



CAE-POLL: Reporting Lines in line with GIAS and Code CG

The poll

IIA Netherlands conducted a short CAE-poll on the governance of the IAF and its reporting lines. This is an important topic, both for its independence and for its effectivity.

This paper describes the results, based on 53 responses of CAEs (which is around 25% of the total population), distributed over:

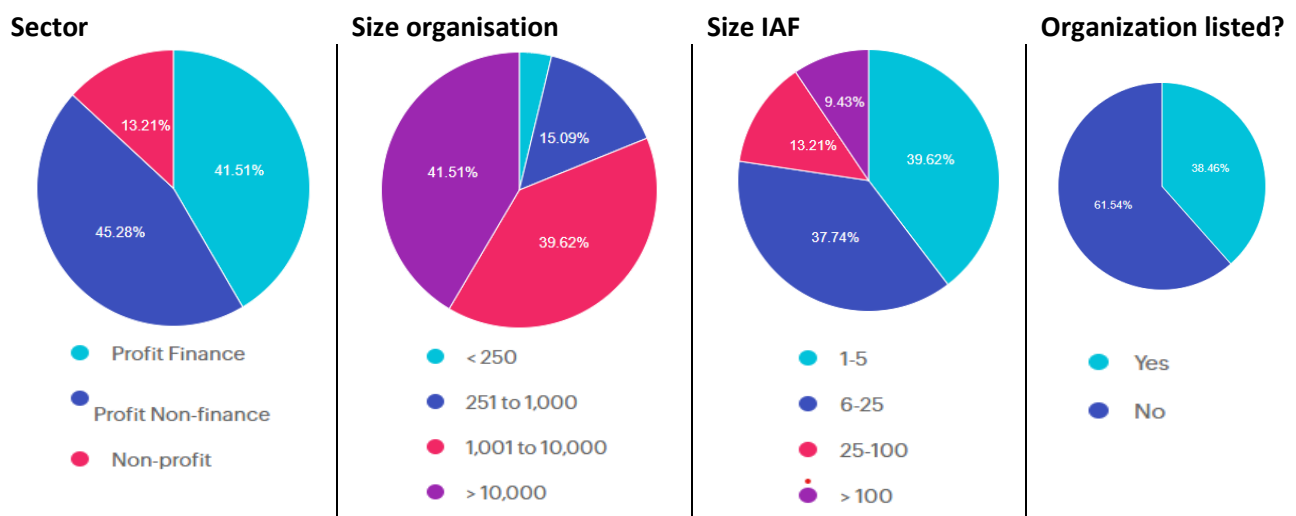


Figure 1. Demographics

It is important to emphasize that this survey is based on a two-tier system. GIAS implicitly recognizes a one-tier system and therefore speaks of 'the board'¹.

The results

The poll addressed four questions:

1. To whom do you as CAE **functionally and administratively** report to?
2. To whom is what submitted for **approval**?
3. Where is the IAF **positioned** within the organization?
4. What **area of responsibility** do you as CAE have outside of internal audit?

The results are described on the following pages.

¹ Board: the highest-level body charged with governance; in an organization that has more than one governing body, "board" refers to the body/bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

1. Functional and administrative reporting

A large majority reports functionally² to the Audit Committee (AC) (70%) and administratively³ to the CEO or CFO (64 respectively 30%). So this is generally in line with what the Standards and Dutch Corporate Governance Code require and advise.

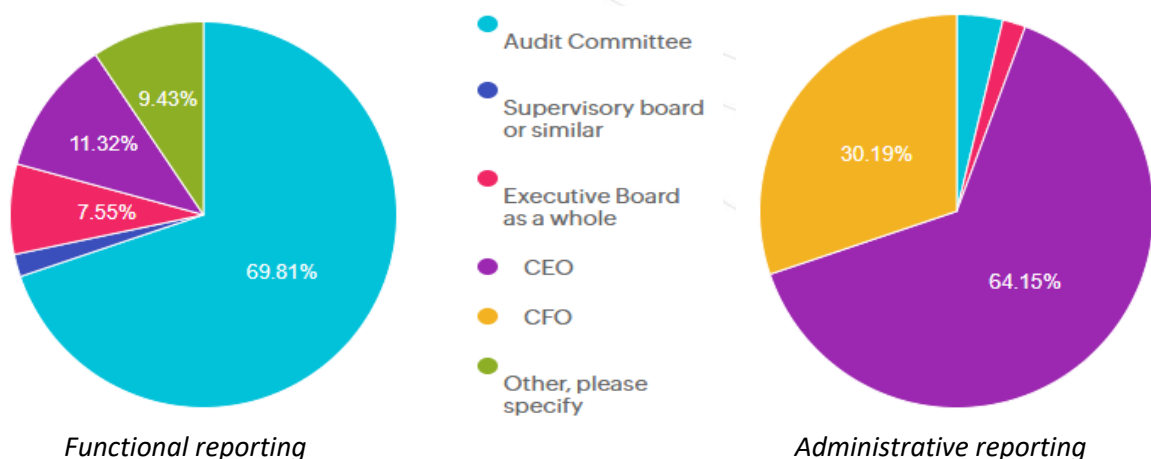


Figure 2. Reporting lines

- Regarding the **functional reporting**, these results do not differ for size of the organization or IAF. However, there are differences between sectors and whether or not the company is listed on the stock exchange.
 - 94% of listed CAEs report functionally to the AC, compared to 69% of non-listed; of the latter, 27% report functionally to the Executive Board (EB) or CEO;
 - the latter is particularly the case in the non-profit sector, where 2/3 reports functionally to EB or CEO, and only 1/3 to the AC.
- In **administrative reporting** there are especially differences in reporting to the CEO or CFO:
 - the ratio between CEO and CFO is 50-50% for listed, and 80-20% for non-listed organizations;
 - sector-wise, the high % reporting to the CFO is particularly striking for the profit-non-financial sector: approximately 50%, compared to 10% in the financial sector and 80% in the non-profit;
 - looking at the size of the IAF, it is striking that administrative reporting to the CEO increases as the size of the IAF increases.

² Functional reporting concerns the substantive aspects of audit work (audit charter, (execution) audit plan, findings and recommendations of audits). This line is set up to strengthen the independence of the internal audit, by a direct line to those responsible for (overseeing the) organization's governance.

³ Administrative reporting concerns the daily operational management aspects of the audit function, such as budgeting and personnel management, and the internal administration of the audit department.

2. Who is approving what?

In general we see similar scores for approval of the various documents and major decisions: in 75-80% of the organizations approval is given by Supervisory Board (SB) /AC, in 40-45% by EB/CEO/CFO. Only for approval of the remuneration, EB/CEO/CFO scores substantially higher, and AC lower.

Often documents are submitted for approval to both SB/AC and EB/CEO/CFO.

In fact this is in line with the Dutch CG Code which says:

- Appointment and dismissal: management (executive) board appoints and dismisses; approval by supervisory board, with the recommendation of the audit committee;
- Audit plan (and similarly the strategic plan) approval by management board respectively supervisory board.

There are no substantial difference for the different demographical factors.

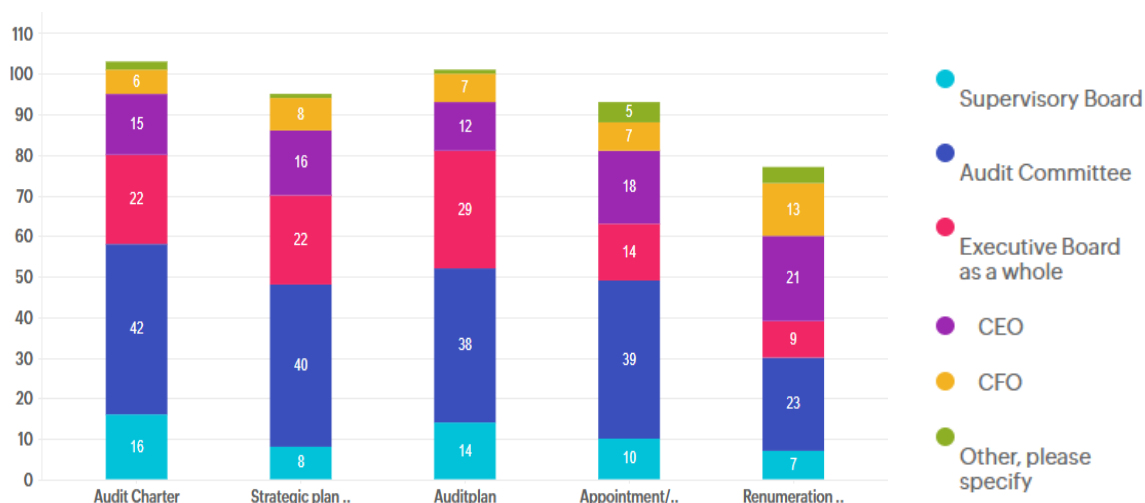


Figure 3. Approvals

3. Position of IAF within the organization

Positioning of the IAF is very clear, and in line with GIAS: more than 90% is positioned directly under the EB; only 3 organisations indicate that they are part of another department, namely Finance, Business Control or General Affairs.



4.Areas of responsibility

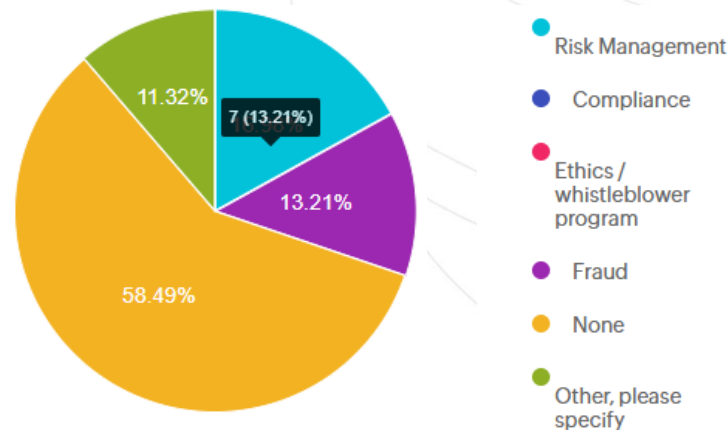


Figure 4. Other areas of responsibility

A majority, 60%, have no other areas of responsibility than IA. 40% do; this mainly concerns Risk Management (17%) and Fraud (13%). The remaining 10% is diverse, such as responsibilities for internal control, forensic and ethics.

It is striking that, especially at the smaller IAFs, a combination with Risk Management (+/- 35% at IAFs with 1-5 FTE) and Fraud (35% at IAFs with 6-25 FTE) occurs more often. At IAFs larger than 25 FTE, a combination with other areas of responsibility is an exception.

A combination occurs mainly in larger organizations (> 1,000 FTE), with Risk Management mainly in organizations between 1,000 and 10,000 FTE (35%), and Fraud (30%) in organizations larger than 10,000 FTE.

A combination of responsibilities mainly occurs in the profit-non-financial sector and (as expected from the applicable laws and regulations) only sporadically in the financial sector and non-profit.