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Example of an evaluation of internal audit

Introduction

Chapter 7, paragraph 22 of the King Report requires the audit committee to evaluate the performance of the internal audit function every year to ensure that internal audit is fulfilling its responsibility to assist and advise the audit committee and board.

Target audience

This practice note provides guidance to the audit committee to evaluate the internal audit function.

This guideline is not exhaustive and questions should be added or omitted as is appropriate in the circumstances. In situations where internal audit is outsourced, the audit committee should still evaluate the performance of internal audit as well as the senior executive or director responsible for internal audit.

Section A: Evaluation by the audit committee

This part contains matters for consideration by the audit committee prior to feedback from other areas of the company. Where audit committee members disagree, detailed comments should be obtained.

Question	Strongly agree	Agree	Neutral	Disagree
Understanding of role and responsibilities				
1. Internal audit demonstrates that it:				
• Recognises its direct reporting responsibility to the audit committee.				
• Has a firm understanding of the responsibilities and operation of the audit committee, which guides its reporting and interaction with the audit committee.				
• Understands the company's business, governance processes, risk environment and internal control framework.				
• Understands its role in the combined assurance model.				
• Coordinates the internal audit plan with that of the external auditors.				
2. Internal audit's processes are flexible and dynamic in addressing emerging business, operational, compliance, sustainability and assurance needs.				
Charter, structure and positioning				



Question	Strongly agree	Agree	Neutral	Disagree
3. Internal operates in terms of a formally defined and board-approved internal audit charter. (Board approval may take place via the audit committee.)				
4. The internal audit charter is reviewed regularly (at least every two years).				
5. Internal audit's mandate meets the company's current needs.				
6. The internal audit charter is accessible to everyone in the company.				
7. Internal audit is (and is perceived to be) independent from management.				
8. The structure, composition and resources of internal audit facilitates:				
• Consistency in the quality of service to the company.				
• Understanding of the company's business issues.				
9. Internal audit is strategically positioned to achieve its objectives, i.e. it has appropriate status in the company evidenced by the following:				
• The chief audit executive (CAE) has a standing invitation to attend all audit committee meetings.				
• The CAE has direct access to the chairman of the audit committee.				
• The CAE reports functionally to the audit committee.				
• The CAE has a standing invitation to attend executive committee meetings, but is not a member of the executive team.				
• The CAE is apprised formally of the company's strategy and performance, through meetings with the chairman and/or CEO.				
10. There is sufficient interaction between the audit and risk committees and internal audit, to ensure alignment and coordination.				
Skills and experiences				
11. Internal audit's staffing reflects cognisance of its role and responsibilities.				
12. On the basis of the work performed by internal audit over the past 12 months, internal audit appears to have the right staff mix and competencies in specialist areas, e.g. IT and treasury and it has the necessary geographical coverage.				



Question	Strongly agree	Agree	Neutral	Disagree
13. The internal audit team has a suitable programme of continuing education in place.				
14. The CAE maintains a quality assurance and improvement programme covering all aspects of the internal audit function.				
Relationship with the audit committee				
15. The CAE attends all the audit committee meetings he/she was invited to attend.				
16. The CAE makes him/herself available for consultation outside of audit committee meetings.				
17. The CAE expresses his/her views in an open manner to the audit committee.				
18. The CAE is able to handle difficult or contentious issues.				
19. Internal audit is responsive to requests from the audit committee, including requests for special investigations.				
20. Internal audit reports are of an acceptable quality and are relevant and useful to the audit committee.				
21. Internal audit reports are received timely by the audit committee.				
Performance and audit plan				
22. The internal audit plan and changes thereto are submitted to the audit committee for prior approval.				
23. The internal audit plan takes the form of an assessment of the risks and opportunities facing the company, and:				
• Aligns with the company's risk assessment process.				
• Focuses on providing an assessment of the company's control environment.				
• Takes cognisance of industry relevant emerging issues.				
• Has regard to the adequacy of resources and skills available to the CAE to execute the plan.				
24. There was evidence of effective coordination of internal and external audit plans to ensure combined assurance.				
25. Based on reports to the audit committee, internal audit:				
• Delivers the services outlined in the plan.				
• Delivers the services in accordance with the agreed timetable.				



Question	Strongly agree	Agree	Neutral	Disagree
• Operates within budget.				
26. Internal audit evaluates the company's governance processes, including ethics and provides a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.				
27. Internal audit provides an objective assessment of the effectiveness of the risk management and internal control framework.				
28. Internal audit provides a systematic analysis and evaluates business processes and associated controls.				
29. Internal audit provides a written assessment to the board of the effectiveness of the company's system of internal control and risk management.				
30. Internal audit provides a written assessment of the effectiveness of the system of internal financial controls to the audit committee.				

Section B: Evaluation by management

This part contains matters for consideration by management (e.g. heads of major business units, chief financial officer). Where significant subsidiaries or major business units are subject to internal audit, it should be considered asking leaders of these businesses for their input. Where management disagree, detailed comments should be obtained.

Question	Strongly agree	Agree	Neutral	Disagree
Planning and communication				
1. Internal audit's charter is accessible to everyone in your company.				
2. There is adequate communication of the internal audit plan to management after approval thereof by the audit committee.				
3. There is sufficient planning and coordination by internal audit before each phase of the internal audit or special project begin.				
4. Internal audit discusses its approach and major areas of audit focus with you.				
5. All major areas of concern that you had raised were reviewed by the internal audit team.				
Skills and experience				
6. Internal audit has sufficient professional experience, project management, inter-personal skills and seniority to effectively carry out the work required.				
7. Internal audit has sufficient expertise in the functional specialisations (e.g., IT, risk assessment, treasury) to effectively carry out the assessment required.				
8. The CAE is considered to have objective standing within the company and is respected.				
9. Internal audit understands the company, its governance processes, risk environment, control framework and opportunities impacting the company.				
10. Internal audit demonstrates an appreciation of the issues key to your role and responsibilities.				
11. Internal audit consistently demonstrates objectivity in all its deliberations and findings.				
12. The members of the internal audit team are adequately guided by their seniors.				



Question	Strongly agree	Agree	Neutral	Disagree
Work programme				
13. There is effective cooperation between the internal auditors and your department, including the avoidance of undue disruption to normal activities.				
14. There is a process to ensure internal audit kept you up to date with audit/project progress.				
15. Internal audit provides early identification and advises of contentious issues, problem areas and delays within the ambit of its duties.				
16. Internal audit suggests practical, realistic ideas on how effective controls may be established.				
17. Internal audit findings contained in the draft reports discussed with management are:				
• Relevant, clear and constructive.				
• Sufficiently detailed to enable effective management action.				
• Issued on a timely basis.				
18. Internal audit findings are discussed with you prior to being tabled at the audit committee and your responses are incorporated within the report.				
19. Internal audit followed up recommendations to see whether they had been implemented.				
20. There are no major unresolved disagreements with internal audit.				

Section C: Evaluation by the external auditor

This part contains matters for consideration by the external auditor of the parent company and its subsidiaries, major business units or regions, where appropriate. Where management disagree, detailed comments should be obtained.

Question	Strongly agree	Agree	Neutral	Disagree
Charter and structure				
1. Internal audit's current charter is appropriate given your understanding of the company's business, governance processes, risk environment, control framework and the current developments in internal audit.				
2. From your knowledge of internal audit and industry best practice, internal audit's current charter is maintained at a high quality level.				
3. Internal audit has the seniority to effectively carry out the internal audit work required.				
4. The internal audit methodology is robust and reflects the latest thinking in internal audit.				
Skills and experience				
5. Internal audit and specifically the CAE understand the company, its business, governance processes, risk environment and control framework.				
6. Internal audit's experience in key functional specialisations, is appropriate in the context of what is needed for the proper discharge of its role and responsibilities: <i>(The functional specialisations listed below are illustrative only and should reflect relevant functional specialisations as appropriate to the entity):</i>				
• IT.				
• Risk management.				
• Treasury.				
• Accounting (including IFRS).				
• Taxation.				
• Supply chain.				
• Human resources.				
• Other (please specify).				
7. From your dealings with internal audit and your knowledge of internal audit and industry best practice:				



Question	Strongly agree	Agree	Neutral	Disagree
<ul style="list-style-type: none"> Internal audit has sufficient resources, skills and experience to satisfy its duties in terms of the charter. 				
<ul style="list-style-type: none"> Internal audit's resources are sufficient to adequately deliver the services outlined in its internal audit plan in the timeframes identified. 				
<ul style="list-style-type: none"> Internal audit's staffing appears to adequately reflect its role and responsibilities. 				
Work programme				
8. There are regular discussions between internal and external audit on internal and external strategies, assessment of risks and the implications of audit findings/audit work.				
9. The progress against plan is monitored jointly by internal and external audit regularly throughout the year.				
10. You receive copies of all internal audit reports.				
11. Copies of internal audit reports are received on a timely basis.				
12. Internal audit reports are of a standard comparable to best practice in other companies.				
13. To the best of your knowledge, there are no major areas of risk or concern that internal audit do not appear to cover.				

Section D: Evaluation by the CAE

This part contains matters for consideration by the chief audit executive CAE) (self assessment). Where the CAE disagrees, detailed comments should be obtained.

Question	Strongly agree	Agree	Neutral	Disagree
Understanding of role and responsibilities				
1. Internal audit understands:				
• The responsibilities and operation of the audit committee.				
• The company's business.				
• The company's risk environment.				
• The company's governance processes and control framework.				
Charter, audit plan and structure				
2. The internal audit charter and audit plan defines in sufficient detail internal audit's:				
• Roles and responsibilities, including those in relation to other internal functions.				
• Strategic positioning and reporting lines.				
• Expectations of management.				
• Scope of internal audit work.				
• Access to information.				
3. Internal audit's current charter is sufficient in light of the company's current needs.				
4. The structure of internal audit is appropriate in terms of enhancing its:				
• Independence from management.				
• Objectivity providing assurance.				
• Understanding of the company's business issues.				
• Ability to respond to business needs.				
Skills and experience				
5. The staff mix and competencies of the internal audit team is appropriate to meet its role and responsibilities.				
6. Internal audit is objective to the activities that it audits and independent from management that oversees those activities.				
Communication				
7. Internal audit is responsive to requests from the audit committee, including				



Question	Strongly agree	Agree	Neutral	Disagree
requests for special investigations.				
8. Internal audit is able to be frank and open with the audit committee.				
9. Internal audit is able to handle difficult or contentious issues.				
10. Over the last 12 months, the chairman of the audit committee was fully briefed on significant findings or developments prior to audit committee meetings.				
11. Internal audit's process to monitor the status of open matters/recommendations reported is adequate.				

References:

Adapted from "Evaluation of Internal Auditors - Questionnaire" by the Audit Committee Institute, sponsored by KPMG

