

## **Audit Committee**

**26 November 2024**

### **Global Internal Audit Standards, Application Note: Global Internal Audit Standards in the UK Public Sector and Consultation on the CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government**

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#### **Summary**

To provide Members with information about the new Global Internal Audit Standards and Application Note: Global Internal Audit Standards in the UK Public Sector due to come into effect in 2025, and a consultation being conducted by CIPFA in connection with a new Code of Practice for the Governance of Internal Audit in UK Local Government.

#### **1. Recommendations**

1.1. The Committee is recommended to note the information regarding the changes to the Internal Audit Standards and the associated requirements.

#### **2. Budget and policy framework**

2.1. Council delegates responsibility for the oversight and monitoring the effectiveness of the Internal Audit and Counter Fraud Shared Service to the Audit Committee.

#### **3. Background**

3.1. In line with the Accounts & Audit Regulations 2015, the Internal Audit team operates in compliance with the Public Sector Internal Audit Standards (PSIAS), which are issued by the Relevant Internal Audit Standard Setters (RIASS) for the UK public sector and are based on the mandatory elements of the Global Institute of Internal Auditors' (the IIA) 2017 International Professional Practices Framework (IPPF). Additional, sector specific guidance on how the PSIAS should be applied by local government bodies is provided in a Local Government Application Note published by the Chartered Institute of Public Finance & Accountancy (CIPFA).

3.2. In January 2024, the IIA published a set of new Global Internal Audit Standards (the Standards) which are due to come into effect from 9 January 2025. The Standards incorporate all the mandatory elements of the 2017 IPPF, including the Definition of Internal Auditing, Mission of Internal Audit, Code of Ethics, and

Core Principles for the Professional Practice of Internal Auditing. Additionally, the Standards incorporate recommended guidance from the 2017 IPPF as considerations for implementation and examples of evidence of conformance.

- 3.3. Alongside the Standards, the IIA have introduced Topical Requirements, which will ensure that all internal audit functions apply a consistent methodology when assessing the effectiveness of governance, risk management and controls in particular topical areas. Collectively, the Standards and Topical requirements, which are both mandatory, combined with supplementary Global Guidance, form the 2024 IPPF.
- 3.4. Rather than issuing a parallel set of standards to replace PSIAS, the RIASS have agreed to use the Global Internal Audit Standards as the basis for internal auditing in the UK public sector. However, an Application Note: Global Internal Audit Standards in the UK Public Sector (the Application Note) has been developed by RIASS setting out additional public sector interpretations and requirements. A consultation on the draft Application Note ran between 3 October and 24 October 2024, and the final Application Note will be applicable from 1 April 2025.
- 3.5. Both the Standards and the Application Note acknowledge that public sector governance and organisational structures may require internal audit functions to adjust the application of Domain III of the Standards. The Application Note allows the RIASS for individual sectors to choose to issue specific material for their sector, which internal auditors must comply with. CIPFA, as the RIASS for local government, have issued a Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) that, among other things, includes conditions, which, when applied in the local government internal audit context, will achieve the requirements of Domain III of the Standards. A consultation on the draft Code is currently open and this is discussed further in section 5 below.

## 4. Global Internal Audit Standards

- 4.1. The new Global Internal Audit Standards are arranged into 5 Domains.
  - 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
- 4.2. The 5 Domains include 15 Principles and 52 individual standards to support these. Each standard includes.
  - Requirements – Mandatory practices for internal auditing
  - Considerations for Implementation – Common and preferred practices to consider when implementing the requirements.
  - Examples of Evidence of Conformance – Examples of ways to demonstrate that the requirements have been implemented.

4.3. As well as introducing new terminology, the Standards represent a number of changes to the requirements for the Internal Audit team. There are also some key additional requirements:

(Note: where the Standards refer to the Board, this represents the Audit Committee.

- A new Purpose Statement to assist Internal Auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.
- New behavioural requirements for Internal Auditors, including professional scepticism and courage.
- The Standards require an Internal Audit Mandate to be established and approved by the Board. The mandate should specify the authority, role, and responsibilities of the internal audit function and be documented in the Internal Audit Charter.
- The Chief Audit Executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organisation, and aligns with the expectations of the Board, Senior Management, and other key stakeholders.
- The Chief Audit Executive must coordinate with internal and external providers of assurance services and consider relying upon their work. 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.
- The Chief Audit Executive must strive to ensure that the internal audit function has the 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. 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. The Chief Audit Executive must collaborate with the organisation's information technology and information security functions to implement technological resources properly.
- When undertaking internal audits, if Internal Auditors and management disagree about the 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.
- Final internal audit communications must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed, as well as acknowledge actions that have already been completed. Final communications must also be reviewed and approved by the Chief Audit Executive before they are issued.

4.4. In addition, a specific Domain (III) has been introduced relating to arrangements for governing the internal audit function. 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. Although it covers areas that were included in the previous Standards, it represents a significant change and goes further by explicitly laying out requirements for

Senior Management and the Board, as well as the Chief Audit Executive. Further details of these requirements are provided at Appendix 1.

- 4.5. Following our 2023 External Quality assessment, we are confident that we will be broadly compliant with the Standards and Application Note but accept that the new requirements will likely mean that some changes are necessary to ensure compliance. We are currently completing a detailed self-assessment, and an action plan will be created to address any identified gaps in compliance.

## 5. Topical Requirements

- 5.1. The new Topical Requirements are intended to ensure that all internal audit functions apply a consistent methodology when assessing the effectiveness of governance, risk management and controls in particular topical areas.
- 5.2. The use of Topical Requirements will be mandatory when setting the scope of an internal audit that includes the topic covered, but do not set a formal requirement to conduct internal audits in these areas and are not a step-by-step guide for the conduct of the internal audit. They will include a tool to help internal audit functions document the rationale for including or excluding certain requirements.
- 5.3. To date, only one draft Topical Requirement has been published, relating to Cyber Security, however, others are currently in development.

## 6. CIPFA consultation on Code of Practice for the Governance of Internal Audit in UK Local Government

- 6.1. On 3 October 2024 CIPFA opened a consultation on a 'Code of Practice for the Governance of Internal Audit in UK Local Government' (the Code) which has been developed to support local authorities in establishing their internal audit arrangements and providing oversight and support for the internal audit function, in line with the requirements of Domain III of the Standards. The consultation is due to close on 28 November 2024. A copy of the Code (for consultation) is provided at Appendix 2.
- 6.2. The Code is designed to work alongside the new Standards and Application Note and replaces the organisational responsibilities set out in the CIPFA Statement on the Role of the Head of Internal Audit. It is aimed at those responsible for ensuring effective governance arrangements for internal audit, including:
  - The body or individual charged with governance,
  - The Board,
  - Senior Management of the authority, including the statutory officers, Head of Paid Service, Monitoring Officer and Section 151 / Section 95 Officer.
- 6.3. By following the Code, the Board, Senior Management and the Chief Audit Executive will be able to be confident that governance of the internal audit function is working in line with the requirements of Domain III of the Standards (as discussed in paragraph 4.4 above). Much of the Code is already recognised good practice as per existing CIPFA guidance, and it is expected that many authorities will have these arrangements, or close to them, in place.

6.4. Due to the short time period that the consultation is open, we will be submitting one response on behalf of the organisation, which will be prepared by the Chief Audit Executive.

## 7. Risk management

7.1. The work of Internal Audit provides a key source of assurance for the council on the adequacy and effectiveness of its internal control arrangements.

## 8. Climate change implications

8.1. There are no climate change implications in this report.

## 9. Financial implications

9.1. An adequate and effective internal audit function provides the council with assurance on the proper, economic, efficient, and effective use of council resources in delivery of services.

## 10. Legal implications

10.1. 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 Section 151 Officer of a local authority is responsible for establishing the internal audit service.

## Lead officer contact

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## Appendices

Appendix 1 - Requirements included in Domain III of the Global Internal Audit Standards (GIAS) – Governing the Internal Audit Function.

Appendix 2 - Code of Practice for the Governance of Internal Audit in UK Local Government – for consultation.

## Background papers

Global Internal Audit Standards 2024.

Application Note: Global Internal Audit Standards in the UK Public Sector

Code of Practice for the Governance of Internal Audit in UK Local Government