Global Internal Audit Standards™

The Institute of Internal Auditors

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Contents

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Acknowledgements

The Institute of Internal Auditors is grateful to the stakeholders that provided guidance and assistance in the development of the Global Internal Audit Standards™. The IIA particularly recognizes members of the International Internal Audit Standards Board – a global group of internal auditors who have generously volunteered their time and expertise to ensure the Standards elevate the professional practice of internal auditing. The IIA thanks the International Professional Practices Framework Oversight Council for its essential role in ensuring the standard-setting process serves the public interest, the Professional Certifications Board for its advice, and IIA staff and technical advisors for ensuring the successful implementation and management of all aspects of the project.

About the International Professional Practices Framework

A framework provides a structural blueprint and coherent system that facilitates the consistent development, interpretation, and application of a body of knowledge useful to a discipline or profession. The International Professional Practices Framework (IPPF)® organizes the authoritative body of knowledge, promulgated by The Institute of Internal Auditors, for the professional practice of internal auditing. The IPPF includes Global Internal Audit Standards, Topical Requirements, and Global Guidance.

The IPPF addresses current internal audit practices while enabling practitioners and stakeholders globally to be flexible and responsive to the ongoing needs for high-quality internal auditing in diverse environments and organizations of different purposes, sizes, and structures.

Mandatory	**Global Internal Audit Standards** guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.
	Topical Requirements are designed to enhance the consistency and quality of internal audit services related to specific audit subjects and to support internal auditors performing engagements in those risk areas. Internal auditors must conform with the relevant requirements when the scope of an engagement includes one of the identified topics. Topical Requirements strengthen the ongoing relevance of internal auditing in addressing the evolving risk landscape across industries and sectors.

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Supplemental

Global Guidance supports the Standards by providing nonmandatory information, advice, and best practices for performing internal audit services. It is endorsed by The IIA through formal review and approval processes.

Global Practice Guides provide detailed approaches, step-by-step processes, and examples on subjects including:

- Assurance and advisory services.
- Engagement planning, performance, and communication.
- Financial services.
- Fraud and other pervasive risks.
- Strategy and management of the internal audit function.
- Public sector.
- Sustainability.

Global Technology Audit Guides (GTAG®) provide auditors with the knowledge to perform assurance or consulting services related to an organization's information technology and information security risks and controls.

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Fundamentals of the Global Internal Audit Standards

The Institute of Internal Auditors' Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.

Internal Auditing and the Public Interest

Public interest encompasses the social and economic interests and overall well-being of a society and the organizations operating within that society (including those of employers, employees, investors, the business and financial community, clients, customers, regulators, and government). Questions of public interest are context specific and should weigh ethics, fairness, cultural norms and values, and potential disparate impacts on certain individuals and subgroups of society.

Internal auditing plays a critical role in enhancing an organization's ability to serve the public interest. While the primary function of internal auditing is to strengthen governance, risk management, and control processes, its effects extend beyond the organization. Internal auditing contributes to an organization's overall stability and sustainability by providing assurance on its operational efficiency, reliability of reporting, compliance with laws and/or regulations, safeguarding of assets, and ethical culture. This, in turn, fosters public trust and confidence in the organization and the broader systems of which it is a part.

The IIA is committed to setting standards with input from the public and to benefit the public. The International Internal Audit Standards Board is responsible for establishing and maintaining the Standards in the interest of the public. This is achieved through an extensive, ongoing due process overseen by an independent body, the IPPF Oversight Council. The process includes soliciting input from and considering the interests of various stakeholders—including internal audit practitioners, industry experts, government bodies, regulatory agencies, public representatives, and others—so that the Standards reflect the diverse needs and priorities of society.

Applicability and Elements of the Standards

The Global Internal Audit Standards set forth principles, requirements, considerations, and examples for the professional practice of internal auditing globally. The Standards apply to any individual or function that provides internal audit services, whether an organization employs internal auditors directly, contracts them through an external service provider, or both. Organizations receiving internal audit services vary in sector and industry affiliation, purpose, size, complexity, and structure.

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The Standards apply to the internal audit function and individual internal auditors including the chief audit executive. While the chief audit executive is accountable for the internal audit function's implementation of and conformance with all principles and standards, all internal auditors are responsible for conforming with the principles and standards relevant to performing their job responsibilities, which are presented primarily in Domain II: Ethics and Professionalism and Domain V: Performing Internal Audit Services.

The Standards are organized 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.

Domains II through V contain the following elements:

- Principles: broad descriptions of a related group of requirements and considerations.
- Standards, which include:
  - Requirements: mandatory practices for internal auditing.
  - Considerations for Implementation: common and preferred practices to consider when implementing the requirements.
  - Examples of Evidence of Conformance: ways to demonstrate that the requirements of the Standards have been implemented.

The Standards use the word "must" in the Requirements sections and the words "should" and "may" to specify common and preferred practices in the Considerations for Implementation sections. Each standard ends with a list of examples of evidence. The examples are neither requirements nor the only ways to demonstrate conformance; rather, they are provided to help internal audit functions prepare for quality assessments, which rely on demonstrative evidence. 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.

Demonstrating Conformance with the Standards

The requirements, considerations for implementation, and examples of evidence of conformance are designed to help internal auditors conform with the Standards. While conformance with the requirements is expected, internal auditors occasionally may be unable to conform with a requirement yet still achieve the intent of the standard. Circumstances that may necessitate adjustments are often related to resource limitations or specific aspects of a sector, industry, and/or jurisdiction. In these exceptional circumstances, alternative actions should be implemented to meet the intent of the related standard. The chief audit executive is responsible for documenting and conveying the rationale for the deviation and the adopted alternative actions to the appropriate parties. Related requirements and information appear in Standard 4.1 Conformance with Global Internal Audit Standards and Domain III: Governing the Internal Audit Function together with its principles and standards. While the circumstances necessitating adjustments are too varied to list, the following section acknowledges two areas that consistently draw questions: small internal audit functions and those in the public sector.

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Application in Small Internal Audit Functions

The internal audit function's ability to fully conform with the Standards may be affected by its size or the size of the organization. With limited resources, completing certain tasks may be challenging. Additionally, if the internal audit function comprises only one member, an adequate quality assurance and improvement program will require assistance from outside the internal audit function. (See also Standards 10.1 Financial Resource Management, 12.1 Internal Quality Assessment, and 12.3 Oversee and Improve Engagement Performance.)

Application in the Public Sector

While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organizational, and funding structures that may differ from those of the private sector. The nature of these structures and related conditions may be affected by the jurisdiction and level of government in which the internal audit function operates. Additionally, some terminology used in the public sector differs from that of the private sector. These differences may affect how internal audit functions in the public sector apply the Standards. The section "Applying the Global Internal Audit Standards in the Public Sector," which follows Domain V: Performing Internal Audit Services, describes strategies for conformance amid the circumstances and conditions unique to internal auditing in the public sector.

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Glossary

activity under review – The subject of an internal audit engagement. Examples include an area, entity, operation, function, process, or system.

advisory services – Services through which internal auditors provide advice to an organization's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. "Advisory services" are also known as "consulting services."

assurance – Statement intended to increase the level of stakeholders' confidence about an organization's governance, risk management, and control processes over an issue, condition, subject matter, or activity under review when compared to established criteria.

assurance services – Services through which internal auditors perform objective assessments to provide assurance. Examples of assurance services include compliance, financial, operational/performance, and technology engagements. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.

board – Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, "board" refers to the body/bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exist, "board" should be read as referring to the group or person that acts as the organization's highest-level governing body. Examples include the head of the organization and senior management.

chief audit executive – The leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards. The specific job title and/or responsibilities may vary across organizations.

competency – Knowledge, skills, and abilities.

compliance – Adherence to laws, regulations, contracts, policies, procedures, and other requirements.

conflict of interest – A situation, activity, or relationship that may influence, or appear to influence, an internal auditor's ability to make objective professional judgments or perform responsibilities objectively.

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control – Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.

control processes – The policies, procedures, and activities designed and operated to manage risks to be within the level of an organization's risk tolerance.

criteria – In an engagement, specifications of the desired state of the activity under review (also called "evaluation criteria").

engagement – A specific internal audit assignment or project that includes multiple tasks or activities designed to accomplish a specific set of related objectives. See also "assurance services" and "advisory services."

engagement conclusion – Internal auditors' professional judgment about engagement findings when viewed collectively. The engagement conclusion should indicate satisfactory or unsatisfactory performance.

engagement objectives – Statements that articulate the purpose of an engagement and describe the specific goals to be achieved.

engagement planning – Process during which internal auditors gather information, assess and prioritize risks relevant to the activity under review, establish engagement objectives and scope, identify evaluation criteria, and create a work program for an engagement.

engagement results – The findings and conclusion of an engagement. Engagement results may also include recommendations and/or agreed upon action plans.

engagement supervisor – An internal auditor responsible for supervising an internal audit engagement, which may include training and assisting internal auditors as well as reviewing and approving the engagement work program, workpapers, final communication, and performance. The chief audit executive may be the engagement supervisor or may delegate such responsibilities.

engagement work program – A document that identifies the tasks to be performed to achieve the engagement objectives, the methodology and tools necessary, and the internal auditors assigned to perform the tasks. The work program is based on information obtained during engagement planning.

external service provider – Resource from outside the organization that provides relevant knowledge, skills, experience, and/or tools to support internal audit services.

finding – In an engagement, the determination that a gap exists between the evaluation criteria and the condition of the activity under review. Other terms, such as "observations," may be used.

fraud – Any intentional act characterized by deceit, concealment, dishonesty, misappropriation of assets or information, forgery, or violation of trust perpetrated by individuals or organizations to secure unjust or illegal personal or business advantage.

governance – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

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impact – The result or effect of an event. The event may have a positive or negative effect on the entity's strategy or business objectives.

independence – The freedom from conditions that may impair the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

inherent risk – The combination of internal and external risk factors that exists in the absence of any management actions.

integrity – Behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the professional courage to act based on relevant facts.

internal audit charter – A formal document that includes the internal audit function's mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.

internal audit function – A professional individual or group responsible for providing an organization with assurance and advisory services.

internal audit mandate –The internal audit function's authority, role, and responsibilities, which may be granted by the board and/or laws and regulations.

internal audit manual – The chief audit executive's documentation of the methodologies (policies, processes, and procedures) to guide and direct internal auditors within the internal audit function.

internal audit plan – A document, developed by the chief audit executive, that identifies the engagements and other internal audit services anticipated to be provided during a given period. The plan should be risk-based and dynamic, reflecting timely adjustments in response to changes affecting the organization.

internal auditing – An independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

likelihood – The possibility that a given event will occur.

may – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "may" describes optional practices to implement the Requirements.

methodologies – Policies, processes, and procedures established by the chief audit executive to guide the internal audit function and enhance its effectiveness.

must – The Global Internal Audit Standards use the word "must" to specify an unconditional requirement.

objectivity – An unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.

outsourcing – Contracting with an independent external provider of internal audit services. Fully outsourcing a function refers to contracting the entire internal audit function, and partially outsourcing (also called "cosourcing") indicates that only a portion of the services are outsourced.

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periodically – At regularly occurring intervals, depending on the needs of the organization, including the internal audit function.

professional skepticism – Questioning and critically assessing the reliability of information.

public sector – Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.

quality assurance and improvement program – A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessments.

residual risk – The portion of inherent risk that remains after management actions are implemented.

results of internal audit services – Outcomes, such as engagement conclusions, themes (such as effective practices or root causes), and conclusions at the level of the business unit or organization.

risk – The positive or negative effect of uncertainty on objectives.

risk and control matrix – A tool that facilitates the performance of internal auditing. It typically links business objectives, risks, control processes, and key information to support the internal audit process.

risk appetite – The types and amount of risk that an organization is willing to accept in the pursuit of its strategies and objectives.

risk assessment – The identification and analysis of risks relevant to the achievement of an organization's objectives. The significance of risks is typically assessed in terms of impact and likelihood.

risk management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

risk tolerance – Acceptable variations in performance related to achieving objectives.

root cause – Core issue or underlying reason for the difference between the criteria and the condition of an activity under review.

senior management – The highest level of executive management of an organization that is ultimately accountable to the board for executing the organization's strategic decisions, typically a group of persons that includes the chief executive officer or head of the organization.

should – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "should" describes practices that are preferred but not required.

significance – The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

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stakeholder – A party with a direct or indirect interest in an organization's activities and outcomes. Stakeholders may include the board, management, employees, customers, vendors, shareholders, regulatory agencies, financial institutions, external auditors, the public, and others.

workpapers – Documentation of the internal audit work done when planning and performing engagements. The documentation provides the supporting information for engagement findings and conclusions.

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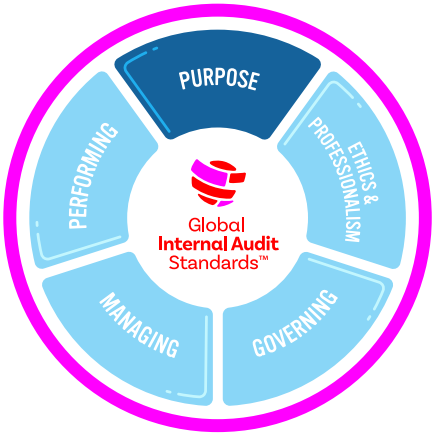
Domain I: Purpose of Internal Auditing



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

Purpose Statement

Internal auditing strengthens the organization'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 auditing enhances the organization's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- 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 Global Internal Audit Standards, 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.

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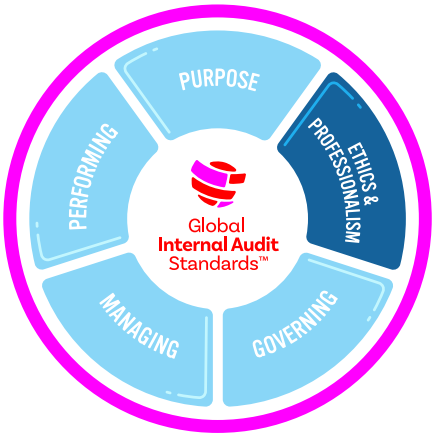
Domain II: Ethics and Professionalism



The principles and standards in the Ethics and Professionalism domain of the Global Internal Audit Standards replace The IIA's former Code of Ethics and outline the behavioral expectations for professional internal auditors; including chief audit executives, other individuals, and any entities that provide internal audit services. Conformance with these principles and standards instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors' work and judgment.

All internal auditors are required to conform with the standards of ethics and professionalism. If internal auditors are expected to abide by other codes of ethics, behavior, or conduct, such as those of an organization, conformance with the principles and standards of ethics and professionalism contained herein is still expected. The fact that a particular behavior is not mentioned in these principles and standards does not preclude it from being considered unacceptable or discreditable.

While internal auditors are responsible for their own conformance, the chief audit executive is expected to support and promote conformance with the principles and standards in the Ethics and Professionalism domain by providing opportunities for training and guidance. The chief audit executive may choose to delegate certain responsibilities for managing conformance but retains accountability for the ethics and professionalism of the internal audit function.

Principle 1 Demonstrate Integrity

Internal auditors demonstrate integrity in their work and behavior.

Integrity is behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the courage to act based on relevant facts, even when facing pressure to do otherwise, or when doing so might create potential adverse personal or organizational consequences. In simple terms, internal auditors are expected to tell the truth and do the right thing, even when it is uncomfortable or difficult.

Integrity is the foundation of the other principles of ethics and professionalism, including objectivity, competency, due professional care, and confidentiality. The integrity of internal auditors is essential to establishing trust and earning respect.

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Standard 1.1 Honesty and Professional Courage

Requirements

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

Internal auditors must be truthful, accurate, clear, open, and respectful in all professional relationships and communications, even when expressing skepticism or offering an opposing viewpoint. Internal auditors must not make false, misleading, or deceptive statements, nor conceal or omit findings or other pertinent information from communications. Internal auditors must disclose all material facts known to them that, if not disclosed, could affect the organization's ability to make well-informed decisions.

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.

Considerations for Implementation

Internal auditors should enhance their awareness and understanding of honesty and professional courage by seeking opportunities to obtain ethics-related continuing professional education. While education helps create awareness in hypothetical situations, workplace training, mentorship, and supervision allow internal auditors to learn and practice skills such as tact and respectful communication, which are needed to apply professional courage effectively in real situations. When internal auditors encounter situations that challenge their honesty or professional courage, they should discuss the circumstances with a supervisor to determine the best course of action.

To support internal auditors, the chief audit executive should arrange opportunities for education and training as well as discussions of hypothetical and real situations that require making ethical choices. Effective management of the internal audit function includes proper engagement supervision and periodic reviews of internal auditors' performance. For example, when approving work programs or reviewing engagement workpapers, an engagement supervisor may provide appropriate guidance to help internal auditors address potential or encountered situations that could pose a threat to their honesty and integrity. As part of evaluating internal auditors' performance, the chief audit executive may solicit feedback about their honesty and professional courage from the stakeholders with whom internal auditors interact.

Examples of Evidence of Conformance

- A training plan that includes ethics education and training.
- Documents that evidence internal auditors' attendance or participation in ethics education and training.
- Performance evaluations showing honesty and professional courage as objectives.
- Feedback from key stakeholders regarding the honesty and courage of internal auditors.

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Standard 1.2 Organization's Ethical Expectations

Requirements

Internal auditors must understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and must be able to recognize conduct that is contrary to those expectations.

Internal auditors must encourage and promote an ethics-based culture in the organization. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they must report the concern according to applicable policies and procedures.

Considerations for Implementation

An organization's ethical expectations usually are documented in a code of ethics, code of conduct, and/or policies related to professional behavior and ethical conduct. Such policies, along with the organization's objectives and processes for promoting its ethics and values, provide the basis for an ethical culture.

The internal audit plan may include assessments of the organization's ethics-related risks to determine whether existing policies and control processes adequately and effectively address those risks. For example, the organization's policies may specify the criteria and process for handling and communicating about ethics-related issues, the parties that should receive the communication, and the protocol for escalating unresolved issues. The chief audit executive also should determine a methodology for addressing ethical issues and discuss the methodology with the board and senior management to ensure alignment of the approaches.

Internal auditors should consider ethics-related risks and controls during individual engagements. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they should communicate the concerns according to the methodology established by the chief audit executive, which takes into account the organization's policies and processes as well as laws and/or regulations.

If internal auditors determine that a member of senior management has behaved in a manner that is inconsistent with the organization's ethical expectations — whether documented in a code of conduct, code of ethics, or otherwise — the chief audit executive should report the violation to the board. If an ethics-related concern involves the chairman of the board, the chief audit executive should report the concern to the entire board. Internal auditors should follow up on ethics-related issues involving the board or senior management and validate that appropriate actions were taken to address the concern.

Examples of Evidence of Conformance

- Records of internal auditors' participation in workshops, training events, or meetings where ethical expectations and issues were discussed.
- Forms signed by individual internal auditors acknowledging their understanding of and commitment to follow ethics policies and procedures of the organization.

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- The internal audit plan, work program, or workpapers showing consideration of the organization's ethics-related objectives, risks, and control processes.
- Documentation demonstrating that ethical issues were communicated to the board, senior management, and regulators in accordance with the organization's policies and relevant laws and/or regulations.

Standard 1.3 Legal and Ethical Behavior

Requirements

Internal auditors must not engage in or be a party to any activity that is illegal or discreditable to the organization or the profession of internal auditing or that may harm the organization or its employees.

Internal auditors must understand and abide by the laws and/or regulations relevant to the industry and jurisdictions in which the organization operates, including making disclosures as required.

If internal auditors identify legal or regulatory violations, they must report such incidents to individuals or entities that have the authority to take appropriate action, as specified in laws, regulations, and applicable policies and procedures.

Considerations for Implementation

If organizational policies are not sufficiently specific to address the situations that the internal audit function encounters, then the chief audit executive may develop and implement a methodology that specifies the actions internal auditors are expected to take in response to legal or regulatory violations of which they become aware. The methodology may include a procedure for validating that adequate actions are taken to address the violation.

The chief audit executive should establish a methodology to ensure that internal auditors are properly supervised, conform with the Global Internal Audit Standards, and behave in alignment with ethical and professional values.

Examples of discreditable behaviors include but are not limited to:

- Bullying, harassment, or discrimination.
- Lying, deceiving, or intentionally misleading others, including misrepresenting one's competency or qualifications (such as claiming to hold a certification or displaying credentials when the designation is expired or inactive, has been revoked, or was never earned).
- Intentionally issuing false reports or communications or allowing or encouraging others to do so, including minimizing, concealing, or omitting internal audit findings, conclusions, or ratings from engagement reports or overall assessments.
- Overlooking illegal activities that the organization may tolerate or condone.
- Soliciting or disclosing confidential information without proper authorization.
- Performing internal audit services with undeclared impairments to objectivity or independence.

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- Stating that the internal audit function is operating in conformance with the Global Internal Audit Standards when the assertion is not supported.
- Failing to accept responsibility for mistakes.

Examples of Evidence of Conformance

- Records of internal auditors' participation in training on laws, regulations, and ethical and professional behavior.
- Internal auditors' acknowledgments of their understanding of and commitment to act in accordance with relevant legal and professional expectations.
- Documented methodologies for handling illegal or discreditable behavior by internal auditors and legal or regulatory violations by individuals within the organization.
- Documented communication between internal auditors and their supervisors and/or legal counsel that address concerns about illegal or unprofessional actions.
- Sign-off that workpapers were reviewed.
- Final engagement communication, if applicable.

Principle 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise. An independently positioned internal audit function supports internal auditors' ability to maintain objectivity.

Standard 2.1 Individual Objectivity

Requirements

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances.

Internal auditors must be aware of and manage potential biases.

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Considerations for Implementation

Objectivity means internal auditors perform their work without compromise or subordination of judgment to others. The Global Internal Audit Standards, along with the policies established and training arranged by the chief audit executive, support objectivity by providing requirements, procedures, and guidance that set forth a systematic and disciplined approach for gathering and evaluating information to provide a balanced assessment of the activity under review. Training may help internal auditors to better understand objectivity-impairing scenarios and how best to address them.

Making objective assessments requires an impartial mindset, free from bias and undue influence, which is essential to providing objective assurance and advice to the board and senior management. Internal auditors should develop awareness of the ways in which situations, activities, and relationships may affect their ability to be objective.

Internal auditors should consider the human tendency to misinterpret information or make assumptions or mistakes, which impairs the ability to evaluate information and evidence objectively.

Examples of biases include but are not limited to:

- Self-review bias – lack of critical perspective when reviewing one's own work, which may lead to overlooking mistakes or shortcomings.
- Familiarity bias – making assumptions based on past experiences, which may compromise professional skepticism.
- Prejudice or unconscious bias – misinterpretation of information, based on predisposed ideas about culture, ethnicity, gender, ideology, race, or other characteristics, which may cause inaccurate judgments.

Examples of Evidence of Conformance

- References in the internal audit charter to internal auditors' responsibility for maintaining objectivity.
- Policies and procedures related to objectivity.
- Records of planned and completed objectivity training, including list of participants.
- Attestation forms that confirm internal auditors' awareness of objectivity's importance and the obligation to disclose any potential impairments.
- Documented disclosures of potential conflicts of interest or other impairments to objectivity.
- Notes from supervisory reviews and mentoring of internal auditors.

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Standard 2.2 Safeguarding Objectivity

Requirements

Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.

Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.

Internal auditors must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.

When performing internal audit services:

- Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months.
- If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.
- If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.

The chief audit executive must establish methodologies to address impairments to objectivity. Internal auditors must discuss impairments and take appropriate actions according to relevant methodologies.

Considerations for Implementation

Objectivity is impaired when situations, activities, or relationships may influence internal auditors' judgments and decisions in a way that may change internal audit findings and conclusions. Impairments to objectivity may exist, in fact or appearance, even when they are unintended. Objectivity may be perceived by others to be impaired, even when no impairment has occurred in fact. Internal auditors should apply judgment regarding additional circumstances that may impair or be presumed to impair objectivity.

Conflicts of interest are situations in which an internal auditor has a competing professional or personal interest that may make it difficult to fulfill internal audit duties impartially. Conflicts of interest may create the appearance of impropriety that could undermine the confidence in an internal auditor, the internal

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audit function, and the internal audit profession, even if no unethical or improper acts result. Examples of conflicts of interest include situations, activities, and relationships that may, in fact or appearance:

- Oppose or compete with the interests of the organization.
- Create the potential for undue financial or other personal gain.
- Be established solely to protect oneself from potential or actual loss or harm.
- Be nepotistic or provide favoritism to certain individuals.

The internal audit function's methodologies should specify the expectations and requirements for internal auditors related to:

- Receiving gifts, favors, and rewards.
- Identifying situations that may impair objectivity.
- Responding appropriately upon becoming aware of an impairment.

Many organizations have a policy related to the acceptance of gifts, rewards, and favors, such as a policy limiting the value of gifts that can be accepted. Because of the importance of objectivity in the practice of internal auditing, the chief audit executive may have a policy that is more restrictive than that of the organization. Internal auditors should follow the more restrictive policy and carefully consider whether accepting a gift, reward, or favor may be perceived to affect their judgment or be given in exchange for producing favorable internal audit findings, conclusions, or results.

The policies of the organization and/or the internal audit function may prohibit specific activities or relationships that could create conflicts of interest. Internal auditors should be aware that close personal relationships outside work and relationships involving financial ties, such as investments, may be or appear to be conflicts of interest.

The chief audit executive should take precautions to reduce the potential impairments to objectivity that may result from the design of performance evaluations and remuneration arrangements, bonuses, and incentives. Examples of remuneration arrangements that may impair objectivity include:

- Basing performance evaluations and remuneration primarily on surveys of or input from the management of the activity under review.
- Measuring performance against the number of findings identified during engagements, the revenue growth of the activity under review, or the cost savings or job eliminations imposed upon the activity under review.
- Allowing management to provide indirect compensation in the form of gifts and gratuities.

Internal auditors should apply their understanding of objectivity and relevant policies and procedures to evaluate whether any situations, activities, or relationships may impair, or may be presumed to impair, their objectivity. The perceptions of other people should be considered.

The requirements for staffing and supervising engagements are intended to ensure that the internal auditors assigned to an engagement were not recently responsible for any aspect of the activity under review, which may bias their view, give them a vested interest in a particular outcome, or create the perception or appearance that their objectivity is impaired. For each engagement, the internal auditors performing and supervising the engagement should be independent from the activity under review.

When planning resources for an engagement, the chief audit executive or a designated supervisor should discuss the engagement with internal auditors to identify any current or potential impairments to objectivity.

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The discussion should include consideration of any impairments previously disclosed.
As part of the process for supervising engagements, workpapers are reviewed to ensure findings and conclusions are adequately supported. Engagement supervision also provides opportunities for more experienced internal auditors to provide feedback and mentoring regarding potential objectivity concerns. (See also Standards 12.3 Oversee and Improve Engagement Performance and 13.5 Engagement Resources.)
If an impairment is unavoidable, it should be disclosed and mitigated as described in Standard 2.3 Disclosing Impairments to Objectivity.

Examples of Evidence of Conformance

- Policies and procedures for identifying potential impairments and necessary safeguards.
- Records of objectivity training.
- Documentation through which internal auditors attest that they either have no known impairments or have disclosed potential impairments.
- Sources of feedback on the perception of internal auditors' objectivity, such as surveys of the internal audit function's stakeholders.
- Notes from supervisory reviews.
- Remuneration plan.
- Minutes of board meetings where impairments to objectivity were discussed.
- Plans showing alternative provisions to fulfill the internal audit plan activities where impairments to objectivity were unavoidable.
- Results of external quality assessments performed by an independent assessor.

Standard 2.3 Disclosing Impairments to Objectivity

Requirements

If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

If internal auditors become aware of an impairment that may affect their objectivity, they must disclose the impairment to the chief audit executive or a designated supervisor. If the chief audit executive determines that an impairment is affecting an internal auditor's ability to perform duties objectively, the chief audit executive must discuss the impairment with the management of the activity under review, the board, and/or senior management and determine the appropriate actions to resolve the situation.

If an impairment that affects the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions is discovered after an engagement has been completed, the chief audit executive must discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Standard 11.4 Errors and Omissions.)

If the objectivity of the chief audit executive is impaired in fact or appearance, the chief audit executive must disclose the impairment to the board. (See also Standard 7.1 Organizational Independence.)

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Considerations for Implementation

The requirements for disclosing impairments to objectivity are typically defined in the internal audit function's methodologies and describe the actions to be taken to address each impairment to objectivity. The general approach to disclosing and mitigating impairments to objectivity is typically determined by the chief audit executive in agreement with the board and senior management.

If an impairment to objectivity cannot be avoided, the chief audit executive may consider options to manage the impairment, including:

- Reassigning internal auditors to remove the impaired internal auditor from the engagement.
- Rescheduling an engagement to ensure it is properly staffed.
- Adjusting the scope of an engagement.
- Outsourcing the performance or supervision of the engagement.

When a concern arises during engagement planning that relates solely to the perception of an impairment, the chief audit executive may choose to discuss the concern with the management of the activity under review and/or senior management, explain why the risk exposure is minimal and how it will be managed, and document the discussion and the final decision about how to proceed.

Standard 7.1 Organizational Independence provides additional requirements and information related to the chief audit executive assuming roles or responsibilities beyond internal auditing.

Examples of Evidence of Conformance

- Internal audit methodologies for disclosing objectivity impairments.
- Documentation disclosing the presence or affirming the absence of objectivity impairments.
- Records of the disclosure of objectivity impairments and the response from and/or approval of the mitigation by appropriate parties.

Principle 3 Demonstrate Competency

Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

Demonstrating competency requires developing and applying the knowledge, skills, and abilities to provide internal audit services. Because internal auditors provide a diverse array of services, the competencies needed by each internal auditor vary. In addition to possessing or obtaining the competencies needed to perform services, internal auditors improve the effectiveness and quality of services by pursuing professional development.

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Standard 3.1 Competency

Requirements

Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. The required competencies include the knowledge, skills, and abilities suitable for one's job position and responsibilities commensurate with their level of experience. Internal auditors must possess or develop knowledge of The IIA's Global Internal Audit Standards.

Internal auditors must engage only in those services for which they have or can attain the necessary competencies.

Each internal auditor is responsible for continually developing and applying the competencies necessary to fulfill their professional responsibilities. Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies. (See also Standards 7.2 Chief Audit Executive Qualifications and 10.2 Human Resources Management.)

Considerations for Implementation

Internal auditors should develop competencies related to:

- Communication and collaboration.
- Governance, risk management, and control processes.
- Business functions, such as financial management and information technology.
- Pervasive risks, such as fraud.
- Tools and techniques for gathering, analyzing, and evaluating data.
- The risks and potential impacts of various economic, environmental, legal, political, and social conditions.
- Laws, regulations, and practices relevant to the organization, sector, and industry.
- Trends and emerging issues relevant to the organization and internal auditing.
- Supervision and leadership.

To develop and demonstrate competencies, internal auditors may:

- Obtain appropriate professional credentials, such as the Certified Internal Auditor® designation and other certifications and credentials.
- Identify opportunities for improvement and competencies that need development, based on feedback provided by stakeholders, peers, and supervisors.
- Seek relevant training not only in internal audit methodologies but also on business activities relevant to the organization. Training opportunities may include enrolling in courses, working with a mentor, or being assigned new tasks under supervision during an engagement.

While internal auditors are responsible for ensuring their individual professional development and may assess their own skills and opportunities for development, the chief audit executive should support the professional development of internal auditors. The chief audit executive may establish minimum

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expectations for professional development and should encourage the pursuit of professional qualifications. The chief audit executive should include funding for training and professional development in the internal audit budget and provide opportunities internally as well as externally, through continuing professional education, training, and conferences. (See also Standards 10.1 Financial Resource Management and 10.2 Human Resources Management.)

To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the chief audit executive should:

- Maintain knowledge of internal auditors' competencies to be used when assigning work, identifying training needs, and recruiting internal auditors to fill open positions.
- Participate in the performance reviews of individual internal auditors.
- Identify areas in which the competencies of the internal audit function should be improved.
- Encourage internal auditors' intellectual curiosity and invest in training and other opportunities to improve internal audit performance.
- Understand the competencies of other providers of assurance and advisory services and consider relying upon those providers as a source of additional or specialty competencies not available within the internal audit function.
- Consider contracting with an independent, external service provider when the internal audit function collectively does not possess the competencies to perform requested services.
- Effectively implement a quality assurance and improvement program.

Examples of Evidence of Conformance

- Documentation listing the certifications, education, experience, work history, and other qualifications of internal auditors.
- Internal auditors' self-assessments of their competencies and plans for professional development.
- Documentation of internal auditors' completion of continuing professional education, such as courses, conference sessions, workshops, and seminars.
- Documented performance reviews of internal auditors.
- Documented supervisory reviews of engagements, post-engagement surveys completed by internal audit stakeholders, and other forms of feedback indicating competencies exhibited by individual internal auditors and the internal audit function.
- The results of internal and external quality assessments.
- Documentation of relevant competencies necessary to fulfill the internal audit plan, an analysis of resource gaps, and the identification of the training and budget necessary to fill the gaps.
- Documentation such as an assurance map that indicates the competencies of other providers of assurance and advisory services upon which the internal audit function may rely.

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Standard 3.2 Continuing Professional Development

Requirements

Internal auditors must maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services. Internal auditors must pursue continuing professional development including education and training. Practicing internal auditors who have attained professional internal audit certifications must follow the continuing professional education policies and fulfill the requirements applicable to their certifications.

Considerations for Implementation

Continuing professional development may include self-study, on-the-job training, opportunities to learn new skills on special assignments (such as rotational programs), mentorship, supervisory feedback, and free and paid education. To improve the quality of performing internal audit services, internal auditors should seek opportunities to learn about trends and best practices as well as emerging topics, risks, trends, and changes that may affect the organizations for which they work and the internal audit profession.

Internal auditors are responsible for developing their competencies and should seek opportunities to learn. However, the chief audit executive is responsible for the competencies of the internal audit function and should budget and plan for opportunities to train and educate internal audit staff. For example, internal auditors can develop new knowledge when properly supervised and assigned to engagements involving processes or areas with which they have had limited experience. Internal auditors should seek and welcome opportunities for supervision and mentorship through which they can receive robust feedback, guidance, and insight.

Many professional credentials require a minimum number of hours of continuing professional education within specific periods, such as annually. The chief audit executive should consider implementing a plan that requires internal auditors to obtain specific types and quantities of continuing professional education.

Internal auditors possessing credentials, such as the Certified Internal Auditor® designation, should be aware of the specific requirements of the certifying body's policy for maintaining their credentials. Failing to fulfill such requirements may result in consequences, including jeopardizing internal auditors' permission to use the credentials. All internal auditors should develop a plan and schedule for ongoing training and education. As part of the required continuing professional education, The IIA requires holders of its certifications to complete ethics training. While this requirement is linked specifically to IIA certifications, all internal audit professionals should obtain ethics-focused continuing professional education or training regularly.

News service subscriptions, webinars, and professional events provide internal auditors with opportunities to stay abreast of current developments in the internal audit profession and industries relevant to the organizations for which they work. Training may be used to introduce new technology or changes in internal audit practices.

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Professional development initiatives should include a regular review and assessment of internal auditors' career paths and needs for professional development. The chief audit executive should ensure plans and budgets for training reflect a balance between investing in developing the competencies of the internal audit function as a whole and providing internal auditors with opportunities to achieve their individual goals to grow professionally.

Examples of Evidence of Conformance

- Documented plans for attending training events, professional conferences, and other continuing professional education.
- Records of internal auditors' completed continuing professional education and credentials obtained.
- Internal auditors' performance reviews and/or plans for professional development.
- Evidence of active involvement in The IIA and other relevant professional organizations, such as volunteer service.

Principle 4 Exercise Due Professional Care

Internal auditors apply due professional care in planning and performing internal audit services.

The standards that embody exercising due professional care require:

- Conformance with the Global Internal Audit Standards.
- Consideration of the nature, circumstances, and requirements of the work to be performed.
- Application of professional skepticism to critically assess and evaluate information.

Due professional care requires planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are not expected to be infallible.

Standard 4.1 Conformance with the Global Internal Audit Standards

Requirements

Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.

The internal audit function's methodologies must be established, documented, and maintained in alignment with the Standards. Internal auditors must follow the Standards and the internal audit function's methodologies when planning and performing internal audit services and communicating results.

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If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of the other requirements, as appropriate.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made.

When internal auditors are unable to conform with a requirement, the chief audit executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale. Requirements related to disclosing nonconformance with the Standards are described in Standards 8.3 Quality, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.

Considerations for Implementation

The chief audit executive should review the Standards when changes occur and align the internal audit function's methodologies accordingly. If inconsistencies exist between the Standards and requirements issued by other authoritative bodies, internal auditors and the internal audit function may be required to or may choose to conform with the more stringent requirements.

The chief audit executive or a designated engagement supervisor should ensure that engagement work programs align with the requirements of the Standards and that internal audit engagements are conducted in accordance with the Standards' requirements.

While conformance with the requirements is expected, internal auditors or the internal audit function may occasionally be unable to conform with a requirement yet may take alternative actions to achieve the related principle. Such circumstances are usually related to specific sectors, industries, and jurisdictions. By documenting the circumstance, alternative actions taken, the impact, and the rationale, the chief audit executive provides information to support the external quality assessment such that the internal audit function may be able to achieve conformance with a principle, even when conformance with a standard is not possible.

If internal auditors are unable to conform with a standard when performing an internal audit engagement, they should discuss with the chief audit executive or a designated supervisor the reason for the nonconformance and the effect of the nonconformance on the engagement. The chief audit executive or supervisor should provide guidance regarding to whom and how to communicate the nonconformance. (See Standard 15.1 Final Engagement Communication.)

Additionally, laws, regulations, internal audit methodologies, and organizational policies may provide specifications for determining when and how nonconformance is to be disclosed.

Examples of Evidence of Conformance

- Documentation of the internal audit function's methodologies and an indication of when they were last updated.
- If applicable, final engagement communications and communications with the board and senior management where nonconformance has been disclosed.

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- Documentation referencing the laws and/or regulations with which internal auditors were required to comply that prevented their conformance with the Standards.
- Documentation referencing authoritative requirements to which the internal audit function adheres in addition to the Standards.
- Results of the quality assurance and improvement program.

Standard 4.2 Due Professional Care

Requirements

Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- The organization's strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Cost relative to potential benefits of the internal audit services to be performed.
- Extent and timeliness of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of risks to the activity under review.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.
- Use of appropriate techniques, tools, and technology.

Considerations for Implementation

To perform services with due professional care requires that internal auditors consider and understand the Purpose of Internal Auditing and the nature of the internal audit services to be provided. Internal auditors should start by understanding the internal audit charter, the internal audit plan, and the factors that help determine which engagements are included in the plan. When planning and performing internal audit services, internal auditors also consider the interests of the organization's customers and other stakeholders (including the public) affected by the organization's actions. Such interests include stakeholders' expectations (such as fair and honest business practices), needs (such as safety), and potential exposure to underlying risks that may not be obviously related to the organization's strategy and objectives.

The considerations in due professional care comprise the circumstances and aspects of risk that the chief audit executive must consider when performing the risk assessment on which the internal audit plan is based. Relevant circumstances include the organization's strategy and objectives and the adequacy and effectiveness of the organization's governance, risk management, and control processes.

Additionally, internal auditors consider these circumstances relative to an activity under review during engagement planning, as described in Domain V: Performing Internal Audit Services. The complexity, materiality, and significance of risks being evaluated is relative. A risk may not be material or significant to the organization but may be material or significant in an engagement or to an activity under review.

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Thus, understanding the complexity, materiality, and significance in context is necessary to properly assess relevant risks and determine which risks should be prioritized for further evaluation.

Due professional care also requires weighing the costs (such as resource requirements) of the internal audit services against the benefits that may result. For example, if the controls in an activity under review are not adequately designed, the benefits of fully evaluating the effectiveness of those controls are not likely to be worth the costs. Internal auditors seek to provide the most value or benefit for the organization's investment in internal audit services. Additionally, thorough planning requires internal auditors to consider the techniques, tools, technology, and extent and timeliness of work needed to achieve the engagement objectives most efficiently. Internal auditors, especially the chief audit executive, should consider the use of data analysis software and other technology that support the review and evaluation processes.

Proper engagement supervision and a quality assurance and improvement program promote due professional care. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)

Examples of Evidence of Conformance

- Planning notes documenting the strategy and objectives of the organization and activity under review.
- Documented assessments of governance, risk management, and control processes.
- Notes showing assessment of risks including errors, noncompliance, and fraud.
- Notes from meetings or discussions of the potential costs and benefits of internal audit services and the extent and timeliness of engagement work.
- Workpapers indicating supervisory review of engagements.
- Internal auditors' performance reviews.
- Notes from meetings, training, or other discussion of due professional care.
- Feedback from stakeholders solicited through surveys or other tools.
- Internal and external assessments performed as part of the internal audit function's quality assurance and improvement program.

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Standard 4.3 Professional Skepticism

Requirements

Internal auditors must exercise professional skepticism when planning and performing internal audit services.

To exercise professional skepticism, internal auditors must:

- Maintain an attitude that includes inquisitiveness.
- Critically assess the reliability of information.
- Be straightforward and honest when raising concerns and asking questions about inconsistent information.
- Seek additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false, or misleading.

Considerations for Implementation

Professional skepticism enables internal auditors to make objective judgments based on facts, information, and logic, rather than trust or belief. Skepticism is the attitude of always questioning or doubting the validity and truthfulness of claims, statements, and other information. Internal auditors apply professional skepticism when they seek evidence to support and validate statements made by management, rather than simply trusting the information presented as true or genuine without question or doubt. Professional skepticism requires curiosity and the willingness to explore beyond the surface level of a given topic.

When gathering and analyzing information, internal auditors should apply professional skepticism to determine whether information is relevant, reliable, and sufficient. If internal auditors determine that information is incomplete, inconsistent, false, or misleading, they should perform additional analyses to identify the correct and complete information needed to support engagement results. Additional validation is provided by the review and approval of workpapers and/or engagement communications by the chief audit executive or a designated engagement supervisor.

Chief audit executives should help internal auditors build their competency related to professional skepticism. Workshops and other training opportunities can help internal auditors develop and learn to apply professional skepticism and understand the importance of avoiding bias and maintaining an open and curious mindset. Internal auditors can learn to recognize information that is inconsistent, incomplete, false, and/or misleading.

Examples of Evidence of Conformance

- Records of relevant training planned and completed, including a list of participants.
- Workpapers identifying an internal auditor's approach to evaluate and validate information gathered during an engagement.
- Documentation that false or misleading information was handled as an engagement finding.
- Workpapers and engagement communications, reviewed and signed or initialed by the engagement supervisor.

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Principle 5 Maintain Confidentiality

Internal auditors use and protect information appropriately.

Because internal auditors have unrestricted access to the data, records, and other information necessary to fulfill the internal audit mandate, they often receive information that is confidential, proprietary, and/or personally identifiable. (See also Principle 6 Authorized by the Board and its standards.) This includes information in physical and digital form as well as information derived from oral communication, such as formal or informal meeting discussions. Internal auditors must respect the value and ownership of information they receive by using it only for professional purposes and protecting it from unauthorized access or disclosure, internally and externally.

Standard 5.1 Use of Information

Requirements

Internal auditors must follow the relevant policies, procedures, laws, and regulations when using information. The information must not be used for personal gain or in a manner contrary or detrimental to the organization's legitimate and ethical objectives.

Considerations for Implementation

Internal auditors have unrestricted access to information to enable them to provide internal audit services without interference. However, using and handling information appropriately is the responsibility of every internal auditor. The inappropriate use and handling of information that is confidential, proprietary, and/or personally identifiable may have unintended consequences, such as reputational damage and fines for violating laws and/or regulations.

The policies and procedures of the organization and the internal audit function generally govern internal auditors' handling and use of information throughout its lifecycle, from its point of access to its collection, transfer, storage, and/or destruction. Additionally, internal auditors should be aware of and compliant with any policies and procedures related to the third-party information they may access.

The chief audit executive should discuss with internal auditors the policies, procedures, and expectations related to the appropriate use of information to which they have access. The chief audit executive may require internal auditors to acknowledge their understanding through signed attestations or other formats.

When handling sensitive and/or personal data, the internal audit function should apply appropriate digital security measures. Examples include automated controls such as passwords and encryption.

Examples of misusing information include using, selling, or releasing insider financial, strategic, or operational knowledge of the organization to inform decisions to purchase or sell stock or to create a competitive product.

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Examples of Evidence of Conformance

- Effectively designed and operating controls over access to and use of information.
- Documentation of relevant policies, procedures, and training related to the proper use of information.
- Minutes from meetings during which the appropriate use of information was discussed.
- Attendance records of training on use of information.
- Documentation by which internal auditors acknowledge their understanding of relevant policies, procedures, laws, and regulations.
- Performance reviews demonstrating that relevant policies, procedures, laws, and regulations have been followed.

Standard 5.2 Protection of Information

Requirements

Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy, and ownership of information acquired when performing internal audit services or as the result of professional relationships.

Internal auditors must understand and abide by the laws, regulations, policies, and procedures related to confidentiality, information privacy, and information security that apply to the organization and internal audit function.

Considerations specifically relevant to the internal audit function include:

- Custody, retention, and disposal of engagement records.
- Release of engagement records to internal and external parties.
- Handling of, access to, or copies of confidential information when it is no longer needed.

Internal auditors must not disclose confidential information to unauthorized parties unless there is a legal or professional responsibility to do so.

Internal auditors must manage the risk of exposing or disclosing information inadvertently.

The chief audit executive must ensure that the internal audit function and individuals assisting the internal audit function adhere to the same protection requirements.

Considerations for Implementation

The information acquired, used, and produced by the internal audit function is protected by laws, regulations, and the policies and procedures of the organization and the internal audit function and generally cover physical and digital security and access, retention, and disposal of information.

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The chief audit executive should consult with legal counsel to better understand the impact of legal and/or regulatory requirements and protections (for example, legal privilege or attorney-client privilege). The organization's policies and procedures may require that specific authorities review and approve business information before external release.

Information access may be monitored to verify whether methodologies are followed. Information may be protected from intentional or unintentional disclosure through controls such as data encryption, password protection, email distribution, restrictions on the use of social media, and restrictions on physical access. When internal auditors no longer need access to the data, digital permissions should be revoked and printed copies should be handled according to established methodologies.

Examples of confidential information that may be protected from disclosure include individual salaries and records of personnel issues.

The chief audit executive should periodically assess and confirm internal auditors' needs for access to information and whether access controls are working effectively.

Examples of Evidence of Conformance

- Documentation demonstrating application of relevant methodologies.
- Documentation regarding the implementation of mechanisms that restrict information access and mitigate the risk of circumventing prevailing controls.
- Attendance records of training on protection of information.
- Documentation by which internal auditors acknowledge their understanding of relevant policies, procedures, laws, and regulations.
- Documentation of restrictions on the distribution of workpapers and final communication.
- Documentation of authorized disclosures and distribution.
- Records of disclosures required by law or approved by legal counsel, if applicable, and/or the board and senior management.
- Signed agreements to confidentiality or nondisclosure of information.
- Performance reviews demonstrating that policies and procedures related to the protection and disclosure of information have been followed.

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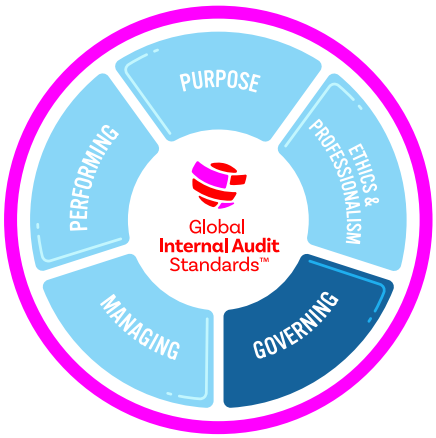
Domain III: Governing the Internal Audit Function



Appropriate governance arrangements are essential to enable the internal audit function to be effective. This domain outlines the requirements for chief audit executives to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. This domain also outlines senior management's responsibilities that support the board's responsibilities and promote strong governance of the internal audit function.

While the chief audit executive is responsible for the requirements in this domain, 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.

Meeting with the Board and Senior Management

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.

The nature and frequency of these discussions depend on the circumstances and changes in the organization. For example, the chief audit executive should discuss these essential conditions with the board and senior management if:

- The Standards change significantly or a new internal audit function is created.
- The chief audit executive is new to the role or organization.
- There are significant changes in the relationship between the board and the chief audit executive, such as a new chairperson to whom the chief audit executive reports or a change in the structure or composition of the board that affects this reporting relationship.
- There are significant changes in the structure or composition of senior management that affect the chief audit executive's positioning within the organization.

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It is important for the chief audit executive to receive input from both the board and senior management. While the board may have the ultimate responsibility to approve the internal audit mandate, charter, and other requirements outlined in this domain, senior management typically has a key role in providing input to the board and the chief audit executive. Senior management's perspective is valuable and helps support the internal audit function's positioning and authority in the organization.

Disagreements on Essential Conditions

If either the board or senior management disagrees with one or more of these essential conditions, the chief audit executive must emphasize – with examples – how absence of the condition(s) may affect the internal audit function's ability to fulfill its purpose or conform with specific standards. The chief audit executive should also discuss alternatives to the essential conditions that may provide the same results.

The chief audit executive may reach agreement with the board and senior management that one or more of the essential conditions are not necessary to conform with the Standards. In such instances, the chief audit executive must document:

- The reasons for agreeing that a particular condition is unnecessary.
- Alternative conditions that compensate for the absent conditions, to support the judgments of the board and senior management.

If the chief audit executive does not agree with the board's and/or senior management's reasons for not performing one or more of the conditions, the chief audit executive may conclude that the internal audit function cannot conform with the Standards. In such cases, the chief audit executive should document the reasons why the board and/or senior management will not perform the essential conditions. This documentation should be shared with the board and senior management to ensure clarity regarding their positions and made available to an external quality assessor.

If the chief audit executive position is open for any reason, the board should appoint one or more individuals in the interim.

Definition of Board

The glossary to the Global Internal Audit Standards defines the term "board" as the highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, "board" refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exists, "board" should be read as referring to the group or person that acts as the organization's highest-level governing body. Examples include the head of the organization and senior management.

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If the nature of the board varies from the definition provided in the glossary, the chief audit executive should document the governing structure to which the internal audit function reports and how this structure is consistent with the definition of board. This may include environments where multiple boards exist, sometimes found in multi-national organizations or the public sector, or where a multi-tiered structure is in place.

Application of this Domain

The Standards apply to individuals and functions that provide internal audit services. Internal audit services may be provided by persons within or outside the organization for organizations that vary in purpose, size, complexity, and structure. The Standards apply whether an organization employs internal auditors directly, contracts them through an external service provider, or both. The chief audit executive's responsibilities are performed by one or more individuals designated by the board. The chief audit executive, whether employed directly by the organization or through an external service provider, is responsible for conformance with the Standards as demonstrated through the quality assurance and improvement program. In all cases, the board retains the responsibility to support and oversee the internal audit function.

Principle 6 Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

The internal audit function receives its mandate from the board (or applicable law in certain public sector environments). The mandate specifies the authority, role, and responsibilities of the internal audit function and is documented in the internal audit charter. The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight. The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.

Standard 6.1 Internal Audit Mandate

Requirements

The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate. (See also Standard 6.2 Internal Audit Charter and "Applying the Global Internal Audit Standards in the Public Sector.")

To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other's roles and responsibilities. (See also Standard 9.5 Coordination and Reliance.)

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The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board. (See also Standard 6.2 Internal Audit Charter.)

Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management 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.

Senior Management

- Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.
- Support the internal audit mandate throughout the organization and promote the authority granted to the internal audit function.

Considerations for Implementation

The chief audit executive informs the board and senior management about the characteristics of an effective internal audit function by sharing knowledge about the Standards, relevant laws and/or regulations, and the results of research into leading practices of internal audit functions.

The chief audit executive should discuss with the board and senior management the internal audit mandate and other key considerations in the internal audit charter, focusing on helping the board and senior management to understand:

- Authority – The internal audit function's authority is created by its direct reporting relationship to the board. Such authority allows for free and unrestricted access to the board, as well as all activities across the organization (for example, records, personnel, and physical property).
- Role(s) – The primary role of the internal audit function is to conduct internal audit activities and deliver internal audit services. There may be situations where roles beyond internal auditing are part of the chief audit executive's responsibilities, such as risk management or compliance. These nonaudit roles are discussed further in Standard 7.1 Organizational Independence.
- Responsibilities – An internal audit function's responsibilities comprise its accountability and obligations to carry out its role(s), as well as the specific expectations of key stakeholders. For example, responsibilities typically include expectations regarding performance of audit services; communications; compliance with laws, regulations, and policies; conformance with the Global Internal Audit Standards; and other activities incumbent in the role.

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- Scope – The scope of internal audit services covers the entire breadth of the organization for which the internal audit function is responsible for providing services. This may include all activities, assets, and personnel of the organization or may be restricted to a subset according to geography or other division. The scope may specify the nature of internal audit services (for example, assurance only or assurance and advisory, focus on financial statements, compliance with laws and/or regulations), or may specify other limitations on the coverage of internal audit services.
- Internal audit services – Internal audit services may simply be defined as assurance and advisory services or may be more specifically defined, such as performance auditing, assurance regarding internal controls over financial reporting, and investigations.

Circumstances may justify a follow-up discussion with the board and senior management on the internal audit mandate or other aspects of the internal audit charter. These conditions may include, but are not limited to:

- A notable change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the board and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which it operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

These conditions may arise at any point during the year. However, the chief audit executive should formally consider any such changes at least annually.

The chief audit executive coordinates with the organization's assurance providers and advises the board regarding how other functions may contribute to the internal audit mandate. By helping the board understand the roles and responsibilities of other internal and external assurance providers and regulators, the chief audit executive may provide clarity about an appropriate internal audit mandate. (See also Standard 9.5 Coordination and Reliance.)

Examples of Evidence of Conformance

- Minutes of board meetings where the mandate was discussed, which may be part of the broader approval of the internal audit charter.
- Minutes of board meetings during which any changes to the internal audit charter are discussed and approved by the board.

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Standard 6.2 Internal Audit Charter

Requirements

The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:

- Purpose of Internal Auditing.
- Commitment to adhering to the Global Internal Audit Standards.
- Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function. (See also Standard 6.1 Internal Audit Mandate.)
- Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)

The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management 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 chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.

Senior Management

- Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the internal audit charter.

Considerations for Implementation

Key requirements for the internal audit charter are outlined in Standards 6.1 Internal Audit Mandate and 7.1 Organizational Independence.

The internal audit charter should describe administrative reporting responsibilities, such as the processes for:

- Approving the internal audit function's human resources administration and budgets.
- Approving the chief audit executive's expenses.
- Reviewing the chief audit executive's performance.

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Where laws or regulations specify the reporting relationship, references to such documents should be included in the charter. If laws and/or regulations comprehensively cover the requirements for a charter, they may be substituted for the formal charter.

The format of an internal audit charter may vary from one organization to another. While there are models for an internal audit charter, the chief audit executive should customize the internal audit charter to address the unique organizational aspects that may affect the internal audit mandate, scope, and internal audit services.

The chief audit executive typically presents a final draft of the internal audit charter during a board meeting to be discussed and approved.

The chief audit executive and the board should also agree on the frequency with which to review and reaffirm whether the charter's provisions continue to enable the internal audit function to accomplish its objectives. A leading practice is to review the charter periodically, reference it when questions about the internal audit mandate arise, and update it as needed.

Other topics for consideration in the internal audit charter include:

- Safeguards to objectivity and independence, including processes for addressing potential impairments, and the frequency with which those safeguards are re-evaluated to ensure they are achieving the desired result. (See also Standard 7.1 Organizational Independence.)
- Unrestricted access, including how the internal audit function accesses the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Communications, including the nature and timing of communicating with the board and senior management.
- Audit process, including any expectations regarding communications with management in the area under review (before, during, and after an engagement) and how disagreements with management are handled.
- Quality assurance and improvement, including expectations for developing and conducting internal and external assessments of the internal audit function and communicating the results of the assessments. (See also Standards 8.3 Quality and 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)
- Approvals, including any circumstances specified by the board and senior management.

Examples of Evidence of Conformance

- Minutes of the board meetings during which the internal audit charter was discussed and approved.
- The approved charter and the date approved.
- Minutes of board meetings that include evidence that the chief audit executive periodically reviews the internal audit charter with the board and senior management.

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Standard 6.3 Board and Senior Management Support

Requirements

The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.

The chief audit executive must coordinate the internal audit function's board communications with senior management to support the board's ability to fulfill its requirements.

Essential Conditions

Board

- Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.
- Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Support the chief audit executive through regular, direct communications.
- Demonstrate support by:
  - Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.
  - Approving the internal audit charter, internal audit plan, budget, and resource plan.
  - Making appropriate inquiries of senior management and the chief audit executive 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 chief audit executive in sessions without senior management present.

Senior Management

- Support recognition of the internal audit function throughout the organization.
- Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

Considerations for Implementation

The board and the chief audit executive should meet at least annually without management present. Holding such meetings quarterly is considered a leading governance practice. Such meetings often occur as a private or closed session following a normally scheduled board meeting.

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The chief audit executive should also have other interactions with the board between official meetings to keep the board apprised of the internal audit function's progress. The types of information and the level of detail to be communicated by the chief audit executive to the board should be agreed upon by both parties.

As discussed in Standard 7.1 Organizational Independence, it is important that the chief audit executive report administratively to an individual in the organization who can support the internal audit function's pursuit of the internal audit mandate. A leading practice is for the chief audit executive to report to the chief executive officer or equivalent.

While it is critical for the chief audit executive to meet privately with the board, the chief audit executive should inform senior management of such discussions, unless doing so is inappropriate (for example, if a private conversation relates to an impropriety by a member of senior management).

The chief audit executive should work with senior management to understand each other's reporting requirements to the board to help enable timely, clear, and transparent reporting that is not redundant or conflicting. This helps the board exercise its oversight responsibilities and enables a collaborative working relationship between the chief audit executive and senior management.

The board's approval of the internal audit budget and resource plan is important as these demonstrate that the internal audit function has the resources necessary to complete its planned audit activities. The details provided to the board are subject to the judgment of the chief audit executive.

Examples of Evidence of Conformance

- Minutes of board meetings indicating board review and approval of the internal audit plan, internal audit budget, and resource plan.
- Minutes or other documentation of communication between the board and senior management in which the internal audit function's unrestricted access was discussed.
- An agreed-upon matrix or similar documentation showing what information should be communicated by the chief audit executive to the board and senior management and the expected frequency.

Principle 7 Positioned Independently

The board establishes and protects the internal audit function's independence and qualifications.

The board is responsible for enabling the independence of the internal audit function. Independence is defined as the freedom from conditions that impair the internal audit function's ability to carry out its responsibilities in an unbiased manner. The internal audit function is only able to fulfill the Purpose of Internal Auditing when the chief audit executive reports directly to the board, is qualified, and is positioned at a level within the organization that enables the internal audit function to discharge its services and responsibilities without interference.

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Standard 7.1 Organizational Independence

Requirements

The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board. (See also Standard 6.2 Internal Audit Charter.)

The chief audit executive must discuss with the board and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance. The chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.

When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.

When the chief audit executive's nonaudit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.

If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.

Essential Conditions

Board

- Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.
- Authorize the appointment and removal of the chief audit executive.
- Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.
- Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.

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- Require that the chief audit executive 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 senior management and escalate matters to the board when necessary.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing.
- Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function's independence.
- Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

Senior Management

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

Considerations for Implementation

Internal auditing is most effective when the internal audit function is directly accountable to the board (also known as "functionally reporting to the board"), rather than directly accountable to management for the activities over which it provides assurance and advice. A direct reporting relationship between the board and the chief audit executive enables the internal audit function to perform internal audit services and communicate engagement results without interference or undue limitations. Examples of interference include management failing to provide requested information in a timely manner and restricting access to information, personnel, or physical properties. Limiting budgets or resources in a way that interferes with the internal audit function's ability to operate effectively is an example of undue limitation. (See also Standard 11.3 Communicating Results.)

While the chief audit executive reports functionally to the board, the administrative reporting relationship is often to a member of management. This enables access to senior management and the authority to challenge management's perspectives. To achieve this authority, it is leading practice for the chief audit executive to report administratively to the chief executive officer or equivalent, although reporting to

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another senior officer may achieve the same objective if appropriate safeguards are implemented. Subsidiary, branch, and divisional heads of the internal audit function should be able to communicate directly with the senior management responsible for those areas.

When evaluating whether independence is impaired, the chief audit executive should consider reporting relationships, roles, and responsibilities to determine whether actual, potential, or perceived impairments exist. Additionally, through discussions with the concerned parties, the chief audit executive may be able to resolve any situations of perceived impairments that do not in fact affect the internal audit function's ability to perform its responsibilities independently.

Situations that may introduce impairments to independence include:

- The chief audit executive lacks direct communication or interaction with the board.
- Management attempts to limit the scope of the internal audit services that were previously approved by the board and documented in the internal audit charter.
- Management attempts to restrict access to the data, records, information, personnel, and physical properties required to perform the internal audit services.
- Management pressures internal auditors to suppress or change internal audit findings.
- The budget for the internal audit function is reduced to a level that leaves the function unable to fulfill its responsibilities as outlined in the internal audit charter.
- An assurance engagement is performed by the internal audit function or supervised by the chief audit executive in a functional area for which the chief audit executive is responsible, has oversight, or is otherwise able to exert significant influence.
- The internal audit function performs, or the chief audit executive supervises, assurance services related to an activity that is managed by a senior executive (non-CEO) to which the chief audit executive reports administratively. For example, the chief audit executive reports to the chief financial officer and is responsible for auditing treasury, a function that also reports to the chief financial officer.

In addition to the responsibilities of managing the internal audit function, the chief audit executive is sometimes asked to take on nonaudit roles that may impair or appear to impair the internal audit function's independence. Examples include situations such as:

- A new regulatory requirement prompts an immediate need to develop controls and other risk management activities to ensure compliance.
- The chief audit executive has the most appropriate expertise to adapt existing risk management activities to a new business segment or geographic market.
- The organization's resources are too constrained or the organization is too small to afford a separate compliance function.

When discussing nonaudit roles and responsibilities with the board and senior management, the chief audit executive should identify appropriate safeguards depending on whether the roles are permanent or temporary and intended to be transferred to management.

When the board agrees that an impairment has occurred, the chief audit executive should suggest to the board and senior management potential safeguards to manage the risks. It is also important to specify a timeline for transitioning temporary nonaudit responsibilities to management.

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The requirement is to have assurance activities overseen by an independent third party for the subsequent 12 months after the chief audit executive completes temporary responsibilities in that area. However, judgment should be used as there may be circumstances whereby the perception of impairment may exist beyond 12 months. The chief audit executive should discuss with the board and senior management whether 12 months is appropriate or not.

To determine the other parties to which disclosure of existing impairments must be made, the chief audit executive should consider the nature of the impairment, the impairment's impact on the reliability of the results of internal audit services, and the expectations of relevant stakeholders. If a potential impairment of the internal audit function's independence is discovered after an engagement has been completed that may affect the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions, the chief audit executive should discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Standards 2.3 Disclosing Impairments to Objectivity and 11.4 Errors and Omissions.)

Before a chief audit executive is hired, the board should be involved in the recruitment and appointment process. For example, the board may discuss the qualifications and competencies necessary to lead the internal audit function and perform any additional roles and responsibilities expected by the organization. Additionally, the board should consider reviewing candidates' résumés and participating in interviews before a candidate is selected.

Examples of Evidence of Conformance

- The internal audit charter, which documents the internal audit function's reporting relationships.
- Meeting minutes or other evidence of the chief audit executive's direct communication with the board and senior management regarding potential impairments to independence and planned safeguards.
- Board meeting minutes or other documentation showing that the chief audit executive confirmed with the board the ongoing independence of the internal audit function or discussed impairments affecting the internal audit function's ability to fulfill its mandate and the safeguards to manage the impairments.
- The internal audit charter documenting board approval of long-term nonaudit roles and responsibilities and corresponding safeguards to independence, including the expected duration of the roles, responsibilities, and safeguards and how the effectiveness of the safeguards will be evaluated periodically.
- Documented methodologies to be followed when an impairment is suspected or identified.
- Formal action plans that outline specific safeguards to address independence concerns.
- Documentation of assurance services to be provided by other internal or external providers as a safeguard to independence.
- Minutes or other documentation evidencing the board's approval of the appointment or removal of the chief audit executive.

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Standard 7.2 Chief Audit Executive Qualifications

Requirements

The chief audit executive must help the board understand the qualifications and competencies of a chief audit executive that are necessary to manage the internal audit function. The chief audit executive facilitates this understanding by providing information and examples of common and leading qualifications and competencies.

The chief audit executive must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities expected by the board. (See also Principle 3 Demonstrate Competency and its standards.)

Essential Conditions

Board

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

Senior Management

- Engage with the board to determine the chief audit executive's qualifications, experience, and competencies.
- Enable the appointment, development, and remuneration of the chief audit executive through the organization's human resources processes.

Considerations for Implementation

The board collaborates with senior management to determine which competencies and qualifications the organization expects in a chief audit executive. The competencies may vary according to the internal audit mandate, the complexity and specific needs of the organization, the organization's risk profile, and the industry and jurisdiction within which the organization operates, among other factors. The desired competencies and qualifications are typically documented in a job description and include:

- A comprehensive understanding of the Global Internal Audit Standards and leading internal audit practices.
- Experience building and managing an effective internal audit function by recruiting, hiring, and training internal auditors and helping them develop relevant competencies.
- Certified Internal Auditor® designation or other relevant professional education, certifications, and credentials.
- Leadership experience.
- Industry or sector experience.

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While this list includes ideal competencies and qualifications, the chief audit executive may be selected for other qualities or areas of expertise that are supplemented by the competencies of other members of the internal audit function, especially when the chief audit executive has entered the position from a different role, industry, or sector. In such cases, the chief audit executive should work collaboratively with knowledgeable members of the internal audit function and network with others in the profession to gain relevant experience.

The board may review and approve the job description for the chief audit executive to ensure it reflects the expected qualifications and competencies.

The board should encourage the chief audit executive to pursue continuing professional education, membership in professional associations, professional certifications, and other opportunities for professional development. (See also Principle 3 Demonstrate Competency and its standards.)

Given the importance of the chief audit executive role, a succession plan should be developed to identify internal or external candidates for replacing the chief audit executive. Such plans should be aligned with the organization's overall succession-planning process and be shared with the board and senior management.

Examples of Evidence of Conformance

- Documented approval by the board of the chief audit executive's job description and/or appointment or other evidence that the board evaluated the qualifications and competencies required for the chief audit executive's role.
- The chief audit executive's professional education plans and evidence of completion.
- Documented participation in professional associations.
- Documented succession-planning conversations with the board, senior management, and/or the organization's human resources function.

Principle 8 Overseen by the Board

The board oversees the internal audit function to ensure the function's effectiveness.

Board oversight is essential to enable the overall effectiveness of the internal audit function. Achieving this principle requires collaborative and interactive communication between the board and the chief audit executive as well as the board's support in ensuring the internal audit function obtains sufficient resources to fulfill the internal audit mandate. Additionally, the board receives assurance about the quality of the performance of the chief audit executive and the internal audit function through the quality assessment and improvement program, including the board's direct review of the results of the external quality assessment.

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Standard 8.1 Board Interaction

Requirements

The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.

The chief audit executive must report to the board and senior management:

- The internal audit plan and budget and subsequent significant revisions to them. (See also Standards 6.3 Board and Senior Management Support and 9.4 Internal Audit Plan.)
- Changes potentially affecting the mandate or charter. (See also Standards 6.1 Internal Audit Mandate and 6.2 Internal Audit Charter.)
- Potential impairments to independence. (See also Standard 7.1 Organizational Independence.)
- Results of internal audit services, including conclusions, themes, assurance, advice, insights, and monitoring results. (See also Standards 11.3 Communicating Results, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Results from the quality assurance and improvement program. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 12.2 Performance Measurement.)

There may be instances when the chief audit executive disagrees with senior management or other stakeholders on the scope, findings, or other aspects of an engagement that may affect the ability of the internal audit function to execute its responsibilities. In such cases, the chief audit executive must provide the board with the facts and circumstances to allow the board to consider whether, in its oversight role, it should intervene with senior management or other stakeholders.

Essential Conditions

Board

- Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate.
- Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.
- Set expectations with the chief audit executive for:
  - The frequency with which the board wants to receive communications from the chief audit executive.
  - The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance.

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- The process for escalating matters of importance to the board.

- Gain an understanding of the effectiveness of the organization's governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.
- Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.

Senior Management

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

Considerations for Implementation

To provide the board with the information needed to exercise its oversight responsibilities, two-way communication is needed. The chief audit executive may use a variety of communication methods such as written and oral reports and presentations, formal meetings, and informal discussions. The chief audit executive may document the board's expectations formally in the internal audit methodologies. Periodically, the chief audit executive should confirm with the board that the frequency, nature, and content of communications meet the board's expectations and help the board achieve its oversight responsibilities.

The frequency of communication between the board and the chief audit executive should consider the need for timely communication about significant issues. The chief audit executive should seek information from the board about its perspectives and expectations related to understanding and oversight of not just financial risk management but also a broad range of nonfinancial governance and risk management concerns including, for example, strategic initiatives, cybersecurity, health and safety, sustainability, business resilience, and reputation.

To identify the issues the chief audit executive escalates beyond senior management, criteria may be established outlining the significance or materiality that exceeds the risk tolerance. The criteria should be linked to a process for the chief audit executive to follow to escalate communications from management to the board. Typically, disagreements between the chief audit executive and senior management should be discussed with senior management to ensure the information presented to the board is accurate and reflects management's perspective.

Typically, formal board meetings allow formal communication at least quarterly. Additionally, the chief audit executive and board members often communicate between meetings as needed, sometimes informally.

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Examples of Evidence of Conformance

- Board agendas and meeting minutes documenting the nature, topics, and frequency of discussions with the chief audit executive.
- Presentations made by the chief audit executive to the board.
- Internal audit communications to board members.
- Documentation of the criteria for identifying issues to be brought to the attention of the board and a process for communicating or escalating such issues.

Standard 8.2 Resources

Requirements

The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.

Essential Conditions

Board

- Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- 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.
- Consider the impact of insufficient resources on the internal audit mandate and plan.
- Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.

Senior Management

- Engage with the board to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.

Considerations for Implementation

To analyze the sufficiency of the resources necessary to fulfill the internal audit mandate and achieve the plan, the chief audit executive may perform a gap analysis between the resources available within the internal audit function and those needed to perform internal audit services. (See also Principle 10 Manages Resources and its standards.) The chief audit executive's strategy should provide a resource plan, which may include a budget request, and should consider options for staffing the internal audit function and using technology to perform services. This plan may also include a cost-benefit analysis of the various approaches to present to the board.

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Although a discussion of resources between the board and the chief audit executive typically occurs at least annually in connection with presentation of the internal audit plan, having a quarterly discussion is a leading practice. The discussion should include considering the options to achieve the desired internal audit coverage, including outsourcing or using guest auditors, as well as implementing technology to improve the internal audit function's efficiency and effectiveness.

Examples of Evidence of Conformance

- Agendas, meeting minutes, and communications between the chief audit executive and the board and/or senior management, documenting discussions of the sufficiency of internal audit resources.
- Internal audit resource plans indicating the sufficiency of resources needed to achieve the internal audit plan.
- Budget requests pertaining to internal audit resources.
- Documentation of gap analyses between the internal audit plan and available resources.
- Documentation of a cost-benefit analysis.
- Documentation of the chief audit executive's resourcing strategy.

Standard 8.3 Quality

Requirements

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments. (See also Standard 8.4 External Quality Assessment.)
- Internal assessments. (See also Standard 12.1 Internal Quality Assessment.)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:

- The internal audit function's conformance with the Standards and achievement of performance objectives.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.

Essential Conditions

Board

- Discuss with the chief audit executive 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. (See also Standard 12.2 Performance Management.)

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- 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.

Senior Management

- Provide input on the internal audit function's performance objectives.
- Participate with the board in an annual assessment of the chief audit executive and internal audit function.

Considerations for Implementation

The chief audit executive's communications to the board and senior management regarding the internal audit function's quality assurance and improvement program should include:

- The scope, frequency, and results of internal and external quality assessments conducted under the direction of, or with the assistance of, the chief audit executive.
- Action plans that address deficiencies and opportunities for improvement. Actions should be agreed upon with the board.
- Progress toward completing the agreed-upon actions.

An assessment of the internal audit function's quality may consider:

- The level of contribution to the improvement of governance, risk management, and control processes.
- Productivity of internal audit staff (for example, planned hours compared to actual hours on projects or time used on audit projects compared to administrative time).
- Compliance with internal audit laws and/or regulations.
- Cost efficiency of the internal audit processes.
- Strength of relationships with senior management and other key stakeholders.
- Other performance measures. (See also Standard 12.2 Performance Measurement.)

Examples of Evidence of Conformance

- Agendas and minutes from board meetings documenting discussions with the chief audit executive about the internal audit function's quality assurance and improvement program.
- Chief audit executive presentations and other communications covering the results of the quality assessments and status of action plans to address any opportunities for improvement.
- Quality assurance and improvement program workpapers or other evidence demonstrating the completion of related activities.

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Standard 8.4 External Quality Assessment

Requirements

The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

When selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor® designation.

Essential Conditions

Board

- Discuss with the chief audit executive the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.
- Collaborate with senior management and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Consider the responsibilities and regulatory requirements of the internal audit function and the chief audit executive, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the chief audit executive'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 chief audit executive'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 chief audit executive's progress.

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Senior Management

- Collaborate with the board and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Review the results of the external quality assessment, collaborate with the chief audit executive and board 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.

Considerations for Implementation

The board and chief audit executive may determine that it is appropriate to conduct an external assessment more frequently than every five years. There are several reasons to consider a more frequent review, including changes in leadership (for example, senior management or the chief audit executive), significant changes in internal audit methodologies, the merger of two or more internal audit functions, or significant staff turnover. Additionally, some organizations, such as those in highly regulated industries may prefer or be required to increase the frequency or scope of the external quality assessments.

The external quality assessment should include a comprehensive review of the adequacy of the internal audit function's:

- Conformance with the Global Internal Audit Standards.
- Mandate, charter, strategy, methodologies, processes, risk assessment, and internal audit plan.
- Compliance with applicable laws and/or regulations.
- Performance criteria and measures as well as assessment results.
- Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continual development.
- Qualifications and competencies, including those of the chief audit executive role, as defined by the organization's job description and hiring profile.
- Integration into the organization's governance processes, including the relationships among those involved in positioning the internal audit function to operate independently.
- Contribution to the organization's governance, risk management, and control processes.
- Contribution to the improvement of the organization's operations and ability to attain its objectives.
- Ability to meet expectations articulated by the board, senior management, and stakeholders.

In addition to the requirement that at least one member of the external assessment team be a Certified Internal Auditor®, other important qualifications of the assessment team to consider include:

- Experience with and knowledge of the Standards and leading internal audit practices.
- Experience as a chief audit executive or comparable senior level of internal audit management.
- Experience in the organization's industry or sector.
- Previous experience performing external quality assessments.
- Completion of external quality assessment training recognized by The Institute of Internal Auditors.
- Attestation by assessment team members that they have no conflicts of interest, in fact or appearance.

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The chief audit executive should consider potential impairments to the independence of assessors driven by past, present, or anticipated future relationships with the organization, its personnel, or its internal audit function. If a potential assessor is a former employee of the organization, the length of time the assessor has been independent should be evaluated. Examples of potential impairments include:

- External audits of financial statements.
- Assistance to the internal audit function.
- Personal relationships.
- Previous or planned participation in internal quality assessments.
- Advisory services in governance, risk management, and control processes; financial reporting; or other areas.

Individuals from another department of the organization, although organizationally separate from the internal audit function, are not considered independent for the purpose of conducting an external assessment. Likewise, individuals from a related organization (for example, a parent organization, an affiliate in the same group of entities, or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organization) are not considered independent. In the public sector, internal audit functions in separate entities within the same tier of government are not considered independent if they report to the same chief audit executive.

Reciprocal peer assessments between two organizations are not considered independent. However, assessments rotated among three or more peer organizations — organizations within the same industry, regional association, or other affinity group — may be considered independent. Care should be exercised to ensure that independence and objectivity are not impaired and that all team members are able to exercise their responsibilities fully.

A self-assessment with independent validation typically includes:

- A comprehensive and fully documented internal assessment that emulates the external quality assessment process in terms of evaluating the internal audit function's conformance with the Standards.
- Validation by a qualified, independent external quality assessor or assessment team. The independent validation should determine that the internal assessment was conducted completely and accurately.
- Benchmarking, leading practices, and interviews with key stakeholders, such as board members, senior management, and operational management.

Examples of Evidence of Conformance

- Board meeting minutes where the chief audit executive's external quality assessment plan is discussed and approved by the board.
- Formal external quality assessment report prepared and validated by a qualified, independent assessor.
- Presentations to the board by external assessors covering the results of the external quality assessment.
- Chief audit executive presentations to the board covering external assessment results and action plans, as appropriate.

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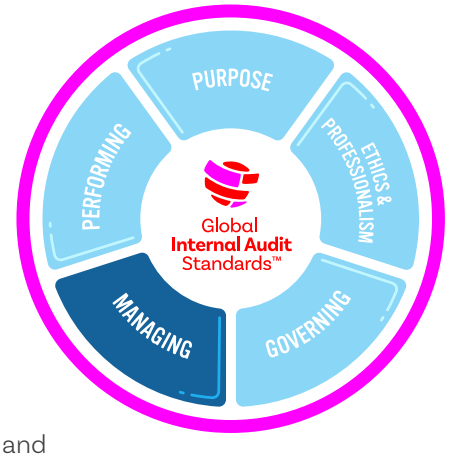
Domain IV: Managing the Internal Audit Function



The chief audit executive is responsible for managing the internal audit function in accordance with the internal audit charter and Global Internal Audit Standards. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and ensuring and enhancing the performance of the function.

The individual responsible for managing the internal audit function is expected to conform with the Standards including performing the responsibilities described in this domain whether the individual is directly employed by the organization or contracted through an external service provider. The specific job title and responsibilities may vary across organizations.

The chief audit executive may delegate appropriate responsibilities to other qualified professionals in the internal audit function but retains ultimate accountability.

The direct reporting relationship between the board and the chief audit executive enables the internal audit function to fulfill its mandate. (See also Standard 7.1 Organizational Independence.) In addition, the chief audit executive typically has an administrative reporting line to the highest-ranking person in senior management, such as the chief executive officer, to support day-to-day activities and establish the status and authority necessary to ensure the results of the internal audit services are given due consideration.

Principle 9 Plan Strategically

The chief audit executive plans strategically to position the internal audit function to fulfill its mandate and achieve long-term success.

Planning strategically requires the chief audit executive to understand the internal audit mandate and the organization's governance, risk management, and control processes. A properly resourced and positioned internal audit function develops and implements a strategy to support the organization's success. In addition, the chief audit executive creates and implements methodologies to guide the internal audit function and develop the internal audit plan.

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Standard 9.1 Understanding Governance, Risk Management, and Control Processes

Requirements

To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization's governance, risk management, and control processes.

To understand governance processes, the chief audit executive must consider how the organization:

- Establishes strategic objectives and makes strategic and operational decisions.
- Oversees risk management and control.
- Promotes an ethical culture.
- Delivers effective performance management and accountability.
- Structures its management and operating functions.
- Communicates risk and control information throughout the organization.
- Coordinates activities and communications among the board, internal and external providers of assurance services, and management.

To understand risk management and control processes, the chief audit executive must consider how the organization identifies and assesses significant risks and selects appropriate control processes. This includes understanding how the organization identifies and manages the following key risk areas:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws and/or regulations.

Considerations for Implementation

The chief audit executive's understanding is developed by gathering information broadly and viewing it comprehensively. Sources of information include discussions with the board and senior management, reviews of board and senior management minutes and presentations, communications and workpapers from internal audit engagements, and assessments and reports completed by other providers of assurance and advisory services.

Understanding Governance Processes

The chief audit executive should be well informed about leading governance principles, globally accepted governance frameworks and models, and professional guidance specific to the industry and sector within which the organization operates. Based on this knowledge, the chief audit executive should identify whether any of these have been implemented in the organization and should gauge the maturity of the organization's governance processes. The organization's governance structure, processes, and practices may be affected by unique organizational characteristics such as its type, size, complexity, structure, and process maturity as well as the legal and/or regulatory requirements to which the organization is subject.

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The chief audit executive may review board and committee charters and agendas and minutes from their meetings to gain additional insight into the role the board plays in the organization's governance, especially regarding strategic and operational decision-making.

The chief audit executive may speak with individuals in key governance roles (for example, the board chair, top elected or appointed official in a governmental organization, chief ethics officer, human resources officer, chief compliance officer, and chief risk officer) to gain a clearer understanding of the organization's processes and assurance activities. The chief audit executive may review the reports and/or results of previously completed governance reviews, paying particular attention to any identified concerns.

Understanding Risk Management Processes

The chief audit executive should understand globally accepted risk management principles, frameworks, and models as well as professional guidance specific to the industry and sector within which the organization operates. The chief audit executive should gather information to assess the maturity of the organization's risk management processes, including identifying whether the organization has defined its risk appetite and implemented a risk management strategy and/or framework. Discussions with the board and senior management help the chief audit executive understand their perspectives and priorities related to the organization's risk management.

To gather risk information, the chief audit executive should review recently completed risk assessments and related communications issued by senior and operational management, those charged with risk management, external auditors, regulators, and other internal and external providers of assurance services.

Understanding Control Processes

The chief audit executive should become familiar with globally accepted control frameworks and consider those used by the organization. For each identified organizational objective, the chief audit executive should develop and maintain a broad understanding of the organization's control processes and their effectiveness. The chief audit executive may develop an organizationwide risk and control matrix to:

- Document identified risks that may affect the ability to achieve organizational objectives.
- Indicate the relative significance of risks.
- Understand key controls in organizational processes.
- Understand which controls have been reviewed for design adequacy and deemed to be operating as intended.

A thorough understanding of the organization's governance, risk management, and control processes enables the chief audit executive to identify and prioritize opportunities to provide internal audit services that may enhance the organization's success. The identified opportunities form the basis of internal audit strategy and plan.

Examples of Evidence of Conformance

- Documentation of the chief audit executive's inquiry, gathering, review, and consideration of the governance, risk management, and control frameworks and processes used by the organization, including:
  - The organization's board and committee charters, which outline the governance expectations of the organization.
  - Assessment of laws, regulations, and other requirements related to governance, risk management, and control processes.

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- Review of the agendas and minutes from board meetings documenting discussion of the organization's governance, risk management, and control processes, including the strategies, approaches, and oversight of each.
- Meeting minutes or notes from discussions between the chief audit executive and those in the organization with roles in governance and risk management.
- Review of the organization's risk appetite statement or documented communication with the board and senior management regarding the organization's risk appetite and risk tolerance.
- Documentation of orientation or training provided to internal audit staff regarding the organization's governance, risk management, and control processes.
- Review of business strategies and business plans.
- Review of communications received from regulators.
- Demonstrated understanding of the organization's risk and control matrix.

Standard 9.2 Internal Audit Strategy

Requirements

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.

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfillment of the internal audit mandate.

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

Considerations for Implementation

To develop the vision and strategic objectives of the internal audit strategy, the chief audit executive should start by considering the organization's strategy and objectives and the expectations of the board and senior management. The chief audit executive also may consider the types of services to be performed and the expectations of other stakeholders served by the internal audit function, as agreed in the internal audit charter.

The vision describes the desired future state — in the next three to five years, for example — of the internal audit function and provides direction to help the function fulfill its mandate. The vision is also designed to inspire internal auditors to continuously improve. The strategic objectives define achievable targets to attain the vision. The supporting initiatives outline more specific tactics and steps for achieving each strategic objective.

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One approach to developing a strategy is to identify and analyze the internal audit function's strengths, weaknesses, opportunities, and threats — an exercise designed to determine ways to improve the function. Another approach is to perform a gap analysis between the current and the desired states of the internal audit function.

The initiatives supporting the strategy should include:

- Opportunities to help internal auditors develop their competencies.
- The introduction and application of technology when it improves the internal audit function's efficiency and effectiveness.
- Opportunities to improve the internal audit function as a whole.

When the chief audit executive determines the strategic objectives and supporting initiatives, the actions to be taken should be prioritized and assigned target dates.

The internal audit strategy should be adjusted whenever changes occur in the organization's strategic objectives or stakeholders' expectations. Factors that may prompt a more frequent review of the internal audit strategy include:

- Changes in the organization's strategy or the maturity of its governance, risk management, and control processes.
- Changes in the organization's policies and procedures or the laws and/or regulations to which the organization is subject.
- Changes in members of the board, senior management, or the chief audit executive.
- Results of internal and external assessments of the internal audit function.

The chief audit executive may design a timeline for implementation of the internal audit strategy and related performance measures. (See also Standard 12.2 Performance Measurement.) A periodic review of the internal audit strategy should include a discussion of the internal audit function's progress on initiatives with the board and senior management.

Examples of Evidence of Conformance

- Documented internal audit strategy, including vision, strategic objectives, and supporting initiatives.
- Minutes or correspondence from meetings with the board, senior management, and/or other stakeholders where expectations were discussed.
- Notes showing the information and analyses that informed the strategy.
- Internal audit methodologies for producing and reviewing the internal audit strategy and monitoring its implementation.
- Results of periodic self-assessments or other reviews of the progress on initiatives.

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Standard 9.3 Methodologies

Requirements

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 to improve the internal audit function and respond to significant changes that affect the function. The chief audit executive must provide internal auditors with training on the methodologies. (See also Principles 13 Plan Engagements Effectively, 14 Conduct Engagement Work, and 15 Communicate Engagement Results and Monitor Action Plans, and their standards.)

Considerations for Implementation

The form, content, level of detail, and degree of documentation of methodologies may differ based on the size, structure, complexity, industry/regulatory expectations, and maturity of the organization and the internal audit function. Methodologies may exist as individual documents (such as standard operating procedures) or may be collected into an internal audit manual or integrated into internal audit management software. Internal audit methodologies supplement the Standards by providing specific instructions and criteria that help internal auditors implement the Standards and perform services with quality. Additionally, internal audit methodologies describe processes and procedures for communicating, handling operational and administrative matters, and overseeing the internal audit function. (See also Standards 14.3 Evaluation of Findings, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)

Documented methodologies that are most likely to be necessary to implement the strategy, achieve the internal audit plan, and conform with Standards include the internal audit function's approach to:

- Assessing risks for the organization and for each engagement.
- Developing and updating the internal audit plan.
- Determining the balance between assurance and advisory engagements.
- Coordinating with internal and external assurance providers.
- Managing external service providers, when used.
- Performing internal audit engagements.
- Communicating throughout internal audit services.
- Retaining and releasing engagement records and other information, consistent with the organization's guidelines and pertinent regulatory or other requirements.
- Monitoring and confirming the implementation of internal auditors' recommendations or management's action plans.
- Assuring the quality and improvement of the internal audit function.
- Developing performance measurements to assess progress toward meeting objectives.
- Performing additional services identified in the internal audit mandate.

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The effectiveness of the internal audit methodologies should be reviewed during assessments of the internal audit function's quality. Reasons for updating established methodologies include significant changes in professional internal audit standards and guidance, legal and/or regulatory requirements, technology, and department size or composition. A change of the chief audit executive or board chairman may also warrant the review and revision of internal audit methodologies.

Examples of Evidence of Conformance

- Documentation of software program incorporating methodologies.
- Meeting agendas and minutes, emails, signed acknowledgments, training schedules, or similar documentation evidencing communications to internal audit personnel about internal audit methodologies.
- Documentation of quality reviews of audit work demonstrating that methodologies are followed.
- Footnotes or endnotes within the methodologies or internal audit manual citing the standard that the content is addressing.
- Documentation of updates to the methodologies.

Standard 9.4 Internal Audit Plan

Requirements

The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives.

The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.

The internal audit plan must:

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, systems, controls, and organizational culture.

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The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:

- The impact of any resource limitations on internal audit coverage.
- The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- Limitations on scope or restrictions on access to information.

The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.

Considerations for Implementation

This standard requires an organizationwide risk assessment to be completed at least annually as the basis for the plan. However, the chief audit executive should keep continuously apprised of risk information, updating the risk assessment and internal audit plan accordingly. If the organization's environment is dynamic, the internal audit plan may need to be updated as frequently as every six months, quarterly, or even monthly. The size, complexity, and type of changes occurring in the organization relative to the maturity of the organization's governance, risk management, and control processes should be considered when determining the appropriate level of effort to update the risk assessment.

One approach to preparing the internal audit plan is to organize potentially auditable units within the organization into an audit universe to facilitate the identification and assessment of risks. An audit universe is most useful when it is based on an understanding of the organization's objectives and strategic initiatives and aligned with the organization's structure or risk framework. Auditable units may include business units, processes, programs, and systems. The chief audit executive can link those organizational units to key risks in preparation for a comprehensive risk assessment and the identification of assurance coverage throughout the organization. This process enables the chief audit executive to prioritize the risks to be evaluated further during internal audit engagements.

To strive to ensure that the audit universe and risk assessment cover the organization's key risks, the internal audit function should independently review and validate the key risks that were identified within the organization's risk management system. The internal audit function should only rely on management's information about risks if it has concluded that the organization's risk management processes are effective.

To complete the organizationwide risk assessment, the chief audit executive should consider objectives and strategies not just at the broad organizational level but also at the level of specific auditable units. Additionally, the chief audit executive should give due consideration to risks — such as those related to ethics, fraud, information technology, third-party relationships, and noncompliance with regulatory requirements — that may be tied to more than one business unit or process and may require more complex evaluation.

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To support this risk assessment, the chief audit executive may gather information from recently completed internal audit engagements as well as discussions with members of the board and senior management. (See also Standards 9.1 Understanding Governance, Risk Management, and Control Processes and 11.3 Communicating Results.) The chief audit executive may implement a methodology for continuously assessing risks. Risks should be considered not only in terms of negative effects and barriers to achieving objectives but also in terms of opportunities that enhance the organization's ability to achieve its objectives.

The chief audit executive should develop a process to identify and assess significant, new, and emerging risks that should be considered for coverage in the audit plan. For example, resource limitations may make it impossible for the internal audit function to assess every risk in the audit universe annually. In such cases, the chief audit executive may need to increase reliance on sources of risk information such as management's risk assessments, meetings with the board and senior management, and the results of previous engagements and other audit work.

To create the internal audit plan, the chief audit executive considers the level of risk identified across each of the auditable units relative to the known level of control effectiveness. Also influencing the internal audit plan are requests made by the board and senior management, the assurance coverage expected throughout the organization, engagements required by laws or regulations, and the internal audit function's ability to rely on the work of other assurance providers. The chief audit executive should plan to reevaluate reliance periodically.

When developing the internal audit plan, the chief audit executive should consider the following:

- Engagements required by laws or regulations.
- Engagements critical to the organization's mission or strategy.
- Areas and activities with significant levels of risk.
- Whether all significant risks have sufficient coverage by assurance providers.
- Advisory and ad hoc requests.
- The time and resources required for each potential engagement.
- Each engagement's potential benefits to the organization, such as the engagement's potential to contribute to the improvement of the organization's governance, risk management, and control processes.

To schedule internal audit engagements, the chief audit executive should consider:

- The organization's operational priorities.
- Schedule of external audit engagements and regulatory reviews.
- Competencies and availability of internal auditors.
- Ability to access the activity under review.

The proposed internal audit plan should include:

- The resources and hours available for engagements compared to other administrative and nonaudit activities or initiatives focused on improving the internal audit function.
- The list of proposed engagements and related analysis, specifying the degree to which the engagements are:
  - Assurance or advisory.
  - Focused on certain departments, units, or objectives of the organization.
  - Predominately addressing financial, compliance, operational, cybersecurity, or other objectives.

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- The rationale for selecting each proposed engagement; for example, significance of risk, organizational theme or trend (root cause), regulatory requirement, or time since last engagement.
- General purpose and preliminary scope of each proposed engagement.
- A percentage of hours to be reserved for contingencies and ad hoc requests.
- The next set of engagements that would have been performed if additional resources were available. Discussion regarding these engagements may help the board assess the adequacy of resources available to the internal audit function.

The chief audit executive, the board, and senior management should agree upon the criteria that define the significant changes that require a revision of the audit plan. The agreed-upon criteria and protocol should be incorporated into the internal audit function's methodologies. Examples of significant changes include canceling or postponing engagements related to significant risks or critical strategic objectives. If risks arise that necessitate revisions to the plan before a formal discussion with the board can be scheduled, the board should be informed of the changes immediately, and a formal approval should occur as soon as possible.

Examples of Evidence of Conformance

- Approved internal audit plan.
- Documented risk assessment and prioritization, including the inputs upon which the plan is based.
- Minutes of meetings in which the chief audit executive discussed with the board and senior management the audit universe, organizationwide risk assessment, internal audit plan, and the criteria and protocol for handling significant changes to the plan.
- Notes documenting discussions to gather information to inform the organizationwide risk assessment and internal audit plan.
- Documented list of those to whom the internal audit plan was distributed.
- Documented methodologies for organizationwide risk assessment and protocol for handling significant changes.

Standard 9.5 Coordination and Reliance

Requirements

The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.

When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

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Considerations for Implementation

The chief audit executive should develop a methodology for evaluating other providers of assurance and advisory services that includes a basis for relying upon their work. The evaluation should consider the providers' roles, responsibilities, organizational independence, competency, and objectivity, as well as the due professional care applied to their work. The chief audit executive should understand the objectives, scope, and results of the work performed.

The chief audit executive should identify the organization's assurance and advisory service providers by communicating with senior management and reviewing the organizational reporting structure and board meeting agendas or minutes. Internal providers of assurance and advice include functions that may report to or be part of senior management, such as compliance, environmental, financial control, health and safety, information security, legal, risk management, and quality assurance. External assurance providers may report to senior management, external stakeholders, or the chief audit executive.

Examples of coordination include:

- Synchronizing the nature, extent, and timing of planned work.
- Establishing a common understanding of assurance techniques, methods, and terminology.
- Providing access to one another's work programs and reports.
- Using management's risk management information to provide joint risk assessments.
- Creating a shared risk register or list of risks.
- Combining results for joint reporting.

The process of coordinating assurance activities varies by organization, from informal in small organizations to formal and complex in large or heavily regulated organizations. The chief audit executive considers the organization's confidentiality requirements before meeting with the various providers to gather the information necessary to coordinate services. Frequently, the providers share the objectives, scope, and timing of upcoming engagements and the results of prior engagements. The providers also discuss the potential for relying on one another's work.

One method to coordinate assurance coverage is to create an assurance map, or a matrix of the organization's risks and the internal and external providers of assurance services that cover those risks. The assurance map links identified significant risk categories with relevant sources of assurance and provides an evaluation of the level of assurance for each risk category. Because the map is comprehensive, it exposes gaps and duplications in assurance coverage, enabling the chief audit executive to evaluate the sufficiency of assurance services in each risk area. The results can be discussed with the other assurance providers so that the parties may reach an agreement about how to coordinate activities. In a combined assurance approach, the chief audit executive coordinates the internal audit function's assurance engagements with other assurance providers to reduce the frequency and redundancy of engagements, maximizing the efficiency of assurance coverage.

The chief audit executive may choose to rely on the work of other providers for various reasons, such as to assess specialty areas outside the internal audit function's expertise, to decrease the amount of testing needed to complete an engagement, and to enhance risk coverage beyond the resources of the internal audit function.

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To determine whether the internal audit function may rely on the work of another provider, the methodology should consider the provider's:

- Potential or actual conflicts of interest and whether disclosures were made.
- Reporting relationships and the potential impacts of this arrangement.
- Relevance and validity of professional experience, qualifications, and certifications.
- Methodology and the due professional care applied in planning, supervising, documenting, and reviewing the work.
- Findings and conclusions and whether they are reasonable, based on sufficient, reliable, and relevant evidence.

After evaluating the work of another assurance provider, the chief audit executive may determine that the internal audit function cannot rely upon the work. Internal auditors may either retest the work and gather additional information or independently perform assurance services.

If the internal audit function intends to rely upon the work of another assurance provider on an ongoing or long-term basis, the parties should document the agreed-upon relationship and specifications for the assurance to be provided and the testing and evidence required to support the assurance.

Examples of Evidence of Conformance

- Communications regarding distinct assurance and advisory roles and responsibilities, which may be documented in the notes from meetings with individual providers of assurance and advisory services or in minutes of meetings with the board and senior management.
- Assurance maps and/or combined assurance plans that identify which provider is responsible for assurance services in each area.
- Documentation and implementation of the methodology to determine whether to rely on a provider's work.
- Documented agreements with other assurance providers confirming the specifications of the assurance work they will perform.

Principle 10 Manage Resources

The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.

Managing resources requires obtaining and deploying financial, human, and technological resources effectively. The chief audit executive needs to obtain the resources required to perform internal audit responsibilities and deploy the resources according to the methodologies established for the internal audit function.

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Standard 10.1 Financial Resource Management

Requirements

The chief audit executive must manage the internal audit function's financial resources.

The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget includes the resources necessary for the function's operation, including training and acquisition of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior management.

Considerations for Implementation

The chief audit executive should follow the budget processes established by the organization. Whether the internal audit function is insourced or outsourced, an adequate budget should still be approved by the board.

Periodically, the chief audit executive should review the planned budget compared to the actual budget and analyze significant variances to determine whether adjustments are needed. The budget may include reserves for unexpected but necessary changes to the internal audit plan. If an audit function's budget is established within a larger budget managed by another department, business unit, or authority, the chief audit executive still should understand the funds allocated to the internal audit function, track spending, and monitor the sufficiency of the financial resources deployed in the internal audit function.

If significant additional resources are needed due to unforeseen circumstances, the chief audit executive should discuss the circumstances with the board and senior management promptly.

Examples of Evidence of Conformance

- Documentation of the internal audit plan against the budget, forecast, and actual expenses.
- Minutes of meetings in which the chief audit executive discussed the internal audit budget with the board and senior management.
- Board meeting minutes discussing the internal audit function's budget and approval.

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Standard 10.2 Human Resources Management

Requirements

The chief audit executive 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.

The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. *Appropriate* refers to the mix of knowledge, skills, and abilities; *sufficient* refers to the quantity of resources; and *effective deployment* refers to assigning resources in a way that optimizes the achievement of the internal audit plan.

The chief audit executive must communicate with the board and senior management regarding the appropriateness and sufficiency of the internal audit function's human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the chief audit executive must determine how to obtain the resources or communicate timely to the board and senior management the impact of the limitations. (See also Standard 8.2 Resources.)

The chief audit executive must evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The chief audit executive must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring. (See also Standard 3.1 Competency.)

Considerations for Implementation

The structure and approach to resourcing the internal audit function should align with the internal audit charter and support the achievement of the internal audit function's strategy and implementation of the internal audit plan.

In formulating an approach for managing the internal audit function's human resources, the chief audit executive should:

- Consider organizational characteristics, such as structure and complexity, geographic complexities, diversity of cultures and languages, and volatility of the risk environment in which the organization operates.
- Consider the internal audit budget and the cost effectiveness and flexibility of various staffing approaches (for example, hiring an employee or contracting with an external service provider).
- Understand the options for obtaining the human resources needed to fulfill the internal audit charter and achieve the internal audit plan.
- Communicate with the board and senior management to agree upon an approach.
- Consider succession planning for the chief audit executive position including discussions with the board.

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To support an approach for recruiting competent internal auditors, the chief audit executive should:

- Collaborate with the human resources function to develop job specifications or descriptions that align with Standard 3.1 Competency and relevant professional competency frameworks.
- Consider the benefits of recruiting internal auditors with diverse backgrounds, experiences, and perspectives and creating an inclusive work environment that allows for effective collaboration and sharing of diverse views.
- Participate in recruitment activities, such as job fairs, student events, professional networking opportunities, and interviews with prospective candidates for hire.

To develop and retain internal auditors, the chief audit executive should:

- Implement compensation, promotion, and recognition activities that support the achievement of the internal audit function's strategic objectives.
- Implement methodologies for training, evaluating performance, improving competencies, and promoting the professional development of internal auditors.
- Consider the human resources objectives of the internal audit function and the organization, such as cross-functional sharing of knowledge and succession planning.
- Cultivate an ethical, professional environment in which internal auditors are trained adequately and collaborate effectively. (See also Domain II: Ethics and Professionalism.)

To evaluate whether the human resources are appropriate and sufficient to achieve the internal audit plan, the chief audit executive should consider:

- The competencies of the internal auditors and the competencies needed to perform internal audit services.
- The nature and complexity of the services.
- The number of internal auditors and productive work hours available.
- Scheduling constraints, including the availability of internal auditors and the organization's information, people, and properties.
- The ability to rely on the work of other assurance providers. (See also Standard 9.5 Coordination and Reliance.)

In addition to competencies, the chief audit executive considers the timing or schedule of internal audit engagements, based on the schedules of individual internal auditors and the availability of staff responsible for the activity under review. If an engagement is scheduled to occur at a specific time, then the resources needed to complete that engagement should be available at that time.

If the resources are insufficient to cover the planned engagements, the chief audit executive may provide training for existing staff, request an expert from within the organization to serve as a guest auditor, hire additional staff, rely on other assurance providers, develop a rotational auditing program, or contract with an external service provider. External service providers may provide specialized skills, complete special projects, or perform engagements.

When the internal audit function is sourced internally, internal audit staffing may be supplemented by a rotational staffing model, whereby employees from other business units join the internal audit function temporarily and later return to the business unit. Employees transferring into the internal audit function may provide specialized skills and knowledge as well as unique perspectives and insights. Additionally, when employees transfer back into business units, their internal audit experiences contribute to a deeper understanding of the organization's governance, risk management, and control processes. When a rotational

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model is used, the chief audit executive should be aware of potential impairments to objectivity and should implement related safeguards. (See also Standard 2.2 Safeguarding Objectivity.)

The internal audit methodology for supervising engagements should include sufficient opportunities for internal auditors to receive constructive feedback from more experienced internal auditors in supervisory roles; such feedback may be provided through written or oral comments in the supervisory reviews of workpapers and other communications. Mentorship programs offer on-the-job experiences through which less experienced internal auditors can follow and directly observe knowledgeable staff performing engagements. The ongoing monitoring and periodic self-evaluations that comprise the internal audit function's internal quality assessments provide additional opportunities for internal auditors to receive feedback and suggestions to increase their effectiveness. (See also Standard 12.1 Internal Quality Assessment.) Individual performance evaluations carried out at regular intervals, such as annually, are another source of input that can contribute to internal auditors' professional development.

The chief audit executive should follow the organization's human resources policies or, as in the public sector, follow regulatory or contractually driven human resources frameworks. In these cases, the chief audit executive should work to thoroughly understand the frameworks and optimize the job classifications, assessment processes, and other mandated human resources frameworks to support the internal audit function. The board and senior management should be advised when these mandated frameworks diminish the ability to fulfill the human resources needs of the internal audit function.

Examples of Evidence of Conformance

- Documented analysis of gaps between competencies of internal auditors on staff and those required.
- Job descriptions.
- Résumés of internal auditors employed by the organization.
- Documented training plans and evidence of completed training.
- External service provider contracts and résumés of internal auditors assigned by the provider.
- The internal audit plan, with the estimated schedule of engagements and resources allocated.
- Meeting minutes documenting discussions regarding the internal audit budget.
- Post-engagement comparison of budgeted work hours to actual hours.
- Assessments of the performance of the internal audit function and individual internal auditors.

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Standard 10.3 Technological Resources

Requirements

The chief audit executive must strive to ensure that the internal audit function has technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

When implementing new technology, the chief audit executive must implement appropriate training for internal auditors in the effective use of technological resources. The chief audit executive must collaborate with the organization's information technology and information security functions to implement technological resources properly.

The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.

Considerations for Implementation

The internal audit function should use technology to improve its effectiveness and efficiency. Examples of such technology include:

- Audit management systems.
- Governance, risk management, and control process mapping applications.
- Tools that assist with data science and analytics.
- Tools that assist with communication and collaboration.

To evaluate whether the internal audit function has technological resources to perform its responsibilities, the chief audit executive should:

- Assess the feasibility of acquiring and implementing technology-enabled enhancements across the internal audit function's processes.
- Collaborate with other departments on shared governance, risk, and control management systems.
- Present sufficiently supported technology funding requests to the board and senior management for approval.
- Develop and implement plans to introduce approved technologies. Plans should include training internal auditors and demonstrating the realized benefits to the board and senior management.
- Identify and respond to the risks that arise from technology use, including those related to information security and privacy of individual data.

Examples of Evidence of Conformance

- Sections of the internal audit strategy describing current or planned initiatives for using technology to advance the internal audit function's objectives.
- Documented discussions or plans related to requests for and implementation of technologies.

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- Records of technology implementation, training, and use, including workpapers evidencing use of technology during engagements.
- The names of internal auditors and their technology-related certifications and qualifications.
- Information security, records management, and other policies and procedures relevant to the internal audit function's use of technological resources.

Principle 11 Communicate Effectively

The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.

Effective communication requires building relationships, establishing trust, and enabling stakeholders to benefit from the results of internal audit services. The chief audit executive is responsible for helping the internal audit function establish ongoing communication with stakeholders to build trust and foster relationships. Additionally, the chief audit executive oversees the internal audit function's formal communications with the board and senior management to enable quality and provide insights based on the results of internal audit services.

Standard 11.1 Building Relationships and Communicating with Stakeholders

Requirements

The chief audit executive must develop an approach for the internal audit function to build relationships and trust with key stakeholders, including the board, senior management, operational management, regulators, and internal and external assurance providers and other consultants.

The chief audit executive must promote formal and informal communication between the internal audit function and stakeholders, contributing to the mutual understanding of:

- Organizational interests and concerns.
- Approaches for identifying and managing risks and providing assurance.
- Roles and responsibilities of relevant parties and opportunities for collaboration.
- Relevant regulatory requirements.
- Significant organizational processes, including financial reporting.

Considerations for Implementation

Regular, ongoing communication among the board, senior management, and the internal audit function contributes to a common understanding of the organization's risks and assurance priorities and promotes adaptability to changes. The chief audit executive should be included in the organization's communication channels to keep current with major developments and planned activities that could affect the objectives

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and risks of the organization. The chief audit executive also should attend meetings with the board and key governance committees, as well as senior management and groups that report directly to senior management, such as compliance, risk management, and quality control.

In addition, the chief audit executive should discuss a methodology for communication with the board and senior management to determine the criteria defining significant issues requiring formal communication, the format and content of formal communication, and the frequency with which such communication should occur.

Meeting independently with individual senior executives and members of the board allows the chief audit executive to build relationships with them and learn about their concerns and perspectives. To better understand business objectives and processes, internal auditors should meet with key members of operational management, such as the heads of business units and employees who perform operational tasks. In certain highly regulated industries or sectors, meetings between the chief audit executive and external auditors and regulators may be appropriate.

The chief audit executive and internal auditors may initiate discussions with management and the board about strategies, objectives, and risks as well as industry news, trends, and regulatory changes. Such discussions, along with surveys, interviews, and group workshops, are useful tools for obtaining input, especially on fraud and emerging risks. Websites, newsletters, presentations, and other forms of communication can be effective methods for sharing the internal audit function's role and benefits with employees and other stakeholders.

The chief audit executive may delegate individual internal auditors to be responsible for maintaining ongoing communication with the management of key functions such as business segment leaders, global operations, information technology, finance, compliance, and human resources. (See also Standard 9.5 Coordination and Reliance.)

Communication should include opportunities for ongoing, informal interaction between internal auditors and the organization's employees. When informal interactions occur consistently, employees gain trust in internal auditors, increasing the likelihood of candid discussions that may not occur in formal meetings. As a part of relationship-building, informal interaction may enhance internal auditors' comprehensive understanding of the organization and its control environment. Rotating internal auditors into and out of assignments in specific business units or locations may balance the benefits of informal communication against the need to protect internal auditors' objectivity.

Examples of Evidence of Conformance

- Documentation of the internal audit function's plan for managing stakeholder relationships.
- Agendas or minutes from meetings among members of the internal audit function and stakeholders.
- Surveys, interviews, and group workshops through which internal auditors solicit input from internal stakeholders.
- Websites or web pages, newsletters, presentations, and other outlets through which the internal audit function communicates with stakeholders in the organization.

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Standard 11.2 Effective Communication

Requirements

The chief audit executive must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete, and timely internal audit communications.

Considerations for Implementation

Methodologies may include policies, criteria, style guides, and procedures to guide the internal audit function's communications and achieve consistency. Communication methodologies should consider the expectations of the board, senior management, and other relevant stakeholders. (See also Standards 9.3 Methodologies and 15.1 Final Engagement Communication.) The chief audit executive may provide communications training to internal auditors, such as training in writing or preparing presentations of final communications.

Methodologies, such as supervisory reviews, should enhance the degree to which engagement communications are:

- Accurate – free from errors and distortions and faithful to the underlying facts. When communicating, internal auditors should use precise terms and descriptions, supported by information gathered. Internal auditors also should consider other standards related to accuracy, including Standard 11.4 Errors and Omissions.
- Objective – impartial, unbiased, and the result of a fair and balanced assessment of all relevant facts and circumstances. Findings, conclusions, recommendations and/or action plans, and other results of internal audit services should be based on balanced assessments of relevant circumstances. Communications should focus on identifying factual information and linking the information to objectives. Internal auditors should avoid terms that may be perceived as biased. (See also Principle 2 Maintain Objectivity and its standards.)
- Clear – logical and easily understood by relevant stakeholders, avoiding unnecessary technical language. Clarity is increased when internal auditors use language that is consistent with terminology used in the organization and easily understood by the intended audience. Internal auditors should avoid unnecessary technical language and define important terms that are uncommon or used in a way that is specific or unique to the communication or presentation. Internal auditors improve the clarity of their communications by including significant details that support findings, conclusions, recommendations and/or action plans.
- Concise – succinct and free from unnecessary detail and wordiness. Internal auditors should avoid redundancies and exclude information that is unnecessary, insignificant, or unrelated to the engagement or service.
- Constructive – helpful to stakeholders and the organization and enabling improvement where needed. Internal auditors should express information with a cooperative and helpful tone that facilitates collaboration with the activity under review to determine opportunities for improvement.
- Complete – relevant, reliable, and sufficient information and evidence to support the results of internal audit services. Completeness enables the reader to reach the same conclusions as those reached by internal auditors. Internal auditors should adapt communications to meet the needs

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of various recipients and consider the information they need to take the actions for which they are responsible. For example, communications to the board and senior management may differ from those delivered to the management of an activity under review.

- Timely – appropriately timed, according to the significance of the issue, allowing management to take corrective action. Timeliness may be different for each organization and depend upon the nature of the engagement.

The chief audit executive may establish key performance measures to monitor the effectiveness of internal audit communication, which can be used as part of the function's quality assurance and improvement program. (See also Standard 8.3 Quality, and Principle 12 Enhance Quality and its standards.)

Examples of Evidence of Conformance

- Style guides, templates, and other documented methodologies for effective communication.
- Records of participation in training or meetings on effective communication skills.
- Final communications and other documents approved by the chief audit executive, as well as supporting documents that demonstrate the characteristics of effective communications.
- Presentation slides or meeting minutes that demonstrate the characteristics of effective communications.
- Records demonstrating the timeliness of communications.
- Workpapers that demonstrate the characteristics of effective communications.
- Workpapers with supervisory review notes on improving communication effectiveness.
- Results of stakeholder surveys regarding the quality of internal audit communications.
- Results of quality assurance and improvement program.

Standard 11.3 Communicating Results

Requirements

The chief audit executive must communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate. The chief audit executive must understand the expectations of the board and senior management regarding the nature and timing of communications.

The results of internal audit services can include:

- Engagement conclusions.
- Themes such as effective practices or root causes.
- Conclusions at the level of the business unit or organization.

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Engagement Conclusions
The chief audit executive must review and approve final engagement communications, which include engagement conclusions, and decide to whom and how they will be disseminated before they are issued. If these duties are delegated to other internal auditors, the chief audit executive retains overall responsibility. The chief audit executive must seek the advice of legal counsel and/or senior management as required before releasing final communications to parties outside the organization, unless otherwise required or restricted by laws and/or regulations. (See also Standards 11.4 Errors and Omissions, 11.5 Communicating the Acceptance of Risks, and 15.1 Final Engagement Communication.)

Themes
The findings and conclusions of multiple engagements, when viewed holistically, may reveal patterns or trends, such as root causes. When the chief audit executive identifies themes related to the organization's governance, risk management, and control processes, the themes must be communicated timely, along with insights, advice, and/or conclusions, to the board and senior management.

Conclusions at the Level of the Business Unit or Organization
The chief audit executive may be required to make a conclusion at the level of the business unit or organization about the effectiveness of governance, risk management, and/or control processes, due to industry requirements, laws and/or regulations, or the expectations of the board, senior management, and/or other stakeholders. Such a conclusion reflects the professional judgment of the chief audit executive based on multiple engagements and must be supported by relevant, reliable, and sufficient information.

When communicating such a conclusion to the board or senior management, the chief audit executive must include:

- A summary of the request.
- The criteria used as a basis for the conclusion, for example a governance framework or risk and control framework.
- The scope, including limitations and the period to which the conclusion pertains.
- A summary of the information that supports the conclusion.
- A disclosure of reliance on the work of other assurance providers, if any.

Considerations for Implementation

The results of internal audit services may be based on individual engagements, multiple engagements, and interactions with the board and senior management over time.

Engagement Conclusions
While Standard 13.1 Engagement Communication requires internal auditors to communicate throughout an engagement with those responsible for the activity under review, the chief audit executive is responsible for the dissemination of final engagement communications to the appropriate parties. Appropriate parties may include the board, senior management, and/or those responsible for developing and implementing management's action plans. (See also Standard 15.1 Final Engagement Communication.)

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The chief audit executive should encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications. Examples of good practices identified across engagements may be transferable to other parts of the organization or serve as a benchmark throughout the organization.

Themes

Tracking the findings and conclusions of multiple engagements may enable the identification of trends, such as the improvement or worsening of conditions compared to criteria, a root cause underlying the conditions, or an opportunity to share a practice that increases effectiveness or efficiency. Such trends also may lead to additional engagements that focus on the theme across the organization.

Communications to the board and senior management should include:

- Significant control weaknesses and robust root cause analysis.
- Thematic or systemic issues, actions, or progress across multiple engagements or business units.

Insights obtained from other assurance providers should be considered when identifying themes. (See also Standard 9.5 Coordination and Reliance.)

Conclusions at the Level of the Business Unit or Organization

When communicating conclusions at the levels of the business unit or organization overall, the chief audit executive should consider how a conclusion relates to the strategies, objectives, and risks of the organization. The chief audit executive also should consider whether the conclusion solves a problem, adds value, and/or provides management or other stakeholders with confidence regarding an overall theme or condition.

The chief audit executive also considers the time period to which the conclusion relates and any scope limitations to determine which engagements would be relevant to the overall conclusion. All related engagements or projects are considered, including those completed by other internal and external assurance providers. (See also Standard 9.5 Coordination and Reliance.)

For example, an overall conclusion may be based on aggregate engagement conclusions at the organization's local, regional, and national levels, along with results reported from outside entities such as independent third parties or regulators. The scope statement provides context for the overall conclusion by specifying the time period, activities, limitations, and other variables that describe the conclusion's boundaries.

The chief audit executive should summarize the information on which the overall conclusion is based and identify the relevant risk or control frameworks or other criteria used as a basis for the overall conclusion. The chief audit executive should articulate how the overall conclusion relates to the strategies, objectives, and risks of the organization. Overall conclusions are usually communicated in writing but also may be provided orally.

Examples of Evidence of Conformance

- Final engagement communications, including engagement findings, recommendations, and conclusions.
- The chief audit executive's outline, meeting minutes, speaking notes, slides, or documents indicating communication with the board and senior management.
- Analyses including data reports, diagrams, and graphs showing trends.
- Relevant risk or control frameworks or other criteria used as a basis for the overall conclusion.

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Standard 11.4 Errors and Omissions

Requirements

If a final engagement communication contains a significant error or omission, the chief audit executive must communicate corrected information promptly to all parties who received the original communication.

Significance is determined according to criteria agreed upon with the board.

Considerations for Implementation

The chief audit executive and the board should agree on a protocol for communicating the correction. To determine the significance, the chief audit executive should evaluate whether the mistaken or omitted information could have legal or regulatory consequences or change the findings, conclusions, recommendations, or management's action plans.

The chief audit executive determines the most appropriate method of communication so that the corrected information is received by all parties who received the original communication. In addition to communicating the corrected information, the chief audit executive should identify the cause of the error or omission and take corrective action to prevent a similar situation from occurring in the future.

Examples of Evidence of Conformance

- Internal audit methodologies for handling errors and omissions.
- Criteria agreed upon with the board and used by the chief audit executive to determine the level of significance.
- Correspondence and other records showing how the chief audit executive determined the significance and cause of the error or omission.
- The chief audit executive's calendar, board or other meeting minutes, memos, and email correspondence where an error or omission was discussed.
- The original and corrected final communication documents.
- Documentation that relevant parties received the corrected communications.

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Standard 11.5 Communicating the Acceptance of Risks

Requirements

The chief audit executive must communicate unacceptable levels of risk.

When the chief audit executive concludes that management has accepted a level of risk that exceeds the organization's risk appetite or risk tolerance, the matter must be discussed with senior management. If the chief audit executive determines that the matter has not been resolved by senior management, the matter must be escalated to the board. It is not the responsibility of the chief audit executive to resolve the risk.

Considerations for Implementation

The chief audit executive gains an understanding of the organization's risks and risk tolerance through discussions with the board and senior management, relationships and ongoing communication with stakeholders, and the results of internal audit services. (See also Standards 8.1 Board Interaction; 9.1 Understanding Governance, Risk Management, and Control Processes; and 11.1 Building Relationships and Communicating with Stakeholders.) This understanding provides the chief audit executive with perspective about the level of risk the organization considers acceptable. If the organization has a formal risk management process, the chief audit executive should understand management's policies for acceptance of risk.

The chief audit executive may discuss and seek the board's agreement on methodologies for documenting and communicating the acceptance of risks that exceed the risk appetite or risk tolerance. In addition to the requirements in the Standards, methodologies should consider the organization's risk management process, policies, and procedures. The risk management process may include a preferred approach to communicating significant risk issues. Specifications may include the timeliness of communicating, the hierarchy of reporting, and requirements for consultation with the organization's legal counsel or head of compliance. The internal audit methodology also should include procedures for documenting the discussions and actions taken, including a description of risk, the reason for concern, management's reason for not implementing internal auditors' recommendations or other actions, the name of the individual responsible for accepting the risk, and the date of discussion.

The chief audit executive may become aware that management has accepted a risk by reviewing management's response to engagement findings and monitoring management's progress to implement recommendations and action plans. Building relationships and maintaining communication with stakeholders are additional means of remaining apprised of risk management activities including management's acceptance of risk.

When risks exceed the risk appetite, impacts may include:

- Harm to the organization's reputation.
- Harm to the organization's employees or other stakeholders.
- Significant regulatory fines, limitations on business conduct, or other financial or contractual penalties.
- Material misstatements.
- Conflicts of interest, fraud, or other illegal acts.
- Significant impediments to achieving strategic objectives.

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The chief audit executive's professional judgment contributes to the determination of whether management has accepted a level of risk that exceeds the risk appetite or risk tolerance. For example, if management has made insufficient progress on action plans, the chief audit executive may conclude that management has accepted a level of risk that exceeds the risk appetite or risk tolerance. Before escalating a concern to the board and/or senior management, the chief audit executive should address the issue directly with the management responsible for the risk area to share concerns, understand management's perspective, and agree on an updated action plan.

The requirements of this standard are only implemented when the chief audit executive cannot reach agreement with the management responsible for managing the risk. If the risk identified as unacceptable remains unresolved after a discussion with senior management, the chief audit executive escalates the concern to the board. The board is responsible for deciding how to address the concern with management.

Examples of Evidence of Conformance

- Documentation of discussions and agreement with the board on methodologies for communicating risk concerns.
- Documentation of discussions about the risk and actions recommended to operational management and senior management, including minutes of meetings.
- Documentation explaining the risk concern and internal audit actions taken to address the concern, including the process of escalating the discussion from operational management to senior management.
- Documentation from meetings with the board, including private or closed sessions during which the concern was escalated to the board.

Principle 12 Enhance Quality

The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.

Quality is a combined measure of conformance with the Global Internal Audit Standards and the achievement of the internal audit function's performance objectives. Therefore, a quality assurance and improvement program is designed to evaluate and promote the internal audit function's conformance with the Standards, achievement of performance objectives, and pursuit of continuous improvement. The program includes internal and external assessments. (See also Standards 8.3 Quality and 8.4 External Quality Assessment.)

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. These measures form the basis for evaluating progress toward performance objectives including continuous improvement.

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Standard 12.1 Internal Quality Assessment

Requirements

The chief audit executive must develop and conduct internal assessments of the internal audit function's conformance with the Global Internal Audit Standards and progress toward performance objectives.

The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3 Quality, that includes:

- Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- Communication with the board and senior management about the results of internal assessments.

Based on the results of periodic self-assessments, the chief audit executive must develop action plans to address instances of nonconformance with the Standards and opportunities for improvement, including a proposed timeline for actions. The chief audit executive must communicate the results of periodic self-assessments and action plans to the board and senior management. (See also Standards 8.1 Board Interaction, 8.3 Quality, and 9.3 Methodologies.)

Internal assessments must be documented and included in the evaluation conducted by an independent third party as part of the organization's external quality assessment. (See also Standard 8.4 External Quality Assessment.)

If nonconformance with the Standards affects the overall scope or operation of the internal audit function, the chief audit executive must disclose to the board and senior management the nonconformance and its impact.

Considerations for Implementation

Ongoing Monitoring

Ongoing monitoring involves the day-to-day supervision, review, and measurement of the internal audit function. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit function and includes the processes, tools, and information necessary to evaluate conformance with the Standards.

The internal audit function's progress toward performance objectives and conformance with the Standards is monitored primarily through methodologies such as supervisory reviews of engagement planning, workpapers, and final communications. These methodologies enable the identification of weaknesses or areas in need of improvement and action plans to address them. The chief audit executive may develop templates or automated workpapers for internal auditors to use throughout engagements to promote standardization and consistency in the application of the work practices.

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Adequate engagement supervision is a fundamental element of a quality assurance and improvement program. Supervision begins with planning and continues throughout the engagement. Supervision may include setting expectations, encouraging communications among team members throughout the engagement, and reviewing and signing off on workpapers timely. (See also Standard 12.3 Oversee and Improve Engagement Performance.)

Additional mechanisms commonly used for ongoing monitoring include:

- Checklists or automated tools to provide assurance on internal auditors' compliance with established methodologies and to facilitate consistent performance of internal audit services in conformance with the Standards. These may be especially important for use in internal audit functions with limited staff resources for supervision.
- Feedback from internal audit stakeholders regarding the efficiency and effectiveness of the internal audit team. Feedback may be solicited immediately after the engagement or periodically (for example, semi-annually or annually) through survey tools or discussions between the chief audit executive and management.
- Other measurements that may be valuable in determining the efficiency and effectiveness of the internal audit function include metrics indicating the adequacy of resource allocation (such as budget-to-actual variance), the timeliness of engagement completion, the achievement of the internal audit plan, and surveys of stakeholder satisfaction.

In addition to validating conformance with the Standards, ongoing monitoring may identify opportunities to improve the internal audit function. In such cases, the chief audit executive may address these opportunities by developing an action plan.

Periodic Self-assessments

Periodic self-assessments provide a more holistic, comprehensive review of the Standards and the internal audit function. Periodic self-assessments address conformance with every standard, whereas ongoing monitoring may focus on the standards relevant to performing engagements. Periodic self-assessments may be conducted by senior members of the internal audit function, a dedicated quality assurance team, individuals within the internal audit function who have attained the Certified Internal Auditor® designation or have extensive experience with the Standards, or individuals with audit competencies from elsewhere in the organization. The chief audit executive should consider including internal auditors in the periodic self-assessment process to improve their understanding of the Standards.

Periodic self-assessments enable the internal audit function to validate its conformance with the Standards. When a periodic self-assessment is performed shortly before an external assessment, the time and effort required to complete the external assessment may be reduced.

Periodic self-assessments evaluate:

- The adequacy of the internal audit function's methodologies.
- How well the internal audit function supports the achievement of the organization's objectives.
- The quality of internal audit services performed and supervision provided.
- The degree to which stakeholder expectations are met and performance objectives are achieved.

The individual or team conducting the periodic self-assessment evaluates the internal audit function's conformance against each standard and may interview and survey the internal audit function's stakeholders. Through this process, the chief audit executive can assess the quality of and adherence to the internal audit function's methodologies.

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Examples of Evidence of Conformance

- Completed checklists that support workpaper reviews, survey results, and performance measures related to the efficiency and effectiveness of the internal audit function.
- Documentation of completed periodic assessments including the plan, workpapers, and communications.
- Presentations to the board and management and meeting minutes covering the results of internal assessments.
- Documented results of ongoing monitoring and periodic self-assessments, including corrective action plans.
- Actions taken to improve the internal audit function's efficiency, effectiveness, and conformance with the Standards.

Standard 12.2 Performance Measurement

Requirements

The chief audit executive must develop objectives to evaluate the internal audit function's performance. The chief audit executive must consider the input and expectations of the board and senior management when developing the performance objectives.

The chief audit executive must develop a performance measurement methodology to assess progress toward achieving the function's objectives and to promote the continuous improvement of the internal audit function.

When assessing the internal audit function's performance, the chief audit executive must solicit feedback from the board and senior management as appropriate.

The chief audit executive must develop an action plan to address issues and opportunities for improvement.

Considerations for Implementation

The establishment of performance objectives is critical to determining whether an internal audit function is fulfilling its mandate in conformance with the Standards and achieving improvement in accordance with the function's strategy.

Establishment of performance objectives should take into consideration the desired outcomes articulated within:

- The Principles of the Global Internal Audit Standards.
- The internal audit charter.
- The internal audit function's strategy.

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The chief audit executive may identify a set of focused performance objectives that are reported to the board and senior management while maintaining a more comprehensive set of performance objectives for managing the internal audit function. Care should be taken to identify performance objectives that advance desired outcomes and are balanced across outcome areas: stakeholder expectations, extent of business unit or organization conclusions, human resources needs, financial and operational efficiency, and learning and development.

After identifying the performance objectives, the chief audit executive should establish targets, both quantitative and qualitative, to track progress toward meeting the performance objectives. The chief audit executive should have a methodology in place to periodically validate the accuracy of the measures being reported and raise performance expectations.

The action plans to address issues and opportunities to achieve performance objectives should be tracked by the chief audit executive and communicated with the board and senior management. Examples of performance categories to consider when establishing performance objectives and measures may include:

- Coverage of engagement objectives expected to be reviewed according to the internal audit mandate.
- The extent to which the internal audit conclusions at the level of the business unit or organization address significant objectives of the organization. (See also Standard 11.3 Communicating Results.)
- The percentage of recommendations or action plans completed by management that result in desired outcomes, as monitored by the internal audit function. This measure is not exclusively a reflection of the internal audit function's performance. While internal audit functions may track the implementation of recommendations or action plans, management is responsible for completing such actions and ensuring that desired outcomes are achieved. (See also Standard 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Percentage of the organization's key risks and controls reviewed.
- Stakeholder satisfaction regarding understanding of engagement objectives, timeliness of engagement work, and clarity of engagement conclusions.
- Percentage of internal audit plan (as adjusted and approved) completed on time.
- Balance of assurance and advisory engagements in the internal audit plan relative to the internal audit strategy.
- External quality assurance reviews confirming internal audit function conformance with the Standards.
- Quality assurance reviews confirming that adequate competencies are in place to perform the scheduled internal audit engagements.
- Internal auditor learning and development plans linked to the internal audit strategy and the organization's developing risks.
- Staff holding at least one recognizable professional certification relevant to internal auditing.

Examples of Evidence of Conformance

- Performance objectives identified as most impactful to the internal audit function fulfilling the Principles of the Standards, the internal audit charter, and the internal audit function's strategy.
- Performance measures that address the tracked performance objectives and respective targets for those measures.
- Action plans for identified issues and opportunities to achieve the identified performance objectives.

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Standard 12.3 Oversee and Improve Engagement Performance

Requirements

The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies.

- The chief audit executive or an engagement supervisor must provide internal auditors with guidance throughout the engagement, verify work programs are complete, and confirm engagement workpapers adequately support findings, conclusions, and recommendations.
- To assure quality, the chief audit executive must verify whether engagements are performed in conformance with the Standards and the internal audit function's methodologies.
- To develop competencies, the chief audit executive must provide internal auditors with feedback about their performance and opportunities for improvement.

The extent of supervision required depends on the maturity of the internal audit function, the proficiency and experience of internal auditors, and the complexity of engagements.

The chief audit executive is responsible for supervising engagements, whether the engagement work is performed by the internal audit staff or by other service providers. Supervisory responsibilities may be delegated to appropriate and qualified individuals, but the chief audit executive retains ultimate responsibility.

The chief audit executive must ensure that evidence of supervision is documented and retained, according to the internal audit function's established methodologies.

Considerations for Implementation

When planning engagements, the chief audit executive or a designated engagement supervisor should review the engagement objectives. Supervision may include opportunities for staff development, such as post-engagement meetings between the internal auditors who performed the engagement and the chief audit executive.

Assessing the skills of the internal audit staff is an ongoing process extending beyond reviewing engagement workpapers. Based on the results of skill assessments, the chief audit executive may identify which internal auditors are qualified to supervise engagements and assign tasks accordingly.

During the planning phase, the engagement supervisor approves the engagement work program and may assume responsibility for other aspects of the engagement. (See also Principle 13 Plan Engagements Effectively and its standards.)

The primary criterion for approval of the work program is whether it achieves the engagement objectives efficiently. The work program includes procedures for identifying, analyzing, evaluating, and documenting engagement information. Engagement supervision also involves monitoring that the work program is completed and approving changes to the work program.

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The engagement supervisor should maintain ongoing communication with the internal auditors assigned to perform the engagement and the management of the activity under review. The engagement supervisor reviews the engagement workpapers, which describe the audit procedures performed, the information identified, and the findings and preliminary conclusions made during the engagement. The supervisor evaluates whether the information, testing, and resulting evidence are relevant, reliable, and sufficient to achieve the engagement objectives and support the engagement conclusions. In internal audit functions that do not have individual auditors for supervision and ongoing monitoring, the chief audit executive may consider the use of tools such as checklists or other automated tools to assist in overseeing conformance with the Standards in each engagement.

Standard 11.2 Effective Communication requires that engagement communications be accurate, objective, clear, concise, constructive, complete, and timely. An engagement supervisor reviews engagement communications and workpapers for these elements because workpapers provide the primary support for engagement communications.

Throughout the engagement, the engagement supervisor and/or chief audit executive meet with the internal auditors assigned to perform the engagement and discuss the engagement process, which provides opportunities to train, develop, and evaluate the internal auditors. A supervisor may ask for additional evidence or clarification when reviewing the engagement communications and workpapers. Internal auditors may be able to improve their work by answering questions posed by the engagement supervisor.

Usually, the supervisor's review notes are cleared from the final documentation once adequate evidence has been provided or workpapers have been amended with additional information that addresses the supervisor's concerns and questions. Alternatively, the internal audit function may retain a separate record of the supervisor's review notes, the steps taken to resolve them, and the results of those steps.

The chief audit executive is responsible for all internal audit engagements and significant professional judgments made throughout the engagements, regardless of whether the work was performed by the internal audit function or other assurance providers. The chief audit executive develops methodologies to minimize the risk that internal auditors will make judgments or take actions that are inconsistent with the chief audit executive's professional judgment and may adversely affect the engagement. The chief audit executive establishes a means to resolve any professional judgment differences. This may include discussing pertinent facts, pursuing additional inquiry or research, and documenting differing viewpoints in engagement workpapers as well as any conclusions. If there is a difference in professional judgment over an ethical issue, the issue may be referred to individuals in the organization who are responsible for ethical matters.

Examples of Evidence of Conformance

- Engagement workpapers with documentation of supervision.
- Completed checklists that support workpaper reviews.
- Interview and survey results that include feedback about the engagement experience from internal auditors and other individuals directly involved with the engagement.
- Documentation of communication between engagement supervisor and staff internal auditors regarding the engagement work.

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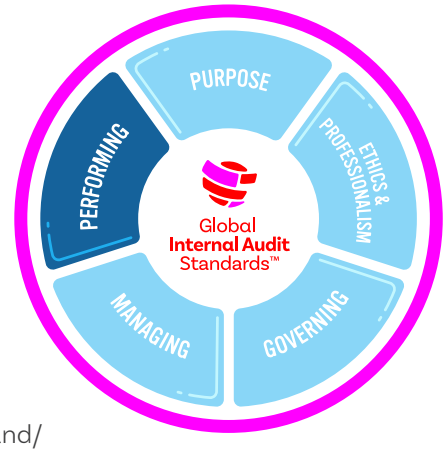
Domain V: Performing Internal Audit Services



Performing internal audit services requires internal auditors to effectively plan engagements, conduct the engagement work to develop findings and conclusions, collaborate with management to identify recommendations and/or action plans that address the findings, and communicate with management and the employees responsible for the activity under review throughout the engagement and after it closes.

Although the standards for performing engagements are presented in a sequence, the steps in performing engagements are not always distinct, linear, and sequential. In practice, the order in which steps are performed may vary by engagement and have overlapping and iterative aspects. For example, engagement planning includes gathering information and assessing risks, which may continue throughout the engagement. Each step may affect another or the engagement as a whole. Therefore, internal auditors should review and understand all standards in this domain before beginning an engagement.

Internal audit services involve providing assurance, advice, or both. Internal auditors are expected to apply and conform with the Standards when performing engagements, whether they are providing assurance or advice, except when otherwise specified in individual standards.

Assurance services are intended to provide confidence about governance, risk management, and control processes to the organization's stakeholders, especially the board, senior management, and the management of the activity under review. Through assurance services, internal auditors provide objective assessments of the differences between the existing conditions of an activity under review and a set of evaluation criteria. Internal auditors evaluate the differences to determine whether there are reportable findings and to provide a conclusion about the engagement results, including reporting when processes are effective.

Internal auditors may initiate advisory services or perform them at the request of the board, senior management, or the management of an activity. The nature and scope of advisory services may be subject to agreement with the party requesting the services. Examples of advisory services include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. When performing advisory services, internal auditors are expected to maintain objectivity by not taking on management responsibility. For example, internal auditors may perform advisory services as individual engagements, but if the chief audit executive takes on responsibilities beyond internal auditing, then appropriate safeguards must be implemented to maintain the internal audit function's independence. (See also Standard 7.1 Organizational Independence.)

Internal audit services are performed as described in the chief audit executive's established methodologies. (See also Standard 9.3 Methodologies.) The chief audit executive may delegate appropriate responsibility to other qualified professionals in the internal audit function but retains ultimate accountability.

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Principle 13 Plan Engagements Effectively

Internal auditors plan each engagement using a systematic, disciplined approach.

The Global Internal Audit Standards, along with the methodologies established by the chief audit executive, form the foundation of internal auditors' systematic, disciplined approach to planning engagements. Internal auditors are responsible for effectively communicating at all stages of the engagement.

Engagement planning starts with understanding the initial expectations for the engagement and the reason the engagement was included in the internal audit plan. When planning engagements, internal auditors gather the information that enables them to understand the organization and the activity under review and to assess the risks relevant to the activity. The engagement risk assessment allows internal auditors to identify and prioritize the risks to determine the engagement objectives and scope. Internal auditors also identify the criteria and resources needed to perform the engagement and develop an engagement work program, which describes the specific engagement steps to be performed.

Standard 13.1 Engagement Communication

Requirements

Internal auditors must communicate effectively throughout the engagement. (See also Principle 11 Communicate Effectively and its related standards and Standard 15.1 Final Engagement Communication.)

Internal auditors must communicate the objectives, scope, and timing of the engagement with management. Subsequent changes must be communicated with management timely. (See also Standard 13.3 Engagement Objectives and Scope.)

At the end of an engagement, if internal auditors and management do not agree on the engagement results, internal auditors must discuss and try to reach a mutual understanding of the issue with the management of the activity under review. If a mutual understanding cannot be reached, internal auditors must not be obligated to change any portion of the engagement results unless there is a valid reason to do so. 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. (See also Standards 9.3 Methodologies and 14.4 Recommendations and Action Plans.)

Considerations for Implementation

Engagement communications may include initial, ongoing, closing, and final communications with the management of the activity under review. The type of engagement may affect the communications needed. To ensure effective communication, a variety of methods should be used: formal, informal, written, and oral. Engagement communications may occur through scheduled meetings, presentations, emails and other

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documents, and informal discussions. Requirements for the quality and content of engagement communications should be established by the chief audit executive in alignment with the expectations of the board and senior management and documented in internal audit methodologies. (See also Standards 9.3 Methodologies and 11.2 Effective Communication.)

The extent of ongoing communication depends upon the nature and length of the engagement and may include:

- Announcing the engagement.
- Discussing the engagement risk assessment, objectives, scope, and timing.
- Requesting the information and resources necessary to perform the engagement.
- Setting expectations for additional engagement communications.
- Providing updates about the engagement progress, including governance, risk management, or control issues that require immediate attention and changes to the scope, objectives, timing, or length of the engagement.
- The engagement results, including findings, recommendations, and/or management's action plans to address the findings.
- The timing of and owner responsible for implementing recommendations and/or action plans.

Internal auditors should give advance notice of the engagement to the appropriate stakeholders, typically including management and relevant staff, to set the foundation for cooperation and open dialogue. Internal auditors should follow the policy established by the chief audit executive to determine the timing and type of notice given. The announcement should inform management about the reason for the review. It should also inform management of the proposed starting time and the approximate duration of the engagement to plan a schedule that does not conflict with other significant events occurring in the activity under review. Additionally, internal auditors should request the information and documentation needed to assess risks and begin developing the work program.

Another common initial communication is an opening or entrance meeting. When internal auditors have conducted an engagement risk assessment, they should communicate the results to the management of the activity under review. They also should communicate the initial engagement objectives and scope, preferably in a meeting. This discussion provides an opportunity for internal auditors to confirm that the management of the activity under review understands and supports the objectives, scope, and timing of the engagement. The discussion allows the parties to make any necessary adjustments to the engagement approach and establish the expectations for additional communication, including the frequency of communication and who will receive the final communication. Internal auditors should document this discussion in the engagement workpapers.

Ongoing communication throughout the engagement between internal auditors and the management of the activity under review is essential for transmitting information that requires immediate attention and updating relevant parties about engagement progress or changes to the objectives or scope. This ongoing communication provides transparency and helps internal auditors and the management of the activity identify and resolve any misunderstandings or differences.

Depending on the type of engagement, internal auditors may have a closing communication (also called an "exit conference"), which is an opportunity for internal auditors, the management of the activity under review, and relevant staff to finalize the engagement results before issuing a final communication. The closing communication provides an opportunity for management and internal auditors to discuss any differences or disagreements about the engagement results with a goal of reaching agreement.

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Discussing the feasibility of internal auditors' recommendations or management's action plans may include weighing the costs, such as the severity of the risk compared to the benefits of implementing the recommendations or action plans. (See also Standard 14.4 Recommendations and Action Plans.) Management action plans may not be fully developed before the closing communication, but management may have ideas about the actions it will take to address the findings. Even if management has not completely developed action plans, ideas can be discussed and evaluated. After the discussion, management can confirm its action plans, the expected timing of implementation, and the personnel responsible for implementing the actions.

Examples of Evidence of Conformance

- Documentation (emails, meeting minutes, notes, or memos) showing that the required communications occurred throughout the engagement.
- Documentation of feedback received (such as through surveys) from the management of the activity under review.

Standard 13.2 Engagement Risk Assessment

Requirements

Internal auditors must develop an understanding of the activity under review to assess the relevant risks. For advisory services, a formal, documented risk assessment may not be necessary, depending on the agreement with relevant stakeholders.

To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding:

- The organization's strategies, objectives, and risks relevant to the activity under review.
- The organization's risk tolerance, if established.
- The risk assessment supporting the internal audit plan.
- The governance, risk management, and control processes of the activity under review.
- Applicable frameworks, guidance, and other criteria that can be used to evaluate the effectiveness of those processes.

Internal auditors must review the gathered information to understand how processes are intended to operate.

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.

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

When internal auditors have identified the relevant risks for an activity under review in past engagements, only a review and update of the previous engagement risk assessment is required.

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Considerations for Implementation

Internal auditors should consult with the engagement supervisor while planning.

To develop an understanding of the activity under review and assess relevant risks, internal auditors should start by understanding the internal audit plan, the discussions that led to its development, and the reason the engagement was included. Engagements included in the internal audit plan may arise from the internal audit function's organizationwide risk assessment or from stakeholder requests.

When internal auditors begin an engagement, they should consider the risks applicable to the engagement and inquire whether any changes have occurred since the internal audit plan was developed. Reviewing the organizationwide risk assessment and any other risk assessments recently conducted (such as those completed by management) may help internal auditors identify risks relevant to the activity under review. Internal auditors should understand any stakeholder expectations that exist regarding the purpose, objectives, and scope of the engagement.

Internal auditors should examine the alignment between the organization and the activity under review. Internal auditors gather and consider the information about the organization's strategies and processes for governance, risk management, and control processes, as well as the organization's objectives, policies, and procedures. Internal auditors should consider how these aspects of the organization relate to the activity under review and to the engagement as they begin to develop the engagement risk assessment.

To gather information, internal auditors may:

- Review risk assessments recently conducted by the internal audit function, management, or external service providers. The objectives considered should include those related to compliance, financial reporting, operations or performance, fraud, information technology, strategy, and internal audit plans.
- Review communications of engagements previously performed by the internal audit function and other assurance and advisory service providers, such as financial, environmental, social responsibility, and governance.
- Review workpapers from previous engagements.
- Review reference materials, including authoritative guidance from The IIA and other bodies, laws, and regulations relevant to the organization's sector, industry, and jurisdiction.
- Consider the relevant risk categories of the organization, including strategic, operational, financial, and compliance.
- Consider the risk tolerance, if it has been defined.
- Use organizational charts and job descriptions to determine who is responsible for relevant information, processes, and other aspects of the activity under review.
- Inspect physical property of the activity under review.
- Examine documentation from the information owner or outside sources, including management's policies, procedures, flowcharts, and reports.
- Examine websites, databases, and systems.
- Inquire through interviews, discussions, or surveys.
- Observe a process in action.
- Meet with other assurance and advisory service providers.

Surveys, interviews, physical inspections, and process walk-throughs allow internal auditors to observe the current conditions in the activity under review.

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To perform the engagement risk assessment, internal auditors use the gathered information to understand and document the objectives of the activity under review, the risks that could affect the achievement of each objective, and the controls intended to manage each risk. (See also Standard 14.6 Engagement Documentation.)

Internal auditors may create a chart, spreadsheet, risk and control matrix, process narrative, or other tool to document the risks and the controls designed to manage these risks. Such documentation enables internal auditors to apply professional judgment, experience, and logic to consider the information gathered in the context of the activity under review and to estimate the significance of the risks in terms of a combination of impact, likelihood, and possibly other risk factors.

Determining the significance of risks requires internal auditors to apply their knowledge, experience, and critical thinking to make judgments about the organization, the activity under review, and the engagement purpose and context. As part of due professional care, internal auditors should consider input from the management of the activity under review to gain insight into the business objectives, significant risks, and controls. Establishing a mutual understanding of the risks of the activity under review increases the usefulness of the engagement risk assessment.

The risks to be addressed during the engagement should be prioritized according to significance. This is often illustrated by plotting the risks on a graph, such as a heat map, based on the likelihood of the risk occurring and its potential impact. Such documentation should be retained as part of the engagement workpapers. For the most significant risks, assessing the adequacy of the design of the controls helps internal auditors determine which controls to continue testing for operating effectiveness.

When used, a risk and control matrix is typically developed throughout the engagement. As the engagement progresses through the testing phase, the matrix may be used to document the risk event, control and its type (that is, preventive, detective, directive, or corrective), cause, effect (consequence), and assessment of residual risk.

Examples of Evidence of Conformance

Workpapers documenting:

- Relevant organizational strategies, objectives, and risks of the organization.
- Objectives of the activity being reviewed.
- Governance, risk management, and control processes of the activity under review.
- Organizational charts and job descriptions.
- Notes and/or photographs from direct observation or inspection.
- Policies and procedures for the activity.
- Relevant laws and/or regulations and documented compliance assessments.
- Relevant information gathered from websites, databases, and systems.
- Notes from interviews, discussions, or surveys.
- Relevant information from previously completed risk assessments and engagements and the work of other assurance providers.
- Each risk's significance and the adequacy of the control design.

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Standard 13.3 Engagement Objectives and Scope

Requirements

Internal auditors must establish and document the objectives and scope for each engagement.

The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations.

The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.

Internal auditors must consider whether the engagement is intended to provide assurance or advisory services because stakeholder expectations and the requirements of the Standards differ depending on the type of engagement.

Scope limitations must be discussed with management when identified, with a goal of achieving resolution. Scope limitations are assurance engagement conditions, such as resource constraints or restrictions on access to personnel, facilities, data, and information, that prevent internal auditors from performing the work as expected in the audit work program. (See also Standard 13.5 Engagement Resources.)

If a resolution cannot be achieved with management, the chief audit executive must elevate the scope limitation issue to the board according to an established methodology.

Internal auditors must have the flexibility to make changes to the engagement objectives and scope when audit work identifies the need to do so as the engagement progresses.

The chief audit executive must approve the engagement objectives and scope and any changes that occur during the engagement.

Considerations for Implementation

The objectives and scope for assurance engagements are determined primarily by the internal auditors, whereas the objectives and scope for advisory engagements are typically jointly established by the internal auditors and the management of the activity under review.

Internal auditors should align the engagement objectives with the business objectives of the activity under review, as well as with those of the organization. Properly defining engagement objectives and scope before the engagement starts enables internal auditors to:

- Focus efforts on the risks relevant to the activity under review based on the results of the engagement risk assessment. (See also Standard 13.2 Engagement Risk Assessment.)
- Develop the engagement work program.
- Avoid duplicating efforts or performing work that does not add value.

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- Determine the engagement timeline.
- Allocate appropriate and sufficient resources to complete the engagement. (See also Standard 13.5 Engagement Resources.)
- Communicate clearly with management and the board.

Assurance engagements focus on providing assurance that the controls in place are adequately designed and operating to manage the risks that could prevent the activity under review from achieving its business objectives. The objectives of these engagements direct the priorities for testing the controls of processes and systems during the engagement. These include controls designed to manage risks related to:

- Assignment of authority and responsibility.
- Compliance with policies, plans, procedures, laws, and regulations.
- Reporting accurate, reliable information.
- Effectively and efficiently using resources.
- Safeguarding assets.

Once the engagement objectives have been established, internal auditors should use professional judgment and consult with the engagement supervisor as necessary to determine the scope of engagement work. The scope should be broad enough to achieve the engagement objectives. When determining the scope, internal auditors should consider each engagement objective independently to ensure that it can be accomplished within the scope.

Internal auditors should consider whether requests from the engagement stakeholders for items to be included in or excluded from the scope, or restrictions on the length of the engagement, constitute a scope limitation.

Examples of Evidence of Conformance

- Engagement planning memorandum.
- Engagement workpapers documenting:
  - Alignment of objectives and the engagement risk assessment.
  - Scope that achieves the engagement objectives.
  - Approved engagement work program containing the engagement objectives and scope.
  - Minutes from meetings with stakeholders about the engagement objectives and scope.
  - Scope limitations and requests from engagement stakeholders for items to be included or excluded.
  - Final engagement communication.

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Standard 13.4 Evaluation Criteria

Requirements

Internal auditors must identify the most relevant criteria to be used to evaluate the aspects of the activity under review defined in the engagement objectives and scope. For advisory services, the identification of evaluation criteria may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must assess the extent to which the board and senior management have established adequate criteria to determine whether the activity under review has accomplished its objectives and goals. If such criteria are adequate, internal auditors must use them for the evaluation. If the criteria are inadequate, internal auditors must identify appropriate criteria through discussion with the board and/or senior management.

Considerations for Implementation

As part of gathering information and planning the engagement, internal auditors identify the criteria used by the organization to evaluate the effectiveness and efficiency of the governance, risk management, and control processes of the activity under review. Internal auditors should focus on the evaluation criteria most relevant to the engagement. Such criteria should represent the desired state of the activity and be specific and practical. Internal auditors compare the criteria against the existing state (condition). For example, if an engagement objective is to assess the effectiveness of the control processes in the activity under review, the criteria could be the expected results or outcomes of the activity's control processes, while the condition is revealed by the actual outcomes.

Adequate criteria are essential for identifying a difference between the desired state and the condition, which represents potential findings. Additionally, adequate criteria are necessary for determining the significance of the findings and reaching meaningful conclusions. Internal auditors use professional judgment to determine whether the organization's criteria are adequate. Adequate criteria are relevant, aligned with the objectives of the organization and the activity under review, and produce reliable comparisons. Examples of adequate criteria include:

- Internal (policies, procedures, key performance indicators, or targets for the activity).
- External (laws, regulations, and contractual obligations).
- Authoritative practices (frameworks, standards, guidance, and benchmarks specific to an industry, activity, or profession).
- Established organizational practices.
- Expectations based on the design of a control.
- Procedures that may not be formally documented.

When evaluating the adequacy of the criteria, internal auditors should determine whether the organization has established basic principles to define appropriate governance, risk management, and control processes. Internal auditors should consider whether the organization has developed and clearly articulated its risk tolerance, including materiality thresholds for various business units, functions, or processes. Internal auditors should ascertain whether the organization has adopted or clearly articulated a satisfactory level of control.

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For example, satisfactory could mean that a certain percentage of transactions within one control objective are conducted in accordance with established control procedures or that a certain percentage of controls overall are working as intended.

Additionally, internal auditors should research recommended practices and compare management's criteria to those used by other organizations. Determining the criteria that are best for achieving the engagement objectives requires internal auditors to apply professional judgment. Internal auditors may determine that the documented policies, procedures, and/or other criteria lack detail or are otherwise inadequate. Internal auditors may assist management in determining adequate criteria or may seek input from experts to help identify or develop relevant criteria. Management's criteria may appear adequate generally, but internal auditors may suggest better criteria for the engagement.

When the criteria used by the activity under review are inadequate or nonexistent, internal auditors may recommend that management implement the criteria identified by the internal auditors. The discussion about the lack of adequate criteria may lead to a decision to provide advisory services.

Internal auditors should inform the management of the activity under review of the criteria to be used during the engagement. The agreed-upon criteria should be documented to preclude misinterpretation or challenge by the management of the activity under review.

Examples of Evidence of Conformance

- Workpapers documenting the sources of criteria considered and the process used to determine the adequacy of the criteria used.
- Documentation, such as meeting minutes, a planning memorandum, or an email, indicating internal auditors' discussion of criteria with the management of the activity under review and/or the board.

Standard 13.5 Engagement Resources

Requirements

When planning an engagement, internal auditors must identify the types and quantity of resources necessary to achieve the engagement objectives.

Internal auditors must consider:

- The nature and complexity of the engagement.
- The time frame within which the engagement is to be completed.
- Whether the available financial, human, and technological resources are appropriate and sufficient to achieve the engagement objectives.

If the available resources are inappropriate or insufficient, internal auditors must discuss the concerns with the chief audit executive to obtain the resources.

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Considerations for Implementation

Identifying and assigning resources when planning an engagement is typically handled by an internal auditor designated to lead and supervise the engagement. To determine the type and quantity of resources needed for an engagement, the engagement supervisor should understand the information gathered and developed throughout engagement planning, paying special attention to the nature and complexity of work to be performed. The supervisor applies professional judgment to assign resources based on the steps identified in the work program to achieve the engagement objectives and the time that each step is expected to take. (See Standard 13.6 Work Program.) It is also important to consider constraints that may affect the engagement's performance, such as the number of hours budgeted, timing, logistics, and communications in multiple languages.

When planning engagements, internal auditors should consider the most efficient and effective application of available financial, human, and technological resources. The engagement supervisor may have access to the chief audit executive's information about the specialized competencies held by members of the internal audit function, which can help inform how to assign staff. Planning the engagement requires determining whether the available resources are appropriate and sufficient or additional resources are necessary to complete the engagement.

When resource limitations interfere with the internal audit function's ability to achieve the engagement objectives, the engagement supervisor is responsible for escalating the concern to the chief audit executive. The chief audit executive is responsible for discussing with senior management and the board the implications of resource limitations and determining the course of action to take. For example, when the chief audit executive is unable to obtain the necessary resources, the engagement scope may need to be reduced. (See also Principle 10 Manage Resources and its standards.)

To improve the effective implementation of resources, internal auditors may document the actual time spent performing the engagement against the budgeted time. The documentation can be reviewed to improve future resource planning.

Examples of Evidence of Conformance

- Approved engagement work program showing utilization of appropriate and sufficient resources.
- Planning documentation analyzing the engagement's resourcing needs and assignment of resources.
- Post-engagement survey of the management of the activity under review inquiring about timeliness and resource adequacy.
- Contracts and/or relationships with external service providers.

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Standard 13.6 Work Program

Requirements

Internal auditors must develop and document an engagement work program to achieve the engagement objectives.

The engagement work program must be based on the information obtained during engagement planning, including, when applicable, the results of the engagement risk assessment.

The engagement work program must identify:

- Criteria to be used to evaluate each objective.
- Tasks to achieve the engagement objectives.
- Methodologies, including the analytical procedures to be used, and tools to perform the tasks.
- Internal auditors assigned to perform each task.

The chief audit executive must review and approve the engagement work program before it is implemented and promptly when any subsequent changes are made.

Considerations for Implementation

When planning an engagement, internal auditors collect and organize information to create a work program. The engagement work program builds on the information gathered and developed during engagement planning and details the tasks and methodologies that will be used to achieve the engagement objectives and analyze and evaluate information as internal auditors develop engagement findings, recommendations, and conclusions. For advisory services, the work program should be developed in collaboration with the stakeholders who requested the service.

Work performed during the planning phase should be documented in workpapers and referenced in the work program. (See also Standard 14.6 Engagement Documentation.) Work programs should include a place to add the name of the internal auditor who completed the work, the date the work was completed, and an indication of review and approval of the various tasks completed as the work is completed.

Internal auditors may develop the work program by linking the risks and controls identified during the engagement risk assessment with a testing approach to be implemented. As analyses and evaluations are conducted, internal auditors may link the risks and controls to the findings and conclusions.

The level of analysis and detail applied during the planning phase varies by internal audit function and engagement. When sampling is used, the work program should include the sampling methodology, population, sample size, and whether the results can be projected to the population.

Evaluating the adequacy of the control design may be completed as part of engagement planning, because it helps internal auditors clearly identify key controls to be further tested for effectiveness. The evaluation of the adequacy of the control design should be documented in either the work program or a separate workpaper. (See also Standard 14.6 Engagement Documentation.) However, the most appropriate time to

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perform this evaluation depends on the nature of the engagement. If it is not completed during planning, the control design evaluation may occur as a specific stage of engagement performance, or internal auditors may evaluate the control design while performing tests of the effectiveness of the controls.

Examples of Evidence of Conformance

Workpapers supporting the development of the work program, such as:

- Risk and control matrix with testing approach.
- Maps or descriptions of control processes.
- Notes on evaluation of the adequacy of the control design.
- Plan for additional testing.
- Minutes, notes, or documentation from planning meetings during which tasks and procedures were determined.
- Complete engagement work program with documented approval.
- Documented approval of changes to the work program.

Principle 14 Conduct Engagement Work

Internal auditors implement the engagement work program to achieve the engagement objectives.

To implement the engagement work program, internal auditors gather information and perform analyses and evaluations to produce evidence. These steps enable internal auditors to:

- Provide assurance and identify potential findings.
- Determine the causes, effects, and significance of the findings.
- Develop recommendations and/or collaborate with management to develop action plans.
- Develop conclusions.

Standard 14.1 Gathering Information for Analyses and Evaluation

Requirements

To perform analyses and evaluations, internal auditors must gather information that is:

- Relevant – consistent with engagement objectives, within the scope of the engagement, and contributes to the development of engagement results.
- Reliable – factual and current. Internal auditors use professional skepticism to evaluate whether information is reliable. Reliability is strengthened when the information is:
  - Obtained directly by an internal auditor or from an independent source.
  - Corroborated.
  - Gathered from a system with effective governance, risk management, and control processes.

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- Sufficient – when it enables internal auditors to perform analyses and complete evaluations and can enable a prudent, informed, and competent person to repeat the engagement work program and reach the same conclusions as the internal auditor.

Internal auditors must evaluate whether the information is relevant and reliable and whether it is sufficient such that analyses provide a reasonable basis upon which to formulate potential engagement findings and conclusions. (See also Standard 14.2 Analyses and Potential Engagement Findings.)

Internal auditors must determine whether to gather additional information for analyses and evaluation when evidence is not relevant, reliable, or sufficient to support engagement findings. If relevant evidence cannot be obtained, internal auditors must determine whether to identify that as a finding.

Considerations for Implementation

When gathering information to complete each step in the engagement work program, internal auditors focus on the information that is relevant to the engagement objectives and within the engagement scope. In applying professional skepticism, internal auditors should critically assess whether the information is factual, current, and obtained directly (such as by observation) or from a source independent of those responsible for an activity under review. Corroborating the information by comparing it against more than a single source is another way to increase reliability.

Procedures to gather information for analyses may include:

- Interviewing or surveying individuals involved in the activity.
- Directly observing a process, also known as performing a walk-through.
- Obtaining confirmation or verification of information from an individual who is independent of the activity under review.
- Inspecting or examining physical evidence such as documentation, inventory, or equipment.
- Directly accessing organizational systems to observe or extract data.
- Working with system users and administrators to obtain data.

When gathering information, internal auditors should consider whether to test a complete data population or a representative sample. Using data analysis software facilitates the ability to test complete or targeted data populations. If internal auditors choose to select a sample, they should apply methods to ensure that the sample is as representative of the entire population as possible.

Examples of Evidence of Conformance

- Engagement work program, which includes procedures for gathering data relevant to the engagement objectives.
- Description of information gathered, including its source, the date it was gathered, and the period to which it pertains.
- Documented explanation of how the internal auditor determined that the information gathered was sufficient to perform an analysis.

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Standard 14.2 Analyses and Potential Engagement Findings

Requirements

Internal auditors must analyze relevant, reliable, and sufficient information to develop potential engagement findings. For advisory services, gathering evidence to develop findings may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must analyze information to determine whether there is a difference between the evaluation criteria and the existing state of the activity under review, known as the "condition." (See also Standard 13.4 Evaluation Criteria.)

Internal auditors must determine the condition by using information and evidence gathered during the engagement.

A difference between the criteria and the condition indicates a potential engagement finding that must be noted and further evaluated. If initial analyses do not provide sufficient evidence to support a potential engagement finding, internal auditors must exercise due professional care to determine whether additional analyses are required.

If additional analyses are required, the work program must be adjusted accordingly and approved by the chief audit executive.

If internal auditors determine that no additional analyses are required and there is no difference between the criteria and the condition, the internal auditors must provide assurance in the engagement conclusion regarding the effectiveness of the activity's governance, risk management, and control processes.

Considerations for Implementation

The engagement work program may include a list of specific analyses to be conducted, such as:

- Tests of the accuracy or effectiveness of a process or activity.
- Ratio, trend, and regression analyses.
- Comparisons between current period information and budgets, forecasts, or similar information from prior periods.
- Analyses of relationships among sets of information (for example, financial information, such as recorded payroll expenses, and nonfinancial information, such as changes in the average number of employees).
- Internal benchmarking, comparing information between different areas within the organization.
- External benchmarking, comparing information from similar organizations.

Internal auditors should understand and use technologies that improve the efficiency and effectiveness of analyses, such as software applications that enable testing of an entire population rather than just a sample.

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The analyses should yield a meaningful comparison between the evaluation criteria and the condition. When the analyses indicate a difference between the criteria and the condition, subsequent engagement procedures should be applied to determine the cause and effect of the difference and significance of the potential findings. Common examples of potential engagement findings include errors, irregularities, illegal acts, and opportunities for improving efficiency or effectiveness.

Internal auditors exercise due professional care to determine the extent and type of additional procedures that should be used to evaluate the potential findings and determine their cause, effect, and significance. The chief audit executive and the internal audit methodologies may provide guidance for determining whether to perform additional analyses. Considerations include the:

- Results of the engagement risk assessment, including the adequacy of control processes.
- Significance of the activity under review and the potential findings.
- Extent to which the analyses support potential engagement findings.
- Availability and reliability of information for further evaluation.
- Costs compared to the benefits of performing additional analyses.

Examples of Evidence of Conformance

- Workpapers that document the analyses performed, including data analytics programs or software used, test populations, sampling processes, and sampling methods.
- Workpapers cross-referenced in the work program and/or final communication.
- Documentation related to the final communication.
- Supervisory reviews of the engagement.

Standard 14.3 Evaluation of Findings

Requirements

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.

To determine the significance of the risk, internal auditors must consider the likelihood of the risk occurring and the impact the risk may have on the organization's governance, risk management, or control processes.

If internal auditors determine that the organization is exposed to a significant risk, it must be documented and communicated as a finding.

Internal auditors must determine whether to report other risks as findings, based on the circumstances and established methodologies.

Internal auditors must prioritize each engagement finding based on its significance, using methodologies established by the chief audit executive.

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Considerations for Implementation

To develop engagement findings, internal auditors compare the established criteria to the existing condition in the activity under review. (See also Standard 14.2 Analyses and Potential Engagement Findings.) If there is a difference between the two, internal auditors are required to investigate the potential finding further. The evaluation should explore:

- The root cause of the difference, which often relates to a control deficiency and is a direct reason the condition exists. To the extent feasible, internal auditors should determine the root cause, which is an underlying or deeper issue that contributed to the condition. At its simplest, determining the root cause involves asking a series of questions about why the difference exists. Identifying the root cause involves collaboration with management, who may be in a better position to understand the underlying causes for the difference.
- How the impact of the difference may be quantified. In many cases, the extent of the exposure is an estimate informed by internal auditors' professional judgment with input from the management of the activity under review. (See also Principle 4 Exercise Due Professional Care and its standards.)

To determine the significance of a finding, internal auditors identify and evaluate existing controls for design adequacy and effectiveness, then determine the level of residual risk, which is the risk that remains despite having controls in place. Although internal auditors are required to communicate significant risks as findings, internal auditors may also communicate other risks as findings or in some other way.

Internal auditors prioritize findings based on the methodology established by the chief audit executive to provide consistency across all internal audit engagements. A rating or ranking can be an effective communication tool for describing the significance of each finding and may assist management with prioritizing its action plans. When determining the significance, internal auditors should consider:

- The impact and likelihood of the risk.
- The risk tolerance.
- Any additional factors important to the organization.

The chief audit executive may provide templates for internal auditors to use to document engagement findings, ensuring proper documentation of various elements such as the:

- Criteria.
- Condition.
- Root cause (when possible).
- Effect (risk or potential exposure).
- Significance and prioritization.

Findings should be written succinctly, in plain language, such that the management of the activity under review understands the internal auditors' evaluation. Findings should explain the difference between the conditions and the criteria and should provide documented evidence that supports the internal auditors' evaluation and judgment about the findings' significance.

Examples of Evidence of Conformance

- Workpapers explaining the criteria used to evaluate the findings.
- Workpaper that lists the criteria, condition, root cause (when possible), effect (risk or potential exposure), and a prioritization of each finding.

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- Workpaper or other documentation explaining the materiality, risk tolerance, and elements of any cost-benefit analysis used as the basis of the finding(s) analysis.
- Relevant internal audit methodologies, templates, and guidance.
- Documentation related to the final engagement communication.

Standard 14.4 Recommendations and Action Plans

Requirements

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.
- Enhance or improve the activity under review.

When developing recommendations, internal auditors must discuss the recommendations with the management of the activity under review.

If internal auditors and management disagree about the engagement recommendations and/or action plans, internal auditors must follow an established methodology to allow both parties to express their positions and rationale and to determine a resolution. (See also Standard 9.3 Methodologies.)

Considerations for Implementation

Internal auditors should promptly discuss the findings and potential recommendations or action plans with the management authorized to make and oversee changes to the activity under review. The chief audit executive may create a methodology to help internal auditors identify the appropriate management. For example, the methodology may require that only a given role or level (such as a manager, director, or vice president) has such authority.

If a specific corrective action is identified that addresses a finding, internal auditors may communicate it as a recommendation. Alternatively, internal auditors may present several options for management to consider. In some cases, internal auditors may suggest that management research options and determine the appropriate course of action. A single finding may have multiple recommendations or corrective actions.

If the internal auditor and the management of the activity under review disagree about the engagement results, the chief audit executive should work with senior management to facilitate a resolution. Additionally, a formal statement from each party may be attached to the final communication or made available upon request.

Internal auditors should evaluate and discuss with management the feasibility and reasonableness of the recommendations and/or action plans. The evaluation should include a cost-benefit analysis and determination of whether the recommendations and/or action plans address the risk satisfactorily in accordance with the organization's risk tolerance.

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Although internal auditors must collaborate with management on how to address the engagement findings, it is management's responsibility to implement actions to address the findings. (See also Standard 15.1 Final Engagement Communication.)

Examples of Evidence of Conformance

- Workpapers for each finding, with the criteria, condition, root cause (when possible), effect (risk or potential exposure), and recommendation(s) and/or action plans included.
- Notes, workpapers, or other documentation evidencing discussions with management regarding the findings and feasibility of recommendations and/or action plans.
- Documentation related to the final communication.

Standard 14.5 Engagement Conclusions

Requirements

Internal auditors must develop an engagement conclusion that summarizes the engagement results relative to the engagement objectives and management's objectives. The engagement conclusion must summarize the internal auditors' professional judgment about the overall significance of the aggregated engagement findings.

Assurance engagement conclusions must include the internal auditors' judgment regarding the effectiveness of the governance, risk management, and/or control processes of the activity under review, including an acknowledgment of when processes are effective.

Considerations for Implementation

The chief audit executive's methodologies for the internal audit function may provide a rating scale indicating whether reasonable assurance exists regarding the effectiveness of controls. For example, a scale may indicate satisfactory, partially satisfactory, needs improvement, or unsatisfactory depending on the internal auditors' assessments. (See also Standard 14.3 Evaluation of Findings.)

The conclusion may add context regarding the impacts of the findings within the activity under review and the organization. For example, some findings may have a significant impact on achieving goals or managing risks at an activity level, but not at an organizational level.

Advisory engagement conclusions should align with the objectives and scope.

Examples of Evidence of Conformance

- A workpaper showing the basis for the overall engagement conclusion.
- A conclusion statement in the final communication.

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Standard 14.6 Engagement Documentation

Requirements

Internal auditors must document information and evidence to support the engagement results. The analyses, evaluations, and supporting information relevant to an engagement must be documented such that an informed, prudent internal auditor, or similarly informed and competent person, could repeat the work and derive the same engagement results.

Internal auditors and the engagement supervisor must review the engagement documentation for accuracy, relevance, and completeness. The chief audit executive must review and approve the engagement documentation. Internal auditors must retain engagement documentation according to relevant laws and/or regulations as well as policies and procedures of the internal audit function and the organization.

Considerations for Implementation

Documentation of the internal audit engagement through workpapers is an important part of a systematic and disciplined engagement process because it organizes engagement information in a way that enables reperformance of the work and supports engagement results. Documentation provides the basis for supervising individual internal auditors and allows the chief audit executive and others to evaluate the quality of the internal audit function's work. Documentation also serves to demonstrate the internal audit function's conformance with the Standards.

Engagement documentation should include:

- Date or period of the engagement.
- Engagement risk assessment.
- Engagement objectives and scope.
- Work program.
- Description of analyses, including details of procedures and source(s) of data.
- Engagement results.
- Names or initials of the individuals who performed and supervised the work.
- Evidence of communication to appropriate parties.

Workpapers may be organized according to the structure developed in the work program and cross-referenced to relevant pieces of information. Templates or software may be used for developing workpapers and creating a system for retaining the documentation. The result is a complete collection of documentation of the information obtained, procedures completed, engagement results, and the logical basis for each step. This documentation constitutes the primary source of support for internal auditors' communication with stakeholders, including the board, senior management, and the management of the activity under review. Most importantly, workpapers contain relevant, reliable, and sufficient information that enables a prudent, informed, and competent person, such as another internal auditor or an external auditor, to reach the same conclusions as those reached by the internal auditors who conducted the engagement.

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Common workpapers include:

- Planning documentation.
- Process map, flowchart, or narrative descriptions of key processes.
- Summaries of interviews conducted, or surveys issued.
- Risk and control matrix.
- Details of tests conducted and analyses performed.
- Conclusions, including cross-referencing to the workpaper on audit findings.
- Proposed follow-up engagement work to be performed.
- Internal audit final communication with management responses.

A basic format for workpapers:

- Index or reference number.
- Title or heading that identifies the activity under review.
- Date or period of the engagement.
- Scope of work performed.
- Statement of purpose for obtaining and analyzing the data.
- Source(s) of data covered in the workpaper.
- Description of population evaluated, including sample size and method of selection used to analyze data (testing approach).
- Name of the internal auditor(s) who performed the engagement work.
- Review notes and name of the internal auditor(s) who reviewed the work.

Examples of Evidence of Conformance

- Workpapers documenting the work performed in accordance with the established methodology.
- Results of internal quality assessment reviews validating conformance with workpaper and supervision policies.

Principle 15 Communicate Engagement Results and Monitor Action Plans

Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans.

Internal auditors are responsible for issuing a final communication after completing the engagement and communicating the engagement results to management. Internal auditors continue to communicate with the management of the activity under review to confirm that action plans are implemented.

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Standard 15.1 Final Engagement Communication

Requirements

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.

The final communication must be accurate, objective, clear, concise, constructive, complete, and timely, as described in Standard 11.2 Effective Communication.

Internal auditors must ensure the final communication is reviewed and approved by the chief audit executive before it is issued.

The chief audit executive must disseminate the final communication to parties who can ensure that the results are given due consideration. (See also Standard 11.3 Communicating Results.)

If the engagement is not conducted in conformance with the Standards, the final engagement communication must disclose the following details about the nonconformance:

- Standard(s) with which conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement findings and conclusions.

Considerations for Implementation

A statement that the engagement is conducted in conformance with the Global Internal Audit Standards should be included in the final engagement communication. Indicating that the internal audit engagement conformed with the Standards is appropriate only if supported by the results of engagement supervision and the quality assurance and improvement program.

The style and format of final engagement communication varies across organizations. The chief audit executive may provide templates and procedures.

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Multiple versions of a final communication may be issued, with formats, content, and level of detail customized to address specific audiences, based upon how much they know about the activity under review, how the findings and conclusions affect them, and how they plan to use the information.

When issued as a report, the final communication may include the following components, in addition to the requirements:

- Title.
- Background (brief synopsis of the activity under review).
- Recognition (positive aspects of activity under review and/or appreciation of cooperation).
- Distribution list.

The review of the final communication should verify whether:

- The work performed and documented was consistent with the engagement objectives and scope and the Standards. (See also Standards 8.3 Quality and 12.1 Internal Quality Assessment.)
- The engagement results are clearly stated and supported by relevant, reliable, and sufficient information. (See also Standard 14.1 Gathering Information for Analyses and Evaluation.)
- The requirements for communicating with the management of the activity under review were met.

The chief audit executive determines how and to whom the final engagement communication is disseminated. Oral presentations are usually supported with a digital or printed copy of the presentation and/or a written report.

Examples of Evidence of Conformance

- Written final communications.
- Slides and/or meeting notes of presentations when final communication is oral.
- Documentation indicating that the final communication was reviewed and approved.
- Documentation that requirements for communicating with the activity under review were met.

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

Requirements

Internal auditors must confirm that management has implemented internal auditors' recommendations or management's action plans following an established methodology, which includes:

- Inquiring about progress on the implementation.
- Performing follow-up assessments using a risk-based approach.
- Updating the status of management's actions in a tracking system.

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The extent of these procedures must consider the significance of the finding.

If management has not progressed in implementing the actions according to the established completion dates, internal auditors must obtain and document an explanation from management and discuss the issue with the chief audit executive. The chief audit executive is responsible for determining whether senior management, by delay or inaction, has accepted a risk that exceeds the risk tolerance. (See also Standard 11.5 Communicating the Acceptance of Risks.)

Considerations for Implementation

Internal auditors may use a software program, spreadsheet, or system to track whether management's action plans are implemented according to the established timelines. The tracking system indicates whether action plans remain open or are past due and provides a useful tool for internal auditors to communicate with the board and senior management. In addition, a program or system may automate the workflow from risk assessment to action plan completion. For example, the workflow may include automated emails that notify the appropriate parties regarding action plans that are nearing their target completion dates.

The methodology for confirming the implementation of management's action plans should include criteria for determining when to perform follow-up assessments to confirm that management's action plans have effectively addressed findings. Follow-up assessments may be performed for completed action plans selectively, depending on the risk's significance. Under certain circumstances, regulators may require reporting on management's action plans.

If management decides on an alternative action plan and internal auditors agree that the alternative plan is satisfactory or better than the original action plan, then progress on the alternative plan should be tracked until completion.

Examples of Evidence of Conformance

- A routinely updated tracking system (for example, a spreadsheet, database, or other tool) that contains the finding, associated corrective action plan, status, and internal audit's confirmation.
- Corrective action status reports prepared for the board and senior management.

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Applying the Global Internal Audit Standards in the Public Sector

While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organizational, and funding structures that may differ from those of the private sector. The nature of these structures and related conditions may be affected by the jurisdiction and level of government in which the internal audit function operates. Additionally, some terminology used in the public sector differs from that of the private sector. These differences may affect how internal audit functions in the public sector apply the Standards. For this reason, the external quality assessment of an internal audit function in the public sector should be performed by an assessment team knowledgeable about public sector activities and governance structures. (See also Standard 8.4 External Quality Assessment.)

The public sector is founded upon and governed under a legal framework that includes laws, regulations, administrative orders and rules, and other types of governing requirements specific to the jurisdiction(s) within which an organization operates. Throughout the Global Internal Audit Standards, the term "laws and/or regulations" is used to represent the legal framework. Laws and/or regulations may establish the mandate, organizational position, reporting relationship, scope of work, funding, and other requirements of the internal audit function.

Through such mandates, internal audit functions in the public sector are often required to focus on:

- Ensuring compliance with laws and/or regulations.
- Identifying opportunities to improve the efficiency, effectiveness, and economy of government processes and programs.
- Determining whether public resources are adequately safeguarded and used appropriately to provide services in an equitable manner.
- Assessing whether an organization's performance aligns with its strategic objectives and goals.

The following sections describe situations in which the application of the Standards may differ for internal auditors in the public sector.

Laws and/or Regulations

The chief audit executive must be aware of the laws and/or regulations that affect the internal audit function's ability to fully conform with all provisions in the Standards. A charter or other documentation may be used to explain how the internal audit function is meeting the requirements of the laws and/or regulations as well as the intent of the Standards. When conformance is not possible, the chief audit executive must document the reason, make appropriate disclosures, and conform with all other requirements of the Standards. (See also Standards 4.1 Conformance with Global Internal Audit Standards, 6.1 Internal Audit Mandate, 6.2 Internal Audit Charter, 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.)

The following list describes situations in which laws and/or regulations may affect the ability of internal audit functions in the public sector to conform with the Standards:

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- When laws and/or regulations serve as the internal audit mandate and charter, the chief audit executive may not have the authority or ability to make amendments. Thus, the requirement in Standard 6.1 Internal Audit Mandate to periodically review the mandate for updates may not be warranted. However, the chief audit executive could periodically conduct and document a focused review of the mandate and charter to determine that the established path to legal and/or regulatory compliance is accurately defined.
- Public disclosure laws and/or regulations may govern the types of documents that are required to be released to the public and those that cannot be released to the public. The methodologies of internal audit functions in the public sector should include these requirements. (See also Standards 5.1 Use of Information and 5.2 Protection of Information.)
- Laws and/or regulations may limit the type of private discussions that the chief audit executive may have with the board. (See also the Glossary definition of "board" as well as Standards 6.3 Board and Senior Management Support and 7.1 Organizational Independence.)
- Laws and/or regulations may require internal audit functions in the public sector to present internal audit results at public meetings. Methodologies for the dissemination of final communications should adhere to these requirements. (See also Standards 11.2 Effective Communication and 15.1 Final Engagement Communication.)
- In the public sector the external assurance provider is often mandated. In some jurisdictions, the authority of a supreme audit institution may supersede that of the internal audit function and internal audit functions may be required to adhere to planning as stipulated and conduct joint work. In Standard 11.1 Building Relationships and Communicating with Stakeholders the internal audit function is required to coordinate with the external assurance provider, and this authority may supersede the coordination role. (See also Standards 6.1 Internal Audit Mandate and 9.5 Coordination and Reliance.)

Internal auditors in the public sector have a broad base of stakeholders, including the public within the jurisdiction as well as appointed and elected officials. The internal audit function may be legally required to be accountable and transparent to the public. To adequately serve their stakeholders, internal auditors may consider input from the public when planning and performing internal audit services. Public input may be provided by users of government services, such as utilities, public transit systems, parks and recreation facilities, building permitting processes, and others. (See also Standards 9.4 Internal Audit Plan, 11.1 Building Relationships and Communicating with Stakeholders, and 13.2 Engagement Risk Assessment.)

Governance and Organizational Structure

Internal audit functions in the public sector are governed under a variety of structures. Some public sector organizations may be subject to multiple levels of governance, both within and outside the organization, which may complicate the reporting relationships of the chief audit executive as well as the oversight and funding of the function.

The Global Internal Audit Standards reference responsibilities related to the "board" and "senior management." The glossary defines "board" using concepts that encompass various governance structures in the public sector. Because the board in the public sector may be a policy-setting body, it may not have authority over aspects of the chief audit executive and the internal audit function as described in the Standards. For example, such a body may not be able to appoint, remove, or set remuneration for the chief audit executive. In those situations, the board should still provide input to management regarding performance evaluations and decisions to appoint and remove the chief audit executive. In other public sector organizations, "senior management" may be defined differently than it is in the Standards. When the term is used to refer to the management of the activity under review, safeguards to independence must be implemented to mitigate the risk of interference with the internal audit function's work.

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The chief audit executive should avoid taking direction from elected officials without first consulting the board and senior management, who directly oversee the internal audit function, unless the officials have direct oversight responsibilities.

The examples below describe governance and organizational structures in which internal audit functions may need to adjust the application of some standards (the list is not exhaustive):

- Internal audit functions may be separate from other parts of the organization, and the chief audit executive reports directly to a legislative body that functions as a board.
- Internal audit functions may be placed at the highest level of the government organization, and the chief audit executive reports directly to the head of the organization.
- Internal audit functions may be placed within another component of the overall organization (such as a department or other unit within a government organization), and the chief audit executive reports to the head of the organization or a nonexecutive/supervisory board. This may occur when there is a tiered governance structure and where there is more than one governing body.
- Internal audit functions may be separate from other parts of the organization because the chief audit executive is elected and retained by the voters within a jurisdiction and does not report to any specific oversight body or person in the organization.
- Internal audit functions may be placed lower in the organization, and the chief audit executive reports to a single senior manager from that department.

While some of these situations do not meet the independence requirements in the Global Internal Audit Standards, establishing an audit committee comprising public members, independent of management, safeguards independence and provides ongoing oversight, advice, and feedback. (See also Standards 6.2 Internal Audit Charter and 6.3 Board and Senior Management Support, Principle 7 Positioned Independently and its standards, and Standard 8.1 Board Interaction.)

Funding

The funding processes for internal audit functions vary widely in the public sector. Some governance and organizational structures do not give the board and senior management authority over the budget. These conditions prevent the chief audit executive from being able to seek budget approval from the board and senior management and limit the ability to seek or obtain additional funding due to other funding priorities within the organization.

For example, some internal audit functions within the public sector can submit independent budget requests to their board or legislative body for approval. Others' budgets are part of a larger organizational budget, and the allocation to the internal audit function is determined by the head of the organization and often approved by an outside legislative body. In either case, the chief audit executive could advocate to the board for the resources needed.

Even when the budget is set by laws and/or regulations, the chief audit executive must adhere to other requirements of the standards related to managing the budget. (See also Standards 6.3 Board and Senior Management Support, 7.1 Organizational Independence, 8.2 Resources, and 10.1 Financial Resource Management.)

The following public sector conditions may limit the way the chief audit executive may spend allocated funds:

- The position classification structure and/or labor agreements often establish pay ranges for each position classification based on the knowledge, skills, and responsibilities of the position that limit the authority of the chief audit executive or board to establish the remuneration for each employee. In such situations, the chief audit executive should collaborate with the human resources function, as described in Standard 10.2 Human Resources Management.

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- The internal audit function may be required to use only software approved for the organization, which may limit the chief audit executive's ability to obtain technology to support the internal audit function. Internal audit functions in the public sector should engage their board as advocates for supporting their technology needs and may need to use software available to achieve the audit plan in the most efficient way possible while maintaining conformance with the Standards. (See also Standard 10.3 Technological Resources.)
- When funding limitations prevent the chief audit executive from obtaining adequate resources to conduct an external quality assessment, internal audit functions in the public sector may benefit from participating in peer programs to conduct the assessment. (See also Standards 8.4 External Quality Assessment and 10.1 Financial Resource Management.)
- When an outside authority or oversight body provides the funding for the internal audit function in the public sector, the chief audit executive may be required to provide final engagement communications to the funding authority. (See also Standards 11.1 Building Relationships and Communicating with Stakeholders, 11.2 Effective Communication, and 15.1 Final Engagement Communication.)

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