

Non-Executive Report of the: Audit Committee Wednesday, 4 th December 2024	 TOWER HAMLETS
Report of: Julie Lorraine Corporate Director, Resources	Classification: Open (Unrestricted)
New Global Internal Audit Standards	

Originating Officer(s)	David Dobbs – Head of Internal Audit, Anti-Fraud & Risk
Wards affected	(All Wards)

Executive Summary

New Global Internal Audit Standards were published in January 2024, these will become mandatory for the profession in January 2025. Further guidance will be made available from CIPFA in the format of revised Public Sector Internal Audit Standards.

The Audit Committee and Senior Management should be familiar with the new Standards and their implications. This report provides Senior Management and the Audit Committee with an overview of the standards and some materials to assist Members in gaining a better understanding of requirements.

Recommendations:

The Audit Committee is recommended to consider the report, and the related implementation guidance attached in Appendices A to C.

1. REASONS FOR THE DECISIONS

- 1.1 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Audit Committee in discharging its responsibilities. Internal Audit forms part of these arrangements and performs its duties in adherence to highest standards of professionalism and ethics.
- 1.2 This report provides a summary of the main changes and updates in the professional standards and provides Members of the Audit Committee with materials to develop their own understanding of the standards

2. ALTERNATIVE OPTIONS

2.1 None.

3. DETAILS OF THE REPORT

3.1 The Global Institute of Internal Auditors (the IIA) published the new Global Internal Audit Standards (GIAS) on 9th January 2024, following an extensive consultation during 2023. The GIAS aim to promote quality, consistency and value in Internal Audit activities, and to align with the evolving needs and expectations of stakeholders, particularly Senior Management and the Audit Committee. The Standards become effective from 9th January 2025.

3.2 One of the big positives of the new standards is that they place greater emphasis on the importance of the Audit Committee and Senior Management's role in working with, supporting and championing the Internal Audit function. The standards also emphasise the importance of appropriate governance arrangements for the Internal Audit function to be effective.

3.3 The challenge is that the Head of Internal Audit needs to meet the requirements of the standards but can only do this with the right buy in from the Audit Committee and Senior Management. This is nothing new, but more explicit emphasis in the standards is helpful to continue to promote the need for ongoing conversations about Internal Audit's role and important contribution to governance, the management of risk and better business performance.

3.4 This report provides a summary of the main changes and updates in the 2024 GIAS, compared to the previous version from 2017 and provides Members of the Audit Committee with materials to develop their own understanding of the standards.

Current Position Core Principles

3.5 The core principles are the fundamental values that describe the essence of Internal Auditing. They are derived from the definition of Internal Auditing and the mission of the profession. The 2024 GIAS have added two new core principles, bringing the total number to 12. The new core principles are:

- Internal auditors communicate effectively and timely.
- Internal auditors demonstrate agility and innovation.

3.6 The addition of these core principles reflects the importance of communication skills, adaptability, and creativity in the current and future business environment. Internal Auditors are expected to communicate with clarity, relevance, and impact, and to use various methods and channels to reach their audiences. Internal Auditors are

also expected to embrace change, learn new skills, and apply new tools and techniques to enhance their performance and value.

Code of Ethics

3.7 The Code of Ethics establishes the principles and expectations for the behaviour and conduct of Internal Auditors. It consists of four principles: integrity, objectivity, confidentiality, and competency. The new standards have revised the Code of Ethics to include more specific and relevant guidance on how to apply the principles in practice. The key changes include:

- Integrity: Internal Auditors are required to report any actual or potential conflicts of interest, and to disclose any personal or professional relationships that may impair their objectivity
- Objectivity: Internal Auditors are required to avoid any undue influence or pressure from management or other parties, and to exercise professional scepticism and judgment in their work
- Confidentiality: Internal Auditors are required to protect the information they obtain or create during their engagements, and to comply with the applicable laws and regulations on data privacy and security
- Competency: Internal Auditors are required to maintain and enhance their knowledge and skills, and to seek feedback and coaching to improve their performance.

Standards

3.8 The new standards are designed to help Internal Auditors deliver value-added services to their stakeholders, by providing assurance, insight, and advice on the organisation's performance, risk management, internal control and governance. The new standards also aim to enhance the quality, credibility, professionalism, and reputation of Internal Audit globally and serve as a consistent basis for evaluation.

3.9 The standards are the mandatory requirements that provide the framework for performing and promoting Internal Audit activities. They are organised into five domains as follows:

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

3.10 Across the domains are 15 Principles and 52 Standards, including requirements, considerations for implementation, and examples of evidence of conformance. The new International Professional Practices

Framework (IPPF) includes the standards, topical requirements and global guidance.

- 3.11 Several new or revised standards have been introduced, covering topics such as:
- **Strategy:** Heads of Internal Audit are required to develop and implement a strategy detailing the vision, strategic objectives and related initiatives for the Internal Audit function. This should align with Audit Committee, Senior Management and key stakeholder expectations.
 - **Risk Management:** Internal auditors are required to assess and respond to the risks that may affect the achievement of the audit objectives, and to provide assurance and advice on the effectiveness of the organisation's risk management processes
 - **Quality Assurance and Improvement Programme:** Internal Auditors are required to establish and maintain a quality assurance and improvement program that covers all aspects of the Internal Audit activity, and to undergo external assessments at least once every five years
 - **Engagement Planning:** Internal Auditors are required to develop and document a risk-based plan for each engagement, and to obtain the approval of the Head of Internal Audit and the engagement client before commencing the work
 - **Engagement Supervision:** Internal Auditors are required to ensure that the engagement is supervised by a competent and qualified person, and that the work performed, and the results obtained are reviewed and approved
 - **Engagement Communication:** Internal Auditors are required to communicate the engagement objectives, scope, criteria, results, and recommendations to the appropriate parties, and to obtain their acknowledgement and feedback
 - **Engagement Follow-Up:** Internal Auditors are required to monitor and verify the implementation of the agreed actions by the engagement client, and to report their status and outcomes.
- 3.12 Also new to the standards are the setting of Topical Requirements. These are intended to assist the Internal Audit function by providing structure and consistency in covering governance, risk and control over specified areas. These requirements will be published during 2024 and will be mandatory when Internal Audit scope an audit in these topical areas

Implementation Guidance

- 3.13 The implementation guidance is the supplementary material that provides guidance and examples on how to apply the standards in specific types of Internal Audit activities or engagements. The 2024 GIAS have expanded and updated the implementation guidance to reflect the emerging trends and challenges in the Internal Audit profession.
- 3.14 To assist and support implementation of the standards in local government, CIPFA has stated that it will be producing a revised edition of the Public Sector Internal Audit Standards (PSIAS), providing an overlay to support the adoption of the global standards specifically in the context of UK public sector organisations. It is anticipated that the revised PSIAS will be available in time to support adoption by 1 April 2025. A revised draft Public Sector Application Note for the new Global Internal Audit Standards has been the subject of consultation which ran until 31st October 2024.
- 3.15 Whilst there are a number of changes within the new standards, in the recent External Quality Assessment of the Council's Internal Audit team carried out by Validera (in which the Internal Audit team achieved the highest grading of 'Generally Conforms'), it was stated that 'conformity with the current standards will help ensure that the Council can move to compliance with the new PSIAS with relative ease.'
- 3.16 The next External Quality Assessment of the Internal Audit team now falls due no later than July 2029 and this will measure compliance with the new standards.
- 3.17 To assist and support the Audit Committee and Senior Management in understanding the implications and requirements of the new standards, the following materials have been appended this report:

Appendix A - Audit Committee Guidance and Toolkit
Appendix B - What Audit Committees need to know
Appendix C - Global Internal Audit Standards Domain III

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific statutory implications.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 The Accounts and Audit Regulations 2015 require authorities to ensure they have a sound system of internal control which:
- facilitates the effective exercise of its functions and the achievement of its aims and objectives;

- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 There are no specific financial implications arising from the content of this report. General comments with regards the importance of effective risk management and the consequences of failure to monitor and manage organisational risks are contained within the body of the report and the appendices.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Accounts and Audit Regulations 2015 require local authorities to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance”. The Global Internal Audit Standards incorporate the current public sector auditing standards and should therefore be adopted into the Council’s Internal Audit function.
- 7.2 The regulations also require the Council to take into account public sector internal auditing standards or guidance when undertaking its own internal audits. The GIAS and CIPFA guidance as referred to in this report are two such reference guides that the Council must take into account.
- 7.3 The management of risk and its impact is part of the Council’s Best Value duty in that the Council must ensure continuous improvement in terms of economy efficiency and effectiveness. The implementation of these auditing standards provides evidence of the Council’s continued adherence to Best Value

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

Appendix A - Audit Committee Guidance and Toolkit

Appendix B - What Audit Committees need to know

Appendix C - Global Internal Audit Standards Domain III

Local Government Act, 1972 Section 100D (As amended)
List of “Background Papers” used in the preparation of this report

- NONE

Officer contact details for documents:

David Dobbs, Head of Internal Audit, Anti-Fraud and Risk

Email: david.dobbs@towerhamlets.gov.uk