Lessons Learned from IIA Standards Adoption

Evan Henderson
Senior Manager
evan.henderson@elliottdavis.com

Overview

The **Institute of Internal Auditors (IIA)** released a major update to its standards in **January 2024**, replacing the 2017 version of the *International Standards for the Professional Practice of Internal Auditing*. These new **Global Internal Audit Standards** (GIAS) are effective starting **January 9, 2025**, and represent a significant shift in structure, content, and expectations.

Recommendations for Institutions:

- Conduct a gap assessment to identify areas needing attention.
- Engage leadership early to ensure governance support and strategic alignment.
- Update frameworks (audit manuals, QAIP, etc.) to reflect new performance and conformance expectations.
- Train internal audit teams on the new structure, terminology, and expectations.
- Leverage external resources (e.g., IIA tools, consulting firms) to support transition.

The following slides covered observed gaps or expressed concerns from institution regarding new requirements contained within the 2024 standards.

polling question #12

Engagement Risk Assessment - Standard 13.2

Engagement-level risk assessments must be performed as part of the planning process for each audit engagement to develop an understanding of the area under review.

During the engagement-level risk assessment internal auditors must identify the risks to review by:

- Identifying the potentially significant risks to the objectives of the activity under review.
- Considering specific risks related to fraud.
- Evaluating the significance of the risks and prioritizing them for review.

Additionally, internal auditors must identify the criteria that management uses to measure whether the activity is achieving its objectives.

Make sure engagement-level risk assessments are documented and retained in audit files.

Internal Audit Charter- Standard 13.2

If your Internal Audit charter was last updated or approved prior to the new standards being released, ensure the charter has been updated in accordance with new standards. The IIA has released an updated charter template.

Particular areas to update for:

- The old definition of internal auditing has been replaced with the current purpose statement contained in Domain 1 of the new standards.
- References to the IIA "code of ethics" are no longer applicable
- Glossary terms, such as "consulting", have been replaced by the term "advisory"

Additionally, ensure the Charter contains the internal audit mandate requirements as detailed in Standard 6.1 – Internal Audit Mandate (authority, roles, responsibilities, scope)

Internal Audit Strategy – Standard 9.2

The chief audit executive 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 internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function.

The chief audit executive must review the internal audit strategy with the board and senior management periodically.

Ensure the "strategic plan" is documented, maintained / updated, and presented to the board.

Performance Objectives – Standard 12.2 and 8.3

The chief audit executive is responsible for ensuring that the internal audit function is continuously seeking improvement.

This requires developing measures to assess the performance of internal audit engagements, internal auditors, and the internal audit function.

The chief audit executive must develop objectives to evaluate the internal audit function’s performance.

The board must approve the internal audit function’s performance objectives at least annually.

And determine the extent to which the internal audit function’s performance objectives are being met.

Ensure performance objectives are defined, annually approved and tracked. Standard 12.2 provides examples of performance categories to consider when establishing performance objectives and measures.

Root Cause – Standard 14.3 and 14.4

Findings

Internal auditors must evaluate each potential engagement finding to determine its significance. When evaluating potential engagement findings, internal auditors must collaborate with management to identify the root causes when possible, determine the potential effects, and evaluate the significance of the issue.

Recommendations

Internal auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions to: Resolve the differences between the established criteria and the existing condition, mitigate identified risks to an acceptable level, address the root cause of the finding.

Ensure either final reports or findings summary contain a documented root cause and ensure recommendations address the root cause of the finding.

Final Engagement Communication – Standard 15.1

For each engagement, internal auditors must develop a final communication that includes the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions.

The final communication for assurance engagements also must include:

- The findings and their significance and prioritization.
- An explanation of scope limitations, if any.
- A conclusion regarding the effectiveness of the governance, risk management, and control processes of the activity reviewed.

The final communication must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed.

When internal auditors become aware that management has initiated or completed actions to address a finding before the final communication, the actions must be acknowledged in the communication.

Ensure final reports have been updated to include the specified contents from standard 15.1.

polling question #13

Methodologies – Standards 9.3, 13.1 and 14.4

The chief audit executive 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.

The chief audit executive must evaluate the effectiveness of the methodologies and update them as necessary.

The chief audit executive must provide internal auditors with training on the methodologies.

Standard 13.1 specifically mentions that internal auditors must follow an established methodology to allow both parties to express their positions regarding the content of the final engagement communication and the reasons for any differences of opinion regarding the engagement results.

Ensure methodologies are documented (typically in an audit manual or audit policy), approved if necessary and updated. Standard 9.3 provides examples of methodologies to include.

Honesty and Professional Courage – Standard 1.1

Internal auditors must perform their work with honesty and professional courage.

Internal auditors must exhibit professional courage by communicating truthfully and taking appropriate action, even when confronted by dilemmas and difficult situations.

The chief audit executive must maintain a work environment where internal auditors feel supported when expressing legitimate, evidence-based engagement results, whether favorable or unfavorable.

Ensure conformance with this standard is documented. Examples can include training, inclusion of the topic in performance reviews or post-audit surveys, etc. Standard 1.1 provides additional examples of evidence of conformance.

Essential Conditions – Domain III

Activities of the board and senior management are essential to the internal audit function's ability to fulfill the Purpose of Internal Auditing. These activities are identified as "essential conditions" in each standard and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, ultimately enabling an effective internal audit function.

The chief audit executive must discuss this domain with the board and senior management. The discussions should focus on:

- 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 board or senior management does not provide the support outlined in the essential conditions.

The discussions are needed to inform the board and senior management about the importance of the essential conditions and to gain alignment among their respective responsibilities.

Examples of Essential Conditions

Standard 6.1	Board – Approve the internal audit charter
Standard 6.3	Board – Approve the internal audit plan, budget, and resource plan.
Standard 7.1	Board - The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually.
Standard 7.2	Board – Approve chief audit executive's roles and qualifications.
Standard 8.1	Board and Senor Management - The chief audit executive must report to the board and senior management: Results from the quality assurance and improvement program."
Standard 8.2	Board - Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.
Standard 8.3	Board - Approve the internal audit function's performance objectives at least annually.
Standard 8.4	Board - Review and approve the chief audit executive's plan for the performance of an external quality assessment.

Ensure documentation is maintained to evidence conformance with the essential conditions, including adequate discussion and approvals in board / committee minutes.

Technology – Standards 4.2, 10.1 and 10.3

The Standards require the chief audit executive to regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

Additionally, the standards require the chief audit executive to communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.

If your audit function uses minimal technology, i.e., only using Microsoft word, excel, etc. it would be prudent to perform a documented analysis and discuss the results with the board to evidence an evaluation of any technology-related limitations. A mitigating control could include outsourcing data-intensive audits.

Glossary Updates

The 2024 standards state “The Standards use certain terms as defined in the accompanying glossary. To understand and implement the Standards correctly, it is necessary to understand and adopt the specific meanings and usage of the terms as described in the glossary.”

Ensure methodologies (internal audit manuals / policies, charters, etc.) have been updated for the new glossary terminology. “Advisory” now replaces “consulting” and “engagement conclusion” replaces “engagement opinion”. Additionally, new terms such as “criteria” and “internal audit mandate” should be incorporated.

polling question #14

thank you