



Overview of the Proposed Update of the International Standards for the Professional Practice of Internal Auditing (Proposed Standards)

In March 2023, the Institute of Internal Auditors (IIA) released the Proposed Standards for public comment until May 30, 2023. The IIA has long communicated its overall goal to refresh the Global Internal Audit Standards (Standards) to provide enhanced guidance to ensure value, quality, and effectiveness of the profession's services. The Standards apply to internal audit departments globally, regardless of purpose, size, complexity or structure, and are designed to provide guidance to internal audit functions operating at all levels of maturity.

While the Proposed Standards contain many structural improvements, including providing implementation guidance for each Standard and combining the separate Standard supporting documents into one, the Proposed Standards also set forth change for our profession. They are organized into five domains including Purpose of Internal Auditing; Ethics and Professionalism; Governing the Internal Audit Function; Managing the Internal Audit Function; and Performing Internal Audit Services.

In this paper, we've identified three foundational themes to consider as you update internal policies and begin to share changes within your department. Additionally, we summarize the key changes that would impact various internal audit (IA) functions should the Proposed Standards be implemented.

Foundational themes:

Integrated assurance:

The Proposed Standards require CAEs to consider how their organization's overall governance and risk management process, and possibly lack thereof, will affect how they operate their function. The Proposed Standards recommend that the IA function should only rely on management's information about risks and controls, including the risk universe, if it has concluded the organization's risk management process is effective. This could

result in an annual assessment and/or audit of the organization's integrated assurance function before beginning subsequent projects on the annual plan. The Proposed Standards further focus on an organization's integrated assurance as a foundational element to IA's strategy. The Proposed Standards recommend CAEs use their knowledge of leading governance principles and practices to identify the organization's overall risk maturity level. Most organizations currently use the industry-leading COSO practice; however, in the event your organization elected a different approach, you may need to assess potential gaps against COSO or other leading governance principles.

Active board involvement:

Although the current Standards emphasize communication to the Board, the Proposed Standards place greater personal responsibility on the Board to ensure IA departments maintain their independence and meet the mandate of their function.

Additionally, while the CAE retains responsibility to communicate to the Board on key areas of department oversight and operations, the Proposed Standards require the Board to actively promote IA throughout the organization and ensure IA has unrestricted access to information necessary to fulfill the department's mandate.

The methods by which the Board demonstrates its support and involvement are mandated throughout the Proposed Standards and include the following:

- Public and private sessions to discuss the overall IA plan, access to information and personnel, and talent and technological resources
- Ensuring the CAE reports administratively to an appropriate level within the organization, specifically a level that allows IA to complete its responsibilities without interference from management
- Active monitoring of IA or CAE impairment
- Establishing a process for escalating communications to the Board, including communications from management or unmitigated significant/material risks.

Technology:

Within each domain, the Proposed Standards continually highlight the use of technology to better position IA as drivers of value.

To help build technology into all areas of the IA function, the Proposed Standards require an assessment of technology during resource and budget discussions. Further, the assessment is not considered a one-time review, and the Proposed Standards require the CAE to regularly evaluate the technology used by the department and look for opportunities to continually improve efficiency and effectiveness.



Key changes:

Although many of the changes within the Proposed Standards focus on foundational elements of the profession, IA departments may find themselves equally impacted by other key changes if the Proposed Standards are implemented:

- **Focus on formal development of methodologies to guide the IA function:**

Although many IA departments have charters and high-level methodologies for their function, the Proposed Standards are more prescriptive and outline specific methodologies and policies to be documented. In addition, the Proposed Standards require appropriate training on all policies and evidence of compliance with the policies.

- **Engagement findings and conclusions:**

The Proposed Standards require IA departments to issue a rating or ranking, or other indication of priority/significance, for individual findings as well as the overall audit. Current Standards require IA functions to communicate the findings and results of the audit, but do not require a rating, ranking, or other indication of priority/significance.

- **Recommended CEO reporting alignment:**

Although not mandated, the Proposed Standards recommend IA departments report administratively to the CEO to reach a level of authority appropriate to challenge management on assumptions and operations. The Proposed Standards further state IA functions can achieve the same objective by implementing appropriate safeguards.

- **Enhanced requirements for external quality assessments:**

The current and Proposed Standards both require an external quality assessment to be performed every five years. The current Standards permit this requirement to be met each time via self-assessment with independent validation, if desired. The Proposed Standards, however, only allow a self-assessment with independent validation once every ten years, alternating with a full external assessment. A full external assessment is always permitted to satisfy this requirement. Further, the Proposed Standards require that at least one member of the assessment team be an active Certified Internal Auditor and all team members be trained through the IIA's external quality assessment training.

- **Conformance with information protection procedures:**
Evidence of conformance with the organization's information protection policies is required by the Proposed Standards, including acknowledgment from internal auditors of their understanding. Depending on the maturity of a CAE's organization's information protection policies, the CAE may need to create supplemental material to educate and inform the IA department of all appropriate requirements.
- **Requirement for 20 hours of professional development:**
While current Standards require internal auditors to have the requisite knowledge needed to conduct an audit, the Proposed Standards require 20 hours of continuing professional development training. CAEs would need to consider this new requirement when planning departmental training budgets for the year.



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