International Professional Practices Framework

Implementation Guide 1112

Standard 1112 – Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Revised *Standards*, Effective 1 January 2017

Getting Started

The Interpretation of Standard 1112 notes that when the chief audit executive (CAE) takes on roles and/or responsibilities outside of internal auditing, organizational independence of the internal audit activity or the individual objectivity of the internal auditor may be impaired or may appear to be impaired. However, in certain circumstances, the board and senior management may find that it is appropriate for the organization to expand the CAE's role beyond internal auditing.

Examples of situations when the CAE may be asked to perform roles for which management is normally responsible include:

- A new regulatory requirement prompts a pressing need to develop policies, procedures, controls, and risk management activities to ensure compliance.
- An organization needs current risk management activities to be adapted for the addition of a new business segment or geographical market.
- The organization's resources are too constrained, or the organization is too small, to afford a separate compliance function.
- The organization's processes are immature, and the CAE has the most appropriate expertise to introduce risk management principles in the organization.

In some cases, the CAE may be expected to assume responsibilities in the areas of risk management, design and operation of controls, and compliance. For example, if a CAE is asked to take on a role that reports functionally to senior management instead of the board, the CAE's independence related to internal audit responsibilities may be impaired. (See Implementation Guide 1130 – Impairment to Independence or Objectivity for additional examples of potential impairments.) Standard 1112 guides the CAE in such cases.

To implement Standard 1112, the CAE must have a clear understanding of The IIA's Code of Ethics and the concepts of independence and objectivity, as explained in the 1100 series of standards and implementation guides. Additionally, several of The IIA's Core Principles for the Professional Practice of Internal Auditing address independence and objectivity of the CAE. The internal audit activity's mission statement and charter, the audit committee charter, and the organization's policies and code of ethics may include additional relevant guidance specific to the organization.

To address the risks of impairment, the CAE should gain an understanding of any proposed role that falls outside of internal auditing and speak with senior management and the board about the reporting relationships, responsibilities, and expectations related to the role. During such a discussion, the CAE should emphasize the IIA standards related to independence and objectivity, the potential impairment presented by the proposed role, the risks associated with the proposed role, and safeguards that could mitigate those risks.

Considerations for Implementation

Standard 1112 emphasizes the importance of safeguards such as oversight activities, often undertaken by the board, to address potential impairments to the CAE's independence and objectivity. One safeguard is the CAE's organizational position and reporting relationship. According to Standard 1110 – Organizational Independence, "The CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities." This is effectively achieved when the CAE reports functionally to the board, which usually involves board oversight of the hiring, evaluation, and compensation of the CAE and board approval of the internal audit charter and internal audit plan, budget, and resources. As stated in Standard 1000 – Purpose, Authority, and Responsibility, the internal audit charter documents the nature of the CAE's functional reporting relationship with the board.

Changes in the organization and its key personnel may lead to the repositioning or redefinition of roles and responsibilities. According to the Interpretation of Standard 1112, one safeguard that may address this situation is the periodic evaluation of reporting lines and responsibilities. The CAE's review of the internal audit charter and discussion with senior management and the board, as described in Standard 1000, should include any changes in roles or responsibilities that may affect the internal audit activity, particularly those that have the potential to impair the CAE's independence and objectivity, either in fact or appearance. If the CAE's nonaudit responsibilities will be ongoing, the internal audit charter should describe the nature of the work. However, if such responsibilities will be short-term, changes to the internal audit charter and other documents may not be necessary. In such cases, a plan to transition these responsibilities to management may be implemented to safeguard the CAE's independence and objectivity. The transition plan would ensure the proper resources and timeline to facilitate management's acceptance of these responsibilities.

Standard 1130 requires the CAE to disclose the details of any impairment to independence or objectivity, whether in fact or appearance. Disclosures, which enable the board to evaluate the overall risk of potential impairments, typically take place during a board meeting and may include a discussion of related topics, such as:

- Roles and responsibilities that the CAE is being asked to undertake.
- Risks related to the undertaking.
- Safeguards to the CAE's independence and objectivity, including consideration of appearances.
- Controls in place to validate that the safeguards are operating effectively.
- Transition plan, if the assignment is short-term.
- Agreement with senior management and the board.

The board can monitor the CAE's objectivity by increasing the level of scrutiny applied to the CAE's risk assessment, internal audit plan, and engagement communications, and considering any potential bias the CAE may have related to an area for which he or she performed duties beyond internal auditing. To help safeguard the CAE from impairments to objectivity, Standard 1130.A1 prohibits internal auditors from assessing specific operations for which they were responsible within the previous year, and Standard 1130.A2 requires a party outside the internal audit activity to oversee assurance engagements for functions over which the CAE has responsibility. If the CAE has responsibilities in areas outside the internal audit activity that are subject to internal auditing, the provision of assurance would be outsourced to an objective, competent assurance provider that reports independently to the board, rather than the CAE. Such an assurance provider could be either internal or external.

An external assessment of the internal audit activity (see Standard 1312 – External Assessments) that includes a review of the CAE's independence and objectivity — particularly in areas where the CAE has executed nonaudit responsibilities — can provide additional assurance to the board, as long as the independence of the external assessor can be validated.

Considerations for Demonstrating Conformance

Documentation of any safeguards that were established to address potential impairments to the CAE's independence and objectivity may help demonstrate conformance with Standard 1112. Such documentation may include statements in the organization's policies and code of ethics, the audit committee's charter, and the internal audit activity's mission statement and approved audit charter, which specifies the CAE's roles and responsibilities as agreed with senior management and the board. Conformance may also be demonstrated through periodic revisions of the internal audit charter, which reflect the internal audit activity's changing roles and responsibilities. Likewise, plans to transition roles and responsibilities that fall outside of internal auditing (e.g., compliance or risk management activities) from the CAE to management may also demonstrate conformance. Additional evidence could include the minutes of board meetings during which the CAE disclosed potential impairments to independence or objectivity, and proposed safeguards to mitigate the risks of impairment to acceptable levels.

The CAE could demonstrate conformance by showing that other assurance providers assessed the areas where the CAE had undertaken roles beyond internal auditing, and the internal audit plan, risk assessments, and engagement communications were independently assessed for independence and objectivity. Surveys of audit clients and board evaluations of the CAE's performance may include feedback on the perception of the CAE's independence and objectivity. Conformance may also be validated in the results of external assessments performed by an independent assessor.

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.

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Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (nonmandatory) 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.

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