Changes in the IIA Standards:

New Requirements for Internal Audit Functions
Summary of Changes

• Effective January 1, 2009, the IIA made changes to the IIA Standards:
  – Changed from “should” to “must” throughout most of the Standards
  – Added five new Standards
  – Added new verbiage to existing Standards

• The change from “should” to “must" has created a requirement for action to be taken. For some IA departments, only minimal changes will be needed but for others there are many additional actions, some substantial, to be taken in order to comply with the revised Standards.

• We have summarized the most common areas which we believe will have an impact on IA functions based on our knowledge and experience from working with organizations around the globe.

• However, your IA function should compare its individual practices to the Standards to see whether there are additional items that require attention.
Summary of Changes

• The changes create new requirements around:
  – IT Governance
  – Technology Based Audit and Other Data Analysis Techniques
  – Fraud Risk Management
  – Ethics Programs
  – Limitation and Adequacy of Resources
  – Records Retention
  – Quality Assurance Reviews
  – Modifications to the IA Charter
  – Communication with the Board

• ALL INTERNAL AUDIT FUNCTIONS SHOULD BE DISCUSSING THESE CHANGES AS WELL AS THE INCREMENTAL AND REQUIRED ACTIONS TO BE TAKEN WITH THEIR MANAGEMENT AND AUDIT COMMITTEES NOW

• This presentation is not intended to be an exhaustive analysis of the IIA Standards and as such, each organization should make its own analysis of the Standards and changes required to comply with those Standards as of January 1, 2009.
IT Governance

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization’s strategies and objectives.

• Assess IT governance and determine appropriate reporting
• Potentially increase IT auditing to be able to adequately report on IT Governance
• Perform enhanced IT risk assessment
• Use IT SMEs or outside resources as needed and re-evaluate capability of existing resources
• Consider adopting a recognized IT Governance model
Technology Based Audit and Other Data Analysis Techniques

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

- Train personnel on data analysis tools such as ACL, Excel, Access and other appropriate tools. Consider designating individuals as SME’s.
- Revise audit methodology and expand audit assignment budgets to allow time to incorporate appropriate data analysis techniques
- Purchase and utilize third-party applications and use outside resources as needed
- Coordinate with your CIO organization as needed
- Consider continuous auditing and monitoring programs

Some IA functions make good use of data analysis tools and techniques already. Few have implemented continuous auditing/monitoring.
Fraud Risk Management

**2120.A2** – The internal audit activity **must** evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

- Perform a fraud risk management assessment, by either:
  - Assisting management in performing one,
  - Leveraging an existing assessment performed as part of SOX, or
  - Performing an independent assessment
- Utilize outside resources as needed
- Utilize data analysis and continuous auditing and monitoring to enhance detection
- Determine style and scope of reporting
- Coordinate with legal counsel as appropriate
Ethics Programs

• Perform an ethics program assessment
  – Determine scope and reporting style
  – Coordinate with Human Resources and legal as needed

2110.A1 – The internal audit activity must evaluate the design, implementation and effectiveness of the organization’s ethics-related objectives, programs and activities.

Previously a ‘should’ standard, many internal audit functions have done limited auditing of their organization’s ethics programs to date. This primarily relates to verifying the code of conduct circularization process.
Limitation and Adequacy of Resources

2020 – Communication and Approval
The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

• Report resource limitations in Audit Committee presentations, including open positions and deferred work due to these constraints.

• Consider getting additional help from guest auditors or outside parties to fill the gap while waiting to fill open positions

• Resource limitations should consider key skill shortages and expertise levels, not just quantity of resources

• Resource skill needs will change over time

• Critically evaluate which skills are needed in residence and which ones can be contracted

Many IA functions already report this as part of their KPI statistics and quarterly plan status reporting.
Records Retention

**2330.A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

- Determine audit retention requirements.
- Assess cost and benefit of purchasing a work paper tool to facilitate the administration of records retention requirements.
- Leverage this technology to do more than just retain documents
  - Enhance review process efficiency and approval
  - Facilitate risk assessment
  - Document the annual audit plan
  - House other tools and documents
  - Allow access by other stakeholders

___% of IA functions do not have a work paper tool
• Establish, execute and improve a Quality Assurance and Improvement Program (QAIP).

• For organizations that have not had one done yet, have an external Quality Assurance Review (QAR) performed.

• Discuss with the board the:
  – Frequency of performing QAR’s (every 5 years or more frequently).
  – Qualifications and independence of the external QAR provider.
  – Results of your internal and external QAIP.

1312 – External Assessments
External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

➢ The need for more frequent external assessments; and
➢ The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

1320 – Reporting on the Quality Assurance and Improvement Program
The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.
## Modifications to the IA Charter

### 1000 – Purpose, Authority, and Responsibility
The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

**1000.A1** – The nature of the assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

**1000.C1** – The nature of consulting services must be defined in the internal audit charter.

### 1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter
The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

- Revise the IA charter as necessary to reference the mandatory nature of the definition of IA, Code of Ethics and *Standards*. 
• IA functions that have a SOX only focus will be out of compliance with the Standards. In these cases, IA will need to educate management and the board about the change in the Standards and the need to expand IA’s efforts to cover all of the COSO cube. This would ultimately result in:
  – Expanding or redistributing the IA budget to address the need to have an expanded focus to include operational and compliance risks.
  – Performing an updated and enhanced risk assessment to broaden the audit plan as now required by the revised charter
  – Determining if different or additional resources are need to now deliver on the revised charter
Communication with the Board

1111 – Direct Interaction with the Board
The chief audit executive must communicate and interact directly with the board.

- Increasing the Chief Audit Executive’s visibility with the board.
- Implement the Standards communications requirements with the board.
- Evaluate if reporting style and approach should be revised and enhanced
- Coordinate with legal counsel on reporting guidelines

NEW Standard

Most IA functions present to the audit committee quarterly
Powerful Insights.  
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