



NEW INTERNAL AUDIT STANDARDS

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1. INTRODUCTION

In January 2024 the Global Institute of Internal Audit (GIIA) published new Professional Standards for Internal Auditors following a draft publication in March 2023 and worldwide consultation. The Institute of Internal Auditors (IIA) confirmed the Standards will become globally effective from 9 January 2025, and will replace the International Professional Practice Framework which are the basis for the current UK Public Sector Internal Auditing Standards (the PSIAS).

The Standards are organised into five domains:

- Domain I: Purpose of Internal Auditing.
- Domain II: Ethics and Professionalism.
- Domain III: Governing the Internal Audit Function.
- Domain IV: Managing the Internal Audit Function.
- Domain V: Performing Internal Audit Services.

The UK Public Sector Internal Auditing Standards Advisory Board (IASAB) are currently undertaking a review of the new standards and will produce public sector specific interpretations to make them suitable for UK public sector use. It is expected the IASAB will issue consultation material in September 2024, with the final material and guidance issued later this year for implementation by 1 April 2025.

The Head of Internal Audit and Risk Assurance (HIA) has undertaken a self-assessment review against the new Standards to identify any potential areas for improvement in advance of the national guidance. A high-level summary of the individual standards and current compliance is outlined in Appendix A. The areas for improvement will be developed into a formal Quality Improvement Action Plan once the final public sector specific guidance is published.

2. ESSENTIAL CONDITIONS

The Audit Committee and Corporate Management Team (CMT) are essential to support Internal Audit's ability to meet the Purpose of Internal Auditing. Therefore, the new Standards include a range of obligations under *Domain III: Governing the Internal Audit Function* for the Audit Committee and CMT to fulfil when overseeing and directing internal audit. These are referred to as "Essential Conditions" and listed in Section 3 below.

The Standards state the HIA must discuss the Essential Conditions at least annually with the Audit Committee and CMT. This will be completed when the Internal Audit Charter and Annual Plan is presented, and will focus on the following points required by the Standards:

- The Purpose of Internal Auditing as articulated in *Domain I: Purpose of Internal Auditing*.
- The Essential Conditions outlined under each of the standards in *Domain III: Governing the Internal Audit Function*.
- The potential impact on the effectiveness of the internal audit function if the Audit Committee or CMT does not provide the support outlined in the essential conditions.

The Standards also require the HIA to highlight the Essential Conditions with the Audit Committee and CMT if:

- The Standards change significantly or a new internal audit function is created.
- The HIA is new to the role or organisation.
- There are significant changes in the relationship between the Audit Committee and the HIA, such as a new chairperson to whom the HIA reports or a change in the structure or composition of the Audit Committee that affects this reporting relationship.
- There are significant changes in the structure or composition of CMT that affect the HIA's positioning within the organisation.

Through the Essential Conditions the Standards require the Audit Committee to have significantly more operational oversight on the HIA than currently. In several instances these expectations may conflict with roles Members have under the Council's Constitution. Where the Audit Committee or CMT cannot, or will not, agree to implement any Essential Condition, the HIA must document these decisions (likely in the Internal Audit Charter), and set out the impact on the work of the internal audit service.

3. CMT & AUDIT COMMITTEE ESSENTIAL CONDITIONS

Standard 6.1 Internal Audit Mandate

Audit Committee:

- Discuss with the HIA and CMT 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.

CMT:

- Participate in discussions with the Audit Committee and HIA and provide input on expectations for the internal audit function that the Audit Committee 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.

Standard 6.2 Internal Audit Charter

Audit Committee:

- Discuss with the HIA and CMT 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 HIA to consider changes affecting the organisation, such as the employment of a new HIA or changes in the type, severity, and interdependencies of risks to the organisation.

CMT:

- Communicate with the Audit Committee and HIA about management's expectations that should be considered for inclusion in the internal audit charter.

Standard 6.3 Audit Committee and CMT Support

Audit Committee:

- Champion the internal audit function to enable it to fulfil the Purpose of Internal Auditing and pursue its strategy and objectives.
- Work with the CMT to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfil the internal audit mandate.
- Support the HIA through regular, direct communications.
- Demonstrate support by:
 - Specifying that the HIA 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 CMT and the HIA 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 HIA in sessions without CMT present.

CMT:

- Support recognition of the internal audit function throughout the organisation.
- Work with the Audit Committee 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 fulfil the internal audit mandate.

Standard 7.1 Organisational Independence

Audit Committee:

- Establish a direct reporting relationship with the HIA and the internal audit function to enable the internal audit function to fulfil its mandate.
- Authorize the appointment and removal of the HIA.
- Provide input to CMT to support the performance evaluation and remuneration of the HIA.
- Provide the HIA with opportunities to discuss significant and sensitive matters with the Audit Committee, including meetings without CMT present.
- Require that the HIA be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to CMT and escalate matters to the Audit Committee when necessary.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the HIA that are beyond the scope of internal auditing.
- Engage with CMT and the HIA to establish appropriate safeguards if HIA roles and responsibilities impair or appear to impair the internal audit function's independence. Engage

No Changes Required

The IA Mandate is included in the IA Charter. As planned, the Charter will be updated by the HIA for 2025/26, shared with CMT to obtain their input, then brought to the Audit Committee for review and approval in February.

No Changes Required

As above, the IA Charter will be updated by the HIA for 2025/26, shared with CMT to obtain their input, then brought to the Audit Committee for review and approval in February.

Minor Changes Required

More information on the IA budget, reporting structure and resources will be included in the IA Plan for the Audit Committee's approval in February. Any proposed changes to the IA service throughout the year will also be presented to the Audit Committee for approval.

Changes Required

Under this standard the Audit Committee is required to be directly involved in the recruitment, performance management and remuneration of the HIA. These requirements will need to be considered with Democratic services and HR to ensure they are in line with the Committee's wider responsibilities and Council Policies.

with CMT to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results

CMT:

- Position the internal audit function at a level within the organisation that enables it to perform its services and responsibilities without interference, as directed by the Audit Committee.
- Recognise the HIA's direct reporting relationship with the Audit Committee.
- Engage with the Audit Committee and the HIA to understand any potential impairments to the internal audit function's independence caused by non-audit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments.
- Provide input to the Audit Committee on the appointment and removal of the HIA.
- Solicit input from the Audit Committee on the performance evaluation and remuneration of the HIA

Standard 7.2 HIA Qualifications**Audit Committee:**

- Review the requirements necessary for the HIA to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function.
- Approve the HIA's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities.
- Engage with CMT to appoint a HIA with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services.

CMT:

- Engage with the Audit Committee to determine the HIA qualifications, experience, and competencies.
- Enable the appointment, development, and remuneration of the HIA through the organisation's human resources processes.

Standard 8.1 Audit Committee Interaction**Audit Committee:**

- Communicate with the HIA to understand how the internal audit function is fulfilling its mandate.
- Communicate the Audit Committee's perspective on the organization's strategies, objectives, and risks to assist the HIA with determining internal audit priorities.
- Set expectations with the HIA for: The frequency with which the Audit Committee wants to receive communications from the HIA.
- The criteria for determining which issues should be escalated to the Audit Committee, such as significant risks that exceed the Audit Committee's risk tolerance.
- The process for escalating matters of importance to the Audit Committee.
- Gain an understanding of the effectiveness of the organisation's governance, risk management, and control processes based on the results of internal audit engagements and discussions with CMT.
- Discuss with the HIA disagreements with CMT or other stakeholders and provide support as necessary to enable the HIA to perform the responsibilities outlined in the internal audit mandate.

CMT:

- Communicate senior management's perspective on the organization's strategies, objectives, and risks to assist the HIA with determining internal audit priorities.
- Assist the Audit Committee in understanding the effectiveness of the organization's governance, risk management, and control processes.
- Work with the Audit Committee and the HIA on the process for escalating matters of importance to the Audit Committee.

STANDARD 8.2 RESOURCES

- Collaborate with CMT to provide the internal audit function with sufficient resources to fulfil the internal audit mandate and achieve the internal audit plan.
- Discuss with the HIA, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfil the internal audit mandate and achieve the internal audit plan.
- Consider the impact of insufficient resources on the internal audit mandate and plan.
- Engage with CMT and the HIA on remedying the situation if the resources are determined to be insufficient.

CMT:

- Engage with the Audit Committee to provide the internal audit function with sufficient resources to fulfil the internal audit mandate and achieve the internal audit plan.
- Engage with the Audit Committee and the HIA on any issues of insufficient resources and how to remedy the situation.

Changes Required

As above, the Audit Committee should be involved in setting the specification for the HIA role and their recruitment and appointment. How this will be completed in practice will need to be discussed with Democratic services and HR.

No Changes Required

This information is included in the IA Charter. As planned, the Charter will be updated by the HIA for 2025/26, shared with CMT to obtain their input, then brought to the Audit Committee for review and approval in February.

Minor Changes Required

More information on the IA resources will be included in the IA Plan for the Audit Committee's approval in February. Any proposed changes to the IA service throughout the year will also be presented to the Audit Committee for approval.

STANDARD 8.3 QUALITY

- Discuss with the HIA the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function.
- Approve the internal audit function's performance objectives at least annually.
- Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes: Reviewing the internal audit function's performance objectives, including its conformance with the Standards, laws and regulations; ability to meet the internal audit mandate; and progress towards completion of the internal audit plan.
- Considering the results of the internal audit function's quality assurance and improvement program.
- Determining the extent to which the internal audit function's performance objectives are being met.

CMT:

- Provide input on the internal audit function's performance objectives.
- Participate with the Audit Committee in an annual assessment of the HIA and internal audit function.

STANDARD 8.4 EXTERNAL QUALITY ASSESSMENT

- Discuss with the HIA the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.
- Collaborate with CMT and the HIA to determine the scope and frequency of the external quality assessment.
- Consider the responsibilities and regulatory requirements of the internal audit function and the HIA, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the HIA'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.
- Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor.
- Review and approve the HIA's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the HIA's progress.

CMT:

- Collaborate with the Audit Committee and the HIA to determine the scope and frequency of the external quality assessment.
- Review the results of the external quality assessment, collaborate with the HIA and Audit Committee 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.

Minor Changes Required

More information on the IA compliance with the Standards and IA quality assurance and improvement programme will be included in the IA Annual Report to enable to Audit Committee to assess the performance of the IA service.

No Changes Required

We completed the last External Quality Assessment in 2023/24. Information on the frequency of assessments is included in the IA Charter which will be presented to the Audit Committee in February.

APPENDIX A - IIA GLOBAL STANDARDS

The table below is a self-assessment of the Internal Audit Team's current compliance with the Standards (excluding the Essential Conditions listed separately above).

Please note, the complete Standards document covers 120 pages, therefore this is a very high-level summary of the requirements. The detailed areas for improvement will be developed into formal actions once the final public sector specific guidance is published. This will help us to achieve our main area of improvement which is the ongoing quality improvement action plan (Principle 12).

SUMMARY OF REQUIREMENTS	RAG
Domain I: Purpose of Internal Auditing	
Domain II: Ethics and Professionalism	
Principle 1 Demonstrate Integrity	
• Standard 1.1: Internal auditors must perform their work with honesty and professional courage.	G
• Standard 1.2: Internal auditors must understand, respect, meet, and contribute to legitimate and ethical expectations of the organisation.	G
• Standard 1.3: Internal auditors must not engage in or be a party to any activity that is illegal or discreditable to the organisation or the profession of internal auditing that may harm the organisation or its employees.	G
Principle 2 Maintain Objectivity	
• Standard 2.1: Internal auditors must maintain professional objectivity when performing all aspects of internal audit services.	G
• Standard 2.2: Internal auditors must recognise and avoid or mitigate actual, potential, and perceived impairments to objectivity.	G
• Standard 2.3: If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.	G
Principle 3 Demonstrate Competency	
• Standard 3.1: Internal auditors must possess or obtain the competencies to perform their responsibilities successfully.	G
• Standard 3.2: Internal auditors must maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services.	G
Principle 4 Exercise Due Professional Care	
• Standard 4.1: Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.	A
• Standard 4.2: Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided.	G
• Standard 4.3: Internal auditors must exercise professional scepticism when planning and performing internal audit services.	G
Principle 5 Maintain Confidentiality	
• Standard 5.1: Internal auditors must follow the relevant policies, procedures, laws, and regulations when using information.	G
• Standard 5.2: Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for their confidentiality, privacy, and ownership of information acquired when performing internal audit services or as the result of professional relationships.	A
Domain III: Governing the Internal Audit Function	
Principle 6 Authorised by the Audit Committee	
• Standard 6.1: The HIA must provide the Audit Committee and CMT with the information necessary to establish the internal audit mandate.	G
• Standard 6.2: The HIA must develop and maintain an internal audit charter that specifies the internal audit functions.	A
• Standard 6.3: The HIA must provide the Audit Committee and CMT with the information needed to support and promote recognition of the internal audit function throughout the organisation.	G
Principle 7 Positioned Independently	
• Standard 7.1: The HIA must confirm to the Audit Committee the organisational independence of the internal audit function at least annually.	G
• Standard 7.2: The HIA must help the Audit Committee understand the qualifications and competencies of a HIA that are necessary to manage the internal audit function.	G
Principle 8 Overseen by the Audit Committee	
• Standard 8.1: The HIA must provide the Audit Committee with the information needed to conduct its oversight responsibilities.	G
• Standard 8.2: The HIA must evaluate whether internal audit resources are sufficient to fulfil the internal audit mandate and achieve the internal audit plan.	G
• Standard 8.3: The HIA must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function.	A
• Standard 8.4: The HIA must develop a plan for an external quality assessment and discuss the plan with the Audit Committee.	G
Domain IV: Managing the Internal Audit Function	
Principle 9 Plan Strategically	
• Standard 9.1: To develop an effective internal audit strategy and plan, the HIA must understand the organisation's governance, risk management, and control processes.	A

- Standard 9.2: The HIA 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 Audit Committee, CMT, and other key stakeholders. G
- Standard 9.3: The HIA must establish methodologies to guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the standards. A
- Standard 9.4: The HIA must create an internal audit plan that supports the achievement of the organisation’s objectives. A
- Standard 9.5: The HIA must coordinate with internal and external providers of assurance services and consider relying upon their work. A

Principle 10 Manage Resources

- Standard 10.1: The HIA must manage the internal audit function’s financial resources. G
- Standard 10.2: The HIA must establish an approach to recruit, develop, and retain internal auditors who are qualified to successfully implement the internal audit strategy and achieve the internal audit plan. G
- Standard 10.3: The HIA must strive to ensure that the internal audit function has technology to support the internal audit process. G

Principle 11 Communicate Effectively

- Standard 11.1: The HIA must develop an approach for the internal audit function to build relationships and trust with key stakeholders. G
- Standard 11.2: The HIA must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete and timely internal audit communications. G
- Standard 11.3: The HIA must communicate the result of internal audit services to the Audit Committee and CMT periodically and for each engagement as appropriate. G
- Standard 11.4: If a final engagement communication contains a significant error or omission, the HIA must communicate corrected information promptly to all parties who received the original communication. G
- Standard 11.5: The HIA must communicate unacceptable levels of risk. G

Principle 12 Enhance Quality

- Standard 12.1: The HIA must develop and conduct internal assessments of the internal audit function’s conformance with the Global Internal Audit Standards and progress towards performance objectives. R
- Standard 12.2: The HIA must develop objectives to evaluate the internal audit function’s performance. A
- Standard 12.3: The HIA must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies. A

Domain V: Performing Internal Audit Services

Principle 13 Plan Engagements Effectively

- Standard 13.1: Internal auditors must communicate effectively throughout the engagement. G
- Standard 13.2: Internal auditors must develop an understanding of the activity under review to assess the relevant risks. G
- Standard 13.3: Internal auditors must establish and document the objectives and scope for each engagement. G
- Standard 13.4: Internal auditors must identify the most relevant criteria to be used to evaluate aspects of the activity under review defined in the engagement objectives and scope. G
- Standard 13.5: When planning an engagement, internal auditors must identify the types and quantity of resources necessary to achieve the engagement objectives. G
- Standard 13.6: Internal auditors must develop and document an engagement work program to achieve the engagement objectives. G

Principle 14 Conduct Engagement Work

- Standard 14.1: To perform analyses and evaluations, internal auditors must gather relevant and reliable information. G
- Standard 14.2: Internal auditors must analyse relevant, reliable, and sufficient information to develop potential engagement findings. A
- Standard 14.3: Internal auditors must evaluate each potential engagement finding to determine its significance. G
- Standard 14.4: Internal auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions. G
- Standard 14.5: Internal auditors must develop an engagement conclusion that summarises the engagement results relative to the engagement objectives and management’s objectives. G
- Standard 14.6: Internal auditors must document information and evidence to support the engagement results. A

Principle 15 Communicate Engagement Results and Monitor Action Plans

- Standard 15.1: For each engagement, internal auditors must develop a final communication that included the engagement’s objectives, scope, recommendations and/or action plans, and conclusions. G
- Standard 15.2: Internal auditors must confirm that management has implemented internal auditors’ recommendations or management’s action plans following an established methodology. G

G	No changes required to meet the standard
A	Small actions required, such as adding more information into the IA Plan or Annual Report, or adding a reference to the new Standards in key documentation.
R	Area of improvement required. Will be addressed by developing an action plan in line with the Standard.