



Global Green Growth Institute

Tenth Meeting of the Management and Program Sub-Committee

July 12, 2019; via videoconference

Independence of Internal Audit Oversight Function at GGGI

Background

1. Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the **Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards)** is essential in meeting the responsibilities of internal auditors and the internal audit activity. Independence of the Internal Audit Oversight Function within GGGI is governed by the IIA Standards.
2. The Standards are a set of principles-based, mandatory requirements consisting of:
 - a. **Statements of core requirements** for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
 - b. **Interpretations** clarifying terms or concepts within the Standards.

IIA Standards

3. The IIA standards on the independence of the internal audit function are set out in standards 1110 and 1111:
4. **Standard 1110 (Organizational Independence)** states “The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
5. **Interpretation:** Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:
 - a. Approving the internal audit charter.
 - b. Approving the risk-based internal audit plan.
 - c. Approving the internal audit budget and resource plan.
 - d. Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.
 - e. Approving decisions regarding the appointment and removal of the chief audit executive.
 - f. Approve the remuneration of the chief audit executive
 - g. Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

6. **Standard 1111 (Direct Interaction with the Board)** states “The chief audit executive must communicate and interact directly with the board.”
7. Considerations for implementation, in the Guide, state:
 - a. “To ensure effective organizational independence, the CAE has a direct functional reporting line to the board.”
 - b. “Generally, the CAE also has an administrative reporting line to senior management, which further enables the requisite stature and authority of internal audit to fulfill responsibilities.
 - c. For example, the CAE typically would not report to a controller, accounting manager, or mid-level functional manager. To enhance stature and credibility, The IIA recommends that the CAE report administratively to the chief executive officer (CEO) so that the CAE is clearly in a senior position, with the authority to perform duties unimpeded.”

Reporting

8. Based on the Standard and the Interpretation the CAE should have a direct functional reporting line to the board and an administrative, or “dotted,” reporting line to a member of senior management.

Current Practice at GGGI

9. The current practice at GGGI is for the Head of the Office of Internal Audit & Integrity (OIAI) to report functionally to the Board, the MPSC and the Council through the audit focal points. We propose no change in the functional reporting line.
10. However, the nature of that functional reporting requires further clarification. We propose that going forward the MPSC, on the recommendation of the audit focal points, will carry out the tasks listed in the Interpretation to the Standard. These are as follows:
 - 1) Approve the internal audit charter.
 - 2) Approve the risk-based internal audit plan.
 - 3) Approve the internal audit budget and resource plan.
 - 4) Receive communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters.
 - 5) Approve decisions regarding the appointment and removal of the chief audit executive.
 - 6) Approve the remuneration of the chief audit executive
 - 7) Make appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.
11. For GGGI the OIAI already reports administratively to the DG and we propose no change.

Action Required

12. The MPSC are invited to adopt the following recommendation:
 - a. The MPSC, on the recommendation of the audit contact points, will perform all the functions listed as good practice as set out in points 1-7 above. In addition, the MPSC will recommend approval of this recommendation as a decision of the Council.

/End