

HOW TO IMPLEMENT THE GLOBAL INTERNAL AUDIT STANDARDS IN THE EUROPEAN PUBLIC SECTOR?

Practical Guidance



THE PUBLIC SECTOR
COMMITTEE PROJECT

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Introduction

The new Global Internal Audit Standards™ (“the Standards”) were released on January 9, 2024. The International Internal Audit Standards Board provided 12 months for implementation, effective **January 9, 2025**. Internal audit functions in the European public sector should implement the Standards now to be in conformance by this date.

The Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function.[1] The Standards incorporate content from the 2017 International Standards for the Professional Practice of Internal Auditing and several elements of the International Professional Practices Framework® (IPPF®). The Standards apply to all organisations, regardless of sector, size, complexity, or structure.

The Public Sector Committee of the European Confederation of Institutes of Internal Auditing (ECIIA) supports ECIIA’s mission to implement and promote the Global Internal Audit Standards within the public sector by advising on their implementation by internal audit functions.

This paper seeks to aid internal auditors in the European Public Sector. It provides the results of the Public Sector Committee’s research, through a working group of internal audit practitioners from various public sector organisations in Europe. Additionally, the committee consulted with The IIA Global Headquarters Standards and Guidance department, the Public Sector Knowledge Group (IIA global volunteer experts), and Harriet Richardson, a member of the International Internal Audit Standards Board who has had a long career of internal auditing in public sector.

Internal audit functions in the public sector must consider specific laws and regulations, as well as governance, organisational, and funding structures that are only relevant in the public sector or government context. The nature of these conditions may affect how public sector internal audit functions apply the Standards to achieve conformance. For the first time, the Standards provide assistance for implementation in public sector internal audit functions in the section “Applying the Global Internal Audit Standards in the Public Sector.”

This document aims to promote the Standards as a basis for evaluating and elevating the quality of the internal audit function in the European public sector. The paper’s objectives are to:

- Summarise the key changes, new requirements and specific public sector interpretations.
- Identify areas of concern.
- Make recommendations to aid the implementation of the Standards.

[1] A professional individual or group responsible for providing an organisation with assurance and advisory services. (Global Internal Audit Standards, Glossary)

Key Information About the Global Internal Audit Standards

At the heart of the Standards are five domains and 15 principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Key findings within the five domains of the Standards are described below. A more detailed analysis of each principle and standard is provided in the “Detailed Analysis of the Standards” section.



THE FIVE DOMAINS

Domain I: Purpose of Internal Auditing

The purpose statement is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

Domain II: Ethics and Professionalism

The ethics and professionalism domain replaces the Code of Ethics and outlines behavioural expectations for professional internal auditors, including chief audit executives.

Domain III: Governing the Internal Audit Function

Outlines the requirements for chief audit executives to work closely with the Board to establish the internal audit function, and senior management's responsibility to support this.

Domain IV: Managing the Internal Audit Function

Sets out the chief audit executive's responsibility for managing the audit function, including strategic planning, managing resources, building relationships and ensuring performance of the function.

Domain V: Performing Internal Audit Services

Requires internal auditors to effectively plan and conduct engagements, to communicate throughout an assignment, and to collaborate with management to identify actions to address findings.

Applying the Global Internal Audit Standards in the Public Sector

The Global Internal Audit Standards apply to all internal audit functions, but internal auditing in the public sector is also affected by the governance, organisational, and funding structures that are specific to public sector organisations. Additionally, the effect of laws and regulations on how internal audit functions apply the Standards is more noticeable in the public sector than it is in the private sector. Finally, internal auditing in the public sector is unique in that the ability to serve the public interest is a central and defining feature, unlike the private sector, where the public interest may be a lesser consideration.



Summary

Key messages and Recommendations for the Implementation of the Global Internal Audit Standards in the European Public Sector

DOMAIN I & II

The Purpose of Internal Auditing (Domain I) explains the value of internal auditing, and Domain II's standards and principles of ethics and professionalism state the behavioral expectations for internal auditors. When implemented effectively, these elements instill trust in the profession.

Mandate and competencies: In the public sector, the internal audit function may be affected by the results of local or general elections. Following election-related changes, government bodies such as councils may change agendas or create new ones. This may lead to changes in an IAF's mandate and require internal auditors to develop or increase expertise in certain areas.

Professional development: Human resources management in the public sector are currently a significant concern in many countries. Public sector career paths may be linked to a grading scheme for civil servants or something similar; such a structure may contain constraints that restrict internal auditors' ability to progress as envisioned in the Standards. (Standards 3.1 Competency and 3.2 Continuing Professional Development).

Conformance with the Standards: Internal audit functions are accountable for conformance with the Global Internal Audit Standards. The CAE must be aware of the laws and/or regulations that affect the internal audit function's ability to fully conform with all provisions in the Standards.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made. (Standard 4.1 Conformance with the Global Internal Audit Standards)[2]. Specific frameworks and legal requirements in the public sector that are incongruent with the Standards are likely to require this type of disclosure.

Confidentiality: Laws and/or regulations governing the protection of information in the public sector may be more restrictive than those in the private sector. The chief audit executive should note this when creating methodologies to manage the proper use and protection of information (Standards 5.1 Use of Information and 5.2 Protection of Information).

DOMAIN III

Definition of board: A key change related to Domain III is an expanded definition of the term “board,”[3] which includes terminology more familiar to those in the public sector. The introduction to Domain III specifically references the public sector, where a multi-tiered structure with multiple boards may exist:

“If the nature of the board varies from the definition provided in the glossary, the chief audit executive should document the governing structure to which the internal audit function reports and how this structure is consistent with the definition of board.”

Essential conditions: Additionally, Domain III’s “essential conditions” clarify the roles of the board and senior management. While the chief audit executive is responsible for the requirements in Domain III, certain activities of the board and senior management are essential to the internal audit function’s ability to fulfill the Purpose of Internal Auditing. These activities are identified as “essential conditions” in each standard and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, ultimately enabling an effective internal audit function.

[2] IIA Practice Guide: Unique Aspects of Internal Auditing in the Public Sector, 2nd Edition

[3] The Global Internal Audit Standards glossary defines “board” as:

“Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organisation that has more than one governing body, ‘board’ refers to the body or bodies authorised to provide the internal audit function with the appropriate authority, role, and responsibilities. If none of the above exists, ‘board’ should be read as referring to the group or person that acts as the organisation’s highest-level governing body. Examples include the head of the organisation and senior management.”

Mandate and charter: The internal audit mandate and the internal audit charter must consider the individual public sector governance structure and laws or regulations that could limit conformance with the Standards (Standards 6.1 Internal Audit Mandate and 6.2 Internal Audit Charter). Establishing effective audit committees is generally considered a best practice in the public sector (Standards 6.3 Board and Senior Management Support, 7.1 Organisational Independence, and 8.1 Board Interaction).

CAE qualifications: Characteristics and competencies of the public administration chief audit executive (CAE) must be defined. In the public sector, chief audit executive roles often have varied backgrounds with no standardised qualifications, experience, or education. Although Standard 7.2 Chief Audit Executive Qualifications does not state specifically required qualifications, the considerations for implementation suggest that the desired qualifications include the Certified Internal Auditor® (CIA®) designation or other relevant professional education, certifications, and credentials.

EQA assessor qualifications: Standard 8.4 External Quality Assessment indicates that the external quality assessment team must have at least one active holder of a CIA® designation. Some European states have their own certification program for the public sector, and there may not be enough qualified auditors to perform external quality assessments. Quality assessments in the public sector should be carried out by teams with sufficient experience relevant to the sector.

DOMAIN IV

Internal audit strategy: The Standards introduce an explicit requirement to develop 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.

Coordination and reliance: There may be a significant number of assurance providers both internally and externally. Therefore, it is important for the CAE to be clear about which assurance providers are relevant to the internal audit function for coordination purposes. It may be difficult to coordinate with external assurance providers. The CAE must raise concerns with senior management and, if necessary, the board when the appropriate level of coordination cannot be achieved. (Standard 9.5 Coordination and Reliance).

Financial resources: Funding processes vary widely in the public sector. Budget requests for the internal audit function may depend on the funding allocated by the board and/or senior management, the head of the organisation, or an outside legislative body. However, some governance and organisational structures do not give the board and senior management authority over the budget. Such conditions may prevent the chief audit executive from seeking budget approval from the board and senior management and limit the ability to seek or obtain additional funding for individual engagements (Standard 13.5 Engagement Resources).

Even when the budget is set by laws and/or regulations, the CAE must adhere to other requirements of the standards related to managing the budget (Standards 6.3 Board and Senior Management Support, 7.1 Organisational Independence, 8.2 Resources, and 10.1 Financial Resource Management). This includes promptly communicating to the board and senior management the impact of insufficient financial resources (Standard 10.1 Financial Resource Management).

Human resources: The classification of employee positions and/or labour agreements often establish pay ranges, limiting the authority of the CAE or the board to establish remuneration for each employee. In these instances the CAE should collaborate with the HR function to achieve conformance with Standard 10.2 Human Resources Management.

Technological resources: Internal audit functions in the public sector may be required to use only software approved for the organisation, which may limit the CAE's ability to obtain technology to support the function. In these instances, the CAE may need to use available software as well as possible but should still engage with the board to advocate for the technology that will maximise the function as efficiency (Standard 10.3 Technological Resources).

Stakeholder management: There may be a significant number of internal and external stakeholders. Therefore, the CAE must identify the key stakeholders and have a plan for managing them. Internal audit functions should also consider the legal requirements relevant to communicating with the public and which information must be shared. These issues should be clearly explained in internal audit methodologies. (Standards 9.3 Methodologies, 11.1 Building Relationships and Communicating with Stakeholders, and 11.2 Effective Communication).

Internal audit performance: The Standards broaden the concept of performance objectives for the internal audit function to consider value as perceived by key stakeholders and demand the continuous improvement of the internal audit function (Standard 12.2 Performance Measurement).

Public and other stakeholders: Public sector internal auditors have a broad base of stakeholders, including the public and appointed and elected officials. To adequately serve their stakeholders, internal auditors may consider input from the public when planning and performing internal audit services (Standards 9.4 Internal Audit Plan, 11.1 Building Relationships and Communicating with Stakeholders, and 13.2 Engagement Risk Assessment).

Engagement findings and conclusions: Internal auditors must develop a summarised conclusion for each engagement. For assurance engagements, a summary regarding the effectiveness of the governance, risk management, and/or control processes is required. This is a new standard, but it is not specific for the public sector. The conclusion must summarize the internal auditors' professional judgment about the overall significance of the aggregated engagement findings (Standards 14.3 Evaluation of Findings and 14.5 Engagement Conclusions).

CONCLUSION

Using the Standards in combination with the section “Applying the Global Internal Audit Standards in the Public Sector” will help internal audit functions operating in the public sector understand how to apply the Standards while considering laws, regulations, and governance and organisational structures. The Standards advocate for funding that supports the internal audit function's ability to plan and perform internal audit services in alignment with the Standards' systematic approach.

This summary of key changes and new requirements in the Standards helps orient the reader. The appendix provides additional details to assist internal auditors in practically applying the 15 principles and 52 standards of the Global Internal Audit Standards.

How to implement the global internal audit standards in the european public sector?

Acknowledgements

The objective of the ECIA Public Sector Committee is to promote good governance and internal audit across the European public sector and to develop guidance papers to be used as advocacy tools locally. As part of the 2024-25 work programme the Committee agreed to oversee a project to promote the Global Internal Audit Standards and the continued professionalism of internal audit in the public sector across Europe.

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Material



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2. Two-Way Mapping: 2017 IPPF Mandatory Elements to 2024 Global Internal Audit Standards (and Back) <https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/free-documents/two-way-mapping-2017-ippf-mandatory-elements-to-2024-global-internal-audit-standards-and-back/>
3. Conformance Readiness Assessment Tool <https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/free-documents/conformance-readiness-assessment-tool/>
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