

Chartered Institute of Internal Auditors
13 Abbeville Mews
88 Clapham Park Road
London
SW4 7BX

By email: iiapolicy@iia.org.uk

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Dear Sirs

Consultation on Internal Audit Code of Practice

We welcome the opportunity to comment on the draft Code of Practice for Internal Audit.

The Chartered Governance Institute is the professional body for governance. We have members in all sectors and our Royal Charter purpose is to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With more than 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance. The Institute is the professional body that qualifies Chartered Secretaries, which includes company secretaries. Company secretaries have a key role in companies' governance arrangements, including the internal audit function. Our members are therefore well placed to understand many of the areas covered by the Internal Audit Code of Practice.

Q1 Which companies, organisations and sectors should the new Internal Audit Code of Practice cover and what should its scope be?

We believe the Code of Practice should apply primarily to publicly listed companies and large private companies that fall within the definition of a Public Interest Entity (PIE). However, as the Code of Practice is principles based, it provides flexibility to be applied to many types and sizes of organisation. We believe it will also be of use to other private companies and third sector organisations for them to apply voluntarily as they wish and believe this should be encouraged.

Q2 How far should there be independence between the second and third lines of defence?

We believe internal audit practitioners are best placed to answer this question.



Q3 Should internal audit have the right to attend and observe Executive Committee meetings?

No. We do not believe this should be enforced as a right. The function of the Executive Committee is to assist the Chief Executive in the performance of his or her duties. It is for the Chief Executive to decide on membership of the Executive Committee and on attendance by others when appropriate. However, we would encourage the practice of inviting the Internal Auditor to attend meetings, or parts of meetings, when the Internal Auditor can contribute to the matters being discussed.

Q4 Should the new Code include guidance and best practice on the outsourcing of internal audit provision?

We believe internal audit practitioners are best placed to answer this question. However, it would appear to us that some guidance on the outsourcing of internal audit provision would be helpful, either as part of this Code of Practice or as separate guidance.

Q5. Should the secondary executive reporting line be to the CEO, or should we adopt a more flexible approach in the new Code?

We believe there should be flexibility in the secondary reporting line, provided the reporting line is to an Executive Director. In practice this is likely to be the CEO or CFO. We believe it should be for the organisation to decide which reporting line is appropriate, however we do not believe it would be appropriate for the Internal Auditor to report to anyone below Executive Director level.

With regard to the primary reporting line of the Internal Auditor to the Audit Committee Chair, we believe the Code of Practice should also include that the Internal Auditor should meet with the Audit Committee without management present at least annually. This is considered good practice and is included in the FRC Guidance for Audit Committees 2016 at paragraph 21.

Q6 Should the new Code include guidance on how an internal audit function may provide assurance services where it had previously performed consulting services?

We are not familiar with this level of detail on internal audit practice and therefore believe internal audit practitioners are best placed to answer this question.

Q7 Are there other matters which should be addressed in the Internal Audit Cod of Practice?

We have no other matters to raise but please see our additional comments under question 5.

We hope you find our comments helpful and would be happy to expand on any of these points should you wish to discuss them further.

Yours faithfully

Peter Swabey
Policy & Research Director