

Update of the Internal Audit Manual Template

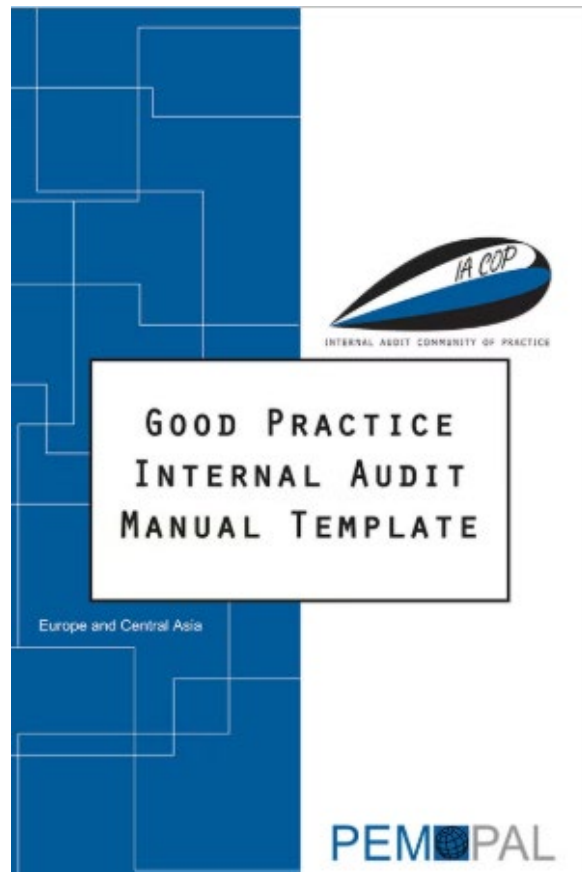
Budva, 3 June 2025

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Aligning the IA Manual Template with GIAS

PEMPAL Internal Audit Manual Template



Global Internal Audit Standards



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PEMPAL Internal Audit Manual

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The way forward

- Option 1. Rewrite the internal audit manual template starting from the GIAS.
 - ▣ No relationship with our previous knowledge product.
 - ▣ Time-consuming exercise.
 - ▣ Not personalized PEMPAL knowledge product.
- **Option 2.** Update our knowledge product with what is missing (red areas), what is not complete (orange areas) and refer in our knowledge product to each single GIAS standard.
 - ▣ There is a direct link between the old and new version of our knowledge product.
 - ▣ Less time-consuming.
 - ▣ Remains a PEMPAL product.

GIAS: built on 5 domains, 15 principles and 52 standards

- Purpose of internal auditing
- Principle 1: Demonstrate integrity
- Principle 2: Maintain objectivity
- Principle 3: Demonstrate competency
- Principle 4: Exercise due professional care
- Principle 5: Maintain confidentiality
- Principle 6: Authorized by the board
- Principle 7: Positioned independently
- Principle 8: Overseen by the board

GIAS: built on 5 domains, 15 principles and 52 standards

- Principle 9: Plan strategically
- Principle 10: Manage resources
- Principle 11: Communicate effectively
- Principle 12: Enhance quality
- Principle 13: Plan engagements effectively
- Principle 14: Conduct engagement work
- Principle 15: Communicate engagements results and monitor action plans

2.4.5. Due professional care: What was in the manual

Due professional care refers to the degree of care and skill that an internal auditor should apply in conducting internal audit activities, and is a sensitive standard to comply with. It relates to proper diligence and is challenging to describe fully. A lack of professional care may be considered equal to gross negligence and could lead to the dismissal of the CAE (or a subordinate), and in some situations could result in penalties or imprisonment.

Reasonable care does not mean infallibility, though this is often the perception when fraud occurs.

The manual should describe a few items that deserve special attention from the internal auditor. Internal auditors should consider:

- What can go wrong in a specific process?
- How could a person commit fraud?
- What are the key controls and how could they be bypassed?

The manual may provide examples of situations that demonstrate lack of due professional care.

2.4.5. Due professional care: What we added (1/7)

Due professional care requires planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are not expected to be infallible.

2.4.5. Due professional care: What we added (2/7)

GIAS 4.1. Conformance with the Global Internal Audit Standards

Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.

The internal audit function's methodologies must be established, documented, and maintained in alignment with the Standards. Internal auditors must follow the Standards and the internal audit function's methodologies when planning and performing internal audit services and communicating results.

If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of the other requirements, as appropriate.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made.

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.

2.4.5. Due professional care: What we added (3/7)

Good practice suggestions:

- Refer to laws or regulations that prevent conformance with the GIAS.
- Communications with the board and senior management where nonconformance has been disclosed.

2.4.5. Due professional care: What we added (4/7)

GIAS 4.2. Due Professional Care

Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- The organization's strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Cost relative to potential benefits of the internal audit services to be performed.
- Extent and timeliness of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of risks to the activity under review.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.
- Use of appropriate techniques, tools, and technology.

2.4.5. Due professional care: What we added (5/7)

Good practice suggestions:

- Document assessments of governance, risk management, and control processes.
- Feedback from stakeholders solicited through surveys or other tools.

2.4.5. Due professional care: What we added (6/7)

GIAS 4.3. Professional Skepticism

Internal auditors must exercise professional skepticism when planning and performing internal audit services.

To exercise professional skepticism, internal auditors must:

- Maintain an attitude that includes inquisitiveness.
- Critically assess the reliability of information.
- Be straightforward and honest when raising concerns and asking questions

About inconsistent information.

- Seek additional evidence to make a judgment about information and statements

That might be incomplete, inconsistent, false, or misleading.

2.4.5. Due professional care: What we added (7/7)

Good practice suggestions:

- Record relevant training planned and completed.
- Workpapers identifying an internal auditor's approach to evaluate and validate information gathered.

Tasks for Breakout Groups