KPMG

New Global Internal Audit Standards

Insights and guidance to implement the new global internal auditing standards

KPMG Netherlands

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New Global Internal Audit Standards

On the 9th of 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). As per the 9th of January 2025 these new Standards will become effective which means that in the coming months the audit function has to implement the changes in the upcoming period.

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 page 8 of this article.

What do these changes mean for an IAF?

KPMG believes the updated Standards provide a great momentum to start the conversation with your board of management to discuss the role of the audit function in the future. Specifically the added requirement on establishing an internal audit strategy requires a 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 from the Standards

One of the major changes within the new Standards 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 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 internal 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 achieves 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?

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

1 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 of the 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.

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

3 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 should be based upon the gaps and ensure achievable and concrete actions. In order to achieve this the actions should be SMART; specific, measurable, achievable, realistic and time-bound.

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.

Foundational (Operating model of IAF)	Performance (Functional processes of audits)	Strategic (Positioning within organisation)
Framework (IA team structure)	Planning	Positioning and reporting lines
Resources (IA function employs or has access to the right resources)	Risk assessment (focus on the key risks during the audit)	Value (quantifiable results of work done by the audit)
Data (use of data and analytics in relevant audits)	Fieldwork (performance of audits)	Perception (perspective on the impact and effectiveness of the function)
Metrics (measurements of performance)	Communication (reporting to auditee, management and AC)	Alignment (aligned is IA leadership to the strategic goals of the organization)
Technology (use of technology to support the need of IA)	Business implementation (validate implementation of plans)	
Plan (IA works on an approved plan)		

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 itself, 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 the 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 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 IAF.

The ongoing support allowed the clients to enhance the quality of their audit function and ensure the deliverables match and exceed the requirements of the different stakeholders.

Vision and ambition	Current situation	Impact	Effort	Actions
Resources (People)				
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 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	1. 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	2. 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	3. 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 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 states the following:

'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?

On the previous pages we explained that 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 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 IAF 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 IAF 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 IAF is meeting its strategic objectives. Based on the results of your monitoring it may be needed to prioritize certain aspect in order to achieve the strategy.

An example of a balanced scorecard for the IAF can be seen in the framework below. We examplified the first component more elaborate than the other components of 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 IAFs in different industries with setting up their performance measurement model. As part of this support 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 ongoing support allowed the audit function to continuously measure the quality of their audit function on different aspects. Further it ensures that IA management can focus their efforts on the aspects that matter for the IAF.

This figure shows an example of a balanced scorecard for the IAF. Do note this is an example and content should be adapted to the organization and maturity level of the IAF.
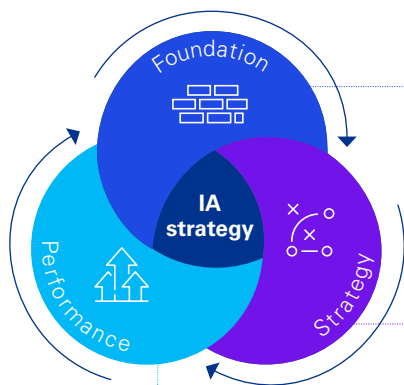
Component	KPI	Criteria	Target
Framework	• Open vacancies • Guest auditors	• Number of open vacancies for the IAF • Number of guest auditors assisting in audits	• 0 • 4 per year
Resources	• Team structure of the IAF	• Ratio between operational, financial and IT auditors	• 1/3, 1/3, 1/3
Data	• Use of continuous 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 the Standards	• 100%
Plan	• Audits plan completion	• % of planned audits completed	• 100%

Component	KPI	Criteria	Target
Positioning	• Top risks coverage	• % of audit committee '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%
	• Audit plan coverage	• % of the organization covered by the audit plan in a three year period	• 100%
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%
Communica-tion	• Regular communications	• 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 ($/€/hours)	• 100%
Perception	• Complaints • Satisfaction level	• # of complaints about the IA department • Satisfaction level of the audit committee with the IAF's performance	• 0 • 8/10
Alignment	• Alignment with business objectives	• % of audits that are aligned with the business objectives and needs	• 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 believe the Standards are a great tool to look ahead and determine what impact you want to make as an audit function in the future.

We have analyzed the changes between the 2017 and the new 2024 Standards. One of the major implications is that the Standards have a more mandatory character for an IAF. The wording in the Standards indicate what an IAF must do rather than should do. 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:

Furthermore, the publication of the new standards will be followed by topical requirements. One example is the recent (draft) publication about cybersecurity. This requirement is quite rule-based rather than principle-based, which means an IAF must follow specific guidelines rather than determining their own approach when doing an audit on cybersecurity. This change will likely require some adaptation for internal auditors, but ultimately will help ensure a more consistent and comprehensive approach to cybersecurity across all organizations.'

As indicated, the overview provided above is only a selection of the total adjustment and updates in the new Standards. Other changes related to an updated glossary and ensuring that the Standards are better applicable and specified for smaller IAFs and auditors in the public sector. This includes considerations for implementation section that specifically helps internal auditors in the public sector to demonstrate conformance to the Standards. Finally, the new Standards offer a more detailed elaboration on topics such as objectivity, legality, ethics, honesty, and professional courage compared to the previous 1200 Standards.

1 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 their reason of existence, how their work serves the public interest and what type of services they deliver and what these entail.

2 Clarification on the role of the board related to oversight of the performance of the IAF (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. Additionally, the board needs to understand the qualifications and competencies of the CAE.

3 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 IAF.

4 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.

5 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 conclusion the professional skepticism requirement is further specifying this by mentioning that it is required to evaluate whether information is reliable.

How can KPMG help?

KPMG support	Benefits for you	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 **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 of Internal Audit model** including the trends and developments.
Support on implementation	We will support your audit function in 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.

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