

At A Glance: The Internal Audit Code of Practice

February 2020



The Internal Audit Code of Practice

Introduction

The publication of the Chartered Institute of Internal Auditors (CIIA) Internal Audit Code of Practice (the 'IA Code'), represents an important milestone in the journey to improve the scope and standing of Internal Audit. It comes at a time when Internal Audit is being seen as increasingly critical to a stronger corporate governance framework. Consistent with our longstanding commitment to championing the Internal Audit profession, PwC welcomes the publication of the IA Code. We believe it will help increase the effectiveness of Internal Audit functions in the private and third sectors, in the way it has done in the Financial Services Sector and it makes sense for the profession in the context of continual improvement. We support the development of the profession and any actions taken by Internal Audit functions, management, regulators and the CIIA to reach for, and achieve, a higher standard of Internal Audit.

The requirements set out in the IA Code raise the bar in a number of areas; including the scope and priorities of Internal Audit and reporting lines. The IA Code is principles-based and it is expected that the requirements will be applied proportionately across organisations. The risk landscape across the Internal Audit profession continues to expand and management and boards are under increasing pressure to stay abreast of current and emerging risks. Organisations should be prepared to take action to achieve compliance with the IA Code, in order to keep pace with peers, stakeholder requirements and professional standards.



Internal Audit. Expect More.

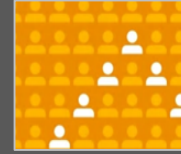
The Internal Audit Code of Practice

Overview



What is the IA Code?

- In July 2019, the CIIA commenced its consultation on the draft Internal Audit Code of Practice, aimed at enhancing the overall effectiveness of Internal Audit and its impact within organisations.
- Following a period of consultation the CIIA's independent Steering Committee published the **Internal Audit Code of Practice**, commonly known as the 'IA Code' on 9 January 2020.
- The Code should be applied in conjunction with the existing Internal Professional Practices Framework ('IPPF') published by the Global Institute of Internal Auditors, which includes the International Standards for the Professional Practice of Internal Audit ('the IIA Standards').
- It is applicable for all organisations in the private and third sectors with an Internal Audit function and an Audit Committee of independent non-executive Directors or equivalent.
- The code is principles based and should be applied 'proportionally' across organisations, dependent on their size and complexity.



What does this mean?

- The Code builds on the existing IIA Standards and seeks to increase the effectiveness and impact of Internal Audit within organisations by clarifying expectations and requirements.
- It is regarded as a benchmark of good practice against which organisations can assess their internal audit function.
- The recommendations focus on a number of core areas:
 - Role and mandate of Internal Audit
 - Scope and priorities of Internal Audit
 - Reporting results
 - Interaction with risk management, compliance and finance
 - Independence and authority of Internal Audit
 - Resources
 - Quality Assurance and Improvement
 - Relationship with Regulators
 - Relationship with External Audit

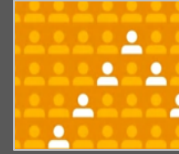
The Internal Audit Code of Practice

Summary of key requirements



Scope and priorities of Internal Audit

- Internal Audit's scope should be unrestricted. This means that no area of the organisation should be off limit to Internal Audit.
- Internal Audit should make a risk based decision as to which areas within its scope should be included in the audit plan.
- The scope of Internal Audit should assess not only the process but also the quality of work within the organisation's first and second lines of defence.
- As a minimum, Internal Audit scope should include:
 - Internal governance structures and processes
 - Strategic and operational decision making
 - Risk appetite
 - Risk and control culture
 - Key corporate events
 - Outcomes of processes.
- Internal Audit should include within its scope an assessment of the adequacy and effectiveness of the organisation's control functions.



Reporting to those charged with governance

Internal Audit's reporting should include:

- The methodology to determine what areas of the audit universe are to be covered each year (based on the outcome of the risk assessment)
- Material changes to the audit plan
- A focus on any significant control weaknesses and root cause analysis
- Identification of thematic issues
- A view of management's reporting on the risk management of the organisation
- A review of any 'lessons learned' analysis, including the role of the first and second lines of defence
- An assessment of the overall effectiveness of the governance, risk and control framework
- A conclusion on whether the organisation's risk appetite is being adhered to
- Analysis of themes and trends emerging from Internal Audit work

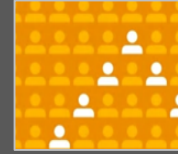
The Internal Audit Code of Practice

Summary of key requirements



Independence and authority of Internal Audit

- The Chief Internal Auditor should be at a senior enough level within the organisation to give him or her the appropriate standing, access and authority.
- The primary reporting line for the Chief Internal Auditor should be to the Chair of the Audit Committee. The secondary reporting line should be to the CEO to protect and promote independence, or another Executive subject to Audit Committee Chair agreement.
- For a Chief Internal Auditor with more than seven years' tenure, an annual assessment of his/her independence and objectivity should be performed.
- The Audit Committee should appoint and remove the Chief Internal Auditor and the Chair should set objectives, review performance and recommend remuneration to the Remuneration Committee.
- Where the Chief Internal Auditor has responsibility for other control functions, the Audit Committee should ensure:
 - It does not undermine the ability to give Internal Audit appropriate attention
 - It does not impair independence
 - It is documented in the Internal Audit Charter



Other key points

- Internal Audit should have the right to attend and observe Executive Committee and other decision making fora.
- A Quality Assurance and Improvement Programme should be developed for functions of sufficient size.
- The Board or Audit Committee should evaluate the performance of Internal Audit and will need to identify appropriate criteria for defining success.
- A form of External Quality Assessment must be undertaken in full at least every five years, irrespective of the size of the function. This should report on compliance with this Code.
- The Audit Committee should approve the Internal Audit budget and disclose in the Annual report that Internal Audit has appropriate resources.
- In an Outsource, the Chief Internal Auditor should be employed directly by the organisation to ensure they have sufficient and timely access to key management information and decisions.

The Internal Audit Code of Practice

What do organisations need to do now?

- Chief Internal Auditors should assess their conformance with the new IA Code.
- Agree the proportional response to the Code with the Audit Committee and devise a plan of action to address gaps.
- Plan now for the work needed to deliver against the enhanced reporting requirements.
- Consider the internal audit operating model in light of the revised requirements. For example, do reporting lines or processes need to change.
- Educate business stakeholders on the Code requirements and the benefits of adoption.
- Audit Committees members should familiarise themselves with the new requirements, including where responsibilities rest with them and the Chair of the Audit Committee, and hold Chief Internal Auditors to account for their responsibilities.

If you have any questions, please feel free to contact Jill Emney (jill.emney@pwc.com) or Dave Reeman (david.reeman@pwc.com)



Internal Audit. Expect More.