



Are you maximising the value of internal audit?

Internal audit code of practice for Private and Third Sectors

The Audit Committee Institute

Part of the KPMG Board Leadership Centre



Following a consultation process in 2019, the Chartered Institute of Internal Auditors (CIIA) has released the Internal Audit Code of Practice which provides guidance on effective internal audit in the private and third sectors. The Code is principles-based, and is intended as an industry benchmark, to help embed good practice internal audit and raise the bar across the profession.

Since the [Financial Services Code](#) was introduced in 2013, the CIIA reports 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 additional guidance for the rest of the private sector and beyond.

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

“ The aim of the guidance is to increase the effectiveness of internal audit functions in the private and third sectors.”

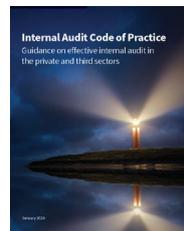
Brendan Nelson, Chair
Internal Audit Code of Practice Steering Committee

The code focusses on driving independence and autonomy. Crucial to the successful delivery of internal audit is

- 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. The guidance has been drafted in the context of a reasonably sized private sector organisation based in the UK and is intended for the private and third sectors, including where Internal audit is outsourced.

It is principles based and the procedural requirements are intended to be proportionately implemented, depending on the size, risk profile, structure and the nature, scope and complexity of business operations.



Visit the Chartered Institute of Internal Auditors (IIA) website to read the full [Internal Audit Code of Practice](#) report

The recommendations:

The code consists of a series of recommendations laid out around nine 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.

The code defines that the scope of internal audit should include, as a minimum, testing over processes associated with: internal governance; the fair representation of information provided to the board; the setting of, and adherence to, the company's risk appetite; the risk and control culture; key corporate events; and specific process outcomes.

Reporting results

Internal audit should ordinarily present at audit committee meetings. Presentations and reports should depend on the remit of the committee and might 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 should have timely access to any and all relevant and required management information.

To preserve independence, the reporting line – as well as performance assessment and remuneration – of the chief internal auditor (CIA) should be direct into the audit committee. Any secondary line should ordinarily be to the CEO in order to preserve independence from any one part of the business.

In organisations where internal audit is outsourced, the CIA should be employed directly by the organisation to ensure sufficient and timely access to information.

Resources

The chief 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.

Questions for consideration by companies looking to apply the Code

- What are the practicalities of proportional implementation? How do you determine which elements of the Code you will comply with?
- What else should internal audit have access to? E.g. Meetings; management information; etc.
- Has your risk appetite has been formally set?
- If the CIA is also responsible for other functions (such as risk management), who can audit those functions?
- Do you have sufficient skills (assessing risk appetite; control culture; etc.) within internal audit to comply?
- If you outsource your internal audit function, are you in a position to appoint the internal CIA from within?
- Will you be required to change the primary and / or secondary reporting lines for Internal Audit? Are there internal tensions to be managed?
- How will you evaluate your internal audit function?
- Does internal audit have an existing relationship with your regulators?

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.

Relationship with Regulators should be open, constructive and cooperative.

Relationship with External Audit should include regular communication and sharing of information.

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Contact us

Timothy Copnell

Board Leadership Centre

T: +44 (0)20 7694 8082

E: tim.copnell@kpmg.co.uk



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