



# The internal audit code of practice

Audit Committee Institute  
**KPMG Board Leadership Centre**



The Chartered Institute of Internal Auditors (CIIA) have released their first consultation on the highly anticipated [internal audit code of practice](#) covering all private sector organisations across the UK and Ireland. Since the [Financial Services code](#) was introduced in 2013, the CIIA report a significant improvement in the scope, skills and status of internal audit, and in the wake of recent corporate collapses there is now an appetite to see this leveraged across the whole of the private sector.

Like its predecessor for the financial services sector, the internal audit code of practice will be a voluntary, principles based code, setting the benchmark against which internal audit functions can be judged by the board and the audit committee, as well as by appropriate regulatory bodies.

The draft code focusses on driving independence and autonomy:

- independence from management – from the day to day operations and success of the business; and
- autonomy to drive its own agenda – to be steered by the risks identified around the business

The proposed code also makes clear that high quality resources with unrestricted access across the business are crucial to the successful delivery of internal audit.

## The proposals

The proposed code has been drafted in the context of a reasonably sized private sector organisation based in the UK. It consists of 30 recommendations laid out around seven key themes:

### Role and mandate of internal audit

The proposals cement the role of internal audit as protectors of the company's assets, reputation and sustainability and calls for clear support for them set in the tone from the top.

### Scope and priorities of internal audit

Key recommendations include unrestricted access for internal audit across the organisation, and the freedom to determine their own plan as well as retaining the ability to change the plan in light of any emerging risks, subject to the approval of the audit committee.

### Reporting results

Internal audit should be present at board meetings in order to issue their findings, which should include commentary around: controls; thematic issues; management's approach to risk management; lessons learned; and an overall assessment of the risk profile.

### Interaction with risk management, compliance and finance

Internal audit should include within their scope, an assessment of all 'control functions' - i.e. those functions with direct responsibility for controls over risks which arise in other parts of the business, (e.g. finance, HR, compliance, legal, health & safety and risk management).

### Independence and authority of internal audit

Internal audit should have the appropriate seniority within the business to allow them to challenge management and the executive. Furthermore, they must have timely access to any and all management information.

To ensure to preserve independence, the reporting line - as well as performance assessment and remuneration of the head of internal audit - should be direct into the audit committee. Any secondary lines must be to the CEO in order to preserve independence from any one part of the business.

### Resources

The head of internal auditor should be responsible for all recruitment and training to ensure that the team has the skills necessary to provide effective challenge.

To ensure independence, the internal audit budget should be the responsibility of the audit committee, who, as part of their overall governance process, should disclose in the annual report whether they are satisfied that internal audit have access to appropriate resources.

### Quality assurance and improvement plan (QAIP)

The board or the audit committee should be responsible for evaluating the performance of internal audit, including determining the appropriate method of assessment.

Where scale permits a QAIP should be established, segregated from those who perform the internal audit test work. In any case, the board and audit committee need to identify the appropriate criteria for defining success, and delivery of the audit plan should not be the sole measure by which the function is assessed.

In addition, an external assessment should be carried out at least every five years.

**“** *The new code aims to embed best practice and raise the bar right across the internal audit profession.”*

Brendan Nelson, Chair, Internal Audit Code of Practice Steering Committee

### Contact us

#### Katie Clinton

KPMG Internal Audit  
T: +44 (0)20 7311 3212  
E: [katie.Clinton@kpmg.co.uk](mailto:katie.Clinton@kpmg.co.uk)

#### Cat Hoad

KPMG Board Leadership Centre  
T: +44 (0)20 7694 4174  
E: [cat.hoad@kpmg.co.uk](mailto:cat.hoad@kpmg.co.uk)

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### Consultation questions

The consultation poses seven questions around:

- Which companies should be within the scope of the code
- Whether the code adequately captures the practice of second and third lines of defence with regard to the existence or not of risk and compliance functions
- Whether internal audit should attend executive committee meetings
- Best practice when outsourcing internal audit
- Secondary reporting line into the CEO
- Internal audit providing assurance over functions where it has in the past provided consultancy
- The completeness of the code

**This [call for views](#) closes on 11 October 2019.**

**It includes seven specific questions, although further comments are also welcome.**

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