



IIA POSITION PAPER

The Internal Audit Charter

A Blueprint to Assurance Success

Introduction

One of the great challenges every organization faces is assuring efficient and effective risk management — those policies and processes designed to leverage or mitigate risks to the organization's advantage. When done well, internal audit provides that assurance as part of its role to protect and enhance organizational value.

For internal audit to operate at the highest levels, it must have clearly defined and articulated marching orders from the governing body and management. This is most easily achieved with a well-designed internal audit charter.

The IIA's Perspective

Every organization can benefit from internal audit, and an internal audit charter is vital to success of the activity (IIA Standard 1000). The charter is a formal document approved by the governing body and/or audit committee (governing body) and agreed to by management. It must define, at minimum:

- Internal audit's purpose within the organization.
- Internal audit's authority.
- Internal audit's responsibility.
- Internal audit's position within the organization.

The IIA has produced model charters available to IIA members [here](#) in eight languages.

Why the Internal Audit Charter Is Important

A charter provides the organization a blueprint for how internal audit will operate and helps the governing body to clearly signal the value it places on internal audit's independence.

Ideally it establishes reporting lines for the chief audit executive (CAE) that support that independence by reporting functionally to the governing body (or those charged with governance) and administratively to executive management. It also provides the activity the needed authority to achieve its tasks, e.g., unfettered access to records, personnel, and physical properties relevant to performing its work.

KEY TAKEAWAYS

The internal audit charter is vital to internal audit's success and should be reviewed annually by the governing body.

The internal audit charter should be approved by the governing body and agreed to by senior management.

The charter should at a minimum include internal audit's purpose and mission, authority, responsibility, its independent reporting relationships, scope and requirement to conform to IIA Standards.

The internal audit charter should include details of how the internal audit activity will assess and report on the quality of the internal audit activity.

A charter provides a blueprint for how internal audit will operate and allows the governing body to clearly signal the value it places on internal audit's independence.

Because internal audit can operate across the entire spectrum of industries, from financial services to chemical manufacturing to government, the audit charter allows the scope of internal audit activity to be defined specifically to unique needs of the organization.

The charter can provide — in great detail if desired — what work internal audit will undertake and the support it will receive from senior management and the governing body to achieve that work. Finally, the audit charter serves as a reference point to measure the effectiveness of the internal audit activity.

Vital Components of an Internal Audit Charter

The IIA has identified seven key areas that support the overall strength and effectiveness of the activity and should be covered in the internal audit charter. While some internal audit charters may not include all of these elements, any area the charter fails to address threatens to weaken it and, ultimately, the activity.

- **Mission and Purpose:**
 - Internal audit's **mission** is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
 - Internal audit's **purpose** is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations.
- **International Standards for the Professional Practice of Internal Auditing:**
 - The internal audit activity will govern itself by adherence to the mandatory elements of The IIA's International Professional Practices Framework (IPPF) including its *Standards*, *Core Principles for the Professional Practice of Internal Auditing*, *Definition of Internal Auditing*, and *Code of Ethics*.
- **Authority – The charter should include:**
 - A statement on the CAE's functional and administrative reporting relationship in the organization.
 - A statement that the governing body will establish, maintain and assure that the internal audit activity has sufficient authority to fulfill its duties by:
 - Approving the internal audit charter.
 - Approving a timely, risk-based, and agile internal audit plan.
 - Approving the internal audit budget and resource plan.
 - Receiving timely communications from the CAE on performance relative to its internal audit plan.
 - Actively participating in discussions about and ultimately approving decisions regarding the appointment and removal of the CAE.

FIVE QUESTIONS

Stakeholders must send a clear and unambiguous message about internal audit's role in the organization.

Here are five key questions they should be asking:

- 1.**
Has the governing body created an internal audit charter that establishes the activity's purpose and mission, scope, authority, responsibility, and reporting relationships?
- 2.**
Does the charter address establishing reporting relationships that enable independence and objectivity of the CAE?
- 3.**
Does the charter clearly establish internal audit's right to complete and unfettered access to all records and people to the extent necessary to carry out its work?
- 4.**
Does the audit charter clearly define the responsibility of the CAE?
- 5.**
In addition to requiring internal audit to comply with IIA global internal audit standards, does the audit charter require the activity to report on its effectiveness?

- Actively participating in discussions about and ultimately approving the remuneration of the CAE.
 - Making appropriate inquiries of management and the CAE to determine if there are any inappropriate scope or resource limitations.
 - Developing and approving a statement that the CAE will have unrestricted access to, and communicate and interact directly with, the governing body without management present.
 - Developing and approving an authorization that the activity will have free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Independence and Objectivity – The charter should include:
- A statement that the CAE will ensure that the internal audit activity remains free of conditions that threaten the ability of the activity to carry out its activities in an unbiased matter. If independence or objectivity is impaired in fact or appearance, the CAE will disclose the details of the impairment to the appropriate parties.
 - A statement that the internal audit activity will have no direct operational responsibility or authority over any of the activities audited.
 - A statement that if the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.
 - A requirement for the CAE to confirm at least annually the independence of the internal audit activity to the governing body.
- Scope of Internal Audit Activities – The charter should include:
- A statement that the scope of the internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of governance, risk management, and control processes.
 - A statement that the CAE will report periodically to senior management and the governing body on the results of its department and the work the activity performs.
- Responsibility – The charter should include:
- Statements as to the responsibility for:
 - Submitting at least annually a risk-based internal audit plan.
 - Communicating with senior management and the governing body the impact of resource limitations on the plan.
 - Ensuring the internal audit activity has access to appropriate resources with regard to competency and skill.
 - Managing the activity appropriately for it to fulfill its mandate.
 - Ensuring conformance with IIA *Standards*.
 - Communicating the results of its work and following up on agreed-to corrective actions.
 - Coordination with other assurance providers.
- Quality Assurance and Improvement Program – The charter should include:
- A statement that the internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity including its evaluation of conformance to IIA *Standards*.
 - A requirement for the CAE to report periodically the results of its quality assurance and improvement program to senior management and the governing body and to obtain an external assessment of the activity at least once every five years.

Conclusion

The internal audit charter should be viewed by senior management and the governing body as an important board policy document that enables the CAE and internal audit activity to effectively carry out their roles in the organization. It establishes clarity among risk managers within the organization and among stakeholders of internal audit's role in the risk management process, and helps stakeholders to enable and measure internal audit's value to the organization.

A charter provides a blueprint for how internal audit will operate and allows the governing body to clearly signal the value it places on internal audit's independence.

About Position Papers

The IIA promulgates Position Papers on key issues of interest to stakeholders and practitioners with the aim of advocating for sound governance and educating those involved in it. The positions outlined offer insights into various aspects of the governance process and internal audit's vital role in improving governance at all levels and adding value to the organization. Position Papers are developed and reviewed through a rigorous process that solicits input and critique from practicing internal audit professionals and other IIA volunteers who serve on The IIA's Global Advocacy Committee, IIA Standards Board, and The IIA's Professional Responsibility and Ethics Committee.

About The IIA

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 190,000 members from more than 170 countries and territories. The IIA's global headquarters are in Lake Mary, Fla. For more information, visit www.theiia.org.

Disclaimer

The IIA publishes this document for informational and educational purposes. This 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 seeking independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

Copyright

Copyright © 2019 by The Institute of Internal Auditors, Inc. All rights reserved.

January 2019



**The Institute of
Internal Auditors**

Global

Global Headquarters

The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101
www.globaliia.org