



## **Revised Internal Audit Standards Update**

### **1 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to update the Audit Committee on the revised Internal Audit professional standards.

### **2 LINKS TO COUNCIL'S PRIORITIES AND OBJECTIVES**

- 2.1 Audit work contributes to the delivery of all the Council's Priorities and Objectives.

### **3 RECOMMENDATION**

- 3.1 It is proposed that the Committee **RESOLVES** to note the update provided on revisions to Internal Audit Standards.

### **4 INTRODUCTION**

- 4.1 The Accounts and Audit Regulations 2015 make it a requirement for the Council to undertake an effective internal audit programme to evaluate the effectiveness of its risk management, internal control and governance processes.
- 4.2 The Internal Audit team is currently required to work to the Public Sector Internal Audit Standards (PSIAS). These standards, which are based on the mandatory elements of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 4.3 New Global Internal Audit Standards (GIAS) were issued in January 2024, which the IIA has determined will become globally effective from January 2025. They will then replace the IPPF, the mandatory elements of which are the basis for the current PSIAS.

- 4.4 The Relevant Internal Audit Standard Setters for Local Government are the Chartered Institute of Public Finance and Accountancy (CIPFA) and they have been working as part of the UK Public Sector Internal Audit Standards Advisory Board (IASAB) to carry out a review of the new standards with a view to identifying and producing any sector specific interpretations or other material needed to make them suitable for UK public sector use.
- 4.5 The IASAB has indicated that there will not be a separate document for the UK public sector as there is with current practice. Instead, it is expected public sector considerations will be captured as an appendix to the GIAS. Consultation was planned for mid-September 2024, but at the time of writing this has not yet been published. It is anticipated that the new material will be effective from April 2025, although early adoption has been encouraged.

## **5 The Revised Standards**

- 5.1 The standards have been organised into five domains.

### **5.2 Domain I: Purpose of Internal Auditing**

The purpose statement is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

*Internal auditing strengthens the organisation's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight and foresight.*

*Internal Audit enhances the organisations:*

- *Successful achievement of its objectives*
- *Governance, risk management and control processes*
- *Reputation and credibility with its stakeholders*
- *Ability to serve the public interest*

*Internal auditing is most effective when:*

- *It is performed by competent professionals in conformance with the GIAS, which are set in the public interest*
- *The internal audit function is independently positioned with direct accountability to the board*
- *Internal auditors are free from undue influence and committed to making objective assessments.*

5.3 Domain II: Ethics and Professionalism

Domain II replaces the IIA's former Code of Ethics and outlines the behavioural expectations for professional Internal Auditors, including Chief Audit Executives.

While Internal Auditors are responsible for their own conformance, the Chief Audit Executive is expected to support and promote conformance by providing opportunities for training and guidance.

5.4 Domain III: Governing the Internal Audit Function

It is recognised that Domain III will be subject to some changes when the public sector guidance is released, and further updates will be provided to senior management and Audit Committee once this has been made available.

However, its contents are highlighted in this report as it includes the responsibilities of senior management and the Board.

It outlines the requirements for the Chief Audit Executive to work closely with the Board to establish the internal audit function, position it independently and oversee its performance. It also details senior managements' responsibilities and promotes strong governance of the internal audit function.

5.5 Domain IV: Managing the Internal Audit Function

This domain is the responsibility of the Chief Audit Executive, and includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders and ensuring and enhancing performance of the function.

5.6 Domain V: Performing Internal Audit Services

Domain V underpins the effective planning and conduct of individual internal audit engagements. This covers the planning and undertaking of engagement work to develop findings and conclusions, collaboration with management to identify recommendations and develop action plans that address findings, and communication with key parties throughout.

**6. Current Status**

6.1 The Internal Audit service has undertaken a light touch self-assessment against the requirements of each domain and is working to update and strengthen current practice to ensure compliance with the updated standards.

6.2 Further work will be undertaken to ensure good-practice and compliance once the public sector application note has been published.

6.3 There are some areas where we have identified that more significant work is needed and the Head of Internal Audit is working to develop in these areas that include:

- introducing an annual internal Quality Assurance programme to provide assurance on conformance with the standards and internal policies, and the effectiveness of methodologies;
- development of an Internal Audit team skills matrix to capture competencies within the team, identify skill gaps and aid individual and team training plans; and
- identifying and considering the Council's other assurance and advisory sources, and developing a methodology for evaluating them to provide a basis for which Internal Audit may be able to rely on their work.

## **7 OPTIONS**

7.1 There are no alternative options as this is a mandatory update to global internal audit standards that the Council are required to comply with.

## **8 RISK IMPLICATIONS**

8.1 Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver the Corporate Plan objectives. An internal audit service that is compliant with the updated internal audit standards will contribute to mitigating this risk.

## **9 FINANCIAL IMPLICATIONS**

9.1 At this time there are not anticipated to be any significant financial implications relating to implementing the new GIAS.

9.2 Staff time required to review the requirements and implement any changes has been built into existing team resource schedules.

9.3 There may be a requirement for all-team training to be undertaken by an external body, especially in relation to Domain II.

## **10 LEGAL IMPLICATIONS**

10.1 The Accounts and Audit Regulations 2015 make it a requirement for the Council 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.



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**Background Papers:**

- The Accounts and Audit Regulations 2015
- Global Internal Audit Standards 2024 (available here: [globalinternalauditstandards\\_2024january9\\_editable.pdf \(theiia.org\)](https://theiia.org/globalinternalauditstandards_2024january9_editable.pdf))

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