



International Professional
Practices Framework

Implementation Guide 1110

Standard 1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter.*
- *Approving the risk-based internal audit plan.*
- *Approving the internal audit budget and resource plan.*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.*
- *Approving decisions regarding the appointment and removal of the chief audit executive.*
- *Approving the remuneration of the chief audit executive.*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

Revised Standards, Effective 1 January 2017

Getting Started

The standard requires the chief audit executive (CAE) to report to a level within the organization that allows internal audit to fulfill its responsibilities. Therefore, it is necessary to consider the organizational placement and supervisory oversight/reporting lines of internal audit to ensure organizational independence.

The CAE does not solely determine the organizational placement of internal audit, the CAE's reporting relationships, or the nature of board or senior management supervision; the CAE needs help from the board and senior management to address these items effectively. Typically, the CAE, the board, and senior management reach a shared understanding of internal audit's responsibility, authority, and expectations, as well as the role of the board and senior management in overseeing internal audit. Generally, the internal audit charter documents the decisions reached on organizational placement and reporting lines.

It may also be helpful for the CAE to be aware of regulatory requirements for both internal audit positioning and CAE reporting lines.

Considerations for Implementation

As noted above, the CAE works with the board and senior management to determine organizational placement of internal audit, including the CAE's reporting relationships. To ensure effective organizational independence, the CAE has a direct functional reporting line to the board. Generally, the CAE also has an administrative, or "dotted," reporting line to a member of senior management.

A functional reporting line to the board provides the CAE with direct board access for sensitive matters and enables sufficient organizational status. It ensures that the CAE has unrestricted access to the board, typically the highest level of governance in the organization.

Functional oversight requires the board to create the right working conditions to permit the operation of an independent and effective internal audit activity. As noted, the board assumes responsibility for approving the internal audit charter, the internal audit plan, the budget and

resource plan, the evaluation and compensation of the CAE, and the appointment and removal of the CAE. Further, the board monitors the ability of internal audit to operate independently. It does so by asking the CAE and members of management questions regarding internal audit scope, resource limitations, or other pressures or hindrances on internal audit.

CAEs who find themselves with a board that does not assume these important functional oversight duties may share Standard 1110 and recommended governance practices — including board responsibilities — with the board to pursue a stronger functional relationship over time.

To facilitate board oversight, the CAE routinely provides the board with performance updates, generally at quarterly meetings of the board. Often, the CAE is involved in crafting board meeting agendas and can plan for sufficient time to discuss internal audit performance relative to plan as well as other matters, including key findings or emerging risks that warrant the board's attention. Further, to ensure that organizational independence is discussed annually, as required by this standard, the CAE will often create a standing board agenda item for a specific board meeting each year.

Generally, the CAE also has an administrative reporting line to senior management, which further enables the requisite stature and authority of internal audit to fulfill responsibilities. For example, the CAE typically would not report to a controller, accounting manager, or mid-level functional manager. To enhance stature and credibility, The IIA recommends that the CAE report administratively to the chief executive officer (CEO) so that the CAE is clearly in a senior position, with the authority to perform duties unimpeded.

Considerations for Demonstrating Conformance

There are several documents that may demonstrate conformance with this standard, including the internal audit charter and the audit committee charter, which would describe the audit committee's oversight duties. The CAE's job description and performance evaluation would note reporting relationships and supervisory oversight. If available, CAE hiring documentation may include who interviewed the CAE and who made the hiring decision. Further, an internal

audit policy manual that addresses policies like independence and board communication requirements or an organization chart with reporting responsibilities may demonstrate conformance. Board reports, meeting minutes, and agendas can demonstrate that internal audit has appropriately communicated items such as the internal audit plan, budget, and performance, as well as the state of organizational independence.

About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

Disclaimer

The IIA publishes this document for informational and educational purposes. This guidance material is not intended to provide definitive answers to specific individual circumstances and, as such, is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

Copyright

Copyright® 2016 The Institute of Internal Auditors. For permission to reproduce, please contact guidance@theiia.org.