

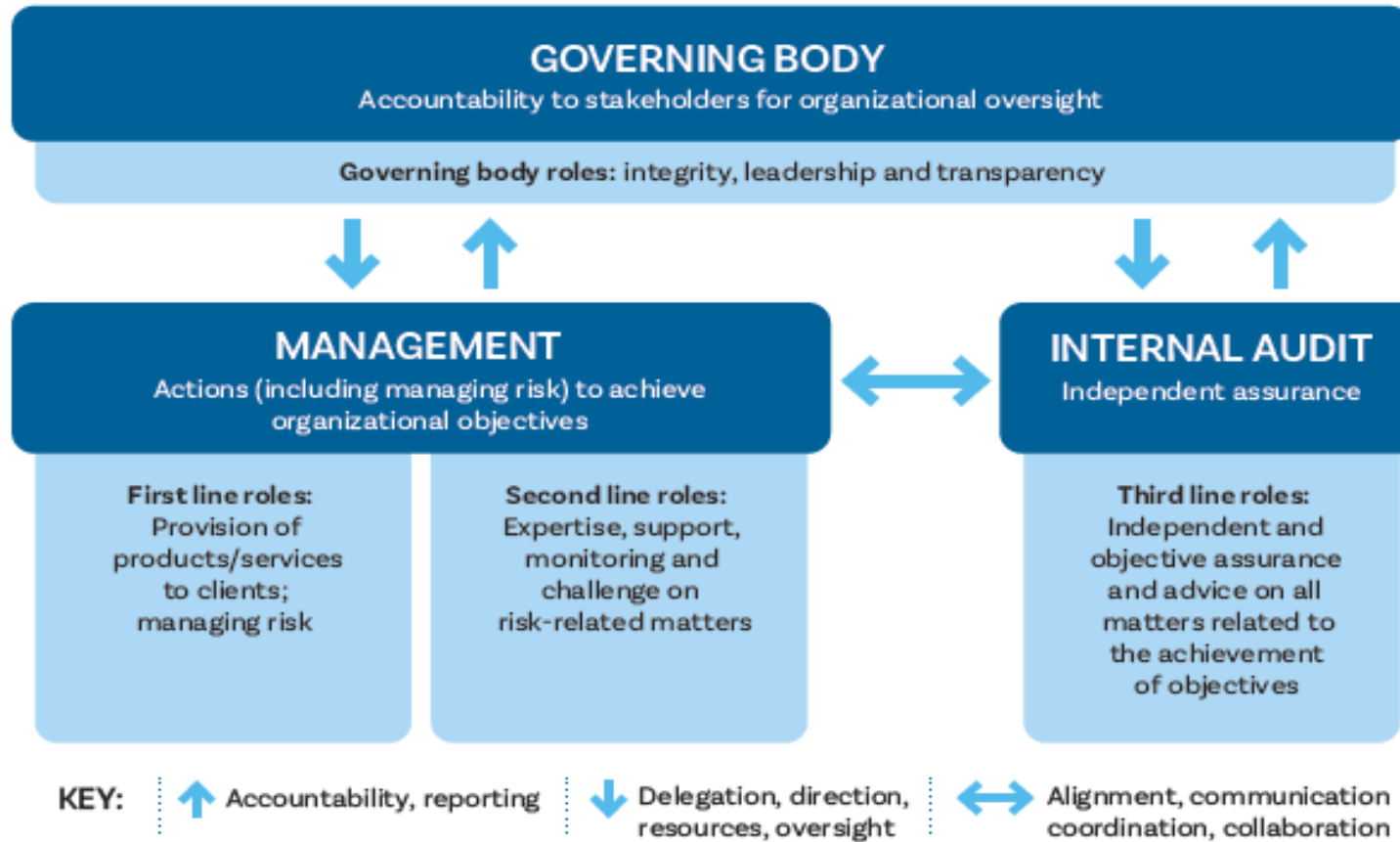
Global Internal Audit Standards

The Essential Relationship Between the Board and the Internal Audit Function: Opportunities for Board Engagement



The Institute of
Internal Auditors

The Three Lines Model



Governance structures and processes best enable organizations to achieve their objectives*

* More details can be found in Appendix A, IIA publication: The Three Lines Model and the Global Internal Audit Standards



The Purpose of Internal Auditing

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.

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.

Most effective when:

- Performed by competent professionals in conformance with the Global Internal Audit Standards™.
- Independently positioned with direct accountability to the board.
- Free from undue influence and committed to making objective assessments.



Enabling Effective Internal Auditing



Key to successful achievement of organizational objectives.



Appropriate governance arrangements enable internal audit to fulfill expectations.



The board and senior management are essential to the internal audit function's success.



“Essential conditions” build an effective partnership between the board, senior management, and the Chief Audit Executive (CAE).



Governing the Internal Audit Function*

Principle 6 – Authorized by the Board

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

Principle 7 – Positioned Independently

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

Principle 8 – Overseen by the Board

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



*More details can be found in Appendix B, IIA publication: Governing the Internal Audit Function



What We Need from You –

Principle 6 Authorized by the Board

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

- ❖ Ensure the appropriate authority and determine OIA's role and responsibilities
- ❖ Approve internal audit charter.
- ❖ Provide input to OIA's budget and resource plan.
- ❖ Ensure that internal audit should have unrestricted access to data, records, information, personnel, and physical properties.
- ❖ Meet periodically with the OIA Director in private, if needed.

What We Need from You –

Principle 7 – Positioned Independently

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

- ❖ Establish a direct reporting relationship.
- ❖ Provide input to support the OIA Director's performance evaluation and remuneration.

What We Need from You

Principle 8 – Overseen by the Board

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

- ❖ The board's perspective on organizational strategies, objectives, and risks to assist with determining internal audit priorities.
- ❖ Set expectations with the OIA Director for:
 - The communication frequency and the criteria for determining which issues should be escalated to the board, as well as the process for escalating matters of importance to the board.

What We Need from You

Principle 8 – Overseen by the Board *(continued)*

- ❖ Discuss any disagreements with senior management or other stakeholders.
- ❖ Collaborate with senior management to ensure internal audit has sufficient resources.
 - Consider the impact of insufficient resources on the internal audit mandate and the audit plan.
 - Engage with senior management and the OIA Director on a solution if resources are determined to be insufficient.

What We Need from You

Principle 8 – Overseen by the Board *(continued)*

- ❖ Discuss the Quality Assurance Improvement Plan with the OIA Director.
- ❖ Review internal audit's performance objectives annually.
- ❖ Assess the effectiveness and efficiency of the OIA function.
- ❖ Discuss an External Quality Assurance (EQA) of the internal audit function conducted by an independent, qualified assessor or assessment team.
- ❖ Collaborate with the OIA Director to determine the scope and frequency of the EQA.
- ❖ Receive EQA results from the assessor.
- ❖ Review OIA's plans to address deficiencies and opportunities for improvement.

Summary



An effective internal audit function enables good corporate governance and the organization's ability to create, protect, and sustain value.



A partnership among the board, senior management, and the OIA Director is critical to achieving effective internal auditing.



The Global Internal Audit Standards require much from the CAE that, if achieved, will result in an effective internal audit function.



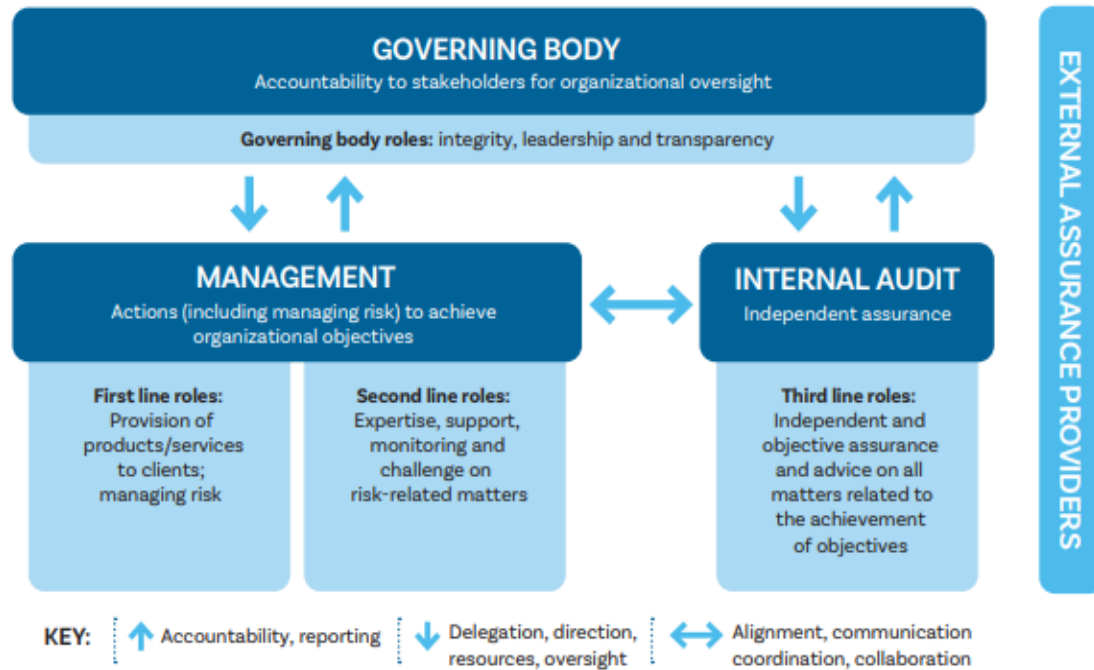
The board and senior management provide necessary support to the CAE and enable effective internal auditing.



Appendix A

The Three Lines Model and the Global Internal Audit Standards

The globally recognized **Three Lines Model** illustrates the governance structures and processes that best enable organizations to achieve their objectives. Similarly, Domain III in the Global Internal Audit Standards™ describes the unique partnership between the board, senior management, and the internal audit function that drives organizational success.



Domain III in the Global Internal Audit Standards outlines the requirements and essential conditions necessary for a successful partnership between the board, senior management, and internal audit function.

- In **Principle 6**, the board, senior management, and chief audit executive agree on the authority, roles, and responsibilities of the internal audit function (Standard 6.1 Internal Audit Mandate). The chief audit executive commits to providing the board and senior management with the information they need to support, promote, and oversee the function.
- **Principle 7** calls for the internal audit function's independence from the responsibilities of management, which is critical to internal audit objectivity, authority, and credibility. The function's independence is enhanced when the board appoints and retains a qualified chief audit executive who reports at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management.
- **Principle 8** embodies the notion that board oversight is essential to enable the overall effectiveness of the internal audit function. This requires interactive communication between the board and the chief audit executive as well as the board's support to ensure the internal audit function obtains sufficient resources to fulfill the internal audit mandate. Additionally, the board receives assurance about the quality of the performance of the chief audit executive and the internal audit function through its oversight of the quality assurance and improvement program and direct review of the external quality assessment results.

In the **Three Lines Model**, the governing body, referred to as the "board" in the Standards, ensures organizational objectives and activities align with the interests of stakeholders and that the organization's structures and processes enable accountability, actions, and independent assurance and advice. Management, which includes senior and line management, implements actions to achieve the organization's objectives. The internal audit function is independently positioned to provide objective assurance and advice on the adequacy and effectiveness of governance, risk management, and control processes.

Appendix B

Domain III: Governing the Internal Audit Function

In an organization, governance structures and processes facilitate the achievement of organizational objectives. These structures and processes also enable the internal audit function to be effective, enhancing:

- The board's ability to exercise its oversight responsibilities.
- Senior management's ability to make decisions and manage risks effectively, enabling the achievement of organizational objectives.
- The organization's ability to create, protect, and sustain value.

In the *Global Internal Audit Standards*™, Domain III outlines requirements for chief audit executives plus "essential conditions," which are activities of the board and senior management that enable the internal audit function's success.

Domain III requires the chief audit executive to meet with the board and senior management to discuss the responsibilities and essential conditions of the Standards and how the parties can collaborate to establish and maintain an effective internal audit function.

The discussion includes informing the board of its role and responsibilities for authorizing the internal audit function, establishing and protecting the function's independence, and overseeing the function's performance. Domain III also outlines senior management's responsibilities to implement the board's decisions to support and promote governance structures and processes that enable an effective internal audit function.



The table below depicts the three principles and nine standards of Domain III.

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



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Q&A



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