief audit executive to determine the scope and frequency of the external quality assessment. • Review the results of the external quality assessment, collaborate with the chief audit executive and board to agree on action plans that address identified deficiencies and opportunities for improvement, if applicable, and agree on a timeline for completion of the action plans. 	<ul style="list-style-type: none"> • Review and approve the chief audit executive’s plan for the performance of an external quality assessment. Such approval should cover, at a minimum: <ul style="list-style-type: none"> – The scope and frequency of assessments. – The competencies and independence of the external assessor or assessment team. – The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment. • Review and approve the chief audit executive’s action plans to address identified deficiencies and opportunities for improvement, if applicable.

3. New Topical Requirements

- 3.1 New to the 2024 Global Internal Audit Standards are the setting of Topical Requirements. They are intended to assist the internal audit function by providing structure and consistency in covering governance, risk and control over specified areas. These requirements will be published during 2024 and will be mandatory when Internal Audit scope an audit in these topical areas.
- 3.2 Although mandatory, they are not a requirement to perform any particular engagement, nor are they a step-by-step approach to the execution of the Internal Audit engagement. The topical requirements actually include a tool to help internal audit document the rationale for including or excluding certain requirements.
- 3.3 To date, one Topical Requirement has been published on Cyber Security. Others being developed include.
- Organisational Governance
 - Fraud Risk Management
 - Information Technology Governance
 - Sustainability: Environment, Social and Governance
 - Third-party Management
 - Performance Audits (Public Sector specific)
- 3.4 As new Topical Requirements become available during the year for comment, Internal Audit will review and provide feedback to help inform the final content.

4. Recommendations

- 4.1 Members of the Governance and Audit Committee are asked to:
- a) **NOTE** the new Global Internal Audit Standards and key implications.

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