Internal audit standards

Insight and guidance to implement the new global internal auditing standards

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KPMG Middle East

Introduction

On 9 January 2024 the new Global Internal Audit Standards (Standards) were released by the Institute of Internal Auditors (IIA). These Standards are meant to guide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the Internal Audit Function (IAF). These Standards have become effective as of 9 January 2025, which means that audit functions are required to implement the changes at the earliest.

In this paper, we will provide our views on how an IAF can and should implement the requirements related to two of the new Standards, the requirements to draft a strategy and a performance management methodology. Based on our experiences with audit functions we believe these may have the biggest impact and can serve as a great tool to look ahead and determine what impact you want to make as an IAF. In addition, we will provide an overview of the major changes in the new Standards.

We included our view on how the IAF should implement the requirements for the Standards 9.2 (IA strategy) and Standard 12.2 (performance management) on the next pages. An overview of other major changes between the 2017 and 2024 Standards can be found on page 6 of this report.

What do these changes mean for an IAF?

KPMG believes the updated Standards provide momentum to start the conversation with your board of directors or senior management to discuss the role of the audit function in the future. Specifically the added requirement on establishing an internal audit strategy requires dialogue with the board of management to determine how the IAF supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

Establishing an Internal Audit strategy

Requirements of the Standards

One of the major changes within the new GIAS is that it requires Internal Audit to formally establish a strategy for the audit function. The strategy is aimed to guide IA towards the fulfilment of the internal audit mandate. Specifically, the 2024 Global Internal Audit Standards state in Standard 9.2:

The chief audit executive must develop and implement a strategy that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

An internal audit strategy is a plan or action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the infernal audit function toward the fulfillment of the internal audit mandate.

This means that the Chief Audit Executive (CAE) must determine a long-term objective for the audit function aligned with the expectations of its stakeholders and, preferably, also with the organizational strategy and associated timelines. In addition, this strategy document must consider the steps on how the CAE will achieve these objectives. We believe the document should answer questions as:

- What operating model is needed to challenge the business?
- How are we responsive to changing business needs?
- How should IAF be positioned to contribute to business performance and bring value?
- What is expected from the IAF in 3 – 5 years?

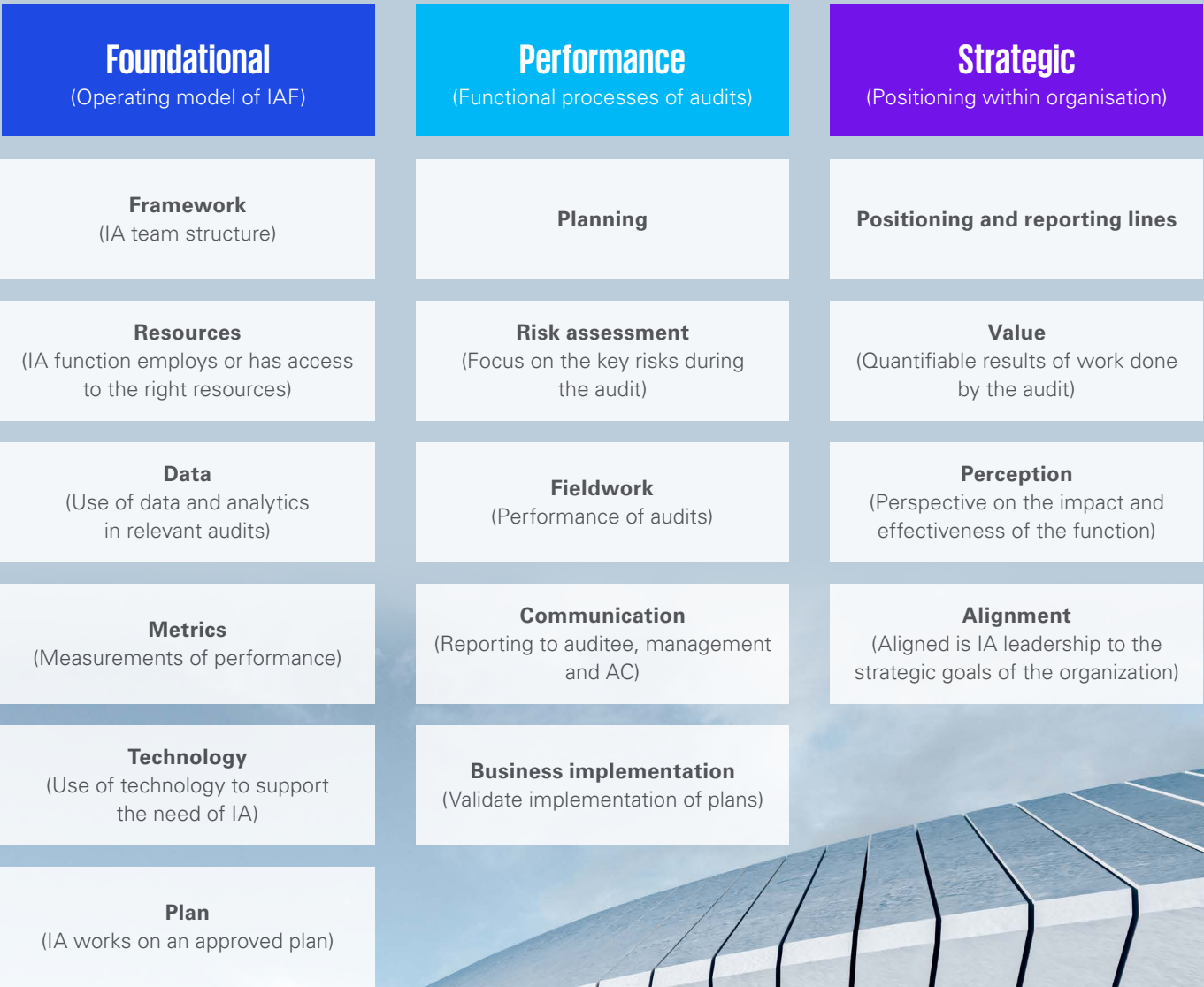## How to comply with this Standard

KPMG has developed a framework to assist in setting strategic objectives by taking into account the different pillars of success of any IAF. These pillars are **foundation, performance** and **strategy** and included in the figure below. Each of these pillars consists of components that can be considered when drafting the long-term objective and strategy.

In the figure below we have indicated which of the components we would expect to be included in the strategy document of the IAF at a minimum.

As this relates to the minimum every CAE should make the strategy document specific to his or her situation.

In order to establish the strategy and comply with Standard 9.2 the IAF should follow the next steps:

01 Start by defining the vision and ambition of the IAF. We consider this to be the desired state where the IAF wants to be in 3 to 5 years. This should be done by considering the organization's strategy and objectives and the expectations ofthe board and senior management for the IAF. Also, consider the type of services to provide added value to the organization. Ideally these aspects will be linked with the performance indicators of the IAF to measure success.

02 The second step for the CAE is to determine where the IAF stands at this moment. This can be done by performing a current state assessment to determine the current status of the IAF related to the components shown in the framework.

03 Once the vision and ambition and the current status of the IAF is established, the strategy gives guidance in how this vision and ambition will be achieved. The strategy of the IAF is meant to be designed to define achievable actions. The defined actions would constitute the strategy's roadmap mainly leveraging the identified gaps. In order to achieve this the actions should be SMART; specific, measurable, achievable, realistic and time-bound.

Foundational
(Operating model of IAF)

Framework
(IA team structure)

Resources
(IA function employs or has access to the right resources)

Data
(Use of data and analytics in relevant audits)

Metrics
(Measurements of performance)

Technology
(Use of technology to support the need of IA)

Plan
(IA works on an approved plan)

Performance
(Functional processes of audits)

Planning

Risk assessment
(Focus on the key risks during the audit)

Fieldwork
(Performance of audits)

Communication
(Reporting to auditee, management and AC)

Business implementation
(Validate implementation of plans)

Strategic
(Positioning within organisation)

Positioning and reporting lines

Value
(Quantifiable results of work done by the audit)

Perception
(Perspective on the impact and effectiveness of the function)

Alignment
(Aligned is IA leadership to the strategic goals of the organization)

In practice, the strategy document should describe the IAF's vision and ambition related to the foundation, performance and strategy and how the IAF will achieve this vision. The strategy document should be periodically reviewed within the IAF, and be discussed with the board and senior management. Performing these activities will help in achieving the right strategy specific to the organization and align with stakeholder expectations.

In the table below we have provided a practical example on the elaboration of two of the components for the internal audit strategy document.

This table includes the vision and ambition (step 1), the current level of the IAF (step 2) and the actions to achieve the vision and ambition (step 3). The table also includes an impact and effort to assist the IAF with focusing on the right activities.

Our experiences

As part of our strategic internal audit support and Quality Assurance Reviews, KPMG has supported different clients in drafting and implementing an internal audit strategy.

As part of these assessments a roadmap framework was developed with the key steps to ensure the audit function aligns with its strategy on the different pillars to determine the success of an internal audit function.

Ongoing support allowed the clients to enhance the quality of their audit function and ensured deliverables exceeded stakeholders' expectations.

Vision and ambition	Current situation	Impact	Effort	Actions
Resources (IA employs or has access to right resources)				
The IAF has access to the resources (in-house or sourced) to meet or exceed IA plan requirements and emerging risk coverage.	Resources are necessary to achieve an IA plan primarily focused on finance, compliance, and technology skills.	H	L	1. Develop a structured skill and competency matrix taking into account the knowledge areas - 'audit topics', 'organization' and 'trends and developments'.
Experienced, multiskilled resources possess the analytical capabilities to operate in a transformative environment.	IA training programs are limited to meeting CPE requirements.	M	L	2. Document a growth and development program for the IAF based on the established skill and competency framework.
Multifaceted talent development program exist that addresses technical abilities, leadership skills, and business acumen to provide strong career pathing.		L	H	3. Include a rotation within the IAF as part of the management development track and include the IAF members in formal development tracks.
Planning				
Planning the audit is not fully developed at the onset of the audit to allow for the plan to evolve as the audit unfolds and risks are identified.	Internal Audit does not have an effective strategy or process that outlines how to plan audits effectively and efficiently.	H	L	4. Conduct preliminary interviews to obtain an understanding on the way of working prior to the onsite fieldwork allowing IA to adapt the working plan and spread the workload.
Internal Audit has a robust risk assessment process utilizing technology and a dynamic approach to continually assess risks during the audit. The risk assessment process is built to identify, connect, and visualize risks on multiple dimensions to monitor emerging risks in the audit as well as risks that could arise.	Internal Audit selects risk for the audit ad hoc with no guidance on how to identify risks associated with an audit.	M	M	5. Ensure the strategic objectives of the organization are taken into account and explain how the audit activities align with the overall strategy and objectives.
		L	H	6. Ensure that the timing of the audits aligns with other audit activities (e.g. compliance, HSE, ESG) and as far as possible focuses on a site rather than a topical approach.

Setting a performance management system

Requirements from the Standards

A second major change in the Standards is the concept of performance management. This concept is further detailed in the Standards and included in GIAS 12.2. It entails a clear description on how effective performance management is seen by the IIA, and what the CAE must do to achieve effective performance measurement.

Standard 12.2 of the Global Internal Audit Standards states:

The chief internal audit must develop objectives to evaluate the internal audit function's performance.
The chief internal audit must consider the input and expectations of the board and senior management when developing the performance objectives.

The chief internal audit must develop a performance measurement methodology to assess progress toward achieving the function's objectives and to promote the continuous improvement of the internal audit function.

This means that the CAE must develop objectives for effective performance measurement. These performance measurements should be linked with the function's Charter, the Standards and the function's strategy.

How to comply with this Standard

The CAE must develop and implement a strategy for the audit function. This strategy document describes the function's objectives and details how these will be achieved. Performance should be measured regularly and assessed against the established standards by the CAE.

In order to implement performance management, the internal audit function (IAF) should utilize key performance indicators (KPIs). KPIs should be specific, measurable indicators of performance that can be used to assess progress towards achieving goals and objectives, thereby contributing to the IAF's strategy.

Based on our experience we see that traditional KPIs typically concentrate too much on the process or outputs. We believe that a balanced scorecard should be developed to measure performance and for reporting quantitative KPIs. According to the IIA, balanced scorecards are **designed to translate the internal audit strategy into action with the aim of helping to manage and measure the performance of the IAF, and, consequently, achieving alignment with organizational strategies.** We believe that every IAF should have KPIs and that these are part of the 'metrics' component of the foundational pillar. KPIs must be quantitative to make them measurable. The CAE can use KPIs to track and measure performance over time and help identify areas that need improvement in order to achieve the predetermined targets.

In order to include the right perspectives and KPIs within the balanced scorecard, the following approach can be used:

1. Define the objectives and perspectives for the balanced scorecard. The first step is to identify the strategic objectives of your internal audit function within the context of the overall organizational goals (and likely linked with your IA strategy document). Once the strategic objectives are identified, define the perspectives for the balanced scorecard.

Common perspectives for an internal audit function could be foundational, performance and strategic positioning.

2. Within each perspective, determine the KPIs that will allow you to measure the achievement of your strategic objectives and assigned targets based on the desired level. Further, it is important to assign ownership and accountability for each of the KPIs to individuals within your internal audit team, who will be responsible for monitoring and reporting on them.

3. Regularly monitor your KPIs to ensure that your internal audit function is meeting its strategic objectives.

An example of a balanced scorecard for the IAF can be seen in the framework below. We exemplified the first component for each pillar, but the exact (number of) KPIs and targets for your IAF depend on the desired state as derived from the strategy document. We believe these targets should be based upon the ambition and not take into account the current maturity level of the IAF.

The balanced scorecard elements should be defined in consultation with senior management and the Audit Committee, relevant to the efficient and effective performance of Internal Audit. Metrics currently defined by Internal Audit, and used to manage Internal Audit activities, can serve as a starting point for developing the balanced scorecard.

The results of the performance measurements from the balanced scorecard should be included as a component of the periodic reporting process to the Audit Committee.

Just as with the IA strategy, it is important that the KPIs are reviewed regularly to ensure that they are aligned with the strategic objectives. You may need to adjust your KPIs to better align with your objectives.

Our experiences

We have supported various audit functions in different industries with setting up their performance measurement model. As part of this, we have identified the different perspectives on which performance was to be measured (IA operating model and foundation, IA performance and IA strategy and positioning). For each perspective, different KPIs were determined to ensure a holistic view on IA's performance.

The extent to which the auditee has benefited from the recommendations raised in the audit report can also be factored in as part of the IAF's KPIs. The ongoing support allowed the audit function to continuously measure the quality of their audit function on different aspects. It also ensures that IA management can focus their efforts on the aspects that matter for the IAF.
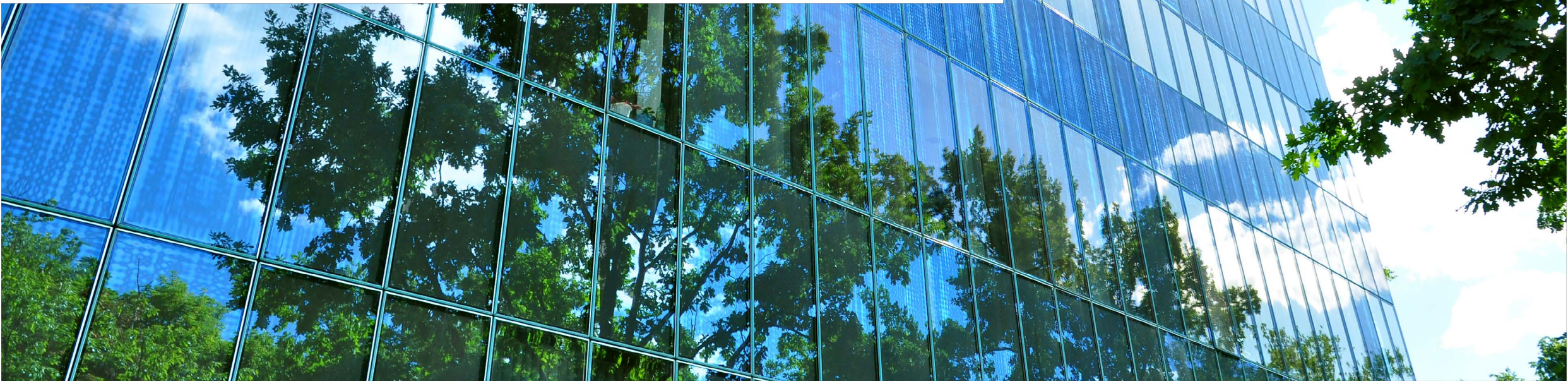
Component	KPI	Criteria	Target
Framework	Open vacancies Guest auditors	Number of open vacancies for the IAF Number of guest auditors assisting in audits	0 4 per year
Resources	Team structure of the IAF	Ratio between operational, financial and IT auditors	1/3, 1/3, 1/3
Data	Use of continuous auditing	Number of processes where continuously auditing is implemented	5
Metrics	KPIs	% of KPIs achieved	100%
Technology	Audit management system	% of audits documented in line with GIAS	100%
Plan	Audits plan completion	% of planned audits completed	100%

Foundation

IA strategy

Strategy

Performance
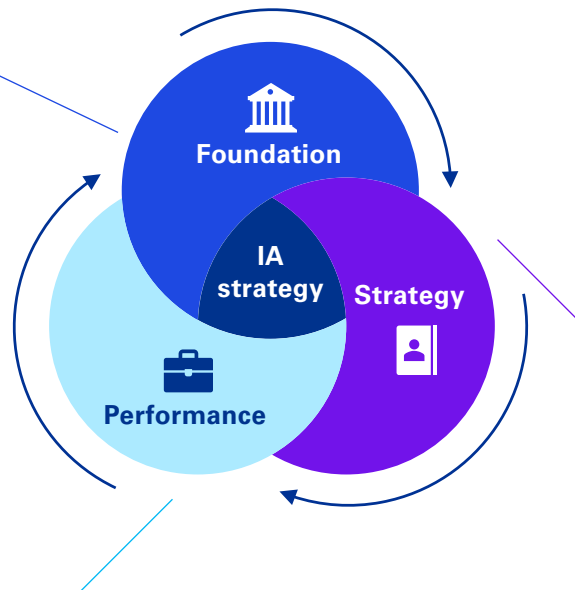
Component	KPI	Criteria	Target
Planning	Top risks coverage	% of AC 'top 10 risks' to the company addressed in the audit plan	100%
	Audit plan flexibility	Ratio of audits on request versus planned audits	20%-80% 100%
	Audit plan coverage	% of the organization covered by the audit plan in a three year period	
Risk Assessment	Risk register	% of processes that are included in the risk register	100%
Fieldwork	Standardization	% of audits using a standard methodology and automated work papers	100%
Communication	Regular communication	Number of contact moments with the audit stakeholders	1 per week
Business Implementation	Action plans	% of audit findings remediated in line with action plan	100%

Component	KPI	Criteria	Target
Positioning	Independence related to audit object	# of audits impacted by independence or objectivity issues of the IAF	0 per year
	Stakeholder sessions with senior management	# of contact moments between the CAE and senior management	12 per year
	Update sessions with AC chair	# of update sessions with Audit Committee chair	4 per year
Value	Quantitfyable audits results	% of audits for which the added value of the audit results are quantified (fee hours)	100%
Perception	Complaints	# of complaints about the IA department	0
	Satisfaction level	Satisfaction level of the AC with the IAF's performance.	8/10
Alignment	Alignment with business objectives	% of audits that are aligned with the business objectives and needs	100%
Technology	Audit management system	% of audits documented in line with GIAS	100%
Plan	Audits plan completion	% of planned audits completed	100%

Other major changes

The updated Standards are the result of a multiyear project led the IIA while taking into account the efforts of the internal audit community. The updated Standards build further on the 2017 Standards and have been updated to **1)** simplify the structure, **2)** ensure they are practical and address current and emerging topics and **3)** enhance internal audit performance.

We have analyzed the changes between the 2017 and the new 2024 Standards. In addition to the changes related to the IA strategy and the requirements on performance management, the major changes to be taken into account for any audit function are as follows:

01 A new purpose of Internal Auditing is established which now includes that internal auditing enhances the organization's ability to serve the public interest, and internal audit can provide assurance, advice, insights and foresights (Domain 1). This requires IA to stipulate how their work serves the public interest and what type of services they deliver and what these entail.

02 Clarification on the role of the board related to oversight of the performance of the internal audit function (Standard 6.3). Amongst others this requires the CAE to provide the board and senior management with the information needed to support and promote the IAF and requires the board to champion the IAF to fulfill its purpose and pursue its strategy and objectives.

03 Specific standards have been set to manage financial, human resources and technological resources of the team (principle 10). This principle requires the IAF to (demonstrate how they) obtain and deploy financial, human, and technological resources effectively in line with the methodologies established for the internal audit function.

04 In the delivery of audits the Standards require that individual findings must be prioritized based on significance (Standard 14.3) and an engagement conclusion must be included based upon the engagement objectives (Standard 14.5). Ratings/rankings are not required but are recommended. In the conclusion, the results of the assignment must be related to the (engagement) objectives, reflect the professional judgment of the auditor and demonstrate the impact on the organization and the effectiveness of the assessed process. Furthermore, an assessment is required to determine whether to report risks as findings based on the circumstances and established methodologies.

05 Internal auditors must exercise professional skepticism when planning and performing internal audit services (Standard 4.3). Professional skepticism enables internal auditors to make objective judgments based on facts, information, and logic, rather than trust or belief. Skepticism is the attitude of always questioning or doubting the validity and truthfulness of claims, statements, and other information. Although auditors should always be critical and use relevant, reliable and sufficient information to draw conclusions, the professional skepticism requirement further specifies this by mentioning the requirement to evaluate whether information is reliable.

As indicated, the overview provided above is only a selection of the total adjustment and updates in the new Standards. Other changes relate to an updated glossary and to the addition of public sector specific guidelines. This includes a 'considerations for implementation' section that specifically helps internal auditors in the public sector demonstrate conformance to the Standards.

How KPMG can help

KPMG support	Benefits for your organization	Key activities
Standards gap analysis	A lean and mean assessment to validate compliance with the IIA standards. • Insights in the overall results and conformance with the IIA Standards; • Overview of recommendations to ensure compliance in the way of working with the IIA Standards	Interviews and **workshop** to **understand** the current way of working of the audit function. • **Desktop review** to review the audit methodology and assess a sample of audit files.
IA strategy and performance management development	Internal audit strategy development based on the pillars foundation, performance and strategy. • A strategy document in which the vision and ambition, the current level of the IAF, and the actions to achieve the vision and ambition are included. The strategy document includes the impact and effort needed to assist the IAF with focusing on the right activities; • A balanced scorecard including defined KPIs to support the IAF in achieving its strategic objectives. • A practical roadmap with recommendations to support the function achieving the developed strategy.	• Facilitate a workshop and interviews with the key stakeholders; • Development of a strategy document; • Development of balanced scorecard including defining KPIs that allows measurement of the strategic objectives of the strategy document; • Leveraging our internal knowledge to share better practices; • Alignment with the future internal audit model including the trends and developments, and review the strategy document periodically.
Support on implementation	We will support your audit function with the implementation of the gaps related to the IIA Standards and to achieve the vision and the ambition of the IAF as drafted in the strategy document. • We will share experiences and act as sparring partner during the support and the delivery of internal audits; • Leveraging our internal knowledge with other IAFs today to share better practices; • Leveraging our database and examples to quickly ensure all documentation is aligned with the vision and ambition of the IAF	• **Collaborate** in a joint team on the key activities as derived from the Standards gap analysis and/or IA Strategy development and/or IA Maturity assessment. • Creating a taskforce to upskill the audit function by bridging the gaps identified and guide CAEs onto how best implementing the latest standards and ensure being aware of IIA's guidelines for compliance.

About KPMG Middle East

KPMG Middle East LLP is a part of the KPMG global organization of independent member firms that operate in 143 countries and territories and are affiliated with KPMG International Limited. We provide audit, tax and advisory services to public and private sector clients across Saudi Arabia, United Arab Emirates, Jordan, Lebanon, Oman, and Iraq, contracting through separate legal entities. We have a strong legacy in the region, where we have been established for over 50 years. KPMG Middle East LLP is well-connected with its global member network and combines its local knowledge with international expertise.

KPMG serves the diverse needs of businesses, governments, public-sector agencies, not-for-profit organizations, and the capital markets.

Our commitment to quality and service excellence underpins everything we do. We strive to deliver to the highest standards for our stakeholders, building trust through our actions and behaviors, both professionally and personally.

Our values guide our day-to-day behavior, informing how we act, the decisions we make, and how we work with each other, our clients, and all our stakeholders.

Integrity: We do what is right

Excellence: We never stop learning and improving

Courage: We think and act boldly

**Together:** We respect each other and draw strength from our differences

For Better: We do what matters.

Our purpose is to inspire confidence and empower change. By inspiring confidence in our people, clients and society, we help empower the change needed to solve the toughest challenges and lead the way forward.

KPMG's Our Impact Plan guides our commitments to serving our clients, people and communities across four categories: Planet, People, Prosperity, and Governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future. We aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the United Nations Sustainable Development Goals, so all our communities can thrive and prosper.

We are dedicated to delivering growth with purpose, helping our clients achieve their goals, and advancing sustainable progress to ensure that all our communities thrive. Empowered by our values, and committed to our purpose, our people are our greatest strength. Together, we are building a values-led organization of the future. For better.
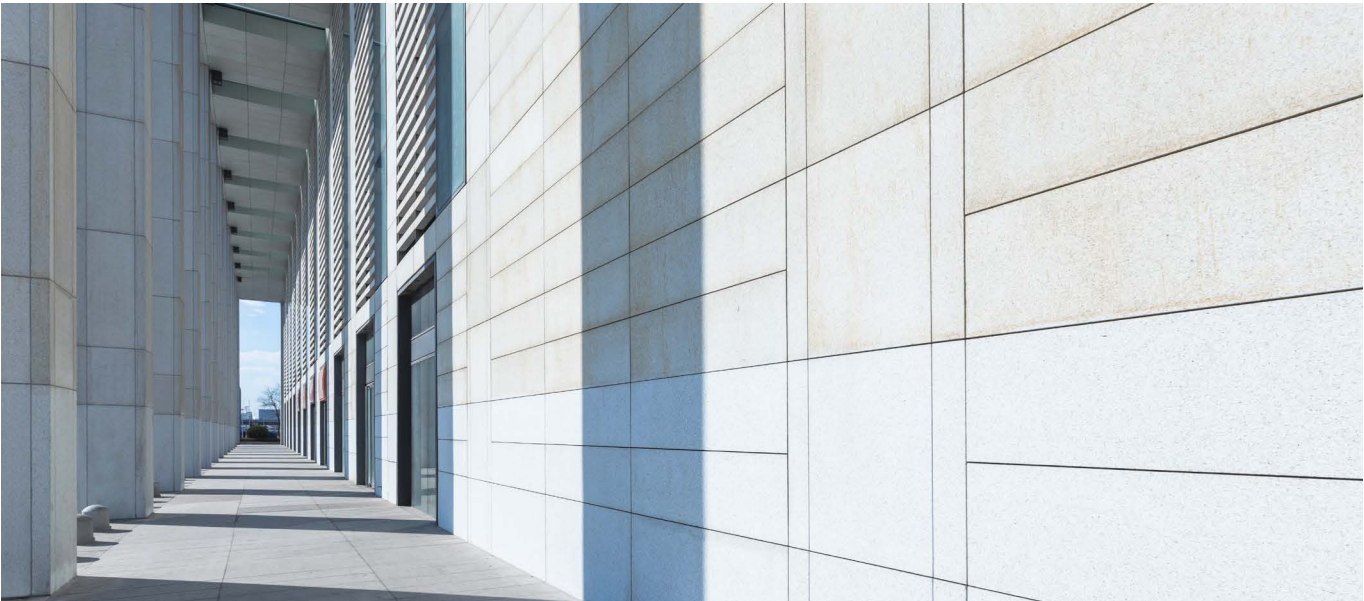
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