



# What Audit Committees Should Know About the New Internal Audit Standards

## Overview

New professional Standards have been released for internal audit by The Institute of Internal Auditors. These Standards specify expectations for internal auditors, and for boards and senior management. They expand the purpose of internal audit to provide assurance and advisory services with insight and foresight, considering the “public interest.” The Standards require the Chief Audit Executive (CAE) to collaborate with boards and senior management on a strategy and related performance measures. They do not specifically address co-sourcing or outsourcing of internal audit services. Implementing the new Standards may impact budgets for CAEs. We recommend that all audit committees be informed and discuss these changes with their CAE and, if applicable, their service provider.

## New Requirements

In early January 2024, The Institute of Internal Auditors (IIA) issued new Global Internal Audit Standards (“Standards”)<sup>1</sup>, effective in January 2025. The revision was the result of a multi-year global effort and includes several changes from the prior “International Professional Practices Framework” (IPPF). The new Standards are structured into five Domains: Purpose, Ethics & Professionalism, Governing the Internal Audit Function, Managing the Internal Audit Function, and Performing Internal Audit Services. The Domains layout principles of internal audit performance, associated requirements (the “Standards”) and related guidance.

<sup>1</sup>“Global Internal Audit Standards,” The Institute of Internal Auditors, published January 9, 2024.

Conformance with the new Standards should be an expectation for all practicing internal audit functions. A key objective of the revision is to provide specific requirements and guidance that enable the professional delivery of valuable internal audit services. Therefore, key internal audit stakeholders – like audit committees – should be knowledgeable about and inquiring how their internal audit functions are addressing the changes.

We summarize five of the changes below that we believe are of relevance to audit committees.

## 1. Expectations of the Audit Committee and Senior Management

The Domain entitled “Governing the Internal Audit Function” includes specific expectations directed to audit committees and senior management, termed “essential conditions”. The new essential conditions generally align with the oversight duties historically executed by audit committees and senior management and hold the Chief Audit Executive (CAE) responsible for communicating the requirements. Examples of essential conditions include discussing the authority level, role and responsibilities of internal audit with the CAE; approving the internal audit charter; championing the internal audit function; and providing input on the CAE’s performance evaluation and remuneration.

**Recommendation:** Ask your CAE to share the IIA’s essential conditions and jointly determine if gaps exist. Determine whether (or not) you choose to take on the audit committee duties suggested by the IIA as essential.

## 2. Revised Internal Audit Purpose

The IIA has crafted a new internal audit Purpose Statement, intended to better articulate the value of internal auditing. The new statement emphasizes internal audit’s role in helping create, protect, and sustain organizational value by providing independent, risk-based assurance, advice, insight, and foresight. Further, the statement specifies that internal audit should enhance an organization’s ability to serve the public interest.

Historically, internal audit was primarily viewed as an ‘assurance’ function reporting internally on an organization’s compliance with policies, procedures, laws and regulations. Over the last 25 years, the role has expanded to include advisory services, and most internal audit functions today routinely offer consultative services such as providing control suggestions on processes or systems during design, facilitating risk discussions, or providing training.

The new Purpose Statement would appear to push the profession further. Beyond assurance and advice to insight and foresight - setting a higher expectation for broad knowledge, specific and deep competence, and critical and proactive thinking. Further, the inclusion of “public interest” likewise sets a higher expectation that auditors help organizations benefit not just their own stakeholders, but the public at large.

**Recommendation:** Consider the nature of services you are receiving and to what extent the internal audit function rises beyond assurance and advice to providing insight and foresight. Engage your CAE in a discussion about the new Purpose Statement as contrasted to internal audit’s current mandate and Charter. Are changes desired and what assistance may the CAE need to execute this expanded role? This is a great time to discuss mutual needs and expectations.

### 3. Internal Audit Strategy, Performance Measures and External Quality Assessment

The revised Standards require that CAEs develop and implement an internal audit strategy that supports the strategic objectives of the organization and aligns with the expectations of the board, senior management and other stakeholders. Hopefully, most CAEs already have a strategy in place, but arguably this new requirement will lead to more thoughtful discussions with the audit committee. Further, the new Standards require CAEs to develop performance measurements. The intent is to promote continual improvement against performance objectives and measure achievement of the CAE's documented and agreed strategy.

Creating the strategy and aligned performance measurements is more challenging than it may appear. For example, performance measurements like finishing the approved audit plan, or completing each audit within budget, or getting high satisfaction ratings from audit clients, may sound like appropriate and useful measurements - until one considers that such measures may drive the exact auditor behaviors that undermine delivering value. If new risks or issues emerge late in an audit, you want auditors to address them, not close the audit because a budget is exhausted. And sometimes auditors need to challenge operating management, not ingratiate themselves for a good satisfaction rating.

Further, consistent with the existing IPPF, the revised Standards require that all internal audit functions have an external quality assessment (EQA) every five years, where an independent reviewer or team evaluates conformance with the Standards and reports the results to the audit committee. However, the scope of the EQA has been expanded in the new Standard beyond simply conformance with the Standards to include achievement of agreed performance measurements. Clearly, CAEs need to start working on drafting their strategy (including conformance with the new Standards or a reasonable pathway to conformance), identify a few balanced and aligned performance measurements that enable (vs. undermine) the strategy, and then discuss, gain feedback and ultimate agreement with the audit committee.

**Recommendations:** Engage the CAE in a discussion about their function's strategy (and whether it aligns with the Purpose Statement noted above), what performance measures are appropriate, and the plans for the next EQA.

The timing of the next EQA is somewhat flexible. If an internal audit function has early adopted the new Standards, an EQA could be conducted in 2024 against the 2025 requirements. More likely however, CAEs can choose to move up an EQA to test against existing Standards in 2024, even if it has only been 3 or 4 years since the last EQA. This will provide a bit more time to conform to the 2025 Standards before an assessment against them.

### 4. Co-sourcing and Outsourcing

The new Standards do not specifically address outsourcing or co-sourcing of internal audit. The silence would lead one to believe there is an expectation that service providers will conform just as if they were internal functions. However, in some instances this is challenging, as a firm may be contractually engaged to perform a narrow service without strict conformance to the Standards. For example, when the specific scope of an audit is dictated by the client and the firm does not control how risks were assessed to determine the scope, nor how the results are ultimately communicated, Standards conformance is outside the firm's control. The prior IPPF recognized this and required service providers to communicate an organization's obligations for conformance, recognizing it ultimately was the hiring organization's responsibility.

Recommendation: The ability of a service provider to conform depends on the nature of the engagement and on the decisions of internal management on conformance. For example:

- If you use co-sourcing staff to perform audits under the direction of compliant internal audit management, the firm's staff can be expected to conform with the Standards.
- If you use outsource internal audit, there are Standards for which conformance choices are not the sole decision of the firm. As examples, the board or senior management may not believe an internal audit strategic plan is needed, or may limit internal audit's scope where there are other assurance functions (such as Sarbanes-Oxley or ERM teams) and omit assessment of such activities from the contractual scope of services.

If you use a service provider, inquire of the CAE and the firm about what expectations and contractual obligations have been placed on the firm relative to Standards conformance.

## 5. New Structure

The new Global Internal Audit Standards have a completely different structure and numbering system. Although arguably more logical than the IPPF, for most internal audit functions the structural changes drive the need for updates to existing internal audit policies, practices, workbooks, software, training materials, etc. This will take time and perhaps funding to support.

- Recommendation: Ask your CAE about updates needed within the internal audit function to align to the new Standards. For example, is there an audit handbook that needs to be rewritten? Or testing workbooks that reference IPPF standards that need to be updated? And so on. If yes, does the CAE have a plan, with a timeline, budget and resources to complete these updates?

## Final Thoughts

The new Standards are intended to encourage a more strategic approach to internal audit and push the profession well beyond traditional compliance audits. CAEs should seek your guidance on how they best demonstrate and deliver on concepts like advice, insight, foresight and public interest. The new Standards set a clear expectation that CAEs routinely discuss strategy, performance and related challenges, solicit feedback, and work with you to continually improve.

It's time to ask your CAE about the new Standards. With less than a year until the deadline for adoption, they should have already read them, identified preliminary gaps, and started working on an action plan to achieve conformance. If your organization needs help, there are many ways CNM can support this transition. A readiness assessment may be useful to objectively evaluate gaps in conforming to the new Standards and to suggest an action plan. We can help reframe an internal audit strategy and suggest balanced performance measures, focusing on value delivery, and share leading practices from mature internal audit functions. We can even help get an audit handbook updated quickly! Encourage your CAE to reach out and get CNM's perspective and assistance on a solid and achievable pathway to conformance.



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