

Chief of Internal Audit: Role¹ and Responsibility Assessment Tool²
Part of the IFC's Advanced Methodology for Financial Institutions

	ACCEPTABLE	BETTER	Desirable	BEST PRACTICE
I. Personal Qualification	<ol style="list-style-type: none"> 1. Integrity – understands Duties of Loyalty and Care. 2. Communication skills. 3. Honest and ethical. 4. Commitment to professional auditing standards. 	<ol style="list-style-type: none"> 1. Same.³ 2. Same. 3. Same. 4. Same. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same.
II. General Knowledge and Professional Skills	<ol style="list-style-type: none"> 1. Adequate audit training. Licensed auditor in jurisdictions requiring such licensing. 2. Is familiar with the BIS's Framework for Internal Control in Banking Organizations. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 	<ol style="list-style-type: none"> 1. Same, and holds internationally accepted relevant certification, e.g., CPA, CFA, CIA, etc. 2. Same. 3. Ability to lead and manage auditing staff. 4. Knowledge of relevant standards, accounting, financial and man- 	<ol style="list-style-type: none"> 1. <i>Same, and specifically related to financial institutions (e.g., banking examination).</i> 2. Same. 3. Same. 4. Same.

¹ The roles of Chief of Internal Audit, Chief Compliance Officer and Chief Risk Officer are intertwined. The key distinction for the Chief of Internal Audit versus the others is that the others implement the compliance and risk management programs, whereas the role of internal audit is to test the adequacy of those very programs. In all cases, the relevant functions should be coordinated so that no gaps are left.

² Prepared by Sinclair Capital, a G3 affiliate.

³ "Same" indicates that the recommendation of the identical number in the column immediately to the left is carried over into the column. Should the recommendation be only partially identical, any differences are *italicized*.

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			agement reporting, and regulations in all jurisdictions in which the Bank operates.	
III. Appointment	1. Appointed by CEO or CRO.	1. Same.	1. Same. 2. Audit Committee of Board opines on appointment (and removal).	1. Same. 2. Audit Committee of Board has formal approval on appointment (and removal).
IV. Reporting Line and Accountability	1. Not responsible for other duties that could create conflicts of interest. 2. Reports to CEO and has unfettered access to the Audit Committee of Board.	1. Same. 2. Reports directly to the Audit Committee of Board, with administrative oversight provided by an appropriate executive officer of the Bank.	1. Same. 2. Same.	1. Same. 2. Same.
V. Reporting	1. All audit reports circulated to senior management as well as line management responsible for the area audited. 2. Significant findings circulated to Board Audit Committee. 3. Submits periodic internal reports and	1. Same. 2. Same. 3. Same.	1. Same. 2. Same. 3. Same. 4. Receives notice of all Board Audit Committee meetings. 5. Meets the Audit Committee at least once annually without management present. ⁴	1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Same, and allowed at all meetings an opportunity to meet with Committee without management present.

⁴ See Section IX, (point 10 in “Desirable”) of the Audit and Compliance Committee Charter Assessment Tool of the IFC’s Advanced Methodology for Financial Institutions.

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	summaries of audits to the management team as well as to the Chairman of the Board and the Chairman of the Audit Committee.		6. Attends all Board Audit Committee meetings at company's expense.	
VI. Resources	<ol style="list-style-type: none"> Ensures that Internal Audit function has adequate expertise and resources to fulfill its responsibilities Ability to contract appropriate external assistance. 	<ol style="list-style-type: none"> Same. Same. Ensures that ongoing training is provided to all internal audit staff. 	<ol style="list-style-type: none"> Same. Same. Same. Working with Audit Committee and External Auditor, assesses organization's audit culture and designs training programs to address gaps. 	<ol style="list-style-type: none"> Same. Same. Same. Same. Encourage/assist staff to obtain international certification.
VII. Responsibility - Internal Audit & Control Environment ⁵	<ol style="list-style-type: none"> Reviews adequacy of internal controls. Reviews implementation of internal controls. Periodically audits banking and other business operations. Implements the annual work plan for internal audit with a fixed plan of activi- 	<ol style="list-style-type: none"> Same. Same. Same. Same, coordinates audit operations with activities of the External Auditor. Ensures follow-up mechanism to determine if audit recommendations (both internal and exter- 	<ol style="list-style-type: none"> Same. Same. Same, consistent with annual work plan presented to and approved by Board of Directors. Same. Same, and non-implementation issues raised with Board. 	<ol style="list-style-type: none"> Same. Same. Same. Same. Same. Same. Same. Same. Same. Same. Ensures that the Bank has adequate

⁵ Even if the Internal Audit function is fully or partly outsourced, the Chief of Internal Audit is ultimately responsible and accountable for ensuring the quality of internal audits.

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	<p>ties but also allowing for appropriate investigation time for matters that emerge over the year.</p> <p>5. Responds to matters that emerge from appropriate referring bodies (the Board of Directors, CEO and other senior executives).</p> <p>6. Assists the Board with establishing ethics policy and whistle blowing procedures.</p>	<p>nal) are implemented within appropriate and agreed timetable.⁶</p> <p>6. Same.</p>	<p>6. Same.</p> <p>7. Annual work plan is based on a risk-based analysis.</p> <p>8. Regularly benchmarks methods and tools against peers to find areas able to be improved.</p> <p>9. Monitors for evolving best practice in the areas of audit, fraud prevention and internal controls.</p> <p>10. Monitors public policy initiatives likely to impact the Bank's business environment.</p>	<p>methods by which concerns about controls/accounting /fraud /malfeasance, etc. can come to light, e.g. phone "tip" lines, e-mail access, and mailbox to provide complaints or suggestions.</p> <p>12. Ensures that internal audit team's independent and objective assurance and consulting functions add value to the Bank's operations.</p> <p>13. Cooperates with internal and external legal advisors and risk control units on investigations into major control issues.</p> <p>14. Positive working relationship with relevant regulators and professional associations (e.g., Institute of Internal Auditors).</p>
VIII. Responsibility	1. Periodically reviews	1. Same.	1. Same.	1. Same.

⁶ Such audit recommendations are included most importantly in the Management Letters provided by the External Auditors.

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- Accounting Policies and Procedures⁷	and recommends updates in corporate accounting policies and procedures framework.	2. Ensures compliance of internal audit with professional standards.	2. Same.	2. Same. 3. Works with Audit Committee Chairman to ensure Committee and the Bank are abreast of material pending changes under consideration by accounting standard setters. 4. Works with the Audit Committee, monitors the adequacy of external reporting practices against peers.

⁷ For more details on the role of the Chief of Internal Audit in risk management, see “The Role of Internal Auditing in Enterprise-wide Risk Management”, the Institute of Internal Auditors, September 29, 2004 (available at www.theiia.org/download.cfm?file=283).