



What every chief audit executive (CAE) should know now

How the proposed changes to Global
Internal Audit Standards can impact
your organization

The EY logo consists of the letters 'EY' in a bold, black, sans-serif font. A yellow triangle is positioned above the 'Y', pointing to the right.

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1 Introduction

The Institute of Internal Auditors (IIA) is proposing Global Internal Audit Standards intended to better enable today's internal auditors to navigate the changing risk landscape.

Once implemented, internal audit (IA) professionals around the world will be expected to conform to the proposed IIA standards currently undergoing public comment and set to be finalized in late 2023, taking effect 12 months after release. The outgoing International Professional Practices Framework (IPPF) had a positive impact on the IA profession, providing guidance and high standards, including quality assurance. The proposed Global Internal Audit Standards intend to better enable today's internal auditors to navigate the new challenges and demands from their stakeholders while exceeding expectations and adding value to their organizations.

The 15 principles and 53 proposed standards, with five domains, create a new purpose for internal auditing, clarify requirements vs. suggestions and include several key nuances (e.g., public sector, small IA functions, advisory services, among others).

The proposed standards include a significant amount of detail – the result of a thorough analysis of each domain. This document will summarize key changes to the standards and the anticipated impact to internal auditors and their organizations. While every IA function's maturity level is different, the key changes noted apply to all. Some updates may only require small steps or better documentation of existing processes, while others may require broader change management, such as technology-enabled functionality.

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Five domains

- I. The 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

Key changes

Elevating the IA mandate, considering integrated risk management

- ▶ **Purpose:** Internal auditors and IA stakeholders should understand and be able to articulate the value of internal auditing (Domain I.).
- ▶ **Collaboration with internal and external assurance providers:** The chief audit executive (CAE) must collaborate with other internal and external assurance providers to help establish the IA mandate (Domain III. Standard 6.1) and coordinate in strategic planning (Domain IV. Standard 9.6).
- ▶ **Relationships with stakeholders:** The CAE must develop an approach to build relationships with key stakeholders and promote communication (Domain IV. Standard 11.1).

Delivering more valuable results

- ▶ **Continuously improving performance:** The CAE is responsible for measuring the function's performance and ensuring the function continuously improves (Domain IV. Standard 12.2; Domain IV. Principle 12).
- ▶ **Enhanced and elevated engagement-level:** Typical engagement reporting elements will be formally required, including rating or ranking a finding, formulating recommendations, obtaining management's action plans and developing an engagement conclusion (Domain V. Standards 14.3-5).
- ▶ **Enabling technology as a key resource:** The CAE must ensure the IA function has appropriate technology to support the IA process (Domain IV. Standard 10.3).
- ▶ **External quality assessments (EQAs):** The board of directors must review EQA results, and the assessment team must include at least one individual with an active Certified Internal Auditor (CIA) designation (Domain III. Standard 8.4).

2 Elevating the IA mandate, considering integrated risk management

Collaboration with internal and external assurance providers

The CAE must collaborate with other internal and external assurance providers to help establish the IA mandate and coordinate in strategic planning.

Domain III. Standard 6.1; Domain IV. Standard 9.6

As the IA team defines its mandate for inclusion in the charter, the CAE must collaborate with other assurance providers to outline and differentiate the relative services IA provides. Once agreed to, the CAE must communicate this understanding to the board, including whether any roles or responsibilities change.

An opportunity exists for the CAE to coordinate with the assurance providers and receive their assistance in achieving the IA mandate. Principle 6 states, “The chief audit executive should participate in the coordination of the organization’s assurance providers and advise the board regarding how other functions within the organization may contribute to the internal audit mandate.” In addition, an opportunity exists to have strategic discussions among internal and external assurance providers to promote the reliance on the work of others.

While the IPPF included coordination with providers as a suggestion, updated Principle 9 states, “The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work.” This shift from a suggestion to a requirement highlights the IIA’s expectation for all assurance functions to better align in their coverage and reporting of enterprise-wide risks. Principle 9 also requires the CAE to develop a methodology to evaluate the assurance providers and establish a basis for reliance upon their work. Examples of coordination include creating a shared risk taxonomy and risk assessment, coordinating scheduling of engagements and combining results for joint reporting.

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Develop an approach for the internal audit function to build relationships and trust with key stakeholders.

Relationships with stakeholders

The CAE must develop an approach to build relationships with key stakeholders and promote communication.

Domain IV. Standard 11.1

The new standards require the CAE to communicate more frequently, in greater detail and regarding specific topics to enable the board's oversight and governance role. They also outline expectations for the board to take a more active oversight position by ensuring the CAE has the qualifications and competencies to manage IA effectively. If the CAE has additional responsibilities beyond leading IA (e.g., other risk or compliance responsibilities), the CAE must develop and the board must confirm that proper safeguards are implemented and effective regarding IA's independence, and that any actual, potential or perceived conflicts of interest are disclosed.

With the expanded visibility, access and influence of the CAE and key stakeholders (e.g., the board, executive management, other assurance providers), the CAE must “develop an approach for the internal audit function to build relationships and trust with key stakeholders.” These relationships are essential to build trust and open communication between IA and all key stakeholders to promote a culture focused on risk identification and risk management. To support this focus on relationships, the CAE could develop and retain the following items:

- ▶ IA's documented relationship management plan
- ▶ Agendas and/or meeting minutes for sessions with key stakeholders
- ▶ Survey results to solicit feedback from key stakeholders on IA services
- ▶ A communication plan (e.g., IA intranet page, newsletters) to deliver messages to stakeholders

To provide additional insights to key stakeholders to strengthen these relationships, the new standards highlight the need to communicate themes and business-level and organizational conclusions, in addition to engagement conclusions. Audit results must elevate engagement findings into themes and conclusions (Domain IV. Standard 11.3). The findings and conclusions of multiple engagements, when viewed holistically, may reveal patterns or trends, such as root causes. “When the CAE identifies themes related to the organization's governance, risk management and control processes, the theme must be communicated timely, along with insights, advice and/or conclusions, to senior management and the board.”

Further, the following additional requirements are noted for the board's roles and responsibilities:

- ▶ Board approval for the IA mandate (Standard 6.1)
- ▶ Direct reporting relationship between the board and chief audit executive (Standard 7.1)
- ▶ Evidence of board expectations for board interactions (Standard 8.1)
- ▶ Board determination of the scope and frequency of the external quality assessment (Standard 8.4)

3 Delivering more valuable results

Continuously improving performance

The CAE is responsible for measuring the function's performance and ensuring the function continuously improves.

Domain IV. Standard 12.2; Domain IV. Principle 12

Enhancing quality has always been an integral part of the IIA standards, focused on measuring conformity with the standards through internal assessments and the quality assurance and improvement program. This next iteration evolves to measure conformance and performance. Performance includes IA's performance objectives and continuous improvement as a whole. Principle 12 states, "The chief audit executive is responsible for ensuring that the internal audit function continuously improves. This requires the development of criteria and measures to assess the performance of internal audit engagements, the internal auditors and the internal audit function."

While ensuring conformity with the Global Internal Audit Standards is still a critical component and addressed in Standard 12.1, Internal Quality Assessment, the new Standard 12.2, Performance Measurement, focuses on continuous improvement. It supports the need for functions to focus on the value IA provides to the organization, which, in turn, will further mature the IA function. "The chief audit executive must develop a performance measurement methodology that includes performance criteria and measures to assess progress toward achieving the function's performance objectives." A critical component to this is soliciting feedback from the organization through suggestions, such as surveys or post-engagement discussions: "When assessing the internal audit function's performance, the chief audit executive must solicit feedback from senior management and the board."

The standard outlines the following considerations for implementation:

- ▶ As a tactical first step, identify qualitative and quantitative key performance indicators (KPIs) and targets based on the standards, IA's mandate and charter, laws and regulations, and stakeholder input on value.
- ▶ After identifying KPIs, establish a monitoring process and a method for communicating with stakeholders.
- ▶ Regularly (at least annually) communicate to senior leadership and the board.

Suggestions for metrics (e.g., contribution to improving controls, progress against the IA plan, risk coverage, communication clarity, recommendations accepted) are also included in the standard.

A notable change to Standard 12.1 is the requirement to communicate internal quality assessment results with the board, at least annually, and as a part of the EQA review.

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The chief audit executive is responsible for ensuring that the internal audit function continuously improves. This requires the development of criteria and measures to assess the performance of internal audit engagements, the internal auditors and the internal audit function.

Enhanced and elevated engagement-level reporting

Typical engagement reporting elements will be formally required, including rating or ranking a finding, formulating recommendations, obtaining management's action plans and developing an engagement conclusion.

Domain V. Standards 14.3-5

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If a common understanding still cannot be reached, internal auditors must not feel obligated to change any portion of the engagement results unless there is a valid reason to do so. Internal auditors must state both positions and the reasons for the differences in the final engagement communication.

Documenting the outcomes of IA work and communicating these to management and the board have always been critical components of IA service delivery.

These updates to the standards aim to provide additional guidance on the level of detail required in documenting IA work, conclusions drawn from the work and communicating to management and the board.

The new standards have formally introduced finding as a term in the glossary, defined as when a “significant risk exists in the activity under review, based on the difference between the evaluation criteria and the condition of the activity.” Within Standard 14.3, Evaluation of Findings, greater detail has been provided on how internal auditors can arrive at and should conclude on findings and requires “evaluation of each potential engagement finding to determine its significance ... and provide a rating, ranking or other indication of priority for each engagement finding,” which was previously not required.



Alongside the addition of a formal definition of a finding, Standard 14.4 has been introduced. This standard requires IA to provide recommendations and, for assurance engagements, also develop management's action plans.

At the end of an engagement, Standard 14.5, Developing Engagement Conclusions, states, "Internal auditors must develop an engagement conclusion by considering the findings collectively and issue a rating, ranking, or other indicator of the significance of the aggregated findings." The requirement for an overall conclusion, while often seen as good practice, previously was not required on all engagements. In cases where functions were not previously rating overall engagement outcomes, this will require a change in methodology and engagement with stakeholders relating to the terms of the outcomes and what they mean to them.

Standard 13.1, Engagement Communication, explains how IA and management should handle disagreement: "If a common understanding still cannot be reached, internal auditors must not feel obligated to change any portion of the engagement results unless there is a valid reason to do so. Internal auditors must state both positions and the reasons for the differences in the final engagement communication." Further, this standard expands beyond the inclusion of applicable observations, recommendations and/or action plans to also require closing communications to encompass a discussion of "the feasibility of recommendations and/or action plans, the timing to address each finding and the owner responsible for the action."

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Based on the engagement conclusion, internal auditors must issue a rating, ranking or other indicator of the significance of the aggregated findings.



Enabling technology as a key resource

The CAE must ensure the IA function has appropriate technology to support the IA process.

Domain IV. Standard 10.3.

The new standards require the CAE to regularly evaluate the technology IA uses and pursue opportunities to improve effectiveness and efficiency. Standard 10.1, Financial Resource Management, requires the CAE to develop a budget that successfully supports the IA mandate and plan, including training and acquisition of technology and tools.

EQAs will assess the IA function's use of tools and technology, including:

- ▶ Audit management systems
- ▶ Process mapping applications
- ▶ Data science and analytics tools
- ▶ Communication and collaboration tools

To implement this standard and ensure the IA function has appropriate technological resources to perform its responsibilities, the CAE should:

- ▶ Assess the feasibility of acquiring and implementing technology-enabled enhancements.
- ▶ Present funding requests to senior management and the board for approval that will enable enhancements across the IA function's processes in meeting its mandates and plans.
- ▶ Develop and implement plans to introduce approved technologies, train the teams and demonstrate the realized benefits to senior management and the board.
- ▶ Identify and respond to the risks that arise from technology use, including those related to information security and privacy of individual data.

External quality assessments (EQAs)

The board of directors must review EQA results, and the assessment team must include at least one individual with an active Certified Internal Auditor (CIA) designation.

Domain III. Standard 8.4

While most guidance related to EQAs remains the same in the proposed standards, there are noteworthy changes related to board involvement and requirements for the assessment team.

The board must determine the scope and frequency of the EQA and ultimately approve the CAE's plan for performing the EQA. In addition, the board must receive the complete assessment results and approve the CAE's action plans to address any noted gaps or improvement opportunities, as applicable.

The EQA comprises a detailed review of the adequacy of the IA function's mandate, methodology, process, risk assessment and audit plan. Key elements of the assessment still cover areas such as conformance to standards, performance measurement, competencies and alignment with broader company strategy and goals.

The requirement for an EQA may be met periodically through a self-assessment approach, with a layer of independent validation. This self-assessment option can be alternated with the formal EQA once every 10 years and take a more limited form. The assessment team must meet the requirements outlined in the standards, such as being independent from the organization, having the appropriate IA experience and including at least one individual with an active CIA certification.

4 Additional considerations

Continual professional development has always been part of the standards, encouraging internal auditors to improve their proficiency and quality of services. The importance of continuing professional education (CPE) is further emphasized in the proposed update, which would require auditors to complete a **minimum of 20 hours** of CPE annually. Of these 20 hours, at least two should be related to ethics. Internal auditors should focus on emerging topics, trends, risks and changes that may affect the organization for which they work and the IA profession. This requirement implies that IA functions should keep track of their people's education (e.g., by keeping an inventory of completed training).

Even though this requirement is focused on internal auditors, organizations will realize this standard might affect their learning and/or IA budgets, if the functions are not yet facilitating 20 hours of learning.

In addition, a full new standard is proposed on professional skepticism, which is already a common doctrine in the IA profession. Professional skepticism can be exercised by:

- ▶ Maintaining an attitude that includes a questioning mind
- ▶ Critically assessing the reliability of information
- ▶ Being straightforward and honest when raising concerns and asking questions about inconsistent information
- ▶ Seeking additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false or misleading

These virtues are already present in many IA job descriptions. Adding these virtues to the ethics and professionalism standard may further boost the profession and individual auditors.



Summary

The proposed changes aim to simplify and clarify the guidance and standards provided by the IIA. In terms of timing, the IIA has said, "The final standards will be issued in late 2023 and take effect 12 months after release."

So, what can you do next?

1. Perform a self-assessment of your function's ability to adopt the new Global Internal Audit standards.
2. Begin socializing the changes with your board.
3. Consider partnering with an external provider to perform a GIA readiness assessment and solution gaps areas identified.

EY professionals are here to help

We would love to support you on your journey through our IA service offerings:

1. IA quality assessments
2. IA transformation
3. IA co-sourcing and outsourcing

It is important to be thoughtful of these changes now, allowing your organization to stay ahead in such areas as re-assessing your IA purpose, coordinating with other risk management functions, aligning with your board and exploring ways to further leverage technology in what you do. By recognizing that new standards are on the horizon, you are empowered to continue adding value to your organization while being thoughtful about the changes, whether big or small, that your team will need to take going forward.

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ey.com

Contacts



Olusegun Ogunnaike
EY Americas Internal Audit & Controls Solutions Leader
olusegun.ogunnaike@ey.com



Kapish Vanvaria
EY Americas Risk Markets Leader
kapish.vanvaria@ey.com



Jessica Rodgers
EY Financial Services Organization Enterprise Risk Leader
jessica.h.rodgers@ey.com



Rohit Mathur
EY EMEIA Risk Consulting Leader
rohit.mathur5@uk.ey.com



Tonny Dekker
EY Global Consulting Enterprise Risk Leader
tonny.dekker@nl.ey.com



Chee Kong Wong
EY Asia-Pacific Risk Leader and Governance Risk and Compliance (GRC) Technology Leader
chee.kong.wong@au.ey.com



Rui J. Bastos
EY Global Risk Leader
rui.bastos@pt.ey.com

Contributors

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