



19 October 2015

## Internal audit charter

### Chartered Institute of Internal Auditors

#### What is an internal audit charter?

An internal audit charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation. It may also be known as terms of reference.

Here is an [internal audit charter template](#)

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#### Why should internal audit have a charter?

Every organisation is different with unique objectives, challenges and risks. The internal audit charter is the best way to agree and describe how internal audit will provide value to the organisation, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives.

Having an internal audit charter also establishes the internal audit activity's position within the organisation, including the head of internal audit's (HIA) reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; and also defining the scope of internal audit activities. It is therefore a reference point for measuring the effectiveness of internal audit.

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#### Who is responsible for the charter?

The HIA is responsible for drafting the charter, discussing the detail and seeking approval from the board (often via the audit committee). The charter should be reviewed annually to ensure that it remains relevant to the needs of the organisation.

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#### What should the contents of a charter be?

There is no right or wrong way to prepare an internal audit charter but it should be consistent with the Definition of Internal Auditing, the Code of Ethics, and the International Standards (The mandatory parts of the International Professional Practices Framework). Here are some headings with typical content:

##### **Mission**

Setting out the overall purpose and function of internal audit within the organisation and how it will assist the organisation to achieve its objectives. The mission is a summary of the way internal audit will provide value to the organisation.

## **Objectives**

Clearly stating that it is the provision of assurance on the adequacy and effectiveness of risk management processes in reducing risk exposures down to acceptable levels. In addition to the assurance service, the charter should also refer to the provision and nature of consulting activities.

## **Role and scope of work**

Explaining the role of internal audit i.e.

- assessing the adequacy and effectiveness of the system of risk management and internal controls operated within the organisation;
- reviewing and evaluating compliance with policies, plans, procedures, laws and regulations;
- assessing the reliability and integrity of information;
- the safeguarding of assets.

In some organisations such as multinationals and groups it may be important to clarify the precise scope of the internal audit activity to avoid potential overlaps or gaps.

This may require regular attention to recognise any changes in the structure of the organisation resulting for growth, mergers and acquisitions.

For clarification purposes, it may also be prudent to detail roles which internal audit should not take on, for example operational management duties.

## **Independence**

If internal audit is to provide objective and unbiased opinions and assurances it is essential that it is independent of the activities it audits. The charter should explain the way independence is established and maintained. Should any conflict or impairment be known or arise, the charter should specify to whom these should be reported and how.

## **Access**

To provide assurances to the board internal audit needs to have unrestricted access to all activities across the organisation. Where assurances are to be provided to parties outside of the organisation, the nature of these assurances must also be defined in the charter. Internal audit may need to demonstrate how it will preserve security in respect of highly sensitive or confidential information.

## **Reporting**

Explaining the internal audit reporting lines, for example, that it reports regularly to the audit committee, which is a sub-committee of the main board.

## **Responsibilities**

Setting out the responsibilities of the HIA. This should include any specific requirements relating to the sector in which the organisation operates such as the requirement upon the HIA to provide an annual report or opinion to an annual governance statement.

Responsibilities might also refer to internal audit's relationship with other assurance providers such as internal audit's role in developing an assurance map and the requirement to assess the reliability of assurance from those in the first and second lines of defence.

## **Planning**

Briefly setting out internal audit's approach to risk based internal audit planning, including arrangements for monitoring progress and providing updates.

### **Quality**

Describing the arrangements for developing an on-going programme of quality assessment and continuous improvement. This will include brief details and reporting for internal and external assessments and the relevant mandatory elements of the IPPF.

### **Approval**

Formal approval and endorsement should be obtained from the head of internal audit and audit committee.

### **Other considerations**

The IPPF requires that the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards are recognised in the internal audit charter, the details of which should be discussed with senior management and the board.

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## **Conclusion**

The charter provides the organisation with an agreement relating to the work internal audit will undertake and the support it will receive. It may also be seen as a benchmarking tool against which it can measure the effectiveness of the internal audit unit in fulfilling its commitment.

The charter can act as a service level agreement with the board or audit committee so that there is a clear understanding of the role, purpose and position of internal audit within the organisation and the scope and nature of its work.

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## **Further reading**

[Sample internal audit charter  
Boards, audit committees and governance](#)

**Attribute Standards:**

1000: The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

1000.A1 Defining the nature of assurance activities including provision of assurance to external parties

1000.C1 Defining the nature of consulting activities

1010: Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

1100: Independence and Objectivity

1110: Organisational Independence

1130: Impairment to Independence or Objectivity

1300: Quality Assurance and Improvement Programme

### **Practice Advisories**

PA1000-1: Internal Audit Charter

PA1110-1: Organizational independence

PA1130-1: Impairment to independence or objectivity

PA1300-1: Quality assurance and improvement programme

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### **External resources**

QFinance: Internal audit charters