A chance to reframe Internal Audit: the new Global Internal Audit Standards*

pwc

Governance

Organizational Value Linkage

Strategy
Process

People	Technology

May 2024
Reframe IA Series – Issue 4

In this series we will explore the various building blocks from PwC's Internal Audit (IA) framework, as outlined in Issue 1. This is an opportunity to assess IA's performance and shape IA's strategic and transformation roadmap, while demonstrating alignment with the Institute of Internal Auditors (the IIA) Global Internal Audit Standards* (the Standards).
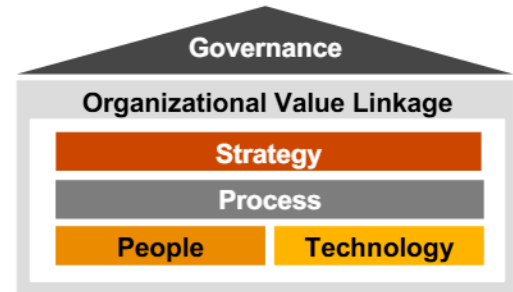
Board engagement^

Global Internal Audit Standards: Domain III: Governing the IA Function

What it is?

The Standards include essential elements and activities supported by the Board (or the highest-level body charged with governance e.g., Audit Committee) and senior management that help enable IA to achieve its purpose, mandate and plans. While the Chief Audit Executive (CAE) is accountable for the requirements, Domain III highlights specific expectations and responsibilities of the Board for oversight and engagement in areas such as IA's mandate, plan, resources (including financial, human and technological), internal and external quality programs and key performance metrics.

Why this matters?

IA, when positioned independently, is an objective insider that the Board can leverage in its significant oversight role to help illuminate potential blind spots as well as to confirm their understanding of governance, risks, controls and processes within the organization. While that's always been the case, **the new Standards provide a framework to engage and manage Board expectations and to further IA's value proposition.**

A strong IA function helps enabling better governance, risk culture, confidence in strategic initiatives and transformation, and trust in stakeholders.

- The ability for IA to effectively implement the Standards and help deliver value requires support from stakeholders across the organization, including the Board.

- Directors should seek to understand changes the CAE is considering and how the Board can support the CAE in these activities (including allocating sufficient time with the CAE on key matters).

Unlocking benefits beyond the Standards
The opportunity for CAEs:

Enhancing Board Engagement presents the following opportunities for IA leaders:

- Confirming the Board and senior management expectations of the CAE and IA function

- Focusing on IA's broader transformation initiatives embedded in how it is responding to the Standards

- Enhancing transparency around the mix of value protection and value creation activities

- Elevating IA communications and reporting on strategic topics

- Alignment to the organization's vision, mission and strategy (i.e. corporate strategy, second line strategy, tech strategy)

- Eliciting additional support, as needed, from the Board and/or senior management to achieve its transformation and efficiency goals.

The opportunity for Boards:

Enhanced transparency and reporting expectations may enable greater foresight for the Board to navigate risk and have greater confidence in the organization's processes, people and systems for faster decision making. The enhanced transparency also serves as a mechanism for Board members to evaluate IA functions across multiple Committees they may sit on, allowing them to compare the approach, performance, and value received from IA. Boards should use this opportunity to coach CAEs on Board expectations and what good looks like.

Where to start

CAEs have been in the boardroom (or equivalent) as regular participants for years. Many have periodic communications with a chair or other representative of the Board outside of regular meetings. That said, oftentimes Board-level reporting has traditionally focused on results and compliance.

The Standards* present an opportunity for CAEs to engage more strategically with the Board about their view of IA's mandate, strategy and value provided throughout the organization. This also provides another avenue for Boards to reinforce their support of IA and the work IA is doing throughout the organization.

1   **Educate the Board (or equivalent body) on the Standards change event.**
Reiterate IA's historic approach with the Standards and any relevant gaps and/or new areas for consideration under the revised Standards. Consider holding a separate workshop or meeting with the Board, potentially with the second line to allow sufficient time for discussions and questions.

2   **Confirm IA's planned response to the Standards and implement the agreed upon actions.**

Standards conformance path	Alternative path considerations
Align on how Domain III and the essential conditions of the Board/Senior Management will be implemented.	Communicate IA's strategy as it relates to Standards adoption, including extent of intended alignment.

Standards conformance path

Align on how Domain III and the essential conditions of the Board/Senior Management will be implemented.

For example:

- Cadence and format of required communications,
- Safeguards and criteria on what issues should be communicated and/or escalated to the Board,
- Changes to IA's mandate, strategy or plan, etc.

Update the Board communication calendar, the cadence of meeting content and presentation of required content (e.g., charter, strategy).

Prepare updated materials, obtain required approvals, and retain evidence to demonstrate conformance.

Alternative path considerations

Communicate IA's strategy as it relates to Standards adoption, including extent of intended alignment.

Confirm any proposed beneficial additions to IA's procedures and articulate what support is needed from the Board for IA to help deliver on their strategic transformation goals. Common adoptions considerations include mandate, strategic plan, performance measurement, talent strategy and capabilities).

BONUS TIP
Do you network with other CAEs who share Board members with you to understand what materials they are used to seeing and know what exposure they are getting on this topic from others?

3   **Identify opportunities to transform Board reporting**
Leverage this event as an opportunity for transformation, seeking feedback from the Board on IA communications and reporting including:

- What results are communicated and at what level of detail
- What is the balance of tactical verses strategic content
- Whether reporting aligns with Board and senior management expectations
- Identifying opportunities to enhance and innovate IA's communications (e.g., visualizations, dashboards, artificial intelligence)

4   **Evaluate performance and continuously improve**
Seek feedback regularly and identify opportunities to enhance IA's performance and reporting mechanisms based on review of IA's performance metrics and discussions with the Board and senior management. Develop and implement actions to improve.

Additional Resources
Looking for additional resources for the Board or other governing body at your organization? The Governance Insights Center contains the latest insights, events and webcasts and other resources.

*Global Internal Audit Standards ("Standards") is a registered trademark of The Institute of Internal Auditors, Inc. ("IIA").

How it comes together

IA's engagement with the Board is an essential condition of implementing the Standards. When executed well, strong engagement can bring valuable insights, confidence and enables the Board-level risk oversight.

Discussions and engagement with the Board should touch on aspects of all components of PwC's IA Framework

Overall Board responsibilities:

- **Establish the internal audit function -** including CAE appointment/removal and defining CAE qualifications/competency needs
- **Position IA independently** - including understanding potential impairments given the CAE's roles and responsibilities
- **Oversee IA's performance** - including effectiveness and efficiency of the function

Example Board approval requirements:

- Mandate and Charter
- Budget
- Performance objectives and metrics
- IA plan
- Resource plan
- External Quality Assessment (EQA) plan, appointed performer, results and action plans

Topical focus area	Direct interdependency

PwC's IA framework

Organizational level			
Governance	**Board oversight**		
Organizational value linkage	Corporate strategy	Enterprise risk management	Assurance ecosystem & risk coverage

IA Department Level			
Strategy	Mandate	Charter	Strategic plan & objectives ... Funding
Process	Methodology	Execution	Quality ... Performance measurement & reporting
People	Resourcing model & team structure	Capabilities	Training & development
Technology	IA operations enablement	IA execution enablement	Business analytics & insights enablement

Example Board discussion requirements:

These areas are described as musts, requiring formal discussion but not formal 'approval':

- IA's strategic plan
- Restrictions on IA's scope, access, authority, or resources
- Effectiveness of governance, risk management, and control processes within the organization
- Sufficiency of resources (financial and human) to fulfill the mandate and plan
- Criteria for escalating issues and items of importance
- Rationale for not including an assurance engagement in the plan for high risk areas
- Results of IA services, including conclusions, themes, assurance, advice, insights, and monitoring results
- Unacceptable levels of risk accepted by management
- Results of IA's internal Quality Assurance and Improvement Program (QAIP)
- Impact of technology limitations on the effectiveness or efficiency of the function
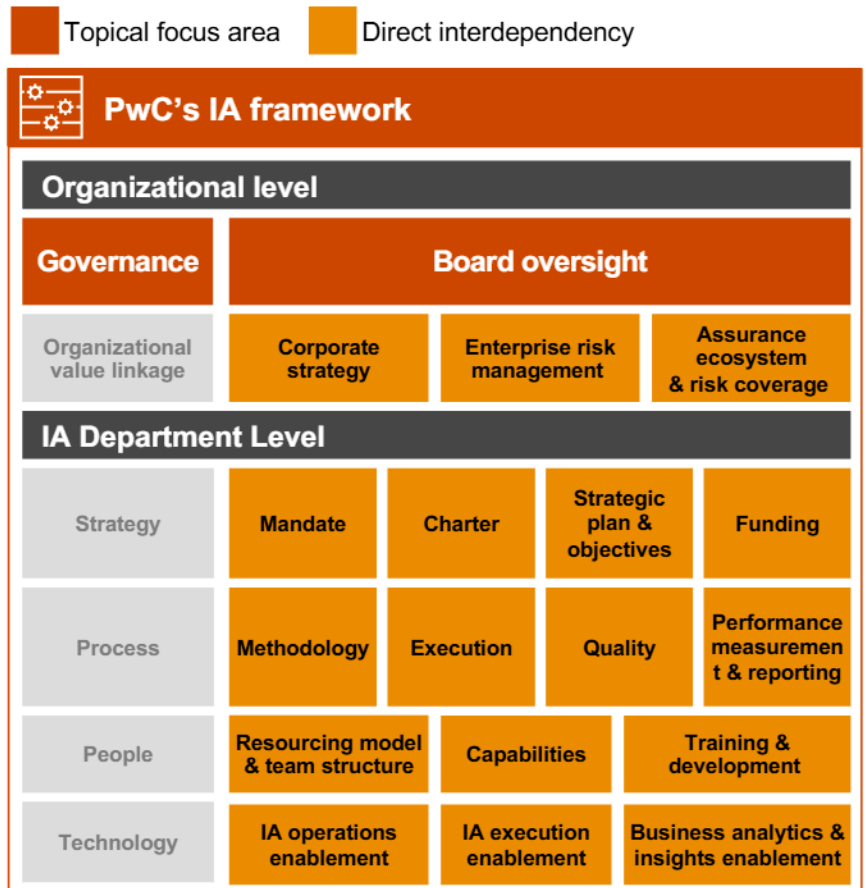
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The Stakeholder Perspective

As key stakeholders for IA, you play an important role in setting IA's mandate, strategic priorities and objectives, evaluating performance and helping shape the priorities of IA - and the value you receive. When engaging with IA, consider the following:

Board/Audit Committee & Senior Management

Do you know how much time the IA function is spending on recurring compliance type activities (financial controls testing, T&E or other compliance testing, etc.) vs. projects targeting the top risks to the organization?

How well does IA's plan align with the top risks to the organization?

What is the organizational staffing model/strategy of your IA function and does the IA function have the capabilities and experience it needs to assess the top risks facing the organization?

How well is your IA function aligned with and leveraging the work of other risk and compliance functions in the organization?

Has IA induced greater risk coverage by changing the way they audit including using analytics and key risk indicators to help drive continuous monitoring vs point in time audits?

How does your IA function measure success and are they challenging their own status quo on driving cost effectiveness to the business?

What will be the impact of the new Standards on the organization's IA function?

How will adopting the new Standards benefit the board and the organization?

What are the main challenges or concerns with adopting the new Standards?

What resources or budget will be needed to implement the new Standards?

How will the CAE update the board on the progress and outcomes of adopting the new Standards?

What support does the CAE need from the board to facilitate the change?

Should we evolve the nature and mix of projects that IA performs considering the new Standards and changing business and board needs?

Throughout the implementation period, we will release a series of thought leadership with practical tips, examples and PwC's point of view on effectively and efficiently implementing the Global Internal Audit Standards while embedding transformation elements into IA's strategic roadmap. A high level description of topics to come are outlined on the right.

Reframe IA Series

Practical ways to implement the IIA's new Global Internal Audit Standards and IA transformation.

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1	**Reframing Your Fit for Purpose IA Function** *Issue 1 (January 2024)*
2	**Mandate** *Issue 2 (February 2024)*
3	**Strategic Plan** *Issue 3 (April 2024)*
4	**Board Engagement** *Issue 4 (May 2024)*
5	**Assurance Ecosystem**
6	**Performance Measures**
7	**Risk Assessment and Coverage**
8	**Audit Spectrum**
9	**Reporting and Communication**
10	**Capabilities**

! Key Resources

- Resources from the IIA:
  – Global Internal Audit Standards ™
- PwC Internal Audit - updates on the latest IA topics and trends
- PwC Global Internal Audit Study 2023
- Governance Insights Center website

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