

Key challenges from early GIAS implementation

New Global Internal Audit Standards (GIAS)

Internal Audit, Risk and Compliance Services (IARCS)

Based on the experience and insights gained in the first four months since the Institute of Internal Auditors (IIA) issued the new GIAS, this paper summarizes the findings from gap assessments of various internal audit (IA) functions and discussions with several chief audit executives (CAEs). It highlights the key challenges that IA functions face in conforming with the new standards.

Context overview

Over the past two years, the IIA has completely revised the 2017 International Professional Practice Framework (IPPF). The results were published on 9 January 2024 with the new GIAS. The latter will enter into force on 9 January 2025. Therefore, the previous version will remain valid for a transitional period of one year. However, the IIA encourages early adoption of the new GIAS.

Key changes of the new GIAS

In summary, the following key changes apply:

Structural changes:

- 1) The new GIAS combines multiple guides into an all-inclusive document that previously encompassed the mandatory implementation guidance section within the 2017 IIA Standards.
- 2) The Standards are no longer split into “attribute” and “performance” categories. Furthermore, “interpretations” is not a separate section anymore.
- 3) The numbering system as well as the order of the standards have changed.

Content changes:

- 4) The definition of “essential conditions” is new. These conditions refer to the function of the board and senior management, that must be in place for the IA function to fulfill its mandate and purpose.
- 5) The requirement that the CAE must develop and implement a strategy for the IA function which supports the organization’s strategic objectives.
- 6) The IA plan must consider the organization’s strategies, objectives and risks.
- 7) New requirements regarding IA reports are in place. Such IA reports must include an engagement conclusion that summarizes the results relative to the engagement objectives. Furthermore, individual engagement findings must be prioritized based on their significance.
- 8) The requirements for the execution of an external quality assessment will be enhanced. The CAE must ensure that at least one member of the audit team is an active Certified Internal Auditor.

Key challenges in complying with the new GIAS

1) Internal Audit mandate

The new GIAS require that the CAE must periodically assess whether changes in circumstances justify a discussion with the board and senior management about the IA mandate.

Observed issues:

- The mandate in the IA charter neither (fully) defines IA's role, responsibilities, and activities in practice (assurance, consulting, etc.) nor the expectations of the board and senior management.
- The IA mandate is formally defined in the IA charter. However, the legal requirements and laws are not mentioned in the IA charter.
- The IA budget and/or resource plan has not been approved by the board.

2) Internal Audit strategy

Based on the new GIAS, the CAE must develop and implement a strategy for the IA function that supports the long-term or overall strategic objectives as well as the success of the organization.

Observed issues:

- No IA strategy is in place.
- The IA strategy does not include nor consider the organization's strategic objectives.
- The IA strategy was not discussed with the board or senior management. IA's key stakeholders are unaware of the IA's strategy.

3) Board interaction & communication

One of the key changes of the new GIAS focuses on a more comprehensive communication, interaction and collaboration between the CAE and the board.

Observed issues:

- The criteria for which issues should be reported to the board - such as significant risks that exceed the board's risk tolerance – are not defined.
- The CAE has not discussed the sufficiency of the resources and capabilities with the board.

4) Quality & performance management

With release of the new GIAS the IIA has further increased the requirements regarding quality assurance and performance evaluation of the IA function.

Observed issues:

- The CAE does not confirm the compliance with the standards, relevant laws or the achievement of performance objectives (e. g. reporting in the Annual Report) on an annual basis.
- No (formal) performance objectives are defined for the CAE resp. the IA function.
- The performance objectives of the IA functions are limited to 1 - 3 goals (inappropriate balance of performance objectives).

5) Technological resources

The new GIAS require that the CAE must periodically evaluate the technology used by the IA function. Furthermore, the CAE must pursue opportunities to improve effectiveness and efficiency.

Observed issues:

- No (periodical) formal evaluation of the technological resources used by IA was performed by the CAE.
- The CAE has not communicated to the board and the senior management any impact of technology limitations on IA's effectiveness and efficiency.

6) Engagement Conclusion & Results

The new GIAS include requirements regarding the communication of engagement results for audit missions and holistically across several audits.

Observed issues:

- There was no reporting on findings and no holistic conclusions across multiple engagements. As a result, there was a lack of focus on patterns or trends.
- The audit report lacks an engagement conclusion that summarizes the results of the engagement in relation to the engagement objectives and management's objectives.
- If the audit report contains an overall conclusion, it covers only one of the three required aspects of governance, risk management or the internal control framework.

7) Engagement risk assessment

The new GIAS include requirements regarding the planning phase of single audit missions.

Observed issues:

- The risk assessment of a single audit mission, being a part of the planning phase, does not consider the organization's risk tolerance that is relevant for the activity under review.
- IA has neither considered the criteria, defined by the board and the senior management, within the activity under review, nor the objectives and/or their achievement.

Recommended actions?

As announced by the IIA, the new GIAS will enter into force on 9 January 2025. Until then, the current IPPF released in 2017 remains valid. However, the IIA encourages early adoption of the new GIAS. Therefore, we recommend that CAEs:

- Inform the board and senior management on the new GIAS and to what extent they are affected;
- Evaluate the impact of the new GIAS on the IA function and the organization as a whole and establish a roadmap highlighting IA's activities to conform with the new GIAS; and
- Present and discuss the roadmap with the board and senior management.

How can KPMG support you?

Our team of experts can help you in a variety of ways on your journey to compliance with the new GIAS.

Tailored approaches based on assessment timelines:

Assessments performed in 2023 or earlier

- We offer a gap analysis for the new GIAS
- Your benefits: a detailed roadmap for achieving compliance with the new GIAS requirements.

Upcoming assessments due in 2024

- We offer an external assessment under existing IPPF + gap analysis for new GIAS
- Your benefits: statement of compliance with current standards while preparing for future requirements, offering a forward-looking perspective and readiness for the next assessment cycle.

Assessments due in 2025

- Option 1: accelerate your 2025 assessment to 2024 under the existing IPPF, including a simultaneous gap analysis for the new GIAS.
- Option 2: perform a standalone gap analysis in 2024 to prepare for the new GIAS.
- Your benefits: statement on compliance with current standards and early adoption of the new GIAS, ensuring seamless transition.

Contact us

KPMG AG

Badenerstrasse 172
Postfach
CH-8036 Zurich

kpmg.ch



Martin Rohrbach

Partner,
Head Internal Audit, Risk and
Compliance Services (IARCS)
+41 58 249 71 28
martinrohrbach@kpmg.com



Alessandro Gabriele

Senior Manager
Head IARCS
Western Switzerland
+41 58 249 28 39
alessandrogabriele@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The scope of any potential collaboration with audit clients is defined by regulatory requirements governing auditor independence.

© 2024 KPMG AG, a Swiss corporation, is a subsidiary of KPMG Holding AG, which is a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.