

# Chief Audit Executive's Guide to Domain III:

Governing the Internal  
Audit Function

*Global Internal Audit Standards*



**Audit Leaders  
Network**  
*Benchmark. Lead. Succeed.*



**The Institute of  
Internal Auditors**

Published May 2024

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# Chief Audit Executive's Guide to Domain III:

## *Governing the Internal Audit Function of the Global Internal Audit Standards*

### **Introduction**

The success of an internal audit function requires the support of both the board and senior management, support that is even more evident in the new Global Internal Audit Standards™. The new Standards devote an entire domain to the interaction between the chief audit executive (CAE), the board<sup>1</sup>, and senior management. Domain III: Governing the Internal Audit Function discusses the importance of the three-way partnership and emphasizes the critical dialogue that must occur between the parties. The domain presents the responsibilities of the CAE as well as the conditions of board and senior management support that are considered essential for internal auditing to be most effective.

This guide and accompanying presentations provide CAEs with insights into carrying out that critical dialogue with the board and senior management and achieving the new Standards' principles and requirements. While most of the requirements in Domain III are not new, the new presentation of essential conditions in Domain III may require clarification with the board and senior management. The guide may be most helpful during the first year of conforming with the new Standards. However, it can also be helpful for ongoing maintenance of the relationship among the CAE, board, and senior management.

#### **Three key steps help the CAE successfully implement Domain III:**

1. Establish or reinforce the importance and value of the internal audit function within the organization.
2. Create awareness and understanding among the board and senior management about their essential activities (conditions) to support the CAE and an effective internal audit function.
3. Develop action plans to address gaps between the current activities and circumstances and those proposed in the essential conditions. The action plan may include discussing disagreements the board and/or senior management have regarding the essential conditions.

Note about application in the public sector: While the principles and spirit of the individual standards are consistent with practices in the public sector, application of the specific requirements of the Standards may differ in the public sector. Refer to the section of the Standards called "Applying the Global Internal Audit Standards in the Public Sector" for detailed information about these distinctions.

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<sup>1</sup> Board is a generic term used throughout the Global Internal Audit Standards to refer to those charged with governance. Please refer to the Global Internal Audit Standards Glossary and the introduction to Domain III for the full definition of board. When presenting the topics in Domain III, the CAE should substitute for "board" the term that their organization commonly uses to refer to the body that governs the internal audit function.

# 1 Importance of an Effective Internal Audit Function

For the board and senior management to support the internal audit function, they must fully recognize and embrace the function’s importance and value. In many organizations, that value may be well understood, with the board and senior management already providing the support needed for the internal audit function.

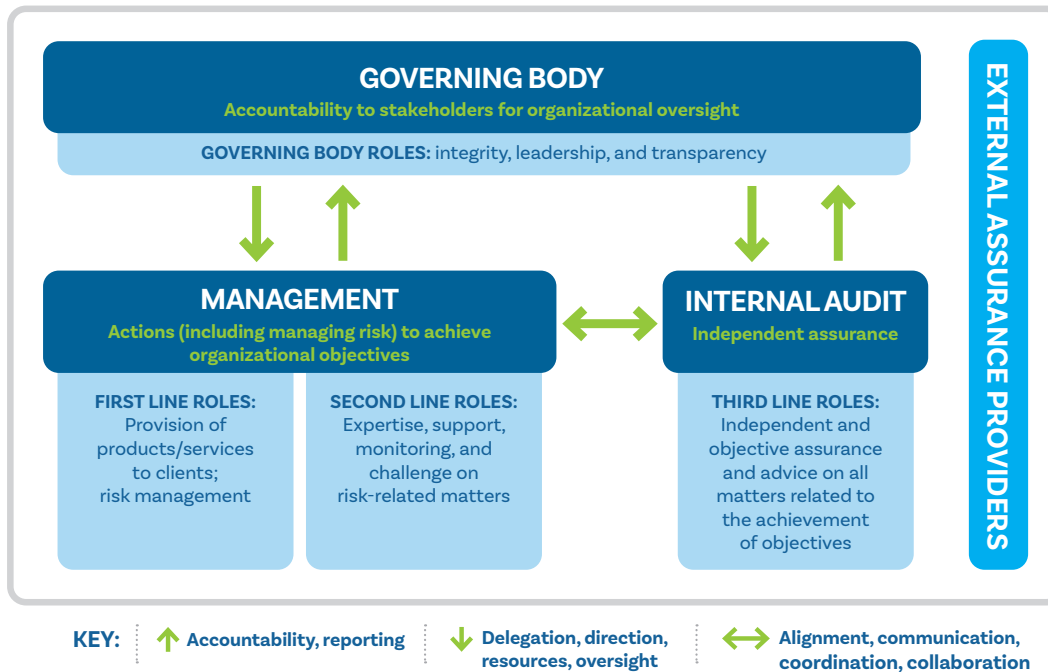
However, in many organizations, this support may not be strong; therefore, the CAE should focus first on making the case for the importance and value of internal auditing to the board and senior management. The best way to build a case for the importance of internal auditing may vary from one organization to the next.

**Two fundamental approaches can be used, individually or together:**

- Demonstrate the important position of internal auditing in the Three Lines Model.
- Help the board and senior management understand the value that the organization derives when the internal audit function achieves its mandate.

## Three Lines Model

**The Three Lines Model** represents an update by The IIA of the globally recognized Three Lines of Defense Model. The model identifies structures and processes that facilitate strong governance and risk management and best assist the organization in achieving its objectives.



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The model outlines the roles and responsibilities of the board, senior management, and the internal audit function. The principles show how each role contributes to the success of an organization. Internal audit’s third-line independent assurance role is unique within an organization, positioning the function to play a vital role in value creation and protection.

**The six principles in the model are:**

1. **Governance** – Organizations require structures and processes that enable accountability, actions, and independent assurance and advice.
2. **Governing Body Roles** – The governing body ensures (a) appropriate structures and processes are in place and (b) organizational objectives and activities are aligned with the prioritized interests of stakeholders. The governing body delegates responsibility and resources and oversees an independent, objective, and competent internal audit function.
3. **Management and First and Second Line Roles** – Management’s responsibility is to achieve organizational objectives. The first and second line roles help enable actions to achieve objectives.
4. **Third Line Roles** – The internal audit function provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.
5. **Third Line Independence** – The internal audit function’s independence from management responsibilities is critical to its objectivity, authority, and credibility.
6. **Creating and Protecting Value** – All roles working together collectively contribute to creating and protecting value when they are aligned with each other and with the prioritized interests of stakeholders.

## Purpose of Internal Auditing

It can be helpful for the CAE to discuss the Purpose of Internal Auditing with the board and senior management, even if both groups already see the value of an effective internal audit function. The Purpose is stated in Domain I of the Global Internal Audit Standards. While the Purpose is distinctly separate from Domain III, it provides a valuable foundation for establishing the importance of internal auditing.

The Purpose is expressed in a single statement and supported by two short lists of bullet points that reinforce the statement.

Internal auditing strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.	
<i>Internal auditing enhances the organization’s:</i>	<i>Internal auditing is most effective when:</i>
<ul style="list-style-type: none"> <li>• Successful achievement of its objectives.</li> <li>• Governance, risk management, and control processes.</li> <li>• Decision-making and oversight.</li> <li>• Reputation and credibility with its stakeholders.</li> <li>• Ability to serve the public interest.</li> </ul>	<ul style="list-style-type: none"> <li>• It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.</li> <li>• The internal audit function is independently positioned with direct accountability to the board.</li> <li>• Internal auditors are free from undue influence and committed to making objective assessments.</li> </ul>

The elements embedded in the Purpose are reinforced throughout the Global Internal Audit Standards and therefore will help the board and senior management better understand the essential conditions contained in Domain III as well as the standards that affect the ability of the internal audit function to support organizational success.

When building the case for an effective internal audit function, the CAE can leverage the Three Lines Model, the Purpose of Internal Auditing, and other organization-specific attributes that help the internal audit function be recognized as valuable to the organization's success.

**Collectively, these help the CAE build the case that:**

- An internal audit function that achieves its mandate enhances:
  - **The board's ability to exercise its oversight responsibilities.**
  - **Senior management's decision-making and ability to achieve organizational objectives.**
  - **The organization's ability to create, protect, and sustain value.**

The board, senior management, and the internal audit function have a unique partnership that drives organizational success. All three parties must support each other to enable that success.

# 2 Approaches to the Dialogue with the Board and Senior Management

While most successful CAEs already have methods for communicating with the board and senior management, a dialogue focused specifically on Domain III's essential conditions will clarify and emphasize how crucial the essential conditions are to the internal audit function's effectiveness. The sequence and focus of discussions are subject to the CAE's judgment based on existing relationships and communication style. However, more than one dialogue with the board and senior management will likely be necessary to fully foster their understanding and gain their agreement to implement the essential conditions.

**In general, the focused dialogue with the board and senior management should cover, at a minimum:**

- Why it is crucial for the internal audit function to achieve its purpose.
- How an effective internal audit function is key to the successful achievement of organizational objectives.
- How the essential conditions of the board and senior management, outlined in the Standards, enable effective governance of the internal audit function.
- How the principles and standards support the governance of the internal audit function.
- How the CAE's responsibilities enable the achievement of these principles and promote effective governance of the internal audit function.
- The potential impact on the effectiveness of the internal audit function if the board and/or senior management do not support certain essential conditions.

A multi-step approach for conducting these discussions includes notification, meeting, and follow-up.

1. Notify the board and senior management about the significant changes to the internal audit profession's standards, indicating that more in-depth discussions will follow soon. This notification may be a brief comment in a board meeting early in the year before the Global Internal Audit Standards become effective in January 2025 but may also be aided by providing the board members with the **"Executive Summary, Domain III: Governing the Internal Audit Function and the Three Lines Model"** document developed by The IIA to provide a high-level overview of the relationship between internal auditing and effective governance.
2. Conduct an in-depth meeting or meetings with the board and senior management. It may make sense to conduct meetings separately with the board and senior management since the nature of the essential conditions varies somewhat between the two groups.

If separate meetings are conducted with each group, it is recommended that the CAE first meet with senior management to explain the nature of the board discussions and the expectations for senior management's role in supporting the internal audit function.

## DEFINITION OF BOARD

The definition of "board" in the Global Internal Audit Standards covers a wide range of different governance structures. The activities in Domain III that refer to the "board" are intended for the body that grants the mandate (authority, role, and responsibilities) of the internal audit function.

When reading the Standards and this guide, one should not assume these discussions extend to the entire board. For example, if the internal audit function reports to an audit committee of the board, the essential conditions and related meetings with the CAE should be interpreted as referring to the audit committee. While there may be exceptions, typically, these discussions would not extend to the full board.



3. Consider using sample presentations developed by The IIA to guide these discussions. The presentations outline Domain III's requirements and essential conditions.

a. **Domain III of the Global Internal Audit Standards for Chief Audit Executives (Full Overview)** – This highly detailed presentation provides CAEs with a comprehensive overview of Domain III. It includes notes that further explain certain concepts on the slides and provides a complete array of slides from which to draw when customizing the shorter slide decks described below for meetings with the board or senior management.

b. **The Essential Relationship Between the Board and the Internal Audit Function in 30 Minutes** – A shorter version of the full overview is focused on helping the board understand relevant governance responsibilities, how the CAE supports the board in performing its responsibilities, and how senior management should support both. This version contains all Domain III requirements for the CAE as well as the essential conditions and is designed for board discussions of approximately 30 minutes.

c. **The Essential Relationship Between the Board and the Internal Audit Function in 15 Minutes or Less** – An even shorter version highlights the board's essential conditions and how the CAE supports the board. Information about the CAE's responsibilities and senior management's support is included in the notes to assist the CAE in answering questions the board may have. This presentation is designed for board discussions of 10 to 15 minutes.

d. **The Essential Relationship Between Senior Management and the Internal Audit Function in 30 Minutes** – This shorter version of the full overview is focused on helping senior management understand what is expected of the board, how senior management can support the board and the internal audit function, and how the CAE supports both. This version contains all the CAE requirements and essential conditions and is designed for senior management discussions of approximately 30 minutes.

i. A 15-minute version is unavailable for senior management because such a short version would not provide sufficient information about senior management's role relative to the board's.

ii. Typically, the discussion can be held once with the key senior management members who are considered the primary customers of the internal audit function (for example, chief executive officer, chief financial officer, chief compliance officer).

4. Conduct follow-up meetings to answer any questions that remain after the first meeting(s) and discuss progress toward addressing gaps identified between the current and desired states of performing essential conditions.

Regardless of the approach used to discuss the requirements and essential conditions in Domain III, the CAE should clearly communicate to the board and senior management about the essential conditions and determine whether the groups accept these responsibilities.

## CUSTOMIZING IIA PRESENTATIONS

The sample PowerPoint presentations created by The IIA and available to IIA members can be modified further, based on the CAE's judgment. The presentations should be customized to the language used by the organization to discuss matters of value creation and related responsibilities.

# 3 The CAE's Requirements and the Essential Conditions for the Board and Senior Management

This section outlines the three principles in Domain III and the nine standards that together provide the requirements of the CAE and the essential conditions for the board and senior management that, when combined, enable organizational success. The section explains the importance of these principles and standards and provides considerations related to potential questions or disagreement on one or more of the essential conditions.

The text of individual standards is not duplicated in this guide, but the guide should be read in conjunction with the complete version of the Standards.

## Principle 6 Authorized by the Board

### Why it is important:

The purpose of this principle is to engage the board in establishing the internal audit mandate, thus assuring the function meets the needs and expectations of the board and senior management. Failure to achieve this principle may cause misalignment between the internal audit function's performance and the expectations of the board and/or senior management, ultimately making it difficult for the internal audit function to achieve the Purpose of Internal Auditing and enhance organizational success.

### What it says:

The board establishes, approves, and supports the mandate of the internal audit function.

- The internal audit function receives its mandate from the board (or applicable law and/or regulation in certain public sector environments).
- The mandate specifies the internal audit function's authority, role, and responsibilities and is documented in the internal audit charter.
- The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight.
- The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.

### Standard 6.1 Internal Audit Mandate

#### Why it is important:

The internal audit mandate is a new term describing the internal audit function's authority, role, and responsibilities. It establishes the foundation for the internal audit function's existence.

If any of the requirements or essential conditions are absent, the expectations of the internal audit function may be only informally understood or not understood at all. As a result, the performance of

the internal audit function may not align with the needs and expectations of the board and/or senior management, and questions about authority, role, responsibilities, scope, and types of internal audit services may arise. Any such questions or misunderstandings may prevent the internal audit function from effectively supporting the achievement of organizational objectives.

The considerations for implementing this standard include definitions of authority, role(s), responsibilities, scope, and internal audit services, which may help the board and senior management understand how those terms are used. The considerations also provide more specific examples of when follow-up discussions about the mandate or other aspects of the internal audit charter may be needed.

## **Standard 6.2** Internal Audit Charter

### **Why it is important:**

The internal audit charter is the document that includes the internal audit mandate and articulates other vital elements of the internal audit function's operations for board approval.

While discussions may indicate alignment about the internal audit mandate, scope, and types of services, documentation reinforces such alignment. Failure to have all necessary elements included in an internal audit charter, which is approved by the board, increases the likelihood that the mandate and other elements included in the charter will be misunderstood. Also, failure to keep the charter current may cause the mandate, scope, and types of services to inadequately reflect changes in the organization's internal and external environment. Such misunderstandings may impair the internal audit function's ability to effectively support the achievement of organizational objectives.

The considerations for implementing this standard outline the various elements of an internal audit charter and topics that should be considered for inclusion (refer to the Model Internal Audit Charter on The IIA's website).

## **Standard 6.3** Board and Senior Management Support

### **Why it is important:**

Establishing the mandate and approving the charter are key steps in establishing the foundation for the internal audit function's ability to be effective. However, ongoing board and senior management support reinforces that these stakeholders play an active role in helping the internal audit function succeed.

The support of the board and senior management is not based on a single meeting or approval. Rather, such support must be an ongoing demonstration, particularly regarding unrestricted access to data, records, information, personnel, and physical properties. Lack of board or senior management support may undermine respect for and cooperation with the internal audit function throughout the organization. In turn, the internal audit function may be unable to fulfill its approved mandate, reducing its ability to support the achievement of the organization's objectives.

The considerations for implementing this standard provide ideas on how to perform the individual requirements related to the nature and frequency of meetings with the board and senior management.

## Principle 7 Positioned Independently

### Why it is important:

Independence has long been a cornerstone of the internal audit profession and is critical to enabling an effective internal audit function. Failure to achieve this principle may result in an internal audit function that is not adequately positioned to carry out its mandate and support organizational success.

### What it says:

The board establishes and protects the internal audit function's independence and qualifications.

- The board is responsible for enabling the independence of the internal audit function.
- Independence is defined as the freedom from conditions that impair the internal audit function's ability to carry out its responsibilities in an unbiased manner.
- The internal audit function can only fulfill the Purpose of Internal Auditing when the chief audit executive reports directly to the board, is qualified, and is positioned at a level within the organization that enables the internal audit function to discharge its services and responsibilities without interference.

### Standard 7.1 Organizational Independence

#### Why it is important:

Organizational independence is a key to the internal audit function's ability to enhance good governance. Some circumstances may challenge ongoing independence, but effective safeguards can help manage the risks to independence.

A direct reporting line to the board enables the internal audit function to have a broad scope that covers all organizational objectives. The reporting line is established in the internal audit charter and further demonstrated by the board's active involvement in the appointment, evaluation, and removal of the CAE.

Additionally, not having other management roles allows the CAE to objectively assess the effectiveness of governance, risk management, and control processes throughout the organization. There may be situations when it is in the organization's best interest to have the CAE take on roles other than internal auditing. In such cases, safeguards will help ensure appropriate coverage of risks in areas under the CAE's responsibility. Failure to establish and enforce the independent positioning of the internal audit function may impair the function's ability to adequately cover all organizational objectives. If independence is not sufficiently safeguarded, it may appear that the judgment and insights of the CAE and internal audit function are biased, thereby reducing trust in and respect for the function and its findings.

The considerations for implementing this standard provide ideas on how to perform the individual requirements related to administrative reporting, situations that may impair independence, and examples of when the CAE may be asked to take on nonaudit responsibilities.

## Standard 7.2 Chief Audit Executive Qualifications

### Why it is important:

The board and senior management benefit when a qualified CAE leads the internal audit function.

Like any function in an organization, the internal audit function can only be successful when led by a qualified individual. It is incumbent on the board and senior management to identify an individual with the necessary qualifications and support that person's ongoing professional development to remain qualified in a changing world. An ineffective CAE may reduce the effectiveness of internal audit services and the internal audit function's ability to fulfill its mandate and support the achievement of organizational objectives, ultimately undermining the credibility of the function and the profession of internal auditing.

The considerations for implementing this standard outline examples of qualifications that are typically appropriate for a CAE.

## Principle 8 Overseen by the Board

### Why it is important:

Principles 6 and 7 focus on activities conducted in the first year of implementing the new Standards or establishing a new internal audit function and may require updating only occasionally. Principle 8 focuses on the board's ongoing oversight role to help ensure the effectiveness of the internal audit function. Failure to achieve this principle may result in the internal audit function's performance not remaining aligned with the expectations of the board and senior management, making it difficult for the internal audit function to achieve the Purpose of Internal Auditing and enhance organizational success.

### What it says:

The board oversees the internal audit function to ensure the function's effectiveness.

- Board oversight is essential to enable the overall effectiveness of the internal audit function.
- Achieving this principle requires collaborative and interactive communication between the board and the chief audit executive as well as the board's support in ensuring the internal audit function obtains sufficient resources to fulfill the internal audit mandate.
- Additionally, the board has the oversight to ensure that the CAE develops an effective program to assure the quality and improvement of the internal audit function's performance. The board receives assurance through the quality assurance and improvement program, especially when the board directly receives the results of the external quality assessment, independent of the CAE or senior management.

## Standard 8.1 Board Interaction

### Why it is important:

Ongoing interaction is a key to any effective relationship. The CAE's communication with the board about critical information enables it to be more effective in its oversight responsibilities. Periodically discussing the board's expectations will help ensure the CAE meets the board's information needs in a changing environment.

While this standard outlines many different types of information that should be shared, the CAE ultimately needs to determine how best to engage with the board. Such a determination often involves

coordinating with senior management. Communication with the board is also crucial for escalating issues, such as disagreements with senior management.

The inability to maintain ongoing interaction with the board increases the possibility that the needs and expectations of the board will become misaligned with the internal audit function's focus. This misalignment may make it difficult for the internal audit function to achieve its mandate.

The considerations for implementing this standard provide leading practices related to board communications and meetings.

## **Standard 8.2** Resources

### **Why it is important:**

Resources are an essential component for any function to carry out its responsibilities. The partnership between the CAE, board, and senior management helps ensure that the internal audit function has the resources needed to fulfill its mandate. An ongoing dialogue between the CAE, the board, and senior management is critical to ensuring the board and senior management are aware of resource insufficiencies and will contribute to finding the balance between the need for human and technological resources and the cost of those resources.

Failure to maintain sufficient resources, without a complete understanding of how the insufficiency impacts the audit plan and mandate, may result in the internal audit function falling short of the board's and senior management's broader expectations of the function.

The considerations for implementing this standard provide guidance regarding how to assess resource adequacy and when to discuss resource limitations with the board.

## **Standard 8.3** Quality

### **Why it is important:**

The quality assurance and improvement program is critical to the internal audit function's long-term success. Input from the board and senior management contributes to a robust quality program.

The board and senior management will have certain expectations about the quality of internal audit services. Therefore, the CAE implements a quality assurance and improvement program with ongoing indicators of how effectively the internal audit function is performing and whether it is achieving its objectives. This information provided by this program assists the board and senior management in assessing the quality of the internal audit function.

An inadequate quality assurance and improvement program may hide quality issues within the function, which may result in long-term internal audit performance that fails to meet the needs and expectations of the board and senior management.

The considerations for implementing this standard provide additional guidance related to communications with the board and senior management and more specific areas to consider when evaluating quality.

## **Standard 8.4** External Quality Assessment

### **Why it is important:**

An internal audit plan focuses on the relatively high-risk, organizationally significant areas. Since the internal audit function is organizationally significant, it too should be subject to an external quality assessment. This external assessment provides valuable information to the CAE, board, and senior management about the effectiveness of the internal audit function and areas for improvement.

Just as internal audit engagements provide valuable information to the board and senior management about the effectiveness of governance, risk management, and control processes, an external quality assessment of the internal audit function can provide valuable information about the performance of the internal audit function. An external quality assessment performed by a qualified assessor or assessment team is a powerful tool supporting the ongoing oversight of the internal audit function by the board and senior management. Lack of independent and objective assessment of the internal audit function may reduce trust in and respect for the function, impair its ability to continuously improve, and reduce its ability to fulfill its mandate.

The considerations for implementing this standard provide greater detail on potential areas of coverage in an external quality assessment, additional thoughts on the qualifications of a quality assessment team, expectations when reciprocal peer assessments are conducted, and key areas to include in a self-assessment with independent validation.

# 4 Identifying and Assessing Gaps

The 2024 Standards outline in greater detail than the 2017 Standards the expectations for the board and senior management. Thus, CAEs will benefit from preparing a gap analysis for each requirement and essential condition. Conformance in the past may have been less formal, so CAEs may need to update documentation supporting conformance with the Domain III standards.

Internal audit functions may assess themselves against the Global Internal Audit Standards to identify gaps between prior conformance and the new Standards. A self-assessment of Domain III must consider the essential conditions of the board and senior management, which are unique to that domain.

## **A recommended approach to identify and assess gaps in Domain III is for the CAE to:**

1. Create a spreadsheet or table with all the Domain III CAE requirements, board essential conditions, and senior management essential conditions.
2. For the CAE requirements:
  - a. Identify, assess, and document current conformance.
  - b. Establish action plans to address identified gaps before the Global Internal Audit Standards become effective (either January 9, 2025, or one year after a new internal audit function is established).
  - c. Monitor progress on those actions to close all gaps before the Standards become effective.
3. Conduct the meetings and other communications with the board and senior management described in section 2 of this guide. Note that these discussions may occur in a formal meeting or meetings or may be part of various formal and informal communications.
  - a. For essential conditions with full support from the board and senior management, document how the performance of those conditions will be evidenced.
  - b. If the board or senior management believes alternative actions will be more effective than performing an essential condition as written and the CAE agrees with that assessment, document the rationale describing why the alternative actions are sufficient.
  - c. If the board or senior management does not agree to perform certain essential conditions and the CAE does not agree with the decision, refer to section 5 in this guide for guidance on dealing with these disagreements.



# 5 Dealing with Disagreements

The CAE should expect that the board and/or senior management may not initially embrace the essential conditions and associated responsibilities and should be prepared to answer questions.

The following table outlines possible questions the CAE may get from the board or senior management and potential responses.

## Examples of Board or Senior Management Questions and Potential Responses

Questions	Responses
<p><b>What is the purpose of having essential conditions for the board and senior management?</b></p>	<p>Remind the board or senior management about the importance and value of an effective internal audit function, discussed in section 1 of this guide. Support for the internal audit function stems from agreement about its importance, and lack of such agreement may make it difficult for the board or senior management to understand a compelling reason for performing an essential condition.</p> <p>Help the board and senior management understand how a specific essential condition relates to the respective standard and, ultimately, to achieving the principle (refer to section 3 for further discussion). To deal with potential disagreements on essential conditions, the CAE must be able to link the lack of establishing the condition(s) with the consequential impact on achieving the principle.</p>
<p><b>How does failure to perform the essential conditions adversely affect the success of the internal audit function?</b></p>	<p>Make clear the linkage between essential conditions, standards, and principles. Examples, such as those in this section, can be a powerful way to emphasize this linkage.</p>

Questions	Responses
<p><b>What if we believe alternative actions to achieve the essential conditions will be more effective?</b></p>	<p>The CAE must recognize that every organization is different, so alternative actions may effectively replace certain essential conditions. If so, the rationale should be documented. If not, the CAE must provide examples of how the alternative actions do not support the full achievement of the principle (refer to section 3 for more discussion).</p>
<p><b>Will all the essential conditions increase the time we devote to overseeing the internal audit function and potentially detract from our other board [senior management] responsibilities?</b></p>	<p>Help them understand that, in most cases, there is little or no additional time needed from the board or senior management. Furthermore, the essential conditions create a win-win situation. An effective internal audit function, supported by having the essential conditions in place, benefits the organization and adds significant value, making implementing the essential conditions well worth the effort.</p> <p>Examples of how the essential conditions can be carried out in the normal course of business will be helpful. For example, the CAE may point out:</p> <ul style="list-style-type: none"> <li>• Certain essential conditions are already handled as part of existing board agenda items.</li> <li>• Certain approvals are already part of the board’s practices, such as approving the internal audit charter.</li> <li>• Certain matters have traditionally been discussed in the board’s private sessions with the CAE.</li> <li>• Certain matters have traditionally been discussed in CAE meetings with senior management.</li> </ul>

Questions	Responses
<p><b>Why do we have to approve the internal audit mandate? We don't have the expertise or experience with internal auditing to know what an appropriate mandate should be.</b></p>	<p>Point out that the CAE must provide the board and senior management with the information necessary to establish the mandate. Such information will be part of the discussions among the CAE, the board, and senior management. Failure to gain agreement creates a risk that the internal audit function will not effectively enhance governance, making it more difficult for the function to support board oversight and senior management's strategic actions.</p>
<p><b>Why does the internal audit function need unrestricted access to data, records, information, personnel, and physical properties? Isn't there some information that's only for the board and senior management to know?</b></p>	<p>Restrictions on access to any of these organizational elements limit the scope of the internal audit function's activities. In turn, this limits how comprehensively the function can support the board's oversight responsibilities. Such limitations, especially if imposed by senior management, may indicate that management is concerned about a particular risk area but does not want the board to be aware of such concerns.</p> <p>The board and senior management may closely guard certain strategic information. However, the sooner the CAE learns of this information, the sooner the internal audit function can identify and assess related risks and contribute to achieving organizational objectives.</p> <p>The CAE and internal audit function's access to such information enables it to provide independent, risk-based, objective assurance, advice, insight, and foresight, strengthening the organization's ability to create, protect, and sustain value.</p>
<p><b>Why can't the CAE report directly to management and simply brief the board on matters of interest?</b></p>	<p>The key to the internal audit function's unique organizational positioning is its direct reporting to the board. Without that reporting line, the board has no assurance that it will receive an unbiased perspective on the effectiveness of governance, risk management, and control processes. This reporting relationship is critical to positioning the function as an enabler of good governance.</p>

Questions	Responses
<p><b>Why shouldn't the CAE take on roles beyond internal auditing?</b></p>	<p>The Standards acknowledge that organizations may consider such situations to be in the organization's best interest. These roles may not conflict with the standard's requirements if appropriate safeguards are implemented to manage the risk of impairment to the CAE's independent positioning and objective perspective.</p>
<p><b>The board has limited interaction with the CAE. Therefore, why should the board contribute to the CAE's performance evaluation and remuneration?</b></p>	<p>While senior management handles the administrative responsibilities of preparing a performance evaluation and determining remuneration, the board's input into such decisions is part of the CAE's direct reporting relationship with the board, reinforcing the independent positioning of the internal audit function. For example, if senior management could terminate the CAE without board input, it may create a perception that the CAE reports to the board in form but not substance.</p>
<p><b>Why should the CAE be allowed to tell the board things before they discuss them with senior management? (a question most likely to come from senior management)</b></p>	<p>It is typically best practice for the CAE to discuss all matters with senior management before discussing them with the board. However, in some circumstances, sensitive matters relate to a member of senior management or senior management trying to limit the function's access to key areas. In such cases, the direct reporting line to the board allows the CAE to take the matter directly to the board.</p>
<p><b>What if the CAE believes the internal audit function needs more resources, but senior management does not agree?</b></p>	<p>A resource restriction may indicate that the internal audit function cannot fulfill its mandate or cover the scope necessary. In difficult financial times, such a request by senior management can be expected. The CAE will discuss with the board the implications of inadequate resources, and the board can determine whether, in its judgment, (a) senior management should provide those resources or (b) the board can live with the lower coverage of risks necessitated by the lack of resources.</p>

Questions	Responses
<p><b>What input should the board and senior management have on the internal audit function's performance objectives?</b></p>	<p>It is crucial that the board and senior management believe that the internal audit function is aligned with the organization's objectives. Therefore, both should provide input to promote such alignment in the internal audit function's strategic plan and performance objectives. Typically, the CAE will recommend performance objectives and invite input from the board and senior management. But in some cases, the board or senior management may have unique performance objectives they would like the function to pursue.</p>
<p><b>Why must the board pay so much attention to the internal audit function's external quality assessment?</b></p>	<p>While the list of essential conditions may look long at first glance, the CAE will do most of the work to provide the board with recommendations relative to these conditions. Since the CAE reports directly to the board, the board and CAE need to collaborate to ensure an appropriately robust and comprehensive external quality assessment is performed. The requirement that the board receive the assessor's final report ensures that the board is aware of any opportunities for improvement that may be important to the successful performance of the internal audit function. It also provides the board with the information necessary to help senior management assess the effectiveness of the CAE and internal audit function.</p>
<p><b>In the public sector, why is it necessary to have external members on the board when the public sector governance structure allows senior management to provide day-to-day oversight?</b></p>	<p>Ideally the head of the public sector organization would appoint members external to management to an audit committee to help provide oversight to the internal audit function and increase the ability for the internal audit function to have and maintain independence from management. Because the reporting situation represents a threat to the internal audit function's independence, the CAE and the board will need to discuss the limitations of only senior management in the oversight function and document additional actions taken to meet the intent of the principles and standards in Domain III, or the rationale for not implementing alternative actions.</p>

# Agreement to Not Perform an Essential Condition

The chief audit executive may agree with the board and senior management that conformance with the Standards and achievement of the principles can be achieved without one or more essential conditions.

**In such instances, the chief audit executive must document:**

- The reasons for agreeing that a particular condition is unnecessary.
- Alternative conditions that compensate for the absent conditions and support the judgments of the board and senior management.

This documentation is essential as part of the internal audit function's quality assurance and improvement program and will help answer questions that may be raised as part of an external quality assessment.

If the CAE disagrees with the board's and/or senior management's reasons for not performing one or more essential conditions, the CAE may conclude that the internal audit function cannot conform with the Standards. In such cases, the CAE should document why the board and/or senior management will not perform the essential conditions. The documentation becomes part of the internal audit function's quality assurance and improvement program documentation and should be shared with the board and senior management to ensure clarity regarding their reasons and made available to an external quality assessor.

# 6 Ongoing Maintenance of the Relationships

Most of what has been described in this guide relates to the conversations with the board and senior management during the initial year of implementing the Standards. However, this dialogue is only one step in the ongoing process of communicating effectively and building relationships with the board and senior management. Once these initial discussions have been completed, the CAE continues to communicate and nurture the relationships with the board and senior management, supporting the role of the trusted advisor. As the CAE reviews the complete Global Internal Audit Standards in conjunction with this guide, the principles and standards related to communication, especially Principle 11 Communicate Effectively and its standards, will inform the critical components of such efforts.

Over time, as internal and external factors affect the organization's business, risks, and operating approaches, it may be necessary to revisit the decisions made in the initial discussions and determine whether the essential conditions in place continue to help the CAE achieve the principles in this domain and conformance with the Global Internal Audit Standards – all supporting achievement of the Purpose of Internal Auditing.

Several standards require periodic review of certain elements in this domain. As part of an adequate quality assurance and improvement program, the CAE must conduct internal quality assessments periodically, which include determining whether the internal audit function continues to conform with the Standards and achieve performance objectives. As part of the assessment, new gaps may be identified, and action plans may be needed to address those gaps. If the gaps relate to the board and senior management, new discussions may be needed to address the gaps. As required in Standard 8.3 Quality, the CAE must communicate the results of the internal quality assessment to the board and senior management at least annually. Completing this standard's requirement will help ensure the CAE maintains the relationships necessary to conform with the requirements of Domain III.

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May 2024



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