

INTERNAL AUDIT CODE OF PRACTICE

Following a twelve-week consultation in early Autumn 2019, the Chartered Institute of Internal Auditors has published its new Internal Audit Code of Practice. The Code is principles based and is intended as an 'industry benchmark' aiming to embed consistent good practice across the internal audit profession. The Code is to be applied in conjunction with the existing International Professional Practices Framework (IPPF).

At RSM, we fully support the intentions of the new Code, which is made up of '38 recommendations' seeking to embed consistent good practice, enhance the effectiveness of internal audit and its impact. As one of the largest internal audit providers in the UK we took part in the consultation process, providing feedback and our thoughts on the draft Code.

Who is the Code for?

The Code is applicable to internal audit in the private sector and third sectors in the UK and Ireland.

It is also cited as being 'useful' for internal audit functions operating in the public sector, albeit it has not been produced specifically with the public sector in mind. In any event, internal auditors in the public sector continue to follow the Public Sector Internal Audit Standards (PSIAS), which encompass the mandatory elements of the IPPF.

Internal auditors in the financial services (FS) sector should continue to follow the now established FS Code (upon which the Internal Audit Code is based).

The new Code is to be applied alongside the existing IPPF, which includes the International Standards for the Professional Practice of Internal Auditing.

In building on the Standards, the Code makes it very clear that the guidance contained within the Code should be applied proportionately, where an organisation's

'size and complexity' should be the guiding factors, along with an entities risk profile.

The Code is very clear, however, that all internal audit work should follow IPPF Standards and that internal audit functions, whether in-house or outsourced, should be subject to an independent quality assessment at least once every five years.

Role of internal audit

The Code contains a lot of information on the role of internal audit and the nature of the work it should carry out. For example, the Code requires that, '*at least annually*', there should be '*an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation*'.

Whilst internal auditors have always had a core role to play in providing assurance, the Code also places more emphasis on the role and mandate of internal audit; stressing that an organisation's board, committees and management have to set the right 'tone at the top' and, therefore, culture to ensure there is the support for internal audit and the valuable role it has to play.

Culture

The Code makes it more explicit that internal audit should be looking at the 'risk and control culture of the organisation'. As well as the way in which the risk appetite is set and adherence to that including reporting annually on this area.

Other requirements

The Code also requires internal audit to address, in its work, the implications and consequences (from a risk and control perspective) of key events including things such as new products and services, mergers, divestments etc.

In addition, the Code requires internal audit to consider the outcomes of processes as well as the processes themselves by evaluating the design and operating effectiveness of an entities policies and processes.

Where an organisation has an in-house Head of Internal Audit who also has responsibility for other functions, which can often be the case with Risk Management, the Code requires organisations to consider the need for an independent review of these areas by a third party.

RSM

At RSM all of our internal audit work is conducted in line with our in-house internal audit manual using a methodology that is designed to ensure compliance with the IPPF Standards.

We also comply with the requirement to commission independent quality reviews of our work. In this regard our last External Quality Assessment (EQA) (undertaken in 2016) concluded that *'there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers'*.

We were also found to have an excellent level of conformance with the IIA's professional standards as set out in the IPPF.

Should you have any questions regarding the Internal Audit Code of Practice, what it might mean for you, or our adherence to it, please get in touch via your usual RSM contact.

Access the Internal Audit Code of Practice at: <https://www.iaa.org.uk/policy-and-research/internal-audit-code-of-practice/>

FOR FURTHER INFORMATION CONTACT

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