



Implementing the New Global Internal Audit Standards to Elevate Performance and Governance

California Public Employees' Retirement System

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Facilitating Today



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Meet Weaver

Purpose-built to focus on meeting the needs of public pension plan clients.

4 of the top 10
Serving the largest Pension
Funds in the US

Serving 27 Public
Pension funds nationally
since 2023

2,500+
Investment Fund Clients

\$1.5 T
Public and Investment
Fund client AUM

What Clients Say

“The team at Weaver has always been highly professional and a pleasure to work with even under the most difficult audit circumstances.”

— **WEAVER STATE GOVERNMENT CLIENT**

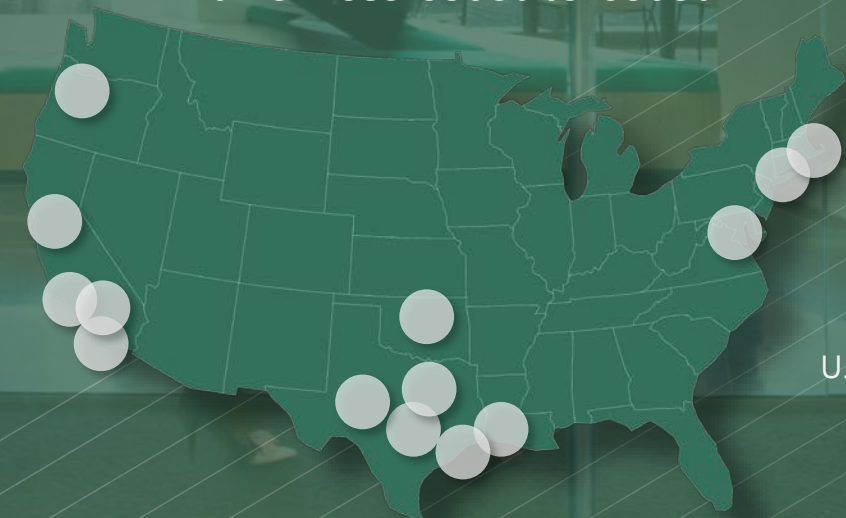
Dedicated Government Industry Services

- » Risk assessment
- » Internal audit
- » Business process improvement
- » IT audit and security
- » External audit
- » Strategic planning
- » Organizational development
- » Forensic accounting
- » Fraud investigation
- » Valuation

MORE THAN
300
CLIENTS

STATE GOVERNMENT
LOCAL GOVERNMENT
HIGHER EDUCATION
REGIONAL ENTITIES
PUBLIC K-12

National accounting and advisory firm
with offices coast to coast



21
U.S. Locations

Learning Objectives

1



Background on
Internal Audit and
the new Global
Internal Audit
Standards

2



Understanding
the new Global
Internal Audit
standards

3



Impact to the
Board

Purpose of Internal Auditing

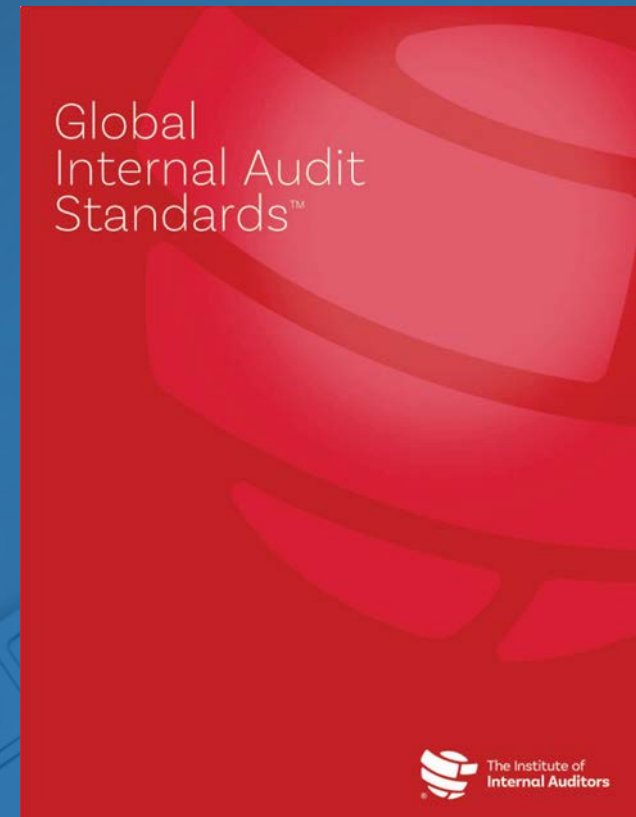
Purpose Statement

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Required under CA GC 13886.5

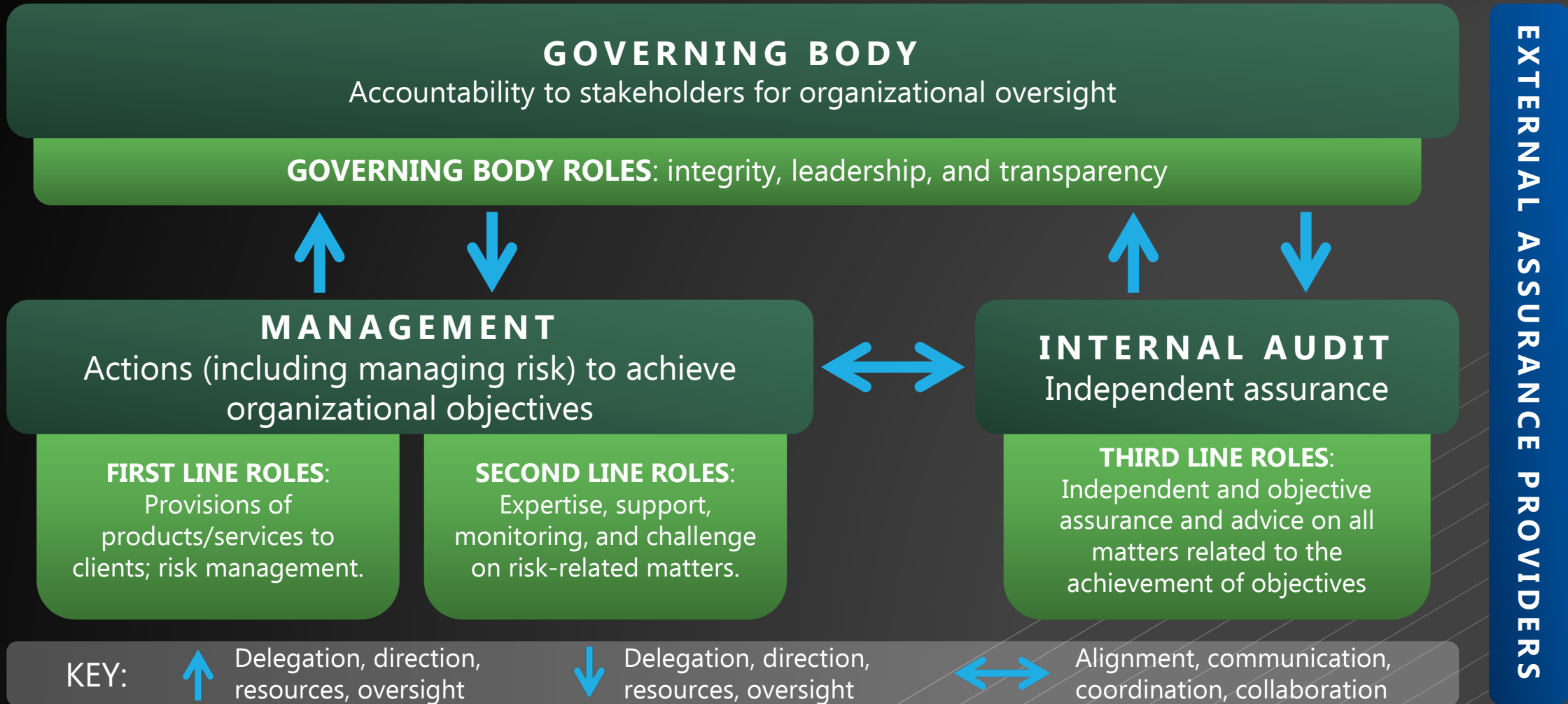
All state agencies that have their own internal auditors or conduct internal audits must follow the general and specified standards of internal auditing prescribed by the Institute of Internal Auditors (IIA) or the Government Auditing Standards

CalPERS Internal Audit follows the IIA Standards



Three Lines Model

The **Three Lines Model** is a widely recognized framework for managing risks and ensuring effective governance. This model clearly defines roles and responsibilities within an organization to strengthen accountability and enhance risk management processes.



Three Lines Model

The **Three Lines of Model** is a widely recognized framework for managing risks and ensuring effective governance. This model clearly defines roles and responsibilities within an organization to strengthen accountability and enhance risk management processes.

1 Operational
Management

2 Risk, Compliance,
and Oversight
Functions

3 Internal Audit

Benefits of the Three Lines of Model

- » **Clarity and Accountability:** Clearly delineates responsibilities, ensuring that everyone understands their role in risk management.
- » **Enhanced Governance:** Strengthens oversight at all levels, fostering transparency and trust.
- » **Risk Awareness:** Embeds a culture of proactive risk identification and mitigation across the organization.

How the Model Supports the Board

- » Provides the board with a structured framework to assess the organization's governance and risk management practices.
- » Enhances the board's ability to oversee management's adherence to strategic goals, regulatory requirements, and risk appetite.
- » Strengthens independent assurance to the board, ensuring effective checks and balances.

The IIA: Why Standards Matter



Establishes the expectations that must be followed for the department on how to manage the department and perform an internal audit



Provide credibility to clients on our approach and procedures



Provides a reference guide for how to conduct an audit and perform as an internal auditor

IIA Revisions to the Standards

International Professional Practices Framework (IPPF)



IIA Revisions to the Standards



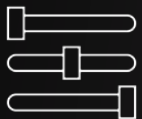
Consolidation of Framework Components: The new standards integrate previously separate elements—such as the Mission, Definition, Core Principles, Code of Ethics, and Implementation Guidance—into a unified document to streamline guidance and enhance clarity for practitioners.



Introduction of Guiding Principles: 15 guiding principles designed to enable effective internal auditing, each with specific standards that outline mandatory requirements, considerations for implementation, and examples of evidence for conformance.



Enhanced Governance Frameworks: The standards emphasize strengthening governance structures to improve organizational responsiveness to rapidly changing business environments including specific guidance to assist internal auditors in the public sector.



Flexibility and Adaptability: Recognizing the diverse challenges faced by auditors globally, the standards provide a flexible framework adaptable to various organizational contexts, including specific guidance on critical areas like cybersecurity.



Effective January 2025



5 Domains, 15 Principles

Domain I: Purpose of Internal Auditing

Domain II: Ethics and Professionalism

1. Demonstrate Integrity
2. Maintain Objectivity
3. Demonstrate Competency
4. Exercise Due Professional Care
5. Maintain Confidentiality

Domain III: Governing the Internal Audit Function

6. Authorized by the Board
7. Positioned Independently
8. Overseen by the Board

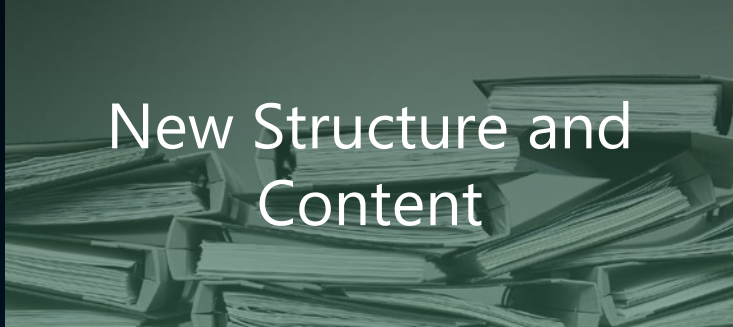
Domain IV: Managing the Internal Audit Function

9. Plan Strategically
10. Manage Resources
11. Communicate Effectively
12. Enhance Quality

Domain V: Performing the Internal Audit Function

13. Plan Engagements Effectively
14. Conduct Engagement Work
15. Communicate Engagement Conclusions and Monitor Action Plans

Summary of Key Changes



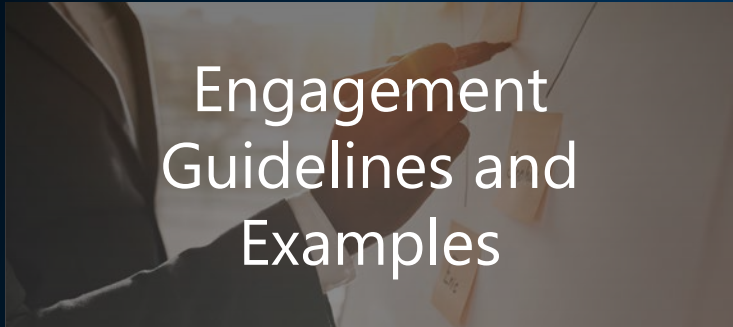
New Structure and
Content



New Purpose
Statement



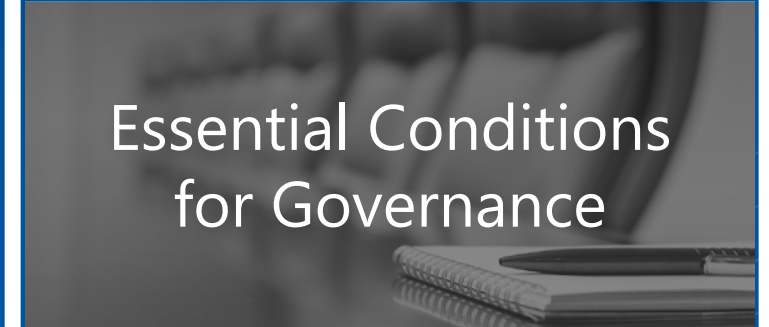
Board Oversight and
Support



Engagement
Guidelines and
Examples



Ethical Principles and
Standards



Essential Conditions
for Governance



Quality
Assessment



Performance
Measurement



Topical
Requirements

Domain I: Purpose of Internal Auditing

Purpose Statement:

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organization's:

- » Successful achievement of its objectives.
- » Governance, risk management, and control processes.
- » Decision-making and oversight.
- » Reputation and credibility with its stakeholders.
- » Ability to serve the public interest.

Internal auditing is most effective when:

- » It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- » **The internal audit function is independently positioned with direct accountability to the board.**
- » Internal auditors are free from undue influence and committed to making objective assessments.

INDEPENDENCE

Internal audit is independently positioned:

- » Free from conflicts of interest
- » Unrestricted access to all relevant information and records
- » Report directly to the Board of Directors or Audit Committee
- » Not have management responsibilities within the organization

Direct accountability to the Board:

- » Provides the Board objective assurance and advice
- » Gives confidence about:
 - » Organizational governance
 - » Risk Management
 - » Control Processes

Domain II: Code of Ethics & Professionalism

1

Demonstrate Integrity

- Internal auditors demonstrate integrity in their work and behavior.

1.1 Honesty and Professional Courage | 1.2 Organization's Ethical Expectations | 1.3 Legal and Ethical Behavior

2

Maintain Objectivity

- Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

2.1 Individual Objectivity | 2.2 Safeguarding Objectivity | 2.3 Disclosing Impairments to Objectivity

3

Demonstrate Competency

- Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

3.1 Competency | 3.2 Continuing Professional Development

4

Exercise Due Professional Care

- Internal auditors apply due professional care in planning and performing internal audit services.

4.1 Conformance with Global Internal Audit Standards | 4.2 Due Professional Care | 4.3 Professional Skepticism

5

Maintain Confidentiality

- Internal auditors use and protect information appropriately.

5.1 Use of Information | 5.2 Protection of Information

Objectivity vs. Independence

Objectivity

The ability to perform duties with honesty, free from bias, and without conflicts of interest that impair professional judgement

- » Ensures credibility and reliability of audit findings and recommendations
- » Reinforces stakeholder trust in IA's ability to provide independent and unbiased assurance

Role of the Board

- » Oversee internal audits functional reporting line
- » Provide robust support against management influence to preserve objectivity
- » Approve policies and actions **that protect internal audit independence**

Internal Audit Independence

- » How Boards reinforce the importance of Independence and Objectivity

**BOARD
DISCUSSION**

Domain III: Governing the Internal Audit Function

Domain III standards include “essential conditions” for an effective internal audit function.

6

Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

- 6.1 Internal Audit Mandate
- 6.2 Internal Audit Charter
- 6.3 Board and Senior Management Support

7

Positioned Independently

The board establishes and protects the internal audit function’s independence and qualifications.

- 7.1 Organizational Independence
- 7.2 Chief Audit Executive Qualifications

8

Overseen by the Board

The board oversees the internal audit function to ensure the function’s effectiveness.

- 8.1 Board Interaction
- 8.2 Resources
- 8.3 Quality
- 8.4 External Quality Assessment

Board Oversight and Governance

Appropriate governance arrangements are essential to enable the internal audit function to be effective.

- ▶ Meeting with the Board and Senior Management
 - » Purpose
 - » Essential Conditions
 - » Impact if not Supported
- ▶ Disagreements on Essential Conditions



Domain III – Governing the Internal Audit Function

KEY CHANGES

The CAE must discuss this domain with the board and senior management.

Greater emphasis on collaboration among CAE, Board and Senior Management.

Standards include “essential conditions” to enable internal audit to effectively fulfill its Purpose

- » Importance of Board and Senior Management support
- » Chief Audit Executive Qualifications
- » Resources
- » Quality – internal and external assessments



Essential Conditions - Board

The new Standards outline Essential Conditions of the board and senior management to the internal audit function's ability to fulfill its purpose.

Board of Directors

- » Review the requirements necessary for the chief audit executive to manage the internal audit function
- » Approve the chief audit executive's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities
- » Engage with senior management to appoint a chief audit executive with the qualifications and competencies

Senior Management

- » Engage with the board to determine the chief audit executive's qualifications, experience, and competencies
- » Provide input on the internal audit function's performance objectives
- » Participate with the board in an annual assessment of the chief audit executive and internal audit function

Essential Conditions – Internal Audit Charter

The CAE must develop and maintain an internal audit charter

Charter Requirements

- » Purpose of Internal Audit
- » Adherence to the Global Standards
- » Internal Audit Mandate including board responsibilities and senior management support
- » Organizational position and reporting relationships

Role of Board

- » Discuss with the CAE topics that should be included in the Charter for an effective IA
- » Approve the Charter
- » Review the Charter with the CAE to consider organizational changes and evolving risks

Role of Senior Management

- » Communicate to the CAE and Board management's expectations that should be included in the Charter

Domain III: Governing the Internal Audit Function

What do these changes mean for the CAE and Board interactions?

External standards' requirements to explain why essential conditions must be in place.

Essential conditions: requires boards and senior management to evaluate their governance structures.

Greater importance on quality assurance processes and assessments.

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Board and Senior Management Support

- » Utilizing Internal Audit effectively through organizational access and exchange of information

**BOARD
DISCUSSION**

Domain IV: Managing the Internal Audit Function

9

Plan Strategically

The chief audit executive plans strategically to position the internal audit function to fulfill its mandate and achieve long-term success.

- 9.1 Understanding Governance, Risk Mgmt., and Control Processes
- 9.2 Internal Audit Strategy
- 9.3 Methodologies
- 9.4 Internal Audit Plan
- 9.5 Coordination and Reliance

10

Manage Resources

The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.

- 10.1 Financial Resource Management
- 10.2 Human Resource Management
- 10.3 Technological Resources

11

Communicate Effectively

The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.

- 11.1 Building Relationships and Communicating with Stakeholders
- 11.2 Effective Communication
- 11.3 Communicating Results
- 11.4 Errors and Omissions
- 11.5 Communicating the Acceptance of Risks

12

Enhance Quality

The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.

- 12.1 Internal Quality Assessment
- 12.2 Performance Measurement
- 12.3 Oversee and Improve Engagement Performance

9.2 Internal Audit Strategic Plan

The CAE must develop and implement a strategy and plan for the internal audit function

Supports the strategic objectives and success of the organization

Aligns with the expectations of the board, senior management, and key stakeholders

Vision of the desired future state and a multi-year plan to achieve the goals established

The Strategic Plan:

- » Provides direction to achieve IA's mandate
- » Contains strategic objectives defining achievable targets
- » Provides both a high level and tactical approach to continuous improvement
- » Must be reviewed periodically with the board and senior management

Internal Audit Strategy

- » How Internal Audit Strategy is influenced and supported by the Board

**BOARD
DISCUSSION**

Domain V: Performing Internal Audit Services

13

Plan Engagement Effectively

Internal auditors plan each engagement using a systematic, disciplined approach.

- 13.1 Engagement Communication
- 13.2 Engagement Risk Assessment
- 13.3 Engagement Objectives and Scope
- 13.4 Evaluation Criteria
- 13.5 Engagement Resources
- 13.6 Work Program

14

Conduct Engagement Work

Internal auditors implement the engagement work program to achieve the engagement objectives.

- 14.1 Gathering Information for Analyses and Evaluation
- 14.2 Analyses and Potential Engagement Findings
- 14.3 Evaluation of Findings
- 14.4 Recommendations and Action Plans
- 14.5 Developing Engagement Conclusions
- 14.6 Documenting Engagements

15

Communicate Engagement Conclusions and Monitor Actions Plans

Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward implementation of recommendations or action plans.

- 15.1 Final Engagement Communication
- 15.2 Confirming the Implementation of Action Plans

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Reporting and Communication

- » How to best communicate Internal Audit assessment outcomes and results for a public-facing Board

**BOARD
DISCUSSION**

Public-Sector Specific Requirements

IIA Standards now include a section titled “Applying the Global Internal Audit Standards in the Public Sector”. This section describes strategies for conforming to the Standards in conditions unique to your work in the public sector.

Focus on public sector

Outlines strategies for conforming to the global standards considering the challenges faced by government agencies.

Audit Services

Applies Standards to the practical implementation of audits in the public sector

Importance

Addressing public sector nuances ensures government entities can effectively apply the Standards

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» Final Thoughts: The Future State of Internal Audit

**BOARD
DISCUSSION**





Additional Reference Materials

Topical Requirements

Newest component to the Global IA Standards:

- » Assist with applying consistent audit methodology when assessing the effectiveness of governance, risk management, and control of a particular topical area
- » Will be mandatory when the scope of an IA is included in a topic requirement

Topical Requirements ARE:

- » Required when providing assurance on a specified risk area.
- » Subject to applicability as determined by risk-based internal audit plan. Limitations must be documented.
- » Baseline for engagement performance when the risk area is subject to review.
- » Inclusive of aspects of governance, risk management, and control processes.
- » Subject to external quality assessment.

Topical Requirements ARE NOT:

- » Requirements to perform an engagement on the topic.
- » Comprehensive work programs.
- » Designed to address emerging topics.
- » Substitutes for risk assessments or professional judgment.
- » Designed to circumvent or supplant legal and regulatory requirements.

Upcoming Topical Requirements

- » Intended to set a baseline and apply consistent audit methodology when assessing the governance, risk management and controls of a particular topical area
- » Once published the use of a Topical requirement will be mandatory and subject to external quality assessment
- » Topical requirements are NOT
 - » A requirement to perform an engagement on the topic
 - » A comprehensive work program
- » Proposed Topical areas:
 - » Assessing Organizational Governance
 - » Cybersecurity
 - » Fraud Risk Management
 - » Information technology Governance
 - » Privacy Risk Management
 - » Sustainability: Environmental, Social & Governance
 - » Third Party Management
 - » Public Sector: Performance Audits



Topical Requirements

- » Over a dozen topic requirements are anticipated over the next year
- » First topical requirement release, "Cybersecurity"
- » When completing an engagement with a topic requirement, checklist should be utilized, completed, and retained in the workpapers of the engagement.
 - » Could be subject to peer review if client required a QAR of the Internal Audit Function
- » Additional Topical Requirements Anticipated:
 - » Information Technology Governance
 - » Privacy Risk Management
 - » Sustainability and ESG
 - » Third Party Management

