

Global Internal Audit Standards

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Lead Member/Relevant Portfolio Holder	N/A

Corporate Priority:	All
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	N/A
Exempt Information:	None

1 Summary

- 1.1 The new Standards represent a number of changes to the requirements for Internal Audit, senior management and the Audit and Standards Committee. Having reviewed the requirements of the new Standards, it is considered that the Council's internal audit services align with the intent of the Standards. As the service evolves, processes and templates will be refreshed as part of the ongoing quality assurance and improvement programme to ensure alignment with requirements of the latest Standards.

2 Recommendation

That Committee:

2.1 Notes the main changes and implications arising from the Global Internal Audit Standards.

3 Reason for Recommendations

- 3.1 To inform the Audit and Standards Committee of the new Global Internal Audit Standards, which become effective from January 2025, and key changes to the requirements.

4 Background

- 4.1 Since 2017, the Public Sector Internal Audit Standards (PSIAS) have provided the basis on which the Council's internal audit service must be delivered.
- 4.2 The Global Institute of Internal Auditors (the IIA) published the new Global Internal Audit Standards on 9th January 2024, following an extensive consultation in 2023. The Standards provide a new structure with their arrangement under five domains. There is more emphasis on the working relationship of internal audit, the audit committee (referred to as the Board) and senior management. The Standards become effective from 9th January 2025.
- 4.3 The Standards are arranged into five 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
- 4.4 Across the domains are 15 Principles and 52 Standards. These include requirements, considerations for implementation, and examples of evidence of conformance. The new International Professional Practices Framework (IPPF) includes the Standards, topical requirements and global guidance.
- 4.5 The new Standards include guidance on application in the public sector which recognises that the application of the Standards may differ for internal auditors in the public sector. This section specifically references implications of different funding arrangements (i.e. the Board may not be able to approve budgets); governance and organisational structure (i.e. recognising that the Board may not be able to appoint, remove, or set remuneration for the chief audit executive); and laws/regulations impacting on delivery.

5 Main Considerations

- 5.1 As an audit committee, members play a vital role in ensuring that the internal audit function adheres to the Standards and fulfils its mandate effectively and efficiently. Audit and Standards Committee members and senior management should be familiar with the new Standards and their implications.
- 5.2 Some of the key updates are summarised as follows:
- A new Purpose statement that sets out the value of Internal Audit;
 - New behavioural requirements for Internal Auditors, including the concept of 'Professional Scepticism';
 - Domain III 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 audit committee (the Board). These are summarised further below, in paragraph 4.3;

- 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 (Chief Internal Auditor) must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organisation 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; and
- New to the 2024 Global Internal Audit Standards are the setting of Topical Requirements. These 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.

5.3 As noted above, Domain III covers the governance of Internal Audit and represents a significant change and sets out requirements for the Board, which must be exercised by the Audit and Standards Committee, as follows:

- 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;
- 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;

- Review the internal audit charter with the chief audit executive to consider changes affecting the organisation, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organisation;
- Demonstrate support to Internal Audit by:
 - 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 enquiries 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.
- Champion the internal audit function to enable it to fulfil the Purpose of Internal Auditing and pursue its strategy and objectives.
- 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.
- 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:
 - 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.
- 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.
- Review and approve the chief audit executive's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
 - 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.

5.4 The Council's Internal Audit service is subject to an annual self-assessment against the Public Sector Internal Audit Standards and an initial review of the Global Internal Audit Standards provides assurance that the service operates in line with the intent of these Standards. Integrity, objectivity, competency, confidentiality and due professional care remain the core basis for how internal audit services must be delivered. These are defined within the in-house service's Code of Ethics which each member of the team signs to confirm acceptance of on an annual basis, along with a declaration of any potential conflicts of interest.

5.5 As part of the service's quality assurance and improvement programme, further work will take place to review processes, templates and strategies to align with the latest Standards. The team includes a number of qualified and part qualified Chartered Internal Auditors and continuous professional development and training will further support the embedding of the Standards across the service. The in-house service was established in April 2022 and has not, as yet, been subject to an external assessment. Consideration will need to be given to the most appropriate timing of the first assessment, in consultation with the Audit and Standards Committee. Further updates will be provided for the committee during 2024/25, including the implications of any new Topical Requirements.

6 Options Considered

6.1 Not applicable.

7 Consultation

7.1 Not applicable.

8 Next Steps – Implementation and Communication

8.1 The Chief Internal Auditor will provide further briefings / training in relation to the new standards during 2024/25 and will be reviewing the service's practices and templates to ensure alignment with expectations.

9 Financial Implications

9.1 There are no financial or other resource implications arising directly from this report.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

10.1 The Accounts and Audit Regulations 2015 require local authorities to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". The Global Internal Audit Standards incorporate the current public sector auditing standards and should therefore be integrated to the Council's internal audit function.

Legal Implications reviewed by: Monitoring Officer.

11 Equality and Safeguarding Implications

11.1 There are no equalities or safeguarding implications arising directly from this report.

12 Data Protection Implications (Mandatory)

12.1 A Data Protection Impact Assessments (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons arising directly from this report.

13 Community Safety Implications

13.1 There are no community safety implications arising directly from this report.

14 Environmental and Climate Change Implications

14.1 There are no environmental and climate change implications arising directly from this report.

15 Other Implications (where significant)

15.1 There are no other implications arising directly from this report.

16 Risk & Mitigation

16.1 The Internal Audit work provides assurance over the adequacy and effectiveness of the Council's internal controls to manage key risks and inform risk management arrangements.

17 Background Papers

17.1 None

18 Appendices

18.1 None