

Gavin Hayes
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By email: iipolicy@iia.org.uk

8 May 2024

Dear Gavin

Consultation on the draft combined Internal Audit Code of Practice for effective internal audit in the financial services, private and third sectors

The Chartered Governance Institute UK & Ireland is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. They are therefore well placed to understand the issues raised by this consultation document. In preparing our response we have consulted,

amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below.

General comments

This is an important consultation about an important subject, and we share CIIA's desire for harmonised practice across the internal audit profession.

Generally, we support the provisions of the draft Code that has been produced. However, as set out in our response to q13 below, we do have some concerns. These relate, primarily, to the relationship between the internal audit function and the board.

The board of directors has ultimate responsibility for the management of the company and, as such, its activities are not subject to review by internal audit. To suggest otherwise is, in our view, overreach and we therefore do not support the contention that board and board committee papers should fall within scope of internal audit. Our experience is that this would be most unusual – indeed even the external auditor would normally be carefully restricted by the company secretary. There will often be sensitive or confidential papers circulated within the board and its committees and it is not appropriate that internal audit have access to these. In our view the appropriate course would be for internal audit to request any papers that they regard as germane to their work from the company secretary, who can then make an informed decision about whether it is appropriate to release them and discuss with the chair of the audit committee if appropriate. This might take the form of extract minutes on specific topics, e.g. evidencing board approval for an acquisition or that board has discussed risk. The internal auditor might legitimately ask to see evidence of robust discussion on risk or evidence of challenge, but this is best done by providing examples of what they want to test followed up by extracts.



Specific questions asked in the consultation form

Pre-survey questions

- **Please provide your contact details**

Peter Swabey, Policy & Research Director, The Chartered Governance Institute UK & Ireland

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- **Please select the primary sector you work in**

Other

- **Please select your role**

Institute/think tank/policy group

- **Please select the size of your internal audit function (if applicable)**

Not applicable

Survey questions

1. The Committee intends to publish one Code of Practice. Do you support the development of one Code of Practice across the financial services, private and third sectors?

Yes.

2. The Committee has introduced outcome statements for each section of the Code. Do you believe the outcome statements are helpful?

Yes

3. Principle 1 relating to internal audit's role and mandate has been strengthened to be forward looking and emphasise internal audit's role in influencing and challenging management. Do you support these changes?

Yes

4. Principle 3 requires the chief audit executive to report annually to the board audit committee on how the principles in the Code of Practice have been applied. Do you support the addition?

Yes

5. Principle 4 enhances internal audit reporting requirements in the annual report and accounts. Do you support the addition?

Yes



6. Are the scope areas outlined in principle 8 fit for purpose?

Yes

6.1 Purpose Do you agree with the addition of purpose?

Yes

6.2 Organisational culture Do you agree with broadening risk and control culture to organisational culture?

Yes

6.3 Capital and liquidity risks (non-FS organisations only) Do you agree capital and liquidity risks are relevant for organisations that operate outside of financial services?

Yes

6.4 Risks of poor customer treatment giving rise to conduct or reputational risk (non-FS organisations only) Do you agree conduct and reputational risks related to poor customer treatment are relevant for organisations that operate outside of financial services?

Yes.

6.5 Environmental sustainability, climate change risks and social issues Do you agree with the addition of sustainability, climate and social risks?

Yes

6.6 Financial crime, economic crime and fraud Do you agree with the addition of financial crime, economic crime and fraud risks?

Yes

6.7 Technology and data risks Do you agree with the addition of technology and data risks?

Yes

6.8 Risk management, compliance, finance and control functions Do you agree with moving the assessment of the adequacy and effectiveness of these functions from Section D of the Code of Practice to section B?

Yes

6.9 Do you support the list of areas being included in the main body of the Code (as opposed to an appendix)?

Yes



6.10 Are there any other additional topics that should be addressed in the scope and priorities section of the Code of Practice?

No.

7. Are the principles outlined in section C 'reporting results' relating to internal audit's opinion clear?

Generally yes.

We are not certain that principle 9 as drafted makes complete sense. In any event, we do not agree that internal audit should always be present at these committees, but this may not be the intention of the drafting. We would suggest:

*9. Internal audit should be **invited to** present at, and issue consolidated reports, to, key governance committees, including the board audit committee and any other board committees as appropriate. The nature of the reports will depend on the remit of the respective governing bodies. Internal Audit should also issue relevant consolidated reports to the board risk committee and present as appropriate.*

8. Are principles 12 and 13 in section D relating to interaction with first line, second line and control functions clear?

Yes. However, we do have a couple of minor drafting points:

*12. The following is applicable to organisations **which** operate in the financial services sector and is considered best practice for organisations who operate in the private and third sectors. Effective risk management, compliance, finance, and other control 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.*

*The following is applicable to organisations **which** operate in the private and third sectors. In most organisations there will be some functions*

9. Do you agree with the addition of principle 14 on coordinating assurance?

We have no view on this point.

10. Is principle 23 relating to the chief audit executive's administrative reporting line appropriate?

Yes. However, we do have a couple of minor drafting points:

*23. The following is applicable to organisations **which** operate in the financial services sector and is considered best practice for organisations who operate in the private and third sector. If internal audit has an administrative reporting line, this should be to the chief executive 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.

*The following is applicable to organisations **which** operate in the private and third sector. In certain scenarios*

11. Do you support the addition of principle 26 relating to diversity, equity and inclusion?

Yes. Although whilst sympathising with the intention, we would caution that this may be unduly prescriptive for a small internal audit team.

12. Do you support the addition of principle 27 relating to internal audit's use of tools and technology?

Yes

13. Are there any provisions in the draft Code of Practice which have created/are liable to create unintended consequences?

Yes.

Principle 5 states that *"Internal audit's scope should be unrestricted"* and goes on to state that *"its scope should include information presented to the board and its committees as discussed further below."*

Principle 16 states that *"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 e.g. board risk committee. This enables internal audit to understand better the strategy of the business, key business issues and decisions, and to adjust internal audit priorities where appropriate."*

Principle 17 states that *"Internal audit should have unrestricted and timely access to key management information and a right of access to all of the organisation's data, records, information, personnel and physical properties necessary to discharge its responsibilities. This includes access to Board and Executive Committee papers."*

We do not agree that internal audit should have unfettered access to board and board committee papers. Our experience is that this would be most unusual – indeed even the external auditor would normally be carefully restricted by the company secretary. There will often be sensitive or confidential papers circulated within the board and its committees and it is not appropriate that internal audit have access to these. In our view the appropriate course would be for internal audit to request any papers that they regard as germane to their work from the Company Secretary, who can then make an informed decision about whether it is appropriate to release them and discuss with the chair of the audit committee if appropriate. This might take the form of extract minutes on specific topics, e.g. evidencing Board approval for an acquisition or that board has discussed risk. The



internal auditor might legitimately ask to see evidence of robust discussion on risk or evidence of challenge, but this is best done by providing examples of what they want to test followed up by extracts.

Principles 19-21 and principle 33 place a number of specific responsibilities on the chair of the audit committee:

19. The chair of the board audit committee should be responsible for appointing the chief audit executive and for determining when they should be removed from post.

20. The chair of the board audit committee should be accountable for setting the objectives of the chief audit executive and appraising their performance at least annually.

21. The chair of the board audit committee should be responsible for recommending the remuneration of the chief audit executive to the remuneration committee.

33. ... The chair of the board audit committee should oversee and approve the appointment process for the independent assessor.

We do not agree. In each case, we believe that this should be a matter for the audit committee as a whole rather than the chair as an individual.

14. In order to continue to raise the bar for the internal audit profession, have the committee been bold enough?

Yes

15. Are there any other comments/feedback you would like to provide to enhance the Code of Practice?

Please see our general comments above.

If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,

Peter Swabey

Policy and Research Director

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