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Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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What New Internal Audit Standards Mean to the Board

An updated set of internal audit standards published in January by the Institute of Internal Auditors (IIA) includes new guidance designed to clarify and strengthen the relationship with boards and enhance directors' ability to fulfill their responsibilities. This

issue introduces the Global Internal Audit Standards™, explains why an update was necessary, and examines their importance for board members.



An Update to Meet New Challenges

Effective internal auditing can provide organizations and boards of directors with a wide range of valuable information and independent and objective assurance and advice. It offers management and the board analyses, appraisals, counsel, and information on the activities it examines. It also can promote and support the establishment and implementation of effective internal controls, offer insights on risks and opportunities, and monitor organizational culture and ethics.

Since 1978, internal audit practitioners have followed The IIA's [International Standards for the Professional Practice of Internal Auditing](#) to maintain the highest level of quality and ethics. The [International Professional Practices Framework \(IPPF\)](#) was created in 2010 adding the definition of internal auditing, Code of Ethics as well as mandatory and recommended guidance. The Mission of Internal Auditing and the Core Principles were added in a 2017 update. This guidance, the only globally recognized set of internal audit standards, helps internal auditors navigate complex risk management, governance, and control considerations.

While the fundamentals of internal audit remain the same, the complexity of the risks that organizations face and the speed

at which new challenges emerge make it necessary to update existing internal audit guidance. With that in mind, the new Standards dramatically change some aspects of the Standards and the framework. Among other things, they provide specific guidance on how the board can enable the chief audit executive (CAE) and the overall internal audit function to be successful. The Standards include a Purpose of Internal Auditing that reflects the profession's evolution, its role in good governance, and its value to stakeholders. Familiarity with the purpose and the Standards overall can help boards understand internal audit's contributions, its reporting line, and the role directors play in supporting internal audit's work.

The new Standards, which formally go into effect for practitioners in January 2025, are structured into five domains that together incorporate 15 principles and 53 Standards. This issue will focus on the Standards' Domain III, Governing the Internal Audit Function, which offers important clarification on the board's relationship with internal audit. "It identifies the essential conditions that the board or senior management need to set in place to enable internal audit to achieve its purpose," said Paul Sobel, CIA, CRMA, QIAL, senior advisor to the International Internal Audit Standards Board on the evolution of the IPPF.

Understanding Domain III



This domain emphasizes the critical partnership between the board and the CAE. It is different from other sections of the Standards because it offers guidance on the support and direction that the CAE will need from the board and senior management to be successful. It is based on the premise that, if boards are seeking an effective internal audit function that enables organizational success, directors must take on certain responsibilities that are covered in this domain. The domain also establishes how the CAE should enable the board to meet these expectations.

To make it more relevant and useful to a wide range of organizations, regardless of their size or structure, the domain also expands the definition of the board. The Standards are now easier to apply to two-tier structures, public sector organizations, and small, closely held organizations, all situations where governance may look different from the way it does in a large public company. Boards should understand this definition and consider how their particular governance structure fits it.

Throughout the Standards, each individual standard includes considerations for implementation and examples of evidence of conformance. Domain III covers three of the 15 core principles and nine of the 53 standards.

Principle 6: Authorized by the Board. This principle affirms that the board establishes, approves, and supports the authority, role, and responsibilities of the internal audit function. It emphasizes the importance of board support for the internal audit function and introduces and clarifies the concept of the internal audit mandate. This mandate under the board's

oversight is not new, but the standard adds new perspective on the role, responsibilities, and authorities of internal audit. These considerations may already be included in the organization's internal audit charter, but there should be a discussion to ensure there is a unified view, shared by the board and the CAE, on the intended mandate within the organization.

Principle 7: Positioned Independently. Independence has always been a hallmark of the internal audit profession. Internal audit must be able to carry out its job without interference and must have sufficient resources to fulfill its mandate. This principle focuses on the importance of maintaining that independence, in part by requiring that internal audit report directly to the board and stipulates other ways to safeguard independence. It also addresses the roles, responsibilities, and qualifications of the CAE.

Principle 8: Overseen by the Board. Principles 6 and 7 address areas that might be reviewed at a set point in time once or twice a year. Principle 8, however, requires ongoing collaborative and interactive communication between the board and the CAE. It offers board members greater clarity on necessary interactions and communications. And while internal audit quality assurance and improvement programs are discussed in more detail elsewhere, this principle addresses the important role that the board plays in making sure that the internal audit function and the CAE in particular are focused on a quality internal audit function, including the board's direct review of periodic external quality assessments. *"We believe quality goes beyond just conformance with the Standards, it also includes performance against objectives agreed to with the board,"* said Sobel.

About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 230,000 global members and has awarded more than 185,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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What Impact Will the Standards Have?

While the Standards change existing requirements, boards are generally not required to do anything that has not already been considered good practice. "Things that were embedded in the Standards are now more explicitly stated to clarify the need for actions the board is probably already taking and how the CAE can support directors' work," Sobel said.

With that in mind, realistically the level of change that boards should expect from the new Standards will vary. Organizations in which the CAE already has a solid working relationship with the board should expect little difference, although they may formalize or document some procedures, Sobel said. In less mature organizations or those with newly formed internal audit functions or a newer CAE, the Standards will provide a roadmap on how recommended interactions between internal audit and the board should occur. "The purpose of the Standards is to raise the floor of the profession," Sobel said, enhancing quality and providing guidance on how internal audit can best meet the board's needs.

Good Governance Is the Goal

The board is ultimately there to help the organization be more successful by achieving its objectives and fulfilling its mission, Sobel noted. Because the board is primarily in an oversight and direction role, it needs the objective, insider perspective that internal audit can offer on the organization's risks and opportunities.

"It all comes down to understanding internal audit's role in good governance and how internal audit can help the board be more effective in its oversight role," he said.

New Internal Audit Standards in Brief



- **Domain I:** Purpose of Internal Auditing provides a unified description of the profession.
- **Domain II:** Ethics and Professionalism incorporates the profession's Code of Ethics and Standards on practitioner conduct, including Standards on due professional care.
- **Domain III:** Governing the Internal Audit Function clarifies the board's role and responsibilities in supporting an effective internal audit function and addresses how the CAE can support the board in carrying out its responsibilities.
- **Domain IV:** Managing the Internal Audit Function clarifies the CAE role and responsibilities for effectively managing an internal audit function.
- **Domain V:** Performing Internal Audit Services codifies requirements and considerations to help internal auditors perform internal audit engagements with consistency and quality.

QUESTIONS FOR BOARD MEMBERS

Has the board established a clear mandate for internal audit?

What steps does the board take to support internal audit and ensure it can function effectively?

How does the board support internal audit independence?

Does the board's partnership with the CAE enable directors to better carry out their responsibilities?

Does the board regularly collaborate with the CAE?

Maximizing the Value of Internal Audit

Boards should be aware of the many types of insights and information that internal audit can provide to the audit committee, its usual point of contact with the board. A survey

shows some of the top ways in which directors believe the internal audit function can increase its value to the audit committee.

