

Foreword

In January 2024, the Institute of Internal Auditors (IIA) published the Global Internal Audit Standards (the Standards) to support the evolution of the profession and to aid organizations in mitigating a constantly changing and dynamic risk landscape.

During May 2024, the Financial Services Authority (FSA), Sultanate of Oman, issued Circular No. 8 of 2024 'Introduction of the new Global Internal Audit Standards (GIAS) as issued by the Institute of Internal Auditors.

The Circular calls for action on the part of Internal Audit, Audit Committees, and wider stakeholders to assess readiness and ensure compliance on or before 9 January 2025.

The International Standards for the Professional Practice of Internal Auditing, issued in 2017 (the 2017 Standards), remain authorized for use during the transitional period. The new standards must be implemented by 9th January 2025, while early adoption of the new Standards is encouraged.

The Global Internal Audit Standards are drafted with the aim of helping organizations stay ahead of the constantly evolving and dynamic risk landscape. They are a guide for practices used globally, and are an essential component of an effective and efficient Internal Audit (IA) function. Developing practices in line with these Standards will enable an IA function to conduct purpose-driven and digitally powered Audits that align with the organization's strategy, anticipate risk, and assist management in putting in place the correct processes and controls to meet future challenges effectively.

We have compiled a summary of the most significant changes in the new Standards to emphasize their importance. Our experience with IA clients and quality assessment reviews in the region has allowed us to identify some of the new requirements that IA departments may not yet have in place. These areas are where Chief Audit Executives (CAE) may wish to concentrate their efforts when reviewing the new Standards.

We have also included key considerations for the Audit Committee, along with implementation guidance and how KPMG can help.

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Key structural changes

- The new Standards combine into one all-inclusive document multiple guides that previously encompassed the mandatory and implementation guidance sections within the 2017 Standards. Specifically, the new Standards incorporate the five mandatory elements of the current framework (Mission of Internal Audit, Definition of Internal Auditing, Core Principles for the Professional Practice of Internal Auditing, Code of Ethics, and Standards) as well as one of the recommended non-mandatory elements, the Implementation Guidance. These will no longer exist as separate elements.
- The Standards are not divided into "attribute" and "performance" categories and do not contain "interpretations" as a separate section of the standard. The "A" (assurance) and "C" (consulting) implementation standards have been incorporated into the main body of the proposed Standards.
- The numbering system and order of the Standards have changed completely. The new Standards are organized into five domains and 15 principles.





Notable changes and updates to the Standards

The Global Internal Audit Standards (GIAS) consist of 15 Principles, 52 Standards, and five domains. The Standards are being updated to give Internal Auditing a new purpose, differentiate between requirements and suggestions, and address nuances in practice (such as the public sector, smaller IA functions, and advisory services).



We provide a summary of the key changes below:

Essential conditions

(Domain III | Standards 6.1 through to 8.4)

- The IIA has introduced a new concept with the latest update to the Standards as "Essential Conditions."
- Domain III, 'Governing the Internal Audit
 Function,' defines the role of Chief Audit
 Executives (CAEs) in supporting the board and
 senior management in performing necessary
 oversight responsibilities for a practical IA
 function.
- The Standards define "Essential Conditions" for the board and senior management to be present for the IA function to meet its mandate and fulfill the purpose of Internal Auditing.

IA strategy

(Domain IV | Standard 9.2)

- Standard 9.2 requires the CAE to develop and implement a strategy for the IA 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.
- The IA Strategy is intended to guide the IA function toward fulfillment of its purpose. The vision should describe the desired future state in three to five years. Strategic objectives define achievable targets to attain the vision. Finally, supporting initiatives outline the specific tactics and steps for achieving the objectives.



Notable changes and updates to the Standards (cont.)

Integrated assurance and the IA plan

(Domain IV | Standard 9.4 & 9.5)

- Standard 9.4 requires that the IA plan must be based on a documented assessment of the organization's objectives, and risks. This assessment must be informed by the CAE's understanding of the organization's governance, risk management, and control processes and must be performed at least annually.
- The considerations for implementation state the IA function should only rely on management information about risks if IA has concluded that the organization's risk management processes are effective.
- Standard 9.5 requires the CAE to coordinate
 with internal and external providers of assurance
 services and consider relying on their work.
 Coordination of services minimizes duplication
 of efforts and highlights gaps in coverage of key
 risks.

Building relationships

(Domain IV | Standard 11.1)

• The new Standards provide an opportunity for the Chief Audit Executive (CAE) to develop a plan aimed at building trust and managing relationships with key stakeholders. The suggested approach involves utilizing both formal and informal interactions that are consistent and reliable, in order to foster trust with the organization's employees. By following this approach, the CAE can establish strong relationships with stakeholders, which will assist the organization in achieving its goals.

Performance measurement

(Domain IV | Standard 12.2)

• The Chief Audit Executive (CAE) bears the responsibility of setting performance objectives, better known as key performance indicators (KPIs), to evaluate the effectiveness of the IA function. Additionally, the CAE must devise an action plan to address any issues and opportunities for improvement if the KPIs are not met. The guidelines for this Standard offer a range of performance categories that the CAE can consider when setting these KPIs.

Report and findings ratings

(Domain V | Standards 14.3 & 14.5)

- The 2017 Standards noted that IA must communicate the findings and results of its work but did not require rankings and ratings. The new Standard 14.5 do not require an overall report rating, but do require an engagement conclusion "...that summarizes the engagement results relative to the engagement and management objectives..."
- As per Standard 14.3, individual engagement findings must be prioritized based on significance. Ratings and/or rankings are not mandatory but recommended. The "Considerations for Implementation" suggests a rating scale, such as satisfactory, partially satisfactory, needs improvement, or unsatisfactory.

Enhanced requirements for External Quality Assessments

(Domain III | Standard 8.4)

 Consistent with 2017 Standards, the new Standards require an external quality assessment (EQA) to be performed every five years, which can be accomplished via self assessment with independent validation, if desired. The new Standards require that the board of directors must review EQA results, and the assessment team must include at least one individual with an active certified internal auditor (CIA) designation.

Technological resources

(Domain IV | Standard 10.3)

Standard 10.3 Technological Resources
requires the CAE to ensure IA has access to
appropriate technology. Regular tech evaluations
should be conducted to identify opportunities
for improvement. Proper training must be
provided for new tech, and collaboration with
Information Technology and Information Security
functions is essential. Any limitations should be
communicated promptly to the board and senior
management.



Domain III, 'Governing the Internal Audit Function' of the Standards is a newly introduced section and addresses the importance of having appropriate governance arrangements to enable the IA function to be effective. Specifically, this sets out the requirements for Chief Internal Auditors to work closely with the Audit Committee to establish the function, position it independently and provide information to the Audit Committee to enable it to assess its performance.



A summary is provided below:

- The Audit Committee and Senior Management should discuss specific Standards that define the purpose of IA and support the function's mandate.
- The Chief Internal Auditor must provide information to support and promote the recognition of the IA function. This includes meeting with the Chief Internal Auditor at least annually and independently from management.
- The Chief Internal Auditor must formally confirm organizational independence to the Audit Committee on an annual basis, including areas where it may have been impacted and the relevant safeguards implemented.
- The Chief Internal Auditor must assist the Audit Committee in understanding the necessary experience and qualifications required for the Chief Internal Auditor role. The Audit Committee is expected to evaluate the role profile of the Chief Internal Auditor regularly and advocate for their continuous professional development and education.
- The Audit Committee is responsible for ensuring that the IA function has sufficient resources (number and capability) to fulfil its mandate and to understand how the function is fulfilling its mandate. The Audit Committee must receive sufficient information to properly challenge the effectiveness of the Chief Internal Auditor and the IA function through the quality assessment and improvement programme.
- The Chief Internal Auditor must develop a plan for External Quality Assessment (EQA) and communicate this to the Audit Committee. The Standards provide greater detail on the considerations for an EQA and the selection processes that should be implemented.



Implementation guidance



Undertake a gap analysis against the new Standards to understand the current level of conformance

Conducting an IA gap analysis to understand the necessary changes required to meet the new Standards is an important first step.

It is crucial to engage with key stakeholders, including the Board/Audit Committee, Senior Management, and Risk and Compliance functions in stakeholder workshops, to discuss the implications of the identified changes.

How can KPMG help?

Execution of a gap analysis based on the 'as-is' state.

2. Develop an action plan to address gaps and align with the Standards

Once the impact has been assessed, we can then collaboratively agree on the most appropriate actions and priorities that will yield the best outcomes for the organization.

It is advised that a formal action plan is developed, including the relevant agreed action, tagged action owner(s) and timelines, in line with the assigned priorities.

How can KPMG help?

Development of an implementation plan to achieve the 'to-be' state.

3. Implement the plan to achieve conformance

Further, the action plan should be formally disseminated to all impacted stakeholders, requiring periodic updates to ensure timely completion.

Implementation plans may include updates to IA's:

- Mandate and strategy;
- Policies and procedures;
- · Reporting lines and communication;
- Quality Assurance Programme and plan; and
- Technology, systems and data.

How can KPMG help?

Implementation of the action plan, utilizing our know-how and material to streamline the process.

4. Conduct training and maintain conformance

IA should undergo training on the new Standards to understand the requirements. The IA training programme and methodology should be updated to reflect the new Standards, incorporating the IIA's new Topical Guidance.

Further, ongoing monitoring and improvement mechanism of the implemented processes and activities should be established.

How can KPMG help?

Conducting training for IA, covering key changes and guidance to best equip the team.

About KPMG in Oman



Establishment

KPMG in Oman is a part of KPMG Lower Gulf's regional network and KPMG International Cooperative's global network. For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

Established in 1973, the Lower Gulf firm now employs 1,783 people across four offices, including 192 partners and directors in Oman and the UAE.

An international network of professionals

KPMG Oman LLC is part of KPMG International Cooperative's global network of professional member firms. Entering its 152nd year, the KPMG network includes approximately 236,000 professionals in over 145 countries worldwide. KPMG in Oman is well connected with its global member network and combines its local knowledge with international expertise, providing our clients' sector and specialist skills.

KPMG is widely represented in the Middle East: along with offices in Oman, UAE, Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, Lebanon, Palestine, and Iraq.

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How KPMG can help

Our GRCS practice helps clients in Oman strengthen 'governance', manage 'risks', and ensure 'compliance' to navigate today's complex business environment. We help our clients enhance and streamline their operations through financial and operational internal auditing, practical risk assessment, building model business processes, creating an ERM framework, and testing internal controls.



Key considerations



Resilience Services - Our Enterprise Risk Management offering helps clients assess and manage risks and set up processes that make risk management sustainable. As part of our Business Continuity Management practice, we help build an organization prepared for crises. Our effective risk and resilience management program is based on leading industry standards, ISO 22301:2019.



Corporate Governance - We assist directors and management in identifying the applicable regulations to understand the regulatory environment better. Our approach combines an analysis of the regulatory framework with an assessment of the systems and processes that can help to ensure compliance and sound corporate governance.



Internal Audit and Financial Controls—The solution helps clients establish their IA functions and undertake risk-based internal audits through outsourced and co-sourced arrangements.



Environment Social Governance—We assist our clients in driving sustainable innovation across their businesses and help them gain a competitive edge. With deep experience across critical issues—including climate change, decarbonization, ethical supply chain, circular economy, DEI (diversity, equity, and inclusion), governance, ESG reporting, and measurement—KPMG professionals help create the blueprint for your ESG journey. A blueprint that simplifies your strategy guides its full implementation and enables you to manage and report on your ESG journey.



Regulatory Compliance - We perform diagnostic reviews to benchmark our clients' compliance framework practices with KPMG regional and global leading practices to identify critical deficiencies and develop an implementation roadmap to strengthen their compliance frameworks.

KPMG as an Internal Audit partner

Whether you opt for an outsourcing, co-sourcing or insourcingsolution, we can provide the following services:



Act as sparring partner for all issues related to the role, position and audit agenda of the Internal Audit function.



Support all process steps of an Internal Audit function, from planning to execution of audits, reporting and tracking.



Offer worldwide local support with specific language skills and knowledge regarding local regulatory requirements.



Provide the latest audit methodology (KPMG Internal Audit methodology, DA, Internal Audit tools).



Provide access to best practice and benchmarking.

Through our proven methodology, our experience and extensive expertise, we are the right partner for you to fully exploit the potential of your Internal Audit function in an increasinglycomplex environment.

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