Establishing the Authority of the Internal Audit Activity
What Establishes Internal Audit’s Authority?

- Reporting lines or structure
- Relationship with the audit committee and senior management
- Professionalism
- Internal audit’s reputation and credibility
Reporting Structure — Independence & Objectivity

- Standard 1100 - The internal audit activity must be independent, and internal auditors must be objective in performing their work.

- Standard 1110 – The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity

- PA 1110-1 – Organizational Independence

- Standard 1000 and PA 1000-1 – Internal Audit Charter
### Where Does IA Report?

<table>
<thead>
<tr>
<th>IA Reporting Relationships</th>
<th>2002 Functional</th>
<th>2005 Functional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee/Board</td>
<td>55%</td>
<td>75%</td>
</tr>
<tr>
<td>President/CEO</td>
<td>22%</td>
<td>6%</td>
</tr>
<tr>
<td>CFO</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>Next Level Below CFO (Controller)</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: IIA Global Audit Information Network (GAIN) Flash Surveys
## Where Does IA Report?

<table>
<thead>
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<th>2005 Administrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee/Board</td>
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<td>11%</td>
</tr>
<tr>
<td>President/CEO</td>
<td>33%</td>
<td>16%</td>
</tr>
<tr>
<td>CFO</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>Next Level Below CFO (Controller)</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: IIA Global Audit Information Network (GAIN) Flash Surveys
IA’s Relationship with Audit Committee

ASX Guidelines outline basic tenants of AC and CAE relationship

- AC should recommend appointment of CAE
- IA should report to management and have all necessary access to information, but may report to AC
- AC should oversee the scope of IA and should have access to IA WITHOUT the presence of management

Source: Principles of Good Corporate Governance, ASX Corp. Gov. Council
IA’s Relationship with Audit Committee

IIA/CICA Research
- CAE relationship to AC is critical to the success of internal audit
- Internal audit is a major source of information and assurance to the AC
- AC charter should include provisions about internal audit
- Internal audit charter should include elements of relationship with AC

Source: 20 Questions Directors Should Ask About Internal Audit, IIA/CICA
Professionalism

• *Standards* conformance
• Certification
• Quality assurance review
Standards Conformance

*International Standards for the Professional Practice of Internal Auditing*

- Simply stated – “Professions follow standards” – medical, dental, aviation
- Standards ensure a baseline approach that is consistently used
- Standards are global and currently available in multiple languages
- Standards are principle-based which allow for local variation
Become Certified

Certification

- Over 50,000 Certified Internal Auditors worldwide
- CIA is globally recognized, CGAP and CCSA are also global
- CIA exam is given in multiple languages
- Tests the knowledge, skills and abilities required to be an internal auditor
QAR – How do You Ensure Quality?

Standard 1310 quality assurance and improvement program must include both internal and external assessments

- Standard 1311 - Internal Assessments
- Standard 1312 – External Assessments – at least once every 5 years by a qualified, independent reviewer or review team from outside the organization
Internal Audit’s Reputation and Credibility Depend On:

- Competency
- Recognition
- Adding value
Competency

- IA Defines Vision, Mission and Goals
- IA Staffing
- IA Training (includes certification)
- Balanced Scorecard
Recognition

- Marketing the internal audit department
- Celebrate successes
- Integrate yourself into the organization and its culture
Adding Value – Governance

• Standard 2110 – Governance
IA activity must assess and make appropriate recommendations for improving governance processes
  • Ethics
  • Performance management & accountability
  • Risk and control information
  • Coordination among board, auditors and management

• #1 Priority for The IIA (Guidance Planning)
Adding Value – Governance

IIA Position on Internal Audit’s Role in Governance

• Defines two roles of IA through examples:
  – Assessing governance
  – Improving governance
Adding Value – Risk

Standard 2120- Risk Management
IA activity must evaluate the effectiveness and contribute to the improvement of risk management processes.
Adding Value - Risk

• IA Role in ERM
  – Core internal audit roles
  – Legitimate internal audit roles with safeguards
  – Role internal auditing should NOT undertake:
    • Management assurance on risks
    • Taking decision on risk response
    • Implementing risk responses for management
    • Accountability for risk management
Internal Audit’s Reputation

• What do you do to monitor this?
  – Customer satisfaction surveys
  – Feedback from executives and audit committee members
  – How do you know what people REALLY think?

• What have you done to continually improve?
Wrap-up – What Will **YOU** Do to Establish your Internal Audit Authority?

- Criteria for authority – are you performing them all?
- How is your relationship with your audit committee and senior management?
- Is there room for improvement in your internal audit activity’s competency and professionalism?
- How is your internal audit activity’s credibility – any areas for improvement?
“Internal auditors are rock stars now. This is their day in the sun.”

Questions?

guidance@theiia.org

Tools and information:
www.theiia.org