



Chartered Institute of
Internal Auditors

Effective Internal Audit in the Financial Services Sector

Recommendations from the Committee
on Internal Audit Guidance for
Financial Services

July 2013

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Foreword from the Chief Executive

▶ The guidance contained within this document represents the final recommendations of the Committee on Internal Audit Guidance for Financial Services, which the Institute has accepted in full and now commends to the Boards and Internal Audit practitioners of all organisations operating in the UK financial services sector.

Chaired by Roger Marshall, the Audit Committee Chair of a FTSE 100 insurance group and a director of the accountancy standards setter, the Financial Reporting Council (FRC), our Committee was an independent, industry led body which the Institute created specifically for the purpose of developing this guidance. The group was designed to embrace Non-Executives, Executives, Internal Audit practitioners and the regulatory and standard setters' perspectives. Together they achieved a high level of debate and engagement across the financial services sector on the issues of Internal Audit's role in supporting the management of risk. The result is the set of thorough, thoughtful and scalable recommendations contained within these pages.

This new guidance is important because conclusions drawn on the causes of the

financial crisis and more recent governance, risk management and internal control failures within the financial services sector – notably the June 2013 report of the Parliamentary Committee on Banking Standards Commission – emphasise that a more influential internal audit function can play a more significant role in supporting Non-Executive and Executive Management of financial services organisations to manage risks better.

So I hope that Boards and particularly Audit Committees will embrace the spirit and principles of this new guidance, so that the Internal Audit profession may deliver its full value to them.

Finally, I should like to thank the members of the Committee for their diligence and commitment to the task of producing their recommendations. Despite a challenging delivery timetable, they have promulgated a comprehensive debate about the role of Internal Audit in financial services organisations and achieved a high level of engagement on the issues, across the industry.

Dr Ian Peters
Chief Executive

Message from the Chairman

▶ We have pleasure in issuing our final recommendations aimed at fostering effective internal audit in the financial services sector.

This follows a lengthy consultation exercise which started in September 2012. We issued our draft proposals on 11 February 2013 and have been struck not only by the number of responses but also by the thought and care which have gone into preparing them. The Committee has considered the responses in detail and our final recommendations have been modified as a result. In some cases we realised that the principle was supported but that the wording was unclear but in other cases more significant changes have been made.

We have included a basis for conclusions section in this document, which includes the main themes of the responses and how we dealt with them.

A key feature of the responses was the need for proportionality in the way in which the recommendations are implemented.

The Committee agrees and has included an overall paragraph in the Introduction and Context section making this clear.

Whilst we have addressed our recommendations to the Chartered Institute of Internal Auditors we appreciate that many of them can only be implemented by Boards, Audit Committees and Executive Management.

We hope that some of the recommendations will be useful outside the financial services sector. We have written separately to the Financial Reporting Council recommending that they consider whether additional guidance is needed on what should be expected from a good Internal Audit function.

Finally I would like to extend my thanks to the Members and Observers of the Committee and to our secretary, Chris Spedding, for all their diligent work.

Roger Marshall

Chairman of the Committee

Introduction and context

▶ The recommendations included in the following guidance are made by the Committee to the Chartered Institute of Internal Auditors in the UK with the aim of enhancing the overall effectiveness of Internal Audit, and its impact within the firms operating in the financial services sector in the UK. The guidance can be regarded as an additional benchmark against which firms can measure their Internal Audit function. The intended audience for this guidance includes Chief Internal Auditors, Executive and Non-Executive Directors and the Regulatory bodies.

The guidance should be applied in conjunction with the existing Institute of Internal Auditors International Professional Practices Framework (IPPF), which includes the International Standards for the Professional Practice of Internal Auditing (the IIA Standards). The recommendations contained in this guidance aim to build on the IIA Standards, providing financial services context to the existing IIA Standards, and to increase the effectiveness and impact of internal audit in high risk areas of financial services organisations by clarifying expectations and requirements of internal audit.

The guidance aims to establish principles rather than detailed rules. Nevertheless it is written in the context of a reasonable sized company operating within the UK regulated financial services sector. Smaller companies and branches of non-UK headquartered organisations in particular may need to make modifications to the detail of the principles whilst complying with their spirit. The guidance is assumed to be interpreted and implemented in a manner and to the extent that is appropriate to a firm's size, risk profile, internal organisation and the nature, scope and complexity of its activities.

Wherever possible, the guidance has attempted to use layman's language to define terms open to ambiguity or differing application, e.g. "assurance", "three lines of defence" and "reporting line". To a great extent, the guidance has also avoided recommendations on the application and implementation of the principles included. Given organisational and industry specific factors, and a variety of potential audit approaches, the Committee did not feel it was appropriate to mandate best practice of application.

Recommendations of the Committee (The Guidance)

[A] Role and mandate of Internal Audit

1. The primary role of Internal Audit should be to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

It does this by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls. The role of Internal Audit should be articulated in an Internal Audit Charter, which should be publicly available.

2. The Board, its Committees and Executive Management should set the right “tone at the top” to ensure support for, and acceptance of, Internal Audit at all levels of the organisation.

[B] Scope and priorities of Internal Audit

3. Internal Audit’s scope should be unrestricted

There should be no aspect of the organisation which Internal Audit should be restricted from looking at as it delivers on its mandate. Whilst it is not the role of Internal Audit to second guess the decisions made by the Board, its scope should include information presented to the Board as discussed further below.

4. Risk assessments and prioritisation of Internal Audit work

In setting its scope, Internal Audit should take into account business strategy and should form an independent view of whether the key risks to the organisation have been identified, including emerging and systemic risks, and

assess how effectively these risks are being managed. Internal audit’s independent view should be informed, but not determined, by the views of management or the Risk function. In setting its priorities and deciding where to carry out more detailed work, Internal Audit should focus on the areas where it considers risk to be higher.

Internal Audit should make a risk-based decision as to which areas within its scope should be included in the audit plan – it does not necessarily have to cover all of the potential scope areas every year.

5. Internal Audit planning

Internal Audit plans, and material changes to Internal Audit plans, should be approved by the Audit Committee. They should have the flexibility to deal with unplanned events to allow Internal Audit to prioritise emerging risks. Changes to the audit plan should be considered in light of Internal Audit’s ongoing assessment of risk.

6. Scope of Internal Audit

Internal Audit should include within its scope the following areas:

- a. Internal governance

Internal Audit should include within its scope the design and operating effectiveness of the internal governance structures and processes of the organisation.

- b. The information presented to the Board and Executive Management for strategic and operational decision making

Internal Audit should include within its scope the processes and controls supporting strategic and operational

decision making. It should assess whether the information presented to the Board and Executive Management fairly represents the benefits, risks and assumptions associated with the strategy and corresponding business model.

- c. The setting of, and adherence to, risk appetite

Internal Audit is not responsible for setting the risk appetite but should assess whether the risk appetite has been established and reviewed through the active involvement of the Board and Executive Management. It should assess whether risk appetite is embedded within the activities, limits and reporting of the organisation.

- d. The risk and control culture of the organisation

Internal Audit should include within its scope the risk and control culture of the organisation. This should include assessing whether the processes (e.g. appraisal and remuneration), actions (e.g. decision making) and “tone at the top” are in line with the values, ethics, risk appetite and policies of the organisation.

Internal Audit should consider the attitude and assess the approach taken by all levels of management to risk management and internal control. This should include Management’s actions in addressing known control deficiencies as well as Management’s regular assessment of controls.

- e. Risks of poor customer treatment, giving rise to conduct or reputational risk

Internal Audit should evaluate whether the organisation is acting with integrity in its dealings with customers and in its interaction with relevant markets.

Internal Audit should evaluate whether Business and Risk Management are adequately designing and controlling products, services and supporting processes in line with customer interests and conduct regulation.

- f. Capital and liquidity risks

Internal Audit should include within its scope the management of the organisation’s capital and liquidity risks.

- g. Key corporate events

Examples of key corporate events could include significant business process changes, introduction of new products and services, outsourcing decisions and acquisitions/divestments. Internal Audit should decide if these events are sufficiently high risk to warrant involvement on a real time basis. In doing so, Internal Audit will evaluate whether the key risks are being adequately addressed (including by other forms of assurance, e.g. third party due diligence) and reported. Internal Audit should also assess whether the information being used in such key decision making is fair, balanced and reasonable, and whether the related procedures and controls have been followed.

- h. Outcomes of processes

Internal Audit should evaluate the design and operating effectiveness of the organisation’s policies and processes. As part of this evaluation, Internal Audit should consider whether the outcomes achieved by the implementation of these policies and processes are in line with the objectives, risk appetite and values of the organisation.

[C] Reporting results

7. Internal Audit should be present at, and issue reports to the appropriate governing bodies, including the Board Audit Committee, the Board Risk Committee and any other Board Committees as appropriate. The nature of the reports will depend on the remits of the respective governing bodies.
8. Internal Audit's reporting to the Board Audit and Risk Committees should include:
 - a focus on significant control weaknesses and breakdowns together with a robust root-cause analysis;
 - any thematic issues identified across the organisation;
 - an independent view of Management's reporting on the risk management of the organisation, including a view on Management's remediation plans (which might include restricting further business until improvements have been implemented) highlighting areas where there are significant delays; and
 - at least annually, an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, together with an analysis of themes and trends emerging from Internal Audit work and their impact on the organisation's risk profile.

[D] Interaction with Risk Management, Compliance and Finance

9. Effective Risk Management, Compliance and Finance functions are an essential part of an organisation's corporate governance structure. Internal Audit should be independent of these functions and be neither responsible for, nor part of, them.
10. Internal Audit should include within its scope an assessment of the adequacy and effectiveness of the Risk Management,

Compliance and Finance functions. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances should Internal Audit rely exclusively on the work of Risk Management, Compliance or Finance. Internal Audit should always examine, for itself, an appropriate sample of the activities under review.

11. Internal Audit should exercise informed judgement as to when to place reliance on the work of Risk Management, Compliance or Finance. To the extent that Internal Audit places reliance on the work of Risk Management, Compliance or Finance, that should only be after a thorough evaluation of the effectiveness of that function in relation to the area under review.

[E] Independence and authority of Internal Audit

12. The Chief Internal Auditor should be at a senior enough level within the organisation (normally expected to be at Executive Committee or equivalent) to give him or her the appropriate standing, access and authority to challenge the Executive. Subsidiary, branch and divisional Heads of Internal Audit should also be of a seniority comparable to the senior management whose activities they are responsible for auditing.
13. Internal Audit should have the right to attend and observe all or part of Executive Committee meetings and any other key management decision making fora.
14. Internal Audit should have sufficient and timely access to key management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.

In organisations in which the Internal Audit function is outsourced, the Chair of the Audit Committee should identify an appropriate individual responsible for

ensuring that the Chief Internal Auditor has sufficient and timely access to key management information and decisions.

15. The primary reporting line for the Chief Internal Auditor should be to the Chairman of the Audit Committee. In exceptional circumstances, the Board may wish for Internal Audit to report directly to the Chairman of the Board, or delegate responsibility for the reporting line to the Chairman of the Board Risk Committee, provided the Chairman of the Board Risk Committee and all the other Committee members are independent Non-Executive Directors. The reporting line must avoid any impairment to Internal Audit's independence and objectivity.
16. The Audit Committee should be responsible for appointing the Chief Internal Auditor and removing him/her from post.
17. The Chairman of the Audit Committee should be accountable for setting the objectives of the Chief Internal Auditor and appraising his/her performance. It would be expected that the objectives and appraisal would take into account the views of the Chief Executive. This appraisal should consider the independence, objectivity and tenure of the Chief Internal Auditor.
18. The Chairman of the Audit Committee should be responsible for recommending the remuneration of the Chief Internal Auditor to the Remuneration Committee. The remuneration of the Chief Internal Auditor and Internal Audit staff should be structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and should not be directly or exclusively linked to the short term performance of the organisation.
19. Subsidiary, branch and divisional Heads of Internal Audit should report primarily

to the Group Chief Internal Auditor, while recognising local legislation or regulation as appropriate. This includes the responsibility for setting budgets and remuneration, conducting appraisals and reviewing the audit plan. The Group Chief Internal Auditor should consider the independence, objectivity and tenure of the subsidiary, branch or divisional Heads of Internal Audit when performing their appraisals.

20. If Internal Audit has a secondary Executive reporting line, this should be to the CEO in order to preserve independence from any particular business area or function and to establish the standing of Internal Audit alongside the Executive Committee members.

[F] Resources

21. The Chief Internal Auditor should ensure that the audit team has the skills and experience commensurate with the risks of the organisation. This may entail training, recruitment, secondment from other parts of the organisation or co-sourcing with external third parties.
22. The Chief Internal Auditor should provide the Audit Committee with a regular assessment of the skills required to conduct the work needed, and whether the Internal Audit budget is sufficient to allow the function to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the organisation and to the Executive.
23. The Audit Committee should be responsible for approving the Internal Audit budget and, as part of the Board's overall governance responsibility, should disclose in the annual report whether it is satisfied that Internal Audit has the appropriate resources.

[G] Quality assessment

24. The Board or the Audit Committee is responsible for evaluating the performance of the Internal Audit function on a regular basis. In doing so it will need to identify appropriate criteria for defining the success of Internal Audit. Delivery of the audit plan should not be the sole criterion in this evaluation.
25. Internal Audit should maintain an up-to-date set of policies and procedures, and performance and effectiveness measures for the Internal Audit function. Internal Audit should continuously improve these in light of industry developments.
26. Internal Audit functions of sufficient size should develop a quality assurance capability, with the work performed by individuals who are independent of the delivery of the audit. The individuals performing the assessments should have the standing and experience to meaningfully challenge Internal Audit performance and to ensure that Internal Audit judgements and opinions are adequately evidenced.

The scope of the quality assurance review should include Internal Audit's understanding and identification of risk and control issues, in addition to the adherence to audit methodology and procedures. This may require the use of resource from external parties. The quality assurance work should be risk-based to cover the higher risks of the organisation and of the audit process. The results of these assessments should be presented directly to the Audit Committee at least annually.

27. Where the Internal Audit function is outsourced to an external provider, Internal Audit's work should be subject to the same quality assurance work as the in-house functions. The results of this quality assurance work should be presented to the Audit Committee at least annually for review.

28. In addition, the Audit Committee should obtain an independent and objective external assessment at appropriate intervals. This could take the form of periodic reviews of elements of the function, or a single review of the overall function. The conformity of Internal Audit with the recommendations included in this guidance should be explicitly included in this evaluation. The Chairman of the Audit Committee should oversee and approve the appointment process for the independent assessor.

[H] Relationships with regulators

29. Nature and purpose of the relationship

The Chief Internal Auditor, and other senior managers within Internal Audit, should have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.

Wider considerations

30. The Chartered Institute of Internal Auditors should consider developing additional guidance on the application and implementation of the recommendations detailed in this guidance. In particular, less well established areas for Internal Audit activity, such as auditing culture and outcomes would benefit from additional guidance.
31. This Committee recommends that the Chartered Institute of Internal Auditors should review this guidance after a period of two to three years, and consider amending or updating the guidance as required.

Basis for conclusions

▶ On 11 February 2013, the Committee on Internal Audit Guidance for Financial Services issued a consultation paper containing a set of draft recommendations to the Chartered Institute of Internal Auditors. There was a two month consultation period, ending on 12 April 2013.

The Committee received a large number of responses which included the views of Chief Internal Auditors, Non-Executive Directors, Executives and Risk Managers. The responses came from organisations across the financial services sector, including banks, insurers, building societies, asset managers and professional services firms, and from a range of Trade Associations and professional bodies.

In total, over 100 written responses were received, the majority of which (unless otherwise requested by the respondent) have been made available for public review via the Chartered Institute of Internal Auditors website (www.iaa.org.uk/policy/policy-initiatives/financial-services).

In addition to these written responses, the Committee hosted or attended numerous consultation meetings and events to discuss the consultation paper with Internal Audit practitioners, Non-Executive Directors and Executive Management. The consultation responses, and feedback from these sessions, have also contributed to the finalisation of the guidance.

The majority of responses received supported the overall objective of the initiative and the direction of the guidance, recognising that improving the effectiveness and impact of internal audit can help strengthen risk management, governance and control in financial services. Accordingly, the objectives and direction of the guidance have not been substantively changed as a result of the consultation.

The amendments to the draft recommendations were made in response to feedback that highlighted recommendations that were potentially ambiguous or open to misinterpretation. The sections below explain the more significant

issues raised by respondents to the consultation paper, and contain a rationale for the Committee recommendations included in the final guidance.

[A] Role and mandate of Internal Audit

The Institute of Internal Auditors definition of Internal Auditing is *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.

The Committee supports this definition, and emphasises the primary role of Internal Audit is to protect the organisation. At the discretion of the Audit Committee, Internal Audit can perform other roles and activities within the organisation, but not at the expense of helping the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

In response to consultation feedback, this section was amended to emphasise that the responsibility for the protection of the organisation lies with the Board and Executive Management. Internal Audit should support the Board and Executive Management in discharging this responsibility. The final guidance also brings to the fore the importance of “tone at the top” supporting Internal Audit in delivering this mandate.

Some consultation responses also questioned the Committee’s recommendation that the Internal Audit Charter should be made publicly available. The rationale for this recommendation is to provide clarity and transparency to customers and investors around the role and mandate of Internal Audit. This is aligned to the expectation that the Terms of Reference of the Committees of the Board be made publicly available.

[B] Scope and priorities of Internal Audit

In response to consultation feedback, the Committee have amended the recommendations to clarify that Internal Audit should not “second guess” the decisions of the Board of Directors. The Committee has recommended that the Audit Committee should ultimately be responsible for approving the activity of Internal Audit.

The IIA Standards require Internal Audit to be free from interference in determining the scope of their audit work. Whilst it is common for Internal Audit Charters to mandate an unrestricted scope, some Internal Audit functions did not include in their audit universe or risk assessments some of the processes, risks and events that were central to the problems faced by the financial services sector in recent years. The Committee agrees with the principle of an unrestricted scope, and, for the avoidance of doubt, the guidance set out areas of scope which were found to have been restricted in some organisations, in practice even if not in principle. This is not to say that these areas should take priority over more commonly audited / business-as-usual risk areas, such as credit, operational or regulatory risks. Feedback prompted the Committee to stress that the guidance does not require Internal Audit to cover every area contained in the audit universe every year, although they will be considered in Internal Audit’s risk assessment and prioritisation of audit activity.

[C] Reporting results

The Committee separated the matters relating to reporting lines between the provision of direction to, and oversight of, Internal Audit (for example on matters covered in section E such as budget, approval of audit plans and performance appraisal) and the reporting of information by Internal Audit which is covered in this section C. The Committee’s recommendations around reporting results

were in response to inconsistencies across the industry around the nature, quality and frequency of formal reporting from Internal Audit to Board Audit Committees and especially Board Risk Committees.

[D] Interaction with Risk Management, Compliance and Finance

The feedback received in the consultation process requested additional explanation around the relative roles of Internal Audit, Risk Management, Compliance and Finance. The Committee is not promoting a duplication of role or purpose between Internal Audit and Risk, Compliance or Finance. The Committee has recommended that Internal Audit should have an enterprise-wide remit and mandate, and this must mean assessing the adequacy and effectiveness of the Risk Management, Compliance, and Finance functions.

The Committee agreed with the consultation responses which argued that as well as Boards receiving reports from Risk Management, Compliance and Finance, an additional perspective on risk management, governance and control issues from Internal Audit is healthy and to be encouraged. The objective of this section of guidance was, in part, to address a perceived misunderstanding of “combined” or “integrated” assurance models. Internal Audit must have an enterprise-wide remit – “the assurance map” cannot be carved up between the Internal Audit, Risk and Compliance functions.

[E] Independence and authority of Internal Audit

This section of the guidance addresses the factors that can influence Internal Audit work, and the conditions in which an Internal Audit function can most effectively influence the organisation in which it operates.

The Committee recommends that Internal Audit plays a stronger role in supporting the Board of Directors to discharge its responsibility to protect the organisation. The Committee recognised that Internal Audit must have sufficient standing and access to Executive Management, to perform its role. Whilst the guidance has recommended that Internal Audit should have the right to attend Executive Committee meetings and any other key decision making fora, in line with the IIA Standards on independence, the Committee does not support Internal Audit attending in a decision making capacity. This attendance is intended to help Internal Audit to gain an understanding of the business and its strategy, and to provide its perspectives on risk and control. The Committee stopped short of mandating attendance at these key management fora, with attendance determined at the professional discretion of the Chief Internal Auditor as they see fit to discharge their responsibilities effectively.

The Committee received feedback relating to the interpretation of the recommendation relating to the remuneration of Chief Internal Auditor. The guidance is consistent with existing regulatory guidance around the remuneration of personnel working in the control functions of financial institutions. The Committee did not deem it necessary to prescribe additional guidance in this area.

The consultation paper recommended that *“in order to protect the objectivity and independence of Internal Audit, the Audit Committee should determine an appropriate interval to consider the need to change the Chief Internal Auditor and should have a similar policy for divisional and subsidiary heads”*. In response to feedback received, this recommendation has been amended to focus primarily on the objectivity and independence of the Chief Internal Auditor, rather than on the need to change the Chief Internal Auditor.

In response to feedback received, the Committee considered the application of this guidance to financial services institutions that have outsourced the internal audit function to an external provider.

For smaller organisations this often proves to be a more effective and practical way of securing access to expertise, experience and skills that they would not normally be able to attract to an in-house function. The guidance also explicitly recognises the need for proportionality for different types, and complexities of organisation.

[F] Resources

The Committee recognise that the guidance may have significant implications for the resource requirements of Internal Audit. Increasing the expectations of Internal Audit, particularly in areas such as independent identification of key risks (including emerging and systemic risks) challenging Executive Management, exercising judgment over technical areas such as risk appetite, governance and culture, and assessing outcomes of processes, requires a different, and potentially increased mix of skills and experience.

The need for such skills and experience will be driven by the risk profile of each organisation, and should be informed by emerging risks in the industry. It is important to emphasise that the resources and skills within the function should be determined by the risk assessment and audit plan, and not vice versa – a criticism of some audit functions was that their primary focus was on the areas that they could audit, as opposed to the areas that they should audit.

[G] Quality assessment

Recommendation 26 has built on the IIA Standards to emphasise that Internal Audit’s quality assessment activity must

include *“Internal Audit’s understanding and identification of risk and control issues, in addition to the adherence to audit methodology and procedures”*. This is making explicit a requirement for an element of quality assessment that is overlooked or not performed by some functions.

The IIA Standards mandate an independent, external review of the Internal Audit function at least every five years. The Committee agreed that an external review of the quality and effectiveness of Internal Audit is important in providing the Chief Internal Auditor and the Audit Committee with an assessment of the strength of the function.

Some consultation responses suggested that the current five year limit for an external review of Internal Audit should be reduced, particularly in periods of organisational or industry change. The Committee did not feel that recommending a reduced maximum period for this external review was appropriate. It should be noted that the IIA Standards mandate this period as a maximum, and many organisations choose to commission external assessments on a more frequent basis. The quality assessment requirements of audit functions can vary depending on a range of factors, including the complexity or degree of change in the organisation, emerging risks in the industry or organisation and stability or maturity of the audit function.

The Committee felt that to recommend a timescale assumes that a periodic, holistic review of the function is the most appropriate approach to the external assessment. Some functions are considering an ongoing review by an external party, focusing the quality assessment on high risk areas of the audit function, such as emerging risks, new methodology practices or industry hot topics. None of the above should be taken as acceptance of a less rigorous approach to quality assessment than that specified in the IIA Standards. The Committee does not support the period between the performance of an external review exceeding the five

year recommended period for external review, as specified in the IIA Standards.

[H] Relationships with regulators

The guidance reinforces the requirement for open, honest and constructive communication with the Regulators. In response to consultation feedback, the Committee did not see a requirement to expand on the expectations laid out in the Statements of Principle and Code of Practice for Approved Persons, and the UK Corporate Governance Code, in relation to the interaction between the Chief Internal Auditor and the Regulators.

Wider considerations

The Committee received numerous responses requesting further guidance on the practical application of the recommendations. The Committee intends the guidance to establish principles rather than detailed rules and feels that the guidance itself is sufficiently clear for Internal Audit to be able to apply those principles. Nevertheless the Committee recognises that firms would benefit from additional guidance and instruction from the Chartered Institute of Internal Auditors as industry good practice becomes better established.

The Committee has also recommended that the Chartered Institute of Internal Auditors revisits the guidance document after a period of two to three years, to provide the opportunity to refine the recommendations contained herein. This could be to reflect evolving practice and implementation expectations, and to correct any unintended consequences that arise in the application of the guidance.

Roger Marshall, in his role as a Director at the Financial Reporting Council, has made a recommendation to the Financial Reporting Council in his covering letter, pertaining to wider Corporate Governance guidance for Boards and Executive Management in relation to Internal Audit.

Committee Membership

Committee members

Roger Marshall (Chair)	Audit Committee Chair, Old Mutual; Director, Financial Reporting Council (FRC)
Paul Boyle	Chief Audit Officer, Aviva (formerly Chief Executive Financial Reporting Council)
Prof. Andrew Chambers	Professor of Internal Auditing, now emeritus, Cass Business School; advisor to the House of Lords inquiry into audit market concentration (2010-12)
Paul Lawrence	Group General Manager, Internal Audit, HSBC
Brendan Nelson	Audit Committee Chair, BP; Audit Committee chair, RBS
Martyn Scrivens	Group Chief Auditor, Credit Suisse
Carol Sergeant	Non-Executive Director, multiple organisations; Former Chief Risk Officer, Lloyds Banking Group; Former Managing Director of the Regulatory Process and Risks Directorate at the Financial Services Authority
Chris Spedding (Secretary)	Senior Manager, Ernst & Young

Observers to the Committee

Stephen Brown	Head of Internal Audit, Bank of England
Rosemary Hilary	Head of Internal Audit, Financial Conduct Authority
Chris Hodge	Director of Corporate Governance, Financial Reporting Council
Veenu Mittal	Senior Associate, Accounting and Audit policy, Prudential Regulation Authority
Ian Peters	Chief Executive, Chartered Institute of Internal Auditors
Kevin Simons	Partner, Ernst & Young
Pat Sucher	Manager, Accounting and Audit policy, Prudential Regulation Authority

About the Chartered Institute of Internal Auditors (IIA)

The IIA is the only body focused exclusively on internal auditing and we are passionate about supporting, promoting and training the professionals who work in it. We have been leading the profession of internal auditing for over 65 years. Our *International Standards* and Code of Ethics unite a global community of over 180, 000 internal auditors in 190 countries. We are committed to enhancing the recognition and professionalism of internal audit in the UK and Ireland, through:

- Dynamic leadership of the profession which maximises our members' reputation and influence individually and collectively.
- Technical excellence through our *International Standards* and Code of Ethics.
- All members across the globe work to the same International Standards and Code of Ethics.
- We have 8,000 members in all sectors in the UK and Ireland.
- High quality support to our members throughout their careers, which enables them to continually develop their professional knowledge, skills and experience and provides other services of value to members in their roles.

These things, enacted through our staff, members and volunteers and with the support of our suppliers and partners, make a significant and unique contribution to the success of all organisations.

www.iaa.org.uk

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