**Introduction**

*The Global Internal Audit Standards, 2024 (GIAS) states:*

*‘While conformance with the requirements is expected, internal auditors occasionally may be unable to conform with a requirement yet still achieve the intent of the standard. Circumstances that may necessitate adjustments are often related to resource limitations or specific aspects of a sector, industry, and/or jurisdiction. In these exceptional circumstances, alternative actions should be implemented to meet the intent of the related standard.’*

The GIAS refers to small internal audit functions throughout. It recognises that there are challenges for smaller functions when applying the requirements within the GIAS and it states:

*‘The internal audit function’s ability to fully conform with the Standards may be affected by its size or the size of the organization. With limited resources, completing certain tasks may be challenging.’*

**Addressing Non-Conformance**

While the GIAS states that a small internal audit function is a circumstance where conformance with the exact Standard may not be possible, the rationale for this and alternative actions / activity needs to be recognised, discussed and documented.

*‘In these exceptional circumstances, alternative actions should be implemented to meet the intent of the related standard. The chief audit executive is responsible for documenting and conveying the rationale for the deviation and the adopted alternative actions to the appropriate parties.’*

However, the GIAS also recognizes that conformance may not be possible and in Standard 4.1 it explains the steps to take where this is the case.

*‘When internal auditors are unable to conform with a requirement, the chief audit executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale.’*

When the non-conformance is permanent then we would recommend that this is explained in the Internal Audit Charter, along with any impacts on the Mandate in a section title ‘Non-Conformance with the Global Internal Audit Standards,’ or similar. Where it is a temporary position then the Internal Audit Strategy should include the challenges and the initiatives to move to conformance, in a specific section such as ‘Actions to address known non-conformances with GIAS.’

To support this, however, the CAE needs to complete the periodic self-assessment, required in the GIAS Standard 12.1 – Internal Audit Assessment. It may be challenging to find the time to dedicate to this exercise, but it underpins the discussion / approval of both documents by the Board (Audit Committee). This will ensure that the areas of non-conformance are escalated, the impacts are understood, and any changes needed can be championed by the Board in line with the Essential Requirement to:

*‘Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.’*

**What is a small internal audit function?**

The GIAS states that a small internal audit function is one that comprises of 3 or less full-time internal auditors. This said, the GIAS also recognises that the challenges are not just due to the internal audit team size, but also the size of the wider organisation.

The size of an internal audit function can also change, and it may be right for it to grow to support the future assurance needs of the organisation. Therefore, including such growth aspirations in the Internal Audit Strategy would give this visibility, and enable the Board (Audit Committee) and Senior Management to champion and support this, given their input into developing the future direction of the internal audit function.

While GIAS specifically mentions teams of 3 or less, this guidance may well be useful to internal audit functions with up to 10 team members, particularly if some have part time or amended working patterns, such as term-time only.

**The Chief Audit Executive Challenge**

The Chief Audit Executive (CAE) is charged with many responsibilities within the GIAS. However, if there is only a CAE or a small team, the balance of their responsibilities from being fully strategic and leading the internal audit function may swing into delivering internal audit engagements. Even as a full time CAE, this can be extremely challenging and hard to balance the demands day to day.

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| Using the Board (Audit Committee) chair as a sounding board for making decisions around priorities can be useful, but there is no easy solution here other than for the tasks being performed to be proportionate to the time available:   * **Internal audit planning cycle** – use a basic risk assessment methodology, rather than an all-encompassing approach, using auditor judgement more than a formulaic approach. * **Internal audit reporting** – keep the reports simple and to the point and maximise the use of word processing and related software as much as possible. Remember the GIAS does not stipulate written reporting, so you could choose some less important areas to be delivered verbally or using a presentation style. * **Internal Self-Assessment** – use free tools such as the Chartered IIA’s to complete the activity rather than developing your own. * **Internal Audit Strategy** – consider the level to which you want to conform with the Standards – do you want to conform with all of them, or maybe 95% of them? Then you can write your strategy to get you to the position you wish to be. * **Use your networks** – having a strong network means you can share tools, practices, strategies and plans to help benchmark what you do but also gain from others experience. |

**The Human Resource Management Challenge**

GIAS Standard 10.2 – Human Resources Management, states:

*‘The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. Appropriate refers to the mix of knowledge, skills, and abilities; sufficient refers to the quantity of resources; and effective deployment refers to assigning resources in a way that optimizes the achievement of the internal audit plan.’*

It is this Standard where we find some of the challenges associated with a small internal audit team in that:

* the mix of knowledges, skills and abilities may not map to the internal audit plan needs in full.
* there may not be enough team members to deliver the audit days needed to fully complete the internal audit plan; and
* it may not be possible to have team members with the right knowledge, experience and skills on an internal audit engagement due to availability.

It is important that in line with Standard 9.4 – Internal Audit Plan, that these challenges are raised, the impact is discussed, and course of action agreed with the Board (Audit Committee):

*‘The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:*

* *The impact of any resource limitations on internal audit coverage.’*

While this explains how to raise the issue, the GIAS does not explain what appropriate responses are, but the action being taken needs to consider the assurance needs of the organisation.

One option is to consider outsourcing or co-sourcing internal audit engagements with a professional services firm or through a shared service arrangement, where budgets allow. However, this is usually a constraint for smaller organisations, where the internal audit budget is more restricted. In which case the Board may wish to discuss this with the appropriate Finance Committee responsible for budget approvals, on behalf of the internal audit function, in its role as a champion. To support this the CAE would need to be clear on what resource is needed and why this cannot be fulfilled within the internal audit function.

Another resourcing option is working with other assurance providers, such as a compliance or risk management team. However, these may not exist. Working collaboratively with a second line function would need to ensure that internal audit is taking the lead and deciding on the scope of the work, to maintain its independence. This can be a mutually beneficial arrangement.

Secondment (for example from a graduate programme), guest auditors or collaborative working with subject matter experts on individual internal audit engagements, can also help. Agreeing with the audit client as part of the internal audit planning cycle, that a certain level of resource will be provided by them can add audit days to the audit plan. Again, concerns around independence and objectivity need to be carefully managed, but a collaborative style of working and bringing in guest auditors from other assurance functions has many benefits.

Where alternative resources are not available to meet the needs of the full internal audit plan then it would be necessary to acknowledge that the scope of internal audit must be limited to fit within the resources available. This is a limitation on scope and therefore would need to be fully discussed with the board and senior management including the impact this has on the assurance provision. For example, for internal audit functions which produce an annual assurance opinion, a limitation of resources can impact on the breadth and depth of work that can be carried out, meaning the annual assurance opinion is not covering as the assurance needs of the organisation.

**The Quality Assurance Challenge**

Ensuring that internal audits are performed to a high standard underpins the reliability of the findings and resulting recommendations/management actions. However, quality processes rely on having a second team member, with time available. This is an area which GIAS acknowledges will be a particular challenge for small internal audit functions:

*‘If the internal audit function comprises only one member, an adequate quality assurance and improvement program will require assistance from outside the internal audit function.’*

While this specifically highlights teams of one, this is still a challenge for smaller internal audit functions and therefore the suggestion of an external party performing the quality process, may well still be an appropriate alternative. However, the issue of financing an external ongoing quality process, may prohibit this either in full or in part.

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| Again, each internal audit team’s response will be different, but there are options available:   * A full quality process is outsourced for all internal audit engagements, either outside of the organization or to another department within (e.g., Compliance, Risk Management). * A full quality process is completed, but on a risk-based approach – higher risk internal audits have a full quality review, lower risk audits have a lighter touch, or no review. * Ad-hoc / spot quality reviews are performed as and when resources allow. * Automated quality checks are used through internal audit software, where available. |

**The Supervision Challenge**

Standard 12.3 – Oversee and Improve Engagement Performance, explains the importance not only of quality processes within the engagement, but also of supervision:

*‘The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies.*

* *The chief audit executive or an engagement supervisor must provide internal auditors with guidance throughout the engagement, verify work programs are complete, and confirm engagement workpapers adequately support findings, conclusions, and recommendations….*
* *To develop competencies, the chief audit executive must provide internal auditors with feedback about their performance and opportunities for improvement.’*

This again can be a challenge in relation not only to the time needed to perform supervision, but also having the necessary supervision and coaching/mentoring skills and experience. The responses to this challenge are varied and tie into the options for the quality process, as the output from this is providing feedback to the internal auditors. However, supporting continuing professional development, is more than transactional style quality points from a review of the documentation, but goes beyond this into skills and behaviours.

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| Therefore, alternatives are needed to support these areas:   1. Use the organization’s appraisal process to its full, even if this is not the case in the wider organization. If there is no such process in place, then implement a simplified one for the internal audit team. 2. Use regular 1-1s to support professional development. These do not need to be lengthy or regular, a 15-minute meeting each month may be sufficient, as in a small team, things are more easily discussed on an ad-hoc basis. 3. Use mentor/coaching services from outside the organization. Budget may restrict this, but professional bodies can provide networks for this. |

**The Training Challenge**

Smaller internal audit teams often have small budgets set aside for training and demands on time can be challenging. The GIAS does not have specific requirements around training topics or hours to be spent, but it does require professional development to be provided according to the needs of the internal audit professional. This includes Continuing Professional Development for those holding [Certified Internal Auditor (CIA)](https://www.theiia.org/en/certifications/cia/cpe-requirements/) and [Chartered Internal Auditor (CMIIA)](https://www.iia.org.uk/members/continuing-professional-education/).

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| Finding sources of training which align with tight budgets is always a challenge, but here are some ideas to explore:   * **Cross train** – use the internal auditors in the team to train other internal auditors. * **Share training** – where an internal auditor has attended a training course or similar, ensure that they share the key learning points with the other team members. This can either be at a meeting or by sharing documentation from the training through a central library. This is maximising the return on the training investment cost but can also help develop the internal auditor’s own training skills. * **Free training** – there are online free training solutions and resource available, often from professional bodies, including the special interest groups at the Chartered IIA. * **On the job training** – using productive work to develop individuals’ knowledge and skills under the supervision of a more experienced team member. * **Working / liaise with subject matter experts** from other parts of the organisation, again to take advantage of knowledge transfer and gain insight. * **Internal audit engagement documentation** – ensuring this includes the key information, knowledge and lessons learned to support future engagements. |

GIAS does talk of ethics training to support professional courage and the CPE requirements of both the CIA and CMIIA includes a mandatory requirement of a minimum of 2 hours ethics training. However, for both, there are no specifics on the content or method of the ethics training. Therefore, this can be tailored to meet the needs of the internal audit team. So, examples could include existing internal training; a discussion of ethical dilemmas in the workplace; or on-demand online training – all of which vary in cost and time commitment.

As there are no specific requirements in GIAS, there is no conformance issue here, however it is recognised as a challenge within the overall expectations of the GIAS Domain II – Ethics and Professionalism.

**Concluding Advice**

The global Internal Audit Standards have proportionality based on size and sector built in and chief audit executives should not be afraid to use this concept when determining what is right for their internal audit function. CAEs should remember that where full conformance with every Standard as written is not possible then:

1. Consider whether you conform with the intent
2. Discuss the variations and non-conformance areas with the Board and Senior Management, ensuring that they understand the impact
3. Document permanent areas of non-conformance in a dedicated section of the internal audit charter.
4. Include actions to address non-conformance in the internal audit strategy and/or the functions improvement plan.
5. Use the periodic self-assessment to support your view of non-conformance on an ongoing basis.