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OPINION

Greater Expectations on Board Governance: A Primer on New Audit Standards

New standards effective January 2025 elevate and better define the role of boards and senior management in internal audit

By Anthony Casey | April 22, 2024

In January, the Institute of Internal Auditors released updated Global Internal Audit Standards (the Standards) that the association calls a "major milestone in a historic, multi-year project."

Significant oversight changes, including the role board members have in governing internal audit (IA) and new requirements for quality assurance and im-

Anthony Casey
Anthony Casey, a Certified Internal Auditor (CIA) and principal with advisory CPA firm Baker Tilly, is a seasoned internal audit specialist with 17 years of risk advisory experience.

provement programs, will have meaningful impacts on how boards and especially audit committees (into which many internal audit functions functionally report), senior management and chief audit executives interact.

Here's an overview of the new Standards and what boards and senior management need to know and do in the months ahead before the effective date on Jan. 9, 2025.

Changes to the structure of the Standards

The first thing you'll notice about the Standards is an updated structure consisting of five domains, 15 principles and 52 standards.

The five domains are:

I: Purpose of IA – Clarifies the mission and value of IA and elevates the role of IA

II: Ethics and Professionalism of IA – Provides a single, clear location for the current Code of Ethics, promotes integrity and professional courage, and outlines the specific role of chief audit executive

III: Governing the IA Function – Outlines how the board and senior management should interact and emphasizes the quality aspect

IV: Managing the IA Function – Covers creating an IA strategy to fulfill the audit mandate, building relationships and trust to facilitate coordination, financial resource management and performance measurement

V: Performing IA Services – Includes engagement risk assessment, evaluation criteria, analysis and final engagement communication

The Standards give clear guidance and include requirements, considerations for implementations and examples of evidence of conformance.

Importance of governance

One of the most critical success factors for any IA function looking to have a meaningful impact on an organization is effective governance.

Consequently, it is appropriate that one of the five domains under which the Standards are organized is "governing." Some of the most significant updates to governance that boards should pay attention to include:

Standard 6.3 - Board and Senior Management Support

The new Standards focus on how the board must support the CAE in promoting the recognition of IA within the organization. Similar to the prior Standards, the new Standards specify that the CAE report to a level within the organization that allows it to achieve its mandate.

As a leading practice, the Standards recommend that the CAE report administratively to the CEO or an equivalent, which is a testament to how the IIA is trying to elevate the role of IA and ensure organizational independence.

The new Standards go on to say that the board must approve the IA charter (which includes the IA purpose and mandate), plan, budget and resource plan. In further defining the board's role, the Standards require that the board must make inquiries with senior management and the CAE as to whether there are any restrictions on IA that prohibit it from effectively carrying out its responsibilities.

Additionally, the CAE must meet formally with the board without the presence of senior management at least annually, although the Standards recommend quarterly while also encouraging more frequent informal communication.

Standard 8.1 - Board Interaction

The new Standards require that the CAE provide the board with the information necessary to provide effective oversight. To do so, the Standards specify the following:

- They acknowledge there may be instances where the CAE and senior management disagree, which may impact IA's ability to fulfill its responsibilities, and as a result they require that the CAE must provide the board with the relevant facts and circumstances to consider whether it should intervene with senior management.

- They also specify that the board set expectations with the CAE as it relates to communication. Expectations must include frequency of communication between the CAE and the board, criteria for determining which issues should be escalated to the board — including risks that exceed the board's tolerance level — and a process for escalation of such matters to the board.

How boards can embrace the new Standards

While the IIA cannot require the board to adopt specific governance practices, the Standards provide a solid foundation for boards and CAEs to discuss the role, value and organizational position of IA. CAEs are being encouraged to take steps now to prepare for the effective date, and boards can anticipate that CAEs will:

- Begin socializing significant updates to the Standards, particularly those that impact the overall governance model and practices, with senior management and the board

- Ensure that management and the board understand their respective roles and how interactions and communications may evolve because of new requirements within the Standards

- Update the IA charter to reflect potential changes to the nature and timing of communication with the board and senior management

- Collaborate with the board and senior management to either define or refresh the IA strategy to support the organization's success

- Define annual performance objectives, which the board will then use to evaluate the overall efficiency and effectiveness of the function at least annually

The new Standards do more than define the role of the board and senior management in governing IA. The new Standards also elevate the role of IA within organizations and, more holistically, IA as a profession.