Introduction

The value internal audit brings to an organization is greatly influenced by how the senior management and the board view its scope of work. Some organizations may view internal audit as strictly an assurance provider on accuracy of financial reporting. Others expand the role to include assurance on operational and strategic issues and advisory services in any number of areas.

Internal audit can be of greatest value when it is positioned to provide the organization insight and foresight driven by:

- Providing an enterprisewide perspective.
- Applying varied critical skills.
- Providing independent assurance and advice that supports healthy transparency in risk management processes.

Inviting internal audit to standing governing body and executive committees in its advisory capacity allows that value to be shared in these important settings.

Where Does Internal Audit Fit In?

Rapidly growing and evolving risk landscapes have made any number of committees almost mandatory for many organizations including:

- Risk Committee.
- Technical Committee.
- Executive Committee.
- Management Steering Committee.
- Performance Evaluation Committee.

Internal audit can strengthen and support any number of standing or special committees of senior management and the board. However, before inviting internal audit in, it is critical that the organization consider how internal audit would operate within these committees, including clearly defining internal audit’s role and setting proper precautions to protect continued independence and objectivity.

Governing bodies can encourage input from management and internal audit about what committees would most benefit from internal audit’s participation and/or observation. These are useful roles to consider:

- Observer or invitee.
Contributor or participant.
Consultant or advisor.
Educator.
Subject matter expert.

Maintaining a Clear-eyed View

The governing body must maintain a clear-eyed view of its objectives for having internal audit participate in governing body and/or executive committees. As mentioned earlier, precautions for maintaining internal audit’s independence are imperative. With proper safeguards in place, however, the organization can benefit from internal audit’s unique skills and knowledge of the organization.

By training and dispositions, professional internal auditors are willing to ask difficult questions, can raise the level of discussion and debate on challenging issues, and bring particular interest and knowledge in key areas such as fraud-insulation, ethics building, and organizational culture.

Internal audit’s participation in governing body and executive committees helps reinforce a proactive role for internal audit, and offers real-time value addition to the management process. Internal audit benefits from its exposure to organizational priorities, emerging risks, and corporate strategies, and it improves internal audit’s knowledge of the organization and business.

Serving side-by-side with executive management improves internal audit’s understanding of the management decision-making process, encourages better communications, and improves its overall relationships with governing bodies and executive management.

Each of these benefits must be weighed against any perceived or real impairment of internal audit’s independence and objectivity. The chief audit executive (CAE) and governing body must be cognizant, as well, of any perceived or real conflicts of interest created by participation on committees.

Precautions and Safeguards

There are any number of cautionary steps and ground rules that can be put in place to protect against conflicts of interests or eroding internal audit’s independence and objectivity. For example:

- Internal audit should not participate in decision-making in committee meetings.
- Internal audit must always comply with relevant IIA Standards, including IIA Standard 1112: Chief Audit Executive Roles Beyond Internal Audit.
- Internal audit must adhere to The IIA’s Code of Ethics.
- Internal audit’s role on committees should be clearly delineated in the internal audit charter.
- The audit committee should guide the extent of internal audit’s participation.
- All proceedings should be reported to the audit committee.
- Internal audit’s contributions are in the form of questions and insights, not conclusions or advocacy.

FIVE QUESTIONS

Inviting internal audit to participate in key board and management committees is a major step for an organization. It should be taken carefully with proper preparations and a thorough understanding of the risks and benefits.

Here are five key questions the governing body and management should be asking:

1. What is internal audit’s current scope of work, and how does that affect its ability to provide advisory services to board and executive committees?

2. What is the audit committee’s view on internal audit serving on board and executive committees?

3. What precautions are in place to protect internal audit’s independence and objectivity?

4. What precautions are in place to keep internal audit out of the decision-making process?

5. Will internal audit’s participation impair its ability to audit the committee’s work in the future?
Other Concerns

The governing body should be aware of and consider the potential impact of the source of the internal audit activity before proceeding down this path. There are practical considerations influenced by whether the activity is a fully in-house activity, is cosourced, or is fully outsourced.

Participation in governing body and executive committees likely would be limited to the CAE. As such, a cosourced or outsourced relationship might result in inviting outsiders into the boardroom.

The IIA’s formal position on outsourcing requires maintaining the CAE position within the organization, but not all organizations may follow this model. In cases where the CAE or equivalent head of audit is an outsourced position, The IIA recommends that the organization carefully weigh the benefits of participation in governing body/executive meetings because of potential confidentiality concerns.

Conclusion

A well-resourced, independent, and reliable internal audit activity can pay significant dividends to any organization. When allowed to operate at the highest levels, it can be a trusted advisor to the governing body and executive management, and be critical to enhancing and protecting organizational value. In such circumstances, internal audit can play a valuable advisory role for governing body and executive committees.

With proper precautions and due oversight from the audit committee, a CAE’s participation on such committees can bring a dynamic of healthy skepticism; keen insights on fraud, ethics, and culture; and offer great value to senior management, the governing body, and the organization overall.
About Position Papers
The IIA promulgates Position Papers on key issues of interest to stakeholders and practitioners with the aim of advocating for sound governance and educating those involved in it. The positions outlined offer insights into various aspects of the governance process and internal audit’s vital role in improving governance at all levels and adding value to the organization. Position Papers are developed and reviewed through a rigorous process that solicits input and critique from practicing internal audit professionals and other IIA volunteers who serve on The IIA’s Global Advocacy Committee, IIA Standards Board, and The IIA’s Professional Responsibility and Ethics Committee.

About The IIA
The IIA is the internal audit profession’s most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The IIA’s global headquarters are in Lake Mary, Fla. For more information, visit www.theiia.org.

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