An effective internal audit function can have a positive impact on the control environment of an organisation and the effective design and operation of internal control. The audit committee should regularly evaluate the effectiveness of the internal audit function to ensure that the benefits to the organisation are optimised.

### Audit committee oversight essentials …

The audit committee is responsible for evaluating the effectiveness of the internal audit function. This assessment should be performed on a regular basis. Any evaluation of internal audit should also include an assessment of internal audit’s objectivity and independence.

The internal audit plan should be reviewed on a regular basis and the audit committee should reflect on how internal audit has delivered against this plan, and the quality of the results of its testing.

When agreeing appropriate performance measures for internal audit, the audit committee should recognise that these need to be adapted to the organisation’s circumstances and any changes.

Internal audit effectively has a dual reporting relationship, where the head of internal audit reports to executive management (ideally the CEO) for assistance in establishing direction, support, and administrative matters; and to the audit committee for strategic direction, reinforcement and accountability. The audit committee therefore also has a role to play in ensuring the effectiveness of the external audit function; it should ensure that internal audit has a direct line of communication with and the support of the committee.

The audit committee should also consider the resources dedicated to the internal audit function and whether these enable internal audit to deliver on its audit plan. Particular attention should be paid to this in times of organisational change and restructuring.

Self-assessment by the head of internal audit is a useful assessment tool, but it should not be used as the sole means of assessing the effectiveness of internal audit. The audit committee should draw its own conclusions based on its experience and contact with internal audit as well as the views of others such as the CFO, divisional heads and external audit. In evaluating the work of internal audit, the audit committee should review the annual internal audit work plan, receive periodic reports on the results of the internal auditor’s work and monitor management’s responsiveness to the internal auditor’s findings and recommendations.
Key questions for audit committees to consider:

Internal audit findings and reporting
- Does internal audit produce reports for individual audits with a clear rating scale which identify both root causes and consequences of issues which are delivered on a timely basis with clarity and impact, and include credible recommendations to management?
- Does internal audit produce reports for the audit committee which present information in a clear, concise manner, including the identification of themes and trends, and their consequences for the organisation as a whole?
- Does internal audit have rapid and effective mechanisms in place for the escalation of issues requiring senior management or audit committee attention?
- Has internal audit added value to the organisation? If so, how?
- Do internal audit procedures produce many significant findings? Are these actioned by management on a timely basis?

Internal audit delivery
- Does internal audit have clearly defined audit plan for the year and over the longer term?
- Does internal audit reflect on and adapt its methodology to ensure that it remains fresh and relevant?
- Is internal audit recognised by business leaders as a function providing quality challenge (for example by telling them things that they did not already know, identifying root causes and opportunities for improving control design, and trends in risks and controls)?
- Does internal audit have a presence in major governance and control forums throughout the organisation, for example, any risk committee?
- Is internal audit characterised by strong relationships at the highest levels (for example, does the head of internal audit and senior colleagues have direct and strong relationships with board members, business heads and senior management)?

Internal audit resources
- Does internal audit have sufficient resources to deliver on its annual plan and pick up ad hoc projects as necessary? Is the talent pool diverse, with a broad mix of skills and experience?
- Does internal audit have team members with sufficient technical knowledge to perform their role effectively?
- Does internal audit have team members with appropriate information systems auditing experience to understand and assess the level of technology used by the organisation?
- Does internal audit manage its resources effectively to maximise the value of its service to the business?

Assessment tools
- Is the use of a survey or questionnaire appropriate? Who should be asked to complete this?
- Is too much reliance placed upon any self-assessment process?
- How often is internal audit effectiveness evaluated? Does the audit committee regularly review the quality and results of internal audit reporting and activities?
- Is internal audit’s independence and objectivity included in the assessment? How can this be incorporated?