

The Highland Council

Agenda Item	11
Report No	AC/35/24

Committee: Audit Committee

Date: 28 November 2024

Report Title: Global Internal Audit Standards Update

Report By: Strategic Lead (Corporate Audit)

1. Purpose/Executive Summary

- 1.1 The purpose of this report is to inform the Committee of the introduction of the new Global Internal Audit Standards (GIAS) and the implications this will have both for the Internal Audit Service provided and the role of the Committee.
- 1.2 The new Global Internal Audit Standards are available at:
<https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/free-documents/complete-global-internal-audit-standards/>

2. Recommendations

- 2.1 Members are asked to:
 - i. Consider the changes arising from the new GIAS which will affect the Audit Committee.
 - ii. Note that further updates will be provided to Committee as work progresses with implementing the new GIAS.

3. Implications

- 3.1 **Resource:** The GIAS place additional requirements for the Audit Committee to review resources this will be subject to interpretation in the Application Note.
- 3.2 **Legal:** The authority for setting standards for internal audit in the United Kingdom public sector has determined that the Global Internal Audit Standards (GIAS) issued by the Institute for Internal Auditors are a suitable basis for the practice of internal auditing in the UK public sector, subject to interpretations and requirements set out in an Application Note. Auditors working in the UK public sector must follow the requirements of the GIAS subject to the interpretations and additional requirements set out in the Application Note.
- 3.3 **Risk:** A failure to be able to conform (or have a plan of action to enable conformance) with the GIAS subject to the interpretations and requirements set out in the Application

Note could reduce the ability to place reliance on the Corporate Audit Service and its work in support of the Audit Committee.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no implications.

3.5 **Gaelic:** There are no implications.

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report and therefore an impact assessment is not required.

5. Background

5.1 The Public Sector Internal Audit Standards (PSIAS) came into effect in April 2013. This was a new development which introduced a common set of standards across the public sector, and it is a mandatory requirement that all Internal Audit service providers comply with these. The PSIAS was based upon the Institute of Internal Auditors (IIA) International Standards. Guidance on applying these in the public sector was issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) as the "relevant standard setter" in conjunction with the IIA. This included the requirement to report annually on the extent of compliance with PSIAS. This requirement has been met through the Chief Audit Executive's (CAE) annual audit report to the Audit Committee in June each year.

5.2 Since their introduction the PSIAS have been reviewed and updated, the most recent changes occurring in 2017. These will now be replaced by the Global Internal Audit Standards (GIAS) which apply worldwide across all types of organisations. Rather than issuing an 'updated PSIAS', a GIAS Application Note for the UK public sector is to be issued. The Application Note is currently subject to consultation and only infers a very small number of additional interpretations and requirements. Auditors working in the UK public sector will be required to follow the requirements of the GIAS subject to the interpretations and additional requirements set out in the Application Note. When expressing conformance with the standards, auditors must be clear that they are conforming to the GIAS subject to the Application Note and must refer to this as "conformance with Global Internal Audit Standards in the UK Public Sector."

This is a significant departure to the previous UK, public sector guidance in place. The GIAS come into effect in January 2025 and organisations are expected to report upon the extent to which they conform with these by January 2026. Significant work is required in the interim in order to evidence conformance with these requirements.

6. GIAS requirements

6.1 Background

The GIAS consists of 5 domains which are then supported by 15 principles:

- I. Purpose of Internal Auditing
- II. Ethics and Professionalism (principles 1-4)
- III. Governing the Internal Audit Function (principles 5-8)
- IV. Managing the Internal Audit Function (principles 9-12)
- V. Performing Internal Audit Services (principles 13-15).

The 15 principles are supported by 52 standards that contain requirements i.e. 'must do', as well as detailed considerations for implementation, and examples of evidence of conformance. Many of the standards also contain within the requirements essential conditions which are to be met by the Audit Committee and senior management.

When internal auditors are unable to conform with a requirement, the Chief Audit Executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale. There are further requirements related to disclosing non-conformance within the Standards.

Domain III above is applicable to the Audit Committee which will need to conform with its essential requirements as well as the principles and standards. The main areas are summarised at 6.2 below together with commentary on the Council's current position.

6.2 Changes for the Audit Committee

The main changes that will affect the Audit Committee are as follows:

- The requirement to discuss Domains I & III of the new standards at the Audit Committee. In summary the standards define the focus for discussion as:
 - The purpose of internal auditing (Domain I)
 - The essential conditions outlined under each of the standards in Domain III: Governing the internal audit function.
 - The potential impact on the effectiveness of the internal audit function if the Audit Committee or senior management does not provide the support outlined in the essential conditions.
- There is a new requirement for an Internal Audit Mandate which should be documented within the Charter and then approved by the Audit Committee. It should be noted that whilst the concept of a mandate which sets out the authority, role and responsibility of Internal Audit is new, this information is already contained within the Council's Financial Regulations. The current Internal Audit Charter will also require amendment to reflect the GIAS requirements.
- The requirement for the Audit Committee to advocate and champion the internal audit function to support its purpose and enable it to pursue its strategy and objectives. This includes:
 - (i) working with senior management,
 - (ii) supporting the CAE through regular communication; ensuring that the CAE reports to an appropriate level; approving the mandate, charter, strategy and internal audit plan, budget and resource plan; and
 - (iii) ensuring internal audit's authority has not been compromised or limited and meeting with the CAE privately.
- Many of the standards also contain specific requirements (and essential conditions) which are to be met by the Audit Committee and senior management. These are

extensively referenced throughout the different standards and require review and an approach to be developed to evidence conformance.

The majority of the requirements may be to some extent in place or already undertaken, however arrangements may need to be better formalised to assist in evidencing conformance. In (ii) above the requirement to develop and implement an Internal Audit Strategy is new, as is the approval of an audit budget by the Audit Committee. Further guidance on this latter point and how this will be applied in the UK public sector is expected in the Application Note.

It is planned that any new or updated documents will come to Committee for approval early next year.

6.3 Changes for Internal Audit

The GIAS are significantly different from the PSIAS and will require a number of changes to be implemented so that Internal Audit can evidence its service provision conforms with the Global Internal Audit Standards in the UK Public Sector. The necessary preparatory work is being undertaken by the Corporate Audit Manager in conjunction with the whole of the Internal Audit Team. Progress will be reported to Committee as changes are implemented to evidence conformance with the standards going forwards.

Designation: Strategic Lead (Corporate Audit)

Date: 5th November 2024

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