

IIA Exposure Draft Global Internal Audit Standards:

Six Suggestions for Improvement

By Douglas Hileman, CRMA, FSA, CPEA

The Institute of Internal Auditors released an exposure draft of Global Internal Audit Standards (“draft GIAS”). These standards will affect the Internal Audit profession and all who rely on it – the board, management, investors, and the public. Here are six areas I suggest for improvement.



- 1. Public interest. objectives of organization:** The draft GIAS mentions “public interest”, including the premise that GIAS are set in the public interest. This has aroused spirited comments on social media. Internal Audit’s mission should be centered around an organization’s goals and objectives, and associated risks (including failure to leverage opportunities). Public interest makes itself known via regulation, shareholder filings, customer requirements and preferences and other ways. The draft GIAS does not require that internal audit become the arbiter of the public interest. The draft GIAS acknowledges the special situation of public entities, which exist to serve the public interest. Even so, the U.S. Department of Defense and a state department of highways have different objectives. It is in the public interest for the draft GIAS to be widely publicized, with comments actively solicited from the profession and stakeholders. Clarification is needed.
- 2. Requirements Without Control:** The draft GIAS would require efforts where the Chief Audit Executive (CAE) and/or internal auditors have no control. The board “must” take many actions, such as “The board *must* ensure an external quality assessment ...” The board and management will do what they want. They always have, and they always will. They may fulfill these requirements, and they may not. They may take steps, but do them poorly. With IIA credentials on the line for conformance to the GIAS, it is impractical and infeasible to saddle internal auditors with responsibilities where they have no control.
- 3. Advisory:** The draft GIAS replaces “consulting” with “advisory” [engagements]. I prefer this term. Internal audit adds some of its greatest value through advisory engagements. But the draft GIAS falls short. First, the draft GIAS limits advisory engagements to those initiated at the request of others [board, management]. The CAE cannot perform one at her/ his own initiative. In many instances, Internal Audit may be in a better position to suggest advisory engagement than the board or management. Advisory engagements are useful when the criteria are not clear, or are still evolving. Sustainability reporting and disclosure is one current example. The Recommendations and Action Plans do not mention advisory engagements, nor does Developing Engagement Conclusions. I have suggested embedding advisory engagements throughout the GIAS.



4. **Value:** The very definition of “internal auditing” is “an independent, objective assurance and advisory activity *designed to add value ...*” [emphasis added]. A “trusted advisor” – whether the CAE, a board specialist, a coach or anyone else – *only becomes trusted* if s/he adds value. “Adding value” has been used almost ad nauseum. A quick search finds the term featured in, of all places, Potato Grower magazine back in 2010!¹. But we use it because it’s true. The draft GIAS falls short on embedding this concept throughout the standards. The Considerations and Evidence sections tilt heavily towards conformance. Performance Measurement (Standard 12.2) includes 15 examples of performance measures; thirteen relate to conformance, with *only two* moderately aligning with value. Value can be embedded into standards for performing audit engagements; continuing professional development; methodology; communicating results; and evaluation criteria.
5. **Communications:** The draft GIAS focuses entirely on outbound communications. As anybody who has ever been in a relationship (or has tried) knows, successful communication is a two-way street. In the sustainability/ ESG space, exclusive focus on outbound communication without considering stakeholder expectations can lead to allegation of greenwash or worse. I have read “State of Internal Audit” and other surveys over many years, and one message is consistent. Internal Audit thinks they are doing a great job, but stakeholders around internal audit think considerably less. Internal audit should develop and/or leverage mechanisms to solicit, collect, evaluate and act upon communications received from external sources. Sources can include auditee feedback surveys; other stakeholder surveys; hotline tips; proxy filings; surveys and studies; (external and internal) social media, communications from regulatory authorities and others.
6. **Second Line Audits:** The draft GIAS could better leverage the IIA’s “Three Lines Model” and Internal Audit’s role in governance and risk management. The famous graphic depicts Internal Audit’s position relative to the board and management, with external assurance providers (financial auditors) floating nearby. I suggest Internal Audit does have a role relative to financial auditors – at least in the U.S., for testing internal controls over financial reporting. “Second line” audit functions exist in many organizations as mitigation measures for areas of high risk. There are auditing functions for: environmental, human rights, IT, quality, safety, and supply chain. Objectives of these functions could be to monitor compliance, obtain and maintain certifications, or to mitigate broader organizational risk. Internal audit should consider these audit functions in the internal audit plan, methodology, coordination and reliance (Standard 9.6), communicating with stakeholders, engagement planning, recommendations and action plans, and external quality assessments.



See also my blog post of “Five Things I Liked (or Mostly).” The IIA’s comment period runs through May 30, 2023. See <https://www.theiia.org/ippfevolution>. I encourage internal auditors and stakeholders alike to read and submit comments.

¹ See <https://www.potatogrower.com/2010/12/adding-value>; accessed 4/2/2023.