



**CORPORATE GOVERNANCE COMMITTEE - 6 DECEMBER
2024**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

CHANGES TO INTERNAL AUDIT STANDARDS

Purpose of Report

1. The purpose of this report is to provide information on forthcoming changes to Internal Audit Standards.

Background

2. At its meeting on 16 September 2024, the Corporate Governance Committee (the Committee) was informed that two consultations on internal audit were scheduled. The first was on a replacement for the current Public Sector Internal Audit Standards (PSIAS) and the second was on a proposal by CIPFA to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government.

Consultation issued by the Relevant Internal Audit Standard Setters on changes to the Public Sector Internal Audit Standards (PSIAS)

3. In January 2024, the Institute of Internal Auditors (IIA) published new Global Internal Audit Standards (GIAS). The GIAS guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. The new GIAS are organised over 5 domains and 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfil the Purpose of Internal Auditing. The new GIAS are effective from 9 January 2025.
4. In its publication (May 2024), 'The Institute of Internal Auditors New Global Internal Audit Standards - What every Head of Internal Audit needs to know', Grant Thornton states that the new standards, 'Provide improved clarity and better alignment with the needs of the profession and stakeholders. The new standards emphasise a holistic, Internal Audit function that aligns with organisational objectives and embraces the use of technology, analytics and automation. The Standards see collaboration amongst the Internal Audit function, Management, and the Board as being critical to Internal Audit's ability

to service the organisation, and the broader public interest for which the organisation serves’.

5. The authority for setting standards for internal audit in the United Kingdom public sector rests with the Relevant Internal Audit Standard Setters (RIASS) and CIPFA represents the interests of local government across the United Kingdom. To support the development of the internal audit function, the UK public sector Internal Audit Standards Advisory Board (IASAB) was created. The IASAB has considered the content of the new GIAS and determined that they are applicable to the internal audit of UK public sector bodies subject to a small number of additional requirements and interpretations, including one case where a GIAS requirement is replaced by a UK public sector requirement.
6. On 3 October, the IASAB began consultation on proposals to replace the current UK PSIAS (which will remain in force for internal audit work relevant to the year ending 31 March 2025). Thereafter, internal auditors in the public sector will apply the GIAS, subject to the interpretations and requirements of a short *Application Note: Global Internal Audit Standards in the UK public sector*, which is attached as **Appendix 1**.
7. The Application Note applies the unamended text of the GIAS together with interpretations of GIAS requirements in the specific circumstances which are expected to apply across the UK public sector, and some additional requirements which are essential for the practice of internal audit in the UK public sector but are not set out in the GIAS. These mainly have the effect of preserving those interpretations and additional requirements in the current UK PSIAS which are not already encompassed in the main text of the GIAS. They include specific mention of requirements for annual opinions and governance statements, and a presumption that Heads of Internal Audit (formally known as chief audit executives in the GIAS) will be both professionally qualified and have appropriate public sector skills and knowledge.
8. Members of the Committee have been sent an extract from the latest issue of Audit Committee Update from the CIPFA Better Governance Forum which briefly introduces the forthcoming changes to the internal audit standards and considers how that will impact on audit committee members. Suggested questions that members might wish to ask are included. The Head of Internal Audit Service (HoIAS) has included his comments at various points to explain the County Council’s position. The Audit Committee Update explains the implementation of the new standards will be a significant change and there are concerns amongst Local Government Heads of Internal Audit that it will significantly impact their time. However, the IASAB does not anticipate any significant problems and does not anticipate a requirement for transitional guidance beyond its clear statement that the existing PSIAS will continue to apply to internal audit work carried out until 31 March 2025.
9. The HoIAS attended engagement webinars and agreed with his Head of Internal Audit colleagues that there should be a collective response to the consultation from the Councils’ Audit Network. Consultation on the Application Note ended on 31 October and there were 44 responses from organisations

and individuals. As a result of the consultation, the content is being revised ready for final approval. CIPFA is aiming to complete this process and publish before Christmas.

10. Regarding what changes are required in the short term (i.e. before the end of March 2025), the HoIAS will need to undertake a 'gap analysis' reviewing current processes against the 15 GIAS Principles, identifying any obvious gaps and creating a plan of actions. This exercise will need to take account of the action plan created to implement improvements following the positive independent External Quality Assessment earlier this year. A separate report on this is included on the agenda for this meeting. Additionally, a training and development plan and communications plan will be required, and methodologies will need to be reviewed.
11. A further update will be provided at the January Committee.

Consultation issued by CIPFA on proposals to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government

12. Within the new GIAS, Domain III is fundamental since it relates to 'Governing the Internal Audit Function' and explains that appropriate governance arrangements with boards and senior management are '**essential conditions**' to fulfil the 'Purpose of Internal Audit'.
13. These essential conditions are needed to allow effective internal audit practice and for internal auditors to conform with GIAS (UK public sector). The new GIAS recognised that in the public sector, governance structures or other laws or regulations may impact on how the essential conditions can be applied. This is the case in UK local government, where there isn't a straightforward replacement for the 'board' as described in GIAS. Elected representatives are ultimately those charged with governance. Audit committees are non-executive advisory bodies with limited decision-making powers. Internal audit's primary mandate comes from statutory regulations rather than the decision of the audit committee.
14. On 3 October, CIPFA launched a consultation on its proposals to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government (the Code). This is attached as **Appendix 2**. The Code would apply to all principal authorities in UK local government. By ensuring effective arrangements for internal audit, authorities would support the best use of their resources and robust governance. CIPFA proposes that the Code applies to the governance of internal audit and is the responsibility of those charged with governance within a local government body. The Audit Committee Update from the CIPFA Better Governance Forum sent to members provides a little more explanation.
15. The Code sets out the conditions for internal audit, consistent with existing CIPFA guidance and governance within the sector. To support this CIPFA produced a Comparison of the Code of Practice for the Governance of Internal Audit in UK Local Government to Regulations and existing CIPFA guidance

Appendix 3. For heads of internal audit, the Code will meet the same objectives as the ‘essential conditions’ set out in the GIAS, but in a way that is appropriate for UK local government.

16. There are three main provisions (and nine sub provisions) within the Code: -
 - a. Providing authority for internal audit – covering its mandate, charter and support for internal audit
 - b. Positioning internal audit independently – covering organisational independence and qualifications of the Head of Internal Audit
 - c. Oversight of internal audit – covering Audit Committee interaction, resources, quality and external quality assessment (EQA)
17. CIPFA is confident that many local government bodies would achieve conformance with the Principles of Domain III, however a clear roadmap for the sector would support internal audit teams, audit committees and senior management and ensure greater consistency. It also sends a clear message about the importance and value of internal audit.
18. CIPFA is proposing that conformance to the Code is included in the annual governance statement. It is undertaking a project to update its guidance on the annual governance statement so it will incorporate this requirement.
19. Consultation on the proposed Code ended on 28 November. CIPFA invited responses to the consultation from all those with an interest in internal audit in the UK local government sector. The HoIAS attended engagement webinars, consulted with the Chair of the Committee, the Chief Executive, the Director of Corporate Resources (Chief Financial Officer/s151 Officer) and the Director of Law and Governance (Monitoring Officer) on the proposals and submitted a response on behalf of the County Council to CIPFA. A copy of the response is included at **Appendix 4**.
20. A further update will be provided at the January Committee.

Resource implications

21. Implementation of the new standards will create significant impact on the HoIAS and his team.

Equality Implications

22. None.

Human Rights Implications

23. None

Recommendations

24. The Committee is recommended to note the work undertaken to respond to consultations on changes to internal audit standards.

Background Papers

Corporate Governance Committee (16 September 2024) – Internal Audit Service 2024-25 Plan, progress and updates.

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7722&Ver=4>

Grant Thornton guidance, ‘The Institute of Internal Auditors New Global Internal Audit Standards - What every Head of Internal Audit needs to know’

<https://www.grantthornton.ie/globalassets/1.-member-firms/ireland/insights/2024/publications/grant-thornton---global-internal-audit-standards.pdf>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1	Application Note: Global Internal Audit Standards in the UK public sector
Appendix 2	Code of Practice for the Governance of Internal Audit in Local Government
Appendix 3	Comparison of the Code of Practice for the Governance of Internal Audit in UK Local Government to Regulations and existing CIPFA guidance

Appendix 4	Leicestershire County Council Response to Consultation on Code of Practice for the Governance in Internal Audit in Local Government
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